

HF3616 - 0 - State Procurement Provisions Changed

Chief Author: **Fue Lee**
 Committee: **State Government Finance Division**
 Date Completed: **2/25/2020 4:57:35 PM**
 Agency: **Administration Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	.01	-	-	-
Total	-	.01	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023	
General Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures	-	1	-	-	-	-
Absorbed Costs	-	(1)	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-
2 - Revenues, Transfers In*						
General Fund						
Total	-	-	-	-	-	-
Biennial Total			-			-

Bill Description

As a mechanism to promote equity in the State’s contracting practices, current law (Minn. Stat. §16C.16) authorizes the commissioner of Administration to apply up to a six percent preference in the award of contracts to small targeted group, economically disadvantaged and veteran-owned businesses (TG/ED/VO). Further, current law authorizes the commissioner of Administration to award a contract directly to a certified TG/ED/VO small business without going through a competitive process for contracts valued at \$25,000 or less.

H3616.0 changes the dollar thresholds for these procurement tools. Specifically, the bill raises the preference percentage for certified, small TG/ED/VO businesses to up to 12% and raises the dollar threshold for direct purchases to these businesses to \$50,000 or less.

Assumptions

If enacted, this bill will require modifications to the Office of State Procurement’s (OSP’s) procurement documents, including its solicitation documents (RFPs and RFBs), SWIFT templates, policy documents, manuals and training materials. The changes to thresholds will require OSP to provide direction to procurement staff across the enterprise, respond to questions, and conduct training to ensure the new dollar levels are understood and properly applied. Because current thresholds exist, the effort involved in modifying documents and conducting instruction is minimized because the changes simply increase existing numbers but do not change the associated processes. We assume the effort involved in making these changes will be modest and could be absorbed by the department.

This fiscal note assumes that increasing the dollar threshold under which a purchase or contract award can be made directly to a TG/ED/VO business without going through a competitive process results in a streamlined process that yields efficiencies. Tasks such as creating solicitation documents and evaluating responses would no longer be required for procurements that utilize this authority. For purposes of this fiscal note, it is assumed that time and resources gained by these efficiencies would be redirected to other work and that this change would not result in the ability to reduce staff or capture savings.

Regarding the increase to the preference percentage, based on an internal assessment of OSP’s procurement of goods, general services and construction contracts over the course of FY19, we are assuming that a small number of procurements will be impacted by this percentage increase and that while there will be an enterprise fiscal impact, the costs will be modest in comparison to the state’s total spend.

Expenditure and/or Revenue Formula

One-Time Expenditure - \$943

20 hours calculated at the midpoint level of an Acquisition Management Specialist for development of bid and proposal templates, SWIFT templates, manuals, policy and training materials. This one-time cost is reflected in FY20 as a cost the agency can absorb.

	Annual	Per Hour	Hours	Cost FY20
Salary+Fringe	98,441.51	47.14	20	942.80

Long-Term Fiscal Considerations

This bill authorizes paying up to a 12% preference when purchasing from small, Minnesota-based, certified businesses owned by minorities, veterans, people with disabilities, and businesses located in economically disadvantaged areas. This will impact the cost of goods, services and construction projects for state agencies and local governments that use state contracts. This additional cost is spread across government entities and is not disproportionately borne by Admin. The added cost is addressed below.

Goods and General Services

While a formal comprehensive study has not been completed on the subject of procurement preferences, in the fall of 2019, the Office of State Procurement conducted an internal assessment that studied all procurements conducted by the office for goods and general services over the course of FY19. The purpose of the assessment was to analyze the effectiveness of the 6% preference and its impact on cost.

Findings of the assessment for goods and general services included the following:

- Of 743 procurements assessed, only 13% (110 contracts) involved a procurement where a TG/ED/VO business responded to the solicitation.
- Of these 110 contracts, 38 were awarded to TG/ED/VO vendors without application of the preference, 67 were awarded to non-TG/ED/VO vendors and 5 contracts were awarded to a TG/ED/VO vendor as a result of application of the 6% preference.
- For all of the 5 contracts awarded to TG/ED/VO businesses as a result of the preference, none required the application of the full 6% preference.
- The cost impact for the 5 contracts awarded to a TG/ED/VO business as a result of the 6% preference totaled \$1,889.33.
- Further analysis of the full data set for FY19 determined that if the preference had been set at 12%, 5 additional contracts would have changed to an award to a TG/ED/VO business.
- The increased cost of these 5 additional contracts would have been \$60,872.62.

In sum, assuming future years will yield similar results to FY19, increasing the preference to 12% would be expected to result in an added cost of approximately **\$61,000 per year** for goods and general services. Out of a total of \$738 million in spend for goods and general services in FY19, this equates to an increase in cost of **.008%**.

Building Construction

The Office of State Procurement has also analyzed the impact of increasing the preference to 12% on building and construction contracts. The office reviewed 119 projects that were subject to the application of the preference. This included projects bid out by the Office of State Procurement (33) and projects bid by agencies with delegated authority (86). The following was determined:

- Of the 119 procurements assessed, 28% (33 contracts) involved a procurement where there was at least one TG/ED/VO responder.
- Of those 33 contracts, 8 of the events were within the 12% threshold and would have been awarded to the TG/ED/VO vendor had a 12% preference been in place.
- The increased cost of these 8 contracts would have been \$316,909.96

In sum, assuming future years will yield similar results to FY19, increasing the preference to 12% would be expected to result in an added cost of approximately **\$316,900 per year** for building construction projects. Out of a total of \$100,783,739 in spend for building construction assessed for FY19, this equates to an increase in cost of **.31%**.

Local Fiscal Impact

N/A

References/Sources

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