

Spend Management SubCommittee Report

September 11, 2006

Agenda

- SubCommittee Overview
- What is Spend Management?
- Expense Overview
- Analysis
- Recommendations

Spend Management SubCommittee

Sharon Porter, Parent

Sandra Stringer, Asst. Superintendent, D64

Andy Duerkop, Teacher & Parent

Gloria Skomasa, Community Member

Dave Govertsen, Teacher

Bill Gorman, Parent

Diana Stapleton, Parent

Spend Management Subcommittee

Objectives

1. Identify opportunities to reduce non-labor costs (goods & services)
2. Recommend process improvements for the review and management of expenses

Spend Management Subcommittee

Key Steps

1. Create a database of spending and cut into spend categories
2. Determine why specific expenses increased or decreased year-over-year (variance analysis)
3. Add volumes/student counts to the analysis that was previously performed to look for trends
4. Review contracts and bid process
5. Brainstorm unique methods of saving money, i.e., combine spending with other school districts, consortiums, etc.
6. Review spend categories to determine which have been tapped already and which have opportunity for savings

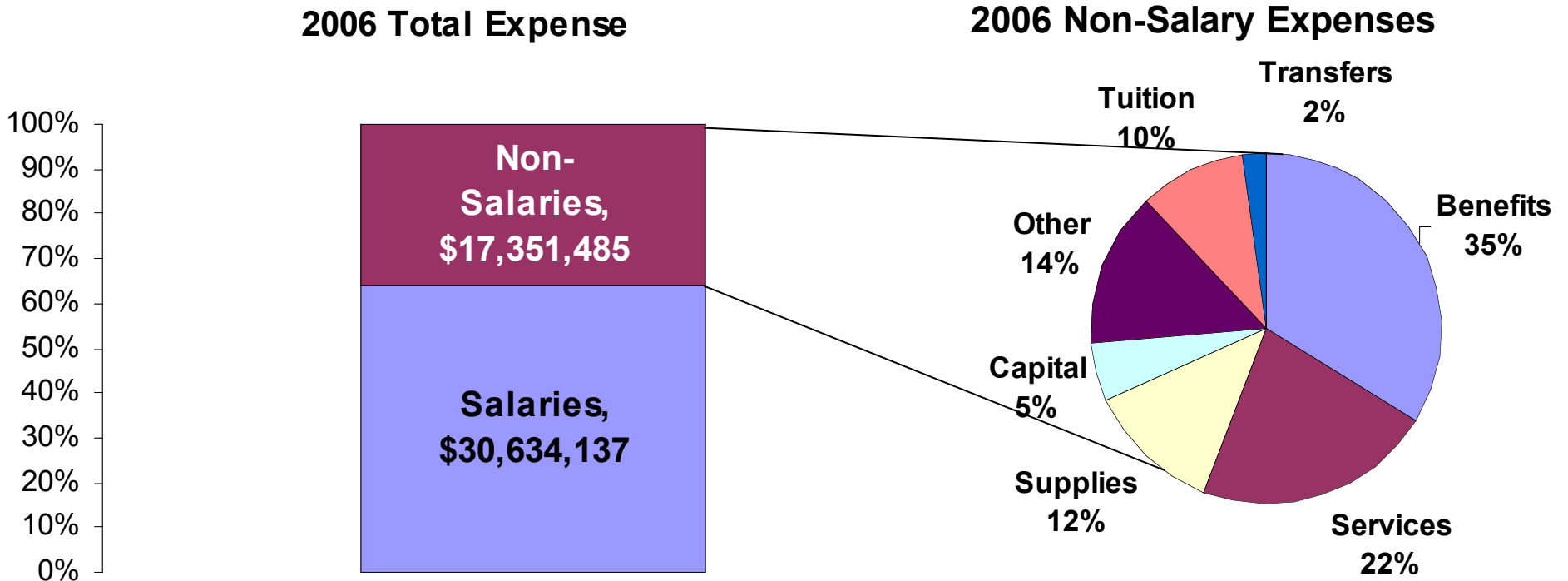


Definitions

Spend management is the way in which companies control and optimize the money they spend.

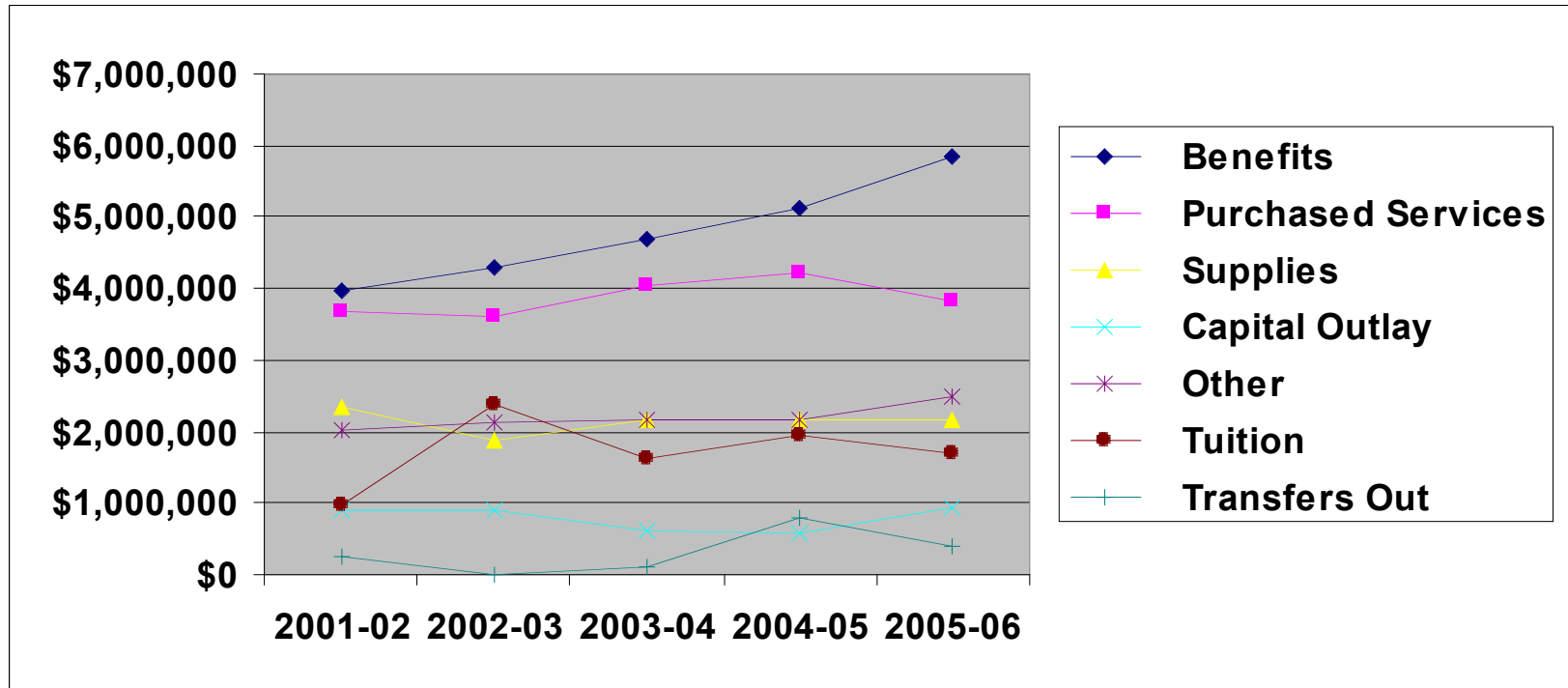
Strategic sourcing is a systematic corporate/institutional [procurement](#) process that continuously improves and re-evaluates the purchasing activities of a company.

2006 Expenses At a Glance



- Non-salary expenses are \$17 million, or 36% of total expense
- Largest non-salary expense is benefits cost

Most non-salary costs have stayed relatively flat, other than Benefits.



D64 has done a good job controlling costs over the last five years.

Analysis

2004/05 Supplier Statistics from Spend Analysis

- 13,104 payment lines of data
- Approximately 700 suppliers in total
 - Consolidated similar names
 - Removed Travel & Expense reimbursements
- 34 suppliers, or 5%, represent roughly 80% of spend
 - 44% of top spend is benefits related
 - 34% of top spend is bid out or could be bid out
 - 22% of top spend is not able to be bid (tuition, etc.)

A large majority of spend is highly concentrated with few large suppliers.

Opportunity may result from:

- Strengthening bid process with top suppliers
- Shortening “the tail” of suppliers that make up the 20%

We reviewed the top suppliers and whether or not a contract and/or bid was used.

(sample of top suppliers)

| Vendor Name | Total | Type of Spend | Contract | Exp. Date | Bid? |
|----------------------------------|--------------|-----------------------------------|---------------------|-----------|----------|
| COOK COUNTY SCHOOL BUS INC. | \$ 1,048,084 | Transportation | Yes | Jun-07 | YES |
| SELF | \$ 564,510 | workers compensation insu | Yes | Jun-06 | YES |
| SODEXHO INC. & AFFILIATES | \$ 473,620 | Cafeteria foodservice provide | Yes | | YES |
| APPLE COMPUTER INC. | \$ 465,051 | Computers | Additional Discount | | NO |
| CONSTELLATION NEWENERGY | \$ 392,244 | Electric | Yes | May-06 | YES |
| Xerox | \$ 282,642 | District copiers | Yes | 2009 | NO |
| PEARSON EDUCATION | \$ 266,291 | Textbooks | | | NO |
| VANGUARD ENERGY SERVICES LLC | \$ 262,128 | Gas | Yes | Oct-06 | YES |
| SBC | \$ 257,181 | Telecommunications | Yes | Feb-07 | YES |
| SEPTRAN INC | \$ 252,299 | Transportation | | | NO/MTSEP |
| SEYFARTH SHAW | \$ 175,781 | Legal | | | NO |
| HARDING HEATING & AIR COND. | \$ 157,768 | HVAC service repairs | | | NO |
| IMAGING PARTNERS | \$ 151,308 | | | | NO |
| FOLLETT | \$ 101,957 | Textbooks | | | NO |
| SSCIP | \$ 96,463 | property liability insurance | Yes | Dec-06 | YES |
| ENERGY EDUCATION INC. | \$ 76,800 | Energy Educ. Program | Yes | | NO |
| McGRAW-HILL COMPANIES | \$ 69,716 | Textbooks | | | NO |
| MCH SERVICES INC. | \$ 64,709 | Medical Services - BJB | | | NO |
| 303 TRANSPORTATION | \$ 57,967 | Transportation, cab Spec. Ed. | | | NO |
| ERC COMMERCIAL INC. | \$ 57,822 | | | | NO |
| HOUGHTON MIFFLIN COMPANY | \$ 57,459 | Textbooks | | | NO |
| NICOR GAS | \$ 56,398 | Gas transportation | | | NO |
| LARSON EQUIP & FURNITURE | \$ 53,699 | Classroom furnishings | | | NO |
| SONITROL CHICAGOLAND NORTH | \$ 52,513 | Security System Monitoring/maint. | | | YES |
| DELWYN HARNISCH | \$ 47,328 | Consultant - Educ. Ends Project | | | YES |
| Unisource | \$ 36,870 | Paper Bid | Bid | Annually | YES |
| MODERNFOLD DOORS OF CHICAGO INC. | \$ 33,220 | Repairs to folding partitions | | | YES |
| COMMUNITY CAB COMPANY | \$ 33,034 | Transportation, cab Spec. Ed. | | | NO |

Of all suppliers with spend over \$10k, 35% were the result of a bid

We reviewed different categories of spend to understand the distribution of suppliers and sourcing approach.

(sample of categories)

| Category | Approach | Spend | # of Suppliers |
|---------------------------|---------------------|--------------|-----------------------|
| Instructional Supplies | Teacher preference | \$370k | 232 |
| Maintenance & Repair | Spot buys | \$584k | 81 |
| IT | No significant bids | \$876k | 68 |
| Books/Textbooks | Some bids | \$475k | 59 |
| Music Supplies | Teacher preference | \$52k | 25 |
| Athletic Supplies | Bid | \$36k | 13 |
| Janitorial Supplies | Some bid | \$65k | 11 |
| Special Ed Transportation | Consortium | \$364k | 8 |

Opportunity may exist to consolidate spending with suppliers.

We reviewed the current purchasing/sourcing process:

- Use “spot buy” method on many individual goods or services
- Conduct bids when required and on highest dollar items
- Contracts/bids are managed by different individuals
- Take advantage of state-led sourcing contracts

Preliminary Recommendations

Adopt a Spend Management Process

Analyze

- Categorize and review payments across all funds on an annual basis

Research and
Create Strategy

- Adopt a bidding/purchasing strategy for each category type, based on level of spend
 - Reduce the number of suppliers in each category
 - Set up “preferred” suppliers

Source

- Utilize bidding strategy even if it is on the “exception” list
 - Just because it is not required doesn’t mean it’s not smart

Contract

- Manage contracts centrally
 - Make sure preferred suppliers were used

Manage Suppliers

- Set and hold suppliers to performance levels
 - Ask them to find savings opportunities

Each category should be assessed

EXHIBIT 1

Who buys what?

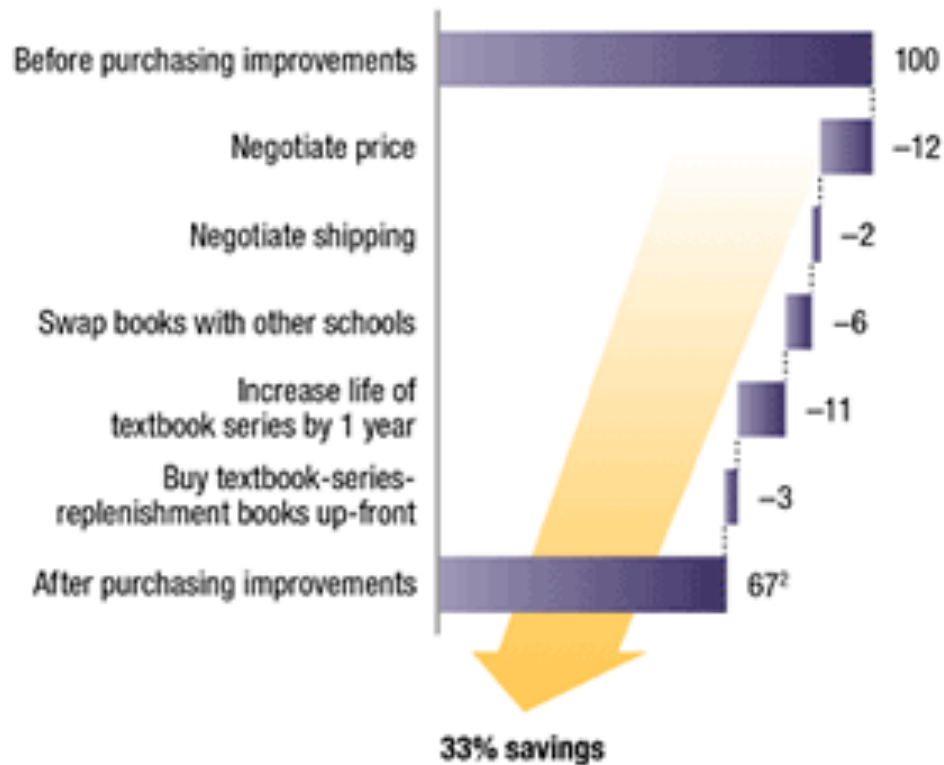
| | | | |
|-----------------------|------|---|--|
| Complexity of product | High | <p>Critical items</p> <p>Example: devices for hearing-impaired students</p> <p>Goal: quick turnaround, minimal disruption of day-to-day operations</p> <p>Natural owner: user's department</p> <p>Role of purchasing department: support for user's department</p> | <p>Strategic items</p> <p>Example: capital-improvement programs, janitorial services, textbooks</p> <p>Goal: maximum value</p> <p>Natural owner: variable</p> <p>Role of purchasing department: part of cross-functional team</p> |
| | Low | <p>Commodity items</p> <p>Example: concrete for new construction</p> <p>Goal: efficiency of process, cost reduction</p> <p>Natural owner: variable</p> <p>Role of purchasing department: leads sourcing (user's department leads execution)</p> | <p>Leverage items</p> <p>Example: cell phone service, office supplies</p> <p>Goal: lowest price</p> <p>Natural owner: purchasing department</p> <p>Role of purchasing department: centralized purchasing, with no exceptions</p> |
| | | Low | High |
| | | Savings potential | |

Chicago Public Schools saved 33% on Textbooks

EXHIBIT 2

Book learning

Forecast savings for Chicago Public Schools; index: initial textbook spending¹ = 100



¹Includes supplemental materials and software.

²Figures do not sum to total, because of rounding.

Potential Savings Opportunities

- **Supply Base Reduction**

- Instructional supplies – reduce the number of suppliers to leverage spend and negotiate discount. How do you balance creativity with spend management?

- **Competitive Bidding**

- Bus transportation has not been bid for 10 years – seek alternative suppliers
- Bid for legal and IT services
- Maintenance & Repair
 - Seek discount from Home Depot
 - Issue bid requests
- Consider posting bid requests on D64 web site
- Can some IT spend with Apple be purchased elsewhere cheaper?

- **Outsource non-core functions**

- Maintenance staff perform general repair & maintenance, janitorial and landscaping duties
 - Outsource landscaping (was bid out previously, but not recently)
 - Outsource janitorial (approx. 10% of schools in US are doing this)
- Outsource computer maintenance

Potential Savings Opportunities (cont'd)

- **Collaborative/consortium purchasing**
 - Healthcare and medical insurance (healthcare costs continue to rise 10-15% per year*)
 - Bus transportation (if no competition)
 - Other?
- **Capital Investment**
 - Invest in capital to fix heaters so they are more efficient and better controlled (instead of opening windows to cool down rooms)
- **Working Capital**
 - More frequent billings for Jefferson after-school care
 - Ability for fees to be paid online
- **Contract Audit**
 - Check to see if you were charged the right price



Overall Recommendations & Next Steps

- Adopt a spend management process
 - Review and categorize 2005/2006 payments
 - Refine supplier categorization and bid approach with D64 Administration
 - Centralize contract/bid schedule
- Investigate savings opportunities
 - Prioritize opportunities based on value and level of effort
 - Select at least three savings opportunities to research
 - Consider utilizing a consultant to evaluate savings opportunities
- Work with Insurance Committee to understand current spend management practices within Benefits category
- Benchmark cooperative buying agreements with other districts