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DECEMBER 21, 2007

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE *[Signature]*
CHIEF EXECUTIVE OFFICER

FROM: CAROLYN FLOWERS *[Signature]*
CHIEF OPERATIONS OFFICER

SUBJECT: WARRANTY SAVINGS FROM M3 SYSTEM

ISSUE

At the August 18, 2005 Board Meeting, Director Fasana requested staff provide a detailed breakdown of warranty savings from the Material and Maintenance Management System (M3). This report summarizes data generated from the M3 warranty system.

DISCUSSION

The Material and Maintenance Management System (M3) was delivered by Spear Technologies during 2005-2006. Although the basic material management functions within the M3 system were activated in 2006, Metro initiated a "Tiger Team" to address the number of open issues with the original Spear system. The warranty module of M3 did not function adequately until the completion of the Tiger Team efforts in 2007 (Metro Board Briefing, March 2007). The following data reflects M3 warranty statistics following implementation of M3 in 2006.

Over the last six months, warranty recovery efforts via M3 have improved significantly. For example, in January 2007, one review of new warranty claims showed that just 10% of new claims were being initiated properly in M3. A follow-up review of new warranty claims was conducted in July 2007. In this review over 70% of new warranty claims were found to have been initiated properly in M3, and this has significantly improved the efficiency of warranty processing efforts, particularly in the time required to initiate new warranty claims.

In the first four months of FY08, over 2,800 claims valued at \$4.5 million have been filed through M3, and the volume and value of these new warranty claims matches the amount of warranty claims filed in FY06 and FY07 combined.

NEXT STEPS

Staff will continue working to refine warranty processing procedures in M3 to ensure that Metro receives full value from its new equipment warranties. Warranty staff is also working backwards with vendors to maximize the amount of recovery on claims filed prior to FY08.

ATTACHMENTS

1. Summary of Warranty Recovery
2. Summary of Warranty Claims by Operating Division FY06-FY08.

Prepared by: John Drayton, Manager of Vehicle Technology

ATTACHMENT 1 - SUMMARY OF WARRANTY RECOVERY

	FY2006		FY2007		FY2008 (YTD)	
	Claims	Amount	Claims	Amount	Claims	Amount
• Bus (excl. ATMS)	1,023	\$1,000,000	1,322	\$2,600,000	2,831	\$4,200,000
○ Parts		\$800,000		\$2,200,000		\$3,700,000
○ Labor		\$200,000		\$400,000		\$500,000
• ATMS (parts only*)	859	\$400,000	1,018	\$500,000	575	\$300,000
Total New Warranty Claims	1,882	\$1,400,000	2,340	\$3,100,000	3,406	\$4,500,000
Cash Recovery		\$350,000		\$300,000		\$530,000
Non-Cash Recovery (Vendor repairs, failed parts replacement, or other warranty repair work by vendor)		\$650,000		\$800,000		\$1,200,000
Total Warranty Recovery		\$1,000,000		\$1,100,000		\$1,730,000

The data above was generated directly from the M3 system, and M3 recognizes recovered warranty value in the period that the original warranty claim was issued. However, Metro's General Ledger (GL) records warranty recovery in the period received, and this does create some timing variances. For example, in FY06, Metro GL recognized \$1.7 million in warranty recovery, while in FY07 the GL recognized \$2.0 in warranty recovery.

* Unlike bus warranty, ATMS warranty repairs are calculated based on the estimated value of repair work, and there is no labor or cash recovery under this contract. The primary ATMS component involved in repairs are "In-Vehicle Units" (IVU's); IVU repairs are reflected at an average repair cost of \$500, and not the actual cost of replacement units (new IVU's cost over \$6,000/unit).

ATTACHMENT 2: SUMMARY OF WARRANTY CLAIMS BY DIVISION

SUMMARY OF CLAIMS BY DIVISION - FY 06 (ACTUAL CASH RECOVERY & VENDOR REPAIRS)

Division	Material*	Labor*	Vendor Repairs	ATMS**	Total Warranty
Div 1	\$11,200.40	\$11,083.99	\$7,829.20	\$25,537.50	\$55,651.09
Div 2	\$5,869.62	\$10,517.96	\$36,761.83	\$13,314.00	\$66,463.41
Div 3	\$0.00	\$0.00	\$0.00	\$26,490.00	\$26,490.00
Div 5	\$15,000.72	\$14,270.79	\$6,061.65	\$32,530.80	\$67,863.96
Div 6	\$0.00	\$0.00	\$0.00	\$500.00	\$500.00
Div 7	\$18,765.90	\$30,294.61	\$20,731.48	\$34,630.00	\$104,421.99
Div 8	\$3,794.22	\$2,050.91	\$32,317.72	\$25,443.50	\$63,606.35
Div 9	\$94,041.46	\$59,505.22	\$178,609.90	\$22,464.00	\$354,620.58
Div 10	\$111.95	\$4,802.18	\$13,392.36	\$28,083.50	\$46,389.99
Div 15	\$28,591.58	\$23,632.79	\$3,870.33	\$30,076.00	\$86,170.70
Div 18	\$0.00	\$0.00	\$0.00	\$62,905.10	\$62,905.10
RRC - 30	\$8,633.67	\$13,534.58	\$2,327.38	\$55,235.28	\$79,730.91
Location 278	\$0.00	\$0.00	\$0.00	\$500.00	\$500.00
Total	\$186,009.52	\$169,693.03	\$301,901.85	\$357,709.68	\$1,015,314.08

SUMMARY OF CLAIMS BY DIVISION - FY 07 (ACTUAL CASH RECOVERY & VENDOR REPAIRS):

Division	Material*	Labor*	Vendor Repairs	ATMS**	Total Warranty
Div 1	\$510.12	\$1,095.86	\$47,059.37	\$17,286.00	\$65,951.35
Div 2	\$7,778.02	\$5,799.75	\$143,995.62	\$13,328.00	\$170,901.39
Div 3	\$0.00	\$0.00	\$18,882.90	\$29,322.00	\$48,204.90
Div 5	\$74,605.24	\$16,040.41	\$17,605.98	\$20,154.00	\$128,405.63
Div 6	\$0.00	\$0.00	\$0.00	\$2,200	\$2,200.00
Div 7	\$5,164.03	\$1,046.46	\$2,188.00	\$10,919.69	\$19,318.18
Div 8	\$51,714.48	\$14,439.16	\$4,230.11	\$33,126.00	\$103,509.75
Div 9	\$29,242.33	\$18,485.57	\$49,574.30	\$18,609.00	\$115,911.20
Div 10	\$42,217.00	\$10,511.94	\$13,731.23	\$37,970.68	\$104,430.85
Div 15	\$14,662.01	\$9,992.14	\$51,214.44	\$61,626.00	\$137,494.59
Div 18	\$299.76	\$229.57	\$2,953.43	\$60,099.54	\$63,582.30
RRC - 30	\$0.00	\$114.89	\$70,680.37	\$50,850.40	\$121,645.66
Location 278	\$0.00	\$22.75	\$23,983.17	\$0.00	\$24,005.92
Total	\$226,192.99	\$77,778.50	\$446,098.92	\$355,491.31	\$1,105,561.72

SUMMARY OF CLAIMS BY DIVISION - FY 08 YTD (ACTUAL CASH RECOVERY & VENDOR REPAIRS):

Division	Material*	Labor*	Vendor Repairs	ATMS**	Total Warranty
Div 1	\$8.96	\$899.43	\$31,956.27	\$37,000.00	\$69,864.66
Div 2	\$0.00	\$2,662.40	\$17,809.22	\$22,000.01	\$20,471.62
Div 3	\$0.00	\$308.81	\$18,531.05	\$31,898.01	\$50,737.87
Div 5	\$136,919.76	\$21,966.40	\$130,990.82	\$23,000.00	\$312,876.98
Div 6	\$0.00	\$0.00	\$0.00	\$12,500.00	\$12,500.00
Div 7	\$0.00	\$5,965.02	\$39,301.52	\$26,000.00	\$71,266.54
Div 8	\$151,836.30	\$28,174.01	\$69,759.01	\$44,500.00	\$294,269.32
Div 9	\$0.00	\$4,244.45	\$47,722.23	\$16,000.00	\$67,966.68
Div 10	\$29,062.79	\$10,417.23	\$121,792.73	\$50,696.00	\$211,968.75
Div 15	\$4,295.50	\$8,757.97	\$203,033.75	\$41,398.00	\$257,485.22
Div 18	\$0.00	\$871.53	\$30,979.99	\$60,000.00	\$91,851.52
RRC - 30	\$0.00	\$123,590.29	\$145,429.23	\$40,938.00	\$309,957.52
Location 278	\$0.00	\$95.62	\$1,458.00	\$1,000.00	\$2,553.62
Total	\$322,123.31	\$207,953.16	\$858,763.82	\$384,930.01	\$1,773,770.30

* Reflects actual cash reimbursement.

** ATMS reimbursements are calculated based on value of repair work; there is no labor or cash recovery under this contract. For ATMS failures, M3's reports the value of parts, and in some cases this results in overstated values for warranty repairs. For this report, In-Vehicle Units (IVU's) are reflected at an average repair value of \$500, and not the actual cost of replacement units (new IVU's cost over \$6,000/unit).

These figures do not include claims for UFS equipment which are processed outside of M3. Through May 2007, over 1,400 warranty claims had been filed for UFS equipment.