

8/28/08

Here is my response to the Committee, Robin Rogers will attend since I'm out of town on the day of the meeting:

There are no known restrictions within the statutes or rules that would deter the State from using a total cost of ownership model of procurement. Under ACA 19-11-229 (Competitive Sealed Bidding) and 19-11-234 (Competitive Bidding) there are rules on the use of life cycle costing.

So that the Office of State Procurement (OSP) may begin using this procurement method, OSP Management met with Susan Recken from Economic Development, Energy Division, to establish training for the OSP Staff on Life Cycle Costing on August 13th. After receiving this intensive training, which we are trying to schedule for the fall, OSP will begin using this method of procurement on applicable commodities for State Agencies' purchases over \$25,000. This does not include those agencies who have Agency Purchasing Officials which includes higher education, Highways & Transportation and Game & Fish. After we train the OSP Staff we will determine how to proceed in obtaining training for these entities.

Arkansas Building Authority has existing policies in their Minimum Standards Criteria that encourages agencies to use life cycle cost analysis for selection of materials and equipment. These can be found in the specifications standards Section 6-314 (j) and Section – 7-701 under energy conservation. A significant number agencies are already using life cycle cost analysis in the design phase.

I am recommending that we discuss ways to use the total cost analysis method and feel that statutory changes are not necessary to accomplish this goal.

6-314 SPECIFICATION STANDARDS

(J) Prior to advertising the project for bids that contain sole source specifications, the Agency is encouraged to either procure the sole source item and specify it as Owner furnished/Contractor installed or the Agency may pre-select a sole source item through a competitive life cycle cost request for proposals (RFP). The RFP, and evaluation criteria, shall be approved by the State Architect or the State Engineer or both, prior to issuance of the RFP. The analysis shall also be reviewed and approved by the State Architect or State Engineer or both. The product having the lowest life cycle cost shall be selected and shall be included in the specification as an allowance cost item listing manufacture, product number, allowance price, vendor contact name, address and phone number and the manufacturer's quote number.

7-701 LIFE CYCLE COST ANALYSIS

Agencies and the Project Designer are encouraged to evaluate all material and equipment selections on the basis of life cycle cost as opposed to a first cost only. During a competitive bid process for construction, often the product having the better life cycle cost can be incorporated into the project for little or no incremental cost over the lesser quality product. Agencies should evaluate the proposed products at a 25 or 30 year life cycle. Careful consideration should also be given to the utility escalation rates, the maintenance rate and the discount rates for the cost of money. These factors can vary significantly from those applied to private sector cost (shorter life cycle) and if improperly applied can invalidate the analysis.

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