

To: House K-12 Education Budget Committee  
From: Shawn Sullivan, State Budget Director  
Date: February 1, 2017  
Subject: House Bill 2143 Testimony

Chairman Campbell and Members of the Committee:

Thank you for the opportunity to provide neutral testimony for House Bill 2143. The Administration is supportive of the Alvarez and Marsal (A&M) efficiency study recommendation for school districts to collaboratively source select procurement categories on a statewide basis. However, there are categories that should be added to House Bill 2143 and a few provisions that should be removed from the bill in order to meet the intent of the A&M recommendation and to maximize the savings to be achieved.

#### **Background**

The A&M report recommended that *school districts should join the Department of Administration (DOA) and strategically source specific spend categories to drive greater cost savings for the school districts.*

A similar finding was made on the state's procurement activities for executive branch agencies. The A&M recommendation for executive branch activities included employing a strategic sourcing approach, using available state spend data to give prospective suppliers an estimate of total potential business volume and leveraging our combined spend with suppliers.

The report found that school districts currently handle procurement in a decentralized manner. Each school district is given the option of utilizing state contracts negotiated by the state's Procurement and Contracts group or to utilize cooperative agreements or negotiate contracts individually. According to the A&M findings, *this level of autonomy makes it difficult for the school districts to truly leverage their collective volumes fully with each other and the state, since contracting phases are not synchronized, spend data is not consolidated or analyzed and requirements are not standardized.*

The A&M school district analysis included FY 2015 expenditure data from the seven largest districts and represented \$443 million of expenditures. Their evaluation identified seven categories that should be included in statewide strategic sourcing procurement. The procurement categories A&M recommended are as follows:

- Maintenance, repair and operations
- IT equipment
- IT services
- IT software
- Food
- Electricity
- Fuel

These seven categories were recommended by A&M as they are already utilizing the state's contract or are using some of the same suppliers as state agencies and universities.

### **Suggested Revisions to HB 2143**

The expenditure savings assumed in the Governor's budget proposal related to strategically sourcing specific spend categories were \$7.2 million in FY 2018 and \$9.0 million in FY 2019. These savings do not match the fiscal note for House Bill 2143 due to some key differences between the proposed legislation and the A&M recommendation. We would propose adding all of the seven procurement categories recommended by A&M. Currently, maintenance, repair and operations and also electricity procurement are not included in House Bill 2143. In addition, we would recommend that the following provisions be eliminated in order to more closely match the A&M recommendations:

- *Such items or services may be procured locally in an amount within 1% of total procurement cost of the amount the department is able to procure the same items or services*
- *Such items or services may be procured through an education service center.*
- *Prior to July 1, 2019, a contract for the procurement of such items or services in existence on July 1.*

While it is understandable why these provisions were added in order to maintain local control within school districts, these provisions do affect the ability for the State and School Districts to achieve the savings that could be obtained by leveraging the collective volume of both groups.