

COUNCIL ACTION FORM

SUBJECT: **POWER PLANT COAL DOZER REPLACEMENT**

BACKGROUND:

A rubber tired 2009 Caterpillar Wheel Dozer is operated in the Power Plant's coal yard to move and compact coal. In 2009, Council awarded a bid to Ziegler Caterpillar of Altoona, Iowa to purchase the current wheel loader for \$621,502. The purchase contract included a \$250,000 buyback guarantee. Ziegler Caterpillar's buyback guarantee is for five years and 6,000 hours of use. The wheel loader was purchased based on the net low evaluated cost by using the cost of the machine less the guaranteed buy back.

As of October 16, 2014, this wheel loader had approximately 2,960 hours on the hour meter after three years of use.

Typically the option to exercise the buyback guarantee significantly benefits the City when the hours and replacement cycle of the wheel dozer follows the anticipated usage schedule. Another option, however, is to keep the machine in service and not exercise the buyback. **Choosing to keep the wheel dozer in service for an extended time period, and thereby diminishing or forgoing the buyback, could be a better financial decision if the existing wheel dozer's condition is acceptable to be used for the extended period.** Fleet Services has evaluated the condition of this wheel loader and feels confident that the condition is satisfactory to continue use in the same capacity for three more years. With Council's approval, the City can choose to keep the current wheel dozer in service beyond the limits of the buyback, without penalty, with the understanding that the buyback will be diminished or foregone.

The anticipated schedule for converting the Power Plant from coal to natural gas calls for the transition to be completed in the first half of 2016. Upon completion of the transition, the City will no longer need this piece of equipment to move coal. After it is determined that the equipment is no longer needed, it will be sold. This salvage value will not be guaranteed and could be higher or lower than then the current contracted buyback guarantee from Ziegler.

ALTERNATIVES:

1. Authorize continuing use of the existing wheel dozer at the Power Plant's coal yard, beyond 6,000 hours and five years, resulting in forgoing the \$250,000 buyback guarantee from Ziegler Caterpillar of Altoona, IA.
2. Exercise the buyback in the amount of \$250,000 to Ziegler Caterpillar of Altoona, IA, and use the accumulated escrow and the buyback to purchase a new wheel dozer.

3. Reject both alternatives 1 and 2 and instruct staff to further analyze other options.

MANAGER'S RECOMMENDED ACTION:

With the impending conversion away from coal to natural gas, combined with the good condition of the current wheel dozer, keeping the current wheel dozer in service appears to be the most cost effective and the best alternative for the City.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 as described above.