



AGENDA BILL

Agenda Item No. 6.A.

Date: December 17, 2019
To: El Cerrito City Council
From: Yvetteh Ortiz, Public Works Director/City Engineer, Public Works Department
Subject: Proposed East Bay Sanitary Garbage & Green Waste Collection and Post-Collection Rates and Integrated Waste Management Fees -- Effective January 1, 2020

ACTION PROPOSED

1. Conduct a public hearing and upon conclusion adopt a resolution establishing maximum allowable East Bay Sanitary (EBS) garbage and green waste collection, processing and disposal rates, effective January 1, 2020; and
2. conduct a public hearing and upon conclusion adopt a resolution fixing and setting Integrated Waste Management (IWM) Fees, effective January 1, 2020.

BACKGROUND

Each year the City Council approves the maximum allowable rates and fees charged to ratepayers in the City of El Cerrito for solid waste collection and post-collection (processing and disposal). These consist of three components as follows:

- A per service rate for the collection of garbage and green waste by the City's franchised waste hauler, East Bay Sanitary Company (EBS);
- A per ton rate by Republic Services for the processing and disposal of solid waste, green waste, household hazardous waste (HHW), and other waste types through the services and facilities of the Golden Bear Transfer Station, Keller Canyon Landfill, West Contra Costa Sanitary Landfill, and West County Resource Recovery; and
- An IWM fee which funds unlimited curbside recycling collection for El Cerrito residents and businesses, the daily operations and waste reduction and recycling services of the El Cerrito Recycling + Environmental Resource Center (RERC), and other solid waste collection, source reduction and integrated waste management services.

The rates and fees for these three components are based on the annual revenue required to run the operations that provide these services. Residential and commercial customers pay these rates on either a per cart (based on the size of their garbage container) or per bin (based on the cubic yards of a weekly service) basis. Industrial customers (those using debris boxes) pay on a per ton basis.

ANALYSIS

East Bay Sanitary Garbage and Green Waste Collection Rates

EBS sets and charges the rates for garbage and green waste collection (EBS Collection Rates) based upon maximum rates authorized by the City Council, pursuant to City of El Cerrito Municipal Code Chapter 8.12. In 2012, the City and EBS completed a Rate and Operations Review that culminated in the City Council adopting a Fifth Amendment to the East Bay Sanitary Franchise Agreement (Resolution 2012-89). Among other changes, the Amendment resulted in the development of an annual adjustment to EBS's annual rates via a Refuse Rate Index (RRI). The RRI is based upon a proscribed formula in which inflation indices for seven operational cost categories (e.g., fuel and labor) are weighted and calculated to provide an annual percentage adjustment to the revenue requirement. The RRI is lower than the Consumer Price Index (CPI) for the Bay Area.

The Fifth Amendment also established a Revenue Balancing Account, which provides for adjustments in the revenue requirement to account for any difference between the projected rate revenues and the actual rate revenues received in prior calendar years. The Revenue Balancing Account ensures that any over- or under-collection of revenues is captured in future years' rates--meaning that EBS is fairly compensated when revenues are lower than required by the agreement. Conversely, when revenues are higher than required, any over-collection of revenues is used to offset future rate adjustments.

Since 2016, the balancing account has shown a surplus and has thus been used to offset rates, including for this current rate setting. This over-collection is primarily a result of revenue coming from debris box orders, which are seasonal and for the most part due to increased demolition and construction activity in the City. An amount of \$102,763 in balancing account funds (from 2018) will be applied to offset rates in 2020.

EBS has calculated and proposed a 2020 RRI revenue adjustment of 3.72% over their 2019 revenue requirement. This results in a 2020 revenue requirement of \$4,867,115 for collection operations, an increase of \$174,563, which is offset by \$102,763 in the balancing account, for a total revenue requirement to be collected via the rates of \$4,764,353. With the assistance of R3 Consulting Group, a consulting firm that specializes in solid waste management, City staff has reviewed the RRI adjustment figures and the proposed 2020 collection revenue requirement and found it accurate, consistent, and reasonable.

The proposed 2020 EBS Collection Rates necessary to meet the revenue requirement are included in Attachment 3 (2020 Solid Waste Collection, Processing and Disposal Rates).

East Bay Sanitary Post-Collection (Processing and Disposal) Rates

The City Council also sets the maximum allowable Post-Collection Rates (Resolution 2013-64) to cover expenses for processing and disposal of waste. Effective January 1, 2014, the City Council approved a Post-Collection Agreement between the City and Republic Services for processing and disposal services (Resolution 2013-54) through the services and facilities of the Golden Bear Transfer Station, Keller Canyon Landfill, West Contra Costa Sanitary Landfill, and West County Resource Recovery.

Per the methodology set forth in the terms of the Post-Collection Agreement (PCA), Republic Services has calculated and proposed a 2020 Blended Rate of \$114.35 per ton of garbage, green waste, construction and demolition debris and commercial dry waste delivered by EBS to Republic's facilities. Unlike last year, this per ton rate also includes funding of El Cerrito's participation in the West Contra Costa Integrated Waste Management Authority (RecycleMore) which includes funding of State Law compliance activities undertaken by RecycleMore on behalf of its member agencies. RecycleMore assists the City with compliance with the following State laws: AB 939 California Integrated Waste Management Act reporting, AB 1826 Mandatory Commercial Organics Recycling and SB 1383 Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions. The RecycleMore funding was previously included in the IWM fees, described below, but this year has been incorporated into the Post-Collection Rates (as done by the other RecycleMore member agencies) to limit expenses in the IWM Fund to those related to services directly operated or managed by the City.

The 2020 Blended Rate per ton also covers costs to provide Household Hazardous Waste (HHW) disposal services for El Cerrito residents both through Republic's satellite program on Tuesdays at the RERC and through the regional HHW Facility in Richmond. With the assistance of R3 Consulting Group and RecycleMore, the regional agency which oversees the HHW budget and post-collection revenue requirement in West County, City staff has reviewed the proposed 2020 Blended Rates and found them accurate, consistent, and reasonable. These disposal, processing, RecycleMore and HHW costs are paid by EBS to Republic Services as part of their disposal costs and are included in the rates that EBS collects. The proposed 2020 EBS Post-Collection Rates necessary to meet the revenue requirement for the 2020 Blended Rate per ton (\$1,450,187 calculated based on the per ton rate of \$114.35 times a projected 12,682 tons) are included in Attachment 3.

Integrated Waste Management Fees

In 1990, the City of El Cerrito established IWM Fees to cover integrated waste management services provided by the City including curbside collection of recyclable materials, operations of the El Cerrito Recycling + Environmental Resource Center (RERC), and other waste collection, reduction, recycling and related environmental programs operated by the City (such as illegal dumping abatement, technical assistance for businesses that must comply with state mandated recycling and composting laws, and collection of materials banned from landfills including electronics, batteries, and medical sharps).

The budget for the IWM Fund is approved as part of the City's budget setting process for each fiscal year, while the IWM Fees are approved as part of the solid waste rates on a calendar year basis. Thus, the IWM Fees considered as part of this public hearing provide IWM revenue for the last half of Fiscal Year (FY) 2019-20 (January through June) and the first half of Fiscal Year 2020-21 (July through December).

In order to fully fund IWM operations and move the City much closer to achieving and retaining a positive fund balance in the IWM Fund, City staff is projecting the need for a significant increase in IWM fee revenues, effective January 1, 2020. This increase is due to the unprecedented and continued declines in recycling revenues, increases in recyclables processing costs, the immediate need to plan for and implement actions necessary for compliance with State Laws AB 341, AB 1826 and SB 1383, and the need to more immediately reverse the negative Unrestricted Fund Balance, which results in an amount due to the General Fund.

As reported to the City Council and the public in multiple reports this past year, the Chinese government has placed increasingly tight restrictions and bans on the amount and type of recycled material Chinese manufacturers can accept. These restrictions have caused dramatic and volatile changes in the market for recycled materials. As a result, single-stream curbside recyclables have been commanding little or no revenue, and in many communities a surcharge which is comparable to a disposal fee. Since FY 2016-17, the City's Recycling Program has seen a loss of more than \$240,000 in recycling revenue and new recyclables processing and transport costs projected to be approximately \$324,000 in FY 2019-20 and FY 2020-21. These negative trends in the recycling markets are universally expected to worsen into future years. Additionally, the compliance requirements under the State Laws described above are increasing, with significant investments by local governments in infrastructure, programs, outreach and education, contamination monitoring, and City purchasing requirements being mandated in the next two to five years.

City staff has estimated that an IWM revenue increase from \$2,855,665 in 2019 to \$3,717,545 in 2020 is needed to maintain existing programs and services, overcome continued steep declines in recycling revenues and new recycling processing costs, and reverse prior year negative fund balance. The proposed 2020 IWM Fees necessary to generate the needed IWM revenue are included in Attachment 3.

Overall Rate Changes

Overall, the revenue requirement for the entire suite of solid waste services will increase by 14.32% (compared to July 1, 2019) for a total rate revenue requirement of \$9,932,084. When this revenue requirement is translated into the per container monthly service, solid waste rates for most customers will increase by an average of approximately 14.9% as described below.

All residential solid waste services are priced based on the garbage container size, regardless of how much a customer's reduction in garbage is shifted to recycling and green waste. Commercial customers also receive unlimited recycling service based on

the garbage container size. To a great extent, this has resulted in customers downsizing their garbage container. While downsizing containers and sending less garbage to the landfill is a testament to the success of El Cerrito's recycling and green waste programs, the fixed costs of providing these services, in conjunction with increased costs to accommodate significant increases in overall materials being diverted for recycling and organics recycling, does not decrease and therefore needs to be spread over the entire pool of customers. An instance of increasing amount of recycling materials is the "Amazon Effect," whereby consumer spending has shifted to items being delivered in a box, has resulted in more large bulky cardboard being diverted to recycling containers.

Adoption of the combined fees will result in total monthly cost increases (over rates adopted July 1, 2019) of \$6.11 for 20-gallon customers (44% of cart subscriptions), \$7.90 for 35-gallon customers (50% of cart subscriptions), and \$14.63 for 64-gallon customers (5% of cart subscriptions). Bulk commercial collection rates will increase by an average of 14.4%. The proposed EBS Collection and Post-Collection Rates and IWM Fees are included in Attachment 3.

It is important to note that many communities in California are similarly seeing significant increases in solid waste rates due to the downturn in recycling markets. Recent solid waste rate increases in Northern California include but are not limited to anticipated increases above 25% in West Marin County, 40 to 60% in Santa Clara, 8 to 12% in Santa Rosa, over 40% in Cotati, Healdsburg and Petaluma, and over 9% per year for three to five years in Los Altos and Los Altos Hills.

STRATEGIC PLAN CONSIDERATIONS

Adoption of the combined EBS Rates and IWM Fees help fulfill the following City of El Cerrito Strategic Plan goals and objectives:

- Goal A: Deliver Exemplary Government Services by maintaining an emphasis on providing excellent customer service.
- Goal B: Achieve long-term financial sustainability by ensuring the IWM Fund has balanced revenues and expenses.
- Goal F: Foster Environmental Sustainability Citywide (Implement the City's Climate Action Plan, including reducing the amount of waste generated in El Cerrito). Specifically, the proposed rates and fees will support high waste diversion rates.

ENVIRONMENTAL CONSIDERATIONS

All jurisdictions in California are required by law to provide recycling and organics recycling services for its residents and businesses through mandates established in AB 989, AB 341, and AB 1826. Recent legislation, SB 1383, mandates higher recycling and composting compliance rates by the year 2022. Reliable and proper disposal, processing, and diversion of solid waste is necessary to protect the health and welfare

of the community and environment. The services being funded by the proposed 2020 EBS Collection Rates and Post-Collection Rates and IWM Fees not only ensure compliance with State law and reliable solid waste collection, they also enable El Cerrito to reduce its environmental impact through strong solid waste diversion and HHW programs, while responding to the dramatic downturn in the recycling markets precipitated by the Chinese “National Sword” policy.

FINANCIAL CONSIDERATIONS

Adopting the EBS Rates and IWM Fees, as proposed, supports the revenue requirements of the entities that provide solid waste services in El Cerrito. Adoption of the proposed IWM Fees will result in higher IWM revenues than projected in the Adopted Budget for FY 2019-20, in order to address declines in recycling revenues and new recycling costs due to unprecedented changes in recycling markets, and more immediately reverse the negative Unrestricted Fund Balance and largely pay back the General Fund by the end of FY 2019-20. The estimated amount due to the General Fund as of the end of FY 2018-19 is approximately \$500,000, so the IWM revenue increase is designed to repay a large part of this in FY 2019-20 and the remainder in the following fiscal year. The amount due was largely the result of adjustments related to capital asset and liability accounting.

Despite the negative trends in the recycling markets, City staff is hopeful that the significant rate and fee increases over this last year will abate in 2021 as the amount due to the General Fund is eliminated. The City will also be retiring during the current fiscal year the debt service for both the recycling carts and the first generation of recycling trucks purchased when the City switched to single-stream recycling collection in 2009.

LEGAL CONSIDERATIONS

The City Attorney has reviewed the proposed actions and found that legal considerations have been addressed. The Notice of Public Hearing for the IWM and EBS fees were publicly posted on December 7, 2019 and published in the December 7 and December 13, 2019 editions of the West County Times.

Reviewed by:



Karen Pinkos, City Manager

Attachments:

1. Resolution (EBS Rates)
2. Resolution (IWM Fees)
3. 2020 Solid Waste Collection, Processing & Disposal Rates