

## MEMORANDUM

From: Colleen Matts and Betty Izumi, C.S. Mott Group for Sustainable Food Systems at Michigan State University

Date: April 10, 2008

Subject: Small Purchase Threshold Considerations

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State agencies and school food authorities that manage and operate National School Lunch Programs are required by federal law to follow the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (7 CFR 3016) or Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (7 CFR 3019) when procuring food and other supplies, equipment, or contractual services (National School Lunch Act, Section 210.21). This means that purchases must be obtained “efficiently and economically” and in compliance with “applicable laws and executive orders,” like those that assure free and open competition.

School food authorities, like other state and public entities, are required to follow certain procurement and bidding procedures depending upon the dollar value of purchases, including food purchases. The small purchase threshold (SPT) is a limit which differentiates those procurement methods (7 CFR 3016.36(c)(2)). Purchases with a dollar value under the SPT may be obtained through a relatively simple and informal bidding process in which “an adequate number of qualified” vendors make price bids or quotes. In practice, this procurement procedure allows school food authorities (SFAs) to accept bids or quotes by phone or other simple communication method, typically from at least 3 vendors. These bids are documented and evaluated before a final bid is awarded to one vendor. Purchases with a dollar value above the SPT must be made through a competitive, formal sealed bid procedure that is much more complex and time-consuming than the informal bid process.

At the federal level, the SPT is set at \$100,000 (41 USC 403(11)). State governments may set more stringent thresholds for their state agencies and school food programs to follow. Furthermore, individual school districts may set their own thresholds that are even more stringent than the state or federal SPT. A survey of small purchase thresholds shows that they vary widely by state, ranging from the federal limit of \$100,000 in Indiana, Illinois, and Ohio, for example, to as low as \$5,000 in New York.

In Michigan, Sections 623a, 1267, and 1274 of the Revised School Code establish the SPT, the threshold amount above which competitive, formal bids must be obtained by a school for purposes of remodeling and/or procuring supplies, materials, and equipment, including food for school meals programs. Michigan’s SPT is a function of the consumer price index and the previous year’s threshold, and is recalculated on an annual basis by the Michigan Department of Education. Michigan’s SPT for the current school year (2007/08) is \$19,650, well below the federal threshold of \$100,000.

SFAs in Michigan and throughout the country are increasingly interested in purchasing locally-grown food from local farmers, an effort often known as “farm to school.” A 2004 survey conducted by the C.S. Mott Group for Sustainable Food Systems at Michigan State University with the Michigan Department of Education identified significant interest among SFAs in

purchasing Michigan-grown products; 73% of 383 survey respondents reported interest in sourcing food from local producers. Farm to school can provide school children with greater access to fresh fruits and vegetables through school meals programs as well as hands-on educational opportunities about local agriculture and food systems. By creating new market opportunities for Michigan farmers and keeping more dollars within local economies, farm to school could also be an important economic development strategy. As school food service directors often purchase only a small number of these local products to substitute or supplement for non-local products in their meals programs, most use the informal bid procedure to purchase foods directly from local farmers.

However, the SPT is limiting SFAs, especially those who operate programs for large school districts, from increasing their local food purchases beyond this threshold level. Additionally, as formal, sealed bid purchasing procedures are too cumbersome for both FSAs and farmers, this is not a practical, viable alternative for sourcing local products. Therefore, we would suggest considering a revision to Michigan's Revised School Code to set the small purchase threshold at \$100,000.

Kristen Misiak, food service director for the Traverse City Area Public Schools, has been purchasing local agricultural products for the past four years for the school district's meals programs. According to Ms. Misiak, "Under Federal purchasing guidelines, an informal bid is allowed if purchases remain under the \$100,000 cap. Informal bids are much easier to complete, both for School Food Authorities as well as local growers and vendors. Informal bidding is a very streamlined and simple way to increase the amount of Michigan grown foods served to Michigan students. I believe that if the small purchase threshold were to increase, the number of schools serving locally grown foods could possibly increase as well."

Increasing the SPT to the federal threshold will expand opportunities for these interested SFAs to purchase foods from Michigan farmers. SFAs will be able to purchase a greater amount of Michigan foods using the simple informal procurement procedure, and, in turn, school children will have even greater access to fresh, local fruits and vegetables. Additionally, this change will give Michigan's farmers the opportunity to capitalize on expanded institutional market opportunities. As this amendment is not a mandate for schools or school districts, they are not required to make any changes to their procurement practices, and school districts retain the right to set more stringent SPTs should they choose to do so. This change will simply expand opportunity for local purchasing where interest exists. It is an opportunity to enhance economic development within the state, and benefits Michigan's farmers and schoolchildren.