



## Procurement Can Be a Powerful Tool for Local Economies, but Takes More Than a Policy Change to Work

Olivia LaVecchia | 0 Comments | Aug 27, 2015



When Bill de Blasio took office as New York City's mayor in 2014, his administration began to tackle a less-than-flashy issue: How to change who was winning city contracts.

De Blasio had swept the election with a campaign promise of reducing income inequality, and re-directing NYC's vast purchasing power was one of the wonky cornerstones of his plan to do it. So his administration started looking for ways to strengthen the city's Minority and Women-Owned Business Enterprise program, designed to help businesses owned by people of color and women bid on, and win, city contracts. It appointed committed

staff, integrated the program into housing policies and Hurricane Sandy recovery projects, and launched new online tools for business owners.

The program became "a core part of the mayor's strategy on inequality," one of de Blasio's [top aides said](#), and the administration identified it as a "[top priority](#)."

It worked. That year, New York City awarded \$690 million in contracts to businesses majority-owned by minorities or women, a 57 percent increase from the year before — though still only about 4 percent of the city's overall \$17.7 billion in spending. Since then, de Blasio's administration hasn't let up. It's commissioned an in-depth study of the program, sought changes to state laws that would strengthen it, and set a goal of increasing city awards to minority- and women-owned firms by \$16 billion over 10 years.

New York City's new emphasis on who it does business with is just one of the recent events that's bringing the often-overlooked power of procurement into the spotlight.

The decision of which firm will get the food service contract at the City Hall cafeteria doesn't always make it into the news, but local governments spend a lot of money. In towns, counties, and states everywhere, there are roads to be paved, lawyers to be hired, and office supplies to be purchased, and the rules set up to govern those contracts—procurement policies—can be important mechanisms for advancing other public aims.

At least 45 states, plus the District of Columbia, have procurement policies designed to give a preference to businesses that meet certain characteristics, such as those that are owned by veterans, pay certain wages, use environmentally sustainable practices, or manufacture within the state. Of these, about half have adopted an explicit preference for businesses that are small and/or local. These policies vary considerably. Some apply only in narrow circumstances; others are broader. In addition, more than thirty states have policies aimed at steering purchasing to minority- and women-owned businesses. Looking beyond state governments, large numbers of counties, cities, and towns have procurement policies of their own.

In these policies lies the potential for governments to grow their local economies. When dollars are spent at locally owned firms, those firms in turn rely on local supply chains, creating an “economic multiplier” effect. [Numerous economic impact studies](#) have quantified this effect on dollars, jobs, and wages. A 2009 study from California State University at Sacramento, for example, found that the State of California generated approximately \$4.2 billion in additional economic activity and 26,000 new jobs between 2006 and 2007 by contracting with disabled veteran-owned businesses and local small businesses instead of larger companies.

But while many states and cities have local procurement policies on the books, in a far smaller number of them are these policies delivering on their potential. The many policies that fail to meaningfully shift government spending often share three common traits. First, they are stand-alone statutes that lack an accompanying program to recruit local businesses. Second, they do not set and track goals for how much contracting a government will award to local businesses. Third, they have a watered-down definition of what constitutes “local.”

There’s a big difference between a multinational company that happens to have a location in the area, and a company that’s headquartered locally. A truly local company grows the economy around it by turning to other local firms for services like accounting and printing, and because its owners and employees live in the community, its profits stay there too. Many local procurement policies, however, don’t distinguish between these two, and require only, for instance, a valid local business license or physical business address for a company to qualify for a local procurement program.

In places where procurement is truly working as economic development, it’s the result of more than just a new city ordinance. Instead, it’s in places like New York City, where officials recognize the importance of procurement, create robust policies, and then integrate them into broader strategies. Here are four examples—Cleveland, Montgomery County, Md., San Diego, and Phoenix—of how different governments are tackling local procurement, and what works.

## Making Procurement a Priority: Cleveland

The first sign that Cleveland takes its local contracting seriously is that, unlike most cities, its programs aren’t at the bottom of the food chain, overseen by procurement divisions that are in turn nested within finance departments. Instead, in Cleveland, local contracting gets its own department, the Office of Equal Opportunity. The director of the OEO sits on the mayor’s cabinet, and reports directly to Cleveland Mayor Frank Jackson.

When Mayor Jackson talks about local procurement, he sounds like New York City’s de Blasio. He likes to talk about it as “self help.”

“Self help means to invest in the local economy by procuring goods and services from local companies and by hiring local employees,” Jackson has said. “Contracting is one strategy that the city of Cleveland is using to promote local economic investment and inclusion.”

*For more information about procurement, including model policies, check out our [Rules page on Local Purchasing Preferences](#).*

In 2014, Cleveland drove 39 percent of its total \$147 million in contracting to businesses that are either local and small, or local and minority- or female-owned. That’s up significantly from just four years earlier, when the city awarded 29 percent of its contract dollars to certified firms.

Michael Curry, a Compliance Manager with the Cleveland OEO, says that the top-down prioritization of the city’s contracting goals has been instrumental in meeting them.

“The key to our success has been expressing to our contracting department the importance of this component in city contracting,” says Curry. “That starts with the mayor expressing to program directors that when we are buying whatever we are buying, we are using those dollars to encourage the growth of minority, female, and small businesses.”

The OEO oversees a number of programs designed to reduce economic inequality in Cleveland. Among them are the city’s Minority and Female-Owned Business Enterprise Program, which dates to 2003, its Cleveland Area Small Business Purchasing Program, which was created in 2008, and its Local and Sustainable Purchasing Program, which took effect in 2010. Businesses certified in these categories receive a bid preference that ranges from 2 to 5 percent, and businesses certified in multiple categories can combine them up to a maximum 9 percent bid discount. In other words, if a company’s certified, it doesn’t have to have the lowest bid in order to win the contract, just be within a certain percentage of the lowest bid.

More importantly, Cleveland sets goals for how much business it will drive to its certified firms, and on bigger contracts, requirements for how many certified subcontractors will work the job. For instance, on public improvement contracts, the goal is to have 30 percent of subcontractors be firms that are certified as small and local. Cleveland's strict about how it defines local, too: There are different requirements for City of Cleveland Small Businesses, which are those headquartered within the city, and Regional Cleveland Small Businesses, which are those headquartered within the county.

On every contract, the city applies its goals, doesn't hesitate to reject bids from contractors who don't meet its standards, and requires reporting.

"It really does rely on administrative commitment," says Curry. In the eight years that Curry's worked in the OEO, he's seen the city's policies become simpler and more accepted. On big projects that carry subcontractor requirements, for instance, "Contractors expect it now as part of doing business with the city of Cleveland," Curry says. "We don't get a ton of pushback."

On the other side from reporting and compliance, the OEO also works with businesses to certify them, runs outreach programs to connect them to city contracting opportunities, and sponsors development programs, like a 15-week course for certified contractors that it co-hosts, to support them once they're there. To manage all of this, the department employs between 12 and 15 people, and its size has remained consistent as it's added new programs over the years.

"We're as aggressive as anyone when it comes to these programs," says Curry. He also gets to see the results of that work. "There are businesses that have gotten certified and have used that to grow their businesses significantly," he says.

## Programs That Work: Montgomery County, Md., and San Diego

Other governments have come up with their own approaches to local procurement, but many successful programs share a common outlook on its importance. Where procurement has a concrete impact on the local economy, it's often seen as a critical component of the government's strategy to accomplishing its overarching goals.

In Montgomery County, Md., for instance, the Local Small Business Reserve Program designates certain solicitations only for LSBRP bidders, and aims to direct 20 percent of county contracts under \$10 million to those firms. Under the program, "local" is defined as businesses that are either located only in the county, or businesses with locations both inside and outside of the county, but for which the county-based location accounts for over 50 percent of the total number of employees or over 50 percent of gross sales. The county has registered more than 1,220 local small businesses in its vendor system, and in 2012, it spent \$83.7 million with LSBRP-certified businesses, or 16.7 percent of its total contract dollars.

In San Diego, there's the Small Local Business Enterprise Program, which is administered by the city's Equal Opportunity Contracting Program. Under the program, public works contracts valued at \$1 million and above include a mandatory subcontractor participation requirement for certified SLBEs, contracts valued between \$500,000 and \$1 million have a 5 percent bid discount for SLBEs, and contracts valued between \$250,000 and \$500,000 are only open to certified SLBEs. Other forms of contracts, such as those for goods and services, contain similar elements.

San Diego's definition of "local" is, like Montgomery County's and Cleveland's, a strong one. To qualify for the SLBE program, a business must have both a principal place of business and a significant employment presence in the city or in San Diego County. The program describes "principal place of business" as a physical location through which the firm earns no less than half of its overall customers or sales dollars, and "significant employment presence" as no less than a quarter of the firm's total number of employees living in the city or the county.

The SLBE Program went into effect in 2010, and it continues to grow. In 2013, the program directed \$39 million in construction, architectural, and engineering contracts to 411 small, local firms. Just the next year, those numbers had increased to \$69 million, and 430 firms.

As in other cities with successful local procurement programs, in San Diego, the program's strength has come from the top.

"Our Council has been a really strong proponent of small business, and they want the data and want to see these programs succeed," says Kim Patton, the city's SLBE Certification Specialist. "The leadership has been there, and has been able to be successful in changing minds."

## Starting Smaller: Phoenix

"When I asked local businesses, 'What's the best thing I can do to support you?' They said, 'Buy from

us,” Phoenix Mayor Greg Stanton explained in his State of the City address in March 2014.

Stanton’s administration opted to start by working within the city’s existing structures, rather than pursuing a major policy change. Without altering its procurement policies, in 2012, the City of Phoenix changed its process for informal procurements—smaller contracts—instead.

With input from the local business advocacy group Local First Arizona, Phoenix rolled out its Local Small Business Enterprise Program, which created a database to register small and local businesses. Further, the city said that LSBEs would get the first opportunity to submit quotes for all purchases of goods and services under \$50,000. The program defines “local” as a firm with a principle place of business in the surrounding county. If fewer than three locally owned businesses submit a quote, the contract next goes to Arizona Small Business Enterprises, or those with a principle place of business within the state.

After just one year, the LSBE Program had achieved a measurable impact. In 2011, Phoenix spent just \$50,000 with small, local businesses. By 2013, that figure had jumped to \$2.3 million.

There are signs that the LSBE Program may also be spurring a shift in Phoenix’s approach to contracts larger than \$50,000 as well. As one example, in May 2015, Wist Office Products, a locally owned office supply firm, won its first contract with the city.

Wist had been the subject of a 2007 economic impact study that found that, given the company’s heavily local supply chain, 33.4 percent of its revenue remained in the local economy, compared with just 11.6 percent at Office Max Contract, a national company with an Arizona presence. The study concluded that if the city awarded a one-year, \$5 million contract for office supplies to Wist, an additional \$1 million would stay in the area economy. With Office Max, just \$580,000 of that \$5 million would recirculate locally. (If the city went with an out-of-state contractor with no in-state facilities, “only nominal amounts would remain in state.”) Despite these findings, it took eight more years for Phoenix to shift its contract to Wist.

While Wist’s contract is too large to qualify for the LSBE Program, the city’s increasing focus on locally owned businesses “certainly opened the door,” says Bill Strait, the company’s sales manager.

“Cities sometimes just don’t see themselves partnering with smaller groups,” says Strait. “The city of Phoenix never considered us... But I’ve seen a change. These last two years, they’re open.”

“It’s huge for us,” says Strait about getting the contract. “Any time a city will partner with you, it’s huge to your credibility.”

## Going Forward with Local Procurement

As local governments increasingly recognize the benefits of growing their local economies, they’re also figuring out how to implement procurement policies that can strengthen them. With more places creating these programs, and with high-profile cities like New York setting a high bar for tracking results, policymakers in other cities are gaining new examples and data about what works.

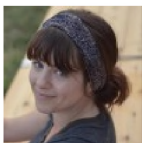
Models from Cleveland to Phoenix, and Maryland to San Diego, show that when procurement policies include firm definitions, well-developed goals, and clear tracking and reporting, a city’s purchasing and contracting can make a difference for its local economy.

They also show something else—that the stronger these policies are, the more they engender the kind of across-the-board buy-in among city and county staff that’s the other critical piece of their success.

*For more information about procurement, check out our [Rules page on Local Purchasing Preferences](#).*

*Photo of Cleveland City Hall by Mike Russell [via](#) Wikimedia Commons.*

**TAGS:** [local procurement](#) / [local purchasing preferences](#) / [procurement](#)



### About Olivia LaVecchia

Olivia LaVecchia is a Research Associate with ILSR’s Community-Scaled Economy Initiative. A former reporter, her work has won recognition locally and nationally, including the 2014 “Media for a Just Society” award for newspaper writing.

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