



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: August 9, 2022

DEPARTMENT: PUBLIC WORKS

FROM: DAVID JACOBS, PUBLIC WORKS DIRECTOR

BY: BRIAN FRUS, SENIOR CIVIL ENGINEER

TITLE: REPUBLIC SERVICES GARBAGE AND RECYCLING RATES
FY 22-23

RECOMMENDED MOTION:

A motion to approve a Resolution:

1. 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, 2022, to be both reasonable and within the terms of the Franchise Agreement; and
2. Approving the establishment of Multi-Family Dwellings (MFD) as a new rate category and confirm the rates established for bundled "Curbside" or "Consolidated" service for applicable residents; and
3. Approving the proposed adjustments to Single Family Dwelling (SFD) and Commercial Roll-Off rates to account for anticipated fiscal impact resulting from the establishment of the MFD rate category; and
4. Approving proposed revisions to Exhibit 8 of the Franchise Agreement to address changes in scope to Street Sweeping services; and
5. Approving the associated rate increase resulting from the proposed changes in scope to the Street Sweeping services in Exhibit 8 of the Franchise Agreement.

RECOMMENDATION:

Staff have reviewed the rate increases proposed by Republic Services (attached in Proposed Exhibit 1 – Schedule of Approved Rates) and find them reasonable and within the terms of the Franchise Agreement. Staff negotiated in good faith with Republic Services to establish a new rate schedule for multi-family dwellings, resulting in adjustments to single family dwelling and commercial roll-off rates to balance the changes to the overall rate schedule. Changes in scope to Street Sweeping are required to align the contracted level of service with the City's NPDES permit

requirements. Approval of the above motion is therefore recommended.

EXECUTIVE SUMMARY:

Republic Services' proposed rates for solid waste, recycling, and green waste collection services for Fiscal Year 2022-23 reflect an increase of 10.6% (or \$3.09) for the typical 32-Gallon residential trash service from \$29.17 to \$32.26 per month. The increase consists of 3.47% (\$1.01) for Republic Services CPI, 0.15% (or \$0.04) for SVSWA AB 939 fees, -1.52% (or -\$0.44) for recycling processing, 5.3% (or \$1.55) for organics processing, 1.53% (or \$0.45) for street sweeping and 1.59% (or \$0.46) for City Franchise fees. This also includes a 1.9% increase applied to all single-family residential rates to compensate for the creation of the multi-family dwelling rate category which is discussed in more detail below.

For commercial services, the monthly rate for a customer with a 3-cubic yard bin collected once per week will increase 4.36% (or \$20.96) from \$481.01 to \$501.97 per month. The increase consists of 3.53% (or \$16.99) for Republic Services CPI, 0.17% (or \$0.83) for AB 939 fees, 1.45% (or \$6.96) for street sweeping and 0.65% (or \$3.14) 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.

Franchise Agreement negotiations between the City and Republic Services last year resulted in the franchise fee decreasing from 26% to 15%, though it applied to all franchised services, where previously it had not applied to Commercial recycling. Since multi-family dwellings were included in the commercial rate category, this has the unintended consequence of raising this classification more than the negotiated 9% increase that resulted from the new franchise agreement.

In order to rectify this situation, the City negotiated with Republic Services to create updates within the current Franchise Agreement to establish a multi-family dwelling (MFD) rate category. To balance the changes made when establishing MFD category, rates were adjusted such that single family residential (SFR) rates will see an additional 1.9% increase, and commercial roll-off service charges will increase by an additional 1.61%, before an additional 1.41% is added for street sweeping.

BACKGROUND:

Since July 1, 2001, the City of Salinas has had an exclusive franchise agreement 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 Amended and Restated Franchise Agreement from October 2021 (Resolution No. 22208) with a term expiring June 30, 2036, with an optional extension of five years at the City's sole discretion.

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

Table 3 Estimated Service Cost Increases for Hauler					
Base Services by Rate Classification	Rate Classification	Approved FY 21/22 Rates	Proposed FY 22/23 Rates	Percent Change	Increase
32-Gallon Garbage, 64 Gallon Recycle, 96 Gallon Organics	Residential	\$29.17	\$32.26	10.60%	\$3.09
32-Gallon Garbage, 64 Gallon Recycle, 96 Gallon Organics	MFD – Curbside	N/A	\$32.26	-	-
32-Gallon Garbage, 64 Gallon Recycle, 96 Gallon Organics	MFD – Consolidated (Carts)	N/A	\$50.05	-	-
3 Cubic Yard Garbage Bin, One Pickup per Week	MFD-Consolidated (Bins)	N/A	\$501.97	-	-
3 Cubic Yard Garbage Bin, One Pickup per Week	Commercial	\$481.01	\$501.97	4.36%	\$20.96
2 Cubic Yard Recycle Bin, One Pickup per Week	Commercial	\$310.85	\$323.00	3.91%	\$12.15
64-Gallon Organics Cart, One Pickup per Week	Commercial	\$64.67	\$68.04	5.22%	\$3.37

** The CPI increase is only applied to the Republic portion of the adjusted rates and is not applied to the SVSWA's disposal portion. Thus, the resulting percentage increase varies for each service on the rate schedule.*

Across all levels of service, the average rate increase for SFR customers is 9.24%, commercial (except roll-off) 3.98% and commercial roll-off 4.98%.

Per Section 14-10 of the Salinas Municipal Code and Article 4 of the Franchise Agreement, the Council annually reviews and adopts adjustments to Republic Services corresponding approved rates. Under Article 4.15, 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

rate increase to become effective July 1, 2022, Council must have reviewed and find the rate adjustments reasonable prior to the end of May 2022. Republic Services submitted its rate application in accordance with the timeframe as required in the Franchise Agreement. However due to an oversight, the public notice publication deadline required rescheduling from an earlier Council Agenda. Additionally, because of changes to the scope to the Street Sweeping component, to better comply with State NPDES requirements, the item was further delayed to finalize this effort and make final adjustments to the rate schedule. Republic Services has submitted a request for consideration of adjustments to the Rate Schedules for fiscal year 2022-23. Rates will now become effective retroactively to July 1, 2022, and prorated over the billing cycles for the remainder of the fiscal year.

Scope Changes to Street Sweeping

The Scope of Services, Exhibit 8 of the Franchise Agreement, originally used to estimate the cost of street sweeping included cleaning each curb mile of residential streets within the City monthly May through September and once every other week in October through April. The City's NPDES permit requires street sweeping frequency to be every other week year-round.

Thus, route curb miles on residential streets increased 30% annually. Route curb miles in commercial areas remain the same with streets being cleaned once per week. The proposed total cost of the street sweeping services increases from \$870,000 to \$1,359,646, representing an additional \$489,647 or \$576,055 with the 15% City franchise fees included. The additional cost equates to an increase of 1.41% and is applied across all rate categories and levels of service. Revisions to the Scope of Services are found in the Revised Exhibit 8 – Street Sweeping Services attached to this report.

Establishing a Multi-Family Dwelling Rate

Franchise Agreement negotiations between the City and Republic Services last year resulted in the franchise fee decreasing from 26% to 15%, but then included commercial recycling, which had not previously had franchise fees applied. Previously, MFD were included in the commercial rate category, which had the unintended consequence of raising this classification more than the negotiated 9% increase negotiated in the new franchise agreement.

The City has spent several months negotiating, in good faith, with representatives of Republic Services to find a mutually agreeable solution to create necessary updates within the current Franchise Agreement. This document presents the results of those negotiations where both parties have determined the new conditions represent an equitable and agreeable solution for the annual rate adjustment and the creation of the multi-family dwelling rate category.

Negotiations included the establishment of two distinct rates within the MFD category. "Curbside" collection is defined as those customers that receive collection service in the same manner as SFD, (i.e. using three separate carts, at the curb of each dwelling and all serviced by separate collection vehicle). "Consolidated" collection is defined by the collection of waste either in carts or large bins placed in a central location and shared by multiple dwellings or where carts cannot be serviced

by an automated side loader, and/or drivers are required to exit the collection vehicle. MFD rates were established by aligning service costs for “Curbside” customers to that of SFD, while also reducing “Consolidated” recycling rates to best achieve parity between service level and cost. A typical 32-Gallon trash MFD “Curbside” customer will be charged the same as a SFD customer or \$32.26 for weekly service. A typical MFD “Consolidated” customer, with a service equivalent to a 32-Gallon cart, will be charged \$50.05 for weekly service, (pricing includes recycling and organics collection, where available). Overall, “Consolidated” MFD bin recycling customers will see a savings of 18% compared to the same size commercial recycling bin. This serves to offset the addition of the 15% franchise fee which was added to the MFD rates.

As mentioned previously, these new rate structures necessitated an adjustment to SFD and commercial roll-off service rates. In order to balance the changes made when establishing MFD rates, SFD and commercial roll-off rates were adjusted. Beyond the standard CPI-U adjustment, SFD will see an additional 1.9% increase, and commercial roll-off service charges will increase by an additional 1.61%, before an additional 1.41% is added for street sweeping.

Key Drivers

Proposed rate adjustments seen in SFD and commercial roll-off will have a fractionally larger increase due to the creation of the MFD and the application of a 15% franchise fee to commercial recycling, which was newly established through the new Franchise Agreement (effective October 2021). MFD, separate from the previous “Commercial” classification, is focused exclusively on residential entities. These locations are different from “Commercial” entities in that they require a different level of education, outreach and tracking to ensure compliance with newly established California waste handling regulations (SB 1383, etc.) In converting formerly Commercial customers to MFD this saw a significant reduction in the scheduled gross revenue to be generated through the contract. Understanding that both parties were focused on providing an equitable and fair solutions for residents, while also maintaining the original structure and anticipated compensation from which the Franchise Agreement was negotiated, adjusting SFD and commercial roll-off allowed for both efforts to be successful.

State mandatory commercial recycling legislation, SB 1383, passed in 2016, requires cities to implement organics services to all residential and commercial accounts by 2022. This mandate necessitates related education and outreach, establishment of edible food recovery programs, compliance monitoring and related enforcement. To better manage program implementation and the accountability required to monitor State mandates, the City requires the establishment of a MFD rate category. To support these efforts and others, the City invests \$2.1M in annual AB 939 fees, vehicle road impacts, street sweeping, and management fees to better serve, educate and divert waste for the residents and businesses of Salinas. This translates to monthly increases of \$0.04 for a typical 32-gallon residential service and \$0.83 to a 3-cubic yard commercial garbage service.

As part of the negotiation process, existing programs and solid waste expenditures were considered and it was determined that all programs will be enhanced to comply with regulatory requirements,

as discussed below. It was also identified that further evaluation and consideration was needed for service and reporting needs, to create a MFD rate category.

Regulatory Drivers

One key element addressed by the New Agreement is the collection and services offered by the waste hauler to businesses, multi-family complexes and residential accounts. In brief, existing mandatory commercial recycling legislation, AB 341, requires commercial recycling be provided to businesses generating four (4) cubic yards or more of waste and multi-family complexes with five (5) or more units, to recycle and implement recycling programs. These services are currently available to commercial accounts as mandated by the bill, but at this time it is voluntary for businesses to acquire recycling services. Due to the lack of voluntary participation in recycling services by customers, the City has not been able to reach full compliance with AB 341.

Following AB 341, and to further support the State's goals, mandatory organics commercial recycling law, AB 1826, was adopted and implemented in April of 2016. This bill required the phasing in of organics services and programs to businesses and multi-family complexes that generated specific thresholds of waste. The last phase of AB 1826 became effective January 1, 2021, requiring customers generating two (2) cubic yards of solid waste or more, to obtain organic services and/or implement programs. Under the existing Agreement, mandatory services are available to covered accounts through the hauler, however, similar to AB 341, the City has not fully reach compliance with AB 1826.

To further build on AB 341 and AB 1826, on January 1, 2022, the new unfunded SB 1383 State mandate becomes effective. Unlike AB 341 and AB 1826, SB 1383 extends and requires all accounts to obtain organics services and programs, including residential accounts (both SFD and MFD). Although SB 1383 is applicable to all accounts, de minimis waivers may be granted to business accounts if more than two (2) cubic yards of solid waste is generated but less than twenty (20) gallons of organics waste is generated per week. Additionally, if business accounts generate less than two (2) cubic yards of solid waste per week and less than ten (10) gallons of organics, then a waiver may be applicable. Other than these identified threshold exemptions, all accounts are covered by the new legislation, and it is mandated by the State for organic services to be provided.

New Terms

With the New Agreement, all residential accounts (both SFD and MFD) will be provided a bundled package and rates with services including a garbage, recycle and organics container (at varying cart sizes based on individual customer subscription level, or special constraints) to be serviced on at least a weekly basis. Regarding commercial accounts, at a minimum, service will be provided and include a garbage, recycle and organics container (at varying bin and/or cart sizes based on individual customer subscription level) to be serviced on at least a weekly basis, though rates vary by commodity, unless a de minimis waiver of organic waste generation is approved.

Education and outreach efforts under the New Agreement will require that Republic Services

coordinate with the Salinas Valley Solid Waste Authority on all mandated legislative regulations, including upcoming SB 1383 requirements. Coordinated plans of action will be reviewed by the City.

Components to Rate Adjustment

The following is a brief discussion of each of the individual components which comprise the adjustments to the rates.

Inflation Component

Beginning with Rate Year 2022, the Consumer Price Index (CPI-U) adjustment shall be the sum of the weighted percentage change in the 12-month average of each CPI-U index number between the base period, which shall be the prior preceding year ending December 31st, and the preceding year ending December 31st as contained in the most recent release of the CPI-U data for US City Average, Water, Sewer and Trash Collection Services. Therefore, the first CPI-U rate adjustment effective July 1, 2022 will be based on the percentage changes between the 12-month average of the CPI-U indices from January 2021 to December 2021. Additionally, if in any Calendar year that the calculation of the CPI-U exceeds four percent (4.00%), the total adjustment for that year will be four percent (4.00%), and no rollover amount will be added the rate adjustment percentage in the following year, or any subsequent year. If the CPI-U is negative, there will be no CPI-U adjustment to the Collection Element for that year. The annual CPI applied to the 2022-23 rate schedule is 3.57%.

Organics Processing Rate Alignment

In 2004, Republic and the Salinas Valley Solid Waste Authority (SVSWA) executed an agreement for organics processing services that continues through any and all extensions of the solid waste agreement between the City and Republic. Under the organics processing agreement, the established processing rate has remained at a vastly lower rate for City residents than the other SVSWA member jurisdictions and the posted facility gate rate.

The elimination of the previous organics agreement between Republic and the SVSWA will result in an increase of processing rates from the current discounted rate of \$19.76 to the standard gate rate of \$57 per ton (aligning the City with the other SVSWA member agencies) beginning July 1, 2022.

SVSWA AB 939 Fees

Every year SVSWA reallocates its AB 939 non-disposal programs fee using the total tonnage landfilled over the prior three fiscal years. For FY 2022-23 the SVSWA increased AB 939 non-disposal program fees by 3.6% from \$2,062,273 to \$2,136,300. This fee increase is meant to offset the additional funding needed to comply with CalRecycle requirements (this includes all actions needed to comply with SB 1383, including the newly established organics processing rate).

Franchise Fee

A typical component of such agreements, franchise fees represent the reasonable market value of the grant of the solid waste franchise. The City is paid a 15% franchise fee on the gross revenues for all services that Republic provides. The above increases for CPI, AB 939 fees, and organics collection costs will also result in additional franchise fees.

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 Effective and Culturally Responsible Government and Infrastructure and Environmental Sustainability. These efforts support the practice of environmentally responsible conservation, re-use and recycling of its resources.

DEPARTMENTAL COORDINATION:

While the rate review is largely conducted by Waste, Water and Energy division of Public Works with coordination with both the Finance and Legal Departments.

FISCAL AND SUSTAINABILITY IMPACT:

This item requires no additional expenditures or appropriations. The increase in franchise fees associated with the annual rate adjustment will generate additional General Fund revenue for the City.

ATTACHMENTS:

Resolution

Proposed Exhibit 1 - Maximum Service Rates of Franchise Agreement, effective 7/1/22

Revised Exhibit 8 - Street Sweeping Services