ATTACHMENT 1

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November 18, 2003

AGENDA ITEM 3

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Procedures for Board's Award of CalPERS Contracts

II. PROGRAM: Member and Benefit Services

III. RECOMMENDATION: Staff recommends that the Committee recommend to the Board adopting a policy that every time the Board approves an individual contract solicitation, it also (1) set the maximum point allocations for scoring by staff and by the Board and (2) designate either method A or method B, as presented in this item, as the Board's scoring method for that contract.

IV. ANALYSIS:

At its September and October meetings, the Committee considered recommending to the Board that it adopt a standard method for scoring contractor bid proposals when the Board or a committee participates in the contractor selection process pursuant to Requests for Proposals (RFP's).

Staff proposed that the Board adopt a standard method so that when the Board participates in the selection process, it would rank the finalists, and then the Board's evaluation points would be awarded automatically pursuant to the standard method adopted by the Board. The September agenda item included two possible scoring methods: a "pass/fail" method and an "apportionment" method. After the Committee's discussion, staff presented two additional options to the Committee in October: an "Individual Allocation" method and a "Case By Case" method.

At its October meeting, the Committee sought further information regarding the weighting of the technical and fee scores traditionally assigned by staff in

contrast to the interview score traditionally assigned by the Board. This agenda item discusses this issue and repeats the information in the October agenda item. It makes a new recommendation that the Committee approve and recommend to the Board adopting a policy that every time the Board approves an individual contract solicitation, it also (1) set the maximum point allocations for scoring by staff and by the Board and (2) designate either method A or method B, as presented in this item, as the Board's scoring method for that contract.

ALLOCATION OF POINTS BETWEEN TECHNICAL/FEE SCORES AWARDED BY STAFF AND FINALIST SCORES AWARDED BY THE BOARD:

Clearly, the effect of the Board's own scoring on the final award will depend on the number of points available to be awarded by the Board compared to the number of points available to be awarded by the staff. However, for contract solicitations in which the Board participates, no policy prescribes the allocation of points between the technical and fee scores assigned by staff and the Board's assigned scores.

Historically, before sending proposals in these solicitations to the Board for its consideration, staff has evaluated proposals' technical qualifications on elements related to the program or project. At that point also, staff has considered the fee proposals and, in some cases, considered other items such as references and site visits to bidders' plants or offices. The scores for these portions of the evaluation are added together for presentation of the proposals to the Board.

Review of a sampling of historical RFP's discloses no pattern in the number of points (weight) allocated to the staff compared to the number of points allocated to the Board. For example, in one 1995 investment-related RFP, staff was allocated 800 points, the Investment Committee 200. In one 2003 actuarial auditing services RFP, staff was allocated 400 points, the Board 200. In the 2002 federal legislative representative RFP, staff was allocated 700 points, the Board 300. In the 2001 pharmacy administrator RFP, staff and the Board were each allocated 450 points. Similarly, in a 1998 health benefits consultant pool RFP, staff and the Board were each allocated 400 points.

The varied practice illustrated by these examples has developed because no CalPERS policy prescribes the score allocation, and program staff throughout the System have prepared their own recommended scoring patterns for their individual programs or projects. A review of several contract files does not disclose that the specific scoring method was regularly presented to the Board for its specific approval before the RFP was issued.

State contracting processes provide various contract solicitation methods. CalPERS uses an RFP solicitation method that considers bidders' satisfaction of program standards and needs as well as cost. Under state contracting law applicable to this method, bidders are scored and the award is made to the highest scoring bidder. Under this law as well, the scoring method must be fair and accord contract price "substantial weight" in relation to other scoring criteria.

State contracting procedures have additional requirements for information technology contracts. Contract awards for large-scale systems integration (information technology) projects must be based on the proposal that provides the most "value-effective solution" to the state's requirements. Evaluation criteria for the acquisition of information technology goods and services, including systems integration, shall provide for the selection of a contractor on an objective basis not limited to cost alone.

It is unlikely there is a single "one size fits all" method that would be appropriate for automatically allocating the points available for staff's evaluation and for the Board's evaluation of all bid proposals. Different contract solicitations have different criteria that should be evaluated. Consequently, as presented later in the recommendation portion of this item, staff recommends that the Board adopt a policy that every time the Board approves an individual contract solicitation, it also set the maximum point allocations for scoring by staff and by the Board, and that it also designate either method A or method B, as presented in this item, as the Board's scoring method for that contract. In the alternative, the Committee could recommend that the Board establish one specific method for all contract solicitations, and adopt a policy that sets the maximum number of points and their allocation between the staff and the Board and that also specifies using either method A or method B for scoring the Board's interviews. Staff does not recommend this alternative, however, because of the different types of contract solicitations that come before the Board.

SCORING PROCESS (METHODS DISCUSSED IN THE COMMITTEE'S OCTOBER AGENDA ITEM)[1]:

The Board scoring would be automatically derived from the Board's ranking of the bidders under method A or B. Method C, however, would establish a scoring procedure which would determine the ranking. Method D would confirm that scoring methods would be determined for each individual contract solicitation in which the Board participates.

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[1] All of the scoring methods are based on the premise that the bids have been evaluated and scored by program staff before the finalists are presented to the Board for finalist interviews and ranking and scoring by the Board.

METHOD A ("Pass/Fail" method): The Request for Proposal (RFP) would specify the total available points to be awarded to the Board's first and second choices. The Board, by motion, would select its first choice. The total available points for the Board's first choice would automatically be awarded to that bidder. The Board, by another motion, would select its second choice, and the total available points for this bidder would automatically be awarded. All other finalists would receive zero points. For example, the RFP could specify that the total technical and fee points are 600, and the Board's first and second choices would be awarded an additional 400 and 200 points respectively. (Please see Attachment A-1 and A-2 for illustrations of this method.)

METHOD B ("Apportionment" method): The RFP would specify the total available points to be awarded by the Board, and the maximum number of points would be awarded to the Board's highest ranked bidder, and the remaining bidders would receive points proportionate to their ranking, the incremental difference between bidders to be determined by dividing the number of points by the number of finalists. The Board, by motion, would determine the rank of the bidders. For example, under this method, if 400 points were to be awarded by the Board and there were four finalists, the first-ranked finalist would receive 400 points, the second-ranked finalist would receive 300 points, the third-ranked finalist would receive 200 points, and the fourth-ranked finalist would receive 100 points. The contract would be awarded to the bidder receiving the highest total points. The Board's second choice would be the bidder with the second-highest total. (Please see Attachment B for illustrations of this method.)

METHOD C ("Individual Allocation" method): The RFP would specify the maximum number of points available to be allocated among the finalists by each individual Board member. After considering the finalists, each member would divide his or her points among the finalists. For example, under this method, each member might have 400 points and there might be four finalists. One Board member could award all 400 points to one finalist and none to the other finalists, another member could award 325 to one finalist and 75 points to another finalist, and another member could award 200 points to two different finalists, and so on. The total points received by each finalist would be added and this sum would be divided by the total number of Board members who allocated points. This average would be added to each finalist's technical and fee score. The finalist with the highest score would, by motion, be awarded the contract. The finalist with the second highest score could, by motion, be chosen as the Board's second choice.

This method presents considerable complexity, and in some cases could potentially cause confusion since each Board member could use a different

approach to allocating his or her own points among the finalists. The individual Board members' ballots would most likely be public records.

METHOD D ("Case By Case" method): Prior to the issuance of each RFP in which the Board is to participate, the Board would specify a scoring method that would be used by the Board for that specific RFP. Thereafter, that individual RFP would specify the scoring method prescribed by the Board.

RECOMMENDATION:

Staff recommends that the Committee recommend to the Board adopting a policy that every time the Board approves an individual contract solicitation, it also (1) set the maximum point allocations for scoring by staff and by the Board and (2) designate either method A or method B, as presented in this item, as the Board's scoring method for that contract.

V. STRATEGIC PLAN:

These efforts support Goal III: Design, develop, and administer benefit programs and business processes that are innovative, effective, efficient, and valued by our members, employers, and stakeholders.

VI. RESULTS/COSTS:

No additional costs are expected in implementing the proposed policy.

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General Counsel

SCORING METHOD A ILLUSTRATIONS (PASS/FAIL)

BOARD'S VOTE FOR FIRST CHOICE

ASSUMING TOTAL AVAILABLE BOARD SCORE OF 400 FOR FIRST CHOICE AND 200 FOR SECOND CHOICE & TOTAL AVAILABLE TECH/FEE SCORE OF 600

	CANDIDATE A	CANDIDATE B	CANDIDATE C	CANDIDATE D
Tech/Fee Score	570	545	495	450
Board Score	400	0	0	0
Total Score	**970**	545	495	450

Assumes Board votes for Candidate A as its first choice.
Candidate A is awarded the contract.

	CANDIDATE D	CANDIDATE C	CANDIDATE B	CANDIDATE A
Tech/Fee Score	450	475	545	570
Board Score	400	0	0	0
Total Score	**850**	475	545	570

Assumes Board votes for Candidate D as its first choice.
Candidate D is awarded the contract.

	CANDIDATE D	CANDIDATE A	CANDIDATE C	CANDIDATE B
Tech/Fee Score	450	570	475	545
Board Score	400	0	0	0
Total Score	**850**	570	475	545

Assumes Board votes for Candidate D as its first choice.
Candidate D is awarded the contract.

SCORING METHOD A ILLUSTRATIONS (PASS/FAIL)

BOARD'S VOTE FOR SECOND CHOICE

ASSUMING TOTAL AVAILABLE BOARD SCORE OF 400 FOR FIRST CHOICE AND 200 FOR SECOND CHOICE & TOTAL AVAILABLE TECH/FEE SCORE OF 600

	CANDIDATE A*	CANDIDATE B	CANDIDATE C	CANDIDATE D
Tech/Fee Score	570	545	495	450
Board Score	400	0	0	200
Total Score	970	545	495	**650**

Assumes Board votes for Candidate D as its second choice.
Candidate D is the Board's second choice.

	CANDIDATE D*	CANDIDATE C	CANDIDATE B	CANDIDATE A
Tech/Fee Score	450	475	545	570
Board Score	400	0	0	200
Total Score	850	475	545	**770**

Assumes Board votes for Candidate A as its second choice,
Candidate A is the Board's second choice.

	CANDIDATE D*	CANDIDATE A	CANDIDATE C	CANDIDATE B
Tech/Fee Score	450	570	475	545
Board Score	400	0	0	200
Total Score	850	570	475	**745**

Assumes Board votes for Candidate B as its second choice.
Candidate B is the Board's second choice.

*Shaded boxes indicate the Board's vote for its first choice.

SCORING METHOD B ILLUSTRATION (PROPORTIONATE)

ASSUMING TOTAL AVAILABLE BOARD SCORE OF 400 & TOTAL AVAILABLE TECH/FEE SCORE OF 600

	CANDIDATE A	CANDIDATE B	CANDIDATE C	CANDIDATE D
Tech/Fee Score	570	545	475	450
Board Score	400	300	200	100
Total Score	**970**	845	675	550

Assumes Board ranks candidates in order: Candidates A, B, C and D.
Candidate A is awarded the contract.

	CANDIDATE D	CANDIDATE C	CANDIDATE B	CANDIDATE A
Tech/Fee Score	450	475	545	570
Board Score	400	300	200	100
Total Score	**850**	775	745	570

Assumes Board ranks candidates in order: Candidates D, C, B and A.
Candidate D is awarded the contract.

	CANDIDATE D	CANDIDATE A	CANDIDATE C	CANDIDATE B
Tech/Fee Score	450	570	475	545
Board Score	400	300	200	100
Total Score	850	**870**	675	645

Assumes Board ranks candidates in order: Candidates D, A, C, and B.
Candidate A is awarded the contract.