



## State Procurement Adds Value and Jobs

### Introduction

In these challenging economic times, governors and legislators are leaving no stone unturned to uncover revenue and savings to shore up their states' budgets. They also are looking for ways to create or sustain private sector jobs to bolster their states' economies.

State procurement professionals are a resource that can help accomplish these goals. This paper highlights the value proposition that state procurement professionals bring to the table and that may be overlooked. It also identifies how state executives can provide support to enable procurement professionals to add value to the state.

### Generating State Savings

Perhaps the primary value of state procurement is in its ability to reduce costs and generate savings. Procurement professionals do this by leveraging volume in state contracts, competing and negotiating contracts, and effectively using e-procurement solutions.

#### Through Leveraged State Contracts

State procurement professionals award long-term contracts that leverage states' buying power to obtain the best prices for goods and services, and to reduce administrative costs. State agencies, many institutions of higher education, and even local governments use these contracts lowering the total cost of government to taxpayers.

Virginia's central procurement organization (CPO) generates approximately \$40 million in savings annually in the reduced price of goods and services through establishing and using leveraged state contracts. Other states save as much or more depending on their use of state contracts.

When states do not leverage their buying power through a strong central procurement organization individual agencies must expend additional resources to purchase their requirements generally at higher prices impacting the state budget.

#### Through Competition and Negotiation

Procurement professionals strategically compete multi-year contracts to achieve deeper discounts from vendors. They use solicitation approaches within the constraints of competitive bidding laws that promote savings through competition. They design solicitations to achieve best value through negotiations conducted consistent with their jurisdiction's laws. They use economic price adjustment provisions and negotiation to minimize cost increases over time. The procurement profession has developed models that capture cost avoidance or savings attained through these various tools used by procurement professionals

#### Through e-Procurement Solutions

States that have made the investment and implemented robust, fully functional e-procurement solutions - beyond adding Enterprise Resource Planning System procurement modules - have achieved substantial savings from automating state procurement. These e-procurement solutions have made state business opportunities more accessible to suppliers, increased competition, and made the procurement process more efficient, all resulting in savings.

Virginia has achieved approximately \$380 million in the reduced cost of goods and services and \$105 million in reduced administrative costs since implementing its e-procurement solution in CY2001. Further, the state's procurement process has become more efficient and accessible through initiatives such as a recently launched, award-winning application for mobile devices (iPhone, iPad, others) that allows suppliers to remotely access state business opportunities anytime, anywhere.

#### Through Increasing Service Contract Success

As a percentage of a state's spend, investment growth in services continues to outpace commodity purchase growth. In some cases, service contracts can represent higher risk and/or involve greater dollar spend due to the nature of the service. As an example, many states are making considerable investment to replace outdated legacy IT systems with modern technology for health and human services, trans-

portation, and finance and administration. These contracts are generally for periods greater than one year and present a greater degree of cost and risk for failure to the state enterprise.

Centralized state purchasing organizations are playing a greater role to increase the success rate of these associated contracts and programs. Through common best practice solicitation and award processes, central purchasing organizations are able to work with agencies to design and implement contracts that enable better controls and management over the contract life. In many cases, the CPO offers training for best practices in service contract management for the contract and project managers. Increased service contract success equates to a lower cost of government and increased delivery of intended services to our taxpayers.

### **Creating and Sustaining Private Sector Jobs**

Some businesses (large and small) are dependent on state contracts to generate cash flow and to create or sustain jobs. Delays in awarding state contracts or interruptions in contract performance can adversely affect the competitiveness of businesses, particularly small businesses. Ultimately, the state economy is impacted.

A study by the Economic Policy Institute shows that the economic “multiplier” of state and local spending is large, around 1.24. This means that for every dollar cut in state spending, another \$0.24 is lost in purchasing power throughout the rest of the economy. Roughly 0.67 private sector jobs are lost for every public sector job cut or commensurate reduction in state spending, including contract spend. Contracts are a major conduit of government spend to the private sector. When contracts are delayed it impacts businesses large and small, jobs, and the economy.

One often overlooked resource that helps directly improve competitiveness and sustain jobs is the state’s Procurement Technical Assistance Center (PTAC). These centers, funded partially by the Defense Logistics Agency, are intended to provide free counseling to businesses in all aspects of federal, state, and local government procurement. The skills that companies learn help them more broadly though; they build competitiveness also in commercial supply chain management and contracting. Many state central procurement offices are involved in the strategic direction of PTAC, including educating vendors about doing business with state governments.

Jobs are also sustained by states’ participation in cooperatives that often nationalize the local markets by opening up national opportunities to local vendors as prime bidders or through partnering with other vendors. Many cooperative

awards seek regional representation providing economic options to local vendors beyond single state awards.

### **Ensuring State Procurement Integrity**

State CPOs ensure compliance with state procurement codes and regulations. These organizations ensure the procurement process is fair, open, and honest, with equal access for all suppliers to state procurement business opportunities. Absent their oversight, the integrity of the procurement process can break down with potentially embarrassing or even legal consequences for state leaders.

### **Procurement System Transparency and State Government Accountability**

State procurement is public procurement. The public and state taxpayers believe procurement should be just that: public and transparent. Central purchasing organizations ensure through regulations, oversight, and use of technology - such as e-procurement systems - that the procurement process remains fair, open, and honest and its process and outcomes are transparent to the public.

Without a strong state central purchasing organization supported by the governor and legislators, the process can degenerate and public visibility and government accountability can be compromised. This transparency supports the appropriate expenditure of taxpayer funds and also reduces risks for vendors seeking to maximize their offerings at the lowest cost to win awards; the results are lower prices and enhanced accountability over the expenditure of taxpayer funds.

### **Consistent Procurement Laws and Regulations**

Businesses suffer when there is inconsistency in procurement laws and regulations. As an example, the Introduction to the American Bar Association, Model (ABA) Procurement Code, states: “the proliferation of ‘local content’ procurement regulations has created a multitude of arcane differences among the thousands of jurisdictions buying goods and services on an annual basis.” Complex, arcane procurement rules of numerous jurisdictions discourage competition by raising the costs to businesses to understand and comply with these different rules. Higher costs are recovered through the prices offered by a smaller pool of competitors, resulting in unnecessarily inflated costs to state and local governments.”

When public bodies, including institutions of higher education, are removed from the state’s procurement code it results in the harm described above. As these entities create their own procurement rules, businesses are forced to track their various practices. Moreover, a public body often can no longer achieve the benefits of aggregation by using another public body’s contract because different state laws and

regulations may apply to the various public bodies making compliance more difficult.

Each year new procurement laws are applied to state agencies causing state agency contracts to become more complex and costly, while other public bodies, such as institutions of higher education and agencies with strong legislative influence, are exempted. Relieving some public bodies from some laws by exempting or excluding them from compliance with a common set of legal requirements creates an imbalance - the competitive environment becomes different among the various jurisdictions and the entire procurement process becomes less efficient and more costly for the state and vendors.

State central purchasing organizations help control the proliferation of procurement policy and laws, particularly those with potential unintended consequences, because they generally follow the ABA Model Procurement Code in responding to legislation and drafting procurement policy and laws. Still, it takes the backing and willingness of governors and legislators to consult these professionals about procurement policy and laws and to provide them the support and authority necessary to do their jobs and maintain the integrity of state procurement.

### **State Executive Level Support Is Needed for Procurement to Add Value**

#### **Jobs, Cash Flow, and Businesses Are Impacted**

Delays in awarding leveraged state contracts or the inability of state central purchasing organizations to award these contracts may be related to declining budgets, but also sometimes are impacted by executive decisions. For example, there may be an executive decision to delay the hiring of or even reduce procurement staffing as part of an overall state strategy to reduce the number of government jobs to generate salary savings. This strategy may be effective in meeting a short-term cost savings goal but it decreases or delays contract awards, adversely affects business outreach efforts, and has a direct and detrimental impact on state programs, business cash flow, and sometimes private sector jobs in the long-term.

While prioritizing public sector positions that are necessary to address headcount reductions or size of government concerns is an often complex issue, the realization that staffing procurement operations appropriately gets public monies into the economy and positively impacts job sustainment and creation should be factored into those decisions.

#### **Savings Are Lost and Administrative Costs Increase**

Procurement offices have a strategic impact on state agency budgets much greater than any savings realized from not

filling procurement jobs. The average salary and benefits of a procurement professional is \$80K. The average savings generated by a procurement professional is conservatively \$3 million. When these positions are not filled savings opportunities are lost, negatively impacting state budgets to a much greater extent than any savings gained from delaying or not filling procurement positions. State agencies lose the option to purchase from leveraged state contracts increasing both prices and administrative costs to the agency and impacting agency budgets. In addition, the advancement of public policy initiatives that require spend are adversely impacted as the majority of public monies is released through procurement activities.

Executive decisions can affect procurement revenues as well. Many state central purchasing organizations are self-funded, meaning the procurement operation generates funds to pay salaries and cost of operations. These state operations run like a business, generating revenues from surcharges paid by other agencies, which benefit from their services while still demonstrating the lowest total costs to acquire necessary goods and services.

Yet state executive decisions to delay hiring or freeze filling positions impacts their ability to function efficiently and effectively. Without appropriate staffing levels, the ability of state central purchasing organizations to award leveraged contracts and sustain operations is impacted. Eventually this impact spreads to private sector businesses, state revenue and savings, and state budgets. There can also be a ripple effect on political subdivisions and municipalities, higher education and K-12, which leverage the efforts of state procurement offices to accomplish the deliverables required for their operations.

### **Conclusion**

State procurement professionals generate far greater value and savings for states and their budgets than the cost of their positions. They reduce costs through professional activities like competitive sourcing and negotiation, and e-procurement. Their activities directly impact private sector business cash flow, job sustainment and creation, and ultimately the state economy and budget. State procurement professionals need executive level backing and support to consult them on procurement decisions and to provide the staffing resources to generate procurement value, maintain the integrity of state procurement, and meet public policy initiatives to release public funds into the economy.