

COMMITTEE REPORT
SENATE

6/13/83

FURTHER:

Date: 6/16/83

Mr. President:

The Committee on Finance has had 6/13/83

meeting for discussion of the above bill.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with SCS for CS HB 210 (LTC) same title
 new title
- and recommends Do Pass
- AND attaches a "Letter of Intent" New Fiscal Note
with a House Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

W. T. ...

CHAIRMAN

*cl
fin*

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSHB 210 (finance)
Title Relating to payment for purchases by the state
Requested by House Finance Committee Date 5/26/83

II. FISCAL DETAIL

Agency Affected all
Program Category Affected all
BRU, Program, Or Subprogram(s) Affected _____
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER (Specify Source)		0				

POSITIONS

FULL TIME		0				
PART TIME		0				
TEMPORARY		0				

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE 5/18/83 PREPARED BY Al Adams, Chairman
AGENCY House Finance Committee
Original: Legislative Finance PHONE 465-3706
cc: Budget and Management
Prime Sponsor (First Legislator Named)
33-001 (Rev. 12/82)

Al Adams

Offered: 6/15/83
Referred: Finance

Original sponsors: Shultz, Duncan
and Liska

1 IN THE HOUSE BY THE LABOR AND COMMERCE COMMITTEE
2 SENATE CS FOR CS FOR HOUSE BILL NO. 210 (L&C)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to payment for purchases by the
7 state; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.05 is amended by adding a new section to read:

10 Sec. 37.05.275. PAYMENT FOR STATE PURCHASES. (a) Payment for
11 purchases of goods or services provided a state agency must be made on
12 a required payment date that is

13 (1) the date on which payment is due under the terms of a
14 contract; or

15 (2) 30 days after receipt of a proper invoice for the
16 amount of the payment due, if a specific date on which payment is due
17 is not established by contract and if the invoice contains or is
18 accompanied by documents required by the contract or purchase order.

19 (b) If a seller offers a discount from the amount otherwise due
20 for property or services in exchange for payment within a specified
21 period of time, the state agency may make payment in an amount equal
22 to the discounted price only if payment is made within the specified
23 period of time.

24 (c) If payment for goods or services purchased by the state is
25 not made within 30 days of a required payment date under (a)(1) of
26 this section or on the required payment date specified in (a)(2) of
27 this section, the state shall pay interest on the unpaid balance from
28 the date of receipt of the invoice for the goods or services at the
29 rate of one and one-half percent a month unless an agreement exists

1 between the seller and the state that precludes the charging of inter-
2 est.

3 (d) This section does not apply

4 (1) if the cost of the goods or services purchased exceeds
5 \$500,000; or

6 (2) to payment for any specific goods or services in dis-
7 pute after a seller of goods or services receives notice from the
8 state official responsible for authorizing payment for goods and
9 services that the amount of the invoice or quality of specific goods
10 or services is in dispute and stating the reasons for the dispute.

11 (e) Interest paid under (c) of this section shall be charged to
12 the budget of the state agency which purchased the goods or services.

13 (f) In this section

14 (1) "dispute" means a determination by the state official
15 responsible for authorizing the payments for the purchase of goods or
16 services that the performance or price charged is not in compliance
17 with the terms of the contract or purchase order;

18 (2) payment is considered made on the date when the payment
19 is personally delivered to the seller or agent of the seller or on the
20 date the payment is mailed;

21 * Sec. 2. This Act does not apply to contracts entered into before the
22 effective date of this Act.

23 * Sec. 3. This Act takes effect October 1, 1983.

From Shultz 6/16/83

ANALYSIS OF SSHB 210

"An Act relating to payment for purchase by the State; and providing for an effective date."

Section 1 (a) requires the agency to pay on a required payment date as defined under terms of a contract or 30 days after receipt of proper invoice.

Subsection (b) provides for the State to take advantage of any discounts offered by a vendor and if invoice is paid in time, the State agency will deduct the amount of the discount offered from the total amount of the invoice.

Subsection (c) establishes the rate of interest at 1.5% per month that must be paid by the State for a past due balance - also provides for the exclusion of interest in the event that the seller and the State have a mutual agreement.

Subsection (d) 1. exempts purchases of more than \$500,000 from the provisions of the bill.

Subsection (d) 2. provides for an exception in the event the State notifies the vendor or seller of a dispute in the invoice.

Subsection (e) provides that any interest incurred by lack of prompt payment will be charged to the budget of the department involved.

Subsection (f) 1. defines "dispute" as noncompliance, in performance or price, with the terms of the contract, as determined by administering State officer.

Section 2. Exempts any contracts entered into before the effective date from this Act's provisions.

Section 3. ...

Offered: 5/17/83
For Today's Calendar

Original sponsors: Shultz, Duncan
and Liska

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 210 (Finance) am
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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21 period of time, the state agency may make payment in an amount equal
22 to the discounted price only if payment is made within the specified
23 period of time.

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25 not made within 30 days of a required payment date under (a)(1) of
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27 this section, the state shall pay interest on the unpaid balance from
28 the date of receipt of the invoice for the goods or services at the
29 rate of one and one-half percent a month unless an agreement exists

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2 terest.

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4 (1) if the cost of the goods or services purchased exceeds
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7 pute after a seller of goods or services receives notice from the
8 state official responsible for authorizing payment for goods and
9 services that the amount of the invoice or quality of specific goods
10 or services is in dispute and stating the reasons for the dispute.

11 (e) Interest paid under (c) of this section shall be charged to
12 the budget of the state agency which purchased the goods or services.

13 (f) In this section

14 (1) "dispute" means a determination by the state official
15 responsible for authorizing the payments for the purchase of goods or
16 services that the performance or price charged is not in compliance
17 with the terms of the contract or purchase order;

18 (2) payment is considered made on the date when the payment
19 is personally delivered to the seller or agent of the seller or on the
20 date the payment is mailed;

21 (3) "state agency" has the meaning given in AS 37.05.320
22 and also includes the legislative and judicial branches.

23 * Sec. 2. This Act does not apply to contracts entered into before the
24 effective date of this Act.

25 * Sec. 3. This Act takes effect July 1, 1983.

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

5/17/83

Date: 6-14

Mr. President:

The Committee on LABOR & COMMERCE has had CSHB 210(Fin)AM

Payment for purchases by the state; eff. date.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with ~~CS~~ for SCS CSHR 210(L+C) same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]
[Signature]
[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]
 CHAIRMAN

STATE OF ALASKA
FISCAL NOTE

Revision Date _____, 1983

I. REQUEST

Bill/Resolution No.: HB 205/210
 Title: Relating to Payment of Interest
 Sponsor: Duncan/Shultz by State
 Requestor: House State Affairs

II. FISCAL DETAIL

Agency Affected: All
 Program Category Affected: All
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
TOTAL OPERATING	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

No source identified by the Legislature.

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Tom Haas, Acting Director
 Division: Finance

Phone: 465-2240
 Date: 3/17/83

Approved by Commissioner: Lisa Rudd
 Department: Administration

Date: 3/17/83

Distribution:

- Original to Legislative Finance
- Copy to Office of Management and Budget (for Legislature introduced bills)
- Copy to Department (for Governor introduced bills)
- Copy to Sponsor
- Copy to Requestor (if different from Sponsor)

IV. ANALYSIS

The Department of Administration is opposed to this Legislation, not because we disagree with the idea of the State paying its bill in a timely manner, but because we feel there are better ways to address this problem. In determining the fiscal impact on mandatory payment of interest, it is impossible to place a definite dollar amount for the cost. Many items must be taken into consideration.

First, in order to calculate what the interest cost would be, a detailed analysis would be necessary to determine what the dollar amount of bills paid in excess of 30 days might be. Readily available information does not exist. However, to show what the potential impact might be, we offer this example, making a number of assumptions.

On the assumption that the State annual budget is \$3.0 billion and that 50% of that budget represents vendor payments effected by this legislation. Further we assume that 5% of the vendor payments might be subject to penalty as defined in the Legislation. Based on these assumptions, the interest penalty could be as high as \$1,125,000.00.

Calculated as follows:

\$3,000,000,000.00	Annual Budget
<u> X 50%</u>	
\$1,500,000,000.00	Potential Vendor Payments
<u> X 5%</u>	
\$ 75,000,000.00	5% Subject to Penalty
<u> X 0.15%</u>	
<u>\$ 1,125,000.00</u>	Interest Penalty for Bills Paid in Excess of 30 Days.

The preferable way to avoid penalty payments is to pay vendors within the 30 day period. This is and always has been the goal of the Department of Administration. The only effective way of doing this is either to divert current staff of the various State agencies to the effort of paying bills timely or to develop the agencies internal procedures and the Department of Administration's automated systems in order to address the payment problem. The cost to the State in providing additional staff or a bill paying effort that would pay all bills within 30 days using the current system has not be determined. The Department of Administration is currently in the process of

redesigning the statewide accounting system which will include features that will improve the bill paying and tracking capabilities of the State.

While we recognize the problem of paying vendors in a timely manner is a serious matter, we should point out that for the most part, vendors are paid timely. For a 12 month period, the State paid on the average of 70,200 invoices a month. During that time, the average payment time was 29 days. The high monthly average was 33 days while the low monthly average was 24 days. During this period, only two months exceeded 30 days payment time.

In addition to the costs of attempting to improve the payment time and the potential interest penalties, we should also consider the cost of increased bureaucracy that would be involved in determining what payments would be subject to penalty, what period of time would be covered, as well as the logistics of making the interest payments, all of these would be costs to the State in time and effort.

Lastly, it should be noted that the funding of the interest payments would need to be 100% State funds. We have been advised by the U.S. Office of Management and Budget that the Prompt Payment Act (P.L. 970177) prohibits the use of Federal grant funds for the agencies that are primarily federally funded. (Copy of OMB letter attached)

Again, we are not opposed to timely payment of vendor bills but are concerned with the method of achieving that goal.