INTERIM REPORT OF THE
JOINT SUBCOMMITTEE STUDYING

Privatization of Certain State Government Functions

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 64

COMMONWEALTH OF VIRGINIA
RICHMOND
1994

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The Honorable Alson H. Smith, Jr., **Vice Chairman**
The Honorable Elliot S. Schewel
The Honorable V. Earl Dickinson
The Honorable Franklin P. Hall
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INTERIM REPORT OF THE JOINT SUBCOMMITTEE STUDYING PRIVATIZATION OF CERTAIN STATE GOVERNMENT FUNCTIONS

To
The Governor and the General Assembly of Virginia

Richmond, Virginia
April 1994

TO: The Honorable George F. Allen, Governor of Virginia,
and
the General Assembly of Virginia

I. AUTHORITY FOR STUDY

Due to the increasing demands on state services at a time of increasing budget constraints, the Commonwealth must seek more efficient and innovative ways of providing services to its citizens. To help achieve this goal, the 1993 General Assembly adopted Senate Joint Resolution No. 241 (Appendix A), establishing the Joint Subcommittee Studying Privatization of Certain State Government Functions.

The resolution called for an eleven member joint subcommittee composed of two members of the Senate, appointed by the Senate Committee on Privileges and Elections; five members of the House of Delegates, appointed by the Speaker of the House; and four members from the business community to be appointed by the Governor. Senator Walter A. Stosch served as Chairman of the joint subcommittee with Delegate Alson H. Smith, Jr., acting as Vice Chairman.

The joint subcommittee was directed by SJR 241 to examine the functions of state government to determine which could be successfully privatized. Specific areas to be considered included (i) infrastructure projects, (ii) the state motor vehicle fleet, (iii) highway maintenance, (iv) welfare job placement, (v) solid waste facilities, (vi) parking

facilities, (vii) social services case management and (viii) the travel services signing program for interstate highways.

The joint subcommittee was directed to submit its findings and recommendations, if any, to the Governor and the 1994 Session of the General Assembly. However, as its first year of work neared completion, the joint subcommittee decided that, due to the complexity of the topic, the study should be continued for an additional year (See Senate Joint Resolution No. 17, 1994, Appendix B).

II. BACKGROUND

A. WHAT IS PRIVATIZATION?

The concept of privatization has different meanings depending on the context in which it is used. In former socialist countries of Eastern Europe, privatization refers to the process of removing certain activities, assets or responsibilities from collective public control. Such countries may seek to privatize factories, mines or railroads, for example. In the United States, of course, this type of privatization is rarely an issue.[1]

In the United States, privatization generally refers to a process delegating delivery of a service to the private sector while retaining the collective financing of that service.[2] Privatization has been defined as "a variety of techniques and activities to get more involvement of the private sector in providing traditional government or public services. It should enable each party to do what it does best and results in a win-win solution to providing public services."[3] There are a variety of ways in which governments may choose to privatize within the scope of this definition including (i) contracting out for services, (ii) deregulation, (iii) withdrawing from the provision of a particular service, (iv) the sale or lease of assets, (v) using vouchers, (vi) facilitating public/private partnerships, and many other combinations or variations of these.[4]

B. PRIVATIZATION EFFORTS IN OTHER STATES

Privatization appears to be gaining acceptance among states as a desirable method of service delivery. In a 1992 survey of various state government officials, 85 percent believed that some form of privatization would be used as a prominent tool in

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[1]Donahue, The Privatization Decision: Public Ends, Private Means, p. 215 (1989).
[2]Id.
[3]The Maryland Task Force on Privatization, Recommendations to Governor William Donald Schaefer Regarding Privatization Opportunities in the State of Maryland, p. 7 (December 1992) [hereinafter referred to as Maryland Task Force].
[4]Eggers, Privatization Opportunities For States, Reason Foundation, p. 7 (January 1993).

their state for the provision of services in the next decade. In a similar study in 1989, only 50 percent of the officials had such a belief.[5]

The same survey found that all of the responding states have and plan to contract out services with over 70 percent of the responding states reporting that corrections, health, higher education and mental health functions contract out services. Eighty percent of the responding states have or plan to privatize facilities and 55 percent plan to sell off assets. The figures for privatizing facilities and selling assets were significantly higher than in the 1989 survey.[6]

A number of states have recently completed or are in the process of developing a state-wide privatization strategy. The Maryland Task Force on Privatization issued a report in December of 1992 in order to help identify functions of state government that could be performed more productively by the private sector. The report lists, by agency, current privatization efforts as well as numerous privatization opportunities, and the Maryland Task Force concluded that "privatization provides an alternative view to the concept of the State being all things to all people, and should be incorporated as an operating policy in State government."[7]

The Governor of Massachusetts has made privatization a priority of his administration and in November 1993 issued a report outlining the results of current privatization initiatives and describing the methods used for identifying further privatization opportunities. According to the report, privatization in Massachusetts has already saved taxpayers over $273 million and provided benefits beyond the money saved, including increases in the quantity, timeliness and quality of services provided.

Other states where the privatization issue has been formally studied in recent years include Colorado, Michigan, Mississippi, New York, Texas and Wisconsin.

C. PREVIOUS PRIVATIZATION EFFORTS IN VIRGINIA

States and localities all over the country have undertaken efforts to privatize certain governmental functions and Virginia has been no exception. The General Assembly recently passed the Corrections Private Management Act (§ 53.1-261 et seq.), which would allow for private management of certain state prisons. To date, no such privately operated prisons exist in Virginia.

The General Assembly also passed the Virginia Highway Corporation Act of 1988 (§ 56-535 et seq.), which would permit privately operated toll roads. This was the

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[5]Apogee Research, Inc., State Government Privatization 1992, p. 3 (1992).
[6]Id.
[7]Maryland Task Force, p. 3.

first legislation of this type in the nation. Although no roads have yet to be constructed under the Highway Act, the Dulles Toll Road Extension has been approved, and after some delay, the project appears to be back on track.

Although Virginia has never developed a comprehensive privatization strategy or policy for the Commonwealth, there have been efforts made to encourage state agencies to consider contracting for routine services. In 1988 Governor Baliles issued an executive memorandum directing that (i) each agency head designate someone to administer agency contracts, (ii) contract administrators be trained in "make or buy" analysis to help them make better decisions about contracting out services, and (iii) state agencies' services be analyzed to help determine which might be appropriate for contracting.

The executive memorandum also set forth criteria to guide contracting decisions such as contract costs, service quality and reliability. The government's ability to protect the health, safety and welfare of its citizens was not to be diminished. The Governor, by memorandum, also set forth procedures to help agencies identify and eliminate operations that unfairly compete with the private sector.

Examples of services for which agencies have negotiated with the private sector include advertising, courier services, electrical services, equipment maintenance, graphic services, linen services, office supplies, painting, photography, travel services and video production.[8]

D. OVERVIEW OF PRIVATIZATION ISSUES

One issue which invariably arises when governments consider privatization is whether public employees will lose jobs. However, many state and local governments have successfully undertaken privatization programs resulting in no net loss of jobs. There are a variety of employee adjustment and incentive techniques which have been used such as a one-time bonus to employees for implementing privatization and relocating to another department, requiring private contractors to give first consideration to public employees for new positions, and allowing employee buyouts, whereby public employees are given the opportunity to take their departments private and operate them as private enterprises. In many instances, governments simply rely on normal yearly attrition in order to minimize or prevent the loss of public employee jobs.

Another significant issue to be considered is the extent to which the real costs of a service can be determined so that a fair comparison can be made between the public and private sector. The direct costs of a government service are usually simple to

[8]Executive Memoranda 1-88, 2-88, Commonwealth of Virginia (1988).

determine; however, determining the indirect costs can be much more complicated, and many states and localities do not have a system in place for assessing all of the indirect costs of a service. It is also important to remember that, even after privatization, government expense will continue for items such as contract monitoring.

There are also many legal issues raised by privatization such as whether civil rights provisions or freedom of information laws are applicable to private companies performing government work. Other questions to consider are (i) who will retain responsibility and liability for a particular function, (ii) to what extent will the government control the private entity which provides a service and (iii) can a function be privatized without jeopardizing public safety.

Finally, the issue of competition should be considered. If a government simply transfers a function from a governmental monopoly to a private monopoly, the hoped-for advantages of privatization may not materialize. It is important that governments allow for competition in the privatization process.

III. WORK OF THE SUBCOMMITTEE

A. PRIVATE SECTOR OPPORTUNITIES

There is considerable interest in the private sector for business opportunities resulting from the privatization of government activities. The Joint subcommittee heard presentations from representatives of several private sector companies which specialize in providing such services.

A representative of Lockheed IMS spoke to the subcommittee about the many services provided by her company to over 140 government agencies nationwide. She spoke in detail about her company's efforts in child support enforcement, which include payment processing, operation of district offices, collections and medical support. Some of the government entities which have utilized Lockheed IMS for one or more of these child support enforcement responsibilities include New York, Massachusetts, Hawaii, Texas, Arizona and Los Angeles County.

Representatives of EDS also made a presentation to the Joint subcommittee. EDS serves state government agencies in 27 states and the District of Columbia and serves over 100 local governments nationwide. They offer consulting, systems development, systems integration, systems management and business process management services in a variety of areas, including health care and human services, transportation, justice, education and the environment. One example of an innovative service provided by EDS was the Automated Fingerprint Image Reporting and Match system implemented

in Los Angeles County as a deterrent to welfare fraud. After six months of operation, the system was credited with saving the county $5.4 million.

Also addressing the subcommittee was the president of Tascor, a management services company. Tascor was formed as a joint business venture of the Novell and IBM Corporations to provide support services such as running an accounts payable department or a mailroom, providing secretarial and administrative support, and operating telephone services. Although Tascor has primarily provided services to other private sector businesses, it is interested in providing similar services to governments.

The private sector argues that, during this time of increasing service demands and budget constraints, it often makes sense to privatize. Some of the potential advantages to be realized from privatization include (i) saving taxpayers' money, (ii) increasing flexibility, (iii) improving service quality, (iv) increasing efficiency and innovation, (v) streamlining or downsizing government, (vi) improving maintenance and (vii) enabling governments to focus on the essential government services. Some of the obstacles for states to overcome in order to successfully privatize include (i) overcoming objections from state employees or unions, (ii) the possibility of a large initial investment, (iii) the procurement process and (iv) changing the focus of decision makers from the short-term to the long-term.

B. ONGOING STATE AGENCY PRIVATIZATION

Virginia currently has neither a state policy with regard to privatization of state government functions nor a set of specific criteria to guide state agencies in deciding whether to contract out for certain services. However, there is a significant amount of piecemeal privatization occurring within the State, although the extent varies considerably from agency to agency. The Joint subcommittee was addressed by the Director of the Department of Medical Assistance Services and the Commissioner of the Department of Social Services, both of whom described the privatization efforts which are ongoing in their respective agencies.

The Director of the Department of Medical Assistance Services (DMAS) was able to provide numerous examples of privatization efforts within DMAS. A few of the functions which DMAS contracts out are pre-admission screening for nursing homes, drug utilization review, financial audits of nursing homes, third party recovery, and claims processing. The Director explained that his department not only contracts out with the private sector but also with other state agencies. When asked how DMAS decides which functions to farm out, the Director stated that a cost/benefit analysis is performed, and only those functions that could be performed better and more cheaply are considered.

The Commissioner of the Department of Social Services described his agency's privatization efforts including a three-year contract for collection of 14,000 closed AFDC accounts with a private company which was initiated in 1992. The first year collections exceeded one million dollars with a net revenue to the general fund of approximately $500,000. In addition the department has contracted for collection of blood test and attorneys' fees with a first year net revenue to the general fund of $68,000. According to the Commissioner, future activities may include privatization of the central payment processing function in the Division of Child Support Enforcement and privatization of two child support district offices.

C. CALCULATING THE COST OF SERVICE DELIVERY

1. State accounting systems

The Auditor of Public Accounts explained to the Joint subcommittee that the State has three statewide accounting systems. The Commonwealth Accounting and Reporting System (CARS) serves as the appropriation control mechanism, general ledger, disbursement and receipts journals, and checkbook. This is the official accounting record of the Commonwealth and all state agencies and institutions must record accounting activity on this system. The other two systems are the Commonwealth Payroll System (CIPPS) and Fixed Assets Accounting System (FAACS). In addition, there are agency-based systems that meet an agency's information needs and normally provide unique data needs for either agency management or federal grant reporting. Most agencies develop these systems when they require information in greater detail than is available from the statewide systems.

According to the Auditor of Public Accounts, these accounting systems may be adequate for determining the costs of a government activity, depending on how the activity is defined. For example, while direct cost information is always available, the indirect costs of an activity may not be separated out for a particular activity if it is not an agency's major activity. It was also pointed out that, when comparing costs, it is important to remember that privatizing an activity will not eliminate all of the indirect costs associated with that activity.

The State Internal Auditor informed the subcommittee that statewide efforts are underway to address the performance measurement element of government services in an attempt to generate sounder decisions about continuing, eliminating, or redesigning state activities. With regard to determining the true costs of providing services, the State Internal Auditor stated that agencies need more direction on how this should be done.

2. A costing method for making privatization decisions

The Joint subcommittee requested the assistance of the Auditor of Public Accounts and the State Internal Auditor to develop a costing method which could be used to guide state agencies in making privatization decisions. The Auditor of Public Accounts and the State Internal Auditor provided the Joint subcommittee with the following example of a state costing method. For an example of an outline work program based on this costing method, see Appendix C.

DEFINING THE FUNCTION

General

Privatization considerations begin with the essential process of clearly defining the function for review. Defining the function provides the basis for the process of gathering cost data. The function definition also serves as the base for discussions with potential vendors so comparisons with internal and external services consider the same items.

Therefore, the function definition is a critical element of the process. The function definition allows management to isolate the activity for summarizing total costs, determining the current level of service and discussing vendor-provided services.

Scope of Function

An integral part of the function definition includes determining the scope of the function under consideration for privatization. Management can define a function that exists not only in the agency, but can also include activities in other agencies within a secretarial area or statewide.

The scope of privatizing a function beyond an agency will require cooperation between agencies and agreement on the use of common procedures. Agencies must use similar methods to summarize and analyze costs and agree on service levels.

Expanding consideration of privatizing a function beyond a single agency will likely increase the state's ability to interest vendors in the activity. Those leading the review should ensure that by expanding the function's scope, they do not lose time or effort in considering non-essential items.

Level of Service

The final definition and most important phase is the review and determination of the level of service the function renders or should render. The review of a function's level of service has a benefit beyond privatization. During

this phase, management must first determine what level of service a function should provide and then determine if the function is providing that service level.

Determining the function's level of service is critical to both the review for privatization and discussions with potential vendors. Management cannot effectively review and analyze a function's cost without a comprehensive understanding of the level of service a function should and does provide.

If management determines the function should provide a different level of service, then management must consider this factor in the review. Raising the level of service beyond current service levels will increase the vendor's cost, and, therefore, an increase in current cost will be necessary. The converse is true when contracting for less service.

In reviewing the level of service, management must also consider two other factors. First, the vendor may need to deliver the service within certain guidelines. As an example, some federal grants and contracts may require set procedures which apply to government employees providing services, but not to independent vendors. Management should identify these differences even if they cannot quantify their cost.

The second factor facing management is deciding if vendors will work under the same conditions in providing the service as state employees. This factor needs serious consideration in circumstances dealing with disclosure matters. A vendor having to follow the Freedom of Information or Privacy Acts could incur significant additional cost in providing services. In their review, management should consider how they will deal with these matters.

Concluding the Definition

Management's definition of a function includes more than a general isolation of an activity. This phase provides the framework for the review and analysis of internal costs and the basis for discussing the function with vendors. The functional definition considerations allow management the opportunity to perform a review of an activity at several levels before gathering financial data.

DETERMINING DIRECT COSTS

All agencies must use the State Comptroller's Commonwealth Accounting and Reporting System (CARS) as their basic accounting record. CARS provides basic accounting information on vendor payments, agency transfers, summary payroll and benefit costs, summary revenues and some overhead allocations. CARS' primary purpose is to control and monitor agency appropriations and to provide a central ability to report the state's financial position.

Agencies may supplement CARS with internal systems that provide additional information or meet special agency reporting needs. Agencies having

these systems typically have federal grants and contracts or significant special revenue funds. Agencies must reconcile the internal systems to CARS, since it represents the state's official accounting record.

Using the function definition, the reviewer should examine both CARS and any internal accounting systems to determine how the agency is separately collecting the function's costs. Most agencies should have cost summaries for functions, which have existing appropriation programs and subprograms or federal grant and contract funding.

If the agency's internal accounting system separately identifies the function, the reviewer must test the completeness of the reconciliation to CARS. The review should determine if the agency is including all normally expected types of direct expenses.

The review of direct expenses should determine if the agency or the State is supplementing the function by not including all costs. For example, if the function has direct payroll expenses, then one would anticipate direct fringe benefit costs. This review should also include consideration that the function could have some normally direct costs charged to it through an indirect cost allocation.

If the review includes a function in several agencies, a determination must be made that each agency has the same definition for accounting. Also, the review should determine that each agency includes or can assign the same cost to a function. If the information comes from a series of internal accounting systems, consideration should include that the account structure and basis of accounting are the same.

ACCUMULATING INDIRECT COSTS

The key to summarizing a function's total cost is including overhead costs from both within the agency and from statewide central agency services. The review must look at the composition of both internal and statewide indirect costs to ensure inclusion of costs that some agencies do not normally incur. Examples of these costs are insurance and rent. The cost of these items is available, but some agencies may not include the cost as either direct or indirect. Therefore, for summarizing costs, the reviewer must include them.

Internal Allocation Plans

Agencies having either federal grants and contracts or special revenue funding must have indirect cost plans for internal and statewide indirect cost allocation. The sophistication and complexity of the plan will vary with the level of funding and the number of programs.

Typically, these plans use an allocation base of either salaries and wages or units of services. In distributing cost to a function, the reviewer must

determine if the agency's allocation basis is appropriate for the function's comparison to the private sector. Most indirect cost plans should allow the reviewer to make adjustments in the allocation base with minimum additional work. The reviewer must understand how the private sector provides the service or how an agency would contract the function to ensure the use of the most appropriate allocation base.

The reviewer must understand how the allocation plan includes the various administrative cost pools and whether the plan distributes all the pools' costs. Some plans will distribute only a portion of some administrative cost pools because of federal restrictions. These restrictions may limit certain direct costs such as a depreciation to an annual use charge or may prohibit the allocation of certain cost programs. Other programs may allow a recovery of a portion of these nonchargeable costs. The reviewer should understand how the plan operates and adjust the allocation for the function's cost comparison.

If the function includes several agencies, the reviewer must determine if each agency is using similar indirect cost plans and allocation bases. Significant variations in allocation plans will affect the comparison. The reviewer must either adjust the calculations for the comparison or have the agencies adopt the same allocation method.

The reviewer must also assess the various plans to determine how each agency is including costs for the comparison. Different operating environments will cause differences in how agencies report or assign costs. The exclusion of a key cost component could significantly affect the comparison. The inclusion of all key cost components between agencies within their indirect cost allocation plan is essential to properly make the comparison.

Statewide Indirect Cost Allocation Plan

The statewide indirect cost allocation plan allows agencies to include the cost the State incurs for providing central services and allocates these activities based on units of service such as the Treasury incurring costs for writing checks. When a function is a part of an agency, the reviewer must determine the units of service for the function.

Analyzing and Identifying Indirect Cost Savings

In collecting and summarizing all indirect costs, the reviewer should identify costs an agency would save from the function's privatization. With the privatization of a function, a key consideration is the reduction or elimination of costs. Therefore, the reviewer must determine which indirect costs the agency can save. This identification of savings must occur during the gathering of indirect cost data to reduce the risk of inadvertently not including all savings.

Some indirect cost savings will not occur because the function does not require or receive sufficient central support to eliminate or permanently reduce

cost. However, during the summarization process, the reviewer may identify not only indirect cost savings, but direct savings that an administrative reorganization may produce.

SUMMARIZE TOTAL COST AND DETERMINE POTENTIAL COST SAVINGS

The final phase of data gathering for the functional comparison is a two-step process. The first step is simply summarizing all direct and indirect costs gathered through this process. This sets the total annual cost of the function, and management can now compute the cost per unit of service.

The second step requires the most analysis and understanding of how the function, agency and, potentially, the State operates. This step determines those costs the State will save by privatizing the function.

The analysis may determine that an agency may not save certain costs. For example, an accounting section does work for its entire agency and no one person works solely on the function. However, if the accounting section is working overtime, and if privatizing the function reduces overtime, one must consider this savings.

Similar savings may occur in many of the indirect cost areas, and the reviewer must examine more than just the costs for individuals or items. After consideration of all of the potential savings, the reviewer can determine the net costs of the current function to the agency and State if the function is privatized.

A final and perhaps the most difficult cost to eliminate is the cost of contract management. Contract management is a cost that an agency incurs only when it privatizes the function. These costs include issuing contracts, quality reviews, responding to customer and vendor complaints and refining service levels. Each agency must estimate these costs and their amounts will depend on the agency's experience with contracting and privatizing of similar functions. The net costs after savings and the contract management costs serve as the basis for comparing the state's costs with privatization proposals.

IV. CONCLUSION

The Joint subcommittee was impressed with the many privatization opportunities which exist for the Commonwealth. The Joint subcommittee also agreed in concept to several ideas to encourage state privatization efforts; however, it was the consensus of the Joint subcommittee that, due to the complexity of the topic, there are many issues which deserve further attention by the Joint subcommittee and that the study should therefore be continued for another year (see Senate Joint Resolution No. 17, 1994, Appendix B).

The Joint subcommittee was also concerned that the Governor's office had not been directly involved with the study since, as a practical matter, the executive branch will generally have the responsibility of implementing any privatization efforts. The Joint subcommittee was also aware of the fact that a new administration would be taking office in 1994. Accordingly, it was decided to expand the membership of the Joint subcommittee by asking the Governor to appoint three new members, including two from the Governor's cabinet.

As the Joint subcommittee continues its work, it will look at areas such as (i) development of a broad state policy concerning privatization of state functions, (ii) development of a uniform analytical framework for evaluating potential areas of privatization and (iii) the various ways in which Virginia might minimize the adverse impact of privatization upon state employees and develop a state policy concerning the proper treatment or benefit package for those employees. In addition, the Joint subcommittee will study the Qualifying Transportation Facilities Act of 1994 (SB 468) which was passed with a delayed effective date of July 1, 1995.

The Joint subcommittee extends its appreciation to all of those persons in the private and public sectors who offered assistance during the first year of this study.

Respectfully submitted,

The Honorable Walter A. Stosch, Chairman

The Honorable Alson H. Smith, Jr. Vice Chairman

The Honorable Elliot S. Schewel

The Honorable V. Earl Dickinson

The Honorable Franklin P. Hall

The Honorable Harvey B. Morgan

The Honorable Mitchell VanYahres

Adele Johnson Crawley

M. Antionette Kelley

Keven F. Russell

Michael E. Veve

V. APPENDICES

A. Senate Joint Resolution No. 241 (1993)

B. Senate Joint Resolution No. 17 (1994)

C. Privatization Work Program

SENATE JOINT RESOLUTION NO. 241

Establishing a joint subcommittee to examine functions of state government to determine which functions can be privatized.

Agreed to by the Senate, February 25, 1993
Agreed to by the House of Delegates, February 24, 1993

WHEREAS, the Commonwealth, and all state governments, face enormous fiscal pressures due to demands for new services, increasing costs for current services, federal mandates, and significant needs for infrastructure construction, repair, and maintenance; and

WHEREAS, such demands require significant investments in assets and personnel to provide these services; and

WHEREAS, the private sector often has the capacity, in terms of assets, personnel, and experience, to provide many of the services government provides; and

WHEREAS, having the capacity to provide such services in both the public and private sectors may result in the duplication of effort, competition with each other, and the inefficient use of resources; and

WHEREAS, privatizing certain functions of state government could permit its restructuring and result in increased economic activity in the private sector, in turn generating increased tax revenues, and produce a "win-win" situation; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That a joint subcommittee be established to examine the functions of state government to determine which can be successfully privatized. Such examination shall specifically include the following: (i) infrastructure projects, (ii) state motor vehicle fleet, (iii) highway maintenance, (iv) welfare job placement, (v) solid waste facilities, (vi) parking facilities, (vii) social services case management, and (viii) travel services signing program for interstate highways.

The joint subcommittee shall be composed of 11 members as follows: two members from the Senate to be appointed by the Senate Committee on Privileges and Elections; five members from the House of Delegates to be appointed by the Speaker of the House; and four members from the business community to be appointed by the Governor.

The Division of Legislative Services shall provide staff support to the joint subcommittee. All state agencies shall provide such assistance as needed for the work of the joint subcommittee.

The joint subcommittee shall complete its work in time to submit its findings and recommendations, if any, to the Governor and the 1994 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The indirect costs of this study are estimated to be $13,465; the direct costs shall not exceed $9,000.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

SENATE JOINT RESOLUTION NO. 17

Offered January 17, 1994

Continuing the joint subcommittee to examine functions of state government to determine which functions can be privatized.

Patrons—Stosch, Calhoun and Schewel; Delegates: Ball, Dickinson, Hall, Morgan and Van Yahres

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Referred to the Committee on Rules

WHEREAS, Senate Joint Resolution No. 241, adopted by the 1993 Session of the General Assembly, established a joint subcommittee to examine functions of state government to determine which functions can be privatized; and

WHEREAS, the Commonwealth, and all state governments, continue to face enormous fiscal pressures due to demands for new services, increasing costs for current services, federal mandates, and significant needs for infrastructure construction, repair, and maintenance; and

WHEREAS, such demands require significant investments in assets and personnel to provide these services; and

WHEREAS, the private sector often has the capacity, in terms of assets, personnel, and experience, to provide many of the services government provides; and

WHEREAS, having the capacity to provide such services in both the public and private sectors may result in duplication of effort, competition with each other, and the inefficient use of resources; and

WHEREAS, privatizing certain functions of state government could permit its restructuring and result in increased economic activity in the private sector, in turn generating increased tax revenues and producing a "win-win" situation; and

WHEREAS, although the joint subcommittee has met a number of times during the interim and has agreed on several recommendations, it is the consensus of the joint subcommittee that, due to the complexity of the topic, there are many issues which deserve further attention by the joint subcommittee; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the joint subcommittee to examine functions of state government to determine which functions can be privatized be continued. The joint subcommittee shall continue to examine specific functions of state government as well as other issues such as impediments to privatization and ways to minimize any adverse effect privatization may have on public employees.

The current 11 members of the joint subcommittee shall continue to serve with any vacancies to be filled in accordance with the original resolution. In addition, three new members are to be appointed by the Governor, at least two of which shall be members of the Governor's cabinet, including the Secretary of Administration.

The direct costs of this study shall not exceed $5800.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The joint subcommittee shall complete its work in time to submit its findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

WORK PROGRAM FOR COSTING STATE FUNCTIONS FOR CONSIDERATION OF PRIVATIZATION

I. Defining the Function

A. Clearly define the function within government or a unit which you wish to consider for privatization.

B. Determine the scope of the function under consideration within the government or unit.

C. Determine the level of service the function is providing and if alternative levels of service could affect the cost of the function.

II. Determining Direct Costs

A. Determine if the function represents on the Commonwealth Accounting and Reporting System either a program, subprogram or cost center or, if contained within an agency, an internal accounting activity.

B. Review direct costs for appropriateness, which includes the reasonableness of payroll, direct payments or allocation of direct payments. Many agencies directly allocate payments to activities for such costs as phone and computer charges.

C. Compare the definition of the function under consideration with both the general description and the review of direct cost accumulated.

III. Accumulating Indirect Costs

A. Determine if the agency or agencies having the function have internal indirect cost allocation plans. Many agencies have cost allocation plans for federal grants and contracts.

1. Review the cost allocation plan to determine if it provides the appropriate allocation of cost to this function. Some plans may not allocate indirect costs to the function in a manner necessary for comparison with a private operation.

2. Determine if the cost allocation plans or bases are consistent between agencies. Determine if adjustments can be made for inconsistencies between plans.

3. Review the internal cost allocation plan to determine if it allocates all administrative direct and indirect costs. Plans should include internal

administrative cost pools and any indirect services provided by central agencies.

4. Summarize and explain which internal indirect costs will undergo savings by privatizing the function. Also summarize the elimination of cost from the indirect cost pools if the function is privatized.

B. Review Statewide Indirect Cost Allocation Plan

Summarize and explain which indirect costs will undergo savings by privatizing the function.

IV. Summarize Total Cost and Determine Potential Cost Savings

A. Summarize total cost and deduct those costs not eliminated or reduced from privatization.

B. Estimate cost of contract management and add it to net function costs.

C. Compare net function costs with vendor estimates of privatized costs for the service.