



Town of Hillsborough

REPORT FOR PROPOSED 2019 AND 2020 RESIDENTIAL AND NON-RESIDENTIAL MONTHLY SOLID WASTE RATE INCREASES

STUDY SESSION

The study session for proposed solid waste rate increases will be held on August 22, 2018 at 3:00 p.m. in the Town of Hillsborough City Council Chambers.

BACKGROUND

This report includes the Town of Hillsborough's projections and analysis for proposed 2019 and 2020 solid waste rate increases for residential and non-residential customers. The purpose of the rate review is to cover the cost of solid waste, recycling and compost collection and disposal. The projections are for information only, and the proposed 2019 solid waste rate increase would include a pass-through adjustment to account for increases in wholesale solid waste, recycling, and disposal costs.

Solid Waste Collection, Disposal, and Management Services

RethinkWaste is a joint powers authority of twelve public agencies in San Mateo County, and is a leader in the delivery of innovative waste reduction and recycling programs. RethinkWaste owns and manages the Shoreway Environmental Center (Shoreway), which receives all of the recyclables, organics and garbage collected in its service area and is operated by South Bay Recycling (SBR). RethinkWaste also provides strategic oversight, support and management of service providers that collect, process, recycle and dispose of materials for the twelve Member Agencies. RethinkWaste, also known as the South Bayside Waste Management Authority (SBWMA) was formed in 1982. Residential and non-residential solid waste, recyclable and organic materials that are collected by the franchise hauler, Recology San Mateo County (Recology), are taken to Shoreway .

Recology provides a weekly service for the collection of solid waste, recyclables and organics for Hillsborough residential and non-residential customers. The current franchise agreement expires on December 31, 2020. Over the past few years, SBWMA and its member agencies went through an extensive negotiation process ending with the City Council adopting a 15-Year Amended and Restated Franchise Agreement for January 1, 2021, through December 31, 2035. The modifications to the agreement will provide a number of benefits while maintaining the existing collection services. The Town's diversion rate has increased from 67% in 2011 to 75% in 2018 with the implementation of the franchise agreement with Recology that moved to single stream recycling and weekly pick up of organic and recyclable materials.

Ox Mountain Sanitary Landfill is one of the larger disposal facilities in the solid waste network, and the contract ends in December 2019 and will go through a competitive process.

Annual Rate Setting Process

The Town sets solid waste rates that are charged to residential and non-residential customers in order to meet the cost of service. The cost of service, also called revenue requirement, includes Recology's compensation under the Franchise Agreement as well as solid waste processing and disposal fees at Shoreway, the cost of diversion program, and applicable city fees. In addition, the Franchise Agreement with Recology, which began on January 1, 2011, allows for supplemental services and fees that are not included in the base monthly rates since they are discretionary.

Annually, Recology's compensation and the total revenue requirement are put forth by Recology/SBWMA to the service area cities for review and comment. In September, the SBWMA Board approves Recology's compensation. The Town reviews its revenue requirements and rates each year to determine any necessary changes, and provides those changes to Recology by the end of November for implementation on January 1 of each year.

Why the Need to Consider Rate Increases?

- The Town's Restated and Amended Franchise Agreement with Recology commences January 1, 2021, and there will be some one-time cost adjustments to continue the agreement. The Town needs to prepare for the financial impact of this transition.
- The rates have not increased since 2012, but the cost of waste collection, processing and disposal services increased and resulted in annual shortfalls.
- Current market conditions in China with the ban of scrap materials and mixed paper from the U.S. impacts the cost and complexity of managing these materials in the solid waste network.
- The proposed rates would meet the current and future revenue needs over the next two years.

Analysis

The projections below are estimated based on 2017 actual results and 2018 and 2019 projected results and assumptions developed by Town staff with insight from SBWMA based on contractual obligations, trends and other assumptions. Timing is such that these projections are provided before the SBWMA Board's review and adoption of the 2019 Contractor Compensation in September 2018, in order that there is adequate time to allow for the Town's Proposition 218 noticing and process. It is not anticipated that the final adopted 2019 Contractor Compensation will vary materially from this analysis.

The revenue requirement is projected to increase 5% in 2019 and 5% in 2020, 7% in 2021. These cost increases will be funded by a combination of rate increases from residential and non-residential customers and the use of cumulative surpluses.

- **Recology's Compensation** – Contractual increases are primarily tied to labor and other CPI indices. The contractor compensation is projected to increase by 2% in 2019 and 2020, primarily for labor CPI indices. The Amended and Restated Franchise Agreement with Recology starts January 1, 2021. Costs are estimated to increase by 8.2% in 2021, with future increases tied to labor and other CPI indices that are capped at 5%. The 2021 increase reflects the one-time increase to Recology's Base Contractor Compensation as outlined in the Amended and Restated Franchise Agreement for estimated depreciation and interest expense on the replacement of the existing fleet of collection vehicles and for actual operations costs and inflation. The Amended and Restated Franchise Agreement went through an extensive negotiation process to determine the compensation.
- **Disposal and Processing Fees** – Disposal and processing costs are projected to increase by 12-13% in 2019 and 2020. The Shoreway tipping fee will increase in 2019 to cover the negative financial impacts from China's ban on scrap materials and mixed paper from the United States, and contractual increases in disposal contracts. Until recently, China had purchased 80% of the recyclable materials from California, and this ban has caused a disruption to the international commodity markets and has severely impacted the price and movement of recyclable materials. SBWMA has been working to modify operations within the network to address this issue. A further decline in fiber prices would have a negative impact on this projection in 2020 but the market is too unsettled to adequately make a projection at this time. In 2020, a new solid waste disposal contract will take effect with an estimated 12% impact on total disposal and processing costs. A 4% increase is projected in 2021 and 2022 for disposal and processing for contractual increases.
- **Agency and Franchise Fees** – The franchise fees are 10% of collection revenue.

The 2019 and 2020 revenue requirement is funded with a combination of collection rate increases to residential and non-residential customers and a draw on cumulative surplus reserves. Collection rate increases of 5% in 2019 and 5% in 2020 and use of reserves of \$133k and \$153k will fund the revenue

requirement in 2019 and 2020, respectively. It is recommended that a target surplus reserve level of \$350k is established, which represents approximately 10% of collection revenue, and that the current reserve level is drawn down slowly over a number of years to reach the target level and to avoid a significant ongoing structural deficit. The 2021 and 2022 projections are included to show the estimated timeframe to reach target reserve levels in 2022. While these projections are provided for the information and review, the proposed rate structure will include authorization to pass-through increases to wholesale costs for disposal, collection, and recycling. The actual rate adjustment each year will equal only the amount that the rates charged to the Town are increased by Recology and for the increased tipping fees.

	2017 Actual	2018 Projected	2019 Projected	2020 Projected	2021 Projected	2022 Projected
Collection Revenue	\$3,024,026	\$3,048,153	\$3,200,561	\$3,360,589	\$3,562,224	\$3,740,335
<i>% Change over prior year</i>		1%	5%	5%	6%	5%
Contractor Compensation (Recology)	\$1,913,988	\$1,962,798	\$1,995,427	\$2,035,336	\$2,204,268	\$2,270,396
<i>% Change over prior year</i>		3%	2%	2%	8%	3%
Pass-Thru Costs:						
Disposal and Processing Fees	\$860,690	\$927,471	\$1,046,776	\$1,172,389	\$1,219,285	\$1,268,056
Agency and Other Fees	\$275,010	\$277,105	\$290,960	\$305,508	\$323,839	\$340,031
Subtotal Pass-Thru Costs	\$1,135,700	\$1,204,576	\$1,337,736	\$1,477,897	\$1,543,123	\$1,608,087
Total Revenue Requirement	\$3,049,688	\$3,167,374	\$3,333,163	\$3,513,233	\$3,747,392	\$3,878,483
<i>% Change over prior year</i>		4%	5%	5%	7%	3%
Surplus/(Shortfall)	(\$25,662)	(\$119,221)	(\$132,603)	(\$152,644)	(\$185,168)	(\$138,148)
Cumulative Surplus	\$1,072,024	\$952,803	\$820,200	\$667,556	\$482,388	\$344,240
Target Surplus						\$ 350,000

Proposed Rates for 2019 and 2020

The table below shows the 2018 current adopted charges, the proposed maximum charge for 2019, and the estimated charge for 2020 (5% increase in 2019 and 5% increase in 2020). The actual rate for 2020 will depend on the actual cost increases for tipping fees and fees imposed by Recology. Pursuant to Government Code section 53756, the Town is authorized to adopt a pass-through adjustment to account for wholesale rate increases so long as the rates do not exceed the cost of service, and customers are provided 30 days' notice prior to such increased rates going into effect. Rates have not increased in five years (2013 to 2018), and were reduced 4% in 2015 and 10% in 2017.

Single Family Residential

The table below shows the proposed maximum monthly rates by cart size for a single-family residential customer for 2019 and, and estimated charges for 2020 (actual charges will depend on actual cost increases passed through to customers as described above). The base monthly rates include the following solid waste services:

- Weekly pick-up of garbage (black cart)
- Weekly pick-up of single stream recycling for glass, metal cans, aluminum, milk cartons, non-food soiled papers and cardboard, small scrap metal and certain plastics (blue cart)
- Weekly pick-up of items for the composting program such as yard trimmings, meat, dairy products, fruits and vegetables, and food-soiled paper products such pizza boxes, and paper cups, plates and napkins (green cart)
- Weekly pick-up of other items including cell phones, batteries, used motor oil and oil filters
- Twice annual "on call" bulky waste collection

- Christmas tree recycling collection

Non-Residential

The table below shows the proposed maximum monthly rates by container size for non-residential customers for 2019 and estimated charges for 2020 for a once-weekly collection of garbage, recyclable and compostable materials.

PROPOSED SOLID WASTE COLLECTION, PROCESSING AND DISPOSAL MONTHLY SERVICE RATES

	2018 Current Charges	2019 Proposed Charges	2020 Proposed Charges
SINGLE FAMILY RESIDENTIAL MAXIMUM MONTHLY RATES 2019-2020			
Bundled service includes a 64-gallon recycling cart and 96-gallon organics cart service, plus variable garbage cart size as listed below			
Flat fee per parcel address (assessed on property tax roll)	\$25.00	\$26.25	\$27.56
Component to be charged based on size of black garbage cart:			
20-gallon	\$14.67	\$15.40	\$16.17
32-gallon	\$23.22	\$24.38	\$25.60
64-gallon	\$48.51	\$50.94	\$53.48
96-gallon	\$78.12	\$82.03	\$86.13
Additional organics cart (beyond 1st) –per cart	\$20.00	\$21.00	\$22.05
NON-RESIDENTIAL MAXIMUM MONTHLY RATES 2019-2020			
Rates are for once-per-week service			
Solid Waste – 1-yard container	\$132.00	\$138.60	\$145.53
Organics – 1-yard container	\$66.10	\$69.41	\$72.88

Supplemental Services

Monthly base rates do not cover supplemental services such as backyard service, additional carts, extra on-call pick-ups of bulky items beyond the twice-annual free pick-ups, and other similar services. The use of these supplemental services is discretionary and the resulting fee is the responsibility of the service recipient. The increase in supplemental service fees will be calculated according to the U.S Department of Labor, Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers, U.S. City Average as of October 2018 applied to all supplemental service fees in 2018 to calculate 2019 fees, and as of October 2019 for supplemental service fees to calculate 2020 fees. The current rates are listed in Attachment C, Schedule Q - Backyard Services and Unscheduled Services.

Other

Solid waste collection and disposal rates vary among San Mateo County cities based on several factors, and costs are driven by labor route hours, route hours, number of accounts and containers serviced. The range of price for a single-family residential 32-gallon container in 2018 ranged from \$21.24 for more densely populated cities such as San Mateo to \$50.00 for lower density cities. Hillsborough's 2018 rate is \$48.22.