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Staff Report

Item # 6

To: Lemoore City Council
From: Lauren Apone, Administrative Analyst
Date: November 24, 2008
Subject: Commercial Refuse Service Alternatives

Discussion:

In a letter dated November 12, 2008, Richard Gress of Tule Trash, who is expected to be in attendance Tuesday evening, proposed that privatizing the commercial refuse service may benefit the City of Lemoore. Staff met with Mr. Gress on November 21, 2008 and discussed his proposal.

Tule Trash proposes to purchase our existing dumpsters at fair market value, convert them to front-load dumpsters, and pick them up using a front-loading refuse vehicle. Tule Trash has also proposed to change the service of some customers to larger dumpsters collected less frequently. With the front-loading refuse vehicles, Tule has the ability to pick-up dumpsters greater than 3 yards, which is the maximum size our rear-loading trucks are able to pick up.

The commercial refuse budget currently has approximately \$990,000 in expenses and \$893,000 in revenues. Among those expenses are salaries for drivers and dumpster maintenance (\$298,000), vehicle usage (\$81,000), asset replacement (\$100,000) overhead (\$174,000), and tipping fees (\$337,000).

If commercial refuse service were privatized, salaries would be decreased to \$27,000 (includes minimal refuse superintendent time, contract administration, answering phones, etc) and vehicle usage, asset replacement, and tipping fees would be handled by the contractor. The overhead transfer offsets the cost for street degradation, billing, and administrative services, among others. If commercial refuse service were privatized, these overhead costs would decrease by approximately \$17,000 annually, bringing the overhead to approximately \$157,000. The amount the City would pay the contractor (based on Tule Trash's proposal) would be \$756,000. The commercial revenue would decrease by approximately \$29,000 if commercial service were contracted out because our current staff and fleet provides residential dumpster service upon request with revenue of approximately \$35,000 minus approximately \$6,000 in tipping fees that were included in Tule Trash's proposal.

After detailed analysis of the commercial refuse service costs and revenue, staff determined that the savings to the refuse department if the commercial refuse service was contracted out

with rates similar to those proposed by Tule Trash could be approximately \$21,000/year or 2.1% of operating expenses. While these numbers are reflective of the Tule Trash cost, if Council does choose to privatize commercial refuse service, there would be a formal, competitive bid process. The commercial rates would still need to be increased by 20 - 25% as previously proposed in order to make the refuse fund whole and allow the rates to stay set for a period of time.

Privatizing the commercial refuse service affects many different aspects of the refuse department:

- The City would no longer provide home dumpster service to those that request it.
- The City would not control fleet operations for commercial service (CNG).
- The City would eliminate 2 full-time and 2 part-time positions in the refuse department.
- The City would lose the flexibility to fill residential routes with commercial drivers in cases of illness and vacation.
- The City currently provides dumpster service to our own facilities including City parks and City buildings at no charge. This is not included in the Tule Trash proposal, but is expected to be minimal.

There are employees within the refuse department that currently work in both the residential and commercial services. These positions are not proposed to be eliminated if commercial refuse is privatized. Instead, the commercial portion of their salaries would be transferred to the residential service. Therefore, with the annual savings of \$21,000 to the commercial refuse service, the residential service now takes on \$41,000 in additional salaries for the refuse superintendent and Senior Maintenance Worker. The Senior Maintenance Worker would fill in on the residential refuse routes during sick and vacation time and the superintendent would provide supervision and customer service to the residential customers. The City also has plans to reassign dumpster maintenance personnel from Fleet to the Refuse Department saving between \$10,000 and \$20,000 per year.

Budget Impact:

The privatization of commercial refuse service could, based on Tule Trash costs, potentially save the City of Lemoore approximately \$21,000 per year.

Recommendation:

None. For Council Member discussion.