



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Public Works



Date: December 7, 2015
Board Meeting Date: January 5, 2016
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: James C. Porter, Director of Public Works

Subject: Garbage and Recyclables Collection Rates in the Unincorporated Franchised Areas within the South Bayside Waste Management Authority

RECOMMENDATION:

Adopt a resolution setting February 23, 2016 at 9:00 a.m. at the regularly scheduled Board meeting, as the time and place for a public hearing on the garbage and recyclables collection rates for the unincorporated franchised area within the South Bayside Waste Management Authority service area, exclusive of County Service Area No. 8 (North Fair Oaks) and West Bay Sanitary District.

BACKGROUND:

On October 20, 2009, your Board adopted Resolution No. 070423 which approved a franchise agreement with Recology San Mateo County (RSMC) to provide services for the collection of recyclable materials, organic materials, and solid waste from January 1, 2011 through December 31, 2020. These services began on January 1, 2011 and have been provided to County Service Area No. 8 (CSA-8) and the unincorporated franchised area within the South Bayside Waste Management Authority (SBWMA) service area (Burlingame to Menlo Park), exclusive of CSA-8 and West Bay Sanitary District. This franchised area (County franchised area) is comprised of the following communities: Burlingame Hills, San Mateo Highlands and Baywood Park [Crystal Springs area], Harbor Industrial, Devonshire Canyon, Palomar Park, Oak Knoll, Kensington Square, Emerald Lake Hills, Sequoia Tract, Peninsula Golf Club, and Trailer Ranchero. These areas were not previously covered by a franchise agreement.

On December 10, 2013, your Board adopted Resolution No. 072907, adopting the garbage and recyclables collection rates for the County franchised area effective January 1, 2014.

On November 18, 2014, your Board adopted Resolution No. 073499, adopting the 2015 garbage and recyclables collection rates for the County franchised area at the same level as the 2014 rates effective January 1, 2015.

The process to be followed for adopting the garbage and recyclables collection rates includes:

1. Adopt a resolution of the proposed collection rates.
2. Hold a public hearing and receive testimony on the proposed rates.

Articles XIIC and XIID of the State Constitution (Proposition 218), require notices be sent to property owners alerting them of the public hearing to consider any new or increased property related fees, and a mechanism for rejecting the fees via a “majority protest” at the public hearing. We are recommending that your Board direct the Department to notify each affected property owner in the County franchised area of the proposed rates by mail and to explain that protests to the rates must be in writing.

If there were a successful majority protest, your Board would be prevented from setting the rates.

DISCUSSION:

The transition to RSMC collection services has resulted in significantly expanded weekly collection of recyclable and organic materials and increased diversion of solid waste from landfills. The increase in diversion of solid waste helps to achieve diversion goals for CSA-8 and the County franchised area.

The RSMC franchise agreement allows for specific adjustments in RSMC’s compensation during the first three rate years (2011-2013) to support providing services to the rate payers. To make adjustments for the 2016 rate year, RSMC is required to submit a contractor’s compensation application based on actual services provided in 2015, the reconciliation of the actual revenue received for 2014, and the projected costs for providing service in the 2016 rate year. The application was submitted to the SBWMA for their review and approval.

The SBWMA compiled data from the RSMC compensation application, data from South Bay Recycling (Shoreway Environmental Center operator), and information regarding member agency fees and other associated costs into a consolidated rate report “SBWMA Final Report Reviewing the 2016 Recology San Mateo County Compensation Application, September 17, 2015” (SBWMA 2016 Rate Report). The rate increases or decreases recommended in the SBWMA 2016 Rate Report represent rate adjustments for each member agency that the SBWMA believes are necessary to meet the revenue requirements to provide garbage and recyclables collection services for 2016.

The proposed rates for the County franchised area are listed in Exhibit A to the Resolution and represent a 2.7% rate increase for residential customers who have 20

and 32-gallon carts from the rates previously set by your Board for 2015. The SBWMA 2016 Rate Report noted the RSMC's 2016 compensation application is based upon adjustments to the 2014, 2015 and the 2016 projected costs, performance incentives/disincentive payments for 2014, and anticipated 2016 costs. The 2014 rate year was the first year that contractor compensation adjustments were based upon changes in the Consumer Price Indexes (CPI).

RSMC's costs are broken into nine cost categories and each is allocated based upon four operational statistics specific to our areas. These operational statistics are updated annually in April and May, and include: route labor hours, route hours, number of containers in service, and number of accounts serviced. RSMC's compensation is allocated each year based on the updated statistics. Therefore, the percent of cost allocated to each Member Agency changes each year.

The Department's analysis looked at four areas: review of the SBWMA 2016 Rate Report, the projections of costs until the end of the contract term (2020), the indexes used for cost adjustments, and the revenue collected from both commercial and residential customers. The SBWMA 2016 Rate Report indicated a rate increase was not necessary for 2016, but the analysis included an estimated surplus for 2015 and 2016. These projections will not be reconciled until the end of the rate years for 2016 and 2017. The Department's analysis does not include these projections until the year in which they will be reconciled due to fluctuations in commercial accounts and services. The Department's analysis also reviewed the projected costs and revenue through 2020 based on specific assumptions to determine whether a significant shortfall at the end of the contract term would be anticipated. Any shortfall at the end of the franchise agreement term must be paid in the first rate year following the contract end.

The most significant change indicated in the SBWMA 2016 Rate Report was the decrease in the fuel index of 18.51%. In 2012, this index increased by 25.55%, which is indicative of the volatility of this index. Fuel and labor cost adjustments can significantly contribute to the contractor's cost projections for each rate year.

Additionally, the Department reviewed the costs and revenue for both residential and commercial accounts. The Department has determined that the commercial rates do not require an increase as they are sufficient to cover the collection and disposal costs. However, the smaller carts residential rates are not meeting the actual cost to provide service based on a study conducted by the SBWMA and therefore require a modest rate adjustment to align (20 and 32-gallon) residential cart rates to the actual collection and disposal costs. In order to begin to better align the rates with the actual costs, the residential 20 and 32 gallon cart rates will require an increase of 2.7% for rate year 2016 and an estimated increase of 2.2% for the 2017 rate year. The Department is considering evaluating different rate structures in future years to capture the actual costs for collecting all three carts (garbage, recycling, and organics) at the curb for residential accounts.

The SBWMA 2016 Rate Report recommended a 4.1% rate decrease for the County franchised area. Attachment A includes the recommended rates for each Member Agency contained in the SBWMA 2016 Rate Report as approved by the Member Agencies at the September 24, 2015 SBWMA meeting. Department staff has conducted an analysis of the revenue, expenditure, shortfall, and surplus information and believes that a 2.7% rate increase for residential carts (20 and 32-gallon) is more appropriate to more closely align these rates with the actual collection and disposal costs for these cart sizes. The recommended rates would be effective on March 1, 2016. The proposed rate for one 32-gallon cart is \$35.90 per month. This represents an increase of \$.94 per month from the current (2015) rate adopted in 2014. The recommended rates will continue to reflect a five percent (5%) franchise fee that will be paid to the County from RSMC. The franchise agreement requires that interest be paid by the County (rate payers) on any revenue shortfall owed resulting from adopted rates that are insufficient to meet the projected revenue requirements.

The franchise agreement included fees for Unscheduled Services (Attachment Q of the Franchise Agreement) that we are recommending your Board reaffirm through the rate adoption process, attached as Exhibit B to the Resolution. The Unscheduled Services are generally those additional services that are specifically requested and paid for by the ratepayer, in addition to the basic collection service charges. The Unscheduled Service fees are not property-related fees and therefore not subject to the Proposition 218 rate setting requirements. The franchise agreement allowed for a CPI increase to the Unscheduled Services Fees as reflected in Exhibit B to the Resolution.

County Counsel has reviewed and approved the resolution as to form.

Approval of this action will contribute to the Shared Vision 2025 outcome of a Collaborative Community by informing and engaging residents in the process to adopt garbage and recyclables collection rates.

FISCAL IMPACT:

The proposed rates reflect a 2.7% increase to the 20 and 32-gallon residential cart rates in the County franchised area over the current rates. The costs for the County franchised area Prop 218 notices will be reimbursed from the franchise fees.

There is no impact to the General Fund.

Attachment: Attachment A

Attachment A

Total Collection Rate Adjustment by Member Agency – 2016							
(Source: SBWMA BOD Packet 09/24/2015 Agenda Item: 6A Exhibit A-p19– Total Collection Rate Adjustment)							
	2016 Total SBWMA Member Agencies	Town of Atherton	City of Belmont	City of Burlingame	City of East Palo Alto	City of Foster City	Town of Hillsborough
Rate Adjustment Percentage	-3.0%	-22.3%	*	-1.4%	3.1%	-5.2%	-35.4%
	City of Menlo Park	CSA-8 (North Fair Oaks)	City of Redwood City	City of San Carlos	City of San Mateo	West Bay Sanitary District	County Franchised Area
Rate Adjustment Percentage	5.0%	-0.6%	-3.9%	-4.7%	-0.6%	-2.0%	-4.1%**

* The City of Belmont calculates their rate adjustments independent of the SBWMA Rate Report process.

** The Department is recommending a 2.7% rate increase for residential cart sizes (20 and 32-gallon) based on a detailed analysis of County Franchised Area collection service requirements.