

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 83** SLS 11RS 255
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|---|---------------------------------|
| Date: May 29, 2011 6:16 PM | Author: DONAHUE |
| Dept./Agy.: Division of Administration (DOA) | Analyst: Travis McIlwain |
| Subject: Reverse Auctions | |

PROCUREMENT CODE RE SEE FISC NOTE GF EX See Note Page 1 of 2
 Authorizes the use of reverse auctions by certain political subdivisions. (7/1/11)

Proposed legislation authorizes the use of reverse auctions for political subdivisions. Proposed legislation authorizes the use of reverse auctions for the state. Effective July 1, 2011.

| EXPENDITURES | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Agy. Self-Gen. | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Ded./Other | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Federal Funds | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Local Funds | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Annual Total | | | | | | |

| REVENUES | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 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

The proposed legislation may result in a decrease in state general fund and local government expenditures of an indeterminable amount. A reverse auction is a structured bid process that links web-based technology with traditional bidding methods to obtain lower prices for the customer. Pre-qualified vendors compete in a real-time online auction to determine the lowest responsible bidder. Essentially, a reverse auction is a type of auction in which the roles of buyers and sellers are reversed.

According to INPUT (a government procurement advisory group), "early adopters have recognized that they must be very selective when deciding what to purchase using these auctions because the process may be more costly than the competitive solicitation process." The reverse auction process does allow for the state to avoid any transaction in which the cost exceeds the amount budgeted. If this procedure is followed and administrative costs incurred in this process are less than what is saved using reverse auctions, savings of an indeterminable amount will result.

The DOA also notes that while many states have realized savings (Minnesota experienced a 10.6% savings from 2001-2004 and Florida saved 30.4% on purchases of paper and office supplies), others such as Texas realized a loss of 0.8% in 2004. In addition, potential savings are largely dependent upon the commodities being procured. Many states and municipalities have found that reverse auctions are cost effective when buying goods that have specifications that are clearly defined such as office paper, vehicles, office furniture, etc. However, IT purchases and technical services have specifications that are not as clear, which makes the process of evaluating much more difficult and less efficient.

The acceptance of businesses to participate in this auction will largely determine the impact on expenditures. The greater the number of participants, the more likely that competitive forces will reduce costs.

Two issues mentioned by INPUT (December 2004) should also be taken into consideration in allowing reverse auctions. The first is the potential economic impact of increase competition to in-state vendors against potential savings. Increased use of technology in this manner may have a negative impact on the state's businesses. To protect against this impact, (see pg 2)

REVENUE EXPLANATION

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

| | | | |
|---|----------------------------|--|---|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> | |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F)1 >= \$500,000 Annual Fiscal Cost {S} | <i>Evan Brasseaux</i> |
| | | <input type="checkbox"/> 6.8(F)2 >= \$100,000 Annual SGF Cost {H&S} | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | Evan Brasseaux Staff Director |

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CONTINUED EXPLANATION from page one:

states are implementing ways to encourage use of local vendors as subcontractors and secondary participants in the process. Secondly, according to INPUT, the reverse auction process can encourage collusion between suppliers to keep prices high.

Finally, the DOA notes that some states have outsourced reverse auctioning while others have kept the administration in-house, which can increase personnel costs.

Senate

Dual Referral Rules

House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)1 >= \$500,000 Annual Fiscal Cost {S}

6.8(F)2 >= \$100,000 Annual SGF Cost {H&S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux

Evan Brasseaux
Staff Director