

**REPORT TO THE  
CITY COUNCIL**  
*City of Salinas, California*

**DATE:** May 17, 2016

**FROM:** Gary E. Petersen, CAE  
Public Works Director

**BY:** Ray Hendricks, Finance Manager  
Salinas Valley Solid Waste Authority

**SUBJECT: REPUBLIC SERVICES GARBAGE AND RECYCLING RATES FOR FY 16-17**

**RECOMMENDATION:**

It is recommended that the City Council approve a resolution finding that the proposed annual adjustments to Republic Services of Salinas' (Republic Services) Schedule of Service Fees and Schedule of Rates for Residential and Commercial Customers are reasonable.

**DISCUSSION:**

Republic Services has submitted a request for consideration of adjustments to the Rate Schedules for fiscal year 2016-17. According to Section 14-10 of the Salinas Municipal Code and Article 5 (section 5.2) of the Franchise Agreement, the Council annually reviews proposed adjustments to the corresponding approved rates for reasonableness. If found to be reasonable, the requested adjustments would go into effect on July 1, 2016.

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

<b>Typical Service Type</b>	<b>Residential</b>	<b>Commercial</b>
Trash Service Level	32-gallon	3-cubic yard
Current Monthly Rate	\$ 23.96	\$ 393.69
<b>Proposed Adjustments:</b>		
CPI 2.26%	\$ 0.22	\$ 4.78
Disposal & Transportation	\$ 0.15	\$ 1.53
City Franchise Fee	\$ 0.13	\$ 2.22
Fuel Recovery Adjustment	(\$ 0.02)	(\$ 0.11)
<b>Total Proposed Monthly Rate</b>	<b>\$ 24.44</b>	<b>\$ 402.11</b>
Monthly Increase	\$0.48	\$8.42
Percent Increase	2.00%	2.14%

The average residential rate increase across all levels of service is 2.02% and the average commercial increase across all levels of service is 2.15%.

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 2.26%, resulting in an increase of \$0.22 per month for a residential customer with a 32-gallon trash container and \$4.78 per month for a commercial customer with a 3-cubic yard trash container.

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 2016-17, the Salinas Valley Solid Waste Authority (Authority) is increasing tipping fees \$1.50 per ton for disposal. The Authority also increased the AB939 fee by \$36,780, based on Republic's previous year's landfill tonnage. The Johnson Canyon Landfill Transportation Surcharge will remain at \$17.00 per ton. The purpose of the surcharge is to offset the Authority's cost of transporting Salinas waste, collected by Republic, from the Sun Street Transfer Station to the Johnson Canyon Landfill in Gonzales. Although the Transportation Surcharge does not fully capture the cost of transporting all of the waste collected in Salinas to the landfill site, it significantly reduces the difference. The Authority's rate adjustments result in an increase of \$0.15 per month for a residential customer with a 32-gallon trash container and \$1.53 per month for a commercial customer with a 3-cubic yard trash container.

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 all services that Republic provides. The increases for CPI and Disposal and Transportation result in additional franchise fees. The franchise fee gross-up calculation results in an increase of \$0.13 in the monthly rates for a residential 32-gallon customer and \$2.22 for a 3-cubic yard commercial customer.

*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 has switched their fleet to CNG fuel this adjustment is a decrease, since the previous increases are no longer needed. The adjustment will result in a decrease of \$0.02 in the monthly rates for a residential 32-gallon customer and \$0.11 for a 3-cubic yard commercial customer.

**ISSUE:**

Shall the Council approve a resolution finding the proposed increases to contractor service fees and customer rates for fiscal year 2016-2017 to be reasonable?

**COMMISSION, COMMITTEE, COUNCIL SUBCOMMITTEE RECOMMENDATIONS:**

City staff and Salinas Valley Solid Waste Authority, 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.

**FISCAL IMPACT:**

The impact to the current rate structure will increase the average residential customer with a 32-gallon trash service from \$23.96 to \$24.44 per month (\$0.48 per month). A commercial customer with a three cubic-yard bin collected once per week will increase from \$393.69 to \$402.11 per month (\$8.42 per month). Commercial customers can reduce their monthly rates by taking advantage of recycling opportunities and/or by reducing service levels for underutilized capacity.

**TIME CONSIDERATIONS:**

Article 5.8, Notice of Rate Increases, requires 30 days advance notice of any rate adjustment to REPUBLIC customers. In order for the Contractor to provide their customers 30 days' notice of the proposed rate changes, the Council must review and approve the rates at this meeting. The rates will then be effective on July 1, 2016.

**ALTERNATIVES/IMPLICATIONS:**

Determine that the proposed rate increases are not reasonable and direct staff how to proceed.

**CONCLUSIONS:**

City staff, the Salinas Valley Solid Waste Authority, and Republic Services, have participated in joint negotiations to address the contractor compensation and customer rate increases identified. As such, it is recommended that the City Council approve Alternative 1 by finding the proposed Contractor Service Fees and customer rate increase to be reasonable.

Back Up Pages:  
Resolution  
Exhibit D Schedule of Contractor Service Fees and Approved Rates