

# Attachment A

## Collections Baseline Costs

---

### **1. Introduction**

The Collections baseline was constructed from relevant costs that are reasonable, and are projected from a base year. The projections are representative of future costs to the Students Channel if the Collections Reengineering effort were not to happen.

### **2. Base Year**

Fiscal Year 2001 (FY01) was chosen as the baseline year for the DMCS Reengineering Business Case. FY01 costs are complete and have been documented. At the time of this business case, all invoices for FY02 have not been processed which would require estimating remaining months to establish a complete baseline year. Additionally, FY01 represents a typical year for DMCS operations. Beginning in FY02, some costs came in lower than normal due to reductions in re-negotiated short-term FFEL contract extension and Task Orders resulting from pending system replacement. Using FY01 as the baseline accurately recognizes the savings from all reengineering efforts, planned or already initiated by FSA.

## Attachment A Collections Baseline Costs

---

### 3. Components of the Baseline Costs

The components of the baseline are Operations & Maintenance, Development Task Orders, System Hosting, Postage, and FSA Operations. The first 2 components represent costs from the Raytheon FFEL contract. System Hosting is the amount paid to CSC for running the DMCS portion of the FFEL system in the VDC. Postage represents the metered amounts spent to mail letters, bills and packages to defaulted borrowers. FSA Operations is the cost of the staff responsible for Collections activities.

#### 3.1 Operations & Maintenance

The Operations & Maintenance amount represents the Students Channel portions of Raytheon's FFEL contract for production deliverables (schedule A), ad-hoc deliverables (schedule B) and key personnel (schedule E).

- **Base Year Costs**

The Operations & Maintenance total for FY01 is \$16,411,121. The Raytheon FFEL contract provides services for the debt collection activities for the Students Channel, specifically for the DMCS system and operations, and lender activities for the Financial Partners Channel. Based on a detailed review of the 175 deliverables and the 43 key personnel in FY01, the costs associated with debt collections comprise 95% of the totals billed during the fiscal year. The remaining 5% is associated with Financial Partners activity.

<b>Operations &amp; Maintenance – FY01</b>			
	Students (95%)	Fin Partners (5%)	Total
A - Prod. Deliverables	\$11,028,106	\$574,258	\$11,602,364
B - Ad Hoc	\$92,162	\$4,851	\$97,013
E - Key Personnel	\$5,290,853	\$688,856	\$5,979,709
<b>Total</b>	<b>\$16,411,121</b>	<b>\$1,267,965</b>	<b>\$17,679,086</b>

For internal accounting purposes the costs of the Raytheon contract were split evenly between the Students and Financial Partners Channels in FY01. The costs were split differently in FY02 with approximately 80% charged to the Students Channel and 20% charged to the Financial Partners Channel. The 95%-5% split more accurately reflects the actual costs associated with running the different components for the two channels.

The primary source of the data was the monthly invoice summary, provided by Raytheon, for schedules A, B, and E. Also, a tracking spreadsheet provided by George Allen of FSA listed the amounts paid each month. In cases where the tracking spreadsheet showed a lower amount than the invoice, the lower amount was used. We have assumed that the lower amounts reflect the actual amounts paid by FSA and are due to disallowances or reductions.

## Attachment A Collections Baseline Costs

---

- **Growth and Inflation**

The projections for FY02 through FY08 were calculated by adding annual growth and inflation factors to the FY01 baseline amounts.

FY02	FY03	FY04	FY05	FY06	FY07	FY08
\$16,903,455	\$17,410,558	\$17,932,875	\$18,470,861	\$19,024,987	\$19,595,737	\$20,183,609

The growth factor is 0%. The number of active accounts (borrowers with a balance greater than \$25) was determined to be the most accurate determinant of future costs. The number of active accounts has remained constant over the past several years.

The inflation factor is 3%. The inflation factor is the average of the 2-year, 5-year, 10-year, 15-year and 20-year averages of the Consumer Price Index (CPI) for 1982 through 2001.

### 3.2 Development Task Orders

Development task orders represent work performed by Raytheon to enhance or modify the FFEL system. The amounts are billed to FSA on schedule C. Work is performed under either a Time and Materials (T&M) contract or a Firm Fixed Price (FFP) contract.

- **Base Year Costs**

The Task Order total for FY01 is \$3,864,454. The amount reflects what was invoiced in the baseline year, FY01, not what was awarded during the year.

The total invoiced amounts were confirmed by Collections leadership to be 100% Students Channel costs. The Financial Partners Channel was pursuing the GA and Lender Redesign projects that would end its use of the FFEL system during FY02. No enhancements or changes were necessary for their components.

Development Task Orders – FY01			
	Students	Financial Partners	Total
Time & Materials TO	\$1,905,056	\$0	\$1,905,056
Fixed Price TO	\$1,959,398	\$0	\$1,959,398
<b>Total</b>	<b>\$3,864,454</b>	<b>\$0</b>	<b>\$3,864,454</b>

## Attachment A Collections Baseline Costs

The primary source of the data was the monthly invoice summaries, provided by Raytheon, for schedule C (Task Orders).

FFP Task Orders	
Invoice Date	Amount
11/8/2000	\$279,183
3/8/2001	\$279,879
3/21/2001	\$195,068
5/22/2001	\$280,037
5/22/2001	\$98,686
7/23/2001	\$447,807
7/23/2001	\$121,917
7/23/2001	\$198,289
9/1/2001	\$49,572
9/1/2001	\$8,960
<b>Total</b>	<b>\$1,959,398</b>

T&M Task Orders	
Date	Amount
10/2000	\$153,393
11/2000	\$151,470
12/2000	\$751,483
1/2001	\$30,997
2/2001	\$30,369
3/2001	\$245,833
4/2001	\$63,575
5/2001	\$70,086
6/2001	\$90,454
7/2001	\$229,323
8/2001	\$42,044
9/2001	\$46,031
<b>Total</b>	<b>\$1,905,056</b>

- **Growth and Inflation**

The projections for FY02 through FY08 were calculated by adding annual growth and inflation factors to the FY01 baseline amounts.

FY02	FY03	FY04	FY05	FY06	FY07	FY08
\$3,980,388	\$4,099,799	\$4,222,793	\$4,349,477	\$4,479,962	\$4,614,360	\$4,752,791

The growth factor is 0%. The amount of development task orders is not tied to the size of the portfolio. Investment in the legacy DMCS application is expected to remain flat, with spending on the highest priority items only.

The inflation factor is 3%. The inflation factor is the average of the 2-year, 5-year, 10-year, 15-year and 20-year averages of the Consumer Price Index (CPI) for 1982 through 2001.

### 3.3 System Hosting

System Hosting represents the amount paid to Computer Sciences Corporation (CSC) for running the FFEL system in the VDC.

- **Base Year Costs**

The total System Hosting costs for the Students Channel in FY01 were \$4,779,399. CSC provides a monthly report to FSA that includes a detailed breakdown of costs by system by channel. Costs have been split between the Students Channel and the Financial Partners Channel using the same ratios as the Operations & Maintenance costs – 95% and 5% respectively.

## Attachment A Collections Baseline Costs

---

System Hosting – FY01			
	Students	Financial Partners	Total
System Hosting	\$4,779,399	\$251,547	\$5,030,946

For internal accounting purposes the VDC costs for the FFEL system were split evenly between the Students and Financial Partners Channels in FY01. The costs were split differently in FY02 with approximately 80% charged to the Students Channel and 20% charged to the Financial Partners Channel. The 95%-5% split more accurately reflects the actual costs associated with running the different components for the two channels.

The cost allocations for FY01 and projections for FY02 and FY03 were based upon the monthly report from CSC. The CIO and CFO use these reports for internal allocations.

- **Growth and Inflation**

CSC provided the projections for FY02 and FY03, including growth and inflation adjustments. FY04 through FY08 were calculated by adding annual growth and inflation factors to the FY03 baseline amounts.

FY02	FY03	FY04	FY05	FY06	FY07	FY08
\$4,385,489	\$3,386,816	\$3,488,420	\$3,593,073	\$3,700,865	\$3,811,891	\$3,926,248

The growth factor for FY04-08 is 0%. Based on discussions with CSC, there is sufficient capacity in the existing system resources to absorb the projected loan volume increases through FY08.

The inflation factor is 3%. The inflation factor is the average of the 2-year, 5-year, 10-year, 15-year and 20-year averages of the Consumer Price Index (CPI) for 1982 through 2001.

## Attachment A Collections Baseline Costs

---

### 3.4 Postage

FSA pays postage costs to send bills and notices to defaulted borrowers. The postage meters are located at the Student Loan Processing Center (SLPC).

- **Base Year Costs**

The total postage used in FY01 was \$4,602,011. All of the costs have been assigned to the Students Channel. The Financial Partners postage costs are minimal and are included primarily in the ad-hoc expenditures in Schedule B.

Postage – FY01			
	Students	Financial Partners	Total
Postage Cost	\$4,602,111	\$0	\$4,602,111

The primary source of the data was a spreadsheet from the FSA CFO staff showing the actual postage meter readings.

- **Growth and Inflation**

The projections for FY02 through FY08 were calculated by adding annual growth and inflation factors to the FY01 baseline amounts.

FY02	FY03	FY04	FY05	FY06	FY07	FY08
\$4,809,206	\$5,025,620	\$5,251,773	\$5,488,103	\$5,735,068	\$5,993,146	\$6,262,837

The growth factor is 0%. The number of active accounts (borrowers with a balance greater than \$25) was determined to be the most accurate determinant of future costs. The number of active accounts has remained constant over the past several years.

The inflation factor is 4.5%. The rate was calculated based upon the average increase in postage from 1978 through the most recent increase on June 30, 2002.

### 3.5 FSA Operations

FSA Operations represents the cost of the staff responsible for Collections activities at FSA, both at the Washington DC headquarters and the three regional offices.

## Attachment A Collections Baseline Costs

---

- **Base Year Costs**

The total FSA Operations costs for FY01 were \$14,195,000. The total reflects the cost of salaries and benefits for the 204 individuals assigned to the Collections business and systems work units.

FSA Operations – FY01	
FSA Operations	\$14,195,100

Further details are provided in the Workforce Transformation document.

- **Growth and Inflation**

The projections for FY02 through FY08 were calculated by adding annual growth and inflation factors to the FY01 baseline amounts.

FY02	FY03	FY04	FY05	FY06	FY07	FY08
\$14,850,880	\$15,537,065	\$16,254,955	\$17,006,015	\$17,791,778	\$18,613,847	\$19,473,900

The growth factor is 0%. The number of FTE is not projected to increase. The level of work is tied to the number of active accounts, which has remained flat over the past several years.

The inflation factor for FY02-08 is 4.62%. The assumptions are listed in the Collections Workforce Transformation document.

## Attachment A Collections Baseline Costs

---

### 4. Baseline Costs Summary

The Collections baseline was constructed and projected from the FY01 base year. The projections are representative of future costs to the Students Channel if the Collections Reengineering efforts were not to happen.

(in \$millions)	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Operations & Maintenance	\$ 16,411,121	\$ 16,903,455	\$ 17,410,558	\$ 17,932,875	\$ 18,470,861	\$ 19,024,987	\$ 19,595,737	\$ 20,183,609
Development Task Orders	\$ 3,864,454	\$ 3,980,388	\$ 4,099,799	\$ 4,222,793	\$ 4,349,477	\$ 4,479,962	\$ 4,614,360	\$ 4,752,791
Postage	\$ 4,602,111	\$ 4,809,206	\$ 5,025,620	\$ 5,251,773	\$ 5,488,103	\$ 5,735,068	\$ 5,993,146	\$ 6,262,837
Hosting	\$ 4,779,399	\$ 4,385,489	\$ 3,386,816	\$ 3,488,420	\$ 3,593,073	\$ 3,700,865	\$ 3,811,891	\$ 3,926,248
FSA Operations	\$ 14,195,000	\$ 14,850,880	\$ 15,537,065	\$ 16,254,955	\$ 17,006,015	\$ 17,791,778	\$ 18,613,847	\$ 19,473,900
<b>Total Baseline Costs</b>	<b>\$ 43,852,085</b>	<b>\$ 44,929,417</b>	<b>\$ 45,459,859</b>	<b>\$ 47,150,817</b>	<b>\$ 48,907,530</b>	<b>\$ 50,732,660</b>	<b>\$ 52,628,981</b>	<b>\$ 54,599,385</b>