

CERTIFICATION OF ENROLLMENT  
**ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1521**

66th Legislature  
2020 Regular Session

Passed by the House March 9, 2020  
Yeas 67 Nays 29

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**Speaker of the House of  
Representatives**

Passed by the Senate March 5, 2020  
Yeas 31 Nays 18

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**President of the Senate**

Approved

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**Governor of the State of Washington**

CERTIFICATE

I, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1521** as passed by the House of Representatives and the Senate on the dates hereon set forth.

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**Chief Clerk**

FILED

**Secretary of State  
State of Washington**

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**ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1521**

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AS AMENDED BY THE SENATE

Passed Legislature - 2020 Regular Session

**State of Washington**

**66th Legislature**

**2019 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Dolan, Harris, Valdez, Frame, Caldier, MacEwen, Griffey, Blake, Sells, Tarleton, Fitzgibbon, Ryu, Kilduff, and Ormsby)

READ FIRST TIME 03/01/19.

1 AN ACT Relating to protecting taxpayers by providing for  
2 accountability and transparency in government contracting; amending  
3 RCW 41.06.142, 39.26.200, and 39.26.180; adding a new section to  
4 chapter 39.26 RCW; and creating new sections.

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

6 NEW SECTION. **Sec. 1.** It is the intent of the legislature to  
7 increase transparency and accountability of public contracts by  
8 requiring better evaluation of contract performance. Such evaluation  
9 should include an assessment of whether decisions to "contract out"  
10 government services to the private sector are achieving their stated  
11 objectives. In addition, it is the intent of the legislature to  
12 ensure that public contractors given access to state resources are  
13 held to ethical standards consistent with public values.

14 The legislature finds that prior to July 1, 2005, state agencies  
15 and institutions of higher education were prohibited from contracting  
16 out for services regularly and historically provided by classified  
17 state employees. Effective July 1, 2005, the personnel system reform  
18 act of 2002 lifted the prohibition, authorizing state agencies and  
19 institutions of higher education to contract out for services  
20 customarily and historically provided by classified state employees.  
21 It is therefore the intent of the legislature that this act be

1 applied only to government services that, on or after July 1, 2005,  
2 have been customarily and historically performed by state employees  
3 in the classified service under chapter 41.06 RCW.

4 **Sec. 2.** RCW 41.06.142 and 2011 1st sp.s. c 43 s 408 are each  
5 amended to read as follows:

6 (1) If any department, agency, or institution of higher education  
7 ((may purchase)) intends to contract for services((, including  
8 services)) that, on or after July 1, 2005, have been customarily and  
9 historically provided by, and would displace or relocate, employees  
10 in the classified service under this chapter, a department, agency,  
11 or institution of higher education may do so by contracting with  
12 individuals, nonprofit organizations, businesses, employee business  
13 units, or other entities if the following criteria are met:

14 (a) A comprehensive impact assessment is completed by the agency,  
15 department, or institution of higher education to assist it in  
16 determining whether the decision to contract out is beneficial.

17 (i) The comprehensive impact assessment must include at a minimum  
18 the following analysis:

19 (A) An estimate of the cost of performance of the service by  
20 employees, including the fully allocated costs of the service, the  
21 cost of the employees' salaries and benefits, space, equipment,  
22 materials, and other costs necessary to perform the function. The  
23 estimate must not include the state's indirect overhead costs unless  
24 those costs can be attributed directly to the function in question  
25 and would not exist if that function were not performed in state  
26 service;

27 (B) An estimate of the cost of performance of the services if  
28 contracted out, including the cost of administration of the program  
29 and allocating sufficient employee staff time and resources to  
30 monitor the contract and ensure its proper performance by the  
31 contractor;

32 (C) The reason for proposing to contract out, including the  
33 objective the agency would like to achieve; and

34 (D) The reasons for the determination made under (e) of this  
35 subsection.

36 (ii) When the contract will result in termination of state  
37 employees or elimination of state positions, the comprehensive impact  
38 assessment may also include an assessment of the potential adverse  
39 impacts on the public from outsourcing the contract, such as loss of

1 employment, effect on social services and public assistance programs,  
2 economic impacts on local businesses and local tax revenues, and  
3 environmental impacts;

4 (b) The invitation for bid or request for proposal contains  
5 measurable standards for the performance of the contract;

6 ~~((b))~~ (c) Employees ((in the classified service)) whose  
7 positions or work would be displaced by the contract are provided an  
8 opportunity to offer alternatives to purchasing services by contract  
9 and, if these alternatives are not accepted, compete for the contract  
10 under competitive contracting procedures in subsection ((4)) (7) of  
11 this section;

12 ~~((c) The contract with an entity other than an employee business~~  
13 ~~unit includes a provision requiring the entity to consider employment~~  
14 ~~of state employees who may be displaced by the contract;))~~

15 (d) The department, agency, or institution of higher education  
16 has established a contract monitoring process to measure contract  
17 performance, costs, service delivery quality, and other contract  
18 standards, and to cancel contracts that do not meet those standards;  
19 and

20 (e) The department, agency, or institution of higher education  
21 has determined that the contract results in savings or efficiency  
22 improvements. The contracting agency, department, or institution of  
23 higher education must consider the consequences and potential  
24 mitigation of improper or failed performance by the contractor.

25 (2)(a) The agency, department, or institution of higher education  
26 must post on its web site the request for proposal, the contract or a  
27 statement that the agency, department, or institution of higher  
28 education did not move forward with contracting out, and the  
29 comprehensive impact assessment pursuant to subsection (1) of this  
30 section.

31 (b) The agency, department, or institution of higher education  
32 must maintain the information in (a) of this subsection in its files  
33 in accordance with the record retention schedule under RCW 40.14.060.

34 (3) Every five years or upon completion of the contract,  
35 whichever comes first, the agency, department, or institution of  
36 higher education must prepare and maintain in the contract file a  
37 report, which must include at a minimum the following information:

38 (a) Documentation of the contractor's performance as measured by  
39 the itemized performance standards;

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

3 (c) A report of any remedial actions that were taken to enforce  
4 compliance with the contract, together with an estimate of the cost  
5 incurred by the agency, department, or institution of higher  
6 education in enforcing such compliance.

7 (4) In addition to any other terms required by law, the terms of  
8 any agreement to contract out a service pursuant to this section must  
9 include terms that address the following:

10 (a) The contract's contract management provision must allow  
11 review of the contractor's performance;

12 (b) The contract's termination clauses must allow termination of  
13 the contract if the contractor fails to meet the terms of the  
14 contract, including failure to meet performance standards or failure  
15 to provide the services at the contracted price;

16 (c) The contract's damages provision must allow recovery of  
17 direct damages and, when applicable, indirect damages that the  
18 agency, department, or institution of higher education incurs due to  
19 the contractor's breach of the agreement;

20 (d) If the contractor will be using a subcontractor for  
21 performance of services under the contract, the contract must allow  
22 the agency, department, or institution of higher education to obtain  
23 information about the subcontractor, as applicable to the performance  
24 of services under the agreement; and

25 (e) A provision requiring the contractor to consider employment  
26 of employees who may be displaced by the contract, if the contract is  
27 with an entity other than an employee business unit.

28 (5) Any provision contrary to or in conflict with this section in  
29 any collective bargaining agreement in effect on July 1, 2005, is not  
30 effective beyond the expiration date of the agreement.

31 ~~((3) Contracting for services that is expressly mandated by the~~  
32 ~~legislature or was authorized by law prior to July 1, 2005, including~~  
33 ~~contracts and agreements between public entities, shall not be~~  
34 ~~subject to the processes set forth in subsections (1), (4), and (5)~~  
35 ~~of this section))~~

36 (6) When contracting out for services as authorized  
37 in this section the agency, department, or institution of higher  
38 education must ensure firms adhere to the values of the state of  
39 Washington under RCW 49.60.030, which provide its citizens freedom  
40 from discrimination. Any relationship with a potential or current  
industry partner that is found to have violated RCW 49.60.030 by the

1 attorney general shall not be considered and must be immediately  
2 terminated unless:

3 (a) The industry partner has fulfilled the conditions or  
4 obligations associated with any court order or settlement resulting  
5 from that violation; or

6 (b) The industry partner has taken significant and meaningful  
7 steps to correct the violation, as determined by the Washington state  
8 human rights commission.

9 ~~((4))~~ (7) Competitive contracting shall be implemented as  
10 follows:

11 (a) At least ninety days prior to the date the contracting  
12 agency, department, or institution of higher education requests bids  
13 from private entities for a contract for services provided by  
14 ~~((classified))~~ employees, the contracting agency, department, or  
15 institution of higher education shall notify the ~~((classified))~~  
16 employees whose positions or work would be displaced by the contract.  
17 The employees shall have sixty days from the date of notification to  
18 offer alternatives to purchasing services by contract, and the  
19 agency, department, or institution of higher education shall consider  
20 the alternatives before requesting bids.

21 (b) If the employees decide to compete for the contract, they  
22 shall notify the contracting agency, department, or institution of  
23 higher education of their decision. Employees must form one or more  
24 employee business units for the purpose of submitting a bid or bids  
25 to perform the services.

26 (c) The department of enterprise services, with the advice and  
27 assistance of the office of financial management, shall develop and  
28 make available to employee business units training in the bidding  
29 process and general bid preparation.

30 (d) The director of enterprise services, with the advice and  
31 assistance of the office of financial management, shall, by rule,  
32 establish procedures to ensure that bids are submitted and evaluated  
33 in a fair and objective manner and that there exists a competitive  
34 market for the service. Such rules shall include, but not be limited  
35 to: (i) Prohibitions against participation in the bid evaluation  
36 process by employees who prepared the business unit's bid or who  
37 perform any of the services to be contracted; (ii) provisions to  
38 ensure no bidder receives an advantage over other bidders and that  
39 bid requirements are applied equitably to all parties; and (iii)  
40 procedures that require the contracting agency, department, or

1 institution of higher education to receive complaints regarding the  
2 bidding process and to consider them before awarding the contract.  
3 Appeal of an agency's, department's, or institution of higher  
4 education's actions under this subsection is an adjudicative  
5 proceeding and subject to the applicable provisions of chapter 34.05  
6 RCW, the administrative procedure act, with the final decision to be  
7 rendered by an administrative law judge assigned under chapter 34.12  
8 RCW.

9 (e) An employee business unit's bid must include the fully  
10 allocated costs of the service, including the cost of the employees'  
11 salaries and benefits, space, equipment, materials, and other costs  
12 necessary to perform the function. An employee business unit's cost  
13 shall not include the state's indirect overhead costs unless those  
14 costs can be attributed directly to the function in question and  
15 would not exist if that function were not performed in state service.

16 (f) A department, agency, or institution of higher education may  
17 contract with the department of enterprise services to conduct the  
18 bidding process.

19 ~~((5))~~ (8)(a) As used in this section:

20 ~~((a))~~ (i) "Employee business unit" means a group of employees  
21 who perform services to be contracted under this section and who  
22 submit a bid for the performance of those services under subsection  
23 ~~((4))~~ (7) of this section.

24 ~~((b))~~ (ii) "Indirect overhead costs" means the pro rata share  
25 of existing agency administrative salaries and benefits, and rent,  
26 equipment costs, utilities, and materials associated with those  
27 administrative functions.

28 ~~((e))~~ (iii) "Competitive contracting" means the process by  
29 which ~~((classified))~~ employees of a department, agency, or  
30 institution of higher education compete with businesses, individuals,  
31 nonprofit organizations, or other entities for contracts authorized  
32 by subsection (1) of this section.

33 ~~((6))~~ (b) Unless otherwise specified, for the purpose of this  
34 act, "employee" means state employees in the classified service under  
35 this chapter except employees in the Washington management service as  
36 defined under RCW 41.06.022 and 41.06.500.

37 (9) The processes set forth in subsections (1)(a), (2), (3), and  
38 (4)(a) through (d) of this section do not apply to contracts:

39 (a) Awarded for the purposes of or by the department of  
40 transportation;

1 (b) With an estimated cost of contract performance of twenty  
2 thousand dollars or less;

3 (c) With an estimated cost of contract performance that exceeds  
4 five hundred thousand dollars for public work as defined by RCW  
5 39.04.010; or

6 (d) Relating to mechanical, plumbing as described in chapter  
7 18.106 RCW, and electrical as described in chapter 19.28 RCW,  
8 procured to install systems for new construction or life-cycle  
9 replacement with an estimated cost of contract performance of  
10 seventy-five thousand dollars or more.

11 (10) The processes set forth in subsections (1)(~~7~~) through (4),  
12 (7), and (~~(5)~~) (8) of this section do not apply to:

13 (a) RCW 74.13.031(~~(5)~~) (6);

14 (b) The acquisition of printing services by a state agency; and

15 (~~(Contracting for services or activities by the department of~~  
16 ~~enterprise services under RCW 43.19.008 and the department may~~  
17 ~~continue to contract for such services and activities after June 30,~~  
18 ~~2018)) Contracts for services expressly mandated by the legislature,  
19 including contracts for fire suppression awarded by the department of  
20 natural resources under RCW 76.04.181, or authorized by law prior to  
21 July 1, 2005, including contracts and agreements between public  
22 entities.~~

23 (~~(7)~~) (11) The processes set forth in subsections (1)(~~7~~)  
24 through (4), (7), and (~~(5)~~) (8) of this section do not apply to the  
25 consolidated technology services agency when contracting for services  
26 or activities as follows:

27 (a) Contracting for services and activities that are necessary to  
28 establish, operate, or manage the state data center, including  
29 architecture, design, engineering, installation, and operation of the  
30 facility that are approved by the technology services board created  
31 in RCW (~~43.41A.070~~) 43.105.285.

32 (b) Contracting for services and activities recommended by the  
33 chief information officer through a business plan and approved by the  
34 technology services board created in RCW (~~43.41A.070~~) 43.105.285.

35 **Sec. 3.** RCW 39.26.200 and 2017 3rd sp.s. c 1 s 996 are each  
36 amended to read as follows:

37 (1)(a) The director shall provide notice to the contractor of the  
38 director's intent to either fine or debar with the specific reason



1 for either the fine or debarment. The department must establish the  
2 debarment and fining processes by rule.

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

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

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

14 (b) Conviction or a final determination in a civil action under  
15 state or federal statutes of fraud, embezzlement, theft, forgery,  
16 bribery, falsification or destruction of records, receiving stolen  
17 property, violation of the federal false claims act, 31 U.S.C. Sec.  
18 3729 et seq., or the state medicaid fraud false claims act, chapter  
19 74.66 RCW, or any other offense indicating a lack of business  
20 integrity or business honesty that currently, seriously, and directly  
21 affects responsibility as a state contractor;

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

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

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

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

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

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

39 (g) Any other cause the director determines to be so serious and  
40 compelling as to affect responsibility as a state contractor,

1 including debarment by another governmental entity for any cause  
2 listed in regulations; and

3 (h) During the 2017-2019 fiscal biennium, the failure to comply  
4 with a provision in a state master contract or other agreement with a  
5 state agency that requires equality among its workers by ensuring  
6 similarly employed individuals are compensated as equals.

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

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

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

12 **Sec. 4.** RCW 39.26.180 and 2012 c 224 s 20 are each amended to  
13 read as follows:

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

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

21 (b) Model complaint and protest procedures;

22 (c) Alternative dispute resolution processes;

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

25 (e) Model contract terms to ensure contract performance and  
26 compliance with state and federal standards, including terms to  
27 facilitate recovery of the costs of employee staff time that must be  
28 expended to bring a contract into substantial compliance, and terms  
29 required under RCW 41.06.142;

30 (f) Executing contracts using electronic signatures;

31 (g) Criteria for contract amendments;

32 (h) Postcontract procedures;

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

37 (j) A requirement that agencies, departments, and institutions of  
38 higher education monitor performance-based contracts, including  
39 contracts awarded pursuant to RCW 41.06.142, to ensure that all

1 aspects of the contract are being properly performed and that  
2 performance standards are being achieved; and

3 (k) Any other subject related to effective and efficient contract  
4 management.

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

12 (3) To the extent practicable, agencies should enter into  
13 performance-based contracts. Performance-based contracts identify  
14 expected deliverables and performance measures or outcomes.  
15 Performance-based contracts also use appropriate techniques, which  
16 may include but are not limited to, either consequences or incentives  
17 or both to ensure that agreed upon value to the state is received.  
18 Payment for goods and services under performance-based contracts  
19 should be contingent on the contractor achieving performance  
20 outcomes.

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

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

27 NEW SECTION. Sec. 5. A new section is added to chapter 39.26  
28 RCW to read as follows:

29 An agency, department, or institution of higher education that  
30 intends to contract out, or does contract out, for services that, on  
31 or after July 1, 2005, have been customarily and historically  
32 performed by employees in the classified service defined in RCW  
33 41.06.020 must follow procedures and meet criteria established under  
34 RCW 41.06.142.

35 NEW SECTION. Sec. 6. This act is prospective and applies only  
36 to contracts commenced on or after the effective date of this

1 section. Contracts in effect prior to the effective date of this  
2 section remain unaffected by this act through their expiration date.

--- **END** ---