



STAFF REPORT

DATE: April 4, 2017

TO: Ronald L. Olson, City Manager

VIA: Jonathan Locke, Executive Director of Finance

FROM: Frank Tydlacka, Director of Fleet Services

SUBJECT: Authorize lease with purchase option of a wheel loader and compact excavator for the Drainage Maintenance division

BACKGROUND AND FINDINGS:

Beginning in FY13, the Drainage Maintenance division was authorized to lease a track loader to be used in routine operations, minor construction projects and upkeep of the approximate 457 acres of drainage channels throughout the city. The monthly payment for that unit was \$3,407.62. With the mission ever changing, it was found necessary to return that unit when the lease expired in June 2016 and replace it with a down-sized machine that would be more capable in confined areas. Therefore, the same funds were again appropriated in the FY17 Drainage Maintenance division's budget to lease the down-sized equipment. The monthly lease payment for the down-sized machines would be \$158.87 greater than the previous lease. However, this lease will negate the need to rent the compact equipment or borrow oversized equipment from other divisions. This results in an average monthly net savings of \$549.46, an increase in efficiency for the Drainage Maintenance division, and a reduced negative impact to the mission of other divisions.

THE ALTERNATIVES CONSIDERED:

Borrowing a loader and excavator from another division will not work well because the existing equipment is too large, they would be continually transported back and forth between job sites and loading sites and the overall process would cause major inefficiencies for both divisions.

Renting is not practical because there must be a loader available most all of the time. Rental cost for the loader alone would average \$5,200/mo.

Leasing of the correct sized equipment would cost \$3,566.49 per month. This option would actually be a monthly savings realized of \$549.46 compared to the past cost of leasing the oversized loader and periodically renting the smaller size loader and compact excavator. Average cost of renting the additional required machinery has been \$708.33/mo. for a total monthly cost of $(\$3,407.62 + \$708.33)$ \$4,115.95, again, \$549.46 more than the current proposed lease/purchase monthly cost.

Which alternative is recommended? Why?

This latter alternative is recommended because it is cost effective and improves efficiencies.

CONFORMITY TO CITY POLICY:

The City of Killeen is a member of several purchasing cooperatives that are in compliance with the Texas Local Government Code section 271.102. Purchases made through a cooperative satisfy competitive bid requirements. The needed equipment would be provided by Romco Equipment Co. of Round Rock, utilizing the TASB BuyBoard Purchasing Cooperative with financing provided by Bancorp South Equipment Finance.

FINANCIAL IMPACT:

The pricing for the two pieces of equipment is as follows:

Make/Model	Monthly Cost	Purchase Option	Total Cost 3-yr + Purch.
Volvo L60H Loader	\$2,822.40	\$60,754.10	\$162,360.50
Volvo ECR25D Excavator	\$744.09	\$16,017.10	\$42,804.34
Total	\$3,566.49	\$76,771.20	\$205,164.84

What is the amount of the expenditure in the current fiscal year? For future years?

The amount of expenditure in the current FY (May - Sep) would be \$17,832.45. The next two FYs would be at \$42,797.88 per year. In FY20, the final seven monthly payments would total \$24,965.43. At the end of that period, the City would have the option of returning the equipment and initiating a new lease or the equipment could be purchased in FY20 for \$76,771.20

Is this expenditure budgeted? If not, where will the money come from?

This expenditure is budgeted. Funding for this equipment is available in the Drainage Maintenance division's Equipment Rental/Lease account (575-3448-434.44-10) at a rate of \$3,566.49 per month.

Is there a sufficient amount in the budgeted line-item for this expenditure?

Yes. The FY17 budget for this account is \$47,000.

RECOMMENDATION:

Staff recommends the procurement of the wheel loader and compact excavator from Romco Equipment Co., through the TASB BuyBoard, with financing provided by Bancorp South Equipment Finance, on a three-year lease of \$3,566.49 per month, and that the City Manager or designee is authorized to approve the purchase of the equipment at the end of the three-year lease period for \$76,771.20 if the purchase is approved in the FY20 budget, and that the City Manager or designee is expressly authorized to execute any and all change orders within the amounts set by state and local law.

DEPARTMENTAL CLEARANCES:

Public Works
Purchasing
Finance
City Attorney

ATTACHED SUPPORTING DOCUMENTS:

Purchase Agreement
Quote
Bancorp Lease Purchase Proposal
Loader Picture
Excavator Picture
Certificate of Interested Parties