



PROCUREMENT ALERT!

INCREASE IN PETROLEUM PRICES AFFECT COST OF GOODS AND SERVICE CONTRACTS

Periodically, certain market conditions affect the City's multi-year contracts, and we want to be certain that you are aware of how those conditions might affect your budgets and operational planning. At present, those conditions include a sharp increase in the price of petroleum products. Unfortunately, unlike in past years, industry analysts predict these increases will be permanent, so the affect on budgets will be long term.

Of course, everyone is aware of sharply higher prices at the gas pump, but that's only part of the problem. When we consider that petroleum-based products and services comprise 85% of the goods and services used in city operations, and the fact that they are delivered by trucks, the seriousness of the situation is brought into sharper focus.

In regard to budgeting and planning, the bad news is that we routinely receive an average of four (4) requests per week for price increases in our long term contracts. Those increase requests average 20% per contract. Given the long term outlook for oil prices, we can expect even more such requests because virtually every industry is affected.

The good news is that we began, several years ago, to include an escalation clause in our multi-year contracts, capping increases to one per year at an appropriate industry consumer price index (CPI). In many cases, we have been successful in capping increases at reasonable levels. In other cases, where increases have been particularly steep, we are re-soliciting some contracts in order to obtain better pricing.

As stated, industry analysts see this as a long term situation, so we must work together to obtain the prices and value we can under the circumstances. Given that, we encourage you to plan early and accurately gauge your needs.

Victor Westbrook
Purchasing and Contracts Manager