For Action
with Confidential Attachment

1810 Markham Road Facility, Non-Revenue Vehicle and Equipment Maintenance

Date: July 14, 2022
To: TTC Board
From: Chief Vehicles Officer

Reason for Confidential Information

This report is about labour relations or employee negotiations.

This report contains information about a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the City or local board.

Summary

The purpose of this report is to obtain procurement authorization for the award of a contract for light-duty, non-revenue vehicle and equipment maintenance at the TTC's new 1810 Markham Road facility for $9.16 million, inclusive of HST, for a five-year term. The contract includes an option to extend for an additional five-year term.

The TTC operates a large fleet of non-revenue vehicles, including trucks for track maintenance, transit supervisor vehicles, overhead/aerial trucks and a fleet of light-duty cars, vans and pickup trucks. In 2016, the TTC Board approved the acquisition and retrofit of the facility at 1810 Markham Road to address overcapacity issues at the TTC's Lakeshore Garage. The 1810 Markham Road facility allows the TTC to allocate a subset of the light-duty, non-revenue vehicle and equipment fleet, including Class 1 and Class 2 vehicles (i.e. vehicles under 4,500 kg) and equipment (e.g. forklifts), from the Lakeshore Garage to the 1810 Markham Road facility. The introduction of the 1810 Markham Road facility will also improve efficiencies for Wheel-Trans revenue vehicle maintenance and dispatch operations by relieving overcapacity concerns at Lakeshore Garage.

The contracting out of light-duty, non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility will derive both quantitative and qualitative benefits. After consideration of all Union-suggested alternatives, savings from contracting out are estimated at $3.05 million or 26.41% relative to in-house costs over five years.

In summary, the benefits to be realized from contracting out will provide the lowest possible cost for the delivery of light-duty, non-revenue vehicle and equipment

maintenance services at the 1810 Markham Road facility. From a qualitative perspective, contracting out the non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility will allow the TTC to dedicate its existing workforce on the maintenance of revenue vehicles, focusing on its core business of providing reliable transit service. In addition, performance risk is also transferred to the contractor, which ensures that the requisite quality of maintenance work is delivered through a performance-based services contract. Finally, cost certainty is provided for the five-year term of the contract.

Recommendations

It is recommended that the TTC Board:

1. Authorize the award of a contract to BDS Fleet Service in the amount of $9.16 million, inclusive of HST, for the light-duty, non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility for a five-year term with an option, at the TTC's discretion, to extend the term for an additional term of five years.

2. Approve the confidential recommendation as set out in Confidential Attachment, and authorize that the information contained in the Confidential Attachment remain confidential in its entirely as it contains information about labour relations or employee negotiations.

Implementation Points

Upon award of the recommended contract for light-duty, non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility, BDS Fleet Service (BDS) will be required to complete a number of startup tasks that include, but are not limited to, the following:

- Recruitment and training of staff;
- Familiarization of facility and equipment;
- Inventory and entering of equipment into maintenance databases; and
- Review of Original Equipment Manufacturer recommended maintenance plans and development of asset management programs.

BDS has two months to initiate and implement the work at the 1810 Markham Road facility. The TTC has confidence in BDS's ability to commence the work at the commencement of the contract.

Financial Summary

The requested contract authority of $9.16 million, including HST, is based on the current scope of requirements to provide non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility and an allowance of approximately $50,000 per year for unforeseen incidents outside of the scope of the contract (e.g. accident damage, upfitting, etc.). The contract cost net of the HST rebate and the allowance for unforeseen incidents is $8.03 million, as summarized in the Table 1 below:

Table 1: Upset Limit Breakdown

Cost (*$Millions*)	2022	2023	2024	2025	2026	2027	Total
BDS contract	$0.38	$1.54	$1.56	$1.61	$1.66	$1.28	**$8.03**
Contingency allowance	$0.01	$0.05	$0.05	$0.05	$0.05	$0.03	**$0.24**
Rebatable portion of HST	$0.04	$0.17	$0.17	$0.18	$0.18	$0.15	**$0.89**
Contract Authority, inclusive of HST	$0.43	$1.76	$1.78	$1.84	$1.89	$1.46	**$9.16**

In order to evaluate the contracting out cost, the TTC first established the cost to provide non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility should this be undertaken with in-house resources annually and over the life of a five-year term. The preliminary analysis, communicated to ATU 113 by a Tentative Decision Letter, estimated the cost of in-house provision of light-duty, non-revenue vehicle and equipment maintenance at $12.75 million.

The final analysis incorporated both final adjustments to TTC in-house costs and viable ATU 113 suggested alternatives developed through the process mandated by the Collective Bargaining Agreement. Viable alternatives included a refinement of roles to be assigned to the work and leveraging the use of apprentices. As a result of this process, the revised TTC in-house costing is estimated at $11.55 million, which was used as the basis of the final evaluation from a cost perspective.

In evaluating the vendor cost against the in-house alternative, a total cost of $8.50 million was used, as outlined in Table 2 below. This amount is comprised of the fixed price for the preventative and corrective maintenance scope of $8.03 million and $0.47 million in anticipated TTC administrative costs to manage the contract over the five-year term.

Based on this analysis, the recommended contract with BDS will achieve a savings of $3.05 million over the five-year term as compared to current in-house resources, as summarized in the following table:

Table 2: TTC In-House versus Third Party Contractor

($Millions)	2022	2023	2024	2025	2026	2027	Total
TTC In-House Option							
Direct ATU hourly labour	$0.29	$1.17	$1.25	$1.31	$1.29	$0.93	$6.24
Direct supervision	$0.04	$0.15	$0.16	$0.16	$0.16	$0.13	$0.80

($Millions)	2022	2023	2024	2025	2026	2027	Total
Direct materials	$0.13	$0.51	$0.53	$0.56	$0.58	$0.42	$2.73
Indirect costs and overheads	$0.11	$0.42	$0.32	$0.33	$0.34	$0.26	$1.78
Subtotal: TTC In-House	**$0.57**	**$2.25**	**$2.26**	**$2.36**	**$2.37**	**$1.74**	**$11.55**
Third-Party Contract Option							
BDS Contract	$0.38	$1.54	$1.56	$1.61	$1.66	$1.28	$8.03
Contract Administration	$0.04	$0.12	$0.08	$0.08	$0.08	$0.07	$0.47
Subtotal: Third-Party Contract Costs	**$0.42**	**$1.66**	**$1.64**	**$1.69**	**$1.74**	**$1.35**	**$8.50**
$ Savings achieved through BDS contract	**($0.15**	**($0.59)**	**($0.62)**	**($0.67)**	**($0.63)**	**($0.39)**	**($3.05)**
% Savings achieved through BDS contract	**25.0%**	**26.2%**	**27.4%**	**28.1%**	**26.6%**	**23.3%**	**26.4%**

The cost of proceeding with the contract is approximately $1.7 million per year and will result in cost savings and avoidance of approximately $0.6 million per year. Combined, this represents a 26.4% savings over the term of the five-year contract.

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

Equity/Accessibility Matters

A cornerstone of the TTC's Corporate Plan 2018-2022 is accessibility, and as a proud leader in providing accessible public transit in the city of Toronto, the TTC is committed to ensuring reliable, safe and inclusive transit services for all its customers. This continues to be supported through the contracting out of non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility.

Decision History

At its meeting on November 30, 2016, the TTC Board considered a report entitled, Property for TTC bus storage and maintenance operations, and approved the acquisition of the 1810 Markham Road facility for TTC Bus Operations.

At its meeting on September 24, 2019 the TTC Board considered a report entitled, 1810 Markham Road – Building Upgrades, which presented the proposed building upgrades to the 1810 Markham Road facility for light-duty, non-revenue vehicle and equipment maintenance operations. The TTC Board authorized the award of Contract H60-6: 1810 Markham Road Building Upgrades, to Pegah Construction Ltd. in the amount of $6,326,105.75. inclusive of all taxes, on the basis of lowest total bid price.

Issue Background

Opportunity Analysis

In 2016, the TTC Board approved the acquisition of the 1810 Markham Road facility as one action to address overcapacity issues at Lakeshore Garage. This presented the TTC with an opportunity to relocate light-duty Class 1 and Class 2 non-revenue vehicles (i.e. vehicles under 4,500 kg) and equipment from Lakeshore Garage to this new facility, and to re-evaluate the performance of non-revenue vehicle and equipment maintenance at the 1810 Markham Road facility.

The opportunity was investigated and managed by the TTC's Business Transformation Office, including the development of a business case that has been summarized in this report.

Procurement Process

An initial negotiated Request for Proposal (NRFP) for both non-revenue vehicle and equipment maintenance and facility maintenance for the 1810 Markham Road facility was released in late December 2020. The NRFP, structured to require a single contractor to perform both non-revenue vehicle and equipment maintenance and facility maintenance, generated a number of questions resulting in the release of six addenda in June 2021. The NRFP was cancelled in October 2021 and subsequently re-scoped based on this procurement experience.

A revised NRFP, which included alterations and clarifications based on market input, was subsequently issued in December 2021. The non-revenue vehicle and equipment maintenance and facility maintenance was segregated to allow more than one vendor to bid on the scope of the work as a lessons learned from the December 2020 NRFP. The revised NRFP gave proponents the option of responding to the non-revenue vehicle and equipment maintenance scope and/or the facility maintenance scope. ***This report only relates to the light-duty, non-revenue vehicle and equipment maintenance scope of the NRFP***.

A total of seven companies downloaded copies of the NRFP documents. Two of those submitted proposals by the closing date of February 9, 2022 to respond to the non-revenue vehicle and equipment maintenance scope of services.

Proposals were received from the following companies:

- BDS Fleet Service
- Transervice

The recommendation for award is based on the highest total weighted score. The evaluation of quotations was based on a staged process consisting of the following:

- Stage 1 – Mandatory Submission Requirements.
- Stage 2 – Evaluation.
- Stage 3 – Pricing.
- Stage 4 – Ranking and Contract Negotiations.

Stage 1 – Mandatory Submission Requirements:
This stage consisted of a review of proposals to determine compliance with all the mandatory submission requirements. If a proposal failed to satisfy all the mandatory submission requirements, the TTC would issue the proponent a rectification notice. If the proponent failed to satisfy the mandatory submission requirements within the Rectification Period, the proponent's proposal quotation would be rejected.

Stage 2 – Evaluation:
Stage 2 entailed the evaluation of each proposal, which met the mandatory submission requirements based on non-price-rated criteria. Each proponent who scored a total combined score of at least 70 points out of 100 points on the non-price-rated criteria proceeded to the next stage of the NRFP process. If a proponent scored a total combined score of below 70, they would have been disqualified and would not have proceeded any further in the NRFP process.

Stage 3 – Pricing:
The third stage focused on scoring the pricing submitted in each qualified proposal in accordance with the price evaluation methodology.

Stage 4 – Ranking of Proponents and Negotiations:
This stage consisted of ranking the qualified proposals based on their price evaluation. The top-ranked proponent (proponent with the lowest total evaluated price) was issued a written invitation to enter into direct contract negotiations to finalize the agreement with the TTC.

Upon completion of the NRFP process, the proposal submitted by BDS Fleet Service scored the highest total weighted score for the light-duty, non-revenue vehicle and equipment maintenance scope and did not state any exceptions or qualifications and their bid was considered commercially compliant.

The weighted scorings for each of the two proposals with respect to the light-duty, non-revenue vehicle and equipment maintenance scope were as follows:

1. BDS Fleet Services – 76.20 points
2. Transervice – 74.20 points

Based on the evaluation results outlined above, the TTC proceeded to negotiate with BDS Fleet Service to finalize the contract. The contract includes key performance indicators, service levels and liquidated damages, which apply in the event the contractor fails to meet the established key performance indicators or service levels.

<u>Union Consultation</u>

The light-duty, non-revenue vehicle and equipment maintenance proposed to be contracted out is work normally performed by TTC employees represented by the ATU 113. The following positions (which are held by TTC employees represented by the ATU 113) are impacted by the contracting out:

a) Automotive Technicians
b) Lead Hand Automotive Technician
c) Senior Storeperson
d) Storeperson

Notwithstanding the impacted roles, it should be noted that no TTC employees represented by the ATU 113 will be terminated or laid off as a result of the recommended second sourcing of this work.

The TTC followed the consultation process set out in the Collective Agreement with respect to contracting out light-duty, non-revenue vehicle and equipment maintenance that is normally performed by TTC employees represented by the ATU.

The preliminary analysis, communicated to ATU Local 113 via the Tentative Decision Letter, estimated the cost of in-house delivery at $12.75 million. Compared to the $8.50 million vendor cost, the preliminary savings were estimated at $4.25 million or 33%over the five-year term of the contract.

The final analysis incorporated both final adjustments to TTC in-house costs and viable ATU 113 suggested alternatives developed through the process mandated by the Collective Bargaining Agreement. Viable alternatives included refinement of roles to be assigned to the work and leveraging the use of apprentices. As a result of this process, the revised TTC in-house costing estimated at $11.55 million, as detailed in Table 3, was used as the basis of the final evaluation from a cost perspective. As a result, final savings $3.05 million or 26.4% through contracting out are expected.

Table 3: Breakdown of TTC In-house Cost

($Millions)	Total
Direct ATU Hourly Labour	$6.24
Direct Supervision	$0.80
Direct Materials	$2.73
Indirect Costs and Overheads	$1.78
Total	**$11.55**

In accordance with the Collective Agreement, ATU Local 113 has the ability to grieve the contracting out and, as such, arbitration may follow. However, the TTC, in its view, has complied with its relevant Collective Agreement obligations.

Comments

In an effort to ensure continued stewardship of taxpayer dollars, the TTC is continuously looking at ways to modernize and improve its operations. This includes identifying operational efficiencies and potential cost reduction opportunities.

This contracting out aligns with the TTC's Corporate Plan. Specifically, it aligns with Critical Path #1 – Transform for Financial Sustainability, which aims to close the gap between revenue and the expected increases in expenditures. Further, the TTC's Corporate Plan requires the TTC to undertake a review of services provided to determine what needs to be completed in-house, what others can do to help focus the TTC on core services, and where partnerships can be formed to maintain or improve service quality while ensuring value for money for taxpayers.

Over and above the quantitative cost savings of $3.05 million to be realized over a five-year period, the TTC expects a number of qualitative benefits as set out in Table 4 below. In general, this new business model provides the TTC with an important opportunity to compare and evaluate current maintenance practices, learn and adopt industry best practices, introduce managed competition and realize additional efficiencies.

Table 4: Qualitative Benefits of Third-Party Provider of Non-Revenue Vehicles and Equipment Maintenance

Benefit	Description of Benefit
Core Business Focus	Contracting out non-revenue vehicle and equipment fleet maintenance at the 1810 Markham Road facility will allow the TTC to focus its vehicle maintenance staff on revenue vehicles.
Level of Service (LoS)	With a performance-based contract, the contractor is subject to financial penalties, which motivates the contractor to provide quality work that meets the LoS defined in the contract. Contract termination clauses can also drive the LoS and performance of the contractor.
Innovation	Private sector innovation may be utilized, including the implementation of leading software for maintenance and parts tracking, labour tracking by vehicle, and data communication and integration between various systems, as well as improved telematics and vehicle availability dashboards with maintenance and repair status. These innovations can be monitored through KPIs.
Cost Savings	The contractor has a lower cost base derived from its economies of scale for the procurement of parts and consumables given its broad client base on maintaining light-duty vehicles, both in the bulk purchasing as well as streamlined administration. The contractor is also able to draw on a larger pool of resources.
Access to Skilled Labour	Given the tight labour market, it can be difficult to find skilled labour (e.g. qualified technicians). The use of a contractor transfers this risk to the private sector, with the contractor having the burden of ensuring there are available resources to perform the work.

Avert Risk of Constrained Labour Market	Contracting out the work to a contractor transfers the labour risk to the contractor while freeing up valuable resources from the Lakeshore Garage to perform the work on revenue vehicles.

The TTC has strong confidence in BDS as a third-party provider. BDS is the largest private fleet repair facility in the GTA, specializing in fleet service and repairs, with over 40 years of experience. BDS has chosen a business strategy to work exclusively with fleet accounts. This is a major asset to BDS customers as it maximizes fleet availability and minimizes downtime.

BDS has long-term partnerships and projects, which include partners such as: Bell Canada, Black & McDonald, City of Vaughan, City of Richmond Hill, CP Rail, Enbridge, Metrolinx and Telecon.
As a service provider, BDS Fleet Service is:

- CAMSC (Canadian Aboriginal and Minority Supplier Council) certified supplier as a minority-owned business;
- Provider of over 60 employees to staff 61 fully equipped service bays in our 60,000 sq. ft. facility;
- National Safety Mark accredited from Transport Canada for Vehicle Alterations and Modifications; and
- Ship-Thru partner with GM and Stellantis (formerly FCA).

As an employer, BDS Employee Engagement and Recognition:

- Equal opportunity employer with a diverse group of men and women with over 50% visible minorities;
- Dedicate funds for training and education;
- Has an extended benefits plan;
- Meets and exceed industry standards for wage expectations as per fair wage practices;
- Has established Social Committee with events throughout the year, including an annual vacation to recognize top performing or most improved staff; and
- Has an established Health and Safety Committee to ensure the adequate maintenance of a healthy and safe work environment.

Based on both quantitative and qualitative benefits identified through this transformational contracting out and on market feedback, the TTC expects to realize significant operational cost savings and improved operational efficiencies at the 1810 Markham Road facility.

Contact

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Signature

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Attachments

Confidential Attachment 1 – 1810 Markham Road Facilities Maintenance Update