



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: MAY 15, 2018

DEPARTMENT: PUBLIC WORKS

FROM: DON REYNOLDS, ACTING PUBLIC WORKS DIRECTOR

BY: ELIA ZAVALA, SVSWA-CONTRACTS ANALYST
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TITLE: REPUBLIC SERVICES GARBAGE & RECYCLING RATES FY 18-19

RECOMMENDED MOTION:

A motion finding the proposed annual adjustments to Republic Services of Salinas' (Republic Services) Schedule of Service Fees and Schedule of Rates for Residential and Commercial Customers effective July 1, 2018 both reasonable and within the terms of the Franchise Agreement.

RECOMMENDATION:

Staff from the City and Salinas Valley Solid Waste Authority (SVSWA), the City's franchise agreement administrator, have met and reviewed the rate increases proposed by Republic Services and find them reasonable within the terms of the Franchise Agreement. Approval of the above motion is therefore recommended.

EXECUTIVE SUMMARY:

Republic Services proposed rates for Solid Waste, Recycling, and Green Waste Collection Services Waste for Fiscal Year 2018-19 reflect an increase of 1.85% for the typical 32-gallon residential trash service from \$24.90 to \$25.36 per month (\$0.46 per month). The increase consists of 1.08% (\$0.27) for Republic Services CPI, 0.28% (\$0.07) for SVSWA Disposal & Transportation, and 0.48% (\$0.12) for City Franchise Fees.

For commercial services, the monthly rate for a customer with a 3-cubic yard bin collected once per week will increase 2.17% from \$410.71 to \$419.62 per month (\$8.91 per month). The increase consists of 1.44% (\$5.92) for Republic Services CPI, 0.16% (\$0.67) for SVSWA Disposal & Transportation, and 0.57% (\$2.32) for City Franchise Fees. Commercial customers continue to have the option to reduce their monthly rates by taking advantage of recycling opportunities and/or by reducing service levels for underutilized capacity.

The proposed rate adjustments are contingent upon SVSWA's rate hearing scheduled on May 17, 2018. Should the rates not be approved by SVSWA Board of Directors as presented, a subsequent rate hearing will be needed by the City of Salinas for a revision of the currently proposed rates.

BACKGROUND:

The City of Salinas has had an exclusive franchise agreement since July 1, 2001, with Allied Waste Services, dba Republic Services of Salinas (Republic Services), previously BFI Waste Industries, for municipal solid waste, recyclables, and green waste collection services. The Franchise Agreement has had multiple amendments and extensions up to the current Revised and Restated Franchise Agreement with a term expiring June 30, 2025, with two optional extension at the City's sole discretion for up three years each.

Per Section 14-10 of the Salinas Municipal Code and Article 5 of the Franchise Agreement, the Council annually reviews and adopts adjustments to Republic Services corresponding approved rates. Under Article 5.8, Notice of Rate Increases, of the Franchise Agreement, Republic Services is required to notify its customers 30 days in advance of the effective date of any approved rate adjustments. For Republic Services to comply with this public noticing requirement and for the rates to become effective July 1, 2018, the Council must review and find the rate adjustments reasonable prior to the end of May 2018. Republic Services has submitted a request for consideration of adjustments to the Rate Schedules for fiscal year 2018-19.

The impact of the requested adjustments to the rates of a typical residential and commercial customer is shown below.

Typical Service Type	Residential	Commercial
Trash Service Level	32-gallon	3-cubic yard
FY17-18 Monthly Rate	\$ 24.90	\$ 410.63
FY17-18 Fuel Recovery Adjustment	\$ 0.01	\$ 0.08
FY17-18 Adjusted Rate	\$ 24.90	\$ 410.71
<i>Proposed Adjustments:</i>		
Hauler CPI 2.67%	\$ 0.27	\$ 5.92
Disposal & Transportation	\$ 0.07	\$ 0.67
City Franchise Fee	\$ 0.12	\$ 2.32
FY18-19 Proposed Monthly Rate	\$ 25.36	\$ 419.62
Monthly Increase	\$0.46	\$8.91
Percent Increase	1.85%	2.17%

The average residential rate increase across all levels of service is 1.77% and the average commercial increase across all levels of service is 2.05%.

Following is a brief discussion of each of the components of the adjustments to the rates.

Inflation Component

The annual inflation adjustment is designed to compensate Republic Services for increases in their cost of collection operations brought about by inflation. In accordance with the Franchise Agreement, the Inflation Component of the Contractor Service Fee is adjusted annually to reflect 75% of the change in the Consumer Price Index (CPI), All Urban Consumers, for the San Francisco - Oakland - San Jose Metropolitan Area for the previous twelve (12) months, based on the February index. As such, the Contractor Service Fee will increase 2.67%. For residential customer rates this is a \$0.27 per month increase for a typical 32-gallon trash container service, and an increase of \$5.92 per month for a typical 3-cubic yard trash container service for commercial customers.

This annual adjustment is required and authorized under Section 5.3 C of the Franchise Agreement.

Disposal Fee and Transportation Surcharge Component

For fiscal year 2018-19, SVSWA will not increase its franchise hauler tipping fee for disposal. However, there is an increase to the AB 939 Non-disposal Program Fees and the Franchise Transportation Surcharge. Every year SVSWA reallocates its AB 939 non-disposal programs fee using the total tonnage landfilled over the prior three fiscal years. SVSWA will increase the annual AB 939 fee for City of Salinas' hauler Republic Services by \$53,596, based on Republic's proportional share of the previous years' waste tonnage and SVSWA program increases for 2018-19. SVSWA's Franchise Transportation Surcharge will increase from \$17.50 to \$17.75 per ton. The purpose of the surcharge is to offset SVSWA's cost of transporting Salinas waste and to reduce greenhouse gases associated with direct hauling waste and organics to the landfill by Republic Services. SVSWA's rate adjustments result in an increase of 0.28% to residential customer rates or \$0.07 per month for a typical a 32-gallon trash container service, and 0.16% or \$0.67 per month for typical commercial customer with a 3-cubic yard trash container service.

This annual adjustment is required and authorized under Section 5.3 B of the Franchise Agreement.

Franchise Fee

The City is paid a 26% franchise fee on the gross revenues for all services that Republic provides. The above increases for CPI and Disposal and Transportation costs will result in additional franchise fees. The franchise fee calculation results in an increase of 0.48% to residential customer rates, or \$0.12 per month for a typical 32-gallon trash container service, and 0.56% or \$2.32 for a typical 3-cubic yard commercial customer service.

Fuel Recovery Adjustment

Section 5.5(A)(7) of the franchise agreement allows for a fuel cost adjustment for diesel fuel costs above \$2.32 per gallon. In the past, this adjustment resulted in an increase to the rates. Now that Republic fleet uses CNG fuel, their adjustments are minimal. The adjustment will result in \$0.01 increase to the monthly rates for a residential 32-gallon customer and \$0.08 for a 3-cubic yard commercial customer.

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

STRATEGIC PLAN INITIATIVE:

This action supports the Council's goal of a "Health, Vibrant Sustainable and Green Community" and its initiative to "Practice environmentally responsible conservation, re-use and recycling of its resources".

FISCAL AND SUSTAINABILITY IMPACT:

This item requires no additional expenditures or appropriations. The increase in Franchise Fees associate with these annual rate adjustments will generate additional General Fund revenue for the city and will be included in the upcoming 2018-19 fiscal year budget.

ATTACHMENTS:

1. Resolution
2. Proposed New Exhibit D - Schedule of Approved Rates of Franchise Agreement effective 7/1/18