



CALACT/MBTA

Purchasing Cooperative Update



Background

- **RFP #20-01**

- Issued October 2020
- Proposals received March 2021
- Contracts issued September 2021

- **Then...**

- Inflation had not exceeded 2.3% from 2012 through 2020
 - Average throughout those years was about 1.61%
- Inflation 2021 and so far in 2022 exceed the totals of the prior 9 years

Background

- **Proposals and pricing based on then-prevalent trends**
- **Rampant inflation unforeseen by**
 - Manufacturers
 - Agencies
 - FTA
 - And even the Federal Reserve

Federal Open Market Committee

- December 16, 2020

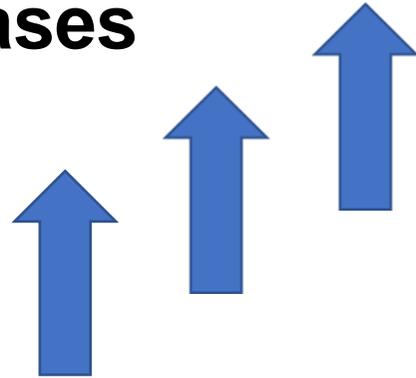
Percent

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actual	1.2	1.8	1.7	2.0	1.6	-	-	-	-
Upper End of Range	-	-	-	-	-	1.5	2.3	2.2	2.2
Upper End of Central Tendency	-	-	-	-	-	1.4	1.8	2.0	2.1
Median	-	-	-	-	-	1.4	1.8	1.9	2.0
Lower End of Central Tendency	-	-	-	-	-	1.4	1.7	1.8	1.9
Lower End of Range	-	-	-	-	-	1.3	1.5	1.6	1.7

Note. Definitions of variables and other explanations are in the notes to table 1. The data for the actual values of the variables are annual.

What Else Happened?

- **Covid shutdowns**
- **Computer chip shortages**
 - Restricted chassis production
 - Reduction or elimination of Government Price Concessions
- **OEM cost increases**
 - Labor
 - Materials
 - Overhead costs



Dealers and Manufacturers Respond

- **Claims for ‘force majeure’**

- Unforeseeable or extraordinary circumstances that prevent someone from fulfilling a contract - impossibility
- Commercial impracticability – When you could, technically, perform but at unreasonable cost

What Does FTA Say?

- **FTA guidance – cites 2 CFR 200.318(k)**
 - “The non-Federal entity alone must be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the non-Federal entity of any contractual responsibilities under its contracts. The Federal awarding agency will not substitute its judgment for that of the non-Federal entity unless the matter is primarily a Federal concern.”
- **FTA has allowed grantees to exercise discretion in responding to hyper-inflation**

MBTA Responds

- **Approach**

- Dealers are the vendors – privity of contract
 - Pricing equals before/after prices for chassis and manufacturing
- Manufacturers cannot be forced to provide pricing
 - Generally provided information to support dealer sales in the state
 - Some more complete than others
- Supported with price analysis
 - Compared to other FTA-supported purchasers
 - Price reasonableness

What are the Requirements?

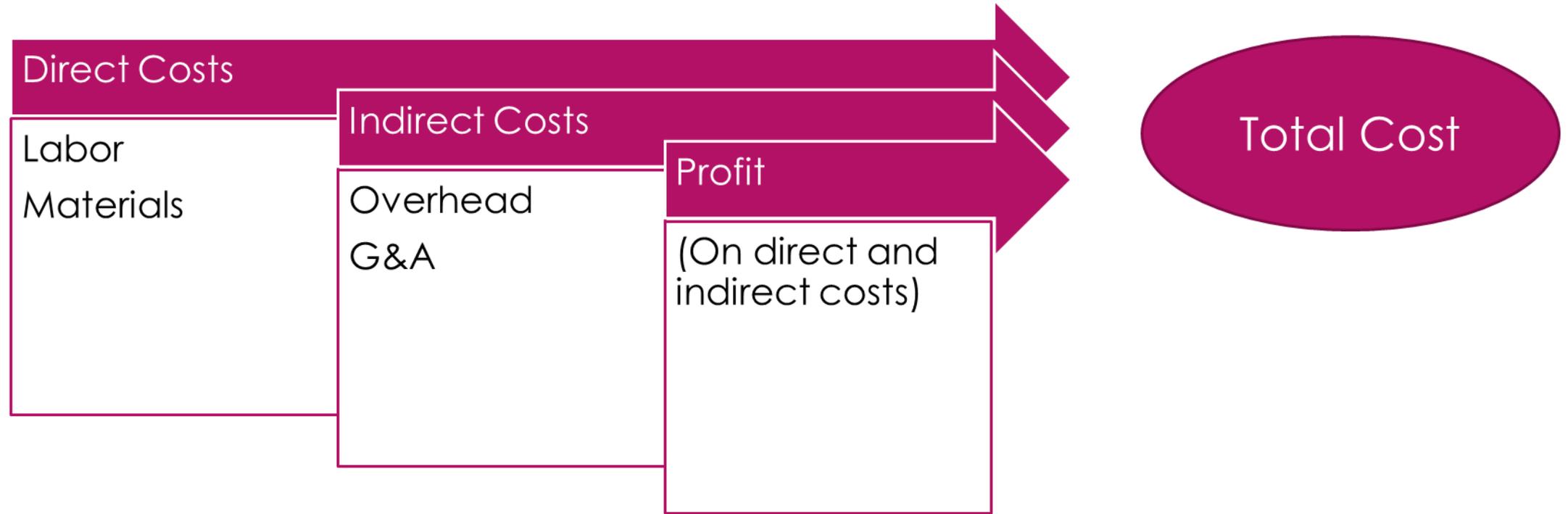
- **FTA Circular 4220.1F**
 - Chapter VI, paragraph 6
 - “COST ANALYSIS AND PRICE ANALYSIS. The Common Grant Rules requires the recipient to perform a cost analysis or price analysis in connection with **every procurement action, including contract modifications**. The method and degree of analysis depends on the facts and circumstances surrounding each procurement, but as a starting point, the recipient must make independent estimates before receiving bids or proposals.”

What are the Requirements?

- **FTA Circular 4220.1F**

- “The recipient must obtain a ***cost analysis*** when a price analysis will not provide sufficient information to determine the reasonableness of the contract cost. The recipient must obtain a cost analysis when the offeror submits elements (that is, labor hours, overhead, materials, and so forth) of the estimated cost, (such as professional consulting and A&E contracts, and so forth). The recipient is also expected to obtain a cost analysis when price competition is inadequate, when only a sole source is available, even ***if the procurement is a contract modification, or in the event of a change order.***”

Elements of Cost Analysis



Cost Analysis for Change Orders

- **Accounting for the change**
 - What would it have cost the contractor originally?
 - What will it cost the contractor as changed?

Challenges

- **Majority of State DOT's have granted significant price increases with minimal documentation. (State DOT's are not held to the circular requirements in the same way as transit agencies)**
- **“Push back” and lack of technical capacity from dealers and manufacturers**
- **Sheer size of Cooperative Procurement - 5 Dealers, 15 manufacturers, 140 different line items**
- **“Privity of Contract” is with dealers not manufacturers**

Cutaway Price Increases

- **Primary price drivers**

- Chassis pricing – Class V (about \$60k to \$65k before)
 - U4X chassis increases plus loss of rebates led to varying increased cost
 - Typically added \$12k to costs, even before manufacturing increases
 - 19-20%!
- Materials increases – Classes A/B/C (about \$70k to \$80k before)
 - Typically added \$12k to manufacturing material costs, even before labor increases
 - 15-17%!
- Labor and interest rates

Cutaway Price Increases

- **Increases differ significantly by vehicle type and manufacturer**
- **With some outliers, generally seeing 20-40% increases in selling prices**
- **Relatively modest – in context of other states reported results**
- **Expect to obtain about $\frac{3}{4}$ of anticipated new vehicles – at best – for the same amount**

Status

- **Cost Analysis is completed.**
- **Amendments to contract are complete and approved by MBTA's Counsel. Several dealers have already executed and can quote vehicles.**
- **In light of PPI inflation being 19.5% plus chassis costs and GPC elimination, we believe price adjustments are supported**
- **Price Schedule is built**

Now What?

- **Potential use of additional federal dollars**
- **Extending the useful life of existing fleet**
 - Comparative pricing
- **Potential to adjust fleet mix**
 - Consider other vehicle types if service allows
- **Be more open to other brands, dealers. Prices vary significantly.**