



# CITY OF CORONADO

## CITY COUNCIL STAFF REPORT

August 15, 2023

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### **INTRODUCTION AND FIRST READING OF “AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CORONADO, CALIFORNIA, AMENDING CHAPTER 8.04 OF THE CITY OF CORONADO MUNICIPAL CODE REGARDING PROCUREMENT REQUIREMENTS”**

#### **RECOMMENDATION:**

Introduce an Ordinance amending Chapter 8.04 of the Coronado Municipal Code regarding procurement requirements.

#### **BACKGROUND:**

As required by Government Code section 54202, Chapter 8.04 of the City of Coronado Municipal Code (CMC) contains guidance on the City's procurement requirements for the purchase of goods, services, and equipment. The last significant update to the CMC Chapter 8.04 occurred in 2010. An ordinance amending the cooperative purchasing/piggybacking exemption language in CMC Section 8.04.070 occurred in 2021.

Over the last year, the City Manager engaged City staff in a broad conversation, asking what tools can be provided to enhance their work and what challenges might stand in the way of being as efficient and effective as possible. One of the recurring answers has been to take a critical look at the City's purchasing and procurement system.

In the fall of 2022, City Manager's Office staff assessed current procurement practices in collaboration with key City staff involved with the procurement process across all departments to identify areas in need of improvement and potential solutions. The Purchasing & Procurement Process Review Committee convened twice to discuss procurement practices and a subsequent Executive Committee held three additional meetings to review procurement data, discuss input from staff, and formulate recommendations to improve efficiencies and implement best practices while maintaining strong internal controls.

As a result, the Committee will be focused on executing the following internal action items related to updating the City's procurement practices in the coming months:

1. Creation of a centralized, online location for all purchasing and procurement forms/documents for easy access by all employees.
2. Creation of a formal training program for new and existing staff and digital archival of training resources online.
3. Updating related Administrative Policies and formal standard operating procedures, including the City's Purchasing and Procurement Manual.
4. Implementation of software for agreement review and execution workflows with a plan to fully integrate with Tyler Munis once it is fully implemented.
5. Updating purchase order terms and conditions to allow for the purchase of specified goods and supplies.
6. Updating base contract/agreement templates for ease of use, as needed.

In addition to the initiatives listed above, staff is recommending updates to the Municipal Code as outlined below that require City Council consideration.

## ANALYSIS:

The Purchasing & Procurement Process Review Committee's analysis included a variety of data points, including thresholds and procurement practices in other regional jurisdictions with similar populations and budgets, inflation growth as outlined by the San Diego Regional Consumer Price Index (CPI), Coronado's budget growth, accounts payable data, Public Services & Engineering contract and purchase authorization data and analysis of current procurement practices.

There have been significant changes within the City's organizational environment in the past 13 years since the last major revision of the City's procurement rules occurred in 2010. Since 2010, the City's annual operating budget has almost doubled in size from \$38.2 million to \$67.3 million for Fiscal Year (FY) 2023-24. Inflation measured by the San Diego Regional Consumer Price Index (CPI) for urban consumers has increased by 37% during the same timeframe. This has resulted in escalating costs due to notable increases in labor, consulting, and supplies. The impacts of the pandemic have further hampered the City's ability to procure goods, equipment, and services promptly due to lingering delays within supply chains.

These increases in costs without an adjustment in purchasing thresholds have eroded the City's purchasing efficiency, leading to greater outlays of time, staff effort, and missed purchasing opportunities within today's tightened supply markets. Examples of inefficiency and challenges with the current procurement system are detailed later in this report.

To modernize and improve the City's procurement framework, staff proposes changes to Municipal Code Chapter 8.04 to: (1) modernize purchasing thresholds; and (2) authorize online bids. If approved, these updates will provide greater flexibility to staff, reduce costs of administration, and enhance the ability to acquire goods and services promptly.

### (1) Modernize Purchasing Thresholds

Currently, CMC 8.04 establishes purchasing thresholds for basic, minor, and major purchases. A copy of CMC 8.04 is attached for reference. Current thresholds and requirements are summarized below:

Type of Purchase	Current Procurement Requirement(s)	Recommended Change
Basic Purchase	For purchases less than \$2,500, no formal process is required beyond a fair and reasonable pricing assessment by staff for goods, equipment, and services.	Increase the threshold to purchases less than \$10,000.
Minor Purchase	For purchases between \$2,500-\$30,000, informal bids (three quotes) are required or an allowable exemption under CMC, such as utilizing a cooperative purchasing agreement or sole source.	Increase this range to \$10,000-\$100,000. Three quotes would continue to be required for all goods, equipment, and services.
Major Purchase	Any purchase over \$30,000 requires full/open formal solicitation or an allowable exemption under CMC.	Increase this threshold to any purchase greater than \$100,000.

### **Basic Purchases**

A basic purchase is currently defined as those less than \$2,500. No bidding process is required for acquisitions falling under that dollar amount. The threshold of \$2,500 is not set by state or federal statute and varies depending on the local agency.

Staff reviewed and evaluated a total of 1,539 accounts payable transactions valued at more than \$2,500 from July 2022-March 2023. Increasing the basic purchase threshold to \$10,000 would eliminate the need for City staff across all departments to conduct informal bid processes on 974 purchases, thereby saving significant staff time while requiring that staff determine that pricing is fair and reasonable for smaller purchases.

Staff also benchmarked Coronado's current and proposed basic thresholds against other cities within the region or in similar coastal cities to determine best practices. The basic procurement threshold values at other cities ranged from \$1,000-\$50,000 with an average threshold of \$17,656, notably higher than the City's current \$2,500 threshold for basic purchases. As a result, staff recommends increasing the threshold to \$10,000 to bring it in line with comparable jurisdictions and to adjust for inflation. A comparison of thresholds in similar cities is included in Attachment 1.

### **Minor and Major Purchases**

Minor purchases are currently defined as those between \$2,500 - \$30,000. Staff recommends adjusting this range to between \$10,000-\$100,000. Goods, equipment, and services within this range would still require an informal bidding process to be utilized with staff securing at least three proposals from vendors and then reviewing price, reliability, experience, availability, and expertise to ensure the City is securing the best price and the most qualified vendor or product.

Major purchases are currently defined as those over \$30,000, which require full/open formal solicitation and bidding or an allowable exemption under the City's municipal code. Of the comparison jurisdictions considered, the major purchase threshold ranged from \$15,000-\$150,000, with an average value of \$64,688. Four of the seventeen jurisdictions had major thresholds of \$100,000 or more and the federal threshold is \$250,000. Increasing the major purchase threshold to \$100,000 would result in significant cost savings while still ensuring that a formal and competitive bid process is utilized for major purchases or an allowable exemption is used. This would also align the current signature authority of the City Manager with the threshold for major purchases.

The City typically conducts approximately 20-30 formal solicitations per year for major purchases. Each one varies in complexity, but all take a minimum of three months from solicitation formulation through contract award and involve a considerable investment in staff time, which includes writing the request for services/proposals, newspaper postings, legal review, staff report writing, staff time for evaluation of proposals received, and contract execution. In addition to the notable time and expense of formal bids, the City does not always receive multiple responses from eligible vendors, in which case execution of a formal bid for goods and services can be a significant expenditure of staff resources and time without producing the lower, competitive pricing or the best value for the City in all cases.

### **Examples of Procurement Challenges with Existing Thresholds**

There are several challenges encountered by staff throughout the organization that can be alleviated by the proposed adjustments to purchasing thresholds.

Vehicle purchases serve as one example to illustrate how the current procurement requirements can hinder acquisition. Last fall, Public Services & Engineering staff conducted formal bids for 7 vehicles. A total of one responsive bid was received and by the time the City was through its process and ready to award the contract, vehicle specifications had changed due to the new production year, leading to a restart in the procurement process. This resulted in a waste of City staff time and delay in the acquisition of vehicles, which affected City operations. Adjusting the major purchase threshold from \$30,000 to \$100,000 would allow for an informal bid process with at least three dealerships, optimizing cost, efficiency and timely receipt of goods.

A second example is the Fire Services purchase of medication and supplies for ambulances and field use when responding to emergency calls. According to a study conducted by the National Association of Emergency Medical Technicians, from 2019 to 2022 there was a 12% increase in medications and a 12% increase in supplies, ultimately resulting in reduced purchasing power due to inflation and cost increases. For instance, Epinephrine, which is used to treat allergic reactions cost \$60 per treatment in 2007; today, the cost is \$536 per treatment. Similarly, EKG electrodes have risen in cost. Electrodes are placed on every patient staff encounters and are used frequently. One case of electrodes costs \$660. Bulk purchases of these types of medications and supplies can easily exceed the current \$2,500 basic purchase threshold, therefore requiring staff to obtain at least three quotes from vendors. The City, however, is contracted with only two major pharmaceutical supply vendors that source the medications. Thus, staff are not able to obtain three quotes for supplies or medications, and the vendors are not technically a sole source under the Municipal Code. Consequently, under the current purchasing rules, our personnel must draft a justification memo explaining this situation each time they are executing such a purchase of over \$2,500.

Purchases by Public Services comprise approximately 40% of all purchases of the City. Staff commonly acquire a number of items such as pumps, HVAC parts, security system parts, signal controllers, irrigation equipment, backflow valves, tools and signs that cost within the \$7,500-10,000 range. By increasing the minor purchase threshold to \$10,000, this would allow for immediate purchase of some of these items, and group purchases that could be accomplished by securing three comparative informal proposals rather than formal bidding, thereby increasing staff efficiency and response in times of emergency.

Ammunition acquisition in the Police Department is another example of a purchase that would be more efficient if the procurement thresholds were adjusted to reflect changes in the market and purchasing power. Staff typically purchases ammunition in bulk annually at a total cost of just over \$30,000, requiring a formal bid process. There are very few vendors who can provide ammunition in California within the required specifications, so there is limited value added from a formal bidding process when the pricing and options are limited by the number of qualified vendors. If the threshold is adjusted to recommended levels, a purchase of more than \$30,000 would be require an informal bid process; thereby saving staff time from issuing formal bids with only one potential qualified bidder.

## **(2) Authorize Online Bid Processes**

As the second change to CMC 8.04, staff is recommending the authorization of online bid submissions. Coronado is one of only three cities in the region that has not moved to a web-based bidding platform and still requires paper-based bids. The proposed modifications to the sole source and cooperative purchasing language in CMC 8.04 will align with Public Contract Code, clarify the City's requirements and increase staff's flexibility to effectively use these tools.

City staff believes the suite of recommendations, both the internal changes and proposed Municipal Code updates, will result in staff having better tools and practices that are aligned with changing market dynamics and comparison agency practices. The changes will assist staff to acquire goods, services, and equipment promptly without losing the benefits of competitive processes when they are most likely to produce cost savings for the City.

**FISCAL IMPACT:**

While there is no fiscal impact for making a change to the Municipal Code, it is anticipated that process improvements will result in cost savings via staff time and improved ability to adhere to project timelines and schedules.

**ALTERNATIVE:**

The City Council could keep CMC 8.04 in its current form or direct staff to return with alternative amendments.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT:**

Not Applicable. This is not a project subject to CEQA compliance.

**PUBLIC NOTICE:**

In lieu of the full text of the ordinance being published within 15 days after passage, the City Clerk shall publish and post the summary of the proposed ordinance at least five days before the meeting at which the ordinance is to be adopted and within 15 days after adoption.

**ATTACHMENTS:**

1. Comparison Data San Diego Regional and Benchmark Cities
2. City Council Ordinance 2023-02

Submitted By: City Manager's Office / Tony Winney