



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: May 25, 2020

Approved

Date

5/29/20

SUBJECT: ADOPTION OF A RESOLUTION TO INCREASE RECYCLE PLUS RATES EFFECTIVE JULY 1, 2020 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, 2020, as follows:

- (a) Increase residential solid waste service rates for single-family households up to fifteen percent; and
- (b) Increase residential solid waste service rates for multi-family households up to seven percent.

OUTCOME

Rate increases of up to fifteen percent for Single-Family Dwelling (SFD) households (\$5.38 per month or \$1.24 per week for the typical service level) and seven percent for Multi-Family Dwelling (MFD) households (approximately \$1.49 per month or \$0.34 per week per dwelling unit) would maintain the Recycle Plus Program near cost-recovery and meet current contractual obligations.

The City is continuing to pursue additional options for ratepayer cost reductions, including internal near-term cost reductions and possible financial flexibility from Recycle Plus contractors, to reduce proposed rate increases for 2020-2021. If sufficient cost reductions are identified, the Administration will release a supplemental memorandum to specify a lower level of proposed rate increase.

BACKGROUND

Recycle Plus rates are set to cover the expenses of providing residential solid waste services. Staff regularly reviews Integrated Waste Management (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.

Before the COVID-19 pandemic, modifications to the Recycle Plus program (in detail below) and the associated contractual cost increases were approved by City Council, and future rate increases were strategized. Given the unprecedented and difficult times, the Environmental Services Department (ESD) is in the process of identifying unconventional, near-term measures to further offset a portion of the rate increases planned for 2020-2021. If significant cost savings can be identified, ESD will bring forward a supplemental memorandum to specify a lower level of proposed rate increases based on these offsets.

The Administration asked the Recycle Plus contractors to consider cost reduction measures for 2020-2021 to help mitigate rate increases during this challenging time for San José residents, and if additional options are identified, ESD will include these reductions in the supplemental memorandum.

As required under California law, notice of the proposed rate increase were mailed on April 21, 2020 to all property owners that are subject to these rates. The notice specified a maximum fifteen percent annual rate increase for SFD households and seven percent for MFD households for fiscal year 2020-2021. During the public protest period, the City received a total of 808 written and in-person protests as of May 18, 2020. 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 2019-2020 by five percent for SFD households and five percent for MFD households.

ANALYSIS

Recycle Plus agreements provide the following services: garbage, recycling and yard trimming collection; recycling processing; yard trimmings processing and composting; junk pickup; SFD motor oil and oil filter on-demand collection; and processing of residential garbage to recover organics and recyclables. Recycle Plus contractors collect half a million tons of material every year, from over 320,000 households, while providing waste processing services that give San José one of the highest recycling rates in the area.

During the COVID-19 pandemic, as typical day-to-day life has been disrupted and uncertainty has prevailed, Recycle Plus contractors have continued to provide reliable, essential services to residents. Many residents have commented that garbage, recycling, and yard trimmings collections seem to be about the only ‘normal’ thing.

To maintain reliable services for our community, Recycle Plus contractors quickly adapted to the difficult conditions with operational adjustments, new safety protocols and equipment, and timely communication and coordination with the City, all while handling increased volumes of waste as residents shelter in place. Recycle Plus contractors have persisted, though these novel challenges come at an already difficult time for the recycling industry as traditional recycling markets can no longer be counted on, and markets that currently exist demand higher quality material, requiring recycling companies to invest more in processing operations.

Increasing Contractual Costs

The rate increases proposed in this memorandum are needed to cover increasing contractual costs that the City is obligated to pay under the Recycle Plus agreements. Contractual costs for the Recycle Plus collection and disposal agreements are projected to be approximately \$148.0 million for 2020-2021, an increase of \$7.9 million from 2019-2020. Contractual costs comprise about 90 percent of total expenditures in the IWM Fund. All other expenses, including City staff and support costs, amount to \$20.3 million, or about ten percent of the IWM Fund.

In 2019-2020, approximately \$17.8 million in increases to contractual costs originated, and customer rate increases were minimized to only five percent largely by fully utilizing the \$10.0 million Rate Stabilization Reserve. Recycle Plus contractual appropriations shown in Table 1 summarize the recent trends in contractual costs.

Primary reasons for the recent contractual cost increases include:

- Annual inflationary (“cost of living”) adjustments for contractors – the City’s agreements with the residential garbage and recycling contractors provide for annual inflationary adjustments in compensation. This is a standard provision for solid waste agreements, especially necessary given the expenses, including labor, to operate in the Bay Area;
- Implementation of Modified Living Wage (MLW) – in 2019, Council directed staff to implement MLW so that workers at the processing facility, customer service representatives, and mechanics that are not receiving prevailing wage or working under a collective bargaining agreement are compensated at the San José MLW at a minimum;
- Junk Pickup – this service continues to see record-level participation by residents; and
- Performance Incentives – Beginning 2019-2020, additional contractual payments will be made to California Waste Solutions (CWS) to meet the pricing level directed by Council. Over the past year, CWS has significantly improved their collection operations and customer service. In the most recent Recycle Plus customer survey, CWS was rated the highest of all Recycle Plus contractors in customer satisfaction.

TABLE 1 - Recycle Plus Contractual Appropriations (IWM Fund)

<i>Appn</i>	<i>Contractual Budget</i>	<i>18-19</i>	<i>19-20</i>	<i>20-21</i>	<i>Increased Amount</i>
		<i>Adopted</i>	<i>Adopted</i>	<i>Proposed</i>	
0763	Single-Family Recycle Plus	56,868,596	67,895,682	72,923,900	5,028,218
3318	Single-Family Dwelling Processing	15,082,325	18,422,532	19,063,221	640,689
0764	Multi-Family Recycle Plus	22,054,139	24,223,882	25,516,637	1,292,755
0766	Yard Trimming Collection/Processing	24,592,284	25,388,894	26,031,233	642,339
2059	IDC Disposal Agreement	4,077,237	4,154,372	4,421,574	267,202
	Recycle Plus Contracts Total	\$122,674,581	\$140,085,362	\$147,956,565	\$7,871,203

Rate Strategy and Recommended Increases

The Administration strives to maintain an unrestricted ending fund balance in the IWM Fund to absorb unforeseen costs from year to year. In 2019-2020, the IWM Fund had a beginning fund balance of approximately \$35.7 million (\$12.3 million in unrestricted fund balance, \$11.5 million in the Operations & Maintenance Reserve, \$10.0 million in the Rate Stabilization Reserve, as well as \$1.9 million in carryover encumbrances). Through 2019-2020, the initial year of the implementation of MLW and CWS's re-negotiated contract, the Rate Stabilization Reserve was fully liquidated and unrestricted ending fund balance was reduced by \$5.1 million to ameliorate the rate impacts to customers. To offset the proposed contractual services cost increase of \$7.9 million in 2020-2021, approximately \$4.4 million of unrestricted fund balance is planned to be used, lowering the unrestricted ending balance to approximately \$2.7 million. Without the use of fund balance, 2019-2020 actual and 2020-2021 proposed rate increases would have been significantly higher.

Due to the challenging times for our community, ESD is pursuing additional measures in 2020-2021 to minimize the proposed Recycle Plus rate increases, including possible financial flexibility from the Recycle Plus contractors, possible reductions in administrative costs, and increased revenue from the sale of IWM owned property, to further offset proposed rate increases for 2020-2021. If any additional options are identified, ESD will bring forward a supplemental memorandum to specify a lower level of proposed rate increases. However, it is important to note that any identified one-time cost offsets for 2020-2021 will most likely make future proposed rate increases higher than planned. If future rate-payer funding is not adequate, on-going cost reductions would likely require substantial modifications to the Recycle Plus program and reductions to the current services offered to residents. In bringing forward the supplemental memorandum, staff will consider the need to provide near-term benefits to residents during this challenging economic environment alongside the long-term implications of potentially requiring a much higher rate increase in future years if service levels remain unchanged.

Under the current proposed increases, an SFD increase of fifteen percent to the 32-gallon garbage cart (used by 90 percent of SFD customers) would result in a monthly increase of \$5.38, from \$35.89 to \$41.27. An MFD increase of seven percent to the 3-cubic yard bin serviced once per week (one of the most common service levels) would result in a monthly increase of \$17.84, from \$254.88 to \$272.72, an approximate increase of \$1.49 per month per dwelling unit. The MFD rate remains far lower than the current County-wide average rate of \$334.85. 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 most effective residential recycling programs in the area.

The recommended Rate Resolution includes complete listings of proposed SFD and MFD rates. Information on other jurisdictions' current rates is presented in the Attachment, "Other Jurisdiction Rate Comparison".

CONCLUSION

Recycle Plus rate increases of \$5.38 per month for the typical service level for SFD services and approximately \$1.49 per month per dwelling unit for MFD services would maintain the Recycle Plus Program near cost-recovery, meet contractual obligations, and continue the current level of services for residents.

EVALUATION AND FOLLOW-UP

If approved, the Recycle Plus rates will be billed to ratepayers for services effective July 1, 2020 for SFD and MFD customers. If cost reductions are identified, ESD will bring forward a supplemental memorandum to specify a lower level of proposed rate increases. The Administration will also release a Manager's Budget Addendum (MBA) to the 2020-2021 Proposed Operating Budget that would modify the proposed budget in alignment with the recommendations included in the supplemental memorandum.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

As required under California law, notices for proposed maximum rate increase for 2020-2021

were mailed to property owners in April 2020. This memo will be posted on the City's website for the Council Agenda of June 9, 2020.

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 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 \$18,200,000 (\$16,200,000 from SFD and \$2,000,000 from MFD) in additional revenue in the IWM Fund in 2020-2021 to offset the necessary expenditure increases. This additional revenue has been assumed in the 2020-2021 Proposed Operating Budget (IWM Fund Statement of Source and Use of Funds). Any rate increase reduction recommended in the supplemental memorandum and the MBA, if approved by the City Council, would adjust revenues and expenses correspondingly.

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 Junk Pickup, recycling and yard trimmings collection, and used oil collection.

SFD Garbage and Recycling Program 32-Gallon Rate Comparisons

Santa Clara County Cities	FY 19-20 Monthly Rate
Palo Alto	\$50.07
Los Altos Hills	\$46.71
County District West	\$42.89
San José (Proposed)	\$41.27
County District East	\$38.22
Sunnyvale	\$37.36
Santa Clara	\$36.59
Countywide Weighted Average	\$35.89
San José (Current)	\$35.89
Los Altos	\$35.82
County District South	\$35.07
Mountain View	\$34.95
Gilroy	\$34.32
Milpitas	\$34.08
Morgan Hill	\$33.39
Monte Sereno	\$32.75
Saratoga	\$30.95
Los Gatos	\$30.04
Cupertino	\$29.60
Campbell	\$28.77
Oakland	\$49.88
San Francisco	\$46.30

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

<i>Santa Clara County</i>	<i>Current Monthly Rate</i>
Countywide Average	\$334.85
San José (Proposed)	\$272.72
San José (Current)	\$254.88

San José's current and proposed rates for a 3-cubic yard bin serviced once per week (a common multi-family service level) are lower than the current countywide average of \$334.85 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.