

Department of Planning and Budget 2003 Fiscal Impact Statement

1. Bill Number HB2192

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☒ Enrolled

2. Patron McQuigg

3. Committee Passed both Houses

4. Title Virginia Public Procurement Act; reverse auctioning.

5. Summary/Purpose: This proposal removes the sunset provisions from legislation that permits state agencies and other public bodies to procure goods and nonprofessional services by reverse auction. A reverse auction is an electronic procurement tool permitting vendors' prices for particular goods and nonprofessional services to be revealed to their competitors. As these prices are revealed, all competitors are permitted to resubmit their proposals as many times as they wish until a predetermined time frame for the submission of bids has expired or a next extended period of no activity has passed. Once this time frame has expired or the extended period of no activity has passed, the state agency or public body awards a contract for these goods or nonprofessional services to the lowest responsive and responsible bidder. The enrolled legislation exempts bulk purchases of commodities used in road and highway construction and maintenance, including aggregates, from purchase by reverse auction.

6. Fiscal Impact is indeterminate.

7. Budget amendment necessary: No.

8. Fiscal implications: Although the ultimate fiscal impact of this measure is indeterminate, permitting the continued use of reverse auctions should result in lower prices for the goods and nonpersonal services purchased by state agencies. For example, the Department of General Services (DGS) has so far conducted three reverse auctions. These reverse auctions, when compared to the costs of the previous contracts, which were awarded on the basis of traditional procurement strategies, produced savings of four to 21 percent. The following cases demonstrate the value of reverse auctions:

(1) DGS used a reverse auction to procure bags for the Department of Alcoholic Beverage Control (ABC). Using this strategy, the number of vendors participating in the procurement action increased from one to ten, and when compared to the previous cost of this contract, the lowest bid (\$52,942) yielded savings of \$13,874, or 21 percent.

(2) DGS used a reverse auction to procure the rolled aluminum necessary for Virginia Correctional Enterprises' production of license plates. Using the strategy, the number of vendors participating in the procurement action increased from three to four firms, and when

compared to the previous cost of this contract (\$1.043 per pound), the lowest bid (\$1.015 per pound) yielded savings of \$38,190, or four percent.

(3) DGS used a reverse auction to purchase mattress inserts for Virginia Correctional Enterprises. In this case, the number of vendors competing for the contract decreased from three to two firms; however, whereas the existing contract holder had originally requested a 16 percent increase in the cost of the contract, the use of a reverse auction kept that increase to 13 percent, yielding savings of \$30,960.

Generally, when used properly, reverse auctions increase both the number of vendors participating in a procurement action and the savings achieved from that procurement action. In the three examples shown, this maxim holds true in two out of three cases. Even in the third case, however, it is clear that despite fewer total participating vendors, the reverse auction still produced contract savings because competitors were able to view each other's prices for the good in question.

9. Specific agency or political subdivisions affected: All public bodies of the Commonwealth would be affected by this proposal.

10. Technical amendment necessary: No.

11. Other comments: A number of entities use reverse auctions. These entities include: the States of Maryland, Minnesota, Pennsylvania, and Wisconsin; the cities of Chesapeake, Virginia, San Antonio, Texas, and Orlando, Florida; the Fairfax County and city of San Antonio Water Authorities; the U.S. Navy; and numerous private sector firms.

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cc: Secretary of Administration