

# Memorandum

**To:** School Finance Committee

**From:** Dan O'Shea, Director of Finance and Operations

**Re:** Purchasing practices review – heating oil, electricity, print management

**Date:** November 15, 2010

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This memo is intended to provide the finance committee background information about how certain purchase decisions are made, in particular, the purchase of those commodities that citizen(s) have raised concerns that the School Department does not bid for services and/or has excessively overpaid for those purchases. With this information, you will have the information needed to adequately respond to the citizenry when these topics are raised. The Town (Nathan Poore/Randy Davis) is providing a similar document (in more detail) for their committee as well, which you are welcome to review.

My goal is provide a general overview of our purchasing practices, show examples where we collaborate with the Town when economically viable, and discuss the decision criteria we use/recommend when making purchasing decisions (market conditions/forecast, pricing (fixed/variable) and contracts (short/long term) and why.

## Heating Fuel

Recent comments from a citizen that the Town/School has dramatically overpaid for heating oil over the past year provide no explanation on how that figure was arrived at or what the comparison is based on. I have told that citizen I can't respond to his statement without that information, but have welcomed him to share any information he has if the goal is to help the Town/School save money. I think you will agree that our purchasing practices are sound and that we utilize buying cooperatives when advantageous. The timing of purchasing energy, though, is very much dependent on the market and economic conditions. We utilize the expertise of our buying cooperatives to counsel the group about "best timing" in the market. Not unlike all of you when making similar purchases, purchase timing can be advantageous or not, given unforeseen circumstances.

For heating oil, we utilize two buying consortiums for bidding as well as direct vendor price checking when appropriate. We are members of the Maine Power Options (MPO) buying cooperative as well as the Greater Portland Council of Governments (GPCOG). MPO is a non-profit organization that administers bids from suppliers for a consortium that includes many organizations, including towns, schools, higher education institutions, hospitals and non-profits. GPCOG includes the municipalities in the greater Portland

area as its members and administers a number of bids for fuel, equipment, and supplies. As a member of the Town of Falmouth, the School Department is also eligible to participate in this consortium. The School Department also communicates with the Town about its plans and timing for purchasing. And lastly, I discuss with area school districts to determine their intentions and willingness to form our own “mini” buying consortium to take advantage of economies of scale and attractiveness to vendors.

With the market heading lower during January of 2009, MPO hosted a bid for fuel oil for the subsequent year. Normally, MPO will wait until late May or June to test the market, which are normally the best pricing opportunities for fuel oil. But the economic collapse and warm winter reduced worldwide demand for oil. As a result, we were able to secure oil prices on February 3<sup>rd</sup>, 2009 for the following year at \$1.92 per gallon. This price was dramatically lower than the price we had budgeted (\$2.45) and allowed the School to either reallocate those savings elsewhere in the District or take the savings in a reducing budget environment. I believe we were very fortunate to take advantage of that pricing when we did.

This summer, we worked collaboratively with the Town to secure fixed propane gas pricing for the current year (most Town buildings/school portables & kitchens) at \$1.68/gallon, which is also a good price. Several area school systems agreed to not lock in heating fuel prices this summer (\$2.55/gal in May 2010 MPO bid and \$2.42/gal July 2010 GPCOG bid) and have been trending the market for a buying opportunity this fall/winter, utilizing both GPCOG fixed add-on harbor pricing and direct vendor contacts.

## **Electricity**

Similar to heating fuel, the purchase of electricity is dependent on market conditions. From a budgeting standpoint, it has also been very important for me to have a known cost for budget purposes looking forward. For electricity, we have utilized MPO as the buying cooperative for bidding. Since 2002, the School Department has taken advantage of two fixed-price contracts of 36 months that have proven advantageous vs. the Standard Offer (price available to all electricity users) when economic conditions are improving and electricity demand is high. During those six years, the School Department saved nearly \$150,000 vs. the Standard Offer.

During the fall of 2008, when oil was predicted to move upwards towards \$150 per barrel, MPO offered an electricity bid for contract terms between 1 and 3 years. We took advantage of entering a new 3-year contract (Dec 2008-Dec 2011), believing prices would continue to rise and we could lock in known electricity prices over that term. Unfortunately, no one could predict the economic collapse that has ensued since the Spring of 2009, which has driven electricity prices downward (trends with natural gas pricing). If someone was to compare our 3-year contract price to a present day price, we are paying more in our contract, but we do not have the flexibility to break that contract and purchase current day pricing. We are also committed to fixed pricing for a contract term vs. daily/monthly spot purchasing of electricity, which is very unpredictable and

advantageous only in declining economic environments. We believe those are the comparisons that a citizen has used to state that we have overpaid for electricity. Clearly, the decision-making process is not nearly so simple or clear.

The School and the Town have begun discussions with MPO and other electricity brokers/bidders to determine how best to purchase electricity moving forward in the current market. We are discussing best timing for purchasing in the market, length of contracts and determining the value of employing market expertise (consultants/analysts).

### **Printer Fleet Management Services**

Printer fleet management allows all printers to be covered under a maintenance agreement (similar to copiers) that is based on a cost-per-copy fee. Without this coverage, replacement supplies (toner), parts and labor for repair visits would be paid as those incidents occur. Given the large number of printers we have and the need to have them operable without delay, this service contract made sense. We have realized annual savings from this program of \$7,000 to \$10,000 per year.

As part of our collaboration efforts with the Town, we promoted to BEU (current vendor) the possibility of adding the Town's printers on to the School program, taking advantage of the economy of scale the School brings. This summer was the initial contract for the Town to join the program.

A citizen has challenged that we (Town/School) are overpaying for this contract and that we should have broken the contract when a better offer was made. In reality, there was no bid for this service, since the Town joined an existing partnership with BEU for their initial venture into this service. We did entertain a sales visit from another vendor when asked, but determined the following reasons for maintaining our existing BEU contract: 1) extensive school district references and experience, 2) all-inclusive pricing, 3) cost to break contract, 4) complementary printer/copier vendor relationship and support, 4) honoring existing contract term/vendor. In addition, some printers are provided service under the BEU copier cost-per-copy contract, which is at a rate that is nearly 45% less than the printer maintenance cost of the other vendor. This pricing was allowed by BEU at the start of the program (several years ago) as a good will gesture and incentive.