

Impact of GSA's Information Technology Cooperative Purchase Program on Small Businesses

by

Eagle Eye Publishers

for



under contract number SBAHQ-03-M-0014

Release Date: July 2006

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Eagle Eye Publishers, Fairfax, VA 22030
2006. [35] pages. Under contract SBAHQ-03-Q-0014

Cooperative purchasing is a buying method that pools buyers in order to procure products or services in larger volumes, thereby leveraging lower prices, a wider selection of services, and other favorable terms from suppliers. To allow local jurisdictions to take advantage of cooperative purchasing arrangements available to federal government agencies, Section 211 of the E-Government Act of 2002 directed the General Services Administration (GSA) to open up the federal supply schedule to state, local, regional, or tribal governments (including local educational agencies or institutions of higher education).

In 2003, GSA opened up the federal supply schedule for information technology (IT), or federal supply classification code group 70. This group is defined as automated data processing equipment (including firmware), software, supplies, support equipment, and services. The primary motivation for this rule, according to the agency, was to "make 'government' (considering all levels) more efficient by reducing duplication of effort and utilizing volume purchasing techniques for the acquisition of IT products and services."⁶⁸

Some individual state and local governments have laws giving preference in procurement decisions to small businesses based in their jurisdictions. Many states also have unique IT cooperative buying programs. Has the federal IT cooperative purchasing program affected state programs and the businesses that participate in them? This paper reviews GSA's IT cooperative purchasing program, and it evaluates other cooperative purchasing programs that are available to state and local officials. In particular, this analysis focuses on the impact of such programs on small business owners, who may or may not benefit from this arrangement.

Overall Findings

Currently, 30 states have authorized their agencies to use the GSA cooperative purchasing vehicle. Several others, most notably California and Texas, have integrated the GSA IT schedule into their own state-sponsored multiple-award schedule program.

In the first two years since the GSA IT cooperative purchasing program was implemented, usage of the program has increased, and the majority of the vendors who have been added to the schedules are small businesses. With that said, current estimates of the size of the state and local IT market suggest that GSA's cooperative purchasing program represents a small fraction of total non-federal IT government spending.

Highlights

- Since the start of FY 2004, total GSA cooperative purchases have grown 87 percent, from \$75 million in FY 2004 to \$140 million in FY 2005.
- The cooperative purchasing program now includes a combined 5,160 unique vendors holding 5,198 group 70 IT schedule and 113 corporate schedule contracts. Of these vendors, 4,469, or 87 percent, are self-declared small businesses.
- The small participating firms that were active during FY 2004 to FY 2005 accounted for \$105 million, or 49 percent, of total GSA cooperative purchases over the first two years of the program's existence. In FY 2004 and FY 2005, the small business cooperative purchasing dollar share was 67 percent and 39 percent, respectively.
- Non-federal government participation in cooperative and IT purchasing programs is widespread, making GSA's cooperative purchasing program one

⁶⁸68 Federal Register 24372-24382 (May 7, 2003)

of numerous IT purchasing options available to state and local governments.

- Many states have implemented a simple registration procedure that permits state agencies and local governments to incorporate GSA schedule terms and conditions into state contracts. (This process is known as “piggybacking.”) In this manner, states can incorporate the most beneficial contract terms, negotiate their own prices as well as additional terms, and still maintain control over the contracting prices.

- In interviews with state procurement officials, many were open to using the GSA IT cooperative purchasing program and weigh purchases from it with other options. Others cited reasons that they might not use it, including the high cost of the 0.75 percent industrial funding fee and existing state procurement laws such as small business purchasing requirements.

Scope and Methodology

The information about federal cooperative purchasing was obtained from GSA’s Operations Support Division. This paper also reviews a number of non-federal IT and cooperative purchasing programs. These programs are the following:

- U.S. Communities Government Purchasing Alliance;
- Western States Contracting Alliance (WSCA I and WSCA II);
- WSCA and National Association of State Procurement Officials Personal Computer Cooperative Contract;
- California Multiple Award Schedule Program;
- Texas Multiple Award Schedule Program;
- Texas Catalog Information Systems Vendor Program; and
- Missouri “Smart Buy” Program.

Finally, these findings were supplemented with a series of eight informal phone and in-person interviews with state procurement administrators. The in-person interviews were conducted with officials from Arizona, California, Minnesota, New York, Maryland, Texas, Virginia, and Wyoming. Some information was also obtained through a formal written survey or by phone interviews.

This report was peer reviewed consistent with Advocacy’s data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

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Summary of Key Findings

Available evidence suggests that the GSA Cooperative Purchasing program will improve small business utilization in the IT market.

In 2003 the U.S. General Services Administration (GSA) started the Cooperative Purchasing program that opened up the use of GSA's information technology (IT) and corporate schedules to state, local and tribal governments. In its first two years GSA Cooperative Purchasing has become one of the fastest growing components of the GSA schedules program.

Since the start of FY 2004, total GSA cooperative ("coop") purchases have grown 87 percent, from \$75 million in FY 2004 to \$140 million in FY 2005. The program now includes a combined 5,160 unique vendors holding 5,198 group 70 IT schedule and 113 corporate schedule contracts. Of these vendors 4,469, or 87 percent, are small businesses.

The small participating firms that were active during FY 2004–FY 2005 accounted for \$105 million, or 49 percent, of total GSA Coop Purchases over the first two years of the program's existence. In FY 2004 the small business Coop Purchase dollar share was 67 percent, and in FY 2005 it was 39 percent.

As GSA's Coop Purchasing program has grown, state and local buying patterns have increasingly come to resemble the distribution of federal IT dollars among large and small firms. In FY 2004, the same small firms holding coop-eligible IT and corporate schedule contracts received \$4.3 billion, or 42 percent of the total federal dollars spent on these schedules. In other words, in FY 2004 state and local governments utilized small business Coop Purchase contracts at higher levels than their federal agency counterparts. However, as the volume of non-federal coop purchases grows, state and local governments show a tendency to utilize small firms at slightly lower levels than federal agencies.

Given the current state of reported, non-federal procurement data it is impossible to project this trend accurately. Current estimates of the size of the state and local IT market suggest the GSA Coop Purchasing program represents a small fraction of total non-federal IT government spending.

Currently, 30 states are authorized to conduct cooperative purchases using the GSA Coop Purchasing program, and several others, most notably California and Texas, have integrated the GSA IT schedule into their own, state-sponsored multiple award schedule programs using an approach called "piggybacking."

Section 1: GSA's Cooperative Purchasing Program

Overview

Cooperative purchasing, or “coop purchasing,” as it is commonly known, is a buying method that uses the promise of a higher volume of purchases from a group of buyers to leverage lower prices, more services, and other favorable buying terms from suppliers. In the context of this study, “coop purchasing” refers to a specific federal government initiative begun in 1993 that authorizes the U.S. General Services Administration (GSA) to make its information technology (IT) and corporate schedule contracts available for use by state and local governments. The current Coop Purchasing program was authorized by Section 211 of the E-Government Act of 2002, which amended the Federal Property and Administrative Services Act and was implemented in May 2003.¹ Through this program GSA makes its competitive negotiated schedule prices, product warranties, and other contract terms available to state and local governments. The purpose of this effort is to eliminate redundant procurement functions at all levels of government and to leverage the greatest value from existing federal IT contracts.

GSA Schedules

The GSA's Coop Purchasing program is managed by the Federal Supply Service and involves the use of two GSA schedule contract programs, the group 70 schedule, or IT schedule, and the corporate schedule (formerly called the “consolidated schedule”). Group 70 refers to the Federal Supply Group market classification that defines IT hardware. The corporate schedule combines IT hardware, IT services, and related professional services into a single contract vehicle for computer-related acquisitions.

GSA schedule contracts provide federal agencies with a simplified process for obtaining commonly used commercial supplies and services at low prices associated with volume buying. The Federal Supply Service negotiates schedule contracts with vendors that can be used to provide a wide range of supplies and services at competitive prices, typically over a five-year period. Through the schedules program, the Federal Supply Service provides federal agencies access to over 4 million commercial services and products ranging from cleaning supplies and musical instruments to computers and high-tech scientific equipment.

GSA supply schedules are designed to streamline agency procurement practices and save money. Agencies benefit from reduced procurement lead times which lower their overhead. Because orders placed against a GSA multiple award schedule (MAS) contract fulfill competition requirements under Federal Acquisition Regulation 8.4, agency buyers spend less time negotiating with individual contractors and waiting for the delivery of goods. By using GSA supply schedules, procurement offices operate under the assumption that they are using the lowest overall cost alternative to meet their needs.

¹ “Cooperative Purchasing Frequently Asked Questions,” http://www.gsa.gov/Portal/gsa/ep/contentView.do?faq=yes&pageTypeId=8199&contentId=8125&contentType=GSA_OVERVIEW#1.

However, the very ways GSA schedules save money for agencies also create problems for small businesses. Because schedules are considered to be competitively awarded, tasks and delivery orders placed against these contracts typically rely on limited bid notification and pre-award competition and are not full and open for the universe of companies to bid on. Ordering offices do not necessarily have to seek out large numbers of competitors to ensure price fairness.

Nonetheless small firms play an active role in the GSA schedules program. According to the latest FY 2004 purchase data, small vendors held 74 percent of the active federal schedule contracts and accounted for 41.5 percent of all GSA schedule contract dollars. Small vendors accounted for 73 percent of the contracts and 44 percent of the dollars awarded via the IT and corporate schedules.

The Roots of Cooperative Purchasing: Early Failures

The roots of GSA's Cooperative Purchasing program were established in 1993, when Vice President Al Gore released a study entitled, *The National Performance Review: From Red Tape to Results*.¹ The report focused on raising productivity and reducing government spending on fulfilling bureaucratic requirements. The report recommended that the procurement process be streamlined by consolidating government purchasing activities. It argued that the government would save time by eliminating time-consuming administrative procurement requirements.

The Administration and Congress responded in October 1994 when Public Law 103-355, entitled the Federal Acquisition Streamlining Act (FASA), was signed into law. Section 1555 of FASA authorized the GSA administrator to allow state and local governments to purchase items available through federal supply schedules. FASA sought to streamline the acquisition process by providing greater discretion to contracting officers, shortening acquisition time, and expanding access to markets for products and services to which the government had previously been denied.

After the law was passed, several industries voiced concerns that the program would adversely affect them, and the cooperative purchasing concept was reexamined. Industries in the airline, pharmaceutical, and heavy equipment sectors feared that discounts given across the board might destroy the local distribution and dealership networks due to profit losses.² In 1996 Congress suspended GSA's authority to operate the program and asked the General Accounting Office (GAO) to assess the potential effects of cooperative purchasing.

In February 1997, GAO published its final report identifying the potential effects of cooperative purchasing.³ The report stated that local procurement laws, ordinances, and policies could limit the extent of the program's benefit, and it was unclear whether or not the impact to businesses would be entirely negative. Rigidity in the procurement regulatory environment is strongest when laws and statutes are concerned. Changing procurement-related laws requires legislative action, which can be protracted. Policies, on the other hand, can be more easily changed or amended by individual procurement office chiefs.

² U.S. General Accounting Office, *Cooperative Purchasing Effects Are Likely to Vary Among Governments and Businesses* (1997), GGD-97-33.

³ *Ibid.*

The GAO report also stated that because participation in the program is voluntary, “There is little risk that the program will negatively affect the federal government, but whether it will have positive effects depends largely on whether increased use of the schedules by state and local governments lead to lower prices.” The report, did however, identify several industries that might potentially be negatively affected, and the GSA agreed to remove them from the program. These industries included pharmaceuticals, heavy equipment, and fire fighting vehicles.

In response to concerns raised by industries, the cooperative purchasing program was eliminated by passage of H.R. 2378, the Treasury and General Government Appropriations Act. The act contained a provision that repealed Section 1555 of the Federal Acquisition Streamlining Act.⁴

Cooperative Purchasing – Phase 2

After cooperative purchasing was repealed, Representative Tom Davis included the provision as a subsection on the E-Government Act, which focused on state and local access to federal IT contracts. Cooperative purchasing was formally re-established on December 17, 2002 when President Bush signed into law the E-Government Act (Public Law 107-347, 44 U.S.C. Ch 36). The act seeks to improve the way federal agencies use information technology (IT) in agency operations and interaction with the public. Its goals include:

- Creating leadership in the federal government to develop and promote electronic government services and processes in the form of a new office of electronic government within the Office of the Office of Management and Budget,
- Improving the government’s ability to achieve agency goals, and
- Promoting the use of the Internet and other technologies within and across all agencies in order to improve public access to government information and services.

A more refined cooperative purchasing provision was specifically outlined in Section 211 of the E-Government Act, entitled “Authorization for Acquisition of Information Technology by State and Local Governments through Federal Supply Schedules.” Instead of allowing nonfederal agencies access to all federal supply schedules, this new cooperative purchasing clause authorized the GSA administrator to only release federal supply contracts containing information technology special item numbers (SINs) found under GSA schedule 70 and, later, the consolidated or corporate schedule.

The GSA’s group 70 schedule comprises automated data processing equipment, including firmware, software, hardware, support equipment and services. Schedule 70 items include the following:

- Professional information technology services;
- Purchase and leasing of IT equipment (i.e., phones, fax machines, copiers);Computers (including notebooks, servers, workstations);

⁴ National Association of State Procurement Officials, “News Brief: Future of GSA Supply Extensions Questionable,” (1997) <http://www.naspo.org/newsbriefs/spring97/p5.html>.

- Software;
- Classroom training;
- Electronic commerce services;
- Mobile and wireless services; and
- Information assurance.

GSA’s corporate schedule consolidates varied lines of business into a single schedule program that enables a federal agency to issue one task order to a single company to perform services that cut across multiple schedule programs. The corporate schedule encompasses:

- Business consulting,
- Office imaging and document solutions,
- Information technology products and services,
- Engineering services,
- Environmental services,
- Facilities maintenance,
- Language services,
- Logistics solutions,
- Human resources,
- Energy services, and
- Financial services.

States and local agencies are defined in the GSA Acquisition Manual as:

The States of the United States, counties, municipalities, cities, towns, townships, tribal governments, public authorities (including public or Indian housing agencies under the United States Housing Act of 1937), school districts, colleges, and other institutions of higher education, council of governments (incorporated or not), regional or interstate government entities, or any agency or instrumentality of the preceding entities (including any local educational agency or institution of higher education), and including legislative and judicial departments.⁵

GSA Acquisition Regulation Amended

To implement the provisions of the E-Government Act, the GSA published a proposed rule to amend GSA Acquisition Regulation in January 2003. This rulemaking, sometimes referred to as the “Cooperative Purchasing Initiative,” proposed a framework to allow states and local governments to order supplies via information technology contracts negotiated and secured by the federal government. The proposed rule solicited public comment by March 24, 2003 and outlined the following provisions:

- Limiting the scope of access to GSA schedule 70,
- Making participation voluntary for contractors and state and local agencies, and
- Allowing schedule contractors to decline an offer within five days of receiving an order.

⁵ Federal Acquisition Regulation, <http://www.arnet.gov/far>.

An initial regulatory flexibility analysis (IRFA) was prepared and submitted to the Chief Counsel for Advocacy of the Small Business Administration. The analysis showed that small businesses made up 68 percent of schedule 70 contractors, and it projected that small businesses would benefit from increased sales.⁶ Potential state and local users of the Cooperative Purchasing program included:

- 50 states,
- 3,139 counties,
- 19,365 incorporated municipalities,
- 30,386 minor subdivisions,
- 14,178 school districts,
- 1,625 public educational institutions of higher learning, and
- 550 Indian tribal governments.

On May 7, 2003, the GSA published an interim rule in the *Federal Register* that incorporated public comments and made the cooperative purchasing amendments to GSA Acquisition Regulation effectively immediately. GSA received 24 comments. The content and GSA response to some of these comments are summarized in Table 1.

As a result of the comments submitted by the public, states, and contractors, GSA made the following changes to the interim rule:

- Included schedule 70 IT special item numbers that are also found under IT corporate schedule contracts;
- Removed language regarding dealer sales and impact on price reduction clauses;
- Permitted authorized state and local governments to add terms and conditions as part of the statement of work or statement of objectives required by the state and local government statues or regulations; and
- Added language to encourage alternative dispute resolution to the extent authorized by law.

The interim rule made state and local cooperative purchasing programs effective immediately. According to preliminary data provided by GSA, since the implementation of the Cooperative Purchasing rule in May 2003, state and local governments have purchased over \$17.7 million in goods and services on GSA schedule 70.

⁶ *Federal Register*, vol. 68, no. 15, p. 3221.

Table 1: Summary of Public Comment and GSA Response

Comment Category	Summary of GSA Response
Scope of Rule	
Will IT contracts on GSA corporate schedules be available for state and local use?	Yes. However only those contracts with IT special item numbers (SINs) will be available.
Objection to including architect and engineering services as part of the schedule program.	Neither the proposed or interim rule adds architect and engineering services to the schedules program.
Other vendors outside the IT field would like to participate in cooperative purchasing programs.	“Cooperative Purchasing may only be conducted pursuant to statutory authorization.”
Concerns of allowing dealer to sell to state and local government.	“Disagree. State and local government entities should be able to access the same distribution network for goods and services as all other users of the GSA schedules.”
Ordering	
Objection to language that prohibits eligible ordering activities from adding additional terms and conditions.	Language was removed. Eligible ordering activities may add terms and conditions required by statutes, ordinances, and regulations, or orders to the extent that they do not conflict with the contract terms.
Objection to limiting acceptance or decline of orders to five days when the vendor’s contract stipulates longer time frames.	The language of the negotiated contract prevails over the five-day period.
Objection to allow vendors to decline orders.	The E-Government Act states that participation is voluntary.
Small Business Involvement	
Request that GSA commit to “establishing a program for awarding schedule contracts to small businesses specializing in doing business with state and local governments.”	“This issue is outside the scope of the rule. GSA has existing programs to encourage small businesses to seek schedule contracts.”
Inquiry into how Federal Supply Service will be able to monitor and assess the effect of cooperative purchasing.	“To evaluate the effect of cooperative purchasing, GSA intends to monitor changes in access for federal customers and the impact on GSA’s ability to negotiate favorable pricing... GSA will also monitor participation by small businesses.”
Fees	
Suggestions that the Industrial Funding Fee be waived for cooperative purchase sales.	GSA uses the fee as a cost recovery mechanism at the direction of Congress and does not intend to waive it.
Dispute Resolution	
Suggests dispute resolution be conducted by the GSA Board of Contract Appeals.	Orders placed by eligible purchasing activities constitute new contracts to which the federal government is not a party.
Call for contract disputes to be resolved through arbitration.	Interim rule encourages alternative dispute resolution to the extent authorized by the law.
Other Issues	
Suggests that state and local agencies contribute to past performance history for schedule 70 contractors.	Past performance information is voluntarily submitted to GSA by state and local agencies and will be considered in future negotiations.

Source: *Federal Register*, vol. 68, no. 15, page 3221.

Section 2: Non-Federal IT and Cooperative Purchasing Alternatives

Overview

Non-federal government participation in cooperative and IT purchasing programs is widespread, making GSA's Cooperative Purchasing program one of numerous IT purchasing options available to state and local governments. According to the National Association of State Purchasing Officials (NASPO), 43 states sponsored cooperative purchasing programs with local governments, and 42 states participated in cooperative purchasing arrangements with other states in 2003. Thirty states had formalized cooperative purchasing arrangements with the federal government.⁷

The abundance of cooperative purchasing, "piggyback," "strategic sourcing," and catalog programs managed by states present both competition to GSA's Coop Purchasing program as well as unique ways to use GSA schedules outside the formal Coop Purchasing program. In this section we review several key non-federal cooperative purchasing programs, including:

- U.S. Communities Government Purchasing Alliance;
- Western States Contracting Alliance (WSCA I and WSCA II);
- WSCA & NASPO Personal Computer Cooperative Contract;
- California Multiple Award Schedule Program (CMAS);
- Texas Multiple Award Schedule Program (TXMAS);
- Texas Catalog Information Systems Vendor Program (CISV); and
- Missouri "Smart Buy."

U.S. Communities Government Purchasing Alliance

In 1998, several local public agencies sponsored the creation of a cooperative purchasing partnership in an effort to pool purchasing power and conserve resources. This partnership, named the U.S. Communities Government Purchasing Alliance (referred to as "U.S. Communities"), is a nonprofit organization that solicits and maintains schedule contracts on behalf of local government agencies across the country. U.S. Communities offers a wide-range of goods including:

- School and industrial supplies and furniture,
- Computers and electronic data equipment,
- Parks and playground accessories,
- Tools,
- Janitorial supplies, and
- Floor and carpeting materials and installation.

U.S. Communities estimates that its participants include over 7,000 agencies in all 50 states. In FY 2003, spending through U.S. Communities' cooperative contracts totaled approximately

⁷ National Association of State Procurement Officials, *State Procurement Survey 2003*, p. 101.

\$365 million. Currently, GTSI, a computer hardware and software reseller, holds the only U.S. Communities IT-specific contract. This contract offers participants discounts of 10-20 percent off market prices for volume orders. Data on exact spending through this contract was unavailable. However, U.S. Communities estimated that total spending for all contracts in FY 2004 amounted to \$500 million.⁸

Program Organization

U.S. Communities operates under the guidance of an advisory board consisting of public purchasing professionals from county, city, and school district agencies. Each cooperative purchasing contract is managed by designated lead agencies. Lead agencies are responsible for establishing contracts with vendors through a competitive solicitation process. Members of the advisory board include procurement staff from the following public agencies:

- Allegheny County, PA,
- Charlotte, NC,
- Cobb County, GA,
- Columbus, OH,
- Dallas County, TX,
- Denver, CO,
- Detroit Public Schools, MI,
- Davis Joint Unified School District, CA,
- San Antonio, TX,
- Seattle, WA,,
- Wichita Public Schools, KS,
- Fairfax County, VA,
- Harford County Public Schools, MD,
- Hillsborough School District, FL,
- Hennepin County, MN,
- Houston, TX,
- Los Angeles County, CA,
- Maricopa County, AZ,
- Miami-Dade County, FL,
- Naperville, IL, and
- San Diego County, CA.

Procurement Approach

After consultation with the advisory board, the lead agency releases a request for proposals (RFP) to solicit prices for a certain product or service from vendors across the country. RFP invitations are sent to vendors that have previously responded to RFPs and are also placed on the U.S. Communities website. The RFP advises suppliers that the contract may be used by other agencies. After receiving responses from vendors, the lead agency evaluates the prices and service components of each proposal and a contract is awarded. This contract includes explicit language that the contract may be used by one or more government agencies across the country. The new cooperative contract fulfills legal requirements of the program's participants. According to U.S. Communities, "Although each government may have different purchasing procedures to follow, applying these competitive principles satisfies the competitive solicitation requirements of most state and local government agencies."⁹ Table 2 outlines current U.S. Communities cooperative contracts. The table indicates the lead agency for each contract, as well as the number of proposals received for each solicitation. For example, Los Angeles County's RFP for office and school supplies was sent to 60 vendors, and six vendors responded with bids.

⁸ Data provided by U.S. Communities representative Brian Watson.

⁹ U.S. Communities website can be accessed at <http://www.uscommunities.org>.

Table 2: Summary of Current U.S. Communities Contracts

Contract	Lead Agency	Number of Vendors Invited	Number of Vendors Responding
Office and school supplies	Los Angeles County, CA	60	6
Office furniture	Fairfax County, VA	308	22
Electrical products	Los Angeles County, CA	33	20
Technology products	Fairfax County, VA	1500	21
Janitorial supplies	Allegheny County, PA	60	2
Tools and materials handling	Los Angeles County, CA	39	10
School furniture	Wichita Public Schools, KS	95	17
Carpet and flooring	Los Angeles County, CA	16	7
Park and playground equipment	City of Charlotte/ Mecklenburg County, NC	14	7

Source: U.S. Communities.

There are no fees for local agencies to use the contracts. Agencies register through the U.S. Communities website and are able to purchase from these contracts with no spending limits. Procurement statutes governing each agency (joint powers authority or similar coop purchasing program authority) enable agencies to purchase through these contracts instead of conducting a competitive solicitation of their own. U.S. Communities identified the statutes that allow cooperative purchasing for the majority of states. By way of example, the joint powers authority for the state of California is reproduced in Appendix B.

U.S. Communities and Small Business

In the event that a local agency requires or requests small business participation, the vendor may work with the agency to subcontract portions of the purchase to small and local dealers. For instance, one local agency that purchased supplies through the Los Angeles County-managed contract for office supplies (held by Office Depot) requested that portions of its sale be subcontracted to small and local businesses. Office Depot worked with the local agency to identify small firms to establish subcontracting agreements with.¹⁰ U.S. Communities requires quarterly reports from vendors that show aggregate figures for sales by product and purchaser, however data on subcontracted spending is not available.

Western States Contracting Alliance (WSCA)

In October 1993, fifteen member states of the National Association of State Procurement Officials created the Western States Contracting Alliance (WSCA) in order to develop a multi-state cooperative contracts pool to facilitate the efficient and cost-effective purchase of goods

¹⁰ Based on interviews with U.S. Communities representative Brian Watson.

and services. From October 1993 through June 2003, WSCA members purchased approximately \$3.95 billion in IT-related goods and services.¹¹

WSCA is made up of the following states:

- Alaska,
- Arizona,
- California,
- Colorado,
- Hawaii,
- Idaho,
- Minnesota,
- Montana,
- Nevada,
- New Mexico,
- Oregon,
- South Dakota,
- Utah,
- Washington, and
- Wyoming.

WSCA provides members access to a range of contracts encompassing a variety of products including:

- Electronic goods (computers, data processing equipment, and general electronics);
- Pharmaceuticals and scientific supplies (vaccines, lab equipment, and infant formula); and
- Industrial supplies (janitorial supplies, office furniture, lamps and light fixtures).

Program Organization

Similar to U.S. Communities, WSCA designates lead agencies to coordinate and conduct the solicitation and award. Lead state agencies are assigned a product category and are responsible for competitively soliciting prices from vendors and establishing contracts. Lead states must abide by their state’s procurement guidelines and regulations, and all contracts are to include terms allowing the other WSCA members to place orders. Table 3 summarizes current WSCA contracts and lead state on each.

Table 3: WSCA Contract Administrators

WSCA Contract	Lead State
Wireless	New Mexico
Industrial supplies	Nevada
Lab supplies	Idaho
Public safety communication	Washington
Data communication	Utah
Computers	Minnesota
Electronic monitoring	Washington
Infant formula	Washington

Source: <http://www.state.nm.us/spd/WSCAmain.html>.

¹¹ Based on contract descriptions posted on the WSCA web site: <http://www.aboutwsca.org>.

To participate, states must have authority (either statutory or ordinance driven) to share the WSCA contracts with other states. An example of such legislative authority is Minnesota statute 471.59, subsection 10 which states the following: “[Minnesota] may enter into agreements with any other governmental unit to perform on behalf of that unit any service or function which the governmental unit providing the service or function is authorized to provide for itself.” Some states have the authority to utilize cooperative contracts but lack the authority to act as a lead agency on a contract.

WSCA/NASPO Personal Computer Cooperative

In 1999, WSCA and NASPO organized a set of cooperative contracts for personal computers and information technology products. The contract was led by the Minnesota Department of Administration’s Materials Management Division and supported by procurement and technical professionals from eight states. It offered participants the following products:

- Servers,
- Auxiliary storage,
- Desktop and laptop computers,
- Printers, and
- Personal data assistants (PDAs).

In September 1999, New Mexico entered into four contracts with four large computer manufacturers (Dell, Gateway, Hewlett-Packard, and IBM) on behalf of the WSCA. These contracts were referred to as WSCA I, and each contract originally had a four year term. Over the four year period, over 300 entities, including 35 states, were eligible to purchase from the contract, and total spending through the cooperative was approximately \$3.9 billion.¹² To encourage buying, the cooperative offered special discounts for educational purchases and additional discounts for large buys. The contracts also included terms to have manufacturers recycle old hardware.

In May 2004, Minnesota extended the WSCA I contract expiration dates to December 31, 2004. Table 4 breaks out total 2004 spending (\$1.7 billion) via WSCA I by the key contract holders.

Table 4: WSCA I Contract Spending Activity, 2004

Contract Holder	Total Spending
Dell	\$1,122,205,326
Gateway	\$171,477,586
HP/Compaq	\$359,567,082
IBM	\$54,710,818
Total	\$1,707,960,814

¹² Based on a NASPO conference presentation, “Cooperative Governmental Purchasing: An Overview,” (April 2004).

Source: Minnesota Department of Administration, WSCA II Volume Data Report.

In February 2004 the Minnesota Materials Management Division, acting on behalf of WSCA and NASPO, issued a new RFP soliciting vendors for personal computer and printer-related supplies and services. The agency negotiated price agreements with 15 vendors in a three-year agreement with two one-year options. This group of contracts is known as WSCA II. The 15 participating vendors are listed in Table 5. Like WSCA I, the WSCA II contracts were negotiated with large companies in an effort to leverage volume discounts for IT purchases by states and localities. State and local government organizations from 41 states participate in WSCA II.¹³

Table 5: Approved WSCA Vendors 2004 - 2009

Contract	Company	Items Included
A63306	Apple	PC (including LAN storage)
A63307	Dell	PC (including printers/LAN storage)
A63308	Gateway	PC (including printers/LAN storage)
A63309	Hewlett Packard	PC (including printers/LAN storage)
A63310	Howard	PC (including printers/LAN storage)
A63311	IBM	PC (including printers/LAN storage)
A74813	LENOVO (United States) Inc.	PC (including printers/LAN storage)
A63312	MPC	PC (including LAN storage)
A74401	CDWG (For Brother Only)	Printer
A63313	Konica Minolta	Printer
A63314	Kyocera Mita	Printer
A63315	Lexmark	Printer
A74402	Oki Data Americas Inc.	Printer
A74403	Xerox Corporation	Printer
A63316	Xiotech	LAN Storage

Source: <http://www.mmd.admin.state.mn.us/wsca/2004-2009%20contracts.htm>

California Multiple Award Schedule (CMAS)

The California Multiple Award Schedule (CMAS) was established in 1994 in response to California Assembly Bill 1727, signed into law in October 1993. The CMAS program enables California state agencies and local governments to use streamlined procurement practices to acquire IT and non-IT technology products and services through GSA group 70 IT schedule contracts.

In California, each state agency is responsible for its own contracting and purchase decisions, and use of CMAS is optional. The state considers GSA IT schedule contracts to have been competitively assessed, negotiated, and bid. Once an agency has decided to use the CMAS

¹³ See WSCA contract details at <http://www.mmd.admin.state.mn.us/wsca/2004-2009%20contracts.htm>.

program, state law requires procurement officers to first consider offers from small businesses and disabled veteran business enterprises (DVBES) wherever practicable. The California Department of General Services waives its CMAS administrative fee for CMAS purchases conducted with small businesses.¹⁴ Local government agencies use the CMAS program subject to their own codes and policies.

The CMAS unit in the California state government does not conduct bids. Rather, GSA schedule contract holders submit copies of their existing schedule contracts to the state for review. The CMAS unit adds contract terms, conditions, and ordering procedures that include California procurement codes, policies, and guidelines to the company's products, services, and prices, thereby establishing an independent California contract. This practice is known as "piggybacking."

Because CMAS contracts are California state contracts, contract activity associated with these vehicles does not appear in the federal government's Coop Purchase data. The state collects CMAS data and reports it on the Department of General Services website. During FY 2004-2005, state and local agencies and organizations with spending authority (e.g., school districts, colleges) spent a total of \$283 million through the CMAS program.¹⁵

Texas Multiple Award Schedule (TXMAS)

In 2002 the Texas Building and Procurement Commission established an alternative purchasing method called the Texas Multiple Award Schedule (TXMAS). It is based on GSA schedule contracts that have been competitively awarded by the federal government or a governmental entity of another state.

To participate in TXMAS, vendors seeking to do business with the state of Texas send a copy of their GSA group 70 IT schedule contract and product catalogue to the State Building Commission. Agency officials confirm that the contract is a valid federal or state government contract that was awarded competitively and is adaptable to the laws of Texas. Agencies notify the TXMAS program office to begin the process of awarding a TXMAS contract. Upon approval, vendors receive a notification letter confirming their acceptance to the program and their willingness to accept additional contract terms specific to the state of Texas.

Once approved, TXMAS contracts are made available to state and local government agencies, which are able to issue purchase orders against these contracts. Listed prices are treated as the maximum allowable price; purchasing officials are authorized to negotiate lower prices with the vendor. A "best value" purchase can be made by following the TXMAS purchasing procedures. As with CMAS, purchases conducted using TXMAS are not included in GSA's Coop Purchase

¹⁴ California Department of General Services, "CMAS Agency Packet," pp. 1-5, available at <http://www.documents.dgs.ca.gov/pd/cmas/AGENCYPACKETFeb05.pdf>.

¹⁵ E-mail message from Skip Ellsworth, California Department of General Services, May 5, 2006.

data. The Texas Building and Procurement Commission currently has 485 active TXMAS contracts. The vendors holding these contracts are a mix of large and small firms.¹⁶

Texas Catalog Information Systems Vendor (CISV)

The Texas Catalog Information Systems Vendor (CISV) is another kind of IT cooperative purchasing program for Texas state and local government agencies. CISV is an enhanced online catalog service maintained by the Texas Building and Procurement Commission (TBPC). Information technology vendors registering online with the Centralized Master Bidder's List (CMBL) can submit their electronic price catalog to the TBPC, which reviews the catalog to ensure it conforms with state guidelines for format and content. Catalog prices are typically listed as initially submitted.

Once approved, the catalog is added to the master list of CISV vendors, indexed and made available to state and local agencies for price comparison and purchase. Agencies are urged to consult a minimum of three CISV catalogs to decide which vendors should receive a request for quote (RFQ). Agencies send their requirements to selected vendors and then initiate a negotiation process designed to leverage the most favorable prices, terms and conditions from the vendor. Auctioning, or encouraging vendors to bid against one another, is prohibited. Agency buyers are urged to negotiate any offer from a CISV.¹⁷

Missouri Smart Buy

Missouri initiated a collaborative buying program called Smart Buy to pool the buying power of Missouri's state and local government agencies to leverage the lowest prices on all non-construction and non-public works procurement, particularly in the area of information technology. The goal is to centralize the coordination of procurement efforts, retain local spending control, ensure that different state buying offices share best practices, and, ultimately, to ensure the state is getting the best value and lowest prices on its acquisitions.

Cooperative purchases under Smart Buy are negotiated by officials of the Department of Administration on a case-by-case basis, driven by detailed analyses of state and local government agency buying patterns. This initiative has led to the negotiation of several statewide contracts for the acquisition of computer-related equipment and supplies. It is not yet a formal program with an established list of available master contracts, but the state is considering establishing mandatory contracts in view of its recent successes in negotiating lower prices for the acquisition of IT goods and services.

The Smart Buy web page boasts of three recent agreements, one for personal computers with Hewlett-Packard that saved the state \$283,000; one for printers, issued to several vendors, that

¹⁶ See "General Purpose Information Technology Equipment, Software and Services" from the *Texas Procurement Manual*, September 23, 2004, http://portal.tbpc.state.tx.us/txmas/txmasa_sched.asp?SCHEDULEID=13. A TBPC marketing specialist pointed out that only 51 vendors are listed on the TBPC website because some have not supplied valid urls for their price sheets.

¹⁷ CISV Program Office, Texas Building and Procurement Commission, "Best Practices Guideline," available at <http://www.tbpc.state.tx.us/stpurch/22bestpc.html>.

saved the state \$519,000; and one to several vendors for office supplies and toner that saved an estimated \$2.6 million. The latter contract had significant minority- and veteran-owned business participation.¹⁸

¹⁸ Missouri Department of Administration, “Missouri Smart Buy: Frequently Asked Questions,” http://www.smartbuy.mo.gov/#faq_1.

Section 3: Federal and State Data Analysis

Overview

Small vs. Other Types of Business

In the first two years of GSA's Coop Purchasing program, total GSA cooperative purchases grew 87 percent, from \$75 million in FY 2004 to \$140 million in FY 2005. These were the first two full years of operation following the 2002 E-Government Act which authorized the program.¹⁹

The Coop Purchasing program now includes a combined 5,160 unique vendors holding 5,198 group 70 IT schedule contracts and 113 corporate schedule contracts. Of these vendors 4,469, or 87 percent, are self-declared small businesses.²⁰ The definition of a small business, for the purposes of these specific Coop Purchasing statistics, is determined by GSA and not modified in any way.

The small participating firms that were active during FY 2004 – FY 2005 accounted for \$105 million, or 49 percent, of total GSA Coop Purchases over the first two years of the program's existence. In FY 2004 the small business Coop Purchase dollar share was 67 percent, and it was 39 percent in FY 2005.

Table 6: GSA Coop Purchase Spending By Type of Business FY 2004 - FY 2005

Type of Business	FY04	FY04 SB %	FY05	FY05 SB %	Total	Total SB %
Other	24,536,038	32.7%	85,984,003	61.1%	110,520,041	51.2%
Small	50,535,027	67.3%	54,706,439	38.9%	105,241,467	48.8%
Total	75,071,065	100.0%	140,690,442	100.0%	215,761,508	

Source: U.S. General Services Administration, Operations Support Division, September 14, 2005.

Coop Purchasing Markets

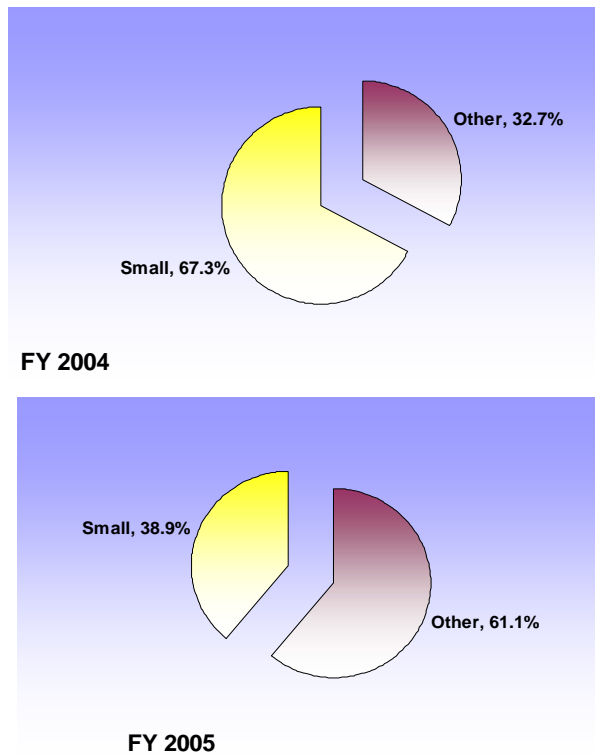
Currently, state and local Coop Purchase spending is evenly split by market. Computer manufacturing market classifications account for 51 percent of coop spending, and services categories account for 49 percent. Services categories include a small amount of money for training and maintenance and repair.

These manufacturing and services dollars are spread across 28 active market classifications, primarily in two Federal Supply Group areas: group D (ADP services) and group 70 (ADP hardware). The top 10 product/service classifications shown in Table 7, below, account for 96 percent of Coop Purchase spending over the two-year period, FY2004-2005.

¹⁹ A small amount of money was spent through the Coop Purchasing program during FY 2003. Figures for FY 2005 are slightly understated since they only go through September 14, 2005, and miss the final two weeks of the federal government's fiscal year. Since state government fiscal years generally coincide with the calendar year we do not expect the surge in reported procurement spending during the month of September as with spending data reported by federal agencies during the final month of the federal fiscal year.

²⁰ U.S. General Services Administration, Operations Support Division.

Chart 1: Comparison of Coop Purchasing Type of Business Shares, FY 2004 - FY 2005



Source: U.S. General Services Administration, Operations Support Division, September 14, 2005. The small business designation in this data set is reported directly from the Coop Purchase reports, the source for which is small vendors who self-reported. The Coop Purchasing database lacks the necessary fields to perform any refinements to the small business measure (e.g., SBA Exclusions Process—see p. 23).

Table 7: Coop Purchasing Dollars By Product/Service Classification, FY 2004 - FY 2005

PSC	PSC Definition	FY04	FY05	Total	Share
7030	ADP SOFTWARE	9,519,816	30,261,910	39,781,726	18.4%
D301	ADP FACILITY MANAGEMENT	1,239,400	33,046,992	34,286,392	15.9%
7010	ADPE SYSTEM CONFIGURATION	17,130,256	17,092,094	34,222,350	15.8%
7025	ADP INPUT/OUTPUT & STORAGE DEVICES	7,912,421	21,501,225	29,413,646	13.6%
D306	ADP SYSTEMS ANALYSIS SERVICES	15,858,593	9,101,425	24,960,018	11.6%
D399	OTHER ADP & TELECOMMUNICATIONS SVCS	13,729,020	6,412,462	20,141,482	9.3%
D304	ADP SVCS/TELECOMM & TRANSMISSION	1,037,558	10,843,493	11,881,051	5.5%
U012	INFORMATION TRAINING	1,591,551	5,196,576	6,788,127	3.1%
D302	ADP SYSTEMS DEVELOPMENT SERVICES	207,938	4,115,404	4,323,342	2.0%
J070	MAINT-REP OF ADP EQ & SUPPLIES	1,348,795	741,552	2,090,347	1.0%
	All Other	5,796,001	2,377,309	8,173,310	3.8%
	Total	75,371,349	140,690,442	216,061,791	

Source: U.S. General Services Administration, Operations Support Division, September 14, 2005.

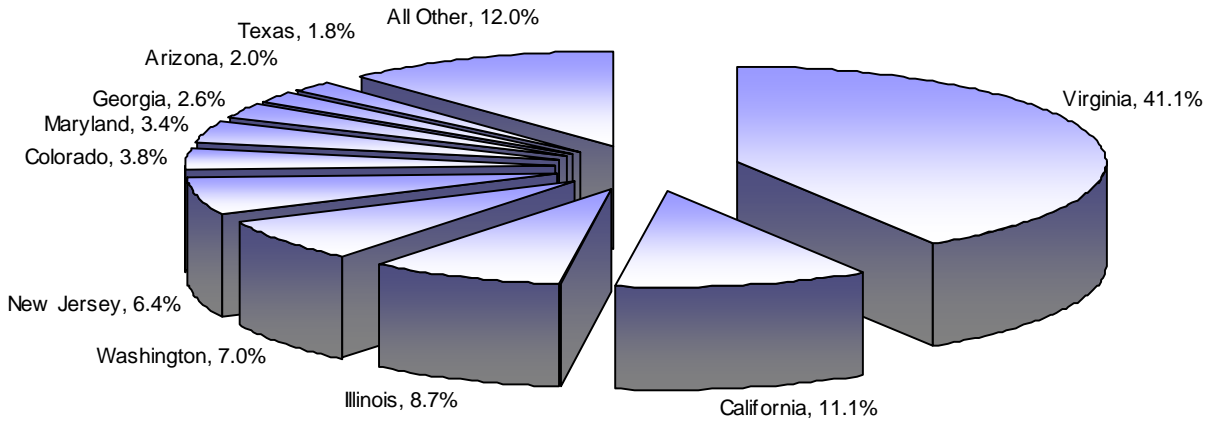
Vendor Address

Currently, vendors that participate in GSA's Coop Purchasing program are highly concentrated in a handful of states. Companies residing in Virginia received 41 percent of all Coop

Purchasing dollars over the FY 2004 – FY 2005 period. California companies were a distant second, receiving 11 percent of the dollars, while Illinois companies were third with 9 percent. Together, companies located in the District of Columbia, Maryland, and Virginia received 46 percent of all reported Coop Purchasing dollars.

Within states where Coop Purchasing vendors reside, small business utilization varies widely. Virginia’s utilization rate for small IT firms was 64 percent. With so few dollars still being reported in the system it is difficult to conclude whether states use the Coop Purchasing program to gain access to a broader range of small IT businesses. States like Virginia demonstrate the potential for using the Coop Purchasing program to diversify state suppliers.

Chart 2: FY04 - FY05 Coop Purchasing Dollars By Vendor State



Source: Coop Purchasing Statistics, supplied by the Operations Support Division, GSA, September 14, 2005.

Table 7: Coop Purchasing Dollars By Vendor State and Business Size, FY 2004 - FY 2005

State	Bus Size	FY04	FY05	Total	State %	Overall %
Virginia	Other	4,040,996	28,377,950	32,418,946	36.5%	
	Small	36,125,016	20,185,031	56,310,047	63.5%	
VA Total		40,166,012	48,562,981	88,728,993		41.1%
California	Other	5,827,369	12,444,125	18,271,494	76.1%	
	Small	1,153,871	4,577,995	5,731,866	23.9%	
CA Total		6,981,240	17,022,120	24,003,360		11.1%
Illinois	Other	4,704,818	13,597,622	18,302,440	97.6%	
	Small	337,022	108,812	445,834	2.4%	
IL Total		5,041,840	13,706,434	18,748,274		8.7%
Washington	Other	3,266,483	9,546,717	12,813,200	84.6%	
	Small	1,379,342	944,324	2,323,666	15.4%	
WA Total		4,645,825	10,491,041	15,136,866		7.0%
New Jersey	Other	1,365,797	8,945,898	10,311,695	75.0%	
	Small	813,994	2,620,658	3,434,652	25.0%	
NJ Total		2,179,791	11,566,556	13,746,347		6.4%
Colorado	Other	868,043	86,158	954,201	11.7%	
	Small	124,039	7,108,037	7,232,076	88.3%	
CO Total		992,082	7,194,195	8,186,277		3.8%
Maryland	Other	303,024	2,267,950	2,570,974	35.3%	
	Small	1,948,717	2,756,807	4,705,524	64.7%	
MD Total		2,251,741	5,024,757	7,276,498		3.4%
Georgia	Other	695,004	4,118,471	4,813,475	84.8%	
	Small	184,928	675,839	860,767	15.2%	
GA Total		879,932	4,794,310	5,674,242		2.6%
Arizona	Other	44,372	379,457	423,829	9.8%	
	Small	1,706,431	2,214,740	3,921,171	90.2%	
AZ Total		1,750,803	2,594,197	4,345,000		2.0%
Texas	Other	62,834	522,125	584,959	15.2%	
	Small	1,109,996	2,154,320	3,264,316	84.8%	
TX Total		1,172,830	2,676,445	3,849,275		1.8%
	All Other	9,008,969	16,945,098	25,954,067		12.0%
		75,071,065	140,578,134	215,649,199		

Source: U.S. General Services Administration, Operations Support Division, September 14, 2005.

GSA Federal IT and Corporate Schedule Spending Trends

As Chart 3 illustrates and Table 8 details, combined spending on the group 70 and corporate schedules increased 67 percent in the last five years, from \$6.1 billion to \$10.2 billion, making these schedules an integral part of doing business in the federal IT marketplace. Together, spending on these two schedules has amounted to over \$50 billion.

Federal agencies report awarding significant percentages of these dollars to small firms. As Charts 4 and 5 show, small firms won 48 percent of the cumulative dollars awarded on the corporate schedule and 40 percent of the dollars awarded on the IT schedule. The IT schedule is the dominant of the two contract vehicles, accounting for \$50 billion in spending since 1993.

Data Classifications

For the purposes of IT and corporate schedule prime contract data, for years prior to FY 2004 a small business is defined as any vendor whose contract actions were coded with the data field

Business Type = A (small, minority-owned firm) or B (other small firm). For FY 2004 and FY 2005, small firms are defined as businesses whose contract actions are coded with “contract officer determination of small business size code” = S (for Small). This latter code is the new, official small business size designator in the Federal Procurement Data System-Next Generation database (FPDS-NG).

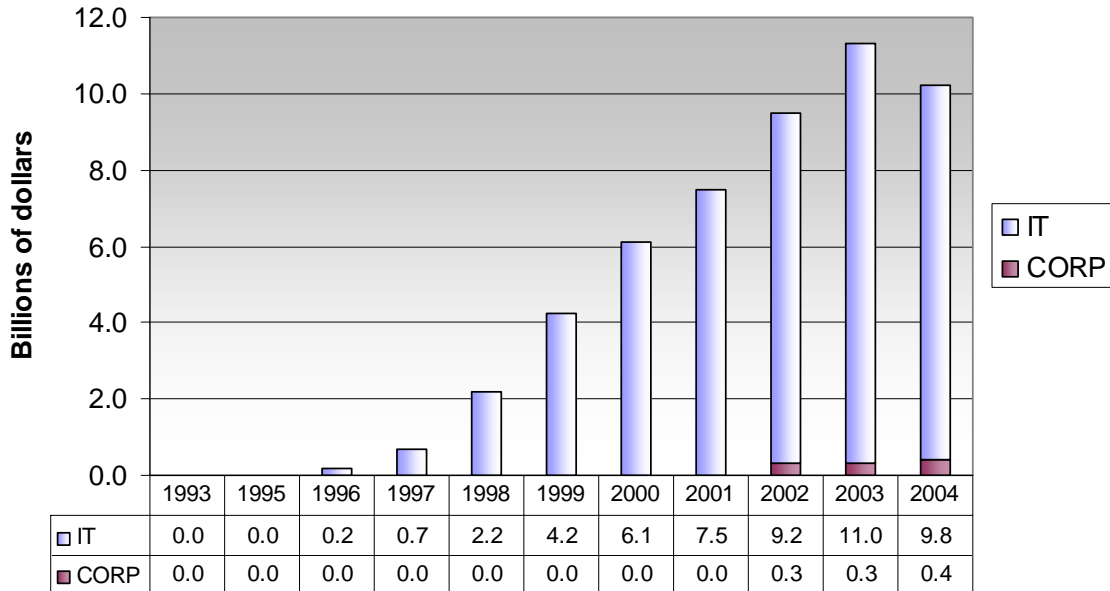
The SBA Exclusions Process was performed in the selection of the IT and corporate schedule spending data displayed in Charts 3, 4, 5 and 6 and Table 8 in order to conform small business share measures to SBA goaling measures. The Exclusions Process attempts to be in concordance with the SBA’s goaling guidelines. Contract records selected from the FPDC and FPDS-NG databases that exhibited the following characteristics were excluded from totals appearing in these charts and tables:

1. All records coded with Javits Wagner O’Day Type of Business = Yes (Business Type Code D for fiscal years 1995 – 2003, Sheltered Workshop Flag = Y for FY 2004);
2. All records awarded to UNICOR/Federal Prison/FPI (matched by DUNS number);
3. All records awarded to the American Institute in Taiwan (matched by DUNS number);
4. All records coded with foreign places of performance (No “U.S.” in the “place of performance” field prior for FY 1995 – 2004; no “U.S.” or “blank” in the “place of performance country” field for FY 2004) ;
5. All foreign-government funded actions;
6. Contracts funded by predominantly agency-generated sources. According to the SBA, this excludes records from the following federal agencies:
 - Federal Deposit Insurance Corporation,
 - Postal Service,
 - Bureau of Engraving and Printing,
 - U.S. Mint,
 - Office of the Comptroller of the Currency,
 - Office of Thrift Supervision,
 - Transportation Security Administration,
 - Federal Aviation Administration,
 - Tennessee Valley Authority,
 - Administrative Office of the U.S. Courts,
 - Architect of the Capitol,
 - Bankruptcy Court,
 - Central Intelligence Agency,
 - Congressional Budget Office,
 - Court Services and Offender Supervision Agency,
 - Pretrial Services Agency,
 - Federal Judicial Center,
 - Overseas Private Investment Corporation,
 - Supreme Court,
 - U.S. Court of Appeals,
 - U.S. District Court, and
 - Territorial Courts.
7. Contracts awarded to the Defense Commissary Agency (DECA, because it buys for resale); and
8. Awards designated as RES under “reason not competed” (RES stands for resale).²¹

²¹ Exclusions criteria are published in the footnotes to the main data table in the *FY 2004 Small Business Goaling Report*, p. 2. See: <http://www.sba.gov/GC/goals/Goaling-Report-08-21-2005.pdf>.

Note that all dollar figures appearing in this analysis are collectively referred to as “reported dollars.” With a data collection and dissemination system as large as the FPDS, errors and omissions will occur.

Chart 3: Overall Federal Agency IT and Corporate Schedule Spending, With SB Exclusions, FY93 - FY04



Source: U.S. General Services Administration, Federal Procurement Data Center and Federal Procurement Data System-Next Generation, as processed by Eagle Eye Publishers.

Table 8: IT And Corporate Schedule Business Type Spending Breakdown, FY 1993 - FY 2004

IT Schedule

	Prior Years	FY00	FY01	FY02	FY03	FY04	Total
Other Business	4,266,497,293	3,660,500,027	4,406,917,188	5,772,446,874	6,578,828,583	5,677,249,231	30,362,439,196
Small Business	3,016,942,000	2,454,580,726	3,055,828,731	3,392,718,175	4,426,075,462	4,142,396,773	20,488,541,867
Total	7,283,439,293	6,115,080,753	7,462,745,919	9,165,165,049	11,004,904,045	9,819,646,004	50,850,981,063
SB Share	41.4%	40.1%	40.9%	37.0%	40.2%	42.2%	40.3%

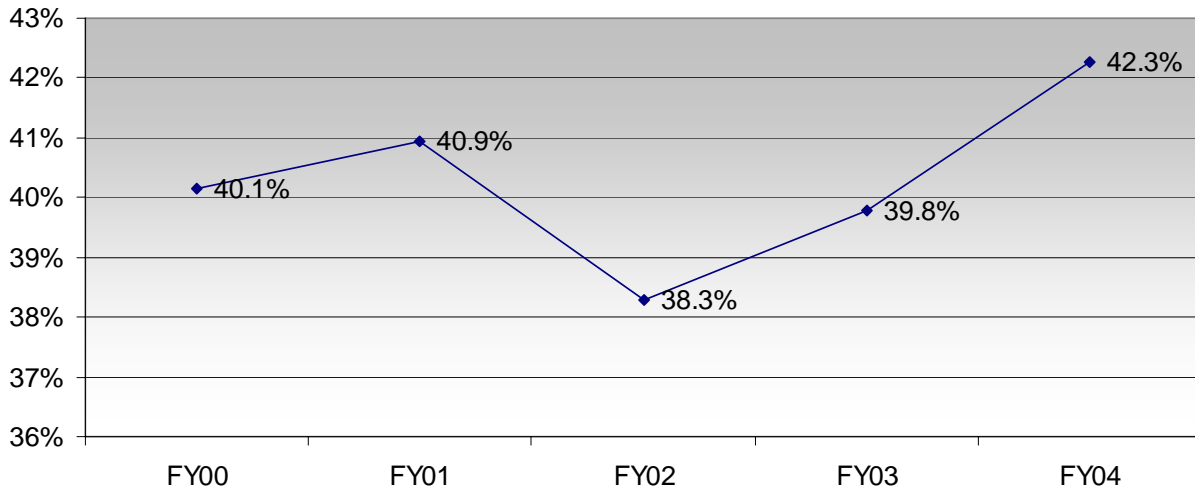
Corporate Schedule

	FY01	FY02	FY03	FY04	Total
Other Business	6,624,000	86,492,341	246,982,988	222,791,217	562,890,546
Small Business	3,075,000	243,545,657	85,739,285	177,438,912	509,798,854
Total	9,699,000	330,037,998	332,722,273	400,230,129	1,072,689,400
SB Share	31.7%	73.8%	25.8%	44.3%	47.5%

Grand Total	7,283,439,293	6,115,080,753	7,472,444,919	9,495,203,047	11,337,626,318	10,219,876,133	51,923,670,463
Combined SB Share	41.4%	40.1%	40.9%	38.3%	39.8%	42.3%	40.4%

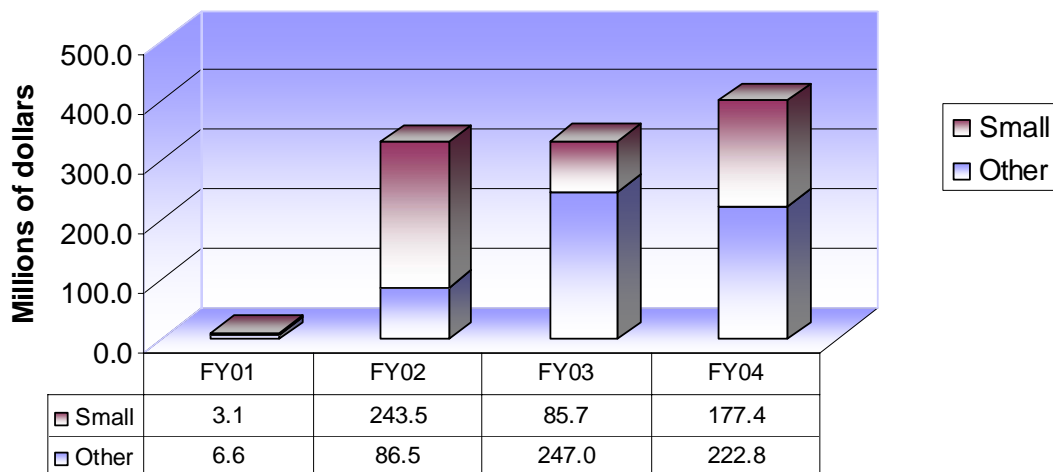
Source: U.S. General Services Administration, Federal Procurement Data Center and Federal Procurement Data System-Next Generation, as processed by Eagle Eye Publishers.

Chart 4: Combined Small Business Share of Corporate and IT Schedules, FY 2000 - FY 2004



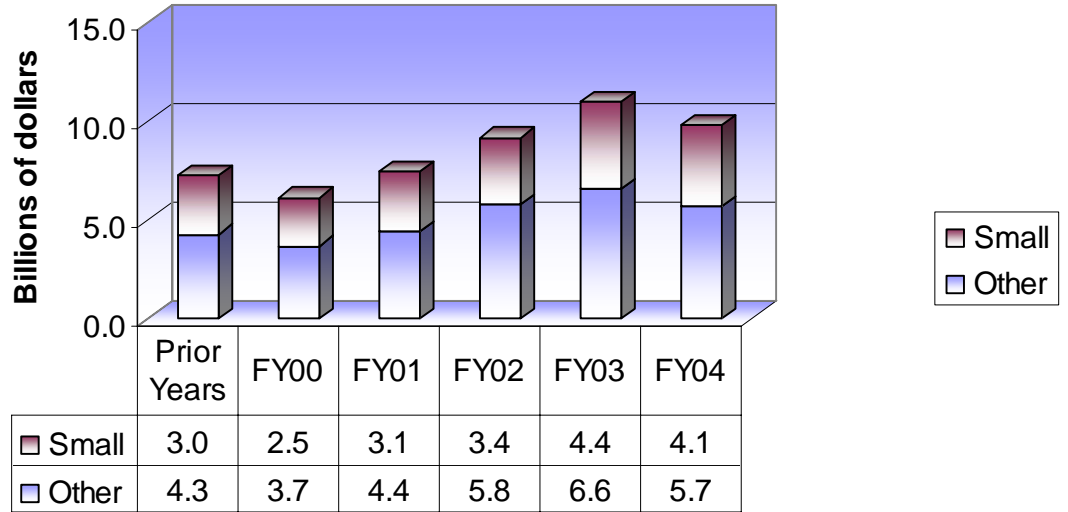
Source: U.S. General Services Administration, Federal Procurement Data Center and Federal Procurement Data System-Next Generation, as processed by Eagle Eye Publishers.

Chart 5: Corporate Schedule Spending With Business Size Breakdowns, FY01 - FY04



Source: U.S. General Services Administration, Federal Procurement Data Center and Federal Procurement Data System-Next Generation, as processed by Eagle Eye Publishers.

Chart 6: IT Schedule Spending With Business Size Breakdown, FY00 - FY04



Source: U.S. General Services Administration, Federal Procurement Data Center and Federal Procurement Data System-Next Generation, as processed by Eagle Eye Publishers.

Section 4: State Attitudes toward GSA Coop Purchasing

Overview

To better understand the GSA Coop Purchasing program for schedule 70 from the states' perspective, Eagle Eye undertook a series of eight informal phone and in-person interviews of state procurement administrators. Some interviews were conducted face-to-face at the National Association of State Procurement Officials annual conference held in New Orleans in April 2004. Through interviews we sought first hand information on the state procurement administrators' opinions and experiences with cooperative purchasing programs. Others were conducted by submitting formal, written survey forms or by conducting phone interviews over the ensuing weeks.

Both the surveys and interviews developed an overall picture of state procurement practices and opinions. Questions centered on identifying whether states currently use or plan to use the GSA schedule 70 program or other similar cooperative purchasing programs. Information regarding any existing small business preference programs or participation goals used and the types of procurement data recorded by the state was also collected. State officials were asked to provide their candid opinions of the issues they face with regards to cooperative purchasing and how they believe small business is affected.

Methodology

The goal of the survey was to gain insight on the states procurement offices' perspective on cooperative purchasing and to gauge how likely states are to use GSA schedules. To minimize placing paperwork burden on the public in accordance with OMB policy, study staff designed and distributed eight surveys to select state procurement officials via email and mail. A condensed version of the survey is provided as Appendix B. The targeted states included Arizona, California, Maryland, Minnesota, New York, Texas, Virginia, and Wyoming.

Arizona

The Arizona State Procurement Office's mission statement is: "One procurement community, consistently seeking best value procurement solutions for customers through innovation."²² John Adler, state procurement administrator, responded to the survey and provided general information concerning the state's procurement process. The following paragraphs provide a summary of the survey response and a profile of the state's procurement practices.

As the procurement office's mission statement infers, the state procurement office's main activities include developing and administering one set of statewide contracts for commonly purchased goods. Arizona Revised Statutes Section 41-2632 authorizes the creation of cooperatives to handle the administration function of procuring goods for public entities.

²² Arizona Department of Administration, Procurement Office website, <http://sporas.ad.state.az.us>.

According to the procurement administrator, Arizona does use the GSA cooperative purchasing program, but the numbers of purchases are extremely limited. According to Adler, total spending since the opening of the GSA schedule 70 to states in October 2003 is an estimated \$2.5 million. The state is also a member of the WSCA cooperative, which is used to purchase industrial supplies, wireless services, laboratory instruments, and computer and electronic equipment.

The procurement administrator believes that although the GSA program offers a level of convenience and flexibility, the “prices are competitive.” According to the procurement administrator, the GSA program is simply one procurement mechanism that states can utilize to meet their needs. “GSA provides state and local purchasing officers with another tool. If used appropriately, GSA contracts provide considerable value for our state purchasing program.”

California

The state does not currently use and does not plan to use the GSA program to meet the state’s technology needs. California began in 2004 to strategically source many of its contracts, including those used to purchase technology related goods and services. It will continue to be a member of the WSCA cooperative and uses an existing program called the California Multiple Award Schedule (CMAS) that allows the state to “piggyback” or use GSA schedule contractors to purchase goods including technology related goods and services that are not available on California’s strategically sourced contracts.

Established in 1994, CMAS enables state and local government agencies use GSA schedule contractors to achieve best value purchasing decisions according to their own business needs such as price, warranty, and supplier performance. According to the representative, “CMAS contracts are established using products, services, and prices from already existing competitively assessed and cost compared multiple award contracts. The products, services, and prices are primarily from GSA multiple award schedule programs, but not exclusively. To these products, services, and prices, we add California contract terms and conditions; procurement codes and policies are added to establish a totally independent California contract.”

In response to the issue of where small business and local businesses fall within this procurement approach, the official explained that while California uses the GSA schedule as a starting point for identifying vendors and negotiating contract terms and prices, businesses that do not have a GSA schedule can still participate by submitting an application package to become a certified CMAS supplier.

Connecticut

Study staff interviewed Jim Passier, the director of procurement for the Connecticut Department of Administrative Services. Passier has a generally favorable view of the GSA Coop Purchasing program. He points out that Connecticut is one of the most flexible states, capable of utilizing any number of contract vehicles that provide value for state agencies and taxpayers. Chapter 58,

Section 4(a) 66 of the Connecticut State Code authorizes all state agencies and local governments to use GSA’s Coop Purchasing program.

Passier recounted that he has used the program at least once to make a rush purchase of digital copier equipment. The breadth of the entire group 70 schedule offering helped him find what he needed quickly. Connecticut law requires that 25 percent of all procurement dollars be spent with small firms and that 25 percent of this total go to minority-owned firms. Connecticut has its own small- and minority-owned business certification program. This means when the state seeks to conduct a small business Coop Purchase, Connecticut-based group 70 schedule holders will receive consideration.

Passier noted that there is a “background fear” among procurement officers that GSA’s Coop Purchasing program could make state acquisition jobs redundant and that this might tend to limit usage of the Coop Purchasing program.

Minnesota

Study staff interviewed Paul Stembler, assistant director of the Materials Management Division of the Minnesota State Department of Administration. Stembler directly manages several cooperative purchasing programs for Minnesota, including the two largest state-based cooperative programs.

Stembler is among the state representatives voicing skepticism about the utility of GSA’s Coop Purchasing for state IT professional/technical services acquisitions overall, and in particular as it relates to small business utilization. Minnesota’s state statute does not authorize the state to use a GSA (or any federal) contract, but the commissioner of administration, acting through the Materials Management Division can, at his or her discretion, accept GSA or other federal pricing. To do so, he or she must sign a separate contract that contains Minnesota’s standard terms and conditions (see Minnesota Statute 16C, below).

Minnesota Federal Price Schedules Regulation

“Minnesota Statutes 16C.10 Subd. 3. Federal agency price schedules.

Notwithstanding anything in this chapter to the contrary, the commissioner may, instead of soliciting bids, contract for purchases with suppliers who have published schedules of prices effective for sales to any federal agency of the United States. These contracts may be entered into, regardless of the amount of the purchase price, if the commissioner considers them advantageous and if the purchase price of all the commodities purchased under the contract do not exceed the price specified by the schedule.”

Minnesota law requires that 25 percent of all dollars spent on acquisitions be spent with small firms, and Stembler says this goal is usually met. In addition to this 25 percent goal, Minnesota also gives a 6 percent price preference to minority businesses along with other assistance and

incentives. Stembler believes that using the GSA schedule 70 contracts might not have a great impact on small firms in Minnesota; in addition, schedule 70 offerings don't fit what most of his IT clients find useful.

Minnesota has a class of service contracts called “professional/technical services contracts” that provides the kinds of services covered by GSA schedule 70. The use of these services varies widely across the 133 state agencies. Most, but not all of these services have a local (in-state) presence, since most of them require on-site work. The Minnesota Office of Enterprise Technology (OET) has a contracting program that fulfills agency needs for the kinds of services covered by schedule 70; OET manage the process and enforces standards. Using the schedule 70 contracts would not add to OET's process, since they are based on very different models and assumptions, and the prices are not any better.

New York State

Study staff conducted a phone survey and interview with New York State Procurement Services Director, Walter Bikowitz. Bikowitz discussed the state's reasons for not using the GSA Coop Purchasing program, as well as the state's overall experience with similar cooperative purchasing programs and efforts. The following sections provide a summary of the interview findings and a brief profile of New York's procurement program and existing small business approach.

The state of New York does not currently utilize the GSA cooperative purchasing program. New York state and local agencies cannot directly access GSA contracts via purchase orders because enabling legislation at the state and local level does not yet exist. New York State does adopt some GSA contracts under SFL Sectoin 163.10 (e) and (f) under a practice commonly referred to as “piggybacking.” According to Bikowitz, there are additional considerations or concerns that must also be addressed before making greater use of GSA group 70 contracts:

- GSA's industrial funding fee surcharge raises overall costs. Although the fee is only 0.75 percent on total purchases, the fees can quickly amount to millions of dollars on large-scale purchases.
- New York's contracting laws and programs have stringent rules. Contracts require strict contract language that protects the interest of the state in such areas delivery deadlines and warranties. Currently, the GSA cooperative purchasing program only allows state to add terms and conditions that are statutory in nature whereas New York would add terms and conditions that are more favorable to purchasers and better protects the state's best interests.
- Prices offered on GSA schedules may not reflect the best possible price offered by vendors. Each GSA contract must be studied to determine if it offers the best possible price.
- The voluntary participation clauses in the GSA program create service reliability issues. The GSA program gives vendors a window to opt-out of honoring a purchase order. The state believes that vendors can take advantage of this option and only fulfill orders that benefit their bottom line. For example, a local agency

in a geographically isolated area may have a vendor reject an order because the shipping distance cuts into the vendor's profits. Uncertainty in procurement is not in the interest of the state.

During GSA's rulemaking, several states proposed revisions (through NASPO) to help protect the state and ultimately, the taxpayer, from risk. However, all these suggestions are not reflected in the final rule. However, there have been recent discussions between NASPO and the GSA, and it is anticipated that some of the outstanding issues would soon be addressed. Some of these issues include (1) a request that GSA eliminate the industrial funding fee or develop a program to share a portion of the money with the states that purchased the most goods from the schedule and (2) a request that GSA allow states to add their own unique contracting terms to purchase orders.

New York uses legislation authorizing its procurement office, the Office of General Services Procurement Services Group, to "piggyback" on contracts negotiated by other public agencies. However, the representative noted that piggyback contracts are few in number. According to the representative, of the approximately 2,800 purchasing contracts used by the state, fewer than 100 "piggyback" on contracts established by other entities.

Texas

Study staff interviewed and collected a survey response from Ted Maddry, a representative of the Texas Building and Procurement Commission (TBPC). The purpose of the interview was to determine the state's involvement in the GSA Cooperative Purchasing program.

According to Maddry, Texas does not currently use the GSA Cooperative Purchasing program to order IT goods and services, and it has no plans to do so. The representative cited the following reasons. First, TBPC lacks enabling legislation authorizing direct purchase via a GSA contract. Second, TBPC lacks the legislative authority to create contracts based on the multiple award schedule that have been competitively awarded by the federal government or other state entities.

Although the state procurement office does not use the GSA Cooperative Purchasing program for IT commodities or services, the state still has access to the potential time and cost-savings afforded by GSA schedules. Section 2155.502 of the Texas Code, passed in September 2001, enabled the TBPC to establish the Texas Multiple Award Schedule (TXMAS) program.

The TXMAS program allows state agencies and qualified local government entities to utilize multiple award schedule contracts based on contracts that have been competitively awarded by the federal government or other state entities. State procurement offices can use the TXMAS schedules as a starting point for contracting as a procurement tool in meeting their requirements for IT products and services.

For example, an agency or local government entity could use a TXMAS contract for software to upgrade an existing software program from the contract that had been competitively awarded by GSA. In this way, it sidesteps the lead time necessary to develop specifications and solicit

responses from potential suppliers. Under the TXMAS program, as with the GSA cooperative purchasing program, the TXMAS contractor is responsible for remitting a sales rebate to the state of Texas in an amount equal to the GSA industrial funding fee.

Virginia

Three state agencies are in charge of procurement: the Virginia Department of General Services Purchasing Division for non-technology goods and services contracting; the Virginia Information Technologies Agency for technology contracting; and the Virginia Department of General Services for statewide construction and professional services contracting to establish, coordinate, and manage contracts for the state. Ron Bell, director of the Virginia Department of General Services Purchasing Division, responded to the survey and offered his views and experiences regarding cooperative purchasing.

According to Bell, the state currently uses GSA schedule 70 for information technology purchases when the prices of products on the schedule are more favorable than state terms. The state has worked with GSA to allow the state's electronic procurement system to "punchout" to the GSA Advantage System, making the schedule 70 products and prices available to state agencies and institutions, as well as to many local governments. State law also permits Virginia's law enforcement authorities to use GSA schedules for its Drug Enforcement Program.

Data on the volume of Virginia's purchasing with GSA programs is not currently available. Purchasing is decentralized around the state, and the connection to GSA's Advantage System was still new at the time of the interview. Both factors have hampered the state's ability to capture purchasing data via the GSA schedule.

Since many small, women-owned, and minority-owned businesses participate on GSA schedules, Virginia agencies' use of the GSA purchase vehicles was not seen as affecting the states' utilization of such entities in contracting. However, there was concern about reduced opportunities for Virginia businesses. In general, the Virginia agency found that the GSA schedules provides faster purchasing, but buyers have been able to find better price for some items elsewhere.

Wyoming

Eagle Eye staff interviewed Wyoming's Procurement Manager, Mac Laden. The following provides a summary of interview findings and presents the procurement official's overall perspective and experience with cooperative purchasing and its impact on local businesses.

The interview determined that the state of Wyoming, while not currently using the GSA program, does use other cooperative programs to buy such items as industrial supplies and computer-related goods and services. Wyoming is a member of Western States Contracting Alliance cooperative (WSCA). WSCA provides access to contracts covering such items as electronics, computers, infant formula, and industrial supplies. According to the state procurement manager, Wyoming does not have any laws that prohibit the use of other federal or state contracts.

Interview Summary

Our interviews confirmed that while some states are open to the use of GSA Coop Purchasing, most are skeptical of the program for the following reasons.

1. GSA’s Program Is Not Always Cost Effective.

Almost all the state procurement officials interviewed and surveyed indicated that GSA schedule prices are too high. Staff officials noted that the schedule prices are ceiling prices and that they are typically higher than prices obtained from normal procurement processes. In addition, they stated that the 0.75 percent industrial funding fee charged to the state for using the program raises the overall cost to the products.

2. GSA Coop Purchasing Is One of Several Purchase Vehicles.

The majority of respondents noted that the GSA schedule 70 program is but one procurement tool at the disposal of state procurement offices. Several states are currently using other cooperative purchasing programs established and run by nonprofit organizations or fellow states to meet their needs.

3. “Piggybacking” and State Control.

Since the federal government opened the GSA schedule 70 program to state agencies in October 2003, many states have implemented a simple registration procedure that permits state agencies and local governments to incorporate GSA schedule terms and conditions into state contracts in a process known as “piggybacking.” In this manner, states can incorporate the most beneficial contract terms, negotiate their own prices as well as additional terms, and still maintain control over the contracting process.

State government-issued contracts may include terms that ensure service reliability, delivery timelines, and product warranties. As pointed out by the New York State procurement official, the GSA program includes voluntary participation clauses for both the buyer and the contractor. The GSA program allows vendors a window to opt-out of honoring a purchase order submitted by the state. Some states choose not to use the GSA program due to this additional uncertainty.

4. State Laws May Prohibit Or Limit Use.

Although the federal statutes allow states to use the GSA schedule, state law may not. A common issue raised by respondents was that state procurement policies and laws are more stringent than federal regulations. Most states require buyers to follow a strict procedure in soliciting bids from a certain number of contractors and conduct an official options evaluation before a contract is established.

5. Small Business Requirements.

As the Connecticut state official pointed out, Connecticut law stipulates financial and residential criteria for recognizing small businesses in the state’s incentive programs. In order to make small business awards using the Coop Purchasing program, schedule vendors would have to meet these same criteria before a state small business award could be made.

Appendix A: Data Sources

GSA Cooperative Purchasing Data

The GSA collects Coop Purchasing data as part of a company's normal, quarterly 72-A GSA schedule usage report. The data is summarized by contract number and contains additional information identifying the name and address of the Coop Purchasing vendor, an annual total dollar sum, a Type of Business Code, a North American Industrial Classification System Code (NAICS) and a Product/Service Code along with a field indicating which purchases were made with state or local governments under Coop Purchasing.

Coop purchase data is issued to the public on an ad hoc basis in response to individual requests made to the GSA's Office of Market Research.

FPDS-NG Procurement Data

The GSA's Federal Procurement Data System-Next Generation (FPDS-NG) database provides the overall federal context in which Coop Purchase data is measured. The FPDS-NG database is an electronic file containing data fields corresponding to all the information elements collected by contract officers on the DD-350 (defense) and 279 (civilian) transaction report forms. Each ICAR record represents information about one unique contract obligation on an unclassified prime contract typically worth at least \$25,000.

To perform this analysis Eagle Eye extracted and analyzed all contract transaction records reported in the FPDS-NG file covering the period October 1994 through September 2004 (FY 1995 – FY 2004) that corresponded to contracts and markets appearing in the Coop Purchase database. The FPDS-NG data was summarized and totaled by agency and market and further analyzed by the amount of dollars awarded to small businesses.

FY 2003 was the final year of the old FPDS data collection system. Under the old system, each contract office collected information on every transaction they administered and forwarded this information to their bureau's or agency's procurement data office. This office took responsibility for performing preliminary data validation and forwarding valid transaction records to the FPDS each quarter for further editing and eventual publication.

With the adoption of the new FPDS-NG reporting system in 2003, agencies began submitting their contract reports to the GSA's FPDS-NG vendor directly using automated contract writing systems. Other, less automated agencies continue to submit contract reports to the GSA's vendor periodically, using batch files.

Contained in each transaction record is information describing the financial, competitive, statutory and other characteristics of an obligation. The most important fields used to select data for this analysis include:

- **Agency Code:** defines the agency administering an acquisition. In all tables and charts used in this study, agency codes are translated into commonly recognized acronyms

- **Product/Service Code:** The “product/service” code describes the type of work performed on a contract, task or delivery order. Though similar in nature to a NAICS code, product/service codes have been in use for many years and provide a consistent basis for performing trend analyses
- **Small Business Code/Contract Officer Determination of Small Business Size:** These codes distinguish small business awards from awards to other types of firms. For FY 1995 – FY 2003, codes A and B in the “type of business” fields were used to define small businesses. For FY 2004, the word “small” in the field called “contract officer determination of small business size” was used to select small business awards.

Particularly on large complex contracts like government-wide acquisition contracts, a contract officer might create numerous transactions on a single contract over the course of its duration. This is because the dollars contained in a single obligation or transaction do not represent the total value of a contract. Some small contracts consist of only one obligation, but other large contracts can show hundreds of actions.

Each obligation forms the basis of a separate record in Eagle Eye’s ICAR contract database. Each record shows a unique combination of the following data elements: reporting agency, contract number, contract modification number, contracting office order number, contracting office code, and action or effective date.

State Goaling Data

Eagle Eye obtained state goaling data through an exploration of each state’s procurement and small/minority business program web pages. Where limited or no information was found, Eagle Eye called the relevant point of contact in each state to confirm the characterization of the state’s goaling program.

State Procurement Data

Each state’s procurement data was obtained from primary sources within the state. Eagle Eye requested identical file formats and content from officials who managed each state’s procurement databases.

Appendix B: Cooperative Purchasing Procurement Survey

The survey was designed to solicit information in the following five areas:

1. The extent of the state's use of the GSA or similar cooperative purchasing program,
2. Regulatory barriers or other issues preventing the use of cooperatives,
3. Opinions, concerns and recommendations from state officials regarding these programs,
4. Existing or pending state small business set aside programs or participations goals, and
5. The type and level of procurement data collected and managed by the state.

Approximately ten days after sending the surveys, study staff conducted follow-up phone calls to state procurement officials to inquire about the status and to address any questions they may have had. Of the surveys distributed, staff received written responses from Arizona, California, and Virginia. The majority of targeted states officials opted to provide verbal responses and participate in a more discussion-oriented interview during follow-up telephone calls. These verbal survey responses are included with the interview summaries presented in Section 4 of this report. The following subsections include a summary of the written responses and provide additional information regarding the types of cooperative purchasing and/or small business preference programs currently used by the state.

The survey text is reprinted below.

Eagle Eye Publishers, Inc., requests your cooperation with the following survey concerning the impact on small businesses of state participation in the U.S. General Services Administration's Cooperative Purchasing program.

This survey is being conducted as part of Eagle Eye's contract #SBAHQ-03-M-0520 with the U.S. Small Business Administration's Office of Advocacy. Your answers will be incorporated into a final analysis of the Cooperative Purchasing program for the SBA to be submitted later this year. Please use as much space as you would like for your responses. Also, if you feel your answers require anonymity please let us know and we can make the necessary arrangements.

We appreciate your assistance. If you have any questions about this survey or the authority upon which it is being undertaken, please contact Paul Murphy, Eagle Eye Publishers, 10560 Main St., PH-18, Fairfax, VA 22030 1-800-875-4201. We will notify you when the completed study becomes available later this fall.

1. Does your state use the GSA Cooperative Purchasing Program?
2. If your state is **NOT** using the GSA Cooperative Purchasing Program:
 - a. Please explain why.
 - b. Are you planning to use the program in the future?
 - c. Are there local laws in your state restricting or prohibiting the use of the GSA's Cooperative Purchasing Program?
 - d. Are you currently using other cooperative purchasing agreements such as Western States Contracting Alliance or Minnesota Multi-state Contracting Alliance For Pharmaceuticals?
 - e. Other Reasons?
3. What do you view are the advantages and disadvantages of participating in the GSA Cooperative Purchasing Program? (Possible issues: prices, ease of use, range of products, etc.)

4. What types of items does your state predominantly purchase through the program?
5. What types of data does your state collect on procurement spending? Do you track contract amounts, business size, business location, product type, etc.? How is this data available?
6. Have you witnessed any impacts to local and small contractors as a result of using the GSA's Cooperative Purchasing Program? Does your state put mechanisms in place that address these impacts?
7. Does your state have goals for spending a certain share of its annual procurement with:
 - a. Small firms
 - b. Minority-owned firms
 - c. Woman-owned firms
 - d. Veteran-owned or Disabled-veteran-owned firms

If yes, please describe these goals and the extent to which they are being met.

8. Does your state currently offer any small business preference or other programs to encourage state agencies to purchase goods and services from small or socio-economically disadvantaged firms? If so, what do you anticipate will be the impact of the GSA's Cooperative Purchasing Program on these programs?
9. What is your overall opinion of the GSA cooperative purchasing program? What problems and potential solutions do you envision?
10. Please add any additional comments you may have about the impact of the GSA's Cooperative Purchasing Program on the procurement of goods and services from small firms.

Appendix C: California Joint Powers Statute

California Government Code
Title 1 General Division 7 Miscellaneous
Chapter 5 Joint Exercise of Powers
Article 1 Joint Powers Agreements

§ 6500 Gov't.

As used in this article, "public agency" includes, but is not limited to, the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, regional transportation commission of this state or another state, or any joint powers authority formed pursuant to this article by any of these agencies.

§ 6502 Gov't.

If authorized by their legislative or other governing bodies, two or more public agencies by agreement may jointly exercise any power common to the contracting parties, even though one or more of the contracting agencies may be located outside this state.

It shall not be necessary that any power common to the contracting parties be exercisable by each such contracting party with respect to the geographical area in which such power is to be jointly exercised. For purposes of this section, two or more public agencies having the power to conduct agricultural, livestock, industrial, cultural, or other fairs or exhibitions shall be deemed to have common power with respect to any such fair or exhibition conducted by any one or more of such public agencies or by an entity created pursuant to a joint powers agreement entered into by such public agencies.