

Economic Impact Statement

LSA Document #07-36

IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses

Indiana Code 4-22-2.1-5 requires an agency to submit a statement concerning the economic impact of any proposed rule on small businesses to the Indiana Economic Development Corporation (IEDC) and publish it with the Indiana Register. The proposed rule allows the Indiana Department of Transportation (INDOT) to require potential contractors to bid electronically for all construction contracts with INDOT. The analysis of the rule by INDOT found the total savings to construction contractors to be \$358,848 per year (see summary at the end of this statement).

IC 4-22-2.1-5(a)(1): Estimated Number of Small Businesses Affected

The businesses directly affected by electronic bidding requirements would be companies bidding on INDOT construction work. A total of 178 construction companies submitted 1943 bids to INDOT in Fiscal Year 2006, an average of 10.9 bids each. Because INDOT has not kept records of the proprietary financial information used to qualify bidders, the exact number of firms that qualify as small businesses is unknown, but the total number is not likely to exceed the 137 companies that submitted a total of 555 bids for contracts of \$500,000 or less.

The proposed rule may also indirectly affect subcontractors if they voluntarily elect to use the electronic bidding system. Based on reports submitted by prime contractors, 346 firms received a total of 2,490 subcontracts in Fiscal Year 2006.

IC 4-22-2.1-5(a)(2): Estimated Average Reporting, Record Keeping, and Administrative Costs

The proposed rule imposes no reporting or record keeping costs on any business, large or small. Businesses wishing to participate in electronic bidding would be required to pay a monthly registration fee of \$35 and monthly bidding fees of \$15 per state. Assuming that a bidder is not already a subscriber to the electronic bidding system for another state, the bidder's cost to submit bids electronically would total \$600 annually.

Subcontractors would not be required to pay any electronic bidding fees. Subcontractors who elect not to subscribe to the electronic bidding system would still have access to all of the same information electronically at no cost; however, subcontractors that do elect to voluntarily pay the \$35 monthly registration fee may accrue a significant competitive advantage over those subcontractors that do not. This cost is likely to be further diluted by companies (electrical and guardrail contractors, for example) that frequently serve as subcontractors on larger jobs while bidding as prime contractors on smaller or more specialized work.

IC 4-22-2.1-5(a)(3): Estimated Annual Fiscal Impact

Bidders are currently required to submit their bids using bid books provided by INDOT at a cost of \$12.50 each. Overall, the 137 firms submitted an average of 10.9 bids per year each. This is an average cost of \$136 per firm for bid books alone. This cost does not include bid books that may have been purchased for bids that were considered but never submitted.

Each bid must be prepared, tabulated, and checked prior to being submitted to INDOT. Assuming an average labor cost of \$30 per hour (including all salary, fringe benefit, and overhead costs), a paper bid document requiring 45 minutes to complete and 20 minutes to tabulate and review would cost approximately \$32.40 to prepare or a total cost of \$353 for the average 10.9 bids per year. (Average salary figures for private sector estimating personnel were not available. The \$30 labor cost was chosen because it approximates the fully loaded labor costs for INDOT's own staff estimators.)

All bids must be delivered to INDOT's Indianapolis office by 10:00 a.m. of the designated letting day. Each bidder must either incur mail or courier costs or hand deliver their bids to INDOT. Most bidders choose to hand deliver their bids and stay to attend the public bid opening immediately following. Transportation costs vary widely among bidders and cannot be reliably estimated by INDOT, so they are not included in this analysis.

Given these assumptions the total minimum estimated annual cost to bidders of the current paper-based bidding system in Fiscal Year 2006 would have been \$499.

Businesses wishing to submit bids will be required to pay fees totaling \$600 annually. Together the 178 bidders would be required to pay fees totaling \$106,800 annually; \$82,200 of these fees would be paid by businesses submitting bids for contracts of less than \$500,000. In return for these fees, contractors would receive a direct annual savings of \$62,953 in costs specific to the preparation and submission of paper bids, and \$45,110 of these savings would accrue to businesses submitting bids for contracts less than \$500,000. Under this scenario, all small businesses wishing to bid as general contractors would likely incur \$37,090 in annual direct costs or approximately \$271 for each firm.

INDOT believes that these costs will be more than offset by the time and labor savings afforded by electronic bidding. INDOT estimates that electronic bidding will allow contractors three to six additional days of preparation

time per bid by eliminating shipping and travel time. It is estimated that electronic bidding will save contractors a minimum of one employee workday per bid. Assuming again \$30 per hour in labor costs, each bidder submitting bids on contracts of less than \$500,000 will receive a net benefit of \$1,776 per year. The total annual benefit for all companies bidding on contracts of less than \$500,000 would be \$243,312.

Subcontractors wishing to register would be required to pay the \$35 monthly registration fee. While this fee is not mandatory, these subcontractors would derive significant benefits from registration including the ability to prepare quotes on-line using INDOT supplied quantity data and the ability to view on-line solicitations for quotes from prime contractors. In recognition of the advantages registration would provide subcontractors, INDOT will provide 100 registrations to Disadvantaged Business Enterprises at INDOT expense to be delivered on a first-come, first-serve basis.

IC 4-22-2.1-5(a)(4) Justification of requirements

The benefits to contractors (long term cost savings and increased efficiency) and to INDOT (reduced printing costs and staff time spent on entering and tabulating bids) outweigh and justify the cost requirements that this rule would impose.

IC 4-22-2.1-5(a)(5) Regulatory Flexibility Analysis

Electronic bidding as proposed by the Department is simpler and more cost effective than the paper-based bidding process currently in place. INDOT's only alternatives for accepting bids are the current paper-based system or the proposed electronic bidding system. No other credible alternatives exist.

The only alternative to the proposed rule is allowing bidders to choose between the two available bidding methods. This option would reduce benefits to contractors and increase costs for INDOT. Continued use of paper bids would require INDOT to incur printing, stocking, and shipping costs, increase bid tabulation and response time, and consume labor that would be more productively dedicated to other tasks.

Economic Impact Statement Summary

**Projected Annual Benefits to Businesses Based on FY2006 Data
(Assuming One Workday Saved per Bid)**

	Break-even	<300K	<500K	Average
Workdays Saved per Year	2.5	4.8	9.9	10.9
Net Cost of Workday Saved	\$240	\$240	\$240	\$240
Estimated Annual Savings per Bidder	\$600	\$1,152	\$2,376	\$2,616
Annual Cost of Electronic Bidding Fees	\$600	\$600	\$600	\$600
Net Annual Benefit per Bidder	\$ -	\$552	\$1,776	\$2,016
Number of Bidders		116	137	178
Projected Annual Benefit		\$64,032	\$243,312	\$358,848

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