

Memorandum



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: June 1, 2021

Approved

Date

6/3/2021

SUBJECT: ADOPTION OF A RESOLUTION TO INCREASE RESIDENTIAL GARBAGE AND RECYCLING RATES EFFECTIVE JULY 1, 2021 FOR SINGLE-FAMILY AND MULTI-FAMILY RESIDENTIAL SOLID WASTE SERVICES

RECOMMENDATION

- (a) Hold a Public Hearing on the proposed 2021 2022 Residential Garbage and Recycling rates and charges.
- (b) Adopt a resolution to amend the current Residential Garbage and Recycling rate resolution effective July 1, 2021, as follows:
 - (1) Increase residential solid waste service rates for single-family households up to seventeen percent; and
 - (2) Increase residential solid waste service rates for multi-family households up to seven percent.

OUTCOME

Rate increases of up to seventeen percent for Single-Family Dwelling (SFD) households (\$6.65 per month or \$1.53 per week for the typical service level) and seven percent for Multi-Family Dwelling (MFD) households (approximately \$1.62 per month or \$0.37 per week per dwelling unit) would maintain the Residential Garbage and Recycling Program near cost-recovery and meet contractual obligations.

BACKGROUND

Residential Garbage and Recycling rates, billed to property owners, are set to cover the expenses of providing residential solid waste services. Staff regularly reviews Integrated Waste Management (IWM) Fund revenues and expenditures and forecasts the rates necessary to implement and maintain Council-approved services, programs, and activities related to residential solid waste.

Given the unprecedented and difficult times caused by the pandemic, the Administration has explored measures to mitigate a portion of the rate increases proposed for 2021-2022, as discussed at Council's Study Session on April 12, 2021 ("Updates on Senate Bill 1383, Residential Recycling Contamination, and Residential Garbage and Recycling Rates"¹). These efforts have reduced the forecasted SFD rate increase of twenty-one percent (as covered by the item, "Preliminary Forecast on Residential Garbage and Recycling Rates"² at the February 23, 2021 Council meeting) to the seventeen percent increase discussed at the Study Session and included in this memorandum.

As required under California law, notice of the proposed rate increases were mailed on April 22, 2021 to all property owners that are subject to these rates. The notice specified a maximum seventeen percent annual rate increase for SFD households and seven percent for MFD households for 2021-2022. During the public protest period, the City received a total of 532 written and in-person protests as of May 14, 2021. This represents less than one percent of all property owners impacted by the change in rates, which is less than the 50 percent needed to reject the proposed rate increases under California law. Residential Garbage and Recycling rates were last increased in 2020-2021 by nine percent for SFD households and five percent for MFD households.

ANALYSIS

Residential Garbage and Recycling agreements provide the following services: garbage, recycling and yard trimming collection; recycling processing; yard trimmings processing and composting; junk pickup; SFD motor oil and oil filter on-demand collection; and processing of residential garbage to recover organics and recyclables. Residential Garbage and Recycling contractors collect half a million tons of material every year, from over 320,000 households, while providing waste processing services that give San José one of the highest recycling rates in the area.

Increasing Contractual Costs

The rate increases proposed in this memorandum are needed to cover increasing contractual costs that the City is obligated to pay under the Residential Garbage and Recycling agreements and to cover one-time cost offsets implemented for this Fiscal Year's rates. Contractual costs for the agreements are projected to be approximately \$168 million for 2021-2022, an increase of \$21 million from 2020-2021. Contractual costs comprise about 90 percent of total expenditures in

¹ <https://sanjose.legistar.com/LegislationDetail.aspx?ID=4906063&GUID=32D1BBEB-7C75-41B4-9619-A08020D4EF35&Options=&Search=>

² <https://sanjose.legistar.com/LegislationDetail.aspx?ID=4793394&GUID=8814721D-2B97-4E23-A359-40139FDF4B22&Options=&Search=>

the IWM Fund. All other expenses, including City staff and support costs, amount to approximately \$19 million, or about ten percent of the IWM Fund.

Primary factors for increases in contractual costs include:

- New pricing for extended services – To continue residential garbage and recycling services beyond June 30, 2021, Council approved pricing and terms in 2019 to extend services with all current contractors through June 30, 2036 and authorized the City Manager to negotiate and execute the contract extensions. Terms of this extension include customer service enhancements, compliance commitments with new State law, and variable pricing for recycling services that correlate with the level of contamination of recyclables collected.
- Recycling contamination – In Fall 2020, a contractually required bi-annual third-party expert study of recyclables collected showed an increase of ten to twenty percent in recycling contamination as residents appeared to be using their recycling containers for excess garbage generated during stay-at-home orders. Following the terms of the extended services, this study will be used to set the pricing level for recycling contractors, which means higher contamination of the recyclables collected results in higher payments to the recycling contractors for the next two fiscal years.
- Annual inflationary (“cost of living”) adjustments for contractors – The City’s agreements with the residential garbage and recycling contractors provide for annual inflationary adjustments in compensation. This is a standard provision for solid waste agreements, especially necessary given the expenses, including labor, to operate in the Bay Area.

Residential Garbage and Recycling contractual appropriations proposed for next fiscal year are shown in the table below and reflected in the 2021-2022 Proposed Operating Budget Statement of Source and Use of Funds for the Integrated Waste Management Fund.

Recycle Plus Contractual Appropriations (IWM Fund)

<i>Appn</i>	<i>Contractual Budget</i>	<i>2019-2020</i>	<i>2020-2021</i>	<i>2021-2022</i>	
		<i>Adopted</i>	<i>Adopted</i>	<i>Proposed</i>	<i>Increased Amount</i>
0763	Single-Family Recycle Plus	67,895,682	72,204,900	85,715,398	13,510,498
3318	Single-Family Dwelling Processing	18,422,532	19,063,221	19,446,392	383,171
0764	Multi-Family Recycle Plus	24,223,882	25,345,637	27,657,580	2,311,943
0766	Yard Trimming Collection/Processing	25,388,894	25,780,233	30,364,890	4,584,657
2059	IDC Disposal Agreement	4,154,372	4,421,574	4,712,956	291,382
	Residential Contracts Total	\$140,085,362	\$146,815,565	\$167,897,216	\$21,081,651

Rate Strategy and Recommended Increases

Due to the challenging times for our community, the Administration explored strategies to mitigate the proposed rate increases, and these potential strategies were discussed at the Council Study Session on April 12, 2021.

While a number of strategies were explored, the Administration does not recommend actions that would reduce and disrupt the essential Residential Garbage and Recycling services, as the current service model is of high value to the community and is highly rated by residents based on customer satisfaction surveys.

A mitigation strategy the Administration recommends, assumed in the proposed rate increases in this memorandum, is using \$2,400,000 from the Operations and Maintenance (O&M) Reserve of the IWM Fund. While the planned use of O&M Reserve funds mitigates the 2021-2022 proposed rate increase, it is important to note that using some of the O&M Reserve makes the IWM Fund less resilient should an emergency situation arise as the funding level for this reserve is slightly less than one month's expenditure to sustain operations and maintenance. In addition, using the O&M Reserve is a one-time offset that will cause future rate increases to be higher than planned due to the one-time nature of the funds and the need to recharge the amount withdrawn from the O&M Reserve through future rate increases.

Under the proposed rate increases, San José's customer rates for Residential Garbage and Recycling are competitive in the local marketplace, even when comparing San José's proposed 2021-2022 rates to other jurisdictions current rates, as 2021-2022 rate information is not yet available from other jurisdictions. San José's services are robust, including unlimited recycling, unlimited loose in the street yard trimmings collection (with optional cart subscription), unlimited on-demand junk pickups at no additional cost, used oil collection, and processing of all waste to recover organics and recyclables. This combination of services results in San José having one of the most effective residential recycling programs in the area.

The recommended Rate Resolution includes complete listings of proposed SFD and MFD rates. Information on other jurisdictions' current rates is presented in the tables below.

SFD Garbage and Recycling Program
32-Gallon Rate Comparison

Regional Jurisdictions	2020-2021 Monthly Rate
San Francisco	\$59.70
Oakland	\$51.27
Palo Alto	\$50.07
San José (Proposed for 2021-2022)	\$45.77
Santa Clara	\$44.10
Fremont	\$39.74
San José (Current)	\$39.12
Sunnyvale	\$37.36
Hayward	\$35.62

MFD Garbage and Recycling Program
3-Cubic Yard Bin Rate Comparison

	<i>Monthly Rate</i>
Countywide Average	\$389.73
San José (Proposed for 2021-2022)	\$286.35
San José (Current)	\$267.62

CONCLUSION

Residential Garbage and Recycling rate increases of \$6.65 per month for the typical service level for SFD services and approximately \$1.62 per month per dwelling unit for MFD services would maintain the Residential Garbage and Recycling Program near cost-recovery, meet contractual obligations, and continue the current level of services for residents.

EVALUATION AND FOLLOW-UP

If approved, the Residential Garbage and Recycling rates will be billed to ratepayers for services effective July 1, 2021 for SFD and MFD customers.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

As required under California law, notices for proposed maximum rate increase for 2021-2022 were mailed to property owners in April 2021. This memo will be posted on the City's website for the Council Agenda of June 15, 2021.

HONORABLE MAYOR AND CITY COUNCIL

June 1, 2021

Subject: 2021-2022 Residential Garbage and Recycling Rates Single-Family and Multi-Family Residential Solid Waste Services

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COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

There is no commission recommendation/input associated with this action.

FISCAL/POLICY ALIGNMENT

The additional revenue generated by the recommended rate increases aligns with City Council Policy that programs be self-supporting whenever possible.

COST SUMMARY/IMPLICATIONS

It is estimated the SFD and MFD increases will generate approximately \$22,300,000 (\$20,200,000 from SFD and \$2,100,000 from MFD) in additional revenue in the IWM Fund in 2021-2022 to offset the necessary expenditure increases. This additional revenue has been assumed in the 2021-2022 Proposed Operating Budget Statement of Source and Use of Funds for IWM Fund.

Approximately \$2,400,000 will be used from the O&M Reserve of the IWM Fund to help mitigate the rate increase for 2021-2022. This reserve is budgeted at \$13.3 million in 2021-2022 and the Administration plans to bring this reserve closer to a funding level of approximately \$16 million – or one month's estimated expenditures for operations and maintenance – as part of future rate increases by 2023-2024.

CEQA

Statutorily Exempt, File No. PP17 005, CEQA Guidelines Section 15273, Rates, Tolls, Fares, and Charges, Adjustment to Fees, Rates and Fares without changes to or expansion of services.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Valerie Osmond, Deputy Director, Environmental Service Department, at (408) 535-8557.