



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #591

### Procurement Services Supplements (Program Supplements)

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#### CURRENT LAW

There is a GPR appropriation (and comparable PR and SEG appropriations) established under Program Supplements for the supplementation of state agencies' GPR (and PR and SEG) operating budgets. These supplements are for unbudgeted increases in the level of charges that agencies are assessed by DOA for their share of the costs of financial and procurement services provided by DOA to all state agencies. Monies from this sum certain appropriation may be allotted to state agencies by DOA for documented increases in individual agencies' financial or procurement services assessments.

#### GOVERNOR

The Governor's budget continues base level funding of \$423,600 GPR in this combined appropriation for fiscal years 2003-04 and 2004-05.

#### DISCUSSION POINTS

1. The services provided by DOA that are the subject of these assessments are costs associated with fiscal services provided to state agencies by the State Controller's Office within DOA and costs associated with procurement services (activities associated with statewide contracting for goods and services) provided to state agencies by DOA's Bureau of Procurement. These activities in DOA, like much of DOA's operations, are funded entirely from program revenues. A majority of those program revenues are recovered by assessments levied by DOA against other state agencies for the costs of those services. These revenues are denominated as program revenue – service to distinguish the revenue source from revenue that is received when, for instance, private citizens of this state are assessed a fee (such as license or registration fees).

2. The assessment of costs by DOA for the financial services it provides to state

agencies was initiated in the 1991-93 biennial budget when the GPR funding for those services was shifted to program revenue-service funding. The financial services supplement was created at that time. The use of supplemental appropriations provided a mechanism under which, when there were budget increases for the State Controller's Office, the resultant increased assessments against state agencies could be met by those agencies' budgets by receiving allotments from the supplemental appropriation. That supplement process has continued since that time.

3. In the 2001-03 biennial budget, a similar conversion from GPR funding to PR funding to be received from agency assessments was adopted for the Bureau of Procurement in DOA. The then GPR financial services supplement appropriation (and the corresponding PR and SEG supplemental appropriations) was modified to be the vehicle to also provide supplements to GPR-funded agencies for the non-budgeted costs they would incur from these assessments for procurement services provided by DOA.

4. Increased GPR funding of \$280,800 was originally included for 2003-03 in the modified supplement appropriation for financial and procurement services. This funding was provided in 2002-03 to correspond with the planned conversion of the Bureau of Procurement to PR funding in 2002-03 and the commencement of fee assessments against state agencies for the cost of services provided to those agencies by the Bureau.

5. The Department indicates that for 2002-03 it has billed state agencies a total of \$671,500 as assessments for procurement services. This same amount was actually assessed last fiscal year also. No GPR supplements to agencies for this purpose were released last year and none are planned to be released this year either.

6. A question, therefore, may be raised regarding the amount of funding likely to be needed in the next biennium for financial services supplements to state agencies. Several considerations may be noted.

7. First, under the Governor's budget, the current (2002-03) level of funding for this combined appropriation to supplement the costs of financial and procurement services assessments charged state agencies would be continued in each year of the 2003-05 biennium. The base level funding is \$423,600 annually and is composed of \$161,100 GPR annually for supplements for financial services assessments and \$262,500 GPR annually for supplements for procurement services assessments.

8. Second, under SB 44, a number of the PR-supported functions in DOA would be subject to significant reductions in their current budgeted levels. Specifically, the Bureau of Procurement would have a base budget reduction of \$226,400 PR annually and the State Controller's Office would have a base budget reduction of \$395,700 PR annually. Absent other changes, it could be expected that assessments for the costs of services provided by this entities should not go up and could even go down. Consequently, it could be argued that it is unlikely that the current level of assessments could be expected to increase.

9. Third, however, is the fact that under 2001 Act 109, 2003 Act 1 and SB 44, the cash balances in these two appropriations will have been reduced -- by a total of \$2,668,700 for the financial services PR appropriation and by a total of \$1,041,100 for the procurement services PR appropriation. DOA can use the cash balance in any one of its program revenue appropriations to reduce the level of assessments needed to be collected in a year for that appropriation's planned expenditure level by spending some of the balance. In particular, with regard to the procurement services appropriation, DOA has indicated that it is currently evaluating that appropriation balance with regard to whether assessments might have to be increased to ensure a positive balance in the account.

10. Fourth, DOA has indicated that it does not have any projection of the likely need for supplements for procurement services in 2003-05 but rather the base level of funding was simply continued because the likely amount of need for supplements was not quantifiable at this time.

11. It is possible that DOA will ultimately decide to increase its level of assessments for procurement services in 2003-04 and/or 2004-05. However, there is also good reason to argue that the existing level of assessments could be expected to be continued in 2003-05 given the budget reductions to the Bureau of Procurement.

12. In view of the seeming uncertainty, there would be a basis for the Committee to consider deleting the supplemental funding for procurement assessment increases in 2003-05. However, if the funding were to be deleted, then there would likely be no recourse for agencies to seek supplemental funding for the cost of assessment increases if they were to occur.

13. DOA would likely argue that if the funding is not needed, it would not be used for other purposes (financial services supplements) and that it would, therefore, lapse at the end of each fiscal year.

14. The Committee could consider, however, whether it would prefer to have some further legislative oversight over the potential release of this funding prior to the next biennial budget. As an alternative, the Committee could place the portion of the funding in the appropriation that is allocated for supplementation for procurement services assessments (\$262,500 GPR annually) in the Joint Committee on Finance's GPR supplemental appropriation. The money could be placed in the reserved portion of that appropriation for potential transfer to the supplements appropriation upon request from DOA and the provision of documented need for the funding.

15. It would also be possible for the Committee to delete the proposed funding for procurement services supplements in 2003-05.

**ALTERNATIVES**

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to instead place \$262,500 GPR annually in the Joint Committee on Finance's GPR supplemental appropriation, reserved for release to the procurement services supplemental appropriation upon request from DOA accompanied with a documentation of the need for the supplemental funding.
3. Reduce the GPR financial and procurement services appropriation by \$262,500 GPR in 2003-04 and in 2004-05.

<b>Alternative 3</b>	<b>GPR</b>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$525,000

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