

DATE ISSUED: July 19, 2006

REPORT NO: 06-097



ATTENTION: Council President and City Council

SUBJECT: Award of Contract for Furnishing Various Gasoline and Diesel Fuels

REFERENCE: Request for Proposal Number 7325-05-Z-RFP

Report to the City Council

REQUESTED ACTION:

Council authorization to award a contract to The SoCo Group for furnishing various gasoline and diesel fuels based on Request for Proposal 7325-05-Z-RFP. This contract is for a period of one (1) year beginning from date of award, with options to renew for four (4) additional one (1) year periods.

STAFF RECOMMENDATION:

Accept the low and responsible proposal meeting specifications of The SoCo Group (Carlsbad, CA) and authorize the Chief Operating Officer to execute a contract for furnishing various gasoline and diesel fuels based on Request for Proposal 7325-05-Z-RFP. This contract is for a period of one (1) year beginning from date of award, with options to renew for four (4) additional one (1) year periods, for an estimated annual purchase cost of \$11,541,599 including sales tax, terms of net thirty (30) days; with freight price escalations not to exceed ten percent (10%) of freight prices in effect at the end of each prior contract year.

SUMMARY:

Due to the constant rise in fuel prices, the City of San Diego led the effort to seek additional potential price discounts based on an economy of scale and also assist other public agencies, by issuing Request for Proposal Number 7325-05-Z-RFP as a cooperative procurement initiative, which included the City of San Diego and thirty-one (31) other various public agencies throughout the County of San Diego as listed below. In order to solicit the most possibly advanced, cost-effective fuel price solution for the City, a general price parameter with no specific price structure was stipulated.

Chula Vista Elementary School District	Grossmont Union High School District	San Diego Transit Corporation
City of Carlsbad	Lemon Grove School District	San Diego Unified Port District
City of Chula Vista	Miracosta Community College	San Diego Zoo
City of Coronado	National City Transit	San Dieguito Union High School District
City of Escondido	North County Transit District	San Pasqual Union School District
City of La Mesa	Ramona Unified School District	South Bay Union School District
City of Oceanside	Rancho Santa Fe Fire District	Southwestern Community College District
City of Santee	San Diego Community College District	Sweetwater Authority
County of San Diego	San Diego County Office of Education	Sweetwater Union High School District
Escondido Union High School District	San Diego State University	Vista Unified School District
		Yuima Municipal Water District

Fifty-one (51) potential proposers were contacted. Five (5) proposals with various price structures were received. One (1) proposal from The Jankovich Company in Paramount, CA, was rejected as non-responsive. Technical proposals were evaluated separately from price proposals, and a ranking was established by a technical committee based upon technical merit. As a result, the SoCo Group offered the highest ranked technical proposal, as shown below:

<u>Name of Proposer:</u>	<u>Ranking:</u>
The SoCo Group (Carlsbad, CA)	A
Plavan Petroleum (San Diego, CA)	B
Buck Petroleum (El Cajon, CA)	C
Southern Counties Oil/SC Fuels (Orange, CA)	D
Falcon Fuels, Inc. (Paramount, CA)	E

Price proposals were evaluated separately from technical proposals, and a ranking was established based upon fuel price data between January 1, 2004 and December 31, 2004. A one percent (1%) sales tax refund to the City of San Diego was included in the price evaluation for the Proposer located in the City of San Diego. As a result, The SoCo Group offered the lowest price proposal, as shown below:

<u>Name of Proposer:</u>	<u>Total Extended Price:</u>
The SoCo Group (Carlsbad, CA)	\$8,118,094.48
Southern Counties Oil/SC Fuels (Orange, CA)	\$8,301,444.44
Falcon Fuels, Inc. (Paramount, CA)	\$8,356,339.46
Plavan Petroleum (San Diego, CA)	\$8,536,516.21
Buck Petroleum (El Cajon, CA)	Incomplete

Specifically, The SoCo Group proposed to evaluate the lowest price structure for fuel products for the City based on two (2) different published indices; the West Coast Spot Market price, which represents the price of fuel prior to shipping to the San Diego fuel terminal, and the San Diego Unbranded Rack which represents the price for unbranded fuel available at the San Diego terminal. The SoCo Group will compare the fuel prices between these two (2) markets as applicable, and will use the lowest fuel price of the two (2) markets, based on the day of delivery. A fixed freight rate from either the Los Angeles terminal or the San Diego terminal will be added to the price for each delivery location as applicable.

A management fee will be added to the lowest fuel price. It should be noted that The SoCo Group currently charges a fixed 1% management fee under the existing contract between the City and The SoCo Group. In light of the higher fuel prices, The Soco Group has proposed a new tiered management fee structure that lowers the fee charged to agencies if fuel costs rise. If the cost of fuel is \$1.00 and below, the management fee will be 1%. If the cost of fuel is \$1.001 to \$1.25, the management fee will be 0.90%. If the cost of fuel is \$1.251 to \$1.50, the management fee will be 0.75%. If the cost of fuel is \$1.501 and above, the management fee will be 0.60%. The management fee will be assessed after freight rates are included, but prior to any applicable taxes or oil fees.

PRICE SAVINGS ANALYSIS

In general, being able to take advantage of competitive pricing in two (2) separate, although not fully independent markets, should afford a price advantage for the City of San Diego. For the purposes of this analysis, a sample date of April 17, 2006 was chosen for the calculation of regular unleaded gasoline and diesel fuel prices for a typical City delivery on this date. In this case, the Central Operations location of the Equipment Division was used as the sample. The base price under both the current contract and the new proposal are calculated in a similar fashion. However, due to the rising prices of fuel, the management fee would be lowered under the new proposal.

CURRENT CONTRACT					
FUEL TYPE	WEST COAST SPOT MARKET PRICE/GAL.	SAN DIEGO UNBRANDED RACK PRICE/GAL.	LOWEST PRICE/GAL.	1% MANAGEMENT FEE/GAL.	BASE PRICE/GAL.
Regular Unleaded	\$ 2.4990	\$ 2.4433	\$ 2.4433	\$ 0.0244	\$ 2.4677
Diesel	\$ 2.3095	\$ 2.2610	\$ 2.2610	\$ 0.0226	\$ 2.2836

NEW PROPOSAL					
FUEL TYPE	WEST COAST SPOT MARKET PRICE/GAL.	SAN DIEGO UNBRANDED RACK PRICE/GAL.	LOWEST PRICE/GAL.	0.6% MANAGEMENT FEE/GAL.	BASE PRICE/GAL.
Regular Unleaded	\$ 2.4990	\$ 2.4433	\$ 2.4433	\$ 0.0147	\$ 2.4580
Diesel Fuel	\$ 2.3095	\$ 2.2610	\$ 2.2610	\$ 0.0136	\$ 2.2746

Since the base price for April 17, 2006 was above \$1.50 per gallon, the management fee under the new proposal would be 0.6% instead of the current 1% management fee. On April 17, 2006, the City would have realized the following per gallon savings:

Regular Unleaded: \$2.4677 - \$2.4580 = \$0.0097 per gallon
 Diesel Fuel: \$2.2836 - \$2.2746 = \$0.0090 per gallon

For regular unleaded fuel, estimated at an annual volume of 2,600,000 gallons and a savings of \$0.0097 per gallon, the City would realize a total estimated annual savings of \$25,220 due to the lowered management fee.

For diesel fuel, estimated at annual volume of 2,500,000 gallons and a savings of \$0.0090 per gallon, the City would realize a total estimated annual savings of \$22,500 due to the lowered management fee.

Therefore, the total estimated annual savings to the City based upon this reduced management fee would be \$47,720.

REBATE PROGRAM

As an incentive for all agencies to participate and utilize this proposal, The SoCo Group proposed a rebate program based on the overall volume purchased by the listed agencies. It should be noted that there is currently no rebate program under the existing contract between the City and The SoCo Group. As more agencies commit to buying off this proposal, The SoCo Group anticipates the achievement of an economy of scale savings, by increasing the efficiency of their service. The SoCo Group proposes that the savings will be shared amongst the various agencies. The rebate schedule will be calculated based upon the overall projected volume of the contract. Based upon the estimated annual volume of approximately 15,000,000 gallons, the volume numbers below represent a six (6) month goal in savings for a rebate.

<u>Volume attained:</u>	<u>% of overall potential volume:</u>		<u>Rebate per gallon:</u>
3,750,000	* 50	=	\$0.0015
5,625,000	* 75	=	\$0.0025

The SoCo Group will calculate the volume purchased on a monthly basis. At the end of each month, The SoCo Group will provide an individual and overall volume report to each of the agencies that purchase from this proposal. The SoCo Group's proposal is to pay the rebate back to the various agencies every six (6) months. Each agency would receive a rebate calculated based upon the gallons purchased by each agency multiplied by the rebate level attained due to the overall volume level. Based upon expected commitments from other agencies and the projected gallons from each of those agencies, the anticipated rebate level is at 50%. This would translate into a rebate of \$.0015 per gallon. Assuming the City of San Diego purchases an estimated annual total of 5,100,000 gallons of fuel from the new proposal from The Soco Group, the rebate calculation would be as follows:

<u>Volume Attained:</u>		<u>Rebate per gallon:</u>	<u>Rebate to the City:</u>
5,100,000	*	\$0.0015	= \$7,650 (\$3,825 every 6 months)

With the anticipated annual management fee savings of \$47,720 and the anticipated rebate savings of \$7,650, the total anticipated savings to the City over a one (1) year period would be approximately \$55,370.

All participating agencies are responsible for finalizing and issuing their own contract award and the City of San Diego will bear no financial responsibility for these awards.

FISCAL CONSIDERATIONS:

Authorize the estimated remaining expenditure of \$1,331,722 for Fiscal Year 2006, of which \$307,367 is from Fund 100, Department 110, Police Department, \$159,133 is from Fund 100, Department 120, Fire Department, \$3,788 is from Fund 41500, Department 760, Water Department, and \$861,434 is from Fund 50030, Department 820, Equipment Division of General Services, is hereby authorized solely and exclusively for providing funds for said contract, provided the City Auditor and Comptroller, upon advice from the administering Department, is hereby authorized to transfer excess budgeted funds, if any, to the appropriate reserves.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

City Council Resolution Number R-295206 was adopted on July 24, 2001 for award of a contract to The SoCo Group for furnishing gasoline and diesel fuel for a period of one (1) year beginning August 1, 2001 through July 31, 2002, with options to renew the contract for four (4) additional one (1) year periods. This contract is currently being extended on a month-to-month basis pending award of a new contract.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Fifty-one (51) potential proposers were contacted, ranging from small business to fuel distributors and large oil companies. The request for proposal was advertised in the San Diego Daily Transcript and posted in the City of San Diego's official internet site.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Equipment Division of General Services, Fire Department, Police Department, and The SoCo Group.

Originating Department

Deputy Chief/Chief Operating Officer