



Agenda Item 6a

May 20, 2014

ITEM NAME: Federal Representation – Request for Proposal

PROGRAM: Legislation

ITEM TYPE: Action

RECOMMENDATION

Staff recommends that the Board of Administration (Board) select Option One, to develop and release Three Single-Award Requests for Proposals (RFPs) for policy-specific Federal Policy Representation services.

EXECUTIVE SUMMARY

In April 2014, the Board directed staff to develop options that combined the expertise of consultants with in-house staff to fulfill CalPERS diverse and growing Federal Legislative Policy research and representation needs.

Staff examined a number of possible options to identify and contract with firms that could provide policy-specific consulting and advocacy on issues affecting CalPERS policy areas, such as health care, pension benefits and investments. This agenda item outlines three such scenarios for the Board's consideration.

STRATEGIC PLAN

This agenda item supports Goal C of the 2012-17 Strategic Plan, because Federal Representation is a key component in CalPERS ability to engage in national policy development to enhance the long-term sustainability and effectiveness of our programs.

BACKGROUND

CalPERS requires expert Federal representation in a number of policy areas, with the majority of activity focused on pension benefits, health care, taxation, and investments and corporate governance issues. The Board has contracted for Federal policy research and representation services for nearly three decades. Legislative and regulatory action has steadily increased over the years, and has grown even more rapidly over the term of the existing, which expires on June 30, 2014. During this time, CalPERS has engaged in efforts to shape federal policy related to, among other things, the Dodd-Frank financial market reforms, the Affordable Care Act, prescription drug access and pricing, the Public Employees' Pension Transparency Act (PEPTA), Secure Annuities for Employee Retirement Act (SAFE), and the USA Retirement Funds Act.

In October 2013, CalPERS released RFP 2013-6815 to seek proposals for one Principal Federal Legislative Representative, as well as to create a Pool for additional targeted federal legislative representation services on an as-needed basis. Before the release of this RFP, staff contacted other pension systems to inquire about the firms they use for Federal representation. Staff also reached out to dozens of Washington, D.C. firms to inform them of the upcoming RFP and to encourage them to apply, and after its release, the RFP was advertised in a number of publications.

Following the submission deadline in December 2013, staff worked to evaluate the Proposals, and in March 2014, the Board selected three Finalists for the Principal Representative to be interviewed at the April 2014 Board Meeting. Given that it is increasingly difficult for any single firm to meet CalPERS diverse and growing Federal Policy research and representation needs across all policy areas, the Board cancelled the solicitation, and directed staff to return in May 2014 to present it with options for a new solicitation or solicitations that would combine multiple firms' expertise, along with staff expertise, to meet CalPERS needs.

In the interim, the Board also authorized staff to extend the existing contract with Lussier, Gregor, Vienna and Associates for up to one year, to ensure that CalPERS maintains its Federal representation presence while developing new representation structures.

ANALYSIS

1. Options for Federal Policy Representation

The Board's current Federal Legislative Representative regularly organizes meetings and events with legislators, policy-makers and other key players in Washington on behalf of CalPERS, as well as developing policy strategies and recommendations. Moving forward, it is critical for CalPERS to continue these efforts, and ensure its representatives understand the "big picture" issues impacting public pension funds, are able to gather intelligence, develop positive long-term strategies, and respond to events and circumstances on short notice.

Staff has developed the following options to provide CalPERS with Federal policy research, analysis, and representation for its three key policy areas.

Option 1: Three Single-award RFPs

Under this option, CalPERS would issue three single-award RFPs, each supporting one of the CalPERS core policy areas (pension benefits, investments and health care). Staff would score the technical and fee proposal submissions for each of the three RFPs, and the Board would then interview the highest scoring firms for each of the RFPs. Firms would be allowed to bid on more than one policy area so it is possible that contracts may be awarded to fewer than three firms.

Each of the contracts awarded would be managed through the External Affairs Branch, which would provide direction in cooperation with other program areas as needed.

- a. Pros:
 - i. Allows CalPERS to hire one representative per category that specializes in that policy area
 - ii. Improves the opportunity to recruit and identify firms that are experts in developing federal outreach strategies to help ensure success in specific policy areas
 - iii. Provides focused research and advocacy expertise that is engaged with key stakeholders and policy makers on a day-to-day basis
 - iv. Encourages a focus by the selected representatives on the policy priorities and unique needs of CalPERS in each policy area
 - v. May increase cost competition amongst firms in competing in the individual policy areas

- b. Cons:
 - i. There is no single consultant or consistent “voice” for CalPERS
 - ii. Coordinating representatives’ engagement with various industry groups and coalitions on behalf of CalPERS could be more difficult
 - iii. May not accommodate other ancillary representation needs, including coalition and relationship building
 - iv. May not accommodate new or expanded policy needs, such as diversified consulting or specialized advice on other policy issues
 - v. Increases demand for internal CalPERS staff to manage the contractors
 - vi. More costly than engaging only one vendor – While each retainer should be lower than a retainer to a single firm serving as a Principal Representative, each firm would still have infrastructure costs

Option 2: Two Single-award RFPs

This scenario is comparable to the first option, but combines two of the core policy areas, Investments and Pension Benefits, into one Federal Policy Representative contract, with the second RFP seeking a specialist in Health Policy. Having the same representative(s) educate policymakers and stakeholders, and advocate on behalf of CalPERS regarding those investment and pension benefit issues that help sustain our ability to pay benefits, may provide synergy and better align with the goals and objectives of the CalPERS Asset Liability Management (ALM) Process.

- a. Pros:
 - i. Provides consistent communications regarding benefit, investment and finance issues affecting CalPERS pensions and better aligns with the ALM Process
 - ii. Continues to allow the Board to hire a Federal Policy representative dedicated to health issues
 - iii. Improves CalPERS ability to coordinate its Federal Policy efforts, when compared to the other options listed
 - iv. Provides cost savings in working with two firms instead of three, due to reduced overhead costs
 - v. Creates some cost competition between the categories, but less than Option 1

- b. Cons:
 - i. There is no single consultant or voice for CalPERS at the federal level, although this option should provide for a more unified voice than other options listed
 - ii. Coordinating representatives' engagements with various industry groups and coalitions on behalf of CalPERS could be difficult, but less so when compared with the other options listed
 - iii. Fewer total firms are likely expert in both the investment and pension benefit policy areas, thus possibly reducing the number of proposers and potentially resulting in a similar situation as the previous RFP

Option 3: Use a Pool or Pools of Potential Federal Policy Representatives

Rather than awarding "single award" contracts for Federal Policy Representation in multiple core policy areas, this option would create one or more Pools through the RFP process. Participating firms in each pool could be asked to provide limited, but highly-focused, services related to CalPERS efforts to influence federal policy impacting its major policy areas, other ancillary issues, and to build coalitions and improve outreach.

Under CalPERS existing Pool Process, the Board could elect to participate in the scoring and selection of vendors placed in a pool or pools, but staff would be responsible for selecting and engaging federal representatives in the pool on an as-needed basis through a Letter of Engagement (LOE).

- a. Pros:
 - i. May broaden and diversify the CalPERS network in Washington and improve its ability to maintain productive working relationships
 - ii. May enhance CalPERS ability to adapt to a fluid political environment, and leverage the strengths of numerous firms
 - iii. Contracting with multiple pool participants may allow for more focused relationship building with specific caucuses or groups

- iv. A pool may be refreshed periodically, with focused solicitations aimed at recruiting firms for perceived “weak” areas, or new policy needs
- v. May provide cost savings, as work could be ordered on an “as needed” basis, rather than compensating one or more firms via a set fee, or retainer
- vi. May be more efficient and cost-effective than depending on a primary Representative’s firm to identify and subcontract with such consultants for what are otherwise known as “special services”

b. Cons:

- i. May detract from CalPERS general Federal presence, with a less consistent CalPERS “voice,” unless internal CalPERS staff expertise is better developed to take on this role
- ii. Use of multiple Pools (as opposed to a more general, single Pool) may not necessarily provide for other ancillary representation needs, like coalition and relationship building, or specialized advice on certain issues
- iii. Potential for communication lags, inconsistent messaging, and duplication of effort is much higher
- iv. Greater demand on CalPERS internal staff resources, with the need to establish very detailed inventories of firms’ strengths and weaknesses, annual planning to review and align CalPERS federal policy goals and priorities, oversight of multiple vendors, in-house research and analysis, and reporting to the Board

2. **Federal Policy Coordination and Oversight**
CalPERS Staff Coordination

Depending upon the option for Federal Policy Representation selected by the Board, a new internal unit could be created and appropriately staffed to manage the contracts, provide direction to the Federal Policy Representatives or Pool Firms, and serve as the central information source to the Board, staff, members, and stakeholders.

Given the complexity of the work, the advantages of executive-level coordination between program managers in the core policy areas, and the demands of maintaining an increased presence in Washington, D.C., a CEA-level appointment is desirable. The staffing structure would be developed and approved through the general CalPERS budget process.

BUDGET AND FISCAL IMPACTS

- CalPERS will continue to have Federal Policy Representation, providing services from qualified firms in the Washington, D.C. area. The cost for these services will be determined based on the fee proposal submitted by the successful proposers. It is anticipated that the total annual costs will be at least as great as the annual retainer for the current contract, and possibly significantly greater.
- The total cost of a new staff unit to concentrate on Federal Policy is unknown. Costs will depend on the number and levels of staff needed.

BENEFITS/RISKS

- Contracting with Federal Policy Representatives will provide CalPERS with the ability to advocate in Washington, DC on the issues that impact our members and stakeholders. These Representatives will also provide critical information, coalition building, and timely updates and analyses for the Board's consideration in the direction of CalPERS policy and operations.
- Developing internal staff resources will enable CalPERS to effectively manage the contracts and operations of the Federal Policy Representatives, and provide in-house policy analysis and information to disseminate to staff, members and stakeholders.

ROBERT UDALL GLAZIER
Deputy Executive Officer
External Affairs

CHERYL EASON
Chief Financial Officer