

Agenda Date: 1/15/2019

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Stephanie Katsouleas, Public Works Director
Anna Luke-Jones, Senior Management Analyst

SUBJECT:

Review and Consideration to Approve a 7-Year Franchise Agreement for Integrated Solid Waste Management Services (Public Works Katsouleas).

a) DISCUSS AND PROVIDE DIRECTION

b) CONSIDER ADOPTING RESOLUTION NO. 19-0007

RECOMMENDATION:

Staff recommends that City Council:

1. Review final negotiated franchise agreements from three solid waste haulers who responded to the City's Request for Proposals (RFP) for Integrated Solid Waste Management Services;
2. Consider whether to select a start date of July 1, 2019 or July 1, 2020;
3. Consider whether to transfer billing functions to the selected hauler;
4. Consider adopting Resolution No. 19-0007, approving a seven-year franchise agreement with one of the proposers;

Alternatively, direct staff to return to City Council for additional discussion and/or negotiation at a future City Council meeting.

EXECUTIVE SUMMARY:

The City of Manhattan Beach provides solid waste hauling services to its residents and businesses through an exclusive franchise agreement, which for the past several decades has been contracted with Waste Management. The most recent 7-year contract term was awarded in 2011, with an optional 24 month extension at the City's sole discretion. In summer 2017, City Council directed staff to begin the solid waste procurement process and authorized the 24

month contract extension beyond the June 30, 2018, contract end date for a comprehensive selection process. On November 7, 2017, City Council approved a contract with HF&H Consultants, LLC to assist staff with the procurement process due to their unique expertise.

In fall 2017, staff conducted extensive outreach to residents and businesses about their impressions of the quality and value of the current services provided, what service enhancements they currently take advantage of and may want to see in future offerings and what motivates them to reduce solid waste. Following the survey process, staff recommended to City Council that all existing services be kept as part of any new contract and that ten service enhancements be added (see February 6, 2018, City Council meeting staff report). On May 15, 2018, City Council ultimately elected to include nine enhancements and reject one as part of the Integrated Solid Waste Management Services RFP.

The RFP was released in May 2018 and proposals were due in August 2018. Three proposals were received - Athens Services, Waste Management (incumbent) and Waste Resource Technologies. All three companies have proposed rates that are substantially higher than the rates currently enjoyed by residents and businesses, which is reflective of market trends based on new legislation adopted since 2011 and changes in China's recycling policies. Following the Solid Waste Subcommittee's recommendation, negotiations were conducted with all three haulers due to their various pricing structures, service commitments and solid waste diversion rates. Those negotiated contracts are attached to this staff report for City Council consideration.

City Council is asked to consider the merits of each proposal based on value and services offered, to provide direction on final selection of a hauler, to select a contract start date, and to determine whether the City will retain billing services or transfer that function to the hauler for an additional fee.

FISCAL IMPLICATIONS:

The fiscal implications have yet to be determined and are dependent on which contractor is selected to provide Integrated Solid Waste Management Services, as well as:

1. The start date of the new agreement;
2. The outcome of the Proposition 218 process following the selection of a hauler;
3. Whether the City elects to have the hauler provide customer billing services; and
4. The updated City Recovery Cost (CRC) administered to execute the program, as will be determined by a Cost Allocation Study.

The cost of providing service from each of the three haulers under consideration is more fully discussed in the Discussion section of this report, and detailed in several attachments. In brief, the first-year annual waste hauling rates (if considering a July 1, 2019, start date) range from a low of \$5,657,000 to a high of \$8,226,000, depending on which hauler is chosen to provide solid waste collection services (this range does not include the hauler's proposed billing fees).

BACKGROUND:

The City's current 7-year solid waste contract with Waste Management (WM) was established on June 1, 2011 and expired on June 30, 2018. However, on July 18, 2017 City Council approved a month-to-month contract extension of up to 24 months and requested that staff immediately proceed with securing new waste hauling services. Toward that directive, the following actions and milestones have taken place:

- **City Council Directed Staff to Begin Procurement Process (July 18, 2017)**
Prior to drafting a new RFP, staff proposed undertaking a comprehensive survey process, outreaching to residents and businesses about current services provided and whether any new services were desired. Staff also suggested a timeline to secure a new contract by July 1, 2019.

- **Community Outreach was Conducted Regarding Current and Future Services (September 28 - November 3, 2017)**
Through a variety of outlets, staff created and promoted two solid waste surveys between September 28 and November 3, 2017 for residential and commercial users. The surveys were made available on the City's website (Open City Hall and News item); and hard copies were made available at City Hall, Joslyn Center, the Public Works Yard and the City's Public Works booth at the 2017 Hometown Fair. The availability of the surveys was also promoted in the Beach Reporter (print and digital), on the City's Facebook, Twitter and NextDoor accounts, through the City's e-notification, via presentations at the Downtown Business Association and the North End Business Improvement District meetings, and through email blasts to members of both organizations and the Chamber of Commerce. Ultimately, 190 residential surveys and 15 commercial surveys were completed. The survey results were provided to City Council on December 19, 2017, in a memorandum.

- **HF&H Consultants, LLC Retained to Assist with the Procurement Process (November 7, 2017)**
City Council approved retaining HF&H Consultants, LLC to help administer the procurement process, including evaluating current services provided, providing insights into market trends, evaluating proposals, assisting with data compilation and facilitating contract negotiations with each hauler.

- **Council Subcommittee Members Selected; Current Solid Waste Services Summarized (February 6, 2018)**
Staff presented a comprehensive overview of the current services provided, highlighted key findings of the surveys, and recommended 10 service changes based on feedback from the surveys and evaluation of the various solid waste collection services actually used by residents. Those recommendations were unanimously approved by City Council. City Council also appointed two members to the Solid Waste Subcommittee - Councilmembers Amy Howorth and Richard Montgomery to participate in the RFP development and procurement process.

- **Final Selection of Services to be Included in the RFP; RFP Released (May 15, 2018)**

City Council approved the final draft RFP as recommended by the Solid Waste Subcommittee, inclusive of actions to ensure compliance with recent and upcoming solid waste legislation. The RFP was released shortly thereafter. On June 6, 2018, during the open filing period, staff hosted a pre-proposal meeting and site visit for seven interested haulers.

- **Proposals Received and Oral Interviews Held (August 23, 2018 and October 1, 2018)**

Proposals from three solid waste haulers were received on August 23, 2018 -Athens Services, Waste Management and Waste Resources Technologies. HF&H compiled summaries for each hauler, and on October 1, 2018 the Solid Waste Subcommittee, HF&H Consultants, LLC and City staff conducted oral interviews with all three haulers. Following oral interviews, the Solid Waste Subcommittee directed HF&H to conduct formal negotiations with all three haulers for final City Council consideration. Those negotiations were held between October 2 - December 10, 2018 and signed (or intent to sign) agreements for all three haulers were submitted on December 10, 2018. Those documents are attached to this staff report.

Residential Collection Offering and Rates

When the 2011 solid waste collection contract was initiated, Manhattan Beach transitioned from a monthly, flat rate to a tiered collection rate for solid waste and started offering 35-, 65-, and 95-gallon containers for single family residents, each with its own monthly fee schedule for weekly service. Residents were able to select the volume container and cost that best met their needs. Recycling and green waste collection continued to be offered at no additional charge. This same tiered rate structure was carried forward in the City's 2018 Integrated Solid Waste Collection Services RFP, with the addition of an even smaller solid waste cart (20-gallon) offered for the same rate as the 35-gallon container for those residents with spatial limitations.

Multi-Family complexes that have between 2-9 units and do not require large commercial bins can utilize the various sized carts like single family residential service. They adhere to the same collection schedule as residential single-family customers and pay a flat rate based on the number of units at the property, regardless of the number of trash carts used. Recycling and organic collection is provided at no additional charge.

Commercial Collection Offerings and Rates (including Multi-family that use bins)

Commercial customers (businesses and multi-family bin customers) also have a tiered-rate for solid waste collection, are able to select their own collection schedule with the hauler, and can schedule daily service or even multiple times per day service.

In the 2018 RFP, the tiered commercial and multi-family rate structure was expanded to include a fee for recycling collection, a service which is currently provided at no additional charge to businesses and multi-family dwellings of 10 units or more. This new charge correlates to changes in how recycled content is now being processed, which is further addressed below. The proposed rate structure calls for charging commercial customers a recycling fee equal to 50% of the fee charged for solid waste containers of the same size. This means that

commercial customers will pay a total monthly fee for collection service based on the container size and collection frequency of both the solid waste and recycling carts and bins. Green organics collection will continue to be provided at no additional charge. An example of the new rate structure for commercial collection is provided below under Individual Customer Rates in the Discussion section.

Solid Waste Diversion (e.g., Recycling)

The City’s total solid waste diversion rate is compiled from all waste collected and recycled throughout the city, inclusive of the franchise hauler’s tonnage, construction and demolition and third-party tonnage. The State of California requires that the total municipal tonnage diverted be at least 50%, and that statewide commercial businesses divert or reduce solid waste by 75% by 2020 (AB 939 and AB 341, respectively). Although Waste Management was not able to achieve its contracted diversion rate of 57% (escalating to 62% during its contract term), Manhattan Beach is in compliance with AB 939 given the total diversion rate achieved through combined franchise and privately-arranged recycling efforts. In the 2018 RFP, rather than setting a specific diversion rate, proposers were asked to provide the minimum hauler diversion rate that they could realistically achieve. Those results are presented below.

DISCUSSION:

The three proposals and subsequent signed agreements received from Athens, Waste Management and Waste Resources Technologies are similar in nature and substantially comply with the scope of work/desired services identified in the RFP. However, there are a few key differences in proposed costs, as well as some exceptions to the City’s agreement, which are highlighted in the Executive Summary created by HF&H (Attachment 1, Exhibit 2). In summary, the most significant exceptions address removing some limitations to extraordinary rate increases and allowing flexibility in mixed waste processing.

The overall cost difference between the three proposals received is presented in several categories in Attachment 1, which among other things include: 1) the 2019 annual and total 7-year contract costs, and 2) the individual costs customers can expect to pay (e.g., customer rates). These two categories are presented here from lowest to highest costs, and the full list of proposed costs is included in the Summary (Attachment 1) in Tables 1, 3, 4, 5 and 6. If the solid waste contract start date is delayed from July 1, 2019 to July 1, 2020 (because of the contract extension currently in place), the hauler is entitled to an annual rate adjustment based on the Consumer Price Index (CPI) rate. Please note that the hauler rates listed below do not include the City’s Recovery Cost.

1. 2019 Annual and 7-Year Total Contract Costs

(2019/20 First Year Rate, 7-Year Cumulative Total at 2% annual CPI, and Percentage Above the City’s 2018/19 Contract Rate)

<u>Company</u>	<u>2019/20 Rate</u>	<u>7-Year Total</u>	<u>% Above Current For FY 2019/20</u>
Current Rate (FY18/19)	\$3,845,000		
Waste Management	\$5,657,000	\$42,055,741	47%
Waste Resources Tech.	\$6,547,000	\$48,672,253	70%
Athens Service	\$8,226,000	\$61,154,415	114%

2. Monthly Individual Customer Rates (plus City Recovery Costs of 13.22%)
 (Single Family Residential and One Commercial Example)

<u>Company</u>	<u>35-Gallon</u>	<u>65-Gallon</u>	<u>95-Gallon</u>	<u>% Incr. 65-gal</u>
Current City Recovery Cost	\$1.26	\$1.84	\$2.42	
Current Residential Rate	\$9.55	\$13.95	\$18.36	
Waste Management	\$13.40	\$17.40	\$21.40	25%
Waste Resources Tech.	\$18.00	\$22.00	\$26.00	58%
Athens Service	\$22.00	\$26.00	\$30.00	86%

<u>Company</u>	<u>3Yd Trash</u>	<u>3Yd Recycling</u>	<u>% Above Current*</u>
Current Cost Recovery Rate	\$14.76		
Current Commercial Rate	\$111.83	\$0	
Waste Resources Tech.	\$148.29	\$74.15	99%
Waste Management.	\$174.30	\$87.15	134%
Athens Service	\$247.47	\$123.74	232%

[* Compares current commercial trash rate vs. new trash + recycling costs]

While the proposed residential solid waste collection costs are higher than the current rates, they are still lower than many cities, and in some cases much lower than the monthly collection rates of surrounding cities. Listed here for comparison purposes are residential solid waste collection rates of the following cities:

<u>City</u>	<u>65-Gal. Monthly Collection Rate</u>
Hermosa Beach	\$11.89
Inglewood*	\$16.63
Redondo Beach*	\$17.06
El Segundo*	(not to exceed) \$20.00
Gardena	\$21.38
Hawthorne	\$21.59
Lomita	\$21.64

[* Represents flat rate]

Regardless of the hauler ultimately selected, the rates for each type of collection service provided will increase. The data below, which is also included in the Summary Attachment 1, Table 2, highlights the percent increase over current rates paid to the hauler by type of service provided, with the lowest percentage increase bolded in each category.

<u>Company</u>	<u>Single Fam.</u>	<u>Multi-Fam</u>	<u>Comm.</u>	<u>Roll-off/Temp Bin</u>	<u>Total</u>
WM	24%	17%	81%	64%	47%
WRT	58%	185%	54%	66%	70%
Athens	88%	80%	157%	72%	114%

The rate increases proposed over the current rates are largely due to industry changes in how recycled materials are received and processed. Prior to 2018, China was the largest receiver of recycled materials. However, as mentioned in previous staff reports, China has taken measures to substantially limit what recycled content it is willing to receive and has also more broadly redefined what is considered “contaminated” material, which it also no longer accepts. The diversion rates proposed show the impact of China’s new policies on what haulers realistically feel they can divert and/or source reduce.

<u>Company</u>	<u>Guaranteed Hauler Diversion Rate Proposed</u>
Athens	50%
WRT	48%
WM	46%

Municipal solid waste services, including collection from public containers, City facilities and City-owned/managed events, will continue to be provided at no additional charge. Likewise, recycling services provided to Manhattan Beach public and private schools (pre-school through 12th grade) within City limits will continue to be provided at no additional charge.

Optional Service: Transfer of Billing Services to Selected Hauler

Currently, solid waste collection service is billed by the City as part of the water utility billing cycle, with the exception of roll-off, temporary bin, and compost bins. The rate residents and businesses pay includes the hauler’s rate plus City Recovery Cost (CRC), which funds the City’s administrative tasks related to billing, administration and management of solid waste collection services. The 2018 RFP asked haulers to propose customer billing rates as part of the City’s consideration to transfer this function to the hauler. The rates they proposed (Attachment 1, Table 13) are in addition to the rates provided in the base proposals summarized above, and would be applied to each type of customer service rate. If the selected hauler takes on this responsibility, then the CRC rate will decrease by an amount to be determined through a cost allocation study. As an example, the data below shows the additional rates a residential customer who has a 65-gallon container and a commercial customer who has a 2 cubic yard bin would expect to see on their monthly bills:

<u>Company</u>	<u>Residential Rate Increase</u> [% & Dollar Value for 65-gallon container]		<u>Commercial Rate Increase</u> [% and Dollar Value for 2yd Trash & Recycling]		<u>Total</u> 2019 <u>Contract</u>
Athens	2%	\$0.52	0.5%	\$1.44	\$103,116
WRT	3%	\$0.66	0%	\$0.00	\$120,856
WM	2.8%	\$0.49	0.8%	\$1.63	\$100,189

Although some may prefer to have the City as primary contact for trash collection services, there are several benefits associated with transferring billing responsibilities to the hauler, which include the following:

- Eliminates monthly and bi-monthly reconciliation redundancy between the City and the hauler for roughly 15,000 accounts
- Provides residents and commercial businesses a single point of contact for billing related questions and changes in cart size and service
- Reduces the City's role as the middleman for hauler-related issues
- Eliminates the City's role in pursuing collection for non-payment of services

Hauler Selection

Selection of solid waste collection services is not subject to public contracting code requirements, and therefore City Council is not obligated to choose the lowest priced vendor. Rather, City Council can evaluate the merits of each proposal and select the vendor it deems most suitable to provide the waste hauling services desired, inclusive of cost, compliance with regulations, service level, sustainability objectives, diversion and recycling goals, etc. As an additional reference for consideration, included as an attachment are references from other cities using the services of the three haulers who responded to this RFP.

Next Steps

For purposes of this report and presentation, staff is seeking direction from City Council on whether to:

- 1) Adopt Resolution 19-0007 awarding the contract to one specific company;
- 2) Return with more information and continue deliberations; or
- 3) Continue negotiations with one or more haulers; and
- 4) Select an effective start date of July 1, 2019 or July 1, 2020; and
- 5) Transfer billing functions to the hauler for the term of the contract, which will need to be determined prior to initiating the Proposition 218 process for the solid waste collection rate increases.

Proposition 218 Process

Once City Council selects a hauler and contract terms are finalized, staff will return to City Council with a request to set a public hearing no later than the first meeting in April, which will allow sufficient time to initiate and complete the Proposition 218 process prior to July 1, 2019 when rate increases are scheduled to take effect.

PUBLIC OUTREACH/INTEREST:

An extensive amount of public outreach has been conducted regarding selection of services and procurement of a new waste hauling contract. This includes the survey process and many public meetings mentioned in the Background section of this report. Additionally, this meeting where public comment is also accepted was advertised in the Beach Reporter, under a News Item on the City website, through E-notification and on the City's Facebook, Twitter and NextDoor pages.

ENVIRONMENTAL REVIEW

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that there is no possibility that the activity may have a significant effect on the environment; therefore, pursuant to Section 15061(b)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

Attachments:

1. Resolution No. 19-0007
2. Agreement - Athens Services
3. Agreement - Waste Management
4. Agreement - Waste Resources Technologies
5. HF&H Evaluation of Solid Waste Proposals and Exhibits
6. PowerPoint Presentation