



REPORT FOR ACTION

Non-competitive Contract with FCA Canada Inc. for OEM Parts and Services through an authorized dealer network

Date: June 12, 2020

To: General Government and Licensing Committee

From: General Manager, Fleet Services Division; and Chief Purchasing Officer

Wards: All

SUMMARY

The purpose of this report is to seek Council authority for the General Manager, Fleet Services Division to negotiate and enter into a non-competitive contract with FCA Canada Inc. (Fiat, Chrysler Automobiles) for the supply and delivery to the City of Toronto (City), proprietary Original Equipment Manufacturer (OEM) parts and services for Chrysler, Jeep, Dodge and Ram vehicles.

The contract will be for a period of five (5) years commencing from September 1, 2020 to August 31, 2025 with the option to renew the contract for one (1) optional term of five (5) years from September 1, 2025 to August 31, 2030 at the sole discretion of the City, and subject to budget approvals for the total amount of \$14,220,598 net of Harmonized Sales Tax (HST) (\$14,470,881 net of HST recoveries), inclusive of all option renewal terms.

Fleet Services estimates that by adopting this manufacturer-direct service delivery model with FCA Canada Inc., savings in the amount of \$723,544 can be realized over the ten (10) year period. This does not include savings from manufacturer-direct procurement that is already in place, or internal process savings from the reduced procurement and payment efficiencies that will also be obtained.

City Council approval is required in accordance with Municipal Code Chapter 195-Purchasing, where the current request exceeds the Chief Purchasing Official's authority of the cumulative five (5) year commitment for each vendor, under Article 7, Section 195-7.3 (D) of the Purchasing By-Law or exceeds the threshold of \$500,000 net of HST allowed under staff authority as per the Toronto Municipal Code Chapter 71-Financial Control, Section 71-11A.

RECOMMENDATIONS

The General Manager, Fleet Services Division, and the Chief Purchasing Officer, recommend that:

1. City Council to grant authority to the General Manager, Fleet Services Division to negotiate and enter into a non-competitive agreement with FCA Canada Inc., for the supply and delivery to the City OEM parts and services for Chrysler, Jeep, Dodge and Ram vehicles on the following terms and conditions:
 - a. The initial term of the contract will be for a period of five (5) years, commencing on September 1, 2020 to August 31, 2025 with the option to renew the contract for one (1) optional renewal term of five (5) years, subject to the exercise of the option term being at the sole discretion of the General Manager, Fleet Services Division and subject to the amounts payable under the contract being available under the current Fleet Services Division budget approval(s). The amount of this non-competitive agreement is \$14,220,598 net of HST (\$14,470,881 net of HST recoveries) for the entire duration of the contract, inclusive of all optional renewal terms.
 - b. Separate service level agreements will be negotiated with individual dealerships through Servicenet, the FCA authorized dealer network.
 - c. The contract will be based on the condition that FCA Canada Inc. continues to be the exclusive manufacturer and distributor for the proprietary OEM parts and services for Chrysler, Jeep, Dodge and Ram vehicles through a Servicenet National Maintenance Program inclusive of an authorized dealer network and
 - d. on the terms and conditions satisfactory to the General Manager, Fleet Services Division and in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

The total potential cost to the City identified in this report, including all optional renewal terms is \$16,069,275 including all taxes and charges. The total potential cost to the City is \$14,470,881 net of Harmonized Sales Tax (HST) recoveries.

Funding in the amount of \$420,767 net of HST recoveries is included in the 2020 Approved Operating Budget for Fleet Services Division. Funding for years 2021 and beyond will be included in the Fleet Services Division's 2021-2025 future year Operating Budget Submissions as appropriate or required.

Should the City choose to exercise the option to renew for an additional five (5) year period, then appropriate additional funding will be included in the 2025-2030 annual Operating Budget submissions for Fleet Services Division.

The amounts for the entire duration of the contract reflect an estimated 3% annual increase in the Consumer Price Index.

Approved 2020 funding and estimated 2021-2030 funding, net of Harmonized Sales tax recoveries are provided in Table 1.

Fleet Services Division Cost Centre: FL100 Cost Element: 4404, 2181	Net of HST recoveries
From September 1, 2020 to December 31, 2020	\$420,767
From January 1, 2021 to August 31, 2021	\$841,535
From September 1, 2021 to August 31, 2022	\$1,300,171
From September 1, 2022 to August 31, 2023	\$1,339,176
From September 1, 2023 to August 31, 2024	\$1,379,352
From September 1, 2024 to August 31, 2025	\$1,420,732
Option year from September 1, 2025 to August 31, 2026	\$1,463,354
Option year from September 1, 2026 to August 31, 2027	\$1,507,255
Option year from September 1, 2027 to August 31, 2028	\$1,552,473
Option year from September 1, 2028 to August 31, 2029	\$1,599,047
Option year from September 1, 2029 to August 31, 2030	\$1,647,018
Total award from September 1, 2020 to August 31, 2030	\$14,470,881

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

DECISION HISTORY

On July 12, 2017, Report from the Chief Purchasing Officer and General Manger, Fleet Services - Award of Request for Proposal No. 6102-17-0148 to Various Proponents for the Non-exclusive Provision of Warranty and Non-warranty Vehicle Maintenance and Repairs to Various Class 1 and 2 Vehicles:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.BA31.2#>

COMMENTS

In October 2017, Fleet Services Division completed the initial implementation of its alternative Service Delivery Model, resulting in the contracting out of light duty vehicle services. This change enabled Fleet Services Division staff to focus on the more specialized medium and heavy-duty vehicles, to improve service delivery and reduce overall vehicle downtime.

During the competitive procurement process for services, Fleet Services did not receive sufficient bids from Chrysler dealers. The lack of service contracts with dealers, poses a challenge when warranty and non-warranty parts and services are required on the 653 light and medium duty Chrysler and Dodge vehicles in the City's fleet, resulting in lengthy vehicle downtime and associated costs.

Through the Servicenet National Maintenance Program offered through FCA, Fleet Services will have the ability to utilize the services of any FCA authorized dealerships within Toronto, or Canada. There are approximately forty-one (41) authorized dealers within the GTA, eleven (11) of which are located in Toronto. This strategy will allow Fleet Services Division the ability to build long term contracts and relationships with vendors and to have an array of maintenance facilities across the GTA, thereby ensuring maximum efficiency for vehicle maintenance and City operations.

Negotiating directly with FCA Canada Inc. will result in a 10% discount on parts and labour. Fleet Services will also have the ability to further negotiate additional discounts with each authorized dealer. Fleet Services estimates that by adopting this service delivery model with FCA Canada Inc., savings in the amount of \$723,544 can be realized over the ten (10) year period.

Fleet Services processes approximately 5,000 invoices annually to various Chrysler, Jeep, and Dodge dealerships. This business model will generate 12 payments annually and allow fleet clients to take vehicles to any participating dealership. Vendors will be paid for their services through the Servicenet program which will reduce purchasing and payables efforts on City staff.

Fleet Services previously implemented the manufacturer-direct procurement of vehicles & equipment and the implementation of manufacturer-direct service arrangements will build upon this highly successful initiative. The City's savings through manufacturer-direct procurement with FCA average \$1.4 million annually. This process improvement will build on those efficiencies by reducing vehicle downtime and optimizing cost, operational efficiency, safety and return on investment.

Entering into an agreement with FCA Canada Inc. also supports recommendations made by the Auditor General in two (2) reports:

Fleet Services Operational Review - Phase One: Lengthy Downtime Requires Immediate Attention:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU2.2>

Fleet Services Operational Review, Phase Two - Stronger Asset Management Needed
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.6>

The Fair Wage Office has reported that FCA Canada Inc. has indicated that it has reviewed and understands the Fair Wage Policy and Labour Trades requirements and has agreed to comply fully.

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