Master Contracts Rate Management Fee Rate Exception

Date: July 22, 2015 – Revised 10/12/15

Issue Title: *Management Fee Rate Exceptions/Exemptions*

Background: Effective 7/1/13, the Department of Enterprise Services (DES) adopted a .74% management fee for all master contracts. The management fee was intended to be the sole cost recovery method for Master Contracts & Consulting and also supports portions of other contract support programs within DES and OMWBE. The fee was calculated to recover the amount needed to fully manage master contracts, including support functions, based on all master contract usage data. As a result, as single percentage of .74% was identified as the standard management fee.

DES developed guiding principles used for evaluating the rate options that were considered originally:

Rate Guiding Principles

Easy to understand

- The rate is clear, easy to understand and easy to explain
- Customers can understand the details behind the charges—both the cost drivers and the services received
- The rate structure allows comparison to similar service provider rates where possible
- Help customers be able to make confident decisions on purchase selections. Why should I purchase this?

Accurate

- Customers feel confident about the accuracy of the charges
- The rate structure minimizes the risk that the central service agency collects more (or less) than is required to meet its budgeted needs

Predictable

- Charges are predictable, consistent, and timely
- If usage rates are used, they should be designed so that customers clearly understand the levers they have to control costs
- The central service agency can reliably cover its cost

Supportive of enterprise goals

- Rates should not create disincentives or barriers for the robust use of enterprise systems or services when that would be in the state's best interest
- Rates should not create disincentives or barriers for the pursuit of enterprise policies
- Rates should increase the incentives for the robust use of enterprise services when that use is in the best interest of the state

Exemption from the Standard Management Fee

Upon implementation of the management fee four contracts were identified that needed to be exempted from the standard contracts management fee. Those contracts are as follows:

1. Light and Bars (03908 – now expired)
2. Infant Formula (05411)
3. Charge Card Services (03907 – now 00612)
4. Universal Fleet Card Services (06507 – now 00612)

These contracts fell into one of two categories either the fee was prohibited by law (#1) or the contract contained some form of a rebate (#2-4).

After the first biennium of experience with the management fee and additional analysis, there are additional distinct contract characteristics that would warrant a deviation from the standard .74% management fee.

Exception Criteria

Exceptions to the standard management fee will only be considered in cases that meet one of the exception criteria below. In those cases an alternative fee structure for the contract will be considered.

Criteria 1: The contract is for a volatile commodity with an extremely low profit margin, and has an annual value of over $100 M

An example of this kind of contract is the bulk fuel contract. There are two key reasons for considering an alternative. In a low margin, commodity contract vendors will be inclined to pass the full fee along to the customer. Customers making especially large purchases will experience a material price difference as a result which makes the master contract an unattractive alternative. It's also possible that the fee collected would be very disproportionate

Criteria 2: DES is participating in a co-op contract that includes/assumes a higher standard management fee, and that fee cannot be removed/reduced to lower contract pricing for Washington

In these cases DES has no control over the management fee assumed in the pricing. To reduce the fee would only increase profits for the vendor and would not benefit the state. In these cases, DES will charge the management fee that has been negotiated in the contract instead of the standard management fee. An example of this kind of contract is the WSCA contract for personal computers.

Criteria 3: The per unit cost of the purchased item is very high, the items have a low profit margin, AND there is an alternative, established industry-wide cost recovery method for these kinds of contracts.

An example of this kind of contract is the transit bus contract. The business reasons for an alternative are similar to those in criteria 1. As a result of these conditions, other contracting entities have developed norms that cap the fee that will be charged per unit. Deviating from this industry standard approach makes the master contract an unattractive alternative.

Recommended Process

Any proposed exception or exemption will be submitted, along with proposed fee alternatives, to the Contracts, Procurement & Risk Management Division Assistant Director (CPRM-AD) for review and approval. The CPRM-AD in consultation with the Agency Chief Financial Officer will review and approve an appropriate cost recovery method based on the specific circumstances.

If an exception or exemption is granted, it will be documented and kept with the contract file. A master list of the exceptions and exemptions will be appended to this policy.

Exemptions and Exceptions to the Standard Management Fee

Exemptions – legal prohibition

- Light and Bars (03908)

Exemptions – rebate type contract

- Infant Formula (05411)
- Charge Card Services (03907)
- Universal Fleet Card Services (06507)

Exceptions – Criteria 1 (high volume commodity)

- Bulk fuel (00311)
  Alternative: A fee of $8,500/year for any customer using the bulk fuel contract, where their contract usage exceeds $3.4M/year. For all other customers, the management fee for the bulk fuel contract was reduced to .25%. Note: The highest sales on the bulk fuel contract is from political subdivisions.

Exceptions – Criteria 2 (Coop contract with higher, non-reduceable fee)

- WSCA PC contract (06112 – T11-MST-450)
  Alternative: Will charge contract-set fee of 2%

Exceptions – Criteria 3 (High per unit cost; industry standard approach)

- Transit bus (09214)
  Alternative: $1,000 per unit cost, which will be reviewed and analyzed after the initial term of the contract.