H-4369.1

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**SUBSTITUTE HOUSE BILL 1915**

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**State of Washington 64th Legislature 2016 Regular Session**

**By** House Appropriations (originally sponsored by Representatives S. Hunt, Harris, MacEwen, Walkinshaw, Sells, Goodman, Moscoso, Reykdal, Robinson, Kilduff, Fitzgibbon, Hayes, Hudgins, Tarleton, Appleton, Ormsby, Pollet, and Bergquist)

AN ACT Relating to protecting taxpayers by providing for accountability and transparency in government contracting; amending RCW 39.26.180, 43.19.008, and 39.26.200; adding a new section to chapter 39.26 RCW; and creating new sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  It is the intent of the legislature to increase transparency and accountability of public contracts by requiring better evaluation of contract performance. Such evaluation should include an assessment of whether decisions to "contract out" government services to the private sector are achieving their stated objectives. In addition, it is the intent of the legislature to ensure that public contractors given access to state resources are held to ethical standards consistent with public values.

NEW SECTION. **Sec.**  A new section is added to chapter 39.26 RCW to read as follows:

(1) Prior to issuing a request for a proposal to contract out to purchase from a private sector entity or nonprofit organization services that have been customarily and historically provided by a public employee or employees, an agency must conduct a comprehensive impact assessment.

(a) To assist the agency in determining whether the decision to contract out is beneficial, the comprehensive impact assessment must include at a minimum the following analysis:

(i) An estimate of the cost of performance of the service by public employees, including the fully allocated costs of the service, the cost of the employees' salaries and benefits, space, equipment, materials, and other costs necessary to perform the function. The estimate shall not include the state's indirect overhead costs unless those costs can be attributed directly to the function in question and would not exist if that function were not performed in state service;

(ii) An estimate of the cost of performance of the services if contracted out, including the cost of allocating sufficient public employee staff time and resources to monitor the contract and ensure its proper performance by the contractor; and

(iii) A statement of the performance objectives to be achieved by contracting with a private sector or nonprofit entity.

(b) The comprehensive assessment may also include an assessment of the potential adverse impacts on the public from outsourcing the contract, such as loss of employment, effect on social services and public assistance programs, economic impacts on local businesses and local tax revenues, and environmental impacts.

(2) An agency must prepare a written record of the basis of the decision to contract out a service that has been customarily and historically provided by public employees, which must include the comprehensive impact assessment required under subsection (1) of this section, as well as an itemization of performance standards contained in the contract.

(a) Upon entering an agreement to contract out for a service that has been customarily and historically provided by public employees, the agency must provide the written record of the basis of the agency's decision to the department.

(b) The agency must maintain the written record in the agency's files for five years or the term of the contract, whichever is longer.

(c) Every five years or upon completion of the contract, whichever comes first, the agency must prepare and file with the department a report, which must include at a minimum the following information:

(i) Documentation of the contractor's performance as measured by the itemized performance standards;

(ii) Itemization of any contract extensions or change orders that resulted in a change in the dollar value or cost of the contract; and

(iii) A report of any remedial actions that were taken to enforce compliance with the contract, together with an estimate of the cost incurred by the public in enforcing such compliance.

(3) In addition to any other terms required by law, the terms of any agreement to contract out a service that has been customarily and historically provided by public employees must include the following:

(a) A cancellation clause allowing the state agency to cancel a contract if the contractor fails to meet quality standards or budget specifications;

(b) Terms ensuring periodic review of performance of the contract;

(c) Terms requiring the contractor to compensate the agency for public sector employees' hours expended in achieving full performance of a contract that has failed inspection, that the contractor has failed to complete on schedule, or that has not been completed in a manner that is consistent with quality standards;

(d) A term requiring the contractor to make available to the agency the following information at the start of the contract's term and updated each fiscal year:

(i) The name and license number, if applicable, of the contractor and all subcontractors; and

(ii) A list of individuals or entities performing the services under the contract, reflected as full-time equivalent positions, including the hourly wage rate for each position, and the status of the individual as an employee, subcontractor, independent contractor, or consultant; and

(e) A waiver of confidentiality of, and agreement to provide to the agency upon request, basic financial information related to the contract, other than financial, commercial, or proprietary information specifically exempted from disclosure to the public under RCW 42.56.270.

**Sec.**  RCW 39.26.180 and 2012 c 224 s 20 are each amended to read as follows:

(1) The department must adopt uniform policies and procedures for the effective and efficient management of contracts by all state agencies. The policies and procedures must, at a minimum, include:

(a) Precontract procedures for selecting potential contractors based on their qualifications and ability to perform, including procedures to ensure compliance with chapter 39.19 RCW, providing for participation of minority and women-owned businesses;

(b) Model complaint and protest procedures;

(c) Alternative dispute resolution processes;

(d) Incorporation of performance measures and measurable benchmarks in contracts;

(e) Model contract terms to ensure contract performance and compliance with state and federal standards, including terms to facilitate recovery of the costs of public employee staff time that must be expended to bring a contract into substantial compliance;

(f) Executing contracts using electronic signatures;

(g) Criteria for contract amendments;

(h) Postcontract procedures;

(i) Procedures and criteria for terminating contracts for cause or otherwise, including procedures and criteria for terminating performance-based contracts that are not achieving performance standards; and

(j) Any other subject related to effective and efficient contract management.

(2) An agency may not enter into a contract under which the contractor could charge additional costs to the agency, the department, the joint legislative audit and review committee, or the state auditor for access to data generated under the contract. A contractor under such a contract must provide access to data generated under the contract to the contracting agency, the joint legislative audit and review committee, and the state auditor.

(3) To the extent practicable, agencies should enter into performance-based contracts. Performance-based contracts identify expected deliverables and performance measures or outcomes. Performance-based contracts also use appropriate techniques, which may include but are not limited to, either consequences or incentives or both to ensure that agreed upon value to the state is received. Payment for goods and services under performance-based contracts should be contingent on the contractor achieving performance outcomes. Agencies must monitor performance-based contracts to ensure that all aspects of the contract are being properly performed and that performance standards are being achieved.

(4) An agency and contractor may execute a contract using electronic signatures.

(5) As used in subsection (2) of this section, "data" includes all information that supports the findings, conclusions, and recommendations of the contractor's reports, including computer models and the methodology for those models.

**Sec.**  RCW 43.19.008 and 2011 1st sp.s. c 43 s 104 are each amended to read as follows:

(1) The executive powers and management of the department shall be administered as described in this section.

(2) The executive head and appointing authority of the department is the director. The director is appointed by the governor, subject to confirmation by the senate. The director serves at the pleasure of the governor. The director is paid a salary fixed by the governor in accordance with RCW 43.03.040. If a vacancy occurs in the position of director while the senate is not in session, the governor shall make a temporary appointment until the next meeting of the senate at which time he or she shall present to that body his or her nomination for the position.

(3) The director may employ staff members, who are exempt from chapter 41.06 RCW, and any additional staff members as are necessary to administer this chapter, and such other duties as may be authorized by law. The director may delegate any power or duty vested in him or her by chapter 43, Laws of 2011 1st sp. sess. or other law, including authority to make final decisions and enter final orders in hearings conducted under chapter 34.05 RCW.

(4) The internal affairs of the department are under the control of the director in order that the director may manage the department in a flexible and intelligent manner as dictated by changing contemporary circumstances. Unless specifically limited by law, the director has complete charge and supervisory powers over the department. The director may create the administrative structures as the director deems appropriate, except as otherwise specified by law, and the director may employ personnel as may be necessary in accordance with chapter 41.06 RCW, except as otherwise provided by law.

(5) Until June 30, 2018, at the beginning of each fiscal biennium, the office of financial management shall conduct a review of the programs and services that are performed by the department to determine whether the program or service may be performed by the private sector in a more cost-efficient and effective manner than being performed by the department. In conducting this review, the office of financial management shall:

(a) Examine the existing activities currently being performed by the department, including but not limited to an examination of services for their performance, staffing, capital requirements, and mission. Programs may be broken down into discrete services or activities or reviewed as a whole; and

(b) Examine the activities to determine which specific services are available in the marketplace and what potential for efficiency gains or savings exist.

(i) As part of the review in this subsection (5), the office of financial management shall select up to six activities or services that have been determined as an activity that may be provided by the private sector in a cost-effective and efficient manner, including for the 2011-2013 fiscal biennium the bulk printing services. The office of financial management may consult with affected industry stakeholders in making its decision on which activities to contract for services. Priority for selection shall be given to agency activities or services that are significant, ongoing functions.

(ii) The office of financial management must consider the consequences and potential mitigation of improper or failed performance by the contractor.

(iii) For each of the selected activities, the department shall use a request for information, request for proposal, or other procurement process to determine if a contract for the activity would result in the activity being provided at a reduced cost and with greater efficiency. This must include, but is not limited to, consideration of the cost of the agency staff time and resources that may be required to monitor and ensure proper performance of the contract by the contractor.

(iv) The request for information, request for proposal, or other procurement process must contain measurable standards for the performance of the contract.

(v) If contracting out will afford taxpayers a cost savings or efficiency, the department may contract with one or more vendors to provide the service as a result of the procurement process.

(vi) If the office of financial management determines via the procurement process that the activity cannot be provided by the private sector at a reduced cost and greater efficiency, the department of enterprise services may cancel the procurement without entering into a contract and shall promptly notify the legislative fiscal committees of such a decision.

(vii) The department of enterprise services, in consultation with the office of financial management, must establish a contract monitoring process to measure contract performance, costs, service delivery quality, and other contract standards, and to cancel contracts that do not meet those standards. No contracts may be renewed without a review of these measures.

(viii) The office of financial management shall prepare a biennial report summarizing the results of the examination of the agency's programs and services. In addition to the programs and services examined and the result of the examination, the report shall provide information on any procurement process that does not result in a contract for the services. The biennial report must include updates reporting any unanticipated costs incurred as a result of contracting out pursuant to this section and an estimate of staff hours devoted by employees of the office of financial management and department of enterprise services in conducting the program review required by this section. During each regular legislative session held in odd-numbered years, the legislative fiscal committees shall hold a public hearing on the report and the department's activities under this section.

(ix) The joint legislative audit and review committee shall conduct an audit of the implementation of this subsection (5), and report to the legislature by January 1, 2018, on the results of the audit. The report must include an analysis and estimate of additional costs or savings to taxpayers as a result of the contracting out provisions. This analysis must, at a minimum, include the following:

(A) An estimate of the cost of performance of the selected activities, if the activities had been performed by public employees;

(B) An estimate of the cost of performance of the contract by the contractor, including the cost of any change orders or contract revisions and the costs of allocating sufficient public employee staff time and resources to monitor the contract and ensure its proper performance by the contractor;

(C) An analysis of the extent to which performance objectives were achieved by outsourcing the contract; and

(D) An assessment of potential adverse impacts on the public of outsourcing the contract.

**Sec.**  RCW 39.26.200 and 2015 c 44 s 1 are each amended to read as follows:

(1)(a) The director shall provide notice to the contractor of the director's intent to either fine or debar with the specific reason for either the fine or debarment. The department must establish the debarment and fining processes by rule.

(b) After reasonable notice to the contractor and reasonable opportunity for that contractor to be heard, the director has the authority to debar a contractor for cause from consideration for award of contracts. The debarment must be for a period of not more than three years.

(2) The director may either fine or debar a contractor based on a finding of one or more of the following causes:

(a) Conviction for commission of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or subcontract, or in the performance of such contract or subcontract;

(b) Conviction or a final determination in a civil action under state or federal statutes of fraud, embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, violation of the federal false claims act, 31 U.S.C. Sec. 3729 et seq., or the state medicaid fraud false claims act, chapter 74.66 RCW, or any other offense indicating a lack of business integrity or business honesty that currently, seriously, and directly affects responsibility as a state contractor;

(c) Conviction under state or federal antitrust statutes arising out of the submission of bids or proposals;

(d) Two or more violations within the previous five years of the ((~~federal~~)) national labor relations act as determined by the national labor relations board or court of competent jurisdiction;

(e) Violation of contract provisions, as set forth in this subsection, of a character that is regarded by the director to be so serious as to justify debarment action:

(i) Deliberate failure without good cause to perform in accordance with the specifications or within the time limit provided in the contract; or

(ii) A recent record of failure to perform or of unsatisfactory performance in accordance with the terms of one or more contracts, however the failure to perform or unsatisfactory performance caused by acts beyond the control of the contractor may not be considered to be a basis for debarment;

(f) Violation of ethical standards set forth in RCW 39.26.020; and

(g) Any other cause the director determines to be so serious and compelling as to affect responsibility as a state contractor, including debarment by another governmental entity for any cause listed in regulations.

(3) The director must issue a written decision to debar. The decision must:

(a) State the reasons for the action taken; and

(b) Inform the debarred contractor of the contractor's rights to judicial or administrative review.

NEW SECTION. **Sec.**  This act may be known and cited as the "taxpayer protection act."

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