

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 86 (Chairman, Education, Health, and Environmental Affairs
Committee) (Departmental – General Services)

Education, Health, and Environmental Affairs Commerce and Government Matters

State Procurement - Auction Bids

This departmental bill allows a primary procurement unit to use auction bids in the procurement of supplies with an estimated contract value of at least \$1 million.

The bill is effective July 1, 2002.

Fiscal Summary

State Effect: Potential significant expenditure decrease for the purchase of supplies and an increase in administrative efficiency for these procurements. The bill's requirements could be handled by existing resources.

Local Effect: Potential expenditure decrease for the purchase of supplies.

Small Business Effect: The Department of General Services has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The bill provides requirements for an invitation for auction bids including, at the discretion of the procurement officer, the evaluation of technical offers or samples before price bids are accepted.

In the auction bid method, bids are to be made in public with the identity of a bidder not available until bidding is completed. Under certain circumstances, bidders may correct or withdraw bids. The contract is to be awarded to the responsible bidder who submits the responsive bid with the lowest bid price or, if the invitation for auction bids so provides, the lowest evaluated bid price.

The bill makes provisions for the use of sole source negotiation if there is only one bidder. Also, a contract may be awarded on the basis of revised bids if: all bids are rejected; all bids exceed the funds available for the procurement; or with approval of the head of the primary procurement unit (or designee), the procurement officer determines that all bids are unreasonable with respect to at least one requirement and issuing a new invitation for bids would not be in the best interest of the State.

Current Law: Under current law, procurement is by competitive sealed bid unless one of the following methods is authorized: competitive sealed proposals; noncompetitive negotiation; sole source procurement; emergency or expedited procurement; small procurement; or an intergovernmental cooperative purchasing agreement.

Background: The auction bid method for procurement is sometimes referred to as a “reverse auction” because the process is similar to a typical auction except that the outstanding bid becomes sequentially lower rather than higher.

An informal survey by the Department of Legislative Services (DLS) Library Services found ten states, including Pennsylvania and Virginia, provide for the use of auction bids, although not all of the ten states have statutes specifically allowing the method.

The use of auction bids is an extension of the use of the Internet and e-commerce for state procurement. The electronic Virginia site on the Internet is in the process of adding an auction bid component, and Minnesota launched a pilot auction bid program electronically in June 2001.

Pennsylvania has completed 19 reverse auctions with a projected savings of \$10.2 million or 14.0% over the request for proposals (RFP) method. The largest projected savings were for office furniture where the use of auction bids is estimated to have saved \$4.4 million, a 32.1% reduction compared to the RFP method.

The eMaryland Initiative (Chapter 6 of 2000) created a CEO Board of Advisors for E-Commerce and an eMaryland Application Service Provider (ASP) at the University of Maryland to create an advanced electronic business environment in Maryland. The Department of General Services (DGS), in partnership with Science Applications International Corporation (SAIC) and its partners KPMG Consulting and Mëtiom, has

established the eMaryland Marketplace (www.emarylandmarketplace.com) to provide for interactive bidding and catalog purchasing. The interactive bidding is a paid subscription service (\$150 for basic service, \$225 for premium level) that allows the State to post solicitations and receive bids online. The catalog purchasing allows vendors to post e-catalogs from which State agencies can make electronic purchases at a cost to the vendor of \$3.50 per transaction.

Chapter 354 of 2001 permits the State to conduct all aspects of procurement by electronic means. According to DGS, since then the eMaryland Initiative has solicited over \$75 million in goods and services on behalf of State and local government entities.

State and Local Fiscal Effects: DGS advises that it could conduct auction bidding with current resources. Based on Pennsylvania's experience, the use of auction bids could produce significant savings for State agencies or local governments that use DGS contracts for supplies procured by auction bidding. The amount of any savings cannot be reliably estimated at this time. The use of auction bids will increase administrative efficiency in the procurement of supplies.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of General Services, Department of Health and Mental Hygiene, University System of Maryland, Department of Transportation, Department of Budget and Management, Department of Public Safety and Correctional Services, Department of Legislative Services

Fiscal Note History: First Reader - January 24, 2002
ncs/jr Revised - Senate Third Reader - March 19, 2002

Analysis by: Christine A. Scott

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510