

COMMITTEE REPORT
SENATE

FURTHER:

3/14/85

Date 4/24/85

Mr. President

The Committee on FINANCE considered CSHB 30(Fin)
payment for purchases by the state; end.

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

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title _____
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
or (Adopted HFC FN)
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

[Signature]
Chairman

[Signature]
Chairman recommendation

cc
Sep 2.5

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CSHB30 (Fin)
Title: Payment for purchases

FISCAL DETAIL

Agency Affected: All
Program Category Affected: All

Sponsor: Representative Shultz
Requestor: House Finance
Date of Request: 2/26/85

BRU, Program or Subprogram(s) Affected:
All

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FI 85	FI 86	FI 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		-0-				
200 TRAVEL		-0-				
300 CONTRACTUAL		-0-				
400 SUPPLIES		-0-				
500 EQUIPMENT		-0-				
500 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		-0-				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING		-0-				
CAPITAL		-0-				
REVENUE		-0-				

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-				
FEDERAL FUNDS	-0-				
OTHER	-0-				
TOTAL	-0-				

POSITIONS:

FULL-TIME	-0-				
PART-TIME	-0-				
TEMPORARY	-0-				

ANALYSIS:

/ The purpose of this legislation is to encourage state agencies to pay bills on time. It would be contrary to this purpose to appropriate funds for interest payments or related staff costs. It is the House Finance Committee's intent that any funds needed be absorbed within an agency's existing budget.

Prepared By: Al Adams - Chairman Phone: 465-3706
Division: House Finance Committee Date: 2/26/85

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

Offered: 3/4/85
For Today's Calendar

Original sponsor: Shultz

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 30 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH 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 by
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 billing for the
16 amount of the payment due, if a date on which payment is due is not
17 established by contract and if the billing contains or is accompanied
18 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 on or before a required payment date under (a) of this sec-
26 tion, the state shall pay interest on the unpaid balance from the
27 required payment date at the rate of 1.5 percent a month, unless an
28 agreement exists between the seller and the state that establishes a
29 lower rate of interest or precludes the charging of interest. If the

1 interest-bearing period of time is either (1) a fraction of a month or
2 (2) one or more full months plus a fraction of a month, the state
3 agency shall pay the same amount of interest for the fraction of a
4 month as it would pay for a full month.

5 (d) This section does not apply

6 (1) if the cost of the goods or services purchased exceeds
7 \$500,000;

8 (2) to payment for specific goods or services in dispute
9 after a seller of goods or services receives notice from the state
10 official responsible for authorizing payment for goods and services
11 that the amount of the invoice or quality of specific goods or ser-
12 vices is in dispute and stating the reasons for the dispute; the state
13 agency shall pay for the specific goods or services in dispute within
14 30 days after resolution of the dispute; or

15 (3) to a contract covered by AS 36.90.001.

16 (e) Interest paid under (c) of this section shall be charged to
17 the budget of the state agency that purchased the goods or services.

18 (f) In this section

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

23 (2) payment is considered made on the date when the payment
24 is personally delivered to the seller or agent of the seller or on the
25 date the payment is mailed;

26 (3) "state agency" has the meaning given in AS 37.05.400
27 and also includes the legislative and judicial branches.

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

1 * Sec. 3. This Act takes effect October 1, 1985.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Handwritten initials and numbers

Page 1 of 4

Revision Date:

Page 1 of 4

REQUEST

Bill/Resolution No.: CS HB30 (SA)
 Title: Relating to Payment for Purchases by the State
 Sponsor: Schultz
 Requestor: House State Affairs
 Date of Request: February 15, 1985

FISCAL DETAIL

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS	0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0
800 MISCELLANEOUS						
TOTAL OPERATING	0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0
FEDERAL FUNDS						
OTHER						
TOTAL	0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Kenneth E. Bischoff *KES* Phone: 465-2240
 Division: Finance Date: February 15, 1985

Approved by Commissioner: Lisa Rudd *A. Stamm* Date: 2-18-85
 Agency: Department of Administration *for*

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Fiscal Note AnalysisCS HB 30 (SA)

The issue of timely payment for State purchases has been before the Legislature for several sessions. It is clearly desirable that the State pay for its purchases as promptly as possible. This proposal will cause the State to have to choose between verifying invoiced charges to avoid questionable payments, and short-cutting review procedures to avoid penalty interest payments.

Currently, the average payment time for the State is 25 days from the vendors' invoicing date to the paying warrant date. Generally, those agencies which show payment time in excess of 30 days are:

1. Military Affairs
2. Fish and Game
3. Corrections
4. Alaska Court System

These four agencies have a wide network of field locations, causing delays in verification and transmission of invoices.

To decrease the penalties under this legislation, State agencies will incur costs for increased staff to track and pay all purchase invoices within this legislation's time constraints. It is hard to arrive at a definite cost for this legislation, but by using various assumptions, such as that \$1,997.2 million of a \$4.7 billion dollar budget is for vendor payments and that 5% will fall under the interest penalty provisions, and that all penalty payments are made within 60 days of receipt of invoice, then an estimated interest penalty cost of \$1.7 million ($\$1,997.2 \text{ million} \times .05 \times 10.5\%/12 \text{ mos.} \times 2 \text{ mos.}$) would occur. It is estimated that additional effort required of the agencies to track and make timely payments for purchases would cost the State about \$1.0 million.

It would be difficult to improve payment times under existing payment systems without incurring significant additional costs. The new State accounting system is targeted for July 1, 1985 implementation. This system will improve the ability of geographically disbursed agencies to submit their payments more timely through remote terminals. The system will speed up turnaround and reflect status changes on an overnight basis. These features will allow agencies to be more responsive to their creditors.

All costs of this legislation would be 100% State funds. The U.S. Office of Management and Budget has advised us that the Prompt Payment Act (P.L. 970177) prohibits use of Federal grant funds for payment of interest penalties and disallows the use of any non-Federal funds expended for such interest penalty toward any matching requirement applicable to any Federal grant.

Additional Fiscal Note Analysis - CS HB 30 (SA)

It appears to us that this Bill is not consistent. In Section 1(c), to pay interest from the date of receipt of the invoice is not consistent with another provision that allows us a period of 30 days to make payment without penalty. The penalty should start accruing on the 30th day after receipt of the invoice.

Fiscal Note Analysis - CS HB-30(SA)Computation of Vendor Payments Basis

1. Enacted Budget for Fiscal Year 1984	<u>\$4,691,603,187.</u>
Less 2. Permanent Fund Dividends	(2,409,200.)
3. Grants & Claims	(469,850,200.)
4. University of Alaska Payments	(272,468,600.)
5. State Salaries	(844,676,700.)
6. Loans	(146,125,000.)
7. Debt Service	(270,089,474.)
8. Capital	(306,971,179.)
9. Energy Program	<u>(381,800,000.)</u>
	<u>\$1,997,212,834.</u>

$1,997,212,334 \times .05 \times 10.5\%/12 \text{ mos.} \times 2 = 1,747,560$ or 1.7 million

From FY 85 Legislature's Summary of Appropriation as annotated

1. Lead page - Enacted (less Governor's Vetos) Total Column
2. FCC page 7, CH 122, page 13, line 10
3. FCC page I, Objects of Expenditure Grants, Claims
4. FCC page 41, CH 122, page 80, line 10
5. FCC page I, Objects of Expenditure, Personal Services line, CC column
6. Lead page - Loans & Grants line, Enacted (less Governor's Vetos) Total Column
7. FCC Lead page, Debt Service line, Enacted less Governor's Vetoes
8. Lead page enacted less Governor's Vetoes
9. Lead page enacted less Governor's Vetoes



University of Alaska
Statewide System of Higher Education
Fairbanks, Alaska 99701

RECEIVED MAR 14 1985

March 8, 1985

The Honorable Don Bennett
Pouch V
Juneau, AK 99811

Dear Senator Bennett:

Last week the House passed CSHB 30 (Fin), "An Act relating to the payment for purchases by the state; and providing for an effective date." The bill has been forwarded to the Senate for your consideration.

The purpose of this legislation is to encourage state agencies (including the University of Alaska) to pay bills on time. It requires that interest be paid by agencies if payment is not made within 30 days after receipt of an invoice.

While I understand the public policy purposes which lead to the introduction of this legislation, it causes some trouble for the University of Alaska because of the distance between receiving units and paying offices. This problem is especially severe for community college and rural education centers. Due to delays in mail service between these units and the CCREE division office in Anchorage, it is occasionally impossible to pay within 30 days. In an era of reduced budgets, it is unfortunate that these small units will be forced to dig deeper into their budgets to pay for goods received. Would it be possible to (a) exempt from the legislation goods or services provided to a state agency in rural areas or (b) allow an additional 30 days for goods or services provided to a state agency in rural areas?

The second problem is one which could affect all state agencies. The legislation provides that payment must be paid within 30 days of invoice, without speaking to whether goods or services have been received. Given

Senator Don Bennett
March 8, 1985

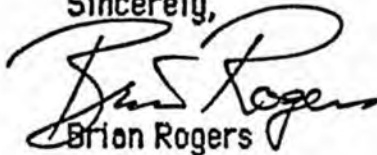
Page 2

the potential for fraudulent billing of state agencies, and the difficulty in receiving reimbursement for improper payments, we believe it is essential that goods or services be received before the 30 day period begins. This could be taken care of by an amendment to page 1 lines 15-18 which reads:

"(2) 30 days after receipt of a proper billing for the amount of the payment due, or 30 days after receipt of the goods and services purchased, whichever is later, if a date on which payment is due is not established by contract and if the invoice contains or is accompanied by documents required by the contract or purchase order."

I appreciate your consideration of the University of Alaska's concerns with this legislation. Please do not hesitate to contact me if you have any questions.

Sincerely,



Brian Rogers
Director of Budget Development

- cc: Senator John Sackett, Chairman, Senate Finance
Senator Jan Faiks, Chairman, Senate Finance
Senator Bettye Fahrenkamp, Chairman, Senate HESS
Representative Richard Schultz, prime sponsor
Wendy Radman, Director of Government Relations, UA system

BACKGROUND ON HB NO. 30

This bill has been requested by numerous vendors that do business with the State of Alaska. The State has become notorious for late payment of invoices, forcing many private vendors to borrow money to supplement their cash flow. This reduces their profit, and in some cases even eliminates it as the profit on articles is very marginal.

The bill is patterned after a federal law entitled "The Prompt Payment Act--Public Law 97-177". The Prompt Payment Act became effective October-1, 1982 and when it was introduced in Congress, it carried 133 sponsors.

The U. S. Army Comptroller in Fort Greely, Mr. Leonard Lemon, advised the Prompt Payment Act has improved their payment schedule and payment of invoices has become routing and very prompt.

In a poll conducted by the National Federation of Independent Business, 3312 businesses in Alaska were in favor of this bill.

In the past the State has placed a very high fiscal note on this bill and the State Administration claims it will have to completely reorganize it's accounting system in order to fulfill the requirements set forth in this bill. If this is so, then it should be done as this is an indicator our State's method of handling accounts payable is inefficient and needs modifying.

Businessmen in Alaska need this bill--they have requested it. Their request is not unreasonable and should be supported by elected representatives of their community.

ANALYSIS OF HB NO. 30

"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 on 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 past due balance -- also provides for the exclusion of interest in the event the seller and the State have mutual agreement.

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

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

3. Exempts public works contracts.

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 non-compliance, in performance or price with the terms of the contract, as determined by administering State Officer.

Subsection (f) 2. Defines when payment is made.

Subsection (f) 3. Defines a state agency

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

Section 3. Provides an effective date of July 31, 1983.

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

3/5/85

Date 03/14/85

Mr. President

The Committee on STATE AFFAIRS considered CSHB 30(Fin)
relating to payment for purchases by the state; efd.

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

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title _____
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

1 Edwin De Vries
 * Tim Kelly

MEMBERS HAVING
OTHER RECOMMENDATIONS

3 W. J. ...
 2 Bill Kay DO PASS IF COST
 TO THE STATE IS PRACTICAL

1 [Signature]
 Chairman
[Signature]
 Chairman recommendation