



DATE: January 28, 2020
TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Garbage and Recycling Annual Rate Increase: Adopt a Resolution Approving the Garbage and Recycling Rates for 2020-2021

RECOMMENDATION

That Council adopts a resolution (Attachment II) approving the garbage and recycling annual rate increase of 3.186% for all residential and commercial accounts effective March 1, 2020.

SUMMARY

Refuse rates typically increase on March 1 of each year, in accordance with the Franchise Agreement between the City and Waste Management of Alameda County (WMAC) that became effective on March 1, 2015. Rate Year Six (RY6) of the Franchise Agreement will commence on March 1, 2020. Per the Franchise Agreement, the rates for RY6 shall be set based on a Consumer Price Index (CPI) adjustment to WMAC's current revenues. The calculated RY6 increase is 3.186%.

BACKGROUND

The Franchise Agreement between the City and WMAC for garbage, recycling, and organics collection and processing 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% each year. The Franchise Agreement required the rates for RY4 be set by following a detailed cost-based adjustment to ensure that WMAC received an after-tax return on its investment of 5.5%. The rate increase for RY4 was calculated to be 5.004%. Rate Years Five through Ten are to be set through an index-type of adjustment process using the CPI, government fees, and other factors.

Until recently, the majority of recyclables collected in the United States were sold to China. Policy changes enacted by China in 2017 and intensified in 2018 severely negatively impacted the U.S. recyclables export markets, especially for mixed-plastics and mixed-paper. For example, when markets were strong, processors could receive more than \$200 per ton for mixed paper. Over the last two years, some haulers have had to pay to dispose of mixed paper.

In addition, local processors have experienced increased costs to remove contamination from recyclables. Residential recycling in Hayward is collected primarily by Tri-CED, a subcontractor to WMAC. Tri-CED has been experiencing operational and financial challenges due to the China National Sword policy. In RY5, in addition to the CPI adjustment, Tri-CED requested a special rate increase of \$2.20 per household. Council approved an additional \$2.00 per household, which was incorporated into the rates. This increase was within the rate adjustment threshold approved by Council as part of the Franchise Agreement.

DISCUSSION

Staff received WMAC's initial rate application for RY6 in December 2019. City staff performed a detailed review of WMAC's application and ensured all calculations were consistent with the procedures outlined in the Franchise Agreement and confirmed the validity of the proposal. The annual percentage change in CPI between 2018 and 2019 was 3.5%. After adjustments for fees and projected revenues, the increase applied to the RY6 adjustment calculation is 3.186%.

Calculation of the proposed RY6 rate increase also includes approximately \$31,000 in additional compensation for Tri-CED to allow for recycling worker wage increases. This amount was agreed to during contract negotiations and equates to 0.075% of the overall proposed increase.

Over the past year, Tri-CED has continued to face challenges related to increased processing costs and decreased commodity values. For RY6, the \$2.00 per household incorporated into the rates last year has been carried forward and will be increased by the RY6 adjustment. Tri-CED is requesting an additional \$1.73 per household for RY6. In cooperation with Union City, which also uses Tri-CED for recycling services, the City retained an outside consultant to perform a review of Tri-CED's operation and financials and determined that the costs attributable to China's National Sword equated to about \$1.45 per household during the mid-2018 to mid-2019 timeframe. Commodity markets have not noticeably changed in the past year, so staff does not support an additional increase in Tri-CED's compensation. If the \$1.73 in additional compensation for Tri-CED were included, then the overall rate increase would be 5.561%. This would exceed the rate increase cap established as part of the original Franchise Agreement approval and would require a new Proposition 218 election in order to approve the rate increase.

Union City granted Tri-CED additional compensation of \$2.00 per household in 2019, and in 2018, Fremont initiated a \$1.50 per household recycling fee in response to China's National Sword policy. Other Alameda County jurisdictions that have approved additional compensation to recycling processors in response to the downturn in the recycling markets include Dublin, Livermore, and Berkeley.

ECONOMIC IMPACT

Residents and businesses will be paying 3.186% more for refuse and recycling services for the period of March 1, 2020, through February 28, 2021. With a 3.186% increase, the new

monthly service charge for residential customers with the standard 32-gallon cart for garbage service would be \$35.62, or \$1.10 higher than the existing rate. For residents subscribing to the smaller 20-gallon cart, the new service charge would be \$24.37, or \$0.75 higher than the existing rate. A comparison of rates with several nearby communities is included as Attachment III.

FISCAL IMPACT

With the proposed increase, it is projected that General Fund Franchise Fees revenue related to this agreement will increase by approximately \$227,530 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 maximize the diversion of 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 Six 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 notice provided an estimated increase for each year of the franchise agreement and indicated that the increase that would be effective on March 1, 2020, would be adjusted by CPI and would be a minimum of 3%. If Council approves the proposed rate increase, customers will be notified 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, 2020. If Council approves the rate adjustment, 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. In addition, staff will work with Tri-CED to further review options for addressing the financial challenges presented by the recycling market.

Prepared by: Jeff Krump, Solid Waste Program Manager

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager