CHAPTER III. POTENTIAL SAVINGS AND BUDGETARY IMPACTS UNDER THE CURRENT PROGRAM

The Administration's current program to accelerate federal contracting out offers significant potential for total government-wide savings. The savings represent net reductions in total federal costs that include both current disbursements and deferred disbursements for costs such as CSR. In some instances, in fact, more distant savings may be achieved at the expense of higher outlays in the near term. The level of estimated budgetary effects depends largely on two key assumptions--the number of federal jobs that are subject to contracting out and the outcome of cost comparisons.

The first part of this chapter gives CBO estimates of potential savings from further shifts to contracting under the current program. The second part considers the near-term effects on budgetary outlays.

ESTIMATES OF TOTAL POTENTIAL SAVINGS

Little detailed information exists on the costs that would be incurred by the multiplicity of firms bidding in different regions for various types of federal services. Without such information, estimates of the impact of increased use of contracts must be viewed as somewhat uncertain.

Assumptions in the CBO Analysis

The CBO savings estimates largely reflect differences between federal and private-sector labor costs for various occupations and geographic areas. Differences in other costs are assumed essentially to cancel one another out. (The CBO analysis assumes that reduced costs from a shrunken work force would offset higher contractor costs for nonpersonnel items.) Unit labor costs were compared for 15 selected occcupations and 18 geographic areas--covering some 60,000 workers in occupations that CBO categorized as essentially of a commercial nature. The results were extrapolated to determine government-wide impacts, using the OMB estimates of the federal civilian work force subject to contracting-out review under Circular A-76. The CBO approach, described in more detail in the Appendix, offers a way to approximate the potential shifts to contracting in the absence of detailed cost comparisons for the wide variety of activities that constitute the current inventory of inhouse work. (Government-wide estimates apply to no particular inhouse activities.)

The private-sector labor rates used in constructing the compensation comparisons assume that service contractors could maintain a work force without paying wages or benefits above rates mandated by DOL. Consistent with these requirements, the CBO estimates allow no cost for employer-sponsored pensions and for a minimal cost for time off and other fringe benefits. The private-sector costs reflect conditions that favor contracting out--a reasonable expectation under existing market conditions. Unemployment rates in many industries and wage areas suggest that prospective contractors might hire many workers without paying a premium in wages and benefits. Conversely, however, these assumptions imply that, in a more fully employed economy, the advantages of contracting out would be less than the following estimates suggest.

The CBO savings estimates (expressed in 1983 dollars) assume full implementation at the beginning of the first year; obviously, the Executive Branch would phase in new service contracts over several years. The CBO estimates further assume that contracting-out decisions would essentially follow current OMB cost-comparison guidelines, but that the resulting impacts would reflect the higher federal costs (identified in Chapter II) for retirement and government layoffs.1/ Without the CBO adjustments, the estimated first-year savings under current policy would be unduly inflated.

The CBO Estimates

According to CBO estimates, contracting out could shift some 165,000 jobs to the private sector, reducing total government costs in the first year by about 4 percent, or some $335 million. In out years, however, the annual savings would eventually grow to $870 million, because certain conversion costs for intangible transition factors and federal severance pay are transitory and do not occur year after year (see Table 5).

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1. The CBO estimates of savings incorporate a federal cost for CSR equivalent to 24.23 percent of payroll as calculated by Hay Associates (see Chapter II). This value is consistent with long-term economic assumptions used for the calculation of federal costs for Social Security. Adjustments for the extra costs of Social Security total 4.7 percent of pay, and adjustments for layoff costs total 4 percent of pay for defense agencies and 15 percent for nondefense agencies. By contrast, the decisions to convert assume that the cost comparisons incorporate the 2 percent layoff cost factor being considered by the Administration and 20.4 percent of pay for CSR. Estimated conversion rates and associated savings both incorporate the transition cost factor specified in A-76 at 10 percent of inhouse compensation.

TABLE 5. ESTIMATED IMPACTS OF CONTRACTING OUT

	Federal Inhouse Work Force (In thousands)	Total Economic Costs (In millions of dollars)
Base for Inhouse Activities Subject to Review	202	8,520 a/
First-Year Reductions from Contracting Out	165	335
(Percentage Decrease)	(81)	(4)
Annual Out-Year Reductions	165	870
Distribution of First-Year Impacts		
Defense	120	337
Nondefense	45	-2 b/

SOURCE: Congressional Budget Office.

a. The base estimates of total inhouse costs and near-term outlays include indirect costs for labor and nonpersonnel items.

b. Minus indicates an outlay increase.

The estimated effects reflect a shift of 81 percent of the inhouse work to private firms. This conversion rate is not inconsistent with that experienced by DoD in 1981. But the estimated first-year savings for activities converting, expressed as a percent of total inhouse costs, may represent only about one-fourth of the rate previously experienced by DoD. The lower-rate of projected savings results from the greater federal costs recognized by CBO and from the possibility that more lucrative conversions have already occurred. (The comparison of historical and projected savings rates should be viewed as a rough approximation because of changes in reporting methodology.)

Comparison of Estimates

The CBO first-year savings estimates of $335 million from contracting out under current policy falls well below an unpublished Executive Branch estimate of some $545 million.2/ The difference results largely from the greater costs recognized by CBO for compensation associated with federal employee layoffs. The CBO estimates reflect a current federal job market beset by continuing government layoffs.

Without the higher layoff costs, however, the first-year savings estimated by CBO would slightly exceed the Executive Branch estimate. This difference is largely attributable to certain divergent assumptions concerning the portion of work shifting to contract, the average savings for converted activities, and the cost per hour worked by the federal employees affected. For each of these factors, CBO estimates would have reflected values of 81 percent, 13 percent, $15.29 per hour; whereas OMB estimates reflect analogous values of 60 percent, 20 percent, and $13.16 per hour.

Unlike the CBO estimate, which is based on a framework that compares federal and private-sector unit labor costs for different occupations and geographic areas, the OMB estimate uses the savings and conversion rates experienced by DoD for the period 1979 through 1981 to determine future impacts for all agencies. Several drawbacks in OMB's methodology are evident. The particular cost base from which the DoD factors derived cannot be reasonably simulated for existing inhouse activities because of changes in agency reporting.3/ In addition, the DoD data inflate first-year savings estimates, because the intangible transition costs specified by the guidelines are not deducted from savings.

Impacts By Occupation, Geographic Area, and Agency

Government-wide savings from contracting out derive from the aggregation of numerous small effects, which vary significantly by region, occupation, and agency. According to CBO analysis, large shifts of federal jobs to private firms might occur in major wage areas in the far West, the

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2. Based on informal discussion with OMB staff.

3. The DoD savings factors applied to a cost base that included several large components that usually did not change much under contracting out--namely value of government-furnished property, cost of capital, and changes in utilization of government plant or equipment.

South, and the mid-East. Job shifts in these wage areas, accounting for about half of the possible conversions to service contracts, largely reflect the geographic dispersion of defense facilities.

Because of the large DoD work force engaged in performing support services, job shifts in defense agencies would outnumber those in nondefense agencies by nearly three to one (see Table 6). Within DoD, the potential for job shifts and related savings is greatest among the trade and craft occupations, which account for most of DoD's inhouse work force. In nondefense agencies, conversions and associated savings concentrate in lower-skilled occupations, such as laborer and janitor. Three agencies--the Veterans Administration, the General Services Administration, and the Department of Health and Human Services--account for more than one-third of the nondefense jobs that might convert to contract performance. (The estimates for the VA, however, do not cover the 23,000 commercial-type jobs that are precluded from contract conversion because of restrictions mandated by the Congress. See Chapter I.)

TABLE 6. DISTRIBUTION OF ESTIMATED FEDERAL EMPLOYMENT IMPACTS, BY OCCUPATION (In thousands of federal jobs eliminated)

	Defense	Nondefense	Total
Laborers and Janitors	28	13	41
Food Service Workers	2	2	4
Guards	6	7	13
Data Processors	1	1	2
Drivers and Operators	10	3	13
Trades and Crafts	55	8	63
Other Occupations	19	10	29
Total	121	44	165

SOURCE: Congressional Budget Office.

NEAR-TERM OUTLAY IMPACTS

The OMB contracting-out guidelines compare total economic costs--both those that occur as initial disbursements and those, such as federal retirement, that generate deferred disbursements. In not separating short-term effects on budgetary outlays, however, the cost comparisons may demonstrate total economic savings despite near-term outlay increases. The CBO estimates that the current Administration's program would reduce outlays in the first year by some $90 million, reflecting decreases of $105 million for defense agencies and increases of $15 million for nondefense agencies. As previously noted, the relatively small near-term outlay impacts would occur largely because of the cost treatment for two items--federal retirement and layoffs.

Civil Service Retirement. Under current practice, firms seeking federal service contracts bid against an estimate of inhouse costs that includes an accrual cost for CSR. Though federal outlays for CSR are deferred, the contractors' costs for compensation benefits are included in the bid price and are therefore passed on as current expenses to the government.4/ Thus, shifting federal services to private firms might increase outlays to cover the higher cash payments to contractors.

Federal Layoffs. The CBO analysis suggests, as described in Chapter II, that pending cost-comparison guidelines do not anticipate the full cost of federal layoffs that result from shifts to private contracts. If layoff costs should approach the levels estimated by CBO (4 percent of pay for defense agencies and 15 percent of personnel costs for nondefense agencies), and if the cost factor in pending guidelines (2 percent of personnel costs) is not changed, the federal government could incur substantial outlay increases in many conversion cases.5/ For nondefense agencies, the understatement of federal layoff costs could shift activities to service contracts at a cost in higher near-term outlays.

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4. As described in Chapter II, the federal government also incurs some long-term costs for Social Security from shifts to service contracts, but these do not affect current disbursements for contracting out.

5. A small portion of layoff costs for save-pay provisions (see Chapter II) include federal retirement benefits, which do not affect near-term outlays. This deferred impact, however, would probably be offset by outlay increases for CSR refund payments to many laid-off workers.

CHAPTER IV. OPTIONS FOR CONTRACTING OUT

In considering what action, if any, to take with regard to Executive Branch contracting out for support services, the Congress will want to weigh a number of factors. The goals that could be pursued by mandating changes in the present system include improving recognition and comparison of costs, reducing restrictions that limit conversions to contracting out, and maximizing near-term outlay reductions. The alternatives presented in this chapter address these objectives through various changes in the current program. The Congress could blend or modify some of the measures to fit particular objectives, or it could decide that the best course would be a continuation of the present system. Five possible choices are examined:

- **Option I--Continue current policy** with respect to contracting out;

- **Option II--Adjust the cost-comparison guidelines** to reflect more accurately the federal costs assigned for Civil Service Retirement, Social Security, and federal layoffs;

- **Option III--Expand contracting out** possibilities by reducing restrictions now applying to the DoD and VA;

- **Option IV--Limit contracting out** to cases in which near-term outlay savings could be achieved; and

- **Option V--Extend the limited moratorium** on contracting out now contained in the Defense Authorization Act of 1983.

The discussion of each option describes the number of federal positions that might shift to private firms, the total economic savings, and the changes that might affect near-term budget outlays (see Table 7). The analysis incorporates the unit labor cost comparisons and other factors described in Chapter III, and it assumes shifts to service contracts to occur at the beginning of 1983.1/ Although some negative consequences have accompanied federal contracting out in the past, this risk is not factored into the CBO estimates, which assume that decisions to keep activities inhouse would be based primarily on cost considerations.

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1. Savings reflect differences between federal and private-sector unit labor costs for selected occupations and geographic areas, the private-sector rates being adjusted to include the 10 percent factor for transition intangibles and layoff costs as estimated by CBO. The

TABLE 7. ESTIMATED POTENTIAL SAVINGS FROM CONTRACTING-OUT OPTIONS (In millions of dollars, based on 1983 prices)

	Option I	Option II	Option III	Option IV	Option V
	(All Agencies, Including DoD)				
Total Economic Savings					
First year	335	415	580	195	0
Out years	870	860	1,200	485	0
Near-Term Outlay Impacts	90	155	225	195	0
Thousands of Jobs Affected	165	135	185	95	0
(As Percent of Inhouse Work Force Before Conversions)	(81)	(68)	(69)	(46)	--
	(Nondefense Agencies Only)				
Total Economic Savings					
First year	-2 a/	75	140	35	0
Out years	135	165	270	80	0
Near-Term Outlay Savings	-15 a/	25	65	35	0
Thousands of Jobs Affected	45	30	45	20	0
(As Percent of Inhouse Work Force Before Conversions)	(79)	(53)	(57)	(33)	--

SOURCE: Congressional Budget Office.

a. Minus sign denotes outlay increases.

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results were projected government-wide, using the federal work-force levels subject to A-76 review (except for Option III) as reported by OMB. Other cost differences, including those attributable to a smaller contract work force and to increases in nonpersonnel items, are assumed to offset one another as stated in Chapter III.

With these qualifications, contracting-out options offer substantial savings but relatively small outlay reductions in the near term. The current program and the modifications to it offer a potential for annual out-year savings in total economic costs that range from an estimated $485 million (Option IV) to an estimated $1,200 million (Option III). Annual near-term impacts on government-wide budget outlays, on the other hand, would reach at most $225 million under any of the options. Among the first four options, contracting out could abolish from 95,000 to 185,000 federal jobs. Some general arguments for and against contracting out are described at the end of this chapter.

OPTION I: CONTINUE THE CURRENT SYSTEM

Option I would continue to encourage contracting-out as a way to reduce long-term costs for federal programs. The cost comparisons and resulting agency decisions would conform to the OMB specifications set forth in current A-76 regulations, and the Administration would retain wide discretion in determining the criteria for contracting out.

As described in Chapter III, the current program offers substantial opportunity for reducing total federal costs. The cost estimates prepared by CBO (adjusted to reflect certain federal costs for retirement and government layoffs) show that as many as 165,000 federal jobs might shift to private firms. The resulting savings could approach some $335 million in the first year and as much as $870 in out years.

The pros and cons of maintaining current policy generally follow the basic arguments for and against contracting out reviewed early in Chapter I and later in this chapter. Critics of the practice regard it as a deceptive way to make the federal government appear smaller than it is, point to the decline in service quality it can bring, and cite it as unfair to many federal workers. Further, they see it as undermining the controllability of federal program and work force costs. On the opposite side of the issue, advocates of contracting out--who in general regard performance of commercial services as beyond the proper purview of government--point to its potential for achieving federal cost savings. Moderate proponents of this stance would advocate maintaining current policy intact. Taking a stronger position, some would modify present practices along the lines of Options II and III to improve them or to allow expansion of contracting out possibilities.

OPTION II. MODIFY COST-COMPARISON GUIDELINES

Cost comparisons are required under the present contracting-out program to insure that federal services are obtained from the most economical source. Modifying cost-comparison factors would help improve the accuracy of these determinations by requiring better recognition of costs. Accordingly, this option would correct the failure of current cost-comparison guidelines to recognize fully the costs of retirement and federal layoff.

With respect to retirement costs, a value of 24.23 percent of pay would replace the current lower value of 20.4 percent now used to account for the cost of CSR; a value of 4.7 percent of pay would be incorporated for Social Security to cover unfunded costs of future benefits (see Chapter II) and income taxes forgone because of Social Security benefits' tax-free status. In addition, the option assumes, as estimated by CBO, that costs associated with federal layoffs would average 4 percent of inhouse personnel costs for DoD and 15 percent of the nondefense agencies.

Under Option II, the number of federal jobs eliminated would drop by 18 percent relative to the current program (Option I), because the more rigorous guidelines would allow fewer contract conversions. Those that did occur, however, would be more cost-effective, and estimated savings in the first year would thus rise to $415 million--an increase of 24 percent above savings estimated for the current program. In out years, savings would about equal those under the current program.

Though refinements of existing guidelines would likely meet with little opposition, disagreement could arise over which factors to modify and what particular values to assign. Some critics might even argue that the entire cost-comparison process is highly questionable because of the uncertain nature of assigning costs for retirement and federal layoffs. Despite these concerns, the modifications proposed in Option II would noticeably alter the estimates of savings and jobs converted because of the upward adjustment for layoff costs. These costs partly reflect the recent experience of retrenchment in nondefense employment levels. To the extent that agency employment levels stabilized, a lower layoff cost factor would be appropriate.

OPTION III: MODIFY COST-COMPARISON GUIDELINES AND REDUCE RESTRICTIONS ON CONTRACTING OUT

Of the four alternatives to the current program, this option offers the greatest potential for reducing federal costs. Incorporating the same cost-comparison modifications advanced in Option II, it would also modify current statutory and administrative provisions that exempt certain DoD and VA activities from being considered for contracting out. These changes would subject a greater number of activities to cost-comparison review. Thus, the number of federal jobs converting to contract under Option III could reach 185,000, compared with some 165,000 under a continuation of current policy (Option I). The net rise of 20,000 jobs affected includes a decrease of 30,000 resulting from modified cost factors and increases of

50,000 resulting from reduced restrictions. The total estimated first-year savings of $580 million includes near-term outlay savings of $225 million. In out years, total annual savings could grow to some $1.2 billion.

CBO estimates that, under present guidelines, approximately 150,000 civilian DoD positions could fall under contracting-out exemptions that apply specifically to supply, maintenance, and repair of military equipment. Officials at DoD and other proponents of the present exclusions justify them as necessary to insure a corps of technically competent inhouse equipment workers in the event of a national emergency. But the wide range of equipment support activities carried out by contract workers, during both peacetime and hostilities, suggests that a narrower exemption need not impair national defense capabilities. For example, contract employees were used extensively during the Vietnam conflict in various activities, from helicopter maintenance to quarry equipment repair. If the number of exempted activities were reduced administratively or through Congressional mandate, contracting out could markedly expand. (For estimating purposes, Option III assumes that about one-third of these positions would be subject to cost comparisons.)

Limitations imposed on the VA were motivated by concern that contracting out would decrease funds available for health-service delivery and diminish the quality of care provided at VA facilities. The instability of a contractor's work force--caused by high turnover rates, absenteeism, strikes, and other disruptions--has been often cited as jeopardizing the quality of VA health services. These prospects trouble VA officials, who point out that maintaining work-force continuity is especially critical for the large and increasing number of elderly veteran patients, many of whom suffer diminished mental faculties. Finally, it is also argued that the excluded VA activities should remain exempt, because they are an integral part of a basic governmental commitment to caring for U.S. veterans.

Advocates of rescinding the VA exemptions point out that other organizations, including the Air Force, have successfully used private resources to provide support services in health facilities without degrading service levels. Moreover, the VA cost of preparing comparisons, estimated at $10 million to $20 million by OMB, represent, at most, one-third of the savings available from contracting out. With exemptions lifted, CBO estimates first-year savings of about $70 million at the VA. (The estimate assumes 15,000 additional jobs would shift to private firms.) Finally, proponents maintain that VA activities, especially the support services, are no more inherently governmental than those of other agencies subject to A-76 and should not be singled out for special exemption.

OPTION IV: MODIFY COST-COMPARISON GUIDELINES AND MAXIMIZE NEAR-TERM OUTLAY SAVINGS

In addition to modifying selected cost factors in the comparison guidelines now pending, Option IV would limit future conversions to cases that would reduce outlays in the near term. Determinations of the most economical mode of performance would be based on initial outlay impacts, and thus conversions yielding total economic savings would not take place at the expense of short-term increases in budget outlays. Although the opportunity for long-term savings would diminish, the policy change required by this option would support current efforts to reduce the size of the federal budget. Option IV would be opposed by those who believe that achieving long-run economies should be the main objective of contracting out. Such critics would point out that outlay increases caused by job shifts to private firms are in part one-time or short-term effects that should not play a major role in contracting-out decisions.

Under Option IV, fewer activities would convert to service contracts than would shift under the current program. Relative to current policy, long-term savings and the number of jobs shifted to private firms would drop sharply but the potential for near-term outlay savings would markedly increase. Estimated total savings would decrease by about 40 percent relative to the current program (Option I), and the potential job shifts would likewise decrease from 165,000 to 95,000. Against the drop in total economic savings, immediate near-term outlays savings would increase, because conversions would be limited to those cases in which cash payments under contracting out were lower than current outlays for inhouse performance. Near-term outlay savings would total $195 million, an increase of some 116 percent over current policy. If this option were combined with a withdrawal of contracting-out restrictions (Option III), near-term outlay savings would rise even more, reaching an estimated $300 million.

OPTION V: IMPOSE A MORATORIUM ON CONTRACTING OUT

In light of the criticisms of the current system--and of contracting out in general--the Congress could adopt a one-year moratorium on all further shifts to contract services. This option would extend, on a government-wide basis, the limited moratorium now contained in the recently enacted Defense Authorization Act of 1983 (see Chapter I). Such a moratorium would give both the Executive and Legislative Branches more time to reassess the current program, including both the reasonableness of cost factors used in A-76 and the effects of contracting out on the quality of federal services. Obviously, no further cost savings or dislocations of federal personnel would result.

A moratorium would find support among persons who believe contracting out obscures the size and cost of the federal government. It would also be endorsed by federal employee organizations already angered by the loss of federal jobs and eroded compensation. Federal managers and policy officials concerned about maintaining effective program operations would also lend approval. It would also find support from those who believe that some types of services could be targeted for private-sector performance as a matter of basic policy. Advocates of this position might endorse a moratorium as a means to move current policy away from reliance on detailed cost comparisons.

From the opposite position, suspending shifts of federal services to contract firms would meet objection on the ground that such action would needlessly delay the opportunity to achieve long-term savings available under current policy. Advocates of the current system point out that pending regulations, which are the product of more than a year's study by Executive Branch agencies, will streamline the program and improve cost recognition.

OTHER CONSIDERATIONS

As already noted, many considerations other than cost surface in the course of debate on contracting out. Such concerns, summarized below, will undoubtedly exert some influence on any actions the Congress might take to change the current contracting-out program.

Spokesmen for contracting out argue that, without constraints imposed by labor negotiations or by Civil Service laws and regulations, it improves management's ability to adjust resources to changing workloads and to technological and budgetary conditions. This may be especially important for activities--such as data processing--that are subject to seasonal workloads and for activities requiring certain specialized skills not available within the inhouse work force.2/ Contracting out is also seen as especially advantageous for new or experimental activities. For example, a 1974 study of contracting by 84 California cities found a tendency to use service contracts in situations requiring high "tool up" expenditures or temporary

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2. See Rosaline Levinson, "Privatization of Public Services in California: How Much and How Fast," The Northern California Review of Business and Economics, (Winter 1980), p. 33; and Paul Jay Muzychenko, Jr., "Contracting with the Private Sector for Municipal Services: A Dialogue between Practitioners," Management Information Service Report, Vol. 12, No. 4 (1980), p. 2.

trial operations.[3] Others maintain that managers are freed from the demands of day-to-day operations and thus able to devote more attention to program planning and monitoring.[4] Finally, private-sector competition is held to encourage innovation in the delivery of services. In this view, government organizations are considered "less responsive than private producers in improving productivity or adopting advanced technologies because . . . incentives for such improvements are absent."[5]

Critics of contracting out argue that federal management maintains better control if it hires its own workers--realizing advantages from the greater experience and loyalty thought to characterize inhouse personnel. A 1971 Rand Corporation study of commercial guarding activities, for example, found that inhouse security personnel "develop more loyalty and sense of responsibility to the firm they are protecting than do contract guards."[6] The study concluded that some of this difference resulted from contract guards having less experience and training and having to serve two employers. Some analysts also maintain that the rigidity of contract specifications can limit managerial flexibility.[7]

Concerns about employees' reactions to the loss of jobs, Civil Service protections, and promotion opportunities emerge as major considerations in decisions to contract out work or not.[8] In addition, government organizations have reportedly turned to service contracts to circumvent various Civil Service regulations--such as preference for hiring veterans, salary limitations, prohibitions against moving expenses for new employees, or

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3. See Sonenblum, Ways to Provide Municipal Services, p. 4.

4. See Robert W. Poole, Cutting Back City Hall (Universe Books, 1980), p. 29.

5. See Sonenblum, Ways to Provide Municipal Services, p. 62.

6. See Kakalik and Wildhorn, The Private Police Industry, p. 100.

7. See Donald Fisk, Herbert Kiesling, and Thomas Muller, Private Provisions of Public Services: An Overview (The Urban Institute, May 1978), p. 8.

8. See Fisk, Private Provisions of Public Services, p. 97; and California Tax Foundation, Contracting Out Local Government Services in California (1981), p. 10.

affirmative action procedures.9/ But opinion is divided on this issue and on the extent to which contracting out is vulnerable to patronage considerations versus protections governing Civil Service employment. From the perspective of employee organizations and others wanting to keep activities inhouse, contracting out by the government also acts to condone and even encourage the substandard compensation practices of many private firms.

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9. See Ira Sharkansky, "Policy Making and Service Delivery on the Margins of Government: The Case of Contractors," Public Administration Review, Vol. 40, No. 2 (1980), pp. 117-118.

APPENDIX

APPENDIX. COST COMPARISON ANALYSIS METHODOLOGY

The CBO's estimated impacts of contracting out are based on a comparison of unit labor costs for commercial-type occupations and for wage areas with large concentrations of federal workers (see list on next page). Unit labor costs consist of wages and benefits, including the accrued cost of retirement, adjusted to reflect costs for paid time off. Projected nationwide changes in federal wages and in the Average Hourly Earnings Index were used to update costs from 1981 to 1983 prices.

Federal wages incorporated in the CBO comparisons were obtained from the Office of Personnel Management's Central Personnel Data File. Private-sector wage rates were obtained from survey data used by the Department of Defense (DoD) for setting wages under the federal wage system. When the private-sector wages for a particular occupation and wage area differed by more than 10 percent from rates determined by the Department of Labor (DOL) under the Service Contract Act, the DOL rates were used. (In some cases, the unavailability of either DOL or DoD data required substitution of imputed values using rates for similar occupations and geographic areas.) Private-sector costs for paid time off, retirement, and other benefits also reflect DOL determinations. DOL sets compensation rates for workers under service contracts on the basis of prevailing practice, and these rates were used to represent the costs incorporated in the price of the successful contractor's bid. The cost of benefit components used in the CBO compensation comparisons are as follows:

	Inhouse	Under contract
	(As a percent of pay)	
Retirement, Including Unrecognized Social Security Costs	24.23	10.67
Layoff Costs	--	4 to 15
Other Benefits	5.60	5.60
	(In hours per year)	
Scheduled Work Hours	2,080	2,068
Paid Time Off	371	215 to 361

The data sources CBO used (listed below) were selected to allow comparison of federal and private-sector unit labor costs for workers closely matched by occupation, geographic area, and skill level. The results of the cost comparisons were extrapolated to the population of commercial-type jobs subject to A-76 as estimated by the Office of Management and Budget. Adjustments were also made to reflect the distribution of the DoD commercial work force among different types of commercial activities.

<u>Wage Areas</u>:

Baltimore, MD
Charleston, SC
District of Columbia
Hawaii
Los Angeles, CA
Macon, GA
New York, NY
Norfolk, VA
Oklahoma City, OK
Pensacola, FL
Philadelphia, PA
Portsmouth, NH
Sacramento, CA
San Antonio, TX
San Diego, CA
San Francisco, CA
Seattle, WA
Utah

<u>Occupations</u>:

Carpenter
Painter
Electrician
Metal Worker
Aircraft Mechanic
Machinist
Mechanic
Laborer
Janitor
Warehouse Worker
Operator
Food Service Worker
Guard
Key Entry Operator
Computer Operator