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Box: P37

FACILITIES COSTS

The *Facilities* costs seem to have been allocated on a more consistent basis in B than C. However, it should be noted that, in total, C is asking the State to pick up $1,068,892 less than B, and $538,794 less than A. Yet there is an anomaly as shown below.

	RANGE 1			RANGE 2			RANGE 3		
	B	C	A	B	C	A	B	C	A
Medical Claims	.13	.21	.09	.12	.20	.08	.11	.19	.08
Drug Claims	.05	.32	.03	.04	.03	.03	.04	.26	.03
Other Professional Claims	.13	.19	.08	.12	.18	.08	.12	.17	.08
Hospital Inpatient Claims	.20	.17	.54	.17	.16	.50	.17	.15	.46
Hospital Outpatient Claims	.12	.16	.15	.12	.15	.14	.11	.14	.13
Other Institutional Claims	.19	.22	.37	.17	.21	.34	.16	.19	.31
Crossover Claims	.12	.02	.05	.11	.02	.05	.11	.02	.04

Observe that C is higher than one or both vendors in every instance except Hospital Inpatient Claims and Crossover Claims. Since these are not where the principal transaction volumes occur, how can the lower total cost be explained?

If the unit costs from FORM A are multiplied by the Range 2 volumes, the results are still incongrous because there is a discrepancy of $1,151,000 between FORM B and the detail cost construction as shown on the following page. Perhaps the entire error is in the amount shown for Medical Claims ($0.20). To bring the data in line, this cost would have to be about $0.159861 lower, or $0.041464 ($0.201325 - $0.159861).

B and A totals can probably be explained by rounding or some minor internal inconsistency in the generation of total costs. C must have included in its total cost some other items not identified by me.

EQUIPMENT COSTS

When the *Equipment* costs are multiplied by the transaction volume, the results are as shown on Page Twenty-Five. Note that

FACILITIES COSTS EXPANDED BY TRANSACTION VOLUMES

	RANGE 2 VOLUME	UNIT COST			TOTAL COST (000 OMITTED)		
Medical Claims	7,200,000	$.12	$.2013	$.0839	$ 864	$1,449	$ 604
Drug Claims	10,450,000	.04	.0285	.0275	418	298	287
Other Professional Claims	1,800,000	.12	.1760	.0780	216	317	140
Hospital Inpatient Claims	640,000	.17	.1612	.4970	109	103	318
Hospital Outpatients Claims	1,900,000	.12	.1402	.1400	228	283	266
Nursing Home Claims	700,000	.09	.1279	.1925	63	90	134
Other Institutional Claims	140,000	.17	.2093	.3360	24	29	47
Crossover Claims	4,100,000	.11	.0224	.0454	451	92	186
TOTAL					$2,373	$2,661	$1,982
From Proposal FORM 3					$2,579	$1,510	$2,049
TOTAL DIFFERENCE					$ 206	$1,151	$ 67

EQUIPMENT COSTS EXPANDED BY TRANSACTION VOLUMES

	RANGE 2 VOLUME	UNIT COST			TOTAL COST (000 OMITTED)		
		B	C	A	B	C	A
Medical Claims	7,200,000	$ .25	$.4478	$ .4833	$1,800	$3,224	$ 3,480
Drug Claims	10,450,000	.24	.2524	.2291	2,508	2,638	2,394
Other Professional Claims	1,800,000	.27	.4244	.4832	486	764	870
Hospital Inpatient Claims	640,000	1.22	.4619	1.1398	781	296	729
Hospital Outpatient Claims	1,900,000	.37	.3812	.9246	703	724	1,757
Nursing Home Claims	700,000	.37	.3496	.8216	259	245	575
Other Institutional Claims	140,000	.57	.5525	.9384	80	77	131
Crossover Claims	4,100,000	.35	.2047	.4539	1,435	839	1,861
TOTAL					$8,052	$8,807	$11,797
From Proposal FORM B2					$3,300	$3,542	$ 618
From Proposal FORM B4					-0-	$ 923	$10,900

Vendor A is within $279,000 of explaining its use of unit costs expanded by transaction volume (still not that close). But Vendors B and C are so different in values, there must be some fundamental omission on my part, but I cannot find it.

OVERHEAD COSTS

Expansion of *Overhead* costs according to claim category is displayed on the following page. Auditing the accounting trail for Vendor B is no problem. The comparable data are not available (NA) for Vendors C and A. Since there is no means of knowing what items of cost the other two vendors are including under *Overhead*, a comparable audit cannot be made.

However, judging by the magnitude of the differences between Vendor B and the other two, it does not appear that Vendor A has economy of operation as the keystone of its cost structure. Vendor B data were available in "FORM A Addendum," a voluntary analysis not supplied by the other two vendors.

OTHER EXPENSE

This is not a FORM A cost category; therefore it cannot be validated by transaction volumes and unit prices. However, the table on Page Twenty-Eight displays a revealing comparison of FORM B5.

Forms

Forms costs have been analyzed by expansion from FORM A (claims types multipled by transaction volumes) on Page Twenty-Nine. The differences shown are too marked to be explained, partly because they are both plus and minus the total shown on FORM B5.

However, the more glaring question is the disparity in unit values of forms. Although two of the vendors have actual experience to reinforce their data, no two vendors are even approximately close. This leads me to believe that this category of cost may be used as a "cushion" and is probably not a computed cost based upon usage. Waste could be a factor in the indeterminate cost of forms; however, there is no way of knowing how the values were developed. Superficially, it is possible to conceive of forms bought in huge quantity costing 1 or 2 cents each, but it is hard to understand how Crossover Claims will be handled by Vendor A with no *Forms* cost whatever.

Travel

Vendors B and C are relatively close, giving some credence to their cost estimates. However, Vendor A's cost may be the most efficient use of money for travel.

OVERHEAD COSTS ACCORDING TO CLAIM CATEGORY

	VOLUME OF TRANSACTIONS	RANGE 2 UNIT COST			RANGE 2 TOTAL COST		
		B	C	A	B	C	A
Medical Claims	7,200,000	.05	.177629	.3425	$ 360,000	$1,278,929	$2,466,000
Drug Claims	10,450,000	.03	.038392	.0697	313,500	401,196	728,365
Other Professional Claims	1,800,000	.06	.177166	.2577	108,000	318,899	463,860
Hospital Inpatient Claims	640,000	.12	.479512	.8050	76,800	306,888	515,200
Hospital Outpatient Claims	1,900,000	.06	.208205	.2521	114,000	395,590	478,990
Nursing Home Claims	700,000	.06	.281206	.3060	42,000	196,844	214,200
Other Institutional Claims	140,000	.09	.814932	.5509	12,600	114,091	77,126
Crossover Claims	4,100,000	.05	.038251	.1010	205,000	156,829	414,100
TOTAL					$1,231,900	$3,169,266	$5,357,841
TOTAL FROM "FORM A ADDENDUM"					$1,250,968	NA	NA
DIFFERENCE					$ 19,068	NA	NA

OTHER EXPENSE ANALYSIS

COST ELEMENTS OF ALL VENDORS	B	C	A
Forms	$2,100,000	$1,413,326	$ 203,900
Travel	390,000	344,200	142,744
Office Supplies	420,000	555,010	1,442,276
Postage/Shipping	240,000	536,244	536,503
Computer Supplies	400,000	NA	NA
Professional Utilization Payments	2,000,000	NA	NA
Other Expense	600,000	NA	285,452
Profit	2,803,352	2,817,310	570,650
Storage	NA	75,000	NA
Board of Directors	NA	3,600	NA
Subscription	NA	5,000	NA
Auditors	NA	25,000	NA
Computer Utility Charge	NA	60,000	NA
Data Committee	NA	75,000	NA
Corporate Services	NA	814,947	NA
Microfilm Supply	NA	198,070	NA
1974-75 Cost Adjustment	NA	845,193	NA
Auto Expense	NA	NA	53,438
Professional Insurance	NA	NA	528,381
Recruitment and Employment	NA	NA	55,700
Communications	NA	NA	95,700
Printing	NA	NA	84,926
Outside Services	NA	NA	209,286
TOTAL OTHER EXPENSE	$8,953,352	$7,767,900	$4,208,956
PER CENT OF PROPOSAL TOTAL COST FOR THE YEAR	32.08	27.32	12.87

EXPANSION OF *FORMS* COSTS

	VOLUME OF TRANSACTIONS	RANGE 2 UNIT COST			RANGE 2 TOTAL COST		
		B	C	A	B	C	A
Medical Claims	7,200,000	.10	.041604	.0174	$ 720,000	$ 299,549	$ 125,280
Drug Claims	10,450,000	.09	.052528	.0069	940,500	548,918	72,105
Other Professional Claims	1,800,000	.11	.043677	.0205	198,000	78,619	36,900
Hospital Inpatient Claims	640,000	.25	.059525	.0301	160,000	38,095	19,264
Hospital Outpatient Claims	1,900,000	.10	.044935	.0196	190,000	85,377	37,240
Nursing Home Claims	700,000	.08	.046776	.0282	56,000	32,743	19,740
Other Institutional Claims	140,000	.20	.059902	.0071	28,000	8,386	994
Crossover Claims	4,100,000	.13	.041105	-0-	533,000	168,531	-0-
TOTAL FORMS					$2,825,500	$1,260,218	$ 311,523
TOTAL FROM FORM B5					$2,100,000	$1,413,326	$ 203,900
DIFFERENCE PLUS OR (-MINUS)					(-$ 725,500)	$ 153,108	(-$ 107,623)

Office Supplies

Again Vendors B and C show some common ground in their costing. However, in this instance, Vendor A is almost three times (2.96 exactly) the average of the other two vendors. This does not lend much credibility to the Vendor A amount.

Taking another approach, I added the vendors' *Forms* and *Office Supplies* together to determine what it would reveal, with the following result:

	B	C	A
Forms	$2,100,000	$1,413,326	$ 203,900
Office Supplies	420,000	555,010	1,442,276
TOTAL	$2,520,000	$1,968,336	$1,646,176

There still remains a wide disparity with no apparent consistency in a rather simple cost area. Although Vendors C and A now appear to approach each other, a difference of $322,160 (17.83 per cent of the average of the totals) seems very high, especially since we do not know if it was proper to add the above two cost categories to prove the numbers.

Postage/Shipping

The incredible correspondence of costs between Vendors C and A lends real credibility to their estimates. This does not, in itself, explain why Vendor B has a cost less than half (44.74 per cent) of the average of the other vendors. I am curious to determine if the low quote is a "guesstimate" (confirmed partly by its roundness), or whether the other vendors are charging an exorbitant amount for the same service.

Computer Supplies, Etc.

From this point forward in the analysis of other costs, you will note that vendors are including categories for which there is (apparently) no common ground and therefore no comparability. Because of this, the category, *Other Expense*, is not readily assessed partly because so many numbers are not available (NA). *Computer Supplies* probably should not be included in this category, but should be defined to belong exclusively to the *EDP* expense category.

Professional Utilization Payments

I do not understand this item of cost, and therefore cannot comment.

Other Expense

The available numbers could not be proven. On its face, Vendor B appears again to have plugged in a round number, but it is too different in magnitude from Vendor A, and may contain very different components.

Profit

Vendors B and C have been very "business-like" in requiring a 10 per cent return on all claims costs (see exhibits in the INTRODUCTION). However, in view of my inability to reconcile claims costs with total costs, the *Profit* per cent may be higher or lower, in fact. Only the State can determine if this is a fair return, or whether it is exorbitant in view of the "risk" (to quote Vendor A).

- The Vendor A quote includes a $9,475,960 Data Processing subcontract in which there is no exposure to "risk."

- Vendor A requires the State to pick up $4,539,274 of cost more than the average of the other two bidders. In this difference, considerable "risk" has been offset and considerable added profit is likely, even though it must be shared with the State. My guess is that Vendor A would actually show a cost roughly comparable to the other two vendors in its first year under the new contract, but under this formula have the following profit:

FORM A1 Total Cost for the Year	$32,714,200
FORM B5 Forecasted Profit	$ 570,650
Net Cost for the Year	$32,143,550
Average Net Cost for the Year of Vendors B and C[1]	$25,364,595
Vendor A Probable Net Cost Reduction for the Year[2]	$ 6,778,955
Approximate Vendor A Share of Funds Conserved (½)	$ 3,389,478
Average Profit of Vendors B and C	$ 2,810,331

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[1] Vendor B: $27,910,800 Total Cost for the Year (FORM A1) - $2,803,352 Profit (FORM B5) = $25,107,448. Vendor C: $28,439,052 Total Cost for the Year (FORM A1) - $2,817,310 Profit (FORM B5) = $25,621,742. $25,107,448 + $25,621,742 ÷ 2 = $25,364,595.

[2] $32,143,550 - $25,364,595.

The problems of computing actual reimbursement of the winning vendor for its cost avoidance now strike me as being somewhat complex. There is, in my mind, a real question of how well (or successfully) the State will be able to negotiate with the vendors based upon their actual cost, *unless* the rules and cost definitions are included as a part of the contract negotiation.

Storage

Since all vendors do not have this cost, and its purpose or function is not explained, I can make no comment.

Board of Directors and *Corporate Services*

If this vendor has organized a corporation exclusively for the purpose of fulfilling the FI function, this charge is warranted as a part of *Overhead*. However, it must be assessed in the light of another cost item, *Corporate Services* (of the parent company?). There must be a reasonable assumption that the proposed *Corporate Services* are required to facilitate the business of supporting the FI function. If not, they should be disallowed. Normally, a large corporation would allocate to each of its divisions the salaries, expenses and facilities costs of its *corporate* staff (as distinguished from the *division* or operating staff). Thus, the Chairman of the Board, the President, the Directors, the Corporate Counsel, the Patent Specialists, the Corporate Controller, etc. and their staffs, facilities and costs would be allocated by some criteria (dollars of sales, manpower, profit, etc.)

The implication of this proposed cost is as follows: There are in the Vendor's *parent* organization *indirect* (not direct) costs which by custom (or formula) *must* be extended to all customers. I concede that the Blues, or the four insurance companies which finance HCSA, do indeed have corporate staffs. However, it is inconceivable that this large a sum which already exists in the cost structures of the *parent* organizations can add anything of intrinsic value to the operation of the FI function. I recommend that Vendor C be challenged as to the validity of including this magnitude of cost in its proposal to the State.

Subscription

Because all vendors have not requested funds for this purpose, I tend to question its validity for Vendor C. If it is mandatory, the actual subscriptions should be itemized and justified.

Auditors

All corporations require annual audit (at least), and the three bidding vendors are no exception. Therefore, the fact that Vendors B and A have not proposed this cost can only mean that it is included elsewhere, or it has been absorbed. I believe this is a legitimate item of cost.

Computer Utility Charge

I am puzzled because of the apparent contradiction that this cost either already is, or should be, included as a part of:

Personnel Services allocable to *EDP* (FORM B1), or

Equipment allocable to *Data Processing* (FORM B2), or

Subcontracts allocable to *Computer Service* (FORM B4), or

should be a part of *Facilities* cost category. I question its validity as a charge under *Other Expense*. It is possible that this cost may be a handoff of the parent company or lessor (owner) of the computer facility, and thus would be in potential conflict with the *Corporate Services* cost category. The origin, reason and basis of magnitude of this cost could be further explored.

Data Committee

There is an apparent contradiction in this cost category also. Since this is logically made up of people, why is it not included under *Personnel Services*, or is it? To be useful in the FI function, the individuals on the *Data Committee* would have to be knowledgeable in various facets of the program, and therefore chargeable under the *Personnel Services* category.

If this charge is for individuals *outside* the Vendor's organization, Vendor C should be required to state how the funds would be expended, when and for what purpose. Since the other two vendors do not require funds for this explicit purpose (unless they are buried in some other category), the value of this proferred service should be questioned.

Microfilm Supply

This appears to be a valid cost for Vendor C's system. However, I cannot comment on its magnitude. It might be questioned based upon prior cost records if such are available.

1974-75 Cost Adjustment

Apparently Vendor C wants to build in to its proposal an *a priori* estimate of anticipated cost increases. This may be a far-sighted provision; however, it should be deleted as a part of *Other Expense*. If it were included, and the anticipated costs did not materialize, it would appear that an actual cost conservation had taken place. The State might then be required to pay funds out simply because they were included in the cost proposal, but were actually "avoided."

This points up a potential hazard in all cost categories due to the method of proposed profit sharing with the selected vendor. Any cost which has been *inflated*, or any cost which has been *included but does not materialize*, would tend to enrich the vendor beyond its proposed *Profit*. However, the threat of inflation is a real problem, and the winning bidder should be protected in its contract against price rises in excess of specific amounts in each cost category.

Auto Expense

This is a legitimate cost, except that I would expect it to be lumped in with *Travel*.

Professional Insurance

I am mystified as to the purpose of this cost. If Vendor A is seeking to protect itself against replacement of key personnel (sometimes called Key Man Insurance), or against a class action suite for nonperformance, or some other catastrophe, the State must decide whether such a cost is admissable. If it is, any winning vendor should be entitled to its protection. If it is not, it should be deleted because it is a potential source of profit sharing with the State (see *1974-75 Cost Adjustment*, paragraph two, above).

Recruitment and Employment

There can be no question that this is a valid cost. However, since much of the staff is already employed, Vendor A should indicate whether these funds are for salaries of recruiting personnel within the organization, for travel to conventions (etc.) where qualified people may be available, for payment to personnel agencies supplying individuals to the vendor, etc.

Communications

Since there is no *Communications* expense shown in the Vendor B or C proposals, perhaps this comparison is useful:

	A	B	C
Communications (FORM B5)	$ 95,700	$ -0-	$ -0-
Telephone (FORM B3)	412,360	500,000	179,877
TOTAL	$508,060	$500,000	$179,877

However close Vendors A and B may be in total, this would not serve to explain the gap between them and Vendor C.

Printing

This is no doubt a legitimate Vendor A expense, and it is likely that the other vendors have a similar expense category included elsewhere. It would be desirable to determine what publications will be provided, in what quantity, and to what distribution for purposes of comparison.

Outside Services

I was unable to tie this Vendor A expense in to any other area, and therefore must question it because of its inflationary effect on the total cost. It does not appear to be connectable to *Subcontracts*.

Summary

Because this category of expense is so important, ranging from 12.87 to 32.08 per cent of the Total Cost for the Year, I have developed a composite of all of the proposed costs simply to provide a "straw man." Armed with this estimate of what the proposed cost "ought to be," the State may wish to prepare a target figure in anticipation of the upcoming contract negotiation. The compilation is shown on the following page.

SUBCONTRACTS

Data in this category are not comparable. One vendor (B) has none, and a second vendor (A) has 33.32 per cent of the Total Cost for the Year in this category. Vendor B apparently intends to use IBM as a consulting resource (for systems design, programming, etc.) for only 3.24 per cent of its Total Cost for the Year.

In an effort to bring about some understanding of the Vendor A proposal, the table on Page Thirty-Seven was prepared. This is a very tenuous comparison at best, but it does reveal a few points of interest if the Department were to request further cost information from vendors:

- The relationship between Vendors C and A is what might be expected. Vendor A's cost already includes the profit of its subcontractor. If this accounts for the entire difference between them ($9,754,320 - $9,244,727 + $509,593), the Vendor A subcontractor is making a profit of 5.38 per cent ($509,593 ÷ $9,475,950) which is very reasonable.

- The relationship between Vendors B and C is also interesting, because the former has no subcontractor at work, and the latter is paying some profit to IBM, although it cannot be

TARGET RANGE OF FIRST-YEAR COST

ADMISSABLE COST ELEMENTS	MINIMUM	MAXIMUM	WHY OMITTED/CHANGED
Forms	$ 1,260,218	$ 1,413,326	
Travel	344,200	390,000	
Office Supplies	420,000	555,000	
Postage/Shipping	536,244	536,503	
Computer Supplies			Add in to *EDP* costs
Professional Utilization			Add in elsewhere
Other (Miscellaneous			Disallow unless detailed here
Profit	2,600,000	2,700,000	10% of First-Year Total Cost
Storage			Add in elsewhere
Board of Directors			See *Corporate Service*
Subscription			Disallow
Auditors	15,000	25,000	
Computer Utility Charge			Add in to *EDP* costs
Data Committee			Add in to *EDP* costs
Corporate Services	3,600	25,000	
Microfilm Supply		198,070	If required by vendor
1974-75 Cost Adjustment			Disallow
Auto Expense			Add in to *Travel*
Professional Insurance			Disallow or validate
Recruitment & Employment	25,000	55,700	
Communications			Include with *Telephone*
Printing	50,000	84,926	Require all vendors to stipulate
Outside Services			Add in to *Subcontracts*
TOTAL *OTHER EXPENSE* WITHOUT PROFIT	$ 2,654,262	$ 3,283,525	
TOTAL TARGETED COST FOR THE FIRST YEAR	$26,000,000	$27,000,000	
TOTAL *OTHER EXPENSE* INCLUDING PROFIT	$ 5,254,262	$5,983,525	

COSTS WHICH MAY BE REASONABLE TO COMPARE
WITH VENDOR A's EXPRESSION OF "SUBCONTRACT"

	B	C	A
Data Processing (FORM B4)	$ -0-	$ -0-	$ 9,475,950
Keypunching (FORM B4)	-0-	-0-	-0-
Provider Correspondence (FORM B4)	-0-	-0-	-0-
Medical Foundations (FORM B4)	-0-	-0-	1,270,800
Payroll Processing (FORM B4)	-0-	-0-	28,100
Security Guards (FORMS B1 and B4)	-0-	26,400	125,135
IBM Service (FORM B4)	-0-	14,400	-0-
Professional Consultants (FORM B4)	-0-	908,397	-0-
Computer Utility Charge (FORM B5)	-0-	60,000	-0-
Equipment - Data Processing (FORM B2)	3,050,000	3,243,270	-0-
Personnel Services (FORM B1)	-0-	4,867,743	-0-
Facilities (FORM B3)	117,800	150,917	-0-
Computer Supplies (FORM B5)	400,000	-0-	-0-
Personnel Services[1]	4,415,530	-0-	-0-
"TOTAL SUBCONTRACTS"	$7,983,330	$9,271,127	$10,899,985
PORTION DIRECTLY ALLOCABLE TO DATA PROCESSING	$7,983,330	$9,244,727	$ 9,475,950
TOTAL FROM CLAIMS EDP UNIT COST EXPANSION	$8,052,000	$8,807,000	$11,797,000

[1]Computed in the same per cent relationship of total Personnel Services (FORM B): Vendor B = $13,078,748 ÷ Vendor C = $14,418,298 = 90.71. Vendor C Personnel Services $4,867,743 × 90.71 per cent = approximate Vendor B data processing personnel costs $4,415,530.

a significant factor in the total to be reconciled. The difference of $1,261,397 may be explained in part by referring back to the expansion of *EDP* costs for each claim category:

- The total costs based on unit prices are:
  - $8,052,000 for Vendor B,
  - $8,807,000 for Vendor C.
- The difference in cost is $755,000 or 8.57 per cent.

- The cost difference of $1,261,397 is equal to 13.64 per cent, and indicates only that Vendor C must operate at a higher cost than Vendor B (and perhaps for good and valid reasons).

- Attention should focus, however, upon the very small discrepancy in Vendor B data between the data processing costs directly allocable ($7,983,330) and the computed unit costs, based upon claim type and trans ction volume ($8,052,000); the discrepancy of $68,670 is an error of little more than eight-tenths of 1 per cent (.00853).

- The discrepancy in like data for Vendor C is less convincing ($437,727 = 4.735 per cent). In the case of Vendor A, it is untenable.

The only conclusion may be that Vendor B is the most auditable bidder. There still remains the question of whether or not it could perform the work to the satisfaction of the Department for the indicated cost.

IMPLEMENTATION COST OF CLAIMS PROCESSING SYSTEM

A comparison of total by category of cost as shown on the following page reveals the following:

- Extremely low *Implementation* cost of Vendor A, compared to the other two.

- Comparable total *Implementation* cost of Vendors B and C, although similar detail costs are only available in one category (*Personnel Services*).

- In the category of *Personnel Services*, vendors' costs are not comparable.

COMPARISON OF *IMPLEMENTATION* COSTS

	B	C	A
Personal Services:			
Recruitment	$ 300,000	$ 73,200	$ 200
Salaries and Wages	2,000,000	1,123,462	14,400
Staff Benefits	210,000	168,516	2,700
TOTAL	$2,510,000	$1,365,178	$17,300
Equipment:			
Microfilm and Supplies	$	$ 5,468	$
Mailroom		1,170	
Furniture and Miscellaneous		21,186	
Teleprocessing Equipment		155,946	
EDP		663,615	
Acquisition Cost	300,000		
Rent or Lease	500,000		
Badging Equipment			700
Closed Circuit TV			2,400
TOTAL	$ 800,000	$ 847,385	$ 3,100
Facilities:			
Rent	$ 350,000	$ 283,800	$
Utilities			
Maintenance			
Telephone		11,617	2,100
Security Constr.			7,500
TOTAL	$ 350,000	$ 295,417	$ 9,600
Other Expense:			
Alteration	$	$ 370,533	$
Office Supplies		28,999	
Forms		57,105	
Postage		13,857	
Travel		32,500	
Relocation		51,000	
Freight		19,124	20,000
Installation		24,489	
Corporate Services		146,047	
Manuals, Training Material and Other	500,000		
Security Badges			900
TOTAL	$ 500,000	$ 743,654	$20,900
Subcontracts:			
EDP Software	$	$ 650,000	$
TOTAL	$	$ 650,000	$
TOTAL IMPLEMENTATION COST	$4,160,000	$3,901,634	$50,900

- Vendor C has provided more data than the other two vendors.
- Vendor B appears to have plugged in amounts which are only approximations.

The *Implementation* costs are chiefly of interest because of their influence on annual operating cost, and as will be seen below, tend to make all vendors almost equal in the magnitude of their bids in the first year:

	B	C	A
Total *Implementation* Cost	$ 4,160,000	$ 3,901,634	$ 50,900
Total Cost for the First Year	27,910,800	28,439,052	32,714,200
TOTAL COST	$32,070,800	$32,340,686	$32,765,100

It is hard to have confidence in the absence of detail; however, the sheer size of Vendor B's estimate indicates it could probably do the start-up job, since Vendor C can apparently do it for a somewhat lesser amount.

Although Vendor A's very low *Implementation* cost is compelling, the Department should not be unduly swayed. The continuing annual costs will, in the second year, make Vendor A a far higher cost FI than either of the other two vendors. Traditionally, users of large-scale computer systems have been heavily influenced by the one-time costs of system startup. But today, that attitude is less prevalent and it is apparent that one-time costs must be manageable and reasonable, but should not be an obstacle to selecting a low-cost annual operation.

In this connection, I note that no close-out costs of the existing FI's have been identified, although they are also properly a part of the *Implementation* cost. In the event that the winning bidder is other than the "Blues," there may be some additional *Implementation* costs not shown above.

Note that Vendor C carries costs for *Corporate Services* (etc.) which the State may wish to challenge.

CALCULATION OF CHARGES FOR CHANGES

Comparison of costs to provide the requested 60,000 hours of annual service, and the effective hourly rates at which the State would be billed are:

	B	C	A
Total Staff Salaries	$487,000	$569,922	$531,193
Employee Benefits	87,660	85,488	108,250
Support and Risk Contingencies (Profit)	300,000	140,516	-0-
TOTAL CHANGE COSTS	$874,660	$795,926	$639,443
Average Cost Per Hour	$ 14.5777	$ 13.2654	$ 10.6574

With respect to Vendor B:

- The plugged-in $300,000 for support and profit does not satisfy me, and on the basis of the exhibit would be unable to support the hourly rate.

- The hourly rate is high (at an annual rate of $30,336).

- Employee benefits are 18% of staff salaries, as in other exhibits.

With respect to Vendor C:

- Supporting detail is good and, although the costs are high, there is a basis for discussion.

- Employee benefits are 15% of staff salaries as in other exhibits.

- *Corporate Services* are included, as are the charges for *1974-75 Cost Adjustment*, both of which the State may wish to challenge.

- *Profit* is calculated on 10 per cent of the total cost (including *Corporate Services* and *1974-75 Cost Adjustment*).

- The hourly rate is high (at an annual rate of $27,605).

With respect to Vendor A:

- The detail is sufficient and the sources of costs are clear.

- Employee benefits are 20.38% of staff salaries, which is higher than that quoted elsewhere (19.9%).

- The hourly rate seems reasonable in view of the range of skills to be provided (at an annual rate of $22,183).

CAPITOL ENTERPRISES, INC.
2510 "J" Street, Suite 3
Sacramento, CA. 95816
(916) 446-7849

MARION J. WOODS
President

March 1, 1974

Ms. Barbara Carr, Assistant Chief
Program Implementation Section
Department of Health
714 P Street
Sacramento, California 95814

Re: Contract Number 555

Dear Ms. Carr:

We have completed our review of the Departments Evaluation of Proposals.

The Staff is to be commended for a thorough and efficient job. We were indeed impressed with the skill level and dedication which the staff demonstrated in carrying out a complicated task.

Enclosed is a copy of our review.

Very truly yours,

Marion J. Woods

Marion J. Woods

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Enclosure

CONSULTANTS REVIEW OF THE DEPARTMENTS EVALUATION OF PROPOSALS

Background

On January 23, 1973, the State Department of Health requested the Consultant services of Capitol Enterprises, Inc., for the purpose of:

(1) Reviewing and critique a RFP for a statewide Medi-Cal Intermediary,
(2) Review the Departments Evaluation of proposal and submit Consultants evaluation report.

The first phase were completed and submitted to the Department on January 28, 1974. The 2nd phase is attached.

Consultant's Approach

To complete the 2nd phase we performed the following:

- A review of each of the proposals submitted.
- A review of the department staffs analysing each proposal.
- Interviewed representative members of the review task group.

Overall Findings and Comments

We conclude that the Departments staff has correctly applied the evaluation criteria which was developed prior to the receipt of the RFP. In a few instances the staff deviated from the evaluation criteria, but this was necessary and justifiable because of the nature of the bidders.

Proposal Section	HCSA	MIO	LSI
Implementation	(73.)* Agreed**	(72.)* Agreed	*(22.8) Agreed
Offeror's qualifications	(3 Pass) Agreed	(3 Pass) Agreed	(2 Pass) Agreed
Change Control	(3 Pass) Agreed	(2.5 Pass) Agreed	(2 Pass) Questioned a rater questions a 2 point rating since proposal only meets minimum RFP requirements.
Claims Review	(66) Agreed	(59) Agreed	(38) Agreed
Personnel and staffing	(68) Agreed	(70) Agreed	(25) Agreed
Personnel & Staffing	(68) It appears to this evaluator that the difference between the MIO & HCSA score should be greater since HCSA staffing plan would not be complete until Feb. 1975, as opposed to MIO's completion by July 1, 1974. RFP calls for completion by Jan. 1975.	(70)	(25) Agreed
Provider Relations	(65) Agreed	(60) Agreed	(38) Agreed
Reports	(75) Agreed	(65) Agreed	(25) Questioned Proposal does not meet minimum requirements.

* Rating of Departments Staff

**Agreed means rating is consistent with evaluators comments.

Proposal Section	HCSA	MIO	LSI
Forms	(55) Agreed	(75) Agreed	(65) Agreed
Security	(70) Agreed	(75) Agreed	(60) Agreed
File Maintenance	(80) Agreed	(61) Question this high a score, since it appears that the rating is not consitent with summary comments.	(24) Agreed
Financial Transactions	(72) Agreed	(74) Agreed	(23) Agreed
Accounting	(53) (No comment for this section)	(58)	(25)
Equipment & Facilities	(31 Pass)	(2.51 Pass)	(31 Pass)
Communication between State and FI.	(68) A question is raised regard- differences of 8 points between HCSA and MIO, which is based primarily on HCSA Proposal to Control State Correspondence.	(60)	(72) Agreed
Professional Review	(40) A question regarding this low score is raised because of flexibility of system proposed.	(56) Agreed	(50) Agreed
Eligibility	(78)* Agreed	(SOES 48	(20) Agreed

Proposal Section	HCSA	MIO	LSI
BEOMBs	(73) Agreed	(55) Agreed	(25) Agreed
Processing Claims with a liability or pendown	(60) Agreed	(60) It would appear that the authorated system proposed would be somewhat superior to HCSA's Manual system, thereby justifyied a higher rating	(10) Agreed
Other Coverage	(60) Agreed	(60) Agreed	(25) Agreed
Check Write	(75) Agreed	(80) Agreed	(40) Agreed

CLM International, Inc.

A Subsidiary of CLM Systems, Inc.

555 Capitol Mall
Sacramento, California 95814
Telephone (916) 441-7232

March 1, 1974

Mr. Jack R. Brown, Chief
Program Implementation Section
Department of Health
714 P Street
Sacramento, California 95814

Dear Mr. Brown:

This document will serve as my certification that I have reviewed the Department's bid evaluation documentation for the bids submitted for the State-wide Medi-Cal Intermediary.

Having become fully acquainted with the provisions of the Department's R.F.P. for a Statewide Intermediary, and having critiqued the planned evaluation process, I have subsequently analyzed the evaluation documentation produced by the Department's bid evaluation teams.

It appears from my analysis of the evaluation documents that a through and objective analysis was performed by the Department staff and that the stated evaluation plan has been carried through to completion.

Although in many cases the points under evaluation can be reduced to simply a matter of opinion, the evaluation documentation provides logical explanations for the evaluation's judgemental decision.

It is my opinion that the Department staff has planned and carried out a through, objective, and well conceived bid analysis.

Sincerely,

CLM INTERNATIONAL, INC.

Neal X. Jones

Neal X. Jones
Vice President

NXJ/sc

HCSA PROPOSED CONTRACT
MODIFICATIONS

Executive Office
* Pacific Mutual Life Insurance Company
700 Newport Center Drive
Newport Beach, California 92663
Telephone: (714) 640-3011

Project Development Office
Occidental Center
1150 South Hill Street
Los Angeles, California 90054
Telephone: (213) 748-8111

HEALTH CARE SYSTEMS ADMINISTRATORS

March 4, 1974

Mr. Richard P. Wilcoxon
Program Manager
Financing Operations Program
State of California
Department of Health
714 P Street
Sacramento, California 95814

Dear Mr. Wilcoxon:

RE: Request for Proposal (Reference Number FI-1) Statewide Medi-Cal Fiscal Intermediary

This letter and attachments provides HCSA's response to your letters of February 20 and 22, 1974, and speaks to their effect upon our proposal dated February 1, 1974, in response to the RFP.

Conceptually, HCSA's original proposal effectively and in detail complied with all systems and operating requirements of the RFP. Additionally, this proposal contained a series of recommended changes in the contractual provisions of the RFP in the main intended to enable responsible negotiation of the contract and efficient and effective administration of that contract for both the State and the contractor.

HCSA's proposal was predicated upon three principles which formed the basis for a contract in the best interests of the State and its taxpayers:

1. Implementation of the State-owned system developed by HCSA under contract with the Department on statewide basis, at actual costs incurred and with no profit to HCSA. This approach allows the implementation of this very fine system under the most favorable cost consideration to the California taxpayers.

2. Assumption of the responsibility for the completion of claims processing responsibilities of the prior fiscal intermediary by HCSA at its actual cost and with no profit to HCSA. This needed, one-time effort is planned to be accomplished at the absolute minimal expense to California taxpayers.

3. Operation of the proposed system at actual cost plus 10% profit. HCSA proposed to share any underrun of actual costs from those included in its pricing structure equally with the State, subject to HCSA's sharing any overrun of such actual costs with the State, up to 50% of HCSA's profit.

It is our latest understanding that the Department of Health's interpretation of HCSA's proposal response with respect to the third principle identified above was that this was in effect a "cost-plus" offer, and was unacceptable for that reason.

HCSA proposes by this letter to substantially change the principle identified in its proposal and under Item 3 above to operate the system proposed at actual cost plus 10% profit. To lend substantial assurance to the State that its proposal is based upon what HCSA considers to be firm confidence as to the evaluation of its actual costs, HCSA not only will agree to share cost underruns with the State equally, but also will agree to assume any excess of such operating costs up to 100% of its profit plus $500,000 in any contract year and perform at its actual cost, to be absorbed by the State, for any excess above such assumption. This approach effectively provides a potential protection to the State on overrun costs of the operating system equal to the sum total of 100% of HCSA's profit plus $2,000,000 for the proposed four-year contract.

By the Department of Health's communication to HCSA on February 20 and 22, 1974, HCSA's proposal was considered to be rejected unless it was modified to provide for both: (1) a guaranteed maximum price for implementation and operation of the system and (2) assumption of risk of potential unlimited liability with respect to the proposed contract.

After thoughtful consideration by management of the general partners of HCSA (Pacific Mutual Life Insurance Company, Occidental Life Insurance Company of California, and California-Western States Life Insurance Company), it is our position that no responsible business management can assume such unlimited risks and at the same time be legally and morally responsive to its obligations to policyholders and shareholders. HCSA's February 1, 1974, proposal and this response are addressed to the assumption of claims processing responsibilities and not to the assumption of unknown and undefinable risks which can only be assumed in a most cost-effective way directly by the State.

With regard to this response being in compliance with the stipulations set forth in the Department's letter of February 22, 1974, and HCSA's understanding that it must agree to comply with the precise language and content of the RFP as now amended by Errata Notices 1, 2, 3, 4, and 5, and the Department's letter of February 20, we have no alternative but to retain change provisions as set forth in the attached Section 2 revision of our proposal.

HCSA's proposal with respect to Section 1.6 of the RFP resulted from careful legal and practical analysis of what changes in the provisions and what additional provisions would be needed to structure a contract which would be in the best interests of the State and the contractor selected--hence, fair to both parties, sufficiently clear and definite to avoid major disputes, and sufficiently detailed to provide guidance in the administration of the contract over its projected four-year term. It was our assumption that precise terms of any contract to be executed between the State and the contractor would be resolved in contract negotiation and on the basis of reasonable parties negotiating terms that fully took into account the major interests and objectives of both parties. We continue to assume that such would be the case.

Based upon all previous points presented in this letter, we wish to amend our February 1, 1974, proposal to withdraw Section 2 (of Volume II) (relating to contract terms and conditions) of that proposal, and to substitute for it, in its entirety, the enclosed Section 2 (March 4, 1974 revision). The balance of our proposal as submitted on February 1, 1974, is not modified.

The foregoing modification of our original proposal is subject to the following condition:

> "Our original proposal, modified as described above, constitutes an offer by us to enter into negotiation with the Department of a definitive contract which is in accordance with the spirit and intent of the provisions of Section 1.6 of the RFP, both as this spirit and intent appears from Section 1.6 itself, and as it was expressed to representatives of the undersigned in their meeting with the Department on February 22; our original proposal, so modified, is not to be construed as being by itself an offer which is capable of acceptance by the Department to create a contract binding on the undersigned; the negotiation of contractual mechanics and of clarifications of contractual provisions in certain of the areas we have previously identified to the Department will be required to develop a contract for execution. It is our understanding that this condition is fully responsive to the RFP, which in Section 1.4.5 states: 'It is the Department's intent to select a proposal and negotiate and award a contract based on the responses to this Request for Proposal'."

Sincerely,
HEALTH CARE SYSTEMS ADMINISTRATORS

By Maurice G. Philleo
Maurice G. Philleo
Associate General Manager

The foregoing letter and attachments are hereby authorized and approved for submission to the Department of Health.

By D. S. Liggett
Darwin S. Liggett
General Manager

cc: Jack R. Brown, Chief
Program Implementation Sect.

SECTION 2*
CONTRACT PROVISIONS

HCSA is willing to sign and fulfill the terms of a contract containing all of the terms and conditions specified in Section 1.6 of the Request for Proposal (Reference Number FI-1) issued December 3, 1973, as amended by Errata Notices 1, 2, 3, 4, and 5, as modified by the Department's letter of February 20, 1974 to HCSA on the subject of contract terms, and as modified by the changes and additions proposed below.

1. Proposed Change:

   Revise the second paragraph appearing under the table on page 22 of the RFP to read in its entirety:

   > "If the actual volume is less than the bottom level of Range 1, the contractor will be paid an amount equal to the Range 1 rate multiplied by the bottom level of claims of Range 1, or on some other mutually acceptable basis established by the contract."

   Reason for Proposed Change:

   It is not feasible for HCSA to estimate and include in its offered rate an amount sufficient to cover additional per claim costs which would be experienced by the contractor at claim levels below the Range 1 bottom level--especially levels substantially below that level. The proposed change provides a minimum level of remuneration--subject, of course, to modification by renegotiation.

2. Proposed Change:

   Insert asterisk-marked material at the bottom of page 27 of the RFP to read: "This does not include transactions relating to claims processed by previous fiscal intermediaries." (This proposed footnote revises the meaning of and reinserts the footnote deleted by Errata Notice 4.)

   Delete Section 1.6.1.1.1, appearing on page 35 of the RFP. (This section was inserted by Errata Notice 4.)

   Reason for Proposed Change:

   HCSA proposes to account separately for its costs involving transactions relating to claims processed by previous fiscal intermediaries, and proposes that it be reimbursed by the State for its actual costs (including overhead costs but not including any profit) with respect to such effort during the first 12 months following termination of previous fiscal intermediaries' contracts, and for such costs plus 10% of any such effort required thereafter.

*(Volume II) March 4, 1974 revision.

It is impossible for the State or HCSA to define the volume, quality or condition of these claims and thus no reasonable assessment can be made of the scope or cost of processing required.

HCSA plans to establish one or more special administrative units to be responsible for receiving, organizing and converting such claims to a satisfactory format for their entry into HCSA's claims processing system. These units and their costs will be kept separate from the rest of HCSA's operation.

It appears desirable to clarify the separate nature and treatment of these transactions.

3. Proposed Change:

Revise the last paragraph appearing on page 29 of the RFP to read:

> "However, the appropriate rates will be used to calculate the maximum allowable payment for the year. The calculated maximum allowable payment will be developed: (1) in the case of claim categories [as described on pages 20 and 21 of this RFP] having claim volumes in excess of their Range 1 bottom levels, by multiplying the claim volume for each claim category by the appropriate rate agreed upon in the contract, and (2) in the case of claim categories having claim volumes falling below their respective Range 1 bottom levels, by another method of calculation, acceptable to both the Department and the contractor, which recognizes the escalation of contractor's per claim costs that results from handling volumes of claims less than the bottom level of Range 1. A simplified hypothetical example of '(1)' is illustrated below. In the event that the operating contract covers less than all of the eight claim categories described on pages 20 and 21, the calculated maximum allowable payment will be developed by a method of calculation, acceptable to both the Department and the contractor, which recognizes, in addition to the foregoing considerations, the escalation of the contractor's per claim costs which results from handling a reduced total volume of claims because of the elimination of one or more claim categories from the contract."

Reason for Proposed Change:

Contractor's costs per claim will be greater than those estimated for the purpose of this proposal for Range 1 when claim volume falls below the bottom level of Range 1, which may occur for greater or lesser periods for various reasons not within the contractor's control. Also, contractor's costs per claim have been estimated for the purpose of this proposal on the basis of the operating contract covering all eight categories of claims described on pages 20 and 21 of the RFP, and if less than all of these claim categories are included in the operating contract, contractor's costs per claim for handling claims in those categories which are included in the contract will be greater than estimated.

4. Proposed Change:

Revise the last paragraph on page 30 (and first partial paragraph on page 31) of the RFP to provide:

> "At the end of each year, a cost audit of the contractor's operation and processed claim count verification will be performed by the State. After the cost audit is settled and the claims verification is completed, the calculated (tentative) maximum payment allowed to the contractor for operating the processing system will be developed on two bases as illustrated in the foregoing example:
>
> a) Actual costs, including profit, and
> b) Actual costs, excluding profit.
>
> "The calculated maximum based upon rates excluding profit will then be compared to the contractor's actual costs, excluding profit, and if the latter are less: State will pay contractor its actual costs, including profit, plus 50% of such difference; or if the latter are greater: State will pay contractor its actual costs, including profit, reduced by a credit to the State of the lesser of (i) the difference between the contractor's actual costs, excluding profit, and the calculated maximum based upon rates excluding profit, or (ii) contractor's profit for the year plus $500,000."

Reason for Proposed Change:

This change will result in the contractor and the State sharing cost underruns, and the State being protected as to cost overruns up to 100% of contractor's profit plus $500,000 in each contract year and State assumption of any excess costs at contractor's rate less profit. This has a potential maximum value to State over four contract years of $2,000,000 out-of-pocket costs to contractor.

5. Proposed Change:

Clarify the meaning and effect of the second and third complete paragraphs on page 31 of the RFP. (NOTE: the third complete paragraph on page 31 was inserted by Errata Notice 4.)

Reason for Proposed Change:

The average Federal Consumer Price Index is not a sufficiently precise or current measurement of inflationary impact on HCSA's cost to assure either HCSA or the State reasonable cost recognition thereof.

6. Proposed Change:

Revise Section 1.6.2.1, appearing on page 36 of the RFP to read:

> "The contractor shall not enter into any subcontract with a third party to perform in its entirety or substantially in its entirety any basic function or duty, including data processing and professional review, which contractor is obligated to perform under the contract, unless or until the Department has given advance written approval thereto. The Department shall not unreasonably withhold or delay such advance written approval, when same is requested by the contractor."

Reason for Proposed Change:

The RFP provision is unduly restrictive on the contractor, particularly in view of the contractor's fiscal and performance responsibilities under the contract. In addition, the contractor cannot make a firm bid without a firm subcontract price, and there is no basis for developing realistic negotiations with a prospective subcontractor if his bid effort is likely to be negated by subsequent competitive bidding within the contractor's contract price commitment.

This problem can be greatly ameliorated by the State waiving its approval right for implementation and initial operating subcontracts.

7. Proposed Change:

Revise Section 1.6.2.3 (and its Subsections), Section 1.6.2.9, Section 1.6.2.10, and any other Sections of the RFP which directly or indirectly require contractor to cause subcontracts to contain specified provisions, to instead require contractor to use its best efforts to cause such provisions to be incorporated in subcontracts.

Reason for Proposed Change:

In making a firm price proposal, contractor has estimated subcontract prices based on what contractor estimates to be reasonable subcontract provisions, including, for the most part, the provisions described in the RFP, or comparable provisions. However, contractor cannot be certain that subcontractors capable of supplying, and willing to supply, equipment, services, etc., under subcontracts to the contract contemplated by the RFP will be willing to incorporate each of such provisions, at least at the reasonable subcontract prices which are estimated by contractor and on which this proposal is based. Further, it is not possible for contractor, prior to negotiation of the terms of the contract contemplated by the RFP, to negotiate in detail the terms of contingent subcontracts with potential subcontractors, to ensure incorporation of all such provisions and determine any resulting price increases. It is submitted that the Department's right to disapprove subcontracts and subcontractors on reasonable grounds provides the Department with satisfactory control over subcontract provisions which can reasonably be considered essential by the Department.

8. Proposed Change:

Revise Section 1.6.2.4, appearing on page 38 of the RFP to read:

> "Any subcontract subject to the approval of the Department under Section 1.6.2.1 shall provide that no lower-tier subcontract for the performance in its entirety or substantially in its entirety of any basic function or duty referred to in Section 1.6.2.1 may be entered into without prior written approval of the contractor and the Department. The Department shall not unreasonably withhold or delay such prior written approval when same is requested by contractor. Further, such lower-tier subcontracts must provide for the Department the same rights specified under Section 1.6.2.3."

Reason for Proposed Change:

Must be consistent with Section 1.6.2.1. Reasons are the same.

9. Proposed Change:

Revise Section 1.6.2.6, appearing on page 39 of the RFP to read:

> "Prior written approval given by the Department under any of the provisions of this section shall constitute a determination that the costs under the approved subcontract or lower-tier subcontract are allowable unless the contrary is stated by the Department in the approval given."

Reason for Proposed Change:

The contractor must have assurance that his financial obligations under any subcontract, or flowing from any lower-tier subcontract, are allowable for purposes of supporting the basis for his reimbursement by the State under the fiscal and performance requirements of the contract.

10. Proposed Change:

Revise Section 1.6.3.1, appearing on pages 40 and 41 of the RFP to provide that the decisions of the Director or his duly authorized representative for the determination of appeals are to be final and conclusive only on the basis of a more definite criterion than a court finding of "substantial evidence"; or revise Section 1.6.3.1 to provide in detail for a disputes review and appeal process which, to the satisfaction of the contractor and the Department, will produce equitable resolution of disputes on the basis of the "substantial evidence" criterion (or a comparable criterion); or both.

Reason for Proposed Change:

The criterion of a court finding of "substantial evidence" would be both uncertain in its general meaning and unpredictable in its application to specific disputes, unless it was very carefully applied in a disputes administration review process designed to give both the contractor and the Department a voice in the resolution of disputes, and designed to afford each adequate protection against both unreasonable disputes resolution and the expense of protracted argument and litigation.

11. Proposed Change:

Add the following sentence to the end of Section 1.6.3.1, appearing on page 41 of the RFP to read:

> "In the event of a court determination in favor of the contractor, the Department will indemnify the contractor against both the contractor's expense of litigation and any additional operating expense incurred by the contractor in performing in accordance with the Director's decision as compared with performing in accordance with the court's determination."

Reason for Proposed Change:

This change will cause each party to the contract to take its position in any fact dispute at its own expense.

12. Proposed Change:

Revise Section 1.6.4.3, appearing on page 42 of the RFP (and modified by Errata Notice 4), to read:

> "Any costs (including profit) necessarily incurred by contractor in conforming with modifications required pursuant to Section 1.6.4.2 shall be reimbursed by the State."

Reason for Proposed Change:

This change eliminates the possibility of dispute over the application of Section 1.6.1.1 and over the allocation of costs between the defined and undefined areas, and proposes to treat Department-directed changed performance under the contract in the same manner as originally contracted performance, as regards reimbursement of the contractor, which seems both logical and reasonable.

13. Proposed Change:

Add Section 1.6.10.5 to the RFP to read:

> "If the contract is terminated, the State will pay all operating costs (including overhead costs) of HCSA related to the liquidation of its operation under the contract, including costs of dismissal of its employees, termination of equipment and rental agreements, and remaining costs under any subcontracts. In addition, if the contract is terminated as provided in Section 1.6.10.1, 1.6.10.2, or 1.6.10.3, the State will pay the contractor's profit, appropriately determined for such liquidation."

Reason for Proposed Change:

The RFP is silent on termination costs--which must be provided for.

14. Proposed Change:

Revise first sentence of Section 1.6.13.1, appearing on page 48 of the RFP to read:

> "The Department shall indemnify contractor for any judgment rendered against contractor, or any of its directors..." (balance of sentence to remain unchanged).

Reason for Proposed Change:

The exemplary damages described would be awarded as a consequence of acts of contractor pursuant to Medi-Cal regulations and the Department instructions, and because the State controls these, it should accept their consequences.

15. Proposed Change:

Delete the sentence added to Section 1.6.13.2 by the Department's letter of February 20, 1974 and insert that sentence at the end of Section 1.6.13.1.

Add final sentence to 1.6.13.1 to read:

> "Contractor's liability to the Department under this Section 1.6.13.1 shall not aggregate more than $1,000,000."

Reason for Proposed Change:

It appears that the sentence inserted in the RFP by Item 2 of the Department's letter of February 20, 1974, should have been inserted by Section 1.6.13.1 instead of 1.6.13.2.

Considerations of pricing the proposed contract necessitate such a limitation of liability.

16. Proposed Change:

Delete Section 1.6.14.2 from the RFP.

Reason for Proposed Change:

This section is replaced by new Section 1.6.10.5.

17. Proposed Change:

Clarify Section 1.6.18 (inserted by February 20, 1974 letter from Department) of the RFP, a comprehensive "force majeure" provision, as to additional known considerations and significance of Department approval requirement.

Reason for Proposed Change:

To cover unpredictable conditions against which it is impractical either to insure or to include in price (e.g., business interruption by fire, earthquake, strikes, energy rationing, war, riot, etc.).

18. Proposed Change:

Add a section to the RFP covering the consequences of changes in the taxes applicable to the performance of the contract, and changes in California taxes applicable to contractor as a consequence of performing the contract.

Reason for Proposed Change:

The RFP does not speak to the issue of costs relatable to the imposition of a variety of taxes (including property taxes, sales and use taxes, excise taxes, etc.), and the proposal has been priced on the basis of current known applicable taxes and tax rates. Therefore, it will be necessary to include in the contract a provision that changes in taxes, to the extent that they result in increases in contractor's costs of performance of the contract, are to be treated as allowable costs as those terms are defined in the RFP.

19. Proposed Change - (other than in Section 1.6):

Delete Section 3.2.10, Item L, appearing on page 289. (This item L was inserted by Errata Notice 5.)

Reason for Proposed Change:

Proposed plans for contractor reimbursement for performance of the State options are set forth elsewhere in this proposal and differ from Item L.

1. Legislative intent of 1973-74 Budget Act?

2. "Current M10 contract and proposed ACSA contract are both basically open-ended contracts..."

 - current M10 profit? fixed?

3. Hart ltr: "except that at the end of 4-yr contract, State reserved right to use whatever syst-etc."

* 4. M10 contract must be renegotiated to include other 2 counties? *Cost renegot.? How much for 58 Cos.

5. MMS funded at 75% of budget est. "unless statewide contract signed by April 1"?

6. Appendix 4, weight distrib.?

7. Was there a "buy-out" cost or cost of phasing out M10 over and above $13 mil phase-in cost of MMS

8. Mechanics of announcement?

9. Does State presently provide MNO and MI review function and eligibility subsystem? Cost?

10. Chart at end of Summary of Comparative Evaluation Section

11. Any measure of effect of varying

eligibility determination (could make system much more, a little, or no more expensive to operate)

12. Can we get a firm 58-county price on current MIO from EDS – as modified to qualify for fed. match?

13. Optner's implementation costs pg 39 of his report. Which was Vendor C

- Pg 34 of Optner – Proposed Profit sharing with selected vendor"

- Pg 40 – higher operating costs vs start-up