



Use of Cooperative Procurement by Virginia School Divisions



In Brief

House Joint Resolution 60 (2010) directed JLARC to examine potential cost savings through cooperative procurement by local school divisions and to determine the appropriateness of requiring divisions to contract collectively in certain areas of procurement.

JLARC staff found that cooperative purchasing methods were used for approximately 40 percent of major recurring purchase expenditures in FY 2009. Although cooperative procurements resulted in better value for many school divisions, some divisions were able to obtain lower prices through independent competitive purchases. However, greater use of cooperative procurement would likely lead to additional savings by achieving economies of scale—particularly among smaller divisions.

Because no one purchasing method consistently offers the lowest price or best value, a State requirement that any particular good or service be purchased through cooperative means would not be appropriate. However, the State could promote greater procurement efficiency by implementing a statewide health insurance plan for all school division employees, creating incentives for school divisions to jointly purchase health insurance, increasing awareness of cooperative opportunities, or by sharing the services of a regional full-time procurement officer.

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January 25, 2011

The Honorable Charles J. Colgan
Chair
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia 23219

Dear Senator Colgan:

House Joint Resolution 60 of the 2010 General Assembly directed staff of the Joint Legislative Audit and Review Commission to study the use of cooperative procurement by Virginia school divisions. Specifically, staff were directed to examine the extent to which school divisions currently use cooperative procurement (or collective contracting) and whether cost savings could result from mandating its use. This report was briefed to the Commission and approved for printing on December 13, 2010.

I would like to thank the staff at the Departments of Education, General Services, and Human Resource Management, as well as at the Virginia Association of Governmental Purchasing and the local school divisions for their assistance during this study.

Sincerely,

A handwritten signature in black ink, reading "Glen S. Tittermary".

Glen S. Tittermary
Director

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JLARC Report Summary:

Use of Cooperative Procurement by Virginia School Divisions

Key Findings

- Cooperative procurement can lower the prices of goods and services by increasing the purchasing power of school divisions, but it does not always offer the best value compared to independent competitive procurements. (Chapters 2 and 3)
- School division purchasing expenditures accounted for \$4.1 billion in FY 2009, which was about one-fourth of total division expenditures. Employee health insurance was the largest recurring purchasing expenditure, accounting for \$948 million. (Chapter 2)
- Cooperative procurement was the primary method used for approximately 40 percent of major recurring purchase expenditures in FY 2009. (Chapter 2)
- Although Virginia school divisions are widely using cooperative procurement for some goods and services, some opportunities for savings through greater use of cooperative procurements are missed. (Chapter 3)
- A requirement for the cooperative procurement of any particular good or service would not be appropriate, but several options exist for promoting savings through greater use of cooperative procurements. These include a statewide health insurance plan for school division employees, efforts to promote awareness of cooperative opportunities, and shared services of a regional full-time procurement officer. (Chapter 6)

House Joint Resolution 60 of the 2010 General Assembly (Appendix A) directs the Joint Legislative Audit and Review Commission (JLARC) to “study the feasibility and effectiveness of requiring local school divisions to contract collectively in certain areas of procurement.” In conducting the study, JLARC was directed to examine the current use of cooperative procurement (or collective contracting) by Virginia school divisions and identify possible cost savings that could result from mandating their use.

COOPERATIVE PROCUREMENT PROVIDES A MEANS OF LOWERING THE COSTS OF GOODS AND SERVICES

Cooperative procurement is the process by which an organization forms a partnership or shares contracts with other organizations for the purchase of goods or services. By aggregating their purchasing demands, organizations are often able to increase their market power and achieve lower prices. The *Code of Virginia* gives

public entities (including school divisions) the authority to enter into cooperative contracts for the purchase of most goods and services.

There are two basic types of cooperative procurement: joint purchases and open contracts. Joint purchases involve a partnership between two or more public entities to purchase a good or service for all entities in the partnership (for example, a school division and its local government). Open contracts are existing contracts that have a provision to allow other public entities to purchase items off that contract at the pre-awarded price. State contracts available for use by localities are examples of open contracts. Joint purchases combine the purchasing power of all entities in the partnership, while open contracts allow smaller entities to take advantage of the purchasing power of the larger entity who initiated the contract.

SIZE AND STAFFING OF SCHOOL DIVISIONS CAN IMPACT PURCHASING PRACTICES

School divisions in Virginia include rural, suburban, and urban divisions that range greatly in size. In FY 2009, division enrollment ranged from 258 students in Highland County Public Schools to 166,186 in Fairfax County Public Schools. This diversity creates substantial differences in how divisions structure their purchasing and the number of staff that perform purchasing activities.

Because larger divisions purchase more goods and services, they generally require more staff to handle purchasing responsibilities. Also, they are more likely to have consolidated purchasing at the division level. Conversely, small school divisions are less likely to have a full-time purchasing officer, and purchasing decisions are often delegated to the schools and departments in the division. Because of these differences, small divisions are often unable to capitalize on economies of scale or identify areas for cooperative procurement.

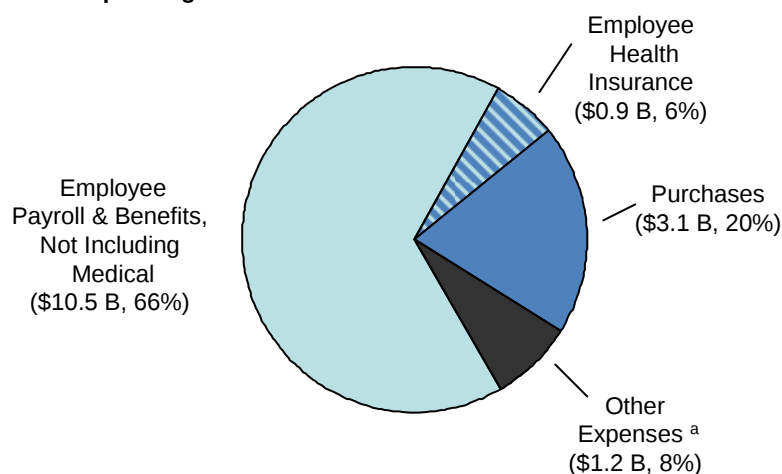
A small proportion of school divisions have consolidated their purchasing operations with their local government. Under these arrangements, one office conducts purchases for both the local government and the division. Consolidation may save administrative costs by reducing duplicate functions. However, at least one school division reported that consolidation with the local government would not have reduced staffing requirements.

COOPERATIVE PROCUREMENT MAY BE USED FOR MOST PURCHASES

The majority of school division spending does not go towards purchases but rather to employee salaries and benefits. In FY 2009, employee-related expenditures, not including health insurance, accounted for \$10.5 billion (or 66 percent) of \$15.9 billion in total expenditures (see figure below). Purchases, including employee health insurance, accounted for about \$4.1 billion.

Majority of School Division Expenditures Are for Employee Compensation Costs (FY 2009)

Total Spending = \$15.9 Billion



^a Includes tuition payments to other public school divisions, private schools, or joint operations, repayment of debt, leases and rentals, and miscellaneous expenses.

Source: Expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Cooperative procurement does not appear to be a viable option for achieving savings for the purchase of some goods and services. Of the \$4.1 billion in purchasing expenditures, approximately \$2.6 billion was estimated to be spent on goods and services that can be purchased cooperatively. The remaining \$1.5 billion includes one-time or fixed-cost purchases in which there are few opportunities for cooperation. Examples of one-time purchases are expenditures for land, construction, and renovation (over \$1 billion in FY 2009). Examples of fixed-cost purchases, in which school divisions have little negotiating power, include expenditures for textbooks and utilities. Textbook prices are based on the lowest national wholesale price (as required by the *Code of Virginia*), and utility rates are set by the utility provider.

Employee health insurance is the largest expenditure category for which cooperative procurement is a viable option for savings. Health insurance alone accounted for about 36 percent of recurring spending on goods and services that can be purchased cooperatively. Because of this, health insurance represents the area in which most savings through cooperative procurement may occur. Other major recurring expenditure areas include purchases of services, general materials and supplies, information technology (IT) assets, vehicle fuel, and school buses.

COOPERATIVE PROCUREMENT IS THE PRIMARY METHOD FOR PURCHASING SEVERAL GOODS AND SERVICES

A JLARC staff survey of Virginia school divisions found that divisions employ both independent and cooperative approaches when making procurements. Cooperative procurement was the primary method associated with an estimated 40 percent of spending on major recurring purchases (or just over \$1 billion). Independent purchases accounted for 47 percent, while the purchasing method used for the remainder of goods and services was unknown.

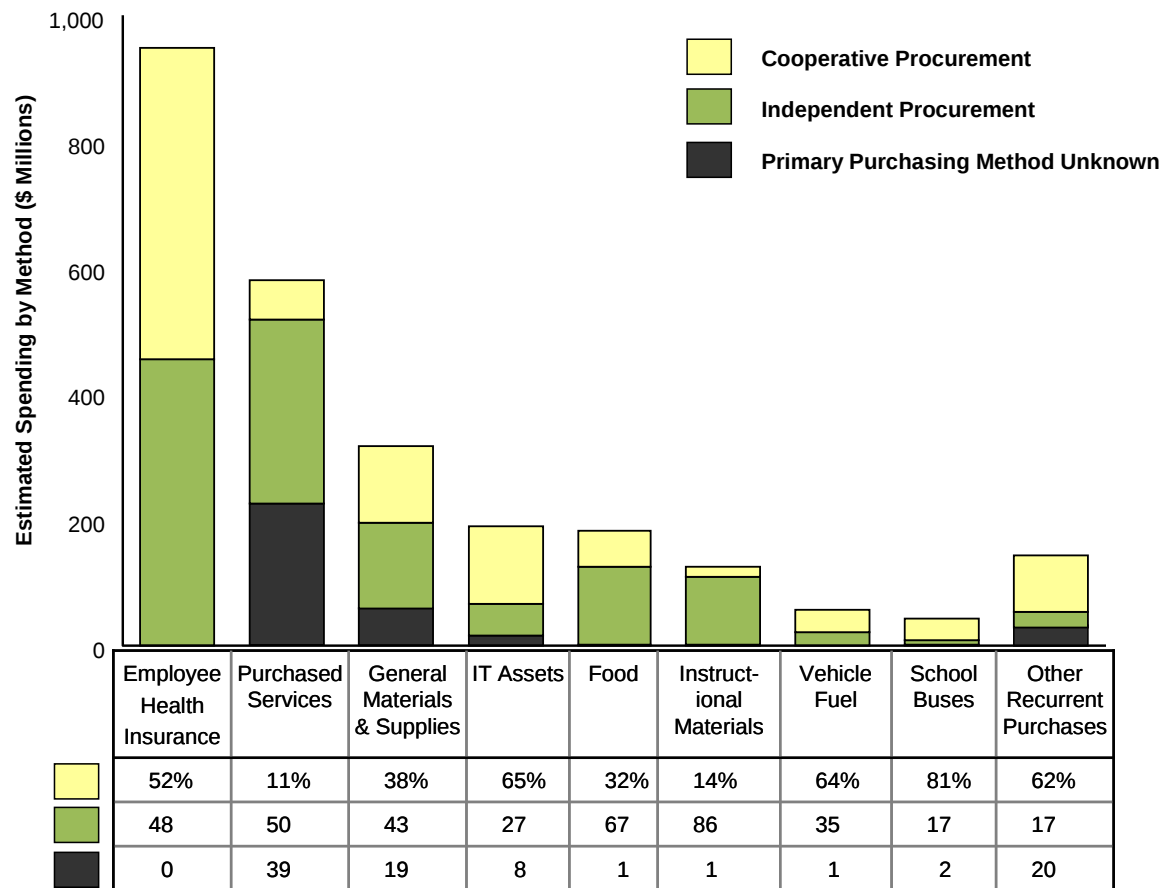
For several major expenditure categories, cooperative procurement was the primary purchasing method for a majority of spending in the category. These categories include health insurance, IT assets, vehicle fuel, school buses, and other recurring purchases (see figure on following page). Approximately one-third of school divisions purchased health insurance with their local government, while other cooperative arrangements included regional health care cooperatives and the State's Local Choice program.

Use of cooperative procurement varied by division, and rural divisions tended to use cooperative procurement to a slightly lesser extent than urban and suburban school divisions. Factors affecting the use of cooperative procurement appear to include the experience and availability of purchasing staff and local policy choices.

COOPERATIVE PROCUREMENT DOES NOT ALWAYS OFFER BEST VALUE TO SCHOOL DIVISIONS

JLARC staff reviewed the purchasing practices of selected school divisions in each education region to discover why divisions use cooperative methods for some items but not for others. This review revealed that both cooperative and independent procurement methods have resulted in best value to school divisions on a case-by-case basis. The review also revealed that opportunities for cooperative procurement are sometimes missed or not considered, which implies that savings opportunities are available through increased use of cooperative purchasing.

Cooperative Procurement Was Primary Method for Majority of Spending in Several Purchasing Categories



Note: Percentages of expenditures may not total 100 due to rounding.

Source: JLARC staff analysis of results from school division survey and expenditure data from 2008-2009 annual school reports to the Virginia DOE.

State contracts are most commonly used by school divisions for the purchase of school buses and IT equipment. Several school divisions reported benefits of using the State contract and stated they would not have been able to obtain a lower price on their own. However, other divisions reported purchasing these goods independently when they were able to beat the State price. State contracts appear to be most useful to small school divisions that lack the purchasing power or staffing resources to secure competitive prices on their own.

School divisions have used other open contracts to a lesser extent. One common method of accessing open contracts is to purchase through a national purchasing consortium such as US Communities, which provides open use contracts to all public bodies. Several Virginia school divisions have used US Communities to purchase

office supplies and have reported savings from these contracts. While some school divisions have been able to secure better deals independently, many divisions are unaware of this option, and additional savings could be achieved through greater use of these open contracts.

Joint procurement between school divisions and local governments is another option that has produced savings for many school divisions, particularly in the areas of health insurance and vehicle fuel. Nearly half of the divisions surveyed indicated they purchase fuel with or from their local government, while a third jointly purchases health insurance. Statistical analysis indicated that joint procurement with the local government is associated with lower unit costs. Joint purchases of health insurance may have saved school divisions an estimated \$18.6 million in FY 2009.

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Joint purchasing partnerships between two or more school divisions is less common than between divisions and local governments, but they have been widely used for food purchases. Several divisions reported savings by purchasing food through a regional consortium, but at least one division has left a food consortium because it was able to obtain better prices independently.

GREATER USE OF COOPERATIVE PROCUREMENT WOULD LIKELY RESULT IN ADDITIONAL SAVINGS

Although cooperative procurement does not always yield the lowest cost to school divisions, it appears that additional savings would be realized if cooperative procurement were used to a greater extent. Expenditures on most major recurring purchases were inversely related to division size (that is, larger divisions generally had lower unit costs than smaller divisions). This relationship between size and costs explains why cooperative procurement is often an effective means for lowering prices—it allows smaller divisions to attain the purchasing power of larger divisions. Given the relationship between division size and per-unit expenditures, the magnitude of spending, and the current extent of cooperative purchasing, purchasing categories can be identified for which greater use of cooperative procurement could achieve additional savings. The following table indicates the probability that significant savings could be achieved in each of the major purchasing categories.

Because cooperative procurement does not always lead to lower costs, the amount of additional savings due to its greater use is unknown. However, school divisions that only use cooperative procurement to a limited extent are likely missing opportunities for savings. JLARC staff estimate that a five percent reduction in purchasing costs through more cooperative procurement among these divisions would yield about \$28 million in savings, while a ten

Greater Cooperation Could Lead to Lower Costs for Most Goods and Services

Purchase Category	2009 Expenditures (\$millions)	Percent Cooperative Purchasing	Indication of Economies of Scale?	Opportunity for Savings
Employee health insurance	\$948	53%	No ^a	High
Purchased services	579	11	No	Moderate
IT assets	190	65	Yes	Moderate
Food provisions	183	32	Yes	High
Office supplies	126	74	Yes	Low
Instructional materials	126	14	No	Low
Vehicle fuel	58	64	Yes	Moderate
Telecommunications	53	56	Yes	Moderate
Liability, property, and casualty insurance / vehicle insurance	46	95	Yes	Low
School buses	44	81	Yes	Low

^a Although the correlation between division size and per-capita health insurance was not strong, the data analysis indicated an inverse relationship between cooperative health insurance purchasing and expenditures on health insurance per employee.

Source: JLARC staff analysis of expenditure data from 2008-2009 annual school division reports to the Virginia DOE, JLARC staff survey of school divisions, and Virginia Education Association *Insurance Coverage and Employee Benefits Survey 2009-10*.

percent reduction would yield about \$56 million. These percent reductions are illustrative, yet they appear to be within the range of achievable savings given estimates provided by other states and local school division officials.

STATE COULD PROMOTE GREATER USE OF COOPERATIVE PROCUREMENT

No one purchasing method used by school divisions consistently offers the lowest prices or best value.

No one purchasing method used by school divisions consistently offers the lowest prices or best value. Therefore, a State requirement that any particular good or service be purchased through cooperative means does not appear to be appropriate. Because prices fluctuate over time and from region to region, a cooperative procurement mandate would cause some school divisions to pay higher prices for some goods or services than they could otherwise obtain. School divisions should have the flexibility to pursue various purchasing arrangements to achieve the best value.

Although a cooperative procurement mandate would not be appropriate, there are several other ways to promote the use of cooperative procurement and thereby achieve additional savings. Examples of such strategies used in other states include

- the use of regional education administrative units to identify and develop cooperative arrangements,
- annual surveying and monitoring of cooperative procurement by local school divisions,

- requiring that state contracts be used for a certain percentage of purchasing expenditures, and
- inclusion of local school divisions in the state health insurance plan.

The consolidation of school division health insurance plans appears to be the greatest means of achieving savings in Virginia.

The consolidation of school division health insurance plans appears to be the greatest means of achieving savings in Virginia, as consolidation would reduce administrative and procurement costs. One option would be to encourage school divisions and local governments to jointly purchase health insurance. This encouragement could take the form of financial incentives such as adjustments to the Standards of Quality (SOQ) funding formula. A second option would be to allow school divisions to join the State health plan, as is done in several neighboring states. Other states that have recently implemented or considered implementing state health plans for school division employees have estimated annual savings of five to seven percent. Therefore, it is recommended that an actuarial analysis be conducted in Virginia to determine the fiscal impact to the State and school divisions, including the impact upon SOQ costs, of a statewide health insurance plan for school division employees.

The State could also help to promote awareness of cooperative purchasing opportunities among all school divisions. A centralized source of information on all existing open contracts could help divisions to identify opportunities for savings. To this end, the Department of Education, in cooperation with the Department of General Services, should (1) lead an effort to create or enhance such a comprehensive source of information, and (2) ensure that the source is regularly updated and encourage school divisions to regularly consult it. Another option would be to require division superintendents to annually certify that their division considered cooperative opportunities for all purchases.

Finally, the report recommends that the General Assembly may wish to consider authorizing a pilot program for the purpose of increasing the capacity of school divisions to make cooperative purchases. The pilot would take place in a superintendent region which lacks full-time procurement officers in many of its divisions. The divisions in that region would be authorized and encouraged to jointly employ a full-time certified procurement expert to assist all divisions in identifying best value deals and cooperative procurement opportunities in the region. To promote this approach, the General Assembly may wish to consider funding a match for local funds to be applied to the compensation costs of the position. The pilot could be evaluated in about two years to assess whether it was resulting in net benefits.

Overview of Cooperative Purchasing Among School Divisions

In Summary

School divisions and other public entities can often increase their buying power and save time and money by purchasing their goods and services cooperatively. Cooperative procurement refers to any effort in which two or more parties jointly award a contract or in which one party purchases from an open contract that was awarded by another party. The Virginia Public Procurement Act requires that school divisions generally follow the State's competitive procurement principles, but it also allows school divisions to use a cooperative procurement in lieu of an independent competitive bid. The ability and willingness of school divisions to identify or take part in cooperative procurement can depend in part on their size and staffing levels. Larger school divisions tend to have a more centralized purchasing function staffed with full-time, certified purchasing personnel, factors which can facilitate the exploration and use of cooperative purchasing arrangements. Smaller divisions tend to have no full-time purchasing staff and instead spread purchasing responsibilities throughout the division, factors which can inhibit division-wide identification and pursuit of cooperative procurement opportunities.

House Joint Resolution 60 of the 2010 General Assembly (Appendix A) directs the Joint Legislative Audit and Review Commission to "study the feasibility and effectiveness of requiring local school divisions to contract collectively in certain areas of procurement." In conducting the study, JLARC is to examine the current use of cooperative procurement by Virginia school divisions and identify possible cost savings that could result from mandating their use.

In drawing conclusions on the appropriateness of cooperative purchasing mandates and other policy options designed to promote cooperative procurement or more efficient purchasing, this review attempts to answer the following questions:

- What goods and services do school divisions purchase?
- What purchasing methods do they use to purchase such goods and services?
- Why do they use such methods when purchasing the various goods and services?
- What amount of savings could result from increasing the use of cooperative procurement for certain goods and services?

In conducting this study, JLARC staff surveyed all 132 Virginia school divisions and conducted interviews with a subset of divi-

sions from each of the eight education regions in the State. Expenditure data from the 2008-2009 annual reports submitted by school divisions to the Virginia Department of Education (DOE) were examined in conjunction with survey data to determine which goods and services might offer the most savings when procured cooperatively. In addition, numerous interviews were conducted with officials in Virginia and other states, as well as other purchasing experts and stakeholders. Appendix B details the research methods used during the course of this review.

WHAT IS COOPERATIVE PROCUREMENT?

Cooperative procurement is the process by which an organization forms a partnership or shares contracts with other organizations for the purchase of goods or services. By aggregating their purchasing demands, organizations may be able to increase their market power and obtain lower prices. The *Code of Virginia* gives public entities (including school divisions) the authority to enter into cooperative contracts for the purchase of most goods and services.

Lower Prices May Be Achieved Through Cooperative Procurement

A cooperative procurement is one possible approach divisions can use to purchase a good or service. One advantage to using a cooperative procurement approach is that it can increase a division's purchasing power, which in turn may lower prices at which vendors are willing to sell. However, cooperative procurement does not always offer the best price for a given purchase. Whether or not a cooperative procurement provides the best price depends on a number of factors, including the characteristics and needs of the division making the purchase and any alternative means of making that purchase that are available.

There are several reasons why prices may be lower under a cooperative procurement. The major factor driving prices down is quantity. As the quantity supplied increases, unit costs generally decrease due to efficiencies in production and shipping, which may enable the vendor to accept a lower price. Also, with a larger-scale purchase, a vendor may be willing to accept a reduced profit per unit, particularly if the alternative is to lose the contract. Another factor driving price down is the risk of losing future business. A vendor may be willing to sell a given quantity at a lower price rather than risk foregoing some sales at a higher price in the future. By locking in future sales through a larger-scale purchase, a vendor may be able to avoid the costs of marketing and competing for these sales.

Of course, increased buying power is dependent on competition in the market. If there are few competing vendors, buyers have less ability to negotiate price. Because of this, school divisions in urban areas (where there are many vendors) may often be in a better position to obtain lower prices than divisions in rural areas (where there are few vendors). A monopoly represents the extreme example of no competition because buyers would have no ability to negotiate price due to there being only one vendor who can supply the good or service. For example, school divisions in Virginia have very little ability to negotiate electricity rates regardless of their size or extent of cooperation, as most only have access to one provider.

Given competition in the market, cooperative procurement basically enables smaller entities to approximate the buying power of larger entities. Because of this, cooperative procurement is more likely to benefit smaller school divisions than larger ones, as large divisions have considerable buying power when procuring goods and services independently. In fact, cooperation with smaller, outlying divisions could even cause prices to increase for large, densely populated divisions due to increased delivery costs to the outlying areas. Thus, while smaller divisions might benefit from cooperating with a larger division, the larger division would be reluctant to cooperate if it resulted in higher costs to that division. Table 1 summarizes the main factors influencing price and the impacts of these factors on the various types of school divisions.

Table 1: What Impacts Price for Comparable Products?

Factor	Description	Impact on School Divisions
Volume Purchased	The more a customer purchases, the lower per-unit prices the customer is generally able to obtain.	Larger divisions purchase in higher volumes than smaller divisions, and so are generally able to obtain better pricing.
Market Competition	The more vendors compete for a customer's business, the better pricing the customer is generally able to obtain.	Divisions in urban and suburban areas are likely to have more vendors competing for their business than divisions in rural areas.
Delivery Terms	A customer that requires fewer, larger deliveries to one location is likely to receive more favorable pricing than one who requires more frequent, smaller deliveries to multiple locations.	Divisions occupying a small geographic area near busy delivery routes are likely to receive lower prices than remote divisions with schools dispersed over a large area. Divisions with centralized receiving may obtain better bulk-delivery pricing, but incur other internal costs associated with distributing goods.

Source: JLARC staff interviews with Virginia school divisions and analysis of academic, professional, and industry literature.

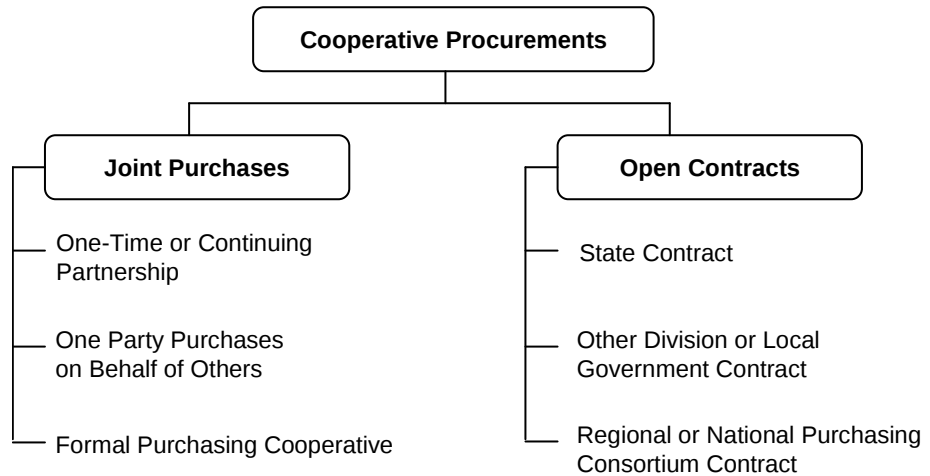
In addition to price differences, cooperative procurement may also save divisions money by allowing them to avoid or mitigate costly and time-consuming competitive bid processes. By cooperating on

a joint purchase, divisions are able to share the costs of the bid process. By using an existing open contract, divisions are able to avoid the cost altogether. Therefore, when deciding if a cooperative procurement is in its best interest, school divisions must consider price differences as well as administrative savings.

School Divisions May Cooperate on Purchases in Several Ways

Cooperative procurement refers to any effort in which one party partners with another to make a purchase, or when it purchases from a contract that was awarded by another party. In some cases, cooperative procurement occurs through formal regional or national cooperative purchasing organizations. The two basic forms of cooperative procurement are listed below, and the various types of each form are illustrated in Figure 1.

Figure 1: Types of Cooperative Procurement



Source: JLARC staff interviews with Virginia school divisions and analysis of academic, professional, and industry literature.

- **Joint purchase**, a cooperative method in which two or more partners jointly award contracts or in which one entity purchases goods or services from or on behalf of a partner. Partners can include other members of a regional purchasing cooperative.
- **Open contract purchase**, a cooperative method that involves purchasing off of an existing contract. The contract may have been awarded by the State, another school division or local government, or another member of a regional or national purchasing cooperative.

Joint Purchases Combine Purchasing Power of Two or More Organizations. A joint purchase is a type of cooperative procurement where two or more parties join together to purchase a specific good or service at the same time. The goal of joint purchasing is to improve collective bargaining power and generate price discounts for the partners. All parties must agree to purchase from the contract that is awarded. This provides a guarantee to the vendor that the contract will be used by all parties, and allows the vendor to provide volume-based discounts. Joint purchases can be used for one-time purchases (such as school buses) or items that are continually purchased (for example, fuel).

School Efficiency Review Program

In 2004 the State initiated a school division efficiency review program overseen by the Department of Planning and Budget. Under this program, an outside consultant examines non-instructional areas of division operations to identify opportunities for cost savings. To date, reviews of 36 school divisions have been completed. While not all reviews examined purchasing, several that did commended divisions on their use of cooperative procurement or recommended that the viability of increasing the use of cooperative approaches be pursued.

One-time joint purchases do not involve a commitment beyond the initial purchase. For example, a 2005 school efficiency review of Portsmouth Public Schools found that the division “cooperatively purchased school buses with Virginia Beach, Norfolk, and Chesapeake [...] By pooling the quantities of buses needed by the four divisions, one of the state-contract bus vendors offered a lower price to all four divisions.” Participants in this joint purchase carried no obligation for future purchases. This allowed participants the flexibility to reconsider all available options on their next purchase of school buses.

Conversely, joint purchases for continually purchased goods or services can obligate members to purchase from one contract or vendor for an extended period, sometimes spanning several years. For example, several Virginia school divisions jointly purchase health insurance with their local governments. Under these arrangements, both partners are obligated to buy from the same vendor until the term of the contract expires.

A common variation on joint purchase arrangements is for one partner to buy a good on behalf of all parties. The buyer uses the total volume consumed by all parties to bargain for a low price. It then re-sells the good to its partners at cost or with a markup. Several school divisions and local governments purchase vehicle fuel under such an arrangement.

Divisions may also enter into formal purchasing cooperatives to jointly purchase goods and services. Purchasing cooperatives are organizations with clearly established membership and rules for participation. For example, several divisions in Northern Virginia participate in the Metropolitan Washington Council of Government’s Cooperative Purchasing Program (COG Program). This group includes school divisions, local governments, and public authorities (water, transportation) from Virginia, Maryland, and the District of Columbia. Under the COG program, members purchase a variety of goods, such as natural gas and vehicle fuel, at cooperatively obtained prices.

There are several examples of school divisions in Virginia making joint purchases through formal purchasing cooperatives. The most notable purchasing cooperatives identified by JLARC staff are shown in Table 2. In most cases, purchasing cooperatives are centered on purchasing one type of good or service.

Table 2: Examples of Purchasing Cooperatives in Virginia

Type	Cooperative	Membership
Employee health insurance	Health Care Coalition (Northern Virginia) SAW Consortium (Shenandoah Valley) New River Valley Benefits Consortium	School divisions, local governments, and public authorities
Multi-purpose	COG Program (Northern Virginia) Region 4 School Divisions (Northern Virginia) Southside Virginia Purchasing Consortium (South, Eastern and Central Virginia) Hampton Roads Public School Purchasing Cooperative	School divisions, local governments, and public authorities
Statewide insurance pools - Property, liability & vehicle - Worker's compensation	Virginia Association of Counties Risk Management Programs Virginia Municipal League Insurance Programs Virginia School Boards Association Insurance Service Programs School Systems of Virginia Group Self-Insurance Association	School divisions, local governments, and public authorities
Food provisions	Roanoke Regional Nutrition Buying Group Shenandoah Food Buying Cooperative Southern Appalachian Mountains Food Buying Cooperative (Southwest) New River Valley School Nutrition Cooperative Southside Food Consortium	School divisions only

Source: Examples from JLARC staff survey of Virginia school divisions and interviews with school division personnel.

A potential advantage of purchasing cooperatives is to allow smaller or more rural members access to vendors they would not have had access to on their own. Vendors who would be unwilling to supply small or remote divisions may agree to do so under a cooperative. This is because the cumulative business of all cooperative members allows them to serve the small members while maintaining profitability.

While joint purchases may result in lower prices for all cooperating parties, they can be difficult to develop and maintain. All parties must agree on the specifications of the good or service, and they must decide how the bid is to be developed and by whom. Once a partnership has been formed, certain members may be tempted to

leave if competing vendors offer them lower prices or better service independently.

Open Contracts Allow Users to Take Advantage of the Purchasing Power of Larger Organizations. Contracts may be structured so that public bodies other than the party awarding the contract are allowed to purchase from the contract. An open contract differs from a joint purchase in that there is no obligation for any party other than the party awarding the contract to buy from the contract. In some cases, not even the party awarding the contract is obligated to purchase anything under the contract.

The primary advantage of open contracts is that they can improve the bargaining power of contract users by generating volume purchasing discounts. However, unlike a joint purchase, the price in an open contract is determined almost entirely on the purchasing power of the party awarding the contract. This is because other potential users are not obligated to buy from the contract, and so vendors have no guarantee that they will make any sales to these third parties. Vendor price discounts are based on *actual or expected* sales volumes. The vendor will not provide discounts unless sales to third parties are expected due to the open contract.

An additional potential benefit of using open contracts for high-dollar purchases is that school divisions can avoid having to conduct a competitive bid process. This can provide administrative time and cost savings. However, there is a risk that by forgoing the competitive bid process, the division may not secure the best combination of price and quality available.

Although open contracts offer potential cost savings, there are risks associated with their use. A public body could select an open contract in order to purposefully circumvent the competitive bid process, even if the contract did not provide the best value. An open contract could also be selected for no other reason than it is convenient to use. Failure to adequately open the procurement process to competition could also limit participation from State or local businesses. It appears that such practices would not conform to the competitive principles established under the Virginia Public Procurement Act (VPPA) that Virginia school divisions and other public bodies must adhere to. For this reason, it is important that school divisions develop and implement purchasing policies that promote the proper use of open contracts.

Many open contracts originate with the State. The Virginia Department of General Services (DGS) and the Virginia Information Technologies Agency (VITA) secure contracts for use by State agencies and institutions of higher education. School divisions are not intended as the primary customers for most State contracts.

Competitive Bidding and Negotiation

Most divisions have policies that require competitive bids or negotiations be performed for purchases of over \$30,000 or \$50,000. School divisions must follow steps prescribed under the Virginia Public Procurement Act for conducting competitive bids and negotiations. Divisions must issue a written request for proposal or invitation to bid describing the goods or services they wish to purchase. Vendors then submit proposals or bids, and the division selects a winner.

However, over 200 State contracts are open for use by local public bodies in Virginia, and these include contracts for at least 80 types of goods and services purchased by school divisions. Because State contract prices are based in part on past purchasing volumes, greater use of State contracts by school divisions may allow DGS or other agencies to obtain lower prices from vendors.

In practice, school divisions use State contracts to purchase a number of goods, such as vehicles, furniture, and information technology hardware and infrastructure. One of the State contracts school divisions frequently use is the contract for school buses. This contract differs from most other State contracts because the State is *not* intended to be the primary user. In this instance, the State secures the contract primarily in the interest of school divisions.

Many open contracts used by Virginia school divisions also originate from other local public bodies. Local public bodies often insert riders into their contracts that allow the contracts to be used by others. Rider clauses allow parties named in the contract to “piggyback” on the contract and receive the same price and terms that the awarding party received. In some cases, rider clauses leave contracts open for use by any public body, even if it is not specifically named.

Rider clauses provide little benefit to the party that awards the contract. As noted above, this is because there is no guarantee that anyone else will exercise the right to purchase from the contract. However, even though they offer little benefit to the party that awards the contract, rider clauses are typically inserted into contracts as a courtesy to other potential users. For example, members of regional purchasing cooperatives often include rider clauses that allow all other members of their cooperative organization to use their contracts. Unlike under a joint purchase agreement, in these instances other cooperative members are not obligated to use the contract. School divisions and their local governments also often name each other in contract rider clauses.

A third form of open contract is to buy through national purchasing consortia. These consortia make open contracts available to members nationwide. Contracts are either awarded by the consortium or by a lead public body. Depending on the organization, members may or may not be required to pay a membership fee to be allowed access to the contract. Other consortia charge members fees on their transactions or charge vendors a participation fee. Virginia’s electronic purchasing system (eVA) uses a similar model, whereby vendors are charged a one percent fee, capped at certain dollar amounts, for each order they receive.

US Communities

A private, non-profit cooperative purchasing organization composed of local governments and other public bodies nationwide. Contracts are developed by a lead public body (for example, Los Angeles County), and then become available to any other public body in the country through the US Communities program. US Communities charges vendors a 1 percent to 2.5 percent administrative fee to participate.

A potential concern associated with using contracts available through national consortia is that the public body awarding the contract may be subject to different competitive bid requirements than those required of a Virginia public body. However, national and multi-state purchasing consortia reviewed by JLARC staff do require contracts to be publicly announced and open to competition through a formal request for proposals or invitation to bid process.

One of the largest national consortia is US Communities. In site visits with JLARC staff, several Virginia school divisions reported that they purchase office supplies and other goods through US Communities. The Virginia Association of Counties (VACo), Virginia Municipal League (VML), and Virginia School Boards Association (VSBA) all promote US Communities to their members. US Communities contracts allow members to take advantage of prices awarded by large public bodies nationwide. For example, the US Communities contract for office supplies was awarded by Los Angeles County, and the contract for school supplies (for example, chalk, pencils, and calculators) was awarded by Fairfax County Public Schools. Membership in US Communities is free for all State and local public bodies.

School Divisions Have Authority to Purchase Most Goods and Services Cooperatively

The *Constitution of Virginia* grants local school boards broad powers for administering the operation of their school divisions. This appears to imply the right of local school boards to determine the goods and services they buy as well as the procurement methods used to buy such goods and services. However, the *Constitution* also grants the General Assembly even broader powers to maintain a system of high-quality education.

Consistent with the authority granted to the General Assembly, the VPPA sets forth policies regarding governmental procurement in Virginia, including procurement by school divisions. Most notably, divisions must follow State laws for awarding construction contracts and follow procedures for the conduct of competitive bids and negotiations. School divisions are exempted from most other specific provisions of the VPPA as long as the school board has adopted procurement policies based on “competitive principles” that are consistent with those set forth in the act. For example, school divisions are exempt from the VPPA requirement that procurements over \$50,000 be competitively bid or negotiated provided they have developed their own policies. Most divisions appear to have internal policies that require use of a competitive process for procurements over this amount.

Under Section 2.2-4304 of the *Code of Virginia*, any public body is authorized to “participate in, sponsor, conduct, or administer a cooperative procurement agreement on behalf of, or in conjunction with one or more other public bodies,” including other federal, State, and local governments, agencies, or organizations. This authority allows Virginia school divisions to use both basic types of cooperative procurement, provided that joint purchase partners are public bodies or that the open contract they are purchasing from was awarded by a public body.

Virginia statute places few restrictions on what can be purchased through cooperative methods. The *Code* does not place restrictions on the use of joint purchases, but does restrict use of open contracts for some purposes. Specifically, under Section 2.2-4304 of the *Code*, public bodies may not use open contracts to purchase architectural or engineering services. The 2010 General Assembly enacted additional legislation under this section that restricts use of open contracts for “construction in excess of \$200,000 by a local public body from the contract of another local public body that is more than a straight line distance of 75 miles from the territorial limits of the local public body procuring the construction.” The *Code* does not place any additional restrictions on the use of open contracts by school divisions.

SIZE AND STAFFING OF SCHOOL DIVISIONS CAN IMPACT PURCHASING PRACTICES

School divisions in Virginia include rural, suburban, and urban divisions that range greatly in size. In FY 2009, division enrollment ranged from 258 students in Highland County Public Schools to 166,186 in Fairfax County Public Schools (Figure 2). This diversity creates substantial differences in how purchasing is structured and the number of staff performing purchasing activities.

Large Divisions Generally Have More Experienced, Centralized Purchasing Staff

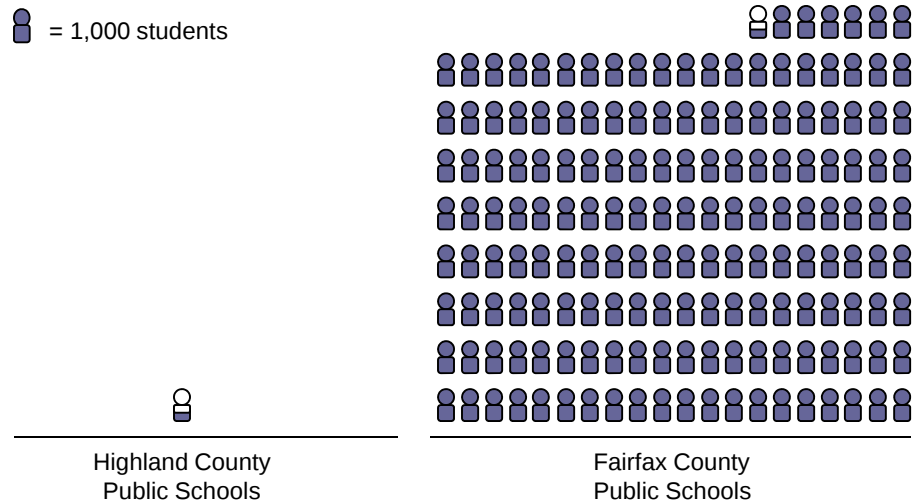
School divisions that serve a large number of students and staff, and which therefore make many purchases in large quantities, require more sophisticated purchasing operations. As such, these large divisions are more likely to have centralized purchasing operations with full-time purchasing staff that are trained and certified (Figure 3).

Centralization allows divisions to maximize the purchasing power of all their schools and departments. Central purchasing offices perform a variety of functions, including

- identifying and evaluating purchasing options,

- placing orders and executing purchases,
- conducting competitive bids and negotiations, and
- monitoring division purchasing activities.

Figure 2: Virginia School Divisions Vary Greatly in Size, Impacting Sophistication of Purchasing Operations



Source: Superintendent's Annual Report for Virginia for 2008-2009.

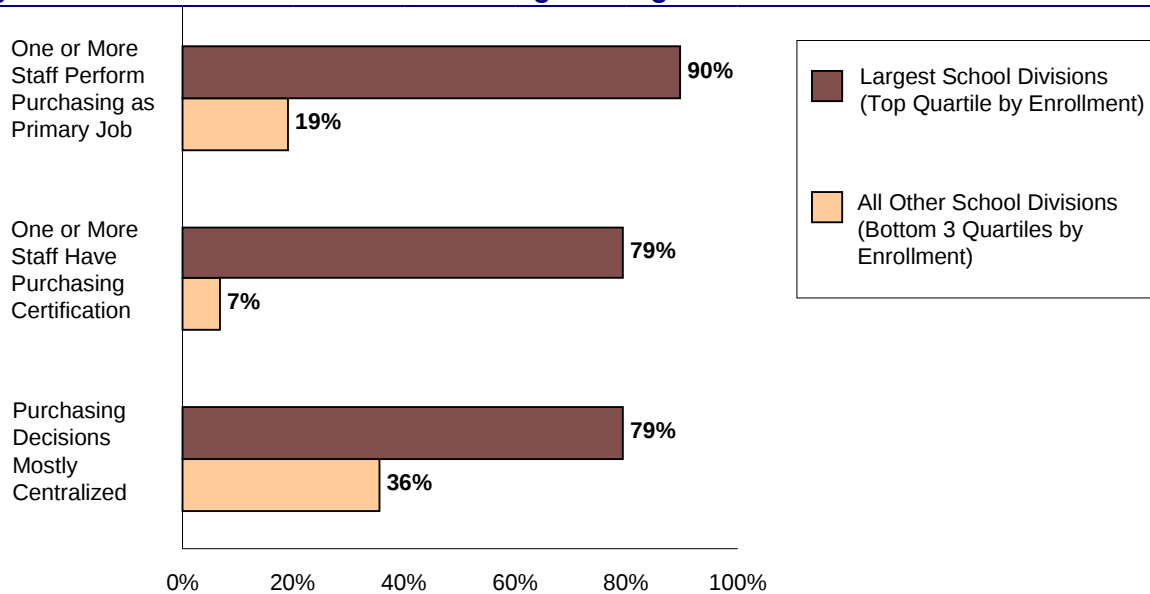
Public Purchasing Certifications

State and national bodies provide training and certification for purchasing professionals. These bodies include the Universal Public Procurement Certification Council, the Institute for Supply Management, and the Virginia Institute of Procurement, which operates under the auspices of DGS.

Large divisions require full-time purchasing staff because they make numerous, complicated purchases. Many purchases exceed the competitive bid thresholds set by the divisions (\$30,000-\$50,000) and so must be competitively bid or negotiated. Conducting competitive processes requires an extensive time commitment from staff, as well as technical knowledge and expertise. Large divisions also develop term contracts for frequently used goods and services, such as office supplies, which need to be repeatedly re-ordered over the course of the year. Some divisions allow non-purchasing staff, such as school principals or department heads, to make purchases from term contracts as needed. Central staff must manage and monitor purchases made under term contracts.

As larger divisions tend to have more staff designated to perform purchasing, they also tend to have more staff with some level of formal purchasing training and certification. Virginia's five largest school divisions reported having from seven to 20 full-time equivalent (FTE) employees involved in their purchasing operations. All but one reported that multiple members of their purchasing staff hold professional certifications. For example, Virginia Beach City Public Schools, with an enrollment of 69,654 students and total of 10,978 FTE employees in FY 2009, reported it has 13 FTE employees committed to purchasing, and a majority of purchasing staff hold public purchasing certifications from State or national bodies.

Figure 3: Division Size Affects Purchasing Staffing and Structure



Source: JLARC staff survey of Virginia school divisions.

Small Divisions Are Less Likely to Have Full-Time Purchasing Staff

Small divisions tend to have few or no staff members who perform purchasing as their primary job function. In fact, 50 Virginia school divisions reported that they have less than one total FTE employee committed to purchasing. Small divisions do not require the same staffing as larger divisions because they purchase in smaller volumes, meaning that they are not as frequently required to competitively bid or negotiate purchases. However, small divisions do conduct some major purchases, such as when procuring health insurance or school buses.

As small divisions have few, if any, full-time purchasing staff, they tend to allot more responsibility for purchasing decisions to principals or department heads. This responsibility includes identifying and comparing procurement options. For example, several small divisions reported that they rely on the head of their transportation department to identify and compare options for procuring school buses.

Even though small divisions may lack central purchasing staff, it appears that most do exercise some degree of central control over purchasing. For example, all of the small divisions interviewed by JLARC staff reported that they have a central office staff member responsible for approving purchase requests. However, in many cases this review appears to be oriented more towards financial control than ensuring that the best procurement option was selected.

Some Divisions Consolidate Purchasing Functions With Their Local Government

Based on JLARC staff survey results, 17 of 119 responding school divisions have consolidated their purchasing operations with their local government. Under these arrangements, one office conducts purchases for both the local government and the division. In most cases, it appears that the consolidated purchasing office is a local government office that serves both the government and the school division.

Consolidated purchasing offices appear to offer different levels of service. In some cases, the consolidated purchasing office is responsible for identifying and evaluating available purchasing options. In these cases, the only role of the school division is to identify an area of need and then approve the option selected by the purchasing office. However, in other cases the consolidated purchasing office serves a strictly clerical role. In these cases, staff within the school division are responsible for identifying potential vendors, collecting multiple price quotes, and selecting a preferred option. The role of the purchasing office is simply to review the selection and place the purchase order.

Consolidation is thought to save administrative costs by reducing duplicate functions. Several school efficiency reviews performed under the Department of Planning and Budget (DPB) recommended that school divisions consider consolidating purchasing with their local government in order to reduce such costs. Some school divisions have reported benefiting from their consolidations. Staff with Gloucester County Public Schools, which merged its procurement function into a joint purchasing office led by Gloucester County, said the consolidation has eliminated duplicate procurement functions and the need to train school staff in purchasing.

However, it is not clear if consolidation will deliver cost savings in every instance. One school division reported that they had previously considered consolidation but found that cost savings would be marginal. The division said that although local governments and school divisions purchase some similar items (for example, fuel and health insurance), they also purchase very different goods (for example, textbooks or police cars). Consolidating the division's purchases with the local government's would therefore not have substantially reduced the total purchasing workload. Without a reduction in workload, there would not have been a reduction in staffing.

Some school divisions also expressed concern that consolidating their purchasing function with their local government would hinder their responsiveness. Specifically, they were concerned that a

purchasing officer employed by the local government may be more responsive to the local government's priorities than those of the school board. They noted that while school divisions are part of the local government in budgetary terms, school divisions are also separate legal entities with elected boards. As such, they are held directly accountable by their constituents and so need to be able to move swiftly on internal priorities. However, these challenges may not be insurmountable. Staff with Gloucester County Public Schools said their consolidation with the county has been successful in part because division and county staff communicate well.

School Divisions Consider Various Options When Making Purchasing Decisions

In Summary

School divisions' purchases of goods and services accounted for \$4.1 billion in FY 2009, or approximately one-quarter of total division expenditures. The largest expenditures made by school divisions include health insurance, land and construction, and assorted services, materials, and supplies. Divisions make purchases using several methods, including independently bidding-out contracts, jointly purchasing with their local governments or other school divisions, and buying from existing open contracts. School divisions assert that they seek the best value when purchasing goods and services, and this assessment of the best value determines how they proceed with a purchase. However, the knowledge and expertise of division staff and general quality of purchasing operations can impact their ability to obtain the best value. Purchasing decisions are influenced by other factors such as what is being purchased, what vendors are available to serve a given region, and the division's ability to commit time and resources to purchasing. Purchasing decisions can also be influenced by policy choices made by local school boards.

The core mission of Virginia public school divisions is to deliver instruction to students. In order to carry out this mission, school divisions hire teachers, pay for salaries and benefits, and purchase goods and services to support their operations. The school divisions' instructional mission is supported by a variety of functions, including school and central office administration, attendance and health services, operation and maintenance services (including safety and security), pupil transportation, technology support services, food service operations, and school construction. Schools hire staff and make purchases in these areas.

School divisions across the State perform the same basic functions and thus purchase many of the same goods and services. Divisions also purchase some of the same goods and services that are purchased by their local governments. Because these public bodies purchase many of the same goods and services, cooperative procurement is often an effective means by which school divisions can obtain the goods and services they need at lower prices than would otherwise be possible. This review found that school divisions currently use cooperative procurement for many of their major purchases.

WHAT DO SCHOOL DIVISIONS BUY?

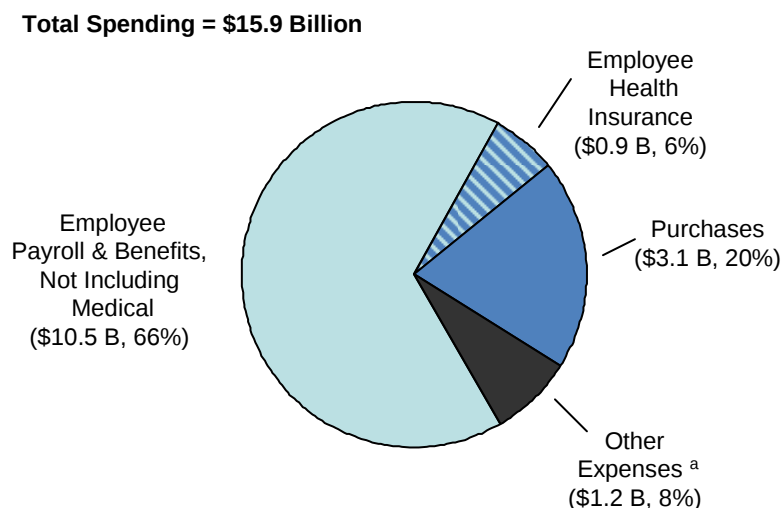
Goods and services purchased by school divisions range from simple commodities such as fuel for school buses and food for students to complex goods such as information technology systems and employee health insurance plans. School division purchases account for a sizeable portion of school budgets, so improving how these items are procured could result in substantial cost savings.

Purchases Account for One-Fourth of School Division Spending

The majority of school division spending does not go towards purchases but rather to employee salaries and benefits. In FY 2009, employee-related expenditures, not including health insurance, accounted for \$10.5 billion of \$15.9 billion in total division expenditures (Figure 4). This was 66 percent of total spending.

Purchases accounted for a smaller percentage of spending than employee-related expenditures, but the total dollars spent are substantial. Total school division purchases in FY 2009 were \$4.1 billion, or 26 percent of total spending. This includes \$948 million spent on health insurance and \$3.1 billion spent on purchases of various other goods and service. (Health insurance is classified here as a purchase instead of an employee benefit because divisions generally purchase health insurance on the open market.)

Figure 4: Majority of School Division Expenditures Are for Employee Compensation Costs (FY 2009)



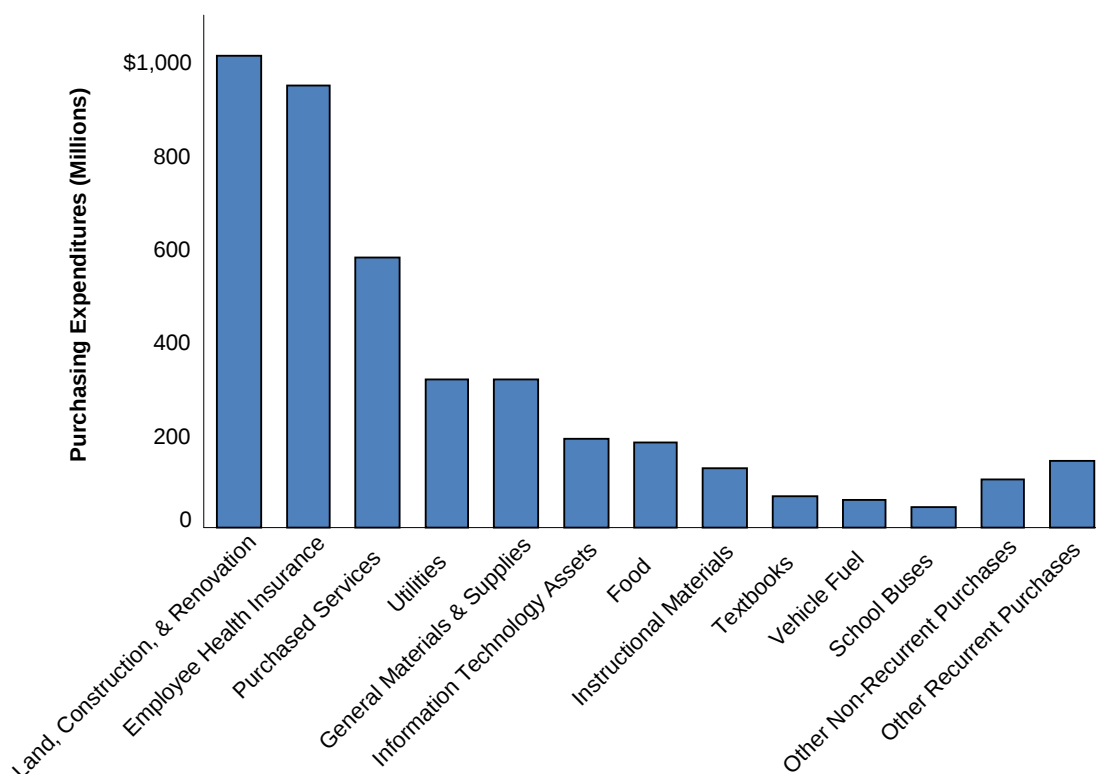
^a Includes tuition payments to other public school divisions, private schools, or joint operations, repayment of debt, leases and rentals, and miscellaneous expenses.

Source: Expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Most Goods and Services Acquired by School Divisions May Be Purchased Through Cooperative Methods

School divisions must purchase a variety of goods and services in order to carry out their instructional mission. They must construct and maintain school facilities, provide health care options to employees, purchase fuel and buses to transport students, and buy classroom materials such as textbooks or chemistry sets. Figure 5 shows the various categories of goods and services that school divisions purchase. Descriptions of the purchasing categories are contained in Table 3. (Expenditures from FY 2009 were used because they were the most recently available data at the time the school division survey was conducted.)

Figure 5: Major Purchasing Categories of Virginia School Divisions (FY 2009)



Source: JLARC staff analysis of expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Improving How Certain Goods and Services Are Procured Could Lead to Cost Savings. The extent of possible cost savings depends largely on the overall spending towards the good or service. Health insurance is the largest major *recurrent* purchase that is commonly made by all Virginia school divisions (\$948 million in FY 2009). Given the amount of spending involved, improving the efficiency of how health insurance is procured appears to provide the greatest opportunity for cost savings among all categories of goods and services commonly purchased by school divisions.

Table 3: Major Goods and Services Purchased by Virginia School Divisions

Category	Expenditures (FY 2009)	Description
Land, construction and renovation	\$1.011 billion	Purchase and improvement of land and buildings as well as construction and renovation of buildings. These are one-time, non-recurrent capital outlays.
Employee health insurance	\$948 million	<i>Employer-paid</i> portion of premiums. Expenditure total does not reflect the full cost of health insurance.
Purchased services	\$579 million	Purchased from outside vendors and local & State government. Majority of services are purchased in support of instruction (teacher training, special education instruction), building and grounds maintenance, architecture & engineering services, and vehicle maintenance & repair. Other purchased services include health, information technology (IT), and various other services.
Utilities	\$317 million	Payments for electricity, water, heating oil, and natural gas.
General materials And supplies	\$316 million	Includes office supplies (paper, toner, pens), custodial supplies, building & grounds materials, and vehicle parts & supplies.
Information technology assets	\$190 million	Hardware and infrastructure such as personal computers & laptops, printers & copiers, servers, and network devices. Also includes purchases of IT application systems and intangibles such as software and subscriptions to online databases.
Food	\$183 million	Food for cafeteria operations including dry goods, frozen goods, and perishables.
Instructional materials	\$126 million	Includes library materials as well as art, science, physical education, vocational education, and special education.
Textbooks	\$69 million	Student textbooks and workbooks.
Vehicle fuel	\$58 million	Fuel for school buses, other vehicles, and powered equipment.
School buses	\$44 million	Outright purchases of school buses or spending under lease-purchase agreements for school buses.
Other non-recurrent purchases	\$103 million	Assorted equipment, appliances, machinery, vehicles, and furniture used in support of school operations not falling into the categories discussed above.
Other recurrent purchases	\$144 million	Includes purchases of property, liability, & vehicle insurance, worker's compensation insurance, telecommunications and internet service.

Source: JLARC staff analysis of expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Using a cooperative procurement is one of several possible ways by which school divisions can achieve savings in the procurement of goods and services. However, cooperative procurement does not always provide the best option. Several factors can influence whether or not a cooperative procurement provides a given division with the best available option for purchasing a good or service.

Opportunities to Cooperate on Major Non-Recurrent Purchases, Such as Construction Projects, Are Limited. As shown in Figure 5, the largest area of school division purchasing is land, construction and renovation (over \$1 billion in FY 2009). This includes *non-recurrent* capital outlays, such as the one-time purchase of land or projects to construct or renovate school facilities. These purchases

generally cannot be pursued jointly because school divisions share few facilities with each other or their local governments.

Open contracts for construction are available for use by school divisions under limited circumstances, but these have been rarely used. As noted in chapter 1, the *Code* places restrictions on using open contracts for architecture and engineering services. In 2010, the General Assembly enacted legislation that restricts use of open construction contracts to contracts awarded by nearby political bodies. These legal restrictions have likely contributed to the limited use of open contracts for construction in Virginia.

Approaches other than cooperative procurement may provide divisions with opportunities for reducing construction costs. Alternative approaches for reducing school construction costs were identified in JLARC's 2003 report *Best Practices for the Support Services of School Divisions*. Approaches included the use of prototype designs, the use of standardized specifications for the layout of school spaces, and employing independent consultants to help manage and provide cost cutting advice for major capital improvement projects. Similarly, school efficiency reviews performed under Department of Planning and Budget (DPB) oversight identified effective planning, design, and project management as methods for controlling construction costs.

Prices for Some Goods and Services Are Relatively Fixed, Which Limits Potential Cost Savings. Certain goods and services are purchased from markets in which there is little or no competition. In these cases, it appears school divisions lack the negotiating position necessary to obtain better pricing. For example, school divisions have limited ability to negotiate for lower prices on textbooks, because national vendors' textbook prices are based on the lowest national wholesale price, as required under section 22.1-241 of the *Code of Virginia*.

Utilities are another area where prices are relatively fixed. Electric rates for customers of regional electric cooperatives or municipal utilities are determined by those entities. School divisions must also pay rates set by their local water and gas utilities. Electric rates for school divisions and other local public entities served by Virginia's major investor-owned utilities (Dominion, Appalachian Power) are collectively bargained for by local government associations. Divisions pay the rates that are obtained by these associations but generally do not play a direct role in price determination.

WHAT PURCHASING APPROACHES DO SCHOOL DIVISIONS USE?

Virginia school divisions employ a variety of independent and cooperative procurement approaches. Approaches used include

- **Independent purchase**, including independently bidding-out contracts or buying off a vendor's price list;
- **Joint purchase**, a cooperative method that includes jointly awarding contracts with one or more partners or purchasing goods or services from or on behalf of a partner;
- **Open contract purchase**, a cooperative method that involves purchasing off of an existing State contract, a contract that was awarded by another school division, or a contract made available through a national purchasing cooperative.

School Divisions Employ Both Independent and Cooperative Procurement Approaches

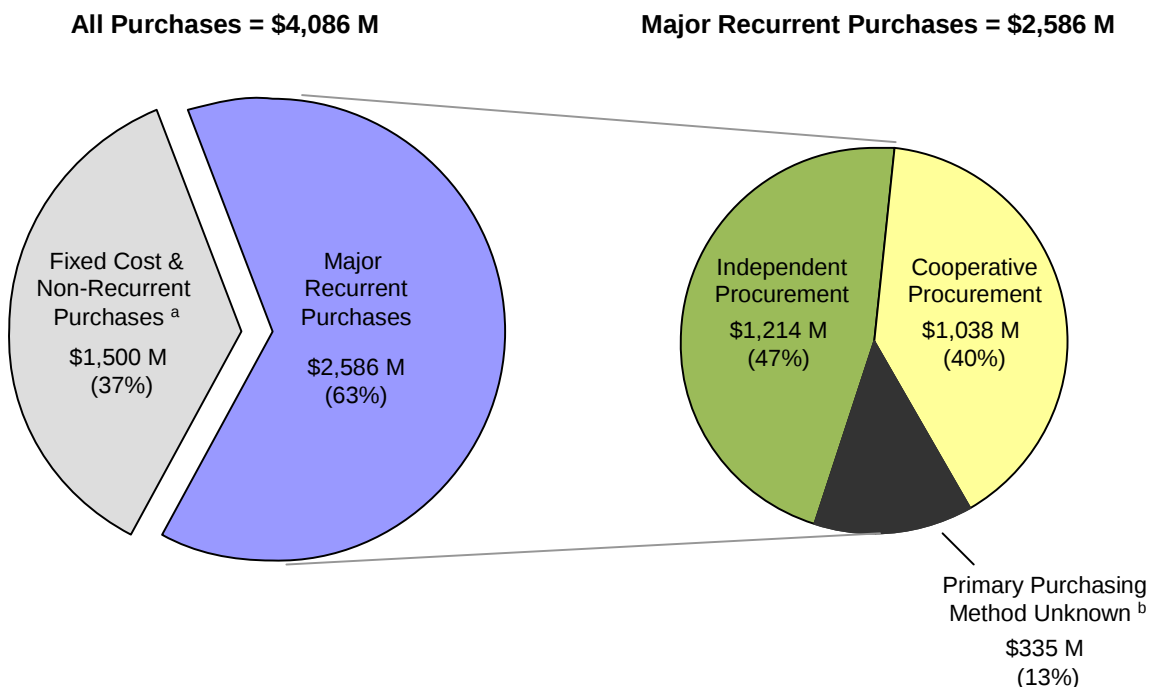
Estimation of Cooperative Spending

The JLARC staff survey of school divisions asked them to identify the primary method they used to acquire 29 goods and services. In analyzing the results for each school division, JLARC staff summed all the expenditures made for goods and services primarily acquired through (1) cooperative procurement and (2) individual procurement. The result can be regarded as a proxy measure indicating the general order of magnitude of spending by purchasing method, although divisions may actually use some procurement approaches other than the primary method in making some purchases.

A JLARC staff survey of Virginia school divisions found that divisions employ both independent and cooperative approaches when making procurements. While independent procurement was the primary method associated with a greater portion of purchasing dollars than cooperative procurement, cooperative procurement was the primary method associated with an estimated 40 percent of spending on major recurring purchases (Figure 6). The survey focused on major recurring purchases because it was determined that these types of purchases appear to offer school divisions the greatest opportunity to realize year-to-year cost savings through improved procurement decision-making.

The primary procurement method used for 13 percent of major recurrent purchases could not be determined. In some instances this is because survey respondents indicated that their primary method for acquiring a good or service was not to purchase it. For example, many divisions have their own garages for vehicle maintenance, but still occasionally send vehicles out to a private garage for major repairs. In these cases, the primary method of acquiring the service is to perform it in-house, but additional vehicle maintenance purchasing expenditures are also occurring. The primary purchasing method associated with these additional expenditures is unknown. In other cases, data from the JLARC staff survey could not be linked to expenditures for precise categories of goods and services or respondents did not answer the question.

Figure 6: Estimated 40 Percent of Spending on Major Recurrent Purchases Was for Goods and Services for Which the Primary Procurement Method Was Cooperative



Note: Expenditures given for each procurement method are estimates. For school divisions that did not respond to the JLARC staff survey, primary procurement methods were assigned to recurrent purchasing expenditures based on statewide averages.

^a Fixed cost purchases include utilities and textbooks. Non-recurrent purchases include land, construction, and renovation as well as capital outlays other than facility maintenance, school buses, and technology.

^b Includes instances where the primary means of acquiring the good or service was not to directly purchase it from an outside party, expenditures for miscellaneous goods and services that were not captured by survey, and expenditures for which no answer was provided.

Source: JLARC staff survey of school divisions and expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Health Insurance and Several Other Goods Were Purchased Primarily Through Cooperative Methods. School divisions employed all types of cooperative procurement approaches in making these purchases (Figure 7). Joint purchases with local government accounted for the largest estimated portion (47 percent) of cooperative procurement spending. Purchases through other open contracts or cooperatives were second, followed closely by State contracts. Joint purchases with other divisions accounted for the smallest amount of estimated spending.

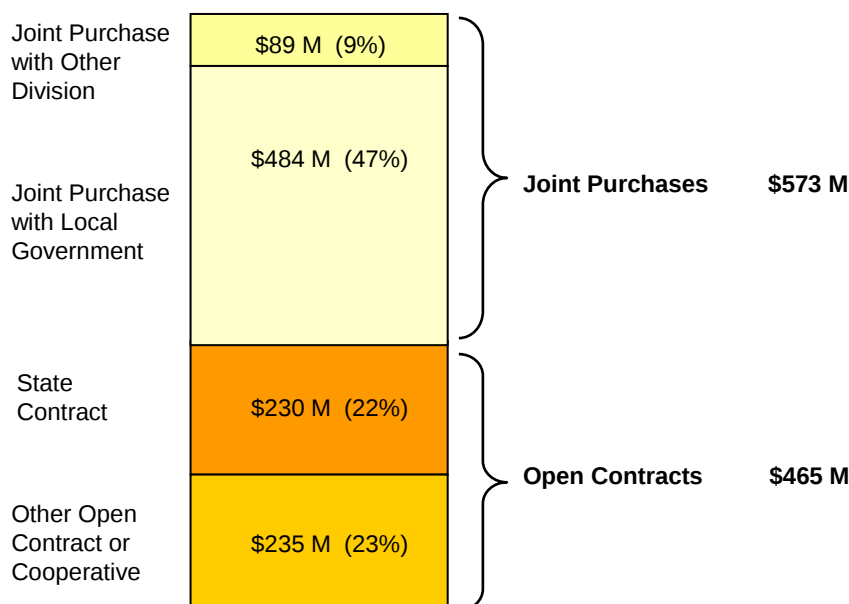
As previously noted, health insurance is the largest major recurrent purchase made by school divisions. The majority of spending on health insurance is primarily through cooperative procurement (Figure 8). Of the divisions that cooperatively purchased health insurance, 54 percent purchased it with their local government or

Local Choice Health Insurance Program

Local Choice is a health benefits program for interested local jurisdictions that is coordinated by the Department of Human Resource Management. Under Local Choice, school divisions and other public entities receive coverage through the State employee health plan. Local Choice participants are individually rated based on their experience, with some pooling of experience for smaller members. Local Choice can provide lower rates and better coverage for small public entities.

through a regional health care cooperative. The other 46 percent that cooperatively purchased health insurance did so through the State's Local Choice program. Currently, five of the school divisions that purchase health insurance through the Local Choice program do so jointly with their locality.

Figure 7: Types of Cooperative Procurement Used and Estimated Spending on Each Type



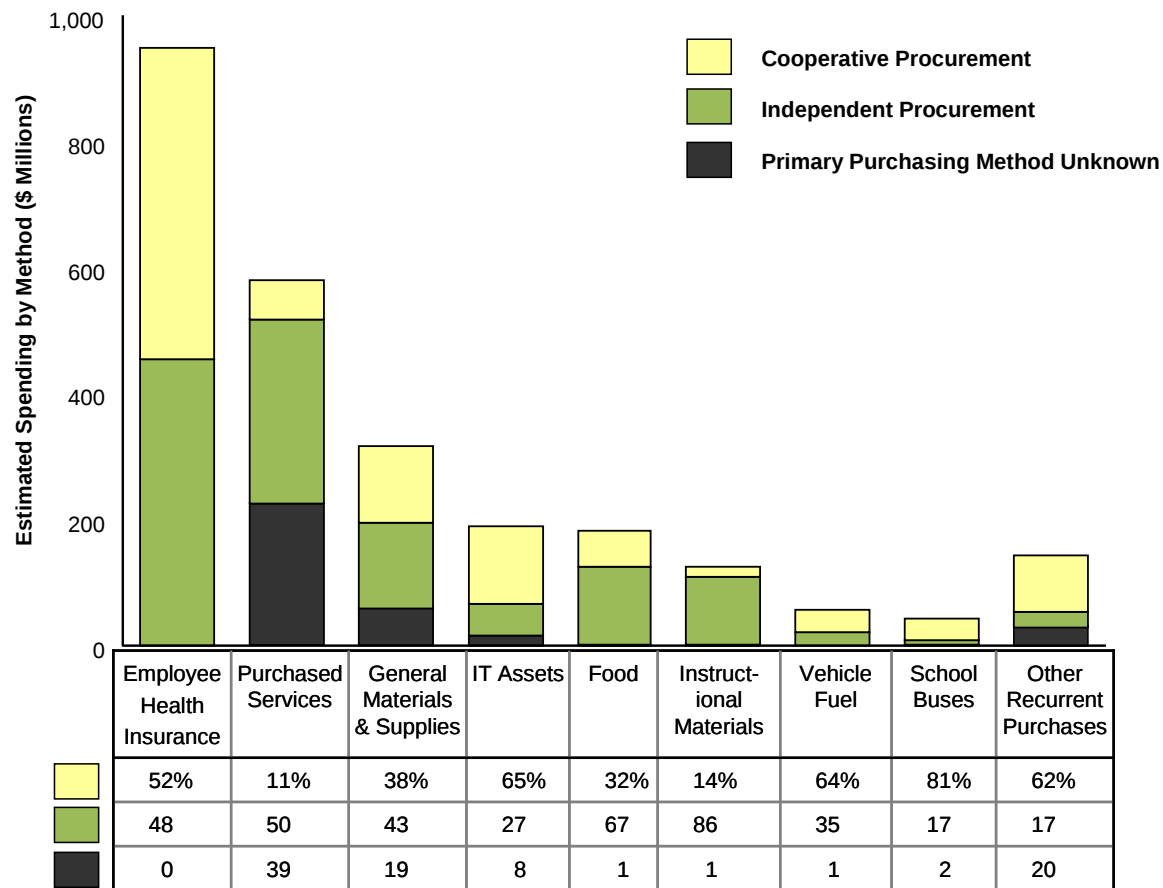
Note: Percentages may not total 100 due to rounding.

Source: JLARC staff survey of school divisions and expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Most school divisions use cooperative procurement as their primary method for purchasing several other goods. These include information technology assets, vehicle fuel, school buses, and other recurrent purchases, such as worker's compensation and property, liability, and automobile insurance. For each of these goods, cooperative procurement also accounted for the majority of spending in these purchasing categories.

A sizeable portion of spending on general materials and supplies (38 percent) also occurs primarily through cooperative procurement. However, only 22 percent of divisions responding to the survey indicated they used this as their primary method. It appears this difference between spending and usage is attributable to larger divisions being more likely to cooperatively procure general materials and supplies than smaller divisions. Larger divisions tend to spend more than smaller divisions and so account for a larger proportion of expenditures.

Figure 8: Cooperative Procurement Was Primary Method for Majority of Spending in Several Purchasing Categories



Note: Percentages may not total 100 due to rounding.

Source: JLARC staff survey of school divisions and expenditure data from 2008-2009 annual school reports to the Virginia DOE.

Cooperative purchases of food accounted for 32 percent of food spending. In contrast, a higher proportion of divisions responding to the survey (41 percent) indicated they use this as their primary method. It appears that this difference between spending and usage is attributable to larger divisions being less likely to cooperatively procure these goods than smaller divisions.

School divisions were less likely to use cooperative procurement to purchase instructional materials. This may be because these materials are often tailored to divisions' specific curricula. One division noted that purchases of instructional materials are often tied to textbook purchases as part of an overall package. Consequently, the price of some instructional materials may not be negotiable. Another division reported that joint purchases of instructional materials would be extremely difficult because separate school divi-

sions would have to agree on materials to fit their respective curricula.

Divisions were least likely to use cooperative procurement to obtain services. One reason is that school divisions often employ staff to perform many of the services they require, and therefore do not use purchasing as a primary method for acquiring these services. For example, many divisions have their own maintenance staff who are responsible for upkeep of facilities. These divisions may contract out for a service from time to time, such as HVAC repair, but for the most part are reliant on their own staff. While this limits the need to cooperatively procure such services, it does provide opportunities for the divisions to pursue shared services with their neighboring divisions or local government.

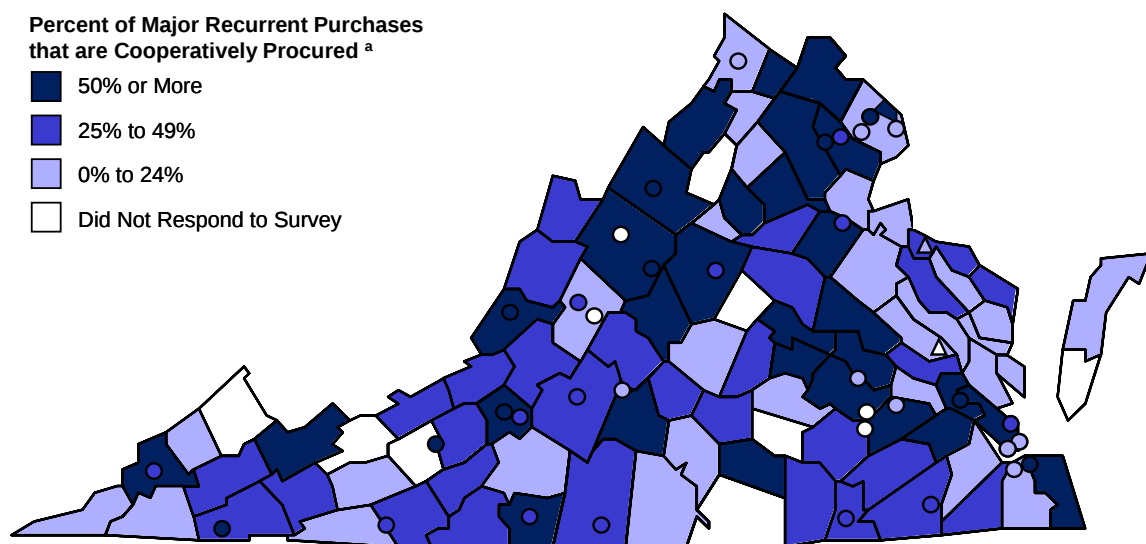
In addition to limited need for outside services, there are several challenges to cooperatively procuring services. Service terms must be specifically tailored to match client needs and so are not typically purchased via open contracts. This leaves joint purchases as the best cooperative option for procuring services. The major challenge school divisions encounter when trying to jointly purchase a service is finding partners with similar needs. Finding a partner is difficult because different organizations have different needs. For example, a division that has its own full-time nurses may not need to purchase health services, and so would not be interested in participating in a joint purchase for these services.

Lastly, the State has historically restricted use of cooperative procurement for purchasing certain services. Up until 2006, the *Code of Virginia* did not allow school divisions to procure professional services through cooperative procurement. This included financial, legal, health, and architectural and engineering services. These past restrictions may impact how school divisions currently purchase these services. Additionally, statutory restrictions on the use of cooperative procurement for architectural or engineering services remain in place. These services accounted for an estimated 14 percent of all services school divisions purchased in FY 2009.

Use of Cooperative Procurement Varies by Division. As noted above, cooperative procurement was the primary method associated with a majority of spending in several categories of goods and services. However, divisions use cooperative procurement with varying frequency. Generally, school divisions in rural areas are slightly less likely to use cooperative procurement than divisions in urban or suburban areas. School divisions in the Southside and Northern Neck regions of Virginia were on average the least likely to use cooperative procurement, while those in the Northern Virginia, Central Virginia, and Shenandoah Valley regions were on average the most likely to use such an approach.

Figure 9 shows cooperative procurement spending by school divisions across the State as a percent of their total spending on major recurrent purchases. Of the 119 divisions that responded to the survey, 39 divisions had less than 25 percent of their spending in categories for which cooperative procurement was the primary method, while 39 divisions had 50 percent or more of their spending in categories where cooperative procurement was the primary method. Because health insurance accounts for such a large proportion of recurrent purchase spending, whether or not a division cooperatively purchased health insurance had a large impact on its overall percentage of cooperative expenditures.

Figure 9: Use of Cooperative Procurement Varies by Division



^a As measured by total estimated spending through cooperative procurement for all major recurrent purchases. The extent of cooperative procurement spending was estimated using the proxy measure described earlier in the chapter.

Source: JLARC staff survey of school divisions and expenditure data from 2008-2009 annual school reports to the Virginia DOE.

HOW DO SCHOOL DIVISIONS DECIDE WHAT PROCUREMENT OPTION TO SELECT?

Divisions report that they try to select the procurement option that provides the “best value” combination of goods or services meeting their needs at the lowest available price. The best value a school division can obtain depends on the volumes they are purchasing, the vendors available to serve them, and the delivery terms they are able to obtain.

Several additional factors can impact whether or not school divisions are actually able to identify and select the best value option available to them. These factors include the ability of staff to successfully identify best value and policy decisions by division staff

or school boards about how certain goods and services should be purchased, such as decisions to favor local businesses. Factors affecting divisions’ purchasing decisions can also impact whether or not a cooperative procurement method is used.

Purchasing Decisions Based on Assessment of Best Value

Best value is the lowest pricing available to a division from vendors who can provide goods and services that meet the division’s needs. While pricing is a key consideration, divisions reported that other considerations such as product quality, vendor reliability, and terms of delivery are just as important when they make their purchasing decisions (Table 4).

Best Value

The *Code of Virginia* (§2.2-4301) defines best value as "the overall combination of quality, price, and various elements of required services that in total are optimal relative to a public body's needs."

Table 4: What Factors Impact Best Value?

Best value is determined by...

- Lowest price
- Good or service meets division specifications
- Good or service meets division quality or performance standards
- Reliability of vendors
- Delivery terms meet division requirements

Source: JLARC staff interviews with Virginia school divisions and analysis of academic, professional, and industry literature.

School divisions report that they take into account whether or not vendors can provide a good or service that meets their specifications and quality standards. This may not be the option that provides the lowest price. For example, a vendor may sell pre-packaged foods at a lower price than its competitors, but this may be because the food products are of a lower quality. Similarly, a vendor will sell a bus with air conditioning for more than one that is not air conditioned. In each case, the product being sold is materially different and may or may not meet a division’s requirements. Part of school divisions’ decision-making process is determining the minimal quality and performance standards for the goods they require, and then evaluating prices available for goods meeting those standards.

Just-In-Time Delivery

A model for procuring and receiving goods as they are needed, as opposed to relying on warehouses to store and distribute goods. The advantage of this approach is avoiding costs associated with central warehousing operations, such as staffing, building, and vehicle and equipment costs.

Divisions report that they also consider whether or not vendors are reliable and can offer delivery terms that meet their needs. Most Virginia school divisions do not have central receiving facilities and require vendors who can provide frequent, small deliveries directly to schools. This is referred to as a “just in time” delivery model. Divisions report that vendors must be able to reliably provide the needed goods and services to avoid disruption to operations. For example, food deliveries must be consistent or cafeterias will not be able to provide lunches. Similarly, new computer systems must be delivered and installed promptly over the summer to

avoid disruptions during the school year. Consideration of vendor reliability and delivery terms can be as significant as the price the vendor offers.

The final consideration affecting best value is what added internal costs, if any, a purchase will generate. If the estimated total price of a purchase reaches the school's threshold for a competitive bid, a formal bid process must be carried out. This requires the division to commit internal resources to designing and overseeing the bid process. In these cases, divisions must consider the tradeoffs between administering a competitive bid versus pursuing other options, such as extending a current contract or buying from an existing open contract.

In addition to administrative costs, a purchase may incur additional internal storage and distribution costs. For example, a division may secure the lowest price from a vendor because the division is willing to receive all ordered goods in one bulk delivery at a central facility. However, there are additional internal costs associated with receiving, storing, and distributing the purchased goods.

Quality of Decision-Making and Local Policy Choices Affects Whether or Not the Best Value Option Is Selected

Ideally, school divisions would have the time and resources necessary to identify, evaluate, and select from all available procurement options. In practice, divisions have limited time and staff available to perform these functions and may not be knowledgeable about all opportunities. Additionally, some purchasing decisions can be influenced by policy choices to support local vendors or cooperate with local governments. These factors can impact whether or not divisions select the purchasing option that provides best value.

Availability, Expertise, and Awareness of Purchasing Staff Can Impact Ability to Select the Best Value Option. To make the best purchasing decisions, staff must be able identify and analyze all available options and select the one that provides the best value. This requires that staff have knowledge of opportunities and market trends, expertise to discern the advantages each option provides, and adequate time to fully evaluate options (Table 5). For complicated purchases, such as health insurance, divisions may choose to hire outside consultants or other experts to assist with identification and evaluation of options.

All types of divisions can be constrained by time and staffing, which can in turn impact their ability to identify and select procurement options providing the best value. As noted in Chapter 1,

smaller divisions generally do not have employees who perform purchasing as a primary job activity. Instead, staff responsible for purchasing at these divisions often perform one or more other functions as their primary job function. This may limit the time they can commit to purchasing activities as well as their expertise. Larger divisions with full-time purchasing staff can also be understaffed or may not regularly evaluate alternatives. For example, two large school divisions reported that they do not regularly reevaluate options for purchasing school buses and instead choose to buy school buses from the State contract. Staffing limitations are more likely to be an issue for larger procurements requiring formal competitive bids, which involve substantial time commitments and complex technical analysis.

Table 5: What Impacts Identification of the Best Value Purchase?

Identification of best value is impacted by...
- Staff knowledge of available options - Staff understanding of market trends, such as fuel price trends - Staff ability to effectively evaluate and compare options - Time that staff can commit to identifying and evaluating options
Source: JLARC staff interviews with Virginia school divisions and analysis of academic, professional, and industry literature.

The degree to which divisions have centralized their purchasing decisions can also impact whether or not the best value is selected. Divisions that have not centralized purchasing or that have weak central controls may not be effectively consolidating their purchases. If purchases are not effectively consolidated, the division is not able to maximize its individual purchasing power. This could result in wasteful spending.

This review focused on the use of cooperative procurement. It was not a broad review of the quality of school divisions’ purchasing operations. However, JLARC staff analysis of the 36 school efficiency reviews coordinated by DPB found that there were several areas in which school divisions could improve the quality of their purchasing operations, including better defined purchasing policies, improved internal controls, and better coordination and centralization of purchasing activities. While recommendations for improvement were directed at the individual school division being reviewed, these recommendations may also apply more broadly to school divisions across the State. Additionally, JLARC’s 2003 review of *Best Practices for the Support Services of School Divisions* identified ways that purchasing operations could be streamlined, such as eliminating small-dollar purchases and implementing purchase card (“P-card”) programs.

Local Policy Choices Can Influence Purchasing Decisions. These include decisions about whether or not to favor local businesses or to jointly purchase certain goods or services with the division's local government. It appears that these decisions may sometimes override other considerations, such as whether or not the option provides the lowest cost.

Several school divisions reported that they prefer to purchase from local or small businesses when practical. The JLARC staff survey of school divisions found that eight percent of respondents (10 divisions) reported having formal policies requiring that the division give priority to local businesses when selecting a vendor. Nine percent of respondents reported that they had formal requirements for giving priority to Small, Minority, and Women-Owned (SWAM) vendors. Several other divisions reported that local business or SWAM status was used as a "tie-breaker" when deciding between vendors offering equivalent goods or services at similar prices. Divisions in rural areas appear more likely to use local vendors when possible. These divisions reported that local vendors are preferred because they are part of the local economy and provide support to schools, such as advertising in yearbooks or sponsoring student events.

Some school divisions reported that their local governments require or strongly encourage the school to purchase goods or services from or with them. In these cases, divisions said the decision to cooperate with the local government is useful for maintaining a good relationship with the local government, even if it may not always provide the lowest price. Some school divisions reported that they ceased cooperating with local government on some purchases and were able to independently obtain the same goods and services at a lower cost.

The influence of policy choices on purchasing decisions is prevalent at all levels of Virginia government. At the State level, Executive Order No. 33 (2006) states, "It shall be the goal of the Commonwealth that 40% of its purchases be made from small businesses." Similarly, officials with the State's Department of General Services said that when procuring a State contract, they ensure that the process does not contain barriers to participation and that Virginia businesses are able to participate.

Cooperative Procurement Has Benefited School Divisions, but Some Opportunities Are Missed

In Summary

Nearly all school divisions use cooperative procurement to obtain at least some of their goods and services, and cooperative purchasing methods have provided cost savings and administrative efficiencies for many school divisions. However, cooperative procurement does not always provide the best value and may not meet the specific needs of a school division. Many divisions actively pursue cooperative opportunities and make substantial use of them, while other divisions make more limited use of these practices. The use of cooperative procurement is often limited by a lack of awareness, as cooperative options can be difficult to identify—particularly for smaller divisions with limited purchasing staff and expertise. As a result, school divisions may miss some cooperative purchasing opportunities, and greater use of these practices may provide cost savings for school divisions.

School divisions do not always consider cooperative procurement options, but when they do, they generally choose between independent and cooperative procurement options on a case-by-case basis. The decision to use an independent or cooperative option is based on price, quality, delivery terms, prior experience with vendors, and the administrative cost of completing the procurement. Purchasing staff try to choose the procurement option that provides the best combination of price and these other factors. This decision-making process is designed to comply with provisions of the Virginia Public Procurement Act as well as purchasing policies developed by the school division and its local government.

The cooperative procurement methods used by school divisions include State contracts, open contracts developed by other public bodies, joint purchasing with local governments, and regional purchasing cooperatives. While no type of cooperative procurement consistently offers school divisions the best value across the spectrum of division purchases, cooperative arrangements are beneficial frequently enough to merit consideration. School divisions often use a cooperative procurement when it offers the best value, but some divisions procure little cooperatively compared to their peers. This implies that some cost saving opportunities may be available through increased use of cooperative purchasing.

JLARC Research on Purchasing Practices

JLARC staff conducted interviews with two school divisions from each of the State's eight education regions regarding their purchasing practices and use of cooperative procurements. Staff also conducted interviews with procurement experts, including staff from the Virginia Association of Governmental Purchasing and the Virginia Association of School Business Officials. Finally, staff conducted a survey of all school divisions in Virginia. Additional details on study methods are available in Appendix B.

STATE CONTRACTS: WIDELY USED FOR CERTAIN GOODS AND SERVICES, BUT LIMITED IN AVAILABILITY OR USE FOR OTHERS

State contracts are widely used by school divisions for certain goods and services. They are the most common procurement method used by school divisions to purchase school buses and certain types of information technology (IT) assets. State contracts are also used to some extent by nearly all divisions. Based on the JLARC staff survey of school divisions, nearly 90 percent of respondents indicated a State contract was the primary method for purchasing one or more goods and services in FY 2009. On average, school divisions reported using State contracts to purchase three to four goods or services. State contracts were used by school divisions in all eight education regions.

However, the use of State contracts by school divisions remains relatively limited and inconsistent. State contracts were the primary procurement method for less than ten percent of school spending on major recurrent purchases in FY 2009, and were not widely used for items such as office supplies, custodial supplies, and vehicle fuel. Their use also varies by school division, with a small subset of school divisions using State contracts to a limited extent or not at all. Sixteen of the divisions responding to the JLARC staff survey reported that State contracts were not used as the primary method to purchase any goods or services in FY 2009. This subset included divisions in rural, suburban, and urban areas throughout the State.

State Contracts Are Most Commonly Used for School Buses and IT Assets

State contracts have been most commonly used by school divisions to purchase school buses and IT assets. As shown in Table 6, a majority of school divisions responding to the survey identified State contracts as their primary method for purchasing school buses and personal computers. Smaller but substantial percentages of divisions indicated using State contracts for printers and copiers as well as other IT hardware, such as servers and network devices. Compared to independent purchasing or other forms of cooperative procurement, State contracts were the most common purchasing method for these goods and services.

State contracts have been less commonly used for other goods and services. The State's Local Choice program is currently used by 32 school divisions (approximately 25 percent of divisions) to purchase employee health insurance. State contracts have also been used to a limited extent for items such as office supplies, custodial supplies, nonperishable foods and food-related supplies, and motor

vehicle fuels. Based on the survey results, with the exception of vehicle fuel, independent purchasing was the primary method used by most divisions to purchase these goods.

School divisions have used State contracts primarily because they can provide competitively priced goods and services and allow procurements to be conducted with minimal staffing resources. Many school divisions reported that State contracts provide competitive pricing for a variety of goods and services. School divisions such as Prince Edward County, Tazewell County, Dinwiddie County, Henrico County, and Waynesboro City cited the price advantages of using State contracts to purchase school buses and IT assets. This finding is consistent with JLARC's 2003 review of *Best Practices for the Support Services of School Divisions*, which identified State contracts as a potential way to obtain the best price on purchases.

Table 6: Use of State Contracts Varies by Good or Service

Good or Service	Percent of School Divisions Using State Contract	Number of School Divisions
School buses	61%	72
Personal computers	51	61
Printers and copiers	45	53
Other IT hardware/infrastructure	43	51
Employee health insurance	25	32
Furniture	24	29
Telecommunications goods/services	20	24
Office supplies	16	19
Custodial/janitorial supplies	8	10
Food provisions	3	3
Vehicle fuel	3	3

Note: Data for employee health insurance are for FY 2011. Data for all other goods and services are for FY 2009.

Source: Employee health insurance data are from the Department of Human Resource Management. All other data are from the JLARC staff survey of school divisions.

School divisions also emphasized the administrative benefits of using a State contract, rather than a competitive bid process, to procure goods and services. Staff with several school divisions reported that State contracts are useful because they eliminate the need to issue a request for proposals (RFP), collect and evaluate bids, or manage a contract with a vendor, thus saving time and reducing the administrative costs of procurements. The VPPA does not require alternative quotes or bids when a State contract is used because such contracts are developed by the State through a competitive bid process.

State contracts have been a particularly useful resource for small school divisions that lack the purchasing power or staffing re-

sources to secure competitive prices on their own. The following case study illustrates how one smaller school division has used State contracts for their price advantages and administrative savings.

Case Study

Waynesboro City Public Schools, with an enrollment of 3,009 students during the 2009-10 school year, does not employ staff dedicated exclusively to conducting procurements. Instead, the division's Director of Finance devotes 20 percent of his time to overseeing procurement functions. The division reported that it tries as much as possible to use State contracts rather than purchase independently because they are easier to use, generally cost less, and save administrative time. In FY 2009, the division used State contracts to purchase four school buses, as well as office supplies, instructional materials, office and classroom furniture, printers and copiers, personal computers, and other IT hardware.

School Divisions Have Used Other Procurement Methods When They Provide Lower Prices or Better Meet their Needs

School divisions have often chosen not to use a State contract because better pricing or other terms were available elsewhere. Although school divisions of all sizes reported this, it was most common among larger divisions. This appears to be because large divisions often have the buying power to obtain favorable terms on their own, the staffing resources to manage a competitive bidding process, and access to competitive markets in which multiple vendors bid on contracts. According to information provided by purchasing staff in Richmond City, the division was able to obtain prices from independent vendors averaging 21 percent lower than State contracts for various cleaning supplies. Lower prices for these products may be due to differences in quality and specifications, or they may be due to lower prices for identical products. The following case study illustrates how another large school division has achieved savings by purchasing buses outside the State contract.

Case Study

In June 2010, Virginia Beach Public Schools used the competitive bidding process to select a vendor for 65-passenger school buses. The chosen vendor offered a purchase price of \$73,360 per bus, which was \$3,737 less than the State contract price of \$77,097 for an identical bus. Virginia Beach purchased 27 buses and was able to save a total of \$100,899 by not using the State contract. Purchasing staff reported that the division is often able to beat State contract prices

because Tidewater is a large region with substantial competition among vendors.

In other cases, school divisions have used a State contract's price as a benchmark to obtain lower prices from another vendor, giving a division additional leverage over prospective suppliers.

School divisions have also chosen not to use State contracts when they have not provided needed delivery terms. This may be one reason why few school divisions use the Virginia Distribution Center (VDC) to purchase nonperishable foods, office supplies, or cleaning products. While some school divisions have used the VDC and expressed satisfaction with its pricing and service, other divisions have not used it because needed shipping terms were not available. The VDC achieves price discounts for its customers partly by delivering items in bulk quantities to a single location, such as a central warehouse. By contrast, many school divisions have found it more cost-effective to use a just-in-time delivery model in which smaller quantities are shipped directly to schools and departments within the division. These shipping terms are generally not available from the VDC. DGS staff report such terms could be offered, but this would increase the costs of goods. Delivery terms have also been an obstacle for some school divisions trying to use State contracts for office paper. Staff with two divisions reported not using a State contract because paper is shipped on pallets, and they lack a central warehouse capable of receiving such shipments.

In other cases, school divisions have not used a State contract because it has not provided the exact good or service needed. Staff with Gloucester County said they do not use the State contract for school buses because they prefer a unique engine type not available through the State contract. Gloucester County staff believe this engine provides the best value over the life of the bus, and that changing to a different type would increase maintenance costs because staff would then have to service a fleet with multiple engine types.

Some School Division Purchasing Policies or Practices Limit the Use of State Contracts

The use of State contracts by some school divisions appears to have been limited by a preference to purchase from local vendors. Several divisions reported an informal preference by division staff, the school board, or the local government to support the community by awarding contracts locally where possible. Most of these divisions were located in rural parts of Virginia, but some urban divisions also reported this preference. Purchasing staff for these divisions noted that using State contracts or other cooperative purchasing methods can limit their ability to support local vendors. For exam-

ple, staff with Gloucester County, which purchases on behalf of Gloucester County Public Schools through a consolidated purchasing office, expressed concern that a mandate to use cooperative procurement could require that a contract be awarded to vendors in other parts of Virginia rather than offering local vendors the opportunity to compete for a contract.

Other school divisions reported having purchasing procedures that may limit their use of State contracts. Two school divisions have developed their own automated purchasing systems and integrated these systems with online product catalogues from vendors. According to purchasing staff with these divisions, this makes it difficult to purchase from State contracts that require the use of eVA, the State's electronic purchasing system. For example, staff with Virginia Beach Public Schools indicated that orders processed through their automated system cannot be easily transferred to eVA and would have to be manually entered into the system. Staff said this could increase the administrative burden of conducting procurements.

However, eVA may not be as significant an obstacle as some divisions claim. Use of eVA is mandatory when purchasing from State contracts for school furniture, school buses, and other vehicles, but is optional for other contracts. According to Department of General Services (DGS) staff, eVA is required or encouraged for some contracts because a standard ordering process allows a vendor to minimize administrative costs and offer the best prices. DGS staff also indicated that school divisions can interface their automated systems with eVA to avoid the inefficiency of duplicate data entry. Given differing accounts from school divisions and DGS, it is unclear whether eVA represents a substantial obstacle to using State contracts.

Awareness of Some State Contract Options Has Been Limited

The review of procurement practices among a subset of 16 divisions indicates that the use of State contracts has been limited in some cases because school purchasing staff are not aware of what is available. For example, staff with several school divisions reported not being aware that the Virginia Distribution Center sells nonperishable food items. In addition, some school divisions were not aware that a State contract existed for vehicle fuel, and one school division was not aware of the State's Local Choice program for health insurance. These divisions may miss opportunities to achieve savings from State contracts.

One reason for this lack of awareness is that they lack the staff to research procurement options. Another reason may be that these options have not been adequately publicized. Several school divi-

sions reported difficulty finding available procurement options, including State contracts, because staffing resources were limited. According to DGS staff, all State contracts are published on the eVA web-site. Staff also reported promoting the Virginia Distribution Center through mailings to school divisions and participation in vendor shows sponsored by school or procurement associations.

Awareness of State contracts for bulk fuel may be increased due to a shift in the management of the contract. Until this year, State contracts for bulk fuel were managed by the Virginia Department of Transportation. DGS recently assumed responsibility for the contracts and negotiated new terms for use by public bodies in Virginia, including school divisions. DGS is currently promoting awareness of its bulk fuel contracts by contacting school transportation staff and providing information to associations such as the Virginia Association of Counties (VACo), the Virginia Municipal League (VML), and the Virginia School Board Association (VSBA).

OPEN CONTRACTS: SCHOOL DIVISIONS BENEFIT FROM THIS OPTION, BUT AWARENESS OF OPEN CONTRACTS IS LIMITED

State contracts are an example of open contracts in that any public body in Virginia may purchase goods or services from them at the pre-negotiated rates. Open contracts established by other public bodies, such as another school division, a local government, or a public body outside Virginia, are also available to school divisions. These include open contracts made available through a national purchasing consortium such as US Communities. Open contracts developed by other public bodies are available to school divisions because they were competitively negotiated with language extending the terms to other public bodies.

School divisions have used open contracts developed by other public bodies for a limited number of goods and services. Open contracts (other than State contracts) were the primary procurement method for nine percent of major recurrent purchases by school divisions in FY 2009. The most common item purchased by school divisions through open contracts appears to be office supplies. According to the JLARC staff survey, 18 percent of survey respondents (or 22 school divisions) reported using open contracts located through a national consortium as their primary purchasing method for office supplies in FY 2009. However, more than half of school divisions responding to the survey reported purchasing their office supplies primarily through independent methods. Other items purchased through national consortia include office furniture and printers and copiers.

18 percent of survey respondents (or 22 school divisions) reported using a national consortium as their primary purchasing method for office supplies in FY 2009.

In a limited number of cases, school divisions have used an open contract developed by another school division or local government

in Virginia. Items purchased primarily through these open contracts include

- IT assets, such as computers, printers and copiers, and software systems;
- food items; and
- construction and renovation services.

As with State contracts, open contracts developed by other public bodies have benefited school divisions by providing competitive prices without the need to conduct a competitive bid process.

Open Contracts Have Been a Valuable Procurement Option for Office Supplies and Other Goods and Services

Many school divisions have benefited from price discounts and favorable delivery terms available through office supply contracts from the US Communities consortium. Several divisions reported that these contracts provide advantageous pricing, favorable delivery terms, and convenient online ordering. Fairfax County Public Schools, the largest school division in the State, emphasized the price discounts and volume rebates available through US Communities. The following case study describes how the US Communities contract for office products has also provided benefits for a much smaller school division.

Case Study

Falls Church City Public Schools purchases office supplies through a US Communities contract because it offers low prices and favorable delivery terms. The contract provides next-day delivery and does not require a loading dock to receive orders. Shipping on small orders is also free. These delivery terms are important because the division does not have a central warehouse, and office supplies must be shipped in small quantities directly to schools, often with little advance notice.

Open contracts developed by other public bodies in Virginia have also been a valuable procurement resource for school divisions. Several divisions said they regularly look for existing contracts with other school divisions or local governments that may meet their needs at competitive prices. For example, Culpeper County Public Schools reported using open contracts from divisions in the Northern Virginia and Tidewater regions, including Loudoun, Prince William, and Fairfax Counties as well as Chesapeake City. Some school divisions look first to their local governments for available contracts. Staff with Fairfax County Public Schools, which operates a joint procurement office under the authority of

Fairfax County, said their procurement process includes checking open contracts established by the county. Staff with Virginia Beach Public Schools also reported regularly checking open contracts available through their locality.

Open Contracts Are Useful for Small Divisions With Limited Purchasing Power and Staffing Resources. Use of open contracts established by larger public bodies appears to have been an effective strategy for smaller school divisions that lack the purchasing power or staffing resources to secure competitive pricing on their own. Several small divisions reported that open contracts allow them to leverage the purchasing power of larger public bodies while avoiding the competitive bid process, which can be costly and time-consuming. For example, staff with Martinsville City Public Schools said that “open contracts save time and effort. In our small division with a strapped staff, such efficiency is welcome.” Staff with Waynesboro City Public Schools cited similar benefits, noting they have used contracts established by school divisions in Northern Virginia because these divisions have significant buying power to obtain price discounts.

Open construction contracts used by school divisions totaled approximately \$14.8 million in FY 2009-10.

Authority to Use Open Contracts for Construction Services Was Limited by Legislation Passed in 2010. While most school divisions use a competitive bid or negotiation process for construction and renovation projects, a small number of divisions have used open contracts for these services. According to the JLARC staff survey, 10 percent of survey respondents—or 12 school divisions—reported using such a contract for a project with a value over \$50,000 between FY 2009 and FY 2010. Open construction contracts used by these divisions totaled approximately \$14.8 million, with over 80 percent of this spending by three school divisions: Loudoun County, Stafford County, and Roanoke City. Two school divisions reported sharing a construction contract with their local government.

Some school divisions reported that cooperative procurement provided quality services at a reasonable cost because the competitive bid process has already been done. One example is illustrated by the following case study from Roanoke City Public Schools.

Case Study

Roanoke City Public Schools (RCPS) recently used a contract between Fairfax County Public Schools and a national construction vendor for a \$2.3 million roofing project. School division staff said the vendor was chosen because it had provided quality service on an earlier construction project for RCPS, and the division had experienced problems with local vendors in the past. According to RCPS purchasing staff, they did not want to spend the time and money developing an RFP when a qualified candidate with a favorable

track record was available through a cooperative procurement. Therefore, the open contract from Fairfax County was believed to be their best option.

While the use of open contracts for construction and renovation projects appears to have provided benefits to some school divisions, construction contractors have argued that construction contracts should not be open to other public bodies. They argue that each construction project is unique, which makes it difficult or impossible to apply unit costs from one contract to another. Furthermore, it is difficult to separate the architectural or engineering aspects of a construction or renovation project (which are services prohibited by the *Code of Virginia* from the use of cooperative procurement) from the labor and materials aspect. They also argue that using open contracts for construction and renovation projects conflicts with the VPPA's emphasis on a fair, competitive, and transparent procurement process because many local construction firms are not given the opportunity to compete for the contract through a competitive bidding process.

In contrast, school division purchasing officials have argued that using open contracts for construction is no different than using such contracts for other goods and services. For example, an open roofing contract that specifies the cost per square foot for a given type of roofing material is no different than an open contract specifying the cost for a case of a given type of copy paper.

Legislation enacted by the 2010 General Assembly limits the authority of public bodies to use open contracts for construction or renovation services. House Bill 426 amended the VPPA to prohibit the use of open contracts for most construction projects and all architectural and engineering services. School divisions and other public bodies can still use an open contract for a construction project if it is valued at less than \$200,000 and if the public body that established the contract is within 75 miles of their jurisdiction. Therefore, school divisions are allowed to share construction or renovation contracts with their local governments.

Open Contracts Do Not Always Provide the Best Value

Like other cooperative procurement options, open contracts have not always provided the best value for school divisions. Although open contracts have often provided competitive pricing and other benefits for school divisions, there appear to be compelling reasons why such contracts have not been used in some cases. The most common reason is that available contracts would not meet the unique needs of a school division. For example, staff with Frederick County Public Schools reported that an independent solicita-

tion often results in better value because it can be written to satisfy their exact needs.

Open contracts for more complex goods and services, such as IT, may be less likely to meet the needs of school divisions. Newport News City Public Schools said the upfront costs of a competitive bidding process may be worthwhile if it results in a good or service that more closely matches the division's needs. In 2010 the division used the competitive bidding process to purchase a new student information system when it determined that the State contract would not fully meet its need to track education plans for special education students. According to purchasing staff, the competitive bidding process also enabled the division to obtain free additional features needed to comply with federal and State mandates.

In other cases, school divisions did not use an available open contract because, as with State contracts, an independent competitive bidding process provided competitive pricing or other terms. Staff with Prince Edward County Public Schools reported using a local vendor for office supplies because its prices are competitive, particularly for copiers. The decision to use this vendor also supports the local business community, which staff identified as beneficial because local vendors contribute to the tax base which supports the school system.

Some School Divisions May Not Be Aware of Some Open Contract Options

Another reason open contracts have not been more widely used may be that school divisions are not aware of some open contract options. As a result, school divisions may miss opportunities to achieve savings. For example, several divisions were not aware of office supply contracts through the US Communities consortium, which could help them achieve savings. Due to staffing limitations, smaller school divisions may have difficulty finding open contract opportunities. Staff with one small division acknowledged they may not always find the best deal because staffing levels limit how much procurement research they can perform.

School divisions learn about open contract options primarily through informal networks of purchasing staff and by contacting purchasing consortia or public bodies that may have established open contracts. School divisions reported that associations for school purchasing staff, such as the Virginia Association of Governmental Purchasing (VAGP) and the Virginia Association of School Business Officials, have been useful forums for learning about open contract and other cooperative opportunities. However, not all school divisions participate in these associations. There is no central repository of open contracts available to school divi-

sions, though VAGP has begun to develop such a tool. Most Department of Education (DOE) regions hold regular meetings for member divisions, but these meetings are generally focused on educational rather than purchasing matters. Staff with one school division in southwestern Virginia said that although divisions in the region meet monthly, it remains difficult to identify open contract opportunities.

JOINT PURCHASES WITH LOCAL GOVERNMENT: A SUBSTANTIAL PORTION OF COOPERATIVE PROCUREMENTS, BUT LIMITED TO CERTAIN ITEMS

School divisions and local governments have different missions and often purchase different goods and services. Localities have public safety responsibilities and must purchase police, fire, and emergency vehicles as well as other emergency equipment. The mission of school divisions is to instruct students, and schools must purchase instructional materials, school buses, and other unique goods and services to fulfill this mission. Despite these differences, there appear to be many areas where school divisions and local governments purchase the same goods or services and could potentially pool their purchasing power. These areas include

- employee health insurance;
- vehicle fuel;
- office supplies;
- custodial/janitorial supplies;
- building, grounds, and maintenance services; and
- IT assets, including personal computers, servers, printers and copiers, and other hardware.

Joint purchases with local governments account for a substantial percentage of spending by school divisions but are generally limited to a small number of goods and services. In FY 2009, joint procurement with local government was the primary purchasing method for expenditures totaling \$484 million. This accounted for nearly 20 percent of recurring spending by divisions and almost half of the approximately \$1 billion in cooperative spending. Over 70 percent of responding school divisions purchased at least one good or service primarily through a joint procurement with their locality in FY 2009. More than 50 percent of responding divisions reported purchasing one to three items primarily with their local government, while less than ten percent purchased five or more goods and services in this way.

Over 70 percent of school divisions used a joint procurement with their locality as the primary purchasing method for at least one category of good or service in FY 2009.

Rural school divisions appear less likely to conduct joint procurements with their local government. Rural divisions reported purchasing an average of one item primarily with their local government in FY 2009, while divisions in urban and suburban localities reported an average of three items. Most survey respondents who indicated not purchasing any good or service primarily with their locality were located in rural parts of the State, including the Northern Neck, Southside, Southwest, and western Virginia.

Joint Purchases With Local Governments Are Most Often Used for Fuel and Health Insurance

The most common items purchased by school divisions with their local government have been vehicle fuel and employee health insurance (Table 7). Nearly half of the responding school divisions reported partnering with their locality to purchase vehicle fuel, and this cooperative method is used for fuel slightly more often than independent purchasing.

Table 7: Cooperation With Local Government is Common for Fuel and Health Insurance but Limited in Other Areas

Good or Service	Percent of School Divisions Purchasing With Local Government	Number of School Divisions
Vehicle fuel	45%	53
Employee health insurance	33	39
Maintenance services (building, grounds, vehicle)	18	21
Maintenance parts (building, grounds, vehicle)	16	19
Liability, property, and casualty insurance	10	12
School bus and service vehicle insurance	9	11
Custodial/janitorial supplies	6	7
Printers and copiers	3	3
Office supplies	3	3
Personal computers	1	1

Source: JLARC staff survey of school divisions.

One-third of divisions partnered with their locality to purchase health insurance in FY 2009. Cooperation with local government appears to occur on a more limited basis for building, grounds, and vehicle maintenance services and parts, and for other forms of insurance, such as vehicle, property, liability, and casualty. In addition, relatively few school divisions have combined with their local government to purchase office supplies, custodial supplies, or IT assets.

School Divisions Have Benefited by Purchasing Fuel With Their Local Governments. School divisions have benefited from a joint fuel program with their local government in two primary ways. First, joint purchasing arrangements have allowed school divisions to increase their purchasing power and buy fuel at a lower cost per gallon than would be available through an independent purchase. Staff with Giles County Public Schools reported that it has been able to achieve cost savings by purchasing fuel in bulk with Giles County. The school division and the county share responsibility for maintaining fuel tanks and pumps, and purchase cards are used to track each group's fuel consumption. Staff with Nelson County Public Schools reported similar benefits from its fuel arrangement with its locality. The school division solicits bids to purchase fuel for its tanks, and the county reimburses the division for the fuel it uses.

A second benefit of a joint fuel program is that it has allowed some school divisions to minimize or avoid altogether the cost of installing and maintaining fuel tanks and pumps. Such infrastructure is required in order to purchase fuel in bulk, either through the State's contracts or from independent vendors. The capital cost of fueling infrastructure can be significant and may be prohibitive for some smaller school divisions. Some school divisions cited the high cost of keeping this infrastructure compliant with State and federal environmental regulations.

Over 40 percent of responding divisions reported purchasing fuel independent of their local government.

Although many school divisions have benefited from joint fuel arrangements with their local government, over 40 percent of responding divisions reported purchasing fuel independently. Some school divisions have decided against purchasing fuel with their locality because a joint purchase would provide little savings or a better deal was available elsewhere. One school division in a rural locality reported that a joint program has not been developed because the local government uses substantially less fuel, and a combined purchase would not provide significant savings. Another division, which was purchasing fuel from its local government, opted out of the arrangement in 2002 because the locality increased the surcharge it charges to cover overhead expenses. The school division found a lower surcharge rate by purchasing fuel independently, and reported an average annual savings of 14 percent.

One-Third of School Divisions Purchase Health Insurance With Their Local Government. Approximately one-third of responding school divisions (39 divisions) reported cooperating with their local government to purchase health insurance in FY 2009.

In order to develop a joint health insurance program, school divisions and local governments must agree on three primary program elements:

- a rating structure for premiums (for example, whether a single or separate risk pools will be used);
- a vendor, including a provider network and an insurer; and
- a set of benefit plans and options.

23 school divisions currently combine their employees with local government staff into a single risk pool.

School divisions and local governments have developed two types of cooperative health insurance arrangements. Some have chosen to fully merge their health insurance programs by putting school and locality employees in a single risk pool and awarding a contract to a single vendor. Both groups then pay the same premiums, use the same plan administrator and provider network, and choose from the same set of benefit plans. According to a survey conducted by the Virginia Education Association in 2010, 23 school divisions currently combine their employees with local government staff into a single risk pool. Other divisions and localities have chosen a more limited form of cooperation in which provider networks, insurers, plan administrators, and benefit plans may be shared, but separate risk pools are maintained. The school division and locality then pay different premiums depending on their own risks and claims histories. JLARC interviews with school purchasing staff identified several divisions that use this more limited form of cooperation.

The Richmond City school division was also able to share the cost of a health insurance consultant with the city, which saved the division an estimated \$33,000 to \$50,000.

School divisions appear to have benefited from joint health insurance programs with their local government. Several divisions reported lower or more stable premiums and reduced administrative costs through their joint arrangements. For example, Richmond City Public Schools and Richmond City recently implemented a joint health insurance program in which employees are rated in separate pools but use the same insurer and plan administrator. School division staff said the joint program helped them avoid a projected increase in their premium rates for FY 2011. The school division was also able to share the cost of a health insurance consultant with the city, which saved the division an estimated \$33,000 to \$50,000.

However, school divisions have encountered numerous challenges when trying to develop joint health insurance programs with local government. In some cases, these challenges have limited the extent of cooperation between a school division and its locality, while in other cases the two bodies have decided to retain wholly separate health insurance programs.

One common challenge for school divisions and localities is that a joint health insurance program would have resulted in higher premiums for one or the other group. This can occur when groups have differing claims histories or risk factors, such as age, gender, or other demographic and behavioral traits. Staff with Nelson and

Tazewell County Public Schools reported that a joint program with their counties was not feasible because it would have increased premiums for the counties. Both school divisions currently operate health insurance programs independent of their localities.

Disagreements over plan types and coverage levels have also made it difficult for school divisions and local governments to develop fully merged health insurance plans. School divisions reported being unable to agree with local government staff on a joint benefits package or cost-sharing provisions such as employer contribution rates and out-of-pocket costs. These program details are important because they affect the overall cost of the health insurance program as well as individual premium rates, which may not be affordable for lower-paid employees if set too high. Some of these disagreements may reflect differing compensation philosophies, particularly if one entity has historically used more generous health insurance and other benefits to attract quality staff. Maintaining separate risk pools, even while using the same provider network and insurer, has allowed some school divisions and local governments to retain their preferred health insurance benefits and still enjoy some benefits of a joint purchase.

The following case study illustrates the benefits and challenges one school division has experienced by fully merging health insurance with its local government.

Case Study

Virginia Beach Public Schools and Virginia Beach City have operated a joint health insurance program for approximately ten years. The program is overseen by a joint committee comprised of school and city officials. A joint competitive bid process is used and one vendor is selected. Employees of the school division and the city are joined in the same risk pool, pay the same premiums, and use the same network of providers. Although school purchasing staff reported that exact cost savings are difficult to estimate, staff said the program has provided cost savings through volume discounts on provider rates and reduced overhead from using a single administrator. These savings have been passed on to employees in the form of lower premiums. However, there are concerns about whether premiums are equitable for both the school division and the city, and officials have discussed separating risk pools to ensure more equitable premiums.

Some School Divisions Share Maintenance Services With Their Local Governments

A total of 21 school divisions (or 18 percent of survey respondents) indicated sharing one of these maintenance services with their locality.

A subset of school divisions reported some level of cooperation with their local government for the maintenance of buildings, grounds, or vehicles. A total of 21 school divisions (or 18 percent of survey respondents) indicated sharing one of these maintenance services with their locality. Under the most common service arrangement, one entity operates a maintenance department in-house and provides services to the other entity, either at cost or free of charge.

Sharing maintenance services with local governments has provided benefits and drawbacks for school divisions. The primary benefit of such an arrangement is that the school division and the local government have shared the labor and infrastructure costs of providing services in-house. For example, staff with Giles County Public Schools said the division lost its facilities manager and chose to merge services with the county rather than refill the position. A common challenge has been ensuring that the maintenance needs of the school division and local government are prioritized appropriately. Some school divisions receiving maintenance services from their locality reported concerns with the quality and responsiveness of services from local government staff. For example, staff with one urban school division said its bus maintenance and repair service was provided by its locality, but the arrangement was discontinued because maintenance staff often prioritized city vehicles over school buses.

A successful shared services arrangement may require an organizational structure that gives school divisions some recourse to address service concerns. Staff with one school division cited concerns with the building maintenance services it received from its local government, and asserted that the locality prioritized maintenance of its own buildings over school buildings because the maintenance director reported to the county administrator rather than the school superintendent. One school division has been able to overcome these challenges, reporting that it had concerns regarding the maintenance services it receives from its locality, but better communication and a greater level of trust between the parties has resulted in improvements.

Cooperation with Local Governments Has Been Limited by Differing Needs and in Some Cases Strained Relationships

Although joint purchases with local governments have been widely used by school divisions, there may be opportunities for cooperation that would provide additional savings. Many divisions have achieved savings by purchasing vehicle fuel and employee health insurance with their localities, but as noted above, many others

purchase these goods independently. Other goods, such as office and custodial supplies, are rarely purchased with local government. School divisions that have not considered cooperating with their local government for these and other purchases may be missing opportunities to achieve savings.

In some cases, school divisions and local governments have not used joint purchases because they have different missions and often have different procurement needs. School purchasing staff reported that school divisions often have more in common with other divisions than with their local governments. While schools and localities buy many of the same goods and services, a joint purchase may not be feasible if different specifications or contractual terms are needed. School purchasing staff cited the example of PCs, noting that a joint purchase could be difficult because a locality may need more powerful machines that can run accounting and financial software programs, while schools may primarily need simpler computers for the classroom. Agreeing on PC specifications, including warranty and support service levels, could involve significant staff time and require the school division to purchase PCs that do not meet its unique needs, or potentially exceed their needs.

In other cases, joint procurements by school divisions and local governments have not been used because the two bodies have a strained relationship. School divisions that do not have a good working relationship with their locality may be less likely to explore potential joint purchases, even for more standardized goods such as vehicle fuel and office supplies. Several school divisions described an adversarial relationship with their local government that has limited efforts to conduct joint procurements. Staff with one school division reported that a joint fuel program with its locality has not been explored, in part because an adversarial relationship makes cooperation difficult. In other cases, school division staff described good working relationships that have fostered cooperation on several procurements.

Some of the conflict between school divisions and their local governments appears to result from their differing constitutional roles and authority. While the *Constitution of Virginia* gives local school boards responsibility to operate schools (Article VIII Section 7), school boards have no authority to raise their own revenue and depend on their local governments for a substantial portion of their total funding. Local governments have only limited control over how a school division spends local funds. The relationship between the school board and the locality's elected leadership can further limit the potential for cooperation. Staff with one school division said cooperation with its local government has been hampered in the past by disagreements between the school board and the locality's political leadership.

JOINT REGIONAL PURCHASING: USED TO SOME EXTENT THROUGHOUT THE STATE, BUT MOSTLY ORGANIZED AROUND A SINGLE GOOD OR SERVICE

... 56 percent of responding divisions (or 67 school divisions) indicated purchasing at least one good or service primarily through a joint arrangement with other divisions in FY 2009.

Joint purchasing arrangements between school divisions have been used throughout the State to achieve volume discounts on goods and services. According to the JLARC staff survey, 56 percent of responding divisions (or 67 school divisions) indicated purchasing at least one good or service primarily through a joint arrangement with other divisions in FY 2009. Multi-division purchasing arrangements have been used in every education region of the State. Approximately 36 percent of responding school divisions (43 divisions) reported being a member of a formal purchasing cooperative.

While joint purchasing arrangements between school divisions are common, they remain relatively limited overall. Regional purchasing cooperatives are generally organized around a single good or service, such as food or health insurance. Most of the school divisions that reported using a multi-division cooperative in FY 2009 indicated this was the primary method for two or fewer items. Joint purchasing between school divisions was the primary procurement method for approximately three percent of major recurring purchases by school divisions in FY 2009, and less than ten percent of cooperative purchasing expenditures.

The most common item purchased by school divisions through regional consortia has been food.

The most common item purchased by school divisions through regional consortia has been food. Thirty school divisions, or 25 percent of survey respondents, indicated that food was primarily purchased in this way. Other goods and services purchased through multi-division consortia have included insurance, special education services, and library materials.

Regional purchasing consortia have provided benefits for school divisions throughout the State and in several procurement areas. Many school divisions reported that regional purchasing consortia have been beneficial because they pool the purchasing power of several divisions to achieve volume discounts that would not be available to an individual division. Nearly two-thirds (65 percent) of responding school divisions agreed that joint purchases typically offer lower prices or better value.

Regional Food Consortia Have Been Formed by School Divisions Throughout the State

Regional consortia have been widely used by divisions to achieve bulk discounts on food purchases. The resulting cost savings are important because many school divisions operate their food service as an enterprise fund, with the cost of food items passed on to

school children and their families. These consortia have generally been organized for the sole purpose of coordinating food purchases, and have been common among smaller school divisions that may not have substantial purchasing power on their own (Figure 10). The following case study describes how one large food consortium in Southside and Central Virginia has provided price discounts and cost savings for its members.

Case Study

Fifteen school divisions in Southside and Central Virginia cooperate through the Southside Food Consortium to purchase frozen meats, frozen vegetables, canned fruits, and other food items. The divisions combined their food purchases into a joint contract with a single vendor, with staff from Isle of Wight County Public Schools managing the competitive bid process on behalf of all members. Prior to the most recent bidding process, membership in the consortium grew from six to 14 school divisions, significantly increasing the consortium's purchasing power (one division joined the consortium after a contract was awarded). Food purchasing staff from the divisions met several times during the year to coordinate their menus and agree on food items. Staff from participating school divisions cited cost savings as the primary benefit of the consortium. Isle of Wight County Public Schools credits the increase in the consortium's purchasing power with helping secure lower prices and reducing their total food costs by one percent between FY 2009 and FY 2010. The division's food costs had increased 19 percent between FY 2008 and FY 2009.

Purchasing staff from school divisions involved in other regional food consortia described similar cost savings.

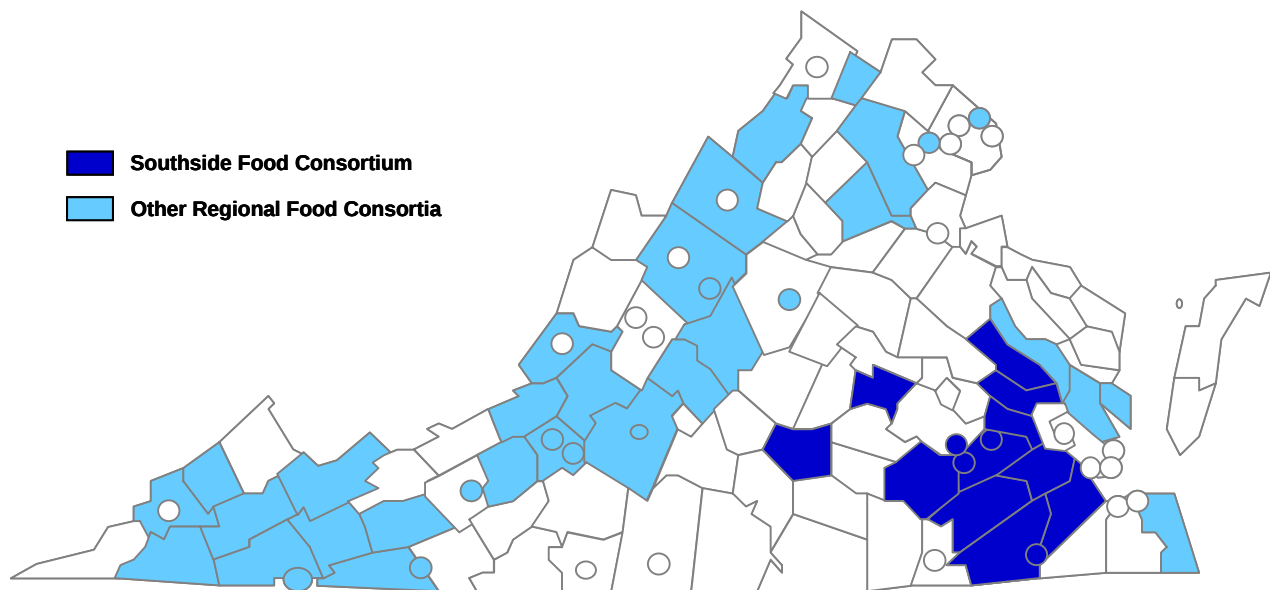
Most School Divisions Purchase Vehicle, Property, Liability, and Workers' Compensation Insurance Through Associations

Ninety-five percent of school divisions purchase at least one form of non-health insurance, such as vehicle, property, liability, and workers' compensation coverage, through insurance pools operated by VACo, VML, VSBA, or the School Systems of Virginia Group Self-Insurance Association. A small number of school divisions purchase one or more types of insurance coverage from commercial providers or are self-insured. Generally, only large school divisions have the resources to self-insure.

Under Section 15.2-2700 et seq. of the *Code of Virginia*, political subdivisions of the Commonwealth are authorized to purchase insurance coverage through non-profit group insurance pools. Several associations representing school divisions and other local public

bodies have developed insurance programs and function like insurers by setting member premiums based on actuarial tables, pooling premiums to pay member claims, and purchasing reinsurance to cover catastrophic claims. Premiums are pooled and a single plan administrator is shared, but members are rated individually according to their own risks. All school divisions appear to be eligible for insurance coverage through at least one of these associations.

Figure 10: Regional Food Consortia Have Been Used Throughout the State and Include a Large Consortium in Southside and Central Virginia



Note: Data are for regional food consortia used by school divisions between FY 2009 and FY 2011.

Source: JLARC staff survey of school divisions and staff interviews with selected divisions.

Group insurance pools appear to have provided several benefits for participating school divisions. Local public bodies have historically had difficulty finding affordable insurance policies in the commercial market. As non-profit entities, group insurance pools may be able to offer competitively priced coverage because premiums do not include a profit margin and are exempt from premium taxes. Staff with VACo's insurance programs said that while private insurers may be able to offer lower rates year-to-year, the association offers members more stable rates over the long term. Staff also emphasized that the association's insurance plan is a more reliable option compared to commercial plans, which may be more likely to raise premiums or drop certain coverage lines following catastrophes such as the 9/11 terrorist attacks or Hurricane Katrina.

Regional Consortia Are Used Less for Fuel, Health Insurance, and Other Items

School divisions have used regional consortia for bus fuel, health insurance, and other items on a more limited basis. Such consortia appear to have benefited these school divisions. In at least two parts of the State, regional purchasing groups have been used to achieve price discounts on bus fuel. In 2009, the school divisions for Prince Edward, Amelia, Buckingham, Cumberland, and Nottoway counties began purchasing bus fuel through a joint contract. Staff with Prince Edward County Public Schools said it has achieved savings through the consortium, but savings estimates were not provided. Several school divisions in Northern Virginia participate in a similar fuel consortium organized by the Metropolitan Washington Council of Governments (COG).

Regional health insurance consortia have also provided benefits for school divisions in the limited number of cases where they have been used. These consortia have generally maintained separate risk pools to ensure that members pay premiums based on their own risk levels. The New River Valley Benefits Consortium, a health insurance consortium that includes Pulaski County Public Schools and several surrounding localities, has allowed members to receive a better choice of plans and lower premium rates. The consortium uses a formula to adjust members' premiums based on their individual claims histories. Another health insurance consortium in the Valley region has used separate risk pools and appears to have provided benefits for its members:

Case Study

The SAW Consortium for health insurance has operated for over ten years and consists of the Staunton City, Augusta County, and Waynesboro City school divisions and their associated local governments. Members of the consortium award a joint contract to a single insurer that serves the entire cooperative. Members also share the cost of a health insurance consultant to identify plans acceptable to all members, manage the competitive bid process, and negotiate with interested insurers. Individual groups are rated separately to ensure that higher claims within one group do not increase premiums paid by other groups. According to staff with Waynesboro City Public Schools, the consortium has provided the division a better health insurance package at lower costs and with less administrative effort.

At least one school division has benefited from a regional health insurance consortium that uses a common risk pool so that members pay the same premium rate. Falls Church City Public Schools purchases health insurance with several local governments and

public authorities in the Northern Virginia/Maryland/Washington, D.C. region through a consortium organized by COG. An analysis by an independent health insurance consultant found the consortium's rates compared favorably to other options, and staff with Falls Church said the combined purchasing power makes it less likely that insurers will drop coverage unexpectedly. Staff said it has been challenging to agree on plan options and other details, but the groups have been able to reach agreement because cooperation lowers costs.

Several school divisions have participated in the Southside Virginia Purchasing Consortium, a multi-purpose consortium organized by a private management company that aggregates purchases from multiple divisions to achieve bulk discounts. The management company uses projected sales volumes from participating divisions to secure discounted prices from vendors. School divisions prepay for items, and the company debits these accounts for individual purchases while paying divisions interest on account balances. A percentage management fee is charged for these services. Staff with Lunenburg County Public Schools (which uses the management company to purchase school buses, vehicle parts, office paper, and custodial supplies) cited price discounts and administrative savings as its primary reasons for using the company. The division added that prepaying makes it easier to pay for capital purchases such as school buses in the correct fiscal year.

Several Factors Have Limited the Use of Regional Consortia. The most common reason school divisions have chosen not to participate in a regional purchasing consortium appears to be that it would not have met their procurement needs. Several school divisions reported that a joint purchasing cooperative will be used only if it provides the good or service that meets their division's needs. For example, staff with Poquoson City Public Schools stated that it does not make joint purchases with other school divisions because its procurement schedules and needs are often different. Instead, the division generally tries to locate existing contracts that contain a "rider" clause allowing other school divisions to use it.

Regional purchasing has been limited in some cases because school divisions may face several challenges to organizing and maintaining viable purchasing consortia. One challenge is that some school divisions have little incentive to participate if they would not benefit equally or would face higher costs. This may be common when small, rural divisions and larger, more urban divisions try to form consortia. While regional cooperatives for deliverable commodities such as fuel or food can provide increased purchasing power for small divisions, large divisions may benefit little from the increased purchasing power, and may pay higher distribution costs associated with their rural partners. Staff with Roanoke City Pub-

lic Schools said it experienced higher food costs through its food consortium with school divisions for the City of Salem and Botetourt, Craig, and Roanoke Counties due to higher distribution costs. Initially, costs through the consortium were competitive for the city. However, Roanoke City left the consortium when it found lower prices through independent purchases. High distribution costs appear to have been a common problem for rural consortia. Several school divisions reported that delivery costs to outlying areas can be high and that it can be difficult to find vendors to serve large rural cooperatives. These factors may limit the size of purchasing cooperatives in rural areas.

A second challenge to developing regional purchasing consortia has been the administrative effort required to reach agreement on a shared RFP. Organizing a joint purchasing effort can require significant time and effort, particularly for the school division coordinating the joint effort and managing the bidding process. It may be difficult to agree on specifications, particularly for items such as instructional materials that can differ depending on the unique curricula of school divisions. The administrative effort required to organize a consortium appears to have been a particular challenge for smaller school divisions with limited staffing resources, such as a lack of purchasing staff responsible solely for purchasing. Several smaller divisions reported that staffing limitations have made it difficult to use regional purchasing cooperatives. For example, Manassas Park City Public Schools, which does not have any staff with primary responsibility for purchasing, stated

The time required to investigate and coordinate [joint purchasing arrangements] would negate any potential savings for our school division because of [our] small size and limited personnel resources.

Based on the JLARC staff survey, rural school divisions were less likely than their urban or suburban counterparts to have one or more staff for whom purchasing is a primary responsibility.

Efforts to Develop Regional Health Insurance Consortia Have Often Failed. Regional health insurance consortia have been difficult for school divisions to develop, and JLARC staff identified few examples of health insurance cooperatives involving multiple school divisions. The use of health insurance consortia is limited for two primary reasons. First, some school divisions have had difficulty reaching agreement on a common benefit structure and set of plans to offer employees. Just as school divisions and local governments have used differing compensation strategies, school divisions have differed among themselves in the health benefits they provide. Agreeing on a common benefit structure and set of plans

is necessary if members are to fully realize the financial savings potentially available through a joint health insurance program.

A second reason efforts to develop health insurance consortia have failed is that regional cooperatives would have increased premiums for some school divisions. This appears to have been most common where a single risk pool was envisioned and divisions with different claims experience or risk levels were considering a merger. An effort to develop a regional cooperative in Northern Virginia failed partly for this reason. Staff with one school division that would have paid higher premiums through the consortium reported that the school board was not willing to approve participation because it would have increased short-term health insurance costs, even though the larger pool of beneficiaries could have reduced costs in later years by providing more stable premiums. The following case study describes how an effort to develop a health insurance consortium in the Hampton Roads region failed for similar reasons.

Case Study

In 2000, 15 school divisions in the Hampton Roads region tried unsuccessfully to develop a regional health insurance consortium. The group had difficulty agreeing on a rate structure, and ultimately chose to retain separate risk pools because a combined pool would have increased premiums for some members and lowered premiums for others. The group also struggled to agree on a common provider network and a standard benefit plan, in part because some divisions were concerned that switching networks would be disruptive and unpopular with employees. The group eventually agreed on a range of plans and benefit options designed to ensure that employees would have access to higher and lower cost options. However, the effort ultimately failed when school divisions were able to secure better deals with insurers on their own.

SCHOOL DIVISIONS MAY MISS POTENTIAL SAVINGS BECAUSE COOPERATIVE OPTIONS ARE NOT ALWAYS CONSIDERED

School divisions do not always consider all available cooperative options when making procurement decisions. During its review of purchasing practices among a subset of school divisions, JLARC staff identified numerous examples where school purchasing staff had not considered certain cooperative options, including joint purchases with local government, regional purchasing consortia, State contracts, and other open contracts. Divisions reporting that such options had not been considered were from nearly every education region of the State, but tended to be small in size and have a limited number of purchasing staff.

Awareness appeared to be most limited for State fuel contracts and purchasing opportunities through the Virginia Distribution Center.

In many cases, cooperative procurement options were not considered because purchasing staff were not aware of them. Awareness appeared to be most limited for State fuel contracts and purchasing opportunities through the Virginia Distribution Center. Many divisions were also unaware of opportunities to participate in regional purchasing cooperatives, use open contracts established by other public bodies in Virginia or national purchasing consortia. While limited awareness was found throughout the State and with school divisions of all sizes, it was most common among smaller divisions where purchasing staff also performed non-purchasing functions. These divisions may not have the staffing resources to identify and consider all available cooperative options during the procurement process. In other cases where cooperative options were not considered, school purchasing staff were aware of these options but could not provide a reason why they had not been considered.

It is important that school divisions consider available cooperative options during the procurement process. Many school divisions have benefited from using cooperative procurement for certain goods and services. Other divisions have found better prices by purchasing independently, often for the same goods and services. These findings demonstrate that school divisions should consider cooperative options when making purchasing decisions, and then select the option that provides the best value and best suits their needs and priorities at the time. School divisions that do not consider available cooperative options may be missing opportunities to save money.

Greater Use of Cooperative Procurement Would Likely Result in Additional Savings

In Summary

Although it is difficult to estimate potential savings through greater use of cooperative procurement, clear associations were found between per-unit expenditures and the cooperative procurement of employee health insurance and vehicle fuel. Furthermore, economies of scale appear to exist with the purchase of most goods, which implies that greater use of cooperative procurement for most goods would result in additional savings. However, most of the additional savings would likely occur in smaller school divisions, which are often the least well equipped to explore cooperative options due to limited resources for the procurement function. Savings could be substantial for these divisions yet appear to be limited on a statewide basis. For example, if average procurement savings of between two and ten percent for recurring purchases of goods and services could be achieved by divisions with less sophisticated purchasing functions, then estimated statewide savings of about \$11 million to \$56 million annually would result. By comparison, total expenditures from all sources for elementary and secondary education in FY 2009 totaled \$15.9 billion.

Although school divisions have already achieved savings from cooperative procurement for a variety of goods and services, there may be opportunities to achieve further savings through its greater use. Cooperative options do not always provide the lowest price or best value, but this review suggests they do result in savings for many school divisions, and greater use of cooperative procurement for some items could result in additional savings.

ECONOMIES OF SCALE MAY BE OBTAINED THROUGH THE COOPERATIVE PURCHASE OF MOST GOODS

A major difficulty in estimating the savings that would result from greater use of cooperative procurement is the great variability which exists in factors such as the timing, specifications, and geographic locations of divisions making the purchases. These differences make it difficult to make valid comparisons of purchasing efficiency between divisions.

For goods, the ideal would be to compare prices paid for the exact same goods that are purchased under the various procurement methods. However, even for basic goods like copy paper, there are numerous types and quality levels from which divisions may choose. For more complex purchases such as employee health insurance, comparisons become even more difficult due to different benefit packages and options. Furthermore, because prices vary by

time and location, comparisons would need to account for the date the items were purchased and the geographic area in which they were purchased. Comparing prices for services is even more difficult because service levels vary, which makes direct comparisons unlikely to occur.

Regression Analysis

Regression analysis is a statistical method used to predict the independent effects of one or more variables on another variable of interest (or dependent variable). For this review, variables of interest were per-student expenditures and average health premiums. Regression analysis produces models that minimize the error between actual values and predicted values. More information on the models is contained in Appendix B.

As an alternative approach, JLARC staff used regression analysis to explore the potential impacts of cooperative purchasing and other purchasing methods upon division per-unit expenditure levels in the different purchasing categories. In addition, interviews and document reviews were employed to consider the reported experience of procurement professionals with achieving savings from cooperative purchasing.

Regression analysis of per-unit costs in major expenditure categories was conducted as a means to help assess relationships between spending and procurement methods, given other factors such as division size, revenues, purchasing structures, and geographic location. It was recognized that for some expenditure categories, limitations in the precision of the information available reduced the likelihood of detecting an association. Despite the limitations of the data, however, in two expenditure categories a relatively strong inverse association was observed between the extent of cooperative purchasing and the magnitude of per-unit expenditures. These categories were employee health insurance and vehicle fuel. No clear relationships were found in the 15 other expenditure categories that were tested.

Data on school divisions' health insurance plans were obtained from a 2010 survey conducted by the Virginia Education Association. This survey provided information on premium costs, employer contributions, numbers of covered individuals and family members, deductibles, co-insurance, major medical stop-loss provisions, and whether or not the plans included dental, vision, and prescription drug coverage. Based on the analysis, pooling risk with the division's local government appeared to have an inverse relationship with average total health insurance premiums (total premium includes both employer and employee contributions). The model indicated that in divisions that cooperated with their local government, total premiums were approximately \$480 less per employee than predicted. Given 38,704 covered employees and family members in these divisions, it is estimated that this cooperation resulted in annual savings of approximately \$18.6 million (or six percent). Appendix B provides detailed information on the statistical methods and results.

Approximately \$18.6 million was estimated to be saved by combining health insurance risk pools of school divisions with their local governments.

Purchasing vehicle fuel with or from the local government also appears to have resulted in lower costs for those divisions that cooperated with their locality in FY 2009. The analysis controlled for

division size (average daily membership in 2008-09) and geographic region. However, due to the wide variation in per-student fuel costs, estimation of statewide cost savings based on the model is not advised.

The analyses did not show a strong inverse association between the procurement method and the magnitude of annual per-unit expenditures for other goods and services examined (despite controlling for a number of other measurable factors which can influence expenditure levels). Reasons for this result could include

- as some school procurement staff suggest, for many goods and services no single procurement method consistently offers the best price such that a clear pattern can be detected;
- differences in the type, quality, and quantity of goods and services purchased among divisions;
- differences in purchasing patterns from year to year (for example, one division may have bought new laptops for students in 2009, while another division had purchased them in 2008); and
- differences in how expenditures were reported to DOE and assigned to the various object and function codes.

However, while various procurement methods did not show a strong inverse association with variations across divisions in per-student expenditures for most categories, division size *did*. In most major expenditure categories (with the notable exception of health insurance), the number of students enrolled in a school division was negatively correlated with per-student expenditures. This relationship between quantity and unit cost is expected, as unit costs generally decrease as quantity increases. In addition, large divisions are more likely to have full-time, certified purchasing staff, which may better enable them to be aware of and obtain lower prices. The basic relationship of quantity to cost is why cooperative procurement is assumed to be an effective means toward obtaining lower prices. If large divisions are generally able to experience lower per-unit costs than smaller divisions, then smaller divisions can likely benefit by cooperating to become, in effect, large divisions.

Table 8 summarizes the major purchasing categories examined for this review and the likelihood that cooperative procurement in the area would result in significant savings. Opportunities for significant savings through more cooperative procurement exist if the category represents a large proportion of school division spending, there is an apparent inverse relationship between per-unit costs

and division size, and/or there is currently little cooperation in the expenditure category.

Table 8: Greater Cooperation Could Lead to Lower Costs for Most Goods and Services

Purchase Category	2009 Expenditures (\$ millions)	Percent Cooperative Purchasing	Indication of Economies of Scale?	Opportunity for Savings
Employee health insurance	\$948	53%	No ^a	High
Purchased services	579	11	No	Moderate
IT assets	190	65	Yes	Moderate
Food provisions	183	32	Yes	High
Office supplies	126	74	Yes	Low
Instructional materials	126	14	No	Low
Vehicle fuel	58	64	Yes	Moderate
Telecommunications	53	56	Yes	Moderate
Liability, property, and casualty insurance / vehicle insurance	46	95	Yes	Low
School buses	44	81	Yes	Low

^a Although the correlation between division size and per-capita health insurance was not strong, the data analysis indicated an inverse relationship between cooperative health insurance purchasing and expenditures on health insurance per employee.

Source: JLARC staff analysis of expenditure data from 2008-2009 annual school division reports to the Virginia DOE, JLARC staff survey of school divisions, and Virginia Education Association *Insurance Coverage and Employee Benefits Survey 2009-10*.

Health insurance appears to represent the area in which most additional savings may occur if more divisions purchased it cooperatively. Food provisions is another area in which there appears to be a high opportunity for additional savings, as only one-third of school divisions purchase food cooperatively and a strong inverse relationship exists between division size and per-student costs. Moderate savings may be achieved in the purchased services category despite there being no apparent relationship between division size and per-student expenditures. This “moderate” rating is due to the fact that so few divisions currently purchase services cooperatively, and these services represent a large amount of annual expenditures. The opportunity for greater savings through cooperative purchasing of school buses or other types of insurance is rated “low” because most divisions already purchase these items cooperatively.

ADDITIONAL SAVINGS ARE MOST LIKELY TO BE IN SMALLER DIVISIONS WITH SMALLER PROCUREMENT OFFICES

As Chapter 4 showed, cooperative procurement options do not always provide the lowest cost or best value to school divisions. Larger divisions, especially those with more experienced and trained purchasing officers, are often able to achieve lower prices through an independent, competitive procurement. In most cases, it appears that divisions with the resources to retain sophisticated purchasing operations use cooperative procurement when it offers

Measuring "Sophistication" of Purchasing Structure

Purchasing structure sophistication was measured using five factors: (1) centralized purchasing office, (2) purchasing FTE, (3) presence of full-time purchasing officer, (4) whether division purchasing officer is certified by a professional organization, and (5) whether most purchases (in terms of dollar value) are made by staff at the central division office. Divisions with less than three of these elements were categorized as being lower in sophistication.

the best value. Therefore, additional savings through greater use of cooperative procurement would most likely come from smaller divisions that do not always compare cooperative opportunities when making purchases. Although such savings could be substantial for the smaller divisions, total statewide savings appear to be limited (assuming no major changes in State policies for health insurance of school division employees).

Table 9 shows the amount of savings that *could* occur through increased use of cooperative purchasing if modest percentage reductions are achieved. To account for the fact that cooperative purchasing does not always result in savings and primarily offers a cost advantage when economies of scale can be achieved, the base upon which the savings are calculated (\$559 million) represents expenditures in the recurring purchase categories by divisions with less sophisticated purchasing operations (generally, the smaller divisions). A decrease in purchasing expenditures of two percent would yield a savings of \$11.2 million, while decreases of five and ten percent would yield \$27.9 million and \$55.9 million in savings respectively. The percentages used are consistent with the range of savings reported as achievable through cooperative procurement use.

Table 9: Illustrative Statewide Cooperative Procurement Savings Associated with Percentage Reductions in Cost

Percent Reduction in Cost of Goods and Services	Statewide Savings (\$ Millions) ^a
1%	\$ 5.6
2	11.2
5	27.9
10	55.9

^a Estimates do not include spending on land, construction, and renovation; utilities; textbooks; and other non-recurrent purchases. Total spending on remaining purchases by divisions with less sophisticated purchasing operations was estimated to be \$559 million in FY 2009.

Source: JLARC staff analysis of results from school division survey and expenditure data from 2008-2009 annual school division reports to the Virginia DOE.

Efforts to Promote Cooperative School Procurement in Other States

In Summary

Several states have implemented policies and structures to promote cooperative procurement among local school divisions. These policies include the use of regional education administrative units, annual surveying and monitoring of cooperative procurement by local school divisions, and requiring that state contracts be used for a certain percentage of purchasing expenditures. In addition, many states attempt to achieve savings by including local school divisions in their state health insurance plan. Recently, the option of including public school employees in a statewide health insurance pool has been considered by lawmakers in several states.

JLARC staff reviewed policies and practices regarding cooperative procurement by school divisions in selected states. While it appears that few, if any, cooperative procurement mandates exist, several states have attempted to increase cooperative procurement among school divisions. Examples of such efforts are examined here.

SEVERAL STATES HAVE MADE EFFORTS TO INCREASE COOPERATIVE PROCUREMENT BY SCHOOL DIVISIONS

Examples of efforts to increase cooperative procurement among school districts appear in numerous states. They include the creation of regional education administrative units, actively surveying the use of cooperative procurement, and requiring the use of state contracts for a certain percentage of spending. Each strategy provides a unique example with differing levels of success.

Formal Intermediate Education Units Promote Cooperation in Other States

Indiana and Pennsylvania mark at least two states that utilize regional education administrative units to promote cooperation among school divisions within a geographic area. In these states, the regional structure is more formal than the one currently operating in Virginia. That is, such regions include a central office, staff, and receive funding. Although Virginia has eight education regions, these regions have no central office or staff. Superintendents from schools in each Virginia education region meet monthly at a scheduled time and location. According to local school division

staff, Virginia regional meetings tend to focus on education issues, with little or no time dedicated to school support functions.

Both Indiana and Pennsylvania have regional education offices with full time staff to aid school divisions in a variety of administrative functions and shared services. One such function is cooperative purchasing. These education regions also serve as a liaison between school divisions and the state department of education.

Indiana Education Service Centers are partnership units composed of member school divisions. The state is divided into nine regional offices that offer programs and services to aid the 269 school divisions and ten charter schools. The service center system is funded by the Indiana Department of Education budget. School divisions represented by each service center also pay membership dues based on enrollment.

Cooperative procurement is a prominent part of the service center mission. All service centers have entered into purchasing agreements on behalf of their members, and efforts to expand consolidated purchasing have been credited for recent increased membership in the system. Annual surveys conducted by the Indiana Department of Education show that the service centers prove to be Indiana's greatest resource for realizing savings from cooperative school purchasing. In 2009, the system compiled a total of \$177 million in cooperative purchases. Major categories of joint purchases included liability insurance, food services, bus purchases, and IT services.

Pennsylvania Intermediate Units and Indiana Education Service Centers facilitate cooperative purchasing of a broad range of goods and services for local school divisions on a regional basis.

Pennsylvania's 29 intermediate units provide programs and services to Pennsylvania's 501 public school divisions and private schools. The intermediate units have no independent taxing authority. Their major sources of revenue are state appropriations, governmental grants, sales of services, member school division contributions, student tuition, and income from investments. Intermediate units offer a variety of support and management services to school divisions in each region.

One service offered by intermediate units is consultation in school management, particularly purchasing, that is available to school divisions upon request. Consultations can range from complete operation of a school business office to assistance with specific and localized functions. Intermediate units also facilitate cooperative purchasing of a broad range of goods and services for school divisions in their region. Examples of effective cooperative purchasing by intermediate units include information technology goods and services in rural areas of the state, a fuel consortium in Delaware County (for which they estimate savings of 27 percent), and insur-

ance consortia to reduce administrative costs and increase the buying power of member school divisions.

The Indiana and Pennsylvania regional systems have some limitations. There are no formal requirements to make any purchases through intermediate units or service centers. Participation in regional cooperatives varies as member schools still determine how to purchase their goods and services (whether independently, through a state or national contract, or through other open contracts). According to staff in both states, this lack of a participation requirement weakens the regional office's ability to pool resources and utilize economies of scale. Indiana officials believe that school corporations do not fully utilize the opportunity for savings that exist through cooperative procurement even with the regional system in place.

The greatest strength of the regional system is the ability to pool the resources of multiple school divisions from their region and take advantage of economies of scale.

Despite these limitations, interviews with regional office staff suggested that the greatest strength of a regional office system is the ability to pool the resources of multiple school divisions and take advantage of economies of scale. Additionally, school divisions can rely on the regional office for assistance. This assistance is especially helpful to small and rural divisions with limited business management staff. Pennsylvania staff indicated that some school divisions rely on intermediate units for up to 80 percent of their total purchasing expenses. The result is access to professional purchasing knowledge and a reduction of administrative needs for participating school divisions.

Given the total of \$177 million in collective purchasing in 2009, estimated savings range widely from \$9 million to \$75 million.

Quantifying savings that result from cooperative purchasing through regional offices has proven to be difficult. Gathering data from school divisions regarding savings has not been consistent or easy for the states. The Indiana Department of Education estimates savings between 5 percent and 30 percent resulting from service center cooperative purchases. Given their total of \$177 million in cooperative procurement in 2009, estimated savings range widely from \$9 million to \$75 million. Statewide savings in Pennsylvania due to intermediate units were unavailable.

Indiana Monitors Consolidated Purchasing and Shared Services Annually

Another strategy to increase cooperative procurement is making information on the matter more readily available. Indiana enacted a law which instructs school divisions to work independently, with other school divisions, or with regional service centers to actively pursue savings opportunities in purchasing and shared services. To monitor the effectiveness of the legislation, the Indiana Department of Education is required to conduct an annual survey.

The survey examines the purchasing practices of both individual school divisions and regional Education Service Centers.

All school divisions and service centers are asked to complete the survey. A final report summarizing survey findings is submitted to the governor, the state superintendent of schools, and the Indiana legislature. The survey report includes information concerning consolidated purchasing and shared service arrangements used by multiple school divisions and regional offices. It also examines efforts by school divisions to explore common management and consolidation.

The report allows the Indiana Department of Education to estimate the savings that exist in consolidated purchasing and shared services. It also monitors the scope and effectiveness of regional service centers. Finally, the survey makes individual school divisions aware of consolidated purchasing and shared service arrangements that exist throughout the state. However, the survey approach has limitations. In 2009, only 58 percent of school divisions responded to the survey. Furthermore, the survey is only a starting point for better understanding and utilizing cooperative procurement, as it has no authority to shape the purchasing decisions of school divisions.

North Carolina Instituted an E-Procurement Requirement

In 2003, the North Carolina General Assembly unanimously passed the “Purchasing Flexibility for Schools” act. The statute placed requirements on local school authorities to spend a certain percentage of unencumbered purchasing funds through the NC E-Procurement system. Similar to Virginia’s electronic procurement system (eVA), NC E-Procurement is a web-based system that offers electronic purchase order processing to buyers and suppliers. It allows North Carolina’s governmental entities to aggregate their purchases to obtain better pricing. Electronic catalogues save administrative time and effort, while the system allows greater visibility of statewide procurement information.

Under the statute, all 115 North Carolina school divisions were given an E-Procurement obligation. Each division had to create an E-Procurement account and interface any of their existing purchasing software with the NC E-Procurement system. According to a North Carolina official, the motivation behind the E-Procurement requirement was to jump-start use of the relatively new system.

Within two years of becoming certified as E-Procurement compliant, each school division was required to spend 40 percent of their unencumbered purchasing funds using the system. Furthermore,

divisions are encouraged (but not required) to use E-Procurement for 70 percent of purchasing expenditures. As a compromise with school divisions, the statute removed existing requirements for divisions to purchase from state contracts. Before the legislation, North Carolina school divisions could only purchase outside of a state contract if a lower price was obtained elsewhere. This previous requirement had detractors due to the administrative burden of proving lower prices for purchases outside of a state contract.

North Carolina experienced resistance to the law after passage. According to staff with the state of North Carolina, most of the resistance stemmed from a wariness of mandates. However, large school divisions also complained that they were already operating efficient electronic procurement systems before the law went into effect. A few of the largest school divisions were able to prove that E-Procurement was not cost-effective for their purchasing needs. Such divisions became exempt from the requirements. For example, Charlotte-Mecklenburg County school division, the state's largest, is no longer required to use the E-Procurement system. However, nearly all school divisions are compliant and have regularly met the 40 percent mark for total purchasing expenditures through E-Procurement.

IN MANY STATES, SCHOOL DIVISIONS PARTICIPATE IN STATEWIDE HEALTH PLANS

At least 25 states allow or require public school divisions to purchase health insurance through a statewide pool. Some states pool public school employees with all state employees and share the same experience ratings and premiums between groups. Other states create separate pools with unique experience ratings and premiums for school employees and state employees. A list of states that offer a statewide health insurance program to public school division employees and whether participation in that program is required is provided (Table 10).

Georgia, South Carolina, and West Virginia Require School Divisions to Participate in the State Employee Health Plan

Georgia, South Carolina, and West Virginia are regional examples of states that require school division participation in the state health insurance plan. The three systems include Georgia's State Health Benefit Plan, the South Carolina Employee Insurance Plan, and West Virginia's Public Employees Health Insurance Agency. Each system covers both state and public school employees.

In each state, public school employees have been grouped with state employees since the inception of the state health plan. Ac-

According to officials from the states, there was little or no resistance to the inclusion of school division employees in the system (mainly due to a less expensive and contentious health insurance industry at the time). Local school divisions are required to participate in the state health plan and cannot offer any alternatives to employees. None of the states report any efforts from school divisions to exit the state health plan. Each state also gives local governments the opportunity to participate in the state employee plan. However, separate rules often apply to local government employees, making use by local governments far from universal.

Table 10: Many States Have a Statewide Health Insurance Program Available to Public School Divisions

States With a Statewide Health Insurance Program Available to Schools	Public School and State Employees Share Same Insurance Pool	Public Schools Required to Use Statewide Health Insurance Program	Substantial Use of Statewide Health Insurance Program by Public Schools ^a
Arkansas			
California	✓		
Delaware	✓	✓	✓
Florida			
Georgia	✓	✓	✓
Illinois			
Kentucky	✓		✓
Louisiana	✓		✓
Minnesota	✓		
Mississippi	✓	✓	✓
Missouri			
Nevada			
New Jersey			
New York	✓		
North Carolina	✓	✓	✓
Oklahoma	✓	✓ ^b	✓
Oregon			✓
South Carolina	✓	✓	✓
Tennessee			✓
Texas		✓ ^c	✓
Utah			
Virginia			
Washington	✓		
West Virginia	✓	✓	✓
Wisconsin	✓		

^a "Substantial Use" is defined as more than two-thirds of school divisions participating in the statewide insurance pool. All states not meeting the two-thirds mark have participation of fewer than 25% of divisions, thus creating a natural division.

^b Oklahoma public school divisions are required to use the state employee plan unless they are self insured.

^c Texas school divisions with fewer than 500 employees are required to use a statewide health insurance pool. For those above the cutoff, participation is optional.

Source: JLARC staff analysis of information provided by the National Conference of State Legislatures, the Connecticut Office of Legislative Research, and the Michigan Legislative Council, as well as staff interviews with other state officials.

One of the main strengths of a combined state and school division employee health plan is the elimination of the need for schools to spend administrative resources on acquiring their own plans.

In all three states, officials cited the elimination of the need for schools to spend administrative resources on acquiring their own plans as one of the main strengths of the combined state and school division health insurance system. Since one statewide agency administers the health plan for both state and public school employees, administrative costs are spread over a larger population. Furthermore, combined plans create more uniformity in health insurance expenditures across public bodies.

Georgia, South Carolina, and West Virginia each report that their combined state and school employee health insurance program is the largest health insurer in the state. Such large numbers offer buying power and provide economies of scale. Officials from each state believe that inclusion of school employees in the state plan helps to attract more potential insurers and secure more favorable rates.

Including school employees on the state health plan also presents drawbacks. School divisions include a large number of retirees to insure and consider during plan design. School divisions are also a source of added stakeholders. Changes in the state health plan must not only consider state employees, but also the interests of the workforce in school divisions. However, officials from each state emphasized that there is little discontent from school and state employees with regard to their health insurance programs.

None of the states were able to determine the impact that the addition of school divisions had on the state employee health plan. School employees were included in the plans since inception and no comparison group exists when trying to identify savings. Additionally, local school division and state employees are in the same pool, which makes it difficult to assess the experience of either group individually.

Oregon Recently Implemented a Statewide Insurance Pool for Public Education Employees

Before implementation of a statewide pool, Oregon public schools (like in Virginia) provided health insurance independently, through regional cooperatives, or through self-insurance. Oregon's transition to a statewide pool serves as a recent example of a broad change in school employee health coverage. Many of the same opportunities and obstacles would likely exist if Virginia were to pursue a statewide pool for school division employees.

In 2007, Oregon established a statewide health insurance savings pool for public education employees, which is governed by the Oregon Educators Benefit Board (OEBB). The board aims to help school divisions save money on health insurance by pooling re-

sources and purchasing insurance in bulk. The bulk purchase eliminates duplication of effort across each division and reduces administrative costs.

The main opposition to the board came from school divisions already participating in regional health insurance cooperatives. These divisions claimed that they were already providing high quality health insurance at a relatively low price. Additionally, schools that were currently in a period of favorable claims experience feared rate increases after the change. As a compromise, the statute guaranteed all school divisions rates and benefits equal to or better than their current plan by the second year of participation in OEBC. An actuarial group developed a comparability model to determine whether the OEBC costs and benefits were comparable to those already purchased elsewhere by the school divisions. If OEBC benefits and price are inferior to a division's current service, then the division does not have to enter an OEBC plan. Only a few school divisions have elected to not participate in OEBC as they have been able to find more preferable plans elsewhere.

Implementation of the board encountered several challenges. In the first year of the plans existence, nearly twice the expected number of individuals enrolled. The quantity and geographic disbursement of initial enrollees presented a challenge for both board staff and insurance carriers. Another issue arising from the statewide pool was participants having difficulty finding providers that accepted OEBC plans in rural areas. As a result, enrollees in rural areas of the state often found themselves with limited provider options. This problem was addressed as more providers began accepting OEBC plans.

Oregon had difficulty calculating cost savings from the implementation of the board because many school divisions chose OEBC plans that were not similar to their former coverage. Another complicating factor was that few divisions sought and received bids for coverage after the implementation of the board, leaving little information to compare against the OEBC plan. Despite these difficulties, an actuarial group developed a methodology to estimate savings. The actuarial analysis showed a savings of \$36 million statewide for the 2008-2009 year. This figure represented a 5.8 percent decrease in health insurance spending by school divisions.

Oregon actuarial analysis showed a savings of \$36 million statewide for the 2008-2009 year.

Michigan and Minnesota Identified Savings but Did Not Enact Legislation

Minnesota and Michigan each considered creation of a statewide health insurance pool for public school employees. Both states have analyzed and quantified potential savings that would result

from a statewide pool. However, for numerous reasons, efforts to create a statewide health insurance pool were not successful.

In 2010, Minnesota passed legislation to place all public school employees and their dependents into a single health insurance pool. The public school employee pool was to be separate from the state employee insurance pool, although it would be administered by the same agency as the state employee plan and offer public school employees similar benefits to state workers. The Minnesota Office of Management and Budget determined that the statewide pool would save \$1 billion over the next ten years (approximately 7 percent each year). However, the legislation was ultimately vetoed due to language in the bill unrelated to the creation of a statewide health insurance pool for school divisions.

A 2008 proposal in the Michigan Legislature called for the creation of a mandatory statewide health insurance pool for all public employees including the state, localities, and public schools. Michigan's Legislative Services Bureau estimated that the plan would save between \$165 and \$275 million each year due to administrative efficiencies and leveraged purchasing. However, the legislation was not passed for several reasons. School divisions and other local governments feared a loss of collective bargaining rights and the lack of an ability to opt out of the state-run system. Additionally, start up costs for statewide health insurance consolidation and a reluctance to proceed with an initiative perceived as an expansion of state government played a major role in undermining the legislation.

Promoting More Efficient Purchasing by School Divisions

In Summary

Given variations in the prices of goods and services, a cooperative procurement mandate on school divisions for any particular good or service would not be appropriate. However, there are several ways to promote the use of cooperative procurement and more efficient purchasing practices. Virginia could likely reduce health insurance procurement costs by (1) encouraging divisions and their local governments to jointly procure health insurance, or (2) allowing divisions to opt into the State health plan. The State could also promote more efficient purchasing by increasing awareness of existing cooperative opportunities among school divisions. Finally, the State may wish to provide incentives for local school divisions to share a regional certified procurement official who could help divisions seek out best value deals and identify appropriate cooperative opportunities.

JLARC was directed to examine the appropriateness of requiring Virginia school divisions to collectively purchase certain goods or services. This review found that a cooperative procurement mandate would not be appropriate, but there are several other steps the State could take to promote more efficient purchasing by Virginia school divisions.

MANDATES FOR COOPERATIVE PROCUREMENT COULD LEAD TO HIGHER PRICES IN SOME CASES

While it is clear that cooperative procurement is an effective tool for lowering the prices of goods and services in many cases, a requirement to use a certain cooperative method to purchase a particular good or service does not appear to be appropriate. If a purchasing mandate were implemented for any good or service (for example, a requirement to purchase school buses through the State contract), some school divisions could be forced to pay higher prices for the good or service. This is because prices fluctuate over time and from region to region. Those school divisions that are able to find better value through their own competitive procurement should have the flexibility to do so. As this review of school division purchasing practices indicates, no one purchasing method consistently offers the lowest prices or best value.

Rather than mandating the use of cooperative procurement for certain goods or services, efforts should be aimed at promoting awareness of cooperative purchasing opportunities and ensuring

that purchasing officers in the local school divisions have the tools necessary to assess available options for the goods and services they need. If cooperative options such as a State contract or other open contract offer the best value to a division, then these options should be used. However, they will not be used if purchasing officers are unaware of them or if they do not have the capacity to seek out and compare all available options. As shown in Chapter 5, other states offer examples of policies to promote cooperative procurement among local school divisions, and some of these policies may be adapted to Virginia.

CONSOLIDATION OF SCHOOL DIVISION HEALTH PLANS MAY RESULT IN SAVINGS

Given experiences in other states and analysis of spending by Virginia school divisions, consolidation of employee health insurance plans appears to provide the greatest opportunity for savings through cooperative procurement. Employee health insurance is the single largest recurrent purchase made by school divisions (\$948 million in FY 2009), so a modest percentage decrease in cost would result in substantial dollar savings statewide. A five percent reduction in health insurance costs (which is less than Oregon, Minnesota, and Michigan each estimated for their transition to a statewide pool) would result in approximately \$50 million in statewide savings per year.

Several factors indicate that consolidation of health insurance plans would result in procurement and administrative savings. First, procurement costs would be lower. Selecting and purchasing group health insurance plans is a complex process that requires a lot of staff time and often involves the use of costly external consultants to assist school divisions in the selection process. Several large school divisions indicated this cost may be \$100,000 or more each time a new contract is bid. By consolidating health plans, these costs would be shared and duplication of effort would be reduced.

A second factor influencing savings is that administrative costs would be less under a consolidated plan. Health insurance premiums are based on medical risk plus administrative overhead costs. For each group health plan, the insurance company charges administrative fees which are factored into the premium costs paid by employers and employees. By consolidating health plans and increasing the number of persons covered under each plan, these costs are reduced through administrative efficiencies. Thus, the administrative cost for one combined health plan should be less than the combined administrative costs for two separate health plans.

A final factor influencing savings is increased negotiating power by the larger group plan. Insurance companies negotiate health care provider rates for health services and medical procedures on behalf of insured members in the group. A larger group of potential patients may be able to negotiate lower rates for these services, as health care providers will not want to forego business from this potential pool of customers. The ability to negotiate lower rates is also dependent on competition in the market – the more competition among health care providers, the more power insurance companies have in negotiating lower rates.

Another benefit of larger, combined health insurance pools is that premiums tend to be more stable. Increasing the size of the pool alone may not necessarily lower premiums because premiums are based mostly on the claims experience of the group. Thus, a small insurance pool with mostly young, healthy individuals could experience an increase in premiums if it merged with a less healthy pool with a worse claims experience. However, annual insurance costs are more likely to be stable in a larger pool, as there will likely be less fluctuation in average medical claims within the group. This stability is important when planning annual budgets for the school divisions.

There are two ways to achieve savings through consolidation of employee health insurance plans. One option is to encourage or require school divisions to purchase health insurance jointly with their local government. A second option is to expand the State employee health plan to include school division employees.

Option 1: Consolidate School Division and Local Government Health Plans

As was shown in Chapter 4, consolidation of school division and local government employee health plans appears to have resulted in savings of about six percent on average for those divisions that have consolidated with their local government. Currently, 23 school divisions share the same risk pool with their local government, while ten other divisions purchase jointly but maintain separate risk pools from their local government.

School divisions that purchase health insurance independently could be encouraged or required to cooperatively procure health insurance with their local government. Encouraging locality/school division cooperation would likely involve financial incentives to the local public bodies. Requiring such cooperation, however, would likely be problematic and potentially result in stiff opposition from both local governments and school divisions. Constitutional challenges from school divisions could also ensue.

Lower and More Stable Health Insurance Costs Are Key Advantages. Several advantages would be gained by having all school divisions purchase health insurance jointly with their local government. For those divisions that merge the two risk pools, the combined annual costs would likely be lower and more stable due to shared procurement costs, greater purchasing power, administrative efficiencies, and less fluctuation in average medical claims. For divisions that purchase jointly but maintain separate risk pools, costs would likely be lower due to shared procurement costs. Administrative efficiencies and greater purchasing power could also be possible depending on their ability to accept a common administrator and benefit packages.

Challenges to Implementation Would Need to Be Overcome. Despite the likely savings that would result from having all school divisions jointly purchase health insurance with their local government, implementation of this policy option may prove difficult. These challenges include strained relations between local governing bodies and school boards, identification of “winners” and “losers,” legal clarification as to whether the State can require consolidation of health plans, and (if incentives are to be used) the need for additional State money or adjustments to the funding formula (Table 11).

Due to the taxing authority of local governments and the independence of local school boards, relations between school divisions and the local government in which they are located can be strained. School divisions have no taxing authority and rely on local government allocations for a substantial proportion of their capital and operating revenues. However, localities have no direct control over how school divisions spend this money. According to staff from several school districts and representatives from local government organizations, this creates a natural adversarial relationship between the two bodies. While many school divisions and localities have overcome this adversarial tendency to effectively share services, others still describe a contentious relationship between the two bodies. This adversarial relationship makes it more difficult for the governing bodies to cooperate and compromise on insurance plans that suit both their needs.

Exacerbating the difficulty in getting school divisions and local governments to cooperate is the fact that there will likely be a “winner” and a “loser” associated with merging health insurance plans. Because the school employee and local government employee pools have different claims experiences, they are rated differently and are charged different premiums. Therefore, one group may see a rise in premiums due to the merger despite gains in administrative efficiency, which would make that group more reluctant to combine the pools. JLARC staff heard numerous examples of divi-

sions exploring the consolidation of health plans, but consolidation did not happen because one group would have faced higher premiums for their employees. It appears that neither school divisions nor local governments have consistently lower rates than the other.

Table 11: Challenges to Consolidating School Division and Local Government Health Plans

Challenge	Possible Outcome
Strained relations between governing bodies	Less likely to compromise on suitable plan
Identification of “winner” and “loser”	“Loser” less likely to agree to consolidated plan
Constitutional authority of local school divisions	Possible legal challenge
Need for financial incentives from State (if no State requirement)	Reduction in overall savings; adjustment to funding formula

Source: JLARC staff analysis of survey responses and structured interviews with school division officials.

Theoretically, school divisions or their local governments could be compensated by the “winning” side to negate the higher costs experienced by the “losing” side. However, such a calculation would be difficult to compute after the first year of the consolidated plan. This is because medical claims and risk factors change from year to year, which would make it inappropriate to assess the same compensation each year. Furthermore, if the pools are combined, it becomes more difficult to sort out the experiences of each group. Basically, an actuarial analysis would need to be conducted each year to determine the appropriate savings transfer between the two groups, which would be expensive and mitigate any administrative efficiency gained by the merger.

A final challenge to increasing the number of consolidated health insurance plans is the determination of how such an increase would be accomplished. The State could either impose a mandate on divisions and local governments to cooperate or it could encourage their use through incentives. A mandate on divisions and localities would likely be the cheaper option, but implementation of such a mandate would likely be challenged and resisted by the local public bodies. As mentioned in Chapter 1, local school boards are granted by the *Constitution of Virginia* with broad authority over the operation of their schools. Article VIII, section 7 of the *Constitution* states:

The supervision of schools in each school division shall be vested in a school board, to be composed of members selected in the manner, for the term, possessing the qualifications, and to the number provided by law.

Past opinions of the Virginia Attorney General assert that school boards have the authority to decide what is to be purchased to meet the needs of the school division. Therefore, local governments cannot force school divisions to purchase from existing local government contracts or to participate with the government in new contracts. However, it is unclear whether the State has the authority to mandate that school divisions cooperate with their local governments to purchase health insurance.

An alternative to mandating consolidation of school division and local government health insurance plans would be to provide incentives. For an incentive to be effective, however, it would need to have a financial impact on school division operating budgets. Two approaches are available for financial incentives: (1) additional State money could be provided to those divisions that consolidate health plans with their local government, or (2) adjustments could be made to Standards of Quality (SOQ) funding levels to benefit those divisions that cooperate. The first approach would be costly to the State and would therefore mitigate savings achieved through the consolidation of health plans. The second approach could be revenue neutral for the State, but it would involve a negative funding adjustment for those divisions that do not cooperate with their local government. In some cases, cooperation may be out of the control of the local school division if the local government refuses to cooperate.

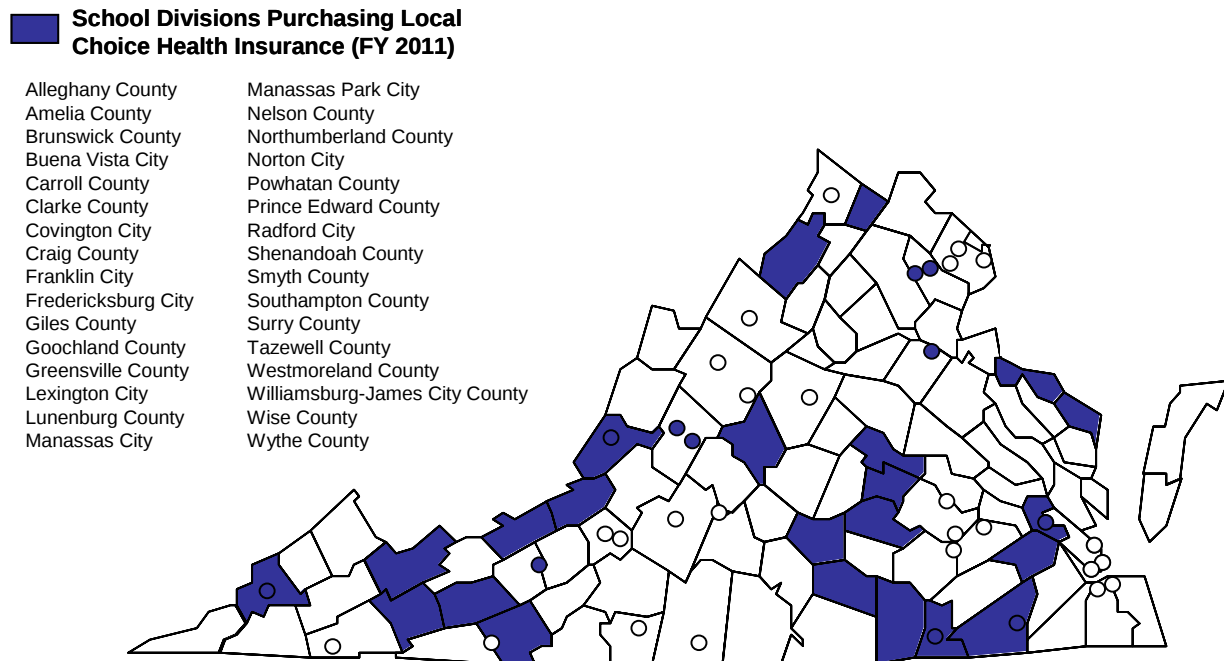
Option 2: Include Local School Divisions in State Employee Health Plan

A second option for achieving savings through joint procurement of health insurance is to expand the State employee health plan to include employees of local school divisions. School division employees could be pooled with State employees to form one large State pool, or all school divisions could be combined into a separate pool. As shown in Chapter 5, 11 other states have consolidated risk pools for state and local school division employees. Under this option, school divisions would not be required to join the State plan, but they would have limited opportunities to opt into or out of the plan.

Currently, school divisions may participate in the State health plan through the Local Choice program. This program would be eliminated (at least for school divisions) and replaced by the new statewide combined health plan. While Local Choice allows school divisions to take advantage of the State's buying power, divisions' risk ratings under the program are based primarily on their own experience. Local Choice was designed for smaller public bodies that would have difficulty purchasing health insurance on their own. Larger school divisions generally do not participate in Local

Choice because they are able to negotiate better rates on their own. Currently, 32 school divisions participate in Local Choice (Figure 11). These school divisions are generally smaller than other divisions, with an average enrollment of 2,958 students (well below the statewide average of 9,097) for the 2008-09 school year. Also, most of the divisions are in rural localities.

Figure 11: Most School Divisions Purchasing Health Insurance Through Local Choice Are in Rural Parts of the State



Note: Greensville County Public Schools includes the City of Emporia.

Source: JLARC staff analysis of data from the Department of Human Resource Management.

Elimination of Procurement Costs and Administrative Savings Are Key Advantages. Inclusion of school divisions in the State health plan would provide many of the same benefits as option 1, except on a larger scale. Savings would occur due to lower administrative and procurement costs and greater purchasing power. Instead of there being multiple health plans, each with its own administrator and associated administrative fees, all participants in the State plan would share the same administrator. The Department of Human Resource Management (DHRM) would continue to manage the expanded State health plan and contract out for a third-party administrator to negotiate medical reimbursement rates with health care providers and handle patient billing. Currently, Anthem administers the State health plan.

Another major advantage of allowing school divisions to join the State health plan is the elimination of procurement costs for those divisions participating in the plan. School divisions bid for insurance provider contracts about every three years, and these costs are considerable. According to local school division officials, health insurance procurements are very complex and time-intensive. Divisions often hire a consultant to develop the request for proposals (RFP) and assist in choosing the provider. Because selection of a provider would be handled centrally by DHRM for all divisions and State employees, these local division procurement costs would virtually disappear.

The impact of such a change upon State costs depends on whether the change results in a different premium amount for school division personnel whose costs are considered SOQ costs. If the change does not increase employer-paid premium rates over what the State SOQ cost methodology currently calculates, then State savings would be possible. Approximately 136,000 school division employees are currently enrolled in division health plans. If the State were to add these employees to its existing pool of State employees, its purchasing power would increase. DHRM would then be better able to negotiate more favorable fees with the insurance provider, which in turn could negotiate lower reimbursement rates with health care providers. However, the change could lead to higher State costs if the change results in recognized employer-paid premium rates that are higher.

Although the amount of savings through such an arrangement is unknown without an actuarial analysis, three states that either recently implemented or considered implementing a statewide public school health insurance plan estimated savings of between five and seven percent annually. Assuming Virginia would experience similar savings, between \$47 million and \$66 million would be saved annually (given \$948 million in health insurance expenditures in FY 2009).

Statewide, between \$47 million and \$66 million annually would be saved (given \$948 million in health insurance expenditures in FY 2009).

Challenges Would Need to Be Overcome. Although the potential benefits of including school divisions in the State health plan are great, several challenges would need to be overcome to implement such a plan. One obvious challenge is determining the impact on premiums from this consolidation of health plans. In order to determine the impact on premiums, the State would need to determine which school divisions would join the plan. However, school divisions would need to know the expected premium costs of the State plan before deciding whether or not to join. An actuarial analysis would need to be conducted in order to determine the impact on premiums and the associated costs to school divisions. According to DHRM, the actuarial analysis would likely cost about \$500,000.

School divisions would have limited ability to opt into or out of the State health plan. To maintain membership and cost stability, divisions would not be allowed to join or leave the State plan annually based on their assessment of cost. Divisions would be allowed to remain with their own insurance plan if satisfied, but they would be prevented from joining the State plan only when their recent medical claims have been high and their premiums are expected to rise. Without this limitation, school divisions would only join the plan when their claims are high and would leave the plan when their claims are low. This tendency, known as adverse selection, would result in only high-risk divisions entering the plan, which would drive premiums up and cause remaining low-risk divisions to leave the pool. Therefore, a rule would need to be put in place such that divisions could not rejoin the State plan for a certain number of years after opting out. This rule would lessen the effect of adverse selection, but because they would have limited opportunities to join the State plan, school divisions would need to know with a fair amount of certainty what their premiums would be if they joined the State plan. The divisions would also need a considerable amount of time to decide, since the decision could have a major impact on their budgets.

Another challenge is determining whether to combine participating school divisions with the State employee pool or having two separate risk pools for school division employees and State employees. According to DHRM, either option would provide similar benefits and savings. The advantage of keeping the pools separate is that school division employee experiences would not affect State employee premiums. However, administrative costs might be slightly higher with two separate pools.

A third challenge is deciding whether or not to also include employees of local governments and other public bodies in the State health plan. Currently, 39 divisions purchase health insurance jointly with their local government. If these divisions joined the State health plan, the local governments could be adversely affected. Furthermore, there are over 230 local jurisdictions in Virginia that participate in the Local Choice program. School divisions leaving Local Choice could impact the cost of the program, which could affect premiums for remaining members. The State may wish to discontinue Local Choice with implementation of the statewide health plan, in which case a decision would need to be made whether to include these other jurisdictions in the State plan or to let them find insurance plans on their own.

Finally, there would likely be strong opposition to a statewide health plan from the insurance industry. The existence of numerous group health plans is highly profitable for insurance companies, brokers, and consultants, and these profits would be in jeop-

ardly if school divisions opted into the State plan. Insurance company profits would likely decrease due to the loss of administrative fees for the local plans. Insurance brokers and consultants would likely be hurt by the lack of school divisions (and possibly localities) seeking new contracts every few years. Because of the potential financial impact to the insurance industry, the industry would be expected to lobby against such a change in policy.

Despite these challenges, expanding the State health plan to include school divisions appears to be a viable option for achieving significant savings. Many other states have had success with statewide health plans, and Virginia could likely benefit from a lack of duplication of effort in the procurement of health insurance.

Recommendation (1). The General Assembly may wish to direct that an actuarial analysis be conducted to determine the expected fiscal impact to the State, local school divisions, and other local jurisdictions of expanding the State employee health plan to include all public bodies in Virginia. The analysis should consider the impacts, if any, of the change upon State and local Standards of Quality costs for health insurance.

STATE COULD PROMOTE AWARENESS OF COOPERATIVE PROCUREMENT OPPORTUNITIES

Open contracts may often provide lower prices or better value for goods and services than a school division would be able to obtain through an independent procurement. However, if divisions are unaware of these open contracts, opportunities for savings will be missed. Awareness of cooperative procurement opportunities appears to be related to division size, as small divisions are less likely to have a full-time purchasing officer with the experience and time to seek out such contracts.

The State could promote the use of cooperative procurement by making it easier for purchasing officers to find existing open contracts and by encouraging their use through certifications by division superintendents. These actions could be relatively inexpensive and would not disrupt the normal purchasing operations of school divisions, but they could be effective in promoting more efficient purchasing by school divisions.

State Could Provide a Centralized Source of Existing Open Contracts

Many school divisions, particularly smaller divisions, are not aware of existing opportunities for cooperative procurement. For example, several division purchasing officers were unaware of the

existence of US Communities, which is a national consortium of local governmental entities that contains numerous open contracts available for use by school divisions. Also, several division purchasing officers were unaware of State vehicle fuel and natural gas contracts, or that they could purchase food and custodial supplies from the Virginia Distribution Center. Purchasing officers who were unaware of these opportunities tended to be in small, rural divisions and did not devote 100 percent of their time to the purchasing function.

The State could help foster awareness of opportunities for cooperative procurement. In fact, several statewide efforts for promoting certain open contracts are already underway. For example, the Department of General Services (DGS) is promoting the new statewide fuel contract to school transportation officials and purchasing officers. Similarly, the Virginia School Boards Association is partnering with US Communities to train school purchasing officials on the use of their contracts. More could be done, however, to systematically provide school divisions with information on cooperative purchasing opportunities across a broad range of goods and services.

One suggestion for promoting awareness of cooperative opportunities is to have a central, web-based repository of all existing open contracts for use by school divisions. School division purchasing officers could use the web-site to compare prices and service terms of the various contracts when making purchasing decisions. According to the JLARC staff survey, 89 percent of school divisions favor such an effort.

The basic structure of such a web-site already exists within the State's electronic procurement system (eVA). The system lists all State contracts and allows school divisions to post cooperative agreements on eVA. The Virginia Association of Governmental Purchasing (VAGP) also hosts a web-site with links to existing open contracts. However, not all school divisions participate in VAGP, and therefore many divisions are unaware of this resource.

The Virginia Department of Education (DOE), in collaboration with DGS, should lead a cooperative effort with other State agencies managing statewide contracts, local school divisions, and VAGP to create or enhance this information resource. DOE would also be the lead agency responsible for informing school divisions of this resource and encouraging school divisions to post all open contracts to the site. Ideally, the web-site would link to all existing State and other open contracts for use by school divisions and would enable those listings to be sorted by product type. Development of such a site could be delayed by staffing and funding limitations at DOE and DGS, but these agencies could still take steps

to link existing information and encourage the use of existing cooperative contracts .

Recommendation (2). The Department of Education (DOE), in cooperation with the Department of General Services, 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 also ensure that the source is regularly updated and encourage school divisions to regularly consult it.

School Division Superintendents Could Certify That Divisions Regularly Consider Cooperative Procurement Options

Another option to promote the use of cooperative procurement and efficient purchasing is to have each school division superintendent annually certify that their division regularly considers cooperative opportunities when purchasing goods and services. Although it would be difficult for the State to enforce regular consideration of cooperative opportunities, the certification process would at least promote awareness and could increase the use of beneficial cooperative procurements.

Under this option, the school division reports submitted annually to DOE would be used as the means for superintendent certification. Currently, each school division is required to annually submit a report of the division's revenues, expenditures, staffing, and enrollment to the State Superintendent of Public Instruction. In addition, each division superintendent must certify that the information contained in the annual report is correct to the best of his or her knowledge. The division superintendent could also certify that cooperative procurement opportunities were considered for purchases of goods and services.

The benefit of this certification is that it promotes awareness of cooperative opportunities at key leadership positions in the school divisions. This awareness, and the fact that superintendents have certified the divisions' consideration of cooperative opportunities, could also encourage purchasing officers to ensure that cooperative opportunities actually are considered.

In order for the certification process to be effective and not be overly burdensome on purchasing officers, it is important that school divisions have easy access to information on available cooperative contracts. Thus, this option should only be considered if a comprehensive information resource for existing open contracts has been developed.

One criticism of this option is that it may add complexity and bureaucracy to the purchasing process. For example, one school division purchasing officer said that depending on how the requirement is implemented, it could result in another piece of paper having to be signed by the purchasing officer for every purchase and kept permanently in a file as evidence that cooperative procurement options were regularly considered. In responding to the JLARC staff survey, only 27 percent of divisions supported this option, while 45 percent were opposed.

If this option were to be implemented, the State should avoid burdensome requirements for verifying the validity of superintendent certifications on the consideration of cooperative procurements.

REGIONAL SHARED PROCUREMENT SERVICES COULD PROMOTE MORE EFFICIENT PURCHASING

A final option the State may wish to consider is to provide financial incentives to local school divisions to share a full-time, certified procurement official with other divisions in the region. Because most small divisions do not have the resources to employ a full-time procurement officer, awareness and use of cooperative procurement opportunities tends to be less in these divisions. However, if their minimal division resources for the procurement function were to be supplemented by a regional procurement expert, then more efficient purchasing could be attained. This review found that additional statewide savings through greater use of cooperative procurement would be most likely to occur in smaller divisions that do not have a sophisticated procurement operation.

As shown in Chapter 5, Pennsylvania and Indiana use a regional structure to promote economies of scale in purchasing. While implementing such a regional structure in Virginia would require a substantial financial commitment, sharing experienced procurement personnel across divisions would be a more modest approach that could result in some of the benefits of a formal regional administrative unit. For example, a full-time, certified procurement expert could seek out best value deals for divisions within a region and identify cooperative opportunities. Furthermore, the regional procurement expert could assist smaller divisions with the development of a RFP for more complex purchases.

Although greater purchasing efficiencies would likely be achieved, there would also be additional costs associated with the shared service. School divisions could be encouraged to pay for the service if the State agreed to match the divisions' funding. Because it is anticipated but not certain that the benefits would outweigh the costs, the State may wish to consider a pilot program in a rural region to test the effectiveness of the program. After a reasonable

time frame (for example, two years), the State could assess the net benefits and decide whether to continue or expand the program.

Recommendation (3). 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. The program should be assessed after two years to determine if it is providing a net benefit through better value purchasing.

JLARC Recommendations:

Use of Cooperative Procurement by Virginia School Divisions

1. The General Assembly may wish to direct that an actuarial analysis be conducted to determine the expected fiscal impact to the State, local school divisions, and other local jurisdictions of expanding the State employee health plan to include all public bodies in Virginia. The analysis should consider the impacts, if any, of the change upon State and local Standards of Quality costs for health insurance. (p. 82)
2. The Department of Education (DOE), in cooperation with the Department of General Services, 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 also ensure that the source is regularly updated and encourage school divisions to regularly consult it. (p. 84)
3. 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. The program should be assessed after two years to determine if it is providing a net benefit through better value purchasing. (p. 86)

Study Mandate

HOUSE JOINT RESOLUTION NO. 60

Directing the Joint Legislative Audit and Review Commission to study the feasibility and effectiveness of requiring local school divisions to contract collectively in certain areas of procurement. Report.

Agreed to by the House of Delegates, March 4, 2010

Agreed to by the Senate, March 2, 2010

WHEREAS, the current economic conditions on both a statewide and a local scale have put added financial pressures on local school division budgets; and

WHEREAS, as corporate bodies, local school boards are empowered to make contracts pursuant to § [22.1-71](#) of the Code of Virginia and may enter into contracts for both goods and services; and

WHEREAS, pursuant to § [2.2-4304](#) of the Code of Virginia, any public body is authorized to participate in, sponsor, conduct, or administer a cooperative procurement agreement on behalf of, or in conjunction with one or more other public bodies, public agencies or institutions or localities of the several states, of the United States or its territories, the District of Columbia, or the U.S. General Services Administration, to increase efficiency or reduce administrative expenses in any acquisition of goods and services; and

WHEREAS, the Department of General Services has demonstrated the power of leveraged buying through several programs used by agencies, institutions, and some local governments and school systems, such as the Virginia Partners in Procurement and Statewide Leveraged Contracts, the Virginia Distribution Center, and the eVA-Electronic Procurement Programs; and

WHEREAS, there may be school divisions in the Commonwealth already utilizing the approach authorized by § [2.2-4304](#) of the Code of Virginia; and

WHEREAS, collective procurement or "cooperative purchasing" may allow local school divisions to leverage their purchasing power, thereby using taxpayer dollars more effectively; and

WHEREAS, the various legal, economic, and policy issues regarding effective collective procurement merit study to ensure that the Commonwealth's system of free public schools operates in the most cost-effective manner while delivering the highest quality education; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to study the feasibility and effectiveness of requiring local school divisions to contract collectively in certain areas of procurement.

In conducting its study, the Joint Legislative Audit and Review Commission (Commission) shall examine (i) current procurement practices of local school divisions; (ii) the success of any school divisions already utilizing a cooperative procurement approach; (iii) certain areas of procurement that would benefit from either a statewide contract or multiple division contract, including health care; (iv) cost savings to local school divisions from such a requirement; (v) the appropriateness of mandating certain collective procurement contracts with local governments; (vi) the potential impact of authorizing school divisions to retain any savings realized by such a mandate; and (vii) such other issues as it deems appropriate.

All agencies of the Commonwealth shall provide assistance to the Commission for this study, upon request.

The Joint Legislative Audit and Review Commission shall complete its meetings for the first year by November 30, 2010, and for the second year by November 30, 2011, and the chairman shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the next Regular Session of the General Assembly for each year. Each executive summary shall state whether the Joint Legislative Audit and Review Commission intends to submit to the General Assembly and the Governor a report of its findings and recommendations for publication as a House or Senate document. The executive summaries and reports shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

Research Activities and Methods

Key research activities and methods for this study included

- data collection and analysis,
- survey of school divisions,
- case study review of selected school divisions,
- structured interviews,
- review of purchasing practices in other states, and
- document and literature reviews.

DATA COLLECTION AND ANALYSIS

To address the study mandate, JLARC staff collected, produced, and analyzed data from several sources, including 2008-2009 annual reports submitted by school divisions to the Virginia Department of Education (DOE), the Virginia Education Association (VEA) survey of school division health insurance plans, and the JLARC staff survey of school division purchasing officers. The data collection effort was crucial to the study in terms of analyzing purchasing expenditures, developing the survey, and conducting statistical analysis of expenditures and procurement methods.

DOE Annual School Reports

All school divisions in Virginia are required to submit an annual report of their expenditures, revenues, staffing, and enrollment to the State Superintendent of Public Instruction. DOE provided JLARC staff with financial and enrollment data from annual school division reports for FY 2007 through FY 2009. Analysis focused on FY 2009 reports, as this was the most recent year of data at the time research was conducted for this study.

Expenditure data in the reports is classified by object code and function code. The object code is used to describe the category of good or service for which expenditures were made. For example, all instructional materials are classified under the same object code, as is spending on employee health insurance. The function code describes the purpose for which expenditures were made. For example, spending on health insurance for teachers would be classified under the “instruction” function code, whereas spending on

health insurance for central office staff would be classified under the “administration” function code.

Because the object codes often represent categories that are too broad for meaningful analysis of the effects of different procurement methods on cost, it was necessary to allocate object code spending by function code spending to estimate expenditures on a defined spending category (such as office supplies or vehicle maintenance service, for which there was no specific object code). This estimation was necessary in order to match annual expenditures to procurement methods for various goods and services identified in the JLARC staff survey of school divisions. Expenditures on these goods and services, and the associated primary procurement methods, were then used to estimate total usage of cooperative procurements by division and the relationship between procurement method and expenditures.

Virginia Education Association Survey Data

The 2010 survey of school division health insurance plans conducted by the VEA was the primary source of data for the analysis of the relationship between cooperative procurement methods and expenditures on employee health insurance. The survey provided JLARC staff with a comprehensive source of information on the health benefits provided to school division employees. Nearly all school divisions participated in the VEA survey. Data elements collected from the survey include

- premium cost;
- percent employer contribution;
- amount of deductible;
- type of plan (PPO, HMO, POS, or other);
- amount of co-pay;
- amount at which re-insurance begins;
- amount at which insurance provider stops coverage for major medical claims;
- whether risk pool is independent or combined with another entity (such as a local government); and
- inclusion of dental, vision, and prescription drug benefits.

JLARC Staff Survey of School Divisions

The final source of data was a JLARC staff survey of school divisions. Key elements of the survey used in the data analysis were the primary procurement method used to acquire goods and ser-

vices in 29 categories, whether or not expenses were typical, and elements describing divisions' purchasing structures.

Estimation of Total Cooperative Procurement Use by Division

Estimating the extent of cooperative procurement use by school divisions required a combination of data from the annual school reports and the JLARC staff survey of school divisions. Expenditures from the annual school reports were first grouped into purchasing and non-purchasing expenditures. Generally, purchasing expenditures are those for which divisions pay money to acquire a good or service from another party. Exceptions include instances where divisions have a legal obligation to acquire the good or service from a specific party, such as acquiring retirement benefits for teachers from the Virginia Retirement System. Non-purchasing expenditures consisted of employee salaries, wages, and benefits as well as other expenses, such as debt repayment, fund transfers, and tuition payments to other schools or regional programs. Tuition payments were not considered purchases because the decision to have students attend a school outside the division or a regional program is a policy decision. Expenditure classifications were determined in consultation with several Virginia school divisions and DOE.

Purchasing expenditures were next grouped into categories and identified as recurrent, non-recurrent, or fixed cost purchases. Recurrent purchases include those that are regularly made every year by most school divisions. These appear to offer the greatest potential for year-to-year cost savings. Non-recurrent purchases are primarily one-time or project-oriented purchases, such as land purchases or construction projects. Fixed-cost purchases are purchases where the school division has little ability to negotiate for the prices they pay, such as electric or water utility rates. For both non-recurrent and fixed-cost purchases, the potential to realize year-to-year savings from greater use of cooperative procurement was limited. Consequently, no additional analysis of these categories was performed. Table B-1 shows the major purchasing expenditures categories and how they were classified.

JLARC staff next surveyed school divisions on the primary procurement method they used to acquire 29 goods and services within the categories listed above. The primary method was defined as "the method that accounts for the highest percentage of expenditures for that good or service in FY 2009." Each division's survey responses were then matched to its expenditures to estimate spending associated with the procurement method indicated for each good or service category.

In some cases, the primary purchasing method used by a division to acquire a good or service could not be determined. This is be-

cause the respondent indicated that the service was primarily performed in house, the good was acquired under lease (or as part of a service agreement), or the good or service was not purchased.

Table B-1: Purchasing Expenditure Categories

Category	Type of Purchase
Employee medical benefits	Recurrent
Purchased services	Recurrent
General materials & supplies	Recurrent
IT assets	Recurrent
Food provisions	Recurrent
Instructional materials	Recurrent
Vehicle fuel	Recurrent
School buses	Recurrent
Other recurrent purchases	Recurrent
Land, construction & renovation	Non-recurrent
Other non-recurrent purchases	Non-Recurrent
Textbooks	Fixed-Cost
Utilities	Fixed-cost

Source: JLARC staff interviews with school divisions, review of division operational budgets, and analysis of expenditure data from 2008-2009 annual school division reports to DOE.

In these cases, purchasing expenditures for the good or service may still be occurring, but the purchasing was not the primary method used to acquire the good or service. Additionally, some purchasing expenditures occurred for miscellaneous goods and services that were not captured by the survey, and some respondents did not indicate how some goods or services were purchased. In these cases, the primary method associated with expenditures was unknown.

Expenditures for each division under each procurement method for each good or service category were totaled to estimate the proportion of school division spending that derived from purchases through cooperative or other means. However, these estimates assume that all purchases under each category are made through the primary method that was indicated in the survey. The result should therefore be regarded as a proxy measure indicating the general order of magnitude of spending by each purchasing method. Estimates should not be regarded as precise figures, as divisions may actually use some procurement approaches other than the primary method when making purchases.

Statistical Analysis of the Relationship Between Expenditures and Procurement Methods

The primary statistical methods used to examine potential relationships between procurement methods and expenditures were correlation and regression analyses. The variable of interest in

these analyses was per-student expenditures, except in the case of health insurance, in which case the variable of interest was weighted average premium cost per covered employee.

Correlation Analysis. A correlation measures the degree to which two variables are related by calculating changes in the value of one variable associated with changes in the value of the other variable. The measured relationship is called a correlation coefficient, and the value of the coefficient will always be between -1 and +1. A negative coefficient means that a negative correlation, or inverse relationship, exists between the two variables. A positive coefficient indicates a positive correlation. Values closer to -1 or +1 indicate a stronger correlation than values closer to zero.

Correlation analysis was used to assess the relationship between unit costs and division size for various major expenditure categories. With regard to employee health insurance, unit cost was measured by weighted average health insurance premium and division size was measured by total covered FTE staff. For all other expenditure categories, unit cost was measured by per-student expenditures and division size was measured by 2008-2009 student enrollment (average daily membership). Table B-2 shows the correlation coefficients for each of the expenditure categories.

Table B-2: Correlations of Unit Costs and Division Size for Major Expenditures

Purchase Category	# Observations	Coefficient (r)
Employee health insurance	113	0.244
Purchased services	132	-0.040
IT assets:		
Hardware & infrastructure	86	-0.230
Software	95	-0.184
Food provisions	102	-0.363
Office supplies	108	-0.299
Instructional materials	99	-0.158
Vehicle fuel	125	-0.323
Telecommunications	132	-0.434
Liability, property, and casualty insurance/vehicle insurance	129	-0.421
School buses	61	-0.373

Source: JLARC staff analysis of data obtained from the 2008-2009 annual school division reports to DOE and Virginia Education Association 2009-10 Insurance Coverage and Employee Benefits Survey.

Regression Analysis. Ordinary least squares regression analysis was used to estimate the effect of cooperative procurement methods on differences in unit costs in major purchasing categories. The regression analysis produces an equation which best summarizes how the independent variables (procurement method and other

control factors) predict changes in the value of the dependent variable (per-student expenditures). For each independent variable, a coefficient (or parameter estimate) is produced that indicates how much the dependent variable may change due to changes in the independent variable. A coefficient is also produced for the intercept, which is the starting point for estimation of the dependent variable. The coefficients of the independent variables may also be standardized to show the relative strength of each independent variable in the model. The regression model also contains the standard error for each coefficient and a measure of significance of the coefficient (the t-value).

Because nearly all school divisions are included in this analysis, the standardized parameter estimate is a more important measure for understanding the independent effect of a variable than inferential statistics such as the t-value. Regression models used in this analysis are based on the population rather than a sample of the population, so inferential statistics are not necessary.

Finally, the regression analysis produces a measure indicating the strength of the model in predicting changes in the dependent variable. This measure (adjusted R^2) is the percentage of variation in the dependent variable that is explained by the independent variables. An adjusted R^2 value that is close to 1 indicates that nearly all of the variation is explained by the model, while an adjusted R^2 value that is close to zero indicates that very little variation is explained.

For two of the expenditure categories tested (vehicle fuel and health insurance), regression models indicated a strong negative relationship between the procurement method and unit costs, based on the standardized parameter estimates. For each model, control variables were included based on their correlation with unit costs. The procurement method is expressed as a “dummy” variable, where a value of 1 indicates that the particular procurement method was used, and a value of 0 indicates an alternative method was used. Similarly, geographic variables are expressed as dummy variables. The model results are shown below in Tables B-3 and B-4.

Given the parameter estimate in the health insurance model, statewide savings were calculated for divisions who cooperatively purchased health insurance with their local government and combined the risk pools of the two groups. Because this variable in the model is a dummy variable with a value of 1, it is estimated that these divisions saved approximately \$480 per covered FTE employee. The statewide savings estimate of \$18.6 million was then calculated by multiplying this estimate by the total number of covered FTEs in the divisions.

Table B-3: Regression Model: Per-Student Vehicle Fuel Expenditures

Independent Variable	Parameter Estimate	Standard Error	Standardized Estimate
Intercept	169.7	24.9	0
Procurement w/ local government	-18.2	6.7	-0.21
Natural logarithm of pupil enrollment	-9.9	2.97	-0.26
Northern Virginia region	-26.0	9.17	-0.22
Southside Virginia region	49.6	11.9	0.33
Southwest Virginia region	-29.6	9.4	-0.24
Adjusted R ²	0.41		

Source: JLARC staff analysis of results from school division survey and expenditure data from 2008-2009 annual school division reports to DOE

Table B-4: Regression Model: Weighted Average Health Insurance Premium Cost (Including Employer and Employee Portions)

Independent Variable	Parameter Estimate	Standard Error	Standardized Estimate
Intercept	11176.0	1717.9	0
Shared risk pool with local government	-480.3	271.3	-0.13
% individual employee coverage	-5516.5	1423.7	-0.49
% family member coverage	2437.0	1908.7	0.16
Dental coverage	417.1	244.6	0.13
Natural logarithm of total covered FTE	64.2	121.1	0.05
Deductible amount	-0.10	0.26	-0.03
Stop-loss amount	-0.13	0.05	-0.19
Co-insurance amount	-324.1	808.5	-0.03
Division purchasing structure	-82.8	80.7	-0.09
Northern Virginia region	307.5	303.3	0.07
Shenandoah Valley region	-570.3	318.4	-0.13
Adjusted R ²	0.53		

Source: JLARC staff analysis of data obtained from 2008-2009 annual school division reports to DOE, VEA survey of school division health plans, and JLARC staff survey of school divisions.

For the other expenditure categories, the regression analysis was not able to predict a strong relationship between the procurement method and per-unit expenditures. For most of these categories, there was too much unexplained variation in expenditures for the model to be able to show a meaningful relationship. Thus, the adjusted R² was very low in these models, and the standardized parameter estimate was also low in most cases. Table B-5 shows the regression results for these other categories. For each category, the

procurement type tested was the cooperative procurement method used by most divisions, or if there was no prominent cooperative type, then use of *any* cooperative method was tested against independent procurement. For some of the service categories, the results were opposite of what was expected. This may be due to respondent error as divisions selecting “independent procurement” may have provided the service in-house.

Table B-5: Model Results for Other Categories Did Not Show Strong Relationship

Category	Procurement Type	Model Adjusted R ²	Standardized Parameter Estimate
School buses	State Contract	0.28	-0.13
IT assets	State Contract	0.25	0.05
Food provisions	Joint Procurement	0.15	-0.16
Office supplies	Any Cooperative	0.05	-0.07
Instructional materials	Any Cooperative	0.05	-0.17
Telecommunications	State Contract	0.26	-0.09
Vehicle maintenance services	Any Cooperative	0.19	-0.13
Building & grounds services	Purchased with Local Government	0.05	-0.01
Teacher & staff training	Joint Procurement w/ Other Divisions	0.21	-0.17
Security services	Purchased with Local Government	0.00	-0.03
Professional services	Purchased with Local Government	0.01	-0.04
Special education services	Any Cooperative	0.14	-0.15
Health services	Purchased with Local Government	0.30	0.29
IT services	Any Cooperative	0.27	-0.21
Non-Health insurance	Any Cooperative	0.10	0.10

Source: JLARC staff analysis of data obtained from 2008-2009 annual school division reports to DOE and JLARC survey.

SURVEY OF SCHOOL DIVISIONS

In order to obtain information related to school division procurement practices and methods used to purchase various goods and services, a survey was administered to all 132 school divisions in Virginia. The survey specifically sought answers to the following questions:

- How is purchasing organized and conducted by school divisions?
- To what extent are school divisions already using cooperative procurement methods?

- Which goods and services are commonly acquired through cooperative purchasing, and which are not?
- What do school divisions perceive as the advantages and disadvantages of using cooperative procurement?
- What factors affect the feasibility of using cooperative procurement? and
- What are the opinions of school divisions in regards to cooperative purchasing mandates and other options to promote the use of cooperative procurement?

Survey Administration

School division superintendents were the primary recipients of the JLARC staff school division survey, and letters were mailed to alert them that the electronic survey would be forthcoming. The superintendents were identified through DOE's superintendent email designee listing, which is used by the department to distribute information to schools. The superintendents were instructed to seek the assistance of other staff (such as purchasing staff, finance directors, and department heads) when necessary to complete the survey.

The pre-test of the survey was conducted from July 13 to July 28. No major changes were made to the survey instrument based on pre-test feedback, and pre-test responses were incorporated with responses to the full statewide survey. The statewide survey was conducted from August 2 to August 27.

In total, 119 of 132 school divisions completed and returned the survey (90 percent response rate). The responding school divisions accounted for more than 95 percent of purchasing expenditures in FY 2009.

Information Gathered Through the Survey

The survey of school divisions was conducted to gather much of the information required for the study. First, the survey collected information on school divisions' purchasing structures and policies. This information was used to help the team account for differences between school divisions that may affect purchasing operations and the ability to obtain best value when purchasing goods and services. These questions were used to develop a combined "sophistication" measure of the divisions' purchasing structure. Specific information obtained regarding purchasing structures included:

- existence of a central purchasing office or agent and whether the office is consolidated with the local government;

- number of FTE staff who perform central purchasing;
- existence of staff member whose primary job function is to perform central purchasing;
- whether purchasing staff held government purchasing certification; and
- extent to which purchases (in terms of dollar value) are made from contracts or vendors chosen by staff at the central office.

The major focus of the survey was to learn how school divisions buy certain categories of goods and services. These categories of goods and services were developed through interviews with representatives specializing in school procurement, as well as through data and literature review. The interviews were conducted with the Virginia Association of Governmental Purchasing, officials from several school divisions (Virginia Beach, Norfolk, Dinwiddie, and Chesapeake Public Schools) and the Virginia DOE. The data analysis and literature review used to aid in creation of the survey centered on analysis of annual school expenditure reports and reviews of school division budgets. Table B-6 illustrates how survey goods and services categories align with the expenditure categories discussed under the previous section.

For each purchase category, respondents were asked to identify the primary procurement method utilized by their division. “Primary procurement method” was defined as the method used for the largest proportion of dollar expenditures in the category. There were nine procurement methods identified on the questionnaire:

1. independently purchased;
2. jointly with local government ;
3. jointly with other school division(s) ;
4. national cooperative (US Communities, other);
5. regional cooperative/contract negotiated by other Virginia school division or local government;
6. State contract or Virginia Distribution Center;
7. federal GSA contract;
8. service performed in-house (for services categories) or acquired through service or lease (for goods categories); and
9. good or service not purchased.

This information was designed to be used in statistical analysis to determine relationships between expenditures and the procurement method. Therefore, respondents were also asked if expenditures on those categories were “fairly typical,” “unusually high,” or

“unusually low.” At least 82 percent of divisions responded that expenditures were “fairly typical” for any category, while more than 90 percent responded that expenditures were “fairly typical” in most categories.

Table B-6: Survey Goods and Services Categories by Expenditure Category

Expenditure Category	Survey Category
Employee medical benefits	- Employee Health Insurance
Purchased services	- Vehicle & Powered Equipment Maintenance & Repair - Building Maintenance - Grounds Maintenance - Teacher & Staff Training - Security - Professional Services (other than Special Education or Health) - Special Education - Health - Printing & Binding ^a - Information Technology
General materials & supplies	- Vehicle & Powered Equipment Parts & Supplies - Building Maintenance Equipment, Parts, & Supplies - Grounds Maintenance Equipment, Parts, & Supplies - Custodial/Janitorial Supplies ^b - Office Supplies
Information technology assets	- Personal Computers - Printers & Copiers - All Other IT Hardware & Infrastructure - Software & On-line Content
Food	- Food Provisions (including consumables & other supplies)
Instructional materials	- Instructional Materials (other than Library Materials) - Library Materials (library books, on-line databases, & all other items purchased for libraries) ^a
Vehicle fuel	- Vehicle & Powered Equipment Fuels
School buses	- School Buses
Other purchases	- Liability, Property, and Casualty Insurance ^c - School Bus & Service Vehicle Insurance ^c - Telecommunications (including all telephone & internet-related expenditures) - Furniture ^a

^a Responses given by divisions under these categories were not used in calculations of division spending because expenditure data did not provide sufficient detail for their use.

^b Responses given by divisions under this category were not used in calculations of division spending because expenditure data for this category could not be separated from expenditures associated with “Building Maintenance, Equipment, Parts, and Supplies.” Calculations used the response given for this latter category to determine primary purchasing method.

^c Responses given by divisions under these categories were not used in calculations of division spending. Instead, calculations relied on data reported by the three major insurance pools (VACo, VML, VSBA).

Source: JLARC staff analysis of data from 2008-2009 annual school division reports to DOE and data provided by the Virginia Association of Counties, Virginia Municipal League, and Virginia School Boards Association.

The remainder of the survey asked schools to identify current opportunities and limitations in the area of cooperative procurement. Finally, school divisions were permitted to submit comments at the end of each survey section. In total, 157 comments regarding vari-

ous opinions on cooperative procurement were provided by divisions, and JLARC staff reviewed these comments.

CASE STUDY REVIEW OF SELECTED SCHOOL DIVISIONS

JLARC staff conducted structured interviews with finance and purchasing staff from 16 school divisions throughout the State. The purpose of these interviews was to supplement analysis of survey and purchasing expenditure data with more detailed reviews of the purchasing practices at a subset of school divisions. Interviews were used to better understand the reasons why divisions did or did not use cooperative procurement, and to determine the extent to which cooperative options were considered. The interviews were also designed to gather feedback from school purchasing staff on the likely impact of various cooperative procurement mandates, and to identify ways to promote the voluntary use of cooperative procurement.

School division staff were asked to discuss their purchasing practices for seven goods and services:

1. office supplies;
2. vehicle fuel;
3. food provisions and food-related supplies;
4. school buses;
5. building, grounds, and maintenance services;
6. employee health insurance; and
7. IT hardware, software, and services.

JLARC staff focused on these goods and services because they account for a substantial proportion of school procurement expenditures, and because they can be purchased through cooperative methods. For each item, school division staff were asked to discuss the reason(s) for the primary procurement method reported by the division in the JLARC survey, any resulting cost savings or other benefits if a cooperative method was used, and any cooperative options considered if the item was purchased independently.

Selection of School Divisions for the Subset

JLARC staff used two primary factors to choose a subset of school divisions that resembled the diversity of divisions statewide. First, to ensure that school divisions from every part of the State were visited, JLARC staff selected two divisions from each of the eight education regions (shown in Figure B-1). Second, data from the JLARC staff survey of school divisions were used to identify divi-

sions that reported using cooperative procurement for an above average, average, or below average number of goods and services in FY 2009. To the extent possible, the two divisions chosen from each region were geographically close to each other but differed in the extent to which cooperative procurement was used. Survey data on purchasing methods were also used to ensure that the subset included school divisions that used cooperative and independent procurements for each of the seven goods and services listed above.

In addition to these factors, the subset was selected so that it included school divisions representing a range in three other areas:

- division size, as measured by enrollment for the 2008-09 school year;
- type of purchasing operation (centralized, decentralized, or consolidated with local government); and
- type of locality (urban, suburban, or rural).

Finally, JLARC staff contacted selected school divisions to verify that they could participate. Only one division declined to participate, and this was due to competing staffing demands. An alternate division in the region was then selected. Table B-7 shows the characteristics of each school division in the subset.

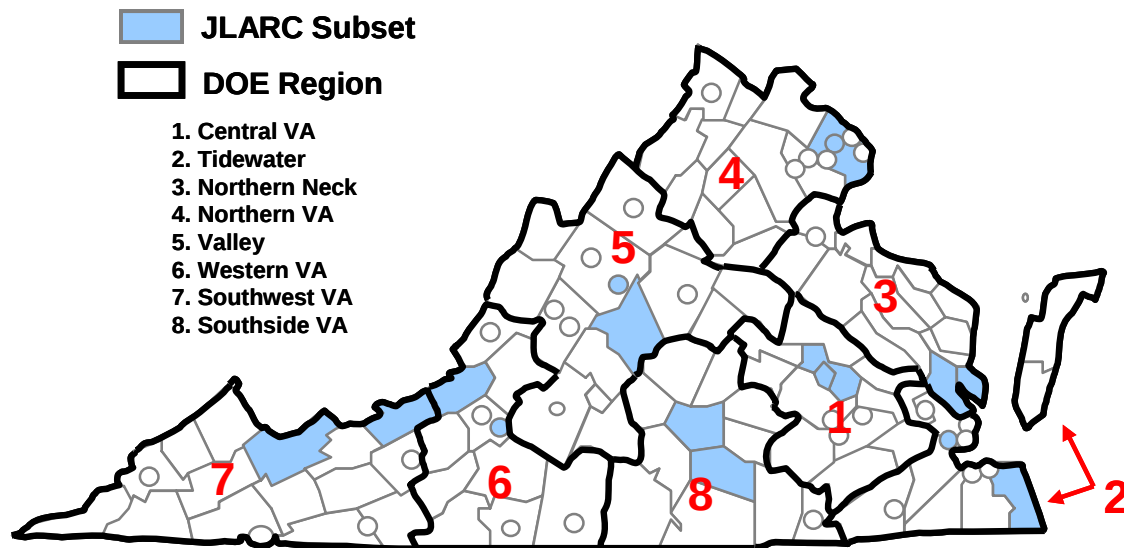
Review of School Purchasing Records for Selected Procurements

JLARC staff reviewed purchasing records for a limited number of procurements conducted by school divisions. Reviews were used to help determine whether cost savings are associated with cooperative or independent procurements for certain goods and services. Record reviews were also used to substantiate any cost savings or price advantages cited by school purchasing staff.

JLARC staff requested purchasing records as part of interviews with a subset of school divisions. School purchasing staff were asked to provide purchasing records for cooperative procurements that resulted in cost savings, and for independent procurements that provided savings over cooperative options. Records were not requested when school division staff reported they could not be easily provided given available staffing resources, or when cooperative and independent procurement options were not compared.

Purchasing records were requested from 12 of the 16 school divisions in the subset. JLARC staff received records from six of these divisions. Records provided included purchase orders, spreadsheets showing price comparisons, and other procurement documents.

Figure B-1: Subset Consisted of Two School Divisions from Each Education Region



Source: JLARC staff site visit subset selection.

Table B-7: Characteristics of School Divisions in the Subset

DOE Region	Division	Items Purchased Cooperatively (FY 2009) ^a	Enrollment (2008-09) ^b	Purchasing Operation ^c	Type of Division ^d
Central	Henrico County	7	48,015	Consolidated	Suburban
	Richmond City	7	21,695	Centralized	Urban
Tidewater	Newport News City	7	29,138	Centralized	Urban
	Virginia Beach City	14	69,654	Centralized	Suburban
Northern Neck	Mathews County	0	1,249	Decentralized	Suburban
	Gloucester County	9	5,895	Consolidated	Suburban
Northern VA	Falls Church City	19	1,966	Decentralized	Urban
	Fairfax County	9	166,186	Consolidated	Suburban
Valley	Nelson County	12	1,919	Centralized	Suburban
	Waynesboro City	12	3,009	Centralized	Rural
Western VA	Craig County	5	697	Decentralized	Suburban
	Roanoke City	9	12,303	Centralized	Urban
Southwest VA	Tazewell County	13	6,619	Centralized	Rural
	Giles County	1	2,573	Decentralized	Suburban
Southside	Prince Edward County	3	2,479	Centralized	Rural
	Lunenburg County	12	1,598	Decentralized	Rural

^a Data from the JLARC staff survey of school divisions. "Items" are recurrent expenditure categories in which cooperative purchasing was the primary purchasing method.

^b Average daily membership for the 2008-09 school year. Data provided by the Department of Education.

^c Data from the JLARC staff survey of school divisions.

^d Urban divisions were defined as divisions in a metropolitan statistical area (MSA) with less than 80 square miles of land area. Suburban divisions were defined as divisions in an MSA with more than 80 square miles of land area. Rural divisions were defined as divisions outside an MSA, and divisions were defined as "rural city" if they had less than 80 square miles of land area.

Source: JLARC staff analysis of JLARC survey and Census data.

In addition to providing purchasing records, numerous school divisions provided examples where a cooperative method resulted in cost savings and examples where independent purchases provided cost savings over a cooperative option. These examples were provided as part of the survey of school divisions and during interviews with divisions.

STRUCTURED INTERVIEWS

During the review, JLARC staff conducted interviews with State agencies, school divisions (in addition to those interviewed as part of the case study review), and organizations with school procurement expertise. These interviews provided background information on the use of cooperative procurement, the purchasing practices of school divisions, and other issues relevant to the review. JLARC staff conducted interviews with the following agencies and organizations:

- Virginia Department of Education;
- Virginia Department of General Services;
- Virginia Department of Human Resource Management;
- Virginia Department of Mines, Minerals, and Energy;
- Library of Virginia;
- School divisions for Chesapeake City, Dinwiddie County, Henrico County, Norfolk City, and Virginia Beach City;
- Virginia Association of Counties;
- Virginia Municipal League;
- Virginia School Boards Association;
- Virginia Education Association;
- Virginia Association of Governmental Purchasing;
- Virginia Association of School Business Officials;
- Virginia Association of Roofing Professionals; and
- The Coalition for Procurement Reform.

REVIEW OF BEST PRACTICES IN OTHER STATES

JLARC staff reviewed efforts by other states to promote cooperative purchasing among school divisions in order to learn what options may be suitable for Virginia. Research on other states began with a literature review, and was followed by a more detailed review of cooperative purchasing strategies that were identified through the literature review. Sources of information for best prac-

tices included Internet research, reviews of state laws, and interviews with selected state officials who could speak to the overall effectiveness of the practice being examined.

In addition to best practices for school procurement in general, a study of the health insurance practices in other states was also conducted. Health insurance was identified as a major cost driver in school procurement, thus making it an important area to explore for potential savings. States using or attempting to use statewide pooling techniques were identified, and certain states were selected for further examination. These states included

- Georgia,
- Indiana
- Michigan,
- Minnesota,
- Oregon,
- Pennsylvania
- South Carolina, and
- West Virginia.

Selections were made taking several factors into consideration, including the type of statewide arrangement, how long the plan had been in existence, state population, and proximity to Virginia.

DOCUMENT AND LITERATURE REVIEWS

Several sources of documents and literature were reviewed during the initial planning stage of the study and throughout the course of the study as new issues were explored. These sources include the

- *Code of Virginia* (Virginia Public Procurement Act),
- Department of Planning and Budget school efficiency reviews,
- Journal of Public Procurement,
- Institute of Supply Management,
- U.S. Government Accountability Office,
- National Association of School Procurement Officers,
- National Conference of State Legislatures, and
- other sources regarding school procurement practices in other states found on the Internet.

Appendix **C**

Agency Responses

As a part of an extensive validation process, State agencies and other entities involved in a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff provided exposure drafts of this report to the Secretary of Education, the Departments of Education, General Services, and Human Resource Management, and the Virginia Association of Governmental Purchasing. Appropriate technical corrections resulting from comments provided by these entities have been made in this version of the report. This appendix includes written response letters from the Departments of General Services and Human Resource Management.



COMMONWEALTH of VIRGINIA

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December 7, 2010

Mr. Glen S. Tittermary, Director
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
Richmond, Virginia 23219

Dear Mr. Tittermary,

As you are aware, we have been working with JLARC staff for the past several months on a review of the use of cooperative procurement by Virginia's public schools. Last week DGS was afforded the opportunity to review and discuss the exposure draft of the report and provide our written comments. Thank you for this opportunity. My understanding is that you will publish this letter with your report.

Based on the review, I believe both DGS Management and JLARC staff feel the report accurately describes the use of cooperative procurement by Virginia's public schools; however, DGS has some general comments and exceptions or comments regarding some of the statements in the report on cooperative procurement that need to be noted.

General DGS Comments:

DGS supports the responsible use, but not the unrestrained use, of cooperative contracts. Clear and effective guidelines must be developed for use of cooperative contracts. Having recently studied the pros and cons of cooperative procurement DGS and the American Bar Association identified the following issues:

- Cooperative procurements can result in substantial benefits for buyers and suppliers, i.e. suppliers gain from increased economies of scale and government gains from greater volume discounts and reduced administrative expense. However, cooperative procurements can harm Virginia's businesses, particularly small businesses, and the economy when such procurements are awarded without competition or with competition but Virginia's businesses are shut out of these opportunities due to the process used, structure and size of the procurement, or because they were not made aware of the procurement and didn't have the opportunity to compete.

- Fair and open competition is a basic tenet of public procurement. Such competition reduces the opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. The benefits of competition can be circumvented by allowing public entities unrestrained ability to participate in cooperative procurements conducted by national consortiums with less restrictive competitive procurement processes.
- Fair and open competition can be circumvented by allowing public entities to choose among available cooperative contracts in order to acquire their preferred products or purchase from favored suppliers. Like artificially dividing procurement in order to use the small purchase procedures, using cooperative procurement to pick a favored supplier or preferred product is an improper use of an otherwise proper procurement method. It simply avoids full and open competition.
- Fair and open competition can be circumvented by allowing public entities to join cooperative procurements after the contract has been awarded, a practice known as “piggybacking.” This practice is of particular concern when an added public entity materially increases the volume or value of sales originally competed. To maximize economies of scale, jurisdictions are encouraged to identify the participants in a particular cooperative purchase at the onset of the procurement process. Past Administrations and General Assemblies have received complaints about public entities that have joined cooperative procurement contracts after the contracts were awarded.
- If all public bodies in the Commonwealth, including institutions of higher education and local government entities, were required to combine and leverage their buying power on statewide contracts Virginia could obtain substantial price discounts for goods and services, in many cases greater than national procurement consortiums and Virginia’s resident businesses and Virginia’s economy would benefit.

Exceptions or Comments Regarding JLARC Statements:

- *JLARC Statement, JLARC Report Summary, Page v, Paragraph 1: “However other divisions reported purchasing these goods independently when they were able to beat the State price.”*

Overall state contracts routinely offer the lowest prices and best value, but no contract accomplishes this 100%. There are always special deals or blue light specials and when they are identified agencies are permitted to take advantage of them.

- *JLARC Statement, Chapter 3, Page 34, Paragraph 3: "According to records provided by purchasing staff in Richmond City, the division was able to obtain prices from independent vendors ranging from 11 to 48 percent lower than State contracts for items such as toilet paper, office paper, and trash can liners."*

Based on additional data received from Richmond City, the statement above was revised to state, "According to information provided by purchasing staff in Richmond City, the division was able to obtain prices from independent vendors averaging 21 percent lower than State contracts for various cleaning supplies."

Without knowing what the specifications are for the cleaning supplies purchased there is no way to tell if Richmond City is comparing apples to apples and it is doubtful that this is the case. The difference in pricing could be the result of different specifications and quality of the cleaning supplies being purchased. End users establish the level of quality of the products purchased on state contracts and some demand a higher quality of product that lasts longer but is more expensive.

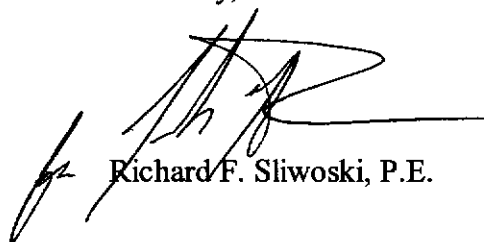
- *JLARC Statement, Chapter 3, Page 36, Paragraph 2: "For example, staff with Virginia Beach Public Schools indicated that orders processed through their automated system cannot be easily transferred to eVA and would have to be manually entered into the system. Staff said this could increase the administrative burden of conducting procurements."*

Virginia Beach Schools could use eVA to process their purchases and export the data to their automated system which is what others have done. This approach could be accomplished with minimum cost impact as exhibited by past experience with Norfolk Public Schools, the City of Richmond, and agencies. This programming effort for exporting of purchase orders from eVA to local government and agency financial systems has proven to be a relatively low cost solution.

I want to commend JLARC and the JLARC Study Team for the professional, respectful, and collaborative manner in which the Study was conducted.

If you or your staff has any additional questions or need additional information please do not hesitate to call me at 804.786.3311.

Sincerely,



Richard F. Sliwoski, P.E.



DEC - 9 2010

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December 8, 2010

Glen S. Tittermary, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building, Capitol Square
Richmond, VA 23219

Dear Mr. Tittermary:

Thank you for the opportunity to review the exposure draft report, *Use of Cooperative Procurement by Virginia School Divisions*, developed by the Joint Legislative Audit and Review Commission (JLARC).

The Department of Human Resource Management (DHRM) finds JLARC's analysis to be well researched and to reflect a thorough understanding of the current environment of both the state employee health program and the programs offered by school divisions and local jurisdictions across the state. We concur with the JLARC's assessment that the consolidation of school division health plans has the potential to create savings to both the school divisions and the State, but also agree that there are numerous challenges that would need to be overcome to implement such a plan.

DHRM supports JLARC's recommendation that the General Assembly may wish to direct an actuarial analysis to determine the fiscal impact to the State, local school divisions, and other local jurisdictions of expanding the State employee health plan to include all public bodies in Virginia.

Again, thank you for the opportunity to review this exposure draft.

Sincerely,

Sara Redding Wilson, Director
Department Human Resource Management

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