

SECTION VII INNOVATIVE EQUIPMENT REPLACEMENT/PURCHASING METHODS

**ARKANSAS' EQUIPMENT BUY-BACK PURCHASING METHOD**

Doug Nielsen, *Arkansas State Highway and Transportation Department*

For the last five years, the Arkansas State Highway and Transportation Department has bought wheel tractors and backhoe/loaders on a guaranteed buy-back basis. Two prices are requested on the bid invitation: one for purchase and one where the bidder, at the State's option, repurchase the units at the end of one year at a price stated by the bidder. Recently, the bid price for the repurchase option has been lower than the price for purchase. Most of the repurchases have been for 100%, or more, of the original purchase price. The State uses the tractors one year, with the dealer fixing any breakdowns under warranty. At the end of that year, the dealer gives all the money back, or in some instances, more than was paid for the tractors. The State is responsible for damage beyond regular wear and tear. All repurchase units are inspected jointly by dealer and highway personnel before pickup. The State has final say on what constitutes regular wear and tear. The dealer must pay the repurchase payment within 30 days of pickup.

Here is a summary of these buy-back purchases.

**Wheel Tractors (47-78 HP)**

Fiscal Year	No. Units	Vendor	Purchase	Repurchase	Difference
1986	33	Ford	\$ 294,550	\$ 294,550	0
1987	87	Case	869,549	829,886	39,663*
1988	126	Case/Ford	1,188,460	1,118,860	69,600*
1989	132	Case/Ford	1,473,869	1,469,432	4,428
1990	158	Case/Ford	1,861,064	1,874,559	(13,495)*

**Backhoe/Loaders**

1986	8	Ford	178,280	178,280	0
1987	12	Ford	277,224	277,224	0
1988	16	Case	364,720	364,720	0
1989	21	Case	473,025	473,025	0
1990	36	Case	813,852	813,852	0

\* Some equipment retained (sickle mowers, external hydraulic systems, etc.)

**ABSTRACT: MINNESOTA'S 1981-1990 EXPERIENCE WITH GUARANTEED REPURCHASE OF 4WD LOADERS**

George M. Felt, *Minnesota Department of Transportation*

This presentation is an overview of the Minnesota Department of Transportation's (MNDOT's) experience with purchase of 4WD Loaders under total cost bidding. Total cost bidding requires a performance bond for both maximum repair cost and guaranteed repurchase price.

The main points of MNDOT's program are:

- Total cost bidding requires the vendor to bid guaranteed maintenance costs for a 4-year period.
- Vendor is responsible for providing replacement or paying rental cost on any unit down for repairs for 3 consecutive days or more during the 5-year contract.
- Vendors may bid total cost with or without guaranteed repurchase.
- Time value of money is applied to repurchase price to bring all costs into today's dollars. Present worth at 5 years at 8% - factor 0.6806.
- Guaranteed repurchase has been at a high of 156% of original price (1981) to a low of 49% in 1990 (see Figure 1).
- Decision to resell is based on market value of machine at the end of the 5 year period, and condition and usage of the loader.

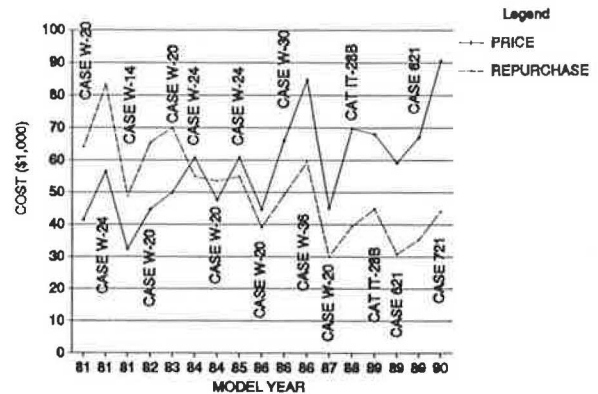


FIGURE 1 Minnesota DOT 4WD Loaders 1981-1990 Guaranteed Repurchase Program.

The following is an example of the rules used in the Special Total Cost Bid Provisions, and the Total Cost Bid Form For 4WD Loaders (with & without the Buy-Back Provision). MN/DOT will continue to use this program in 1991 and 1992 for bidding 4WD Loaders.

**Special Total Cost Bid Provisions**

The following rules shall be used to govern and enforce the Total Service Contract entered into and supplementary to the warranty covering machines herein bid.

It is understood that:

Equipment purchased under this agreement are operated by the Minnesota Department of Transportation (MNDOT) personnel for loading or grading, repair, maintenance, construction, snow-plowing, clean-up, and other purposes for which the equipment is designed.

MNDOT will assume responsibility for all repair costs resulting from damage due to fire, windstorm, flooding and rising waters, lightning, theft and pilferage, vandalism, accidents, and operator's and mechanics' negligence. Total cost of the repairs due to the above circumstances will be included as part of MNDOTs responsibility.

Dealer shall pay for all repairs (including parts and labor) to the portions of the equipment covered by the manufacturer's warranty, and these costs are not included in the maximum total cost of repairs. The period of this initial warranty shall be one full year from date of delivery to MNDOT. (Effective guaranteed repair cost to cover 4 year period). Delivery date to be date unit accepted by MNDOT. Dealer to furnish at time of delivery one extra set of fuel, oil, hydraulic, and air filters, and also shall include at first inspection service procedure, all lube oil, hydraulic fluids, greases, and labor needed.

MNDOT will assume, at its expense, costs to repair or replace parts and components not under warranty such as: tires, tubes, tire repairs, lubricating oil, filters of all types, grease, fuel, anti-freeze, cutting edges, scarifier and ripper teeth, bucket teeth, batteries, headlights, glass breakage, belts, brake linings, cleaning and painting, and electrical components except alternators, generators, starters and electrical meter and gauges.

MNDOT will maintain equipment in accordance with manufacturer's recommendation as prescribed in the operator's handbooks and service books provided with each machine, and with any supplemental recommendations for repairs, improved maintenance, etc., in keeping with the requirements of the manufacturer in the shop manual for the maintenance and repair of the piece of equipment.

Dealers will be fully responsible for the total cost of repairs, to the equipment furnished in excess of the guaranteed repairs for a specific period of time or operating hours from the date of delivery.

In determining the guaranteed total cost of such repairs, the following rules shall apply in order to maintain effectively constant machine availability for MNDOT.

In the event that the cost of repairs, including parts and labor, as computed by the Maintenance Department, is less than \$250.00 for an individual repair, MNDOT shall have the right to have repairs made in MNDOTs shop and need not give notice to the dealer prior to the repair being made. Hourly labor rates to be current MNDOT mechanics rate at time of repair and any travel at current MNDOT rental rate for field mechanics trucks at time of repair. Transportation of equipment for repair purposes is to be charged to repair costs.

If the costs of repairs as estimated by MNDOT is in excess of \$250.00 then the dealer will be duly notified by collect phone call, so he may prepare an estimate of the repairs and determine where the repairs are to be made. Such repairs may be made by the Service Department of the dealer and billed to MNDOT at the dealer's published prevailing rate. If, however, the dealer agrees, then such repairs will be made in the MNDOTs shops, in which event the cost of such repairs will be computed on the same basis as that set forth in the paragraph above.

Under some circumstances, repairs may be made in Service Departments other than of the dealer and/or MNDOT. Then the dealer and MNDOT must agree to the repairs which will be made and the Service Department which will make the repairs.

Dealer shall provide an approved listing of parts and service facilities where parts may be purchased and service obtained.

**Downtime.** In the event that a breakdown occurs, MNDOT will immediately notify the dealer's Service Department of the nature of the trouble and the parts which may be required, if known. Should the machine not be back in operating condition within three (3) consecutive days after said notification, then a credit to MNDOT equal to the hourly rental paid to others by MNDOT for like equipment will be due MNDOT as liquidated damages for such downtime.

In the event of a disagreement at to the interpretation or application of this contract, an arbitration board shall be set up to arbitrate and resolve any disagreement and/or to help interpret this contract as the need may arise. This arbitration board shall have one person appointed by MNDOT and one appointed by the Dealer, and a third person to be selected by the two previously named. The ruling of any two members of the arbitration board will be binding on both parties.

The Vendor shall furnish a performance bond in the amount of the total net cost plus the guaranteed maximum total cost of repairs or the full amount of guaranteed repurchase price whichever is larger. The bond shall be in effect for the life of the agreement to guarantee that the dealer will fulfill all of his obligations under this agreement.

In case of breach of any provision of the contract by the dealer, then MNDOT shall have the option of returning the machine and being reimbursed by the vendor or bonding company for the full repurchase price at any time before the expiration of the contract period.

In case of change of corporate structure or loss of identity by assimilation or merger with other companies, this agreement shall remain in effect and be binding on the successor company(ies).

MNDOT reserves the right to sell, trade, or otherwise dispose of the equipment, purchased under this agreement, at its discretion at any time.

**Minnesota Department of Transportation**

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Title \_\_\_\_\_

**TOTAL COST BID FORM FOR 4WD LOADERS  
(Without Buy-Back Provision)**

Item 1 ( ) 1990 FWD loaders per MNDOT Specification 76.0-0003 (Costs not to exceed mfg. adv. list pricing structure, a copy of which must be attached to this bid)

MNDOT to pay this amount. Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 2 ( ) Guaranteed maximum total cost of repairs for 6000 operating hours or 5 years (whichever comes first) will not exceed: (All costs in excess of amount shown per unit to be borne by the vendor.) The cost up to the guaranteed figure per unit to be borne by the State as the repairs become necessary.

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Total Cost Bid Without Buy Back Provision -

Item 1 plus Item 2 above. Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Bidder \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

**TOTAL COST BID FORM FOR FWD LOADERS  
(With Buy Back Provision)**

Item 1 ( ) 1990 FWD loaders per MNDOT Specification 76.0-0003 (Costs not to exceed mfg. adv. list pricing structure, a copy of which must be attached to this bid)

MNDOT to pay this amount. Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 2 ( ) Guaranteed maximum total cost of repairs for 6000 operating hours or 5 years (whichever comes first) will not exceed: (All costs in excess of amount shown per unit to be borne by the guaranteed figure to be borne by the State as the repairs become necessary.

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 3 ( ) Item 1 plus Item 2 above

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 4 ( ) Guaranteed Repurchase Price at end of the 6000 hours operating time or the 5-year period (whichever comes first)

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 5 ( ) Multiply Item 4 by 0.6806 (Time value of money factor)

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Item 6 ( ) Total Cost Bid - Item 3 less Item 5

Each \$ \_\_\_\_\_ Total \$ \_\_\_\_\_

Bidder \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_