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APPROVED
BY THE CITY COUNCIL

OCT. 1 1991

OFFICE OF THE
CITY CLERK

AG 91-178

DEPARTMENT OF
GENERAL SERVICES

CITY OF SACRAMENTO
CALIFORNIA

5730 - 24TH STREET
BUILDING FOUR
SACRAMENTO, CA
95822-3699

OFFICE OF THE DIRECTOR

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October 1, 1991

City Council
Sacramento, California

DIVISIONS:

COMMUNICATIONS
FACILITY MANAGEMENT
FLEET MANAGEMENT
PROCUREMENT SERVICES

Honorable Members in Session:

SUBJECT: CENTREX TELEPHONE SYSTEM AGREEMENT

LOCATION AND COUNCIL DISTRICT

City Wide/All Districts

SUMMARY

The City's present telephone equipment (referred to as "Customer Premise Equipment" (CPE)) is supported by Pacific Bell's Centrex Service. This report requests authorization for the City to enter into a five-year agreement with Pacific Bell for its Centrex Service that will provide rate stabilization and a cost savings of approximately \$725,000.

STAFF RECOMMENDATION

This report recommends that the City Council adopt the attached resolution authorizing and directing the City Manager to:

1. Enter into a five-year agreement with Pacific Bell for Centrex Services for the period December 16, 1991 thru December 15, 1996;
2. Provide for the prepayment of \$1,660,512 for the 5 year line costs of the 2,022 Centrex lines per terms of the agreement;
3. Have the City Treasurer provide a financial vehicle for the \$1,660,512 prepayment; and

4. Provide for the annual debt service payment from current funding budgeted in the annual operating budget over the next five years.

BACKGROUND

When the divestiture of the telephone company took place in 1984 the City explored its options: 1) looking into the County's proposed new system, that was provided by GTE Communications Corporation; 2) the Pacific Bell's Centrex Service; and 3) AT&T providing the City with its own switch. From the evaluations provided by Pacific Bell and AT&T it was determined that the Pacific Bell Centrex Service would provide for the City's service needs at a reasonable cost.

The City then entered into a six year agreement (A-83016A) that expired December 31, 1989. Pacific Bell's Centrex Service provides the City with flexibility, an ever-expanding range of optional features without any capital outlay on support required for a city owned switch. The Centrex Service is constantly being expanded and updated as new technology becomes available.

Upon expiration of The City's Agreement (A-83016A) with Pacific Bell on December 31, 1989 the Tariffed Rate Structure (Rates set by PUC) was more favorable so we deferred to the Tariffed Rate Structure which afforded staff the opportunity to negotiate with Pacific Bell and the State of California's Telephone Service "CALDEX" for services.

Staff reviewed its three basic options: 1) Pacific Bell Centrex Service; 2) State of California's CALDEX; and 3) a City-owned Telephone Switch. The latter option has been eliminated at this time because of the lack of one major centralized administration center. Proposals were then requested from Pacific Bell and the State of California (Ref. Exhibit I).

Of the four alternatives available, Alternative #4 of Exhibit I provides the City with largest savings over the current Tariffed Rates. This Pacific Bell proposal is for a five year agreement with a prepayment of \$1,660,512 which will provide a line rate guarantee of \$13.68 per line for the base 2,022 Centrex Lines and \$19.48 for each new line added above the current base of 2,022 Centrex Lines. The agreement also provides:

1. That in the event Tariffed Rates were reduced below the line guaranteed rate, the City will be adjusted accordingly;
2. All lines will have as standard features:

- Call Forward Variable
- Three-Way Calling
- Call Forward Busy
- Message Waiting
- Call Forward No Answer
- Flexible Route Selection

3. The following features and quantities:

| | |
|-----------------------|-----|
| Call Pick-up Groups | 71 |
| Call Pick-up Stations | 470 |
| Call Hold | 460 |

4. Any additional features may be added at Tariffed Rates or as an addendum to the contract;
5. The mileage charges for the existing 2,022 lines outside the Main office would be eliminated, along with intra centrex message unit charges; and
6. Pacific Bell will support the telephone number change-over for 6 months following the switch-over (Dec 16, 1991 thru Jun 15, 1992).

Under this proposal the City's current Centrex prefixed 449 telephone numbers will be changed in their entirety. The new Centrex Service will use four prefixes 264, 277, 433, and 566 (see Exhibit II for prefix areas). The prefix differences will have no impact on internal four digit dialing within the Centrex System. The Centrex number change over will coincide with the release of the new Pacific Bell Directory on December 16, 1991, providing we enter into a tentative agreement on, or before, October 2, 1991.

ADVANTAGES/DISADVANTAGES

A change-over of this magnitude raises many concerns. However, switching 2,022 Lines should be relatively easy when compared to the State of California's recent conversion of 18,000 lines in Sacramento over the weekend of September 14th & 15th, 1991. The \$725,000 estimated savings opportunity under this proposed agreement far exceeds the disadvantages that can be mitigated over the next nine month period with good planning.

- Advantages -
- Saving to City of \$725,000
 - 5 year rate stabilizer
 - Elimination of mileage charge on existing 2,022 lines
 - Elimination of message unit charges on intra Centrex calls
 - Pacific Bell will support directory change for 6 months

Disadvantages - Requires revision of printed materials

- Business Cards
- Stationery
- Forms
- Brochures

Reprogramming of equipment

- Automatic Dialing
- Fax Machines
- Modems
- Speed Call Lists

FINANCIAL DATA

The FY 1991-92 operating budget provides sufficient funding to make the annual debt service payments that will be required to finance the \$1,660,512 prepayment for the 2,022 existing Centrex lines, as required by the terms of the agreement. The net five year savings to the City will be approximately \$388,280 after providing for the cost of financing the \$1,660,512 prepayment. This projection is based on the following:

| | <u>Annual</u> | <u>5 Year</u> |
|---|------------------|-------------------|
| Current Budget 2,022 Lines @ \$19.69 ea x 12 months | \$ 477,756 | \$ 2,388,780 |
| Less Estimated Annual Debt Service Cost on \$1,660,512 | <400,100> | <2,000,500> |
| Net Savings (est.) | <u>\$ 77,756</u> | <u>\$ 388,280</u> |

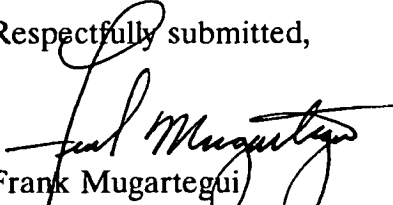
POLICY CONSIDERATIONS

The Centrex Services Agreement is consistent with Chapter 58 of the City Code.

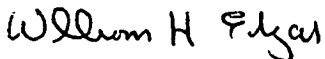
MBE/WBE EFFORTS

The Pacific Bell Centrex Service Contract provides no direct benefit towards the City's efforts in this area.

Respectfully submitted,


Frank Mugartegui
Director of General Services

Recommendation Approved:



Walter J. Slipe
City Manager

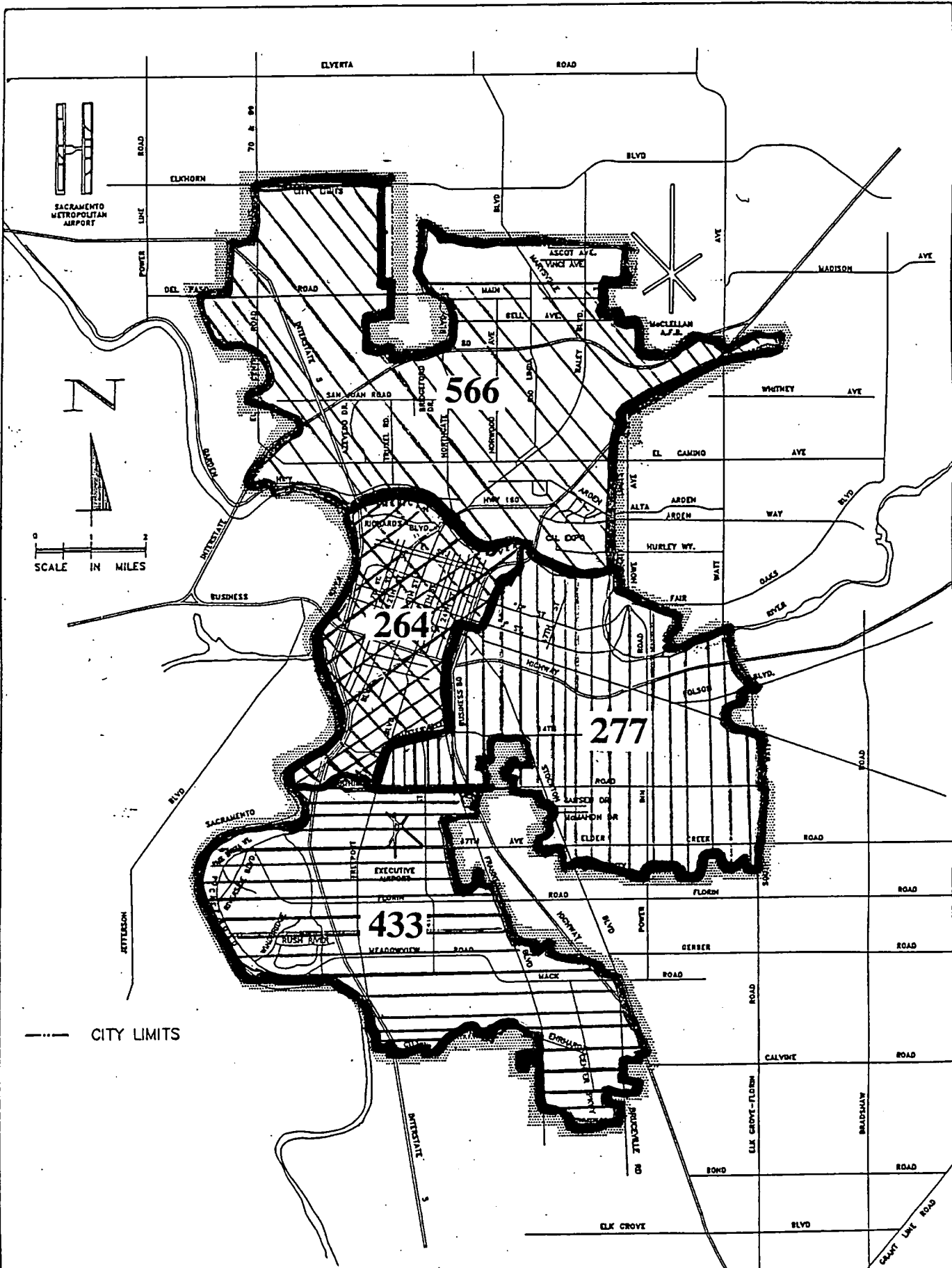
October 1, 1991

CONTACT PERSON

Ron Costa, Communication Manager, 449-2126

Proposed City Government Centrex Prefixes

EXHIBIT II



APPROVED
BY THE CITY COUNCIL

OCT 1 1991

OFFICE OF THE
CITY CLERK

RESOLUTION NO. 91-765

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**RESOLUTION AUTHORIZING A FIVE YEAR CENTREX SERVICE
AGREEMENT WITH PACIFIC BELL**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

That the City Manager is hereby authorized and directed to -

1. Enter into a five-year agreement with Pacific Bell for Centrex Services for the period December 16, 1991 thru December 15, 1996;
2. Provide for the prepayment of \$1,660,512 for the 5 year line costs of the 2022 Centrex lines per terms of the agreement;
3. Have the City Treasurer provide a financial vehicle for the \$1,660,512 prepayment; and
4. Provide for the annual debt service payment in the annual operating budget over the next five years.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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OCT. 1 1991

OFFICE OF THE
CITY CLERK

CITY OF SACRAMENTO
5 YEAR CENTREX TELEPHONE AGREEMENT
COST ANALYSIS

AG91-178

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Provided below are four alternative approaches of changing the City's present Pacific Bell Centrex Service Tariffed line charges to effect rate stabilization and cost savings. Long Distance Service (LD) is not addressed in this scenario, since our current method of handling LD is the most cost effective, and a Centrex Service change would have no effect on our LD rates. The information provided below is benchmarked on 2,022 Centrex Service Lines.

ALTERNATIVE #1 - Remain status quo - Tariffed rates

| | <u>COSTS</u> | | |
|------------------|-------------------------------------|---------------|---------------|
| | <u>MONTHLY</u> | <u>ANNUAL</u> | <u>5 YEAR</u> |
| Current Pac Bell | 2,022 Lines @ \$19.69/ea = \$39,813 | \$477,756 | \$2,388,780 |

ALTERNATIVE #2 - Enter into a 5 year agreement with Pacific Bell, leaving our tariffed rate structure status

| | <u>COSTS</u> | | |
|-------------------------------|-------------------------------------|---------------|---------------|
| | <u>MONTHLY</u> | <u>ANNUAL</u> | <u>5 YEAR</u> |
| Current Pac Bell | 2,022 Lines @ \$19.69 ea = \$39,813 | \$477,756 | \$2,388,780 |
| Proposed Pac Bell | 2,022 Lines @ \$18.75 ea = \$37,913 | \$454,956 | \$2,274,780 |
| Savings over Current Pac Bell | \$ 1,900 | \$ 22,800 | \$ 114,000 |

ALTERNATIVE #3 - Enter into a 5 year agreement with State of California for Centrex Services

| | <u>COSTS</u> | | |
|---|-------------------------------------|---------------|---------------|
| | <u>MONTHLY</u> | <u>ANNUAL</u> | <u>5 YEAR</u> |
| Current Pac Bell | 2,022 Lines @ \$19.69 ea = \$39,813 | \$477,756 | \$3,388,780 |
| Proposed State Centrex | 2,022 Lines @ \$20.62 ea = \$41,694 | \$500,328 | \$2,501,640 |
| Savings over Current Pac Bell Pac Bell | <\$ 1,881> | <\$ 22,572> | <\$112,860> |

ALTERNATIVE #4 - Enter into a 5 year agreement with Pacific Bell with a prepayment of \$1,660,512 which includes a line rate guarantee of \$19.48 for each new line added above current 2,022 centrex lines

| | <u>COSTS</u> | | |
|--|-------------------------------------|---------------|---------------|
| | <u>MONTHLY</u> | <u>ANNUAL</u> | <u>5 YEAR</u> |
| Current Pac Bell | 2,022 Lines @ \$19.69 ea = \$39,813 | \$477,756 | \$2,388,780 |
| Proposal - No monthly base line charge on 2,020 lines | | - | - |
| (Memo: Prepayment Calc 2,022 Lines @ \$13.69 x 60 months = \$1,660,512) | | | |
| Prepayment for 2,022 Centrex Lines | | | \$1,660,512 |
| Savings over Current Pac Bell | | | \$ 728,268 |
| Less Financing Cost on \$1,660,512 loan | | | <340,000> |
| Net Program Savings | | | \$ 388,268 |

ANALYSIS OF ALTERNATIVES

- Altn #1 - **STATUS QUO - TARIFFED RATE STRUCTURE** - Under this alternative the City remains status quo which would be the most expensive option for the City over a 5 year period since there would be no rate stabilization under the tariffed rates establish by the PUC. Under the Tariffed structure rates could increase or decrease during the next 5 years. The City's current telephone numbers would remain unchanged. We would continue paying for mileage for lines outside of the centrex office and all message units on calls mode outside of the system.
- Altn #2 - **5 YEAR CONTRACT WITH PACIFIC BELL** - Under this alternative the City would enter into a **5 year contract with Pacific Bell** that would guarantee line rates for the term of the agreement. This would provide the City with rate stabilization at a rate of \$18.75/line as compared to our current \$19.69/line, a savings of 5.0%. This would result in a savings of \$114,000+ over a 5 year period. **The City's current telephone numbers would have to be changed. The current city wide 449 prefix would be eliminated and four new prefixes 264 (main office), 433 (Garden office), 277 (Gladstone office), & 566 (Wabash office) would be required. The last 4 digits of all City numbers would also have to be changed.** The prefix differences will have no impact on the internal four number calling within the system. Mileage charges for existing lines outside of the main office will be eliminated along with intra centrex message unit changes. Message units will still apply on calls made outside the
- Altn #3 - **STATE OF CALIFORNIA'S CENTREX CONTRACT** - Under this alternative the City would **piggyback on the remaining two years of the State of California's Centrex Contract.** The result in an increase in rate from \$19.69/line to \$20.62 or 4.7%. This alternative would cost the City \$112,860 above the existing tariff rates and is not recommended.
- Altn #4 - **5 YEAR CONTRACT WITH PACIFIC BELL - WITH PREPAYMENT** - Under this alternative the City would enter into a 5 year agreement with Pacific Bell that would require the prepayment of \$1,660,512. For this prepayment the City would not have to make any monthly base rate payments for the term of the agreement. In addition each additional line added above the 2,022 base would cost an average of \$19.48/month as compared to our current \$19.69/line, a savings of 1.1%. This alternative will result in a saving of \$728,268+ less the interest expense for financing the \$1,660,512 prepayment. **However, again as in alternative #2 the City's 449 prefix would be eliminated and four new prefixes utilized.** The mileage charges for existing lines outside the main office would be eliminated, along with intra centrex message unit charges.