

COUNCIL ACTION FORM

SUBJECT: CYRIDE FUEL PURCHASES FOR MAY THROUGH DECEMBER 2009

BACKGROUND:

In light of volatile fuel prices experienced during the current fiscal year, CyRide staff has explored options to control fuel expenses in the 2009-10 Budget. Currently, CyRide purchases fuel on the **spot market** approximately every 7-14 days, paying market price for 7,500 gallons of fuel at the time of purchase. CyRide purchases approximately 300,000 gallons of fuel each budget year expending between \$700,000 and \$1,000,000, which is a significant portion of CyRide's overall budget.

During the current budget year, CyRide has paid as much as \$4.01 per gallon and as little as \$1.20 per gallon. One major tool to stabilize these fuel costs is the use of **fuel contracts**, which are contracts obligating the buyer to purchase an asset (fuel) at a predetermined future date and price. Under this type of purchase, CyRide would be required to purchase a **minimum** of 42,000 gallons of fuel under each fuel contract, which would provide fuel for a 2-month period.

Under the proposal reviewed and approved by the Ames Transit Agency's Board of Trustees on March 30, 2009, CyRide would solicit bids, in one bidding process, for 4 individual, 2-month, contract periods. This would cover CyRide's fuel purchases for an 8-month period from May through December 2009. The maximum budget available for fuel purchase for May to December under this approval would be \$504,000.

If approved by the City Council, CyRide will work with the City's Purchasing Department to solicit premium bids on fuel contracts. Staff will not accept individual contracts that exceed \$3.00 per gallon, since the current CyRide fuel budget is set for \$3.25. Staff believes that a total price of \$3.00 per gallon or higher would not provide sufficient benefit to enter into fuel contracts. **CyRide could accept any individual 2-month contract period, or up to all four of the 2-month contract periods proposed. CyRide would also reserve the right to reject all bids if they were not determined to be in the best interest of CyRide at the time of reporting of bids.**

In this procurement, the "premium" paid on the fuel cost would determine which firm proposed the lowest price. The total cost would also be calculated which would include the NYMEX (New York Mercantile Exchange) fuel price plus the premium for each of the four contracts. An **example** of a low bid evaluation is provided below for further clarification:

<u>Contract</u>	<u>Contract Period</u>	<u>Premium</u>	<u>NYMEX</u>	<u>Tot. Price/Gal.</u>	<u>Tot. Cost*</u>
1	May – June Contract	\$.27	\$1.4230	\$1.69	\$71,106
2	July – Aug. Contract	\$.27	\$1.4640	\$1.73	\$72,828
3	Sept. – Oct. Contract	\$.27	\$1.4560	\$1.73	\$72,492
4	Nov. – Dec. Contract	\$.27	\$2.8059	\$3.08	<u>\$129,188</u>
Total Cost					<u>\$345,614</u>

* Based on 42,000 gallons of fuel per contract

Under this scenario, the total cost of fuel for the May – December period is lower than the not-to-exceed amount of \$504,000, but the 4th contract exceeds the \$3.00 per gallon criteria and; therefore, only contracts 1, 2 and 3 would be awarded. CyRide would purchase fuel in November- December on the spot market.

At the end of December, the Ames Transit Agency Board of Trustees will evaluate this fuel purchase program to determine if it was beneficial, accomplishing its goal of stabilizing fuel costs and benefiting CyRide’s overall budget.

ALTERNATIVES:

1. The City Council may waive formal bidding procedures and authorize the staff to solicit bids for four 2-month fuel purchase contract periods, allowing staff to award up to four contracts under this bid at a cost not to exceed \$504,000. Results of this bid process will be reported to the Transit Board and the City Council at a later date. Staff may choose to reject all bids obtained through this bid process.
2. Continue purchasing fuel on the **spot market** and do not enter into fuel contracts.

MANAGER’S RECOMMENDED ACTION:

In this difficult economic situation, it is imperative that CyRide exercise all possible options for obtaining fuel at the lowest possible cost. This is a major component of CyRide’s operating budget, and can have a large impact on the total expense of operating the system.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby waiving formal bidding procedures and authorizing staff to solicit bids for four 2-month fuel contract periods. Further, this action will authorize staff to award up to four contracts under this bid at a cost not to exceed \$504,000. Results of this bid process will be reported to the Transit Board and the City Council at a later date.