

# OPTIMIZING PUBLIC AGENCY PURCHASING POWER



## **OPTIMIZING PUBLIC PURCHASING POWER IS CRITICAL TO THE PERFORMANCE OF PUBLIC WATER AND WASTEWATER AGENCIES.**



Efficient, responsive procurement — ensuring the timely purchase and delivery of specialized goods and services — is directly linked to the level of service and value that public utility customers receive. More importantly, effective procurement procedures enable drinking water and wastewater systems to protect public health and the environment.

In an increasingly competitive water services market, public drinking water and wastewater agencies rely upon the efficient acquisition of the equipment and services needed to meet water quality requirements and to perform at optimum levels of customer service, safety, construction, operation and maintenance (O & M). Utilities must perform at high levels for environmental compliance and to remain competitive.

Yet — for various reasons — municipal procurement procedures sometimes constrain water and wastewater agencies in executing essential functions. If the primary focus is on procuring goods and services in a way that ensures the lowest total cost of ownership to the public agency and its customers, then an examination of the full range of available procurement methods is essential.

### **WHAT'S ON THE HORIZON?**


Electronic procurement has recently emerged as a new option for public drinking water and wastewater agencies. Though it promises to reshape and enhance public procurement, many of the same challenges and constraints remain. Therefore the principles, concepts and methods outlined in this publication will be as useful and effective in an electronic procurement environment as they are in traditional procurement.

### **THE CHALLENGE**

The challenge is to work within procurement laws to enhance performance while ensuring wise use of the public's money. By examining the wide array of current procurement policies, procedures, laws and regulations and focusing on value, municipal purchasing officials can — in partnership with other municipal officials, leaders and stakeholders — maximize public purchasing power to enable the utility to improve efficiency, increase competitiveness, and protect the public interest.

Many might dismiss various procurement methods as not allowed in their jurisdiction. But thorough examinations of state and local laws reveal more flexibility than previously thought.

Public procurement is a complex process involving policy makers, public procurement officials, utility directors, city attorneys, consulting engineers, equipment manufacturers, contractors and ultimately, utility customers. In the early days, when municipalities almost exclusively provided water and sewerage services, procurement laws functioned solely to safeguard public dollars.



Today, procurement laws and practices still fulfill that function, but municipalities are constantly challenged to provide ever-higher levels of service and performance, leaving procurement a dual mission — ensuring the accountability of the public purchasing process and enabling public utilities to compete in a fast-paced market. To do both requires flexibility, commitment, creativity, cooperation and a willingness to change from all parties in the procurement process.

## **PROCURING VALUE**

Value means more than just the lowest purchase price. It is the lowest total cost of ownership, which includes operating costs, cost of procurement, reliability and after-purchase support. To ensure wise investment, the assumption that the lowest price automatically equals the best deal must be challenged. All sides of the procurement equation agree. The process should be more value-focused than price-conscious.

## **THE BENEFITS**

Enhancing procurement will benefit the utility and the community it serves by sharpening the utility's competitive edge through focusing on value — which, in the long run means that utility customers are getting the best possible deal. Additional utility benefits include improved equipment and service quality and reduced equipment life-cycle costs. There are commensurate benefits for equipment manufacturers and service providers as well. Widespread public purchasing innovations would foster a business climate that would support process improvement and encourage more research and development. In turn, breakthroughs in water treatment technology among competing water equipment manufacturing companies will enhance utility performance, thereby improving customer service and environmental protection.

## **THE STRATEGY**

Maximization can be accomplished through coordinated efforts that include the following: communication, thorough analysis and understanding of laws and procedures, a commitment to improvement, performance benchmarking and investigating alternate procurement methods. The key is to identify where improvements can be made. A thorough review of laws, regulations and policies should generate new flexible procurement strategies that can be piloted on a small scale at first. The basic methods include bidding, request for proposals, sole source, and emergency procurement. Within these broad categories, numerous variations exist. With the best value in mind, procurement officials can choose the best procurement strategy on a case-by-case basis.

## PROCUREMENT METHODS

- **BASE BID** - Referencing one or more manufacturer's brand names, with identifying model numbers, for which competitive prices are solicited; no alternatives will be considered unless specifically provided for in the bid form.
- **COMPETITIVE SEALED BIDDING** - The method for acquiring goods, services and construction in which the award is made to the lowest responsive and responsible bidder, based solely on the response to the criteria set forth in the Invitation for Bid (IFB). This method does not include discussions or negotiations with bidders.
- **COOPERATIVE PURCHASING BASE BID** - Referencing one or more manufacturer's brand names, with identifying model numbers, for which competitive prices are solicited; no alternatives will be considered unless specifically provided for in the bid form. A variety of arrangements whereby two or more public procurement units purchase from the same supplier using a single IFB or Request for Proposal (RFP). The intent of cooperative purchasing is to obtain the benefits of volume purchasing and/or achieve a reduction in administrative expenses.
- **INCENTIVE CONTRACTING** - Provides for the adjustment of profit and establishing the final contract price by a formula based on the relationship of final negotiated cost to total target cost. Intended to encourage the contractor to effectively manage contract costs to the mutual benefit of the contractual parties.
- **LEASING** - Contract giving one party (the lessee) the right to use real property, or other asset owned by another (the lessor) for a specific time, in return for compensation. Title does not pass from the lessor to the lessee. Another option is the lease-purchase agreement.
- **PREPURCHASE BASE BID** - Referencing one or more manufacturer's brand names, with identifying model numbers, for which competitive prices are solicited; no alternatives will be considered unless specifically provided for in the bid form. This is an approved list of services, supplies, equipment, or construction items specifically described that, prior to competitive solicitation, the public entity has determined will meet the applicable specification requirements. Also known as an Evaluated Bid, under this model, equipment is selected based on factors such as cost analysis, value analysis or other system that includes factors other than initial purchase price. Pre-selection allows for a negotiated price between the owner and the prequalified manufacturer to be listed in the construction specification.
- **PREQUALIFICATION OF BIDDERS** - The screening of potential vendors or contractors in which such factors as financial capability, reputation, and management are considered in order to develop a list of qualified bidders. Prequalification may be used for specific projects, or for limited periods of time.
- **REQUEST FOR PROPOSALS (RFP)** - A formal request to prospective vendors or contractors soliciting competitive proposals leading to competitive negotiations.
- **SOLE SOURCE PROCUREMENT** - Procurement in which only one vendor, contractor, or manufacturer possesses the unique and singularly available capability to meet the requirement of the solicitation. Such singularity may be technical qualifications, availability of product or ability to deliver within a required timeframe, or proprietary rights. Some states allow that a sole source may be that which is "practicably" the only source available.

# ELEMENTS OF VALUE: FACTORS IN LOWERING TOTAL LIFE-CYCLE COSTS



The following "elements of value" should be taken into account for most purchases:

**PURCHASE PRICE** - Value comes from obtaining the lowest price.

**INTERNAL COSTS OF PROCUREMENT** - Value comes from minimizing the amount of internal administrative bid preparation costs.

**TIME-VALUE OF MONEY** - Value comes from the decision to spend more in the form of capital cost, in order to receive reoccurring benefits from the product (such as lower O & M costs, longer operating life, superior effluent quality, etc.) in the course of its operating life.

**AFTER PURCHASE SUPPORT** - Value comes from the manufacturer's support of the equipment in the form of field service, training, process backup, spare parts inventory, and documentation resources throughout the life of the project.

**RELIABILITY** - Value comes from the ability to rely on the company's ability to live up to the delivery and performance requirements, guarantees and promises they make.

**OPERATING COSTS** - Value comes from lower operation and maintenance costs associated with use of the product, including ease of operation. (Operating costs should include both direct and indirect costs associated with the operation of the equipment. Direct costs include the cost of parts and labor for maintenance, energy consumption and the cost of any consumables related to equipment operation. Indirect costs include system downtime due to maintenance and the impact of the equipment on system efficiency. Lower operating costs will often offset a higher purchase price and provide a positive return on investment on the higher initial investment.)

**MANUFACTURER'S EXPERIENCE** - Value comes from being safe and secure in the knowledge that the equipment being purchased is suitable for the job and has performed under a series of circumstances of similar nature.


## RELATIVE VALUE OF PROCUREMENT METHODS

	PURCHASE PRICE	INTERNAL COSTS	TIME-VALUE OF MONEY	AFTER-PURCHASE SUPPORT	RELIABILITY	OPERATING COSTS	MANUFACTURER'S EXPERIENCE
BASE BID	◇	◇	◇	◇	●	●	●
COMPETITIVE SEALED BIDDING	●	◇	◇	○	○	○	○
COOPERATIVE PURCHASING	●	●	●	○	◇	◇	◇
INCENTIVE CONTRACTING	○	◇	○	◇	◇	◇	◇
LEASING	○	●	●	◇	◇	◇	◇
PREPURCHASE	◇	◇	●	●	●		●
PREQUALIFICATION OF BIDDERS	◇	○	◇	●	●	●	●
REQUEST FOR PROPOSALS	◇	◇	◇	○	○	○	○
SOLE SOURCE PROCUREMENT	◇	○	●	●	●	●	●

### GUIDE<sup>1</sup>

● GREATEST VALUE TO OWNER    ◇ NEUTRAL VALUE TO OWNER    ○ LEAST VALUE TO OWNER

<sup>1</sup>These values represent a group opinion of the procurement method's relative ability of achieving a designated level of value, but actual outcomes will vary. The purpose is to stimulate high level, thoughtful discussion by those involved in the procurement process.



Municipalities can choose from several alternate methods when optimizing procurement procedures. Different projects and equipment require different approaches. Generally speaking, the more critical the nature of the equipment or service, the more special attention must be paid to its procurement. The following are general guidelines to ensure maximum value, maximum service:

- Investigate and exercise all available procurement methods
- Involve procurement staff early in project
- Develop procurement goals on life-cycle costs
- Tap into private-sector innovation
- Identify various sources and vendors
- Research the market

## FURTHER INFORMATION & RESOURCES

Further information and resources on procurement laws and procedures and public agency competitiveness are available to help optimize public agency purchasing power. The following organizations, publications and documents offer more details on important aspects of procurement:

### ORGANIZATIONS

- Association of Metropolitan Sewerage Agencies, [www.amsa-cleanwater.org](http://www.amsa-cleanwater.org)
- Water & Wastewater Equipment Manufacturers Association, [www.wwema.org](http://www.wwema.org)
- National Institute of Governmental Purchasing, [www.nigp.org](http://www.nigp.org)
- International City/County Management Association, [www.icma.org](http://www.icma.org)
- Government Finance Officers Association, [www.gfoa.org](http://www.gfoa.org)
- Governmental Accounting Standards Board, [www.rutgers.edu/accounting/raw/gasb](http://www.rutgers.edu/accounting/raw/gasb)
- American Bar Association, [www.abanet.org](http://www.abanet.org)
- Center for Advanced Purchasing Studies, [www.capsresearch.org](http://www.capsresearch.org)
- Water Environment Federation, [www.wef.org](http://www.wef.org)

### DOCUMENTS

- GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*
- *Model Procurement Code* - The American Bar Association's June 1999 Re-Draft

### PUBLICATIONS

- *Creating High Performance Business Services: A Public Sector Handbook* -AMSA/ Association of Metropolitan Water Agencies
- *Engineered Equipment Procurement Options to Ensure Project Quality* - Water Environment Federation



#### Association of Metropolitan Sewerage Agencies

1816 Jefferson Place NW  
Washington, DC 20036-2505 USA  
202/833-AMSA  
Fax 202/833-4657  
[www.amsa-cleanwater.org](http://www.amsa-cleanwater.org)  
[info@amsa-cleanwater.org](mailto:info@amsa-cleanwater.org)

The Association of Metropolitan Sewerage Agencies (AMSA) is a national trade association representing over 260 of the nation's publicly owned wastewater utilities. AMSA members serve the majority of the sewered population in the United States and collectively treat and reclaim over 18 billion gallons of wastewater every day. AMSA members are environmental practitioners dedicated to protecting and improving the nation's waters and public health. For additional information on AMSA and its initiatives, please call AMSA's National Office at 202/833-AMSA or visit the Clean Water on the Web site at <http://www.amsa-cleanwater.org>.



#### Water & Wastewater Equipment Manufacturers Association Inc.

PO Box 17402  
Washington, DC 20041 USA  
703/444-1777  
Fax 703/444-1779  
[www.wwema.org](http://www.wwema.org)  
[wwema@erols.com](mailto:wwema@erols.com)

The Water and Wastewater Equipment Manufacturers Association (WWEMA) was founded in 1908 to advance the interests of companies that manufacture technology used in the treatment of wastewater, and purification of potable water, for industrial and municipal clients. The member companies of WWEMA are among the world's leading providers of technology to the water and wastewater industry, employing 43,000 workers with collective sales nearing \$6 billion worldwide.