



BRAD LITTLE
Governor
BRYAN MOONEY
Director

State of Idaho

Department of Administration

650 West State Street Room 100
P.O. Box 83720
Boise, ID 83720
Telephone (208) 332-1824 or FAX (208) 334-2307
<http://www.adm.idaho.gov>

February 3, 2020

Rakesh Mohan, Director
Office of Performance Evaluation
Joint Legislative Oversight Committee
PO Box 83720
Boise, ID 83720

RE: Chained CPI report

Dear Director Mohan:

Thank you for providing the Department of Administration with a final draft of the Office of Performance Evaluation (OPE) report titled, "Chained CPI" and for allowing us an opportunity to provide additional information related to the section of the report that addresses contract indexing.

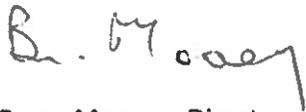
The report was very beneficial because it highlighted the need to index certain contracts and how indexes are being applied in contracts by specific state agencies. As the report states, appropriate contract indexing distributes the risk of cost variation between the state and suppliers by automatically adjusting prices at certain intervals during the life of the contract. The Idaho Transportation Department (ITD) and the Division of Public Works (DPW) within the Department of Administration consistently apply indexing in contracts for ITD road construction projects and DPW leases and construction projects. The report correctly points out that the indexes used in these contracts are effective because they're unambiguous and appropriate for their given purpose.

Also, in the report, it is noted that the Division of Purchasing (DOP) within the Department of Administration uses a variety of methods to implement price adjustments in its contracts, including terms for negotiations with suppliers or indexing. The determination of which method the DOP uses depends on several factors related to the contract type, the agency using the contract, and the goods or services being purchased. Due to the wide variety of contracts issued by the DOP, we don't often tie price adjustments to an index because it's not appropriate, as demonstrated by the Department of Health and Welfare example in the report, or it's not in the best interest of the state. Furthermore, if price adjustments are tied to a specified index in the contract, deviating from this index while the contract is in effect can pose a legal risk to the state because this can be interpreted as deviating from the contract terms. The DOP often opts for a flexible term (not tied to a specific index), as it ensures that price adjustments are fair to both the state and the contractor and are within the agency's budget. Though, even when DOP employs a more flexible term for negotiation of price adjustments, it often relies on indexes to determine if a contractor's request for a price adjustment is justified.

An important observation made in the OPE report is the importance of selecting the appropriate index, whether specified in the contract or used to evaluate a contractor's request under a price adjustment negotiation term. The DOP is grateful for the recommendation made in the OPE report, and we intend to follow it as well as implementing other measures. We fully agree that using the checklist for contract indexing best practices will support the consistent use of appropriate indexes when used. DOP currently has a question related to price adjustment in its solicitation development questionnaire; we will add a link to this checklist to increase consistency and appropriate index selection. We will ensure our staff is aware and trained on this checklist. Lastly, we will implement training for the DOP staff on contract indexing and how to apply it.

Thank you again for the OPE report and the opportunity to provide additional information. We would especially like to thank Ryan Langrill for his professionalism and thoroughness when interfacing with our department.

Sincerely,

A handwritten signature in black ink that reads "B. Mooney". The signature is written in a cursive style with a long, sweeping tail on the "y".

Bryan Mooney, Director
Department of Administration