



Office of the City Manager

WORK SESSION REPORT

March 8, 2011

To: Honorable Mayor and Members of the City Council

From: *PK* Phil Kamlarz, City Manager

Submitted by: Andrew Clough, Acting Director, Public Works

Subject: Solid Waste Recycling Assessment Report

SUMMARY

Over the last two years, staff has presented information to the City Council regarding the several million dollar deficit in the City's Refuse Fund. Unfortunately neither the revenue enhancements approved by the City Council in 2009 and 2010, nor a series of expenditure reductions over the last two years have altered the fundamental long-term problem: costs continue to exceed revenue. In order to gain a professional third-party perspective on how to create a sustainable program that meets the City's zero waste goals, the City retained Sloan Vazquez, LLC to conduct an analysis of the City's Solid Waste Management programs and services.

In May 2010 the City Council authorized staff to hire a management consultant for a comprehensive assessment of the City's Solid Waste Management Division (SWMD) in order to assist staff efforts to reduce the Refuse Fund structural deficit, while moving forward to achieve the City's goal of zero waste. In July 2010 the City Council approved the contract with Sloan Vazquez (SV) for these services. The study was scoped to "emphasize staffing and organization, program administration, systems analysis, customer service and sustainable revenue." they SV was not tasked to develop or propose any new or revised rate structure as any such rate changes will be dependent on operational changes.

Attached is the Sloan Vazquez Final Report on Assessment of the City's Solid Waste Management Division., This staff report includes preliminary management responses to SV's recommendations for consideration by the City Council, as well as the various stakeholders and partners in the City's solid waste programs. Staff will return to the City Council on March 22nd in the context of the overall approach to balancing the City's budget for further discussion of these issues.

CURRENT SITUATION*

The City has taken numerous actions to reduce the several million structural deficit previously discussed with the City Council. These actions have reduced \$1.9 million in costs on a recurring basis by cutting 11 full time positions (through transfers and eliminating vacancies) and effecting other cost saving measures including consolidating some collection routes. Additionally, the City implemented a 1-year diversion fee that generated additional revenue, however, that fee will sunset at the end of FY 2011. When Council adopted the 1-year diversion fee on June 29, 2010, they instructed staff to look at operational improvements (efficiencies and cost savings) before proposing any future changes in the rates. To that end, Sloan Vazquez was asked to review the Solid Waste Management operation and recommend changes the City could implement to balance the Refuse Fund.

As noted, Public Works has already implemented changes to reduce expenditures, and operational efficiencies have been introduced with consolidated collections and route changes. In addition, staff renegotiated some contracts (e.g. landfill disposal) that resulted in reduced costs, vacancies have not been filled as they have occurred, and capital projects are being deferred when possible. More detail on these changes follows:

1. Installation of PC Scale software: This is a step toward modernization of the Solid Waste Management operation and improvements in efficiencies. PC Scale, which replaces the former Weigh Master program, transforms a multi-step manual operation into an automated system that captures and manages data for vehicle weigh-in at the Transfer Station.
2. Installed and implemented RouteSmart software: This industry-specific software generates route lists based on collection data to guide route optimization. Several routes have been modified using this tool.
3. Eliminated 3 Saturday commercial routes: These routes were operating as a 6th day of service each week and it was all on overtime. Solid Waste staff met with the affected customers before the change was implemented, and assured them the garbage would be collected Monday through Friday and that this would meet their needs. The outcome has been a reduction in overtime expenditures, without any complaints about the service level from these customers.
4. Eliminated 2 long haul routes/trucks: 2 positions were eliminated and affected staff (based on seniority) were transferred to another division.
5. Eliminated 1 commercial refuse route: This was an evening route that generated overtime expenses; regularly scheduled daytime collection has been sufficient to effectively service customers.

* Refuse is the general term for both wet and dry solid waste materials. Garbage is wet waste; Rubbish is only dry waste; and Recyclables are materials that can be reclaimed and repurposed, including compostable organics, after sorting and bundling for sale and use in the recyclables market.

6. Consolidated refuse collection: Commercial accounts with 5-day-per-week collection were switched to 2-day-per-week collection. Customers received larger volume containers that would accommodate their twice per week collection; and this change allowed the collection truck to collect more accounts per day. This has reduced overtime expenses for this commercial refuse collection.
7. Improved Construction & Demolition (C&D) waste loads: These loads increased from 65% clean to 90% pure C&D, and this operational change decreased disposal costs.
8. Consolidated commercial recycling collection: This collection had been done by 3 different trucks: 1 each for paper, cardboard, and bottles/cans. Working closely with our materials processor (Community Conservation Center, CCC), the collection method was changed to: 1 truck for paper and cardboard (all fiber); and 1 truck for bottles and cans. This combined fiber collection has contributed to the City achieving improved operating results for commercial recycling.
9. Renegotiated contracts: Revised disposal contracts with Waste Management for landfill and C&D resulting in a \$200,000 annual savings.
10. Eliminated 2 residential routes: These routes were cut in fiscal year 2011 as part of the plan to consolidate routes; and personnel in the associated positions were transferred without lay-offs.
11. Hired consultant: Sloan Vazquez was retained to conduct a review by professionals in the industry of the City's entire Solid Waste program and operations.

Again, even with the measures described above, the Fund still faces a structural problem. We are now projecting to end FY 2011 with a deficit of approximately \$1.2 million. By closely monitoring and reducing expenditures, implementing some reductions in contract costs, not filling vacancies that occurred and shifting costs for capital projects that won't be completed this fiscal year, staff was able to reduce the FY 2011 deficit to the projected amount. However, these are 1-time measures that do not address the ongoing structural problem. We face a structural deficit in FY 2012 and FY 2013 that grows to over \$3 million. Two contributing factors are the loss of almost \$1 million in revenue due to the termination of the 1-year diversion fee ending in FY 2011, and the need to incur capital costs that have been deferred over the last two years. Until we can implement effective changes to reduce this deficit, an interfund loan will be needed to cover the projected deficit in this and future fiscal years. This loan requires repayment, and will add to the Refuse Fund's annual costs, increasing the need for additional revenue and/or cost savings to cover this amount.

If no cost saving measures are implemented, the Council has the option of considering a rate increase. No matter how the rates would be restructured, in order to overcome the structural deficit, the average increase is projected to be at least 15% for residential and commercial customers.

CONSULTANT RECOMMENDATIONS

The following table, excerpted from the SV Report, summarizes their recommendations that have fiscal impacts:

TABLE ES 1 – RECOMMENDATIONS WITH FISCAL IMPACT	<u>Recurring Benefit</u>	<u>1-Time Cost</u>
CONTRACTUAL COSTS REDUCTIONS		
• Outsource recycling materials processing and internalize the operation of the Buyback/Drop-off operation	\$910,017	
• City collection of all residential recyclables	\$1,469,440	\$1,540,000
Total Contractual Costs Reductions	\$2,379,457	\$1,540,000
OPERATIONAL COSTS REDUCTIONS		
• Convert residential refuse and organics collection to 1-person, automated side loader collection	\$1,220,400	\$4,200,000
• Convert commercial refuse collection to 1-person operated routes	\$1,017,000	\$1,500,000
Total Contractual Costs Reductions	\$2,237,400	\$5,700,000
TOTAL ALL COSTS REDUCTIONS	\$4,616,857	\$7,240,000
REVENUE ENHANCEMENTS		
• Conduct residential route audits	\$200,000	\$80,000
• Discontinue food waste discount rate	\$248,000	
• Expand Franchise Fee to include Recycling Revenue	\$197,064	
Total Revenue Enhancements	\$645,064	\$80,000
TOTAL ALL FISCAL IMPACTS	\$5,261,921	\$7,320,000

Distribution of the Sloan Vazquez Report

Public Works and a Sloan Vazquez partner met with management from the Ecology Center and the Community Conservation Center as soon as the final SV Report was issued. The intent of these meetings was to walk through the Report, discuss initial concerns and receive comments, specifically those related to recommendations that impact their relationship and contracts with the City.

Solid Waste supervisory staff received the final SV Report as soon as it was available, with the opportunity for an initial review and discussion, and a formal meeting was held with representatives from SEIU Local 1021 on February 24th. Staff and an SV partner

met with the Zero Waste Commission on February 28th. Several dozen people attended this meeting, including Union representatives and staff from SWM, the Ecology Center, CCC, and other community members and organizations involved in refuse and recycling. At the conclusion of the discussion, the Commission adopted a Resolution in response to the Sloan Vazquez Report, which is attached to this staff report. The motion was moved and seconded by commissioners Kalil and Jensen, and approved 6-0 with one commissioner absent (Blachman).

PRELIMINARY RESPONSE TO SV RECOMMENDATIONS

The City recognizes that the operational changes identified by SV require a substantial initial investment in equipment, physical improvements, and the effort of reorganization. Nevertheless, implementation of a final set of recommendations is projected to result in overall efficiencies, effective allocation of personnel in refuse and recycling service delivery, and a stable and sustainable balance of revenue and expenditures. The SV recommendations are essentially a “menu of opportunities” for cost savings and revenue enhancements. Along with all of its partners and stakeholders, it is the City’s challenge and responsibility to determine what mix of these recommendations we can use to achieve a sustainable program. Below are some initial responses to SV’s recommendations for the City Council to consider and discuss.

Contracts – Cost Reductions

1. Outsourcing Recycling Materials Processing/ Internalize Buyback/Drop-off Operation: Sloan Vazquez recommends outsourcing the processing of residential and commercial recyclable materials and internalizing the operation of the Buyback/Drop-off operation, with annual savings of \$910,000.

Staff recommends that we continue discussion with CCC management to reduce costs at the Materials Recovery Facility (MRF), with the objective of identifying an efficient and cost effective processing option. This might include the City hauling recyclable containers (bottles and cans) to an offsite facility, and CCC processing fiber and maintaining the Buyback Center on-site. Sufficient cost savings would have to be realized to pursue this alternative, including compensation for necessary improvements and on-going maintenance.

Another option to improve operations and reduce expenditures is to conduct a competitive RFP process. The objective would be to identify and select the most efficient and cost-effective facility (off City property) to process and market the City’s residential and commercial recyclable commodities (baled paper and cardboard, metals, glass, and plastics). An outside MRF would have the capacity to receive and process a greater range of plastic containers that are not accepted by CCC. A principal consideration in moving the operation to an off-site location is the very large pending expenditure for required capital improvements at the current facility, which is owned by the City and operated by CCC. This expense is estimated at immediate

costs of about \$3 million and continuing liability for maintenance of the property and physical plant.

2. Residential Recyclables Collection: SV recommends the City integrate the curbside recycling collection operation into the SWMD. Although this would require terminating the agreement with the EC, SV projects that it will result in significant savings to the City. Cost for City to absorb service: 1-time capital expense \$1,540,000; recurring annual savings to City \$1,469,440.

Staff suggests a renegotiation with Ecology Center management, with the objective to produce the potential operational changes, efficiencies, and cost savings identified in the SV Report.

An alternative is to give the contractual 1-year notice to the Ecology Center that the City will terminate the existing contract, and subsequently the City will assume responsibility to provide these services. SV's analysis indicates overall costs will be reduced by the City absorbing the management and delivery of these services with existing Solid Waste personnel. The cost savings is largely attributable to a reduction in administrative and operational overhead, since the City's management and customer service functions are already in place; and changing from 2-person to 1-person trucks, which are now the industry standard for collection.

3. Long-term Landfill and C&D Disposal: Conduct a competitive RFP process to identify and select the most efficient, cost-effective, and environmentally safe facility for the City's disposal needs. While SV did not make any recommendation on landfill arrangements, SWM staff consulted with them on this matter. It was pointed out that the City would get better rates if the term of landfill contracts were 15 years or longer, as is the case with surrounding communities with 15 – 25 year agreements. Staff hasn't identified annual savings that could be realized from these new contracts, but we've already captured \$200,000 in savings from the renegotiation of existing landfill contracts.

City Operations – Cost Reductions

4. Convert Residential Refuse and Organics Collection: SV recommends the SWMD convert to 1-person, automated side loader trucks replacing the existing use of rear loaders to improve collection efficiency and significantly reduce operational costs. 1-time capital expense \$4,200,000; recurring annual savings to City \$1,220,000.

Staff agrees with the SV recommendation to purchase new side-loading single operator trucks for residential garbage and organic collection. These modern vehicles are the industry standard and collect with a 1-person operator, rather than the current fleet, which requires 2-person operation. In addition, this equipment runs on new clean-emission diesel or Compressed Natural Gas (CNG) engines. Resulting route changes would be discussed with staff and their Union representatives to determine

which routes will still be completed with 2-person crews due to topographic and other physical constraints.

5. Convert Commercial Refuse and Recyclables Collection: SV recommends that SWMD convert the 2-person truck operation to a 1-person truck operation and, whenever practical, convert rear loader truck routes to front-loader trucks. 1-time capital expense \$1,500,000; recurring annual savings to City \$1,017,000.

Staff agrees with the SV recommendation to purchase new front loading trucks that collect commercial garbage and food waste with a 1-person operator. The current fleet of these vehicles has reached its useful and reliable life expectancy and is slated for replacement. As with the new residential collection vehicles, new front loading equipment meets industry standards, does not require 2-person operation, and runs on new clean-emission diesel engines. Resulting route changes would be discussed with staff and their Union representatives to determine which routes will still be completed with 2-person crews due to topographic and other physical constraints.

Other Changes & Improvements

6. Reorganization of Solid Waste Management Division: SV makes a cost-neutral recommendation to replace the Recycling Program Manager position with a Fiscal Analyst dedicated to the SWMD. In their recommendation, the duties of the Recycling Manager are distributed to the Solid Waste Division Manager, Senior Supervisor of Transfer Station Operations, and the Recycling Program Analyst.

Staff recommends that we give this further consideration, with any final configuration or impact on the Recycling Manager component determined by organizational transitions and succession planning, along with the manner, timing and relationship of implementing other recommended changes.

7. Route Audits: SV recommends that the City conduct route/billing audits to ensure the accuracy of billing and revenue collection for all the service it provides. 1-time cost to implement: \$80,000; projected annual revenue increase: \$200,000.

Staff recommends that we conduct a competitive RFP process to identify and select qualified vendors to conduct audits of residential and commercial routes. These audits compare how City billing and revenue collection correspond to customer service levels.

8. Commercial Franchise Haulers: SV recommends replacing the non-exclusive franchise system with an exclusive system, and adding recycling service revenues to the basis of calculations subject to the franchise fee. Under an exclusive system the entire City is serviced by a sole provider. Adding recycling service revenues to the franchise fee, based on FY 2010 revenue reported by current franchised haulers, the City could experience an increase in annual franchise fee revenue of about \$200,000.

Staff recommends that we retain the existing system of multiple franchises for haulers of commercially generated “clean/dry” rubbish, and consider revisions in the franchise agreement requirements. These franchised services complement the mandated City collection of all refuse, including commercial “wet” garbage, and generates revenue that can be used to support our Clean City Program.

Staff also agrees with the SV recommendation that the City’s Field Representative report to the Senior Supervisor of Commercial Collection to enforce franchise contract requirements, as reflected in their Figure 5 – Proposed Organization.

Next Steps

The Refuse Fund continues to face a significant financial challenge that must be addressed in order to achieve a sustainable program. However, given the comprehensive nature of the SV recommendations and their impact on various aspects of the City’s solid waste operations, there will need to be further discussion and dialogue about what changes should be made and on what timeline. Additionally, and importantly, a financial plan must be developed that addresses how the equipment replacement costs will be covered, how the interfund loan will be repaid and how any rate changes would be structured if necessary.

Next steps will include:

- Return to Council on March 22 with further information about budget and operational impacts of the recommendations, including a potential schedule for implementation.
- Continue to meet with key stakeholders, including staff and Union representatives, City contractors (principally the Ecology Center and CCC), and the Zero Waste Commission (at its meeting on March 28) to discuss budget and operational impacts of the recommendations.
- Include recommendations in the City Manager’s proposed FY 2012 – FY 2013 Budget to balance the Refuse Fund (presented to the City Council on May 3, 2011).

BACKGROUND

Refuse Fund – Fiscal Overview

The Refuse Fund’s fundamental problem is a structural deficit: the long-term gap between what the Fund annually generates in revenue and pays out for expenditures. While there have been a combination of 1-time savings and other changes, including rate increases, there have also been increased costs for operations, as well as for larger than anticipated capital expenditures and repairs at the Transfer Station and the City’s closed landfill.

Consultant Selection and Process

Sloan Vazquez, LLC was selected as the City's consultant by a panel that included: City Public Works staff, the Chair of the Zero Waste Commission, a member of Local SEIU 1021 and of PEU Local One representing Solid Waste employees, and a staff person from StopWaste.org. The consultants were directed to provide an in-depth study with emphasis on staffing and organization; program administration; operations; systems analysis; customer service; and sustainable revenue.

ALTERNATIVE ACTIONS CONSIDERED

The Refuse Fund cannot sustain its current structural deficit, and upgrades to equipment and restructuring of operations are needed. If a set of recommended changes is not implemented, the City could revisit rate increases for its residential and commercial customers, however, those increases are projected to be at least 15%.

CONTACT PERSON

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Attachments:

- 1: Sloan Vazquez Final Report:
Assessment of the Solid Waste Management Division for the City of Berkeley
- 2: Zero Waste Commission Resolution on the Sloan Vazquez Report

ZWC Resolution – Sloan Vasquez Report 2/28/11

1. We, the Zero Waste Commission, perceive the Sloan Vasquez Report to be a Draft Report, having found incomplete and missing information, cost-benefit analyses, and a lack of an adequate and inclusive process.
2. The ZWC made strong efforts to ensure that the scope of the RFP for Division Assessment (Sloan Vasquez Contract) was based upon how best to achieve the City's Zero Waste Goals while reducing the structural deficit and establishing sustainable revenue through a new rate structure. Instead, the recommendations address the existing structural deficit without adequate recycling-centered policy and cost-benefit analysis, including a review of non-core use of solid waste funds, eg: the Clean City Program.
3. We are extremely disappointed that the opportunity for a team approach was lost. While portions of the report may be useful and accurate, the process and lack of collaboration with City staff, the unions, and the City's contractors brings the recommendations into question, particularly takeover of contractor functions.
4. We find that the labor-related cost analyses are incomplete and require further definition.
5. We have not been given supporting data documentation for review. Previous draft reports were withheld until the printed report was distributed to Council. No detail of the calculation is provided. The report contains errors and omissions that must be corrected in order to be finalized.
6. We find the report lacks any discussion of expanding recycling programs, and we believe several recommendations would seriously weaken the program, notably elimination of the Recycling Manager. Pending State and local regulations to establish universal multi-family and commercial recycling, and the staff and resources needed to comply, are not addressed.
7. We advise that the City Council mandate an inclusive review process with adequate time necessary for the consultant and management to meet with the Zero Waste Commission, staff, unions and contractors, to correct and supply data, create adequate cost comparative analyses, and address a sustainable rate structure.

M/S/C Kalil/Jensen 6/0/0