



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: [H.B. 587 of the 130th G.A.](#)

Date: September 8, 2014

Status: As Introduced

Sponsor: Reps. Lundy and Budish

Local Impact Statement Procedure Required: No

Contents: Permits political subdivisions to establish a Buy Local Ohio bid preference policy

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

- The bill allows political subdivisions to adopt an ordinance or resolution establishing a "Buy Local Ohio" bid preference policy with an allowance of 3% for buying goods and services from qualified local vendors. The potential fiscal effects on procurement costs for political subdivisions will depend on how the policy is implemented.
- Such a bid preference could increase procurement costs overall. Alternatively, the political subdivision could offset higher procurement costs with spending reductions in other areas or a cap on procurement spending.

Detailed Fiscal Analysis

Overview

The bill allows political subdivisions to establish a "Buy Local Ohio" bid preference policy that permits them to choose a local bidder that is within 3% of the lowest bid for any goods and services required to be bought under a competitive bidding process. The bill requires that the local bidder's principal place of business be located within the political subdivision where the contract is awarded and that the bidder has a significant Ohio economic presence. The overall fiscal impact of the bill will depend on how a political subdivision chooses to implement the Buy Local Ohio bid preference policy. On the one hand, such a policy might increase overall procurement costs. On the other hand, a political subdivision might offset increased procurement costs by spending reductions in other areas, or by capping its procurement budget at a certain level. Further discussion on the potential fiscal effects of the bill is provided below.

Possible fiscal effects

Because the bill increases the price preference thresholds given to local Ohio bidders, there is the potential that prices political subdivisions pay for goods and services will be affected. However, it depends on how the political subdivision implements the Buy Local Ohio policy. One effect of this policy may be an increase in overall procurement costs. Procurement costs will increase if a local bidder prices its goods or services up to 3% higher than the lowest bid that the political subdivision would have otherwise chosen absent the Buy Local Ohio policy. For example, the city of Oregon's Department of Public Service awarded 16 bids for approximately \$13.5 million in Calendar Year (CY) 2013, all to nonlocal bidders.¹ Assuming that all bids were won by local bidders and that the local bids were fully 3% higher than nonlocal bids, then the Department of Public Service's procurement costs may have been approximately \$400,000 more expensive in CY 2013 if the Buy Local Ohio policy were in effect.

While a local bid preference policy might lead to increased procurement costs, there are other possible fiscal effects to consider. One possible outcome is that a political subdivision might offset the added cost by spending less in other areas. Or, a political subdivision could cap its procurement budget at a certain level. Consequently, the direct fiscal effects on a political subdivision that institutes a Buy Local Ohio bid preference policy will depend on these decisions.

¹ The city of Oregon's Department of Public Service awarded 17 bids for various engineering projects in CY 2013. However, one bid was removed from the analysis because it was awarded based on a per unit cost, not a total amount.

Indirect fiscal effects

The Buy Local Ohio policy may also have an indirect fiscal effect on a political subdivision in the form of beneficial "multiplier effects." A study on a local preference ordinance in Fresno, California, found that additional money spent locally would generate more economic activity beyond the value of a political subdivision's contract with a local bidder. The study concluded that a local bidder preference could increase economic activity in a political subdivision in the form of additional sales, jobs, and income.² In turn, additional spending and income could generate more tax revenue for a political subdivision. It is very difficult, however, to speculate what the ultimate fiscal impacts of these multiplier effects might be.

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² Avalos, A & Birdyshaw, E. Assessing the Economic Impact of a Local Preference Ordinance in the city of Fresno (2007). Center for Economic Research and Education of Central California Research Working Paper No. 2007-02. Retrieved from: www.fresno.gov/councildocs/agenda1.30.2007/1p.pdf.