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October 7, 2019

Mr. Dave Staub
Deputy Director of Public Works
City of Santa Clara Public Works Department
1700 Walsh Avenue
Santa Clara, CA 95050

Subject: Review and Recommendation for a Successor Agreement with Recology South Bay

Dear Mr. Staub:

The City of Santa Clara (City) has an exclusive franchise agreement (Agreement) with Recology South Bay (Recology) for the collection and processing of the City's recyclables. Services provided by Recology via the current Agreement are set to expire on December 31, 2021. The Council has previously extended the Agreement's original expiration date from January 20, 2020 to be coterminous with the City's other exclusive solid waste agreement with Mission Trail Waste Systems. City staff hired R3 Consulting Group, Inc. (R3) to assist the City with negotiations and prepare the scope of services for the successor agreement with Recology. R3 has worked with the City to negotiate in good faith, review all negotiation documents, verify the accuracy of escalations and rate calculations, and believes that the City has secured the best deal it can negotiate with Recology.

Summary of Findings

The City and Recology have reached tentative agreement for a 15-year successor term beginning July 1, 2021 and terminating on June 30, 2036.

Secured Existing Services

The City has secured the same recycling services that the City's residents currently have. Residents will continue to use the same carts and bins. Recology will be required to purchase new renewable diesel collection trucks to replace the existing fleet. These trucks must be in service by July 1, 2021.

Secured New Services

In addition to its existing services, the City has also secured new services via its negotiations with Recology. The City will have the ability to direct recycling to the processor of its choice, creating more options for the City and making future solid waste decisions more flexible. In addition, the term has been extended to fifteen (15) years from the original ten (10) years to bring down the annual cost of amortizing equipment. In terms of reporting and outreach, Recology has agreed to changes to its reporting requirements with the City to support the City's compliance with State Laws and reduce City overhead time spent on solid waste reporting. Recology has also agreed to provide multi-family dwelling recycling

bags and continue its outreach efforts to promote proper recycling and reducing contamination to the City's residents and businesses.

Cost Comparison

During the negotiation process, R3 reviewed Recology's historical and projected operating expenditures and confirmed the validity of calculations and escalations used as the basis for the compensation due to Recology under the Agreement. R3 confirms the accuracy of the mathematical calculations behind the compensation. R3 recommends that the City execute the Agreement with Recology in particular because the proposed compensation is competitive with the current marketplace.

R3's findings are based on escalating the monthly compensation per unit included in prior proposals the City received in its 2008 procurement for solid waste services (Mission Trail Waste Systems, Republic Services, GreenWaste Recovery, and California Waste Solutions) and comparing them to the cost per unit price in the proposed Recology Agreement. R3 also identified and escalated actual proposed costs for similar services recently contracted in by the City of San Jose and the South Bayside Waste Management Authority). R3 used a Consumer Price Index (CPI) escalator to bring the proposal amounts from other regional haulers up to the current market. These escalations do not reflect the recent international recyclable commodities price decline (i.e., China's National Sword) that increased the cost of recycling dramatically in California and nationwide. The effects of the recycling markets decline are much higher (5-10% higher on average) than the normal CPI increases that occurred over the course of the City's current Agreement. Table 1 below, compares the negotiated cost the City will pay Recology to the other haulers and other regional jurisdictions with recently negotiated rates that are at "market price".

Table 1: Cost Per Unit Comparison

FY 2022/23 Comparison	Monthly Cost Per Unit
Proposed Recology Agreement	~\$6.48
Mission Trail Waste Systems 2008 proposal with CPI escalation	\$6.20
Republic Services 2008 proposal with CPI escalation	\$6.84
GreenWaste Recovery, Inc. 2008 proposal with CPI escalation	\$7.94
California Waste Solutions 2008 proposal with CPI escalation	\$8.48
South Bayside Waste Management Authority 2018 actual with CPI escalation	\$10.75
City of San Jose 2019 proposals with CPI escalation	\$15.50

The negotiated monthly cost per unit secured with Recology is much lower than neighboring jurisdictions in San Jose and the jurisdictions that are members of the South Bayside Waste Management Authority. Additionally, the cost per unit is still lower than many of the City's other bids escalated from its 2008 procurement and not including additional costs such as the China National Sword impacts. With a simple 5% escalator to account for the impacts of China's National Sword, Recology's monthly cost per unit is the lowest in the comparison. Therefore, it is in R3's professional opinion that the proposed Recology Agreement is a good value proposition for the City and recommends that the City seek to execute a successor Agreement with Recology.

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If the successor Agreement is approved, the City would begin to pay Recology based on the negotiated compensation amounts beginning at the start of the agreement on July 1, 2020. Based on the findings above and the negotiated outcomes, we see no reason for the City to not agree to a successor Agreement for recycling collection and processing with Recology.

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We appreciate the opportunity to be of service to the City. Should you have any questions regarding our proposal or need any additional information please contact me by phone at (510) 647-9674 or by email at gschultz@r3cgi.com.

Sincerely,

A handwritten signature in blue ink that reads "Garth Schultz". The signature is written in a cursive, flowing style.

R3 CONSULTING GROUP

Garth Schultz | Principal