

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 1835      PCB GO 05-10      Center for Efficient Government

**SPONSOR(S):** Governmental Operations Committee

**TIED BILLS:** \_\_\_\_\_ **IDEN./SIM. BILLS:** \_\_\_\_\_

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.: Governmental Operations Committee	7 Y, 0 N	Brazzell	Everhart
1) _____	_____	_____	_____
2) _____	_____	_____	_____
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

## SUMMARY ANALYSIS

As the state has increasingly shifted to external provision of services, it has occasionally experienced challenges in ensuring that the desired results are achieved. The bill creates mechanisms to improve the state's procurement, particularly in regard to large, complex procurements of contractual services.

The bill:

- Provides criteria that procurements of contractual services must meet. They must not be inherently governmental, as defined in the bill, and must result in either cost savings while maintaining services' quality or increase services' quality at the same or lower cost.
- Provides a formal review process for certain procurements by:
  - Creating a Commission on Efficient Government (Commission) in DMS to review and approve the procurements at key decision points using a "centralized gate process". The bill specifies the Commission's membership as four agency heads and three private sector individuals appointed by the Governor.
  - Requiring certain contractual services procurements to pass through the gate process, including those of \$10 million and above; those requiring budgetary changes; and those with unusual funding, such as from fees or shared-savings. The bill requires procurements by agencies headed by the Attorney General, Chief Financial Officer, or Commissioner of Agriculture to pass through the centralized gate process but provides that the agency head, not the Commission on Efficient Government, will approve, withhold approval, or deny approval of procurements.
  - Requiring the Commission to give the Legislature business cases and supporting documents 14 days before a Commission meeting for information purposes.
- Creates a Center for Efficient Government, provides for its staff, and requires it to support the Commission in its review and agencies in their planning for and implementing certain procurements.
- Requires that business cases be completed that include specific requirements, such as qualitative and quantitative descriptions of agencies' current performance, descriptions and analyses of options for service provision, and detailed cost-benefit analyses.
- Requires solicitations to contain certain information to ensure that prospective contractors are fully informed of the state's needs.
- Requires contracts to include certain provisions, such as specifics about how contractors will be evaluated and paid and how public records law requirements will be met.

The bill provides an appropriation of \$2 million from the General Revenue fund for 16 staff for the Center for Efficient Government. The bill does not appear to have a fiscal impact on local governments.

**This document does not reflect the intent or official position of the bill sponsor or House of Representatives.**

**STORAGE NAME:** h1835.GO.doc

DATE: 3/29/2005

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

*Provide limited government*—The bill creates in law two new entities: the Commission on Efficient Government and the Center for Efficient Government. The bill codifies two similar entities that have been operating for the past year under the Governor's executive order 04-45: the Center for Efficient Government and its oversight board. The bill provides for the repeal of the Commission on Efficient Government and the Center for Efficient Government on July 1, 2010, unless re-enacted by the Legislature prior to that date. The bill also authorizes 16 FTE to staff the Center. In addition, the bill repeals law authorizing another entity, the Council on Competitive Government. The discussion below provides details.

#### B. EFFECT OF PROPOSED CHANGES:

##### Present situation

Since the 1950's, Florida has statutorily required competitive bidding in state procurement. Through the years, the Legislature has amended the requirements numerous times with control over the procurement process passing from the State Purchasing Commission to the Department of General Services, now known as the Department of Management Services (DMS).

Currently, part I of ch. 287, F.S., sets forth the requirements for the procurement of commodities and contractual services by state agencies. The law tasks DMS, as the centralized authority, with overseeing the implementation of competitive bidding requirements and with creating uniform rules for procurement. The state purchasing process is also partly decentralized. Except in the cases where state term contracts exist, agencies may buy commodities and contractual services themselves.

As the state has increasingly shifted to external provision of services,<sup>1</sup> it has occasionally experienced challenges in ensuring that the desired results are achieved. Recent studies and audits have suggested that the state's procurement of large, complex initiatives could be improved.

- The Governor's Chief Inspector General released an audit report in June 2003 entitled "A Road Map to Excellence in Contracting". It found problems with procurement, particularly with performance monitoring, procurement methodologies, and contract writing. The report suggested a variety of solutions, including revising ch. 287, F.S., improving leadership by the DMS, instating a negotiations training program, and facilitating communication among agency procurement staff.
- In January 2004, the Office of Program Policy Analysis and Government Accountability (OPPAGA) released a report entitled "The Legislature Could Strengthen State's Privatization<sup>2</sup> Accountability Requirements". OPPAGA concurred with the Chief Inspector General's June 2003 findings and suggested Legislative actions including mandating the use of business cases, strengthening requirements for performance contracting, and strengthening oversight of agency privatization initiatives.
- Various reports by the Auditor General identified problems. For example:
  - In the MyFloridaAlliance initiative of the State Technology Office (STO) involving outsourcing multiple functions, the STO had not conducted full feasibility studies, cost analyses, or risk assessments to determine if the outsourcing of these functions would provide the best value to the state. Additionally, the information provided in the solicitation

<sup>1</sup> According to the Center for Efficient Government, there have been at least 138 outsourcing projects undertaken between January 1999 and June 2004.

<sup>2</sup> OPPAGA uses "privatization" as a generic term encompassing such techniques and activities as contracting out, outsourcing, and public-private partnerships.

documents did not provide sufficient detail about STO operations, services, and needs to allow for a responsible vendor to adequately respond to the listed key initiatives. The contracts with Accenture and BearingPoint lacked certain provisions to adequately protect state resources.<sup>3</sup> The STO subsequently cancelled the contracts.

- In the Department of Management Services' procurement of the MyFloridaMarketplace e-procurement system, the department planning process did not include timely completion of a cost-benefit or risk analysis.<sup>4</sup>
- In the Department of Business and Professional Regulation's On-line Licensing and Call Center Services procurement, the department did not perform a feasibility study for the procurement's Application Management Services component.<sup>5</sup> Additionally, the contract, which is funded through a shared-savings model, failed to provide specifics about how to define and share savings.<sup>6</sup>

The Governor entered an executive order on March 11, 2004, creating the Center for Efficient Government (Center) within the DMS. The executive order stated that the Center was "to be the enterprise wide gateway for best business practices in order to improve the way state agencies deliver services to Florida's citizens." The order required the Center to:

- Establish a five-member oversight panel made up of agency heads;
- Create a centralized, multi-stage, gate process for the review, evaluation, and approval of agency outsourcing<sup>7</sup> initiatives;
- Provide documentation at the completion of each stage to the Legislature prior to initiation of the next stage;
- Review past outsourcing projects for best business practices and existing outsourcing plans to ensure agency compliance with center standards;
- Maintain a database with information about initiatives being performed by contractors that includes a description of the work being performed, applicable performance measures, and contractor and subcontractor identification; and
- Implement a program to transition impacted state employees.<sup>8</sup>

Pursuant to the Governor's order, the Center began its operations in April 2004. The executive order states that it is to be in existence until January 3, 2007.

The Center's policies require all agency outsourcing projects to undergo a sequential review and validation process, referred to as the "Gate Process." The oversight board, however, only reviews and validates projects estimated to be valued at more than \$10 million per fiscal year and enterprise-wide projects that are proposed by the center. As an agency completes each stage, the oversight board is to review the agency's progress and determine whether to validate that progress so that the agency may continue to the next stage. However, the board has no authority to accept or deny a project, or the documentation provided by an agency.

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<sup>3</sup> Auditor General Report No. 2005-08, *State Technology Office: MyFlorida Alliance Operational Audit*, July 2004.

<sup>4</sup> Auditor General Report No. 2005-116, *Department of Management Services: MyFloridaMarketplace Operational Audit*, February 2005.

<sup>5</sup> Auditor General Report No. 2002-112, *On-Line Licensing System & Call Center Services Agreement- Department of Business & Professional Regulation - Operational Audit*, December 2001.

<sup>6</sup> Auditor General Report No. 2004-112, *Department of Business & Professional Regulation - On-Line Licensing System & Call Center Services Agreement Operational Audit*, January 2004.

<sup>7</sup> The center defines an "outsourced function or service" as "one which was previously performed by state employees and is now operated by a third party entity while the state remains fully responsible for the provision of affected services and maintains control over management and policy decisions." *Center for Efficient Government FAQ's*.

[http://dms.myflorida.com/dms/administration/center\\_for\\_efficient\\_government/center\\_for\\_efficient\\_government\\_faqs](http://dms.myflorida.com/dms/administration/center_for_efficient_government/center_for_efficient_government_faqs).

<sup>8</sup> Executive Order 04-45.

## Proposed changes

The bill creates mechanisms to improve the state's procurement. The bill:

- Provides criteria that procurements of contractual services must meet. They must not be inherently governmental, as defined in the bill, and must result in either cost savings while maintaining services' quality or increase services' quality at the same or lower cost.
- Provides a formal review process for certain procurements by:
  - Creating a Commission on Efficient Government (Commission) in DMS to review and approve the procurements at key decision points using a "centralized gate process". The bill specifies the Commission's membership as four agency heads and three private sector individuals appointed by the Governor.
  - Requiring certain contractual services procurements to pass through the gate process, including those of \$10 million and above; those requiring budgetary changes; and those with unusual funding, such as from fees or shared-savings. The bill requires procurements by agencies headed by the Attorney General, Chief Financial Officer, or Commissioner of Agriculture to pass through the centralized gate process but provides that the agency head, not the Commission on Efficient Government, will approve, withhold approval, or deny approval of procurements.
  - Requiring the Commission to give the Legislature business cases and supporting documents 14 days before a Commission meeting for information purposes.
- Creates a Center for Efficient Government, provides for its staff, and requires it to support the Commission in its review and agencies in planning for and implementing certain procurements.
- Requires that business cases be completed that include specific requirements, such as qualitative and quantitative descriptions of agencies' current performance, descriptions and analyses of options for service provision, and detailed cost-benefit analyses.
- Requires solicitations to contain certain information to ensure that prospective contractors are fully informed of the state's needs.
- Requires contracts to include certain provisions, such as specifics about how contractors will be evaluated and paid and how public records law requirements will be met.
- Provides an appropriation of \$2 million for 16 staff for the Center for Efficient Government.

### C. SECTION DIRECTORY:

Section 1 amends s. 20.02, F.S., to create the Center for Efficient Government within the Department of Management Services.

Section 2 creates s. 287.0571, F.S., which exempts certain procurements from being subject to ss. 287.0571-287.0577, F.S.

Section 3 creates s. 287.0573, F.S., which provides definitions for the terms "center", "centralized gate process", "commission", and "inherently governmental function".

Section 4 creates s. 287.0574, F.S., which provides criteria governing the procurement of contractual services.

Section 5 creates s. 287.0575, F.S., which creates the Commission for Efficient Government (Commission) and specifies its membership and operations. It also creates the Center for Efficient Government (Center) and specifies its duties.

Section 6 creates s. 287.0576, F.S., which provides the review and approval process for the Center and Commission.

Section 7 creates s. 287.0577, F.S., which provides the requirements for business cases, solicitations, and contracts for procurements of contractual services required to pass through the Center's centralized gate process.

Section 8 provides for the repeal of the Center and Commission on July 1, 2010, unless the entities are re-enacted prior to that date.

Section 9 repeals s. 14.203, F.S., which authorizes the Council on Competitive Government.

Section 10 appropriates \$2 million and authorizes 16 full-time-equivalents for the Center.

Section 11 amends s. 119.0721, F.S., to correct a cross-reference to a section repealed by the bill.

Section 12 provides an effective date of July 1, 2005.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

#### **1. Revenues:**

None. This bill does not create, modify, amend, or eliminate a state revenue source.

#### **2. Expenditures:**

The bill appropriates \$2 million from the General Revenue fund to the Department of Management Services for 16 FTE's for the Center for Efficient Government and associated operating expenses. The staff is to support the Commission on Efficient Government in its duties and assist agency staff in planning for and implementing certain procurements.

Additionally, the Center and Commission may assist agencies in achieving an indeterminate amount savings through more effective procurement of appropriate commodities and contractual services.

### **B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

#### **1. Revenues:**

None. This bill does not create, modify, amend, or eliminate a local revenue source.

#### **2. Expenditures:**

None. This bill does not create, modify, amend, or eliminate local expenditures.

### **C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None.

### **D. FISCAL COMMENTS:**

None.

## **III. COMMENTS**

### **A. CONSTITUTIONAL ISSUES:**

#### **1. Applicability of Municipality/County Mandates Provision:**

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not reduce the percentage of a state tax shared with counties or municipalities. This bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill exempts the center, commission, and certain related activities of the Department of Management Services from the rulemaking requirements of chapter 120, F.S.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

#### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

At the March 23, 2005, meeting of the Governmental Operations Committee, the committee adopted five amendments and reported the bill favorably.

The amendments:

- Revised the definition of “inherently governmental function or responsibility” to be more specific;
- Required a contract provision specifying that contractors interview interested adversely affected state employees for possible employment;
- Provided that business plans include components regarding retraining adversely state affected employees; and
- Required procurements by agencies headed by the Attorney General, Chief Financial Officer, or Commissioner of Agriculture to pass through the centralized gate process but provided that the agency head, not the Commission on Efficient Government, will approve, withhold approval, or deny approval of procurements.