Project Synopsis

CIF Project #1010
REVIEW OF APPLICANT (PROPONENT) ISSUES; MUNICIPAL RFP

Background

As a municipal services board the Centre and South Hastings Waste Services Board, operating as Quinte Waste Solutions, receives Requests for Proposals from non-member Ontario municipalities for services that include: (Blue Box Recycling) collection, processing, promotion and material marketing. After review, where it is geographically feasible, the Board will complete and submit a proposal in response to a Request.

This report is a review of selected items Board staff considered while completing a response to an external municipality's RFP, in 2016. What follows is a brief discussion of the issues/questions considered by the Board while completing our bid along with some suggestions for improvement that could assist other municipalities in drafting future RFPs.

Summary of Results

The following selected items are notable as terms of the RFP where additional information or clarification could have been used to reduce overall proponent risk aversion calculations and hence may have yielded an overall better price for the municipality.

1. **Annual tonnages and growth:**

Although the number of households and businesses plus annual tonnage showing year over year increases were mentioned, growth and reasons for the tonnage increases were not. The proponent, being asked here to absorb all risk, will tend to over-estimate growth and annual tonnage increases in order to achieve full compensation for possible service increases. Further the RFP suggested that additional materials may be added and again, the proponent is asked to calculate and absorb the risk.

One alternative may be for the municipality to provide a tonnage upset limit over and above which the municipality accepts some share of the risk for unanticipated growth or additions to the collection stream. Please refer to A1 in the appendix for an example.

2. **Term:**

A term of two years with a possible renewal for two years was specified in the RFP. Although a separate second year price was requested, it is still difficult for the proponent to determine the effect that cost-of-living increases or other cost escalators may have. Further there was no indication regarding how a price for the "additional two years" would be determined. This raises the possibility of "heavy handed" negotiations which can lead to bidder's padding prices up front in an effort to reduce future cost risks.

The standard alternative is to include a year over year CPI increase clause and a fuel price adjustment clause notwithstanding the length of the contract term. Please refer to A2 and A3 in the appendix for examples.

3. **Attendants and Contamination:**
The RFP mentioned the recycling depot and also 'attendants' but didn't clarify whether the depot is staffed in a manner that reduces contamination. Outlining any attempts made by attendants to reduce non-recyclables and maximize weight/fullness per bin aids in keeping costs and thus price down.

There was no mention made regarding contamination, either in terms of current or historical levels or techniques used to reduce it. If the contractor is responsible for processing material with significantly fluctuating or increasing contamination levels, then they must price in that risk in the absence of any information provided regarding efforts to contain/reduce contamination.

For many municipalities, previous year contamination statistics should be available from their processor of Blue Box materials. In situations where this is not available, the CIF has published a dataset of waste composition studies which may be used as proxy information for contamination levels: thecif.ca/waste-composition-studies/

4. **Bins:**
Requirements for four bins were mentioned with two being collected on a bi-weekly basis, but also a requirement for sufficient 'quality and quantity' of bins. Research revealed that six 'roll-offs' would be needed as the request was really for four on site at any time. Again, the proponent is absorbing and pricing in risk of additional bins being required without notice. "Bi-weekly" could be clarified to 'two bins removed every two weeks' to avoid potential confusion with a requirement to move bins twice per week.

5. **Sample Contract:**
A contract is referred to within the RFP but a sample copy could have been provided for review as a schedule. Alternately, the RFP could have specified that the contract would consist of the RFP, any amendments thereto and the successful proponent's submission as negotiated/accepted. In the absence of clarity, additional legal fees must be priced in to the proposal.

6. **Marketing:**
Although "collection, sorting, processing and marketing" were mentioned there was no reference made to a possible market based revenue rebate. Each processor will have different revenue sharing proposals which could make a significant impact on the net cost to the municipality. Please refer to A4 in the appendix for an example.

7. **Comments on Proponent's Calculations:**
The materials accepted list was of a broad definition likely leading to non-recyclables and contamination being in the mix.

The current collection program is two stream, as it was an RFP, the proponent recommended a four sort setup at the depot enabling glass bottles and jars to be separated (for a separate, longer term, based collection) thus reducing sorting/processing/marketing issues. Also recommended was separating old corrugated cardboard into a dedicated roll-off (again improving sorting/processing/marketing).

Collection: given volume unknowns and anticipated summer month increases an over estimate of the number of roll-off bin rotations was made. A summary 'method of operation' volume by month etc. would have assisted the calculations.

Sorting/processing: an over estimate of annual tonnage was added to calculate processing costs including portions of capital depreciation, running costs, etc.

General costs and risks: calculations were made for the unknowns previously mentioned and added to general administration, supervision and management costs. An allowance was added for further unknowns such as site visits and unexpected problem solving.

The above costs were added. An estimate was made of possible marketable tonnage after subtracting (estimated) residuals and contamination this was then multiplied by a best guess market basket of goods value. Costs for disposal of residuals and clean ups were then subtracted. A percentage of the annual estimated total net revenue was calculated and deducted from the sub-total of all costs.

The final annual price was then reviewed and submitted. Basically we (the proponent) wanted to offer a fair and competitive price factoring in risks, unknowns and non-recyclables.

Learnings

- All efforts and items that assist in reducing and managing risk aid both parties.

- Clarifications including: upset limits or guidelines for growth, tonnage changes, user base changes or changes in materials, are very useful.

- Consider what easy steps could be taken to physically reduce, or clarify, items such as residuals and contamination and non-recyclables (e.g. on-site attendants, annual distribution of "what's acceptable" notices, etc.).

- In all cases, putting one's corporate self 'into the mindset' of the proponent aids in obtaining the best possible price. Avoiding reasons for over estimates such as: uncertainty resulting in risk, unknowns and non-recyclables assists in keeping the final price offered as low as possible.

APPENDIX – EXAMPLES

A1 Collection volume variance

Bidders should anticipate a variance in annual tonnages of 10% plus or minus. For increases in tonnages over 10% per annum a unit price calculated by dividing the bidders price by last year's total tonnage giving a price per tonne will be accepted for invoicing purposes and applied to those tonnes above the previous years' tonnage plus 10% only on a per tonne basis.

A2: Contract price escalation

Unit costs will be adjusted annually on the anniversary date of the execution of the Contract. The increase will be equal to 75% of the increase set out in the Consumer price Index for Canada (all items) as published for the previous 12 month period (i.e. if the CPI increases by 2.0% over the 12 month period between May 1, 2016 and April 30, 2017, the unit prices paid to the Contractor will increase by 1.5% as of May 1, 2017).

(If your RFP includes a fuel adjustment clause, you may want to include the following here: "Any CPI increases will not apply to fuel costs which are calculated separately under the fuel adjustment clause above.")

The Consumer Price Index will be equal to the Consumer Price Index for Ontario excluding gasoline, by Statistics Canada as found on:

http://www.statcan.gc.ca/access_acces/getLatest.action?l=eng&catid=62-001-x

A3: Fuel adjustment clause

The Contractor shall submit, prior to the execution of the Contract, the estimated quantity of fuel that will be consumed annually in the performance of this Contract and a proposed starting base price/km for the fuel to be used during the performance of this Contract. The Contractor's monthly payment will be adjusted to allow for **one hundred percent (100%)** of any difference greater than **ten percent (10%) above** the agreed Commencement Date base price/km upon receipt of satisfactory evidence of the actual km. travelled to perform the Work.

The Contractor's monthly payment will be adjusted to allow for a deduction of **one hundred percent (100%)** of any difference greater than **ten percent (10%) below** the agreed Commencement Date base price/km upon receipt of satisfactory evidence of the actual km. travelled to perform the Work.

The base price of fuel for the term(s) of the Contract and the fuel price tracking method will be agreed upon on or before the Commencement Date of the Contract.

The Municipality reserves the right to verify any fuel consumption records submitted by the Contractor prior to payment of any fuel price adjustment amounts.

A4: Revenue sharing

Municipalities that wish to ensure a share of the market value of their collected recyclable materials might wish to consider including a clause similar to: "The CIF Price Sheet (CDN$/Metric Tonne) will be used to calculate a market revenue deduction applied to the successful bidders monthly per tonne price equal to 40% of the previous year's composite index per tonne market value."

The CIF price sheet is available at: http://thecif.ca/transportation-markets/

> *For example:*
> *Were a bidder to state that the work could be completed for $300.00 per tonne and the composite index for the previous year was $100/MT then a deduction of $40 could be applied to the $300 resulting in a net price to the municipality of $260 per tonne.*