

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 17, 2005

TO: Honorable David Swinford, Chair, House Committee on State Affairs

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB2247 by Isett (Relating to state contract management, including the training of personnel, the negotiation of contracts, and the standardization of practices.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2247, As Introduced: a negative impact of (\$73,770,000) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	(\$68,770,000)
2007	(\$5,000,000)
2008	(\$5,000,000)
2009	(\$5,000,000)
2010	(\$5,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from GENERAL REVENUE FUND 1
2006	(\$68,770,000)
2007	(\$5,000,000)
2008	(\$5,000,000)
2009	(\$5,000,000)
2010	(\$5,000,000)

Fiscal Analysis

The bill would amend the Government Code and direct the Texas Building and Procurement Commission (TBPC) to develop and implement a continuing education course on cost analysis and price negotiation, publish a report annually detailing the number, value, and type of purchases made, and jointly evaluate options for establishing an information-sharing portal for contract management and administration with the Department of Information Resources.

Each state agency, for each major contract, would be required to develop a business case analysis, a project plan, and an independent validation and verification plan. TBPC would establish standards for validation services used by state agencies. Each state agency would periodically submit an independent validation and verification report to the agency's executive director and to TBPC.

The bill would take effect September 1, 2005.

Methodology

The bill requires state agencies to fund and include an independent validation and verification (IV&V) plan for every major contract. IV&V is an independent function of project management that validates objectively that the work products produced meet quality and conformance guidelines, and that the end result satisfies agency goals, project objectives, and requirements. Industry standards for major information resource projects indicate that IV&V is approximately 10 percent of project costs. In fiscal year 2004 the Quality Assurance Team's (QAT) annual report has authority over projects that have a total cost of \$952.7 Million. Currently, there is \$687.7 million for Information Technology projects for fiscal year 2005. This analysis assumes the same amount for 2006, therefore a \$68.8 million cost in fiscal year 2006 to general revenue for IV&V is anticipated. This analysis assumes new contracts of \$50 million for Information Technology projects in subsequent fiscal years, therefore a \$5 million annual cost is anticipated for fiscal year 2007 through fiscal year 2010 for IV&V.

In addition, this bill would apply to all other major contracts over \$1 million. In fiscal year 2004, the total value of these contracts was approximately \$9.0 billion. It is assumed that the IV&V related costs for these non-information resource contracts would be less than 10 percent. However, associated costs would still have a significant fiscal impact to the state.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 303 Building and Procurement Commission, 304 Comptroller of Public Accounts, 313 Department of Information Resources

LBB Staff: JOB, SR, MS, JM