



Ministry of Municipal Affairs & Housing



Association of Municipalities of Ontario

## **ONTARIO CENTRE FOR MUNICIPAL BEST PRACTICES**

393 University Ave., Suite 1701, Toronto, Ontario M5G 1E6

### **BEST PRACTICES SUMMARY REPORT**

**RO – WC – 04 – 10**

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#### **Roads – Winter Control – Sanding/Salting Contracting Model Using Guaranteed Hours**

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**Practice Identification:** Roads Winter Control –  
Sanding/Salting Contracting Model  
Using Guaranteed Hours

**Case Study Municipality:** City of Burlington

**Key Word:** Operational Procedures

#### **Benefits that resulted from adoption of the Practice;**

- **Reduced operating costs for a typical volume of sanding/salting event responses compared to conventional contracting models employing a combination of stand-by and call-out rates**
  - **Avoidance of year-round “fixed” operating costs associated with a directly-delivered service**
  - **Strong incentives for timely response times by contractors**
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#### **1. Description of the Practice in the Case-study Municipality**

The City of Burlington delivers winter control services across a mixed road system consisting of approximately 1,700 paved kilometers. Burlington's 2002 winter event response capacity features 24 combination units. The City's response model features a mix of contracted service providers (10 units) and direct service (14 units). Event response is initiated at 50 mm of accumulation on primaries and 75 mm on secondaries and locals. An initial system-wide plowing

response is completed within 4 hours on primaries and 8-12 hours on secondaries and locals. Event response times are aided by employing pre-loaded trucks. Burlington's 2002 MPMP winter control costs per kilometer were among the lowest within its class of road system.

Typical winter control contracting models manage risk (i.e. the unpredictability of forecast versus actual winter event patterns) by combining stand-by rates (that reserve contracted units for anticipated usage by the municipality) and call out rates for actual responses. Call out rates are always higher, reflecting the variable costs associated with actually responding, as opposed to the lower fixed costs associated with being on call to respond. This traditional two-price contracting model provides the contracted service provider with an opportunity to recover fixed costs, variable costs, and earn a return on investment – as long as anticipated winter event patterns hold true (the patterns built into the contractor's pricing model). Levels of contractor profitability depend on the gap between the two prices and the actual number of winter events. The risk for the contracted provider is a winter season with few storm responses, resulting in a revenue stream driven by the lower "on call" pricing. The risk for the municipality is precisely the opposite.

In order to secure contracted resources in the required amounts (thereby avoiding undue permanent staffing costs year round), Burlington makes use of the concept of guaranteed hours. The contractor is guaranteed a revenue stream for 55 service hours per unit per month at a fixed price. The price is higher than a stand-by rate but lower than a call out rate. If 55 hours of sanding/salting activity is required (typically more than 55 service hours per month are required) then the municipality generates savings. If less than 55 hours of activity is consumed, then the municipality generates higher costs than those associated with the conventional two-price model. Hours beyond 55 hours are delivered at the same guaranteed price (lower than call out rates).

This model applies to salting/sanding operations. The guaranteed hours model is not applied to separate snow plowing contracts, because the City's climate generates fewer required plowing events and therefore contractors would likely be paid to mostly "stand-by".

## **2. Evaluation of Practice**

The guaranteed hours model is based on sound economic and risk management principles. The benefit to the contractor is a guaranteed revenue stream that generates an acceptable profit, even after considering marginal costs required through call out. In exchange for that security, the contractor gives up the possibility of windfall profit associated with extremely busy winter.

In short, weather-related risk is managed between both parties within a mutual win/win scenario. The guaranteed rate offered by the municipality can be managed over time, because multiple contractors are involved in a competition for service hours – no monopolistic pricing. If contractor response to an actual call out is slow, the guaranteed hours contract stipulates that financial penalties can be levied and future service hours reduced.

When all sanders are not required, the City manages the guaranteed contractor hours by utilizing its own crews, if possible, rather than a contractor whose 55 guaranteed hours for the month have been used up.

### **3. Replication of Practice**

Replicating Burlington’s “guaranteed hours” contracting model requires the following:

- A competitive contractor market that will attract multiple potential service providers, thereby allowing the municipality to employ multiple contractors and avoid monopolistic pricing

#### **1) Contact**

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