



## Agenda Report

19-806

Agenda Date: 12/3/2019

### REPORT TO COUNCIL

#### **SUBJECT**

Public Hearing: Action on a Successor Agreement with Recology South Bay, dba Recology Santa Clara for Residential Curbside Recycling Services and Related Budget Amendment

#### **BACKGROUND**

In 2008, the City entered in to an agreement with Recology South Bay (Recology) to provide single-stream residential recycling services following a competitive procurement. Recology collects over 9,000 tons of recyclables per year from approximately 45,000 customers living in townhouses, single-family, and multi-family homes. An amendment to the original agreement was subsequently approved by Council on January 29, 2019, which extended the term through 2021 and increased the monthly compensation per unit served to account for the decline in the international recyclables commodities markets.

At a November 13, 2018 study session, Council directed staff to proceed with negotiation of a successor agreement with Recology guided by the negotiation framework outlined below:

1. Increase landfill diversion to a minimum of 75 percent waste diversion.
2. Ensure compliance with existing State law, including the implementation of City-wide organics collection by January 1, 2022.
3. Minimize hauler profit.
4. Ensure annual price escalations are based on documentable costs and business industry best practices.
5. Align contract term to future expected conditions, such as the amortization of equipment (e.g., hauling trucks), landfill disposal contract terms, and/or material recovery facility contract terms.
6. Develop a flexible revenue structure from recyclable materials to account for ever-changing market conditions.
7. Maximize franchise revenue benefitting the General Fund.
8. Include other key terms as proposed by the City's expert in these agreements.

Staff hired R3 Consulting, Inc. to facilitate negotiations on the City's behalf and to assist in preparing the scope of services for the successor agreement. On September 17, 2019 staff presented tentative agreement terms with Recology to the City Council. The City Council directed staff to finalize terms with Recology for a proposed agreement for residential recycling services for consideration at a subsequent meeting.

#### **DISCUSSION**

After six months and numerous negotiating sessions, Staff and Recology have reached a 15-year proposed agreement that extends the term to June 30, 2036 ("proposed agreement"). Under the terms of the proposed agreement, all residents will continue to receive the same recycling services

that are currently in place using the same containers. If approved, the compensation that the City pays to Recology will be based on negotiated increases beginning July 1, 2020. Recology will be required to purchase new renewable diesel collection trucks and have them in service by July 1, 2021. The 15-year term is longer than the current ten-year agreement, which enables lower pricing because the collection equipment can be amortized over a longer period of time. The proposed agreement contains terms and conditions to ensure reporting is consistent with the upcoming short-lived climate pollutant (SLCP) regulations, to enact penalties for contamination and missed pick-ups, and to mandate distribution of recycling bags for multi-family dwelling units to make it easier to store and transport recyclables in a centralized container. The proposed agreement includes a section covering Prevailing Wages.

#### Compensation Analysis

The proposed agreement stipulates three years of compensation increases, resulting in an increase from the current \$4.54 per unit per month cost to approximately \$6.48 per unit per month, effective July 1, 2022. The base compensation to Recology over these three years will be fixed, however, the proposed agreement provides baseline adjustments for actual growth in the number of times containers are serviced throughout the agreement. Below is a summary of the estimated per unit compensation increases, which are inclusive of all cost-of-living adjustments.

Effective Date	Compensation to Recology per unit per month	Change in compensation	Percentage change in compensation
July 1, 2019	~\$4.54		
July 1, 2020	~\$5.14	+ \$0.60	14.3%
July 1, 2021	~\$5.72	+ \$0.58	12.0%
July 1, 2022	~\$6.48	+ \$0.76	13.8%

After FY 2022/23, compensation would be adjusted annually according to the Water, Sewer and Trash Collection Services Consumer Price Index. This would entail a 2 percent minimum increase, a 5 percent cap, and possible percentage adjustments in the number of containers serviced annually to capture population growth and accounts serviced multiple times per week.

Recyclables processing after December 31, 2021 is not included in the compensation methodology under the terms of the proposed agreement. The City will have the option to direct recyclables to a specific processor or have them processed by Recology or its processing contractor. The City will either pay for the recyclables processing or receive the revenue generated from the sale of the recyclables to a processor, depending on market conditions. This will help to alleviate future issues related to the price fluctuation of recyclables.

#### Comparison to Market

The monthly cost per unit for residential recycling service under the proposed agreement is a good value. The table below compares the FY 2022/23 projected compensation levels from the 2008 proposals received from the City's most recent procurement that have been increased using the Consumer Price Index (CPI). These costs are inclusive of a 5 percent adjustment to reflect the recent international recyclable commodities price decline and the fact that the CPI did not keep pace with costs in the solid waste industry from 2008 to 2018. The table also shows that compensation paid for residential recycling services in the subject agreement is significantly less than the rates

recently secured by the South Bayside Waste Management Authority and the City of San Jose.

Comparison of FY 2022/23 Monthly Cost per Unit

Proposed Recology Agreement	~\$6.48
Mission Trail Waste Systems 2008 proposal with CPI escalation	\$6.51
Republic Services 2008 proposal with CPI escalation	\$7.18
GreenWaste Recovery, Inc. 2008 proposal with CPI escalation	\$8.34
California Waste Solutions 2008 proposal with CPI escalation	\$8.90
South Bayside Waste Management Authority 2018 actual with CPI escalation	\$10.75
City of San Jose 2019 proposals with CPI escalation	\$15.50

#### Future Impact on Customer Rates

The costs will be incorporated into customer's solid waste utility rates, so future customer rate increases will be necessary to achieve cost recovery. The current monthly rate charged to customers for residential recycling services is \$4.40 per unit. The table below shows the estimated impacts to the residential recycling component of customer rates through FY 2022/23 for customers receiving service one time per week. R3 Consulting, Inc. will be conducting a cost of service analysis for the City upon the completion of successful negotiations with other service providers for garbage and organics collection and processing that will be used to set future rates.

Estimated Impacts to Residential Recycling Component of Customer Rates

Effective Date	Customer Rate per unit per month	Change in customer rate	Percentage change in customer rate
July 1, 2019	~\$4.40		
July 1, 2020	~\$5.00	+ \$0.60	13.6%
July 1, 2021	~\$5.58	+ \$0.58	11.6%
July 1, 2022	~\$6.34	+ \$0.76	13.6%

The SCCC Chapter 8.25 specifies the process for granting refuse contracts. Section 8.25.220 states that the Council may notice and provide a public hearing to review an application for a refuse contract. Section 8.25.250 permits the Council to grant a refuse contract following the consideration of an application at a public hearing.

#### **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(a) as it has no potential for resulting in either a direct physical change in the environment, or as a reasonably foreseeable indirect physical change in the environment.

#### **FISCAL IMPACT**

The proposed agreement will result in increased compensation paid to Recology for residential recycling services. The table below shows the estimated annual compensation increases for the first three years of the proposed agreement (not inclusive of separate recyclables processing costs

starting January 1, 2022). Rate increases beyond those already approved will be brought forward separately for City Council consideration.

Effective date	Annual compensation paid to Recology
July 1, 2020	\$2,837,000
July 1, 2021	\$3,194,000
July 1, 2022	\$3,635,000

There is funding of \$2,637,140 budgeted as compensation to Recology in the Solid Waste Fund included in the FY 2020/21 Adopted Operating Budget. Staff recommends a budget amendment of \$199,860 in appropriations and revenues for Year 1 of the successor agreement to be added to the Solid Waste Fund in the FY 2020/21 Adopted Operating Budget. The subsequent years of the proposed agreement will be included in the appropriate future Biennial Operating Budgets for FY 2021/22 and FY 2022/23.

### Budget Amendment FY 2020/21

	Current	Increase/ (Decrease)	Revised
<b>Solid Waste Fund</b>			
<u>Revenue</u>			
Refuse Collection Charges	\$20,958,398	\$199,860	\$21,158,258
<u>Expenditures</u>			
Garbage Collection, Disposal and Recycling Expense	\$2,637,140	\$199,860	\$2,837,000

### **COORDINATION**

This report has been coordinated with 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) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library. Notice of the Publication was published in the November 20, 2019 edition of the Santa Clara Weekly to satisfy the 10-day noticing requirement in SCCC Section 8.25.240.

### **RECOMMENDATION**

1. Approve and authorize the City Manager to execute a successor agreement with Recology South Bay, dba Recology Santa Clara for residential curbside recycling services;
2. Authorize the City Manager to make minor modifications to the proposed agreement, if necessary;

and

3. Approve the Related FY 2020/21 Budget Amendment increasing the Solid Waste Fund appropriations and revenues in the amount of \$199,860.

Reviewed by: Craig Mobeck, Director of Public Works

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Proposed agreement
2. R3 Pricing Verification Letter