



**STAFF REPORT
ACTION REQUIRED**

Procurement Authorization – Supply of Bus Tires

Date:	March 23, 2016
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to obtain authorization for the award of a contract for up to a seven year term for the supply of bus tires that are required to operate the TTC's current bus fleet of approximately 1,900 buses, and to obtain authorization to amend the TTC's current bus tire contract. Bus tires are currently, and will continue to be, supplied on a 'leasing program' basis.

Recommendations

It is recommended that the Board:

1. Authorize the award of a contract for the supply of bus tires to Goodyear Canada Inc. for an initial two year period, commencing May 1, 2016 and ending April 30, 2018, in the total upset limit amount of \$11,000,000 CDN including applicable taxes, on the basis of submitting the lowest bid price; and
2. Delegate authority to the CEO to add up to \$35,000,000 CDN including applicable taxes to the contract with Goodyear to cover the cost of tires during the five year period from May 1, 2018 to April 30, 2023, as the contract allows TTC staff to exercise contract extension options up to a maximum of five years beyond the expiration of the initial two year term; and
3. Authorize an amendment to the existing bus tire contract with Bridgestone Canada Inc. to extend the contract by 36 months, from April 30, 2016 to April 30, 2019, and add an additional \$5,500,000 CDN including applicable taxes.

Financial Summary

Sufficient funds are included in the TTC's 2016 Operating budget, as approved by the Board on November 23, 2015 and approved by City of Toronto Council on February 17, 2016. Sufficient funds will be included in future years' Operating budgets as appropriate.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Decision History

In September 2007, the board approved a contract for the supply of bus tires to Bridgestone/Firestone Canada Inc. for the seven year period ending September 30, 2014 in the upset limit amount of \$37,000,000 CDN including applicable taxes.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2007/Sept_19_2007/Other/Supply_of_Bus_Tires_.pdf

Subsequently, staff extended the contract to April 30, 2016 and added an additional \$2,500,000, bringing the revised total to \$39,500,000 CDN.

Issue Background

The TTC has an on-going requirement for the supply of bus tires in order to operate its fleet of approximately 1,900 buses. Bridgestone is TTC's current bus tire supplier and tires are supplied based on a leasing program whereby TTC is supplied with new tires and is charged based on the number of kilometers travelled per tire. Additionally, TTC pays for tire repairs and damaged tires that are not suitable for further use (sidewall, tread damage etc.) based on the remaining tread depth. In 2015, TTC received over 9,000 bus tires from Bridgestone.

Prior to 2016, staff issued multiple publicly advertised Request for Bids (RFBs) in order to secure a new contract as the current contract with Bridgestone expires at the end of April 2016. However, these RFBs did not yield a technically and commercially compliant bid that met the TTC's requirements.

Throughout the RFB process, staff also examined the possibility of purchasing tires as opposed to leasing tires, which included a review of tire supply practices of some major transit agencies in North America. Staff learned some transit authorities lease tires (i.e. New York, Chicago, Mississauga, and Hamilton) while others purchase tires (i.e. Ottawa, GO Transit, Montreal, and York Region) and generally those that purchase tires consider it viable only if the tires undergo a re-treading process. TTC staff confirmed re-treaded tires are of a lesser quality compared to new tires and are not technically acceptable to TTC. In addition, setting up a tire re-treading program is not desirable as additional staff, equipment and programs would be required. As such, only the leasing option should be considered at this time, however the purchase option, including associated operational issues, can be revisited during the new contract term.

In addition, as a result of the RFBs and market research, staff learned there are only three tire suppliers that can provide TTC with the tires it requires based on a leasing program; Goodyear, Bridgestone, and Michelin North America (Canada) Inc. ("Michelin").

To avoid further non-compliant bids, TTC obtained permission from its CEO to utilize a competitive Structured Multi-Phase Bid Process (“SMPBP”) with the three aforesaid tire suppliers in lieu of a publicly advertised RFB process.

The SMPBP allows negotiation of technical and commercial issues with the potential bidders in an effort to remove obstacles that would prevent the potential bidders from submitting a compliant offer. In an effort to allow for more competition among the three transit tire manufacturers, TTC had updated its bus tire technical specifications such that a tire from any of these three manufacturers would be considered technically acceptable. The SMPBP was such that following completion of the negotiation process pricing was requested and the lowest priced offer would be recommended for award.

Accessibility/Equity Matters

The recommendations have no accessibility or equality issues.

Comments

In early February 2016, each of the three potential bidders, Goodyear, Bridgestone, and Michelin, were invited to participate in the SMPBP and an approximate schedule was reviewed. Each potential bidder was provided a draft of TTC’s proposed commercial conditions and technical program requirements in order to allow each potential bidder to provide comments or seek clarification on any matter to ensure there were no obstacles that prevented them from bidding.

All three companies provided feedback, both on commercial issues as well as technical issues and TTC entertained discussions with each company. The suggested changes that TTC deemed acceptable were incorporated into the final SMPBP bid documents.

Pricing was then requested, based on the modified/finalized SMPBP bid documents, for the leasing of bus tires for an initial two year term as well as for the optional five extension years (i.e. Years 3, 4, 5, 6, and 7). TTC received technically and commercially acceptable offers from Goodyear, Bridgestone, and Michelin. Each bidder provided pricing for all of the optional years.

The TTC reserves the right to extend the contract, beyond the initial two year term, up to a cumulative amount of five additional years. Contract extensions will be exercised based on acceptable company and tire performance.

Goodyear submitted the lowest-priced bid. It had the lowest price for the initial two year term, and also had the lowest price over the total potential seven year term.

Bridgestone submitted the second lowest-priced bid for both the two year term and over the potential seven year term, while Michelin submitted the highest price. Refer to Appendix A for the evaluated bid pricing.

A price comparison of Goodyear's bid price with the current contract price with Bridgestone revealed an overall decrease of approximately 6.92% in the first year of the contract. The decrease is mainly attributed to the market competition. Goodyear's year-to-year price comparison revealed overall price increases of approximately 0.97% from year 1 to year 2, 3.00% from year 2 to year 3, 2.96% from year 3 to year 4, 3.01% from year 4 to year 5, 3.91% from year 5 to year 6 and 3.93% from year 6 to year 7.

The recommended initial two year contract amount of \$11,000,000 with Goodyear includes a 5% contingency for variances between forecasted and actual usage, while the recommended amount of \$35,000,000 for the potential additional 5 years includes a 20% contingency.

Although the new Goodyear contract begins May 1, 2016, as set out in the above recommendation, the TTC will need to extend the current contract with Bridgestone and add funds to pay for continued leasing of bus tires currently installed on TTC's fleet and stored in bus garages etc. Both contracts will operate concurrently; the new tires will be supplied by Goodyear, and the existing Bridgestone tires currently in-use will be used until they reach the end of their life cycle (i.e. a 'run-out' transition). The current contract with Bridgestone allows for a three year extension in order to 'run-out' the existing tires. This recommended extension will allow for the full removal of Bridgestone tires from the bus fleet, proper contract close out and accounting of tires.

Under the current Bridgestone contract, and the new Goodyear contract, the companies are responsible for the removal of scrap tires from the TTC. Both companies recycle the tires and in some cases re-tread the tires for use by other bus operators. Recycling may include the production of rubber mats and crumb rubber which is used to produce mud flaps, 'astro turf' filler, or may be cut to produce blasting mats (used in mining operations).

Contact

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Attachment – Appendix A

Appendix A

BID SUMMARY

BID PRICES

BIDDERS	Initial Two Year Term Total	Aggregate Five Year Option Total	Seven Year Grand Total
Goodyear	\$10,419,430.22 *	\$28,781,478.12**	\$39,200,908.34
Bridgestone	\$10,955,417.79	\$32,495,585.44	\$43,451,003.23
Michelin	\$11,306,156.00	\$34,653,629.55	\$45,959,785.55

* Recommended for award in the total upset limit amount of \$11,000,000 CDN for an initial 2 year term, which includes an approximate 5% contingency for variances between forecasted and actual usage.

**As the contract extension options are for up to a cumulative amount of five additional years, it is recommended the Board delegate authority to the CEO to add up to a total aggregate amount of \$35,000,000 CDN, to cover the potential five year extension term. This recommended amount includes an approximate 20% contingency for variances between forecasted and actual usage.