

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DAN HENNESSEY, DIRECTOR OF TRANSPORTATION AND
PUBLIC WORKS
SUBJECT: APPROVAL OF RATE INCREASE OF 3.4% FOR RESIDENTS OF
THE CITY OF SANTA ROSA WHO UTILIZE RECOLOGY SANTA
ROSA (RECOLOGY SONOMA MARIN), EFFECTIVE
JANUARY 1, 2025

AGENDA ACTION: MOTION

RECOMMENDATION

It is recommended by the Transportation and Public Works Department that the Council, by motion, approve a 3.4% rate increase for City of Santa Rosa customers of Recology Sonoma Marin effective January 1, 2025.

EXECUTIVE SUMMARY

The City of Santa Rosa grants Recology Sonoma Marin (Recology) an exclusive franchise agreement for the collection and hauling of solid waste, including the three main streams of recycling, landfill, and organic waste. The City awarded this agreement to Recology Sonoma Marin in November of 2017 through a competitive process. Any rate increase for Santa Rosa Recology customers is subject to City oversight.

The franchise agreement allows for a detailed rate review every three years. The next detailed rate review would occur in 2026 for rates that will be effective January 1, 2027. The review is discretionary; either the City of Santa Rosa or Recology may request the review. In this case, City Staff requested a detailed rate review to ensure Recology is appropriately compensated, but also to ensure Santa Rosa's residents' refuse rates are competitive. In alternate years, Section 4.03.8 stipulates that rates are to be increased based on the Refuse Rate Index (RRI), which, unlike a detailed rate review, does not consider actual changes in Recology's cost structure.

As part of the review process, Recology submitted its rate application and supporting documentation. The documentation includes its forecasts for revenue projections,

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annual costs of operations, and any pass-through costs. The contractor will also project its profitability as defined in the franchise agreement, which is defined as a 90% operating margin based on allowable costs.

BACKGROUND

Franchise Agreement and Amendments

On August 29, 2017, the City Council adopted Resolution No. RES-2017-172, approving the Agreement with Recology Sonoma Marin for the collection of the City's garbage, recyclable material and organic waste.

On December 19, 2017, the City Council adopted Resolution No. RES-2017-250, approving the First Amendment to the Agreement between the City of Santa Rosa and Recology, Inc., creating a low-income rate discount program.

On September 25, 2018, the City Council adopted Council Resolution No. RES-2018-163, approving the Second Amendment to the Agreement, revising certain refuse rate indices and the time periods used to determine service recipient rate adjustments under the Agreement.

On May 7, 2019, the City Council adopted Council Resolution No. RES-2019-051, approving the Third Amendment to the Agreement between the City of Santa Rosa and Recology, Inc., to add infrequent service rates, reallocate several operating costs in the Refuse Rate Index, correct typographical errors in Section 10.07.13.2 and inadvertent omissions in Section 13.04.

On May 24, 2022, the City Council adopted Council Resolution No. RES-2022-101, approving the Fourth Amendment to the Agreement between the City of Santa Rosa and Recology, Inc., to comply with SB 1383 Regulations and implement a 3-container organic waste collection service.

On September 26, 2023, the City Council adopted Council Resolution No. RES-2023-171 approving the Fifth Amendment to the Agreement between the City of Santa Rosa and Recology to increase the service rate for Santa Rosa residents by 4.3% as well as to update the refuse rate index methodology.

Detailed Rate Review Compared to Refuse Rate Index

Under the existing contract, Recology Sonoma Marin is entitled to an annual increase of their rates; the next rate adjustment is scheduled to be effective on January 1, 2025. Rate adjustments are requested through an application process where Recology submits a rate adjustment application to the City no later than October 1 annually. The

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Agreement stipulates that the rate application include a Refuse Rate Index (RRI) Adjustment using five Bureau of Labor Statics indices (labor, diesel, vehicle replacement, vehicle maintenance, and all other) as well as changes in landfill tipping fees, recyclable material revenue, and organic waste processing fees. As an alternative to the RRI adjustment, the Agreement allows the City or Recology to request a detailed rate review every three years.

Annual customer rate adjustments are calculated one of two ways:

Refuse Rate Index (RRI): The purpose of the RRI methodology is to cost-effectively offset the inflationary pressures on the hauling company as costs increase without the need to perform an extensive Detailed Rate Review. The goal is to minimize the gap between revenue and costs and adequately compensate Recology for the services provided, and to avoid a significant rate increase once a Detailed Rate Review is performed.

Detailed Rate Review Process: Per Santa Rosa's Franchise Agreement (FA) either the City of Santa Rosa or Recology may request a Detailed Rate Review. Based on Section 4.05 of the FA a Detailed Rate Review may occur every three years starting with 2024, then in years 2027, 2030, and continuously every three years throughout the term of the contract. A Detailed Rate Review adjusts rates by reviewing Recology's actual operating costs and maintaining profit within the terms of the Agreement.

Recology is entitled to an operating ratio of 90%, which equates to approximately a 10% operating profit. A detailed rate review is an in-depth analysis of Recology's revenue and expenses in relation to the Santa Rosa franchise. The goal of a Detailed Rate Review is to align revenue and expenses ensuring a 90% operating ratio.

A Detailed Rate Review includes analyzing:

1. Subscription levels by line of business to test the reasonableness of revenue projections.
2. Forecasted costs such as labor-related costs, vehicle related costs, other others, and lease expenses.
3. Establishing a 90% operating ratio.

PRIOR CITY COUNCIL REVIEW

Included in Background.

ANALYSIS

Recology Sonoma Marin is entitled to request rate changed for Santa Rosa residents with City of Santa Rosa approval. With additional costs such as diesel, salary, mechanical parts, as well as an upcoming transition from diesel to electric or hydrogen run vehicles, the 3.4% rate increase is considered reasonable. The rate will increase the monthly rate for a standard 32-gallon single family cart from \$38.15 to \$39.46. This is a comparable rate to Napa Recycling and Waste Services in Napa (\$38.29), Recology Sonoma Marin for Healdsburg (\$29.78), and Recology Sonoma Marin for Cloverdale (\$35.69).

The rate is also needed to make up funds required for Recology Sonoma Marin to be able to transition over to a zero-emission fleet as required by California Governor Gavin Newsom's Executive Order N-79-20, which requires that all vehicles sold in the state be zero emission by 2035, as well as mandates that fleet vehicles, such as the Recology Sonoma Marin fleet, be zero emission by 2045. While this transition is still 20 years away from its mandatory reach date, it is more feasible for a fleet the size of Recology Sonoma Marin to implement transition periods over a longer time scale, therefore purchasing replacement vehicles over the 20-year period. The rate increase can help create a monetary fund to assist in the slow replacement of these vehicles.

FISCAL IMPACT

AB 939 fees are estimated to be \$159,469, which are earmarked to support programs to divert solid waste material from landfills.

ENVIRONMENTAL IMPACT

This action is not a project subject to the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15378 in that approval of the rate increase does not have the potential to result in a physical change in the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

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ATTACHMENTS

- Attachment 1 – Rate Increase Request
- Attachment 2 – Refuse Rate Summary-2025

PRESENTER

Dan Hennessey, Director of Transportation and Public Works
Shawn Kara, Zero Waste Coordinator