COUNTY OF MARIN

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Quality, Excellence, Innovation

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January 14, 2020

Board of Supervisors
3501 Civic Center Drive
San Rafael, CA 94903

SUBJECT: Public Hearing for a Rate Increase for the West Marin Franchise Area No. 1 with Recology Sonoma Marin

Dear Board Members:

RECOMMENDATIONS: Hold a public hearing at 10:30 a.m. to consider a 30.27% rate increase request by Recology Sonoma Marin for the West Marin Franchise Area No. 1, effective January 1, 2020.

SUMMARY: Recology Sonoma Marin has the exclusive franchise with the County of Marin for refuse and recycling in West Marin for Franchise Area No. 1. This franchise area includes the West Marin coast except for Bolinas and Stinson Beach.

This 30.27% rate increase request consists of three components. A 23.78% cost-based adjustment and 3.39% attributable to a retroactive adjustment and 3.10% due to the Refuse Rate Index adjustment.

Cost-Based Adjustment- Detailed Rate Review

A rate increase of 23.78% effective July 1, 2019 is consistent with the terms of the Franchise Agreement and the associated Consent Agreement (by which the County approved Recology assuming the benefits and obligations of the Franchise when it purchased substantially all the assets of Redwood Empire Disposal/Ratto Group in late 2017). Those agreements provide for this rate adjustment to be calculated using a "cost-based" methodology. The County negotiated this cost-based rate adjustment with Recology as part of the 2017 Consent Agreement. At the time Recology assumed the Franchise Agreement, Ratto Group had a substantial pending rate request submitted on July 31, 2017 for a 67.49% increase that the Ratto Group agreed to rescind. As such the Consent Agreement further provides that if the parties are unable to agree on a cost-based rate adjustment increase that the County may solicit competitive bids for the West Marin Franchise.

R3 Consulting Group, Inc. reviewed the requested rate adjustment and their analysis is provided in Attachment 1. Recology initially requested a 26.15% cost-based rate adjustment (Attachment 2); R3 determined that a rate increase of 23.78% is appropriate to compensate RSM for providing solid waste services. R3 found that the primary driver of this cost-based rate increase request is a legacy of rates that were not able to recover the cost of providing solid waste services.

While R3 and the County did not have the opportunity to review the Ratto Group's prior rate application in full, supporting documentation in that application confirmed that the Ratto Group's expenses exceeded revenues. Recology's Rate Application shows the same trend, and also demonstrates, while it has taken steps to reduce overall operating expenses, rate revenues in the County franchise areas are not enough to cover operating costs.

As part of the cost-based rate increase request, RSM has committed to replacing all carts currently in the field with new carts by December 31, 2021 (Attachment 3). The new carts will be properly labeled in line with other cart replacements RSM has completed and will meet SB 1383 container labeling and color requirements.

The need for additional routing was also identified, in which the previous contractor failed to provide recycling collection service in keeping with the Agreement requirements in some areas (i.e., commingling collected recyclables with garbage in the same truck and directing those loads to landfill disposal). This has resulted in increased labor costs to properly collect recycling separate from garbage and ensure its diversion from landfill disposal (additional recyclables collection routes account for approximately 8.4% of the total 23.78% rate adjustment).

The next cost-based rate increase is anticipated to be conducted in July 2023 for rates effective January 1, 2024. Until then, the RRI methodology would be used which is likely to result in rate adjustments such as the one under consideration for rates effective January 1, 2020.

RSM also proposed consolidating the three existing service zones in the West Marin Franchise Area No.1 – West Marin (WMN), Muir Beach (MBE), and Marin Coast (MCT) – into one zone, which RSM asserts will smooth differences in current rates between services zones. RSM's rate structure revision proposal requires further review, and the County was not obligated to consider it at this time. Because the base rate increase is unusually high, and because rate structure revisions inevitably result in some ratepayers paying significantly more or less than the base rate increase, R3 has recommended this proposal be evaluated at a future date pending more information and analysis regarding customer impacts and phasing.

Per the Consent Agreement, the cost-based rate adjustment is for rates effective July 1, 2019. However, due to the protracted rate setting timeframe it is recommended the 23.78% rate adjustment be combined with the other rate adjustment components under consideration for a single rate adjustment effective January 1, 2020.

Retroactive Adjustment
A 3.39% increase over current rates is attributable to the retroactive amount due to Recology on revenues that would have been collected during the July 1 – December 31, 2019 period had rate setting proceeded in alignment with a July 1, 2019 detailed rate review effective date.

Refuse Rate Index Adjustment
A 3.1% increase over current rates is attributable to the more standard, non-"Detailed Rate Review" multi-factor Refuse Rate Index or "RRI" for a 2.50% rate increase effective January 1, 2020. The RRI is comprised of five specific Bureau of Labor Statistics indices more accurately reflecting the costs experienced by waste haulers than a simple CPI adjustment. The RRI calculation uses indices from August to July, and since the contract has conflicting information regarding the timing of indices to be used, indices from August to July will continue to be used going forward. The RRI calculation is provided in Attachment 4. Rate tables are provided in Attachment 5. Lastly, some administrative clarifications have been added to the list of County served sites – Exhibit C to the Franchise Agreement – and are provided in Attachment 6.

If approved, the combined 30.27% rate increase will be reflected in RSM's customer billings effective January 1, 2020. For residents with a 32-gallon cart, which is the most common cart size in West Marin Franchise Area No. 1, the new rate will be $41.99 a month in West Marin, $53.80 a month in Marin Coast, and $53.49 a month in Muir Beach. For businesses with a 1.5 cubic yard bin collected once per week, the most common service level, the new rate will be $319.46 in West Marin, $239.79 in Marin Coast, and $407.53 in Muir Beach.

FISCAL IMPACT: There is an estimated revenue increase of approximately $97,000 in General Fund franchise fees associated with the proposed rate increase. Public Works Waste Management (1005621) will receive an estimated $2,910 to cover this year's 3% staffing COLA and an estimated $94,090 will be deposited in a Waste Reduction Public Outreach Project (41PWWRPOP). Revenues and expenditure will be appropriated based on the actuals received through the monthly budget adjustments process. Additionally, the rate increase will generate Regulatory Compliance Fee revenue of $17,000. There are no other impacts by this action.

REVIEWED BY:	[X]	County Administrator	[ ]	N/A
	[ ]	Department of Finance	[X]	N/A
	[ ]	County Counsel	[X]	N/A
	[ ]	Human Resources	[X]	N/A

Respectfully submitted,

Steve Devine
Program Manager

Attachments:

1. R3 Review of Recology Sonoma Marin's 2019 Rate Application.
2. Rate Adjustment Request from Recology Sonoma Marin.
3. Recology Sonoma Marin Letter Commitment to Replace Carts and Example Photos.
4. Rate Adjustment Request from Recology Sonoma Marin, Dated September 3, 2019
5. Proposed Rates Effective 1-1-2020.
6. Updated List of County Served Sites.

cc: Recology Sonoma Marin

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