



General Administration
STATE OF WASHINGTON

Self-Funded Procurement Offices—Using
Alternative Revenue Sources
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We will discuss...

- ▶ Why look for alternative revenue sources?
- ▶ Types of funding approaches
- ▶ Funding approach considerations



Why look for alternative revenue sources?

- ▶ Need to fund operations
- ▶ Need to fund projects



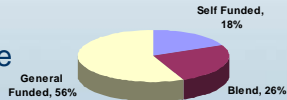
General Funded

- ▶ Traditional Budget Appropriation Model of most governments:
 - ▶ Provides checks and balances
 - ▶ Widely understood
 - ▶ Time consuming
 - ▶ Agencies compete for limited funds
 - ▶ Limits multi agency coordination



State Funding

- ▶ While most states are primarily general funded –
- ▶ Many state purchasing offices get some sort of alternative revenue



Self Funded

- ▶ Self funded means that you must explore and develop “alternative” funding approaches:
 - ▶ Requires deep understanding:
 - ▶ Level of service needed by your customers
 - ▶ Level of service you are capable of giving
 - ▶ Risk in not covering costs
 - ▶ Promotes flexibility and nimbleness



Funding Approach

- ▶ The strategy or model you apply to provide funding
- ▶ Each strategy provides a unique funding mechanism
- ▶ No one strategy is right for all types of operations or projects



Alternative Funding Approaches

- ▶ Innovation Fund
- ▶ Fee for Service
- ▶ Rebate Funds
- ▶ Capital Funding
- ▶ Share in Savings
- ▶ Hybrid Approach



Innovation Fund

- ▶ Similar to private sector venture capital
- ▶ Typically funding is based on value or expected savings
- ▶ Fosters competition



Fee for Service

- ▶ Services to other governments and/or vendors
- ▶ Must be prepared to add value
- ▶ Governmental restrictions may exist



Rebate Funds

- ▶ Percentage of purchases that is refunded by the vendor to the agency
- ▶ Viewed as “free” money
- ▶ Ownership issues



Capital Funding

- ▶ Generated through bonds
- ▶ Used for a specific project until the project is operational
- ▶ Does not fund on going operational costs
- ▶ Repayment may be an obstacle



Share in Savings

- ▶ Contractors are paid out of savings or new revenues generated from project
- ▶ Must have specific historical cost data
- ▶ Need a mechanism to approve, capture, control, monitor, report and share revenues
- ▶ Increasing resistance by contractors



Hybrid Approach

- ▶ Not dependent on one source of revenue
- ▶ Adds complexity
- ▶ Includes benefits and obstacles of all approaches



Practical Considerations

- ▶ Match appropriate funding strategy with:
 - ▶ Agency Maturity
 - ▶ Stage of Life
 - ▶ Required Collaboration

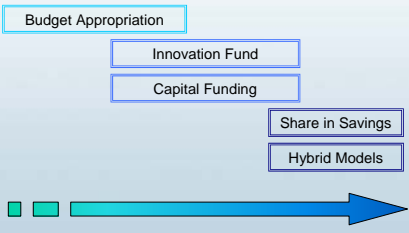



Agency Maturity

- ▶ Operational
- ▶ Technological
- ▶ People

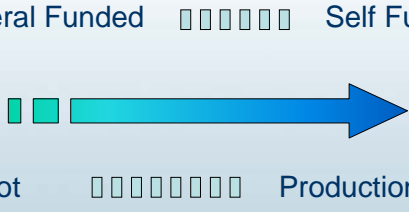


Agency Maturity





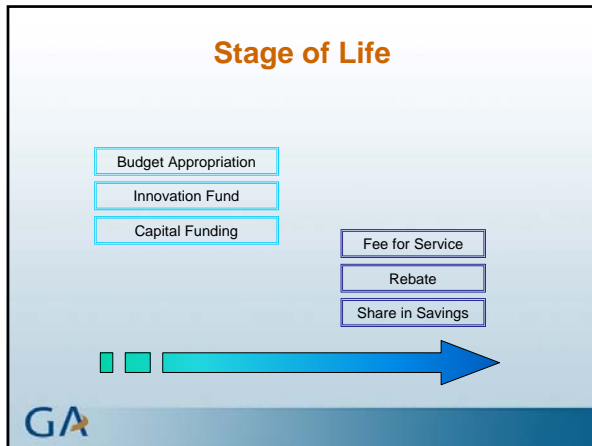
Stage of Life

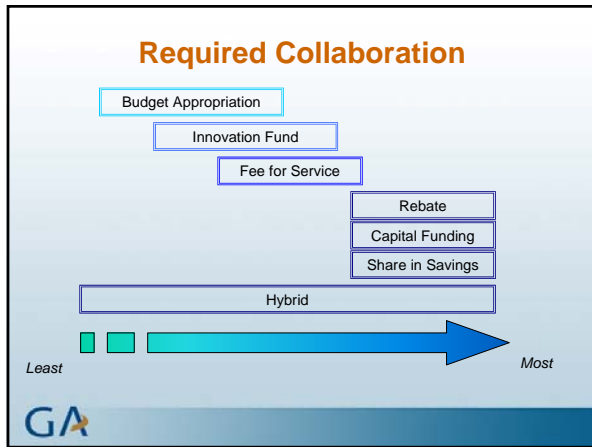
General Funded □ □ □ □ □ □ Self Funded

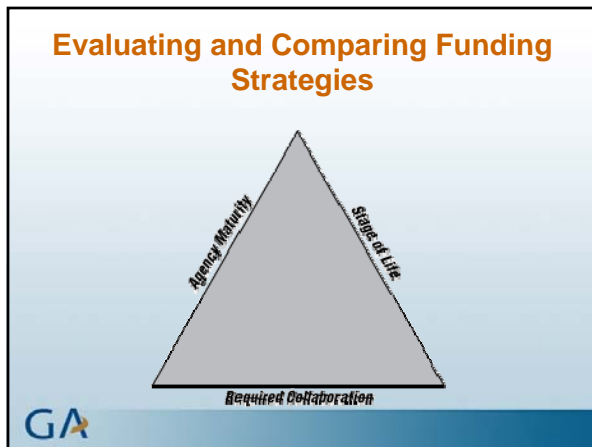


Pilot □ □ □ □ □ □ □ □ Production









A Case Study

- ▶ Prior to 1993: Washington's Office of State Procurement was a General Fund operation
- ▶ 1993: WA Legislation issues a proviso requiring OSP to get their \$ from those that benefit
- ▶ 1993-1995: OSP lost \$1.2 Million
- ▶ 1995 to 2005: Revenue exceeds Costs

What changed in 1995?



Formulating a Funding Strategy

- ▶ Identify all revenue sources
- ▶ Understand what you have to sell and who could buy it:
 - ▶ What products and services are available?
 - ▶ Who uses those services?
 - ▶ How much are they used?
 - ▶ Who must use vs. who can choose to use



Formulating a Funding Strategy

- ▶ Understand your costs:
 - ▶ What is the level of service needed?
 - ▶ What is the level of service given?
 - ▶ What are my real full costs to deliver?
- ▶ Work the numbers to a rate
- ▶ Fees must absolutely be fully loaded and based on normal recurring spend



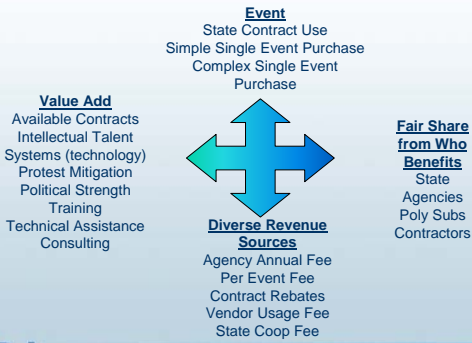
Formulating a Funding Strategy

- ▶ Increased contract value = *MM**
- ▶ Increased customer base = *MM**

**MM* = *Mo Money*



Fundamental Point



An Opportunity to Talk