

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 554** HLS 17RS 1123
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

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Dept./Agy.: Statewide		Analyst: Alan M. Boxberger
Subject: Provides relative to public procurement methods		

PUBLIC CONTRACTS OR SEE FISC NOTE GF EX Page 1 of 1
 Provides relative to public procurement methods

Present law provides for the advertisement and letting to the lowest responsible bidder for purchases made under public law; requires for purchases for materials of supplies of more than \$30,000 are advertised and let to the lowest responsible bidder; requires that for purchases of \$10,000 or more, but less than \$30,000, no less than 3 phone or fax quotations and written confirmation of the accepted offer shall be obtained; provides with respect to reverse auctions and authorization thereof; provides for methods of procurement; and provides for advertisement or notice of purchase.

Proposed law authorizes e-mail or online quotations; authorizes certain municipal and local governments to enter into agreement with the Louisiana Municipal Association to act as a qualified group purchasing organization; provides for group purchase requirements; provides with respect to non-public price lists; provides with respect to reverse auctions and uses thereof; provides for advertisement or notice of purchase; requires the Office of State Procurement to use reverse auctions a minimum of 24 times per year from FY 18-20 and report annually any savings achieved.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	UNKNOWN	UNKNOWN	UNKNOWN	UNKNOWN	UNKNOWN	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Annual Total						
REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Proposed law will result in an indeterminable impact on state funds expenditures and likely result in a savings of LF expenditures. Proposed law makes a variety of changes to public procurement methods, primarily associated with reverse auctions and authorization to utilize electronic quotations for both state agencies and political subdivisions (members of the Louisiana Municipal Association). The Office of State Procurement (OSP) reports that changes in proposed law will in most cases make purchasing more efficient for state agencies that choose to utilize expanded purchasing provisions. The primary operational impact will be to OSP and while the net impact is indeterminable, such impacts are likely minimal.

OSP reports that the provision to utilize a minimum of 24 reverse auctions annually from FY 18 through FY 20 may be operationally problematic. Some studies and sources estimate savings of up to 22% utilizing reverse auctions, while others indicate a potential cost increase. OSP cites a report from the National Association of State Procurement Officials indicated that a pilot introduction of reverse auctions in the state of Texas resulted in a 0.8% net cost increase. OSP reports mixed results in three reverse auctions concluded to date in Louisiana, with one resulting in a 30% cost increase compared to traditional bid (when rebid) and another generating a 15% savings. As such, OSP is unable to predict whether the use of reverse auction will result in a potential net savings. In cases where a reverse auction returns costs in excess of market expectation, OSP would likely rebid the same project using a conventional bid process, which would result in additional operating expenditures associated with those bids. It is unknown whether savings realized in other reverse auctions will be sufficient to offset any such operating increase.

OSP reports that potential operational and fiscal impacts for procurements performed under Title 38 rather than Title 39 are likely significantly greater, but it is unknown how many agencies that utilize Title 38 for construction of public works would choose to make use of the optional methods allowed in proposed law. Thus, the fiscal impact is indeterminable.

The Louisiana Municipal Association (LMA) reports that proposed law will give local governments additional choice and flexibility with regard to procurement methods, with each free to make choices suitable to individual needs. Proposed law will allow local governments to realize efficiencies and will likely lead to a positive fiscal impact by allowing additional methods to receive competitive quotes and to allow for reverse auctions in certain situations. Allowing group purchase through the LMA should also lower solicitation, administration and audit expenses for hundreds of small local governments who choose to make purchases through the group purchase organization instead of issuing direct solicitations. The LMA anticipates proposed law will allow local governments to benefit from economies of scale and lower overall purchase prices, in some individual cases in the range of 15-20% depending on commodity and volume.

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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