

SUMMER STUDIES 2017

Sanitation – Selling the Collection Franchise for Commercial and Multi-Family

Summer Study 17-008

Department of Public Works and Utilities

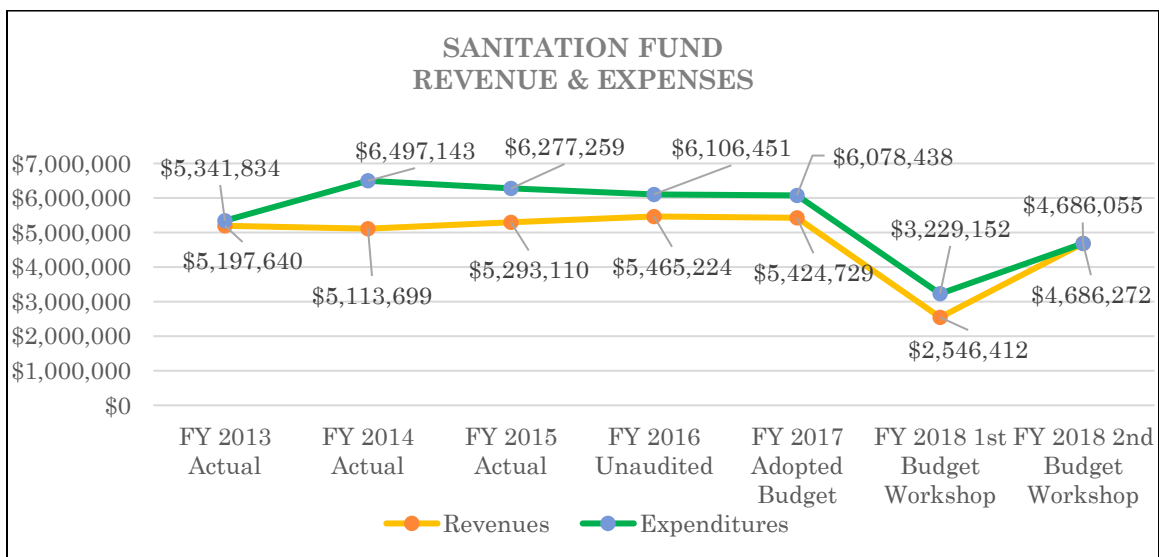
August 8, 2017

Summer Studies

Executive Summary

The Sanitation Fund has experienced a deficit for a number of years. As shown in the chart below, this deficit stems from the aggressive vehicle replacement program that was instituted since FY 13/14 and the fact that waste collection fees have not substantially increased since FY 09/10.

For the past four (4) years the Sanitation operation's expenditures have exceeded revenues (as shown in the chart below).



To achieve a sustainable operations, the following initiative is being incorporated in the FY 17/18 Budget:

- Selling the Commercial and Multi-Family Solid Waste Collection Operation while retaining the residential commercial collection.

"The Sanitation Fund has operated at a deficit for a number of years."

The goal of this initiative is to reduce expenditures and increase revenue thereby making the sanitation operation sustainable.

Analysis of Current Collection Operations

The Sanitation Division requires 22 employees and 25 vehicles (which includes 15 Refuse Trucks) divided: into two parts Trash/Recycling (3410) and Solid Waste (3420). The Division operates seven (7) day weeks and services residential, multi-family and commercial customers. Following is a breakdown of the number of customers per service type.

Service Type	Number of Customers
Residential	4,728
Commercial	647
Multi-Family	707

The FY 16/17 budgeted numbers for total departmental revenues vs. expenditures are:

Revenue	\$ 5,424,729
Expense	<u>\$ 6,078,438</u>
Deficit	<u>\$ -653,709</u>

The FY 16/17 projected revenue for commercial and multi-family solid waste collection are:

Commercial	\$1,605,900
Multi-family	\$1,891,644
Dumpster Rental	<u>\$ 120,828</u>
Total	<u>\$3,618,372</u>

The current franchise fee percentage is 19.5%. The Sanitation Fund receives approximately \$180,000 in unaudited franchise fees annually from the four (4) haulers that are currently permitted to service customers in the City. These haulers were grandfathered. They are the haulers that serviced accounts with front load dumpsters before the City was equipped to provide this service over 25 years ago. These haulers service 35 customers and generate approximately \$923,077 in revenue. Staff will be presenting revised procedures on the subject of auditing in the near future. In addition to the franchise fee mentioned above, the City receives approximately \$38,500 in Administrative Rebates from the disposal facility (Waste Connection) that these haulers are required to utilize per contract.

The commercial and Multi-Family service operates seven (7) days a week and works all holidays. Selling these services will decrease the operation's budget cost. The residential service will be able to operate with 11 employees, 13 vehicles, operate on a weekly schedule of five (5) days, and close on holidays. There will be no need for temporary labor (\$25,000 annually), overtime will decrease from \$120,000 to approximately \$45,000.

The projected revenue for FY 16/17 for single family residential solid waste is \$1,099,704 and \$115,000 has been projected for the comingled recycling program. The single-family residential solid waste collection program is outlined below.

- Residential solid waste collection, two (2) sanitation operators
- Residential recycling collection, two (2) sanitation operators
- Trash collection (bulk, yard waste, illegal dumping, etc.) Two (2) heavy equipment operators
- Other services provide (see below), two (2) sanitation operators
- Superintendent (1)
- Assistant superintendent (1)
- Administrative Assistant (1)
- Five (5) side-load vehicles
- Two (3) grapple crane vehicles
- Two (2) manual side-load vehicles
- Three (3) pickup trucks

Challenge

One of the challenges that will have to be overcome pertains to the process of separation/termination with the existing employees that will be affected by the transaction. The analysis being formulated by, the City's Consultant, Kessler will include a requirement of the franchise purchaser to absorb existing employees that meet certain skills set and qualifications including passing a drug test. There are eleven (11) positions that will be impacted by the transition, One (1) is in the DROP, two (2) have resigned, four (4) are part-time employees; which leaves four (4) full time employees who will have the option to use their bumping rights or be absorbed into the new company(ies) workforce.

Another challenge will be to come up with a strategy to develop the best solicitation to attract purchasers and obtain responsive bids. Typically when cities decide to sell their sanitation services the entire operations is relinquished. Retaining the residential collection portion of the operation may

impact the potential revenue of the acquisition from the stand point of the buyer. Since the single-family operations loses money, it may help the sale revenue as that burden is not imposed on the buyer.

Solution

Staff makes the following recommendations:

- Sell the commercial and multi-family solid waste/recycling collections program.

Staff has worked with of Kessler Consulting, (See Exhibit 1 – Change Order) to assist with the procurement process related to the sale of the commercial and multi-family collection services. Kessler is currently in the process of reviewing the commercial and multi-family operations in order to clearly define the service to be included in the solicitation document. Kessler will also be assessing the current vehicle/container inventory in order to determine the value of these assets. This analysis will allow Kessler to formulate a strategy that will make this solicitation as competitive as possible in order for the City to attract vendors and achieve the greatest possible revenue from the sale.

- Retain the single family residential solid waste, recycling, and the following services and increase the single-family residential rate by \$9 per month per account (from \$18.87 to \$27.87):
 - Residential solid waste collection (9,600 tons annually).
 - Residential comingled recycling collection
 - Palm frond pick up.
 - Annual hazardous waste event.
 - Monthly bulk/yard waste collection.
 - Roll-off collection in-house (20-40 self-contain dumpsters)
 - Automated Container repair/replacement.
 - Christmas tree Collection.
 - Bulk and yard waste Drop-off program (Broward County Facility)

Staff recommends increasing the Franchise Fees from 19.5 to 22% which is in-line with most municipalities. The City currently receives about \$180,000 in franchise fees annually from the haulers that are grandfathered in. With this increase in rate, the City will received \$203,077. The City will receive an additional \$783,528 annually in franchise fees from the sale of the Commercial and Multi-Family operations. Staff estimates receiving an additional \$115,150 in administrative rebate from the disposal facility (Waste

Selling the Collection Franchise for Commercial and Multi-Family

Connection) because the new hauler will be required to utilize this facility per contract.

Economics and Relationship to Millage Set on June 21, 2017

At this time staff is estimating the net revenue of selling the collection of the commercial and multi-family accounts to a vendor to be based on a \$1.5 Million onetime franchise purchase. The revenue from sale of the equipment which will be detailed to a greater degree by Kessler, the additional franchise fee to be collected from the purchaser(s) estimated at \$783,528 and the additional administrative rebate fee of \$115,150 for FY 17/18. The table below shows the net revenue of operating the single family residential collection alone with the proposed rate increase of \$9 per month per single family account (from \$18.87 to \$27.87).

Projected Annual Expenses/Revenue to Operate Single Family Residential Collection and other Miscellaneous Services			
Expenses		Revenue	
Items	Amount	Items	Amount
Salaries 11 Employees	\$1,354,847	Solid Waste (Rate Increase from \$18.87 to \$27.87)	\$1,624,710
Solid Waste Disposal	\$475,000	Recycling (\$2/per single family account)	\$115,000
Bulk/Yard Waste Disposal	\$90,000	Current Franchise Fee (from Grandfathered haulers)	\$203,077
Vehicle O&M/Maintenance	\$509,921	Additional Franchise Fee (from sale of Commercial/Multi-Family)	\$783,528
CNG/Diesel/Gasoline Fuel	\$56,520	Additional Administrative Rebate (from sale of Commercial/Multi-Family)	\$115,150
Miscellaneous	\$436,000	Other Misc. Revenue	\$367,884
Transfer into General Fund	\$1,500,000	One-Time Franchise Sale	\$1,500,000
Total Amount	\$4,729,152		\$4,709,349
Deficit	(\$19,803)		

Note: Provision is made in the FY 17/18 City Manager Recommended budget for six (6) months of operating fund and revenue for the Commercial and Multi-Family operations.

A Final Word

The Kessler firm's assistance with developing a procurement process that maximizes the City's return is critical. It should be noted that the process we

are following presents a new paradigm. We are not outsourcing the operation which means retaining a private firm to provide the service. We are selling the right to serve the customers for a period of time. This raises a number of questions, listed below, which will be addressed in a Commission workshop once the Kessler study is completed:

- 1) Do we want to sell the franchise to one or more companies?
- 2) What regulatory function will the City maintain in order to assure transitioned customers that there will be no price gouging and that the quality of service provided reflects a reasonable industry standard?
- 3) How will the City audit the franchise fee to insure that an accurate amount is collected? It is expected that the transition from the volunteer reporting system we have today to an audited system will more than cover the cost of auditing.
- 4) How will the City treat the transitioned employees fairly?

Regardless of these open items, the process must move forward to generate the revenue from the sale and the operational savings necessary to balance the FY 17/18 Budget. With the Kessler study underway and their advice supporting the process, the City Commission should be comforted that we are moving cautiously to achieve the goal established during the second Budget Workshop which was to end deficit spending in all funds. It is anticipated that a Special Workshop on the solid waste collection transition will be held in late November and that the City Commission will give direction to complete the transition and generate the fund balancing revenues during FY 17/18.

Action Item(s)

- The Human Resources Department will be formulating the separation package and will estimate the separation cost. This will diminish the net revenue of the residential collection operation for FY 17/18.
- Advise current haulers of franchise fee increase from 19.5% to 22%.
- Kessler is formulating the solicitation and will provide support for a vendor conference before the solicitation document is completed.
- Initiate a procurement to retain an auditor to review the revenue amounts stated by the existing vendors.
- Schedule a City Commission Workshop in late November to give final direction on the process.
- Issuance of Request for Bid (RFB), negotiation and award by the City Commission.

