

MEMORANDUM

Date: March 10, 2017
To: Civil Rights, Utilities, Economic Development and Arts Committee
From: Peter Lindsay, Council Central Staff
Subject: CB 118931 Solid Waste Disposal Contract Amendment Summary

Synopsis

Council Bill 118931 would authorize the CEO/General Manager of Seattle Public Utilities (SPU) to amend the City's solid waste disposal contract with Waste Management of Washington Incorporated (Waste Management) for waste disposal and transportation services. The amendment would reduce the City's contracted tonnage rates for solid waste disposal for the next several years in exchange for delaying a previously negotiated City option to terminate the Waste Management contract.

The amended contract would discount the current solid waste disposal rate¹ by \$2.00 per ton in 2017 and 2019 and \$0.50 per ton in 2021. Based on the proposed discounts, SPU would enjoy cumulative savings of about \$8 million from 2017 to 2023. SPU proposes to use projected contract savings to support cash financing of the solid waste fund (SWF) capital improvement program (CIP) and to reduce the projected three-year average annual rate increase from 4.4 percent to 4.1 percent—a 0.3 percentage point difference. Independent of the proposed contract amendment, SPU is newly reporting to Council that it now expects to need to issue debt in the SWF to fund capital improvements—the last solid waste rate study assumed no need for additional debt issuance.

The amended contract delays the City's previously negotiated opportunity to end the Waste Management contract five years (from March 31, 2019 to March 31, 2024).

Background

SPU manages the City's garbage disposal contract for the benefit of Seattle residents. Once collected, all non-recyclable solid waste or garbage is transported to and disposed in the Columbia Ridge Landfill and Recycling Center in Gilliam County, Oregon. The current solid waste disposal contract with Waste Management was authorized by ordinance in 1990. The

¹ The 2017 base disposal rate is \$44.01; given inflation and the April effective date of the proposed new discount, the new blended disposal rate for 2017 would be \$42.51.

contract term was for 37² years with options for opt-out³ dates included to protect the City’s interests. There have been three similar amendments to the contract authorized by Council: October 1996, February 2001, and February 2009. Past amendments to the contract have also provided the City with discounts to the tonnage rate for garbage disposal in exchange for delaying contractually defined opportunities to end the Waste Management contract.

The proposed contract amendments proposed by the Executive would discount the indexed tonnage rate for garbage disposal by \$2.00 in 2017, \$2.00 in 2019 and \$0.50 in 2021. Table 1 provides a 7-year breakdown of the financial impact of authorizing the amendment.

Table 1: Financial Summary of the Proposed Amendments to the Waste Management Contract

Current Terms	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Projected Tons	310,500	312,417	315,568	317,285	317,894	318,856	319,479
Per ton rate including projected inflation	\$44.01	\$45.22	\$46.46	\$47.74	\$49.05	\$50.40	\$51.78
Current costs	\$13,663,839	\$14,126,237	\$14,661,125	\$15,146,270	\$15,592,649	\$16,069,947	\$16,544,144
Amendment Terms							
Discount effective April	\$2.00	\$2.00	\$4.00	\$4.00	\$4.50	\$4.50	\$4.50
Average annual discount	\$1.50	\$2.00	\$3.50	\$4.00	\$4.38	\$4.50	\$4.50
New Rate	\$42.51	\$43.22	\$42.96	\$43.74	\$44.67	\$45.90	\$47.28
Amended Costs	\$13,198,088	\$13,501,404	\$13,556,637	\$13,877,130	\$14,201,864	\$14,635,095	\$15,106,487
Savings = Amended Costs LESS Current Cost	\$(465,751)	\$(624,833)	\$(1,104,488)	\$(1,269,140)	\$(1,390,785)	\$(1,434,852)	\$(1,437,657)

Analysis

There are three mutually exclusive options available to SPU as the 2019 opt-out date approaches: Option 1: strictly maintain the status quo; Option 2: pursue savings in lieu of opting out of the contract; or Option 3: open the contract and develop a request for proposal (RFP) for garbage disposal services in 2017.

Option 1 – Approved the Executive’s proposal without changes

Strictly maintaining the status quo--forgoing the benefit of a negotiated contract amendment or a public procurement for disposal services—would result in no discernable benefit to the City in comparison to the other two scenarios. Below are descriptions of the strengths and weaknesses associated with either pursuing Option 2--negotiating new contract terms or Option 3--bidding the disposal contract.

² Contract commencement date was April 1, 1991

³ The opt-out date gives the City full discretion to end the garbage disposal contract with Waste Management and pursue a competitive bid for disposal services.

Option 2 – No Bid: Extend the City’s option to opt-out for five years - March 2019 to March 2024

Strengths

- Nets about \$8 million of savings for rate payers from 2017 to 2023.
- Retains a competitive contract at \$42 per ton when compared to other local jurisdictions.
- Preserves options for City Light green power generation.

Weaknesses

- 2024 contract option becomes largely performance-related.
- SPU may forego alternative technology proposals such as creating and marketing alternative fuels or manufacturing inputs from garbage disposal. Per SPU, no new regional disposal facilities are planned and proposed pricing for alternative disposal is above current rates.

Option 3 – Bid: Submit a RFP for disposal services in 2017 to take effect in April 2019

Strengths

- With a new public procurement, SPU could bid on current services and market options for alternative facilities and technologies.

Weaknesses

- SPU asserts that the disposal market is limited, the current rail market not favorable for new competition, and prices for services in other jurisdictions are not better (e.g., Snohomish County \$51/ton and Clark County @ \$41/ton for shorter haul and different mode).
- SPU indicates there would be limited options for alternative technology facilities in a near-term RFP.
- Current landfill and rail vendors may require a 10-year or longer term for capital financing purposes and result in a diminished flexibility for the City to amend the service profile.

Council Options

- A. Approve the Executive's proposal – No changes to the proposed legislation.
- B. Approve Executive's proposal with an amendment or new bill that reduces appropriations – SPU indicates that it would bring future legislation to Council for increasing the amount of cash financing in the Solid Waste Fund CIP. To preserve the ability to deliberate on the long-term financial direction of the utility, Council could decrease SWF appropriations funds in proportion to the savings reflected in Table 1. These savings would be available in the future to support either SPU's planned Solid Waste Fund CIP or for other purposes subject to future Council appropriations. A separate bill is necessary to change appropriations since the original legislation did not contain proposed changes to SPU's budget.
- C. Do not pass – A decision not to pass the ordinance would signal the Council's preference for the City to exercise the opt-out provisions in the Waste Management contract. The Council might want to consider such a decision if there was verifiable evidence that (a) superior contract prices for waste disposal at the same level of service were available, (b) the market for alternative disposal technologies was robust and competitive and (c) if there was a record of performance-related issues with the Waste Management contract. SPU indicates that Waste Management has provided reliable services at good value and the proposed amendments are consistent with that record.

cc: Kirstan Arestad, Central Staff Director
Dan Eder, Deputy Director Central Staff