



THE CITY OF KEY WEST

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EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager
E. David Fernandez, Asst. City Manager - Operations

FROM: Jay Gewin, Utilities Manager

DATE: January 7, 2010

SUBJECT: Approval of Amendment # 1 to the City's Solid Waste Hauling and Disposal Contract with Waste Management

Action Statement:

This resolution will approve amendment # 1 to the City of Key West's contract for municipal solid waste (MSW) hauling and disposal with Waste Management.

Background:

On February 19, 2004 the City Commission approved a 20-year contract establishing Waste Management to provide municipal solid waste hauling and disposal services for the City of Key West. (Resolution 04-082). This contract governs the hauling of the City's solid waste from the Transfer Station in Rockland Key, to approved disposal sites where the waste is typically converted to energy, with limited waste landfilled. The contract has an initial 7-year term, a renewal 7-year term, and a final 6-year renewal term.

This contract was initiated after the City made the decision to close the former Waste-to-Energy site on Stock Island, and convert the facility to a temporary transfer station while the new site on Rockland Key was being constructed. The RFP for this contract was developed in conjunction with the City's Solid Waste Technical Advisory Committee, which sought to develop a solid waste site for a minimum 20-year period. The City's comprehensive plan also requires the City to provide solid waste collection, hauling, and disposal services to our residential and commercial customers, and our capacity and ability to provide solid waste services is a key concurrency requirement to accommodate development plans.

Key to the Caribbean – Average yearly temperature 77° F.

Section 7.55 of this contract allows Waste Management to seek an extraordinary rate adjustment once a year. Due to such factors as the escalation of fuel costs, disposal services, licensing fees, and operation costs, Waste Management is seeking an extraordinary rate adjustment. It is the first time an extraordinary rate adjustment has been requested in the first 7-year term. During this contract amendment negotiation, the City also used this opportunity to insert proposals into the amendment that would be beneficial to our utility.

The City has requested that Kessler Consulting generate a Solid Waste Master Plan for the City of Key West. City Staff utilized Kessler's expertise frequently during the contract amendment negotiations. Their knowledge in industry trends, rate comparisons with other municipalities, and contract analysis were of tremendous benefit to the City.

Purpose and Justification:

City staff recognizes that there have been substantial increases in fuel costs since the contract's inception. Diesel fuel costs have risen from \$1.61 per gallon in April of 2004 to \$3.20 in December of 2010 (Lower Atlantic Diesel Retail Sales Index from the US Energy Information Administration).

It is also apparent that the City is receiving favorable disposal costs for our waste compared to other municipalities. Both our hauling and disposal costs, with the proposed amendment, are still in line with industry standards. Kessler Consulting performed a comparison between our rate and those of other Florida counties and cities, and found our fees to be favorable.

The amendment includes the following components:

- 1) Fuel Base Rate vs. Non-Fuel Base Rate – Retroactive to October 10, 2010, when negotiations on the amendment were beginning, the rate will be \$67.70 per ton, comprised of a non-fuel base rate of \$59.67 and a fuel base rate of \$8.03.

From this point onward, the larger non-fuel base rate will increase at a rate of 75% of the CPI per year, which is consistent with the existing contract.

The fuel base rate is generated by a formula which reflects the actual costs incurred through the hauling of solid waste. It is based on the average of 22 tons per truck hauling at 6 miles per gallon, the 366 miles round-trip to the Waste to Energy facility, and the current diesel fuel index for the region. The fuel base rate will be adjusted quarterly as a result of changes to the regional fuel index.

The fuel base rate would also be modified for the City's benefit should the vehicles performing the hauling become more fuel efficient in the future.

- 2) Requires City approval if waste is diverted to a landfill instead of a waste-to-energy plant for more than a 2-week period - The State of Florida has established a 75% recycling goal for counties and cities that includes a recycling credit for communities

that send its solid waste to a waste-to-energy facility. If our waste is sent directly to a landfill, we would lose this potential credit.

The City will focus its efforts on increasing its recycling rate through the actual recycling of items within its solid waste stream. However, it would nonetheless be beneficial for the City to receive this additional recycling credit that is available. This stipulation is not in the current contract.

- 3) Removal of requirement to haul solid waste extracted from a possible new recycling facility back to the transfer station (section 6). - The City may be interested in entering a joint-venture with the County at some point in the future on a composting, or other type of recycling facility (at a different site than the City's Transfer Station). At such a facility, any solid waste inadvertently included with the compost/recycling stream would need to be extracted. This change to the current contract would not require this extracted waste to be hauled back to the Transfer Station if it was not economically feasible to the City.
- 4) Contract Opener for City should Waste Management negotiate a better subcontracted hauling contract- Waste Management currently subcontracts the hauling arrangement through Bulk Express Transport, Inc. Should they negotiate a long-term (6 months or longer) hauling contract in the future that is at least 10% less expensive than the current arrangement, the City can renegotiate its contract to capture a share of the savings. This stipulation is not in the current contract.
- 5) Fuel eliminated from eligibility for a future extraordinary rate adjustment request – Waste Management will no longer be able to cite fuel as justification to seek a future extraordinary rate adjustment. This is very significant for the City to be able to lock in favorable hauling and disposal rates for the long term.
- 6) Updated location of definitions according to Florida Administrative Code - Several definitions within Florida Administrative Code have been moved to a new code chapter since the original contract was entered into in 2004. We will use this amendment as an opportunity to update these terms.
- 7) Updated to include new Transfer Station location - The original 2004 contract identified the City of Key West Transfer Station as being located at its former location on College Road. The amendment will change the site to the new facility at Rockland Key.

It is in the City's interest to maintain its current favorable hauling and disposal rates. This is a critical component in establishing long-term Solid Waste Utility budgets, maintaining acceptable reserve fund balances, and limiting risk of utility rate adjustments to our customers. Maintaining hauling and disposal contracts that ensure capacity for solid waste processing are also a key concurrency requirement within our City's comprehensive plan.

The current solid waste hauling contract with Waste Management has a clause that allows an audit to determine an extraordinary rate adjustment should a negotiated agreement with the City become unachievable. The audit itself would be costly, and its results could expose the

City to a significantly larger increase, when such factors as the considerable increase in fuel costs over the term of the contract are considered.

Moving forward, the City looks forward to new ideas and plans to help increase our recycling rate. Many proposals will be generated through the Solid Waste Master Plan. However, we need to remember that however successful we are in the future, we will always need a contract for the hauling and disposal of solid waste. It will be our goal to divert as much recycled materials out of the waste stream in the future as possible, thereby lowering the amount of solid waste hauled to the mainland under this contract.

Options:

- 1) The City can issue an RFP and seek proposals for solid waste hauling and disposal services. This option is not recommended because it is likely that proposals would result in higher costs than are currently being paid by the City.
- 2) The City can decline Waste Management's extraordinary rate adjustment request. If this were to occur, Waste Management could opt out of the contract which would result in the City having to go out to RFP. The City and Kessler Consulting both believe a new RFP would result in higher costs.
- 3) The City can approve Amendment # 1 to the MSW hauling and disposal contract with Waste Management. This amendment will help lock in favorable long-term hauling and disposal rates. It also includes items that will update the contract to reflect actual fuel costs incurred, will help protect a City recycling credit for utilizing waste-to-energy, and will contain mechanisms that will help minimize barriers in future recycling efforts.

Financial Impact:

There will be additional costs to the City in the short-term. This increase would be approximately \$120,000 of a figure budgeted at \$3,478,100 for FY 2011. This additional cost will be able to be covered within the budgeted amount. However, maintaining the favorable financial terms within the long-term solid waste hauling and disposal contract helps protect Solid Waste Utility fund balance and minimize the chances of requiring a sudden rate increase in the future.

Additionally, this proposed increase of \$120,000 is an increase that is less than we would expect should the audit provision in the contract be exercised. This would be due to the fact that the additional cost to the City would be retroactive to the original letter from Waste Management exercising the extraordinary rate adjustment.

Recommendation:

City Staff recommends option # 3, the approval of Amendment # 1 to the solid waste hauling and disposal contract with Waste Management.