

**Item 6**  
**File 10-1578**

**Department(s):**  
Office of Contract Administration (OCA)  
Public Utilities Commission (PUC), Airport

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would authorize the City and County of San Francisco, through the Office of Contract Administration (OCA), to approve a \$14,000,000 three year agreement with Olin Corporation from March 1, 2011 through February 28, 2014, with an estimated cost of \$4,667,628 per year or approximately \$14,000,000 for three years. The proposed agreement has two one-year options to extend, from March 1, 2014 through February 28, 2015 and from March 1, 2015 through February 28, 2016 at an estimated cost of \$4,667,628 per year, with a total not-to-exceed agreement amount of \$23,500,000 for five years.

### Key Points

- OCA had a three year agreement with Olin Corporation from September 1, 2007 to August 31, 2010 to provide Sodium Hypochlorite, a chemical used by the PUC and Airport to treat water and waste water. Although the agreement provided seven options to extend for up to one year through May 31, 2017, OCA decided to conduct a competitive bid process for a new agreement. OCA extended the current agreement through February 28, 2011 while conducting the Request for Proposals (RFP).
- Three vendors responded to the RFP, and OCA selected Olin Corporation the existing contractor, which presented the lowest bid of \$14,002,884.
- Under the proposed three-year agreement, the City will be charged based on the number of pounds of Sodium Hypochlorite actually delivered. This agreement also allows for annual price increases or decreases based on changes in the Producers Price Index (PPI) after the first year.

### Fiscal Impacts

- The price per pound for Sodium Hypochlorite in the first year of the proposed agreement ranges from \$0.504 to \$0.549, which is \$.0655 to \$.1649 less than the range of price per pound under the existing agreement from \$.5695 to \$.7139. Based on the PUC's and Airport's estimated Sodium Hypochlorite usage for the first year of the proposed agreement, the total estimated costs for the PUC and the Airport would have been \$5,394,288 under current agreement prices, as compared to \$4,667,628 under the proposed agreement, representing a savings of \$726,660 under the proposed agreement.

### Recommendation

- Amend the proposed resolution to specify a not-to-exceed amount of \$14,002,884 for the 3-year period from March 1, 2011 through February 28, 2014.
- Approve the proposed resolution as amended.

**MANDATE STATEMENT/ BACKGROUND****Mandate Statement**

In accordance with Charter Section 9.118(b), City contracts with anticipated expenditures of \$10,000,000, or more or amendments to such City contracts with anticipated expenditures of more than \$500,000 are subject to approval by the Board of Supervisors.

**Background**

Sodium Hypochlorite, a chemical compound consisting of sodium hydroxide and chlorine, is used by two City Departments, (a) the Public Utilities Commission (PUC) for use in the Water Enterprise and the Waste Water Enterprise, and (b) the Airport. The PUC's Water Enterprise uses Sodium Hypochlorite to disinfect the potable water supply used for public drinking water and to disinfect new pipe lines and reservoirs to ensure City compliance with all government regulations. The PUC's Waste Water Enterprise and the Airport both use Sodium Hypochlorite to disinfect treated waste water and destroy any disease-causing pathogens.

According to Ms. Jaci Fong of the Office of Contract Administration (OCA), based on a competitive bid process, OCA entered into a three year not-to-exceed \$13,250,000 agreement from September 1, 2007 through August 31, 2010 with Pioneer Americas, LLC (Pioneer Americas) to provide the City with Sodium Hypochlorite, which was previously approved by the Board of Supervisors on August 8, 2007 (File 07-1065). This agreement allows for price increases or decreases based on changes in the Producer Price Index (PPI)<sup>1</sup> after the first two years of the agreement. In addition to the initial three-year term of the agreement, the agreement included seven options to extend for up to one-year, with a maximum agreement term of 9.9 years through May 31, 2017. According to Mr. Howard Tevelson, Senior Purchaser at OCA, on January 1, 2008<sup>2</sup> the original agreement was assigned to Olin Corporation.

Table 1 below identifies (a) the estimated annual usage in pounds for PUC and the Airport, (b) the prices per pound for the first two years of the agreement and (c) the estimated annual expenditures under the existing agreement, which were the basis for the terms of the first two years of the existing agreement.

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<sup>1</sup> The PPI measures the average change over time in the selling prices received by domestic producers for their output.

<sup>2</sup> Pioneer Americas changed their company name to Olin Corporation, such that an Assignment and Assumption Agreement was required to change the City's agreement from Pioneer Americas to Olin Corporation on January 1, 2008.

	Estimated Annual Pounds of Sodium Hypochlorite Required	Price (per pound) <sup>3</sup>	Estimated Annual Expenditures
PUC Water	4,517,300 lbs	.4923	\$2,223,867
PUC Waste Water	3,937,000 lbs	.5404	2,127,555
Airport	53,000 lbs	.6170	32,701
<b>Total Per Year</b>	<b>8,507,300 lbs</b>		<b>\$4,384,123</b>

Source: OCA

According to Ms. Fong, the bidding process for the existing agreement began with the PUC and the Airport estimating their individual Sodium Hypochlorite usage for the first year as shown in Table 1 above. Bidders then offered a per-pound price per department for the first year of the agreement and calculated the total estimated annual cost based on individual departmental estimated usage and the individual departmental rates. However, Ms. Fong advises that the actual purchases varied, and, in accordance with the existing agreement, the City was only charged for the number of pounds of Sodium Hypochlorite actually delivered. The Budget and Legislative Analyst's office requested actual purchase history under the existing contract but according to Ms. Fong such information was not available. As was allowed under the terms of the existing agreement (see Table 2 below), prices increased in the third year due to PPI increases.

	Year 1	Year 2	Year 3	Percent (%) Increase in Price
PUC Water	.4923	.4923	.5695	15.68%
PUC Waste Water	.5404	.5404	.6252	15.69%
Airport	.6170	.6170	.7139	15.71%

Source: OCA

Table 3 below details total amount expended per department over the course of the existing agreement of \$12,783,915, which was \$466,805 less or 3.5 percent less than the approved not-to-exceed amount of \$13,250,000 over the three year term of the agreement.

<sup>3</sup> According to Ms. Fong, under the existing agreement, the price per pound of Sodium Hypochlorite for each City department varies slightly with a lower price per pound based on a higher estimated number of pounds and a higher price per pound based on a lower estimated number of pounds. The prices in the existing agreement were fixed for the first two years of the agreement and did not change even if actual usage varied from estimated usage. However, under the proposed agreement the price per pound could increase or decrease in the second and third years of the agreement based on changes in the PPI.

Department	Actual Dollar Usage
PUC Water	\$6,064,694
PUC Waste Water	\$6,617,809
Airport	\$100,692
<b>Total</b>	<b>\$12,783,195</b>
Source: OCA	

Ms. Fong advises that in August 2010, OCA decided to not exercise any of the original agreement's seven options, the first of which would have been effective on September 1, 2010 to extend the agreement for up to one year. Instead, OCA decided to go through a new competitive bidding process. While the bidding process was taking place, OCA granted two extensions: (a) a four-month extension to the existing Olin Corporation agreement for the months from September 1, 2010 through December 31, 2010 where the City was charged an average of \$302,467 a month for the amount of Sodium Hypochlorite purchased, and a total of \$1,209,868 for the four months and (b) a second two-month extension from January 1, 2011 through February 28, 2011 under which the City was charged \$250,000 per month or a total of \$500,000. According to Ms. Fong, Board of Supervisors approval was not required for the first four-month agreement extension because total agreement expenditures of \$11,573,329 were less than the not-to-exceed amount of \$13,250,000 previously approved by the Board of Supervisors. Board of Supervisors approval was not required for the second two-month agreement extension because the extension amount did not exceed \$500,000.

According to Ms. Fong, OCA issued a competitive Invitation to Bid on October 7, 2010 for a new three-year agreement to provide the City with Sodium Hypochlorite, with the bids due on November 12, 2010. According to Ms. Fong, the proposed agreement amount was determined in the same manner as the existing agreement, based on estimated purchase quantities provided by the PUC and the Airport. Also identical to the existing agreement's bidding process, the bidders submitted a per pound price for both the PUC and the Airport for the first year of the agreement and submitted a total estimated annual cost based on the departments' estimated number of pounds needed. Ms. Fong advises that the actual purchases may vary and, similar to the existing agreement, the City will only be charged for the number of pounds of Sodium Hypochlorite actually purchased. Also similar to the existing agreement, the proposed agreement allows for annual price increases or decreases based on changes in the PPI but those price increases may occur after the first year under the proposed agreement.

As shown in Table 4 below, the OCA received three bids from (a) Basic Chemical, Inc., (b) Olin Corporation, and (c) Sierra Chemical Company. Olin Corporation, the current provider of Sodium Hypochlorite to the City, was the lowest bidder.

Bidders	Total for Three Years	Total for One Year
Basic Chemical, Inc.	\$18,840,648	\$6,280,216
Olin Corporation	\$14,002,884	\$4,667,628
Sierra Chemical Company	\$15,971,457	\$5,323,819
Source: OCA		

The terms of the proposed agreement have deviated slightly from the terms of the existing agreement, in that the proposed agreement: (a) specifies a separate charge for samples (see Table 5 below), (b) the proposed agreement includes set prices for the first year and annual price adjustments thereafter while the existing agreement included a set price for the first two years and annual price adjustments thereafter, and (c) the term of the proposed agreement is not to exceed 5 years while the existing agreement was not to exceed 9.9 years.

## DETAILS OF PROPOSED LEGISLATION

Based on a competitive Invitation to Bid process, the proposed resolution would authorize the City, through the OCA, to enter into a new \$14,000,000 three year agreement with Olin Corporation from March 1, 2011 through February 28, 2014. The proposed resolution would also provide the OCA with the option to extend the proposed agreement for two one-year periods, from March 1, 2014 through February 28, 2015 and from March 1, 2015 through February 28, 2016, at an estimated additional annual cost of \$4,667,628, with a not-to-exceed agreement amount of \$23,500,000 for the five years, or an average cost per year of \$4,700,000 over the five year period. Under the proposed agreement, the decision to exercise each of the two one-year options after the initial three-year agreement would be determined by the OCA and Olin Corporation. Exercising the options to extend would not require further Board of Supervisors approval.

## FISCAL IMPACTS

The total cost of the 3-year agreement of \$14,002,884 (\$4,667,628 times 3 years – see Table 5 below) is an estimated cost because, as discussed previously, the costs are based on the actual amount of Sodium Hypochlorite which is needed by the PUC and the Airport. In addition, as discussed previously, the final amounts may vary if there is a change in the PPI in the subsequent years of the agreement. Based on the estimated annual cost of \$4,667,628 for the three year agreement, Table 5 below identifies the estimated number of pounds of Sodium Hypochlorite that the PUC and the Airport require and the annual costs to be paid by each of these departments, during the first three years of the proposed agreement as well as the not to exceed \$23,500,000 amount over the five years based on the excess of the two one year options.

TABLE 5: Yearly Division of Cost and Quantity of Sodium Hypochlorite by Department Under Proposed Agreement			
	Estimated Annual Pounds of Sodium Hypochlorite Required	Price (per pound)	Estimated Annual Expenditures
PUC Water	4,520,300 lbs	.504	2,278,231
PUC Waste Water	4,450,000 lbs	.529	2,354,050
Airport	53,000 lbs	.549	29,097
<b>Subtotal</b>	<b>9,023,300 lbs</b>		<b>\$4,661,378</b>
Cost of Samples (Paid by department who receives delivery)			6,250
<b>Total Estimated Expenditures Per Year</b>			<b>\$4,667,628</b>
<b>Total Estimated Expenditures for 5 years</b>			<b>\$23,338,140</b>
<b>Total Not to Exceed Amount for 5 years</b>			<b>\$23,500,000</b>
Source: OCA			

Ms. Fong advises that, as shown in Table 5 above, there is an additional estimated cost of \$6,250 for one sample of Sodium Hypochlorite required with each delivery, based on an estimated 625 deliveries and a per sample cost of \$10. The samples are to verify that the delivered product meets the specifications required. According to Ms. Fong, the department who receives the delivery will be responsible for paying the sample cost. The proposed agreement would be funded with PUC Water, PUC Wastewater and Airport Operating monies included as a chemical line item in each of these three City department's annual budgets.

The prices reflected in Table 5 above reflect the first year's costs, from March 1, 2011 through February 28, 2012. However, as previously discussed, the existing and proposed agreements allow for annual price increases or decreases based on changes in the PPI: the proposed agreement allows price changes after the first year and the current agreement allowed them after two years.

According to Ms. Fong, the proposed agreement amount and per-pound pricing are based on estimated purchase quantities provided by the PUC and Airport. However, as previously discussed, Ms. Fong advises that actual purchases may vary, and, in accordance with the proposed agreement, the City would only be charged for the number of pounds of Sodium Hypochlorite actually purchased. As shown in Table 6 below, annual usage of Sodium Hypochlorite is estimated to increase from 8,507,300 pounds under the existing agreement to 9,023,300 pounds under the proposed agreement, an annual increase of 516,000 pounds, or 6.1 percent because both the PUC Water and PUC Waste Water estimate an increased need for the Sodium Hypochlorite.

TABLE 6: Comparison of Annual Estimates of Usage of Sodium Hypochlorite (in pounds) in Existing and Proposed Agreements			
	Estimated Annual Pounds of Sodium Hypochlorite Required in Existing Agreement	Estimated Annual Pounds of Sodium Hypochlorite Required in Proposed Agreement	Percent (%) Increase in Annual Estimates of Usage
PUC Water	4,517,300 lbs	4,520,300 lbs	.07%
PUC Waste Water	3,937,000 lbs	4,450,000 lbs	13%
Airport	53,000 lbs	53,000 lbs	0%
<b>Total</b>	<b>8,507,300 lbs</b>	<b>9,023,300 lbs</b>	<b>6.1%</b>
<b>Source: OCA</b>			

As discussed above, OCA conducted a competitive Invitation to Bid process in 2010 to purchase Sodium Hypochlorite under the new agreement. Based on the estimated usage for the first year of the proposed agreement, Table 7 below illustrates that the cost for Sodium Hypochlorite would have been \$5,394,288 under existing agreement prices, as compared to \$4,667,628 (see Table 5 above) under the proposed agreement, representing a first year savings of \$726,660 under the proposed agreement (\$5,394,288 less \$4,667,628). This savings is largely due to the proposed price per pound in the first year of the proposed agreement (see Table 5) being less than the actual price per pound price in the third year of the existing agreement due to an increase in the PPI (see Table 7).

TABLE 7: Annual Cost for Sodium Hypochlorite Based on Existing Agreement			
	Estimated Annual Pounds of Sodium Hypochlorite Required	Price Per Pound Under Existing Agreement	Estimated Annual Expenditures
PUC Water	4,520,300 lbs	.5695	2,574,311
PUC Waste Water	4,450,000 lbs	.6252	2,782,140
Airport	53,000 lbs	.7139	37,837
<b>Total</b>	<b>9,023,300 lbs</b>		<b>\$5,394,288</b>
<b>Source: OCA</b>			

Because Olin Corporation's bid to provide Sodium Hypochlorite for the first 3 years was \$14,002,884, the Budget and Legislative Analyst recommends that the proposed agreement be amended to reflect a not-to-exceed amount of \$14,002,884 for the 3-year period from March 1, 2011 through February 28, 2014.

## RECOMMENDATIONS

1. Amend the proposed resolution to specify a not-to-exceed amount of \$14,002,884 for the 3-year period from March 1, 2011 through February 28, 2014.
2. Approve the proposed resolution as amended.