

H B

5 3 7

SENATE COMMITTEE REPORT

FURTHER

4/18/88

DATE TURNED INTO OFFICE 4-26-87

Mr. President:

STATE AFFAIRS

Committee considered CSHB 537 (SA)

exempting from the State Procurement Code the purchase of books, book binding services, newspapers, periodicals, certain audio-visual materials, network information services access, approval plans, professional and recommended memberships, archival materials, objects of art, and items having cultural, historical, or archaeological sig

replace with CS HB 537 (SA) same title
 or adopt CS new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new updated or previous

zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Handwritten signatures]

[Handwritten signature]
Chairman signature and recommendation



UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701 99775-0180

Institute of Arctic Biology
Biological Papers of the University of Alaska

Representative Niilo Koponen
House of Representatives
Juneau, AK 99801

22 April 1988

Dear Niilo:

The subject is new State Procurement Regulations, as they affect the University of Alaska. The attached letter from Arly Allen of Allen Press in Lawrence Kansas is pretty self-explanatory from the out-of-state business perspective.

From the Alaska perspective, let me give you an analysis of the effect of Allen Press' forced withdrawal of bid:

This publication series, which began in 1957, is probably going to have to cease. Material which would have been published in Biological Papers of the University of Alaska will now either not be published at all, or be exported to another state, or even to Canada. The Editorial Board of this journal just went through a lengthy review of the financial and workload picture. We concluded that the only way to continue to operate was to contract the manufacturing and distribution out to a first-rate and high-volume specialist press such as does not exist in Alaska. Allen Press fits the description, and in my capacity, I have worked patiently for several years to secure Allen Press' interest in publishing our journal alongside over 100 other series from around the country. In stark terms, no press in Alaska can perform this manufacturing even remotely competitively. The cost of blank uncut paper delivered to Alaska usually exceeds the cost of paper plus typesetting, proofing, presswork, trimming, binding, packaging, and mailing to subscribers by a press outside. Cessation of BPUA would eliminate parts of at least 3 positions (including mine). I suspect that this is not the only instance in which the new procurement regulations are having the undesired effect of shutting down Alaskan enterprise.

Enclosed is the latest issue of this journal, as an example of our work.

I would appreciate any help you can suggest in solving this dilemma.

Sincerely,

David W. Norton, Executive Editor and Research Associate
cc: F.S.L. Williamson
(encl)

ALLEN

**PRESS
INC.**

• 1041 NEW HAMPSHIRE STREET • P.O. BOX 368 • LAWRENCE, KANSAS 66044

(913) 843-1234

U.S.A.

April 6, 1988

David W. Norton
Executive Editor
Biological Papers of the
University of Alaska
Institute of Arctic Biology
University of Alaska
Fairbanks, Alaska 99701

Dear Dave:

I have recently received the State of Alaska Department of Revenue Nonresident Business Booklet. I must confess in reading it I am not entirely sure what the implications of doing business in Alaska are. However, they appear to me to be the following:

1. To do business in Alaska, we must apply for and obtain an Alaska business license.
2. We must post a bond or cash security deposit in an amount equal to twice the estimated taxes and license fees, but not less than \$1000.00, in order to do business with the state.
3. This must be done on a yearly basis.
4. We must fill out and return a nonresident affidavit on a yearly basis indicating a variety of different things, particularly the revenue that is received from doing business in Alaska.
5. We must pay a corporate income tax, plus potentially other types of taxes on any revenue that we receive. It is not clear whether this is for revenue from all sources, or just that revenue from Alaskan sources.

While we would very much like to do business with the University of Alaska, these regulations certainly appear intimidating and expensive. Perhaps we may have misunderstood them. But if we have not, it seems that this would be a serious impediment to doing business with the University.

I do not see any way clear to providing you the services you need in an efficient fashion while complying with all the state regulations that

The Finest Workmanship on SCHOLARLY JOURNALS AND BOOKS

COMPLETE BUSINESS MANAGEMENT SERVICES FOR ACADEMIC SOCIETIES

Washington, D.C. (202) 628-1625 • New York (212) 926-5474


Philadelphia (215) 925-3548 • Boston (617) 227-3915

Nationwide Toll Free Number (800) 358-3079 Ext. 333 • Facsimile Number (913) 843-1244

David W. Norton
April 6, 1988
Page 2

seem to exist. Unless there is some simpler way to work out a business arrangement, it seems to me that I will have to withdraw our quotation.

Regretfully yours,



Arly Allen

AA/lrs

NOTE: This letter was sent to the entire Anchorage Delegation.



UNIVERSITY OF ALASKA, ANCHORAGE

3211 Providence Drive
Anchorage, Alaska 99508
SAN 300-2497

April 12, 1988

LIBRARY

Senator Rick Uehling
State of Alaska
Senate
P.O. Box V
Juneau, Alaska 99811

Dear Senator Uehling:

I write on behalf of the Combined Library Committees of the faculties of UAA and APU. The committees are advisory to our Library which serves both institutions. The committees advise on matters affecting library services. The committees request that you give your support to CSHB 537, An Act Exempting Certain Purchases From the State Procurement Code, which was introduced by Representative Niilo E. Koponen. The act would exempt state supported libraries from the bid process in the purchase of network information access services, copyrighted library materials, and binding.

The bidding of network information access services would make it necessary for the affected institution to shift input holdings records from one network to another each time a different bibliographic utility was low bidder. Our institution has nearly 400,000 records in the Western Library Network database at present. A tape transfer from one utility to another would require months to complete. The staff of the Technical Services Department would be disrupted for a significant part of a year while rewriting procedural manuals and retraining for use of a different system. Such an effort would cut deeply into the time needed for annual book and periodical expenditures and would greatly delay the availability of new materials.

The CSHB537 would exempt state supported libraries from the State procurement code which presently requires the bidding of periodical subscriptions. It takes four months to place a new periodical subscription and receive the first issue, which establishes that the transaction is error free. Each time a different jobber takes the bid all of the Library's subscriptions have to be treated as new subscriptions. When an accurate and service-minded jobber is found, his or her good services have a far greater value than the few dollars difference between his or her bid and the low bid. Few quality jobbers will submit bids on periodical subscriptions. Quality jobbers have enough business looking after libraries which are able to emphasize service to patrons, and the good jobbers do not have to involve themselves in time-consuming bids.

It is our understanding that an amendment to CSHB 537, which we have not seen, would remove the binding process from those services to be exempted from the bid. Letting the binding bid annually would require the library to recreate its binding record each time there is a new binder. Please support CSHB537, but oppose the amendment which would continue to require libraries to bid on binding.

April 12, 1988
Page Two

The CSHB537 would eliminate the necessity of bidding book purchases. The monetary savings which appears to be obtained from the bidding of books is a delusion because of the sacrifice of promptness of delivery. The problem is too complex to describe in any detail in this communication. The classic treatment of library acquisitions was written by Daniel Melcher 16 years ago. A chapter from his book devoted to the problems of bidding library books has been copied for inclusion here. It is hoped that you will find the time to read it.

The members of the Combined Library Committees hope that you will vote for CSHB 537.

Yours truly,



Myrna Robinson, Chairperson
Combined Library Committees

Attachments

cc: Niilo E. Koponen
Alaska House of Representatives

Paul McCarthy, Director
Rasmuson Library, UAF

Mike Herbison, Director
UAJ Library

Library Advisory Committee

Ellen Slapikas
David Parry
Deb Viet
Nancy Sanders
Charles Bare
Pudge Kleinkauf
Tim Smith
Joan Haig
Les Heasley
Jerry Rohacek
Sue Shattuck
Jack O'Bar

Joint Library Advisory Committee

Robert Madigan
Myrna Wagoner Robinson
Silver Stanfill
Susan Vaillancourt
Duncan Ferguson
Jim Payne
Elizabeth Morrissett

Daniel Melcher. Melcher on Acquisitions.
(Chicago: American Library Association, 1971).

The Fallacy of the Bid Process

It is becoming increasingly recognized that contracts for the supply of books and related materials *should* be negotiated, not merely opened to bids. In fact, only 12 percent of the public libraries and 17 percent of the school libraries polled in the Hensel and Veillette study *Purchasing Library Materials in Public and School Libraries* considered themselves under any obligation to let bids, and a good many of these were probably reporting a custom rather than a legal obligation.

Considering that bid-letting is extremely common in other areas of public expenditure, it must be assumed that the reasons for making books an exception are persuasive ones. The basic reason which has moved legislators and administrators to make exceptions for books is simply that bidding procedures which may work well elsewhere *do not work well for books*. Wherever libraries have been required to seek bids and take the lowest, they have again and again found themselves confronted with flagrant nonperformance and no effective remedies.

It is not easy to see why this should be so, and therefore many librarians and purchasing agents have had to learn it the hard way, by bitter experience. After all, contracts typically contain performance bonds, penalty clauses, cancellation clauses—every practical provision for ensuring that the buyer *does* have remedies which he can invoke against a supplier whose service proves unacceptable. In

the event of bad service, why cannot the library simply use these remedies? The reason is simply that adequate proof of nonperformance is so hard to establish. The typical book costs under \$5, and proof of nonperformance has to be compiled book by book.

The custom of taking the low bid which held sway for so long was one of the inevitable results of applying to books the same city-wide or system-wide purchasing procedures developed essentially for other types of materials. The reasons for these procedures are not hard to understand. Those who spend public money have a problem that does not concern the private businessman spending his own money: They not only have to satisfy themselves that they are getting full value for each dollar, but they have to be ready on a moment's notice, or no notice at all, to defend every decision they make.

A bookseller can say to a would-be supplier, "No, thanks, I am quite happy with the service I am getting from your competitor." He is under no obligation to let bids or to explain whether his preference is based on lower prices, better service, or merely on the fact that his regular supplier is his brother-in-law. When public money is involved, it is *public policy* that the supplier who offers the best terms should not have to "know" somebody to get the business.

By far the easiest way for any government purchasing officer to keep out of trouble is to give each contract to the low bidder, relying on the penalty provisions of the contract for protection against any failure to live up to its terms.

The letting of bids can make good sense as regards the purchase of fuel oil. Shell's No. 2 fuel oil is presumably interchangeable with Gulf's No. 2 fuel oil. The amount of money at stake is presumably big enough to make it practical to exact contractual penalties in the event of failure to perform.

Since bid-letting has served him well in other areas, it is almost inevitable that a purchasing officer without prior experience in buying library books will apply it in the book area. Only after a few bad experiences does he back off and start asking himself why the usual enforcement procedures aren't working.

He may start by blaming the librarian for not documenting any failure to perform under the contract so that the penalty clauses can be invoked. The problem, of course, is in that "documenting." You can take a building contractor to court for failure to complete a building at the agreed price and within the agreed time, and he knows that you may just do it. You can also take a book wholesaler to court for failure to complete a book order at the agreed price and within the agreed time. But in this case he *knows* that you won't do it, because

he knows that you would have to document your case on a book-by-book basis and if you gave your staff this assignment, it would have time for nothing else. It simply does not pay to do the research necessary to prove nonperformance on a \$5 book item as it might on a \$20,000 construction item (or a \$5,000 oil item).

The building contractor wouldn't get far if he said, "Well, I've given you everything but the windows and the west roof and the heating system, but I'm having trouble getting those, so how about deducting those from my bid price and paying me off?"

Book suppliers, however, regularly say, in effect, "Well, I have completed 70 percent of your order, and I have had to cancel the rest because I can't get them, so please pay me for what I was able to get."

Is there anything wrong with this? Emphatically yes, if a more responsible or more efficient supplier would have delivered 80 or 90 percent of what you ordered.

The bid-letting system that works with construction and fuel oil and pencils breaks down with library books not only because proof of nonperformance is too expensive to compile, but because library books are, quite simply, *different*. The decision about whether to buy Shell oil or Gulf oil can perhaps be decided purely on the basis of price. Not so with the decision whether to buy Harper or Doubleday books. Books are copyrighted, unique, *not* interchangeable. Neither can the choice of wholesaler to supply those books be determined purely on the basis of price. At first glance a particular Random House book offered at 36 percent off list by one wholesaler and at 38 percent off list by another is the same book, and the buyer might as well get the larger discount. At second glance, however, this is not a case of two prices for the same book; it is a case of two prices for two different kinds of service, the book being the same either way. What must be compared is the service.

One example may help show how the low bidder may be the most costly source of supply. Let us assume that you want 1,000 books, having an average list price of \$6, and that you are entitled under contract to get them from Wholesaler A at a discount of 37 percent. Wholesaler B had bid 36 percent, but lost out. Both suppliers must necessarily get the books from the same original publishers on the same discount schedule.

Five hundred of the titles are in high demand with all the customers of both suppliers, and consequently both suppliers are able to buy in large enough quantities to get 46 percent off list. Thus they can both buy your typical \$6 book at \$3.24 plus postage. One hundred of the titles are obtainable at 45 percent off list, or \$3.30; 100 at 44

percent off list, or \$3.36; 100 at 42 percent off list, or \$3.48; 100 at 40 percent off list, or \$3.60. One hundred are not obtainable.

Both wholesalers figure their cost of doing business at about 40 cents a book, which must cover postage from the publisher to them, postage from them to you, receiving, shelving, picking, packing, checking, billing, and miscellaneous other costs. Both would like to make a profit of at least 10 cents a book.

Wholesaler A happily buys and supplies the 500 books he could buy at \$3.24, because after adding costs of 40 cents, there is still a profit available between his costs of \$3.64 and what you pay, namely an average \$3.78. This gives him a 14-cent profit margin. He also sees a profit in the 100 titles he can buy at \$3.30. This plus his overheads means his costs are \$3.70—but he gets \$3.78 from you. That's not the 10-cent margin he likes, but 8 cents is 8 cents.

As for the titles he buys at \$3.36, now he has only 2 cents of profit. And beyond that he is simply losing on every title. To protect himself from actually losing money, he simply elects to be (and stay) out of stock on the money-losing titles. They are in stock at the publisher, but somehow always out of stock with him.

In other words, Wholesaler A's bid of 37 percent never meant 37 percent on whatever trade books you wanted; it only meant 37 percent on whatever trade books he wanted to supply to you at 37 off.

Wholesaler B, however, took you more seriously. He figured you wanted every trade book you ordered, and he planned to get it for you, and he allowed himself more profit on the high-profit books so he could afford to take more loss on the low-profit books. Of course neither wholesaler could get you the books that were genuinely out of print, though there are high-service suppliers who won't even tell you a book is out of print until they can report on your alternatives, such as a British edition or a prebound paper edition.

As Table 1 shows, both suppliers made about a 3 percent net profit on your business.

Your problem, of course, lies in those 300 titles you wanted but aren't getting. Let's say you are mad as a hornet and determined to do something. You reorder the whole 300 direct from the publishers, and you get 200 of them (at discounts varying from 20 percent off to perhaps one-third off, postage extra). You calculate that on average you are paying publishers' invoices to an average of about \$4.50 each for books that Supplier A was supposed to supply at \$3.78. That is 72 cents a book on the 200 books, or \$144. Your contract gives you the right to charge Supplier A for the extra cost of going elsewhere to get what he should have supplied and didn't, and you think, "All right, this time we have him dead to rights, and we'll make him pay."

TABLE I

No. of titles	Discount %	Cost	Cost - including over heads	Supplier "A"		Supplier "B"		A's profit	B's profit
				You pay	His profit	You pay	His profit		
500	46	\$3.24	\$3.64	\$3.78	\$.14	\$3.44	\$.20	\$70	\$100
1000	45	3.30	3.70	3.78	.08	3.44	.14	8	14
1000	44	3.36	3.76	3.78	.02	3.44	.06	2	8
1000	42	3.48	3.88	3.78	-.10	3.44	-.04	1	4
1000	40	3.60	4.00	3.78	-.22	3.44	-.16	1	16
1000	0 p	-	-	-	-	-	-	-	-

"A" takes no loss on these categories because somehow these titles are chronically out of stock with him

\$80 on \$102 on
\$2,668 \$3,456
or 3% or 29%

As it happens, Supplier A pays, with profuse apologies! He doesn't admit for one little minute that he cheated on the contract. In fact, he is all injured innocence. Yes, he concedes, there may have been a few errors but basically your documentation doesn't prove a thing, since the books could quite well have been out of stock or out of print when he ordered them and back in stock or back in print when you ordered them. "Why," he might say, "you only got 66 percent of the books you ordered direct from the publishers, and you got 70 percent of the books you ordered from me! You never know whether a publisher will be in or out of a title in any given period."

You groan. You spent \$1,000 worth of staff time getting the goods on him, and now he graciously gives you \$144 and somehow manages to make you seem like a heel for wanting it. He has made every amends within his power, hasn't he? What can you do besides give him another chance when contract renewal time comes? Your purchasing officer, once he gets the picture, is likely to be your best possible ally, because although he has been taken by experts, he doesn't aim to let it happen twice.

There would be more high-performance wholesalers if there were more libraries willing and able to pay for performance as distinct from just paying for books. Librarians often say, "If only we could find a supplier who gave really good service—but of course his prices would have to be in line." In line with what? In line with the prices of suppliers who give bad service?

High service and high discounts are totally incompatible. Good service costs money, and the supplier who spends money to give good service has to get it back in the prices he charges. The only other way

would be to let him charge separately for books and service, a possibility which is explored further in a later chapter. "Bidding on a Cost-Plus Basis."

This doesn't mean that competition between suppliers should not be encouraged. It merely means that the stress should be on service rather than discount. Service is far more difficult to measure than discount, but it must be measured in some way or it will deteriorate unacceptably.

Apart from the danger of getting high discount at the price of unacceptably bad service, another disadvantage of the bid system of selecting suppliers is the possibility of changing suppliers more frequently than desirable. No supplier can really do his best in a situation in which he knows he may lose the account altogether at the end of the contract period. Two- and three-year contracts are better in this regard than one-year contracts, but the best relationships are those in which suppliers are changed no more frequently than key employees. Ideally the reward of a supplier who has learned how to serve the library to its satisfaction should be relative security in the annual renewal of the relationship.

There must, of course, be some procedure for keeping a supplier on his toes. A very good way is to maintain concurrent relationships with more than one supplier, so that performance can be compared and good performance can be rewarded with an increasing share of the total volume.

In the past it has happened all too frequently that large contracts have gone to inexperienced low bidders who have gotten in over their heads. It would have been a favor to all concerned if there had been a policy against letting an untried supplier take more than a portion of any large contract in any one contract period.

Another important means of self-protection is to order frequently. Don't order just annually or semiannually; order at least monthly or, if possible, weekly. This way you learn what your problems are while there is still time to take corrective action.

Yet another defense against poor service is to re-examine your own procedures to see whether perhaps there is something in those procedures that makes cheating more or less inevitable. For example, if your supplier can't get paid for the books he has supplied until he has rounded up every other available book on your order (some of which are slow in arriving from the publishers through no fault of his), he will be strongly tempted to report the laggards as unobtainable even if further waiting might produce them. (See the chapter, "The Going Discounts," for other factors which affect discounts.)

The most basic step, however, is to adopt a policy of going direct to the publisher for any titles your supplier is not supplying. This not only gives you a line on whether your supplier is doing his job, it gets you the book, which is the important thing.

It goes without saying that you will be doing a certain amount of direct ordering from the publishers in any case, notably from those publishers who refuse to distribute through wholesalers. This includes encyclopedia publishers and others who normally give no discount to wholesalers, but it may include any others agreed upon between you and your wholesaler. If he doesn't stock certain lines and you know that, you may prefer to order direct just to save time.

Let's assume, however, that you are finding that your supplier isn't coming through with a significant number of titles that were well within his commitment and that you were able to get direct after he indicated he couldn't get them. What do you do next?

A good next step is to work up some estimates on what his failings are really costing you. Even if your library is fairly efficient, the cost of special-ordering a single title direct from the publisher may easily be \$2 by the time you have paid for the form, filled it out, filed all its parts, matched them up with the arriving book, okayed the invoice, and paid it. In fact, don't be surprised if these costs run to \$7 or more, as they almost surely will if you haven't set up special procedures for under-\$10 transactions.

You may well find that the realistic costs of going direct to the publisher for a title your supplier said he couldn't get are as much as \$10 above what you should have paid him under his contract. You may not be able to charge *him* with these costs, by reason of all the doubts that can be raised about how the title perhaps *was* out of stock when he tried to get it, or an honest error occurred, and so on. But you can weigh this kind of item against him in evaluating the cost of doing business with him. The cost of making up for his failures is just as much a cost of doing business with him as what you pay him.

You may find, of course, that your direct orders produce little beyond what the supplier supplied. In this case you might well decide to relax a bit and perhaps only spot-check his performance to ensure against backsliding. If, however, your direct orders produce more results than seems reasonable, then you need a better supplier, or at least you need to build a fire under this one.

Let's suppose your present supplier is delivering 70 percent of what you order, and when you reorder the missing 30 percent from the publishers, you get two-thirds. Let's say you originally ordered from the supplier books with list prices totaling \$110,000 and expect-

ed to get (after elimination of the genuinely unavailable) about \$100,000 worth, for which you expected to pay \$63,000. Now let's say he delivered only \$80,000 worth (at list), and dropped in your lap the decision on whether to give up (as he did) or try to get the other \$30,000 worth. You didn't give up. You did try elsewhere, and you got \$20,000 worth, which cost you about \$15,000 in cash and about \$10,000 in extra-order handling. Altogether, then, your cost on \$100,000 worth of wanted books was \$50,000 (\$80,000 less 37 percent), plus \$15,000 (\$20,000 less 25 percent), plus \$10,000—a total of \$75,000 for books having a list price of \$100,000. Your effective, across-the-boards discount, then, on the books you wanted was 25 percent off list.

Suppose, however, you had dealt with Supplier B. In this case your contract discount was less, but the supplier would have delivered all the books you ordered, not just the books he wanted to sell. With him your effective discount (even if he wasn't perfect) would have been a lot higher than 25 percent.

It is hard to make these comparisons on a bid basis, of course, because what counts is performance, not promises. In the case cited, it is clear enough that you might have been a lot better off doing business with B at 36 percent discount than with A at 37 percent, but you can't be sure. B's performance might have been as bad as A's.

In such a situation there is a temptation to say, "All right, we'll put it in the contract. There will be a flat penalty of \$10 against the wholesaler every time he says he can't get a book and we get it." I wish I could say that I thought this would work, or even that it might work on some kind of "5 percent deductible" basis, to allow for the inevitable percentage of titles that really weren't available when your wholesaler was trying and only became available between then and the time you tried. The fact is, I have never met a wholesaler who would even discuss such a contract clause, part of his reasoning being that you could start ordering things from him you never ordered before just to get the penalty money.

No, I don't think you're ever likely to get any satisfaction out of the penalty approach, any more than you can get "satisfaction" out of eating in a bad restaurant just by refusing to pay when the food is completely inedible. All you can do is stop eating there.

All you can do, then, is disqualify a supplier who has given bad service—and set up defenses against getting locked into another contract with another unsatisfactory source of supply. My favorite answer to this, which I have mentioned before but which perhaps bears repeating, is to deal with more than one supplier, and many libraries

MELCHER ON ACQUISITION

do just this. It helps keep each on his toes; it gives you a chance to compare performance; it gives you alternatives if, for example, one has a strike. It also provides a way to try out a new man in a small way, which could be to his advantage as well as yours.

In fact, there is danger in letting any large contract swing completely from one supplier to another between one year and the next. A supplier who has been giving satisfaction ought not to be dumped completely just because another bidder who is an unknown quantity comes along and bids a shade lower. Such an all-or-nothing competition means in effect that only giants—or fools—can even compete.

What is needed is more consideration of the problems of the smaller supplier. Set things up so he can take a small piece of your total business for a year. Then if he does well, give him a larger piece. A good general rule might be to require demonstrably good performance over at least three years before a new vendor could win the whole of a large contract. If he is low bidder the first year, give him a third. If he is low bidder two years in a row, give him two-thirds. But only if he is low bidder three years in succession should he have all the business. By then he will know what he is doing, and you will know what he is doing. He won't be jumping in over his head. More companies will be able to compete. And the bidder who finally wins three-thirds and then gets cut back to two-thirds will have time either to sharpen his pencil or to find other work for his employees. Suppliers who do a conscientious job shouldn't be changed any more abruptly than employees.

You may say: "Ah, but in our situation we don't have the option of working through negotiated contracts. We are compelled by law to let bids, and it would be impossible to invite bids and then to divide the business between the two lowest bidders unless the bids were identical."

All right. You may be as strait-jacketed as you say, though I wish you would first ask the powers that be to show you each and every provision in the state or city charters or ordinances that bears on the situation. I don't know of a single state where solutions haven't been found.

But let's say you must let bids. There may yet be nothing to stop you from having two bid lettings, one for each half of your total business, with a provision built right in that the winner of one will be disqualified from the award of the other. If this has to be specially justified, you will think of ways.

To help you make fair comparisons of the performance of both
The cleanest ap-

THE FALLACY OF THE BID PROCESS

proach is probably to divide by publisher: publishers A-L to one vendor, publishers M-Z to the other. It might also be a good idea to involve the suppliers in the division to prevent later recriminations. You might try the old cake-dividing technique: Let one supplier divide the publishers into two groups, and then let the other decide which group he will take.

BSN: 989

ALASKA HOUSE OF REPRESENTATIVES
CSHB 537(SA)

2ND SESSION 15TH LEG

4/15/88 9:55 AM

		33	YEAS	0	NAYS	6	EXC	1	ABS		
Y	ADAMS	Y		Y	DONLEY	Y		Y	HUDSON	Y	FOURCHOT
Y	BARNES	Y		Y	ELLIS	Y		Y	KOPONEN	Y	RIEGER
Y	BOUCHER	Y		Y	FRANK	Y		Y	LARSON	Y	SHULTZ
Y	BOYER	Y		Y	FURNACE	Y		Y	MARTIN	Y	SPRINGER
Y	BROWN	Y		Y	GOLL		E	Y	MENARD	Y	SUND
Y	CATO	Y		Y	GRUENBERG		E	Y	MILLER	Y	SWACKHAMMER
Y	COLLINS	Y		Y	GRUSSENDORF	Y		Y	NAVARRE	Y	TAYLOR
Y	A COTTEN	Y		Y	HANLEY		E	Y	PEARCE	Y	ULMER
Y	DAVIDSON		E		HERRMANN	Y		Y	PETTY,JOHN	Y	WALLIS
Y	DAVIS		E		HOFFMAN	Y		Y	PHILLIPS	Y	ZAWACKI

+ VOTED FOR

* CHANGED VOTE

REQUEST: **FISCAL NOTE**

Revision Date:
Title: An Act Exempting Certain Purchases From The
State Procurement Code
Sponsor: Health, Education and Social Services Committee
Requestor:

Agency Affected: DOT&PF
BRU: Engineering & Operations Stds
Design & Construction
Components:

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (THOUSANDS OF DOLLARS)

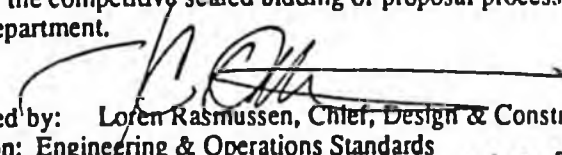
GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

In the past, the items to be exempted from the procurement code by the proposed legislation were not purchased by the competitive sealed bidding or proposal process. The proposed legislation will not financially impact the Department.

Prepared by:  Lofen Rasmussen, Chief, Design & Construction Stds
Division: Engineering & Operations Standards

Phone: 465-2960
Date: 3/21/88

Approved by Commissioner: Mark S. Hickey 
Agency: Department of Transportation and Public Facilities

Date: 3/22/88

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

STATE OF ALASKA

DEPARTMENT OF EDUCATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

GOLDBELT PLACE
801 WEST 10th STREET
POUCH F
JUNEAU, ALASKA 99811

March 14, 1988

The Honorable Niilo Koponen
Alaska State Legislature
P.O. Box V, Mail Stop 3100
Juneau, Alaska 99811

Dear Representative Koponen:

I have discussed House Bill 537, related to the State Procurement Code, with Tom Lonner, Director of the Division of State Museums. We concur that most of the exemptions listed under subsection (b)(14), beginning on page 2, line 14, are appropriate and necessary for the orderly conduct of museum affairs.

As with libraries, museums are heavily involved in research, in the currency of information, and in modern practice. The array of principal tools serving this involvement is detailed well in subsection (b)14, books, periodicals, audio-visual materials, information networks, professional memberships, archival materials, and objects.

Current procurement policy and practice have not disabled the State Museums' ability to purchase these necessary assets, but often the associated cumulative administrative costs appear higher than they could or should be, given the specificity of the needs and the spareness of the administrative staff. The proposed legislation should reduce these costs.

If you require additional information, please do not hesitate to contact me at 465-2800.

Sincerely,



William G. Demmert
Commissioner

MEMORANDUM

State of Alaska
Department of Education

TO: Lisa McLaren, Committee Staff
House, HESS
Alaska State Legislature

DATE: March 15, 1988

FILE NO:

THRU: ~~Steve Hole~~
Deputy Commissioner

TELEPHONE NO: 465-2800

FROM: George V. Smith, Deputy Director
Division of State Libraries

SUBJECT: Fiscal Note and Position
on HB 537

There is a zero fiscal note for this bill. While it is anticipated that the bill will provide a savings in both staff time and materials costs, that amount cannot be accurately estimated at this time.

HB 537 would amend AS 36.30.850 (b) by adding section (14); that amendment is crucial for the State Library. While the intent of the statute, as I understand it, was to ensure lower costs for the state, it actually will result in higher costs and reduced quality of service for the library in the areas of materials (books, newspapers, periodicals and audio-visual) and services (book binding, network information access, and approval plans--an arrangement between a book jobber and a library in which the book jobber sends books on approval that meet a special profile developed between the jobber and the library).

Passage of HB 537 would benefit the State Library in several ways. First, it will prevent higher costs in terms of actual dollars and personnel time. The vendors of library materials and services operate within a highly competitive market. For similar products, costs are virtually the same among vendors. Differences do exist in how the products are provided, such as how materials are processed and cataloged or how reporting systems mesh with the acquisition's file of the State Library. While there is seldom any difference in actual costs from one vendor to another in the purchase of books and periodicals, to change from one to another would cost in terms of the staff time required to change filing systems. For instance, to change periodical vendors would require at least 100 hours of professional staff time to set up records and ordering procedures and would take at least two years to straighten out expiration dates and claiming procedures (a procedure for obtaining issues missed during the change over between vendors) for the library's 600 periodicals. In other areas, particularly in the selection of a network information vendor for cataloging, the cost of changing would be tens of thousands of dollars in up-front money. This is due to the fact that bibliographic records would need to be pulled off one computer system, programs written, and then entered into another computer.

Second, disruptions due to periodic switching of vendors would seriously affect the provision of services to state agencies, the legislature, and other patrons. The quality of library services is very dependent on the timeliness of the information provided. Switching from one bibliographic vendor to another could set the cataloging process back a number of months. Changing periodical vendors would result in sporadic loss of journal titles over a period of time.

The State Library has changed vendors, but only after carefully weighing the advantages and disadvantages of cost, quality and nature of related services and impact on the user. Failure to pass HB 537 would seriously compromise our ability to provide service in a timely manner and would, in many cases, cause higher costs, especially in personnel time and conversion of records.

Passage of HB 537 will not result in a loss of business within the state. Most of the vendors able to supply library materials are major national and international firms.

STATE OF ALASKA
1988 LEGISLATIVE SESSION
REQUEST:

BILL VERSION: CS SSHB 537 (SA)
PUBLISH DATE: HOUSE 3/29/88

FISCAL NOTE

Revision Date:
Title: An Act Exempting Certain Purchases From The State Procurement Code
Sponsor: Health, Education and Social Services Committee
Requestor:

Agency Affected: DOT&PF
BRU: Engineering & Operations Stds Design & Construction
Components:

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (THOUSANDS OF DOLLARS)

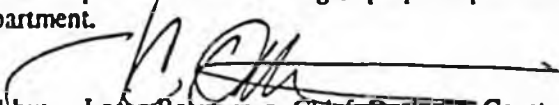
GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

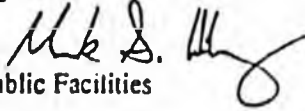
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

In the past, the items to be exempted from the procurement code by the proposed legislation were not purchased by the competitive sealed bidding or proposal process. The proposed legislation will not financially impact the Department.

Prepared by:  Loren Rasmussen, Chief, Design & Construction Stds
 Division: Engineering & Operations Standards

Phone: 465-2960
 Date: 3/21/88

Approved by Commissioner: Mark S. Hickey 
 Agency: Department of Transportation and Public Facilities

Date: 3/22/88

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

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 537 (SA)
PUBLISH DATE: HOUSE 3/29/88

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: exempting certain purchases
from the state procurement code
Sponsor: House HESS
Requestor: House HESS

Agency Affected: Education
BRU: State Library
Components: Library Operations

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Mary Hakala Phone: 465-2800
Division: Commissioner's Office Date: 3-14-88
Approved by Commissioner: William G. Demmert Date: 3-14-88
Agency: Department of Education

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

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An act exempting certain purchases.
Sponsor: House HESS
Requestor: _____

Agency Affected: Department of Administration
BRU: General Services & Supply
Components: Purchasing

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

There would be minimal effect on the procurement activities of Department of Administration.

Prepared By: Robert J. Link *[Signature]* Phone: 465-2250
Division: General Services and Supply *[Signature]* Date: March 9, 1988

Approved by Commissioner: John M. Andrews *[Signature]* Date: 3/14/88
Agency: Department of Administration

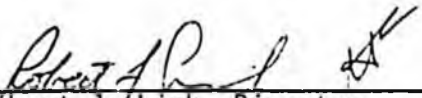
Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

POSITION PAPER
HB 537

This bill would exempt the acquisition of certain primarily education related materials from the requirements of the procurement code. As we have not issued bids for these items before, we do not know if acquiring these items according to the requirements of AS 36.30 would benefit the state or simply contribute to a bureaucratic process. We have a neutral position on the bill and will defer to Department of Education's view of potential benefits.

We would recommend the following amendment as we have bid and contracted successfully for unrecorded materials.

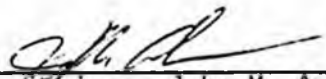
Page 2, line 20 (B) "Audio visual materials" means nonbook prerecorded materials.



Robert J. Link, Director
Division of General Services & Supply

3/10/88

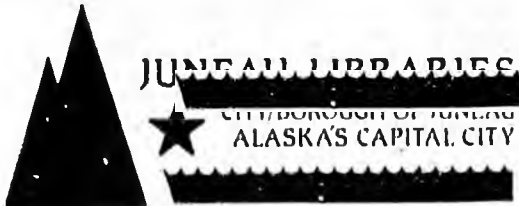
Date



Commissioner John M. Andrews
Department of Administration

3/14/88

Date



Juneau Memorial Library
(907) 586-5249
Douglas Public Library
(907) 364-2378
Mendenhall Valley Public Library
(907) 789-0125

March 11, 1988

The Hon. Niilo Koponen
Representative, Alaska State Legislature
Pouch V
Juneau, Ak 99811

Dear Representative Koponen:

In response to your request for review of HB 537 "An Act exempting certain purchases from the State Procurement Code," I fully support the need to exempt library materials from the current regulations.

Our local library materials budget is similarly exempted from the City/Borough's usual bidding procedures. We purchase about 13,000 individually selected items every year (which is only a fraction of what is purchased by some larger libraries, the University of Alaska Fairbanks, for example). It is highly unlikely that any single vendor can supply the titles we select under our collection policy. Nor can we predict what will be published in any given year. We typically select the titles we wish to purchase, then find the vendors that can supply them. Often we must purchase directly from the publisher or from small distributors.

The unique nature of library acquisitions requires very labor intensive, precise selection procedures. It is entirely impractical to follow usual bidding practice. Thank you very much for your support of this bill, and for the opportunity to comment.

Sincerely,

Donna Pierce
Director

THE
UNIVERSITY
OF ALASKA,
JUNEAU

11120 GLACIER HIGHWAY
JUNEAU, ALASKA 99801
907-789-2101

907-789-4467
Library

March 11, 1988

Representative Fran Ulmer
Alaska State Legislature
Pouch V
Juneau, Alaska 99811


Dear Representative Ulmer:

Representative Koponen recently introduced HB 537 "An Act exempting certain purchases from the State Procurement Code" (copy attached). I urge your support for HB 537.

He has put this Bill forward at the urging of state supported libraries because the application of the Procurement Code to the types of purchases listed in his bill will have a crippling effect on our ability to serve our users in a timely and cost effective manner. I also wish to assure you that the exemptions we are requesting will have no negative impact on Alaskan businesses.

I recognize that many agencies are putting forward the same arguments and stating that "they are different." However, I believe that our problems are unique and I would be happy to meet with you to discuss our particular concerns in more detail, or to supply you with additional supporting information.

Respectfully,


Michael R. Herbison
Library Director

Attachment

*Pl. My thanks to you for your letter
M.R.H.*



UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

March 14, 1988

Representative Fran Ulmer
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Representative Ulmer,

Please acknowledge my support for:
HB537

"An Act exempting certain purchases from the State
Procurement Code" submitted by Representative Niilo Koponen.

Without this legislation's enactment, the cost of transactions relating to library and media materials will become greatly reduced in cost effectiveness. Enactment of this legislation will provide reasonableness which is in total keeping with the procurement practices of library and media materials for instructional/educational purposes. Without this legislation being enacted the state of Alaska will become quite unique in its attempt to acquire these types of materials from the established businesses which distribute them.

If there is additional information which I may provide relating to this issue, please do not hesitate to contact me.

Thank you for your support of this legislation.

Sincerely,

E.S. Cridge by B.F.S.

E.S. Cridge, Ed.D.
Department Head
Instructional Media Production and
Communication Technology (IMPACT)
Rasmuson Library, Room 331
University of Alaska
Fairbanks, Alaska 99775-1120

ESC:lek

REF:C1:ULMER

HOUSE COMMITTEE REPORT

(7)

Date referred: 3/4/88

FURTHER REFERRALS: HESS

DATE: 3/28/88

The State Affairs Committee has considered HR 537

"An Act exempting certain purchases from the State Procurement Code."

RECOMMENDS:

- replace with CS HB 537(SA) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

Chairman's signature

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House State Affairs

March 25, 1988	3:00pm
March 28, 1988	3:00pm