



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** November 14, 2014

**IBA Report Number:** 14-42

**City Council Docket Date:** November 17, 2014

**Item Number:** 206

---

# Proposed Municipal Code Revisions to Increase Threshold for Council Approval of Goods & Services and for Pre-Approval of Contracts

## OVERVIEW

At the October 29, 2014 meeting of the Budget and Government Efficiency Committee, the Purchasing and Contracting (P&C) Department presented proposed changes to Municipal Code §22.3206 to further streamline the City's goods and services requisition process. The proposed changes are the following:

1. Increase the contract threshold for services and goods requiring Council approval from \$1.0 million to \$3.0 million, and
2. Replace current process of Council approval of single contracts above threshold, at the time of award, with Council "pre-approval" to enter into contracts during the annual budget review or other times during the fiscal year, as necessary.

The Committee subsequently forwarded these proposed changes, without recommendation, to Council for consideration with a request for additional information. This additional information was for the P&C Department to provide a list of FY 2015 contracts that exceeded the current \$1.0 million threshold and direction to the Office of the IBA to work with the P&C Department to recommend a threshold level for services and goods for Council consideration.

The purpose of this report is to provide additional clarification on these proposed changes, a recommendation for a contract approval threshold, and other recommended direction to staff for Council consideration.

## FISCAL/POLICY DISCUSSION

The City Council has continually expressed their support for providing the P&C Department with the tools necessary to improve the City’s procurement process and have previously approved Municipal Code modifications that aid in achieving this goal. While there are no anticipated fiscal impacts from these proposed changes (since the requisition process is still constrained by available budget in the procuring department), there is a significant policy impact. These proposed changes are noteworthy as they require that Council delegate a portion of their current authority over contract award in order to achieve projected efficiencies, in addition to changing the way all contracts are reviewed and approved for City procurement.

### Threshold Level Increase

An increase in the threshold for required Council approval from \$1.0 million was identified in the April, 2014 Huron Consulting Group’s report (Huron Report) as an impediment to the City’s procurement process and should be increased to achieve greater efficiencies. Following this recommendation, the P&C Department reviewed all existing contracts over \$1.0 million, to identify how many are more routine in nature, and surveyed Council approval threshold levels in comparable jurisdictions. Based on this review, staff has recommended a \$3.0 million threshold level.

### *Total Contract Value for FY 2015*

As shown in the P&C Department’s listing of contracts over \$1.0 million for FY 2015 included in the backup material for this item, 49 contracts exceed the current threshold, totaling \$247.7 million in value. Of these contracts, 27 are between the current threshold of \$1.0 million and under the proposed Council approval threshold of \$3.0 million. If the new threshold were to be approved, these 27 total contracts or 55 percent of contracts would no longer require Council approval. However, these 27 contracts only represent approximately 16 percent of the total value of all contracts projected for FY 2015 above \$1.0 million, and City Council approval would still be required for 84 percent or \$208.6 million.

<b>FY 2015 Contracts</b>			
<b>Contract Value</b>	<b># of Contracts</b>	<b>Total Value of Contracts</b>	<b>Avg. Contract Value</b>
\$1,000,000 to \$2,999,999	27	\$ 39,034,142	\$ 1,445,709
> \$3,000,000	22	\$ 208,620,465	\$ 9,482,748
<b>TOTAL</b>	<b>49</b>	<b>\$ 247,654,607</b>	<b>\$ 5,054,176</b>

\* source P&C Department

*Threshold Levels in Other Jurisdictions*

When the Huron Report was issued on procurement and contracting efficiency, the following observation on a potential impediment to efficiency was noted:

*“The Municipal Code-dictated threshold of \$1M for seeking City Council approval has been in place for decades and is too low and restrictive for today’s spend environment, resulting in too many agreements needing Council approval and significant time and resources spent on the process, often impacting the timely establishment of contracts.”*

Based on this observation, our office included a brief review of the Council approval threshold level for comparable jurisdictions. This comparison, updated with information since the Huron Report was released, is shown below:

Jurisdiction	San Diego	County of San Diego <sup>1</sup>	San Jose	Los Angeles <sup>3</sup>	San Francisco	Oakland	Long Beach	Seattle <sup>1</sup>	San Antonio <sup>2</sup>
\$ Threshold for Legislative Body Approval	\$ 1,000,000	No Limit	\$ 1,000,000	\$ 100,000	\$ 10,000,000	\$ 100,000	\$ 100,000	No Limit	\$ 1,000,000

1- Council approval of contractual expenditures through budget ordinance

2- City Council Policy still dictates all contracts over \$1.0 million requires City Council approval despite the Municipal Code not specifying a level

3 - For contracts that are subject to City Council approval

As can be seen from this comparison, the threshold for Council approval for each jurisdiction ranges from \$100,000 to \$10,000,000, and includes jurisdictions with no established threshold (no limit). Jurisdictions shown in this table, that do not have an established threshold limit, operate under the system of pre-approval that the P&C Department is proposing with these actions.

Though direct comparisons of each jurisdiction is difficult due to variances in each Municipal Code language and application by each city’s purchasing department, the City of San Diego’s current threshold is generally in the middle of the jurisdictions’ threshold levels. The proposed \$3.0 million threshold would still place the City of San Diego in the middle of these comparable jurisdictions.

**Pre-Approval of Contracts**

The most significant proposed change is to switch Council approval of all contracts, above the Municipal Code threshold level at contract award to a process of obtaining Council pre-approval. Under the current procurement process, the following generalized steps take place for each contract that requires Council approval. These steps can take place during any time in the fiscal year (depending on the existing contract’s expiration date or when a good or service is identified as a necessity):

- The procuring department (i.e. Park & Recreation, Fire-Rescue, Police, etc.) identifies a necessary good or service that would total **in excess of \$1.0 million** over the life of the contract;
- The P&C Department works with the procuring department to develop and issue a request for approval (RFP) / invitation to bid (ITB);
- Through a selection process, a vendor is identified for contract award;
- The contract is presented to the appropriate Council Committee for consideration and to be forwarded to City Council for consideration;
- The contract is presented to City Council for award, and if approved;
- Contract is awarded to vendor.

The proposed Municipal Code change will alter this process to one where Council would be requested to pre-approve all contracts above the threshold level. The majority of contracts brought forward for pre-approval will take place during the budget development process, while additional contracts will be brought forward other times in the fiscal year, for contracts not pre-approved during the budget process.

Procuring departments will work with the P&C Department to identify new or renewed contracts during the annual budget process that will be subject to the approval threshold in the upcoming fiscal year. The P&C Department will present information about each procurement that includes estimated dollar value, duration of contract, description of good or service, etc. Based on this information, the Department will request Council to pre-approve the issuance of the RFP / ITB and award the contract to the most qualified bidder, without returning to Council. **However, the City Council will retain the right to not authorize pre-approval for any contract that exceeds the threshold level. Should pre-approval not be granted, the procuring department and the P&C Department would be required to return to Council to request the approval to award the contract to the most qualified bidder.**

For any contract, subject to this threshold, that has not been reviewed during the annual budget process, the procuring department and the P&C Department will bring the same information to Council. Council will pre-approve the award of the contract at this time or request that the contract be brought back upon reward for their review and approval.

Under the proposed procurement process, the following generalized chronological steps will take place for contracts that require Council approval during the annual budget development process:

- The procuring department (i.e. Park & Recreation, Fire-Rescue, Police, etc.) identifies a necessary good or service that would total **in excess of \$3.0 million**<sup>1</sup> over the life of the contract that will be required in the upcoming fiscal year;
- The procuring departments and the P&C Department would compile a comprehensive list of these contracts that would be presented for review during the annual budget development process<sup>2</sup>;

---

<sup>1</sup> This threshold level would only apply if Council should approve the first proposed action, increasing the threshold level from the current \$1.0 million to \$3.0 million.

<sup>2</sup> If this \$3.0 million threshold is approved, this list should also include contracts between \$1.0 million and \$3.0 million for information only.

- As part of budget adoption, the Council will either pre-approve the contracts or identify by resolution contracts that are required to return to Council for consideration prior to award to the most qualified bidder;
- All RFP's / ITB's are developed for all contracts identified in the budget approval process;
- After meeting all noticing and other contracting requisites, the most qualified bidder is identified and the contract is awarded;
- These contracts identified by Council to return prior to award will be docketed for City Council action.

Staff time savings for this proposed requisition process as compared to the current process is estimated by the P&C Department to be 40-60 hours for each procurement. Additionally, our office estimates that pre-approved contracts would be awarded to the most qualified bidder approximately 4-6 weeks earlier than the current process.

The P&C Department is determining the exact timeframe in the annual budget process when they would work with departments to develop the upcoming fiscal year's list of contract requirements and present them to Council for consideration. Our office would recommend that this process of Council review of contracts for pre-approval occur during the Budget Review Committee's overview of the proposed fiscal year budget (which will occur May 4-8, 2015 for the development of the FY 2016 budget). Additionally, we would also recommend that the P&C Department work with both the Office of the City Attorney and the Office of the IBA to develop the appropriate timing and form for the resolution for these contracts that Council requests to be returned for award. This recommendation applies to both contracts that are pulled from the list provided during the annual budget process and contracts that are brought forward during the fiscal year for as needed pre-approval.

### *Reporting*

The P&C Department has committed to providing quarterly reporting for all awarded contracts at \$1.0 million or greater, which would include information on equal opportunity contracting (EOC) participation. This \$1.0 million threshold should apply to the list of all anticipated contracts for the upcoming fiscal year brought forward during the annual budget development process.

## **CONCLUSION**

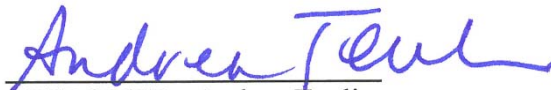
Based on the Council's continued commitment to provide the P&C Department with the tools necessary to improve the City's procurement process, comparable practices of pre-approval and higher thresholds in other jurisdictions, and the projected efficiencies to be gained, our office believes that the proposed Municipal Code changes are sensible, if they are implemented with sufficient oversight and reporting. If Council should approve these changes as proposed, we would offer the following recommended directions to staff for consideration:

- Bring forward information on contracts greater than \$1.0 million and less than \$3.0 million for continued oversight during the annual budget process;

- Work with the Office of the IBA to develop the form and function of reporting to be presented during the annual budget approval process;
- Bring quarterly reporting to the Budget and Government Efficiency Committee for review and oversight;
- Identify the time frame for Council review of contracts during annual budget approval process (e.g. during the Budget Review Committee’s hearings); and
- Work with both the Office of the City Attorney and the Office of the IBA to develop the appropriate timing and form for the resolution and information for specific contracts that Council should determine are required to return for award.



Seth Gates  
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin  
Independent Budget Analyst