

# Texas Municipal Procurement Laws Made Easy



## 2021 Editor

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(Last Updated January 2022)

(Editor's Note: 2021/2022 updates are highlighted in text.)

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# Texas Municipal Procurement Laws Made Easy

The following questions and answers provide an introduction to procurement laws that apply to city officials in Texas. It is meant as a guide only, and city officials should consult with their legal counsel regarding the application of the law to the facts of each particular situation.

## I. Application of Municipal Procurement Laws

### 1. What city purchases must generally be awarded through the use of statutory procurement methods?

The Local Government Code provides that, before a city may enter into a contract for the purchase of most goods and services that require an expenditure of more than \$50,000 from one or more municipal funds, the city must:

- comply with statutory procedures for competitive sealed bidding or competitive sealed proposals, including high technology items or insurance;
- use the reverse auction procedure for purchasing;<sup>1</sup> or
- comply with certain statutorily prescribed methods of construction procurement.<sup>2</sup>

However, state law provides a number of specific exceptions that relieve the city of the duty to bid or seek proposals on an item. For example, state law does not require cities to follow any specific procedures to purchase real property (land and/or buildings).<sup>3</sup> The major statutory exceptions to the bidding or proposal requirement are discussed later in this article.

For contracts for certain professional services, a city is actually prohibited by law from awarding the contract by competitive bidding. For example, cities may not award contracts for the services of architects, engineers, interior designers,<sup>4</sup> or certified public accountants through competitive bidding. Instead, the Professional Services Procurement Act sets out a different set of procedures that must be followed to contract for these services.<sup>5</sup>

### 2. Is an economic development corporation required to comply with municipal procurement laws?

The duty to comply with procurement laws is generally derived from some statute that specifically requires an entity to make its purchases through such a procedure. The implementing legislation for economic development corporations (the Development Corporation Act) does not contain a provision that subjects economic development corporations to municipal procurement requirements. Neither the Texas attorney general nor the Texas courts have directly addressed this question.

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<sup>1</sup> TEX. LOC. GOV'T CODE § 252.021(a)(2).

<sup>2</sup> *Id.* § 252.021.

<sup>3</sup> *Id.* § 272.001.

<sup>4</sup> Added by H.B. 2868 (2019).

<sup>5</sup> TEX. GOV'T CODE § 2254.001 et seq. (Professional Services Procurement Act).



### **3. Are simple leases of personal property such as the lease of autos, office equipment, or other items by a city subject to statutory procurement requirements?**

Competitive bidding or proposal requirements apply to any lease of personal property that will require an expenditure of more than \$50,000 in city funds, unless the expenditure is covered by a specific statutory exception that would relieve the city from the duty to bid or seek proposals on the item.<sup>6</sup> For example, if the lease were for an item that was necessary to preserve or protect the public health or safety of the city's residents, the city would not be under a duty to use competitive bidding or proposals for its acquisition.<sup>7</sup>

### **4. Are lease/purchase agreements by a city subject to statutory procurement requirements?**

State law expressly authorizes cities to enter into lease-purchase agreements.<sup>8</sup> However, normal statutory procurement requirements would generally apply to these lease-purchase agreements.<sup>9</sup> That is, when a lease-purchase agreement for personal property will involve an expenditure of more than \$50,000 in city funds, the contract must be competitively procured unless the type of item purchased is covered by a specific exception to the statutory procurement requirements.

### **5. Does a city have to use competitive bids or proposals to lease real property to an entity?**

Competitive bidding or proposal requirements under Chapter 252 of the Local Government Code do not apply to the lease of real property. Cities typically enter into leases of city real property through lease agreements with entities as would any other lessor. Additionally, the requirements under Chapter 272 of the Local Government Code that a city advertise the sale of real property do not apply to a normal term lease of a property.

At least one court has held that a city's temporary lease of property is not subject to the notice and bidding requirements in Chapter 272.<sup>10</sup> A recent attorney general opinion suggests that all of the following have a bearing upon the "temporary" status of a lease agreement: (1) the duration of the lease; (2) the city's right to control the land during the lease term; and (3) the city's right to make improvements upon termination of the agreement.<sup>11</sup> An older opinion suggests that the lessee's

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<sup>6</sup> TEX. LOC. GOV'T CODE § 252.021

<sup>7</sup> *Id.* § 252.022(a)(2).

<sup>8</sup> *Id.* § 271.005.

<sup>9</sup> *Id.* § 271.006 (Requiring that a contract authorized by Section 271.005 comply with any applicable requirements in chapter 252 of the Local Government Code).

<sup>10</sup> *Walker v. City of Georgetown*, 86 S.W.3d 249, 259 (Tex. App.—Austin 2002, pet. denied) (“[T]he plain language of the statute indicates that the Legislature intended for the notice and bidding requirements to apply to the ‘sale or exchange’ of land, not the lease of land.”).

<sup>11</sup> Op. Tex. Att’y Gen. No. GA-0321 at 9 (2005).

option to purchase the leased property upon expiration of the lease may be indicative of a sale.<sup>12</sup>

Essentially, if the facts of the situation determine that a lease of the real property is for such an extended period that it would almost amount to a sale, the lease may be subject to the requirements for advertising the sale of real property under Chapter 272 of the Local Government Code.<sup>13</sup>

## **6. Are competitive bidding or proposals required if only state or federal funds are used to fund the city expenditure?**

A city expenditure is not necessarily exempt from competitive bidding or proposal requirements because it involves the use of only federal or state funds (e.g., grant funds or loans). Often, state or federal funds are considered city funds once they are acquired by or given to the city. Accordingly, any expenditure of these funds would ultimately be considered an expenditure of city funds and therefore subject to the bidding or proposal requirements. Additionally, many state and federal statutes expressly require that the funds provided to a city under the statute be expended in a manner that complies with local competitive bidding requirements. Cities should review applicable state or federal provisions that relate to any such funding they receive from state or federal programs.

One state law provides that competitive bidding requirements do not apply to certain appropriations, loans, or grants for conducting a community development program established under Chapter 373 of the Local Government Code.<sup>14</sup> Such expenditures must instead use the request for proposals process described in Section 252.042 of the Local Government Code.

## **7. Must a city bid for health insurance coverage or public official liability insurance for its officials or employees?**

Cities must seek competitive bids or proposals when purchasing insurance that will cost more than \$50,000.<sup>15</sup>

Chapter 252 of the Local Government Code does not specifically address the need to use competitive bidding or proposals if a city's liability coverage is gained through participation in a group risk pool. Under state law, the coverage provided by risk pools is not considered to be insurance or subject to the traditional requirements applicable to insurance policies. Therefore, most risk pools take the position that statutory procurement requirements do not apply. A city should consult its legal counsel if it wants to acquire coverage in this manner without participating in competitive bidding or proposals.

## **8. Is a city required to bid for excess or surplus insurance?**

Section 252.024 of the Local Government Code states that the statutory procurement requirements do not prohibit a city from selecting a licensed insurance broker as the sole broker of record for the

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<sup>12</sup> Tex. Att'y Gen. LO-96-053 at 3.

<sup>13</sup> *Flagship Hotel, Ltd. v. City of Galveston*, 117 S.W.3d 552, 559 (Tex. App.—Texarkana 2003, pet. denied).

<sup>14</sup> TEX. LOC. GOV'T CODE ANN. § 252.021(d) (West Supp. 2011).

<sup>15</sup> *Id.* § 252.021(b).

city.<sup>16</sup> Such brokers obtain proposals and coverages for “excess or surplus insurance.” Excess or surplus coverage may include surplus coverage for public official liability, police professional liability, and airport liability. Some legal analysts have suggested that a city may avoid the bidding requirements when purchasing excess or surplus insurance if the city complies with the requirements of Section 252.024. The attorney general, however, has rejected this interpretation of Section 252.024.<sup>17</sup> In regard to whether the actual selection of the broker of record must comply with Chapter 252, the attorney general has allowed for the possibility that if the services to be performed by the broker are professional in nature, the selection of the broker would be exempt from competitive bidding. A city should, therefore, consult with its legal counsel if it wants to select an insurance broker of record without participating in competitive bidding.

## **9. Do competitive bidding requirements apply to city purchases of land or right-of-way?**

A city is not required to use competitive bidding to purchase or lease land or a right-of-way.<sup>18</sup> However, it is important to note that a city is generally required to take bids or – pursuant to legislation passed in 2013 for home rule cities only – hire a broker when it sells a city interest in real property.<sup>19</sup> Additionally, there are certain special statutory provisions that apply to the sale of park lands, municipal building sites, or abandoned roadways.<sup>20</sup> Further, if a city is to purchase real property wholly or partly with bond proceeds, the city must first obtain an independent appraisal of the property’s market value.<sup>21</sup>

## **II. Threshold Amount at which Bidding is Required**

### **10. What is the threshold amount at which competitive bidding or proposals are required?**

Generally, a city is required to follow the bidding or proposal procedures outlined in Local Government Code Chapter 252 when it plans to make an expenditure of more than \$50,000 in city funds.<sup>22</sup> Recent legislative changes make the above requirement equally applicable to purchases of insurance and high technology items.

### **11. May a home rule city charter provide a lower threshold for requiring competitive bids?**

If there is a conflict between the statutory threshold amount that triggers the requirements of Chapter

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<sup>16</sup> *Id.* § 252.024 (West 2005).

<sup>17</sup> Op. Tex. Att’y Gen. No. DM-70 (1991).

<sup>18</sup> See TEX. LOC. GOV’T CODE § 252.022(a)(6) (Purchase of land or right-of-way exempt from competitive bidding requirements).

<sup>19</sup> *Id.* § 272.001; S.B. 985 (2013).

<sup>20</sup> *Id.* § 253.001.

<sup>21</sup> *Id.* § 252.051.

<sup>22</sup> *Id.* § 252.021(a)-(b).

252 and the city's charter, the city should follow the lower of the two amounts.<sup>23</sup> Thus, if a city charter sets forth a lower threshold for requiring competitive bids than does state law, the city should follow the charter's requirements. For example, some city charters require the city to use competitive bidding for any purchases that exceed \$3,000. Such cities would have to follow bidding procedures as required by state law and as additionally required by the terms of the city charter. A city charter may not provide a higher threshold for bidding than is permitted under state law.

## **12. May a home rule city charter provide different procedural requirements for the handling of competitive bids?**

A city charter may provide certain different procedural requirements for handling competitive bidding. For example, a city charter may provide different requirements for the notice that must be provided for contracts to be bid, how the notices are advertised, the manner for taking certain sealed bids, the manner of publicly opening bids or reading them aloud, and the manner of awarding the contracts.<sup>24</sup> Such provisions in a city charter are controlling even if they conflict with Chapter 252 of the Local Government Code. However, a majority of the city council may vote to have the bidding provisions of Chapter 252 override any different procedural requirements contained in the city charter. Note that the city council can vote to override its charter only with regard to the *procedures* for handling competitive bids. The council may not override a city charter provision regarding the *threshold amount* at which competitive bidding is required.

## **13. Can a general law city (under 5,000 population) impose a lower threshold for requiring competitive bids?**

A general law city by ordinance or simply by vote of the city council could impose a lower threshold on itself for competitive bidding than would otherwise be required by state law.<sup>25</sup> This is true unless a statute forbids a city from using competitive bidding to obtain a particular type of good or service. As noted earlier, the Professional Services Procurement Act prohibits a city from using competitive bidding procedures to secure the services of certain professionals such as architects, engineers, interior designers, and certified public accountants.<sup>26</sup>

## **14. Can a city separate out its purchases over time to avoid the application of competitive bidding or proposal laws?**

A city may not avoid the application of competitive bidding or proposal laws by purposely dividing a single purchase into smaller components so that each component purchase is less than \$50,000. Chapter 252 of the Local Government Code prohibits the use of "separate, sequential, or component purchases" as a means of avoiding bidding requirements.<sup>27</sup>

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<sup>23</sup> *Id.* § 252.002.

<sup>24</sup> *Id.*

<sup>25</sup> See Op. Tex. Att'y Gen. No. DM-106 (1992) (City may procure services through competitive bidding even if those services qualify for an exemption from competitive bidding, unless those services are covered by the Professional Services Procurement Act.).

<sup>26</sup> TEX. GOV'T CODE § 2254.003.

<sup>27</sup> TEX. LOC. GOV'T CODE § 252.062.

It is important to note that the phrases “separate purchases,” “sequential purchases” and “component purchases” are all specifically defined by Chapter 252 of the Local Government Code.<sup>28</sup> “Separate purchases” means purchases, made separately, of items that in normal purchasing practices would be purchased in one purchase. “Sequential purchases” means purchases, made over a period of time, of items that in normal purchasing practices would be purchased in one purchase. “Component purchases” means purchases of the component parts of an item that in normal purchasing practices would be purchased in one purchase.

Some think that by waiting a year or more between purchases they will automatically avoid the problem of separate, sequential or component purchases. However, the competitive bidding laws do not specify any such waiting period. Instead, if the purchases in question would normally have been made in one purchase, then there may be a violation of the bidding laws even though the city waited more than a year between each purchase. Accordingly, a city is well-advised to look at its purchasing practices in terms of whether such purchases are traditionally done all at once or whether it is necessary or prudent to acquire the items over time. If such items are traditionally purchased at one time, the city would not want to separate out the purchase in order to avoid competitive bidding requirements. If a city is not certain how such items are traditionally handled, it should consult the city’s legal counsel.

**15. If a city does not competitively bid an item because the total expenditure would be below the threshold requiring bids, can it later purchase more of the items if the extra items would take the total purchase over the \$50,000 threshold?**

A city may purchase items without competitive bidding if the total purchase amount will be below the \$50,000 threshold that requires bidding. However, if the city later wants to make additional purchases and these purchases would take the total purchase over the \$50,000 threshold, the city should use caution. State law provides criminal penalties if a city makes component, sequential or incremental purchases to avoid the competitive bidding requirements. If such a charge is at issue, the local prosecuting attorney would review the facts surrounding the involved transaction. Cities would be well-advised to look at their purchasing practices over past budget years and consider whether certain items should be purchased through competitive bids.

**16. If individual city departments make their own purchases of such commodities as office supplies, gasoline and vehicle parts, and the sum of all purchases exceeds the bidding threshold, must the purchase of those items be bid?**

Often individual city departments will make separate purchases of office supplies, gasoline or other items without competitive bidding because each department’s purchase amount will be below the \$50,000 threshold that requires bidding. If a city’s total purchases for these items would be over the \$50,000 threshold, the city should use caution. As noted earlier, state law provides that there are

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<sup>28</sup> *Id.* § 252.001(2), (6)-(7).

criminal penalties if a city makes component, sequential or incremental purchases to avoid the competitive bidding requirements. If such a charge is at issue, the local prosecuting attorney would review the facts surrounding the involved transaction. Cities would be well-advised to look at their purchasing practices over past budget years and consider whether certain items should be purchased through competitive bids.

### **17. After a bid contract is awarded, can a city later decrease or increase the amount of its purchase or the quantity of work to be performed?**

Even after a bid has been awarded, a city may still increase or decrease the quantity of work to be done or the materials or supplies to be furnished if it is necessary to do so.<sup>29</sup> Such changes may not increase or decrease the original contract price by more than 25 percent. If the city wants to decrease the contract amount by more than 25 percent, it needs to obtain the approval of the contractor for such a change. There is no comparable authority for the city to simply gain contractor approval to increase the amount of the order by *more* than 25 percent. In such a situation, the city would need to seek bids or proposals for the work or products that would be beyond the 25 percent amount.

The city council may also delegate to city staff the authority to approve such change orders if it involves less than a \$50,000 decrease or increase in the contract amount.<sup>30</sup> If a change order for a public works contract in a city with a population of 300,000 or more involves a decrease or increase of \$100,000 or less, or a lesser amount as provided by ordinance, city council may delegate to city staff the authority to approve such change orders.<sup>31</sup>

### **18. If a city seeks competitive bids for an item, can it include a time frame for extra items to be purchased at the same cost?**

The bidding laws do not specifically address whether it is appropriate for a city to include a time frame within which it may seek to purchase items at an awarded contract bid amount. However, if a city would like to have an extended opportunity to make such purchases at that cost, it should indicate this fact in the bid specifications. In no case can a city increase the total contract amount by more than 25 percent of the original awarded amount. If a city needs to purchase additional items that would result in a purchase of more than 25 percent over the original contract price, it would need to seek bids or proposals for the additional purchase.

### **19. May a city seek bids or proposals for incrementally purchased items (such as office supplies) and award the contract to a single vendor for an entire year?**

Items, such as office supplies, could be bid and awarded to a single vendor for the entire year if the vendor committed to a set of prices for the items and all of the bidding procedures were followed to

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<sup>29</sup> *Id.* § 252.048

<sup>30</sup> *Id.* § 252.048(c).

<sup>31</sup> *Id.* § 252.048(c-1).

yield such a contract. The contract would need to have a maximum and a minimum number of items to be purchased so it could be determined under what circumstances a change order was permitted.

### **III. General Procedure Requirements**

#### **20. What is the general procedure for requesting competitive bids or proposals?**

To take bids or proposals on a purchase, the city must first publish notice of the time and place at which the bids or proposals will be publicly opened and read aloud.<sup>32</sup> The city should prepare specifications detailing the requirements that must be met by the goods or services the city intends to purchase. The published notice should include either a copy of these specifications or information on how a bidder may obtain a copy of the specifications.

If a city wishes to consider factors other than price in its selection, or other factors such as a bidder's previous performance or safety record in its selection, the city's bid specifications should clearly state that such factors will be considered. Also, the governing body of a city that is considering using a method other than competitive sealed bidding (e.g., competitive sealed proposals) must determine before notice is given the method of purchase that provides the best value for the city.

#### **21. What notice must a city provide to announce a request for bids or proposals?**

A city must publish a notice indicating the time and place at which the bids or proposals will be publicly opened and read aloud. The notice must be published at least once a week for two consecutive weeks.<sup>33</sup> The first publication must appear before the 14<sup>th</sup> day before the date that the bids or proposals are publicly opened and read aloud. The notice must be placed in a newspaper that is published in the city. If there is no newspaper published in the city, the notice must be posted at city hall for 14 days before the date that the bids or proposals are publicly opened and read aloud.

#### **22. Can city staff personally call potential vendors and ask them to participate in a bid?**

Nothing in state law explicitly prohibits a city from providing additional notice to potential bidders. In fact, many cities either keep a list of particular vendors or use a list of vendors that has been prepared by another entity, such as the Texas Facilities Commission. These cities then provide direct notice to the listed vendors when an item or project goes out for bids. However, although this is a common practice, cities should be aware that this practice has not been approved by the Texas courts or by an attorney general opinion. In fact, at least one attorney general opinion has concluded that "contact with potential providers outside the statutory notice and bidding process might run afoul of

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<sup>32</sup> *Id.* § 252.041

<sup>33</sup> *Id.*

[the competitive bidding notice requirements].”<sup>34</sup> The attorney general based this conclusion on a Texas case in which the court stated that “[c]ompetitive bidding...requires that all bidders be placed upon the same plane of equality...”<sup>35</sup> Thus, a city may wish to discuss any such practice with its legal counsel.

### **23. Can a city require or provide a preference for a particular brand or manufacturer in its bid specifications?**

At least one Texas attorney general opinion has concluded that a city may not require or indicate a preference for a particular brand name or manufacturer as part of the specifications for a bid request.<sup>36</sup> The only exception to this prohibition would be if it were necessary to acquire a particular brand or product because it is a “captive replacement part.” In such a case, however, competitive bidding is not required. Nonetheless, it is rare that a particular service or enhancement of a system can be accomplished only by one manufacturer or through one particular brand.

Some legal analysts disagree with the attorney general opinion that addressed this issue. However, as previously noted, it is not common that a particular item, service or enhancement of a system can be supplied by only one manufacturer or supplier or through only one particular brand or process. Because of the legal uncertainties involved, cities that desire to specify particular brands, products or processes should discuss this practice with legal counsel. In addition, a city should consider adding the phrase “or equal” to specifications that require a particular product, brand or process.

### **24. May a city accept bids or proposals through electronic transmission?**

Cities may receive bids or proposals through electronic transmission, provided the city council adopts rules to ensure the identification, security and confidentiality of electronic bids or proposals and to ensure that the electronic bids or proposals remain effectively unopened until the proper time.<sup>37</sup>

### **25. Is there a special notice requirement if the city intends to issue time warrants to cover the cost of a contract award?**

Special notice requirements apply if a city intends to issue time warrants to pay for the cost of a contract award. The required newspaper notice must include a statement of the city council’s intention to issue time warrants.<sup>38</sup> That notice must also include the maximum amount of the proposed time warrant indebtedness, the rate of interest the time warrants will bear, and the maximum maturity date for the time warrants.

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<sup>34</sup> Op. Tex. Att’y Gen. No. DM-70 at 5 (1991).

<sup>35</sup> *Sterrett v. Bell*, 240 S.W.2d 516, 520 (Tex. Civ. App.—Dallas 1951, no writ).

<sup>36</sup> Op. Tex. Att’y Gen. No. C-376 (1965).

<sup>37</sup> TEX. LOC. GOV’T CODE § 252.0415(a).

<sup>38</sup> *Id.* § 252.041(d).



**26. If a city chooses not to follow statutory procurement requirements for a particular item, should the city create any documentation to note why bidding laws were not applicable to that transaction?**

State law does not indicate any requirement that a city note in its purchasing documentation why bidding laws were not applicable to the involved transaction. Nonetheless, cities should consult local legal counsel regarding whether they would find placing such a justification on the record helpful to the city or the involved staff's legal position.

**IV. Consideration and Award of Bid or Proposal Requests**

**27. How are contracts awarded by the city that uses the competitive sealed bid method?**

If competitive sealed bid requirements are used, the city must award most contracts to either the lowest responsible bidder or to the bidder who provides goods or services at the "best value" for the city.<sup>39</sup> To determine the best value for the city, the city may consider the following:<sup>40</sup>

- the purchase price;
- the reputation of the bidder and of the bidder's goods or services;
- the quality of the bidder's goods or services;
- the extent to which the goods or services meet the municipality's needs;
- the bidder's past relationship with the municipality;
- the impact on the ability of the municipality to comply with laws and rules relating to contracting with historically underutilized businesses and nonprofit organizations employing persons with disabilities;
- the total long-term cost to the municipality to acquire the bidder's goods or services; and
- any relevant criteria specifically listed in the request for bids or proposals.

**28. Can the city take into account the safety record of the bidder in making the award?**

When awarding a contract using traditional competitive bidding, the city may only consider a bidder's safety record in regards to the bidder's "responsiveness" if notice has been given that such a criterion is relevant. Specifically, the governing body must have adopted a written definition and criteria for assessing the bidder's safety record and must have given notice in the bid specifications that the safety record will be considered. Of course, any decision that the city makes must not be arbitrary or capricious.<sup>41</sup>

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<sup>39</sup> *Id.* § 252.043(a)-(b).

<sup>40</sup> *Id.* § 252.043(b).

<sup>41</sup> *Id.* § 252.0435.

**29. What options does a city have if the lowest bidder has a prior history of poor performance?**

Under current law, if the city wishes to consider additional criteria, the city’s bid specifications should clearly specify the various criteria that will be considered.

Again, the best practice is to clearly indicate in the city’s specifications that a bidder’s prior performance on similar contracts may be considered in evaluating the bids.

**30. What options does the city have if the city receives no bids in response to a request?**

If competitive bids or proposals are required by Chapter 252 of the Local Government Code, there is no exception that would allow the city to avoid the statutory requirements due to a lack of bids. If a city receives no response to a request, the city must either re-advertise or decide not to undertake the contract.

**31. What options does the city have if the city receives only one bid or proposal in response to a bid request?**

If a city receives only one bid or proposal in response to its request, the city may accept the bid or proposal received, reject the bid or proposal and re-advertise, or reject the bid or proposal and decide not to undertake the project.

**32. May competitive bids be rejected by a city staff member or must the city council decide which bids to reject?**

State law provides that the governing body of the city may reject any and all bids.<sup>42</sup> There is no provision that would allow the delegation of this decision to city staff. However, in certain cities the staff will open the bids and provide a recommendation to the city council on whether the bid is responsive to the bid request and whether it should be accepted as the lowest responsible bid.

**33. What is the general procedure for awarding a contract pursuant to competitive bidding?**

First, bids must be publicly opened and the bid amounts read aloud at the time and place specified in the bid notice.<sup>43</sup> The city council must then award the contract to the lowest responsible bidder or (if previously noticed) the bidder that provides the best value to the city. In the alternative, the city may reject all bids.<sup>44</sup> Once a bid has been opened, it may not be changed to correct minor errors in the bid

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<sup>42</sup> *Id.* § 252.043(f).

<sup>43</sup> *Id.* § 252.041.

<sup>44</sup> *Id.* § 252.043(a), (f).

price.<sup>45</sup> However, under certain circumstances, a bidder may be able to withdraw a bid if it contains a substantial mistake that would cause a great hardship if enforced against the bidder.

### **34. What is the general procedure for awarding a contract pursuant to competitive proposals?**

If a city decides to use the competitive sealed proposal procedures, it must first give notice of the request for proposals in the same manner as required for competitive bids.<sup>46</sup> Generally, this means that the city must publish at least two newspaper notices of the time and place at which the proposals will be opened. These notices must be published at least once a week for two consecutive weeks, and the first notice must be published more than 14 days before the date set for opening the proposals. Requests for proposals must also solicit quotations and specify the relative importance of price and other evaluation factors.<sup>47</sup>

Once proposals have been submitted, the city may conduct discussions with the offeror or offerors whom the city determines to be reasonably qualified for the award of the contract. Such discussions must comply with the request for proposals and with the regulations set by the city council. To obtain the best offers, the city may allow the submission of revisions after proposals are submitted and before the award of the contract. All offerors must be treated fairly and equally with respect to any opportunity for discussion and revision of the proposals.

In the end, the contract must be awarded to the offeror whose proposal is determined to be the most advantageous to the city.<sup>48</sup> The city is to determine which proposal is the most advantageous based on the relative importance of price and the other evaluation factors included in the request for proposals.<sup>49</sup>

### **35. Is information contained in a bid or proposal confidential under the Public Information Act?**

Section 552.104 of the Government Code provides as follows:

- (a) Information is excepted from the requirements of Section 552.021 if it is information that, if released, would give advantage to a competitor or bidder.
- (b) The requirement of Section 552.022 that a category of information listed under Section 552.022(a) is public information and not excepted from required disclosure under this chapter unless expressly confidential under law does not apply to information that is excepted from required disclosure under this section.

The purpose of section 552.104(a) is to protect the interests of a governmental body in situations such as competitive bidding and requests for proposals, where the governmental body may wish to

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<sup>45</sup> *Id.* § 252.043(g).

<sup>46</sup> *Id.* § 252.041(b).

<sup>47</sup> *Id.* § 252.042

<sup>48</sup> *Id.* § 252.043(h).

<sup>49</sup> *Id.* §§ 252.021(c), 252.043(h).

withhold information in order to obtain more favorable offers.<sup>50</sup> Significantly, it is not designed to protect the interests of private parties that submit information such as bids and proposals to governmental bodies. Because section 552.104(a) protects only the interests of governmental bodies, it is an exception that a governmental body may waive, for example, by disclosing the information to the public or failing to raise the exception within the ten-day deadline.<sup>51</sup>

Generally, section 552.104(a) protects information from public disclosure if the governmental body demonstrates potential harm to its interests in a particular competitive situation. A general allegation of a remote possibility of harm is not sufficient to invoke section 552.104(a).<sup>52</sup> Section 552.104(a) is frequently raised to protect information submitted to a governmental body in response to a competitive bidding notice or request for proposals. In this context, the protection of section 552.104(a) is temporal in nature. Generally, section 552.104(a) does not except bids from public disclosure after bidding is completed and the contract has been executed.<sup>53</sup> However, bids may continue to be withheld from public disclosure during the period in which the governmental body seeks to clarify bids and bidders remain at liberty to furnish additional information.<sup>54</sup> Section 552.104(a) does not apply when a single individual or entity is seeking a contract as there are no “competitors” for that contract.<sup>55</sup> Note that even when section 552.104(a) does not protect bids from required public disclosure, section 552.110 will require the governmental body to withhold any portions of those bids that contain trade secrets or other commercial or financial information that is made confidential by law.<sup>56</sup> In addition to protecting the actual bid proposals, section 552.104(a) may protect information related to the bidding process that is not part of a bid.<sup>57</sup>

Although early decisions of the attorney general concluded that section 552.104(a) does not protect the interests of governmental bodies when they engage in competition with private entities in the marketplace,<sup>58</sup> this line of opinions has been reexamined. In Open Records Decision No. 593 (1991), the attorney general concluded that a governmental body may claim section 552.104(a) to withhold information to maintain its competitive advantage in the marketplace if the governmental body can demonstrate: (1) that it has specific marketplace interests and (2) the possibility of specific harm to these marketplace interests from the release of the requested information.<sup>59</sup> A governmental body that demonstrates that section 552.104 applies to information may withhold that information even if it falls within one of the categories of information listed in section 552.022(a).<sup>60</sup>

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<sup>50</sup> Tex. Att’y Gen. ORD-592 at 8 (1991).

<sup>51</sup> TEX. GOV’T CODE § 552.302.

<sup>52</sup> Tex. Att’y Gen. ORD-593 at 2 (1991), ORD-541 at 4 (1990), ORD-514 at 2 (1988), ORD-463 (1987).

<sup>53</sup> Tex. Att’y Gen. ORD-541 at 5 (1990), ORD-514 at 2 (1988), ORD-319 at 3 (1982).

<sup>54</sup> Tex. Att’y Gen. ORD-170 (1977). *See also* Tex. Att’y Gen. ORD-541 at 5 (1990) (Recognizing limited situation in which statutory predecessor to section 552.104 of the Government Code continued to protect information submitted by successful bidder when disclosure would allow competitors to accurately estimate and undercut future bids).

<sup>55</sup> Tex. Att’y Gen. ORD-331 (1982).

<sup>56</sup> Tex. Att’y Gen. ORD-319 (1982), ORD-309 (1982).

<sup>57</sup> *Compare* Op. Tex. Att’y Gen. No. MW-591 (1982) (Identity of probable bidders is protected from public disclosure because disclosure could interfere with governmental body’s ability to obtain best bids possible) *with* Tex. Att’y Gen. ORD-453 (1986) (Identities of individuals who receive bid packets are not protected when governmental body fails to show substantial likelihood that these individuals would bid).

<sup>58</sup> Tex. Att’y Gen. ORD-463 (1987), ORD-153 (1977), ORD-99 (1975).

<sup>59</sup> *See, e.g.,* Tex. Att’y Gen. ORL 1997-2516. (City of San Antonio’s records of costs various performers pay for use of Alamodome), ORL 1996-2186. (City of Alvin information regarding proposal to provide another city with solid waste disposal services).

<sup>60</sup> TEX. GOV’T CODE ANN. § 52.104(b).

### **36. Is information within a bid request concerning historically underutilized businesses confidential?**

Section 552.128 of the Government Code makes confidential certain information about disadvantaged or historically underutilized businesses.<sup>61</sup> General information about these businesses is confidential if it is submitted to a governmental body in connection with an application for certification as a historically underutilized or disadvantaged business. With two exceptions, this information may be disclosed only with the express written consent of the applicant or the applicant's agent.<sup>62</sup>

Without such consent, this information may be disclosed by a state or local governmental entity for one of the following two purposes: (1) to verify an applicant's status as a historically underutilized or disadvantaged business or (2) to conduct a study of public purchasing programs established under state law for historically underutilized or disadvantaged businesses.

It is important to note that this law protects only the information submitted with an *application for certification* as a historically underutilized or disadvantaged business.<sup>63</sup> The business's actual bid is subject to the same rules of disclosure as any other bid. Additionally, information submitted in connection with a specific proposed contractual relationship or within an application to be placed on a bidder's list is not confidential under section 552.128. Thus, this information may be accessible even though it involves data that would be confidential if it were contained in the entity's application for certification as a historically underutilized or disadvantaged business.

### **37. Must bidders be allowed to speak at a city council meeting to explain or defend their bids?**

A bidder does not have any special right to speak at an open meeting of the city council. The attorney general has concluded that the Open Meetings Act does not give members of the public a right to speak at an open meeting.<sup>64</sup> Further, if the city chooses to allow members of the public to speak at a council meeting, the council may make reasonable rules regulating the number of speakers on a particular subject and the length of each presentation.<sup>65</sup> However, the city council should not discriminate between one speaker and another, and the rules should be applied equally to all members of the public. The only situation in which the city council may be required to allow members of the public to speak would be if state law requires a public hearing on an issue or if state law requires that public comment be allowed on a particular subject. However, there is no such public hearing or comment requirement that is applicable to competitive bidding issues.

## **V. Bids for the Construction or Repair of Public Structures or Roads**

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<sup>61</sup> *Id.* § 552.128.

<sup>62</sup> *Id.* § 552.128(b).

<sup>63</sup> *Id.* § 552.128(c).

<sup>64</sup> Tex. Att'y Gen. Op. No. H-188 (1973).

<sup>65</sup> Tex. Att'y Gen. Op. No. H-188 (1973); Tex. Att'y Gen. LO-96-111.

### **38. Is there a special bidding procedure for contracts in excess of \$50,000 for the construction or repair of a structure, road or other improvement to real property?**

Texas law does not single out cities or dictate special bidding procedures for procurement contracts exceeding \$50,000. In the past, Chapter 271, subchapter B, of the Local Government Code dictated a special bidding procedure for cities. However, the legislature exempted cities from that procedure in 1997.

Currently, on expenditures greater than \$50,000, cities may follow one of three basic procurement methods: (1) competitive sealed bidding or competitive sealed proposals, (2) the reverse auction procedure, or (3) an alternative procurement method.<sup>66</sup> While each of these procurement methods is authorized for general use by cities, the legislature has precluded the application of some of these methods for specific types of construction projects. These preclusions, as well as other procurement issues, are discussed further in this handbook.

### **39. Are there special rules for the purchase of machinery for road construction or road maintenance?**

As with other procurement efforts, a city seeking to procure machinery for road construction or maintenance should provide notice in the newspaper.<sup>67</sup> The notice for this type of purchase must contain a general description of the type and specifications of machinery required.<sup>68</sup>

For example, a city requiring a bulldozer should specify the minimum size and horsepower of the desired bulldozer. In this way, newspaper notices can be kept reasonably brief and inexpensive, and more detail can be provided in the bid specifications, if necessary.

If, however, the procurement is required to replace unforeseen damage to previously owned equipment, the notice and bidding procedures do not apply.<sup>69</sup>

### **40. Can a city require that bids for a public work or for the purchase of materials, equipment, or supplies be on a unit price basis?**

Yes. Cities may request bids based on unit prices.<sup>70</sup> This type of procurement may be especially helpful in the procurement of equipment and machinery. The city must publish the quantities desired with its notice. If the quantities actually consumed differ from the city's anticipated needs, then the actual purchase shall reflect the quantities supplied or consumed in the procurement.

Cities may ask bidders to indicate both a lump-sum price and a unit price. In fact, some cities specify

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<sup>66</sup> TEX. LOC GOV'T CODE § 252.021(a).

<sup>67</sup> *Id.* § 252.041(a).

<sup>68</sup> *Id.* § 252.041(c).

<sup>69</sup> *Id.* § 252.022(a)(3).

<sup>70</sup> *Id.* § 252.047.

that bids may be awarded on a lump-sum basis, a unit price, or on whatever basis best serves the city's interest.

#### **41. Must a bidder execute a performance or payment bond if the contract is for the construction of a public work?**

The Government Code mandates that a city contracting for public work in excess of \$50,000 shall require its contractor to execute a payment bond solely for the protection of beneficiaries who supply materials or labor to the public works project and have a direct contractual relationship with the contractor.<sup>71</sup> A payment bond is required because material suppliers and laborers do not enjoy the same lien rights on public projects as they do on private projects. Without the benefit of lien rights to secure payments that are not timely received, those suppliers and laborers would lose much of their legal protection regarding payment. The payment bond requirements for public work essentially replace the protections afforded by lien rights with protections guaranteed by a surety.

The Government Code also mandates that a city contracting for public work in excess of \$100,000 shall require its contractor to execute a performance bond solely for the protection of the city. The performance bond protects the city in the event of a contractor default and/or termination.

Both the payment and performance bonds must be written for the total contract value and should be executed by a corporate surety in accordance with the Insurance Code prior to commencement of the work.

For more information on payment and performance bonds, a city should review Chapter 2253 of the Government Code and consult legal counsel.

#### **42. May a city require a performance or payment bond from a bidder even when state law does not require such bonds?**

Yes. Nothing in state law appears to prohibit a city from requiring a performance bond, a payment bond, or both, from anyone contracting to do work for the city regardless of the amount of the contracts in question. If a city wishes to impose such a requirement, it is advisable that the city make the requirement part of the bid specifications so all potential bidders are informed of the requirement before bidding.

#### **43. Is the city required to hire an engineer for the construction of a public work?**

If public health, safety, or welfare and professional engineering issues are involved, the engineering

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<sup>71</sup> TEX. GOV'T CODE § 2253.021.

plans, specifications, and estimates for the construction of a public work generally must be prepared by a licensed professional engineer.<sup>72</sup> Further, the engineering for construction usually must be executed under the direct supervision of a licensed professional engineer.

There are two circumstances in which the above requirements do not apply to the construction of a public work by a city. First, they do not apply to a public work that involves a total expenditure of \$8,000 or less, even if the work involves structural, electrical or mechanical engineering. If the expenditure for such a public work will amount to or exceed \$8,000, the use of an engineer is required as noted above. Second, if the work does not involve structural, electrical or mechanical engineering, then the use of an engineer is not required as long as the total contemplated expenditure on the project will not exceed \$20,000.<sup>73</sup>

#### **44. Is the city required to hire an architect if the contract is for the construction of a public work?**

A registered architect must prepare the architectural plans and specifications for constructing a new city building if:

- the building will be used for education, assembly or office occupancy; and
- the construction costs exceed \$100,000.<sup>74</sup>

Also, for any alteration or addition to an existing city building, a registered architect must prepare the architectural plans and specifications if all three of the following circumstances are present:

- the building is used or will be used for education, assembly or office occupancy;
- the construction costs for the alteration or addition exceed \$50,000; and
- the alteration or addition requires the removal, relocation, or addition of any walls or partitions or requires the alteration or addition of an exit.<sup>75</sup>

#### **45. If a contract is for the construction of a public work, is the city required to ensure that all contractors provide workers' compensation coverage?**

Any city "building or construction" contract must require the general contractor to certify in writing that the contractor provides workers' compensation insurance to all of the contractor's employees involved in the project.<sup>76</sup> Additionally, each subcontractor must certify in writing to the general contractor that the subcontractor's employees are covered by workers' compensation insurance. The general contractor, in turn, must provide each subcontractor's written certification to the city.

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<sup>72</sup> TEX. OCC. CODE § 1001.407.

<sup>73</sup> *Id.* § 1001.053. In addition, H.B. 1999, passed in 2019, provides detailed procedures that must be followed in construction defect lawsuits.

<sup>74</sup> *Id.* § 1051.703(a)(2).

<sup>75</sup> *Id.* § 1051.73(a)(3).

<sup>76</sup> TEX. LAB. CODE § 406.096.



The phrase “building or construction” is defined to include any of the following:

- Erecting or preparing to erect a structure, including a building, bridge, road, public utility facility or related structure;
- remodeling, extending, repairing or demolishing a structure; or
- otherwise improving real property or a structure related to real property through similar activities

Thus, a city must require contractors and subcontractors to provide workers’ compensation insurance in any contract involving one or more of these activities. However, the contractor may provide this coverage through a group plan or through another method that is satisfactory to the city council.

State law specifies that the employment of a maintenance worker does not generally constitute engaging in “building or construction.” State statutes do not appear to provide any other clear exceptions to the requirement that public works contractors provide workers’ compensation insurance.

#### **46. If a contract is for the construction of a public work, must a city ensure that the contractors pay their workers according to the local prevailing wage rate for the work that is performed? What about using unions on state-funded contracts?**

Texas law requires that any worker employed on a public work contract be paid at least the general prevailing daily wage rate for work of a similar character performed in the same locality.<sup>77</sup> If a worker works overtime or on legal holidays, the worker must be paid at least the general daily wage rate for overtime or legal holiday work. The city council must determine the general prevailing daily wage rate for each craft or type of worker needed to execute a public works contract and the prevailing rate for legal holiday and overtime worked.<sup>78</sup> This determination must be based on either a survey conducted by the city or on the prevailing wage rate in the city as determined by the U.S. Department of Labor (if that department’s figures are considered to be current). Further, both the call for bids and the contract itself must specify the applicable wage rates as determined by the city.

The prevailing wage rate requirement applies to any public work that is paid for in whole or in part from public funds, without regard to whether the work is done under public supervision or direction.<sup>79</sup> However, the requirement does not apply to work done directly by a public utility company under an order of a public authority. The prevailing wage requirement also does not apply to maintenance work.<sup>80</sup>

For more information on the prevailing wage rate requirements, a city should review Chapter 2258 of the Government Code and consult legal counsel.

In addition, H.B. 985, passed in 2019, provides that: (1) a governmental entity, including a city,

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<sup>77</sup> TEX. GOV’T CODE ANN. § 2258.021.

<sup>78</sup> *Id.* § 2258.022.

<sup>79</sup> *Id.* § 2258.002.

<sup>80</sup> *Id.* § 2258.021(b).

awarding a public work contract funded with state money, including the issuance of debt guaranteed by the state, may not: (a) prohibit, require, discourage, or encourage a person bidding on the public work contract, including a contractor or subcontractor, from entering into or adhering to an agreement with a collective bargaining organization relating to the project; or (b) discriminate against a person described by (1) based on the person's involvement in the agreement, including the person's: (i) status or lack of status as a party to the agreement; or (ii) willingness or refusal to enter into the agreement; and (2) the bill may not be construed to: (a) prohibit activity protected by the National Labor Relations Act, including entering into an agreement with a collective bargaining organization relating to the project; or (b) permit conduct prohibited under the National Labor Relations Act.

#### **47. Is there express statutory authority for cities to enter into public/private partnerships?**

Yes. In 2011, Chapters 2267 and 2268 of the Government Code were passed by the Texas Legislature to encourage the use of public/private partnerships to develop "qualifying projects," which include various infrastructure projects as defined by the new law (essentially any improvements necessary or desirable to unimproved real estate owned by a governmental entity). The new law requires an opt-in by resolution of the governing body of a political subdivision, including a city, to elect to operate under its terms. It provides detailed procedures for the procurement and implementation of a qualifying project.<sup>81</sup>

## **VI. Alternative Delivery Methods for the Construction of Structures**

### **Background and Authority**

#### **48. What are alternative delivery methods for city construction projects?**

The alternatives to the basic competitive bidding model of construction procurement are best-value competitive bidding, competitive sealed proposals, design-build, construction management-agent, construction management at-risk, and job order contracting.

#### **49. What benefits can alternative delivery methods provide cities?**

Alternative delivery methods have some advantages over traditional competitive bidding. In the traditional competitive bidding process, a contract must be awarded to the lowest responsible bidder. Subjective considerations such as the contractor's track record on a particular type of project, anticipated use of minority and local contractors, and other factors generally cannot be taken into

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<sup>81</sup> Subtitle F, Title 10, TEX. GOV'T CODE Chapters 2267 and 2268. The 82<sup>nd</sup> Legislature created two chapters of Chapter 2267 of the Government Code. Public and Private Facilities and Infrastructure was added by Senate Bill 1048. Question 47 concerns this version of Chapter 2267. Contracting and Delivery Procedures for construction projects was added by House Bill 628. Section VI of this handbook concerns this version of Chapter 2267, which was re-designated as Chapter 2269 in 2013 by S.B. 1093.

account. When subjective criteria are used in the selection process, cities have greater flexibility to choose contractors that can provide maximum quality on every project.

Further, alternative delivery systems are particularly advantageous on projects where time, flexibility and/or innovation is critical. Using alternative delivery methods such as design-build, the design and construction phases can overlap, allowing portions of work to begin before other final design decisions are made by the owner. The time savings are clear. For example, land can be cleared before the foundation is fully designed, and pier holes can be drilled before the interior colors are picked. Increased flexibility throughout the process allows the number of offices or rooms in a building to be changed relatively easily during the construction. Instead of following the old method of having an engineer design a project in the traditional way, alternative delivery systems can and do encourage innovation. A city can present a request for proposals with an end in mind and allow a firm to develop a plan whereby the most efficient and innovative materials and procedures are used.

## **50. Where is the statutory authority for cities to use alternative delivery systems?**

In 2011, the Texas Legislature consolidated statutes in various codes and created chapter 2267 of the Government Code. In 2013, the chapter was re-designated as Chapter 2269. All authorizations and requisite procedures for the use of alternative delivery systems can be found in Chapter 2269 of the Government Code. (Prior to 2011, cities found their authority for these methods in chapter 271, subchapter H, of the Local Government Code.)

## **51. What alternative methods are cities currently authorized to use and for what types of projects?**

Under current law, cities may use the best-value competitive bidding process, competitive sealed proposal method, construction manager-agent method, construction manager-at-risk method, design-build method, and the job order contract method for public procurement in place of the standard competitive bidding method that is also allowed under Chapter 2269 of the Government Code or Chapters 252 and 271 of the Local Government Code.

With a limited exception, cities may use any of the alternative delivery methods for any project involving an improvement to real property. The exception involves the design-build method. Under Chapter 2269, the design-build method has been separated into two sections—one for vertical structures and a second one for certain types of civil projects. After the passage of H.B. 1050 in 2013, the use of design-build for civil projects is limited in availability to cities whose population is between 100,000 and 500,000 (limited to four projects per fiscal year up) and greater than 500,000 (limited to six projects per fiscal year).<sup>82</sup>

## **52. What are some preliminary matters in selecting which method to use?**

A city must choose which, if any, of the alternative methods will produce the best value for the

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<sup>82</sup> TEX. GOV'T CODE ANN. § 2269.354(1) (West Supp. 2011).

city.<sup>83</sup> In many circumstances, traditional competitive bidding may remain the most appropriate choice.

In addition, H.B. 2581 – passed in 2021: (1) requires a the governing body of a governmental entity that considers a construction contract using a method other than competitive bidding to, among other things, publish in the request for qualifications a detailed methodology for scoring each criterion; (2) provides that: (a) an offeror who submits a bid, proposal, or response to a request for qualifications for a construction contract under certain law may, after the contract is awarded, make a request in writing to the governmental entity to provide documents related to the evaluation of the offeror’s submission; and (b) not later than the 30th day after the date a request is made, the governmental entity shall deliver to the offeror the documents relating to the evaluation of the submission including, if applicable, its ranking of the submission; (3) provides that for “civil works projects,” the weighted value assigned to price must be at least 50 percent of the total weighted value of all selection criteria; however, if the governing body of a governmental entity determines that assigning a lower weighted value to price is in the public interest, the governmental entity may assign to price a weighted value of not less than 36.9 percent of the total weighted value of all selection criteria; and (4) provides that when the competitive sealed proposal procurement method is used, the governmental entity shall make the evaluations, including any scores, public and provide them to all offerors not later than the seventh business day after the date the contract is awarded.

## VII. The Alternative Methods

### 53. What is the “best value” competitive bidding method?

Under Chapter 2269, the competitive bidding method is a procurement method by which the city contracts with a contractor for the construction, alteration, rehabilitation, or repair of a facility by awarding the contract to the lowest responsible bidder.<sup>84</sup> However, because Chapter 2269 gives certain criteria that the city can consider that applies to all procurement methods in Chapter 2269, the city may consider more factors than just price in awarding a contract based on competitive bids that the city would by using competitive bidding under Section 252.043 of the Local Government Code.<sup>85</sup> The criteria that the city may consider are:

1. the price;
2. the offeror’s experience and reputation;
3. the quality of the offeror’s goods or services;
4. the impact on the ability of the city to comply with rules relating to historically underutilized businesses;
5. the offeror’s safety record;
6. the offeror’s proposed personnel;
7. whether the offeror’s financial capability is appropriate to the size and scope of the project;

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<sup>83</sup> *Id.* § 2269.056(a).

<sup>84</sup> *Id.* § 2269.101.

<sup>85</sup> *Id.* § 2269.055.

- and
8. any other relevant factor specifically listed in the request for bids, proposals, or qualifications

Also, the city shall apply any existing laws and criteria related to historically underutilized business and the use of woman, minority, small, or disadvantaged business.<sup>86</sup> Even though this competitive bidding method employs more flexibility for the city to determine the lowest responsible bidder, the city can still elect to use the competitive bidding procedure in Section 252.043 of the Local Government Code.

## **54. What is the competitive sealed proposals method?**

The competitive sealed proposal method is a procurement method by which a city requests proposals, ranks the offerors, negotiates as prescribed, and then contracts with a general contractor for the construction, rehabilitation, alterations, or repairing of facility.<sup>87</sup> In the competitive sealed proposal method, the city must first hire an architect or engineer to prepare construction documents.<sup>88</sup> Selection of an architect or engineer must be in accordance with the process required by section 2254.004 of the Government Code if the city does not employ, as a full time employee, its own architect or engineer to perform this service.<sup>89</sup> Once the construction documents have been completed, the city prepares a Request for Competitive Sealed Proposals (RFCSP).<sup>90</sup> The RFCSP should include construction documents, estimated budget, project scope, schedule and other information contractors may require in order to respond to the RFCSP. The city must also state the selection criteria and the relative weighting of the criteria that the city will employ in selecting the successful offeror. Unlike an RFQ under the design-build method, price information may be requested in the RFCSP and may be a selection criterion.

The city must publicly open and read aloud the proposals, including price information if such was required.<sup>91</sup> The city must also evaluate and rank the proposals in relation to the published selection criteria within 45 days after the opening. The city then selects the proposal that offers the best value based on the published selection criteria and its ranking evaluation.<sup>92</sup>

Following the selection, the contract negotiation process begins. The city negotiates first with the highest ranked offeror.<sup>93</sup> At this stage, the city and its architect or engineer may discuss modifications to the proposed scope, time and price. Modifications are not required, and if they are discussed but not agreed to by the city and the offeror, a final contract may still be negotiated and agreed upon based on the original response to the RFCSP. If the two parties are unable to reach a final agreement, the city must inform that offeror in writing that negotiations are ended.<sup>94</sup> The city may then negotiate with the next ranked offeror. This continues in the order of the selection ranking until a contract is reached or all proposals are rejected. In this form of contract procurement, the city

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<sup>86</sup> *Id.* § h2269.055(b).

<sup>87</sup> *Id.* § 2269.151.

<sup>88</sup> *Id.* § 2269.152.

<sup>89</sup> *Id.* § 2269.057(b).

<sup>90</sup> *Id.* § 2269.153.

<sup>91</sup> *Id.* § 2269.154.

<sup>92</sup> *Id.* § 2269.155(a).

<sup>93</sup> *Id.* § 2269.155(b).

<sup>94</sup> *Id.* § 2269.155(c).

is not restricted to considering price alone in its selection, but may consider any other factor from among the established selection criteria to determine which offeror offers the city the best value.<sup>95</sup>

## **55. What is the construction manager-agent method?**

The construction manager-agent method allows cities which may not have the in-house expertise and/or sufficient staff to effectively oversee a construction project to employ an agent to oversee a project on their behalf. The party hired by the city to act on its behalf in overseeing the project is known as a Construction Manager-Agent (CMA).<sup>96</sup>

A CMA is defined as a legal entity that provides consultation to the city regarding construction, during and after the design or repair of a facility.<sup>97</sup> Practically speaking, the CMA will almost always be a general contractor or architect or engineer with experience constructing the type of project the city is building. The CMA manages the project for the city both during the procurement process and after a contract has been executed. A CMA represents the city in a fiduciary capacity.<sup>98</sup> Therefore, the CMA may not perform any portion of the actual design or construction of the project, with the exception of the general field conditions as provided by the contract.<sup>99</sup> General field conditions, when used in the context of a facilities construction contract, customarily include on-site management, administrative personnel, insurance, bonds, equipment, utilities and incidental work, including minor field labor and materials.<sup>100</sup>

Prior to or concurrent with the selection of a CMA, the city must hire an architect or engineer according to the requirements of section 2254.004 of the Government Code, to design the project if the city does not utilize for the design an architect or engineer which it employs on a full-time basis.<sup>101</sup> The architect or engineer may not serve, alone or in combination with any other person, as the CMA, unless hired as the CMA in a separate or concurrent CMA procurement process.<sup>102</sup> This does not prevent the architect or engineer from providing customary construction phase services under the original professional services agreement and applicable licensing laws.

Either after or concurrent with the selection of an architect or engineer, the city selects a CMA based on the same professional services procurement rules provided for the selection of an architect or engineer under section 2254.004 of the Government Code.<sup>103</sup>

Under the CMA method, the city may engage a single prime contractor or multiple trade contractors to serve as prime contractors for their respective portions of the work in any manner authorized by the statutes governing the particular city.<sup>104</sup>

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<sup>95</sup> See *Id.* § 2269.055(a)(1).

<sup>96</sup> *Id.* § 2269.201(a).

<sup>97</sup> *Id.* § 2269.201(b).

<sup>98</sup> *Id.* § 2269.204.

<sup>99</sup> *Id.* § 2269.203, 202.

<sup>100</sup> *Id.* § 2269.001(4).

<sup>101</sup> *Id.* § 2269.205. See *Id.* § 2269.057(b).

<sup>102</sup> *Id.* § 2269.205(b)-c).

<sup>103</sup> *Id.* § 2269.207.

<sup>104</sup> *Id.* § 2269.206.

## 56. What is the construction manager at-risk method?

A construction manager-at-risk (CMAR) assumes the risk for construction, rehabilitation, alteration or repair of a facility at the contracted price in the same manner as a general contractor, but also provides consultation to the city regarding construction during and after the design of the facility.<sup>105</sup> A CMAR may be hired by the city in either case by a one-step or two-step process that is outlined below.<sup>106</sup>

Prior to or concurrently with selecting a CMAR, the city must select or designate an architect or engineer who will be responsible for preparing the design and construction documents for the project.<sup>107</sup> This architect or engineer, if not a full-time employee of the city, must be selected according to section 2254.004 of the Government Code.<sup>108</sup> The city's architect or engineer, or an entity related to the city's architect or engineer, may not serve, either alone or in combination with another, as the CMAR.<sup>109</sup>

In the one-step selection process, the city issues a request for proposals (RFP). This RFP should include general information on the project site, scope, schedule, selection criteria, the weighted value of selection criteria, estimated budget, time/place for receipt of the proposal, whether a one or two-step selection process will be used, and any other information that would assist the city in its selection of a CMAR. In the one-step process, the city may request, as part of the requested proposals, information regarding proposed fees and prices for the fulfillment of the general field conditions. In other words, both qualifications and pricing are evaluated in one process.<sup>110</sup>

In the two-step selection process the city first produces a Request for Qualifications (RFQ), which is identical to the RFP as described above, except that no cost or price information may be requested of offerors in the initial RFQ. In the second step, the city selects a maximum of five offerors who responded to the RFQ to provide additional information. That information may include proposed fees and prices for the completion of the CMAR's general field conditions. The two-step CMAR process is similar to the two-step method for selecting a design-build firm discussed later in this paper.<sup>111</sup>

In both the one and two-step processes all proposals must be publicly opened and read aloud in their entirety, including pricing information included in the proposal at the appropriate step.<sup>112</sup> The city must evaluate and rank the offers according to its published selection criteria within 45 days of the responses having been opened.<sup>113</sup> The city then selects the proposal that offers the best value for the city according to the published selection criteria and the ranking evaluation.<sup>114</sup> Following the selection of the offeror that offers the best value for the city, the contract negotiation process begins. The city negotiates first with the selected offeror. If the two parties cannot reach an agreement, the

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<sup>105</sup> *Id.* § 2269.251.

<sup>106</sup> *See Id.* § 2269.253

<sup>107</sup> *Id.* § 2269.252(a).

<sup>108</sup> *Id.* § 2269.057.

<sup>109</sup> *Id.* § 2269.252(b).

<sup>110</sup> *Id.* § 2269.253.

<sup>111</sup> *Id.*

<sup>112</sup> *Id.* § 2269.253(f).

<sup>113</sup> *Id.* § 2269.253(g).

<sup>114</sup> *Id.* § 2269.254(a).

city must give formal written notice to that offeror that negotiations are ended. The city may then negotiate with the next ranked offeror. This process continues until the city and an offeror reach an agreement on a contract or negotiations with all ranked offerors end.<sup>115</sup>

The CMAR is required to properly advertise for bids or proposals from trade contractors or subcontractors for all work, except minor work that may be included in the general field conditions. The CMAR administers this process and selects the contract procurement method determined to provide the best value from among the various methods available to the city. The CMAR may seek to perform any part of the work on the project as long as the CMAR presents its bid or proposal in the same manner as any trade contractor or subcontractor and the CMAR's bid or proposal is determined by the city to provide the best value.<sup>116</sup>

The CMAR, city and its representative architect or engineer review the bid and proposals and select the various trade contractors or subcontractors in a manner so as not to disclose the price of the bids or proposals to the public. Ultimately, however, all bids or proposals shall be made public once the related contract has been awarded or seven days after the final selection of bids, whichever is later.<sup>117</sup>

The CMAR may recommend the acceptance of a particular bid or proposal, but the city has the right to require another bid or proposal be accepted. If the city overrides the CMAR's recommendation in selection of any trade contractor or subcontractor, it must compensate the CMAR for any changes in price, time, guaranteed maximum cost, or any additional cost or risk associated with the city's choice that differs from that recommended by the CMAR.<sup>118</sup>

The CMAR contracts directly with the selected trade contractors and subcontractors. If any trade contractor or subcontractor defaults, the CMAR may complete the work, without advertising for completion bids, or may select a replacement trade contractor or subcontractor.<sup>119</sup>

If no fixed contract amount or guaranteed maximum price has been determined when the CMAR's contract is executed, the performance and payment bonds shall be in the amount of the estimated budget of the project as set out in the RFQ or RFP. The CMAR must deliver the required bonds not later than the tenth day after the CMAR executes the contract unless the CMAR furnishes a bid bond or other financial security acceptable to the city to ensure that the CMAR will provide the performance and payment bonds once the price is fixed.<sup>120</sup>

## **57. What is the design-build method?**

The design-build method differs from traditional design-bid-build models in that the city contracts with one firm to perform both pre-construction design and post-design construction activities.<sup>121</sup> This method can save time and money if employed correctly. This method can facilitate multi-phased projects without the time-consuming process of putting each phase out to bid separately.

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<sup>115</sup> *Id.* § 2269.254(b)-(c).

<sup>116</sup> *Id.* § 2269.255.

<sup>117</sup> *Id.* § 2269.256(a).

<sup>118</sup> *Id.* § 2269.256(b).

<sup>119</sup> *Id.* § 2269.257.

<sup>120</sup> *Id.* § 2269.258.

<sup>121</sup> *Id.* § 2269.301.



Also, it may allow work to begin before all decisions regarding the design or finish-out are made by the owner. The design-build method may alleviate the problems that cities often encounter related to project inefficiencies when dealing with items such as change orders or requests for information.

Under the design-build method of construction contract procurement, the city awards a single contract to a firm who both designs and constructs the facility.<sup>122</sup> A design-build firm, as that term is commonly defined, consists of a team that includes an architect or engineer and a builder qualified to engage in building construction in Texas.<sup>123</sup> However, the city must designate an independent architect or engineer to act as its representative for the duration of the project.<sup>124</sup> The design-build team may construct the work itself or it may subcontract out all or portions of the work. In so doing, the designer-builder contracts directly with its subcontractors and assumes complete responsibility for both the design and construction of the project.

## **58. What types of projects can be constructed using the design-build method?**

The design-build method can be used for both buildings and associated structures,<sup>125</sup> as well as, in limited circumstances and by certain cities, some civil projects such as roads, bridges, water supply projects and water plants.<sup>126</sup> When using the design-build method, cities must follow Subchapter G of Chapter 2269 of the Government Code for vertical structures or buildings and Subchapter H of Chapter 2269 for horizontal or civil projects.

## **59. How does a city solicit design-builders for a building project?**

If a city determines that the design-build method will provide the best value, it must prepare a request for qualifications (RFQ) that includes general information about a project, including the project site, project scope, budget, selection criteria, weighted value of selection criteria and other helpful information for bidders.<sup>127</sup> In addition to the RFQ, the city must publish a Design Criteria Package that includes more detailed information about the project.<sup>128</sup> The Design Criteria Package must specify both the criteria for selecting the design-build firm and the aspects or qualities the city considers necessary to design the project. The criteria may include the following information:

- a legal description of the project site,
- survey information,
- interior space requirements,
- special material requirements,
- material quality standards,
- conceptual criteria,
- special equipment requirements,
- cost and budget estimates,

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<sup>122</sup> *Id.* § 2269.303.

<sup>123</sup> *Id.* § 2269.304.

<sup>124</sup> *Id.* § 2269.305.

<sup>125</sup> *Id.* § 2269.302.

<sup>126</sup> *Id.* § 2269.352, .353.

<sup>127</sup> *Id.* § 2269.306(a).

<sup>128</sup> *Id.* § 2269.306(b), (c).

- schedules,
- quality assurance and control requirements,
- site development requirements,
- applicable codes and ordinances,
- utility provisions,
- parking requirements, and
- other requirements as applicable.<sup>129</sup>

However, the city may not require offerors to submit architectural or engineering designs as part of a proposal or a response to a RFQ.<sup>130</sup>

## **60. How does a city select a design-builder after publishing an RFQ?**

After preparing its RFQ and Design Criteria Package and advertising for proposals, the city evaluates statements of qualifications submitted by the potential offerors. The city may evaluate qualifications according to the following criteria: offeror's experience, technical competence, capability to perform, and past performance of offeror's team and members thereof.<sup>131</sup> The city may also consider other appropriate factors submitted by the offeror in response to the RFQ. However, the city may not consider cost-related or price-related evaluation factors. In their responses, the design-build offerors must certify that each architect or engineer that is a member of its team was selected on the basis of demonstrated competence and qualifications in the manner provided by section 2254.004 of the Government Code.<sup>132</sup>

After initially reviewing the responses to the Design Criteria Package and the RFQ, the city must select up to five responders to submit additional information. If the city chooses, it may interview these responders.<sup>133</sup>

The city evaluates the additional information from the selected offerors based on the criteria in the RFQ and the results of any interviews that occurred.<sup>134</sup> Additionally, the city may request information on the offeror's demonstrated competence, safety and durability considerations, the feasibility of the project as proposed, the offeror's ability to meet scheduling requirements, cost methodology and other appropriate factors.<sup>135</sup>

After evaluations, the city ranks the offerors according to the RFQ and selects the design-build firm that offers the best value for the city based on the published selection criteria and its ranking evaluations.<sup>136</sup>

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<sup>129</sup> *Id.* § 2269.306(c).

<sup>130</sup> *Id.* § 2269.306(d).

<sup>131</sup> *Id.* § 2269.307(a).

<sup>132</sup> *Id.* § 2269.307(b).

<sup>133</sup> *Id.* § 2269.307(c).

<sup>134</sup> *Id.* § 2269.307(d).

<sup>135</sup> *Id.* § 2269.307(e).

<sup>136</sup> *Id.* §§ 2269.307(f), .308(a).

## **61. How does a city negotiate a contract with the selected design-builder?**

After selecting the design-build firm that offers the best value for the city, the contract negotiation process begins. The city first negotiates with the selected offeror. If the parties cannot reach an agreement, the city must formally, and in writing, inform the offeror that it is ending the negotiations. The city may then negotiate with the next offeror in the order of the selection ranking process. The same negotiation process will continue until an agreement is reached that culminates in an executed contract or negotiations with all ranked offerors ends.<sup>137</sup>

Following selection and contract award, the chosen design-build firm completes the design and submits all design elements to the city or its architect or engineer representative for review and determination of scope compliance. The city's review may be done prior to or during construction.<sup>138</sup>

The design-build firm has the responsibility to provide the city with a signed and sealed set of construction documents (as-built drawings) at the project's conclusion.<sup>139</sup>

The design-build firm's payment and performance bonds are not required to provide, and may not provide, coverage for that portion of the design-build contract that includes design services only. If no guaranteed maximum price or fixed price has been established when the contract is awarded, the performance and payment bonds are required to be in the penal sum of the estimated budget for the project as specified in the Design Criteria Package. The design-build firm must deliver the performance and payment bonds not later than the 10th day after the firm executes the contract. However, if the design-build firm provides a bid bond or other financial security acceptable to the city to ensure it will provide the performance and payment bonds, the delivery of those bonds can be postponed until construction begins.<sup>140</sup>

## **62. How does the design-build method differ for civil projects?**

For civil projects, cities do not have the same requirements to weigh and select up to five offerors prior to selection and negotiation of a contract for civil works.<sup>141</sup> However, at the outset of a decision to use the design-build method, the city must determine that the design-build method is appropriate for a civil project.<sup>142</sup>

## **63. Is there a limit on the number of civil projects a city can build using the design-build method?**

After the passage of H.B. 1050 in 2013, for cities with a population of 500,000 or more, the limit on

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<sup>137</sup> *Id.* § 2269.308(b)-(c).

<sup>138</sup> *Id.* § 2269.309.

<sup>139</sup> *Id.* § 2269.310.

<sup>140</sup> *Id.* § 2269.311.

<sup>141</sup> *Id.* § 2269.359.

<sup>142</sup> *Id.* § 2269.353(c),(d).

civil design-build projects is six per fiscal year.<sup>143</sup> For cities with a population of 100,000 or more but less than 500,000, the limit is four per fiscal year.<sup>144 145</sup>

Cities with a population of less than 100,000 may not use the design build method for civil projects.<sup>146</sup>

## **64. Must a city select an independent engineer for civil projects?**

Yes. An engineer that is independent of the design-build firm must be selected to serve as the city's representative.<sup>147</sup>

## **65. What is the process for selecting a design-build firm for civil projects?**

The first step is to issue a request for qualifications that includes information about the project scope, budget, schedule, criteria for selection, weighting of the criteria and other information that may assist potential design firms in submitting proposals.<sup>148</sup> Also, the city must prepare a Design Criteria Package that may include:

- additional budget or cost estimating;
- information on the site;
- performance criteria;
- special material requirements;
- critical design calculations;
- known utilities;
- capacity requirements;
- quality assurance and quality control requirements;
- type, size, and location of start-ups, and
- notice of any ordinance, rules, or goals adopted by the governmental entity relating to awarding contracts to historically underutilized business.<sup>149</sup>

The primary difference in selection criteria for civil projects and facilities is that the technical data required by the statute in the initial submission phase is higher for civil projects. Like other projects, price cannot be considered at the initial phase.<sup>150</sup> In the second step of the process, the pricing can be considered and then negotiations occur in much the same way as other projects.<sup>151</sup>

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<sup>143</sup> *Id.* § 2269.354(a)(1).

<sup>144</sup> *Id.* § 2269.354(b).

<sup>145</sup> *Id.* § 2269.354 (c).

<sup>146</sup> *See Id.* § 2269.352.

<sup>147</sup> *Id.* § 2269.355.

<sup>148</sup> *Id.* § 2269.357.

<sup>149</sup> *Id.* §§ 2269.357(b), .358.

<sup>150</sup> *Id.* § 2269.359(a).

<sup>151</sup> *Id.* §§ 2269.359-362.

## **66. What is the job order contracting method?**

The job order method for procurement may be used for the maintenance, repair, alteration, renovation, remediation or minor construction of a facility when the work is recurring in nature and the time or quantities required are indefinite.<sup>152</sup> Examples of the type of work that would qualify for job order procurement would be ceiling tile replacement, door hanging, sidewalk construction and repainting.

The city must properly advertise for and publicly open competitive sealed proposals for job order contracts.<sup>153</sup> The base term of the job order contract may not exceed two years. The city may renew the contract annually for not more than three additional years.<sup>154</sup>

The city may award job order contracts to one or more of the offerors in the same solicitation. The city is not required to award a contract to whoever submits the lowest rates.<sup>155</sup>

Under a job order contract, specific work projects are authorized by the execution of a job order by the city and the contractor. The order may be a fixed price, lump sum order contract based on contractual unit pricing applied to estimated quantities, or a unit price order based on the quantities and line items delivered.<sup>156</sup>

If the amount or estimated amount of the job order is in excess of \$25,000, then the contractor must post a payment bond on the job order. If the job order is \$100,000 or more, a performance bond is also required.<sup>157</sup> However, note that the bonds are provided on each specific job order and not on the overall job order contract. Given the nature of job order work, it is possible that many job orders may not be of a size that would require performance bonds. However, it also means that a contractor may be required to post multiple bonds for multiple job orders during the same time period.

## **VIII. Ability to Provide Preference in Bid Awards**

### **67. Can a city provide a preference for local businesses in its bid award?**

State law allows a city to provide a preference for local businesses when awarding bids only in specifically authorized situations.<sup>158</sup>

In the first situation, if two or more bidders have bids that are identical in nature and amount, with one bidder being a resident of the city and the other bidder or bidders being non-residents, the city council must select the resident bidder.<sup>159</sup>

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<sup>152</sup> *Id.* § 2269.401.

<sup>153</sup> *Id.* § 2269.405.

<sup>154</sup> *Id.* § 2269.409.

<sup>155</sup> *Id.* § 2269.406.

<sup>156</sup> *Id.* § 2269.410.

<sup>157</sup> *Id.* § 2269.411. *See Id.* § 2253.021(a).

<sup>158</sup> *Op. Tex. Att’y Gen. No. DM-113 (1992); Tex. Att’y Gen. LO-93-073.*

<sup>159</sup> *TEX. LOC. GOV’T CODE § 271.901(b).*

Another provision geared towards purchases of tangible items allows the consideration of a bidder's principal place of business when a city awards a contract.<sup>160</sup> The statute states that:

“In purchasing under this title any real property or personal property that is not affixed to real property, if a local government receives one or more bids from a bidder whose principal place of business is in the local government and whose bid is within three percent of the lowest bid price received by the local government from a bidder who is not a resident of the local government, the local government may enter into a contract with [either]...the lowest bidder; or...the bidder whose principal place of business is in the local government if the governing body of the local government determines, in writing, that the local bidder offers the local government the best combination of contract price and additional economic development opportunities for the local government created by the contract award, including the employment of residents of the local government and increased tax revenues to the local government.”<sup>161</sup>

A third provision authorizes cities that are purchasing real property, personal property not affixed to real property, or services (with the exception of certain telecommunications services) to enter into a contract with either: (1) the lowest bidder; or (2) a bidder whose principal place of business is in the city and whose bid is within five percent of the lowest bid price, if the governing body determines that the local bidder offers the city the best combination of contract price and additional economic development opportunities, including the employment of residents of the local government and increased tax revenues.<sup>162</sup> This is now limited to contracts for construction services for less than \$100,000.<sup>163</sup>

Finally, cities must give a preference to local businesses if there are out-of-state bidders that have bid on the contract and the out-of-state bidder or manufacturer is located in a state that discriminates against out-of-state bidders in its bid awards in favor of local bidders.<sup>164</sup> For example, some states have laws that require an out-of-state bidder to underbid an in-state bidder by a certain minimum amount. In response to such requirements by other states, the Texas Legislature included a provision in Chapter 2252 of the Government Code. That chapter requires that Texas cities determine if a Texas bidder would be required to underbid the non-Texas bidder for a comparable contract in the non-Texas bidder's own state.<sup>165</sup> If such a preference is provided in that state, the non-Texas bidder is then required to underbid the lowest responsible Texas bidder by at least that amount. Thus, if a Texas city receives a bid from a non-Texas bidder, Chapter 2252 will give the lowest responsible Texas bidder the same advantage as the non-Texas bidder would have in its home state. If the non-Texas bidder is from a state where in-state bidders are not given preference over Texas bidders, then Chapter 2252 will not give the Texas bidder any advantage over the non-Texas bidder.

There are several important points to note with regard to the requirements of Chapter 2252 of the Government Code. First, a bidder's home state is determined by the location of its principal place of business or manufacturing. A contractor whose ultimate parent company or majority owner has its

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<sup>160</sup> *Id.* § 271.905.

<sup>161</sup> *Id.* § 271.905(b).

<sup>162</sup> *Id.* § 271.9051.

<sup>163</sup> *Id.*

<sup>164</sup> TEX. GOV'T CODE § 2252.001 et seq.

<sup>165</sup> *Id.* § 2252.002.

principal place of business in Texas would be considered a Texas bidder.<sup>166</sup> Second, information on the relevant bidding laws of other states is compiled by the comptroller's office. In ascertaining the relevant bidding laws of a particular state for purposes of meeting the requirements of Chapter 2252, a city must use the information provided by the Comptroller's Office.<sup>167</sup> Finally, Chapter 2252 does not apply to a contract involving federal funds.<sup>168</sup>

Additionally, some attorneys believe that a city may include under "best value" criteria a local preference component. That opinion has not been tested in court. Finally, legislation enacted in 2017<sup>169</sup> mandates the use of U.S. steel in certain contracts between the state (e.g., the Water Development Board) and a city, with some exceptions.

## **68. Can a city provide a preference for historically underutilized businesses?**

A city that chooses to award a competitive bid or competitive proposal based on "best value" criteria may consider "the impact on the ability of the municipality to comply with laws and rules relating to contracting with historically underutilized businesses and nonprofit organizations employing persons with disabilities" or "any other relevant criteria" listed by the city in the specifications.<sup>170</sup> Some cities have used these provisions to continue seeking to procure services from historically underutilized businesses. In any case, a city may consider a factor that is not related to the bidder's capacity to fulfill the contract only when state law specifically authorizes the city to take that factor into account.<sup>171</sup>

## **69. When is a city required to contact historically underutilized businesses?**

A city must contact at least two historically underutilized businesses if the city makes an expenditure of between \$3,000 and \$50,000.<sup>172</sup> If the expenditure is for less than \$3,000 or for more than \$50,000, this special notification requirement would not apply. To determine what businesses within the county are classified as historically underutilized businesses, the city should use the list of such businesses provided by the Comptroller's Office.<sup>173</sup> If there are more than two such businesses in the county, the city can contact the listed businesses on a rotating basis. Even if the historically underutilized businesses in the county do not provide the goods or services that the city needs, at least two of those businesses must be contacted.<sup>174</sup> The city is only excused from this notification requirement if there are no such businesses located in the county in which the city is located. State law does not indicate the manner of individual notice that must be provided to the historically underutilized businesses. In any case, it may be advisable to use a manner of notice such as certified

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<sup>166</sup> *Id.* § 2252.001(4).

<sup>167</sup> *Id.* § 2252.003.

<sup>168</sup> *Id.* § 2252.004.

<sup>169</sup> TEX. GOV'T CODE chapter 2252, subchapter F, added by S.B. 1289.

<sup>170</sup> *See Id.* § 2267.358(10); TEX. LOC. GOV'T CODE §§ 252.0215, .043.

<sup>171</sup> Op. Tex. Att'y Gen. No. DM-113 (1992); Tex. Att'y Gen. LO-93-073.

<sup>172</sup> TEX. LOC. GOV'T CODE § 252.0215.

<sup>173</sup> *Id.*, TEX. GOV'T CODE § 2161.061 (Comptroller's Office shall certify underutilized businesses.).

<sup>174</sup> ALAN J. BORJORQUEZ, TEXAS MUNICIPAL LAW AND PROCEDURE MANUAL ' 13.12 (2005).

mail that would provide a record of contact with the listed businesses.

## **70. How does a city determine whether it has historically underutilized businesses within its area?**

To determine what businesses within the county are classified as historically underutilized businesses, the city should use the list of such businesses provided by the Comptroller's Office.<sup>175</sup> A city may obtain information about historically underutilized businesses from the Comptroller's Office website [www.window.state.tx.us/procurement/prog/hub/](http://www.window.state.tx.us/procurement/prog/hub/). (Note that, in 2013, H.B. 194 added a veteran with at least a 20-percent service-connected disability as eligible to be listed as a historically underutilized business by the state. A legal challenge to that addition is likely.)

## **71. Is a city required to provide a preference for recycled materials in its bid requests?**

Yes, a city must "give preference in purchasing to products made of recycled materials if the products meet applicable specifications as to quantity and quality."<sup>176</sup> Furthermore, a city is required to regularly review and revise its procurement procedures and specifications to eliminate procedures and specifications that explicitly discriminate against products made of recycled materials. Cities are required to make sure their procurement procedures and specifications encourage the use of products made of recycled materials. The Texas Commission on Environmental Quality may order an exemption from these requirements for a city of less than 5,000 people if the commission finds that compliance would work a hardship on the city.<sup>177</sup>

## **IX. Statutory Exceptions to the Competitive Bidding or Proposal Requirements:**

### **Exceptions Due to Public Health, Safety or Welfare**

## **72. Is a city required to bid for purchases that are necessary because of a public calamity?**

A city is not required to follow the competitive procurement requirements of Local Government Code Chapter 252 when making an expenditure because of a public calamity.<sup>178</sup> In order to qualify for this exception from the bidding requirements, the public calamity must be one that requires the immediate appropriation of money to relieve the necessity of the city's residents or to preserve the property of the city. For example, a city may need to purchase medicines or blankets to be dispersed at a temporary city shelter for victims of flooding or tornadoes. Such a purchase would arguably fall

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<sup>175</sup> TEX. LOC. GOV'T CODE § 252.0215 (City to contact historically underutilized businesses based on list provided by Comptroller's Office); TEX. GOV'T CODE § 2161.061 (Comptroller's Office shall certify underutilized businesses.).

<sup>176</sup> TEX. HEALTH & SAFETY CODE § 361.426; TEX. LOC. GOV'T CODE § 252.003 (Requiring that a city follow the requirements set forth in section 361.426).

<sup>177</sup> TEX. HEALTH & SAFETY CODE § 361.426(d).

<sup>178</sup> TEX. LOC. GOV'T CODE § 252.022(a)(1).



under this exception to the competitive bidding requirements. However, this practice does not appear to have been reviewed by the Texas courts or by the attorney general. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive procurement requirements.

### **73. Can a city forego bidding or proposals if the purchases are necessary to protect the public health or safety of city residents?**

A city may forego the competitive bidding procedures of Chapter 252 of the Local Government Code when making a purchase that is necessary to preserve or protect the public health or safety of the city's residents.<sup>179</sup> Chapter 252 does not define or give examples of what constitutes a purchase that is "necessary to preserve or protect... public health or safety...." The following activities have been found to fall within the health and safety exception (and thus do not require competitive bidding): 1) building a sanitary sewage system and disposal plant;<sup>180</sup> 2) establishing a county ambulance service;<sup>181</sup> and 3) awarding a contract for collection, hauling and disposal of solid waste (garbage).<sup>182</sup> Cities have also used this exception for the purchase of emergency equipment for city personnel, such as self-contained breathing apparatus for firefighters or bullet-proof vests for police officers. However, these practices have not been reviewed by the Texas courts or the attorney general's office. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive bidding requirements.

### **74. Can a city forego bidding or proposals for purchases that are necessary because of unforeseen damage to public machinery, equipment or other property?**

A city is not required to follow the competitive bidding procedures when making a purchase that is necessary because of unforeseen damage to public machinery, equipment or other property.<sup>183</sup> For example, cities have used this exception to justify not taking bids for the purchase of parts for emergency equipment, such as firefighting equipment, when the equipment was unexpectedly damaged or broken. However, parts needed for the routine maintenance of firefighting equipment are generally purchased through the competitive bidding process. In addition, these practices have not been reviewed by the Texas courts or the attorney general's office. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive bidding requirements.

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<sup>179</sup> *Id.* § 252.022(a)(2).

<sup>180</sup> *Hoffman v. City of Mt. Pleasant*, 89 S.W.2d 193 (Tex. 1936).

<sup>181</sup> Op. Tex. Att'y Gen. No. M-806 (1971).

<sup>182</sup> *Browning-Ferris, Inc., v. City of Leon Valley*, 590 S.W.2d 729 (Tex. Civ. App.—San Antonio 1979, writ ref'd n.r.e.); Op. Tex. Att'y Gen. No. JM-908 (1988).

<sup>183</sup> TEX. LOC. GOV'T CODE § 252.022(a)(3) .

## Exceptions for Specialized Services

### 75. Are contracts for personal services exempt from the requirements for competitive bidding?

Texas law specifically exempts contracts for personal services from the competitive bidding requirements.<sup>184</sup> The Texas Supreme Court has defined “personal services” to include only those services which are performed personally by the individual who contracted to perform them.<sup>185</sup> Further, for a contract to qualify as a contract for personal services, the compensation in the contract should mainly pay for the labor of the individual providing the service, not for such things as insurance or materials.<sup>186</sup>

For example, the attorney general held that a contract for the services of a construction manager was a contract for “personal services” and therefore not subject to competitive bidding requirements.<sup>187</sup> The attorney general has also concluded that a contract for janitorial services would constitute a contract for personal services if a specific person is required to perform those services.<sup>188</sup> However, the following have been found not to be exempt from bidding under the exemption for “personal services”: the provision of advertising space by a newspaper,<sup>189</sup> a contract for microfilming records,<sup>190</sup> an insurance contract,<sup>191</sup> a contract to operate container terminal facilities in a port,<sup>192</sup> and a contract for janitorial services that did not specify the particular person who was to perform the janitorial services.<sup>193</sup> Thus, these contracts were all subject to the competitive bidding requirements of Chapter 252 of the Local Government Code.

### 76. Can a city forego bidding for contracts for professional services?

Texas law specifically exempts contracts for professional services from the competitive bidding requirements.<sup>194</sup> Professional services have been described as those services which are mainly mental or intellectual rather than physical or manual. That is, professional services are those disciplines requiring special knowledge or attainment and a high order of learning, skill, and intelligence.<sup>195</sup> For example, cities have used this exception to justify not taking bids for the services of an attorney. Some cities have also used this exception to justify employing outside consultants, such as insurance consultants, without competitively bidding those services. However, these practices have not been reviewed by the Texas courts or the attorney general’s office. Thus, a city will want to consult with its legal counsel before relying on this exception in order to avoid the application of competitive bidding requirements.

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<sup>184</sup> *Id.* § 252.022(a)(4).

<sup>185</sup> *Van Zandt v. Fort Worth Press*, 359 S.W.2d 893, 895-896 (Tex. 1962).

<sup>186</sup> Op. Tex. Att’y Gen. No. MW-344 at 1137 (1981).

<sup>187</sup> Op. Tex. Att’y Gen. No. MW-530 (1983).

<sup>188</sup> Op. Tex. Att’y Gen. No. JM-486 (1986).

<sup>189</sup> *Van Zandt v. Fort Worth Press*, 359 S.W.2d 893, 896 (Tex. 1962).

<sup>190</sup> Op. Tex. Att’y Gen. No. JM-890 (1988).

<sup>191</sup> Op. Tex. Att’y Gen. No. MW-494 (1982).

<sup>192</sup> Op. Tex. Att’y Gen. No. MW-344 (1981).

<sup>193</sup> Op. Tex. Att’y Gen. No. JM-486 (1986).

<sup>194</sup> TEX. LOC. GOV’T CODE § 252.022(a)(4).

<sup>195</sup> Op. Tex. Att’y Gen. Nos. JM-1038 (1989), JM-940 (1988), MW-344 (1981) (Quoting with approval the definition of “profession” from Black’s Law Dictionary 1089-90 (5<sup>th</sup> ed. 1979)).

Additionally, it should be noted that a city is specifically prohibited under state law from obtaining certain professional services through competitive bidding. The Professional Services Procurement Act states that a city may not use traditional competitive bidding procedures to obtain the services of architects, engineers, certified public accountants, land surveyors, physicians, optometrists or state-certified real estate appraisers.<sup>196</sup> If the professional services desired by the city do not fall under the Professional Services Procurement Act, they may generally be obtained with or without the use of competitive bidding, as the city desires.<sup>197</sup>

## **77. How may a city obtain the services of architects, engineers, certified public accountants, land surveyors, physicians, optometrists, landscape architects, geoscientists or state certified real estate appraisers?**

Cities are prohibited from using competitive bidding procedures to obtain the services of architects, engineers, certified public accountants, land surveyors, physicians, optometrists, landscape architects, geoscientists or state-certified real estate appraisers.<sup>198</sup> Instead, for contracts involving architectural, engineering or land surveying services, a city must first select the most highly qualified provider and then attempt to negotiate a fair and reasonable price.<sup>199</sup> If the city is unable to negotiate a contract with the most highly qualified provider, the city must then formally end negotiations with that provider. After negotiations have formally ended, the city must select the next most highly qualified provider and attempt to negotiate a contract with that provider. If necessary, the city must continue the process of formally ending negotiations with one provider and selecting another provider for negotiations until a contract is obtained.

The Professional Services Procurement Act does not specify the exact process by which a city may procure accounting, medical, optometrist or real estate appraisal services. The law merely prohibits obtaining these services through competitive bidding and requires that such services be selected on the basis of demonstrated competence and qualifications. Cities will want to consult their own counsel for advice on how best to proceed.

## **78. What procedure must cities use to obtain the services of a lawyer or the services of a law firm?**

With the exception of certain bond counsel and some contingent fee legal contracts, state law does not specify any particular procedures for obtaining the services of a lawyer or of a law firm. The Professional Services Procurement Act does not apply to attorneys,<sup>200</sup> and the selection of an attorney

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<sup>196</sup> TEX. GOV'T CODE § 2254.003.

<sup>197</sup> Op. Tex. Att'y Gen. No. DM-106 (1992).

<sup>198</sup> TEX. GOV'T CODE §§ 2254.002(2), 2254.003.

<sup>199</sup> *Id.* § 2254.004.

<sup>200</sup> *See id.* § 2254.002 (Definition of "professional services" within the meaning of the Professional Services Procurement Act).

is exempt from competitive bidding requirements as a “professional service.”<sup>201</sup> Thus, a city may choose to obtain the services of an attorney with or without the use of competitive bidding. Many cities simply hire their legal counsel by majority vote of the city’s governing body and then execute a contract for such services.<sup>202</sup> Section 2254.1036 provides numerous procedures for the procurement or in some cases amendment of contingent fee legal services, including approval by the attorney general’s office. When procuring the services of an attorney to collect a debt or bond counsel, the contingent fee requirements don’t apply, but a city should review and comply with, if necessary, section 1201.027 of the Government Code, which requires that the selection of bond counsel shall be made in accordance with the provisions of the Professional Services Procurement Act that apply to the selection of an engineer.<sup>203</sup> Cities should consult their current counsel for advice about this issue.

## **79. Are contracts for planning services exempt from competitive bidding requirements?**

Texas law specifically exempts contracts for planning services from the competitive bidding requirements.<sup>204</sup> However, it is important to note that the phrase “planning services” is specifically defined by Chapter 252. That term means “services primarily intended to guide governmental policy to ensure the orderly and coordinated development of the state or of municipal, county, metropolitan or regional land areas.”<sup>205</sup> In order to be eligible for the planning services exception to the competitive bidding requirements, the planning services to be procured must fit this definition.

## **80. Does competitive bidding apply to services performed by blind or severely disabled persons?**

Competitive bidding does not apply to the purchase of services performed by blind or severely disabled persons.<sup>206</sup>

### **Exceptions for Items Available from Only One Source**

## **81. Does competitive bidding apply to the purchase of items that are available from only one source because of copyrights or “natural monopolies”?**

Competitive bidding requirements do not apply to items that are available from only one source due

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<sup>201</sup> See TEX. LOC. GOV’T CODE § 252.022(a)(4) ; Op. Tex. Att’y Gen. No. JM-940 at 3 (1988), MW-344(1981).

<sup>202</sup> Op. Tex. Att’y Gen. No. DM-106 (1992).

<sup>203</sup> TEXAS GOV’T CODE § 2254.102(e), as amended by H.B. 1428 (2021).

<sup>204</sup> TEX. LOC. GOV’T CODE § 252.022(a)(4).

<sup>205</sup> *Id.* § 252.001(5).

<sup>206</sup> *Id.* § 252.022(a)(13). See Op. Tex. Att’y Gen. No. JM-444 (1986) (General statutes that require counties, cities, hospital districts, and school districts to engage in competitive bidding in order to make certain purchases do not apply to purchases of services or produce produced by persons with disabilities pursuant to section 122.014 [now section 122.017] of the Human Resources Code.).

to “patents, copyrights, secret processes, or natural monopolies.”<sup>207</sup> For example, at least one city has used this exception to avoid the bidding requirements when purchasing a special type of surveillance camera for police work. The camera in question was able to transmit pictures directly to a lap-top computer using a patented process. The entity that owned the patent for this process was the sole source for this type of camera. However, it should be noted that this transaction has not been reviewed by the Texas courts or the attorney general’s office. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive bidding requirements.

## **82. Does competitive bidding apply to the purchase of “captive replacement parts” or components for equipment?**

Competitive bidding requirements do not apply to the purchase of captive replacement parts or components for equipment if those parts or components are available from only one source.<sup>208</sup> For example, cities have used this exception to justify not taking bids for the purchase of parts for specialized heavy equipment, such as fire trucks, sewer-cleaning equipment, and certain equipment for road building and maintenance. Frequently, only specialized parts manufactured by the vendor will properly fit such a piece of heavy equipment. It is important to note, though, that this use of the “captive replacement parts” exception has not been reviewed by the Texas courts or the attorney general’s office. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive bidding requirements.

## **83. Does competitive bidding apply to the purchase of electricity, gas, water and other utility services?**

Competitive bidding is not required for the purchase of gas, water and other utility services if those services are available from only one source.<sup>209</sup> The competitive bidding requirements do not apply to an expenditure for electricity.<sup>210</sup>

## **84. Does competitive bidding apply to the purchase of advertising?**

Competitive bidding is not required for advertising by a city, other than legal notices.<sup>211</sup>

The definition of advertising is discussed in a number of court cases. Thus, city officials should consult with legal counsel (regarding *Edwards v. Lubbock County*, 33 S.W.2d 482; *Bay Electric Supply v. Travelers Lloyds*, 61 F.Supp.2d 611; and *Smith v. Baldwin*, 611 S.W.2d 611) prior to utilizing this exemption.

## **85. Does competitive bidding apply to the purchase of books and other materials for a public library?**

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<sup>207</sup> TEX. LOC. GOV'T CODE § 252.022(a)(7)(A).

<sup>208</sup> *Id.* § 252.022(a)(7)(D).

<sup>209</sup> *Id.* § 252.022(a)(7)(C).

<sup>210</sup> *Id.* § 252.022(a)(15).

<sup>211</sup> *Id.* § 252.022(a)(16).

Competitive bidding is not required for the purchase of books, papers and other materials for a public library if those books, papers or materials are available only from the persons holding exclusive distribution rights to the materials.<sup>212</sup> Additionally, competitive bidding requirements do not apply to the purchase of rare books, papers and other rare library materials for a public library.<sup>213</sup>

## **Exceptions for Distress or Auction Purchases**

### **86. Does a city violate bidding requirements if it purchases personal property at an auction?**

A city is not required to comply with competitive bidding procedures when purchasing personal property at an auction by a state licensed auctioneer.<sup>214</sup> Currently, it does not appear that cities use this exception with any great frequency.

### **87. Does a city violate bidding requirements if it purchases property at a going-out-of-business sale?**

A city is not required to comply with the competitive bidding procedures when purchasing personal property at a going-out-of-business sale.<sup>215</sup> However, for this exception to apply, the sale must comply with the requirements of subchapter F in Chapter 17 of the Business and Commerce Code. This practice has not been reviewed by the Texas courts or the attorney general's office. Thus, a city will want to consult its legal counsel before relying on this exception to avoid competitive bidding requirements.

## **Exceptions for Purchases from Other Governmental Entities**

### **88. Does a city violate bidding law if it purchases property or services directly from another political subdivision of this state, a state agency or a federal agency without following competitive bidding procedures?**

There are a number of statutes that allow a city to purchase either property or services from other governmental entities or agencies without following competitive bidding procedures.

The Interlocal Cooperation Act<sup>216</sup> generally allows a city to enter into an agreement with another local governmental entity, such as a county or another city, to perform specific governmental functions and services, such as solid waste collection, fire protection, planning and administrative services. The Act further provides that a city may agree with another local government, a state agency (including the Comptroller's Office), or a council of governments to purchase goods (and

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<sup>212</sup> *Id.* § 252.022(a)(7)(E).

<sup>213</sup> *Id.* § 252.022(a)(8).

<sup>214</sup> *Id.* § 252.022(a)(12)(A).

<sup>215</sup> *Id.* § 252.022(a)(12)(B).

<sup>216</sup> TEX. GOV'T CODE ANN. § 791.001 et seq. (West 2004 & Supp. 2011).

services reasonably related to the operation and maintenance of the goods) from that entity.<sup>217</sup>

Chapter 271, subchapter D, of the Local Government Code allows a city, by resolution of its governing body, to participate in cooperative purchasing programs established by the Comptroller's Office for the purchase of goods at prices established through purchase contracts of the Comptroller. The city must agree to be solely responsible for, among other things, submitting the proper requisitions to the Comptroller under the contract in question, direct payment to the vendor and enforcement of the vendor's compliance with conditions for delivery and quality of the purchased goods.<sup>218</sup>

Sections 252.022(a)(12)(C) and (12)(D) of the Local Government Code exempt purchases of personal property sold by a political subdivision of the state, a state agency, an entity of the federal government, or a regional planning commission (e.g., a regional council of governments) under an interlocal contract for cooperative purchasing from competitive bidding.

Finally, Chapter 271, subchapter F, of the Local Government Code allows local governments (including cities) to enter into cooperative purchasing agreements with each other for goods and services.<sup>219</sup> Subchapter G allow local governments to purchase goods and services available under federal supply schedules established by the U.S. General Services Administration, without following competitive bidding procedures.<sup>220</sup>

Compliance with the requirements of any of the cooperative or interlocal agreement purchasing statutes described above automatically satisfies the competitive bidding requirements of state law. Many specific interlocal purchasing practices have not been reviewed by the Texas courts or the attorney general's office. For example, H.B. 1050 (2013) prohibits a local government from entering into a contract to purchase construction-related goods or services through a purchasing cooperative in an amount greater than \$50,000 unless a person designated by the local government certifies in writing that: (a) the project for which the construction-related goods or services are being procured does not require the preparation of plans and specifications by an architect or engineer under current law; or (b) if current law requires plans and specifications to be prepared by an architect or engineer, that has been done.

Therefore, a city will want to consult its legal counsel before relying on any of the exceptions noted above to avoid competitive bidding requirements.

## **Exceptions for Purchases with Specialized Financing**

### **89. Does competitive bidding apply to a contract for paving, drainage, street widening and other public improvements if at least one-third of the cost is paid through special assessments?**

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<sup>217</sup> *Id.* § 791.025 (West Supp. 2011).

<sup>218</sup> TEX. LOC. GOV'T CODE ANN. § 271.083 (West Supp. 2011); Op. Tex. Att'y Gen. No. DM-350 (1995).

<sup>219</sup> *Id.* § 271.102 (S.B. 1281, passed in 2015, allows agreements with local governments and cooperatives in other states).

<sup>220</sup> *Id.* § 271.103.

A city is not required to comply with competitive bidding requirements when expending money for paving, drainage, street widening and other public improvements if at least one-third of the cost is to be paid by special assessments levied on the benefited property.<sup>221</sup> Currently, it does not appear that cities use this exception with any great frequency.

**90. Does competitive bidding apply to a contract for a previously authorized public improvement that is experiencing a deficiency in funding to complete the project?**

Competitive bidding requirements do not apply to expenditures for a public improvement that is already in progress if there is a deficiency of funds for completing the project in accordance with the plans and purposes authorized by the voters.<sup>222</sup> This exception to the competitive bidding requirement only applies to a project that was authorized by the voters of the city. Currently, it does not appear that cities use this exception with any great frequency.

**91. Are developer participation contracts subject to competitive bidding if the city’s participation is limited to thirty percent of the total contract price?**

A “developer participation contract” is a contract between the city and a developer for the developer to be responsible for the construction of public improvements (other than buildings). Under such a contract, the city agrees to pay for part of the cost of the public improvements. A city of 5,000 or more in population may enter into such a contract without following competitive bidding procedures if the contract meets all the requirements of Local Government Code Chapter 212, subchapter C.<sup>223</sup> Among the requirements of that subchapter is that the city’s level of participation in the contract must not exceed 30 percent of the contract price if the city has a population of less than 1.8 million.<sup>224</sup> Additionally, the developer must execute a performance bond.<sup>225</sup> If a developer participation contract does not meet these requirements as well as all the other requirements contained in Chapter 212, subchapter C, then the contract is subject to all of the normal rules regarding competitive bidding.<sup>226</sup>

**92. Can a city forego bidding for work that is performed and paid for by the day?**

Yes, Chapter 252 of the Local Government Code specifically excepts from the bidding requirements “a procurement for work that is performed and paid for by the day as the work progresses.”<sup>227</sup> Nearly identical language is found in the County Purchasing Act.<sup>228</sup> An attorney general opinion

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<sup>221</sup> *Id.* § 252.022(a)(9).

<sup>222</sup> *Id.* § 252.022(a)(10).

<sup>223</sup> *Id.* § 212.071.

<sup>224</sup> *Id.* § 212.072(b)(1).

<sup>225</sup> *Id.* § 212.073.

<sup>226</sup> *Id.* § 212.071.

<sup>227</sup> *Id.* § 252.022(a)(5).

<sup>228</sup> *Id.* § 262.024(a)(5).



interpreting the County Purchasing Act concluded that a contract for work performed and paid for by the day is a contract only for the day.<sup>229</sup> The fact that payment on a contract is made on a daily basis does not make it into a contract for work performed and paid for by the day. Thus, a contract obligating the county to pay for all future work or obligating a party to provide day labor to do the future work on a project is not a contract for work performed and paid by the day. This is true even if the contract stipulates that payment must be made on a daily basis. Since a contract for work performed and paid for by the day rarely reaches the \$50,000 bidding threshold, this exception is used very infrequently.

## **X. Miscellaneous Provisions Related to Public Works Contracts**

### **93. Does state law proscribe retainage requirements in public works contracts?**

Yes. House Bill 692, passed in 2021, provides that:

1. “warranty period” means the period of time specified in a contract during which certain terms applicable to the warranting of work performed under the contract are in effect;
2. a governmental entity shall: (a) include in each public works contract a provision that establishes the circumstances under which: (i) a public works project is considered substantially complete; (ii) the governmental entity may release the retainage for substantially completed portions of the project, or fully completed and accepted portions of the project; (b) maintain an accurate record of accounting for the retainage withheld on periodic contracts payments, and the retainage released to the prime contractor for a public works contract; and (c) for certain public works contracts with a value of \$10 million or more, pay any remaining retainage on periodic contract payments, and the interest earned on the retainage, to the prime contractor on completion of the contract;
3. if the total value of a public works contract is less than \$5 million, a governmental entity may not withhold retainage in an amount that exceeds 10 percent of the contract price and the rate of retainage may not exceed 10 percent for any item in a bid schedule or schedule of values for the project, including materials and equipment delivered on site to be installed;
4. if the total value of a public works contract is \$5 million or more, a governmental entity may not withhold retainage in an amount that exceeds five percent of the contract price and the rate of retainage may not exceed five percent for any item in a bid schedule or schedule of values for the project, including materials and equipment delivered on site to be installed;
5. if a public works contract relates to the construction or maintenance of a dam, regardless of the total value of the contract, a governmental entity may not withhold retainage in an amount that exceeds 10 percent of the contract price and the rate of retainage may not exceed 10 percent for any item in a bid schedule or schedule of values for the project, including materials and equipment delivered on site to be installed;
6. the limitations described in (3)-(5), above, do not apply to certain water contracts;
7. for a competitively awarded contract with a value of \$10 million or more, and for a contract that was awarded using a method other than competitive bidding, a governmental entity and prime contractor may agree to deposit in an interest-bearing account the retainage withheld on periodic contract payments;
8. a governmental entity may not withhold retainage: (a) after completion of the contract by the prime contractor, including during the warranty period; or (b) for the purpose of requiring the

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<sup>229</sup> Tex. Att’y Gen. LO-98-015.

- prime contractor, after completion of the contract, to perform work on manufactured goods or systems that were specified by the designer of record and properly installed by the contractor;
9. on application to a governmental entity for final payment and release of retainage, the governmental entity may withhold retainage if the governmental entity provides written notice and there is a bona fide dispute between the governmental entity and the prime contractor and the reason for the dispute is that labor, services, or materials provided by the prime contractor, or by a person under the direction or control of the prime contractor, failed to comply with the express terms of the contract or if the surety on any outstanding surety bond executed for the contract does not agree to the release of retainage; and
  10. if there is no bona fide dispute as described (9), above, and neither party is in default, a prime contractor is entitled to: (a) cure any noncompliant labor, services, or materials; or (b) offer the governmental entity a reasonable amount of money as compensation for any noncompliant labor, services, or materials that cannot be promptly cured.

#### **94. Does state law govern certain aspects of a contract and disputes between a city and an architect or engineer?**

Yes. For example, Section 150.001 of the Civil Practices and Remedies Code provides an additional step when litigating claims with professionals. The section: (1) defines “claimant” to mean a party, including a plaintiff or third-party plaintiff, seeking recovery for damages, contribution, or indemnification; (2) provides that, in any action or arbitration proceeding for damages arising out of the provision of professional services by a licensed or registered professional, a claimant shall be required to file with the complaint an affidavit of a third-party licensed architect, licensed professional engineer, registered landscape architect, or registered professional land surveyor who: (a) is competent to testify; (b) holds the same professional license or registration as the defendant; and (c) practices in the area of practice of the defendant and offers testimony based on the person’s knowledge, skill, experience, education, training, and practice; and (3) provides for certain exceptions to (2).

Chapter 130 of the Civil Practices and Remedies Code governs certain contractual provisions between a city and an architect or engineer. For example, it limits the ability of a city to require one of those professionals to broadly indemnify based on someone else’s negligence.<sup>230</sup> House Bill 2116 (2021) added new provisions that: (1) with certain exceptions, a covenant or promise in, in connection with, or collateral to a contract for engineering or architectural services related to an improvement to real property is void and unenforceable if the covenant or promise provides that a licensed engineer or registered architect must defend a party, including a third party against a claim based wholly or partly on the negligence of, fault of, or breach of contract by the owner, the owner’s agent, the owner’s employee, or another entity over which the owner exercises control; (2) a covenant or promise in, in connection with, or collateral to a contract for engineering or architectural services related to an improvement to real property may provide for the reimbursement of an owner’s reasonable attorney’s fees in proportion to the engineer’s or architect’s liability; (3) notwithstanding (1), an owner that is a party to a contract for engineering or architectural services related to an

<sup>230</sup> Tex. Civ. Prac. Rem. Code § 130.002.

improvement to real property may require in the contract that the engineer or architect name the owner as an additional insured under any of the engineer's or architect's insurance coverage to the extent additional insureds are allowed under the policy and provide any defense to the owner provided by the policy to a named insured; and (4) a construction contract for engineering or architectural services related to the construction or repair of an improvement to real property must require that the architectural or engineering services be performed with the professional skill and care ordinarily provided by competent architects or engineers under the same or similar circumstances and professional license, and a provision in a contract establishing a different standard is void and unenforceable.

## **95. Does state law govern contractor liability for design defects?**

Yes, S.B. 219 (2019): (1) provides that, in regard to a contract for the construction or repair of improvement to real property, a contractor is not responsible for the consequences of design defects in and may not warranty the accuracy, adequacy, sufficiency, or suitability of plans, specifications, or other design documents provided to the contractor by a person other than the contractor's agents, contractors, fabricators, or suppliers, or its consultants, of any tier; (2) requires a contractor, within a reasonable time of learning of a defect, inaccuracy, inadequacy, or insufficiency in the plans, specifications, or other design documents, disclose in writing to the person with whom the contractor enters into a contract the existence of any known defect in the plans, specifications, or other design documents that is discovered by the contractor, or that reasonably should have been discovered by the contractor using ordinary diligence, before or during construction; (3) excepts certain contracts from the new provisions regarding responsibility for defects in plans and specifications described in (1) and (2); (4) requires a construction contract for architectural or engineering services or a contract related to the construction or repair of an improvement to real property that contains architectural or engineering services as a component to require that the architectural or engineering services be performed with the professional skill and care ordinarily provided by competent architects or engineers practicing under the same or similar circumstances and professional license, and a provision in a contract with a different standard of care is void and unenforceable; and (5) provides that certain limitations on a contractor's responsibility for certain defects do not apply to a design-build contract.

## **XI. Ethical Requirements Relating to Municipal Procurement**

### **96. What is Chapter 176 of the Local Government Code?**

Chapter 176 is an ethics law. Originally enacted by H.B. 914 in 2005, Chapter 176 requires local government officers to disclose certain relationships with vendors who conduct business with local government entities. After the law was implemented, city officials and others realized that the law created several unintended consequences. Consequently, the bill's author sought an opinion from the Texas attorney general to clarify many provisions of Chapter 176. The attorney general's office released Opinion Number GA-0446, which concluded that legislative changes to the law were

necessary. In response, the legislature passed H.B. 1491 during the 2007 regular legislative session. More recent amendments were made to Chapter 176 with the passage of H.B. 23 in the 2015 regular legislative session.

## **97. What local government entities are subject to this law?**

The requirements of chapter 176 apply to most political subdivisions, including a city.<sup>231</sup> The chapter also applies to a local government corporation, board, commission, district, or authority whose members are appointed by a mayor or the city council.

## **98. What local government officers are subject to this law?**

A “local government officer” (officer) under Chapter 176 includes: (1) a mayor or city councilmember; (2) a director, superintendent, administrator, president, or any other person who is designated as the executive officer of the local government entity; and (3) an agent (including an employee) of the local government entity who exercises discretion in the planning, recommending, selecting, or contracting of a vendor.<sup>232</sup>

## **99. When is an officer required to file a “conflicts disclosure statement”?**

An officer is required to file a conflicts disclosure statement (“statement”) in at least three situations.

1. An officer must file a statement if the officer or officer’s family member has an employment or other business relationship with a vendor that results in the officer or officer’s family member receiving taxable income of more than \$2,500 in the preceding twelve months.<sup>233</sup> An officer who receives investment income, regardless of amount, is not required to file a disclosure statement. Investment income includes dividends, capital gains or interest income gained from a personal or business checking or savings account or other similar account, a personal or business investment, or a personal or business loan.<sup>234</sup>
2. An officer is required to file a statement if the officer or officer’s family member accepts one or more gifts from a vendor with an aggregate value of more than \$100 in the preceding twelve months.<sup>235</sup> (A “gift” includes transportation, lodging, and entertainment, even as a guest.)
3. An officer is required to file a statement if the officer has a family relationship with the vendor.<sup>236</sup>

There is at least one exception to the three situations set out above. A local government officer does not have to file a statement if the vendor is an administrative agency supervising the performance of

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<sup>231</sup> TEX. LOC. GOV'T CODE § 176.001(3).

<sup>232</sup> *Id.* § 176.001(1), .001(4).

<sup>233</sup> *Id.* § 176.003(a)(2)(A).

<sup>234</sup> *Id.* § 176.001(2-d).

<sup>235</sup> *Id.* § 176.003(a)(2)(B).

<sup>236</sup> *Id.* § 176.003(a)(2)(C).

an interlocal agreement.<sup>237</sup>

(Note: An officer is required to file a statement no later than 5:00 p.m. on the seventh business day after the date on which the officer becomes aware of facts that require the filing of the statement.)<sup>238</sup>

## **100. How does Chapter 176 define a “vendor,” and what does it mean to have a “family relationship” with a vendor?**

A vendor is any person who enters or *seeks to enter into* a contract with a city.<sup>239</sup> The term includes: (1) an agent of a vendor; (2) an officer or employee of a state agency when that individual is acting in a private capacity to enter into a contract; and (3) Texas Correctional Industries (but no other state agency).

An officer has a family relationship with a vendor if they are related within the third degree by consanguinity (blood) or second degree by affinity (marriage).<sup>240</sup> An officer’s family relationships within the third degree by blood include the officer’s: mother, father, son, daughter, brother, sister, grandmother, grandfather, grandson, granddaughter, great-grandfather, great-grandmother, aunt, uncle, nephew, niece, great-grandson and great-granddaughter. An officer’s family relationships within the second degree by marriage include the officer’s: spouse, father-in-law, mother-in-law, son-in-law, daughter-in-law, stepchild, sister-in-law (brother’s spouse or spouse’s sister), brother-in-law (sister’s spouse or spouse’s brother), spouse’s grandmother, spouse’s grandfather, spouse’s granddaughter, and spouse’s grandson.

## **101. How does Chapter 176 define a “family member” of an officer?**

An officer’s family member is a person related to the officer within the first degree of consanguinity (blood) or affinity (marriage).<sup>241</sup> An officer’s family member includes the officer’s: father, mother, son, daughter, spouse, father-in-law, mother-in-law, son-in-law, daughter-in-law or step child.

## **102. To what types of contracts does the law apply?**

The law applies to any written contract for the sale or purchase of real property, goods (personal property) or services.<sup>242</sup> A contract for services would include one for skilled or unskilled labor, as well as for professional services.<sup>243</sup>

## **103. When is a vendor required to file a “conflicts of interest questionnaire?”**

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<sup>237</sup> *Id.* § 176.003(a-2).

<sup>238</sup> *Id.* § 176.003(b).

<sup>239</sup> *Id.* § 176.001(7).

<sup>240</sup> *Id.* § 176.001(2-a).

<sup>241</sup> *Id.* § 176.001(2).

<sup>242</sup> *Id.* § 176.001(1-d), (2-c).

<sup>243</sup> *Id.* § 176.001(6).

A vendor is required to file a “conflicts of interest questionnaire” (“questionnaire”) if the vendor has a business relationship with the city and: (1) has an employment or other business relationship with an officer or an officer’s family member that results in the receipt by the officer or family member of taxable income of more than \$2,500 in the preceding twelve months; (2) has given an officer or an officer’s family member one or more gifts totaling more than \$100 in the preceding twelve months; or (3) has a family relationship with an officer.<sup>244</sup>

A vendor is required to file a questionnaire not later than the seventh business day after the latter of the following: (1) the date the vendor begins discussions or negotiations to enter into a contract with the city or submits an application or response to a bid proposal; or (2) the date the vendor becomes aware of a relationship or gives a gift to an officer or officer’s family member.

## **104. With whom should the statements and questionnaires be filed?**

The statements and questionnaires must be filed with the records administrator of the city.<sup>245</sup> A records administrator includes a city secretary, a person responsible for maintaining city records, or a person who is designated by the city to maintain the statements and disclosures filed under the chapter.<sup>246</sup>

A city that maintains a website is required to post on that website statements and questionnaires that are required to be filed under the chapter. However, a city that does not have a website is not required to create or maintain one.<sup>247</sup>

(Note: A vendor is required to file a questionnaire not later than the seventh business day after the later of the following: (1) the date the vendor begins discussions or negotiations to enter into a contract with the city or submits an application or response to a bid proposal; or (2) the date the vendor becomes aware of a employment or business relationship with an officer of officer’s family members, gives a gift to an officer or officer’s family member, or becomes aware of a family relationship with an officer.<sup>248</sup>)

## **105. What happens if a statement is not filed?**

An officer or vendor who knowingly fails to file a statement or a questionnaire when required to do so commits either a Class A, B, or C misdemeanor, depending on the amount of the contract.<sup>249</sup> A Class C misdemeanor is punishable by a fine of up to \$500. A Class B misdemeanor is punishable by a fine up to \$2,000, confinement in jail for a term not to exceed 180 days, or both. A Class A Misdemeanor is punishable by a fine up to \$4,000, confinement in jail for a term not to exceed one year, or both. It is an exception to an offense if the officer or vendor files the statement or questionnaire not later than the seventh business day after receiving notice from the city of the alleged violation.<sup>250</sup>

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<sup>244</sup> *Id.* § 176.006(a).

<sup>245</sup> *Id.* §§ 176.003(b), .006(a-1).

<sup>246</sup> *Id.* § 176.001(5).

<sup>247</sup> *Id.* § 176.009.

<sup>248</sup> *Id.* § 176.006(a-1).

<sup>249</sup> *Id.* §§ 176.013.

<sup>250</sup> *Id.* §§ 176.013(f)-(g).

In addition to possible criminal punishment, a city may reprimand, suspend, or terminate an employee who knowingly fails to comply with the requirements of Chapter 176.<sup>251</sup> And the city council may declare a contract void if the council determines the vendor failed to file a questionnaire.<sup>252</sup>

(Note: The validity of a contract between a city and a vendor is not affected solely because an officer or vendor fails to file a questionnaire.)<sup>253</sup>

## **106. Where can an officer or vendor obtain the necessary forms?**

The Texas Ethics Commission is charged with creating statement and questionnaire forms.<sup>254</sup> The forms can be found at [www.ethics.state.tx.us](http://www.ethics.state.tx.us) or by contacting the TML Legal Department at 512-231-7400 or [legalinfo@tml.org](mailto:legalinfo@tml.org).

## **107. What is Chapter 171 of the Local Government Code?**

Chapter 171 of the Local Government Code regulates local public officials' conflicts of interest.<sup>255</sup> It prohibits a local public official from voting or participating in a matter involving a business entity or real property in which the official has a substantial interest if an action on the matter will result in a special economic effect on the business that is distinguishable from the effect on the public or, in the case of a substantial interest in real property, it is reasonably foreseeable that the action will have a special economic effect on the value of the property, distinguishable from its effect on the public.<sup>256</sup>

A public official who has such interest is required to file, before a vote or decision on any matter involving the business entity or real property, an affidavit with the city's official record keeper, stating the nature and extent of the interest.<sup>257</sup> In addition, a local public official is required to abstain from further participating in the matter. However, a local public official who is required to file an affidavit is not required to abstain from participating in the matter if a majority of the members of the governing body have a substantial interest and are required to file and do file affidavits of similar interests on the same official matter.<sup>258</sup>

More detailed information on Chapter 171 is available in a separate attorney general publication known as "*Conflicts of Interest Laws Made Easy*" located online at [www.texasattorneygeneral.gov](http://www.texasattorneygeneral.gov).

## **108. What does the "contracts disclosure law" require?**

The following Q&A details the requirements of the contracts disclosure law.

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<sup>251</sup> *Id.* § 176.013(d).

<sup>252</sup> *Id.* § 176.013(e).

<sup>253</sup> *Id.* § 176.006(i).

<sup>254</sup> *Id.* §§ 176.003(e), 176.006(b).

<sup>255</sup> *Id.* §§ 171.001-.010.

<sup>256</sup> *Id.* § 171.004(a).

<sup>257</sup> *Id.* § 171.004(a)-(b).

<sup>258</sup> *Id.* § 174.004(c).

**Q: What is Section 2252.908 of the Government Code?**

A: Section 2252.908 is a governmental transparency law that was enacted by House Bill 1295 in 2015 and amended by Senate Bill 255 in 2017. It prohibits a governmental entity or state agency from entering into certain contracts with a business entity unless the business entity submits a disclosure of interested parties (i.e., discloses persons with a financial or business interest in the contract). TEX. GOV'T CODE § 2252.908(d).

**Q: What role does the Texas Ethics Commission have in the implementation of Section 2252.908?**

A: The Texas Ethics Commission (Commission) is charged with adopting rules to implement the statute, developing the disclosure of interested parties form, and posting a copy of the form on its website. *Id.* § 2252.908(g).

**Q: What local governmental entities are subject to this law?**

A: The term “governmental entity” is defined to include a city, county, public school district, or special-purpose district or authority. *Id.* § 2252.908(a)(2).

While there is no attorney general opinion, Commission rule, or reported case that specifically addresses the issue, the League does not believe public nonprofit corporations like housing finance corporations and economic development corporations are governmental entities under Section 2252.908. TEX. LOC. GOV'T CODE chs. 394, 501-505.

**Q: To what types of city contracts does Section 2252.908 apply?**

A: This new disclosure law applies to contracts that: (1) require an action or vote by the city council before the contract may be signed; (2) have a value<sup>259</sup> of at least \$1 million; or (3) are for services that would require a person to register as a lobbyist under Chapter 305. TEX. GOV'T CODE § 2252.908(b). Pursuant to the Commission’s rules, a contract does not require an action or vote by the city council if:

- (1) The governing body has legal authority to delegate to its staff the authority to execute the contract;
- (2) The governing body has delegated to its staff the authority to execute the contract; and
- (3) The governing body does not participate in the selection of the business entity with which the contract is entered into.

1 T.A.C. § 46.1(c).

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<sup>259</sup> The term “value” is defined as “the amount of consideration received or to be received by the business entity from the governmental entity or state agency under the contract.” 1 T.A.C. § 46.3(g). Although a plain reading of this definition does not make it clear, at the time it was adopted, the Commission indicated that the term also encompasses an amount of consideration received by a city from a business entity.



It is important to note that the Commission defines the term “contract” to include an amended, extended, or renewed contract. *Id.* § 46.3(a). There is a new rule, effective January 1, 2017, that further clarifies when a change to an existing contract will trigger the filing of a disclosure form. *Id.* § 46.4.

The Commission also defines the term “contract” to mean “a contract between a governmental entity . . . and a business entity at the time it is voted on by the governing body or at the time it binds the governmental entity.” *Id.* 46.3(a). The League understands this temporal requirement to mean that a city would not have to get a disclosure form from some downstream third party who is ultimately assigned to carry out an obligation under a contract.

**Q: Are any contracts expressly excepted from Section 2552.908’s requirements?**

A: Yes. Section 2252.908 does not apply to:

- (1) a sponsored research contract of an institution of higher education;
- (2) an interagency contract of a state agency or an institution of higher education;
- (3) a contract related to health and human services if:
  - (A) the value of the contract cannot be determined at the time the contract is executed; and
  - (B) any qualified vendor is eligible for the contract;
- (4) a contract with a publicly traded business entity, including a wholly owned subsidiary of the business entity;
- (5) a contract with an electric utility, as that term is defined by Section 31.002, Utilities Code; or
- (6) a contract with a gas utility, as that term is defined by Section 121.001, Utilities Code.

TEX. GOV’T CODE § 2252.908(c).

**Q: To what types of business entities does Section 2252.908 apply?**

A: The term “business entity” is defined to mean “any entity recognized by law through which business is conducted, including a sole proprietorship, partnership, or corporation.” TEX. GOV’T CODE § 2252.908(a)(1). The Commission’s rules clarify that the term “business entity” includes nonprofits, but does not include a governmental entity. 1 T.A.C. § 46.3(b). That means, for instance, that if a city executes an interlocal agreement with another city the disclosure requirements of Section 2252.908 are not triggered.

**Q: What types of interested parties must a business entity disclose when it enters into a contract with a city?**

A: A business entity must disclose “(1) a person who has a controlling interest in a business entity with whom a governmental entity . . . contracts; or (2) an intermediary.” 1 T.A.C. § 46.3(d) (defining “interested party”); *see also* TEX. GOV’T CODE § 2252.908(a)(3).

The Commission defines the terms “controlling interest” and “intermediary” as follows:

“Controlling interest” means: (1) an ownership interest or participating interest in a business entity by virtue of units, percentage, shares, stock, or otherwise that exceeds 10 percent; (2) membership on the board of directors or other governing body of a business entity of which the board or other governing body is composed of not more than 10 members; or (3) service as an officer of a business entity that has four or fewer officers, or service as one of the four officers most highly compensated by a business entity that has more than four officers.<sup>260</sup>

“Intermediary,” . . . means, a person who actively participates in the facilitation of the contract or negotiating the contract, including a broker, adviser, attorney, or representative of or agent for the business entity who: (1) receives compensation from the business entity for the person’s participation; (2) communicates directly with the governmental entity or state agency on behalf of the business entity regarding the contract; and (3) is not an employee of the business entity or of an entity with a controlling interest in the business entity.

1 T.A.C. § 46.3(c),(e).

It is possible that, although a business entity is subject to Section 2252.908, no interested parties will exist. Thus, a business entity may end up filing a form that has very little information on it.

**Q: How is the Certificate of Interested Parties Form (Form 1295) completed and submitted to the city?**

A: The Commission has available on its website an electronic filing application that must be used to file Form 1295. The process, as implemented by the Commission, is as follows:

1. A business entity must use the Commission’s online filing application to enter the required information on Form 1295. The business entity must then print a copy of the form, which will contain a unique certification number. 1 T.A.C. § 46.5.
2. The completed Form 1295 must be filed with the city by “the time the business entity submits the signed contract” to the city. TEX. GOV’T CODE § 2252.908(d).
3. The city must use the Commission’s online filing application to acknowledge that the city has received the Form 1295 not later than the 30th day after the date the city receives the form. *Id.* § 2252.908(f); 1 T.A.C. § 46.5(c). The city should not send a copy of the Form 1295 to the Commission.

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<sup>260</sup> Subsection (3) does not apply to an officer of a publicly held business entity or its wholly owned subsidiaries. 1 T.A.C. § 46.3(c).

Instructional videos and a FAQ about how to register and file/acknowledge a Form 1295 are available on the Commission’s website: <https://www.ethics.state.tx.us/>.

**Q: What type of transaction triggers the disclosure requirement?**

A: This remains unclear. The statute broadly prohibits a city from “enter[ing] into a contract described by Subsection (b) with a business entity unless the business entity” submits the disclosure. TEX. GOV’T CODE § 2252.908(d). The Commission rules provide that Form 1295 should describe “the services, goods, or other property [such as real property] *used by the [city] under the contract.*” 1 T.A.C. § 46.5(a)(4) (emphasis added). Form 1295 (box 3) directs the business entity to “provide a description of the services, goods, or other property to be *provided under the contract.*” (emphasis added). Cities should consult their local legal counsel in deciding whether any particular transaction triggers the requirements of Section 2252.908.

**Q: Will the city have to provide any of the information that the business entity needs to include on Form 1295?**

A: Yes. Although not required by Section 2252.908, the Commission’s rules provide that the business entity must include on Form 1295 an “identification number used by the [city] . . . to track or identify the contract for which the form is being filed.” *Id.* Even though the rules provide for such a number, nothing in the rules requires a city to create a numbering system of any type.

**Q: How will the public access a Form 1295 that is completed by a business entity?**

A: The Commission is required to post the completed Form 1295 on its website within seven business days after receiving notice from the city that the city has received the filed Form 1295 and certification of filing. TEX. GOV’T CODE § 2252.908(g); 1 T.A.C. § 46.5(d). The database of acknowledged forms is available on the Commission’s website here: [https://www.ethics.state.tx.us/dfs/search\\_1295.htm](https://www.ethics.state.tx.us/dfs/search_1295.htm). In addition, cities must provide the completed forms in accordance with the Public Information Act.

**Q: What happens if a city or business entity fails to comply with Section 2252.908?**

A: All the possible ramifications for a city are unclear at this time. According to the Commission’s website, the Commission does not have any authority (beyond rulemaking and adoption of the form) to enforce or interpret the statute. *See <https://www.ethics.state.tx.us/tec/1295-Info.htm>; cf., e.g.,* TEX. GOV’T CODE §§ 571.061 (listing the laws that the Commission administers and enforces), 571.091 (listing the statutes about which the Commission may issue advisory opinions).

As for a business entity, the statute requires a Form 1295 disclosure contain “a written, unsworn declaration subscribed by the authorized agent of the contracting business entity as true under penalty of perjury.” *See* TEX. GOV’T CODE § 2252.908(e)(2); *see also* TEX. PENAL CODE ch. 37 (providing for offense of perjury).

**Q: If a business entity has already filed the CIQ Form required by Local Government Code Chapter 176 could it also have to file Form 1295?**

A: Yes. In the past decade, the number and type of interests that must be disclosed by city officials, employees, and vendors have increased. The various state conflicts/disclosure laws come with their own separate legal requirements. Thus, complying with one does not fulfill the obligations imposed by the other. In some circumstances, the same financial interest may require a business entity to file more than one disclosure form. A discussion of the various conflicts and disclosure laws that apply to city officials, employees, and vendors is available on the League's website here: [https://www.tml.org/legal\\_topics-legal\\_ethics](https://www.tml.org/legal_topics-legal_ethics).

### **109. What are the requirements for contracts relating to Israel, Sudan, terrorist organizations, China, Iran, North Korea, Russia, other designated countries, energy companies, and/or firearms companies?**

During the 2017 regular session, the legislature passed three bills that require additional steps when a city enters into a contract. None of the bills are particularly clear as to implementation, but city officials with purchasing responsibility should be aware of them. The following are brief summaries of their requirements:

- **H.B. 89<sup>261</sup> (King/Creighton)** is a bill relating to government contracts with and investments in companies that boycott Israel. It provides that a governmental entity, including a city, may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it: (1) does not boycott Israel; and (2) will not boycott Israel during the term of the contract.

The written verification could be as simple as a contract term providing that:

*In accordance with Chapter 2270, Texas Government Code, a governmental entity may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it: (1) does not boycott Israel; and (2) will not boycott Israel during the term of the contract.*

*The signatory executing this contract on behalf of company verifies that the company does not boycott Israel and will not boycott Israel during the term of this contract.*

The bill does not define "contract." Questions have arisen as to whether the bill applies to oral contracts or basic purchase orders and similar purchasing documents.

Texas law does not require that a contract be in writing. In fact, just about every purchase of a good or service, regardless of whether paper is involved, forms a contract. That being said,

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<sup>261</sup> TEX. GOV'T CODE chapters 808 and 1270.

it would appear that the only reasonable interpretation would be that the bill applies only to written contracts.

In May 2018, a federal district court granted a preliminary injunction enjoining the enforcement of the law. The issue in *Amawi v. Pflugerville Independent District, et al.* is whether H.B. 89 (codified as [Chapter 2270 of the Government Code](#)) may prohibit boycotting Israel as a condition of public employment or contracting.

The plaintiffs in this case are five sole proprietors who refused to sign contracts with certain governmental entities on the grounds that requiring the plaintiffs to certify that they do not boycott Israel violated their First Amendment rights. As a result, the plaintiffs were either denied employment with or their contractual relationships were terminated by the governmental entities.

Granting the preliminary injunction, the court concluded that the plaintiffs were likely to succeed on the merits of their First Amendment claims, were likely to suffer irreparable harm in the absence of preliminary relief, and that an injunction is in the public interest. As of the printing date of this paper, an appeal to the United States Court of Appeals for the Fifth Circuit has been filed.

H.B. 793 was passed in 2019. The bill modifies H.B. 89 by providing that: (1) “company” does not include a sole proprietorship; and (2) the law applies only to a contract that: (a) is between a governmental entity and a company with 10 or more full-time employees; and (b) has a value of \$100,000 or more that is to be paid wholly or partly from public funds of the governmental entity. It appears that it was meant to address the issues in the lawsuit mentioned above, but the injunction stands as of the printing of this paper.

Each city official who makes purchases should consult with their city attorney to decide how to interpret the bill.

- **S.B. 252<sup>262</sup> (V. Taylor/S. Davis)** is a bill relating to government contracts with terrorists. The bill provides that: (1) a governmental entity, including a city, may not enter into a governmental contract with a company that is identified on a list prepared and maintained by the comptroller and that does business with Iran, Sudan, or a foreign terrorist organization; and (2) a company that the United States government affirmatively declares to be excluded from its federal sanctions regime relating to Sudan, its federal sanctions regime relating to Iran, or any federal sanctions regime relating to a foreign terrorist organization is not subject to the contract prohibition under the bill.

The bill requires that the comptroller prepare and maintain, and make available to each governmental entity, a list of companies known to have contracts with or provide supplies or services to a foreign terrorist organization. The list is available on the [comptroller’s website](#).

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<sup>262</sup> TEX. GOV’T CODE chapter 2252, subchapter F.

- **S.B. 253<sup>263</sup> (V. Taylor/S. Davis)** is a long and complex bill relating to government investments.

Of particular interest to cities, the bill does two things: (1) on page 6, it changes the definition of “investing entity” in current law to mean any entity subject to Government Code Chapter 2256 (the “Public Funds Investment Act”), which includes a city; and (2) on pages 28-29, it requires an investing entity, not later than December 31 of each year, to: (a) file a publicly-available report with the presiding officer of each house of the legislature and the attorney general that: (i) identifies all investments sold, redeemed, divested, or withdrawn in compliance with the bill; (ii) identifies all prohibited investments under the bill; and (iii) summarizes any changes made to actively managed or private equity funds; and (b) file a report with the United States presidential special envoy to Sudan that identifies investments in Sudan identified in the report as required by (a) and (b), above.

What action should a city actually take in response to S.B. 253? That is still very unclear. In accordance with the Public Funds Investment Act, most cities invest only in certificates of deposit, government obligations, an investment pool such as TexPool, and certain mutual funds. With regard to investment pools, it would appear more logical for the investment pool to file any required report based on its investments, although the bill clearly seems to impose that requirement on the city. With regard to mutual funds, the bill seems to provide an exception for “actively managed funds.” Thus, if the mutual fund is actively managed, a city may not be required to file a report in relation to it, but would have to notify the fund manager and request that prohibited companies be divested.

Some question remains as to the effect of federal law on the bills above. The United States Code, 50 U.S.C.A. § 4607, governs foreign boycotts. Some argue that the preemption language in that provision overrides state laws on the same subject. Even if that’s the case, a city should arguably comply with the state law unless a court directs otherwise.

Finally, in 2021, three more anti-boycott bills passed.

Senate Bill 2116, among other things, prohibits a city from entering into a contract or other agreement relating to “critical infrastructure” (defined to mean a communication infrastructure system, cybersecurity system, electric grid, hazardous waste treatment system, or water treatment facility) in this state with a company if the city knows that the company is: (1) owned by or the majority of stock or other ownership interest of the company is held or controlled by: (a) individuals who are citizens of China, Iran, North Korea, Russia, or other designated countries; or (b) a company or other entity, including a governmental entity, that is owned or controlled by citizens of or is directly controlled by the government of China, Iran, North Korea, Russia, or other designated countries; or (2) headquartered in China, Iran, North Korea, Russia, or other designated countries.

Senate Bill 13, among other things, prohibits a city from entering into a contract with a value of \$100,000 or more that is to be paid from public funds with a company with more than 10 full-time employees for goods or services unless the contract contains a written verification from the company

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<sup>263</sup> TEX. GOV’T CODE chapter 2270.

that it: (1) does not boycott energy companies; and (2) will not boycott energy companies during the term of the contract.

Senate Bill 19, among other things, (1) prohibits a governmental entity from entering into a contract with a value of \$100,000 or more that is to be paid from public funds with a company with more than 10 full-time employees for the purchase of goods or services unless the contract contains a written verification from the company that it: (a) does not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association; and (b) will not discriminate during the term of the contract against a firearm entity or firearm trade association; and (2) provides that the prohibition in (1) does not apply to a city that (a) contracts with a sole-source provider, or (b) the city does not receive any bids from a company that is able to provide the required verification required by (1).

## **XII. Enforcement of Bidding Requirements**

### **110. What civil remedies are available to an individual or entity if the competitive bidding laws are not followed?**

If a city enters into a contract without complying with the requirements of Chapter 252 of the Local Government Code, the contract is void.<sup>264</sup> Any property tax paying resident of the city may bring suit in district court to stop the performance or payment of the contract. However, the Austin court of appeals held in 2017 that the language in Chapter 252 waives a city's immunity from suit.<sup>265</sup> Further, if the contract is for the construction of public works, a person who submitted a bid for a contract for which the competitive sealed bidding requirement applies, regardless of residency, may bring suit in district court to stop the performance or payment of the contract.<sup>266</sup>

### **111. What criminal penalties apply if the competitive bidding laws are not followed?**

If a person fails to comply with the competitive bidding or competitive proposal procedures required by Chapter 252, that person may be convicted of a Class B misdemeanor.<sup>267</sup> This includes a situation in which a person makes or authorizes separate, sequential or component purchases in an attempt to avoid competitive bidding requirements. A Class B misdemeanor may be punished by a fine of up to \$2,000, confinement in jail for up to 180 days, or both the fine and confinement.<sup>268</sup>

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<sup>264</sup> *Id.* § 252.061.

<sup>265</sup> *City of Austin v. Util. Assocs., Inc.*, 517 S.W.3d 300 (Tex. App.- Austin, 2017), *pet. denied*.

<sup>266</sup> *Id.*

<sup>267</sup> *Id.* § 252.062.

<sup>268</sup> TEX. PENAL CODE ANN. § 12.22.

## **112. Can city officials or employees be removed from office for failure to comply with competitive bidding laws?**

Under Texas law, an individual is automatically removed from his or her position if that person is finally convicted of failing to comply with the competitive bidding or competitive proposal procedures required by Local Government Code Chapter 252.<sup>269</sup> Once removed from office, such a person may not hold any public office in this state for four years after the date of final conviction. Also, for four years after the date of final conviction, the convicted person may not be employed by the city where the person was serving when the offense occurred and may not receive any compensation through a contract with the city. The convicted person may, however, continue to receive any retirement or workers' compensation benefits.

## **113. Are there different consequences for elected officials, as compared to city staff, for bidding violations?**

There are not different consequences for elected officials or city staff for bidding violations.<sup>270</sup>

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<sup>269</sup> TEX. LOC. GOV'T CODE ANN. § 252.063.

<sup>270</sup> *Id.* §§ 252.062, .063.



## **Acknowledgments**

This paper has come about through the efforts of many attorneys over the years. It began as a publication of the Texas attorney general's office, where it was edited by Zindia Thomas and Julian Grant, based on previous work by Jeff Moore with Brown and Hofmeister ([www.bhlaw.net](http://www.bhlaw.net)) and others. The more recent updates have been provided by Jeff Chapman of the Chapman Law Firm, and Scott Houston, Intergovernmental Relations Manager, Texas Municipal League Intergovernmental Risk Pool.