

SCHOOL COOPERATIVE PURCHASING PROGRAM

House Bill 4720 (Substitute H-1)
Sponsor: Rep. Philip LaJoy

House Bill 4722 (Substitute H-1)
Sponsor: Rep. John Moolenaar

First Analysis (10-7-03)
Committee: Education

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 that are 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 Service 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 has been 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 the economic downturn.

THE CONTENT OF THE BILLS:

The bills would create in statute a cooperative purchasing program for public 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, and intermediate school districts, on a fee basis, in order to reduce the costs of purchasing goods and supplies for public schools. The bill specifies that the fees collected under this subsection not exceed the cost of purchasing goods and supplies, and reasonable administrative expenses.

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).

BACKGROUND INFORMATION:

Membership provisions. 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 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:

<u>Population</u>	<u>Annual Fee</u>
1 – 10,000	\$260
10,001 – 50,000	\$325
50,001 – 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
Other	\$260

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that 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, the agency notes that 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.

About both House Bill 4720 and House Bill 4722, the agency notes that 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.

POSITIONS:

The Department of Management and Budget is neutral on the bill. (10-7-03)

The Michigan School Business Officials is neutral on the bill. (10-7-03)

Regional Educational Media Centers-Cooperative Acquisitions Program is neutral on the bill. (10-7-03)

Analyst: J. Hunault

■ 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.