

**PROCUREMENT DEPARTMENT
FISCAL YEAR 2016 BUDGET TESTIMONY
APRIL 22, 2015**

EXECUTIVE SUMMARY

DEPARTMENT MISSION AND FUNCTION

Mission: To obtain and dispose of quality goods, services, construction, and concessions in an open, timely, and cost-effective manner by a competitive, fair and socially responsible process in accordance with the law and the best interests of the City.

Description of Major Services: The Procurement Department (Procurement) is the central purchasing and materials management agency for the City. As outlined by the City Charter, Section 6-500, Procurement is mandated to purchase or delegate the purchase of all commodities, construction and concessions—and when feasible—store and distribute all personal property procured with funds from the City Treasury. Procurement facilitates the purchase of goods for City use, but does not manage the monies to purchase the goods. For each contract, Procurement works in partnership with the using departments to ensure that the City has the contracts it needs to provide services to the public.

PROPOSED BUDGET HIGHLIGHTS/FUNDING REQUEST

Budget Highlights: The FY16 Proposed budget for the Procurement Department includes funding for a new revenue generating position in the Surplus Disposal unit.

Fund	Class	FY14 Actual	FY15 Current Projection	FY16 Proposed Budget	FY16-FY15 Change	FY16-FY15 Percent Change
General	100	2,167,029	2,428,558	2,472,351	43,793	1.8%
	200	2,594,490	2,316,267	2,316,267	0	0.0%
	300/400	46,840	49,054	49,054	0	0.0%
	Total	4,808,360	4,793,879	4,837,672	43,793	0.9%
	Positions	47	50	51	1	2.0%
Other*	100	62,746	77,383	77,383	0	0.0%
	200	0	0	0	0	0.0%
	Total	62,746	77,383	77,383	0	0.0%
	Positions	2	2	2	0	0.0%
All	100	2,229,776	2,505,941	2,549,734	43,793	1.7%
	200	2,594,490	2,316,267	2,316,267	0	0.0%
	300/400	46,840	49,054	49,054	0	0.0%
	Total	4,871,106	4,871,262	4,915,055	43,793	0.9%
	Positions	49	52	53	1	1.9%

* Other Funds includes: County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, Healthchoices Behavioral Health Fund, Hotel Room Rental Tax Fund, Grants Revenue Fund, Community Development Fund, Car Rental Tax Fund, Housing Trust Fund, Water Fund, Water Residual Fund, Aviation Fund, and Acute Care Hospital Assessment Fund.

Staff Demographics Summary (as of December 2014)

	Total	Minority	White	Female
Full-Time Staff	47	28	19	33
Executive Staff	5	3	2	3
Average Salary - Executive Staff	\$97,178	\$97,458	\$96,773	\$97,458
Median Salary - Executive Staff	\$87,975	\$87,975	\$96,773	\$87,975

Employment Levels (as of December 2014)

	Budgeted	Filled
Full-Time Positions	51	47
Part-Time Positions	0	N/A
Executive Positions	5	5

Contracts Summary (*as of December 2014)

	FY10	FY11	FY12	FY13	FY14	FY15*
Total amount of contracts	\$237,000	\$3,080	\$1,801	\$33,650	\$2,602	\$3,015,512
Total amount to M/W/DBE	\$0	\$0	\$0	\$4,500	\$0	\$705,512
Participation Rate	0%	0%	0%	13%	0%	23%

PERFORMANCE, CHALLENGES AND INITIATIVES

DEPARTMENT PERFORMANCE (OPERATIONS)

The average number of days to process departmental Supplies, Services and Equipment (SS&E) contracts improved significantly from FY13 to FY14 which is reflected in a reduction of an average of 11 days. During the first half of FY15 this measure has decreased by 1.3% compared to the same time period in FY14. For FY16, the goal is to further reduce the processing time to 90 days. The percentage of new Citywide SS&E contracts that were in place prior to the expiration of the previous contract has improved significantly from 62% in FY13 to 82% in FY14. Procurement is on target to exceed their FY15 goal of 65% as of the first half of FY15. The percent of SS&E bids with single responses decreased slightly from FY13 to FY14 (1.9%) to 31.4% but has increased to 34.5% as of the second quarter of FY15. Although the average number of bidders for SS&E has remained flat over the past several years, at an average of 3 responses per bid, the goal for FY16 is 4 bidders. Procurement has revised the contract terms and conditions for SS&E contracts in order to simplify the process for bidding in an effort to increase competition. The percent of Public Works bids with single responses has increased significantly from FY13 to FY14. However, as of the first half of FY15, only 1.3% of bids had a single respondent, a 78.5% decrease from the same time period in FY14. The average number of days from initiation to award for a Public Works contract was 112 days in FY13 and has decreased by 2.7% to 109 days in FY14. Currently, Procurement is on target to meet its FY15 goal of 110 days on average from initiation to award for Public Works bids. Procurement's goal for FY16 is an average of 110 days from initiation to award for Public Works bids. The average number of responses per bid for Public Works contracts has remained flat over the past several years, at an average of 5 bids with a goal to maintain this number in FY16. Since the end of FY10, Procurement has seen a staff turnover rate of almost 70%, much of it due to retirement. Despite the high rate of turnover, some performance metrics continue to improve while others remain constant. As Procurement works to develop the skills and experience of new staff and appropriately leverage the skill set of the existing staff those metrics that have not been met are expected to improve. Additionally, Procurement expects to invest in a technology platform with projected implementation by the second quarter of FY16. It is anticipated that the combination of these two changes will increase the average number of bidders and overall competition as reported in the second and fourth performance metrics.

Performance Measure	FY08	FY13	FY14	FY14- FY13 Change	FY14 Q1-Q2	FY15 Q1-Q2	FY15- FY14 Q1-Q2 Change	FY15 Goal	FY16 Goal
SS&E Contracts: Average number of days from requisition to award	N/A	124	113	-9.1%	117	115	-1.3%	90	90
SS&E Contracts: Percentage of new Citywide contracts in place prior to contract expiration	N/A	62.0%	82.0%	32.3%	80.0%	86.5%	8.1%	65.0%	75.0%
SS&E Contracts: Percentage of bids with single responses	N/A	32.0%	31.4%	-1.9%	27.5%	34.5%	25.5%	20.0%	20.0%
SS&E Contracts: Average number of responses per bid	N/A	3	3	0.0%	3	2	-33.3%	4	4
Public Works contracts: percent of bids with single responses	N/A	2.0%	4.7%	136.3%	6.1%	1.3%	-78.5%	0.0%	0.0%
Public Works contracts: Average number of days from initiation to award	N/A	112	109	-2.7%	110	75	-31.5%	110	110
Public Works contracts: Average number of response per bid	N/A	5	5	0.0%	5	5	0.0%	5	5

DEPARTMENT CHALLENGES

The Procurement Department facilitates its mission of contracting in an open, effective and cost effective manner. The department strives to improve performance and reduce cost, but has found that technology and staffing constraints have limited the department's progress. In light of these challenges, the department has received capital funding to solicit a front-end technology system, which is anticipated to improve some of the procurement processing issues. With regard to staffing, the department works in partnership with the Office of Human Resources to develop and manage an effective staffing plan.

ACCOMPLISHMENTS & INITIATIVES

Cooperative Purchasing: In November 2010, a voter approved City of Philadelphia Home Rule Charter change allowed the City to expand its cooperative purchasing program. Cooperative Purchasing is a contract option that Procurement considers when developing bids or evaluating bid responses. The benefit to the City is that often these contracts reduce the cost of goods and services by aggregating the purchasing power of public agencies statewide or nationwide. The contracts provide access to a broad line of competitively solicited contracts with national suppliers that have committed to providing their lowest overall public agency pricing. Following is a sample list of some of the cooperative purchasing entities the City has used: Commonwealth of PA, Department of General Services; U.S. Communities; National Joint Powers Association (NJPA); Western States Contracting Alliance; Houston Galveston Area Council (HGAC) and National Cooperative Purchasing Alliance (NCPA). Procurement is currently working towards a review of all citywide contracting opportunities, to assess whether or not the use of cooperative contracts would be most effective to obtain quality goods and services, lower the overall cost to the City and create purchasing process efficiencies while not impacting Local Business Entity (LBE) and Office of Economic Opportunity (OEO) administration objectives.

Reverse Auction: In FY14, Procurement implemented a pilot reverse auction project. A Reverse Auction is a type of auction in which the roles of buyer and seller are reversed. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service by offering increasingly higher prices. In a reverse auction, the sellers compete to obtain business from the buyer (the City) by offering lower prices than their competitors. The overall price will typically decrease as the sellers lower their bids. Procurement awarded two one-year contracts to two separate firms to each conduct a Reverse Auction for two commodity purchases. To date, the reverse auction for Emergency HVAC Parts and Service projected estimated savings of 4.6%, and the reverse auction for Bituminous Materials projected estimated savings of 5.8%.

Surplus Disposal: In FY13, Procurement saw a 42% increase from FY12 in the revenue captured through its online surplus auction site, MuniBid.com (from \$284,321 in FY12 to \$405,707 in FY13). The online surplus auction site is utilized to dispose of obsolete or unserviceable surplus property. While FY14 revenues from online auctions decreased from FY13 by 16% (from \$402,707 in FY13 to \$337,638 in FY14), Procurement engaged in process restructuring efforts, which has led to an increase in revenues of 44% in the first two quarters of FY15 in comparison to the first two quarters of FY14 (from \$191,956 at the end of the second quarter of FY14 to \$277,223 at the end of the second quarter of FY15). Additionally, improved communication and collaboration with operating departments, as well as an overall increase in bidding prices has led to a more robust city-wide effort to enable Procurement to continue to realize increased revenues beyond the current reporting period.

Sustainable Initiatives: In an effort to contribute to the Mayor's goal of being the most sustainable city in America, Procurement has transitioned Bid Announcements to email from U.S. mail, implemented fillable PDF forms, and, in 2012 in partnership with the Office of Innovation and Technology (OIT), employed a Citywide digital imaging system. This system allows City departments to access PDF copies of their own purchase orders. This technology tool also allows the departments to expedite their ordering process. Many departments also use the imaging system to digitally store contracts and maps. While these initiatives have led to a minimal savings in postage, they have also led to a higher level of customer service for both vendors and internal City clients. Additionally, Procurement sources all paper and toner needs for the City through contracts that provide 100% recycled products. Further, one third of citywide office supply purchases are made up of recycled products.

Workforce Succession Planning: Since the end of FY10, Procurement has had a turnover rate in excess of 70%. Turnover is expected to continue into FY15 since several members of Procurement in critical positions are of retirement age or in the City's Deferred Retirement Option Plan (DROP). In regards to succession planning, Procurement is actively working with the Office of Human Resources (OHR) to ensure that active civil service lists are available, and to redevelop its organizational structure, including the possible development of new position specifications to align more closely with government procurement best practices. Importantly, Procurement has begun to document and widen the knowledge base of existing staff in order to foster a more seamless transition and improved staff professionalism.

Additionally, Procurement increased training and knowledge sharing during FY14 and FY15:

- Enabled 40% of Procurement staff to attend Best Practice trainings through the National Institute for Governmental Procurement;
- Eleven supervisors and staff have attended trainings available through OHR and the Managing Director's Office Center of Excellence. Those trainings included project management, ethics, management and Equal Employment Opportunity training;
- The entire department attended safety training; and
- Continued staff training opportunities in technology and procurement best practices.

Improved Procurement Process: During FY14 and FY15 Procurement improved processes throughout all stages of the procurement life-cycle:

- Worked with the Law Department and Finance to decrease the upfront cost to vendors to bid on services, supplies and equipment contract opportunities in order to attract a larger pool of competing vendors.
- Revised and made more transparent the City-wide surplus asset process to more efficiently process surplus assets for transfer to other City agencies, public auction (a revenue generating function) or disposal.

Emergency Purchasing Plan Development: Procurement is currently developing an Emergency Purchasing Plan to ensure that the City has the necessary contract requirements in place to ensure operating departments can respond to all levels of emergency with minimal disruption. The plan is expected to be complete by the third quarter of FY16.

Electronic Procurement System: Procurement plans to solicit a more comprehensive electronic procurement system to improve vendor management and communication, sourcing, solicitation management and electronic bidding. The cost of the system is estimated to be \$500,000 with funds allocated from the OIT capital budget and is projected to be substantially complete by the end of the second quarter of FY16.

STAFFING

Over the last several Fiscal Years, Procurement has had a significant number of employees enrolled in DROP, with another substantial number of employees who were retirement eligible. While Procurement still maintains several retirement eligible employees (13%), Procurement has successfully hired and trained 13 new employees over an 18 month period who replaced departing employees, amounting to 25% of 53 budgeted positions. There are currently 45 employees in Procurement, with 8 vacancies that Procurement is working diligently to fill. Of the 45 employees in Procurement, 73.3% are women and 26.7% are men. The ethnic demographics of Procurement are 51.1% Black/African-American, 40% Caucasian, 4.4% Hispanic, 2.2% Asian, and 2.2% classified as 'Other'. The Executive team is comprised of 60% women and 40% men, 40% Caucasian, 20% Black, 20% Asian, and 20% classified as 'Other'.

Staff Demographics (as of December 2014)

<i>Full-Time Staff</i>			<i>Executive Staff</i>			<i>FY15 New Hires</i>		
	Male	Female		Male	Female		Male	Female
	African-American	African-American		African-American	African-American		African-American	African-American
<i>Total</i>	3	21	<i>Total</i>	0	1	<i>Total</i>	2	2
<i>% of Total</i>	6.4%	44.7%	<i>% of Total</i>	0.0%	20.0%	<i>% of Total</i>	25.0%	25.0%
	White	White		White	White		White	White
<i>Total</i>	11	8	<i>Total</i>	2	0	<i>Total</i>	1	1
<i>% of Total</i>	23.4%	17.0%	<i>% of Total</i>	40.0%	0.0%	<i>% of Total</i>	12.5%	12.5%
	Hispanic	Hispanic		Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	0	2	<i>Total</i>	0	0	<i>Total</i>	0	1
<i>% of Total</i>	0.0%	4.3%	<i>% of Total</i>	0.0%	0.0%	<i>% of Total</i>	0.0%	12.5%
	Asian	Asian		Asian	Asian		Asian	Asian
<i>Total</i>	0	1	<i>Total</i>	0	1	<i>Total</i>	0	0
<i>% of Total</i>	0.0%	2.1%	<i>% of Total</i>	0.0%	20.0%	<i>% of Total</i>	0.0%	0.0%
	Other	Other		Other	Other		Other	Other
<i>Total</i>	0	1	<i>Total</i>	0	1	<i>Total</i>	0	1
<i>% of Total</i>	0.0%	2.1%	<i>% of Total</i>	0.0%	20.0%	<i>% of Total</i>	0.0%	12.5%
	Bi-lingual	Bi-lingual		Bi-lingual	Bi-lingual		Bi-lingual	Bi-lingual
<i>Total</i>	0	0	<i>Total</i>	0	0	<i>Total</i>	0	0
<i>% of Total</i>	0.0%	0.0%	<i>% of Total</i>	0.0%	0.0%	<i>% of Total</i>	0.0%	0.0%
	Male	Female		Male	Female		Male	Female
<i>Total</i>	14	33	<i>Total</i>	2	3	<i>Total</i>	3	5
<i>% of Total</i>	29.8%	70.2%	<i>% of Total</i>	40.0%	60.0%	<i>% of Total</i>	37.5%	62.5%

CONTRACTING

**M/W/DBE Participation on Large Contracts
FY15 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DBE Participation Achieved	\$ Value of M/W/DBE Participation	Total % and \$ Value Participation - All DSBES	Living Wage Compliant?
U. S. Facilities, Inc.	Maintenance & Support Svcs.	\$15,512	4/26/13	10/1/13	MBE:	89%	\$13,806	100%	Yes
					WBE:	11%	\$1,706		
					DSBE:	0%	\$0		
Municibid	Auctioning Svcs.	\$0	11/22/10	4/1/11	MBE:	0%	\$0	0%	Yes
					WBE:	0%	\$0		
					DSBE:	0%	\$0		
Bicycle Transit Systems, Inc.	Bike Share Program	\$3,000,000	10/25/13	7/1/14	MBE:	9%	\$270,000	23%	Yes
					WBE:	14%	\$420,000		
					DSBE:	0%	\$0		

OTHER BUDGETARY IMPACTS

FEDERAL AND STATE (WHERE APPLICABLE)

Not applicable.

OTHER

Not applicable.