



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Ed Shikada

**SUBJECT:** LOCAL PREFERENCE  
IN PROCUREMENT

**DATE:** 04-29-04

---

Approved

Date

---

Council District: Citywide  
SNI: NA

## **REASON FOR SUPPLEMENTAL**

To report on outreach conducted with the San José Silicon Valley Chamber of Commerce and the City of San José Small Business Development Commission.

## **RECOMMENDATION**

Staff recommends that the City Council:

- a. Adopt the proposed ordinance regarding local preference in procurement.
- b. Establish July 1, 2004 as the target date for implementation of a tracking system for City contracts with local and small businesses.
- c. Direct the City Manager and Director of Public Works to conduct a review of current policy regarding the selection of professional consultants, and forward recommendations for revision to the City Council by August 30, 2004.

## **BACKGROUND**

The City Council was scheduled to consider a proposed ordinance on local and small business preference in procurement on April 6<sup>th</sup>. Prior to that meeting, leaders of the San José Silicon Valley Chamber of Commerce and the City of San José Small Business Development Commission expressed concerns regarding the proposed ordinance, and requested modifications. We requested deferral of the item in order to meet with and attempt to address the concerns raised.

## **ANALYSIS**

Follow-up discussions were held with representatives of the Chamber as well as with the Commission. Both discussions were very productive. Both the Chamber and Commission indicated a primary interest and concerns related to professional services procurements, rather than bids, given the inherent subjectivity in the evaluation of proposals. Both groups

characterized proposal credits (as reflected in the proposed ordinance) as an indirect means of increasing local and small business participation in City contracts, and as such pointed out that the local preference ordinance could have only a limited impact on perceived barriers to securing City contracts.

Chamber representatives further advocated that the City's goal should be a more transparent and streamlined contracting approach that places a higher value on local knowledge and resources. Specific issues discussed include the complexity of the RFP/RFQ process, and the participants' direct experience that smaller projects (under \$100,000) are not difficult to secure, but that securing larger contracts is very difficult.

At a special meeting on April 14<sup>th</sup>, the Small Business Development Commission discussed the issue at length. Upon conclusion of the discussion, the Commission approved a position recommending that bid/proposal preference be established at 5% and 5% for local and small businesses, respectively, for a possible total 10% credit. In addition, the Commission recommended establishment of a small business participation goal of 33% of total dollars awarded.

These discussions reinforce the conclusion that encouraging local business participation in City contracts requires a multi-faceted approach. Consistent with the report to the City Council on October 28, 2003, a Small Business Opportunity Program is now underway, consisting of performance measurements, outreach, education, and process improvements.

A key element in this effort is the establishment of a system to comprehensively track City contracts with local and small businesses. Our stakeholder discussions have reaffirmed the importance of this system as a means of measuring the City's success at generating local involvement, including professional service contracts. In order to establish a specific timeline for implementing this new system, a rollout date of July 1, 2004 is recommended.

In addition, the Department of Public Works has initiated a review and update to current policy on the selection of professional consultants. The discussions with both the Chamber and Commission have reinforced the importance of effective practice in ongoing consultant selections, so an update to this policy provides an ideal opportunity to review current practice and involve local businesses. In order to provide ample time for stakeholder review and comment, recommendations would be brought back to the City Council for action in August 2004.

Finally, further review of the proposed ordinance generated recognition that it does not address situations where multiple companies (not all local or small) form teams in submitting proposals. Since this is fairly common, future amendment of the proposed ordinance should be considered to establish methods for proportioning local and small business preference credit. This may not always be possible at the time that companies are selected, since the level of effort required for specific tasks within an overall scope of services may not be known. However, proportioning

HONORABLE MAYOR AND CITY COUNCIL

**Subject: Local Preference in Procurement**

04-29-04

Page 3

credits when feasible could mitigate any potential for local or small firms to be named as a prime proposer for the purpose of credit, when a majority of work might be done by other firms.

### **COORDINATION**

This supplemental memorandum has been coordinated with the General Services and Public Works departments, as well as the Office of the City Attorney and Office of Economic Development.

Ed Shikada  
Deputy City Manager