

MINUTES

SENATE AND HOUSE INTERIM COMMITTEES ON INSURANCE & COMMERCE

Thursday, February 16, 2006

9:00 A.M.

Room 149, State Capitol
Little Rock, Arkansas

The Senate and House Interim Committees on Insurance and Commerce met Thursday, February 16, 2006, in Room 149 at the State Capitol in Little Rock, Arkansas. The following members attended:

Senate Insurance and Commerce Committee: Senators Paul Miller, Chairman; Percy Malone, Vice Chairman; Denny Altes, Jim Hill, and Barbara Horn.

House Insurance and Commerce Committee: Representatives David Evans, Chairman; Keven Anderson, Mike Burris, Ken Cowling, Bruce Maloch, Doug Matayo, and David Wyatt.

Non-Voting House Insurance and Commerce Committee: Representatives Otis Davis, Curren Everett, Scott Sullivan and Robert Thompson.

Also attending: Senators Steve Higginbotham, Randy Laverty, Sue Madison; Representatives Eddie Cooper, David Dunn, Frank Glidewell, Horace Hardwick, Ray Kidd, Bob Mathis, Allen Maxwell, Jim Medley, George Overbey, Benny Petrus, Roy Ragland, Tommy Roebuck, J. R. Rogers, Bill Sample, and John Paul Wells.

Representative David Evans, Chairman, House Interim Committee on Insurance and Commerce, called the meeting to order.

Consideration to Approve December 16, 2005 Minutes (Exhibit C)

Representative Wyatt made a motion to adopt the December 16, 2005 minutes, and with a second by Representative Burris, the minutes were adopted.

Insurance Department Update

Ms. Julie Bowman, Commissioner, Arkansas Department of Insurance, was recognized and noted:

- The Insurance Department recently passed accreditation by the National Association of Insurance Commissioners (NAIC) and were reaccredited last week. This is done every five years.
- The objective of NAIC accreditation is to provide a process whereby financial solvency and regulation of insurance companies is enhanced and adequately monitored. This accreditation insures that Arkansas is consistent with other states and their regulations.
- She advised the committees of talk at the federal level about an optional federal charter (as opposed to state control) for insurance companies who want to do business across state lines. She thinks this is not a good idea.
- The Insurance Department receives approximately 39,000 calls/year from consumers with problems.
- There is approximately \$8 billion in premiums in Arkansas each year.
- A 3% premium tax is charged to insurance companies. Approximately \$140 million/year goes into general revenue and a portion also goes to the police and firemen pension funds.
- Three companies who are not licensed in Arkansas are authorized by the Center for Medicare/Medicaid Services (CMS) to write in the Medicare Part D Program.

Senator Malone asked Ms. Bowman to look into a situation where the pharmacy collects \$20 from the beneficiary, the pharmacy keeps \$18, and sends the insurance company \$2.10. He wants to know if this violates any kind of consumer law. Ms. Bowman responded she would look into this.

University of Arkansas (Fayetteville) University Bookstore Student Charge Program (Exhibits E-1, E-2 and Handout #1)

Dr. Don Pederson, Vice Chancellor for Finance, University of Arkansas (U of A), was recognized and responded to questions from the previous meeting, noting:

- U of A does compete with the private sector and does so in several areas related to higher education. He stated their goal was not to compete with the private sector but to try and serve the students.
- Superimposed on this competition in book sales is the difficulty in the changing market in general with relationship to books.

- There is concern in many legislative bodies about the high cost of textbooks. Everyone is at the mercy of textbook publishers. Attention is being paid to how they package their products, i.e. adding CDs, and supplementary materials packaged with the book that may not be necessary.
- Other alternatives being looked at are renting books (students told them they did not want that program implemented) and book-swapping between students. In the final analysis, U of A has to make sure the students have the required materials faculty wants them to have and can only be assured of that if U of A has some roll in the process.
- U of A has a fiscal responsibility to manage the revenue due to the institution as a state agency. They use what tools are available to keep "bad debt" to a minimum. The "bad debt" for the whole institution is generally under 1%.
- Because of legal issues with regard to providing book vouchers and therefore allowing students to choose where they purchase their textbooks, they will not implement that type of program.
- In response to questions about the bookstore's yearly gross and net profits, he called the committees' attention to the University's exhibits (Exhibit E-1). Gross and net profits are listed for the bookstore as a whole for used text and new text separately. U of A is below national averages in all of the net profits and gross profits. We are trying to keep the cost down to students. Net profits are put back into student related activities of the institution.

Senator Malone asked if there were any documents anywhere stating a certain amount of funds would come from the bookstore to retire the bonds on the parking deck? Dr. Pederson stated he would have to defer that question to someone else but would get the answer.

Senator Malone also asked for someone from the Accounting Department at U of A to prepare a real income statement.

Mr. David Martinson, Associate Vice Chancellor for Business Affairs, University of Arkansas, was recognized and responded to Senator Malone's questions, noting:

- Part of the bookstore's business that pushes the margin computation down is computer sales. Approximately \$4.5 million of sales were computer sales with a gross margin of 4%.

Dr. Pederson noted:

- They will not be able to lower the price of books without cutting expenses and we do not know where we can lower expenses. Therefore he cannot predict they will be able to lower the price of books but they will continue to try to do this.

Representative Mathis asked when the bookstore was run by a private entity, what was the profit to the university? Mr. Martinson responded there was a base amount paid to the institution and a percent of sales. U of A contracted with Follett from 1994 to 2002. The base payments began at \$600,000/year and ended at \$800,000/year in 2002.

In response to Senator Madison's question, Mr. Martinson responded the amount of rent per square foot on the union bookstore is \$14 per square foot. He did not know the rent per square foot at the mall, but he would get that information.

He further noted as of February 6, 2006, the debt still owed from last semester's book sales is \$38,706. Dr. Pederson noted most of the \$38,000 still owed was from students who did not return for the spring semester.

Representative Mathis asked for a separate set of financial records for the bookstore at the Mall. Dr. Pederson said he would provide that information.

Mr. Larrie Stolfi, Controller, Interim Associate Vice Chancellor for Financial Affairs, University of Arkansas, was recognized and responded to Senator Malone's question stating U of A's Exhibit "B" is a cash-flow statement.

Senator Sue Madison was recognized and noted: In The Arkansas Traveler (the campus newspaper), On February 1, 2006, U of A announced they would host a website to help students get the cheapest prices possible on books and Amazon.com and Textbook.com were two companies listed for comparison. She asked if they still are intending to do this?

Mr. Martinson responded they were still looking at this program. At this time, these were the only vendors allowing their prices to be benchmarked.

Senator Madison asked if any commission on sales would be received from these vendors and Mr. Martinson responded that he did not believe so.

Senator Madison asked if U of A was involved in the dry cleaning business and other services offered in the new parking deck?

Dr. Pederson responded that these services were sent out to various vendors for bid.

Mr. Martinson will supply information regarding the bid process and which companies will be providing the services.

Mr. Steve Wilson, Campus Bookstore in Fayetteville, was recognized and noted: (Handout #1)

- It was his hope that U of A would look at other alternatives for addressing this issue.
- The best alternative meeting all concerns was the University of Houston's (U of H) charge program.
- When a student signs up, they are issued a card which has a Master Card emblem (this is backed by a bank). The card works in three different ways:
 - Financial aid goes into the account
 - This card can also be used as a debit card -- money is "pre-loaded" onto account for students to use for food, etc. (like RAZORBUCKS)
 - The book loan; \$400 which can be used at bookstores which have asked to be included -- allows students to seek "best deals"
- U of H has had this program for 15 years.

Senator Malone asked if anyone in Texas had challenged this program, and Mr. Wilson responded he spoke to the Associate Dean of Students and he had never seen those issues arise and they have a 0% default rate on their program.

Senator Malone asked if the committees could be provided with information as to whether this program at U of H has ever been challenged or if it has been challenged and the court said it met the constitutional muster. He further suggested that an Attorney General's opinion be obtained to see if this program would be in violation of the Arkansas Constitution.

Mr. Phillip Brick, President, Student Government, University of Arkansas, was recognized and noted:

- A resolution passed unanimously by our Student Government shows that there is definitely a need for this type of program on the U of A campus.
- Although other options have been discussed, this is the only program at the present time which will benefit the U of A students.
- He is not opposed to the U of H charge program.

Representative Evans asked Dr. Pederson what he thought about U of H's Cougar Card program. Dr. Pederson responded that he was not familiar with it but would certainly look at it.

Representative Evans said there will be one more meeting on this issue.

Consideration to adopt for Interim Study – Interim Study Proposal 2005-064 – (Sen. Steele, SB 1159) – AN ACT TO ESTABLISH THE "HELPING HANDS" COMMUNITY LOAN FUND (Exhibit F)

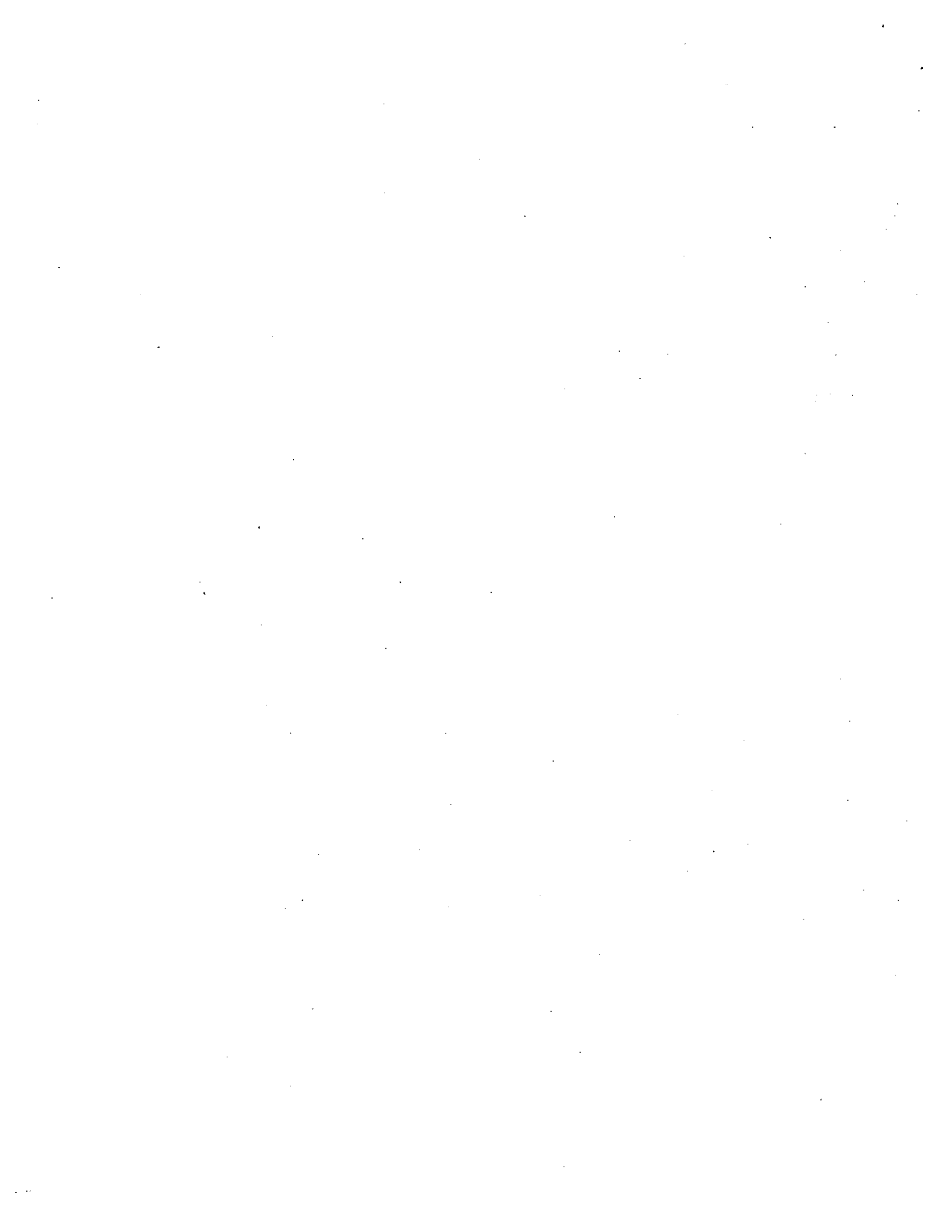
Senator Altes made a motion to adopt ISP 2005-064 for interim study. Senator Horn seconded the motion, and without objection, the motion carried.

Senator Miller made a motion to request an interim study on textbook prices. Representative Evans seconded the motion, and without objection, the motion carried.

Cingular charges

Senator Randy Lavery was recognized and noted:

- Several years ago he had a contract with Cingular for a plan with three phones and 2,000 minutes/month. He continued to have that arrangement until a few months ago when he noticed his bill went up each month.
- He found Cingular had changed his plan from 2,000 minutes/month to 1,000 minutes/month and went from a "statewide plan" to a "local plan". To his knowledge he was never notified of this change. Because it was a local plan, all calls made by his daughter, who attends college in Conway, were subject to "roaming" charges.
- The Cingular representative explained he only had 1,000 minutes/month. He questioned how he went from having 2,000 minutes/month to 1,000 minutes/month.
- In his case, this problem was resolved, but he is concerned about other consumers that may have the same or similar problems.



- He was told his phone was old and did not have the new technology, it could not be integrated with some of the new equipment, therefore it was necessary to change his plan.
- It was suggested that he sign a new contract with them and purchase a new phone with the most recent technology.
- Cingular agreed to remove the "roaming" charges from his bill.

Mr. Mark Stodola, Cingular Wireless representative, was recognized and noted;

- Senator Lavery was originally on an old "family talk" plan which meant he had a certain number of minutes and each family member having additional phones could use those "pooled" minutes. On these old plans, there were "roaming" charges, and if outside your calling area, there would be an additional long distance charge.
- Senator Lavery's plan was activated in May 2001 and cost \$120.00/month. The plan was for 1,000 minutes/month but there was a promotion where he received "double-talk" minutes. In addition, he was supposed to be charged \$14.99 for each additional line for the "family-talk" lines.
- In October of 2005, the Revenue Assurance Division of Cingular realized that a number of people in the south central region were not being billed the additional \$14.99 for their "family-talk" line. Therefore, for the past 4 1/2 years Senator Lavery was not paying for this additional service.
- When this problem was recognized, Cingular sent these subscribers a letter indicating what had happened, but stated they would not be billed for any past charges. The letter also indicated if there were questions, to call their customer care representative.

Senator Malone asked for a "legal" answer regarding Senator Lavery's contract where the parties are abiding by certain terms whether by omission or error does that become the legal contract?

Senator Lavery asked that this issue be placed on the next agenda for further consideration. Representative Evans agreed and asked that Mr. Stodola bring back answers from Cingular regarding Senator Lavery's concerns:

- Why were his plan minutes reduced from a "state-wide" plan with 2,000 to 1,000 minutes/month "local" plan?
- How many other consumers were subject to a "reduced" calling area?

Mr. Stodola said that he would bring these answers to the next meeting.

Reports filed with committees (Exhibits H1, H2, H3, H4, & H5)

- 2005 Annual Report – Use and Impact of Credit in Personal Lines Insurance Premium – prepared by the Insurance Department as required by Act 1452 of 2003 (dated 7-13-05)
- Annual Study of Medical Malpractice Insurance Market in Arkansas – prepared by the Insurance Department as required by Act 1007 of 2004 (dated 8-22-05)
- Annual Study of Workers Compensation Insurance Market – prepared by the Insurance Department as required by Act 796 of 1993 (dated 9-1-05)
- 2005 Annual Fire Loss Report (for calendar year 2004) – prepared by the Insurance Department as required by Act 1345 of 2003
- Public Service Commission quarterly rate case report for quarters ending 6-30-05; 9-30-05; 12-31-05

Representative Evans asked if there were questions on these reports, and there were no questions.

Senator Horn requested that a letter be written to the Public Service Commission encouraging them to "come in with us" on the study of ISP 2005-113 [*AN ACT CONCERNING PAYMENTS FROM THE ARKANSAS UNIVERSAL SERVICE FUND AND CONCERNING ELIGIBLE TELECOMMUNICATIONS CARRIERS*] and to stay focused on this study so that we can all come to the table with the same concentration and the same purpose. She asked if they needed a motion. Representative Evans asked if there was any objection. Seeing none, he said they would prepare the letter.

There being no further business, the meeting adjourned at 11:30 a.m.

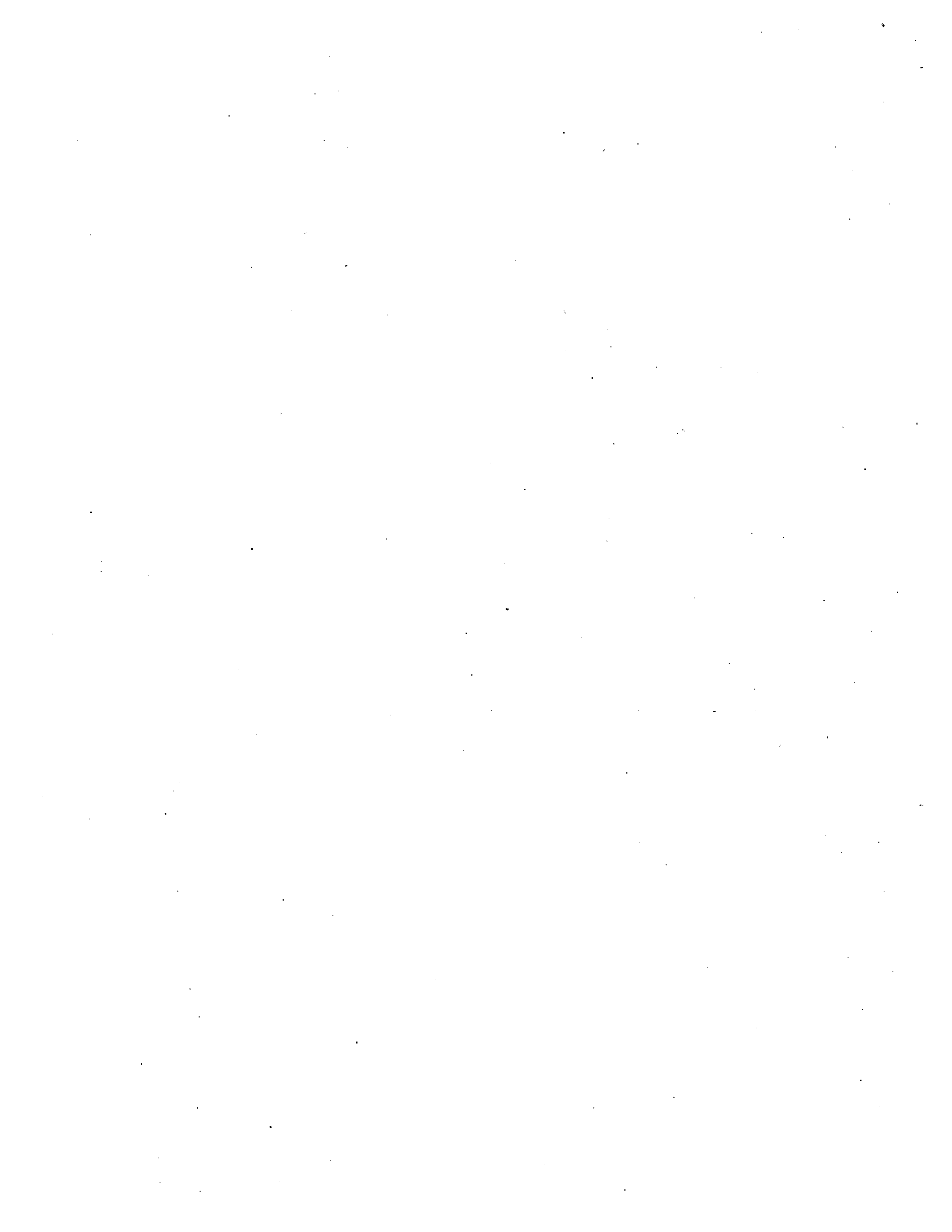


EXHIBIT E1

WEDNESDAY | February 1, 2006

Text book program relieves high prices

Wes Weston
Contributing Writer

For many students the beginning of the semester can mean many things, whether it is the opportunity to meet new people or the realization that, at least for one day, you have a 4.0. But starting a new semester also means purchasing new books and materials. For many students, the cost of buying books can be overwhelming and for those who are on financial aid, they have to be careful in class selection to avoid expensive books.

The UA is in the process of creating a new program that will lower the price of books and allow students to have more options in choosing who to buy their books from.

Hog-Auction was created after a student spent what he considered to be too much money for required materials. Donald Meador III, who received a bachelor's degree in Computer Engineering in December 2005, is one of the founding members of the program, which was designed for a class project.

While in his senior year, Meador, like most students, went to purchase his books from the university and was shocked by the staggering price of \$400, he said. He then tried to use online stores as a cheaper avenue, but it took almost two weeks before he received his books, he said.

"I was thinking that I could save a little money by ordering my books

online, but this couldn't match the convenience of just being able to hand someone your schedule and they find the books you need," Meador said.

With the help of Meador and his partner Robert Auten, the University Bookstore has designed an online system that allows students to purchase books cheaper and receive them in record time.

Ali Sadeghi, the director of the bookstore, believes that this Web site will become the new way students purchase their books.

"We realize that the prices of books may be a bit much to some students, so we hope that the auction will relieve some of the burden of purchasing books," Sadeghi said.

Sadeghi said they have completed the prototype and are currently working on getting the licensing for the program.

"The program will be very simple; there will be a link on the University Bookstore Web site entitled Hog-Auction," he said. "The student will simply click on the link, and once the site comes up, they will use their uark identification name to login.

"Once logged in, they can enter their course number and be able to see the book they need, and see different prices from different companies."

The university is currently working on including Amazon.com and

See **HOG AUCTION** on Page 2

EXHIBIT E1

HOG AUCTION from Page 1

Textbook.com as a part of this new system.

Another added bonus will allow students to sell their books on the site as well. Students can post their books on the site, find a buyer and meet up with the person to complete the sale. Pay Pal has agreed to join the program, which will allow students to establish accounts and use their credit cards as a form of payment.

"We just wanted to create an environment where students could get the best price on books with the least amount of hassle," Sadeghi said.

The Hog-Auction is expected to be fully up and running for fall rush, but don't be surprised if you see the program ready for May buy back, Sadeghi said.

Sadeghi said he realizes the program could decrease the sales of his store, but he said the best interest of students is more important than bookstore profits.

"If we do not take care of our customers, someone else will," Sadeghi said.

EXHIBIT E2



Vice Chancellor for Finance and Administration

February 9, 2006

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Fayetteville, Arkansas 72701
(501) 575-5828
Fax: (501) 575-5400

Ms. Carol Stapleton
Senior Legislative Analyst
State of Arkansas Bureau of Legislative Research
State Capitol, Room 315
Little Rock, AR 72201

RE: Insurance and Commerce Committees' Requests for Information

Dear Ms. Stapleton:

Attached is the University of Arkansas' response to your letter of January 5, 2006.

In order to answer the questions posed by the Senate and House Interim Insurance and Commerce Committees' at the December 16, 2005 meeting, I have responded to the questions in the order they were asked. In addition to the questions raised regarding the University Bookstore, I have also included responses to the questions asked regarding the new parking deck.

If you have any questions concerning this information, please do not hesitate to contact me.

Sincerely,

Donald O. Pederson
Vice Chancellor for Finance and Administration



RESPONSE TO BUREAU OF LEGISLATIVE RESEARCH LETTER OF 1/5/06**1. Is the state competing with the private sector, and if so, is it putting the private sector at risk?**

The provision of educational materials to students helps achieve a fundamental purpose for which the University of Arkansas was established -- educating students. While the University is respectful of private sector vendors and believe they have an appropriate role to play in meeting the needs of students, the University's chief obligation in this area is to ensure that it is helping students obtain any instruction-related books and materials provided by the University in the most efficient and timely manner possible. To the extent that innovative efforts by the University help spur improvements to services provided by private vendors, students benefit. To that end, private sector vendors are not precluded from instituting a charge program of their own.

Furthermore, with respect to any concerns about the impact of the Bookstore charge program on private vendors, the "state action" immunity exemption to the Sherman Anti-Trust Act, often referred to as the *Parker* doctrine, acknowledges the right of state governments to fulfill their public purposes, and exempts from antitrust regulation the actions of state entities acting in a sovereign capacity.

For example, in a 1989 case filed by Cowboy Book against Oklahoma State University, alleging antitrust violations based on the university's extension of credit to students for the purchase of books, a federal district court ruled that the act of extending credit to students for textbooks was determined to be shielded from the antitrust laws under the *Parker* doctrine of state action immunity. Furthermore, the court acknowledged the practical problems that would result if the extension of credit to students by universities was subject to challenge on antitrust grounds. The complaint against the university was dismissed. We believe that similar conclusions would be reached with regard to the University of Arkansas' extension of credit to students for the purchase of books and educational materials.

2. How can we get the U of A policy to use something other than the marketplace to sell books?

The university's primary interest is in helping students succeed. National data shows that approximately 30 percent of college students do not buy books for various reasons. We believe that if we can encourage and assist students in the purchase of books early in the semester that more of them will pass their courses and graduate. Increasing retention and graduation rates are priority goals of this university, and we believe are consistent with the intended purpose of this institution in serving the public good.

3. If the charge program is a fair practice, why does U of A need the "hammers" to make the program work?

The term "hammer" supplied by the question does not reflect the way the university views its collection of accounts receivable. As a good steward of public funds, the university uses appropriate tools for its collection efforts. Such efforts are not punitive or heavy-handed, as the phrase seems to imply.

The university has one student billing system to which charges for tuition, fees, room and board, and other university expenses are posted. This same system was used to facilitate the textbook charge program rather than creating a separate system which would be redundant. The collection of college costs on a semester-by-semester basis helps to encourage responsible behavior and provide financial discipline for students, as opposed to the use of high interest credit cards that encourage the over-extension of credit.

One of the reasons commonly cited for student failures in college is the accumulation of unmanageable credit card debt. In recognition of this fact the Arkansas General Assembly limited access to campuses by credit card solicitors with Act 1328 of 1999. Similarly, the General Assembly has enacted a relatively rigorous set of provisions governing the collection of debts by state agencies and institutions. See Ark. Code Ann. § 19-2-301 through 19-2-307. The university would not be a good steward of public funds if it did not use the tools available for collection of debts owed by students. Approximately 98% of the fall 2005 book charges have now been repaid. Collection efforts on the balance will begin soon.

4. Can book vouchers be provided to students which would allow the students to then choose where they purchase their books? (Senator Smith noted that a "contract" would be between the U of A and the student. Then the bookstore which sold the books would submit a bill to U of A for payment.) If this suggested procedure cannot work, please explain why.

The University believes that significant legal issues exist regarding the permissibility of a voucher system involving private, for-profit, bookstores.

Under the system proposed, a student would be given a University-issued voucher usable at a private bookstore without any up-front payment, whereby the University recognizes the authorized purchase of required books and materials at the private bookstore, later attempts to collect funds from the student, and then pays the private bookstore for the purchase when such funds are collected.

A voucher system encompassing private bookstores is likely prohibited by Art. 16, § 1 and Art. 12, § 12 of the Arkansas Constitution, as well as by the public purpose doctrine as adopted by the Arkansas courts. In addition, it is unclear how, consistent with governing law, participation in the proposed program could be limited to local bookstores in Fayetteville. Such a program would likely be required to be extended to any bookstore, whether on the Internet or physically located elsewhere.

Further, other private entities might request that the University extend such a voucher approach to other goods and services provided to college students, including, for

example, housing and food services, which would be detrimental to the vital interests of the institution. In addition, the University has concerns with respect to assuming the role of debt collector for private, for-profit entities, which raises legal issues involving federal law as well as policy and practical considerations.

5. Yearly gross and net profits from the bookstore. Also, for books specifically, how much money was made, what was paid for them, what were the associated costs, and what they sold for. Also, the gross profit on book sales. Please supply the accounting records for the bookstore with an explanation of the requested information.

See **EXHIBIT A** -- Schedule of Changes in Auxiliary Enterprises for the Year Ended June 30, 2005, provides detail of the amounts in the university's audited financial statement.

6. Bookstore employees' salary information.

See **EXHIBIT C** -- Bookstore Employee Salary Schedule

7. Bookstore rent, and 8., amount paid for parking deck bond.

See **EXHIBIT A** -- Note 4 identifies the transfer amounts for payment of Arkansas Union rent in the total amount of \$339,521 and parking deck bonds in the amount of \$145,000. Note 3 shows the \$50,000 transfer to support construction of the Teaching & Faculty Support Center in the Harmon deck.

9. In response to Senator Malone's questions we offer the following:

The University Bookstore is operated as an auxiliary enterprise for the purpose of serving the needs of students, faculty, staff, and campus departments. The store does not operate with a profit motive. The university's strategy in operating this unit has always been to hold down the cost of required educational materials for the benefit of students.

EXHIBIT B -- A two-page set of Bookstore Margin Calculations for FY05 provides information on textbook and overall bookstore gross and net margins, including a comparison with industry standards.

10. The University suspended the textbook charge program for the spring semester, as requested.

Out of respect for legislative concerns, the University did suspend the program for the spring semester. However, the university believes that the textbook charge program is legal and appropriate, and that it should be reinstated as originally deployed for the benefit of students. The University's Associated Student Government recently passed Resolution 11 entitled "A Resolution to Aid in the Student Input Regarding the University of Arkansas Bookstore Book-Charge Program." This resolution is a formal statement of support for reinstatement of the book charge program as originally

implemented. A copy of this resolution is enclosed as EXHIBIT D. We consider this to be a definitive statement of support by our student body.

Additional information requested:

1. & 2. Verification of parking deck fees for all the different groups that use the Union deck and the Harmon deck:

FY06 parking deck rates are as follows:

| | <u>Union</u> | <u>Harmon</u> |
|--|--------------|---------------|
| Reserved (faculty, staff, or students) | \$510.30 | \$510.30 |
| 24 Hour Reserved (faculty/staff) | \$648.90 | |
| Resident Reserved | \$389.55 | \$389.55 |
| Student Monthly Reserved | | \$42.53 |
| Temporary Permit -- daily rate | \$9.45 | \$10.00 |
| Hourly | \$1.10 | \$1.10 |

3. Bookstore manager's salary, does he receive any bonuses, does he have access to any UA Foundation accounts, etc., what is his reported income for W-2 purposes, is he given a UA vehicle (or Foundation vehicle) to drive?

The Director of the University Bookstore is on a 12-month salary with standard university benefits as shown on the bookstore salary schedule EXHIBIT C. He does not receive bonuses or have access to UA Foundation accounts, and is not provided a personally assigned university vehicle, or Foundation vehicle, to drive.

As you may be aware, tax records are expressly exempt from disclosure under the Arkansas Freedom of Information Act, and the University may not release tax records with respect to any employee, including Mr. Sadeghi, in accordance with Ark. Code Ann. § 25-19-105(b)(1). Further, the University believes that such tax records are "personnel records" which, if disclosed, would constitute a clearly unwarranted invasion of the personal privacy of the employee. See Ark. Code Ann. § 25-19-105(b)(12). Additionally, the University believes that the disclosure of such tax information might also violate each individual's constitutional right to privacy. For these reasons, the University is unable to disclose the requested W-2 tax information. The University notes, however, that Mr. Sadeghi's annual salary has been furnished to you in EXHIBIT C, the schedule of salaries for all University Bookstore employees. The University desires to be fully responsive and to supply all possible information as requested. In this instance, however, the institution is precluded from supplying the information as a matter of law.

4. From an additional request of February 6, 2006: Could you elaborate on the issue of scholarships and any students receiving any kind of financial aid, etc. regarding who is required to use the UA bookstore?

Use of the textbook charge program at the University Bookstore was totally voluntary for the vast majority of the university's 17,000+ students. The only students "required" to use the program were those on scholarships with restrictive spending requirements. These students would have been required to use the university's book voucher system in the past, which also was restricted to use at the University Bookstore.

Students with restrictive academic scholarships in the Fall 2005 semester consisted of 408 University Academic Scholarship recipients. For the Spring 2006 semester, there were 371 of these recipients. There were also 10 students on need-based scholarships.

The Academic Scholarship students participating in the restricted spending system consist of Chancellor's Scholars and fellowship recipients (Honors College, Bodenhamer, and Sturgis) who also receive Governor's Scholarships. These funds were distributed in book vouchers in the past, and were disbursed electronically via the textbook charge program. The restrictive expenditure system allows tracking of expenditures to ensure that the funds are used for academic purposes, reflecting concerns expressed by members of the General Assembly that the university not provide cash awards beyond the cost of education; particularly to Governor's Scholarship recipients.

Need-based scholarship organizations also require an accounting of actually billed charges on books before they will supply the scholarship funds to cover the charges. The two scholarship organizations that require this are the Harry O. Hammi Foundation (of Van Buren) and the Gates Millennium Scholarship Foundation (national).

Purchase restrictions do not apply to private scholarship expenditures. There is no requirement related to private scholarships that books be bought through the University Bookstore.

A relatively common issue related to the disbursement of financial aid is delay in the timing of aid distribution. Many public and private entities are involved in the financial aid process including federal and state governmental entities, private lending institutions, private scholarship providers, and 3rd party loan processing companies. The book charge program allowed us to uncouple the timing of distribution of aid from the purchase of educational materials. With only 14 weeks in the typical fall or spring semester, the availability of textbooks at the beginning of each semester can be very important to success in the classroom.

Close to one-half of our students receive some type of financial aid or scholarship assistance. Prior to development of the book charge program a manual voucher system was used to assist students with financial difficulty, or with delayed financial aid. To access the voucher system, students were required to come to the Bookstore to get a price estimate for their books and supplies, take the estimate to the Financial Aid Office for approval, and finally to the Treasurer's Office for issuance of a book voucher. During peak processing times lines were common at each of these locations taking time from both students and university staff. Upon approval, funds availability was communicated to the University Bookstore where an account was set-up for tracking and reporting of

actual charges back to the Treasurer's Office. This process typically started a week before each term and usually continued through the second week of classes. After the third week of classes the Bookstore would reconcile each account and report charges back to the Treasurer's Office for application to the student bill.

While the campus struggled with these inefficiencies of the voucher system, students who did not qualify for financial assistance (and their parents) were requesting a payment plan with a consolidated billing of educational expenses. In an effort to meet these needs we researched how other campuses dealt with these same issues. A group of other universities were found to have developed book charge systems similar to the one recently implemented here. Our system took the best of what we found at other campuses and added several improvements such as automated control of items eligible for purchase. We are convinced that this new program helps our students by saving them confusion, time, and effort; most importantly, the program helps to insure that students can obtain the materials they need, when they need them, to achieve academic success.

List of anticipated university attendees at the February 16th meeting:

Don Pederson, Vice Chancellor for Finance and Administration
David Martinson, Associate Vice Chancellor for Business Affairs
Larrie Stolfi, Controller
Neil Jones, Textbook Coordinator

Schedule 4

EXHIBIT A
University of Arkansas
Schedule of Changes in Auxiliary Enterprises
For the Year Ended June 30, 2005

| | Balance | | Additions | | Deductions | | Net Transfers | | Balance June 30, 2005 |
|-----------------------------------|--------------|---------------------------------|---------------|-----------------|----------------|----------------|---------------|--|--------------------------|
| | July 1, 2004 | Revenues and Other Additions | Expenditures | Debt Service | Interfund | Intrafund | June 30, 2005 | | |
| Men's Intercollegiate Athletics | \$ 1,228,505 | \$ 41,741,995 | \$ 24,629,494 | \$ 4,118,452 | \$ (5,312,971) | \$ (8,823,072) | \$ 86,511 | | |
| Women's Intercollegiate Athletics | 2,742 | 1,421,402 | 9,829,960 | 1,412,930 | 624,347 | 9,322,072 | 127,673 | | |
| Bookstore | (56,380) | 12,091,557 | 12,106,253 | | 909,409 | (484,521) | 353,812 | | |
| Trademark Licensing | 375,991 | 957,581 | 97,491 | | | (500,000) | 756,081 | | |
| Residence Life | 481,324 | 14,667,250 | 10,857,592 | 2,586,515 | (1,886,116) | 384,864 | 403,215 | | |
| Married Student Apartments | 81,606 | 1,420,088 | 983,868 | | | (505,319) | 12,307 | | |
| Fraternity and Sorority Housing | 5350,800 | (1,992,151) | 21,190 | 106,073 | (2,236,332) | 612,863 | (1,004,946) | | |
| Arkansas Union | 252,185 | 1,885,711 | 2,617,432 | 471,207 | 415,562 | 2,491 | 77,682 | | |
| Student Health | 149,710 | 4,612,247 | 4,088,182 | 295,792 | (294,211) | | 86,263 | | |
| Transit and Parking Services | 5,234,585 | 4,147,026 | 1,780,600 | 1,805,081 | (1,164,658) | 145,000 | 2,776,272 | | |
| Student Activities | 254,560 | 1,041,955 | 937,537 | | (71,143) | (193,992) | 93,843 | | |
| Other Auxiliary Enterprises | 6,382 | 44,072 | 88,992 | | (1,275) | 39,814 | 1 | | |
| | \$ 9,362,010 | \$ 82,038,733 | \$ 68,038,591 | \$ 10,506,050 | \$ (9,017,388) | \$ 0 | \$ 3,748,714 | | |

1 Revenues and Other Additions:
 Operating Revenues 12,087,607
 Nonoperating Revenues 3,950
12,091,557

2 Expenses:
 Salaries, wages, and benefits 1,219,359
 Operating Expense, Supplies, and Services 10,886,894
12,106,253

3 Interfund Transfers:
 Carryforward balances 580,421
 Return excess funds for Mall Renovation 28,988
 Harmon Deck Bookstore Funding 350,000
 Fund Harmon Deck Teaching & Faculty Support Space (50,000)
909,409

4 Intrafund transfers:
 Lease of space in Ark Union fixed rate (240,000)
 Lease of space in Ark Union Percent of Bookstore sales (99,521)
 Bookstore portion of parking debt (145,000)
(484,521)

EXHIBIT B

**University of Arkansas Bookstore
Margins on Bookstore
FY05 (July 1, 2004-June 30, 2005)**

| | | UAF | National (1) |
|--------------------------------------|----------------------|---------------|---------------|
| Bookstore (all units) | | | |
| Revenues: | | | |
| Sales | \$ 12,087,607 | | |
| Non-Operating Revenue (surplus sale) | \$ 3,950 | | |
| Total Revenue | \$ 12,091,557 | | |
| | | | |
| Beginning Inventory | \$ 1,700,160 | | |
| Purchases | 10,337,488 | | |
| Ending Inventory | <u>1,934,391</u> | | |
| Cost of Goods Sold | \$ 10,103,258 | | |
| | | | |
| Gross Margin | \$ 1,988,299 | 16.44% | 26.92% |
| | | | |
| Expenses: | | | |
| Salaries, Wages, Benefits | \$ 1,219,359 | | |
| Operating Expenses | \$ 783,637 | | |
| Net Operating Transfers (2) | <u>\$ (124,888)</u> | | |
| Total Expenses | \$ 1,878,108 | | |
| | | | |
| Net Margin (3) | \$ 110,192 | 0.91% | |

(1) Source: National Association of College Stores 2005 College Store Industry Financial Report
retrieved from <http://www.nacs.org/public/research/margins.asp>

(2) Net Operating Transfers:

| | |
|---|-------------------|
| Interfund Transfers | \$ 909,409 |
| Less the following non-operating adjustments: | |
| Harmon Deck Funding to Bookstore | (350,000) |
| Teaching & Faculty Support Center Funding | 50,000 |
| Intrafund Transfers | <u>(484,521)</u> |
| Net Operating Transfers | \$ 124,888 |

(3) Reconciliation of Net Margin to Exhibit A Balance June 30, 2005:

| | |
|--|-------------------|
| Net Margin | \$ 110,192 |
| Harmon Deck Bookstore Funding | 350,000 |
| Harmon Deck Teaching & Faculty Support Space | (50,000) |
| Balance July 1, 2004 | <u>(56,380)</u> |
| Balance June 30, 2005 | \$ 353,812 |

EXHIBIT B

**University of Arkansas Bookstore
Margins on Text Book Sales
FY05 (July 1, 2004-June 30, 2005)**

| | | UAF | National (1) |
|---------------------|----------------|--------|--------------|
| Used Books | | | |
| Sales | \$ 1,225,489 | | |
| Beginning Inventory | \$ 206,882 | | |
| Purchases | 908,732 | | |
| Ending Inventory | <u>281,168</u> | | |
| Cost of Goods Sold | \$ 834,446 | | |
| Gross Margin | \$ 391,043 | 31.91% | 34.90% |
| Operating Expenses | \$ 382,889 (2) | | |
| Net Margin | \$ 8,154 | 0.67% | |
| | | | |
| New Books | | | |
| Sales | \$ 2,640,387 | | |
| Beginning Inventory | \$ 333,633 | | |
| Purchases | 2,167,629 | | |
| Ending Inventory | <u>406,920</u> | | |
| Cost of Goods Sold | \$ 2,094,342 | | |
| Gross Margin | \$ 546,045 | 20.68% | 22.53% |
| Operating Expenses | \$ 382,889 (2) | | |
| Net Margin | \$ 163,156 | 6.18% | |

(1) Source: National Association of College Stores 2005 College Store Industry Financial Report
retrieved from <http://www.nacs.org/public/research/margins.asp>

(2) Expense allocation based on estimated inputs of time and materials.

EXHIBIT C

University of Arkansas Bookstore Salary Schedule
As of 06/30/05

| | EMPLOYEE NAME | | SALARY AMOUNT | TITLE |
|---------------------|-----------------------|----------------------------------|---------------------|------------------------------------|
| Mall Store | Drain, Jackie | | \$ 20,824 | Store Supervisor - Mall |
| | Cheramic, Lance | 50% allocation to Razorback shop | 19,557 | Razorback Shop Manager |
| | May, Shelly | 50% allocation to Razorback shop | 11,250 | Assistant Manager - Razorback Shop |
| Textbooks | Boydston, Rita | | 34,528 | Textbook Manager |
| | Jones, Neil | | 20,824 | Textbook Coordinator |
| | Phillip, George | | 31,580 | Textbook Assistant Manager |
| Trade books | Coble, Carol | | 16,804 | Purchasing Assistant |
| | Finley, Scott | | 26,043 | Tradebook Manager |
| School Supplies | Gibbs, Michael | | 20,824 | Departmental Supply Manager |
| | Opela, Wes | | 40,731 | School Supplies Manager |
| | Taylor, Londi | | 14,740 | Stock Clerk II |
| Computer Store | Blevins, Jeff | | 15,333 | Cashier I |
| | Cunningham, Elizabeth | | 42,000 | Computer Store Manager |
| | Morgan, Mark | | 19,626 | Computer Tech I |
| | Denger, Forest | | 26,043 | Computer Store Assistant Manager |
| | Duncan, Michael | | 14,720 | Computer Tech I |
| Razorback Shop | Lance Ceramic | 50% allocation to Mall Store | 19,557 | Razorback Shop Manager |
| | May, Shelly | 50% allocation to Mall Store | 11,250 | Assistant Manager - Razorback Shop |
| | Wilkins, Angie | | 14,740 | Cashier I |
| Shared Support Team | Alles, Patty | | 17,897 | Accounting Tech I |
| | Dickard, Sue | | 24,692 | Administrative Office-Super |
| | Franko, Walter | | 41,887 | Accounting Manager |
| | Huencfeld, Edwin | | 16,470 | Shipping & Receiving Clerk |
| | Neel, Betty | | 20,824 | Accounting Tech II |
| | Powers, James | | 17,170 | Accounting Tech I |
| | Quin, Patricia | | 11,471 | Documents Examiner I |
| | Ralph, Karen | | 23,196 | Administrative Assistant I |
| | Ramsfield, Pamela | | 21,200 | Central Supply Supervisor |
| | Sadeghi, Ali | | 65,230 | Director of University Bookstore |
| | Soeung, Randy | | 16,446 | Shipping & Receiving Clerk |
| | Sposato, Chris | | 25,675 | Computer Support Specialist I |
| | Thornton, Gary | | 19,706 | Head Cashier |
| | Hourly Employees | Shared between all departments | | 281,816 |
| | | | <u>\$ 1,024,654</u> | |
| | | | 194,705 | |
| | | | <u>\$ 1,219,359</u> | |

* 3/4 Time Employee



UNIVERSITY of ARKANSAS

1871

ASSOCIATED STUDENT GOVERNMENT

Arkansas Union • Room A669

Fayetteville, Arkansas 72701

Tel: (479) 575-5205 • Fax: (479) 575-7087

asg@uark.edu • www.uark.edu/asg

February 7, 2006

Senator Sue Madison
573 Rock Cliff Road
Fayetteville, AR 72701

Dear Senator Madison,

As I am sure you are aware, the price of textbooks for college students has been increasing sharply in the past few years, and more students are struggling with these costs. An unfortunate result is that some students are simply choosing not to purchase the needed textbooks, which negatively impacts their grades and success in college.

In response to this problem, last semester the University Bookstore at the University of Arkansas initiated the book-charge program that gave students the ability to purchase books and other supplies needed for class. The program allowed students to purchase up to \$800 of their textbooks and supplies and to pay them off throughout the semester. This program successfully met a need for many students, a fact that is evidenced by the over 5,000 students who took advantage of the program its first semester.

As you are aware, many of the local bookstores voiced their opposition to the program, saying it put private businesses at a disadvantage. However, their opinion offers only a complaint and not a solution to the identified problem. The local bookstores do not have the ability to extend to students the book-charge option the students need.

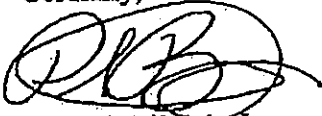
The university already has a comparable charge program for housing, which allows students to live on campus and pay throughout the semester. Living on campus provides immeasurable benefits to the students in providing a sense of community, and on the same level, the ability to purchase textbooks and supplies provide immeasurable benefits to the learning environment that our students need. Though addressing different issues, both charge programs offer a solution to similar situations our students have to deal with at the university.

After the Senate and House Interim Committees on Insurance and Commerce met on December 16, 2005, they asked the university to suspend the program until they could make a decision. Because of the suspension, the students have been suffering and are

being put back to the point where the problem began. The Associated Student Government Senate passed the attached legislation voicing their opinion on the situation. We hope that the Arkansas Legislature would look more carefully at the situation from the students' standpoint, that there is a situation here that needs to be addressed. As of now, the University book-charge program has been the only sound solution to this problem.

I hope that you will see how vital this program has become to the students at the University of Arkansas and will appreciate any consideration regarding this issue. If you have any questions or concerns, please feel free to contact me.

Cordially,



Phillip M. Brick, Jr.
President, ASG

CC: University of Arkansas System
Dr. John White, Chancellor
Dr. Johnetta Cross Brazzell, Vice Chancellor for Student Affairs
Dr. Don Pederson, Vice Chancellor for Finance and Administration
Mr. David Martinson, Associate Vice Chancellor for Business Affairs
Dr. Pugh, Associate Vice Chancellor for Student Affairs and Dean of Students
Patrick Monroney, Director for Student Involvement & Leadership

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Resolution 11

Author: President Phillip Brick

Sponsor: Senator Cody Kees

A Resolution to Aid in the Student Input Regarding the University of Arkansas Bookstore Book-Charge Program

Whereas, It is the purpose of the Associated Student Government to "act as an organized voice for all students at the University of Arkansas," and

Whereas, The University of Arkansas Bookstore book-charge program provides our students with the resources needed to purchase required materials for our institution's classes, and

Whereas, Not all students would have the resources to purchase text books and other needed materials if not provided by the Bookstore book-charge program, and

Whereas, The program was used by over 5,000 students, showing it was desperately needed on campus, and

Whereas, U of A students are well-aware of the value of free markets with respect to other textbook providers in the area, but realize it is more important for the university to provide for the needs of its students, then


Be it therefore resolved: That the Associated Student Government President draft a letter, to be approved by the Public Relation Committee, and be sent out to all Arkansas legislators and local press to bring attention to the student concern on the temporary termination of the University Bookstore book-charge program, and

Be it further resolved: That ASG Senators should use their required office hours for weeks following the mailing of the aforementioned letter to contact legislators urging them to reinstate the book credit system or explore alternative means of extending credit to university students.



Kris Zibert, Student Senate Chair

2/1/02
Date



Phillip Brick, ASG President

2/3/06
Date





State of Arkansas
**Bureau of
Legislative Research**

Tony R. Minicozzi, Jr., Director
Ken Dick, Assistant Director
for Fiscal Services
David Ferguson, Assistant Director
for Legal Services
Richard Wilson, Assistant Director
for Research Services

January 5, 2006

ADDENDUM A

Dr. Don Pederson, Vice Chancellor
Finance & Administration
University of Arkansas
Administration Building, Room 406
Fayetteville, AR 72701

RE: Insurance and Commerce Committees' Requests for Information

Dear Dr. Pederson:

The Senate and House Interim Insurance and Commerce Committees' December 16 meeting raised many questions regarding the University of Arkansas' (Fayetteville) University Bookstore Student Charge Program. The following is a list of requests from that meeting and additional information and clarification requested subsequent to the meeting:

- 1) Is the state competing with the private sector, and if so, is it putting the private sector at risk?
- 2) How can we get the U of A policy to use something other than the marketplace to sell books?
- 3) If the charge program is a fair practice, why does U of A need the "hammers" to make the program work?
- 4) Can book vouchers be provided to students which would allow the students to then choose where they purchase their books? (Senator Smith noted that a "contract" would be between the U of A and the student. Then the bookstore which sold the books would submit a bill to U of A for payment.) If this suggested procedure cannot work, please explain why.
- 5) Yearly gross and net profits from the bookstore. Also, for books specifically, how much money was made; what was paid for them, what were the associated costs, and what they sold for. Also, the gross profit on book sales. Please supply the accounting records for the bookstore with an explanation of the requested information.
- 6) Bookstore employees' salary information.
- 7) Bookstore's rent amount.



8) Amount bookstore pays for parking deck bond.

9) With regard to Sen. Malone's question about the bookstore needing to make a profit--he asked that we include that portion of the testimony so further information and clarification could be presented at the next meeting. That segment of our draft minutes follows:

Senator Malone asked if the bookstore needs to make a profit. Mr. Martinson responded that the bookstore does need to make a profit to help with its share of the bond debt. He further responded that his desired goal is to drive the margin of book profit to zero, but he doubts they could ever do that. At the next meeting, Senator Malone asked if the committee could expect then to see the cost of books very close to what students pay. Mr. Martinson said, "No, because we've not been able to do that. That is a desired state, not the current state."

In further response to Senator Malone's question, Dr. Pederson responded that he sets the policy on profit and non profit for auxiliaries that report to him. The bookstore does not have to make a profit except for the bond issue.

Dr. Pederson further noted that they try to drive the margin of book profit to zero and he doesn't drive the margin on non-book or required materials in any way. He lets that be the market.

Senator Malone asked how close they get to 0%. Mr. Martinson stated that he did not have that information but would bring it to the next meeting.

Senator Malone noted that Mr. Martinson's testimony stated that the goal was 0% profit on the book sales. Other testimony stated that they were very close, within a few points, of what the retail sector is. Senator Malone said the retail sector doesn't operate on a 0% margin, so this testimony is confusing. Mr. Martinson said profit and margins are two different things.

Mr. Martinson further stated that they were trying to bring the margin on books as low as possible and yet they have to cover the cost of doing business.

In order to help Senator Malone at the next meeting, he asked staff to get this portion of the testimony and send it to these individuals and let them sort out their answers.

10) Senator Miller requested U of A consider holding this program until next semester passes and there can be another committee meeting. This is not a mandate, but a request.

Additional information requests:

- 1) Verification of parking deck fees for all the different groups that use it (by Union).
- 2) What are the charges on the new parking deck--who pays how much and is there any discount for students?
- 3) Re: bookstore manager's salary, does he receive any bonuses; does he have access to any UA Foundation accounts, etc.; what is his reported income for W-2 purposes; is he given a UA vehicle (or Foundation vehicle) to drive?



Request following persons to also attend next meeting on this issue:

- 1) Person who oversees the bookstore's accounting--Mr. Larrie Stolfie
- 2) Person who "shops" the U of A's bookstore's competition

There has not been a date set for the next meeting to further consider this issue. We will notify you when it is scheduled.

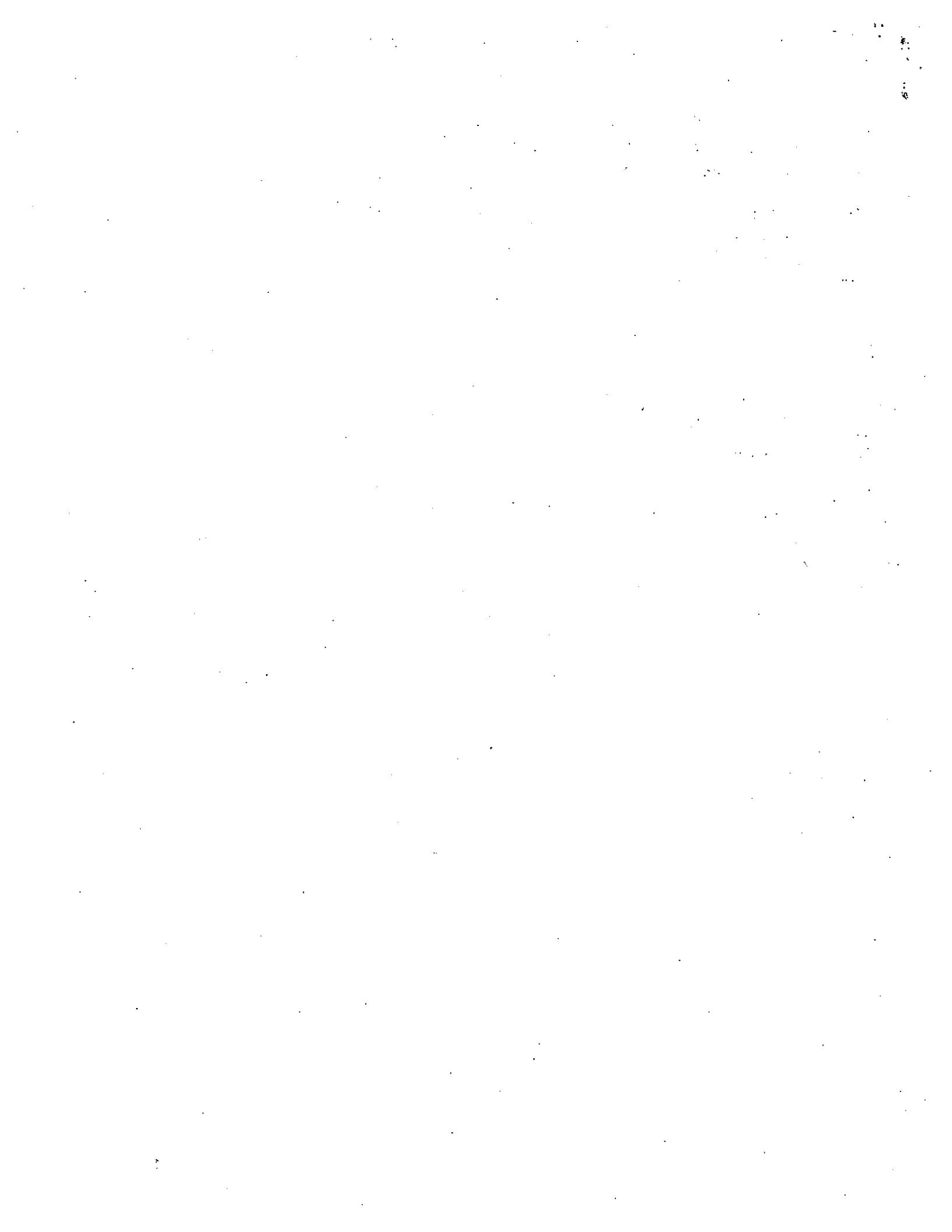
Thank you for your attention to these matters and your assistance.

Sincerely,



Carol Stapleton
Senior Legislative Analyst

Cc: Sen. Miller
Rep. Evans
Sen. Madison
Mr. David Martinson



Mad. SW Wilson
2/16/06

Arkansas Law:

ARTICLE 16

FINANCE AND TAXATION

Sec. 1. Lending credit - Bond issues - Interest-bearing warrants.

Neither the State nor any city, county, town or other municipality in this State shall ever lend its credit for any purpose whatever; nor shall any county, city or town or municipality ever issue any interest bearing evidences of indebtedness, except such bonds as may be authorized by law to provide for and secure the payment of the indebtedness existing at the time of the adoption of the Constitution of 1874, and the State shall never issue any interest-bearing treasury warrants or scrip.

Texas Law:

The Texas Constitution

Article 3

Section 50

The Legislature shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State in aid of, or to any person, association or corporation, whether municipal or other, or to pledge the credit of the State in any manner whatsoever, for the payment of the liabilities, present or prospective, of any individual, association of individuals, municipal or other corporation whatsoever.

Just a quick recap of how the "Book Loan" works at UH.

First of all, the terms of the Book Loan are non-negotiable and the same terms for everyone who secures the loan. The terms are published in our student handbook (online), class schedules (online). They are as follows:

(SEE PAGE 2)

In order to request the loan, the student must be "activated" (that is, they must be registered for classes and have paid the minimum required under state law.

This process is done solely thru a self-service online, wherein a student signs in using his/her PIN and then requests the Book loan. All students who requests the loan get it. There are no turn downs. The loan amount is placed on the students' acct. The information on the loan is fed to the Cougar One Card Office where it is then fed to the student's ID card. The student may then swipe the card at one of two campus bookstores (operated by Barnes and Noble and another private company). The student can only get the book loan up through the 20th class day and must use it by that time. Any unused portion of the loan is fed back as a credit to the students' acct. Shortly after the 20th class day the bookstores invoice the Cougar One card office who pays the bookstore.

Gene Gillis
Student Financial Services Office
University of Houston
713-743-5886

| Use | 50 days | Installment Pay Plan | 45 days | Credit Cards | Book Loans |
|---|---|--|---|--|---|
| Payment of Tuition and course fees. Excludes room and board | Payment of all school related charges | Payment of all school related charges. Includes room and board. | All university charges processed through the billing system | Purchase of books and supplies from the bookstore | |
| Amount | Equal to amount of tuition and fees billed. Excludes prior balances, parking, and other incidental charges which must be paid (after obtaining loan) for obtaining loan for activation. | Equal to 1/2 of amount balance. Excludes any prior balance and certain other charges. | Equal to the minimum due balance, which must be paid (after obtaining loan) for account activation. | 100% of 1/2 amount due to be activated via WEB or WEB, or any amount (Master Card, VISA and Discover Cards) | 100/semester Fall/Spring 200/semester Summer (Allison only) |
| Eligibility | All Students, first-serve basis | All Students | All Students, first-serve basis | Students with valid credit cards | Students who have been activated for the current semester. |
| Term | 90 days or end of the semester, whichever period is shorter. | 1/2 due on for before one 1st class day, 1/4 due on the 1st day of the 1st class week. | 45 days or last day of semester, whichever period is shorter. | Term is determined by student arrangements with external credit card company. | 60 days-Fall Spring 30 days- Summer |
| Interest Rate | 5% per annum | 0% | 12% per annum | Rate is determined by student arrangements with external credit card company. Interest is paid to external credit card company by student. | 12% per annum |
| Service Charge | 0% | \$15 per installment (total \$30/semester) | \$5 each loan | 100% of 1/2 amount due. (Spaid by credit card, when charges are assessed by university as described under the installment payment plan) | \$5 each loan |
| How To Apply | Main Menu selection 5, Option 3 or WEB | Automatically done if student pays the 1/2 minimum amount due | Main Menu selection 5, Option 3 or WEB | Main Menu selection 5, Option 1 | Main Menu selection 5, Option 3 or WEB |

