SUBJECT: Bus Parts Purchase Request Authorization (PW09028) - (City Wide)

RECOMMENDATION:

That, for the 2009 calendar year, approval is given for the Transit Division to single source from the following original equipment suppliers (OEM) of bus parts:

i) New Flyer Industries in the amount of $810,000;
ii) Harper Power Products in the amount of $523,000;
iii) Cummins Eastern Canada, the current supplier for Cummins engines in the amount of $316,000.

EXECUTIVE SUMMARY:

An internal audit completed on Transit Fleet Management - Fuel, Maintenance & Inventory Control in 2008, found that the longstanding historical practice which pre-dates the transfer of Fleet from Central Fleet & Facilities to the Transit Division was not compliant with the Council approved Purchasing Policy. The current practice is under review in consultation with the Purchasing Section with the objective to develop a Policy specific to the unique requirements of Transit.

There are three vendors, of which are OEM suppliers, where planned expenses will each exceed $250,000 in 2009, which requires Council approval as per the Purchasing Policy, Section 4.11 - Policy for Negotiations.
The information and recommendations contained within this report have City wide implications.

Transit Fleet is unique in the fact that the Transit Division provides maintenance and repair services, both directly (approximately 90%) using in house staff operating out of one garage. In house service is provided by 41 mechanics covering seven days a week twenty-four hours a day, three hundred and sixty-five days a year. The remaining (approximately 10%) is out-sourced due to warranty claim work or occasional severe work load conditions.

An audit of Transit Fleet’s vehicle sourcing operation in 2007 found all sourcing to be in compliance with the Purchasing Policy. The audit continued in 2008 by reviewing Fuel, Maintenance & Inventory Control. This audit found that a significant number of vendors used for supplying parts had not received approval, in advance, in accordance with the Purchasing Policy. For 2009, Transit has submitted, and had approved, Policy 11 negotiation requests for a number of additional vendors whose expenditures are less than $250,000 per year. Requests for tenders and informal quotes for these commodities are now being addressed in consultation with Purchasing.

Three vendors will each exceed $250,000 in parts in 2009. These three vendors are single source vendors which supply parts specifically for Transit revenue vehicles. The Transit Garage is the City’s largest automotive garage. The HSR terminal is located at 2200 Upper James Street.

In 2004, the Fleet Department was returned to the Transit Division from Central Fleet. Long standing internal processes were continued, and modified as issues arose. Due to the specialized nature of the Transit Fleet there is a limited availability of vendors to source parts from. The current stock room inventories over 8,000 parts to maintain our revenue fleet of 211 buses. Historically, stock room staff utilized an informal three quote process to ensure we receive competitive pricing on inventory ordered. This process has been formalized with quotes being issued when pricing on identifiable commodities exceeds $5,000/yr. Buying from these single sources allows us to reduce the number of invoices from various vendors and reduces the number of payments. The HSR will examine purchases from these Vendors and determine if contracts can be issued for some of the categories of parts provided by these vendors.

Compliance with current purchasing policies cannot be achieved without increased staffing in the Transit Fleet section to draft and issue Request for Quotations to the extraordinary number of vendors for Transit parts relative to other City operations. As such, Transit staff are exploring alternatives to the existing policy with Purchasing with a goal to finding a solution that will achieve acceptable purchasing practices without the need to hire additional staff in Transit. There will also continue to be a need to source highly technological, specialized and expensive parts from a limited number of vendors. The finalization of contracts for the Supply of Parts for Specialized Transit Vehicles will substantially reduce the volume of Policy 11 requests each year.
In the interim, the Transit Division continues to secure three informal quotes on parts purchases. Parts purchases, normally a significant driver in the annual Transit operating budget are budgeted at $385K less in 2009 than the actual expenditure in 2005.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

N/A

**POLICIES AFFECTING PROPOSAL:**

Purchasing Policy

Public Works Strategic Plan: By keeping our vendor approval procedure up-to-date, we create smart processes that meet our needs.

**RELEVANT CONSULTATION:**

Corporate Services Department, Purchasing Section and Finance and Administration.

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced.  ☑ Yes  ☐ No
- Environmental Well-Being is enhanced.  ☐ Yes  ☑ No
- Economic Well-Being is enhanced.  ☑ Yes  ☐ No

Corporate Policy is properly adhered to.

Does the option you are recommending create value across all three bottom lines?

☑ Yes  ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?

☑ Yes  ☐ No

The management of a large fleet of municipal vehicles and equipment requires clear direction and procedures that reflect the objectives of management in supplying these assets.