



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Public Works



Date: November 16, 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 County Service Area. No. 8
(North Fair Oaks)

RECOMMENDATION:

Acting as the Governing Board of County Service Area No. 8, adopt a resolution setting February 23, 2016 at 9:00 am at the regularly scheduled Board meeting, as the time and place for a public hearing on the garbage and recyclables collection rates for County Service Area No. 8 (North Fair Oaks).

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.

On November 18, 2014, your Board adopted Resolution No. 073500, setting the 2015 garbage and collection rates for CSA-8 at the same level as the 2014 rates, effective January 1, 2015.

On July 21, 2015, your Board adopted Resolution No. 073932, approving the FY 2015-16 Garbage and Recyclables Collection Service Charges Report for CSA-8, based on the effective rates.

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 CSA-8 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 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 2013 and 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, 2016” (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 CSA-8 are listed in Exhibit A to the resolution and represent a 2.7% rate increase for carts that are billed on the tax roll and a 2% rate increase for bin services, 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 2015 costs, the 2016 projected costs, and performance incentives/disincentive payments for 2015. 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.

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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 SBWMA analysis included estimated projections for surpluses for 2015, 2016, and 2017, which will not be reconciled until the rate years following those specific years. The Department's analysis does not include these projections until the year in which they will be reconciled due to fluctuations in commercial accounts, indices and services which can have a direct impact on revenue.

The Department's analysis indicates that CSA-8 will not collect enough revenue to cover the projected costs for 2016 without a rate increase. The Department reviewed the 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 year following the contract end. At this time, the Department is recommending an increase to reduce the projected shortfall at the end of the contract term.

The most significant change indicated in the SBWMA 2016 Rate Report, was the decrease in the fuel index by 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 costs projections for each rate year.

The Department also reviewed the costs and revenue for both residential and commercial accounts. The Department has determined that modest rate increases to residential and commercial accounts should be made to begin to better align the rates to the actual costs for collection and disposal. A 2.7% rate increase for cart service and a 2% rate increase for bins, are recommended for 2016. The Department is evaluating different rate structures in future years to capture the actual costs for collecting all three carts (garbage, recycling, and organics) for residential dwellings.

The SBWMA 2016 Rate Report recommended a -0.6% rate decrease for CSA-8 at their September 24, 2015 meeting. This surplus is attributed to the revenue collected for commercial accounts that do not contain a dwelling unit. 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 carts with a similar rate increase for the following calendar year is more appropriate to generate the required revenue to cover the costs of collection for the cart services. The Department's analysis has also determined that a 2% rate increase for bin service is necessary.

The recommended rates would be effective on March 1, 2016. The charges based on the rates will appear on the property owner's tax bill for FY 2016-17 for all parcels with

dwelling units, pursuant to County Ordinance Codes 4.04.200 and 4.04.220, and any additional elective services will be billed directly by RSMC. Commercial parcels without dwelling units will continue to be billed by RSMC for all services. Additionally, any Unscheduled Services requested by the customer will continue to be billed directly to the customer by RSMC.

The proposed rate for two 32-gallon garbage carts or one 64-gallon garbage cart for one to four residential dwelling units will be \$28.05 per month over the current rate. The proposed rate for one 32-gallon cart for dwellings that contain over four units or mixed use parcels will be \$28.05 per month per unit. This represents an increase of approximately \$0.74 per month for residential dwelling units. 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 included fees for Unscheduled Services (Attachment Q of the Franchise Agreement). The Unscheduled Services are generally those additional elective services that are specifically requested and paid for by the ratepayers in addition to the basic collection service charges. These Unscheduled Services fees are not property-related fees and, therefore, not subject to the Proposition 218 rate setting requirements. The franchise agreement allows for a Consumer Price Index (CPI) increase to the Unscheduled Services Fees. The Unscheduled Service Fees for 2016 reflect a 0.86% CPI adjustment to the 2015 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 for CSA-8.

FISCAL IMPACT:

The proposed 2016 rates reflect a 2.7% increase for cart service and a 2.0% increase for bin accounts for CSA-8 over the current rates. The garbage and recyclables rates are levied on properties that are leased or owned by the County that are located in the CSA-8. The costs for CSA-8 Prop 218 notices will be reimbursed from the franchise fees.

There is no impact on the General Fund.

Attachment A: Total Collection Rate Impact

Attachment A

| Total Collection Rate Impact by Member Agency – 2016 (Source: Appendix G – Total Collection Rate Impact 2016 - Revised) | | | | | | | |
|--|---|--|-------------------------------------|-------------------------------|-----------------------------------|---|---------------------------------------|
| | 2013 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 cart services and a 2% rate increase for bin services based on a detailed analysis of County Service Area No. 8, collection service requirements.