REPORT FOR ACTION

Non-Competitive Contract for the Supply and Maintenance for Recycling and Garbage Bins

Date: May 24, 2017
To: Public Works and Infrastructure Committee
From: General Manager, Solid Waste Management Services; and Director, Purchasing and Materials Management
Wards: All

SUMMARY

The purpose of this report is to provide background on the current recycling and garbage bin manufacturing, supply and maintenance contract (maintenance) and to request authority to enter into a new non-competitive contract with the existing service provider Rehrig Pacific Company (Rehrig). The new contract will be for a period of up to five (5) years commencing on December 1, 2017 until November 30, 2022, with the option to renew the contract for up to five (5) additional years to be exercised on an annual basis at the discretion of the General Manager, Solid Waste Management Services.

The original contract projected a 10 year lifespan for these containers. Nearing the end of the 10 years, it has been determined that these bins are still in good condition with, (based on breakage trend analysis) an estimated 10 more years of life. The current recycling and garbage bins have proven to be durable resulting in minimal replacements caused by damages.

By adopting the recommendations, Council will be approving a new contract, which essentially extends the existing service and materials supply contract with a series of additional benefits, including:

- Maintaining the current high level of customer service by having one service provider responsible for all the recycling, garbage and green bins
- Preferred customer pricing model realizing savings to the City
- Maintaining the warranty on bins at no additional cost to the City
- Capital cost avoidance of approximately $21 Million associated with extending the life of the current bins for another 10 years versus City-wide replacement

Should Council not decide to proceed with this approach, it could result in the following negative potential consequences:
• Customer service impacts resulting from potentially more than one company performing bin maintenance and repair services
• Increased administrative requirements to the City if two separate bin providers were involved
• Current bin warranties and replacement parts may not be maintained without significant additional costs to the City

Over the next 5 plus years, staff will continue to monitor bin condition and at any point, should it be determined that the cost to repair and maintain is reaching a point where a full pull and replace with new containers is appropriate, staff will at this point initiate a new competitive process to replace bins across the City.

City Council approval is required in accordance with Toronto Municipal Code, Chapter 71 Financial Control 71-11A as the total estimated contractual commitment in this report is $47,149,413 net of HST. In order to facilitate this contract, this report also recommends committing additional cash flows which are part of the existing 2018 to 2026 Capital Plan adopted by Council on December 13, 2016, as well as an anticipated reduced annual operating burden of approximately $300,000 each year for the term of the contract based on the 2018 budget forecast.

RECOMMENDATIONS

The General Manager, Solid Waste Management Services, and the Director, Purchasing and Materials Management recommend that:

1. City Council authorize the General Manager, Solid Waste Management Services to negotiate and enter into a new non-competitive agreement with Rehrig Pacific Company (Rehrig) for the supply of new bins and maintenance of the existing recycling and garbage bins for a five (5) year term from December 1, 2017 to November 30, 2022 with the option to renew and extend the term of the agreement for five (5) additional one (1) year periods at the sole discretion of the General Manager, Solid Waste Management Services, all on terms and conditions satisfactory to the General Manager, Solid Waste Management Services and in a form satisfactory to the City Solicitor.

2. City Council authorize the commitment of currently approved Capital Plan Estimates in the amount of $15,111,000 net of HST recoveries and as outlined in Table 1, Column B of this report.

FINANCIAL IMPACT

The total estimated value of the contract for a 10-year contract including five (5) option years for the maintenance of the recycling and garbage bins (including CPI impact estimate and contingency) is $47,149,413 net of all applicable taxes and charges; $53,278,836 including all applicable taxes and charges. The total estimated cost to the City including the option year is $47,979,243 net of HST recoveries.

The total 10-year operating cost related to the bin maintenance including bin exchanges, repairs and additional bin deliveries is $18,131,407 (including CPI impact
estimate and contingency) net of all applicable taxes and charges or $18,450,520 net of HST recoveries. This operating cost is an annually budgeted item in the SWMS budget and this contract will represent a reduced annual operating burden (savings) of approximately $300,000 each year for the term of the contract based on the 2018 budget forecast. As in previous years, funding will be included in the 2018 Operating Budget and 2019-2027 annual Operating Budget Submissions in the Operating Account SW0008-2720.

The total capital cost for purchasing new recycling and garbage bins over the 10 year term is estimated at $29,018,006 (including contingency), net of all applicable taxes and charges, or $29,528,724 net of HST recoveries. Funding is already included in the 2018-2026 Capital Plan for Solid Waste Management Services in Capital Account CSW004-29-01. This report will authorize the necessary additional cash flow commitments to be activated from the currently approved overall Capital Plan. Funding for the option year 2027 is subject to Council approval in the 2018 Capital Budget and 2019-2027 Capital Plan for SWMS.

The following table describes the 10-year Capital cash flow requirements including the recommended additional commitments, net of HST recoveries.

Table 1: Capital Budget Requirements (In $000s) Capital Account CSW004-29-01

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<th>Year</th>
<th>Current Approved Cash Flow Commitments</th>
<th>Recommended Cash Flow Additional Commitments</th>
<th>Total Required Cash Flow Commitments</th>
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In Table 1 above, amounts in column B are part of the overall 2018 to 2026 Capital Plan that was adopted by Council on December 13, 2016 and does not represent any change or increase to the 2018 to 2026 Capital Plan. Column C represents the total capital expenditure by year that is required for this contract and Column A shows the currently approved Council commitments by year for the project. Column B includes the additional cash flow commitments recommended by this report in order to fund the requirements of this contract.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

**DECISION HISTORY**

At its meeting on May 5, 2015, City Council adopted the recommendation from the Public Works and Infrastructure Committee Report PW3.1 for the award resulting from the Request for Proposals No. 0401-14-3100 for a 10 year contract for the manufacture, distribution and maintenance of the next generation green bins.


At its meeting on July 16, 17, 18 and 19, 2007, City Council adopted the recommendation from the Public Works and Infrastructure Committee Report PW7.21 for the award resulting from the Request for Proposals No. 0401-07-0059 for a 10-year contract for the manufacture, distribution and maintenance of recycling and garbage bins to single-family residents to Rehrig.


Since the initial adoption, the contract has been amended twice through the budget process to reflect an increase in contract values resulting from an increase in bin exchanges and the expansion of the bins to additional non-residential customers including the Public and Separate schools boards and the utilization of bins in the City’s park system. These amendments can be viewed at the following links:


**Background**

Currently all curbside collected Garbage, Blue Bin Recycling, and Green Bin Organic bins in use in the City are manufactured and maintained by Rehrig. This situation has arisen over years through two (2) competitive RFP processes where the successful bidder (scoring highest on qualifications and lowest on price) was Rehrig. The current 10-year contract with Rehrig resulting from the Request for Proposal No.0401-07-0059 (Blanket Contract No. 47013061) effective Dec 1, 2007 for the supply and maintenance of recycling and garbage bins expires on November 30, 2017. These bins are mostly utilized by our residential customers, however we have a number of non-residential customers (school boards, libraries, small commercial businesses) along with the Parks litter and recycling bins that are covered under this contract.

There are approximately 980,000 recycling and garbage bins currently in use by our various customers. In the past year (2016) there were approximately 54,000 service requests issued for bin repairs, bin exchanges and deliveries of new bins that were fulfilled by Rehrig under the terms of the existing contract. Over the term of the existing contract Rehrig Pacific Company products have performed well and the service offered by their company and their subcontractor has been exemplary.

Monitoring the bins performance data over the past nine (9) years, we have observed minimal damages caused by wear and tear on the bins. In 2016, there were 15,812 service requests issued for bin related damages, representing an annual repair rate of 1.64 per cent. While it is difficult to predict the future annual quantities of bin damages, based on the current trend, we only anticipate a gradual increase in bin related repair requests over the next 10 years. The current recycling and garbage bins have proven to be durable resulting in minimal replacements caused by damages. The most fiscally and environmentally responsible approach at this time is to repair and maintain the existing bins rather than a City wide full replacement model which could cost approximately $64 million for the initial implementation and an additional $31 million to maintain the bins over the up to 10 year term, totalling $95 million.

Under the terms of this proposed contract, Rehrig will continue to manage the existing warranty on all bins that are less than 10 years old and will provide a 10 year warranty on all new bins delivered. Additionally, parts will be salvaged from all damaged bins and used to repair/replace damaged products that are not covered under the 10 year warranty. In cases where the damage to the bin requires a total replacement then these bins will be replaced by Rehrig. It is anticipated that approximately 30,200 new bins will be purchased annually. This is a result of new residents moving into the City, missing bins that are stolen or misplaced and bin exchanges where the existing products are not suitable for redeployment. We anticipate requirements including curbside residential, multi and non-residential and park bins to total 300,200 over the ten year term. It is estimated that approximately 142,000 bins will be purchased over the up to 10 year term to replace bins that have damages beyond repair.

The proposed contract has a fixed capital cost on all bin sizes. The only inflationary adjustment that applies is to the Operating Budget for the CPI for the
maintenance/service portion of the contract (bin exchanges, deliveries, repairs, etc.), that has been calculated based on an estimated 2.1 per cent annual increase. This is a much better contractual arrangement than the current contract which has other built in escalators which could expose the City to additional future financial risk. Comparing the current recycling and garbage bin contract unit prices to the proposed contract, it is anticipated that the City would realize savings of approximately $300,000 annually.

Through a competitive bid process issued in 2014, for the next generation green bin used for organic collection, Rehrig Pacific Company was the successful proponent and was awarded a contract for the manufacture, distribution and maintenance of these new green bins over a 10-year term expiring in 2027.

Having the same service provider for all bins (garbage, recycling and green bins) simplifies the bin deliveries from a customer service perspective by allowing all bins to be delivered or repaired simultaneously at the resident's address. If there were two service providers, there would be significant administrative challenges in coordinating bin deliveries and repairs. By having only one manufacturer's type of bins, allows the City to take advantage of reusing bins from exchanges and salvaging parts for future repairs and to realize the associated savings. Each manufacturer's bins designs and parts are proprietary thereby limiting options to incorporate a new bin/part supplier.

As part of the recycling and garbage bin contract awarded in 2007, a small size (75 litre) bin was designed exclusively by Rehrig at the request of the City. This bin is unique to the City and there are no other manufacturers that offer this style and size of bin. We currently have about 127,000 small bins being utilized by our curbside customers. If a contract was awarded to another company, they would be required to produce this 75 litre bin at an estimated mould cost of $1 million. This cost would be then amortized over the up to 10 year term adding significant additional cost per bin to the City.

The City would realize additional savings through economies of scale achieved by having a single contractor perform all bin related functions for both green bins and recycling and garbage bins including shipping, storage, deliveries, repairs and exchanges and warranty replacements. If a company other than Rehrig was issued the new contract (warranty portion only), the bins would then have to be collected and transported to Rehrig at a cost to the City. With Rehrig being the provider of the warranty, the costs would be covered within their contract as they would have a presence locally.

The Fair Wage Office has reported that the recommended firm has indicated that it has reviewed and understands the Fair Wage Policy and Labour Trades requirements and has agreed to comply fully.

**CONTACT**

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SIGNATURE

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