



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson
Katy Allen

SUBJECT: RENEGOTIATION OF CONTRACT PRICING **DATE:** May 22, 2009

Approved

Date

5/22/09

BACKGROUND

At the May 6, 2009 Budget Study Session Overview, Council requested staff's feedback on whether the City renegotiates pricing for its contracts as a cost saving measure given the current economic climate and the City's budget challenges.

The City procures goods and services through a centralized and decentralized model. Each department which receives goods or services through a contract is responsible for the appropriate contract administration. The table below provides an overview of the procurement and contract administration responsibilities by goods and services and City Departments.

Goods or Service	Procurement Responsibility	Contract Administration Responsibility
Equipment, Materials, and Supplies	Finance	All Departments
Trade Services	Finance	All Departments
Consultant Services	All Departments	All Departments
Construction Contracts & Services for Architects and Engineers	Public Works, DOT, General Services, and Environmental Services	Public Works, DOT, General Services, and Environmental Services
Leases	Public Works/General Services	Public Works/General Services

ANALYSIS

Staff members have been instructed to proactively review all existing contracts and/or contracts up for renewal, scrutinize the amount being paid for the service or product, and determine if better pricing and/or more favorable terms may be available. As contracts come forward for City Council consideration, staff plans to incorporate language regarding the review of the contracts in light of the current economic environment and the discussion with company representatives.

Contracts for Goods and Trade Services

In general, Finance/Purchasing staff, on behalf of departments city-wide, issues solicitations for goods and services with an initial contract year and any additional contract years for renewal. As part of assigned duties and through established processes, Finance/Procurement staff regularly reviews contract pricing when a Purchase Order is up for renewal and makes a determination whether to rebid the contract, issue a Purchase Order with no increases, or grant an increase up to a contractually determined percentage. Recently, Finance/Procurement staff has proactively denied any increases as part of the renewal process or rebid the contract. For example, due to the drastic reduction in crude oil, Finance opted not to renew the purchase order for asphalt. Rather, staff issued a new Request for Bid and was able to reduce the cost for asphalt by \$178 per ton resulting in estimated annual savings of approximately \$375,000. Earlier this year, staff negotiated \$214,000 of one-time rebate savings from office supplies vendor OfficeMax and ongoing savings of \$200,000 as consideration for renewing a four year agreement, and recently negotiated the delivered price for copy paper that will save an additional \$35,000 annually. In addition, staff recently completed a bid for desktop computers, and the price for a typical HP desktop configuration dropped by 38% which represents an estimated \$200,000 in annual savings. Similarly, due to the changing economy, staff decided to rebid a landscape maintenance contract. The responses are currently under evaluation.

Consultant Services

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Construction Contracts and Services for Architects and Engineers

By charter, construction contracts are awarded to the lowest responsive bidder and the contract amount is locked in at the time of award. However, due to the current economic situation, the bidding climate has become extremely competitive which already has resulted in below market rate bids on many of the projects recently awarded resulting in millions of dollars in savings to the capital program. Pricing scrutiny is also being applied to any contract change orders that are needed on existing contracts.

Architectural and Engineering consultants are selected through a qualification based process and the cost for these services is directly related to the cost of the labor to perform these services and these costs are locked in at the time the agreement is executed. However, staff will scrutinize the cost for any new services to ensure that the cost of services is as economical as possible.

May 22, 2009

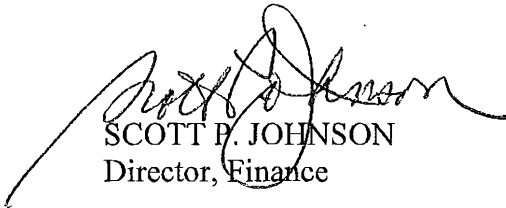
Subject: Renegotiating of Contract Pricing

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Leases

When reviewing space needs for City operations, the Real Estate Division looks first to see if any City-owned space is available. If no appropriate City-owned space is found, current market conditions are considered when renewing a lease or leasing at a new facility. Because of this, staff was able to negotiate lease renewals for the Police NCI and Training Units recently that were 5% and 11% lower than the prior year rates.

The work plan for the recently approved Asset Management Program includes reviewing existing leases for renegotiation and space efficiency opportunities that can generate savings. This effort will begin when the vacant Real Property Agent positions budgeted for this work are filled and the new staff is trained.



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