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**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: County Executive Office

SUBMITTAL DATE:
October 30, 2003

SUBJECT: Cost and Feasibility Report on Aboveground Fueling System
for the Sheriff's Aviation Unit

RECOMMENDED MOTION: That the Board of Supervisors:

- 1) Authorize the Purchasing Agent to solicit bids for an aboveground aircraft fuel tank;
- 2) Authorize the Purchasing Agent to solicit bids for wholesale Jet A aviation fuel.

BACKGROUND: At the request of the Board, the Executive Office reviewed the feasibility of a County owned aircraft fuel tank at the vicinity of Hemet-Ryan Airport exclusively for the use of the Sheriff's Department Aviation Unit. Information was gathered through discussions between various staff of HRA Inc. (the current aviation fuel provider), Purchasing, EDA, Sheriff's Department, Voyager Fleet Systems Inc, and the Executive Office. While allowing the Sheriff's Department to purchase an aboveground aviation fuel tank and thereby buying aviation fuel at wholesale prices has a perceptible effect on the HRA Inc., in form of lost revenue, the overall savings to the Sheriff's Department is conservatively estimated to be over \$28,000 a year. Several factors, detailed below, were considered when making this estimate.

(Continued on Page 2)

Departmental Concurrence

Rob Rockwell, Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/a
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	no
	Annual Net County Cost:	\$ 0	For Fiscal Year:	

SOURCE OF FUNDS: Department Budget	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVE

County Executive Office Signature

- Policy
- Policy
- Consent
- Consent
- Dep't Recomm.:
- Per Exec. Ofc.:

3003 OCT 30 AM 8:51
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RECEIVED RIVERSIDE COUNTY

Prev. Agn. Ref.: 10/07/03 3.53a | **District:** All | **Agenda Number:**

3.22

Fuel Tank Costs

With the anticipated long-term tenancy of the Sheriff Aviation Unit at Hemet-Ryan Airport, cost savings, as reflected on Attachment A, would be \$28,000 to \$31,000 a year. Fuel savings of \$575,000 could potentially be realized over the life expectancy of the fuel tank, apart from the purchase and the installation costs. This savings is based on informal retail and wholesale price quotes provided by HRA Inc. and Chevron Aviation. Estimated costs for the purchase and installation of this fuel tank a return on the investment in 24 to 50 months. Applying proceeds from the sale of the Sheriff's surplus helicopter parts, totaling \$25,000, that cost recovery period is further reduced to 17- 36 months.

While there are tank maintenance and inspection issues to address, they are nominal, require minimal time (15 to 20 minutes daily), and can be completed by existing Sheriff staff. In some cases these inspection and maintenance needs are provided free of charge from wholesale fuel providers. Being a new tank, maintenance is expected to be nominal for the first several years. With fuel deliveries of about 7,700 gallons each, the tank would require filling about five times per year.

The Sheriff's Department owns a fuel tanker truck. It would continue to use this truck even with its own aboveground tank. The Sheriff is responsible for major maintenance on the truck, although HRA Inc. has generously provided some minor repairs to it in the past. These have been estimated at a value of perhaps \$500 per year, and might not continue if the Sheriff purchased wholesale fuel. Fleet Services and outside mechanics have performed operational maintenance to the truck in the past.

Even with its own approximately 10,000-gallon fuel tank, the Sheriff would not experience increased annual premiums for liability insurance. The Risk Manager has confirmed that the County's Pollution Liability Coverage already in place would extend to an aboveground tank added to the airport site until 2006 at least.

Fuel Purchases

The Sheriff will purchase an estimated 45,305 gallons of fuel in the coming year. About 15% of that would be purchased offsite, at other than the home airport of Hemet-Ryan, while the helicopters are in service elsewhere. In the course of patrolling the county, the Sheriff also fuels at airports in Corona, Banning and French Valley; these amount to about 6,500 gallons per year, and would likely continue regardless of whether the Sheriff purchases a tank.

It is estimated that up to 50% of HRA Inc.'s Jet A fuel sales are to the Sheriff's Department, with another 20-30% being sold to the California Department of Forestry, which intends to relocate to March Field in early 2005. It is notable that not all of HRA's fuel sales are of Jet A. Their field based operations cover selling 100LL aviation fuel as well as providing airplane tie down, storage, and maintenance.

It is evident that the Sheriff's cost saving strategy would have a specific impact on HRA's profit margin. With city subsidized funds, Banning and Corona Airports have advantages over HRA that cannot be overcome. French Valley Airport is HRA's biggest rival competition.

HRA Inc. has quoted a price for the Sheriff that would be a 42-cent per gallon discount on its posted fuel price. Because of the potential variability of that price, a price based on the seller's direct costs, such as that offered by Chevron, is preferable.

Federal Excise Tax

The Sheriff is currently utilizing fuel charge card services through Voyager Fleet Systems Inc. Voyager cards are used for the majority of fuel purchases Countywide. HRA has reportedly absorbed the 3% Voyager administrative fee because their payments from Voyager seem to process more consistently and timely than County warrants.

When a fuel provider provides Federal Excise Tax information, Voyager summarizes that data so that authorized excise tax-exempt entities, like the County, can submit refund claims to the IRS. Currently that information is not being provided by HRA to Voyager, thus putting the responsibility on the Sheriff's Department to pursue. It is also possible for HRA not to charge the Sheriff's Department for Federal Excise Tax, and submit a federal refund request independent of the Sheriff, but that arrangement has not been discussed. Currently, the Sheriff's Department is in the process of rectifying past excise tax issues related to aviation fuel purchases.

Conclusions

The wholesale purchase of aviation fuel is a concept similar to the County's wholesale purchases of automotive fuel, in that local vendors get less business from the County, but the County saves money overall. Given that the Sheriff and HRA Inc. share a long-term relationship that has benefited them both, it is not easy to recommend a change in that positive relationship. However, the current economic climate makes all cost-saving proposals worth considering. Only with additional information, the kind that will come from a competitive bid process, can savings be calculated with accuracy. Therefore, with the understanding that the costs associated with the purchase and installation of any fuel tank would be absorbed by the Sheriff's Department, the Executive Office recommends authorizing the Purchasing Director to solicit bids for the purchase and installation of an aboveground fuel tank at Hemet-Ryan Airport, and for wholesale fuel. The results of this process will be submitted for Board approval.

Attachment A

		Chevron (Wholesale)	HRA Inc. (AIR BP Card)	HRA Inc. (PO net 30)
Estimated Annual Consumption (gallons)		38769	38769	38769
Fed Excise Tax	0.218000	Exempt	Included	Included
Fed LUST Tax	0.001000	Included	Included	Included
CA M.J. Tax	0.020000	Included	Included	Included
CA Prepaid Sales Tax	0.045000	Included	Included	Included
CA Oil Spill Recovery Tax	0.001190	Included	Included	Included
Sales Tax (per gallon)	0.077500	0.08	0.15	0.18
Wholesale Price (before taxes and markup):		\$0.96	\$1.02	\$1.02
Posted Price (before sales tax):		\$1.01	\$1.96	\$2.02
True Price (includes all taxes and markup):		\$1.09	\$2.11	\$2.18
Tax Component of Posted Price (excludes Fed Excise and CA M.J. Tax, and sales tax):		4.72%		
Tax Component of Posted Price (includes Fed Excise tax, excludes CA M.J. Tax & Sales			26.52%	26.52%
Posted Price Markup (excluding tax amount):		\$0.00	\$0.67	\$0.73
Posted Price Markup (before sales tax):		\$0.05	\$0.94	\$1.00
Cost (before sales tax)		39,199.34	75,987.24	78,313.38
Fed Excise Tax	\$8,451.64	Exempt	Included	Included
Fed LUST Tax	\$38.77	Included	Included	Included
CA M.J. Tax	\$775.38	Included	Included	Included
CA Prepaid Sales Tax	\$1,744.61	Included	Included	Included
CA Oil Spill Recovery Tax	\$46.14	Included	Included	Included
Sales Tax		3,037.95	5,889.01	6,069.29
Sub Total		42,237.28	81,876.25	84,382.67
Tank Maintenance		1,000.00	Included	Included
Minor fuel truck maintenance		500.00	Included	Included
EDA Flowage Fee*		933.74	Included	Included
Fed Excise Tax Refund		0.00	(8,451.64)	(8,451.64)
Total Annual Sheriff Cost		\$44,671.02	\$73,424.61	\$75,931.02

Total Annual Wholesale Savings over

HRA Inc. Air BP Charge Card Purchases:	\$28,753.59
HRA Inc. County PO (net 30) Purchases:	\$31,260.00

		Cost Recovery Period (years)	
Fuel Tank Projected Costs	\$65,000.00	2.26	2.08
Fuel Tank Projected Costs	\$98,000.00	3.41	3.13
Fuel Tank Projected Costs	\$120,000.00	4.17	3.84
EDA Flowage Fee*		1,981.10	1,981.10

Note: Tax rates as reflected by Air BP Aviation Services as of 9/15/03, with the exception of the CA M.J. Tax. CA M.J. Tax as reported on the Sheriff's original Form-11.

* Flowage fee is 2.5%(County) or 5.0%(Public) x total net price (price before any tax x number of gallons received).