

## **2007 Budget Proviso 1 Response**

### **P1 PROVIDED THAT:**

Of this appropriation, \$540,000 shall not be expended or encumbered until the council adopts by motion a report and recommendations submitted by the executive on the financial savings or policy advantages gained by insourcing of solid waste recyclable hauling work currently provided by third-party vendors. The report shall discuss alternatives to insourcing and shall include a five-year projection of insourcing-related program costs, including vehicle replacement plans, estimated employee escalation costs and other costs associated with absorbing this body of work and a five-year projection of the impact of those program costs on solid waste disposal fees.

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This paper is in response to King County Council's 2007 budget proviso, Ordinance 15652, which requires an analysis of and the projected costs for insourcing the hauling of recyclables by the Solid Waste Division. Currently, recyclable materials collected at division transfer stations and drop boxes are picked up by a private contractor and hauled to private recycling processors.

At this time, the two major alternatives for recyclables hauling are to continue to contract the work out or to bring the work in-house. Analyses conducted by the division demonstrate the opportunity for cost savings and operational efficiencies by bringing this body of work in-house. The division considered discontinuing the collection of recyclables at transfer stations. This alternative was rejected due to the impact it would have on our customers, and related impacts on cities and other stakeholders.

### **Background**

The division has collected recyclable materials at its transfer stations and drop boxes since the late 1980s. When the division initially began collection at its facilities, the concept and technology were in the development stages. At that time, the division decided to contract recyclables hauling to the private sector, as opposed to conducting the work in-house, until more was known about the level of effort, equipment requirements, and long-term viability of the recycling business. Recyclables collected include newspaper, cardboard, mixed paper, plastic, tin, aluminum, and glass.

More than 20 years later, recycling is one of the division's highest priorities. Providing recycling services at division facilities has become an important function of the solid waste system. This role is expected to expand over time as the division adds materials to the list of commodities that can be recycled or reused. As the ratio of garbage tons to recyclables narrows, recyclables hauling work not only increases, but changes in response to fluctuations in the industry and product markets.

Over the years, the division has employed a number of different contractors to haul recyclables from the stations to the processing facilities. Selection of a contractor has been based primarily on cost, along with a combination of other criteria including experience and references. Prior to the current contract, the quality of service was generally unsatisfactory, with problems such as recycling bins overflowing between scheduled pickups. Over the years these kinds of issues have led the division to consider insourcing this work. Since mid-February 2005, ReNu Recycling Services has

been under contract to the division to haul recyclables. Their current contract expires in February 2008. While the division has been satisfied with ReNu's quality of service, a review of the costs involved indicates that money could be saved by bringing this body of work in-house.

## **Analysis**

One of the division's primary functions is to haul solid waste from transfer stations to the Cedar Hills Regional Landfill for disposal. By hiring additional truck drivers and acquiring roll-off trucks, recyclables hauling could be easily absorbed into the current infrastructure of the solid waste transport system. Based on projections shown in Table 1, the division could realize net savings from the transition beginning in the third year of operation.

## **Financial Analysis**

ReNu charges a flat rate of \$196 per haul to transport recycling bins to two processing facilities, regardless of origin, destination, travel time, or distance. The current processors are Smurfit-Stone in Renton and Rabanco in south Seattle. ReNu charges additional fees for the hauls to and from Vashon Island (including ferry charges and added travel time) and rental fees for recycling bins. With these additional expenses, the average per haul cost adds up to about \$211. In 2006, ReNu made 5,102 total trips, hauling an average of 1.25 tons per trip, totaling \$1.07 million for the year.

In order to make an equivalent comparison of the projected costs for the division to insource this work with the projected cost of contracting the work out, the actual number of trips made by ReNu in 2006 was used as the basis for the analysis. Table 1 provides a breakdown of the projected operating and capital costs to the division over a 5-year period, beginning in 2008, including personnel, equipment, maintenance, travel, and related costs.

Insourcing recyclables hauling would require the addition of six truck drivers, three for each of the division's two 7-day/10-hour (7/10) shifts, as well as additional hours for weekend work when the demand for recyclables hauling is greatest. Truck Driver IIIs are proposed so the division can hire drivers with Class A commercial drivers licenses, which qualify them to drive both recyclables and garbage hauling trucks, thereby increasing their flexibility to provide backup capacity for solid waste hauling as needed. Also included is an allocation of hours for existing shop staff (0.25 FTE) to maintain the new equipment for recyclables hauling. Wages for all staff factor in an estimated cost-of-living increase of 2.5 percent each year (see Table 1, footnotes 2 and 3).

Table 1 also breaks down annual operating costs for parts, tires, fuel, and ferry trips, assuming 3 percent inflation per year. Contributions from the division's operating fund to the Capital Equipment Replacement Program (CERP) fund are included for the timely and efficient replacement of equipment to support the operation, based on a 10-year life for the roll-off trucks. The cost projection also includes a marginal overhead cost of 19 percent for general overhead associated with insourcing this work (see Table 1, footnote 8).

Capital costs to insource recyclables hauling include trucks, trailers, and recycle bins. An estimated five roll-off type trucks and two trailers would be required to provide daily

**Table 1. Projected Cost of Insourcing Recyclables Hauling**

<b>Cost Category</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Operating Costs <sup>(1)</sup></b>					
Labor					
Truck Drivers <sup>(2)</sup>	458,264	469,720	481,463	493,500	505,837
Shop Staff <sup>(3)</sup>	20,755	21,274	21,806	22,351	22,910
Fuel <sup>(4)</sup>	100,559	103,576	106,683	109,884	113,181
Parts/Tires <sup>(5)</sup>	25,235	25,992	26,772	27,575	28,402
Ferry <sup>(6)</sup>	35,202	36,258	37,346	38,466	39,620
Capital Equipment Replacement Prgm <sup>(7)</sup>	67,115	69,128	71,202	73,338	75,538
Division Overhead <sup>(8)</sup>	64,081	66,003	67,984	70,023	72,124
Operating Costs Subtotal	<u>771,211</u>	<u>791,952</u>	<u>813,256</u>	<u>835,137</u>	<u>857,612</u>
<b>Capital Costs</b>					
Trucks <sup>(9)</sup>	659,200				
Trailers <sup>(10)</sup>	86,520				
Bins <sup>(11)</sup>	36,050				
Capital Costs Subtotal	<u>781,770</u>				
<b>Total Projected Division Cost</b>	<b>1,552,981</b>	<b>791,952</b>	<b>813,256</b>	<b>835,137</b>	<b>857,612</b>
<b>Total Projected Contract Cost <sup>(12)</sup></b>	<b>1,133,000</b>	<b>1,166,990</b>	<b>1,202,000</b>	<b>1,238,060</b>	<b>1,275,201</b>
<b>Difference (Contract minus Division)</b>	<b>(419,981)</b>	<b>375,038</b>	<b>388,744</b>	<b>402,923</b>	<b>417,589</b>

**Assumptions:**

- <sup>(1)</sup> Operating cost computations are based on 2006 actuals of 5,102 total hauls.
- <sup>(2)</sup> Truck Driver labor costs are based on driver hours required to duplicate the 2006 actuals (5,102 trips). This is equivalent to 6 new 7/10 Truck Driver III positions plus 0.57 Truck Driver IIIs on the weekends. Included is an estimated 2.5% annual cost of living increase; actual COLA rates are set at 90% of the CPI-W for All US Cities using the September to September Index, but not less than 2%.
- <sup>(3)</sup> Shop staff labor costs represent the cost for 0.25 FTE for existing shop staff to maintain the new equipment for recyclables hauling. Included is an estimated 2.5% annual cost of living increase; actual COLA rates are set at 90% of the CPI-W for All US Cities using the September to September Index, but not less than 2%.
- <sup>(4)</sup> Fuel cost assumes a \$2.58 cost per gallon and 5 miles per gallon for the roll-off trucks. Costs shown include 3% annual inflation.
- <sup>(5)</sup> Parts and tire costs were estimated at \$4,635 per truck plus \$1,030 per trailer per year. Costs shown include 3% annual inflation.
- <sup>(6)</sup> Ferry costs were estimated at \$98.06 per round trip for 359 trips (2006 actuals). Costs shown include 3% annual inflation.
- <sup>(7)</sup> Capital Equipment Replacement Program costs are funds set aside each year to replace equipment at the end of its useful life. Costs shown include 3% annual inflation.
- <sup>(8)</sup> General overhead costs are estimated at 19% of labor. Overhead costs include supervision, support field staff, payroll preparation, training, operations supplies, insurance, and administrative services. Costs shown include 3% annual inflation.
- <sup>(9)</sup> Truck costs represent the purchase of five Class 7 trucks with roll-off systems to transport recycle bins.
- <sup>(10)</sup> Trailer costs represent two tandem trailers to allow hauling of two bins per trip at stations where space permits (Enumclaw, Vashon, Cedar Falls, Skykomish).
- <sup>(11)</sup> Bin costs represent seven new collection containers of 25 cubic yds to enhance scheduling flexibility and replace bins that are currently leased.
- <sup>(12)</sup> The current (2007) contract budget is \$1,100,000. Projected costs assume 3% annual inflation from the current contract.

hauling and vehicle backup capacity. The two trailers are included to allow the hauling of two containers at a time at facilities where space permits, which currently includes the Enumclaw and Vashon transfer stations and the Cedar Falls and Skykomish drop boxes. Seven recycling bins would be purchased to replace bins that are currently leased.

In the boxed area of Table 1 the division's yearly forecast of costs over a 5-year period are compared with the estimated costs to contract for recyclables hauling service. In the first year of insourcing, equipment purchases make the total cost higher than that for the contractor. In the following years, however, the annual projected savings range from about \$375,000 to nearly \$418,000 in 2012. Over the 5-year period, total projected cash savings are about \$1.16 million.

The projected effect of these savings on solid waste division fees will be minimal. The division's most recent rate forecast and proposal for 2008 through 2010 assumes that recyclables hauling will be insourced. Thus, through 2010 the effect on solid waste disposal fees from insourcing would be negligible. Beyond 2011, sustained annual savings could slightly reduce the increase in future tipping fees as the division prepares for the transition to waste export.

### ***Operational Analysis***

In addition to the cost savings, there are operational efficiencies with the insourcing of recyclables hauling. The six additional truck drivers will be able to provide backup capacity for the hauling of solid waste, just as current solid waste drivers will be able to provide backup for recyclables hauling. The dispatchers will have direct control over the type of hauling and the timing, based on variations in the amount of solid waste and recyclables ready for transport at the stations. Dispatchers will also have direct communication with the drivers in scheduling or canceling pickups, as needed. This added flexibility in the timing and scheduling of pickups at the stations will help ensure that recycling bins are available and capacity is sufficient, and will most likely result in a reduction in the overall number of hauling trips.

### ***Policy Analysis***

A policy concern has been raised about the future implications of insourcing private-sector work, such as recyclables hauling, to the public sector. The main issue is that once the work is brought in-house there are labor contract provisions, county policies, and state laws that would at least complicate and could potentially prohibit a decision to return the work to the private sector.

As discussed under *Background*, recyclables hauling has been contracted to the private sector since the late 1980s. In those years, the division has had concerns with various contractors concerning operational issues and the rising cost of the hauling service. Over the years, the number of responses to proposals for this work has been decreasing, indicating there is also limited competition for this type of work. As a result, the division may have less control over the cost of service if the work is rebid after the current contract expires.

Insourcing recyclables hauling is intended to address those concerns by allowing the division to maintain more control over operations and labor issues, and thus the cost of service, in several ways:

- Allowing the division to monitor recyclables and dispatch hauling as needed, which can vary by time of day, day of week, and season of the year, thereby maximizing the amount hauled in each load and minimizing or eliminating any overflow of recycling bins
- Providing backup truck drivers for solid waste or recyclables hauling as needed
- Reducing response time to operational or industry changes
- By using public-sector employees, giving the division more control over potential labor issues, such as work stoppages

## **Conclusion**

The division is charged with continually examining its business practices to ensure our operations and services are as efficient and cost effective as possible. With the division's *2004 Business Plan* and the Solid Waste Omnibus Ordinance (14811), the division implemented significant changes in business practices to improve the efficiency of the division's programs and services. The current proposal to insource recyclables hauling responds to the King County Executive's directive to become more efficient, more productive, and more entrepreneurial.