



THE CITY OF KEY WEST
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EXECUTIVE SUMMARY

Date: January 23, 2023

To: Patti McLauchlin, City Manager

From: Kelly Crowe, Utilities Director

Cc: Todd Stoughton, Assistant City Manager
Ron Ramsingh, Interim City Attorney
Christina Bernaldi, Finance Director

Subject: Approval of a Fourth Amendment to the Solid Waste Collections Contract with Waste Management, Inc. To Increase the Residential Collections Rate, Increase the Haul-Out Rate and Modify the Basis for Determining the Annual Fuel Rate Adjustment.

Action Statement

Approve a fourth contract amendment between Waste Management, Inc (WM) and the City of Key West (CKW) to allow for an additional residential rate increase, haul-out rate increase and a modification to the basis for determining the annual fuel rate adjustment. Authorize the City Manager to execute the amendment and any necessary budget transfers.

Background

Waste Management, Inc. (WM) is the City of Key West's (City) contract waste hauler. WM provides services for residential and commercial collection, disposal and hauling of trash, recycling and yard waste. Per Resolution 21-267, WM's contract was extended for a four-year period effective January 1, 2022. There are three prior amendments to the contract with WM approved by the City Commission: Resolution 14-254, 16-048 and 21-259.

In late February 2022, the effects of inflation as well as overseas conflict produced an unprecedented spike in fuel costs. Fuel costs are an important component of the rate adjustments allowed in Exhibit 2 of the contract with WM and represent 5% of the total residential rate. The benchmark used for fuel costs is the Lower Atlantic (PADD 1C) No. 2 Diesel Ultra Low Sulfur Diesel (0-15 ppm) Retail Prices published by the Energy Information Administration (EIA Fuel Index). For comparison, the cost per gallon of diesel in June 2021 was \$3.18; in June 2022, the cost per gallon was \$5.73. Considering WM hauls approximately 48,000 tons of waste each year from the Key West Transfer

Station to the WM facility in Pembroke Pines (approximately 150 miles); fuel costs have had a significant impact on WM's operations.

WM approached Utilities staff about opportunities for relief and requested a rate increase due to extraordinary conditions. After reviewing the contract and the fuel costs, staff believed an increase was warranted.

WM proposed increases:

- Residential rates¹: \$15.86 (current, effective 10/1/22) per month/account plus an additional \$0.78² fuel increase; \$16.64 per month/account.
- Commercial recycling: Processing fee of \$4.50/ton.
- Haul-out rate: Additional \$4.00/ton.

During negotiations, staff had the commercial recycling increase removed from consideration as an increase in recycling cost is counter to our Strategic Plan efforts to increase commercial recycling activity.

City counter-proposal:

- Residential rates: \$15.86 (current, effective 10/1/22), plus \$0.45 fuel increase³ and \$0.20 labor increase⁴; \$16.51 per month/account.
- Amend the basis for the fuel rate adjustment in Exhibit 2 of the contract. See discussion below.
- No additional commercial recycling processing fee.
- Agree to an additional \$4.00/ton for haul-out⁵.
- Comply with the following conditions:
 - Complete all measures that are outstanding from the 2021 contract amendment
 - Charge for bulk waste items in excess of twice per year collection (up to 2 cubic yard each)
 - Collect scheduled bulk waste from any site receiving weekly trash service
 - Collect all canned, non-contractor generated yard waste (up to 10 cans per pick up)
 - Recycling weights and receipts hauled out shall be shared with the City monthly

1. This is the rate the City pays WM for collection of residential service. The rate that is assessed to residents is not affected.
2. The original request was for 2.5% and \$1.00/month per house. Rates were increased by 2.5% per the contract on 10/1/22. The \$0.78 represents the net increase per WM's request.
3. City fuel increase value is based on the EIA Fuel Index for the current year from February 2022-August 2022.
4. WM increased their employee housing allowance by \$250/employee. This translates to \$0.80/month/account. The City agrees to a 25% share or \$0.20 of the additional housing allowance.
5. Haul-out is currently \$83.71/ton. The \$4.00/ton represents a 4.8% increase which is similar to the increase in the tipping fee that was implemented by the City on 10/1/22. This is also consistent with the increase in the amount of \$4.06/ton that Monroe County presented on June 15, 2022 and approved on July 20, 2022.

With respect to the fuel increase in Exhibit 2, staff's proposal seeks to correct an issue with the original basis for the fuel adjustment. The adjustment is calculated based on the EIA Fuel Index from February to January of the most recent year. WM increases their rates annually in October of each year, so there is a nine (9) month gap between the basis for adjustment and implementation. As observed in 2022, the average cost per gallon of No.2 Diesel was \$5.06 from February to October.

The average cost of No.2 Diesel from February 2021 to January 2022 (per the rate calculation) was \$3.25 per gallon. In staff's opinion, the rate adjustment for fuel needs to be accounted for as close to real time as possible. Per the current contract, WM will not be able to recuperate their fuel costs until October 2023 which is more than a year after they were impacted by the costs.

To reflect the current fuel costs more accurately, staff proposes that the City grant WM their fuel increase of \$0.45 for 2022 based on the average cost from February 2022 through August 2022 and modify the time period for fuel cost adjustments to September through August. This time period will be consistent with the start of the fiscal year and will allow WM to have a more accurate fuel assessment. It should be noted that the City will benefit when fuel prices decrease. A decrease in fuel prices will result in a decrease in rates.

Purpose and Justification

The City of Key West entered into a contract extension with WM for a four (4) year period beginning in January 2022. Extraordinary fuel costs have impacted all industries where transportation is a key element for a business to function. Transportation is vital for WM to perform their contractual obligations for collections and hauling. WM has been functioning in an environment of high fuel prices without an ability to adjust their service charges. Their only recourse is to request a contract amendment to account for the additional costs.

Staff believes that the amendment to Exhibit 2 to allow for a more accurate cost basis for fuel will obviate the need for future contract amendments.

Strategic Plan: Cleanliness, Priority 5; Goal 2; Action 1; Coordination and Communication with Waste Management

Financial

The portions of the cost increase that directly affect the City are the residential collection rates and haul-out rates. The residential rates are what WM charges the City only. There will not be an additional cost burden applied to residents as a result of this increase.

The following is a summary of the individual rate increases and total costs attributed to each account:

Residential Collections

	Account	Current (House/Month)	Proposed (House/Month)	Total Increase
Curbside Pickup	4033404-5343400	\$12.99	\$13.52	\$69,332
Recycling	4033407-5343400	\$2.87	\$2.99	\$15,698
Totals		\$15.86	\$16.51	\$85,030

Haul-out

	Account	Current (ton)	Proposed (ton)	Total Increase
Disposal	4033405-5343400	\$83.71	\$87.71	\$120,000
Yard Waste	4033405-5343400	\$69.65	\$73.65	\$14,400
Totals	4033405-5343400			\$134,400

The cost increase will result in an increase of

- \$69,332 for Residential Collections, Professional Services (Account 403-3404-534-3400)
- \$15,698 for Recycling Operations (Account 403-3407-534-3400)
- \$134,400 for Hauling and Disposal (Account 403-3405-534-3400)

The rates are retroactive to January 1, 2023 as are the total cost increases. The increases will be funded from Reserves, Other Uses (Unrestricted Reserve) Account 403-3401-534-9900.

Recommendation

Staff recommends approving a fourth contract amendment between Waste Management, Inc (WM) and the City of Key West (CKW) to allow for an additional residential rate increase, haul-out rate increase and a modification to the basis for determining the annual fuel rate adjustment. Authorize the City Manager to execute the amendment and any necessary budget transfers.