

COUNCIL ACTION FORM

SUBJECT: CYRIDE FUEL CONTRACT

BACKGROUND:

For the past three years, CyRide has purchased a portion of its fuel under contracts 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. After several experiences, CyRide staff has identified June through March as the best months for contracting, based on the quantity of fuel purchased and the volatility of fuel during these months. The prime time to enter into fuel contracts to gain the best price is in February/March, just prior to the farming season, which utilizes large amounts of fuel.

CyRide is currently purchasing fuel off of a contract that will expire in March 2012. To date, the transit system has averaged \$3.12 per gallon for the 2011-2012 budget year. Additionally, CyRide staff monitors the contract versus market rate and has realized \$12,382 in savings this budget year utilizing a fuel purchasing method. It is staff's belief that CyRide has gained substantial benefits from contracting for fuel – meeting its goals of stabilizing the fuel line item and realizing budget savings.

With current contracts expiring on March and the best months for entering into a contract approaching, CyRide will need to decide if it will enter into a new contract. The following explanation details how the program has worked in the past and would work under a new contract.

CyRide staff and the Transit Board of Trustees establish a guideline for fuel contracting that commits no more than 70% of CyRide's total fuel usage (210,000 of the 320,000 total gallons) to purchases under a contracting method. The remaining approximately 30% is purchased as a fixed price + mark-up/deduct on the market rate, which is also bid at the time contract bids are received.

The process used to purchase fuel under a contract method is slightly different than normal purchases as decisions need to be made immediately upon receipt of bids, which does not provide time to gain approval from the Transit Board or City Council. Staff has worked with the City's Purchasing Division to develop a method to procure fuel that does not violate City or state purchasing requirements. Specifically, the following process would be as follows:

- Gain approval from the Transit Board and City Council for a total fuel contract price **not to exceed** of \$735,000 for five, two-month contracts for up to 210,000 gallons of fuel.
- In conjunction with the Purchasing Division, prepare a Request for Proposal for fuel contracts due to the City in February or March 2012.
- At the time the bids are received, award up to five, two-month contracts to the lowest bidder that does not exceed the approved total amount and that it is believed will benefit CyRide.

The not-to-exceed amount for the fuel contracts bid is calculated based on 210,000 gallons multiplied by the 2012/13 budget price per gallon of \$3.50 per gallon.

The Transit Board of Trustees approved a not-to-exceed amount of \$735,000 for fuel purchases at its January 19, 2012 meeting.

ALTERNATIVES:

1. Approve up to five, two-month fuel contracts at a total price not-to-exceed \$735,000 and accept fixed rate + mark-up/deduct for the remainder of CyRide's fuel purchases.
2. Do not enter into a contract at this time and direct staff to develop additional proposals.
3. 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 the transit system to operate its service.

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 as described above.