



CTSI CORPORATION

Statement from CTSI Corporation to the Metropolitan Water District Board of Directors

March 12, 1996

Four years ago, CTSI, on its own initiative, and with its own capital, began a pilot water conservation program that was so successful it became the model for the ULFT Replacement Program that has since distributed more than 300,000 ULFTs and is currently saving an estimated 12,000 AF of water per year.

The program has been well managed, and costs have dropped substantially since the program began. Goals have been met or exceeded. Agency acceptance and participation has broadened, and it has proven to be a very cost-effective source of water for Metropolitan. This turn-key program was utilized by 21 of Metropolitan's member agencies.

We sincerely hope that the program remains as strong in the future as it has been in the past. Because of that, we are very concerned about recent developments with the program.

Conservation Branch is proposing to replace one experienced contractor with 3 inexperienced contractors. Our concerns include:

- Sole source contracts totaling \$3.76 million
- No RFP, no public announcement, no search for qualified contractors.
- Program costs will increase substantially – projected by contract to be \$462,000 -- as a result of this change in program management.

In November, Conservation Branch gave us approval to proceed with this phase of the program. As a result:

- CTSI began working with member agencies to prepare for special programs and for continuous CBO programs.
- CTSI incurred labor and other expenses in order to begin implementation of the contract

Little did we know that Metropolitan was preparing to pull the rug out from under us:

- Without warning, without cause, Conservation Branch canceled the contract in February
- Conservation Branch refused to pay legitimate invoices for work done under their direction to set up programs for several member agencies.

To say that they were "unable to secure agreement" with us is very misleading. In fact, we had a contractual arrangement with Metropolitan which they then canceled.

All this raises the question of why these actions are being taken.

- Why cancel a contract with an experienced vendor during program implementation?
- Why deliberately increase program costs? From about \$110.00 to from \$121 to \$124 per unit?
- Why publish false statements about CTSI to CBOs and member agencies after inexplicably breaching the agreement?

Several cogent facts the Board should be aware of:

- In November, Metropolitan announced it was awarding the Phase 4 contract to CTSI and VoltViewtech.
- Yet after preliminarily awarding the contract, the Conservation Branch decided the proposals it received were “non-responsive” and threw out all responses. Based on Metropolitan’s Counsel’s response to a request for information about the RFP process, it appears that Conservation is still negotiating with two of the original bidders and one non-bidder four months later, while not negotiating with the other bidder.
- In November, it was announced to member agencies that CTSI would continue program operation from January through June, the so-called Phase 3.5 contract.
- CTSI began working with member agencies in January on school and other CBO-type programs, incurring labor costs and other expenses.
- CTSI was notified by fax on February 12, without any prior warning or notification, that the Phase 3 extension was being unilaterally terminated.

These actions appear to have been taken due to our refusal to capitulate to what we believe is a faulty interpretation of the Phase 3 contract by the Metropolitan auditors. The dispute involves about \$500,000 in labor and other program expenses which CTSI incurred on behalf of the program. CTSI subsequently invoiced Metropolitan for these expenses at the request of the Conservation Branch, which then approved and paid them. Only six months later, after the Phase 4 proposals were rejected, did Conservation decide that these expenses were no longer billable.

CTSI offered its interpretation of the contract, provided materials and data in support of that position and offered in early February to enter into a binding arbitration process in order to resolve this issue expeditiously. Conservation Branch refused binding arbitration without explanation, and shortly thereafter terminated the contract without notice, returning invoices unpaid and putting a stop payment on a \$250,000 check to CTSI for product ordered on behalf of Metropolitan.

If Conservation Branch wants to punish CTSI for not agreeing with its view of the contract, that’s one thing, and there are well established forums for resolving that difference.

However, the Conservation Branch should not punish the member agencies, and ultimately, the rate-payers, by incurring nearly \$500,000 of easily avoidable costs to make their point.

Alternative Solutions For Contracting of Community- Based- Organizations Ultra-Low-Flush Toilet Programs

New Contractors Phase 3.5 Costs Overview:*

Vendor	The Demand Management Co.	Richard Heath & Associates	VIEWtech
Type of CBO	Continuous Distribution	Single Events High Schools	Single Events Adult Organizations
Member Agencies	Los Angeles DWP	Callegas MWD Chino Basin MWD City of Burbank Western MWD	City of San Fernando Eastern MWD Three Valleys MWD
Number of ULF Toilets	22000	4700	3800
Costs			
ULF Toilets	\$60.00	\$60.00	\$60.00
Administration	\$18.50	\$38.00	\$39.00
Recycling	\$7.00	\$7.00	\$7.00
CBO Payments	\$39.00	\$15.00	\$15.00
Total Project Cost	\$124.50	\$120.00	\$121.00
Total Project Cost	\$2,739,000.00	\$564,000.00	\$459,800.00

Prior Contractor Phase 3.5 Costs Overview:

Vendor	CTSI Corp	CTSI Corp	CTSI Corp
Type of CBO	Continuous Distribution	Single Events High Schools	Single Events Special Events
Member Agencies	21 MWD Member Agencies		
Number of ULF Toilets	22000	4700	3800
Costs			
ULF Toilets	\$59.62	\$59.62	\$59.62
Administration	\$16.00	\$16.00	\$16.00
Recycling	\$10.00	\$10.00	\$10.00
CBO Payments	\$25.00	\$24.57 **	\$24.57 **
Total Project Cost	\$110.62	\$110.19	\$110.19
Total Project Cost	\$2,433,640.00	\$517,893.00	\$418,722.00

**Payments to outside organizations plus CTSI special program costs

Alternative Solutions For Contracting of Community- Based- Organizations Ultra-Low-Flush Toilet Programs*

Added costs with new contractors:

Program Type	Proposed New Minus CTSI existing cost	Added Cost p/Unit	Total Added Cost
Continuous Distribution Programs			
22,000 ULF Toilets through CBOs	\$124.50 - \$110.62	\$13.88	\$305,360.00
High School Programs			
4,700 ULF Toilets	\$120.00 - \$110.19	\$9.81	\$46,107.00
High School Programs			
3,800 ULF Toilets	\$121.00 - \$110.19	\$10.81	\$41,078.00
SUB TOTAL (ADDED COSTS TO MEMBER AGENCIES)			\$392,545.00

New Distribution Costs (paid by MWD)

Familian Pipe and Supply (delivery costs to be paid by MWD)

30,500 Units (range from \$1 to \$2)	\$1.50	\$45,750.00
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Plus MWD Staff support

Est. 1-2 people (4 months) (4mos. x 1.5 people @ \$4000/mo)		\$24,000.00
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	Sub Total	\$69,750.00
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		\$462,295.00
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Phase III Financial Summary

180,000 (80%)		22,500 (10%)	22,500 (10%)
Continuous Distribution CBO	Unit Cost: \$25	CTSI Unit Cost: \$10 HS/CBO Unit Cost: \$15	Non CBO Unit Cost: \$10-\$25
Administrative Services	225,000 Units	Unit Cost: \$16 Base	

**Total Budget
Maximum
Allocation**

128,974 (69%)	37,623 (20%)	20,668 (11%)
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\$3,224,350	\$940,575	\$516,700
Continuous Distribution CBO	HS/CBO	Non CBO
Unit Cost: \$25	Unit Cost: \$25	Unit Cost: \$10-\$25
Administrative Services	187,265 Units	\$2,996,240
		Unit Cost: \$16 Base

**Total Distribution
if Charged at
Allocation Prices**

128,974 (69%)	37,623 (20%)	20,668 (11%)
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\$3,186,082	\$923,502	\$507,926
Continuous Distribution CBO	HS/CBO	Non CBO
Unit Cost: \$24.70	Unit Cost: \$24.54	Unit Cost: \$24.57
Administrative Services	187,265 Units	\$2,996,240
		Unit Cost: \$16 Base

**Total Distribution
Actual Charges**



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