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SOUTHEAST TRANSIT DIVISION
BUS OPERATIONS AND MAINTENANCE CONTRACT EXTENSION
MILLER TRANSIT LIMITED

The Transportation Services Committee recommends:

1. **Receipt of the presentation by Ann-Marie Carroll, Manager, Operations, Transportation Services – Transit; and**

2. **Adoption of the recommendations contained in the following report dated January 6, 2011, from the Commissioner of Transportation Services.**

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council approve the extension of the Southeast Transit Division (Richmond Hill/Markham/Whitchurch-Stouffville) contract with Miller Transit Limited in the amount of $162,589,739.24, taxes excluded, which is based on the proposed start-up activities and estimated billable hours.

2. The term shall commence upon receiving Regional Council approval with the start-up activities for the Conventional service, and an operating term of five years starting October 2, 2011,expiring on October 1, 2016.

3. A new form of contract be executed by Miller Transit and York Region.

4. The Region extend its lease agreement with Miller Paving for the existing facility and land lease for 8050 Woodbine Avenue for an additional six months from April 2, 2016 to October 1, 2016, based on the terms and conditions of the existing sub-lease.

2. PURPOSE

This report seeks authorization to extend the contract between York Region and Miller Transit Limited (Miller Transit) for the bus operations and maintenance of the Region’s Southeast Transit Division for a period of five years, from October 2, 2011 to October 1, 2016, on the terms and conditions outlined in this report.

3. BACKGROUND

York Region Transit (YRT)/Viva contracts out the bus operations and maintenance for its Conventional, Viva, Community Bus and Mobility Plus services to private contractors

As well, the Toronto Transit Commission (TTC) operates a number of core routes across the Region to and from destination points in the City of Toronto.

Regional Council endorsed a strategy in January 2006 to develop the facilities to store and maintain the Region's combined conventional and Mobility Plus fleets to the year 2031

One of the challenges with the Region's service delivery model has been to achieve a truly competitive marketplace at the contract procurement stage. The primary issue is that it is extremely difficult for prospective bidders to secure property and set up bus maintenance garages and storage facilities.

To deal with this issue, the strategy identified a total of seven facilities to be built by 2031. The initial implementation plan for YRT/Viva's Conventional service identified the need for three facilities to be constructed between 2008 and 2012. Property Services staff has been actively searching for land but have found it difficult to secure the lands necessary to construct the facilities.

Table 1 below outlines the YRT/Viva proposed facility construction timelines as noted in the Facility Strategy.

Table 1
Transit Storage and Maintenance Facility Needs

Municipality	Planned Total by 2013	Expected* Total by 2013	Planned Total by 2026	Planned Total by 2031	Facility Capacity
Aurora/Newmarket	1	1	1	1	250
Markham/Stouffville	1	0	2	2	500
Richmond Hill	1**	1	1	2	250
Vaughan	1	1	2	2	500
Total	4	3	6	7	1,500

* Expected means under construction or negotiations to acquire by 2013
** Viva Facility

The Southwest Division (Vaughan) facility located at 8300 Keele Street in the City of Vaughan was the first to be constructed. Bus operations began from the Southwest facility in August 2010.

In 2012, YRT/Viva's North Division (Aurora/Newmarket) for conventional bus services will be transitioned from First Canada's facility located at 534 Kent Drive to the Region-owned transit facility located at 18106 Yonge Street in the Town of Newmarket. This facility has the capacity for 60 buses, falling short of the required capacity of 250 vehicles. The Region will continue to search for land to meet the needs of the North Division to 2031.

YRT/Viva staff will update the YRT/Viva Facility Strategy for Council to be considered in 2011.

A Transit Operations and Maintenance Contract Strategy was endorsed by Regional Council in October 2008

Between 2010 and 2012, four of five Region's operations and maintenance contracts are to expire, while the Toronto Transit Commission (TTC) contract is open-ended with termination rights with six months' notice.

Outlined in this strategy is YRT/Viva's go-forward approach for the five operations and maintenance contracts administered by the Region and the on-going use of private contractors to deliver YRT/Viva, Community Bus and Mobility Plus services. The Southwest division contract was the first to expire in July 2010. A new contract for the Southwest division was approved by Council in March 2010.

Table 2 below is a summary of the five operations and maintenance contracts administered by YRT/Viva.

Table 2
Summary of Existing O & M Contracts

Service Area	Contractor	Expiration Date	Value ('10)
Southwest	Veolia	August 2015	$23,569,000
Southeast	Miller	October 2011	$24,686,000
North	First Canada	April 2012	$10,428,000
Viva BRT	York BRT	September 2013	$19,939,000
TTC Contract	TTC	N/A	$17,238,000
Total Value of Contracts			$95,860,000

The first test of the Council approved strategy, the tender of the Southwest Division in mid-2010, was successful, in that it yielded five competitive bids, one of which was a contractor who had never bid on YRT/Viva contracts before.

The Bus Service Agreement between Miller Transit and The Regional Municipality of York dated June 1, 2006 will expire on October 2, 2011

Before York Region amalgamated transit services, the Corporation of the Town of Markham had an agreement effective January 1, 2000, for Miller Transit to provide transit services in the geographic area of the Town of Markham and the Town of Whitchurch-Stouffville. The Region, through the amalgamation of the five local transit services, assumed the agreement with Miller Transit effective January 1, 2001. The bus service agreement had a term of six years, expiring on December 31, 2005.

Between 2001 and 2005, the newly-formed Regional transit branch (known as YRT/Viva) evaluated different options to optimize the geographic split of the transit contracts.

In October 2005, Regional Council approved a report entitled York Region Transit, Conventional Service Contract Extension. This report described the advantages of merging both the Markham and Richmond Hill contracts into one division (Division 3), and by approving it, Council established the division now known as the Southeast Division. The contract term was extended to April 2, 2011. As part of the contract extension in 2005, YRT/Viva staff negotiated a lease agreement with Miller Paving for the use of the transit garage located at 8050 Woodbine Avenue in the Town of Markham until April 2016.

On June 24, 2010, Regional Council approved the current contract with Miller Transit be extended for an additional six months to October 2, 2011, to allow for negotiations to take place, as described further in this report.

The current Southeast Transit Division garage is not owned by the Region; but is rented from Miller Paving

Miller Transit currently operates the Region’s Southeast Division, servicing the areas of Markham, Richmond Hill and Whitchurch/Stouffville from a transit garage located at 8050 Woodbine Avenue. The facility is leased to Miller Paving by Belfield Investments and the bus storage area is leased to Miller by the Ontario Realty Corporation. The facility and parking area is shared with Miller’s Waste Division.

The Miller Paving/Belfield Investments lease includes a provision allowing the Region to lease the property from Miller Paving until October 1, 2016.

The search for property to construct the third transit garage for the Southeast Division is ongoing with the expectation of having a facility constructed by 2015/2016.

4. ANALYSIS AND OPTIONS

Staff was preparing to release a Request for Proposal for the competitive tendering of the transit services in the Southeast Division. The release of the RFP was planned for June 2010, with a closing date in August 2010. This was put on hold due to an unsolicited offer received from Miller Transit.

Transportation Services Committee, at its May 2010 meeting, received a letter from Miller Transit asking for a negotiated extension of their transit service contract

The Miller Transit letter, dated April 29, 2010, spoke to the imminent expiry date of the existing Bus Service Agreement. Miller Transit felt there was merit in exploring a contract extension and proposed the Region enter into negotiations with them to extend the existing contract for a further five-year term based on a number of considerations:

- A contract extension would ensure the continuation of the excellent service provided by Miller Transit without the costs and disruptions incidental to a change of contractor.
- The negotiations could include a review of all aspects of the Bus Services Agreement and sub-lease, particularly any existing areas of service that require improvement and/or modification, resulting in further improvements to the service level provided by Miller Transit at an optimal cost.
- The continued use of the transit storage and maintenance facility located at 8050 Woodbine Avenue beyond 2016 in the event the new YRT/Viva transit facility is not operational by the end of the sub-lease.

In May 2010, Council directed staff to negotiate a possible extension of the Southeast Bus Operations and Maintenance contract with Miller Transit Limited

The negotiation process was led by YRT/Viva, the Supplies and Services Branch and Legal Department in consultation with the Property Services Branch and Finance Department. KPMG monitored the process.

The approach taken was to replicate the process followed for the contract for transit service recently awarded in the Southwest Division.

Accordingly, an RFP to negotiate the Southeast contract extension was issued to Miller Transit in May 2010. The RFP was comprised of two parts: Part A being the general RFP terms, and Part B, the draft Operations and Maintenance contract. Part B details the Region’s minimum requirements for service delivery, fleet and facility maintenance. This is in exact accordance with the RFP issued for a competitive process for the Southwest Division.

The proposal closed June 10, 2010, with the evaluation team scoring Miller Transit's technical proposal on June 15, 2010. The evaluation team consisted of the same members employed to evaluate proposals for the Southwest contract. Miller Transit's technical proposal passed the evaluation, allowing the evaluation team to consider the financial proposal.

At the Transportation Services Committee meeting on June 16, 2010, staff revealed Miller Transit's billable hourly rate submission of $86.07.

At this meeting, staff was directed to continue negotiations with Miller to reduce the hourly rate to an amount comparable with the Southwest Division contract and obtain Miller Transit's acceptance of all the terms and conditions detailed in Part B of the RFP document.

Miller Transit provided their Best and Final Offer on their billable hourly rate on June 21, 2010 (reduced from $86.07 to $85.78)

Miller Transit suggested a number of items be adjusted from its billable hourly rate if comparing to the billable hourly rate of the Southwest contract. Staff considered Miller Transit's suggestion adjusting the hourly rate for comparison purposes based on the facility operational differences between the Southeast and Southwest facilities.

Miller Transit provided further cost information and support documentation to Region staff in order to complete a meaningful comparison to the Southwest contract

Based on the information provided by Miller Transit in its final proposal, staff, in consultation with KPMG, determined that Miller Transit's request for adjusting the billable hour rate for the purpose of comparing the Southeast to the Southwest Division, was reasonable. Specifically, staff concluded that the adjustments should be made to Miller Transit's billable hourly rate for comparison purposes only.

KPMG reviewed the process used to develop the results, presented in Table 3, and have confirmed the process used was reasonable.

Table 3
Billable Hourly Rate Comparison

Contractor / Transit Division	Billable Hourly Rate Bid	Rate Comparison Adjustments	Billable Hourly Rate Comparison
Miller Transit (Southeast Division)	$ 85.78	$ (16.23)*	$ 69.55
Veolia Transportation (Southwest Division)	$ 69.97	$ 0.78**	$ 70.75

***Adjustments include deductions for:**
- Fuel costs = ($14.00)
Southeast contract, fuel is borne by contractor.
- Property taxes = ($0.23)
Southwest contract, Region owns facility taxes paid by the contractor.
- Building insurance = ($0.32)
Southwest contract, Region owns facility, Region provides building/land insurance.
- Outdoor storage area = ($0.89)
Southeast contract, bus storage area expenses. Southwest contract, bus storage area is indoors.
- Outdoor maintenance = ($0.79)
Southeast contract, additional expenses associated with outdoor bus storage.

****Adjustments include:**
- Deduction for utility costs = ($0.97)
Southwest contract, facility has greater indoor area.
- Increase in hourly rate = $1.75
Southwest contract, will have had a CPI hourly rate adjustment prior to the start of the Southeast contract extension period

Extending this contract is recommended as a better overall strategy than a competitive procurement at this time, given that the Region does not yet own its own transit garage in the Southeast and given the favourable price comparison with the recently awarded Southwest contract

The search for a site on which to build YRT/Viva’s own transit garage has proved more challenging than envisioned in 2006, and the leased garage must continue to be used at 8050 Woodbine Avenue. While it would be possible under the terms of the lease, to move a new contractor into it, such a move would be complicated by the fact that parts of the larger site are shared with Miller’s Waste Division. It can also be reasonably assumed that an open RFP process which yields contractors with competitive bids, would reflect a higher cost for transitioning a different contractor into the garage

Moreover, YRT/Viva staff have worked hard to obtain a price from Miller Transit which compares favourably with the Southwest Division, the last RFP for competitive bids.

5. FINANCIAL IMPLICATIONS

Miller Transit's final bid submission equates to $162,589,739.24, taxes excluded, over a five-year period, which includes the estimated billable hourly rate and start-up costs

Under the proposed agreement with Miller Transit, the year one hourly rate will be used as a baseline for estimating years two to five of the contract. The hourly rate will be increased annually, on October 1 of each year of the contract, by an amount equal to Statistics Canada's Consumer Price Index (Ontario) rate, excluding food and energy, year-over-year cumulative rate or 2.5%, whichever is less, but shall not be less than 0%.

Table 4 below provides the pricing summary for the estimated five-year operating cost for the Conventional and Community Bus service.

Table 4
Estimated 5-Year Operating Budget – Conventional & Community Bus
Best and Final Offer Rate

Hourly Rate Calculation	Hourly Rate	Estimated Billable Hours	Pricing
Year 1	$85.78	333,376	$28,596,993
Year 2	$87.92	348,528	$30,642,581
Year 3	$90.12	358,984	$32,351,638
Year 4	$92.37	369,753	$34,154,084
Year 5	$94.68	380,846	$36,058,499
Total (excludes taxes)			$161,803,795

The start-up costs for the Southeast contract are associated with the implementation of enhancements identified in the new form of Performance Based contract. Miller will renovate the existing facility to accommodate additional staff and purchase equipment to address new maintenance standards.

The Southwest contract was a traditional start-up where the majority of their costs were primarily for hiring and training a large number of staff. The Region provided the facility and all major equipment.

Start-up cost comparison for the Southeast and the Southwest Divisions is identified in Table 5 below.

Table 5
Start-up cost Breakdown
Southeast and Southwest Comparison

Category	Southeast	Southwest
Labour	$283,200.88	$568,451.00
Facility	$330,000.00	$120,000.00
Administration	$172,743.36	$ 83,721.00
Total (excl. taxes)	$785,944.24	$772,172,00

6. LOCAL MUNICIPAL IMPACT

The extension of the Southeast Division transit operations and maintenance service contract with Miller Transit will ensure uninterrupted transit service to York Region residents.

The local municipal residents who use public transit will benefit from the higher standards imposed upon the operating contractor, particularly in the areas of service delivery and vehicle maintenance. New contract requirements and enhanced performance standards will bring its users a quality public transit service that is safe and reliable.

7. CONCLUSION

Based on the results of the negotiations between Region staff and Miller Transit Limited, it is recommended the go-forward activities are:

- Recommend extension of the Miller Transit contract in the estimated amount of $162,589,739.24, excluding taxes.
- Extend Miller Transit’s contract with the Region for a period of five years to October 1, 2016.
- Continue to search for a Southeast garage property to enable the construction of a facility by 2015/2016.
- Update the YRT/Viva Facility Strategy for consideration by Regional Council in 2011.
- Plan to issue the tender for a new Southeast contract in 2015.

For more information on this report, please contact Ann-Marie Carroll at Ext. 5677.

The Senior Management Group has reviewed this report.

Award of YRT/Viva Southeast Division Bus Operations & Maintenance Contract Miller Transit Contract Extension

Presentation to

Transportation Services Committee

Ann-Marie Carroll

January 12, 2011

Situational Analysis: Southeast Contract Status

The Southeast Division contract expires October 2, 2011

- Miller Transit has been operating the Southeast Division since January 1, 2001.
- Current contract was due to expire on April 2, 2011.
- On April 29, 2010, Miller Transit approached York Region with an intent to enter into negotiations with York Region to extend the current contract.
- In May 2010, an RFP was issued to Miller Transit based on the Southwest contract to form the basis for negotiations.
- Analysis of submission from Miller Transit was undertaken, including comparison against the recently-awarded Southwest contract.
- The outcome of the RFP and staff recommendation was made available to Council at the June 16, 2010 Council meeting.
- Council directed staff to continue negotiations with Miller Transit and to extend the current contract for six months to October 2, 2011 to allow for negotiations to take place.

Situational Analysis: Facility Strategy

Regional Council adopted a YRT/Viva Facility Strategy to increase competition between contractors for Bus Operations & Maintenance contracts

- In January 2006, Council approved a Transit Storage and Maintenance Facility Strategy.
- The strategy identified the need for the Region to own its own facilities in order to: establish a “level playing field” for its service and award contracts to the highest rated proponent, remove proprietary advantage held by proponents, ensure quality vehicle maintenance on bus fleet and to build facilities to provide adequate interior bus storage.

York Region

Situational Analysis: Facility Strategy (Cont’d)

- This ensures suitable facilities are available to maintain the Region’s bus fleet and to promote competition between private contractors by allowing those not owning a bus garage in the Region to compete.
- The Region owns two transit facilities: 18106 Yonge Street, Newmarket (Viva) and 8300 Keele Street, Vaughan (Southwest Division).
- The 2006 Strategy recommended seven transit garages by 2031 (includes: Conventional, Viva and Mobility Plus bus services).

York Region

Situational Analysis: Facility Strategy (Cont'd)

Table 1
Transit Storage and Maintenance Facility Needs

Municipality	Planned Total by 2013	Expected* Total by 2013	Planned Total by 2026	Planned Total by 2031	Facility Capacity
Aurora/Newmarket	1	1	1	1	250
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Vaughan	1	1	2	2	500
Total	4	3	6	7	1,500

* Expected means under construction or negotiations to acquire by 2013
** Viva Facility

- Since YRT/Viva's ridership is at 19.4M and not the 20.1M projected, the timing of facility requirements has changed. The Facility Strategy is currently under review; an update will be reported to Transportation Services Committee in late 2011.

York Region

Situational Analysis: Southeast Division Garage

The current Southeast Division transit garage is not owned by the Region

- Miller Transit currently operates the Region's Southeast Division, servicing the areas of Markham, Richmond Hill, Whitchurch/Stouffville.
- 8050 Woodbine Avenue is leased to Miller Paving by Belfield Investments and the Ontario Realty Corporation.
- The Miller Paving/Belfield Investments lease includes a provision allowing the Region to lease the property from Miller Paving until April 2016.
- Miller has advised Region staff that Belfield Investments has agreed to extend the lease for an additional six months to October 2016.
- Miller Paving operates both its Transit and Waste Divisions from this location.
- The search for property to construct a transit garage facility for Transit's Southeast Division is on-going with the expectation to have a facility constructed by 2015/2016.

York Region

Process Since June 16, 2010 Council Meeting

- Miller Transit provided their Best and Final Offer on their billable hourly rate on June 21, 2010 (reduced from $86.07 to $85.78).
- Miller Transit suggested a number of items be adjusted from its billable hourly rate if comparing to the billable hourly rate of the Southwest contract.
- Staff analyzed Miller Transit's request for adjusting the billable hourly rate for comparison with the Southwest contract and concluded the adjustments are reasonable.
- Miller provided further cost information and supporting documentation in order to complete a meaningful comparison to the Southwest contract.
- KPMG was retained to monitor the process used in adjusting the billable hourly rate and have indicated that the process used is reasonable.

Comparison of Billable Hourly Rates

Contractor (Transit Division)	Billable Hourly Rate (Bid)	Adjustments	Billable Hourly Rate (Comparison)
Miller Transit (Southeast)	$ 85.78	$ (16.23)*	$ 69.55
Veolia (Southwest)	$ 69.97	$ 0.78**	$ 70.75

***Adjustments include deductions for:**
- **Fuel costs ($14.00)**
- **Property taxes ($0.23)**
- **Building insurance ($0.32)**
- **Outdoor storage area ($0.89)**
- **Outdoor maintenance ($0.79)**

****Adjustments include:**
- **Deduction for Utility costs ($0.97)**
- **Increase in hourly rate due to indexation $1.75**

Financial Implications – Five Year Total

Activity	Pricing
Conventional Transit and Community Bus Service	$ 161,803,795
Addition costs (contract transition costs/accommodate enhancements)	*$ 785,944.24
Total (excluding taxes)	$ 162,589,739.24

***Additional costs to meet current industry best practices include:**

- **Facility renovation to accommodate additional staff**
- **Hiring of additional staff**
- **Enhanced training requirements for bus operators and mechanics**
- **Purchase of required support fleet vehicles**
- **Purchase of additional maintenance equipment**

Going Forward Activities

- Recommend extension of Miller contract for five years 162,589,739.24 M.
- Continue to search for the Southeast garage property and construct facility for 2015/2016.
- Update the YRT/Viva Facility Strategy for Council to consider later in 2011.
- Plan to issue tender the Southeast contract in 2015.

Proposed Recommendations to Transportation Services Committee

The York Region Transit Southeast Division contract with Miller Transit Limited be extended on the following terms:

- The term of the contract be for a period of five years, to October 2, 2016.
- The Region with Miller Transit execute a new form of contract.
- The total estimated cost of the contract for the five years is $162,589,739.24 excluding taxes. This is based on:
  - $85.78 billable hourly rate, including fuel.
  - $0.78M for contract transition/enhancements.
- The Region extend its lease agreement with Miller Paving for the existing facility and land lease for 8050 Woodbine Avenue for an additional six months to October 2, 2016, based on the terms and conditions of the existing sub-lease.

York Region

Current Transit Garages