



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

FOR INFORMATIONAL PURPOSES ONLY

DATE: NOVEMBER 8, 2017

TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS

SUBJECT: LOCAL BUSINESS PREFERENCE PROGRAM

Background: On October 14, 2011, the City Council approved an Ordinance establishing a Local Business Preference Program (LBPP). The LBPP provides qualified Local Business Enterprises (LBE) with an 8% preference on contract opportunities valued in excess of \$150,000. On April 5, 2012, the Board of Harbor Commissioners (Board) authorized the implementation of the LBPP. As part of the adoption of the LBPP, the Board recommended that the LBPP sunset five years from the implementation date unless the Board took further action to extend the LBPP. The LBPP was scheduled to sunset in May 2017; however, the Board extended the LBPP for six months and recommended that staff report back with recommendations regarding modifications to the LBPP.

Local Business Enterprise: The Harbor Department defines a LBE as:

- (a) A business headquartered within Los Angeles, Orange, Riverside, San Bernardino, or Ventura Counties; or
- (b) A business that has at least 50 full-time employees, or 25 full-time employees for specialty marine contracting firms, working in Los Angeles, Orange, Riverside, San Bernardino, or Ventura Counties.

Impact of the Local Business Preference Program: Since the inception of the LBPP and through the current fiscal year, the Harbor Department has issued 93 Request for Proposals (RFP) and Requests for Bids (RFB) that provided for a local preference, and subsequently awarded approximately \$428.4 million in contracts. Of the \$428.4 million, \$371.6 million or 87% was awarded to LBEs. The following is a summary of LBE participation:

Contract Type	Non-LBE	LBE	Total
RFP - Services	\$55,771,501	\$154,229,910	\$210,001,411
RFB - Construction	\$0	\$206,043,138	\$206,043,138
RFB - Procurement	\$1,033,588	\$11,287,205	\$12,320,793
	\$56,805,089	\$371,560,253	\$428,365,342

Since the Program's inception, the LBPP has minimally impacted the outcome of contract awards and the cost to the Harbor Department. The primary reason for the limited impact is that a significant majority of bidders and proposers are qualified LBEs. Of the 33 RFBs where the LBPP was applicable, only three procurement contract awards were impacted by the application of the preference. As a result of the preference, the Harbor Department expended an additional \$352,489 for these three procurement contracts since the contracts were awarded to the lowest bidder after applying the preference. Of the 60 RFPs where the LBPP was applicable, only one contract award was impacted by the application of the preference. There was no financial impact to the Harbor Department because the resulting contract amount was based on what the Division budgeted for the project.

Discussion:

The LBPP allows for local businesses to receive an eight percent (8%) preference for any contract opportunity greater than \$150,000. The LBPP allows non-local bidders/proposers to receive up to a five percent (5%) preference if the bidder/proposer utilizes local subcontractors. When applying the preference to procurement and construction contracts (contracts awarded based on low bid), the total price bid by a local business will be reduced up to eight percent (8%). The reduced bid amount will be deemed the amount bid by that bidder; however, the resulting contract price will be the amount bid by the successful bidder prior to allocating the local preference percentage. The maximum preference currently may not exceed \$1,000,000. Staff is recommending that the maximum preference be reduced to \$250,000 to minimize the financial impact to the Harbor Department.

For professional service contracts, the local preference is applied by adding up to eight percent (8%) of the total possible evaluation points to the local business' score. Staff is recommending that professional service contract opportunities be excluded from the LBPP. The majority of the Harbor Department's professional service agreements are for on-call or as-needed services. It is difficult for staff to calculate the appropriate percentage, especially for subconsultant utilization, when exact project directives have not been determined.

Staff is recommending that the Harbor Department extend the LBPP with two modifications: reduce the maximum preference to \$250,000 and exclude professional service contract opportunities. Staff will continue to track and report LBE participation on all contract opportunities, regardless if the preference was applicable.

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