The Florida Senate

Interim Project Report 98-27 *October 1998*

Committee on Governmental Reform and Oversight Senator Charles D. Williams, Chairman

REVIEW OF THE ROLE OF A CENTRAL SERVICES AGENCY IN A DECENTRALIZED ENVIRONMENT

SUMMARY

The Department of Management Services (DMS) is the product of a merger between two former agencies: the Department of Administration and the Department of General Services. The consolidation took effect on July 1, 1992 to reduce expenditures for salaries, benefits, and other personal services.

With the only stated objective that expenditures be reduced, no clear directives were provided as to the future vision and mission of the agency. Consequently, DMS was forced to seek ways to streamline work processes, privatize functions and delegate other functions to state agencies along with transferring related personnel. In a follow-up report (No. 96-11) regarding the effects of the merger, the Office of Program Policy Analysis and Government Accountability discovered that in an effort to decentralize some functions and privatize others, the state may have spent more for those efforts than it did to perform the same activities in a centralized environment.

This report takes a close look at each of the individual programs in DMS and their respective program components to determine whether it is actually feasible to reduce the DMS workforce to the agency's target of "200 by year 2000" through further privatization, decentralization, and reorganization of certain department functions.

The report finds that the reorganization created an agency which inherited functions poorly adapted to its inherited organizational structure. While many of the services delivered by DMS can be validated as necessary, it is less clear that the current government apparatus is the exclusive means of their delivery.

BACKGROUND

The Legislature enacted the "Reorganization Act of 1969" following 1968 constitutional revision to achieve maximum efficiency and effectiveness by better aligning the separation of powers. Specifically delegated to the legislative branch was the broad purpose of determining policy and programs and reviewing performance. Delegated to the executive branch was the responsibility for their execution and management.

The reorganization established the Department of Administration (DOA) and consolidated budget, state planning, personnel, and retirement functions previously scattered among various ex-officio boards and agencies, most of which were under the Cabinet. The Governor and Cabinet were designated to head the newly created Department of General Services (DGS). The reorganization consolidated and centralized the following services to be provided by DGS to all state agencies: purchasing and contract negotiations; electronic data processing; the structure and sale of bond issues; building design, construction, and maintenance; maintenance of a state motor and executive aircraft pool; federal and state surplus property management; and the design and maintenance of a state communications network. The building construction and maintenance, purchasing, and surplus property functions all existed under Cabinet boards prior to the reorganization. The motor pool and communication functions were newly established as a result of the reorganization.

In 1992, the DOA was abolished and its duties were distributed among other agencies. DGS was renamed the Department of Management Services (DMS). The redistribution is described below along with the principal components of the current structure:

	From	To
Retirement	DOA	DMS
Personnel Management	DOA	DMS
Administrative Hearings	DOA	DMS
State Employees' Insurance	DOA	DMS
Labor Relations	DOA	DMS
Human Resource Development	DOA	DMS
State Retirement Commission	DOA	DMS
Commission on Human Relations	DOA	Governors Office
Bond Finance	DOA	State Board of Administration
Executive Clemency	DOA	Florida Parole Commission

The implementing legislation mandated that DMS reduce personnel expenditures following the consolidation. Total expenditures for salaries, benefits, and other personal services in DMS were not to exceed 95% and 90%, respectively, in the subsequent two fiscal years using the combined expenditures of DGS and DOA in FY 1991-92 as a baseline.

Although DMS houses twelve program/activity areas, only five are under its direct jurisdiction. These programs include: Facilities, Technology, Support, Workforce and Administration.

Facilities Program:
(737 FTE's, FY 1998-99 Appropriation $ 47,382,021)

The Facilities program has four program components: Development, Operation and Maintenance, Real Property Management, and Security. Each component is mission-specific and performs related activities/functions measured by program objectives and goals and performance measures with expected outcomes and outputs. Prior to 1992, DMS developed a centralized pool of expertise to manage construction projects as the state's agent. In 1992, the Legislature made these resources available to community colleges, school boards, and cities and counties pursuant to s. 255.31, F.S. Any governmental entity on a voluntary basis may contract with DMS to renovate or build their community facilities. The Smart Schools Clearinghouse Program, which is housed at, but separate from DMS, has contracted with the development staff to provide contract management oversight for the new $16.5 million Demonstration Smart School developed by the Clearinghouse. It is envisioned that this contract relationship will continue in other school districts as need arises.

The ***Facilities Development*** program provides services related to new construction and building renovation statewide. The program also is involved in the permitting and inspection of construction projects. Before any state-owned building can be constructed, with the exception of State University System construction projects, approval must be obtained from DMS. DMS has the authority to delegate permitting processes to local county government. The program is allotted 60 FTE positions and is appropriated $4,252,375 from the Architects Incidental Trust Fund for FY 1998-99.

Facilities Operation and Maintenance is the largest program component in the facilities program and has been funded $ 35,715,201 for fiscal year 1998-99, and 491 FTEs. This component operates and maintains buildings and grounds in the Florida Facilities Pool through various program activities; DMS building operations and maintenance, including custodial services, a preventive maintenance inspection program, and central maintenance.

The Florida Facilities Pool consists of all state owned buildings that were under the jurisdiction of DGS as of 1985. The pool also includes any other buildings subsequently constructed or acquired using revenue bonds. There are currently 55 buildings in the pool of which 40 are located in Tallahassee, 2 historic properties, and the Governor's mansion. The pool accounts for approximately 7.1 million gross square feet of space. Tenants pay uniform rental rates, regardless of building location and the rates are designed to recover the costs for capital depreciation, revenue bond debt service, and operations and maintenance costs for the pool.

The ***Facilities Real Property Management*** program component is responsible for long-term planning of state office facility needs. The program also administers the Florida Facilities Pool, administers parking at state buildings, aggregates and reports energy consumption information, manages private sector leasing, and assesses statewide inventory and state facilities condition. The program component has been allotted 37.5 FTEs and $2,177,417 in funding for FY 1998-99.

The ***Facilities Security*** program's Division of Capitol Police provides physical security and asset protection services to buildings in the facilities pool statewide.The program is allotted 130.5 FTEs and $4.77 million in funding derived through the Supervision Trust Fund.

Technology Program:
(283 FTE's, FY 1998-99 Appropriation $134,649,983)

Based upon the expanding need, use, and importance of information technologies, the Legislature in 1987 created the Information Resource Commission to provide centralized management oversight regarding the state's information technology resources. The Commission provided statewide rules and standards, monitoring and ensure compliance, and managerial and technical assistance. These services were in addition to each department having primary responsibility for its own information resources management."The Information Resources Management Act," also charged the DGS with the role of central manager and coordinator for state government communications resource needs. The technology program now has 3 program components: Telecommunication Services, Wireless Services, and Information Services.

Telecommunication Services provides voice, data, and video communications network services known as SUNCOM. While use of the SUNCOM network is mandatory for state agencies, these services are optional to local governments. The program is allotted 99 FTEs and $105,150,576 in funding of which $104,430,576 is allocated from the Communications Working Capital Trust Fund. The program is a reseller of bundled telecommunication services contracted from private telephone companies.

Information Services operates the Technology Resource Center (TRC) and assists governmental entities by providing engineering and technical support for personal computer, local area network (LAN), and mainframe applications. TRC supports 75 information systems for 19 state agencies. The program component is allotted 144 FTEs and $16,840,934 in funding.

Wireless Services provides engineering consulting services to governmental entities in developing radio, voice, and data transmission systems. The program is also responsible for licensure application to the Federal Communications Commission. The program is allotted 40 FTEs and $12,658,473 in funding.

Support Program:
(136 FTE's, FY 1998-99 Appropriation $12,325,610)

The overall goal of the Support program is to provide government entities, including local agencies, access to best value commodities and services through centralized procurement, federal property assistance and fleet management. The program is organized into 4 sub-program components: State Purchasing, Federal Property Assistance, Vehicle Operations and Maintenance, and Aircraft Operations and Maintenance. Only 28% of the appropriation for FY 1998-99 is general revenue funded.

The ***State Purchasing*** program component is engaged in providing centralized, uniform contractual services, including program standards, to various agencies and local governmental entities throughout the state. Although the program develops centralized procurement policies, rules, and procedures, the day-to-day purchasing activities are decentralized to state agencies. State Purchasing also develops and administers state term contracts and negotiated price agreements. These contracts are aimed at reducing costs for commodities and services by leveraging the state's buying power to attain volume discounts.

The program is allotted 68 FTE's and is supported by $5,249,862 in appropriation for FY 1998-99. Approximately 43% of the appropriation is derived from trust fund revenues associated with collecting fees for use of the program's electronic information services.

The ***Federal Property Assistance*** program component manages and coordinates federal surplus property for state and local governments and eligible non-profit entities. The program also administers the Federal Surplus Property Donation Program and the Department of Defense Excess Property Program for Law Enforcement. Because these federal entitlement programs are based on population and income per capita, Florida's program ranks fourth largest in the country. Program participants pay an average 2.6% of acquisition cost for procurement services which the program is solely dependent upon for funding. This program is allotted 24 FTEs and $1,258,667 in trust fund appropriation for FY 1998-99.

The ***Vehicle Operations and Maintenance*** program component is responsible for managing the acquisition, operation, maintenance, and disposal of state owned motor vehicles, watercraft, and heavy equipment. The program operates a centralized motor pool and maintenance garage. The program also develops technical specifications for state term contracts; operates and maintains a fleet management data system to manage the state fleet and assure accountability of equipment expenditure and use; and administers the

Fleet Purchasing Card program to consolidate fuel and maintenance purchases at discounted prices.

The Vehicle Operations and Maintenance program component has been allotted 24 FTEs for fiscal year 1998-99, and $3,591,968 in funding, of which $469,474 or 13%, is general revenue funded. General revenue funding requirements expressed as a percentage of total funding requirements have increased by less than 1% from the prior fiscal year. The program component is funded by service charges paid by state agencies for using the program's motor pool, maintenance garage, vehicle disposal auctions, and fleet management data system.

The ***Aircraft Operations and Maintenance*** program component maintains and operates the state's executive aircraft pool consisting of 3 airplanes. The program provides on-demand executive air transportation to state officials and employees on a priority, first call, first serve basis, as well as for emergency purposes. The program is allotted 20 FTEs and is fully funded by the Aircraft Trust Fund. Funding for fiscal year 1998-99 is $2,225,113.

Workforce Program:
(50 FTE's, FY 1998-99 Appropriation $9,502,166)

DMS maintains centralized authority for agency oversight and training of agency personnel programs, their respective human resource managers, and the state personnel system. Decentralized to agencies is recruitment and selection, performance appraisal, and employee discipline and training. Those activities centralized in the state personnel system within the ***Workforce Program*** are the maintenance of the employee pay classification system, collective bargaining, contract negotiations, and promulgation and interpretation of rules. The program is designed to prevent inefficient and inconsistent agency duplication of personnel actions, and protect taxpayers from the effects of potential employment law liability resulting from improper or inconsistent application of human resource management policy.

METHODOLOGY

All information and conclusions of fact presented herein are predicated upon findings using: "Program Evaluation and Justification Review" reports prepared by OPPAGA; preparation and derivation of performance-based program budgeting measures and standards as represented by the agency; and Program Performance Reviews prepared by OPPAGA.

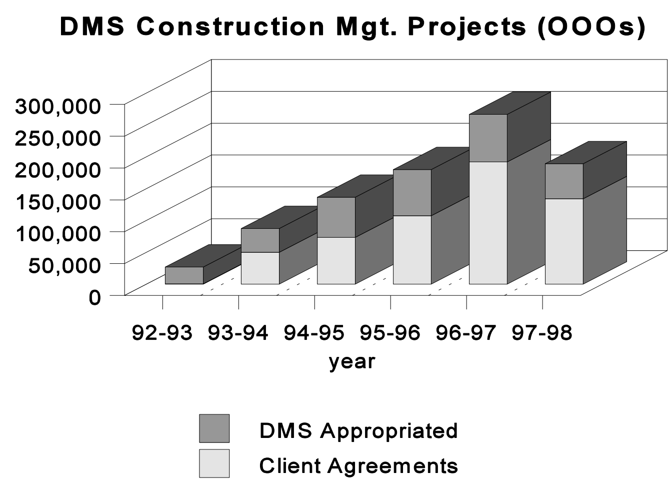
FINDINGS

Facilities Program:

The ***Facilities Development*** program has expanded significantly by making construction management services available to local governments. Since the statutory change in 1992, granting DMS the authority to contract with local government entities, local government construction management projects and client agreements now account for 71% of the program's total project workload (see Exhibit 1). Local governments pay a fee of 1%-2% to DMS to manage these projects.

One of the notable accomplishments of the program component is the development of a prototype office building used to control construction costs. OPPAGA Report No. 96-88, entitled "Program Evaluation and Justification Review, Department of Management Services' Facilities Program" cites that for fiscal year 1995-96 construction cost per square foot for the prototype building was $70.21 compared to a private industry cost of $80.51. The prototypes have built-in flexibility which allow the building design to be altered to fit the individual agency space needs. Reduced design time in conjunction with pre-negotiated architectural fees further controls construction costs.

Exhibit 1



The program has controlled costs through privatization. Of the total building code inspections performed in FY 1995-96, 72% were contracted by the department rather than use program staff. The result was a reduction in the cost per inspection from $107 to $61.

DMS building operations and maintenance activities within the ***Facilities Operation and Maintenance*** program are divided among 3 primary functional groups: the general building operations and maintenance group; specialized operations and maintenance response teams; and the engineering section.

The general building operations and maintenance group is responsible for routine and general management, maintenance, custodial services, and grounds activities of the facility. During FY 1997-98, the group employed 412.5 FTE positions of which 273.5 FTE are custodial. OPPAGA's Report no. 96-88, indicates that there is an opportunity to save $1.4 million annually by privatizing the remaining custodial service functions in the Florida Facilities Pool. To date, only 4 of the 55 buildings in the facilities pool have contracted custodial services supplied by the private sector. The Satellite Office Center in Tallahassee and the Fort Pierce regional service center also employ contracted custodial services.

Cost reduction opportunities can be heavily influenced by reduced employee benefit exposure, such as health insurance, leave, and retirement. However, in pursuing reduction or total elimination of these costs, there could be unassumed consequences to the state's budget. Some workers could eventually end up qualifying for public assistance programs. Thus, the effect privatization might have on the state's direct payroll costs could be substantially offset by other costs for state assistance programs. Also, conflicting with the custodial service privatization issue is budget policy to increase custodial salaries by a minimum of $1,200 over each of the past two years. This has the effect of making state worker custodial services less competitive with the private sector by further pricing them out of the market.

A specialized operations and maintenance team is used to respond to emergency system failures associated with primary power distribution, fire and safety, heating and air, and HVAC control systems. The engineering section is responsible for outside contracting and project management functions such as re-roofing, and chiller replacements. Another 80 FTEs are allotted for these maintenance work groups. The same OPPAGA report concludes that the remaining functions in the Operations and Maintenance program, including specialized teams and engineering have been privatized to the appropriate level.

The ***Facilities Real Property Management*** program has several operational areas that are problematic which may or may not necessarily be directly related to privatization or reorganization issues. Recent legislative initiatives to downsize government *have not* been recognized in DMS forecasts in predicting the amount of office space the state will need to construct. Consequently, forecasts for capital outlay projects may also be overstated. Additionally, OPPAGA points out in report No. 96-88, that national telecommuting is projected to grow 20% annually. If the Legislature chooses to aggressively pursue further reductions in state overhead using telecommuting as a vehicle, this will dramatically effect future office space construction needs.

In the same report, OPPAGA concludes that only 64% of the fees charged to state employees for parking privileges covers the cost of administering and maintaining state parking facilities, excluding the cost of debt service. Including the cost of debt service, the state parking fee subsidy is $3.4 million annually. Existing fees for parking ($6.00 monthly), would have to increase 366% to $28.00 monthly to eliminate the subsidy. Fees for parking have not been increased since 1972.

The OPPAGA report also indicates that the program's energy consumption function is currently of little use to agencies as implemented. Efforts on the part of DMS have been made to upgrade systems. A proper assessment of the new system has not been completed; however, DMS should report its finding to the Legislature as immediately as available.

In report No. 96-88 by OPPAGA, it was recommended that the ***Facilities Security*** program be reduced by as much as 50% and the remaining positions privatized. Through the National Conference of State Legislators a study was conducted to address the privatization of these services as experienced by other states. The result indicates that contracting these services has resulted in poor performance, unreliability, absenteeism, morale problems, and even the cost of investigating and prosecuting regarding crimes committed by contracted personnel.

A philosophical problem exists in that the program's funding is correlated to square footage in the facility pool. Rented state office space from private sources do not contribute to program funding. Consequently, no inherent security component exists in these types of office buildings. This result leads one to question whether the objective of security is to protect the occupants or the building itself. If the objective is to protect the facilities themselves, then it does not necessarily imply that a fully-sworn law enforcement agency is the exclusive way of ensuring this.

Technology Program:

Telecommunications Services competes directly with private entities and has recently experienced a slowdown in growth due to local phone companies expanding toll free calling areas and legislative efforts to control the growth of the workforce. However, there is significant value in the program's ability to deliver advanced telecommunications services because of its broad banding infrastructure.

Use rates have increased on the Unisys and IBM platforms in ***Information System Services*** due to an increased number of computer applications, applications testing for "Year 2000" compliance, and changing or developing new applications. However, use rates are only an accurate measure when compared to efficiency. Unnecessary use of computer applications can diminish efficiency, but because the cost to run the applications is significantly less in comparison to the private sector, the program does not seemingly recognize continuity between the two measures.

Wireless Services manages the Joint Task Force Statewide Law Enforcement Radio Network project. Project completion is behind schedule and funding for the remaining phases of the project is questionable.

Support Program:

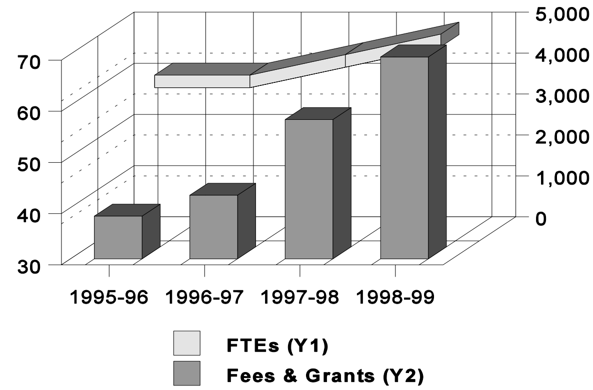
The ***State Purchasing*** program component has reduced its dependency on general revenue funding the past three years consecutively. The division developed four services to improve efficiency and streamline state purchasing: the Electronic State Term Contracts System (ETC), which posts state term contracts on the Internet and reduces staff time spent on daily purchasing activities; the State Negotiated Agreement Price Schedules (SNAPS) used by governmental entities to acquire new or emerging commodities and services (i.e. Internet web-site development services) at pre-negotiated pricing; Purchasing Cards, which streamline small dollars purchases (under $1,000) and eliminate the purchase order/invoice process; and the On-Line Vendor Bid System making agency bid advertisements immediately available to vendors on the Internet while eliminating the manual handling of bid announcements and responses.

Vendors, agencies, and local governments pay fees to access systems and utilize the program's purchasing services. Grants from the Innovation Investment Program were also awarded during fiscal years 1996-97 and 1997-98 to the program component. As a result, the combined revenues have consistently increased over the years decreasing the programs reliance on general revenue funding. Exhibit 2 depicts this transitional period.

The illustration shows that while staffing has increased in number by 13.3% in the last 4 fiscal years, the number of FTE positions funded from the Grants and Donations Trust Fund has increased by almost 145% . OPPAGA Report No. 98-08, concludes that the program has effectively and efficiently performed its oversight and monitoring responsibilities with regard to agency purchases.

Exhibit 2

Purchasing Fees and Grants ($000s)



The ***Federal Property Assistance*** program makes it possible for participating governmental organizations, especially those with limited fiscal resources, to obtain needed items at nominal costs which in turn controls expenditures. Federal surplus property is derived through U.S. military base site closings and governmental consolidations. OPPAGA notes in report No. 98-08, that the quality and quantity of property donated has diminished. Yet, there is sufficient demand to justify the program and its three distribution centers at this time. Any long term deterioration of product quantities or quality could warrant program consolidation, especially with regard to the program's distribution centers.

The ***Vehicle Operations and Maintenance*** program component has reduced state vehicle operations and maintenance costs. The program keeps labor and parts costs below routine "over the counter" private sector costs. Program savings are reflected as performance measures in the department's 1998-99 performance-based budget. However, OPPAGA report No. 98-08, does state that although labor and parts costs met and exceeded 1996-97 performance standards, perhaps "a better comparison would be to evaluate program charges to discounted prices offered by a private fleet management company."

As a related issue, agency purchases of vehicle maintenance services are fragmented and not well monitored. A "Review of State Vehicle Maintenance", OPPAGA report No. 96-08, found that the methodologies state agencies used to maintain their vehicles did not always consider or reflect volume discounts from private garages. The report recommends the implementation of a centralized vehicle maintenance system that uses a network of private garages or managed maintenance. OPPAGA estimates the system could provide volume discounts of 10-30 percent. This initiative was also recommended to the State Council on Competitive Government. To date, the council has not determined how best to complete the competitive bid process authorized by the Governor and Cabinet in December, 1996, for state vehicle maintenance.

Rental rates assessed by the pool are 44% below the lowest rental rate charged by the current vendor holding the state rental car contract. Pre-authorized vehicle purchase contracts help state and local governments acquire vehicles at a 12.75% discount from dealer cost.

The state owns and operates approximately 12,500 passenger vehicles. Florida's vehicle purchasing is partially decentralized, and agencies purchase vehicles from pre-authorized purchasing contracts. A "Review of State Vehicle Fleet Purchasing", OPPAGA report No. 96-84, indicates that many vehicles meet or exceed the state's replacement criteria. These vehicles incur higher costs associated with maintenance and downtime. However, the legislature does not have the immediate funding to replace these 6,186 vehicles. A possible solution to the problem is an alternative financing arrangement.

Third-party financing allows an entity to acquire more vehicles when funds are limited. Third-party financing is the practice of borrowing money from a financial institution to make purchases. Financial institutions willingly make funds available to the state at favorable rates because the interest on the loan is tax exempt to the lending institution. An OPPAGA report concludes that "experts contend that making purchases through third-party financing is more cost-effective than issuing bonds." Other states and local governments contacted by OPPAGA also use third-party financing when cash flows are limited. Last, a centralized motor pool within DMS, supported by a revolving trust fund, would eliminate unnecessary maintenance and downtime associated with aging vehicles, and streamline the overall vehicle management process.

The "Program Evaluation and Justification Review" conducted by OPPAGA in report No. 98-08, discloses that the ***Aircraft Operations and Maintenance*** program has reduced costs by centralizing the purchase of aircraft fuels, engines, and engine components, but it did not meet its performance-based budgeting standard ($987/hr. actual vs. $908/hr. standard) for hourly flight costs in fiscal year 1996-97. More importantly, the program did not employ a full cost recovery methodology and passengers were not adequately assessed charges for services. Consequently, the 1998 Legislature eliminated all general revenue funding allocations to the State Executive Aircraft Pool and directed DMS to operate the pool on a full cost recovery basis.

Full cost recovery means state executives and agencies will have to assess whether savings can be achieved by utilizing commercial transportation providers. In the event utilization of the aircraft pool diminishes, further consideration should be given to downsizing both the pool and the program until all costs are fully recovered. On August 5, 1998, the aircraft pool was reduced in size from 4 aircraft to 3.

Workforce Program:

Approximately 90% of the Workforce Program appropriation is trust funded with revenues attained by assessing agencies a $59 charge per employee for personnel services. The actual cost of servicing for FY 1996-97 was $79.35 per FTE including all administrative costs. The state personnel system is the largest of the state's 6 personnel systems servicing 124,657 employees.

Although 93% of agency personnel officers stated that elimination of the program would adversely affect their agencies, with respect to customer service, the program failed to: meet any of its FY 1996-97 performance measure standards. The OPPAGA report No. 98-01, points out that the workforce program failed to adequately answer customer questions and provide technical assistance due to one-third of the program's experienced subject-matter experts leaving staff since 1985; solicit agency's input regarding the redesign of the classification and compensation system; and solicit input from future users regarding the design of HR Direct, an Internet-based human resource management tool.

OPPAGA critiqued other problematic areas regarding the program's inability to effectively monitor state agency personnel offices and deficiencies relating to strategic plans which define long-range human resource goals and objectives. The report concludes that although the program is necessary and has been efficient in using its resources, it has failed in fulfilling its human resource management responsibilities.

In conclusion, many DMS programs and function have already been privatized seeking to minimize staff and reduce operational costs. However, the proper balance of government-delivered and privatized initiatives has yet to be determined, as exemplified by the custodial service privatization issue. There are some functions that would appear to serve a significant purpose under public domain such as: the DMS motor pool with rental rates well below that of private contract vendors; or the centralized administrative purchasing function which reduces costs by leveraging the state's purchasing power to attain volume discounts; or the workforce program which maintains the employee pay classification system, provides human resource management support, and limits potential employment law liability. Both in a structural and performance sense these would not afford the state a savings through privatization. Government agencies are ultimately responsible for the reliability, timeliness, integrity and whatever other factors influence the provision of affected services outsourced or privatized.

A more significant policy issue left unaddressed is whether DMS activities and functions are uniquely conceived and delivered. Can some of these same activities/functions which have become so effective and efficient be prototyped, perfectly duplicated, and decentralized to state agencies or privatized altogether? Criticisms of prior governmental reorganizations have focused on the lack of appropriate review of possible consequences. It appears that the reorganization forced DMS to inherit functions, disregarding its organizational alignment and ability to deliver those services.

The department has successfully repackaged an assortment of centralized services it inherited in 1992. In doing so it has demonstrated that efficiency and effectiveness can co-exist. Whether this means that it has validated the exclusive nature of the delivery system, that is, DMS itself, remains to be seen. The department may well have positioned itself as a compact franchiser and quality assurance provider of core government services which it does not need to deliver itself. In the long-term this may prove quite beneficial to state government as a whole; in the short-term, however, a lack of strategic internal focus may prove quite disruptive to its own workforce.

RECOMMENDATIONS

DMS should implement a centralized vehicle maintenance system that uses a network of private garages or managed maintenance.

The Legislature should consider amending s. 287.14(5) or s. 287.064, F.S. to allow motor vehicles to be acquired by deferred or installment payment methods when in the best interest of the state. Although third party financing may increase the initial cost of a vehicle, the spread between the cost of money and the available options to prudently manage and invest state funds could yield significant savings in the appropriate economic environment. For example, in 1995-96 vehicle appropriations totaled $26.7 million. Entering into a third party financing arrangement would have deferred roughly 75% of the up-front capital outlay ($20 million). Given current economic conditions, if the spread between the cost of money and the investment opportunity to the state is 3.46% (cost of money assumes 4.79% financing and a prudent investment yield in AAA corporate bonds assumes 8.25%), Then, the first year nominal return on a cash flow basis would be $692,000.

Some consideration needs to be given to whether DMS should franchise some of its core services to other agencies or the commercial market. This option should be thoroughly discussed so that appropriate quality assurance can be maintained for the ones most critical to the maintenance of governmental integrity.

COMMITTEE(S) INVOLVED IN REPORT ***(Contact first committee for more information.)***
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MEMBER OVERSIGHT
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