3 Trends

Shaping State & Local Contracting in 2016

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Introduction:
Three Leading Trends

To help vendors navigate the contracting landscape in 2016, Onvia explores three leading trends expected to affect the state, local and education (SLED) government market. The report provides useful insights into these top trends on the forefront of contracting and notes where they build on themes previously reported by Onvia.

The Larger Context: Value with Excellence
Saving money has been a common theme for some time, but recently, the focus is shifting to promote greater efficiency in delivering higher quality and more responsive services. Efficiency alone is not enough to satisfy stakeholders and the public. In 2016, more agencies will be expected to deliver on, and operate within, this larger context.

Innovative and smart technology combined with efficient procurement are helping state and local government solve the dilemma of how to make key improvements within existing budgets and remain competitive in a world of rising needs with increasing expectations.

Having emerged from the government layoffs and belt-tightening of the Great Recession, the mandate for cheaper, more frugal government has not diminished. The public continues to hold leaders accountable for careful spending, reducing waste and seeking opportunities to save wherever possible.

Demand for infrastructure continues and agencies are being judged on their ability to maintain acceptable standards. The rise of the tech-savvy and influential Millennial generation is also placing pressure on government to modernize and improve how services are provided. While older generations are not quite as critical of traditional slower low-tech services, the rise of smart phones and online resources has been moving preferences toward more responsive, digital government.

Three Trends for 2016
The three contracting trends covered in this report follow from these underlying pressures toward more frugal and responsive government services:

Smart Infrastructure

Efficient Government

Open Data

The most successful agencies will be smart about how they utilize their infrastructure, efficient in their spending on contracts and increasingly open in connecting, analyzing and sharing their formerly difficult-to-access large sets of data. Vendors should understand the implications of these developments and consider them for sales, marketing and communication strategies.

These trends are based on an extensive analysis of industry and agency data using Onvia's comprehensive database of nearly 600,000 new bids and RFPs published annually, together with Onvia's quarterly State and Local Snapshot reports published throughout 2015.

Trend #1
Smart Infrastructure

"Smart cities are willing to invest in innovation…a critical ingredient in a growing, competitive community. Vendors that can provide the most innovative, integrated solutions to address cities' infrastructure challenges will have a clear advantage"

- Jesse Berst, Chairman, Smart Cities Council

The Smart Cities movement emphasizes intelligent, connected infrastructure and related initiatives to solve problems and make cities more livable and better able to accommodate future growth.

By applying innovation to local facilities and systems such as roads, lighting, parking and utilities, agencies can better utilize the existing physical infrastructure and increase capacity without the need for massive new capital investments. The smart city market is experiencing rapid growth, with an ABI Research study predicting growth from $8.1 billion in 2010 to $39.5 billion in 2016 on a global basis.

SLED governments, including counties and state agencies, are increasingly asking the question: "How do we get smarter about using what we've already built?"

$39.5 BILLION

Value of global Smart Cities projects 2016

Source: ABI Research

This kind of thinking appears to be gaining traction across the categories of purchases as well as across the major levels of government. Looking at the SLED universe of bids and RFPs posted over the past year, Onvia's database shows that mentions of the term "smart" in project descriptions and titles have risen by **23%** while "innovative" has grown by **13%**.

Let's take a closer look at three examples of smart infrastructure projects being implemented at multiple levels of government:

Example #1. Smart Lighting

Agencies across the nation are realizing significant annual savings in their power consumption by retrofitting their existing streetlights with new, intelligent lighting solutions. These fixtures not only use energy-efficient LED bulbs, but can be programmed to turn off when sensing no one is present to save additional energy and costs.

They can also be used as platforms for video surveillance or shotgun detection sensors for law enforcement use.

In the midst of essentially flat growth in overall bidding activity since 2014, these projects have been growing at a brisk 13% annual rate.

LED Lighting - Bids & RFPs

	2013 2H	2014 1H	2014 2H	2015 1H
Value	371	509	421	575
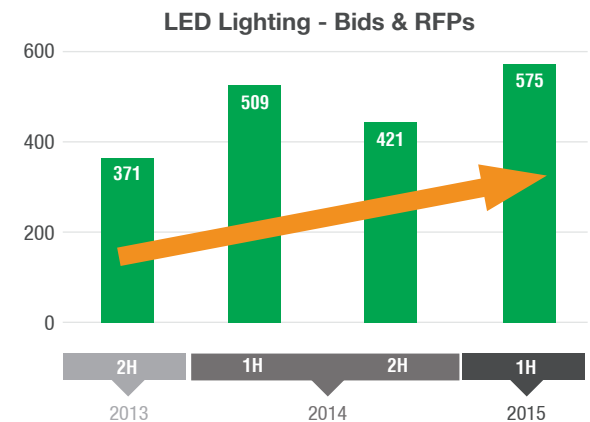
Trend #1
Smart Infrastructure, Cont.

Example #2. Smart Transit

Bus Rapid Transit (BRT) is an emerging solution that allows cities to make quick progress fighting traffic congestion without spending billions in new infrastructure. BRT offers a "high-quality, bus-based transit system that delivers fast, comfortable, and cost-effective services at metro-level capacities." BRT uses off-board fare collection for more efficient boarding and dedicated set-aside lanes that greatly reduce the travel time for riders – adding to the appeal of public transit as an alternative to single-occupancy cars.

According to the website BRTdata.org, there are over one million daily riders across 27 different cities in North America, which is only 3% of the global total – pointing to further room for growth. Onvia's database shows a wide range of cities are adopting BRT systems including those with large and mid tier population sizes.

Example #3. Smart Parking

Inefficient parking is ultimately a traffic

Recent Cities Purchasing BRT Solutions

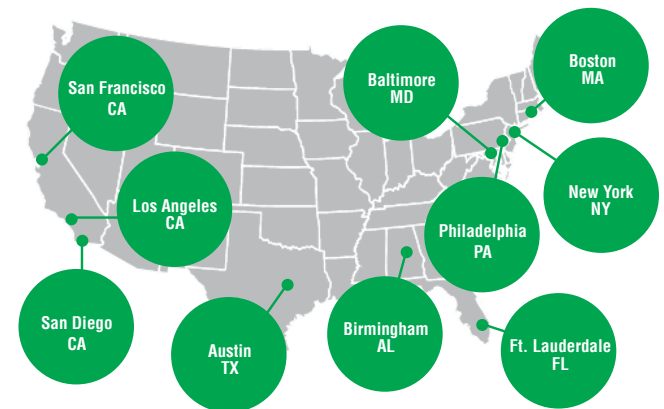|		
Austin, TX	Fresno, CA	San Jose, CA
Oakland, CA	San Diego, CA	Seattle, WA
Orlando, FL	Gainsville, FL	Denver, CO
Chicago, IL	Richmond, VA	Santa Clara, CA

congestion issue. The amount of time drivers spend searching for a spot represents up to 30% of all urban city traffic according to a recent LA Times article. Smart cities are implementing new centralized and electronically connected parking systems that make finding parking easier while also reducing congestion.

The systems use tools like web-based driver information and recommendations, variable

real-time pricing and mobile payments. When some areas are overloaded or under-used these solutions encourage re-balancing.

For example, Los Angeles' ExpressPark's system is designed to "price spots so that several spaces always remain available on each block." And New York's pilot system "will warn motorists when their time is about to expire via e-mail or text messages, and allow them to pay for additional time."

Top Cities with Smart Parking Bids or Awards

San Francisco CA
Baltimore MD
Boston MA
Los Angeles CA
New York NY
Philadelphia PA
San Diego CA
Austin TX
Birmingham AL
Ft. Lauderdale FL

Trend #2
Efficient Government

The focus on finding more efficient ways to deliver government services will continue into 2016 for every level of government and all sizes of agencies. The use of the term "efficient" in project descriptions and titles for bids and RFPs has risen by 12% just in the past year within Onvia's contracting database.

Perhaps no part of SLED government feels the pressure toward efficiency as much as in procurement. In an effort to save money and staff time, agency buyers are reducing the number of times they need to go out for a traditional competitive bid by ramping up their buying through non-traditional, more convenient, and leaner methods. They are increasing their use of cooperative purchasing – both through national co-ops as well as piggyback contracts used by other agencies.

In addition, buyers are diligently working to consolidate purchases wherever possible. This can translate to more reliance on multiple-year fixed term contracts as well as larger "schedule" awards with multiple prime contractors.

12%
INCREASE IN "EFFICIENCY"
in Bids & RFPs

In contradiction to an improving national economy and growing tax revenues, a recent 2015 survey by American City & County showed that 64% of SLED agencies still worry about "declining budgets" in the next three years. Meanwhile an Associated Press story in May 2015 reported that 22 state governments were facing deficits moving into the 2015-16 fiscal year. As long as the economy improves at a slow pace, this trend of overall slight revenue growth coupled with flat spending across line items will likely continue – underscoring the importance of efficiency.

Efficient State Procurement
State agencies seem to be moving in the direction of cooperative purchasing and other non-traditional methods with more urgency than other levels of government.

Onvia's quarterly Procurement Snapshot report shows state-level buying through formal bids and RFPs has been declining by 3% in 2015, compared to a 1% increase among cities.

"*Cooperative purchasing is not likely to be leveling off because state agencies will continue to be looking for any efficiencies they can find and when they have this option they will certainly consider it.*"
- Mike Keating, Senior Editor of American City and County

Onvia interviewed state procurement chiefs who revealed a focus on streamlining and modernizing the procurement process to capture additional efficiencies. This includes the non-traditional purchasing options mentioned as well as replacing paper-based contracting systems and procedures with streamlined, online platforms that can advertise bids, register and screen vendors, collect and process bid submissions electronically and manage payments.

Trend #2
Efficient Government, Cont.

Efficient Cities

In Austin, Texas, city agency spending and staffing levels both grew from 2012 to 2014 while the number of formal bidding opportunities declined at a rate of 10% per year. Non-traditional and consolidated purchases made up the difference.

The commitment to efficient procurement by Austin city leaders has led them to increase cooperative purchasing from 12% to 15% of total awards over the past three years, while the national average in Onvia's award data is only 2%. They have also strived to use multi-year term contracts much more extensively than normal. These efficient operations have resulted in keeping property tax rates flat since 2010 while maintaining customer service that ranks 26% above the national average. According to the 2015 annual budget, Austin strives to be the "best managed city in the country" through "a relentless drive to identify new efficiencies that allow us to provide greater value."

Other cities across the nation are moving in the same direction. One example from

> " *There has been an effort to go from annual contracts to aggregating our demand across multiple years, which improves value…* "
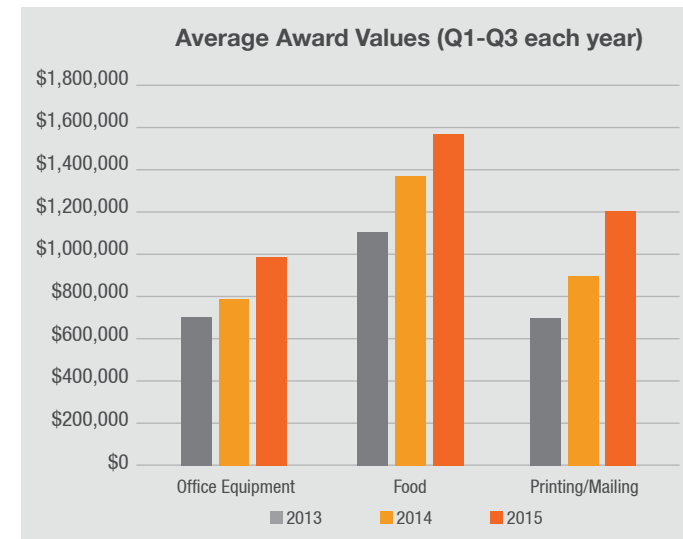> - City of Austin Procurement Official

another urban city is San Diego, California. In 2014, city leaders announced they were recommending changes in their contracting procedures for infrastructure projects to save money and increase value. An advisory committee to the Mayor noted in its report that the city should "pursue innovative procurement strategies to increase contract capacity, reduce procurement times and increase efficiency by utilizing economy of scales." Cooperative purchasing through piggyback contracts was mentioned along with the use of streamlined online bidding.

Measuring the Impact of Efficient Purchasing

Our analysis of Onvia's nationwide database of contracting activity over the last three years helps vendors understand the impact of efficient purchasing across the broader market. We found that there is a general trend toward fewer

competitive bids but increasing award sizes. This effect, however, appears to be more prominent in certain industries that lend themselves to value purchasing at greater scale.

Average Award Values (Q1-Q3 each year)

	Office Equipment	Food	Printing/Mailing
2013			
2014			
2015			

Since 2013, award sizes for food, office equipment, and printing have increased significantly **(up 46%)** while the number of formal bidding opportunities has declined in volume **(down 7%)**. The chart above illustrates the growth in average award sizes across these commodity-related industries.

Trend #3
Open Data

Traditionally, obtaining government information is a slow and inconvenient process. Today, motivated by the promise of more collaborative, responsive government and the potential for economic development, state and local agencies are building data portals to make data sharing with vendors and citizens easier.

Open data is a major technology trend that involves opening up and sharing large data sets that were formerly hard to access. More than 40 countries have established open data initiatives, and a total of one million data sets worldwide have reportedly been put online for convenient manipulation or download.

The central U.S. open data website data.gov grew from 47 data sets in 2009 to 90,000 in 2013 to 188,500 in December 2015 due in part to President Obama's 2013 executive order stating that all federal data should be shared. This movement has expanded to state and local agencies. By the beginning of 2015, the five largest U.S. cities have open data policies and "small and mid-sized cities are increasingly joining the movement...showing that smaller communities

can and should embrace the benefits open data can bring." Many agencies have appointed a new "Chief Data Officer" to handle open data implementation and management.

With the adoption of open data, agencies can fill an underlying need to be more transparent, collaborative and responsive to citizens and businesses. In an era of budget scrutiny, scandals, leaks, questionable outcomes and inappropriate conduct, government officials seek to increase trust, engagement, satisfaction and value by providing expanded and useful access to a broad range of data. A recent survey of the 88 incorporated cities in LA County revealed that 53% considered open data to be a priority while another 23% viewed it as a moderate priority. Only 18% said it was a "slight priority" or not a priority at all.

In Onvia's contracting database, two key words typically associated with open data initiatives are appearing with more frequency. In the last year there was an **11%** rise in the mention of "transparent" in government bidding documents and an **8%** increase in "collaborative", suggesting

that more agencies are either implementing open data or are considering it.

$3 Trillion Globally	$1.1 Trillion U.S.	$500 Billion U.S. Business Impact

Key Motivator: Economic Development
The potential for job creation and a competitive business environment are compelling reasons for agencies to consider open data initiatives. McKinsey published a report estimating more than $3 trillion of global economic annual impact was possible from opening up and sharing mainly government data, including $1.1 trillion for the U.S. Their findings also suggest that around $500 billion of U.S. economic benefits are possible per year from startup companies as well as existing firms.

"*When entrepreneurial companies and established businesses gain access to existing data…that were previously unavailable, they can significantly refine the process of defining and creating products and services*"
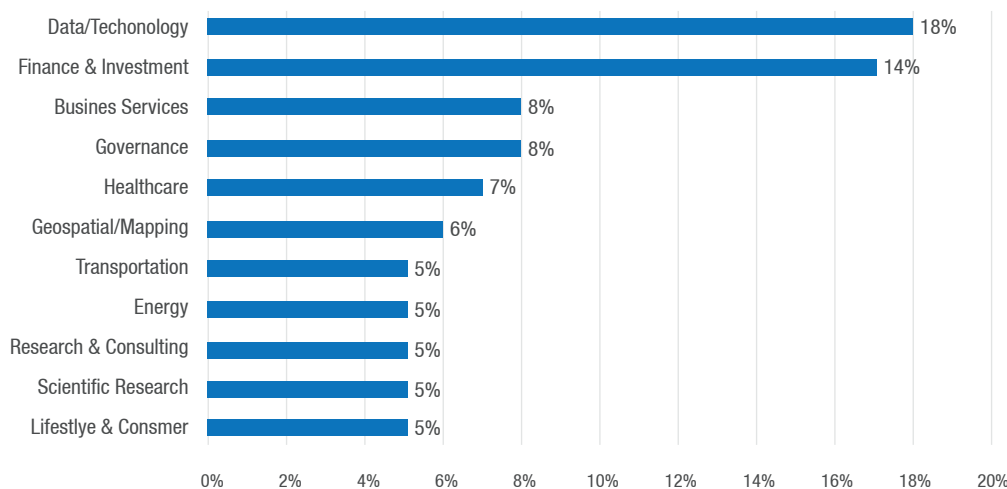- McKinsey & Company

Trend #3
Open Data, Cont.

At New York University's Govlab, the Opendata500 project is studying the top 500 U.S. companies that already derive significant benefit from the open data provided by government. A diverse range of industries are directly affected (i.e. using the data to create valuable products or services). Out of the approximately 500 companies, only 18% are actually classified as data or technology firms. Eight out of ten are engaged in some other line of business from finance to healthcare to energy.

City leaders see open data as a way to better meet the needs of existing businesses and help their community be more business-friendly and competitive. One trend that has resulted in new business or products are "hackathons." At these hosted events or contests, local coders and technologists are invited to create early stage concepts or even apps to help solve civic problems. Some of these ideas will lead to new and profitable business models and allow companies to bring in needed jobs and

investment. For example, a hackathon winner in San Francisco took the laptop he won and proceeded to launch a company with his idea that later received $25 million in startup financing.

Will Saunders, the executive responsible for open data in the State of Washington, explained to Onvia that the basic principle of making data available is so integral to government operations and thinking that it is "just part of how we do business here." He argued that by helping enhance competitiveness, open data can contribute to the economic growth of an entire community – not just the growth of a few startup firms.

> " A more informed or more transparent marketplace is going to be a more desirable business environment "
> - Will Saunders, Open Data Chief, State of Washington

Top 500 U.S. Firms Impacted by Open Data

Category	Percent
Data/Techonology	18%
Finance & Investment	14%
Busines Services	8%
Governance	8%
Healthcare	7%
Geospatial/Mapping	6%
Transportation	5%
Energy	5%
Research & Consulting	5%
Scientific Research	5%
Lifestlye & Consmer	5%

Source: Opendata500.com, Govlab at New York University

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Trend #3
Open Data, Cont.

How Open Data Affects Businesses

The U.S. City Open Data Census, run by Code for America, the Sunlight Foundation and the Open Knowledge Foundation, selected 19 different categories of open data sets typical for cities. Onvia segmented these categories into industries to highlight open data sets relevant to vendors selling into the government market. For starters, all industries can benefit from greater visibility into how government spends money on contracting and its priorities. Vendors should leverage the information listed below to profile buyers and design better, more relevant responses to RFPs.

All Industries
Budget
Spending
Procurement Contracts
Business Listings
Code Enforcement Violations
Lobbyist Activity
Campaign Finance Contributions
Asset Disclosure of Govt. Officials

Public Safety
Crime Incidents

Open data helps solve problems in public safety. Vendors specializing in this area should take advantage of the available data sets on crime and other safety metrics to aid in focusing on the right agencies to target and in forecasting future demand for equipment.

Transportation, Maintenance & Operations
Transit
Public Buildings
Service Requests

Transportation and maintenance vendors can leverage available data to forecast demand for services down to the building, transit stop or city level. For example, a vendor selling fleet buses can segment the market by growth in use or ridership.

Food
Restaurant Inspections

Vendors offering institutional catering and food supplies to agencies can leverage food service inspection data to monitor trends in health and safety, note problem areas in existing operations and provide better solutions to sell to agencies.

Infrastructure
Parcels
Property Assessment
Property Deeds
Zoning
Construction Permits

Open data is helping move infrastructure-related contracting in a digital direction. Agencies are relying on open data to improve the construction planning and contracting process, reducing cost and delays while maintaining quality and safety.

Note: U.S. City Open Data Census has an emphasis on city agencies and does not include education and healthcare categories; however, this shouldn't be taken as an indicator of their lack of importance. The McKinsey report includes education and healthcare in its analysis of impacts.

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Conclusion

Modernizing to Improve in 2016
Smart infrastructure, efficient government and open data are three top trends that help improve and modernize core services using existing resources. These goals are increasingly reached through partnership and collaboration with the private sector to create better solutions, as well as pursuing leaner methods of running public services.

Vendors Help Agencies Compete
Government purchasing is expected to not only meet basic public needs but also help agencies to "win" in the longer-term competition for excellence. Individual agencies now exist in a competitive arena with other peer jurisdictions who are all striving to have the most business-friendly reputation to grow jobs and spur investment.

The Vision for Government Leaders
The goal for the agency leader is to help create a place where infrastructure is done well, dollars are stretched and spent wisely, and information is shared collaboratively. The most successful agencies will end up with vibrant, growing communities.

Agencies Need All Three Components
Onvia believes each of these three trends are important enough that a failing grade on one of them can negate progress in the others.

For example, an efficient and data-centric agency that fails to improve its public transit may still lose out in regional competition. Likewise, governments that are inefficient will end up having to raise taxes or slash services to make ends meet – reducing their appeal. And even with good transit and reasonable taxes, agencies without any open sharing of data may lose business and investment to other more transparent, collaborative locations where there are fewer business delays.

Selecting the Right Agencies
Since vendors have choices of which agencies to target, they may want to place additional weight on the ones that appear to be up-and-coming "winners" – capable of generating consistent growth and greater purchasing activity.

Top Considerations for Vendors
Based on the findings shared in this report, Onvia offers the following recommendations:

Companies that work in infrastructure should learn about the Smart Cities movement and investigate how to better incorporate technology into their services to become a high-value provider of the effective solutions that are transforming communities.

All vendors need to understand the pressures facing government for greater efficiency, whether they sell basic products or complex services. In particular, vendors should evaluate opportunities to participate in cooperative purchasing and consider the option of competing for multi-year term contracts or multi-vendor awards that offer larger scale.

Businesses across a range of industries need to be aware of the open data resources available and leverage them in working with public clients. A diverse range of vendors are directly affected as agencies increasingly rely on open data to create transparency and easily accessible, valuable products and services.

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Interested in more information?

Onvia has 6 powerful tools to help you succeed in this market. Using the links below, learn more about each of our industry-leading capabilities:

Term Contract Center

Project Center

Spending Forecast Center

Agency Center

Vendor Center

Purchase Order Analytics

Onvia specializes in providing business intelligence solutions to vendors to grow their government business, helping them get ahead of the bid and RFP process. Contractors, manufacturers, subcontractors, dealers and distributors that want timely, comprehensive and unique insights into their market, their key buyers and their competitive landscape should visit www.onvia.com and request a live demonstration to find out how Onvia can help win more government business. Onvia helps clients strategically grow their government business with solutions for project intelligence, agency intelligence, future intelligence and vendor intelligence in the public sector.

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