



July 14, 2016

**The Honorable Members of the Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place, Room 244
San Francisco, CA 94102**

***Subject: Request for Authority to enter into contract amendment no. 3 with
Alstom Transportation Inc. for Vendor Managed Inventory Services***

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency requests that the San Francisco Board of Supervisors authorize the SFMTA to enter into a Contract Amendment No. 3 to Contract No. SFMTA 2011/12-06 with Alstom Transportation, Inc., for Vendor Managed Inventory (VMI) Services to extend the Contract for an additional two years through August 31, 2020, for an additional amount of \$41,540,000 and a total contract not to exceed \$80,698,000.

Background

The SFMTA has struggled with parts availability for our aging Light Rail Vehicle (LRV) fleet for an extended period of time. In 2011, the agency had a significant backlog of outstanding requests to order parts. Delays in receipt of parts had a negative impact on service delivery.

In 2012, the SFMTA initiated a comprehensive approach to improving parts availability for our Transit Maintenance Division. The comprehensive approach included hiring additional Contracts & Procurement staff, updating purchasing guidelines consistent with local law to allow for more efficient purchasing, and implementation of a VMI for LRV parts by streamlining the purchasing process for critical parts, providing a mechanism for addressing difficult to obtain parts through reverse engineering and alternate sourcing, and improving purchasing planning so that the agency could purchase the right part at the right time, improve parts availability, and reduce existing agency inventory.

In response to this approach, the SFMTA issued a Request for Proposals (RFP) on June 6, 2012, for VMI Services for a term of five years, and entered into a contract with Alstom Transportation, Inc., under SFMTA Board Resolution Number 13-186 for a not to exceed amount of \$39,158,000.

The contract was limited in that it covered only 16 percent of LRV parts for an initial two year period with three one-year extensions. The SFMTA ensured cost savings in the contract by negotiating a fixed price for two years for each part identified in the contract. The Contractor's services, overhead and profit were built into the annual administrative fee of \$1.6 million.

The services provided under the contract included the following:

- Continuous analysis of existing inventory levels and prediction of parts consumption for the Rail Division;

- Provision of an automated inventory management system and interface with current SFMTA systems;
- Management and maintenance of a two-month supply of critical parts locally;
- Delivery of critical parts within 24-hours or face \$1,000/day liquidated damages;
- Reduction in parts costs over prior fiscal years;
- Provision of product warranties meeting or exceeding current warranty processes;
- Provision of engineering support and alternatives for difficult to source parts.

The original contract included a liquidated damages provision where if the contractor failed to deliver any part listed on the critical parts list within 24 hours, they would be subject to paying the Agency \$1,000 per day for every day of delay. Imposing liquidated damages has been difficult due to determining which party, the Contractor or the SFMTA, contributed to the delay for not receiving parts within 24 hours. On several occasions, when staff reviewed a delay, it was determined that the SFMTA contributed to the delay by either not making timely requests for parts or having unplanned, irregular usage.

The First Amendment to the contract was executed by the Director of Transportation to extend the contract term to August 31, 2015. After the initial two year period, the pilot was reviewed by a third party consultant, who concluded that the VMI pilot was effective in improving parts availability for the Rail Division. The consultant identified several recommendations for improvement, including 1) that the level of compensation paid to Alstom was too low given the amount of effort required under the contract; and 2) that an incentive approach might be more effective to ensure accountability given the difficulties in imposing liquidated damages and the likelihood that the provision resulted in higher contract costs because the vendor would include the risk of the provision in negotiating costs.

Based on the third-party consultant review and internal staff review, staff initiated negotiations with Alstom to extend the contract for a third year, resulting in the Second Amendment to the contract, which extended the term for an additional one year period, renegotiated the fixed costs for parts identified under the contract, and increased the fixed management fee to \$2.3 million dollars.

The Third Amendment authorizes the Director of Transportation to extend this contract by two additional years until August 31, 2020, for an additional amount of \$41,540,000 and a total contract not to exceed \$80,698,000. The additional cost is due to increasing the term by two additional years and increase in parts purchased due to increased maintenance activities.

As suggested by the review performed by the third party consultant after the second year of the contract, staff also negotiated the removal of the liquidated damages provision in favor of an incentive approach, which pays the vendor incrementally (\$1,000 monthly for every 0.25 percent increase) for improving VMI parts availability.

SFMTA staff seeks to extend the VMI contract because the Agency believes that this contract has been effective in streamlining parts acquisition, improving purchasing planning, and providing a mechanism for reverse engineering and alternate sourcing of difficult to obtain parts. Overall, there

have been quantifiable improvements in parts availability measured by a decline in the number of outstanding purchase requests, a decline in out of stock rates and an increase in parts consumption. There have also been corresponding service improvements.

Outstanding purchase requests have declined from a high of more than 5,000 to well below 1,000. Parts availability has improved as measured by a review of the agency's out-of-stock rate, which is presently at 3.54 percent which is below the industry standard of 5 percent. Rail parts consumption has doubled.

One of the most important services under the contract was the ability to request reverse engineering of obsolete parts. A total of 26 LRV parts have been reverse engineered to date. Of these 26 parts, 23 are less expensive than what the Agency previously paid for them. In addition to the reverse engineering of parts, the Contractor also assisted in the identification of alternative sources for 175 needed parts.

During the term of the VMI contract, Transit Operations has reported significant improvements in vehicle availability and reliability including:

- Daily average car availability pre-VMI was 110; post-VMI is 122 representing a 20 percent improvement rate
- The Mean Distance between Failures (MDBF) has increased from an average of 2,964 miles pre-VMI to 5,150 post-VMI.
- As a result of greater availability and reliability, the rail fleet is operating 42 percent more miles post-VMI, which is part of the reason for expanded consumption rates.

SFMTA staff has concluded that extending this contract by an additional two years and increasing the not to exceed total contract amount to \$80,698,000 is key to improving LRV vehicle availability and reliability. Prior to the expiration of this contract, SFMTA staff will evaluate the need for continuing this service, and, if the agency determines that the service remains necessary, a new RFP will be issued.

The Contract Compliance Office established a 17 percent LBE participation goal for this contract.

SFMTA Board Action

The SFMTA Board of Directors is scheduled to approve this item at its July 19, 2016 meeting, which will authorize the Director of Transportation, subject to Board of Supervisors' approval, to execute Amendment No. 3 to Contract No. SFMTA 2011/12-06 with Alstom Transportation, Inc., for VMI Services to extend the Contract for an additional two years through August 31, 2020, for an additional amount of \$41,540,000 and a total contract not to exceed \$80,698,000.

Alternatives Considered

Staff considered reverting back to purchasing all LRV parts with in-house staff instead of extending this contract. Due to the lack of in-house expertise in reverse engineering and rail parts sourcing, it was determined that this was not the preferred option.

Additionally, staff considered issuing a new RFP for these services. As part of this consideration, SFMTA staff conducted a survey of other transit agencies and service providers and concluded that the current marketplace of new suppliers for Breda LRV parts was limited and issuing a RFP would not result in any other providers submitting a proposal. As a result, notwithstanding the fact that the RFP for this procurement indicated that the contract term would not exceed five year, SFMTA staff is now recommending that the contract term be extended by two-years for a total contract term of seven years. As noted above, prior to the expiration of this contract, SFMTA staff will evaluate the need for continuing this service, and, if the agency determines that the service remains necessary, a new RFP will be issued.

Funding Impact

Funds for this contract will be available from the materials and supplies FY 2017 and FY 2018 Operating budget for the SFMTA's Rail Maintenance Section in the Transit Division.

Project Budget

The actual cost for the first three years and estimated budget for the last four years of the Agreement is shown in the following table:

Expenditure	Material Cost	Service Cost
First two years of the contract	\$11,100,003	\$5,197,997
Third Year of the contact	\$10,700,000	\$2,820,000
Fourth and fifth years of the contract	\$19,000,000	\$6,380,000
Sixth and seventh years of the contract	\$19,000,000	\$6,500,000
Total Costs for seven years:	\$59,800,003	\$20,897,997
Total contract amount	\$80,698,000	

Recommendation

The SFMTA requests and recommends that the San Francisco Board of Supervisors authorize the SFMTA, through the Director of Transportation, to execute Amendment No. 3 to Contract No. SFMTA 2011/12-06 with Alstom Transportation, Inc., for Vendor Managed Inventory Services to extend the Contract for an additional two years through August 31, 2020, for an additional amount of \$41,540,000 and a total contract not to exceed \$80,698,000.

Thank you for your consideration of this proposed agreement. Should you have any questions or require more information, please do not hesitate to contact me at any time.

Sincerely,



Edward D. Reiskin
Director of Transportation