



## Request for City Council Committee Action From the Department of Public Works

**Date:** January 16, 2007

**To:** Honorable Sandra Colvin Roy, Chair Transportation & Public Works Committee  
**Referral to:** Honorable Paul Ostrow, Chair Ways and Means Committee

**Subject:** Approval to Enter into Contracts for Fixed Fuel Price

**Recommendation:**

Authorize The Director of Public Works or the Director of Purchasing or their designee(s) to enter into binding contracts for fixed fuel prices (gasoline, diesel, E85 etc.) based on futures markets.

**Previous Directives:**

**Prepared by:** Prab Rao, Director Equipment Services Division

**Approved by:**

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Steven A. Kotke, P.E., City Engineer, Director of Public Works

**Presenters:** Prab Rao, Director Equipment Services Division

Permanent Review Committee (PRC) Approval \_\_\_\_\_ Not applicable  X   
Policy review Group (PRG) Approval \_\_\_\_\_ Not applicable  X

**Financial Impact** (Check those that apply)

- No financial impact - or - Action is within current department budget (If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Business Plan:  X  Action is within the plan.  Action requires a change to plan.
- Other financial impact (Explain): Potential for reduction in fuel costs and better management of fuel budgets.
- Request provided to department's Finance Dept. contact when provided to the Committee Coordinator

**Community Impact:**

Neighborhood Notification: Not Applicable  
City Goals: Not Applicable  
Comprehensive Plan: Not Applicable  
Zoning Code: Not Applicable

**Background/Supporting Information:**

Historically, the City has acquired gasoline and diesel fuels based on "spot prices" in the competitive market. As a large user with adequate financial resources, entering into fixed future prices was considered unnecessary. This approach served the City well until recently. Fuel prices were not very volatile and could be forecasted reasonably well for budgeting purposes.

In 2005, the competitive market was subject to erratic volatility which resulted in significant upswings in fuel prices. Many of the City departments were caught unaware of the increasing fuel expenses. For example, the Police department saw the cost of gasoline increase from \$1.60 in 2004 to \$2.00 in 2005 to \$2.41 in 2006 per gallon and the annual fuel expenses, increase from \$687,500 in 2004 to \$908,000 in 2005 to \$987,000 by October 31 in 2006.

Aside from the increasing cost, the fluctuations are hard to manage. Most of the increases happened after the budgets were set and the increases were beyond the inflationary adjustments factored into annual budgets. To provide for a more stable situation, contracting for fuel futures with fixed prices helps in budget balancing and also protects the City from unanticipated price increases.

The City of Saint Paul and Ramsey County have had such provision since Jan. 1, 2001 and claim to have saved over \$2 million thus far.

This City did send out bids for fuel futures contract based on Saint Paul model earlier in 2006. But, the volatility was such that the bids were practically valid for only a couple of hours and no officer of the City had the authority to make a decision in such a short time. Thus, only through pre-authorization by the City Council for senior City staff to decide on its behalf is it possible to enter into such fuel futures contracts and hence this request.