Memo

To: David Twiggs, COO/General Manager
From: Tom Hasselstrom, Fleet Manager
      Linda Mayhood, Asst. General Manager
Date: April 20, 2016
Re: Motion – Approve Acquisition of Sanitation Trucks

Motion

I move to approve the acquisition of three sanitation trucks from TCS Trucks of Strafford, MO on a purchase/buyback agreement in the amount of $472,860, less trade in amount of $85,000 for a net purchase of $387,860 with a buyback option amount of $77,000 each, and financed by ARVEST Bank.

Background

The POA currently serves 7,657 residential households, with refuse collection and disposal. Each residential garbage truck averages about 640 daily pickups disposing of eight tons of garbage daily.

Currently POA’s fleet consists of seven vehicles, five of which are residential rear-loaders, and two commercial side-loader (Challenger) types. Of the five rear loading units, POA is currently using three on a daily basis, with two in a backup position, the reduction due to the Townhouse Association service. The average age of the five trucks is ten years old with the oldest being twenty and the newest three.

In 2015, the POA spent $118,904.69 (budget $65,000) to maintain its sanitation trucks, which caused us to overspend the budget for the Sanitation Department and the entire POA fleet. As the age of our sanitation fleet increases, this number will significantly increase. The five (5) year average spent annually on maintenance of sanitation trucks is $87,000. These vehicles are the most heavily used of any in our fleet, and must be reliable.

Taking these facts into consideration, our current position is not untenable or sustainable with the current fleet. Therefore, it is imperative that POA update its sanitation fleet as soon as possible. The approved 2016 FY budget has $160,000 allocated for the purchase of one sanitation truck.

The POA requested a quote for a guaranteed buyback option from vendors, in addition to an outright purchase from five (5) vendors, with three responses received. The bids and options are listed below: (All bids include sales tax).:
TCS Trucks, Strafford, MO – 2017 Peterbilt with Loadmaster Body
Purchase Option $157,620 ea. x3 = $472,860
Buyback Option $ 77,000 ea.

Arkansas Municipal Equipment, Poyen, AR – 2017 Freightliner M2 with New Way Cobra Body
Purchase Option $138,444 ea. x3 = $415,332
Buyback Option $ 68,000 ea.

Downing Equipment Sales, Phillipsburg, MO – 2017 Freightliner M2 with PakMor Body
Purchase Option $123,495 ea. x3 = $370,485
Buyback Option None

Skruggs Equipment Sales, Memphis, TN – No bid response

River City Hydraulics, Little Rock, AR – No bid response

The low bidder (Downing) did not give POA the option of buying the units back after three years, therefore, the numbers given by TCS, our recommended vendor are being used. The estimated trade-in value of four of POA’s oldest trucks, leaving one as backup, is $85,000.

It is staff’s recommendation to acquire three (3) vehicles in a purchase/buyback scenario allowing POA to update the complete residential fleet in one year for less initial capital outlay than with a conventional purchase. Vehicles would be purchased with a guaranteed buyback amount at the end of three years, providing that the vehicles meet certain terms and conditions presented at the time of sale. The purchase price less trade in would be financed with Arvest Bank for three years.

The POA proposes to purchase three vehicles for $472,860 minus $85,000 trade in for a total of $387,860 with a guaranteed three year buyback amount of $231,000, and finance the purchase over a three year period. (See table below) A balloon payment will be due at the end of three years and paid by selling the trucks back to the dealer. This would allow POA to update three of the current fleet in one year for $81,060 per year ($6,755 per month) or $243,180 over the three year period. All of the operational units (excluding the one back-up) would be under warranty the entire time, and the newer units would cost less in the areas of maintenance and fuel.

<table>
<thead>
<tr>
<th>PURCHASE – BUYBACK OPTION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price (3 trucks)</td>
<td>$472,860.00</td>
</tr>
<tr>
<td>Trade In Value</td>
<td>- 85,000.00</td>
</tr>
<tr>
<td>Remaining</td>
<td>387,860.00</td>
</tr>
<tr>
<td>Guaranteed Buyback Amount</td>
<td>-231,000.00</td>
</tr>
<tr>
<td>Total Finance Charge @3.99%</td>
<td>34,626.00</td>
</tr>
<tr>
<td>Repayment 36 mo. @$6,755</td>
<td>243,180.00</td>
</tr>
</tbody>
</table>

At the end of the three year period POA would have the option of getting three new trucks or the option to purchase one or more of the vehicles coming off buyback option for $77,000 each.

TCS Trucks has been a POA vendor and dependable business partner for some time. They have supplied a no-cost loaner vehicle when our fleet could not meet our contractual obligations. TCS is part of The Larson Group with fifteen locations and $360 million in revenue, giving it superior financial backing, which is vital when entering a contract to purchase HSVPOA vehicles back.

This was discussed at the March 16, 2016 regular board meeting.