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California Seeks to Redo Contracts

State Asks Vendors to Cut Prices as Part of Effort to Close Budget Deficit

By SABRINA SHANKMAN and RYAN KNUTSON

More than 2,000 vendors who supply the state of California with everything from computers to cornstarch are being asked to cut their contracted rates by as much as 15%, as the government seeks to close a \$26.3 billion budget deficit.

Meridian Food Services owner Rebecca Kitchings received a fax from the state's Department of General Services Wednesday night.

"We need your help!" said the letter. An attached worksheet invited the Riverside-based contractor to list ways she proposes to cut the costs of her \$15,000 contract to supply cornstarch to prisons. (**Read the letter and see the worksheet**)

"Oh, for heaven's sake," Ms. Kitchings said in an interview. "It's a contract. If something happened to my company and I said, 'I mis-bid that and I need another half a penny,' they'd say no way."

Ms. Kitchings plans to ask her manufacturer to cut costs, she said, but other than that there is little she can do. Ms. Kitchings said a 2% to 2.5% profit margin on food contracts is considered "fairly successful." Cutting 15%, she said, would be impossible. "There's nothing I can take out," she said.

The letters asking to renegotiate state contracts began trickling at the end of last month, said Eric Lamoureux, spokesman for the Department of General Services, which oversees many of the state's largest contracts that fall under the executive branch.

The letters are being sent to fulfill a June 8 executive order from Gov. Arnold Schwarzenegger, aimed at slashing state spending for the remainder of the current fiscal year and reducing department spending by 15% in the 2009-2010 fiscal year.

There are no data yet on how much the cuts, which are being directed to a large swath of contracts, could save the government or just how many contractors have responded, Mr. Lamoureux said. "Anecdotally, I'm hearing that we are having companies say, 'Yes we'd be willing to do that for you,'" he said.

Among the contractors who got these letters are food companies, information-technology contractors that provide computers for state offices, and others. Mr. Lamoureux said companies that got the letters include Western Blue Corp., a technology consulting firm, and VanWrite, a consulting firm that trains employees on writing, for example, memos and emails.

VanWrite owner Linda Vanderwold received the state's letter on July 3 and said she'll comply with the request to cut 15% off her state contract. "You know, in this economy everyone has to go along to get along," she said, though she acknowledged the cuts are burdensome.

Terry Joslin, chief executive of Western Blue, said the company was "doing the best we can to save the state as much as we can without putting our business in jeopardy," but wasn't cutting a full 15% across the board.

The effort isn't likely to solve the state's budget problem, said Michael Cohen, deputy legislative analyst for the Legislative Analysts Office.

"Historically these types of measures haven't saved huge amounts of money in the overall scheme of our current budget crisis," Mr. Cohen said, adding that the Legislative Analysts Office had no part in the executive order.

Adam Clingerman, owner of grocery supplier ABC Ventures in San Ramon, received a fax Wednesday night from the state's Department of General Services. "I can't believe this," Mr. Clingerman recalled saying at the time.

Mr. Clingerman has contracted with the state since 1992, providing prisons with frozen pizzas, waffles, crackers, pasta and canned food. His profit on the contract, he said, is less than 10%. So when the state asked him to cut 15% of his costs on his existing contracts, it left him with few options.

Mr. Clingerman said he turned to his own suppliers to see if they could lower their costs but has yet to hear back.

Making matters worse, the state has been paying Mr. Clingerman and others with IOUs since July 2; his bank, Wells Fargo, announced it will stop honoring the IOUs Friday. In a statement, a spokeswoman for Wells Fargo said the bank "can't accept [the IOUs] indefinitely." (**See an IOU issued to Meridian Food Service from the state of California**)

Mr. Clingerman called the situation untenable. "It just defies all principles of good business," he said. "You can't have nothing coming in, and everything going out."

Write to Sabrina Shankman at Sabrina.Shankman@wsj.com and Ryan Knutson at ryan.knutson@wsj.com

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State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES
Procurement Division

707 Third Street • West Sacramento, CA 95805 • (916) 375-4400 • Fax (916) 375-4505 • www.pd.dgs.ca.gov

July 8, 2009

Meridian Food Service
6080 Shaker Drive
Riverside, CA 92506

ATTN: Rebecca Kitchings

RE: Fiscal Year 2009-10 Contract Reductions

Dear Ms Kitchings:

As you are aware, the State of California is experiencing a \$24 billion deficit due to developments in the financial markets and ongoing weak performance in our economy. Regrettably, this deficit requires critical cuts to nearly all State programs and services.

In response to this situation, Governor Schwarzenegger issued Executive Order S-09-09 (<http://gov.ca.gov/executive-order/12460/>) on June 8, 2009. One of the main provisions of the Executive Order calls for all departments to reduce contract-related spending by at least 15 percent in Fiscal Year 2009-10.


We need your help! We are asking our valued suppliers to help their State agency customers achieve the 15 percent cost reduction target by renegotiating prices on existing contracts. Our goal is to help State agencies comply with this requirement while continuing to purchase the food commodities they need.

We would kindly request that you use the attached worksheet to provide us your proposals for reducing prices on your State contract for Cornstarch, using a separate copy of the worksheet for each contract. We are asking that you return these forms to us by 5:00 p.m. Monday, July 13, 2009.

The Department of General Services will share the results of this effort with our customer agencies so they may avail themselves of the cost savings our suppliers are providing.

Thanks in advance for working with us during this challenging economic period. Please feel free to call me at (916) 375-4544 if you have any questions.

Sincerely,


Dave Henning
CONTRACT ADMINISTRATOR
Food Acquisitions Unit



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DGS Contract Reduction Proposal

Company Name: _____

Contract Number: _____

Contract Name: _____

Description of Proposed Changes (line items, existing price, proposed price):

Please see attached documentation (Please check box if applicable)

Signature

Date

Name and Title (please print)

