



## CITY OF VANCOUVER

### ADMINISTRATIVE REPORT

Report Date: June 27, 2005  
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Meeting Date: July 19, 2005

TO: Vancouver City Council

FROM: General Manager, Engineering Services  
Manager, Materials Management

SUBJECT: Continuation of Light Duty Brand Standardization Agreements

#### RECOMMENDATION

- A. *THAT Council authorize the extension of the current light duty vehicle purchasing agreement with Ford Motor Company of Canada Ltd for a two (2) year period for the supply of light duty vehicles, and that Council authorize the extension of the current agreement with Coastal Ford Sales Ltd for a two (2) year period for the supply and delivery of Ford light duty vehicles and related services, until June 30, 2007, subject to such agreements being satisfactory to the Director of Legal Services.*
- B. *THAT the Director of Legal Services be authorized to execute and deliver on behalf of the City all legal documents required to implement Recommendation A.*
- C. *THAT all such legal documents be on terms and conditions satisfactory to the General Manager of Engineering Services, Manager of Materials Management and the Director of Legal Services.*
- D. *THAT no legal rights or obligations will be created by Council's adoption of Recommendation A, B and C above unless and until such legal documents are executed and delivered by the Director of Legal Services.*

## **COUNCIL POLICY**

The policy of Council is to award contracts for the purchase of equipment, supplies and services that will give the highest value based on quality, service and price.

Contracts with a value over \$300,000 are referred to Council.

## **PURPOSE**

The purpose of this report is to obtain Council approval for extending the current light duty vehicle agreements with Ford Motor Company of Canada Ltd. and with Coastal Ford Sales Ltd. for a further two (2) year period.

## **BACKGROUND**

Previous to the year 2000, the City would issue individual tenders for light duty vehicles (cars, pickup trucks, and vans). This process was inefficient and considerable time and effort was required for each purchase. In order to improve product pricing and operational efficiencies via reduced administrative and fleet maintenance costs, an effort was made to standardize the City's light duty fleet on a single manufacturer.

On July 29, 1999, a Request for Proposal (RFP) was sent to vehicle manufacturers for the supply of vehicles for up to a five year period (three years plus a two year option at the City's discretion). An agreement with the Ford Motor Company of Canada Ltd. (Ford) was approved by Council on March 7, 2000. An agreement with Coastal Ford Sales Ltd. was also approved by Council for the supply and delivery of Ford light duty vehicles and related services for the contract term. These agreements were then subsequently extended by Council on October 22, 2002 for the two (2) year option terms to June 30, 2005. These two agreements are commonly referred to as the "Ford Contract". There are currently provisions in the Ford Contract that allow the City to pursue purchasing vehicle alternatives and technologies that are not provided by Ford, such as micro-compact diesels like the Mercedes smart fortwo.

The City also negotiated a supplemental working agreement for an In-House Warranty Repair Program that allows City technicians to perform warranty related repairs and service on the City's light duty Ford vehicles. This program has given the City an opportunity to create revenues from warrantable repairs, and reduce costs related to downtime and the transportation of vehicles requiring warranty repairs.

The City currently has over 4000 active City owned units in its fleet. Approximately 957 units, or 24 % of the fleet, fall under the terms of the current sole source agreement with Ford. 125 of the units, or approximately 3% of the overall City fleet, are scheduled for replacement in 2006 and 2007.

## DISCUSSION

For the last five years the City has had an exclusive light duty vehicle purchasing agreement with Ford. The Ford Contract has provided the City with many benefits, including competitive pricing due to volume purchasing, increased fleet standardization resulting in improved maintenance practices, improved training of maintenance staff, and a significantly faster vehicle procurement process. However, the current Ford agreement is not matched to the standard City vehicle lifecycle. The term of the Ford Contract is five years, whereas the typical expected lifecycle of a light duty unit in the City fleet is seven to eight years. This difference in time leaves a two to three year gap between the expiration of this contract and the next major purchasing cycle for the City's fleet.

On average the City procures approximately 100 light duty vehicles per year plus an additional 75 light duty police vehicles; however there are periods when the annual procurement level is below this average due to the timing of fleet replacements. The City only has approximately 50 light duty vehicles plus an additional 75 light duty police vehicles scheduled for replacement for the 2006 and 2007 model years. Also, up to half of the City's 50 light duty purchases over this period will likely be for vehicles not currently covered under the existing contract with Ford; some of these vehicles are typically only available from single-source suppliers (e.g. smart fortwo). We are therefore not likely to obtain beneficial contract terms if we were to tender for a new light-duty vehicle supplier at this time. The anticipated purchases from Ford during this time represent approximately 2% of the City's current fleet count.

In 2008 the stricter Tier 2 light duty vehicle emission standards will be fully implemented in North America. Also, the stricter Tier 2 heavy duty vehicle emission standards will begin to be implemented in 2007 and will apply to many of the trucks and vans in the light duty fleet. 2008 is also the anticipated initial implementation date for carbon dioxide vehicle emission reduction agreements and regulations in Canada and California. It is anticipated that the 2008 model year will result in most manufacturers bringing many new vehicles to the market with significantly improved environmental performance and improved fuel efficiency. The City will be entering a significant procurement cycle between 2008 and 2010 for light duty vehicles (approximately 300 City vehicles and 100 police units). This increased purchasing power in 2008 should put the City in a more favourable position to obtain a better deal regarding pricing, vehicle selection, training and warranty support, and environmental benefits over a long-term agreement. The 2008 model year would therefore be the best time for the City to go back to the market to standardize on a vehicle manufacturer for the next light duty vehicle procurement cycle of approximately seven to eight years.

Extending the current agreement with Ford will allow the City to maintain the current light duty vehicles standardization until the next significant replacement cycle. Continuing to purchase the same standard vehicles for the next two (2) years will help to maintain continuity in the City's fleet and will reduce maintenance costs. Additional maintenance and operator training on new vehicles would also be avoided and the City's current investment in spare parts would be optimized due to the reduced need to further extend parts inventories for different vehicle manufacturers.

## ALTERNATIVES/OPTIONS

The City could issue a new RFP for light duty vehicles, but there is currently only one other major manufacturer other than Ford who is capable of meeting the broad requirements of the City's light duty fleet at this time. Between the low volume of purchases over the next two (2) to three (3) years and the anticipated vehicle changes that will result from the full implementation of Tier 2 emission standards in 2008, we do not feel that the City will obtain a benefit from pursuing proposals for a new long-term supply agreement from other vehicle manufacturers at this time.

Presently most manufacturers capable of supplying the broad fleet requirements of the City are, for the most part, offering similar competitive products. All manufacturers are developing new technologies aimed at improving fuel economy and environmental performance of available vehicles, but no manufacturer currently has implemented broad improvements over their entire product line. We feel that the market will be able to provide more options to the City in the 2008 model year once new fuel efficiency and emission standards are fully implemented.

As previously mentioned there are provisions in the Ford Contract that allow the City to pursue purchasing vehicle alternatives and technologies not offered by Ford. These provisions would be included in the extended agreement, and therefore would allow the City to continue to obtain beneficial vehicles, like the smart fortwo, through normal purchasing procedures. It is estimated that approximately 20% of the 2006 and 2007 purchases may fall under this exemption.

## FINANCIAL IMPLICATIONS

Continuing with the current agreement with Ford will allow the City to continue to obtain competitive vehicle pricing. Ford has extended existing pricing concessions and offered additional concessions that will further reduce costs of light duty vehicles. This agreement extension will allow also the City to further leverage our investment in staff training, parts inventories, and the In-House Warranty Program. There is a possibility that other vehicle manufacturers would not continue with the In-House Warranty Program in the future due to the relatively low procurement levels in the first few years of the next agreement. The warranty repair function was historically performed by local dealerships. A loss in revenue and profit due to reduced procurement will likely create a need for the local dealerships to offset their revenue sources by reclaiming services such as warranty repairs. The loss of this Program to the City will result in a loss of work and revenue for the City of approximately \$20,000 per year.

Currently Equipment Services also has 24 technicians and service staff who mainly deal with light-duty vehicles, plus approximately another 152 service and trades staff who also deal with our common fleet vehicles. If we were to change suppliers for our common light duty fleet vehicles, the City would be required to provide staff with additional service training, and the City would likely have to invest in additional diagnostic systems and tools that are specific to a different manufacturer. Many of our current design standards would also have to be changed to accommodate differences between suppliers for common fleet vehicles. The investment in training and tools would cost approximately \$36,000.

## ENVIRONMENTAL IMPLICATIONS

Delaying the issuing of a new long-term vehicle procurement contract until the 2008 model year will also allow the City to be in a more favourable position to access significant environmental improvements for a full generation of vehicle purchases. Manufacturers will need to review their current vehicle lines in order to meet the stricter emission requirements being implemented in 2007 and 2008. There is the possibility that if the City selected a new long-term supplier now, we could be prevented from accessing the most environmentally responsible vehicle technology that will be available in 2008.

## CONCLUSION

We therefore recommend extending the current light duty vehicle purchasing agreement with Ford Motor Company of Canada Ltd for a two (2) year period for the supply of light duty vehicles and we recommend extending the current agreement with Coastal Ford Sales Ltd for a two (2) year period for the supply and delivery of Ford light duty vehicles and related services, until June 30, 2007.

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