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The Net Cost Tool: Incorporating Local Multiplier Effects in Public Food Procurement

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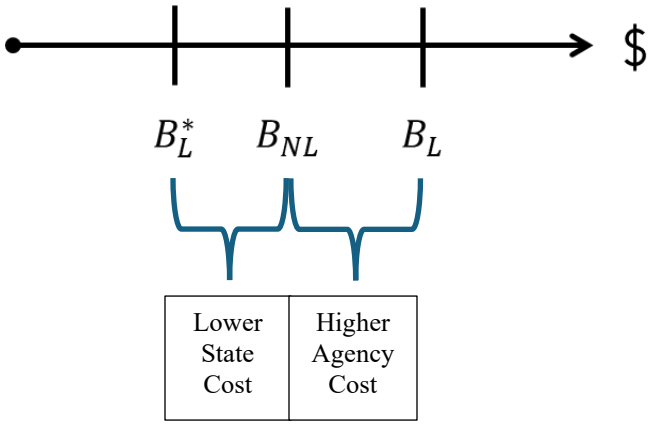
Net Costs of Local Procurement

While traditional public food procurement awards contracts to the lowest cost bidder, New York State (NYS) law allows consideration for "best value" and local purchasing preferences. One approach to recognize the economic impacts of local food procurement is for public agencies to directly consider multiplier effects and local and state tax revenue enhancements of local food purchasing decisions. In so doing, the bidded cost represents a gross cost to the state while the true (net) cost accounts for added state tax revenues vis a vis the multiplier effects. Current geographic preference bids indirectly encompass the concept of economic multiplier benefits.

The Net Cost Tool

The Net Cost Tool explicitly accounts for vendor- and product- specific characteristics and incentivizes local firm participation. Consider the illustration below where there are two bidders for a food product: one with an entirely non-local food product who bids B_{NL} and one with a local food product who bids B_L. If B_L is greater than B_{NL} under a traditional lowest gross cost process, the winning bidder is the non-local bid. However, given multiplier effects related to the production of the local product, the net cost to the state is reduced to B_L^*. If B_L^* is less than B_{NL} (as depicted here), the winning bidder under the net cost approach is the local bid. In this case, costs for the agency increase but overall costs for the state decrease.



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Higher costs for agencies to purchase local foods can be problematic; however, by utilizing the Net Cost Tool, the level of potential subsidization available by the state through its cost savings is revealed directly. The Net Cost Tool is in alignment with geographic preference bids where a higher (gross) cost of local food procurement is an acceptable outcome (within reason). Geographic preference bid practices include price as one, but not the only factor in awarding bids.

Net Cost Application

To illustrate the tool, Table 1 below describes the scoring criteria for a recent geographic preference bid administered by a school food authority in New York State. In this case, contracts are awarded by product to the "lowest responsible bidder" and where the bidder with the highest total percentage points receives a 10% credit on their bid price. Percentage points for local food products follow the definition for New York Grown and Certified products. Documentation requirements include traceability records to farm locations and, for processed items, Product Formulation Statements indicating the percentage of ingredients as local. Accordingly, adopting the net cost approach would require no additional documentation requirements from bidders.

All criteria are evaluated on a "yes" or "no" basis. In so doing, the procedure ignores the distances between prices, the level of local ingredients in processed products (other than if it's above 51%), and the type of bidder (e.g., producer or wholesaler). The top three criteria are explicitly valued in the net cost tool and the other criteria can be added to it, if desired.

Table 1. Geographic Preference Bid Example, New York State School Food Authority [a]

Lowest Price	20%
New York Grown and Certified Food Product	30%
Bidder within NYS	5%
Bidder within 200 miles of Plattsburgh	5%
Has a documented food safety plan	20%
Able to deliver products to school districts	10%
Can deliver within 5 days of harvest (fresh products only)	10%

[a] Bidder with highest percentage points receives a 10% credit on their bid price for the product.

A stylized example for this geographic preference bid is provided in Table 2 for beef hot dogs. Four bidders, all processors, are bidding for the contract, two from New York and two from Pennsylvania. The amount of beef sourced from New York farms varies. Bid 1 has the lowest price offering at $10.00 per pound but Bid 3 and Bid 4 qualify as New York Grown and Certified, albeit with differing levels above the 51% minimum. Following geographic preference scoring, Bid 4 has the highest percentage points and earns the 10% discount on their bid for evaluation purposes ($9.68). In so doing, Bid 4 is the winner and the agency pays $10.75 per pound.

Table 2. Geographic Preference Bid Example, Beef Hot Dogs, Geographic Preference and Net Cost Scoring Results

Criteria/Attribute	Bid 1	Bid 2	Bid 3	Bid 4
Bidder location (all processors)	PA	NY	PA	NY
Percent NY beef	0	10	100	55
Price submitted	$10.00	$10.25	$10.50	$10.75
Lowest Price	20%	0%	0%	0%
NYS Food Product	0%	0%	30%	30%
NYS Bidder	0%	5%	0%	5%
Bidder within 200 miles of Plattsburgh	0%	0%	0%	0%
Documented food safety plan	20%	20%	20%	20%
Will deliver to school districts	10%	10%	10%	10%
Total Preference points	50%	35%	60%	65%
Geographic Preference price	$10.00	$10.25	$10.50	**$9.68**
Net Cost price	$10.00	$9.98	**$9.91**	$10.19

With the net cost approach, the higher sourcing of New York beef implies that Bid 3 is the winner and the agency pays $10.50 per pound. Here, the multiplier effects associated with the higher farm sourcing of beef more than offset the loss of the processing margin to Pennsylvania. Note also the net cost adjustment for Bid 2 that sources 10% New York beef. Some local is beneficial to vendors and local producers in the net cost framework and may be more feasible than hitting 51%.

Under a traditional lowest-cost bid format, the nonlocal bid, Bid 1, is the winner. However, with the net cost approach where Bid 3 wins, the higher cost to the agency for the local product ($10.50 – $10.00 = $0.50), can be partially offset (18%) by the lower cost to the state ($10.00 – $9.91 = $0.09) through a subsidization policy that leaves the state just as well off in terms of spending.

The Net Cost Tool is pragmatically implementable at the agency and/or state level and an online agency dashboard tool is currently under development. An Excel-based version of the tool and additional resources are available at the link below.

- https://cornell.box.com/v/CornellTCOFProcurement.

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