

**AGENDA:** January 11, 2007

**TO:** Regional Transportation Commission  
**FROM:** Grace Blakeslee, Transportation Planner  
**RE:** 2007 Freeway Service Patrol Tow Vehicle Fuel Price

---

## **RECOMMENDATIONS**

Staff recommends that the Regional Transportation Commission approve a variable tow vehicle fuel price for the 2007 Freeway Service Patrol (FSP) contract.

---

## **BACKGROUND**

Hourly rates for Santa Cruz County's Freeway Service Patrol (FSP) Program are set on a contract by contract basis. The Cost Breakdown (Attachment 1) submitted as part of a contractor's proposal for FSP services demonstrates all costs considered by contractors in the development of the proposed hourly rate. Items in the Cost Breakdown include vehicles and equipment, fuel, management, drivers and administration costs. The tow vehicle fuel price is one of the significant costs to the contractor for providing FSP services and can vary significantly over the life of a contract. Historically, the RTC required tow contractors to propose one tow vehicle fuel price for use in calculating the hourly rate of compensation according to the Cost Breakdown over the life of the contract.

## **DISCUSSION**

Frequent and potentially significant tow vehicle price fluctuations present a cost risk to both the contractors and the RTC. A Fuel Adjustment Clause in the existing FSP contractors intends to reduce the risk by allowing for adjustments to the hourly rate in response to significant fluctuations in fuel price over an extended time period. However, despite the existing Fuel Adjustment Clause, the impact of fluctuating fuel prices on the FSP program are still a concern to contractors and staff. Contractors are concerned with fuel price fluctuations on the cost of providing FSP service while the hourly rate of compensation is fixed. Staff is concerned that the current fuel price mechanism does not allow the RTC to always receive the most cost-effective price for FSP service nor does it foster the most competitive environment for FSP proposals. In addition, it appears that contractors may inflate other costs in the price proposal to accommodate for uncertainties in the fuel price.

To address staff and tow contractor's concerns regarding fluctuating fuel prices, **staff recommends the adoption of a variable tow vehicle fuel price system for the 2007 FSP contract.** The tow vehicle fuel price would be set on a monthly basis according to the monthly average diesel fuel prices for the region (Attachment 2). As a result of adopting a variable tow vehicle fuel pricing system, the monthly hourly rate for FSP services would fluctuate in response to variations in the

monthly average diesel price for the region. The hourly rate would be recalculated on a monthly basis by inserting the monthly average diesel fuel price into the Cost Breakdown for the contract. Staff will evaluate the effectiveness of this method for the 2007 FSP contract and report back to the RTC prior to adopting this practice for future FSP contracts.

Staff received positive feedback from interested contractors regarding the adoption of a variable tow vehicle fuel price. An hourly rate that fluctuates monthly with the tow vehicle fuel price reduces the risk to the contractor to take on a loss and protects the RTC's interest in achieving the highest benefit/cost ratio for FSP services. The RTC's Budget and Administration/Personnel Committee at the December 14<sup>th</sup>, 2006 meeting expressed support for staff's proposal to adopt a variable tow vehicle price system. The Committee took no formal action, due to a lack of a quorum.

Using historical trends as a basis for analysis, the hourly rate could increase or decrease up to 5% over the initial contracted rate over a four year period applying the proposed variable tow vehicle fuel pricing system. Staff expects that 6% contingency will be sufficient to cover potential increases in hourly rates resulting from variations in the monthly diesel price and overtime costs. Current FSP contracts use a contingency rate between 1% and 5%.

Staff will return to the RTC to consider award of the 2007 FSP Procurement in the March/April timeframe.

## **SUMMARY**

FSP tow contractors and staff have concerns with the mechanism in place to address tow vehicle fuel price fluctuations. Staff recommends that a variable tow vehicle fuel price mechanism be established for the 2007 FSP contract to address contractor's and staff's concerns. The tow vehicle fuel price would be set monthly to reflect the average monthly diesel fuel price. As a result of adopting a variable tow vehicle fuel pricing system, the monthly hourly rate for FSP services would fluctuate in response to variations in the monthly average diesel price. The hourly rate would be recalculated on a monthly basis by inserting the monthly average diesel fuel price into the adopted Cost Breakdown.

Attachment 1: Sample Cost Breakdown

Attachment 2: Monthly Average Fuel Price Computation

\\Rtcserv1\shared\RTC\TC2007\TC0107\FSPowFuel0106.doc