

CITY OF MADISON TRANSPORTATION COMMISSION

ACTION ITEM DETAIL - JUNE 24, 2020

ACTION TITLE: Approval to purchase remaining tires from Bridgestone lease

PRESENTED BY: Metro Transit, Justin Stuehrenberg

ACTION SUMMARY

Metro is seeking authority to purchase the tires that are remaining from the Bridgestone lease program once the contract expires on June 30, 2020. The total buyout cost will be approximately \$360,000. There is still a disagreement with Bridgestone as to the method of calculating the cost of the tires. Bridgestone’s proposed method would result in a significantly higher buyout amount.

BACKGROUND

Metro’s contract with Bridgestone to lease tires expires on June 30, 2020 and the new contract with Goodyear commences on July 1, 2020. Since the tires are leased Metro still has an obligation to pay Bridgestone for all the tires that are on buses or in stock at Metro’s garage as of the termination date. There are two options identified in the contract for how the obligation can be satisfied. The first is that Metro continues to make the lease payments to Bridgestone for those tires until such time as they have all been fully used and disposed or two years, whichever is less. The other option is that Metro pay Bridgestone for the value of the tires as of the lease termination date and thus take ownership.

Monthly lease payments are calculated by determining actual miles driven on each tire for the month and multiplying by a rate stipulated in the contract. Metro currently leases three different types of tires from Bridgestone, and each type has its own rate. Each of these types of tires has also been assigned an expected useful life, expressed in miles, by Bridgestone. This life span is not stated in the contract.

If a tire is damaged and needs to be disposed of Bridgestone charges Metro for the unused miles on that tire (expected life of tire in miles minus actual miles used before disposal times the contracted mileage rate). This method is specified in the contract. Metro proposes to use this method to value all tires on hand as of the termination date of the contract. Bridgestone proposes that they would value the remaining tires based on tread depth which, they say, is the industry standard. That method would also result in a much higher value (as much as twice as high). We have communicated our position that the contract supports our method and thus overrides any “industry standard”. We have not yet received their response.

DISCUSSION

If Metro and Bridgestone agree to use the calculation as described in the contract then Metro believes there would be substantial benefits, both financial and administrative, realized in electing that option as opposed to the runout option (continuing to make monthly lease payments). There would be an impact to Metro’s 2020 cost compared to budget as follows (the following assumes that Metro’s service was not reduced in 2020 as a result of COVID):

Tire usage 1/1/20 – 6/30/20	\$132,000
Buyout	<u>\$360,000</u>
Total cost in 2020	\$492,000
2020 budget	<u>(\$264,000)</u>
Over budget expenditure	\$228,000

This expenditure will be offset during the following two years because there will be no need to make lease payments on the miles driven on those tires.

Metro is requesting TC approval to pursue the buyout option, as long as an agreement with Bridgestone is reached that is favorable to Metro.