TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: NOVEMBER 14, 2005

CMR:408:05

SUBJECT: PERFORMANCE REVIEW OF PALO ALTO SANITATION COMPANY (PASCO/WASTE MANAGEMENT)

This is an informational report and no Council action is required.

BACKGROUND

In August 1999, Council approved a new agreement for Palo Alto Sanitation Company/Waste Management (PASCO) to provide refuse and recycling services within the City of Palo Alto starting September 1, 1999 for a term of up to ten years. As described in the agreement, City staff conducts reviews of the collector’s performance to determine whether the collector has complied with the standards for performance set forth in the agreement during the preceding twenty-four (24) months. If the City, in its sole discretion, determines that PASCO has substantially met the standards for performance set forth in the agreement, and the review shows that PASCO’s cost of service is within the target cost range, the agreement shall automatically continue in full force and effect until June 30, 2009. If the City determines that PASCO has not complied with the standards for performance set forth in the agreement, or that the cost of service is not within the target cost range, the agreement will terminate on June 30, 2007. PASCO performance reviews were conducted in October 2000, 2001, and 2003 (Attachments A, B and C, respectively).

DISCUSSION

This performance review confirms that during the preceding twenty-four months PASCO has complied with the standards for performance set forth in the agreement. The PASCO performance review includes an evaluation of the performance adjustments assessed for noncompliance with performance standards, a summary of the performance audit conducted by City staff, and results of the recent customer service satisfaction surveys. Included is also information on air pollution emission reductions by PASCO’s vehicles, and an update on the PASCO compensation.

Performance Adjustments

The agreement with PASCO allows the City to assess performance adjustments on a monthly basis if PASCO fails to comply with the standards specified in the agreement. The City’s imposition of $25,000 or more in performance adjustments within any fiscal year is conclusive evidence of PASCO’s failure to comply with the standards for performance, and allows the City to terminate the agreement. The performance adjustment categories are collection reliability, collection quality, customer responsiveness, reporting, and a general miscellaneous category for failure to perform any other obligation set forth in the agreement. The penalties for performance adjustments range in dollar amount, depending on the type and seriousness of noncompliance.
The average penalty is $300. Some performance categories allow for a minimum number of incidents to occur before a penalty is assessed.

In the first twelve months of the performance review period (July 1, 2003 through June 30, 2004), staff assessed PASCO eighteen performance adjustments totaling $300. These adjustments were for noncompliance in collection quality. The noncompliance incident that resulted in the $300 penalty was for one occurrence over the allowed number of unreasonable leaking/spilling of materials and failure to clean up immediately (Attachment D). The remaining incidents were within the allowed number for the performance adjustment categories.

During the most recent twelve months of this performance review period (July 1, 2004 to June 30, 2005), City staff assessed PASCO eleven performance adjustments totaling $900. The three noncompliance incidents resulting in penalties were in the categories of collection quality and customer responsiveness. The remaining incidents were within the number allowed in the category of collection quality (Attachment D).

Therefore, performance adjustments in the preceding twenty-four months remain below the $25,000 limit per fiscal year allowed in the agreement.

Performance Audit
The agreement authorizes City staff to conduct performance audits of PASCO collections to evaluate the efficiency of the operation. Staff conducted a two-day performance audit of PASCO operations in December 2004. The performance audit included inspections of PASCO facilities, review of records, physical route reviews, and verifications of the required standards established in the agreement. The audit provided City staff the opportunity to evaluate the PASCO operation in regards to equipment, use of personnel, customer service, administrative procedures and any other matters necessary to ensure the efficient handling of solid waste and recyclable materials described in the agreement.

PASCO was found to be in compliance with all one hundred and seventy-four standards established in the agreement for collection of solid waste and recycling materials. The audit verified that PASCO met performance requirements in the following areas:

- Sanitation and collection requirements for solid waste and recyclable materials;
- Compliance with noise levels established in the Palo Alto Municipal Code;
- Established procedures for handling collection impediments, setting routes, record keeping and equipment maintenance;
- Personnel qualifications and training;
- Customer service and procedures for handling complaints and compliments; and
- Administering the operations of the Recycling Center, as well as solid waste and recycling collection services for residential premises, multiple family dwellings, commercial/industrial premise, public receptacles, and special events.

During the performance audit, City staff identified three items as areas of concern. The first area of concern was found in reviewing the SMaRT Station weight tags, which showed some roll-off trucks over the allowable weight. The second item of concern was regarding the public receptacles on University Avenue that had not been wiped clean. PASCO management addressed both these concerns with its staff. The last item of concern was in regards to some PASCO
vehicles on the fleet being older than 7 years. This resulted in PASCO submitting and having approved a revised equipment replacement schedule.

**Customer Service Satisfaction Survey**

The City’s agreement with PASCO requires that a customer service satisfaction survey be conducted if the collector has incurred less than $25,000 in performance adjustments within any fiscal year since the previous review. The objective of the survey is to gauge the general satisfaction level of the community with the service provided by PASCO.

The survey was developed in conjunction with PASCO, and asked residents to evaluate PASCO’s overall performance by rating its service as excellent, satisfactory or unsatisfactory. The same survey format was previously sent to residents in 2000, 2001 and 2003. This year, 19,194 surveys were sent to residents in May as an insert in the Palo Alto Weekly. City staff received 1,467 completed surveys, for a response rate of 8 percent. Eighty-three percent of completed surveys rated PASCO service as excellent. Fourteen and half percent rated PASCO service as satisfactory, and one percent (17 of the surveys returned) rated PASCO’s service as unsatisfactory (Attachment E).

**Reduction in PASCO’s Vehicle Air Pollution Emissions**

PASCO has four new recycling collection vehicles that operate on compressed natural gas (CNG). PASCO has also retrofitted the rest of its fleet to meet a California Air Resources Board (ARB) deadline to reduce particulate emissions. As a result, PASCO has reduced 8.2 tons per year of harmful air emissions from its fleet of garbage and recycling trucks. This is the equivalent of taking 949 new passenger cars off the road.

PASCO will add two additional CNG vehicles to its fleet in the next few months. In addition, a total of 32 of the remaining 34 vehicles have been equipped with special pollution control technologies such as oxidation catalysts or filters. The vehicles also use ultra low sulfur fuel to reduce harmful particulate emissions. As a result, PASCO achieved a compliance rate of 91 percent in advance of ARB’s July 1, 2005 deadline of having at least 50 percent of older trucks in compliance with new particulate emission guidelines.

**PASCO Compensation**

The PASCO agreement establishes a compensation method based on the “operating ratio” between costs and profits. As established in the agreement, the operating ratio for PASCO is 88 percent of the forecasted annual cost and the target rate should be two percent above or below the operating ratio (between 86 and 90 percent).

Based on the PASCO audited financial statements, the operating ratio for the year ending June 30, 2004 was 87 percent, placing PASCO within the targeted cost range. The operating ratio for fiscal year July 1, 2004 through June 30, 2005 is estimated at 87.5 percent, again placing PASCO within the targeted cost range.

The forecasted annual cost for fiscal year 2005-2006 remains at 88 percent with expenses at $9,307,531 (Attachment F). This includes costs for new programs requested by the City, consisting of the new single stream recycling services, new cart collection for yard trimmings and optional cart service for garbage collections.
**RESOURCE IMPACT**
PASCO’s performance review does not have a resource impact.

**ENVIRONMENTAL IMPACT**
PASCO’s performance review is not a project under the California Environmental Quality Act (CEQA) and an environmental review is not necessary.

**ATTACHMENTS**
Attachment A: CMR:362:00 One Year Performance Evaluation of PASCO
Attachment B: CMR:364:01 Second Year Performance Evaluation of PASCO
Attachment C: CMR:514:03 Performance Review of PASCO
Attachment D: Summary of Performance Adjustments
Attachment E: Evaluation of PASCO Customer Service Satisfaction Surveys
Attachment F: PASCO Compensation

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