

August 2008

# The California Bottom Line

Hundreds of millions wasted on contracts

“*The state can save hundreds of millions of dollars each year by reducing its use of personal services and consulting contracts.*”

—Yvonne Walker  
President, SEIU Local 1000

# The State Can Save Hundreds of Millions of Dollars by Reducing its Use of Costly Contract Staff

SEIU Local 1000 recognizes that many personal service and consulting contracts may be legitimate; however, the state can save hundreds of millions of dollars each year by reducing its use of personal services and consulting contracts.

## Daily expenditures on personal services contracts:<sup>1</sup>

- Architectural and Engineering contracts: ..... **\$1,350,540 per day**
- IT Consulting contracts: ..... **\$267,742 per day**
- IT Personal Service contracts: ..... **\$1,151,071 per day**
- Non-IT Consulting contracts: ..... **Millions per day<sup>2</sup>**
- All other Non-IT Personal Service contracts: **Millions per day<sup>3</sup>**

## Reducing costly spending on IT contracts

### Save \$100 million or more annually

The state typically pays twice as much for IT contractors as it does to employ state IT workers doing the same work. The typical cost to employ an IT worker is \$98,985 per year (including all benefits and payroll taxes). The typical cost to employ an IT contractor is \$223,500 per year.<sup>4</sup> We conservatively estimate the state employs between 1,000 and 2,000 IT contractors.<sup>5</sup> Filling existing IT vacancies and eliminating the use of contractors to perform work that can be done by state workers could save \$100 million or more each year.<sup>6</sup>

California's new Chief Information Officer (CIO), Teri Takai, followed a similar course of action when she was Michigan's CIO and reduced expenditures by about \$100 million. According to an interview she gave in *Government Technology Magazine*, Michigan made substantial savings by insourcing work done by contract employees that typically cost twice as much as state employees.<sup>7</sup> We suggest the governor tap Takai's insourcing experience to help California realize similar cost savings.

## Reducing costly spending on Medical Registry contracts

### Save \$144 - \$205 million or more annually

The state currently holds more than \$723 million in medical services registry contracts. Pro-rating contract costs to annual expenditures on these costly contracts puts typical annual costs at approximately \$363 million each year.<sup>8</sup> Former Federal Receiver Robert Sillen, who oversaw medical services in California Department of Corrections and Rehabilitation, stated that the cost of medical registry contracts is extensive and has increased drastically over the past few years.<sup>9</sup>

Insourcing this work could save the state vast sums. At a bidder's conference on September 14, 2007, Mr. Sillen stated that registry bid rates range from 66 percent to 130 percent above what state workers in equivalent positions are paid.<sup>10</sup> Using Sillen's estimates, California could save between \$144 million and \$205 million each year by insourcing this work.<sup>11</sup>

## Reducing costly spending on Architectural and Engineering (A+E) contracts

### Save \$50 million or more annually

Budget documents from Senate Budget Subcommittee 4 reveal that the state pays approximately \$83,000 more, each year, for each A + E contractor it hires in lieu of Caltrans state staff. Last year Caltrans wanted to contract out more than 500 staff positions, increasing taxpayer costs by \$50 million.<sup>12</sup> Now the governor is calling for the increased use of Public Private Partnerships to do state work. These so-called "partnerships" would likely involve the use of A + E contractors on large scale infrastructure projects even though legislative staff report that these contractors cost far more than hiring state workers.

## Barriers to planning and saving

### 1. Lack of planning for staffing needs.

Many departments fail to adequately plan for staffing needs, resulting in overuse of expensive contractors. In planning for future staffing needs, the state should:

- Hire project managers who can be utilized on multiple projects, rather than single short-term assignments.

- Expand the use of Department of Technology Services to provide a pool of skilled IT labor that can be assigned across many departments as technological needs develop.

## **2. Failure to pursue aggressive recruitment strategies.**

The state must continually adjust its recruitment and hiring practices if we are to keep pace in the increasingly competitive market for skilled labor, including:

- Marketing, job fairs, centralized services for high-level recruitment are underutilized in state service.
- The state should use ongoing polling of supervisors in order to identify successful recruitment, and should poll recent hires to identify successful recruitment strategies.

## **3. Training as a mechanism to plan for upcoming vacancies.**

The state faces major vacancies as the baby boomer generation reaches retirement age. However, many departments do not incorporate training programs as cost-saving measures in contracts.

- The state must use large-scale training and planning for filling job vacancies; this strategy must include developing in-house training programs for hard-to-fill positions, and developing rigorous career-mobility plans for state workers.

## **4. Retention practices are not developed or pursued.**

Recognition of employees through certificates, awards and career development plans are underutilized.

# **Recommendations for \$300 – 350 million or more in savings**

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## **1. Reduce use of costly contract staff in IT, Medical Registry and A + E contracts.**

- Save at least \$100 million annually by insourcing IT work.
- Save at least \$144 to \$205 million annually by reducing the use of medical registry contracts.
- Save at least \$50 million annually by reducing use of A + E contractors.

## **2. Provide greater transparency on contract costs and staffing by passing AB 2603.**

While the scope of contracting for personal services is massive, information available to the public and the Legislature about associated staffing levels and their relevant costs is limited.

AB 2603 requires the state to track and report costs for personal service and consulting contracts in the same manner that it tracks wages and salaries for the state workforce, and would require departments to report the information to the Department of Finance, the Legislature and the public.

By providing the Legislature and the public greater access to information about staffing levels and relevant costs for contracts, AB 2603 will facilitate more cost-effective staffing decisions that have the potential to save the state hundreds of million of dollars each year.

## **Documentation**

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- Based on state contract and procurement registration systems (scprs) data. We totaled all unexpired contracts by contract type and divided by the number of days in each contract for all contracts with a year or longer duration. For those contracts lasting under one year, we divided by 365 to better reflect an annual per diem amount.
- Data in the scprs database lumps service contract costs with non-service item costs making estimation difficult.
- Data in the scprs database lumps service contract costs with non-service item costs making estimation difficult.
- The median annual salary for state IT workers, \$70,764, is based on the state Controller's payroll data from December 2007. To this sum we added cost-estimates for health care, retirement, social security and medicare. Cost estimates for contractors are based on a median bill rate for contractors of \$125 an hour. This is the median bill rate we found in a sample of 898 bill rates recorded in 391 IT personal services contracts Local 1000 has on hand. To arrive at an annual cost figure for contractors, we multiplied \$125 (the median contract hourly bill rate) times 1788, the number of hours that would be worked in a year by a full-time contract employee equivalent.
- The lower end estimate is based on state worker vacancies in IT classifications reported by the state Controller's office. (Actual vacancies are 1059—we rounded down). The higher-end estimate is based on state contract and procurement registration systems (scprs) data. We totaled all unexpired contracts for IT consulting and IT services and standardized the costs of those contracts to a per-year cost using pro-rated daily rates. We then calculated the higher-end estimate of contract positions by dividing the typical annual cost for IT personal services and consulting contracts—over \$500 million: by the median annual cost of a full-time equivalent contract employee (\$223,500)
- Conservatively assuming that the work of all current state IT vacancies is presently being performed by contractors, the state is paying approximately \$236 million a year for consultants to perform staff work associated with vacant state positions. The state could save \$131 million by paying \$105 million for the salary and benefits of an equivalent number of state workers. However, it is likely that there are even more IT contractors than there are vacancies, given that the state spends over \$500 million for IT contractors in a typical year. So the \$100 million dollar cost-savings estimate is conservative.
- [Http://www.Govtech.Com/gt/96746?Id=&topic=117671&story\\_pg=3](http://www.Govtech.Com/gt/96746?Id=&topic=117671&story_pg=3) downloaded on January 11, 2007.
- Based on state contract and procurement registration systems (scprs) data. We totaled all relevant medical services registry contracts and standardized the costs of those contracts to a per-year cost using pro-rated daily rates.
- Robert Sillen, receiver's first bi-monthly report, office of the receiver, July 5, 2006.
- CDCR, Plata contract and invoice branch. Bidder's conference for "physician registry service." Sept. 14, 2007.
- This is the range of savings that would result, assuming (at the lower end) that the annual \$363 million paid in registry contracts is 66% above state salaries for equivalent positions and (at the higher end) that these contract costs are 130% above state salaries.
- "Senate Budget subcommittee No.4 Agenda: agenda—part A" pages 27-29. A typical A + E contractor costs \$209,000 a year. The state worker equivalent is \$126,000.

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## There's an alternative way to address California's budget crisis beyond raising taxes or cutting services:

- Save at least \$100 million annually by insourcing IT work.
- Save at least \$144 to \$205 million annually by reducing the use of medical registry contracts.
- Save at least \$50 million annually by reducing use of A + E contractors.

**Look inside for details on how California wastes hundreds of millions of dollars each year to outsource State programs and services.**



SEIU Local 1000 is California's largest union of state employees, representing more than 95,000 workers including tax auditors, tax compliance representatives and other professionals throughout state service.

