



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: OCTOBER 16, 2018

FROM: PUBLIC WORKS DEPARTMENT WARDS: ALL

SUBJECT: REFUSE FUND UPDATE - PROPOSED CHANGES TO WASTE PROCESSING RATES AT THE AGUA MANSA TRANSFER STATION WITH CORRESPONDING RESIDENTIAL AND COMMERCIAL RATE ADJUSTMENTS; APPROVE FIFTH AMENDMENT TO BURRTEC WASTE RESIDENTIAL SOLID WASTE AGREEMENT FOR INTEGRATED SOLID WASTE MANAGEMENT SERVICES TO UPDATE THE CONSUMER PRICE INDEX AREA AND EXTEND TERM THROUGH JUNE 30, 2020 - RESOLUTION

ISSUES:

Receive a Refuse Fund update and discuss a request to adjust processing rates at the Agua Mansa Transfer Station with corresponding residential and commercial customer rate increases; and approve a Fifth Amendment to Burrtec's Residential Solid Waste Agreement for Integrated Solid Waste Management Services to update the Consumer Price Index area and extending term through June 30, 2020.

RECOMMENDATIONS:

That the City Council:

- 1) Receive an update on the Refuse Fund (540) and discuss Burrtec Waste Industries, Inc. April 17, 2018 request for processing rate adjustments and corresponding residential and commercial rate increases for all City Franchise waste haulers and City services; and
- 2) Direct staff to prepare all documents necessary for public noticing and to set a public hearing for solid waste rate increases as identified in Option B (residential) and Option C (commercial) through June 30, 2020 on a date at least 45 days after mailing said notice in accordance with Proposition 218; and
- 3) Adopt a Resolution authorizing and approving the Fifth Amendment to Residential Solid Waste Agreement between the City of Riverside and Burrtec Waste Industries, Inc. to update the Consumer Price Index area and extend the term through June 30, 2020 for Residential Solid Waste Collection; and
- 4) Authorize the City Manager, or his/her designee, to execute the Fifth Amendment to Residential Solid Waste Agreement between the City of Riverside and Burrtec Waste Industries, Inc. for Residential Solid Waste Collection; and

- 5) Authorize staff to issue a request for proposals to retain a solid waste management consultant to further study Public Works' solid waste performance audit recommendations and prepare a detailed rate study and plan for FY 2020/21 to FY 2025/26.

COMMITTEE RECOMMENDATION:

The Finance Committee met on September 12, 2018, with Chair Adams, and member Conder present. Vice-Chair Soubirous was absent. The Committee met to consider: 1) a request by Burrtec Waste Industries to increase waste processing rates at the Agua Mansa Transfer Station with corresponding residential and commercial customer rate increases; 2) an extension to Burrtec's Residential Solid Waste Collection Agreement; and 3) issuance of a request for proposals to retain a solid waste management consultant to further study Public Works' solid waste performance audit recommendations and prepare a detailed rate study and plan for FY 2020/21 to FY 2025/26. While past discussions regarding refuse operations have been brought forward to the Utility Services and Land Use Committee, given the fiscal nature of the request and the current status of the Refuse Fund, this item was requested to be heard by the Finance Committee Chair during budget cycle presentations.

After discussion, the Committee unanimously voted with one member absent to conceptually support staff's recommendations and to bring the proposed options for residential and commercial rates before the City Council.

BACKGROUND:

The Public Works Department Solid Waste Division is responsible for residential and commercial trash collection, recycling programs and street sweeping services. During the development of the Fiscal Year 2018-20 budget, Public Works presented the Solid Waste Fund's baseline budget, five year plan and future financial challenges to the Budget Engagement Commission, Finance Committee and City Council.

During those presentations, staff also discussed the performance audit for Public Works approved by City Council on November 28, 2017. The performance audit includes a review of the solid waste program (revenue generation and expense reduction opportunities and a review of the solid waste rate structure). The final audit report and recommendations are anticipated to be presented to City Council by the City Manager's office later this year. Staff is anticipating the performance audit findings may recommend solid waste operations be reviewed in more detail.

While staff is sensitive to issues relating to customer rate increases, Burrtec Waste Industries, Inc. (Burrtec) submitted a request to adjust processing rates under their processing agreement with corresponding residential and commercial solid waste rate adjustments which would apply to all contract haulers and the City residential operation. Burrtec's request is based on year-to-year cost increases exceeding inflation and magnified by state laws impacting minimum wages and health insurance. The waste industry overall, including city operations, are facing these same operating cost pressures.

DISCUSSION:

A solid waste operation is essentially made up of collection and processing/disposal. Collection is the physical process of picking up trash at the curb and transporting waste to a transfer station for processing and sorting. Riverside trash, greenwaste and recycling collection is provided through a combination of City crews and contract services. Commercial collection is provided by three contractors (Athens, Burrtec and CR&R) as approved by City Council on January 23, 2001. On January 23, 2018, City Council approved a five (5) year term extension to all three commercial refuse service contracts through June 30, 2023. Residential collection is provided by City crews that service two-thirds of City residents and a private hauler, Burrtec Waste, which services the remaining one-third of City residents.

Burrtec's residential contract expires December 31, 2018. Staff is recommending an 18 month extension of Burrtec's contract through June 30, 2020 to provide time to review and implement any performance audit recommendations. In addition, staff is recommending an update to the geographic area sample defined in the Residential Solid Waste Collection Agreement to reflect changes made by the Bureau of Labor Statistics (BLS) in January of 2018. Specifically, BLS broke the former Los Angeles-Riverside-Orange County into two areas, one of which is now known as the Riverside-San Bernardino-Ontario area. This proposed revision is 'clean up' language and will not materially affect the agreement.

Waste processing and disposal is a highly regulated industry and one in which costs are increasing beyond inflation. Most waste generated in Riverside is processed at the Robert A. Nelson (also known as Agua Mansa) Transfer Station (Transfer Station). The Transfer Station is operated by Burrtec under a contract with the City that expires March 30, 2029. Processing includes the sorting and transfer of trash, recycling and greenwaste. Some materials, such as greenwaste, are processed into reusable material at the Transfer Station, whereas other materials, such as recyclables, are sold by Burrtec to third party processors (i.e. plastic, glass and paper) for future reuse. The City and Burrtec historically have shared in revenue generated from *residential* recycling to partially offset rate increases. Trash, which is received at the Transfer Station, is taken to the County landfill for disposal. The commercial collection contracts allow haulers to retain recycling and greenwaste which they have the option to take to their facility or they may take to the Transfer Station.

City Council approves rates for both commercial and residential refuse services and extraordinary increases for waste processing at the Transfer Station. Thus, there are essentially two core requests at issue here: 1) whether to approve an extraordinary increase to processing rates; and 2) whether to approve a corresponding commercial and residential service rate increase.

No. 1: Disposal Rate Adjustment Request

On April 17, 2018, Burrtec submitted a request to the City requesting an adjustment to its processing rate to cover extraordinary cost increases related to inflation (Consumer Price Index or CPI), Riverside County landfill tip fees, new laws regulating green waste processing, significant disruptions in market value to recyclables and increased operating costs due in part to laws increasing minimum wage and new medical insurance requirements outlined in Attachment 3. Under the processing agreement, rates (at the Transfer Station gate) are automatically adjusted each year by CPI in July. However, extraordinary cost increases under this contract require City Council approval.

It is important to note that increases to processing are considered a 'pass-through' cost and generally are accompanied by a corresponding customer service rate adjustment. The CPI increase was already implemented at the Transfer Station. As a result, the City's contract haulers and the City are currently absorbing that additional cost. If the extraordinary processing rate is approved, it will further affect each contract hauler and the City operation as well, which leads to the second request at issue here.

No. 2: Commercial and Residential Customer Rate Adjustment Request

Historically, rates have increased each year by CPI, which allowed for those automatic inflationary increases to be captured. However, all refuse rate adjustments expired on June 30, 2018. Therefore, no rate increases are currently approved for residential or commercial services. Additionally, staff concurs with the waste haulers that CPI adjustments have not accurately reflected year-over-year cost increases over several years, some of which are outlined below.

Cost Drivers

There are a variety of issues creating cost pressures to the solid waste system in addition to labor (minimum wage laws, CalPERS, overtime), insurance (health, workers compensation and liability) and ongoing equipment needs to meet air quality mandates.

- **China's Recycling Waste Ban:** On January 1, 2018, the primary market for recycling (China) implemented a waste import ban on select papers and plastics and significantly reduced pricing for high volume material like cardboard. This policy decision has crippled this once profitable revenue stream to the City and to commercial haulers which had been used to offset rate increases.
- **Landfill Fees (Tip Fees):** Riverside County Waste Management Resources District (District) sets the "tip" fee at the County landfills for disposal of trash. Historically and in FY 2018/19, the District increased the tip fee by CPI. However, staff anticipates the District may increase their fees beyond CPI in the next year or two due to the same cost pressures facing our operations.
- **Regulations – Greenwaste/Organics (AB 1826) and Mandatory Commercial Recycling (AB 341):** Several recent legislative mandates require jurisdictions, waste haulers and processors to implement a number of expanded and new organics and recycling programs. While Riverside has both commercial greenwaste and recycling programs in place, these regulations require a higher degree of implementation and processing, new rules regarding disposal, new commercial food waste collection and recycling programs, more robust outreach and methane capture – all of which impact costs. Some of these changes are already in place; while others, such as the creation of a commercial food waste program, will require program development and an amendment to the Agreement for Transfer Services with an associated future rate for commercial haulers. In the meantime, staff is working in partnership with Burrtec and the Wastewater Treatment Facility on a pilot project to convert processed food waste into usable, clean energy at the Wastewater Treatment Plant. In addition, Public Works is working with a consultant to develop a comprehensive organics program, which would include a review of the proposed Commercial Food Waste tip fee proposed by Burrtec.

CalRecycle, the organization responsible for state waste regulatory compliance, has conducted a preliminary program review of commercial recycling programs and is requiring

Riverside and its waste haulers to increase programming to better meet target diversion requirements. Examples of program enhancements include collection containers for food waste/organics, education, improved processing, outreach, and monitoring of businesses.

- Increased Service Demands:** The City portion of the waste collection system has experienced an unfunded increase in service requests relating to homeless clean ups. Prior to FY 2017/18, the City scheduled approximately two homeless clean ups per year. Last fiscal year, requests for service escalated to a minimum of two clean ups per month with an estimated annual cost of nearly \$400,000-\$500,000. The current rate plan does not include these additional services.

The following chart identifies processing fee categories with specific cost drivers that are impacting processing costs.

Category	Cost Drivers	Comments
Refuse Tip Fee	Labor, equipment to meet air quality regs, insurance, fuel	The tip fee is comprised of a) County landfill fee as set by Riverside County and b) processing fee for trash established by Transfer Station operator
Greenwaste Tip Fee	Labor, equipment to meet air quality regs, insurance, fuel	Processing of greenwaste at Transfer Station
Greenwaste Compost Fee	Mandated program (equipment, labor, fuel, insurance)	This takes greenwaste processing to a higher level; as a result of new rules, there is a need to develop alternate outlets in lieu of landfill cover; requires additional testing/compliance
Reduction to City Residential Recycling Reimbursement Rate	China recycling waste ban	Recommend a temporary reduction to be reevaluated with rate study (results in City revenue reduction of approx. \$135,000)

While Burrtec offers food waste processing at the Transfer Station, the City is working with an organics consultant to establish recommendations for a comprehensive City food waste/organics program which will be presented at a future date.

Proposed Rate Adjustments

The table below shows current residential and commercial rates compared to several options proposed. During the Finance Committee staff proposed two options: Option A was a CPI only increase and Option B includes restoration of CPI increases for part of the year (3 months) and included the extraordinary processing costs from the point of implementation. During the Finance Committee presentation, one of the commercial haulers requested consideration of another option which would include restoring the CPI increase retroactively to July 1. Staff is not proposing a retroactive CPI rate for residential services. However, **for commercial services only**, staff has included options that includes 6 months cost recovery for CPI back to July 1. ***The extraordinary rate would not be retroactive since it has not yet been implemented.***

RESIDENTIAL	Current	Option A (CPI Only)	Option B (CPI + Extra Processing)
Standard service	\$23.68	\$24.87	\$26.01

COMMERCIAL	Current	Option A (CPI Only – no retro)	Option B (CPI only with Retro)	Option C (CPI + Extra – no retro)	Option D (CPI + Extra with Retro)
3 yard bin, standard service *EXCLUDES new food program	\$108.45	\$112.37	\$113.84	\$114.70	\$117.04

As illustrated in Attachment 4, any of the rate options proposed are competitive with neighboring cities with comparable services.

Since by contract processing rates automatically adjust by CPI in July of each year, the proposal also includes a CPI adjustment on July 1, 2019.

FISCAL IMPACT:

As outlined during the Fiscal Year 2018-20 budget process, the Refuse Fund is projected to closeout Year 2 (FY 2019/20) with a negative fund balance of approximately \$500,000. These projections differ from the adopted Five Year Financial Plan as a result of actuals recorded for FY 2018 expenditures. This trend, if not addressed, will accelerate exponentially by FY 2022/23 due to anticipated cost increases related to the issues identified above.

Approval of this request for CPI and extraordinary waste processing increases at the Transfer Station and associated rate increases would generate sufficient revenue to maintain waste hauler operations and fiscal stability in the Refuse Fund, as illustrated in the table below, until such time as audit findings and/or more in depth studies are completed.

Fund Balance Scenarios	FY18/19	FY19/20	FY20/21	FY21/22²	FY22/23²
Status Quo	\$2.6 mil	(\$0.5 mil)	(\$4.2 mil)	(\$8.4 mil)	(\$13.2 mil)
CPI (3.61%) as outlined in the Transfer Services Agreement	\$2.5 mil ¹	\$0.2 mil	(\$2.3 mil)	(\$5.0 mil)	(\$7.8 mil)
Burrtec Request (CPI + Extraordinary) with est 2% CPI years FY20/21-22/23	\$3.0 mil ¹	\$2.4 mil	\$1.7 mil ²	\$1.0 mil	\$0.2 mil

¹FY 2018/19 includes 3 months of proposed, estimated rates; FY 19/20 is a full year plus 2% estimated additional CPI. Should a retro CPI be approved, these figures would improve slightly.

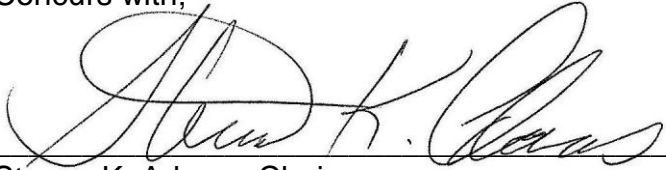
²Fiscal Years 21/22 and 22/23 are estimates based on 12 months of rates and may change based on future consultant recommendations.

Residential and commercial refuse rates include franchise fees, which are payments to the City's General Fund intended to compensate the City for the use by a private entity (waste haulers) of certain City property, such as streets, in providing a utility service. In FY 2017/18, the City General Fund received franchise fees for refuse in the amount of \$3,016,566 for both residential and commercial waste haulers.

Based on the current proposal, franchise fee payments to the City are projected to increase by approximately \$40,000 for residential and \$108,000 for commercial.

Prepared by: Kris Martinez, Public Works Director
Certified as to
Availability of funds: Edward Enriquez, Acting Chief Financial Officer/Treasurer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Concurs with;

A handwritten signature in black ink, appearing to read "Steven K. Adams", is written over a horizontal line.

Steven K. Adams, Chair
Finance Committee

Attachments:

1. Fifth Amendment to Residential Solid Waste Agreement for Integrated Solid Waste Management Services with Burrtec Waste Industries, Inc.
2. Resolution
3. Burrtec Request for Rate Increase
4. Rate Survey
5. Presentation