

**INTRODUCTION:** Council Member Kozachik asked the Independent Audit and Performance Commission (IAPC) to determine the costs and benefits associated with privatizing both Residential and Commercial Waste collection. The Commission discussed the request at its January 11<sup>th</sup> meeting and concluded that using a subcommittee to prepare an in-depth, detailed analysis would take at least six to eight months and require a significant amount of staff time to gather and analyze information.

During the discussion, Environmental Services Department (ESD) staff provided detailed information on various aspects of the collection process. This information led IAPC members to adopt a different approach to the project. Rather than establish a subcommittee for a comprehensive review, the Commission suggested that ESD prepare a detailed report for review. The Commission reviewed the report, a survey of customers by an independent vendor, the FY 2012 Adopted Budget, and comments from ESD management on the following issues:

1. Customer Satisfaction;
2. Financial Considerations including Cost Recovery;
3. Personnel Effects Resulting from Privatization; and
4. Ability to Resume Service should Privatization Fail.

Commission members were satisfied with the information provided and decided to forward their findings to Council Member Kozachik for any comments. Assuming that Mr. Kozachik finds the report satisfactory, the IAPC will consider the project completed.

## **FINDINGS**

**CUSTOMER SATISFACTION:** Customers are divided into two categories, i.e., Commercial and Residential. Each will be addressed below.

**COMMERCIAL COLLECTIONS:** ESD staff pointed out that commercial collection service currently competes with the private sector for business. The Department submits bids along with private providers. Customers then decide which provider best meets their needs and contracts with that vendor. The City is at somewhat of a disadvantage in this process since its rates are set by the Mayor and Council and are therefore public knowledge prior to anyone submitting a proposal. Currently, the City serves 3,400 customers or approximately 20% of the commercial market. The assumption is that those customers served by the City are satisfied

**RESIDENTIAL COLLECTIONS:** The City handles all residential collections because they are not subject to a bid process per the Tucson City Code Section 15-16. ESD serves approximately 137,000 residential customers over 226 square miles.

An outside vendor, FMR Associates, Inc., conducted a survey to measure residential customer satisfaction in March 2011. The company used telephone interviews to contact 408 randomly selected customers evenly distributed among the City's six wards.

According to the survey, customers generally appear to be quite satisfied with the residential collections provided by ESD. (The full report is available for review in the ESD section of the City's website.)

	<b>EXCELLENT</b>	<b>GOOD</b>	<b>FAIR</b>	<b>POOR VERY POOR</b>	<b>1-5 SCALE OVERALL</b>
Overall Service	43%	40%	12%	5%	4.2
Recyclables	55%	30%	12%	4%	4.3
Trash Collection	52%	34%	11%	3%	4.3
Brush and Bulky	49%	29%	16%	6%	4.2
Telephone Service	42%	27%	18%	13%	3.9
Household Haz. Waste	35%	26%	23%	16%	3.7

Pages 2 and 3 of the FMR Associates report. 5 on the scale in the last column is excellent and 1 is very poor. Greater detail for the ratings summarized above is available in the FMR report.

**FINANCIAL CONSIDERATIONS:** The Environmental Services Department operates as an Enterprise Fund and is self-supporting. Its operating budget (as opposed to actual revenues and expenditures) was \$47.3 million in FY 2011.

It is difficult to arrive at any firm conclusions concerning the financial impact of privatizing commercial and residential collections without a comprehensive and very time-consuming analysis. A simplistic review of the figures provided to the Commission would indicate that both the General Fund and the ESD Enterprise Fund would likely be negatively impacted financially if collections services were outsourced and everything else remained equal. Yet, such a review does not take into account any number of factors that could affect the outcome. For example, the City would probably salvage all equipment associated with collections. The questions would then be:

1. How much would the City receive from such a sale;
2. Where would such monies be placed; and
3. How could the funds be expended.

Other issues, among many, could include:

1. Could or would the City negotiate a bill surcharge or license fee with a private vendor to cover any deficit?
2. Could fees for other ESD services be adjusted to eliminate a possible deficit?
3. Would the City require private vendors to use its landfill? What would the charge be?
4. Could legal issues arise that might have a financial effect on a privatization effort?

A decision to privatize collections would significantly reduce the Environmental Services budget. These savings, however, would not benefit the General Fund since all monies are budgeted in the ESD Enterprise Fund.

With outsourcing of collections services, the charge by the General Fund to ESD for administrative services (\$3.4 million in FY 2011) would be reduced. While the General Fund should be able to reduce its costs in support of ESD over time, these expenses are likely fixed over a period of a year or more. How any loss to General Fund revenues would be covered is not clear at this point.

A Department study shows monthly fees to customers by the City of Tucson and three other private companies. The three other private companies charge various fees. This report may not include all zip codes.

**City of Tucson**                    \$16.81

<u>Zip Codes</u>	<u>85749</u>	<u>85718</u>	<u>85745</u>	<u>85737</u>	<u>85757</u>
<b>Waste Management</b>	\$23.06	\$18.53	\$17.62	\$14.96	\$19.22

<u>Zip Codes</u>	<u>85757</u>	<u>85741</u>
<b>Saguaro</b>	\$17.39	\$18.22

<u>Zip Codes</u>	<u>85714</u>
<b>Tucson Trash</b>	\$16.00

(See the Attachment to the Environmental Services Report to the Commission.)

In summary, it appears that the City of Tucson fees are well within the range that all other providers charge and in the majority of cases are less expensive than other vendors.

Should residential collection services be outsourced, Tucson citizens might not see a reduction in costs and could possibly experience an increase since fees would be transferred from the City to private vendors. There may also be a decrease in services provided such as Household Hazardous Waste, Brush & Bulky, and treecycle.

**PERSONNEL EFFECTS:** The Collections Division budgets for 155 positions at a cost of \$10,256,940 in FY 2012 for an average cost per position of \$66,174. These costs, as well as the non-personnel costs for the division, are fully covered by the fees charged to customers. The 155 positions would be eliminated if both residential and commercial collections were privatized. Positions in Department administration could be eliminated to cover the deficit, but the number, if any, is not immediately clear.

It is also possible that General Fund positions in City administration could be eliminated because of the reduced workload once the ESD Collections Division is outsourced; however, the number, if any, is not immediately clear. In addition, the Fleet Services Division could lose positions responsible for maintaining collection vehicles because the funding (and need) for these positions would no longer exist.

**ABILITY TO RESUME SERVICES:** During discussions with the IAPC, ESD management indicated that it would be extremely difficult to virtually impossible to resume collection services once outsourcing occurred. The time and expense associated with hiring/training staff, acquiring new equipment, establishing schedules, etc. would be at best prohibitive. In all likelihood, the General Fund would have to subsidize ESD for several years during the transition period.

## CONCLUSION

The information provided to the Commission indicated that:

- Commercial collections are subject to a continuing bid process. 20% of such customers are sufficiently satisfied with City services to contract with the ESD.
- 83% of residential customers find that the ESD offers excellent to good service, while another 12% rate the service as fair. 5% rates collection service as poor or very poor.
- ESD operates as an Enterprise Fund and is fully self-supporting.
- ESD provided \$3.4 to the General Fund for administrative support.
- The EDS fee structure for residential collections is well within the range for charges from private vendors. The charges appear to be lower than those of most private vendors.
- With outsourcing of collection services, the City would eliminate at least 155 positions in the Collections Division. Additional positions might be eliminated in ESD and General Fund departments.
- Resumption of residential collections, should it prove necessary, would at best be very difficult, if not impossible, because of startup costs and the potential need to draw on the General Fund to support ESD.

Most importantly, customer satisfaction is relatively high, City charges are very comparable to those in the private sector, and resumption of service, if necessary, would be quite difficult and the General Fund does not subsidize ESD. These findings have led Commission members to conclude that:

1. The City should continue to compete with private vendors for commercial collections.
2. The City should continue to be responsible for all residential collections.

The Commission wishes to thank ESD management for their contributions to this report and the Internal Audit staff for their support during this process.

ATTACHMENT: Environmental Services Department Overview Report to the IAPC