



State of Vermont
Department of Information & Innovation
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Agency of Administration

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June 14, 2010

The Honorable Governor James Douglas
Pavilion Building
Montpelier, Vermont 05602

Dear Governor Douglas:

In 2006, the Department of Information and Innovation (DII) entered into a contract with Vermont Information Consortium (VIC), which provides development and hosting services for the Vermont.gov web portal. The web portal includes sites that are primarily informational in nature, and is financed through an assessment of fees on a growing number of sites that process certain types of transactions. An example of a transaction based site that includes fees is the Department of Motor Vehicles vehicle registration site.

When the State web portal was created in statute, a two-step process was put in place for approval of sites that include fees. The Web Portal Board, made up of a number of agency and department officials and two members of the Legislature, meet to consider proposals that are first vetted by DII. If the Web Portal Board approves the fee structure, the next step is for the Joint Fiscal Committee to review and approve or reject the fee structure. While all fee proposals have been approved, the process takes time that in effect slows down the development of fee generating sites. The fee generating sites are critical to the maintenance of the web portal because they serve as the funding source for all other sites developed and launched through the web portal.

Last year, DII worked with the Purchasing Division at the Department of Buildings and General Services to develop a statement of work to launch an e-Procurement site, and VIC agreed to make capital investments to launch the site provided a fee structure was put in place that would over time cover the cost of investment into this site and generate a reasonable return on their investment. The new e-Procurement system offers a way to modernize the way that procurement is done in the State of Vermont. It will result in lower costs for commodity items like fuel and paper, which can be procured using a "reverse auction" system that has vendors bidding down the cost of items based on bids submitted by other vendors. In addition, by providing a way for vendors to interact with State Purchasing electronically, we hope that it will also increase participation by smaller Vermont based vendors who now may find the paperbound system difficult to administer within their organizations.

The Web Portal Board met in late February, 2010 and approved the proposed fee structure for the e-Procurement system. We were not able to schedule a meeting with the Joint Fiscal Committee because the Legislative session was already underway.

During the session, the Legislature, as part of the Budget Bill, changed the process for gaining approval of fees from the Joint Fiscal Committee. Therefore, this letter is submitted in accordance with the changes that are expected to become law in July. The new process is as follows:

(1) All such charges (following approval by the Web Portal Board) shall be submitted to the governor who shall send a copy of the approval or rejection to the joint fiscal committee through the joint fiscal office together with the following information with respect to those items:

- (A) the costs, direct and indirect, for the present and future years related to the charge;
- (B) the department or program which will utilize the charge;
- (C) a brief statement of purpose;
- (D) the impact on existing programs if the charge is not accepted.

With regard to this new process and the fees associated with the development of the E-Procurement system, we submit the following for your consideration:

A) All cost of the system would be borne by the vendors using the system. It is forecast the savings by the state in commodity purchases will eventually be at least 6% of current costs based on the experiences of other state governments initiating similar systems.

Proposed Fees and Compensation

- Type 1: Statewide Commodity Contracts
Associated Transaction Fee: 0.85% of all purchases
- Type 2: One-time Transactions
Associated Transaction Fee: 0.85% with a cap of \$5,000 on each purchase
- Type 3: Fuel Contracts
Associated Transaction Fee: 0.25% with cap of \$5,000 (fee) per contract
- Type 4: IT solicitations in which BGS handles the bid administration only
Associated Transaction Fee: 0.85% with cap of \$5,000

Forecasted Fees Collected:

Timeline:	Year 1	Year 2	Year 3	Year 4
BGS Purchases (estimated)	\$25,500,000	\$51,000,000	\$51,000,000	\$51,000,000
Total Fees Collected	\$72,250	\$216,750	\$361,250	\$433,500

B) The system is being designed for the Department of Buildings and General Services (BGS), specifically the Purchasing Division. There are plans to expand use of the system statewide, covering types of purchasing other than commodities, in the future. At that point other departments would be able to use the system to meet their procurement needs, including personal service contracts and other types of commodity and system procurements.

C) The proposed eProcurement system initially will provide the state with a reverse auction system for commodities that the state purchases. Vendors would sign up for the service and then be able to propose a price per unit for any ongoing auction. When the auction ends the lowest bid

from an acceptable vendor would be accepted. The vendor would then pay a bidding fee based on the Fees and Compensation table shown above. The fees would fund the eProcurement project as well as the ongoing efforts of the enterprise Web Portal Project.

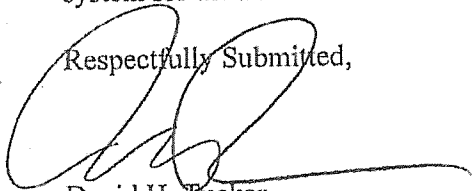
D) If the State of Vermont had to budget to buy a commercial-off-the-shelf system similar to the electronic procurement system proposed here, costs could top \$2-3 million in Year 1 alone, and another \$100,000 to \$200,000 annually thereafter. (Year 1 costs include Software License, Business Process Analysis, implementation, system configuration, vendor outreach and training).

If nothing is done and the state continues to manage the purchase of commodities in the current manner, the state will continue to overpay, as compared to other states, for the same goods. The efficiencies to be gained through the use of an integrated purchasing system will also not be realized.

Completion of this system will also contribute to the further strengthening of the Web Portal Project by allowing VIC to add to their development staff. This will increase the state's ability to react nimbly and develop eGovernment solutions in a rapid manner, including those related to the Challenges for Change initiative.

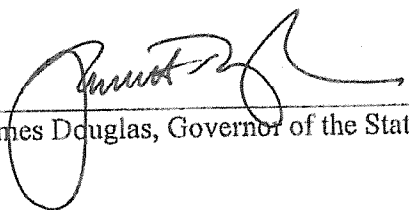
Based on the above description of the need for the system and on knowledge and belief that the fees associated with the system are both necessary and reasonable, I recommend that you approve the fee structure as proposed and forward this letter, along with your approval, to the Joint Fiscal office, so they may take the next steps to help us create a modern procurement system for the State of Vermont.

Respectfully Submitted,



David H. Tucker
Commissioner and CIO
DII

Approved

 6/10/10
James Douglas, Governor of the State of Vermont