



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: August 23, 2022

TO: Honorable Mayor and Members of the City Council

FROM: Jovan Grogan, City Manager

PREPARED BY: Qianyu Sun, Director

SUBJECT: Conduct Study Session on the City's Franchise Agreement With Recology San Bruno

BACKGROUND: The City of San Bruno entered into an integrated waste management franchise agreement with Recology San Bruno for a term from July 1998 to June 2009 with optional renewals of up to 15 years. The agreement has been amended multiple times and extended to June 30, 2024. The franchise agreement entitles Recology to annual rate increases based on either detailed cost-based rate reviews or interim indexed rate reviews. As scheduled in the agreement, a detailed year rate increase was due on July 1, 2022. Recology submitted their scheduled rate adjustment request in early 2021 for a 29% rate increase pursuant to the rate setting formula in the agreement.

As requested, R3 reviewed the company's request for consistency with the agreement methodology, mathematical accuracy and operational reasonableness and determined that the request was consistent, accurate and reasonable. Unfortunately, the methodology as outlined in the current franchise agreement that worked well for 22 years, will result in a significant (29%) increase in cost due to the current inflation spike, particularly as it relates to fuel and variable expenses where rate adjustments are based on agreed upon indices.

In light of the significant potential rate increase, the need to expand certain services and comply with SB 1383, staff and R3 concluded that initially negotiating with Recology was the best course of action for the City, rather than begin a Request For Proposals process.

The City requested a proposal for a new agreement that would include new services with enough time to seek competitive proposals prior to the end of the current agreement should negotiations fail. R3 was engaged to assist in evaluating the current rate adjustment request, company operations and negotiations of a proposed new agreement.

DISCUSSION: Senate Bill (SB) 1383 sets statewide mandates for organics recovery efforts by building on AB 1826 to incrementally reduce disposal of organic waste by requiring all generators to be provided organic waste recycling services and cities to develop edible food recovery programs. Because no state funds were provided with the legislation, cities have had to increase their solid waste rates to cover the expanded programs. San Bruno has been ahead of most cities in their compliance to date as Recology already expanded most of the organic's services.

R3 began the new franchise agreement negotiation with Recology in January 2022 supported by City staff. Detailed discussion will be held during the study session and information on the outcomes of the negotiations are described on **Attachment 1**.

The proposed new agreement is intended to ensure full compliance with the legislation, expand certain city services and provide long term rate stability. The new services would be implemented over 18 months. The attached presentation provides a detailed overview of the new services, rate impacts and an overview for entering into a new agreement or seeking competitive proposals. Overall the new agreement:

- Provides competitive rates;
- Complies with regulatory requirements, specifically SB 1383;
- Updates industry standard performance measures (performance reviews, reporting requirements, and liquidated damages for failure to comply with contract requirements);
- Protects from future rate spikes; and
- Avoids transition to new service provider.

The rates in the proposed new agreement are significantly less than the 29% rate increase that was submitted by Recology San Bruno for July 2022 and confirmed by the City's consultant (R3) as being compliant the methodology outlined in the current franchise agreement.

Below are the proposed new rates in the new franchise agreement for the next 18 months.

New Programs & Rates Implemented Over 18 Months

| Sector | January 1, 2023 | July 1, 2023 | July 1, 2024 |
|-------------------------|-----------------|--------------|--------------|
| Residential | 6.20% | 3.16% | 8.1% |
| Commercial & Debris Box | 16.98% | 3.16% | 8.1% |

| Components of Increase | 1/1/2023 | 7/1/2023 | 7/1/2024 |
|---------------------------------|----------|----------|----------|
| Scheduled Rate Increase | 5.45% | 1.93% | 4.27% |
| SB1383 Compliance | 4.80% | | |
| Bulky Goods and Abandoned Waste | | | 3.83% |
| Customer Billing | | 1.23% | |
| Compost Giveaway | 0.03% | | |
| School Discount | 0.17% | | |
| | 10.45% | 3.16% | 8.10% |

The next steps in the process are that:

- City Council provides direction to proceed with the proposed new agreement;
 - If directed, staff will bring back draft agreement for consideration on September 27, 2022;
 - Additional Details:
 - City Council will need to authorize a Proposition 218 rate hearing;
 - City Council would pass new rate resolution on November 15, 2022;
 - New Agreement would be effective January 1, 2023;
 - Rates will be adjusted for new services January 1, 2023, July 1, 2023, and July 1, 2024;

OR

- City Council could direct staff to take steps to begin an RFP process to process. Staff and the consultant (R3) estimates that an RFP process will cost approximately \$120,000 to complete, inclusive of negotiation of a new franchise agreement with the successful vendor.

FISCAL IMPACT: There is no fiscal impact.

ENVIRONMENTAL IMPACT: There is no environmental impact.

RECOMMENDATION: No Recommendation

ALTERNATIVES: No Alternative

ATTACHMENTS: 1. Recology Franchise Agreement Update