

PUBLIC WORKS SERVICES PRIVATIZATION FEASIBILITY REVIEW

EXECUTIVE SUMMARY

The privatization feasibility review attached focuses on two Public Works services: residential solid waste collection and landscape maintenance services. Both of these operations are labor and equipment intensive, entailing nearly 30 employees and roughly \$3.2M in operating budget funds combined (F11 figures). The solid waste collection operation (SWC) is enterprise fund based and recovers expenses via a monthly service fee charged to 4,400 accounts, while the landscape maintenance operation is supported by the general fund. The aim of the review was to estimate what savings, if any, could be attained via privatization of these operations and whether these would warrant moving forward with request for proposals (RFPs).

A survey of SWC operations covering the majority of Miami-Dade County (M-DC) municipalities revealed several highly relevant facts concerning privatization of services:

- Over half of M-DC cities do NOT perform SWC in-house, with nearly 20 of 34 being serviced by the County or having opted for privatized services.
- The average monthly SWC fee for privatized service is roughly \$16 lower than the fees charged by cities performing in-house services. This significant difference strongly indicates that privatized services are less costly.
- The fee currently charged by Miami Springs is third highest among cities that provide in-house services; though some of these municipalities do not offer the same frequency of yard waste/bulk collection (once per week).

The review found that based on a projected SWC monthly fee from privatized services (after adjusting the fee to allow for current service levels), *the savings to Miami Springs residents would be roughly \$17.36 per month (\$208 annually)*. Additionally, the pricing proposed by an established state-wide solid waste management firm that would duplicate the City's current level of service also would result in approximately a \$16.65 per month reduction (\$200 annually). Based on these estimates and discussions with various city operations managers who expressed overall satisfaction with their contractors' service quality, it is recommended that the City move forward with the RFP process for SWC services.

A similar approach was taken for the landscape maintenance services component of the review. Over half of M-DC cities have opted for years to have this service performed by specialized grounds maintenance contractors. A number of cities spend well over \$300,000 annually to hire one or more contractors, and the majority of these report having shed their labor intensive in-house operations years ago. As found for SWC, municipal managers substantiated important benefits derived from privatization, a number of which go beyond cost savings (refer to page two of the report). The review applied landscape maintenance contract pricing from two current city-contractor agreements to the currently maintained green areas of Miami Springs (excluding the golf course). This resulted in annual estimated savings ranging from \$105,000 to \$203,000. Based on this, it is recommended that the City pursue an RFP process for landscape services.

Privatization of these two services may allow also the City to realize savings in its fleet maintenance operation. Currently a fleet maintenance contractor performs this service at a cost of \$173,000 annually. By shedding its heavy equipment (garbage trucks and trash cranes) the City may be able to bring the fleet maintenance operation in-house. It is estimated that a fully qualified (ASCE Certified) mechanic and a helper would cost \$130,000 and \$150,000 annually (including fringe costs). When factoring other costs such as tools and supplies, \$20,000 to \$35,000 annual savings may be possible. Given these considerations, the City should further examine the cost savings opportunities associated with this transition.

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At the request of City Administration, FR Business Solutions, LLC (Consultant) has completed a relatively short (two-week) but well-focused feasibility review that will consider the privatization options for two targeted public works services: solid waste collection (SWC) and landscape maintenance. The review included a survey of the current practices and fees for privatized SWC services across Miami-Dade and Broward Counties as well as applying awarded contract price rates for landscape maintenance services to estimate the expected cost of a privatized operation if the City were to seek bids. Current in-house fees and operating costs for the two targeted services were compared to the potential cost of privatized services to ascertain what range of estimated annual savings, if any, that would result from privatizing these services.¹

Solid Waste Collection Operations in Miami-Dade County

Including Miami Springs, thirty one cities and towns in Miami-Dade County (M-DC) and 12 in Broward County were surveyed to ascertain their solid waste collection (SWC) operational profiles and fees. In M-DC, nine cities receive residential service from the M-DC Solid Waste Department (MDSWD) which utilizes primarily a mechanized, curbside collection method. These cities were set up with MDSWD service as part of their incorporation. Nine of the other M-DC municipalities surveyed have opted for privatized services, and have been in this mode for years. When combined, these two groups of cities total 18, meaning that roughly 50 percent of all county municipalities do NOT have in-house operations.²

A comparison of M-DC cities which have retained SWC in-house with those that opted to privatize shows that the latter group benefits from considerably lower fees while providing comparable levels of service (household garbage collection twice weekly and yard trash/bulk pickup two to four times monthly). Counting Miami Springs' rate, the average in-house average monthly fee per account for residential SWC is roughly \$40 per month, which is nearly \$17 higher than the average fee for privatized services (approximately \$24 per month).

The situation in Broward County is similar to M-DC's, except that privatization is more prevalent and so is mechanized service. The Broward rates for SWC service seem to be lower than M-DC's overall, with a monthly average fee in the low \$20s. The lower overall rates are also substantiated from discussions with a major waste management services firm active in both counties.

Interestingly enough, while managers where SWC operations are privatized felt strongly that an in-house operation would be more costly, none of the cities contacted had a "hard figure" as to realized savings from privatization. The reason for this is that the change was implemented years ago, in many cases the comments were along the lines of: "we have used contractors as far as I can remember" or that the service has been privatized "as long as I have been here". Notwithstanding this, the prevailing view from canvassing many of the cities is that this is a more cost-effective way to deliver the service. None of the solid waste operations surveyed expressed an interest or intention to return to in-house SWC service.

As with any privatized service, the model is not deemed to be flawless and there are pitfalls to watch for, including quality control issues and rate increases. Despite this, there seems to be an overriding sense of confidence on the part of the operations managers contacted that, in addition to the more obvious benefit of lower costs, avoiding the challenges commonly associated with an in-house operation is in itself a major incentive to privatize. These include:

- HR/labor issues such as absenteeism and the fairly common "task basis" work, both of which limit productivity and impact Department managers, the HR office, even the upper levels of the Administration.³

¹ For SWC, only residential service was considered, as the vast majority of cities across both counties enable franchised operations by private haulers that deal directly with multi-unit buildings and business establishments. The franchised haulers pay a fee to the cities for the permit/right to operate within the municipality.

² Indian Creek, Medley, and West Miami were omitted due to their small size and/or fairly unique characteristics.

³ As done in Miami Springs, many municipalities' solid waste field employees work four days a week and often complete the route in much less time than the 10 paid hours, resulting in a typical workweek that is comprised of 28 to 32 hours

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- more demanding supervisory, coordination and customer service responsibilities.
- the critical aspect of equipment maintenance for a service impacting health/sanitary conditions and which must therefore be provided with minimal disruption.
- annual budgeting and expense monitoring responsibilities.
- management/track keeping of uniforms and supplies.

Solid Waste Collection (SWC) - Estimated Savings Potential from Privatization

It must be noted from the outset that the two most accurate ways to ascertain the savings that may be realized by privatization is to obtain actual bids via an Invitation for Bid (IFB) or Request for Proposal (RFP) process or considering "piggybacking" onto existing service contracts. This was substantiated by discussions with current municipal operations managers, from industry literature reviewed, and discussions with major waste management firms. In lieu of this, one of the chief aims of this feasibility review is to make realistic, rational comparison of prevailing rates for privatized SWC services to the City of Miami Springs' current rate. Consideration of piggybacking onto already existing, competitively bid contracts will also be discussed later in this summary as a possible avenue to consider.

The City of Miami Springs' monthly rate for residential garbage collection is currently \$48.85. The collection point for garbage and yard waste (also referred to as "trash") is relatively unique in that it is located primarily in the alleyway behind the property. When compared to the \$24.45 average SWC monthly rates in M-DC (which include operations with more labor-intensive methods such as Miami Beach's manual backyard/sideyard pickup), Miami Springs' rate is roughly \$24 higher. While the City's garbage collection frequency is the typical two days per week, the yard waste and bulk collection is above average at one time per week. Not all cities in M-DC provide weekly collection of yard trash/bulk items, with many cities providing bi-monthly service (and some even monthly).⁴ Nevertheless, based on conversations with a major waste management firm and a review of prevailing rates associated with varying levels of trash collection, the rate for once a week frequency (such as Miami Springs') versus a bi-monthly pickup would not increase by much more than 10 percent in terms of bid pricing.

Another factor to consider is the actual collection method. While collecting garbage and trash from the curbside is somewhat more efficient than the City's current alleyway collection method (due primarily to the vehicular and collection arm maneuvering required), it is not possible to truly estimate the cost impact of this on the SWC contractor's pricing. Again, this underscores the need to obtain actual bids to accurately determine savings. Having stated this, a five percent cost increase factor is applied in an effort to arrive at an estimate for privatized service using the City's current alleyway/mechanized method.

To more accurately estimate a privatization-based cost savings, the actual bid prices (from seven recent M-DC bids) were applied. Adjusting the average bid price for the premium trash/bulk service level and alleyway method factors mentioned above, it is expected that a Request for Proposal (RFP) would return bids in the to \$23 to \$25 per month, saving Miami Springs single family accounts roughly \$17 per month (\$200 annually). The specific estimated savings is computed as follows:

(A) C. Miami Springs residential SWC (excluding mgmt. fee)	= \$41.85⁵
(B) Avg. bid price =	\$21.30
(C)= Increase Avg. Bid price (B) by 10% for weekly Trash/Bulk collection	= \$2.13
(D) = Increase Avg. Bid price (B) by 5% for alleyway collection	= \$1.06
Estimated savings = (A) – {(B) + (C) + (D)} =	<u>\$17.36⁵</u>

⁴ Some cities do NOT distinguish between trash collection and "bulk pickup", providing the latter in conjunction with trash collection. Others categorize bulk items as large appliances or "white goods", heavy furniture, etc. and provide this service less frequently than yard waste/trash collection. MDSWD service provides only TWO bulk pickups annually.

⁵ Excludes reduced administrative effort and costs (management/and supervision and HR admin at department and central level).

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Piggybacking on Existing SWC Contract

In August 2011, an established state-wide solid waste management firm provided the Administration a proposal for collection/disposal services. In terms of municipal contracts, this company is not currently active in M-DC, but does have contracts with three cities in Broward and two in Palm Beach County. The provisions and price proposed, based on the City of Hollywood contract, seem quite favorable to the City. Provisions such as the purchase of the City's equipment and offering employment to all displaced employees (providing they pass a required background check and drug test) are fairly standard in SWC privatization. These provisions would provide the City with convenient transition features and should be part of any RFP prepared in the future or of any other piggybacking option(s) considered in the course to privatization.

At the \$25.20 per month rate proposed, the savings that may be achieved by adopting this proposal are substantial. A monthly fee savings of nearly \$17 may be realized (\$41.85 minus \$25.20) resulting in close to \$200 annual savings per single-family account.

RECOMMENDATION:

Based on the estimated savings outlined above, it is recommended that the City either pursue an RFP process whereby the lowest qualified bidder is chosen for SWC services OR consider a piggybacking approach. The latter is certainly a faster avenue, since it utilizes contract pricing that has already been competitively bid. Conversely the slower, more demanding process of preparing an RFP and managing the entire process does provide the opportunity of even lower pricing than what is already established by an existing contract.

While it is beyond the scope of this review to thoroughly assess and recommend a "go" or "no-go" on the proposal, the following points are worth noting:

- There are likely several contracts in place across M-DC and Broward that may offer similar or better pricing for piggybacking than the pricing proposed. Some of these firms may well benefit from favorable efficiencies by virtue of already being active in M-DC (and even operating near Miami Springs).
- Exploring additional piggybacking opportunities by discussing potential service agreements with two or three major SWC firms would not be onerous and could result not only in very favorable pricing but in identifying a firm(s) that is more experienced and proven in the M-DC environment.

Landscape Maintenance Operations in Miami-Dade and Broward Counties

In M-DC, the same nine municipalities that receive solid waste collection from M-DC also decided to follow a business model calling for extensive privatization of services. These cities include Aventura, Cutler Bay, Palmetto Bay and Sunny Isles, who opted for partial or fully privatized landscape maintenance services from the time of their incorporation. Overall, a significant proportion of M-DC cities (20 of 34) have opted for private contractors to perform their landscape maintenance services, with only several opting for partial privatization (usually choosing certain parts such as high-speed roadway medians for contracting out). Broward cities appear to follow this same pattern, with most medium to large municipalities opting to use contractors for their landscape maintenance requirements.

As is the case for SWC, the cities that have privatized grounds maintenance have been doing this for several years, some for over a decade or "as far as they can remember". As a result, most of the managers do not have firm figures for the savings attained and in many cases were not even in their current lead positions at the time of the transition. A further impediment to ascertain savings is the fact that many of the cities using privatized services employ two or more contractors. Typically the contractors have been hired at different times and for different categories or geographical areas of grounds maintenance, so the specific savings associated with these are difficult to ascertain. Despite the lack of concrete historical information, all managers contacted expressed the belief that savings were indeed achieved in comparison to performing the service with in-house staff. None of these managers were considering returning to in-house operations, though some operations

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were in midst of re-bidding one or more contracts due to term expiration of dissatisfaction with the provider's performance. The managers of these and other operations advised against long-term contracts (more than two or three years) and to carefully craft cost increment provisions in the agreement. Overall, the managers canvassed expressed a very similar conviction to that found for SWC, which is that not only do higher costs tend to result from an in-house operation, but they cited reasons in favor of privatization that included avoiding many of the same burdens enumerated for SWC (see pages 2 - 3).

Once again, the truly accurate way to ascertain the savings to be realized from privatizing landscape services is to pursue an RFP process or piggybacking onto an existing contract. In order to arrive at a savings estimate using a more feasible approach, the Consultant applied recent landscaping contract specifications and pricing from two different cities to the grounds maintenance area and requirements of Miami Springs.

Landscape Maintenance - Estimated Savings Potential from Privatization

Both analyses resulted in significant estimated savings to the City, averaging nearly \$150,000 annually for a frequency and breadth of services that meet or exceed industry standards applicable to typical municipal medians, swales and building grounds⁶. Using Google Earth satellite image maps and distance scale measurements, the landscaped areas covered by the applicable contract pricing and Miami Springs' landscaped areas currently maintained by City crews were measured. The City's landscaped grounds consist mostly of turf areas, with a few locations where ground cover and hedges are planted. This made the application of established pricing for turf mowing and median turf/hedge trimming relatively easy to apply.

Since the contract specifications applied include one annual tree trim service for the areas maintained, tree trimming was treated in a two-pronged manner, applying an average of \$30 per trim from a recently awarded bid (North Miami) to an approximated annual maintenance workload of 800 trees city wide (for trees in areas like residential swales that are not maintained by the City). This estimated cost of \$24,000 annually is added to the grounds maintenance cost computed below (Column IV). Prorating the contract pricing to the City's areas resulted in an estimated cost expected from an RFP or piggybacking process, summarized as follows:

	I	II	III	IV	V
	Approx. # s.f. medians & swales	Annual Fee from contracts	C. Miami Springs Approx. # s.f. medians, swales & open space	City's Estimated (projected) annual cost of contract	Total Estimated Annual Cost (w/ tree trimming)
City of Aventura ITB #10-07-12-2 <i>Lukes SW Landscaping</i> (all medians & swales excluding Biscayne Blvd.)	1,050,000	\$232,096	960,000	\$212,100	<u>\$236,000</u>
				Projected by Applying (II) to (III)	
City of Miami Beach ITB #34-08-09 <i>SFM Services, Inc.</i> (Collins Avenue medians - 40 th St. to 60 th St.)	100,000	\$ 32,080	960,000	\$307,970	<u>\$331,968</u>
				Projected by Applying (II) to (III)	

⁶ Annual number of services (cutting runs) for these contracts are roughly the same: 3 to 4 services per month during rainy or high-growth periods (April – November) and 1 -2 services per month during the dry season. The contracts also include one minor tree trimming for the areas covered, three turf fertilizations per year, and roughly 100 annual litter services. The tree trimming cost estimate (\$24,000 added to Column IV) in this analysis excludes median and swale trees covered by these contracts.

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CURRENT COST OF IN-HOUSE LANDSCAPE MAINTENANCE OPERATION

Personnel

Retaining 11 of the current complement of 16 Public Properties Division employees:
(five remaining employees assigned to assist Streets Division, alleyway vegetation trimming, and miscellaneous projects⁷)

Base salaries (11 employees): \$324,491

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Including 30% fringe factor: \$421,838

Equipment Maintenance/fuel: \$ 12,000
(Estimated maintenance and fuel cost reduction for three pickup trucks applied)

Uniforms and supplies: \$ 5,000

**TOTAL ESTIMATED
OPERATION COST: \$438,838**

ESTIMATED ANNUAL SAVINGS⁸

If Luke Landscaping contract (Aventura) is applied (rounding to nearest 00):

\$438,840 - \$236,000 = \$202,840

If the SFM Services contract (Miami Beach) is applied:

\$436,840 - \$331,970 = \$104,870

Though both figures represent significant savings (24 percent for the less favorable estimate result), the Aventura result is obviously much more favorable. There are two main reasons that probably explain much of this difference: (1) the size of the area maintained, which for the much larger Aventura contract would result in significant economies; and (2) the more demanding maintenance requirement of the Miami Beach setting, which is on a heavy traffic, high-speed roadway and involves more hedges than the more turf-oriented areas of Aventura (both areas are a mix of turf, hedges and trees). The true savings figure that can be expected will likely fall somewhere in between these two, or more in the \$150,000 to \$180,000 range.

Recommendation:

Given the estimated savings potential identified for landscape maintenance and the fact that this is a general fund operation, it is strongly recommended that the City move look into privatizing this operation. When

⁷ The preference to retain a small complement of field staff that currently (though not constantly) assist the Streets Division was expressed by PW and discussed with City Administration several months ago. Clearly, the savings would incremental rise if one or both of the positions are foregone.

⁸ Excludes reduced administrative costs (management/supervision, and HR at the department and central level), reduced storage and facilities maintenance costs, and depreciation of equipment.

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considering piggybacking versus a full-blown RFP effort, the same pros/cons apply as did for SWC. The Town of Surfside recently piggybacked on the Aventura contract used in this analysis, and thus far they are satisfied with the service. Surfside switched from another firm that had provided the Town service for several years. Although no appreciable savings were realized, they report a notable increase in service level.

Discussions with medium to large M-DC cities that have a solid reputation for their lush green areas, attractive hedges and flower beds, dense tree canopies, and other desirable aesthetic qualities indicate that the use of contractors does not deter the quality of maintenance. These cities, which include Miami Lakes, Aventura, Coconut Creek, and Miami Beach all commented favorably about their overall experience using one or multiple grounds maintenance contractors.

Additional Savings from Fleet Maintenance Operations

Privatization of these two services may allow for additional savings to be realized from changing the mode of operation of the City's fleet maintenance operation. However, this would be gained by actually doing the opposite of privatization. Fleet maintenance is currently performed on-site by a contractor at a cost of \$173,000 annually. Although this was not the primary focus of the review, it is estimated that a fully qualified (ASCE Certified) mechanic and a helper (or junior level mechanic) would cost roughly between \$130,000 and \$150,000 annually, including fringe costs. Since there may be close to a \$30,000 annual savings (applying the midpoint of the cost estimate, which excludes supplies and other operational costs), the City should consider looking further into this transition.