



THE CITY OF KEY WEST

Post Office Box 1409 Key West, FL 33041-1409 (305) 809-3700

MEMORANDUM

TO: Bogdan Vitas, City Manager

Cc: E. David Fernandez, Asst. City Manager-Operations

FROM: Jay Gewin, Utilities Manager

DATE: March 10, 2014

SUBJECT: Award of Advanced Disposal Services Solid Waste Southeast, Inc. from ITB 14-009 for Solid Waste Collection and Processing Services. Directing the City Manager to Execute a Contract in Substantial Form to the Contract Included in the Bid Documents.

Action statement:

This resolution will award a franchise agreement (herein referred to as a contract) to Advanced Disposal Services Solid Waste Southeast, Inc. pursuant to ITB 14-009 for Solid Waste Collection and Processing Services. This contract includes curbside collection of residential trash, recycling, and yard waste; collection of commercial solid waste; and the hauling and processing of recyclables and yard waste. This resolution would continue our existing single-day residential collection program, and would not include operation of the City's Solid Waste Transfer Station on Rockland Key.

This resolution will also direct the City Manager to execute a 7-year contract in substantial form to the document included in ITB 14-009, and have the City Attorney's office review the contract prior to the City Manager's signature.

Background:

The City Commission issued a task order for Kessler Consulting, Inc. to develop a Solid Waste Master Plan for the City of Key West (Resolution 10-276). The City Commission approved the Master Plan's policy statement, and directed staff to implement the plan's Phase I Recommendations via Resolution 12-253.

The City has a franchise agreement with Waste Management to provide curbside collection of solid waste and recyclables for residents and businesses that will expire at the end of the 2014 calendar year. This agreement also regulates the hauling and processing of recyclables.

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

The City Commission approved amendments to the existing agreement via Resolution 12-360 and Resolution 13-051, which also directed City Staff to prepare RFP documents for the development of a new contract for solid waste/recycling/yard waste services. Kessler Consulting was tasked to create the bid documents via Resolution 13-120.

The term of the new solid waste contract will be for 7 years, with two additional optional 4-year extensions. The new contract offers significant new benefits to the City compared with our existing contract. This includes:

- Yard waste will now be processed, whether mulched or composted, for beneficial use.
- Brand new collection trucks will be placed into service.
- Commercial rates are a basis for award in this invitation to bid, so that competitive bidding is introduced to the charges paid by our businesses.
- New commercial waste and recycling containers will be placed into service.
- A new RFID system with GPS vehicle tracking will be installed. This will allow us to track the servicing of solid waste and recycling carts, and will allow the City to identify the location of the collection trucks and the routes they have visited on a given day.
- Incentives for the contractor to improve our commercial recycling rate. Fines could be levied beginning in year three if commercial recycling participation fails to meet targeted goals, and if 50% of our businesses are not participating in single-stream recycling by the end of the initial 7-year term, the contract cannot be extended.
- The contractor has signed a pledge in the bid documents to be a partner with the City in achieving the goals stated in our Solid Waste Master Plan.
- Improved customer service for items such as missed pickups and timely pickup for bulk waste is included.
- More detailed monthly reports on solid waste activities will be provided to the City.

The City plans on purchasing new solid waste containers for our residents to coincide with the initiation of the new contract. Monthly residential collection events for household hazardous waste and e-waste will continue under the new contract.

The City included in the bid documents the option of having a prospective bidder operate and staff the City's solid waste transfer station in Rockland Key. If the City chooses to allow a contractor to operate the facility, the City would still operate the scale house for fiscal oversight purposes. Scale transactions determine the payments to the City's disposal contractor for haul-out and disposal, and, if transfer station operation were privatized, it would also determine the payment to the contractor for such operation. Both fees are determined based on a per-ton basis.

Purpose & Justification:

Two firms submitted bids that were opened by the City Clerk on March 5, 2014. These included:

- Advanced Disposal Services Solid Waste Southeast, Inc.
- Waste Management, Inc. of Florida

The bids included four separate costs. They encompassed the following:

- 1) Continued operation under the City's current 1-1-1 residential single day collection program. (One weekly collection for trash, one for yard waste, and one for recyclables, all on the same day)
- 2) Implementation of an additional trash collection day for residents. This would be a 2-1-1 system, where trash would be collected twice a week, and yard waste and recyclables would be collected once a week.
- 3) Continued operation of the City's 1-1-1 collection program, plus operation of the City's Rockland Key Transfer Station
- 4) Implementation of the 2-1-1 collection program, plus operation of the Rockland Key Transfer Station.

The cost for commercial collection paid by our business community was included in the bid so that the rates charged to business customers could be competitively procured. They are included as a basis for award.

The bids received were as follows. Included is an additional column comparing these prices with our existing expiring contract, with a CPI projection adjustment for FY 2015:

	Advanced Disposal	Waste Management	Existing Contract
OPTIONS W/O TRANSFER STN. OPERATION			
Service Option 1 (1-1-1)	\$5,376,516.90	\$5,884,030.80	\$5,973,041.29
Service Option 2 (2-1-1)	\$6,145,756.50	\$6,379,944.84	N/A
OPTIONS W/ TRANSFER STN. OPERATION			
Service Option 1 (1-1-1)	\$7,345,572.90	\$6,737,494.80	\$6,523,333.14
Service Option 2 (2-1-1)	\$8,114,812.50	\$7,233,408.84	N/A

The bids received included the sum of the following four components and one optional component:

- 1) The cost to the City for residential collection. This is calculated based on an estimated number of households served in Key West.
- 2) The cost to the City for hauling and processing yard waste for compost. This is based on an estimated annual tonnage.
- 3) The cost to the City for collecting the trash and recycling containers on our sidewalks. This is based on 400 containers.
- 4) The cost that our business community pays annually for collection of its solid waste and recyclables. This is based on analysis of the records that identify the container sizes and frequency of service currently used by commercial customers. It is very important to include this in the bid so that commercial rates are competitively priced.
- 5) (Optional) The operational cost for the City's Transfer Station on Rockland Key

Therefore to properly scrutinize each of the bids, a detailed analysis was necessary on each component to determine cost impacts to both the City and our business community. Please refer to the ITB14-009 Price Summary attachment for additional information regarding the bids for each of these items.

After due diligence and research, the recommendation of City Staff and Kessler Consulting is to award the solid waste collection and processing contract to Advanced Disposal under continued operation of our current 1-1-1 single day collection program, and not including the option for the contractor to operate the City's Rockland Key Transfer Station. The cumulative lower pricing, including significant potential savings for the City's business community of approximately \$835,179 per year, is the driving force behind our recommendation.

A more detailed summary of the proposals under our 1-1-1 program compared with our current expiring contract with a CPI projected adjustment is as follows:

<i>Costs to the City</i>	Advanced Disposal	Waste Management	Existing Contract
Cost per Household for 1-1-1 per month	\$13.82	\$13.51	\$13.66
Total Annual Cost for 1-1-1 (13,639 Units)	\$2,261,891.76	\$2,211,154.68	\$2,235,704.88
(Decrease) or Increase Compared to Existing Contract per Household	\$0.16	(\$0.15)	N/A
(Decrease) or Increase Compared to Existing Contract (All 13,639 Units)	\$26,186.88	(\$24,550.20)	N/A
Yard Waste Per Ton	\$126.37	\$64.00	\$73.58
Yard Waste Annual Total (4800 Tons)	\$606,576.00	\$307,200.00	\$353,184.00
(Decrease) or Increase Compared to Existing Contract per Ton	\$52.79	(\$9.58)	N/A
(Decrease) or Increase Compared to Existing Contract (4800 Tons)	\$253,392.00	(\$45,984.00)	N/A
Recycling Revenue	\$0.00	\$0.00	\$0.00
White Goods Revenue (Based on 10 tons per year)	(\$187.50)	\$0.00	\$0.00
Total Recycling Revenue to City	(\$187.50)	\$0.00	\$0.00
Public R.O.W./Sidewalk Collection Fee Per Can	\$1.00	\$1.26	\$1.28
Total Fee for R.O.W. Sidewalk Collection (400 Units)	\$145,488.00	\$183,314.88	\$186,224.64
(Decrease) or Increase Compared to Existing Contract per Can	(\$0.28)	(\$0.02)	N/A
(Decrease) or Increase Compared to Existing Contract (400 cans)	(\$40,736.64)	(\$2,909.76)	N/A
Total Cost to City	\$3,013,768.26	\$2,701,669.56	\$2,775,113.52
Total City Savings (Decrease) or Increase Compared to Existing Contract	\$238,654.74	(\$73,443.96)	\$0.00
<i>Costs to Business Customers</i>	Advanced Disposal	Waste Management	Existing Contract
Commercial Collection (Paid by Businesses)	\$2,362,748.64	\$3,182,361.24	\$3,197,927.77
Total Businesses Savings Compared to Existing Contract	\$835,179.13	\$15,566.53	\$0.00
TOTAL COST (Basis of Award)	\$5,376,516.90	\$5,884,030.80	\$5,973,041.29

The bids from both respondents were similar for residential collection to our current contract. Advanced Disposal's proposed rate was \$0.16 higher per home per month than the projected FY15 rate under our current expiring contract, while Waste Management's rate was \$0.15 lower per home per month.

Advanced Disposal's bid was significantly higher for yard waste processing than Waste Management's. Meanwhile, Advanced Disposal bid less for collection of sidewalk trash/recycle cans. Neither firm offered any significant revenue to the City for recyclables. A detailed analysis of these bid costs are described later in this section.

Commercial Collection -

The most significant difference between these two bids is the cost for commercial collection of trash and recyclables. The Advanced Disposal bid would offer the business community an approximate 26% discount in collection fees for both trash and recycling compared to the projected FY15 rates under our existing contract, in an amount totaling approximately \$835,179.13 annually. This commercial savings would total an estimated \$6.2 million over the initial 7-year term of the contract. Waste Management's cumulative commercial rates were slightly lower compared with their existing contract, but only in an amount equal to approximately \$15,566.53 per year.

The commercial rates bid from Advanced Disposal are lower for carts and dumpsters collected either once or twice a week. The rates bid from Waste Management are slightly lower for dumpsters collected three or more times per week, which a smaller number of customers.

One of the most significant differences between bids relates to charges for commercial trash compactors. For example, under the Advanced Disposal Bid, the cost savings could equate to over \$1,300 per month for those renting a 15 cubic yard compacter. While there are a relatively small number of compactors in the City, there are a larger number of businesses that share compactors.

The City's disposal fee of \$165.90 per ton is charged in addition to the collection fee for trash. Recycling collection is not charged a disposal fee.

Transfer Station Operation –

Upon detailed analysis by City Staff and our solid waste consultants with Kessler Consulting, we recommend that the City retain operation of the Transfer Station. Based on the City's FY 2014 budget for the Transfer Station, and reducing the cost the City would incur by operating the scale, the City's costs are far lower than each of the two bids:

	Advanced Disposal	Waste Management	City Staff
Cost to Operate Transfer Station	\$1,969,056.00	\$853,464.00	\$550,291.00
Cost Per Ton (Based on 51,600 tons)	\$38.16/ton	\$16.54/ton	\$10.66/ton

The City's quote assumes that two positions from the existing FY 2014 City budget (Manager and Scale Operator) would remain to operate the scale house. The remaining \$550,291 estimate includes the remaining existing number of City staff and budgeted operational and maintenance costs.

Accepting either of the two other proposals for the transfer station will have a rate impact for our customers, as these significant additional costs would be incurred annually. The Waste Management proposal would represent a 55% annual increase to our existing Transfer Station operating budget (minus the scale house). The Advanced Disposal proposal would almost quadruple the existing Transfer Station budget.

Additional Trash Weekly Pickup –

City Staff and our consultants also closely examined whether the City should begin a second weekly trash collection for residents, in addition to the once per week collection of yard waste and recyclables. Our research resulted in the following findings:

- Residents have become accustomed to our new single day collection program that has now been in place approximately 8 months since July 28, 2013. City Staff has received a negligible number of requests to revert to the old twice-per-week trash system.
- A twice-per-week trash collection is a disincentive for recycling.
- Additional collection trucks would be on our streets
- The increased cost would result in an impact on rates.

Regarding the fourth point, the potential cost increase is detailed in the chart below:

	Advanced Disposal	Waste Management	Existing Contract
Cost per Household for 2-1-1 per month	\$18.52	\$16.54	N/A
Cost per Household for 1-1-1 per month	\$13.82	\$13.51	\$13.66
Total Annual Cost for 2-1-1 (13,639 Units)	\$3,031,131.36	\$2,707,068.72	N/A
Total Annual Cost for 1-1-1 (13,639 Units)	\$2,261,891.76	\$2,211,154.68	\$2,235,704.88
Increased Bid Cost per Unit for 2-1-1 per month	\$4.70	\$3.03	N/A
Increased Bid Cost per Unit for 2-1-1 per year	\$56.40	\$36.36	N/A
Increased Bid Total Cost for 2-1-1	\$769,239.60	\$495,914.04	N/A
Increased Cost Vs. Existing Contract	\$795,426.48	\$471,363.84	N/A
Increased Cost Per Household (13,639 Units)	\$58.32	\$34.56	N/A

With the per-unit annual fee for this extra service from Advanced Disposal (\$58.32) and Waste Management (\$34.56) being significantly above the current contract, the additional cost for reverting to the twice-per-week trash collective is cost-prohibitive in the opinion of City Staff, and would have a certain impact on rates going forward. City Staff therefore recommends that the City not re-institute twice-weekly residential trash collection.

Revenue for Recyclables –

A disappointment in this procurement was that neither respondent offered a revenue share to the City for any of the residentially-collected recyclables in their bid. Our consultants believe this is due to the fact that the value for most recycled commodities has dropped substantially over the past few years. Should the market for recyclables rebound positively in the future, the City could enter into contract amendment negotiation at that time.

Advanced Disposal did offer a 15% revenue share for white goods in its bid. Waste Management did not offer a revenue share for white goods.

Advanced Disposal would process our recyclables at the WSI Miami MRF and Transfer Site in Miami, while Waste Management would utilize their MRF facility in Pembroke Pines where our recyclables are currently processed.

Yard Waste Processing –

The City's ITB required that yard waste be disposed of as beneficial use, which means that it must be composted or mulched, and not burned or used as landfill cover material. Waste Management proposed that the material be processed as compost material at their organics recycling facility near Lake Okeechobee. Advanced Disposal proposed utilizing Atlantic Trash and Transfer in Key Largo, where the yard waste would be sold to various entities in Miami-Dade County as processed mulch.

	Advanced Disposal	Waste Management	Existing Contract
Yard Waste Per Ton	\$126.37	\$64.00	\$73.58
Yard Waste Annual Total (4800 Tons)	\$606,576.00	\$307,200.00	\$353,184.00

The fees for this service offered by Waste Management represented a significant savings over our existing haul out rate for yard waste under the Hauling and Disposal Contract. Advanced Disposal's rates were significantly higher for this service.

Sidewalk Trash Cans/Recycle Can Collection –

This service involves servicing the trash and recycling cans that are located on the sidewalks of our pedestrian areas throughout the City. Both proposals offer a savings when compared to the existing contract. Advanced Disposal's proposal offers a savings of \$0.26 per container per day saving over the quote offered by Waste Management.

	Advanced Disposal	Waste Management	Existing Contract
Public R.O.W./Sidewalk Collection Fee Per Can	\$1.00	\$1.26	\$1.28
Total Fee for R.O.W. Sidewalk Collection (400 Units)	\$145,488.00	\$183,314.88	\$186,224.64

References –

City Staff has checked references for both Advanced Disposal and Waste Management, and have found no red flags to either that would preclude their selection. City and County representatives who oversee solid waste were queried. These individual responses are available for review under a separate attachment.

Financial Standing –

The City Finance Dept. reviewed the financial reports from both bid respondents, and found both Advanced Disposal and Waste Management to be in solid financial standing.

Options:

1. The Commission can approve City Staff's recommendation for a contract award to Advanced Disposal for 1-1-1 single day collection without operation of the City's Transfer Station. This option is recommended because the cumulative annual

proposed pricing for all services is \$507,514 lower than Waste Management's proposed pricing. While the City's costs will slightly increase, the higher costs are manageable and our business community will save approximately \$835,179 per year under this bid. Advanced Disposal is a capable firm with good recommendations.

2. The Commission could award Advanced Disposal for 2-1-1 with no operation of the transfer station. City Staff does not recommend this option because the 2-1-1 program carries significant extra costs that could impact rates, and twice a week trash collection is a disincentive to our recycling efforts.
3. The Commission could award Waste Management for 1-1-1 with operation and staffing of the transfer station. This option is not recommended because Waste Management's proposed price for operating the transfer station is approximately 55% higher than what the City currently incurs managing our facility. The business community would also not experience the \$835,179 per year savings under this proposal.
4. The Commission could award Waste Management for 2-1-1 with operation and staffing of the transfer station. This option is also not recommended, due to the aforementioned concerns with the significant extra costs in transfer station operation and extra trash collection, the disincentive for recycling, and the inability for the business community to benefit from a 26% cumulative collection rate cut.
5. The Commission can reject all submittals and re-bid the contract. This option is not recommended as City Staff and the City's consultant found that bids for both firms are very competitive, and are considered responsive with solid financial standing. There is no reason to believe that re-bidding the contract would elicit a different response or a lower fee.

Financial Impact:

Accepting the proposal from Advanced Disposal will save the City's business community an estimated \$835,179 annually. This equates to a projected \$6.2 million savings for commercial customers over the initial 7-year term of the contract. However, costs to the City will increase slightly in terms of household collection charges. Yard waste costs will increase substantially. City staff can attempt to negotiate these costs down in the future, but there are no guarantees.

City staff has re-run our solid waste rate model under the proposed rates for the 1-1-1 collection without the operation of the Transfer Station from Advanced Disposal. The results are as follows (see next page):

Item	2015	2016	2017	2018
<u>REVENUES</u>				
Collection Revenues (1)	\$1,583,087	\$1,651,683	\$1,723,250	\$1,797,919
Landfill/Disposal & Recycling Revenues (2)	\$7,330,402	\$7,643,143	\$7,969,314	\$8,309,494
Interest Earnings (3)	\$44,096	\$36,577	\$29,790	\$26,825
TOTAL ANNUAL REVENUES	\$8,957,585	\$9,331,402	\$9,722,354	\$10,134,238
<u>EXPENDITURES</u>				
<u>Operating Expenses:</u>				
Collection (4)	\$1,811,512	\$1,870,794	\$1,932,016	\$1,995,241
Recycling (5)	\$526,131	\$543,083	\$560,584	\$578,651
Landfill/Disposal (6)	\$5,132,137	\$5,331,946	\$5,487,375	\$5,647,461
General & Administrative (7)	\$2,116,357	\$2,128,178	\$2,140,265	\$2,152,625
Subtotal Operating Expenses	\$9,586,138	\$9,874,002	\$10,120,240	\$10,373,977
Renewal & Replacement Projects (8)	\$255,822	\$1,045,760	\$245,806	\$91,467
TOTAL ANNUAL EXPENDITURES	\$9,841,959	\$10,919,761	\$10,366,045	\$10,465,444
ANNUAL SURPLUS/(DEFICIT)	(\$884,375)	(\$1,588,359)	(\$643,692)	(\$331,206)
ENDING AVAILABLE CASH BALANCE (9)	\$4,412,098	\$2,751,773	\$2,046,522	\$1,651,882

The financial projections listed above include a 25% cash reserve balance withheld, and projected CPI increases in rates. The ending available cash balance figure represents the total after the cash reserve has been subtracted. Continued prudent management of revenues and expenditures by City staff could increase our fund balance yearly going forward. While we are operating at a net loss per year, we are responsibly drawing down our fund reserves to be consistent with the City's fund balance policy.

Therefore it is City staff's recommendation that the additional costs to the City of the Advanced Disposal bid are manageable for residential rates. And since the additional costs to the City from the Advanced Disposal proposal can be effectively managed, Staff therefore recommends approval of their bid so that the business community can benefit from the substantial savings they would obtain from the Advanced Disposal proposal.

Recommendation:

City Staff recommends that the City Commission select option # 1, that the City award its solid waste collection and processing services contract to Advanced Disposal Services for a single-day 1-1-1 collection program without operation of the City's Transfer Station.