



CITY OF KIRKLAND

Public Works Department

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MEMORANDUM

To: Kurt Triplett, City Manager

From: John MacGillivray, Solid Waste Programs Supervisor
Julie Underwood, Director of Public Works

Date: August 26, 2021

Subject: SOLID WASTE CONTRACT PROCUREMENT UPDATE

RECOMMENDATION:

It is recommended that the City Council receive a presentation about the status of the solid waste contract procurement process, provide direction regarding the acceptance of certain provisions and services included in the proposal submitted by Waste Management, Inc. Council discussion and direction about options related to the resulting rate increase will follow at future Council meetings.

This memo has a tremendous amount of information for the City Council to consider. For discussion purposes, the scenarios contained in this memo assumes that the Council will adopt an ordinance regarding a rate increase taking effect on January 1, 2022 no later than the November 3 Council meeting in order to comply with rate increase notification requirements in State law, and would coincide with the award of the contract. Nevertheless, the timing of any rate increase is Council discretion, and staff is prepared for return to Council for continued discussion on this detailed and complex contract.

BACKGROUND:

The last Kirkland competitive solid waste contract procurement process that resulted in a contract award occurred in 2002 with an effective date of October 1, 2003. Because of the complexities associated with the major annexation in 2011, that seven-year contract with Waste Management, Inc. (WMI), was renegotiated in 2010, with an effective date of July 1, 2011 and an expiration before extensions of June 30, 2018. In 2017, the City conducted a competitive solid waste contract request-for-proposals (RFP) process. Three proposals were received, but after considering the three proposals—all of which included retail rate increases ranging between 6- to 17-percent—the City Council opted to exercise the first of the City's two available two-year contract extensions in lieu of awarding a new contract, thereby extending the term of the City's current contract with WMI through June 30, 2020. On February 26, 2020, staff exercised the second and final two-year extension, extending the contract term through June 30, 2022.

CONTRACT PROCUREMENT AND APPROVAL PROCESS OVERVIEW

On March 17, 2021, the City issued an [RFP](#) and [draft contract](#) for the procurement of solid waste collection services beginning July 1, 2022. The issuance of the RFP was preceded by several months of preparation that included a community survey; individual hauler interviews; a [procurement update to the City Council](#) on December 8, 2020; City Attorney's Office legal and consultant review; and an [industry review](#) opportunity for the incumbent and potential competing service providers to provide input on the draft RFP and contract prior to the release of the RFP. Also influential to the provisions and services in the draft RFP and contract were the goals, actions, and/or commitments made in the City's *2019 Comprehensive Solid Waste Management Plan*, its *Sustainability Master Plan*, and City Council Goals.

A total of 149 questions and comments were received and addressed during industry review from four prospective service providers including WMI (62), Recology (43), Republic Services (23), and Cedar Grove Composting (21). Each comment and revision requested was considered and addressed within the framework of: maintaining the general integrity of the services and provisions requested by the City in the RFP and the draft contract; not undermining the fairness of the process by favoring one competitor over another, and; looking for opportunities for compromise, where possible. Many revisions were made to the pre-release RFP and contract drafts based upon input received from all active participants in the industry review process, and revisions were made to encourage competition and foster inclusion, transparency, and fairness.

In the end, the incumbent, WMI, was the only service provider that submitted a proposal in response to the RFP, and it has expressed no interest in considering a contract extension or a shorter-term contract. The WMI proposal can be reviewed at this [link](#). Upon review, staff determined the proposal submitted by WMI was submitted under the presumption of a competitive environment and is entirely absent of collusive activity. It is clear to staff and the City Attorney's Office that WMI had no foreknowledge that competitors would choose not to submit proposals nor did WMI collude with competitors to ensure a lack of competition. In addition to the Form 5 Certification of Proposal submitted with its proposal, WMI also signed a post-submittal non-collusion affidavit willingly at the request of the City.

The three other prospective proposers (Cedar Grove Composting, Recology, and Republic Services) that participated in the industry review process chose not to submit proposals. Recology and Republic Services each sent letters to the City explaining their decisions. Recology cited a lack of a nearby operations facility to serve Kirkland and its limited CNG fueling capacity. Republic Services cited several issues such as its preference for an alternative, higher CPI escalator index; unembedded recycling service; contamination fees charges to residents and businesses; contract extensions by mutual consent; and lower performance fees related to labor disruptions. The established RFP process provided opportunities for proposers to address their concerns through responses to alternatives in the RFP (ex. alternative CPI index); through requesting contract modifications in the proposal per the term of Section F: Base Contract Modifications; and/or resolving issues during the contract finalization/negotiation phase after provisional award.

At its September 7, 2021 study session staff will provide an overview to the City Council of the services and provision in the draft contract, the WMI proposal, alternatives called out in the RFP, and discuss options to manage rate increases.

Assuming the contract is provisionally awarded to WMI, the contract finalization phase will begin, which may include tasks such as:

- Negotiating and incorporating contract exclusions and modifications requested by the proposer or the City;
- Incorporating RFP alternatives selected by the City Council;
- Retaining or deleting unrequested services and provisions;
- Finalizing wholesale rates;
- Addressing errata and formatting the draft contract; and
- Final legal review.

Once the recommended contract is finalized, staff will return to seek the Council's final contract review, approval and award. At the time of contract award, the Council also should consider and act on retail rate increase options, which are discussed later in this staff report. Per State law, residents must be notified of solid waste rate increases within 45 days of the effective date of the increase. If the Council chooses to adopt a new rate increase ordinance to be effective on January 1, 2022, then the new rates would have to be adopted no later than the November 3, 2021 City Council meeting. The November 17, 2021 Council meeting is too late and falls within the 45-day notification period. The Council has the authority to adopt new retail solid waste rates at any time during the calendar year, so a rate increase or increases could be established at any time in 2022. Again, any rate increase is subject to 45-day public notification requirements.

QUALITATIVE PROPOSAL REVIEW PROCESS

Though only one proposal was received, the City's Proposal Evaluation Team (PET), consisting of four City staff and one member from the King County Solid Waste Division, reviewed and scored the proposal based upon the scoring criteria identified in the RFP in order to ensure the viability and responsiveness of the WMI proposal. City PET members included the Public Works Director, the Solid Waste Programs Supervisor, the Solid Waste Coordinator, and the Education and Outreach Specialist. The scoring criteria used included: Customer Service (35 points); Contract Implementation and Compliance (40 points); Operations (45 points); Collection, Processing, and Education (40 points), and; Innovation and Creativity (20 points). The proposer itself also was evaluated based upon an interview (20 points), virtual operations and recycling center tours (20 points), and reference checks (30 points). Out of 250 possible points, the WMI proposal received an average score of 187.4 points or 75%. The WMI proposal in 2017 received a rating of 78%.

The breakdown of the scoring by section is shown on the next page in *Table 1: Qualitative Review Scoring*. Areas for improvement included: the WMI website, a discussion of a strike contingency plan, inclement weather response, the need for a more robust virtual operations and recycling center tours using photos and video, and a stronger overall interview. A better performance in these areas would have resulted in a "good" proposal rating (80%+) versus an "average" proposal rating (75%).

Table 1: Qualitative Review Scoring

Criteria	Points Available	Total Points Available*	Total Points Received	Average Points Per Scorer	Percentage
Customer Service	35	175	136.5	27.3	78%
Contract Implementation and Compliance	40	200	163	32.6	81.5%
Operations	45	225	162	32.4	72%
Collection Processing and Education	40	200	167	33.4	83.5%
Innovation and Creativity	20	100	74.5	14.9	74.5%
Interview	20	100	68.5	13.7	68.5%
Virtual Recycling Center Tour	10	50	28.5	5.7	57%
Virtual Operations Facility Tour	10	50	27	5.4	54%
Reference Checks	30	150	110	22	73.3
Total	250	1,250	937	187.4	75%

*Total points from five individual PET member scores. For example, Customer Service has 35 points available per PET member which equals five times 35 or 175 total points available.

CONTRACT, REQUEST-FOR-PROPOSAL, AND ALTERNATIVES DISCUSSION

This section of the staff report outlines the provisions and services in the RFP and draft contract that were requested by the City. The provisions were either:

- Retained from Kirkland's current solid waste contract;
- Deleted from Kirkland's current solid waste contract;
- New services and provisions in the draft solid waste contract;
- Alternatives requested in the RFP; and/or
- Services and provisions not requested by the City.

Retained Contract Services and Provisions

The following *Table 2: Retained Contract Services and Provisions* summarize services and provisions retained from Kirkland's current solid waste contract with WMI as presented to City Council during a contract procurement update at the December 8, 2020 study session.

<i>Table 2: Retained Contract Services and Provisions</i>	
Item	Description
Weekly Residential Trash, Recycling, and Compost Collection	Year-round weekly collection
Variable Cart and Container Sizes	Six trash cart sizes for residential customers. Four cart sizes and seven dumpster sizes available for multifamily/commercial customers. Six drop box and compactor sizes for roll-off customers
Cart Colors	Green = garbage, Blue = recycling, Gray = yard and food waste. The cost to make a cart color change to make garbage carts gray and compost carts green would approach \$1.5 million.
Embedded Residential Recycling and Compost Service	Recycling and compost service provided at no additional cost to residential customers.
Embedded Multifamily/Commercial Recycling Service	Recycling service provided at no additional cost to multifamily property and commercial customers.
Multifamily/Commercial Organics Collection	Organics-only collection service provided to multifamily and commercial customers upon City approval. Subsidized 100% in retail rates
Solid Waste Services at City Facilities, Parks, Downtown	Provision of trash and recycling collection service at City facilities, parks, and downtown core at no additional cost
Big Belly Trash and Recycling Container Maintenance	Contractor responsible for cleaning and maintaining units and paying for wireless notification software license
Curbside Bulky Waste Collection	On-call, fee-based residential curbside collection service for CFC and non-CFC appliances, furniture, mattresses and box springs, and miscellaneous bulky items
Curbside Electronics Collection	On-call curbside collection of electronic items with motherboards at no additional cost

Table 2: Retained Contract Services and Provisions

City Billing	City will continue to bill residential and commercial customers for solid waste services
Inclement Weather Drop-off Sites	Trash and recycling drop-off sites established for residents if two consecutive weeks of service is missed due to inclement weather
Annual Recycling Guide Mailers	Annual recycling guides printed by contractor and mailed to residents and businesses
CPI-W Collection Component Escalator	Industry standard CPI-W service component escalator
Disabled Carry-out Service	Free carry-out service for resident with proof of a disability
Senior Low-income and Disabled Discounts	City retains ability to offer discounts to senior low-income and/or disabled customers
Christmas Tree Collection	During the first two weeks each January, whole Christmas tree collected at the curb from single family and multifamily residents

Deleted Contract Services and Provisions

Table 3: Deleted Contract Services and Provisions below, itemizes the services and provisions in Kirkland's current contract that were not included in the draft contract.

Table 3: Deleted Contract Services and Provisions

Deleted Item	Provision
Aluminum foil	Not recoverable, vaporizes during smelting process
Plastic bags/film	Removed per recommendation in King County Responsible Recycling Task Force Report
Shredded paper	Removed per recommendation in King County Responsible Recycling Task Force Report
Motor oil	Accepted for recycling at most auto parts stores
Compact fluorescent light bulbs (CFLs)	Accepted at several locations through the Washington State LightRecycle Washington Program
Enclosure gate unlocking and opening fees	Multifamily and commercial customer no longer charged for enclosure gate unlocking and opening

New Contract Services and Provisions

The following are highlights of the new services and provisions in the draft solid waste contract.

Table 4: New Contract Services and Provisions

Item	Description
Fleet of CNG Collection Vehicles	A new fleet of 2022 model year natural gas-fueled trucks as a preferred environmental alternative to diesel. Contractors generally need nine months to order and take delivery of new collection vehicles. If the contract award occurs after October 2021, the deployment date for the new collection vehicles will be adjusted accordingly after the July 1, 1022 effective date of the new contract.
Lower Cost Bulky Waste Collection	Reduced cost of appliances, furniture, mattresses to \$30/item. Reduced cost of CFC appliances to

Table 4: New Contract Services and Provisions

	\$40/item. Increased affordability to combat illegal dumping
Multifamily On-call Bulky Waste Collection	On-call bulky waste collection for multifamily properties to combat illegal dumping
Multifamily and Commercial Education and Outreach	Outreach tailored to help businesses, multifamily property manager and tenants increase recycling and reduce contamination
Transcreated Education and Outreach Materials	Transcreated education and outreach materials required to be posted on WMI website in Chinese, Russian, and Spanish languages, at a minimum
Annual Educational Cart Tagging	Targeted educational cart tagging to residential customers to promote waste reduction, recycling, and behavior change
No Cap on Commercial Recycling Volume	Unlimited recycling service available to commercial customers (with limits to ensure the volumes provided match a customer's actual production of recyclable materials)
Work Stoppage Performance Fees	Specific, escalating performance fees specifically applicable to work stoppages. Requires a strike contingency plan, credits to customers, and drop-off sites
Spill Response and Abatement Protocols	Requirements for response times, City notification, clean-up, and subcontracting
City Event Services	Solid waste services provided at no additional cost at City or City-sponsored events. Up to six events per year
Extended Customer Service Center Hours	Call center open on Saturdays between 8 a.m. and 5 p.m.
Contamination Reduction Plan	Defined protocols to provide education and enforcement to reduce residential and commercial recycling contamination
Contamination Fees	Recycling and/or compostable contamination fees allowed with written consent of City
Curotto-style Attachments for Residential Trucks	Requires Curotto-style can attachments for residential recycle and yard/food waste trucks to allow drivers to identify contamination as materials are dumped
Small Food Waste Containers	A 12- to 16-gallon sized food scrap container for customers residing in townhomes or other dwellings without yards
Contract Term	10.5-year contract term to align expiration of contract with end of biennial budget cycle. One two-year extension at City's discretion
Revised Accepted Recyclables List	Plastic bags and clamshells, aluminum foil, and shredded paper no longer accepted

Request-for-Proposals Alternatives

The following is a list of RFP alternatives for which the City requested pricing from proposers. The decision to accept or forego any or all of the alternatives is at the sole discretion of the City. Each alternative is presented below with a description of each alternative (in italics) taken directly from the

RFP, an increase or decrease in the annual gross contractor revenue requirement provided by WMI, staff discussion and analysis, and a staff recommendation of Accept, Consider, or Decline.

1. Collection Vehicle Fleet

The Base Contract includes requirements for new CNG-fueled vehicles at the start of the Contract Term. Under this alternative, collection vehicle chassis must be no older than model year 2020 and at no time older than ten years (from the first date of service when new) through the Contract term, including extensions. Proposers may also include a proposal for a full fleet or a phase-in transition to electric or alternatively fueled collection vehicles.

Increase/Decrease in Annual Revenue Requirement: None proposed.

Discussion: Not applicable.

Staff Recommendation: None

2. Bulky Waste Collection Service

Each year, through the use of an on-demand, call-based service, the Contractor would provide a curbside collection service to handle bulky materials at no additional charge to Single-Family Residence Customers. Each Customer would be allowed to dispose of up to one (1) bulky household item each calendar year at no additional cost, including but not limited to large household appliances, mattresses, sofas, furniture, barbecues, and exercise equipment. Any additional requests for curbside bulky waste collection would be charged at the established retail rates.

Increase in Annual Revenue Requirement: \$38,490/year

Discussion: This alternative would provide each residential customer with one curbside bulky waste pick-up per year at no additional cost. This service may help decrease illegal dumping activity and will provide convenience to residential customers, particularly to those unable to haul their own bulky waste to transfer stations or other private sector disposal/recycling locations. The increased cost is reasonable when balanced against the likely popularity of the service and anticipated reduction in illegal dumping.

Staff Recommendation: Accept

3. Every-other-week Single Family Garbage Collection

The Base Contract includes weekly single-family garbage collection. Under this alternative, garbage collection would be shifted to every-other-week (EOW), using the same sized carts currently at Customers' locations.

Decrease in Annual Revenue Requirement: \$3.55 per customer per month, or approximately \$964,634 per year to the contract based upon July 2021 customer count data.

Discussion: This alternative would shift trash collection from weekly to EOW for all residential customers. The draft contract requires the City to provide the contractor at least 180 days'

(six months) notice before the effective date of a transition to EOW service so the earliest this change could take place is January 1, 2023. Recycling and yard/food waste collection would continue to be weekly to provide customers with enough capacity to recycle and compost more to off-set the loss of garbage volume attributable to EOW service. Most cities in King County have weekly garbage collection, with outliers being the City of Renton and unincorporated King County. When EOW garbage and recycling service was introduced in 2009 in the City of Renton, the recycling diversion rate only increased by two percentage points.

In a pre-procurement public survey of Kirkland residents, 57% of respondents were opposed to EOW garbage service, 35% were in support, with the remaining 8% neutral. EOW garbage service would reduce carbon emissions, though staff estimates it has the potential to increase recycling diversion marginally, as has been the case in cities that already had high performing recycling programs, such as Kirkland. EOW garbage service has several drawbacks, however, including:

- More garbage left outside carts, or cart lids left open, both of which contribute to litter and attract urban wildlife;
- Less efficient service, because drivers must exit their vehicles frequently to collect uncontained materials;
- An increase in contamination when customers opt to dispose of extra trash in their recycling and/or compost carts in lieu of placing out extras for an extra fee, or choose not to increase the size of their trash container to compensate for EOW service;
- Scheduling and recovery issues in the event of delayed service due to inclement weather events; and
- Majority opposition, as documented in the public survey. The relatively small rate reduction [about 4 percentage points (pp)] may be outweighed by public opposition.

Every-other-week service does not reduce a customer's bill by 50%. Rather, it only reduces costs related to the garbage collection component of the rate because the amount of tonnage disposed (the disposal component) remains the same along with the recycling and yard/food waste collection costs. Furthermore, the aforementioned \$3.55 per customer per month amount would not be a direct passthrough. The reduction would be allocated through a percentage reduction allocated proportionally to all service levels. For instance, a customer billed \$8.97 per month for a 10-gallon garbage service would not receive \$3.55 off their bill but would receive only a small fraction of the \$3.55. Conversely, a customer paying \$76.50 for a 96-gallon garbage service would have their monthly bill reduced by more than \$3.55. Given the relatively small savings per customer, the anticipated size of the retail rate increase, and the previously discussed drawbacks, staff is not recommending a shift to EOW service at this time.

Every-other-week Recycling Service

The opportunity to shift to EOW recycling service was not included as an alternative in the RFP for the following two reasons. First, if the City did opt to shift to EOW trash service,

customers would need to keep, at a minimum, their current weekly 64-gallon recycling carts under the assumption EOW trash service would compel a large percentage of customers to be more conscientious in diverting more recyclable items from their trash into their recycling carts. Second, there are approximately 23,000 64-gallon residential recycling carts deployed in Kirkland, which is the default recycling cart size. If the City were to switch to EOW recycling, customers would need new, larger 96-gallon recycling carts to increase their available EOW recycling capacity, which is a standard cart size for cities with EOW recycling. Nonetheless, WMI has indicated that the City could save approximately \$2.60 per customer per month (\$706,492 per year to the contract) if WMI purchased and deployed the replacement 96-gallon recycling carts, or \$3.25 per customer per month (\$883,116/year) if the City purchased the 96-gallon recycling carts itself.

Staff Recommendation: Decline at this time but consider for the future. The draft contract allows the City to transition to EOW service upon six months' notice to the contractor.

4. Free November Single Family Residence Yard Waste Extras

In 2019 and 2020, the City piloted a program in which single family residential customers could place out an unlimited number of properly prepared extra units of yard waste during the month of November at no additional cost to the customer. The program was intended to assist residents in the disposal of large volumes of organic materials (leaves) and to encourage residents to assist the City with urban flooding. In 2019, customers placed out 5,571 extra units of yard waste. In 2020, customers placed out 7,656 extra units of yard waste. This alternative would implement this service effective in November 2022 and in each November through term of the Contract. Each single family residential Customer would be allowed to place out no more than five extra units of yard waste per week at no additional cost only during the month of November.

Increase in Annual Revenue Requirement: \$47,090

Discussion: For the 2019/2020 budget biennium, City Council approved \$65,000 in pilot funding to subsidize unlimited free residential yard waste extras for the month of November only (\$30,000 in 2019 and \$35,000 in 2020). Over the 2019/2020 biennium, \$73,891 actually was expended, whereas the biennial cost proposed by WMI is over \$94,000 or about \$21,000 more than that. The pilot was discontinued after 2020. The pilot was implemented in part to restore the unlimited, year-round yard waste extras provided to customers before annexation to assist some customers with costs related to leaf and woody debris disposal, and in part to encourage residents to assist Surface Water Maintenance crews with urban flooding by removing leaves from drains. The pilot generally was well received and used by residents, but there were several instances where the program was "enthusiastically over-used," and there is no factual or anecdotal evidence that the program helped reduce urban flooding. For those reasons, the program was discontinued after 2020.

Staff Recommendation: Consider

5. Contractor Billing Agent

The Base Contract assumes the City will continue to bill its single-family, multifamily, and commercial customers for service and the City and the Contractor will share specific customer

service responsibilities. This alternative shifts all billing and customer service responsibility to the Contractor under a billing agent relationship. Under this alternative, the Contractor would bill customers City-specified rates, funds are collected by the Contractor on behalf of the City, and the Contractor is paid by the City rate for collection services provided.

Increase in Annual Revenue Requirement: \$509,509 per year

Discussion: The City has billed its customers for solid waste services for decades. Bill preparation and mailing is provided by a subcontractor and customer service and support is provided Utility Billing staff. Under a billing agent relationship, the contractor would cover all costs associated with billing Kirkland customers. Funds received by the billing agent would be deposited in a City account from which the City would pay the contractor on a monthly basis. The City would retain the difference between the wholesale contractor rates and the City retail rates to fund administrative and waste reduction and recycling program expenses. The City would retain retail rate-setting authority.

The current cost for the City to bill its customers for solid waste services is approximately \$146,000 per year or \$363,000 less than the pricing in the WMI proposal. A shift to a billing agent relationship still would require some staff time to reconcile the receivables and review the monthly contractor invoices, but ultimately it could result in the possible reduction of Utility Billing FTE's. Given that the City can continue to bill its customers for solid waste services at a much lower cost than WMI, staff does not recommend this alternative.

Staff Recommendation: Decline

6. Alternative Service Fee Escalation Component

The Base Contract includes an aggregate Consumer Price Index escalator on the service fee component. Under this alternative, the Proposer may propose a substitute index used to calculate annual service fee escalations. The floor and ceiling limits contained in the draft contract would be retained with this alternative escalator.

Decrease in Annual Revenue Requirement: \$402,625

Discussion: This RFP alternative allowed proposers to propose an alternative CPI index. The collection component escalator in the draft contract is the June-to-June Seattle-Tacoma-Bellevue Metropolitan Area for the U.S. City Average Urban Wage Earners and Clerical Workers, all items (Revised Series) (CPI-W1982-84=100) prepared by the United States Department of Labor, Bureau of Labor Statistics. The CPI-W is released no later than July 15 of each year and 100% of the CPI-W is applied to the collection component for the ensuing year with a cap of 5%. For example, an adjustment to the Contractor's collection service charge for 2023 will be based on the CPI-W for the twelve (12) month period ending June 30, 2022. If the CPI is negative, the contractor rates remain unchanged.

In its proposal, WMI has proposed to use the Water, Sewer, Trash (WST) index as an alternative to the CPI-W. It is important to note that the annual "savings" of \$402,625 noted above is artificial, because WMI has assumed and built in an annual rate of inflation higher than the CPI-W in the collection component of its wholesale rates and it is willing to give back some or all of the difference if the City is willing to accept the WST index over the CPI-W

index. Historically, the WST index averages more than the CPI-W. The WST index has averaged 3.84% over the past ten years and 4.45% over the past twenty whereas the CPI-W has averaged 2.48% over the past ten years and 2.46% over the past twenty. The WST index is about 1.4 percentage points higher on average than the CPI-W over past 10 years and two percentage points over past 20 years. Over the past five years, there is a slight difference between the CPI-W and the WST indices, but such difference was reduced due to the 6.29% CPI-W increase to be effective on January 1, 2022.

The 2023 collection cost component will be around \$17 million. 1.8% of \$17 million is \$306,000 and 2.1% of \$17 million is \$357,000. Consultant analysis estimates that the CPI-W will stay lower by more than the WMI give back of \$402,625 over next ten years, therefore unless WMI is willing to escalate the giveback at the WST percentage increase each year, then staff is recommending staying the course with the CPI-W escalator in the draft contract.

CPI-W and WST Indices Comparison		
Period	CPI-W	WST
5-year Average	3.13%	3.30%
10-year Average	2.48%	3.84%
20-year Average	2.46%	4.45%

Staff Recommendation: Decline

The following are two options to manage recycling commodity revenues. The draft contract included a placeholder for a mechanism to manage the value of recyclable commodities. Alternatives seven and eight were included in the RFP to illustrate the difference between the status quo—the contractor retaining all revenues and paying all expenses related to the marketing and sale of recyclable commodities—versus a riskier floor/ceiling revenue/cost sharing mechanism.

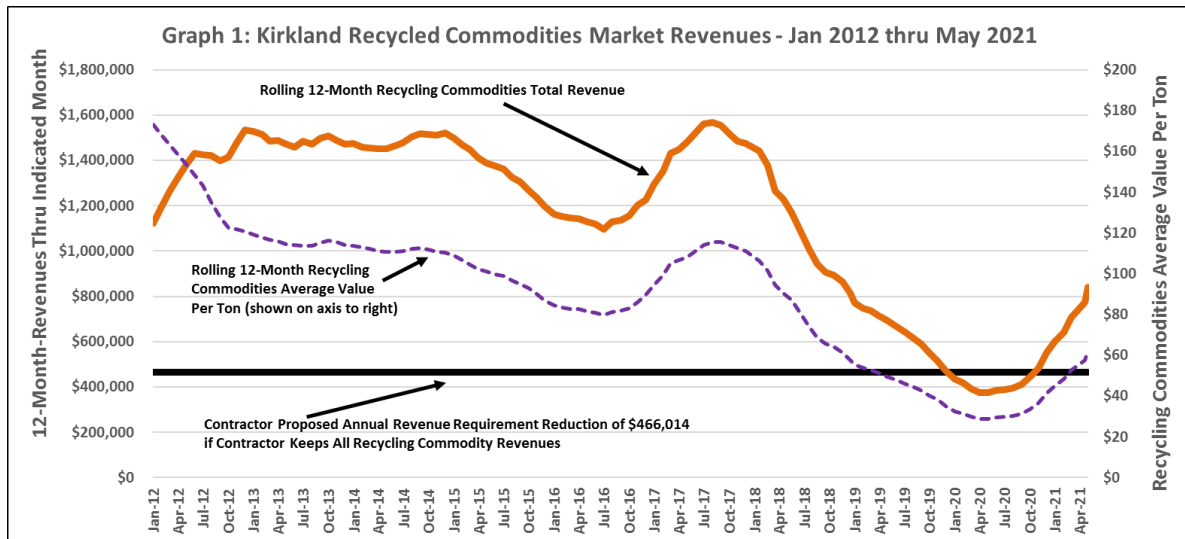
7. Contractor Retains All Commodity Revenues/Pays all Expenses

Under this alternative, the Contractor retains all commodity revenues and pays all commodity expenses during the term of the contract, like earlier City contracts.

Decrease in Annual Revenue Requirement: \$466,014

Discussion: In most current municipal solid waste contracts in King County, including Kirkland, the contractor is responsible for the collection, processing, and marketing of recyclable commodities and bears all the risk associated with the sales and value of the commodities. This places the risk and reward entirely upon the contractor and insulates the City from having to pay more in the event of a downturn in the price of recyclable commodities, but also prevents the city from receiving additional revenue when average market prices are high.

In recent years, the restrictions (the “China Sword”) China placed on imports of recyclables from the United States caused the prices of many commodities like mixed paper and plastics to crash to all-time lows. Costs rose accordingly as processors were compelled to find less profitable alternative domestic and international commodity markets, and to ensure bales of recyclables were almost entirely free of contaminants. Recently, the average market prices of some recyclable commodities—such as aluminum, mixed paper, and some plastics—are beginning to rebound, although it’s difficult to predict if the growth will continue with any degree of certainty. The average combined revenues from the sales of Kirkland’s recyclable commodities is shown in *Graph 1* and shows recycling commodity markets are beginning to gradually rebound.



Source: Sound Resource Management

Based upon analysis of WMI-provided average commodity pricing and residual disposal data by consultant Sound Resource Management, it is estimated that if the commodity markets in the next ten years are similar to the last 1.5 years, WMI would make around \$507,000 from the sales of Kirkland recyclable commodities. However, WMI also would be responsible for paying between \$306,000 and \$600,000 (depending on the King County disposal fee) for the disposal of residuals (contaminants) from recycling processing. The net revenue would range between positive \$201,000 to negative \$93,000, which in either case does not cover the \$466,014 rate decrease offered in the proposed alternative. Therefore, staff believes the \$466,014 in annual savings is reasonable and a good deal for the City bearing in mind that the attractiveness of the deal wanes if the average commodity markets prices increase or residual tonnages decrease (or a combination of both) over the term of 10.5-year contract. When coupled with the avoidance of risk, staff recommends acceptance of this alternative.

Staff Recommendation: Accept

8. Contractor Retains All Material Revenues/Pays all Expenses Within Price Floor and Ceiling

Under this alternative, the Contractor retains commodity risk and reward within a band of \$25-\$156/ton average commodity value. In the event that average published commodity value drops below \$25/ton, the City will compensate the Contractor for lost revenues based on the

difference between actual published value and the \$25/ton floor. In the event that average published commodity value exceeds \$156/ton, the Contractor will compensate the City for excess revenue based on the difference between actual published value and the \$156/ton ceiling.

Decrease in Annual Revenue Requirement: \$117,000

Discussion: Some cities have elected to take on some of the risk associated with the sales of recyclable commodities in recent contracts. One mechanism to share the risk is to negotiate a floor and ceiling arrangement with the contractor. If the average commodity market prices dip below the floor, the City would have to provide additional compensation to the contractor to make up the difference between the floor and the lower actual average market price. If the average market prices rise above the ceiling, the City would receive additional compensation from the contractor between the ceiling and the higher actual market price. Given the general volatility of recycling commodity markets and uncertainty surrounding the ability of markets to sustain growth and the associated costs to administrate a floor and ceiling arrangement, staff recommends declining this alternative in favor of Alternative 7 above.

Staff Recommendation: Decline

Unrequested Contract Services and Provisions

The WMI proposal includes several provisions and services that were not requested by the City in the draft contract or RFP. These provisions and services may or may not be of interest to City Council. The following is an overview of the unrequested provisions and services offered by WMI for City Council's consideration, including a staff analysis, cost information, and a recommendation to accept, consider, or decline.

1. Big Belly Solar-powered Trash Receptacles

In 2011, 48 Big Belly HC3-model solar-powered trash containers were installed in the downtown area. At 24 of the 48 locations, there are kiosks with a Big Belly SC3-model recycling receptacle attached to the HC3 trash compactor. The cost of the Big Belly units was included in the new contract with WMI effective July 1, 2011. The Big Belly trash units compact waste, which adds capacity and theoretically reduces the number of times per week the containers must be emptied if the operator uses the wireless notification software properly. The software advises WMI when the containers are at or near capacity and need to be scheduled for service. The Big Belly recycling containers have no compaction capability but were retrofitted with wireless notification hardware around 2016 at a substantial cost to the City. The recycling unit hardware is hardwired across to the HC3 compactor unit and uses the solar power generated by the HC3 to power the recycling units' fullness monitoring hardware. The containers have been exceptionally effective at addressing litter issues downtown in waterfront parks and have provided residents and visitors with public recycling opportunities. WMI is responsible for maintaining and servicing the units and paying for the annual wireless notification software license.

In its proposal, WMI is proposing to replace only the trash units with new HC5 Big Belly units. The older HC3 units are no longer being manufactured. Staff estimates the retail cost of the

replacements is between \$120,000 and \$150,000. In addition to the cost, there are several areas of concern about replacing the units:

- The SC3 recycling units are not compatible with the new HC5 trash compactors. At the 24 kiosk locations, the old SC3 recycling containers would have to be detached from the old HC3 trash units, a new side skin purchased (if available), and the recycling unit remounted to the sidewalk adjacent to the new HC5 trash unit.
- Solid Waste invested \$31,000 to retrofit the SC3 recycle units with wireless notification hardware and that investment and capability would be lost unless matching new SC5 recycling units were provided along with the new HC5 trash units.
- Solid Waste recently invested several thousand dollars to apply new vinyl wraps at several locations to improve the appearance of the containers. That project is ongoing as funding becomes available to install more wraps.
- The existing Big Bellies are aging but remain in working order and, when maintained regularly to the manufacturer's specifications, will continue to function well into the foreseeable future.

Staff Recommendation: Consider. Staff is supportive of considering the replacements if matching recycling units are provided at the kiosk locations at no additional cost and if the City is made whole on its recycling unit wireless notification hardware and vinyl wrap investments. Staff also is open to a gradual deployment of new units to deflect costs over time. Otherwise, staff recommends that this unrequested item be deleted. Instead, staff recommends that the City replace the units as cash reserve and/or grant revenues become available, and that the associated replacement costs related to this unrequested item be deducted from the WMI wholesale rates.

2. Electric Collection Vehicle Pilot

Waste Management is proposing to pilot a Class 8 electric solid waste collection vehicle in Kirkland within the first five years of the contract. Electric collection vehicle technology is not yet on par with diesel or CNG-fueled collection vehicles in terms of reliability and efficiency, but it may become viable within the next few years. According to WMI, there would be no additional cost to the City to pilot an electric collection vehicle. The vehicle will be purchased by WMI corporate and will be made available to regional operations upon request for pilots throughout the country.

Staff Recommendation: Accept. Electric vehicles support the goals and actions in the City's *Sustainability Master Plan*, and staff welcomes the opportunity to assess the viability of electric collection vehicles and explore opportunities for an eventual transition to a full electric fleet as technology allows.

3. Electric Route Manager Vehicles and Box Trucks

At the start of the contract, WMI will purchase and deploy two Nissan Leaf electric vehicles for route manager transportation and two electric box trucks to be used by cart delivery and curbside bulky waste drivers. The deployment of more electric vehicles supports the goals in

the *Sustainability Master Plan*. This could save around \$87,000 at the start of the contract by substituting gas or diesel-powered route manager and box truck vehicles in lieu of electric vehicles.

Staff Recommendation: Accept

4. Miscellaneous Unrequested Services and Provisions

The following is a list of several miscellaneous unrequested services and provisions with zero to nominal impact on rates. Where data are available, estimated or actual costs have been provided. Given the limited rate impact of these unrequested provisions and services, staff is not opposed to accepting them, unless noted otherwise.

- **Community Events Donation.** Waste Management would provide \$40,000 to the City each year to be used to support community events. The funding may be distributed at the City's discretion by the City Manager's Office and the appropriate department.
- **Green4Good Community Grant.** The federal government provides an alternative fuels tax credit of up to \$100,000 annually to businesses. If the tax credit is reinstated by Congress on an annual basis, WMI is proposing to share up to 50% (\$50,000) of the proceeds of the tax credit with the City in the form of a community grant program geared toward supporting community sustainability initiatives. If accepted, the scoping of the community grant will determine the lead City department to administer the grant program.
- **Dedicated Route Manager.** A route manager would be dedicated to Kirkland to providing daily operational support to Kirkland staff. Staff sees little value in this offering as all WMI route managers are and always have been readily accessible to staff at any time.
- **Additional WMI Outreach Staff Time.** Additional WMI public education staff time would be provided to Kirkland to support site visits to multifamily and commercial customers, for cart tagging, and for special events. The proposal does not specify the number of additional hours that would be provided and therefore staff is unable to estimate the usefulness of the additional staff time nor calculate the impact on rates.
- **Additional Recycling Collection Event.** The draft contract requires the contractor to hold one recycling collection event each year to accept difficult-to-recycle items. This addition would provide Kirkland with one additional event per year. The cost of these events is not significant because event fees charged by vendors, if any, are nominal.
- **Multifamily Textile Recycling.** Through the WM ReTRN Program (Recovering Textiles Right Now), large multifamily properties would be offered clothing drop-off containers at no additional cost. The WMI proposal does not define "large multifamily" so contract language would be required to identify which and how many properties would be eligible for this service.

- **Multifamily Move-in/Move-out Program.** This on-call service would be provided to property managers to assist with the removal of bulky waste materials left behind after tenants move out for a fee per item. This service is not distinguishable from the provisions in the draft contract where on-call bulky waste collection service already is made available to multifamily property managers.
- **EcoCarts.** Replacement carts provided to customers are manufactured with a percentage of post-consumer recycled resin. The WMI proposal does not specify the percentage of recycled plastic resin in the carts, but staff supports the use of post-consumer recycled plastics wherever possible to help close the recycling loop.
- **Driver Uniforms.** Driver uniforms would be made from fiber from recycled plastic bottles.
- **Recycle All-Stars Program.** Customers with recycling contamination issues that show improvement over time would be eligible to receive a free month of trash collection service. One of ten eligible customers would be selected to receive the award by WMI. Presumably, WMI would provide the City with a credit for the one month's free service, which would be formalized in contract language.
- **Smart Truck Technology.** Currently, multifamily and commercial collection vehicles are equipped with photo and video cameras to monitor contamination. Videos and photos are reviewed by WMI staff and customers with contamination are notified via letter or email with a snapshot of the contamination. In the new contract, the technology would be extended to single family residential to help combat contamination. It is unclear how WMI will be able to implement the technology successfully in the single-family sector because there are about 50,000 residential recycling and yard/food waste carts serviced per week.
- **Slotted Recycling Container Lids.** To prevent contamination, slotted lid recycling containers would be offered to multifamily and commercial customers. The slots prevent plastic bags of recyclables and unbroken down cardboard boxes from being placed in recycling containers. Kirkland piloted slotted lids at three multifamily properties in the past and discontinued the pilot after receiving negative feedback from property managers.

NEW CONTRACT WHOLESALE SOLID WASTE RATES

As will be discussed in future Council meetings, WMI's proposed wholesale rate increase is substantial. The following section includes a detailed discussion of retail and wholesale rates to set the stage for an ensuing presentation of the proposed WMI wholesale rates.

Wholesale and Retail Rates Primer

Kirkland's Solid Waste Utility is a self-sustaining enterprise fund, similar to the other City utilities (domestic water, sanitary sewer, and surface water). Historically, the City has chosen to contract for solid waste collection services in lieu of providing those services directly and has contracted with WMI without interruption for about 40 years. Waste Management bills the City for collection, processing, and disposal services provided through a wholesale rate schedule for each service level: residential, multifamily, and commercial. The WMI wholesale rates are comprised of a collection component and a disposal component.

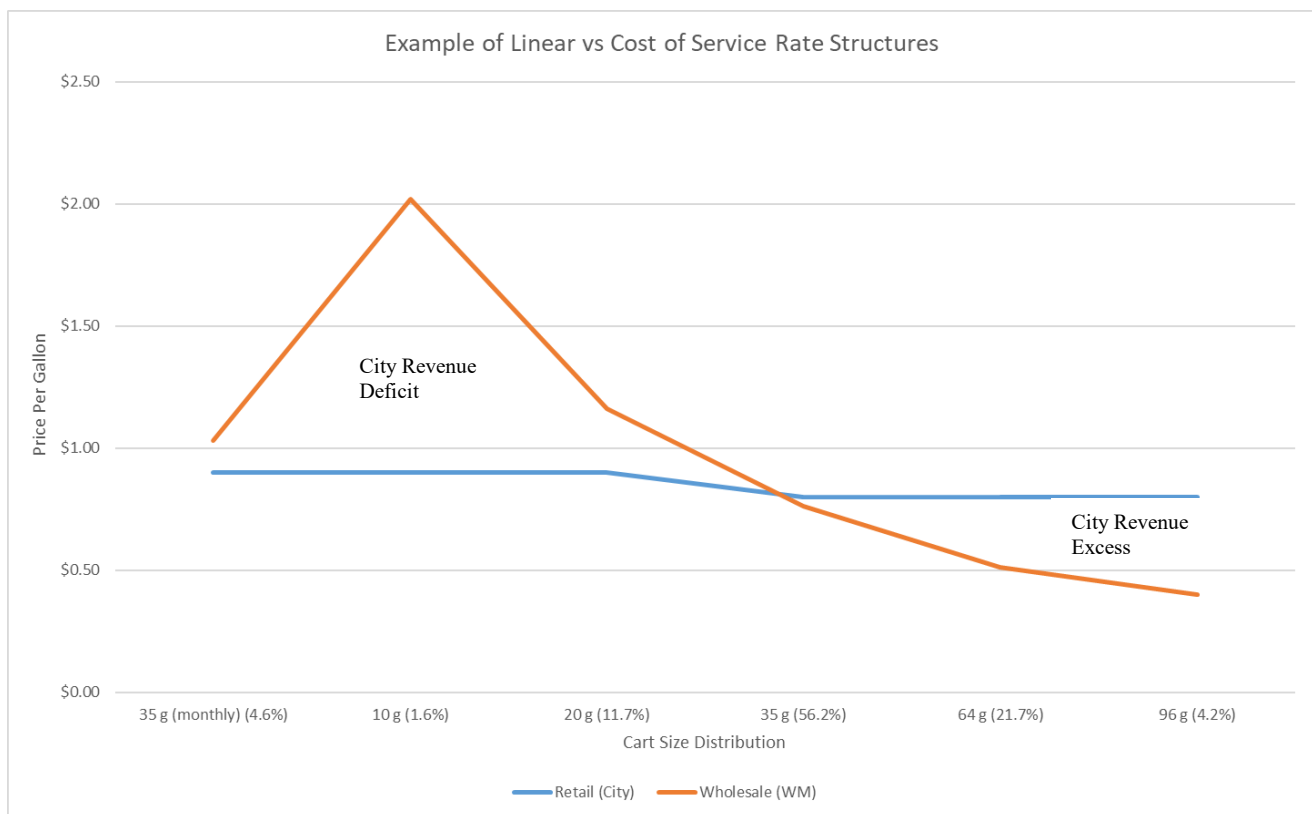
The collection component of the rate is cost-of-service and includes all operational and administrative costs associated with the collection, transportation, and processing of trash, recycling, and yard/food waste, plus a profit margin. The collection component is escalated annually by the June-to-June CPI-W consumer price index. Cost-of-service rates reflect the revenue requirement that must be collected for each service level for the contractor to fully recover its costs associated with collection. With cost-of-service service rates, the price per gallon is higher for smaller carts and containers but lower for larger carts and containers because it's more expensive for the contractor to collect and haul less material. When charged directly to the customer, cost-of-service rates encourage customers to upsize their trash service level to take advantage of a lower price-per-gallon bargain and does not, therefore, encourage waste reduction or recycling behaviors.

The disposal component of the wholesale rate includes costs borne by the contractor to dispose of Kirkland's trash through the King County Solid Waste system according to a disposal fee set by the King County Council. At the start of a contract, an estimate of the average weight for each cart or container service level is made and remains in place over the term of the contract. The monthly disposal fee rate for each service level is calculated by dividing the average container weight for each service level by 2,000 pounds (a ton), multiplying the quotient by the King County disposal fee per-ton rate, and then multiplying the product by 4.333 (the number of service intervals in a month). The resulting number is the disposal component, which is added to the collection component to arrive at the total wholesale service fee for each service level. Waste Management is compensated by the City on a monthly basis for services rendered by calculating the number of customers at each service level multiplied by the service fee for each service level.

The City Council retains retail rate-setting authority, and the City bills its customers retail rates for solid waste collection services on a bi-monthly basis. Two-year retail rates typically are adopted to coincide with the biennial budget process. The City's retail rates are estimated by calculating a revenue requirement to cover wholesale rate payments to WMI; escalators to the wholesale collection component; any increases in King County's disposal fee; plus a margin to pay for City Solid Waste and Utility Billing staff, recycling programs, and administrative and operating expenses. As opposed to the contractor's cost-of-service rate structure, the City's retail rates are linear, meaning that the price per gallon across all service levels is the same. This creates a subsidy between sectors in which the higher priced larger carts subsidize lower pricing for smaller carts and containers. The linear rate structure, therefore, provides most customers with the opportunity to downsize or "right size" their

garbage service level by taking advantage of recycling and compost services provided at no additional cost.

As shown in the example below, by overlaying City linear retail rates over the wholesale contractor cost-of-service rates an imbalance is created in which the wholesale rates paid to WMI for smaller carts are higher than the retail rates and vice versa. The City operates at a deficit for the smaller cart and container service levels but makes a profit on the larger cart and container service levels. Since linear rates encourage downsizing, the linear rate model must build in an estimated rate of downsizing else the City will experience revenue shortfall. The goal with linear retail rates is to strike a revenue neutral balance to ensure the City achieves its annual revenue requirement to sustain the financial integrity of the Solid Waste enterprise fund.



Wholesale Rates Proposal

The rate proposal received from WMI includes an average 53.3% wholesale rate increase. By comparison, the City of Auburn awarded its solid waste contract to WMI in October 2021 with an average 48% wholesale rate increase. Auburn received a second proposal from Republic Services that included a rate increase proposal approximately \$500,000 higher annually than the WMI proposal or about a 50.8% wholesale rate increase. Because of market conditions, staff anticipates that in the future other cities that undertake competitive procurements or negotiations will experience rate increases on par with or greater than the increases seen in Auburn and now Kirkland.

The wholesale rate increase breakdown by service sector is shown below in *Table 5 Proposed Wholesale Rate Increase*.

<i>Table 5: Proposed Wholesale Rate Increase</i>	
Sector	Increase (%)
Single Family	57%
Multifamily/Commercial	49.9%
Roll-off	14.4%
Average	53.3%

Table 6: Comparison of Current and Proposed Revenue Requirement and Monthly Payment below, shows a comparison between the annual WMI revenue requirement in its proposal and the projected average monthly payment to WMI versus current. Staff had considered proposing to use some cash reserves to mitigate the rate increase or defer the rate increase between the July 1, 2022 contract effective date and January 1, 2023, but the cash reserve balance as of this writing is \$1,759,157 and thus is too small to use for rate increase mitigation or deferment; the reserve policy for the Solid Waste Utility is to maintain a minimum cash reserve balance of at least one month's payment to WMI plus operating expenses (\$2,300,000). As such, increasing the cash reserve balance to around \$2.3 million as a component of a retail rate increase will have to be considered to comply with cash reserve policy.

<i>Table 6: Comparison of Current and Proposed Revenue Requirement and Monthly Payment</i>			
	Current	Proposed	Difference
Annual Revenue Requirement	\$13,715,749	\$21,020,679	\$7,304,930
Average Monthly Payment	\$1,142,979	\$1,751,723	\$608,744
Six Month Payment	\$6,857,874	\$10,510,338	\$3,652,464

There are several drivers behind the drastic increase in solid waste collection costs.

- Corporate-mandated **profit margins** (estimated to be between 25%-30%)
- **Inflation** related to labor, maintenance, and fuel. According to labor cost data provided by WMI, and dependent upon the labor agreements:
 - Driver wages have increased between 31% and 70% since 2012.
 - Driver pensions have increased between 45% and 158% since 2012.
 - Driver health and welfare benefits have increased between 42% and 65% since 2012.
- **Recycling costs**, including investments in sorting technology, processing costs, disposal of contaminants, and low and volatile recycling commodity prices
- **Market reset**. The City's last competitively procured and awarded contract was in 2002. The current contract was negotiated in 2011. Kirkland's wholesale rates have been artificially low for several years and have not kept pace with growth and increasing costs.

For the purposes of a high-level comparison of residential wholesale rates charged by WMI in its other local cities, *Table 7: WMI Wholesale Residential Rate Comparison* below, shows the relative difference between Kirkland's current wholesale rates; the proposed new WMI wholesale rates; the cities of Auburn, Federal Way, and Newcastle; and unincorporated King County. It's important to

note that this is not a true apples-to-apples comparison, and the contractual services and provisions have not been equalized between cities. There are several factors that influence and impact rates in a given jurisdiction, ranging from proximity to a transfer station, to the unique mix of services and provisions in an individual city's contract, to whether the contract was procured competitively or negotiated. Nor does *Table 7* represent the retail rates which Kirkland will charge to its customers. It's important to note also that all of the cities shown have every-other-week recycling service and two have unembedded yard waste service for which customers must pay a fee in addition to the garbage rate.

Table 7: WMI Wholesale Residential Rates Comparison*

Service Level	Kirkland (Current)	Kirkland (Proposed) 7/1/22	Auburn 10/1/21	Federal Way 9/1/20	Newcastle 3/1/19	King County WUTC**
20 gallon	\$23.45	\$37.99	\$31.17	\$28.33	\$31.78	\$33.35
35 gallon	\$27.02	\$43.77	\$34.98	\$33.44	\$38.78	\$39.57
64 gallon	\$33.19	\$53.77	\$46.40	\$43.37	\$48.20	\$49.18
96 gallon	\$38.79	\$62.84	\$62.19	\$58.24	\$60.18	\$58.84
Recycling	Weekly	Weekly	EOW	EOW	EOW	EOW
Yard Waste	Weekly	Weekly	Weekly	Weekly Subscription – Extra \$11.98/mo	Weekly	Weekly Subscription – Extra \$13.00

*Rate data provided by WMI

**Unincorporated King County area where solid waste collection services and rates are governed by the Washington Utilities and Transportation Commission and provided by WMI through exclusive rights to service certain territories through a "G" certificate.

NEXT STEPS:

This update is to provide the Council with background on the contract elements, contract options and the resulting increase in wholesale rates. Staff is seeking any questions or feedback from the Council. Staff will provide a second briefing to the Council on options for setting the retail rates that Kirkland charges solid waste utility customers to implement the contract. The next briefing will include policy choices that impact rates, potential cost saving options, and a discussion of ways to phase in the rate increases. Upon receiving direction from Council on a preferred rate increase implantation strategy and the provisional award of the contract to WMI, staff will engage with WMI to finalize the details of the draft contract and will develop a corresponding new retail rate ordinance to adoption at a Council meeting to be determined. Staff anticipates a robust education and outreach effort to residents and businesses using multiple communications channels in well in advance of the July 1, 2022 contract start date to explain any changes in service, new services, and rate increases.