

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0590-00098-4614

Date: February 19, 2014

To: Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer

Subject: **DEPARTMENT OF GENERAL SERVICES REPORT BACK ON PETROLEUM EXPENDITURES**

At its meeting of October 21, 2013, your Committee instructed the Department of General Services (GSD) to report back with the petroleum details on the amount budgeted and the amount expended for the past five years. In a letter dated February 6, 2014, GSD provides an update relative to fuel consumption, budget, and expenditures (Attached). This report also corrects 2011-12 expenditure data provided in a report dated March 28, 2013 that was previously provided to Committee members.

FISCAL IMPACT

There is no fiscal impact. This report is informational only.

MAS:DP:05140049c

Attachment

CITY OF LOS ANGELES

CALIFORNIA

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February 6, 2014

Honorable Paul Krekorian
Budget & Finance Committee
c/o Office of the City Clerk
Room 395, City Hall

Attention: Erika Pulst, Legislative Assistant

BUDGET & FINANCE COMMITTEE **REPORT BACK ON PETROLEUM BUDGETS/EXPENDITURES** **AND FACTORS USED IN ESTIMATING FUEL COST**

(This report is not subject to any City Charter time limitations for action and/or approval.)

On October 21, 2013, relative to the First Financial Status Report for Fiscal Year 2013-14, your Committee requested the City Administrative Office to report on the amount budgeted and the amount actually expended for petroleum in each of the past five years. The Department of General Services (GSD) has previously provided the information in a report dated March 28, 2013, which was recently disseminated to members of the Committee. The CAO recommended the report be revised to include updated fuel expenditure information for Fiscal Year 2012-13 to address the report back to your Committee.

Background

GSD is responsible for purchasing approximately 15 million gallons of fuel for 141 fueling sites and emergency generator tanks. GSD also provides one million gallons of oil and petroleum-related products Citywide excluding proprietary departments.

Budgeting Assumptions and Methodology

City of Los Angeles

Putting together an annual fuel budget for a government entity as large as the City of Los Angeles is challenging because forecasting the costs for fuel, which is a commodity traded in the market, is not an exact science. Even large oil companies relegate an entire department to the task of trying to mitigate the impact of market volatility, which could be influenced by many factors; such as, supply and demand, economic conditions, geopolitics, and availability of refineries within a region to produce gasoline, and local laws to minimize financial risks. In the end, fuel costs are a product of two factors: usage and price per gallon.

The only constant element in the City's budget projection is the usage, since the average variation of fuel usage year-over-year is small. GSD's practice in determining its fuel budget is based on the assumptions that fuel usage Citywide will remain constant at the prior year's level and the unit price for fuel will increase 5 percent over prior year's average. Because fuel pricing is unpredictable and fluctuates, GSD also reviews the Oil Price Information Services (OPIS), U.S Energy Information Administration (EIA), various other fuel indices, and industry analysts' opinions when projecting the fuel budget.



AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER



The table below shows the amount of funding requested by GSD, the budgeted amount and actual expenditures for fuel over the last six years. Based on GSD's fuel budget methodology, GSD's requested funding has been within 12 percent of its actual expenses over the last 6 years which is within a 93 percent accuracy rate when averaged over the six-year period. Moreover, the current year budget provides \$44.9 million with an additional \$3 million in the Un-appropriated Balance (UB). A total of \$47.9 million is therefore available this year. This level of funding is consistent with the current year expenditures.

Fiscal Year	Fuel Consumption	Requested Amount ¹	GSD Budget ²	UB Funding	Actual Expenses	Requested vs. Actual
2007-08	16.5	45.5	37.5	8.0	48.0	-5%
2008-09	16.5	46.1	42.3	4.0	42.3	9%
2009-10	15.9	42.3	37.8	4.0	37.7	12%
2010-11	15.4	41.1	35.4	2.0	40.4	2%
2011-12	15.8	42.9	34.9	4.0	47.9	-10%
2012-13	15.9	47.0	38.9	9.0	46.2	-2%
2013-14*	15.9	49.4	44.9	3.0	45.5	N/A

¹ The requested amount is based on the projected expenditures of the prior fiscal year

² The Budgeted Amount does not include UB funding

* Projected

Other Government Entities

GSD surveyed numerous governmental entities in surrounding communities and nationwide to ascertain the factors used in estimating their fuel/petroleum costs for budgetary purposes. The table below lists the government entities and their fuel budget methodology. Ultimately, the majority of the survey respondents utilized the same methodology as that of GSD in projecting their annual fuel costs. The only difference was that the escalators (percent increase or decrease) in projecting their fuel usage and pricing varied between survey respondents.

Government Entity	Fuel Budget Methodology and Factors
City of Burbank	Budget projections are based on prior year's miles driven. Price is "estimated" based on past price paid and what they "guess" will happen in the coming year.
Culver City.	Assumes usage for the coming year will remain constant from last year and adds 10% to the price over last 2 years' average.
City of Glendale	Assumes usage for the coming year will remain constant from last year and adds 10% to the price over last 2 or 3 years' average.
City of Long Beach	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S Energy Information Administration (EIA) projections.
County of Los Angeles	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S. Energy Information Administration (EIA) projections and other industry analysts' opinions.
City of Pasadena	Budget projection made using prior 2 year's use and prior year's average cost plus 3%.
City of San Diego	Assumes usage for the coming year will remain constant from last year and average the price from last 2 or 3 years.
City and County of San Francisco	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S. Energy Information Administration (EIA) projections and other industry analysts' opinions.

Government Entity	Fuel Budget Methodology and Factors
City of Santa Monica	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S. Energy Information Administration (EIA) projections.
City of Irvine	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S. Energy Information Administration (EIA) projections.
State of California	Assumes that last year's usage remains constant and that the cost per unit is projected with the use of OPIS, EIA, and industry analysts' opinions.
City of Chesapeake, VA	Assumes usage for the coming year will remain constant from last year and bases the price from the U.S. Energy Information Administration (EIA) projections plus 25%.
City of New York	Assumes usage will remain constant from last year and utilizes a consultant to project fuel cost.
City of Phoenix	Assumes usage will remain constant from last year unless there is a specific service that is to be added. Fleet coordinates with Budget and Research Department to develop fuel budget and it is adjusted again at 3 months and 8 months.
Florida Department of Transportation	Generally has the same amount of funds from one year to the next and simply monitors monthly fuel use and cost. Using averages based on past month invoices, it estimates approximate fuel use and cost for the following month.
Georgia Department of Transportation	The Office of Budget and Planning issues Wright Express fuel cards to the state's numerous vehicle operators and pay the bills monthly.
South Carolina Department of Transportation	State leases units to individual departments so there is no appropriated fund. State subscribes to OPIS to help benchmark rack prices and evaluates on quarterly basis to make adjustments
State of West Virginia	No centralization of fuel budgeting. Each department handles its fuel budget in its own way. Funding sources come from the general and various special funds.

Fuel Pricing

Comparing the City's fuel pricing with the fuel price published by the EIA (see table below), which represents the average retail fuel prices in the nation and statewide, the City's fuel prices for both diesel and unleaded are much lower. Even with transportation cost included in the City's fuel prices, the City's fuel prices are as much as \$0.60 and \$0.39 lower than the published EIA fuel prices in California and the US, respectively. The price comparison shows that the City's fuel prices are competitive with national and statewide pricing standards.

Calendar Year	EIA - Diesel Fuel (Tax Incl.)		City of LA - Diesel (Tax & 2.5% for Freight Included)	Diesel Price Difference Compared to City of LA	
	US Diesel	California Diesel	City of LA Diesel	US Difference	California Difference
2007	\$2.942	\$3.125	\$2.670	\$0.272	\$0.455
2008	\$3.814	\$3.925	\$3.445	\$0.369	\$0.480
2009	\$2.473	\$2.607	\$2.146	\$0.327	\$0.461
2010	\$2.993	\$3.157	\$2.678	\$0.315	\$0.479
2011	\$3.840	\$4.084	\$3.608	\$0.232	\$0.476
2012	\$3.968	\$4.230	\$3.670	\$0.298	\$0.560
2013	\$3.922	\$4.126	\$3.530	\$0.392	\$0.596

Calendar Year	EIA - Unleaded Fuel (Tax Incl.)		City of LA - Unleaded (Tax & 2.5% for Freight Included)	Unleaded Price Difference Compared to City of LA	
	US Unleaded	California Unleaded	City of LA Unleaded	US Difference	California Difference
2007	\$2.801	\$3.077	\$2.730	\$0.071	\$0.347
2008	\$3.266	\$3.512	\$3.168	\$0.098	\$0.344
2009	\$2.350	\$2.678	\$2.317	\$0.033	\$0.361
2010	\$2.788	\$3.091	\$2.674	\$0.114	\$0.417
2011	\$3.527	\$3.819	\$3.434	\$0.093	\$0.385
2012	\$3.644	\$4.044	\$3.620	\$0.024	\$0.424
2013	\$3.505	\$3.886	\$3.473	\$0.032	\$0.413

From a fuel purchasing standpoint, GSD receives the most favorable pricing with its current fuel contracts. With the anticipation of obtaining better fuel pricing through a larger fuel volume, GSD has participated in government fuel consortium solicitations, both on a regional level with the County of Los Angeles, as well as on a national level with National Intergovernmental Purchasing Alliance. However, GSD determined that the overall price structure, transportation/freight costs and delivery times were not favorable in comparison to the City's service needs, requirements, terms and conditions. It was in the City's best interest to maintain its current contracts and exercise renewal options. To date, GSD has found that Government Fuel Consortiums would not result in a reduced price or cost to the City.

Conclusion

Although forecasting the annual fuel budget is challenging due to volatile market nature of fuel, GSD's methodology in predicting the costs of its annual fuel usage has yielded a 93 percent accuracy rate when averaged over the last 6 years. The same methodology is a common practice with many governmental entities in surrounding communities and even around the country. Comparing fuel pricing with national and statewide standards, the City's fuel prices are very competitive. GSD has found that participation with other government entities to increase volume do not reduce price or cost to the City. As such, GSD receives the most favorable pricing with its current fuel contracts.

Recommendation

Note and File.

For additional information related to fuel budgeting, please contact Angela Sherick-Bright, Assistant General Manger at (213) 928-9575 or via e-mail at angela.sherick@lacity.org.


 Tony M. Royster
 General Manager