



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

September 15, 2009

The Honorable Board of Supervisors
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

CONTRACT EXTENSIONS/COST REDUCTIONS RECOMMENDATIONS: BOARD LETTER NO. 2

(ALL DISTRICTS AFFECTED) (3 VOTES)

SUBJECT

Based on Board direction from your meeting of June 16, 2009, this letter includes the second set of recommended contract amendments offering term extensions in consideration for immediate cost reductions. This, and subsequent Board letters recommending contract amendments pursuant to this initiative, will identify projected savings for 2009-10 (as well as future years as applicable); savings will be incorporated into Supplemental Changes for the 2009-10 Budget or subsequent budget recommendations to your Board.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve and delegate authority to the affected department heads to execute contract amendments described in Attachments I through X, as recommended by the Chief Executive Officer and approved as to form by County Counsel, to extend terms and reduce the annual contract amount under your Board's contract cost reduction initiative effective for 2009-10.
2. Instruct the affected department heads to notify your Board and the Chief Executive Office, in writing, within ten business days after execution of such amendments.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On June 16, 2009, your Board directed the Chief Executive Officer, 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 for existing contractors. Your Board also directed the Chief Executive Officer to provide all departments with a "model" letter to send to contractors by early July, requesting that contractors reduce their rates in exchange for term extensions without competitive bidding.

"To Enrich Lives Through Effective And Caring Service"

*Please Conserve Paper – This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only*

On June 25, 2009, this Office provided instructions to departments, establishing the criteria pertaining to these contracts and a timeline for reporting back on those contracts recommended for extension/cost reduction. Departments subsequently canvassed their contracts and solicited offers from contractors which met the appropriate criteria, requesting price reductions in exchange for one-year and/or two-year extensions. Contractors responded with varying degrees of price reductions, and upon consideration and further negotiations by departments, contract amendments for the following departments are recommended:

- **Chief Executive Office** – Ten (10) Contract Amendments, 2009-10 savings of \$940,730 - (Attachment I).
- **Auditor-Controller** – One (1) Contract Amendment, 2009-10 savings of \$34,322 - (Attachment II).
- **County Counsel** - One (1) Contract Amendment, 2009-10 savings of \$2,514 - (Attachment III).
- **Fire Department** - Three (3) Contract Amendments, 2009-10 savings of \$41,255 - (Attachment IV).
- **Department of Human Resources** - One (1) Contract Amendment, 2009-10 savings of \$2,300 - (Attachment V).
- **Internal Services Department** - Four (4) Contract Amendments, 2009-10 savings of \$639,000 - (Attachment VI).
- **Parks and Recreation** – Twenty-Six (26) Contract Amendments, 2009-10 savings of \$142,854 - (Attachment VII).
- **Probation Department** – Five (5) Contract Amendments, 2009-10 savings of \$ 74,165 - (Attachment VIII).
- **Public Works** - Two (2) Contract Amendments, 2009-10 savings of \$23,563 - (Attachment IX).
- **Registrar-Recorder/County Clerk** - Five (5) Contract Amendments, 2009-10 savings of \$137,319 - (Attachment X).

As referenced above, attached to this letter are memoranda from the affected departments, each providing:

- Background on the subject contract(s);
- Identification of the proposed cost reduction/extension and the related fiscal impact; and
- A discussion of the analysis and due diligence conducted by the department to justify the recommended amendment(s).

Upon your Board's authorization, affected department heads will execute the contract amendments to effect the changes described in their memoranda.

FISCAL IMPACT/FINANCING

This transmittal references 58 contract amendments that, if approved, would result in an estimated total annual savings of \$2,038,022 which includes net County cost (NCC) savings of \$1,140,304 for 2009-10.

In conjunction with the first letter to your Board entitled Contract Extensions/Cost Reductions Recommendations Board Letter No. 1, dated September 1, 2009, the cumulative projected total

savings of this initiative is \$5,977,774 which includes NCC savings of \$1,871,867 for 2009-10. The projected savings will be included in Supplemental Changes to the 2009-10 Budget. Departments have prioritized affected contracts on the basis of potential NCC savings.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

This effort pertains to current contracts which were planned to be competitively rebid upon expiration and for which a competitive solicitation process was not already underway. The cost reductions would need to be implemented for 2009-10 and throughout the extended period. Living Wage rates will not be reduced as part of this effort.

Departments were directed to exclude from consideration contracts for which:

- A more favorable cost may be obtained via a competitive bid process;
- Departments have identified contractor performance issues with the current contractor;
- Departments are uncertain if the services will be needed for the extended term; and
- Reductions have already been imposed as part of the 2008-09 or 2009-10 County budgets.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

This effort is intended to produce immediate cost savings in light of the fiscal challenges faced by the County. The proposed contract amendments should not have a negative impact on the level or quality of service provided to the County by the affected contractors.

CONCLUSION

This Office will continue to package and forward additional contract amendments consistent with this effort, for Board approval, as they become available.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:ES:MKZ
FC:JH:pg

Attachments

c: All Department Heads
Administrative Deputies
Contract Managers' Network

CHIEF EXECUTIVE OFFICE CONTRACT AMENDMENTS

The Chief Executive Officer recommends the following proposed contract amendments which would generate net County cost (NCC) savings of **\$213,902** and overall savings of **\$940,730** during Fiscal Year 2009-2010, with additional future year savings as noted.

Contract No. 75382 – Third Party Workers' Compensation Claims Administration

Background

Contract No. 75382 was awarded to Acclamation Insurance Management Services, Inc. (AIMS) to provide third party workers' compensation claims administration, effective January 1, 2006. The contract term is five years. The contract is currently in its fourth year and will expire on December 31, 2010. The annual cost of this contract is \$6,386,751.

Recommended Amendment/Fiscal Impact

CEO recommends amending this contract by adding two additional option years. In exchange, AIMS is offering an immediate 5% reduction beginning on the effective date of the amendment. Additionally, they have offered to forfeit any future cost of living increase. The projected savings have been approximated as follows:

2 YEAR EXTENSION: 5%	GROSS	NCC**
2009-10 Savings:	\$159,667	\$79,833
2010-11 Savings:	\$319,334	\$159,667
2011-12 Savings:	\$319,334	\$159,667
2012-13 Savings:	\$159,667	\$79,833
TOTAL	\$958,002	\$479,001

** NCC savings based on historical subvention rates and may be subject to change.

Justification

Workers' compensation claims administration services are required to provide claims management for existing and newly reported workers compensation claims. In addition, such services are required to maintain compliance with California labor code and regulatory requirements.

An analysis was performed by Chief Executive Office – Risk Management Branch (CEO-RMB) and concluded that recommending this contract extension is economically advantageous to the County because it will result in approximately \$958,002 in total savings. The amendment will also delay the possible, and expected, cost increase following a new solicitation. In addition, the recommended contract extension will ensure workers' compensation claims administration services stability. AIMS has proven to be a responsive contractor.

*Approved
on 9/15/09*

Contract No. 75928 – Medical Malpractice, Hospital Liability Claims Administration and Legal Defense Management

Background

Contract No. 75928 was awarded to Sedgwick Claims Management Services, Inc. (Sedgwick) to provide medical malpractice, hospital liability claims administration and legal defense management services, effective January 1, 2007. The contract term is one year with four one-year renewal options. The contract is currently in its fourth option year. The contract will expire on December 31, 2011. The annual cost of this contract is \$2,933,815.

Recommended Amendment/Fiscal Impact

CEO recommends amending this contract by adding two additional option years. In exchange, Carl Warren is offering an immediate 5% reduction beginning on the effective date of the amendment. The projected savings have been approximated as follows:

2 YEAR EXTENSION: 5%	GROSS	NCC**
2009-10 Savings:	\$73,345	\$36,673
2010-11 Savings:	\$146,690	\$73,345
2011-12 Savings:	\$146,690	\$73,345
2012-13 Savings:	\$146,690	\$73,345
2013-14 Savings:	\$73,345	\$36,673
TOTAL	\$586,760	\$293,381

** NCC savings based on historical subvention rates and may be subject to change.

Justification

The County utilizes a third party administrator to provide claims administration and legal defense management services for its medical malpractice and hospital liability self-insurance program. These services are needed to control the County's liability costs through early investigation and quick resolution of claims and lawsuits filed against the County and to ensure a continuation of quality service to the Chief Executive Office and to the Departments of Coroner, County Counsel, Fire, Health Services, Mental Health, and Sheriff.

An analysis was performed by CEO-RMB and concluded that recommending this contract extension is economically advantageous to the County because it will result in approximately \$586,760 in total savings. The amendment will also delay the possible, and expected, cost increase following a new solicitation. In addition, the recommended contract extension will ensure medical malpractice, hospital liability claims administration and legal defense management services stability. Sedgwick has proven to be a responsive contractor.

*Approved
on 9/15/09*

Lease Contract No. 72440 – Assessor ten-year lease at 6120 Bristol Parkway, Culver City

Background

The lease provides 30,507 square feet of office space for the Assessor’s West District. Lease contract No. 72440 was approved on April 17, 2000 and will expire on April 16, 2010. The landlord has offered to reduce the rental rate by \$1.56 per square foot per year in exchange for a two-year extension. The landlord’s proposal would reduce the annual rental rate from approximately \$21.10 to \$19.54, which equates to a 7.4% reduction. The current annual lease cost is \$643,563, and it would be reduced to \$595,972.

Recommended Amendment/Fiscal Impact

CEO recommends amending this lease contract by adding two additional years to the lease term. The projected fiscal year savings have been approximated as follows:

2 YEAR EXTENSION: 7.4%	GROSS	NCC
2009-10 Savings: (9 months)	\$35,693	\$24,985
2010-11 Savings: (12 months)	\$47,591	\$33,314
TOTAL	\$83,284	\$58,299

Justification

An analysis performed by Chief Executive Office – Real Estate Division (CEO-RED) shows a lease contract extension is economically advantageous to the County because it will provide approximately \$83,284 in savings, or \$58,299 NCC savings based on a 70% NCC.

Lease Contract No. 72222 – Department of Children and Family Services (DCFS) five –year lease at 5100-5110 Goldleaf Circle, Los Angeles

Background

The lease provides 52,370 square feet of office space for DCFS Region II Program. Lease contract No. 72222, was approved on February 1, 2000 and will expire on January 31, 2010. The landlord has offered to reduce the rental rate by \$1.56 per square foot per year in exchange for a two-year extension. The landlord’s proposal would reduce the annual rental rate from approximately \$31.28 to \$29.72, which equates to a 5% reduction. The current annual lease cost is \$1,638,451, and it would be reduced to \$1,556,528.

Recommendation Amendment / Fiscal Impact

CEO recommends amending this lease contract by adding two additional years to the lease term. The projected fiscal year savings have been approximated as follows:

2 YEAR EXTENSION: 5%	GROSS	NCC
2009-10 Savings: (9 months)	\$61,446	\$15,361
2010-11 Savings: (12 months)	\$81,923	\$20,481
TOTAL	\$143,369	\$35,842

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$143,369 in savings, or \$35,842 in NCC savings based on a 25% NCC.

Lease Contract No. 73637 – Community and Senior Services ten-year lease at 12700 Avalon Boulevard, Los Angeles

Background

The lease provides 24,706 square feet of office space for the Community Worksource Program. Lease contract No. 73637, was approved on September 1, 2001 and will expire on November 30, 2012. The landlord has offered to reduce the rental rate by \$1.20 per square foot per year in exchange for a five-year extension. The landlord's proposal would reduce the annual rental rate from approximately \$23.92 to \$22.72, which equates to a 5% reduction. The current annual lease cost is \$591,047, and it would be reduced to \$561,495.

Recommendation Amendment / Fiscal Impact

CEO recommends amending this contract by adding five additional years to the lease term. The projected fiscal year savings have been approximated as follows:

5 YEAR EXTENSION: 5%	
2009-10 Savings: (9 months)	\$22,164
2010-11 Savings: (12 months)	\$29,552
2011-12 Savings: (12 months)	\$29,552
2012-13 Savings: (12 months)	\$29,552
2013-14 Savings: (12 months)	\$29,552
TOTAL	\$140,372

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$140,372, in subvented savings. There are no NCC costs associated with this lease contract.

Lease Contract No. 75314 – Departments of Mental Health (DMH) and Community and Senior Services (DCSS) five-year lease at 14122 S. Kingsley Drive, Gardena

Background

The lease provides 16,180 square feet of office space for DMH and DCSS for a Mental Health and Asian Service Center. The lease term will expire on June 13, 2010. The landlord has offered to reduce the rental rate by \$0.67 per square foot per year in exchange for a one-year extension. The landlord's proposal would reduce the annual rental rate from approximately \$13.49 to \$12.82, which equates to a 5% reduction. The current annual lease cost is \$218,264, and it would be reduced to \$207,350.

Recommended Amendment / Fiscal Impact

CEO recommends amending this contract by adding one additional year to the lease term. The projected fiscal year savings have been approximated as follows:

1 YEAR EXTENSION: 5%	GROSS	NCC
2009-10 Savings: (9 months)	\$7,555	\$3,777
2010-11 Savings: (12 months)	\$10,913	\$5,457
TOTAL	\$18,468	\$9,234

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$18,468 in savings, or \$9,234 in NCC savings based on a 50% NCC.

Lease Contract No. 72796 – Department of Public Social Services (DPSS) ten-year lease at 21415-21615 Plummer Street, Chatsworth

Background

Lease contract No. 72796 provides 164,500 square feet of office space for DPSS' In Home Supportive Services and CalWorks programs. The lease term will expire on November 30, 2010. The landlord has offered to reduce the rental rate by \$1.17 per square foot per year and install new paint and carpet in exchange for a seven-year extension. The landlord's proposal would reduce the annual rental rate from approximately \$23.43 to \$22.26, which equates to a 5%

reduction. The current annual lease cost is \$3,854,237, and it would be reduced to \$3,661,525.

Recommendation Amendment/Fiscal Impact

CEO recommends amending this contract by extending the term seven years. The projected fiscal year savings have been approximated as follows:

7 YEAR EXTENSION: 5%	GROSS	NCC
2009-10 Savings: (9 months)	\$144,534	\$13,008
2010-11 Savings: (12 months)	\$192,712	\$17,344
2011-12 Savings: (12 months)	\$192,712	\$17,344
2012-13 Savings: (12 months)	\$192,712	\$17,344
2013-14 Savings: (12 months)	\$192,712	\$17,344
2014-15 Savings: (12 months)	\$192,712	\$17,344
TOTAL	\$1,108,094	\$99,728

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$1,108,094 in savings, or \$99,728 in NCC savings based on a 9% NCC.

Lease Contract No. 60549 – Department of Public Social Services (DPSS) ten-year lease at 17600 S. Santa Fe Avenue, Rancho Dominguez

Background

Lease contract No. 60549 provides 133,000 square feet of office space for DPSS South Family, South Special and South Region District Office. The ten-year lease was approved on April 5, 1990 and will expire on March 4, 2010. The landlord has offered to reduce the rental rate by \$2.35 per square foot per year in exchange for a five-year extension. The landlord’s proposal would reduce the annual rental rate from approximately \$23.51 to \$21.16, which equates to a 10% reduction. The current annual lease cost is \$3,126,777, and it would be reduced to \$2,814,099.

Recommendation Amendment / Fiscal Impact

CEO recommends amending this contract by extending the term five years. The projected fiscal year savings have been approximated as follows:

5 YEAR EXTENSION: 10%	GROSS	NCC
2009-10 Savings: (9 months)	\$234,508	\$21,106
2010-11 Savings: (12 months)	\$312,678	\$28,141
2011-12 Savings: (12 months)	\$312,678	\$28,141
2012-13 Savings: (12 months)	\$312,678	\$28,141
2013-14 Savings: (12 months)	\$312,678	\$28,141
TOTAL	\$1,485,220	\$133,670

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$1,485,220 in savings, or \$133,670 in NCC savings based on a 9% NCC.

Lease Contract No 71823 – Department of Public Social Services (DPSS) ten-year lease at 5200 W. Century Boulevard, Los Angeles

Background

Lease contract No. 71823 provides 50,147 square feet of office space for DPSS' GAIN Program. The lease term will expire on March 14, 2010. The landlord has offered to reduce the rental rate by \$5.20 per square foot per year in exchange for a five-year extension. The landlord's proposal would reduce the annual rental rate from approximately \$25.60 to \$20.40, which equates to a 20% reduction. The current annual lease cost is \$1,283,790, and it would be reduced to \$1,022,999.

Recommendation Amendment / Fiscal Impact

CEO recommends amending this contract by extending the term five additional years. The projected savings have been approximated as follows:

5 YEAR EXTENSION: 20%	GROSS	NCC
2009-10 Savings: (9 months)	\$195,593	\$17,603
2010-11 Savings: (12 months)	\$260,791	\$23,471
2011-12 Savings: (12 months)	\$260,791	\$23,471
2012-13 Savings: (12 months)	\$260,791	\$23,471
2013-14 Savings: (12 months)	\$260,791	\$23,471
TOTAL	\$1,238,757	\$111,487

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$1,238,757 in savings, or \$111,487 in NCC savings based on a 9% NCC.

Lease Contract No. 73726 – Department of Children and Family Services (DCFS) five –year lease at 5035 West Slauson Avenue, Los Angeles

Background

The lease provides 5,788 square feet of office space for DCFS. The lease term will expire on June 23, 2010. The landlord has offered to reduce the rental rate by \$1.43 per square foot per year in exchange for a five-year extension. The landlord's proposal would reduce the annual rental rate from approximately

\$28.68 to \$27.24, which equates to a 5% reduction. The current annual lease cost is \$165,989, and it would be reduced to \$157,689.

Recommendation Amendment/Fiscal Impact

CEO recommends amending this lease contract by adding five additional years to the lease term. The projected fiscal year savings have been approximated as follows:

5 YEAR EXTENSION: 5%	GROSS	NCC
2009-10 Savings: (9 months)	\$6,225	\$1,556
2010-11 Savings: (12 months)	\$8,299	\$2,075
TOTAL	\$14,524	\$3,631

Justification

An analysis performed by CEO-RED shows this contract extension is economically advantageous to the County because it will provide approximately \$14,524 in savings, or \$3,631 in NCC savings based on a 25% NCC.