

What's in Store for Stores?

“We have to be competitive in the market. It's like any other enterprise.”

Dinah Phillips, spokeswoman for County Administration Office.

Santa Cruz Sentinel April 5, 2009

Summary

Santa Cruz County owns and operates a single facility, the Central Stores (Stores) warehouse, in which materials from different departments and agencies are stored and/or distributed. In addition, some agencies (i.e. County Clerk Elections Department) use third-party facilities for their storage if there is a need for more space, or for a facility with better temperature control and security.

The warehouse on Emeline St. in Santa Cruz serves several purposes, such as the storage and distribution of canned and packaged food and other supplies for the Main and Rountree jail facilities. It is also a long-term storage facility where items are warehoused for possible future use, such as portable wall partitions, desks, file cabinets, etc. There are pallets of valuable but water-damaged county recorder books that are being kept until they can be restored. Limited space is allocated for large storage racks for boxes of files from different departments.

Recently emptied space vacated by County Clerk Elections Department is identified as a possible medical drop destination in case of a pandemic. Some departments are billed based on the number of pallets or boxes warehoused. Charges are debited against the approved supply budgets of the departments Stores serves.

Today county departments have access to improved alternate purchase and delivery systems, which are privately held. The County has not funded the purchase of much-needed storage racks that would accommodate file and document boxes. For those and other reasons, Stores is under-utilized, inappropriately furnished, and full of obsolete items.

It appears that over the last several years this facility is costing the County more money to operate than it saves, and needed upgrades would add to the county's cost. If there are more efficient and cost-effective private services that can duplicate Stores operation, the County should look into the feasibility of using the warehouse for some important county purpose, for example, a county law enforcement training center, homeless services, or a troubled youth center.

As a result of information obtained from public records, interviews with business and county officials and first-hand observations, this Grand Jury has reservations about the cost and efficiency of continuing to use the Stores warehouse facility as it is used today. General Services has options to explore, but the optimum outcome is using this facility more efficiently to reduce costs for the County. Without additional funds for file box racks, computerization, and the elimination of stored outdated equipment, this facility will continue to cost county taxpayers money that could be used in better ways.

The obvious questions:

- Why is food service for the Main jail and Rountree not handled in the same manner as office supplies, with a single-vendor that delivers?

- Why is the County paying to keep old wall partitions and used furniture stored for 20 years?
- Why have no additional storage racks been added to accommodate the increasing number of files?
- Where is the computer system to track inventory?

The standard answer, echoed in good or bad economic times, is “There is no money.”

Scope

County Central Stores warehouse operation was investigated to determine its cost effectiveness versus a private business model for purchase, delivery and storage.

Definitions

General Services Department Purchasing (Purchasing): unit responsible for purchasing/rent/lease of equipment, materials and supplies for all county departments and agencies.

Central Stores (Stores): This unit of the General Services Department’s Facilities Division maintains a warehouse to store a wide variety of consumable supplies, as well as some equipment items commonly used by various county departments. It assists Purchasing in the transfer, sale and other disposition of surplus property items. In addition, the warehouse provides a limited amount of moving, repair and special warehousing services. Warehouse staff also maintains the County records retention center.

CAL-Card: A payment mechanism (Visa card) with no fees and no interest cost unless late penalties are assessed. It is designed to streamline the procurement process and reduce purchasing costs for goods and services up to \$100,000 per transaction. It is offered by the State of California through a master contract with U. S. Bank.

Single-vendor Contract: A legal agreement established by a competitive bidding process. One party agrees to purchase certain goods or services from the other in order to gain advantages in pricing or service.

Background

In 2003, the County contracted to buy office supplies from a single-vendor that would deliver directly to each department. Already in place was CAL-Card, a credit card system that allows certain authorized county employees to buy any supplies that aren’t restricted by the single-vendor contract or county purchasing rules, again bypassing Central Stores. With the advent of the booming personal and commercial storage business, the County found it cheaper to lease space than to remodel or build large buildings to house the ever-increasing amount of paper files needing to be stored.

Findings

1. Central Stores charges other county departments for storage space used and delivery of stored supplies. Total charges to other departments should be equal to or greater than the cost to operate Stores. If total income is less than the cost, then money from

the county general fund must be used to supplement the Stores budget. The following graph details county cost to maintain the Stores facility over and above the revenue generated from billing individual departments for Stores services.

Net County Cost for Central Stores

| Fiscal Year | Net Cost |
|--------------------|---------------------|
| 1999-2000 | \$ 42,854.74 |
| 2000-2001 | \$ 11,259.11 |
| 2001-2002 | \$ 50,202.18 |
| 2002-2003 | \$102,963.65 |
| 2003-2004 | \$ 76,881.37 |
| 2004-2005 | \$ 35,870.59 |
| 2005-2006 | \$ 63,996.81 |
| 2006-2007 | \$ 79,319.90 |

Response: County of Santa Cruz Board of Supervisors – DISAGREES

Net cost shown in the above table is reversed. There is no net county cost for Central Stores. Salaries and benefits as well as services and supplies are less than revenues produced. Total charges to other departments are greater than the cost to operate Stores and result in annual Net County cost savings.

2. Purchasing orders large quantities of items the County needs, such as copy paper and canned and dry goods for the jails, to take advantage of volume price discounts. The items are stored until they are requested by and delivered to a department. Inventory items are done by hand and cannot be viewed on computers within other county departments.

Response: County of Santa Cruz Board of Supervisors – AGREES

3. A single vender contractor sells the same supplies at a similar cost and delivers in an as needed time frame.

Response: County of Santa Cruz Board of Supervisors – DISAGREES

Periodic checking on bids for stored products show that it costs more for a supplier to drop ship products on an as needed basis. This is due primarily to the increase in storage and shipping costs, and does not result in cost savings for the County.

4. Many county departments and agencies have a need for more record file storage space. Without additional file storage racks at Stores they cannot be properly accommodated.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY AGREES
Additional storage racks are planned for a future budget cycle, resources permitting.

5. Because of the security needed to safeguard ballots and sophisticated voting machines, the County Clerk Elections Department decided to relocate them from Stores and lease outside commercial space rather than improve the county facility. The leased space is secured with building locks, chain link fence, internal room with key pad locks and monitored security cameras and also has a temperature controlled environment to protect ballots and computer voting machines.

Response: County of Santa Cruz Board of Supervisors – AGREES
The County Clerk notes that the facility itself stays sufficiently cool for the storage of the voting equipment and therefore did not require additional temperature controls.

6. In May 2006, the County signed a ten-year lease for 6,500 sq. ft. of commercial storage space. The lease was amended in March 2008 for an additional 2,600 sq. ft. Total rent is \$6,765 per month, or \$81,180 per year for the next 3 years. The lease includes annual increases in monthly rent beginning in July 2011. The cost of tenant improvements on the leased space totaled about \$107,200 of which \$100,000 was recuperated from the Help America Vote Act which is a federal law passed in 2002. One section of the law established a grant program for payments to states to improve election administration.

Response: County of Santa Cruz Board of Supervisors – AGREES

7. Warehouse space is currently being used to store outdated equipment, 20 year-old wall partitions, and ruined 100-year-old County Recorder books.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY AGREES
Departments purchased reusable partitions in order to have reconfigurable workspace to meet current and future needs within their changing environments. Departments utilize these parts in order to make changes with minimal cost; disposal of the extra parts or outsourcing their storage would only increase costs. The damaged Recorder Books may not be destroyed by law and must be retained and restored as funds allow.

Conclusions

1. Central Stores is inefficiently using warehouse space.
2. Central Stores uses outdated record keeping.
3. Items that can be cost-effectively supplied by private business on an as-needed basis are instead being ordered in bulk and stored for months before being used.
4. The same \$100,000 granted under the Help America Vote Act to improve the rented storage space could have been used to update the County-owned warehouse for storage of elections supplies and equipment.

Recommendations

1. General Services should do an in-depth, detailed study on the efficiency and cost-effectiveness of Central Stores.

Response: County of Santa Cruz Board of Supervisors – WILL NOT BE IMPLEMENTED

It is not possible to conduct a detailed study at this time due to the limited County financial resources. However, in the future, a complete study and implementation of appropriate measures in the current Warehouse facility will be considered.

2. General Services should research options to purchase food and supplies on an “as needed” basis from private business.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

Purchasing will continue to monitor commodity pricing with options for storage and/or drop shipping, which will be considered in future bids for restocking. An element of any consideration of such awards will be an analysis to determine the actual cost advantage to the County to have product drop-shipped on an as needed basis.

3. General Services should divest some stored items that are unlikely to be used again and invest in file box racks; or discontinue the Central Stores operation altogether and contract with the private sector instead.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

Due to the financial situation facing the County, it is not feasible at this time to conduct the necessary study and purchase required equipment for the expansion of the records retention area. In the future, modernizing the Records Retention Program will be a priority when funding becomes available.

4. The County should consider moving items stored in the warehouse to smaller leased space or other available space and using the building as a Sheriff’s Office law enforcement training facility or for another needed county function.

Response: County of Santa Cruz Board of Supervisors – WILL NOT BE IMPLEMENTED

Based on the cost savings obtained by buying in bulk and the convenience of storing confidential items on site, the warehouse operation is currently cost effective. However, improvements, such as increasing on site records retention area and implementing computerized inventory control, will be considered as the County’s financial situation improves.

Responses Required *Note: The County of Santa Cruz General Services responses were included in the responses from the Board of Supervisors and are identified as responses from the Board.*

| Respondent | Findings | Recommendations | Respond Within / Respond By |
|--|-----------------|------------------------|------------------------------------|
| County of Santa Cruz General Services | 1 - 4, 6, 7 | 1 – 3 | 90 Days October 1, 2009 |
| County of Santa Cruz Board of Supervisors | 1- 7 | 3, 4 | 60 Days September 1, 2009 |

Sources

Publications & Websites

Santa Cruz Sentinel article, “Santa Cruz County Execs, See Hefty Pay Raises in 2008.”
4/05/09

Santa Cruz County Government website <http://www.co.santa-cruz.ca.us/>

Santa Cruz County Audit reports

Santa Cruz County Clerk Elections Department report from the minutes of the Santa Cruz County Board of Supervisors meeting March 11, 2008

Interviews

Santa Cruz County Officials Representing:

General Services

Central Stores

Sheriff’s Office

Representative from Private Businesses;

Food warehousing and distributing company

Private storage facility