REPORTS NOT RELATED TO THE JURISDICTION OF ANY COMMITTEE

REPORT OF THE

ALTERNATE SERVICE DELIVERY COMMITTEE

DATED JUNE 24, 1999

On motion of Councillor Angus, the Report of the Alternate Service Delivery Committee, dated June 24, 1999, was considered.

Solid Waste Alternative Service Delivery Feasibility Study
Files GL-5.6.1 (Vol. 2) and WT-1 (Vol. 18)

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774 - 1. On March 20, 1997, Council approved a major strategic direction through its document "Reshaping Our Civic Government", in which the Water and Waste Department was directed to study the privatization of the Brady Road Landfill as well as pursue the full contracting out of all solid waste functions by the year 2000.

On November 19, 1997, Council adopted Clause 2 of the Report of the Committee on Works and Operations dated November 4, 1997, dealing with the award of three contracts for apartment/small commercial pick ups and adopted the following, namely:

"IV. That the Administration review the feasibility of:

i) providing for collection of solid waste from apartments and small commercial establishments in-house;
ii) replacing existing refuse collection bins with smaller autobins;
iii) implementing recycling services for small commercial establishments and multiple-family dwellings; and
iv) discontinuing the collection of solid waste from small commercial establish-ments and multiple-family dwellings.

V. That the 'Reshaping Our Civic Government' document be amended and the matter of privatization of waste collection be revisited.

VI. That the Proper Offices of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related hereto."

In January of 1998, the Chief Administrative Officer approved a report dated December 22, 1997, from the Director of Water and Waste, to retain a Consultant to assist in the preparation of business plans for two solid waste initiatives identified in the "Reshaping Our Civic Government" document.

On March 9, 1998, the Director of Water and Waste assigned the Study to KPMG Consulting of Winnipeg for $176,400.00, plus GST, and on October 23, 1998, KPMG Consulting completed the Solid Waste Alternative Service Delivery Feasibility Study.

As requested by the Executive Policy Committee, a Council Seminar was held on April 19, 1999, to review policy options regarding solid waste deliveries and to discuss both the Consultant's and Administration's reports.

The Solid Waste Alternative Service Delivery Study was initiated to address Council's direction through its " Reshaping Our Civic Government" document. The Study, which was carried out by the Consulting Team of KPMG Consulting, Cochrane Engineering, and EMA Canada Inc., was prepared in accordance with the "Policy and Framework for Alternative Service Delivery in the City of Winnipeg" dated February, 1998, and the guidelines for the Management Reference Model for Government Services (MRM/GS). The review team for the study consisted of Division Managers of the Water and Waste Department including the Solid Waste, Engineering, Finance and Administration, Customer Services, Regional Operations, and Laboratory Services, the Manager of Financial and Business Initiatives of Corporate Finance, and CUPE representatives including the President of CUPE.

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The Study objective and scope was to identify and evaluate alternative service delivery (ASD) option(s) for solid waste services for the City of Winnipeg and included the following work steps:

- Review history and current operations
- Compare other jurisdictions
- Include a full range of options for collection and disposal
- Prepare an accurate baseline
- Conduct a comprehensive evaluation framework
- Prepare a detailed cost/benefit analysis
- Prepare a qualitative analysis including impact on customer service, organizational impact, and implementation risk.

The Consulting Team conducted an exhaustive analysis over the four month project period and have summarized their findings in the Executive Summary Document identified as Appendix "D" to this document.

As outlined in the Executive Summary, the Consultant conducted a scan of other jurisdictions across North America to identify potential ASD options to apply lessons learned from other solid waste organizations in the context of the City's solid waste service delivery. They developed a detailed baseline cost for collection and disposal for the year 1997 for each of the core services by applying activity based costing techniques. Based on this, they conducted a competitiveness assessment highlighting the potential benefits associated with implementing industry best practices. Using these potential opportunities for improvement, they developed an extensive list of ASD options and then applied a balanced business scorecard approach to the analysis. Using the balanced business scorecard approach, they developed a comprehensive framework for analysing each ASD option. The framework was designed to incorporate both quantitative and qualitative factors, including:

- Customer perspective
- Stakeholder/Council perspective
- Process/service perspective
- Organization and people perspective
- Implementation perspective
- Financial perspective

Each ASD option was analysed in the context of the above perspectives to identify the potential benefits and implications for the City in implementing the alternative. The results of these analyses are summarized on pages 12-17 of the Executive Summary. The Net Present Value (NPV) of the options was over a five year period using a discount rate of 10%. The Investment Required funds on page 12 are included in the NPV figures.

The Consultant's rigorous analysis of the collection options suggested that each alternative presented the City with an opportunity to realize significant annual savings from the status quo. The Consultant's report gave rise to key policy decisions regarding solid waste services. These policy decisions were the focus of discussions at the Council Seminar held on April 19, 1999.

A long-term vision for solid waste collection is essential to providing collection and disposal services for the City. The Water and Waste Department's vision includes a mixture of public and private collection services, a move toward 100% automation for both public and private collection, phasing out the Autobin program, continuing and expanding the recycling and waste minimization programs, and the implementation of a user pay system.

Regarding the automated residential solid waste collection program, it is envisioned that this will proceed initially as a pilot program prior to full City automation. The implementation phases would consist of a detailed review of existing technologies, a pilot program and a three year staged, full implementation process. The implementation of this program, however, is contingent on economics and customer acceptance. A phase out of the Autobin system would also be considered in this process.

In keeping with this vision, and based on both the Council Seminar deliberations and the Consultant's report, the Water and Waste Department has developed seven recommendations. The recommendations and rationale for their development are as follows:

1. That the City of Winnipeg maintain the responsibility of providing solid waste collection and disposal services to its citizens.

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The City of Winnipeg Act does not require the City to collect and dispose of solid waste. However, collection and disposal services are provided because of issues such as public health and aesthetics, public expectations, economy of scale, and to reduce infrastructure deterioration through several private refuse vehicles travelling down the same street if residents were responsible for looking after their own refuse collection.

All subsequent recommendations are contingent upon acceptance of Recommendation 1 unless noted.

2. That City forces continue in the direct delivery of solid waste collection services.

City forces currently collect refuse from about 50% of single-family residences, while the remaining 50% and all apartment refuse are picked up for the City by a Contractor. The Consultant's feasibility study indicated that the City's annual expenditures for solid waste collection could be reduced by $2.2 million per year if the portion of work that City forces collect were contracted out. The Consultant also indicated that the City's annual expenditures could be reduced by $1.5 million per year if improvements were made to the work practices utilized by City forces. Accordingly, the recommendation for City forces to remain in the collection business, if adopted, would result in the City not realizing the full $2.2 million in expenditure reduction. Even after improvements are made to the work practices utilized by City forces, the result is that expenditures would be $700,000.00 higher than if all the work was contracted out.

City forces continuing to provide collection services provides for a balance, as little competition exists between private companies. Giant mergers are a regular occurrence in the solid waste industry reducing the already small competition base. This is confirmed by Waste Management Inc.'s (Canadian Waste) recent announcement to purchase BFI's Canadian operation. While contracting out may be less costly in the short-term, there is a market risk that collection costs could significantly rise if the City did not provide a collection operation and there was a limited number of potential bidders. The premium of $700,000.00 per year for City forces to remain in the collection business would be lost if the contract prices rose 12.5%. The expenditure reduction of $1.5 million per year by improving the work practices of City forces will not be realized immediately, but would occur over a lengthy transition period through attrition and redeployment of staff.

3. That the City implement cost recovery for solid waste collection and disposal (user pay) on a phased basis considering the principles of environmental sustainability, equity, economic sustainability and customer consultation outlined in Appendix "A".

Solid Waste collection and disposal costs are currently about $17 million per year. Adoption of user pay will remove this from the property tax bill, to be itemized separately on the Water and Sewer billings. Currently, the tax amounts to $35.00 per year for the average single-family residence (assessed value of $87,900.00), while the actual cost is $70.00 per year.

User pay is recommended to shift the financial burden from property taxes to users, to increase equity, and to reduce waste quantities. User pay can also serve to fund expanded recycling and waste minimization programs.

This recommendation is consistent with the Council approved Strategic Infrastructure Reinvestment Policy (SIRP), Recommendations 13 and 14, which state:

"Application of User Fees

13. That the City implement structured user fees where the user and the service delivered can be identified.

Shift from Mill Rate to User Fees

14. Any new user pay funding that relates to property and which replaces existing mill rate supported infrastructure budgets, should be accompanied by a mill rate reduction equivalent to the pre-user fee level of mill rate support."

In addition, it is also consistent with Goal 6 of the Financial Management Plan adopted by Council on July 12, 1995, which identifies the removal of solid waste from the property tax bill as stated below:

"6. Combine Existing Utility Charges

Target: Convert water and sewer bills to a more frequent billing cycle by 1998 and incorporate frontage levies and a garbage collection user fee into these bills."

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A discussion of the various forms of user pay is outlined in Appendix "A" along with the Key Principles of a User Pay Strategy. The Business Plan will review this activity in phases, with Council input and final approval of the ultimate user pay strategy.

4. That the City retain ownership of the Landfill.

   The Consultant's analysis revealed that the landfill is of tremendous value to the City. In addition, the analysis revealed that the disposal related operations system reflects best practice performance, indicating costs approaching best business practice levels. The operation of the landfill by the City would be beneficial to the City financially, and will ensure control and long-term access to the site, along with public health and environmental protection assurances.

5. Contingent on acceptance of Recommendations 3 (user pay) and 4 (retain landfill), that the Water and Waste Department be authorized to proceed with the development of a Business Plan to combine solid waste collection (currently tax supported, proposed user pay supported utility) and solid waste disposal (the current utility including landfill and recycling) into a Special Operating Agency (SOA).

   An SOA is defined in the ASD Policy Binder as " The provision of service through a special unit of organization which can operate within or outside of the existing City department structure. SOAs are granted more direct responsibility for results and increased management flexibility needed to attain new levels of performance (...greater freedom to manage in a more businesslike way)." Appendix "B" outlines the fundamental differences between an SOA and Utility concept.

   An SOA is allowed more freedom to price and market services in accordance with its Charter and Business Plan which are approved by Council. Funds for a Consultant assignment, in the amount of $200,000.00, have been included in the 1999 Budget for the development of the Business Plan which includes those aspects listed in Recommendation 6.

6. Contingent on acceptance of Recommendation 5 (Solid Waste SOA), that the Solid Waste SOA Business Plan consider the following:

   a) Implementation of the Waste Minimization Strategy approved by Council on June 19, 1996.

   The approved policy (unfunded) and outlined in Appendix "C", involves expanding recycling to multi-family residences, composting, fall leaf pick up, and significant education and support of waste minimization, the phasing in of a ban of recyclables, leaf and yard waste from garbage once diversions are in place, lift limits and/or a bag/charge system, as well as consideration of bi-weekly garbage collection.

   A study would be undertaken to determine the costs and impacts on the user pay rate.

   b) The potential of entering the overhead collection business for collection of apartment solid waste (one of three areas currently contracted out) and for commercial collection on a competitive basis.

   If approved under competition legislation, the recent acquisition of BFI Canada by Waste Management Inc. (Canadian Waste), Canadian Waste would have 95 to 100% of the market of overhead collection in Winnipeg, currently shared by the two companies. It may be appropriate for the City to pick up apartment waste and even enter the commercial waste business to prevent monopolistic pricing and costs.

   c) The phasing out of manual collection and implementation of automated collection in Winnipeg.

   Automated collection can reduce worker injuries and allow the City's older workforce to continue in their careers. Automated collection can provide better service to customers. However, the cost of equipment and investment in containers is significant. The risk of failure can be reduced by having a pilot and then phasing in the new system.

   The type of automated collection system envisioned here is not the same as the Autobin system the City is currently operating which consists of a large bin servicing several residents. This automated system would consist of a specialized automated truck, manned by a single operator, which would collect refuse from each resident. Each resident would be required to place a special container, supplied by the City, in an accessible location for pick up on their designated collection day.

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This type of system is compatible with user pay and the Waste Minimization Strategy.

d) That the landfill move to a Public Private Partnership where the private partner will bring market share and marketing expertise to the existing operation.

The Consultant's analysis revealed the landfill operations reflect best practice performance by City staff, and that the landfill is of tremendous financial value to the City and should be retained. However the current charge of $40.00 per tonne as set by By-law is not competitive. Through competitive pricing and providing services to markets outside of Winnipeg, the revenues could be enhanced even further. As part of a Public Private Partnership a partner would bring their market share and marketing expertise, and City forces would bring their operating expertise.

7. Contingent on acceptance of Recommendation 2 (City forces in collection) and 4 (retain the landfill), that the Administration continue implementation of internal improvements and cost reductions for solid waste collection and landfill operation as identified in the Alternative Service Delivery Feasibility Study.

The Consultant has indicated significant cost savings of $1.5 million annually by implementing the internal improvements as shown on page 12 of the Executive Summary outlined in Appendix "D". These improvements will also demonstrate competitiveness in preparation for future automation.

The internal improvements consist of improved work practices, improved routing, flexible workforce, and new higher capacity refuse collection vehicles. A detailed business and human resource transition plan would need to be developed to provide implementation information. As indicated at the Council Seminar, some of these improvements have already been undertaken. It is the intent to track public and private costs and report annually to the Standing Policy Committee on Public Works.

The internal landfill improvements identified by the Consultant consist of creating a flexible workforce, implementing tipping face management best practices, effective equipment utilization, and increasing infrastructure investment to create improved environmental management practices to reduce future risk. The implementation of best practices can reduce operating costs by up to $200,000.00 annually.

The Alternate Service Delivery Committee concurs in the recommendations of the Administration and recommends:

I. That the City of Winnipeg maintain the responsibility of providing solid waste collection and disposal services to its citizens.

All subsequent recommendations are contingent upon acceptance of Recommendation I unless noted.

II. That City forces continue in the direct delivery of solid waste collection services.

III. That the City implement cost recovery for solid waste collection and disposal (user pay) on a phased basis considering the principles of environmental sustainability, equity, economic sustainability and customer consultation outlined in Appendix "A".

IV. That the City retain ownership of the Landfill.

V. Contingent on Recommendations III and IV, that the Water and Waste Department be authorized to proceed with the development of a Business Plan to combine solid waste collection and solid waste disposal into a Special Operating Agency (SOA).

VI. Contingent on approval of Recommendation V, that the Solid Waste SOA Business Plan consider the following:

a) Implementation of the Council approved Waste Minimization Strategy.
b) The potential of entering the overhead collection business for collection of apartment solid waste and for commercial collection on a competitive basis.
c) The phasing out of manual collection and implementation of automated collection.
d) That the Landfill move to a Public Private Partnership (PPP) where the private partner will bring market share and marketing expertise to the existing operation.

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VII. Contingent on approval of Recommendations II and IV, that the Administration continue implementation of internal improvements and cost reductions for solid waste collection and landfill operation as identified in the Alternative Service Delivery Feasibility Study.

VIII. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related hereto.

And further that should the preparation of a Solid Waste SOA Business Plan not be proceeded with, that the Administration consider the following (as identified in Recommendation VI above) in its Water and Waste Department Business Plan, namely:

a) Implementation of the Council approved Waste Minimization Strategy.
b) The potential of entering the overhead collection business for collection of apartment solid waste and for commercial collection on a competitive basis.
c) The phasing out of manual collection and implementation of automated collection.
d) That the Landfill move to a Public Private Partnership (PPP) where the private partner will bring market share and marketing expertise to the existing operation.

On June 28, 1999, the Standing Policy Committee on Public Works concurred in the recommendations of the Administration and the Alternate Service Delivery Committee, and recommend that Recommendation III., be amended to read as follows:

> *"III. That the City consider implementing cost recovery for solid waste collection and disposal (user pay) on a phased basis considering the principles of environmental sustainability, equity, economic sustainability and customer consultation as outlined in Appendix A, pursuant to a public education and consultation program and submission of an interim report on cost-recovery to be considered by the Alternate Service Delivery Committee and Standing Policy Committee on Public Works early in 2000."*

The Executive Policy Committee concurs in the recommendations of the Alternate Service Delivery Committee and the recommendations by the Standing Policy Committee on Public Works.

Moved by Councillor Angus,
Adoption of the clause.

In amendment,

Moved by His Worship Mayor Murray,
That the recommendation of the Executive Policy Committee be adopted.

The recommendation of the Executive Policy Committee was put and declared carried.

The motion for the adoption of the clause, as amended, was put and declared carried.

Councillor Prystanski asked to be recorded as having voted against the clause, as amended, in accordance with Rule 50.7 of the Procedure By-law.

(See Minute No. 786 for attachments)