

**Office of the President**

**TO MEMBERS OF THE BOARD OF REGENTS:**

**DISCUSSION ITEM**

*For Meeting of March 17, 2022*

**UNIVERSITY OF CALIFORNIA SMALL BUSINESS UTILIZATION UPDATE**

**EXECUTIVE SUMMARY**

At the March 2022 Regents meeting, Associate Vice President and Chief Procurement Officer of Systemwide Procurement Paul Williams will present the current status of the University's efforts to drive economic impact for California by achieving at least 25 percent spend with small and diverse businesses. Mr. Williams will also present the new initiatives being launched to increase the pace of small business utilization results and close the existing gap to targets for UC Campus Procurement and Systemwide Procurement.

Mr. Williams's remarks will cover a brief overview of the newly established vision for UC Procurement which includes a focus on collaborating to connect the power of the entire UC system, including close collaboration with UC Health, when executing procurement activities in support of the University's mission of teaching, research, and public service. He will also highlight the five strategic focus areas for UC Procurement, which are:

- Economic and Social Responsibility
- Growing Strategic Partnerships
- Driving Savings and Value Delivery
- Increasing Efficiency
- Managing Risk

Mr. Williams will be joined by Associate Vice President of Capital Programs, Energy and Sustainability David Phillips, who will speak to the activities specific to driving supplier diversity within the Design and Construction Spend.

**BACKGROUND**

With a UC Procurement spend of \$10 billion, the University of California is one of the largest single procuring organizations in the State of California. UC impacts the economies of every region of the state. Each dollar invested in the University generates over \$21 dollars of economic output. University economic activities generate \$12 billion in federal, State, and local tax revenue each year. Over a half million California jobs, approximately one in 45, are supported by

UC. In total, the University generates over \$82 billion of economic activity each year.<sup>1</sup> As result, UC is uniquely capable of positively impacting the growth and development of small and diverse businesses across the state.

Small business is vital to the success of the University of California and its missions. Consequently, the University has maintained a strong institutional commitment to identifying and working with small businesses over the years. It is the University's intention to continuously expand its initiatives to ensure that small businesses have equal access to work with UC whenever possible.

UC has implemented both systemwide and campus-specific activities designed to improve the University's access to qualified small business suppliers, including disadvantaged, women-owned, and disabled veteran business enterprises, without compromising the \$400 million of benefit delivered by UC Procurement each year. Each campus leads its own outreach program and designs new program commitments as needed, but opportunities to collaborate are actively sought across the UC system.

In April 2017, UC launched the University of California Small and Diverse Business Advisory Council as a means of actively engaging with small and diverse businesses across the state. Shortly thereafter, UC established a target to reach 25 percent of addressable spend with small businesses by 2023.

“Addressable spend” is defined as those items for which the organization has control over the supplier selection. Examples of “unaddressable spend” would be things like tax payments, court fees, and utilities.

In September 2020, UC strengthened its commitment to small business with the kickoff of the Small Business First Program. Small Business First is a policy that allows sourcing requirements less than \$250,000 to be awarded to a certified small business with two competitive bids rather than completing the entire Request for Proposals (RFP) process. It also requires a waiver for any sourcing event in which there are neither small nor diverse suppliers included. Each campus has managed its own rollout of the program, though full compliance was required by March 2021.

While the overall UC small business spend currently lags the target, UC Procurement is launching a series of initiatives that will put the University on track to meet or exceed its goals.

## **FISCAL YEAR 2020–21 RESULTS**

### **UC Small Business Utilization**

**Overall, University of California small business utilization for FY 20–21 was eight percent (\$1 billion) of addressable spend.** This represents a \$69 million increase in spend versus previous year; but it also represents a one percent decrease when considered as a percentage of spend, following a drop of one percent the previous year.

---

<sup>1</sup> University of California Economic Impact Fact Sheet, 2021

Table 1: Total UC Small Business Utilization by Percentage and Type

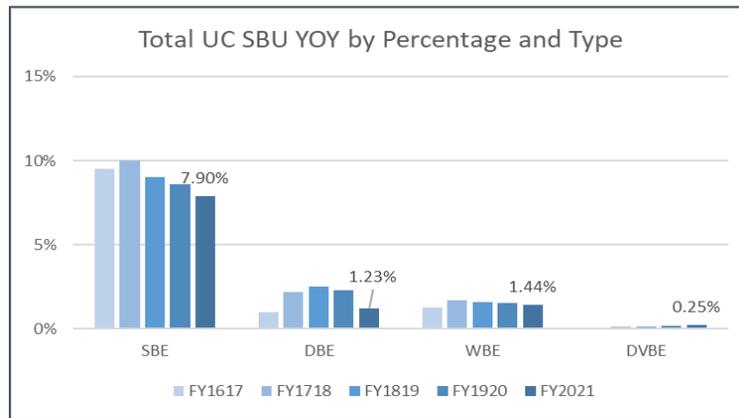
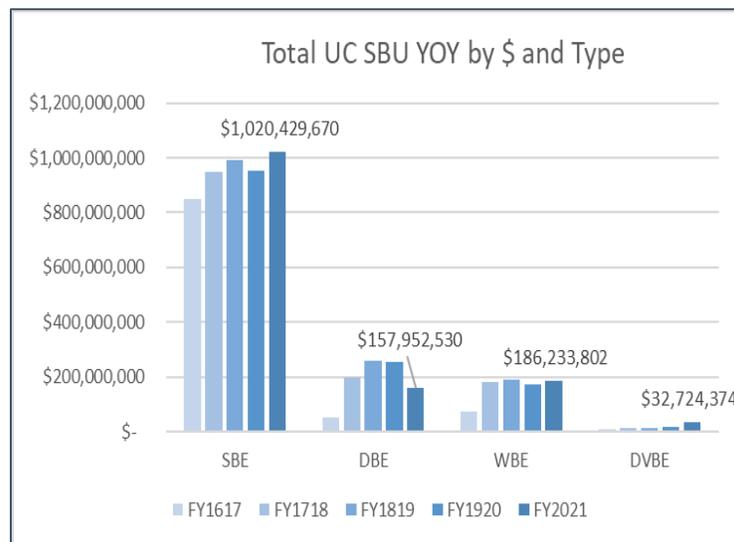


Table 2: Total UC Small Business Utilization by Spend and Type



**Design and Construction**

Spend with small businesses in Design and Construction increased by \$17 million in terms of dollars and increased by one percent in terms of percentage during FY20-21. Total FY 2020–21 Design and Construction small business utilization was just over ten percent (\$223 million) on a total spend of \$2.2 billion.

Table 3: Design and Construction Small Business Utilization by Percent and Type

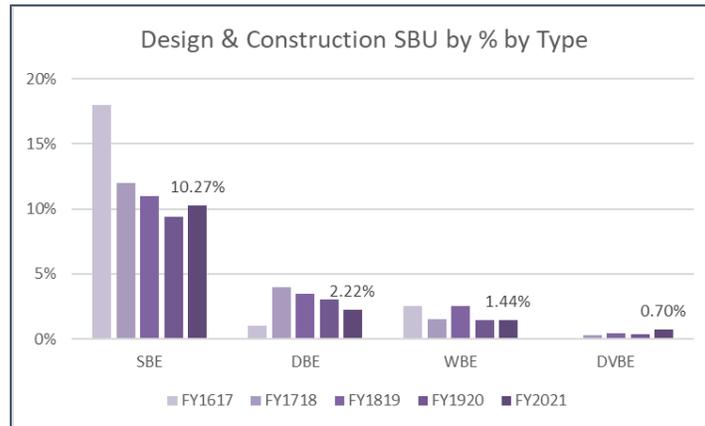
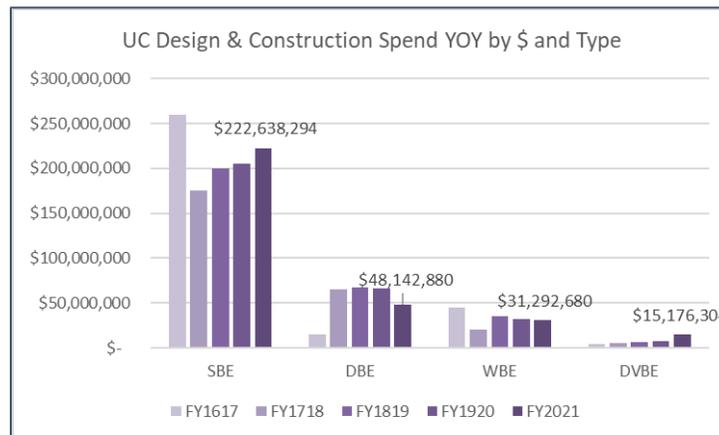


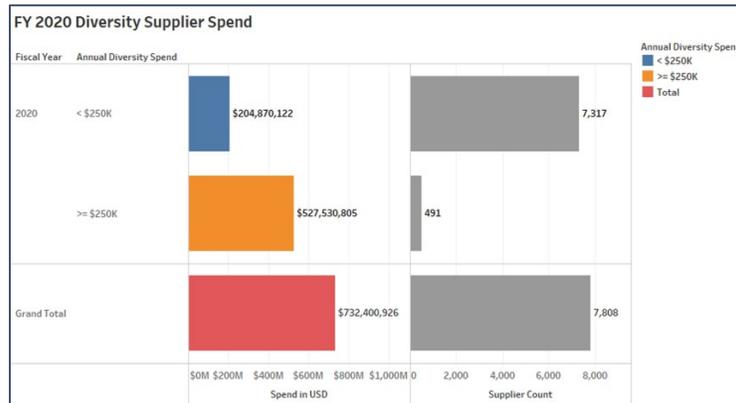
Table 4: Design and Construction Small Business Utilization by Spend and Type



Most individual UC campuses are above ten percent and significantly surpass the UC average percentage however the overall average is lowered by Office of the President (UCOP) Local Procurement at one percent, up 0.4 percent from last year.

However, it is important to note that the UCOP Local Procurement results are heavily influenced by the inclusion of \$2.9 billion of UC’s healthcare and insurance provider spend. This spend represents 88 percent of the total UCOP Local Procurement spend even though it is actually on behalf of the entire UC system. While this healthcare and insurance spend is not completely unaddressable, the size required to provide the services offers limited Tier I small business opportunity. As a result, UC Procurement is working with the primary healthcare and insurance suppliers to hold them accountable for delivering and reporting more robust Tier II spend and to encourage them to partner with small and diverse business providers in the delivery of Tier I requirements, such as woman- or minority-owned medical and dental practices.

Table 6: Number of Procurement Suppliers by Size of Spend



A profile of the FY 2020 spend with small businesses shows that the six percent of small business suppliers with spend over \$250,000 to account for 72 percent of the small business spend. This suggests that, in addition to the Small Business First policy, which helps to expedite low dollar spend via the RFP exception, UC Procurement should also focus on identifying opportunities for small and diverse businesses to compete for larger pieces of business. The updated strategy targets these areas.

**UC Medical Center Spend**

UC medical centers spent an average of seven percent of addressable spend with small businesses. It is worth noting that on some campuses, there is a notable difference in the small business results between the campus and medical center spend at the same locations. For example, UC San Diego is at 13 percent while the UCSD Medical Center is at seven percent. The plan is to rapidly benchmark the top-performing organization and cross-pollinate worthy suppliers as early as possible within existing contract commitments.

**Current Key Initiatives**

As mentioned, the UC Procurement team, in partnership with Design and Construction and the Small Business Advisory Council, has spent time identifying ways in which the pace of small business utilization can be accelerated, most notably ways to create opportunities for small and diverse businesses to compete for larger pools of spend.

There are ten key activities that UC Procurement is launching to make the step change needed to achieve our targets:

- **Small Business First** has successfully raised the profile and delivery of Supplier Diversity, so we will continue to publicize and drive this program.
- **Spend Analysis** — As part of its overall Procurement vision refresh, UC Procurement will be extending the horizon of its sourcing calendar from 12 to 18 months to three years. UC Procurement will use the additional lead time to identify and/or support the development of small and diverse suppliers to compete in the sourcing processes.

- **Accelerated Certification Drives** – Feedback from suppliers suggests that the time and resources required for certification can be a barrier to pursuing it. Consequently, UC Procurement is working with other buying and certifying organizations to try to develop an accelerated certification model without losing any of the validation of the current process.
- **Small Business Advisory Council** – The University of California Small and Diverse Business Advisory Council was established in 2017. This Council has historically provided feedback regarding UC’s small business utilization activities and assisted with networking. The Council includes membership from government agencies, business leaders from throughout the state, chamber of commerce leaders, and leaders of small business networking organizations. UC Procurement recently shifted the focus of this organization to be a more proactive working group to help build out targeted solutions, and will be adding new members to expand the thinking of the group.

**Access to capital** is consistently identified as one of the main barriers to small and diverse business success. To address this challenge, UC has embarked on two initiatives that are expected to be very impactful. In partnership with the UC Chief Investment Officer, UC Procurement is developing a program to offer low-cost supply chain financing to small and diverse suppliers. The team is also working with minority-owned investment firms that are willing to partner on efforts to provide capital and support to help develop small and diverse suppliers. Additionally, the University works closely with the State to ensure its underwriting pool is comprised of diverse firms.

- **XPRIZE Challenge** – A very exciting initiative that the team is actively working on is a potential partnership with XPRIZE; a foundation that establishes cash incentive competitions and “brain trusts” that focus resources, talent, and technology to create breakthroughs toward a “world of abundance.” They have a proven track record of addressing significant challenges on a wide range of societal solutions on issues like rural literacy, food scarcity, housing challenges, and, most famously, commercial space flight. UC Procurement is working with XPRIZE to launch a challenge focused on the systemic barriers to supplier diversity. This initiative has the potential to reap benefits not just for UC, but for the industry-wide supplier diversity landscape.
- **The Anchor Institution** is a partnership established with community leaders and UCSF to advance health equity in San Francisco. There is a great deal of overlap in the economic empowerment and community outreach aspects of the Anchor Institution and the UC supplier diversity initiatives. As a result, UC Systemwide Procurement has agreed to collaborate with the Anchor Institution to jointly engage the community and to look for ways to increase impactful spend.
- **Design and Construction** is a sizeable spend which represents another potentially impactful opportunity area. There are several focused initiatives in this area that include the use of pre-qualified suppliers to be utilized by UC directly and recommended to prime contractors. This team is also increasing its training and education with general contractors as well as its community outreach.

### **Headwinds and Unique Challenges**

The COVID pandemic disproportionately impacted small and diverse businesses. Thus far in the pandemic, 22 percent of small businesses have been forced to close. The closure rate was significantly higher for communities of color to 41 percent of Black-owned, 36 percent of Latino(a)-owned, and 26 percent of Asian-owned businesses.<sup>2</sup>

At least \$30 million of business previously awarded to small and diverse suppliers will be impacted by UC's contracting out requirements associated with Article 5 of the Collective Bargaining Agreement with the American Federation of State, County and Municipal Employees C, Regents Policy 5402: Policy Generally Prohibiting Contracting for Services, and Senate Bill 820. This represents about three percent of the small and diverse supplier spend. This will need to be offset by the increased focus in other spend areas.

UC Procurement will work to mitigate these supplier diversity headwinds by using the more strategic approaches highlighted earlier.

### **CONCLUSION**

While the small business utilization growth has lagged the target to-date, the new initiatives being introduced at this time are expected to place UC on a trajectory to achieve the target.

### **KEY DEFINITIONS:**

- **Campus Procurement/Supply Chain:** Staff assigned to a specific campus, includes elements of supply chain at some campuses
- **UC Systemwide Procurement:** UCOP Procurement staff that lead, facilitate, or coordinate processes, practices, systems and sourcing spanning the UC System
- **UCOP (Local) Procurement:** Procurement staff specifically for the Office of the President
- **UC Procurement and Supply Chain:** Includes all of the above
- **Procurement Leadership Council (PLC):** Chief Procurement Officers from Campus Procurement/Supply Chain and Systemwide Procurement CPO, as well as executive directors/directors from systemwide operations
- **UC Health:** Procurement staff focused on UC Health systems

---

<sup>2</sup> "The Covid-19 Crisis Has Wiped Out Nearly Half Of Black Small Businesses", Forbes.com, August 10, 2020

- **Tier I** – Spend directly with a small or diverse business
- **Tier II** – Spend of a supplier with a small or diverse business while meeting a contracted requirement