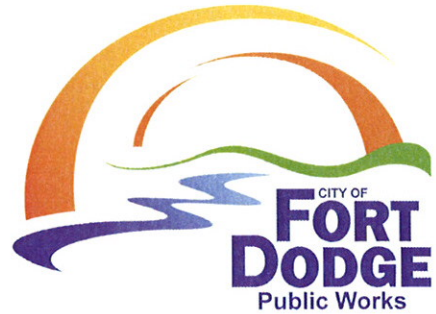


December 16, 2014

To: Mayor Bemrich and City Council

From: David Fierke, City Manager

Subject: Bids for Commercial Fuel Account



ACTION: For vote Monday, December 22, 2014

Brief History

The previous fuel contract with W&H Cooperative expired in June of 2013. In February of 2014, the W&H Convenient Mart burned down. Initially the fire interrupted W&H's ability to supply fuel for about 2 months. Staff was able to work out a verbal agreement with Star Energy to provide a backup supply of fuel for the entire city fleet. Star Energy supplied both blended diesel and unleaded ethanol blend gas at a .05 cent discount per gallon. The pre existing contract with W&H had a \$.035 for ethanol blend gas and a \$.065 discount per gallon of blended diesel.

Since the W&H fire, staff has been evaluating the fuel contract and examining different approaches to purchasing fuel in order to achieve the most cost effective fuel purchasing contract. One approach that has some promise is using the Iowa DOT Rack pricing. RACK pricing uses the state wide average fuel costs for the prior week. Therefore, by purchasing fuel using RACK pricing, the city would pay a cost margin above the daily average RACK for the prior week's state average cost of fuel.

In an effort to examine the potential savings, staff prepared the fuel bid package requesting proposals for a discounted price per gallon of fuel (diesel & gas) and a cost margin above the DOT RACK price per gallon (gas & diesel). The bid also included a 2 year contract.

Analysis of Issue

Sealed bids were received from 4 local suppliers for the purchase of fuel for all city departments on August 28th, 2014. Results of the bid for the discount price per gallon and RACK pricing are shown in the below tables.

	DISCOUNT BELOW ADVERTISED PRICE PER GALLON				
	<u>Regluar Unleaded</u>	<u>Alcohol Blend</u>	<u>E 85</u>	<u>Diesel</u>	<u>Blended diesel</u>
Kum N Go	0.05	0.05	0.05	0.05	0.05
W&H	0.085	0.085	0.085	0.085	0.085
Star Energy	0.05	0.05	0.08	0.05	0.05
The Station	0.0575	0.0575	N/A	0.04	0.04

DAILY RACK- MARGIN ADDED TO THE PRIOR WEEKS RACK PRICE					
	<u>Regular Unleaded</u>	<u>Alcohol Blend</u>	<u>E 85</u>	<u>Diesel</u>	<u>Blended diesel</u>
Kum N Go	NA	NA	NA	NA	NA
W&H	0.21	0.21	0.21	0.21	0.21
Star Energy	0.15	0.15	0.15	0.15	0.15
The Station	0.22	0.22	NA	0.25	0.25

Staff has been evaluating the potential cost savings of RACK pricing; however at this time we are unable to determine, without a doubt, that the city will incur significant savings on an annual basis over the discount price. It appears that RACK pricing is more advantageous when prices are more volatile.

The low bid from W&H is an improved discount over the previous contract and assures the city a cost effective contract with little risk. The DOT RACK pricing needs further evaluation to determine a cost benefit to the city's fuel purchasing. As a result, staff recommends awarding a 2 year contract with W&H Cooperative for a discount price per gallon of \$.085 per gallon of ethanol gas and diesel. Staff will continue to collect and analyze RACK fuel data and costs over the course of the 2 year contract.

Budget Impact

This is an approved expenditure through the Public Works Water Warehouse funds for FY14/15.

Strategic Plan Impact

Infrastructure Policy D.4.2: Advanced planning for all infrastructure facilities shall be supported and routinely updated. Facilities benefited by advanced planning shall include, at minimum, schools, health care, residential areas, roads, water, sewer, storm water management, parks, recreation and greenways.

Comprehensive Plan Impact

Not applicable.

Subcommittee or Commission Review / Recommendation

Not applicable.

Staff Conclusions / Recommendations

Award a 2 year contract to W&H Cooperative. Staff will continue to evaluate RACK pricing.

Alternatives

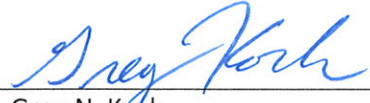
None.

Implementation and Accountability

Staff has communicated with Star and W&H and has a transition plan in place. In addition, Star Energy has agreed to supply the city with several back up fuel cards in case of an emergency.

Signed

Approved



Greg N. Koch
Director, Public Works



David R. Fierke
City Manager