



MEMORANDUM

TO: Susan Hutton, Chair, Environmental Commission
John Mirsky, Member, Environmental Commission

FROM: Howard S. Lazarus, City Administrator

SUBJECT: Response to Questions - Solid Waste Fund/Program Update

DATE: April 4, 2018

I am forwarding this memorandum in response to the questions you provided on February 20, 2018. It is the first of two documents you will receive addressing concerns you have raised. The information is provided so that there is full transparency into the decision-making process and to welcome your observations and recommendations. Our intent is to create a forward-looking, progressive approach to our provision of solid waste services (including waste reduction, recycling/diversion, efficiency, climate action, and customer satisfaction). While new approaches, means, and methods may at times be in conflict with how business was done in the past, they also serve to further the community's values which I am sure the Environmental Commissioners share and endorse. Please do not hesitate to contact me if you have any other questions or if you would like to discuss these matters further.

Question: We would like to better understand the updated solid waste fund reserve projection and related figures provided in your memo, specifically:

What changed vs. the three previous projections, all of which showed much steeper declines in the balance?

1. Per the text in your update, the OPEB charge is now projected to be \$3.3M instead of earlier projections of over \$5M (for example reference your May 25, 2017 Solid Waste update when \$5.2M was projected). What changed? Also, in the spreadsheet embedded in your update, Other Adjustments for GASB- and OPEB-related expenses of \$4.4 million in FY 2016 and \$3.6 million in FY 2018 are shown with much smaller expenses / adjustments in odd-number FYs. We were of the impression that GASB and OPEB charges were one-time. A brief explanation of the accounting principles involved would be appreciated.

Response: The figures presented have been refined as updated financial data has become available. In addition, no regionalization plans, capital projects or equipment investments are included in the expenses.

The OPEB liability is a function of active and retired employees of the City's previous retiree medical program. The calculation is based on estimates of the number of active employees, the number of retirees, and financial market conditions. The final improved OBEB liability calculation is a result of fewer

active members, and significantly improved market results. The City will continue to have the requirement to fund OPEB as long as there are beneficiaries in the program, however the program has been closed for several years and the risk associated with it is greatly diminished. However, future OPEB contributions are still dependent upon market performance, changes in state statutes, and revisions to Government Accounting Standards Board (GASB) practices.

2. Why did material recovery expenses go up by an estimated \$3.0 million in FY 2017 compared to FY 2016? That is much higher than the amount we had previously understood (~ \$1.5M).

Response: The Material Recovery expenditures increased in FY 2017 due to increased contract processing costs, significant facility and equipment repairs, and safety improvements. Prior to FY 2017, the MRF operator was not passing along the true cost of operations to the City, which is what led to its financial stresses and its subsequent unsafe operation of the facility. It is also important to note that the trend in the recycling industry is for operators to pass the commodities risks back to the facility owner due to the decreased markets for recyclable materials, and future contracts are likely to be in line with this business philosophy.

3. Depreciation costs are forecast at ~ \$900,000/year going forward.

A. Is the MRF facility still being depreciated and, if so, what is the expense per year and for how many more years?

Response: Yes, several projects undertaken at the MRF are currently being depreciated and expensed annually through FY 2035. The annual depreciation charge associated with the building is \$167,450.

B. How will the depreciation figure be impacted if the City sells off its collection fleet and thus no longer incurs this portion of the total depreciation expense?

Response: Because the vehicles/equipment are assets of the Fleet Services Fund, the Solid Waste Fund depreciation expenditure would not be impacted should the City sell off its collection fleet. The savings would be reflected in reduced operating expenditures for fleet replacement, maintenance and fuel costs.

C. Related to the above, what is the depreciation of the Wheeler Service Center? Will the amount charged to solid waste decline if its fleet is dramatically reduced?

Response: All of the operations located at the Wheeler Service Center contribute proportionately to the operations of the site. Should the Solid Waste staff and equipment be reduced, the allocated cost to the Solid Waste Fund would decrease proportionately.

D. Misc. Operating Expenses are estimated at \$2.9 million in FY 2017 and between \$2.1 and \$3.1 million year in the FY 15-19 period. This is substantial. What does this include? We'd appreciate it if more detail can be provided to the EC / the community.

Response: Miscellaneous Operating Expenditures include Administration, Retiree Medical, Self-Insurance, Landfill, Customer Service, Municipal Service Charge, Systems Planning and one-time studies;

i.e. Organics Study and Solid Waste Resource Management Plan Update costs. Increased expenditures are mostly attributable to increased program management and support staffing.

E. *It is our understanding that the revenue line Waste Collection-Commercial is associated with a total pass-through cost from individual customers to the City to Waste Management. Thus it seems inappropriate to calculate the fund balance as a percent of total operating expenses including Waste Collection-Commercial. Please explain the City's rationale as its current calculation method seems to artificially inflate the funds needed in reserve.*

Response: Both the revenue and expenditures for the commercial franchise are included; therefore are an offset, and a full reflection of the Solid Waste Fund program.

F. *If both the absolute amount in the reserve and the % of operating expenses are much higher than previously projected, it is possible to reconsider running an organics pilot program?*

Response: As indicated in the embedded spreadsheet, operating expenditures are projected to exceed operating revenue; therefore, it is not prudent at this time to recommend a recurring expense without an offsetting revenue. Notwithstanding, we recognize that organics collection is an area of interest and will both continue to look for prudent

4. *We understand that annual expenses for current through mid-term recycling operations are ~ \$0.75M higher than in the past when the MRF operated.*

A. *What is the status of repairs to the conveyor / bailer which will allow more cost-effective processing of fibers locally per the current RAA contract? We received an update in the December EC meeting but three more months have passed. As far as we know, the equipment has been down since August resulting in ~ \$30,000/month of additional expenses.*

Response: City Council approved the MRF Horizontal Conveyor Repair at its February 5, 2018 meeting. The conveyor is a custom order; therefore, it is anticipated that installation will occur in 4-6 weeks.

B. *We understand these \$0.75M higher annual operating expenses will continue until a long-term strategy - for example a regional approach to solid waste, recycling and composting - is implemented; that could be five or more years out. If this is by-in-large true, is there any willingness to revisit repairs to and interim use of part of the MRF, for example to expand local OCC and fiber processing? It seems that the payback period would be much less than five years.*

Response: Staff is working to have an initial discussion with Kelly Rooney of Advanced Disposal, who provided the Recycling 101 session to the Environmental Commission, to obtain her opinion as a recyclables processing operator as to whether or not the sort-line equipment at the MRF can be repaired to a point that it could be functional for interim use at a reasonable cost. If her opinion is that there is potential for this approach, then staff will look to undertake the procurement process to obtain pricing for this work and then determine if the payback for this investment warrants moving forward with that work.

5. *Your update indicates that City staff has begun to consolidate all contracted collections with a planned effective date of July 1, 2019. Why is this prudent? Given that the long-term, regional-partner strategy has yet to be determined, why should the City commit to a single, long-term contract that would presumably exclude other potential partners?*

Response: July 1, 2019 is a key date for multiple reasons:

The commercial franchise contract with Waste Management ends June 30, 2019. The City has planned for, and is negotiating a contract extension until June 30, 2019 with Recycle Ann Arbor for curbside recycling collection services. The current contract ends June 30, 2018. The City's intent is to synchronize these agreements to allow for the potential to combine them into a single contract.

Several of the City's trucks are due or overdue for replacement between now and July 1, 2019. Further delay of a decision on consolidated collection would force the City to purchase new trucks for replacement.

The City's Public Works Unit currently has nine vacancies in solid waste positions. We are utilizing temporary employees to bridge the staffing gap while a decision about consolidated contracts is made. The City is committed to protecting existing employees and has planned for placement of the remaining employees into other work areas within Public Works. Sustaining a temporary staffing model for longer than the current planned duration would be extremely challenging and have negative impacts on the Unit.

Temporary staff are permitted to work up to nine consecutive months. After 9 months, they must take a 3-month leave, per union contract. Filling vacancies with temporary employees can be challenging, especially in solid waste where even filling permanent vacancies has been difficult. Staff turnover is frequent. Further delay of a decision would require additional hiring and training of temporary employees, and a longer period of reduced staffing across all of Public Works. This constant cycle of turnover and training has a very high risk of negatively impacting service delivery, not only in solid waste, but across multiple work areas. Staff vacancies being held or filled with temporary employees in street maintenance and utilities impacts flexibility in staffing availability when responding to snow events and emergencies, such as water main breaks.

If the City elects to move ahead with consolidated contracted collection services, a contract could be written to include a phased/opt-in approach with other municipalities as part of a regional effort. It would be in the spirit of cooperative purchasing.

6. *Will EC Commissioners be included in the RFP review for the selection of a recommended contractor to update the City's Solid Waste Resource Management Plan? In your March 29, 2017 message to Susan on in response to the EC's summary of MRF lessons learned, you suggested the City would include interested stakeholders in the review process because this has proven to be a highly positive experience in the past. If not, why not, especially given the lessons learned from the last such RFP process?*

Response: Yes, the EC has provided a representative to sit in on the interviews.

7. *The City has consistently stated that its diversion rate the last several years has been in the range of 46%; however, a compost report recently provided to the City by UM students - with input from City staff - contains an analysis of diversion rates on page 19 which indicates that the overall diversion rate is actually 32%. This is a significant difference. Which is correct?*

Response: Historically, staff has calculated diversion rate by dividing the total amount of recyclable materials collected (residential and commercial) by the total residential collections. Due to changes in the method of collections, the denominator of the calculation now includes residential and commercial collections. While the resulting calculation now produces a lower diversion rate, the actual amount of recyclable materials collected has increased.

8. *Given the City's planned restructuring, including the new Office of Sustainability and Innovation, who on staff will be responsible for solid waste-related programs over the next ~ 18 months?*

Response: Solid waste-related programs will remain in the Public Services Unit through FY19 (July 2018-June 2019). Craig Hupy, Molly Maciejewski, Cresson Slotten and Christina Gomes will be responsible for program oversight.

The City has recently posted the Sustainable Business Strategy Manager title. The person hired in this position will lead the Sustainability and Innovation Office. Potential transition of solid waste operations to the Sustainability and Innovation Office will then be addressed concurrent with the development of the Solid Waste Resource Management Plan.

Related questions include:

A. *The City recently posted a solid waste position. How do the duties of this position compare to current solid waste staffers? Two of the job titles provided to the EC in the December solid waste update are almost identical ("SW Program Coordinator" and "Solid Waste Programs Coordinator").*

Response: Ms. Gomes is currently the SW Programs Coordinator and is responsible for contract management. The two positions that were noted in the December update were included in a graphic representing FTEs supporting the solid waste program area. This included historical positions, including two positions and the current approved FTE allotment, which are a result of splitting the duties of the existing SW Programs Coordinator into two positions, SW Operations Coordinator and SW Programs Coordinator. The SW Operations Coordinator would be responsible for contract management and other operational issues while the second position would be responsible for higher-level programming and strategic planning. The decision to move ahead with splitting the existing position into two positions was placed on hold when discussions began about regionalization. As decisions are made about regionalization, the positions and the desired skill sets will be redefined to match the City's needs.

A. *The posted salary range seems very low if the City wants to attract and retain a well-qualified solid waste employee. The EC and City Council members have publicly expressed concerns that there is a potential correlation between City solid waste staff and solid waste performance issues. How does the new posting not perpetuate this situation?*

Response: Ms. Christina Gomes is currently the SW Programs Coordinator and is responsible for contract management. The two positions that were noted in the December update were included in a graphic representing FTEs supporting the solid waste program area. This included historical positions, including two positions and the current approved FTE allotment, which are a result of splitting the duties of the existing SW Programs Coordinator into two positions, SW Operations Coordinator and SW Programs Coordinator. The SW Operations Coordinator would be responsible for contract management and other operational issues while the second position would be responsible for higher-level programming and strategic planning. The decision to move ahead with splitting the existing position into two positions was placed on hold when discussions began about regionalization. As decisions are made about regionalization, the positions and the desired skill sets will be redefined to match the City's needs.

B. *If the City isn't able to invest in a salary that can attract a more-qualified employee, would the City consider investing in outside consultants, as it does with planning and building inspections and permitting? Staff turnover in the last ten years and additional organization changes going forward seems to suggest a need for more experience and guidance. What steps will the City take to secure this?*

Response: The recently posted position is a new position to assist with data collection and reporting, compliance assistance and outreach/customer service. The job has always been planned as an entry to midlevel position, reporting to Public Works (Molly Maciejewski), to assist with compliance issues that affect collections. The expressed concerns about experience and guidance are addressed in the above response to the question about the Sustainability and Innovation Office.

cc: C Hupy
C Sloten
M Maciejewski