Doing Business with Local Vendors:
City of Fort Collins Purchasing Policies

What are the City's policies and practices with respect to local vendors?

The City is committed to doing business locally whenever possible. When local businesses provide the most cost-effective solutions to the City's needs, the citizens and taxpayers of Fort Collins benefit in two ways: They get the best value for their dollars, and more of those dollars are recycled within the community.

To encourage this, the City's overall policy is to ensure that local businesses are given full information about City needs, treated fairly at every step of the process, and given every opportunity for genuine competition on a level playing field.

How does this work on a day-to-day basis?

First, individual City departments have the authority to make purchases directly up to $5,000. In most cases, local businesses are able to meet needs more quickly, more economically, and with better, more competent service than non-local businesses who are not as familiar with Fort Collins.

Second, for purchases ranging from $5,000 to $60,000, the City's Purchasing Division has the authority and flexibility to deal with local vendors to provide the best value for the citizens. Often, because of lower shipping and delivery costs, faster service, and local follow-up, local businesses can provide the most cost-effective transactions at this level as well.

Finally, for all goods and services over $60,000, where the purchasing ordinance requires a formal competitive sealed bid or competitive sealed proposal process be used, the Purchasing Division ensures that local companies have every opportunity to compete and succeed. In a formal bid process, local firms often can meet the required specifications and qualifications more easily and therefore can frequently provide the lowest price and best value.

What advantages do local firms have in competitive proposals?

There are six criteria commonly used for the evaluation and award of contracts through competitive sealed proposals (generally known as A Request for Proposals or an RFP). These criteria guarantee a level playing field in meeting the City's needs on a cost-effective basis that provides the best value for the taxpayer's dollar, and local firms often have a competitive edge:

> *Scope of the Proposal* includes the proposer's understanding of the project or scope of work. Local firms often have a depth of understanding and a history of involvement with the City that allows for high-quality proposal submittals.
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> *Capability of the Firm* includes the technical and professional history and accomplishments of the company. Many local companies have demonstrated superb professional backgrounds and strong capabilities.
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> *Assigned Personnel* includes the qualifications of the individuals who would actually perform the project. Local firms often provide superior service in this area because their principal professional staff are here.
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> *Availability* relates to how effectively the work can be scheduled and how well the contact can be maintained with the responsible City staff. Local firms typically have greater flexibility incorporating City projects into their work flow because of the ease of scheduling meetings, providing documents and drawings, and responding quickly to a project need.
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> *Motivation* gives firms an ability to present their familiarity with the project, the location, and the City project management team, and an opportunity to express their level of desire to do the work. Local firms often have an advantage because of their knowledge of the City and of project-related conditions. In addition, because local firms reap the same advantages on their side that the City receives on its part, their motivation to compete for and perform City projects is excellent.
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> *Cost and Work Hours* includes the cost-effectiveness and planning expertise that the proposer brings to the project. Because of their proximity, which reduces travel time and costs, local firms may be able to conduct the work more cost-effectively, and they may also have lower overhead costs than large national or regional firms.

What is a local preference?

Some jurisdictions have established a legally-binding preference in the bid and proposal system that gives a direct financial advantage to local companies. Generally, such a preference involves a percentage of cost (say, 5%) subtracted from the bid prices submitted by local firms, so that they have an advantage over a non-local firm. Another type of local preference is to limit the eligible bidders to the local area, so that non-local firms are not even permitted to compete.

What are the advantages of local preferences?

Jurisdictions that have implemented local preferences believe that there are two advantages.

First, they contend that the extra cost to the preference is outweighed by the need to support local businesses, and that the jurisdiction's commitment to the local business community will be repaid by the businesses commitment to the general community.

Second, they believe that spending money locally reaps benefits to the jurisdiction in tax-base maintenance or tax-receipt growth because a portion of the dollars spent locally are recycled locally. That is, a local business receiving a payment from a city, county, or school district will probably spend a portion of its profits with other local businesses, will pay its local employees who then shop in the local community, and so on. This recycling of dollars is called the multiplier effect by economists.

What are the disadvantages of local preferences?

There are several major issues affecting formal, legally-binding local preferences:

First, a preference costs the taxpayers more money.

Obviously, local preferences hurt the competitive process by reducing the incentive for local businesses to provide the best value for the dollar. In addition, preferences reduce competition because other companies may decide not to bid when they know they don't have the same chance to compete.

Preference programs can also lead to more serious problems, providing an unintentional incentive for bid collusion or bid rigging. For example, if only two local companies are eligible to bid for a certain commodity, or have a bid advantage because of a local preference, they may be tempted to coordinate their bidding to share the jurisdiction's business without any genuine competition.

Overall, studies have shown that a local preference directly results in jurisdictions paying more money for the goods and services that are subject to the preference. The decision to consider a local preference, therefore, becomes a judgment call as to whether the extra cost is worth it.

Second, who is local, and who is not?

The definition of local businesses is a significant problem in two ways: geography, and ownership and management.

In terms of geography, where do you draw the line? For example, if the jurisdiction is a city, is a business located just outside the city limits a local business? Is a post office box a local business? Should a local preference reach beyond the city limits to incorporate an Urban Growth Area, or the entire county? What about a business whose headquarters is in the city, but most of its business is actually conducted elsewhere? Or vice-versa: is a business located in a neighboring town, but doing a substantial amount of business locally, a local business? And should the number of employees who reside in the jurisdiction be a factor in whether or not the business is genuinely "local"?

Ownership and management are also complicated. Is the local branch of a national company a local business? If a local business is owned by someone living out of state, so that all the profits go out of state, should it be equally eligible for a preference as a business whose owner lives next door? And if a business is publicly held or has multiple owners, should a majority of the stockholders be required to live in the local area?

The geography and ownership/management problems overlap, and can be very difficult to resolve.

Third, how many dollars are actually recycled?

A similar problem relates to the true economic advantages of the multiplier effect described above: the multiplier effect is difficult to quantify and varies depending on the item purchased.

Some businesses (primarily service businesses) must pay out most of their receipts to their employees; these dollars are recycled when the employees spend them locally. Other businesses, however, are capital intensive, with relatively few employees and most of the receipts going into the cost of sales, distribution, or production of goods and products; those expenditures may or may not involve other local suppliers or manufacturers.

For example, when a car is purchased from a local dealer, a small portion of the cost goes to the dealer's employees and local profits -- but the majority of the funds go to the manufacturer, generally not a local firm. The issue of ownership also is part of this problem: Where do the profits go to be recycled?

Although dollars are always recycled, and the multiplier effect is a genuine economic factor, the net bottom line impact that a preference creates because of the multiplier effect is very difficult to measure. Ideally, the goal to a preference program would be to create a structure that guarantees enough of an actual economic advantage to the jurisdiction to financially offset the direct cost of the preference in higher bid prices or reduced competition. This is a complex and ambiguous calculation.

Fourth, a preference alienates other jurisdictions.

Other governmental jurisdictions do not like to see their local businesses placed at a financial disadvantage in competing with vendors in other localities. This reaction has led to the development of reciprocal preferences.

These laws (which might be better called negative preferences) require retribution against companies located in areas that have a local preference when these companies try to do business elsewhere. That is, the financial preference that a firm receives in its home jurisdiction becomes a financial penalty if it tries to compete for governmental business in a jurisdiction with a reciprocal preference. This is not a problem for a firm that doesn't want to do work or sell products anywhere else, but it can hurt firms that are competing for broader markets.

For example, the State of Wyoming provides a 5% bid preference for Wyoming-based companies. The State of Colorado has a reciprocal preference, so a Wyoming firm that bids on a Colorado project is penalized by 5%, and must therefore be at least 5% cheaper than the lowest bid from any other company to have a chance to win. Many bids are decided by a margin of 2%, 1%, or less; for many commodities, 5% may be more than the total profit margin -- making it literally impossible for a non-local firm to have any chance of winning (and thereby automatically raising the cost to the taxpayers).

A Fort Collins company that does business with other governmental jurisdictions could be hurt by a local preference in Fort Collins -- even if it is not doing business with the City of Fort Collins!

Finally, preferences complicate the administrative process.

Both financial preferences and reciprocal preferences add to the administrative cost of conducting bids and proposals. Many factors must always be considered to meet basic purchasing laws and regulations; every additional requirement simply adds to the time required and possibility for human error in bid evaluation, calculation, and award -- and therefore raises the ultimate costs to citizens of the jurisdiction.

In addition, some governmental jurisdictions simply prohibit local preferences from being applied to projects they are involved with. The Federal government prohibits the use of local preferences on any project for which it provides any part of the funding. This type of regulation further complicates the bid and award processes at a time when more and more projects require governments to work together and seek funding from multiple sources.

Have national organizations taken a position on local preferences?

Several major professional organizations that deal with governmental purchasing and procurement have analyzed the pros and cons of local preferences, and have taken the position that preferences are not cost-effective. These organizations include:

The National Institute of Governmental Purchasing;
The International City and County Managers Association;
The Governmental Finance Officers Association; and
The Council of State Governments.

How does Purchasing communicate with the local business community?

In addition to the maintenance of an automated bidder's list, the Fort Collins Purchasing Division has also developed several other proactive means to aid local vendors. These include meetings to explain our processes; holding local trade shows for the departmental purchasing officials responsible for making small purchases and developing purchasing specifications and bidder lists; and attending local business community events so as to be familiar with the goods and services available. The City's weekly list of bids and proposals is also posted at the Purchasing office, televised regularly on the City television channel, posted on the Internet, and this list is always available on request.

The Purchasing Division has periodically worked with the local Chamber of Commerce in the past to review our processes and procedures, and will continue to do so. This has resulted in the Chamber supporting the policies outlined above, ensuring that local vendors are given full information and opportunity for fair competition.

Overall, the City's commitment to the local business community remains a cornerstone of purchasing and procurement policy, and will continue to be implemented in the context of competition to guarantee the best, most cost-effective value for the citizens and taxpayers.

For assistance or more information, please visit, call, e-mail, or write to:

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