



**Contra
Costa
County**

To: Board of Supervisors
From: John Kopchik, Director, Conservation & Development Department
Date: June 21, 2022

Subject: Changes to Solid Waste Collection Service and Rates in the unincorporated areas served by Allied Waste Systems, Inc. under County Franchise Agreement

RECOMMENDATION(S):

1. ACCEPT report from consultant Crowe, LLP (Crowe), dated June 8, 2022, summarizing the results of its review of the rate application for service changes submitted by Allied Waste Systems, Inc.(Allied), attached as Exhibit A.
2. CONSIDER approving and direct Allied to implement the following recommended service changes and associated rate adjustment effective August 1, 2022, resulting in an 11.8% solid waste collection rate increase for commercial, light industrial, and residential customers in unincorporated areas served by Allied under County's Franchise Agreement based on staff and Crowe's review of Allied's rate application:
 - a. Switch from bi-weekly to weekly residential recycling collection
 - b. Switch from bi-weekly to weekly residential organics collection and expand the list of materials accepted
 - c. Mandatory SB 1383 monitoring and reporting (residential and commercial)

FISCAL IMPACT:

There is no impact to the County General Fund. The costs for County staff time spent and any related consulting services focused on administering the Franchise Agreement with

☒ APPROVE

☐ OTHER

☐ RECOMMENDATION OF CNTY
ADMINISTRATOR

☐ RECOMMENDATION OF BOARD
COMMITTEE

Action of Board On: **06/21/2022** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Diane Burgis, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: June 21, 2022

Monica Nino, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

Contact: David Brockbank,
925-655-2911

cc:

Allied, including the rate setting process, are covered by solid waste/recycling collection franchise fees.

BACKGROUND:

On September 19, 2016, Governor Jerry Brown signed into law the Short-lived Climate Pollutant Reduction Act (“SB 1383”). SB 1383 required the California Department of Resources Recycling and Recovery (“CalRecycle”) to develop regulations to reduce organics in landfills as a source of methane. The regulations developed by CalRecycle under SB 1383 revised numerous provisions of division 7 of title 14 of the California Code of Regulations and added Chapter 12, entitled “Short-lived Climate Pollutants,” effective January 1, 2022. The SB 1383 Regulations require counties, cities and other local jurisdictions to adopt enforceable ordinances or other enforceable mechanisms to mandate that organic waste generators, haulers, and other entities comply with requirements in the SB 1383 Regulations. The SB 1383 Regulations generally address requirements applicable to organic waste collection services, inspection of waste containers for prohibited contaminants, regulation of commercial edible food generators, provision of education and outreach information to generators, reporting to CalRecycle on compliance with the SB 1383 Regulations, and maintenance of records of compliance with SB 1383 Regulations, with the goal of achievement

BACKGROUND: (CONT'D)

of statewide organic waste disposal reduction targets. This Allied rate review was initiated at the County's request due to new costs and services required to comply with the SB 1383 Regulations.

County Rate Regulation: The County establishes and regulates collection rates that Allied can charge for residential and commercial collection services provided in their Franchise Area. These rates are established in accordance with the adopted rate setting methodology (Rate Manual) approved by the County in 1998 for use in setting rates for the County's Franchise Agreement with Allied Waste (owned by Republic Services). The Rate Manual provides for recovery of the reasonable costs that Allied will incur in performing services under the Franchise Agreement, plus allowable profit. When there are proposed rate changes that do not involve any proposed change in services, the Rate Manual establishes a process with the following components:

- Every four (4) years: Base Year rate reviews. Such reviews rely upon data submitted in detailed rate applications and accompanying audited financial statements; and
- Intervening years between Base Years (Interim Years): The Franchisee may request no change, or a change based on one of the following options. One, a rate change which does not exceed the annual change in Consumer Price Index (CPI) (no Board approval required). The hauler is not required to submit audited financial data with the interim year rate application. Therefore, the Interim Year Rate Review is less rigorous than that carried out in a Base Year.
- The other option is for extraordinary circumstances, where either the County or franchise hauler may initiate an extraordinary rate adjustment process. Generally the hauler experiences significant changes in costs or revenues not under its control, in which case, a rate application and appropriate documentation can be submitted for staff review and Board approval.

History of Solid Waste Collection Rate Adjustments Since 2016: There have been various rate adjustments in the Allied Franchise Area since 1998 when the County adopted a Rate Manual. Below is a summary of rate review and subsequent allowable rate adjustments since 2016.

2016: Base Year Rate Review – The 2016 Base Year Rate Review was phased in over a two-year period. For the first year a 14.28% increase was needed to cover the costs of the hauler's operations. There were various factors that contributed to this increase, including CPI adjustments, as well as new service enhancements that increased the number of community clean-up boxes provided each year, increase in franchise fees paid to the County, on-call removal of illegal dumping from the right-of-way, and the elimination of a separate recycling charge for commercial customers. Republic also implemented on-call bulky item collection in conjunction with the base year rate change that took effect in 2017. For the second year there was a 4.99% base year rate pass through as described below.

2017: Interim Year - An increase of 8.5% was implemented, which was comprised of a

4.99% phased in 2016 base year increase and a 3.51% CPI adjustment. This increase was implemented in conjunction with a franchise fee increase, and service enhancement (second annual On-Call Residential Bagged Pick-Up & On-Call Right-of-way Clean-up).

2018: Interim Year - CPI increase of 4.3%

2019: Interim Year - CPI increase of 2.7%

2020: Base Year Rate Review resulted in no increase to rates

2021: Interim Year - CPI increase of 1.59%

Service Change Rate Review: Allied requested an increase of 17.92% in the rate application based on projected costs for existing services, but would increase collection frequency of recyclables and organics to a weekly basis. Crowe reviewed the Rate Application submitted by Allied for consistency with the Rate Manual, County policies, and waste management industry practices. Crowe did not conduct an audit, review or compile any financial or supplemental data normally analyzed in a Base Year rate review. Rather, Crowe relied upon information provided to Crowe without investigation, but the information in their analysis was based on estimates, assumptions and other data developed by Crowe from information provided by Allied, knowledge of and participation in other studies, data supplied by the County, and other sources deemed to be reliable. Crowe's review of the Rate Application led to recommending reductions to various cost categories, such as Direct Labor, Tipping Fees, Trucking and Equipment, that resulted in an overall net decrease in annual projected costs identified in the Allied Rate Application. There are multiple factors contributing to the changes in the projected costs and revenue which drive the recommended rate adjustment. Some of these are routine factors associated with existing services (e.g., increased wages and benefits and CPI adjustments to various other categories of operational costs, including trucking and equipment).

Minimum Required Rate Increase - Not Recommended

This rate review was a focused review related to service changes needed to address requirements in the SB 1383 Regulations. County staff identified new collection services needed to comply with the state's SB 1383 mandates that must be implemented by the franchise hauler (Allied). At a minimum, weekly collection of organics is required so customers can recycle food waste, food scraps, and food soiled paper in the organics cart, as required by SB 1383 Regulations. Most of the recommended rate increase is associated with moving to weekly collection of organics with food waste, monitoring and reporting, plus CPI adjustment. If the Board was to just approve those items needed to comply with the SB 1383 regulatory collection requirements, the rate increase would be 7.54% as stipulated in Exhibit A. Details regarding this Minimum Required Rate Increase for all residential cart sizes is shown in Table 1 of Exhibit A (attached) and subsequent tables for commercial customers.

RECOMMENDED RATE INCREASE

The Recommended Rate Increase shown in Table 1 below includes the Minimum Required Rate Increase (7.54%) described above as well as an additional percentage increase to increase the frequency of recycling collection. In 2016, staff prepared the first amendment to the Allied Franchise Agreement for the Board to review and approve. As part of the

substantial rate increase for new services spread over two years, staff recommended the Board consider an additional rate increase of 6% to include weekly collection of recyclables. The Board opted to defer that service change to a later date mainly due to the large rate increases needed for 2016 and 2017. Crowe's analysis has concluded that the cost of implementing weekly recycling collection would only necessitate an additional increase of 4.26%, which is almost 2% less than the same weekly collection service analyzed six years ago. Staff recommends the Board approve the full 11.8% rate increase to comply with SB 1383 regulations and provide similar levels of service as in West County and other unincorporated areas in Central County (RecycleSmart).

Table 1 - Recommended Rates

Cart Size	Existing Monthly Residential Rates	Recommended Monthly Rate Increase (11.8%)	New Recommended Monthly Rates (eff 8/1/2022)
20 Gallon	\$17.53	\$2.07	\$19.60
32 Gallon	\$22.95	\$2.71	\$25.66
64 Gallon	\$34.22	\$4.04	\$38.26
96 Gallon	\$44.38	\$5.24	\$49.62

RECOMMENDED SERVICE CHANGES

The proposed service changes that staff is recommending that Allied be directed to implement effective August 1, 2022 in conjunction with the recommended 11.8% rate increase are described in more detail below.

- a. Switch from every other week to weekly residential recycling collection – No change to list of materials accepted in the recycling cart/bin
- b. Switch from every other week to weekly residential organics collection – Expand the list of materials accepted in the organics cart/bin to comply with SB 1383 Regulations (e.g. food scraps, food soiled paper). Weekly collection of mixed organics from centralized location in Canyon.
- c. Mandatory SB 1383 monitoring and reporting (residential and commercial) - Perform contamination monitoring (mandated SB 1383 route reviews) involving the use of auditing staff to "flip lids" of organic waste, recycling and garbage containers and satisfy associated recordkeeping and reporting requirements in the SB 1383 Regulations.

Rate Comparison: While the proposed rate change percentage is not small, the existing rates are still very low compared to neighboring unincorporated County jurisdictions. In Table 2 below are current Allied area residential rates, what the rates would be with the minimum required rate increase (7.54%), and the rates with the recommended rate increase (11.8%). The bottom row shows the difference in rates from the average of other unincorporated franchise areas and the recommended rate increase. Compared to other unincorporated areas franchised directly by the County or RecycleSmart, current Allied residential rates are about 40-45 percent below average, with fewer services. With the recommended 11.8% rate increase recommended to take effect on August 1, 2022, the

Allied service area residential rates would remain well below average County franchise area rates, ranging between 32-41 percent below the average.

Table 2 - Rate Comparison

Franchise Area	20 Gallon	32 Gallon	64 Gallon	96 Gallon
Republic Services / RSS (West County)	\$32.30	\$40.11	\$76.69	\$114.30
Republic Services / Crockett	\$33.69	\$39.94	\$70.03	\$85.08
MDRR / Garaventa (East County)	\$31.62	\$39.45	\$45.76	\$54.44
Alamo & Uninc RecycleSmart (Central)	\$27.20	\$30.86	\$58.79	\$83.83
<i>Average Rates</i>	<i>\$31.20</i>	<i>\$37.59</i>	<i>\$62.82</i>	<i>\$84.41</i>
Republic Services / Allied -- EXISTING	\$17.53	\$22.95	\$34.22	\$44.38
Weekly Organics (+7.54%)	\$18.85	\$24.67	\$36.79	\$47.73
Weekly Organics + Recycling (+11.8%)	\$19.60	\$25.66	\$38.26	\$49.62
Difference with +11.8%	-37%	-32%	-39%	-41%
<u>CONSEQUENCE OF NEGATIVE ACTION:</u> If the Board of Supervisors does not approve the recommended rate increase of 11.8%, the collection rates would remain the same and every other week collection service of organics and recycling would continue. The County would not be in compliance with state mandates imposed by SB 1383 regulations and could eventually potentially face				

penalties of up to \$10,000 per day for every day the County is not in compliance.

CLERK'S
ADDENDUM

**Speakers: No name
given; No name
given**

ATTACHMENTS

Exhibit A: Allied Rate Review Report