

Commission on Enhancing Agency Outcomes

Contracting, Purchasing, and
Other Expense Information

November 22, 2010

Contracting and Purchasing

- Many state services and products are purchased
- Variety of ways to purchase and contract
 - Purchase of Service Contracts
 - Personal Services Agreements
 - Other (e.g., routine bids for products; design-bid-construct)
- Many of the state's contracting and purchasing processes seem outdated, duplicative, inefficient, and expensive

Purchase of Service Contracts

- Client Services: Overall more than \$1 billion
 - Board and Care of clients currently about \$750 million
 - Typically purchase of service (POS) contracts – by their name are **buying human services** (not products) for clients
 - Six agencies use – DCF, DDS, DSS, DPH, DMHAS, and DOC

Purchase of Service Contracts

- In FY 08 – 1,942 contracts totaling **\$1.14** billion
- In FY 09 – 2,077 contracts totaling **\$1.37** billion
- In FY 10 – 1,572 contracts totaling **\$1.40** billion

Purchase of Service Contracts

- Number of contracts reduced by 370 from FY 08 to FY 10
- but 358 of that reduction was due to DSS going to multi-year contracts;
- and total \$ amount increased by about \$300 million in 2 years
- includes large DSS contract amounts to Community Action Agencies for:
 - Fuel assistance
 - Social Services Block Grant (e.g., day care, transportation assistance, etc)
 - Weatherization
 - Federal requirements restrict which agencies states can contract with

Purchase of Service Contracts

- Standard contract language mostly achieved
- Consolidation of state POS contracting process among agencies has not been achieved
- For example, even in one state agency (DDS):
 - 339 separate POS contracts
 - 160 different contracting providers
 - thus on average 2 contracts per provider
 - one provider has 9 POS contracts w/DDS alone
 - one has 8, and two have 6 each
- Not efficient, duplicative for provider, and the state agency

Purchase of Service Contracts

- Most are multi-year contracts
- Interest in providing stability for clients
- Most are not competitively bid, but depends on agency
 - only 19 of 339 DDS contracts were competitively bid
 - many of DCF contracts are bid
 - DPH bid 85 of 237 contracts

Personal Services Agreements

- One of the state's primary procurement processes
- Typically for “infrequent” or “non-routine” services or end products
- By law agencies must execute a PSA before hiring a contractor
- Standards include:
 - Evaluating need for a PSA
 - Developing a RFP
 - Advertising for contractors
 - Evaluating submitted proposals
 - Selecting contractor
 - Monitoring and evaluating PSA contractor performance
 - Documenting the entire process for selecting and managing

Personal Services Agreement

- PSAs not required for:
 - Contracts for **routine products** like supplies, materials and equipment
 - Contractual **routine services** like cleaning or laundry, security, pest control, rental, repair and maintenance of equipment, or other service arrangements where services are provided by persons other than state employees
 - Certain **consultants hired by DPW** like architects, engineers, surveyors, accountants – must be selected by Construction Services panel
 - Federal, state or local **government agencies**
 - Certain consultants hired by **Department of Information Technology**
 - Certain consultants hired by the **Department of Transportation** like architects, engineers, land surveyors, accountants, management and financial specialists – must be selected by DOT consultant services evaluation and selection panel

Use of Personal Services Agreements

- FY 08 – **2,116** contracts -- totaling **\$369,136,220**
- FY 09 – **2,235** contracts – totaling **\$320,577,509**
- FY 10 – **1,914** contracts – totaling **\$376,999,121**
- **40 agencies used PSAs in FY 10**
- **Fewer contracts in FY 10, but more money**

Use of PSAs

- Majority are **not competitively bid**:
 - 75% were not in FY 08;
 - 76% were not in FY 09
 - 76% were not in FY 10
- Even if cited as competitively bid, often not:
 - Long-term contracts (5 years)
 - Extended by amendments to 10-12 years or longer
 - Millions of dollars over life of contract
- Contracts and process not very transparent – OPM has reports on website, but contracts themselves not available

Personal Service Agreements

- Prime examples of these long-term contracts in DSS in Medicaid program supports:
 - Center for Medicare Advocacy -- total contract \$24 million; FY 10 payments total \$3.4 million
 - Craig Lubitsky Consulting LLC (Medicaid nursing home cost systems for rate setting, audits)\$23.5 million, FY 10 payments total \$3.6 million
 - ACS (HUSKY B administration) -- \$9,678,668 in FY 10 alone
- Another example is State Department of Education contracts with Measurement Incorporated:
 - 2 separate contracts – each run from June 2005 to October 2014 (almost 10 years)
 - One contract worth \$51.2 million – FY 10 payments of \$5.7million
 - Other contract worth \$103.2 million– FY 10 payments of \$11.6 million

Other Expense Areas: Medicaid Administration

- All contracted areas – does not include DSS administration:
 - \$55.9 million in FY 08
 - \$63.2 million in FY 09
 - \$65.7 million in FY 10
 - Almost \$10 million increase over 2 years
- 7 contracts including HP (\$21.3 million in FY 10) for Medicaid information and payments, Mercer, Value Options, and Dental Benefits Management

Other Areas: Higher Education Operating Expenses

	FY 08	FY 09	FY 10	2-year % change
Regional Community/ Technical Colleges	\$139,779,057	\$114,000,000	\$104,500,000	-25.2%
State University System	\$190,601,190	\$197,966,561	\$194,464,189	2.03%
UConn Health Center	\$272,953,325	\$286,364,912	\$299,721,459	9.81%
University of Connecticut	\$245,000,000	\$310,000,000	\$300,000,000	22.45%
TOTAL	\$848,333,573	\$908,331,473	\$898,685,648	5.94%

Higher Education Operating Expenses

- Little oversight of how money is spent
- At time when facing budget deficits – and many areas have been cut -- most of these higher education operating expenses have increased
- Exception – community/technical colleges

Legal Area

- Outside legal services – not provided by state employees – 14 categories of payments:
 - Juvenile court stand-by attorneys
 - Fees for legal services, arbitration, referees
 - Contract attorneys
 - Serving of papers
- Costs are growing in this area:
 - \$40,794,082 in FY 08
 - \$41,419,245 in FY 09
 - \$41,690,844 in FY 10

General Office Expenses

- Included areas such as:
 - equipment rental,
 - general office supplies,
 - office equipment maintenance and repair
 - other equipment rental and maintenance
 - stationery
- Decreased over last 2 years:
 - \$36,209,157 in FY 08
 - \$35,140,925 in FY 09
 - \$31,663,719 in FY 10
- Decrease of almost \$5 million (12.5%)
- But \$30 million still a substantial amount
- Might be reduced further by applying more modern purchasing practices such as purchasing cooperatives, reverse auctions, and on-line bid submissions

Printing:

	FY 08	FY 09	FY 10
Printing and Binding contracts	\$5,765,923	\$5,519,088	\$3,978,034
Printing supplies	\$967,156	\$684,834	\$565,403
Photocopying	\$242,059	463,500	\$188,865
Printing legal briefs	\$173,149	\$149,004	\$188,639
Total	\$7,148,288	\$6,816,426	\$4,920,941

General Commodities

- General supplies and products that don't fit under other categories:
 - Wood, plastics, textiles, paints, janitorial supplies
 - Spending in this expense category has decreased from \$15.9 million in FY 08 to \$15.1 million in FY 10
 - Potential for further reductions if more modern and efficient procurement practices were used

Phone Services

- Used various expense categories:
 - Phone equipment, cell phone services, long distance phone service, phone installation, repair and services, TV and cable services, and beepers and pagers
- Expense has decreased but still high:
 - \$45.7 million in FY 08 to \$34.7 million in FY 10 (\$20.6 million for local and long distance)
 - Further reductions if need is reevaluated
 - Ensure obtaining best rates for long-distance

Online Legal Information Services

- Several agencies contract with Lexis-Nexis and/or subsidiaries
- Total payments in FY 10 were \$1.3 million for that service alone
- Better oversight of multiple contracting for similar services to negotiate a better price

Regular Postage

- Increased over last 2 years:
 - \$17,619,051 in FY 08
 - \$19,301,076 in FY 09
 - \$20,040,688 in FY 10
- If decreased by 10% by more on-line services and notices would save **\$2 million**
 - Reductions from other recommendations – business filings in SOS's office
 - Electronic deposit of unemployment compensation and other checks

Buildings and Grounds

- Includes 16 categories of payments such as:
 - Construction and repair of institutional buildings, government buildings, rent for premises, contracted property management, plant equipment, cleaning services and supplies
 - **Expenses overall reduced** significantly from \$395.9 million in FY 08 to \$255.4 million in FY 10
 - Mostly because no new construction projects
 - But certain categories like **rent increased**– from \$40.1 million to \$45.8 million
 - Contracted property management increased from almost \$9 million to about \$10.4 million
 - Further reductions if use modern purchasing practices

Security Services

- Included categories of expenses:
 - Security supplies
 - Security services –state and non-state facilities
 - Alarm systems
 - Security guards
- Costs increased from \$11,359,298 in FY 08 to \$13,075,853 in FY 10
- Costs might be further reduced if procured through reverse auction or cooperatively purchased for all agencies

Transportation

- Largest expense categories are:
 - Public Transit payments: \$251.6 million in FY 08 to \$290.9 million in FY 10
 - Highways (excluding town payments): \$341.2 million in FY 08 to \$507.6 million in FY 10 –
 - But largely due to increase use of ARRA funds

Transportation

- Other expense areas not as great but may provide opportunity for some savings:
- Highway supplies:
 - \$16.7 million in FY 10, including \$10.2 million for road salt alone
 - Costs could be reduced if products could be purchased through reverse auction or purchasing with other states

Employer-Type Payments

- As an employer state is required to make wage and medical payments for workers injured on the job.
- Those costs have increased significantly:
 - \$93.8 million in FY 08
 - \$108.6 million in FY 10
 - Almost \$15 million increase (16%) in 2 years
- State must also pay unemployment insurance costs
- Those have also increased:
 - From \$4.7 million in FY 08 to \$7.2 million in FY 10
 - A \$2.5 million increase
 - But more than 50%

Proposals for Reducing Costs in Purchase of Service Contracting

- Probably a need to keep longer-term contracts in POS to ensure stability for clients
 - BUT
- Reduce the number of contracts among human services agencies through consolidation of back office administrative functions
- This would reduce the administrative burden of providers to have different systems to accommodate different human service agencies

Personal Service Agreements

- No longer than three-year contracts
- Outside evaluation by OPM on the need to continue the contract before rebid
- Discontinue use of amendments for PSAs

Other Contracting

- DAS and other purchasing agencies must modernize their procurement practices to include:
 - Reverse auctions
 - Job-order contracting
 - Submission of bids on-line for routine products and services
 - Expand use of purchasing through an existing contract with another state, town, nonprofit, or other public purchasing consortia
 - Expand use of contingency contracting

Reverse Auctions

- A **reverse auction** is a purchasing tool by which the buyer seeks the lowest price for what is being bought through an **online bidding process**. In contrast to a paper-based bid, in which the bidder makes a best-guess offer that is static throughout the competitive bidding process, in online, real-time reverse auctions, a supplier can re-evaluate and adjust its bid in response to offerings from other bidders. (See Attachment A)
- OPM has used reverse auctions to purchase electricity and natural gas – estimated savings of 20%
- DAS has had the ability to use reverse auctions for products since 2008, and has not used it, and 2010 legislation now allows reverse auctions for certain services
- DAS staff indicated that the state would have to own the online systems to operate the auctions, but a vendor is contracted to operate the auctions with the winning bidder paying the fees
- For products and routine services (cleaning, janitorial) **require that DAS and any other state agency use reverse auctions for at least 25% of purchases**

Job-Order Contracting

- Procurement method that uses a single competitively bid contract that uses a set of customized, pre-priced construction tasks (catalogue of prices)
- Often used for facility repair, alteration, and minor new construction needs
- Eliminates time, expense and staff burden normally connected with design-bid-construct for each project

Job Order Contracting

- Currently being used by:
 - U.S. Postal Service
 - New York State Transportation Department
 - Georgia Department of Administrative Services
 - New York State Offices of General Services
 - Pennsylvania Department of General Services
- And in Connecticut:
 - Capitol Region Council of Governments on behalf of member towns – estimated savings of 15%-20%

On-line Bid Submission

- Currently DAS sends out electronic notices of bid solicitation but does not have an electronic system for bid submission
- Since 2007, Capitol Regional Council of Governments has had a streamlined web-based system allowing registered members and vendors to participate in this efficient procurement process

Existing Contracts and Purchasing Cooperatives

- Until 2010, Connecticut could not use existing contracts of other states or purchasing cooperatives unless the state was part of the original contracting process
- Public Act 10-3 now gives DAS the authority to purchase through already established contracts

Existing Contracts and Purchasing Cooperatives

- DAS has used this authority (effective May 2010) by joining the Western States Contracting Alliance (WSCA) contract for maintenance, repair, and operational products
- Contract is managed by State of Nevada
- Estimated to save 30% on products

Contingency Contracts

- DAS and other procurement agencies should expand use of contracts whereby the vendor is paid from savings:
 - Energy performance contracting
 - Collection activity
 - Revenue enhancement
 - Case transfer or cost avoidance
 - DSS currently has in place a contract for third party liability that operates like this

Savings from Routine Purchases

- If procurement practices were modernized as recommended:
- Estimated savings of 10% in areas like general office supplies, phone and phone services, cleaning products and services, property management would be **\$38 million**

Other Proposals

- If just **5% savings** in **purchase of service** contracting could be achieved by consolidating human service contracts, and relieving providers of administrative burdens of dealing with multiple agencies
- Estimate savings of **\$70 million**

Other Proposals

- If more competition were introduced to personal service agreements:
 - fewer long-term contracts
 - restrictions on amending contracts,
 - outside evaluation of continued need,
 - and greater use of contingency or performance contracting
- Estimate savings of 10% -- **\$37.6 million**

Vendor Payments

- Improving efficiencies and modernizing practices also apply to way vendors are paid
- Currently Office of State Comptroller pays about 1,100 vendors through electronic deposit (issuing 67,686 payments that way in FY 10)
- OSC states that since 1999 it has been seeking to put more vendors on electronic payments

Vendor Payments

BUT

- Office of State Comptroller still paying **155** commercial vendors – (does not include towns) that individually receive more than **100 payments** a year by paper check
- Altogether these vendors were issued 45,429 paper checks in FY 10
- Some of the state's largest-volume vendors still getting paper checks:
 - CT Light and Power (2,497 checks)
 - Ikon Office Solutions (2,688 checks)
 - Staples (2,141 checks)
 - ADT Security (1,107)
 - Yale-New Haven Hospital (957)

Vendor Payments

- Require OSC to put all vendors (not including towns) receiving at least 100 payments a year on electronic payment
- Costs about \$1.00 to process a paper check vs. \$.03 for an electronic payment
- Savings about **\$44,000**
- Does not include reduction in staff needed to process
- Will improve perception that Connecticut is modernizing business practices, speed up vendor payments and lessen chances for lost payments -- all improved outcomes

Areas That Need Further Exploration

- Higher Education Operating Expenses
 - Greater oversight may produce substantial savings
- Medicaid Billing
 - DAS billing to DSS appears duplicative
 - Other DAS collections might be done through a contingency contract (one already in place at DSS)
- Explore why workers' compensation costs have increased by \$15 million in one year

Total Savings

- **\$70** million in Purchase of Service area
- **\$38** million in purchase of routine products and services
- **\$37.6** million in Personal Services Agreements
- **\$2** million in postage reduction
- **\$44,000** through electronic vendor payments
- **Total \$148 million**

Attachment A
Commission on Enhancing Agency Outcomes
Reverse Auctions (#17)

Background. A reverse auction is a purchasing tool with which a buyer seeks the lowest price for what is being bought through an online bidding process. In contrast to a paper-based bid, in which the bidder makes a best-guess offer that is static throughout the competitive bidding process, in online, real-time reverse auctions, a supplier can re-evaluate and adjust its bid in response to offerings from other bidders.

With access to real-time information, suppliers can quickly respond to competition and submit a lower bid. Bidder identity is shielded, which ensures sealed-bid integrity is maintained throughout the event. The auction itself typically takes 30-60 minutes. Once the procurement event is completed, the buyer:

- evaluates the bids, weighs other variables to be considered; and
- either makes the best value award or declines to make an award.

Connecticut experience. Towns had **not participated in reverse auctions before 2008 legislation (P.A. 08-141)** authorized it. Since **May 2009, approximately five reverse auctions** have been held for a number of towns (one reverse auction was for 40 towns through Connecticut Conference of Municipalities) for items such as laptop computers and street-sweepers.

Orbis Online was selected by CCM through competitive bidding process as the vendor to operate reverse auctions, as it has the experience and the necessary online systems. The reverse auction vendor is paid by the seller (successful bidder) – through a fee contained in the bid; **the purchaser does not pay the online vendor.**

According to staff at CCM, reverse auctions work best for standard items where current pricing can be obtained upon which to judge the auction bids. Experience with reverse auctions indicates that savings of **25 percent off typical pricing** (of standard items) can be realized. This level of savings was also confirmed to CEAO staff by the Connecticut Association of Purchasing Management, which represents 600 professionals involved in procurement in Connecticut and promotes more efficient ways of purchasing.

State agency use of reverse auctions has been very limited. CEAO staff has determined that to date only OPM/DAS (combined) have used the reverse auction process to **purchase electricity and natural gas** for the state. The vendor (i.e., reverse auction operator) is **World Energy**. This vendor is also paid by the successful seller, so the state incurs no costs for that. Reverse auctions for purchase of electricity are run about every 18 months and once a year for natural gas. In discussions with OPM, the agency believes reverse auction for energy **has saved the state about 20 percent in energy costs.** However, because energy costs keep rising (and there has been little done to reduce state energy use) the state still spends about \$200 million for energy. (See Energy Efficiency proposal).

