

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 19, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT: BUDGET MEMO #57: ADDITIONAL INFORMATION REQUESTED BY CITY COUNCIL ON THE OUTSOURCING OF RESIDENTIAL RECYCLING SERVICES

ISSUE: This memorandum is in response to City Council's request for staff to provide additional information on the issue of residential recycling outsourcing and the elimination of 12 positions currently budgeted and assigned to the residential recycling collection program.

RECOMMENDATION: We recommend contracting out this service as a way to provide additional and more reliable recycling service to our residential customers and at a lower cost. If Council chooses to continue providing this service with City employees, City costs for the service would be slightly higher and the level of service would be slightly less. Moreover, this in-house delivery approach would require the purchase of five new trucks and, on a cash flow basis, would require a significant up-front investment of \$800,000 in new equipment.

DISCUSSION: In an effort to clarify the recommendation for outsourcing residential recycling and to provide a more thorough analysis, the following matrix is provided to illustrate how the program was operated prior to FY 2000, how it is operating now, and how it would need to change if it is continued to be operated in-house, as compared to contracting out (assuming both alternatives would produce the same amount of recycling and types of recycled goods).

Residential Recycling	Past (FY 1999)	Current (FY 2004)	FY 2005 (In- house)	FY 2005 (Contracted Out)
Budgeted Positions	12	12	11	NA
Positions Filled	12	5	11	NA
Trucks	6	3	5	NA
Contract Cost	NA	NA	NA	\$567,000
In-house Personnel Cost	\$484,000	\$197,000	\$441,000	NA
In-house Non-Personnel Cost (including fuel, maintenance, and depreciation)	\$213,000	\$60,000 (no depreciation)	\$233,000	NA
Total Expenses	\$697,000	\$257,000	\$674,000	\$567,000
Revenues	(\$118,000)	(\$140,000)	(\$140,000)	(\$70,000)
Net Cost*	\$579,000	\$117,000	\$534,000*	\$497,000
Goods recycled	Aluminum, plastic and glass	Aluminum, plastic and glass	Aluminum, plastic, glass, cardboard and mixed paper	Aluminum, plastic, glass, cardboard and mixed paper
Quality of Service	Excellent	Poor	Acceptable	Excellent
Amount needed to be added to the FY 2005 budget to fund the option	NA	NA	\$37,000 operating; \$800,000 equipment	\$0

* Excludes workers compensation costs.

Before FY 2000, the residential recycling program consisted of 5 operating crews of 2 members each, 5 operating trucks, and 1 back-up crew with an older "retired" truck for a total of 12 positions and 6 trucks. All 12 positions were filled with individuals who performed recycling work. The table above illustrates the cost of the program in FY 1999.

From FY 2000 to FY 2003, each of the trucks reached and exceeded the end of their useful lives. As employees resigned through normal turn-over, their positions were held vacant and their trucks were retired. This was done in large part to avoid the substantial cost of acquiring new

trucks and to accommodate the possibility of contracting this service out in the future. Over this period, a total of 6 positions were vacated, and 3 trucks were retired. The money saved by these vacancies has been returned to the General Fund or used to fund unexpected needs in T&ES. At the end of FY 2003, the program, though budgeted for 12 positions, was being operated at a low service level by 6 employees with 3 trucks.

In FY 2004, the program still has 12 positions budgeted, but is now being operated by 5 employees with 3 old, unreliable trucks. This has resulted in missed pick ups, as well as collecting curbside recycling materials in a regular refuse truck. Thus, the program is now operating at a level of service that is plainly inadequate, and, will not enable the City to meet our recycling goals.

In addition, last year the recycling center on Van Dorn Street that the City had utilized moved outside the City, requiring each City truck to make two Beltway trips per day to the Merrifield recycling center in central Fairfax County. This has made the recycling program, with its 5 employees and 3 trucks, even less productive.

The decision now to be made is whether to keep the residential recycling program in-house, which will require the hiring of additional staff and the purchase of new trucks, or to outsource the entire program.

If residential recycling is operated in-house in FY 2005 and at an acceptable level, 5 new trucks, each staffed with 2-member crews, plus one back-up employee (for a total of 11 employees) will be needed in order to complete all routes on schedule, and to expand the types of materials collected to include cardboard and mixed paper, traveling twice per day to Merrifield, and allowing for truck downtime and employee leave. This would require the purchase of 5 new trucks at a cost of \$800,000 to replace the 3 which are currently in use but have exceeded their useful life. It would also require filling 6 of the 7 currently vacant positions. The 7th vacant position would be eliminated from the recycling budget. The non-personnel budget would be increased to fund the annual fuel, maintenance, and depreciation on the new vehicles. Operating funds for this in-house program in FY 2005 would be \$674,000, with a net cost (considering revenues) of \$534,000.

If residential recycling is to be contracted out for FY 2005, the 5 remaining employees in residential recycling will be transferred to vacant positions, at the same classification and grade, in residential refuse collection and street cleaning. The positions in residential refuse collection and street cleaning are currently vacant due to normal turnover, and will be held for the recycling employees to move into. A total of 12 positions (the 5 currently filled and 7 currently vacant assigned to the residential recycling program) would be eliminated from the budget. The 3 remaining recycling trucks would be retired, and the cost of their fuel, operation, and maintenance would be eliminated from the budget. Also, of course, no new recycling trucks would be purchased.

A contractor would be hired to operate residential recycling collection at predetermined levels of service in terms of frequency of pick-up, materials collected, cost per household, and service

quality. Based on the costs incurred in Arlington County for contracting out this service, we estimate that, with 17,500 households served at a cost of \$2.70 per household per month, the service would cost \$567,000 annually. Sharing recycling revenue evenly results in a net annual cost of \$497,000, or about \$37,000 less in annual operating than the in-house delivery of the program and \$800,000 less in FY 2005 capital costs. The contract would include recycling cardboard and mixed paper (items not now being recycled.)

We believe the level of performance that would be achieved with this outsourcing approach would be superior to keeping this activity staffed by City employees due to the difficulties of staffing the positions and maintaining the equipment. The critical factor is that a large contractor can provide economies of scale in dealing with these problems that are not available to the City, which would operate a small scale operation. Contracting out curbside recycling by local governments is the norm in the Washington, D.C. metropolitan area (using a competitive sealed bid process to select a contractor). With a well written contract and sound contract oversight, local governments have been able to achieve a quality curbside recycling service by using outside firms.

We continue to recommend, therefore, that the City outsource the residential recycling program. Annual operating costs will be less; significant capital costs will be avoided; no employees will be terminated; and economics of such will result in a program that is more consistent in quality and service delivery than if operated in-house.