

# Legislative Analysis



## LOCAL GOVERNMENT PURCHASING: MI-DEAL PLAN

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**House Bill 4588 (Substitute H-3)**

**Sponsor: Rep. Steve Tobocman**

**Committee: Intergovernmental, Urban, and Regional Affairs**

### First Analysis (5-7-07)

**BRIEF SUMMARY:** The bill would specify in statute that local governments can purchase goods and services through the MiDEAL bulk purchasing plan operated by the Department of Management and Budget, and requires the DMB under certain circumstances to waive 50 percent of membership fees of local units and school districts.

**FISCAL IMPACT:** As noted above, the bill would potentially reduce membership fee revenue to the DMB by as much as 50 percent, while reducing the cost of participating in group purchasing to local units of government and school districts.

### THE APPARENT PROBLEM:

The Department of Management and Budget currently operates a program, known as MiDEAL, which stands for Michigan Delivering Extended Agreements Locally.

Public Act 431 of 1984 permits Purchasing Operations, 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. Purchasing Operations 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 \$180 to \$510, 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 \$180, while all colleges and universities pay an annual fee of \$270. 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 about the program recorded by the House Legislative Analysis Section in 2004, one regional purchaser alone—the Ingham County REMC—had saved school districts in its three-county service area over \$17 million in media purchases. In addition, as of 2004, forty-two school districts had become direct members of the Extended Purchasing Program, as had 4 of the state's 57 intermediate school districts, 10 of the 29 community colleges, and 11 of the 15 state universities.

Unlike schools where participation is high and savings are well-known, local units of government—such as villages, cities, counties, and townships—have lower participation. For example, of the state's 1,242 townships, only 68 use MiDEAL.

In an effort to increase participation by all local units of government and save taxpayers' money when goods and services are purchased from vendors, legislation has been introduced to increase participation in the bulk purchasing program, by waiving half of the annual fee participants pay, under certain circumstances.

### ***THE CONTENT OF THE BILL:***

House Bill 4588 (H-3) would amend the Management and Budget Act to specify in statute that local governments can purchase items through the MiDEAL Plan operated by the Department of Management and Budget.

Currently under the law, the Department of Management and Budget is authorized to create and operate a cooperative bulk purchasing program for school districts, charter schools, nonpublic schools, and intermediate school districts on a fee basis to reduce the costs of purchasing goods and services. Fees collected cannot exceed the cost of the purchasing, plus a reasonable administrative expense. House Bill 4588 would retain these provisions, and specifically extend them to local units of government.

Under the bill, the department would be required to solicit feedback from participants in the MiDEAL plan, in order to improve it. In addition, the department would be required to create and maintain a website that contained information on the MiDEAL plan and described the products and services available.

The bill specifies that beginning January 1, 2008, the department would waive 50 percent of the membership fee for the MiDEAL Plan to any local unit of government, school district, or intermediate school district that does both of the following:

- Submits to the department a copy of a resolution by the legislative body of the local unit of government that commits that local unit to using the MiDEAL Plan for all purchasing unless one or more of the following apply: (1) the local unit of government could get the goods or service at a price of less than 105 percent of the MiDEAL plan price; (2) the local unit purchased the goods or services from a supplier located within the boundary or within five miles outside of the boundary of the local unit; (3) the local unit declared an emergency and purchased the goods or services for the imminent protection of public health or safety; or (4) the MiDEAL plan did not offer the good or service.
- Agreed to submit a report to the department each year detailing which MiDEAL purchases were considered and which purchases were made.

Under the bill, the term "local unit of government" is defined to mean a county, city, village, or township located in Michigan.

MCL 18.1263

#### ***BACKGROUND INFORMATION:***

Membership provisions. Purchases by local units of government and schools through the state Extended Purchasing Program must follow the following 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 Purchasing Operations 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 MiDEAL purchasing program, visit the Department of Management and Budget website at [www.michigan.gov/doingbusiness](http://www.michigan.gov/doingbusiness) and select the MiDEAL icon on the left. Under that icon menu select "Resources." A 14-page manual entitled "Demystifying the DMB Procurement/Accounts Payable Process" (fourth edition, February 2006) is available on-line. In addition, those interested in the program can call DMB Purchasing Operations at (517) 335-0230.

2006 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                | \$180             |
| 10,001 – 50,000           | \$230             |
| 50,001 – 100,000          | \$270             |
| 100,001 – 150,000         | \$360             |
| 150,001 – 200,000         | \$435             |
| 200,001 and above         | \$510             |
| Colleges and universities | \$270             |
| School districts,         | \$180             |
| Non-profit hospitals      | \$180             |
| Other                     | \$180             |

***ARGUMENTS:***

***For:***

The MiDEAL bulk purchasing program has a record of saving money for those school districts and local units of government who purchase their goods and services through it. According to committee testimony, hundreds of thousands of dollars can be saved when cities purchase their fleets of police cars through the program, and as a result, many do so. While school participation in MiDEAL is virtually 100 percent (through their Regional Media Centers), far fewer local units of government such as villages, cities, townships, and counties have paid the low annual fee to become members. For example, of Michigan's 83 counties, 42 are members of MiDEAL—50 percent. Further, of the state's 1,242 townships, only 68 participate in MiDEAL—about 5 percent. To encourage higher participation, this bill would reduce the membership fee by half, if local units of government passed a resolution indicating they would turn to MiDEAL first when purchasing goods and services. The local unit of government would be able to continue making purchases from local vendors, while retaining membership in the state plan that allowed them to enjoy continued savings on bulk purchases of goods and services.

***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 more than 400 contracts are available

for direct purchasing by school districts and local units of government—providing savings on buses, media equipment, cell phones, tires, hardware, plumbing, gas, oil, fuel, pagers, and many other goods and services. School business officials and the financial officers of cities, villages, townships, and counties need only visit the MiDEAL web site to select the contracts in which they wish to participate.

***Against:***

This legislation would reduce by half the fees that DMB charges its local partners. Those fees are already low, having been reduced by between 30 percent and 40 percent since 2004. Additional fee reductions will jeopardize the department's ability to increase the MiDEAL program participation.

***POSITIONS:***

The Michigan Municipal League supports the bill. (5-2-07)

The Michigan Association of Counties supports the bill. (5-2-07)

The Michigan Townships Association supports the concept of the bill. (5-2-07)

The County of Ingham supports the bill in its current form. (5-2-07)

The Department of Management and Budget opposes the bill. (5-2-07)

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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.