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JOINT PROCUREMENT OF TRANSIT PARTS INVENTORY MANAGEMENT SERVICES

The Transportation Services Committee recommends the adoption of the recommendation contained in the following report dated August 31, 2010, from the Commissioner of Transportation Services.

1. RECOMMENDATION

It is recommended that:

1. The Regional Chair and Regional Clerk be authorized to sign the governance agreement with Metrolinx and other participating transit properties related to the procurement of transit parts inventory management services, subject to terms and conditions acceptable to the Commissioner of Transportation Services and the approval of Legal Services as to form and content.

2. PURPOSE

This report provides background information on an upcoming joint procurement program with Metrolinx and other transit systems in Ontario for the procurement of transit parts inventory management services. This program is being done in partnership with the Region's transit operations and maintenance contractors.

This report also seeks authorization to execute a governance agreement which specifies the terms and conditions of the procurement process. This agreement is required for York Region to participate in the joint procurement. Approval for the award of the contract to the successful proponent will be the subject to further staff review.

3. BACKGROUND

York Region Transit (YRT) presently operates approximately 430 conventional and Viva transit buses. The buses and transit services are operated by four private sector contractors. To support this fleet of vehicles, it is necessary for the Region's transit operations and maintenance contractors to stock sizeable inventories of spare parts at their expense. This expense is passed on to the Region through the hourly rates charged for the operation and maintenance of the transit services they each operate.

The Region, through the charges passed on by its operations and maintenance contractors, can expect to spend up to \$10,000 per operating bus annually replacing and servicing necessary parts. Access to parts is complex as the YRT fleet consists of buses

from five bus suppliers. Since individual contractors spend a relatively low amount on parts annually, they may be in a weak bargaining position with bus suppliers when trying to negotiate parts prices and delivery dates. There are also instances where the bus suppliers have difficulty supplying parts due to internal supply chain issues.

A solution to improving parts supply for buses is participation in this joint procurement program where all responsibilities for parts supply and holding costs will become the responsibility of the successful third party supplier.

The Ministry of Transportation, Ontario and subsequently, Metrolinx have co-ordinated the joint procurement of conventional transit buses since 2006. Transit properties in Ontario have expressed a need to develop a procurement document for the joint procurement of transit parts inventory management services program. This program would be a turn key solution where the successful bidder would be responsible for stocking, supplying and managing the necessary transit parts for a number of transit properties.

There are several other transit systems in Ontario interested in participating in the joint parts procurement program

Metrolinx is co-ordinating this initiative with transit properties in Ontario including YRT and has been working on a joint procurement inventory strategy since April 2009. It has conducted three field studies to devise an operating strategy that will build upon the successful experience of proponents who are currently engaged in this practice (Toronto Public Works, Rochester New York and Chicago). In addition to York Region, other Ontario transit properties have expressed interest in participating in this initiative including GO Transit (operating division of Metrolinx), Durham Region Transit, Mississauga Transit, Hamilton Street Railway and Grand River Transit in Kitchener/Waterloo.

Purchasing By-law 2009-41 indicates that the Region may participate with other government agencies or public authorities in co-operative purchasing where the appropriate Commissioner determines that it is in the best interests of the Region to do so.

4. ANALYSIS AND OPTIONS

Metrolinx has developed a cost-benefit model in conjunction with an external financial consultant and financial information from each municipality showing an interest in the program. Based on the data provided by the interested transit properties, there is potential for significant cost savings.

Metrolinx subsequently completed a Request for Information (RFI) from which two responses were received. The information received was presented to all the interested transit properties with favourable reaction. The RFI indicated savings in the range of 10 to 15% for bus supplier parts and 15 to 30% on after-market supplied parts.

Metrolinx and interested transit properties are preparing a Request for Proposal (RFP) for the joint procurement of transit parts inventory management services

Metrolinx, in partnership with key stakeholders, is developing a Request for Proposals (RFP) for the procurement of joint transit parts inventory management services. It has conducted two senior level meetings with the interested transit properties regarding content and the strategy for delivering a Third Party Transit Parts Inventory Management Service. The RFP is scheduled to be issued during the fall of 2010.

Metrolinx is also preparing a Governance Agreement to be signed by all municipalities participating in the program. This Agreement will include the roles and responsibilities of the Project Steering Committee and Technical Working Group which will oversee the program.

It is proposed that YRT staff participate in the Steering Committee and Technical Committee to help guide the process and ensure the Region's interests are being protected. The Steering Committee will oversee the development and award of the procurement document. Members of the Steering Committee will include participating transit agencies, including the YRT Manager of Capital Assets and a Metrolinx staff member.

The Technical Working Group will be comprised of members from transit agencies and Metrolinx and is assigned the task of developing the specifications for the joint procurement of transit parts inventory management services. They will be assisted by a technical expert appointed by the Steering Committee. Metrolinx, as part of the process, will also conduct an extensive consultation process with transit stakeholders and bus manufacturers.

A Governance Agreement is required for York Region to participate in this Program

In order for the Region to participate in the joint procurement program, it is necessary for the Region and other participating transit properties to execute a governance agreement with Metrolinx.

The agreement authorizes Metrolinx, through the direction of the Steering Committee, to provide contract administration on behalf of the participating transit properties. Metrolinx will not have authority to execute the agreement without 60% approval from the Steering Committee members.

The Agreement is not a commitment to the program. Rather, it encompasses the right of the signing municipality to evaluate the RFP bids and collectively decide whether to award the contract to the preferred third party. Any recommendation to award a contract will be brought to Regional Council for approval. It is being proposed that the contract to the third party be awarded for a term of three years with two consecutive one-year renewal options.

The Region reserves the right to opt-out should the RFP bid results not be favourable. Following bid review and subject to subsequent approval of an award by Council, the Region would need to execute an agreement directly with the successful bidder.

The competitive procurement process will be monitored by a Fairness Commissioner

Metrolinx and the interested transit properties support the use of an open and competitive procurement process. When the RFP document is released, any proposals received will be evaluated by an evaluation team comprised primarily of transit property technical representatives who will review the proposals and award the contract.

A Fairness Commissioner will be used to ensure the award is made fairly by monitoring the process, reviewing documentation and ensuring consistency and fairness in the weighting and application of the evaluation criteria. Following the award of a contract, the individual transit properties will work with the successful supplier.

The participation of the Region in this program will provide several benefits including estimated savings of \$250,000 to the Region once fully implemented

The program will allow the Region's operations and maintenance contractors to sell their current inventory less obsolete (scrap) parts to the third party supplier at book value. Moreover, the contractors can expect obsolete parts to be purchased at a negotiated value on the dollar through the third party's larger parts distribution, which would be able to locate users for the parts.

Participation in this program will reduce inventory-carrying cost by minimizing the number of parts pooled on-site. It will also reduce transaction costs by utilizing one monthly invoice to reconcile the thousands of purchase orders among the committed transit properties and the multiple vendors from whom they currently procure parts. The overall parts cost from the bus supplier and after-market parts suppliers will be lower and vehicle out-of-service time will decrease by requiring the third party to have these parts readily accessible. There will be objective standards to monitor the third party's achievement of having adequate parts inventory in stock performance ratios. Moreover, stakeholders can expect improved shop productivity, and inventory management. Overall, participation has the potential to eliminate inventory cost, devaluation risks, inventory

shrinkage, and parts obsolescence. Estimated savings to the Region in the amount of \$250,000 are projected once the program is introduced to all four of the Region's operations and maintenance contractors.

It is proposed that the program be initially introduced for spare parts management at the Region's new transit operations and maintenance facility located at 8300 Keele Street in the City of Vaughan. There are provisions in the Southwest Operations and Maintenance Contract to negotiate with the contractor to incorporate the program into the contract, including any necessary revisions to the contract associated with the implementation of the program. Further, Veolia Transportation, the Region's operations and maintenance contractor at this location, has expressed support for the program. It is the intent, subject to the success of the program's implementation at 8300 Keele Street, to also introduce it at the remaining three operations and maintenance contractors' stockrooms over the next four years.

5. FINANCIAL IMPLICATIONS

Based upon the Request for Information released by Metrolinx, there is the potential for savings in the range of 10 to 15% for bus supplier transit parts and 15 to 30% on after-market transit parts with the introduction of the joint procurement of transit parts inventory management services program. Should the Region proceed with this program, there are provisions in two of the four transit operations and maintenance contracts that permit the negotiation of a sharing of the potential parts cost savings. The two remaining transit operations and maintenance contracts will incorporate this parts program in the upcoming procurement process over the next two years. Preliminary estimated projections indicate that once the program is fully implemented by all four of the Region's operations and maintenance contractors, the Region's share of the savings will be \$250,000.

6. LOCAL MUNICIPAL IMPACT

Local residents will benefit through the anticipated savings to the Region. Transit vehicle out-of-service times will decrease as parts will be more readily accessible resulting in a more reliable transit service.

7. CONCLUSION

YRT staff have participated in the Joint Procurement process from 2007 through 2010 for the purchase of conventional low-floor transit buses and found the process and the outcome to be beneficial.

Staff plan to participate in the joint procurement process with Metrolinx for transit parts inventory management services and are seeking authorization to execute the governance agreement which is a prerequisite to participate in the program.

For more information on this report, please contact Rick Takagi, Manager, Capital Assets, at extension 5624 or Dave Partington, Fleet Supervisor at extension 5373.

The Senior Management Group has reviewed this report.