

Municipal Utility Districts' Use of Best Value Procurements

LEGISLATIVE ANALYST'S OFFICE



Introduction

The state Municipal Utility District Act requires that supplies and materials contract awards go to the lowest responsible bidder. Chapter 144, Statutes of 1998 (SB 2009, L. Greene), authorized municipal utility districts serving more than 250,000 customers to use “best value” procurements until January 1, 2006 to acquire information technology (IT) and industry-specific equipment. As described in more detail below, best value procurements allow for the comparison of vendor responses to evaluation criteria other than low bid. Chapter 665, Statutes of 2001 (AB 793, Cox), expands on Chapter 144 by allowing the best value procurement methodology to be used by all municipal utility districts for individual supplies and materials purchases over \$50,000 and by extending the authority until January 1, 2007. Chapter 665 requires districts electing to use this procurement method to submit a report to the Legislative Analyst’s Office (LAO) on or before January 1, 2006, and requires the LAO to report to the Legislature on the method’s use. Senate Bill 1169, introduced in January 2006, would delete the January 2007 repeal date, thereby making permanent the municipal utility district best value procurement provisions. This report fulfills our requirements under Chapter 665.

Best Value Procurements

Best Value Contracting Considers Cost and Other Factors. Low-cost procurements award a contract to the vendor submitting the lowest bid. This objective procurement approach is an effective tool when purchasing goods and services that are well known and do not change. When using the best value procurement process, however, cost is just one of several factors considered. In best value procurements, a competitive process is followed that allows decision making based on evaluation, comparisons, and trade-offs. A procurement team identifies a full set of bid evaluation criteria, in addition to cost, which it believes will bring benefit to the organization. All procurement criteria are then weighted and/or ranked based on a predetermined contributing value. During the bid evaluation process, each bid is rated for each criterion and the contract is awarded to the highest scoring bidder. This process allows bidder evaluations based on criteria that may significantly improve the value of the acquisition. For instance, for the state, a solicitation could involve installing a large number of desktop computers to hundreds of sites statewide. Under a traditional low-cost procurement, the contract is awarded to the vendor offering the lowest product cost and installation rate. However, a best value procurement could include criteria like customer references and the vendor’s prior experience with similar size projects. Depending on the circumstances, the best value approach could increase the procurement’s success.

Entities Are Increasingly Using Best Value Procurements. Traditionally, best value procurements have been employed when services are an important component and/or when the product being acquired is still evolving. This is because measuring the quality of services like consulting or equipment installation is a more subjective process. Also, for product purchases the organization may know most of its requirements, but it may not know everything that is available when standard services and product features are

changing frequently. This has been particularly true in the IT industry, where best value procurements have been used for over a decade. More recently, organizations are beginning to use this process in non-IT acquisitions. In California, the state and several counties use best value procurements for IT products and services contracts.

Authorities Must Develop Clear Procurement Policy and Goals. Federal, state, and local governments and universities have established procurement policies and objectives to provide guidance in the use of best value acquisition methods. These guidelines form the foundation for successful procurements. For instance, an agency may have a goal to reduce administrative overhead costs. With this goal, a procurement team could require vendors to provide rapid delivery times for the product being purchased. Shorter delivery times could decrease overhead costs by reducing or even eliminating inventory requirements. Scoring vendor responses to this requirement would then be one of the bid evaluation criteria. The vendor responding “10 business days” may get a score of one while the vendor responding “72 hours” may get a score of five. Assuming all other evaluation criteria resulted in an equal or higher score, the vendor with the 72-hour order fulfillment process would be awarded the contract. Thus, the acquisition could contribute to the agency’s efficiency goal through the use of a best value procurement.

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Districts Eligible Under Chapter 665. Because Chapter 665 limits the use of best value procurements to utility district purchases over \$50,000, only larger districts such as Sacramento Municipal Utility District (SMUD) and East Bay Municipal Utility District (EBMUD) would tend to qualify for its use. The EBMUD reports it has not made the necessary staff and training investments to begin conducting best value procurements. The three smaller districts eligible for purchasing under Chapter 665 have also not used this authority.

SMUD’s Use of Best Value Procurements. However, SMUD has utilized Chapter 665’s authority and provided a report to our office. Specifically, SMUD reported 34 best value procurements awarded to a variety of vendors during the period 2000 to 2005. Nine contracts were awarded to small businesses and four to minority-owned businesses. Two contract disputes were filed, and the original awards were upheld in both cases.

Reported Savings. For 13 contracts totaling \$27 million, SMUD attributed \$8 million in financial benefits to the use of a best value procurement process. The district did not quantify the benefits achieved from the remainder of the best value procurements. The SMUD report did not provide enough detail for us to validate the savings estimates. However, SMUD management staff did describe to us examples of benefits achieved through some of their best value procurements. For instance, procurement for a copier revealed one model with e-mail interoperability that reduced processing steps and time. This function was not available in the other models meeting the basic bid requirements and its availability was unknown to the district prior to the procurement. Because the best value procurement process let the team interview vendors, compare proposals, and

assign points for added value, the team reports that the process improved the quality of the purchase.

Best Value Procurements Can Be a Worthwhile Option

While low cost purchasing still has an important role in government purchasing, getting the best value for a product or service does not always mean choosing the lowest bidder. However, an organization must make the up-front investment necessary to support best value procurements. Procurement managers must ensure their staff are properly trained on the best value procurement process and must help their staff develop procurement requirements that promote the organization's strategic goals. Early on, best value procurements can be time-consuming and cumbersome as bid evaluation criteria are developed and fine-tuned. However, with repeated use, agencies can perform best value procurements with a similar level of effort as traditional procurements. Based on their report, it appears SMUD has invested the necessary resources in these steps.

Based on the limited experience to date, it appears that the best value procurement authority provides municipal utility districts with an important tool. The one district that has used the authority—SMUD—reports major benefits and we are not aware of any significant downsides. Accordingly, we recommend that the Legislature extend the law beyond the current January 1, 2007 sunset date.



The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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