

SANTA ANA SOLID WASTE CONTRACT EVALUATION REPORT

EXECUTIVE SUMMARY

Prepared for the
City of Santa Ana

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EXECUTIVE SUMMARY

A. INTRODUCTION

Sloan Vazquez, Inc. (SV or SV Team) is a consulting firm focused exclusively on municipal solid waste planning and management services, specializing in waste composition and characterization studies, feasibility studies, municipal contract analysis, residential and commercial collection operations, and management of MRF project development. Together, the firm's principals have over 60 years of wide-ranging expertise and experience in municipal waste management and recycling.

The SV Team conducted a rate evaluation on behalf of the City of Santa Ana to survey the rates and identify services provided in the following waste hauling contracts:

- Cities of Anaheim, Fullerton, Garden Grove, and Huntington Beach contracts with Republic Services (Republic).
- Cities of Irvine, Mission Viejo and Santa Ana contracts with Waste Management of Orange County (WM).
- Cities of Lake Forest and Orange contracts with CR&R.
- City of Westminster [member of the Midway City Sanitary District (MCSD), which uses MCSD-provided residential services] contracts through MCSD with Rainbow Environmental Services, a Republic Services company (Rainbow) and CR&R for commercial services.
- Orange County Unincorporated Areas contracts with CR&R, Republic, Ware and WM.

The contracts evaluated in this study were selected by City of Santa Ana staff among the contracts throughout Orange County due to each city's size and/or proximity to the City of Santa Ana. The SV Team agrees that the selected contracts provide an appropriate level of comparison for the purposes of this evaluation.

B. EVALUATION GOALS

The goals of the evaluation are as follows:

- Assess the overall value of the existing City of Santa Ana contract in comparison to municipal contracts included in this study.
 - Compare the rates of residential and commercial services, along with any notable residential and commercial program and service elements.
 - Provide an overview of the overall value of the contract to the municipality, including free services designated by and on behalf of the municipality, fees, discounts, contributions to municipal programs and services, as well as other benefits offered to each municipality through the contract.
 - Review diversion programs and results as well as disposal per capita reporting for each municipality.
- Provide options, review implications and recommend next steps regarding the City of Santa Ana contract, as the current contract term comes to an end on June 30, 2018.

C. METHODOLOGY

For the purposes of ranking the contracts included in this report, the SV Team assessed the **rates** paid to the contractor for services, the **contractually required contributions** from the contractor to the municipality in both funds and services, and the **contractually required diversion programs** and resulting reduction in the average pounds per day (PPD) disposed by residents and businesses in each municipality.

Rates paid to contractor: the rates represent value to the residents and businesses located in the city.

Contractually required contributions: the contributions of funds and free services to each city represents increased resources for city programs and reductions in the overall costs of city operations.

Contractually required diversion programs: the diversion programs and their results represent each city's ability to achieve state and local diversion requirements and comply with Assembly Bills (AB) 939, 341 and 1826.

To assess the overall value of these three components, the SV Team evaluated the following seven categories:

1. Residential rates paid to contractor
2. Effective residential rates paid to contractor per capita
3. Commercial rates paid to contractor
4. Overall estimated value of contractually required contributions, cost reimbursements, fees, funding, grants, payments, and revenue sharing by contractor to the municipality (excluding franchise fees and surcharges)
5. Estimated value of contractually required free city services
6. Contractually required diversion programs
7. Combined performance of both actual reported CalRecycle PPD per resident data for 2014 and the percentage that the actual reported PPD per resident is better than the 2014 CalRecycle goal
8. Combined performance of both actual reported CalRecycle PPD per employee for 2014 and the percentage that the actual reported PPD per employee is better than the 2014 CalRecycle goal

The municipalities were evaluated, then ranked in each category, with a high score of one and a low score of 11 (a total of 11 contracts were evaluated, with the County of Orange contracts evaluated as a single contract). Where two contracts were assigned the same ranking, the next highest rated contract was assigned the following number in sequence (i.e., if two contracts were ranked fifth, the next highest rated contract was rated sixth). The average of the rankings from each of the seven categories were then calculated and the resulting scores were used to rank the overall value of the contracts.

Categories 1, 2, 3, 7 and 8 were purely data-based, and the rankings reflect publically available data. The rankings for categories 4, 5 and 6 necessitated in-depth analysis of contractual requirements, the application of available data, documentation and public information, and the assigning of standard industry-based values and reasonable assumptions in order to estimate value. The SV Team applied its 60 years of industry experience and extensive understanding of regional contracts to assess the value of additional contractual requirements including payments to the city by the contractor, as well as the estimated costs associated with free city services, and project the estimated impact of recycling programs and infrastructure.

D. FINDINGS

After rating each contract according to the criteria of the seven designated categories, ranking the contracts within each category, then averaging the rankings for each contract, an overall value ranking was calculated. Through this process, the City of Santa Ana contract has been appraised as providing the **third highest overall value** among those contracts evaluated.

OVERALL VALUE RANKING

The following is the overall ranking of the evaluated contracts, when evaluated for the criteria described above and among the contracts included in this report.

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|---------------------|---------------------|
| 1. Lake Forest | 7. Huntington Beach |
| 2. Mission Viejo | 8. Anaheim |
| 3. Santa Ana | 9. Fullerton |
| 4. Irvine | 10. Garden Grove |
| 5. Orange | 11. Orange County |
| 6. Westminster | |

RESIDENTIAL AND COMMERCIAL RATE COMPARISON

The City of Santa Ana's residential rate paid to the contractor for services is 2.8% below the average rate. The rate is \$4.57 higher than the lowest reviewed rate, and \$3.73 lower than the highest reviewed rate. The rate is sixth highest among the 11 rates included in this study. Because Santa Ana has the highest number of persons per household among the 11 municipalities, but only the sixth highest residential rate (per household, per month), the resulting per capita rate of \$3.62 per month, which is the lowest, is 31% lower than the average per capita rate of \$5.24, and the lowest overall. Santa Ana's rate paid to the contractor for one three-yard bin, serviced once per week, is 7% below the average rate, \$50.88 higher than the lowest evaluated rate, and \$57.99 lower than the highest evaluated rate.

Table 1: Residential and Commercial Rates Paid to Contractor

Residential Rate Paid to Contractor		Residential Per Capita Rate Paid to Contractor		Commercial Rate Paid to Contractor	
Irvine	\$11.32	Santa Ana	\$3.62	Orange	\$52.08
Mission Viejo	\$12.26	Orange	\$4.18	Mission Viejo	\$62.51
Orange	\$12.95	Irvine	\$4.24	Lake Forest	\$77.32
Lake Forest	\$13.52	Mission Viejo	\$4.39	Irvine	\$100.66
Westminster (MCSD)	\$14.75	Westminster (MCSD)	\$4.42	Westminster	\$102.17
Santa Ana	\$15.89	Lake Forest	\$4.45	Santa Ana	\$102.96
County of Orange (Avg.)	\$17.88	Garden Grove	\$5.22	County of Orange	\$118.94
Huntington Beach	\$18.21	Anaheim	\$5.75	Garden Grove	\$140.94
Fullerton	\$18.98	County of Orange (Avg.)	\$5.88	Huntington Beach	\$150.52
Garden Grove	\$19.31	Fullerton	\$6.26	Anaheim	\$152.11
Anaheim	\$19.62	Huntington Beach	\$6.95	Fullerton	\$160.95

ADDITIONAL CONTRACTUAL REQUIREMENTS

The Santa Ana contract ranked first for both the overall value of additional contractual requirements, including the funds paid to the city by the contractor, as well as the value of the free city services required through the contract, both of which significantly exceed those of the other contracts included in this study. Specifically, the City's contractor is required to make annual payments of nearly \$2 million. In addition, the annual value of free services at City facilities, which includes materials generated through city operations such as landscaping, exceeds \$750 thousand. Furthermore, the level of bulky item collection conducted in city alleys two weeks each month, after quarterly garage sales, and after neighborhood clean-up events goes far beyond the requirements of any other contract and represents substantial financial value to the City.

DIVERSION PROGRAM REQUIREMENTS AND CALRECYCLE DIVERSION OUTCOMES

While the Santa Ana contract's ranking for both residential and commercial PPD results was fourth, the contract was rated lowest for required diversion programs. The contractual requirements for, and consequently the results achieved by, the current commercial recycling program are deficient. In 2015, only 6.4% of solid waste collected through commercial bin service and taken to a transfer station for processing was diverted.

E. RECOMMENDATIONS

The current Santa Ana contract term commenced April 5, 2005, and has an end date of June 30, 2018. The current contract is based on an original agreement established in 1993. The contract was amended in 1996, to facilitate the implementation of curbside recycling collection service, then amended again in 1997, to further clarify responsibilities. Typically, a contract with this maturity level would not be expected to rank as highly as Santa Ana's. However, this contract has been and continues to represent a strong value for the City and is ranked third among the contracts included in this report.

The two higher ranked contracts, in the cities of Lake Forest and Mission Viejo, are also the two newest contracts among those included in this study. Even though Santa Ana's rates are competitive, both the Lake Forest and Mission Viejo contracts feature lower rates paid to the contractor, as well as stronger diversion program requirements and reported outcomes. However, neither the Lake Forest and Mission Viejo contracts, nor any other contract included in this report, requires the level of funding or free city services provided through the current City of Santa Ana contract.

LONG-TERM OPPORTUNITIES

In the long term, the use of a competitive procurement process to select a long-term contractor can provide the City of Santa Ana with the mechanism to secure competitive rates, achieve program and service enhancements, ensure compliance with current and emerging legislative requirements, and secure the level of contractually required benefits to the City necessary to support essential city operations and address community needs. **While a competitive procurement is a standard process used by municipalities to achieve the greatest value for ratepayers, in this City and at this time there are risks inherent in the municipal procurement process, especially considering the unique components of this contract.**

Potential Risks

- **Residential Rates and Diversion Programs:** Due to both the higher-than-average number of persons per household in Santa Ana, as well as the ongoing impact of the significantly higher rate of scavenging on residential curbside recycling tonnage, the City is currently at risk for receiving proposals that include either increased residential rates, additional rates charged to residents for additional carts, or

proposed rates that cannot be sustained for the long-term and result in requests for unscheduled rate increases.

- **Commercial Rates and Diversion Programs:** Regulatory requirements driven by AB 341 and AB 1826 necessitate significant changes to the current commercial and multi-family recycling programs. The implementation of the new services could considerably impact current bin-service rates. The City runs the risk that any regulation-driven service changes and corresponding rate increases may be attributed to the procurement process instead of legislative mandates.
- **Contractually Required Benefits:** The City currently receives an array of free services and other benefits that significantly exceeds the contractual requirements of comparable municipalities in the region. It is critical that the City measure and mitigate the potential impact any changes to contractually-required free City services could have on the City's operating costs, as well as quantify the effect that any potential increase or decrease to the rates charged by the contractor for services could have on future City funding. The pursuit of a new, long-term service contract at this time could make it difficult to assure the maintenance of funding for vital city services and the continuance of no-cost solid waste and recycling services for all municipal operations and venues, while maintaining or enhancing the competitive rates and other values currently afforded to residents and businesses by the existing contract.
- **Emerging Technologies:** Recent legislation, including AB 341 and AB 1826, as well as the increased development of new and innovative solid waste collection and recycling processing technologies, have combined to incentivize the development of renewable energy programs. At the same time, the current prices of crude oil, natural gas, and other commodities are at historically low levels. Many commodity futures speculators have projected that the world market may be in a five-year price slump for traditional carbon-based energy sources. **By entering into a new, long-term contract at a time when fuel and commodity markets are in decline and new processes are being tried and tested, the City risks missing an opportunity to benefit from renewable energy innovations that prove to be commercially viable when energy and commodity prices rebound.** Locally, private companies including WM, Republic, and CR&R, which are the largest municipal service providers in Orange County, are each at various stages of the development of first-generation renewable energy production facilities. The County of Orange is also studying the potential for developing renewable energy production facilities. Time and market forces will ultimately determine the success or failure of these and other innovations. A short-term contract would provide the City with the time and flexibility to fully benefit from the technologies that emerge as optimal over the next few years.

SHORT-TERM OPPORTUNITIES

As described above, there are a number of risks associated with entering into a long-term contract **in this City, at this time**. Customer rates could be negatively impacted, the funding and free services provided to the City could decrease, and the opportunity to benefit operationally and financially from emerging technologies could be missed. An extension of the City's current contract may be in order so as to allow the current contractor and the city to avail themselves of opportunities to address service and diversion issues, mitigate potential impacts to the rates paid by customers, stabilize associated city revenues, and identify the successful technologies that will be needed to meet current and future legislative requirements.

The findings of this evaluation indicate that the current contract continues to provide a strong value to the City. Additionally, City staff have recognized that the current contractor provides good service and has

consistently demonstrated its commitment to being a partner to the City by agreeing to provide programs that exceed contractual requirements. Given these factors, there is an opportunity to pursue a short-term extension with the current contractor that would provide the time and means to address the identified challenges and better position the City to benefit from a long-term contract in the future.

RECOMMENDED NEXT STEP

It may be beneficial for the City to approach the current contractor regarding the possibility of an amendment to the contract to create a short-term extension. We recommend that the City request a proposal from the contractor to include specific programmatic service enhancements and their value to residents, businesses, and the City. If the proposed terms allow the City to address the potential risks in the short term, while better positioning the City for maximizing the results of a competitive procurement process in the long term, the City could continue to benefit from the existing high-value contract, maintain or improve the funding derived from the contract, improve city services and optimize ongoing value for the ratepayers in both the short and long term.