

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4211-01
Bill No.: HB 1243
Subject: Administration, Office of; State Departments
Type: Original
Date: March 28, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	Unknown	Unknown
Total Estimated Net Effect on General Revenue Fund	\$0	Unknown	Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various state funds	\$0	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	Unknown	Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various federal funds	\$0	Unknown	Unknown
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	Unknown	Unknown

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note for Administrative Rules is less than \$1,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of Administration, Division of Facilities Management, Design and Construction, the Department of Mental Health, the Department of Social Services, and the Department of Transportation** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Purchasing and Materials Management** (DPMM) assume the proposal would help to expedite the bid award process and provide an opportunity to obtain cost savings on behalf of the state. 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. Also, DPMM would be required to advertise in newspapers for purchases estimated to exceed \$100,000.

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 \$10,000. DPMM may incur cost savings in its advertising budget since only purchases over \$100,000 will be required to be advertised instead of the current \$25,000 limit.

Officials from the **Department of Corrections** (DOC) assumed that this proposal would require DOC's procurement office to obtain competitive bids on departmental purchases from \$10,000 through \$100,000. They currently perform this function on purchases ranging from \$3,000 to \$25,000 and OA Purchasing performs the functions on all procurements exceeding the \$25,000 agency ceiling. DOC would be required to employ additional procurement officers and clerical support staff with one-time and on-going expense and equipment costs. Additional staff may be required in the institutional business offices as well. Although the exact amount of fiscal impact for passage of this proposal is unknown, it has the potential to be a substantial amount for the DOC per fiscal year.

Oversight assumes this proposal raises the minimum purchase requirement for written bids from \$3,000 to \$10,000 and the minimum purchase requirement for advertising from \$25,000 to \$100,000. Oversight assumes these changes would not result in additional administrative costs for state agencies. Oversight also 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 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<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>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
OTHER STATE FUNDS			
<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>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
FEDERAL FUNDS			
<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>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<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.

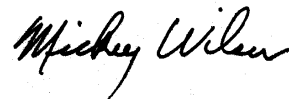
DESCRIPTION

This proposal would amend various provisions regarding the requirements for state procurement of goods and services. The proposal would authorize the Commissioner of Administration to use the reverse auction method to procure goods or nonprofessional services if the Commissioner believes that method would result in savings to the state. Bidders would be invited to bid on specified goods or nonprofessional services through realtime electronic bidding, with the award being made to the lowest responsive and responsible bidder. During the reverse auction, bidders' prices but not their identities would be revealed, and bidders would have the opportunity to modify their bid prices in accordance with Office of Administration rules for the duration of the auction. The Office of Administration would promulgate rules regarding the reverse auction process.

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 Purchasing and Materials Management
 Division of Facilities Management, Design and Construction
Department of Corrections
Department of Mental Health
Department of Social Services
Department of Transportation



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Director
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