SECTION 4:
COST/BENEFIT ANALYSIS

Determining what a professional/technical services contract may cost is challenging, but it is essential to do it up front for two reasons: (1) so that you have some comparison with your own costs to make a make or buy decision and (2) so that you know which procedure to use in getting the request for proposal ready. It is not the amount of work you do to put together a cost/benefit analysis that makes the difference, but how well you cover the basic points that counts. A 3x5 card may be all that is necessary for a small need. However, it might also take several pages of analysis to identify all the costs of a large need. The benefit portion of the analysis is completed by doing the needs statement and statement of work in the previous section, and you have determined that doing the work is more important than doing something else with the money, for whatever reason.

A suggested format with instructions is included in this section to assist you in completing the analysis.

First, try to identify all costs related to doing the service/task yourself. Some of the points on the format may be easily skipped but can be costly.

Next, try to determine what kinds of responses you might get to your request for proposal (RFP). At this step you will not have firm numbers. But, you should have some idea about what the cost is going to be or you would not be determining that your employees cannot do it. By carefully setting out the cost benefit analysis structure you will identify critical issues that need to be considered when you are putting together the evaluation criteria for the RFP.

Compare these numbers to both your own costs and your budget, then determine if you should proceed.

As you proceed with a contract, make sure you have identified all the support costs the responders expect from you; the format makes a handy comparison device. Your analysis of responses needs to factor in these hidden costs in order for you to get the best return for your funds. It is not unusual for Responder A to have a lower cost ($10,000) but require you to commit more of your staff hours to getting the job done (80 hours x $15 an hour = $1,200), while Responder B is a little higher cost ($10,500) but does not expect you to commit more than a quarter of the hours of Responder A (20 hours x $15 an hour = $300). Which one is really the best buy, all other things being equal? Add to these simple costs the impact of having staff not available to do regular or other work for those 60 hours, and you can create a significant hidden cost.

Explanation of Model Cost Analysis Format

The following format focuses on COST. You have identified the non-monetary tradeoffs (benefits) of the make or buy decision in creating the needs statement and the statement of work, in Section 2.
Contractors respond with a *price* for base expenses. The other costs under the **Contractor** columns are for your specific costs based on their responses. You might not have all of them filled in for every contract or contractor.

**Categories**

**Estimated Contract Price:**

Based on your knowledge of the field, seminars, conferences, mailings, discussions with other individuals in the field, etc., some idea of what potential contractors might charge for the *service* you want.

**Base Expenses:**

Costs of state employees providing the service. These would be your major costs if you had the staff or the expertise or the time to provide the service.

**Contract Management Costs:**

Costs that you will pay for managing the contract. This is NOT your agency's contract manager. It is the person(s) you will have to assign to managing the contract (Project Manager, Liaison, etc.).

**Contractor Support Costs:**

Costs that you incur to support the contractor. Office space, forms you provide, equipment you buy for the contractor to use. If you would buy this equipment anyway, and it will be used for other things, it probably does not belong in this category but under Base Expenses.

**One-Time Costs:**

Costs for putting the RFP and the contract together and the other details of using RFPs and contracts. These are one-time costs, in that they apply to a specific contract and happen only once.

**Terms**

**Salaries:**

Actual salaries paid to an employee may be expressed in dollars-per-hour or a total amount.

**Fringe Benefits:**

The nonsalary personnel expenses, health insurance, vacation/sick leave, etc., that are costs of employing someone. Your human resources office or financial office should be able to
help provide an estimate--this is usually (but not exclusively) expressed as a percent of salary.

Travel and Living Expenses:

If there is travel involved, what those costs would be given the respective collective bargaining agreements. Contractors are required to document and invoice these costs separately and are required to meet the standards in the Commissioner's Plan.

Service and Supplies:

Cost of phones, fax lines, space (if you internally charge for space), paper, pencils, etc., that it takes to support a person (employee or contractor).

Equipment (Capital Outlay):

Things you would have to buy, generally costing over $500, that you would need to provide the service, (e.g., PCs, printers, and special equipment).

RFP Advertising (Public Notice):

The cost of putting an announcement in the State Register and any additional advertising.

RFP/Contract Preparation:

The cost of writing an RFP and a contract. May be only a couple of hours for one person. In other cases, it may be a couple of hundred hours for a number of people.

RFP Evaluation:

Again, it may be very simple, but it can be very complex and expensive.

Staff Training:

You may need to train a number of state staff to monitor a contract or to perform some interim tasks to allow a contract to be completed. These are costs that you might not have to pay if you were using state staff.

Monitoring Systems Development:

If you have to create a separate system (fiscal, programmatic, operational, or automated) to monitor the contract, this is an additional cost you need to identify.

SAMPLE

<p>| Model Cost Analysis Format | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th>Cost of State</th>
<th>Contractor A</th>
<th>Contractor B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td>Estimated</td>
<td>Estimated</td>
</tr>
<tr>
<td><strong>Tasks</strong></td>
<td></td>
<td>Price</td>
<td>Price</td>
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<tr>
<td><strong>Estimated Contractor Price</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Base Expenses - Salaries</td>
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<tr>
<td>Fringe Benefits</td>
<td>XXXXX</td>
<td>XXXXX</td>
<td>XXXXX</td>
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<tr>
<td>Travel &amp; Living Expenses</td>
<td>XXXXX</td>
<td>XXXXX</td>
<td>XXXXX</td>
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<tr>
<td>Service &amp; Supplies</td>
<td>XXXXX</td>
<td>XXXXX</td>
<td>XXXXX</td>
</tr>
<tr>
<td>Equip (Capital Outlay)</td>
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<td>XXXXX</td>
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<td><strong>Total Base Expenses</strong></td>
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<tr>
<td>Contract Mgt. Costs-Salaries</td>
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<td>Fringe Benefits</td>
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<tr>
<td>Equip (Capital Outlay)</td>
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<tr>
<td><strong>Total Contract Mgt. Costs</strong></td>
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<td>Contractor Support Costs-Space</td>
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<td>Travel &amp; Living Expenses</td>
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<td>Service &amp; Supplies</td>
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<tr>
<td>Equipment (Capital Outlay)</td>
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<tr>
<td><strong>Total Contractor Support Costs</strong></td>
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<td>One Time Costs-RFP Advertising</td>
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<td>RFP/Contract Preparation</td>
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<td>Staff Training</td>
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<td>Monitoring System Dev</td>
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<td><strong>Total One Time Costs</strong></td>
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<tr>
<td><strong>TOTAL COSTS</strong></td>
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