



# City of Grand Island

Tuesday, December 13, 2016

Council Session

## Item G-9

**#2016-300 - Approving Lease Purchase of Three (3) Heavy Duty Tractors for the Streets Division of the Public Works Department**

Staff Contact: John Collins, P.E. - Public Works Director

# Council Agenda Memo

**From:** Shannon Callahan, Street Superintendent

**Meeting:** December 13, 2016

**Subject:** Approving Lease Purchase of Three (3) Heavy Duty Tractors for the Streets Division of the Public Works Department

**Presenter(s):** John Collins PE, Public Works Director

## Background

Streets own two (2) and leases one (1) heavy duty tractors for Right-of-Way mowing. Approximately 600 hours per year is put on each tractor during mowing season.

### Leased Unit 245

Leasing began in Summer 2014 and the cost to lease was \$11.80/hour or about \$7,000. The benefit to leasing is the repair costs are minimal since the equipment is always warranted. The price has since increased to \$13.25/hour and expected to keep increasing. There had been talk from local vendors that the program would be discontinued last year and again this year.

The leasing program was previously part of the Nebraska State Contract and offered to all municipalities and counties. As of last year, the State Contract was restricted to NDOR use only due to the low volume of tractors the manufactures were willing to place on the market. At that time, Streets proceeded with acquiring lease quotes from local vendors for the 2016 mowing season and also budgeted for the purchase of a new tractor in FY 2017 in preparation for the discontinuance of the leasing programs.

### Owned Unit 247

2004 New Holland TS100A has approximately 6,968 hours and a repair cost to purchase price ratio of 2.09. The current average yearly repair cost is \$6,450. This unit is scheduled for replacement in 2019.

### Owned Unit 251

2003 New Holland TS110 has approximately 8,862 hours and a repair cost to purchase price ratio of 3.16. The current average yearly repair cost is \$9,950. This Unit is scheduled for replacement in 2018.

With three potential tractor purchases in three consecutive years, an RFP for Heavy Duty Tractors was put together requesting purchase prices, trade-in values, lease purchase

interest rates, and potential discounts for purchasing multiple units. This information could be used to perform a cost of ownership comparison between purchasing one tractor each year for three years and using a lease purchase program and ordering three tractors in the same year.

### Discussion

On October 13, 2016 a Request for Proposals (RFP) for a Heavy Duty Tractor for the Streets Division of the Public Works Department was advertised in the Grand Island Independent and sent to six (6) potential proposers.

Three (3) proposals were received from Titan Machinery, opened on November 2, 2016, and thoroughly reviewed by a committee comprised of six (6) staff from the Streets Division and Fleet Services Division. The proposals were evaluated on the following criteria:

<b>CRITERIA</b>	<b>POINTS</b>
Quality of product / services and ability to furnish the products and services required by the City	40
Warranty Offered	20
Ability to provide initial training and long-term training for City personnel	15
Costs associated with products and services	15
Value offered for Trade-In Equipment	10
<b>TOTAL POINTS</b>	<b>100</b>

Titan Machinery of Grand Island, NE received the highest ranking by the committee based on the established criteria with their proposal of a 2017 New Holland T6-155.

Below is a summary of the tractor purchase prices including requested options and the additional financial information requested in the proposal.

Tractor 1 (loader ready) Purchase Price	\$94,406
Tractor 2 Purchase Price	\$79,023
Tractor 3 Purchase Price	\$79,023
Trade Value – Unit 247	\$15,400
Trade Value – Unit 251	\$16,000
Mult-Unit Discount	\$1,000 for each unit if more than one is ordered (\$3,000 for three units).
Annual Interest Rate for Lease Purchase	2.7
Financial Institution	Merchants Bank of Minneapolis, MN
Lead Time after Order is Confirmed	120 days

One of the tractors was priced to include a loader option so the tractor can be used for plowing snow and a back-up for loading salt trucks. Streets has not purchased tractors with this capability in the past but with the need for more snow clearing equipment it was determined one unit should be set-up as a test of its performance. If this unit works well, the other two tractors may be altered to add this function at a later date.

After options and pricing were determined for each unit, a five-year cost of ownership comparison was performed (see Attachment 1). Please note the assumptions made in this comparison, including no cost increase from year to year for the purchase of a new tractor and no advance or down payments. These assumptions were made in an effort to compare best-case for cash purchase and worst case for the lease purchase option. The five-year cost of ownership calculation for three consecutive cash purchases is \$286,302 and the five-year cost of ownership calculation for a lease purchase would not exceed \$281,095.

The Streets Division has \$90,000 budgeted for the purchase of a new tractor in the 2017 FY. These funds can be used to purchase one unit outright or as a down payment on a lease purchase agreement for three tractors. The Wastewater Division is interested in purchasing the existing Unit 247, for the offered trade value of \$15,400, which will save them between from spending \$4,000 to \$5,000 on repairs to their existing mowing tractor. The Wastewater funds for the existing Unit 247 would be used as part of the down payment to avoid additional interest amounts.

The following is the recommended lease purchase terms:

<b>Purchase Price</b>	<b>\$252,466.00</b>
Multi-Unit Discount	\$3,000.00
<b>Net Purchase Price</b>	<b>\$249,452.00</b>
Financial Institution	Merchants Bank of Minneapolis, MN
Annual Interest Rate	2.7
Advance Payment – <i>Trade Value – Unit 251</i>	\$16,000.00
Advance Payment – <i>Wastewater Funds (for Unit 247)</i>	\$15,400.00
Advance Payment – <i>Streets Division Funds (\$20,000/Unit)</i>	\$60,000.00
<b>Total Advance Payment</b>	<b>\$91,400.00</b>
Annual Payments	4 @ \$42,265.53
Pay-off Amount	\$1.00
<b>Payment Totals</b>	<b>\$260,426.12</b>

The Public Works Department is recommending the multi-unit discount of \$3,000 be taken advantage of and the purchase of three (3) new tractors from Titan Machinery of Grand Island, NE in the amount of \$249,452.00 and a lease purchase agreement with Merchants Bank of Minneapolis, MN be approved.

The recommended approval will be a commitment to the purchase and allow Titan Machinery to order the tractors and begin the City's 120 day lead time to ensure the units arrive by the 2017 mowing season.

## **Alternatives**

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

## **Recommendation**

City Administration recommends that the Council approve the lease purchase of three (3) new tractors from Titan Machinery of Grand Island, NE in the amount of \$249,452.00 with financing from Merchants Bank of Minneapolis, MN.

## **Sample Motion**

Move to approve the lease purchase of three (3) new tractors from Titan Machinery of Grand Island, NE in the amount of \$249,452.00 with financing from Merchants Bank of Minneapolis, MN.



Stacy Nonhof, Purchasing Agent

*Working Together for a  
Better Tomorrow, Today*

**REQUEST FOR PROPOSAL  
FOR  
HEAVY DUTY TRACTOR**

**RFP DUE DATE:** November 2, 2016 at 4:00 p.m.  
**DEPARTMENT:** Public Works  
**PUBLICATION DATE:** October 13, 2016  
**NO. POTENTIAL BIDDERS:** 6

**SUMMARY OF PROPOSALS RECEIVED**

**Titan Machinery**  
Grand Island, NE

cc: John Collins, Public Works Director  
Marlan Ferguson, City Administrator  
Stacy Nonhof, Purchasing Agent

Catrina Delosh, PW Admin. Assist.  
Renaee Griffiths, Finance Director  
Shannon Callahan, Street Superintendent

**P1910**

**Attachment 1. 5-Year Cost of Ownership Comparison of Cash Purchase Option and Lease Purchase Option**

**CASH PURCHASE OPTION**

Purchase One Tractor per Year for 3 Years

	Unit #	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
Purchase	245		\$94,406				
	247			\$79,023			
	251	\$79,023					
Cost to Own	245 (\$8,950/yr)*	\$8,950	\$1,000	\$1,000	\$1,000	\$1,000	
	247 (\$6,450/yr)	\$6,450	\$6,450	\$1,000	\$1,000	\$1,000	
	251 (\$9,950/yr)	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
<b>Total Cost of Ownership</b>							<b>5-Year Cost of Ownership</b>
							<b>\$286,302</b>

\*Cost to lease plus \$1,000 for maintenance

**LEASE PURCHASE OPTION**

Purchase Three Tractors this FY with Lease Purchase Financing

	Unit #	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
Payment	All	53,219	53,219	53,219	53,219	53,219	
Cost to Own	245 (\$8,950/yr)	1,000	1,000	1,000	1,000	1,000	
	247 (\$6,450/yr)	1,000	1,000	1,000	1,000	1,000	
	251 (\$9,950/yr)	1,000	1,000	1,000	1,000	1,000	
<b>Total Cost of Ownership</b>							<b>5-Year Cost of Ownership</b>
							<b>\$281,095</b>

**Notes**

1. Comparisons made using best case scenario for purchase option and worst case scenario for lease purchase option by using the below assumptions:

- No increase in purchase price
- No increase in lease hourly rate
- No increase in cost to maintain and newly purchased units under warranty for five years.
- No trade-ins or down payments (true cost of ownership)
- No multi-unit purchase discount credited toward the lease payments
- All new units under warranty for a period of not less than five years.

2. It is more likely that the the cost to purchase a tractor next year and then year after will increase at least five percent each year. Also the above does not account for any trade-ins or down payments. The trade-in values for owned units will decrease after each season due the number of hours they are worked.

3. The larger purchase price for Unit 245 is with the loader option. The loader option was added so the unit could be used to clear snow and as a back-up for the Front-End Loader that loads salt trucks.

4. Maintenance costs were assumed to be equal after year five, therefore the net cost difference between ownership payment options would remain the same for the complete life cycle of each unit.

RESOLUTION 2016-300

WHEREAS, the City of Grand Island invited proposals for Heavy Duty Tractor, according to Request for Proposals on file with the Public Works Department; and

WHEREAS, on October 13, 2016 proposals were received, reviewed, and evaluated in accordance with established criteria; and

WHEREAS, Titan Machinery of Grand Island, NE submitted a proposal in accordance with the terms of the Request for Proposals and received the highest ranking based on the established criteria.

WHEREAS, the purchase price for three (3) tractors is \$249,452.00; and

WHEREAS, such amount will be financed by Merchants Bank of Minneapolis, MN; and

WHEREAS, an advance payment comprised of \$16,000 for trade-in value, \$60,000 from the Streets Division capital budget and \$15,400 from the Wastewater Fund for a total of \$91,400 will be made in 2016-2017 FY ; and

WHEREAS, the remaining four (4) annual payments will be in the amount of \$42,265.53 with a pay-off amount of \$1.00; and

WHEREAS, the total re-payment amount will be \$260,426.12.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the purchase of a three (3) Heavy Duty Tractors from Titan Machinery of Grand Island, Nebraska is hereby approved.

BE IT FURTHER RESOLVED, that the Mayor is hereby authorized and directed to execute such lease purchase agreement with Merchants Bank of Minneapolis, MN on behalf of the City of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, December 13, 2016.

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Jeremy L. Jensen, Mayor

Attest:

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RaNae Edwards, City Clerk

Approved as to Form	☐ _____
December 9, 2016	☐ City Attorney