



05-03-17 P02:19 IN

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
One Capitol Hill
Providence, R.I. 02908-5886

Memorandum

To: The Honorable Marvin L. Abney
Chairman, House Finance Committee

The Honorable William Conley, Jr.
Chairman, Senate Finance Committee

From: Thomas A. Mullaney *Thomas A. Mullaney*
Executive Director/State Budget Officer

Date: May 2, 2017

Subject: New Article -- Relating to State Purchases (17-H-5175)

Summary

The Governor requests that a new article entitled "Relating to State Purchases" be added to the FY 2018 Appropriations Act. This article would authorize the Chief Purchasing Officer for the Department of Administration to establish, charge and collect from state contractors, listed on master price agreements (MPAs), a statewide contract administrative fee not to exceed one percent (1%) of the total value spent against a contract awarded to a state contractor. All statewide contract administrative fees collected pursuant to this subsection would be deposited into a restricted receipt account within the general fund designated as the "division of purchases administrative fee account" and shall be used for the purposes of implementing technology for the submission and processing of bids, online vendor registration, bid notification, and other costs related to state procurement. The article would also require the Chief Purchasing Officer to annually file a report with the Governor, the Speaker of the House, and the President of the Senate detailing collections from the fee and how the funds are being used.

According the National Association of State Purchasing Officials ("NASPO"), several states currently employ an administrative fee, including California, Connecticut, Florida, Georgia, Kansas, Massachusetts, Minnesota, New York, North Carolina, Oklahoma, South Dakota, Utah, and Virginia to fund operations. These fees range from 0.50% to 2.0%, with 1.0% being the most common charge. Implementing this administrative fee will allow the Division of Purchases to improve its operations through technology by providing a steady funding source.

Based on an analysis of state spend against mater price agreements in FY 2015 and FY 2016, the Division is estimated to collect approximately \$600,000 in FY 2018, \$780,000 in FY 2019 and \$825,000 in FY 2020 from State purchases through MPAs. Data is not available to the Division for non-state spend against state MPAs, such as that done by the state colleges and university, quasi-public agencies and municipalities. Under the proposed fee, all such spend would require the 1.0% fee be assessed to the respective vendors and thus, the amount to be collected by the Division is expected to be much higher than the amounts listed above over the next few years.

The revenues generated by this assessment would be used to support the implementation of a new online e-procurement system that will be available to all state agencies, quasi-public agencies and municipalities. This revenue will also go towards offsetting the e-procurement related savings proposal of \$350,000 included in the Governor's recommended FY 2018 Budget.

The new restricted receipt account is not recommended to be exempt from the indirect cost recovery assessment and thus would result in a small increase in general revenue receipts.

If you have any questions concerning this new article, please feel free to reach out to me or my staff at 222-6300.

TAM: 18-Amend-17
Attachment

cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Michael DiBiase, Director of Administration
Jonathan Womer, Director, Office of Management and Budget
Gregory Stack, Supervising Budget Analyst
Carmela Corte, Supervising Budget Analyst

NEW ARTICLE

RELATING TO STATE PURCHASES

1 SECTION 1. Section 37-2-12 of the General Laws in Chapter 37-2 entitled "State Purchases" is
2 hereby amended to read as follows:

3 **§ 37-2-12 Centralization of the procurement authority – Administrative costs.** (a) All rights,
4 powers, duties, and authority relating to the procurement of supplies, services, and construction, and the
5 management, control, warehousing, sale, and disposal of supplies, services, and construction now vested in
6 or exercised by any state agency under the several statutes relating thereto are hereby transferred to the
7 chief purchasing officer as provided in this chapter, subject to the provisions of § 37-2-54. A public agency
8 does not have to utilize the centralized purchasing of the state but the public agency, through its existing
9 internal purchasing function, shall adhere to the general principles, policies and practices set forth in this
10 chapter.

11 (b) The chief purchasing officer, as defined in § 37-2-7(3)(i), may establish, charge and collect
12 from state contractors, listed on master price agreements, a statewide contract administrative fee not to
13 exceed one percent (1%) of the total value of the annual spend against a contract awarded to a state
14 contractor. All statewide contract administrative fees collected pursuant to this subsection shall be deposited
15 into a restricted receipt account within the general fund designated as the "division of purchases
16 administrative fee account" and shall be used for the purposes of implementing technology for the
17 submission and processing of bids, online vendor registration, bid notification, and other costs related to
18 state procurement. On or before January 15, 2019, and annually thereafter on or before January 15, the chief
19 purchasing officer or designee shall file a report with the governor, the speaker of the house, and the
20 president of the senate detailing:

21 (i) The total amount of funds collected and deposited into the division of purchases administrative
22 fee account for the most recently completed fiscal year;

23 (ii) The account balance as of the date of the report;

1 (iii) An itemization of all expenditures and other uses of said funds from said account for the most
2 recently completed fiscal year; and

3 (iv) An annual evaluation as to the appropriateness of the amount of the contract administrative fee
4 on master price agreements.

5 SECTION 2. This article shall take effect as of July 1, 2017.