

SUBJECT

Tire Lease Contract (Staff Representative: Tony Cohen)

RECOMMENDED ACTION

To authorize the President and CEO to exercise the second one-year option for the leasing and servicing of tires with Michelin North America, Inc., for a total authorization amount not to exceed \$647,481.

BACKGROUND

On June 24, 2013, Long Beach Transit's (LBT) Board of Directors authorized the President and CEO to enter into a five-year contract with Michelin North America, Inc., (Michelin) for the leasing and servicing of tires on LBT's bus fleet with three one-year options. The Board authorized the President and CEO to exercise the first of three one-year options on October 22, 2018.

LBT contracts with a third-party supplier for the leasing and servicing of tires for its bus fleet. The supplier provides three service technicians at LBT1 and LBT2 that inspect, maintain, provide and replace the tires.

It is LBT's policy to review contracts prior to the end of their term and determine whether or not to continue service. Approaching the conclusion of the initial five-year contract, LBT deemed that Michelin's performance was satisfactory. Hence, negotiations ensued to arrive at a fair and reasonable price for the option year, as the original contract was negotiated in 2013.

LBT's service area has expanded over the course of the contract's term (e.g., service to the City of Carson; City of Paramount; California State University, Dominguez Hills; Dignity Health Sports Park; Route 22 Extension to the Metro Green Line Lakewood Station in Downey; and the University of California, Los Angeles), which has resulted in more service miles, thus more wear and tear on the buses' tires.

A new rate was negotiated with Michelin in 2018 that yielded LBT a cost avoidance, as the base tire rate has a cost reduction of 23 percent.

There are two one-year options available for LBT to exercise. Staff recommends exercising the second one-year option.

PROCUREMENT

LBT's Purchasing department conducted an industry analysis to verify that the original price quoted for option year two was within industry prevailing rates. A new rate structure was negotiated with Michelin in 2018 resulting in a cost reduction of approximately \$125,000 for option year 1.

Option year 2 had a cost rate increase of six percent overall from option year 1. The cost was deemed fair and reasonable as compared to other transit agencies' rates of 10 percent higher than the LBT rates. Staff was able to net a base tire rate reduction of 23 percent from the original rate negotiated in 2013, for a projected not to exceed cost of \$647,481.

DBE/SBE PARTICIPATION

A Disadvantaged Business Enterprise (DBE) goal was not identified at the time of the original contract. Through negotiations, LBT requested Michelin to include DBE subcontractors for option year one. Michelin agreed and will use Big Apple Tire, a DBE-certified subcontractor, for tire disposal for option year two.

ALTERNATIVES CONSIDERED

LBT considered issuing an RFP for the purchase of new replacement tires and the provision of tire maintenance services; however, LBT would have to pay the prorated remaining value of the currently installed tires incurring unanticipated and unbudgeted operating expenditures, which does not align with LBT's Strategic Priority of "Exercising Financial Accountability."

BUDGETARY/FISCAL IMPACT

Staff is requesting LBT's Board of Directors to authorize the President and CEO to exercise the second one-year option for the leasing and servicing of tires with Michelin North America, Inc., for a total authorization amount not to exceed \$647,481.

Funds for this contract were included in the previously approved Fiscal Year 2020 Operating Budget.



Kenneth A. McDonald
President and Chief Executive Officer