Exhibit C: Determining the Price Reasonableness of Equipment Maintenance Contracts

Agencies should assess the price reasonableness of equipment maintenance contracts by answering the following:

- What is the useful life of the equipment?
- How often does the equipment break down?
- Can the equipment be maintained by multiple vendors?
- What specific preventive and/or remedial maintenance services will the vendor provide and how does each component affect the price of the maintenance agreement?
- What services or parts/components are not covered by the maintenance agreement? How much extra will it cost the agency for these services or parts?
- How much would it cost to maintain the equipment on a "time and materials" basis compared to a fixed fee basis?
    - What is the cost of the replacement parts? What has been the historic level of component replacement?
        - How much would the vendor charge for the parts? If the vendor is obtaining parts from third parties, what is the markup? Is this markup reasonable?
        - Are the same or equivalent parts available at a lower price from a different vendor?
    - What is the hourly labor rate? Is this rate consistent in the industry? Is the vendor required to pay its laborers the prevailing wage rates?
    - In general, how many hours will it take to diagnose and fix the problem? What is the vendor response time likely to be if maintenance is done on a time and materials basis?
- How much will the maintenance contract cost if the vendor response time for addressing problems is:
    - The next business day?
    - Within four hours?
    - Within two hours?
- Would it be cheaper to pay to fix the equipment or to buy a new piece of equipment?
- Is it more cost-beneficial to pay a fixed price for maintenance or an hourly rate?
- How does the rate the vendor charges for maintenance compare to the rates the vendor charges other clients or the rates other vendors charge for similar services?
- Has the vendor included a reasonable markup on its parts and services? How does this markup compare with the vendor's gross margin (as included

in the vendor's financial statements, which may be available on-line or through resources like Dunn & Bradstreet)?

- Is the vendor's gross margin reasonable in comparison with similar services provided by the same or similar vendors (Consider involving staff within, or outside, the agency with expertise in analyzing financial statements to obtain this information)?
- Based on the number of employees the vendor is providing to perform equipment maintenance, what is the annual cost per Full Time Equivalent (FTE) to maintain the equipment?
    - Is this cost reasonable based on the FTE's
        - Time and activities?
        - Skills and competencies?
        - Job title?
    - How does this annual cost compare to the FTE salary for
        - State employees in similar titles (if there are comparable titles)?
        - Other employees with similar titles in the Northeast (potential sources: onetcenter.org, salary.com)?
- What value added services are included within the contract and what is the anticipated impact on the agency?

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