



*City of Arts & Innovation*

# Finance Committee

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**TO: FINANCE COMMITTEE MEMBERS** **DATE: NOVEMBER 13, 2019**

**FROM: PUBLIC WORKS DEPARTMENT** **WARDS: ALL**

**SUBJECT: SOLID WASTE AND RECYCLING PROGRAM STRATEGY AND ECONOMIC STUDY REPORT BY R3 CONSULTING GROUP, INC.**

## **ISSUE:**

Receive and provide input on the draft Solid Waste and Recycling Program Strategy and Economic Study report prepared by R3 Consulting Group, Inc.

## **RECOMMENDATIONS:**

That the Finance Committee:

1. Receive and provide input on the draft Solid Waste and Recycling Program Strategy and Economic Study Report prepared by R3 Consulting Group, Inc.;
2. Recommend that staff return to City Council in January 2020, with recommendations for contract amendments to commercial waste collection agreements with Athens Services, Burrtec Waste Industries, Inc., and CR&R, Inc., to adopt and implement a state-mandated organics recycling program and rates through June 30, 2023, which may include recommendations for residential rate adjustments with an effective date on or before July 1, 2020;
3. Provide a recommendation to City Council whether to retain City residential waste collection services or pursue outsourcing; and
4. In the event outsourcing is proposed, provide input whether to:
  - a. Negotiate a new contract with the existing residential waste collection contractor; or
  - b. Issue a Request for Proposals for Citywide residential collection (contract expires June 30, 2020); or
  - c. Combine all City waste collection services into a single Request for Proposals, for an effective date of July 1, 2023.

## **LEGISLATIVE HISTORY:**

AB 341 (Mandatory Commercial Recycling), and AB 1826 (Mandatory Organics Recycling) are existing regulations that mandate recycling programs. While the City of Riverside has some programs in place, is improving compliance with AB 341, and has been working on AB 1826 compliance, CalRecycle, the state's regulatory agency responsible for waste disposal in California, placed the City on notice on November 27, 2017, and again on August 24, 2018, that existing programs were insufficient for both regulations. Most recently, the City received a demand letter from CalRecycle placing the City on final notice to adopt a compliance plan by November 27, 2019, to come into full compliance with SB 341 and AB 1826 no later than July 1, 2020 (Attachment 1).

AB 1826 requires businesses that generate four cubic yards or more of commercial solid waste to recycle organic waste after April 2016. This law also requires local jurisdictions to adopt and implement an organic waste recycling program to divert organic waste generated by businesses, including multi-family dwellings with five or more units. Organic waste includes food waste, green waste, landscape and pruning waste, nonhazardous wood waste, and food soiled paper waste. The law allowed a phased-in approach to meet the requirement over time.

SB 1383 builds on California's efforts to reduce greenhouse gas emissions and air pollution throughout the state by establishing methane emissions reduction targets. The requirements of SB 1383 are currently in draft form, but are anticipated to be substantial.

Revenues are being severely impacted due to national policy implications from the National Sword (China's ban of recycling materials). This has resulted in a significant reduction in recycling revenue to waste haulers and municipalities throughout the state and country, and will need to be addressed in contracts and rates.

## **BACKGROUND:**

On January 8, 2019, the City Council received an independent Public Works Department Performance Audit report (Audit) which recommended the City retain a municipal solid waste consultant to compare City solid waste collection and sweeping services to contracted services. On January 9, 2019, the Finance Committee requested that staff conduct analysis outlining the financial impact between maintaining current City staffed services versus outsourcing residential waste collection and street sweeping functions.

On March 13, 2019, the Finance Committee received staff's report on the estimated fiscal impact of contracting those services. Staff's findings were that without the benefit of an in-depth look at City operations, including a review of contract services and terms in light of significant legislative changes, there was no apparent cost savings to the City by contracting services. Specifically, staff noted that a significant amount of City costs, including unfunded CalPERS costs, would remain if city solid waste collection operations were outsourced. Additionally, unless City Council reduced supporting staff throughout the city, staff was unable to identify any real savings. Staff referred to the Audit recommendations and suggested retention of a consultant specializing in municipal solid waste services to do a thorough review of the waste system. The Finance Committee directed staff to return to the Finance Committee with the consultant's findings.

On April 23, 2019, City Council authorized a Professional Consultant Services Agreement with R3 Consulting Group, Inc., (R3) to provide a Solid Waste and Recycling Program Strategy and Economic Study to review city solid waste collection operations, finances, and contract services.

**DISCUSSION:**

R3's work included a comprehensive review of documents, on-site meetings and operational observations, as well as an in-depth review of financial documents. R3's draft report addresses three primary issues — Compliance, CalPERS and Cost Control.

**Draft Report Highlights:**

<b>Objective Summary:</b>		
<b><i>Evaluation of City operating and private costs for waste collection and street sweeping services to identify whether outsourcing yields NET cost savings to the City. Should the City Council elect to retain City waste collection, this included recommendations for operational improvements.</i></b>		
<b>Draft Finding/Recommendation</b>	<b>Page Reference</b>	
	<b>Executive Summary</b>	<b>Report</b>
The Division is doing a good job providing the required collection services given its current resources; Overall Division management and staff appear to be dedicated and qualified, which is a prerequisite to a safe and effective collection operation; The Division and the City's Fleet Management Department appear to have a good working relationship, which is a prerequisite to a safe and effective collection operation.	3	-
If the decision is to retain City services, investment in the operation will be necessary to maximize efficiency and cost control (route and service changes, fleet replacement)	4-5, 12-13	26-35
If the decision is to pursue outsourcing, the findings identified a complex set of considerations, including some costs that may not be eliminated with outsourcing. The consultant suggests a request for proposal process.	8-11	39-42
Rates will need to increase regardless of who collects waste. Riverside rates have not kept pace with operating costs.	6-7, 12	34-36
Potential savings from outsourcing depends on what costs remain with the City (net costs). <sup>1</sup>	5, 8-11	-

<sup>1</sup> The City of Riverside Finance Department estimates nearly \$1.4 million in City costs charged to the Refuse operation would shift to other City funds, including \$623,000 to the General Fund. Some costs would need to remain with the City for regulatory compliance oversight or possibly billing services for example. It remains unknown if a private hauler would assume the Refuse unfunded CalPERS obligation (estimated at \$14 million), or if that would stay with the General Fund. If a private hauler assumed the liability, they would need a way to recover those costs, likely through an extended contract term and rates.

<b>Objective Summary:</b>		
<b><i>Ensure the City is in compliance with existing State mandates through contract modification, program implementation and supporting rates.</i></b>		
<b>Draft Finding/Recommendation</b>	<b>Page Reference</b>	
	<b>Executive Summary</b>	<b>Report</b>
Amend commercial collection agreements to meet compliance, along with establishing an organics collection rate to cover program costs by no later than July 1, 2020.	6, 8	39-42
There are multiple legislative mandates, some of which the City is not in compliance with and at risk of state fines.	-	20-25
Municipal Code revisions are necessary.	6	41-42

<b>Objective Summary:</b>		
<b><i>Prepare a longer-term waste management strategy to address future regulatory requirements, contracting needs, and procurement methods.</i></b>		
<b>Draft Finding/Recommendation</b>	<b>Page Reference</b>	
	<b>Executive Summary</b>	<b>Report</b>
A long-term strategy rests on the strength of the waste hauling contract(s) and rates that support regulatory requirements and modern operations.	11-15	39-42
The consultant provides options for City Council consideration, including investing in the City's operation or outsourcing residential collection under a single Citywide Request for Proposals.	12-14	34-42

An alternate option not discussed in the draft report is to issue a single Request for Proposals, for both residential and commercial waste collection services.

### Outsourcing Decision

As noted in the summary above, the study revealed multiple options with potential benefits and impacts.

#### 1. Maintain Status Quo:

- Investment in the operation is necessary and will result in improved efficiencies.
- The City would need to issue a Request for Proposals for residential collection in privately serviced areas.
- There is also the option to negotiate a new contract with the existing provider.
- A short-term contract extension for residential collection with Burrtec Waste Industries, Inc., would be necessary if the City negotiates or issues a Request for Proposals because the current contract expires in June 2020.
- A rate increase will be needed.

#### 2. Outsource:

- The consultant recommends a Request for Proposals process in lieu of renegotiating existing agreements, particularly since existing contracts have been in place for almost 19 years, since 2001.

- A minimum one-year extension would be needed to the SEIU Memorandum of Understanding with Refuse and the Burrtec Waste Industries, Inc., residential collection agreement.
- City staff has received interest from more than one hauler for residential collection opportunities and a proposal process provides maximum transparency.
- Another option for consideration is to issue a single Request for Proposals for all City waste collection services instead of separating residential and commercial collection services.
- A rate increase will be needed.

**Regardless of any option selected, commercial agreements will require an amendment and rate increase to meet compliance mandates through 2023.**

### **FISCAL IMPACT:**

There is no fiscal impact to the General Fund associated with receiving and providing input to the draft Solid Waste and Recycling Program Strategy and Economic Study report prepared by R3 Consulting Group, Inc.

Regulatory and contract changes will generate a need to increase service rates.

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Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. CalRecycle Demand Letter – October 10, 2019
2. Draft Solid Waste and Recycling Program Strategy and Economic Study Report
3. Presentation