

CITY OF SANTA ROSA
CITY COUNCIL

TO: LONG TERM FINANCIAL POLICY AND AUDIT SUBCOMMITTEE

FROM: JOEY HEJNOWICZ, ADMINISTRATIVE ANALYST, CITY
MANAGER'S OFFICE

SUBJECT: REVIEW OF RECOLOGY SONOMA MARIN'S ANNUAL RATE
ADJUSTMENT EFFECTIVE JANUARY 1, 2019

AGENDA ACTION: INFORMATION ONLY

RECOMMENDATION

It is recommended that the Long Term Financial Policy and Audit Subcommittee receive and review a report on Recology Sonoma Marin's Annual Rate Adjustment effective January 1, 2019.

EXECUTIVE SUMMARY

Section 4.03 of the Solid Waste Collection Services Agreement (Agreement) between the City of Santa Rosa (City) and Recology Sonoma Marin (Recology) sets forth Adjustments to Service Recipient Rates. Recology may apply for annual adjustments to Service Recipient Rates and must submit financial information for the specific services performed under the Agreement for the preceding year on or before October 1st. City staff perform an administrative review of the rate application to verify that Recology has calculated the adjustments correctly and in accordance with the terms of the Agreement.

BACKGROUND

Section 4.03 of the Agreement between the City and Recology sets forth Adjustments to Service Recipient Rates. Recology may apply for annual adjustments to Service Recipient Rates and must submit financial information for the specific services performed under the Agreement for the preceding year on or before October 1st. City staff perform an administrative review of the rate application to verify that Recology has calculated the adjustments correctly and in accordance with the terms of the Agreement.

RECOLOGY 2019 ANNUAL RATE ADJUSTMENT REVIEW
PAGE 2 OF 5

Service Recipient Rates consist of a combination of the following elements: collection, disposal, recyclable material processing/expense, recyclable material revenue, organic waste processing and franchise fee element. Solid waste industry indices are applied to each cost element to determine annual service recipient rate adjustments.

PRIOR CITY COUNCIL REVIEW

None.

ANALYSIS

Collection Element Adjustment

The Collection Element, also referred to as the Refuse Rate Index (RRI), shall be the sum of the weighted percentage change in the annual average of each RRI index number between the base year and the preceding year ending June 30. Therefore, the first Collection Element rate adjustment effective January 1, 2019 will be based on the percentage changes between the annual average of the RRI indices from July 1, 2016 to June 30, 2017 and the annual average of the RRI indices from July 1, 2017 to June 30, 2018. The overall change in the RRI adjustment value is **4.18%**.

Cost Category	2018/2019 Adjustment			
	2017/18 Operating Category Total	Weighted Percent of Annual Total	Index Percent Change	Weighted Adjustment Percentage
Labor Index	\$5,891,232.32	50.27%	2.75%	1.3802%
Diesel Index	\$979,406.79	8.36%	22.34%	1.8667%
CNG Index	\$0.00	0.00%	-5.75%	0.0000%
Vehicle Replacement Index	\$1,503,987.85	12.83%	1.53%	0.1969%
Vehicle Maintenance Index	\$898,482.74	7.67%	0.88%	0.0676%
All Other	\$2,447,148.61	20.88%	3.22%	0.6730%
	\$11,720,258.31	100.00%	RRI Adjustment	4.18%

Disposal Element Adjustment

The percentage change shall be calculated as the percentage change between the per-ton tip fee charged at the Disposal Facility on the prior January 1 and the tip fee that will be effective on the upcoming January 1 rate adjustment date.

The Disposal Facility per-ton tip fee went from \$134.36 per ton to \$137.66 per ton, which results in a **2.46%** increase to the Disposal Adjustment Element.

Recyclable Material Processing/Expense Element Adjustment

The percentage change shall be calculated based on the percentage change in the annual average of the RRI indices from July 1, 2016 to June 30, 2017 and the annual average of the RRI indices from July 1, 2017 to June 30, 2018, and annually from July 1 to June 30 thereafter.

Therefore, the Recyclable Material Processing/Expense Element value is **4.18%**.

Recyclable Material Revenue Element Adjustment

The percentage change to the Recyclable Material Revenue Element shall be equal to the percentage change in the annual average of the Official Board Markets (OBM) Index for Recovered Paper – Export for OCC (11), FAS Point of Origin San Francisco/Oakland, published by Pulp and Paper Week, from July 1, 2016 to June 30, 2017 and the annual average of the RRI indices from July 1, 2017 to June 30, 2018, and annually from July 1 to June 30 thereafter.

The change in index values from last year to this year resulted in an adjustment factor of **-11.89%**.

Organic Waste Processing Element Adjustment

The percentage change shall be the percentage change between the per-ton tip fee charged at the SCWMA contracted organics facility on the prior January 1 and the tip fee that will be effective on the upcoming January 1 rate adjustment date.

The Organic Waste Tipping fee went from \$76.53 per ton to \$78.92 per ton, which results in a **3.12%** increase in the Organic Waste Processing Element.

Service Rate Summary

The Single-Family Residential Service Rate change from 2018 to 2019 is on average **6.91%** for an average **\$2.50** increase. The breakdown of the residential rate change can be found in the table below.

Residential Service Rate Change (2018 to 2019)				
Collection Bin Size	20 Gal	32 Gal	64 Gal	96 Gal
2018 Rate (Current)	\$23.56	\$27.05	\$41.11	\$64.77
2019 Rate	\$25.57	\$29.14	\$43.65	\$68.11
Dollar Change	\$2.01	\$2.09	\$2.55	\$3.34
% Change	8.54%	7.74%	6.19%	5.15%

RECOLOGY 2019 ANNUAL RATE ADJUSTMENT REVIEW

PAGE 4 OF 5

The Multifamily Dwelling Service Rate change, on average, is **3.78%** from 2018 rates to the 2019 rates.

The Commercial Service Rate change, on average, is **3.79%** from 2018 rates to the 2019 rates.

Single-Family Residential rates have increased to accommodate the loss in recycling revenues, which is a result of the current poor recycling market. The Residential Rates have a Recyclable Materials Revenue Element, which the Commercial and Multifamily Dwelling rates do not have. This explains why the Commercial and Multifamily Dwelling rates have not increased, as a percentage, as high as the Single-Family Dwelling Residential rates.

A complete 2019 Collection Service Rate Schedule with these adjustments can be found in Attachment 1, 2 & 3.

FISCAL IMPACT

There is no expenditure/cost impact to the City's General Fund from the Service Recipient Rates 2019 adjustment.

The sole expenditure/cost impact to the City's General Fund comes by way of the Low-Income Discount Program. In November 2017, City Council approved a 15% Low-Income Discount Program for qualified customers. The program is funded by reducing Recology's franchise fee payments to the City on a dollar-for-dollar basis and emulates PG&E's CARE Discount Program.

As of the end of November 2018, 1649 customers signed up for Recology's CARE Discount Program. The discount cost to the city through the 3rd quarter of 2018 is \$44,317. It should be noted that Recology did not bill the city for the 1st quarter because customers couldn't be accurately tracked utilizing the previous company's legacy system. In other words, \$44,317 is the cost to the city for half a year's operation of the CARE Discount Program.

Based on current 2018 enrollment levels the discount will cost the city approximately \$7,400 per month. The 2019 cost impact to the General Fund for the Low-Income Discount Program is approximately \$89,000.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines, title 14, section 15301 of the California Code of Regulations in that the assignment of agreements pertains to existing equipment, systems, and facilities involving negligible expansion of existing uses.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

Attachment 1 – 2019 Single-Family Dwelling Service Rate Schedule

Attachment 2 – 2019 Multifamily Dwelling Service Rate Schedule

Attachment 3 – 2019 Commercial Service Rate Schedule

CONTACT

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