



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: December 4, 2002

Approved

Date

Council District: Citywide

**SUBJECT: COUNCIL REFERRAL #8-6-02-36(b)
SMALL BUSINESS CONTRACTING PROGRAM**

RECOMMENDATION

- 1) Adoption of a resolution establishing a City of San José policy as follows:

The City of San José is committed to the growth and development of its small businesses by working to increase their participation in City contracts and programs as part of an overall strategy to foster and promote small businesses.

- 2) Accept the Administration's proposed system of process improvements, outreach, education and performance measures as a new Small Business Opportunity Program to implement the new policy.

BACKGROUND

City Charter, Section 1217 requires that contracts for public works projects, which exceed \$100,000 in expenditure, must be let to the lowest responsible bidder. Under the Charter requirements, the City cannot give preference to small businesses either as a prime contractor or as subcontractor in the procurement process for major public works projects. At the August 6, 2002 meeting City Council directed staff to return in 90 days on ways to implement a small/emerging business program for contracts not subject to Charter Section 1217.

This memorandum addresses that referral with respect to types of procurements other than those subject to Charter Section 1217, i.e. procurements for minor public works, for general services and for professional services which are governed by ordinance or by City policy.

On October 24, 2002, the City held a Small Business Opportunity Forum to provide a venue for small businesses to give the City feedback regarding existing services as well as an opportunity to find out about new and improved processes. This forum was attended by over 150 companies and generated a variety of suggestions for changes.

ANALYSIS

The analysis section of this memorandum will be divided into three sections. The first section will discuss the scope of small business in the San José economy. The second summarizes the activities of those departments most actively engaged with small businesses. Attachment A contains a comprehensive list of recent process improvements that directly impact small business participation and the ease of small business interaction with the City. The final section will propose a new Small Business Opportunity Program that will build upon the successes presented in the first section and offer improvements that will further strengthen the City's ability to increase the level of small business participation in available contracts.

Small Businesses in the San José Economy

The City of San José economy is strongly influenced by the contributions of small businesses. Of the city's approximate 52,000 businesses 85% of them have 35 or fewer employees. This represents \$6.8 million or 60% of the total business taxes collected. Firms with taxable sales of less than \$2 million account for 38% of the total sales tax collected by the City. Small businesses are more likely to be locally owned resulting in the improved likelihood that profits will be kept in the local economy. Employment at businesses with 35 or fewer employees represents 40% of the total employment in the city. Research indicates that employees at small firms are more likely to be hired with entry-level experience and receive on-the-job training, improving San José's local workforce.

Current City Efforts to Support Small Business

The following City agencies and departments are most actively engaged with small businesses.

Finance Department

The Finance Department plays a key role in safeguarding the City's interests in revenue maintenance and in risk management. The department is committed to keeping barriers to access low and has instituted a wide array of improvements over the past years.

General Services Department

The General Services Department, Purchasing Division is charged with procuring products and services for the City. During fiscal year 2001-2002 a total of approximately \$90M was spent in securing the commodities and services required by the City. Though the primary goal of Purchasing is to secure the "best value" for the City, it is equally important that the processes

used are fair and accessible and promote the success of all businesses “doing business” with the City.

Department of Public Works

The Department of Public Works is firmly committed to facilitating small business community involvement in City contracting opportunities wherever allowed under City Charter section 1217. The Department creates a large number of small construction and maintenance contracts (< \$1 million) each year and continues to evaluate its larger projects to determine whether these projects can be efficiently subdivided into several smaller projects so as to allow for greater involvement by small businesses. For fiscal year 2002-03, the department anticipates awarding 164 projects. The majority of these projects (56%) have contract values of less than \$1,000,000. These tend to be the projects that are most attractive to smaller businesses.

San José Redevelopment Agency

The San José Redevelopment Agency (RDA) has purchasing policies in place for goods and services that require competitive bidding. The RDA searches for local vendors for purchasing non-recurring goods and services when the value of the purchase is under \$5,000 and competitive bidding is not required. The RDA also has an economic development component that contributes to the health of the small business community.

Office of Economic Development

The City’s Office of Economic Development (OED) plays an important role in promoting access to City contracts through the creation and promotion of events to educate the business community about resources as well as through the provision of loans to “near bankable” companies which might not have been able to compete for City contracts in the absence of financing. Company outreach is also a significant element to the Office’s business development efforts. Key partners in this effort for OED include the small business chambers of commerce representing various ethnic groups in the San Jose business community. Attachment B describes efforts by OED and RDA to assist small businesses in being more competitive in the economy in general.

San José Small Business Opportunity Program

This new program relies on three major components to promote small business participation:

- Performance Measures
- Outreach & Education
- Process Improvements

Performance Measures

Appropriate performance measures are necessary to evaluate the City’s level of achievement in accomplishing small business participation. Benchmarking actual performance will allow City departments to evaluate their performance more effectively.

At the moment, there are no systems in place that track the characteristics of sole proprietorships, firms and companies with which the City does business. The first step to instituting the use of performance measures will be to collect and record information about what types of business currently are receiving contracts with the City. An interdepartmental team will be formed to develop a system to collect this data in a consistent way across the various contracting categories.

For the purposes of contracting, it is recommended that a small business be defined as having 35 or fewer employees. This criterion was proposed by the Disadvantaged Business Development Commission. This contrasts with state and federal guidelines, which generally use three factors to define small business: gross income, number of employees and industry. The definitions in place at these levels of government would not be effective, as they would include nearly every San José business.

Outreach and Education

The recently completed Small Business Opportunity Forum revealed a desire by small business for greater interaction with the City and an improvement in the dissemination of information. Of the 150 attendees, more than half of those who responded to a survey at the event indicated that information was the most significant lack in City interactions with small business. When asked about the second and third most problematic issues, the items raised were relationships with City staff and networking opportunities with City staff and other contractors.

Based on this feedback, the new program will include the following:

- A refocus on utilizing partnerships to reach businesses that might not otherwise be aware of City programs. These partnerships will help businesses overcome cultural, language or other barriers that contribute to a reluctance or inability to contact the City directly. The City will increase the involvement of organizations such as the City funded small business chambers of commerce, the Entrepreneur Center, the Northern California Supplier Development Council, and the Industry Council for Small Business Development to leverage City efforts.
- An annual event at which the City will make presentations on how to best do business with the City, highlight process improvements and receive additional suggestions on further changes. These will be augmented by quarterly presentations by each appropriate department at the Entrepreneur Center or other venue. Staff will continue to be present at major business fairs and events to maintain City visibility and encourage small business interaction.
- A quarterly electronic newsletter from OED with articles from departments will be distributed discussing City efforts in contracting and purchasing agreements as well as other services and initiatives of interest to businesses. The expectation for the publication is that it will draw an expanding audience of companies and provide an avenue to promote dispersal of information. The publication will be distributed on alternate months from the quarterly presentations.

- Systems for electronic notification of new opportunities will be pursued where possible. An example of this is the Public Works “Public Improvement Projects Bid Hotline Mailing List,” described in detail below under Process Improvements.
- Databases of businesses who have expressed an interest in City activities will be created. A major component to the creation of these new databases will be outreach to recruit companies who may not have heard about City activities.
- Internal education efforts will be enhanced. Internal education is a key factor in improving service provision. Each department with contracting responsibilities including professional services will encourage its front-line employees to consider if processes can be modified to encourage more small business participation. Front-line employees will also be informed about the expected level of service and accommodation.

Proposed Process Improvements

Process improvement is an ongoing effort. The following improvements have been identified as being targets for the near future:

General Services Department

Within the next six to nine months, to further facilitate small business development, the Purchasing Division will be engaged in the following:

- Automate the on-line registration process so small businesses will no longer have to print and fax registration forms.
- Continuously update the existing supplier database by automatically downloading the supplier registration data form from the web site. Buyers will be able to access an updated supplier base in “real time.”
- Deploy resources to redesign the Purchasing website, automate the web-based registration process to populate an Access database and modify FMS so that small business financial activity can be tracked.

Public Works

- Initiate the “Public Improvement Projects Bid Hotline Mailing List’ by early 2003 that would allow contractors to receive e-mail notifications from the Public Works Department when new construction projects are added to the Bid Hotline on the City website (http://ci.sanjose.ca.us/pub_wrks/cip/BidHotline.htm). By subscribing to the mailing list and indicating a desired type and size of project, prospective contractors will receive notification of specific new projects matching their preferences. The Department also plans to expand this program to include professional consultant opportunities in the very near future.
- Explore opportunities to streamline the process by which businesses purchase plans for public improvement projects, with the objective of creating a “one-stop shop” system for businesses.

- Maintain a database of professional contractors and encourage small business contractors to submit bid proposals on projects that do not exceed \$100,000 in expenditure and do not require a formal bid process.
- Dedicate department staff resources to assisting contractors with the bid proposal process. Project managers will be available to answer questions and guide bidders through the City process.
- Continuous examination of existing processes and procedures to determine where improvements can be made to minimize potential barriers that may be preventing small businesses from participating in contracting opportunities with the City.
- Explore methods to enable and encourage small businesses to partner and submit joint proposals.

San José Redevelopment Agency

- Increased participation in outreach and education activities
- Share General Services' small business supplier database in order to provide further support to the small business community when procuring goods and services

Office of Economic Development (OED)

- OED will be requesting proposals to implement improvements to the Revolving Loan Fund. Under the new system City funds will be leveraged through loan guarantees rather than direct loans.
- Implementation of the Small Business Loan Program for retail businesses located downtown continues to be refined. OED is working with the San José Redevelopment Agency to reduce cycle time and improve payment disbursement.
- Coordination between OED and its Workforce Investment Network partners is being improved to allow for increased outreach. Under the new system a greater number of companies will be contacted and provided with information about opportunities available at the City.
- OED is engaged in exploratory discussions to investigate the potential for the new Civic Center customer service area to accommodate a small business center at which companies can receive help with business specific issues including contracting.

PUBLIC OUTREACH

A City-sponsored Small Business Opportunity Forum was held at the Convention Center on October 24, 2002. The 150 attendees were educated about City and RDA purchasing and service agreement processes and asked to suggest improvements. An estimated 19,000 businesses were sent direct correspondence regarding the event.

A Steering Committee for the Small Business Opportunity Forum composed of chambers of commerce representatives and City Staff discussed improvements to City processes and procedures.

HONORABLE MAYOR AND CITY COUNCIL

December 4, 2002

Subject: COUNCIL REFFERAL – SMALL BUSINESS CONTRACTING PROGRAM

Page 7

The Disadvantaged Business Development Commission made a number of suggestions regarding the content of this memorandum and to the conceptual design of a small business program at the August, September, October and November meetings. The Commission was presented with a copy of the final draft memorandum and briefed on the contents at their December meeting.

CONCLUSION

The creation of a small business program to encourage companies with 35 or fewer employees to compete for contracting and purchasing opportunities would have a positive effect on the health of the local economy and on the prospects for employment. Staff proposes to establish a program composed of performance measures, education and outreach, and process improvements to accomplish these aims.

COORDINATION

This memorandum was coordinated with the Finance Department, the General Services Department, the Public Works Department, the Office of Economic Development, the San José Redevelopment Agency and the City Attorney's Office.

BUDGET IMPLICATIONS

The proposed Small Business Opportunity Program will not have a substantial impact on the City budget. The performance measures, outreach and education, and process improvements can be accommodated through modification to the individual department's existing work programs.

CEQA

This is not a project.

PAUL KRUTKO
Director, Office of Economic Development

ATTACHMENT A

Recent Process Improvements

Over the past few years, a number of opportunities for process improvements have been identified and enhancements implemented. Some of the key changes by opportunity are listed here:

- Lowering the Cost of Doing Business
 - The Hardship Refund for Business Tax was established to help small businesses owners with low incomes.
 - The business tax code is being amended to give new businesses a 30-day grace period before they will accrue penalties.
 - Payments can be made over the phone with a credit card.
 - Initiated the OCIP concept for both the Joint Library project as well as the New Civic Center project. The OCIP (Owner Controlled Insurance Program) increases the participation of small businesses by allowing the City to purchase adequate liability coverage for the entire project including all contractors.
 - For a minimal charge businesses can get copies of the business tax database for marketing purposes.
- Speed of Service
 - Businesses can pay the business tax with a credit card by completing the information on the renewal notice.
 - Finance works with individual departments to monitor and to improve payment turnaround time.
 - Buying minor goods and services is now easier through immediate payments to businesses. The petty cash individual purchase limit was raised to \$500 and the use of credit cards is now permitted with limits of up to \$2,500 per day and \$10,000 per month.
 - Departmental checking accounts also speed payments by bypassing FMS for high-volume low-value recurring payments (e.g.: DOT has a checking account to reimburse for side walk repairs).
 - A new refund checking account allows refunds to be made generally within 48 hours.
- Process Simplification
 - Re-designed and simplified the on-line Vendor Questionnaire Form.
 - Initiated a new supplier database.
 - Initiated on-line competitive quoting for product and service greater than \$5000.
 - Insurance specification language is now clearer and more concise.
 - Certain types of contracts require special risk transfer treatment, including recognition of statutory requirements and attention to special insurance requirements. Changes are accommodated when needed and appropriate.

- Adjustment of Contract Size
 - Approximately 164 construction projects will be issued between now and the end of the fiscal year. The majority of these projects (56%) have contract values of less than \$1,000,000. These tend to be the projects that are most attractive to smaller businesses.
 - Larger construction projects are examined to determine whether they can be subdivided into several smaller projects so as to allow for greater involvement by small businesses. For example, the very large New Civic Center Project has been sub-divided into 66 smaller projects.
- Education and Outreach
 - Attendance and presentation at all major San José business fairs.
 - Pursuing an objective of mutual education, the City held a Small Business Opportunity Forum on October 24, 2002. An estimated 150 companies found out about new City contracting and purchasing processes and provided feedback regarding additional improvements that could be made.
 - The Money Talks Business Fair had roughly 400 business attendees in March of 2002. Companies present received information about contracting and purchasing with the City in addition to the primary focus of familiarizing small businesses with assistance organizations.
 - The publication “Going into Business in San José” helps to address business questions about San José and also gives businesses information on who to contact at other agencies.
 - New businesses that are locating in the enterprise zone are identified to facilitate their access to state benefits.
 - Business tax renewal notices now include inserts that identify services available through OED and partner organizations.
- Miscellaneous Improvements
 - Effective allocation of risk in a contract.
 - Minimum limits of liability established.
 - Assigned a “small business” champion among the Purchasing buyer staff to support small business activities.

ATTACHMENT B

Boosting Small Business Competitive Edge

There are a number of programs providing assistance to small San José businesses supported directly and indirectly by the City or by City partners. These programs are intended to assist small businesses in competing effectively both for City contracts as well as private sector business. Additional effort will be made to educate the public about these programs and to boost the interactions between them.

- Both the Office of Economic Development and the San José Redevelopment Agency (RDA) provide direct assistance to small businesses with programs ranging from entrepreneurship training to workforce recruitment to special incentive programs.
- San José's small business chambers of commerce receive direct compensation for activities undertaken by each to educate and inform companies about business practices and assistance programs. The City's partnership with the San José Silicon Valley Chamber of Commerce also contributes to small business improvement.
- In conjunction with Cisco Systems and the Small Business Administration, the RDA funds the San José Entrepreneur Center (eCenter). Businesses visiting the eCenter can receive assistance ranging from entrepreneurship training courses, to import/export help, to mentoring, all at one location in downtown San José.
- Companies locating in any of three RDA supported incubators (Software, Environmental or International) receive reduced rents and other overhead costs, as well as mentoring and consultant matching to help their business run more smoothly.
- Local business associations present companies with significant networking and educational opportunities with neighboring businesses. OED and RDA are working to support the development of additional local business associations in several areas of the City.