

MEETING DATE: April 6, 2005

SUBJECT: Escalation & Status Report - Supply Of Low Floor Diesel City Buses

RECOMMENDATION

It is recommended that the Commission authorize additional funds in the amount of \$11,380,000 (GST included) to allow for payment of escalation costs associated with the purchase of 250 low floor clean diesel buses for delivery in 2005 from Orion Industries Ltd., as required by the escalation clause in the Contract, as outlined on Appendix A.

FUNDING

Sufficient funds are available in the Capital Program for Project 4.11 – Bus Purchases as set out on pages 973-1004 of the TTC 2005-2009 Capital Program as approved by the City of Toronto Council on February 23, 2005. The cash flow implications of this will be monitored in the monthly CGM reports.

BACKGROUND

At its meeting of November 28, 2001, the Commission approved the award of Contract C32Y01883 in the amount of \$113,421,246.88 to Orion Bus Industries Ltd. (Orion), for the supply of 220 low floor clean diesel buses to be delivered during the years 2003 and 2004.

Included in this Contract was the provision for the award of an option, which the Commission could exercise up to July 1, 2004 for the purchase of an additional 250 buses for delivery in 2005. Negotiations as part of that initial Contract resulted in the incorporation of an escalation index as discussed elsewhere in this report.

Subsequently, at its meeting of July 16, 2003, the Commission authorized an amendment to Orion in the amount of \$127,582,260.00 for the procurement of the 250 additional buses exclusive of the escalation.

On February 9, 2005, the Commission authorized the award of contract for 330 buses with an option for a further 220 buses to be exercised by September 30, 2006. These optional buses are based on a fixed price.

Producers Price Index (PPI)

As part of the acceptance of the option for the delivery of buses in 2005, the Commission accepted the additional application of a monthly cost escalation adjustment to be individually factored into the cost of each bus as deliveries progressed. The determination of the escalation factor is based on monthly changes reflected in the Producer Price Index (PPI)- Commodities for series ID 1413 Transportation Equipment - Trucks and Bus Bodies, published by the US Department of Labour, Bureau of Labour Statistics.

The PPI index monitors various cost indicators associated with the US truck and bus manufacturing industry including, energy, metal, and labour cost, and a monthly price index is published.

In order to determine the final cost of each bus, PPI is applied to the bus unit price and calculated over the period between October 1, 2003, and the earlier of the (i) scheduled delivery or (ii) actual delivery month for each individual bus.

The PPI for the six years ended 2003 averaged annual increases of 1.6% per year, as shown in Appendix B. Based on the statistical information available, plus projections based on the current trends, an estimated overall blended escalation factor of 4% (2% per annum) had been used to cover the period including the contractual delivery schedule (October, 2003 to December, 2005), as outlined in Appendix C. Based on the statistics, the provision for escalation was \$5.1M.

DISCUSSION

PPI results since October, 2003 are provided on Appendix C. Results indicate nominal monthly increases from October, 2003 through March, 2004. There was a significant increase in April, 2004, levelling in June, 2004. After June, this index rose. This sudden and substantial increase is attributable to the increase in energy and metal costs in the world market over this period, as shown in Appendices D (Ferrous Metal Price Index) and E (Crude Oil Price Index).

The following chart shows the comparison between the historical increase in PPI compared to staff's forecast in PPI increases.

Time	Historical % / Year	Forecast % / Year	Provision (Millions)
Original (2003)	1.6	2	\$5.1
End of September	4*	4	\$10
Current Projections	8.4	8.4	\$16.5

*Average Increase: September 2003 to June 2004.

As of March 4, 2005, eighty-five of the 250 buses have been delivered with \$4.5M of the \$5.1M PPI escalation having been incurred, as shown on Appendix F.

The Commission and Orion have agreed to the delivery of the 250 buses between December 2004 and September 2005 in lieu of the contractual delivery between July 2005 and December 2005. This will help to mitigate some of the impact of the current trend toward higher PPI costs.

Staff's estimate for additional PPI is based on: the continuation of the current bus delivery rate (7 buses/week) which projects an anticipated delivery period ending in September, 2005, and a PPI % average monthly increase over the last fifteen months (0.7%/month over October 2003 to January 2005). On the basis of the foregoing, staff estimate a continuation of the 0.7% average monthly PPI increase through the balance of the 2005 delivery period. Therefore, staff recommend the approval of an additional \$11,380,000 (GST incl) above the initially approved PPI escalation of \$5,101,730 (GST incl) thus increasing the total authorized escalation upset limit escalation to \$ 16,481,730 (GST incl).

JUSTIFICATION

Approval of additional escalation funds are required to adequately cover the anticipated change in the PPI index from the base of October 2003 to the predicted delivery dates in 2005 of the 250 low floor clean diesel buses in accordance with the Contract.

March 7, 2005
9-28-28

Attachments:

- Appendix A - PPI Escalation – 250 Additional Buses
- Appendix B - Initial PPI Escalation Calculation – Average Annual Escalation
- Appendix C - PPI Transportation Equipment – Truck and Bus Bodies
- Appendix D - Consumer Price Index – Stats Canada – Ferrous Material Index
- Appendix E - Consumer Price Index – Stats Canada – Crude Oil Price Index
- Appendix F - Current Contract Status Report