



January 22, 2001

To: The Board of Governors of Exhibition Place

From: Paul Egli
Director of Finance

Subject: Exclusive Janitorial Supplies Agreement

Recommendation:

It is recommended that the Board consider amending the agreement with Mister Chemical Ltd. to provide for the following:

1. Effective January 1, 2001, the prices for paper and plastic products will no longer be increased in accordance with the percentage increase in the All Items Index of the Consumer Price Index for the Toronto Census Metropolitan Area, published by Statistics Canada, but by the percentage price increase for those commodities as published by Statistics Canada during the 12 month period ending December 31, 2001 less any increases previously applied to these products on April 1, 2000;
2. The prices for paper and plastic products be further increased on January 1, 2002, by the percentage price increase for those commodities as published by Statistics Canada during the 12 month period ending December 31, 2001, and ,
3. All other products continue to increase on April 1st each year of the agreement by the percentage increase in the All Items Index of the Consumer Price Index for the Toronto Census Metropolitan Area, published by Statistics Canada, during the 12-month period ending January 1 of the year of the increase.

Background:

On March 31, 1999, the Board entered into an agreement with Mister Chemical Ltd. for the provision of Janitorial Supplies on an exclusive basis for a period of three years commencing April 1, 1999. The agreement was based on the results of a Request for Proposal (RFP) issued through the services of the City of Toronto's Purchasing and Material Management Division.

Discussion:

As a result of this single source supply agreement the Board was able to eliminate the costs associated with ordering supplies from thirteen different suppliers and maintaining a janitorial

products inventory. Additional benefits included a financial return to the Board in signing bonuses and discounts, just in time delivery, upgraded and efficient products and mixing systems, as well as new tissue, towel and soap dispensers.

The financial terms and conditions of the agreement with Mister Chemical Ltd. include the following:

- (a) The term is for three years commencing April 1, 1999;
- (b) Mister Chemical Ltd. will supply the janitorial supplies listed in the RFP at the prices quoted and that these prices may only be increased on April 1st of Years 2 and 3 in accordance with increase in the percentage increase in the All Items Index of the Consumer Price Index for the Toronto Census Metropolitan Area, published by Statistics Canada, during the 12-month period ending January 1 of the year of the increase;
- (c) Mister Chemical Ltd. will pay the Board a signing bonus of \$10,000 upon award, as well as signing bonuses of \$11,000 and \$12,000 for each of Years 2 and 3 respectively, provided that the Board's purchases exceed \$275,000 in each of those years;
- (d) Mister Chemical Ltd. will pay the Board discounts based on dollar value of products ordered. In each year of the term, for the 1st \$100,000 the Board will receive a 4% discount; for the 2nd \$100,000 the Board will receive a 6% discount; and for the 3rd \$100,000 the Board will receive an 8% discount.

In Year 1 the Board spent \$307,000 on supplies and received \$28,000 in discounts and signing bonus. At the start of Year 2 the Board received the signing bonus of \$11,000 and to date (with 2 months remaining) the Board has spent \$185,000. This therefore, has been a financially beneficial agreement for the Board as it has provided cash incentives at the same time as providing products equal to or at a higher quality than that previously purchased in the market place.

However, the management of Mr. Chemical has raised an issue with Exhibition Place staff respecting a term of the agreement related to pricing increases which is outlined in the attached letter from Mr. Chemical dated January 22, 2001. In 1999, the wholesale cost of paper-based and plastic products in the supply arrangement has increased significantly. While the All Items Index of the Consumer Price Index for the Toronto Census Metropolitan Area increased by approximately 1.9%, Mister Chemical has indicated that the cost of these products to this company has increased by the amounts indicated in the table below. The commodity price changes for these specific products (according to Statistics Canada) is also shown in the table.

Table 1 – Price Changes for Janitorial Products

	Price Increase Experienced By Mr. Chemical	Commodity Price Increases Per Cat. No. 62-011
Paper Products	27.0%	14.4%
Plastic Products	9.8%	4.8%

Staff have consulted with the City of Toronto Purchasing Department and have confirmed that RFQ for these categories of products (paper products and plastics) issued over the last 2 years have resulted in increases in pricing of approximately 17% and 8.7% respectively.

Accordingly, Mister Chemical Ltd. requested relief from the Board and consideration of an amendment to the agreement to provide for an increase in the cost of paper-based and plastic products tied to the commodity price changes as calculated by Statistics Canada for these specific products. As indicated in the letter from Mr. Jacobs, he is making this request on the basis that he misunderstood the words of the agreement as drafted and executed. If this amendment comes into effect January 1, 2001, it would result in a total increase in costs to the Board of approximately \$10,000 based on the Board's usage pattern for these products over a twelve month period.

Given the above analysis and the long-term relationship that we have had with this company and the positive benefit of that relationship, I am recommending the amendment proposed. I have consulted with both Mr. David Bednar and Mr. Ernest Vincent about this matter as it will have financial impacts on the CNEA and NTC Programs.

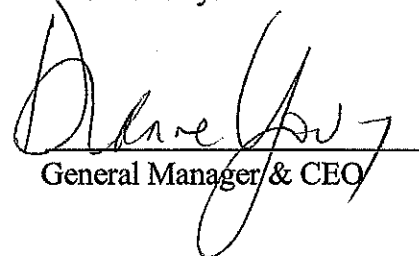
Conclusion:

This report outlines issues related to the agreement between the Board and Mister Chemical Ltd. for the exclusive janitorial supplies and recommends an amendment to the agreement.

Submitted by:


Director of Finance

Reviewed by:


General Manager & CEO

mister chemical ltd.



SOLUTIONS FOR
YOUR PROBLEMS!

163 Bowes Road Concord, Ontario L4K 1H3
Telephone: (905)761-9995 Fax: (905) 761-5999



January 22, 2001

Mrs. Fatima ScagnolCorporate Secretary,

Board of Governors, Exhibition Place

Dear Madam:

Please consider this letter to be a formal request for a price increase. Our firm has been unable to set forth the price increase afforded by our contract since April 1, 2000. The primary reason is due to a misunderstanding in the wording of the contract as it pertains to the C.P.I. We firmly believe that the wording must be amended so as to more accurately reflect the specific nature of the goods being purchased under the contract. Under the current agreement, when evaluating statistical increases, we are forced to include our product offerings along with household goods ("a basket of goods") such as foods and other household commodities. These goods are totally unrelated to those in question and their prices tend to remain inelastic year after year. We have brought this to the attention of the purchasing department and submitted Statistics Canada's report as it applies to the Industrial Products Price Index April 1999 over April 2000, specifically for the goods being purchased. These statistics are significantly lower than the average increases incurred for the months following yet we are not seeking to recoup all of the actual increases incurred rather just those April over April as stated in the contract. We have maintained 1999 prices month after month at a significant loss. Our firm has abided by every request for rebates and marketing fees even when waiting for payment for more than 120 days. We have acted as requested under the terms of the contract as a "partner" yet we do not feel as though the spirit of a true partnership is reciprocal. The amendment requested will allow us to continue to provide the level of service demanded by all those at Exhibition Place. We are also willing to consider a single averaged percent increase rather than the three main grouping increases previously submitted.

Sincerely,

Michael Jacobs
General Manager