



Oklahoma House of Representatives

2300 N. Lincoln Blvd., Oklahoma City, OK 73105

Government Modernization Committee

Chairman Jason Murphey 405.557.7350 Room 437

Vice-Chairman Wes Hilliard 405.557.7412 Room 500

COMMITTEE MEMBERS

David Brumbaugh
Josh Cockroft
David Derby
Mark McCullough
Lewis H. Moore
Richard Morrisette
Seneca Scott
Aaron Stiles
Randy Terrill
John Trebilcock
Purcy D. Walker

REDUCTION OF STATE ASSETS

November 8 | 9:00 a.m. | Room 432 A

On November 8, the Government Modernization Committee will commence a study of the impact of House Bill 1438, as requested by State Representative TW Shannon. The enrolled version of House Bill 1438 is attached.

The proposal creates the Oklahoma State Government Asset Reduction and Cost Savings Program. The program requires the Director of the Department of Central Services to identify 5% of the most underutilized state-owned properties on a yearly basis. Data from this report is provided to the public via the data.ok.gov website.

The intent of the proposal is to provide policy makers with tools to downsize the state's fixed asset footprint. Income from the sale of the properties could be utilized in meeting the state's deferred capital maintenance need and allow the state to avoid the cost of issuing bonds and debt for these purposes. The ever-shrinking number of state owned assets would also reduce ongoing maintenance requirements.

A companion proposal was approved in House Bill 1086 which requires state agencies to receive a certification prior to expanding their physical space footprint.

Both of these bills were heard in the Modernization Committee during the 2011 session, and they were approved by the Legislature and signed by the Governor.

As part of this study, the committee expects to receive presentations from State Treasurer Ken Miller, the Interim Director of the Department of Central Services John Morrison, and Leonard Gilroy, a representative of the Reason Foundation.

The current list of state-owned properties is available for review online at <http://hd31.org/171>.

REVIEW OF PURCHASING REFORMS

November 8 | 10:30 a.m. | Room 432 A

In 2008 and 2009, the House approved an omnibus reform proposal designed to overhaul the state's centralized purchasing methodologies.

The legislation made it possible for state purchasing officials to focus on managing contracts on behalf of taxpayers, and it has given them the ability to renegotiate contracts when taxpayers are no longer getting the best possible prices.

Once these contracts are managed, purchasing officials are supposed to analyze the usage of the contract and leverage the buying power of the state to buy in bulk and continue to drive down costs.

In the past, DCS officials have indicated that taxpayer savings under this new system is approximately \$20M over the life of the managed contracts. It's important to note that not all of these savings are from state government. Cities, counties and school boards are also eligible to participate in the contracts and are therefore able to receive the same pricing structure as state agencies.

According to a consultant report conducted in 2006 by IBM, potential savings from central services reforms could amount to \$75M per year.

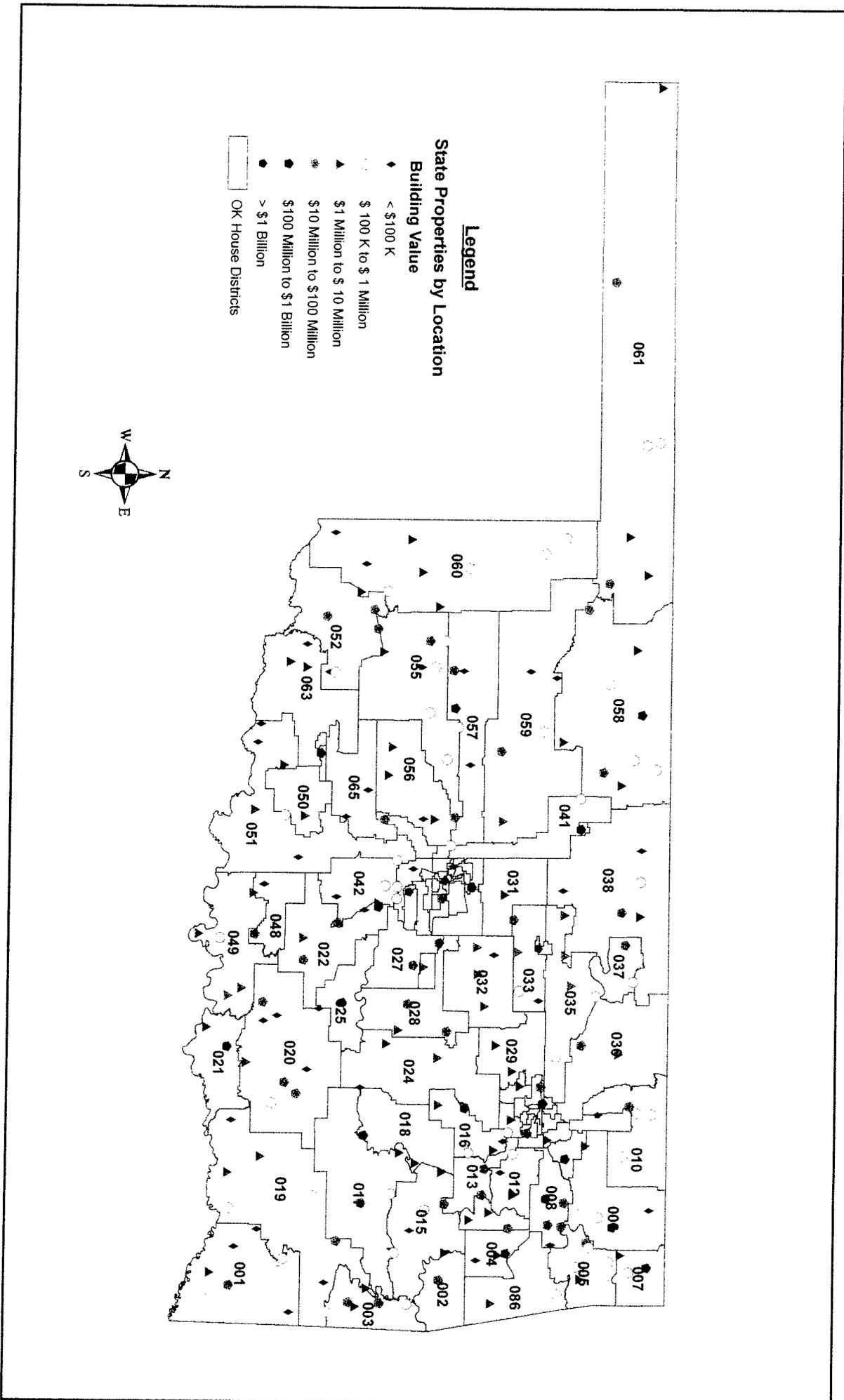
The purpose of the study is to receive an update from DCS about the current status of the centralized purchasing operation, receive input from experts in the industry about best practices, and receive feedback from the Oklahoma Bureau of Investigation regarding their observations of additional savings opportunities.

The study will also examine the impact of House Bill 1086 which requires agency purchasing officials to publicly post their findings when they notice that market prices are lower than prices on comparable items on a state mandatory purchasing contract.

The committee should expect presentations from State Purchasing Director Scott Schlotthauer, a Representative of the OSBI, the President of Government Sourcing Solutions David Yarkin, and The Persimmon Group, an Oklahoma-based consulting firm.

STATE OF OKLAHOMA Building Asset Values (\$)

Totals of All Agencies per Location



Source: OK Department of Central Services, 6/30/2010

Prepared by: Office of Geographic Information 3/22/2011

The New York Times

© 2011 The New York Times

TUESDAY, MARCH 1, 2011

Saving States the Sam's Club Way

By David Yarkin

WASHINGTON
Any Sam's Club shopper knows, buying in bulk saves you money. But states and cities have paid too little attention to the costly and inefficient way they buy goods and services. By visiting an office that few of them have likely paid much attention to — central purchasing — governors and mayors could make significant headway in plugging their deficits.

Nearly every state is facing budget problems. A fifth of all states face def-

How buying in bulk can help narrow budget gaps.

icits equal to 20 percent or more of their budgets, topped by Nevada and Illinois at 45 percent. Gov. Andrew M. Cuomo of New York inherited a deficit equal to 17 percent of the budget.

Pennsylvania faced a likewise daunting deficit, of \$2 billion, in 2003, when I began managing the state's procurement operations, responsible for \$4 billion in annual spending. To help close it, we borrowed an approach used by businesses: strategic sourcing.

Previously, the state purchasing office would set up a master contract with dozens of suppliers and then allow

David Yarkin, a former deputy secretary of the Pennsylvania Department of General Services, is the president of a company that advises state and local governments on purchasing.

agencies to buy whatever they wanted from whichever supplier on the list they preferred.

The result was to break the state's buying power into thousands of pieces. Rather than making a big monthly purchase at, say, Costco, Pennsylvania was effectively making tiny, hourly purchases from 7-Eleven.

Take ketchup. In a state with a former senator and a football stadium both named Heinz, it's no surprise that we use a lot of it. But since every agency was allowed to choose the vendor it wanted, the state paid wildly divergent prices: a hospital in Allentown paid \$23.20 for a case while a prison near Shamokin paid just \$12.66.

Our approach turned this model on its head. Rather than allowing purchasing decisions to be made by each agency, state procurement aggregated purchases while consolidating suppliers, pushing prices down by buying in bulk.

We did the same with technology purchases, requiring that all the state's computers come from a single manufacturer, saving \$19 million annually. We saved \$4 million by closing 13 state-managed warehouses after we switched to a single office-supply vendor that guaranteed next-day statewide delivery, eliminating the need to stock our own supplies.

What's more, strategic sourcing reversed the traditional relationship between agencies and vendors, who had used our decentralized processes against us to drive up their profit margins at taxpayer expense. Suddenly the state had the power and vendors were competing for larger but less lucrative contracts. By the time we were done, we had saved Pennsylvania taxpayers \$360 million annually across dozens of contracts.

The same approach could work in New York and other states and cities facing yawning deficits. New York City is one of the largest buyers in the world,

but it doesn't act like one. The Department of Citywide Administrative Services, for example, oversees 1,100 citywide contracts worth roughly \$1 billion — including 19 separate contracts for plumbing supplies.

By identifying contracts that could logically be combined, the city would increase its buying power, streamline procurement operations and drive significant savings. If New York's procurement director were given the tools we had in Pennsylvania, the city could realize upward of \$100 million savings annually.

True, strategic purchasing won't close the entire budget hole. Finding the way out of their deficits will require governors and mayors to make dozens of difficult, gut-wrenching decisions.

But they can make a serious dent in those deficits with relative ease by just walking a few doors down from their offices to meet their chief procurement officers. □

ONLINE: OPINION TODAY

Fixes An outreach program is using home visits to help ailing patients take their medication and comply with doctors' orders.

nytimes.com/opinionator

NOTE TO READERS

The Op-Ed page welcomes unsolicited manuscripts sent to oped@nytimes.com. We regret, however, that because of the volume of submissions, we cannot reply to all messages. If a manuscript is accepted for publication, the author will be notified within three business days. For further information, call (212) 556-1831.