

City of Piedmont
SUPPLEMENTAL AGENDA REPORT

DATE: December 4, 2017

TO: Mayor and Council

FROM: Paul Benoit, City Administrator

SUBJECT: Introduction and 1st Reading of Ordinance 737 N.S., Approving a Solid Waste Collection Service Agreement between the City of Piedmont and Richmond Sanitary Service, Inc. (dba Republic Services)

SUMMARY:

At the conclusion of the Piedmont City Council special meeting held on November 27, 2017, at which the Council and members of the public received a briefing from staff and the City's consultant on the terms of the Solid Waste Collection Service Agreement ("Agreement") between the City of Piedmont ("City") and Richmond Sanitary Service, Inc. (a subsidiary of Republic Services, Inc., hereinafter referred to as "Republic Services") currently under consideration for adoption, the City Council requested the additional information provided below.

COMPARABLE JURISDICTIONS:

In 2016, the City's consultant providing solid waste procurement assistance, R3 Consulting Group, Inc. ("R3"), conducted a rate survey and analysis to provide a comparison between rates in Piedmont and rates in similar jurisdictions (see Table 1, below). R3 surveyed six jurisdictions with conditions as similar as possible to those found in Piedmont: small, affluent communities, with varied terrain, narrow streets, backyard service collection options, and very few commercial/industrial subscribers. These jurisdictions were selected as near-comparisons to the City in terms of key characteristics, but even so, these are not true "comps" in the sense that many of Piedmont's defining characteristics are not present in these other communities.

Table 1: Survey of Similar Jurisdictions (2016)

Jurisdiction	Residential Rates						
	Effective Date	Curbside Refuse (or Comparable)				Backyard Refuse (or Comparable)	
		20 gal	32-35 gal	64-65 gal	95-96 gal	20 gal	32-35 gal
Atherton	1/1/14	\$27.00	\$55.00	\$110.00	\$164.00	N/A	N/A
Hillsborough	1/1/12	\$42.40	\$52.50	\$82.40	\$117.40	N/A	N/A
Los Altos Hills	7/1/15	\$27.95	\$38.97	\$77.96	\$116.92	\$48.90	\$59.69
Orinda	3/1/16	\$32.00	\$36.57	\$68.61	\$102.99	\$48.60	\$52.79
Fairfax	3/1/15	\$26.84	\$32.18	\$64.36	\$96.54	\$31.33	\$37.59
San Anselmo	1/1/16	\$28.02	\$36.62	\$73.30	\$109.95	\$31.69	\$40.30
Average (without Piedmont)		\$30.70	\$41.97	\$79.44	\$117.97	\$40.13	\$47.59
Piedmont	7/1/16	\$51.83	\$54.49	\$64.21	\$75.86	\$54.80	\$60.40
Difference (Piedmont vs Avg.)		\$21.13	\$12.52	-\$15.23	-\$42.11	\$14.67	\$12.81
% Difference		69%	30%	-19%	-36%	37%	27%

In reviewing the rate survey, it should be noted that while every jurisdiction is unique, Piedmont has a particular set of characteristics distinguishing it from other jurisdictions with regard to solid waste collection services, limiting the ability to identify closely comparable jurisdictions and limiting the degree to which extrapolations can be made based on information from other jurisdictions. Additional information on the comparable jurisdictions that were selected in that analysis is provided in Table 2, on the following page, to provide context on key similarities and differences between the jurisdictions and to help explain why Piedmont's rates are relatively high.

Table 2: Relevant Characteristics of Similar Jurisdictions (2016)

	Piedmont	Atherton	Fairfax	Hillsborough	Los Altos Hills	Orinda	San Anselmo
Contiguous with multiple jurisdictions?	N	Y	Y	Y	Y	Y	Y
Participating, or able to participate in a regional consortium that provides for cost-effectiveness in contracting and provision of service?	N	Y	Y	Y	N	Y	Y
Meaningful commercial customer base available to offset residential rates?	N	N	N	N	N	N	N
Diversion Performance (achieved, 2014, per capita disposal)	82%	72%	74%	63%	60%	75%	75%
Competitiveness in procurement	One proposer	Multiple proposers	Not applicable	Multiple proposers	Not available	Multiple proposers	Not applicable
Extensive use of Backyard / On-Premises Service	Y	N	N	N	N	N	N
Unlimited Backyard / On-Premises Organics?	Y	N	N	N	N	N	N
Percent of Subscribers: 20-gallon garbage cart	21%	19%	22%	16%	Not available	Not available	18%
Percent of Subscribers: 32-35-gallon garbage cart	73%	35%	72%	49%	Not available	Not available	67%
Percent of Subscribers: 64-65-gallon garbage cart	5%	27%	6%	24%	Not available	Not available	14%
Percent of Subscribers: 95-96-gallon garbage cart	1%	19%	0%	11%	Not available	Not available	1%

ELEMENTS AFFECTING PIEDMONT RATES OVERALL:

Elements that put upward pressure on rates in Piedmont include:

- Geographical isolation:
 - Completely surrounded by a territory with a different service provider (Waste Management of Alameda County, which declined to propose citing safety concerns with the amount of backyard service).
 - Results in dedicated routes that are hard to fully maximize in terms of efficiency (whereas shared boundaries would allow for cross-jurisdictional routing that maximizes routing and thus cost-efficiencies).
- Topography:
 - Hilly, narrow streets that are difficult to serve with automated side-loading vehicles, which would otherwise increase the efficiency of collection
- Small community not well positioned to participate in a regional agency for group provision of solid waste services.
- Very small commercial customer base and no industrial customer base available to offset residential rates (as is common practice for solid waste rate setting).
- Relatively high diversion performance:
 - Meets legislative requirements, but processing recyclable materials and organic waste comes at a higher cost than disposing garbage.
 - Diversion services included as part of “bundled residential service” with high participation in Piedmont.
- Extensive subscription to Backyard / On-Premises Service, which is extremely labor intensive:
 - Currently approximately 50%.
 - Other communities typically no higher than 10%.
 - Very labor intensive, also affecting routing efficiencies and cost-effectiveness.
- Unlimited Backyard / On-Premises collection of organic waste.
- Unlimited collection of recyclable materials and organic waste.
- Vast majority of customers subscribe to the smallest two container sizes.
- Only one service provider willing to provide services determined to be desired by residents in early 2016 through community workshops and an on-line survey.

ELEMENTS AFFECTING INCREASING RATES IN NEW AGREEMENT:

Elements affecting the magnitude of the current rate increase include:

- Republic Services has indicated that it mistakenly underbid in 2007 for the services from 2008-2017 and thus rates have not been adequately covering costs for the past ten years. This position is supported by the Comparison of Republic Services Initial Proposed Rates vs. Escalated 2008 Competitor Rates in Table 1 of the Staff Report.
- Labor, fuel, and equipment costs have been steadily increasing since 2008, with service rates not keeping pace with the increase in operational costs.
- A significant portion of the costs of providing service (approximately 50%) cover processing and disposal (as opposed to collection), which are generally increasing across

the industry, and are not associated with collection costs. For example, the cost of composting of organics on a per ton basis has nearly doubled regionally in the last 5 years, and costs for processing recyclables have also risen while revenues from recycling sales have become more volatile.

- On-Premises Service will be made available to qualifying physically disabled customers at Curbside Service rates.
- On-Premises Service rates are increasing more significantly than Curbside Service rates, as bidders were instructed to provide rates aligned with the cost of providing service.

It is worth noting as well that throughout the Bay Area rates charged to customers for solid waste collection and processing have been increasing significantly, and for reasons similar to the increases in Piedmont. This is largely the result of expiring contracts and rates being “reset” to new market, labor, benefits and legislative conditions that were not subject to adjustment in prior years.

HOW CUSTOMERS CAN MITIGATE THE RATE INCREASE:

Service recipients in Piedmont have several options to reduce the costs associated with solid waste collection services, including:

- Single Family Dwelling Service Recipients currently subscribing to Backyard / On-Premises Service may switch to Curbside Service, saving \$42.33 per month.
- Single Family Dwelling Service Recipients may take advantage of the Annual Pre-Payment Discount as a reduction in the Service Rates for voluntary advance payment for one year of service with the twelfth month of service provided at no charge in exchange for such advance payment, reducing the effective rates by approximately 8%.
- Service recipients may subscribe to a smaller size garbage container by diverting additional recyclable materials from the garbage container to the recyclable materials container and diverting additional organic waste from the garbage container to the organic waste container.
- Physically disabled service recipients with no able-bodied members of the household may apply to receive On-Premises Service at Curbside Service rates.

EXAMPLE RATE IMPACTS FOR COMMON SERVICE LEVELS:

Most curbside residential subscribers (those subscribing to 35-gallon garbage carts, accounting for 73% of customers) could reduce the impact of increased rates by reducing their garbage container size to 20-gallons and by utilizing the pre-payment discount as shown in Example 1, on the following page.

Example 1: Curbside Service, 35-gallon garbage cart

Service	Monthly Rate (effective)	\$ increase from current
Current – Curbside Service, 35-gallon garbage cart	\$55.11	NA
New – Curbside Service, 35-gallon garbage cart	\$84.60	\$29.49
New – Curbside Service, 35-gallon garbage cart (With Annual Pre-Payment Discount)	\$77.55	\$22.44
New – Curbside Service, 20-gallon garbage cart	\$79.84	\$24.73
New – Curbside Service, 20-gallon garbage cart (With Annual Pre-Payment Discount)	\$73.19	\$18.08

As shown in Example 1, by reducing their garbage container size and pre-paying garbage bills, these customers could reduce the increase in their monthly bill from \$29.49 to \$18.08, effectively reducing the overall rate increase from 54% to 33%. Similarly, customers receiving on-premises services may also reduce the impact to their monthly bills, as shown in Example 2.

Example 2: On-Premises Service, 35-gallon garbage cart

Service	Monthly Rate (effective)	\$ increase from current
Current – On-Premises Service, 35-gallon garbage cart	\$61.08	NA
New – On-Premises Service, 35-gallon garbage cart	\$126.93	\$65.85
New – On-Premises Service, 35-gallon garbage cart, (With Annual Pre-Payment Discount)	\$116.35	\$55.27
New – On-Premises Service, 20-gallon garbage cart	\$122.17	\$61.09
New – On-Premises Service, 20-gallon garbage cart, (With Annual Pre-Payment Discount)	\$111.99	\$50.91

As shown in Example 2, by reducing their garbage container size and pre-paying garbage bills, On-Premises customers could reduce the increase in their monthly bill from \$65.85 to \$50.91 effectively reducing the overall rate increase from 108% to 83%. Additionally, these customers could switch to curbside service, reduce their garbage container size to 20-gallons, and receive the annual pre-pay discount, yielding a total monthly rate of \$73.19 and a total increase of \$12.11 per month (20% increase over current monthly rates).

Prepared by: Kevin Jackson, Director of Planning, and
Garth Schultz, Principal, R3 Consulting Group