# Items involving in-kind contributions provided by suppliers

## Important considerations for the competitive bid process

To help establish the fair market value of an item involving an in-kind contribution provided by a supplier, the institution should request that suppliers provide in their bids a breakdown on the list price, the normal and educational discounts, the amount of in-kind contribution (if any) and the net selling price.

Information on what constitutes an eligible in-kind contribution and the definitions of the various pricing elements should be shared with the suppliers to help ensure that they will provide accurate pricing information. The institution may also want to emphasize the importance of receiving reasonable pricing information and in-kind contributions and request a declaration from the suppliers that the prices they provide are consistent with the definitions.

The Request for bids document should clearly outline the evaluation process and criteria. The institution may request consideration of an in-kind contribution by the suppliers but should not ask for a specific amount or percentage, since this is to be provided by the suppliers on a voluntary basis.

After the competitive bid process is closed, the institution should evaluate the bids received using the pre-established evaluation criteria. The institution is responsible for establishing appropriate evaluation criteria, weightings and minimum requirements for each criterion (if any) based on the needs of the project. The institution should carefully design its evaluation to ensure that:

- the needs of the project will be met;
- CFI funds are spent effectively and economically;
- suppliers provide reasonable pricing information (i.e. prices after normal and educational discounts and amounts of in-kind contributions);
- the integrity in the procurement process is maintained and that the process is fair to all suppliers.

## Examples of acceptable bid evaluations, including a fair market value assessment

Example 1

Example 2

# Items involving in-kind contributions provided by suppliers

# Example of bid evaluation, including a fair market value assessment

# Example 1

Here is an example of an internal bid evaluation and a documented fair market value assessment. It should be noted that the institution is responsible for establishing appropriate evaluation criteria, weightings and minimum requirements for each criterion (if any) based on the needs of each project. The institution should tailor this example and analysis accordingly. The institution is encouraged to consider complete life-cycle costs in its evaluations (i.e. from acquisition and commissioning to ongoing maintenance and disposal).

The four bids in this example were received as part of a competitive bid process, including a public bid notice.

| **Bid Evaluation** | | | | | |
|---|---|---|---|---|---|
| **Evaluation criteria** | | **Supplier 1** | **Supplier 2** | **Supplier 3** | **Supplier 4** |
| **SECTION I** | **Weight** | **Score** | **Score** | **Score** | **Score** |
| **Technical: features and performance** | **40%** | | | | |
| Adherence to technical specs | 10% | 8 | 7 | 10 | 5 |
| Functional suitability | 10% | 8 | 7 | 10 | 5 |
| Expected lifetime of equipment | 5% | 3 | 5 | 5 | 5 |
| Warranty and support | 5% | 2 | 2 | 3 | 1 |
| Ease of use of equipment | 5% | 5 | 4 | 3 | 1 |
| Other factors | 5% | 3 | 3 | 3 | 1 |
| **SUBTOTAL (Minimum 25)** | | **29** | **28** | **34** | **18** |
| **Management plan/proponent qualifications** | **25%** | | | | |
| Corporate reputation, service history | 5% | 4 | 4 | 5 | 3 |
| Proposed shipping/delivery timelines | 5% | 5 | 5 | 4 | 2 |
| Commissioning and training support | 7% | 7 | 7 | 7 | 4 |
| Implementation timelines | 5% | 5 | 5 | 5 | 5 |
| Other factors | 3% | 3 | 2 | 2 | 2 |
| **SUBTOTAL (Minimum 18)** | | **24** | **23** | **23** | **16** |
| **Proposal** | **5%** | | | | |
| Contractual terms proposed by proponent | 1% | 1 | 1 | 1 | 1 |
| Acceptance of contractual provisions | 2% | 2 | 1 | 0 | 0 |
| Format: clear/comprehensive | 1% | 1 | 1 | 1 | 1 |
| Other factors | 1% | 0 | 0 | 1 | 0 |
| **SUBTOTAL (Minimum 3)** | | **4** | **3** | **3** | **2** |
| **SECTION I TOTAL** | | **57** | **54** | **60** | **36** |
| **Meets minimum requirements** | | **Yes** | **Yes** | **Yes** | **No** |

| SECTION II[1] | | | | | |
|---|---|---|---|---|---|
| **Cost[2]** | **30%** | | | | |
| Net selling price (cash consideration)[3] | 20% | 20 | 19 | 15 | |
| Cost savings[4] | 5% | 2 | 2 | 4 | |
| Value-added benefits[5] | 5% | 2 | 2 | 5 | |
| **SUBTOTAL** | | **24** | **23** | **24** | |
| **SECTIONS I and II TOTAL** | 100% | **81** | **77** | **84** | |
| **Award** | | | | *** | |

1 Only the bids meeting the minimum requirements in Section I are considered in Section II.

2 The institution may want to disclose to the suppliers in its Request for bids the various pricing elements that will be taken into consideration for the evaluation of the cost criteria (e.g. net selling price, life-cycle costs).

3 The net selling price is the cash consideration payable by an institution (i.e. price after normal and educational discounts minus any in-kind contribution).

4 Considers the impact on other life-cycle costs, such as energy use, operations and maintenance, consumables, etc.

5 Considers other benefits offered to the institution, such as additional support, training, etc. Excludes consideration of any in-kind contribution, since this contribution is already factored in to the net selling price and considered in a previous evaluation criterion. No separate additional consideration should be given to in-kind contributions.

The institution selects Supplier 3, which has the highest total score.

## Fair market value assessment

| Supplier pricing information – bid summary | | | | |
|---|---|---|---|---|
| | **Supplier 1** | **Supplier 2** | **Supplier 3** | **Supplier 4[7]** |
| List price | $2,380,000 | $2,600,000 | $3,000,000 | |
| Normal discount | ($100,000) | ($100,000) | ($200,000) | |
| Educational discount | ($150,000) | ($100,000) | ($100,000) | |
| Price after normal and educational discounts [6] | $2,130,000 | $2,400,000 | $2,700,000 | |
| In-kind contribution | ($405,000) | ($670,000) | ($885,000) | |
| Net selling price | $1,725,000 | $1,730,000 | $1,815,000 | |

6 If the institution believes that the price stated by the supplier after normal and educational discounts differs significantly from the expected fair market value, that supplier’s bid should be clarified during the competitive bid process to ascertain whether there are any errors or omissions in the proposal response to the requested specifications.

7 Comparison with Supplier 4 is not completed, since the minimum requirements in Section I were not met.

## Assessment

The institution has performed a comparison of the prices of the three suppliers after normal and educational discounts, as well as an analysis of the differences between the suppliers' items, to establish whether the price of $2,700,000 stated by Supplier 3 is a fair representation of the fair market value of the item.

After normal and educational discounts, Supplier 3's stated price of $2,700,000 exceeds that of Supplier 1 and Supplier 2 by $570,000 and $300,000, respectively.

The institution has assessed whether the differences between the suppliers' items warrants Supplier 3's higher price after normal and educational discounts. After careful consideration, the institution believes Supplier 3's price is warranted for the following reasons:

- The technical features of the equipment offered by Supplier 3 are superior to those of Supplier 1 and far exceed those of Supplier 2. The superior technical features of Supplier 3 will enable additional research and allow more advanced techniques to be incorporated. Testing also indicates that the equipment offered by Supplier 3 yields more accurate results.

- The life expectancy of the equipment of Supplier 3 is the same as that of Supplier 2 but is likely to exceed that of Supplier 1 by four years. This has a significant impact on price.

- Supplier 3 has a well-established reputation. Its references indicate that its after-sale support is superior to that of the other two suppliers.

There have been no purchases of this infrastructure item by the institution in the past, nor has the institution previously dealt with Supplier 3. Therefore, the institution is solely relying on the above market comparison to establish the fair market value of the item.

**Conclusion:**

Given the above, the price of $2,700,000 reported by Supplier 3 after normal and educational discounts is deemed to be a fair representation of the fair market value of the item.

# Items involving in-kind contributions provided by suppliers

# Example of bid evaluation, including a fair market value assessment

# Example 2

Here is an example of an internal bid evaluation and a fair market value assessment. It should be noted that the institution is responsible for establishing appropriate evaluation criteria, weightings and minimum requirements for each criterion (if any) based on the needs of each project. The institution should tailor this example and analysis accordingly. The institution is encouraged to consider complete life-cycle costs in its evaluation (i.e. from acquisition and commissioning to ongoing maintenance and disposal).

The three bids in this example were received as part of a competitive bid process, including a public bid notice. The evaluation methodology in this example is based on Quebec's Regulation respecting supply contracts of public bodies,[1] where the price of an acceptable tender is adjusted to take quality into consideration. To help ensure an unbiased evaluation, the price and the quality demonstration must be presented separately by the suppliers. The evaluation committee first evaluates quality, without knowing the price submitted. This is then followed by a calculation of the price-quality ratio, and the contract is awarded to the supplier with the lowest adjusted price. For purposes of this example, the institution is willing to pay up to 30 percent more for an item of greater quality.

| **PART 1** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **EVALUATION OF QUALITY** | | | **Supplier 1** | | **Supplier 2** | | **Supplier 3** | |
| **CRITERION (minimum of three)**<br>Where applicable, indicate with a check mark the criterion that requires a minimum of 70 points to meet the "acceptable level of performance."<br>A tender that fails to meet this level is rejected. | | Weight of criterion (P) (0 to 100%) | Score (N) (0 to 100) | **Weighted scores** (P X N) | Score (N) (0 to 100) | **Weighted scores** (P X N) | Score (N) (0 to 100) | **Weighted score** (P X N) |
| Technical requirements | √ | 60% | 75 | **45** | 87 | **52.2** | | **Fail** |
| Proponent qualifications | √ | 20% | 75 | **15** | 90 | **18** | | **Fail** |
| Ability to meet deadlines | | 10% | 70 | **7** | 90 | **9** | | |
| Technical support | | 10% | 90 | **9** | 70 | **7** | | |
| **FINAL SCORE FOR QUALITY:** | | 100% | | 76 | | 86.2 | | Fail |
| (Sum of weighted scores) | | | | 100 | | 100 | | 100 |
| **Acceptable tenders (final score of 70 or more)** | | | | **76** | | **86.2** | | **Fail** |

[1] Refer to Schedule 2 (Quality evaluation conditions for a contract award based on the lowest adjusted price) of Quebec's Regulation respecting supply contracts of public bodies.

Regulation respecting supply contracts of public bodies

| PART 2 | | | | |
|---|---|---|---|---|
| **EVALUATION OF PRICE** | | **Supplier 1** | **Supplier 2** | **Supplier 3** |
| **Price submitted – net selling price**[2]<br>(Acceptable tenders only) | | $ 2,525,000 | $ 2,650,000 | N/A |
| K Parameter (between 15% and 30%) | **30%** | | | |
| **1** | **Quality adjustment factor**[3]<br>$1 + K\left(\frac{\text{Final score for quality} - 70}{30}\right)$ | 1.06 | 1.162 | N/A |
| **2** | **Adjusted price**<br>$\frac{\text{Price submitted}}{\text{Quality adjustment factor}}$ | $ 2,382,075 | **$ 2,280,551** | N/A |
| **Award** | | | **Yes** | |

The institution has selected Supplier 2, which has the lowest adjusted price.

## Fair market value assessment

| **Supplier pricing information – bid summary** | | | |
|---|---|---|---|
| | **Supplier 1** | **Supplier 2** | **Supplier 3**[4] |
| List price | $3,000,000 | $4,500,000 | |
| Normal discount | ($100,000) | ($200,000) | |
| Educational discount | ($200,000) | ($300,000) | |
| **Price after normal and educational discounts** | **$2,700,000** | **$4,000,000** | |
| In-kind contribution | ($175,000) | ($1,350,000) | |
| Net selling price | $2,525,000 | $2,650,000 | |

[2] The institution has decided to use the net selling price (i.e. price after normal and educational discounts minus the in-kind contribution). No separate additional consideration is given to the in-kind contribution.
[3] The quality adjustment factor is calculated using a percentage (K), which is the additional percentage the institution is willing to pay for a higher-quality item. For Quebec public institutions, K can range from 15% to 30%.
[4] Comparison with Supplier 3 is not completed, since the minimum requirements in Part I of the evaluation of quality were not met.

## Assessment

Supplier 2, with a stated price of $4,000,000 after normal and educational discounts and a net selling price of $2,650,000, will be awarded the contract. The stated price after normal and educational discounts exceeds that of Supplier 1 by $1,300,000.

The institution has attempted to assess whether the differences between the two items warrants Supplier 2's higher price after normal and educational discounts. The institution has concluded that the two bids are significantly different, and consequently, a comparison cannot be established between the stated prices of the two suppliers.

The institution has, therefore, chosen to compare Supplier 2's stated price after normal and educational discounts with a previous purchase made for a very similar item from the same supplier only six months prior. Although there are small differences in the specifications of the items, these would not materially impact the cost of the item. Technology has not changed significantly in the last six months, and pricing is expected to have stayed relatively the same. Because this previous purchase was not related to a CFI-funded project and did not involve an in-kind contribution, it can be used as a basis for establishing the fair market value for the current item being purchased.

The cash consideration paid for the similar item six months ago was $3,375,000, and the pricing breakdown on the invoice indicates that Supplier 2 had provided the institution with a 25 percent discount off the list price, given the institution's educational status. Other invoices from this supplier also indicate discounts in the order of 25 percent off the list price. Therefore, the institution has concluded that an appropriate fair market value for the current purchase is $3,375,000 and that the pricing breakdown provided by Supplier 2 should have been consistent with prior purchases, resulting in the following revised breakdown for the current purchase:

| | **Supplier 2** |
|---|---|
| List price | $4,500,000 |
| Normal and educational discounts (25%) | ($1,125,000) |
| Price after normal and educational discounts<br>(fair market value) | $3,375,000 |
| Net selling price | ($2,650,000) |
| Eligible in-kind contribution (by difference) | $725,000 |

**Conclusion:**

Given the above circumstances, the institution has assessed the fair market value of the item at $3,375,000 (rather than Supplier 2's stated price of $4,000,000 after normal and educational discounts). The total eligible cost to be reported to the CFI is $3,375,000, of which $2,650,000 constitutes the cash portion and $725,000 constitutes the in-kind contribution portion.