

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6a</u>
Date of Meeting	<u>February 9, 2016</u>

DATE: February 1, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Dave Caplan, Sr. Director, Office of Strategic Initiatives
Nora Huey, Director, Central Procurement Office
SUBJECT: Procurement Excellence Services Contract

Amount of This Request:	\$ 500,000	Source of Funds:	2016 Operating Budget
Est. Total Contract Cost:	\$4,000,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute the diagnostic phase of a consulting contract for services relating to Procurement Excellence. The estimated cost for diagnostic phase and implementation is anticipated to be \$4,000,000. The Port will come back for specific authority to amend the contract to authorize the implementation phase.

SYNOPSIS

The Office of Strategic Initiatives is proposing to hire a qualified consulting firm to lead the Port on a procurement excellence project. The Port is reviewing the effectiveness and efficiency of its procurement, process, practices, and systems. The objective of this project is to support the rapid growth of our businesses and operations and reduce the total cost of the procurement functions while ensuring that the Port achieves the highest possible value in capital expenditures. The Port anticipates the initial diagnostic phase to be between \$300,000 and \$500,000. The diagnostic phase (Phase 1) will result in a detailed report on the opportunity (scope, expected savings/cost avoidance, methodology, staff development and capability). We will return to Commission for authorization to move forward with Phase 2 (implementation) if we see a significant return on the investment and a high probability of a successful implementation. The Port anticipates total cost for phase 1 and 2 will be \$4,000,000. The Port anticipates a return on investment (ROI) five times the contract value and the contract to be cash neutral 12 months after implementation.

BACKGROUND

Central Procurement Office (CPO), part of the Office of Strategic Initiatives, is responsible for procuring all the contracts related to public works, consulting services, and goods and services.

In order to meet the projected growth rate of aviation and maritime, the Port will be making capital investments in facilities and infrastructure to enable significant increased throughput of

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

February 1, 2016

Page 2 of 5

passengers and goods. With this background, we see an opportunity to reduce capital and expense spending while ensuring that the Port of Seattle achieves the highest possible value in future capital procurement decisions. Capital expense and operational expense spending for 2014 and 2015 was approximately \$280 million (\$160 million capital and \$120 million operating expenses). With the growing capacity at the Airport, we anticipate significantly increased capital spending.

PROJECT JUSTIFICATION AND DETAILS

Project Objectives

- Assess the Port's procurement practices and make recommendations about how to improve capabilities within the Port organization that will lead to improved quality of our procurement results and decreasing cost of procurement and total spending.
- Outline future functional processes, practices and policies and assist with executing the plan.
- Incorporate the Century Agenda goals of increasing contracting opportunities for small businesses and improving environmental purchasing.
- Reduce annual spending by improving strategic sourcing and procurement processes and their link to capital projects.
- Reduce delivery time of procurements.
- Demonstrate and achieve real dollar savings and a high return on investment.
- Increase organizational capabilities and develop a new way to work to deliver more value to the Port over the long term.

Scope of Work

The scope of work will be constructed into two phases. The first phase will consist of an assessment of the Port's current state and performing an opportunity analysis. The consultant will conduct a detailed assessment of the base-line spending structure relative to total cost against industry/regional best practices. The assessment will hold an emphasis on identification of "quick fixes or wins" in addition to long-term capability development.

As a result of phase one, the consultant will be expected to provide the Port with specific recommendations, implementation plans, approximate timelines, staffing requirements, and potential risks. The Port will assess those recommendations and make a determination on what specific recommendations we will move forward and implement. We will come back to Commission to obtain authority to move forward with phase two.

During phase two, the consultant will partner with the Port project team in executing the implementation plan. The consultant will assist with overcoming challenges that occur in the implementation process and provide the Port with the tools and know-how required to manage the new sourcing process that will take effect in the future.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

February 1, 2016

Page 3 of 5

Schedule

The Port anticipates executing a contract in March or April 2016 with services to be completed in 2016.

FINANCIAL IMPLICATIONS

The estimated cost of the agreement will be \$4,000,000 for the duration of one year with the ability to continue into 2017 if all work is not accomplished in 2016. Phase one is estimated to cost around \$300,000 to \$500,000. Charges to this contract will be from the Office of Strategic Initiatives and included in the 2016 annual budget. We expect the contract to be cash neutral 12 months after implementation with an overall five times return on investment.

STRATEGIES AND OBJECTIVES

The services and recommendations resulting from the consultant's proposed strategy are expected to result in savings of five times the Port's investment into this contract. This project will result in demonstrable savings and high return on investment in addition to improving internal capabilities and speed of delivery. The implementation of the Procurement Excellence supports the port-wide strategies of exceeding customer expectations; managing our finances responsibly; and supporting the Port's mission with implementation of divisions' business plans. Furthermore, it aligns with the Port's values of ensuring the Port possesses high-performing employees who continue to value public service and conducting business with the highest ethical standards.

TRIPLE BOTTOM LINE

Economic Development

One primary outcome of Procurement Excellence is to address our Century Agenda goals. Focus will be placed on improving our procurement planning, strategy, and processes so that our procurement processes are more efficient and effective, we provide contracting opportunities for small businesses and attain our goal of increasing contracting with qualified small businesses to 40% of eligible dollars spent by the Port.

Environmental Responsibility

In addition to addressing small business, Procurement Excellence will also focus on developing processes and procedures to address environmental purchasing.

Community Benefits

Procurement Excellence will benefit the community as we improve our processes, delivery speed, financial stewardship and focus on social responsibility.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not hire an outside consultant to perform services. Perform services with in-house staff. This would require a significant amount of time and specialized expertise from internal staff to perform the work in the time frame desired. Estimated direct cost of \$400,000

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

February 1, 2016

Page 4 of 5

(represents 2 full time people to focus on and implement process improvements). This cost does not include other staff time to work on the projects. We anticipate a \$600,000 return on investment within two years of implementing changes.

Pros:

- Less cost.
- In-house staff is familiar with operations.

Cons:

- Require significant amount of time and specialized expertise that may not exist within the Port. Process will take longer to implement and may find more difficulty in making Port-wide cultural change.
- Port staff may not have the broader perspective and experience with private sector best practices.
- Less certain return on investment.

This is not the recommended alternative.

Alternative 2) – Retain a consultant to assess the Port’s procurement and capital management program and implement changes that will transform the Port’s approach to strategic sourcing, operational procurement practices, and achieve real saving and high ROI. Estimated consulting costs \$4,000,000. This cost does not include staff time associated with the diagnostic phase or to work on the projects that result from the diagnostic phase.

Pros:

- The consultant will have significant national expertise in procurement optimization, bringing successful ideas and concepts from private industry into the Port.
- Ability to make sustained Port-wide cultural change in strategic sourcing and procurement activities.
- Develop internal capabilities and decrease delivery time.

Cons:

- Cost of utilizing outside consultant and require significant time commitment from numerous groups throughout the Port, including but not limited to Central Procurement Office, Capital Development, Aviation, Maritime, ICT, and Economic Trade & Development.
- Significant investment of Port staff time to work with the Consultant.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Powerpoint – Procurement Excellence

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

February 1, 2016

Page 5 of 5

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- January 6, 2016 – Strategic initiatives Commission Briefing