

Clause embodied in Report No. 3 of the Administration Committee, as adopted by the Council of the City of Toronto at its meeting on May 18, 19 and 20, 2004.

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Consolidated Parts and Consignment - Request for Proposal (RFP)

(City Council on May 18, 19 and 20, 2004, adopted this Clause, without amendment.)

The Administration Committee recommends the adoption of the report (April 13, 2004) from the Commissioner of Corporate Services subject to making a technical change to Recommendation (1) by clarifying that the request is for the supply of vehicle and equipment parts on a consignment basis, so that the recommendations now read:

- “(1) A Request for Proposal (RFP) be issued by Purchasing and Materials Management (Finance) for the supply of vehicle and equipment parts on a consignment basis; and**
- (2) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.”**

Purpose:

To outline a consignment process for consolidating the acquisition of after-market parts and to receive authorization to proceed with an RFP in this regard.

Financial Implications and Impact Statement:

There are no additional costs associated with this request. There are however, cost savings for parts and vehicle downtime anticipated in proceeding with a consignment model.

The Chief Financial Officer and Treasurer has reviewed and concurs with the financial implications and impact statement.

Recommendation:

It is recommended that:

- (1) a Request For Proposal (RFP) be issued by Purchasing and Materials Management (Finance) for the supply of vehicle parts and equipment on a consignment basis, and
- (2) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The City of Toronto operates an extremely diverse and wide array of vehicles and equipment to meet operational demands. While new vehicle and equipment standards have been established, the fleet will continue to consist of a wide range of vehicle and equipment types that were integrated based on the purchasing procedures of the former municipalities.

At amalgamation, several municipalities used the “Just in Time” (JIT) approach to the acquisition of parts, however with the complexity and expanded nature of the amalgamated fleet, the “Just in Time” approach and current purchasing procedures continue to result in increased downtime.

Fleet Services currently uses over 49,000 parts each year to maintain the fleet and the total parts budget in 2003 was \$5.2 million with an owned parts inventory of 9.6% of this value or \$500,000. Non inventory parts are acquired as needed using the “Just in Time” model.

The current purchasing policy for vehicle parts that exceed \$3,000 requires that the City receive a minimum of three price quotations (3-quote rule) before proceeding with a purchase. If a part were to exceed \$7,500, a Request for Quotation (RFQ) would have to be issued. These policies significantly increase vehicle and equipment downtime. For example, parts for the City’s heavy equipment routinely exceed the \$7,500 limit:

- Hydraulic ejector cylinder on a garbage truck \$8,000;
- Rear axle assembly \$7,000 - \$8,500;
- Ejector blade up to \$10,000;
- Transmission \$10,000 - \$15,000;
- High pressure pump on a sewer flusher up to \$15,000;
- Conveyor assembly on a sweeper up to \$20,000,
- Diesel engine exchange up to \$20,000.

The solution to reducing downtime is to increase the number of parts on hand to ensure technicians can respond immediately to failures without waiting for parts and to leverage the City of Toronto’s buying power to maximize discounts. In order to achieve this goal without tying up additional working capital is to pursue a consignment supply model with a supplier that can accommodate the immediate and diverse needs of the City of Toronto fleet.

Comments:

Fleet Services has investigated different purchasing models for the acquisition of parts from both the private and public sectors. One of the findings indicates that there are cost savings to be realized by entering into an agreement with a large parts supplier/re-manufacturer. A large parts supplier is capable of providing all the repair parts that large fleets may require on a regular basis. Furthermore, through their network and bulk buying power any special orders can be delivered usually within 24 hours at reduced cost. Automation in parts inventory and accounting ensure that the client receives current information, service and expedited work orders and billing records.

The City of Chicago has established an integrated consignment model for parts acquisition that has been running successfully for approximately five years. Under this arrangement, Chicago would stock the most commonly used parts in preventative maintenance (PM) servicing, but only pay for what it actually consumes. This practice significantly reduces inventory cost to the City. Special orders from unplanned maintenance (breakdown) can be obtained within 24 hours ensuring that delay from obtaining parts is minimized.

As a result of the findings, Fleet Services initiated a meeting with representatives from Finance and Legal Services in March 2004 to determine the feasibility of the City of Toronto adopting a consignment model for parts acquisition, similar to what is being used at the City of Chicago. It was acknowledged that information technology issues around interfacing an external billing system with Toronto's SAP and M4 maintenance systems need to be worked out. It should be noted that an integrated solution was implemented by the City of Chicago using the same software. Overall, the meeting was positive as the potential for cost savings and reduced vehicle down time was very encouraging. The next step was determined to be a staff report to Administration Committee seeking approval to proceed.

Conclusions:

Based on the investigation carried out by Fleet Services and the positive response received from Finance and Legal Services, an RFP for parts acquisition based on a consignment model should be pursued. The cost savings and reduction to vehicle downtime, administration and billing are expected to be a significant improvement over current policies and procedures in place. This would in turn enable Fleet Services to improve its service to departmental clients through reduced downtime and cost.

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