



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT:** SEE BELOW

**DATE:** October 6, 2003

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Approved

Date

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**Council District:** Citywide

**SUBJECT: SMALL BUSINESS OPPORTUNITY PROGRAM UPDATE**

## **RECOMMENDATION**

Accept the report on the status of implementation of the Small Business Opportunity Program.

## **BACKGROUND**

On January 14, 2003 the City Council adopted a resolution establishing a City policy to encourage small business participation in City contracts and programs and accepted staff's proposed system of process improvements, outreach, education, and performance measures as a new Small Business Opportunity Program to implement the new policy. The Small Business Opportunity Program (SBOP) is comprised of three key elements identified through public outreach:

- Performance Measurements
- Outreach and Education
- Process Improvements

Council also directed staff to report back in October on the necessity of a City Charter change after a review of small business participation in City contracts and purchasing agreements.

The SBOP was designed to increase opportunities for small businesses (those with 35 or fewer employees) to compete effectively to provide the City with goods and services.

On September 30, 2003 Council directed that the City Attorney's Office draft an ordinance creating a local preference to encourage local business and employment growth. This ordinance will be based on analysis by the City Attorney's Office describing the conditions that allow an expansion of the City's existing local preference policy.

## **ANALYSIS**

The first section of the analysis reports on the current status of the City's performance and presents an overview of a system for tracking small business participation in the future. A graphic description of the system is contained in Attachment A. The second section contains highlights of the activities of departments most actively engaged with small businesses. A comprehensive list of recent efforts in performance tracking, outreach and education and process improvements that directly impact small business participation and small business interaction with the City is contained in Attachment B. Finally, the potential for mutual support between the SBOP and local preference policies is also discussed.

### **A. SMALL BUSINESS CONTRACTING PERFORMANCE**

Performance measures are necessary to evaluate the City's level of achievement in accomplishing small business participation. Establishing a base line on current performance will enable City departments to establish improvement goals and evaluate their performance more effectively.

An inter-departmental team has developed a system to track the majority of the City's contracting and purchasing expenditures with businesses based on the number of employees at that company. Once in place, the statistics generated by this system will be used to develop performance goals. In the interim, departments have formulated methodologies to estimate the level of participation by small businesses. The estimated current performance is discussed below.

#### **Estimates of Current Performance**

Two initial examinations recently performed suggest that the City's performance in small business contracts and purchase agreements is significantly higher than the 5-10% Federal disadvantaged business guidelines in place at the City.

The first analysis of the City's performance matched the business tax database containing employment information with the vendor database containing expenditure data. The analysis revealed 1,371 matches of vendors with activity last fiscal year that were not exempt from the business license tax, representing a non-random sample of roughly 24% of the 5,754 non-City-employee contractors and vendors active during the current and past fiscal year. Expenditures on the matched vendors and contractors represent 41% of total City expenditures during the same period. These companies provide goods and services to all City departments including the Airport; Convention, Arts and Entertainment; Environmental Services; and Parks, Recreation and Neighborhood Services Departments. With regard to small business participation, the results of this subset are as follows:

- 91% of vendors and contractors are small businesses
- 76% of the dollars awarded are with small business vendors and contractors

Further examination of City performance was undertaken by the Purchasing Division of the General Services Department. The Purchasing Division conducted a telephone survey of the top 350 suppliers and vendors by volume of dollars awarded. The top suppliers/vendors were categorized as small businesses if they indicated they had 35 or fewer employees. Purchasing determined that:

- 37% of vendors within this subset are small businesses
- 50% of the dollars awarded to this representative group were spent with small business vendors

The analysis of the sample of the top suppliers/vendors represents approximately 20% of the total dollars awarded through the Purchasing Division.

The results of these two preliminary efforts provide different estimated performance, primarily due to the different methodologies and subgroups being examined. The key outcome of both analyses is that there is a significant level of City activity in the number of small businesses providing goods and services and in the amount of money paid to those small companies. In light of the fact that small businesses comprise a large percentage of the overall business community, these limited but representative results may not be surprising.

Based on these initial efforts, staff does not recommend a Charter amendment at this time. The need for a Charter amendment to improve City small business contracting should be reviewed as more information is gathered through the small business tracking system described below.

### **Outline of Proposed Expanded Small Business Tracking System**

To improve the accuracy of the quantification of small business participation, augmentations to the City's existing processes will have to be undertaken. Fundamentally, these modifications are based on the establishment of a strong link between expenditure and business employment data through companies' voluntary submission of data. When a new vendor or contractor is identified, the company will be asked to provide a City of San Jose business tax registration number under which they operate.

This information will be combined with a refined business tax questionnaire that will include a question related to the company's number of employees outside of San José. This is required since the City's business tax is only based on the number of local employees, and as a result, the City currently has no measure of total company size where there are locations outside the City.

Information will be obtained from existing vendors through a mailing campaign soliciting their business license number and company-wide employee count.

As much of the information referenced by these identification numbers is confidential, care will be taken to assure the privacy of these companies' personal information.

Diagrams showing the modified processes are included in Attachment A.

The San José Redevelopment Agency will leverage City efforts and use the linked information from the two City databases to also evaluate small business participation within their scope of business.

**B. HIGHLIGHTS OF SMALL BUSINESS OPPORTUNITY PROGRAM IMPLEMENTATION**

The focused effort on the outreach and education elements of the SBOP program by the Finance, General Services, and Public Works Departments, the San José Redevelopment Agency, and Office of Economic Development have resulted in significant activity to improve small business participation.

The following are highlights of completed and planned actions. A complete listing is located in Attachment B.

**Outreach and Education**

- Established an on-line registration system to deliver custom e-mail notification of construction contracting and professional consulting opportunities by type and dollar amount
- An on-line registration to deliver e-mail notification purchasing opportunities is under development
- Event Outreach
  - November, 2003 – “How To” Workshop – Entrepreneurial Center
  - April 23, 2003 – Money Talks Small Business Fair and SBOP Annual Event
- Quarterly electronic newsletter released in April, July and October
- Creation of “how-to” pamphlet for small businesses underway

**Process Improvements**

- Website Improvements
  - Development of a small business contractor portal to coordinate separate department web pages planned
  - Facilitation of potential supplier registration is underway
- Get "Builders Risk Insurance" at a lower premium charge for some public building construction to decrease cost to contractors working for the City.

**C. LOCAL PREFERENCE POLICY/ORDINANCE**

The City Attorney’s Office is currently drafting an ordinance that would create a preference in City procurements to encourage local business.

Since many of the same companies would be impacted by the SBOP and a local preference ordinance, the potential exists that information gathered through the SBOP effort may be useful in implementing the local preference policy. The development of tracking systems for the local preference policy could build on the SBOP's processes.

### **PUBLIC OUTREACH**

Public comment was solicited regarding small business vending and contracting from the Small Business Development Commission at the October 8 meeting; the Getting Families Back to Work Council Study Session on August 27, the Economic Strategy focus group sessions in May and June; and at the Small Business Opportunity Program annual outreach event in April 2003 and in October 2002.

### **CONCLUSION**

This document arrives at the following conclusions:

- No Charter amendment is recommended at this time. However, this question should be reevaluated as additional data on small business participation is gathered.
- The development of a local preference tracking system should recognize and build on the process developed under the Small Business Opportunity Program.

### **COORDINATION**

This memorandum was coordinated with the General Services and Public Works Departments. The former department handles all non-professional services contracts and purchasing agreements for all City departments. The latter is responsible for awarding construction-related building and professional consulting services contracts for the City including those originating from the Airport; Convention, Arts and Entertainment; and Parks, Recreation and Neighborhood Services Departments.

This memorandum was also coordinated with the Finance Department, the Office of Economic Development, the San José Redevelopment Agency, the Information Technology Department, and the City Attorney's Office.

### **BUDGET IMPLICATIONS**

Implementation of the proposed small business tracking system will require a one-time expenditure of roughly \$25,000. These costs are primarily for mailing and data entry. These

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costs will be distributed between the General Services Department and the Public Works Department and will be accommodated through modification to the individual department's existing work programs.

**CEQA**

This is not a project.

PAUL KRUTKO  
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**ATTACHMENT A**

**PROPOSED PROCESS FOR SMALL BUSINESS TRACKING**

## **ATTACHMENT B**

### **COMPLETE LISTING OF OUTREACH AND PROCESS IMPROVEMENTS**

#### A. Performance Measures

##### **Completed**

- Analyzed the level of current dollars being spent on and going to small businesses by sampling (35 or fewer employees).
- Developed a system to collect small business participation data in a standard way across contracting / purchasing departments and categories.

##### **Under Consideration**

- Explore including minority / women ownership status in tracking performance depending on the results of proposition 54.

#### B. Outreach and Education

##### **Completed**

- Established on-line registration systems to deliver custom e-mail notification of construction contracting and professional consulting opportunities by type and dollar amount
- Event Outreach
  - September 3, 2003 – “How To” Workshop – Entrepreneurial Center
  - May 20, 2003 – Industry Council for Small Business Development Fair
  - April 29, 2003 – Rainbow Push Coalition Event (Silicon Valley Black Chamber)
  - April 23, 2003 – Money Talks Small Business Fair and SBOP Annual Event
- Released quarterly electronic newsletter in April, July and October
- Developed materials to describe how small, local, and minority businesses can get involved
- Included SBOP contact information in the August business tax renewal notifications (~15,000)
- Advertised in the Minority Business and Professional Directory.
- Received positive initial responses from the Institute for Supply Development, the Industry Council for Small Business Development and the Northern California Supplier Development Council regarding closer working relationship.
- Joined the Greater San Jose Hispanic Chamber of Commerce.
  - Conducted internal training on the importance of providing opportunities to small businesses and establishing outreach initiatives.

### **Underway**

- Align on-going efforts to enhance small business success with the “Getting Families Back to Work” initiative. Identify both short-term and long-term opportunities that promote the economic well being of all business entities.
  - Event Outreach
    - March, 2004 – Money Talks Small Business Fair and SBOP Annual Event
    - January 2004 – “How To” Workshop – Entrepreneurial Center
    - November 2003 – “How To” Workshop – Entrepreneurial Center
- Distribute quarterly electronic newsletter in October 2003 and January 2004.
- Establish an on-line registration system to deliver custom e-mail notification of goods vending opportunities by type and dollar amount
- Partner with the six local City-funded business chambers of commerce to draw on them as venues to help training and outreach efforts.
- Encourage two-way web based linking between City, small business chambers and other groups.
- Create lists of businesses that have expressed an interest in City activities.
- Develop an ongoing survey of vendors to develop ways to improve City purchasing efforts
- Support non-profit and entertainment consultant awareness of insurance requirements.
- Develop “How To” pamphlet for small businesses
- Continue to work towards links to the Purchasing “Bid Line” web page from the home web page of all businesses chambers.
- Improve small business portal on City website.
- One-on-one meetings with every business in Agency business districts will include discussion of the Small Business Opportunity Program

### **Under Consideration**

- Assess the value of alternative advertisement periodicals (e.g.: Nuevo Mundo and VIET times) to increase business opportunity awareness.
- Include Economic Strategy focus group suggestions to improve the Small Business Opportunity Program (SBOP).
- Partner with minority business chambers and co-host Small Business Forums for minority business entities.

### **C. Process Improvements**

#### **Completed**

##### *Finance*

- Obtained "Builders Risk Insurance" at a lower premium charge for some public building construction to decrease cost to contractors working for the City.
- Created an "Owner Controlled Insurance Program " to allow small businesses to contract for jobs with appropriate insurance coverage.
- Explore similar approach for the Airport expansion program

*General Services*

- Lowered the on-line bid posting limit from \$100k to \$5K, in an effort to increase the volume of bid opportunities accessed through our bid line process.
- Linked the City's purchasing "Bid Line" web page to the Silicon Valley Chamber of Commerce web page
- Updated vendor database and trained Buyers on how to access suppliers by commodity thereby promoting competition and providing more opportunities to small businesses

*San José Redevelopment Agency*

- Share General Services' small business supplier database.

*Public Works*

- Communications team established to guide contractors and consultants through the department's processes and to coordinate access to staff.

**Underway**

*Finance*

- Explore "Owner Controlled Insurance Program" for the Airport expansion program to allow small businesses to contract for jobs with appropriate insurance coverage.

*General Services*

- Develop system to allow Buyers will be able to access supplier list in "real time."
- Enhance the Purchasing web site to facilitate supplier registration.

*Public Works*

- 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 list of professional contractors to encourage small business contractors to submit bid proposals on projects of less than \$100,000 not requiring a formal bid process.
- Assign staff to assist contractors with the bid proposal process.
- Continuously examine processes and procedures to minimize potential barriers.

*Office of Economic Development (OED)*

- Increase loan activity through easing entry requirements and interest rates.
- Increase coordinated outreach with Workforce Investment Network partners.
- Establish business customer service area to help with business specific issues including contracting.

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## **Under Consideration**

### *General Services*

- Set up ombudsmen within Purchasing Staff to provide oversight of small business interests.
- Survey small businesses to determine how they view our efforts in facilitating their engagement with City opportunities.

### *Public Works*

- Consider increased role for minority and small business advocates on selection panels for RFP/Q.

### *Office of Economic Development (OED)*

- Make Small Business Loan Program run faster for retail businesses located downtown once reinstated.