

  
*Colorado Legislative Council Staff Fiscal Note*  
**STATE**  
**FISCAL IMPACT**

**Drafting Number:** LLS 11-0371

**Date:** February 7, 2011

**Prime Sponsor(s):** Rep. Ryden

**Bill Status:** House Economic and Business Development

**Fiscal Analyst:** Jonathan Senft (303-866-3523)

**TITLE:** CONCERNING THE REQUIREMENT THAT STATE AGENCIES CONSIDER THE STATE ECONOMIC IMPACT OF RESPONSES TO STATE PROCUREMENT CONTRACT SOLICITATIONS AS A COMPONENT OF AWARDING THE CONTRACT.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
<b>State Revenue</b>	See State Revenue section.	
<b>State Expenditures</b> All Funds (See State Expenditures section.)	\$300,427	\$293,994
<b>FTE Position Change</b>	5.3 FTE	5.4 FTE
<b>Effective Date:</b> August 10, 2011, if the General Assembly adjourns on May 11, 2011, as scheduled, and no referendum petition is filed.		
<b>Appropriation Summary for FY 2011-2012:</b> See State Appropriations section.		
<b>Local Government Impact:</b> None.		

**Summary of Legislation**

This bill requires consideration of state economic impact when awarding procurement contracts. The Department of Personnel and Administration (DPA) is responsible for creating a methodology and a policy to be used by state agencies when considering bids or proposals. Any benefits or disadvantages identified from the assessments will be used in conjunction with relative cost when awarding the contract.

**Background**

State procurement is overseen by the State Purchasing Office of the DPA, although a portion of DPA's procurement authority is delegated to individual state entities in order to manage routine, local, or discretionary purchases. Typically, a state entity with delegated purchasing authority has dedicated staff responsible for knowing and applying procurement rules and overseeing the resulting purchase orders and contracts for goods and services.

**State Revenue**

Considering the state economic impact of bidders in the procurement of good and services by state agencies could affect state revenue in the future, but the impact cannot be quantified. Any potential impact on state revenue is conditional on the new criteria established by the bill leading to the selection of different bidders than under current law. The impact will also depend on the accuracy and relevance of the proposed economic impact assessment.

**State Expenditures**

Evaluating the economic impact of bidders in the state procurement process will increase state expenditures by at least **\$300,427 and 5.4 FTE in FY 2011-12** and \$293,994 and 5.3 FTE per year thereafter. These expenditures are shown in Table 1 and described in greater detail below.

<b>Table 1. Expenditures Under 11-1142</b>		
<b>State Agency</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Department of Personnel and Administration	\$90,068	\$83,635
FTE	1.4	1.3
Department of Public Health and Environment	40,925	40,925
FTE	1.0	1.0
Department of Health Care Policy & Financing	51,987	51,987
FTE	1.0	1.0
Department of Transportation	53,112	53,112
FTE	1.0	1.0
Office of Information Technology	64,335	64,335
FTE	1.0	1.0
<b>TOTAL</b>	<b>300,427</b>	<b>\$293,994</b>
<b>FTE</b>	<b>5.4</b>	<b>5.3</b>

While all departments may see some level of increased workload by adding the economic assessment, departments performing complex and high-volume procurements will experience significant impact. New duties include an expanded evaluation of submissions, provision of technical assistance, and weighing and scoring. In addition, the economic assessment may create additional protests and appeals for non-awarded bidders, which could further increase the responding workload.

**Department of Personnel and Administration (DPA).** The bill requires DPA to create a method for determining the state economic impact of each bid or offer. It must establish a list of questions, including those named in the bill. Preparation and development will be necessary to develop further questions, methodology, effectiveness and communicating the new policy to vendors and agencies. These requirements, as well notifying vendors and evaluating bidders for economic impact will increase state expenditures of the DPA by \$90,068 General Fund and 1.4 FTE in FY 2011-12, and \$83,635 General Fund and 1.3 FTE in FY 2012-13.

**Other Agencies.** The following agencies will also incur costs under this bill:

- *Department of Public Health and Environment (DPHE)* requires \$40,925 General Fund and 1.0 FTE in both FY 2011-12 and 2012-13. DPHE issues an average of 40 sealed bids per year with 5 responses each, totaling approximately 200 incoming bids per year.
- *Department of Health Care Policy and Financing (HCPF)* requires \$51,987 General Fund and 1.0 FTE in both FY 2011-12 and 2012-13. HCPF issues an average of 20 RFPs per year, each of which takes four to six months to complete.
- *Department of Transportation (DOT)* requires \$53,112 from the State Highway Fund and 1.0 FTE in both FY 2011-12 and FY 2012-13. Annually, CDOT conducts 2,832 purchase orders and 239 contracts above the \$5,000 threshold for competitive bidding.
- *Governor's Office of Informational Technologies (OIT)* requires \$64,335 and 1.0 FTE for both FY 2011-12 and FY 2012-13. OIT manages procurement for all state information technology services and resources and may need additional resources depending on the sophistication of software and related programming required by the agencies in which OIT is supporting. OIT is funded by moneys reappropriated through other agencies, so the costs attributable to this bill will be recovered through an increase in appropriations to all agencies supported by OIT.

**Other cost impacts.** The use of additional criteria in making procurement decisions could affect the price paid for goods and services purchased through procurement. In the event of low-tie competitive sealed bidding, the bill specifies that the contract shall be awarded to the bidder proposing the greatest economic impact to the state. The bill does not specify how much the state may pay above the lowest bid in order to obtain the most-beneficial impact, but it is possible that the cost of procuring goods and services may be higher than under current law.

**Expenditures Not Included**

Costs addressed through the annual budget process and centrally appropriated in the Long Bill, or supplemental appropriations, are summarized in Table 2.

<b>Table 2. Expenditures Not Included Under HB 11-1192*</b>		
<b>Cost Components</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$37,630	\$38,340
Supplemental Employee Retirement Payments	13,075	13,361
<b>TOTAL</b>	<b>\$50,705</b>	<b>\$51,701</b>

\*More information is available at: <http://colorado.gov/fiscalnotes>

**State Appropriations**

For FY 2011-12, the bill requires the following appropriations:

- **Department of Personnel and Administration** — \$90,068 General Fund and 1.4 FTE;
- **Department of Public Health and Environment** — \$40,925 General Fund and 1.0 FTE;
- **Department of Health Care Policy and Financing** — \$51,987 General Fund and 1.0 FTE; and
- **Governor's Office of Informational Technologies** — \$64,335 in reappropriated funds and 1.0 FTE. Further detail on the allocation of these moneys among agencies supported by OIT is available in the Legislative Council Staff offices.

No appropriation is necessary for the Department of Transportation as the State Highway Fund is continuously appropriated.

**Departments Contacted**

All Departments