

<b>TO:</b>	<b>CHAIR AND MEMBERS CIVIC WORKS COMMITTEE MEETING ON MARCH 29, 2016</b>
<b>FROM:</b>	<b>JOHN BRAAM, P.ENG MANAGING DIRECTOR - ENVIRONMENTAL &amp; ENGINEERING SERVICES &amp; CITY ENGINEER</b>
<b>SUBJECT:</b>	<b>LEASING OF HIGHWAY TRACTORS FOR SLUDGE HAULING</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director - Environmental & Engineering Services & City Engineer, the following actions **BE TAKEN**:

- (a) The Request for Quotation (RFQ 15-64) Tandem Axle Tractor Lease, **BE WITHDRAWN**;
- (b) The proposals submitted by Ryder Truck Rentals and Leasing and Carrier Centers Ideal Leasing for RFQ 15-64 ; **BE REJECTED**;
- (c) The Civic Administration **BE AUTHORIZED** to enter into negotiation with our current vendor, Ryder Truck Rentals and Leasing, for a new lease agreement on the existing leased highway tractors for a further three (3) years;
- (d) The Civic Administration **BE AUTHORIZED** to undertake all administrative acts which are necessary in connection with this award; and
- (e) The approvals given herein **BE CONDITIONAL** upon the Corporation entering into a formal contract or issuing a purchase order, or contract record relating to the subject matter of this approval.

<b>STRATEGIC PLAN 2015-2019</b>
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The following report supports the Strategic Plan through the strategic focus area of *Leading in Public Service* by being proactive in financial management services and procurement policies.

<b>BACKGROUND</b>
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**Purpose:**

The purpose of this report is to authorize cancellation of the posted Request for Quotation (RFQ 15-64) - Tandem Axle Tractor Lease and reject the bids submitted by December 22, 2015 under section 19.3(b) of the Procurement of Goods and Services Policy due to the much higher than anticipated costs.

Secondly, the report seeks to proceed to single source negotiations with our existing vendor for new leasing terms on our current trucks in accordance with section 14.4(d) and 19.3(b) of the Procurement of Goods and Services Policy as it significantly reduces the costs increase to 3.7%.

The current highway tractor truck lease expires in April 2016. There is a two month extension option of current leasing terms if required upon approval of the new leasing arrangement. Despite the fact that the value of this award does not specifically require a report as per the Procurement of Goods and Services Policy staff deemed it appropriate, in this case, to prepare a report to Committee and Council to explain the approach being taken and confirm the direction.

### **Context:**

Highway tractors are used in the wastewater treatment service area to haul sludge from satellite plants to Greenway Treatment Plant for incineration. The City owns four (4) tanker trailers which are pulled using the highway tractors. The sludge disposal operates 24/7 and these units are essential for efficient operations. A picture of both the tractor and trailer are found below.



(L) Highway Tractor (leased) pulling a (R) Tanker Trailer (owned by the City)

### **Purchasing Processes:**

Fleet Services entered into its first full maintenance lease arrangement for highway tractors in 2012 as a pilot project versus the traditional ownership model. The primary reasons for moving to a full maintenance lease model for this particular class of equipment included:

- Lower yearly operating costs for the wastewater treatment program. Leasing model does not include capital contributions needed for replacements
- Leasing allows for greater flexibility for operational changes
- Leasing vendors provide night shift service hours which maximizes in-service time for this 24/7 operation. City sludge hauling is a 7 day a week, year round operation with operating hours changing from day, evening and overnight depending on time of year
- The robust local highway tractor rental market provided the City with the opportunity to have a replacement unit when a leased unit is out of service.

After a full review of the results over the first leasing term performance (3 year period), Fleet Services initiated a Request for Quotation (RFQ 15-64) with Purchasing in December 2015 to reassess competitive pricing from potential vendors. Each vendor was requested to provide pricing for three (3) and five (5) year full maintenance lease terms in order to assess the best option for the service area.

### **Results:**

Purchasing received two bids, one from Carrier Centers - Ideal Leasing and a second bid from the City's existing vendor Ryder Truck Rentals and Leasing. The bid results were much higher than the estimated annual expenditure forecasts.

The expected annual expenditure was set at \$88,000 per year for the three tractors, (\$29,333 per unit) under a 3 year lease arrangement. This was calculated based on the previous cost experience over the first three year lease and included a 15% increase for inflationary and market adjustments. Major contributing factors are the added cost of environmental controls and the declining value of the Canadian dollar both impacting truck build costs and parts.

Ryder Truck Rentals and Leasing was the low bid for the 3 year lease that met all specifications and conditions at a price of \$34,960 +HST per truck for a total annual expenditure of \$104,880 +HST for the three tractors (i.e., 19% above adjusted expected expenditure and over 38% higher than the previous lease term).

Ryder Truck Rentals and Leasing was also the low bid for the 5 year lease that met all specifications and conditions at a price of \$32,060 +HST per truck for a total annual expenditure of \$96,180 +HST for the three tractors (i.e., 9% above adjusted expected expenditure and 27% higher than the previous lease term).

### **Analysis:**

Based on the outcome being higher than the adjusted expected budget, Fleet Services reconsidered various alternatives and options. The analysis involved consultations with the fleet maintenance section, wastewater treatment managers and purchasing. The group evaluated the various longer term leasing options and also considered re-establishing the ownership model.

Although costs are competitive in an ownership model, additional capital would be required from the service area or the Vehicle and Equipment Reserve Fund (VERF) to fund the replacements. In addition, an adjustment to fleet service standard levels would be required in order to provide overnight repair services and a spare (rented) highway tractor unit to backfill for service downtime. That service level increase is not currently budgeted for in our multiyear business plan.

Fleet Services then entered into discussions with our current provider about options involving our current leased equipment. Ryder Truck Leasing indicated they would be willing to enter into a new agreement for our existing tractors for an additional three years with modest price increases on the monthly lease rate and on the per kilometer charges.

Fleet reviewed this option with the stakeholders and determined that this solution is the most financially responsible in the short term with minimal risk based on the full maintenance lease terms and backfill unit availability provided by Ryder.

### **Financial Impact**

The annual estimated expenditure to renew the full maintenance lease on the three existing highway tractors is \$78,570 per year for an additional three (3) year term. This is a 3.7% increase from the \$75,720 per year on the previous lease for these tractors and 11% below the adjusted expected expenditure).

Additional operating savings are expected staying with existing tractors because of fewer transitional costs associated with outfitting and decommissioning vehicles. However based on the age, warranty and mileage it should be expected that maintenance and repairs will increase and that could impact operational downtime. It also is important to recognize that this may not be a long term solution for hauling sewage sludge. Further work on the options will be undertaken during the 3 year period of the proposed extended lease period.

Fleet Services will continue to monitor activity and performance along with the administrative components associated with the lease agreement, licensing/insurance, asset management and fuel supply.

## **CONCLUSION**

In conclusion, Fleet Services in conjunction with Purchasing and Supply recommend withdrawing RFQ 15-64 Tandem Axle Tractor Lease and entering into negotiations with the current lease provider to secure the existing trucks for an additional three years on a new full maintenance lease agreement.

This renewal extension is recommended as it provides a cost effective short term solution that is within budget and has controls to mitigate the risk of operating older equipment. However as noted in the body of the report this option may not provide a long term solution and demonstrates the financial exposure and control issues the City has when moving to lease agreements versus ownership models. Further work on the options will be undertaken during the 3 year extended lease period.

## Acknowledgements

This report was prepared with assistance of Frank Vanhie, Manager of Fleet Planning, Dave Fawcett, Specialist Fleet Planning and Ian Harris, Procurement Officer

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c: John Freeman, Manager of Purchasing & Supply