



Contract Options:

Bidding, Evaluating and Exercising Requirements

Presented by
City of El Paso – Financial Services
Purchasing Division



Objective

Identify key business consideration in developing solicitations with options for (i) time; (ii) services; or (iii) goods

Identify the threshold factors to evaluate to determine if an option should be exercised.



By the end of the presentation you will be able to do the following:

- Establish a definition of a contract option
- Identify when an option should be included in a contract
- Identify how an option should be evaluated during the selection/evaluation process
- Identify the threshold factors to analyze in determining if an option should be exercised
- Understand the role and importance of vendor performance in exercising an option
- Who approves options to be exercised



Definition

Contract Option

- A unilateral right in a contract by which, within a specified period, the Government (hereinafter the City) may elect to purchase additional supplies or services called for by the contract or may elect to extend the contract.
- Generally obligate the contract to a firm pricing structure for a number of years. Typically used to prevent contractors from buying-in (when contractor submit pricing well below anticipate or market with expectation of increasing cost after contract is award through unnecessary or excessively price modifications).



Use of Options

Best to Use

- Market allow City to lock a contractor into multi-year pricing structure;
- Additional items and scope for option can be defined; and
- Continuity of operations and re-occurring requirements

Should not Use

- Market prices for supplies or service likely to change due to in industry (computers, rubber products, oil based, environmental regulations);
- Price, availability of necessary materials and labor can not be reasonably forecasted; and
- Competition for option is impracticable once initial contract is awarded



Evaluation of Options

- Solicitation shall include option clauses if resultant contract provide for exercising of an option;
- Solicitations containing options shall definitively state the basis of how options shall be evaluated (inclusive or exclusive);
 - Solicitations shall indicate the City may exercise option at time of award; and
- Solicitation for unit priced items should identify a minimum and maximum which may be ordered for each option



Option Analysis

An option shall be exercised only after determining that -

- Funds are available to cover option;
- Requirement covered by option fulfills an existing need of the City;
- An informal analysis of pricing or market research indicate that the option pricing is better then available prices or that the options is a more advantageous offer;
- Time between award of the contract and exercising option is so short that market indicates the option is lowest price obtainable through competition or most advantageous; and
- A vendor performance shall be completed and vendors performance shall been determined to be “7-8” or higher

VENDOR PERFORMANCE REPORT

CONTRACT NUMBER AND TITLE:

COMPANY CONTACT INFORMATION

COMPANY/OWNER'S NAME				
COMPANY ADDRESS				
POINT OF CONTACT E-MAIL ADDRESS				
PHONE/FAX NUMBERS	PHONE		FAX	
CONTRACT AMOUNT (\$)				
% COMPLETED / COMPLETED				
ESTIMATED COMPLETION DATE				

TECHNICAL PERFORMANCE

FACTORS/RATINGS	"PLUS" (11-+)	"EXCELLENT" (9-10)	"GOOD" (7-8)	"FAIR" (5-6)	"POOR" (3-4)	"UNSATISFACTORY" (0-2)	NOT APPLICABLE (N/A)
Completion of major tasks/ milestones/ deliverables on schedule.							
Responsiveness to changes in technical direction.							
Ability to identify risk factors and alternatives for alleviating risk.							
Ability to identify and solve problems expeditiously.							
Ability to deliver goods or services accordance with specification							
Ability to employ standard tools/methods.							

MANAGEMENT PERFORMANCE

FACTORS/RATINGS	"PLUS" (11-+)	"EXCELLENT" (9-10)	"GOOD" (7-8)	"FAIR" (5-6)	"POOR" (3-4)	"UNSATISFACTORY" (0-2)	NOT APPLICABLE (N/A)
Overall communication with staff.							
Effectiveness and reliability of Contractor's Key Personnel							
Ability to recruit and maintain qualified personnel.							
Ability to manage multiple and diverse projects/tasks from planning through execution.							
Ability to effectively manage subcontractors.							
Ability to accurately estimate and control cost to complete tasks.							
Overall performance in planning, scheduling, and monitoring.							
Ability to resolve problems							
Use of management tools (e.g. cost/schedule, task management tools).							

CONTRACT ADMINISTRATION

FACTORS/RATINGS	YES	NO
Was the project completed on schedule? If not, how late was it: ___ < 30 days; ___ <60 days; ___ < 90 days; ___ > 90 days		
Did the contractor submit unnecessary Change Order requests?		
Were contractor proposals for Change Orders reasonably priced?		
Were there any claims?		
Compliance with labor laws		
Compliance with safety requirements		
Given a choice, would you do business with this contractor again?		

Report completed by:

Phone:

Department Director:

Phone:



Responsible Party Checklist

Tab	Evaluation Factor	Department	Purchasing
1	CITY NEED FOR PRODUCT AND/OR SERVICE	X	
2	FUNDING AVAILABLE FOR OPTION	X	
3	PURCHASE ORDER	X	
4	PRICE ANALYSIS) (informal market analysis competitive/advantageous		X
5	RECENT AWARD		X
6	VENDOR PERFORMANCE REPORT(S)	X	



Key Considerations

- Increase standard length of contracts to total five years with no options
 - * Currently a typical contract has an initial term of three years with a two year option
- Request Council's approval to authorize the City Manager to exercise options as an administrative matter by one of the following methods:
 - Delegated authority granted on a contract by contract basis similar to engineering resolutions
 - Delegated "blanket authority" granted by resolution and/or as a policy
 - Delegated authority granted on contracts with a total contract value (initial value plus options) not to exceed \$500,000 dollars



QUESTIONS