



Details Emerge That the City Negotiated Significantly Higher Trash Fees Than Originally Proposed

By Joe Hyde | Mar. 28, 2015 9:33 am

The City of San Angelo negotiated higher prices for trash pickup last year than the winning bidder, Republic Services of Texas, originally proposed. That is what was revealed in a copy of the original Republic bid that was obtained by the losing competitor of the contract, Texas Disposal Systems.

Former City Councilman H.R. "Winkie" Wardlaw III hinted that this might have been the case to San Angelo LIVE! several months ago. He said then that although he was in favor of choosing Republic, he was not pleased that city staff used the trash contract's behind-closed-doors final negotiations to negotiate what he called a hidden tax increase disguised as a service fee hike.



A NEW AUTOMATED GARBAGE TRUCK THAT REPUBLIC SERVICES WILL BEGIN USING IN SAN ANGELO MID-JULY. (CONTRIBUTED, REPUBLIC SERVICES)

TDS' Adam Gregory said that his company made the Freedom of Information Act (FOIA) request for a copy of Republic's original bid not long after the vote to award Republic a new 10-year trash collection and landfill management contract on July 25. The City Attorney sought the opinion of the Texas Attorney General if she was required to hand over the 500+ page document. The TAG ruled that the city must turn over the document on Sept. 15 last year. Gregory said that after several calls, they finally received their copy Oct. 8.

The document reveals that the city negotiated with Republic to raise the rates that Republic had originally proposed significantly. City staff and Mayor Dwain Morrison have argued that the new contract includes up-front fees paid to the city to make its solid waste fund whole again. According to City Operations Director Shane Kelton, the solid waste fund was running an annual deficit of over \$2 million per year. In order to receive those upfront fees and a higher annual lease payment for use of the city landfill, the city allowed Republic to charge more for residential and commercial garbage pickup.

Lump Sum Payment Details		
Item	Proposed Amount	Negotiated Amount
One-time Payment to the City	\$1,000,000	\$3,600,000
Purchase of Cell 11A at the landfill	\$1,049,800	\$1,305,000
Funding for landfill closure/post-closure account	\$4,735,000	\$4,735,000
Installation of gas detection system (required by TCEQ)	\$0	\$670,000
Total Value, Annual Landfill Lease Payments	\$1,100,000	\$6,303,000
UPFRONT TOTALS	\$7,884,800	\$16,613,000

--

Notes: The total for the negotiated annual landfill lease payments of \$573,000, negotiated up from \$100,000, is for the estimated life of the landfill, 11 years. If the landfill is full before the 11 years are up, then the \$573,000 goes away, post-closure.

The original amount proposed for up-front and lease payments offered by Republic was \$7,884,800. The city negotiated these payments up to \$16,613,000. The net increase in revenue to the city government is \$8,728,200.

Residential Trash Pickup Increases

In order to receive the \$8.7 million benefit, the city negotiated with Republic to increase residential trash pickup prices up for the approximately 32,200 customers inside the city limits.

Residential Trash Pickup Rates Compared	
Description	Rate
Final Negotiated Rate	\$14.47/mo.
Republic's RFP Proposed Rate	\$11.54/mo.
Net Increase	\$2.93/mo.

The original rates, on page 308 of Republic's RFP response, are for one-time weekly curbside trash pickup and one-time weekly curbside recyclable pickup, and is the same service as negotiated in the final contract. The \$14.47 includes a \$0.50 monthly penalty to each residential garbage pickup customer for the city as a whole not reaching the contractual-stated goal of 500 tons/month of recyclables. The \$0.50 penalty kicks in six months after the start date of the recyclable pickups. In addition, every October, the new contract gives Republic a 2.9-percent increase each of the 10 years. There was no automatic increase in the proposal.

Also negotiated into the final pricing is the allowance for a fuel surcharge that can be added to every customer's bill when the price of diesel reaches approximately \$3.90/gallon.

The numbers above are conservative estimates that do not take into account the 2.9-percent annual automatic price increases, fuel charges, or growth of the number of customers. It conservatively estimates that behind closed doors, the city negotiated to increase Republic's gross revenue from residential trash collection \$11,321,520 over 10 years (\$2.93 x 32,200 households x 12 months x 10 years).

Republic states that the \$0.50 monthly penalty for not reaching the 500 tons/month of recyclables is a pass-through to Butts Recycling, the local company contracted by Republic to provide single-stream recycling services for the life of the contract. TDS' Gregory estimates that based on his experience managing recycling operations in other municipalities, reaching the 500 tons/month is improbable because San Angelo's proposed recycling plan does not include the ability to recycle glass.

Commercial Bonus

Also increased are commercial dumpster rates. The city's Request for Proposal (RFP) document and final contract gives the winner of the trash bid market exclusivity for commercial trash pickup and the rates are controlled by city ordinance.

San Angelo's businesses have complained about the increases on their monthly dumpster bills. When the new contract rates went into effect, Chicken Express franchise owner Travis Montgomery faxed LIVE! a copy of his trash bills, and his dumpster invoice from Republic Services increased 73 percent at the North Bryant store. At the newer Chicken Express location on Southwest Blvd., his Republic invoice increased by 92 percent. The landlord for the Wells Fargo building downtown supplied copies of his invoices reflecting a 73 percent increase, while the Bank of America tower on Sherwood Way saw a 30.9 percent increase.

Determining Republic's increase in gross revenue the final negotiated commercial rates to the original bid is more difficult because more options for businesses were added in the new contract. It's not a direct apples-to-apples comparison. In all, there are 2,497 commercial customers as indicated in the city's original RFP document. TDS studied the rates and released to us a conservative estimate of the overall gross revenue benefit to Republic that the city gave them in final negotiations.

Monthly Commercial Trash Revenue Comparison			
Customers	2013 Pre-Contract	Proposed	Negotiated
2,497	\$284,000	\$415,525	\$489,045

The negotiated price increase over the Republic's original proposal gives Republic an estimated \$73,519 per month increase in gross revenue. Thus, over the life of the contract, Republic was given increased revenue of approximately \$8,822,280 ($\$73,519 \times 12 \text{ months} \times 10 \text{ years}$).

The commercial price increase estimates above do not take into account the annual 2.9-percent automatic price increases, fuel surcharges, or the growth of the number of new businesses. Neither does the final number calculated above include revenue from temporary trash pickup (in "roll-off" containers) that is generally used at construction sites.

Conclusion

Conservative estimates are that the city allowed Republic to charge San Angelo citizens and businesses \$20,143,800 more in fees for a total cost to Republic of \$8,728,200 in upfront cash and increased landfill annual lease payments to the city government. Here's the math:

Republic's Net Benefit, Proposed vs. Final Negotiations	
Item	Amount
Residential Revenue Boost	\$11,321,520
Commercial Revenue Boost	\$8,822,280
Total Revenue Boost	\$20,143,800
Less difference in upfront fees to city and lease payments	(\$8,728,200)
Republic's Net Benefit	\$11,415,600

Put another way, during the negotiations, the city asked from Republic an upfront investment of \$8,728,200 more than its original RFP proposal, and offered an annuity with a total value of \$20,143,800, or \$2,014,380 per year over 10 years, in return. That's a 23-percent annual interest rate on that initial investment. And this figure does not include the annual 2.9-percent fee rate increases built-in to the contract, fuel surcharges, or anticipated population (and customer) growth.

An MBA emailed and noted that another way of looking at the \$8.728,200 investment would be to look at the Internal Rate of Return. IRR is used by companies to compare different investment opportunities to aid in selecting which one to pursue. In this case, an investment of \$8,728,200 yields an annual cash flow of \$2,014,380 each year for 10 years. The IRR for that \$8.7 million investment is 19.04 percent (calculator).