

ADMINISTRATION DEPT

Program: GOVT AND CITIZEN SERVICES

Activity: MATERIALS MANAGEMENT

Narrative

Activity at a Glance

- Oversees an average \$2.1 billion annually in Minnesota state agency purchasing
- Negotiates and manages approximately 1,500 enterprise contracts offering volume discounts to state agencies. Over 800 of these contracts are available for use by more than 900 local units of government and other authorized entities
- Reviews an average of approximately 6,000 professional/technical contracts and related documents per year
- Negotiated in excess of \$60 million in contract savings and cost avoidance for government entities in FY 2009 and FY 2010

Activity Description

The Materials Management Division (MMD) acquires goods and services using methods that ensure the best value for taxpayers' dollars and that conform to the highest ethical standards of public procurement. The division facilitates and oversees an average of \$2.1 billion in state agency purchases each year. The statutory framework for the division's activities is M.S. Chapter 16C – State Procurement.

Population Served

MMD operates in close partnership with state agencies to achieve a productive balance of centralized and delegated purchasing. Statewide and multi-state contracts negotiated by MMD currently serve more than 900 local units of government and other authorized entities. MMD also works with Minnesota and out-of-state businesses to ensure fair competition and to resolve vendor performance issues.

Services Provided

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

- purchasing and contracting for goods, services, utilities, and construction;
- recruiting and managing vendors;
- promoting environmentally responsible purchasing;
- managing procurement functions through the Minnesota Accounting and Procurement System (MAPS);
- partnering with Minnesota Management & Budget in the development of Statewide Integrated Financial Tools (SWIFT) procurement functions;
- reviewing and overseeing professional/technical contracts;
- monitoring compliance with state procurement law and policy, including training and auditing of state agencies;
- conducting other training for agency customers, vendors, and cooperative purchasing members on topics including local purchasing, effective negotiations, and doing business with the state; and
- operating a cooperative purchasing program for Minnesota's local units of government and other authorized entities and the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP), a pharmaceutical purchasing program on behalf of 46 states and the cities of Chicago and Los Angeles.

Historical Perspective

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

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

In December 2009, to reduce costs, gain efficiencies, and provide best value to customers, MMD transitioned its long-standing, in-house office supply operation to contracts with the private sector and a private, non-profit Day Training and Habilitation provider licensed by the Department of Human Services. This change has resulted in cost reductions for office supply purchases by state agencies and other purchasers, along with increased employment opportunities for persons with disabilities.

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Key Activity Goals & Measures

Admin Goal – To reduce costs by working across government (<http://www.admin.state.mn.us/admin.html>)

Measure: MMD aggressively negotiates state contracts to achieve price reductions below the best competitive offer initially received. In FY 2009, this strategy yielded an estimated savings or cost avoidance valued at \$27.8 million on goods and services contracts and \$7.3 million on professional and technical contracts over the life of the contracts. In FY 2010, it yielded \$9.9 million on goods and services contracts and \$15.7 million on professional/technical contracts.

- MMD awards and manages approximately 1,500 contracts for use by state agencies and other units of government. These contracts cover frequently-purchased goods (e.g., vehicles, heavy equipment, food, uniforms, computers, cell phones, industrial supplies, furniture), services (e.g. janitorial, interpretation, equipment maintenance, technology consulting) and construction. By utilizing state contracts, local units of government benefit from both the state's aggregated buying power and the assurance that contracts have been lawfully awarded.

Admin Goal – To provide our customers with valuable services, products, advice, and expertise

(<http://www.admin.state.mn.us/admin.html>)

Measure: MMD attempts to review professional/technical contracts, certifications, amendments, and related documents within three days of receipt. The average for the approximately 6,000 documents processed annually has steadily improved over the past five years

FY	2006	2007	2008	2009	2010
Days	2.83	2.58	2.39	1.81	1.44

- MMD promotes and oversees procurement practices that 1) provide the best value to the taxpayers, 2) are open, fair and competitive, and 3) adhere to the highest ethical and legal standards.
- MMD assists agencies with the state's most complex, high-stakes acquisitions including a new accounting/procurement system (SWIFT), Public Safety's Minnesota Licensing and Registration System (MnLARS), a 50-state computer contract managed by Minnesota, telecommunications systems, procurement cards and, in conjunction with the Office of Enterprise Technology, a new program that places technical resources in agencies within 48 hours of the identified need (ASAP-IT).
- MMD trains and certifies state employees who are then authorized to make purchases on behalf of their agencies within designated dollar levels. Currently, 661 state employees are so certified. Additionally, the division offers training for state employees on a variety of procurement issues. In FY 2010, approximately 1,600 individuals, primarily state and local government employees and vendors, attended classes, workshops and other presentations on priority topics such as bidding for conference facilities and effective negotiation practices.

Admin Goal – To be recognized for our innovation and efficiency (<http://www.admin.state.mn.us/admin.html>)

Measure: To continue innovative procurement performance worthy of national recognition from objective parties as a "best practices" state.

- MMD received the 2010 George Cronin Award for Procurement Excellence. The Cronin Award is presented by the National Association of State Procurement Officials who describe it as "the premier award for innovations in state government procurement." The 2010 award is shared between Minnesota and Wisconsin and recognizes this two-state partnership for its inventiveness, costs savings, transferability to other governments, and enhanced services for customers. The initiative was also documented in the August 2010 issue of *Governing* as "The Great 'Minnesconsin' Adventure."
- MMD was further recognized for leadership in strategic procurement by the Pew Center on the States in a study and white paper issued in May 2010 entitled "States Buying Smarter: Lessons in Purchasing and Contracting from Minnesota to Virginia."

Activity Funding

MMD's general fund appropriation covers costs associated with delivery of centralized procurement services as well as oversight of delegated purchasing and professional/technical contracts. The division's cooperative purchasing programs are self-sustaining enterprise funds.

Contact

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**Cooperative Purchasing
Internal Service Fund
Fund Financial Statement
(Dollars in thousands)***** OPERATIONS DATA ***

	ACTUAL FY 2010	ESTIMATED FY 2011	PROJECTED FY 2012	PROJECTED FY 2013
OPERATING REVENUES:				
NET SALES	11,513	13,949	14,296	14,701
LESS: COST OF SALES	0	0	0	0
GROSS PROFIT ON SALES	11,513	13,949	14,296	14,701
OTHER REVENUE	0	0	0	0
NET REVENUES	11,513	13,949	14,296	14,701
LESS: OPERATING EXPENSES:				
SALARIES	3,154	4,014	4,185	4,282
SUPPLIES & EXPENSES	1,141	1,758	1,866	1,866
INDIRECT COSTS	77	98	98	98
AMORTIZATION & DEPRECIATION	0	0	0	0
TOTAL OPERATING EXPENSES	4,372	5,870	6,149	6,246
OPERATING INCOME (LOSS)	7,141	8,079	8,147	8,455
NON-OPERATING REVENUES (EXPENSES)	(6,698)	(6,698)	(7,025)	(7,235)
NET INCOME (LOSS)	443	1,381	1,122	1,220
BEGINNING RETAINED EARNINGS	3,152	2,389	3,770	4,892
PRIOR PERIOD ADJUSTMENT	243	0	0	0
ENDING RETAINED EARNINGS	3,838	3,770	4,892	6,112
RATE INCREASE/(DECREASE): *	0.00%	0.00%	0.00%	0.00%
FTE	37.2	45.6	47.0	47.0
Expenditure Reconciliation to BBS				
Operating Expenses			6,149	6,246
Less amortization & depreciation (non cash)			0	0
Plus cash payment of rebate in Non-operating revenues/expense			7,025	7,235
Total cash payments			13,174	13,481
BBS Amounts - Financing by Fund				
Materials Distribution			13,174	13,481
Receipt Reconciliation to BBS				
Net Sales			14,296	14,701
Total cash receipts			14,296	14,701
BBS Amounts - Revenue Collected				
Materials Distribution			14,296	14,701

* Note: Contract fees paid by vendors are determined on a case-by-case basis and may either increase or decrease as specific contracts are negotiated.

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**Cooperative Purchasing
Internal Service Fund
Fund Financial Statement***** FINANCIAL DATA ***

	ACTUAL FY 2010	ESTIMATED FY 2011
ASSETS:		
CURRENT ASSETS:		
CASH	8,943	8,642
OTHER CURRENT ASSETS	2,436	2,799
TOTAL CURRENT ASSETS	11,379	11,441
NON-CURRENT ASSETS:		
TOTAL ASSETS	0	0
	11,379	11,441
LIABILITIES & FUND EQUITY:		
LIABILITIES:		
CURRENT LIABILITIES:		
DUE GENERAL FUND - CURRENT	0	0
MASTER LEASE - CURRENT	0	0
OTHER CURRENT LIABILITIES	7,222	7,346
TOTAL CURRENT LIABILITIES	7,222	7,346
NON-CURRENT LIABILITIES:		
DUE GENERAL FUND - NON-CURRENT	0	0
MASTER LEASE - NON-CURRENT	0	0
OTHER NON-CURRENT LIABILITIES	319	325
TOTAL NON-CURRENT LIABILITIES	319	325
TOTAL LIABILITIES	7,541	7,671
FUND EQUITY:		
CONTRIBUTED CAPITAL-GENERAL FUND	0	0
RETAINED EARNINGS	3,838	3,770
TOTAL FUND EQUITY	3,838	3,770
TOTAL LIABILITIES & FUND EQUITY	11,379	11,441

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Office Supply Connection Internal Service Fund Fund Financial Statement

(Dollars in thousands)

*** OPERATIONS DATA ***

	ACTUAL FY 2010	ESTIMATED FY 2011	PROJECTED FY 2012	PROJECTED FY 2013
OPERATING REVENUES:				
NET SALES	2,830	(11)	0	0
LESS: COST OF SALES	2,320	0	0	0
GROSS PROFIT ON SALES	510	(11)	0	0
OTHER REVENUE	0	0	0	0
NET REVENUES	510	(11)	0	0
LESS: OPERATING EXPENSES:				
SALARIES	296	(19)	0	0
SUPPLIES & EXPENSES	256	0	0	0
INDIRECT COSTS	155	11	0	0
AMORTIZATION & DEPRECIATION	1	0	0	0
TOTAL OPERATING EXPENSES	707	(8)	0	0
OPERATING INCOME (LOSS)	(197)	(2)	0	0
NON-OPERATING REVENUES (EXPENSES) *	(147)	(773)	(39)	0
NET INCOME (LOSS)	(344)	(776)	(39)	0
BEGINNING RETAINED EARNINGS	1,159	815	39	(0)
PRIOR PERIOD ADJUSTMENT	0	0	0	0
ENDING RETAINED EARNINGS	815	39	(0)	(0)
RATE INCREASE/(DECREASE):				
	0.00%			
	<i>on stocked products</i>			
FTE	4.0	0.0	0.0	0.0
Expenditure Reconciliation to BBS				
Operating Expenses			0	0
Less amortization & depreciation (non cash)				0
Plus distribution of remaining net assets				0
Plus purchase of items for resale (cost of goods sold)				0
Total cash payments			39	0
BBS Amounts - Financing by Fund plus Change Item - Transfer Out				
MMD Office Supply Connection			39	0
Receipt Reconciliation to BBS				
Net Sales			0	0
BBS Amounts - Revenue Collected				
MMD Office Supply Connection			0	0

* The operations closed in December 2009.

The distribution of the remaining net assets are included in the non-operating revenues (expenses) amounts in this statement for BBS reporting purposes only.

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**Office Supply Connection
Internal Service Fund
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	ACTUAL FY 2010	ESTIMATED FY 2011
ASSETS:		
CURRENT ASSETS:		
CASH	1,257	39
OTHER CURRENT ASSETS	15	0
TOTAL CURRENT ASSETS	1,272	39
NON-CURRENT ASSETS:	0	0
TOTAL ASSETS	1,272	39
LIABILITIES & FUND EQUITY:		
LIABILITIES:		
CURRENT LIABILITIES:		
DUE GENERAL FUND - CURRENT	0	0
MASTER LEASE - CURRENT	0	0
OTHER CURRENT LIABILITIES	174	0
TOTAL CURRENT LIABILITIES	174	0
NON-CURRENT LIABILITIES:		
DUE GENERAL FUND - NON-CURRENT	0	0
MASTER LEASE - NON-CURRENT	0	0
OTHER NON-CURRENT LIABILITIES	18	0
TOTAL NON-CURRENT LIABILITIES	18	0
TOTAL LIABILITIES	192	0
FUND EQUITY:		
CONTRIBUTED CAPITAL-GENERAL FUND	265	0
RETAINED EARNINGS	815	39
TOTAL FUND EQUITY	1,080	39
TOTAL LIABILITIES & FUND EQUITY	1,272	39

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Budget Activity Summary

	<i>Dollars in Thousands</i>		<i>Dollars in Thousands</i>		<i>Biennium 2012-13</i>
	<i>Current FY2010</i>	<i>Current FY2011</i>	<i>Governor's Recomm. FY2012</i>	<i>Governor's Recomm. FY2013</i>	
<i>Expenditures by Fund</i>					
Direct Appropriations					
General	1,832	2,035	1,931	1,931	3,862
Statutory Appropriations					
Miscellaneous Special Revenue	22	11	11	11	22
Federal Stimulus	72	110	0	0	0
Central Stores	2,811	1,017	0	0	0
Materials Distribution	10,227	12,568	13,174	13,481	26,655
Total	14,964	15,741	15,116	15,423	30,539
<i>Expenditures by Category</i>					
Total Compensation	5,248	5,872	5,932	6,064	11,996
Other Operating Expenses	3,721	2,146	2,159	2,124	4,283
Other Financial Transactions	5,995	7,723	7,025	7,235	14,260
Total	14,964	15,741	15,116	15,423	30,539
Full-Time Equivalents (FTE)	61.6	67.3	67.8	67.8	