STAFF REPORT
ACTION REQUIRED

Procurement Authorization – Supply of OBI Parts

Date:	September 28, 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to obtain authorization for the award of a three-year contract for the supply of OBI parts that are required to support the TTC's Orion bus fleet maintenance needs.

Recommendations

It is recommended that the Board authorize the award of a contract for the supply of OBI parts for the period of approximately October 2015 to October 2018 to New Flyer Industries Canada ULC for an upset limit amount of $29,327,000 including applicable taxes.

Financial Summary

Sufficient funds are included in the 2015 TTC Operating Budget and will be included in future operating budgets as appropriate. The inventory parts will be charged to the appropriate department budget at the time of issuance from TTC Stores.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Issue Background

In July 2012, the Board approved a contract for the supply of Orion parts for a three year period as per report linked below. The contract was scheduled to expire July 5, 2015 but has since been extended to October 1, 2015.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2012/June_29/Reports/Procurement_Authoriz1.pdf

In September 2013, as part of the alternate sourcing initiative, staff identified candidates for competitive tendering and as such removed 75 parts from this contract (worth approximately $3 million based on the original forecasted quantities for year 2 and year 3). A new tender was issued competitively to New Flyer and North American Transit Supply Corp. (Natsco) and the current savings to date is approximately $135,000.

In May 2015, during the review of the current contract with New Flyer, a contract amendment was issued to extend the expiry date from July 5, 2015 to October 1, 2015 to allow time for staff to evaluate the renewal contract.

Accessibility/Equity Matters

This recommendation has no accessibility or equality issues.

Comments

A Request for Bid (RFB) was issued on February 25, 2015 for the supply of OBI parts to New Flyer Industries Canada ULC (New Flyer) on the basis of single source. In August 2013, New Flyer purchased the assets of Daimler Buses North America (OBI) aftermarket parts division including the proprietary rights for its parts. As a result, New Flyer is the only approved source of supply of OBI parts. The RFB requested pricing for 819 parts for a Three-year term out of which 805 of the items are being recommended for award. Five parts are not being recommended for award as New Flyer is not able to provide pricing for them at this time. These parts may be added on to the contract based on a future request. Nine parts were deselected from the evaluation as these parts are no longer single source to New Flyer.

The initial total bid value was $25,613,046.30 for 815 parts. A price comparison revealed an overall increase of approximately 19.9% during the first year of the contract compared to the last buy prices and an overall increase of approximately 4.1% during the second year of the contract compared to the first year prices and an overall increase of approximately 4.2% during the third year of the contract compared to the second year prices.

Staff contacted New Flyer and negotiated reduced pricing. Staff's analysis of the negotiated pricing revealed a revised overall increase of approximately 18.1% in the first year of the contract compared to the last buy prices. The prices will be approximately 4.1% higher in year two compared to the year one prices and approximately 4.2% higher in year three compared to the year two prices. New Flyer advised that they have offered their best prices and could not reduce pricing any further.

Staff investigated the reason for the increase and determined it was mainly attributed to the Canadian / U.S. dollar exchange rate, as these parts are manufactured in the U.S.A. Since the previous contract was awarded in September 2012, there has been a 34.97% change in the exchange rate between the Canadian and US dollar (0.9786 in September 2012 vs. 1.3208 in August 2015). Furthermore, pricing has also been affected by the loss of Orion production volume as New Flyer's suppliers now have shorter production runs and New Flyer must absorb all change-over and tooling costs.

This contract includes a 20% contingency for variances between forecasted and actual usage and new parts yet to be identified, which may be added to the contract during the contract term.

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