# II- PERFORMANCE AND CAPITAL INVESTMENTS

A. Introduction. Performance and Capital Investment (PCI) requests are optional. States may submit PCI requests for additional resources to:

- Improve performance
- Invest in long term needs such as new technology
- Respond to special emphases that are not otherwise provided for in the budget request
- Respond to state-enacted law changes or mandated organizational changes that affect costs
- Address other cost contingencies that are not covered in the base budget process.

Budget increase requests that are not for performance and capital investments include salary and benefit increases, workload mix changes, inflationary cost increases, hours worked changes, and other necessary cost increases. In addition, states should not submit PCI requests for building purchases since they cannot use UI grant funds for this purpose; however, states may use other funds to purchase buildings, and charge the interest and depreciation to the UI grant.

B. Impact of Performance and Capital Investments**.** It is recognized that PCI changes may affect costs differently in the short and long-term. Many investments increase costs early on but realize savings later. Given the short-term nature of fiscal year appropriations, budgeting for long-term capital investments has presented many challenges, some insurmountable, to state agencies in the past. It may be extremely difficult to accumulate sufficient resources in one fiscal year's budget to finance a new computer acquisition, for example. Additionally, there is no guarantee of sufficient funding in ensuing fiscal years to cover the additional costs, even if they are amortized. Moreover, reduction of costs (savings) resulting from long-term capital investments would be applied in the budget period in which the savings were realized so that there has been little incentive to make such changes.

Approval of a PCI request will include approval of request year costs as well as costs in ensuing years. In other words, when a state requests a long-term capital improvement (i.e., a new computer acquisition), there will be two methods of funding it based on availability in the appropriation. It can be funded completely in the request year or, if the costs can be spread over several years, the "out-year costs" will become part of the state's base to account for subsequent year costs.

C. Process.

1. Submission Date. States should submit PCI requests via a Microsoft Word® file attachment to e-mail in the format shown in Appendix C to the Regional Offices by the fourth Tuesday of January. More complex PCI requests with several attachments may also require mailing of hard copies.

2. Procedure for Developing a PCI Request. PCI requests should be developed for the request year. Requests should specify the amount requested for PCI funding, and may also specify the amount for the project that will be financed from base budget resources, the amount to be financed from other state funds, and the amount to be financed by other programs.

a. Complete a PCI request form as a Word® document for each PCI requested. Appendix C displays the PCI request format, as described more fully below.

b. Number each PCI request according to the following schema: the state's 2-letter abbreviation, FY, and number of PCI request for that fiscal year (e.g., NY-2004-15). The number should reflect the priority that the state gives the request, with 1 being the highest priority.

c. Submit the PCI request files separately from the Excel® workbook, but include the value of the PCI request in the Excel® worksheets. This can take several forms:

(1) Increases in MPU values above the prior year's level.

(2) Increases in NPS costs above the prior year's level.

(3) Increases in non-workload staff years above the prior year's level.

D. Format and Evaluation Criteria. In Module II, Regional Offices will screen the PCI requests and the National Office staff will score them according to the criteria below:

1. Project Summary (0-15 points). Briefly describe the proposal and address the following items:

a. Provide a concise executive summary of the proposal in 1-2 paragraphs, including a general description of the desired results. (0-5 points)

b. Provide a description of proposed expenditures and a projected schedule for significant project activities. These expenditures should be classified according to needs for staff, hardware, software, and other costs (e.g., contracts). (0-5 points)

c. Explain how the proposal complements the agency's or ETA's strategic plan (at www.doleta.gov/etainfo.asp). (0-5 points)

2. Performance Improvement (0-15 points). Address the following areas:

a. Indicate the performance improvement area and whether this is a Tier I or a Tier II measure. (0-5 points)

b. Explain how the proposal will improve performance and quantify the expected improvement. (0-5 points)

c. Delineate a project time line. (0-5 points)

3. Customer Service Improvement (0-15 points). Discuss the potential effect on customer service levels and any other benefits resulting from this change.

a. Describe how the proposal will improve customer service. (0-5 points)

b. Show the number and percentage of customers (claimants and employers) affected by the change. (0-5 points)

c. Show how other states can adopt this customer service improvement. (0-5 points)

4. Project Cost (0-15 points). Describe the total cost of the project and explain whether the state agency staff estimated the cost or there were specific proposals from vendors.

a. Indicate the total cost and duration of the project, and show cost calculations for each year for multi-year projects. (0-5 points)

b. Explain whether the project has a one-time cost or on-going costs. Explain how the agency intends to fund the cost in future years. (0-5 points)

c. Explain why the project cannot be funded from current operating funds or other sources, such as Reed Act money. (0-5 points)

5. Capital Investments (0-20 points). Describe the specific capital investment and address the following areas:

a. Explain the need for this capital investment. (0-5 points)

b. Describe how the project will address the need. (0-5 points)

c. Explain the operational consequences of not making this investment. (0-5 points)

d. Present the strategic design and/or how it fits with the state automation plan. (0-5 points)

6. Cost Benefit, Cost Avoidance Analysis (0-15 points). Show how the project creates trust fund savings, revenues, or cost avoidance and convert these to dollars. One of the most straightforward approaches to presenting the cost benefit analysis is to convert annual investments and benefits over the life cycle of the acquisition along with

any salvage value to their present values. The results would then be compared. Those projects whose present value benefit stream plus salvage value exceeds the investment stream would be considered as viable projects. The formula for the present value is given below:

$$PV = \sum_{i=1}^{n} \left( A_i / (1+r)^i \right) + SV / (1+r)^n$$

where PV = present value

$A_i$ = the cost of the project in the $i^{th}$ year if calculating the PV of the cost

Ai = the value of the benefit in the $i^{th}$ year if calculating the PV of the benefit

r = the discount rate

n = the number of years in the project's life cycle

SV = the salvage value of the investment, if any, in year n and used only in computing the PV of the benefit

The National Office will annually provide the discount rate, which will be set at the interest rate earned by trust fund balances for the last quarter of the fiscal year preceding release of the guidance. The discount rate for the FY 2004 PCI submissions is 0.064.

The score for the cost/benefit analysis will depend largely on the documentation supporting the validity of the variables in the analysis, i.e., the number of years in the life cycle of the investment, the cost stream, the benefit stream, and the salvage value. Thus, great care should be taken in developing and clearly presenting the supporting documentation. Calculation of the savings/cost avoidance must be shown to receive the full score.

7. Multi-State Projects (0-5 points). States are encouraged to develop projects that involve other states. Up to 5 points will be given for PCI requests that propose a multi-state investment. Each participating state that submits a PCI request for the project will be awarded the same amount of points up to 5 points.

E. Federal Review.

1. Regional Office Review. Regional Offices will review the PCI requests and return them with recommended revisions to the states (if necessary). Revised requests will be due in the Regional Offices by the third Friday of February. Regional Offices will send PCI requests they recommend for approval to the National Office by a date established by OWS. Because this is a competitive grant process, the Regional Offices will not accept any PCI request that does not meet the required submission deadlines. The PCI submission date will be determined by the postmark or date electronically transmitted. The Regional Offices also will not accept PCI requests that are less than $100,000 or less than 5% of a state's total NPS dollars.

2. National Office Review. A National Office panel will review and score all PCI requests. The National Office will alter the Microsoft Word® files before review by the panel to disguise the states' names. The scores established in the evaluation process will be used to rank the PCI requests in terms of funding.

F. Accountability. States may use PCI funds only for the purpose specified in the request; however, states may modify the original proposal later if necessary to take into account unforeseen technological advances. The modifications must meet or exceed the purpose and goals of the original request. If the modifications result in additional cost, states must use their base grant or state funds for the additional cost. If the modifications result in a total savings for the project, the savings can only be used to improve the specific system for which the grant was requested. States must return the balance of funds received for the PCI that are not used for the specific request with modifications. Funds returned during the same fiscal year as the award will be distributed to the next state on the PCI ranking list; funds returned after the end of the fiscal year will revert to the Treasury. States are encouraged to develop their own internal system to track each project separately for accountability and monitoring and to combine the cost in the assigned fund ledger.