

LEGISLATIVE BUDGET BOARD

Overview of the Department of Information Resources' Cooperative Contracts and Deliverables-Based Information Technology Services Programs

PRESENTED TO HOUSE COMMITTEE ON GOVERNMENT TRANSPARENCY AND
OPERATION

LEGISLATIVE BUDGET BOARD STAFF

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Cooperative Contracts

The Cooperative Contracts (Co-op) purchasing program is administered by the Department of Information Resources (DIR) and provides statewide negotiated pricing for information technology (IT) commodity items and services, including:

- IT Commodities (i.e. hardware, software, personal computers, printers, etc);
- Staff Augmentation; and
- IT Services (including Deliverables-Based IT Services or DBITS).

The program is authorized by Government Code, Section 2157.068, Purchase of Information Technology Commodity Items. The provision:

- Defines a “commodity item” as commercial software, hardware, or technology services other than telecommunication services, that are generally available to businesses or the public and for which a reasonable demand exists in two or more state agencies;
- Directs DIR to negotiate pricing for commodity items based on best value;
- Directs DIR to negotiate a specific price for commonly purchased commodities to the greatest extent practicable. If a vendor is selected based on a percentage discount off the list price for an item, DIR must document how the arrangement obtains the best value for the state;
- Authorizes DIR to adopt rules regulating state agency purchases of IT commodity items, including a requirement that state agencies purchase IT commodity items through the Co-op program; and
- Does not limit the dollar value of a single procurement by an agency.

Cooperative Contracts: Customers

Customer base:

- State agencies are required to purchase IT commodity items through DIR's Cooperative Contracts program unless:
 - the agency obtains an exemption from DIR;
 - the agency obtains express prior approval from the LBB for the expenditure necessary for the purchase; or
 - DIR certifies in writing that a commodity item is not available through the Cooperative Contracts program.
- Voluntary customers include:
 - Local governments;
 - Public K-12 and higher education entities; and
 - Assistance organizations and other governmental entities outside of Texas.

Cooperative Contracts: Agency Roles

Department of Information Resources:

- Develops statewide contracts for IT commodities and services:
 - Posts requests for offers (RFOs) on the Electronic State Business Daily for commodities and services;
 - Evaluates vendors' responses to the RFO;
 - Sends invitations to negotiate to vendors who DIR determines offers the best value to the state; and
 - Awards contracts to one or more vendors after negotiating either a percentage discount off a manufacturer's suggested retail price (MSRP) or a not-to-exceed price.
- Monitors vendors for compliance with contract terms and conditions.
- Receives monthly sales reports from vendors and reviews sales history to determine overall contract usage and confirm collection of DIR's administrative fee.
- Serves as a vendor-customer liaison for performance related issues.

Cooperative Contracts : Agency Roles (continued)

Customer agencies:

- May negotiate further discounts directly with the vendor.
- Purchase directly from vendors.
- Pay an administrative fee included in the purchase price of the good or service which is collected by vendors and remitted to DIR.
- Are not required to report to DIR on procurements.

Deliverables-Based IT Services (DBITS)

- Subset of the Cooperative Contracts program and is also operated under authority provided to DIR in Government Code 2157.068.
- Provides contracts for project related services with acceptance criteria for each deliverable in a statement of work (SOW) in nine project categories:
 - Application Development
 - Application Maintenance and Support
 - Business Intelligence and Data Warehouse
 - Enterprise Resource Planning
 - Service Oriented Architecture
 - Project Management
 - Technology Upgrade/Migration and Transformation
 - Information Technology Assessments and Planning
 - Independent Verification and Validation

Deliverables-Based IT Services (DBITS)

Similarities with other Cooperative Contracts:

- Master contracts are awarded to vendors based on submissions to RFO postings.
- DIR monitors vendors for compliance with contract terms and conditions.
- Agencies purchase directly from vendors. Vendors also collect DIR's administrative fee and remit the fee to DIR.
- DIR receives monthly sales reports from vendors and reviews sales history to determine overall contract usage and confirms collection of DIR's administrative fee.

Differences from other Cooperative Contracts:

- Does not include the purchase of hardware or software.
- Pricing is negotiated by the agency and not DIR.
- Agencies are encouraged, but are not required, to submit Statements of Work (SOW) to at least three vendors.
- DIR limits the value of a single SOW to \$10 million (including all extensions, renewals and change orders).

Cooperative Contracts: Sales

DIR currently offers approximately 750 contracts for goods and services issued to approximately 550 vendors. This figure may vary based on contract terminations and additions of new contracts.

In fiscal year 2014, the Co-op program generated \$2.05 billion in sales (including \$110.5 million through DBITS purchases). The program's customer base reflects the following percentage of total sales in FY 2014:

- 51 percent: Public K-12 and higher education
- 27 percent: State agencies
- 21 percent: Local governments
- 1 percent: Other customers (assistance organizations and governmental entities outside Texas)

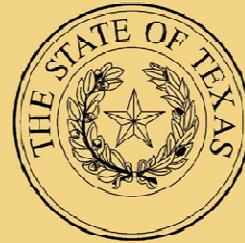
Key performance measure associated with the program: *Total Contract Savings and Cost Avoidance Provided Through DIR Contracts*:

- Compares the difference in final negotiated price for products and services with the appropriate benchmark prices from other comparable group purchasing alternatives. Measure does not reflect DBITS savings.
- Fiscal year 2014 performance: \$274.8 million (target \$260 million).
- Fiscal year 2013 performance: \$300.9 million (target \$225 million).

Cooperative Contracts and DBITS: Program Funding

DIR charges an administrative fee which is included in the purchase price of IT commodities and services (including those procured through DBITS).

- Fee rates vary by contract but are capped at 2.0 percent by Rider 3, DIR Clearing Fund Account, in the 2014-15 GAA and House Bill 1 As Introduced. Average fee estimated for fiscal year 2015 is 0.65 percent.
- The fee revenue is collected by vendors and is deposited in the Clearing Fund as Appropriated Receipts.
- Clearing Fund is appropriated to the agency and supports several programs programs:
 - Contract and Vendor Management – administration of the Co-op program;
 - Enterprise Contract Management – management of DIR enterprise contracts, including Data Center, Texas.gov and telecommunication contracts;
 - IT and Cybersecurity Services;
 - Statewide IT Planning and Policy;
 - Texas.gov oversight; and
 - Indirect Administration.
- House Bill 1 provides \$27.9 million out of the Clearing Fund for the 2016-17 biennium. Agency estimated/budgeted 2014-15 amounts include \$23.5 million.



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Contact the LBB

Legislative Budget Board

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