

Department of Planning and Budget 2010 Fiscal Impact Statement

1. Bill Number: HB990

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Nutter

3. Committee: General Laws

4. Title: Department of General Services; powers and duties; web-based procurement program.

5. Summary: This bill requires the Department of General Services (DGS) to establish a fee schedule limited to 0.5 percent of the total purchase order for all procurement contracts made with its web-based electronic procurement program commonly known as “eVA.” The bill requires that no registration fee shall be required for vendors to participate in the electronic procurement program.

6. Fiscal impact estimates:

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>	<i>Dollars</i>	<i>Fund</i>
2011	\$0	General	\$0	Nongeneral
2012	\$3,223,819	General	(\$3,223,819)	Nongeneral
2013	\$10,814,236	General	(\$10,814,236)	Nongeneral
2014	\$11,243,534	General	(\$11,243,534)	Nongeneral
2015	\$11,249,992	General	(\$11,249,992)	Nongeneral
2016	\$14,323,136	General	(\$14,323,136)	Nongeneral

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2011	(\$7,586,120)	Nongeneral
2012	(\$7,586,120)	Nongeneral
2013	(\$7,586,120)	Nongeneral
2014	(\$7,586,120)	Nongeneral
2015	(\$7,586,120)	Nongeneral
2016	(\$7,586,120)	Nongeneral

7. Budget Amendment Necessary: Yes, Item 70, SB30.

8. Fiscal Implications:

If passed, this legislation would reduce the combined agency and vendor transaction fee from 1.1 percent (1.0 percent paid by vendor and 0.1 percent paid by agency) in FY 2010 to a combined fee not to exceed 0.5 percent in FY 2011 and beyond. Limiting the combination of

vendor and agency transaction fees to 0.5 percent of total purchase order amounts will reduce nongeneral fund revenue and likely prevent the Commonwealth's statewide electronic procurement system (eVA) from producing sufficient revenue to sustain its operating costs.

The revenue impact specified in Item 6.b above was determined by calculating the difference between (1) revenue generated by applying the current eVA Fee Schedule to Calendar Year 2009 purchase transactions and (2) revenue generated by applying the 0.5 percent combined fee to Calendar Year 2009 purchase transactions. Current fee caps (\$500 for orders issued to Department of Minority Business certified vendors and \$1,500 for orders issued to other vendors) were used in all calculations. Calculated revenue was not adjusted to reflect expected reductions in expenditures that will result from approved budget reductions. Additional revenue losses would occur if local governments decide to cease participation in the eVA system because of the changed eVA fees that would result from passage of this legislation. Currently 575 local government entities use eVA.

Loss of revenue also eliminates funding for planned integration of the eVA system with the new state enterprise financial system. A general fund supplement would be necessary to proceed with the integration tasks to achieve the following outcomes:

- Implementation of enterprise electronic procure to pay functionality (including electronic sourcing, ordering, invoicing and payment)
- Implementation of real-time budget checking and encumbrance functionality and real-time visibility for available cash balances
- Implementation of enterprise vendor data standards as required by Code of Virginia §§ 2.2-1115, 2.2-2012, 2.2-4347 through 2.2-4356 and 2.2-5004.
- Implementation of an enterprise vendor portal/comprehensive vendor database for use by most Commonwealth business applications

The expenditure impact specified in Item 6.a above was calculated by subtracting operating expenses from revenue generated by the 0.5 percent combined fee as described in the preceding paragraph. Prior year fund balances and required general fund supplements were factored in the calculations. This legislation would not cause overall expenditures to increase, but general fund dollars would be required to offset the loss incurred to nongeneral fund expenditures in each year, as indicated in the table above. The table reflects the use of program balances, which will reduce operational balances.

The eVA procurement system is currently used by 171 state agencies. Should the eVA program be discontinued as a result of the revenue impact caused by this legislation, these agencies will likely require additional funding to purchase and implement alternative procurement systems.

9. Specific Agency or Political Subdivisions Affected:

Department of General Services; State agencies and institutions of higher education, and 575 local governments that use the Commonwealth's electronic enterprise procurement system (eVA).

10. Technical Amendment Necessary: No.

11. Other Comments:

The Commonwealth's statewide electronic procurement system (eVA) and related operating expenses are paid using nongeneral fund revenue generated by purchase order transaction fees collected from agencies and vendors as authorized by the Appropriations Act.

Annually, DGS and the Department of Planning and Budget review the eVA fees and adjust the eVA Fee Schedule as necessary to set rates sufficient to generate the nongeneral fund revenue needed to satisfy eVA external contract commitments and internal operating expenses.

As part of FY 2010 approved budget reductions, DGS reduced eVA transaction fees charged to state agencies from 1 percent to 0.1 percent and eliminated the eVA vendor registration fee. The vendor transaction fee is currently 1 percent. Since program inception in 2001, eVA purchase order transaction fees have been lower than those charged by other states.

Date: 2/3/2010 dpb