



SUMMARY REPORT

Agenda Date: 6/9/2020

To: Board of Supervisors

Department or Agency Name(s): Transportation and Public Works

Staff Name and Phone Number: Johannes J. Hoevertsz 707-565-231

Vote Requirement: Majority

Supervisorial District(s): All

Title:

Amended and Restated Solid Waste Collection Franchise Agreement

Recommended Action:

Consider rate consolidation options affecting approximately 2,000 customers in the unincorporated area; approve and authorize the Chair to execute the Amended and Restated Solid Waste Collection Franchise Agreement by and between the County of Sonoma and Recology Sonoma Marin in a form conforming to the Board's direction.

Executive Summary:

In August 2018, Recology Sonoma Marin (Recology) requested an 11% rate adjustment to service rates under the 2010 Amended and Restated Solid Waste Collection Franchise Agreement (Agreement) between the County and Recology. The rate increase was requested primarily to cover increased labor costs resulting from employee unionization that occurred in May 2017. The Agreement provides for an annual rate adjustments on April 1 for Consumer Price Index (CPI), fuel, disposal cost changes, and other adjustments due to changes in law. However, the Agreement does not require the County to adjust rates due to labor cost increases. Thus, Recology's request prompted negotiations and provided an opportunity for both the County and Recology to address miscellaneous terms in the Agreement that benefit both parties. The product of these negotiations is a proposed 1.8% revenue increase, which adds to an 8.9% increase Recology automatically received in 2019 under the existing rate adjustment formula in the Agreement. One benefit of the proposed amendment to the Agreement is an adjusted model for the annual rate adjustments to ensure increases are proportionate to real costs.

In addition to the requested rate increase effective July 1, 2020, the following negotiated changes to the Agreement are being proposed:

- 1) The discount for advance payments will be replaced with a low-income discount program;
- 2) Expanded street sweeping and litter collection services will be provided;
- 3) Bulky item pick-up service will no longer include mandatory provision of bins;
- 4) Eight existing service rate zones will be consolidated and restructured into six zones to decrease rate disparities;

- 5) The annual collection rate adjustment methodology will be revised to include recycling revenue and the relative weight of individual components of the rate adjustment formula will be reconciled with Recology's actual cost structure, as determined by the financial audit;
- 6) Emergency Services for large-scale events will be eliminated from the scope of the Agreement as soon as alternative, competitively-solicited contracts are in place for these services (estimated July 2020);
- 7) The Living Wage Ordinance will now apply to the Agreement; and
- 8) Various administrative provisions of the Agreement will be updated to comport with current operational needs.

The Department of Transportation and Public Works (TPW) is recommending the approval of the Amended and Restated Solid Waste Collection Franchise Agreement by and between the County of Sonoma and Recology, substantially in the form attached. In addition, the Board is asked to consider and select from two rate adjustment options, as further described below. TPW is recommending Option 1 -- the partial east zone consolidation, which provides more equitable rates to the entire customer base.

Discussion:

Franchise Fees	
Jurisdiction	Percent
County of Sonoma	11.00%
Santa Rosa	14.00%
Cloverdale	12.00%
Sebastopol	10.00%
Cotati	14.30%
Rohnert Park	25.50%
Healdsburg	10.00%
Windsor	10.00%
Sonoma	12.19%
Petaluma	20.30%

The original Agreement with Redwood Empire Disposal was approved by the Board on September 29, 2009 and it was later amended with Board approval on four separate occasions: October 19, 2010, April 24, 2011, July 1, 2014 and November 3, 2015. With the County's approval, the existing agreement was assigned by Redwood Empire Disposal to Recology on December 22, 2017, when Recology assumed the majority of Redwood Empire Disposal's assets. The 20-year Agreement, which will expire on October 31, 2029, ensures that all solid waste collected from customers who elect to have service is delivered to the County's regional disposal system and provides special services, including bulky item pickup, street sweeping, dead animal collection, and walk-in service for customers with disabilities. Other provisions of the Agreement address control of solid waste flow, residual waste from the single-stream recycling facility operated by Recology, customer service, vehicle standards, and auditing and reporting requirements. The Agreement also provides monthly franchise fees to the County in the amount of 11% of Recology's gross revenue, which is comparable to similar jurisdictions within Sonoma County as shown within the included chart. The franchise fee structure is not proposed to change under the Amended Agreement.

Amendments to Franchise Agreement

1.8% Rate Increase

Following Recology's August 2018 request for an 11% rate increase, the County requested Recology provide an audited financial statement and other supporting documentation regarding the financial condition of the company. The County hired HDR Consulting to assist staff with review of Recology's cost structure and evaluate the need for the requested rate adjustment.

Based on staff's analysis of the financial information received, staff supports the request for the 1.8% rate increase. The annual rate adjustment effective April 1, 2020 was \$0 due to a decrease in fuel cost.

Low-Income Discount Program

A Low-Income Discount Program will replace the existing Discount for Advanced Payment Program. Currently, customers who pay their annual bill in advance receive a discount equivalent to one month's bill. The existing program does not provide a discount to those who are unable to afford the upfront cost of paying their bill annually. In order to assist low-income ratepayers, the amended Agreement will provide that customers who qualify for the Pacific Gas & Electric California Alternate Rates for Energy Program (commonly known as the CARE Program) may apply to the Low-Income Discount Program and receive a rate reduction on their monthly bill. The program currently offers a minimum of a 20% discount. Customers will still have the option to pay their bill in advance, but will no longer receive a discount for the advance payments.

Street Sweeping

Recology provides street sweeping services along specific County roads. The proposed amendment to the Agreement increases services by providing additional street sweeping areas throughout the County. Savings harnessed through a more efficient dead animal pick up program will be used to cover additional street sweeping costs. Staff do not anticipate that the changes to the dead animal pick up program will reduce the existing effective service level.

The Revised map of street sweeping service areas is included here as Attachment 3.

Bulky Item Pick-up Service

The Bulky item collection program provides customers with the ability to have large items, such as discarded household appliances, furniture, tires, carpet, mattresses, or other similar items which require special handling due to their size, to be collected at no additional charge to customers. To date, the Agreement has required Recology to provide a collection bin to customers as part of this free service. With few exceptions, servicing bulky items with a bin provides operational inefficiencies due to the type of specialized equipment needed to provide the service. The result is longer service times, increased air emissions and road miles traveled, and a diversion of critical resources from Recology's essential operations. In addition, customers are at a higher risk of injury when trying to move the bin or disposing of material into bin. Nonetheless, County staff recognize that provision of a bin is essential in some cases, and so the amended Agreement provides that Recology will still provide a bin if the County requests one to serve the special circumstances of a specific customer from time to time.

Revision of Annual Collection Rate Adjustment Methodology

Recology proposes the addition of a commodities component to the annual Rate Adjustment Methodology that accounts for recycling revenues. The existing adjustment model already contemplates fluctuations in fuel costs, waste and organics disposal costs, and consumer price index (CPI). By adding a recycling revenue component to the Rate Adjustment Methodology, County rates will reflect a more accurate depiction of costs and revenues associated with recycling markets. This new component will reflect changes in the commodities market, which will reduce annual rate increases when markets are up, but may also increase rates when markets are down. Gross revenue from recycling commodity sales is equal to 1.8% of the total cost of operations as of April 2020. Adding recycling revenue to the rate adjustment model would have increased rates this year by 1.4% because the revenue under current markets is not offsetting processing costs as much as historical rates of return have afforded. In addition to adding the recycling revenue component, the annual rate adjustment model has been updated per the financial audit to more accurately reflect the relative allocation of costs as between the primary components of Recology's cost structure.

The Revised Rate Adjustment Formula is included here as Attachment 4.

Service Rate Zone Consolidation and Restructure

County collection service rates are fragmented into eight different rate zones. Collection rates vary depending on various factors, including proximity to disposal sites, difficulty of service area roads, customer density within an area, etc. The County's goals in considering the various methods for the allowed rate increase were to (1) restore parity between the costs of service and rates and (2) minimize the impact of the rate adjustment to as many customers as possible.

The Larkfield and Southwest Santa Rosa zone rates were initially established taking into consideration the close proximity of the City of Santa Rosa and other common characteristics of these areas, such as customer density. County rates for these zones have remained low while City rates have increased dramatically. As a result, the Larkfield and Southwest Santa Rosa zones are significantly below market.

Recology is proposing two options for the July 1, 2020 rate adjustment:

Option 1 would allocate the 1.8% annual rate adjustment equally to all service zones as well as consolidate the rates for the Larkfield and Southwest Santa Rosa zones with the East Sonoma County zone, resulting in a normalization of commercial and residential rates. By restoring rate parity in these areas, the cost increases at issue can be more equitably implemented across the entirety of the customer base. For that reason, staff recommend Option 1. The new rates for the residential 20 and 32 gallon cans would be phased in over two years starting with a \$10 monthly increase effective July 1, 2020 and a \$10 increase effective April 1, 2022. Ninety-seven percent (97%) of the commercial customers in the Larkfield and Southwest Santa Rosa zones will experience a rate increase of \$25 or less on July 1, 2020 due to the consolidation.

Option 2 would allocate the 1.8% annual rate adjustment equally to all service zones and would not consolidate the Larkfield and Southwest Santa Rosa zones. Though this may be the simplest way to implement the rate increase, this approach does not correct existing rate disparities between zones that have similar costs of service.

Attachment 1 provides a description of the proposed consolidated zones. Attachment 2 provides the proposed restructured service rates for Option 1 and Option 2.

The impacts from Option 1 zone consolidation and rate restructuring would become effective July 1, 2020. The new rates for a 32-gallon residential cart are shown below and include the 1.8% requested rate increase and .3% temporary increase for a two-year phase-in period for a total of 2.1% rate adjustment. To ease the impact of significant increases to the residential 20 and 32 gallon can customers in the Larkfield and Southwest Santa Rosa zones, a phase-in period is proposed to provide an average discount of 50% to these customers for the first two-years. These customers will adjust to the East zone rates on April 1, 2022, at which time the .3% increase applied to the remainder of the residential customer base will be eliminated.

Monthly 32-Gallon Residential Collection Rates for Unincorporated County	Current Rates effective April 1, 2020	Proposed Rates effective July 1, 2020	Monthly Increase/ (Decrease)	Total Number of Customers
Recology Sonoma-Marin:				
East Zone Rate				
Cloverdale Zone (CLZ)	\$41.99	\$42.34	\$0.35	326
Eastern Sonoma County/Petaluma Zone (ESC)	\$40.66	\$41.00	\$0.34	5,405
*Larkfield Zone (LRK)	\$22.56	\$32.56	\$10.00	681
*Southwest Santa Rosa Zone (SRZ)	\$19.20	\$29.20	\$10.00	211
West Zone				
Sunrise Zone (SUN)	\$45.47	\$45.85	\$0.38	2,889
Pacific Coast Zone (PCZ)	\$48.99	\$49.40	\$0.41	1,025
Sebastopol/South Sonoma County Zone (SSC)	\$39.22	\$39.55	\$0.33	3,427
West Sonoma County Zone (WSC)	\$53.58	\$54.03	\$0.45	3,718
Total 32-Gallon Residential Customers				17,682
<i>*Phased-in adjustment</i>				

Emergency Services

The existing Agreement obligates Recology to provide emergency clean up services to the County following the occurrence of natural disasters, such as floods and fires. The amended Agreement will maintain the County's discretion to order services in response to smaller-scale events, defined as events for which a local, state or federal declaration of emergency has not been issued. Going forward, response to larger-scale events will be governed in accordance with separate competitively-awarded as-needed agreements. A Request for Proposal (RFP) process is currently underway for these other contracts and staff anticipate they will be in place no later than July 31, 2020. To avoid a gap in service availability, the proposed changes to the Agreement to relieve Recology of its obligation to respond to large-scale disaster events will not become effective until the stand-by agreements contemplated by the pending RFP are effective.

Living Wage Ordinance

The existing Agreement pre-dates the July 1, 2016 effective date of the County's Living Wage Ordinance and has therefore been exempt. However, any contract that is amended on or after July 1, 2016 is subject to the terms of the ordinance. Thus, the amended Agreement will require Recology to comply with the Living Wage Ordinance. However, the application of the Ordinance to Recology will not have any impact on Recology's existing operations, as they are already in compliance. Recology's employees unionized in May 2017 resulting in the substantial (25%) increase in labor costs that prompted Recology's request for a rate adjustment. Recology has tendered all of the required certifications that it is in compliance with the Living Wage Ordinance.

Summary of Requested Actions:

1. Approve Recology's requested maximum rate increase of 1.8%.
2. Approve consolidation of the Larkfield and Southwest Santa Rosa zones with the East Sonoma County zone.
3. Approve the recommended amendments to the Franchise Agreement described in this agenda item, as more completely documented in the draft Amended Agreement on file with the Clerk;
4. Direct staff to finalize the draft Amended Agreement to comport with your Board's direction and to make technical, non-substantive edits as may be approved by County Counsel;
5. Approve and authorize the Chair to execute the Amended Franchise Agreement

Alternatives:

The Board could decline the requested rate increase and leave the current Franchise Agreement unchanged. This would mean foregoing some of the benefits offered by the amended Agreement, such as the additional sweeping services and the low-income discount program.

The Board could also decline to approve consolidation of Larkfield and Southwest Santa Rosa Zones (Option 1) in favor of a 1.8% rate adjustment applied equally to all service zones (Option 2). However, this would not address existing rate disparities between zones with comparable costs of service.

Prior Board Actions:

11/14/17: Board approved the assignment of the Amended and Restated Solid Waste Collection Franchise Agreement between Recology Sonoma Marin and Redwood Empire Disposal.

11/3/15: Board approved Amendment No. 3 to the Amended and Restated Solid Waste Collection Franchise Agreement.

7/22/14: Board approved Amendment No. 2 to the Amended and Restated Solid Waste Collection Franchise Agreement.

4/19/11: Board approved Amendment No. 1 to the Amended and Restated Solid Waste Collection Franchise Agreement.

10/19/10: Board approved the Amended and Restated Solid Waste Collection Franchise Agreement with Redwood Empire Disposal.

09/29/09: Board adopted Resolution No. 09-0923 approving a 20-year Solid Waste Collection Franchise Agreement with Redwood Empire Disposal.

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses	\$ 4,098,746	\$ 4,229,905	\$ 4,365,262
Additional Appropriation Requested			
Total Expenditures	\$ 4,098,746	\$ 4,229,905	\$ 4,365,262
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other	\$ 4,098,746	\$ 4,229,905	\$ 4,365,262
Use of Fund Balance			
Contingencies			
Total Sources	\$ 4,098,746	\$ 4,229,905	\$ 4,365,262

Narrative Explanation of Fiscal Impacts:

The franchisee charges rates directly to collection customers. Franchise fees collected through the Agreement are designated to fund solid waste obligations such as maintenance of County owned closed rural landfills, oversight of the Agreement, and road preservation. Total costs for the mentioned obligations are projected to be \$4,098,746 during Fiscal Year 19-20, \$4,229,905 for Fiscal Year 20-21, and \$4,365,262 for Fiscal Year 21-21.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

Attachment 1: Revised Service Areas and Rate Zone Map - 2 options

Attachment 2: Revised Service Rates - 2 Options

Attachment 3: Expanded Street Sweeping & Litter Collection Routes

Attachment 4: Revised Rate Adjustment Formula

Related Items “On File” with the Clerk of the Board:

Proposed Amended and Restated Solid Waste Collection Franchise Agreement with Recology Sonoma Marin, including all exhibits.

Assignment, Novation, and Consent Agreements between Redwood Empire Disposal of Sonoma County, Inc. and Recology Sonoma Marin.

Amended and Restated Solid Waste Collection Franchise Agreement with Redwood Empire Disposal.

Amendment No. 3 to the Amended and Restated Solid Waste Collection Franchise Agreement.

Amendment No. 2 to the Amended and Restated Solid Waste Collection Franchise Agreement.

Amendment No. 1 to the Amended and Restated Solid Waste Collection Franchise Agreement.

Solid Waste Collection Franchise Agreement with Redwood Empire Disposal.