



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: August 13, 2019

DEPARTMENT: PUBLIC WORKS

FROM: DAVID JACOBS, PUBLIC WORKS DIRECTOR

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TITLE: REPUBLIC SERVICES GARBAGE & RECYCLING RATES FY 19-20

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, 2019, to be both reasonable and within the terms of the Franchise Agreement.

RECOMMENDATION:

Staff have reviewed the rate increases proposed by Republic Services (attached in Proposed New Exhibit D - Schedule of Approved Rates) and find them reasonable and 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 for Fiscal Year 2019-20 reflect an increase of 3.74% (or \$0.95) for the typical 32-gallon residential trash service from \$25.40 to \$26.35 per month. The increase consists of 1.1% (\$0.28) for Republic Services CPI, 1.65% (\$0.42) for Disposal & Transportation, and 0.98% (\$0.25) 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 3.28% (or \$13.78) from \$419.72 to \$433.62 per month. The increase consists of 1.43% (\$6.02) for Republic Services CPI, 1.00% (\$4.18) for Disposal & Transportation, and 0.85% (\$3.58) 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.

In previous years, rate adjustments were contingent upon Salinas Valley Solid Waste Authority's (SVSWA's) rate hearing and the approval of their Board of Directors. However, Salinas now manages the Franchise Agreement and thus this step is no longer necessary.

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). The previous franchise agreement was with BFI Waste Industries. 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 extensions at the City's sole discretion for up to 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 have complied with this public noticing requirement and for the rates to have become effective July 1, 2019, the Council would have had to review and find the rate adjustments reasonable prior to the end of May 2019. Republic did submit its rate application in accordance with the timeframe as required in the Franchise Agreement. Though due to differences in the transfer fee, and the SVSWA AB939 surcharge, additional time was required to review and confirm the accuracy of Republic's rate application. Republic Services has submitted a request for consideration of adjustments to the Rate Schedules for fiscal year 2019-20. Rates will now have to become effective retroactively to July 1, 2019 and prorated over the billing cycles for the remainder of the fiscal year.

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
FY18-19 Monthly Rate	\$ 25.36	\$ 419.62
FY18-19 Fuel Recovery Adjustment	\$ 0.04	\$ 0.22
FY18-19 Adjusted Rate	\$ 25.40	\$ 419.84
<i>Proposed Adjustments:</i>		
Hauler CPI 2.64% *	\$ 0.28	\$ 6.02
SVSWA Disposal & Transportation Increase	\$ 0.42	\$ 4.18
City Franchise Fee	\$ 0.25	\$ 3.58
FY19-20 Proposed Monthly Rate	\$ 26.35	\$ 433.62
Monthly Increase	\$ 0.95	\$ 13.78
Percent Increase	3.74%	3.28%

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

Across all levels of service, the average rate increase for residential customers is 3.80% while that for commercial customers is 4.13%.

The 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 2.64%. For residential customer rates this is a \$0.28 per month increase for a typical 32-gallon trash container service, and an increase of \$6.02 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 2019-20, SVSWA will not increase its franchise hauler tipping fee of \$17.75 per ton for disposal as approved at their Board's March 21, 2019 rate hearing. However, the overall blended rate will increase \$2.61 from \$17.75 to \$20.36 per ton. This is due to Republic's costs of using the Madison Lane Transfer Station in combination with Sun Street Transfer Station to meet their full transfer needs. This results in an increase of 1.65% (or \$0.42) per month for a typical residential customer with a 32-gallon trash container service, and 1.00% (or \$4.18) per month for typical commercial customer with a 3-cubic yard trash container service.

The SVSWA did make increases 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 \$1.67 per ton for a total of \$159,264, based on Republic's proportional share of the previous years' waste tonnage and SVSWA program increases for 2019-20. The SVSWA's AB 939 increase this year linked to two items: 1) Continued funding of the ongoing greenwaste processing rate subsidy for Salinas as rates for new programs/infrastructure to help members comply with the mandates of SB 1383 and AB 1826 are phased-in (projected to be \$313,000 in SVSWA's 19/20 budget and 2). A new \$100,000 expense to collaboratively fund countywide litter and illegal dumping abatement throughout Monterey County. 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 0.98% or \$0.25 per month for a typical 32-gallon residential trash container service, and 0.85% or \$3.58 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 Compressed Natural Gas (CNG) fuel, their adjustments are minimal. The adjustment will result in an additional \$0.04 increase to the monthly rates for a residential 32-gallon customer and a \$0.22 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).

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".

DEPARTMENTAL COORDINATION:

While the rate review is largely conducted by Public Works, coordination occurs with both the Finance and Legal Departments.

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 2019-20 fiscal year budget.

ATTACHMENTS:

1. Resolution
2. Proposed New Exhibit D - Schedule of Approved Rates of Franchise Agreement effective 7/1/19