

COUNCIL ACTION FORM

SUBJECT: CYRIDE FUEL CONTRACT

BACKGROUND:

For the past four years, CyRide has purchased a portion of its fuel under contract in an effort to stabilize and possibly gain financial benefits from this type of fuel purchasing method. The decision to switch to this type of purchasing arrangement was a direct response to the volatile fuel market in 2007- 2008 when prices increased from \$2.00 to \$4.00 per gallon in a short span of time. **Based on previous bidding, CyRide staff has identified the following months as best for contract purchasing of fuel: January-April and September-December.** This is based on the quantity of fuel purchased and the volatility of fuel during these months. CyRide does not purchase enough fuel in the summer months to utilize contracting.

CyRide is currently purchasing fuel at market rates and is averaging \$3.18 per gallon for the 2013/14 budget year. ***One of the prime times to enter into fuel contracts to gain the best price is in November or December. Therefore, staff recommends entering into a long term contract in light of the low market prices at this time.*** Below is a summary the steps to purchase fuel under long term contract:

- 1) Approval is needed from the City Council for a total fuel contract price not to exceed \$1,764,000 for twelve, two-month contracts, for up to 504,000 gallons of fuel over the remainder of the 2013/14 budget year, 2014/15 budget year, 2015/16 budget year, and part of the 2016/17 budget year.

The not-to-exceed dollar amount for the fuel contract is calculated based on \$3.50 per gallon and represents approximately 52% of CyRide's fuel purchases for the 36 month period. **The reason for the proposed extended contract is that the fuel purchase prices for FY 2016/17 are currently running at approximately \$2.78 per gallon, significantly below current market rates and would be a significant savings to CyRide.**

- 2) Staff will prepare Request for Proposal that will be disseminated on November 13th, if approved by the City Council. Results of the proposal would be due to the City on November 20th.
- 3) In January 2014, a report will be provided to the Transit Board and City Council with bid results and recommended award, if any.

The Transit Board of Trustees has already approved a not-to-exceed amount of \$1,764,000 for up to 12 fuel contracts at their October 30, 2013 meeting. If the City

Council is uncomfortable with such a long-term contract, however, it may wish to consider a shorter term contract. The second option below provides for a shorter contract period.

ALTERNATIVES:

1. Approve up to **twelve**, two-month fuel contracts at a total not-to-exceed price of \$1,764,000, and accept fixed rate + mark-up/deduct for the remainder of CyRide's fuel purchases.
2. Approve up to **eight**, two month fuel contracts (through the November-December 2015 contract) at a total not-to-exceed price of \$1,176,000, and accept fixed rate + mark-up/deduct for the remainder of CyRide's fuel purchases.
3. Do not enter into a contract at this time and direct staff to develop additional proposals.
4. Do not enter into a contract and instead purchase fuel at the time it is needed at the market rate.

MANAGER'S RECOMMENDED ACTION:

Since fuel is one of CyRide's largest budget items, stabilizing and possibly reducing this cost through fuel contracting has proven to be a successful method for CyRide to operate efficiently. In addition, with longer term contracts being favorable at this time, it could significantly reduce CyRide expenses in this budget line item for the next several budget years.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby purchasing a portion of CyRide's fuel requirements under a contract and the remainder under fixed rate + markup/deduct.