



# Ohio Legislative Service Commission

*Nick Thomas*

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## Fiscal Note & Local Impact Statement

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**Bill:** [H.B. 246 of the 129th G.A.](#)

**Date:** September 27, 2011

**Status:** As Introduced

**Sponsor:** Rep. Roegner

**Local Impact Statement Procedure Required:** No

**Contents:** Authorizes local governments to use reverse auctions in the procurement of public improvements

### State Fiscal Highlights

- No direct fiscal effect on the state.

### Local Fiscal Highlights

- The bill authorizes political subdivisions to use reverse auctions in the procurement of public improvements. Currently, political subdivisions are able to use this procurement method only for the procurement of supplies, materials, equipment, and certain services.
- Although the fiscal effect of the bill is uncertain, presumably political subdivisions would use this authority where it is most likely judged to yield savings on construction.
- Political subdivisions would incur some additional costs for administering the reverse auction process, either in-house or using an online auction service.

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## Detailed Fiscal Analysis

The bill authorizes political subdivisions to use reverse auctions to procure public improvements. In a reverse auction, a buyer (in this case a political subdivision) puts a contract out to bid through an Internet service, and specifies a time period over which bids on the contract can be made. Vendors then bid on the contract, through an anonymous process, generally driving the price of the contract down. Currently, political subdivisions are able to use this type of auction for the procurement of supplies, materials, and equipment. Reverse auctions can also be used to procure labor or services that do not result in the delivery of a specific end product.

The procedures for procuring a public improvement via reverse auction under the bill are the same as those currently in place for obtaining goods or services. The political subdivision releases a request for proposals, detailing the specifics of the project and the factors that will be weighed in choosing a vendor. After discussion of the project with potential vendors and after the bidding process has taken place, the political subdivision then chooses a vendor based on price and the criteria set for in the request for proposals.

It is difficult to assess the effect of employing the reverse auction procurement method on public construction projects. On the one hand, if reverse auctions encourage greater competition amongst vendors, it may reduce the cost of public improvements over what the cost would have been using traditional bidding techniques. On the other hand, if a construction contractor secures a winning bid by cutting profit margins to the minimum, it could reduce project quality. If so, future repairs may offset some of the initial savings derived from the reverse auction process. Presumably, political subdivisions would use reverse auctions for public improvements only in circumstances where this procurement method is most likely to yield construction savings.

Political subdivisions that procure public improvements via reverse auctions under the bill would incur costs to administer the auctions. The administrative costs for these auctions vary, depending upon whether the auction is self-administered or administered by a third party vendor. Regardless, such costs tend to be several thousand dollars. As such, it is likely that only larger contracts would be procured through the reverse auction process.