



CONSTRUCTION NEWS

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ARMY CORPS OF ENGINEERS REPORT DEBUNKS REVERSE AUCTIONS *Report Finds Serious Limitations in Use of Reverse Auctions to Procure Construction Services*

WASHINGTON – The United States Army Corps of Engineers (USACE) issued a report to Congress stating that reverse auctions should not be used to procure construction services and that reverse auctions fail to realize any additional financial savings over the sealed bid process. These findings confirm concerns raised by the Associated General Contractors of America (AGC) in a White Paper on Reverse Auctions issued by the association in Fall 2003.

“The Corps of Engineers report verifies what we have known all along; that reverse auctions are an inappropriate acquisition tool to procure construction.” AGC CEO Stephen E. Sandherr said.

In its final determinations, USACE found that the acquisition of construction services cannot and should not be equated with commodities for the following reasons:

- Within the operational parameters of Department of Defense contracting regulations, the dynamics are much too diverse between construction services and commodities;
- Virtually all of the USACE construction services...are one-of-a-kind projects under one-of-a-kind conditions with numerous and consistent variables for cost and no-cost factors;
- Additionally, the Office of Federal Procurement Policy (OFPP) has recently supported this very significant fact. In a July, 2003 memorandum recognizing that construction services cannot be equated to commodities or manufactured goods when she acknowledged, “new construction projects and complex alterations and repairs...involve a high degree of variability.”

Sandherr said, “AGC has long taken the position that construction should not be treated as a commodity. USACE’s report reinforces current federal policy and further demonstrates that reverse auctions should not be used to procure complex public construction projects.”

The USACE report stated that there was no proof that reverse auctions provide any significant or marginal edge in savings over the sealed bid process for construction services for the following reasons:

- There was no proof that a consistent, reliable and valid measurement method for projecting savings could be established from reverse auctioning;
- Absent any specific price history for an identical project under identical conditions, there is no practical way to measure or compare any projected savings by reverse auctions over sealed bidding; and,
- There is no proof reverse auctions provided any significant or marginal savings in comparison to the government estimate.

Developed more than a year ago, the AGC White Paper on reverse auctions stated that reverse auctions will seldom, if ever, provide the same level of benefits and protections existing in currently

recognized selection procedures for construction contractors. The white paper offers five major points for consideration by owners, contractors and other construction project participants:

- Reverse auctions do not guarantee the lowest price for owners.
- Reverse auctions may encourage imprudent bidding practices.
- Negotiated procurements allow thorough evaluation of value.
- Sealed bidding assures that the successful bidder is responsive and responsible.
- Reverse auctions may contravene federal procurement laws and certain state laws.

The white paper explains the important differences between commodities and construction, noting that construction is a unique mix of services and systems tailored to individual owner needs and budgets, site requirements, and the changing composition of the project team, while products and commodities are manufactured with little or no variability.

To view the AGC White Paper and the USACE report, visit the AGC Reverse Auctions Resource Center at www.agc.org/reverseauctions.

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, nearly 12,000 specialty-contracting firms and over 13,000 service providers and suppliers that are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org. AGC members are "Building Your Quality of Life."

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