Regional Transit

STAFF REPORT

DATE: March 14, 2022

TO: Sacramento Regional Transit Board of Directors

FROM: Carmen Alba, VP, Bus Operations

SUBJ: APPROVING THE SECOND AMENDMENT TO THE 2017 CONTRACT FOR REVENUE TIRE LEASE AND SERVICES AND APPROVING A CONTRACT FOR REVENUE VEHICLE TIRE LEASE AND SERVICES WITH BRIDGESTONE AMERICAS TIRE OPERATIONS, LLC

RECOMMENDATION

Adopt the Attached Resolutions

RESULT OF RECOMMENDED ACTION

Will (1) approve the Second Amendment to the 2017 Contract for Revenue Vehicle Tire Lease and Services with Bridgestone Americas Tire Operations, LLC to elect the "run-out option" and increase the Total Consideration accordingly; and (2) approve a new five-year contract for revenue vehicle tire lease and services with Bridgestone Americas Tire Operations, LLC for an amount not to exceed $2,940,090.35.

FISCAL IMPACT

Run-out of Tires Under Existing Contract

Because of the substantial upfront investment by the contractor in the tires and the lack of resale value for the tires once installed, the tire lease contract provisions are somewhat different than a typical lease agreement, where the leased property is simply delivered back to the lessor at the end of the lease term, with no further obligation.

The expiring tire lease contract provides SacRT two options: (1) purchase all of the installed tires at a depreciated cost based on the current mileage versus expected lifespan ("buy out"); or (2) "run out" the tires over a maximum term of 36 months until all of the leased tires are replaced, during which time SacRT must continue to pay a lease mileage rate for the tires. The "run out" tires are serviced by the new contractor. In this case, Bridgestone will be both the old and new contractor but the lease payments will be made under the old contract while the service payments are made under the new contract.

Practically speaking, both options require paying the remaining value of the tires. The "buy out" option requires that cost to be paid out upfront as a lump-sum based on the estimated life of the tire while the "run out" option allows SacRT to pay those costs over an extended period based on the actual lifespan of the tires, which allows SacRT to avoid paying for tires that prematurely fail. Consequently, the run-out option has consistently been selected by SacRT.

As the leased tires are replaced, the replacement tire is then subject to the new contract and contract rates.

The run-out costs are not in addition to the contract bid pricing; they are offset by the fact that mileage rates are not charged under the successor contract until tires are replaced. Yearly costs are shown as 100% of the first year for installed tires; Year 2 would be approximately 33% less; Year 3 would be 66% less; with all tires being replaced by Year 4.

Current Contract

Tire Purchase	Number of Vehicles	Qty of Tires	Year 1 Cost per mile	Year 1 Run-out	Year 2 Cost per mile	Year 2 Run-out	Year 3 Cost per mile	Year 3 Run-out
Group A	105	630	0.006975	$198,047.59	0.006975	$130,711.41	0.006975	$65,355.71
Group B	141	846	0.006148	$117,655.57	0.006148	$77,652.67	0.006148	$38,826.34
Group C	130	780	0.003306	$34,423.95	0.003306	$22,719.81	0.003306	$11,359.90
Group D	32	192	0.006377	$16,141.63	0.006377	$10,653.47	0.006377	$5,326.74
Group E	5	0	N/A		N/A		N/A	
Group F	23	0	N/A		N/A		N/A	
Group G	9	0	N/A		N/A		N/A	
Total	445	2448		$366,268.74		$241,737.37		$120,868.68

Run-out costs are based on estimated annual mileage at the 2017 contract mileage rates. To accommodate the payment of the “run out” costs, $720,000 will be added to the Total Consideration for the current contract.

Group E, F, and G are tires that were purchased with the vehicles and are not subject to mileage lease rates.

Description	Amount
FY22	$152,561.30
FY23	$556,666.53
FY24	$573,109.94
FY25	$589,823.46
FY26	$610,245.21
FY27	$457,683.91
Total	**$2,940,090.35**

These amounts were bid based on SacRT’s full annual mileage for all tires. However, as described above, these full amounts are not anticipated to be incurred during the first three years during the time where there is a mix of old and new tires.

Run-out versus Purchase for New Contract: The same run out vs. buy out option described above will be available at the end of the term (5, 6, or 7 years, depending if option years are exercised) of the new contract. By approving the Contract, the Board is agreeing to pay either the “buy out” or “run-out” costs at the end of the Contract. Because it is unknown (1) what the average lifespan of the tires will be; and (2) where the installed tires will be in their lifespan at the end of the Contract term, the costs are difficult to predict upfront. However, Staff anticipates that it will continue to be advantageous to use the “run-out” option under the new contract to spread out the costs and to avoid paying for tires that could prematurely fail.

New Contract Run-out Cost:

This table shows approximate “run-out” mileage charges for the installed tires at the beginning of a new contract (in 2027, 2028, or 2029 depending on whether option years are exercised under the new contract). These costs are not in addition to the contract bid pricing; they will be offset by the new vendor not charging mileage fees until tires are replaced. Yearly costs are shown as 100% of the first year for installed tires, Year 2 would be approximately 33% less, Year 3 would be 66% less, with all tires to be replaced by Year 4.

2022 Contract

Tire Purchase	Number of Vehicles	Qty of Tires	Year 1 Cost per mile	Year 1 Run-out	Year 2 Cost per mile	Year 2 Run-out	Year 3 Cost per mile	Year 3 Run-out
Group A	105	630	0.004875	$138,420.36	0.004875	$91,357.44	0.004875	$45,678.72
Group B	141	846	0.004742	$90,748.65	0.004742	$59,894.11	0.004742	$29,947.05
Group C	130	780	0.002817	$29,332.20	0.002817	$19,359.25	0.002817	$9,679.63
Group D	32	192	0.005971	$15,113.95	0.005971	$9,975.21	0.005971	$4,987.60
Group E	5	30	0.005928	$4,473.49	0.005928	$2,952.51	0.005928	$1,476.25
Group F	23	138	0.006478	$19,327.19	0.006478	$12,755.95	0.006478	$6,377.97
Group G	9	54	0.006150	$2,817.94	0.006150	$1,859.84	0.006150	$929.92
Total	445	2670		$300,233.79		$198,154.30		$99,077.15

DISCUSSION

Since at least 1990, SacRT has contracted to lease tires for its revenue vehicles. SacRT currently has a tire lease and services contract with Bridgestone Americas Tire Operations, LLC that will expire on March 31, 2022. There are two components to the Contract: (1) lease of tires at a fixed cost per mile, which obligates the contractor to furnish tires as needed for SacRT’s revenue service vehicles; and (2) a service component, where Contractor provides dedicated service personnel at SacRT’s Bus Maintenance Facility to provide tire service (mounting, rotating, balancing, inflation, replacing). Because of the long-standing lease and service practices, SacRT does not have staff that perform these services.

Staff released an Invitation for Bid (IFB) document on January 3, 2022, via PlanetBids e-Procurement system. Sealed bids were due on February 7, 2022. Prior to issuing the IFB, Staff performed a lease vs. purchase analysis and determined that it is most cost-effective to continue a leasing arrangement. The IFB provides for a 5-year term, with two option years that may be exercised by SacRT. After expiration of the term, SacRT must elect to either run out or buy out the tires as described above. Prior to Contract expiration, the Board will be asked to approve an amendment to elect one of the two options (likely the “run out option”) and approve a Contract amendment based on the expected run out cost at that time.

Per the IFB, unless all Bids are rejected, the Contract will be awarded to the responsible Bidder submitting the lowest responsive Bid. The lowest Bid will be determined by the Total Bid Price stated on the Bid Pricing Form that is included in the IFB.

Bids were received from two vendors, Bridgestone Americas Tire Operations, LLC and The Goodyear Tire & Rubber Company. Upon review of the bids and after correction of a minor mathematical error by Bridgestone, it was determined that Bridgestone Americas Tire Operations, LLC submitted the lowest responsive bid.

RESOLUTION NO. 2022-03-024

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

March 14, 2022

APPROVING THE SECOND AMENDMENT TO THE 2017 CONTRACT FOR REVENUE TIRE LEASE AND SERVICES WITH BRIDGESTONE AMERICAS TIRE OPERATIONS LLC

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Second Amendment to the Contract for Revenue Vehicle Tire Lease and Services made and entered into on March 28, 2017 by and between the Sacramento Regional Transit District (therein “RT”) and Bridgestone Americas Tire Operations, LLC (therein “Contractor”), whereby SacRT elects to exercise the run out option and the Total Consideration is increased by $720,000, from $2,468,498.57 to $3,188,498.57 to compensate Contractor during the run out period, is hereby approved.

THAT, the Board Chair and General Manager/CEO are hereby authorized and directed to execute the foregoing Second Amendment.

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STEVE MILLER, Chair

A T T E S T:

HENRY LI, Secretary

By:____
Tabetha Smith, Assistant Secretary

RESOLUTION NO. 2022-03-025

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

March 14, 2022

APPROVING A CONTRACT FOR REVENUE VEHICLE TIRE LEASE AND SERVICES WITH BRIDGESTONE AMERICAS TIRE OPERATIONS, LLC

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Contract for Revenue Vehicle Tire Lease and Services by and between the Sacramento Regional Transit District (therein “SacRT”) and Bridgestone Americas Tire Operations, LLC (therein “Contractor”), whereby Contractor agrees to lease tires to SacRT and provide related services, as further set forth therein, for an amount not to exceed $2,940,090.35 plus any amount required as a result of election of either the run out or purchase option at the end of the Contract term, is hereby approved, with the Total Consideration to be adjusted by amendment at the time of Contract expiration to reflect the cost of the selected option.

THAT, the Board Chair and General Manager/CEO are hereby authorized and directed to execute the foregoing Contract.

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STEVE MILLER, Chair

A T T E S T:

HENRY LI, Secretary

By:____________________________________
Tabetha Smith, Assistant Secretary