



**OPERATIONS COMMITTEE
MAY 15, 2008**

**SUBJECT: CONTRACT NO. OP31201022, GOODYEAR TIRE & RUBBER CO., FOR
BUS TIRE LEASING**

**ACTION: AMEND CONTRACT WITH GOODYEAR TIRE & RUBBER CO. TO ALLOW
FOR PAYMENT OF TIRE RUN-OUT CHARGES**

RECOMMENDATION

Authorize the Chief Executive Officer to execute Amendment No. 6 to Contract No. OP31201022 with Goodyear Tire & Rubber Co. to allow for payment of tire run-out charges for an extended period beyond the Board approved Amendment No. 5 to cover the remaining useful life of Goodyear tires currently installed on our buses for the amount not to exceed \$600,000 increasing the Total Contract Value from \$25,405,136 to \$26,005,136.

RATIONALE

In August 2006, the Board approved Amendment No. 5 to Contract No. OP31201022 with Goodyear Tire & Rubber Co. to allow for payment of tire run-out charges for a period of 24 months beyond the expiration date to cover the remaining useful life of Goodyear tires currently installed on our buses for the amount not to exceed \$2,300,000 increasing the Total Contract Value from \$23,105,136 to \$25,405,136.

Subsequently, staff underestimated the amount of time and budget required to complete the run-out option on the Goodyear contract. In lieu of purchasing the remaining Goodyear tires, a decision was made to further extend the time period and budget of the run-out option for the following reasons:

1. Large, one-time cash outlay of \$842,560 would be required to purchase 3,765 Goodyear tires currently mounted on Metro's fleet of approximately 2,600 buses.
2. The rate of wear and tear of the existing Goodyear tires is not accelerating as fast as staff anticipated.
3. Costs and environmental risks of tire disposal.
4. We do not take legal title or ownership of the tires during the run-out period, thereby eliminating liability for product failure or aforementioned tire disposal responsibilities.

Based on an extensive study of mileage rates conducted in May 2006, our Estimating Department has determined that it is more cost effective, efficient and presents an overall reduction in risk to contract for tire maintenance services rather than perform them in-house. The study also demonstrated that the same is true for us to lease bus tires rather than purchase them. To that end, the study concluded that our long standing practice of contracting for bus tires on a lease/service basis is a more cost effective and prudent approach to providing a quality bus tire program. Moreover, a lease agreement greatly reduces the risk of potential tire disposal-related fines and product liability issues.

Associated costs are based on actual bus (tire) mileage plus a fixed monthly service rate and a per tire sales/use tax. Included in the cost is the remediation of all spent tire casings and all elements of a tire maintenance program. The maintenance program includes tire rotation, mounting, regrooving, recapping, balancing, airing and wheel refurbishing which includes powder coating for steel wheels and polishing for aluminum wheels. The monthly service rate also includes tire maintenance and service for our non-revenue fleet; however, non-revenue tires are not procured under this contract.

IMPACTS TO OTHER CONTRACTS

This change to the overall bus tire procurement has a negligible cost impact when both contracts are taken into account because the mileage costs which would have been paid to Michelin on the new contract will instead be paid to Goodyear until the tire run-out period is completed.

As Goodyear tires become unusable, they will be replaced by new Michelin tires as required. Both contractors understand the run-out process as an industry-wide practice and have pledged to cooperate with us for a successful transition.

FINANCIAL IMPACT

The funding of \$600,000 for run-out tire leasing services is included in the FY08 budget in Cost Center 3120, Quality Assurance under Project Numbers 301008, 302008, 303008, 304008 and 305008, Bus Maintenance and line item 50421, Tires- Revenue Equipment. In FY07, approximately \$2,600,000 was expended for run-out tire leasing services.

There will be no noticeable financial impact as a result of this revision since mileage charges will simply be shifted from one contractor to the other during the tire run-out phase.

ALTERNATIVES CONSIDERED

One alternative to the current tire lease program would be to purchase the tires, rather than exercise the run-out clause. This option is not recommended because of the large cash outlay to purchase Goodyear tires currently mounted on our fleet.

ATTACHMENTS

- A Procurement Summary
- A-1 Procurement History
- A-2 List of Subcontractors

Prepared by: Mike Stange, Superintendent, Quality Assurance
Edward Velasquez, Sr. Contract Administrator

Carolyn Flowers

Carolyn Flowers
Chief Operations Officer

Roger Snoble

Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

BUS TIRE LEASING

1.	Contract Number: OP31201022		
2.	Recommended Vendor: Goodyear Tire and Rubber Co.		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$600,000 NTE	Recommended Price: \$600,000 NTE	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Fixed Unit Rate		
5.	Procurement Dates: N/A (modification to existing contract)		
	A. Issued: N/A		
	B. Advertised: N/A		
	C. Pre-proposal Conference: N/A		
	D. Proposals Due: N/A		
	E. Pre-Qualification Completed: N/A		
	F. Conflict of Interest Form Submitted to Ethics: 04/10/07		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 0%	Date Small Business Evaluation Completed: N/A	
	B. Small Business Commitment: 0%		
7.	Invitation for Bid/Request for Proposal Data: N/A (modification to existing contract)		
	Notifications Sent: N/A	Bids/Proposals Picked up: N/A	Bids/Proposals Received: N/A
8.	Evaluation Information:		
	A. Bidders/Proposers Names: Goodyear Tire and Rubber Co.	<u>Bid/Proposal Amount:</u> \$600,000	<u>Best and Final Offer Amount:</u> N/A
	B. Evaluation Methodology: Details are in Attachment A-1.C		
9.	Protest Information: N/A (modification to existing contract)		
	A. Protest Period End Date: N/A		
	B. Protest Receipt Date: N/A		
	C. Disposition of Protest Date: N/A		
10.	Contract Administrator: Edward Velasquez	Telephone Number: 213-922-7315	
11.	Project Manager: Mike Stange	Telephone Number: 213-922-5751	

BOARD REPORT ATTACHMENT A-1 PROCUREMENT HISTORY

BUS TIRE LEASING

A. Background on Contractor

Goodyear has had several multi-year service contracts for tire leasing with us over the years. It currently has tire leasing contracts with many other large public transit agencies across the country. Currently in the Tire Run-Out Phase of the Contract, the firm has performed very well for over 4 years, as well as under prior Metro contracts.

B. Procurement Background

The existing contract was awarded for a five-year period, inclusive of two option periods, under a competitive sealed bid process. The Board of Directors approved the original contract award on June 28, 2001 and the contract took effect on August 1, 2001. Both one-year renewal options have now been exercised.

In January 2006, the Board approved Contract Modification No. 3, increasing the contract value by \$2,091,673 to provide services through July 31, 2006. A no cost Modification No. 4 was issued to extend the services through August 31, 2006.

In August 2006 the Board Approved Modification No. 5, which extended the Goodyear Contract period of performance from September 1, 2006 through August 1, 2009, and increased the funding by \$2,300,000 for a total contract value of \$25,405,136.

This request for \$600,000 in additional funds to support the Goodyear Tire Run-Out phase of the contract will bring the total amount of the contract to \$26,005,136.

C. Evaluation of Proposals

A written proposal from Goodyear was not required for this modification since the action is unilateral and only involves an increase in contract funding based on current unit rates.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon the current rate of Goodyear tire run-out (consumption). The existing unit rates shall remain in effect. There are no price variances to be considered for this funding modification.

The total contract price adjustment since inception of the contract is \$4,391,763. If approved, this modification will bring the total contract funding increase to \$4,991,763, or \$184,880 per month over the past 27 months.

**BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS**

BUS TIRE LEASING

PRIME CONTRACTOR

Goodyear Tire & Rubber Company

Small Business Commitment

None

Total Commitment 0%

Other Subcontractors

None

