



OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY

CONTRACT OVERSIGHT OBSERVATION
(2013-O-0003)

Sheryl G. Steckler
Inspector General

"Enhancing Public Trust in Government"

Date: April 23, 2013
To: Mark Hammond, Executive Director, Solid Waste Authority
From: Sheryl G. Steckler, Inspector General
Subject: Solid Waste and Recycling Collection Franchise Agreement
Invitation to Bid No. 14-201/SLB

Summary

The Solid Waste Authority (Authority) enters into exclusive solid waste and recycling franchise agreements ("franchise agreement") with private haulers to collect waste throughout the unincorporated areas of Palm Beach County ("County") for residential and commercial customers. The current franchise agreements became effective on October 1, 2008 and will expire on September 30, 2013. In preparation for their expiration, Authority staff reviewed the previous solicitation document and franchise agreements to evaluate their effectiveness and maximization of economic and equitable capacity. This review resulted in three significant changes: (1) reduction in the number of service areas from eleven to five; (2) establishment of a fixed commercial collection rate at \$3.25 per cubic yard; and, (3) piggybacking¹ off the existing Southern Waste Systems (SWS) "Solid Waste, Collection & Recycling Services" contract with the City of South Bay.

These changes to the Authority's procurement strategy for these services will, without affecting the level of service, result in an estimated \$10 million **savings** for residential customers and an estimated **increase** for commercial customers of \$473,000 in the first year (Fiscal Year 2013-2014)².

Service Areas

According to the Authority, high collection rates from the previous bid solicitation cycle resulted in a large number of citizen complaints. Therefore, in an effort to obtain fair and equitable solid waste collection rates, the Authority staff concluded that fewer service areas were needed. The Authority believes by reducing the number of service areas, below the number of qualified bidders, they are limiting a bidder's ability to divide

¹ A purchase of goods or services off an existing contract between a vendor and the federal government; a state or municipal government; another governmental agency; or a government related association, in accordance with County purchasing policies.

² Residential collection service is of two types: curbside and containerized. Curbside collection costs **decreased** by approximately \$11 million and containerized collection costs **increased** by approximately \$1 million. Increase/decrease in residential and commercial costs to SWA customers was determined by SWA.

the market (market division scheme³) in a manner whereby each bidder is guaranteed a franchise agreement award.

On October 30, 2012, the former Solid Waste Authority Governing Board⁴ (“former Governing Board”) held a public Workshop Meeting and after considering comments from the public, private haulers⁵, and Authority staff, unanimously voted to reduce the number of service areas from the current level of eleven to four in the solicitation document. Moreover, it was contemplated the Authority would piggyback off SWS’s municipal contract with the City of South Bay for services in the Glades Area; therefore, the Authority ultimately reduced the number of service areas from eleven to five.

Fixed Commercial Collection Rate

Authority staff believes the rate development strategy of the private haulers during the previous bidding cycle (2008-2013) did not result in fair and equitable solid waste collection rates (“collection rates”) for residential and commercial customers. This is because private haulers do not develop residential and commercial collection rates based solely upon the service provided; rather the individual costs are viewed collectively. Because public scrutiny tends to focus on residential collection rates, this rate development strategy encourages private haulers to develop higher commercial collection rates in order to offer low residential collection rates.

According to Authority staff, the best method for determining fair and equitable collection rates for residential and commercial customers is to solicit those services separately; however, this would reduce the benefits of economies of scale⁶ and furthermore, could create operational issues if a private hauler has residential and commercial customers in opposite service areas of the County. Therefore, Authority staff believes a second acceptable method is one where the Authority establishes a fixed commercial collection rate throughout unincorporated areas of the County.

On October 30, 2012, the former Governing Board held a public Workshop Meeting and after considering comments from the public, private haulers, and Authority staff, unanimously voted to establish the fixed commercial collection rate at \$3.25 per cubic yard.

Glades Area – New Service Area 5

The unincorporated western area of the County has historically had considerably higher residential and commercial collection rates than those living and operating in the eastern areas. According to Authority staff this is the result of “the very low density of residential units and because most of the commercial properties are located within the three western municipalities, Belle Glade, Pahokee, and South Bay.”⁷ Therefore, in

³ According to the Association of Certified Fraud Examiners, “market division schemes are agreements in which competitors divide markets among themselves and refrain from competing in each other’s designated portion of the market. In these schemes, the markets are generally divided according to geographic area, or they are based on the customer. The result of such a division is that competing firms will not bid against each other, or they will submit only complementary bids when a solicitation for bids is made by the customer or in an area not assigned to them.”

⁴ The former Governing Board consisted of Commissioner Steven L. Abrams, Chair; Commissioner Jess R. Santamaria, Vice Chair; Commissioner Priscilla A. Taylor, Secretary; Commissioner Karen Marcus; Commissioner Paulette Burdick; Commissioner Shelley Vana; and, Commissioner Burt Aaronson.

⁵ Private haulers: (1) entities with current franchise agreements; and/or (2) entities who anticipate submitting a bid in response to ITB #14-201/SLB.

⁶ Economies of scale are situations where the average cost of a product (service) decreases when a business production (service) increases. This results in businesses having the ability to share operating costs over a larger number of units, or services.

⁷ Excerpt from Solid Waste Authority memorandum dated January 28, 2013 to Commissioner Steven L. Abrams, Chair and Solid Waste Authority Board Members.

conjunction with reviewing the previous solicitation document and current franchise agreements, the Authority explored options to reduce the collection rates in the Glades Area.

According to the Authority, the most efficient and effective method available to reduce collection rates in the unincorporated western area of the County was to piggyback off an existing contract of Southern Waste Systems (SWS). SWS authorized the Authority to piggyback off a contract they had with either the City of Pahokee or the City of South Bay. After consulting with the Palm Beach County Attorney Office, Authority staff recommended piggybacking off the City of South Bay contract since it provided substantially lower rates than those currently in effect.

Impact

On February 13, 2013, the current Governing Board⁸ unanimously voted to approve the franchise agreements for service areas 1, 2, 3 and 4 respectively, and to piggyback off the SWS contract with the City of South Bay for service area 5. The impact of reducing the number of service areas; establishing a fixed commercial collection rate; and, piggybacking off the existing SWS solid waste and recycling collection services contract resulted in significant savings.

Specifically, in fiscal year 2013-14, residential customers in service areas 1, 2, 3 and 4 will collectively experience an estimated **savings** of \$10 million, a 22.95% reduction, from current collection costs; while, commercial customers will collectively experience an estimated **increase** of \$473,000, a 7.3% increase.

Moreover, the impact of piggybacking off the SWS contract resulted in Glades Area residential customers experiencing an estimated **savings** of \$415,000 per year, a 48.48% reduction, from current year collection costs; while commercial customers will experience an estimated **savings** of \$95,000 per year, a 15.2% reduction, from current year collection costs. As shown by the decreases in the annual residential and commercial collections costs, the decision to piggyback off the City of South Bay's contract resulted in substantial rate adjustments for the Glades Area. Collectively, residential and commercial customers will experience an estimated total **savings** of \$510,000 per year, a 34.5% reduction, from current year collection costs.

The new franchise agreements will be in effect for the five-year period of October 1, 2013 through September 30, 2018.

ACKNOWLEDGEMENT

The Inspector General's Contract Oversight staff would like to extend our appreciation to the Authority's management for the cooperation and courtesies extended to us during the contract oversight process.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Joe Doucette, Chief of Operations, by email at inspector@pbcgov.org or by telephone at (561)233-2350.

⁸ The current Governing Board consists of Vice Mayor Priscilla A. Taylor, Chair; Commissioner Paulette Burdick, Vice Chair; Commissioner Mary Lou Berger, Secretary; Commissioner Hal R. Valeche; Commissioner Shelley Vana; Mayor Steven L. Abrams; and Commissioner Jess R. Santamaria.