

Agenda Report

TO: CITY COUNCIL **DATE:** JANUARY 26, 1998

FROM: CITY MANAGER

SUBJECT: SALE OF SURPLUS FUEL GAS COMPRESSORS TO
INTERNATIONAL OIL EQUIPMENT LTD.

RECOMMENDATION

On the advice of the General Manager of Water and Power and the Director of Finance, it is recommended that the City Council authorize the sale of surplus fuel gas compressors, currently located at the Glenarm Power Plant, to International Oil Equipment LTD., for the amount of \$60,000. It is further recommended that the City Council find that based upon the information contained herein and such additional information as may be presented to the City Council at its January 26th meeting, a public purpose is served by exempting this sale from the provisions of the Surplus Equipment and Goods Ordinance P.M.C. 4.04, pursuant to section 4.04.080.

BACKGROUND

In 1974, the Power Division purchased two combustion gas turbine generators, designated as GT-1 and GT-2. At that time, it was necessary to acquire fuel gas compressors in order to increase the pressure of natural gas supplied to these units. Subsequent increases in the pressure of natural gas provided by the Southern California Gas Company eliminated the need for the fuel gas compressors. This higher pressure is expected to remain in effect into the foreseeable future. Therefore, the Water and Power Department has determined that this equipment is no longer necessary for the operation of the power plant.

The Salvage Equipment and Goods Ordinance establishes the procedure for disposing of surplus items such as the fuel gas compressors. Specifically, the Ordinance requires that surplus equipment be disposed of through public auction or sealed bid.

Were the City to conduct an auction or bid process for the disposal of the fuel gas compressors it is unlikely that such process would result in a sale at or near the estimated value of this equipment. This is because auctions and sealed bids achieve best results in cases where there exists competition amongst potential buyers. However, in the case of the gas fuel compressors, the market is limited to the point where at any given time multiple

interested parties cannot be identified. The likely situation would be a bid with no bidders or a bid with one or two 'low ball' bids not reflecting market value.

Given this situation, there is a greater potential for maximizing the return to the City by negotiating price with potential buyers as they are identified over time. The basis for this negotiated sale being independent appraisal so that the price is not arbitrary or an undervaluation.

Pursuant to the Salvage Equipment and Goods Ordinance, City Council may authorize methods of disposal other than auction or sealed bids provided, such authorization contains a finding that a valid public purpose is served in doing so. Securing maximum value for the public in the disposition of surplus property, through the application of a negotiated sale process, constitutes a valid purpose for which exemption from the provisions of the Salvage Equipment and Goods Ordinance is appropriate.

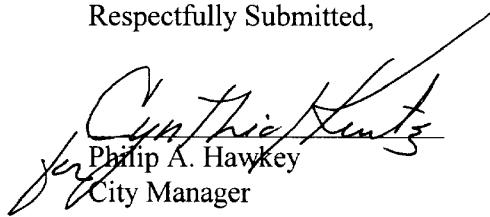
To date, staff of the Power Division has actively sought potential buyers for this equipment. A total of three offers have been made since August 1997. The offers were: \$40,000; \$51,000, and \$60,000. An appraisal commissioned by the Power Division placed the value of the equipment at \$56,000. Staff's own estimation is that the equipment is worth between \$50,000 and \$60,000.

Based on the offers made thus far and considering the estimated value of the equipment, staff recommends the City Council accept the \$60,000 offer made by International Oil Equipment LTD.

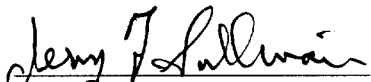
FISCAL IMPACT


Pursuant to the requirements of P.M.C. 4.04 the proceeds from this sale will be credited to the Power Division. The equipment is fully depreciated and after deduction of staff and appraisal costs, the net proceeds will be credited to the Reserve for Stranded Investment.

Respectfully Submitted,

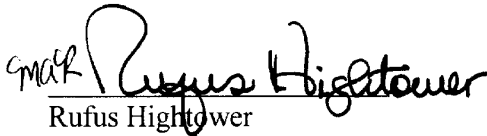

Philip A. Hawkey
City Manager

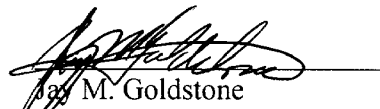
Prepared by:


Jerry F. Sullivan
Power Production Engineer
Water and Power Department


Steve Mermell
Purchasing Administrator

Approved by:


Rufus Hightower
General Manager
Water and Power Department


Jay M. Goldstone
Director of Finance