Setting Purchasing Thresholds

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Purchasing thresholds are, at their core, a risk management tool. Every purchase carries some risk: overpaying, favoritism, a poor-quality vendor, a decision nobody else gets to weigh in on. Competitive procedures like quotes, bids, and RFPs exist to reduce that risk through transparency and comparison. But those procedures also carry a real cost: staff time, delayed decisions, added paperwork.

A threshold is simply the dollar point at which a government decides the added cost of procurement is worth it. Set too low, and the administrative cost exceeds the risk being managed. Set too high, and some risk goes unchecked. The right threshold reflects a municipality's own risk tolerance, shaped by things like its size, its capacity to run a formal process, and how much scrutiny its residents expect for a purchase of a given size. With that tradeoff in mind, below are some ideas worth thinking through:

- **When were the current thresholds set, and why?** Check old minutes or town reports for when the thresholds were set and whether there was a reason for it. Either way, that tells you how much weight to give the old numbers.

- **Look at the town's own purchase history and board capacity.** *(low-hanging fruit - you likely already know this)* Since the board reviews and approves warrants, you probably have a good sense already of how many purchases per year fall into each tier and how much meeting time goes to approving small, low-risk purchases that a higher threshold would free up. It also can help to think back on which past purchases ***felt like*** major decisions, and which felt incidental, without regard to which department or person made them. That instinct often reflects the board's own intuitive sense of acceptable risk and can be a useful gut check against whatever numbers come out of the more formal analysis.

- **Adjust for inflation using the Consumer Price Index (CPI), the same way the federal government does.** Look up the CPI-U(opens in a new tab) value for the

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year the thresholds were set versus today and apply that ratio. Use the CPI-U Northeast for more localized data. This is an evidence-based floor.

- **Document the reasoning behind whatever numbers are chosen.** A short paragraph protects future boards from having to guess why the numbers are what they are.

- **Build in a mandatory review cycle. Every five years is common, but could be three years, etc.** Five years mirrors GFOA's recommended cadence for capitalization thresholds, so the numbers don't sit untouched for another decade.

- **Remember: the federal floor is a ceiling, not a target.**

- **Have legal counsel review the final draft before adoption**. Follow the municipality's common practice for finalizing updates to policies.

*__Purchasing__ is the short-term transaction of buying specific goods or services. Ordering, receiving, and payment.

*__Procurement__ is a management system for the entire process of acquiring goods and services. It focuses on identifying the municipality's long-term needs, creating vendor and contractor lists, seeking and evaluating proposals and quotes, developing and managing contracts and supplier relationships, and fulfilling payment terms.

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