

# Legislative Analysis



## SCHOOL COOPERATIVE PURCHASING PROGRAM

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**House Bill 4720 as enrolled**  
**Vetoed by the Governor**  
**Sponsor: Rep. Philip LaJoy**

**House Bill 4722 as enrolled**  
**Vetoed by the Governor**  
**Sponsor: Rep. John Moolenaar**  
**House Committee: Education**  
**Senate Committee: Education**

### Second Analysis (3-11-05)

**BRIEF SUMMARY:** The bills would create in statute a cooperative purchasing program for public schools, a program that is currently administered by the Department of Management and Budget.

**FISCAL IMPACT:** The bills would have little financial impact on the state, and could save local units of government, including schools.

### **THE APPARENT PROBLEM:**

Public Act 431 of 1984 permits Acquisition Services, a unit within the Department of Management and Budget, to extend its state joint-purchasing program to any city, village, county, township, school district, intermediate school district, non-profit hospital, institution of higher education, and community or junior college. Joint-purchasing done in partnership with local units of government and schools has been in existence since 1975; is voluntary; and, is known as the Extended Purchasing Program.

Generally, the advantages of joint-purchasing include the reduced costs derived from improved specifications and increased price competition. In addition to actual dollar savings on goods, there also are indirect savings realized when duplication is eliminated. For example, administrators save time because they no longer need to process requisitions for bids; take, read and evaluate bids; and make awards. Further savings are realized when the cost of testing many items is eliminated; specifications need not be updated; and the state purchaser can be relied upon for up-to-date technical research.

There are currently over 400 state contracts available for use by Extended Purchasing Program members. The contract listing is sent to all active members with quarterly newsletters. If members decide to make the purchase, they contact the vendor directly. Purchases can be made using state contracts through the program, under certain provisions. See Background Information below. Acquisition Services is permitted, by the statute that enables the program, to charge a fee that covers the costs associated with staff time, postage, and duplicating. The fee structure is a flat rate annual fee that ranges

from \$260 to \$730, and it is based upon the population of the local unit of government, or the size of the organization. For example, all school districts pay an annual fee of \$260, while all colleges and universities pay an annual fee of \$385. See Background Information below.

Currently, every school district in the state is a member of the Extended Purchasing Program, because their membership is purchased through the Regional Educational Media Center (REMC) to which they belong. The 22 consortia known as REMCs were created in 1971, to serve schools districts in all 83 counties. According to committee testimony from the Ingham County REMC director, that regional purchaser alone has saved school districts in its three-county service area over \$17 million in media purchases. In addition, 42 school districts have become direct members of the Extended Purchasing Program, as have 4 of the state's 57 intermediate school districts, 10 of the 29 community colleges, and 11 of the 15 state universities.

Legislation to situate the program in statute was introduced, in order both to help more school districts realize that cost-savings are available through bulk purchasing and to ensure that the program is not eliminated when state services are curtailed during budget difficulties caused by economic downturns.

#### ***THE CONTENT OF THE BILLS:***

The bills would place in statute a cooperative purchasing program for schools that is currently administered by the Department of Management and Budget. House Bill 4722 is tie-barred to House Bill 4720 so that it could not become law unless House Bill 4720 also were enacted. A more detailed explanation of each bill follows.

House Bill 4720 would amend the Management and Budget Act (MCL 18.1263) to require the department to create and operate a cooperative bulk purchasing program for local school districts, public school academies, nonpublic schools, and intermediate school districts, on a fee basis, in order to reduce the costs of purchasing goods and supplies for schools. The bill specifies that the fees collected under this subsection cover the cost of purchasing goods and supplies, and reasonable administrative expenses, all of which would be prorated between the bulk purchasing program participants.

House Bill 4722 would amend the Revised School Code (MCL 380.623a and 380.1274) to specify that intermediate school districts, local school districts, and public school academies would not be required to obtain competitive bids for items purchased through the cooperative bulk purchasing program operated by the Department of Management and Budget (that would be created under House Bill 4720). Further, the bill would raise the threshold at which purchases must be competitively bid from \$12,500 to \$17,932.

***[Note: These bills were vetoed. They were replaced by similar bills, House Bills 5875 and 5913, which were enacted as Public Acts 588 and 589 of 2004.]***

## **BACKGROUND INFORMATION:**

Governor's Veto Message. On April 7, 2004, the governor vetoed House Bills 4720 and 4722. House Bill 4720 was vetoed “for technical reasons,” and since the bill was tied to House Bill 4722, that bill also was vetoed. The veto message said:

*House Bill 4720 would codify some existing state efforts to engage in bulk purchasing of goods and supplies with schools throughout the State of Michigan. This administration is a strong supporter of such cooperative efforts as part of our continuing mission to ensure that Michigan taxpayers get more for their hard-earned tax dollars. In fact, the Department of Management and Budget (DMB) has recently launched MiDEAL, an enhanced joint purchasing program that allows state agencies, local governments, schools, non-profit hospitals, colleges, and universities to achieve significant savings on the purchase of goods and services.*

*The intent of this legislation is laudable and I also support the proposed extension of cooperative purchasing of goods and supplies to non-public schools. **However, House Bill 4720 inadvertently would delete the requirement under existing Michigan law that requires the DMB to assist school districts and intermediate school districts in purchasing services. Eliminating cooperative purchasing of services will increase, not decrease, costs for schools and the state.** [Emphasis added]*

*Accordingly, while I return Enrolled House Bills 4720 and 4722 without signature, I look forward to signing corrective legislation. I am pleased that the Legislature seeks to join our effort to encourage cooperative purchasing. This administration, including the DMB, looks forward to working with you in rapidly adopting revised legislation that extends the benefits of cooperative purchasing to goods, supplies, and services. When we and our partners in local government work together, Michigan taxpayers win.*

Extended Purchasing Program. Purchases by local units of government and schools through the state Extended Purchasing Program must follow these provisions:

- The Extended Purchasing members must make all purchases under state contracts for public use only. Purchases made through the contracts for personal use or consumption by any individual, public employee, or official are prohibited. Extended Purchasing members are prohibited from making purchases through state contracts, and subsequently reselling the item(s) to non-member, including private companies.

- All items delivered under contracts awarded by Acquisition Services must be inspected immediately for compliance with the contract specifications, members must seek replacement of any items not meeting specifications, and the failure of items to comply must be called to the immediate attention of Acquisition Services.

- State contracts cannot be used as a price umbrella or a mechanism to manipulate price. The program states that attempts to utilize state contracts to manipulate prices are detrimental to the integrity of the Extended Purchasing Program, and they are in violation of sound purchasing practices.

•Extended Purchasing Members participating in state bids which are based on definite quantities must realize that they are entering into a commitment which is irrevocable.

For further information about the state purchasing programs, visit the Department of Management and Budget website at [www.michigan.gov/dmb](http://www.michigan.gov/dmb) and select Financial Services. A 32-page manual entitled “Demystifying the DMB Procurement Services” is available on-line. In addition, those interested in the program can call DMB Acquisition Services at (517) 373-0323.

Annual fees for the Extended Purchasing Program. Local units of government pay an annual fee that depends upon their population, as follows:

<i><b>Population</b></i>	<i><b>Annual Fee</b></i>
1 – 10,000	\$260
10,001 – 50,000	\$325
50,000 – 100,000	\$385
100,001 – 150,000	\$510
150,001 – 200,000	\$620
200,001 and above	\$730
Colleges and universities	\$385
School districts	\$260
Non-profit hospitals	\$260
Others	\$260

#### ***FISCAL INFORMATION:***

House Bill 4720 would create additional costs for the Department of Management and Budget; however, the cost is indeterminate.

With regard to House Bill 4722, exempting competitive bidding requirements would have no state fiscal impact, but could have a potential local impact. A reduction in competitive bidding could result in a local savings of staff time and other resources involved in conducting competitive bidding.

Many school districts already participate in local cooperative purchasing programs. However, to the extent that the legislation increased the purchasing of less expensive items in bulk, the program would save money for local school districts, public school academies, and intermediate school districts. (10-7-03)

#### ***ARGUMENTS:***

##### ***For:***

This legislation, a part of the ‘Tools for Schools’ legislation package, can help more school districts realize that cost-savings are available through bulk purchasing. Situating the Extended Purchasing Program in statute helps to ensure that the program will not be

eliminated when state services are curtailed during the current or future economic downturns.

***Against:***

This legislation is unnecessary because the Extended Purchasing Program is a key component of the state's business plan. The Department of Management and Budget has every incentive to aggressively market the bulk purchasing program to schools and local units of government. That way it increases its own high volume purchases and reduces the cost of those items for state taxpayers. Already, 400 contracts are available for direct purchasing by school districts—providing savings on buses, media equipment, cell phones, tires, hardware, plumbing, gas, oil, fuel, pagers, and many other goods and services. School business officials need only visit the Acquisition Services website to select the contracts in which they wish to participate.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.