

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 138** SLS 17RS 448
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 12, 2017 3:52 PM **Author:** RISER
Dept./Agy.: Statewide **Analyst:** Alan M. Boxberger
Subject: Reduce threshold for consulting services contracts to be bid

PROCUREMENT CODE OR INCREASE GF EX See Note Page 1 of 2
 Reduces the threshold for consulting services contracts to be competitively bid or negotiated. (7/1/17)

Present law provides that contracts for consulting services that have a total maximum amount of compensation less than \$50,000 for a twelve-month period may be awarded without the necessity of competitive bidding or competitive negotiation. Present law further requires that contracts for consulting services which have a total maximum amount of compensation of \$50,000 or more for a twelve-month period shall be awarded through a request for proposal process under rules and regulations issued by the Office of State Procurement. Proposed law retains present law but reduces the threshold for consulting services contracts to be competitively bid or negotiated from \$50,000 to \$25,000. Proposed law shall be effective July 1, 2017.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Proposed law will result in a material increase in state and federal funds expenditures associated with the processes of drafting and publishing requests for proposals (RFP), reviewing responses and awarding of contracts. Proposed law lowers the existing threshold for consulting service contracts from \$50,000 per year to \$25,000 per year. Currently, consulting service contracts worth \$49,999 or less per year do not require bidding or other competition. Those valued at \$50,000 or more require an RFP, an intensive method that evaluates value-added criteria in addition to cost factors.

The Office of State Procurement (OSP) reports that the state issued between 149 and 201 consulting service contracts valued between \$25,000 and \$49,999 during FY 15 and FY 16 respectively. OSP estimates that an average of 175 consulting services contracts would be required annually under the provisions of proposed law. OSP reports that RFPs at the existing funding threshold (those in excess of \$50,000) generally require a minimum of six months to fully develop and implement, and that a typical RFP requires approximately 200 total personnel hours between OSP and agency staff combined. In addition to upfront time invested in drafting the original document, an RFP also requires review of the draft prior to publishing, vendor consultations and pre-bid conferences, formal question and answer processes, issuance of addenda, bid tabulation, consensus committee scoring, issuance of intent to award, vendor negotiations and contract execution. An individual RFP may result in five or more proposals, each of which can be 50-100 pages or more.

OSP reports proposed law would approximately triple the number of RFPs it currently processes for professional, personal, consulting and social services (PPCS) annually. OSP reports that a heavy increase in volume can potentially result in economies of scale of between 10-15% for this type of contractual services. OSP estimates the potential increase in state expenditures to be approximately \$1.5 M annually as derived below:

175 average annual RFPs x 200 personnel hours per RFP - 12.5% economies of scale = 30,625 additional personnel hours

See Expenditure Explanation Continued on Page 2

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Staff Director

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CONTINUED EXPLANATION from page one:

Expenditure Explanation Continued from Page 1

Assuming a full-time employee can expect 1,800 core working hours out of the nominal 2,080 paid annually (backing out holidays, leave, training, administrative tasks, etc.) . . . 30,625 personnel hours /1,800 core working hours = 17 additional FTE T.O. positions

Including salary and related benefits, the average procurement employee statewide requires an average personal services expenditure of approximately \$83,408 annually. Multiplied by the assumed additional 17 T.O. positions required, proposed law would result in an increased personal services expenditure requirement of approximately \$1,417,936. OSP estimates newspaper advertisements, printing and postage costs would likely \$8,750 (\$50 per contract awarded x 175 RFPs). Annual supplies and technical services for each new employee are estimated at \$4,778 each, or \$81,226 for 17 T.O. positions. The total projected cost of increased expenditures would be approximately \$1.5 M.

OSP estimates that approximately 30-40% of the total projected expenditure increase would be borne by OSP, with the balance paid by user agencies. The expenditure table at the top of this chart pro rates projected expenditures based on an assumed means of finance (MOF) equivalent of OSP's current proportional revenues associated with state purchasing activities, with net original MOF source totals of 35% SGF, 33% SGR, 11% Statutory Dedication and 21% Federal (81% comes into OSP via IAT and 19% by direct SGR).

The LFO cannot corroborate the exact reported need for 17 additional T.O. positions and associated expenditures in state agencies. However, the existing RFP process is labor intensive and extends for long time periods so it is reasonable to assume that increased workload requirements will be significant across all state agencies and OSP. While the scope of contracts between \$25,000 and \$49,999 are likely significantly less in terms of workload and complexity than larger contracts, potentially resulting in simpler requirements within individual RFPs, minimum standards for issuing a state RFP are still expansive and require many steps between inception and award of contract when compared to soul-source procurements as is the current standard for contracts in this cost range. Additionally, agencies currently incur some staff personnel hours related to preparing and issuing sole source instruments. Those hours, though indeterminable and likely small compared to an RFP, can be reduced from OSP's cost assumptions for state agencies as those activities already exist within base operations. To the degree that economies of scale may be greater than the 12.5% assumed by OSP, required expenditures and T.O. positions may be reduced accordingly.

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