ITEM NO. 10

STAFF REPORT

CITY OF OCEANSIDE

DATE: July 6, 2011

TO: Honorable Mayor and City Councilmembers

FROM: Water Utilities Department

SUBJECT: **ANNUAL PURCHASE ORDERS OVER $50,000**

SYNOPSIS

Staff recommends that the City Council approve annual purchase orders for the purchase of chemicals in amounts over $50,000 from various Water Utilities Department funds for a total of $1,857,929, and authorize the Financial Services Director, or designee, to execute the annual purchase orders.

BACKGROUND

Each fiscal year, the City's Water Utilities staff estimates the quantity of chemicals that will be needed for water and sewer systems maintenance and operation during the next twelve months and submits requisitions for purchase orders for the required chemicals. Usually, staff obtains three bids, unless the purchase is a sole-source item or it is being bid through an on-line reverse auction process. The vendor or supplier is selected on the criteria of best product for the needed purpose at the lowest price.

On September 8, 2010, the City Council approved the use of an on-line reverse auction to obtain bids. The reverse auction process may lower the amount of the purchase order request. In a reverse auction, a buyer contracts with a reverse auction company to help make the necessary preparations to conduct the reverse auction. This includes: finding new suppliers, training new and incumbent suppliers, organizing the auction, managing the auction event, and providing auction data to buyers to facilitate decision making.

The reverse auction company, on behalf of the buyer, issues a request for quotation (RFQ) to purchase a particular item or group of items (called a "lot"). At the designated day and time, several suppliers, typically 5-20, log onto the auction site and will input several quotes over a 30-90 minute period. These quotes reflect the prices at which they are willing to supply the requested good or service.

The buyer may award contracts to the supplier who bid the lowest price. Or, a buyer could award contracts to suppliers who bid higher prices depending upon the buyer's

specific needs with regards to quality, lead-time, capacity, or other value-adding capabilities.

Water Utilities staff researched different on-line reverse auction companies. Of the companies researched, K2 Sourcing was the only one that does not charge clients for its services. Instead, K2 Sourcing charges the successful low bidder a 3 percent commission which is included in the bid. Staff obtained the services of K2 Sourcing based on this practice.

ANALYSIS

Staff reviewed all the chemicals that are used in the water and wastewater systems and determined which ones were appropriate for bidding through the reverse auction. The Notice to Bidders for the reverse auction was advertised twice in the newspaper, posted on the City's website, and copies were sent directly to the City's current and prospective chemical vendors by K2 Sourcing. The potential bidders were given the opportunity to submit requests for clarification and further information which were responded to by Water Utilities staff.

The initial reverse auction was held on May 25, 2011, at 10:30 a.m. Due to one of the bidders having technical difficulties, a re-bid reverse auction was held on June 1, 2011 for most of the chemicals. The resulting bids achieved an overall savings of $57,179 over last year's chemical costs.

Staff is requesting approval of the reverse auction chemical purchase orders listed below:

Supplier	Chemical/Use	Account Number	Requested Purchase Order Total
Brenntag Pacific	Aluminum Sulfate/Water Treatment	750754711.5355.0002	$69,540
JCI Jones Chemicals	Chlorine liquid (Gas)/Water Treatment	750754711.5355.0002	$72,976
Brenntag Pacific	Chlorine tablets/Wastewater Treatment	800803721.5355.0002	$38,805
Basic Chemical Solutions	Hydrochloric acid 31%/Water Treatment	750755711.5355.0002	$118,800
Brenntag Pacific	Sodium hydroxide solution 25%/Water Treatment	750754711.5355.0002	$129,800
		750755711.5355.0002	$41,300
Brenntag Pacific	Sodium hypochlorite 12.5%/Water & Wastewater Treatment	750754711.5355.0002	$22,230
JCI Jones Chemicals		750755711.5355.0002	$64,390
Brenntag Pacific		800803721.5355.0002	$8,550
JCI Jones Chemicals		800804721.5355.0002	$29,000
JCI Jones Chemicals		800805721.5355.0002	$79,800
Brenntag Pacific	Sulfuric acid 93%/Water Treatment	750754711.5355.0002	$58,280
		Total:	**$733,471**

Staff also obtained 3 bids from suppliers for chemicals that were not appropriate for the reverse auction process. Staff is requesting approval for purchase orders in the following table.

Vendor	Chemical	Sole Source/ Competitive Bid	Account Number	Requested Purchase Order Total
Polydyne Inc.	Polymer/Wastewater Treatment	Competitive Bid	800805721.5355.0002	$320,030
Siemens Water Technologies	Calcium Nitrate/Wastewater Treatment	Competitive Bid	800805721.5355.0002	$495,248
US Peroxide, LLC	Hydrogen Peroxide/Wastewater Treatment	Competitive Bid	800804721.5355.0002	$94,496
			800805721.5355.0002	$214,684
			Total:	**$1,124,458**

FISCAL IMPACT

In the adopted budget for FY 2011-2012, City Council approved an amount of $2,620,769 for water and wastewater chemical expenditures. There are budgeted funds for the requested purchases.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

Purchases must comply with bid requirements set forth in Chapter 28A of the City Code. Professional service agreements must be reviewed by the City Attorney and approved as to form.

RECOMMENDATIONS

Staff recommends that the City Council approve annual purchase orders for the purchase of chemicals in amounts over $50,000 from various Water Utilities Department funds for a total of $1,857,929, and authorize the Financial Services Director, or designee, to execute the annual purchase orders.

PREPARED BY:

Greg Blakely
Administration Manager

SUBMITTED BY:

Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Cari Dale, Water Utilities Director

Teri Ferro, Financial Services Director