

**Connecticut General Assembly
Government Administration and Elections Committee
March 25, 2013**

**TESTIMONY FOR PUBLIC HEARING:
House Bill 6673: An Act Concerning the Assessment of Proposed Privatization Contracts**

Senator Musto, Representative Jutila, Ranking Members, and members of the Government Administration and Elections Committee:

My name is Steve Anderson. I'm the Secretary-Treasurer of CSEA/SEIU Local 2001, and President of the P-4 bargaining unit which is composed of about 2500 scientists, engineers, and information technology professionals employed by the State of Connecticut. I work as an Environmental Analyst in the Connecticut Department of Agriculture.

CSEA represents thousands of employees from across state service -- from bridge safety inspectors in DOT to IT professionals in all state agencies -- whose work has been impacted by privatization. On behalf of CSEA's members, I submit the following testimony in support of House Bill 6673: An Act Concerning the Assessment of Proposed Privatization Contracts:

CSEA supports House Bill 6673: An Act Concerning the Assessment of Proposed Privatization Contracts. This bill provides important safeguards that will protect Connecticut tax dollars while increasing and strengthening needed mechanisms of oversight and transparency.

The proposed changes to statute contained in the bill are intended to accomplish two purposes:

- 1) Require a cost-benefit analysis of any contract worth more \$50,000 even if the work had been previously privatized except in the case where a cost-benefit analysis has been already performed.
- 2) Requires an analysis that if the State were to perform the work in-house and the funds for that work is provided by a third party, such as the Federal government, that the State would benefit for reimbursement for unfunded liabilities for pension and retiree health insurance thus reducing the state's financial obligation.

The only cost-benefit analysis for contracted out work that we have seen was performed in 2010 by the Department of Transportation regarding bridge safety inspections. The DOT was directed to perform this analysis by the State Contracting Standards Board and it clearly showed the exorbitant cost of contracting out this work. This cost-benefit analysis showed that state employees could perform the work at a cost less than the private contractor. However, instead of using these results and the flexibility under Statute to hire more state employees, the Department of Transportation contracted out more bridge safety work in 2012, the exact opposite of the legislative intent behind the law and the exact opposite of what the cost-benefit analysis revealed.

Connecticut has over 5,300 highway bridges, 33 railroad bridges, and a number of smaller state owned bridges. All bridges should be inspected every 2 years. From 2007 through early 2010, DOT spent around \$50 million on bridge inspection consultants -- more than double the \$24 million spent over the same period on in-house bridge reviews. In 2006, the State spent \$6.9 million dollars a year on outside consultants doing the work that could

have been done by DOT engineers. Consultants are a permanent shadow workforce. In 2010, the number of DOT engineers and related professionals declined, but the DOT had 43 more contracts with private engineering firms. The Chas H. Sells contract to inspect Metro-North railroad bridges was originally for \$1,150,600. Two years in, the cost was revised to \$4,353,910, including 10% for extra work.

Contracting out is the massive, unregulated story of the state budget. No one knows exactly how much contracting out is costing the state. Agencies often contract out because it is easy; it is not scrutinized like the hiring of a state employee. And, the State regularly extends agreements with contractors avoiding rebidding the contracts.

Connecticut's Clean Contracting law which created the State Contracting Standards Board is inadequate in preventing abuse and waste in contracting out. The law lacks a cost-benefit analysis requirement prior to contracting out and instead allows the SCSB to conduct a functional review which can require agencies to conduct a cost-benefit analysis and a Results Based Accountability analysis. However, this occurs only after a contract has already been entered in to.

No responsible business owner would contract out work before first learning whether or not their business would save money.

Connecticut's dependence on contracting out also raises the question of who controls the work product. For instance when the State contracts with an information technology provider to create a computer system, that system, while "owned" by the State, is for all practical purposes under the control of the contractor and not the State. When the State wants to do anything related to that computer system (make changes, develop an update, etc.), the State is not free to go through a competitive bidding process, but is instead locked in to contracting with the information technology provider who was contracted to design the system in the first place. This is known as proprietary software.

The marginal rate of hiring a new state employee is approximately 37% above the employee's wage - a price lower than contractors in most cases. For instance in the Department of Transportation, contractors base their compensation rate on the rate of a state employee. The contractor will then add in the burden, fringe, and overhead (BFO) costs, as well as a profit. This results in private contractors having a higher overall cost when compared to state employees. Under recent Federal Highway regulations, the State can no longer negotiate BFO but must accept the contractor's rate, subject only to an audit.

There are over 1800 active contracts on the State Contracting Portal; including close to 200 for building or roadway construction and related services and over 100 contracts for information technology services. Connecticut's continued budget problems require creative thinking and a reevaluation of how the state conducts business. Money can undoubtedly be saved by implementing a cost-benefit analysis system while protecting, both, needed public services and our state's fiscal and economic well-being, and as such we owe it to ourselves to do it.

I urge the members of this committee to support House Bill 6673.

Steve Anderson
Secretary-Treasurer, CSEA/SEIU, Local 2001
President, P-4 Council