



## Value-Based Procurement Position Paper

### I. Issue Overview

The procurement of equipment and services by government – Federal, state, and local – is very big business. According to a 2013 paper prepared by the U.S. Conference of Mayors (USCM), combined state and local government revenues in 2009 were \$2.07 trillion and expenditures were \$2.97 trillion. “The exact amount of local government procurement is not known but is, nonetheless, a significant amount of taxpayer dollars, and an important sector of the economy,” stated the USCM paper. In the seven years since 2009, state and local government revenues and expenditures have likely risen considerably as have their procurements.

Given this magnitude of public dollars being expended, it is imperative that governments engage in procurement practices which are efficient, fair, and maximize the value that public utility customers receive. More importantly, effective procurement policies and procedures enable drinking water and wastewater systems to protect public health and the environment.

For various reasons (e.g., politics, habituation, a maze of procurement regulations, etc.), municipal procurement practices tend to be suboptimal and, in fact, act as a constraint on water and wastewater utilities as they strive to deliver essential services to citizens and ratepayers. In our document on public procurement practices, *Optimizing Public Agency Purchasing Power*, the Water and Wastewater Equipment Manufacturers Association (WWEMA) and the National Association of Clean Water Companies (NACWA) assert the following: “If the primary focus is on procuring goods and services in a way that ensures the lowest total cost of ownership to the public agency and its customers, then an examination of the full range of available procurement methods is essential.”

In this document, WWEMA and NACWA identified nine distinct procurement methods available to local government: 1) base bid; 2) competitive sealed bidding; 3) cooperative purchasing base bidding; 4) incentive contracting; 5) leasing; 6) pre-purchase base bid; 7) prequalification of bidders (RFQ); 8) request for proposals (RFP); and 9) sole source procurement. Many municipal governments appear to be unaware that several different procurement methods are available. Moreover, some municipal governments are under the impression that state procurement laws prohibit them from using such methods.

Municipal governments have had a tendency to rely on “first costs” or capital costs, as opposed to life cycle costs, in their procurement practices. This means that in many cases, procurement awards go to the lowest bidder. Life cycle costing, a much more prudent means of evaluating various proposals, includes not just capital costs, but also procurement costs, operation and maintenance costs, and any other costs incurred over the expected life of the asset or assets.

Value means more than just the lowest purchase price. It is rather the lowest total cost of ownership, which includes operating costs, cost of procurement, reliability, and after purchase support by the solutions provider. To ensure wise investment, the assumption that the lowest price automatically equals the best deal must be challenged. The process should be more value-focused than price-conscious.

Hence, the solution to ensuring that public agencies and their ratepayers receive the greatest value from their procurement practices is to adopt and utilize value-based procurement. Value-based procurement, also known as “best value” procurement, means evaluating purchases beyond price. It means going beyond “lowest responsible bidder” criteria to weigh in factors such as long-term value, evolving technologies, customer service, and design aesthetics. WWEMA advocates for governments and private entities to use value-based procurement methods to ensure the best use of their water and wastewater capital budgets.

Adopting and using value-based procurement will also help to ensure that innovation is encouraged and not stifled. The water industry has made great strides in adopting beneficial new technologies over the past several decades, including reverse osmosis and other membranes, ozone, ultraviolet disinfection, and membrane bioreactors. If municipalities had not used open competition in their procurement practices which allowed trying these new technologies, they would not be in widespread use today.

## II. WWEMA’s Position

WWEMA advocates for the use of value-based procurement practices, that take into account factors beyond lowest initial price and rewards those companies that offer the greatest value in technology and service to their customers.

WWEMA also supports an open procurement and selection process, believing this to be an important step in effectively managing assets. Open procurement allows for all appropriate materials and/or equipment to be considered and accurately and fairly compared. Adoption and use of such a process can result in significant cost savings and greater efficiency and effectiveness.

WWEMA opposes the enactment of legislation by any state or the Federal Government the purpose of which is to give preferential treatment to one material or process over others. Such legislation, which has been proposed regarding piping materials in several state legislatures serves to take decision-making out of the hands of utility officials and their consulting

engineers. This in turns restricts competition, which more often than not, results in higher prices and suboptimal procurement decisions.

WWEMA believes it is the duty of the owner and its engineers to do proper due diligence to evaluate all products for the intended application/use and make value-based decisions.

### III. Useful Resources

In partnership with the National Association of Clean Water Agencies, WWEMA published a joint document titled [Optimizing Public Agency Purchasing Power](#), identifying procurement methods that can be used on public water and wastewater projects to achieve maximum return on investment.

WWEMA published a state-by-state comparison of procurement options allowed for use by projects receiving state revolving fund assistance as well as approved project delivery methods. Both this survey and *Optimizing Public Agency Purchasing Power* were heavily referenced in the March 2013 U.S. Conference of Mayors report, [Municipal Procurement: Procurement Process Improvements Yield Cost-Effective Public Benefits](#).

Adopted by the WWEMA Board of Directors on November 2, 2016

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