



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: David Sykes
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 13, 2012

Approved

Date

Nov. 13, 2012

**SUBJECT: CONTRACTING WITH SMALL AND LOCAL BUSINESSES IN FISCAL
YEAR 2011 - 2012**

RECOMMENDATION

Accept the annual report on City contracting with small and local businesses for Fiscal Year 2011 - 2012.

BACKGROUND

On January 14, 2003, the City Council adopted a resolution establishing a City policy to encourage small businesses with 35 or fewer employees to participate in City contracts. The Small Business Opportunity Program (SBOP), a citywide system of process improvements, outreach, education, and performance measures was established to implement the new policy. The SBOP consists of three key elements to enhance public outreach: 1) performance measurements, 2) outreach and education, and 3) process improvements.

On May 4, 2004, Council augmented the Small Business Opportunity Program through the adoption of a Local and Small Business Preference Ordinance. Under the ordinance, when receiving responses to solicitations for goods and services, the City of San Jose views those from local (within Santa Clara County) and local, small businesses (local, with 35 or fewer employees) more favorably than non-local competitors while still including factors such as cost and experience. The City began tracking the impacts of the City's Small Business Opportunity Program (SBOP) and the City's revised Local Preference Policy on July 1, 2004.

With regard to contracts in the Capital Improvement Program (CIP) there are special considerations. By City Charter, with the exception of negotiated design-build contracts, construction contracts must be awarded to the lowest responsive bidder. There are currently no construction contract bidding preferences that can be applied to favor local or small businesses. CIP consultant services procurements are similar to any other professional service procurements in that, per Municipal Code Section 4.12.320(C), preference points are given to qualified local and small business enterprises. However, CIP consultant procurements are predominately

qualifications-based and points awarded for experience, expertise, and project approach tend to have the dominant influence on selection. That said, preference points can and sometimes do influence the outcome.

Aside from the implementation of the Municipal Code preference allowances whenever possible, the best tool for attracting and outreaching to local and small businesses has been the consolidated use of BidSync as the City's singular procurement vendor. Virtually all entities who wish to do business with the City are aware of and subscribe to BidSync.

As with previous reports since 2004, the following analysis discusses the level of local and small business participation in City contracts primarily procured by the Finance and Public Works Departments.

ANALYSIS

Finance/Purchasing Awards

As outlined in Table 1 below, in FY11-12, the number of purchase orders and contracts issued increased slightly from the previous fiscal year. However the dollar volume increased by approximately 11% or \$12 million primarily due to the issuance of a large multiyear Citywide custodial contract that was issued to a local vendor. This custodial contract largely explains the 6% increase in contract dollars awarded to local firms between FY10-11 and FY11-12. The relatively stable award total is due to the volume of the purchases for maintenance repair supplies, and services necessary to support the City's infrastructure.

The transaction decline from over 1700 transactions in FY09-10 to 1400 transactions in subsequent fiscal years reflects Purchasing goals to consolidate as many agreements as possible for a given commodity, and expand the use of the City's procurement card program for routine, small dollar transactions. Under this program, Departments are empowered to make relatively small (less than \$10,000) product purchases. The average number of total annual transactions and dollars awarded on the program over the past two years is 39,000 and \$11M, respectively. The average transaction value was \$300. A transaction analysis on the procurement card program shows that the card was used with local merchants 46% of the time. Therefore, the annual impact of the program to local merchants was approximately 18,000 local purchases per year totaling \$5.4M. Unfortunately, small business statistics are not available for this program.

Table 1: Finance/Purchasing Contracts and Purchase Orders

Dollars Awarded	FY09-10		FY10-11		FY11-12	
	\$ (in \$M)	%	\$ (in \$M)	%	\$ (in \$M)	%
All Suppliers	\$106.0	100%	\$109.9	100%	\$121.6	100%
Local Suppliers	\$31.1	29%	\$29.7	27%	\$40.1	33%
Small Suppliers	\$6.4	6%	\$7.7	7%	\$7.3	6%
Number of Awards	#	%	#	%	#	%
All Suppliers	1754	100%	1420	100%	1444	100%
Local Suppliers	526	30%	398	28%	419	29%
Small Suppliers	158	9%	114	8%	115	8%

Implementation of BidSync in 2007 has greatly influenced the exposure and outreach of our solicitations. Currently, there are approximately 3,950 local and 2,375 small vendors registered on the system.

Capital Improvement Program (CIP) Update

The CIP has been relatively stable since the end of the “Decade of Investment” period, averaging about 60 construction contract awards and \$57M per year for the past two years. While the majority of projects fell within the \$100k to \$1M range, some minor contracts (<\$100k) and large (>\$1M) contracts were awarded. Notable larger projects awarded in FY11-12 include the Taxiway Whiskey Extension (J to L) project (\$7.8M) and the Coleman Soccer Field Design-Build project (\$11.9M). Future workload will likely concentrate on the final few bond-funded building projects (Southeast Branch Library and Fire Stations 21 and 37), the sanitary sewer and storm drain collection systems, park and trail projects, and the implementation of Master Plan-driven renovation work at the Water Pollution Control Plant (WPCP).

The CIP is largely delivered by the Public Works Department, but also includes delivery by the Environmental Services (ESD) and Transportation (DOT) Departments. Public Works has taken on a centralized role in construction contract procurement by performing all advertisements and bid openings, and has also begun (in FY10-11) collecting local/small contract award data for DOT and ESD construction and consultant contracts.

As discussed above, to encourage the broadest advertisement base as well as convenient access to local and small businesses, all CIP construction and consultant contract procurements are now advertised on BidSync. It is anticipated that there will be approximately 50 CIP construction and 45 CIP consultant procurements in the next 12 months.

FY11-12 Construction Contract Data

Table 2 below shows CIP construction contract activity for FY11-12, as well as the prior three fiscal years for comparison.

Table 2: 4-Year Comparison of CIP Construction Contract Dollars and Awards

	FY2008-09*		FY2009-10*		FY2010-11		FY2011-12	
Total Dollars Awarded	\$83.9M		\$55.9M		\$55.2M		\$58.4M	
Local Contractors	\$38.8M	46%	\$32.3M	58%	\$29.2M	52%	\$24.1M	41%
Small Contractors	\$5.5M	6%	\$2.7M	5%	\$6.2M	11%	\$7.9M	14%
Total Contracts Awarded	76		47		64		54	
Local Contractors	42	55%	20	43%	32	50%	26	48%
Small Contractors	21	28%	9	19%	14	22%	11	20%

*Public Works data only (does not reflect ESD or DOT construction contract procurements)

The number of construction contract awards declined from 64 in FY10-11 to 54 in FY11-12, but the total dollar amount rose slightly from \$55.2M to \$58.4M. This indicates fewer projects, but with a larger average dollar value.

About half of the FY11-12 construction contract awards went to local businesses which has been a trend since FY08-09. However, the amount of dollars to local contractors has been declining since FY08-09. This suggests that local contractors are more competitive with respect to smaller dollar contracts. FY11-12 construction contract awards to small businesses remained steady at 20%, essentially the same share for the past three fiscal years. However, the amount of dollars awarded to small contractors has increased from \$2.7M in FY09-10 to \$6.2M in FY10-11, and increased to \$7.9M in FY11-12. This is a positive trend for small construction businesses in Santa Clara County.

Chart 1 below shows the construction contract award data from Table 2 graphically. It can be seen that the relative proportion of awards made to local and small businesses has remained fairly consistent over the past four fiscal years.

Chart 1: 4-Year Comparison of CIP Construction Contract Awards

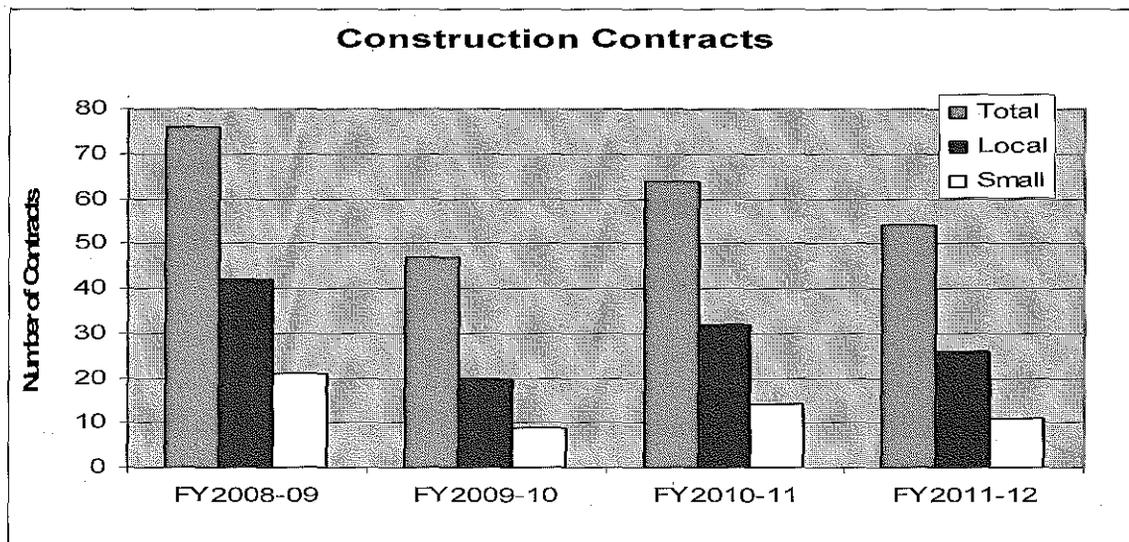
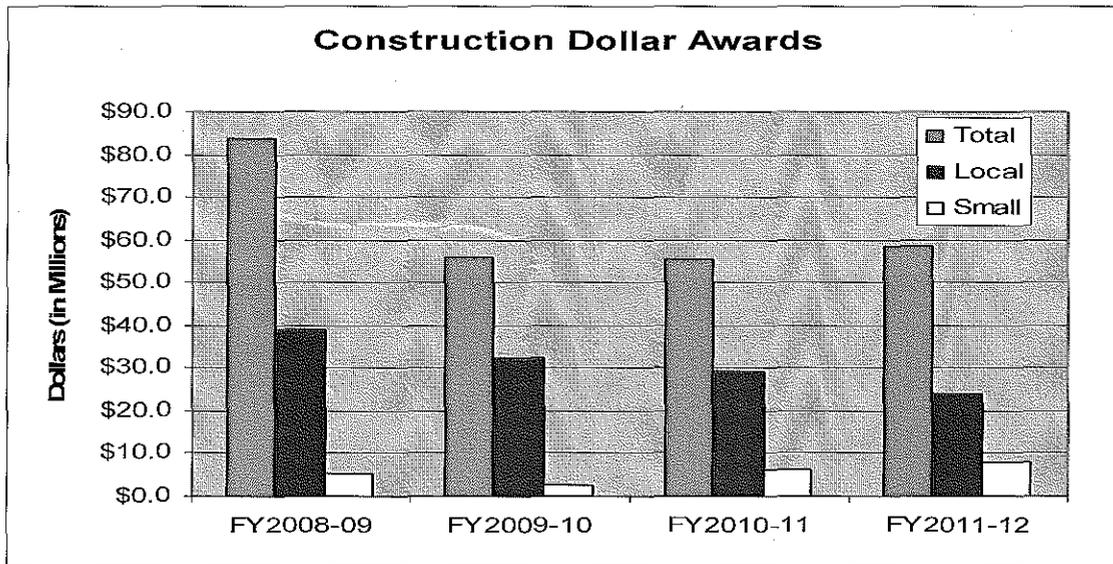


Chart 2 below shows the construction dollars awarded for the past four fiscal years. The relative stability of total CIP dollars for the past three years is evident, as is the steady decrease in dollars to local businesses over the past four years, and finally the steady increase in dollars to small businesses in over the past three years.

Chart 2: 4-Year Comparison of CIP Construction Dollar Awards



The construction contract bidding environment has continued to be competitive, but less so than in the recent past. In FY11-12, the lowest responsive bids averaged about 8% below the Engineer’s Estimates (versus 26% in FY09-10 and 19% in FY10-11). In FY11-12, there was an average of 5 bidders per project (versus 10 in FY09-10 and 6 in FY10-11). Local contractors are remaining competitive, and small contractors (who are also local by definition) are continuing to get a significant amount of the awards and dollars.

FY11-12 Consultant Contract Data

Table 3 below shows the CIP consultant contract activity for FY11-12, as well as the prior three fiscal years for comparison.

Table 3: 4-Year Comparison of CIP Consultant Contract Dollars and Awards

	FY2008-09*		FY2009-10*		FY2010-11		FY2011-12	
Total Dollars Awarded	\$12.7M		\$2.0M		\$3.5M		\$2.0M	
Local Consultants	\$2.4M	19%	\$0.4M	20%	\$2.5M	71%	\$1.7M	85%
Small Consultants	\$0.3M	3%	\$0.4M	20%	\$1.4M	40%	\$0.3M	15%
Total Contracts Awarded	20		6		24		13	
Local Consultants	6	30%	2	33%	13	54%	7	54%
Small Consultants	4	20%	2	33%	6	25%	2	15%

*Public Works data only (does not reflect ESD or DOT construction contract procurements)

The total CIP consultant contract awards and dollars in FY11-12 were a little over half of their FY10-11 amounts. However, the proportion of dollars to local consultants increased modestly from 71% in FY10-11 to 85% in FY11-12, and the proportion of contracts awarded to local remained the same at 54%. In contrast, small consultants (who are also local by definition) saw a decline in dollars and contracts.

Chart 3 below shows the CIP consultant contract award data from Table 3 graphically. There is great variability to the number of consultant contracts procured in the CIP from year to year, and the awards to local and small businesses fluctuate as well.

Chart 3: 4-Year Comparison of CIP Consultant Contract Awards

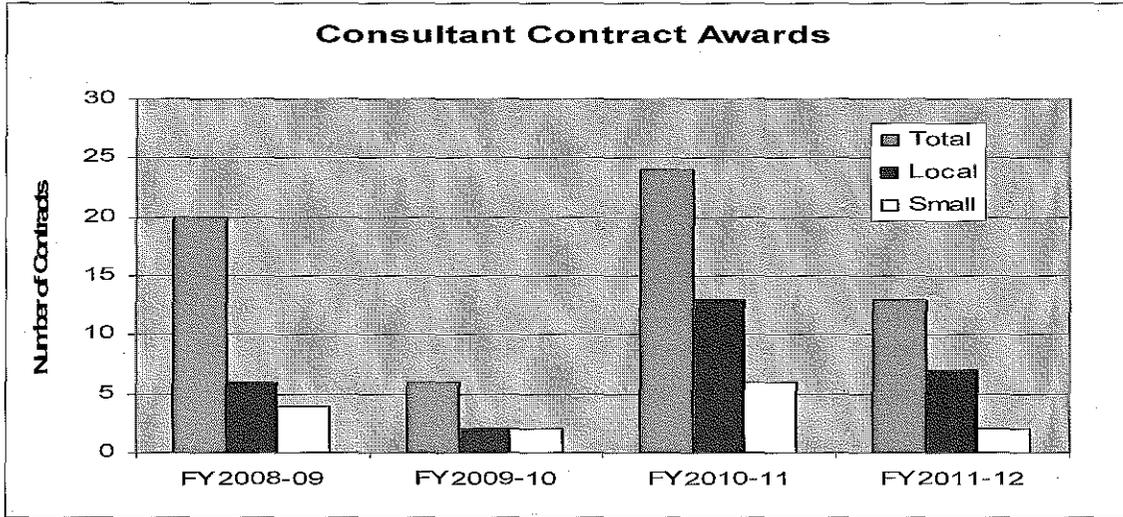
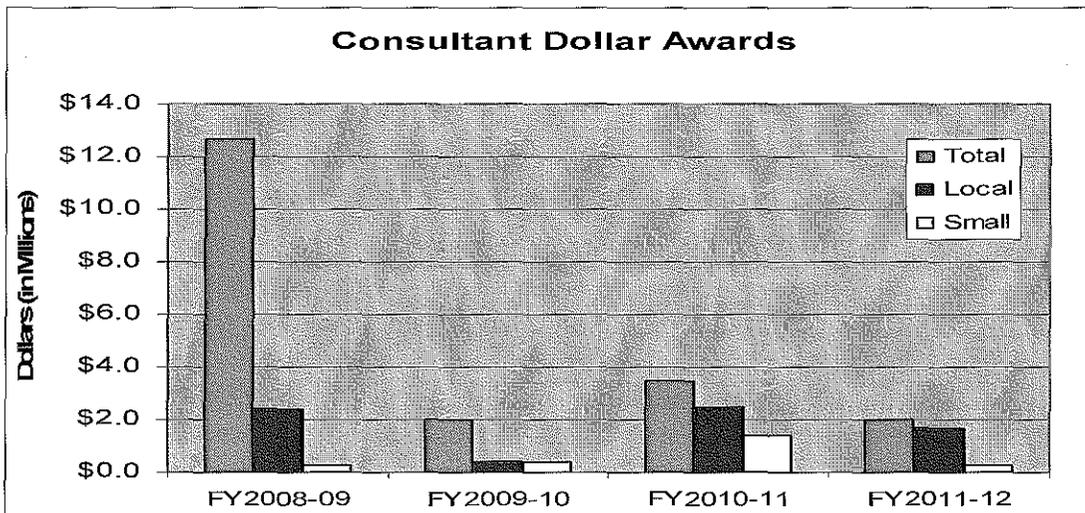


Chart 4 below shows the number of CIP consultant dollar awards for the past four fiscal years. CIP consultant expenditures have dropped off considerably since the end of the Decade of Investment's project workload. In general, the total required CIP consultant dollars per year have greatly diminished and, given the number of contracts awarded the past two years shown in Chart 3, the corresponding dollar amounts per contract are smaller. Chart 4 also shows the increasing trend of dollars awarded to local consultants is evident over the past two years.

Chart 4: 4-Year Comparison of CIP Consultant Dollar Awards



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In general, the Municipal Code preferences for small and local businesses have not significantly impacted CIP consultant procurements. As discussed in the Background section above, procurements for CIP consultants are predominantly qualifications-based and the preference points given in accordance with the Municipal Code are generally not the determinative factor.

Conclusion

As the CIP moves beyond the Decade of Investment and has stabilized with a focus on basic infrastructure (sewer, storm drain, roadway) improvements and rehabilitation, substantial opportunities for small and local contractors and consultants will continue to be present. The expected workload associated with the \$2B multi-year Water Pollution Control Plant (WPCP) renovation is an example of a special CIP area where additional opportunities will be present.

An industry open house has been planned for November 14, 2012 and consultants, contractors and vendors have been invited to hear about the WPCP program, and how they can participate in upcoming opportunities. This has been an especially widely-anticipated event in the consultant community. Invitations were sent out through BidSync, and the intended audience is local, and includes firms that have done work in the past with the City, or hope to in the future. Larger contractors, consultants and design-builders also know about the program and will be sending representatives as well. The intent is to pair up local and small participation with these large firms to provide the resources and expertise needed to deliver the program.

COORDINATION

This memorandum was coordinated with the Office of Economic Development, the Department of Transportation and the Environmental Services Department.



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