Attachment B
Collections Future Operations Savings and Costs

1. Introduction

The projected cost of future operations will be the sum of the costs of the functions required to fully manage the modernized Collections process and system.

Future year operating costs are derived from calculating the operational cost reductions to each of the cost drivers. Outer year future operating costs are then escalated using the exact assumptions described for each cost driver in the attachment A - Baseline Cost document.

Gross savings are calculated by subtracting the future operations costs from the baseline costs, without taking into account any costs necessary to generate those savings. Net savings are calculated by subtracting the implementation costs from the gross savings.

2. Future Operations Costs and Savings

The tables in this section represent the future costs and potential gross savings for systems operations and maintenance (schedule A, B, and E), task orders (Schedule C), and system hosting (VDC).

FSA secured reductions from FY02 in the Operations and Maintenance (Schedule A and E) costs associated with running the DMCS. In addition, Task Orders costs were reduced in FY02, and are expected to be significantly lower in FY03.

Production Deliverable – Schedule A

Production Deliverables - Schedule A	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02 - FY08
Baseline Costs	$11,358,949	$11,699,718	$12,050,709	$12,412,230	$12,784,597	$13,168,135	$13,563,179	**$87,037,519**
Future Costs	$11,424,495	$9,850,304	$10,912,758	$10,713,484	$10,763,693	$11,086,604	$11,419,202	**$76,170,541**
Gross Savings	**-$65,546**	**$1,849,414**	**$1,137,951**	**$1,698,746**	**$2,020,904**	**$2,081,531**	**$2,143,977**	**$10,866,978**

Ad-hoc Deliverable – Schedule B

Ad Hoc - Schedule B	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02 - FY08
Baseline Costs	$94,927	$97,775	$100,708	$103,730	$106,841	$110,047	$113,348	**$727,376**
Future Costs	$81,396	$97,775	$100,708	$103,730	$106,841	$110,047	$113,348	**$713,845**
Gross Savings	**$13,531**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$13,531**

Task Orders – Schedule C

Development Task Orders - Schedule C	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02 - FY08
Baseline Costs	$3,980,388	$4,099,799	$4,222,793	$4,349,477	$4,479,962	$4,614,360	$4,752,791	**$30,499,571**
Future Costs	$1,783,798	$ -	$2,034,364	$1,997,935	$2,007,681	$2,067,911	$2,129,948	**$12,021,637**
Gross Savings	**$2,196,590**	**$4,099,799**	**$2,188,430**	**$2,351,543**	**$2,472,281**	**$2,546,449**	**$2,622,843**	**$18,477,934**

Key Personnel – Schedule E

Key Personnel - Schedule E	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02 - FY08
Baseline Costs	$5,449,578	$5,613,066	$5,781,458	$5,954,901	$6,133,548	$6,317,555	$6,507,082	**$41,757,188**
Future Costs	$3,561,433	$2,978,703	$2,805,236	$2,893,381	$2,906,941	$2,994,149	$3,083,974	**$21,223,817**
Gross Savings	**$1,888,146**	**$2,634,363**	**$2,976,222**	**$3,061,520**	**$3,226,607**	**$3,323,405**	**$3,423,108**	**$20,533,371**

System Hosting

Hosting	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02 - FY08
Baseline Costs	$4,385,489	$3,386,816	$3,488,420	$3,593,073	$3,700,865	$3,811,891	$3,926,248	**$26,292,803**
Future Costs	$4,385,489	$3,386,816	$3,227,704	$2,700,546	$2,780,212	$2,862,269	$2,946,787	**$22,289,823**
Gross Savings	**$ -**	**$ -**	**$260,716**	**$892,527**	**$920,653**	**$949,622**	**$979,461**	**$4,002,980**

3. Savings Opportunities

The continued reengineering effort will reduce the future FSA operations costs in the following areas:

- Schedule A – Volume Based Production Deliverables
- Schedule B - Ad Hoc Deliverables
- Schedule C – Task Orders
- Schedule E – Key Personnel
- System Hosting
- Quick Wins
- Workforce Transformation

3.1 Operations and Maintenance – Schedule A - Volume Based Production Deliverables

Business fulfillment reengineering at SLPC and NPC will lower volume-based deliverable costs (Schedule A) by $10.9 million from FY02 through FY08. The table below captures the key savings opportunities related to Schedule A:

#	Opportunity Description	Estimated Savings	Impacted O&M Area
1	Utilize Treasury Lock Box for automated check processing by changing billing return address to the mailbox address.	Total costs for NPC is $170,000 per month. Average number of payments processed each month is approximately 250,000. Unit cost for matched checks is approximately $0.18 per check; unmatched checks and other exception process unit costs are approximately $0.80 per check. 18% of the overall payment instruments are regular checks. Utilizing the Treasury Lock Box for processing will eliminate costs for regular check processing.	Business Fulfillment – NPC (Schedule A)
2	Reduce the number of reports printed and distributed through the use of web-based reporting tools.	600,000 pages of production reports are printed and distributed each month. Current costs are $0.035 for every page printed, and the total shipping cost is $6,287 per month. Reductions are based on reducing the pages printed and distributed. During the design phase, all reports will be reviewed for need. Online delivery of information should be the default method.	Business Fulfillment – SLPC (Schedule A)
3	Reduce record retrieval from the following 2 areas: Reduce record retrieval by minimizing the duplication of documents for the HEAF loans by imaging the HEAF	Approximately $44,000 per month is spent on HEAF microfiche and hardcopy retrievals. One-time cost to image HEAF promissory notes is $0.18 each for 1.3M two-sided p-notes (total 2.6M images) or $468,000. Savings are based on eliminating HEAF microfiche and hardcopy retrieval. Total potential savings are reduced	Business Fulfillment – SLPC (Schedule A)

#	Opportunity Description	Estimated Savings	Impacted O&M Area
	loans' promissory notes and limiting hardcopy of microfiche to litigation only.	based on a one-time cost to image all the HEAF promissory notes.	

3.2 Operations and Maintenance – Schedule B - Ad Hoc Deliverables

Savings opportunities for Schedule B are assumed to be minimal and are reflected in the table in Section 2. The total savings for FY02 through FY08 are $14k.

3.3 Operations and Maintenance – Schedule C - Task Orders

Assume that the projected task order expenditures will be reduced after implementation of the new system, the total savings will be $16.3 million from FY02 through FY08. The table below captures the rationale for task orders cost reduction:

#	Opportunity	Estimated Savings	Impacted O&M Area
1	Reduce cost of Task Orders.	Task orders for new development will be reduced following system implementation. Assumed that new developments will be included in the Quester implementation. It is projected that FSA will spend approximately $2 million annually on task orders, compared to $3.9 million expenditure in FY01.	Task Orders (Schedule C)

3.4 Operations and Maintenance – Schedule E - Key Personnel

The Quester system will require less support and thus reduce key personnel (schedule E) costs. The total savings will be $20.5 million from FY02 through FY08. The table below captures the rationale for contractor key personnel cost reduction:

#	Opportunity	Estimated Savings	Impacted O&M Area
1	Reduce need for Key Personnel	Key personnel will be reduced due to anticipate suspension of task orders during Quester customization period and reduced maintenance staff thereafter. $360K reduction during the first year. $624K reduction during subsequent periods.	Key Personnel (Schedule E)

3.5 System Hosting

Client/server technical architecture and reuse of select FSA enterprise technology will reduce the system hosting costs by a total of $4.0 million from FY04 through FY08.

3.6 Quick Wins

The Quick-Wins effort focused on reducing Collections operations costs and improving process efficiency. Six opportunities were defined and implemented. The savings of $78K was generated in FY02. Projections generated from quick wins will result in total savings of approximately $597K from FY02 through FY08.

Savings Summary

	Initiative	Total savings	Additional Benefits / Comments
1	Verify PCA postage savings	This task is to verify savings from aother effort	***Projected savings*** *= $3 Million Annually* ***Actual savings as of June 2002*** *= $1,976,599*
2	Proactively manage AWG, TOP, and FDP Hardship hearings	Current system limitations do not allow regional officers to track number of all hearings resulting from Quick Wins Initiative, therefore its difficult to quantify savings on this phase.	*Initiative helped initiate the analysis and tracking of accounts. Borrowers who were denied a hardship and are on a PCA location will now be tracked and status will be analyzed for future business enhancements. Proactive efforts should continue to improve customer service, which will generate savings.*
3	Aggressively write-off "problem" accounts	Current system limitations do not allow regional officers to track number of write-off's resulting from Quick Wins Initiative, therefore its difficult to quantify savings on this phase.	*Problem accounts have been eliminated from portfolio on a regional office basis. This reduction should be done proactively to reduce the portfolio. Future workflow will allow tracking of accounts to be write-off and the ability to quantify savings.*
4	Reduce letters sent to borrowers	$53,963	*Based on FY01 volume, estimate close to $60,000 savings or a 31% reduction in cost for FY02.*
5	Market the Guide to Defaulted Student Loans using 1-800 I Will Pay.com	Marketing of a website generally takes longer time to see increase in adoption rate.	*Continuous advertising of the website will increase website visits that will lead to reduced call volumes and savings.*
6	Decrease PCA visits	$24,000	*50% reduction in cost*
	TOTAL SAVINGS	**$77,963**	

3.7 Workforce Transformation

Potential savings in FSA operations costs may be recognized through workforce transformation efforts aligned with business process reengineering. Detailed information is included in the Collections Workforce Transformation document.