



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: May 20, 2019

Approved

Date

5/29/19

SUBJECT: ADOPTION OF A RESOLUTION TO INCREASE RECYCLE PLUS RATES EFFECTIVE JULY 1, 2019 FOR SINGLE FAMILY AND MULTI-FAMILY RESIDENTIAL SOLID WASTE SERVICES

RECOMMENDATION

Adopt a resolution to amend the current Recycle Plus rate resolution effective July 1, 2019, as follows:

- (a) Increase residential solid waste service rates for single-family households by 5%; and
- (b) Increase residential solid waste service rates for multi-family households by 5%.

OUTCOME

Rate increases of five percent for both Single-Family Dwelling (SFD) and Multi-Family Dwelling (MFD) households would maintain the Recycle Plus Program at cost-recovery, meet contractual obligations, and sustain a prudent fund balance in the Integrated Waste Management (IWM) Fund.

BACKGROUND

Recycle Plus rates are set to cover the expenses of providing residential solid waste services. Staff regularly reviews IWM Fund revenues and expenditures and forecasts the rates necessary to implement and maintain Council-approved services, programs, and activities related to residential solid waste. The recommendations of this memorandum are based on the results of this analysis.

On April 21, 2017, Proposition 218 notices were mailed to all property owners that are subject to these rates. The notice specified maximum five percent annual rate increases for 2017-2018, 2018-2019, and 2019-2020. During the public protest period, the City received a total of 554 written and in-person protests. This represents less than one percent of all property owners impacted by the change in rates, which is less than the 50 percent needed to reject the proposed rate increases under California law. Recycle Plus rates were last increased in 2018-2019 by three percent for single-family dwellings and two percent for multi-family dwellings.

ANALYSIS

Increasing Contractual Costs

Contractual costs for the Recycle Plus collection and disposal agreements comprise approximately 88 percent of total expenditures in the IWM Fund and are expected to increase by \$17.4 million, or approximately 14 percent, in 2019-2020. These agreements provide the following services: garbage, recycling and yard trimming collection; junk pickup services; SFD motor oil and oil filter on-demand collection; and processing of residential garbage to recover organics and recyclables.

The City's agreements with the residential garbage and recycling contractors provide for annual inflationary adjustments in compensation to cover increases or decreases in contractual costs. SFD and MFD rates are proposed to increase by five percent in 2019-2020 in order maintain cost recovery. Growth in SFD and MFD housing units and service level increases also contribute to increased contractual expenditures, due to higher occupancy rates and greater solid waste volumes, including more volume through the very successful Junk Pickup program.

On January 15, 2019, Council directed staff to implement a Modified Living Wage (MLW) for facility workers in the recycling and garbage service agreements, effective July 1, 2019. MLW will result in facility workers at the processing facility, customer service representatives, and mechanics that are not receiving prevailing wage or working under a collective bargaining agreement to be compensated at the San José MLW, at a minimum. This requirement will be monitored by the City's Office of Equality Assurance. Staff intends to bring forward an amendment to the agreement with Greenwaste to implement this direction. As a result of implementing MLW, Recycle Plus costs are expected to increase by approximately \$3 million in 2019-2020.

On January 15, 2019, Council also directed staff to continue negotiations with California Waste Solution (CWS) to reach agreement for recycling collection and processing services in Service Districts A and C. Since then, staff has come to terms with CWS for a contract amendment and a potential new long-term agreement if CWS meets minimum standards during the performance period during Fiscal Year 2019-2020. Once CWS and the City have an agreement in principle complete, staff intends to bring forward a Second Amendment to the CWS contract for Council consideration and approval. If approved, this amendment will include a provision that if CWS meets targets related to customer satisfaction and material recovery, they could be eligible for annual incentive payments of up to approximately \$8.0 million in 2019-2020. The 2019-2020

Proposed Operating Budget includes funding for these potential incentive payments to encourage CWS to meet more stringent customer service and material recovery standards prior to the end of their current agreement, which will result in better service to rate payers and increased waste diversion from landfills.

Recycle Plus contractual appropriations proposed for 2019-2020 are shown in Table 1.

TABLE 1 - Recycle Plus Contractual Appropriations (IWM Fund)

<i>Appn</i>	<i>Contractual Budget</i>	<i>18-19 Adopted</i>	<i>19-20 Proposed</i>	<i>\$ Change</i>	<i>% Change</i>
0763	Single-Family Recycle Plus	56,868,596	67,895,682	11,027,086	19.39%
3318	Single-Family Dwelling Processing	15,082,325	18,422,532	3,340,207	22.15%
0764	Multi-Family Recycle Plus	22,054,139	24,223,882	2,169,743	9.84%
0766	Yard Trimming Collection/Processing	24,592,284	25,388,894	796,610	3.24%
2059	IDC Disposal Agreement	4,077,237	4,154,372	77,135	1.89%
	Recycle Plus Contracts Total	\$122,674,581	\$140,085,362	\$17,410,781	14.19%

Rate Strategy and Recommended Increases

The Administration maintains an IWM fund balance equal to approximately one month’s operating expenditures for the Recycle Plus and disposal contracts. This balance enables the fund to absorb unforeseen costs from year to year and provides a contingency reserve in the event of service disruptions or emergencies.

An SFD increase of five percent to the 32-gallon garbage cart (used by 90 percent of SFD customers) would result in a monthly increase of \$1.70, from \$34.19 to \$35.89. The proposed SFD rate is slightly higher than the current countywide average of \$35.67. An MFD increase of 5% to the 3-cubic yard bin serviced once per week (one of the most common service levels) would result in a monthly increase of \$12.13, from \$242.75 to \$254.88. The MFD rate remains far lower than the current County-wide average rate of \$335.81. San José’s services are robust, including unlimited recycling, unlimited loose in the street yard trimmings collection (with optional cart subscription), unlimited on-demand junk pickups at no additional cost, used oil collection, and processing of all waste to recover organics and recyclables. This combination of services results in San José having one of the highest residential recycling rates in the area.

The recommended Rate Resolution includes complete listings of proposed MFD and SFD rates. Information on other jurisdictions’ current rates is presented in the Attachment, “Other Jurisdiction Rate Comparison.” Most jurisdictions in Santa Clara County have increased garbage rates recently. In 2018-2019, 14 out of 15 cities in Santa Clara County increased residential garbage rates, and although the projected rate information for other jurisdictions is not available as of date of this memorandum, they are anticipated to increase in 2019-2020.

EVALUATION AND FOLLOW-UP

Once approved, the Recycle Plus rates will be billed to rate payers for services effective July 1, 2019 for SFD and MFD customers.

PUBLIC OUTREACH

As required by Proposition 218, notices for proposed maximum rate increase for 2018-2019 were mailed to property owners in April 2017. This memo will be posted on the City's website for the Council Agenda of June 11, 2019.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

There is no commission recommendation/input associated with this action.

FISCAL/POLICY ALIGNMENT

The additional revenue generated by the recommended rate increases, along with a sufficient fund balance, aligns with City Council Policy that programs be self-supporting whenever possible.

COST SUMMARY/IMPLICATIONS

It is estimated the SFD and MFD increases will generate approximately \$6.46 million (\$5.11 million from SFD and \$1.35 million from MFD) in additional revenue in the IWM Fund in 2019-2020. This additional revenue has been assumed in the 2019-2020 Proposed Operating Budget (IWM Fund Statement of Source and Use of Funds).

HONORABLE MAYOR AND CITY COUNCIL

May 20, 2019

Subject: Actions Related to the 2019-2020 Recycle Plus Rates

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CEQA

Not a Project, File No. PP17-005 Adjustment to Fees, Rates & Fares without changes to or expansion of services.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Valerie Osmond, Deputy Director, Environmental Service Department, at (408) 535-8557.

Attachment: Other Jurisdiction Rate Comparison

**ATTACHMENT
OTHER JURISDICTION RATE COMPARISON**

Single-family dwelling (SFD) and multi-family dwelling (MFD) garbage and recycling customer rates of Santa Clara County cities are shown in the tables below. Services included with these rates vary from city to city, and San José's services are more robust, including unlimited recycling and yard trimmings collection, neighborhood cleanups, and used oil collection.

SFD Garbage and Recycling Program 32-Gallon Rate Comparisons

Santa Clara County Cities	FY 18-19 Monthly Rate
Palo Alto	\$50.07
Los Altos Hills	\$42.85
Sunnyvale	\$41.65
County District West	\$40.52
Milpitas	\$36.51
County District East	\$35.91
San José (Proposed)	\$35.89
Los Altos	\$34.45
Countywide Weighted Average	\$35.67
San José (Current)	\$34.19
Mountain View	\$33.90
County District South	\$33.82
Gilroy	\$34.32
Monte Sereno	\$31.93
Morgan Hill	\$33.39
Saratoga	\$30.23
Los Gatos	\$28.70
Campbell	\$28.05
Santa Clara	\$30.62
Cupertino	\$26.32
Oakland	\$47.17
San Francisco	\$43.04

MFD Garbage and Recycling Program 3-Cubic Yard Bin Rate Comparison

<i>Santa Clara County</i>	<i>Current Monthly Rate</i>
Countywide Average	\$335.81
San José (Proposed)	\$254.88
San José (Current)	\$242.75

San José's current rate for a 3-cubic yard bin serviced once per week (a common multi-family service level) is \$242.75, which is lower than the current countywide average of \$335.81 per month (average based on 13 cities in Santa Clara County that offer multi-family bin service). San José's multi-family rates also include recycling and yard trimmings collection. These services are not always provided in other jurisdictions, particularly when multi-family service is provided by a commercial collection company.