

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1025-01  
Bill No.: HB 312  
Subject: Administration, Office of; Business and Commerce; State Departments  
Type: Original  
Date: March 2, 2005

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0	Unknown	Unknown
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Various state funds	\$0	Unknown	Unknown
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
Various federal funds	\$0	Unknown	Unknown
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTIONS**

Officials from the **Department of Mental Health** assume this proposal would establish a procurement method called "reverse auction". If the Office of Administration-Division of Purchasing and Materials Management delegates this authority to each state department, it would give the departments another procurement tool with which to purchase items at the lowest and best price. The method may or may not result in obtaining those goods and services at a lower cost than other methods.

The legislation would also increase the bid threshold from \$3,000 to \$5,000. Facility purchasing personnel may save time by not having to prepare competitive bids for purchases up to \$5,000.

Any cost savings as a result of this legislation would be difficult to calculate, therefore, no fiscal impact is anticipated. The largest impact would be making purchasing easier through administrative changes.

Officials from the **Office of Administration, Division of Facilities Management/Design and Construction**, and the **Department of Transportation** assume the proposal would have no fiscal impact to their organizations.

### ASSUMPTIONS (continued)

Officials from the **Office of the Secretary of State (SOS)** assume this proposal would create a reverse auction procedure for state purchasing. SOS assumes the proposal would result in the Office of Administration and Department of Natural Resources promulgating rules to implement the legislation. Those rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Office of Administration and Department of Natural Resources could require as many as 20 pages in the Code of State Regulations. The estimated cost of a page in the Code of State Regulations is \$27. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. The estimated cost of a page in the Missouri Register is \$23. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded, or withdrawn.  $((20 \times \$27) + (30 \times \$23) = \$1,230)$

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration, Division of Purchasing and Materials Management (DPMM)**, assume the proposal would give DPMM the authority to utilize the reverse auction procurement process when it is in the best interest of the state. DPMM assumes that would help to expedite the bid award process and provide an opportunity to obtain costs savings on behalf of the state.

This legislation would have a fiscal impact to DPMM. However, the cost methodology of reverse auction could be calculated in two ways. The first method is a flat fee based on the purchase order amount. The second option is a charge based on a percentage of the purchase order amount. Neither option would be used unless there is a significant cost savings to the agency. Training and operation of software would be necessary for staff to operate the reverse auction system. However, we do not view this as a significant effort.

The change in the competitive bid threshold would not have a direct impact on DPMM since the authority to procure items less than twenty-five thousand dollars has been delegated to the state agencies. DPMM assumes the change in the competitive bid threshold would expedite the small purchases process for state agencies since they would not have to solicit bids for purchases under five thousand dollars.

ASSUMPTIONS (continued)

Officials from the **Department of Conservation** assume the proposal could result in a positive fiscal impact depending on how reverse auctions are conducted and administered. The amount of impact is undetermined.

Officials from the **Department of Social Services** (DOS) assume the proposal would allow the Commissioner of Administration to authorize the use of reverse auctions to procure goods and nonprofessional services through real-time electronic bidding whenever the Commissioner believes the use of such procedure will result in savings to the state. The Office of Administration would promulgate rules regarding the process for reverse auctions.

Since the rule-making authority and auctions would be the responsibility of the Office of Administration, there would be no direct fiscal impact to DOS. DOS assumes there could potentially be some unspecified savings to the state as a whole.

Officials from the **Department of Corrections** did not respond to our request for information.

**Oversight** assumes the proposal could result in long-term savings to the state through expedited purchasing procedures and use of a reverse auction process where it results in lower net cost to the state. Oversight assumes that DPMM would use this authority when it would be advantageous to the state, and that significant savings might be achieved over the long term. Oversight also assumes there would be some transaction cost involved in the reverse auction process. Oversight has shown unknown savings net of transaction costs beginning in FY 2007 in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE FUND</b>			
<u>Revenue</u> - DPMM			
Reverse auction charges to agencies	\$0	Unknown	Unknown
<u>Cost Reduction</u> - DPMM			
Administrative cost	\$0	Unknown	Unknown
<u>Cost Reduction</u> - state agencies			
Administrative cost	\$0	Unknown	Unknown
<u>Cost reduction</u> - state agencies			
Service and Commodity cost	\$0	Unknown	Unknown
<u>Cost</u> - agencies			
Reverse auction charges	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>OTHER STATE FUNDS</b>			
<u>Revenue</u> - DPMM			
Reverse auction charges to agencies	\$0	Unknown	Unknown
<u>Cost Reduction</u> - DPMM			
Administrative cost	\$0	Unknown	Unknown
<u>Cost Reduction</u> - state agencies			
Administrative cost	\$0	Unknown	Unknown
<u>Cost reduction</u> - state agencies			
Service and Commodity cost	\$0	Unknown	Unknown
<u>Cost</u> - agencies			
Reverse auction charges	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>FEDERAL FUNDS</b>			
<u>Revenue - DPMM</u>			
Reverse auction charges to agencies	\$0	Unknown	Unknown
<u>Cost Reduction - DPMM</u>			
Administrative cost	\$0	Unknown	Unknown
<u>Cost Reduction - state agencies</u>			
Administrative cost	\$0	Unknown	Unknown
<u>Cost reduction - state agencies</u>			
Service and Commodity cost	\$0	Unknown	Unknown
<u>Cost - agencies</u>			
Reverse auction charges	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<b><u>\$0</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could affect small businesses by expanding their bidding opportunities and by encouraging more and wider competition for state purchases.

### DESCRIPTION

This proposal would create a reverse auction procedure for state purchasing, and would increase the amount above which competitive bids are required for state purchases.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Office of the Secretary of State  
Office of Administration  
    Division of Facilities Management/Design and Construction  
    Division of Purchasing and Materials Management  
Department of Conservation  
Department of Mental Health  
Department of Social Services  
Department of Transportation



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Director  
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