

CITY OF CHICAGO
Department of Procurement Services
2018 Budget
Jamie L. Rhee, Chief Procurement Officer
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On behalf of the Department of Procurement Services (DPS), I would like to thank Mayor Emanuel, Chairman Austin, Vice Chairman Ervin and the members of the City Council for allowing us to present our 2017 accomplishments and key highlights for 2018.

Under the leadership of Mayor Rahm Emanuel and with the support of this City Council, our goal is to ensure every resident in every neighborhood has the access and opportunity to participate in the economic future of Chicago. Our primary focus is to support Chicago's communities and ensure economic inclusiveness throughout our City.

This is at the core of what we do, whether requiring and prioritizing local hiring, or providing incentives and opportunities to firms at all stages of their life cycle. We believe that everyone should have a chance to participate in the business of government. Whether that is bidding on a contract or being a supplier, becoming a certified vendor or even having ideas about how to do business better.

We also firmly believe that thinking big to standardize processes and further transparency will level the playing field for all of our small businesses, which are the backbone of our local economy.

Transforming Government through Collaboration

The Procurement Reform Task Force (PRTF) was tasked with developing recommendations to make procurement and contract management at the City and its sister agencies more uniform, efficient and cost effective, while increasing accountability. Co-chaired by Inspector General Joe Ferguson and me, its goal is to distinguish successful practices, identify areas for improvement and promote a greater level of uniformity across City government and each participating sister agency.

The PRTF was announced in May 2015 and a report was issued in November 2015 with detailed findings and recommendations for reforming procurement policies and practices. In January 2016, City Council passed an ordinance for an intergovernmental agreement for all Participating Members (CCC, CHA, Parks, CPS, CTA and PBC) to work cooperatively and implement the recommendations. The IGA required PRTF quarterly status reports to the Mayor, an annual progress report to City Council and a public hearing of City Council to discuss the annual progress report. In addition, the IGA required that the Office of the Inspector General (OIG) make an annual independent evaluation of progress.

To date, the PRTF has issued five quarterly reports and an Annual Report, and has implemented 15 of the 31 recommendations. On May 30, 2017, the OIG issued their first annual progress report. In that report, available online at www.chicagoinspectorgeneral.org, the OIG concluded:

“Under the leadership of the CPO and IT Coordination Committees, the Participating Members have made considerable progress toward implementation of the 31 Recommendations...”

In addition, a public hearing was held on July 14, 2017 as part of Chicago City Council’s Committee on Workforce Development and Audit and included testimony from the Chief Procurement Officer, Chief Information Officer and the Inspector General.

The City receives national and international recognition for these procurement reform efforts, and we have shared information about the PRTF with government entities in Canada, Kosovo, Ireland, Poland and many other locales. The work of the department was recognized in 2016 by Governing Magazine, which stated: “While it’s early, there’s still a great deal to be learned from the efforts Chicago has made thus far—and how they play out over time.”

Because of this work, the City of Chicago was selected as a participant in the nationally recognized City Accelerator program run by Living Cities and funded by the Citi Foundation. DPS and the four other selected cities (Charlotte, Los Angeles, Memphis, and Milwaukee), are working to refine their approach to procurement spending, and pursue new strategies to increase the diversity of municipal vendors and contractors.

The PRTF recommendations are intended to further the current efforts and practices of the City of Chicago. These improvements not only increase transparency for the public and reduce administrative burden, but also lower barriers to entry for small, local businesses thus increasing competition.

M/WBE Support

As the certification arm for the City, we are dedicated to supporting our diverse businesses and working to ensure that the representation in our vendor pool reflects the communities around us. We are responsible for over 3,000 new, renewed and ongoing certifications of Minority-owned Business Enterprises (MBE), Women-owned Business Enterprises (WBE), Business Enterprises owned or operated by People with Disabilities (BEPD), Disadvantaged Business Enterprises (DBE) and Airport Concessions Disadvantaged Business Enterprises (ACDBE), as well as the newly established Veteran-Owned Business Enterprise (VBE) certification.

We are committed to making our operations more efficient and simplifying processes for our vendor community, especially our local small minority, women-owned and disadvantaged businesses. We managed improvements to our technological systems in order to move to an all-online application process for MBE, WBE and BEPD certifications. Processing cycle times for certification applications have been cut in half,

from an average of 244 days in 2013 to 127 days in 2017. We continue to review processes and implement enhancements to decrease processing times even further.

Certification Intake Consultant at the Small Business Center

After a successful pilot program in partnership with the Department of Business Affairs and Consumer Protection, DPS established a permanent Certification Intake Consultant position at the City's Small Business Center (SBC). This position provides critical support and assistance for neighborhood businesses looking to apply for and earn certification as a MBE, WBE, BEPD, VBE, DBE or ACDBE. Additionally, all business consultants at the SBC have been trained to direct customers with questions about City certification to take advantage of the DPS Certification Intake Consultant.

The Certification Intake Consultant provides information about the certification program to interested businesses, assists small business owners with completing online applications and scans and uploads supporting documents. The Certification Intake Consultant also conducts an intake review of the submitted application documents to ensure that correct forms are utilized and complete, minimum eligibility requirements are met and the necessary minimum supporting documents are attached to applications. All of these measures are designed to help small businesses with the application process and reduce application processing times.

Since the inception of the program, the Certification Intake Consultant met with nearly 2,400 businesses and assisted with over 300 new and recertification applications. Instead of a passive approach where vendors sought us out for certification, the addition of this resource allowed DPS to be proactive by making a local impact and recruiting new firms into the certification program.

Recognizing Veterans

This year, working with the Veteran's Caucus, the City passed legislation to establish a certification program for veteran-owned Business Enterprises (VBE), to recognize the contributions of veterans in our community. By establishing a certification program, DPS can ensure that veteran-owned businesses seeking to take advantage of incentives and programs in the City are legitimately owned, operated, and controlled by veterans. The certification program will mirror the rigorous application process in place for minority and women-owned business enterprises.

We are pleased to announce the launch of the online application process for veteran-owned businesses seeking City certification. DPS has prepared for this application launch by working to customize the system and ensure that all requirements were met to create a streamlined process for existing certified firms as well as new applicants. We are conducting extensive communications and outreach to inform the vendor community about the availability of this new VBE certification.

Businesses Enterprises Owned or Operated by People with Disabilities

We are committed to ensuring small businesses of every size, type and kind are supported and have the opportunity to thrive. To that end, we worked with the Mayor's Office for People with Disabilities to institute measures to expand the BEPD program, which encourages the use of Business Enterprises owned or operated by People with Disabilities.

Whereas the previous incentive required vendors utilize BEPD firms for future credit later, the amendment made the incentive applicable to current bids. It also doubled the amount of the incentive, from two percent to four percent. In addition, service-disabled veterans are eligible to be certified under this enhanced program. These changes were put in place to make this underutilized incentive more attractive for prime contractors and more beneficial for our BEPDs.

Participation

Since 2012, when the responsibility for certification and compliance with the City's programs was returned to this Department, we have been tracking the fulfillment of these participation goals. Because of ongoing upgrades and advances to our online C2 System through which contractors report (and importantly, subcontractors confirm) commitments, payments, and participation, we have the ability to report payments as they occur, as well as separate payments by construction versus non-construction. We are continually enhancing the system, training vendors and conducting outreach to ensure that we are able to process more payments to the vendor community. Small, minority and women-owned businesses' participation in City contracts as primes, subcontractors or suppliers continues to be a primary focus of this Department and part of everything that we do.

Construction payments, made between January and September 2017, totaled \$574.7 million. Of those payments, \$215.7 million, or 38%, went to MBE and WBE firms, with \$177.9 million, or 31%, to MBE firms and \$37.8 million, or 7% to WBE firms. A significant portion of these payments were on contracts that were awarded when the goals for the M/WBE Construction Program were 24% MBE and 4% WBE. In 2016, the Program was extended by City Council and the goals for construction projects increased to 26% MBE and 6% WBE. Of the construction payments in this period, African American firms were paid \$47.0 million, or 8 percent; Hispanic firms were paid \$114.7 million, or 20 percent; Asian American firms were paid \$23.7 million, or 4 percent; women-owned firms were paid \$30.2 million, or 5 percent.

Projects not in the construction realm have different goals, as set by ordinance. Professional service contracts have participation goals of 25% MBE and 5% WBE, Commodities/Work Services have goals 16.9% MBE and 4.5% WBE. Upon the recommendation of the Office of the Inspector General, DPS, with the assistance of our User Departments, sets contract specific goals on all projects. Goal setting allows the User Departments to look for meaningful opportunities available for minority and women business to participate on a direct basis. For these non-construction projects, payments totaled \$485.1 million. Of those payments, \$113.2 million, or 23%, went to MBE and WBE firms, with \$87.8 million, or 18%, to MBE firms and \$25.4 million, or 5% to WBE firms. African American firms were paid \$35.7 million, or 7 percent; Hispanic firms were paid \$38.3 million, or 8 percent; Asian American firms were paid \$22.4 million, or 5 percent; women-owned firms were paid \$16.8 million, or 3 percent.

Tracking Impact

As we highlighted in aldermanic briefings earlier this year, we are working on numerous ways to track economic impact for local individuals and businesses as well as minority-owned, women-owned, and disadvantaged businesses.

We have programs to support all our City residents by requiring and incentivizing City contractors to hire locally. This builds on a movement to encourage access to quality jobs for all of our residents who are looking to positively contribute to Chicago's economy and provide better lives for their families.

The Chicago Residency Ordinance requires that 50% of the total work hours on non-federally funded City construction projects be performed by City Residents. Over the last three years we have exceeded requirements and have averaged 54%.

We also require that construction contractors utilize residents from the surrounding project area for 7.5% of the total work hours. Depending on the project scope, a project-area is tailored to each construction job and can be defined as one of Chicago's 77 community areas or a combination of multiple community areas. From Rogers Park to Roseland, wherever a City construction project is taking place, businesses from the community have the opportunity to work on that project. Of the 116 active and closed projects that we have been tracking since the start of the program, we are exceeding requirements and have been trending at 12.6% utilization.

This represents 5,536 employees. Technology investments that we have made are allowing us to track the location of these employees by both Ward and Community area. Being in a position to measure and report information at this level of detail will help identify opportunities, develop programs and deploy resources.

In addition to requirements, we also reward the creation of job opportunities. The recently expanded Equal Employment Opportunity (EEO) bid incentive increases job

opportunities for minority and female workers on all City-funded construction projects and boosts hiring from underserved areas. It is designed to create jobs for those who need them most and ensure that the City is spending its funds in a way that strengthens every neighborhood. The expanded incentive has increased the percentage allowed for minority and female laborers, journeyworkers and apprentices.

It also incentivizes contractors to employ residents in the neighborhoods that are in the greatest need of economic development. Contractors can receive 1.5 hours of credit for each hour worked by employees from Chicago's neighborhoods most in need.

For the period from January to September 2017, for locally funded construction projects over \$100,000, there were 848,005 hours performed by minorities and 40,495 hours performed by females in the category of journey workers, apprentices and laborers. Of the total hours performed, minority workers made up 64% of the journeyworkers, 80% of the apprentices, and 88% of the laborers. Female workers made up 3% of the journeyworkers, 18% of the apprentices and 3% of the laborers. Minority worker hours have exceeded projections, and we continue to work to educate the vendor community about the EEO incentive to improve the participation of female workers. We have partnered with Chicago Women in Trades as one of our Assist Agencies, and presented at a Diversity in the Workforce workshop at the recent national 2017 Women Build Nations Conference.

Recognizing that it is critical for businesses to have access to a pool of qualified and skilled workers, our solicitation documents now include expanded eligibility under the Apprentice Utilization Bid Incentive. The expansion includes eligibility for all CPS graduates in addition to students enrolled in a City Colleges construction training program, while encouraging City contractors on applicable projects to sponsor returning citizens into apprenticeship programs. We work closely with the Department of Family and Support Services to disseminate information about Community Reentry Support Centers, and the services provided to Chicago's residents, including jobs programs and skills training in high demand industries.

Building Capacity and Creating a Pipeline for Success

We are continuously expanding the resources and programs that empower our diverse vendor community to become involved in the opportunities available throughout the City.

One of the local programs we are most proud of is SBI, the Small Business Initiative. SBI provides a level playing field for small businesses to compete in the construction realm. The program is race and gender neutral and exclusive to small businesses.

Construction opportunities valued at \$3 million and under are available for bidding only to local firms meeting size standards set by the Small Business Administration (SBA).

But we are always learning, and always open to feedback. We listened closely to our assist agencies, and learned that a wide range of businesses can be classified as “small.” So what if you are “very small?” How do you compete?

In response, a second tier, SBI 2, was developed for local firms that are one-half the SBA size standards. These SBI 2 projects are valued at \$2 million or less and allow even greater opportunities for these smaller businesses.

Since the SBI program’s inception, 47 projects valued at nearly \$85 million have been awarded to small and very small local businesses. The projects have allowed these businesses to gain experience performing work as prime contractors, something that is critical to building capacity. We wanted to reach the other side of that spectrum and ensure that there was an ongoing pipeline for success and a there is a path for all businesses to continue to grow and thrive in Chicago.

Based on the SBI model, we developed the Mid-Size Business Initiative (MBI). These projects are \$3-10 million in size and bidding is limited to contractors that are no greater than 1.5 times the SBA size standards. There are currently five projects in development, valued at up to \$50 million.

We are committed to developing programs that encourage our businesses to continue to grow. We developed the Phased Graduation Program, which allows businesses to receive subcontracts at a partial utilization rate for MBE/WBE credit for three years, even though they now exceed the size standard. In the first year of the program, a firm can be utilized for a 75% credit towards participation in city contracts. In Year 2 the utilization rate is 50%, and in Year 3 the utilization is 25%. As these firms are growing and graduating, there should a path to foster the development of new firms. We rely on our assist agencies to help grow this vendor pool and identify the next generation of businesses to help enter this pipeline.

In addition, an ordinance now authorizes the City to limit the number of contracts awarded to a single contractor for specifications where the City is divided into multiple geographic locations. This ensures that all areas of the City receive equal levels of service. This measure protects the City from contractors that overextend themselves and provides another method to extend opportunities and increase the diversity of contractors participating in City contracts. In fact, we were able to realize the benefits of this policy change when a WBE/MBE firm was awarded contracts under a solicitation that divided the City into these geographic zones.

Eliminating Retainage, a Financial Burden on Subcontractors

This year we worked to relieve a financial burden placed on subcontractors that was based on a common practice related to construction projects. Retainage is a portion of the contract payments that may be withheld until work is substantially complete to assure that the contractor or subcontractor will satisfy their obligations. Historically, the City took retainage from prime contractors, who were permitted to take retainage from their subcontractors. However, as many subcontractors are smaller firms, this practice often caused a substantial financial burden.

Beginning with solicitations advertised this year after the passage of the new ordinance, the City will no longer take retainage from prime contractors on most City contracts and will include a provision in these contracts that prohibits prime contractors from taking retainage from subcontractors. This change complements the efforts made to ensure that small, minority and women-owned businesses can compete and win City contracts and is designed to help small firms thrive by eliminating an onerous practice that can have a significant negative impact on these businesses. In addition to helping subcontractors, this change will also streamline City operations, as City employees will no longer need to track and manage retainage payments.

High Standards in Contract Compliance

Monitoring vendor obligations to our taxpayers remains a key priority for this department. Because monetary damages are often taken out of retainage, the DPS Compliance Unit will maintain vendor accountability by continuing to monitor and enforce Equal Employment Opportunity, Chicago Residency Ordinance, and MBE/WBE obligations. The team conducted 331 scheduled and unannounced site visits from January to September 2017. While onsite at each construction location, they meet with the resident engineer or project manager to receive the daily work schedule and ask to be escorted onto the job site. They thoroughly inspect the job site, interview workers and document their findings. Deficiencies are identified during the site visit in the areas of underutilization of minorities and females, job/bulletin board requirements, and lack of employee training. There are significant consequences for vendor non-compliance; primes that are assessed damages or who fail to perform can be subject to a finding of non-responsibility, prohibiting them from bidding in the future.

Implementing eProcurement

In order to change the focus of City procurement from moving paper to cost savings, negotiation and supplier management, we have worked with the Department of Finance and the Department of Information Technology to implement an eProcurement system. This initiative is streamlining procurement from top to bottom.

This complete transition to the modernized eProcurement system will simplify the City's procurement processes by tracking all contract-related activities through the new eProcurement Portal. Through eProcurement, solicitations for the City's diverse needs for goods and services will be advertised, posted, and responded to online. These changes will increase City efficiency, transparency and vendor participation while decreasing procurement cycle times and paper utilization.

In 2017, all departments went "live" with the eProcurement project, utilizing the system for all contract amendments and specific types of contract bids. Solicitations are being rolled out in a phased approach by contract category. Several Commodities contracts have been awarded and additional solicitations, including a Request for Proposals and a Construction bid, are in the pipeline as various contract categories are initially advertised. The eProcurement Modernization project will include the advertisement of all remaining contract categories by the end of 2017, including Architecture/Engineering, Vehicles and Heavy Equipment.

The eProcurement Team is also making strides with vendor data merge and digital signature/approvals, including the forthcoming award of the first contract ratified using digital signatures.

To be sure that the vendor community has the tools it needs to be ready, we have created a dedicated microsite with tutorials, FAQs and other resources, and have trained hundreds with in-person and online workshops. We have interfaced with our Assist Agencies representing small businesses to ensure that they have communicated about the availability of assistance and resources. Once registered, vendors are already able to use the DPS iSupplier Portal self-service website to update contact, geographic, financial and shipping information, and, can track the progress of purchase orders and payments within the eProcurement system.

Staying Involved: Communications, Training & Outreach

We make many efforts to be transparent about upcoming opportunities and conduct extensive outreach to educate the vendor community about the procurement process. We make it a priority to ensure that all interested businesses have access to the information, resources, and tools they need to compete for City contracts. We have developed a new Bid Incentives and Program Guide to include comprehensive information on the numerous initiatives that have been put in place to help businesses, increase capacity, foster mutually beneficial business relationships, and be more competitive when bidding on City contracts. This guide is designed to support the pipeline of business growth at every phase – whether a business is just starting out or is a seasoned firm.

We have also continued to expand our Buying Plan to forecast the goods and services that we expect to procure in the upcoming year. The Buying Plan grows each quarter and contains FAQs about the procurement process related to the City, as well as 12 other procurement entities. The latest version of the Buying Plan is always available from the DPS website at www.cityofchicago.org/dps.

Our DPS Alert email newsletter subscriber list has grown by 20%, this year reaching 12,000 subscribers. Every Monday, we issue a Bid Opportunity List (BOL) that itemizes what opportunities are currently advertised and we encourage potential vendors to attend pre-bid conferences for each project in which they are interested.

We are posting updates on social media about new bid opportunities, events, free workshops and other areas of interest to the vendor community. Residents can follow us on two platforms: Facebook (www.facebook.com/ChicagoDPS) or Twitter (www.twitter.com/ChicagoDPS) for the latest information.

DPS also maintains a YouTube Channel with livestreaming capability, designed to bring additional transparency to the procurement process. The DPS YouTube Channel, www.youtube.com/ChicagoDPS broadcasts all City of Chicago bid openings. This is good news for small business, because they can save time and money by being able to view bid openings from their office computers or mobile devices. Also broadcast are DPS workshops, as well as educational videos about procurement, certification and compliance and eProcurement.

DPS expanded its workshop roster to 19 different classes on procurement and certification-related issues at no cost to the public. We added four new classes in 2017: “How to Complete an Online Economic Disclosure Statement (EDS)” to ensure that vendors understand their disclosure requirements under state laws and City ordinances, “Doing Business with Sister Agencies” to showcase the opportunities available with Participating Members of the Procurement Reform Task Force, “Working with Assist Agencies” to highlight resources that are available to our local small, minority and women-owned businesses, and “Workforce Development Incentives & Programs”, in partnership with the Department of Family and Support Services and the Chicago Cook Workforce Partnership.

Through all of these classes, DPS shares knowledge on governmental contracting policies and procedures in order to increase the existing vendor pool and maintain transparency in the contract process. In addition to the classes that are held at City Hall, DPS conducts meetings and gives educational presentations in diverse communities. DPS will continue to implement outreach programs throughout Chicago’s business community in an effort to increase awareness of contracting opportunities for small, minority- and women-owned businesses and to provide information on certification and contract compliance.

As stewards of taxpayer dollars, and in support of our very small, small and mid-sized businesses, we remain committed to providing competitive, fair and transparent

procurement services for the City of Chicago. We encourage everyone to go online and read about our programs, visit our offices and use our resources. There is no better time than now for the citizens of Chicago to grow their businesses and build a better future.

We look forward to supporting all who are working to make that future a reality. We will continue to brief the aldermen on continuing progress and the latest developments at DPS, as we have done this year by providing quarterly updates. We stand ready to tailor specialized trainings and attend events to promote City resources and provide education about how to participate in the business of Chicago. While much work has been done, we know that there is always opportunity to improve and we will continue to do so for the good of all of Chicago.

Respectfully Submitted,

Jamie L. Rhee

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City of Chicago