

### **Non-competitive Contracts with Goodyear Canada Inc. and Michelin North America (Canada) Inc. for the Standardization of Tire Purchases Across the City-wide Fleet**

**Date:** August 11, 2020  
**To:** General Government and Licensing Committee  
**From:** General Manager, Fleet Services and Chief Procurement Officer,  
Purchasing and Materials Management Division  
**Wards:** All

#### **SUMMARY**

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The purpose of this report is to seek authority from City Council to enter into non-competitive, long-term tire purchasing agreements with Goodyear Canada Inc. and Michelin North America (Canada) Inc. to standardize tire brands across the City's fleet.

The contract will be for a period of five (5) years, commencing on November 1, 2020 to October 31, 2025 with the option to renew the contract for one (1) additional five (5) year period at the sole discretion of the City, and subject to budget approvals for the total contract amount of \$17,082,981 net of HST (\$17,383,641 net of Harmonized Sales Tax (HST) recoveries, inclusive of all optional renewal years.

Fleet Services estimates that by adopting a manufacturer-direct service delivery model with Goodyear Canada Inc. and Michelin North America (Canada) Inc. savings in the amount of \$1,494,920 can be realized over the ten (10) year period.

This agreement will also provide considerable efficiency improvements, with anticipated delivery times for in-stock tires expected to improve by eighty-four (84) percent, and delivery times for out of stock tires expected to improve by fifty (50) percent. These added efficiencies will directly support the reduction of vehicle downtime.

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 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

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

1. City Council grant authority to the General Manager, Fleet Services, the Chief, Toronto Paramedic Services and the Fire Chief and General Manager, Toronto Fire Services to standardize tire brands across the City-wide fleet.
2. City Council grant authority to the General Manager, Fleet Services, the Chief, Toronto Paramedic Services and the Fire Chief and General Manager, Toronto Fire Services to negotiate and enter into non-competitive agreements with Goodyear Canada Inc. and Michelin North America (Canada) Inc. for the supply and delivery of tires on the following terms and conditions:
  - a. The initial term of the contract with Goodyear Canada Inc. will be for a period of five (5) years, commencing on November 1, 2020 to October 31, 2025 with the option to renew the contract for one (1) optional renewal term of five (5) years, at the sole discretion of the General Manager, Fleet Services. The amount of this agreement is \$11,454,140 net of HST (\$11,655,732 net of HST recoveries) for the duration of the contract, inclusive of the optional renewal term;
  - b. The initial term of the contract with Michelin North America (Canada) will be for a period of five (5) years, commencing on November 1, 2020 to October 31, 2025 with the option to renew the contract for one (1) optional renewal term of five (5) years, at the sole discretion of the General Manager, Fleet Services. The amount of this agreement is \$5,628,842 net of HST (\$5,727,909 net of HST recoveries) for the duration of the contract, inclusive of the optional renewal term;
  - c. On the terms and conditions satisfactory to the General Manager, Fleet Services and in a form satisfactory to the City Solicitor.

## FINANCIAL IMPACT

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The total potential cost to the City identified in this report, including all optional renewal terms is \$19,303,769 including all taxes and charges. The total potential cost to the City is \$17,383,641 net of Harmonized Sales Tax (HST) recoveries.

Sufficient funding is included in the 2020 Approved Operating Budget for Fleet Services, Toronto Fire Services and Toronto Paramedic Services. Funding for years 2021 through 2025 will be included in each Division's 2021-2025 Operating Budget Submissions.

As well, the anticipated efficiency savings resulting from standardizing the tire procurement process outlined in this agreement will reduce future-year operating pressures for Fleet Services, Toronto Paramedic Services and Toronto Fire Services in accordance with the projections included in the comments section of this report.

Should the City choose to exercise the option to renew for an additional five (5) year term, then appropriate additional funding, will be included in the 2026-2030 annual Operating Budget Submissions for Fleet Services, Toronto Fire Services and Toronto Paramedic Services. The amounts for the entire duration of the agreement reflects an estimated 3% annual increase in the Consumer Price Index.

Approved 2020 funding and estimated 2021-2030 funding, net of HST recoveries are provided in the below table.

Table 1: Financial Impact by Division

Division	Cost Centre (group) / Cost Element	Initial Term - From November 1, 2020 to December 31, 2020	Initial Term - From January 1, 2021 to October 31, 2025	Option Term 1 - From November 1, 2025 to October 31, 2030	Total Contract Value
Fleet Services	FL100 / 2135	\$174,184	\$5,374,409	\$6,432,339	\$11,980,932
Toronto Fire Services	FR0025 / 2135	\$18,169	\$560,609	\$670,962	\$1,249,740
Toronto Paramedic Services (Facilitated through Purchasing & Materials Management)	160004,160026,160049,160067,160068,160082,160083,160085,160171  (B41100 / 2135)	\$60,378	\$1,862,940	\$2,229,651	\$4,152,969
Total		\$252,731	\$7,797,958	\$9,332,952	\$17,383,641

## DECISION HISTORY

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On August 24, 2016, Bid Award Panel awarded RFQ 6124-16-3044 for the Purchase and Delivery of Tires to three (3) vendors based on the company that was the lowest bid per specific tire line item.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.BD97.6>

## COMMENTS

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Goodyear Canada Inc. and Michelin North America (Canada) are the two (2) tire manufacturers that can meet the City of Toronto's requirements to supply tires that range from Class 1 to Class 8 vehicles as well as trailers, construction, and agricultural equipment. The award amounts for each manufacturer is based on historical spending, current procurement practices as well as future projected requirements from each Division.

Table 2: Estimated Award Amount for each Manufacturer by Division

Divison	Manufacturer	
	Goodyear	Michelin
Fleet Services	\$10,782,839	\$1,198,093
Toronto Fire Services	\$249,948	\$999,792
Purchasing & Materials Management	\$622,945	\$3,530,024
Total	\$11,655,732	\$5,727,909

Fleet Services, Toronto Fire Services and Toronto Paramedic Services operate approximately 6,550 vehicles and equipment for the City of Toronto. Both Toronto Fire Services and Toronto Paramedic Services operate their own repair facilities to service their specialized vehicles and equipment but the need for tires is common across all divisions. Toronto Fire Services has 450 emergency response units equipped predominately with Michelin tires. Toronto Paramedic Services has 350 emergency response units equipped predominately with Michelin tires. Fleet Services Division operates approximately 5,700 assets that consist of a wide variety of vehicles and specialized equipment. Of these, Fleet Services has 1,000 class 6 through class 8 vehicles predominately with Goodyear tires.

Fleet Services is streamlining and standardizing the tire procurement process to provide the best overall value to the City while ensuring compatibility and safety. Entering into manufacturer direct agreements is an industry best-practice approach that provides the City access to a manufacturer's entire product line while offering substantial discounts, enabling best-value and lowest total cost of ownership. York and Peel Region as well

as the Cities of Burlington, Mississauga and Ottawa are utilizing the Goodyear Canada Inc. and Michelin North America (Canada) Inc. procurement programs.

Tire compatibility requires the tires on each axle to be the same size, wear and tread pattern. Mismatched tires can cause risks associated with driveability, safety and operational issues. Mitigating these risks requires changing the tires on the same axle even if there is an issue with only one (1) tire. This results in increased costs that can be significant given that dump trucks each have ten (10) tires and ambulances have six (6) tires. In 2019, forty-four percent (44%) of all tire replacements resulted in the purchase of more than one (1) tire. This amounted to an additional \$63,060 in spending that could potentially be avoided if tires were standardized on vehicles and equipment.

In order to ensure compatibility for all vehicle classes, the manufacturer must be able to provide a diverse range of brands and sizes to meet various operational needs. By entering into direct purchasing agreements, the City will have access to each companies' entire product line. Collectively, these two (2) manufacturers' tires comprise ninety-five (95) per cent of the City-wide Fleet.

The Ontario Municipal Account Programs offered by Goodyear Canada Inc. and Michelin North America (Canada) Inc. provides municipalities' significant product discounts off their catalogue tire price for passenger, light truck, heavy truck and off-road tires. The projected cost savings as a result of additional discounts from each tire manufacturer amounts to \$186,730 over ten (10) years.

Standardizing tires purchases to reflect a discount off catalogue would reduce the current administrative costs associated with sourcing and approving tires by \$67,759 per year. The administrative costs will be re-directed to other, value-added tasks primarily associated with tire selection and management.

Table 3: Annual Administrative Cost Savings of Standardizing Tire Procurement

<b>Division</b>	<b>Hours per year</b>	<b>Administrative Costs of Sourcing and Approving Tires per Year</b>
Fleet Services	780	\$46,756
Toronto Fire Services	364	\$21,003
Total		\$67,759

\* Based on the bottom of the 2019 salary ranges for each position

The total benefit to the City of Toronto of entering into direct tire purchasing agreements will be \$149,492 annually, or 1,494,920 over ten (10) years.

Table 4: Total Benefit of Standardizing Tire Procurement Over 10 Years

Benefits	Average Annual Benefit	Benefit Over 10 Years
Cost Savings	\$86,432	\$864,320
Cost Avoidance	\$63,060	\$630,600
Total	\$149,492	\$1,494,920

The National Accounts Programs offered by Goodyear Canada Inc. and Michelin North America (Canada) Inc. allow the City of Toronto to purchase tires from any manufacturer approved vendor, and to be centrally billed by the manufacturer at the discounted price. Each company has at a minimum of five (5) vendors across the Greater Toronto Area that can supply tires. Once identified, the City can provide each manufacturer with a list of their most commonly required tires to ensure that they are always in stock at one (1) or more vendors.

The availability to order tires from numerous vendor locations will improve the current tire delivery times. Delivery times for in-stock tires will decrease from twenty four (24) hours to four (4) hours, amounting to up to an eighty-four (84) percent reduction in vehicle downtime associated with tires not being readily available. Delivery times for out of stock tires will decrease from forty eight (48) hours to less than twenty four (24) hours, amounting to up to a fifty (50) percent reduction in vehicle downtime related to tires not being readily available.

The Fair Wage Office has reported that Goodyear Canada Inc. and Michelin North America (Canada) Inc. has indicated that it has reviewed and understands the Fair Wage Policy and Labor Trade requirements and has agreed to comply fully.

## CONTACT

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**SIGNATURE**

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