



WENDY GREUEL
CONTROLLER

February 5, 2010

Honorable Members of the Los Angeles City Council
c/o City Clerk, Room 360
Los Angeles, CA 90012

Dear Honorable Members of the Los Angeles City Council:

The City is facing some of the worst financial conditions that we've seen in our history, and the recovery is taking far longer than anticipated. Clearly, every avenue to reduce expenditures must be pursued. In the City Administrative Officer's Mid-Year Financial Status Report, recommendation 62 proposes a ten percent contract reduction with City contractors to help provide near-term budgetary relief. I urge the Council to act swiftly on reviewing this cost-saving measure and further suggest you examine a similar effort implemented recently by Los Angeles County.

In June, 2009, the County initiated a similar, incentive-based contract modification process which includes incentives for contractors to accept rate reductions. The County has offered limited contract extensions of six months to two years without competitive bidding in exchange for contract reductions. These reductions have saved the County approximately \$6 million annually, suggesting that the success of incentive based reductions.

The County's program incorporates the following criteria:

- No reduction in living wages for employees hired by contractors;
- That analysis be performed to balance the relative merits of immediate cost savings versus locking in a certain cost for several years when a competitive process might produce lower costs;
- An evaluation of the timeframe that services will be needed;
- A close review of contractors who have performance issues whose contracts should not be extended; and
- The size of the contract.

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Attached, please find the letter that the County Chief Executive Officer sent to Department heads, a model letter to contractors and a sample department reduction page for reference that the County used in crafting their policy.

As the Council moves forward in this process, I cannot emphasize enough the importance of expediting any process which moves the City towards a balanced budget, while considering these additional criteria in evaluating the City's contracts.

Sincerely,

A handwritten signature in cursive script, appearing to read "W. Greuel".

WENDY GREUEL
City Controller

Attachments

cc: The Honorable Antonio Villaraigosa, Mayor
Miguel Santana, City Administrative Officer
Gerry Miller, Chief Legislative Analyst



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

June 25, 2009

To: All Department Heads

From: William T Fujioka
Chief Executive Officer

CONTRACT EXTENSIONS/REDUCTIONS

On June 16, 2009, the Board of Supervisors, on motion of Supervisor Ridley-Thomas, directed this Office, working with the Internal Services Department, County Counsel, Auditor-Controller, and other departments as needed, to develop the parameters for a contract cost savings initiative which can be implemented over the next 60 days. Specifically, the Board directed this Office to provide all departments with a "model" letter to send to departmental contractors by early July requesting that contractors reduce contract costs effective in Fiscal Year 2009-10 in return for contract extensions.

The Board also:

- authorized any contract extensions done under this initiative to be done without competitive bidding;
- directed this Office to include any resulting reductions in Supplemental Changes for the 2009-10 County Budget; and
- instructed this Office to report back by August 7, 2009 regarding progress on this initiative.

Attached is a model letter for your use in complying with this directive (Attachment I). Attachment II is a format for reporting back to this Office those contracts which will be extended on a reduced cost basis. This applies to both service contracts and commodity agreements.

Criteria for Determining Contracts Covered by This Effort

- This exercise pertains to current contracts which were planned to be competitively rebid upon expiration, but for which a competitive solicitation process is not already underway. It is not limited to contracts expiring in the next year. However, cost reductions would need to be implemented for 2009-10 and extend throughout the extended period.
- Living Wage rates may not be reduced as part of this effort.

"To Enrich Lives Through Effective And Caring Service"

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Intra-County Correspondence Sent Electronically Only**

- For contracts with remaining option years, you may seek to negotiate a cost reduction for an extension beyond the last option year, **or** you may seek to negotiate a cost reduction in return for executing an option year. In either case, savings would need to be effective for 2009-10. Your analysis will need to balance the relative merits of immediate cost savings versus locking in a certain cost for several years when a competitive process might produce lower costs.
- You should also consider proposing a greater share of County revenue on concession agreements in return for extensions.
- Exclude:
 - any contracts for which you reasonably determine that a more favorable cost can be obtained via a competitive process (please document the due diligence undertaken to make the determination as to whether or not a competitive process may provide a lower cost);
 - contracts where your department has identified contractor performance issues with the current contractor;
 - contracts where you are uncertain if the services will be needed for the extended term; and
 - contracts, particularly for service providers, which have already been reduced as part of the 2008-09 or 2009-10 County budgets.
- Prioritize affected contracts on the basis of potential net County cost (NCC) savings. For example, a contract funded 100 percent with NCC would normally take priority over a contract which is 75 percent subvented. However, the **size** of the contract must also be considered: a reduction in a large contract that is only 50 percent NCC funded might generate more savings than a smaller contract that is 100 percent NCC funded.

Additional instructions and the timeline for this effort are as follows:

Immediately

- Assign a team to handle this special project.
- Quickly analyze which contracts should be part of this exercise based on the criteria above.
- Issue the letters to affected contractors immediately upon the conclusion of this analysis.

All Department Heads
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Late June to Early July 2009

As noted in the model letter, contractors are to be invited to make the first offer on specific reduction percentages for both one-year and two-year extensions. The letter to contractors must reflect a deadline that allows time for negotiation and identification of savings. You are encouraged to discuss status of this effort with your CEO Budget Analyst, as it proceeds. Questions can be directed to your CEO Budget Analyst or Martin Zimmerman at 213.974.1326 or mzimmerman@ceo.lacounty.gov.

By July 24, 2009

Report back to this Office using the attached format those contracts you are proposing be extended and the projected savings (or increased revenue) under this initiative. Direct your responses to your CEO Budget Analyst, with a copy to James Hazlett at jhazlett@ceo.lacounty.gov. This Office will review your proposed contract extension(s)/reduction(s), and determine if they will be included in the Supplemental Changes.

August 2009

This Office will include projected savings or increased revenue resulting from recommended contract extensions/reductions consistent with recommendations for Supplemental Changes to the 2009-10 County Budget (currently targeted for late September 2009).

Departments will work with County Counsel and contractors on contract extension language. Actual contract extensions will be forwarded for Board approval on a flow basis to allow sufficient time for Board and public review. Please note that, given the different nature of commodity agreements and the fact that the Purchasing Agent has the authority to extend those agreements, we will work with the Purchasing Agent to devise an appropriate format for estimating savings and reporting to the Board.

The dates above should be considered "**not to exceed deadlines**," and you are strongly encouraged to undertake this effort as quickly as possible and submit your results in advance of deadlines. Thank you in advance for your immediate attention to this effort.

WTF:ES
MKZ:pg

Attachments

c: Each Supervisor

**MODEL LETTER TO CONTRACTORS
REGARDING EXTENSIONS/REDUCTIONS**

Date

Contractor Executive's Name
Business Name
Street Address
City, State Zip Code

CONTRACT EXTENSION/REDUCTION

Dear [contractor executive's name]:

The County of Los Angeles is facing significant budget challenges in the coming fiscal years. We are pursuing a host of options to enable the County to continue providing its most critical services during these difficult times. As part of this effort, on June 16, 2009, the County Board of Supervisors instructed the County's Chief Executive Officer (CEO) to work with County departments to investigate the possibility of extending current contracts if the contractors would agree to provide a significant cost reduction to the County effective in Fiscal Year 2009-10. *[We are also examining increased County revenue from concession agreements as part of this effort.]*

Your current contract(s) with the Department of [department name], [name of contract(s)], will expire on [date]. If you are willing to offer a cost reduction *[or increase in County revenue]*, please send us your proposal right away. The County will review your proposal and, if we determine that it is a significant reduction, we will offer to negotiate a potential one- or two-year extension of this contract.

We must report back to the CEO on those contracts which we recommend be extended under this program by July 24, 2009. Therefore, please respond to [department contact name] of this Department by [date] at [department contact telephone number and e-mail address], indicating the percentage contract cost reduction *[or revenue increase]* you would offer for both a one-year and a two-year contract extension. Questions can also be directed to Mr./Ms. [department contact name]. If the CEO approves your proposed reduction, we will prepare a contract extension for approval by the County Board of Supervisors. Please be aware that the County will not consider reductions to the County's Living Wage rates as part of this effort.

Thank you for your prompt attention to this important matter. We look forward to hearing from you soon.

Sincerely,

Department Head Name
Title

CONTRACT EXTENSION/COST REDUCTION RESPONSE

COMPANY NAME: _____
CONTRACT NUMBER: _____
CONTACT NAME: _____
CONTACT NUMBER: _____

Please Check One:

YES, we offer to the County of Los Angeles a percentage contract cost reduction [or *increased share of revenue*] for the above-referenced agreement. The proposed cost reduction [*increased revenue*] shall be applied to the [hourly rate/contract annual cost, etc.] and shall be as follows:

_____ % for Year One (1) extension _____ % for Year Two (2) extension

Note: Any cost reduction [*increased revenue*] proposed is subject to review and approval by the Board of Supervisors. Should the County wish to negotiate your proposed cost reduction, you will receive a written notice from the County.

NO, we do not intend to offer the County of Los Angeles a percentage contract cost reduction [*increased revenue*] for the above-referenced agreement.

PRINT NAME	SIGNATURE	DATE
TITLE	PHONE NO.	E-MAIL ADDRESS

CONTRACT COST REDUCTIONS/EXTENSIONS PROJECT

Department Name:
 Department Contact Name:
 Department Contact Number/e-mail address:

CONTRACT/CONTRACTOR NAME	CONTRACT SERVICE DESCRIPTION	TOTAL CONTRACT AMOUNT AND NET COUNTY COST	CURRENT CONTRACT TERMINATION DATE	PROPOSED CONTRACT EXTENSION PERCENTAGE AND SAVINGS/REVENUE
				1 year extension: X% • 2009-10 Savings/Rev.: \$ ___ (NCC portion: \$ ___) • 2010-11 Savings/Rev.: \$ ___ (NCC portion: \$ ___) 2 year extension: X% • 2009-10 Savings/Rev.: \$ ___ (NCC portion: \$ ___) • 2010-11 Savings/Rev.: \$ ___ (NCC portion: \$ ___)