

**Fiscal Note – 2011-12 Session**

**Bill #:** H1234-0 **Complete Date:** 03/23/11

**Chief Author:** DOWNEY, KEITH

**Title:** STRATEGIC SOURCING RFPS

<b>Fiscal Impact</b>	<b>Yes</b>	<b>No</b>
State	X	
Local	X	
Fee/Departmental Earnings		X
Tax Revenue		X

**Agency Name:** Administration Dept

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
<b>Expenditures</b>					
General Fund		222	213	213	213
<b>Less Agency Can Absorb</b>					
-- No Impact --					
<b>Net Expenditures</b>					
General Fund		222	213	213	213
<b>Revenues</b>					
-- No Impact --					
<b>Net Cost &lt;Savings&gt;</b>					
General Fund		222	213	213	213
<b>Total Cost &lt;Savings&gt; to the State</b>		222	213	213	213

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
<b>Full Time Equivalents</b>					
General Fund		2.00	2.00	2.00	2.00
<b>Total FTE</b>		2.00	2.00	2.00	2.00

### **Bill Description**

SF908-0 requires the Department of Administration (Admin) to issue a Request for Proposal (RFP) for a contract to recommend efficiencies in strategic sourcing. The RFP would require a proof of concept phase at no direct cost to the state, and would require full state-wide implementation if the proof of concept provides material savings to the state. Following full implementation, the contracted vendor would be paid from savings attributable to its work.

### **Assumptions**

Minnesota has been a recognized national leader in the use of strategic sourcing. The state's successes were most recently documented by the Pew Center on the States in its May 2010 publication "States Buying Smarter: Lessons in Purchasing and Contracting from Minnesota and Virginia." Because Minnesota has already aggressively adopted strategic sourcing practices, the opportunity for additional savings through a consultant contract would be lower than in states that have no comparable program.

Measuring savings can pose difficulties with contracts of this nature. The states of California, Iowa, Wisconsin and West Virginia have all had high-profile contract disputes or litigation with their strategic sourcing vendors over issues of measuring savings. Similarly, auditors in Illinois, New Mexico and Oregon have issued audit findings challenging strategic sourcing consultants' alleged savings.

When actual savings can be documented, capturing them as contingent-fee payments to a vendor would be challenging given the state's decentralized purchasing. Efforts to do so can expect to be met with resistance from the state agencies and local units of government impacted.

It will be essential to ascertain which savings are attributable to the contract vendor's activities and which are the result of the state's existing and ongoing programs. If that distinction is not made with precision, there is a risk that the state would be paying a private sector vendor for the work done by state employees.

The intent of the bill is for the contractor to be paid based on savings to the state, but how those savings will be gathered and where the funds will be appropriated to pay the contractor is not clear. Consequently, neither the contractor costs nor the estimated savings are included in this fiscal note.

### **Expenditure and/or Revenue Formula**

Implementation of the bill would require one full-time equivalent (FTE) position (Acquisition Management Specialist) to issue the RFP and manage the contract. This individual will also serve as the liaison between the contract vendor and affected state agencies and will be responsible for obtaining all the state data that will be needed by the vendor for its analysis, proof of concept and implementation.

Given the difficulties inherent in documenting savings and the history of litigation over this issue in other states, implementation will also require one FTE (Auditor Principal) in an auditor capacity to (1) verify which savings are attributable to the vendor's activities and which are attributable to the state and (2) develop methods for recovering appropriate savings from state agencies and local units of government.

### **Long-Term Fiscal Considerations**

It is not possible to predict.

### **Local Government Costs**

Local governments currently receive the full benefit of the reduced pricing negotiated by the state in its enterprise contracts. Under this proposal, some share of future price reductions would be owed to the contract vendor.

### **References/Sources**

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Pew Center on the States Report - "States Buying Smarter: Lessons in Purchasing and Contracting from Minnesota and Virginia"

California: "State contracts overhaul in tatters; New Mexico firm hired to help the effort was let go, unpaid, and it's suing;" Sacramento Bee, <http://www.sacbee.com>, May 22, 2008

Illinois: (1) "Audit questions CMS cost-cutting efforts, authorities review findings;" Illinois Issues On-line (University of Illinois at Springfield), March 2004; (2) "Auditor slams Illinois' guardian against waste;" Heartland Institute Budget and Tax News, June 1, 2005

Iowa: "Savings effort for state faulted again;" DesMoinesRegister.com; May 6, 2008

New Mexico: "Two state agencies withhold disputed contract savings;" Milwaukee Journal Sentinel; March 21, 2006  
(article regarding Wisconsin discusses vendor's previous issues in New Mexico)

Oregon (City of Portland): "Strategic Sourcing: Projected savings not achieved – program poorly implemented;" Office of the City Auditor, July 2007

Wisconsin: (1) See New Mexico reference above; (2) "State cancels part of contract to trim contracts;" Milwaukee Journal Sentinel; April 7, 2006; (3) "State to end cost-savings deal;" Madison.com; April 8, 2006

West Virginia: (1) "Statehouse beat: spending advisor sets up shop;" Charleston Gazette, April 4, 2005; (2) "2005 legislature had its share of winners and losers;" Charleston Gazette, April 11, 2005

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### **EBO Comments**

I have reviewed this Fiscal Note for accuracy and content.

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