



## CITY-COUNTY SUMMIT WORKING GROUPS

# DRAFT

## PURCHASING WORKING GROUP REPORT

MARCH 26, 2004

### CHAIR

**The Honorable Douglas A. Shields**  
*Member Of Council, City of Pittsburgh, 5<sup>th</sup> District*

### MEMBERS OF THE WORKING GROUP

**The Honorable William Peduto**  
*Member of Council,  
City of Pittsburgh, 8<sup>th</sup> District*

**The Honorable Brenda Frazier**  
*Member of Council  
County of Allegheny, 13<sup>th</sup> District*

**The Honorable John DeFazio**  
*Member of Council  
County of Allegheny, At Large*

**The Honorable Don Walko**  
*House of Representatives, Commonwealth of  
Pennsylvania, 20<sup>th</sup> District*

**Dale Perrett,**  
*Mayor's Representative  
Director, Department of General Services, City  
of Pittsburgh*

**Tim Johnson**  
*County Executive's Representative, Title*

**Thomas E. Youngs, Jr., CPPO,  
C.P.M.**  
*County Executive's Representative  
Chief Purchasing Officer*

## **Forward: Creation & Purpose of the Working Group**

On February 12, 2004, the elected Councils of the City of Pittsburgh and the County of Allegheny met for the first time in a historic joint session. Also attending were eleven state legislators and Allegheny County's Chief Executive, Dan Onorato.

The purpose of this meeting was to begin in earnest to explore the potential for cost-saving consolidations of various city and county functions. The primary motivation for this meeting was predicated upon the City of Pittsburgh's present fiscal management crisis. Beyond that, it has been a long-standing goal of all parties concerned to provide cost-effective services to their respective citizens.

At the conclusion of the meeting the Presidents of the respective Councils, Gene Ricciardi, City of Pittsburgh and Rich Fitzgerald, County of Allegheny, made a commitment to form at least five joint City-County working groups to explore the potential and possibilities for consolidations of city-county services and functions.

On February 25, 2004, County Council Member Jan Rea and Pittsburgh City Councilman William Peduto announced a complete list of members of the City-County Summit Working Groups. These elected officials, both chairs of their Council's Government Affairs Committees, worked cooperatively to name members to eight working groups created as a result of the City-County Summit. Each working group was charged with coming to a consensus regarding what type of cooperation is possible between the City and County. The working groups, and members, are as follows:

**Information Technology: Chair Dave Fawcett**, John DeFazio, Alan Hertzberg, Douglas Shields, Sen. Jay Costa, Mayor's Representatives, Dave Stephens and Donna Dubois, and Executive's Representatives Tim Johnson and Per Madsen

**Public Works: Chair Jim Motznik**, Len Bodack, Twanda Carlisle, Luke Ravenstahl, Ron Francis, Jay Jabbour, Rep. Mark Mustio, Rep. Paul Costa, Sen. Jay Costa, Mayor's Representative Guy Costa, and Executive's Representative Tom Donatelli

**Purchasing: Chair, Douglas Shields**, William Peduto, Brenda Frazier, John DeFazio, Rep. Don Walko, Mayor's Representative Dale Perrett, and Executive's Representatives Tim Johnson and Tom Youngs

**Parks: Chair Joan Cleary**, Tom Shumaker, Jim Motznik, Luke Ravenstahl, Sen. Jack Wagner, Rep. Dave Levdansky, and Executive's Representative Andy Baechele

**Facilities: Chair Gene Ricciardi**, Jim Motznik, Luke Ravenstahl, Wayne Fontana, Jan Rea, Rep. Mike Diven, Mayor's Representative Chet Malesky, and Executive's Representatives Tom Donatelli and Tim Johnson

**Public Safety:** **Chair Vince Gastgeb**, Chuck Martoni, Len Bodack, Twanda Carlisle, Rep. Frank Dermody, Mayor's Representative Chief Robert McNeilly, and Executive's Representatives Supt. Charlie Moffatt and Chief Bob Full

**Tax Collection:** **Chair Alan Hertzberg**, Gene Ricciardi, Wayne Fontana, Tom Shumaker, and Mayor's Representative Mark Adams

**Economic Development:** **Chair Bill Robinson**, Dave Fawcett, Twanda Carlisle, William Peduto, Sala Udin, Rep. Harry Readshaw, Rep. Dave Levdansky, Rep. Frank Dermody, Sen. Jay Costa, Sen. Jim Ferlo, Mayor's Representative Mulu Birru, and Executive's, Representatives Dennis Davin and Jack Exler

These working groups were charged to provide reports in forty-five days related to specific areas where consolidation represented a more cost-effective delivery/acquisition of a service or product. At the completion of the forty-five day work period the two Councils are to reconvene and the Working Group reports are to be delivered.

City and county officials are presently pursuing consolidations of some of their operations to help solve the city's fiscal management crisis. To be clear, these tasks are not done so to initiate a process to complete a merger of these two governments. That task, while somewhat related to the effort here, will require a wholly separate initiative.

# CITY-COUNTY SUMMIT WORKING GROUPS

## PURCHASING WORKING GROUP REPORT

### STRUCTURING SHARED SERVICES

MARCH 26, 2004

#### Introduction

As Chair of the Purchasing Working Group, I submit this report in the hopes that it is responsive to the charge set forth by the Presidents of both the City and County Councils. As this Purchasing Working Group began its work we were mindful of the fact that the limitations of time and resources prevent us from submitting a more fulsome report. Despite those limitations we were able to accomplish much. I thank all of the members of the Purchasing Working Group for their time and for their thinking on this matter.

In particular, I wish to acknowledge the city and county employees who, as working professionals in the purchasing sections of their respective governments, contributed a good deal to the effort. We, as a Working Group, could not have made the observations and recommendations set forth herein without their valued insight. The public is well served by their efforts. Those of us who are elected officials and other policy makers benefited greatly from their broad knowledge of the issues related to this complex subject.

I am particularly pleased to report that there is already in place an ongoing history of cooperative purchasing efforts from which to build upon. The Working Group has found that both the city and county purchasing groups have seasoned professionals who know their business and are eager to improve upon past successes. City and county purchasing groups have a well-established history of working cooperatively with one another to realize savings through joint buying power, and "piggy-backing" on one another's or the Commonwealth's purchasing contracts.

These purchasing groups are well positioned to take advantage of a shared services environment. This can happen only if they are provided the appropriate operating structure. There are numerous models to observe and a wealth of information on the subject of government operations in a shared services environment. The chief challenges of the city and county's policy makers are to understand fully the shared services concept and to create a shared services purchasing organization that is responsive to needs of the numerous operations it would serve.

Finally, it is to the issue of the *essential elements* of that support structure that the Working Group began to focus on in its work. Given the limitations of time provided for this task the following report looks to those things we identified as essential elements. There is much to be done in order to develop the ideas set forth here.

This report is not intended to be a primer on a merger of governments. It promotes the use of shared services among existing governmental units in order to provide the taxpayer with an efficient, responsive and cost-effective government.

## **GOALS & ISSUES**

By sharing resources and services, local governments have the opportunity to implement creative strategies in their efforts to maintain essential services without increasing the costs of doing business.

A **Shared Services Purchasing Program** encourages partnerships between municipalities, authorities and school districts that will result in the sharing or consolidation of expenses. A shared services program promotes partnerships that result in decreased overhead costs.

As has been well documented, the sharing of services tends to improve the level of service provided, promotes a greater efficiency of service operations, and most importantly, offers substantial costs savings to local governments and taxpayers.

Before any discussion of a shared purchasing service, this Working Group thought it best to set forth some clear public policy goals as we began our process. They are as follows:

### **Be Responsive to the Taxpayer**

Any efforts to implement a shared services program must be cost-effective to ensure that there is a benefit to the taxpayer.

### **Secure Minority and Women Owned Business Participation**

The participation of Minority and Women Owned Businesses (MWBE) has been a long-standing policy goal of city/county government. The Working Group recommends that that policy goal be affirmed. It is also important to note that it remains the responsibility of the city and county to insure that a diverse a vendor population is maintained to the fullest extent that the law allows.

The benefit derived from this inclusiveness is to promote economic development across the social spectrum, which in turn strengthens our society as a whole.

**ISSUES:** The city and county goals with regard to MWBE participation are not consistent. It would serve the process if the participation goals were uniform.

### **Employee and Labor Relations: Workforce Transition Management**

City and County employees must be a part of the dialogue and formulation of any new operating structure. If governments are to realize savings in a shared services

environment it stands to reason that there will be an impact upon the workforce. It is of no benefit to place undue stress upon the government's workforce. To do so will undoubtedly promote two things to be avoided; lower productivity and labor strife. There is a great benefit in having employees who are highly motivated, secure and fully understand any process that involves any consolidations of city and county work.

Partnership with labor – whether represented by bargaining units or civil service positions - needs to be formed at the outset of the process to ensure their interests are considered. Organized labor is a primary stakeholder in this process and can do much to achieve a transition to a better government service.

If there is to be any reduction in the workforce the preferred policy would be to achieve those reductions through attrition rather than termination. Transitioning of the workforce must be fair and equitable.

### **SHARED SERVICES - PURCHASING MODELS**

During its deliberations, it became clear to the Working Group that if there is to be a shared services initiative, a structural model needs to be adopted by policy makers. The Working Group identified several models for policy makers to consider. They are by no means all inclusive. The common theme in all of these models is ***shared services***.

#### ***Should the Pittsburgh Board of Education be included in the model?***

The general consensus is that inclusion of the Pittsburgh Board of Education would be of benefit in that the tax base served by the city and county is also exclusively served by the Pittsburgh Board of Education. While the Working Group was unable to pursue this discussion with the Pittsburgh Board of Education, the chief executives of the city and county should explore the Board's interest in a Shared Services Purchasing arrangement.

#### **Equal Partnership Model:**

City, County and School Board maintain separate purchasing groups that interact together to achieve purchasing efficiencies. This is generally what the current environment is between the three taxing bodies.

#### **Shared Services Purchasing Group**

A shared services purchasing group, situated in either the city or county, is created to act as the lead purchasing office on behalf of all governmental bodies. It would essentially act as a procurer of goods and services for its customers – city, county or school district. The customer base would include all governmental departments as well as the related authorities.

#### **Separate Purchasing Entity Model**

A separate entity would make purchases on behalf of all governmental bodies and their related authorities. The Working Group generally looked with disfavor upon such a model. It was viewed as creating another layer of government where none is required.

## **Council of Government (COG) Model**

To illustrate this option a description of the South Hills Area Council of Governments (SHACOG) Purchasing Alliance is provided.

The South Hills Area Council of Governments serves as the coordinating and administrative entity for the 120 COG affiliated municipalities participating in what is known as the SHACOG Purchasing Alliance.

While the administrative responsibilities (product survey, specification development, advertising and bid tabulation) are vested in the SHACOG, the participating communities generally retain the right to purchase only those products and amounts which they require.

Products range from ammunition for police to swimming pool chemicals to rock salt. New products are added as requested with significant additions being police cars and public works vehicles.

Currently bidding a collective volume of municipal products and supplies worth in excess of \$10 million annually, the Purchasing Alliance is creating savings in two ways for its municipal participants. Not only is the volume producing considerable price discounts, the participants also achieve a savings in that the joint effort eliminates the need for duplicate administrative and advertising costs that would be required if each municipality had to bid these items individually.

## **PURCHASE OF HEALTH CARE BENEFITS**

The Working Group was also charged to include the purchasing of employee benefits such as health insurance. The Working Group's consensus is that while a shared services purchasing group could organize the purchase of health care benefits for its user groups, it may not be the ideal organization to have sole oversight of this function.

This function requires the respective governmental unit's Human Resource and Law departments to either negotiate with unions or to determine non-union employee benefits.

Health care costs continue to escalate and pose a significant burden on municipal government budgets. These increased costs displace monies that were once available for other governmental expenditures related to other municipal functions such as Parks and Recreation which in the city of Pittsburgh as seen significant decreases in spending over the past ten years.

This Working Group was charged with looking at the purchase of health care. We are of the belief that this area is more closely related to the

governments Human Resource (HR) and Department of Law functions. The purchase of health benefits is directly related to labor contracts.

## **OBSTACLES TO OVERCOME**

In order to achieve economies of scale one of the primary issues that quickly becomes apparent is the diversity of the products used and the types. There is also a diversity in regulations. As mentioned:

**Uniformity of product specifications** is necessary to maximize bulk purchasing and in turn see the most savings.

**Uniformity of Minority and Women-Owned Business participation goals** and certification.