



DATE: February 5, 2019

TO: Mayor and City Council

FROM: Director of Utilities and Environmental Services

SUBJECT: Review and Approve Recommended Garbage and Recycling Rates Adjustment for 2019-2020

RECOMMENDATION

That Council reviews and approves the recommended garbage and recycling annual rate increase of 2.611% for all residential and commercial accounts effective March 1, 2019.

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 Five (RY5) of the Franchise Agreement will commence on March 1, 2019. Per the Franchise Agreement, the rates for RY5 shall be set based on a Consumer Price Index (CPI) adjustment to WMAC's current revenues. In addition to the CPI, due to a change in international policy resulting in a severe downturn in the recycling commodities markets, Tri-CED, which is the residential recycling subcontractor to WMAC, has asked for additional compensation. Staff recommends that an additional special increase of \$2.00 per household be included in the overall rates, for a total rate increase of 2.611% for RY5. This increase will allow Tri-CED to receive an additional \$1.13 million per year for the remaining term of the Franchise Agreement, which will last from three to five years.

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%. The Franchise Agreement required the rates for RY4 be set following a detailed cost-based adjustment to provide WMAC an after-tax return on its investment of 5.5%. The rate increase for RY4 was calculated to be 5.004%. However, because the increase did not go into effect until June 1, 2018, the actual increase was 6.672% for nine months. 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, have severely negatively impacted the U.S. recyclables export market, especially for mixed-plastics and mixed-paper. For example, when markets were strong, processors could receive more than \$200 per ton for mixed paper. Last year, some haulers 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. At the September 18, 2018 Hayward Council meeting, Tri-CED's President and CEO, Richard Valle, spoke about restrictions imposed by China on contaminated materials, international recycling markets, commodity price comparison, and the formation of a stakeholders' task force to address the recycling crisis.

DISCUSSION

Staff received WMAC's initial rate application in December 2018. City staff performed a detailed review of WMAC's application for RY5, ensured all calculations were consistent with the procedures outlined in the Franchise Agreement, and confirmed the validity of the proposal. The CPI increase applied to the RY5 adjustment calculation is 3.7%.

In response to the China policy mentioned above, Tri-CED has requested a special rate increase of up to \$2.20 per residential customer. The Franchise Agreement allows for special adjustments when warranted by significant changes in government regulation. Tri-CED also serves the residents of Union City and submitted a similar special rate increase request to Union City. Union City is still considering Tri-CED's request since their rate increases do not go into effect until July 1. Union City has hired a consultant to review Tri-CED's financials and Hayward intends to participate in the study. Following a detailed review of Tri-CED's request, staff is recommending that Tri-CED receive additional compensation equivalent to \$2.00 per household per month, which would generate approximately \$1.13 million annually for Tri-CED, after accounting for franchise fees, to help offset the severe negative economic impact of the China policy and continue the City's existing recycling programs. If the consultant report indicates a different rate adjustment would be necessary, staff will bring that to Council in Rate Year Six.

WMAC's RY5 increase includes raising the cost of commercial recycling from 40% of the cost of an equivalent-sized garbage container, to 50% of the cost of an equivalent-sized garbage container. This increase to the commercial recycling rate is the final phase of a three-phase increase to set the cost of commercial recycling to one-half of what comparable garbage service would cost. The City requested WMAC implement the commercial recycling increase in phases in order to avoid burdening businesses with a large rate increase at the start of the contract. The City also favored a phased approach because it economically encourages businesses to sign up for recycling services.

Calculation of the proposed RY5 rate increase also includes approximately \$84,000 in additional annual compensation for Tri-CED to allow for recycling worker wage increases. This amount was agreed to during contract negotiations and equates to 0.224% of the overall proposed increase.

Due to the timing of the rate application, the RY4 increase went into effect on June 1, 2018. In addition to the above considerations, the RY5 calculation accounts for the fact that Hayward's RY4 increase was implemented over a nine-month period, instead of twelve months, and normalizes the starting rate calculations from a 6.672% increase in RY4 to 5.004% increase. The normalization of the starting rate, in combination with the proposed Tri-CED compensation, results in an overall requested RY5 increase of 2.611%.

Additional Request from Tri-CED to Landfill Recyclables

Tri-CED has also requested to landfill a portion of its material that used to be sent for secondary processing and then sold to China. Tri-CED's secondary processor cannot currently market the material due to the China policy. This material is called "unders" and is material left over after Tri-CED processes recyclables at its facility. The unders consist of some recyclable material that is mixed with non-recyclable material. Tri-CED cannot extract the recyclable material in an economically feasible manner, so Tri-CED had been sending the unders to be further processed and sold. The material currently cannot be marketed and Tri-CED is mandated by State regulations to remove material from its facility within 48 hours. The landfilling of unders from Tri-CED will result in approximately 200 tons of additional material per month being sent to landfill. This will result in lowering of the franchise recovery rate, which is the percentage of material WMAC is able to divert from the landfill, by about 2%. The Franchise Agreement prohibits the disposal of recyclable materials in a landfill unless specifically approved by the City. Staff recommends that Tri-CED be permitted to landfill unders for a period of six months. If market conditions do not change and Tri-CED wishes to continue to landfill unders, they will need to submit an additional request within five months.

ECONOMIC IMPACT

Residents and businesses will be paying 2.611% more for refuse and recycling services for the period of March 1, 2019, through February 28, 2020. With a 2.611% increase, the new monthly service charge for residential customers with the standard 32-gallon cart for garbage service would be \$34.52, or \$0.88 higher than the existing rate. For residents subscribing to the smaller 20-gallon cart, the new service charge would be \$23.62, or \$0.60 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 \$166,340 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 Five 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, 2019, would be a minimum of 3% and a maximum of 6%. 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, 2019. 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