

Memorandum

City of Lawrence

Public Works

TO: David Corliss
FROM: Mark Thiel
CC: Chuck Soules, Tammy Bennett , Tom Orzulak, Steve Stewart
Date: 11/23/2011
RE: **Request to award a lease agreement for 4 loader / back-hoes**

The Public Works Street Division and the Utilities Department received bids for the 3 year lease of 4 Backhoes on November 22, 2011. The bids were as follows;

1. Kan Equipment Co. (*did not meet specs*) \$34,100.00 each for Streets and Storm Water
\$15,000.00 trade for Utilities
\$19,100.00 cost for Utilities
2. Murphy Tractor and Equipment Co. \$40,650.00 each for Streets and Storm Water
\$12,000.00 trade for Utilities
\$28,650.00 cost for Utilities
3. The Victor L. Philips Co. \$48,803.52 each for Streets and Storm Water
\$13,000.00 trade for Utilities
\$35,803.50 cost for Utilities
4. Foley Equipment Co. Bid #1 \$42,833.58 each for Streets and Storm Water
\$ 8,685.00 trade for Utilities
\$34,148.00 cost for Utilities

 Bid #2 \$55,292.48 each for Streets and Storm Water
\$ 8,685.00 trade for Utilities
\$46,607.48 cost for Utilities

The low bid from Kan Equipment did not meet specifications; the rear boom configuration for the extend-a-boom is different than required.

Justification:

In 2002 the City of Lawrence Street Division began leasing its back-hoes versus purchasing out right with the idea of saving money, reducing down time for maintenance repairs and improving efficiency. Over time it has proved to be a beneficial decision. Our Fleet Division has tracked the cost associated with owned back-hoes versus leased back-hoes and determined that it cost us twice as much to own a back-hoe as it does to lease. Over the same three year period the owned back-hoe cost the city \$15,667 in maintenance cost. The same leased back-hoe has cost the city \$8,846 for that same three year period to which some of this cost was not associated with maintenance but rather equipment damage. This cost comparison did not account for lost productivity due to additional down time which would increase the cost savings. The cost to purchase a new back-hoe as currently bid is \$102,124.88. Our lease plan will cost as bid \$40,650 over a three year period per machine. The cost to buy the back-hoe at the end of the

lease is \$61,474.88. The leased equipment is also under factory warranty for the entire three year period saving the cost of all but minor maintenance. To purchase four new back-hoes would cost \$408,499.52. Then at the end of three years the city would be responsible for all of the maintenance and at the end of the next three years the back-hoes would be considered to be at the end of the service life. The cost to lease provides the best value and service for the City.

These back-hoes are mission critical and basic equipment that are utilized daily by all crews for a variety of activities from street maintenance, levee maintenance, storm water excavation, utility repairs and emergency operations that include snow removal and disaster response. It is imperative that these back-hoes are operational as much as possible to avoid down time. The current lease expires in April of 2012.

The lease gives us the best option for cost savings, operational effectiveness and reliability.

Project Funding:

One back hoe for the Utility Department will be acquired in 2011 as part of the 2011 authorized budget. Three back hoes for the Street Division will be acquired in 2012 as part of the approved 2012 authorized budget. Funding for this lease will come from 214-3-3800-6005 (Special motor fuel tax fund) \$40,650 and 505-3-3910-6005 (Storm water fund) \$81,300 and 501-7-7610-6005 for Utilities \$28,650.00 after trade-in allowance. This lease is paid in the first year to avoid paying any interest. No additional lease cost will be incurred in year two or three.

Combining the bid for Utilities and Public Works also gave us an additional quantity discount.

Action Request:

Authorize the Public Works and Utilities Departments to lease this equipment as bid.