



GEORGE E. PATAKI
GOVERNOR

STATE OF NEW YORK
EXECUTIVE DEPARTMENT
DIVISION OF THE BUDGET
STATE CAPITOL
ALBANY, NEW YORK 12224
WWW.BUDGET.STATE.NY.US

CAROLE E. STONE
DIRECTOR

BUDGET BULLETIN	H-1025	July 31, 2003
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**TO: ALL STATE DEPARTMENTS AND AGENCIES, PUBLIC AUTHORITIES
AND PUBLIC BENEFIT CORPORATIONS**

FROM: Carole E. Stone 

SUBJECT: Contract Review Process

As you are aware, we continue to face significant financial difficulties in the current and upcoming State fiscal years. While the receipt of certain previously unanticipated Federal funds will substantially mitigate these problems for the current year, we expect that closing the 2004-05 gap between expected revenue and baseline expenditures will require substantial spending reductions.

As part of the broader assessment of ways in which we can continue to fulfill our government responsibilities at lower cost, this Bulletin initiates a statewide review of all State department, agency and authority contracts. This effort is one element of the Fiscal Management Plan requested by Governor Pataki and referenced in the 2003-04 Enacted Budget Report.

Future bulletins will deal with other aspects of the Fiscal Management Plan process, including new requirements for the purchase or leasing of vehicles.

Relationship of Review Process to BPRM Item H-100

The routine review process for consultant and miscellaneous services contracts established by Budget Policy and Reporting Manual Item H-100 remains in effect. However, effective immediately and until further notice, the broader, more intensive review process initiated by this Bulletin will be used to satisfy the requirements of H-100. The in-depth review requested by this Bulletin expands upon the scope of H-100 to encompass all contracts, and effectively requires a zero-based justification of current and planned contractual agreements.

It should be noted that this Bulletin applies to all public authorities and public benefit corporations funded in the Executive Budget and/or having governing boards that comprise a majority of members appointed by the Governor.

Comprehensive Review of Contracts

Agency senior management must initiate a top-to-bottom review of all contracts (both new and renewals), including those that involve direct service delivery to affected citizens. The goal of this review is to curtail expenditures by eliminating all lower priority, non-essential, overlapping or otherwise inefficient activities.

By September 19, 2003, the head of the agency, authority or corporation must report to the Division of the Budget (DOB) the results of his/her review of all such contracts, indicating the actions recommended (or already taken) to eliminate or revise contracts to achieve savings while still ensuring the delivery of necessary services. At a minimum, the report should include summary fiscal information such as the total number of contracts reviewed, the value of each contract (or group of contracts) for 2002-03 through 2004-05, and the total value of savings that will be achieved as a result of the elimination or revision of such contracts. Information may be aggregated for reporting purposes – i.e., categories or groups of contracts may be combined if appropriate. The attached format should be used as part of the agency head's overall report to provide this fiscal information.

A. State Operations And Aid To Localities Contract Review And Reporting Process:

Generally, all new State Operations and Aid to Localities contracts and contract renewals should meet health and safety or revenue generation criteria, or be required to maintain the basic, orderly operation of State government (e.g., purchase of basic office supplies, maintenance contracts for business equipment, elevators, etc.). In the area of human services, particular attention should be paid to contracts related to new service initiatives, and to all non-direct health and safety service delivery contracts (e.g., advocacy services; information and referral services, etc.). Agency management should review all contracts, regardless of type of contract, funding source or dollar amount, by applying the following criteria:

- Is the contract still relevant to its original purpose;
- Can the level of funding be reduced (in part because the contract contains elements that do not meet the health and safety/revenue generation/maintenance criteria);
- Should the contract be rebid to reduce its scope, achieve greater efficiencies or otherwise produce savings; and
- Can efficiencies be achieved by replacing the contract with consortia contracts involving other State agencies (e.g., both OMH and OMRDD issuing a single bid for cleaning services for proximate facilities)?

B. Capital Projects and Installment Purchase Financing Contract Review and Reporting Process:

Agencies should also conduct a comprehensive review of all construction, consultant and project engineering contracts, including both new and renewal contracts. In addition, agencies should conduct a similar analysis of all current and planned contractual agreements for installment- and lease-purchase of real property, capital improvements and equipment, including certificates of participation, vendor financing and statewide lease-purchase agreements, that agencies have currently executed, requested or intend to request as part of the upcoming budget process. Consistent with the reporting of State Operations and Aid to Localities contracts, summary information on the results of these analyses should be submitted using the attached format. This review is intended to focus on ensuring that projects and property acquisitions are:

- Necessary for health and safety, revenue generation or preservation of facilities to avoid significant increased future costs;
- Consistent with budgeting assumptions regarding the commitment of additional State resources (e.g. State FTEs, Local Assistance funding) that will be required upon completion of the capital project;
- Consistent with and absolutely necessary to the agency's mission;
- Scoped, designed, and conducted in the most cost-efficient manner; and
- Necessary to meet legal mandates.

Agencies should include and identify capital projects that have been approved previously by the Division of the Budget as part of that agency's Capital Spending Plan. Nonetheless, agencies are expected to reevaluate such decisions and recommend approaches to generating savings where possible.

Ongoing Review and Reporting

Following the full agency review of contracts due by September 19, agencies should submit information monthly, using the same format, to reflect changes or additions to the initial report. All significant changes to the September report should be submitted to the Division of the Budget as soon as they are identified, to allow sufficient time for DOB review and feedback to the agency before the agency needs to process a transaction.

Attachments A, B and C provide the suggested format for summary listings of State Operations, Aid to Localities, and Capital and Installment-Purchase contracts. Formats for the summary listing may be adjusted per agreement with your Budget Examination Unit, and the form and contents for the agency head's overall report should be determined in consultation between agency and DOB staff.

Please contact your Budget Examination Unit for any clarification of this Bulletin's requirements.

Attachments

**SUMMARY LISTING OF CONTRACTS FOR
CAPITAL PROJECTS AND INSTALLMENT PURCHASE FINANCING**
Reporting Period: April 1, 2003 - March 31, 2004

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Agency Code: _____ Department or Agency: _____

Institution or Region (As Appropriate): _____

Brief Description/Title of Contract(s) (note number of contracts if aggregated)	Vendor(s)	Contract Duration	2002-03 Payment Amount (\$000s)	2003-04 Payment Amount (\$000s)	2004-05 Payment Amount (\$000s)	Recommended Full-Annual Savings (\$000s)	Rationale / Comments (incl. basis for recommended savings)
TOTALS	N/A	N/A					N/A