

**REPORT FOR ACTION WITH
CONFIDENTIAL ATTACHMENT****Future Curbside Waste Collection Service Delivery
East of Yonge Street**

Date: January 6, 2017

To: Public Works and Infrastructure Committee

From: Deputy City Manager, Cluster B, and General Manager, Solid Waste Management Services

Wards: All

REASON FOR CONFIDENTIAL INFORMATION

This report involves the security of property belonging to the City and this report is about labour relations or employee issues.

SUMMARY

Since the preparation of Item PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street, originally scheduled at the meeting of Public Works and Infrastructure Committee on September 22, 2015, a number of circumstances have changed resulting in the need for an update to the original Staff Report. These changes include:

- Additional detailed analyses, in particular with respect to fleet costs, have been completed as part of the 2017 budget preparation cycle and as a result, cost per tonne and cost per household forecasts have been revised from the original numbers presented in 2015.
- An updated analysis has been prepared to reflect changes to redeployment efforts and costs, primarily as a result of changes to the new TCEU, LOCAL 416 - CUPE collective agreement and staff changes since the original estimates prepared pre-negotiation of the collective agreement.
- 2015 financial, tonnage, and performance related data has been incorporated.
- A new contract for waste collection services in District 1 (Etobicoke area) began July 1, 2015, with supporting performance has been incorporated.

- Feedback provided by Ernst & Young (EY) as part of the independent report review completed in 2015, has been incorporated into the amended Report.
- A better understanding of the financial and social implications of a deferred decision are now better understood.

These changes are sufficient in nature such that the original recommendations prepared for September 2015, should be updated.

The challenge with respect to this service delivery issue is to provide verifiable and credible information with respect to the current state of the private sector waste collection marketplace as it relates specifically to the City of Toronto, and its unique waste collection districts, and how that compares to the current internal service delivery approach.

To address this challenge, staff are recommending an alternative procurement approach, known as a managed competition, which consists of a procurement process incorporating competitive bids from both the private sector and an internal City bid. A managed competition process provides a consistent, fair and transparent approach when comparing in-house and external service delivery costs and will be conducted in accordance with all the associated standard City procurement protocols. Managed competition procurements strike an excellent balance between conflicting positions, namely privatization and maintaining in-house service delivery, as they provide a platform to compare costs within a competitive procurement process. This recommendation is conditional on the agreement of TCEU, LOCAL 416 - CUPE to engage in the managed competition process on behalf of its employees. In the absence of such an agreement, staff recommend that the City continue to engage in a traditional procurement process to secure bids, from third party contractors qualified to provide this service. Under the Purchasing Chapter of the Municipal Code, in-house bids may only be accepted from internal City employees or divisions, where Council has given prior approval, including approval of the process for fairly evaluating those submissions.

It is proposed that this process would be utilized for District 4 first, and the results of the managed competition in District 4 will be used as a guide for future service delivery recommendations in District 3. The preferred approach for this procurement is a Request for Pre-Qualification followed by a Request for Quotation (referenced herein as the "Managed Competition Procurement").

The material presented herein supersedes all previous information, claims and recommendations as presented in the Public Works and Infrastructure Committee deferred Item PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street.

RECOMMENDATIONS

The Deputy City Manager, Cluster B, and the General Manager, Solid Waste Management Services (SWMS) recommend that:

1. City Council authorize the General Manager, SWMS, and the Director of Purchasing and Materials Management Division, to undertake a procurement process for residential curbside collection services for District 4 only, including the authority to consider an in-house bid submission from internal City employees in the SWMS Division as part of a managed competition process, in accordance with the process set out in this report, including but not limited to the requirements as summarized in Attachment 1.
2. That the General Manager, SWMS, and the Director of Purchasing and Materials Management Division report to Council on the results of the process for authorization to award a contract for a term of six (6) years; with options to extend for an additional two (2) separate one (1) year extensions at the sole discretion of the General Manager, SWMS.
3. City Council further authorize the retention of:
 - a. external consulting support on an as required basis to support the Internal Bid Team in the development of their internal bid submission; and,
 - b. a Fairness Monitor to oversee the Procurement process, in consultation with the Director of Purchasing and Materials Management Division.
4. City Council authorize the General Manager, SWMS to consult with TCEU, LOCAL 416 - CUPE representatives and invite their participation in the recommended managed competition process, in accordance with the process set out in this report, including but not limited to the requirements as summarized in Attachment 1, to be confirmed by TCEU, LOCAL 416 - CUPE, within 30 days of the Council Decision approving the managed competition process.
5. If TCEU, LOCAL 416 - CUPE declines to participate in the managed competition process, City Council authorize the General Manager, SWMS to issue formal notification of contracting out to the Union in accordance with the provisions of the Collective Agreement between the City and TCEU, LOCAL 416 - CUPE.
6. City Council direct the General Manager, SWMS, to:
 - a. delay, in consultation with the Director of Purchasing and Materials Management Division, any procurement activities with respect to residential waste collection in District 3 until the results of the District 4 Procurement are determined and an appropriate procurement timeline for District 3, taking into consideration staffing and fleet related implications, is prepared and approved by Council; and,

- b. prepare, in consultation with the General Manager, Fleet Services a fleet replacement plan in District 3 and delay the purchase of any waste collection vehicles associated with service delivery in District 4 until the results of the recommended Procurement process are known.
7. That the information in Confidential Attachment 2 remain confidential in its entirety as it relates to the security of the property of the City and labour relations matters and that the information in Confidential Attachment 3 remain confidential in its entirety as it relates to security of the property of the City.

FINANCIAL IMPACT

Estimated one-time costs of approximately \$500,000 will be required for the completion of the recommended managed competition procurement. Funding for this can be accommodated in the 2017 Operating Budget of SWMS.

The 2017 Operating Budget for SWMS approved by Council on December 14, 2016 was developed based on the full cost of providing SWMS services through current curbside collection service providers (Districts 1 & 2 - Contracted and Districts 3 & 4 - In House).

The financial outcome of the Procurement described in this report, along with the impact on the SWMS 2017 approved Operating Budget and future year estimates will be documented in a future report once the outcome of the Procurement is known and presented to the appropriate committee and to City Council for consideration.

Additional potential City-wide savings will be realized and planned for in future years' Operating Budgets. These future operating impacts will be reviewed each year, as part of the annual Operating Budget Process.

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

DECISION HISTORY

At its meeting of January 6, 2015, the Public Works and Infrastructure Committee directed the General Manager, SWMS, to report back to its meeting of April 9, 2015, to consider curbside waste collection service delivery options to achieve savings and efficiencies.

The Public Works and Infrastructure Committee Decision Document (Item PW1.8 – Garbage Collection East of Yonge Street) can be viewed at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.PW1.8>

At its meeting of September 22, 2015, the Public Works and Infrastructure Committee deferred consideration of Report PW7.4 "Curbside Waste Collection Services Review:

"Comparison of Curbside Waste Collection Services East and West of Yonge Street" until the fourth quarter of 2016.

The Public Works and Infrastructure Committee Decision Document (Item PW7.4 – Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street) can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.PW7.4>

At its meeting of April 18, 2016, the Executive Committee deferred consideration of Report EX14.10 "Solid Waste Management Services Vehicle Replacement Program" until after the Public Works and Infrastructure Committee considers Item PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street.

The Executive Committee Decision Document (Item EX14.10 Solid Waste Management Services Vehicle Replacement Program) can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX14.10>

At its meeting of November 21, 2016, the Public Works and Infrastructure Committee Approved Report 17.17 "Curbside Waste Collection Services East and West of Yonge Street - Request for Direction" which directed the General Manager, SWMS, to prepare a supplemental report addressing changes since the preparation of Item 7.4 Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street and report back to its meeting of January 18, 2017. This report responds to that direction.

The Public Works and Infrastructure Committee Decision Document (Item PW17.17 Curbside Waste Collection Services East and West of Yonge Street - Request for Direction) can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PW17.17>

COMMENTS

The Public Works and Infrastructure Committee at its meeting of January 6, 2015, requested the General Manager, SWMS, to report back with the options to achieve savings and efficiencies in curbside waste collection service.

The Committee requested that the report include the following:

- the collection costs by district;
- a fleet analysis;
- a review of services from comparable jurisdictions;
- an independent review of the financial analysis;
- an analysis of diversion rates by district; and,
- service delivery options including contracting out east of Yonge Street (Districts 3 and/or 4).

This supplemental report provides the information and analysis the Committee requested, which was originally scheduled to be considered at the September 22, 2015, PWIC meeting, and subsequently deferred until the January 18, 2017 meeting of PWIC and includes new information that has only become available since the preparation of the original report, including:

- additional fleet analysis completed in 2016;
- implications from the 2016 ratified collective agreement with TCEU, LOCAL 416 - CUPE;
- 2015 collection metrics data now available;
- information related to a new contract for waste collection services in District 1 (Etobicoke area) which began July 1, 2015; and,
- staffing and financial related challenges as a result of the lack of clarity on future waste collection service provision direction.

This supplemental report has been prepared, in particular, to seek direction and resolution on the preferred service delivery model that will help to support the continued delivery of safe, cost effective, efficient, socially acceptable, and environmentally responsible residential waste collection services east of Yonge Street.

The following comments have been prepared to address supplemental information now available as well as more detailed information with respect to service delivery options.

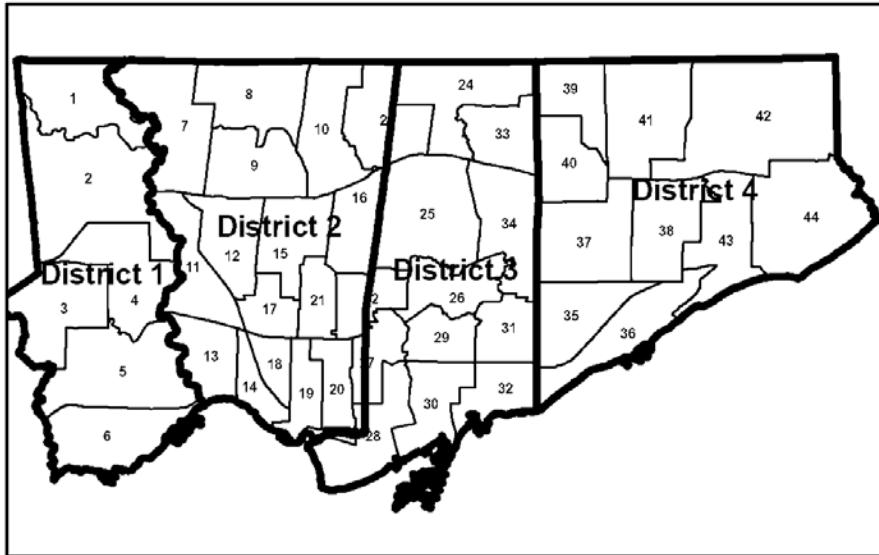
This section includes the following sub-sections:

- Overview of current curbside collection system;
- Updated current situation analysis;
- Service delivery options east of Yonge;
- Approaches in other jurisdictions;
- Recommended procurement approach;
- Updated independent review; and,
- Next steps.

Overview of Current Curbside Collection System

The City of Toronto is divided into four (4) collection districts for residential curbside waste collection (numbered 1 to 4; west to east respectively). The districts are defined by the Humber River, Yonge Street, and Victoria Park Avenue and are identified in Figure 1. Collection services are provided to approximately 490,970 stops, primarily consisting of single family customers, as discussed in more detail below.

Figure 1 - Daytime Curbside Collection Districts



a) Service Levels

The current service levels for single family residential curbside collection service are noted in Table 1.

Table 1 - Single Family Curbside Collection Service Levels

Service	Frequency
Garbage – cart collection (grey bin)	Bi-Weekly
Recycling – cart collection (blue bin)	Bi-Weekly
Organics – cart collection (green bin)	Weekly
Leaf & Yard Waste & Christmas trees	Seasonal Bi-Weekly
Oversized and Metal	Bi-Weekly
Electronic Waste	Bi-Weekly
Toxic Taxi	Call In
Premium Organic Collection for Commercial	Up to 6x / Week

b) Service Providers

The current curbside collection system is split between contracted and in-house collection east and west of Yonge Street, with the exception of the Toxic Taxi (Household Hazardous Waste or "HHW") and Nights Collection, which are provided by

in-house collection city-wide and mobilized out of District 3. Table 2 below lists the service provider for each curbside service.

Table 2 - Curbside Collection Service Providers

Service Area	Provider	Notes
District 1 (D1)	Miller Waste Systems Inc.	6 year contract, expiring June 30, 2021 (+2, 1 year extension options)
District 2 (D2)	Green For Life Environmental Inc.	7 year contract, expiring August 6, 2019 (+2, 1 year extension options)
District 3 (D3)	In-House Staff	n/a
District 4 (D4)	In-House Staff	n/a
Nights Collection	In-House Staff	City-wide service
Toxic Taxi (HHW)	In-House Staff	City-wide service

The mix of service providers has been in place since August 2012, when District 2 was contracted out. District 1 (former Etobicoke area) was contracted out in 1995, and three more contracts since then have been awarded to private contractors (2002, 2008 and 2015).

c) Collection District Customers

In 2015, there were 490,970 stops that received curbside solid waste collection services. A summary of the curbside stops by district is provided in Table 3. The table also provides information on the number of stops receiving Nights Collection.

Table 3 - Curbside Collection Stops by District (2015)

Collection Area	District 1	District 2	District 3	District 4	Night Collection	Total
Number of Stops	66,097	155,594	116,271	121,207	31,801	490,970

Current Situation Analysis

The following provides an overview of current curbside residential waste collection operational and operator performance discussed in subsections as follows:

- Waste Diversion Rates by District;
- Customer Service Performance;
- Financial Performance;

- Fleet Overview; and,
- Staffing and Labour Relations Overview.

a) Waste Diversion Rates by District

Waste diversion rates are largely based on what is set out for collection by the respective customer and has very little correlation to the type of collection service provider. This is especially true in cart based collection systems where it is more difficult to monitor what residents are placing out for waste collection as operators are unable to see what is inside the bins. As a result, this limits the role that collection operations have in influencing waste diversion rates. In addition, waste diversion rate estimates by district are affected by such things as estimated weights for dual stream or split compartment vehicles and unforeseen weather-related events, such as the flood in July 2013, or the ice storm in December 2014.

Previous reporting has compared estimated waste diversion rates and an updated graphic is provided below in Figure 2; however, it is the opinion of staff that given the issues outlined above, the service provider has very little, if any, impact on waste diversion performance by District.

Figure 2 – Estimated Waste Diversion Rates by District



b) Customer Service Performance

Enquiries from residents regarding curbside collection service issues are primarily answered by 311 customer service representatives. Residents may call 311 for various service related requests, such as missed collections, program information such as billing, collection calendars, bin repairs and exchanges, etc.

Collection service performance levels are measured, in part, by monitoring service requests initiated when residents contact 311. Collection related service requests can include missed collection (such as green bin, recycling, garbage, yard waste, furniture,

etc.), property damage, and operator complaints. In total there are forty (40) service request codes SWMS uses to track curbside collection crews customer performance. The process for following up on initiated (Created) service requests received from 311 is the same in all four districts. When a service request is received, an investigation takes place, corrective action is taken and the request is dealt with and closed if it is valid or cancelled if it is deemed invalid. For example, an invalid service request would include a resident calling 311 early in the day to report a missed collection however, the crews are still collecting and have not serviced that particular street and in this case the request would be cancelled. To the extent possible, these types of invalid service requests have been removed from the data presented below.

Taking into consideration isolated irregularities that can influence the number of service request per district such as the start of a new contractor, weather events, etc., the number of closed service requests (Validated) are similar between the In-house and contracted collected districts.

Figure 3 provides the number of validated collection related customer service requests per 1000 stops by collection district from January – October 2016. Overall, the number of service requests is relatively small in comparison to the number of stops and products collected on a weekly basis. To put the numbers in Figure 3 into context, an average household would only make a valid collection related service request approximately once every 13 years.

Figure 3 – Validated Service Requests per 1000 Stops by District

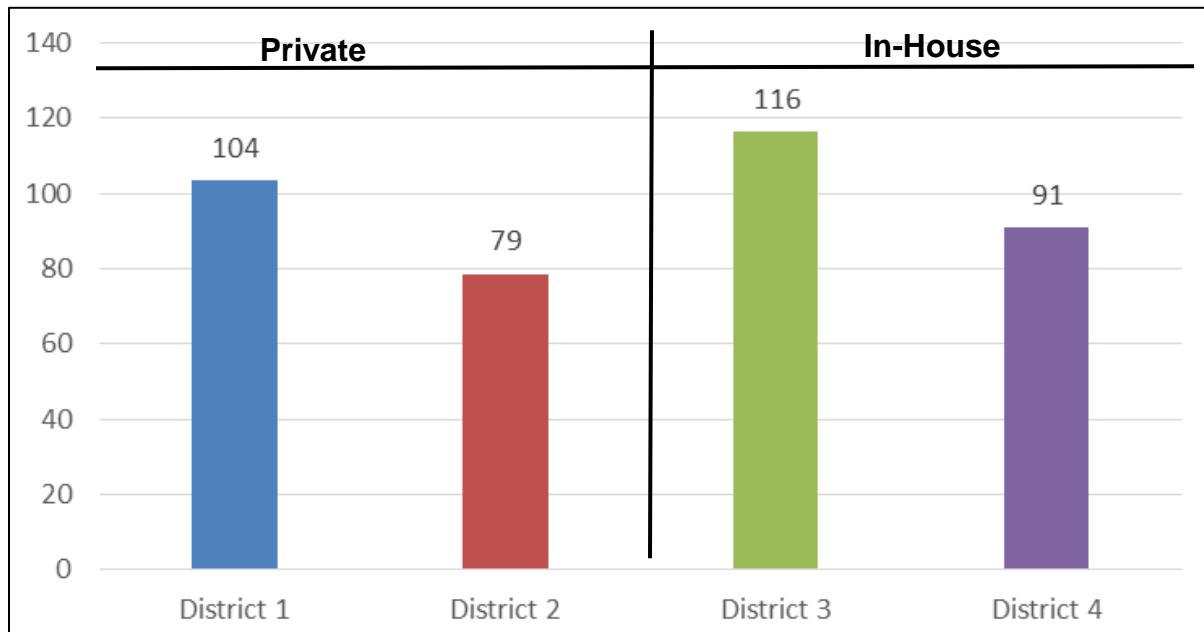


Figure 3 illustrates that there is limited evidence to suggest that one service delivery model is preferential with respect to customer service compared to another. Trend analysis on similar data also collaborates this statement over the past several years.

c) Financial Performance

The curbside collection districts have unique features and qualities that impact the collection logistics and costs, such as one-way streets, on-street parking, laneways, narrow roadways and traffic volumes/public transit demands. These traits influence the type and size of collection vehicle used in each district, such as fully automated or semi-automated vehicles, which in turn impact the cost and time required to service these areas.

Based on the collection district characteristics, the costs of District 1 have been compared to District 4; and the costs of District 2 have been compared to District 3.

District 3 has similar challenges to District 2 of older neighbourhoods, row housing, one way and narrow streets, and on-street parking, which results in higher collection costs compared to Districts 1 and 4. District 3 also has some unique characteristics and operational practices, compared to District 2, which include:

- Vehicles
 - Shared with Nights Collection operations
 - Older model split rear collection vehicles
 - Significant vehicle breakdowns due to the age of the collection vehicles
 - More 2 person collection vehicles
- Other services provided
 - Toxic Taxi collection
 - Toronto Island collection
- Shared yard and facilities with Nights Collection, which provides curbside collection to areas across the City where it is not feasible to provide service during the day.

Through the course of the original cost analysis, it became apparent that when considering service delivery options, it is not operationally feasible to separate District 3 and Nights Collection, because of the extent of shared resources between these two services. Both services are provided from the same yard and share the same vehicles. As a result, the associated costs for Nights Collection have been included in the District 3 service delivery options and analysis making an "apples to apples" comparison problematic.

The addition of the costs for Nights Collection further increases the cost per customer; however, it is not comparable to daytime collection services. Nights Collection is unique due to:

- The nature of the routing (City-wide along main arterial roads);
- Servicing requirements for Commercial Collection/Residential Units Above Commercial (RUAC); and,
- Premium Commercial Organic Collection.

The cost figures for 2013 and 2014 were disclosed publicly in PW7.4 "Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street". The updated data for 2015 has been intentionally withheld

from being disclosed publicly, as disclosure of this information could negatively impact the internal bid submission as part of the managed competition process. Confidential Attachment 3 includes this updated information.

d) Fleet Overview

The City of Toronto, SWMS currently operates 201 Class 6/7 and Class 8 curbside waste collection vehicles in Districts 3 and 4. Of the 201 vehicles that SWMS currently operates, 146 of them are being operated beyond their expected service life, which is 7 years. This has led to a number of issues including:

- an increase in maintenance costs, both for planned and unplanned activities;
- an increase in the number of breakdowns at the start of, or during, the collection day;
- an increase in overtime related charges;
- the incremental costs of keeping and maintaining spare vehicles and operators, including associated overtime costs, if the collection routes cannot be completed by the end of the normal daily operating hours;
- service delivery reliability issues;
- an increase on the negative impact on the environment, given older trucks are currently diesel and pollute more than both new diesel trucks, or CNG/RNG trucks; and,
- increased health and safety concerns of a failing fleet both to the operators and the surrounding community.

The SWMS Division is currently facing significant financial pressures as a result of lack of investment in fleet, including:

- increased maintenance costs when compared to operating a fleet within the recommended service life of approximately \$4.9 million in 2016; and,
- Overtime costs as a result of fleet issues in 2016 estimated at \$546,000 in 2016.

Recommendations put forward in this report will help to alleviate these issues in 2019, and moving forward. That said, regardless of service delivery approach in the future, these pressures will not only continue, but will worsen in 2017, and 2018. Alternative arrangements (e.g. leasing) are being explored to attempt to mitigate these short term issues; however, initial investigations indicate that these options will be cost prohibitive.

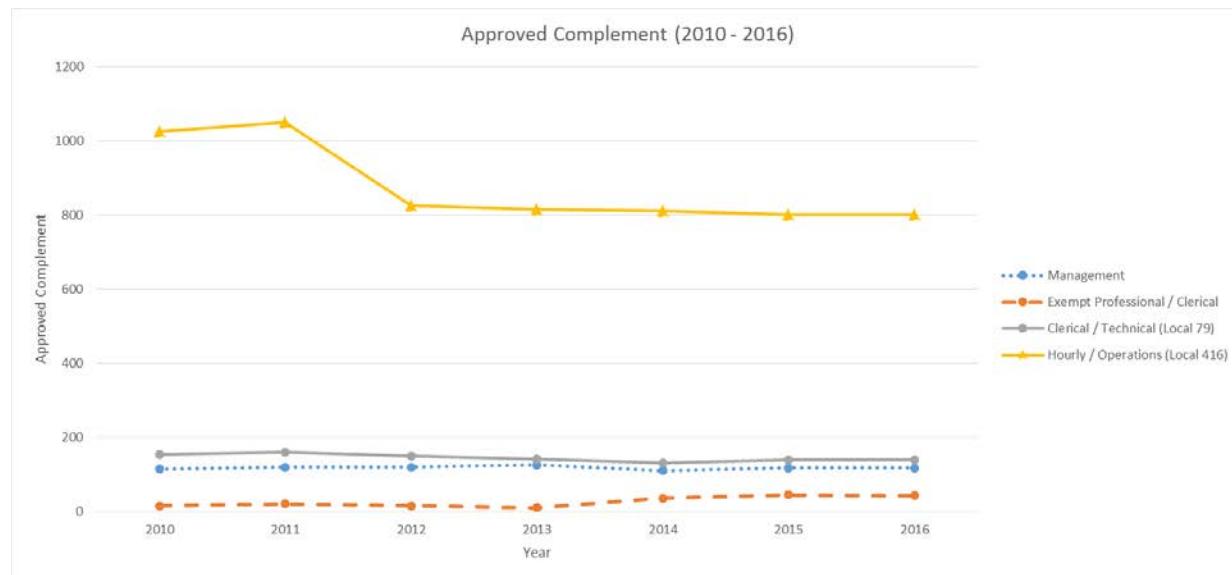
e) Staffing and Labour Relations Overview

SWMS requires a full staffing complement in order to provide the programs and services that the division is responsible for and to meet service level and operational requirements. The Division's 2016 budgeted approved total complement is 1,108.74 comprised of 964.74 union positions and 144 non-union positions. Of the 964.74 union positions, 824.44 are frontline Local 416 positions mainly responsible for the day to day front line operations of the division.

Over the past six years, the total SWMS complement has fluctuated based on changes to the services and programs provided by the Division. Notable events that characterize

these changes include: contracting out District 2 plus implementing Service Efficiency Study recommendations (2012), Closed Landfill staff transferred from Engineering and Construction Services to SWMS offset by FTE reductions through efficiency study as well as transfer of some Parks collection staff to SWMS (2013), impact of divisional re-organization (2014), implementation of Council directed Charities Rate Waiver Program (2015) and operational efficiencies (2016). Figure 4 below, outlines the total Council approved staff complement and change over recent years.

Figure 4: Total Council Approved Staff Complement



As is evident in the graph, the contracting out of waste collection operations in District 2 in 2011 resulted in the drop in Hourly/Operations (CUPE Local 416) staff. Management staff complement has remained relatively consistent over time, due to the need for contract management with a new contract starting, as well as additional services being transferred to SWMS requiring a greater ratio of management to frontline staff (e.g. capital delivery oversight, and the more recent shift towards the production and utilization of SWMS commodities such as renewable natural gas).

Achieving and maintaining a full complement has been, and continues to be, a challenge for the Division. Vacancies in staffing impact front line operations resulting in increased overtime expenditures to ensure customer service expectations are met, hours of operation at publicly accessible facilities are maintained, and waste material is moved from SWMS sites to ensure compliance with Environmental Compliance Approvals (ECAs).

One of the most challenging positions to fill in the Division are TCEU, LOCAL 416 - CUPE Solid Waste Collection Operator (SWCO) positions, positions fundamental to providing in-house collection services in District 3 and District 4 and City-wide Nighttime collection services. The challenge to fill SWCO positions is not limited to the City of Toronto. Private companies as well as other municipal service providers face similar challenges in hiring and maintaining a full complement of SWCOs.

The Division has 438.44 Council approved SWCO positions in its 2016 complement. In any month in 2016, SWMS experienced between 8% to 10% vacant permanent SWCO positions. As of November 1, 2016, a total of 44 of the SWCO positions (temporary and permanent) were vacant.

There are many factors contributing to the SWCO vacancy trends experienced by SWMS. These include an aging workforce with 38% of TCEU, LOCAL 416 - CUPE staff eligible to retire in the next five years, high turnover rates, the amount of time required to satisfy the Human Resources (HR) and Collective Agreement steps to hire, the inability to fill all positions during Work Selection and applicants not meeting eligibility and skill set testing such as medical, eye exam and driver testing.

The issue of contracting out part or all of the remaining in-house services provided by SWMS has also contributed to the Division's inability to fill and maintain a full complement of SWCO positions. During outreach recruitment strategies conducted by SWMS and HR, potential candidates indicated that SWMS was not a desirable employer due to the uncertainty of the contracting out discussion and their preference was to seek a Collection Operator position in a more stable and reliable environment.

In considering options to contract out any services east of Yonge Street, whether in District 3, District 4 and/or Nights Collection, the City must consider the legal context and the applicable Collective Agreement framework. Those restrictions are contained in the City's Collective Agreement with TCEU, LOCAL 416 - CUPE. The Collective Agreement permits the contracting out of work currently performed by members of the bargaining unit; however, there are detailed procedural and job security provisions that must be followed.

The Collective Agreement between the City and TCEU, LOCAL 416 - CUPE provides that:

The City agrees to notify the Union in writing three (3) months in advance of any additional contracting out of work, other than work that is presently contracted out. The City shall set up a meeting with the Union within five (5) working days of delivery of written notification to the Union of its intention to contract out or privatize the work. At that meeting, the City shall identify the work to be contracted out and the reasons that have led to the decision to recommend the contracting out of the work.

During the meeting, the City agrees to provide all information to the Union including costs, and any other relevant information. Following receipt of the information, the Union may make a submission to the appropriate Division Head or committee within forty-five (45) days of delivery of the City's information.

and that:

29.01 No permanent employee with fifteen (15) years of seniority as of December 31, 2019, shall lose his employment as a result of contracting out or privatization. Employees affected as a result of contracting out shall have access to the provisions of Article 28.

The process contemplated by the collective agreement affords TCEU, LOCAL 416 - CUPE with advance notice of the potential for a decision by the City to contract out work performed by City employees who belong to that Union. In turn, it provides a mechanism through which the Union can make representations, to the City, related to that decision. The process of managed competition facilitates that same outcome. However, the integrity of any procurement process would be compromised in the event that one party to that process was afforded a separate process through which it would secure information related to the process, separate from the procurement process. As well, such communications would be contrary to the provisions of the Lobbying Chapter of the Municipal Code, when TCEU, LOCAL 416 - CUPE was participating in the procurement process. As a consequence, the invitation to participate in the managed competition process should be considered an alternative to the process contemplated by the Collective Agreement and subject to the provisions of the Lobbying Chapter of the Municipal Code. The invitation to TCEU, LOCAL 416 - CUPE to participate in the managed competition process will, as a consequence, be presented as an alternative to the process contemplated by the provisions of the Collective Agreement.

As the analysis of service delivery options, including contracting out, relates to labour relations matters, the disclosure of any staffing impact analysis, at this time, may be prejudicial to the financial interests of the City, and as such, is set out in Confidential Attachment 2 to this report.

Applicability of the Lobbying Chapter of the Municipal Code

TCEU, LOCAL 416 - CUPE is an Employee and Labour Group exempted, pursuant to the provisions of the Chapter 140 of the Municipal Code, from the application of the provisions of Chapter 140 when representing employees of the City or a local board and communicating about labour relations matters, including, but not limited to, collective bargaining, compensation, human resources policies, employer-employee committees, work place issues, grievances, mediation and arbitration. However, the exemption from Chapter 140 would not apply in the circumstance in which the Union was a participant in the procurement process as a consequence of section 41 of Chapter 140 of the Municipal Code which prohibits communication in relation to a procurement process except as permitted by applicable procurement policies and procurement documents. Participation in the managed competition process would require the agreement, from TCEU, LOCAL 416 - CUPE to abide by the applicable procurement policies and documents. Similarly, to the extent that employees outside of TCEU, LOCAL 416 – CUPE are involved in the process of developing the internal bid, those employees would also need comply with the provisions of Chapter 140 of the Municipal Code. However, such employees are likely classed as public office holders and are, as a result, exempt from the application of Chapter 140 of the Municipal Code. Nevertheless, appropriate restrictions will be put in place through both employment policies and as part of the procurement documentation, in the event that the City engages in managed competition, to ensure that such employees comply with those obligations.

Original Options Considered and Resulting Conclusions

The September 22, 2015, report presented findings on the comparison of curbside collection districts in terms of costs, diversion rates, service levels and performance and was based on the best available information at the time. It also provided an analysis of the financial and collection implications associated with the scenarios for contracting out collection services east of Yonge Street (Districts 3 and 4). The report included a review of waste collection service delivery approaches in similar jurisdictions as well as independent financial analysis verification.

The following service delivery options were originally considered:

- Contracting out District 3 & Nights Collection;
- Contracting out all services east of Yonge Street (District 3, Nights Collection and District 4);
- Contracting out District 4; and,
- Continuing with the current service delivery model.

The analysis of the above options concluded that the current service delivery approach provides a competitive environment that is effective in terms of costs and performance.

The report also discussed productivity improvements for in-house collection following the decision to contract out District 2 and concluded that provided these gains are sustained and improved, the best value and lowest risk to the City of Toronto at this time is to continue with the current model.

The report goes on to say that a blend of in-house and private sector service provision also manages operational and financial risk and provides flexibility for the curbside waste collection system to adapt to changes.

The report concluded by indicating that remaining with the current cost collection model for an additional two years represents the best course of action at this time based on the analysis that was undertaken. This timeframe would allow for continued data collection for informed decision-making, which are presented in this report, as well as the ability to introduce further efficiencies into the curbside collection system. It was stated in the report that this approach ensures the best value for the City over the next two years by focusing efforts on efficiencies to reduce costs rather than incurring the associated costs, time and effort to undertake a procurement process and redeploy staff.

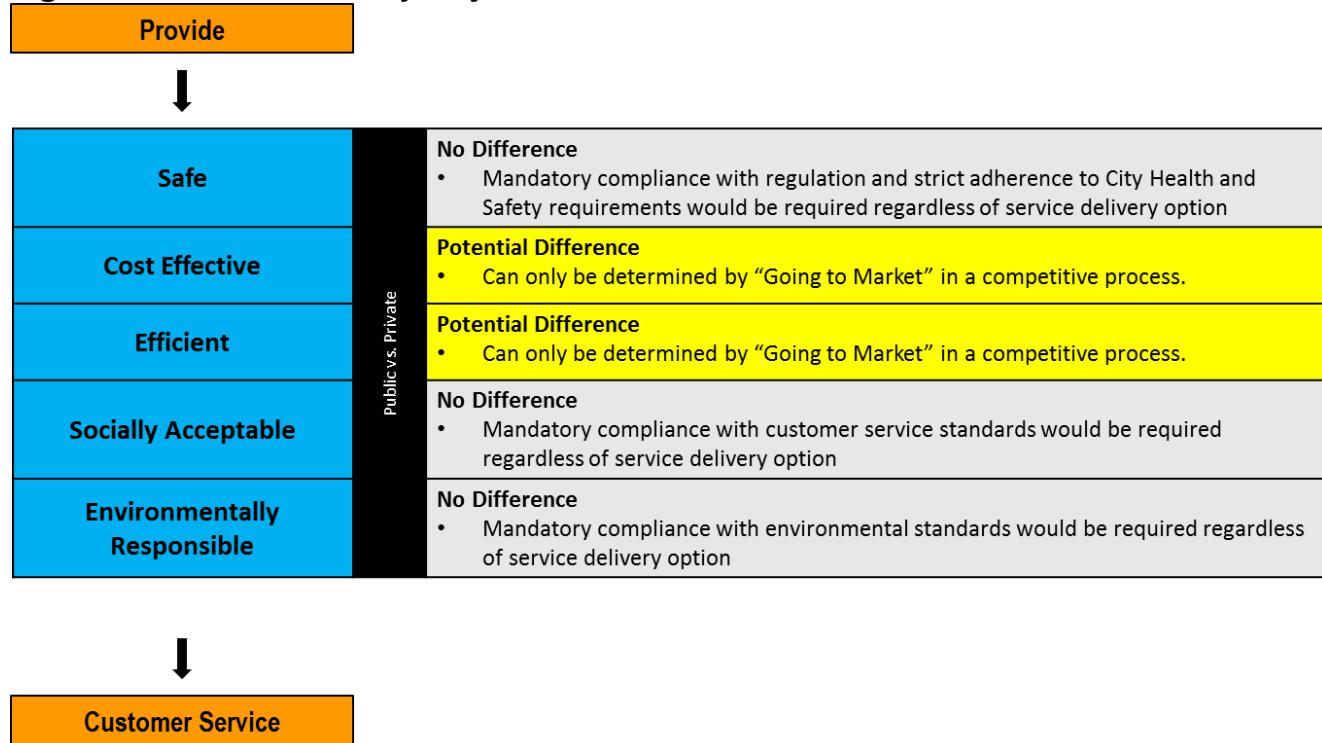
For a complete account of the options considered and analysis completed, refer to PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street.

Supplemental Service Delivery Options and Considerations

The SWMS Division provides for the continuous delivery of safe, cost effective, efficient, socially acceptable, and environmentally responsible waste collection services. Figure

5 provides an overview of key areas where there is the potential for difference between service delivery options with respect to these criteria.

Figure 5 – Service Delivery Objectives



Previous reports presented on service delivery options were based on desktop modelling exercises utilizing the best data available at that time, and factoring in a series of assumptions. In particular, assumptions in past modelling included:

- The competitive environment in the industry;
- Potential new entrants into the waste collection marketplace;
- Sourcing of equipment & staff and associated pricing;
- Profit margins, risk allocations, and contingency(ies); and,
- Alignment with other Municipal contracts.

Modelling is an accepted and commonly used approach to develop evidence-based recommendations (and in this case, the prudent first step in reviewing potential waste collection service delivery options). However, modelling exercises inherently include a certain level of variability, based on assumptions that need to be made. In this case, it is important and necessary to verify our internal modelling by "going to market". Only by "going to market" can these assumptions be tested/validated and actual costs be determined.

As a means of "going to market", the use of managed competition procurements has become a common approach in government, particularly municipalities, with mixed service delivery models where the in-house service providers and private sector service providers are given an equal opportunity to provide competitive solutions and the associated costs in a fair and transparent environment. Managed competitions offer a

means to balance the conflicting positions of privatization and maintaining in-house services.

a) Managed Competition Overview

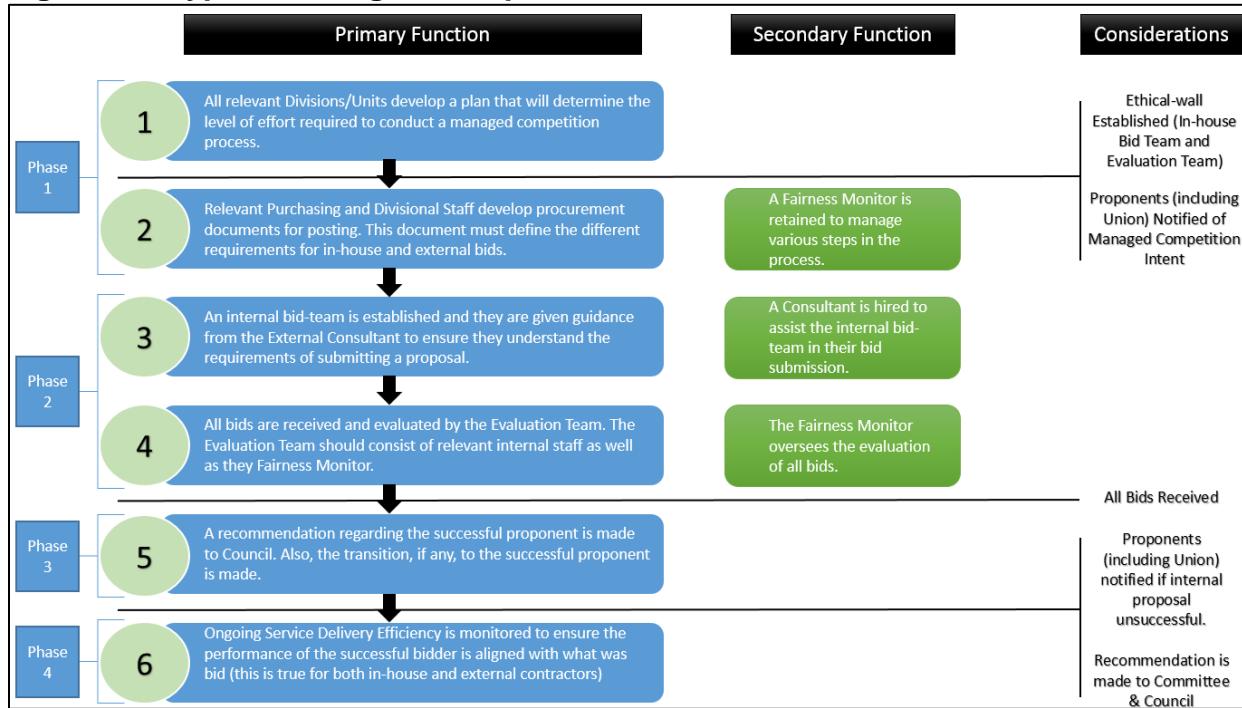
A managed competition process is designed to demonstrate the most cost effective and efficient service delivery, regardless of service provider. Managed competition accomplishes this by evaluating bids for a given service from both external contractors and in-house service providers. This framework allows for a direct comparison, under common terms and conditions, between the public and private sector bid submissions. In addition, simply by virtue of initiating a managed competition process, in-house service providers are required to formally evaluate their approach to service delivery, which may lead to cost efficiencies, regardless of who is the successful bidder.

b) Managed Competition Process

Managed Competition processes are essentially based on a standard procurement process, with the difference being the introduction of an internal bid prepared by City Staff. Typically, in a managed competition process an external bid must meet a pre-determined cost reduction threshold in order to be successful. The cost reduction threshold is established to account for additional costs incurred by the City under a private service delivery scenario. The reduction threshold is made up of the contract management cost, which best practices indicate is approximately 10%, as well as additional tax implications, estimated at 2% (this includes any rebates from the Province to the City). This means the total cost reduction threshold for this managed competition procurement is recommended to be 12%.

Figure 6 illustrates a typical managed competition process. Note that there are slight variations in managed competition processes depending on the jurisdiction in which it has been/is implemented. For instance, certain municipalities have established specific managed competition departments, which handle all issues with these processes. The flowchart depicted below is a generic version, which can be updated based on the specific needs of the City.

Figure 6 – Typical Managed Competition Process



A four-phase managed competition process is being recommended, conditional on the acceptance of TCEU, LOCAL 416 - CUPE to participate in that process. It includes various steps in each phase. An explanation of each phase along with accompanying requirements is detailed below:

Phase 1: Project Initiation	
Step 1	<p>The purpose of the first phase is to establish the framework for which the entire managed competition process will follow. The first step is to have Senior Management from all relevant Divisions coordinate with each other in order to establish a common understanding moving forward. The expectations from each Division Head will be discussed along with relevant staff.</p> <p>In addition, an "ethical wall" will be established between any internal staff who may be asked to be part of the Internal Bid Team and staff who are assisting with the managed competition process. This separation ensures that there are no unfair advantages and/or disadvantages are given to the Internal Bid Team.</p>

Phase 1: Project Initiation

Step 2	<p>The Union will be notified of the City's intent to undergo a managed competition process and invited to participate in that process. The invitation to participate in the managed competition process will be presented as an alternative to the application of the provisions of the Collective Agreement, between the City and TCEU, LOCAL 416 - CUPE that govern the contracting out of work. Should the Union decline the invitation to participate in the process, formal notification of contracting out will be provided to the Union in accordance with the requirements of the Collective Agreement.</p> <p>A Fairness Monitor will be hired. The function of the Fairness Monitor is generally related to procedural and administrative tasks, such as assisting in the notification requirements, ensuring all potential bidders have an equal playing field, and making sure that any discrepancies are clearly defined and transparent.</p>
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Phase 2: Procurement Development, Posting and Evaluation

Step 3	<p>An Internal Bid Team will be established prior to the development of the procurement document. This is intended to give the Internal Bid Team adequate opportunity to organize themselves and become familiar with the process of bid preparation. The Internal Bid Team is also typically provided the services of a Consultant (who is familiar with bidding on City contracts) to assist them in the development of their bid-submission.</p> <p>The Procurement document is developed and is issued as per the standard processes established by PMMD.</p>
Step 4	<p>All submissions are sent to PMMD for initial review and then all compliant bids are delivered to the Evaluation Team for their review. The Fairness Monitor will also have an observer role in the evaluation in order to ensure that any review and scoring of submissions are fair and consistent.</p>

Phase 3: Successful Bid Selection and Implementation

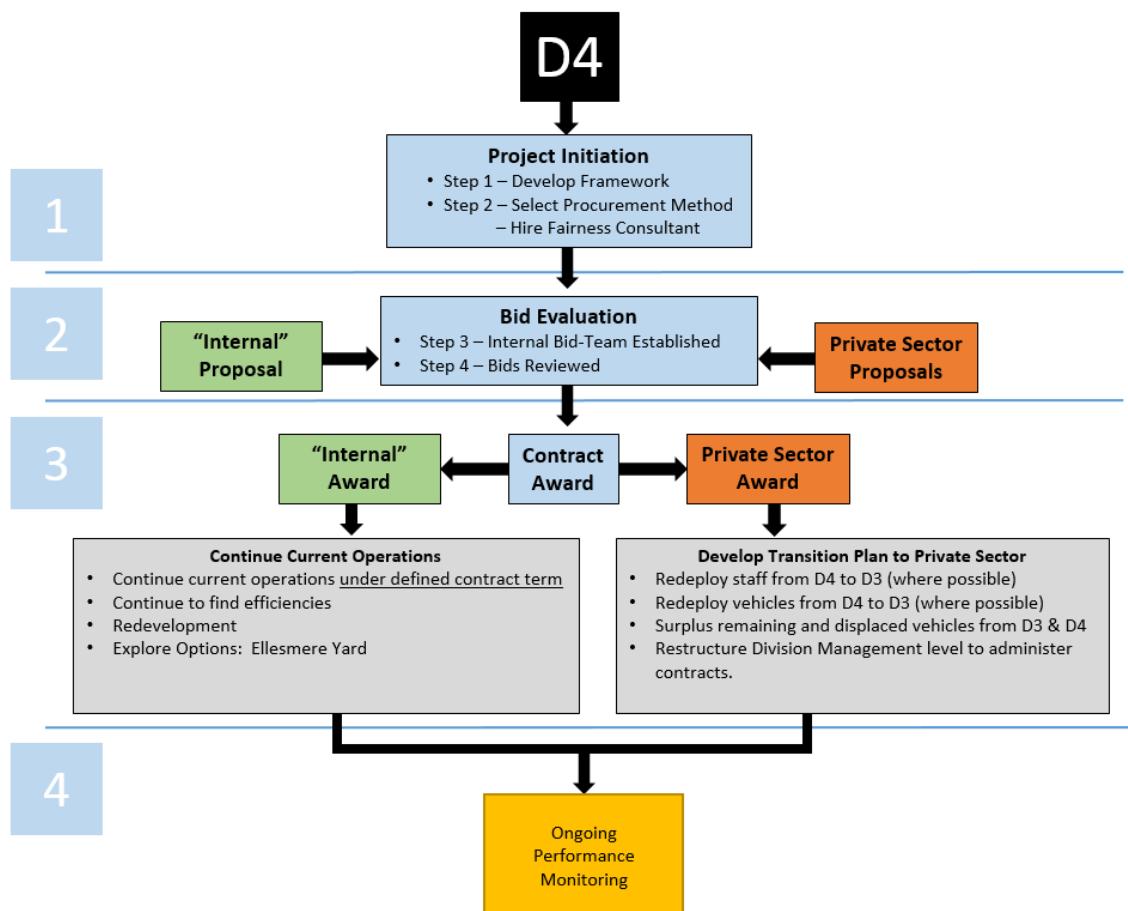
Step 5	<p>The Evaluation Team will come to a final decision and put forward a Report to Committee and Council recommending the successful bidder. The Fairness Monitor will prepare a report documenting their role and observations on the Procurement process.</p> <p>All bidders (including the Union) are notified of the recommended direction.</p>
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Phase 4: Ongoing Performance Monitoring

Step 6	This last phase is intended to ensure that any service delivery agreements made within the successful bidder's submission are being followed, and if not, to apply any damages and/or corrective action as necessary.
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Figure 7 below illustrates the approach in which the managed competition process is proposed to be implemented for District 4. If an external bid is considered successful in District 4 and Council awards the contract to the external bid through that process or another procurement process, then, the same process could be conducted for District 3 at the appropriate time taking into account staff and fleet related considerations.

Figure 7 – Waste Collection Service Delivery Strategy



c) Human Resources/Labour Relations Implications

It is important to note that there are obligations that arise from the collective agreement as well as the Employment Standards Act which impact the length of time it will take to realize full savings as a result of staffing impacts.

The time and effort required to move staff through the Layoff & Recall – Placement Process has short-term impacts on the ability to realize savings. Negotiated changes in

the recent round of collective bargaining with TCEU, LOCAL 416 - CUPE did result in amended language that will streamline the redeployment and bumping process which minimizes the City's ongoing liability to a certain extent.

For additional information with respect to Human Resources/Labour Relations Implications please refer to Confidential Attachment 2.

d) Fleet Implications

Depending on the results of the proposed Procurement approach there are two possible scenarios with respect to Fleet:

Scenario 1 - Internal Bid Submission is Successful

In this scenario, an alternative approach to the current practice of continually upgrading the fleet year over year would be implemented whereby an initial purchase of vehicles would be made at the outset of the "contract" and then paid off over the duration of the contract. This approach is more consistent with a service provision model with a specific timeline so that the end of life of the vehicles aligns with the end of the contract term. An initial phase-in period would be required over the first term of the contract, recognizing the existing asset value of the fleet in District 4 and to prevent losses related to surplusing relatively new vehicles that cannot be redeployed into District 3 due to operational restrictions. District 4 currently uses some Automated Side Loaders (ASL's) that due to density, narrow roadways, etc. cannot be utilized in certain parts of District 3.

The specific details of the number of trucks impacted and costs associated will be brought forward as part of the transition plan, if required.

Scenario 2 - Private Contractor Bid Submission is Successful

In this scenario, a review of all collection related vehicles currently utilized in Districts 3 and 4 would be completed to identify those vehicles in District 4 that could be redeployed into District 3 to offset older vehicles currently in service and also identify the older vehicles that would be sold as surplus. It is important to note that not all vehicles currently utilized in District 4 could be redeployed into District 3 as the unique collection requirements in District 3 require different types of vehicles. It is also important to note that redeploying relatively new vehicles from District 4 into District 3 has the advantage of decreasing the overall average age of the fleet in District 3 which would result in reduced costs of new vehicle purchases in District 3 for 2-3 years and also reduced maintenance costs. The specific details of the number of trucks impacted and costs associated will be brought forward as part of the transition plan, if required.

e) Facilities Implications

In March 2016, the maintenance building at the Ellesmere Yard, utilized by Fleet Services to service and maintain the majority of the waste collection vehicles from District 4, was heavily damaged as a result of a fire. Since the fire, Fleet Services and SWMS have made temporary arrangements to service District 4 vehicles in other locations, however, the temporary arrangements have resulted in additional time and costs largely related to the additional distance required to get vehicles into a suitable

service bay. The Facilities Management Division is currently working on a plan for the future of the Ellesmere Yard, however, given that SWMS was the primary user of this site, a decision regarding future service provision in District 4 is required to better understand the long term need for this site. As part of the Procurement, this facility could be made available to bidders (public or private) for use during the contract term.

Recommended Procurement Approach

The following section provides an overview of the proposed two (2) part procurement approach, including an overview, a description of roles and responsibilities, and the preliminary timelines. The proposed managed competition process will be done through a Request for Prequalifications, followed by a Request for Quotations.

Part 1: Request for Prequalification

The City will issue a Request for Prequalification. The prequalification of bidders is intended to ensure that a certain minimum service level can be achieved by the external bidders. This will help to limit the risk to the City and ensure that all potential external bidders have the ability to deliver the required quality of services. It will be assumed that the Internal Bid Team, will meet the prequalification requirements and will not need to undergo this process. At the same time, the issuance of the prequalification document will serve as the deadline by which TCEU, LOCAL 416 - CUPE is required to respond to the invitation to participate in the managed competition process.

The prequalification requirements will be organized through a Triple-Bottom-Line approach that examines environmental, social and economic benefits. The evaluation criteria will include, but are not limited to, the following:

Environmental:

- Must utilize compressed natural gas collection vehicles, and be able to utilize City of Toronto renewable natural gas, and;
- Bidders must demonstrate the ability to remove/reduce tailpipe emissions including, but not limited to, carbon monoxide, carbon dioxide, volatile organic compounds, hydrocarbons and oxides of nitrogen, through the installation of various tailpipe emissions reduction technology (particulate filters, oxidization catalysts etc.).

Social:

- Bidders must identify how they would utilize any current City staff who may be terminated, as part of this Procurement process;
- Demonstrate that employees will be given salaries that are consistent with the current applicable market conditions, meeting at a minimum the City's Fair Wage Policy;
- Ensure the transition phase, if applicable, will not unduly disrupt any neighbourhood curbside collection;
- Demonstrate a proven track record of meeting contracted customer service standards and,
- Ability to demonstrate maintenance of minimum CVOR "satisfactory" rating.

Economic:

- Must have a minimum of three (3) years of proven experience in providing residential curbside collection services to 50,000+ single family households;
- Bidders must be able to furnish all skilled labour, materials, collection vehicles, equipment & supplies; and,
- Must provide a list of key staff proposed for this project, including at least one (1) Operations Manager and two (2) on-road Supervisors.

The evaluation of all submissions will be conducted with oversight provided by the Fairness Monitor.

Part 2: Request for Quotation (RFQ)

The RFQ will be issued with the intent of receiving bids from any of the prequalified bidders, as explained above, as well as a potential internal City bid. The evaluation of all submissions will be conducted with oversight provided by the Fairness Monitor.

Please note when conducting an RFQ, the successful bidder is selected primarily based on economic criteria. This is because in order to bid on the RFQ in the first place, potential bidders will need to have met the environmental, social and some economic criteria as part of the Part 1: Request for Prequalification process.

As part of this process, the potential internal bid submission will be prepared by the Internal Bid Team in a manner similar to that of the private sector and will include a detailed costing of staff, fleet, equipment, facilities, consumables, etc. as well as appropriate commitments, necessary to support the operation for the duration of the contract term. Similar to a private sector submission, the potential internal bid submission should be able and encouraged to identify cost efficiencies that may not be already in place today. It is important to note that the term of contract for both internal and private sector bidders is the same and that commitments with respect to the operation for the duration of this contract will be required from all responders.

Accordingly, staff will recommend to Council an award to the prequalified bidder that offers the lowest cost of services. However, in the case of a managed competition RFQ, there is one primary exception. In order for a private bidder to be considered successful they must meet a certain minimum cost reduction threshold on the pre-tax bid submission in comparison to the internal bid submission. Staff are recommending this reduction to be set at 12% and is broken down as follows:

- | | |
|--------------------------------|-----|
| i. ongoing contract management | 10% |
| ii. ongoing tax implications | 2% |

This cost reduction threshold is completely transparent and will be provided to all bidders as part of the Procurement documents. If none of the external bidders meet the cost reduction threshold compared to the in-house bid, the in-house bid will be determined to offer the lowest cost of services and be considered successful.

As part of the award recommendation report, should an external bid be successful, staff will present a Transition Plan outlining additional "one-time" related costs, including staff, fleet, etc.

Review of Other Procurement Approaches

SWMS, in collaboration with PMMD, reviewed a number of different procurement options for this recommend Managed Competition approach, this review concluded the following:

- 1) When reviewing relevant case studies, it is evident that a range of procurement approaches have been successfully utilized by municipalities from a simple tender process through to a more complex RFP process and that no clear "Best Practice" was evident.
- 2) The proposed approach offers a clear demarcation where the Internal Bid Team is required to respond and where they are not. Other approaches, such as an RFP, become very complex and difficult to follow because many aspects of the RFP will have different requirements depending on the respondent and therefore different scoring associated with the different criteria. These differences can lead to significant questioning of the results given the different scoring.
- 3) The proposed approach has been determined to be a more efficient approach given the need for decision on this matter.
- 4) Aspects of an RFP that relate to more "social" criteria such as job quality, safety performance, etc., can be addressed through appropriate technical requirements being incorporated into the Part 1 and Part 2 procurement documents described above.

Additional Procurements:

In addition to the Procurement, two additional, but separate procurement processes will need to be initiated.

First, regardless of the form of procurement employed, SWMS will issue an RFQ for a Fairness Monitor. The purpose of the Fairness Monitor is to provide oversight and guidance with respect to the Procurement, as well as provide a final Report, attesting to the appropriateness of the procurement process.

Second, in the event that the City engages in a managed competition procurement process, an RFP, will need to be undertaken, in order to procure a consultant that has experience with regards to developing bid proposals in order to assist the Internal Bid Team to prepare its submission through PMMD. This is a necessary step to ensure that the in-house bid team is not at an immediate disadvantage given the fact that managed competition represents an alternative form of service delivery and procurement.

Procurement Approach Summary:

Managed competition is a structured and transparent process that gives public sector entities an opportunity to openly evaluate improvements and compare their service delivery processes, needs, costs, quality, and capabilities against those of external providers. The process gathers data, analyzes and documents service delivery,

baselines performance, and establishes service levels. Managed competition is a means to analyze and make decisions about the manner in which governments deliver their services.

In general, local governments have begun utilizing performance based service delivery models to reduce costs and improve the quality of their services. These models involve careful comparison of costs and benefits of services performed internally versus externally in order to ensure the most efficient use of public sector funds.

Approaches in other Jurisdictions

Staff reviewed approaches to curbside waste collection service delivery in thirteen (13) other jurisdictions. SMWS' waste collection system was compared to other large North American cities with similar characteristics (i.e. age, climate, housing density and market conditions). This review focused on residential curbside customers.

As outlined in Attachment 2 to PW7.4, there are a variety of curbside collection service delivery approaches used by North American cities. The service delivery models include:

- Full Public Sector: City of Vancouver, City of San Diego, City of Los Angeles, New York City
- Full Privatization, One Contractor: City of San Francisco
- Full Privatization, Multiple Contractors in Exclusive Geographic Zones: Peel Region, City of Winnipeg
- Mixed Service Providers Public/Private, based on area: City of Toronto, City of Hamilton, City of Ottawa, City of Edmonton, City of Montreal
- Mixed Service Providers Public/Private, based on material: City of Calgary, City of Chicago

It is important to note that in municipalities with a mixed service model, the use of a managed competition process is common place and seen as an effective "check and balance" to ensure the competitive nature of the in-house service provision option.

As supplemental information, staff completed additional jurisdictional review to identify further examples and more detailed information specifically where managed competition processes have been utilized.

Table 4 below provides an overview of select managed competition procurements including the estimated cost savings achieved, and whether the bid was won by internal or external bidders.

Table 4 - Managed Competition Jurisdictional Scan

Municipality	Service	Date Implemented	Estimated Total Savings	Successful Proponent
Indianapolis, Indiana	Fleet Maintenance	1995	\$4.5M+	Internal
	70+ services (sewer billing, waste collection, airport services, etc.)	1992 - 1997	\$230M+	N/A
San Diego, California	Publishing Services	2010 - present	\$1M	Internal
	Fleet Maintenance	2010 - present	\$4.2M	Internal
	Street Sweeping	2010 - present	\$559,000	Internal
	Landfill Operations	2010 - present	\$5.6M	Internal
	Street and Sidewalk Maintenance	2010 - present	\$875,000	Internal
Ottawa, Ontario	Solid Waste Collection	1994, 2006, 2011	\$677,530 between 2011 - 2013	Internal
Dallas, Texas	Heavy Equipment Services	2005	\$910,000	External
Charlotte, North Carolina	60 competitions	1994 - 2010	\$10M+	46 internal 14 external
Chicago, Illinois	Tree Trimming	2012	TBD	Internal
	Water Call Centre	2012	TBD	External
	Custodial Services – O'Hare, Food Court in Terminal HK and outlying buildings	2011	Not Available	Internal

Municipality	Service	Date Implemented	Estimated Total Savings	Successful Proponent
	Custodial Services – O'Hare airport	2011	Not Available	External
	Blue Cart Recycling - service area 2, 4	2011	\$4.7M in first year; \$12M in 2013	Internal
	Blue Cart Recycling - service area 1, 3, 6 (Waste Management) and area 5 (Midwest Metal Management)	2011	\$4.7M in first year; \$12M in 2013	External

Additional detail related to the original jurisdictional review is contained in Attachment 2 of Item PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street report.

Independent Review Update

As directed by the Public Works and Infrastructure Committee, SWMS engaged EY in 2015, to perform an independent third party review of the staff analysis and evaluation of options to achieve collection efficiencies contained in the September 22, 2015, report PW7.4. The scope of work of EY's engagement included reviewing the methodologies and approaches used to compile data and verifying the staff evaluation of the City's SAP financial reports to determine collection costs.

The independent review determined that staff analysis, data and key assumptions were "reasonable and applied in a fair minded manner." The review also found that the approach was reasonable, calculations were numerically accurate and the methodologies were correctly applied. The review recommended that the City consider further analysis on: redeployment costs and strategies to mitigate these costs; and cost drivers for District 3 that are resulting in the higher cost per stop. EY supported the staff recommendation to defer the decision to contract out, with the assumption that the in-house service efficiencies can be achieved and additional analysis will be undertaken.

Staff have since completed this additional analysis and addressed each of the review items identified an overview of which can be found in Attachment 4. The complete independent review is contained in Attachment 3 of Item PW7.4 - Curbside Waste Collection Services Review: Comparison of Curbside Waste Collection Services East and West of Yonge Street report.

Next Steps

Upon approval, the General Manager, SWMS will contact TCEU, LOCAL 416 - CUPE to discuss the managed competition process. If TCEU, LOCAL 416 - CUPE agrees to participate, the General Manager, SWMS will work with the Director of Purchasing and Materials Management Division and external support as required, to develop, issue, and evaluate a procurement for curbside waste collection services in District 4. If TCEU, LOCAL 416 - CUPE disagrees to participate, the General Manager, SWMS will work with the Director of Purchasing and Materials Management Division to develop, issue, and evaluate a procurement for curbside waste collection services in District 4 without the managed competition process. Operations in District 3 will continue as per the current operation and the vehicle replacement plan as described above will be implemented for District 3 only.

CONTACT

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SIGNATURE

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General Manager
Solid Waste Management Services

ATTACHMENTS

Attachment 1 - Summary of Managed Competition Process
Attachment 2 - Confidential - Staffing and Labour Relations Implications
Attachment 3 - Confidential - Updated Financial Information
Attachment 4 - Independent Review Update