

Memorandum

To: Town Council Finance Committee
School Board Finance Committee

From: Nathan Poore, Town Manager

RE: Energy and printing purchasing

Date: November 12, 2010

I am submitting this report in response to recent erroneous reports by Michael Doyle, a resident of the Town of Falmouth, that describe certain purchasing decisions which have allegedly resulted in excess spending by both the school and Town operations. Mr. Doyle also made claims that the Town is not using a bidding system. We hope this report adequately explains some examples of our purchasing practices. We have a purchasing policy and use it on a regular basis.

School Department Business Manager, Dan O'Shea, has composed a separate document for the School Finance Committee that addresses decisions made by the School Department.

Heating Fuel

During the Public Forum at the October 25 Town Council meeting, Mr. Doyle alleged that the Town and School Department have made recent heating fuel purchasing decisions which resulted in excess spending between \$30,000 and \$80,000. Mr. Doyle did not explain how he arrived at this conclusion, other than to compare unit costs between Town contracts and contracts negotiated for residents in his neighborhood and comparing rates to what he described as the same vendor. Based on his report, it is impossible to discern what is meant by "same vendor". Furthermore, he did not indicate the dates of purchase in his comparison and the contract conditions. Typically, heating fuel is purchased through a fixed price contract for an extended period of time or a rack plus pricing contract with prices based on the date of delivery. The timing of a contract is also important. When considering a long-term fixed price contract, energy purchasing can be compared to buying and selling stocks. The preferred result is to buy at the

lowest possible price and hedge against price increases during the period of the contract.

The Town’s purchasing practices pertaining to heating fuel supply and delivery includes the utilization of two consortium bid processes. We are partners in two cooperative purchasing programs administered by Maine Power Options (MPO) and the Greater Portland Council of Governments (GPCOG). MPO is a non-profit organization that accepts bids from suppliers for a consortium that includes many organizations, including towns, school districts, higher education institutions, hospitals and non-profit organizations. GPCOG does not charge a fee because the Town is a dues paying member in this organization and this service is one of many services offered to the Town.

MPO offered a contract on May 21, 2010, to buy heating oil from Lampron Energy and propane from Champagne’s Energy. We decided to reject the offer and wait for the GPCOG bid process. On June 16, GPCOG announced the results of their bid process and we accepted the bid and contract to purchase heating oil from Lampron Energy at a lower price than the MPO bid price from the same supplier. GPCOG did not offer a propane bid but we negotiated a propane contract with the current supplier, Dead River, at a price lower than the MPO bid price from Champagne’s Energy. A summary of this activity is described in Table 1. We purchased 13,650 gallons of heating oil and 33,000 gallons of propane. We clearly used a bid process and made a decision to reject one process with the expectation that pricing would improve if we waited to execute a contract later in the summer. The process utilized two consortiums and 8 fuel oil suppliers. Our decision to wait for the second bid process resulted in a combined savings of more than \$18,000. The School Department also participated in this bid process and joined the Town in awarding a contract for propane.

Table 1

Date	MPO	GPCOG	Current Supplier	Contract Awarded
Heating Oil May 21, 2010	\$2.55/gallon Lampron Energy			No
Propane May 21, 2010	\$2.19/gallon Champagne’s Energy			No
Heating Oil July 16, 2010		2.42/gallon Lampron Energy		Yes
Propane July 16, 2010			\$1.68/gallon Dead River	Yes
Favorable Timing Savings: \$18,605				

Printer Service Supplies and Management

During the Public Forum at the September 27 Town Council Meeting, Mr. Doyle alleged that the Town and School Department have made decisions pertaining to printer service and maintenance which resulted in excess spending. He stated that we could save 30% if we used a different company to provide services.

The Town and School currently use services from Business Equipment Unlimited (BEU). They charge 1.5¢/copy. This fee covers maintenance, labor, supplies (toner), parts and some administration, without any additional fees. This contract was awarded to BEU as a change order or contract amendment to the School Department's contract with BEU for similar services associated with photo copiers. The BEU contract for photo copier service was previously awarded after a thorough and competitive bid process. The School Department received bids from different companies and verified that the BEU proposal was the lowest bid. The Town and School chose to sign a contract amendment with an established vendor and combine business rather than consider a new competitive bid process. The original contract was awarded based on a bid process. It is our intent to include printer maintenance with photo copier maintenance in a combined scope of work with the next competitive bid process in July 2012.

In early 2010, The Town received an unexpected solicitation from Portland Computer Copy, Inc. (PCCI) with a proposed fee of 0.9¢/copy. They offered this price in a non-competitive process having knowledge about the current vendor contract terms and conditions. We reviewed the proposal from PCCI and discovered that PCCI had other costs embedded within its contract. They include: shipping fees for all toner and supply deliveries; no language about additional costs for printers that are added to the system mid-contract; and PCCI will only cover toner and supplies for 75% of the manufacturer's suggested yield for each machine – beyond this point, toner and supplies are charged at a 25% discount. BEU included all of these charges in their flat fee. We did not spend time to analyze the impact of the additional PCCI fees because our contract with BEU will not expire until June 2012.

The BEU contract includes an early termination penalty, equal to one year of service costs (\$2,319 for the Town and \$10,829 for the School). The termination fee far exceeded any potential savings (if any savings exist after analyzing the additional fees described above) with PCCI. The decision was made to remain with the BEU contract until the contract expires and include PCCI in the next bid process.

On July 23, PCCI offered to structure a contract that would, according to them, pay for the BEU termination fee through savings proposed in their pricing. They claimed that this proposal would include making monthly payments similar to our costs for BEU services and the savings would pay for the termination fee with BEU. We reviewed the proposal and found that a contract with PCCI would require a term that exceeded the length of the current contract with BEU. This would be more expensive than staying with BEU until the end of the contract. We would be able to realize savings two months earlier by remaining with the BEU contract, so we decided again to remain with the BEU

until the contract expires and include PCCI in the next bid process. We were extremely concerned that the proposal details provided different savings after a thorough review of the proposal.

Printer maintenance is a new service for the Town but came to light after talking with School staff. We moved in this direction once we discovered there are savings associated with contracting the maintenance rather than allowing individual departments to manage the process. The School approached BEU about the possibility of adding the Town to the existing printer contract to access better pricing. The objectives are fundamental and include: cost savings; better management; eliminate “break-fix” responsibility from IT; streamlined by having one vendor servicing photo copiers and printers; and consistent with a One-Falmouth culture (collaboration between the School and Town). In July 2009, this decision saved the Town \$528.00. The savings and management enhancements were a good idea at the time and continue to be lucrative because our satisfaction with the service has not diminished and our projected savings will be ongoing.

Specialized Purchasing Consultants (SPC) and Photocopiers

During the Public Forum at the September 27 Town Council Meeting, Mr. Doyle alleged that the Town has made decisions pertaining to photo copier purchases and photo copying service agreements which resulted in excess spending. He indicated that our multiple year contract and 11% fee structure is not a good deal for the town.

In 2007, the Town needed to replace several photo copiers and was concerned that our cost per copy fee was too high. We had the choice to write specifications for the photo copiers or consider a company like SPC who offers a bulk purchasing service for a fee.

Prior to putting services and purchases out to bid, the cost per black and white copy was between \$0.0079/copy and \$0.0098/copy, depending on the machine. Color copying was 6.5¢/copy and on the color copy machines, black and white copying was the same cost as color copies.

We contacted SPC based on their experience with other towns and school districts. Their pricing was very competitive and they offered management and analysis of copying needs which is included in the service fee.

After analyzing our needs, SPC included Falmouth’s needs in its next cooperative bidding process. Local and regional vendors responded to the bid and included the following companies:

- Xerox
- Ubiq (Sharp and Canon)

- Danka (Toshiba and Canon)
- Ikon (Ricoh and Canon)
- Spillers (Kyocera-Copystar)

SPC included Falmouth with other clients in their bid process. The service model developed by SPC includes an 11% service fee and a five-year contract. While an 11% service fee appears to be substantial, the net pricing received through their services are as low as or lower than prices received through a typical bid process (specifications developed by the Town and bid directly to the vendors). The low cost, despite the 11% fee, results from the buying power associated with bulk purchasing (combining other entities and clients served by SPC). The overall cost to the Town is equal to or less than bids received by the School Department when it went to bid and awarded BEU a contract through a typical bid process. The five-year contract is synchronized with the expected useful life of a new or refurbished machine. It is not a rolling contract. It can be extended if the Town chooses to purchase new machines through SPC. At this time, we do not anticipate the need to purchase new equipment prior to the expiration of the five-year contract with SPC.

We rely on SPC to be our agent when we have service disputes, problems with machines or need additional analysis. They also provide an annual reporting feature that analyzes data on use from each machine. Finally, they coordinate a user satisfaction or dissatisfaction survey with key staff at each location. All of these services are included with the 11% fee.

The bid process included machine replacements throughout our organization including integration with our IT network. Some machines were replaced while others were maintained based on the SPC use analysis. In some situations, we opted to purchase refurbished machines to save money. The bid specifications required a fixed cost/copy on all machines, whether new or refurbished. Danka won the bid and included the following:

- Purchased 9 new or refurbished photocopiers and 2 color printers (8.5 by 11 only) at an initial cost of \$52,733
- Black cost per copy is \$0.0049/copy (same price if producing black print copies on a color copier)
- Color cost per copy on the photocopiers is \$0.055/copy
- Color cost per copy on the color printers is \$0.037/copy
- Maintenance, toner, and supplies are included in this cost per copy price

Savings related to cost/copy were estimated to be \$3,583 per year, saving the Town \$17,916 over the life of the contract. The initial purchase of machines was a planned purchase in our Capital Improvement Plan and a similar purchase is scheduled for 2012.

A comparison with the School bid is similar to the process used by the Town.

- The black cost per copy is basically the same for both the Town (\$0.0049/copy) and the School (\$0.0052/copy), who has BEU as a vendor
- The School does not have any photocopiers with the ability to copy color prints
- There are plans to have School and Town copier needs in a combined bidding process once the Town's contract has expired. It is possible that the Town will not use SPC if we believe it is in the best interest of the Town and if the selected vendor can provide management and analysis services similar to SPC.

Electricity

During the Public Forum at the October 25 Town Council Meeting, Mr. Doyle alleged that the Town and School Department has made recent electricity purchasing decisions which resulted in excess spending of \$127,000. Mr. Doyle offered few specific details about how he arrived at this conclusion. Based on what he has told us, including a spring recommendation from him to use Glacial Energy, we can speculate that he used a unit cost per kilowatt hour based on pricing in April 2010 from this supplier. It appears he compared this pricing with a contract approved by the town in 2008 with Maine Power Options (MPO), which was based on pricing in 2008. He may have also assumed the Town and School could simply buy out of its current contract which is not an option.

Electricity costs are split into two categories – delivery or transmission charges, provided exclusively by Central Maine Power (CMP); and the actual energy which can be purchased using several options including accepting the “Standard Offer”; suppliers, purchased directly or through a buyer/agent; or through a consortium or cooperative purchasing agent such as MPO. The Town has used MPO as its buyer for many years. As stated earlier in this report, MPO is a non-profit organization that accepts bids from suppliers for a consortium that includes many organizations including towns and school districts.

All suppliers must purchase electricity from the New England Independent System Operator (ISO). The Public Utilities Commission offers electricity at the Standard Offer which is bid out every six months. Electricity prices are influenced by natural gas futures and closely mirror pricing trends. MPO bids out electricity to suppliers licensed in Maine once every three years. The current bid was awarded to Constellation New Energy and expires on May 31, 2011. This is the second consecutive bid awarded to Constellation New Energy. During the mid-point of these contracts, MPO offers mid-term pricing and contracts based on market pricing and negotiations with Constellation Energy. They are always based on fixed pricing contracts.

The company recommended by Mr. Doyle, Glacial Energy, was offered an opportunity to submit a bid in 2008 through the MPO process but Glacial Energy relies on a model that does not include a fixed pricing option.

Energy prices in 2010 are much lower than energy prices were in 2008 when the Town signed a long-term contract. If we could go back in time, we would have reconsidered a long-term contract. We relied on our partner organization, MPO, to advise us about the energy market and they believed that energy prices would not improve between 2008 and 2011. In the past week, we have spoken with two energy brokers who confirmed that the standard advice in 2008 was to buy long-term contracts based on advice from experts that oil would climb to \$150/barrel and natural gas would reach a price of \$15 to \$16 / dekatherm. It was unexpected when the natural gas pricing trends dropped to \$4 and \$5 / dekatherm. The recent .06 to .07 / kilowatt hour pricing is the lowest in seven years. Many experts are now recommending long-term fixed contracts based on an assumption that the market is at a low point and only poised to increase based on economic recovery predictions.

Mr. Doyle alleges that the Town could have saved money if we entered into a contract with Glacial Energy this spring. We explained to Mr. Doyle that we could not consider a new purchase arrangement until our contract expires in 2011. His criticism of our actions and a statement that we have wasted more than \$100,000 is inaccurate.

Mr. Doyle also made statements that he had to associate himself with Glacial Energy to access public records such as energy bills with detailed information. I am confounded by Mr. Doyle's assertion. He requested the information last spring via a Freedom of Access Act (FOAA) request and we complied with his request. He later informed us that he was affiliated with Glacial Energy and wanted to submit an offer to the Town. We informed him that we would review any offers submitted, either from him or other suppliers. We reviewed his offer and determined that we would need additional information from Glacial Energy representatives to better understand their company. In late summer, a representative from Glacial Energy called to inform me that Mr. Doyle was not affiliated with their company. They did explain that Mr. Doyle was eligible to receive a "finders fee/commission" if the Town entered into a contract with Glacial Energy. It seems peculiar that the company denies any affiliation with Mr. Doyle, but would allow him to receive a commission.

Mr. Doyle also stated that I am not aware of the energy deregulation that occurred four years ago. His assumption is false. I have been familiar with deregulation since its development and inception in 1999, more than ten years ago, not four years ago. I became familiar with MPO in another community when deregulation first occurred. MPO was created in response to deregulation. They are funded through the Maine Municipal Bond Bank and the Health and Higher Education Authority, with over 800 members. Rather than rely on purchasing energy directly from the supplier, we have always opted to use an aggregation-consortium style process through MPO. I indicated to Mr. Doyle last spring that I was not experienced in purchasing power directly through the supplier. This is not an indication that I am or have not been aware of deregulation. Our

inexperience related to purchasing power through suppliers results from not receiving any sales calls or other solicitation from suppliers. If there is a significant market and opportunity to save money, I question why the suppliers have not attempted to contact Falmouth in the past.

Randy Davis, Purchasing Director, met with a broker who has accounts with some of the largest businesses in Maine. This broker indicated that there is a 2 mil commission/fee associated with brokerage services. These services usually include contract management and other administrative services. This rate is consistent with the fee charged by Glacial Energy. We spoke with a broker/consultant from New Hampshire who has worked for several towns in Maine as a consultant and he reported that 2 mil is very high. He indicated that he is charging 0.85 mil for his customers. We confirmed with both brokers that energy prices are currently very low compared to 2008 and that a long-term contract is advisable in the near future because rates are low and following the natural gas pricing trends. Rather than rely on brokers, suppliers and MPO staff, we are considering a consultant relationship that will be objective. It is our preference to work with someone who can offer advice without having a financial interest in our purchasing decision. We have relied on MPO in the past to provide this service but an independent review could be helpful.

In summary, the Town and School Department did not waste taxpayer money with regard to its purchase of electricity. The timing of the energy purchase contract was unfortunate, but to publicly say that we could have saved more than \$100,000 if we would have selected different dates when the market was lower is like expecting a stock broker to make a client money based on seeing into the future.

Conclusion

Mr. Doyle utilized a large amount of staff time from March 2010 to the present. Mr. Doyle's allegations against the same staff who have helped him are ill founded, lacking detail, and inaccurate. I have remained silent during Mr. Doyle's statements about management corruption, incompetency, and his lists of wasteful spending in the area of purchasing. A defensive posture is not a preferred response to unfounded allegations, but comments about wasteful spending, at the order of magnitude reported by Mr. Doyle, could raise doubt or concern with the public. This response and clarification is necessary as the Town of Falmouth remains committed to transparency in government.

The following table summarizes Mr. Doyle’s allegations and compares them to our actions and findings.

Alleged Performance	Town Response
<p>Heating Fuel</p> <p>Spending too much for heating fuel - \$80,000 over several years.</p>	<p>Purchasing decisions rely on two cooperative purchasing processes. Favorable timing in 2010 resulted in savings.</p> <p>No details have been provided to support the allegations.</p>
<p>Printer Maintenance</p> <p>Spending too much for printer maintenance/service – unspecified amount over several years.</p> <p>Note: Prior e-mails indicate around \$3,000 to \$4,000 could be saved each year if the Town and School used a different vendor.</p>	<p>Printer maintenance is a new service for the Town. We moved in this direction once we discovered there are savings associated with contracting the maintenance rather than allowing individual departments to manage the process. The objectives are fundamental and include: cost savings; better management; eliminate “break-fix” responsibility from IT; streamlined by having one vendor servicing photo copiers and printers; and consistent with a One-Falmouth culture (collaboration between the School and Town). In July 2009, this decision saved the Town \$528.00. The savings and management enhancements were a good idea at the time and continue to be lucrative because our satisfaction with the service has not diminished and the projected savings will be ongoing.</p> <p>The Town has saved money rather than wasted money and the allegation is simply based on a vendor offering to undercut a current contractual obligation. The Town and School are prepared to include this added service to our photo copier contract when we bid both services in June 2012. It made sense to negotiate an addendum to the photo copier contract rather than rely on two vendors for a number of reasons including consistency and avoiding IT integration complications.</p>
<p>Photo Copying Contract (Town)</p> <p>Reported that the Town has made poor decisions pertaining to photo copier purchases and photo copying service agreements which resulted in excess, unspecified spending. He</p>	<p>The service model developed by SPC includes an 11% service fee and a five-year contract. While an 11% service fee appears to be substantial, the net pricing received through their services are as low as or lower than prices received through a typical bid process</p>

<p>indicated that our multiple year contract and 11% fee structure is not a good deal for the town.</p>	<p>(specifications developed by the Town and bid directly to the vendors). The low cost, despite the 11% fee, results from the buying power associated with bulk purchasing (combining other entities and clients served by SPC). The overall cost to the Town is equal to or less than bids received by the School Department when it went to bid and awarded BEU a contract through a typical bid process. The five-year contract is synchronized with the expected useful life of a new or refurbished machine. It is not a rolling contract. It can be extended if the Town chooses to purchase new machines through SPC. At this time, we do not anticipate the need to purchase new equipment prior to the expiration of the five-year contract with SPC.</p> <p>We rely on SPC to be our agent when we have service disputes, problems with machines or need additional analysis. They also provide an annual reporting feature that analyzes data on use from each machine. Finally, they coordinate a user satisfaction or dissatisfaction survey with key staff at each location. All of these services are included with the 11% fee.</p> <p>The important point is our cost is very low and comparable to the bids received by the School Department. Our decision to use SPC several years ago has saved the Town money.</p>
<p>Energy</p> <p>The Town and School Department has recently made electricity purchasing decisions which resulted in excess spending of \$127,000.</p>	<p>Purchasing decisions rely on one consortium based purchasing process. Unfavorable timing in 2008 resulted in a long term contract where the Town purchased power at a high point in the market.</p> <p>Mr. Doyle is alleging wasteful spending based on comparing a market price at a low point versus a market price at a high point – a very unreasonable comparison.</p> <p>The Town and School are using reasonable purchasing processes and the intent is to review current partnerships and alternatives at the expiration of its current contracts.</p>