



DATE: April 24, 2018

TO: Mayor and City Council

FROM: Director of Utilities & Environmental Services

SUBJECT: Review and Approve Recommended Garbage and Recycling Rates Adjustment for 2018-2019

RECOMMENDATION

That Council reviews and approves the recommended garbage and recycling annual rate increase of 5.004%, collected at a 6.672% increase over the remaining three quarters of the contract year, for all residential and commercial accounts effective June 1, 2018.

SUMMARY

Refuse rates typically increase on March 1 of each year, in accordance with the Franchise Agreement between the City of Hayward and Waste Management of Alameda County (WMAC) that became effective on March 1, 2015. Rate Year Four of the Franchise Agreement commenced on March 1, 2018. The Franchise Agreement dictates that the rates for Rate Year Four shall be set through a detailed review of WMAC's actual costs of operation for Rate Year Two up to a maximum of 10%. The intent of performing the cost-based rate adjustment is to examine the impact of changes in costs, the number of customers, and the level of service of customers and reflect such impacts in the rates.

BACKGROUND

The Franchise Agreement is in effect for up to ten years and details a specific rate adjustment process for each year. In the first year of the contract, rates were negotiated and agreed upon at an initial rate. The rates for years two and three were increased by 3%. The Franchise Agreement requires the rates for Rate Year Four to be set by following a detailed cost-based adjustment and the rates must ensure that WMAC receives an after-tax return on its investment of 5.5%. Rate years five through ten are to be set through an index-type of adjustment process using the Consumer Price Index, government fees, and other factors.

DISCUSSION

Staff received WMAC's initial rate application in the Summer of 2017 and hired a consulting firm to help with final reviews. City staff and the consultant performed a detailed review of WMAC's application, ensured all calculations were consistent with the procedures outlined in the Franchise Agreement and confirmed the validity of the rate increase WMAC requested for Rate Year Four. The original agreement had a cap of 10% for the rate increase in Year Four.

The rate increase is based on WMAC's increased costs for wages and healthcare as well as its increased costs to process material after collection and to dispose of material. Tipping charges at facilities have increased for WMAC and tonnage collected and processed has increased as well. The data submitted by WMAC show that during the first three years of the contract, WMAC's costs for disposal and processing increased by more than 10%. Assuming an effective date of March 1, 2018, the appropriate rate increase was calculated to be 5.004%.

With a 5.004% increase, the new monthly service charge for residential customers with the standard 32-gallon cart for garbage service would have been \$33.20, or \$1.58 higher than the existing rate. For residents subscribing to the smaller 20-gallon cart, the new service charge would have been \$22.72, or \$1.08 higher than the existing rate.

With the initial residential rate increase of 9.23% for residential accounts, which went into effect March 1, 2015, the overall residential rate increase of contract years 2015 and 2018 totals 9.23% plus 1.0923% multiplied by 5.004%, or 14.70%. This is compared with WMAC's initial Rate Year One requested increase of 26%.

Given that the Year Four rate increase did not reach the previously maximum authorized amount of 10%, the City has an opportunity to review opportunities to recover additional City costs as part of the franchise agreement. The City currently spends a significant amount of staff resources addressing illegal dumping and general litter reduction including new storm drain system infrastructure and maintenance. These efforts have increased substantially in recent years. An increase in the Franchise Fees could help offset the City's additional costs related to solid waste. For example, if the current Franchise Fee of 18% were increased to 21%, the City would collect approximately \$2 million more annually. Such an increase would result in an additional rate increase to customers of approximately 5%. This 5% increase, coupled with the 5.004% increase for Waste Management, would equal the 10% previously authorized in Year Four of the agreement.

While the 5.004% increase in payment to Waste Management does not necessitate a public hearing process under Proposition 218, an increase in the Franchise Fee would require an amendment to the Franchise Agreement and a 45-day public notice per the requirements of Proposition 218. Staff seeks direction from Council on whether to pursue such an increase for Council consideration for Rate Year 5, which begins on March 1, 2019. For comparison purposes, Attachment III includes rate comparisons with other jurisdictions. Even with a 10% increase, Hayward will still fall in the middle of the range of rates across jurisdictions.

Timing of Rate Increase

Due to several factors, but primarily a delay in submittal of complete rate information by WMAC, the full extent of the needed rate increase was not known until February 2018 and as a result, this item could not be scheduled for Council consideration in time to set rates before WMAC's deadline of February 23 for a March 1, 2018 effective date. Therefore, the rate increase must go into effect on the next billing cycle for WMAC, which is June 1, 2018, and the rate increase must be adjusted for the fact that the increase will be in effect for three quarters rather than four.

To account for this, the rates will need to increase by 6.672% from June 2018 through February 2019. The public notice mailed prior to commencement of the current Franchise Agreement stated that rates would increase by no more than 10% in Rate Year Four, therefore no further public notice of this increase is required.

With the 6.672% increase, the new monthly service charge for residential customers with the standard 32-gallon cart for garbage service will be \$33.73, or \$2.11 higher than the existing rate. For residents subscribing to the smaller 20-gallon cart, the new service charge will be \$23.08, or \$1.44 higher than the existing rate. Rate comparisons with other jurisdictions are provided in Attachment III.

Effective March 1, 2019, the Franchise Agreement calls for a rate increase based on the Consumer Price Index, government fees, and other factors with a minimum increase of 3% and a maximum of 6%. Before the rate adjustment is applied for Rate Year Five, the rates will be reset to reflect an effective increase of 5.004% over the Rate Year Three rates.

ECONOMIC IMPACT

Residents and businesses will be paying 6.672% more for refuse and recycling services for the period of June 1, 2018, through February 28, 2019.

FISCAL IMPACT

On January 20, 2015, Council was informed for the first time that the Measure D funds that the City receives from StopWaste would be declining as tonnage disposed at the landfill has decreased. To maintain the services provided with these funds, the Franchise Agreement states that beginning in year four, WMAC will provide 1% per year of annual revenue to the City. In addition, with the proposed increase, it is projected that General Fund Franchise Fees revenue related to this agreement will increase by approximately \$300,000 annually.

STRATEGIC INITIATIVES

This agenda item is a routine operational item and does not directly relate to Council's three adopted strategic initiatives.

SUSTAINABILITY FEATURES

The rate increase will allow the City, WMAC and Tri-CED to continue to provide Hayward residents and businesses with recycling and composting services, so they can divert waste from the landfill. Solid waste management involves the safe and responsible management of discarded material from generation through processing to disposal. Reducing waste landfilled by maximizing the reuse, recycling, and composting of materials increases diversion, conserves natural resources, and plays an important role in making a community sustainable.

No additional programs are contemplated as part of Rate Year Four services.

PUBLIC CONTACT

The public was notified of the rate increase in 2014 as part of the new franchise agreement announcement mailed to all rate payers. That announcement provided an estimated increase for each year of the franchise agreement. If Council approves the final rates, customers will be notified of the rate increase through bill inserts included with their garbage bill and a message printed on their garbage bill.

NEXT STEPS

The rate increase would be effective on March 1, 2018, however, the deadline to update the rates in WMAC's billing system has passed, so the rate increase, if approved by Council, would become effective on June 1, 2018. If Council approves this request, staff will work with WMAC to implement the new rates and advise customers. A brief statement regarding the fee increase will be printed on the customer's garbage bills.

Prepared by: Jeff Krump, Solid Waste Program Manager

Recommended by: Alex Ameri, Director of Utilities & Environmental Services

Approved by:



Kelly McAdoo, City Manager