TO: Finance Committee and Governance Committee
FROM: Jerry F. Kenny, Executive Director
DATE: 11/2/2011
RE: Proposal for Headwaters Equipment Purchase and Proposed Usage Fee

Recommendation

The Executive Director's Office (EDO) recommends that the Finance Committee (FC) recommend to the Governance Committee (GC) for approval the proposal described below for Headwaters Corporation charging a usage fee for equipment utilized in Program-related activities. For 2012, the total usage fee would be $66,215 as noted in the draft FY 2012 PRRIP Budget and Work Plan in Program line item PD-18 (AMP-Related Equipment).

Background

An action item from the June 14, 2011 Governance Committee meeting requested that the Executive Director's Office (EDO) develop a proposal for Headwaters Corporation to purchase equipment currently owned by the Program and to compute a usage fee to bill the Program for the use of the equipment once purchased by Headwaters Corporation. This equipment includes a 2009 Chevy Silverado truck, airboat, ARGO, and three trailers. In addition to the equipment currently owned by the Program, a 2011 Toyota Tundra truck is leased by Headwaters Corporation for Program use, and other equipment owned by Headwaters Corporation is used for Program purposes. For simplicity, all of this equipment will be addressed in this memorandum with a proposal for a single, comprehensive usage fee for equipment necessary for Program work.

Valuation of Equipment

To determine a fair purchase price of the equipment currently owned by the Program, the remaining value after depreciation was used. Internal Revenue Services (IRS) Modified Accelerated Cost Recovery System (MACRS) schedules and property class tables were utilized to depreciate the truck, airboat with trailer, ARGO, ARGO trailer, and canoe trailer. Ten year depreciation schedules were used for all equipment except for the truck which is under a five year schedule. Year of purchase for the truck, airboat, ARGO, airboat trailer, and ARGO trailer was 2009; the canoe trailer was constructed and put into service in 2011. Following is a Table with the Purchase Price of each piece of equipment and the depreciated value.

	Truck	Airboat with Trailer	ARGO	ARGO Trailer	Canoe Trailer
Purchase Price	$26,884.00	$53,440.00	$24,987.00	$2,235.00	$2,393.63
Depreciated Value	$7,742.00	$30,782.00	$14,393.00	$1,287.86	$2,154.23

Using the sum of the depreciated values as the total cost to Headwaters Corporation to purchase equipment, a purchase price of $56,359.09 results. Headwaters will pay this amount to the Nebraska Community Foundation by December 31, 2011 to complete this transaction.

Headwaters Corporation Annual Usage Fee

Once Headwaters purchases the equipment currently owned by the Program, Headwaters will be responsible for all aspects of use and maintenance of all equipment, purchased from the Program, leased, and previously owned by Headwaters Corporation. The usage fee billed back to the Program will cover the following; recovery of

purchase price of purchased equipment, maintenance, fuel, insurance and licensure. To develop a single, comprehensive usage fee for the purchased equipment, the leased equipment, and the previously owned equipment, each category will be dealt with individually for cost recovery including maintenance and collectively for operating cost of licenses, insurance, and fuel. Annual costs will be developed, summed, and divided evenly by 12 to develop a monthly usage fee.

Program Purchased Equipment

Recovery of the purchase price of the truck, airboat and trailer, ARGO and trailer, and canoe trailer was calculated by dividing the purchase price by the remaining life on the equipment. This totals to $10,757 a year. Maintenance was calculated by reviewing costs in 2010 and 2011 and adding minor (tire replacement for truck at estimate of $900) and major (bottom of the airboat replaced at estimate of $6,000) maintenance that we know will be required. This totals to $5,750 a year.

Leased Equipment

In June 2011 Headwaters Corporation leased a 2011 Toyota Tundra truck for Program use and currently all lease payments, gasoline, and maintenance costs for that vehicle are billed to the Program. From a cost perspective, nothing changes under the proposed system, except the format of charges. Lease costs for the 2011 Toyota Tundra truck will be passed through to the Program. This totals to $6,228 a year. Maintenance was calculated based on experience with the 2009 Chevy Silverado and manufacturer's recommendations for the Toyota Tundra. This cost was estimated at $2,000 a year.

Previously Owned Equipment

In addition to the equipment listed above there is equipment that was purchased by Headwaters Corporation that is used for the Program. This equipment includes an ATV, a trailer for the ATV and a 1987 4x4 Toyota truck. All maintenance, insurance, taxes and licensing on this equipment is paid for by Headwaters and has been charged to the Program on an intermittent use basis. The proposed system mirrors the past use based approach.

The proposed ATV and trailer and 1987 truck usage fee is based on a rate per day and an estimate of days used based on usage in 2010 and 2011. Amounts for rate per day were calculated by contacting ATV and vehicle rental agencies in Kearney and asking for their daily rental rates for trucks, ATVs and ATV trailers. In each case, the Headwaters Corporation proposed rate is either at the bottom of their rental range or significantly below their cheapest quoted rate. The daily use fee is considered to include maintenance and licensing costs, so those are not called out separately or included in other cost lines. The daily use rate for an ATV with trailer is $100/day, with an estimated use of 20 days a year. The use rate for the 1987 Toyota is set at $65/day with an estimated use of 70 days a year. This totals to $6,550 a year.

License, Insurance, and Fuel

Licensure of vehicles and equipment was calculated by reviewing the costs in 2010 and 2011. License costs for all equipment, except the previously owned ATV, ATV trailer, and 1987 Toyota, were included. The licensing costs are estimated at $1,500. Insurance costs were calculated by reviewing the Program's current policies and assuming that Headwaters Corporation could purchase the auto, airboat, excess watercraft liability and inland marine (for the airboat and ARGO) insurance for the same amount as the Program paid in 2011. Excess watercraft liability and inland marine insurance constitute the bulk of the insurance cost. The insurance cost for all vehicles is estimated to be $8,450.

Fuel costs were calculated by reviewing historical fuel records, mileage, and miles per gallon data for the current (2011 Tundra) and previously leased truck (2008 Chevy Silverado), the owned truck (2009 Chevy Silverado), and the 1987 Toyota. Estimated fuel usage for the airboat, ARGO, and ATV were based on historical fuel records. The usage numbers were multiplied by an estimated future fuel cost of $3.90 per gallon over 2012. The total of fuel costs comes to $23,682 a year. These calculations are summarized in the table below:

Vehicle	Miles	Miles per Gallon	Gallons	Cost
2009 Silverado	25,000	12		$8,125
2011 Tundra	30,000	12		$9,750
1987 Toyota	7,000	18		$1,517
Airboat			1,000	$3,900
Argo			50	$195
ATV			50	$195
			TOTAL	$23,682

All the above detailed costs are compiled in the following table. A contingency fee of 2% is added to account for the fairly conservative approach used in arriving at costs and the high degree of uncertainty associated with some costs, in particular insurance and fuel.

As shown in the table below, the annual usage fee including contingency would be $66,266. Rounding down to $66,000 and dividing by 12 to arrive at a monthly fee invoiced to the Program of $5,500.

Calculations for Headwaters Corporation Annual Usage Fee	
Equipment Purchased from PRRIP (2009 Silverado Truck, ARGO & Trailer, Airboat & Trailer, Canoe Trailer	
Recovery Purchase Price	$10,757
Maintenance	$5,750
Leased Equipment (2011 Toyota Tundra)	
Lease Payment	$6,288
Maintenance	$2,000
Existing Headwaters Corporation Equipment	
ATV & Trailer (Day Rate)	$2,000
1987 Toyota (Day Rate)	$4,550
Operating Costs	
Licenses (All Vehicles)	$1,500
Insurance (All Vehicles)	$8,450
Fuel	$23,682
Sub-Total	$64,917
Contingency (2%)	$1,298
TOTAL	**$66,215**
Monthly Usage Fee	$5,500