

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4359-01
Bill No.: HB 1705
Subject: Business and Commerce; Department of Corrections
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 | (More than \$100,000) | (More than \$100,000) | (More than \$100,000) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (More than \$100,000) | (More than \$100,000) | (More than \$100,000) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Various State Funds | (Unknown) to Unknown | (Unknown) to Unknown | (Unknown) to Unknown |
| | | | |
| Total Estimated Net Effect on All State Funds | (Unknown) to Unknown | (Unknown) to Unknown | (Unknown) to Unknown |

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

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---------------------------------|---------------------------------|---------------------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | (Unknown) to Unknown | (Unknown) to Unknown | (Unknown) to Unknown |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | (Unknown) to Unknown | (Unknown) to Unknown | (Unknown) to 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 Governor, Coordinating Board for Higher Education, Department of Transportation, Department of Natural Resources, Department of Health and Senior Services, Department of Revenue, Missouri State Tax Commission, Department of Social Services, Department of Public Safety – Missouri State Highway Patrol, – Division of Fire Safety, – Missouri Veterans Commission, – Director’s Office, – Missouri Gaming Commission, – State Emergency Management Agency, – Division of Alcohol and Tobacco Control, – Capitol Police, Missouri Consolidated Health Care Plan, Department of Insurance, Joint Committee on Public Employee Retirement, Joint Committee on Legislative Research, Missouri Ethics Commission, Missouri House of Representatives, Office of the Lieutenant Governor, State Auditor’s Office, Missouri Senate, State Treasurer’s Office, Lincoln University, Missouri State University, and the University of Missouri** assume the proposal would have no fiscal impact on their agencies.

Officials from the **Office of State Courts Administrator** assume the proposed legislation would have no fiscal impact on the courts.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** assume they would be able to competitively bid items that can now only be purchased through Missouri Vocational Enterprises. This could result in the department getting the best price for items. AGR is unable to predict the total amount of potential savings.

Officials from the **Office of Administration – Division of Facilities Management, Design and Construction (DFMDC)** assume the proposal would result in savings for the purchase of office systems furniture of about 10 to 15% per purchase. Also, agencies would be able to ensure that they are getting the best quality furniture resulting in a lower cost of total ownership. Finally, in most cases, DFMDC would be able to cut several months out of the process of moving people around in state government office buildings.

Officials from the **Office of Administration – Division of Purchasing and Materials Management (DPMM)** assume the proposal could increase the number of bid solicitation documents produced by DPMM. This increase would be for items that were previously purchased directly from MVE and now would be purchased through the competitive bid process. DPMM is unable to quantify the potential cost.

Officials from the **Department of Economic Development** assume the proposal would require additional bids to be conducted and would require an unknown portion of or a full FTE plus associated equipment and expenses.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume they cannot know whether they would receive better prices, quality, and delivery; however, experience has shown that the bidding process generally divulges better prices. DESE assumes they would incur additional administrative costs due to the additional work required in bidding out these products and services. It is unknown whether the results of competitive bidding would offset the additional work required.

Officials from the **Department of Mental Health** assume the proposal would have little impact on their agency. The waiver process was always an option when Missouri Vocational Enterprises' prices came in higher than competitor's estimates.

ASSUMPTION (continued)

Officials from the **Department of Corrections (DOC)** assume this bill removes the statutory requirement that state agencies purchase products from Missouri Vocational Enterprises (MVE). This bill would have a substantially negative impact on the financial viability of MVE, including the potential insolvency of MVE. If MVE were to fail, it would cause a chain reaction throughout the DOC. MVE employs approximately 1,500 inmates, the wages MVE pays those inmates represent a substantial portion of the spending at the Inmate Canteens. Inmate canteens where MVE programs once were will struggle with profits due to the fact that inmate wages would be greatly reduced. Canteen funds provide vocational and educational necessities for the inmates which would then have to be purchased with GR funds. There is a potentially severe fiscal impact to MVE's Working Capital Revolving fund, a self-sustaining revolving fund.

The revenue from MVE in the Working Capital Revolving Account funds several key functions within the DOC which could be jeopardized:

- 214 MVE jobs funded through the Working Capital Revolving Fund;
- \$360,000 to OA for managing the WCR fund;
- Interest on \$5 million per year goes to GR accounts
- Computers for DOC Schools (training program at NECC);
- \$1.5 million in fuel and utilities for the DOC;
- Produces uniforms for Correctional Officers;
- Produces clothing for inmates;
- \$9,684,000 annually in salaries and benefit for state employees; and
- Approximately \$10,000,000 annually on raw materials purchased from Missouri based private sector businesses.

In summary, although the exact fiscal impact is unknown, it is estimated that potential costs to DOC will be in excess of \$100,000 per year.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the proposal could have a positive fiscal impact, as it allows DOLIR to purchase from the most competitive business; however, it is not possible to estimate the amount of savings.

Officials from the **Department of Conservation (MDC)** assume the proposal would have a positive fiscal impact on MDC funds. The exact amount of impact is unknown, but it is estimated to be less than \$100,000 annually.

Officials from the **Office of the Secretary of State** assume they could experience a cost increase for items historically purchased from MVE, because of increased labor and profit costs.

ASSUMPTION (continued)

Oversight assumes state agencies could experience an increase cost of an unknown amount due to the bidding process. Oversight also assumes state agencies could experience savings of an unknown amount due to the decreased cost of goods and services as a result of the bidding process. For fiscal note purposes, Oversight has shown the savings and costs to various state funds.

| <u>FISCAL IMPACT - State Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---|---|---|
| GENERAL REVENUE FUND | | | |
| <u>Losses</u> – Department of Corrections | | | |
| Lost MVE revenue | <u>(More than \$100,000)</u> | <u>(More than \$100,000)</u> | <u>(More than \$100,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(More than \$100,000)</u> | <u>(More than \$100,000)</u> | <u>(More than \$100,000)</u> |
| VARIOUS STATE FUNDS | | | |
| <u>Savings</u> – Various State Agencies | | | |
| Decreased costs due to competition | Unknown | Unknown | Unknown |
| <u>Costs</u> – Various State Agencies | | | |
| Increased costs due to bid process | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS | <u>(Unknown) to Unknown</u> | <u>(Unknown) to Unknown</u> | <u>(Unknown) to Unknown</u> |

| <u>FISCAL IMPACT - State Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|--|--|--|--|
| FEDERAL FUNDS | | | |
| <u>Savings</u> – Various State Agencies | | | |
| Decreased costs due to competition | Unknown | Unknown | Unknown |
| <u>Costs</u> – Various State Agencies | | | |
| Increased costs due to bid process | (Unknown) | (Unknown) | (Unknown) |
| ESTIMATED NET EFFECT ON FEDERAL FUNDS | <u>(Unknown) to Unknown</u> | <u>(Unknown) to Unknown</u> | <u>(Unknown) to 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

The proposed legislation could have a positive fiscal impact on small businesses. Small businesses could compete with Missouri Vocational Enterprises on state bids, which could result in increased sales.

DESCRIPTION

The proposed legislation allows state agencies to purchase goods or services from outside the Vocational Enterprises Program within the Department of Corrections if it is determined that existing Missouri businesses can provide the goods or services. State agencies will be required to determine whether the program can best meet the agency's needs in terms of price, quality, and time. If it is determined that goods or services from the program are not the best available, the agency will purchase the goods or services on a competitive basis. The proposal defines "Missouri business" as a company based in Missouri employing at least 20 full-time employees.

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

Department of Agriculture
Office of the Governor
Coordinating Board for Higher Education
Office of Administration

- Division of Facilities Management, Design, and Construction
- Division of Purchasing and Materials Management
- Division of Budget and Planning

Office of State Courts Administrator
Department of Economic Development
Department of Elementary and Secondary Education
Department of Transportation
Department of Mental Health
Department of Natural Resources
Department of Corrections
Department of Health and Senior Services
Department of Labor and Industrial Relations
Department of Revenue
State Tax Commission
Department of Social Services
Department of Public Safety

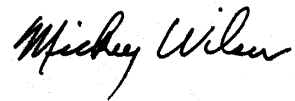
- Missouri State Highway Patrol
- Division of Fire Safety
- Missouri Veterans Commission
- Director's Office
- Missouri Gaming Commission
- State Emergency Management Agency
- Division of Alcohol and Tobacco Control
- Capitol Police

Missouri Consolidated Health Care Plan
Department of Insurance
Joint Committee on Public Employee Retirement
Joint Committee on Legislative Research
Department of Conservation
Missouri Ethics Commission
Missouri House of Representatives
Office of the Lieutenant Governor
State Auditor's Office

Missouri Senate

SOURCES OF INFORMATION (continued)

Office of the Secretary of State
State Treasurer's Office
Lincoln University
Missouri State University
University of Missouri System

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 28, 2006