

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 74** HLS 15RS 368
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 31, 2015 2:04 PM	Author: RICHARD
Dept./Agy.: Division of Administration	
Subject: Social Services Contracts	Analyst: Travis McIlwain

BUDGETARY PROCEDURES OR SEE FISC NOTE GF EX Page 1 of 2
 Prohibits awarding certain contracts for social services without competitive bid

Proposed bill eliminates certain conditions under which a social services contract may be awarded without competitive bidding. The parameters eliminated include: when local cash or in-kind contributions exceed 10% of the required contract amount, nature of the services being provided necessitates that a continuity of contractors be maintained, the total contract amount is less than \$250,000/12-month period, social service contract in existence prior to November 30, 1985. Proposed bill limits sole source procurement to social service contracts for which only one or no proposals are received under the RFP process. Proposed bill prohibits the contract award when the legislature makes an appropriation to the contractor but the appropriation is not authorized by law.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Due to the proposed legislation potentially resulting in both an indeterminable increase in state expenditures and an indeterminable decrease in state expenditures, the LFO cannot determine the net state expenditure impact of the proposed legislation. This bill eliminates four distinct parameters that currently allow for social service contracts to be awarded without competitive bidding. Unless state agencies that currently utilize social service contractors modify the process by which social services are delivered by those contractors, enactment of this bill will likely result in an increase in the number of Request for Proposals (RFPs) being competitively bid for social services. However, the likely increase in state expenditures could be offset by the potential decrease of some social service contract expenditures due to the requirement to competitively bid social service contracts valued less than \$250,000. The decrease in social services contract expenditures will occur only if those social service contracts that were not competitively bid previously actually result in lower contract amounts.

According to the Division of Administration (DOA), the anticipated increase in RFPs will require up to 48 additional TO positions and approximately \$4.1 million in expenditures related to these positions (\$4 million - salaries/related benefits, \$56,000 - various operating services, \$44,000 RFP postage & printing). Based upon the last 12 months of contract data from the DOA (April 1, 2014 - March 30, 2015), there were 601 social services contracts initiated during that time frame. According to the DOA, 494 of these contracts have an annualized per year value of less than \$250,000 (aggregate value of \$34.4 million for an average contract value of approximately \$67,000). Thus, if this proposed legislation had been in effect during that same 12-month timeframe, there would have been 494 RFPs developed, drafted, bid and processed. According to the Office of State Procurement, a typical RFP requires approximately 200 total employee hours (State Procurement & user agency hours combined) per RFP for a total of 98,800 of additional work hours (200 x 494 = 98,800). Thus, the cost of the additional 48 positions is calculated as follows: (494 RFPs x 200 hours)/2,080 hours per work year = 48 new TO positions. The average salary and related benefits for a contract staff individual is \$56,592 for salaries and \$27,259 for related benefits for an aggregate total of approximately \$4 million for the new positions. The remaining \$100,000 of additional costs are due to approximately \$56,000 of operating expenditures (related to the additional positions) and approximately \$44,000 due to increased advertising, printing and postage (\$85/RFP). Based upon DOA's \$4.1 million additional cost estimate and the aggregate value of the 494 social service contracts (\$34.4 million, \$69,700 average value per contract), in order to break even, or offset the DOA projected \$4.1 million expenditure increase, the social service contracts now being competitively bid would have to result in a minimum aggregate 12% decrease from the current contract annualized value.

DOA's estimate is based upon the average of 200 hours of work per 1 RFP. To the extent that a portion of the 494 social service RFPs are similar in nature, 200 work hours will not be required for all RFPs (economies of scale). Thus, the DOA's projection could be overstated. However, the DOA indicates that the RFP process is a complex, time-intensive process that typically lasts for 6 months and the 200 hours per RFP is average work time based upon prior year history. **(Cont. on Page 2)**

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

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|---|--|--|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

Evan Brasseaux
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Staff Director

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CONTINUED EXPLANATION from page one:

Although the potential exists for this legislation to result in lower cost social service contracts due to more competitive bids, the DOA contends this may not necessarily be the case. DOA indicates that RFPs being executed for smaller amounts limit the margin of savings that could be captured. Thus, it is possible that in some cases the effort and costs involved in formulating and executing an RFP could exceed the total value of the contract, especially those contract costs of \$10,000 or less. Approximately 11% of the 494 social service contracts, or 53, have an annualized contract value of \$10,000 or less.

For purposes of simplicity, the potential impact of this legislation is reflected in the expenditure table as SGF but may ultimately impact other means of finance. Proposed for FY 16, the DOA is recommending the creation of a new ancillary agency, Office of State Procurement. Ancillary state agencies operate as an internal service entity and are allowed to bill clients (state agencies) for services provided. Thus, the majority of the Office of State Procurement's FY 16 budget is funded with interagency transfers (IAT) from other state agencies. The originating source of these IAT funds is dependent upon the means of financing mix of the paying state agency. Any impact to an ancillary's expenditures will have an indirect impact to its client state agencies.

Note: For context, according to the Office of Contractual Review (OCR) 2014 Annual Report, there were 847 social services contracts approved by the OCR in FY 14 with a total contract dollar value of \$446.3 million. According to the report, the top 50 social services contracts range from \$912,000 up to \$183 million.

Senate

Dual Referral Rules

House

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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