



# Are Procurement Thresholds Slowing You Down?

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## Introduction

In most governments, different purchasing rules apply depending on the dollar value of the purchase. Purchasing thresholds are often used to set the limits that group purchases into different categories: for most governments, more stringent procedures apply to large-dollar purchases than to smaller ones, which are more informal. Purchasing thresholds help procurement staff understand which set of rules apply to a given purchase.

We categorize purchases into two types:

- An **informal purchase** is a competitive bid, price quote, or proposal that does not require a formal sealed bid or proposal, public opening, or other formalities. Some governments have two thresholds for informal purchases: one category in which staff can use a purchasing card (P-card), or something similar, to make the purchase themselves directly with a supplier, and another which requires staff to gather multiple price quotes or hire from a pre-approved bench of vendors.

- A **formal purchase**, on the other hand, must be submitted through a sealed-bid procurement process, such as a Request for Proposal or Invitation to Bid. In many cases, a formal purchase above a specific dollar amount may also require governing body approval, such as a vote by City Council.

The rules that govern both types of purchases are designed to make the purchasing process fair, equitable, and transparent; an informal purchase isn't simply a way to "get around the rules" just because it has fewer requirements than a formal purchase does. Rather, by setting appropriate purchase thresholds, governments can balance the need for flexibility and speed with the need for fairness, transparency, and good stewardship of public funds.

In fully centralized procurement structures, the central procurement office oversees both formal and informal purchases; in decentralized structures, individual departments or agencies handle one or both types of these purchases. In a hybrid structure, central procurement may oversee formal purchases above the threshold, empowering individual departments to make informal purchases below the threshold—or a center-led model may apply, where the central office provides guidance and support to departments or agencies as they purchase.

Many government staff view procurement thresholds as immutable rules prescribed by law - something that cannot and should not change. And in some cases, that's true: a handful of states set statewide thresholds that their cities or counties have no authority to adjust. But in most cases, purchasing thresholds can and should be regularly re-evaluated to make sure they're best serving your government's needs. Although state governments should also think strategically about where to adjust their purchasing thresholds, much of the following advice applies to city and county governments in the U.S.

In this Quick Read, you'll learn how to evaluate whether your purchasing threshold is right for your government, including strategies for setting your purchasing threshold to maximize efficiency while also thinking strategically about whether your thresholds are in line with those of your peers. Finally, if you do decide to adjust your threshold, you'll find best practices for making your case to your governing authority.

## Considerations for Setting Your Thresholds

Many factors should influence the thresholds your government sets, from jurisdiction size, staff capacity, local cost of living, to typical purchase volume. Typically, larger cities have a greater volume of more complicated purchases, leading them to set higher thresholds to keep the process moving as quickly as possible. You should also review procurement data from the past several fiscal years. You may notice clusters of purchases within a given price range; if many purchases

are concentrated around one price, it may make sense to set the threshold right above this price to reduce administrative burden. Other considerations for setting purchasing thresholds are listed below:

	Advantages	Disadvantages
High Threshold	<ul style="list-style-type: none"> <li>Concentrates purchasing staff time on high-priority, strategic purchases.</li> <li>Speeds up the process for a larger volume of smaller purchases.</li> </ul>	<ul style="list-style-type: none"> <li>Less oversight of smaller purchases may lead to a greater risk of certain firms being given preference.</li> <li>Less transparency for vendors who may question why they are never contacted for a quote.</li> </ul>
Low Threshold	<ul style="list-style-type: none"> <li>Additional oversight, fiscal controls, and compliance exists for more purchases.</li> <li>Greater transparency for vendors due to formal process with clear evaluation criteria.</li> </ul>	<ul style="list-style-type: none"> <li>May lengthen the timeline of a relatively simple purchase.</li> <li>If perceived as a burden, staff may look for exceptions to standard policy and sidestep the competitive process altogether.</li> <li>Greater burden on staff, who must coordinate formal solicitations for more purchases.</li> </ul>

## Peer Examples

But how can you determine what constitutes a “high” threshold and a “low” threshold? What makes sense for one government may not make sense for another. The tables below show how thresholds vary across cities of different population sizes; these are intended only to demonstrate the variety of purchasing thresholds in U.S. cities, not to recommend the ideal threshold for a city of a given size.

## Small Cities

City	Population (estimated) (2020)	Informal Purchase Threshold (Under)	Formal Purchase Threshold (Over)	Council Review Threshold (Over)
Santa Fe, NM <sup>1</sup>	88,000	\$20,000	\$60,000	\$60,000
Kirkland, WA <sup>2</sup>	92,000	\$7,500	\$50,000	\$50,000
Asheville, NC <sup>3</sup>	95,000	\$5,000	\$90,000	\$90,000

## Medium-Sized Cities

City	Population (estimated) (2020)	Informal Purchase Threshold (Under)	Formal Purchase Threshold (Over)	Council Review Threshold (Over)
Ann Arbor, MI <sup>4</sup>	123,000	\$3,000	\$25,000	\$75,000
Atlanta, GA <sup>5</sup>	499,000	\$5,000	\$20,000	\$100,000
Washington, DC <sup>6</sup>	690,000	\$5,000	\$100,000	\$1,000,000

## Large Cities

City	Population (estimated) (2020)	Informal Purchase Threshold (Under)	Formal Purchase Threshold (Over)	Council Review Threshold (Over)
Jacksonville, FL <sup>7</sup>	950,000	\$4,500	\$65,000	n/a
San Diego, CA <sup>8</sup>	1,385,000	\$25,000	\$150,000	\$3,000,000
Houston, TX <sup>9</sup>	2,305,000	\$3,000	\$50,000	\$50,000

## Strategies for Raising Your Thresholds

If, after careful review of your own procurement data and peer governments' purchasing thresholds, you determine that you want to increase your thresholds, first unpack the "why." How will changing your threshold make a difference? Who will it impact either positively or negatively—purchasing

staff, program or agency staff, small and diverse vendors, or city council? Keep in mind that there is no one “right” purchasing threshold; instead, you should look to both qualitative and quantitative data to illuminate whether your thresholds are contributing to delays. Raising your threshold shouldn’t be a substitute for fixing a broken process! For example, one city we’ve worked with had a \$500 threshold, above which a product bid or request for quotes is required. The city found that their staff spent significant amounts of time preparing and reviewing solicitation documents for very standard purchases. While this may feel like an extreme example, a city such as this might well decide to raise their thresholds in order to free up staff time for more difficult solicitations.

If you still decide to pursue raising your threshold, you’ll likely need to persuade a governing body to change its procurement rules. This may involve making a presentation to your government’s chief executive officer or council and asking them to vote on a resolution. In this case, consider presenting an initial proposal showing peer governments’ purchasing thresholds compared against yours and reviewing your own procurement data showing how cycle times might be impacted. After this initial proposal, you can ask your governing body for feedback and incorporate that into a revised proposal for a vote. Stay focused on your goal but be prepared to be flexible and accommodate shifting meeting schedules and voting timelines based on your Council’s priorities. As you prepare your proposal, be sure to collaborate with colleagues both inside and outside the purchasing office; you’ll also likely want to secure the backing of at least one senior leader to provide support from the top. It’s also helpful to anticipate the risks these stakeholders perceive and develop a compelling case to address them; for example, if Councilmembers are concerned about giving up their authority to review and approve purchases, show them examples of the kinds of purchases they will and will not have authority over if the thresholds change. This information can reassure them that they’ll have more time to influence projects and purchases they actually care about while skipping some of the small stuff.

Voters in the City of Ann Arbor, MI approved a ballot proposal to amend the city charter to increase the council review threshold from \$25,000 to \$75,000 in 2021. The previous \$25,000 limit was passed in 1995 and not indexed for inflation, and as result of approving the new threshold, the number of purchases the city council must vote on was reduced by 40% while only affecting 4% of the total value of city contracts. The ballot initiative passed with 69% approval.<sup>10</sup>

## Charleston Case Study

The City of Charleston, SC conducted a process map of their procurement process to identify pain points and strengths in their existing process. Through this exercise and interviews with senior leaders and department heads, they identified one major pain point that increased delays in purchases: City Council approval was required for any competitive bid over \$40,000. Obtaining Council approval added more time to the procurement process.

In speaking with city stakeholders and Councilmembers, the project team determined that two pieces of data would help make the case to raise the threshold: a list of peer cities' competitive procurement thresholds, and the number of procurements that would be routed through a new process if the threshold were changed. Most peer cities had significantly higher thresholds than Charleston's, and over the course of eleven months, the city had taken 143 procurement-related items before City Council. Of those 143 items, 47 (or 32%) would not have had to go for approval if the city's threshold had been \$100,000.

As a result of the team's work analyzing data and engaging the Mayor and Councilmembers, the City of Charleston raised their competitive procurement threshold from \$40,000 to \$100,000. They also introduced a requirement that the city collect at least one quote from a woman- or minority-owned business when making purchases under \$100,000 whenever possible. While the Mayor was supportive of raising the competitive threshold, he also recognized the risk of reduced opportunities for small and minority-owned businesses if the city shifted to more informal purchases. This requirement created more opportunities for MWBEs to work with the city while avoiding lengthy procurement processes that delay contracting and payment timelines.

## Conclusion

Purchasing thresholds are an important guardrail for your procurement process, but tricky to get right: set too low, your purchasing thresholds can majorly slow you down; but set too high, and your thresholds may open you up to greater risk of noncompliance or not provide a fair opportunity for vendors to compete. Before you jump into asking your governing body for permission to raise your purchasing threshold, think carefully about whether this is the best strategy for speeding up your process using data from peer governments and from your own. If the data supports you, don't be afraid to ask for what you need to make your procurement process more efficient and fair!

The **Procurement Excellence Network** is an initiative of the Government Performance Lab designed to help public sector leaders use government procurement as a tool to improve resident outcomes and advance equity. The **Government Performance Lab**, housed at the Taubman Center for State and Local Government at the Harvard Kennedy School, conducts research on how governments can improve the results they achieve for their citizens. An important part of this research model involves providing hands-on technical assistance to state and local governments. Through this involvement, we gain insights into the barriers that governments face and the solutions that can overcome these barriers. By engaging current students and recent graduates in this effort, we are able to provide experiential learning as well.

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# Endnotes

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