The Cost Analysis Approach

It is important to ensure a fair and accurate comparison of the cost to Washington State government to either perform a service directly or to contract for the service with the private sector. If the comparison only looks at current DES costs and the bids submitted by vendors, important information may be missed. For example:

- If a service is contracted out, the direct costs of performing the service will generally go away. Some portion of the indirect and overhead costs associated with the service, however, likely will continue to be paid by the agency or the state. For example, there will still be an agency director, the state still pays costs related to the 1500 Jefferson building, etc.
- The service may be of a size such that only fractions of FTEs are involved, and thus it could be difficult to fully reduce the direct costs of the service without harming another service.
- DES may have conversion or transition costs, or revenue from the disposition of assets, if a service is contracted out.
- DES may have new contract administration costs.

To aid accurate comparison and to reduce decision risk, DES developed a standard approach and format to itemize and categorize costs when performing a cost analysis. The current costs to provide the service are shown in three categories:

- Costs that would go away immediately if the service were contracted out,
- Costs that would go away eventually, but not immediately, and
- Costs that would be transferred to other parts of DES or state government.

The costs for contracting out a service include the bidder's proposed costs to the state, plus any new costs to the state for exiting the service and managing the contract.

Notes and Assumptions for the Auto Claims Analysis

Staff Costs: The current services are provided by multiple people at both DES and WSDOT. The workload is approximately 3.2 Tort Claim Investigator FTEs in total (an estimated .7 FTEs for DES and 2.5 FTEs for WSDOT). The time and costs for supervision of the investigators was not included in this estimate. Total staffing costs are approximately $242,000 per fiscal year, about $166,000 of which could probably be eliminated if the service were discontinued. Portions of employee time not devoted to auto claims are devoted to other risk management and claim work at these agencies.

Direct non-staff costs: The costs of materials, training, travel, etc. associated with the DES staff that provide this service are estimated at about $1,800 per fiscal year.

DES Internal Shared Services, Rent, Utilities: This includes the per FTE share of the costs of agency shared services (for example, human resources and finance), facility rent and utilities. The size of this service is so small, that there would be virtually no impact on the level of shared services costs if the service were contracted out.

External Cost Allocations to DES: This includes the per FTE share of the interagency costs allocated to DES such as archives, OCIO, etc. The size of this service is so small, that there would be virtually no impact on the level of external service costs if the service were contracted out.

WSDOT staff cost transfers: WSDOT estimates that fractions of staff processing auto claims, equivalent to 1 FTE, could not be eliminated but would be shifted elsewhere in WSDOT.

New expenses related to contracting: DES Office of Risk Management estimates that 0.25 FTE would be required to manage and oversee the work of the contractor. This work would involve new functions not currently performed by DES and is over and above employee supervision work currently being performed. The cost of this new work would be $27,000 per year. While it's possible that the level of contract management required could lessen after the first 18 months, the estimates assume the .25 FTE level continues.

Bidders' proposed costs: The bids received from Hughes Claims Management, LLC, and Partners Claims Services, Inc., were modeled using fiscal year 2014 actual claims and the bidders' per claim rates to determine the estimated future cost of these vendors.