

DATE: January 16, 2007

TO: Mayor, Board of Estimates Members, Economic Development Commission Members and Alders

FROM: Joint Subcommittee on Local Preference Purchasing Policies

SUBJECT: Buy Local purchasing policies

Local preference purchasing policies, or Buy Local policies, have been adopted by various municipalities to provide a formal preference for acquiring goods and services for their operations through local vendors. A subcommittee of members from the Board of Estimates and the Economic Development Commission have considered the issue of potential Buy Local policies for the City of Madison and make the following recommendations.

Public purpose. The subcommittee found that there are two primary potential public benefits to the City adopting a Buy Local policy. First, buying locally retains and circulates more money in the local economy. Second, the City's adoption of a Buy Local policy would encourage area residents, businesses and other units of government to also buy locally.

Current condition. The City has a primarily decentralized approach to purchasing and delegates authority to agency staff for many of its purchases. Current purchasing oversight falls into three categories:

- Purchases less than \$5,000 are made by agency staff using their best judgment. This informal process has limited oversight by staff in the Comptroller's Office. These purchases are typically paid for using P-Cards and limited purchase orders (LPOs).
- Purchases from \$5,000 to \$25,000 involve formal written quotes that seek three bidders. Agency managers typically determine which vendor to use. Comptroller staff rarely oversee such purchases. Payment is typically made via purchase order.
- Purchases over \$25,000 are coordinated and reviewed by purchasing staff in the Comptroller's Office. This is the most formal purchasing process under current practices. Payment is typically made via purchase order.

Address is the only data currently collected that can be used to determine whether a business is local. About 70% of purchase orders currently involve an address within Dane County. About half of P-Card purchases are made at a Dane County address.

Recommendations. The subcommittee recommends adopting a simple policy that could be easily followed by vendors and administered by City staff. The subcommittee recommends defining the local area as Dane County. The subcommittee also concluded that local address alone may not fully satisfy the spirit of the policy. So, additional criteria should be applied to determine whether a vendor is local.

Reflecting current practices, the subcommittee recommends two policies: one that applies to purchases under \$5,000 and another that applies to purchases over \$5,000. These policies should apply based on the dollar amount of the purchase, not the method of payment (P-Card vs. purchase order vs. LPO).

Purchases under \$5,000. The subcommittee recommends a Buy Local policy for purchases under \$5,000 that largely reflects the parameters proposed by Alder Palm in Legislative File Number 04928.

Given the decentralized and informal nature of such purchases, holders of City P-Cards would be encouraged, but not required, to use local vendors. To facilitate the identification of local vendors, the City should provide an opportunity for vendors to identify themselves as local according to several criteria:

- Portion of its employees working at facilities in Dane County (minimum 50%);
- Portion of ownership vested in residents of Dane County (minimum 50%);
- Portion of business sourcing within Dane County (minimum 15%). Sourcing includes the local acquisition of supplies and raw materials or support services like contract employees, accounting, advertising, banking, printing, etc.

Only businesses that meet the minimum level for two of the three criteria would be considered local. In addition, the scores would result in a ranking of businesses, which is to say that some businesses on the list may be considered more local than others.

Any person or organization may voluntarily contribute to this list via the Internet. The resulting list would be provided to authorized holders of City P-Cards as well as to citizens to help guide their buying decisions. The City's Information Services Department should be consulted on how this list would best be made available for this purpose.

Purchases over \$5,000. To determine if a vendor is local, questions would be incorporated into formal bid documents and requests for proposal. A vendor must meet two of the three minimum criteria above to be considered local. Based on these criteria, a vendor is either considered local or non-local. There are no varying degrees or rankings applied.

For these more formal purchases, the subcommittee recommends two sets of policies that depend on the method used to make the purchase.

Bids. The acquisition of commodities over \$5,000 is typically done by bids. Generally, the only criteria used in making the determination is purchase price.

First, for these purchases, the subcommittee recommends establishing a preference of 1% for local vendors. If a local vendor submits a bid within 1% of the lowest non-local bidder, the purchase is awarded to that local vendor.

Second, the subcommittee also recommends a policy that would allow a local vendor to submit an additional bid if its original bid was within 3% of the lowest bid of a non-local vendor. Generally, a qualifying local vendor would have 48 hours to match the bid. In such instances, the 1% preference would not be applied. The subcommittee believes this opportunity to match would help avoid possible cost increases resulting from a Buy Local policy.

Requests for Proposal. RFPs are typically used to acquire services over \$5,000. They are evaluated against criteria in addition to purchase price that can include timeliness of delivery, past performance and other factors. RFPs are scored against these established criteria. The subcommittee recommends providing local vendors with a bonus equal to 5% of total available points.

Exemptions and limitations. The subcommittee recommends a Buy Local policy with certain prescribed exemptions. Due to state law, Buy Local policies cannot apply to public works projects. Due to federal restrictions, federally funded programs should also be exempt. Exemptions should also be made for emergencies, sole source purchases, cooperative purchasing agreements and cases in which a local vendor is not qualified as determined by City staff.

Reporting requirements. Purchasing staff should conduct a review of purchasing transactions and report annually to the Common Council on the dollar amount of procurements made from local vendors included in the City's database and the increase from year to year in the amount of local purchased supplies and commodities. Purchasing staff should provide a similar report regarding purchases of commodities and services over \$5,000 using the bid and RFP processes.

Conclusion. The above policies should be spelled out in a resolution to be reviewed by the Board of Estimates, the Economic Development Commission and the Common Council.