

Staff Summary Report

Council Meeting Date: 03/26/2009

Agenda Item Number: _____

SUBJECT: Request to award a 51-month contract with renewal options of up to four years to Veolia Transportation for fixed route bus and neighborhood circulator services.

DOCUMENT NAME: 20090326fslg10 **PURCHASES (1004-01)**

SUPPORTING DOCS: Yes

COMMENTS: (RFP #09-001) Total cost of this 51-month contract for the City of Tempe is \$69,261,061 with an additional \$82,370,449 in contract costs being paid by other sources described in more detail under the Fiscal Note section shown below, bringing the total cost of this 51-month contract to \$151,631,509. Price adjustments may be permitted in fiscal years 2012 and 2013.

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Greg Jordan, Transit Administrator, 480-858-2094

REVIEWED BY: Michael Greene, CPM, Central Services Administrator, 480-350-8516
Carlos de Leon, Deputy Public Works Manager, 480-350-8527
Glenn Kephart, Public Works Manager, 480-350-8205

LEGAL REVIEW BY: Teresa Voss, Assistant City Attorney, 480-350-8814

FISCAL NOTE: The contract award amount of \$151.6 million for the 51-month period comprises \$146.4 million in base contract costs and up to a maximum \$5.2 million in performance incentives. The contract award amount will be offset by \$23.6 million from fare revenue, \$43.2 million from Valley Metro/RPTA on behalf of partner cities, \$12.5 million from regional Proposition 400 funding for bus service in Tempe, and \$2.9 million from Arizona State University. The net cost to Tempe of \$69.3 million will be funded by local transit sales tax. Sufficient funds to cover 80 percent of the total cost have been budgeted in cost center 3914 for fiscal years 2009 and 2010. Transportation's long range financial plan has been updated to reflect Veolia's contract costs and staff will submit operating budgets for fiscal years 2011-2013 as necessary.

RECOMMENDATION: Award the contract.

ADDITIONAL INFO: Following the development and release of a comprehensive Request for Proposals (RFP), an eight (8) member evaluation committee assessed the service and cost proposals of two (2) qualified transit contractors. The committee evaluated the firms based on fourteen (14) criteria including price and awarded the most points to Veolia Transportation (814/1000) by a margin of 10 percent. Although Veolia Transportation did not submit the lowest cost proposal, the committee recommends contract award to Veolia for the following reasons:

- Excellent senior management team;
- Superior approach to operating transit and neighborhood circulator services;
- Higher bus operator wages and strong package of employee benefits;
- Efficiently designed operation with relatively lower overall labor costs;
- Solid fleet maintenance plan based on reasonable cost assumptions;
- Promising strategies for community engagement and customer relations;

- Technological and organizational innovation designed to improve services;
- Strong commitment to sustainable business and operating practices;
- Reasonable cost proposal reflecting accurate understanding of operating requirements.

Service Provided

Under the initial term of the proposed contract, Veolia Transportation will provide 31.3 million miles of transit service including:

- Local Bus Service – twelve (12) routes serving serve Tempe, Chandler, Gilbert, Mesa, Phoenix and Scottsdale from roughly 4:30am to 1:00am on weekdays. Operating hours vary by route and city and are shorter on weekends.
- Express Bus Service – four (4) routes serving Tempe, Scottsdale, and Phoenix during weekday AM and PM peak periods.
- Flash Bus Service – three (3) sub-routes make up the Flash system serving the downtown Tempe and ASU Campus from 7am to 1:00am (10pm on Friday).
- Orbit Neighborhood Circulator Service – five (5) routes operating from 6am to 10pm daily.

Tempe may at anytime, and at its sole discretion, reduce, expand, or otherwise adjust bus routes, revenue miles, frequency, and hours of operation for bus services within city limits. Valley Metro/RPTA and partner cities may make similar adjustments as necessary for their jurisdictions.

Additional Information

The attached memorandum provides greater detail on the services provided under this contract, the request for proposals (RFP) process and evaluation, and a summary of costs and revenue. The full request for proposals (RFP) and Veolia Transportation's response are available at the City Clerk's office.

Memorandum

Public Works Department

DATE: March 16, 2009

To: Mayor and City Council

Through: Jerry Hart, Financial Services Manager (x8505)
Glenn Kephart, Public Works Manager (x8205)

From: Carlos de Leon, Deputy Public Works Manager - Transportation (x8527)
Michael Greene, Central Services Administrator (x8516)

SUBJECT: Transit Services Contract Award Recommendation

At the March 26, 2009 City Council Meeting, staff will request award of a 51-month contract with renewal options of up to four (4) years to Veolia Transportation for fixed route bus and neighborhood circulator services. Total cost of the contract is \$151,631,509 for the initial 51-month term.

This memo provides more detailed information on the services provided under this contract, the request for proposals (RFP) process and evaluation, and a summary of costs and revenue.

SERVICE PROVIDED

Under the initial term of the proposed contract, Veolia Transportation will provide 31.3 million miles of transit service on the following modes:

- Local Bus Service – twelve (12) routes serving serve Tempe, Chandler, Gilbert, Mesa, Phoenix and Scottsdale from roughly 4:30am to 1:00am on weekdays. Operating hours vary by route and city and are shorter on weekends.
- Express Bus Service – four (4) routes serving Tempe, Scottsdale, and Phoenix during weekday AM and PM peak periods.
- Flash Bus Service – three (3) sub-routes make up the Flash system serving the downtown Tempe and ASU Campus area from 7am to 1:00am (10pm on Friday) on weekdays only
- Orbit Neighborhood Circulator Service – five (5) routes operating from 6am to 10pm daily.

Tempe may at anytime, and at its sole discretion, reduce, expand, or otherwise adjust bus routes, revenue miles, frequency, and hours of operation for bus services within city limits. Valley Metro/RPTA and partner cities may make similar adjustments as necessary for the services they fund.

Table 1 provides additional information on operating parameters and statistics by route.

Table 1: Transit Service Characteristics

Bus Route	FY 2010 Service Miles	Service Frequency (Minutes)				Est. Ridership
		Wkday Peak	Wkday Off Peak	Sat	Sun	
56 – Priest	470,898	15	30	30	30	630,339
62 – Hardy	344,876	15	30	30	30	402,034
65 – Kyrene	200,660	30	30	30	30	212,146
66 – Mill	435,601	30	30	30	30	356,252
72 – Rural/Scottsdale	1,234,816	15	15	30	30	1,766,007
76 – Miller	294,304	30	30	30	30	174,014
77 – Baseline	467,611	15	30	30	30	722,999
81 – McClintock/Hayden	929,511	15	30	60	60	993,287
84 – Granite Reef	69,496	60	60	60	60	29,349
92 – Guadalupe/48 th St.	468,495	15	30	30	30	452,616
108 – Elliot	293,542	30	30	60	60	200,769
114 – Via Linda	84,315	60	60	60	60	28,825
510 – Express	18,845	30	n/a	n/a	n/a	22,827
512 – Express	34,196	30	n/a	n/a	n/a	18,518
520 – Express	38,250	30	n/a	n/a	n/a	30,612
521 – Express	64,133	30	n/a	n/a	n/a	58,468
Flash - Tempe/ASU	163,475	5	5	n/a	n/a	778,669
Orbit – Mercury	328,058	8	8	15	15	790,928
Orbit – Venus	254,624	15	15	15	15	356,638
Orbit – Earth	396,208	15	15	15	15	399,409
Orbit – Mars	315,360	15	15	15	15	173,813
Orbit - Jupiter	479,245	15	15	15	15	644,931
Totals	7,386,519					9,243,450

RFP PROCESS AND EVALUATION

The RFP was released for 60 days during which the companies participated in a pre-proposal conference, took a tour of the East Valley Bus Operations and Maintenance Facility, conducted maintenance inspections on selected transit vehicles, and submitted clarification questions to city staff on the scope of work. City staff provided responses to over 100 vendor questions.

Two (2) qualified transit contractors, Veolia Transportation and First Transit, submitted proposals. Following review, deliberation, and initial scoring of the proposals, the evaluation committee conducted in-depth interviews with the firms' proposed senior management teams, evaluated additional information provided in response to two (2) best and final offer inquiries, and reviewed multiple references for both firms. In total, the committee met on six different occasions and devoted 250 hours to the evaluation.

Evaluation Committee

Under the guidance of Tempe's Procurement Office, an eight (8) member evaluation committee assessed the qualifications and technical proposals of the two firms. The committee comprised a diverse set of valley professionals with backgrounds in transit management and operations, quality assurance, fleet maintenance, intelligent transportation systems, finance, customer/community engagement, social services, and sustainability. Committee members represented the following organizations:

- City of Tempe
- Valley Metro/RPTA

- City of Scottsdale
- Arizona State University
- Tempe Community Council
- Tempe Transportation Commission

Evaluation Criteria

The committee evaluated the firms based on the fourteen (14) criteria listed in Table 2. The criteria were developed based on Tempe procurement guidelines, industry practice, experience with similar procurements conducted by other transit agencies, research on the terms of comparable RFPs, and Tempe’s public service priorities and values. They were designed and ordered to ensure proposals were well-balanced and responsive to technical requirements (e.g., maintaining and safely operating transit buses) as well as to the key components of effective public service (e.g., customer service, community engagement and understanding, professionally trained employees, healthy and productive work environment, ongoing performance evaluation, and sustainability).

Table 2: Evaluation Criteria

1. Senior Management Team Qualifications – 12%
2. Transit Service Operating Plan – 10%
3. Fleet Maintenance Plan – 10%
4. Price – 10%
5. Passenger Service and Community Engagement – 8%
6. Employee Professional Development Plan – 8%
7. Quality Assurance/Control Program – 8%
8. Understanding of Scope of Work – 6%
9. Sustainable Business and Operating Practices – 6%
10. Financial Ability – 5%
11. Contractor Experience in Transit Services – 5%
12. References and/or Site Visits – 5%
13. Price Reasonability – 5%
14. Proposal Completeness & Acceptance/Compliance – 2%

To demonstrate the importance of competitive and reasonable cost proposals, two categories dealt directly with price: objective price comparison (10 percent) and price reasonability (5 percent). Scores for the price category were calculated based on a formula as stated in the RFP. Scores for the price reasonability category, which encourages companies to submit reasonable cost proposals, were based on committee evaluation. Taken together these methods of assessment provide greater assurance that the selected contractor can perform and financially sustain the requirements of the contract.

Proposal Selection

The committee awarded the most points to Veolia Transportation (814/1000) by a margin of 10 percent. Although First Transit is a reputable and qualified transit provider, the evaluation committee recommends contract award to Veolia Transportation for the following reasons:

- Excellent senior management team;
- Superior approach to operating transit and neighborhood circulator services;
- Higher bus operator wages and strong package of employee benefits;

- Efficiently designed operation with relatively lower overall labor costs;
- Solid fleet maintenance plan based on reasonable cost assumptions;
- Promising strategies for community engagement and customer relations;
- Technological and organizational innovation designed to improve services;
- Strong commitment to sustainable business and operating practices;
- Reasonable cost proposal reflecting accurate understanding of Tempe's operating and maintenance requirements.

Cost Differences Between Proposals

Although Veolia Transportation did not supply the lowest contract rate per mile, its FY 2010 submittal is 5 percent lower than the present contract rate. Veolia's cost proposal exceeds its competitor's proposal by 4.6 percent (\$6.5 million) during the 51-month period. Tempe's portion of this amount is \$3.2 million during the 51-month period or roughly \$750k per year.

Much of the net cost difference noted between the firms is explained by the higher investment Veolia allocates to operator wages/ benefits and fleet maintenance.

- **Operator Wages & Benefits** – With consultation from Tempe's Human Resource Department, the committee judged Veolia's package of bus operator wages and benefits to be superior. Competitive wages and benefits are essential to ensure selection of the best qualified employees, a stable and productive work force with low turnover, and reliable and proper delivery of bus service to the community.
- **Fleet Maintenance** – The committee judged Veolia's proposed costs associated with fleet maintenance (not including labor) to be more realistic in light of the fleet characteristics during the course of the contract term, unique needs accompanying the use of liquid natural gas, maintenance and safety requirements stated in the RFP, and current experience.

SUMMARY OF COSTS AND REVENUE

The contract award amount of \$151.6 million for the 51-month period comprises \$146.4 million in base contract costs and up to a maximum \$5.2 in performance incentives. Under the terms of the contract, cost adjustments may be requested by Veolia Transportation for fiscal years 2012 and 2013 which will be subject to City Council approval. The RFP requires that requested price adjustments not exceed the adjustment in the Gross Domestic Product (GDP) implicit price deflator for the applicable year or six percent (6%), whichever is less. Furthermore, fully documented and justified price adjustment requests will be subject to a cost and price analysis to determine reasonability.

Contract Performance Incentives/Disincentives

If awarded the contract, Veolia Transportation will be subject to evaluation on eight (8) performance indicators including on-time performance, service frequency compliance, customer complaints, preventable accidents, service interruptions, preventive maintenance, fare revenue handling, and fuel efficiency. The RFP stipulates standards for each category along with measurement and organizational requirements for managing the program.

Up to 3.57 percent of the base contract (\$5.2 million) amount may be awarded to Veolia Transportation based on the degree to which it exceeds baseline contractual performance standards. Likewise, as much as 3.57 percent of the base contract amount may be withheld from Veolia based on the degree to which it fails to meet baseline contractual performance standards. Should Veolia fail to achieve minimum performance standards, then gross contract expenditures may be as low as \$141.2 million over the 51-month period. In addition, the contract contains additional disincentives for specific violations of contract terms.

Revenue Sources

Because several revenue sources offset the total contract amount of \$151.6 million, the net cost to Tempe’s **Transit Fund** is \$69.3 million. Sources of revenue include passenger fare revenue, Proposition 400 funding, and reimbursement for transit service provided to other cities and agencies. Revenue estimates are provided below:

- \$43.3 million from Valley Metro/RPTA to operate bus service in neighboring cities.
- \$23.6 million from passenger fares, which makes up about 20-25 percent of the cost of local and express bus service.
- \$12.5 million from Proposition 400, which funds the Regional Transportation Plan, and provides funding for regionally significant bus routes operating within Tempe.
- \$2.9 million from Arizona State University for the Flash (\$2.4 million) and Orbit neighborhood circulator services (\$574k).

Table 3 provides information on gross costs for each service type and the estimates of associated external funding and revenue.

Table 3: Costs and Revenue Summary (51-Month Contract Term)

Service Type	Gross Costs	FARE REVENUE & EXTERNAL FUNDING SOURCES				Tempe Transit Fund
		Fare Revenue	Valley Metro (Partner Cities)	Regional Prop. 400	Arizona State University	
Local	\$ 109,639,035	\$ (23,024,197)	\$ (41,284,538)	\$ (11,710,259)	\$ -	\$ 33,620,041
Express	\$ 3,416,028	\$ (614,885)	\$ (1,989,321)	\$ (811,822)	\$ -	\$ -
Flash	\$ 3,373,824	\$ -	\$ -	\$ -	\$ (2,361,677)	\$ 1,012,147
Orbit	\$ 35,202,623	\$ -	\$ -	\$ -	\$ (573,750)	\$ 34,628,873
Total	\$ 151,631,509	\$ (23,639,082)	\$ (43,273,859)	\$ (12,522,081)	\$ (2,935,427)	\$ 69,261,061