

**CITY OF NEWPORT BEACH
CHARTER UPDATE COMMISSION STAFF REPORT**

Agenda Item No. 3
April 2, 2010

TO: HONORABLE MEMBERS OF THE CHARTER UPDATE COMMISSION

FROM: Administrative Services Department
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SUBJECT: CHARTER SECTION 1106– CENTRALIZED PURCHASING

RECOMMENDATION:

Recommend to the City Council to leave Charter Section 1106 unchanged (Alternative #1).

DISCUSSION:

Attached is a "white paper" with relevant background information and suggested alternatives for the Commission to consider.

Submitted by:


Tracy McCraner,
Administrative Services Director

Attachments: Section 1106 White Paper
Charter Section 1106

Centralized Purchasing
(Charter Section 1106)

Statement of the Issue

Should the City modify or eliminate Charter Section 1106 which establishes a centralized purchasing system for all departments of the City under the direction of the City Manager?

Relevant Background

Section 1106 of the Charter provides that “under the control and direction of the City Manager there shall be established a centralized purchasing system for all City departments and agencies, except as otherwise in this Charter provided.” Charter Section 1111 states that “the City Council may prescribe by ordinance rules and regulations for the purchasing of supplies, materials and equipment” and specifies that when making such purchases, merchants within City limits shall be given preference so long as the quality and prices are equal.

Other than these two sections, the Charter currently gives broad discretion to the City Manager to implement a centralized purchasing system as he or she sees fit. The Charter places limitations on public works contracts and contracts for legal advertisements, both of which the Charter Update Commission has considered separately. Existing City Council policies limit the City Manager’s authority to enter into agreements or make purchases over a set dollar amount.

Historically, cities establish centralized purchasing systems to ensure the acquisition of goods and services at the lowest total cost, to promote fair and open competition among suppliers, and to ensure good internal controls exist to prevent unnecessary or duplicative expenditures of public funds. Because centralized purchasing controls are considered to be good business practices, it is common for the establishment of a centralized purchasing system to be included in a city’s charter.

When this issue was first identified, there was a question as to whether decentralized purchasing could be a less expensive alternative. For example, technology now makes it possible to purchase goods and materials on-line, which can shorten the time between ordering and delivery and improve efficiency. However, even with the advances in technology, the principles underlying the rationale for having a centralized purchasing system remain valid. Upon further review of these principles, staff recognizes that having a centralized point for the negotiation of contracts with specified vendors, such as for discounted purchase of commodities like office supplies, does not preclude the delegation of authority for departments to make direct online purchases within established procedures and spending limits.

Newport Beach Municipal Code Section 2.12.040 specifies the Administrative Services Department as being financially responsible for the “purchase of supplies, equipment, training and services used by City departments.” The Administrative Services Director is delegated authority by the City Manager to manage the centralized purchasing system within the limits of the City Charter, the Municipal Code, City

Council Policies, and other administrative policies and procedures approved by the City Manager. These administrative policies include purchasing procedures, and the handling of expenditure approvals for departments. Together, these provide the City Manager and Administrative Services Manager with the flexibility needed to effectively operate the City in the most efficient manner.

ALTERNATIVES

The Commission has the following alternatives identified by Staff:

Alternative 1: Recommend that Charter Section 1106 remain unchanged.

This alternative acknowledges the benefits of having a centralized purchasing system, and the broad authority and flexibility currently given to the City Manager to manage the system as effectively and efficiently as possible.

Alternative 2: Recommend elimination of the Section, leaving the Charter silent on the matter, thereby relying on the City's existing codes, policies and administrative procedures to establish roles and responsibilities as deemed necessary by the City Manager.

As stated above, having a centralized purchasing system is considered to be good business practice for local governments. Although there is no legal requirement for a centralized purchasing to be established by charter, Charter Section 1106 does not dictate how the centralized purchasing system is to be implemented, merely that there be one.

The City Manager has recently created an internal committee to review all contracting and purchasing processes and policies citywide. The Administrative Services Director, City Attorney and representatives from many other city departments are serving on the committee to review policy limits, contracting processes and approvals to streamline those processes and enhance internal controls over purchasing. This committee will be drafting a report of recommended changes to the existing policies which will be forwarded to the City Manager for review and approval. The final report will be presented to Council for their information. In light of this internal review, it appears that elimination of Charter Section 1106 would be premature at this time.

Charter Section 1106 – Centralized Purchasing

Section 1106. Centralized Purchasing.

Under the control and direction of the City Manager there shall be established a centralized purchasing system for all City departments and agencies, except as otherwise in this Charter provided.