



# Metropolitan Water Reclamation District of Greater Chicago

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## Legislation Details (With Text)

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### TRANSMITTAL LETTER FOR BOARD MEETING OF JULY 11, 2019

#### COMMITTEE ON PROCUREMENT

Mr. Brian A. Perkovich, Executive Director

Report on the procedural changes for bid deposits

Dear Sir:

#### **Background:**

The Procurement and Materials Management Department (P&MM) established a task force composed of representatives from the Engineering, Maintenance and Operations, and Law departments to address the requirement of bid deposits on District Contracts.

At the time of submitting a bid, the contractor may be required to submit a bid deposit to assure that the bid has been submitted in good faith and that the contractor intends to enter the contract at the price bid. The bid deposit can be in the form of cash, cashier's check, certified check, money order, or bid bond. If a company utilizes a bid deposit bond, that is the strongest indication to the District that the contractor is financially sound and can also obtain a performance bond if they are awarded the contract. In the District's experience, a surety will not issue a bid bond to a company that it has determined to be financially unstable. Therefore, the bid deposit requirement can be a good indicator of a bidder's financial stability for purposes of determining whether the bidder is ultimately financially stable enough to perform the contract, if awarded.

Construction and maintenance services are vital to the operations of the District. Before issuing a bid or performance bond, the surety company must be fully satisfied that the contractor has, among other criteria: good references and reputation; the ability to meet current and future obligations; experience matching the contract requirements; the necessary equipment to do the work or the ability to obtain it; the financial strength to support the desired work program; an excellent credit history; and an established bank relationship and line of credit. Thus, surety bonds offer assurance that the contractor is capable of completing the contract on time, within budget, and according to specifications. Requiring bid and performance bonds not only reduces the likelihood of default, it shifts the burden of risk from the District to the surety company.

Over the past three years, the District advertised 859 contracts of which 316 contracts (37%) of the contracts awarded required a bid deposit. P&MM also contacted other governmental agencies to obtain information on their agency's bid deposit policy. This information was summarized and distributed to the task force. (see attached) As a result, the procedural changes for bid deposits are as follows:

**Policy:**

Bid deposits will be required for construction projects only. The bid deposit can be in the form of a cashier's check, certified check, money order, or bid bond. Any bid bond must be issued by a surety company listed in the Federal Register and authorized to do business in the State of Illinois.

Bid deposits will not be required for the following classes of contracts unless, upon determination of the Director of Procurement and Materials Management, the time of delivery or such other critical circumstance warrants the imposition of a bid deposit requirement. If this should occur, the Authority to Advertise will indicate the critical circumstances that a bid deposit was required.

- (1) Contracts which are emergency, sole source procurements or negotiations.
- (2) Contracts for materials, supplies and equipment
- (3) Contracts for the purchase of standard manufactured motor vehicles.
- (4) Contracts for replacement parts or services for equipment that depend upon requirements.
- (5) Contracts for professional services including Architectural and Engineering Consultants
- (6) Contracts for maintenance and repair services

Construction bids will be accompanied by a deposit in accordance with the following scale:

- (a) If the cost estimate for the construction project is less than or equal to five million dollars, the amount of the deposit shall be five percent (5%) of the total aggregate amount.
- (b) If the cost estimate for the construction project is greater than or equal to five million dollars, but less than or equal to fifteen million dollars, the amount of the deposit shall be the greater of \$250,000 or four percent (4%) of the total aggregate amount.
- (c) If the cost estimate for the construction project is greater than fifteen million dollars, the amount of the deposit shall be the greater of \$600,000 or one percent (1%) of the total aggregate amount.

In conclusion, by modifying the bid deposit requirement the District hopes to increase bidder participation, and as a result achieve additional cost savings through more competitive bids.

Recommended, Darlene A. LoCascio, Director of Procurement and Materials Management, DAL:SEB:cm  
Respectfully Submitted, Barbara J. McGowan, Chairman Committee on Procurement  
Disposition of this agenda item will be documented in the official Regular Board Meeting Minutes of the Board of Commissioners for July 11, 2019

Attachment