

**Subcommittee on General Government  
Government Efficiency Task Force**

401 Senate Office Building

March 28, 2012

1:00 p.m. – 3:30 p.m.

- 1) Call to Order
- 2) Roll Call
- 3) Presentation on State Procurement  
Noah McKinnon, Senior Analyst, Government Efficiency Task Force
- 4) Member discussion of State Procurement, with  
Kelly Loll, Chief Procurement Officer and Director of State Purchasing,  
Department of Management Services
- 5) Public Comment
- 6) Adjourn



# Florida Government Efficiency Task Force

*Subcommittee on General Government*

*Background Brief*

**Subject Matter:** State Procurement

**Subcommittee Members:** Pat Neal (Chair), Senator Mike Bennett, Ann Duncan, Frances Rice, and Larry Cretul

## ISSUE SUMMARY

- Department of Management Services (DMS) provides administrative and support services to other state agencies and to state employees.
- DMS uses a variety of procurement methods such as invitation to bid (ITB), invitation to negotiate (ITN), request for proposals (RFP), state term contracts, and sole source contracts.
- DMS negotiates state term contracts and purchasing agreements for agencies that are intended to leverage the states' buying power to procure the best price for a service or commodity when purchasing products in mass quantities.
- Currently, there are over 32,000 contracts procured by State Government with a total obligated cost of \$51 billion with annual expenditures of over \$8 billion.
- Over the next fiscal year 6,144 of those contracts will be renewed, terminated, or re-procured.
- Same and/or similar services are purchased repeatedly by agencies without providing for volume purchasing.
- The state could see significant savings if it took full advantage of the state term contracts as provided by the Department of Management Services.
- Strategic sourcing procurement methodology may offer an opportunity to inject innovation, reduce cost for commodities and services, and improved supply chain management.
- The overall possible savings to the state through the use of strategic sourcing is estimated to exceed \$2.56 billion over the next four years.

## FULL ISSUE(S) ANALYSIS

### A. BACKGROUND

#### Department of Management Services

The Department of Management Services (DMS) provides administrative and support services to other state agencies and to state employees. DMS's areas of responsibility include, but are not limited to:

- Employee benefits (retirement and insurance);
- Human resource management;
- Business operations (real estate development and management, state purchasing, and specialized services);
- Telecommunications; and
- Agency administration.<sup>1</sup>

#### State Procurement of and Contracts for Personal Property and Services

Under ch. 287, F.S., the Division of State Purchasing in (DMS) is responsible for developing and administering standardized procurement policies, procedures, and practices to be used by state agencies in acquiring commodities, contractual services, and information technology. A variety of procurement methods are available for use by the agencies depending on the cost and characteristics of the needed good or service, the complexity of the procurement, and the number of available vendors. To guide the procedures for the procurement method to be used, the type of review required, and the method for the award of any contract the following purchasing categories with threshold amounts have been established:

- Category one: \$20,000
- Category two: \$35,000
- Category three: \$65,000
- Category four: \$195,000
- Category five: \$325,000<sup>2</sup>

DMS prescribes methods of securing competitive sealed bids, proposals, and replies.<sup>3</sup> The competitive solicitation process must be used for procurement of commodities or contractual services in excess of the category two threshold amount and include any of the following solicitation methods: invitations to bid, requests of proposals, and invitations to negotiate. Many services procured by state agencies are exempt from competitive solicitation requirements regardless of whether the purchase exceeds the applicable cost threshold, including artistic services, auditing services, and legal services.<sup>4</sup> Agencies currently must seek approval from DMS to use an alternate contract source to purchase commodities or services from term contracts or requirements contracts competitively established by other governmental entities. In approving the alternate contract source, DMS determines if the contract source is cost-effective and in the best interest of the State.<sup>5</sup>

All agreements in excess of the category two threshold must be evidenced by a written agreement and include provisions for the required minimum level of service to be performed by the contractor, criteria for evaluating the successful completion of each deliverable, and financial consequences for nonperformance. There must also be a provision dividing the contract into quantifiable, measurable, and verifiable units of deliverables that

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<sup>1</sup> See the Department of Management Services website, <http://www.dms.myflorida.com/> (last visited February 3, 2012).

<sup>2</sup> Section 287.017, F.S.

<sup>3</sup> Rule 60A-1.041, F.A.C.

<sup>4</sup> Section 287.057(3)(f), F.S.

<sup>5</sup> Rule 60A-1.047, F.A.C.

must be received and accepted in writing by the contract manager before payment. Each deliverable must be directly related to the scope of work and specify the required minimum level of service to be performed and criteria for evaluating the successful completion of each deliverable.<sup>6</sup>

Additionally, state agencies may use a variety of procurement methods, depending on the cost and characteristics of the needed good or service, the complexity of the procurement, and the number of available vendors. These include the following:

- "Single source contracts," which are used when an agency determines that only one vendor is available to provide a commodity or service at the time of purchase;
- "Invitations to bid," which are used when an agency determines that standard services or goods will meet needs, wide competition is available, and the vendor's experience will not greatly influence the agency's results;
- "Requests for proposals," which are used when the procurement requirements allow for consideration of various solutions and the agency believes more than two or three vendors exist who can provide the required goods or services; and
- "Invitations to negotiate," which are used when negotiations are determined to be necessary to obtain the best value and involve a request for high complexity, customized, mission-critical services, by an agency dealing with a limited number of vendors.<sup>7</sup>

The chapter establishes a process by which a person may file an action protesting a decision or intended decision pertaining to contracts administered by the DMS, a water management district, or certain other agencies.<sup>8</sup>

### **Utilization of State Term Contracts**

Agencies also purchase commodities and contractual services utilizing purchasing agreements called "state term contracts" that are completed by DMS.<sup>9</sup> A state term contract is a purchasing agreement that leverages the state buying power and volume to procure the best price for services and commodities. DMS negotiates these state term contracts when it is in the best interest of the state to purchase mass quantities of a specific commodity or service. DMS is also responsible for compiling statistical procurement data concerning the method of procurement, terms, usage, and disposition of commodities and contractual services by agencies. This data is available in the Florida Accounting Information Resource Subsystem (FLAIR) and the State's My Florida Market Place (MFMP)<sup>10</sup> centralized e-procurement system.<sup>11</sup>

DMS facilitates the production and processing of these competitive solicitations through the MFMP system, which is the state's e-procurement system, and provides a standardized process for developing and processing solicitations. The MFMP system has four modules: the Buyer Module, Invoicing Module, Vendor Registration Module, and Sourcing Module. However, according to DMS, the individual state agencies

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<sup>6</sup> Section 287.058(1), F.S.

<sup>7</sup> See ss. 287.012(6) and 287.057, F.S.

<sup>8</sup> See s. 287.042(2)(c), F.S.

<sup>9</sup> See s. 287.056, F.S.

<sup>10</sup> My Florida Marketplace is the State of Florida's electronic procurement system which provides a web-based medium for state purchasers and vendors to exchange products and services. MFMP allows vendors to register, contracted catalogues of products to be managed and displayed, buyers to find products, place orders, approve purchases, reconcile invoices and approve payment all within one system. Users can create solicitations in the Sourcing module and the Analytics module provides spend analysis and reporting. The system serves state, vendor and local government users and has full procurement capability.

<sup>11</sup> Department of Management Services Operational Audit, Report No. 2011-075, January 2011.

determine whether to use the MFMP e-procurement system.<sup>12</sup> DMS develops procedures to be used by agencies for advertising and issuing solicitations through the Vendor Bid System. Currently all solicitations and procurement related decisions/intended decisions are required to be posted on the Vendor Bid System. DMS currently posts lists of firms not permitted to do business with the state online. DMS also maintains a list of vendors by classes of commodities within the MFMP system.

An example where costs have been reduced through state term contracting is the Office Supply and Educational Consumables State Term Contract. The Office Supply and Educational Consumables State Term Contract, through volume purchasing, has controlled state spending by only allowing for purchases to be made on qualified office supplies that DMS has deemed important for state business. Additionally, due to the deep discounts offered through the office supply contract, seventeen states currently buy off of the State's office supply contract netting \$700,000 in additional MFMP revenues to Florida.

Despite the successes that DMS has attained in reducing state cost for services and commodities through state term contracts, there is a large amount of unaddressed state spend that is not volume purchased through state term contracts.<sup>13</sup> Currently, there are over 32,000 contracts procured by state government with a total obligated cost of \$51 billion with annual expenditures of over \$8 billion.<sup>14</sup> Many times same and/or similar services are purchased repeatedly by agencies at different prices points without any justification. Over the next fiscal year over 6,144 of those contracts will be renewed, terminated, or re-procured providing for ample opportunity for volume purchasing.<sup>15</sup> Many state agencies have not taken full advantage of the state term contracts as provided by DMS, so volume purchasing opportunities are missed. State government purchasing has grown to the point in volume, value, and scale where a new procurement methodology is needed for the state to remain competitive in its buying decisions.

### **Strategic Sourcing as a Government Procurement Solution**

Strategic sourcing is an organizational procurement process and framework that continuously evaluates the purchasing activities of a private or public sector organization before a strategic sourcing procurement is approved, during the contracted period and at the end to assess the benefits/savings and lessons learned. The intent is to establish a viable baseline for services and commodities and align spend categories where possible (i.e., addressable spend, such as office supplies) versus where it is not (i.e., non-addressable spend, such as certain mass transit assets). Once the state has this insight, a meaningful savings roadmap with practical opportunities, initiatives and timelines can be established to guide next steps.

Many states such as Michigan, North Carolina, and Georgia are beginning to enfuse strategic sourcing into their procurement function, and in so doing are benefitting in dramatic cost reductions. In an age of budget deficits, high unemployment rates and significant public policy challenges, it is believed that a strategic approach to procurement can be a source of significant savings to the state. The overall possible savings to the state through the use of strategic sourcing is estimated to exceed \$2.56 billion over the next four years.

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<sup>12</sup> Department of Management Services SB 1626 Bill Analysis, January 23, 2012.

<sup>13</sup> Florida Senate, State Contract Management System, February 2011.

<sup>14</sup> Florida Senate, State Contract Management System, February 2011.

<sup>15</sup> Florida Senate, State Contract Management System, February 2011.



## State Procurement

Government Efficiency Task Force

March 28, 2011



## Background-State Procurement

The Department of Management Services (DMS) provides administrative and support services to other state agencies and to state employees. DMS's areas of responsibility include, but are not limited to:

- Employee benefits (retirement and insurance);
- Human resource management;
- Business operations (real estate development and management, state purchasing, and specialized services);
- Telecommunications; and
- Agency administration.



- To guide the procedures for the procurement method to be used, the type of review required, and the method for the award of any contract the following purchasing categories are established in law with the following threshold amounts:
- Category one: \$20,000
- Category two: \$35,000
- Category three: \$65,000
- Category four: \$195,000
- Category five: \$325,000

*See section 287.017, F.S.*



## State Procurement

State agencies may use a variety of procurement methods. These include the following:

- "**Single source contracts**," which are used when an agency determines that only one vendor is available to provide a commodity or service at the time of purchase;
- "**Invitations to bid**," which are used when an agency determines that standard services or goods will meet needs, wide competition is available, and the vendor's experience will not greatly influence the agency's results;
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- "**Invitations to negotiate**," which are used when negotiations are determined to be necessary to obtain the best value and involve a request for high complexity, customized, mission-critical services, by an agency dealing with a limited number of vendors.



## **MyFloridaMarketPlace (MFMP)**

- MFMP is the State of Florida's electronic procurement system which provides a web-based medium for state purchasers and vendors to exchange products and services.
- MFMP allows vendors to register, contracted catalogues of products to be managed and displayed, buyers to find products, place orders, approve purchases, reconcile invoices and approve payment all within one system.
- Users can create solicitations in the Sourcing module and the Analytics module provides spend analysis and reporting. The system serves state, vendor and local government users and has full procurement capability.



- **Utilization of State Term Contracts**

Agencies also purchase commodities and contractual services utilizing purchasing agreements called “state term contracts” that are completed by DMS. A state term contract is a purchasing agreement that leverages the state buying power and volume to procure the best price for services and commodities. DMS negotiates these state term contracts when it is in the best interest of the state to purchase mass quantities of a specific commodity or service. *See s. 287.056, F.S.*



## *State Term Contract Successes*

### *Office Paper (effective March 2010)*

- In March 2009, State Purchasing negotiated an average product price reduction of 8.8 percent for the commodities on the previous contract as required by the legislature that year.
- State Purchasing awarded the current contract in March 2010, and it expires in March 2013. The solicitation resulted in an additional 1.5 percent price reduction for the same products and reflects an average 40 percent discount from contractor's published price list. State Purchasing awarded the contract to the same vendor, Mac Papers, Inc. (wholesale distributor) in Jacksonville, Florida.
- 10.3 percent savings when compared to the previous contract pricing, resulting in savings of \$1.5 million annually.



## State Procurement

### *State Term Contract Successes*

#### *Rental Vehicles State Term Contract Renegotiation (effective January 2012)*

- The Division of State Purchasing renegotiated the state term contract for rental vehicles with Avis. After reviewing options to re-procure or use a consortium contract, analysis showed that a renegotiation would achieve the best results for the state.
- Effective Feb. 7, 2012, the contract allows unlimited mileage again. When compared to Western States Contract Alliance (WSCA), the rate is still at least 14 percent lower on average for all state rentals and 8 percent lower on average for the state's most common rentals (sub-compact, compact, and mid-size).
- On average as of January 1, 2012, the STC rate is 14 percent lower than the blended WSCA rates.



### *State Term Contract Successes*

#### ***UPDATE: PC Contract Renegotiation and Consolidation (effective May 2012)***

- Alternate contract source for the purchase or lease of computer equipment, peripherals, and related services. State Purchasing will consolidate the STC and existing Western States Contract Alliance (WSCA) contract and use the WSCA contract as the primary contract vehicle for purchasing PCs, laptops, monitors, accessories, and services.
- 10.3 percent savings when compared to the previous contract pricing, resulting in savings of \$1.5 million annually.
- Collaborated with state and other eligible user customers to develop standard configurations for state agency desktop and laptop computers.
- State Purchasing requested pricing from vendors on the WSCA contract and negotiated with three vendors (Lenovo, Dell, and Hewlett-Packard) on the pricing submitted for the standards and a “market basket” of items.



## Strategic Sourcing as a Government Procurement Solution

- Strategic sourcing is an organizational procurement process and framework that continuously evaluates the purchasing activities of a private or public sector organization both before a strategic sourcing procurement is approved, during the contracted period and evaluates the benefits/savings and lessons learned at the end. The intent is to establish a viable baseline for services and commodities and align spend to categories (i.e., addressable spend, such as office supplies) versus where it does not (i.e., non-addressable spend, such as certain mass transit assets).



RICK SCOTT  
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### **Division of State Purchasing Completed Sourcing Events and Outcomes (as of March 21, 2012)**

In late 2011, State Purchasing hired a dedicated data analysis expert responsible for validating all projected and actual savings amounts. In this document, some additional analysis and validation may be required for contracts awarded prior to his arrival in State Purchasing (some marked by asterisk).

#### ***Ammunition and Officers' Equipment***

In September 2011, the Division of State Purchasing issued a multiple award contract to 11 suppliers that responded to Invitation to Bid #3-680-050-O. State Term Contract (STC) # 680-050-12-1 became effective on September 28, 2011, with a contract expiration date of September 27, 2012. This contract replaced the expiring contract (#680-050-10), and realized a net price decrease from the previous contract. By using a strategic sourcing methodology and leveraging state and local government spend volume, State Purchasing obtained significant savings and cost avoidance, along with a 54 percent reduction in the number of suppliers.

#### **Contract Savings and Cost Avoidance:**

- The Small Arms Ammunition Producer Price Index showed a 19 percent increase for this category.
  - The existing contract allowed this increase if we elected to renew. With historic annual sales of \$5.4 million, this is a cost avoidance of \$1.03 million for the period of September 28, 2011 through September 27, 2012.
- Break-even net prices as compared to the 2009 solicitation. Reductions from current suppliers and additional new suppliers offset small increases for Remington and Winchester ammunition.
- State Purchasing evaluated prices compared to benchmark states (Georgia, Colorado and New York)
  - Intense competition resulted in Remington prices that are the lowest in the United States, and 57.4 percent less than on Georgia's statewide contract.
- 62.3 percent discount from manufacturers' price lists for overall ammunition.
- Average 50 percent discount from MSRP (all contract items) if agencies optimize the pricing structure across the 11 suppliers.
- State Purchasing expects state agencies' cost avoidance to be \$2.7 million to \$540,000.
- Awarded marking ammunition (Simunitions) to a new supplier at 9.3 percent less than the 2009 contract.

#### **Contract Highlights:**

- Locked in prices for a one-year period. This is significant in the volatile ammunition marketplace where 10% monthly increases are common.
- Consulted a core user group that included law enforcement managers from the Florida Highway Patrol, Florida Department of Law Enforcement, Department of Corrections, Florida Fish and Wildlife Conservation Commission, and Department of Environmental Protection on our solicitation and award strategy. Included special emphasis on preparations for the Republican National Convention in Tampa the summer of 2012.

- Extensive use of Florida-based and Certified Minority Business Enterprise businesses:
  - Remington Ammunition – Supplied by Lou’s Police Distributors, Hialeah, Florida Hispanic business enterprise
  - Winchester Ammunition – Supplied by Lawmen’s and Shooters’ Supply, Vero Beach
  - National Police Equipment Exchange – Environmentally-preferred (lead-free) ammunition products manufactured in Miami-Dade County
  - RUAG Ammotec, USA – Frangible ammunition company, Tampa
  - Safariland, LLC – Significant supplier of body armor to State of Florida customers, but also on this contract with popular Defense Technologies (DefTech) product line, Jacksonville.
- Direct drop-shipments from manufacturers to end-user customers to ensure on-time and secure deliveries.

***\*IT Disaster Recovery State Term Contract (effective August 2010)***

State Purchasing developed the previous contract on old technology and processes, and the contract did not provide the capability of keeping up with new technology advantages. State Purchasing used a Request for Proposals to procure the current contract, and awarded this contract to five vendors. The development process included using a focus group of 12 people representing 10 different state agencies and the shared resource data centers. Specific concerns included:

- Individual state agency needs
- Other eligible users such as cities, counties, and schools
- Shared Resource Data Centers
  - Merger of some disaster recovery solutions migrating from an agency to a specific resource center
  - Coverage the resources centers would need to provide to agencies housed within their data centers.

The new contract includes all of the following and allows for products and services to change as technology changes, thus offering very useful services as they become available:

- Excellent pricing with an average discount of 22.2 percent. The incumbent vendor (SunGard) increased its discount to an average of 39.5 percent (up from 30 percent on previous contract) due to the competition on the new contract.
  - SunGard’s added savings alone provide a cost avoidance of \$1.7 million over the previous contract and more than \$10.4 million over the life of the contract.
- The products and services offered under the contract provide the eligible users with a wide variety of choices in technology
  - Hot-Site Solutions, Warm-Site Solutions, Cold-Site Solutions, Mobile-Site Solutions, Tape Solutions, Archiving Solutions, Disk-Based Solutions, Live-Streaming Solutions, Web-Based Solutions, Cloud Solutions, Multi-Platform Solutions, Virtualization Solutions, Remote Management Solutions, Office Space, Network Services, Testing Solutions, Planning Tools, Staff Augmentation, Miscellaneous Items, Value Add Products/Services, Special Pricing Incentives, Optional Support Services

While several vendors may offer similar services, some areas of a vendor’s pricing may be better than another vendor’s price. The contract allows eligible customers to choose from a large menu of items across multiple vendors to create a truly customized list of services, which allows customers to save even more for the exact type of services they need.

***\*Land Mobile Radio Equipment (effective July 2011)***

A new STC, not previously available, the Land Mobile Radio Equipment solicitation team strategically sourced and developed a new STC for FCC P-25 compliant radios. State agencies, cities, counties, and

municipalities had significant challenges when purchasing new radio systems due to interoperability issues with their current systems. With this STC, governmental entities can purchase these interoperable radio systems at a significant cost savings and reduced administrated efforts.

- Estimated cost savings/avoidance of 7 percent when compared to the prices that governmental entities were paying for these FCC P-25 compliant radios.
- Estimated savings of \$1 million over the life of the contract for the state.

***\*Mail Processing Equipment (effective February 2011)***

State Purchasing made a dual award to Neopost (Modular Mailing) and Pitney Bowes. The current STC has as good or better pricing than WSCA/NASPO contracts, which have multiple awards with the same carriers plus larger equipment not allowed on our contract.

- \$14 million contract
  - 40 percent agency spend
  - 60 percent other eligible user spend

***\*MRO Industrial Supplies Contract***

A single award contract to W.W. Grainger, Inc., under the Western States Contracting Alliance MRO (Maintenance, Repair, and Operations) Industrial Supplies cooperative agreement for facilities, maintenance, lighting, industrial supplies, tools, equipment and janitorial supplies. The single award rolled up three existing MRO State Term Contracts under the Western States Contracting Alliance contract. Combining the \$48 million in annual spend into a single contract allowed State Purchasing to obtain aggressive pricing.

- Completed in September 2011
- 10.3 percent savings over baseline spend when compared to existing contracts, equating to more than \$3.6 million annually
- Expected Florida MRO spend of \$50 million

In doing so, SP was able consolidate the MRO needs and purchases from four other State Term Contracts (Lighting and Filters, Electrical and Can liners) into a single contract.

Aggregating the buying power helped SP negotiate an aggressively priced core Florida market basket. The current core Florida market basket consists of the 20 percent of the items that represents 80 percent of our purchases. The new MRO contract provides a 10.3 percent annual savings. SP is not aware of any MRO contract in the U.S. that is this aggressively priced.

The new MRO contract is also dynamic in nature allowing the State to, on a quarterly basis, rebalance its core items as new users adopt the contract. This dynamic nature will help ensure the aggressively priced core Florida market basket will always contain the items or contract users demand.

***Office and Educational Consumables (effective October 2010)***

STC reduces costs for office and educational consumables, including toner (e.g., OEM and remanufactured printer cartridges, ribbons, drums, fusers), copier and computer paper (less than 10 cartons), non-printed envelopes, office supplies (e.g., pens, pencils, markers, highlighters, staplers, staples, folders, files, binders), art supplies (e.g., crayons, construction paper), office equipment (e.g., shredders, calculators, laminators, hole punches) and IT peripherals (e.g., CDs, DVDs, keyboards, mouse, computer bags).

Prior to the current contract, State Purchasing offered a US Communities Alternate Contract Source (ACS) contract, with Office Depot as the only vendor. Most state agencies used this ACS to purchase office supplies.

- Calendar year 2009 spend for only state agencies – nearly \$22 million
- Savings determined at time of 2010 contract award – 4 percent as compared to the ACS

Procured the current STC using an Invitation to Negotiate; as statutorily directed, awarded contract to three vendors:

- Office Depot
- Staples
- Gulf Coast Office Products

Statute mandates the use of this STC by all state agencies. STC benefits for state agencies include:

- Reduced costs based on 4 percent savings over previous ACS.
- Demand management efforts to further drive cost avoidance
  - Office Depot Select Cart enables the “suggestive sell” features noted below.
    - Suggestive sell of brand versus generic for same unit of measure items, if the generic is at a lower price than the brand name.
    - State agencies can turn on a green alternative suggestive sell function if they choose; however, price may not be at a lower cost than the non-green product.
  - Vendor representatives call on state agencies to work with them to identify cost savings alternatives.
  - Shared Cart allows customers to share their cart and related information with other customers.
- Using an Accenture methodology that captures and compares pricing on 17,409 items, accounts for a 1.5 percent PPI increase, the savings realized to Florida is approximately 4 percent versus the preceding contract.
- This contract includes language that allows other states to purchase at the Florida contract price and generates revenues for the State of Florida on those sales.
- On Office Depot sales the State of Florida receives 1 percent revenues on “on contract” items outside of the State of Florida.
  - Calendar year increase in state transaction fee revenues from Office Depot transactions totals \$351,190.46 that includes sales inside and outside the state of Florida.
  - Calendar year revenues to the State of Florida total \$60,207.52 from National IPA agreements outside the State of Florida.

### ***Office Paper (effective March 2010)***

In March 2009, State Purchasing negotiated an average product price reduction of 8.8 percent for the commodities on the previous contract as required by the legislature that year.

State Purchasing awarded the current contract in March 2010, and it expires in March 2013. The solicitation resulted in an additional 1.5 percent price reduction for the same products and reflects an average 40 percent discount from contractor’s published price list. State Purchasing awarded the contract to the same vendor, Mac Papers, Inc. (wholesale distributor) in Jacksonville, Florida.

This contract provides paper of three types and four classes of cut-size business papers. Customers use these paper products for office, data, and copy centers, and for various publication and reproduction work.

- 10.3 percent savings when compared to the previous contract pricing, resulting in savings of \$1.5 million annually.
- State term contract spending is increasing and is currently at a two-year average spend of \$15,905,023.55.

### ***PC Contract Renegotiation and Consolidation (effective May 2012)***

*Miscellaneous IT Equipment (Western States Contract Alliance)*

Alternate contract source for the purchase or lease of computer equipment, peripherals, and related services. State Purchasing will consolidate the STC and existing Western States Contract Alliance (WSCA) contract

and use the WSCA contract as the primary contract vehicle for purchasing PCs, laptops, monitors, accessories, and services.

- 10.3 percent savings when compared to the previous contract pricing, resulting in savings of \$1.5 million annually.
- Obtained a new pricing agreement on its existing Western States Contract Alliance (WSCA) source contract for desktop and laptop computers.
- Collaborated with state and other eligible user customers to develop standard configurations for state agency desktop and laptop computers.
- State Purchasing requested pricing from vendors on the WSCA contract and negotiated with three vendors (Lenovo, Dell, and Hewlett-Packard) on the pricing submitted for the standards and a “market basket” of items.
- Based on the standard configurations, the new pricing agreement for desktop and laptop computers will save the state an average of 13.4 percent on laptops and 14.8 percent on desktops versus the current contract.
- State Purchasing expects this contract to reduce annual costs by \$1.5 million for state agencies, and \$3.7 million for all state buyers.
- Strategy provides that every six to 12 months, State Purchasing will solicit competition to continue to take advantage of lower technology pricing and stay on the forefront of technology changes.
- Lenovo has made its standard configuration pricing available now (March 2012) so that STC customers can immediately begin taking advantage of Lenovo pricing.
- In addition to Lenovo, active vendors under the contract include Dell, Hewlett-Packard, Apple, Fujitsu, and Panasonic that will provide their catalogs of products for purchase with the exception of desktop and laptop computers that state agencies must purchase from Lenovo.

#### ***Rental Vehicles State Term Contract Renegotiation (effective January 2012)***

The Division of State Purchasing renegotiated the state term contract for rental vehicles with Avis. After reviewing options to re-procure or use a consortium contract, analysis showed that a renegotiation would achieve the best results for the state.

- Effective Feb. 7, 2012, the contract allows unlimited mileage again. When compared to Western States Contract Alliance (WSCA), the rate is still at least 14 percent lower on average for all state rentals and 8 percent lower on average for the state’s most common rentals (sub-compact, compact, and mid-size).
- Effective July 1, 2012 the STC will be in position to realize a 16 percent savings versus the January 2012 WSCA Hertz program, and 14 percent savings versus the WSCA Enterprise program.
- On average as of January 1, 2012, the STC rate is 14 percent lower than the blended WSCA rates.
- State employees and other eligible users can use these contract terms when renting for personal use as well.

Prior to renegotiating the rental vehicles STC in January 2012, state agencies paid an excess mileage fee on rental vehicles, of seven cents per mile, for any miles driven more than 200 miles per day as part of the rental agreement. By negotiating directly with Avis, State Purchasing achieved a solution that included Avis waiving all excess mileage fees, and resulted in maintaining the best rental rates available in the nation.

#### ***Security Officer Services (effective December 2009)***

State agencies requested a “qualifications” contract in order to save time in contracting with security companies. Four agencies, Military Affairs, Highway Safety and Motor Vehicles, Corrections, and the Division of Administrative Hearings, helped develop the specifications. Specifications like training requirements, hiring and disciplinary practices, guard appearance, ceiling billable, and price increases were quite specific. Each agency can create its individual agency scope.

Based on data from the MyFloridaMarketPlace Analysis application, historical spend is:

<b>Fiscal Year</b>	<b>Spend</b>
2003-04	\$ 2,523,987
2004-05	\$ 6,358,343
2005-06	\$10,398,102
2006-07	\$23,051,029
2007-08	\$41,575,984
2008-09	\$53,946,202

In addition, state agency spend from Dec. 16, 2009, through April 14, 2011, was \$4 million. State Purchasing estimates other eligible user spend for that same period to be \$6.8 million.

Following a Request for Proposals that solicited 26 responses, State Purchasing awarded an STC in April 2011 (expires December 2014) to:

- Allegiance
- AlliedBarton
- G4S (formerly known as Wackenhut)

With this current contract:

- All hourly rates are ceiling prices.
- State Purchasing encourages all customers using this contract to negotiate rates and scope of service to suit their specific requirements.
- All three contractors agreed to hold their existing ceiling prices for the renewal.
- Approximately six state agencies have multiple agency contracts in place for security services, executed during the 2008-09 period with not state term contract in place.
  - State Purchasing working with those agencies to migrate to the STC.
- Florida local government agencies have adopted this STC.

#### ***Statewide and Global Courier Services (effective January 2011)***

A dual award to UPS and FedEx following an Alternate Contract Source contract. This contract covers express and ground courier services for the State of Florida and other eligible users. The current contract delivers to the State of Florida average pricing lower than WSCA, New York, and Texas in key service types used heavily by the State of Florida.

- 11.5 percent savings over baseline rate when compared to existing contract on most utilized service.
- As good or better pricing than WSCA single or multiple awards with the same carriers.
- Capped fuel charges to achieve estimated annualized savings of \$79,228.42:
  - Ground: 6 percent (currently 7.5 percent)
  - Express: 10 percent (currently 13 percent)
- Capped declared value charges at \$0.35 per \$100, a 53 percent reduction.
- WSCA pricing was based on no money back; STC prices include money back if not delivered at stated time per the STC.
- Capped rate increases at State Purchasing discretion.

#### **Previous History**

- 2007 solicitation complete for courier services – single award to DHL.
- November 2008 – DHL canceled contract; filed bankruptcy.

## Demand Management

- Agencies should use UPS as primary vendor; at least 6 percent lower pricing in almost all zones and service types.
- Use ground instead of express for at least 10 percent savings depending on the express service.
- Change management within agencies:
  - Switch from first overnight at \$45 for 8:30 a.m. delivery, to next day air at approximately \$8 for 10:30 a.m. delivery.
  - Use online access for ordering to:
    - Reduce ordering time by two minutes per package.
    - Save information for future orders.
    - Provide address correction and ground choice.
  - Use handwritten tickets only for express service.
  - Discontinue declared value on paper or checks.
  - Deposit any tender locally instead of shipping to Tallahassee to process.
    - Federal laws prohibit shipping money orders, checks, and cash in that manner.
  - Discontinue altogether next day express service within the same town.

## Implementation Plan

- State Purchasing instructed both vendors to provide a demand management plan.
- State Purchasing will conduct two webinars May 1, 2012, with UPS, for agencies and other eligible users to provide updated information about the contract, ways to save, and to re-introduce the lower cost carrier.
- Working with both vendors at agencies' request for introduction and or onsite training to help with demand management.
- Closely monitoring usage and contractors, with State Purchasing outreach to agencies.

## Sourcing Events in Progress

### ***Pharmaceuticals Group Purchasing Organization***

Solicitation for an organization to negotiate drug pricing for the state using the national market leverage of the organizations the Group Purchasing Organization serves.

- Expected completion date of April 2012 for the GPO solicitation. A separate solicitation for the wholesaler will be conducted after completion of the GPO ITN.
- Targeted reductions in spend of 5 percent, or \$5 million
- Targeted annual spend of \$110 million

### ***Other Activities***

In addition to the major sourcing events listed here, among others, State Purchasing is also in the process of:

- Developing an Invitation to Negotiate to contract a service provider for the state's e-procurement system, MyFloridaMarketPlace
- Exploring the cost estimate to move the Sourcing application to a cloud solution for statewide use; requesting pricing from Ariba and as a part of the MyFloridaMarketPlace Invitation to Negotiate.
  - Currently working with state agencies, Florida local governments and universities on strategic sourcing.
  - A State Purchasing goal is to roll out sourcing and contracting best practices statewide.
  - State Purchasing is interested in the cost effectiveness of the Sourcing cloud solution to support roll out to all state agencies as well as to Florida local governments.
- Developing an Invitation to Negotiate for Carpet and Flooring Materials with Florida as the lead state in conjunction with the National IPA marketing the contract nationally.

- Developing a solicitation for Emergency Water and Ice with Florida as the lead state in conjunction with the National Association of State Procurement Officials (NASPO). This contract will potentially provide emergency supplies of potable water and ice to the NASPO southern region states.

#### State Purchasing Transformation Initiatives

- Launched 16-month, multi-phase, multi-agency Procurement Process Improvement Project in August 2012 to adopt a seven-stage strategic sourcing methodology and standardize forms and processes for each stage, while implementing procurement best practices throughout State Purchasing and eventually statewide.
- Developing a State Purchasing procurement balance scorecard, and a 12-month procurement pipeline based on spend data analysis.
- Improving regular business review meetings with contract vendors to increase State Purchasing's contract management processes and analysis.
- State Purchasing is investigating substantive maverick spend, defined as significant contract spend leakage over a fiscal year, by several agencies.
  - Based on FLAIR reporting object codes and Florida commodity code analysis of agency spend, State Purchasing produced a listing of agency spend where State Purchasing would expect those purchases to fall under an existing STC and with one of the awarded vendors.
  - State Purchasing, in addition to driving an electronic invoicing initiative, will meet with agencies to discuss purchases that appear to be off contract including:
    - Medical/Dental consumables
    - Toner
    - Laboratory Equipment and Consumables
    - Office Furniture
    - Security Services
    - Tires
    - Automotive Lubricants
    - Laptop and Notebook Computers
    - Flooring
  - State Purchasing's enforcement of state term contract requires changes to rule and statute (below).

State Purchasing recommends the following changes to current rule and statute related to state agencies' mandatory use of state term contracts:

1. Resolve the apparent conflict in section 287.056, Florida Statutes
  - a. Section 287.056(1), Florida Statutes, states that agencies **shall**...purchase commodities and contractual services from... state term contracts procured, pursuant to s. 287.057.
  - b. Section 287.056(2), Florida Statutes, states that "agencies **may** have the option to purchase commodities or contractual services from state term contracts..."
2. Modify Chapter 287, Florida Statutes, to provide a state term contract enforcement mechanism.
  - a. Section 287.042, Florida Statutes, does not currently provide the Department of Management Services (DMS) with enforcement authority for state term contracts.
  - b. Agencies may be subject to audit criticism for purchasing outside state term contracts.
  - c. The Department of Financial Services performs random audits and may identify agency purchases outside state term contracts.

3. Modify Chapter 287, Florida Statutes, to require agencies to seek approval from DMS when purchasing outside of state term contracts.
  - a. Agencies document their procurement files to note why they are purchasing outside the state term contracts, but there is no review or approval of that documentation.
  - b. Currently agencies do not make DMS aware of their decisions to purchase outside state term contracts. As a result, DMS does not receive feedback on why state term contracts do not meet agency needs.