Agenda – Executive Policy Committee - January 21, 2004

REPORTS

Item No. 6 Long Term Bus Supply Contract
File TE-1

STANDING COMMITTEE RECOMMENDATION:

On January 13, 2004, the Standing Committee on Fiscal Issues did not concur in the administrative recommendation and recommends:

1. That the policy on bus purchasing be amended, in this instance, to allow the Transit Department to enter into a bus purchasing contract up to a maximum term of ten (10) years.

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On January 13, 2004, the Standing Committee on Fiscal Issues did not concur in the administrative recommendation and recommended to the Executive Policy Committee that the policy on bus purchasing be amended, in this instance, to allow the Transit Department to enter into a bus-purchasing contract up to a maximum term of ten (10) years.

REPORT

RE:	**Long Term Bus Supply Contract**
FOR SUBMISSION TO:	**Standing Committee on Fiscal Issues**
ORIGINAL REPORT SIGNED BY:	**Rick Borland, Director of Transit**
REPORT DATE:	**December 19th, 2003**

RECOMMENDATION:

That this report be received as information.

REPORT SUMMARY:

Key Issues:

1. Within the last decade, Winnipeg Transit's bus fleet replacement program has not achieved the optimum replacement schedule for a variety of reasons.
2. The increasing cost of urban transit buses has significantly exceeded the general rate of inflation.
3. The delivery time for bus purchases is exceeding a year at this time, and has recently been as long as 2 to 3 years.
4. Several comparably sized Canadian transit systems are entering into long term contracts with bus suppliers to gain stability in pricing and delivery schedules.
5. Specific terms and conditions can be included in a tender document to minimize the risks of a long-term contract to the City.

Implications of the Recommendation(s):

General Implications:

	None
	For the organization overall and/or for other departments
	For the community and/or organizations external to the City of Winnipeg
X	Involves a multi-year contract

Comment: The contract would be structured to ensure that the City is not committed to expenditures from future budgets.

Policy implications:

X	No
	Yes

Comment:

Environmental Implications:

X	No
	Yes

Comment:

Human Resources Implications:

X	No
	Yes

Comment:

Financial Implications:

X	Within approved current and/or capital budget
	Current and/or capital budget adjustment required

Comment: The recommendations of this report have no negative financial implications

REASON FOR THE REPORT:

The Transit Department has recently completed the 2003 component of its ongoing fleet replacement program with the receipt of thirty 40 ft. low floor buses. These buses were the final group ordered under Tender No. 701-2000.

A new tender must be issued for bus purchases for 2004 and subsequent years. The Department believes that there are significant benefits available from entering into a long-term agreement with a single bus supplier. The Department's most recent tenders have been for one to three year contracts. A contract with a potential maximum term of ten years is being pursued at this time.

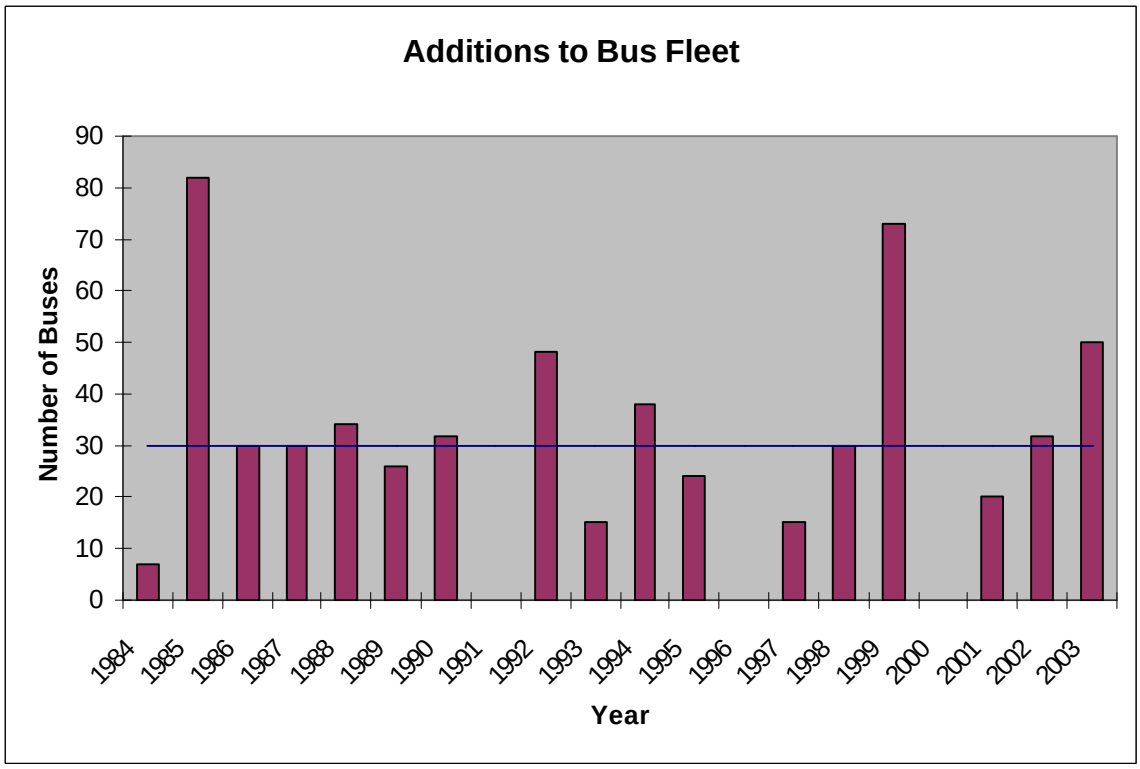
HISTORY:

The foundation of the Transit Department's bus fleet management plan since the early 1980's has been to replace 30 buses or from 5 to 6% of the fleet per year. The objective of the plan is to remove buses that have reached the end of their economic lives at an optimum rate. The number replaced on an annual basis is based on a fleet size of approximately 535 buses and an average economic life of 18 years. Prior to the early 1980's, buses were purchased in large groups of 70 or more at irregular intervals.

The major benefit of a regular bus replacement program is that it allows the best utilization of maintenance resources from year to year. This occurs because major mechanical and structural subsystems tend to wear at consistent rates and have fairly consistent average lives. The result is a balanced workload with a minimal requirement to increase or decrease the capacity of the maintenance operation from year to year.

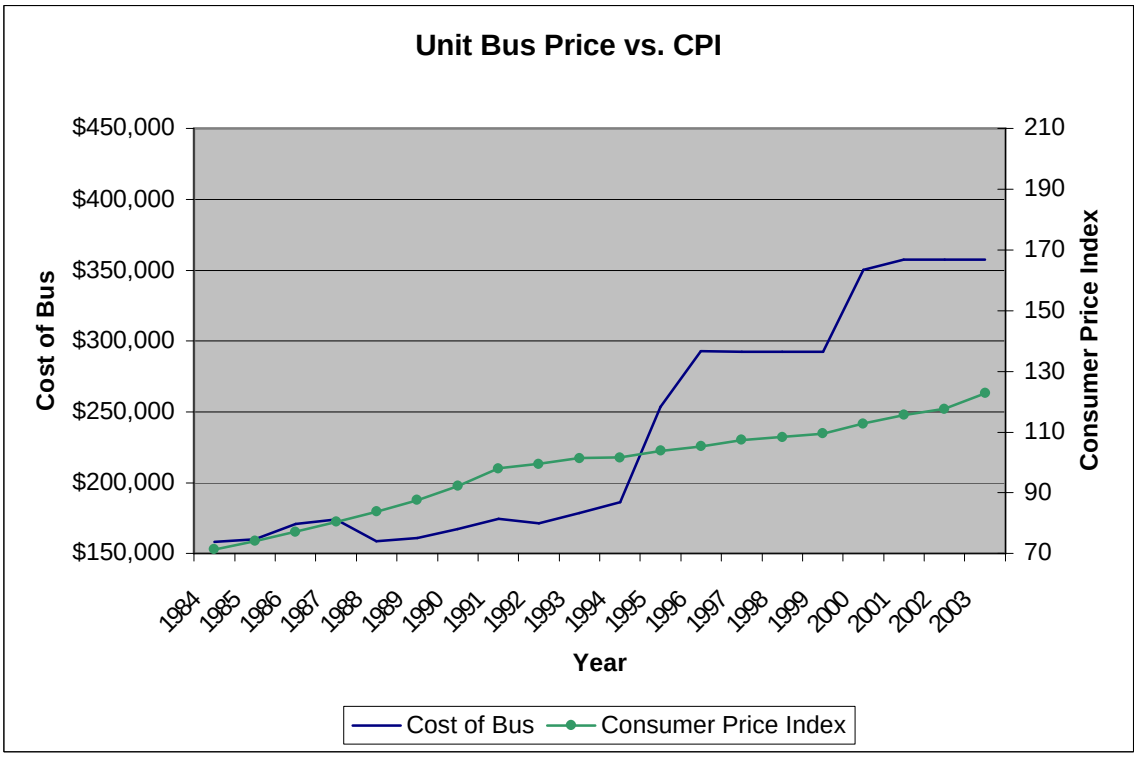
There are several other benefits to replacing buses on an annual basis. Tightening emissions standards and advances in areas such as computer controls and electronics have resulted in relatively rapid changes to bus designs and components. Updating the fleet at a regular and consistent rate does not overwhelm the ability of the maintenance organization to adjust to these advances. Replacing a small percentage of the fleet annually also reduces the risk of service interruptions if the new vehicles have design or production issues that prevent them from being placed into service, or cause them to be pulled from service.

Additions to the bus fleet over the last 20 years have occurred as follows:


Additions to Bus Fleet
Number of Buses
90
80
70
60
50
40
30
20
10
0
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year

The goal of replacing 30 buses per year has not been achieved consistently over the last 20 years, especially after 1990. This inconsistency has been caused by market conditions in the bus manufacturing industry. From the late 1980's to the mid 1990's, the demand for buses was relatively weak and the bus manufacturing industry was unprofitable. The industry was extremely unstable and production interruptions occurred as all of the major manufacturers in North America either ceased operations, changed ownership, or underwent major financial restructuring. The combination of an increased demand for buses and a lower total capacity in the restructured manufacturing industry resulted in extended delivery times on bus orders and increased costs. Currently, delivery times on bus orders remain in the one to two year range.

The following chart shows the unit price per bus paid by Transit over the last 20 years compared to the Consumer Price Index over the same period:



The change in the cost of transit buses has far exceeded the general rate of inflation since the mid 1990's. Transit's most recent tenders were issued in 1995, 1996, 1997 and 2000. The tenders for 1997 and 2000 provided a three-year commitment to purchase buses. The year 2000 tender was extended to include 30 buses for the year 2003 at the same price bid for 2002 buses. Since 1995, the unit price for buses has increased significantly between tenders but has remained stable during the terms of the contracts.

DISCUSSION:

Major transit systems in Canada and the U.S. have responded to these unstable market conditions by entering into long-term agreements with bus manufacturers. For example, Calgary and Ottawa have five-year agreements and Edmonton recently reached a ten-year agreement for the supply of buses. These agreements have resulted in improved pricing and delivery terms for the transit systems and improved order stability for the manufacturers.

The City would benefit in several ways from a long-term contract with a bus manufacturer. A multi-year tender would yield the most advantageous pricing possible by providing the successful bidder with a reasonable assurance that the City will place regular orders for buses over a number of years. The City would be protected from rapid price increases by incorporating a method to adjust prices on an annual basis based on a published industry price index. A multi year contract would provide the best assurance that a regular delivery schedule for buses could be maintained as it would allow the successful bidder to schedule production dates well in advance. A multi year tender would also provide long-term stability in the bus design received. This would minimize technical training requirements and the size of the spare parts inventory required.

Therefore, the Transit Department proposes to issue a tender in 2004 that would result in a long-term contract for the supply and delivery of transit buses. The multi year tender would provide for the following:

1. Delivery of approximately 30 buses per year for a period up to ten years.

2. Firm unit prices for 2004 with a specific inflationary index defined in the tender for future orders.

3. Appropriate provisions to ensure that the City is not committing to the expenditure of future budgets; the option to vary amounts, or not place an order in any subsequent year would be at the sole discretion of the City.

4. Provisions for either party to terminate the contract with appropriate notice after three years in the event that changing conditions cause the terms of the contract to become unfavourable.

5. Provisions to negotiate price changes for specification changes requested by the City, the Contractor or resulting from changes in legislation.

A ten year contract for approximately 300 buses would be valued at approximately $139 million at bus prices projected for 2004. The Provincial Government provides support for the replacement of transit buses through a dedicated transit bus replacement grant; however, its impact on bus purchases has been declining for many years. Between 1990 and 2003, the grant increased by 9.7%, from $2,735,000 to $3,000,000. Over the same period of time, the cost of bus replacements increased by 88.3%, from $5,689,000 to $10,711,000.

As a result of this declining level of funding, at its meeting on December 16th, 2003, City Council approved the following recommendation of the Executive Policy Committee:

> *"That the City initiate discussions and support negotiations with the Province of Manitoba to re-instate Provincial funding in the amount of 50% to the Transit Department for a more realistic funding formula in both the capital and current budgets."*

Financial Impact Statement **Date:** December 19th, 2003

COMMENTS: There will be no additional cost to the City from authorizing a tender for a long term contract for the purchase of buses. In fact, as outlined in the report, it is anticipated that the contract resulting from this approach will result in cost saving to the City. A contract for the purchase of buses will be subject to Council approval.



Manager of Finance & Administration

IN PREPARING THIS REPORT THERE WAS CONSULTATION WITH, AND CONCURRENCE BY:

Materials Management Division, Corporate Finance Department
Legal Services Division, Corporate Services Department

THIS REPORT SUBMITTED BY:

Department: Transit
Division: Plant and Equipment
Prepared by: T. Dreolini, Manager of Plant and Equipment