THREE YEAR CONTRACT WITH MANSFIELD OIL COMPANY TO PROVIDE FUEL DELIVERY SERVICES FOR THE CITY OF STOCKTON

RECOMMENDATION

It is recommended that the City Council approve by motion an agreement for Fuel Delivery Services (PUR 14-012), authorize the City Manager to execute an agreement with Mansfield Oil of Gainesville, Georgia, and authorize the City Manager to take any appropriate actions to carry out the purpose and intent of this motion.

Summary

On December 17, 1979, City Council approved Resolution 36851 authorizing the City Manager to 1) continue to obtain the City’s needed petroleum allocation from the City’s two base suppliers, or if necessary, from the open market; and 2) to enter into such agreements, execute such purchase orders or authorize payment in such sums as may be necessary to continue the acquisition of the City’s necessary fuel supply. Staff performed annual competitive bids in subsequent years and awarded its fuel purchases to the lowest priced vendor.

Notwithstanding that Resolution 36851 afforded specific authority, the City’s Internal Auditor issued a finding in its March 21, 2012 Report Compliance Audit - Disbursements Payment Authority noting that the City fuel purchases exceeded $1.5 million a year, and this authority appeared inconsistent with the purchasing authority limits outlined in Section 2000 of the City Charter. The audit also noted that the City Council delegating the purchasing authority and that City staff sought bids, evaluated responses, and purchased fuel from the low bidder consistent with the policy direction included in Resolution 36851.

In response to the Internal Audit findings and recommendations, staff performed a review of the process and determined that an annual competitive bid process for fuel delivery services was appropriate. The competitive bid (PUR 14-012) was completed and staff recommends the approval of a three-year agreement (Attachment A) with the sole bidder Mansfield Oil of Gainesville, Georgia.

DISCUSSION

Background

In December 1979, City Council approved Resolution 36851 (Attachment B) which authorized the City Manager to 1) continue to obtain the City’s needed petroleum allocation from the City’s two base suppliers, or if necessary, from the open market; and 2) to enter into agreements, execute purchase orders or authorize payments as necessary to ensure that the City has its’ needed fuel supply. Thereafter, staff performed annual competitive bids in subsequent years and purchased fuel from the
lowest priced vendor.

The City’s Internal Auditor issued a finding in its March 21, 2012 Report Compliance Audit - Disbursements Payment Authority (Attachment C, page 12) indicating that the annual fuel purchases exceeded the purchasing limits contained in Section 2000 of the City Charter. While management consistently followed the 1979 policy to conduct a competitive bid for fuel providers on a yearly basis and purchased fuel from the low price vendor, staff found that the City did not obtain the benefits of a standard competitive bid and contract. Under the bid and purchase process the City did not have formal agreements with suppliers that delineated service levels, expectations or assurances for fuel availability.

In response to audit findings related to the purchasing and procurement processes, the Administrative Services Department contracted a firm that provides advanced supply-management analysis and review to organizations seeking improved efficiency. Work began in October 2013 to include an expenditure review of historical supplier expenditures and contracting activities. A report of findings and assessment was presented to the Executive Team and City Council and included recommendations for changes to current practices, systems and policies to modernize the purchasing function and improve operating efficiencies. Phase 2 of the project was approved and will include a review of all suppliers including the fuel supplier.

The City also established a Council Ad-Hoc Committee pursuant to Council Policy 100-4. Reporting to the Council Ad-Hoc Committee is a 15-member Citizen Charter Review Advisory Commission. This Commission is tasked with specific scope of work of work divided into logical blocks of related issues that may form future cohesive ballot measure(s). On June 10, 2014, pursuant to a recommendation from the Commission, the recommended revisions to the Charter purchasing limits were approved by Council to be placed as a ballot measure for the November 2014 General election as Measure C (Attachment D). On November 4, 2014 Measure C was approved by the voters. The changes to the purchasing limit will not affect how fuel purchases happen as City purchases remain above the limits.

Present Situation

The current fuel purchasing contract expires on December 31, 2014. Council approval of the proposed agreement for a three-year term, with the provision of two (2) additional one year renewal periods would place the fuel purchases in line with the City purchasing policies for bidding and contracting in accordance with the City Charter as amended by Measure C. The proposed agreement also includes specific requirements and protections for the City by defining service locations, capabilities, timing of deliveries and prices.

The City’s fuel delivery requirements are complex and include requirements for both large truck-trailer split deliveries and small tank-wagon bobtail deliveries. Deliveries occur primarily at the Corporation Yard, Municipal Utilities, Police Department and Fire Stations; with smaller deliveries occurring at several locations throughout the area. Six of the locations require deliveries twice a week; fourteen require once per week; another fourteen are on an as needed weekly basis; and four locations are on an as needed basis.

The City uses an estimated 570,264 gallons of fuel each calendar year and currently spends approximately $1,900,000 annually for fuel purchases. This amount consists of 1) a fluctuating fuel
base price, 2) the fixed mark-up (i.e. the market differential) on fuel from the vendor, and 3) all applicable taxes and fees.

Of the price paid, 96% of the fuel spend is the fluctuating fuel base price which is the Oil Price Information Service’s (“OPIS”) Contract Average for Stockton. OPIS is a global benchmark for oil pricing and the vendor provides the City a subscription to the OPIS “Cost Plus Validator” service allowing staff to monitor and verify correct fuel pricing.

Since the fuel base price fluctuates and is pre-determined by the market and not the fuel vendor, Purchasing requested bids for the vendor’s fixed mark-up amounts only. Therefore, the bid totals consist of the fixed pricing only and do not reflect the total amount to be paid by the City annually.

The City released a Request for Sealed Bids for Fuel Delivery Services (PUR 14-012) on April 24, 2014. This project was advertised in The Record on April 25, 26 and 27. The Notice Inviting Bids was sent directly to twelve (12) fuel vendors, and an e-mail notification was sent through ASK Stockton to 2,582 recipients. On May 15, 2014, only one bid was received with the following results:

Mansfield Oil of Gainesville, GA $57,902.09

The mark-up from Mansfield Oil for calendar years 2012 through 2019 is as follows:

2012 (partial year only) = $89,448
2013 = $92,143
2014 = $66,030

Staff recommends awarding a contract to Mansfield Oil Company, as the only responsive bidder, in the amount of fuel purchases for the City under OPIS pricing plus a fixed mark-up of approximately $57,902.09 per calendar year (Attachment A). Mansfield Oil’s bid was regular in all respects.

FINANCIAL SUMMARY

There is available appropriation in the Fleet Internal Service Fund (ISF), Account No. 501-5023-571 for the purchase of annual fuel deliveries. As vehicles are refueled, monthly charges are distributed from this ISF to department accounts based on actual usage for each vehicle. All fuel budgets are evaluated annually and monitored throughout the year with adjustment made as needed within respective departments.

Attachment A - Agreement for Fuel Delivery Services
Attachment B - Fuel Resolution 36,851
Attachment C - Pay Authority Audit Report 2013 05
Attachment D - CRAC 2014 0610