

Some Questions or Issues with Reverse Auctions for Procurement of Construction Services by the City of Milwaukee

1. Who really benefits with reverse auctions?
2. Is the process fair to all bidders?
3. Is reverse auction used exclusively for bidding or used on occasion?
4. With reverse auctions, are contractors awarded the contract based on lowest price or for some other reason?

In March 2005 the Wisconsin Legislature considered the idea of reverse auctions with the following statement by the legislative sponsor:

"In light of legislative proposals to restrict the revenue that local governments can collect, we must also find ways to partner with them that will allow tax dollars to be spent more effectively. This bill requires the Department of Administration to devise rules and fees for making the state 's reverse auction system available to local units of government. Reverse auctions work just like e-Bay but in the opposite direction. Instead of posting things it wants to sell, this bill will allow local governments to post requests for items it wishes to purchase. Vendors then compete in an open, honest process to provide goods or services at the lowest cost. By encouraging public competition, we can not only save local governments tax dollars, but move our procurement system towards greater transparency and openness. More access should mean more bidders and more bids. That will lead to lower government costs and lower taxes for Wisconsin residents. Additionally, by making the system available for labor procurement, DWD will have access to additional data, allowing it to more accurately determine appropriate labor rates for other state projects."

Five years ago when this legislation was proposed, Rep. Samantha Kerkman, Chairperson of the Assembly Budget Review Committee decided that after talking to a number of constituents and interested parties decided to withdraw AB 161, the Reverse Auction bill from consideration.

Five years ago, many Wisconsin contractor trade associations opposed AB161 and worked collectively to defeat this legislative proposal. Contractor groups wrote:

- Because there is so much at stake, it is important to have a system in place that all parties can regard as fair.
- From the contractor's point of view, nobody wants to put time and energy into quote that is just going to be used for price shopping.
- Only a sealed bid provides the lowest responsible bid from any particular contractor. In a reverse auction contractors can submit bids that are considerably higher than their bottom line number in hopes that they can pick up a "plum" job.
- Reverse auctions will increase the likelihood of disputes, change orders, bad faith bidding, and increased risk damaging the relationship between contractors and owners.
- The use of reverse auctions may lead to higher costs due to decreased competition in the market place.

- Reverse auctions may compromise the quality of the project and the safety and wages of the employees working on the project if a contractor is pressured into submitting an artificially low bid.
- Many contractor organizations have strong reservations about the use of reverse auctions for construction services. There have been numerous negative articles on the topic as contractors see the topic as bid gaming.
- Many contractors see reverse auction as compromising the industry.
- In the past the U.S. Office on Federal Business Opportunities office withdrew a reverse auction proposal after contractors opposed the procedure.
- Minority contractors are concerned that only the largest contractors would win work under reverse auctions. Many believe that small contractors will not bid through reverse auctions and larger contractors would benefit.
- As with the 5% local geographic bid preference already in force, the traditional use of sealed competitive bids on tax-funded construction is gone. The use of reverse auctions for procurement just makes it worse. The use of sealed competitive bids is something that area municipalities and contractors have used for 100 years in Wisconsin due to fear of corruption, graft and/or favoritism in the award of construction contracts.

Contractors ask that the City of Milwaukee to drop the idea of reverse auctions for procurement of construction services.

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