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Title: Staff Report for a City of San Leandro City Council Resolution Authorizing the City Manager to Execute a Fourteenth Letter Amendment of the Franchise Agreement to Modify the Annual Rate Adjustment Methodology for Solid Waste, Recyclables, and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc.

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Attachments: 1. Attach #1 Rate Application Methodology, 2. Attach #2 Amendment 10 to the Franchise Agreement, 3. Attach #3 Amendment 13 signed, 4. Attach #4 Staff Presentation June 17, 2019, 5. 10.A ACI Amendment

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Staff Report for a City of San Leandro City Council Resolution Authorizing the City Manager to Execute a Fourteenth Letter Amendment of the Franchise Agreement to Modify the Annual Rate Adjustment Methodology for Solid Waste, Recyclables, and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc.

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City of San Leandro City Council review and consider a request from Alameda County Industries, Inc. (“ACI”) to modify the Franchise Agreement for Solid Waste, Recyclables, and Green Waste (“Franchise Agreement”) between the City of San Leandro and ACI. The request is presented as Amendment Fourteen to the Franchise Agreement and would modify the annual rate adjustment methodology for rates effective July 1, 2020, and thereafter for the term of the Franchise Agreement. Amendment Fourteen would also modify the definition of “Multi-Family Residence” and clarify point of pickup locations for multi-family residences.

BACKGROUND

The City of San Leandro entered into a Franchise Agreement with ACI for Solid Waste, Recyclables, and Green Waste Services on February 1, 2000. It will expire in January 2025. The Franchise Agreement allowed for a rate adjustment July 1 of each year, based on the Consumer Price Index for the San Francisco Bay area, as well as a rate analysis every five years. Amendment 10 to the Franchise Agreement (as attached), approved on July 20, 2009, changed the annual rate adjustment process to a Refuse Rate Index (RRI). That revised methodology was created to reflect changes in cost by focusing on six cost categories within the Consumer Price Index specific to the solid waste

industry: Labor; Diesel Fuel; Vehicle Replacement; Vehicle Maintenance; Disposal and All Other. Apart from special rate adjustments in 2015 related to the Material Recovery Facility labor issue, as well as the special rate adjustment last year, the RRI has been used to modify rates since 2010.

Rate Increases 2010-2019

<u>Year</u>	<u>Rate</u>	<u>Reason</u>
2010:	2.88%	Annual rate adjustment per Amendment 10
2011:	1.12%	Annual rate adjustment per Amendment 10
2012:	5.50%	Annual rate adjustment per Amendment 10
2013:	1.82%	Annual rate adjustment per Amendment 10
2015:	4.01%	Special rate adjustment per Amendment 11
2015:	8.49%	Special rate adjustment per Amendment 12
2017:	1.65%	Annual rate adjustment per Amendments 10 & 12
2018:	3.41%	Annual rate adjustment per Amendments 10 & 12
2019	7.89%	Special rate adjustment per Amendment 13

On June 17, 2019, the City Council approved ACI’s request for a special rate adjustment of 7.89% effective October 1, 2019. That rate request included 3.78% contractual adjustment (using the RRI) to rates as specified in Amendment 10 to the Franchise Agreement, and an additional 4.11% increase to manage the financial impact of the Chinese government’s *National Sword* policy (which significantly curtailed the volume of recyclable materials that China will allow to be imported into their country), and SB1383 implementation.

At the June 17 meeting, ACI indicated that they would come back to the City Council to request a modification to the annual rate adjustment methodology to be applied to rates effective July 1, 2020 and thereafter. The new rate adjustment methodology is intended to more accurately capture the cost of operations and reflect the unanticipated costs associated with changes in law. The existing annual rate adjustment process (RRI) has not accurately reflected ACI’s true vehicle replacement costs, increases in recycling and organics processing costs, and was established prior to any state or local recycling/composting mandates.

Analysis

ACI proposes a new Detailed Rate Adjustment Methodology (DRAM) to adjust rates annually. Like the RRI, the DRAM includes changes in actual labor costs, actual landfill disposal costs, and indices for fuel, vehicle repair and general costs. It also includes the following:

- Three-year average cost of container purchases
- Recycling Processing Costs
- CNG fuel costs
- Profit (expressed as an operating ratio of 0.90)

The DRAM also includes costs for depreciation and interest (as a fixed cost). These costs would only change to the extent that ACI purchases new vehicles or equipment.

As before, City franchise fees are calculated on gross revenues and recycling processing fees are calculated using an annual average CPI for the San Francisco Bay Area.

ACI is also proposing that costs be re-evaluated for the rate year commencing July 1, 2022. The cost-based adjustment would reflect actual costs for the most recent twelve-month period and adjust accordingly. If their actual costs exceed the indices for the prior twelve-month period, then the cost difference would be reflected in the July 1, 2022 rates.

The most significant change in the methodology is the addition of the Net Recyclables Processing Cost Adjustment Methodology (NRPCAM), indicated as Appendix F1 in Amendment 14 (Attached to the associated Resolution). The methodology calculates the change in processing costs for the Material Recovery Facility, which processes recyclables for the nine jurisdictions that ACI serves. ACI assumes a per ton cost for the operation and then applies it to the incoming recycling tons for San Leandro. A similar method is used for the other jurisdictions.

ACI includes revenues received for the sale of recyclable materials to offset processing costs. In the NRPCAM, 95% of the revenues are used to offset costs and ACI receives the remaining 5% as profit. If the change in revenues is positive, there is a greater cost offset for ratepayers. If the change in revenues is negative, the processing cost per ton increases. Currently, ACI assumes the risk associated with the change in commodity values and volatility of recycling markets. With the NRPCAM, ratepayers assume most of the risk as it affects the overall change in processing costs.

The change in recycling processing costs for the July 1, 2020 rate year is significant since 2020 is a baseline year. Total recycling processing costs for San Leandro increase from approximately \$965,000 to approximately \$1,373,000. This is a 42% increase in recycling processing costs over the current year.

Using the DRAM, rates are estimated to increase by 6.73 percent effective July 1, 2020. Rates would increase from \$32.27 to \$34.45 per month for residential customers receiving 32-gallon garbage service weekly. Rates would increase from \$141.51 to \$151.03 per month for commercial customers receiving a 1 cubic-yard bin, one time per week.

Previous Actions

- Resolution No. 2000-8 approving a Franchise Agreement for Solid Waste Recyclables, and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc.
- Resolution No. 2009-117 authorizing the City Manager to execute Amendment 10 to the Franchise Agreement.
- Resolution No. 2015-010 approving Amendment 11 to the Franchise Agreement.
- Resolution No. 2015-095 authorizing the City Manager to execute Amendment 12 to the Franchise Agreement.

Applicable General Plan Policies

- Action 27.01-A: Source Reduction and Recycling Programs
- Action 27.01-C: Commercial and Multi-Family Residential Programs
- Action 27.01-D: Food Waste Recycling

Fiscal Impacts

The City receives 10% franchise fees on gross revenues, plus additional per-ton fees for recycling

processing. The fees are recorded as General Fund revenues. It is estimated that the City's fees will increase by \$200,000 for Fiscal Year 2020-2021 as a result of the annual rate adjustment using the Detailed Rate Adjustment Methodology.

ATTACHMENT(S)

Attachment(s) to Staff Report

- Proposed Rate Application Methodology, effective July 1, 2020
- Amendment 10 to the Franchise Agreement
- Amendment 13 to the Franchise Agreement
- Staff Presentation, June 17, 2019

Attachment(s) to Related Legislative File

- Fourteenth Letter Amendment to the Franchise Agreement for Solid Waste, Recyclables and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc.

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