Memo

To: David Twiggs, COO/General Manager
From: Tom Hasselstrom, Fleet Manager
       Linda Mayhood, Asst. General Manager
Date: March 16, 2016
Re: Discussion: Acquisition of Sanitation Trucks

Refuse collection and disposal is a vital function for the POA. POA currently serves 7,657 residential households, resulting in approximately 30,000 pickups per month hauling away over 400 tons of refuse. Each residential garbage truck averages about 640 daily pickups disposing of eight tons of garbage daily. It is also one of the largest revenue generating operations POA undertakes.

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 contracting service for the 1,067 townhomes. 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 our sanitation trucks, which caused us to overspend not only the budget for the Sanitation Department, but 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, it becomes increasingly obvious that our current position is not only untenable, but is not sustainable with the fleet we currently have. 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.

In an effort to maximize our resources and update the fleet, POA requested a quote for a guaranteed buyback option from vendors, in addition to an outright purchase. The bids and options are listed below for discussion and consideration:

Five vendors were solicited, with three responses as follows: 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 per our recent conversation with TCS. Other vendors may have significantly less trade in values.

OPTION 1: Since POA does not have sufficient funds in the 2016 budget to replace three vehicles ($160,000 budgeted), the first option would be to replace the vehicles, one per year. During the process POA would still be operating trucks in excess of seven years old all during this period and continue to have high maintenance costs. Using this option, POA would have spent approximately $472,860.00+, updated the fleet, but only have half operating under warranty.

OPTION 2: The other option would be to acquire three (3) vehicles in a purchase/buyback scenario. This method would allow POA to update the complete residential fleet in one year for less initial capital outlay than with a conventional purchase. The way this scenario works is that we purchase the vehicles 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 for three years. Staff is working with Arvest bank for financing.

Using this method, the POA would 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. Doing 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>
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<tbody>
<tr>
<td>Purchase Price (3 trucks)</td>
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<tr>
<td>Trade In Value</td>
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<tr>
<td>Remaining</td>
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<tr>
<td>Guaranteed Buyback Amount</td>
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<tr>
<td>Total Finance Charge @3.99%</td>
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<tr>
<td>Repayment 36 mo. @$6,755</td>
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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.
Option 2 is staff’s recommendation, purchasing with buyback option from TCS Trucks, Stafford, MO. TCS Trucks has been a vendor for Hot Springs Village for some time and has been a dependable business partner. They have supplied a no-cost loaner vehicle when our fleet could not meet our contractual obligations. Additionally, 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 will be discussed at the March 16, 2016 regular board meeting.