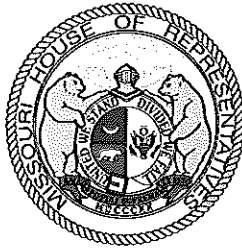


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COMMITTEES

Chair – Downsizing State
Government

Economic Development

Ways and Means

Joint Committee on Government
Accountability

Paul R. Curtman

State Representative
District 109

February 5, 2014

Mr. Doug Nelson, Commissioner
Missouri Office of Administration
P.O. Box 809
Jefferson City, MO 65102

Legislative Hearing Findings

Dear Commissioner Nelson:

As you know, my committee on Downsizing State Government has been endeavoring to educate our members and the remainder of the legislature on Missouri's operating policies, whether they are in statute, rule, or practice. You have been instrumental in aiding our work in a cooperative spirit, and I first would like to extend my gratitude for your bi-partisanship.

In the continued interest of collaboration, I wanted to share certain findings that I would offer for your consideration. For those cases in which criticism is offered, I hope it to be received constructively. In several of these instances, I believe the executive branch has existing authority to enact changes to the benefit of Missouri's taxpayer and I would look forward to your response. However, in others, I believe legislation is required and I hope to find an ally in OA and the remaining executive departments.

I look forward to continuing to work with you to find ways to streamline our bureaucracy to help make it smarter, faster, and cheaper. Please contact me at your convenience so that we may discuss these issues in a more detailed manner.

Sincerely,

A handwritten signature in cursive script that reads "Paul Curtman".

Paul Curtman
Downsizing State Government, Chairman

Practical Considerations

Fleet Management

- 1) Annual Fleet Report does not consider entire vehicle fleet or require the various agencies to report on benchmarked measures relating to performance.
- 2) Fleet managers do not collect daily utilization rates, which contributes to over-investment in vehicle purchases, increased maintenance costs, increased fuel spend, and various costs of managing and storing state vehicle assets.
- 3) State standards have not been universally upheld at all state entities, in particular institutions of higher education, the Department of Transportation, and the Department of Conservation.

Facilities Management

- 1) Inefficient utilization of energy across the more than 3,000 state owned buildings and 500+ leased facilities is likely wasting millions in taxpayer dollars
- 2) Renewable energy sourcing could prove valuable to taxpayers
- 3) Statewide contracts are showing promise in many realms, but have not been utilized to full advantage in the total facilities management perspective

Procurement Methods

- 1) Reverse auctions have shown promise in other states and the federal government but are not allowed by current statutes
- 2) Bidding notification limits should be updated to reflect value of the dollar, not number of dollars
- 3) Missouri's e-market is cumbersome and does not include all state entities
- 4) Many agencies are developing multiple contracts for similar products or services, which likely leads to inefficiency in sourcing cost as well as oversight cost.
- 5) Procurement statutes peg bidding to the "lowest and best" contract, which could put Missouri in a position to be purchasing at a less than optimal total value price point
- 6) Preference points heavily manipulate the awarding of contracts not on price or deliverables, but on statuses which are antithetical to the premise of competition economics
- 7) The private sector is limited in its ability to submit unsolicited bids and/or public-private proposal bids, a practice that ignores the vast potential for innovation and leverage found in the non-public space

Fleet Management Practices

Context

Missouri's fleet management has been criticized by previous state auditors who found that, significantly, the government didn't even know how many vehicles it owned. Similarly, several state entities were shown to not strictly adhere to policy regarding vehicle purchases. These poor management practices cost taxpayers millions and, thankfully, new statutes and guidelines have since been implemented to help avoid waste in this area.

Lack of Full Collaboration

Unfortunately, our "state" standards do not apply to the entire state government. In fact, some state entities have outright refused to cooperate with OA management in their efforts to be transparent about the status of our fleet and find ways to be more efficient. While it is certainly the prerogative of MoDOT or Conservation or other entities to manage their respective departments as they see fit, it is similarly this committee's prerogative to highlight where lack of collaboration is costing taxpayers money it should not.

For example, my research found that the University of Missouri has an auto leasing program that is more expensive per day than the current state leasing contract with Enterprise. This suggests that MU's various schools are paying too much to rent a vehicle and that perhaps the University should not even be making the investment in the vehicles in the first place. I intend to further examine the statutes and appropriations to identify ways to encourage collaboration and participation across the board.

Critical Information Deficiencies

During our research we prompted OA to identify how often vehicles were utilized. The response given was that while annual miles were tracked per vehicle, utilization was not. This is a significant impediment and weakness in our vehicle management policy.

During our informational hearing on fleet management, a professional from a fleet service company alluded to the fact that an owned vehicle that sits idle each weekend has an annual utilization rate near 70%. If that same vehicle sits idle on average just one day of the week and the weekend, its utilization drops to under 60% for the year!

While OA has suggested that owning a vehicle presents the cheapest cost per mile, this argument completely ignores the needs of the state's entities. If a vehicle is only needed 11 days out of the month, then perhaps renting is a cheaper alternative to the full cost of ownership. The simple truth is that under our current system, we don't know either way. Meanwhile, OA is arguing that it is lacking GR funds to make investments in owned vehicles while similarly lacking the information necessary to properly qualify that claim.

Annual Report Lacks Agency Information and Goals

Our annual fleet report is a good starting point for fiscal and administrative managers. However, it lacks the comprehensive nature and performance driven focus of other state's similar reports. During the informational hearings, I distributed a copy of Utah's annual fleet management report (*2012 Fleet Cost Efficiency Plan*) contrasted with our own report (*2012 Annual Fleet Report*). Two significant differences exist:

- 1) Every entity – including institutions of higher education – with a fleet reports the exact same cumulative data to the central administrator. These reports contain simple data points to help management make better decisions such as the cost per mile for the agency's fleet, the number of vehicles owned by each entity, the total miles traveled by the entity, the cumulative miles per gallon ratio for the entity, the number of gallons used by each agency, and a five-year look back to see the changes from the base year to the present year in each of these categories.
- 2) Every entity submits actions taken in the present year and future goals – all aimed at efficiency

This is not to suggest that our own annual report is not helpful or lacks all of the above components. To the contrary, some of this information is collected. However, it is striking to show how much potential

exists just in simple reporting by each state entity, whether constitutional or statutory. While OA has the current authority to make these types of changes for the consolidated agencies, it is likely a matter of statute to garner the cooperation of other entities. In the interest of both transparency for our citizens and honing our focus on efficiency, I intend to pursue policy to that end.

Facilities Management Practices

Context

According to a report to my office on the matter, the state of Missouri owns over 3,000 buildings and leases millions of square feet in an additional 500 some buildings. Consolidation efforts on the part of the government have been undertaken recently in order to save costs associated with facilities management. Additionally, a recent contract was let to have our energy utilization tracked, analyzed, and reported in the interest of curbing energy waste. While these efforts have been successful, there remains room to improve.

Wasted Energy Costing Millions

Though my experience with state buildings is limited largely to those in the Jefferson City area, I have found it remarkable that all too often simple issues like leaving the lights on plagues our building management. The Capitol is no exception. Each evening, each weekend, no matter if no one is here, the lights are on. The escalators are running. As mentioned, this is just one building of thousands – several thousand square feet amongst millions. Building management policy must be adapted to conserve not only taxpayer dollars, but the upstream costs associated with making and providing energy to the government.

Energy Sourcing Prompts Consideration

The University of Missouri is doing incredible work in the field of energy production to serve their campus's needs. They have an incredibly deep portfolio including, wind, solar, and biomass. These investments have helped the growing system avoid millions in utilities costs and even obtain a more favorable cost per square foot.

Here in Jefferson City, just a few miles down the road, we have unoccupied space on rooftops and other space that might – and I stress might – be able to be utilized to host platforms of this nature in a cost effective manner. The details of such projects are beyond the scope of what our committee could identify. However, I would note that the Harry S. Truman State Office Building, the State Capitol Building, and the Jefferson Building are each on the list of the state's largest consumers of electricity (the Truman Building is #2!) and therefore could likely show the most significant savings for Missouri's taxpayers.

Innovation Saving Other Government's Millions

During our hearings, we hosted Jones Lang LaSalle, a private company that has teamed with the state of Tennessee. In just six short months they identified \$100 million in ten-year savings for the state. They did this utilizing a performance contract that allows JLL to manage millions of square feet of state space, focusing attention on efficiency through consolidation; maintenance, upgrades, and repair; and other performance driven efforts. Within the walls of those buildings they are reporting more modern workspaces that are more conducive to productivity and promote a safer, more comfortable environment for employees of the state.

I believe Missouri should follow examples such as this and allow the private sector the opportunity to bid on a performance contract of such an encompassing nature to help us make better resource allocation decisions, promote a safer environment for our employees, and ultimately operate a more efficient government for our taxpayers. I further believe OA has the statutory authority to analyze the costs and benefits associated with such a policy decision and could also couple the aforementioned energy performance issues in such a contract to the benefit of all Missourians. I strongly urge OA to consider and report to the General Assembly on this matter.

Procurement Practices

Context

Missouri's various procurement statutes are designed to allow for private sector competition that is done responsibly and fair. In large part, it is done in such a manner. However, certain tweaks to the existing statutes and regulations can move the mark a little closer to true competition in a fair, well-constructed marketplace for our state's needs.

Reverse Auctions Show Promise

Missouri purchases millions each year in basic commodities. These types of purchases do not require the more complex negotiated terms of procuring, for example, professional services. In the recent past, OA has attempted, with the support of the legislature, to implement new procurement statutes that allow for competitive reverse auctions, in which bids are open and the bidders can compete head to head. This shift in policy would be extremely advantageous to Missouri's taxpayer.

Notice Requirements Antiquated

Missouri's bidding statutes generally require notice of opportunities to bid based on certain thresholds of dollar figures. However, these numbers seem to have been set at arbitrary figures and are not subject to inflation. In 1939, all state purchases were subject to bid and those above \$2,000 had to have notice in two daily newspapers of general circulation. In today's dollars, that would be more than \$32,000, but the limit quoted in today's statute is \$25,000. While this does not seem a significant difference, it raises the point that these figures ought to be associated with the value of a dollar over time and that value should be pegged by a means that is not arbitrary. Our office continues to research other state's methods at arriving at an appropriate value to determine if a more rational method exists.

E-Procurement

Prior to the committee's deliberations, OA had issued an RFP to procure a new web-based procurement platform. The consensus amongst OA and the legislature is that the current system is cumbersome and inefficient, which limits potential buyers and sellers from entering or even knowing fully about the market to begin with. To OA's credit, their pursuit of this "one-stop shop" e-system will more fully leverage the state's purchasing power (and possibly other entities of government should they choose to participate). OA should stay its course and this General Assembly should support this policy.

Abundance of Contracts Inhibits Purchasing Power, Obscures Oversight

Our bureaucracy has several thousand individual contracts. Many of these are for mundane, everyday items, like office supplies, that are required for basic operations. Others are incredibly complex procurements that require significant monitoring in order to mitigate adverse events that could quite literally harm the public we serve. While our committee did not delve deep into this realm, it was noted that OA was shifting resources in order to improve contract oversight capabilities. This internal shift is supported. Further work, however, can and should be done to decrease the number of separate contracts for similar items. For example, the Department of Corrections has numerous contracts for various supply components which likely could be bundled into a single supply contract.

Along those same lines, OA continues to address contracts that could be combined and offered statewide for use by all agencies, thereby reducing overall administrative costs to procure and more fully leveraging Missouri's purchasing power. Increased internal collaboration should be considered and is highly recommended.

Competition for Best Value

Quite simply, lowest price does not mean greatest value. Taxpayers deserve a government that considers a more complete perspective of the cost to own or operate. Our current standard for most procurement is "lowest and best." Where necessary, statutes should be amended to allow for procurement based solely on best value predicated on established guidelines.

Stacking of Preference Points

The stacking of non-value related preference points, as OA explained during testimony, has created a significant and confusing impediment to the scoring and review process. Our state managers should be enabled to be more intently focused on identifying which bids serve the best value to taxpayers. In line with Representative Sue Allen's Interim Committee on Government Bidding and Contracting (circa 2012), it is highly recommended that the "stacking" of social status preference points be limited to a single preference claim and that all preferences be weighted equally. A policy shift of this nature would allow for more true competition between good and service providers, which in turn would benefit Missouri's taxpayers.

Public and Private Collaborative Initiatives

No clear structure exists for the private sector to offer up new innovative ideas in an unsolicited manner. Other states, like Virginia and Florida, have established a clear framework that allows any private entity to make new offers to the state for its consideration, receive feedback, and ultimately have a decision made in a timely fashion. A policy of this nature seems most responsible and would better allow our bureaucracy, which is not always known for its nimble nature, to react quickly to changing technologies, best practices, and innovation in the private world.

Furthermore, the aforementioned states, along with Texas and even the federal government, have responded kindly to the emerging policy of public-private partnerships. With guidelines to protect taxpayers and promote a fair marketplace with defined limits and expectations, these states are more fully utilizing the private sector's ability to raise capital and bring new projects to the market faster, better, and more cost-effectively. While Missouri has made room in her statutes for a limited number of transportation projects of this nature, we have yet to consider other infrastructure. Other states are building schools, dorms, psychiatric hospitals, and other public infrastructure with private capital, expertise, and technology.

I am in the process of drafting legislation to address these deficiencies in our policy and look forward to OA's collaboration should you agree.