



Meeting Date: September 22, 2015

# STAFF REPORT

**Agency:** City of Belmont

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**Agenda Title:** Review Solid Waste Rate Application and Revise Maximum Rate for Collection Services for CY 2016

**Agenda Action:** Resolution

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## **Recommendation**

Adopt a resolution stating the City of Belmont's intent to revise the maximum rate that may be charged for solid waste, recyclable materials, and organic materials collection services effective January 1, 2016 and set a Public Hearing date for November 24, 2015.

## **Background**

The franchise agreement with Recology of San Mateo County (Recology) for Recyclable Materials, Organic Materials and Solid Waste Collection, adopted by the City Council on April 12, 2010, provides for an annual review of the maximum rates that Recology may charge Belmont residential and commercial customers for regular and unscheduled services. Article 11 of the Agreement sets the methodology for calculating the revenue requirements including Pass-through Costs, which include disposal and processing costs at the Shoreway Environmental Center, and Agency fees.

During the process for setting rates for 2012, the calculated maximum rate increase by Recology was 29% and at that time, Council directed staff to find solutions to minimize the rate increase. In response to Council's direction, Recology proposed a rate smoothing option which reduced the 2012 rate increase to 11.6%. Council adopted this rate smoothing option through Amendment 2 to the Recology Agreement which included the following key elements:

1. The 2011 Migration Recovery Surcharge amount originally due in 2012 was spread over 2013-2016, with interest at prime plus one percent.
2. A one-time Migration Adjustment credit of \$182,334 in 2012 that would have been included in the 2011 Migration Recovery Surcharge was spread over 2013-2016.
3. The final Migration Recovery Surcharge and Migration Adjustment due to take effect in 2013 was delayed until 2014.

Recology has provided the City a letter and detailed worksheet outlining their calculation of the maximum rate for 2016. The calculation, due in part to the previous rate smoothing adopted by Council, indicates a maximum rate increase of 0.90% over the 2015 rates.

As part of the City's due diligence review, the City retained HDR Engineering Inc. (HDR) to verify and confirm that the rates were calculated by Recology in accordance with the franchise agreement and associated amendments. HDR prepared the attached report which provides a summary of the rate adjustment application submitted by Recology and maximum rate schedule options that meet the requirements of the Agreement for selection of Maximum Rates effective January 1, 2016.

**Analysis**

Recology's maximum rate adjustment of 0.90 % is composed of the following two cost elements:

CPI Cost (Index) Adjustment	1.02%
<u>Migration Recovery Surcharge of 2016</u>	<u>-0.12%</u>
Total Rate Index Adjustment	0.90%

**CPI Cost (Index) Adjustment**

Article 11 of the Franchise agreement provides the framework or methodology for the determination of the maximum rate for the upcoming year. In very simple terms, the agreement calls for Recology to annually take the existing maximum rate that is in effect and multiply each rate by an "adjustment percentage". The adjustment percentage is essentially a cost index. For each year the cost index is calculated by adding together the various component which are composed of the following cost elements:

- Wage Component
- Fuel Component
- General Expense Component
- Disposal Costs Component
- Performance-Based Component
- Household Hazardous Waste Component
- Agency Payments Components

HDR reviewed the source data and information used within Recology's calculation and confirmed the calculation of the CPI cost adjustment of 1.02%.

**Migration Recovery Surcharge**

The migration recovery surcharge is a part of Amendment 2. The purpose of the migration recovery surcharge is to collect the deferred adjustment from 2012, plus a carrying cost (interest). A review of the language of Amendment 2 was performed along with the data input into the calculations.

Below is a table and steps for the development of the migration recovery surcharge based on Amendment 2.

**Development of Migration Recovery Surcharge**

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Prime Rate June 30, 2014		3.25%
Plus 1%		<u>1.00%</u>
Interest Rate on Migration Recovery Surcharge		4.25%
2012 Migration Recovery Surcharge Uncollected Balance		\$182,334
Interest Rate on Migration Recovery Surcharge		<u>4.25%</u>
Interest Calculation		\$ 7,749
Total 2016 Interest		\$7,749
2015 Migration Recovery Surcharge Amount		\$(243,416)
Plus: 2016 Surcharge Amount		<u>\$227,918</u>
2016 Total		(\$7,749)
Estimated Annual Billings		\$6,414,825
2016 Migration Recovery		<b>-0.12%</b>

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The analysis begins by determining the interest rate to be charged for the carrying cost which in this case is 4.25%. The interest rate is applied to the uncollected balance of the 2012 migration recovery surcharge to determine the interest amount. The total interest cost is then added to a migration recovery surcharge amounts. That total balance is then divided by the estimated billings to produce the surcharge percent. In this case, the percentage adjustment for 2016 is -0.12%. The review indicates that Recology’s calculation of the Migration Recovery Surcharge was in conformance with Amendment 2.

From the review of the individual cost elements comprising the calculated maximum rates, the analysis developed by Recology appears to comply with the City’s franchise agreement. The overall adjustment to rates for 2016 is 0.90% over the existing rates.

Residential Rates

The present residential service is composed of four different bin sizes which range from 20 gallons to 96 gallons. The structure of the rate is a flat monthly rate. The table below summarizes the present monthly residential rate and the calculated maximum for 2016.

**Summary of the Present and Calculated Maximum Residential Solid Waste Rates  
(Regularly Scheduled-\$/Month)**

Schedule	Schedule Description	Present Monthly Rate	Calculated Maximum 2016 Rate	\$/Month Change
R20G	Residential Waste - 20 Gallons	\$21.00	\$21.19	\$0.19
R32G	Residential Waste - 32 Gallons	\$34.86	\$35.17	\$0.31
R64G	Residential Waste - 64 Gallons	\$71.03	\$71.67	\$0.64
R96G	Residential Waste - 96 Gallons	\$111.30	\$112.30	\$1.00

Commercial Rates

Commercial customers have similar service to residential customers but they have the option to adjust the number of pickups per week. The tables below show a summary of the present commercial rates by these options and the calculated maximum rate for 2016. The maximum calculated rate assumes a 0.90% adjustment to the present rates. Some minor rounding of the rates may occur for purposes of ease of administration.

**Summary of Present and Calculated Maximum Commercial Solid Waste Rates  
(By Gallon Cart Size; Regularly Scheduled-\$/Month)**

Schedule	Schedule Description	Collection - Times Per Week						
		1	2	3	4	5	6	7
C20G	Commercial Waste - 20 Gallon							
	Present 2015 Monthly Rate	\$37.29	\$76.71	\$114.20	\$156.81	\$198.40	\$248.25	\$302.41
	<b>Calculated Maximum 2016 Rate</b>	<b>\$37.63</b>	<b>\$77.40</b>	<b>\$115.23</b>	<b>\$158.22</b>	<b>\$200.19</b>	<b>\$250.48</b>	<b>\$305.13</b>
	\$/Month Change	\$0.34	\$0.69	\$1.03	\$1.41	\$1.79	\$2.23	\$2.72
C32G	Commercial Waste - 32 Gallon							
	Present 2015 Monthly Rate	\$41.42	\$85.24	\$126.89	\$174.23	\$220.44	\$275.83	\$336.00
	<b>Calculated Maximum 2016 Rate</b>	<b>\$41.79</b>	<b>\$86.01</b>	<b>\$128.03</b>	<b>\$175.80</b>	<b>\$222.42</b>	<b>\$278.31</b>	<b>\$339.02</b>
	\$/Month Change	\$0.37	\$0.77	\$1.14	\$1.57	\$1.98	\$2.48	\$3.02
C64G	Commercial Waste - 64 Gallon							
	Present 2015 Monthly Rate	\$80.09	\$161.58	\$245.14	\$329.63	\$419.01	\$510.59	\$597.74
	<b>Calculated Maximum 2016 Rate</b>	<b>\$80.81</b>	<b>\$163.03</b>	<b>\$247.35</b>	<b>\$332.60</b>	<b>\$422.78</b>	<b>\$515.19</b>	<b>\$603.12</b>
	\$/Month Change	\$0.72	\$1.45	\$2.21	\$2.97	\$3.77	\$4.60	\$5.38
C96G	Commercial Waste - 96 Gallon							
	Present 2015 Monthly Rate	\$115.74	\$237.07	\$359.77	\$486.65	\$615.26	\$774.49	\$903.56
	<b>Calculated Maximum 2016 Rate</b>	<b>\$116.78</b>	<b>\$239.20</b>	<b>\$363.01</b>	<b>\$491.03</b>	<b>\$620.80</b>	<b>\$781.46</b>	<b>\$911.69</b>
	\$/Month Change	\$1.04	\$2.13	\$3.24	\$4.38	\$5.54	\$6.97	\$8.13

Schedule of charges are itemized and included in Exhibit A.

Unscheduled Services

Recology also provides a number of services that are not considered “regularly scheduled” services and these particular services are not included as a part of the Attachment R rates discussed above. The rate for unscheduled services is contained in Attachment Q of the Franchise Agreement and is annually updated in accordance with the terms of the agreement.

The Maximum Rate set forth in Attachment Q is adjusted annually by multiplying the then effective Maximum Rate by the Consumer Price Index (CPI) for the year immediately preceding the year of the calculation and dividing the result by the Consumer Price Index for the year two years prior.

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$$\frac{2014 \text{ CPI} - 2013 \text{ CPI}}{2013 \text{ CPI}} = \text{CPI Adjust.} \quad \frac{236.736 - 232.957}{232.957} = 1.622\%$$

The new schedule of charges are itemized and included in Exhibit A

Proposition 218

The City is committed to promoting public participation in City activities. Toward this end, it is the City’s practice to conduct notice, and protest hearing proceedings with respect to solid waste maximum rates in the manner set forth in Article XIID, Section 6(a) of the California Constitution and Section 53755 of the Government Code. That process require that a notice be mailed to solid waste customers not less than forty-five days prior to any public hearing affecting any rate.

Customers and property owners have the right to submit written protests against the proposed charges and may do so by mail or in person to the City Clerk no later than the conclusion of the Public Hearing. If written protests against the charges are presented by owners of a majority of the affected parcels, the City Council may not impose the charges.

The attached resolution authorizes the initiation of the Proposition 218 process based on the Maximum Rates in accordance with the Guidelines for the Submission and Tabulation of Protests in Exhibit B, and sets a public hearing for November 24, 2015.

Alternatives

1. Take no action
2. Adjust rates differently while meeting the revenue requirements in accordance with the Franchise Agreement
3. Deny all or a portion of the proposed increase and direct staff to work with Recology to reduce services accordingly

**Attachments**

- A. Resolution, Exhibit A & B
- B. HDR Engineering Inc. Draft Final Report Review of Solid Waste Rates

**Fiscal Impact**

- No Impact/Not Applicable
- Funding Source Confirmed:

**Source:**

- Council
- Staff
- Citizen Initiated
- Other\*

**Purpose:**

- Statutory/Contractual Requirement
- Council Vision/Priority
- Discretionary Action
- Plan Implementation\*

**Public Outreach:**

- Posting of Agenda
- Other\*

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