

EXHIBIT Da

MINUTES

SENATE AND HOUSE INTERIM COMMITTEES ON INSURANCE & COMMERCE

Friday, December 16, 2005
1:00 P.M.
Room 149, State Capitol
Little Rock, Arkansas

The Senate and House Interim Committees on Insurance and Commerce met Friday, December 16, 2005, 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, Barbara Horn, Terry Smith.

House Insurance and Commerce Committee: Representatives David Evans, Chairman; Kevin Goss, Vice Chairman; Mike Burris, Marvin Childers, Joyce Elliott, Willie Hardy, Bruce Maloch, Shirley Walters, and David Wyatt.

Non-Voting House Insurance and Commerce Committee: Representatives Bill Abernathy and Scott Sullivan.

Also attending: Senators Jim Holt, Sue Madison; Representatives David Dunn, Bob Mathis and Bill Sample.

Senator Paul Miller, Chairman, Senate Interim Committee on Insurance and Commerce, called the meeting to order.

Consideration to Approve December 1, 2004 Minutes (Exhibit D)

Senator Horn made a motion to adopt the December 1, 2004 minutes, and with a second by Representative Goss, the minutes were adopted.

Consideration to Adopt Interim Study Proposal – 2005-113 (SB1085) – *AN ACT CONCERNING PAYMENTS FROM THE ARKANSAS UNIVERSAL SERVICE FUND AND CONCERNING ELIGIBLE TELECOMMUNICATIONS CARRIERS.* (Exhibit E)

Senator Horn was recognized to explain ISP 2005-113.

Senator Horn made a motion to adopt ISP 2005-113 for interim study, and with a second by Representative Burris, the motion carried.

University of Arkansas (Fayetteville) University Bookstore Student Charge Program (Exhibits F1, F2, F3, F4, F5, F6 & Handout #1)

Senator Sue Madison was recognized and noted:

- In the fall, the University of Arkansas (U of A at Fayetteville) started a program where students could choose to receive an \$800 line of credit from the University Bookstore to be used for buying required textbooks. This line of credit is interest free, but the books may only be purchased at the university-owned bookstore.
- Two private off-campus bookstore owners think this is an unfair business practice.
- She has been working with U of A administration since September asking them to devise a system that would create a level playing field for all parties.
- Students on scholarships or receiving financial aid must purchase their books at the university bookstore.

- The university has tremendous leverage for collecting debts from students, i.e. preventing them from registering next semester, withholding grades, and withholding a diploma. If these do not work, they turn this debt over to a collection agency. If all of these fail, the university can attach the individual's state income tax refunds.
- The university's intent was to help students who could not afford the textbooks required to start class.
- All of these debts were due to be paid to the university on November 30 for this fall semester. As of December 5, 2005, \$160,000 had not been collected(Exhibit F5).

Mr. Steve Wilson, from the privately-owned Campus Bookstore, was recognized and noted:

- The student charge program was implemented July 1, 2005. He learned of the program when a student showed him the sign-up sheet.
- The program was developed by the university bookstore and approved by the Executive Council without any committee process.
- The program offers unsecured, interest-free and deferred payment loans to students carrying 6+ hours, regardless of their credit history.
- According to Don Pederson, Vice Chancellor for Finance, University of Arkansas, and David Martinson, Associate Vice Chancellor for Business Affairs, University of Arkansas, the program is to help improve retention and graduation rates by helping students manage up-front costs which include textbooks and supplies.
- Twenty percent of students enrolled in this program are delinquent as of December 5, 2005. According to the Registrar's Office, these delinquent students will be blocked from registering for the next semester.
- Textbook prices are outrageous and have been going up 6% annually as opposed to 3% for many other products.
- The Governmental Accounting Office (GAO) issued an opinion on August 16, 2005 regarding the high cost of textbooks. They noted the two major factors determining textbook costs are:
 - the availability of used books
 - a practice known as bundling where publishers include website access cards and specific software with new books.
- Used textbooks save students 25-35% compared to a new book.
- His bookstore carries 75-80% used books.
- Because the charge program cannot be used by off-campus bookstores, students are unable to benefit from a significant cost savings.
- In 2002 he started the 110% guaranteed price program which states if a student buys a book from his bookstore and then finds it priced lower somewhere else, his store will refund the difference by 110%.
- U of A states it used several other universities as models for this program. Two universities cited were the University of Nebraska at Lincoln and Oklahoma State University. University of Nebraska Lincoln's bookstore is owned and operated by a corporation, not the state institution. Oklahoma State University's (OSU) bookstore is owned and operated by the state of Oklahoma and has been in operation since 1988. There were two off-campus bookstores at OSU in 1988, but one went bankrupt and the other went out of business.
- Citing Arkansas Code 4-75-201, Arkansas Unfair Practices Act, which states in part that "the purpose of this subchapter is to safeguard the public against the creation or perpetuation of monopolies and to foster and encourage competition by ..."
- U of A carries approximately 30% used books at its bookstore.
- 5,110 students actually used the U of A program. Approximately \$167,000 is still owed to the university.
- His business has taken a serious financial loss because of this program.
- He asked that the committee recommend to U of A that this is not a fair practice.
- He does not have any formal policy to deal with students who need time to pay.

- He has 12 stores located in Arkansas, Tennessee, Kansas, Oklahoma, and Mississippi.
- He stated he would like to "hook up" with the UofA's "charge" system.
- His store is 5-10% cheaper on used books than the U of A bookstore.

Senator Malone noted that the questions needing answers are:

1. What is the purpose of the program?
2. Is the state competing with the private sector, and if so, is it putting the private sector at tremendous risk?
3. How do we get to the U of A policy to use something other than the marketplace to sell books?
4. If it is such a fair practice, why the need for all the "hammers" to make the program work?

Dr. Don Pederson, Vice Chancellor for Finance and Administration, University of Arkansas, was recognized and noted:

- The basic problem is the marketplace does not respond to students who do not have money to buy textbooks. U of A has recognized that there is a problem with a great number of students not having the funds at the beginning of the semester to buy their books. This has an impact on learning in the classroom, graduation and retention rates.
- These are not interest-free loans in one sense. Many students also cannot pay their tuition at the beginning of a semester. These students are allowed to come in and set up a payment plan. If the student hasn't paid it off in one semester, they are not allowed to continue to build up this debt. Therefore, "holds" are put on registration and other activities. The issue of the books being a debt they have to pay off before they can re-enroll is consistent with how the U of A deals with all other payments the students make for tuition, housing, etc.
- Although some scholarships require that books be purchased on campus, U of A doesn't require all scholarship students to buy their books on campus. Some scholarships require this.
 - Because of the "stacking" issue where legislators were concerned that students were being given cash checks because the sum of their scholarships exceeded the amount of funds needed to go to school, we issued book vouchers where "stacking" was an issue. This certainly is not all of the scholarships. The book voucher was to the U of A bookstore so that it was assured that they only bought books and did not buy non-required materials.
 - The program in place this semester is just an automated way of doing book vouchers.
 - Another group of students not handled through this book-charge program, but have a similar issue are student athletes who have very strict requirements on the amount of money they can receive for different purposes. This group is monitored carefully and is allowed only a certain amount of money for their book purchases and the U of A has to make certain they buy books only from those funds.
 - Financial aid is a process that is somewhat complicated. There are a lot of entities that have to sign off on the distribution of financial aid and therefore is not always distributed at the beginning of the semester.
- He further noted that if they know financial aid is coming, they can carry the tuition. But unless they have some kind of program, they still have to buy books and they do not have the money without the financial aid to do so.
- U of A cannot collect debt for a private entity. He is not sure how it would be possible for U of A to incorporate a private bookstore into the current process.

Senator Smith asked if U of A could give book vouchers to students and let them choose where to purchase their books.

Dr. Pederson responded that he did not know of any way a voucher program could be done with private industry.

Senator Malone asked if he was representing the U of A System or the bookstore. Dr. Pederson responded

that he was speaking on behalf of the U of A Fayetteville campus. Senator Malone asked how Dr. Pederson could be concerned with the students when they're going to "cut them off" and not let them continue in school if they have a bookstore debt from the first semester. Dr. Pederson responded that it was a balance. The beginning of the problem is that there is a sizeable number of students who cannot buy books and therefore are not properly learning in the classroom. If those students are in debt to the school at the beginning of the second semester for tuition, books, housing, they cannot register the second semester.

Senator Malone asked how much the bookstore made in a 12-month period (year). Dr. Pederson said gross sales are \$12 million. Senator Malone asked for the gross profit and the net profit amounts. Dr. Pederson responded the textbook net profit is 5%. Senator Malone asked if this was 5% of \$12 million? Dr. Pederson asked Mr. Martinson to further explain and clarify.

Mr. David Martinson, Associate Vice Chancellor of Business Affairs, University of Arkansas, was recognized and noted:

- Gross sales from the U of A bookstore are approximately \$12 million. Mr. Martinson said the net is approximately \$500,000 /year on everything.

Senator Miller reiterated that Senator Malone wants to know how much money was made -- what was paid for books, what the costs were, and what they sold for.

Mr. Martinson continued:

- The revenue from the store is used to support the faculty support center, bond payment on the parking deck, and student union activities.

Senator Malone asked the amount of gross profit for the \$12 million; he requested staff to get accounting records of the bookstore. Wants to see included the gross profit on book sales.

- Institutionally they have less than 1% bad debt.

Senator Madison asked if the bookstore has any ongoing debt. Mr. Martinson said it participates in the bond issue on the parking deck (next to Union). Yes, it owes money, but no long-term debt. The bookstore also pays rent to the Union and there is also another small apparel store in the mall.

Senator Madison reiterated the idea of seeing if they could look at a way to issue vouchers so students could purchase books at a place of their choice. Mr. Martinson said they would look at this. He continued:

- The bookstore can have full markup value on apparel and other non-book related items in order to keep the book costs down.

Senator Malone asked if the book portion of the bookstore is profitable; Mr. Martinson said yes and the bookstore is not required to generate a profit for U of A. As an auxiliary enterprise, it must cover its cost of operation.

Representative Burris referenced the letter (Handout #1) from Mr. Timothy Stein, former bookstore Office Manager, noting that on several occasions Mr. Ali Sadeghi, Director/General Manager, had made comments about his "ability or possible intent to put other local bookstores out of business". He asked if this was a directive from "higher up" to do this. Mr. Martinson responded absolutely not and it's beyond his imagination that he would ever say that.

Mr. Martinson continued:

- Full implementation of the program began in the Fall Semester 2005.
- This program is a voluntary program. Out of 17,000 students, 5,000 opted to take advantage of this program this semester.
- The bookstore offers a 110% low price guarantee, if students can get it cheaper, "We'll beat that price by 10%".

Senator Malone asked for the U of A's bookstore's profit on book sales. He requested information on the cost of the books--what bookstore paid to purchase them and what amount the books were sold for, what is the profit on book sales (separate from other merchandise).

Senator Miller noted there will probably be another meeting on this issue and he would expect answers in detail next time.

Dr. Pederson noted the book prices were as low as possible to not lose money on a year to year basis. Most of the net comes out of other merchandise, i.e. razorback apparel, etc. much of which is not bought by students.

Representative Mathis requested the bookstore employees' salary information.

Senator Malone asked what the bookstore pays in rent. Dr. Pederson stated that he did not know but that he would supply that information for the next meeting. Senator Malone also requested that the person who oversees the bookstore's accounting be at the next meeting. Dr. Pederson noted that is Larrie Stolfie, [Comptroller, U of A].

Senator Malone asked staff to obtain the accounting information from the U of A bookstore at Fayetteville.

Dr. Pederson responded that he thinks that they are very competitive with the competition on new and used books.

Senator Malone requests the person who "shops their [U of A] competition" also be present at the next meeting.

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.

Senator Miller asked Mr. Martinson to come back to the committee with a report separating the sale of textbooks from everything else and then tell the committee what they were sold for and then what was the cost of these textbooks.

Senator Miller noted the bookstore sells other products such as Razorback logo products. Mr. Martinson stated that the Athletic Department operates the Hog Heaven Store, but they outsource that to E-Sports. The university bookstore ran that for them at one time. The bookstore does operate the Razorback shops in the Student Union and at the Mall. Senator Miller said this would be discussed at the next meeting.

Senator Smith asked about the parking deck's capacity. Mr. Martinson said the parking deck holds 600 cars. Student reserved parking permits are "on the order of" \$135/year, faculty/staff permits are "on the order of" \$150/year, departmental permits are \$150/year. There are also hourly parking spots.

Senator Smith reiterated he would like to know why his idea for a voucher program for books cannot work. The contract would be between the U of A and the student. The private bookstore would submit a bill to U of A and get paid for the books.

Mr. Phil Brick, President, Student Government, U of A., was recognized and noted:

- From a student's prospective, the voucher program has been "amazing".
- Prior to this semester he was on scholarship and was being bounced between the bookstore and the Treasurer's office a few times a week.
- A number of students do not have the money to buy books at the beginning of the semester.
- The students are the ones benefiting from this program.

Ms. Deborah Thomas, Chair, Faculty Senate, U of A, was recognized and noted:

- This program was announced to the Faculty Senate when it was first proposed. There was not a lot of discussion.
- The Faculty Senate did not publicly endorse it, but thought that anything that helped the students learn is what we want to do. In order for students to learn, it really helps for them to have books at the beginning of the semester.
- In past semesters, students have come to her asking if they could borrow books; there are not books to loan.

Mr. John Albertson, University of Arkansas at Little Rock, off-campus bookstore owner, was recognized and noted:

- If used books can be bought for 25% less, there is a savings of \$200. If you look at 5,000 students using the program, you are looking at \$1 million in savings.
- In his opinion this program is like a "slippery slope" for the students when they can buy the books elsewhere and save approximately 25%.

- If there is a monopoly situation, there is less sensitivity to price, customer service, etc.
- In response to Senator Malone's earlier questions, U of A bookstore is looking at a gross margin of 25-30%, payrolls 10-12%, fixed cost 5-5 1/2%, uncontrollable utilities 5-5 1/2%. That is where the 5-6% net will come from.
- Competition is the best thing to drive this marketplace.

Ms. Rachel Yingling, UofA student, was recognized and noted:

- Few students will speak out against this program because it gives availability for books at the beginning of the semester when they may not have money.
- More than 3,000 signatures have been collected from students who would like the option of using this program at other bookstores.
- She stated that she is an Arkansas Governor's Distinguished Scholarship (\$10,000/year) recipient, and is allowed \$500 of that for books and only at the "Union" bookstore. She said this is government money and she thinks she should not be forced to buy her books at this "Union" bookstore.

Senator Madison asked Ms. Yingling if she loses that \$500 if she doesn't spend it at the U of A bookstore. Ms. Yingling replied that her scholarship comes from her scholarship fund so if she doesn't use that money or if she has the ability to use that money at other bookstores and spend less of it, it goes back into her fund and can be used for other things, such as tuition. She doesn't buy her books at U of A bookstore because they are more expensive there.

Senator Miller called Dr. Pederson and Mr. Martinson back to the table.

Senator Miller stated that the committee cannot direct or mandate anything from them, but he would request U of A to consider holding this program until the next semester passes and there can be another committee meeting. This is not a mandate, but a request.

Dr. Pederson said they would carefully consider this request.

Insurance Department Update

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

- She urged committee members to become involved in the National Conference of Insurance Legislators (NCOIL) which meets three times yearly.
- In reference to legislation passed in the 2005 session, bulletins are being issued, new rules have been promulgated, old rules have been amended, and public hearings have been held.

There being no further business, the meeting adjourned at 2:45 p.m.

EXHIBIT F2

1. Allow competing bookstores to place information in the orientation packets. We should have done this anyway. The restriction was a holdover from Follett contract limitations.
2. Provide equivalent access to students or parents at orientation as may be provided to the University of Arkansas Bookstore.
3. Provide on the University of Arkansas Bookstore home page (<http://www.uark.edu/ua/bookstor/>) the names, address and phone numbers for the private bookstores that exist primarily to serve University of Arkansas students from a physical location near the campus.
4. Reduce the charge limit from \$800 to \$500 per semester effective for the Spring semester and remove the option to purchase computer hardware.
5. Include the Treasurer's Office installment payment terms with the charge agreement.
6. Continue providing book adoption information to competing stores, as in the past.
7. Continue selling lab manuals to competing stores at cost, as in the past.

4-75-310. Driving out or financially injuring competition.

If any person, company, partnership, association, corporation, or agent engaged in the manufacture or sale of any article of commerce or consumption produced, manufactured, or mined in this state or elsewhere shall, with the intent and purpose of driving out competition or for the purpose of financially injuring competitors, sell within this state at less than cost of manufacture or production or sell in such a way, or give away, in this state their productions for the purpose of driving out competition or financially injuring competitors engaged in similar business, then the person, or persons, company, partnership, association, corporation, or agent resorting to this method of securing a monopoly within this state in such business shall be deemed guilty of a conspiracy to form or secure a trust or monopoly in restraint of trade and on conviction shall be subjected to the penalties of this subchapter.

History. Acts 1905, No. 1, § 6, p. 1; C. & M. Dig., § 7374; Pope's Dig., § 9413; A.S.A. 1947, § 70-106.



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

Memorandum

TO: Senator Madison
FROM: Jerri Derlikowski
DATE: November 7, 2005
SUBJECT: Bookstore Information

I have collected six of nine responses to date which I have summarized below.

UA - Monticello: Scholarships provided by their own institution are to be used only in the University Bookstore. Scholarships from other sources including state-funded scholarships may be used to purchase books from any vendor. This is handled through a refund process. They indicate that there are no private bookstores within 50 miles of Monticello.

UA - Pine Bluff: Scholarships funds are not required to be spent in the campus bookstore. They indicate that there are no other textbook sources in Pine Bluff.

Henderson: Scholarships funds for textbooks must be used in the campus bookstore.

SAU - Magnolia: Scholarships may be used to refund the student for books purchased from a vendor other than the campus bookstore but the reimbursement is not made until the 14th day after the census date of the university.

ASU - Jonesboro: Scholarships provided by their own institution are to used only in the University Bookstore. Scholarships from other sources including state-funded scholarships may be used to purchase books from any vendor.

UA - Fort Smith: Scholarships provided by their own institution are to used only in the University Bookstore. Scholarships from other sources including state-funded scholarships may be used to purchase books from any vendor.

In summary, only Henderson State University joins the UA - Fayetteville in requiring all scholarship funding for books to be spent in the campus bookstore. UA - Monticello, UA - Pine Bluff, SAU - Magnolia, and ASU - Jonesboro require only institutional scholarships to be used at the campus bookstore. UA - Pine Bluff has no policy on the use of the campus bookstore for scholarships. I did not receive responses from UA - Little Rock, Arkansas Tech, or UCA. Please contact me at 501.537.9471 if I can provide additional information.

Textbook Charge Program Accounts Receivable Review (Unaudited)

A review of the unpaid account balances of the students that used the University Bookstore student charge program during the fall semester, as of 12/05/05, disclosed the following:

There were a total of 1,047 students with balances due out of about 7,000 students who signed up for the program. The unpaid balances at 12/05/05 amounted to \$167,141.75. The open account balances averaged \$159.64, with a range of from \$.01 to \$808. Even though the maximum allowable charge for students for these accounts during the fall term was \$800, there were 29 students who exceeded this limit by a few dollars. Out of these 29, only two remain open. The remainder of these accounts have been paid in full. These overcharges occurred during the first day of live program testing. The ability to overcharge was promptly corrected as the charge system functionality was implemented.

All 1,047 students with a balance due have been blocked from making additional charges at the Bookstore until their account is paid in full. According to the University Treasurer's office, the above payment behavior is typical for payment of fees in the fall semester. If the traditional behavior pattern holds, most of these balances will be paid in January, prior to the beginning of the spring semester.

Overall, out of the nearly 7,000 students signed up for the charge program, students numbering 5,110 actually used the program to purchase books and supplies. The University Bookstore served about 12,000 students with textbooks and supplies in the fall semester. Somewhat less than half of these students used the charge program. Total University enrollment for the fall semester was 17,821. Of these, approximately 31% used the book charge program. In total, the University Bookstore sold about \$3,700,000 worth of books and supplies during fall rush, with about 46% of these purchases being made on the student charge program.

Source: University of Arkansas, Fayetteville Bookstore

F6



Office of the Vice Chancellor
for Student Affairs

325 Administration Building
Fayetteville, Arkansas 72701
(479) 575-5007
(479) 575-7547 (FAX)

June 28, 2005

Dear UofA Student:

Welcome to the University of Arkansas where you are about to embark on a glorious and grand journey. We will be here to assist you in each step of that journey.

Fall semester of 2005 is only a few weeks away. I am delighted to announce the availability of a new program at the University of Arkansas that allows students to charge their books and supplies to their general student account. This program will ensure students have the ability to obtain their required materials within the first week of classes.

Starting July 1, 2005, students will be able to use their university ID to charge books and supplies purchased at the University Bookstore in the Arkansas Union to their university Student Account. Students may charge up to \$800 during each of the following time periods:

June 15th - November 30th (Balance must be paid in full by November 30th)
December 1st - June 14th (Balance must be paid in full by June 14th)

There will be no finance charges for these charges.

Currently enrolled full-time or part-time students with no outstanding balance on their Student Account are eligible for this program. Students on Athletic Scholarships and Governor's Scholars will be processed under a different program at the Bookstore.

To activate your student charge program, you must complete and sign the enclosed "Student ID Card Charge Agreement."

We are singularly focused on this being the most rewarding, engaging experience for you. This new program is another way the University of Arkansas will do so.

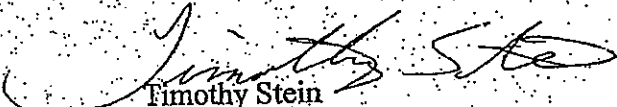
Sincerely,

Johnetta Cross Brazzell
Vice Chancellor for Student Affairs

JCB:mn

Handout # 1

I worked in the position of Office Manager for the University of Arkansas Bookstore on the University of Arkansas, Fayetteville, Campus between June 2002 and April 2003. While in this position I worked under the direct supervision of Ali Sadeghi, Director/General Manager of the University Bookstore and had regular daily interactions with him as well as weekly scheduled meetings. On several occasions Mr. Sadeghi had made comments about his ability or possible intent to try and put other local bookstores out of business. These comments were usually elicited from Mr. Sadeghi by advertisements or deals offered by other bookstores that angered him. Also, there were a few professors on campus who would occasionally give their class required text book orders to off campus bookstores while withholding that information from the University of Arkansas Bookstore—this would usually make Mr. Sadeghi threaten to offer deals or programs that would put that particular bookstore which had caused the offense out of business.


Timothy Stein

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