



Agenda Report

19-1676

Agenda Date: 1/29/2019

REPORT TO COUNCIL

SUBJECT

Action on an Amendment No. 2 to an Agreement with Recology South Bay, dba Recology Santa Clara and Related Budget Amendment

BACKGROUND

The current agreement with Recology Santa Clara (Recology) to provide residential curbside recycling services will expire on January 10, 2020. The City also has an exclusive franchise agreement with Mission Trail Waste Systems (MTWS) to provide residential garbage and organics services, as well as commercial garbage and recycling services at properties not zoned for "Industrial" use that will expire on December 31, 2021. As discussed during the November 13, 2018 Council meeting, the current market conditions are uncertain because of upcoming new short-lived climate pollutant regulations required by SB 1383 and a depressed recyclables commodities market.

At the November 13, 2018 Council meeting, Council directed staff to enter into negotiations with Recology for an amendment to the current agreement to provide residential recycling services through December 31, 2021 to align the residential recycling contract term with the residential garbage and organics services contract term. If negotiations were not completed by mid-December 2018, staff was directed to immediately enter into negotiation with a service provider for a successor agreement in accordance with the City Code or release a Request for Proposal (RFP) by February 28, 2019.

Recology began providing residential curbside recycling services for the City in 1996. The City conducted a competitive procurement for single-stream residential curbside recycling services in 2008. The City received proposals from five (5) contractors, with Recology being the lowest cost at \$2.39/month for each household served. The next lowest cost proposed to provide residential curbside recycling services was \$4.17/month per household served.

2008 Bid Prices

Company	Bid Price \$/household
Recology	\$2.39
Mission Trails	\$4.17
Allied Waste	\$4.60
Greenwaste	\$5.34
CA Waste	\$5.70

The City entered into a successor agreement with Recology on September 30, 2008, and a subsequent Amendment No. 1 to change the corporate name of the company.

Under the agreement, the sale of all recyclables collected through the curbside program is at the discretion of Recology. At the start of the agreement, Recology was being paid \$58.27/ton for commingled recyclables by a material recovery facility. Between 2010 and 2014, Recology received an average of \$59.04/ton for co-mingled recyclables collected in Santa Clara. Recology projected that it would be paid \$70/ton for co-mingled recyclables in 2019.

In 2018, China implemented a National Sword policy that restricted imports of recyclable commodities. Since the majority of recyclable commodities collected in the United States were sold to China, the recycling markets have been impacted negatively. In 2019, Recology will have to pay a processor \$10/ton to accept co-mingled recyclables collected through the City's residential curbside recycling program.

DISCUSSION

As authorized by Council on November 13, following a competitive procurement process, the City entered into an agreement with R3 Consulting Group, Inc. (R3 Consulting) to assist with negotiations and any necessary RFP's for solid waste exclusive franchise successor agreements. Staff and Recology negotiated terms for an Amendment (Attachment 1) to the current agreement with Recology with the assistance of R3 Consulting. Under the terms of the Amendment, the expiration date of the agreement will be extended to December 31, 2021 and a monthly tariff paid to Recology will increase by \$1.36 from \$2.98 to \$4.34 per unit served, effective February 1, 2018. All other terms of the current agreement will remain unchanged. While this modification to the tariff does represent a 46% increase, it is important to point out that the revised tariff is still less than what the City would be paying to the second lowest bidder in 2008. Recology's 2008 bid was 75% less than the next lowest bid and 138% less than the highest bid.

The increase to the monthly tariff was based solely on the loss of anticipated recyclables commodity revenues due to the volatile overseas market. R3 Consulting staff verified that Recology was being paid \$58.27/ton for recyclables at the start of the current agreement in 2010. Recology's projection of about a 2% increase per year in the recyclables commodity markets over the next nine (9) years was a reasonable assumption. R3 Consulting staff also verified the 2019 contract pricing terms that require payment of \$10/ton to process recyclables between Recology and its recyclable material processor.

R3 Consulting summarized their findings in Attachment 2 and confirmed that Recology's proposal is consistent with R3 Consulting's professional understanding of changes that have occurred in recyclables processing and the commodities marketplace. R3 Consulting verified all the data supporting the increase and ultimately recommended that the City accept the terms of the Recology proposal. During the negotiations of a successor agreement which is underway for the term beginning January 2022, staff will be working to determine the best mechanism to include in the agreement which protects both the City and hauler against swings in commodity values. This would require the agreement to separate out a cost for collection as well as a cost for recyclables processing. Since this is a new approach for the City we will be working with haulers to determine options and ultimately agree upon the best methodology.

The annual recyclables commodity revenue shortfall from having to pay \$10/ton to material recovery

facility (MRF) for processing instead of receiving \$70/ton for the recyclables is about \$754,000, based on 9,424 tons collected from over 45,000 households. Attachment 3 shows the history of the recyclable commodity pricing since the beginning of the current Recology Agreement term. The monthly \$4.34 per unit served tariff is a good value for recycling services. As a comparison point, the next lowest bidder during the 2008 RFP offered a per-unit cost of \$4.17. Adjusting for annual contractually obligated cost of living adjustments (COLA), the per-unit cost of the second lowest bidder would be \$5.19 in 2019.

The additional \$1.36 per unit will be factored along with other contractually obligated COLA's into proposed FY 2019/20 solid waste rates that will become effective July 1, 2019, subject to Council approval. The projected solid waste rates will increase by \$2.67, or 7.9%, from \$33.74 to \$36.41 per month for a customer with 32-gallon can/cart service. Staff has provided outreach on potential solid waste rate impacts to customers by providing information on the Environmental Programs website, Twitter, and Next Door. A recommended transfer in the amount of \$251,000 from the Solid Waste Fund balance to the FY 18/19 Solid Waste Operating budget will fund the additional tariff payments for the remainder of this fiscal year.

The extension of the agreement term to December 31, 2021 will lock in lower customer pricing for an additional two years and customer rates will remain flat at the outset of the Amendment. Santa Clara residential solid waste rates will remain among the lowest throughout Santa Clara County. Attachment 4 shows a comparison of the City's current and estimated FY 2019/20 monthly residential solid waste rates to other agencies throughout the County. The extension also aligns the expiration dates of the recycling and garbage agreements which provides the City with better negotiation flexibility for the upcoming long-term contracts.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a government organizational or administrative activity that will not result in direct or indirect changes in the environment.

FISCAL IMPACT

The additional amount to be paid to the contractor for residential curbside recycling services over the two-year term of this agreement shall not exceed \$1,506,000. A transfer of \$251,000 from the Solid Waste Fund ending fund balance to the FY 2018/19 Recycling and Garbage Collection and Disposal account will fund the additional tariff expenses in FY 2018/19. If approved, the additional costs for future fiscal years will be incorporated in the FY 2019/20 and FY 2020/21 Proposed Operating Budget.

**Budget Amendment
FY 2018/19**

	Current	Increase/ (Decrease)	Revised
Solid Waste Fund			
<u>Expenditures</u>			
Residential Recycling Program (Residential Recycling and Garbage Collection and Disposal)	\$1,649,000	\$251,000	\$1,900,000
<u>Reserves</u>			
Ending Fund Balance	\$6,630,685	(\$251,000)	\$6,379,685

COORDINATION

This report has been coordinated with the Finance Department and the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

ALTERNATIVES

1. Approve and authorize the City Manager to execute Amendment No. 2 with Recology to extend the term of the agreement for residential curbside recycling services until December 31, 2021 and adjust the monthly tariff to \$4.34 per unit, effective February 1, 2019;
2. Approve a budget amendment to transfer \$251,000 from the Solid Waste Fund (096) ending fund balance to the FY 2018/19 Solid Waste Fund's Payment for Recycling and Garbage Collection and Disposal Services;
3. Authorize the City Manager to make minor modifications to the Amendment, if necessary.
4. Do not approve Amendment No. 2 with Recology and direct staff to initiate negotiations on a successor agreement with a residential recycling services provider;
5. Do not approve Amendment No. 2 with Recology and direct staff to release a Request for Proposals (RFP) to procure a residential recycling services provider under a successor agreement.
6. Do not approve a budget amendment to transfer \$251,000 from the Solid Waste Fund (096) ending fund balance to the FY 2018/19 Solid Waste Fund's Payment for Recycling and Garbage Collection and Disposal Services;
7. Any other Council direction.

RECOMMENDATION

Alternatives 1., 2., and 3.:

1. Approve and authorize the City Manager to execute Amendment No. 2 with Recology to extend the term of the agreement for residential curbside recycling services until December

- 31, 2021 and adjust the monthly tariff to \$4.34 per unit, effective February 1, 2019;
2. Approve a budget amendment to transfer \$251,000 from the Solid Waste Fund (096) ending fund balance to the FY 2018/19 Solid Waste Fund's Payment for Recycling and Garbage Collection and Disposal Services;
3. Authorize the City Manager to make minor modifications to the Amendment, if necessary.

Reviewed by: Craig Mobeck, Director of Public Works

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Amendment No. 2
2. R3 Pricing Verification Letter
3. Table I - Commodity Values
4. Table II - Monthly Residential Refuse Service Rates in Santa Clara County