

# Agenda Report

October 28, 2013

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT: ANNUAL REPORT ON CITY PROCUREMENT – CALENDAR  
YEAR 2012**

**RECOMMENDATION:**

It is recommended that the City Council receive the annual report on City procurement for calendar year 2012.

**EXECUTIVE SUMMARY**

The Department of Finance, Purchasing Division is responsible for administering the provisions set forth in the City's Competitive Bidding and Purchasing, and First Source Hiring ordinances. Pursuant to the Pasadena Municipal Code 4.08, a statistical report on City procurement is to be submitted annually to the City Council.

This report includes procurement results for calendar year 2012, an analysis of potential local purchasing and an update on the City's local hiring ordinance. The total procurement spending for calendar year 2012 was \$99,741,340. There was a total of \$6,571,623 secured by Pasadena businesses, and \$8,946,553 by women and minority owned business enterprises (WMBE). A detailed statistical breakdown of department purchases for each of these areas is also included.

Given the potential volatility of the total procurement amounts and the impact on local and WMBE purchasing data, staff completed an additional analysis to more effectively reflect local and WMBE procurement results. Staff examined purchases made to determine the goods and services available in Pasadena. Based on this review, staff developed a new methodology for tracking and measuring the City's local spending. The results, of which, are reflected later in the report. Also, staff measured the economic impact of local contracting and purchasing activity using the Regional Input and Output Module II (RIMS). The RIMS formula includes the local subcontracting and procurement activity from the City departments, and the total Rose Bowl Renovation Project. Additionally, as

the Rose Bowl Project will mostly be completed by 2014, staff has been able to refocus its efforts on developing new strategies to increase local competition for goods and services that can be purchased in Pasadena.

### **BACKGROUND:**

The purchasing ordinance stipulates that the report shall include a statistical account of all procurements awarded to minority business enterprises, women business enterprises and local businesses. A local business is defined as a business with a fixed place of business located in the City.

On November 5, 1996, California voters passed the *California Civil Rights Initiative*, Proposition 209. Proposition 209 states that, "*Neither the State of California or any of its political subdivisions or agents shall use race, sex, color ethnicity or national origin as a criteria for either discrimination against or granting preferential treatment to any individual or group in the operation of the State's system for public employment, public education or public contracting*". Since Proposition 209 essentially restricts preference to women and minority owned business enterprises (W/MBE's), information provided in this report relative to W/MBE's is for informational purposes only. Staff continues to intensify outreach activities to local businesses to expand their participation in City contracting. Although changes cannot be made to Prop 209, a discussion of potential changes in City Regulations allowed under Prop 209 that could increase local procurement is included later in this report.

In calendar year 2012, the City, excluding the affiliated agencies, spent a total of \$99,741,340. There was a total of \$6,571,623 secured by Pasadena businesses and \$8,946,553 secured by women and minority owned businesses. The sums represent percentages of 7 percent local and 10 percent W/MBE as measured against the aggregate of procurement dollars spent in 2012. These totals represent a decrease in the percentage totals from calendar year 2011 which were 11 percent and 12 percent respectively (See graph on page 6).

As reported during the presentation of last year's report, fluctuations occur in any given year because one or more significant contracts secured by W/MBEs or local vendors or significant purchases where local and/or W/MBE do not provide the required service or materials, will influence the overall percentages. While the percentage of procurement dollars successfully secured by W/MBEs and local vendors may fluctuate each year, the City's commitment to equal opportunity and local vendors remains constant. It is for this reason staff believes that reporting the percentages relative to total dollars spent does not truly represent the City's performance related to local and W/MBE procurement activities. For example, the City's two departments that procure the most in goods and services (Public Works and Water and Power) increased spending by 14 percent (over \$9 million) in 2012 as compared to 2011. These additional contracts embodied products

and services that were not available for procurement from local establishments and therefore distorted the overall results. Also, in 2011, both departments were able to use local companies to assist in cleanup activities related to wind storm damage that occurred during the latter part of the year. These contracts, secured for this unique circumstance, added to the local dollars spent in 2011.

### Revised Reporting Methodology

For the reasons provided above, staff is offering a second methodology by which local procurement statistics will be reported to give a more accurate depiction of the local purchasing dollars spent. To characterize the new methodology, staff classified purchases that are considered to be viable local procurement opportunities. For example, some of the goods and services commonly purchased from Pasadena businesses included security services; equipment maintenance; automotive repairs; catering; lawn maintenance equipment; computers, (hardware and software); transportation services; data processing services; consulting services; employment services; and some types of construction services. Examples of goods and services that currently cannot be purchased in the City are fire apparatus and other large vehicles; police vehicles; helicopter/helicopter parts and maintenance; bulk fuel purchases and certain types of civil construction undertakings. Also, other examples included in this grouping are service contracts with the county such as the Sherriff's department and other supplemental law enforcement entities that provide assistance during New Year's Day activities.

Many of the items that cannot be purchased in Pasadena traditionally contain unique standards, sizes, and/or qualities. When these purchases are included in the overall procurement statistics they tend to distort all data relative to local purchases. For example, in 2013, the Water and Power Department will be purchasing power island equipment from General Electric for over \$60 million. As this equipment cannot be purchased locally, the current reporting standards would reflect a drastic reduction in the local purchasing statistics as a result of this large purchase that was not available in Pasadena.

Staff analyzed historical procurement data with the purpose of tagging purchases as viable local procurement opportunities. The analysis revealed that viable local purchases generally consist of those goods and services that have an ample supplier base in Pasadena and purchases where city staff have the most discretion when selecting a supplier. Based on a review of purchases made by City departments between calendar years 2008 and 2012, staff was able to identify the goods and services that represented the best local-purchasing-potential. These purchases have been placed in the following categories:

Category 1A – Purchases that can be made within the informal purchasing process (transactions less than \$25,000) where goods or services **are available** for purchase in Pasadena.

Category 1B – Purchases that can be made within the informal purchasing process but the goods or services **are not available** in Pasadena.

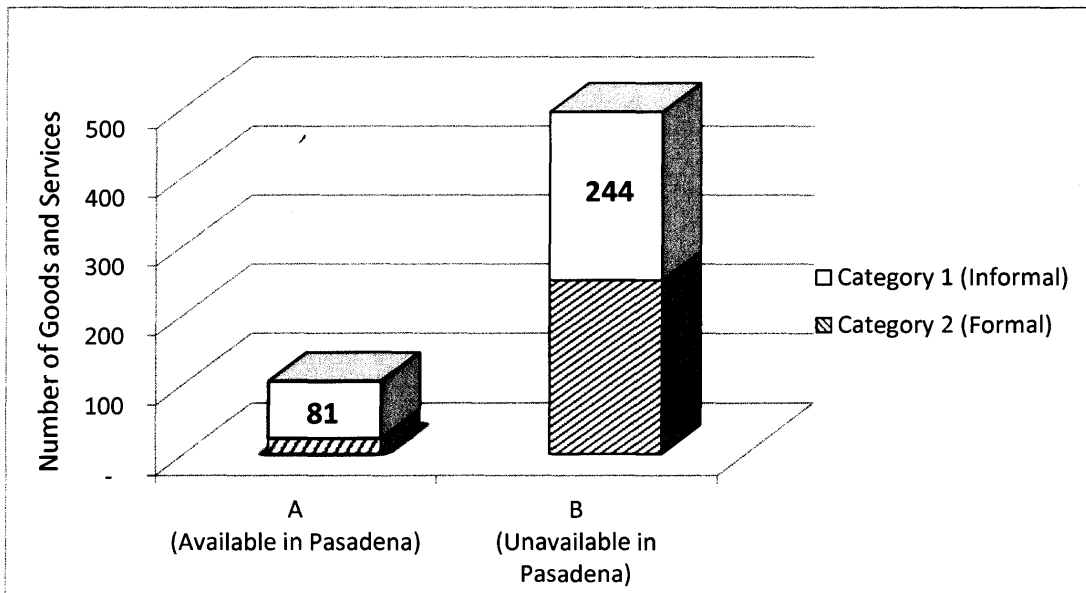
Category 2A – Purchases that must be made within the formal purchasing process (transactions more than \$25,000 that are subject to either competitive bidding or competitive selection) where goods or services **are available** for purchase in Pasadena.

Category 2B – Purchases that must be made within the formal purchasing process but the goods or services **are not available** in Pasadena.

The following charts represent the results of procurement data analyzed between 2008 and 2012 of the types of purchases made by category:

**Number of Goods and Services in Categories 1 and 2:**

Goods and Services Purchases Between 2008 and 2012			
	A (Available in Pasadena)	B (Unavailable in Pasadena)	Total
Category 1 (Informal Bid Process)	81	244	325
Category 2 (Formal Bid Process)	22	249	271



Based on the review of purchases made between calendar years 2008 and 2012, staff estimates that the greatest local purchasing potential is represented in the informal purchasing process on goods and services available in Pasadena. Going forward, staff will be focused on local businesses that match goods and services in category 1A (described above), as well as on the departments and divisions that facilitate these particular purchases.

The table below utilizes the new categories to report on the purchases made in calendar year 2012. It is designed to measure the local purchasing outcome against viable local purchases. Based on the purchasing rules currently administered by the Purchasing Division, Category 1 (informal bid opportunities) represents the area of most discretion.

**Measurement of Viable Local Purchases in 2012:**

<b>Category 1A (informal bid opportunities)</b>		
Purchased in Pasadena	\$3,582,525	42.8%
Available but not Purchased in Pasadena	\$4,794,761	
	<b>\$8,376,285</b>	

<b>Category 1B (informal bid opportunities)</b>	
Not Available in Pasadena	<b>\$15,013,850</b>

<b>Category 2A (formal bid opportunities)</b>		
Secured by a Pasadena Business	\$2,989,098	11.8%
Available but not Secured by a Pasadena Business	\$22,419,532	
	<b>\$25,403,880</b>	

<b>Category 2B (formal bid opportunities)</b>	
Not Available in Pasadena	<b>\$50,947,325</b>

**Grand Total Purchases: \$99,741,340**

The compilation of the data used to compose this report was derived from an analysis of procurement data from calendar year 2012 in comparison to historical purchasing trends. Also, for calendar year 2012, due to the limited tracking ability of the current financial system, staff manually reviewed over 8,000 purchasing records and 6,000 business profile records to assist in reporting the information in this new format. Recreating this report for previous years for comparison purposes would be cumbersome and would require an immoderate amount of staff time to reconcile the information needed to constitute the report. Also, because of changes from year to year relative to purchasing availability, producing this report for past years would considerably diminish the accuracy of

the data presented. Going forward, staff will work to improve data tracking to refine the reporting process.

General Procurement Statistics

The following charts depict the overall spending trend for the past seven years. From 2009 to 2010, the city's overall spending experienced a significant decline. However, the following charts reveal an increase from 2011 to 2012 primarily due to a return to typical spending levels after a period of reduced expenditures and deferrals due to the recession.

**Spending Trend for Purchases for the Last Seven Years:**

Year	Procurement Amount	Local Dollars	Local Percentage
2012	\$99,741,340	\$6,571,623	7%
2011	\$88,840,406	\$9,776,630	11%
2010	\$89,388,459	\$8,717,168	10%
2009	\$148,183,682	\$55,594,322	38%
2008	\$129,995,313	\$9,890,038	8%
2007	\$119,917,252	\$12,042,990	10%
2006	\$90,940,916	\$9,858,292	11%

**Spending Trend**



In calendar year 2009, two local businesses successfully secured contracts with the Department of Public Works for the construction of the Water and Power office building/warehouse renovation project and with Department of Transportation for the operation of the Pasadena Area Rapid Transit System (ARTS) and Dial-A-Ride services for a total of \$43 million. These contracts, secured by two local businesses, had a significant effect on the local percentages for the respective departments and citywide.

The purchasing card program has been a success in terms of expediting the purchasing process and allowing for more cost-effective procurement. However, the data provided for these transactions from the merchant banks, does not include demographic information concerning women and/or minority owned status of businesses that do business with the City. As a result, the figures provided in the following tables exclude WMBE's purchasing card transactions, while figures for total local procurement include purchasing card transactions. It is believed that this treatment has no statistically significant effect on the overall percentage results.

The following tables provide a breakdown of total procurement dollars by each City department and the operating companies. The tables also include statistical data relative to procurement activity for local businesses and women and minority owned business enterprises (WMBE) for calendar year 2012.

**City Departments: WMBE Totals without Purchasing Cards**

Departments	Totals without Purchasing Cards		
	Total Dollars	WMBE Dollars	WMBE %
CITY ATTORNEY/PROSECUTOR	\$ 1,056,709	\$ 201,140	19%
CITY CLERK	\$ 1,203,965	\$ 33,255	3%
CITY COUNCIL	\$ 11,842	\$ -	0%
CITY MANAGER	\$ 643,903	\$ 191,713	30%
Department of Information Technology	\$ 3,688,409	\$ 240,780	7%
FINANCE	\$ 1,050,261	\$ 218,760	21%
FIRE	\$ 1,062,505	\$ 65,744	6%
HEALTH	\$ 2,723,059	\$ 329,783	12%
HOUSING	\$ 278,947	\$ 69,281	25%
HUMAN RESOURCES	\$ 519,264	\$ 91,100	18%
HUMAN SERVICES	\$ 602,136	\$ 233,047	39%
LIBRARY	\$ 908,794	\$ 131,035	14%
PLANNING	\$ 1,233,326	\$ 107,275	9%
POLICE	\$ 4,332,949	\$ 305,024	7%
PUBLIC WORKS	\$ 21,296,111	\$ 4,326,716	20%
TRANSPORTATION	\$ 3,690,052	\$ 723,034	20%
W&P	\$ 49,787,823	\$ 1,678,866	3%
	\$ 94,090,055	\$ 8,946,553	10%

**City Departments: Local Totals**

Departments	Totals with Purchasing Cards		
	Total Dollars	Local Dollars	Local %
CITY ATTORNEY/PROSECUTOR	\$ 1,096,641	\$ 10,138	1%
CITY CLERK	\$ 1,266,824	\$ 59,676	5%
CITY COUNCIL	\$ 35,760	\$ 19,548	55%
CITY MANAGER	\$ 726,367	\$ 292,397	40%
Department of Information Technology	\$ 4,084,724	\$ 152,569	4%
FINANCE	\$ 1,142,172	\$ 313,996	27%
FIRE	\$ 1,357,217	\$ 129,671	10%
HEALTH	\$ 2,899,333	\$ 362,364	12%
HOUSING	\$ 395,497	\$ 65,431	17%
HUMAN RESOURCES	\$ 568,483	\$ 81,034	14%
HUMAN SERVICES	\$ 805,411	\$ 339,792	42%
LIBRARY	\$ 1,123,533	\$ 143,525	13%
PLANNING	\$ 1,344,879	\$ 251,126	19%
POLICE	\$ 4,857,577	\$ 336,592	7%
PUBLIC WORKS	\$ 23,068,235	\$ 2,077,732	9%
TRANSPORTATION	\$ 3,811,962	\$ 190,062	5%
W&P	\$ 51,156,725	\$ 1,745,970	3%
	\$ 99,741,340	\$ 6,571,623	7%



**City Operating Companies**

Operating Companies	Total Dollars	Local Dollars	Local %	W/MBE Dollars	W/MBE %
PCOC	\$ 2,060,617	\$ 470,488	23%	\$ -	0%
*RBOC	\$101,703,554	\$2,751,899	3%	\$ 2,113,833	2%

\*Includes the local contracting and procurement spending for the Rose Bowl Renovation Project.

Currently the Pasadena Community Access Corp. (PCAC) does not track statistical data relative to WMBE and local procurement. Future reports will include procurement totals from the PCAC.

Estimated Local Impact

Procuring goods and services from local businesses can help to stimulate economic development and inject cash into the local economy. In addition profits from contracts are reinvested in local businesses. Hiring local residents injects cash directly into the local economy.

Economic multipliers are typically used to determine the regional benefit of project expenses. Generally, multipliers capture the aggregate spending total and estimate the “ripple effects” or spin-off economic activities generated by money entering the economy. For example, the chart below uses a multiplier, from the *Regional Output-Input Modeling System (RIMS II)*, designed by the U.S. Department of Commerce, to illustrate the effect of our local spending in our region.

Using the RIMS II model, staff is able to measure the economic impact of the City’s local procurement. The chart below includes the following local subcontracting and procurement activity: \$6,571,623 from City departments; and \$10,177,686 from the Rose Bowl Renovation Project.

<b>FORMULA FOR IMPACT OF LOCAL SPENDING</b>	
Initial Spending	\$16,749,309
Total Economic Output	\$37,149,967
Total # of Jobs Created	240
Total Earnings Generated	\$11,984,131

Potential Regulatory Changes to Improve Local Procurement

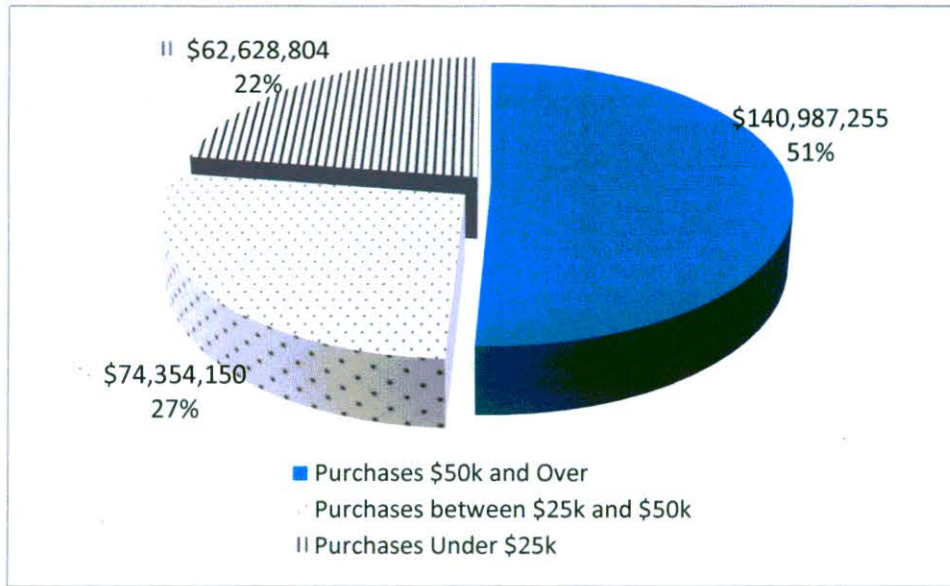
As previously mentioned, historically local spending totals have been viewed in the context of the City's grand total purchases. As the grand total includes purchases made through the formal bid process, it does not always represent viable opportunities for purchasing goods and services in Pasadena. City departments currently have the most discretion on informal bid processes (under \$25,000).

A review of purchases made between calendar year 2010 and calendar year 2012 revealed that, where departmental discretion was maximized (informal process), a higher percentage of goods and services were purchased from local and WMBE businesses. Specifically, 17.2 percent of the total dollars and 22 percent of the total contracts were satisfied by Pasadena businesses. Staff also reviewed purchasing data between \$25,000 and \$50,000 during this same period. The review revealed that the overall local activity was less than local activity on purchases made through the informal bid process (see charts below). Where the informal bid process provides Pasadena businesses a five percent preference to local businesses, the formal bid process is limited to a one percent preference for Pasadena businesses (this only applies to contracts where the City will receive sales tax revenue). The informal bid process has enabled departments to better utilize Pasadena businesses primarily due to the local preference afforded via the informal bid process.

Between 2010, 2011, and 2012	Local Activity	
	Dollars	Contracts
Under \$25,000	17.2%	22.0%
Between \$25,000 and \$50,000	15.5%	15.7%

Purchases Between Calendar Years 2010 and 2012	
Purchases \$50k and Over	\$ 140,987,255
Purchases between \$25k and \$50k	\$ 74,354,150
Purchases Under \$25k	\$ 62,628,804

The pie chart below demonstrates that almost one half of procurement dollars spent in the past three years have been below the \$50,000 threshold. The chart also represents the potential opportunity to increase operational efficiencies by eliminating the need to competitively solicit for contracts between \$25,000 and \$50,000.



Consequently, one way to improve procurement for local and WMBE could be to raise the informal process threshold from its current \$25,000 amount. The procurement authorities or thresholds could be modified. The threshold for obtaining quotes could be increased from \$3,000 to \$24,999. For purchases of \$25,000, but less than \$50,000, three written quotes could be required, and the approval of the Purchasing Division could be required via a purchase order.

Increasing the bid threshold would require a change in the City's procurement ordinance. Should the City Council consider amending the ordinance to accommodate this change, data suggest that local procurement could be further enhanced as a result. If it is the Council's decision to proceed in this direction, staff will prepare recommendations that would support this change in the Competitive Bidding and Purchasing ordinance and bring it back to Council for approval.

#### Continuing Outreach and Procurement Efforts

Staff continues to work to ensure that purchasing procedures and guidelines are maximizing competition while obtaining the best price and value for purchases made by the City. Reliance on open competition is a fundamental component of the City's procurement process.

To provide for the widest possible distribution of City bid opportunities, the City utilizes an online web based bid posting system to disseminate bid information via email. The City's online bid-notification system (Planet Bids) is used to match bids with the profiles of businesses that are registered in the system. The system enables staff to target Pasadena businesses during the solicitation

process to bid as a prime contractor, or to help conduct local subcontractor referrals.

Staff has used a number of strategies, including e-mail notifications and other informational forums to increase the number of Pasadena businesses that register using this system. Below is a chart that illustrates the increased registration over the past three years. There were a total of 680 Pasadena businesses in the City's bid notification system by the end of calendar year 2012.

**Local Businesses Registered for Bid Notifications:**

<b>Calendar Year End</b>	<b>Total Pasadena Businesses</b>	<b>Increase</b>	<b>Percent Difference</b>
2012	680	59	8.7%
2011	621	75	12.1%
2010	546	58	10.6%
2009	488		

To increase the vendor pool for greater competition on City bid opportunities, in calendar year 2012, staff participated in outreach efforts which are summarized below:

- 2012 California Association of Purchasing Professional Officers (CAPPO) Vendor Expo
- 2012 Annual Business Showcase was hosted by the Pasadena Chamber of Commerce
- 2012 Business Matchmaking Event
- 2012 Men's Health Fair

**Pasadena First Buy Local**

The Rose Bowl Renovation Project, as of August 2013, has resulted in 237 Pasadena residents hired by the contractors totaling \$2,388,310 in wages. Additionally, there was \$6,105,018 in local procurement reported by Rose Bowl staff, and \$4,072,668 in local procurement and subcontracting reported by the contractors totaling \$12,566,016 (including wages) in local benefit.

As the Rose Bowl project draws to conclusion, staff is refocusing efforts in other areas to enhance local procurement, sub-contracting, and local hiring. Emphasis will be placed on helping departments establish relationships with local businesses. The general points of focus will include:

❖ Local Purchasing

- Identifying specific goods and services most likely to be purchased from Pasadena businesses
- Conducting outreach to City departments to help increase their consideration of purchasing goods and services locally
- Developing a “Purchasing Academy” for Pasadena businesses based on City requirements and potential prime contractors

❖ Local Hiring

- Collaborating with community stakeholders regarding local hiring
- Offering a web based, certified payroll tracking system
- Revising bid specifications to offer departments more tools for increasing local hiring opportunities
- Analysis of regulatory options to improve local hiring

The Local Hiring ordinance, administered by the Department of Finance, offers an incentive for private developments that voluntarily participate in local hiring and a requirement of local hiring for private developments that receive “financial assistance” from the City. It should be noted that the First Source Program, since its inception, has been 100 percent successful. At no time during the implementation of the program have any of the program participants failed to meet the local hiring goals established within the First Source Program.

Although local hiring efforts are primarily facilitated through private developments, there has been greater acceptance of implementing some of the outreach and referral strategies on public projects. Two public projects (Robinson Park Project – Phase I, and the Rose Bowl Project) have successfully utilized some of the City’s local outreach efforts and local hiring strategies bringing the total to \$3,563,800 in wages to Pasadena residents since the adoption of the City’s local hiring ordinance.

Staff is also continuing to review regulatory changes to improve local hiring and procurement approaches. Below are projects that may utilize some of the City’s local strategies. Below are projects that may utilize some of the City’s local strategies, Voluntary or required participation are applied to private developments only. Voluntary participation would entitle a developer to a rebate of up to 75% of their construction tax, and projects required to conduct local hiring must execute a local hiring agreement with the City of Pasadena. Public projects (below) may operate under a good faith effort.

**Potential Future Projects:**

<b>Project</b>	<b>Potential Participation Type</b>
Evanston Court	Voluntary
Heritage Square	Required
Parke Street Apartments Phase II	Required
Mar Vista	Required
Centennial Place Rehabilitation	Required
Glenarm Repowering Project	Public Project (good faith effort)
Robinson Park Recreation Center	Public Project (good faith effort)

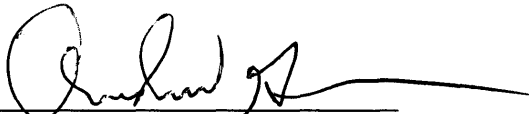
**COUNCIL POLICY CONSIDERATION:**

Pursuant to the Pasadena Municipal Code, a statistical report on City procurement is required to be submitted annually to the City Council and this action supports the City's strategic plan goal to maintain fiscal responsibility and stability.


**FISCAL IMPACT:**

There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.


Respectfully submitted,

  
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