
JLARC

Joint Legislative Audit and Review Commission

Use of Cooperative Procurement by Virginia School Divisions

**Presentation to the Education Subcommittee
of the Senate Finance Committee
January 20, 2011**

Study Mandate

HJR 60 (2010)

JLARC to study the feasibility and effectiveness of requiring local school divisions to contract collectively in certain areas of procurement

In addition:

- Examine current use of cooperative procurement
- Identify possible savings

In Brief

Cooperative procurement increases buying power and may lower the prices of goods and services, but no single procurement method consistently offers the lowest price or best value. State could achieve savings by promoting more cooperative procurement use, and by consolidating school division health insurance plans.

In This Presentation

Background

How Are Purchases Made?

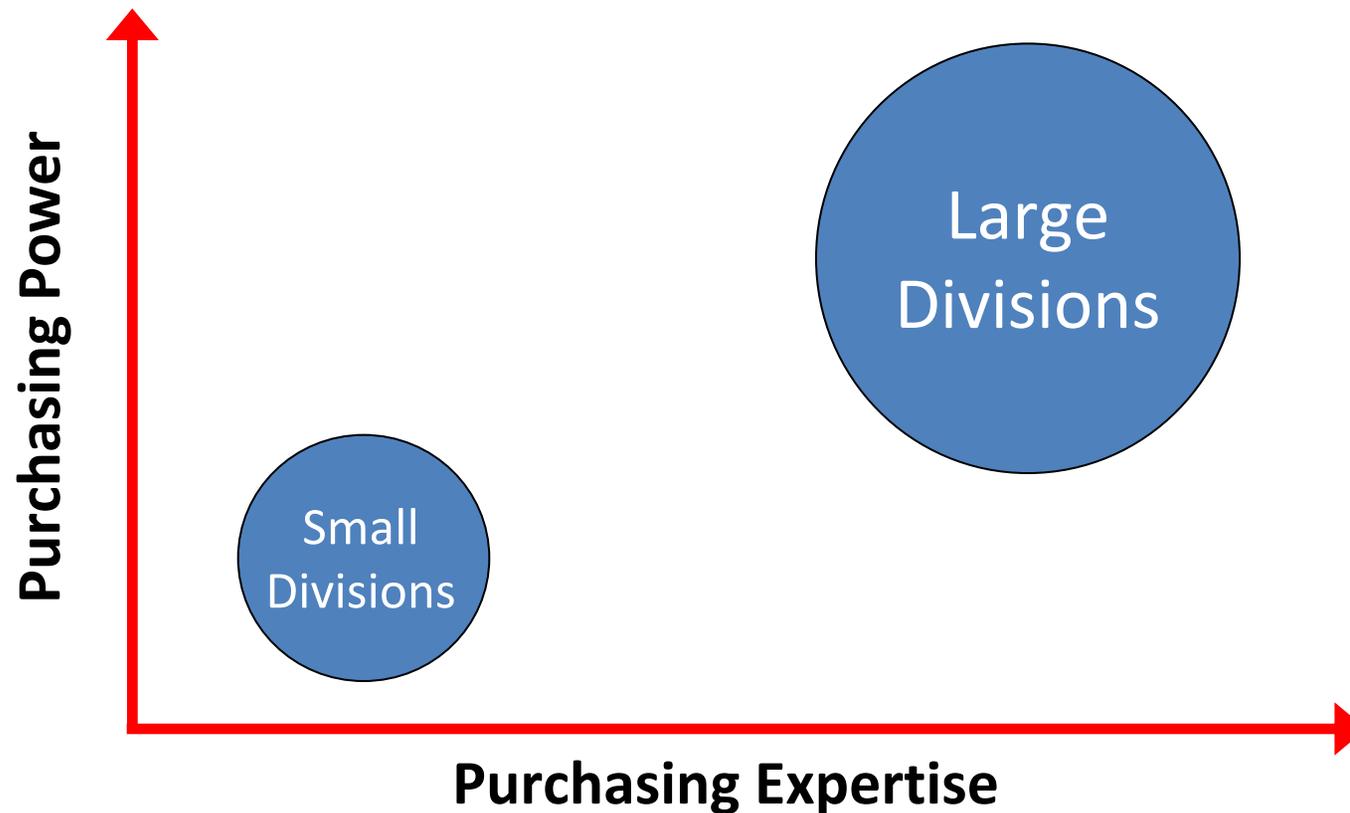
Potential Savings

Promoting More Efficient Purchasing

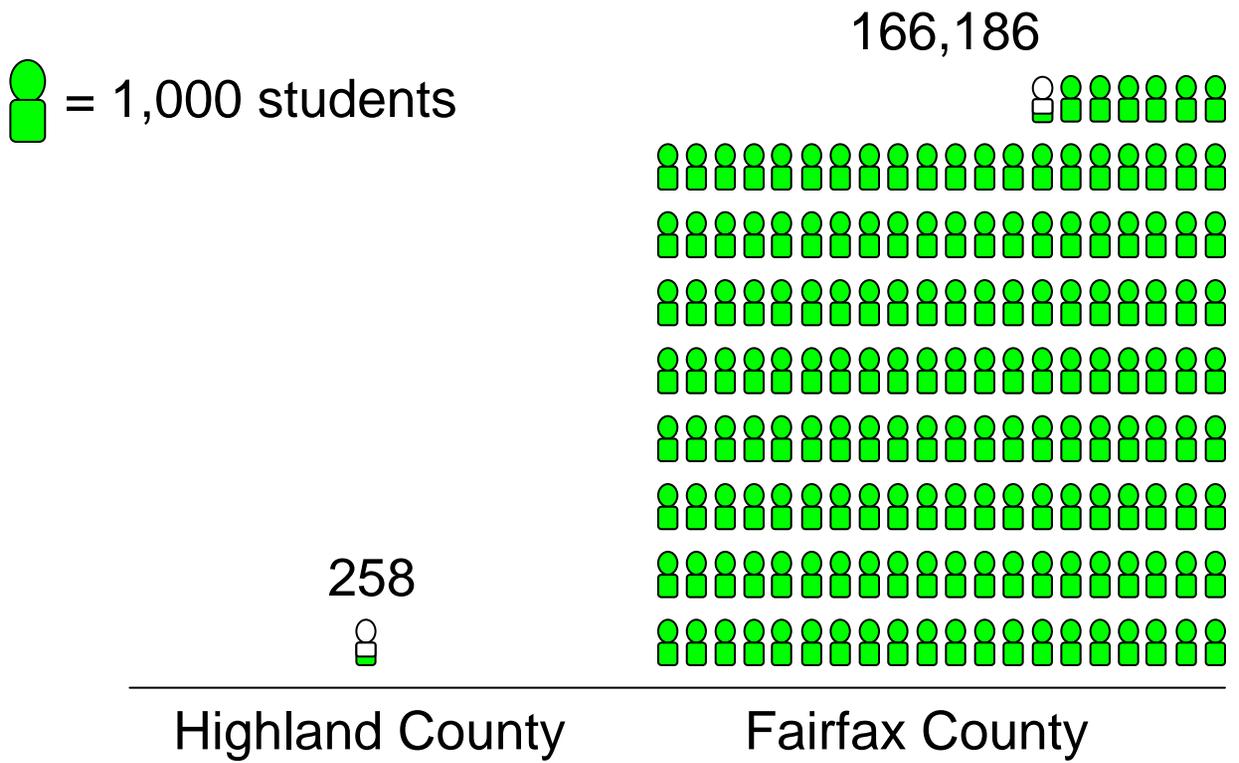
What Is Cooperative Procurement?

- Joint Purchase
 - Partnership between two or more public entities for the purchase of a good or service
- Open Contract
 - Purchase made from a contract pre-awarded by another public entity

Division Size and Structure Impact Purchasing Practices



School Divisions Vary Greatly by Size of Student Population



Source: 2009 annual school division reports submitted to DOE.

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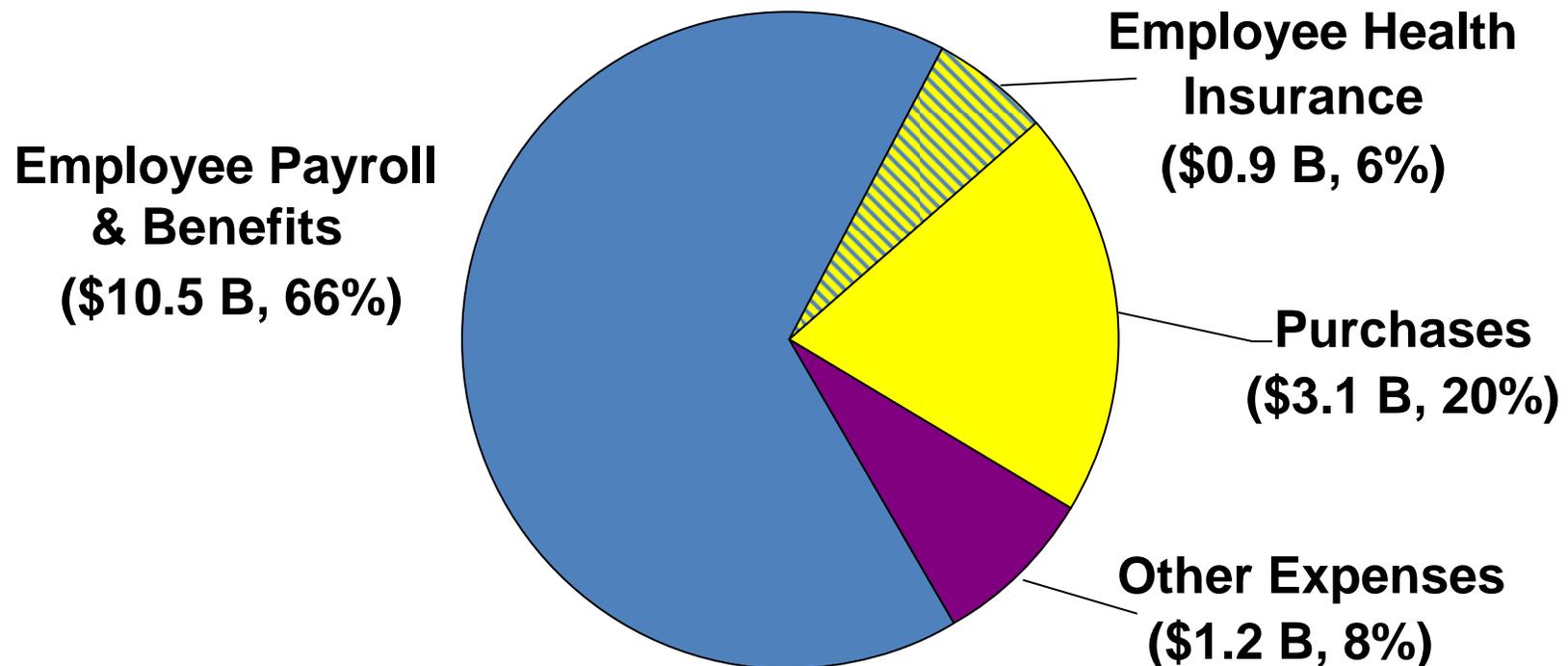
How Are Purchases Made?

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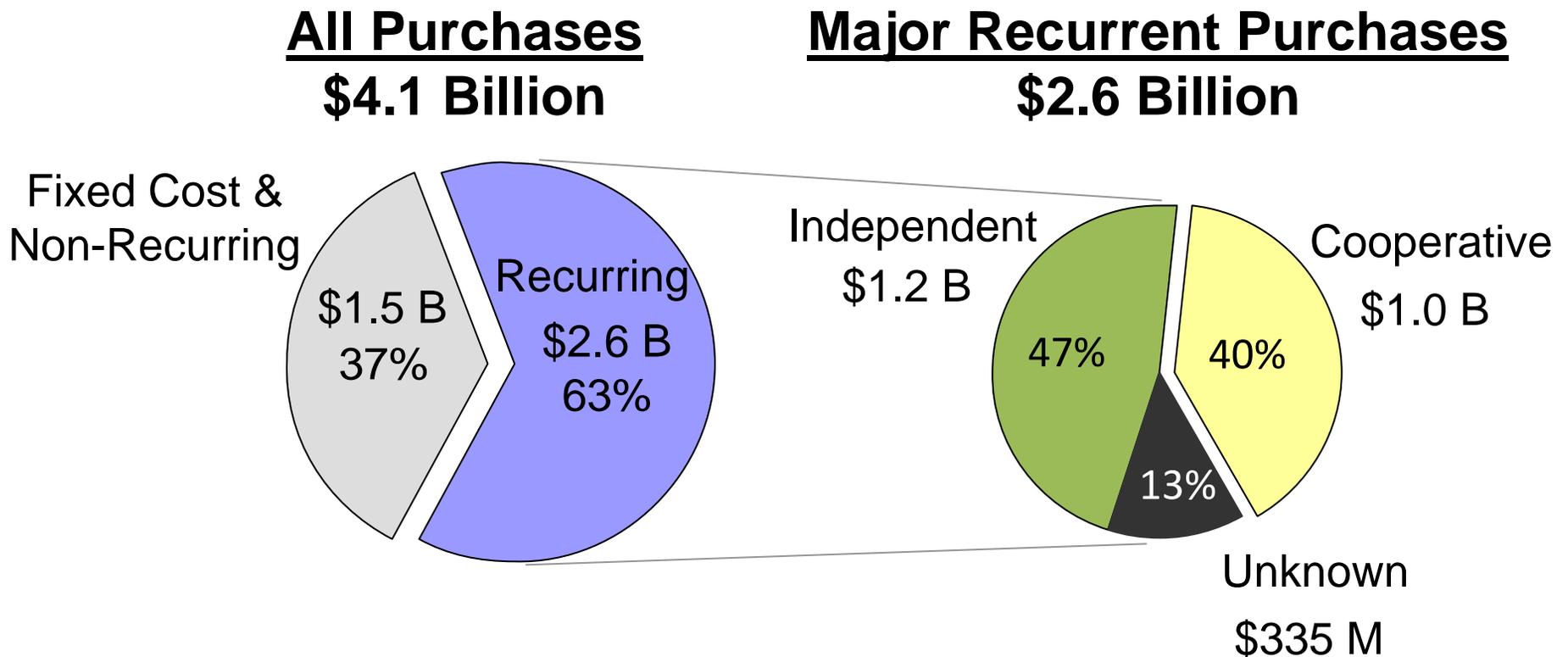
Majority of School Expenditures Are Employee Compensation Costs

Total Spending (FY 2009) = \$15.9 B



Source: 2008-09 school division reports to the Virginia DOE.

Cooperative Procurement Was Primary Method for 40 Percent of Recurring Purchases



Source: JLARC staff survey and 2008-09 school division reports to the Virginia DOE.

Several Factors Limit Use of Cooperative Procurement

- Limited awareness
- Preference to support local businesses
- Strained relationships
- Difficult to organize and maintain cooperatives
- Not always best value

Finding

Cooperative procurement does not always provide best value, as school divisions are sometimes able to obtain lower prices through an independent competitive procurement.

Cooperative Procurement Is Not Always Best Option

- Markets change
- Large divisions have considerable purchasing power

Open contracts may be used as benchmark

Case Example: Virginia Beach Saved Money by Purchasing Buses Independently

In June 2010, Virginia Beach purchased 27 school buses at a cost of \$73,360 per bus, which was \$3,737 less than the State contract price. Savings of \$100,899 was achieved by purchasing independently rather than through the State contract.

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Findings

Most potential savings through greater use of cooperative procurement would likely occur in smaller school divisions. Savings of up to \$56 million could be possible among these smaller divisions.

Employee health insurance represents the area for greatest potential savings.

Additional Savings Most Likely in Certain Major Spending Areas

Purchase Category	FY 2009 Expenditures (\$ millions)	Current % Cooperative Purchasing
Health insurance	\$ 948	53%
Purchased services	579	11
Food	183	32
Instructional materials	126	14

Source: JLARC staff survey of school divisions and 2008-09 school division reports to DOE.

Small Percentage Reduction in Costs Would Lead to \$ Millions in Savings

% Reduction	Statewide Savings (\$ millions)
1%	\$ 5.6
2	11.2
5	27.9
10	55.9

Source: JLARC staff analysis of 2008-09 school division reports to DOE.

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Findings

A State requirement to use a certain procurement method to purchase a particular good would not be appropriate.

Consolidation of employee health insurance plans would likely result in substantial savings.

Efforts to promote awareness of cooperative opportunities could lead to cost savings through more efficient purchasing.

Savings Could Be Achieved by Consolidating Health Plans (Option 1)

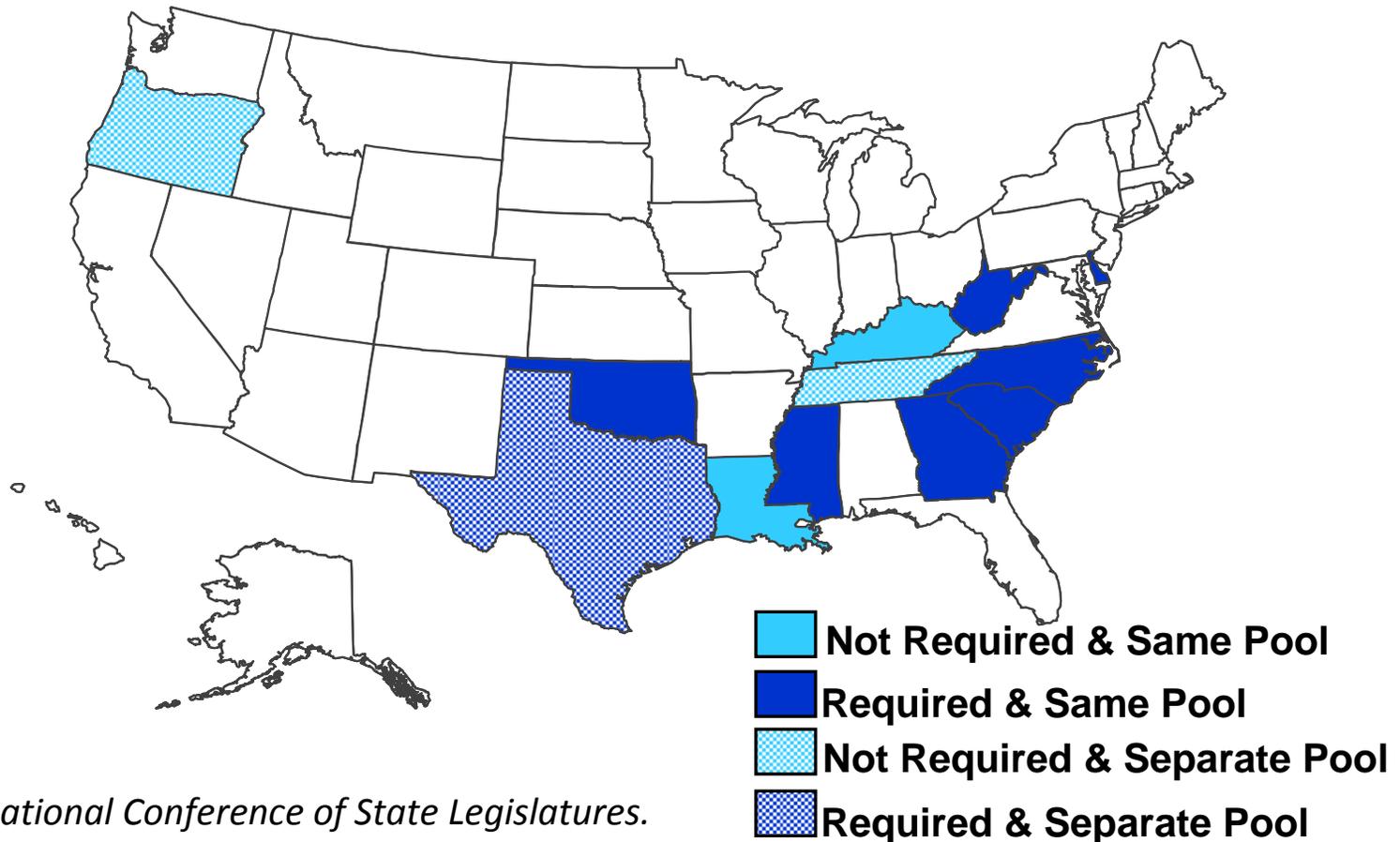
- Provide incentive for consolidation of school division and local government plans
 - **Benefit:** share administrative and procurement costs
 - **Challenge:** cooperation also dependent on local governments

Statistical analysis indicates divisions purchasing jointly had costs of \$18.6 million less than expected in FY 2009

Savings Could Be Achieved by Consolidating Health Plans (Option 2)

- Include local school divisions in a Statewide employee health plan
 - **Benefit:** reduced administrative and procurement costs, and greater market power
 - Estimated savings: \$47 - \$66 million annually
 - **Challenges:**
 - Risk of adverse selection
 - What about local governments?

Several States Have Statewide Health Insurance Plan for School Divisions



Source: National Conference of State Legislatures.

Recommendation

General Assembly may wish to direct that an actuarial analysis be conducted to determine the expected fiscal impacts of expanding the State employee health plan to include all public bodies in Virginia.

Increasing Awareness of Cooperative Opportunities

- Centralized source of information on existing open contracts
- Annual certification by division superintendents that cooperative options were considered
- Shared regional full-time procurement officer

Recommendation

DOE, in cooperation with DGS, should lead an effort to create or enhance a comprehensive source of information on all existing open contracts for use by school divisions. DOE should encourage the use of this source by school divisions.

Recommendation

The General Assembly may wish to consider initiating a two-year pilot program in which it matches local school division funding for the employment of a regional procurement officer to supplement the procurement operations of small school divisions.

Key Findings

- Cooperative procurement mandate would not be appropriate
- Cooperative procurement methods used for approximately 40 percent of recurring purchasing expenditures in FY 2009
- Employee health insurance represents area of greatest potential savings
- Efforts to promote use and awareness of cooperative procurement should be considered

JLARC Staff for This Report

Bob Rotz, Division Chief

Aris Bearse, Project Leader

Jamie Bitz

Mark Gribbin

Joe McMahon

For More Information

<http://jlarc.virginia.gov>

(804) 786-1258