

Memorandum



Date: September 18, 2007

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

Supplement to
Agenda Item No. 8(O)1(A)

From: George M. Burgess
County Manager

Subject: Report on Waiver of formal bid procedures and authorizing award of Sole Source Contract No. SS1245-3/27 to Schindler Elevator Corporation for maintenance, repair, and modernization services to County elevator, escalator and related equipment

Following discussion at the April 10, 2007 Budget and Finance Committee meeting, the request to award the above-described contract was bifurcated from the procurement package and written as a stand-alone item, with the understanding that staff would provide the Board with additional information addressing the various issues raised. It was subsequently deferred from the May 8, 2007 Board meeting to provide additional time to address the specific concerns. This report is provided as a companion item to 8O1A, the award recommendation, also on today's agenda.

BACKGROUND

The County currently maintains an inventory of 260 elevators, escalators, moving walkways, and other conveyance equipment through a contract with the Schindler Elevator Company. This contract was approved as a Sole Source award by the Board on November 6, 2001 for a one-year period, with four one-year renewal periods. With a seven-month extension approved this year, the contract expires on September 30, 2007. The value of the current contract, including all options-to-renew, modifications and extensions, is \$20.9 million. The contract recommended herein for award to Schindler for a similar five-year period is for \$34.4 million; however, \$12.3 million of the increase is to provide an allocation for improvements needed to meet Code requirements not required in prior contract periods.

Table 1 Key differences between current and replacement contracts

The recommended contract represents a cost savings over the current contract, and provides additional advantages to the County, as described below.

	Current Contract	Replacement Contract
Term	One year, with 4 one-year options to renew (potential total term of 5 years)	Five years, with 3 five-year options to renew (potential total of 20 years)
Services	preventive maintenance, extraordinary repairs and emergency repairs	preventive maintenance, extraordinary repairs, emergency repairs, and code-required upgrades (modernization projects)
Yearly cost for required maintenance and repairs	\$2.88 million	\$3.35 million, without discounts \$2.68 million, including 20% discount (see below). <u>This pricing is less than that of the current contract.</u>

Additional discount from negotiated annual cost	None	20%, if County exercise all 3 OTRs; 10% if County only exercises two OTRs, 6.75% for one OTR, and 2.5% for initial term only). Vendor billing would assume that County is going to exercise all OTR's (i.e. invoices would be at maximum 20% discount rate). If County later elects NOT to exercise an OTR at any point, a rebate for the differential would be owed by County.
Cost for code-required upgrades	Not covered in contract; must be negotiated separately and added to contract at time of upgrade, at future prevailing market rates	Cost for each component of the prospective code upgrades has been defined in contract at current (i.e. 2007) market rates

Table 2 Cost breakdown for recommended contract

The recommended contract value represents a large increase over the current contract (\$20.9 to \$34.4 million). This is not due to increased pricing; in fact, staff has secured a price reduction over the current contract. The increase in value is to provide allocations for (1) additional contractor staff at Aviation and Transit Department sites to improve service, (2) future elevator equipment not currently on the contract, (3) mandatory equipment upgrades required by recent changes to State Law, and (4) making immediate repairs following breakdowns, disasters and other emergency situations.

Cost Component	Comments	5-Yr Contract Amount	Annual Average
Preventive Maintenance & Repair	With the application of the negotiated discounts arising from the longer term (20%, if all three OTRs are exercised), the annual price of the new contract is <u>7% LESS</u> than that for the same services in the current contract.	\$13,405,000	\$2,681,000
Additional on-site personnel	Calls for Schindler to provide additional on-site personnel for Miami International Airport and Miami-Dade Metrorail/Metromover in order to reduce downtime and provide more timely and cost-effective repairs on these high-use sites.	3,767,500	753,500
Subtotal, Fixed Contract Amount		\$17,172,500	\$3,434,500

Cost Component	Comments	5-Yr Contract Amount	Annual Average
Allocation for future units, extraordinary repairs, and repairs following emergencies	This is to cover: (a) the addition of elevator equipment to the contract (e.g. new buildings such as Overtown Transit Village, or new elevators at existing sites such as new terminals at MIA); (b) extraordinary repairs and replacements not covered by routine maintenance but which happen frequently during the contract term; and (c) immediate response to major equipment failures that may occur e.g. equipment damage due to windstorm or flooding. Historically, there is no consistent pattern regarding the use of such allocations. In some years, they have been fully expended; in others, they have not.	5,000,000	varies
Allocation for Code-required upgrades ("modernizations")	This is to cover the projected cost of modernization projects to implement necessary code, safety, technology or other upgrades to the Schindler equipment. This amount is a rough projection, based upon staff's analysis that approximately 75% of the 260 units now in service will have to be modernized. The prices for the various modernization tasks have already been negotiated and locked in place under this contract.	12,250,000	varies
Total Contract		\$34,422,500	unknown

NECESSITY FOR SOLE SOURCE AWARD

Miami-Dade County competitively bids all contracts (generally as a part of the General Contractor's scope of work) for the design and construction of new elevators, escalators, moving walkways and other similar types of conveyance equipment. Due in part to the increasing complexity and cost of such equipment, the industry has come to be dominated by a handful of large international manufacturing firms, which results in spirited competition for business, but among a relatively limited pool of manufacturers. In the case of the County's roughly 950 units now in service, equipment was procured in numerous unrelated procurements over many decades, but fall under the "nameplates" of four primary manufacturers (or other firms later purchased by one of these four): Otis, ThyssenKrupp, Schindler, and Kone. These are referred to as the Original Equipment Manufacturers ("OEM").

Equipment specifications for most County projects require that one year of maintenance be included by the OEM, in conjunction with the new equipment warranty. Following that warranty period, the County contracts for maintenance and repair services. Because of equipment complexity, the limited number of manufacturers, and the reasons detailed below, it has become increasingly impractical for the County to competitively bid out either maintenance and repair services, or modernization projects (i.e. equipment or system upgrades). As a result, Sole Source awards are used for the maintenance and repair of 85 to 90% of the County's inventory of elevators, escalators, moving walkways, and other conveyance equipment. Other reasons include:

- o OEMs do not contract out, certify or license other firms to maintain or repair elevator equipment manufactured by them. Hence, there is no distributor or certified technician market.
- o System design, programming logic in chips, and solid-state boards are patented by OEM vendors.
- o Software in microprocessor-controlled equipment and group-control computers can only be secured from the OEM vendor.
- o Having the same firm design, manufacture, install, maintain and repair the equipment throughout its useful life provides valuable liability and post-warranty protection.

MARKET RATE COMPARISON

To ensure price competitiveness, staff periodically evaluates OEM unit pricing to the County with what other entities pay for similar services on similar equipment. Consistently, this research supports the competitiveness of County pricing negotiated for similar type and usage of equipment. Since the level of equipment usage in private buildings typically runs far below that in government buildings, pricing for government airports and transit systems was also reported in Table 3 below.

Entity	City	OEM, Bid Or Mix	Hydraulic Elevator	Geared Elevator	Gearless Elevator	General Purpose Escalator	Average Amount	Transit System Escalators
Miami-Dade County	Miami	OEM	\$304	\$640	\$1143	\$ 930	\$609	(2- & 3-drive, average) \$1523
San Francisco Int'l Airport	San Francisco	Mix	340	820	-	1200	787	-
Orlando International	Orlando	OEM/Bid	975	975	975	975	975	-
1221 Brickell Center	Miami	OEM	310	650	1050	-	670	-
Wachovia Financial Center	Miami	Bid	750	750	-	750	750	-
One Datan Tower	Miami	OEM	308	-	-	-	308	-
One Biscayne Tower	Miami	OEM	682	682	682	-	682	-
MARTA	Atlanta	n/a	-	-	-	-	-	(2-drive) \$1699 (3-drive) \$3698
L. A. County Mass Transit	Los Angeles	n/a	-	-	-	-	-	(1-drive) \$2713

NOTE: Since the amount and intensity of use on private elevators is typically less than in government buildings, rates from government entities may provide more reasonable cost comparisons.

ALTERNATIVE METHODS OF PROVIDING SERVICE

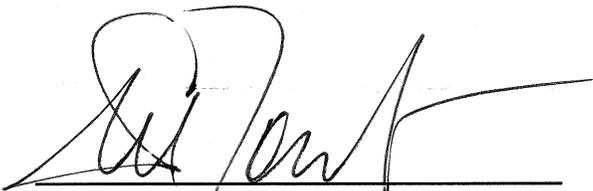
At the last Board meeting, staff was asked about alternate methods of providing elevator maintenance and repair services. A summary is provided below.

- **Single Master Contract.**

This would require grouping all County elevator units into one large contract and have one single company maintain the equipment. The County currently has equipment produced by at least four manufacturers. As a result, the awarded maintenance vendor would still have to subcontract with the OEM for all equipment not manufactured by that firm, in which case the County would certainly lose in timeliness, prioritization, and cost.

- **In-House Maintenance.**

Performing maintenance in-house with County personnel has been previously analyzed, in 1978 and 1990, with similar conclusions as herein. Upon detailed review, this approach turns out to be neither cost effective nor practical, in light of the large variety of types, manufacturers, vintages and designs of elevators and escalators. To make this an effective alternative, the County would have to standardize on a single manufacturer, specifying only designs that we are trained and equipped to maintain. With hundreds of elevators of various manufacturers already in service, this is not practical. Likewise, it would be unproductive to apply such a policy to future installations, since the substantial capital savings attributable to competitive bidding would be lost.



Assistant County Manager