



**Contra
Costa
County**

To: Board of Supervisors
From: John Kopchik, Director, Conservation & Development Department
Date: March 23, 2021

Subject: Solid Waste Collection Rates in the Crockett, Tormey & Port Costa Areas Served by Crockett Sanitary Service Under the County's Franchise Agreement

RECOMMENDATION(S):

ACCEPT report from Crowe LLP dated March 11, 2021 regarding their review of the Base Year Rate Application submitted by Republic Services (Exhibit A).

APPROVE a 9.05% increase to the maximum solid waste collection rates charged to residential and commercial customers served by Crockett Sanitary Service, Inc. under the County's Franchise Agreement, effective May 1, 2021.

FISCAL IMPACT:

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:

The County establishes and regulates collection rates that Crockett Sanitary Service, Inc. (CSS) 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

☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY
ADMINISTRATOR

☐ RECOMMENDATION OF BOARD
COMMITTEE

Action of Board On: **03/23/2021** ☒ 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: March 23, 2021

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

By: June McHuen, Deputy

Contact: Justin Sullivan, (925)
674-7812

cc:

County's Franchise Agreement with Allied Waste (also owned by Republic Services).

BACKGROUND: (CONT'D)

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 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 Rate Manual provides for recovery of the reasonable costs that Crockett Sanitary Service will incur in performing services under the Franchise Agreement plus allowable profit.

HISTORY OF SOLID WASTE COLLECTION RATE ADJUSTMENTS SINCE LAST BASE YEAR

There have been numerous rate adjustments in the Crockett Franchise Area since 1998 when the County adopted a Rate Manual. Below is a summary of 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, however the major factor was the new service enhancements that increased the frequency of green waste & recycling collection from bi-weekly to weekly. Crockett Sanitary Service 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 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 ADJUSTMENT

On November 20, 2020, CSS submitted a Base Year Rate Application requesting to

increase solid waste collection rates by 10.56%. To determine a Base Year Rate change for 2021, the County requested technical assistance from Crowe (consultant) to review the CSS Base Year Rate Application consistent with the County's Rate Manual. The results of Crowe's review are summarized in its report dated February 18, 2021, which is attached as Exhibit A.

The Base Year Rate setting process requires that a detailed rate change application be submitted along with supplemental financial and operational information. Using the detailed financial data provided, Crowe reviewed the following major cost categories to determine the appropriate rate adjustment:

- Direct Labor Costs
- Tipping Fees
- Corporate and Local General and Administrative Costs
- Household Hazardous Waste Program Costs
- Trucking and Equipment
- Allowable Profit
- County's Franchise Fees

Base Year Rate Application: The rate increase of 10.56% requested in the base year rate application is based on projected costs for existing services, including continued collection of recyclables and green waste on a weekly basis. Crowe reviewed the Rate Application submitted by Crockett Sanitary Service for consistency with the Rate Manual, County policies, and waste management industry practices. Their analysis did a comparison on year-to-year changes in revenue and costs for reasonableness and solicited explanations from CSS for material changes. This included the examination of actual data from prior years of 2018-2020, and projected data for 2021.

Crowe's review of the Rate Application led to recommending minor reductions to various cost categories, such as Direct Labor, Tipping Fees, Trucking and Equipment, that resulted in a \$11,978 net decrease in annual projected costs identified in the CSS Rate Application. This equates to a 1.51% cost reduction (relative to the CSS Application) for the 2021 Base Year, resulting in a recommended rate increase of 9.05%.

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). Most of the recommended rate increase is associated with increased tipping fees and increased cost of recycling.

Rate Comparison: While the proposed rate changes are large, the existing rates compare favorably to neighboring jurisdictions. As shown in Table C-1 in Exhibit A, current Crockett area residential rates are between about 11 to 27 percent below average rates for neighboring jurisdictions. With the proposed 9.05 percent increase recommended to take effect on 5/1/2021, the Crockett area residential rates would range between 3 to 20 percent below average non-county franchise area rates, depending on container size. Compared to other unincorporated areas franchised directly by the County, current Crockett residential rates are about 5 to 21 percent above average. With the proposed 9.05 percent increase recommended to take effect on 5/1/2021, the Crockett area residential rates would range between about 14 to 32 percent above average County franchise area rates.

Recommended Residential Rate Increase: Table 1 in Exhibit B includes the existing monthly residential rates, the recommended monthly rate increase and the new monthly rates recommended to take effect on May 1, 2021.

CONSEQUENCE OF NEGATIVE ACTION:

If the recommendations are not approved by the Board of Supervisors, the maximum residential Collection Rates would remain unchanged. According to the terms of the County's Franchise Agreement, CSS is potentially entitled to annual rate adjustments. The County is obligated to set rates in a manner consistent with the Rate Setting Methodology Manual pursuant to the terms of the Franchise Agreement with Crockett Sanitary Service. The Rate Setting Methodology Manual provides the basis for determining what rate adjustments are warranted to generate adequate ratepayer revenue to cover RSS' reasonable costs and allowable profit.

ATTACHMENTS

Exhibit A- Crowe Ltr. -Final Report

Exhibit B - Recommended Residential Rate Increases