



**Contra  
Costa  
County**

To: Board of Supervisors  
From: John Kopchik, Director, Conservation & Development Department  
Date: November 17, 2015

Subject: Solid Waste Collection Rates in the Unincorporated West County Areas Served by Richmond Sanitary Service Under the County's Franchise Agreement

### **RECOMMENDATION(S):**

ACCEPT report from Crowe Horwath (consultant) dated October 28, 2015 regarding their review of the Base Year Rate Application submitted by Richmond Sanitary Service (Exhibit A).

CONCUR with the Director of Conservation and Development's proposed use of Rate Stabilization funding to offset the recommended 2016 Base Year Collection Rate increase of 2.19% effective January 1, 2016 for residential customers in the unincorporated West County area served by Richmond Sanitary Service (RSS) under the County/RSS Franchise Agreement.

CONCUR with the Director of Conservation and Development's proposed use of Rate Stabilization funding to offset, to the maximum extent possible, the annual Consumer Price Index (CPI) rate increases that may be requested for calendar years 2017 through 2019 for residential customers in the unincorporated West County area served by RSS under the County/RSS Franchise Agreement

### **FISCAL IMPACT:**

☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY ADMINISTRATOR

☐ RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **11/17/2015** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

#### **VOTE OF SUPERVISORS**

AYE: John Gioia, District I Supervisor  
Candace Andersen, District II Supervisor  
Mary N. Piepho, 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: November 17, 2015

David Twa, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

Contact: Demian Hardman (925)  
674-7826

cc:

No impact to the County General Fund. The costs for County staff time spent administering the Franchise Agreement and any related consulting services are covered by solid waste/recycling collection franchise fees.

## BACKGROUND:

In October 1993, the County entered into a Franchise Agreement with Richmond Sanitary Service (RSS), which was amended in 1994. On November 12, 2013, the County approved a Second Amendment to the County/RSS Franchise Agreement that: (a) increased the franchise fee to seven percent (7%); (b) established new 2014 Collection Rates, which included a Rate Stabilization Adjustment; (c) required RSS to provide new and expanded services; and (d) acknowledged the term was extended through October 11, 2023.

The Franchise Agreement grants RSS the exclusive privilege and duty to collect solid waste, recyclables and organics routinely generated by residential and commercial customers within the designated RSS service area (also known as the “Franchise Area”). The RSS service area covers the following eight (8) unincorporated communities, which are all located in Supervisorial District I, with the exception of Alhambra Valley located in District V:

1. Alhambra Valley (partial)
2. Bayview
3. East Richmond Heights
4. El Sobrante
5. Montalvin Manor
6. North Richmond
7. Rollingwood
8. Tara Hills

The County establishes and regulates Collection Rates that RSS is allowed to charge for residential collection services provided in their Franchise Area. These rates are established in accordance with the adopted rate setting methodology set forth in the “*Rate Setting Process and Methodology Manual for Solid Waste Charges As Applied to Richmond Sanitary Service a division of Republic Services, Inc.*” (*Rate Setting Methodology Manual*). The County-adopted methodology details a rate setting process that involves: (a) Base Year rate reviews that occur every four (4) years based on data submitted in detailed rate applications and accompanying audited financial statements; (b) Annual Interim Year rate adjustments calculated based on a weighted increase in controlled and uncontrolled costs and Consumer Price Index (CPI) adjustments, alternatively in the intervening years between audited rate applications the Franchise allows adjustments which do not exceed the change in CPI without approval from the County Board of Supervisors; and (c) provides for the recovery of the reasonable costs incurred by RSS in performing services under the Franchise Agreement as well as allowable profit.

Unlike the other County Franchise Agreements, the total monthly rate charged to ratepayers is comprised of both a Collection and Post-Collection Rate. The County only approves the Collection Rate charged to residential customers in the RSS service area. Another public agency regulates the Post-Collection Rate as discussed in more detail in

the Post-Collection Rate section at the end of this report.

## **History of Solid Waste Collection Rate Adjustments since the prior Base Year**

Below is a brief summary of the rate adjustments over the past four (4) years within the County/RSS Franchise Area:

2012: Base Year Rate Review– A recommended rate decrease of -5.99% was deferred, so rates charged to customers remained stable. The deferral of the 5.99% reduction provided a credit to help offset subsequent annual rate increases as well as generated Efficiency Surplus Funding which has been used to have RSS provide additional services within the Franchise Area at no additional cost to ratepayers.

2013: Interim Year Rate – Annual CPI adjustment of 2.80% was credited to RSS. Instead of increasing rates by the change in CPI, a portion of the 5.99% rate reduction credit identified in 2012 was used to offset the 2.80% CPI increase, resulting in the credit being reduced from 5.99% to 3.19%. The rate reduction credit not used to offset CPI increases each year yielded surplus revenue resulting from service efficiencies (“Efficiency Surplus Funding”) which is being treated as a credit available to fund allowable costs for fees or services not included in the Collection Rates pursuant to the terms of Exhibit G to the Second Amendment to the County/RSS Franchise Agreement approved in November 2013.

2014: Interim Year Rate – Annual CPI adjustment of 2.03% was credited to RSS. The rate reduction credit of 3.19% remaining from 2013 was used to offset the CPI increase, which further reduced the credit from 3.19% to 1.16%. Although there was no net change in rates charged to residential customers in 2014, a change (technically an 18% increase) to the Collection Rate component of the monthly rate charged to customers was prompted by a reduction in the Post-Collection Rate regulated by another public agency in addition to the implementation of enhanced services. In order to maintain stable rates for customers in the RSS service area, the Board of Supervisors approved a Rate Stabilization Adjustment which in addition to the Enhanced Services Rate Adjustment resulted in a Collection Rate increase that equaled the Post-Collection Rate reduction so there would be no net change in customers' monthly bills. The Rate Stabilization Adjustment solely applied to residential rates effective on January 1, 2014 pursuant to the terms of the Second Amendment to the County/RSS Franchise Agreement approved in November 2013.

2015: Interim Year Rate – Annual CPI adjustment of 2.96% was credited to RSS. The remaining 1.16% rate reduction credit available from 2014 was applied to offset a portion of the CPI increase ( $2.96\% - 1.16\% = 1.80\%$ ). The Rate Stabilization Adjustment was used to offset the remaining 1.80% to avoid having to pass-through any CPI increase to residential customers.

## **2016 Base Year Rate Review – Richmond Sanitary Service (RSS) Rate Application**

To determine a Base Year Rate change for calendar year 2016, the County requested technical assistance from Crowe Horwath (consultant) to review the Base Year Rate Application submitted by RSS. The result of Crowe Horwath's review is contained in their report dated October 28, 2015, which is attached as Exhibit A. Crowe Horwath conducted their review consistent with the County's Rate Setting Manual for use in the service area and the recommendations resulting from the detailed review are contained in the attached report.

The Base Year Rate setting process requires that a detailed rate change application be submitted by the RSS along with an audited financial statement and supplemental financial and operational information. Using the detailed financial data provided, Crowe Horwath reviews several cost categories to determine the appropriate rate adjustment. The major cost categories include:

- Direct Labor Costs
- Corporate and Local General and Administrative Costs
- Trucking and Equipment
- Allowable Profit
- County Franchise Fee

The Base Year Rate Change Application submitted by RSS proposes a rate increase of 7.39%, which corresponds with a monthly increase of \$1.71 in the residential Collection Rate for the 35 gallon cart, the most common County service level. Crowe Horwath reviewed the Application submitted by RSS for consistency with the Manual, County policies, and waste management industry practices. Their analysis did a comparison on year-to-year changes in revenues and costs for reasonableness and solicited explanations from RSS for material changes. This included the examination of actual data results for 2014, estimated results for 2015, and projected results for 2016. Exhibit B contains Crowe Horwath's analysis of the financial data associated with the Enhanced Services provided by RSS which the company is required to keep segregated for rate setting purposes consistent with Section 3 of Exhibit F to the Second Amendment to the County/RSS Franchise.

### **Recommended 2016 Base Year Rate Adjustment**

Crowe Horwath's report concludes that a Collection Rate increase of 6.44% is warranted based on an analysis of the costs analyzed as a part of the 2016 Base Year rate review, which is 0.95% lower than the 7.39% increase proposed by RSS. Additionally, the consultant's report recommends the remaining Rate Stabilization Adjustment be eliminated in 2016 in order to offset another 4.25% of the 6.44% Collection Rate increase. When combining these two factors, the final recommended Collection Rate increase for residential customers is 2.19%, which is 5.20% less than was originally requested by RSS. Details regarding the proposed 2.19% Collection Rate increase for all residential cart sizes is shown in Table 1 below.

**TABLE 1 - 2016 Collection Rate Increase Recommended by Crowe Horwath (2.19%)**

<b>Residential Cart Size</b>	<b>Exiting Collection Rate (2015)</b>	<b>2.19% Collection Rate Increase (2016)</b>	<b>Increased Collection Rate Recommended in Exhibit A (2016)</b>
20-Gallon	\$20.95	\$0.46	\$21.41
35-Gallon	\$23.04	\$0.50	\$23.54
60/65-Gallon	\$44.59	\$0.98	\$45.57
95/100 Gallon	\$66.26	\$1.45	\$67.71

Since the establishment of the Rate Stabilization Adjustment in 2014, RSS has been collecting Rate Stabilization funding which the County/RSS Franchise authorizes the County Director of Conservation and Development to use to help offset rate increases. The opportunity to establish a Rate Stabilization Adjustment without increasing the amount charged to customers resulted from a reduction in the Post-Collection Rate negotiated by the West Contra Costa Integrated Waste Management Authority (WCCIWMA) in conjunction with their Post-Collection Agreement with Republic Services. As of the end of September 2015, RSS had collected \$360,258.79 in Rate Stabilization funds, with approximately \$400,000 expected to be available by the end of calendar year 2015. Staff estimates that approximately \$255,363.85 will need to be used to cover the 2.19% increase in residential Collection Rates for calendar years 2016 through 2019. Staff recommends that \$255,363.85 of Rate Stabilization funding be used to offset the 2.19% Collection Rate increase recommended in Exhibit A. Furthermore, staff recommends that the remaining funding (\$104,894.94) be used to offset future increases in CPI, to the extent feasible, for the subsequent interim three (3) years.

### **Post-Collection Rates**

Post-collection services are provided in coordination with neighboring jurisdictions through a Joint Powers Authority, the WCCIWMA. Post-Collection Rate adjustments are generally approved prior to any Collection Rate adjustments in the RSS service area, but usually become effective at the same time Collection Rate changes are made (January 1st of each year). The Franchise Agreement requires RSS to cause any adjustment to the Post-Collection Rates to be passed through to customers simultaneously with any adjustment to Collection Rates.

On October 29, 2015 the WCCIWMA tentatively agreed on a new Post-Collection Rate that will increase the Post-Collection Rate component of the total monthly residential rate charged to customers by 4.84% to 4.90% depending on the customer selected cart size. Details regarding the rate increase for all cart sizes is shown in Table 2 below. The WCCIWMA is expected to formally approve the Post-Collection Rate increase at their meeting on November 12, 2015, with the new Post-Collection Rate going into effect on

January 1, 2016.

**TABLE 2 - 2016 Post-Collection Rate Increase not yet Approved by WCCIWMA (4.8 - 4.9%)**

<b>Residential Cart Size</b>	<b>Current Post-Collection Rate (2015)</b>	<b>Proposed Post-Collection Rate Increase (4.8 - 4.9%)</b>	<b>Proposed Post-Collection Rate (2016)</b>
20-Gallon	\$4.55	\$0.22	\$4.77
35-Gallon	\$7.97	\$0.39	\$8.36
60/65-Gallon	\$14.83	\$0.72	\$15.55
95/100 Gallon	\$22.24	\$1.09	\$23.33

*Post Collection Rates and the associated percent increase listed in this table are only preliminary. Final 2016 Post Collection Rates will not be approved until November 12, 2015.*

If the Board concurs in the proposed use of Rate Stabilization funding, the only increase in residential rates charged to customers served by RSS in 2016 will be the Post-Collection Rate increase ultimately approved by the WCCIWMA for 2016. The tentative Post-Collection Rate increase equates to a net increase in the total monthly amount charged to residential customers ranging from 0.86% to 1.26%, depending on the cart size. The monthly rate charged for the typical 35-Gallon cart service would increase by 1.26%. Details regarding this recommendation for all cart sizes is shown in Table 3.

**TABLE 3 - Net Change in Monthly Rate Charged to Customers for 2016**

(Staff Recommended Offset of Collection Rate Increase using Rate Stabilization Funding + Proposed Post-Collection Rate Increase)

<b>Residential Cart Size</b>	<b>Existing Total Monthly Rate (2015)</b>	<b>Proposed Post-Collection Rate Increase</b>	<b>Proposed Total Monthly Rate (2016)</b>	<b>Net Monthly Rate Increase (2016)</b>
20-Gallon	\$25.50	\$0.22	\$25.72	0.86%
35-Gallon	\$31.01	\$0.39	\$31.40	1.26%
60/65-Gallon	\$59.42	\$0.72	\$60.14	1.21%
95/100 Gallon	\$88.50	\$1.09	\$89.59	1.23%

*Post Collection Rates and the associated percent increase listed in this table are only preliminary. Final 2016 Post Collection Rates will not be approved until November 12, 2015.*

### CONSEQUENCE OF NEGATIVE ACTION:

Collection Rates charged to customers would remain unchanged whether the Board approves the recommendations or not. Technically, the Director of Conservation and Development has the authority to direct that Rate Stabilization Funding be used to offset rate increases. However, the Board has the authority to instead approve a rate increase and therefore Board concurrence is requested. In the absence of Board direction to the

contrary, Rate Stabilization funding would be used to offset the Base Year Rate adjustment.

CHILDREN'S IMPACT STATEMENT:

Not applicable.

ATTACHMENTS

Exhibit A: Final Report - Review of 2016 Richmond Sanitary Services Rate Application

Exhibit B: Enhanced Services Cost/Revenue Analysis