

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 1064 gives the Materiel Division of the Department of Administrative Services (DAS) the power and duty to obtain an electronic procurement system which shall be funded or paid for by providing the system provider with a percentage or portion of identified transactions. This percentage or portion may be collected by the system provider from contractors and bidders.

DAS estimates the provisions of LB 1064 will result in the elimination of the yearly purchasing assessment, once the eProcurement system is up and running. The cost for implementing the system will be funded with the system provider earning a percentage or portion of identified transactions and, therefore, self-funding.

In addition, DAS estimates cost savings based on a reduction in the labor hours needed to administer the new process as well as lower prices due to increased competition.

DAS makes the assumption that the new system will not be implemented until fiscal year 2024-25. Thus, any cost savings will not occur until that time.

While the DAS estimation makes logical sense, several observations need to be noted.

It is accurate to assume that users of the eProcurement system will eventually realize no procurement costs paid to DAS. However, since the system provider will be receiving a percentage or portion of each transaction, it appears that the up-front costs will increase to accommodate the system provider's fee.

Additionally, since the system provider will be paid for the installation and implementation in the same manner, it stands to reason that agencies will realize *higher* costs during this time. Those higher costs will be the combination of current procurement assessment charged by DAS and the percentage/portion of transactions utilized during the implementation time.

It appears that the bill's provisions will result in reduced costs to DAS, since they will be removed from this process. There will still be a cost for the system itself, maintenance, and other typical costs. Since the new funding mechanism is paid up-front to the system provider, it is logical to assume that this cost will be paid by agencies with higher transaction fees. It is likely that these "new" fees will be balanced by the reduction of DAS's procurement assessment.

It should also be noted that overall cost savings due to economies of scale, a streamlined process, and more direct access to the system will be realized. As DAS indicated, the State of Virginia realized a 9% savings.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 1064	AM:	AGENCY/POLT. SUB: Dept. of Administrative Services – Materiel Division	
REVIEWED BY: Kimberly Burns	DATE: 02/08/2022	PHONE: (402) 471-4171	
COMMENTS: No basis to disagree with the estimate provided by the Department of Administrative Services that there would be no fiscal impact to the state to implement the provisions of the bill, as the eProcurement system provider would be responsible for upfront implementation costs. The estimated tangible annual savings of up to \$1.8 million by FY 2024-25 may be overstated.			

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2022

LB⁽¹⁾ 1064

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Department of Administrative Services (DAS) – Materiel Division

Prepared by: ⁽³⁾ Jennifer Sommars-Link Date Prepared: ⁽⁴⁾ 1/20/2021 Phone: ⁽⁵⁾ 402-471-1405

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2022-23</u>		<u>FY 2023-24</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 1064 allows the materiel division to sustainably self-fund an electronic procurement system by providing the eProcurement system provider with a percentage or portion of identified transactions. The eProcurement system provider would be responsible for all upfront and required implementation/interface costs until the system went live.

It is anticipated that such funding model would allow the Department of Administrative Services (DAS) – Materiel to eliminate its yearly purchasing assessment once the system is up in running. DAS’ purchasing assessment is currently set at \$1,118,132.00 for FY22-23. DAS expects that shifting from a manual process to eProcurement system would result in an additional estimated annual savings up to \$1.8 million as a result of reduction in the labor hours needed to administer the process. Finally, based on data from other States, DAS also anticipates that the State would incur savings from lower prices from increased competition (due to greater accessibility to state bidding opportunities) and from the ability of state agencies to easily compare contracts to obtain the lowest price. For example, Virginia estimates that the ability to shop between contracts using an eProcurement system reduces costs by 9% when the system is utilized.

Because it is anticipated that the eProcurement system would be competitively procured and then would take time to implement, these savings may not be realized until FY24-25. The table below summarizes the estimated impact by fund type of the elimination of the purchasing assessment for FY24-25 assuming the assessment is held flat for the next biennium - FY23-25. The allocation by fund type is based on a four-year [2018-2021] average of the payment of previous purchasing assessments.

Fund Type	FY24-25
General Fund	(\$367,921)
Cash Fund	(\$579,037)
Federal Fund	(\$51,736)
Revolving Fund	(\$119,438)
Total	(\$1,118,132)

The elimination of the purchasing assessment in FY24-25 would result in hard savings for the agencies, boards and commissions that were previously assessed. The revenue source to cover the future operational costs of the purchasing department would be the eProcurement system.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2022-23</u>	<u>2023-24</u>
	<u>22-23</u>	<u>23-24</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				