



SPECIAL EDITION

**NO BIDS ACCEPTED FOR FOOD SERVICE,
HEALTH CARE RFPS**

The Michigan Department of Corrections (MDOC) Fiscal Year (FY) 2013 budget requires the Department to issue RFPs for a number of services including prisoner food service. In addition to the services specifically mentioned in budget boilerplate language, the Department issued an RFP for prisoner physical and mental health services.

The RFP for prisoner food service was issued June 22, 2012 and the RFP for prisoner physical and mental health services was issued July 3, 2012. As a result of the thorough review of all proposals for each RFP, it was determined that no proposal met the threshold for savings required in the Civil Service standards. As a result, no proposals were accepted.

The details below provide an overview of the process, the standards for consideration, and the results of the bids for food service and prisoner physical and mental health care.

The Process and Standards

The RFP process is a way to benchmark state services and determine if the private sector can provide an enhanced level of service with reduced costs – thereby saving taxpayer dollars. One of four Civil Service standards must be met when assessing use of private sector firms instead of State resources. Those four standards are:

Standard A - The personal services are temporary, intermittent, or irregular.

Standard B - The personal services are (1) so specialized, technical, peculiar, or unique that they are not recognized as normal to the classified service or (2) the appointing authority is unable to recruit enough qualified candidates willing to accept a classified position.

Standard C - The personal services involve (1) the use of equipment, materials, or facilities not reasonably available to the agency at the time and place required and (2) the estimated cost to the agency in procuring such equipment or materials and establishing the needed positions would be disproportionate to the contract cost.

Standard D - The personal services would be obtained at substantial savings over the proposed period of disbursements when compared with having the same personal services performed by the classified work force. The personal services do not meet this standard if, despite the savings over the proposed period of disbursements, substantial savings would not likely be realized over the long term.

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Standard D is most commonly utilized when assessing current State operations and comparing them to private sector alternatives. Civil Service Standard D requires at least 5% savings for contracts of \$1 million or more.

Background

Prior to last year, the State of Michigan had an unfunded liability of \$18.8 billion for state employees due in large part to an uncapped and ever-growing retiree health care plan.

Governor Snyder, in cooperation with the Legislature, took specific steps to eliminate this unfunded debt or legacy costs. With the signing of House Bills 4701 and 4702 in December 2011, Public Acts 264 and 265 were created which:

- Required employees in defined benefit plans to contribute 4 percent of their salary to continue accruing years of service.
- Eliminated retiree health care for all new employees.
- Started prefunding the future health care liabilities of current employees.

Today, what a state employee earns is paid to them the year they earn it, eliminating any long-term liability for the state. As a result of steps taken by Governor Snyder and the Legislature, long-term liabilities have been reduced by \$6 billion and the entire debt will be paid off in 2038.

Impact on the RFP process

It is important to compare apples to apples when utilizing the competitive bidding process so the state avoids the unintended consequence of shifting stranded costs to the rest of the system. To ensure a proper comparison, FY 2013 state

spending plans now include **all** expenses including statewide legacy costs. These statewide legacy costs needed to be calculated and incorporated into the RFP evaluation process, so the State Budget Office in conjunction with state actuaries calculated the FY 2013 stranded cost or statewide legacy cost to be 39% of staff payroll. This figure will be recalculated annually.

Going forward, consideration of these statewide legacy costs will be included in the evaluation of all state RFPs where the services being competitively bid cover work currently being done by state employees and requiring approval of disbursements under Civil Service Standard D.

Specific Results

After incorporating the FY 2013 legacy costs into the MDOC RFPs for prisoner food service and prisoner physical and mental health services, none of the bidders met the savings threshold required under Civil Service Standard D.

- For the MDOC prisoner food service RFP the greatest potential savings, after considering all bidders, was 3.31%.
- For the MDOC prisoner physical health services RFP the greatest potential savings, after considering all bidders, was 4.49%.
- For the MDOC prisoner mental health services RFP the greatest potential savings, after considering all bidders, was 3.06%.

