



Legislation Text

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Staff Report for a City of San Leandro City Council Resolution to Authorize the City Manager to Execute a Sole Source Rent-to-Own Agreement with Nixon-Egli Equipment Company for a Cold Milling Machine at an Amount Not to Exceed \$673,628.69 and Appropriation of \$673,628.69 from the Gas Tax Fund

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council approve and authorize the City Manager to execute a 13-month sole source rent-to-own agreement for purchase of a cold milling machine at a total cost of \$673,628.69 (taxes and shipping costs included).

BACKGROUND

With the passage of SB1 in November 2017, the City is the recipient of State monies (issued monthly) for maintenance projects located within the right-of-way. In May, 2018 the City Council approved a 3-month rental of a cold milling (grinder) machine. Along with the City Council’s approval to purchase a new asphalt paver in 2017, these two pieces of equipment allow Public Works to increase the amount and complexity of asphalt repairs that can be accomplished by staff.

Analysis

With the Public Works Department’s 3-month rental of a grinder last year (with a 1-month extension that was approved by Council in September 2018), it quickly became evident that the grinder was integral to staff’s ability to perform road maintenance work at a higher volume and level of complexity.

Because Proposition 6 did not pass, SB1 funds to continue to be forthcoming from the State. The State Controller’s Office (SCO) estimates that the City will receive approximately \$1.477M in SB1 funds during fiscal year 2019. This is in addition to the \$1.915M in Highway Users Tax Act (HUTA) monies (for fiscal year 2019) that are shared between the Public Works and Engineering & Transportation Departments for use in road maintenance projects.

As indicated in previous Council staff reports, there is only one company, Nixon-Egli Equipment Company that offers this particular type of grinder. Therefore, in consultation with the City’s Purchasing Agent, staff requests a sole source purchase of this rent-to-own option offered by Nixon-Egli. Per the attached agreement, 90% of the monthly rental rate of \$27,000 (\$24,300) will go towards the purchase price over a period of 12 months, with the balance due (including remaining tax and freight charges) in month 13. The payments would be broken down as follows:

Months 1-12: $\$27,000$ (equipment rental) x 12 = $\$324,000^*$

$\$2,497.50$ (tax on rental) x 12 = $\$29,970$

* 90% of the equipment rental, or $\$291,600$, counts towards the purchase price

Month 13: \$318,038.69 Balance Due (includes remaining tax & freight)

Although the rent-to-own option ultimately costs the City 5.57% more than if the grinder were to be purchased outright, staff recommends the rent-to-own option because it would allow more HUTA and SB1 funds to remain allocated for actual road maintenance projects, especially those done by contract through the Engineering & Transportation Department.

Having a grinder to use in-house by staff (whether rented or ultimately purchased) has several advantages over utilizing all of the SB1 funds solely for additional contract work as follows:

- No contractor mobilization fees
- Lower costs for fuel and asphalt due to the City's municipal rates
- Ability to use in-house staff across several different labor functions
- Flexibility in quickly changing/adding work locations based on need
- Ability to communicate/work more closely with residents/businesses to minimize impacts to them
- Ability to make same-day corrections/modifications

Budget Authority

Based on the full rent-to-own amount of \$673,628.69, an appropriation from the Gas Tax Fund Balance 140 to Operating Account 140-31-057-5610 for the entire rent-to-own amount is requested. It is noted that the 13-month payment process will occur over two fiscal years.

ATTACHMENTS

Attachments to Staff Report

- Equipment Quote
- Purchase Option Terms and Conditions

PREPARED BY: Debbie Pollart, Director, Public Works Department