

**City of Pasadena
Department of Finance
Pasadena First Buy Local
Preliminary Study/Review March-2010**

Recommendations from Sabal Expert Consulting commissioned to provide policy research to assist in developing the program.

To assist staff in developing a strategy for responding to immediate questions and concerns related to implementing an aggressive Local Initiative (Pasadena First Buy Local), the Department of Finance commissioned a review of several best practices and outreach components commonly used by other municipalities from Sabal Expert Consulting. Below are the recommendations relative to some of the necessary questions and steps for establishing Pasadena First Buy Local. It may be important to note that while all of the recommendations are being considered, some of the recommendations may not be feasible for practical application at this time.

Requirements versus Goals (good faith effort)

Conduct a detailed study and review of three municipalities in the State of California that have explicit policy for requiring contractors participating in a public bid process or Request for Proposal to subcontract (or sublet) work to a [targeted] group(s) defined by the contracting agency. What policy and/or administrative methods are used to ensure that the results are actually met?

RECOMMENDATIONS TO THE CITY OF PASADENA

- Sabal Expert Consulting recommends that initially, the City implement a Good Faith Effort (GFE) process for local workforce and/or local business participation goals on City contracts.
- The City will always reserve the right, at a later time, to amend its First Source policy, eliminate the GFE process, and implement mandatory local hiring participation requirements.
- A properly developed GFE would not be considered an “easy way out” for the bidder or proposer, but rather, would consist of GFE criteria designed to assist the bidder in his/her outreach efforts and, if followed properly, help the bidder actually meet the City’s local hiring goal.
- To maximize effectiveness, a GFE should be structured accordingly:
 - Clearly stated, objective criteria (the less subjective the criteria are, the less likely they will be interpreted differently by different evaluators or by a GFE Reconsideration panel)

ATTACHMENT D

- Easy-to-score point system (i.e., 10 GFE criteria, 1 point each, for a total of 10 points)
- Establishment of a reasonable passing score (i.e., 7 or 8 out of 10 points to pass)
- NO partial credit allowed (i.e., ½ point for a partial answer)
- Allocation of no more than ONE activity/requirement for each GFE criterion
- Sabal Expert Consulting also recommends that the City of Pasadena establish the following:
 - Clear instructions in RFPs and bid specifications outlining the City's local hiring goals, bidder's responsibilities, GFE criteria and evaluation process, prime and subcontractor requirements and flow-down provisions after contract award; and contract compliance monitoring process;
 - GFE submittal schedule (i.e., with bid/proposal, X number of days after bid/proposal due date, etc.)
 - Provisions for the City's Local Hiring Program representative to attend every pre-bid, pre-proposal, pre-construction and post-award meeting for contracts subject to the Local Hire Program.
 - A GFE reconsideration hearing process, which provides an opportunity for bidders/proposers to contest GFE evaluation results if they fail the evaluation;
 - Contract compliance monitoring process, including the following:
 - Determining staffing resources available to monitor contracts and developing the level of compliance monitoring accordingly
 - Developing local workforce utilization and local business subcontractor report templates and final utilization report templates
 - Developing a report submittal schedule for prime contractors/consultants, i.e., monthly, with every invoice, etc.
 - Developing processes and procedures for monitoring contracts, i.e., reviewing monthly reports, conducting follow-up with the prime and subcontractors when submittals are delinquent or inadequate, requesting additional documentation, coordination with the City's contract managers and finance/accounting group(s), contract close-out, etc.

ATTACHMENT D

- Based on the City's staffing levels, determine the level of involvement in, and develop a process for, monitoring local subcontractor substitutions and reviewing change orders and contract amendments relative to potential changes in local hire participation.
- Develop a local hiring reporting mechanism, i.e., at contract close-out, reports to the Committee and Council, etc.

ADDITIONAL RECOMMENDATIONS

- Sabal Expert Consulting also recommends that the City continue and expand its technical assistance and training initiatives for small and local businesses. Sabal Expert Consulting understands that the City's Planning & Development Department is currently conducting monthly small business seminars in collaboration with the Foothill Workforce Investment Board and Pasadena Chamber of Commerce. An educated, knowledgeable and trained bidder/proposer pool will be critical for achieving success on the City's local hiring and local business participation goals, especially because the City's pool of eligible participants is much smaller than that of most agencies that have target group participation programs.
- Sabal Expert Consulting further recommends that, prior to designing and/or implementing any additional technical assistance or training initiatives, the City conduct an assessment of the following, in regards to local construction contractors and professional services providers interested in working with the City:
 1. readiness to work (i.e., contractor's license current and valid, ability to obtain bonding, ability to purchase insurance, etc.)
 2. technical capabilities (solid project experience, good references, good safety record, etc.)
 3. ability to bid on, participate in, and successfully complete a City project (knowledge of public bidding processes, ability to comply with the City's requirements, ability to submit a responsive proposal, etc.)
 4. specific training and technical assistance needs (bidding/estimating classes, proposal writing assistance, outreach and Good Faith Effort preparation assistance, small business marketing assistance, referrals to bonding and insurance assistance programs, referrals to employment centers and apprenticeship training programs for local workforce recruitment and training, etc.)
 5. willingness and ability to comply with local workforce utilization goals, including history of any local hire utilization on previous Pasadena-based projects

ATTACHMENT D

For comparative purposes, Sabal Expert Consulting surveyed the agencies listed below, and gathered information regarding each agency's technical assistance and training initiatives for local/small/diverse businesses. Please see Attachment C for survey results.

1. Los Angeles County MTA
2. Metropolitan Water District
3. Port of Long Beach
4. San Diego County Water Authority
5. Port of Los Angeles
6. San Francisco Municipal Transit Agency
7. Los Angeles County
8. Los Angeles Unified School District

Conduct a detailed study and review of three municipalities in the State of California that have good faith effort policies; along with strong (effective) monitoring (compliance review) by the public agency (not a consultant or contractor) for contractors participating in a public bid process or Request for Proposal to subcontract (or sublet) work to a [targeted] group defined by the public agency.

Provide reports of the findings and recommend a legally-feasible policy strategy; and if good faith is recommended, a method for monitoring the efforts made by the contractors.

Percentage of Construction Payroll for Local Hiring

Conduct a detailed study and review of three municipalities anywhere in the country of a similar size and demographic as the City of Pasadena that have "local hiring policies" requiring the hiring of residents in a predefined area (not by race or gender).

Review the City of Pasadena's requirements, previous and current projects participating. Provide a report of the findings and recommend a required percentage for local hiring.

RECOMMENDATIONS TO THE CITY OF PASADENA

Upon review of all information gathered from the sources utilized, Sabal Expert Consulting's recommendations to the City of Pasadena include the following:

- Sabal Expert Consulting recommends that the City establish an initial 15% local hire goal, with a Good Faith Effort (GFE) process, for the following reasons:

ATTACHMENT D

1. Although the City's definition of "local" encompasses a geographical area that is smaller than that of several other agencies that have local hire initiatives, previous Pasadena-based construction and private development projects with local hire initiatives have resulted in contractors meeting and/or exceeding the goal requirements. Therefore, it will most likely be feasible for contractors to strive to meet a 15% local hire goal.

The City may, at a later time, choose to amend its First Source policy and raise the local hire goal percentage, based on results of local hire participation achieved during the program's initial year(s).

2. Although previous Pasadena-based projects have had mandatory local hire requirements, and although the local hire participation percentages achieved exceeded these requirements, the City should initially consider allowing bidders to submit a GFE if they cannot meet the local hire goal, for the initial year(s) of Program implementation and/or until an assessment can be made of the following:
 - a. Local Workforce: approximate number of Pasadena residents currently interested in working, and able to work, in the construction field (this would affect local workforce participation); and
 - b. Local Businesses: readiness to work, technical capabilities, ability to participate in City projects, and any specific training or technical assistance needs (this would affect local business prime contractor/subcontractor/vendor/supplier participation).

Again, the City may, at a later time, choose to amend its First Source policy, eliminate the GFE process, and require mandatory local hire participation, based on results of participation and compliance achieved during the program's initial year(s).

- Sabal Expert Consulting also recommends that the City include provisions to be able to adjust the local hire participation goal on a project-specific basis. This would give the City flexibility to set higher or lower local hire goals on projects, based on the nature of each contract/project. Essentially, the City would have an annual, City-wide goal and a project- or contract-specific goal.
- Sabal Expert Consulting further recommends that the City emphasize additional guidance and training for subcontractors on City projects, to assist them in understanding contract flow-down provisions and contractual responsibilities in meeting the City's local hire goals.

ATTACHMENT D

Research of "Small" Procurement or Contracting Opportunity Selection

Conduct a detailed study and review of three municipalities in the State of California where a formal staff-administered selection process is established for opportunities that do not require open bid selection. Is a local government-standard (in California) where opportunities are created by segmenting or separating large contracting or procurement opportunities into smaller ones. Provide a report of the findings. Provide copies of any established policies or procedures that govern the selection and the actual procedure for separating the opportunity(ies).

RECOMMENDATIONS TO THE CITY OF PASADENA

Following are some options that the City can implement to unbundled contracts and/or increase local/small business participation on City contracts:

- Set aggressive local/small business goals on informal contracts and procurements (these can be higher than goals established for larger, formal contracts). The City will also have to implement aggressive outreach efforts to market the opportunities to local/small businesses.
- Explore legal options for a small or local "set-aside" or "sheltered bidding" procurement/selection process for informal, locally funded contracts and procurements, so that small/local businesses wouldn't have to compete against larger firms for work on small contracts.
- Consider a similar process, i.e., the State-approved "simplified procurement process" for select, State-funded contracts/procurements of \$250,000 or less.
- For multiple-scope opportunities, segment the contracts into smaller, single-scope contracts. Alternatively, allow firms to propose on as few as one work scope identified in a multi-scope solicitation.
- For specialized work, consider issuing multiple, smaller, on-call and/or annual contracts to firms with different areas of specialization within a general scope.
- As proposed in the TASK 1 scope of work, implement specific training and/or technical assistance initiatives for local/small businesses interested in working with the City, to increase contractors' and consultants': 1) readiness to work; 2) technical capabilities; 3) ability to bid on, participate in, and successfully complete a City contract; and 4) willingness and ability to comply with the City's local hiring (workforce utilization) goals.

ATTACHMENT D

Impact of Local Procurement

In an effort to measure the indirect (beyond the initial purchase) economic impact of purchasing locally. Develop a formula and matrix for calculating the dollars spent to jobs sustained and/or created by local spending.

Direct, Indirect and Induced Effects of Local Purchasing

Sabal Expert Consulting conducted extensive research into existing economic impact analyses of public, construction, and local spending relevant to the assigned scope of work. Sources researched/reviewed include, but are not limited to:

- *Economic Impact Analysis of the University of Southern California (USC) Annual Operations*: Economics Research Associates, 2008
- U.S. Dept. of Commerce, Bureau of Economic Analysis - Regional Input-Output Modeling System (RIMS II)
- IMPLAN input-output modeling system
- U.S. Bureau of Labor Statistics
- Los Angeles Economic Development Corporation (LAEDC) – various economic reports and studies
- *Procurement Matters: The Economic Impact of Local Suppliers*, November 2007 and other reports prepared by Civic Economics, an economic analysis and strategic planning firm
- *Buying Local and the Circulating Dollar*. www.blueoregon.com
- *Studies on Local Purchasing*: Buy Local – Buy Rogue, an independent business alliance
- *Local Purchasing Preferences and Favoring Local Businesses in Government Purchasing has Economic Benefits*: www.newrules.org, Institute for Local Self Reliance
- *Thinking Outside the Box: A Report on Independent Merchants and the Local Economy*: Civic Economics, September 2009, reprinted from the Portland Independent Business & Community Alliance
- *Economic Multipliers and Local Economic Impact Analysis*: David Kay, Cornell Local Government Program, December 2002

Next, utilizing several of the above-referenced sources, Sabal Expert Consulting developed a spreadsheet listing statistics relevant to the economic effects of local spending. Data was gathered, extrapolated, and

ATTACHMENT D

pro-rated to every one million dollars procured on both construction and professional services. Data includes:

1. Initial spending amount – original amount and pro-rated to one million dollars
2. Total economic output
3. Ratio of economic output to initial spending
4. # of direct jobs created
5. # of indirect and induced jobs created
6. Total # of jobs created
7. % of construction jobs to total jobs
8. Total earnings generated
9. % of earnings to initial spending
10. Total tax revenue generated (based on 2008 tax rate of 8.25%)
11. Total pro-rated tax revenue generated (based on 2010 tax rate of 9.75%)
12. % of tax revenue to initial spending

Please refer to Attachment H for data, calculations and data sources.

Next, Sabal Expert Consulting developed two formulas in Microsoft Excel, showing the impact of public/local spending.

1. Total economic output
2. # of jobs created
3. Total earnings
4. Total tax revenue generated

Sabal Expert Consulting also developed a series of PowerPoint slides, that the City may wish to share with City Council. Key slides relevant to the economic impact of local purchasing include:

1. Benefits of Purchasing Locally (slide 1)
2. Economic Impact of Public Spending (slide 2)
3. Recycling Community Dollars: Ripple Effect of Local Purchasing (slide 3)
4. Profile of Local Businesses (slide 4)

Business Spending Trends

Sabal Expert Consulting requested to be provided with a list of businesses (along with any available relevant information including contract/purchase description, business address, purchase amount, etc.) to whom the City of Pasadena has issued contracts or purchase orders in the last one to two fiscal year(s). The purpose for this inquiry was to gain knowledge of the type and location of businesses with whom the City contracts, the range of contract/procurement dollar values awarded to the businesses, and the types of goods/services procured by the City. Sabal Expert Consulting's initial goal was to conduct a survey of some of these businesses, and attempt to collect information regarding

ATTACHMENT D

business spending trends and the most significant local purchases made by these businesses.

A list was provided to Sabal Expert Consulting on March 22nd; this list contained the name of each City vendor and full or partial product/service code(s) applicable to the firm's industry/line of work. This information was insufficient for Sabal Expert Consulting to conduct a review and learn about the City's businesses' local spending patterns.

Sabal Expert Consulting then attempted to survey a list of businesses gathered from a variety of public databases. An email blast was sent to more than 600 businesses located in Los Angeles County (including 50 Pasadena-based businesses), asking 10 questions relevant to business size, business expenditures and local purchasing. However, less than a dozen responses were received. Sabal Expert Consulting attributes the very low response rate to the fact that businesses did not want to share any proprietary information, even though Sabal Expert Consulting was not asking for company name, address, or any other identifying information. Therefore, the information received was an insufficient sampling for review or analysis.

Next, Sabal Expert Consulting conducted research of existing studies on business spending trends/patterns. Sources reviewed included:

- 2005 VISA small business spending report from Commercial Consumption Expenditure (CCE) index
- *Visa Analyzes Key U.S. Business Spending Trends:* www.paymentsnews.com, June 2007
- *Key U.S. Business Spending Trends Reveal Increase in Temp Labor Spending:* Supply & Demand Chain News, June 2007
- Various MasterCard Advisors (www.mastercardadvisors.com) reports, 2004-2008

From the available data, Sabal Expert Consulting developed two charts, which are included in the PowerPoint presentation (Attachment J – Business Spending Patterns – Slide 5). Chart 1 lists payroll and non-payroll expenditures. Chart 2 lists approximate percentages of non-payroll expenditures, attributed to various business-related expenditures.

Sabal Expert Consulting would like to note that the data in Chart 2 is an ESTIMATE of percentages, compiled from various sources with a rather wide range of values and business expenditure categories.

DEFINITION OF TERMS

ATTACHMENT D

Direct effects: Earnings/spending resulting directly from initial purchase

Indirect effects: Earnings/spending resulting from inter-industry purchases which result from initial purchase

Induced effects: Spending resulting from individual and/or household purchases from worker compensation due to direct or indirect effects of initial purchase

Economic Output: Total value of all goods and services produced as a result of initial purchase - this includes direct, indirect, and induced effects