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Reverse Auctions

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Reverse Auctions

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Wikipedia Encyclopedia defines a reverse auction as "a type of auction in which the roles of buyers and sellers are reversed. In an ordinary auction, buyers compete to obtain a good or service, and the price typically increases over time - the seller puts an item up for sale, multiple buyers bid for the item, and one or more of the highest bidders buy the goods at a price determined at the conclusion of the bidding. In a reverse auction, sellers compete to obtain business, and prices typically decrease over time".¹

In a reverse auction the buyer advertises a need for an item or service. The sellers then place bids for the amount they expect to be paid in order to perform such a service or provide such an item. During the online reverse auction, suppliers/sellers submit anonymous bids against each other until the time expires - the bidding of an online reverse auction is generally captured as it takes place ("real time" bidding).² The buyer then would select the lowest responsive, responsible bidder.

Local governments may participate in reverse auctions under T.C.A. § 12-3-1208 (formerly § 12-3-1012), which authorizes local government units to purchase goods and services through a competitive reverse auction process that allows offerors to bid on specified goods or services electronically and adjust bid pricing during a specified time period. Before initial use of a reverse auction, the local government unit must file a plan with the comptroller stating the technology to be used, whether a third party will conduct the auctions, describing the policies and procedures to be used, documenting internal controls that will ensure the integrity of the process, and stating whether additional operating resources will be needed, and if so, indicating prior approval of the local governing body. Items and services that cannot be purchased through a reverse auction are: construction services (except maintenance, repairs, and renovations costing less than \$25,000); architectural or engineering services; new or unused motor vehicles (except school buses, garbage trucks, fire trucks, ambulances, and other special purpose vehicles); and new or unused construction equipment. The purchasing agent must solicit bids by placing a notice at least once in a newspaper of countywide circulation five days before the first day bids can be submitted. Bids may also be solicited by mail or electronically. Invitations to bid must contain a general description of the goods or services to be purchased and the time and place for bid opening. The local government is directed to provide a mechanism to facilitate participation of small and minority owned businesses. Bid responses must be made public at the time and place announced in the invitation to bid. The award must be made to the lowest responsible and responsive bidder. Bids must be preserved for 5 years.

¹³¹Wikipedia Encyclopedia, Definition of Reverse Auction, January 2010.

¹³²www.wisegeek.com

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