EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager

COPIES: David Fernandez, Assistant City Manager
Mark Finigan, Assistant City Manager
Greg Veliz, Director Community Services
Rod Delostrinos, Deputy Director Community Services

FROM: Eduardo Herrera, Fleet Management Admin

DATE: October 14th, 2010

SUBJECT: Authorizing the extension option on the fuel bid contract entered in on November 20th, 2007 (Resolution # 07-421) for a period of two (2) years.

Action statement:

This resolution authorizes staff to exercise the option to extend the fuel bid contract for a period of two (2) years to allow sufficient time to prepare and secure a complete bid package and proposal for a new fuel supply contract.

Strategic Plan/Business Plan:

The city purchases discounted bulk fuel to provide for City of Key West vehicles and equipment, as well as retail sales at the City Marina. The City of Key West avoids various taxes and fees by purchasing our fuel in bulk with savings averaging $0.48 - $0.51 per gallon over retail at a commercial gas station. The City earns a profit margin on fuel sales at the City Marina, and maintains a higher level of security by using our internal fuel TRAK system to monitor transactions when using our bulk storage tanks to fuel City vehicles.

Staff has researched pricing offered to other public entities as well as retail pricing and compared these to the rates being offered by our current fuel supplier. Staff confirmed the original contract remains competitive through informal pricing.

Background:

The original contract was approved by the commission (Resolution # 07-421) on November 20th, 2007. The contract had an effective period of 3 years from the approval date, with an option for an extension of up to two (2) years.

The fuel contracts are typically priced / bid based on a delivery charge or freight fee over the lowest price available at Port Everglades (our nearest bulk fuel port) the day of the fuel pick up. Therefore, the port price will fluctuate with the market while the freight fee charged by the fuel delivery vendor remains constant. Fleet staff has received informal quotes from other public agencies regarding their fuel delivery costs from their respective vendors. Due to the limited fuel storage capacities at a particular location for some of these agencies, their fees were substantially higher than the contract currently in place with the City of Key West's fuel supplier, McKenzie Petroleum.

The City currently pays $0.07 delivery fee per gallon on Unleaded, and a $0.08 delivery fee per gallon on Diesel. As a comparison, Monroe County's current contract requires they pay as high as a $0.185 delivery fee per gallon on Unleaded, and a $0.215 delivery fee per gallon on Diesel when delivered to Key West. Once again, these margins are due to the County's limited storage capacities, whereas the City's large storage capacities provide for reduced delivery costs as well as hurricane preparedness.

When comparing our internal rates to current retail prices, the City benefits from an average savings of $0.48 - $0.51 per gallon ($2.58 / gallon delivered vs. $3.07 retail). The City consumes approximately 105,000 gallons of Unleaded and 150,000 gallons of Diesel fuel annually. This amounts to more than $122,000 dollars in annual savings over average retail fuel prices with our current contract.

Purpose and Justification:

Based on research and historical pricing, staff is confident that the current contract in place with McKenzie Petroleum is competitive. The commission previously approved the original contract with an option to extend for two (2) years.

Options:

1) An option is to authorize the extension of the contract. This would allow the City to continue to purchase fuel from our established supplier at a discounted rate and would provide for the most cost effective option while furnishing staff with an opportunity to prepare an updated bid specification.

2) The commission could reject the option to extend the contract, which would leave the City without an approved fuel purchase contract effective November 21st, 2010. The City would have to make alternative arrangements to purchase fuel to

use for daily operations as well as the fuel provided to vessels at the City Marina. This would likely come at a substantially increased cost.

3) The commission could reject the option to extend the contract, which would leave the City without an approved fuel purchase contract effective November 21st, 2010. The City would have to discontinue use of all vehicles, equipment, and shut down fuel sales at the City Marina.

Financial Impact:

The contract extension (Option #1) would allow the City to purchase fuel at a competitive price while continuing to provide profit margins for Marina sales and cost savings and security for internal use.

Any other options listed would certainly increase costs to the City and provide for decreased security and reduced operational efficiency.

Recommendation:

Staff recommends option #1, approval of the extension option from the original contract, (Resolution #07-421)