TO: MATT W C. BALLANTYNE, CITY MANAGER
FROM: AMER JAKHER, PUBLIC WORKS DIRECTOR

RECOMMENDATION
Adopt Resolution No. 2019-036, establishing refuse and recycling rates for Fiscal Year 2019-20 effective July 1, 2019, and authorize the City Manager to execute all necessary documents on behalf of the City.

FISCAL IMPACT
Revenue collected through the solid waste collection fees offsets contract costs for refuse and recycling services provided by Waste Management, Inc. Sufficient funds are available in the proposed Fiscal Year 2019-20 budget to cover estimated contract costs.
BACKGROUND
On May 16, 2017, the City entered into new refuse Agreement with USA Waste of California, Incorporated (Waste Management). The agreement went into effect January 1, 2018.

As required by Article XIIID of the California Constitution (commonly referred to “Proposition 218”), the City provided property owners and customers of record with notice of proposed rate adjustments for refuse and recycling services and conducted a public hearing on June 19, 2018. Through the 218 process, the City approved a five-year rate adjustment effective July 1 of Fiscal Year (FY) 2017-18 through FY 2021-22, establishing a 4% maximum increase for FYs 2018-19 through 21-22, consistent with the terms of the Agreement. If the actual rate adjustment per the Agreement methodology is less than 4%, only the actual cost will be charged to the customer.

ISSUES/ANALYSIS
Section 17 of the Agreement provides for compensation to Waste Management for refuse and recycling services and specifies the methodology for the calculation and adjustment of rates. The rates charged to customers additionally include City fees for billing and administrative costs as well as compliance with State recycling mandates.

Rate Adjustments

The refuse rates are broken down into service and landfill disposal components. The service component is adjusted annually by the Consumer Price Index for Water, Sewer, and Trash Collection Services (CPI). The landfill disposal component is adjusted by passing through to customers the actual cost of disposal charged to Waste Management, which is different for residential and commercial. The landfill disposal component also includes a county import fee and the State Integrated Waste Management Fee (IWMF), both of which are passthroughs. For organics disposal, the cost per disposal ton is adjusted as a passthrough of the actual waste processing cost paid.

Residential Rate Adjustment =

\[\text{Service Component} \times \text{CPI} + \text{Actual Residential Disposal Cost per ton} + \text{IWMF} + \text{Riverside County Import Fee}\]

Commercial Rate Adjustment =

\[\text{Service Component} \times \text{CPI} + \text{Actual Commercial Disposal Cost per ton} + \text{IWMF} + \text{Riverside County Import Fee}\]
Extraordinary Cost Requests

The Agreement also allows the Contractor to request additional compensation for Extraordinary Costs subject to City Council approval and Proposition 218. This could result in additional rate adjustments for extraordinary or unforeseen costs incurred by the waste hauler in the collection, landfill, or processing/disposal of recyclables or organics.

FY 2019-20 Rate Adjustment Effective July 1, 2019

On February 15, 2019, as required per the Agreement, Waste Management sent a letter to the City providing information for the adjustment of rates. The following were used to calculate the adjustment for FY 2019-20 rates effective July 1, 2019.

- **CPI** - The Water Sewer Trash Index (WST) adjustment for FY 2019-20 is 3.50% based on the changes in the Los Angeles area index from December 2017 to December 2018.
- **Landfill Rates** - The solid waste disposal component will increase from $44.46 to $45.87 per ton for Commercial Waste and from $38.10 to $39.28 per ton for Residential waste.
- **Green Waste** - The green waste processing cost will increase from $27.70 to $28.40 per ton.

In addition to these increases, Waste Management requested the following extraordinary costs be incorporated into the FY 2019-20 rates:

- **New Recycling Processing Fee** of $42.30 per ton - This would create an additional fee of $14.36 per ton for residential customers (Single Family, Senior/Low Volume, and Multi-Family), resulting in an increased cost per home, per month of $0.37. The $14.36 per ton would be in addition to the existing $27.94 per ton currently charged these residential customers for recycling.

  Waste Management notes that stringent export quality standards for fiber products have increased labor costs and reduced throughput. They additionally note that prices for fiber products continue to decline, resulting in declining revenues from the sale of recyclables.

  Staff recommends denial of this additional fee as the market conditions and trends noted were in existence at the time the new Agreement was negotiated and approved.

- **Organic Waste Processing Fee** of $45 per ton - Per the Agreement, the Organics Waste annual rate adjustment is a passsthrough of the cost per ton and other fees charged by the organics waste processor. Agromin, the organics waste processor used by Waste Management is increasing its rate to $45 per ton effective July 1, 2019. The current per ton rate for organics disposal is $39.20. This would increase the existing rate by $5.80, or 14.8%. This increase results in Organic Waste Service rates that would exceed those noticed per Proposition 218 effective July 1, 2019.

  Staff recommends denial of the request and partial approval of this passsthrough so that
the Organic Waste Service rates effective July 1, 2019 are those provided in the Proposition 218 notice.

- **Commercial Recycle Slot Lid bin** category creation - Would create a new commercial bin service category to provide commercial customers with large quantities of cardboard and other recyclables bins with locked slot lids, thereby minimizing refuse being thrown in the bins, scavenging, and contamination of the recyclables.

  Staff recommends denial as no supporting documentation and proposed rates were provided.

In conclusion, staff recommends approval of Resolution No. 2019-036, which specifies the City’s proposed solid waste collection fees effective July 1, 2019. The staff recommended rates are in accordance with Proposition 218.

Attachments:
1. Resolution No. 2019-036
2. February 15, 2019 Waste Management Rate Adjustment Letter
3. Proposed and Requested Rate Comparison
4. Waste Management Contract

VC/AJ/JB/OH/yg