

EXECUTIVE SUMMARY

New York State is facing unprecedented fiscal challenges which include budget gaps of at least \$47 billion through 2011-12. **Therefore, the state can no longer afford to waste between \$417 million and \$705.8 million annually on costly consultants to do work that can be done by state employees just as well and at a significantly lower cost.**

Over the past 20 years, studies and analysis by various entities such as: the Office of the State Comptroller (OSC); KPMG; the Fiscal Policy Institute (FPI); and the Public Employees Federation (PEF), all conclude the state spends significantly more on consultant services compared to state employees and real savings can accrue through a decrease in the use of these costly consultants.

Unfortunately, New York State's reliance on costly consultants is increasing as **spending on consultants increased by over \$100 million** in the last fiscal year from \$2.68 billion to \$2.78 billion. **\$2.3 billion or 83 percent of these expenditures was not reported** as required by The Contract Disclosure Law, Chapter 10 of the Laws of 2006. This under reporting made it appear that the use of consultants in state agencies decreased by \$45 million in the last fiscal year when it actually increased by \$100 million. Since 2004 consultant expenditures have increased by almost \$518 million.

State agencies reported employing 3,813 full-time equivalent consultants in SFY 2007-08. Based on the fact that state agencies only reported 17 percent of state agency consultant costs it is estimated that **the true number of full-time equivalent consultants employed by state agencies was over 22,000 or nearly six times higher than reported.**

The state paid an average of \$126,503 per reported full-time equivalent consultant. This includes the cost of support consultant staff. According to the DOB the average state employee salary with benefits is \$81,760. **This means the state pays on average 54 percent more for consultant employees than state employees.**

Many state agencies pay even higher amounts for consultants:

- The Department of Transportation paid consultant engineers from Hardesty and Hanover LLP 175 percent more than state employees in comparable titles (\$135.74 per hour vs. \$49.34).
- The Department of Health paid consultant financial specialists from Mercer and Mercer 313 percent more than state employees in comparable titles (\$252.82 per hour vs. \$61.20).
- The Office of General Services paid consultant construction managers from Gilbane Building Company 67 percent more than state employees in comparable titles (\$77.43 per hour vs. \$46.34).

RECOMMENDATIONS

In an effort to help the State achieve real budget savings, the Public Employees Federation (PEF) recommends that the state implement a consultant reduction plan as follows:

1. **The Division of Budget should institute a Consultant Reduction Plan with a goal of saving \$417 million annually by 2011-12. Over the three years, this plan would save the State \$730 million.** The plan would achieve these savings in three stages. Twenty-five percent of the savings, or \$104.25 million, would be the savings goal in SFY 2009-10 which would be achieved by reducing the number of consultants and replacing them with state employees. The goal for SFY 2010-11 would be an additional 25 percent savings which would save an additional \$104.25 million (total SFY 2010-11 savings of \$208.5 million). The goal for SFY 2011-12 would be the remaining 50 percent in savings or an additional \$208.5 million in savings (total SFY 2011-12 savings of \$417 million). This is a very conservative plan that has state employees assuming about half of the work currently done by consultants and can be easily implemented by the state.
2. To implement the Consultant Reduction Plan the Division of Budget should:
 - a) Set savings targets for each state agency for consultant spending, focusing on information technology and engineering services as these categories will achieve the greatest savings.
 - b) Institute a freeze on all state agency contracts that are not funded with capital project funds.
 - c) Require state agencies to conduct a cost benefit analysis to determine if consultant employees or state employees should be hired with capital project funds.
 - d) Prohibit state agencies from hiring consultants without a review of an agency cost benefit analysis by the Division of Budget.
3. In light of the fact that over \$2 billion of consultant expenditures were not reported in the Procurement Stewardship Act Report required by Chapter 10 of the Laws of 2006, the Office of State Comptroller (OSC) should take the necessary steps to improve the consultant reporting. OSC should direct state agencies not to make final payment to consultants until they have filed the reports required under Chapter 10 of the Laws of 2006 and if necessary make this a condition of all consultant contracts.