



MEMORANDUM

Date: March 27, 2015

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Termination of Fuel Purchase Agreements with Local Entities**

Pima County currently has 13 intergovernmental agreements and 3 other agreements with local offices of the State of Arizona, various school districts, fire districts and nonprofit organizations. The number of such agreements has grown over the years, particularly during the period of significant increases in gasoline prices. We have carefully monitored our experience with these arrangements, including routine interactions with the State of Arizona with respect to conducting activities of a fuel retailer.

The attached March 25, 2015 memorandum from the Fleet Services Department reports that Pima County lost money in the most recently completed fiscal year, 2013/14, when overhead costs were taken into consideration. Furthermore, we will incur additional capital investment costs from the renovation of our fueling station at the Mission Road site. Finally, there is great potential of becoming subject to State of Arizona regulatory controls as a fuel retailer, and such action would expose us to further costs.

As a result of these conditions, we are issuing letters of intent to terminate these agreements to those entities identified in the attached list. These letters will be issued the week of March 30, 2015, and the formal 30-day termination notices will be issued no later than June 1, 2015. The termination date of these services will be June 30, 2015.

Our expectation is that planned notifications will provide adequate time for these entities to make alternative arrangements for their fuel purchases. Fortunately, the price of gasoline has declined in recent months, and the savings that have accrued from fuel purchases from Pima County have been less than in previous years.

Please direct any questions to Fleet Services Director Frank Samaniego.

CHH/mjk

Attachments

c: John Bernal, Deputy County Administrator for Public Works
Frank Samaniego, Director, Fleet Services

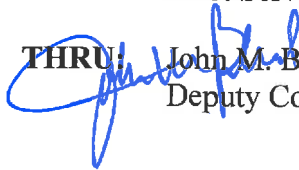


MEMORANDUM

TO: C.H. Huckelberry
County Administrator

DATE: March 25, 2015 (Revised)

FROM: Frank Samaniego, Director
Fleet Services Department

THRU:  John M. Bernal
Deputy County Administrator

RE: Cooperative Fuel Purchasing Agreements

With regards to the above-mentioned matter, there has been some confusion as to how to proceed. A memorandum was sent by you to Mr. Tom Burke, Director, Finance and Risk Management Department, on February 18, 2014. To date, I have not received a response from Mr. Burke with regards to this issue. Without further direction, this issue was not addressed. I am requesting your direction with regards to the Cooperative Fuel purchasing Agreements.

To briefly recap the issue, the practice of selling fuel to other government entities has been used by the County for over 20 years. As you previously stated, the motivation was to achieve a volume discount. Currently, we have 13 Intergovernmental Agreements (IGA's) and three (3) agreements in place, for a total of 16. Please see Attachment A for a detailed listing of the IGA's and agreements. In Fiscal Year (FY) 2013/2014, we sold 393,297 gallons of fuel at a selling price of \$1,252,889. Attachment B is a report showing the customer, type of fuel, quantity, and cost.

An analysis was performed as to the profitability of selling fuel. The back-up data is located in Attachment C, which includes total gallons sold, overhead cost, and profit by year. A summary of the profit is provided as follows;

Fiscal Year	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Profit	\$26,699.06	\$52,783.05	\$-50,538.54	\$32,520.99	\$-71,044.58

There are six (6) issues of concern to consider with the issue of selling fuel to other agencies:

1. Over the past several years, two (2) not-for-profit agencies in the community have approached County Administration with the request to buy fuel from the County. The goal for these agencies is to purchase fuel cheaper than the price at the pumps in town.
2. The cooperative fuel sales provide approximately 400,000 additional gallons of fuel. This adds to the total amount of fuel we purchase. We obtain the contract for fuel through a cooperative bid process with Pima County, the City of Tucson, and the Town of Sahuarita. Bidding the total fuel requirements of all three (3) entities provides us with a volume discount.

3. The State is asserting with the volume of fuel we are selling to other agencies, Pima County should become a registered retailer of fuel. Our argument is we sell to government agencies, not the public. It is yet to be seen if the selling of fuel to not-for-profits will make a difference to the State. The impact of having to obtain a license from the State would entail that the County stations be subject to fees, random inspections of equipment, and other licensure requirements. This would include the Arizona Department of Weights and Measures, which would be responsible for ensuring our dispensers are accurately dispensing fuel.
4. Replacement of fuel tanks is expensive. From the data in Attachment C, the tank replaced in FY 2009/2010 was \$206,604 compared to the tank in FY 2011/2012 at a cost of \$422,864. These tanks were small in comparison to the future replacements. We are currently planning for the remodel of the Mission Road station and anticipate a cost of \$1,400,000. We have five (5) stations, including Mission Road, which will require renovation over the next five (5) years.
5. In FY 2011/2012, we included the cost of the Richie Road Fuel Station tank replacement in the cost of fuel to the IGA's. Then, in FY 2013/2014, we added the cost of the Fuel Master Fuel System upgrade to the IGA cost of fuel. As you can see in Attachment B, each time we included tank replacement costs in the IGA price of fuel, we lost revenue. This FY we anticipate the replacement of the Mission Road fuel tanks to be approximately \$1,400,000. If we were to add this overhead to the cost of fuel charged to the IGA's, it would reduce our ability to sell fuel cheaper than the pump price.
6. On the other hand, the profit we do make when we are not renovating any fuel stations is easily obtained with a small effort from the Fleet Services' staff. We replace fuel tanks on a 20-year cycle. Once we are done with the tank replacements, the County will make a profit over a long period of time before the tanks are due for replacement.

Please let me know if you would like to discuss further or need anything further regarding this matter.

FS:vl

Attachments

c: Ray Ochotorena, Deputy Director, Fleet Services Department (w/attachments)

Attachment A

FLEET SERVICE IGA'S / AGREEMENTS

Customer Number	IGA/ AGREEMENT	Company Name	Address	Contact	Phone	Email
VC-15	IGA	Arizona Department of Corrections	1601 W. Jefferson St. Phoenix, AZ 85007	Gay Davis	602-364-2360	gdavis@azcorrections.gov
VC-15	IGA	Arizona Department of Transportation	2225 S. 22nd St Phoenix, AZ 85009	Ruth Kish	602-712-6630	rkish@azdot.gov
CC-480	IGA	Ajo Unified School District #15	P. O. Box 68 Ajo AZ, 85321	Angelina Valenzuela	520-387-5619	angelina@tabletoptelephone.com
CVS-6106	IGA	Avra Valley Fire District	15790 W. Silverbell Road Marana, AZ 85653	Lori Palmquist	520-682-3255	lpalmquist@avfire.org
CC-484	IGA	Contano Irrigation District	12253 W. Grier Rd Marana, AZ 85653	David Bateman	520-682-3233	omidi12253@comcast.net
CVS-5841	IGA	City of South Tucson	1601 S. 6th Ave Tucson, AZ 85713	Lourdes Aguirre	520-792-2424	laquirre@southtucson.org
CVS-4266	IGA	Drexel Heights Fire District	5030 S. Camino Verde Tucson, AZ 85735	Beverly Shields	520-883-4341	bshields@drexelfire.net
CVS-5023	IGA	Metropolitan Water District	PO Box 36870 Tucson AZ 85740	Lucy Evans	520-575-8100	levans@metrowater.com
CVS-4568	IGA	Northwest Fire District	5225 W. Massingale Rd Tucson, AZ 85743	Kathy Minten	520-887-1010	kminten@northwestfire.org
CVS-4223	Agreement	Pima Council on Aging	8467 E Broadway, Tucson, AZ 85710	Debra Adams	520-790-7262	azaha@pcoa.org
CC-506	Agreement	SAV of Green Valley	601 N. La Canada Dr Green Valley, AZ 85614	Margaret Bjerd	520-625-9215	mbunkieb@gmail.com
CC-507	Agreement	SAV of Tucson	1650 E. Benson Hwy Suite B Tucson, AZ 85714	Julia Riley	520-357-4734	julia.riley@sheriff.pima.gov
CC-537	IGA	Superintendent of Schools - Lukeville Schools	130 W. Congress, 4th floor Tucson, AZ 85701	Ricardo Hernandez	520-740-8997	ricardo.hernandez@schools.pima.gov
CVS-5190	IGA	Three Points Fire District	11200 S. Sierra Mountain Road #328 Tucson, AZ 85736	Angelica Yanez	520-822-1086	TPFD@threepointfire.org
CVS-4332	IGA	Town of Marana	13251 N. Lon Adams Rd Marana, AZ 85653	Sharyn Noeth	520-382-1907	shnoeth@marana.com
CVS-5658	IGA	Marana Health Center (Uses Town of Marana IGA)	13395 N Marana Main St Marana, AZ 85653	Kristen Jeppson	520-682-4111	kjeppson@Mhchealthcare.org
CVS-5159	IGA	Town of Sahuarita	725 W. Via Rancho Sahuarita PO Box 879 Sahuarita, AZ 85629	Irene Redondo	520-822-8840	iredondo@sahuaritaaz.gov

Attachment B

FUEL TRANSACTION SUMMARY REPORT FY 13/14

	QUANTITY	COST
FUEL TYPE: DIE - DIESEL	248.7	\$820.78
DEPARTMENT: 3 POINTS - THREE POINTS TOTALS:	248.7	\$820.78
FUEL TYPE: UNL - UNLEADED	521.3	\$1,564.31
DEPARTMENT: ADOC - ADOC TOTALS:	521.3	\$1,564.31
FUEL TYPE: DIE - DIESEL	913.4	\$3,249.02
FUEL TYPE: UNL - UNLEADED	5,234.3	\$16,232.70
DEPARTMENT: ADOT - ADOT TOTALS:	6,147.7	\$19,481.72
FUEL TYPE: DIE - DIESEL	1,983.5	\$7,044.53
FUEL TYPE: UNL - UNLEADED	1,059.9	\$3,268.99
DEPARTMENT: AJO - AJO TOTALS:	3,043.4	\$10,313.52
FUEL TYPE: DIE - DIESEL	17,415.2	\$57,808.61
FUEL TYPE: UNL - UNLEADED	1,187.9	\$3,499.79
DEPARTMENT: AVRA - AVRA TOTALS:	18,603.1	\$61,308.40
FUEL TYPE: DIE - DIESEL	1,852.7	\$6,183.52
FUEL TYPE: UNL - UNLEADED	9,501.9	\$28,310.04
DEPARTMENT: CORTARO - CORTARO TOTALS:	11,354.6	\$34,493.56
FUEL TYPE: DIE - DIESEL	20,170.2	\$66,749.85
FUEL TYPE: UNL - UNLEADED	3,782.6	\$11,210.05
DEPARTMENT: DREXEL - DREXEL TOTALS:	23,952.8	\$77,959.90
FUEL TYPE: DIE - DIESEL	925.3	\$3,369.66
DEPARTMENT: LUKEVILLE - LUKEVILLE TOTALS:	925.3	\$3,369.66

FUEL TYPE: DIE - DIESEL	23,300.7	\$77,503.58
FUEL TYPE: UNL - UNLEADED	171,901.3	\$509,428.57
DEPARTMENT: MARANA - MARANA TOTALS:	195,202.0	\$586,932.15

FUEL TYPE: UNL - UNLEADED	10,696.9	\$31,585.43
DEPARTMENT: MARANA HC - MARANA HC TOTALS:	10,696.9	\$31,585.43

FUEL TYPE: DIE - DIESEL	285.7	\$934.94
DEPARTMENT: METROWATER - METROWATER TOTALS:	285.7	\$934.94

FUEL TYPE: DIE - DIESEL	609.2	\$2,039.29
FUEL TYPE: UNL - UNLEADED	297.8	\$887.51
DEPARTMENT: NORTHWEST - NORTHWEST TOTALS:	907.0	\$2,926.80

FUEL TYPE: UNL - UNLEADED	13,926.5	\$41,291.13
DEPARTMENT: PIMA AGING - PIMA AGING TOTALS:	13,926.5	\$41,291.13

FUEL TYPE: UNL - UNLEADED	58,815.7	\$174,252.68
DEPARTMENT: SAHUARITA - SAHUARITA TOTALS:	58,815.7	\$174,252.68

FUEL TYPE: UNL - UNLEADED	7,541.3	\$22,228.24
DEPARTMENT: SAV - SAV TOTALS:	7,541.3	\$22,228.24

FUEL TYPE: UNL - UNLEADED	2,044.8	\$6,074.34
DEPARTMENT: SAV TUCSON - SAV TUCSON TOTALS:	2,044.8	\$6,074.34

FUEL TYPE: DIE - DIESEL	5,309.8	\$19,039.92
FUEL TYPE: UNL - UNLEADED	150.3	\$441.75
DEPARTMENT: SCHOOLS - SUPERINTENDANT OF SCHOOLS TOTALS:	5,460.1	\$19,481.67

FUEL TYPE: DIE - DIESEL	3,307.3	\$10,967.15
FUEL TYPE: UNL - UNLEADED	30,312.8	\$89,680.77
DEPARTMENT: SO TUCSON - SO TUCSON TOTALS:	33,620.1	\$100,647.92

Totals Diesel	76,321.7	\$255,710.85
Totals Unleaded	316,975.3	\$939,956.30
REPORT TOTALS:	393,297.0	\$1,195,667.15

REPORT PARAMETERS:

DATE TYPE:	TRANSACTION
DATE RANGE:	07/01/2013 TO 06/30/2014
PRICES:	COST
GROUP:	DEPARTMENT
VIEW GRAPH:	NO
EQUIPMENT NUMBER RANGE:	ALL EQUIPMENT
MODEL YEAR RANGE:	ALL YEARS
FT FUEL TYPE RANGE:	ALL FUEL TYPES
FUEL SITE/PUMP RANGE:	ALL FUEL SITE/PUMPS
ECO FUEL COMPANY RANGE:	IGA to IGA
DPN FUEL DEPARTMENT RANGE:	ALL DEPARTMENTS
EQC EQUIPMENT CLASS RANGE:	ALL CLASSES
SHP EQUIPMENT SHOP RANGE:	ALL SHOPS
STE EQUIPMENT SITE RANGE:	ALL SITES
MAK EQUIPMENT MAKE RANGE:	ALL MAKES

MOD EQUIPMENT MODEL RANGE:

EBC FUEL BILLING CODE RANGE:

EMG EQUIPMENT MONITOR GROUP RANGE:

STA EQUIPMENT STATUS RANGE:

EUC EQUIPMENT USE CODE:

ALL MODELS

ALL BILLING CODES

ALL MONITOR GROUPS

ALL STATUSES

ALL EQUIPMENT REGARDLESS OF USE CODE

Attachment C

Overhead Costs	FY 13/14	FY 12-13	FY 11-12	FY 10-11	FY 09-10
TM Technician	\$ 52,349.00	\$ 56,669.00	\$ 52,907.00	\$ 48,747.60	\$ 45,839.00
Finance Admin.	\$ 16,129.00	\$ 15,048.00	\$ 14,556.00	\$ 15,552.00	\$ 15,552.00
Grohall	\$ -	\$ -	\$ 1,977.89	\$ 1,803.67	\$ 8,940.68
ANS Distributing	\$ -	\$ -	\$ -	\$ 1,007.31	\$ 4,911.96
NW Pump	\$ 19,240.53	\$ 13,878.95	\$ 5,706.80	\$ 7,981.01	\$ -
TRAK/Faster	\$ 509,635.18	\$ 9,930.00	\$ 10,556.16	\$ 10,929.16	\$ 10,378.90
Cochise	\$ 6,610.00	\$ 6,610.00	\$ 6,610.00	\$ 7,445.00	\$ 7,580.00
Tank Tax	\$ 84.30	\$ 55.10	\$ 74.56	\$ 141.23	\$ 93.34
Tank Tax	\$ 1,400.00	\$ 1,800.00	\$ 1,800.00	\$ 1,800.00	\$ 1,800.00
Tank Replacement Average	\$ -	\$ -	\$ 422,864.00	\$ -	\$ 206,604.06
Generators	\$ -	\$ -	\$ -	\$ -	\$ 9,204.45
American Rubber Hose	\$ 58.19	\$ -	\$ -	\$ -	\$ -
Barnes Dist	\$ 6.75	\$ -	\$ -	\$ -	\$ -
Grainger	\$ 2,581.99	\$ -	\$ -	\$ -	\$ -
HT Metals	\$ 24.31	\$ -	\$ -	\$ -	\$ -
MERLES	\$ 252.51	\$ -	\$ -	\$ -	\$ -
NAPA	\$ 1,100.86	\$ -	\$ -	\$ -	\$ -
Southwest Fuel Care	\$ 875.49	\$ -	\$ -	\$ -	\$ -
Totals	\$ 610,348.11	\$ 103,991.05	\$ 517,052.41	\$ 95,406.98	\$ 310,904.39

IGA% of Overhead Costs \$ 128,267.09 \$21,445.40 \$109,412.92 \$20,368.08 \$68,440.88

IGA FUEL ANALYSIS FY13/14

IGA	Gallons	Cost	Billing
Diesel	76,321.7	\$255,710.85	\$265,345.03
Unleaded	316,975.3	\$939,956.30	\$987,544.63
Sub-Totals	393,297.0	\$1,195,667.15	\$1,252,889.66

Pima County	Gallons	Cost
Diesel	265,055.9	\$887,436.45
Unleaded	1,213,117.6	\$3,600,424.02
Sub-Totals	1,478,173.5	\$4,487,860.47

Totals	1,871,470.5	\$5,683,527.62
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IGA % of total sales	21.02%
IGA (Billing-Cost)	\$57,222.51
Overhead Costs	\$128,267.09
Profit	-\$71,044.58
Return	-5.94%
Cost per Gallon	\$0.326

IGA FUEL ANALYSIS FY12/13

IGA	Gallons	Cost	Billing
Diesel	84,630.8	\$298,999.87	\$305,341.95
Unleaded	317,170.3	\$959,553.33	\$1,007,177.64
Sub-Totals	401,801.1	\$1,258,553.20	\$1,312,519.59

Prima County	Gallons	Cost
Diesel	343,469.5	\$1,219,519.60
Unleaded	1,203,105.7	\$3,642,599.47
Sub-Totals	1,546,575.2	\$4,862,119.07

Totals	1,948,376.3	\$6,120,672.27
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IGA % of total sales	20.62%
IGA (Billing-Cost)	\$53,966.39
Overhead Costs	\$21,445.40
Profit	\$32,520.99

Return	2.58%
IGA Cost per Gallon	\$0.053

IGA FUEL ANALYSIS FY11/12

IGA	Gallons	Cost	Billing
Diesel	85,960.6	\$305,333.57	\$317,081.56
Unleaded	313,857.2	\$975,866.82	\$1,022,993.21
Sub-Totals	399,817.8	\$1,281,200.39	\$1,340,074.77

Prima County	Gallons	Cost
Diesel	336,986.4	\$1,200,746.43
Unleaded	1,152,613.9	\$3,588,855.10
Sub-Totals	1,489,600.3	\$4,789,601.53

Totals	1,889,418.1	\$6,070,801.92
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IGA % of total sales	21.16%
IGA (Billing-Cost)	\$58,874.38
Overhead Costs	\$109,412.92
Profit	-\$50,538.54
Return	-3.94%
IGA Cost per Gallon	\$0.274

IGA FUEL ANALYSIS FY10/11

IGA	Gallons	Cost	Billing
Diesel	95,675.5	\$283,959.70	\$300,653.94
Unleaded	320,718.5	\$837,346.43	\$893,803.32
Sub-Totals	416,394.0	\$1,121,306.13	\$1,194,457.26

Pima County	Gallons	Cost
Diesel	352,706.2	\$1,060,829.36
Unleaded	1,181,348.7	\$3,090,422.67
Sub-Totals	1,534,054.9	\$4,151,252.03

Totals	1,950,448.9	\$5,272,558.16
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IGA % of total sales	21.35%
IGA (Billing-Cost)	\$73,151.13
Overhead Costs	\$20,368.08
Profit	\$52,783.05
Return	4.71%
IGA Cost per Gallon	\$0.049

IGA FUEL ANALYSIS FY09/10

IGA	Gallons	Cost	Billing
Diesel	101,762.9	\$231,829.70	\$253,427.31
Unleaded	336,246.5	\$725,052.45	\$794,594.78
Sub-Totals	438,009.4	\$956,882.15	\$1,048,022.09

Pima County	Gallons	Cost
Diesel	371,946.1	\$803,677.63
Unleaded	1,179,777.0	\$2,531,209.12
Sub-Totals	1,551,723.1	\$3,334,886.75

Totals	1,989,732.5	\$4,291,768.90
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IGA % of total sales	22.01%
IGA (Billing-Cost)	\$91,139.94
Overhead Costs	\$68,440.88
Profit	\$22,699.06
Return	2.37%
Cost per Gallon	\$0.156



MEMORANDUM

Date: February 17, 2015

To: John Bernal
Deputy County Administrator
for Public Works

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Cooperative Fuel Purchasing Agreements**

It appears we are losing money on cooperative fuel purchase agreements. In addition, the regulatory action of the State of Arizona makes it impractical to continue with these agreements.

Document the level of additional effort required to comply with State regulations, and once documented, please notify all of the agencies with which we have cooperative fuel agreements that the Intergovernmental Agreements will terminate on June 30, 2015 and will not be renewed.

CHH/anc

Attachment

c: Tom Burke, Director, Finance and Risk Management
George Widugiris, Director, Procurement Department
Frank Samaniego, Director, Fleet Services