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FILE WITH HB 506

TO: Senator Bill Ray

FROM: Paula d. Scavera

DATE: May 24, 1984

RE: SCSHB 506 (State Affairs) Prompt payment for purchase by the State

This bill requires the State to make payment for goods or services on the date the payment is due or within 30 days after receipt of a proper invoice. The bill exempts purchases of over \$500,000 from the provisions of the bill.

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.
- (b) Provides for the State to take advantage of any discounts offered by a vendor and if invoice is paid on time, the State agency will deduct the amount of the discount offered from the total amount of the invoice.
- (c) Establishes the rate of interest at 1.5% per month that must be paid by the State for past due balance---also provides for the exclusion of interest in the event the seller and the State have mutual agreement.
- (d) Exempts purchases of more than \$500,000 from the provisions of the bill. Provides for an exemption in the event the State notifies the vendor or seller of a dispute in the invoice.
- (e) Provides that any interest incurred by lack of prompt payment will be charged to the budget of the department involved.
- (f) Definition section

SECTION 2

Exempts contracts entered into before the effective date of the bill.

SECTION 3

Effective date clause-- July 31, 1983

There is a fiscal note. There is a further referral to Finance.

The only difference between the House version and the Senate State Affairs version is the word "proper" was inserted on Line 28.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Page 1 of 3

Revision Date: February 29, 1984

REQUEST

Bill/Resolution No.: HB 506
Title: Relating to Payment for
Purchases by the State
Sponsor: Shultz/Tischer/Uehling/Liska
Requestor: (s) State Affairs
Date of Request: May 16, 1984

FISCAL DETAIL

Agency Affected: A11
Program Category Affected: A11
BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|-----------------------|-------|---------|-------|-------|-------|---------|
| OPERATING | | | | | | |
| 100 PERSONAL SERVICES | | 600.0 | 618.0 | 650.0 | 650.0 | 650.0 |
| 200 TRAVEL | | 50.0 | 53.0 | 55.0 | 58.0 | 61.0 |
| 300 CONTRACTUAL | | 200.0 | 210.0 | 220.0 | 231.0 | 243.0 |
| 400 SUPPLIES | | 50.0 | 53.0 | 55.0 | 58.0 | 61.0 |
| 500 EQUIPMENT | | 100.0 | | | | |
| 600 LAND & STRUCTURES | | | | | | |
| 700 GRANTS, CLAIMS | 0 | | | | | |
| 800 MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0 | 1,000.0 | 934.0 | 980.0 | 997.0 | 1,015.0 |
| CAPITAL | | | | | | |
| REVENUE | | | | | | |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|---|---------|-------|-------|-------|---------|
| GENERAL FUND | 0 | 1,000.0 | 934.0 | 980.0 | 997.0 | 1,015.0 |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 0 | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|----|----|----|----|----|
| FULL-TIME | | 22 | 22 | 22 | 22 | 22 |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Kenneth E. Bischoff *KEB A*
Division: Finance

Phone: 465-2240
Date: May 17, 1984

Approved by Commissioner: Lisa Rudd *LR*
Agency: DEPARTMENT OF ADMINISTRATION

Date: May 17, 1984

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

19/301/0516-09/2

Rev. 3-20-84
19/FORMS/FN

1. on to Admin. 5/17/84

House Bill 506
Fiscal Note Analysis
Prepared by Division of Finance
Department of Administration
May 16, 1984

This fiscal note is submitted for the fiscal impact on administrative costs only, as requested by the Senate State Affairs Committee.

To implement the provisions of this bill, State agencies will need to establish internal procedures as directed by the Department of Administration to administer vendor claims that are due interest. Additionally, more personal service resources will need to be devoted towards speeding up the payment processes without eliminating necessary review steps. Necessary review steps will still include verification that goods/services were as ordered, and as priced, and that invoicing meets requirements for payment.

The Department of Administration will need to strengthen its oversight role concerning vendor payments. Two positions will be required to perform such oversight directly in order to help resolve vendor concerns via the vendor HOTLINE, to resolve agency/vendor disputes, and to audit agency payment processes to determine if they can be streamlined. The Department of Administration will also need to develop more sophisticated computer programs to monitor the payment processes so that trouble areas can be identified early on. We do not currently have the resources to do this adequately.

The one million dollars required to cover the fiscal impacts of this bill should be allocated as follows:

1. \$300.0 to the Department of Administration to cover the cost of personal services of the two positions, and contractual services associated with programs needing to be developed to help us monitor the payment processes.
2. The remaining \$700.0 will be allocated to the agencies based largely upon volume of transactions processed, to help them administratively set up for the effects of this bill.

The breakout of costs by object code represents an estimate of how costs would be incurred by agencies. Personal services would be the costs for all departments and agencies for additional personnel necessary to track, review, and expeditiously process all vendor payments to assure none are held up. They will "bird-dog" each invoice, force officials to approve payments promptly, check and follow-up on all receiving documents, handle related phone calls and correspondence.

The \$600.0 represents approximately 22 full-time positions (average range 12). These workers will be distributed among all agencies. Their effort would be to heighten the pace of paper flow thru to prevent late payments. We presently handle in excess of 1,000,000 invoices per year. This means that if 5% of the bills need attending to, each new person has to handle 2,270 new invoices on a special basis each year, or approximately 12 new problems per day.

Travel costs are for agency personnel in all State agencies, to review and research problems related to billings for many remote sites. This often is the cause for late payments.

Contractual services are for related consultant, data processing services, etc., necessary to make old systems more efficient. Consultant services help provide new solutions for rapid processing where necessary. The actual use of these funds will be determined on a case-by-case basis.

Equipment is that related to institution, as necessary, of new methods to provide more rapid processing.

IT SHOULD BE NOTED THAT THE ABOVE COSTS WOULD BE INCURRED IN AN ATTEMPT TO AVOID PENALTIES. IF THEY ARE NOT APPROVED, THEN WE WILL SIMPLY HAVE TO PAY PENALTIES (INTEREST), WHICH IS COUNTER PRODUCTIVE AND DOES NOT SOLVE THE PROBLEM.

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF ADMINISTRATION

DIVISION OF FINANCE

POUCH C (MS 0210)
JUNEAU, ALASKA 99811

PHONE:
(907) 465-2240

May 15, 1984

Honorable Vic Fischer
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Senator Fischer:

This letter is in response to a request by your office as to what the additional administrative costs would be that are associated with House Bill 506 relating to payment for purchases by the State. The Department of Administration's fiscal note and analysis is enclosed. The fiscal note is broken into two parts; the first being what the potential interest cost might be that would result as an implementation of this bill; secondly an estimate of one million dollars is our best guess as to the amount of resources that would be diverted to avoid interest penalties. Agencies will be forced to reduce review time to determine whether a payment is proper. Such review should include verification that goods/services were as ordered, priced, and that invoicing meets requirements for payment. Agencies will need to establish internal processes to handle claims by vendors that they are due interest. As with any process, disputes will arise that must be resolved in an equitable fashion. The change in administrative costs to implement the provisions of this bill then would be: to perform less review as to determining the propriety of the payments being processed in order to speed up payment times to avoid interest penalties and establish an additional process to resolve vendor claims for interest.

We are continuing to work on your other information request related to this bill to prepare certain statistics by agency on their vendor payment track record. This effort will involve some programming on our part to prepare a suitable file of information. The Division of Legislative Audit has consented to assist us on the statistical side as they have some programs already developed that would be suitable for the purposes of this request.

Sincerely,


Kenneth E. Bischoff
Director

KEB/jbh
3/3302/0515-08

Enclosures

cc: Commissioner Lisa Rudd
Department of Administration

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

cc

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 506
 Title: Payment for purchases by the state
 Sponsor: Shultz
 Requestor: House Finance
 Date of Request: 2/28/81

FISCAL DETAIL

Agency Affected: ATT
 Program Category Affected: _____
 BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|-----------------------|-------|-------|-------|-------|-------|-------|
| OPERATING | | | | | | |
| 100 PERSONAL SERVICES | | | | | | |
| 200 TRAVEL | | | | | | |
| 300 CONTRACTUAL | | | | | | |
| 400 SUPPLIES | | | | | | |
| 500 EQUIPMENT | | | | | | |
| 600 LAND & STRUCTURES | | | | | | |
| 700 GRANTS, CLAIMS | | | | | | |
| 800 MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0 | 0 | 0 | 0 | 0 | 0 |
| CAPITAL | | | | | | |
| REVENUE | | | | | | |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|--|--|--|--|--|--|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

~~SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL~~

Analysis: Any penalties assessed the state due to enactment of this bill should be absorbed by agencies within their existing budgets.

~~ANALYSIS OF FISCAL IMPACT OF BILL~~

Prepared By: Rep. Al Adams, Chair **APA** Phone: 465-3706
 Division: House Finance Committee Date: 2/28/81

Approved by Commissioner: _____ Date: _____
 Agency: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

Al Adams

Computation of Vendor Payments Basis

| | |
|--|-------------------------|
| 1. Enacted Budget for Fiscal Year 1984 | <u>\$4,185,000.000.</u> |
| Less 2. Permanent Fund Dividends | (179,000,000.) |
| 3. Grants & Claims | (1,165,537,600.) |
| 4. University of Alaska Payments | (244,700,000.) |
| 5. State Salaries | (801,100,000.) |
| 6. Loans | (201,900,000.) |
| 7. Debt Service | (180,600,000.) |
| 8. University of Alaska Capital | (52,000,000.) |
| 9. Chapter 10 and other Supplemental Legislation | <u>(240,000,000.)</u> |
| | <u>(3,064,937,600.)</u> |
| | <u>\$1,120,062,400.</u> |

1,120,062,400 x .05 x .015 x 2 = 1,680,094 or 1.7 million

From FY 84 Legislature's Summary of Appropriation as annotated

1. Lead page - Enacted (less Governor's Vetos) Total Column
2. FCC page 8, CH 107, page 14, line 11
3. FCC page I, Objects of Expenditure Grants, Claims
4. FCC page 65, CH 107, page 128, line 16
5. FCC page I, Objects of Expenditure, Personal Services line, CC column
6. Lead page - Loans line, Enacted (less Governor's Vetos) Total Column
7. FCC page I, State Bond Committee line, CC column
8. FCC page 45 to 46, CH 107, page 87, line 10 through page 90, line 9
9. Other Chapters (10, 21, 24, 34, 53)

Prepared By: Ken Buschoff Phone: 465-2240
Division: Finance Date: 2/29/84
Approved by Commissioner: LISA RUDD Date: 2-29-84
Department: Administration



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 23, 1984



The Honorable Mae Tischer
Alaska State House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Tischer:

I am forwarding to you a copy of our Analysis /Position and Fiscal Note on HB 506, Relating to Payment for Purchases by the State.

Our position upon analysis of this bill is that the current average payment time is better than what is required by this legislation. Attempting to avoid penalties under this bill would cause agencies to divert attention from appropriation and accounting control processes to focusing on speeding up the payment process for relatively few bills. Consequently, a few more bills would be timely paid, but the State would have less assurance as to the overall propriety of payments processed.

It is our responsibility to point out that real costs are associated with this bill. The changes in payroll handling procedures that Gary Jenkins refers to in his letter were implemented at a significant and ongoing cost to the State. Vendor delivery of goods/services and related invoicing is not uniform between vendors and requires additional verification that goods/services were as ordered, priced, and that invoicing meets requirements for payment. As to Mr. Jenkins' comments regarding vendors with 60-to 120-day-old unpaid billings, the State Department of Administration, Division of Finance's Pre-Audit Section (465-2260), has had a vendor's hot line which will accept collect calls in regard to overdue payments and/or other vendor invoice/payment problems since 1978.

The average payment time by the State is approximately 25 days for all State agencies. This average payment time includes disputed invoices, invoices dated more than one day before the post-marked date, and invoices dated before goods or services were delivered. This 25-day average, coupled with availability of a vendor's hot line for distressed vendors, creates what we

At 3:00 PM The Governor 3/23/84

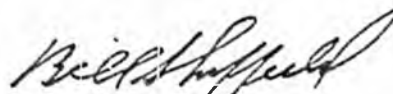
The Honorable Mae Tischer

-2-

March 23, 1984

consider to be a reasonable and responsive atmosphere conducive to meeting vendor needs and still affording proper accounting controls as mandated by AS 37.05.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Sheffield".

Bill Sheffield
Governor

Enclosures

MEMORANDUM


State of Alaska

TO: Administrative Officers
All Agencies

DATE: December 10, 1982

FILE NO:

TELEPHONE NO: 465-2260

FROM:  Sue Alexander
Pre-Audit Supervisor
Division of Finance
Department of Administration

SUBJECT: Payment Time

After reviewing the Vendor Analysis for the month of November, it has been determined that it took the State an average of 25 days to pay its bills during this month. This is the same number of days as November of last year. The schedule below shows the payment time for each agency.

| <u>Agency:</u> | <u>Payment Days</u> | <u>Agency</u> | <u>Payment Days</u> |
|---------------------------|---------------------|--------------------------------------|---------------------|
| Office of the Governor | | Commerce and Economic Development | |
| Fiscal - Juneau | 20 | Fiscal | 17 |
| Fiscal - Anchorage | 33 | Small Business Loans | 14 |
| Administration | | Energy & Power | 29 |
| Fiscal - Juneau | 31 | AK Power Authority | 17 |
| Fiscal - Anchorage | 10 | Military Affairs | 39 |
| Employee Housing | 34 | Natural Resources | 37 |
| Public Defender | 19 | Fish and Game | 65 |
| Leasing & Facilities | 16 | Public Safety | 15 |
| Telecom Systems - Anch. | 26 | Environmental Conservation | 16 |
| Alaska Broadcasting Comm. | 13 | Community & Regional Affairs | |
| Older Alaskan Comm. | 13 | Fiscal | 11 |
| Law | 23 | CETA Division | 12 |
| Revenue | | Municipal Grants | 18 |
| Fiscal | 13 | Transportation and Public Facilities | |
| Garnishments | 5 | Fiscal | 37 |
| Education | | Anchorage | 22 |
| Fiscal | 25 | Fairbanks | 24 |
| Vocational Rehabilitation | 42 | Anchorage Airport | 16 |
| Council of the Arts | 21 | Southeast | 25 |
| Health & Social Services | | Ombudsman | 4 |
| Fiscal | 26 | Legislative Affairs | 36 |
| Public Assistance | 2 | Legislative Finance | 5 |
| Social Services | 14 | Legislative Audit | 5 |
| Handicapped Child Prog. | 44 | Alaska Court System | 31 |
| Labor | | | |
| Fiscal | 25 | | |

*Calendar days **

MSA/gyr
14D1/1209-1/F26

** From date of Invoice To date of Payment.*

MEMORANDUM

State of Alaska

to: Administrative Officers
All Agencies

DATE: May 2, 1984

FILE NO:

TELEPHONE NO: 465-2260

MSA
FROM: M. Sue Alexander
Pre-Audit Supervisor
Division of Finance
Department of Administration

SUBJECT: Payment Time

After reviewing the Vendor Analysis for the month of April, it has been determined that it took the State an average of 21 days to pay its bills during this month. This is a one day decrease over April of last year. The schedule below shows the payment time for each agency.

| <u>Agency</u> | <u>Payment Days</u> |
|------------------------------------|---------------------|
| Office of the Governor | 24 |
| Administration | 21 |
| Law | 20 |
| Revenue | 12 |
| Education | 25 |
| Health & Social Services | 39 |
| Labor | 24 |
| Commerce and Economic Development | 48 |
| Military Affairs | 32 |
| Natural Resources | 22 |
| Fish and Game | 35 |
| Public Safety | 12 |
| Environmental Conservation | 11 |
| Corrections | 30 |
| Community & Regional Affairs | 17 |
| Municipal Grants | 14 |
| Transportation & Public Facilities | 21 |
| Ombudsman | 6 |
| Legislative Affairs | 24 |
| Legislative Finance | 13 |
| Legislative Audit | 6 |
| Alaska Court System | 10 |

MSA/sn
8/F26/3D1/0502-12

Payments by Dollar Volume by Agency
For the Period March 1 through May 11, 1934

| No. | Agency | % Paid Within 30 days | % Paid Within 31-60 days | % Paid Within 61-90 Days | % Paid Over 90 Days |
|-----|--|-----------------------|--------------------------|--------------------------|---------------------|
| | Statewide Overall | 90 | 07 | 01 | 02 |
| 01 | Office of The Governor | 69 | 26 | 03 | 02 |
| 02 | Department of Administration | 73 | 19 | 05 | 03 |
| 03 | Department of Law | 83 | 15 | 01 | 01 |
| 04 | Department of Revenue | 76 | 19 | 02 | 03 |
| 05 | Department of Education | 86 | 09 | 04 | 01 |
| 06 | Department of Health and Social Services | 81 | 10 | 02 | 07 |
| 07 | Department of Labor | 80 | 14 | 03 | 03 |
| 08 | Department of Commerce and Economic Development | 70 | 21 | 03 | 06 |
| 09 | Department of of Military Affairs | 64 | 27 | 04 | 05 |
| 10 | Department of Natural Resouces | 62 | 18 | 16 | 04 |
| 11 | Department of Fish and Game | 61 | 30 | 04 | 05 |
| 12 | Department of Public Safety | 88 | 07 | 02 | 03 |
| 18 | Department of Environmental Conservation | 97 | 01 | 01 | 01 |
| 20 | Department of Corrections | 61 | 21 | 14 | 04 |
| 21 | Department of Community and Regional Affairs | 98 | 02 | 00 | 00 |
| 25 | Department of Transportation and Public Facilities | 91 | 07 | 01 | 01 |
| 30 | Office of The Ombudsman | 99 | 01 | 00 | 00 |
| 31 | Legislative Affairs Agency | 65 | 28 | 04 | 03 |
| 32 | Division of Legislative Finance | 93 | 07 | 00 | 00 |
| 33 | Division of Legislative Audit | 99 | 01 | 00 | 00 |
| 41 | Court System | 90 | 06 | 01 | 03 |