

## **Bidding Threshold Review and Recommendations**

In the City Procure-to-Pay (P2P) Process Performance Audit conducted in May, 2013 by the Office of the Auditor of the City & County of Denver, Recommendation 1.5 encouraged the Purchasing Division to “Evaluate the dollar thresholds considering the costs and times associated with each level, and consider proposing that City Council adjust them to fit the needs of the City. Because this evaluation should occur on a regular basis, Purchasing should define how often such an evaluation should occur”.

The DRMC Section 20-63 Bidding Thresholds, for use by buyers within the General Services Purchasing Division, have been modified twice in the last 30 years. In 1983, the levels were set by Ordinance at \$1,500 for “Open Market” purchases (buyer discretion/bidding not required), \$1,500 to \$15,000 for “Informal Level” purchases (three bids solicited via fax, e-mail or telephone with no formal advertising or sealed bid requirement unless a valid DRMC 20-64 bidding exception applies), and “Formal Level” purchases at \$15,000 and up (advertised, sealed bid required unless a valid DRMC 20-64 bidding exception applies).

In 1996, the DRMC 20-63 Bidding Thresholds were adjusted by Ordinance to their current levels. Open Market was increased to \$5,000, Informal Level was increased to \$25,000, and Formal Level was increased to \$25,000 and up.

A check of the historical Consumer Price Index shows that something that cost \$1.00 in 1983 had a cost of \$1.58 in 1996 and would cost \$2.34 in 2013 dollars.

### **CONSUMER PRICE INDEX:**

\$1.00 in 1983 = \$1.58 in 1996

\$1.00 in 1996 = \$1.49 in 2013

\$1.00 in 1983 = \$2.34 in 2013

\$1500 in 1983 = \$2370 in 1996 – OPEN MARKET LEVEL ACTUALLY RAISED TO \$5000

\$15,000 in 1983 = \$23,700 in 1996 – INFORMAL LEVEL ACTUALLY RAISED TO \$5000 - \$24,999

\$5,000 in 1996 = \$7,450 in 2013

\$25,000 in 1996 = \$37,250 in 2013

A survey of eight similar sized or larger Cities and Counties outside of Colorado provided the following information about Informal Bidding Thresholds used by their Purchasing Departments:

Salt Lake City, UT - \$2,500 to \$40,000

Los Angeles, CA - \$100,000 and under

Chicago, IL - \$100,000 and under (classified as small orders. Telephone, e-mail or fax)

Portland, OR - \$50,000 to \$150,000

San Francisco, CA - \$50,000 and under

St. Louis County, MO - \$25,000 and under

Kansas City, MO - \$150,000 and under

San Diego, CA - \$25,001 to \$50,000

A survey of larger Colorado Cities and Counties along with CDOT and State of Colorado provided the following information about current Informal Bidding Thresholds used by their Purchasing Departments:

Aurora - \$5,000 - \$25,000  
 Boulder - \$10,000 - \$50,000  
 Ft. Collins - \$5,000 - \$60,000  
 Grand Junction - \$5,000 - \$10,000  
 Lakewood - \$5,000 - \$25,000  
 Arapahoe County - \$2,500 - \$25,000  
 Boulder County - \$15,000 - \$24,999  
 Jefferson County – Up to \$50,000  
 Larimer County - \$5,001 - \$25,000  
 CDOT - \$5,000 - \$50,000 (Goods), \$25,000 - \$50,000 (Services)  
 State Purchasing Office - \$10,000 - \$150,000 (Goods), \$25,000 - \$150,000 (Services)

Informal bidding procedures give buyers the flexibility to solicit three vendor proposals via fax, e-mail or telephone and do not require advertising or a sealed bid process. By their nature, Informal Bids improve Cycle Times (Requisition entry to Purchase Order placement to receipt of material), a major focus of the previously mentioned P2P Audit (Recommendations 1.3.1 and 1.3.2). A typical Informal Bid can be issued, evaluated, awarded and ordered within a 7-10 day period. By contrast, a typical Formal Bid requires approximately 3-4 weeks. A sample of 109 Formal Bids (estimated initial value exceeding \$25,000) from 2012 provided the following information:

**Awarded Value of Formal Bid:**

Under \$25,000 = 14 Bids  
 \$25,000-\$50,000 = 28 Bids  
 \$50,000-\$100,000 = 25 Bids  
 \$100,000-\$250,000 = 26 Bids  
 \$250,000 and Over = 16 Bids

Additionally, a higher informal bidding threshold would enhance the Purchasing Division’s ability to increase participation by Small, Minority and Women Owned business enterprises. The pending Ordinance request resulting from the recently completed Disparity Study envisions a SBE Defined Pool for identified Goods and Services. Using the Formal Bid analysis above, 38.5% of the identified solicitations would have moved from Formal to Informal level with an increase to a \$50,000 informal level. While not all of them would have qualified for Defined Pool solicitation under the proposed Ordinance, informal bidding opportunities also allow buyers to invite participation by S/M/WBE vendors in non-identified commodities. This can have the effect of improving overall aspirational goals.

Based on the information presented above, the Purchasing Division recommends the following changes be made to DRMC 20-63 regarding Bidding Thresholds:

Open Market Purchases	Currently \$5,000	Increase to \$10,000
Informal Level Threshold	Currently \$5,000 - \$25,000	Increase to \$10,000 - \$50,000
Formal Level Threshold	Currently \$25,000 and Over	Increase to \$50,000 and Over

Additionally, the Purchasing Division recommends that an evaluation of bidding thresholds be conducted every 10 years moving forward.

These proposed changes do not apply to agency requisitioning or Procurement Card requirements as detailed in Fiscal Rule 8.1 or to associated Fiscal Rules and Executive Orders. They are intended to modify the bidding requirements for buyers in the Purchasing Division only.