

COUNCIL ACTION FORM

**SUBJECT: CHANGE ORDER TO FLEET REPLACEMENT CONTRACT FOR
GUARANTEED BUY BACK OF COAL YARD WHEEL LOADER**

BACKGROUND:

On October 25, 2005, Council awarded a contract to Murphy Tractor, to purchase a John Deere wheel loader for \$125,250. As a part of this award, the City also accepted the buy back offer of \$85,000 after 5 years and 5,000 hours of operation. The loader was delivered to the Power Plant's coal yard in December, 2005. It was operated for five years, but was run 7,625 hours. This is 2,625 hours more than anticipated when the loader specifications were developed and it was sent out for bid. Coal yard operations have changed to manage the increased coal inventory after this contract was awarded, requiring more loader hours than in previous years.

Murphy Tractor has proposed to reduce the buy back amount due the City by \$39,375, from \$85,000 to \$45,625. This is equal to \$15.00/hour times 2,625 hours. For comparative purposes, the \$15.00 rate is about 50% of the company's normal rental rate.

Purchasing policy requires Council authorization on change orders of 20% on a contract. This change order of \$39,375 represents a 31.4% change, as well as a 46.3% reduction on the buyback.

A new wheel loader was specified, bid and delivered in December 2010 to replace the loader being retired. This new loader will cost \$130,462. The fleet replacement fund will have \$140,667 (including the \$45,625 buy back) available to purchase the new loader. The new loader is projected to operate 6,000 hours over 4 years, and it also has a larger bucket to more efficiently handle more coal in less time.

ALTERNATIVES:

1. Approve Change Order #1 to reduce the guaranteed buy back on this loader from \$85,000 to \$45,625.
2. Do not approve this change order.

MANAGER'S RECOMMENDATION:

The Fleet Services and Electric Services staff have reviewed this change order and believe the proposal is a fair adjustment for this unanticipated extra use of the vehicle. Therefore, it is the City Manager's recommendation that Council adopt Alternative #1, thereby approving Change Order #1 to reduce the guaranteed buy back from \$85,000 to \$45,625.