



OPERATIONAL SERVICES DIVISION

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Memorandum

To: Secretariat and Agency Chief Procurement Officers/Chief Supplier Diversity Officers, General Counsels, Chief Financial Officers, and Chiefs of Staff
Cc: Cabinet Secretaries, Agency Heads
From: Gary Lambert, Assistant Secretary for Operational Services
Date: November 6, 2020
RE: **Supplier Diversity Program (SDP) and Small Business Purchasing Program (SBPP) Updates**

As part of the ongoing efforts of the Baker-Polito Administration to ensure equal opportunity in state contracting, the Operational Services Division (OSD) is pleased to announce the following updates to the Supplier Diversity Program (SDP) and the Small Business Purchasing Program (SBPP) aimed at expanding business opportunities for diverse and small businesses and supporting the economic recovery of the Commonwealth for goods, services and purchase of service contracting.

Background on SDP Indirect Spending

The SDP encompasses two types of spending which contribute to each department's meeting their SDP spending goals:

- **Direct spending** with certified diverse businesses¹ as prime contractors; and
- **Indirect spending** resulting from business partnerships between the departments' prime contractors, regardless of certification status, and certified diverse businesses (also referred to as diverse partners or SDP partners).²

Historically, three types of business-to-business relationships were recognized by the SDP as eligible for indirect spending:

- **Subcontracting**, defined as a partnership in which the SDP partner is involved in the provision of products and/or services to the Commonwealth. Such relationships typically, but not always, involve a formal written agreement between the SDP partner and the prime contractor.
- **Ancillary Products and Services**, defined as a business relationship in which the SDP partner provides the prime contractor products or services that are not directly related to the prime contractor's contract with the Commonwealth. In most cases, this type of partnership is related to the prime contractor's general business

¹ The following types of certified diverse businesses are eligible to participate in the SDP:

- Minority Business Enterprises (MBE);
- Women Business Enterprises (WBE);
- Veteran-Owned (VBE) and Service-Disabled Veteran-Owned Business Enterprises (SDVOBE);
- Disability-Owned Business Enterprises (DOBE);
- Lesbian, Gay, Bisexual and Transgender-Owned Business Owned Enterprises (LGBTBE).

² Prime contractor commitments are based on a percentage of sales earned from the state contract.



operations and may or may not involve a formal written agreement with the SDP partner. It is also recognized that, in some cases, products and/or services provided by the SDP partner may contribute to **both** subcontracting (when used by the Commonwealth) and ancillary (when used by other customers) spending.

- **Partner Growth and Development**, defined as a type of partnership where a Commonwealth prime contractor provides education, training, mentoring, resource sharing, joint activities, and general assistance to diverse businesses, which results in increasing their capacity in a specific industry and/or increases the pool of qualified diverse businesses.

Pursuant to policy memorandum *Changes to Supplier Diversity Program Policies and Plan, Effective October 1, 2013*, bidders and contractors were not required to classify the business-to-business relationships with their SDP partners at the time of bid or during the life of their contracts.

SDP Policy Changes Related to Indirect Spending

Effective January 1, 2021, to ensure more accurate tracking and reporting of SDP expenditures, the following changes will apply to indirect spending through the SDP:

- **Partnership classification is required for reporting.** Contractors will be required to state the type of business-to-business relationship (Subcontracting or Ancillary Products and Services) when they report SDP spending using the revised [SDP Plan Form 3-SDP Spending Report](#), [SDP Form for Purchase of Services \(POS\)](#)³ or other reporting forms or systems specified by the department. This change in reporting will apply to spending that takes place during Quarters 3 and 4 of FY2021 and to the final FY2021 contractor reporting. The OSD will notify Statewide and POS contractors of the form revisions. Departments are responsible for notifying their own departmental contractors of this change prior to December 1, 2020.
- **Focus on subcontracting and ancillary business relationships.** Bidders and contractors will no longer be allowed to propose or implement Partner Growth and Development partnerships as a form of indirect spending which counts towards SDP spending goals. Existing Partner Growth and Development relationships shall be allowed to continue for the duration of their respective contracts. While valid for the purposes of contract compliance for existing contracts, this type of spending may not be included in spending reports submitted by departments to the SDO and will not contribute to meeting departmental SDP spending goals. Contact the SDO if you have previously utilized Growth and Development with your bidders and contractors to discuss SDP options going forward.
- **Continued promotion of supportive business relationships with diverse partners.** While Growth and Development will no longer be a form of indirect spending which counts towards SDP spending goals, the SDO will continue to promote and facilitate the development of supportive relationships between contractors and diverse businesses, including programs that foster: the growth and development of diverse businesses, mentor-protégé relationships, technical and financial assistance, joint ventures between nondiverse and diverse businesses, and voluntary assistance programs by which nondiverse business employees are loaned to diverse businesses or by which diverse business persons are taken into viable business ventures to acquire training and experience in managing business affairs.

³ Purchase of Service (or POS) refers to human and social service procurements classified under the “MM3” or “M03” object codes in the Office of the Comptroller’s Expenditure Classification Handbook.

Additional Planned Policy Changes to the SDP and the SBPP

In addition to the above-mentioned policy changes, the OSD intends to implement the following changes effective July 1, 2021.

- **Expansion of the SBPP.** The Small Business Purchasing Program (SBPP)⁴ was created pursuant to [Executive Order 523](#) to direct state spending for non-construction goods and services to participating Massachusetts small businesses. Since its inception, the program provided bid evaluation preference to Massachusetts small businesses responding to Small Procurements issued by executive departments. Small Procurements were defined as non-construction procurements with **total values equal to or less than \$150,000**.

Effective July 1, 2021, Small Procurements will be defined as those with **value equal to or less than \$250,000 annually**, and the SBPP will apply to this expanded range of procurements. In addition, the SBPP will apply to responses to request for quotes (RFQ) of the same annual value issued under departmental and statewide contracts. Although this change does not become effective until July 1, 2021, in the interim, OSD actively supports all new procurements and RFQs to which the SBPP will apply in considering bids from Massachusetts small businesses.

- **Strengthening the SDP.** The Supplier Diversity Program (SDP) was reaffirmed and expanded by [Executive Order 565](#) to promote equity of opportunity in state government and applies to Large Procurements issued by executive departments. Large Procurements were defined as non-construction procurements with **total values of more than \$150,000**. Additionally, the SDP policy required that evaluation criteria for all Large Procurements, except those for POS, allocate at least 10% of the total score to the evaluation of each bidder's SDP commitment.

Effective July 1, 2021, Large Procurements for goods, services, and purchase of service will be defined as those **with values exceeding \$250,000 annually**. In addition, evaluation criteria for such procurements will be required to allocate at least 25% of the total score to the evaluation of each bidder's SDP commitment. The goal of the change is to incentivize significant supplier diversity initiatives, such as joint ventures, equity partnerships, teaming agreements and other initiatives that support and help increase the capacity of diverse businesses.

No action is required from departments pursuant to this announcement of intent. Prior to the effective date of the above-mentioned policy changes, OSD and SDO will issue more detailed policy documentation and implementation guidance and will amend applicable forms and templates. Revised policies and documents will apply to procurements published on or after the effective date of the policy changes.

Summary of Policy Changes

The following table summarizes the changes announced in this memorandum for goods, services, and purchase of service solicitations and contracts:

⁴ To qualify for the SBPP, a firm must: (1) have its principal place of business in Massachusetts; (2) have been in business for at least one year; (3) currently employ a combined total of 50 or fewer full-time employee (FTE) equivalents in all locations; and (4) have gross revenues as reported on the appropriate Massachusetts Department of Revenue state tax forms of \$15 million or less, based on a three-year average.

Current Policy	New Policy	Change Effective Date
<p>The SDP recognizes the following three types of indirect spending:</p> <ul style="list-style-type: none"> • Subcontracting, • Ancillary products and services, and • Partner growth and development. 	<p>The SDP will recognize only the following two types of indirect spending:</p> <ul style="list-style-type: none"> • Subcontracting, and • Ancillary products and services. 	01/01/2021
<p>Under the SBPP, the small business preference applies to Small Procurements, which are defined as those with total values equal to or less than \$150,000.</p>	<p>Under the SBPP, the small business preference applies to:</p> <ul style="list-style-type: none"> • Small Procurements, which are defined as those with annual values equal to or less than \$250,000. • RFQs with annual values equal to or less than \$250,000. 	07/01/2021
<p>The SDP applies to Large Procurements, which are defined as those with total values exceeding \$150,000.</p>	<p>The SDP applies to Large Procurements, which are defined as those with annual values exceeding \$250,000.</p>	07/01/2021
<p>Under the SDP, evaluation criteria allocated at least 10% of the total evaluation points to the evaluation of the SDP Plan.</p>	<p>Under the SDP, evaluation criteria will allocate at least 25% of the total evaluation points to the evaluation of the SDP Plan.</p>	07/01/2021

Program Questions

If you have questions regarding the changes discussed in this memorandum, please contact diversityspend@mass.gov.