



MEMORANDUM

Date: December 31, 2005

To: All Procurement Division Purchasing Professionals

From: Department of General Services
Procurement Division
Policies & Procedures Office (PPO)

Subject: **PPO PROCEDURE UPDATE 05-08:
DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) INCENTIVE**

Introduction Pursuant to Senate Bill 115 (Florez, 2005), effective January 1, 2006, Military and Veterans Code Section 999.5(a) has been revised to provide an incentive for disabled veteran business enterprise (DVBE) participation in State contracts. The incentive will increase the chances for selection of a bid containing DVBE participation.

Implementation Implementation of the law on a statewide basis is pending emergency Regulations; however, internal procedures provided herein for acquisitions conducted on behalf of customers external to DGS are effective immediately.

DVBE The use of “DVBE” within this Update means a Disabled Veteran Business Enterprise (DVBE) certified with the Department of General Services, Procurement Division, Office of Small Business and DVBE Services (OSDS), in accordance with applicable laws and regulations. The DVBE must be in good standing and not debarred or suspended from State contracting, as listed on the OSDS’ Web site at: www.pd.dgs.ca.gov/smbus.

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DVBE Incentive Use

What is a DVBE incentive?

A DVBE incentive is an adjustment applied during the evaluation process for bids proposing participation of California certified DVBEs. Departments will determine incentive percentages for a particular transaction based upon a business strategy to achieve their annual goal. As applicable, for responsive bids from responsible bidders:

- The net bid price for awards based on low price will be reduced (for evaluation purposes only) by the amount of DVBE incentive as applied to the lowest responsive net bid price or
 - For awards based on highest score, an individual administrative requirement shall award points for DVBE participation
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Applicability

The DVBE incentive applies to those acquisitions that include the DVBE Program Requirement. A solicitation containing the DVBE Program Requirement that is released after the date of this Update is to incorporate the incentive as described herein. Inclusion of a DVBE incentive in other acquisitions is optional.

DVBE Exemption List

The threshold for inclusion of the DVBE Program Requirement packet in solicitations has been raised from \$25,000 to \$50,000. The [DVBE Exemption List](#) has been modified to reflect this change.

Revised solicitation components

The following solicitation components have been revised:

- The [DVBE Program Requirement packet](#) has been modified to include information about the DVBE incentive
 - Terminology in [PIN Phrase 261](#) (formerly titled “Attachment B Rebid”) has been revised for consistency and is now titled “DVBE Program Requirement Rebid”
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Bidder Declaration

Solicitations are to include the Bidder Declaration GSPD-05-105 to allow bidders to identify if they are a DVBE and identify DVBE subcontractors, their proposed contract function, and the corresponding percentage of participation.

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DVBE Incentive Use, Continued

Incentive percentages

For awards based on low price, the allowable incentive percentage(s) must be identified in the solicitation and cannot exceed 10% or be lower than 3%. The DVBE Program Requirement packet includes a table that correlates proposed DVBE participation with allowable incentive percentage. Should the circumstances of a particular acquisition dictate the need, the packet provides a provision to override the table with another table that either depicts:

- A different scale with varying percentages or
- One incentive percentage

Manager approval must be obtained prior to inclusion of a different table. The rationale for the change is to be documented in the file.

DVBE incentive table for awards based on low price

The following table, which is located in the DVBE Program Requirement packet, identifies the percentage(s) used to adjust the net bid price when calculating the DVBE incentive.

Confirmed DVBE Participation of:	DVBE Incentive:
Over 3%	10%
3%	7%
2% up to 3%	5%
1% up to 2%	3%

Allowable maximum

The DVBE incentive cannot exceed 10% or \$100,000, whichever is less, of the #1 ranked responsive net bid price. Should the incentive be used in combination with a preference adjustment, the cumulative adjustment cannot exceed 15% or \$100,000, whichever is less.

High score awards

When the DVBE Program Requirement packet is included in solicitations whose award is based on high score, included must be an individual desirable administrative requirement that awards points based on the amount of DVBE participation obtained. Points are only awarded to those who are responsive to the DVBE Program Requirement and propose DVBE participation in the resulting purchase document.

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DVBE Incentive Use, Continued

Points

Allowable points in high score awards are to be identified in a desirable administrative requirement. To determine how many points to allow, a calculation can be performed against the total possible non-technical points (including points for cost) as designated within the solicitation. However, points must be aligned with the scoring system used in the particular transaction and considered proportionate. The methodology used to determine incentive points must be reasonable and not dilute the technical solution. The rationale explaining the methodology is to be documented in the file. Should the scoring system incorporate a minimum/maximum designation for points, the calculation should be based on the minimum points possible. A scale that correlates participation to incentive percentage, such as the one below, can be used to determine allowable points. The incentive percentage cannot exceed 10% or be lower than 3%.

DVBE Point Scale	
Confirmed DVBE Participation of:	DVBE Incentive:
Over 3%	10%
3%	7%
2% up to 3%	5%
1% up to 2%	3%

Example

The desirable requirement would identify points per the table below for a solicitation where points are:

- 200 points for the total of minimum administrative points,
- 400 points for the total of minimum technical points, and
- 400 points for cost

Confirmed DVBE Participation of:	Possible Points:
Over 3%	60 (10% x 600)
3%	42 (7% x 600)
2% up to 3%	30 (5% x 600)
1% up to 2%	18 (3% x 600)

If the circumstances of a particular acquisition dictate the need, a Manager can designate a different base to use for the calculation, approve a different scale, or use of one percentage rather than a scale. However, the rationale for the change and the methodology for determination of possible points must be reasonable and must be documented in the file.

No administrative points

Should the solicitation not provide points for administrative requirements, allowable points are to be determined based on an amount that considers factors in addition to cost points.

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DVBE Incentive Use, Continued

Documentation & reporting

Application of the DVBE incentive is to be documented in the Procurement Summary and/or Evaluation & Selection Reports. Participation must be captured for reporting purposes. For awards based on high score, the methodology used to determine incentive points must be documented in the file. The following documents have been modified:

Document	Modification
Procurement Summary	Includes areas to: <ul style="list-style-type: none">• Identify award due to application of the incentive• Summarize incentive information
Participation Worksheet	Captures information related to the incentive
Participation Worksheet Instructions	Provides an explanation of what incentive data to include

Evaluation of Awards Based on Low Price

When is the incentive calculated?

If included in the solicitation, the bidder must be compliant with the DVBE Program Requirement and responsive to all other requirements, including a commercially useful function being performed by the DVBE(s). The incentive is only given to those who are responsive to the DVBE Program Requirement and propose DVBE participation in the resulting purchase document. When award is based on low price, the small business preference is applied first and the DVBE incentive calculation is second with other preferences subsequently applied. However, application of the DVBE incentive cannot displace award to a #1 ranked small business. The calculation is made against the net bid price when both of the following tests are met:

Test	Description
1	The net bid price of the lowest responsive and responsible bidder is <u>not</u> a certified small business. This pertains both before and after application of the small business preference. Note: The only exception is when there is another responsive/responsible certified small business and it is eligible to receive the DVBE incentive. In that case the DVBE incentive is calculated only for the certified small businesses to determine if the adjustment impacts the ranking.
2	There are one or more responsive bids from responsible bidders eligible to receive the DVBE incentive.

How is the incentive calculated?

The following steps are taken to calculate the incentive. Since the percentage of participation can vary between bidders, and thus the incentive percentage can vary, the “calculated incentive amount” will need to be determined for each incentive percentage (see below).

Step	Calculation Action
1	Identify the bidder with the #1 ranked net bid price (the lowest responsive bid).
2	Based upon the evaluated DVBE participation percentage, determine the corresponding percentage of DVBE incentive for the bidder.
3	Multiply the #1 ranked net bid price by the DVBE incentive percentage to determine the “calculated incentive amount” for the bidder.
4	Determine the lower of the “calculated incentive amount” or the incentive maximum (10% or \$100,000, whichever is lower). The lower amount is the incentive amount. Note: If preferences are also applicable, make sure the cumulative adjustment does not exceed 15% or \$100,000, whichever is lower.
5	Subtract the lower figure from the net bid price of the bidder. If a preference calculation was performed, the cumulative adjustment is deducted.
6	Repeat Steps (as needed) for each qualified bidder.

Evaluation Examples of Awards Based on Low Price

Low price awards

The following examples illustrate adjustment of the net bid price for the DVBE incentive when award is based on low price. In the following examples, the variance between the “Bid amount” (the price as opened) and the “Net bid price” of “Bidder A” reflects a State adjustment due to mathematical error or application of allowable discounts (e.g. educational, trade-in).

Note: DVBE = bidder is eligible for the DVBE incentive; SB = prime is a small business; MB = prime is a microbusiness; SB/NVSA = prime is a small business nonprofit veteran service agency; NS = non-small business prime claiming preference due to qualifying subcontractors

Example 1 – Test #1 not met				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	SB*	None	SB	MB
Eligible DVBE participation	1%*	3%	None	None
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Evaluated bid price	\$8,100	\$8,150	\$8,300	---
Final rank	1	2	3	N/A
<p>Results: Test #1 is <u>not</u> met – *The lowest responsive, responsible bidder is a certified small business and there is <u>not</u> another responsive, responsible small business eligible to receive the DVBE incentive; therefore, neither a small business preference nor a DVBE incentive calculation is performed for any bidder. The fact that Bidder B is eligible for a larger incentive percentage adjustment than Bidder A is not a factor.</p> <p>Award: The award is to Bidder A.</p>				

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Evaluation Examples of Awards Based on Low Price, Continued

Example 2 – Test #1 not met				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	None*	SB	None	MB
Eligible DVBE participation	3%*	1%	None	None
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Preference amount		\$ 405		N/A
Subtotal		\$7,745		
Rank	2	1*	3	N/A
Evaluated bid price	\$8,100	\$7,745	\$8,300	---
Final rank	2	1	3	N/A
Results: Test #1 is <u>not</u> met – *Although initially the lowest responsive, responsible bidder is <u>not</u> a certified small business, following application of the small business preference the lowest responsive, responsible bidder is a certified small business and there is <u>not</u> another responsive, responsible small business eligible to receive the DVBE incentive; therefore, a DVBE incentive calculation is not performed for any bidder.				
Award: The award is to Bidder B.				

Example 3 – Test #2 not met				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	None*	None	None	MB
Eligible DVBE participation	None*	None	None	2%
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Evaluated bid price	\$8,100	\$8,150	\$8,300	---
Final rank	1	2	3	N/A
Results: Test #1 is met – *The lowest responsive, responsible bidder is <u>not</u> a certified small business. Test #2 is <u>not</u> met – There are no responsive, responsible bidders eligible to receive the DVBE incentive; therefore, no incentive calculation is performed.				
Award: The award is to Bidder A.				

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Evaluation Examples of Awards Based on Low Price, Continued

Example 4 – Incentive Calculation																		
Bidder:	A	B	C	D														
Responsive & responsible	Yes	Yes	Yes	No														
Eligible preference	NS*	None	None	MB														
Eligible DVBE participation	None*	None	1%	None														
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000														
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000														
Rank	1*	2	3	N/A														
Preference amount	N/A**																	
Incentive percentage			3%															
Incentive amount			\$ 243															
Evaluated bid price	\$8,100	\$8,150	\$8,057	---														
Final rank	2	3	1	N/A														
<p>Results: Test #1 is met – *The lowest responsive, responsible bidder is eligible to receive a small business preference, but the prime is <u>not</u> a certified small business. Test #2 is met – There is a responsive, responsible bidder eligible to receive the DVBE incentive (Bidder C). Both tests have been met; therefore, the incentive calculation is performed.</p> <p>Incentive Calculation:</p> <table border="1"> <thead> <tr> <th>Step</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).</td> </tr> <tr> <td>2</td> <td>Determine the corresponding percentage of DVBE incentive for the bidder; Bidder C has 1% DVBE participation so the incentive is 3%.</td> </tr> <tr> <td>3</td> <td>Determine the “calculated incentive amount” ($\\$8,100 \times .03 = \\243).</td> </tr> <tr> <td>4</td> <td>Select the lower of the “calculated preference amount” or the preference maximum ($\\$243$ is lower than $\\$810$ [10% of $\\$8,100$]).</td> </tr> <tr> <td>5</td> <td>Subtract the lower figure from the net bid price of Bidder C ($\\$8,300 - \\$243 = \\$8,057$).</td> </tr> <tr> <td>6</td> <td>Repeat Steps for each qualified bidder: Since there are no other qualified bidders, this step is not applicable.</td> </tr> </tbody> </table> <p>Award: The award is to Bidder C.</p> <p>**Note: Although Bidder A is a non-small business with at least 25% small business subcontractor participation, no small business preference calculation is performed since Bidder A has the #1 ranked net bid price.</p>					Step	Action	1	Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).	2	Determine the corresponding percentage of DVBE incentive for the bidder; Bidder C has 1% DVBE participation so the incentive is 3%.	3	Determine the “calculated incentive amount” ($\$8,100 \times .03 = \243).	4	Select the lower of the “calculated preference amount” or the preference maximum ($\$243$ is lower than $\$810$ [10% of $\$8,100$]).	5	Subtract the lower figure from the net bid price of Bidder C ($\$8,300 - \$243 = \$8,057$).	6	Repeat Steps for each qualified bidder: Since there are no other qualified bidders, this step is not applicable.
Step	Action																	
1	Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).																	
2	Determine the corresponding percentage of DVBE incentive for the bidder; Bidder C has 1% DVBE participation so the incentive is 3%.																	
3	Determine the “calculated incentive amount” ($\$8,100 \times .03 = \243).																	
4	Select the lower of the “calculated preference amount” or the preference maximum ($\$243$ is lower than $\$810$ [10% of $\$8,100$]).																	
5	Subtract the lower figure from the net bid price of Bidder C ($\$8,300 - \$243 = \$8,057$).																	
6	Repeat Steps for each qualified bidder: Since there are no other qualified bidders, this step is not applicable.																	

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Evaluation Examples of Awards Based on Low Price, Continued

Example 5 – Incentive Calculation				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	NS*	None	None	MB
Eligible DVBE participation	1%*	None	2%	None
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Preference amount	N/A**			
Incentive percentage	3%		5%	
Incentive amount	\$ 243		\$ 405	
Evaluated bid price	\$7,857	\$8,150	\$7,895	---
Final rank	1	3	2	N/A

Results:

Test #1 is met – *The lowest responsive, responsible bidder is eligible to receive a small business preference, but the prime is not a certified small business.

Test #2 is met – There are responsive, responsible bidders eligible to receive the DVBE incentive (Bidder A and Bidder C).

Both tests have been met; therefore, the incentive calculation is performed.

Incentive Calculation:

Step	Action
1	Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).
2	Determine the corresponding percentage of DVBE incentive for the bidder; Bidder A has 1% DVBE participation so the incentive is 3%.
3	Determine the “calculated incentive amount” for Bidder A ($\$8,100 \times .03 = \243).
4	Select the lower of the “calculated preference amount” or the preference maximum (\$243 is lower than \$810 [10% of \$8,100]).
5	Subtract the lower figure from the net bid price of Bidder A: $\$8,100 - \$243 = \$7,857$.
6	Repeat Steps for each qualified bidder; Bidder C is also eligible with 2% participation – so the incentive is 5%. The “calculated percentage amount” is $\$8,100 \times .05 = \405 . The evaluated bid price is $\$8,300 - \$405 = \$7,895$.

Award: The award is to Bidder A.

**Note: Although Bidder A is a non-small business with at least 25% small business subcontractor participation, no small business preference calculation is performed since Bidder A has the #1 ranked net bid price.

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Evaluation Examples of Awards Based on Low Price, Continued

Example 6 – Incentive Calculation				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	SB*	NS	MB*	MB
Eligible DVBE participation	1%	3%	2%	None
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Preference amount	N/A**	N/A**	N/A**	
Incentive percentage	3%	N/A	5%	
Incentive amount	\$ 243		\$ 405	
Evaluated bid price	\$7,857	\$8,150	\$7,895	---
Final rank	1	3	2	N/A

Results:

Test #1 is met – *The lowest responsive, responsible bidder is a certified small business but there is another responsive, responsible small business eligible to receive the DVBE incentive (Bidder C).

Test #2 is met – There are responsive, responsible bidders eligible to receive the DVBE incentive (Bidder A and Bidder C). Although Bidder B is eligible for the DVBE incentive, it is not a small business; therefore in this instance, an incentive adjustment would not be applicable for this bidder.

Both tests have been met; therefore, the incentive calculation is performed.

Incentive Calculation:

Step	Action
1	Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).
2	Determine the corresponding percentage of DVBE incentive for the bidder; Bidder A has 1% DVBE participation so the incentive is 3%.
3	Determine the “calculated incentive amount” for Bidder A ($\$8,100 \times .03 = \243).
4	Select the lower of the “calculated preference amount” or the preference maximum (\$243 is lower than \$810 [10% of \$8,100]).
5	Subtract the lower figure from the net bid price of Bidder A: $\$8,100 - \$243 = \$7,857$.
6	Repeat Steps for each qualified bidder; Bidder C is also eligible with 2% participation – so the incentive is 5%. The “calculated percentage amount” is $\$8,100 \times .05 = \405 . The evaluated bid price is $\$8,300 - \$405 = \$7,895$.

Award: The award is to Bidder A.

**Note: Since the #1 ranked bidder (Bidder A) is a small business, no small business preference calculation is performed.

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Evaluation Examples of Awards Based on Low Price, Continued

Example 7 – Incentive Calculation				
Bidder:	A	B	C	D
Responsive & responsible	Yes	Yes	Yes	No
Eligible preference	None	SB	MB*	MB
Eligible DVBE participation	None	1%	2%	None
Bid amount	\$8,200	\$8,150	\$8,300	\$8,000
Net bid price	\$8,100	\$8,150	\$8,300	\$8,000
Rank	1*	2	3	N/A
Preference amount		\$ 405	\$ 405	N/A
Subtotal		\$7,745	\$7,895	
Rank	3	1*	2	N/A
Incentive percentage		3%	5%	
Incentive amount		\$ 243	\$ 405	
Evaluated bid price	\$8,100	\$7,502	\$7,490	---
Final rank	3	2	1	N/A

Results:

Test #1 is met – *Following application of the small business preference the lowest responsive, responsible bidder is a certified small business (Bidder B). However, there is another responsive, responsible certified small business eligible to receive the DVBE incentive (Bidder C).

Test #2 is met – There are responsive, responsible bidders eligible to receive the DVBE incentive (Bidder B and Bidder C).

Both tests have been met; therefore, the incentive calculation is performed.

Incentive Calculation:

Step	Action
1	Identify the net bid price of the #1 ranked bidder (Bidder A at \$8,100).
2	Determine the corresponding percentage of DVBE incentive for the bidder; Bidder B has 1% DVBE participation so the incentive is 3%.
3	Determine the “calculated incentive amount” for Bidder B ($\$8,100 \times .03 = \243).
4	Select the lower of the “calculated preference amount” or the preference maximum (\$243 is lower than \$810 [10% of \$8,100]). Select the lower of the cumulative adjustment ($\$405 + \$243 = \$648$) or the cumulative preference maximum (15% of \$8,100 = \$1,215).
5	Subtract the lower figure from the net bid price of Bidder B: $\$8,150 - \$648 = \$7,502$.
6	Repeat Steps for each qualified bidder; Bidder C is also eligible with 2% participation – so the incentive is 5%. The “calculated percentage amount” is $\$8,100 \times .05 = \405 . Deduct the cumulative adjustment ($\$405 + \$405 = \$810$) from the net bid price: $\$8,300 - \$810 = \$7,490$.

Award: The award is to Bidder C.