

POINT METHOD FOR EQUIPMENT PROCUREMENT

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Division of Highways*

After determining what requirements will have to be met by the unit being purchased, with the help of user defined needs, information supplied from manufacturers and input from the Divisions Equipment personnel, specifications are prepared and a "Request for Quotation" is sent to the Purchasing Section, Division of Finance and Administration of the West Virginia Department of Administration. The Purchasing Section of the Division of Finance and Administration advertises for bids for equipment purchases for all state agencies. Quotations are received and opened by the Purchasing Section of the Division of Finance and Administration. Bids received are then sent to the Spending Unit for evaluation.

The "Request for Quotation" is broken down into three categories: (1) Specifications and Guidelines-General; (2) Specifications-Unit to be Purchased; and (3) Bidder's Evaluation Report. Category one contains general information which includes the Purpose, Bidder's Evaluation Report, Bidding Procedures, Exceptions to Specifications, Delivery, Representative Unit for Test and the Award Criteria. Category two contains the specifications of the unit to be purchased for which compliance is required. Category three contains the bidder's compliance to the specifications for the unit the vendor is offering.

The award criteria include cost, specification, previous experience, warranty, and delivery. Each criteria area has been assigned a maximum possible score. The West Virginia Division of Highways (WVDOH) Evaluation Committee, consisting of four individuals, rank the unit and award a percentage of possible points based on the ranking.

Areas of Award Criteria

Cost:

Maximum 80.00 Award Points

Maximum 100.00 Percentage Points - This Example

The proposal with the lowest overall cost will be given 80 award points. Each remaining proposal's overall cost will be given points in direct proportion to the ratio between it and the lowest overall cost. For example, if the lowest cost bid was \$35,774 per unit, it would be awarded 80 award points in this category. If the second

lowest cost bid was \$36,109.25 per unit, or 0.94% higher than the lowest bid and it would be awarded 99.06% (100.00 percentage points - 0.94) of 80.00 or 79.25 award points.

Specifications:

Maximum 40.00 Award Points

Maximum 2900.00 Percentage Points - This Example

Specifications of the unit being purchased contains 58 individual line items. Each line item is assigned a maximum of 50.00 percentage points. Thus, 58 line items times 50.00 percentage points for each item equals 2900.00 possible percentage points.

The lowest cost bid offered 57 of the 58 items that met or exceeded the specifications. The one specified item that it did not meet was fuel capacity and fuel consumption rate to provide a 10 hours working time. The lowest cost bid offered a fuel tank capacity of 23 gallons and a fuel consumption rate of 2.8 gallons per hour. Thus, 2.8 gallons per hour times 10 hours requires a fuel tank capacity of 28 gallons. Twenty-three gallons offered divided by a 28 gallons required for a 2.8 consumption rate equals 82% of the requirement. 82% of 50.00 percentage points equals 41.00 percentage points awarded. For the 57 items they were awarded 2850.00 percentage points for a total of 2891.00 percentage points. Then, 2891.00 divided by 2900.00 possible award points would be 39.88 award points for this bid. The second lowest cost bid met all items of the specifications and were awarded 2900.00 percentage points and 40.00 award points.

Previous Experience:

Maximum 5.00 Award Points

Maximum 100.00 Percentage Points - This Example

Previous experience of bidders may be evaluated under this category as follows:

- Past performance under similar RFPs with the WVDOH
- Past performance as a vendor of parts to the WVDOH
- Past performance as a vendor or manufacturer's representative of the equipment offered in the proposal
- Past performance of the equipment offered in the proposal.

Both the lowest cost bid and the second lowest cost bid were registered to do business with the State and an authorized dealer of the proposed units for 34 years and 82 years. The WVDOH has done business with both vendors on several occasions in the past and have not had any problems with either vendor in the above areas. Therefore, both vendors were awarded 100.00 percentage points and 5.00 award points for previous experience.

A new vendor bidding on proposed purchases is also awarded the same until such time as problems may arise in any of the above areas. In cases where problems do arise, a Vendor Complaint Form is initiated describing the nature of the complaint and sent to the vendor, with a copy to the Purchasing Section of the Division of Finance and Administration. If problems continue, a recommendation is made to the Purchasing Section of the Division of Finance and Administration to have the vendor removed from the accepted bid list.

Warranties:

Maximum 5.00 Award Points

Maximum 800.00 Percentage Points - This Example

In this example, standard warranty was assigned 500.00 percentage points. Locations where warranty work would be performed was assigned 100.00 percentage points; and locations where parts would be stocked and parts availability was assigned 200.00 percentage points for a total of 800.00 percentage points.

Of the 500.00 percentage points for the standard warranty: 100.00 percentage points were assigned to the entire unit; 100.00 percentage points were assigned to the engine; 100.00 percentage points were assigned to the drivetrain; 100.00 percentage points were assigned to the frame; and 100.00 percentage point were assigned to corrosion.

- The entire unit has two levels of warranty. The first level was 24 months, unlimited miles, 100% parts and labor and that level was assigned 100 percentage points. The second level was 12 months, unlimited miles, 100% parts and labor and that level was assigned 50 percentage points.
- The engine had four levels of warranty. The first level was 60 months, 100,000 miles, 100% parts and labor and that level was assigned 100 percentage points. The second level was 36 months, 150,000 miles, 100% parts and labor and that level was assigned 75 percentage points. The third level was 24 months, unlimited miles, 100% parts and labor and that level was assigned 50 percentage points and the

fourth level was 12 months, unlimited miles, 100% parts and labor and that level was assigned 25 percentage points.

- The drivetrain had two levels of warranty. The first level was 24 months, unlimited miles, 100% parts and labor and that level was assigned 100 percentage points. The second level was 12 months, unlimited miles, 100% parts and labor and that level was assigned 50 percentage points.
- The frame had two levels of warranty. The first level was 60 months, unlimited miles, 100% parts and labor and that level was assigned 100 percentage points. The second level was 12 months, unlimited miles, 100% parts and labor and that level was assigned 50 percentage points.
- Corrosion had two levels of warranty. The first level was 60 months, unlimited miles, 100% parts and labor and that level was assigned 100 percentage points. The second level was 12 months, unlimited miles, 100% parts and labor and that level was assigned 50 percentage points.

The lowest cost bid was awarded 50 percentage points for the entire unit; 50 percentage points for the engine; 100 percentage points for the drivetrain; 100 percentage points for the frame and 100 percentage points for corrosion for a total of 400 percentage points for standard warranty. The second lowest bid was awarded 50 percentage points for the entire unit; 25 percentage points for the engine; 50 percentage points for the drivetrain; 50 percentage points for the frame and 50 percentage points for corrosion for a total of 225 percentage points for standard warranty.

Of the 100.00 percentage points assigned to locations where warranty work would be performed: 50.00 percentage points were assigned to the number of vendor locations where warranty work would be performed; and 50.00 percentage points were assigned to warranty work performed at WVDOH facilities. The highest number of vendor locations where warranty work would be performed was 16 locations and that level was assigned 50 percentage points. The other levels were awarded 3.125 percentage points for each location offered by each vendor. For work performed at WVDOH facilities, 50.00 percentage points were awarded. If vendors did not offer any warranty work at WVDOH locations, no percentage points were awarded.

The lowest cost bid offered six locations where warranty work would be performed and were awarded 18.75 percentage points. They state that no warranty work would be performed at WVDOH facilities and were not awarded any percentage points for that item.

The second lowest cost bid offered five location where warranty work would be performed and were awarded 15.63 percentage points for that item. They state that no warranty work would be performed at WVDOH facilities and were not awarded any percentage points for that item. They were awarded a total of 15.63 percentage points in this category.

Of the 200.00 percentage points assigned to locations where parts would be stocked and parts available: 100.00 percentage points were assigned to locations where parts would be stocked and 100.00 percentage points were assigned to parts availability. The highest number of vendor locations where parts would be stocked was ten and that level was awarded 100.00 percentage points. The other levels were awarded 10.00 percentage points for each location offered by each vendor. The specifications requested parts availability of 85% in 72 hours.

The lowest cost bid offered six locations where parts would be stocked and were awarded 60.00 percentage points for that item. They offered an availability level of 85-90% in 72 hours and were awarded 100.00 percentage points for that item for a total of 160.00 percentage points in this category. The second lowest bid offered five locations where parts would be stocked and were awarded 50.00 percentage points for that item. They did not offer any parts availability and were not awarded any percentage points for that item. They were awarded a total of 50.00 percentage points in this category.

Warranty Summary. The lowest cost bid was awarded 400.00 percentage points for standard warranty, 18.75 percentage points for locations where warranty work would be performed and 160.00 percentage points for locations where parts would be stocked and parts availability, for a total of 578.75 percentage points and 3.62 award points in this category. The second lowest cost bid was awarded 225.00 percentage points for standard warranty, 15.63 percentage points for locations where warranty work would be performed and 50.00 percentage points for locations where parts would be stocked and parts availability, for a total of 290.63 percentage points and 1.82 award points in this category.

Delivery

- Maximum 5.00 Award Points
- Maximum 100.00 Percentage Points - This Example

Of the 100 percentage points assigned to delivery: 50 percentage points were assigned to representative unit for test; and 50 percentage were assigned to time for delivery of the balance of the units. The specifications

requested that a representative unit for test be provided within 60 days from the date of the purchase order and 50 percentage points were assigned to that item. The specification requested the time for delivery of the balance of the units to be 90 days from the date of the purchase order and 50 percentage points were assigned to that item.

The lowest cost bid stated they would deliver the representative unit for test within 100 days from the date of the purchase order and they were awarded 30 percentage points for that item. They state time for delivery of the balance to be 160 days and were awarded 28.13 percentage points for that item. They were awarded a total of 58.13 percentage points and 2.91 award points in this category. The second lowest bid stated they would deliver the representative unit for test within 90-120 days from the date of the purchase order and they were awarded 25 percentage points for that item. They state time for delivery of the balance to be 120-150 days and they were awarded 30 percentage points for that item. They were awarded a total of 55 percentage points and 2.75 award points in this category.

Recap of Example

Award Criteria	LOWEST COST BID		SECOND LOWEST COST BID	
	% Points	Award Points	% Points	Award Points
Cost	100.00	80.00	99.06	79.25
Specification	2891.00	39.88	2900.00	40.00
Pre. Experience	100.00	5.00	100.00	5.00
Warranty	578.75	3.62	290.63	1.82
Delivery	<u>58.13</u>	<u>2.91</u>	<u>55.00</u>	<u>2.75</u>
TOTAL AWARDED	3727.88	131.41	3444.69	128.82

In this example, a recommendation would be made by the Equipment Evaluation Committee to the WVDOH Equipment Review Board, a group consisting of 11 WVDOH Management Personnel and the Buyer from the Purchasing Section of the Division of Finance Administration, to award this purchase order to the lowest cost bidder, which received the highest number of award points.

Once the WVDOH Evaluation Committee's evaluation has been completed, the results are presented to WVDOH Equipment Review Board. A comparison of the point awarded on each proposal in each area of

award criteria is presented to the Review Board for their use in determining whom to recommend the awarding of the contract. Once the Review Board has voted to recommend the awarding of the contract to a vendor, a report is prepared reflecting resultant point allocations to each vendor, an analysis of each vendor's awarded points and a summary analysis of awarded points explaining point differences along with the recommendations of the Equipment Evaluation Committee and Equipment Review Board and sent to the Purchasing Section, Division of Finance and Administration for preparation of a Purchase Order and/or for further handling.

EQUIPMENT ACQUISITION CHOICES

Arlen Swenson, *John Deere Industrial Equipment Company*

As capital budgets continue to come under closer scrutiny and tighter spending reduction pressures, individual agencies and public officials often are faced with having to use alternative equipment acquisition methods to secure needed machines for key maintenance operations.

Understanding the true costs of alternative machine acquisition methods can sometimes be rather confusing. What appears to make sense at the time of bid opening, often can prove to be a very expensive or impractical choice when considered on a long-term or entire fleet basis.

Determining which acquisition alternative is the best choice for a particular agency or operation will require detailed study, however, many times the best way to start is simply to ask, "do I have a real need to own the equipment, or do I simply want to have use of the equipment?" Depending on local acquisition laws, a public agency is normally in an excellent position to consider the benefits of paying to "use" a piece of equipment versus paying to "own" a piece of equipment.

There are many choices offered today for acquiring machines. Closed-end leases, open-end leases, municipal leases, residual values, short-term rental, total cost, skip payments, balloon payments, low A.P.R., fixed payments, variable payments, and many other choices. All of these different choices, however, can normally be grouped into one of the following six common categories of equipment acquisition methods, shown in Figure 1.

When renting or leasing (often called a true lease or operating lease) a piece of equipment, you are paying for the "use" of the equipment. Normally, a purchase

option can be provided as part of the rent or lease contract, however, the purchase option when combined with the monthly rental or lease payments will often prove to be a higher "owning" cost than other acquisition methods.

When cash purchasing, lease purchasing, or cash purchasing with a trade or buy-back guarantee, you are paying to "own" the equipment. Paying to "own" the equipment, however, normally requires a higher initial cash flow than "use" acquisition methods such as rentals or operating leases.

- Rental of equipment.
- Lease of equipment.
- Cash purchase of equipment.
- Lease Purchase of equipment.
- Cash purchase with trade or buy-back guarantee.
- Any of the above methods combined with a guarantee of repair, parts, labor, and/or maintenance costs.

Figure 1 Common Equipment Acquisition Methods.

Renting Equipment

Renting equipment is often a good choice for short-term use of equipment. Rental contracts normally have minimum customer obligations and requirements compared to other acquisition methods. The customer is paying for only the "use" of the equipment and not its ownership. Renting normally has a relatively low cash flow requirement for the "use" of the equipment and can serve as an excellent tool for "trying before buying" a particular model or make of equipment.

Leasing Equipment

Leasing equipment is normally a good choice for longer-term equipment "use" without making a relatively high investment. The customer usually has a longer term obligation with a lease than a rental, however, the monthly lease payment will often be lower than the rental due to the longer term of the lease. Like a rental, with a lease, the customer is paying for the "use," not the "ownership" of the equipment. Low cash flow options are available with leases that can help justify the development of newer equipment fleets or the replacement of higher quantities of machines. Numerous terms and options are available with leases, including master lease packages, which can reduce traditional acquisition paperwork and procedures.