



Procurement Authorization - Supply of Genuine Cummins Bus Engines and Parts

Date: September 24, 2024
To: TTC Board
From: Chief Financial Officer

Summary

The TTC requires Cummins Original Equipment Manufacturer (OEM) bus engines and parts for the ongoing state of good repair of the TTC's fleet of 1,249 diesel and 809 hybrid buses. As required, these OEM parts are procured, inventoried, and issued throughout the year as part of the TTC's annual fleet maintenance activities funded in the TTC's Operating Budget.

The purpose of this report is to obtain Board authorization to:

- Award a contract for the supply of eight different types of genuine OEM Cummins bus engines, with an estimated total annual quantity of 46, to one company in the total upset limit amount of \$7,175,000 CAD, inclusive of HST, for a two-year term commencing approximately September 27, 2024;
- Award contracts to nine companies for the supply of 525 different Cummins bus engine parts with an estimated total annual quantity of 48,000, in the total combined upset limit amount of \$30,264,000 CAD, inclusive of HST, for a two-year term commencing January 1, 2025; and
- Delegate authority to the TTC's Chief Executive Officer to execute the extension option in all contracts and increase the total contract value, as each contract contains an option to extend the contract term for a period of up to 12 months.

TTC Board approval is required as these contract awards exceed the Chief Executive Officer's delegated authority limit of \$5 million for the award of contracts for budgeted goods and services.

Recommendations

It is recommended that the TTC Board:

1. Authorize the contract award to City View Bus Sales and Service Ltd. for a two-year period commencing approximately September 27, 2024, in the total upset limit amount of \$7,175,000 CAD, inclusive of HST, for the supply of eight different types of genuine OEM Cummins engines used in TTC's buses on the basis of the only compliant bid received.
2. Delegate authority to the TTC's Chief Executive Officer to exercise the extension option in the Cummins engines contract, after the initial two-year term, for a period of up to 12 months and to increase the value of the contract in the total amount of up to \$3,859,063.58 CAD, inclusive of HST, for a total contract value of up to \$11,034,063.58 CAD, inclusive of HST, for Cummins bus engines.
3. Authorize the award of contracts for the supply of 525 different Cummins bus engine parts for a two-year period commencing January 1, 2025, for a total combined upset limit award amount of \$30,264,000 CAD, inclusive of HST, to the following nine companies, on the basis of the lowest-priced compliant bids received:
 - i. Brandt Tractor Ltd. Truck & Trailer for the supply of 225 parts in the total upset limit amount of \$20,476,800 CAD;
 - ii. Rush Truck Centers of Canada Limited for the supply of 59 parts in the total upset limit amount of \$4,098,000 CAD;
 - iii. CBM N.A. Inc. for the supply of 42 parts in the total upset limit amount of \$3,123,000 CAD;
 - iv. Falcon Eyes Logistics Inc. for the supply of 176 parts in the total upset limit amount of \$1,400,800 USD (equivalent to \$1,925,100 CAD);
 - v. Ashcon International Inc. for the supply of four parts in the total upset limit amount of \$232,000 USD (equivalent to \$318,800 CAD);
 - vi. 7314957 Canada Inc. dba Prestige Peterbilt for the supply of 14 parts in the total upset limit amount of \$225,600 CAD;
 - vii. Tokmakjian Inc. dba TOK Performance for the supply of three parts in the total upset limit amount of \$88,400 CAD;
 - viii. Wajax Limited for the supply of one part in the total upset limit amount of \$8,100 CAD; and
 - ix. Mississauga Bus, Coach & Truck Repairs Inc. for the supply of one part in the total upset limit amount of \$200 CAD.

4. Delegate authority to the TTC's Chief Executive Officer to exercise the extension option in the nine Cummins bus engine parts contracts after the initial two-year term, for a period of up to 12 months and to increase the values of these contracts in the total amount of \$16,276,098 CAD, inclusive of HST, for a total contract value of \$46,540,098 CAD, inclusive of HST, for Cummins bus parts.

Financial Summary

Sufficient funds are included in the TTC's 2024 Operating Budget, as approved by the TTC Board on December 20, 2023, and approved by City Council on February 14, 2024. Funds will be included in future budgets based on each year's anticipated usage requirements and are subject to annual budget approvals. The inventory parts will be charged to the appropriate departmental budget at the time of issuance from TTC Stores.

The award of the optional extension period will be subject to securing sufficient funding as part of the annual budget process. The contract pricing is fixed in Year 1; however, the pricing for Year 2 and the optional extension year is subject to an adjustment based on various indexes as stated in the Request for Bids (RFB). Contract values for the initial two-year term and optional year are shown in the tables below – as prices in Year 2 and the optional extension are subject to adjustment, an estimated increase of 5% has been applied to calculate the figures.

Table 1: Contract Value - Cummins Bus Engines (in \$000s)

	Initial Term Year 1 (2024-2025)	Initial Term Year 2 (2025-2026)	2-Year Term Total	Extension 1 Year (2026- 2027)	Total Contract Amount
Contract Value (without HST)	3,097	3,252	6,350	3,415	9,764
Non-Rebatable HST 1.76%	55	57	112	60	172
Total Contract Expense	3,152	3,309	6,461	3,475	9,936
Rebatable HST	348	366	714	384	1,098
Total Authority, including HST	3,500	3,675	7,175	3,859	11,034

Anticipated annual expenditures based on forecasted usage requirements under this contract term are shown in Table 2 below:

Table 2: Projected Expenditures - Cummins Bus Engines (in \$000s)

	2024	2025	2026	2027	Total Contract Amount
Projected Annual Expenditure (without HST)	774	3,136	3,292	2,561	9,763
Non-Rebatable HST 1.76%	14	55	57	45	172
Total including non-rebatable HST	788	3,191	3,351	2,606	9,935
Rebatable HST	87	352	370	288	1,097
Total (including HST)	875	3,544	3,721	2,894	11,032

Table 3: Contract Value and Projected Expenditures by Year - Cummins Bus Engine Parts (\$000s)

	Initial Term Year 1 Jan to Dec 2025	Initial Term Year 2 Jan to Dec 2026	2-Year Term Total	Extension 1 Year (Jan to Dec 2027)	Total Contract Amount
Contract Value (without HST)	13,065	13,718	26,783	14,404	41,187
Non-Rebatable HST 1.76%	230	241	471	253	724
Total Contract Expense	13,295	13,959	27,254	14,657	41,911
Rebatable HST	1,468	1,542	3,010	1,619	4,629
Total Authority, including HST	14,763	15,501	30,264	16,276	46,540

Equity/Accessibility Matters

Equity, Diversity, Inclusion and Accessibility is a key principle of the TTC's Corporate Plan, and as a proud leader in providing accessible public transit to the residents in the City of Toronto and surrounding municipalities, the TTC is committed to ensuring reliable, safe, accessible and inclusive transit services for all of its customers. The bus engines and parts being recommended for award under this contract will ensure that the TTC can continue to offer reliable, safe, accessible and inclusive transit services for all customers.

Decision History

At its meeting on November 22, 2023, the TTC Board authorized the award of eight contracts for the supply of 664 Cummins parts for a one-year term commencing January 1, 2024, with a total award amount among the eight companies of \$16,322,000. Report: [Procurement Authorization – Supply of Cummins Parts](#)

At its meeting on July 17, 2024, the TTC Board authorized the award of a contract for the supply of Cummins engines for the 2025 Bus Rebuild Program, the total award amounting to \$11,822,868.09.

Report: [Procurement Authorization – Supply of Cummins Factory-Manufactured Engines for the 2025 Bus Rebuild Program](#)

Issue Background

The TTC has an ongoing requirement for Cummins bus engines and engine parts (including, but not limited to, engines, coolers, starters, valves, breathers, injectors, pumps, actuators, filters, sensors, compressors, etc.), which are inventoried and required for the ongoing state of good repair of the TTC's fleet of 1,249 diesel and 809 hybrid buses.

The TTC establishes multi-year contracts for parts that need to be repetitively ordered. 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.

Two separate procurements were undertaken: one for Cummins bus engines (Procurement Process # 1 – M06BF24179) and a second for Cummins bus engine parts (Procurement Process #2 – M06BL24388). The procurements were conducted separately with the aim of maximizing market competition, as companies that supply bus parts do not supply all bus engines. Additionally, separating out the eight engines from the other 500+ Cummins bus engine parts minimized the risk that the bus engines were overlooked by potential bidders that focus on engines.

The contract to supply Cummins engines for the 2025 Bus Rebuild Program, as approved by the Board at its July 17, 2024 meeting, is for a fixed number of engines that will be delivered on specific delivery dates in 2024 and 2025 to meet the program schedule and is funded through the Capital Budget and Plan. In contrast, the recommended supplier blanket contract for eight types of Cummins bus engines is based on estimated quantities and orders are only placed on an 'as needed' basis; it is anticipated this blanket contract will cover TTC's bus maintenance needs for all Cummins engine types during the two-year contract term, and the potential 12-month optional term thereafter.

The recommended contracts that will cover the supply of Cummins bus engine parts contain fewer part types (525 different parts as compared to 664 under the current contracts) due to the decommissioning of 2 bus models in 2024 and an additional five bus models scheduled to be decommissioned in 2025.

Comments

The supply of replacement Cummins bus engines and engine parts is critical to maintain the safe operation of TTC's diesel and hybrid buses.

The Cummins engines have a life cycle of approximately six years and undergo overhaul work to replace major components based on that schedule. Outside of the overhaul process, parts are replaced as required with consumable parts being replaced on an approximate annual basis.

To determine which contract duration would prompt the optimal market response for the bidding competition, procurement staff conducted market research by contacting key vendors previously involved in supplying the Cummins product line, as well as Cummins directly. This research revealed that a two-year term would elicit the highest level of competition if TTC could include an escalation index that allowed companies to update the pricing in year two based on market indices. Therefore, the RFB included a price escalation clause that would be applied to calculate pricing in year two and any optional extension term based on the following two indices:

- i. Bank of Canada, Statistics, by Monthly Exchange rates – US Dollar
- ii. Statistics Canada - Consumer Price Index (CPI) by geography not seasonally adjusted - All Items - Ontario.

All eight engines recommended award are considered remanufactured items (or reconditioned/exchanged), in addition, 58 out of the 525 bus engine parts are also considered remanufactured items. When purchasing a remanufactured item, a damaged or worn unit (a core) is required by the applicable company. The company will, in turn, supply a remanufactured unit. If the TTC does not have a core to supply the company when purchasing a remanufactured part, an additional core charge will be applied. The RFB contained a separate price schedule for bidders to quote core prices for the applicable parts. The RFB stated that if the bidders fail to provide core pricing for the applicable parts, their bid submission for those parts would be disqualified and not considered for award.

Procurement Process # 1 – Cummins Bus Engines;

A Request for Bids (RFB) was publicly advertised on the MERX website on May 10, 2024, for the supply of eight different types of genuine OEM Cummins engines for a two-year term with an estimated total annual quantity of 46 engines. Two bids were received by the bid closing date of July 19, 2024, and the bid validity date is January 15, 2025. The eight different engine types will be ordered on an as-required basis, and the RFB documents included an estimated annual purchase quantity for each engine type; the total annual quantity of engines is 42.

City View Bus Sales & Services Limited (City View) submitted a compliant bid for all eight engines and is being recommended for award for the eight engines.

Falcon Eyes Logistics Inc. (Falcon) failed to submit the required core pricing, and as the RFB indicated this was a mandatory requirement, Falcon's bid was considered commercially non-compliant and not considered further. In addition, Falcon took exception to the two-year warranty requirement for the engines by offering only a one-year warranty and did not submit the updated bid form provided under addendum number five. As only one compliant bid was received, procurement staff contacted the companies that were notified of this requirement and/or downloaded the bid documents but did not submit a bid, to inquire as to the reasons for not bidding. Staff utilizes this market feedback in order to address any market concerns and encourage more competition for future bid requests. Nine companies responded to TTC's inquiry and advised as follows:

- Ashcon International Inc. (Ashcon) and Baker Transit Parts stated that they were unable to provide pricing on the engine assemblies, and as such, they did not submit a bid.
- Gillig and Kenworth Montreal stated that they were unable to bid as they were not Cummins suppliers in the Toronto area.
- Mississauga Bus Group had internal staff constraints that prevented them from submitting a bid.
- Prevost, Brandt Tractor Ltd. – Truck & Trailer and NATSCO advised that they were unable to provide competitive pricing and, as such, did not submit a bid.
- TOK Performance indicated that engine procurements were complicated and, as such, were not interested in submitting a bid.

A price comparison of City View's bid prices with previous purchase pricing of the eight recommended engines was conducted and revealed an overall increase of 13.11% during the first year of the contract.

Staff attribute the higher pricing for the engines to the following:

- Fuel prices based on the Ministry of Transportation's (MTO) fuel price index have increased by 12.75% from June 2023 to June 2024.
- Ontario's inflation rate increased by approximately 2.19% from July 2023 to July 2024 based on CPI (latest data as of July 2024), contributing to increases in raw material costs.
- Depreciation of the Canadian dollar by 3.78% between July 2023 and July 2024. In addition, it is forecasted that the Canadian dollar will trade at \$1.42 CAD/USD by Q4-2024, which represents a further depreciation based on RBC Bank's Capital Market Report (<https://www.rbccm.com/assets/rbccm/docs/fx/currency-report-card.pdf>).

All eight engine types listed in the RFB are recommended for award.

Procurement Process # 2 – Cummins Bus Engine Parts;

A Request for Bids (RFB) was publicly advertised on the MERX website on June 14, 2024, for the supply of 527 different genuine OEM Cummins bus engine parts for a two-year term with an estimated total annual quantity of 48,000 parts. Eleven bids were received by the bid closing date of July 24, 2024, and the bid validity date is January 20, 2025.

The requested parts are genuine Cummins OEM parts, and any proposed alternatives require review and potential testing by TTC technical staff to ensure that alternates meet the required safety and performance standards. Therefore, the RFB indicated that only the approved parts listed in the bid solicitation would be considered by the TTC for award under this bid request. Any proposed alternates would be subject to review as part of the TTC's Alternate Parts program and may be considered for future bid opportunities. Out of the 527 genuine OEM Cummins bus engine parts listed in the RFB, bidders proposed alternatives on 40 parts and proposed multiple alternatives against the same part in some cases; in total, 67 alternative parts were proposed.

Falcon Eyes Logistics Inc. and Ashcon's bid submissions were provided in US currency, and their bid prices were converted to Canadian funds for evaluation purposes.

Brandt Tractor Ltd. Truck & Trailer (Brandt) submitted pricing on 523 parts, of which seven were based on alternative parts that were not considered further for evaluation. Brandt was the lowest-priced compliant bidder on 225 parts and is recommended for award for these 225 parts.

Rush Truck Centres of Canada Limited (Rush Truck) submitted pricing on 511 parts, of which they were the lowest-priced compliant bidder on 59 parts, and is recommended for award for these 59 parts.

CBM N.A. Inc. (CBM) submitted pricing on 258 parts, of which 17 were based on alternative parts that were not considered further for evaluation. CBM was the lowest-priced compliant bidder on 42 parts and is recommended for award for these 42 parts.

Falcon submitted pricing on 492 parts, of which they were the apparent lowest-priced bid for 181 parts. However, of the 181 parts, five parts were remanufactured, and core pricing was required; Falcon failed to submit pricing for cores; therefore, Falcon's bid was deemed non-compliant for these five parts. As such, Falcon had the lowest bid price on 176 parts and is recommended for award for these 176 parts.

Ashcon submitted pricing on 527 parts, of which seven were based on alternative parts that were not considered further for evaluation. Ashcon was the lowest priced-compliant bidder on four parts and is recommended for award for these four parts.

7314957 Canada Inc. dba Prestige Peterbilt (Prestige) submitted pricing on 527 parts, of which 16 were based on alternative parts that were not considered further for evaluation. Prestige was the lowest-priced compliant bidder on 14 parts and is recommended for award for these 14 parts.

Tokmakjian Inc dba TOK Performance (Tokmakjian) submitted pricing on 524 parts, of which 17 parts were based on alternative parts that were not considered further for evaluation. Tokmakjian was the lowest-priced compliant bidder on three parts and is recommended for award for these 524 parts.

Wajax Limited (Wajax) submitted pricing on 507 parts, of which three parts were based on alternative parts that were not considered further for evaluation. Wajax was the lowest-priced compliant bidder on one part and is recommended for award for one part.

Mississauga Bus, Coach & Truck submitted pricing on 184 parts, of which they were the lowest-priced compliant bidder on one part and is recommended for award for one part.

JD White Associates Inc., operating as White Associates (JD White), submitted a bid that included an exception to the price escalation clause set out in the RFB. In consultation with TTC's Legal Department, procurement staff deemed JD White's bid submission non-compliant, and their bid was not considered further.

City View did not submit a signed Bid Form. In accordance with the RFB documents, this was a mandatory requirement, and therefore, City View's bid was considered commercially non-compliant and not considered further.

A price comparison of the recommended bid prices with the last purchase prices of the recommended parts was conducted and revealed an overall decrease of 5.54% during the first year of the contract.

Out of 527 parts requested to be quoted, 525 are recommended for award. Regarding the remaining two parts, one part was not quoted by any bidder, while only an alternative was quoted for the other part. Staff will review these two parts and procure the parts under a separate process, as required.

The recommended contract amounts for engines and engine parts include a contingency of approximately 10% to cover variances between forecasted and actual usage over the contract period.

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