



Legislation Text

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Staff Report for a City of San Leandro City Council RESOLUTION to Authorize the City Manager to Execute a Thirteenth Letter Amendment of the Franchise Agreement 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 increase rates by 7.89%, effective October 1, 2019. The request is presented in the form of a letter amendment to the Franchise Agreement for Solid Waste, Recyclables, and Green Waste Services ("Franchise Agreement") between the City of San Leandro and Alameda County Industries, Inc. The letter amendment would authorize the rate increase and include a provision that the City and ACI will discuss and consider a new annual rate adjustment process prior to any future rate increases. Staff anticipates that a proposal for a new rate adjustment process to the Franchise Agreement would be brought to the City Council for consideration before February 1, 2020.

BACKGROUND

The City of San Leandro entered into a Franchise Agreement for Solid Waste, Recyclables and Green Waste Services on February 1, 2000. The Franchise Agreement allowed for a rate adjustment each July 1, based on the Consumer Price Index for the San Francisco area and 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). The revised methodology reflects 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 Materials Recovery Facility (MRF) labor issue (Amendments 11 and 12 as attached), the RRI has been used to modify rates since 2010.

Rate Increases 2010-2018

<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:	5.5%	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

Analysis

ACI requests a special rate adjustment of 7.89% effective October 1, 2019. The request includes 3.78% contractual adjustment (using the RRI) to rates as specified in Amendment 10 to the Franchise Agreement. ACI also requests an additional 4.11% increase to manage the financial impact of SB1383 implementation costs and the Chinese Government's "National Sword" policy. See Attachment 1. Schedule A - Rate Adjustment Process for 2019.

SB 1383

In September 2016, Governor Brown signed SB1383 into law with the intent to cut methane emissions by 40%. SB1383 is the most significant waste reduction mandate adopted by California in the last 30 years. The law requires a 75% reduction in statewide disposal of organic waste and a 20% increase in recovery of currently disposed edible food by 2025. The regulations are highly prescriptive, with substantive requirements for cities and haulers. The regulations take effect January 1, 2022. This should allow enough time to plan and implement budgetary, contractual, and programmatic changes.

Requirements for jurisdictions and their haulers include: establishment of organic waste collection for all businesses and residents; establishment of a food recovery program that diverts edible food from the waste stream; efforts to disseminate information about the regulations to all affected parties including generators, facilities, edible food recovery organizations, and city/county departments; procurement of organic waste products (i.e. compost) and renewable natural gas; inspection and enforcement compliance; and record keeping and reporting. In addition to ensuring that all customers will have access to organics collection service, ACI will be required to properly label all carts and bins as prescribed, and regularly inspect loads at the point of collection to ensure that they are not contaminated. Finally, the City will rely on ACI to be the primary outlet for education and outreach regarding SB1383 requirements for generators.

Chris Valbusa, ACI's General Manager, presented the rate request to the City Council on March 18, 2019 (Attachment 5). He highlighted some of the processing changes ACI made to anticipate implementation of SB1383. ACI replaced 19 collection vehicles in the San Leandro fleet with renewable natural gas vehicles at a cost of approximately \$400,000 per vehicle. In 2018, ACI added a new collections route for compostable and recyclable materials for businesses and multifamily sites in compliance with state and county recycling mandates. The incremental cost of the new route is approximately \$600,000.

China's National Sword Policy

At the beginning of 2018, China enacted a policy that imposes stringent quality specifications on processed recyclable materials. The "National Sword" policy significantly impacts US exports of materials from curbside recycling programs. Approximately 70% of the material collected by ACI in curbside programs is mixed paper and cardboard. Prior to 2018, ACI was marketing mixed paper at approximately \$135 per ton. Starting in 2018, the value dropped to less than \$20 per ton and, in some cases, ACI paid up to \$20 per ton to market the material. In addition, disruptions in shipping container availability to export materials led to stockpiling materials at its facility.

In March 2018, ACI submitted a written request to the City to landfill recyclable materials as a last resort if it could not market the material and reached storage capacity at its facility. Since that time,

no recyclable materials have been landfilled and ACI has been able to identify other overseas markets for the materials. As a consequence of the ongoing volatility in the recycling markets, ACI changed the sorting process at its facility to yield cleaner loads of paper, cardboard and plastic. The additional processing and increased residue (destined for landfill) increased its overall operational costs. Markets remain uncertain for the future as other countries (Indonesia, Malaysia, Thailand, and Vietnam) establish their own load requirements and material bans.

Rate Adjustment Methodology

In addition to the 7.89% rate adjustment request, ACI also seeks to modify the annual rate adjustment method so it more accurately captures the cost of operations and takes into account the unanticipated costs associated with changes in law and increased operational requirements. The existing annual rate adjustment process (RRI) does not accurately reflect ACI's true vehicle replacement costs and increases in recycling and organics processing costs. It was established prior to any state or local recycling mandates. Public Works staff and ACI will discuss a new rate adjustment process, and present the proposed methodology to the City Council for consideration before February 1, 2020.

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

Attachment(s) to Staff Report

- 1. Schedule A - Rate Adjustment Process for 2019, effective October 1, 2019
- 2. Amendment 10 to the Franchise Agreement
- 3. Amendment 11 to the Franchise Agreement
- 4. Amendment 12 to the Franchise Agreement
- 5. ACI Rate Presentation March 18, 2019

Attachment(s) to Related Legislative File

- Thirteenth 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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