

ADMINISTRATION DEPT

Program: GOVT AND CITIZEN SERVICES

Activity: MATERIALS MANAGEMENT

Narrative

Activity Description

The Materials Management Division (MMD) acquires goods and services using methods that ensure the best value for the taxpayers' dollars and conform to the highest ethical standards of public procurement. The division facilitates and oversees an average of more than \$1.8 billion in state government purchases each year. The statutory framework for the division's activities is M.S. Chapter 16C – State Procurement.

In addition to its procurement role the division also manages two business operations. Office Supply Connection (OSC) and Minnesota's Bookstore provide publishing, retail, and distribution services to state and local government. Statutory framework for these activities are M.S. 14.46 (*State Register*), 16B.51 and 16B.52 (Minnesota's Bookstore), and 16C.03 (OSC).

Population Served

MMD operates in close partnership with state agencies to achieve a productive balance of centralized and delegated purchasing. Statewide and multi-state contracts negotiated by MMD currently serve more than 600 local units of government and other authorized entities. MMD also works with Minnesota and out-of-state businesses to ensure fair competition and to resolve vendor performance issues.

MMD's business operations, OSC and Minnesota's Bookstore, also provide services to state government, local governments, school districts, and higher education entities. In the case of Minnesota's Bookstore, its retail services are available to the general public.

Services Provided

The division provides a mix of direct services and compliance activities:

- ◆ purchasing and contracting for goods, services, utilities, and construction;
- ◆ recruiting and managing vendors;
- ◆ promoting environmentally responsible purchasing;
- ◆ managing procurement functions through Minnesota Accounting and Procurement System (MAPS);
- ◆ reviewing and overseeing professional/technical contracts;
- ◆ monitoring compliance with state procurement law and policy, including training and auditing of state agencies;
- ◆ conducting other training for agency customers, vendors, and cooperative purchasing members on topics including local purchasing, effective negotiations, and doing business with the state;
- ◆ operating a cooperative purchasing program for Minnesota's local units of government and other authorized entities and a pharmaceutical purchasing program on behalf of 45 states and the cities of Chicago and Los Angeles;
- ◆ managing a centralized publishing house for state agency-produced materials (Minnesota's Bookstore is located in the Williams Hill Business Center at 660 Olive Street in St. Paul and handles online, phone, mail, and fax orders and also operates a walk-in location that is open to the public 8 a.m. - 5 p.m. Monday - Friday);
- ◆ operating the state of Minnesota Mailing List Service – a centralized production and distribution outlet for the sale of selected state public licensing data to a national customer base;
- ◆ publishing the *State Register* – the state's official publication of record; and

Activity at a Glance

- ◆ Oversees an average \$1.8 billion annually in state government purchasing.
- ◆ Negotiates and manages approximately 1,400 enterprise contracts offering volume discounts to state agencies. Over 800 of these contracts are available for use by more than 600 local units of government and other authorized entities. Purchases from these contract vendors exceed \$850 million annually.
- ◆ Reviews an average of more than 4,000 professional/technical contracts and related documents per year.
- ◆ Negotiated in excess of \$20 million in contract savings and cost avoidance for government entities in FY 2008.
- ◆ Serves more than 70,000 Minnesota's Bookstore customers annually.
- ◆ Provides financial incentives for customers to purchase environmentally responsible office supplies and paper.

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- ♦ operating an office supply distribution business through an in-house warehouse consisting of approximately 1,000 commonly used products (located at 321 East Grove Street in St. Paul) and a non-stocked office supply contract of approximately 3,000 products.

Historical Perspective

Minnesota's procurement laws attempt to balance numerous interests, including those of state agencies, vendors, small businesses, minority- or female-owned or economically disadvantaged businesses, environmental advocates, rehabilitation facilities, correctional industries, the visually impaired, and others. The legislature re-wrote Minnesota's procurement laws in 1998, reducing the number of mandates and moving from a "low-bid" to "best value" philosophy of procurement. MMD concurrently shifted to a less centralized approach where unlimited authority can be delegated to purchasing staff within agencies if they have demonstrated their competence and adherence to state standards. These changes have allowed MMD to reduce its role with respect to one-time, low-dollar-value purchases and to concentrate on the more complex and enterprise procurements, including contracts that aggregate public purchasing dollars to achieve volume discounts for standard items.

In 2007, the legislature further amended state procurement laws to support strategic procurement "best practices" that assure the highest value to the state and its taxpayers. Examples of division activities consistent with this new legislative direction and the department's strategic goals are described in "Key Goals" below.

Executive branch agencies have been required to obtain office supplies and paper from OSC with some exceptions since January 2006. The increased volume of goods purchased resulted in the average percentage discount for non-stocked products to increase from 46% to 52% off list price, resulting in significant savings for all customers. An assessment of OSC's future role is currently underway. Several business models are being considered including the use of a private-sector contract for the distribution of supplies and paper that could lead to the closure of the operation if justified by economics or deficiencies.

Key Program Goals

- ♦ Goal: To be recognized for our innovation and efficiency. Minnesota is the first state to implement "spend intelligence" software, providing a previously unavailable level of detail regarding the state's purchase of goods and services. In recognition of this initiative, Minnesota was awarded the 2007 George Cronin Award for Procurement Excellence – the highest honor in public sector procurement – by the National Association of State Procurement Officials. Additionally, Minnesota's procurement innovations, with an emphasis on negotiating contracts, were featured in the August 2007 issue of **Government Procurement** magazine.
- ♦ Goal: To provide our customers with valuable services, products, advice, and expertise. The division has assisted agencies with the state's most complex, high-stakes acquisitions including enterprise-wide e-mail and property management systems, a "bio-safety level 3" lab, and reconstruction of the 35W bridge in Minneapolis using a "design/build" contracting process.
- ♦ Goal: To reduce costs by working across government. By developing commodity standards in conjunction with the Office of Enterprise Technology and other agencies, substantially reduced pricing has been obtained for frequently purchased items such as computers, servers, cell phones, chairs, and office furniture. MMD has also launched an effective negotiation strategy. (See "savings and cost avoidance on behalf of state agencies" below under key measures.) Similarly, Minnesota's Bookstore works with state agency representatives to offer centralized publishing, retail, and distribution services for maps, manuals, forms, handbooks, and other materials that can be easily purchased by the general public. These activities directly support Minnesota Milestones by providing cost-efficient government.
- ♦ Goal: To be recognized for our environmental stewardship. OSC promotes the use of 100% white recycled content copier paper across state government by offering competitive pricing when compared to either virgin or 30% recycled content paper.

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Key Measures

Savings and cost avoidance on behalf of state agencies: MMD aggressively negotiates state contracts to achieve price reductions below the best competitive offer initially received. In FY 2008, this strategy yielded savings or cost avoidance valued at \$16.5 million on goods and services contracts and \$3.9 million on professional and technical contracts.

Use of innovative procurement tools: As noted above, MMD's "spend intelligence" system won the 2007 Cronin Award for Procurement Excellence.

Efficiency in reviewing and approving contracts: MMD attempts to review professional/technical contracts, certifications, amendments, and related documents within three days of receipt. The average was 2.9 days in FY 2007 and 2.8 days in FY 2008.

Competitive paper pricing combined with environmental stewardship: 100% recycled copier paper was the most cost-effective option for state agencies during FY 2008 when compared to virgin and 30% recycled paper. Because of this pricing advantage and through promotion of its use, nearly 182,000 reams of 100% recycled paper were purchased during FY 2008 compared to only 19,000 reams during FY 2007. During FY 2008, 100% paper represented 39% of all white copier paper sold – the goal is to increase this to 50% by the end of the FY 2010-11 biennium.

Activity Funding

MMD's general fund appropriation covers costs associated with delivery of centralized procurement services as well as oversight of delegated purchasing and professional/technical contracts. The division's cooperative purchasing program and Minnesota's Bookstore are self-sustaining enterprise funds. OSC operates through an internal service fund.

Minnesota's Bookstore is projected to generate annual revenue of approximately \$182,000 for the *State Register* during FY 2009. The revenue is generated from state agencies publishing material as well as a small number of enhanced electronic subscribers. Minnesota's Bookstore and the Mailing List Service are projected to generate approximately \$1.4 million in revenue during FY 2009. Most of this revenue is from the general public. The number of FTEs within Minnesota's Bookstore is 10.8 on 7-1-08.

Operating Losses/Increases in Retained Earnings: FY 2008 retained earnings for the *State Register* increased by \$82,000. Minnesota's Bookstore retained earnings decreased by \$79,000 during FY 2008.

History of Rate Changes (State Register):

Fiscal Year	2004	2005	2006	2007	2008	2009
Change	8.90%	0.00%	0.00%	0.00%	0.00%	0.00%

Impact of Rate Changes:

Assuming the same volume and mix of goods/services as used in FY 2008, the *State Register's* largest customers (Pollution Control, Natural Resources, Human Services, Transportation, and Labor & Industry) will pay no more in FY 2009 since rates did not change.

OSC is projected to generate annual net revenue of approximately \$6.8 million during FY 2009 from state agencies and local government. The number of FTEs within OSC is 9.1 on 7-01-2008.

Operating Losses/Increases in Retained Earnings: FY 2008 retained earnings for OSC increased by approximately \$114,000.

History of Rate Changes:

Fiscal Year	2004	2005	2006	2007	2008	2009
Change	(0.82%)	0.82%	See note	0.00%	0.00%	See note

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Note: During FY 2006, OSC changed its pricing structure from discount off list price to a cost plus model on non-stock inventory. No pricing changes were made on stocked inventory. During FY 2009, OSC cut the mark-up on stocked products from 28.5 to 27 percent.

Impact of Rate Changes:

Assuming the same volume and mix of goods/services as used in FY 2008, OSC's five largest customers (Human Services, Corrections, Transportation, Employment & Economic Development, and Natural Resources) will pay less based on the stocked product mark-up reduction.

Contact

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Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	500	0	0	0	0
Forecast Base	500	0	0	0	0
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,045	2,613	2,074	2,074	4,148
Statutory Appropriations					
Miscellaneous Special Revenue	0	64	0	0	0
Documents And Publications	1,477	1,759	1,806	1,853	3,659
Central Stores	6,811	6,720	6,870	7,023	13,893
Materials Distribution	6,753	9,055	10,183	10,403	20,586
Total	17,086	20,211	20,933	21,353	42,286
<u>Expenditures by Category</u>					
Total Compensation	5,354	6,072	6,364	6,524	12,888
Other Operating Expenses	8,587	9,710	9,360	9,529	18,889
Capital Outlay & Real Property	10	0	0	0	0
Other Financial Transactions	3,135	4,429	5,209	5,300	10,509
Total	17,086	20,211	20,933	21,353	42,286
Full-Time Equivalents (FTE)	71.5	77.6	79.3	79.3	