

COUNCIL ACTION FORM

SUBJECT: FLEET REPLACEMENT PROGRAM – WHEEL LOADER

BACKGROUND:

A 2010 John Deere 624K rubber tired wheel loader is operated in the Power Plant coal yard. On March 23, 2010 Council awarded a contract to Murphy Tractor and Equipment of Altoona, IA to purchase this wheel loader in December 2010 at a cost of \$128,000 with a \$89,000 buyback guarantee. Murphy's buyback guarantee is for 4 years and 5,000 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.

On December 1, 2013 this wheel loader had approximately 4,765 hours on the hour meter for three years of use. To use this machine the full four years will accumulate hours well beyond the 5,000 hour limit to receive the full \$89,000 buyback guarantee. Under the existing purchase agreement, Murphy will deduct from the buyback \$39.21 per hour over 5,000 hours. The average annual use over the past three years is 1,667 hours. Fleet Services and Electric Services have evaluated this situation for options to avoid unnecessary cost going forward.

ANALYSIS:

Typically the option to exercise the buyback guarantee significantly benefits the City, since the hours and replacement cycle of the wheel loader closely follow the plan. However, during this cycle the hours have accumulated faster than expected, making the buyback less beneficial to the City. This wheel loader could be replaced earlier than planned, thereby having most or all of the buyback available. Another option could be to keep the machine in service and not exercise the buyback.

Choosing to keep this wheel loader in service for an extended period and thereby diminishing or forgoing the buyback can be a better financial decision if the existing wheel loader's condition is acceptable to be used for the extended period. **Fleet Services has evaluated the condition of this wheel loader and feels confident 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 loader in service beyond the limits of the buyback, without penalty, while recognizing that the buyback will be diminished or foregone.

Bids for a new wheel loader to replace the existing loader were received in November 2013. These bids were evaluated to determine the net low evaluated cost. This is done by using the cost of the machine, less the guaranteed buy back "without the bucket", plus the projected cost of the fuel over the life of each machine. Fuel consumption is

based on each machine's published fuel efficiency rating for medium duty use of 5,000 hours at the current estimated fuel cost per gallon.

Fleet Services also evaluated the past practice of purchasing the coal yard's wheel loader with a new bucket each time and determined that this is not necessary. Purchasing the existing bucket would save \$7,000 over the next three years. The machines shown below have been bid without a bucket, since a new bucket is not needed. If exercising the buyback is chosen to be the best alternative, the City will need to purchase a bucket. Our existing bucket can be purchased from Murphy for approximately \$6,000. The price for a new bucket is \$13,000.

Bids for a new wheel loader were received as follows:

<u>Vendor</u>	<u>Machine</u>	<u>Base Bid</u>	<u>Buy Back</u> After 3 Years, without bucket	<u>Fuel Use</u> over life of machine	<u>Net Cost</u>
Ziegler	CAT 930K	\$144,990	(102,700)	\$ 25,500	\$ 67,790
Murphy	JD 624K	\$144,585	(105,000)	\$ 50,750	\$ 90,335
Van Keppel	Volvo L90G	\$162,400	(118,000)	\$ 38,250	\$ 82,650
Titan	Case 712F	\$142,320	(93,000)	\$ 60,350	\$109,670
Titan	Case 712F	\$144,109	(93,700)	\$ 60,350	\$110,759

The lowest evaluated bid is for the CAT 930K. This is the most fuel efficient model, and with the buy-back is the net low bid. Delivery can be expected in 16 weeks.

The fleet replacement fund will have \$47,550 in accumulated replacement funds by March 30, 2014 for purchase of the CAT 930K Wheel Loader.

The financial analysis shown underneath each alternative demonstrates that rejecting the bids above and retaining the existing wheel loader will be the most cost-effective option over the next three years. In making this determination, staff also considered the timing of the Power Plant's pending conversion from coal to natural gas. That conversion should be accomplished in under three years, which can be covered by the remaining life of the existing wheel loader.

ALTERNATIVES:

1. Reject all bids received for a new wheel loader, and approve continued use of the existing wheel loader, a 2010 John Deere 624K at the Power Plant's coal yard, beyond 5,000 hours and four years, resulting in a diminished or foregone \$89,000 buyback guarantee from Murphy Tractor and Equipment of Altoona, IA.

Replacement funds retained	\$ 47,550
Machine value: 10,000 hours & 6 years old.	14,000
Operating budget funds retained	30,781
Estimated Net Savings in 3 years	\$ 92,331

2. Award this bid to Ziegler, Inc., Altoona, IA for one CAT 930K wheel loader for \$144,990 without bucket, approve the buyback guarantee of \$102,700 after three years and 5,000 hours, purchase the existing bucket for \$6,000 from Murphy, and exercise the option with Murphy Tractor and Equipment of Altoona, IA before four years for the \$89,000 buyback less hourly charges for hours over 5,000.

Revenues:

Replacement funds support	\$ 47,550
Buyback estimated available on 3/30/14	72,659
<u>Operating department funds support</u>	<u>30,781</u>
Total available funds	\$150,990

Expenses:

CAT 930k price w/o bucket	\$144,990
<u>Bucket, purchase used existing</u>	<u>6,000</u>
Total cost for wheel loader and bucket	\$150,990

Net Savings over 3 years:

Buyback from Murphy Tractor & Equipment	\$ 72,659
Buyback applied to purchase of new CAT 930K	(72,659)
Replacement funds support	(47,550)
Operating department funds support	(30,781)
<u>Buyback from Ziegler Cat</u>	<u>102,700</u>
Estimated Net Savings over 3 years	\$ 24,369

3. Reject both alternatives and direct staff to further analyze other options.

MANAGER'S RECOMMENDED ACTION:

Staff has reviewed these two options and believes that keeping the current wheel loader in service is the most cost effective and best alternative for the City, even with a diminished or foregone buyback guarantee. This wheel loader will then be retired after the Power Plant converts to natural gas.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby rejecting all bids received for a new wheel loader, and approving continued use of the existing 2010 John Deere 624K wheel loader at the Power Plant coal yard.