Form Revised: February 2005

TORONTO TRANSIT COMMISSION

REPORT NO.

MEETING DATE: September 19, 2007

SUBJECT: PROCUREMENT AUTHORIZATION - SUPPLY OF BUS TIRES FOR THE TTC BUS FLEET

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RECOMMENDATION

It is recommended that the Commission approve the issuance of a purchase order for the supply of bus tires to Bridgestone/Firestone Canada Inc. in the upset limit of $37,000,000 for a seven year period from October 1, 2007 to September 30, 2014.

FUNDING

Sufficient funds are included in the 2007 TTC Operating Budget and will be included in future Operating Budgets as required.

BACKGROUND

The Commission currently has a five year lease contract for the supply of bus tires, which will expire on September 30, 2007. A new contract is required to cover bus tire requirements for the TTC's standard and low floor bus fleet.

DISCUSSION

Three companies were invited to submit proposals in addition to a public advertisement in the TTC Web-site on April 18, 2007, out of which three companies submitted proposals as summarized on the attached Appendix A.

The standard floor and low floor buses each use a different type/size of tire and proponents were requested to provide firm pricing for each tire type based on estimated quantities for each year of a 5 year period and an optional 2 year period that may be exercized at the Commission's sole discretion. Proponents were requested to submit pricing based on two options; Option 1 – Lease of Tires and Option 2 – Purchase of Tires.

For Option 1- Lease of Tires pricing was requested on a rate per tire mile based on estimated total mileage. Proponents were also requested to provide unit pricing for damaged tires (i.e. tires not suitable for further use due to sidewall wear/damage, tread damage, etc.) as the Commission is required to pay the supplier based on the depth of tread remaining on tires that must be scrapped due to damage.

Under the lease option the Commission only pays for miles per tire actually traveled and the supplier is responsible for the supply and delivery of new tires including valve stems and caps, the administration, inspection and control of leased tires including determining the tires that can be repaired and those to be scrapped. The supplier is also responsible for disposal of worn or damaged tires in an environmentally responsible manner.

For Option 2 – Purchase of Tires proponents were required to submit unit pricing per tire for each tire type based on estimated quantities for each year of 5 and 7 year terms. Under the purchase option the Commission would pay for each tire upon delivery and be responsible for additional associated costs (i.e. the supply of valve stems and caps, administration, inspection and control of purchased tires, disposal of worn or damaged tires,).

Bridgestone/Firestone Canada Inc. (Bridgestone) submitted the lowest proposal pricing for both the lease and purchase options for both the 5 and 7 year term and did not state any exceptions or qualifications to the Commission's terms and conditions.

In order to properly compare the lease versus purchase options, staff performed a net present value analysis (NPV) on Bridgestone's pricing for the lease and purchase options for the 5 year and 7 year terms. Staff included the above noted additional cost items associated with the purchase option that are already included in the lease option. In addition for the purchase option, staff included the cost to either "buy-out" (purchase existing tires) or "run-out" (continue to lease existing tires until worn/damaged) all Bridgestone bus tires currently in the Commission's possession. The NPV analysis revealed that the lease option was lower priced than the purchase option for both the 5 and 7 year contract periods as summarized on Appendix A.

Under the lease option, worn or scrap tires are recycled by Bridgestone through a subcontractor that uses two plants in Ontario and one in Quebec for recycling. The scrap tires may be used to produce "crumb rubber" which is then used to produce mud flaps, "astro turf" filler, etc. or may be cut to produce blasting mats (used in mining operations). Tire processing plants in Ontario and Quebec require a certificate of approval from their respective provincial environment ministries.

A price comparison revealed that Bridgestone's proposal pricing for year one is 1.6% lower than the current lease pricing. Their year one price remains firm for year two and their year three pricing is 4% higher than their year two. Thereafter their pricing increases by 4% per year in each of years four, five, six and seven over the previous year's rate. When measured over the seven year period, Bridgestone's pricing increases by an average of approximately 3% per year, which is considered fair and reasonable in light of the volatility of some of the raw materials (i.e. petroleum by products, rubber, natural gas, etc.) used in the manufacture of tires.

Bridgestone is currently supplying leased bus tires to the Commission and their performance has been satisfactory. They are recommended for award of a lease contract in the upset limit amount of $37,000,000 based on a 7 year term.

The recommended upset limit amount includes an allowance of approximately 25% to cover variances between forecast and actual usage over the seven year contract period.

Goodyear Canada Inc. submitted the second lowest price for both the lease and purchase options. However, their submission contained exceptions to the Commission's terms and conditions (e.g. Insurance Requirements, Indemnification, Records and Audit, etc.). Their submission was reviewed by Legal and considered non compliant and was not considered any further.

Michelin North America (Canada) Inc. submitted the highest evaluated price for both the lease and purchase options. They did not state any exceptions or qualifications and their proposal is considered acceptable.

JUSTIFICATION

The award of a contract will ensure the uninterrupted supply of bus tires for the Commission's bus fleet for the next seven years.

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August 28, 2007

9-118-67

- Appendix – ‘A’

Appendix 'A'

SUPPLY OF BUS TIRES FOR THE TTC BUS FLEET

PROPOSAL SUMMARY

PROPOSAL PRICING	BRIDGESTONE /FIRESTONE CANADA, INC.	MICHELIN NORTH AMERICA (CANADA) INC.	GOODYEAR CANADA INC. **
TOTAL 5 YEAR LEASE PRICE	$19,763,412.99	$26,691,912.88	$19,958,454.57
TOTAL 5 YEAR PURCHASE PRICE	$16,295,321.15	$17,204,076.82	$16,617,263.58
TOTAL 7 YEAR LEASE PRICE	*$29,593,993.26	$39,568,949.74	$30,426,189.03
TOTAL 7 YEAR PURCHASE PRICE	$24,422,148.41	$25,439,517.81	$25,112,085.30

BRIDGESTONE LEASE VS PURCHASE EVALUATED PRICING

NET PRESENT VALUE (NPV)

TOTAL 5 YEAR LEASE PRICE	$17,320,129.67

TOTAL 5 YEAR PURCHASE PRICE	**$18,330,532.81**
TOTAL 7 YEAR LEASE PRICE	**$24,608,814.62**
TOTAL 7 YEAR PURCHASE PRICE	**$24,698,100.64**

* Recommended for award.

** Non-Compliant.