LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6081 | **NOTE PREPARED:** Nov 2, 2003
BILL NUMBER: HB 1028 | **BILL AMENDED:**

SUBJECT: Review of Privatization Savings.

FIRST AUTHOR: Rep. Dickinson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill provides that a contract or solicitation for a contract to privatize any of the functions performed by a governmental body's employees that would result in the layoff or dismissal of any of those employees must:

(1) require an offeror to provide verifiable evidence that the cost of the contract will be less than the cost of having the functions performed by the governmental body's employees;
(2) specify that the governmental body may not pay the contractor more than the cost the governmental body determined the governmental body would incur to perform the functions using its own employees;
(3) require the governmental body to provide to an offeror an estimate of the cost of having the functions performed by the governmental body's employees; and
(4) contain a statement that the governmental body may pursue certain remedies if the contractor fails to comply with the contract.

The bill permits a representative of any group of the governmental body's employees to submit an offer for the group to perform the functions and requires the governmental body to award the contract to the group of employees under certain circumstances.

The bill excludes from these requirements purchases from qualified nonprofit agencies for persons with severe disabilities.

Effective Date: July 1, 2004.

Explanation of State Expenditures: This bill could have both positive and negatives impacts on the state's expenditures for personnel and service contracts.

This bill could reduce state agencies' expenditures if performing the required cost analysis helps state agencies make more efficient choices. For example, state expenditures may be reduced if, upon performing the cost analysis, a state agency that was to privatize services finds that state employees are able to perform the services for less than any of the bids submitted by private contractors. Additional cost savings may result if, upon seeing the results of the agency's cost analysis, potential contractors offer to perform the function for a lower amount than what they would have bid had the cost analysis not been known.

Despite the potential for additional savings, the bill also has the potential to increase agencies' costs. The bill requires state agencies that seek to privatize a service to perform a cost analysis to determine how much that function would cost if the state agency and its employees, rather than the contracted entity, continued to perform the service. Performing this analysis could potentially increase state agencies' administrative costs. Additionally, the bill may encourage contractors who wish to contract with the state to increase bids to cover any additional cost incurred by conforming to the changes in the solicitation process proposed in this bill and to mitigate the risk of underbidding.

Explanation of State Revenues:

Explanation of Local Expenditures: The costs and savings described for state agencies above would also apply to the contracting of functions by local entities.

Explanation of Local Revenues:

State Agencies Affected: Department of Administration; other agencies that may contract for functions currently performed by governmental employees.

Local Agencies Affected: Entities seeking to contract for functions currently performed by governmental employees.

Information Sources:

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