



**OPERATIONS COMMITTEE
AUGUST 17, 2006**

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

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

RECOMMENDATION

Authorize the Chief Executive Officer to execute Modification No. 5 to Contract No. OP31201022 with Goodyear Tire & Rubber Co. for tire run-out charges for an amount not to exceed \$2,300,000 through July 31, 2008, increasing the Total Contract Value from \$23,105,136 to \$25,405,136.

RATIONALE

In July 2006, the Board approved a contract award, Contract No. OP31201845, to Michelin North America, Inc. of Greenville, SC, for bus tire leasing and maintenance services in an amount not to exceed \$25,229,803, including \$500,000 in estimated sales/use taxes, for a four-year period, inclusive of a one-year option, effective September 1, 2006.

Subsequently, staff made a decision to exercise the run-out option on the current Goodyear contract in lieu of purchasing them outright for the following reasons:

1. Avoid large, one-time cash outlay of \$3,700,000 to purchase 16,520 Goodyear tires currently mounted on approximately 2,600 Metro buses.
2. Avoid costs and environmental risks of tire disposal by Metro.
3. Avoid taking legal title or ownership of the tires during the run-out period, thereby eliminating Metro's liability for product failure or aforementioned tire disposal responsibilities.

Exercising the run-out option is a common practice in the transit industry. Given that Metro has contracted with Goodyear for the last twenty years, the agency has not needed to exercise this option. Once the contract with Michelin expires and Metro reprocures for a tire lease program, a similar run-out option may be exercised if the agency selects another vendor.

Based on an extensive study of mileage rates conducted in May 2006, Metro Estimating Department has determined that it is more cost effective, efficient and presents an overall reduction in risk for Metro to contract for tire maintenance services rather than perform

them in-house. The study also demonstrated that the same is true for Metro to lease bus tires rather than purchase them. To that end, the study concluded that Metro's 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 to Metro 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 Metro's 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 no 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. During the run-out period, payments to Goodyear will initially be higher than to Michelin. As the run-out period progresses, there will be an inverse payment relationship.

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 Metro for a successful transition.

FINANCIAL IMPACT

Funding in the amount of \$5,686,239 for this service is included in the FY07 budget in Cost Center 3120, under Project Number 301008, 302008, 303008, 304008 and 305008, Line Item Number 50421. During FY06, approximately \$5,200,000 was expended for tire leasing services.

This action will result in an overall slight reduction in cost because the current mileage rate for the Goodyear tire contract is less than the bid mileage rate for Michelin. Mileage rate charges will simply be shifted from one contractor to the other during the tire run-out phase.

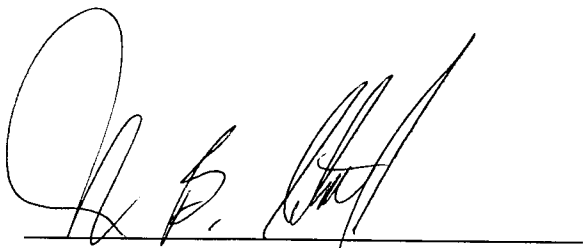
ALTERNATIVES CONSIDERED

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.

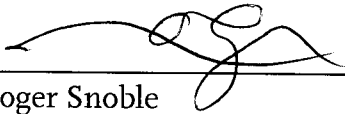
ATTACHMENTS

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

Prepared by: Mike Stange, Superintendent, Quality Assurance
Robert Vasquez, Sr. Contract Administrator



John B. Catoe, Jr.
Deputy Chief Executive Officer



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

TIRE SERVICE CONTRACT

1.	Contract Number: OP31201022		
2.	Recommended Vendor: Goodyear Tire and Rubber Co.		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: Fixed-Unit Rates	Recommended Price: \$2,300,000 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: 08/11/06		
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> \$2,300,000	<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: Robert Vasquez	Telephone Number: 213-922-1044	
11.	Project Manager: Mike Stange	Telephone Number: 213-922-5751	

**BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY**

TIRE SERVICE CONTRACT

A. Background on Contractor

The Goodyear Tire and Rubber Company (Goodyear), headquartered in Akron, Ohio, has been in the tire and rubber business since 1898, and is the world's largest tire company. It has more than 80,000 employees and manufacturers and markets tires and other engineered rubber products for the transportation industry, as well as rubber-related chemicals for various applications. Goodyear has had several multi-year service contracts for tire leasing with Metro over the years. It currently has tire leasing contracts with many other large public transit agencies across the country. The firm has performed very well for over 4 years under the current contract, as well as under prior Metro contracts.

B. Procurement Background

The existing contract was awarded for a 5-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 number 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.

C. Evaluation of Proposals

A written proposal from Goodyear was not required for this modification since the action only involves the increase of 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 current contract pricing. Since the existing unit rates shall remain in effect, there are no price variances to be considered for this funding modification.

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

TIRE SERVICE CONTRACT

PRIME CONTRACTOR

Goodyear Tire & Rubber Company

Small Business Commitment

None

Total Commitment 0%

Other Subcontractors

None

