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Research Brief

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Administrative Fees:
Creative Funding for Central Procurement in Difficult Economic Times

Issue

According to the National Conference of State Legislatures ("NCSL"), states are currently facing a $142.6 billion budget gap for FY 2010. Demand for traditional social "safety net" services continues to grow while revenue has collapsed due to lower tax collections (as a result of both decreased property values and falling revenue from consumption taxes like gasoline and sales taxes). Despite the assistance of revenue from the American Recovery and Reinvestment Act ("ARRA"), three states still had not formalized their FY 2010 budgets as of September 1, 2009. Unfortunately, NCSL also forecasts new gaps for FY 2010 as state revenues continue to fall.[1]

Unlike the federal government, most states are required to fully balance their budgets for each fiscal year and are constitutionally prohibited from carrying a deficit. With all but two (2) states facing budget gaps during FY 2010[2], states have developed a variety of cost-saving and revenue-generating tactics. These include: hiring and salary freezes, early retirement options, travel bans, increasing health insurance premiums, increasing contributions from employees to public retirement systems, staff-cutting and mandatory furloughs, benefit reductions, the suspension of state contributions to retirement funds, tapping reserve and rainy day funds, agency consolidations, across-the-board budget cuts, and a variety of new and increased taxes and fees (e.g. tax amnesty in an attempt to improve collection rates or raising hunting and drivers license fees).

In the face of such budget constraints and cuts, the central procurement office has become an even more essential part of state purchasing strategies. These offices have begun experimenting with new forms of revenue-generation in order to sustain staffs and budgets that are already very lean.

[1] State Budget Update, *Julyl 2009*. National Conference of State Legislatures. http://www.ncsl.org/documents/fiscal/StateBudgetUpdateJulyFinal.pdf

[2] Lav, Iris and McNichol, Elizabeth. "New Fiscal Year Brings No Relief From Unprecedented State Budget Problems". Center on Budget and Policy Priorities.. September 3, 2009. http://www.cbpp.org/cms/?fa=view&id=711

Administrative Fees and Central Procurement

Most states' central procurement offices are funded via appropriation, self-funding, or a combination of the two. The 2009 NASPO Survey of State Purchasing Practices indicate that twenty-six (26) of forty-five (45) respondent states have central purchasing functions that are either all or partially self-funded. Some states have begun increasing their use of administrative fees as a method for funding central procurement offices. These fees can be imposed on vendors or on customer agencies depending on the structure of individual states' fee systems, and are collected in a variety of ways.

The imposition of an administrative fee as a funding mechanism to support all or part of a state's central procurement program is not a new phenomenon. However, the use of this approach is rapidly increasing as state legislative bodies recognize the substantial savings and efficiencies offered by central procurement programs. The issue then becomes finding means to continue to fund these programs at operable levels.

One of the oldest examples of a state using an administrative fee to fund its central procurement program is from the State of California, which first implemented an administrative fee in the 1960s to support the Department of General Services Procurement Division. The newer states to implement a administrative fee are Massachusetts and New York. The Operational Services Division of the Commonwealth of Massachusetts has recently implemented a 1% administrative fee (see profile below). The State of New York also implemented an administrative fee in July 2008.

Adopting and Implementing Administrative Fees

Several states currently employ an administrative fee, including California, Connecticut, Florida, Georgia, Kansas, Minnesota, New York, North Carolina, Oklahoma, South Dakota, Utah, Virginia and Washington, DC. Maryland had administrative fees but eliminated them in August 2007. The states that level administrative fees share a number of similarities surrounding their approach, the forces driving the adoption of those fees, and the essential ingredients for successful implementation of an administrative fee.

Statutory Foundation

Every state listed above first had to develop legislation to enable the collection of an administrative fee. The legislation typically determines who may collect and the general purpose of the fee. In most states the authorized entity (under the statutory authority) is given rule-making authority to determine the specific amount of the fee(s), the mechanics of how the fees(s) will be assessed, the ability to increase or decrease fee(s), and the overall governance of the fee collection process and operation. With one current exception, the entity granted the authority to charge a fee is the central procurement function, which is also the recipient of the funds collected by the fee. The exception to this process is New York State (see page 7 of this document).

Rule Making

Nearly every state with legislation establishing central procurement's ability to charge a fee has also granted the central procurement program the authority to make rules regarding what specific fee(s) will be charged, the amount of the fee(s), the ability to increase or decrease the amount of the fee(s) and the authority to grant possible exemptions to the fee(s). Depending on state statutes and administrative codes, a state may or may not need to first define and promulgate clear rules and regulations governing the fees in order to create a program. While legislation should outline the general scope and purpose of the administrative fee, the rules and regulations promulgated by each state determine the specific scope, policies, procedures, and rules that will be followed in implementing and collecting the fee.

Transaction Fees

The most commonly used form of administrative fee is the transaction fee. Usually, a transaction fee is a percent that is assessed on each and every procurement transaction.

The most common type of transaction fee is a charge assessed against vendors who conduct sales with the state. Styled after the federal General Services Administration ("GSA") program, vendors remit back a fee for each transaction. Typically, fee reporting and payments are submitted to the states on a monthly basis in arrears. States with a supplier paid transaction fee include California, Connecticut, Florida, Kansas, Minnesota, New York, North Carolina, Utah, Virginia and Washington, D.C.

The amount of the fee varies from state to state, often dependent upon the level of revenue sought and whether the revenue is intended to partially or fully fund the operating costs of the central procurement and/or e-procurement program. These fees range from 0.50% to 2%, with 1% being the most common charge. (See Attachment A). Some states use administrative fees to cover the operating cost of other agency programs in addition to central procurement or e-procurement programs. California and Florida are two states that obligate some portion of the revenue from transaction fees to other programs. North Carolina and Virginia use 100% of the revenue from transaction fees to fund their e-procurement systems.

Other Administrative Fees

Some states collect an administrative fee other than or in addition to a transaction fee.

The state of Oklahoma uses a simple $25 registration fee that it assesses against vendors that register to do business with the state. This fee only partially funds the central procurement program.

Connecticut and Virginia charge a transaction fee and other administrative fees. Connecticut has a one-time vendor registration processing fee of $395 in addition to a 2% transaction fee. Virginia charges an annual registration fee of $25 for vendors in addition to its 1% transaction fee, capped at $500 for small businesses and capped at $1,500 for all other businesses. The transaction fee is paid by both state agencies and vendors (but not local governments) and the annual registration fee is paid by only vendors.

State Profiles/ Lessons Learned

California

California appears to be the first state to make use of an administrative fee, dating back to the 1960s. The state uses a transaction fee and other fees that are assessed against both vendors and customer agencies.

California has a 1% fee that vendors pay on sales off of State Term Contracts issued by the Department of General Services ("DGS") Purchasing Division ("PD") or off of contracts done by the Western States Contracting Alliance ("WSCA") or the National Association of State Procurement Officials ("NASPO") that the PD adopts for use in California.

Additionally, the California DGS/PD is authorized to charge state agencies for services it provides. California publishes a "Price Book" detailing its various fees and charges. The Price Book fees are capped at $7,500 per transaction, not including hourly fees. The Price Book is available at: http://www.ofs.dgs.ca.gov/Price+Book/main.htm.

California generates over $25 million annually through its fee process. The DGS/PD has approximately 100 acquisition staff directly involved in generating fees. California allows for certain exemptions from the 1% fee for its California Multiple Awards Program; small businesses are also exempt.

With one of the longest running and one of the more sophisticated programs, it is a good case study for any state considering implementing an administrative fee.

Florida

At first glance, the State of Florida has a simple 1% transaction fee that vendors pay on sales to the State.

However, Florida's fee structure is unique in two respects. One is that the fee is assessed on all state procurement transactions, not just on contracts issued and administered by the central procurement organization. The other unique aspect of Florida's program is that it allows for many more exemptions from the fee than most other states' programs, which generally have only a few simple exemptions (such as government-to-government purchases or special programs for small or minority businesses).

Additional information on Florida's transaction fee rules may be found at: http://dms.myflorida.com/business_operations/state_purchasing/myflorida_marketplace/mfmp_vendors/vendor_toolkit/mfmp_transaction_fee_and_reporting/1_transaction_fee_overview.

Relevant Florida Rules include:

- Rule 60A-1.030 addresses MyFloridaMarketPlace vendor registration;

- Rule 60A-1.031 addresses the use of Transaction Fee language in purchasing transactions (unless exempted); and
- Rule 60A-1.032 addresses the MyFloridaMarketPlace (MFMP) Transaction Fee exemptions

Florida has exemptions carved out in rule for the following types of transactions that would otherwise apply under Rule 60A-1.031 of the Florida Administrative Code:

> (a) Procurements under Section 337.11, Florida Statute (F.S.) (construction work that is competitively bid in a manner different than commodities and services are under Chapter 287 F.S.); provided, however, that the procuring agency may elect to conduct such procurements via MyFloridaMarketPlace and impose the Transaction Fee, in which case the agency shall ensure that such terms are conspicuously included in the solicitation documents.
>
> (b) Procurements under Section 287.055, F.S.
>
> (c) Procurements under Chapter 255, F.S.; provided, however, that the procuring agency may elect to conduct such procurements via MyFloridaMarketPlace and impose the Transaction Fee, in which case the agency shall ensure that such terms are conspicuously included in the solicitation documents.
>
> (d) Transactions with an entity designated as non-profit under the Internal Revenue Code or by the Florida Secretary of State, unless such entity is awarded a contract following a competitive solicitation involving for-profit entities and the contract, if awarded to a for-profit entity, would be subject to the transaction fee.
>
> (e) Transactions with another governmental agency, as defined in Section 163.3164, F.S., with a private university in Florida, with an agency of another state, or with another sovereign nation, unless such entity is awarded a contract following a competitive solicitation involving private entities and the contract, if awarded to a private entity, would be subject to the transaction fee.
>
> (f) Transactions in which law or government regulation requires that the commodity or service be provided by a sole provider (e.g., regulated utilities, legislatively mandated transactions, etc.) and transactions in which the price paid and the payee are established by federal or private grant.
>
> (g) Payments to unregistered vendors under subsection 60A-1.030(3), F.A.C.
>
> (h) Payments to a vendor in exchange for providing health care services at or below Medicaid rates, even if the vendor is otherwise registered in MyFloridaMarketPlace.
>
> (i) Disbursements of State financial assistance to a recipient as defined in the Florida Single Audit Act, Section 215.97, F.S.; disbursements of federal awards to

sub-recipients as defined in Circular A-133 of the U.S. Office of Management and Budget; payments of State dollars to satisfy federal Maintenance of Efforts requirements; and payments of State dollars for matching federal awards.

Additionally, in advance of a bid an agency can request an exemption that is not covered by one of the above rules from the Director of State Purchasing. The Director can grant such an exemption if the procurement is vital to the agency's mission and if imposing the transaction fee would prevent consummation of the transaction.

For most states where the transaction fee is limited to contracts issued by the central procurement function, the type of exemptions described above are not problematic. The obvious lesson for states is that if the intent is to subject all procurements to a transaction fee, a level of complexity such as Florida's can emerge and must be addressed. The complexity of exemptions resulting from broad application of the administrative fee has resulted in increased staffing costs: Florida now has five (5) outsourced staff dedicated to billing and collections of the transaction fee.

Massachusetts

The Commonwealth of Massachusetts began charging a 1% contract administration fee (hereafter referred to as the "Fee") during the last quarter of FY 2009. This fee was fully implemented in FY 2010. All statewide contracts for goods and services issued by the Operational Services Division ("OSD") are subject to the Fee. The Fee, which was created pursuant to *MGL c. 7, § 3B and 801 CMR 4.02* is based on 1% of the total dollar amounts, adjusted for credits or refunds, paid to an OSD statewide contractor. All payments due to OSD are based on full calendar quarters (Payment Periods) and must be received by OSD on or before 45 days after the last day of the Payment Period or a contractor is considered in breach of their contract and certain penalties will apply.

The Operational Services Division also has an e-Procurement system, www.comm-pass.com that is free of charge to all vendors, state departments and other quasi-public entities including cities, towns, not-for-profits, state colleges and universities, the Legislature, the Judiciary, and other states. *However*, there is an optional, annual subscription fee of $275, entitled SmartBid for vendors that wish to seek automatic email notifications, online bid response, business directory services and a customized desktop. For more information about the Operational Services Division, its contract administration fee and its e-Procurement system, go to www.mass.gov/osd.

Minnesota

Minnesota's central procurement office has statutory authority to charge fees to cover its administrative costs of operating purchasing programs.

In FY 2008, Minnesota collected $2.2 million in fees from state contract vendors. That amount was shared between the central procurement office ($1,469,000) and the enterprise technology office ($731,000). As general fund revenues have eroded, this fee-based revenue source has been essential to maintaining strong purchasing and technology organizations in Minnesota.

Contract fees in Minnesota are not a fixed percentage. They are negotiated on a case-by-case basis and in most instances are less than 1%. This flexibility has been helpful in responding strategically in varying circumstances with vendors and contract users.

Prior to FY 2008, Minnesota also charged membership fees to local government units for the use of its state contracts. These fees (generally $500) were eliminated because the state found that (a) it could cover its administrative costs without relying on this revenue and (b) charging local units to join was a disincentive to their use of state contracts. With membership now free to local units, the 2009 Minnesota legislature enacted language requiring municipalities to "consider" use of state contracts before using other options any time their contracts costs will exceed $25,000.

New York

The amount of the centralized procurement contract fee ("CPCF") is 0.50% and it is assessed against state term contracts issued by the central procurement office. There are exemptions from the fee for federal or other governmental units, some specific schedules judged on a case by case basis and multi-state cooperative agreements.

Unlike in most other states (where administrative fees are paid directly to the central procurement office), CPCFs are paid by vendors to the Department of Taxation and Finance. This is due to the statutory authority of the Department of Tax and Finance to audit and collect monies under State Law Article 27. The revenue from New York's CPCFs also go directly into the state's General Fund, a second reason for the collection to be done by an entity that already possessed the capability to collect fees and payments online.

The success of this collection arrangement has yet to be measured. The central procurement office has not yet received any staff for the added administrative work it has incurred.

Well-written FAQs regarding New York State's administrative fees are available at: http://www.ogs.state.ny.us/purchase/spg/pdfdocs/ContractFeeFAQ.pdf

North Carolina

North Carolina assesses a transaction fee of 1.75% (applied to goods procurement only) that is used exclusively to fund its e-procurement system; the North Carolina central procurement office is funded from State General Appropriations. Because the transaction fee is used to fund the system only, the fee is only assessed against vendors who receive purchase orders through the e-procurement system itself. Further, fees are assessed only for commodities purchased through the system; services are exempt. This approach results in lower overall revenue but is a much simpler approach to transaction fee assessment than those of some other states.

South Dakota

South Dakota is a unique example in that the transaction fee is assessed against the customer agencies instead of the vendors and suppliers. South Dakota adjusts its fee on a quarterly basis dependent upon revenues generated. The fee varies from 0.50% to 0.75%. The fee is assessed against agency purchase orders that are made against the contracts offered by the central procurement program. The fee is also assessed against any purchase orders that the central procurement program processes for a customer agency. The state has an internal billing and payment methodology to transfer monies from the state agencies to central procurement. The fee assessment is a separate transaction from the purchase transaction unlike vendor-assesed fees where the fee is included in the price paid. In South Dakota, the agency pays the purchase price of the commodity or service and separately pays the fee to the central procurement program.

Texas

Texas employs both a centralized and decentralized state procurement program as directed by the Texas Legislature. State agencies have legislated procurement authority. However, to leverage procurement dollars in the state, the legislature created the Texas Procurement and Support Services division ("TPASS"), now under the Comptroller of Public Accounts ("CPA"), to oversee statewide procurement, the historically underutilized business program and other administrative offices and services established by the legislature. With some exceptions, state agencies and institutions of higher education are subject to the rules and guidelines established by TPASS in the execution of their procurement programs with state funds.

While TPASS programs are primarily funded by general revenue from the annual state budget, one of them is a fully cost reimbursable program, and another is partially cost reimbursable. The Centralized Master Bidders' List ("CMBL") is an online database of vendors eligible (but not endorsed by CPA) to do business with the state and which sends electronic notifications to vendors of new solicitations greater than $25,000. The CMBL identifies HUB vendors and lists all vendors by commodity code (NIGP) and geographic area. Approximately 12,000 vendors are charged an annual $70 listing fee which pays for the two employees who support the program.

The TPASS Training and Certification Program oversees and provides all state training for certification in both purchasing and contract management. Certifications awarded on completion of the respective examinations include the Certified Texas Purchaser ("CTP"), the Certified Texas Procurement Manager ("CTPM") and the Certified Texas Contract Manager ("CTCM"). Training course charges cover the cost of the program less the salaries of the two staff members who support it. TPASS uses training from nationally known professional training providers, other state agency procurement professionals and in-house purchasing and contract management leaders.

Two other programs are partially funded by other–than-general revenue dollars. The TPASS Statewide Mail Operations provides contract management services for a statewide mail contract belonging to the Council for Competitive Government ("CCG").

TPASS charges 25% of the time of the Statewide Mail Manager and Mail Office Manager to CCG for working with the vendor and providing these services.

TPASS also manages the Office of Vehicle Fleet Management ("OVFM"), a program established by the legislature to provide reporting on all state vehicles and identify fleet management efficiencies. In order to collect agency fleet data, provide legislative reports and respond to inquiries regarding the state fleet, OVFM employs an automated fleet management system ("FMS") able to provide data and reports at the TPASS and individual agency levels. Legislation allows for TPASS to collect from state agencies the cost of system maintenance for FMS. This is done through inter-agency contracts, which charge agencies an annual maintenance fee based on fleet size. All of these programs collectively serve as alternative funding initiatives to help reduce the overall cost of procurement programs to the State of Texas.

Virginia

The Commonwealth of Virginia has a 1% transaction fee, which is capped at $500 for small businesses and at $1,500 for all other businesses. Vendors and agencies (but not local governments) pay this fee based on the dollar value of each purchase order for goods and services. The Commonwealth is exploring reducing the amount of the fee, to a level yet to be determined.

Virginia is in the process of eliminating its annual $25 registration fee for vendor registration. Virginia collected this fee to maintain the integrity of vendor data by discouraging non-vendors from registering and participating in the procurement process. Virginia's e-procurement system has about 38,000 vendor registrations, but these vendors are active and dedicated to conducting business with Virginia. These 38,000 vendors are about one third the vendor populations of states that do not have an annual update registration process.

To date Virginia's system, known as "eVA", has processed over 2.1 million purchases with a dollar value of over $20 billion.

Summary

The current economic downturn will continue to impact state revenues for several years. This has made the role of central procurement more essential than ever. However, to maintain and increase effectiveness and level of service, state central procurement offices must find creative ways to fund activities and staffs. The use of an administrative fee, often in the form of a transaction fee, is increasing in popularity as a source to fund central procurement programs in part or entirely.

This paper shares the knowledge and experience gained by some of the states currently using an administrative fee. Clearly, one size does not fit all. No one approach has been determined to be superior to another.

This paper aims to provide resources, best practices, and lessons learned for states that may be considering the use of an administrative fee to help fund the central procurement program. By researching these methods, states can save time, energy and duplicative effort.

Attachments:

- **Attachment A –** Spreadsheet of States with Fees that Fund the Central Procurement Program
- **Attachment B –** Administrative Fees: Pros and Cons
- **Attachment C –** Administrative Fees: Decision-Making Processes and Lessons Learned
- **Attachment D –** State Resources Available

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ADMINISTRATIVE FEES:

Creative Funding for Central Procurement in Difficult Economic Times

ATTACHMENT A

September 2009

Metric	California* (interim solution until ERP)	Florida	Maryland	North Carolina	Virginia	Texas	Colorado / Utah	Connecticut	District of Columbia	Georgia	Canada Revenue Agency (CRA),	South Dakota	Kansas	New York	Oklahoma	Massachusetts
Name of System	eProcurement	MyFloridaMarketPlace	eMaryland M@rketplace	NC E-Procurement @ Your Service	eVA www.eva.virginia.gov	TxSmartBuy (TSB)	Colorado - Utah eProcurement System	CoreCT	Procurement Automated Support System (PASS)	Team Georgia Marketplace		n/a	n/a	n/a	n/a	Comm-PASS
Months in Production	3	72	95	93	98	5	Pilot stopped in 12/2001	72	54	4						Since 1997 with platform upgrade in 2004
Go-Live Date	Mar-09	Jul-03	Mar-00	Oct-01	Mar-01	Dec-09	Aug-00	Jul-03	Aug-03	Pilot Jan-2009				7/1/2008		7/1/2004
Agencies/Entities Using	189 (146 state agencies, 27 CSU, 14 UC and 2 local governments)	32	120	234	171 state agencies and institutions of higher education and 575 localities	200 State Agencies, 1800 Co-ops	10	82	87	4						399
Scope of User Base	State and local agency buyers & report coordinators, and suppliers responding to solicitations	32 State agencies	All state government agencies except universities. Includes First Responders	30 State agencies; 15 hospitals & institutions; 115 K-12 school systems; 58 community colleges; 15 local governments; 1 university	171 state agencies and institutions of higher education and 575 localities (some States count individual divisions, prison units, etc. as unique entities)	Employees of State Agencies, Co-ops and Institutes of Higher Education (must be certified purchasers)		All executive branch state agencies except Universities.		40+ executive branch agencies will use entire system, electronic catalogs will be used by 35+ universities and will be available for use by municipalities						Available at no charge for every public entity within Massachusetts. Required for executive departments (151) posting for goods and services valued at $50K or more and for any MA public entity conducting public construction or public works $10M or more or of any value when using a Management At Risk firm.
Number of Users	5,650	14,400	750	15,200	13,065	Currently: 1,874 Projected Annualized: 4,200		8207	3,811	835						≈500
Number of Registered Vendors	65,000	116,000	2,600	64,300	38,956	Currently: 146 Projected Annualized: 778	60	91,000	23,860	11,000						2,000+
Historically Underutilized Vendors		40,000	339	14,000	14,263	3,503 HUBS on CMBL. Current: 12 HUB Catalogs on TSB. Projected Annualized: 45 HUB catolgs on CMBL			437	N/A						45%
Total Spend	10.9 Billion	$6.4 Billion	$350M in bids posted	$14.7 Billion	$20 Billion	Current: $51.6 M. Projected Annualized: $500 M			$10 Billion	$62M in pilot agencies					$700 million	≈5.0B
Number of Purchase Orders Issued	12,480	730,000	approx 40/week	2,580,000	2,154,551	Current: 3,092. Projected Annualized: 20,000		average 850 per day	119,379	1600 in 4 pilot agencies						N/A
Online Catalog Items (SKU's) Loaded	105,584	195,000	256,000	89,000	5 million (includes Punchout)	Current: 475,000 (approx). Projected Annualized: 4,000,000		345,000	49,206	>$300,000						N/A
Punchout vendors	0	9 punchout vendors		14 punchout vendors	93	Current: 0. One in progress		0	0	5						N/A
Electronic Catalogs	9	900 catalogs (includes ordering instructions		500 catalogs	983 catalogs	Current: 162. Projected Annualized: 1,023		550	5	55						N/A
Supplier Transaction Fee	0%	1%	As of 8/07, all fees were eliminated Previously, 2% with $500 Cap on Catalog Orders	1.75%	Small = 1% w/ $500 cap per order All Other = 1% w / $1,500 cap per order	1.5% per transaction, invoiced monthly. This percentage will decrease as the system is paid off. Yearly maintenance will run approx. $2M, resulting in an ongoing fee of approx. 0.5% per transaction	1%	NA	1% fee self reported by vendors with a contract with Office of Contracting and Procurement (OCP)	Admin fees (which may vary by contract) are charged on most statewide contracts based on dollar volume	1%		0.50%	0.50%	$25/commodity	1% self-reported by vendors and audited by OSD
Charge Fee for Goods	No	Yes	Yes	Yes	Yes			No	Yes	Yes		Yes	Yes	Yes	No	Yes
Charge Fee for Services	No	Yes	Yes	No	Yes			No	Yes	Yes		Yes	Yes	Yes	Yes	Yes

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Other Fees	(State and Local Govt) $42.50 solicitation ads; 1.77% of order for various purchasing transactions, max $7500-$35,000	None	Annual $150 basic or $225 premium Bid Solicitation	2% charged on many IT Services contracts to fund IT Procurement Operations	$25 / year registration fee for vendors and Agencies and institutions pay same transaction fee as vendors, but not local govt	Contractors pay $70/year to be listed on the CMBL for bid opportunities from commodities or servises that will be on TSB. CO-OP members pay $100/year to be able to purchase off of TPASS statewide contracts on TSB		None	N/A	N/A		0.7% fee charged to state agencies. SD will be charging a fee for services eventually, but do not currently. The fee for services will be $45 per hour for services provided related to an RFP process.				$275 per year to vendors for Comm-PASS SmartBid subscription services including online response required for statewide contract procurements
System Integrator	BidSync	Accenture	SAIC, BearingPoint?	Accenture	CGI-AMS Group	Formerly: Bearing Point. Currently: NIC (Deloitte)	NIC Commerce, the eProcurement subsidiary of NIC (Nasdaq: EGOV)	Accenture	Unisys	CherryRoad Technologies						Deloitte
Core Software	Oracle	- Ariba - Accenture eQuote and Vendor Registration Applications	- Catalog: Iplanet - Bid Solicitation: BearingPoint Product	- Ariba - Accenture eQuote and Vendor Registration Applications	Ariba CGI Advantage	Oracle (i-Procurement), Vinimaya. Purchases are made through Oracle. Vinimaya is used for administration of the system and e-catalogs		Peoplesoft	Ariba	PeopleSoft & SciQuest	Ariba				PeopleSoft	BearingPoint Product (Savvy) Oracle dB
Specific Modules	Search, Bids, Purchasing, BIS, Progress Pmts, Tools, CRM, Catalog Management, Contract Management, Supplier Registration and Management , Strategic Sourcing	- Ariba - Buyer (with Invoicing and Contracts add-ins) - Ariba - Sourcing - Ariba - Analysis -,ACN Vendor Registration - ACN eQuote		- Ariba - Buyer -,ACN Vendor Registration - ACN eQuote - SAS Reporting Tool	- Ariba - Buyer - Ariba ASN - Advantage Procurement - Advantage Vendor Self Service - Advantage Quick Quote	*Purchase Goods and Services, *Search Items and Prices by Destination City, *Upload Monthly Sales Reports, *Query Spend Reports, *Create Reconciliation Reports, *View HUB Contractors in TSB	The system includes full dynamic workflow, supplier community support, legacy systems integration, interoperability with existing financial infrastructures, and integration of existing State Price Agreements and State Contracts	E-pro; purchasing;vend or contracts; catalog management; inventory	Buyer & Analysis (FY09 Sourcing & Contracts Compliance)	Strategic Sourcing, eSupplier Connect, eProcurement, Supplier Contract Management, Catalog Management used in conjunction with PeopleSoft Core Financial modules					General Ledger, HR/Payroll, Purchasing	Creation, posting, and management of Solicitation Announcements, Solicitations, Forums (online written Questions and Answer related to a Solicitation), and Contracts; online bid submission; integration with State Office for Minority- and Women-Owned Businesses certification dB. October 1, 2009: Creation, posting and management of Quick Quotes and Statewide Contract Quick Quotes with dynamic workflow and approvals for request, award and purchase orders; Small Business Program self-certification
Number of Financial System Interfaces	0	1	0	175	25 interfaces with 34 systems Realtime integration with Banner & Peoplesoft for approx 30 entities	Standard integration across multiple state agency purchasing systems is in progress		0	Integrated into the District's back-end ERP systems including Oracle database systems, and its Bearing Point financial system, providing real-time budget checking during the procurement process	0						0
Online	0	1		175					1							
Batch	0	0		0					0							

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ATTACHMENT A

September 2009

Metric	California* (interim solution until ERP)	Florida	Maryland	North Carolina	Virginia	Texas	Colorado / Utah	Connecticut	District of Columbia	Georgia	Canada Revenue Agency (CRA),	South Dakota	Kansas	New York	Oklahoma	Massachusetts
Primary Data Source	www.eprocure.dgs.ca.gov	Perfomance Metrics Report	https://ebidmarketplace.com/. Technology Director = Lisa McDonald (410) 767-4084. Left message on 3/10/08	Operations Summary Report	Director, Division of Purchases and Supply, Department of General Services	External: Reconciliation and Spend Reports. Internal: Online Purchase Orders, Online Sales Reports	in December 2001, the Company was informed by its customers in Colorado and Utah that the Colorado/Utah project would not continue beyond the pilot phase of production	Website	Articles; I emailed David Gragan on 3/11/08 with questions Phone: 202/724-4242 david.gragan@dc.gov. I received answers from Gary.Trice@dc.gov on 3/14/08	Gina Tiedemann, Director, Customer Advocacy, State Purchasing Division http://doas.ga.gov/TGM/Pages/Home.aspx						**Operational Services Division, Director, eProcurement Systems**
Date Data Last Updated	6/8/2009	6/30/2009	2/12/2008	6/30/2009	6/1/2009	5/1/2009	39,525	6/1/2009	3/14/2008	6/9/2009	2/11/2008	2/11/2009				6/1/2009

Comments:
Blank cells indicate information was not available

District Of Columbia
http://dc.gov/mayor/scorecards/ocp.shtm

California
2% Buyer fee already in existence prior to CalBuy being implemented. Some % fees vary depending on good. CAL-buy website: http://www.pd.dgs.ca.gov/calbuy/default.htm

Maryland
Maryland information source: An eMarketplace representative indicated that they are in the process of updating their stats and the only information available is the March 2002 Annual Report. Website, annual report, http://www.emarylandmarketplace.com/emm/index.cfm. http://www.emarylandmarketplace.com/emm/pdf/2002AnRpt.pdf (March 2002 Annual Report) -- Article in Governing Magazine March 2002 issue. February 24, 2003: Article announcing 3 year extension of eMarketplace contract: http://baltimore.bizjournals.com/baltimore/stories/2003/02/24/daily3.html
Purchase orders for catalogs average about 40/week, did not have a total.

Connecticut
Connecticut Website,http://www.das.state.ct.us/Purchase/New_PurchHome/Busopp.asp
Submitted a request for more current information with CT E-Procurement team

Virginia
Virginia's information source: website information www.eVA.virginia.gov and Director, DGS/DPS

Attachment B - NASPO Administrative Fees Survey of Pros and Cons

NASPO surveyed states that have administrative or other fees that fund the central procurement program in whole or in part. California, Delaware, Florida, Georgia, Kansas, Massachusetts, Minnesota, New York, Oklahoma, South Dakota, Texas, Virginia and Washington, D.C. all contributed to this overview of the "Pros and Cons" of a fee. Some of the states contributed to one or more of the categories below dependent upon how they implement the fee and who pays the fee.

	To Central Procurement	To Suppliers	To Agency Customers
PROS:	▪ Funds central procurement function in whole or in part ▪ Funds additional state purchasing related programs in some states ▪ Funds e-Procurement system ▪ Provide for investment in systems, tools, people and processes ▪ Less dependency upon general appropriations ▪ Supports strategic sourcing efforts ▪ Unlike general appropriations, funding can carry over from one fiscal year to the next in most instances	▪ In some states suppliers benefit from the electronic tools, (such as a single registration system for bids) that is funded by the fee ▪ Enterprise contracts reduce redundant solicitations – saving time and effort for suppliers ▪ Suppliers can pass through the cost in their bid ▪ Spreading the fees over a wider base reduces the cost of the system use by the suppliers ▪ Many suppliers have no problem with fees and believe the valued added from e-Procurement is worth the cost	▪ Reduced costs of procurement because central office managing enterprise contracts ▪ For some states, the fee provides for a single e-Procurement system for purchasing of commodities and services ▪ Data/ reports of spend readily available ▪ Central procurement contracts available for their use ▪ Reap benefits of Strategic Sourcing ▪ No impact on agency customers. Assuming our contracts are cost competitive, the implementation of the admin fee will be seamless

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	To Central Procurement	To Suppliers	To Agency Customers
CONS (Challenges):	▪ Revenue generation may not cover central procurement program costs ▪ Transition funding required until revenue from fee can be generated. With a fee, appropriations can be reduced or eliminated ▪ Risk of revenue generation – subject to market fluctuations ▪ Inherent risk due to economies of scale. Small states or local governments considering a fee may not have a sufficient base and therefore not generate sufficient revenue to sustain themselves ▪ Billing and collection overhead required to track fees is expensive. Tracking sales under the contracts subject to the fee is a challenge ▪ Potential risk of litigation over fee assessment. Fee v. tax unclear ▪ Fee revenue generation may be adversely impacted for contracts when Federal Departments get involved because federal dollars are spent through these transactions	▪ The cost to the supplier would be passed on in their bids ▪ Suppliers object to payment of fee ▪ Suppliers often don't understand the benefits they receive for the fees they pay ▪ Some desired vendors may choose not to bid, because of the added cost of submitting a proposal, with limited possibility of recouping their costs ▪ Negative impact on all businesses and especially small, minority or women owned firms relative to the extra bookkeeping, records productions and expense of accounting for and paying fees	▪ For those states where the agency customer is charged a fee the customer is unhappy ▪ For those states where the fee requirements are placed in agency contracts in addition to central procurement contracts, it is an administrative burden to the agency when they receive no direct benefit ▪ Administrative burden of dealing with or enforcing fee for which they are not responsible ▪ Perception that the commodity or service available form a state term contract costs more because of the fee ▪ Administrative burden of requiring/ requesting fee exemptions

Attachment C - NASPO Administrative Fees Decision Making Process and Lessons Learned

1. What went into the decision-making process surrounding your state's decision to implement its administrative fee?

- **California**: We are a fee for service and need to recoup our costs – it has been this way since the California's Procurement Division was established in the 1960's. Information is not available as to how the decision was made to implement administrative fees.

- **District of Columbia:** The District first decided to implement a DC Supply Schedule ("DCSS") program as a means of helping agencies meet the statutory goal that 50% of an agency's purchases must be made with District-certified small business enterprises. In order to establish the DCSS, the District utilized contractors and needed additional staff. The administrative fee was viewed as a way of offsetting the costs of the program.

- **Florida:** Those that implemented the fee originally are no longer with the Department so it is difficult to accurately answer this question. However, we are confident that a major part of the decision making process was the need to build a state of the art online procurement system with no funding to do so. The imposition of the transaction fee created the revenue necessary to pay for SP and the online system.

- **Georgia**: Decision is primarily driven by the amount of contract administration associated with any given statewide agreement. Notwithstanding, our organizations develops the statewide agreement (through comprehensive data analytics, development of cross-functional core teams, protests, multiple negotiations, marketing, and etc.) manages quarterly business reviews, supplier issues, performance problems, and anything related to supplier(s)/contract performance/adherence on behalf of the State.

- **Kansas**: Budget Proviso forced us to start collecting the fee to mitigate budget shortfalls.

- **Massachusetts:** The Executive Office for Administration and Finance asked state departments for "game changing" ideas due to the severe setbacks in the economy which ultimately resulted in budget cuts statewide. After discussing the admin fee with several states, we determined that this would be a great opportunity to generate additional revenue for the Commonwealth, along with becoming totally self funded over time. As a result, the 1% admin fee was approved as a retained revenue account for FY10 with a ceiling of $900,000. We also have the opportunity to increase the ceiling during the budget process on a fiscal year basis.

- **New York**: Division of the Budget created the plan as a cost savings initiative for the state based on the significant spend of the centralized statewide contracts and estimated revenue that could be generated from such spend. There is a wealth of information on our web site. http://www.ogs.state.ny.us/purchase/ProcurementContractFee.asp

- **Oklahoma**: Reduction in appropriated dollars.

- **South Dakota**: South Dakota's admin fee is charged to the using agencies. This was done to recover actual costs to operate central procurement. The fee is adjusted quarterly based on actual expenses. This was done to prevent the need for general fund appropriations which may not reflect actual costs of the services provided by central procurement.

2. What methodology was used for implementation?

- **California**: Calculated our annual expenditures against annual revenue to forecast out what is needed in the following fiscal year.

- **District of Columbia:** The District had to obtain statutory authority for the fee from the Council of the District of Columbia. (See DC Official Code sec. 2-311.03.) The statutory provision provided for the Chief Procurement Officer ("CPO") to determine the amount of the fee by regulation, so the CPO subsequently promulgated a rulemaking setting the fee at 1%.

- **Florida:** First, state statute was passed that enabled (1) the assessment of a administrative fee, (2) defined the scope of state services and programs the fee was intended to support and (3) enabled and provided the authority for the drafting of rules and regulations for the fee. Second, detailed rules and regulations were drafted to provide for the fee and appropriate exemptions from the fee and other details required to implement the program.

- **Georgia**: Everything that we do from a statewide perspective is done using our seven-step methodology; admin fees, breadth of scope, cross-group agency participants all arrive at a consensus in terms of how much of an admin fee should be administered.

- **Kansas:** Initial implementation (previous director!) went poorly. It was implemented at the end of a Fiscal Year as an "invoice price + additional fee" rather than incorporating into unit pricing at next re-bid of contract (this created balance problems for agencies after FY end; Program was poorly managed – vendors required to submit reports and payments quarterly, but failed to follow-up…we follow-up now with great success.

- **Massachusetts:** We decided to approach this new admin fee with just statewide contracts; department specific contracts and contracts for health and human services were not included. The fee will be implemented on contracts that are up for renewal and re-bid only. In the first year of implementation (FY10), we anticipate meeting our revenue ceiling and perhaps more.

- **Minnesota:** Minnesota's central procurement office has statutory authority to charge fees to cover its administrative costs of operating purchasing programs.

  In FY08, Minnesota collected $2.2 million in fees from state contract vendors. That amount was shared between the central procurement office ($1,469,000) and the enterprise technology office ($731,000). As general fund revenues have eroded, this fee-based revenue source has been essential to maintaining strong purchasing and technology organizations in Minnesota.

  Contract fees in Minnesota are not a fixed percentage. They are negotiated on a case-by-case basis and in most instances are less than 1%. This flexibility has been helpful in responding strategically in varying circumstances with vendors and contract users.

  Prior to FY08, Minnesota also charged membership fees to local government units for the use of its state contracts. These fees (generally $500) were eliminated because the state found that (a) it could cover its administrative costs without relying on this revenue and (b) charging local units to join was a disincentive to their use of state contracts. With membership now free to local units, the 2009 Minnesota legislature enacted language requiring municipalities to "consider" use of state contracts before using other options any time their contracts costs will exceed $25,000.

- **New York**: Fees are included in bidders cost to the state and are not allowed as a separate charge on an invoice. See web site for detailed information. The following types of contracts may be exempted from the fee:
  - Federal contracts
  - Other public jurisdictions' contracts
  - Multi-state contracts
  - Certain schedules adopted by the state, or
  - Centralized contracts where a contract requirement includes an administrative fee.

- **Oklahoma**: Expressed legislative authority.

- **South Dakota**: State agencies pay a % "assessment" fee based on actual purchases authorized through the central procurement office. The finance officers in each agency ensure the fee is remitted from their approved budgets at time of invoice payment.

- **Virginia:** Virginia central procurement held focus groups with large and small vendors early on and asked would they and what would they be willing to pay for value added e-procurement services if Virginia developed them. Vendors indicated they would pay a reasonable fee, but wanted a step ladder approach. An example cited to avoid was a flat fee so no matter what the cost of the item a vendor had to pay the same fee. If you bought a coffee cup a vendor had to pay a fee higher than its cost.

  In developing the fee algorithm Virginia estimated the annual and program cost of the system and did an analysis to determine what level of fee and cap level would provide adequate funding for the system.
  Consideration was given to not setting the fee so high that it would become a barrier to small business.
  A decision brief to the Governor to authorize the project and funding requirement was prepared and approved.

  The Administration submitted language for the Appropriations Act to authorize charging a fee to agencies and vendors. That language is:

  "The Commonwealth's electronic procurement system will be financed by fees accessed to state agencies and institutions of higher education and vendors. These fees will be determined by the Department of General Services in consultation with the Department of Planning and Budget and the State Comptroller."

3. Please briefly share any lessons learned from implementation:

- **California**: Make sure that Agencies are very aware of the fact that there is a fee for using a State Contract.

- **District of Columbia:** The manner for collecting the fee is important. Fee collection should not rely on self-reporting of sales by the vendor. The procurement system should allow for easy tracking of the purchase orders subject to the fee, and the fee should be automatically deducted from any payments sent to the vendor.

To the extent possible, the statutory authority should provide for the fees collected to continue in the separate fund (not the general fund) without reverting to the general fund at the end of a fiscal year. Also, the statutory authority should allow the fee to be used to support any operations of the agency, and not just be limited to those operations supporting the specific DCSS program.

The procurement agency should assess whether it is worth establishing and collecting a fee. The money to pay the fee still comes from the District of Columbia budget, just not necessarily the budget of the contracting office. The amount of money collected has not fully sustained the DCSS program, and collection has been challenging.

- **Florida:** The State of Florida has one of the more complex set of rules and regulations concerning the implementation of the fee. Both clarification and greater simplicity is a lesson learned. The original plan called for taking the fee out prior to payment to vendors, an approach that was never able to be implemented. Florida then had to develop billing and collections processes afterward, causing a variety of issues in implementation.

- **Georgia**: Always make sure to be very inclusive with participants, solicit feedback, and arrive at consensus. Buy-in from stakeholders is vital to the success of your implementation for both launch and long-term sustainability and use. Lastly, make sure people understand what goes into the development of your initiatives and how much more management is associated with performance after the contract is executed.

- **Kansas:** See above.

- **Massachusetts:** Support from the Executive and Legislative Branches is critical to implement any administrative fee. Seek authorizing language that provides flexibility in terms of % fee to be collected, how and where the fee will be paid, any exemptions to the fee, etc.

  Implementation is certainly easier when state governments are facing severe budget reductions.

  Implement gradually, if possible and through new procurements and renewals to provide contractors with an opportunity to increase their price although if they choose to increase their prices, they risk losing their contract or losing business if other companies choose to absorb the 1% fee.

There are staff resources needed to manage the implementation, collection and management of the administrative fee. Payments must be processed, non-payers must be contacted, penalties assessed where appropriate and funds must be tracked to ensure that sufficient revenue is received to pay for the state procurement office.

- **New York**: Unfortunately the amount expected to be recovered was based on the total contract value rather than the value as the contracts are renewed/rebid over a 5-10 year period so the savings was well over estimated and will take many years to get to the original estimated revenue anticipated.

  Estimates must be accurate.

  Implementation through the Tax Dept was very difficult and at one time that Dept had approximately 30 people working on the project, given the legal and IT implications. Had to consider plans for refunds, overcharges, protests, and penalties based on Tax Dept law, etc.

  Fortunately a project manager was assigned to the task and this proved critical because the project was much more complicated than originally anticipated.

  One problem encountered was that we had to ensure that the company used their legal business name and FEIN to match with Tax records. Our office is unable to verify such information and it presents problems at time of registration on the Tax site for payment. The issue is still not resolved.

  Need more vendor and agency outreach to try to sell the program. There was a lot of dissatisfaction over the program.

  Live phone help was limited when rollout began.

  Total of 8279 hours spent on the project.

  Problems existed in uploading vendor information from one database to another between the agencies.

  Small businesses had a different start date and that created more difficulties with respect to collecting fees and writing the language as some bidders would have the fee and others wouldn't.

Created major problems with respect to fuel contracts where part of the price is based on a floating market. Ultimately we add the fee (transparent to users) to the final cost after the contractor's base cost and the floating cost. This was the first procurement to include the fee and was the most difficult that required different language for the vendors. It is the only exceptions where we add the fee because of the floating nature and combination of 2 prices as the final cost.

Had to determine how it related to mini-bids.

Had to determine what is the definition of a sale?

The contractor must maintain a consistent accounting method of sales reporting based on the contractor's established commercial accounting practice. This practice should be the determining factor on when the contractor reports sales and may include but need not be limited to:

- Receipt of order
- Shipment or delivery
- Issuance of an invoice
- Payment

- **Oklahoma**: The unknown is perhaps the greatest threat to funding operations of state procurement. While we know other states are successful in such funding mechanisms, we have been reluctant to rely solely on administrative fees for funding personnel. Generally, Oklahoma is selective in the imposition of administrative fees not wanting to create a price disparity for our contract users.

- **South Dakota**: This process is more palatable to vendors as they are not required to remit fees to the state for sales made to state agencies. There is less political pushback than for vendor paid admin fees.

Attachment D - NASPO State Resources Available

The following individuals updated Attachment A with information about their states' administrative fees. Please use the contact information below if you would like additional information from any state:

California Mary Ann Kuwamoto Department of General Services (DGS) Procurement Division Headquarters 707 Third Street, Second Floor West Sacramento, CA 95605 Phone: (916) 375-4620 Email: MaryAnn.Kuwamoto@dgs.ca.gov	**New York** Monica Wilkes Acting Deputy Director OGS Procurement Services Group Corning Tower Floor 38 Empire State Plaza Albany, NY 12242-1100 Phone: (518) 473-4393 Email: monica.wilkes@ogs.state.ny.us
Colorado John Utterback State Procurement Director Division of Finance & Procurement 633 17th St Ste 1520 Denver, CO 80202 Phone: (303) 866-6181 Email: john.utterback@state.co.us	**North Carolina** James Staton State Purchasing Officer Department of Administration 116 W Jones St Raleigh, NC 27603 Phone: (919) 807-4533 Email: james.staton@doa.nc.gov
Florida Walter Bikowitz Chief of Purchasing Operations Division of State Purchasing Department of Management Services 4050 Esplanade Way, Suite 360 Tallahassee, FL 32399-0950 Phone: (850) 488-7809 E-mail: Walt.Bikowitz@dms.myflorida.com	**Oklahoma** Lee Johnson Contract Administrator Department of Central Services 5905 Kingston Rd Oklahoma City, OK 73122 Phone: (405) 522-5395 Email: lee_johnson@dcs.state.ok.us
Georgia Gina Tiedman Customer Advocacy Director State Purchasing Department of Administrative Services Phone: (404) 463-5558 phone Email: gina.tiedemann@doas.ga.gov	**South Dakota** Jeff Holden Director Office of Procurement Management 523 E Capitol Ave, PMB 01231 Pierre, SD 57501 Phone: (605) 773-3405 Email: jeff.holden@state.sd.us

Attachment D - NASPO State Resources Available

Kansas Chris Howe Director of Purchases Department of Administration 900 SW Jackson Rm 102N Topeka, KS 66612 Phone: (785) 296-2374 Email: chris.howe@da.ks.gov	**Texas** Chris Christine Manager, Statewide Contracting & Procurement Programs Texas Procurement and Support Services Comptroller of Public Accounts 1711 San Jacinto Austin, Texas 78701 Phone: (512) 463-9520 Email: chris.christine@cpa.state.tx.us
Maryland Michael Haifley Director of Procurement Department of General Services 301 W Preston St State Office Bldg Rm M-10 Baltimore, MD 21201 Phone: (410) 767-4429 Email: michael.haifley@dgs.state.md.us	**Utah** Kent Beers Director of Purchasing Department of Administrative Services 3150 State Office Bldg Capitol Hill Salt Lake City, UT 84114 Phone: (801) 538-3143 Email: kbeers@utah.gov
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