



Item No. 19 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: GEORGE RODERICKS, CITY MANAGER

DATE: FEBRUARY 19, 2020

SUBJECT: REVIEW, DISCUSS AND PROVIDE DIRECTION ON NEXT STEPS FOR SOLID WASTE COLLECTION AND POST-COLLECTION SERVICES

RECOMMENDATION

Review, discuss and provide direction on next steps for solid waste collection and post-collection services.

BACKGROUND/ANALYSIS

The Town engaged R3 Consulting Group, Inc. (R3) to evaluate the opportunity for use of a different service provider for solid waste collection, recycling, processing and disposal services. This effort was undertaken in support of the Town's objective to reach a decision regarding extension of its contract with Recology San Mateo County (Recology) versus contracting with a new service provider.

On August 26, the Town issued an RFP for solid waste collection services only, and for collections, recycling, processing and disposal services together. The Town received one proposal from GreenWaste Recovery (GWR). The Ad Hoc Subcommittee of Council Members Wiest and Widmer reviewed the response(s) from GWR along with analysis provided by R3. The Subcommittee held several preliminary meetings with R3 and GWR to help understand and refine the proposal. R3 has provided an analysis that identifies current services and costs; evaluates those services against the proposal(s) provided by GWR; and provides a brief analysis of next steps (attached).

At this time, the Subcommittee recommends the Council authorize staff and the Subcommittee to pursue in-depth negotiations with GWR. The Subcommittee recommends that pursuit of Option 3, GWR Collection and GWR Post-Collection Compensation – Food Scraps in Black Bin, be pursued. This will ensure that the Town is fully compliant with SB 1383. This option provides the Town with better long-term financial certainty and control.

The Subcommittee recommends that a Notice of Intent to Withdraw letter be sent to the South Bayside Waste Management Authority (SBWMA). The withdrawal letter will be prepared for consideration by the Council at the March 18 Council Meeting.

A final decision needs to be made by March 2020 so that appropriate actions may be taken to exit the SBWMA, if desired.

POLICY ISSUES

Policy issues related to this item involve a discussion of whether to proceed with the Amended and Restated Franchise Agreement with Recology or move forward with an alternate service provider. The City Council can opt, at any time prior to its expiration in December 2020, to execute the Amended and Restated Franchise Agreement. However, if the Town opts to exit the SBWMA and continue services with an alternative service provider, appropriate notice must be provided to the SBWMA and Recology and the Town must comply with the exit provisions of both the JPA Agreement and the Franchise Agreement.

A Notice of Intent to Withdraw must be submitted *at least* six months prior to the end of the current rate year, specifying the exact date of withdrawal. To coincide with the end of the Franchise Agreement, the Notice of Intent would need to be sent by June 2020. Other issues related to withdrawal will also be necessary, to include a vote of the SBWMA member agencies and liquidation of all existing debts, obligations, and liabilities.

Should the Council opt to move forward with an alternate service provider, staff will finalize the exit costs with the SBWMA. Initial projections by the SBWMA place the cost to exit the SBWMA at approximately \$1.9 to \$2.1 million; however, some of these costs may be subject to further discussion.

FISCAL IMPACT

None at this time.

PUBLIC NOTICE

Public notification was achieved by posting the City Council agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power and sewer), and regional elected officials.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item has or X has not been before a Town Committee or Commission.

Refuse Services Next Steps

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- _____ Audit/Finance Committee (meets every other month)
- _____ Bicycle/Pedestrian Committee (meets as needed)
- _____ Civic Center Advisory Committee (meets as needed)
- _____ Environmental Programs Committee (meets every other month)
- _____ Park and Recreation Committee (meets each month)
- _____ Planning Commission (meets each month)
- _____ Rail Committee (meets every other month)
- _____ Transportation Committee (meets every other month)
- _____ Tree Committee (meets each month)

ATTACHMENTS

Report from R3 Consulting

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To: George Rodericks, Atherton City Manager
From: Garth Schultz and Emily Ginsburg, R3 Consulting Group
Date: February 12, 2020
Subject: Town of Atherton Solid Waste RFP Results

The Town of Atherton (Town) engaged R3 Consulting Group, Inc. (R3) to help the Town reach a decision regarding extension of its exclusive solid waste collection franchise agreement with Recology San Mateo County (Recology) vs. entering into a new solid waste collection contract with a different solid waste collection service provider. In testing the market, the Town sought to determine whether a cost savings could be achieved with a different solid waste services provider.

On August 26, 2019, the Town issued an RFP soliciting proposals for both solid waste collection services (alone) and for combined solid waste collection and recycling, processing and disposal services (together). Though the Town invited six viable solid waste service companies to provide proposals (in addition to publicly posting the RFP on the Town's website) the Town received one proposal from GreenWaste Recovery (GWR). R3 and the Town compared the GWR proposal to the Town's current solid waste management system which utilizes Recology (for solid waste collection service) and South Bayside Waste Management Authority (SBWMA, for solid waste post-collection and other services).

This memorandum presents R3's findings regarding the cost savings/cost increase margins in comparing these different scenarios as well as other factors for the Town's knowledge and consideration as it makes decisions regarding its future solid waste services contracts.

GreenWaste Recovery Proposal

R3 analyzed and projected costs of Atherton's current solid waste system configuration utilizing Recology and SBWMA and compared those projected costs to the three scenarios presented by GWR in its proposal. To ensure a fair comparison R3 thoroughly reviewed Recology's current and projected future collection compensation, SBWMA's current and projected future post-collection compensation, and GWR's proposed current and projected future collection and post-collection compensation. R3's analysis anticipates changes in the Town's share of SBWMA's expenses for rising organics processing expenses and other needs, including estimated expenses for compliance with SB 1383. The results of these scenario comparisons are described below:

1. **GWR Collection and SBWMA Post-Collection Compensation:** In this first scenario, GWR would replace Recology as Atherton's solid waste collector, and the processing and disposal of Atherton's waste would continue to be managed through SBWMA. The combination of GWR's collection-only proposed compensation plus conservative projections of SBWMA Post-Collection costs, averaged over 2021-2023, is **3.03% higher** than the sum of conservative

projections of Recology's compensation plus conservative projections of SBWMA's costs averaged over the same time period. Over the three years this scenario shows an increasing cost trend: 2021 is projected to be 1.06% higher than current status quo, 2022 is projected to be 3.94% higher, and 2023 is projected to be 4.16% higher. This increasing trend in projected expenses is primarily due to GWR having a higher proposed collection cost than Recology. On a collection-only basis, Recology's compensation is less than GWR's and thus more favorable to the Town and its ratepayers.

2. **GWR Collection and GWR Post-Collection Compensation – Food Scraps in Green Bin:**¹ In a second scenario, GWR would become Atherton's solid waste collector and also replace SBWMA in managing the processing and disposal of Atherton's waste. Food scraps would continue to be accepted in the green container for composting. Averaged over 2021-2023 GWR's combined collection and post-collection compensation (which would require SBWMA withdrawal, the costs of which are not included in this analysis) is estimated to be **2.87% lower** than conservative estimates for the combined Recology and SBWMA figures averaged over the same period. This is due to lower proposed post-collection compensation due to GWR compared to SBWMA.

However, it is important to note the cost trend by year: in 2021 this scenario is projected to net a 8.10% cost savings, in 2022 a 1.26% savings, and in 2023 a projected 0.94% cost increase, as compared to the status quo with Recology and SBWMA. The primary reason that the comparative savings projected for 2021 is favorable to the GWR proposal is that there is a onetime true-up to depreciation of \$107,290 due by the Town's ratepayers to Recology in 2021, if the Town opts to extend the Recology agreement.

3. **GWR Collection and GWR Post-Collection Compensation – Food Scraps in Black Bin:**² In an alternative third scenario, GWR would become Atherton's solid waste collector and manage its processing and disposal—however, food scraps would be placed in the garbage in order to be sorted through for recovery, potentially achieving higher landfill waste diversion. In other words, there would be no requirement for residents and businesses to separate their food scraps and food soiled paper to meet the requirements of SB 1383.

GWR estimates processing all three streams (as opposed to the current two, recycling and organics) would come at a minimal additional cost per year. Averaged over 2021-2023 GWR's combined collection and post-collection compensation (which would require SBWMA withdrawal) is estimated to be **2.62% lower** than conservative estimates for the combined Recology and SBWMA figures averaged over the same period. This is again due to lower proposed post-collection compensation due to GWR compared to SBWMA. However, as with scenario two, above, the trend is for increasing costs over time; R3's projections include

¹ Food scraps in the green bin is the current practice of placing food waste (and food soiled paper) together with green waste for collection and composting as a mixed organic material stream.

² Food scraps in the black bin is an alternative practice of placing food waste (and food soiled paper) in the garbage for collection and processing to recover organic materials for composting. Food waste is commonly found in garbage despite programs which favor source separation; processing garbage places less onus on the waste generator to source separate and may lead to higher rates of recovery. Incidental recyclables incorrectly placed in the garbage would also be recovered.

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savings compared to the status quo of 7.87% in 2021 and 1.01% in 2022, followed by costs that are projected to be 1.21% higher than status quo in 2023.

SBWMA Withdrawal Considerations

The Town has been a member of SBWMA since its formation in 1982. One of twelve Member Agencies, Atherton is joined by the City of Belmont, City of Burlingame, City of East Palo Alto, City of Foster City, Town of Hillsborough, City of Menlo Park, City of Redwood City, City of San Carlos, City of San Mateo, the County of San Mateo and the West Bay Sanitary District. SBWMA is a joint powers authority charged with overseeing solid waste services on behalf of its Member Agencies.

As the smallest Member Agency, Atherton represents approximately 2.6% of the SBWMA's financial position. Unlike the other Members Agencies, Atherton is primarily residential with few businesses and no multi-family properties; as a built-out community year-to-year there is little change in its solid waste generation. Overtime the other Member Agencies have experienced increased growth and development of commercial and multi-family properties, and as a result have need for a more complex solid waste system that can meet their needs under an increasingly strict regulatory environment.

Cost of Withdrawal Not Included in Analysis

Section 15.1 of the Joint Powers Authority Agreement sets forth the terms and conditions pursuant to which a Member Agency may withdraw from SBWMA: i) notice at least six months prior to the end of the rate year; ii) approval of four-fifths (4/5) of the members; and iii) the payment of a proportionate share of the Authority's liabilities. Prior to its exit, a Member Agency must "achieve...the liquidation in full of its proportion of any and all existing debts, obligations, and liabilities incurred, earned, or expected to be earned by the date of withdrawal, but not limited to the Revenue Bonds, as determined by the Board."

SBWMA's initial estimate of Atherton's cost to withdraw is approximately \$2M. The particular method of calculating (and liquidating) a Member Agency's proportional share of any such outstanding obligation is not specified under the Joint Powers Authority Agreement (i.e., actual withdrawal cost would need to be negotiated). The Town's rate surplus funds generated through its current contract with Recology (approximately \$1.7-\$1.8M) could be used to pay for withdrawal. Up to \$500,000 could be financed through GWR as a rate payer pass-through to help preserve rate surplus funds. The projected costs analyzed by R3 and included in this memorandum do not include any assumptions regarding projected costs of withdrawal; any actual costs of withdrawal would be in addition to the costs presented herein.

State Regulatory Compliance and Contract Management Not Included in Analysis

In addition to potential costs of withdrawal, if the Town were to withdraw from SBWMA it would need to make arrangements for the on-going implementation of unfunded state mandates and contractor oversight. Currently SBWMA and Recology manage reporting to the State regarding Atherton's compliance with State laws on the Town's behalf. Key state regulations jurisdictions must comply with concerning solid waste management include AB 939 Integrated Waste Management Act, AB 341 Mandatory Commercial Recycling, and AB 1826 Mandatory Commercial Organics Recycling. Primary compliance activities include solid waste program implementation, public outreach and education, monitoring and tracking of waste generator compliance, and annual reporting.

In the event of the Town's withdrawal from SBWMA, these duties could be delegated by the Town to GWR, and the costs of efforts could potentially be negotiated to be included in the costs currently proposed by GWR, or may result in additional compensation needs for GWR. In addition, solid waste

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planning documents required by the State are currently in place for SBWMA (inclusive of Atherton): Source Reduction and Recycling Element, Household Hazardous Waste Element, and Nondisposal Facility Element. If withdrawing from SBWMA, the Town will likely need to develop its own solid waste planning documents specific to Atherton (estimated at \$50,000-\$100,000).

SBWMA manages the Town's collection and post-collection contracts, conducts additional outreach and education, and is responsible for general solid waste system administration. If withdrawing, the Town would be responsible for its own solid waste contract management. This function could potentially be delegated to a solid waste consultant, however, a direct connection between Town staff and solid waste service provider is more likely to foster a spirit of partnership resulting in better outcomes long-term (e.g., collaboration on new state mandates). Contract management activities involve regular review of franchise fee payments, hauler reports, and rate adjustment applications, review and approval of community education and outreach plans, regulatory compliance coordination, periodic meetings and calls with hauler staff, general administration and solid waste system oversight.

SB 1383 Organic Waste Methane Emissions Reductions

SB 1383 sets statewide goals to reduce organic waste disposal by 50% from the 2014 level by 2020, and 75% from the 2014 level by 2025. It also establishes a target of recovering 20% of currently disposed edible food for human consumption by 2025. The law's requirements become effective on January 1, 2022, with some requirements having a longer time frame. The state is currently in the process of developing draft regulatory language, which is anticipated to be finalized in early 2020. Per the draft regulations, local jurisdictions may be required to implement the following tasks and responsibilities per SB 1383:

- Weekly organics collection services for residential customers;
- Provide education and outreach to all generators of organics;
- Establish an edible food recovery program;
- Include details on purchasing and procurement of end-use organic waste products internally and/or as a requirement on generators;
- Identify and secure organic waste processing capacity for material collected;
- Develop local end-uses for processed organic waste (e.g. ordinances mandating local use of finished compost product);
- Provide consistently labeled organic waste containers adjacent to public garbage bins;
- Jurisdictions using a three-container collection system must use grey lids for garbage, green lids for organics, and blue lids for recycling. If food waste is collected, the container must be yellow. Labels must be applied with accepted materials listed. If three-container collection system is used, garbage does not need to be delivered to processing by "high diversion organic waste processing facilities." However, if food waste is collected in garbage, it must be processed by high diversion facilities; and
- Jurisdictions must do a route review for contamination for each route, quarterly. If contamination is found, they must leave written notice. If a facility informs jurisdiction of contamination, jurisdiction must inspect route to find source of contamination and provide notice.

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SBWMA Partnership

SBWMA has pro-actively begun planning for SB 1383 compliance, however, what pathway it will take is uncertain as it is subject to multiple interests. The currently proposed pathway recommendation involves processing multi-family and commercial solid waste through the Organics-to-Energy (O2E) project at the Shoreway, and procurement of RNG and/or compost. SBWMA would perform the programmatic, policy, outreach, monitoring, reporting, and procurement requirements; Member Agencies would be responsible for enforcement (estimated at \$1,000-\$3,000/yr for Atherton). Initial estimates prepared by SBWMA's consultant indicate high costs for implementation (estimated at up to \$8M/year SBWMA). Atherton would share in those costs and its compliance would largely be achieved through SBWMA's SB 1383 activities, however, the Town would have limited influence over the approach and corresponding cost.

GWR Partnership

GWR offers an alternative pathway to Atherton SB 1383 compliance, one subject to the Town's interests and with greater cost certainty. The proposal submitted by GWR incorporates the Town's compliance with SB 1383 into the cost-model, and in the long-term the Town could potentially achieve greater cost savings on SB 1383 implementation with GWR than with SBWMA. The collection and post-collection options put forth in GWR's proposal would meet the requirements of SB 1383; the option to place food scraps in the black bin for processing also has the added benefit of potentially achieving greater landfilled waste diversion. GWR could perform the outreach, monitoring and reporting functions required by SB 1383, and potentially procurement requirements, edible food recovery, and enforcement support. The Town would be responsible for updating its ordinance following SB 1383 guidelines, and ultimately its enforcement. Town staff involvement in edible food recovery and procurement requirements should be expected (SB 1383 Town staff costs estimated at \$50,000-\$75,000/yr and inclusive of GWR contract management; procurement cost estimated at \$3,600-\$26,300).