



Supply of Prevost Parts

Date: December 15, 2020
To: TTC Board
From: Interim Chief Financial Officer

Summary

The purpose of this report is to obtain procurement authorization for the supply of Prevost parts for a three-year term. These parts are required to maintain the TTC's fleet of Nova Low Floor Series (LFS) buses.

Recommendations

It is recommended that the TTC Board:

1. Authorize the contract award to Prevost, a Division of Volvo Group Canada Inc. (Prevost) in the total upset limit amount of \$15,150,000 inclusive of HST for the supply of Prevost parts for a three-year period commencing upon notification of award (December 2020).

Financial Summary

Sufficient funds are included in the TTC's 2020 Operating Budget approved by the TTC Board on December 16, 2019 and City Council on February 19, 2020. Funds will be included in future budgets based on each year's anticipated usage requirements and is subject to annual budget approvals. The inventory parts will be charged to the appropriate department budget at the time of issuance from TTC Stores.

Anticipated usage requirements, under this contract by year are shown in the following table. It should be noted that usage is expected to increase in each year of the contract in alignment with the current fleet plan and an anticipated increase in the number of Nova buses requiring the parts at the expiry of their warranty period.

| | 2020 | 2021 | 2022 | 2023 | Total |
|-------------------------------|------------------|--------------------|--------------------|--------------------|---------------------|
| Anticipated part requirements | \$155,000 | \$3,740,000 | \$4,568,000 | \$5,180,000 | \$13,643,000 |
| Rebateable portion of HST | \$17,000 | \$413,000 | \$505,000 | \$572,000 | \$1,507,000 |
| Total | \$172,000 | \$4,153,000 | \$5,073,000 | \$5,752,000 | \$15,150,000 |

Equity/Accessibility Matters

No equity or accessibility impacts were identified.

Decision History

As a result of a sole-source bid process, a contract was awarded to Prevest for the supply of 141 Prevest parts, in the total upset limit amount of \$3,136,000, for the 3-year period September 21, 2018 to September 20, 2021. The contract has since been amended to add parts and contract value increases under staff authority and presently covers the supply of 408 parts in the total upset limit amount of \$7,473,000. Based on the current expenditures under this contract, estimated funds in the amount of \$3.5M would need to be added to the contract, via a contract amendment process requiring Board approval in order to carry the contract to its planned expiry date of September 20, 2021.

As the TTC would have had to commence proceedings for the renewal of this contract by early 2021, including issuing a request for bid, bid evaluation, and obtaining Board approval, staff decided not to proceed with the contract amendment to add a further \$3.5 million, as noted above, but instead close out the current contract early (i.e. upon notification award of the renewal contract) and renew the contract for the supply of Prevest parts for a three-year term, based on updated requirements and subject to Board approval.

Issue Background

The TTC has an ongoing requirement for various Prevest parts (A/C belt tensioners, power relays, skirt panels, battery master switches, etc.) that are inventoried and used to maintain and repair the TTC's fleet of Nova LFS 40' and 60' buses, comprised of 152 of the Nova 60' Diesel, 865 of the Nova 40' Diesel, and 255 of the Nova 40' Hybrid for a total Nova LFS fleet size of 1,275. Nova LFS buses were manufactured by Nova Bus, a member of Volvo Group, and Prevest is the authorized and sole distributor of products manufactured by Nova Bus, hence these parts are only available from Prevest.

Repetitively ordered inventory parts are grouped by staff into categories, such as Prevest parts, whereby the basket of parts is competitively tendered, where possible, in order to set up multi-year contracts with suppliers. These "supplier blanket" contracts leverage aggregated quantities to maximize supplier volume discounts. Furthermore, the purchasing function is largely automated under a supplier blanket, which results in improved effectiveness and efficiency.

The practice of establishing these types of supplier blanket contracts has been endorsed by the City of Toronto's Auditor General in her report dated May 15, 2017: *Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings*.

Comments

A Request for Bid (RFB) was issued on September 11, 2020 for the supply of Prevost parts to Prevost on a sole source basis. The RFB requested pricing for 351 parts for a three-year term out of which 343 items are being recommended for award. Eight parts are not being recommended for award as Prevost was not able to provide pricing for two items and quoted on replacement parts for six other items (due to part supersessions). These parts may be added on to the contract based on a future request, subject to design review and approval of the replacement parts by TTC engineering/technical staff.

A price comparison of Prevost's bid prices with the last purchase prices of the recommended items was conducted and revealed an overall increase of 0.61% during the first year of the contract, an overall increase of 3% in year two compared to year one pricing and an overall increase of 3% in year three compared to year two pricing.

Staff attempted to negotiate reduced pricing with Prevost. However, Prevost advised it has offered its best prices and could not reduce pricing any further due to the supplier price increases to Prevost. As a result of continued negotiation, Prevost identified three items for which the originally quoted pricing was incorrect, the error having originated from a wrong quantity price break used. Prevost thus corrected the error and reduced pricing for these 3 items, lowering the total bid amount by approximately \$235,000.

Based on the revised pricing, a second price comparison of Prevost's bid prices with the last purchase prices of the recommended items was conducted and revealed an overall decrease of 2.08% during the first year of the contract, an overall increase of 3% in year two compared to year one pricing and an overall increase of 3% in year three compared to year two pricing. Staff will contact Prevost prior to the commencement of year two and three of the contract and attempt to negotiate further price reductions for these years.

It should be noted that, aside from the overall yearly price increases in year 2 and 3 (as noted above), the year-over-year expenditures (2021-2023) also reflect a higher demand for Prevost parts in prospective years in alignment with the current fleet plan and an anticipated increase in the number of Nova buses requiring the parts at the expiry of their warranty period.

The recommended contract amount includes an approximate 10% contingency to cover variances between forecasted and actual usage over the contract period and new parts not yet identified, which may be added during the contract term.

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Signature

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