



Distributed on:

NOV 24 2009

by City Manager's Office

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Scott P. Johnson  
Katy Allen

**SUBJECT:** RENEGOTIATION OF CONTRACT  
PRICING

**DATE:** November 23, 2009

Approved

Date

11/23/09

## INFORMATION

This memorandum provides an update to the Council based on questions that have been raised by Council and members of the public on whether the City renegotiates pricing for its contracts as a cost savings measure given the current economic climate and the City's budget challenges. The purpose of this informational memorandum is to update Council on measures that have been undertaken by staff for procurements through the City's centralized procurement process, decentralized procurements that are processed through the City Manager's Office, Construction Contracts and Services for Architects and Engineers in Public Works, and Leases managed by General Services.

In May 2009, Manager's Budget Addendum #38 was distributed to the City Council to address the issue of contract re-negotiations. This Information Memorandum provides an update on the successes that have been realized since the cost savings measures as described in the attached Budget Addendum were implemented.

**Savings on Contracts for Goods and Trade Services** – The examples listed below represent over \$1.8 million in annual savings through the re-bid or re-negotiation of existing contracts.

- Re-bid of asphalt contract -- \$375,000 annual savings,
- Re-negotiation of office supplies agreement -- \$214,000 one time savings and \$200,000 annual recurring savings,
- Re-negotiation of toner cartridges and copy paper -- \$90,000 annual savings.
- Re-bid of desktop computers -- \$200,000 annual savings.
- Re-bid landscape CFD's 2&3 -- \$300,000 per year annual savings,.
- Renegotiation of parking management and shuttle bus service agreements at the Airport - - \$480,000 annual savings,
- Approval of an agreement for Recovery Audit Services -- \$200,000 estimated annual savings (cost recovery),

**Savings on Contracts for Consultant / Professional Services**

The examples listed below represent approximately \$1.5M in annual savings

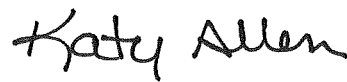
- EAP costs (revised contract) -- \$130K
- Accident Insurance costs for employees (over four years) -- \$132K
- Various insurance premiums - \$129K
- Four years in savings from the Benefits Consultant RFP's -- \$1.7M (\$450K for the City and \$1.25M for employees)
- Combined consultant agreements with ESD and DOT resulting in cost savings of approximately \$50K
- Worked with ESD to lower master agreement amounts for five agreements related to Media and Plant consultant work resulting in cost avoidance of approximately \$750K.

**Construction Contracts and Services for Construction, Architects and Engineers**

Note: The current market conditions have created a very favorable bidding climate for construction projects overall. Although not subject to renegotiation, with new construction contracts, cost savings/avoidance is conservatively estimated at \$26 million in the last twelve months. In addition, the following savings have been realized for Architects and Engineers agreements:

- **Airport Professional Service Contract:** In January 2008 an Engineering Consulting firm was due a 3.2% increase and in January 2009 they were due a 3.6% increase based on the CPI for labor statistics. In both years each firm received a zero increase.
- **Professional Consultant Contracts:** All professional service contracts have an "out clause" that includes cancellation of service without cause. These contracts are primarily lump sum and tend to be a percentage of the construction budget.
- **On Call Engineering Contracts:** These contracts are competitively bid and are utilized for rapid response. They are used extensively at the Airport for both capital and maintenance construction work. The contracts are structured as cost reimbursable plus overhead and profit. At the height of construction escalation the profit and overhead was approaching 20%. The most recent contract awarded was low bid at 4.98%

  
SCOTT P. JOHNSON  
Director, Finance

  
KATY ALLEN  
Director, Public Works