NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 222 - House Committee Substitute (4th Edition) Electronic Payment/Info Tech Management

SHORT TITLE: Electronic Payment/Info Tech Management

SPONSOR(S): Senator Reeves

FISCAL IMPACT

Yes (X) No ( ) No Estimate Available ( )

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
REVENUES					
Sections 1 though 7 (“Accept Credit Card Payment” section)	See Assumptions and Methodology				
EXPENDITURES					
Sections 1 through 7 (“Accept Credit Card Payment” section)	See Assumptions and Methodology				
Sections 8 through 23 (“Office of Information Technology” section)					
SIPS Reserves	$205,550	$296,688	$310,143	$319,029	$328,990
Positions	4.00	4.00	4.00	4.00	4.00

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Office of the State Controller; Department of State Treasurer; state agencies; local governments; Department of Commerce, State Information Processing Services (“SIPS”)

EFFECTIVE DATE: Sections 1 through 7 and Sections 18 through 24 are effective when this act becomes law. The remaining sections become effective January 1, 2000.

BILL SUMMARY: Sections 1 through 7 of the bill provides for state and local governments to accept credit cards, charge cards, debit cards and electronic fund transfers for payment of government fees, costs, and debts. The bill mandates the State Controller establish a policy to allow accounts receivable to be paid by electronic payment. The House Committee Substitute adds Sections 8 through 23 to amend the current law governing information technology-related state government functions by creating the Office of Information Technology to strengthen the management of information technology in state government.

ASSUMPTIONS AND METHODOLOGY:

Sections I through7:

No estimate is available on the fiscal impact on state and local governments due to the uncertainty about participation by both governmental units and consumers. SB 222 adds electronic payment as another method to maximize investment of tax dollars and minimize idle, nonproductive cash. However, governmental units will only use electronic payment if it is consistent with sound business practices. It is not known which state agencies and local governments have examined their cash management policies and determined that electronic payment is needed.

Some state agencies have decided to pursue electronic payment as a means to help consumers. The Division of Motor Vehicles (DMV) in the Department of Transportation requested HB 280 in the 1999 General Assembly to allow the agency "to accept electronic applications for the issuance of registration plates, registration certificates, and certificates of title, and to electronically collect fees and penalties". SB 222 is needed to enable DMV to collect a fee by electronic payment. The Virginia DMV currently accepts credit cards and check cards for all transactions.

The Federation of Tax Administrators - a national association -found in a 1997 survey that 12 state tax agencies accept credit cards for at least some types of tax payment. Eleven additional states have authority to accept credit cards but have no program in place.

The State Controller's staff has attempted to quantify the impact of SB 222 at the state level. They estimate that a transaction ranging from $20 to $200 has a handling and processing cost of approximately $5 per transaction using current payment methods. They estimate the cost per transaction using electronic payment will be reduced $3 to $4, depending upon the fee charged by credit or debit card companies. The State Controller estimates that the first year impact will be revenue neutral with only 100,000 transactions using electronic payment. In the following years, it is estimated that each transaction by electronic payment will save $3 and the volume of transactions will grow as shown in the chart below:

2nd Year	1,100,000 transactions	$3.3 million savings
3rd Year	2,200,000 transactions	$6.6 million savings
4th Year	3,400,000 transactions	$10.2 million savings
5th Year	4,800,000 transactions	$14.4 million savings

Sections 8 through 23:

This portion of the bill creates the Office of Information Technology Services ("ITS") in the Department of Commerce. The Chief Information Officer, who will be appointed by and report to the Secretary of Commerce, will manage this office. The new Office of ITS would do four principal things: (1) implement procurement reform for all State information technology purchases through a single information technology office; 2) implement a business approach to information technology management by developing a portfolio-based program of information technology; 3) improve the management of all information technology assets by developing a statewide management approach; and 4) improve financial reporting and acceptability of information technology investments and expenditures.[1] The bill exempts the University of North Carolina and its constituent institutions, and the North Carolina General Assembly from the provisions of these sections creating the Office of ITS.

Under current law (G.S. 143B-472.44), SIPS is charged with operating information resource centers to serve multiple agencies, to provide information processing services, to own shared information processing equipment, and to plan and administer the acquisition, management, and use of information technology with the approval of the Information Resources Management Commission (IRMC). A companion information technology bill, House Bill 253 (Conference report adopted July 12, 1999) officially changed the name of SIPS to Division of Information Technology Services ("ITS"). Senate Bill 222 "re-creates" this division as an Office in the Department of Commerce, while maintaining the same reporting responsibilities to the Secretary of Commerce and the IRMC.

To implement the requirements of Senate Bill 222, SIPS indicated the need for four additional FTE's. These positions would supplement current ITS staff responsible for purchasing, and are based on work estimates to assist state agencies in meeting their purchasing requirements. The total estimated budget requirements for SIPS to administer the bill are outlined in the following table:

Salaries adjusted for inflation based on January 1999 forecasts by Data Resources, Inc., as provided by the Office of State Budget and Management.

	FY 1999-00	**FY 2000-01**	**FY 2001-02**	**FY 2002-03**	**FY 200**
Personnel					
State Purchasing Administrator.	56,477	89,289	92,335	95,668	99
Purchasing Agent II	36,201	57,239	59,163	61,268	63
Purchasing Agent I	31,764	50,225	51,904	53,741	55
Administrative Secretary III	28,024	44,312	45,784	47,395	49
Total Salaries & Benefits *	152,467	241,064	249,186	258,072	268
Positions	4.00	4.00	4.00	4.00	
Operating Expenses	53,083	55,624	60,957	60,957	60
Total Requirements	**$205,550**	**$296,688**	**$310,143**	**$319,029**	**$32**

Note: FY 1999-2000 figures are based on 8 months of operation, rather than a full year. Cots are annualized in subsequent years.

According to SIPS, savings will be realized through consolidated purchases and volume discounts. SIPS will address any additional costs from their operating reserve.

TECHNICAL CONSIDERATIONS:

- The bill removes responsibility of information technology procurement from the Purchase and Contract Division ("P&C") in the Department of Administration and places it in the new Office of ITS. This may raise the question of what happens to the staff in P&C once this policy shift occurs. Are there sufficient responsibilities remaining in P&C, outside of information technology, to warrant maintaining the same level of staff?

- One of the positions created in the Office of ITS is a State Purchasing Administrator. The department describes the responsibilities of this position as follows: "To develop, publish, and teach policies for State Wide Best Value Purchasing as well as Government-Vendor Partnership conduct (and to) Negotiate State Wide Purchase Agreements". There currently exists a state Purchasing Officer who leads the Purchase and Contract Division in the Department of Administration. Although the new position in Commerce would be responsible for information technology procurement only, is there sufficient demand for this type of procurement to justify a new grade 78 position, or is this a responsibility that can be managed by an existing administrator?

[1] Senate Bill 222 Bill Analysis, Research Division, June 30, 1999.

- Is the administrative location of the Office appropriate? If the Office will exercise information technology powers and responsibilities over all state agencies (except UNC and the General Assembly), is the Department of Commerce the correct administrative fit? Section 22 of the bill directs the Joint Select Committee on Information Technology to study this issue and report their findings and recommendations to the General Assembly. It may be more appropriate to consider studying this issue prior to relocating the ITS Office yet again.

- SIPS core business operations are supported through agency service charges. The legislature has, in recent years, supplanted SIPS operations with general fund appropriations for very specific purposes (information highway grants and Year 2000 remediation efforts). Although there is no up-front general fund outlay for this new Office, there remains the possibility that agency general fund budgets may increase, as agencies utilize services from SIPS. *(note: G.S. 143B-472.44(2) allows SIPS, with the approval of the IRMC, to charge departments their proportionate share of the costs of maintaining and operating shared centers and services.)*

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