



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of January 8, 2019

TO: Members of the City Council

SUBMITTED BY: Michael Roberts, Public Works Director/City Engineer

SUBJECT: Solid Waste Collection Franchise Agreement – Recommendation to Adjust Republic Services Rate +5.41% for 2019

RECOMMENDED ACTION:

Adopt a Resolution approving Republic Services' revised base year rate adjustment request of +5.41% effective January 1, 2019 per the recommended order issued by the Public Works Director.

FISCAL IMPACT OF RECOMMENDATION:

Approving a +5.41% rate increase would change the collection fee for a residential customer using a 35-gallon garbage can, which is the service level chosen by residents approximately 85% of the time, from \$25.69 to \$27.08, an increase of \$1.39 per month (See Table below for rates for all service levels). This fee includes weekly collection of organics and recycling as well as the provision of other community-wide programs. The proposed rate adjustment will also increase the franchise fee collected by the City approximately \$18,000 per year.

DISCUSSION:

In 1986, the City and Republic Services entered into a Franchise Agreement which provides Republic Services the exclusive right for collection and disposal services within Hercules. Since that time the Agreement has been amended multiple times. In accordance with Amendment No. 5, which was executed in 2013 and is the most recent, 2019 and 2023 are base years for rate review and adjustment. In other years, the refuse collection rates are adjusted annually in accordance with the San Francisco-Oakland-San Jose Metropolitan Area Consumer Price Index (CPI).

As provided for in Amendment No. 5, on June 28, 2018, Republic Services submitted a base year rate adjustment request to be effective January 1, 2019. This initial rate adjustment request was for a +6.35% increase. . Under Municipal Code Chapter 5-2A "Adjustment of Refuse Collection Rates", the Public Works Director/City Engineer is required to review the rate increase request, including completing any necessary studies and conducting a public hearing. The findings and recommended action are then to be compiled into a recommended order.

Delivery of municipal services can be divided into management/administration and field operations. Rate reviews should include an evaluation of both. To be as cost effective as possible and maximize available resources, Hercules jointly hired R3 Consulting Group with Pinole and San Pablo, who are

also undergoing base year rate adjustments, to perform a rate review for all three Cities. The City of Hercules' share of the review was \$5,520.00. Pursuant to the Franchise Agreement, Republic Services is required to pay for the cost of the review, though this cost is eligible for recovery in and is reflected in their new rates. R3 is a Bay Area solid waste management consulting firm and satisfactorily completed the last rate review for Hercules in 2013. R3 reviewed Republic's rate adjustment applications for 2019 with regards to mathematical accuracy, consistency with industry standards, allocations between franchise areas, and consistency with the franchise agreements.

Based on their review, R3 has recommended a base rate adjustment for Hercules of +5.34% which includes meeting Republic's established operating ratio of 0.88 under the franchise agreement. R3 subsequently met with Republic and discussed the +5.34% adjustment, down from Republic's initial request of +6.35%, and Republic agreed to this revised rate adjustment. Republic subsequently modified their rate adjustment request which is included as Attachment 2 to reflect this revised amount and also include the recovery of the review costs for a total rate increase of 5.41%. The recommended adjustment of +5.41% is just 1% more than the most recent CPI which would have otherwise been applied, which is tracking at 4.4%, and can be attributed to higher labor costs, gasoline prices, and truck costs.

As part of the evaluation, I toured Republic's field operations in August 2018 and they appeared to have the appropriate staffing levels, facilities that were in good working order, efficient operations, and to be well managed. I also conducted a public hearing at 7 pm on Thursday, November 29th as required by the Municipal Code, which was appropriately noticed. To date, the City has not received feedback from the public on the proposed rate change.

Based upon these reports, findings and observations, I issued a recommended order (Attachment 3) on December 7, 2018, for Republic Services' base rate adjustment be set at +5.34% effective January 1, 2019, and as agreed to by Republic Services, and subsequently modified to be inclusive of the review costs, as illustrated in the table below:

Rate Tables
Residential

	2018 Collection Rate	Base Year Rate Adj 5.41%	2019 Collection Rate	City Waste Program	2019 Post-Collec Charge	2019 Monthly TOTAL
35- gallon	25.69	1.39	27.08	2.08	9.47	38.63
65- gallon	44.31	2.40	46.71	3.79	17.61	68.11
95- gallon	63.04	3.41	66.45	5.60	26.42	98.47
20- gallon	24.78	1.34	26.12	1.40	5.40	32.92
Sr. 35- gal	23.69	1.39	25.08	2.03	9.47	36.58

2019 Commercial Service Rates *					
Bin Size	Times per Week				
	1	2	3	4	5
1 Yard	280.98	492.72	704.62	916.37	1,128.27
2 Yard	466.01	852.57	1,239.11	1,625.67	2,012.07
3 Yard	639.86	1,191.01	1,741.80	2,292.57	2,843.36
4 Yard	807.78	1,518.19	2,228.46	2,938.72	3,648.95
5 Yard	972.51	1,839.99	2,707.30	3,574.77	4,442.09
6 Yard	1,135.50	2,159.05	3,182.95	4,206.66	5,230.57
7 Yard	1,297.36	2,477.51	3,657.80	4,837.93	6,018.07

***Includes \$41.95 per yard/per month/per pick-up per week (IRRF Surcharge)**

The table also includes fees for the City's solid waste program and post-collection waste processing administered by Recyclemore. The City's solid waste program helps fund street maintenance and storm water activities related to solid waste, such as street repairs due to the wear and tear of garbage trucks, removal of trash from storm drains, and street sweeping to remove waste debris. Recyclemore is a joint powers agency in West County and is charged with processing the waste stream once it has been collected, including recycling, composting, operating the solid waste transfer facility, and insuring the region meets the State's waste diversion requirements. In November, Recyclemore increased their post-collection processing rate for a 35-gallon container 6.29%.

ATTACHMENTS:

1. Resolution
2. Republic Services Base Year Adjustment Request
3. Director of Public Works Recommended Order on Rate Adjustment
4. Franchise Agreement

Financial Impact

Description:

Increase the franchise fee collected by the City approximately \$18K per year

Funding Source:

Budget Recap:

Total Estimated cost:	\$0	New Revenue:	\$18,000
Amount Budgeted:	\$0	Lost Revenue:	\$
New funding required:	\$0	New Personnel:	\$
Council Policy Change:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		