



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: June 5, 2020

Approved

Date

6/5/2020

SUPPLEMENTAL

SUBJECT: RECYCLE PLUS RATES EFFECTIVE JULY 1, 2020 FOR SINGLE-FAMILY AND MULTI-FAMILY RESIDENTIAL SOLID WASTE SERVICES

REASON FOR SUPPLEMENTAL

This supplemental memorandum lowers proposed increases to Recycle Plus rates effective on July 1, 2020. This supplemental change is the result of near-term cost reduction measures taken by the Environmental Services Department (ESD) for FY 2020-2021, in order to alleviate impacts to ratepayers in our community during this difficult economic time caused by the COVID-19 pandemic.

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 by nine percent; and
- (b) Increase residential solid waste service rates for multi-family households by five percent.

ANALYSIS

Due to the challenging times for our community and to relieve economic impacts on residents, the ESD and Recycle Plus contractors are implementing near-term, unconventional measures to minimize proposed rate increases. These include measures such as the ESD freezing vacant staff positions, withdrawing a proposal for additional staffing support for program enforcement,

shifting costs to alternative funding sources, and planning to sell property. Additionally, all four Recycle Plus contractors have waived a portion of their upcoming cost-of-living adjustments to their compensation.

These ratepayer cost reduction measures have contributed toward revising proposed Recycle Plus rate increases from a Single-Family Dwelling (SFD) increase of 15% to 9% (reducing a \$5.38/month per household increase, to a \$3.23/month per household increase for the typical service level), and from a Multi-Family Dwelling (MFD) increase of 7% to 5% (reducing a \$1.49/month per dwelling unit increase, to a \$1.06/month per dwelling unit increase). The impact these measures have on expenditures for the Integrated Waste Management (IWM) Fund in the 2020-2021 Proposed Budget are described in detail in Manager's Budget Addendum #16 that is attached to this memorandum.

With the proposed rate increases, San José is competitive in the local marketplace for customer rates, as shown by the following rate comparison (typical service levels, higher-populated cities for SFD):

<i>Multi-Family (3 CY, 1x WK)</i>	<i>Monthly Rate</i>	<i>Single-Family (32 gal. garbage)</i>	<i>Monthly Rate</i>
Countywide Average (Current)	\$334.85	Palo Alto (Current)	\$50.07
San José (Proposed)	\$267.62	Oakland (Current)	\$49.88
San José (Current)	\$254.88	San Francisco (Current)	\$46.30
		Santa Clara (Proposed)	\$44.10
		San José (Proposed)	\$39.12
		Sunnyvale (Current)	\$37.36
		San José (Current)	\$35.89
		Mountain View (Current)	\$34.95
		Milpitas (Current)	\$34.08

With the mostly one-time cost offsets described in the attached MBA #16, the revised increases to Recycle Plus rates maintains both the SFD and MFD programs to equivalent cost recovery levels, while providing some economic relief to ratepayers during this challenging time. However, because these measures do not change the structural elements of the agreements with the Recycle Plus haulers previously approved by the City Council, the continuing cost of services will again require significant rate increases for 2021-2022, potentially approaching 20%.

The Administration will continue to evaluate any available cost efficiencies, including ongoing staffing levels of the various departments allocated to the Integrated Waste Management Fund, and continue conversations with the Recycle Plus haulers to limit the required rate increases in 2021-2022 as much as possible. The Transportation and Environment Committee is tentatively anticipated to receive an update on the Recycle Plus program and the current state of recycling in February 2021, and an update on the Recycle Plus Rate Study, including timeline, implementation plan, and potential impacts in March 2021.

POLICY ALTERNATIVES

During the Rules and Open Government Committee meeting on June 3, 2020, Mayor Liccardo requested that this supplemental memorandum include policy alternatives to achieve even lower rate levels. The alternatives provided below, though not recommended due to significant service level reductions and impacts to future rates if the services were to be restored the following year, provide options to allow for a lower SFD rate increase.

Alternative #1: *Increase residential solid waste service rates for single-family households in 2020-2021 by 6.82%, or \$2.45/month, and direct staff to modify the program approach with Recycle Plus haulers to restrict SFD junk pickup to two no additional cost 3-item pickups in 2020-2021.*

Pros: This alternative saves the average SFD customer \$0.78/month compared to the recommended action.

Cons: Customers would pay extra per 3-item junk pickup after two 3-item junk pickups. Each additional junk pickup would be about \$30. Reducing access to junk pickups will likely lead to increased levels of illegal dumping.

Reason for not recommending: Junk pickup is an effective tool to reduce blight caused by illegal dumping. Once debris is dumped on City streets and sidewalks, the surrounding neighborhood suffers and City staff must be dispatched to remove the illegally dumped items. This service has continued to be very popular with residents, with a record-level number of items collected this Fiscal Year.

Alternative #2: *Increase residential solid waste service rates for single-family households in 2020-2021 by 5.35%, or \$1.92/month, and direct staff to modify the agreement with Recycle Plus haulers to eliminate back-end processing for SFD customers and transfer garbage collections to landfill instead of processing to recover organics and recyclables.*

Pros: This alternative saves the average SFD customer \$1.31/month compared to the recommended action.

Cons: Dramatically decreases single-family residential landfill diversion from 80% to 50%, is not compliant with City goals, and is inconsistent with upcoming State waste regulations as directed by SB 1383 to divert higher levels of organic waste from landfills. SB 1383 requires a reduction of 50% of organic waste disposal by 2020 and a 75% reduction by 2025. The City's current approach of processing single-family garbage effectively diverts organic waste from the landfill; reverting to landfilling single-family garbage for FY 2020-2021 would increase GHG emissions and could compromise the City's access to the processing services that currently recover organic waste. Without many alternative options for processing garbage, and with

the increased competition to find capacity for organics management, the City would potentially need to develop an alternate program for addressing management of organic waste, which would most likely come at a far greater cost to ratepayers, create a larger carbon footprint, and put the City at risk of being noncompliant with SB 1383 and subject to enforcement action from the State.

Reason for not recommending: Increasing waste diversion has long been a City priority, is required at increased levels over the next several years under SB 1383, and is a key Climate Smart San José strategy. While back-end processing can be suspended in 2020-2021 because the City would still expect to divert 50% of its waste from landfills, the ongoing elimination of back-end processing would make the City non-compliant with future SB 1383 requirements to divert 75% from the landfill by 2025.

Alternative #3: *Approve the actions described in both Alternatives #1 and #2 to achieve a rate increase in 2020-2021 of 3.17%, or \$1.14/month.*

Pros: This alternative saves the average SFD customer \$2.09/month compared to the recommended action.

Cons: The City would likely face higher levels of illegal dumping and divert substantially less from landfills.

Reason for not recommending: While both alternatives save residents money, those savings come at a cost to key City goals and objectives. If these services were to be reduced in 2020-2021 and then restored in 2021-2022, the required rate increases for 2021-2022 may be even more substantial than the potential 20% increase that is preliminarily forecasted.

COORDINATION

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

/s/

KERRIE ROMANOW
Director, Environmental Services Department

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

Attachment: Manager's Budget Addendum #16, Recycle Plus Rate Increases



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kerrie Romanow
Jim Shannon

**SUBJECT: RECYCLE PLUS RATE
INCREASES**

DATE: June 4, 2020

Approved

Date 6/4/2020

RECOMMENDATION

Approve the following amendments to the 2020-2021 Proposed Operating Budget in the Integrated Waste Management Fund:

- a) Increase the Beginning Fund Balance by \$2,230,000;
- b) Increase the estimate for Other Revenue for Sale of Surplus Property by \$3,000,000;
- c) Decrease the estimate for Fees, Rates and Charges for Recycle Plus collection charges by \$7,060,000;
- d) Decrease the Single-Family Recycle Plus budget by \$719,000;
- e) Decrease the Yard Trimming Collection/Processing budget by \$251,000;
- f) Decrease the Multi-Family Recycle Plus budget by \$171,000;
- g) Decrease the Environmental Services Department's Personal Services budget by \$657,279;
- h) Decrease the Environmental Services Department's Non-Personal/Equipment budget by \$135,200; and
- i) Increase the Unrestricted Ending Fund Balance by \$103,479.

BACKGROUND

The 2020-2021 Proposed Operating Budget assumes Single-Family Dwelling (SFD) rate increases of 15% and Multi-Family Dwelling (MFD) rate increases of 7%. However, due to the challenging times for our community and to relieve economic impacts on residents, the Administration and Recycle Plus contractors are implementing near-term, unconventional measures to minimize those proposed rate increases in 2020-2021.

As described in the memorandum for Item 6.2 on the agenda for the City Council meeting on June 9, 2020¹, the higher level costs for the current year and 2020-2021 are largely the result of the new Recycle Plus hauler agreements approved in 2018-2019 that include implementation of a

¹ [June 9, 2020 City Council Meeting, Item 6.2 Memorandum](#)

modified living wage for those workers not working under a collective bargaining agreement and performance incentives to improve collections operations and customer service. The large rate impact to residents in 2019-2020 was mitigated in part by liquidating the \$10.0 million Rate Stabilization Reserve and reducing fund balance by \$5.1 million. These actions then allowed for an average SFD rate increase of 5% in 2019-2020, which was in line with prior noticing.

The original planned increase for 2020-2021 of 15% for SFD and 7% for MFD brings ongoing revenues in closer alignment with ongoing costs. However, due to the economic challenges facing our residents, additional one-time actions can be taken to reduce costs in 2020-2021 without significant service impacts. As discussed toward the end of this memorandum, however, without changing the ongoing levels of service, increases in 2021-2022 will likely be much higher.

The Administration recommends to lower the proposed Recycle Plus rate increases included in the 2020-2021 Proposed Budget: from an SFD increase of 15% to 9% (reducing a \$5.38/month per household increase to a \$3.23/month per household increase for the typical service level), and from an MFD increase of 7% to 5% (reducing a \$1.49/month per dwelling unit increase to a \$1.06/month per dwelling unit increase).

This recommended lowering is the result of near-term cost reduction measures for both administrative and contractual costs, in order to alleviate impacts to ratepayers in our community during this difficult economic time caused by the COVID-19 pandemic. The revised proposed Recycle Plus rates will be recommended in a supplemental memorandum for City Council Item 6.2 on June 9, 2020.

ANALYSIS

The 2020-2021 Proposed Budget includes recommended Recycle Plus rate increases to achieve cost recovery for both SFD and MFD programs, while also maintaining services and policies approved by the City Council. Cost saving measures to lower SFD rates from 15% to 9%, and MFD rates from 7% to 5%, can be achieved by reducing both administrative and contractual expenditures for the Integrated Waste Management (IWM) Fund in the 2020-2021 Proposed Budget as summarized in Table 1.

TABLE 1: IWM Fund 423 Revised Budget

Cost Category	2020-2021 Proposed Budget	2020-2021 Revised Budget	Difference
Contractual	\$147,956,565	\$146,806,565	(\$1,150,000)
Administrative/Other	\$20,300,000	\$17,277,500	(\$3,022,500)
Property Sale Proceeds*		\$3,000,000	(\$3,000,000)
		TOTAL	(\$7,172,500)

*Included in Table 2 - Administration-Generated Offsets for FY 2020-2021

Administrative/Other Cost Reduction Measures

Administrative (non-contractual) costs comprise approximately 10% of the IWM operating budget. The revisions to the 2020-2021 Proposed Budget recommend reductions within the following areas: freezing 1.0 vacant position, re-assigning 2.0 positions to duties in the Emergency Operations Center (EOC) for six months, withdrawing a budget proposal for additional staffing support for program enforcement, shifting a portion of non-personal/equipment costs by utilizing alternative funding sources, and recognizing additional estimated savings in 2019-2020 that can be carried forward into 2020-2021. Additionally, the Environmental Services Department (ESD) will use the anticipated proceeds from the sale of the property on Las Plumas Avenue (adjacent to Environmental Innovation Center). The itemized revisions to the 2020-2021 IWM Fund and related service impacts are detailed below in Table 2.

TABLE 2: Administration-Generated Offsets for FY 2020-2021

Measure	IWM Fund Impact	Service Impacts
Increased savings in 2019-2020, primarily due to vacancy savings and slightly lower than anticipated hauler costs	(\$2,230,000)	Increasing 2020-2021 Beginning Fund Balance to recognize additional savings assumed in 2019-2020, which is typically reconciled and carried forward as part of the Annual Report actions
Sell Property: Las Plumas Warehouse	(\$3,000,000)	Estimated one-time revenue from the property sale provides additional revenues for the fund
Savings from the reassignment of 1.0 Supervising Environmental Services Specialist and 1.0 Public Information Representative to support the EOC through December 30, 2020	(\$168, 294)	Reduces outreach capacity related to Junk Pick-up, schools, sports partnerships, and general information
Hold vacant 1.0 Environmental Inspector	(\$155,469)	Currently, three Environmental Inspectors serve the entire City; holding one position reduces enforcement capacity and will result in delayed response to enforcement requests

Measure	IWM Fund Impact	Service Impacts
Withdraw the current proposal in the 2020-2021 Proposed Operating Budget to add 1.0 Sr. Environmental Inspector and 1.0 Environmental Inspector, and associated non-personal equipment costs	(\$403,716)	Limits the City's ability to implement SB 1383, which requires organic waste diversion/reduction and the establishment of an edible food recovery program
Re-purpose AB 939 funding of \$250,000 to support existing consultant costs for contract compliance	N/A	Results in ongoing use of SFD ratepayer funding of \$250,000; this funding is available due to the shift of 2.0 RAPID positions into the General Fund as included in the 2020-2021 Proposed Operating Budget
Reduction to non-personal/equipment budget	(\$65,000)	One-time reduction in supplies and travel costs
TOTAL ONE-TIME REDUCTIONS	(\$6,022,479)	

Contractual Cost Reduction Measures

Contractual costs consist of 90% of the IWM operating budget. ESD reached out to all Recycle Plus contractors regarding financial flexibility for 2020-2021 to help reduce rate increases in an effort to provide economic relief to the community as a result of the COVID-19 pandemic. California Waste Solutions (CWS), Garden City Sanitation (GCS), GreenTeam of San Jose (GT), and GreenWaste Recovery (GWR) provided cost-flexibility for 2020-2021 by each offering to waive a portion of their upcoming 'cost of living' increase to their 2020-2021 compensation. These waivers amount to one-time savings of approximately \$1,150,000 for contractual costs in 2020-2021. These waivers do not impact future compensation levels for the contractors, as new pricings independent of this cost of living adjustment are slated to become effective on July 1, 2021. Revisions to the 'cost of living' adjustments are presented below in Table 3.

TABLE 3: Contractual ‘Cost of Living’ Reductions for FY 2020-2021

Hauler	Estimated Cost of Living Adjustment	Revised Cost of Living Adjustment	Estimated IWM Fund Impact
California Waste Solutions (CWS)	2.22%	1.22%	\$350,000
Garden City Sanitation (GCS)	1.83%	0.83%	\$230,000
Green Team of San Jose (GT)	2.14%	1.14%	\$320,000
GreenWaste Recovery (GWR)*	2.04%	1.04%	\$250,000
TOTAL ONE-TIME REDUCTIONS			\$1,150,000

*GreenWaste Recovery has agreed to a 1% reduction in its ‘cost of living adjustment’ for the Residential Yard Trimming program, but not Residential Street Sweeping or Municipal Solid Waste processing

Revised Proposed Rate Increase

The actions described above result in the 2020-2021 revised rate increases as shown in Table 4 (typical service level cost shown for SFD, estimated per dwelling unit cost shown for MFD).

**TABLE 4: Recycle Plus Rate Increases
(per month per household)**

Program	2020-2021 Proposed Budget Increase	2020-2021 Revised Increase
SFD	\$5.38	\$3.23
MFD	\$1.49	\$1.06

Level of Service and Future Rate Increases

The Recycle Plus program provides quality service to San José residents, including unlimited junk pick-up at no extra cost, back-end sorting, street collection of residential yard trimmings, incentivizes strong customer service, and ensures that all workers employed by the contractor are paid a living wage. These attributes, along with the changing recyclable goods market, are the main elements driving annual rate increases. Future rates may also be impacted for some residents depending on the outcome of a rate study that will begin in 2020-2021 to recommend any adjustments to modernize the City’s rate structure in accordance with best practices.

It is important to note that nearly all of the actions described so far in this memorandum represent one-time measures to keep rates as low as possible in 2020-2021 without significantly compromising service levels. However, because these measures do not change the structural elements of the agreements with the Recycle Plus haulers previously approved by the City Council, the continuing cost of services will again require significant rate increases for

2021-2022, potentially approaching 20%. The table below displays San José rates, both current and the revised proposed rates, in comparison to other jurisdictions in the Bay Area.

TABLE 5: SFD Rate Comparisons with Bay Area Other Cities

<i>Single-Family (32 gal. garbage)</i>	<i>Monthly Rate</i>
Palo Alto (Current)	\$50.07
Oakland (Current)	\$49.88
San Francisco (Current)	\$46.30
Santa Clara (Proposed)	\$44.10
San José (Proposed)	\$39.12
Sunnyvale (Current)	\$37.36
San José (Current)	\$35.89
Mountain View (Current)	\$34.95
Milpitas (Current)	\$34.08

In the unlikely event that the rates of neighboring jurisdictions remain unchanged from current levels, a 20% increase (approximately \$7.82 dollars per month) in 2021-2022 would place the City of San José closer to the top of the range at \$46.94/month.

Achieving a substantially lower level of rate increases on an ongoing basis will require a reduction to the service levels to which the City recently agreed with the haulers or is currently negotiating with the haulers consistent with Council direction to negotiate and execute agreements through June 30, 2036.

For reference, a 1% increase to SFD revenues yields approximately \$1 million. To achieve an SFD rate in 2020-2021 lower than recommended in this memorandum, potential services reductions are shown in the table below.

TABLE 6: Rate Impacts of Potential Service Reductions

Potential Service Reduction	Estimated Cost Offset	Estimated Reduction to 2020-2021 Rate Increases		Impacts
		SFD	MFD	
Restrict unlimited SFD Junk Pickup service to two no additional cost 3-item pickups for FY 2020-2021	\$2,400,000	2.18% (\$0.78/hh/mo.)	N/A	<ul style="list-style-type: none"> Customers would pay extra per pickup after two pickups More illegal dumping
Transfer all SFD garbage to landfill instead of processing to recover organics and recyclables	\$4,010,000	3.65% (\$1.31/hh/mo.)	N/A	<ul style="list-style-type: none"> Dramatically decreases landfill diversion, from 80% to 50% Not compliant with City goals and inconsistent with upcoming State waste regulations


The Administration did not include the above options in the proposed rates because of the detrimental impacts to Recycle Plus services, customer service, and waste diversion. Residents' participation in the unlimited Junk Pickup program has continued at record levels, and the service gives the community a convenient, reliable option to dispose of material that often gets illegally dumped. Sending SFD garbage to landfill, instead of processing it to recover recyclable and compostable material, would decrease San José's single-family diversion rate from over 80% to 50%, which would be a step backward in achieving the City's sustainability goals and assuring compliance with State regulations.

It is important to note that, because the level of rate increases that will be required in 2021-2022 will again be significant and concerning, the Administration will continue to evaluate any available cost efficiencies, including ongoing staffing levels of the various departments allocated to the Integrated Waste Management Fund, and continue conversations with the Recycle Plus haulers to limit the required rate increases in 2021-2022 as much as possible. The Transportation and Environment Committee is tentatively anticipated to receive an update on the Recycle Plus program and the current state of recycling in February 2021, and an update on the Recycle Plus Rate Study, including timeline, implementation plan, and potential impacts in March 2021.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

/s/
KERRIE ROMANOW
Director, Environmental Services


JIM SHANNON
Budget Director

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