OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 27, 2011 **IBA Report Number:** 11-62

City Council Date: November 1, 2011

Item Number: 332

Sharp Convenience Copier Contract

OVERVIEW

The City Council approved a contract with Konica Minolta Business Solutions (Konica) in July 2005 to provide rental convenience copiers to both General Fund and Enterprise Fund departments, with an original term of three years and two one-year options to renew. The contract with Konica began in August 2006 with annual expenditures not to exceed $901,985.88; however actual costs incurred during the original term increased annually and reached $1.9 million in the third year.

The first one-year renewal option was approved by City Council March 2010 for an annual amount not to exceed $2.3 million, based on actual expenditures incurred over the past three years. Subsequently, in April 2010, the General Services Department presented an overview of cost overruns during the original term of the contract to the Budget and Finance Committee and procedures now in place to assure that any increase in required funding for contracts would be returned to Council for approval. The department also committed to producing a copier and printer needs assessment report that would be utilized to attempt to reduce costs in the final renewal year and in the request-for-proposal (RFP) for convenience copiers after the expiration of the contract with Konica. A printer assessment report was completed by Konica in August 2010; however, a copier assessment report was not completed at this time due to unknown reasons.

The RFP for convenience copiers was released for bid on July 8, 2011, with a closing date of July 22, 2011. The contract with Konica expired in August 2011, but was extended by resolution until December 31, 2011 to allow ample enough time to complete the RFP process. At the Budget and Finance Committee meeting on October 5, 2011, the winning bid from Sharp Business Systems (Sharp) was presented for review, which would be for a period of five years at a minimum contract price of $593,850, but to be determined by actual copy and print usage. The new contract is based on a charge per page printed, where each page charge encompasses all cost for machine usage, maintenance, and supplies. The per page charge is based on a blended rate for color and black/white copies for the first three segments of machines, while all other segments have individual rates for each color or black/white copy.

FISCAL/POLICY DISCUSSION

City Council is being asked to either accept or reject the Sharp proposal. Acceptance or rejection of the RFP with Sharp Business Solutions offer both advantages and disadvantages.

Sharp Contract Proposal Acceptance

If Council were to accept the RFP with Sharp, a significant savings over the current contract with Konica will be realized in the first year and throughout the term of the contract. The figures presented to Council in response number one of the staff report dated October 18, 2011 accurately reflects the possible annual savings of $1.26 million offered by this contract over the current Konica contract (first year savings is approximately $321,000 lower due to one-time transition costs). The Sharp proposed contract includes a blended rate cost for color and black/white copies for segments one through three, as required in the RFP, which handled approximately 50 percent of the City's overall job load in FY 2011. The blended rate for these three segments ranges from $0.021 to $0.0318 per page. This blended pricing would result in the same cost to the City regardless of the number of color copies produced under the proposed new contract, despite only 22 percent of the total copies being produced in color for these three segments in FY 2011. Council members have expressed a preference to create disincentives for color copy use in the City, and if done so under this contract, no pricing differential would occur based on the same total amount of copies produced from year-to-year.

The acceptance of the Sharp contract will also provide the high volume copiers as outlined in the Employee Team's winning managed competition proposal for Publishing Services on a timely basis to allow the department to achieve projected results.

Sharp Contract Proposal Rejection

If Council were to reject the RFP with Sharp, the process to place the RFP back out to bid would encompass a relatively short time frame. In discussions with the Purchasing and Contracting Department, it would take approximately four business days to update the previous RFP to request updated and new bids from prospective vendors. However, due to the legislative holiday recess, the finalized contract under this prospective new RFP would not be able to be implemented until the third quarter of FY 2012. Due to this delay, an extension with the current convenience copier provider, Konica, would have to be approved by Council prior to the legislative break in December 2011. The savings associated with the new contract over the existing pricing structure would also be delayed, but additional savings may be possible through rebidding.

Based on our analysis, separating the pricing for color and black/white copies would result in savings from the costs illustrated in response number four of the October staff report. Based on an estimated price of $0.05 per page for color copies and $0.01 per page for black/white, approximately an additional 15 percent savings or $150,000 could potentially be realized over figures presented by staff for the blended rate analysis using actual copies produced in FY 2011. If the separated costs should be increased in an accepted RFP to $0.07 per page for color copies and $0.02 per page for black/white, the current blended rate would offer a pricing advantage based on FY 2011 copy amounts. Any reduction in the amount of color copies produced by shifting their production to black/white due to disincentives would only allow savings on a contract with split rates.

If Council were to reject the RFP, it is the Office of the IBA's opinion that a contract that is priced as a per page charge is advantageous over a lease based proposal due to expenses reflecting actual usage by departments. Also, a lease based structure submitted to the Purchasing and Contracting Department in response to this RFP would potentially burden the City with an unnecessary amount of sunk costs as these contracts have a fixed minimum number of copies to be paid for on a monthly basis. These sunk costs may be an unnecessary expenditure due to the continued annual trend of a reduced amount of copies made in the City and any possible future actions to make portions of City operations paperless.

Potential Additional Savings

A reduction in the number of machines will also reduce cost due to energy usage, a potential reduction in printing volume, a reduction in the cost for network connection expenses for installation of any new machines and time for City IT personnel. Additionally, a reduction in the number of segment one through three machines will shift their work load to higher segment machines, which have a cost per page pricing advantage. As a comprehensive copier study has not been completed, this RFP focused on reducing copies rather than the number of copiers. This work could be performed during the RFP process if the current proposal was to be rejected. If awarded to Sharp, it is our understanding from staff that Sharp Business Services plan to undertake the study immediately.

As an additional note, the costs outlined in response number seven in the October staff report for a contract estimate for only black/white copies is based on the number of copies outlined in the RFP and not actual amounts for FY 2011 as shown in response number four. Based on the number of copies produced in FY 2011 and keeping the segment eight color copier for print shop customer needs, the amount of the contract would be estimated to be $503,405 using a $0.01 cost per page (the cost would be $711,545 using a $0.02 per page price).

CONCLUSION

Acceptance of the proposed Sharp contract is projected to realize a significant savings in FY 2012 and over the contract term for both General Fund and Enterprise Fund departments over the existing contract currently in place. These savings could then be magnified with the proposed utilization study expected to be undertaken by Sharp to reduce the City's copier and printer fleet size. Rejection of the contract would delay these savings and require an extension of the City's current contract during the RFP process. Additionally, City staff would be required to complete the utilization study, delay the study until a contract is awarded, or hire a contract to perform the work at a separate cost. However, if rejected, some additional savings from a split rate for copies may be possible with a new RFP process, but is not guaranteed and may be offset as a result of a delay.

Based on the specifications in the copier RFP, which required all proposers to bid using a blended rate for segment one through three copiers, Sharp is the successful bidder. Additionally, Sharp is motivated to complete a full copier study, as previously requested by City Council, and staff is committed to carefully monitoring and reevaluating the contract after one year. The City Attorney has confirmed that the rate structure on the contract may be renegotiated with Sharp at any point in the contracts five year term and be modified based on mutual agreement.

Upon completion of the utilization study, we recommend that staff make the report available to Council for review and return to Council after the first year upon completion and implementation of the utilization study to report on the reduction in the City's copier fleet and changes in employee printing for color versus black/white copies and shifting workloads to higher segment machines.

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