

T&E Committee #1
March 25, 2010

Worksession

MEMORANDUM

March 23, 2010

TO: Transportation, Infrastructure, Energy, & Environment Committee
FROM: Dr. Costis Toregas, Council IT Adviser *CT*
SUBJECT: Interagency Procurement Coordinating Committee (IPCC) FY10 Annual Report and
FY11 Work Plan

Expected to Attend:

Members of the IPCC are:

David E. Dise, Co-Chair IPCC
Director, Department of General Services
Montgomery County Government

Philip J. McGaughey, Jr., Co-Chair IPCC
Director of Procurement
Montgomery County Public Schools

William T. Anderson, Procurement Officer
Housing Opportunities Commission

Pam Jones, Acting Director of Procurement
Montgomery County Government

Nancy Keogh, Director of Procurement
Maryland-National Capital Park and Planning Commission

Cathy A. Martin, Acquisition Director
Washington Suburban Sanitary Commission

Dr. Janet Wormack, Director of Procurement
Montgomery College

Summary of staff recommendations:

1. Accept the FY10 Annual Report of the IPCC.
2. Approve the FY11 Work Plan, with amendments:
 - a. Establish a work group to explore Shared Services/Consolidation options in procurement, and design an FY12 pilot.
 - b. Deploy an employee exchange program.
3. Suggest quarterly written updates on IPCC progress against the Work Plan.

Overview

The Interagency Procurement Coordinating Committee (IPCC) is an important institutional arrangement that encourages collaboration and joint activity across all Montgomery County agencies. It was established by Council resolution 11-835 in 1988, and is required to report on its activities and provide a future Work Plan annually to the T&E Committee of the Council. The FY10 work program for IPCC was established by Resolution 16-1008, which is on ©1-2. ©3-5 provide the IPCC FY10 Annual Report, while ©6 submits the IPCC FY11 Work Plan for Committee endorsement.

The Annual Report gives examples of collaboration and accomplishments that suggest that IPCC is providing good value to the County overall, as well as to the individual agencies participating in its activities. The members should be commended for their continued leadership in executing the Work Plan and seeking joint and productive solutions to the procurement challenges of today.

Council staff reviewed comparable jurisdictions' activities in collaboration across agencies, and found that Fairfax and Howard counties are also exploring, or have implemented, similar collaborative strategies amongst general government, schools, and other public sector organizations. ©7-9 provide narrative for these two efforts. In addition, several small jurisdictions in Nevada (Reno, Sparks Washoe County, and Washoe County School District) completed a "Consolidation Project of the Purchasing Function." This illustrative report, issued June 2009, is included on ©10-21. Although the jurisdictions are significantly different in size than Montgomery County, the process used, outcomes derived, and impediments found may be useful to the policy discussion in the County as the Executive branch explores this issue further. While there must be a deliberate study of the potential gains of a Shared Services or Consolidation model before moving forward, it is clear from the examples found in other jurisdictions that this trend is one that will be more prevalent as the financial challenge continues to press governmental budgets.

Staff Comments on FY11 Work Plan

1. In this time of fiscal crisis that the County is facing, the IPCC can play a significant role in exploring more **aggressive collaboration** models. A Shared Services model, under which a particular function is assumed by one organization on behalf of a larger group of agencies, is a strategy that is ripe for exploration, as is consolidation, under which the function is provided within a single organization.

It would be helpful to broaden the FY11 Work Program and include an explicit work element that would cover the exploration of such an approach. Staff would suggest a ninth work element for discussion and ultimate inclusion:

“...9. Establish an expert group to explore potential Shared Services and/or Consolidation model for one or more functions across agencies, and design a pilot program for FY12 consideration...”

Such a recommendation would be consistent with the County Executive’s initiative to explore cross-agency strategies for efficiency and productivity gains, and would make good use of the talent and expertise of the IPCC membership.

2. The **employee exchange program** (Item 5) is an excellent idea, and has been under consideration for more than 2 years. It may be timely to attempt a small **pilot effort** in FY11, and document the legal, cultural, and practical impediments and benefits from such an effort. The Committee may want to hear the merits of such an active option before directing the IPCC to add it to the Work Program. Since resources are scarce, if this program would not be cost-neutral, its consideration should be held off until later years.
3. The central vendor registration system (**CVRS**) has been operational for several months now. It is important for the Committee to be briefed on **its operation, benefits** accrued to the agencies using it, and **impediments** (if any) to its success.
4. The Committee may want to receive brief quarterly progress reports of IPCC’s work. Heretofore, the reporting is done on an annual basis, and there is no time to react to findings or possible needs for change in the Plan direction. As the need for collaboration increases, a closer reporting relationship could be helpful in keeping the procurement agenda and the IPCC accomplishments in the foreground.

Resolution No.: 16-1008
Introduced: June 16, 2009
Adopted: June 23, 2009

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY MARYLAND**

By: Transportation, Infrastructure, Energy & Environment Committee

SUBJECT: FY10 Work Program for the Interagency Procurement Coordinating Committee

Background

1. The County Council continues to recognize the diversity that exists among procurement program laws, regulations, policies, and procedures of Montgomery County agencies.
2. The County Council also recognizes that savings potentially could be achieved through increased coordination of procurement efforts, increased information sharing, and other means to increase efficiency and effectiveness.
3. To meet these needs, the County Council, on May 31, 1988, established the Interagency Procurement Coordinating Committee through Resolution No. 11-835.
4. Resolution No. 11-835 requires the Interagency Procurement Coordinating Committee to prepare a work program each fiscal year.
5. On March 30, 2009 the Transportation, Infrastructure, Energy & Environment Committee reviewed the FY09 Work Program for the Interagency Procurement Coordinating Committee and recommended approval.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

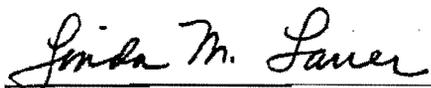
The FY10 Work Program for the Interagency Procurement Coordinating Committee is as follows:

1. Provide coordinated training courses where costs can be shared and that can be used in getting a procurement certification such as the CPPB, CPPO or CPM to improve and retain staff. Additional training in areas of Adding Value to the Procurement Process, Ethics, The Relentless Pursuit of Excellence, and The Diversity Advantage, contracting, negotiations, insurance and bonding, general and specialized procurement, and other related procurement and leadership topics will continue to be explored.

2. Continue cooperative solicitations within the Interagency Procurement Coordinating Committee and Metropolitan Washington Council of Governments. Continue the work to use the Baltimore Regional Cooperative Purchasing Committee in cooperative solicitations. Montgomery College and Montgomery County Public Schools will also participate in joint purchasing and bridge contracts with their respective educational and professional associations.
3. Continue to review contract boiler plate "Terms and Conditions", as necessary. Coordinate the review from the legal staff of agency bids, proposals, and contract documents to streamline and standardize the Terms and Conditions Reference Library.
4. Continue to share information on vendor lists as related to specific commodities, services, and construction. In a unified outreach to the local business community, IPCC members intend to work with the DED and regional chambers of commerce to plan and conduct a reverse trade show at which County and other public agencies will exhibit to the business community. This will provide an opportunity for the business community to gain introductions to agencies and become more familiar with programs, plans, and policies of those agencies with which they are more likely to deal. In addition, many members will be participating in a state-wide reverse trade show being planned by the Maryland Public Purchasing Association in October 2009, as well as the Baltimore Washington Chamber of Commerce. Together with ongoing cooperation and sharing of vendor information, these programs will help members become more familiar with the resources and business opportunities available within Montgomery County to address identified requirements.
5. Consider an employee exchange program for cross-training and germination of ideas within the procurement community. This will create a well-informed and broadly trained community of procurement professionals who can assist each other in a time when resources are thin and help ensure uniformity of practice among IPCC agencies.
6. Using the NIGP for guidance, a green policy will be developed with an interest to using local vendors to support this initiative. This will provide a knowledge base of best practice throughout the US and Canada in sustainable procurement practice and policy and promote local businesses engaged in these areas.
7. Complete an ABC analysis of each of the agencies to see what items might be considered for additional cooperative procurements.

The Interagency Procurement Coordinating Committee will provide a written annual report to the County Council's Transportation, Infrastructure, Energy & Environment Committee in the spring of 2010.

This is a correct copy of Council action.



Linda M. Lauer, Clerk of the Council

The FY10 Annual Report

for the Interagency Procurement Coordinating Committee is as follows:

- 1 Provide coordinated training courses to lower costs. Professional development and training courses offered to procurement staff as well as users can be shared. Many of these courses are helpful in preparing for professional procurement certification (CPPB, CPPO, CPM), obtain recertification credit under continuing education, and also help improve skills and retain staff. Training includes IT contracting, negotiation, insurance and bonding, general and specialized procurement, and other procurement-related and management topics.

Results:

- Two procurement staff obtained certification as Certified Professional Public Buyer (CPPB) during FY10 and one more buyer is sitting for the CPPB exam in May 2010
- Three procurement staff achieved CPPB recertification and one was recertified as a Certified Professional Procurement Officer (CPPO).
- On line graduate-level certification was used as additional training opportunity
- Continued use of webinars for updating staff skills
- Introduction of “Highlighted Topics” at IPCC Meetings to focus on trends and best practices (small/MFD business completed, upcoming is cost & price/negotiations)
- Shared information and lessons learned on key procurements such as ERP systems and other major or complex solicitations

- 2 Continue cooperative solicitations within the Interagency Procurement Coordinating Committee, Metropolitan Washington Council of Governments, and the Baltimore Regional Cooperative Purchasing Committee in cooperative solicitations. Montgomery College and Montgomery County Public Schools also participate in cooperative procurements with educational focused professional procurement associations.

Results:

- Completed reverse auction cooperative procurement for unleaded gasoline
- Completed cooperative RFP for health care benefits; pending evaluation and award
- Preliminary interagency development of cooperative for life insurance RFP
- Increased use of bridge (“piggy-back”) contracts for hybrid vehicles, training, elevator maintenance, and others
- Currently planning interagency cooperative for other fuels, cleaning products, and environmentally preferred products

- 3 Continue to review contract boiler plate “Terms and Conditions”, as necessary. Coordinate the review from the legal staffs of agency bids, proposals, and contract documents to streamline and standardized the Terms and Conditions Reference Library.

Results:

- Completed update to the Council of Government Rider Clause, and incorporated Baltimore Regional Cooperative Purchasing Committee (BRCPC) members
- Update to IPCC Agencies At A Glance
- Instituted coordinated review of new laws introduced during this session that impact procurement so as to provide comment to officials regarding impact on all agencies

4 Continue to share information on vendor lists as related to specific commodities, services, and construction. In a unified outreach to the local business community, IPCC members work with the County’s Department of Economic Development and regional chambers of commerce to participate in and conduct trade shows at which procurement staff can interact with the business community.

- Results:
- IPCC members participated in the Maryland Public Purchasing Association’s Reverse Trade Show held in October 2009
 - Agencies continue to share vendor lists and information about vendor performance related to specific commodities, services, and construction.
 - IPCC will participate in Procurement Town Hall meetings planned by the County’s Department of General Services to begin in 2010.
 - Interagency cross training on uses of Centralized Vendor Registration System (CVRS); inclusion of local small business and MFD certifications

5 Consider an employee exchange program for cross-training and germination of ideas within the procurement community. This will create a well-informed and broadly trained community of procurement professionals who can assist each other in a time when resources are thin, and help ensure uniformity of practice among IPCC agencies.

- Results:
- Pursuing opportunities for staff development, training, and networking. Specifically; currently examining areas for collaboration and hurdles to that goal such as laws, policies, and logistics
 - IPCC staff members will participate in the March 23rd COG Purchasing Month Workshop

6 Focus on establishing practices on Environmentally Preferred Products (EPP) and sustainable procurement, with particular focus on identifying local vendors to support this initiative. Building on knowledge-base of best practice throughout the US and Canada in sustainable procurement practice and policy. Promote local businesses engaged in these areas.

- Results:
- Developed website, <http://www.montgomerycountymd.gov/content/DGS/pro/ipcc/index.html> and continuing to research best practices, populate website, and existing tools online to add to website or provide a link to assist users.

- Interagency development of Green Procurement Forum in Fall of 2010 at UMD Shady Grove Campuses
- Working to arrange an EPA and other industry experts to present to IPCC regarding sustainable green practices

7 Complete an ABC analysis of each of the agencies to see what items might be considered for additional cooperative procurements.

Results:

Some of these items are already discussed in other areas above related to cooperative procurements.

- Ongoing analysis due to a changing environment
- Identified energy, health care benefits, life insurance, and others as discussed above
- College & school system will continue to work on education related topics
- Engaging new Acquisition Director at WSSC

The FY11 Work Plan
for the Interagency Procurement Coordinating Committee is as follows:

1. Provide coordinated training courses where costs can be shared and to improve and retain staffs, including certifications. Additional training in areas of Bonding and Insurance, Doing more with less, Adding Value to the Procurement Process, and other related procurement and leadership topics will continued to be explored.
2. Continue cooperative solicitations within the Interagency Procurement Coordinating Committee, Metropolitan Washington Council of Governments and the Baltimore Regional Cooperative Purchasing Committee in cooperative solicitations. Montgomery College and Montgomery County Public Schools will also participate in joint purchasing and bridge contracts with their respective educational and professional associations.
3. Continue to review contract boiler plate “Terms and Conditions”, as necessary. Coordinate the review from the legal staffs of agency bids, proposals, and contract documents to streamline and standardized the Terms and Conditions Reference Library. Continue to update IPCC Agencies At A Glance, as needed.
4. Continue to share information on vendor lists as related to specific commodities, services, and construction.
5. Consider an employee exchange program for cross-training and germination of ideas within the procurement community. This will create a well-informed and broadly trained community of procurement professionals who can assist each other in a time when resources are thin, and help ensure uniformity of practice among IPCC agencies.
6. Continue the development on the central vendor registration system that will be shared by all members, including interface to ERP and share those lessons learned for others that have or are getting an ERP.
7. Continue to refine the IPCC green policy, and engage local businesses interested in providing green products. Continue to refine website and tools available to county procurement professionals. Complete and report out results on “green” conference to be held in calendar year 2010.
8. Continue to review the analysis of each of the agencies to see what items might be considered for additional cooperative procurements. Report results in FY11 report.

The Interagency Procurement Coordinating Committee will provide a written annual report to the County Council’s Transportation, Infrastructure, Energy and Environment (T&E) Committee in the spring of 2011.

Review of procurement option status in Fairfax and Howard counties

Fairfax County VA

1. Correspondence with Cathy A. Muse, CPPO, Director/Purchasing Agent January 20, 2010

Although I serve as the Purchasing Agent for both County and Schools, we maintain separate procurement offices that work collaboratively together. We share one automated procurement system and each of our contracts is available for use the the other. The School Board and the County Board of Supervisors entered into a cooperative agreement that created this relationship in 1968, but it has morphed into something quite different through the years. We have a formal delegation document that delegates certain authority to the Director of the FCPS Office of Procurement Services. Under that agreement, the Director serves as my agent for the Public Schools. The School Board adopts our Purchasing Resolution annually which sets out the authority of the Purchasing Agent.

Howard County MD

1. Correspondence with Darla H. Herbold, CPPO, CPPB - Purchasing Administrator January 27, 2010

There is no formal written plan. However, the purchasing managers of the government, board of education, community college and library meet quarterly to discuss ways we might collaborate on procurements. One or more entities already share contracts for services such as records management (off-site storage and retrieval) and office supplies, to name a couple. The board of education recently piggybacked (or bridged) the county government's contract for trash and recycling collection which resulted in savings to the board of education. We also jointly participate in minority business outreach activities about twice per year.

2. Presentation of Ken Ullman, County Executive MACO Education Session: Maintaining #1 in Challenging Times Friday, January 8, 2010 10:30 am – 11:30 am

For Maryland counties, the Board of Education is the single largest line item in the budget, and often the most contentious. Although Local Board's of Education are separate units of governments with their own separate rights and responsibilities, most of our citizens do not understand that distinction. They see one government and do not understand why they do not work more closely together. They see waste and duplication and do not care about the fine legal points of why they are separate. This is why it is important for county and school system officials to explore ways to work as partners towards a common goal.

Examples of collaboration between the County and the school system:

Employee Benefits

On 1/1/2008, for the first time, we bid our health insurance program in a joint bid with the Board of Education using the combined size of both organizations to get better rates. We got just over 3% vs. national trend over 10% with lower admin fees, greater support for wellness programs, etc. Savings are a little hard to compute with certainty since the plan is self insured, but it is approximately \$1 million in savings per year.

We formed a joint OPEB Trust Fund and negotiated with the School Board for a joint reduction in OPEB benefits. That reduction will reduce our annual required contribution by \$10 million a year.

The Human Resources Office of both organizations are now talking to each other and exploring other areas where a joint bid for services can reduce costs to both organizations.

Facilities Management

We have partnered with the School System to arrange for shared field maintenance. Under this arrangement the School System mows some County fields and the County mows some of school fields where it makes sense.

The School System is “piggybacking” on our recycling and trash collection contracts for significant savings to the school system.

The school system is using our inspectors on their repaving contracts, again at significant savings to the school system

We have built a joint vehicle maintenance facility shared by both organizations. At this time they are still separate organizations operating at the same facility, but our goal is to increase the level of cooperation over time. As a first step we are working on joint gasoline distribution for our vehicles and using the same computer management system to track vehicle maintenance.

Technology

Rather than build a separate multi-million dollar data center at an old school, we partnered with the school system to build a joint data center.

We are installing a broadband fiber network for County communications. By routing the fiber by as many schools as possible and making it possible for them to join our network creating, the school system will save significant dollar savings. In having one network, it will be possible to utilize joint use of the county e-mail system, rather than having two separate systems.

We are also exploring how the school system can use our radio microwave tower system to improve their interschool communications.

Purchasing

Working with the Board, the School System made the decision to join the Baltimore Regional Cooperative Purchasing Commission (BRCPC), which will save them and us significant energy dollars. In addition, the group utilized the “reverse auction” format for the purchase of bulk paper for participating school groups, (Anne Arundel, Baltimore, and Howard counties). From this auction the participants realized a savings of \$ 84,227 over prices available through other procurement processes.

In addition, the purchasing offices from the County, the School System, the Library, and the Community College meet with each other quarterly to review how they can cooperate on joint purchasing contracts.

Liability Insurance

The two organizations use a joint actuarial contract for our risk management funds and the County oversees the School System’s Automatic External Defibrillator (AED Program)

In conclusion, these actions have not solved our budget crises, but they have saved and will continue in the future to save significant dollars. But more importantly, we have started the process of getting two separate organizations to work together. And this is something that we must continue to nurture.

Truckee Meadows Contracting Authority (TMCA)

Consolidation Project of the Purchasing Function

June 2009

(Updated 6/17/09)



Participants

Leadership

John Sherman
Washoe County - Finance Director

Membership

Laurie Pedrick
City of Reno - Purchasing Manager

Dan Marran, CPPO, C.P.M.
City of Sparks – Purchasing Manager

Michael Sullens
Washoe County – Purchasing Manager

Andrea Sullivan
Washoe County School District
Purchasing Supervisor

Overview

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- IV. Highlights of Organizational Differences
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- VII. Steps for the Future
- VIII. Transition Considerations
- IX. Challenges
- X. Estimated Costs/Timeline
- XI. Defining Success
- XII. Recommendations

Section I - Executive Summary

A team of representatives from the City of Reno, City of Sparks, Washoe County and the Washoe County School District was tasked with “taking the next step” with regard to work performed in 2008 supporting the joint “Shared Services” discussion between local agencies in Northern Nevada. In this case, the “next step” was to further analyze the issues and requirements necessary to consolidate the functions of “purchasing” between the member agencies.

The team reviewed existing structures, organizational differences, client requirements and legal mandates in the analysis presented here. This document provides some detailing of these efforts, highlights of key issues and consideration of the continuing services required by all of the represented agencies.

Section II – History

The public purchasing profession works diligently to be well-networked in order to share information, experience and practical tools to make the task more efficient. Local agencies in the region created the Northern Nevada Consortium for Cooperative Purchasing (NNCCP) for this purpose. This venue allows for the sharing of resources, knowledge and plans for the future.

While the NNCCP has existed in the region for more than 15 years, the activity in 2008 associated with the “shared services” task resulted in new energy specific to the activities of this group and the coordination of bids and other contracting tasks between agencies. This activity was specific to the agencies listed in this report as well as others in the region.

Additionally, public purchasing law generally allows for the practice of joining on to other public agency awarded contracts with the consent of the vendor. This practice allows for gaining even larger economies of scale when purchasing materials common to government. The routine “joining” or “piggybacking” of government contracts as well as soliciting on behalf of multiple agencies provides efficiencies in the procurement process not generally found in other functions of government.

The continued interaction and coordination of contracting activity between Northern Nevada public agencies benefits all member agencies and will continue regardless of any ultimate determination made with regards to consolidation of the Purchasing function.

Section III – Purchasing – Current Organization

While the goals and responsibilities of the respective Purchasing divisions are generally the same, the organizations have evolved over time to be vastly different in terms of staffing, organization, work load and client base. The following table gives a base snapshot of the Purchasing divisions of the respective agencies for the 2009/2010 fiscal year:

Summary of Agency's Operations	Washoe County	City of Reno	City of Sparks	WCSD
Type of Purchasing Organization	Centralized	De-centralized	Centralized	Centralized
Public Works Construction Bids	Infrequently	No	Always	No
FY 2010 Purchasing Division Budget Total	\$512,478.00	\$190,179.96*	\$337,910.00	\$513,707.00
Staffing				
• Purchasing Manager	1	1	1	
• Purchasing Supervisor				1
• Senior Buyers			1	
• Buyer II (WCSD) / Buyer	3		1	3
• Buyer I (WCSD)/ Assistant	1			1
• Administrative Secretary				1
• Secretary II/OAII		1		1
• Program Technician				1
Number of Total FTE's	5	2	3	8
Current Limits of Authority	\$50,000.00	\$25,000.00	\$25,000.00	\$25,000.00
Agency Finance Software (Includes Purchasing Module)	SAP	New World	AGRESSO	BI Tech

*Reno figure includes some "organizational support functions" placed in Purchasing for management purposes.

It must be noted that the budgets and staffing levels detailed in the chart represent a 25% reduction in the total budgets of the represented agencies in the past twelve months. All agencies have seen reductions in their service/supply budgets. Additionally, the staffing compliment in both Sparks and Washoe County include reductions of personnel either in Fiscal 2009 or scheduled in Fiscal 2010. As of June-2009, the aggregated purchasing budget of the four participating agencies is \$1,554,275.00.

Section IV – Highlights of Organizational Differences

As noted in Section III, the Purchasing function in each agency is organized uniquely to suit the needs of their clients. Upon any decision to consolidate, decisions would be required to make these differences less distinct and services more uniform. For example:

Centralized v. Decentralized Purchasing: The City of Reno operates with a minimal staffing level due to the fact that many of the routine purchasing functions have been delegated to City Departments. While this would seem to offer some level of efficiency in the staffing of the Purchasing function, it reduces the effectiveness of the function as work must primarily be focused on “big picture” issues or contracts of universal use in the agency. The ability to control costs by aggregating needs is lost as departments make their own purchases, inside pre-set limits. While those limits may be firmly established in policy, the enforcement of those limits may be difficult to perform as more pressing issues arise. The Purchasing Manager is tasked with knowledge and enforcement of relevant code and NRS specific to public procurement and these rules are often lost on those granted delegated authority.

Bidding public works construction: The City of Sparks is the only agency in the study group that manages the bidding process related to capital construction (projects governed by NRS 338). There are some instances where this may also be done in Washoe County. While there are models in other agencies where this work is shifted to engineers or project managers within the Public Works Department, there are efficiencies to be gained by centralizing this task in the Purchasing Division. Specifically, the Purchasing function is designed for the orderly distribution and receipt of bids and is best positioned to maintain a level of neutrality in disputes that can arise out of the specification and bidding process.

Uniform Enterprise Software Systems: This issue is better detailed in the next section. However, each local agency being studied for consolidation currently utilizes its own unique enterprise software system. The Purchasing process is reliant upon the use of an enterprise software system for the purpose of receiving requisitions and issuing purchase orders. These processes are tied to real-time budget data maintained within the Finance sections of each agency. As each software platform is unique, significant financial decisions would need to occur to gain efficiencies in the Purchasing function.

Centralized v. Decentralized Accounts Payable: The culmination of the purchasing process is the payment of the vendor. While this function is isolated from Purchasing (by design and good internal control practices), the data required to pay vendors is directly tied to the recorded receipt of goods and processing of an invoice, usually tied to data generated in the requisition/purchase order. The City of Sparks decentralized this process in 2004/2005 with success after some period of time. But this highlights an organizational issue that must be resolved as a part of the discussion of Purchasing consolidation as the consistent processing of vendor payments is instrumental to the success of the overall transaction.

Section V – Purchasing as an Integrated Function

It has been assumed that the consolidation of Purchasing functions is relatively simple. The assumption is that “everyone buys the same thing” and that the functions are overlapping in the community. While the respective Purchasing divisions do share resources in order to leverage their collective needs, each Purchasing division executes their own contract with a vendor after the leveraged price is determined.

Consolidation of the Purchasing function is far more complex. While the act of purchasing materials is relatively simple, the dynamic requirements of sound financial management and reporting require an integrated enterprise software system to assure that funds are spent correctly. In the case of each agency, an electronic requisition is entered by a user, checked against available budget, approved appropriately and forwarded to the Purchasing Division. Upon receipt in Purchasing, staff will determine whether further review is required and whether a bid process might be necessary. Upon completion of these tasks, a Purchase Order will be issued as a signal to the vendor that they can ship product or begin service. Once goods/services are received, a payment will be processed against an invoice, using data that started at the requisitioning stage. These steps outline the general “life” of an individual need.

Any discussion of consolidation of the Purchasing function will require addressing the material differences in the respective enterprise software systems of the affected agencies. As noted in Section III, the affected agencies currently utilize four unique systems, representing millions of dollars in investment over the past 2-10 years. Consolidation would likely require further analysis (and possible standardization/consolidation of:

- Budgeting Rules
- Account Code Structure
- Approval Limits - Electronic
- Approval Limits – Elected Board
- Payment Process (Decentralized at City of Sparks, Centralized elsewhere)
- Accounting/Reporting

It is possible for the Purchasing function to be a standalone unit, outside of an integrated enterprise software system. However, this concept will require a software interface between the chosen Purchasing software and the respective enterprise software systems of the client agencies. This option would require the installation of software and the training of system users at all agencies so that work could flow to the Purchasing function. While this presents a workable solution, all benefits of an integrated system that allows for historical queries on spend activity are lost in favor of a 2-system approach. Additionally, access to “live” or “real-time” data is sacrificed.

Section VI – Hypothetical Future – Truckee Meadows Contracting Authority

In 2008, the Purchasing team participating in the Shared Services discussion posited the concept of a centralized contracting authority that could, theoretically, provide procurement related services to contracted agencies in the region. Named the Truckee Meadows Contracting Authority (TMCA), the entity would operate as if they were bound by the rules defined in NRS 332, NRS 338, county and municipal codes and good public procurement practices. Most likely, it would be established via an interlocal agreement similar to that used for the operation of the Truckee Meadows Water Reclamation Facility (TMWRF).

The TMCA model establishes a clear contracting authority rather than combining the staff of the member agencies in to any of the other agencies. This relieves concerns about a single “master” agency running the business affairs of all the others in the region. It also gives autonomy to the

procurement process that, ideally, should be a standalone function, outside of the Finance section of any one agency.

In order to gain efficiencies in such a model, TMCA buyers would become specialists in specific commodities and services and serve the needs of all the contracted agencies with respect to those items. Therefore, buyers would become subject-matter experts in their own areas and not be restricted to working for only one agency.

At the management level, a TMCA structure would require a liaison to interface with key management in each agency to focus on forecasting needs, reporting pricing trends and resolving disputes related to contractor issues. Depending on the needs of each respective agency, this position would also be available to attend meetings of the elected board for the purpose of awarding contracts specific to that agency. Contracts applicable to all contracted agencies would require delegated awarding authority to the TMCA or some other process to gain efficiency for all clients.

The staffing level of a TMCA model would likely be the same or larger than the current combined Purchasing staff of the affected agencies. While the workload would be reorganized to the benefit of the collective members, the total workload will potentially increase as the function (most likely) becomes universally centralized. Should the TMCA take on bidding for public works, additional specialists in this area would be required as well as a manager to deal with irregularities and the settling of disputes.

Staffing levels, salary and benefit considerations would need to be evaluated in light of existing contracts with employees in each agency.

Section VII – Steps for the Future

A decision by the collective bodies to pursue the consolidation of the Purchasing function would require addressing the following issues in relative order of importance:

1. **Evaluating Enterprise Software Issues** – As noted in Section V, the removal of the Purchasing function from the integrated enterprise software systems will cause a disruption in how data is communicated and reported. This impact cannot be minimized as each agency uses its enterprise software system to make key management decisions and to remain compliant with State law and Government Accounting Standards Board (GASB) rules.
2. **Defining Service Level** – As noted in Section III, the service level of each agency varies. Agency management and elected members will need to come to a consensus on the full scope of service to be assumed in a TMCA model which will primarily affect staffing levels at their locations.
3. **Policies and Procedures** – Each agency has differing policies and procedures that should be made uniform for all agencies. Varying levels of approval at all levels of the transaction (including the elected board) should be evaluated and defined in order to

improve the efficiency of processing transactions.

4. **Funding Model** – Ideally, the TMCA would operate as an independent unit, contracting with member agencies. Funding of the TMCA would need to come from the support of those agencies looking to establish such a model. A specific formula on how any such authority would be established and maintained would require specific analysis and approval of all of the contracting agencies. Consideration will need to be made to deal with disproportionate service levels that currently exist between agencies and how this will need to be homogenized in a new purchasing structure in order to avoid one agency subsidizing the operations of another.
5. **Establish Governance Model** – Oversight of TMCA operations may require (depending on organizational plan) a governing board model with representatives from each contracting agency similar to the operations of the Truckee Meadows Water Authority (TMWA) with elected officials or appointed staff representatives.
6. **Representation from each agency (staff)** – The orderly transition to the proposed TMCA model requires staff resources to guarantee success. Drafting of a business plan that deals with larger organizational issues and daily procedure concerns would be required at the outset.
7. **Performance Measurement** – Specific goals and objectives would need to be established to measure performance in the short term and long term.
8. **Return on Investment** – Expectations concerning when a TMCA model would be deemed “successful” or a good return on the considerable investment should be defined at the outset.

Section VIII – Transition Considerations

Once the agency members are committed to the consolidation of the Purchasing function, a transition plan will need to be designed and implemented. Specifically:

1. **Transition Team** – A transition team with representatives from each agency will be established to identify and manage specific issues as they arise.
2. **Transition Plan** – The plan to be developed would include:
 - a) Timeline
 - b) Cost Estimate (1st year + Subsequent Years)
 - c) Methodology
 - d) Key Deliverables
 - e) Facilities and Equipment
 - f) Maintenance and Operations
 - g) Change Management
 - h) Communication

i) Risk Management

3. **Legal Representation** – Each entity currently uses their own legal staff to deal with contract disputes and other issues common in the procurement process. A common legal resource should be identified that can resolve issues on behalf of all agencies.
4. **Administrative Support** – A standalone purchasing authority will require support functions typical to any organization, including human resources, risk management, facility maintenance, etc.
5. **Existing Contracts** – Each agency has existing contracts of varying terms that will need to be assigned to the TMCA or otherwise reside within the originating agency until expiration.
6. **Labor Issues** – While each agency carries similar titles for their Purchasing staff, the compensation level in salary and benefits vary. This will need to be resolved so that staff of a TMCA model would be treated in a uniform manner. This will also need to be resolved in light of existing labor contracts for some positions.

Section IX – Challenges

Challenges have been detailed in previous sections but major issues that must be resolved are:

1. **Operational Model** – How much of the daily procurement activity would be consolidated and what would be shifted to (or from) other agency departments? Consolidation may have a significant financial and operational impact on users that is lost in the general discussion of consolidation.
2. **Finance Implications** – Is the consolidation of Purchasing functions worth the negative effect on real-time financial reporting as well as other accounting/budget functions affected by the decision?
3. **Policies/Procedures** - Which policies/procedures will be seen as the “best match” for the collective agencies to use? Varying levels of approval at all levels of the transaction (including the elected board) must be resolved.
4. **Funding and Governance Model** – Work cannot proceed on the actual act of consolidation without a governance model and funding model being established.

Section X – Estimated Costs/Timeline

Areas of cost associated with a consolidation model have been generally identified in the previous sections. Specific dollar estimates are not provided as they are contingent upon other decisions being made. Generally speaking the costs would be specific to:

1. **Transition Costs** – Staff and resources would need to be free of their other daily duties to develop a transition plan and implement it for the success of the project. Work deferred in this process would need to be processed by others.
2. **Software Costs** – Under any possible plan of consolidation, there will be considerable software costs. More specifically, investments made in existing enterprise resource planning systems will be abandoned in favor of either using the Purchasing module in one of the 4 existing systems, or securing standalone “purchasing” software with interfaces to each agencies enterprise software system. In either case, the purchasing software would have to interface with the finance software of the contracted agencies. Interface programs of this type can be relatively simple or complex depending on the architecture of the programs in question and will generally be in the tens of thousands of dollars for each different program.
3. **Labor Costs** – The varying levels of compensation in the local public procurement field will need to be addressed with observance of relevant labor agreements. Any attempt at standardizing this area will likely result in slightly increased costs when compared to today.

The timeline for a consolidation plan will be contingent on the direction of the collective agencies and the identification of the total scope of the blended Purchasing function. However, given adequate direction and resources, the plan could be implemented within a year. It would make operational sense to make any transition to a consolidated function coincide with the beginning of the fiscal year (July 1st).

Section XI – Defining Success

The motivation behind consolidation of this and other function may be generally identified as a desire to save immediate budget dollars and reduce perceived redundancies. However, the Purchasing function strives to provide its agency with the best products/service at the best possible value for all concerned including the using department, management and the taxpayer ultimately paying for the item.

Success in a consolidation model would include:

- Clients having the ability to request and receive products/services in a timeframe meeting their needs, while satisfying the regulatory needs of the respective agency in the protection of taxpayer dollars.
- The level of service provided to the client shall be at the same level or higher than the service level prior to the consolidation.
- The cost of the procurement process shall be less than the current cost to provide similar services.

Section XII – Recommendations

The team that has supported the original Shared Services discussion has worked diligently to provide further information now that the discussion has moved toward consolidation. Contained within this report is the beginning of a plan to move toward a regional contracting authority that could serve the needs of the four represented agencies as well as others that may wish to participate at a later date. This plan is feasible for implementation should that be the desire of the participating agencies.

However, while this plan may make operational sense if there were the opportunity to start from “scratch”, it must be emphasized that any efficiency gained at this stage will be over a long period of time. ***This plan will not result in any immediate budget savings.*** Savings over a longer period would likely be below expectations.

The total budget for the purchasing function of the four represented agencies is roughly \$1.5M for the coming fiscal year. It is unclear how much a consolidation plan is intended (or hoped) to save the participating agencies. Assuming such a plan could net 10% savings over time, which would represent only \$150,000 in budget savings (split four ways). This savings might only occur after the significant investment required to implement the consolidation.

The Purchasing divisions of the represented agencies work hard to serve the specific needs of their individual clients and will endeavor to continue to provide this level of service in to the future in whatever form that may hold.