



**Contra
Costa
County**

To: Board of Supervisors
From: Catherine Kutsuris, Conservation & Development Director
Date: January 25, 2011

Subject: Rate Increase, New Services and Franchise Agreement Extension for Solid Waste Collection in the Unincorporated Areas Served by Garaventa Enterprises

RECOMMENDATION(S):

1. ACCEPT report from NewPoint Group in Exhibit A regarding their review of the Base Year Rate Application submitted by Garaventa Enterprises;
2. APPROVE residential and commercial solid waste & recycling collection rate increase of 13.88% for customers in the unincorporated areas served by Garaventa Enterprises (Contractor) under the County's Franchise Agreement with Garaventa Enterprises ("Franchise Agreement");
3. APPROVE and AUTHORIZE the Chair of Board of Supervisors to execute Amendment No. 2 to the Franchise Agreement, to add the Ironhouse Unincorporated Area described in Exhibit B;
4. APPROVE and AUTHORIZE the Chair of the Board of Supervisors to execute a third amendment to the Franchise Agreement that extends the term of the Franchise Agreement by a total of 10 years and specifies that the franchise fee will be 7% upon implementation of 3-cart residential recycling collection services, pursuant to the terms of this board order and in a form approved by County Counsel;

☐ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY ADMINISTRATOR ☐ RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **01/25/2011** ☒ APPROVED AS RECOMMENDED ☒ OTHER

Clerks Notes: See addendum

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Gayle B. Uilkema, 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: January 25, 2011

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

By: June McHuen, Deputy

Contact: Lorna Thomson,
925-335-1231

cc:

5. APPROVE rate increase of 2% for commercial and light industrial customers to take effect upon implementation of franchise fee increase in conjunction with recommended 3-cart residential rate structure;
6. REQUIRE the Contractor to implement 3-cart residential recycling collection services on or about September 1, 2011;
7. APPROVE recommended 3-cart residential rate structure for customers served by the Contractor under the County's Franchise Agreement which would become effective upon the implementation of 3-cart residential recycling collection services on or about September 1, 2011;

RECOMMENDATION(S): (CONT'D)

<u>Service Level (Cart Size)*</u>	<u>Monthly Rate (Maximum)</u>
20 Gallon	\$25.00
32 Gallon	\$31.20
64 Gallon	\$36.20
95 Gallon	\$43.05

** Minimum cart sizes specified, actual cart sizes provided to customers may be larger.*

8. REQUIRE the Contractor to provide the Director of Conservation and Development (DCD) with monthly reports, beginning August 1, 2011, reflecting the distribution of residential customers by service level in sufficient detail to allow the Director to determine whether or not it is appropriate to request submittal of an additional base year rate application;

9. DIRECT staff, in consultation with the Contractor, to identify potential recommended revisions to the Rate Setting Process and Methodology Manual and any associated changes potentially needed to related terms in the County's Franchise Agreement in order to report back to the Board on or around March 22, 2011;

10. DIRECT staff to consult with the Contractor and study the possible outcomes of including regulation of construction and demolition debris in the Franchise Agreement and report findings to the Board in twelve months; and

11. DIRECT staff to request direction from the Board of Supervisors regarding each County solid waste and recycling collection Franchise Agreement three years before the applicable agreement expires.

FISCAL IMPACT: No impact to the County General Fund. The costs for DCD staff time and related consulting services pertaining to these matters would be covered by existing solid waste franchise fees. The additional franchise fee revenue to be derived from the recommended 2% fee increase would help offset the cost of services related to administering the Franchise Agreement.

BACKGROUND:

The County has a solid waste Franchise Agreement with Garaventa Enterprises (Contractor) for service to the following unincorporated areas:

- Bay Point - portion (remainder of Bay Point falls within the area served under the County's Franchise with Allied Waste)
- Bethel Island (contingent upon Amendment No. 2 taking effect incorporating the Ironhouse Unincorporated Area)
- Brentwood, unincorporated
- Concord, unincorporated
- Discovery Bay
- Knightsen
- Oakley, unincorporated

The County's service area includes portions of Supervisorial Districts III, IV and V. Byron Sanitary District administers its own solid waste collection franchise agreements and regulates the residential rates for the areas within its boundaries.

On October 7, 2009, the Board of Supervisors authorized the filing of a Base Year Rate Application two years early at the Contractor's request, due to extenuating circumstances in the economy cited by the Contractor and directed the Conservation and Development Director to concurrently evaluate the restructuring of residential collection services and identify associated rate change recommendations consistent with the approach used for similar restructuring of residential collection services and rates recently approved by the Board in other areas of the unincorporated County.

NewPoint Group Review of Garaventa Enterprises Rate Application

The County entered into an agreement with NewPoint Group to review the Base Year Rate Change Application submitted by the Contractor. The result of NewPoint Group's review is contained in their report dated January 10, 2011, which is attached as EXHIBIT A. NewPoint Group conducted their review consistent with the applicable provisions of the Rate Setting Manual approved by the County for use in the service area and the recommendations resulting from this review are detailed in the report.

The Base Year Rate setting process normally occurs every four years. This process requires that a detailed rate change application be submitted by the Contractor along with the most recent financial audit and supplemental financial and operational information. Using the detailed financial data provided, NewPoint Group reviews several cost categories to determine the appropriate rate adjustment. The major cost categories include:

- 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 Fee

Between Base Years, the Contractor is permitted to request Interim Year Rate Adjustments. The Interim Year Rate Review is less rigorous than that carried out in a Base Year. The Interim Year adjustments are calculated based on a weighted increase in controlled and uncontrolled costs, including tipping fees, regulatory charges and Consumer Price Index adjustments. Special extraordinary cost increases are also taken into account. The Contractor is not required to submit audited financial data with the interim year rate application.

History of Solid Waste Collection Rate Increases

Below is a brief summary of rate increases approved by the County over the past several years in the service area:

2003: Base Year Rate Application

Average residential & commercial rate increase of 7.66% and residential rates were standardized.

2004: Interim Year Rate Application

Average commercial rate increase of 11.79% (actual increases ranged between 2% - 25% depending on the level of service) and commercial rates were standardized.

2005: Interim Year Rate Application

Residential and commercial increase of 3.89%

2006: Interim Year Rate Application

Residential and commercial increase of 2.69%

2007: Base Year Rate Application

Residential and commercial increase of 6.44% (including Special Extraordinary Costs increase allowance of 1.55% for fuel)

Proposed 2011 Solid Waste Collection Rate Increase

The Contractor has proposed to increase residential and commercial rates in their unincorporated service area. The Base Year Application submitted by the Contractor requested a rate increase of 21.10%. The NewPoint Group made specific adjustments to costs reflected in the application and, thus, recommends a 13.88% rate increase. The adjustments reflect the reductions in the amount of revenue required to cover allowable costs, profit levels and pass through costs. These adjustments are consistent with the Board's

discretion under the Franchise Agreement and with the guidance in the Rate Setting Manual.

The table below summarizes the existing and recommended residential solid waste collection rates.

Recommended Base Year Rates for 2011

Service Level	Existing Rates	Recommended Base Year Rates (13.88% Increase)
20 Gallon	\$23.34	\$26.58
32 Gallon	\$28.85	\$32.85
64 Gallon	n/a	n/a
96 Gallon*	\$31.85	\$35.85

** Currently, customers who select the 96-gallon cart are provided with company-provided containers and pay a flat rental charge of \$3.00 per month (included in rate shown). The 13.88% is not applied toward the \$3.00 cart rental charge.*

The recommended 13.88% increase would also apply to commercial and light industrial customers served by the Contractor under the County's Franchise Agreement.

Franchise Agreement Amendment No. 2

On February 1, 2010, Ironhouse Sanitary District transferred to the City of Oakley the authority to franchise for solid waste and recycling collection for the area in the city. Ironhouse Sanitary District now wants to relinquish its right to provide solid waste collection and disposal services in the unincorporated area of Contra Costa County within its borders ("Ironhouse Unincorporated Area"). County and Ironhouse propose to accomplish this by entering into an agreement to terminate their existing Memorandum of Understanding as well as amending the County's Franchise Agreement with Garaventa Enterprises to include this additional area. Amendment No. 2 has been executed by the Contractor (see Exhibit B).

Franchise Agreement Amendment No. 3

Staff recommends extending the term of the Franchise Agreement by 10 years to accommodate longer amortization period for necessary capital investment to enhance the residential recycling services. A minimum of six years would be needed to allow for the 10 year depreciation period assumed in the 3-cart rates proposed for Board approval. The additional four years being recommended is intended to serve as an incentive for the Contractor to proceed with implementing the 3-cart services in 2011. The term would be extended by amending the Franchise Agreement as recommended in #4 above. Although this new amendment is intended to take effect upon execution, the 10 year extension would be revocable by the County if Contractor fails to implement the enhanced residential recycling services as required. The Contractor is expected to implement the enhanced 3-cart recycling services on or about September 1, 2011 (date contingent upon receipt of carts by contractor). Contractor is expected to order sufficient quantity of carts to serve the intended residential customers as directed by the County DCD. The Contractor is expected to place order for residential carts following Board consideration of potential recommended revisions to the Rate Setting Process and Methodology Manual on or around March 22, 2011 (as recommended in #9 above). The County has not increased the franchise fee percentage since initially established at 5% about 10 years ago. Staff is now recommending a 2% franchise fee increase, from 5% to 7%, for services provided by the County related to administering the Franchise Agreement.

Recommended 3-Cart Services & Rate Structure

The Contractor will provide 95-gallon wheeled carts for customers to place their yard debris in to replace current use of customer supplied bags or containers. Yard debris will continue to be collected curbside for recycling on a bi-weekly schedule. The Contractor will provide customers with 95-gallon wheeled carts for customers to place their mixed recyclables (including bottles, can and paper) for curbside collection to replace the two existing 14 gallon recycling crates. The recycling collection schedule will be changed from weekly to bi-weekly upon implementation of 3-cart services and rates. Contractor will provide all customers with wheeled garbage carts in some cases replacing customer owned cans. Customers will be asked to select

the size of their garbage carts and customers which do not elect to choose their cart size will receive the following cart sizes by default:

- 20-gallon can and 32-gallon can customers will be provided with wheeled carts roughly equivalent in capacity to their existing cans
- 96-gallon wheeled cart customers will be provided with 64-gallon wheeled carts

There are approximately 75 rural accounts (including a mobile home park which is treated as one account) located in the Marsh Creek Road area which will not be provided with wheeled carts for their yard debris or recyclables due to the exceptional cost of servicing that area with three separate trucks. These customers would be provided with special bags for recycling and yard waste collection that will be serviced by the garbage truck and then sorted for recycling processing at the transfer station.

Staff worked with the Contractor to determine a rate structure that would be most likely to support the necessary revenue requirement for the Contractor to provide residences with these new services. The Contractor did not agree with the NewPoint Group recommendation because it used a cost model based on the audited financial statements, which included the City of Oakley. The Contractor provided a proposed rate structure using a cost model based on their assumptions of the costs for service to the unincorporated area only. County staff did not agree with the Contractor's proposal because it was based on cost assumptions that have not been subject to an independent audit. For comparison purposes, the following table includes the current rates, the rates with the 13.88% increase, the 3-cart rates prepared by NewPoint Group, and the 3-cart rates prepared by the Contractor.

Service Level	Current Rates	Base Year Rate Increase of 13.88%	NewPoint Group 3-Cart Rates From Final Report	Garaventa 3-Cart Rates
20 Gallon	\$23.34	\$26.58	\$ 24.95	\$ 27.24
32 Gallon	\$28.85	\$32.85	\$ 30.20	\$ 31.95
64 Gallon			\$ 35.95	\$ 37.40
96 Gallon	\$31.85*	\$35.85*	\$ 40.45	\$ 45.00

** Currently, customers who select the 96-gallon cart are provided with company-provided containers and pay a flat rental charge of \$3.00 per month (included in rate shown). This \$3.00 per month rental charge would no longer be allowed upon implementation of the 3-cart rate structure.*

The 3-cart residential rates in Recommendation #8 above differ from the rates proposed by NewPoint Group and the rates proposed by the Contractor. The recommended rates are estimated to generate revenue from residential customers that are midway between the revenue requirement calculated by NewPoint Group and the revenue requirement calculated by the Contractor.

Tracking & Reporting of Residential Customer Accounts and Revenue

Staff will work with the Contractor to ensure that actual residential customer revenue is tracked (including monthly breakdown of customers by cart size and community) so that the data can be used to calculate the actual revenue generated by Board approved rate structure. If approved rate structure is determined to generate excessive residential revenue, County staff would formally request that the Contractor submit a rate application.

Review of the Rate Setting Manual

The Contractor has suggested changes to the Rate Setting Manual. County staff has reviewed some of these changes and agrees that any changes should make the application process more transparent and easier for the Contractor to complete in an accurate manner.

Among potential changes will likely be a delineation of the proposed method for Contractor to segregate cost information for regulated and non-regulated operations. Section 7 of the County's Franchise Agreement requires the Contractor to obtain the County's written approval of its method of segregating its financial records between County-regulated and non-County regulated operations. The separation of the former Ironhouse Service Area between Oakley and the County increases the significance of adhering to the Franchise Agreement's requirements. This would predominately relate to subsets of the franchise area where Contractor provides service to County and non-County customers (e.g. Pittsburg/Oakley areas regulated by cities).

County staff is prepared to complete this review with the Contractor with the understanding that the Rate Setting Manual is the County's document, which does not require approval or agreement by the Contractor. County staff will report to the Board identifying which suggestions would be inconsistent with existing policy and what if any additional implications such changes would have on the Franchise Agreement. County staff will also consider any other minor administrative changes that do not have implications to rate payers. County staff will report to the Board on this matter on or about March 22.

Conduct Construction and Demolition Debris Recovery Study

The Contractor believes it would be mutually beneficial if the County considered construction and demolition (C&D) debris to be part of the waste stream which the company has the exclusive right to collect. Staff is recommending that we have a study conducted in order to help determine if granting the Contractor exclusive privilege and duty to collect C&D debris would likely result in greater diversion and convenience, lower costs and more types of C&D materials collected for recycling. Staff estimates this study would cost no more than \$25,000. The Contractor would be consulted prior to finalizing a potential scope of work for the C&D study and a draft would be provided for the Contractor's review prior to beginning work on the study. Staff anticipates reporting back to the Board with any relevant findings and recommendations within twelve months.

Direction from Board of Supervisors Three Years Prior to Expiration

In order to seek direction from the Board regarding whether or not to extend solid waste and recycling collection franchise agreements, staff proposes to return to the Board of Supervisors for direction three years prior to all franchise agreement termination dates. This timeframe should allow adequate time to conduct a Request for Proposal process if that were the desire of the Board, including soliciting and selecting a contractor as well as then completing negotiations with selected contractor.

CONSEQUENCE OF NEGATIVE ACTION:

CHILDREN'S IMPACT STATEMENT:

CLERK'S ADDENDUM

By unanimous vote, APPROVED replacing the published Board Order with a new Board Order with revised recommendations as amended to insert the sentence "The additional franchise fee revenue to be derived from the recommended 2% fee increase would help offset cost of services related to administering the franchise agreement." as the final sentence in the Fiscal Impact section.

ACCEPTED report from NewPoint Group regarding their review of the Base Year Rate Application submitted by Garaventa Enterprises; APPROVED residential and commercial solid waste & recycling collection rate increase of 13.88% for customers in the unincorporated areas served by Garaventa Enterprises (Contractor) under the County's Franchise Agreement with Garaventa Enterprises ("Franchise Agreement"); APPROVED and AUTHORIZED the Chair of Board of Supervisors to execute Amendment No. 2 to the Franchise Agreement, to add the Ironhouse Unincorporated Area described in Exhibit B; APPROVED and AUTHORIZED the Chair of the Board of Supervisors to execute a third amendment to the Franchise Agreement that extends the term of the Franchise Agreement by a total of 10 years, pursuant to the terms of this board order and in a form approved by County Counsel.

ATTACHMENTS Report Amendment 2