

RESOLUTION NO. 2020-126

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA RECEIVING A
REPORT ON THE RATE ADJUSTMENT CALCULATION FOR THE FRANCHISE
COLLECTION OF SOLID WASTE, RECYCLING, AND ORGANICS BY GREEN WASTE
RECOVERY, CONSIDERING OPTIONS FOR RECONCILING THE SURPLUS
FRANCHISE REVENUE, AND PROVIDING DIRECTION TO STAFF

WHEREAS, the City of Marina entered into a franchise agreement with GreenWaste Recovery (GWR) on August 19, 2014 for solid waste, recycling, and organics collection services for the period of August 1, 2015 through July 31, 2030, and;

WHEREAS, the initial rates set in the franchise agreement were based upon the proposal from GWR and assumptions made in the absence of sufficient operational data. Sufficient revenue and operational data became available over time to determine if revenues are in line with projections based upon service levels anticipated at the onset of the franchise agreement, and;

WHEREAS, City Council adopted Resolution 2019-05 at the January 15, 2109 meeting directing staff to request a cost-based rate adjustment per the requirements of the franchise agreement with GWR, and;

WHEREAS, the cost-based rate adjustment resulted in a 13.99% rate decrease for the rate period 2019-2020 resulting in a \$540,298 surplus in revenues. The subsequent multi-index rate adjustment resulted in a 6.69% rate decrease for the rate period 2020-2021 resulting in a \$258,203 surplus in revenues, and;

WHEREAS, the total amount of revenue surplus will eventually be drawn down due to future service cost increases in the absence of a rate decrease or City Council direction to address the surplus sooner. The surpluses are projected to be drawn down over the course of 3 to 4 years with anticipated increases in service delivery costs, and;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Marina hereby receives a report on the rate adjustment calculation for the franchise collection of solid waste, recycling, and organics by Green Waste Recovery and provides direction to staff regarding the following options:

- 1) Leave rates as set on June 5th, 2018 until such time as the surplus has been expended and address further service cost increases with a rate increase at the subsequent regularly scheduled rate adjustment.
- 2) Rebate surplus revenues minus the cost of processing the rebate and adjust rates at the next regularly scheduled rate adjustment.
- 3) Rebate surplus revenues and adjust rates down out of cycle to bring revenue in line with cost identified by the last cost-based rate adjustment and subsequent index-based rate adjustment.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 15th day of September 2020, by the following vote:

AYES: COUNCIL MEMBERS: Berkley, O'Connell, Morton, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

Residential Solid Waste Collection Rates			
Service Level	Solid Waste	Recycling	Organics
Curbside 32 Gallon	\$16.54	Included	Included
Curbside 64 Gallon	\$20.74	Included	Included
Curbside 96 Gallon	\$23.55	Included	Included
Curbside Low Income	\$14.18	Included	Included
Curbside Senior Rate	\$8.35	Included	Included
Notes:			
See Exhibit B1 for specific service availability			

Commercial/Multi-Family Solid Waste Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
32-Gallon Cart	\$17.84	\$36.38	\$54.58	\$72.77	\$90.97	\$109.15
64-Gallon Cart	\$34.21	\$69.78	\$104.66	\$139.55	\$174.44	\$209.33
96-Gallon Cart	\$44.09	\$89.94	\$134.90	\$179.87	\$224.84	\$269.81
1-Cubic Yard Bin	\$95.61	\$195.05	\$292.59	\$390.11	\$487.64	\$585.16
2-Cubic Yard Bin	\$190.24	\$388.08	\$582.11	\$783.29	\$970.19	\$1,164.23
3-Cubic Yard Bin	\$285.75	\$582.93	\$874.40	\$1,165.85	\$1,457.32	\$1,748.79
4-Cubic Yard Bin	\$380.90	\$777.04	\$1,165.57	\$1,554.09	\$1,942.62	\$2,331.13
6-Cubic Yard Bin	\$449.98	\$917.97	\$1,376.95	\$1,835.93	\$2,294.92	\$2,753.89
8-Cubic Yard Bin	\$600.00	\$1,224.00	\$1,836.00	\$2,448.01	\$3,060.01	\$3,672.02
2-Cubic Yard Compactor	\$231.97	\$471.54	\$707.31	n/a	n/a	n/a
3-Cubic Yard Compactor	\$348.34	\$708.12	\$1,062.18	n/a	n/a	n/a
4-Cubic Yard Compactor	\$464.36	\$943.97	\$1,415.94	n/a	n/a	n/a

Commercial/Multi-Family Recycling Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$5.13	\$10.47	\$15.70	\$20.93	\$26.16	\$31.40
96-Gallon Cart	\$6.61	\$13.49	\$20.24	\$26.98	\$33.72	\$40.47
1-Cubic Yard Bin	\$14.34	\$29.25	\$43.89	\$58.52	\$73.14	\$87.77
2-Cubic Yard Bin	\$28.53	\$58.21	\$87.32	\$117.49	\$145.53	\$174.63
3-Cubic Yard Bin	\$42.86	\$87.44	\$131.16	\$174.88	\$218.60	\$262.32
4-Cubic Yard Bin	\$57.13	\$116.55	\$174.84	\$233.12	\$291.39	\$349.67
6-Cubic Yard Bin	\$67.50	\$137.70	\$206.54	\$275.39	\$344.23	\$413.09
8-Cubic Yard Bin	\$90.00	\$183.60	\$275.40	\$367.20	\$459.01	\$550.81
2-Cubic Yard Compactor	\$23.09	\$47.34	\$71.01	n/a	n/a	n/a
3-Cubic Yard Compactor	\$34.70	\$71.12	\$106.69	n/a	n/a	n/a
4-Cubic Yard Compactor	\$46.25	\$94.80	\$142.20	n/a	n/a	n/a

Commercial/Multi-Family Food Waste Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$25.66	\$52.33	\$78.50	\$104.66	\$130.83	\$156.99
96-Gallon Cart	\$33.07	\$67.45	\$101.18	\$134.90	\$168.63	\$202.35
1-Cubic Yard Bin	\$71.71	\$146.29	\$219.43	\$292.59	\$365.73	\$438.87
2-Cubic Yard Bin	\$142.67	\$291.06	\$436.59	\$587.46	\$727.64	\$873.18

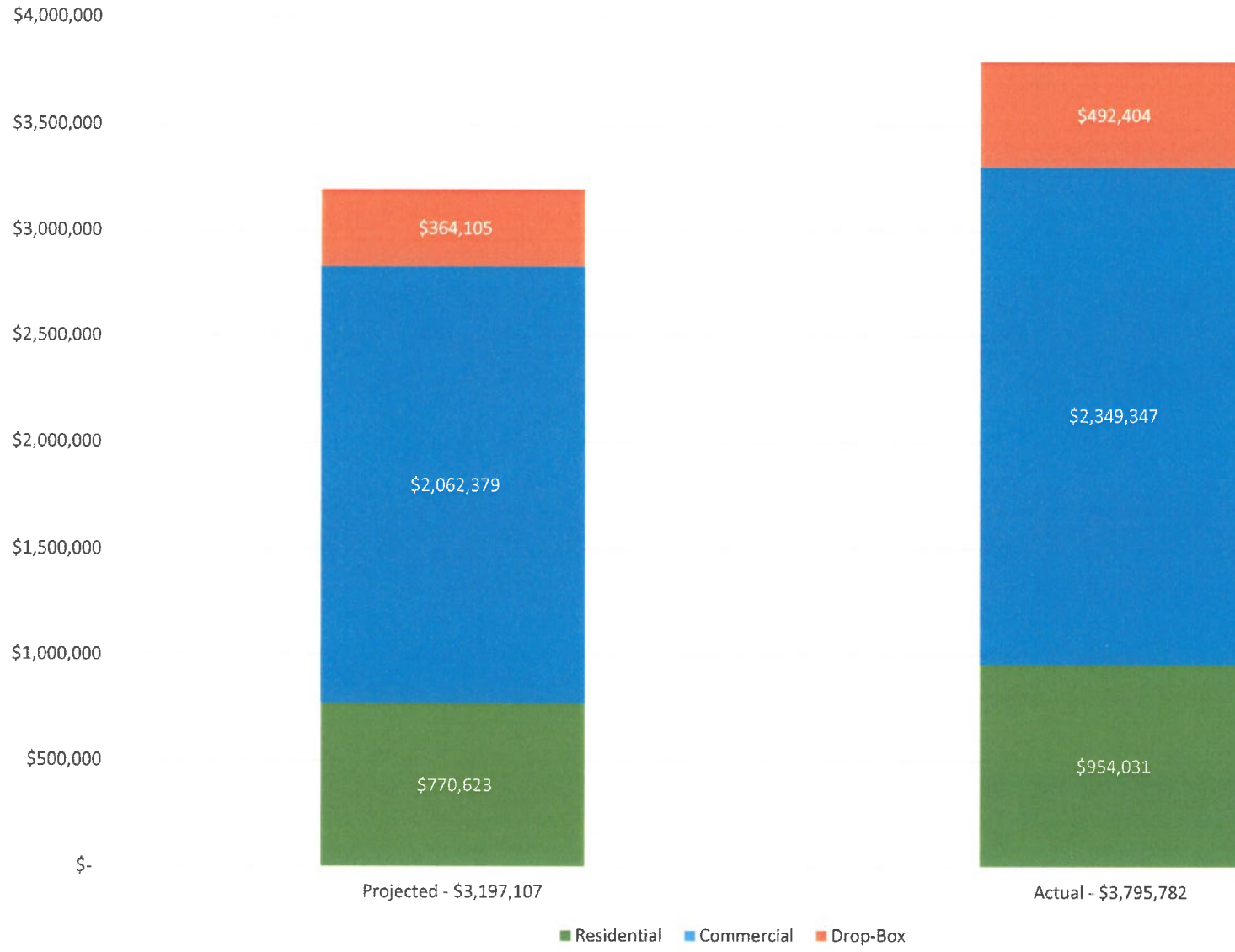
Commercial/Multi-Family Yard Trimmings Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$25.66	\$52.33	\$78.50	\$104.66	\$130.83	\$156.99
96-Gallon Cart	\$33.07	\$67.45	\$101.18	\$134.90	\$168.63	\$202.35
1-Cubic Yard Bin	\$71.71	\$146.29	\$219.43	\$292.59	\$365.73	\$438.87
2-Cubic Yard Bin	\$142.67	\$291.06	\$436.59	\$587.46	\$727.64	\$873.18
3-Cubic Yard Bin	\$214.31	\$437.20	\$655.80	\$874.39	\$1,092.99	\$1,311.59
4-Cubic Yard Bin	\$285.68	\$582.78	\$874.18	\$1,165.57	\$1,456.96	\$1,748.35
6-Cubic Yard Bin	\$337.49	\$688.48	\$1,032.71	\$1,376.95	\$1,721.19	\$2,065.42
8-Cubic Yard Bin	\$450.00	\$918.00	\$1,377.00	\$1,836.01	\$2,295.01	\$2,754.01

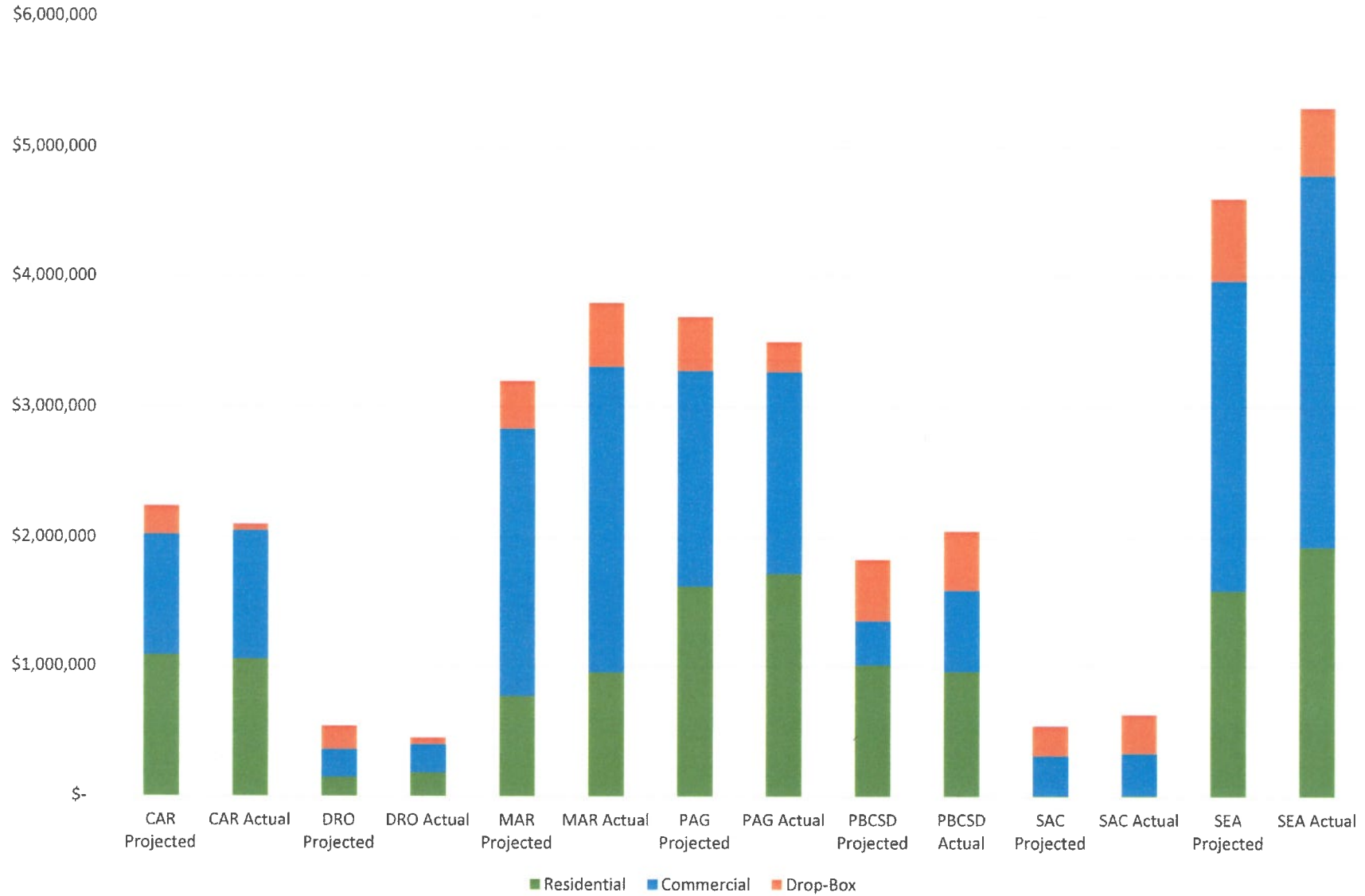
Roll-Off Collection Rates (Per Pull)				
	Material			
Service Level	MSW	REC	YT	C&D
10 YD	\$286.95	\$214.94	\$214.94	\$286.95
20 YD	\$413.45	\$214.94	\$214.94	\$413.45
30 YD	\$539.97	\$214.94	\$214.94	\$539.97
40 YD	\$666.48	\$214.94	\$214.94	\$666.48
Roll-Off Compactor (Any)	\$999.72	\$214.94	N/A	N/A
Per Ton	\$72.94	-\$47.06	\$47.06	\$72.94

Additional Service Rates		
Service	Sector	Charge Per Event
Cart Rental - All Sizes	RES	\$3.27
Cart Replacement	RES	\$65.50
Re-Delivery or Re-Start	RES	\$27.29
Cart Cleaning	RES	\$27.29
Non-Scheduled Collection	RES	\$20.74
Difficult to Service Cart	COM	\$1.09
Difficult to Service Bin	COM	\$3.27
Locking Bin	COM	\$54.58
Cart Replacement	COM	\$65.50
Cart Cleaning	COM	\$27.29
Bin Swap- Cleaning or Repainting	COM	\$81.87
Bulky - Recyclable	RES/COM	\$21.83
Bulky - Non Recyclable	RES/COM	\$27.29
Bulky - Event	RES/MFD	\$32.75
Covered Box	RO	\$81.87
Driver Time per Hour	RO	\$120.08
Dry Run or Relocation	RO	\$81.87
Extra Days	RO	\$27.29

*Note: All rates charged monthly unless stated otherwise

Marina 2017-2018 Projected vs. Actual Revenues
(last 12 months)



2017-2018 Projected vs. Actual Revenues
(last 12 months)



201 N. Civic Drive, Suite 230
 Walnut Creek, California 94596
 Telephone: 925/977-6950
 Fax: 925/977-6955
 www.hfh-consultants.com

Robert D. Hilton, Emeritus
 John W. Farnkopf, PE
 Laith B. Ezzet, CMC
 Richard J. Simonson, CMC
 Marva M. Sheehan, CPA
 Robert C. Hilton, CMC

September 9, 2020

Mr. Brian McMinn
 Public Works Director
 City of Marina

Sent via E-mail

Subject: Review of GreenWaste Recovery's 2020/21 Rate Request

Reference Number: S5051

Dear Mr. McMinn:

HF&H Consultants, LLC (HF&H) was retained by the City to assist with a review of a Cost Based Rate Adjustment (CBRA) of GreenWaste Recovery (GWR) intended to result in an adjustment to customer rates, effective July 1, 2019 (Rate Period 5). Due to delays in the submittal of the CBRA, the findings of the CBRA were to be included with the index based rate adjustment (which the Monterey Regional Waste Management District (District) has retained HF&H to perform annually) for the City of Marina (City) with rates to be adjusted July 1, 2020 (Rate Period 6). This report presents our findings and recommendations.

EXECUTIVE SUMMARY

HF&H's review of GWR's Rate Period 5 and 6 rate requests to the City and subsequent negotiations with GWR related to those rate requests result in the following outcomes:

1. A -13.99% adjustment (the result of a \$540,298 surplus in revenues) to rates as calculated in the CBRA for Rate Period 5. City staff has indicated a preliminary preference to freeze rates and use the rate reduction as an offset against future rate adjustments, until such time as that credit has been exhausted. Due to GWR's late triggering and submittal of the CBRA for Rate Period 5, HF&H recommends that the City not apply any rate adjustment to Rate Period 5 and instead make the CBRA effective with Rate Period 6 (July 1, 2020) in combination with the index based adjustment.
2. A proposed amendment to the franchise agreement. This amendment memorializes the negotiated revisions to costs and services resulting from the CBRA. The most significant elements of the amendment relate to: 1) adding staffing with GWR to support the City's compliance with AB 341, AB 1826, and SB 1383 reporting; and, 2) revising the index based rate adjustment methodology to formally correct mechanical issues in Exhibit E1.
3. A -6.69% adjustment (the result of a \$258,203 surplus in revenues) to rates as calculated in the amended Exhibit E1 and incorporating the anticipated recycling and disposal rate adjustments at the District.



Mr. Brian McMinn
September 9, 2020
Page 2 of 6

4. A cumulative -19.74% adjustment to rates when accumulating and compounding the effects of #1 and #3 above. Or no adjustment to rates and a remaining credit of \$798,501 to be used against future rate adjustments. The table below illustrates an example of a common current rate (established for Rate Period 4) and the adjustment of that rate through Rate Periods 5 and 6.

Figure 1 – Example Rate Impact of Adjustment

Marina Rate Adjustments				
	Current Rates (RP 4)	RP 5	RP6	Total Change
Adjustment	N/A	-13.99%	-6.69%	-19.74%
Residential 32-gallon rate	\$ 16.54	\$ 14.22	\$ 13.27	\$ (3.27)

BACKGROUND

In 2012, the City, participating with other members of the District, issued a competitive request for proposals for collection services and entered into the new agreement with GWR effective July 1, 2015. The agreement provides for the following, related to the adjustment of rates:

- Rates are to be adjusted annually throughout the term of the agreement, using various inflationary indices, actual tonnage, and changes in the tipping fees at the District, unless either the City or GWR request a CBRA.
- The City and GWR may mutually agree upon alternative approaches to structuring rates without amendment to the agreement (Section 8.2.D).
- On January 16, 2019, a CBRA was triggered by the City of Marina. By March 8, 2019 CBRA's had been triggered for all of the District's Peninsula Cities served by GWR.
- Delays in the submittal of the cost based rate adjustment and required supporting documentation caused a delay in setting rates for FY 2019/2020 (RP5), resulting in the combining of CBRA and the scheduled index based rate adjustment effective July 1, 2020.
- The CBRA resulted in a -13.99% adjustment, details of which can be seen as Attachment A.
- During the CBRA review, a number of issues surrounding the process for setting rates and the resulting rate relationships amongst sectors and materials was identified. As such the City and GWR have negotiated an amendment to the prescribed methodology for the CBRA and index adjustments so as to not alter rate relationships between service sectors and material types.
- Through negotiations of the amendment, as a result of the desire to maintain current rate relationships between sectors and service levels, the City and GWR have prescribed a uniform rate adjustment to be applied to all sectors.



Mr. Brian McMinn
 September 9, 2020
 Page 3 of 6

- The results of the CBRA indicate a required -13.99% adjustment needed to adequately compensate GWR for the services provided to the City which serves as the basis on which RP6 compensation is calculated.

RATE CALCULATION REVIEW

HF&H Scope of Work

HF&H performed this review of the rate request in accordance with Exhibit E1 (for the index based rate adjustment). These procedures included:

1. A review of the rate request for completeness and compliance with the procedures contained in Exhibit E1 of the Agreement based on the results of the CBRA.
2. A review for mathematical accuracy and logical consistency to determine that the rate request is mathematically correct, that the rows and columns of numbers add down and across as intended, and that the stated assumptions were, in fact, used. Also, to determine that the rate request is internally consistent and that any summary schedules agree to the supporting schedules and worksheets.
3. Verification of the inclusion of the franchise fee calculation in the adjustment.
4. Verifying contract compliance with regard to:
 - A) The indices used in the adjustment;
 - B) The tip fees reported for the disposal/processing components of the rates;
 - C) The use of quarterly-reported tonnage data and allocations among agencies. A detailed audit of tonnage and allocations of tonnage reported by GWR was not a part of this scope of work. HF&H discussed GWR's allocation methodology with them and the methodology appears reasonable and consistent with standard practices within the industry.
 - D) Any changes in governmental fees on the fee component of the rates; and, the accurate application of the resultant percentage changes in the various rate components to the rate schedules approved by each agency through the franchise agreements.

Review of Rate Request

Rate Period 6 Application

As part of the negotiations of revised Amendment 1, HF&H prepared the rate application for RP6 after the results of RP5 were determined. These were reviewed by GWR's controller and CFO, and were approved as being in alignment with Amendment 1. The results of the CBRA can be seen in RP5 and the resulting calculation of RP6 per methodology of Exhibit E1 of the amendment can be seen in the table below.



Mr. Brian McMinn
September 9, 2020
Page 4 of 6

Figure 2 - Application of Index Based Adjustments to RP5

	Rate Period Five	Adjustment Factor	Rate Period Six
Annual Cost of Operations			
Labor-Related Costs	\$ 433,147	1.02669	\$ 444,707
Vehicle-Related Costs	\$ 114,094	1.03155	\$ 117,694
Fuel Costs	\$ 92,126	1	\$ 92,126
Other Costs	\$ 310,455	1.03155	\$ 320,249
Direct Depreciation	\$ 193,751	N.A.	\$ 193,751
Total Allocated Costs - Labor, Vehicle, Fuel & Other	\$ 638,384	1.03155	\$ 658,525
Total Allocated Costs - Depreciation & Start-Up	\$ 48,832	N.A.	\$ 48,832
Total Annual Cost of Operations	\$ 1,830,788	N.A.	\$ 1,875,884
Profit	\$ 219,366	OR=89.3	\$ 224,770
Pass-Through Costs			
Disposal Costs	\$ 574,933	Tons*Tip Fee	\$ 636,799
Curbside Supplemental	\$ (6,198)	1.00	\$ (6,198)
Recycling Processing Costs	\$ -	Tons*Tip Fee	\$ 102,916
Residue Processing Costs	\$ -	Tons*Tip Fee	\$ 14,840
Yard Trimmings Processing Costs	\$ 40,944	Tons*Tip Fee	\$ 56,512
Food Waste Processing Costs	\$ 10,933	Tons*Tip Fee	\$ 19,420
C&D Processing Costs	\$ -	Tons*Tip Fee	\$ -
Interest Expense	\$ 61,322	N.A.	\$ 61,322
Total Allocated Costs - Lease	\$ 50,221	N.A.	\$ 50,221
Total Pass-Through Costs	\$ 732,156	N.A.	\$ 935,833
Total Costs before Agency Fees	\$ 2,782,310	N.A.	\$ 3,036,487
Agency Fees/Payments			
Franchise Fee	\$ 332,101	10%	\$ 360,310
Vehicle Impact Fee	\$ 166,050	5.00%	\$ 180,155
Rate Application Review Costs	\$ 40,545	Actual	\$ 11,788
Other Adjustments (as needed from time to time)			
Residue Processing Costs (Back Pay for 2019-2020)	\$ -	N.A.	\$ 8,974
Mailer	\$ -	N.A.	\$ 5,387
Total Calculated Costs	\$ 3,321,006		\$ 3,603,101
Prior Year Revenue	\$ 3,861,304		\$ 3,861,304
Surplus/(Shortfall)	\$ 540,298		\$ 258,203
Increase/Decrease	-13.99%		-6.69%



Mr. Brian McMinn
September 9, 2020
Page 5 of 6

Review of GWR Costs

There are three major components to GWR's rate application: 1) calculation and application of the inflationary indexes as prescribed in the Agreement; 2) the disposal and/or processing component; and, 3) the Agency Fee(s).

There are three indexes used in the index adjustment; CPI, the fuel index, and the labor index. The annual percent change in each of the indices is used to calculate the coming years projected cost for the line items to which these indexes are applied.

HF&H has reviewed and GWR has confirmed the accuracy of each of these indexes, and notes that the fuel index remains unchanged, as reported by management staff at the District.

Review of Disposal/Processing Component

Calendar year 2018 collected tons were used for the Rate Period 5 review, and calendar year 2019 collected tons were used for the Rate Period 6 review in accordance with the amendment. The disposal and processing components also consider the tipping fees charged by the District in order to project anticipated disposal and processing costs at the District. At the time of this writing, District staff has presented proposed tip fee increases, which have been recommended by the District's Finance Committee and will be considered by the Board of Directors in May or June. The following table describes the changes in the City's disposal and processing costs for each material type based on the proposed tip fees at the District which have been incorporated into our RP6 review.

Figure 3 - Impact of District Tip Fee Changes

	2018 Tons	Curent Per Ton Tip Fee	Rate Period 5 Costs	2019 Tons	Projected Per Ton Tip Fee	Rate Period 6 Costs
	A	B	A x B	C	D	C x D
Solid Waste	9,273	\$ 62.00	\$ 574,933	9,782	\$ 65.10	\$ 636,799
Recycling	2,623	\$ -	\$ -	2,573	\$ 40.00	\$ 102,916
Yard Trimmings	1,024	\$ 40.00	\$ 40,944	1,346	\$ 42.00	\$ 56,512
Food Waste	202	\$ 54.00	\$ 10,933	343	\$ 56.70	\$ 19,420
C&D*	-	\$ 54.88	\$ -	-	\$ 57.63	\$ -

*The C&D per ton tip fee reflects an average weighted cost for multiple types of C&D materials.

Review of Fee Component

The final step of the rate adjustment process is to ensure that the fee component of each rate matches the contractual percentage of 10% for franchise fees, as well as 5% for vehicle impact fees remitted to the City by GWR.

No Adjustment to Rates

Upon completion of the review of the CBRA and index based rate adjustment HF&H has identified a surplus of \$540,298 in RP5 and a surplus of \$258,203 in RP6. As such HF&H recommends no increase to



HF&H CONSULTANTS, LLC

Managing Tomorrow's Resources Today

Mr. Brian McMinn
September 9, 2020
Page 6 of 6

current service rates, and that the total surplus of \$798,501 be held by GWR as a reserve to be used against rate increases that may be necessary in future rate years.

* * * * *

We would like to express our appreciation to GWR staff for their assistance and cooperation in this process. Should you have any questions, please call me at 925/977-6959 or rchilton@hfh-consultants.com.

Very truly yours,
HF&H Consultants, LLC

A handwritten signature in black ink, appearing to read 'Rob Hilton', written over a horizontal line.

Rob Hilton, CMC
President

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of September 15, 2020

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2020-,
RECEIVING A REPORT ON THE RATE ADJUSTMENT
CALCULATION FOR THE FRANCHISE COLLECTION OF SOLID
WASTE, RECYCLING, AND ORGANICS BY GREEN WASTE
RECOVERY, CONSIDERING OPTIONS FOR RECONCILING THE
SURPLUS FRANCHISE REVENUE, AND PROVIDING DIRECTION TO
STAFF**

REQUEST:

It is requested that the City Council consider:

1. Adopting Resolution No. 2020 – receiving a report on the rate adjustment calculation for the franchise collection of solid waste, recycling, and organics by Green Waste Recovery (GWR),
2. Consider options for reconciling the surplus franchise revenue, and
3. Provide direction to staff.

BACKGROUND:

On August 19, 2014, the City Council adopted Resolution No. 2014-98, and entered into a new exclusive 15-year Franchise Agreement with Green Waste Recovery (GWR) to provide solid waste, recycling, and organics collection services for the City of Marina. The Agreement provides for automatic annual rate adjustments for GWR's services calculated following either a multi-index rate adjustment methodology or a cost-based rate adjustment methodology. City Council last set solid waste service rates as shown on "**EXHIBIT A**" by adopting Resolution 2018-56 on June 5, 2018.

Cost-based Rate Adjustment Methodology

The cost-based adjustment involves an extensive and detailed review of GWR's actual cost of operations, changes in inflation, the number of customers, and the service level provided and comparing this to actual gross receipts collected to determine GWR's compensation for the current rate period and to forecast the future rates.

Multi-index Rate Adjustment Methodology

Each service level rate in the Franchise Agreement rate schedule is comprised of an operating component, disposal/processing component and a fee component. The annual rate adjustment consists of adjusting each of the rate components by index, tonnage disposal rates, and a percent of the total rate by service level accordingly.

The initial rates set in the franchise agreement were based upon the proposal from GWR and assumptions made in the absence of sufficient operational data. Sufficient revenue and operational data became available over time to determine if revenues are in line with projections based upon service levels anticipated at the onset of the franchise agreement. "**EXHIBIT B**" shows the projected revenues (\$3,197,107) based upon the initial assumptions of the franchise agreement versus the actual revenues generated by GWR operations during the 2017-2018 rate year (\$3,795,782). The difference of \$598,675 indicated that a cost-based rate adjustment was needed to bring revenue more in line with the cost of providing service to the City.

At the December 18, 2018 City Council meeting, City Council directed staff to reach out to the other six agencies that have franchise agreements with GWR to find out if any were ready and willing to perform a similar cost-based rate adjustment this year. Staff contacted the solid waste contract managers with the Cities of Carmel-by-the-sea, Del Rey Oaks, Pacific Grove, Sand City, Seaside, and the Pebble Beach Community Services District (PBCSD). Only PBCSD indicated that they were considering the possibility.

Also, at the December 18, 2018 City Council meeting, City Council directed staff to request a proposal from HF&H to perform a cost-based rate adjustment. The City has utilized HF&H, as have the other local agencies that have similar franchise agreements with GWR, to analyze data generated by GWR operations as well as analyze proposed rate increases to determine if they are in line with the methodologies required by the franchise agreement. HF&H is familiar with the negotiations that went into the original franchised agreement as well as the subsequent rate adjustments and is the most qualified firm to perform the required methodology of the cost-based rate adjustment.

The City Council adopted Resolution 2019-05 at the January 15, 2109 meeting approving a contract with HF&H to perform the cost-based rate adjustment at a cost not-to-exceed \$119,710. Per the same resolution, City Council directed staff to request a cost-based rate adjustment per the requirements of the franchise agreement with GWR.

On January 16, 2019 staff transmitted a formal letter to GWR requesting a cost-based rate adjustment. In response to the letters received from the City of Marina and PBCSD, and given the level of effort involved in a cost-based rate adjustment, GWR requested that the cost-based rate adjustment be performed for all seven agencies that they have franchise agreements with.

Cost-based Rate Adjustment

The purpose of the cost-based rate adjustment is to “true up” service fees to the actual level of service provided. The cost-based rate adjustment involved the review of GWR’s actual cost of operations during Fiscal Year 2018-2019 (including staffing levels, routes, hours, customers and their service levels, etc.) to determine the “Total Contractor’s Compensation.” As part of the review process, HF&H determined allowable costs per the stipulations of the Franchise Agreement between the City and GWR. The difference between the allowable “Total Contractor’s Compensation” and the gross receipts in calendar year (2018) was the rate adjustment factor. This calculated rate adjustment factor was applied to the existing rates to determine the rate adjustment for Fiscal Year 2019-20.

The analysis phase of the cost-based rate adjustment extended over a year and was completed in the spring of 2020. As a result, no rate adjustment occurred on July 1, 2019. In addition to the deferred 2019 cost-based rate adjustment, the City was subject to the 2020 multi-index rate adjustment that would have become effective July 1, 2020 if there was a need to increase rates.

ANALYSIS:

HF&H prepared the memorandum attached as “**EXHIBIT C**” which provides the result of the recent rate adjustment analyses. The cost-based rate adjustment resulted in a 13.99% rate decrease for the rate period 2019-2020 resulting in a \$540,298 surplus in revenues. The subsequent multi-index rate adjustment resulted in a 6.69% rate decrease for the rate period 2020-2021 resulting in a \$258,203 surplus in revenues. The total amount of revenue surplus will eventually be drawn down due to future service cost increases in the absence of a rate decrease or City Council direction to address the surplus sooner. The surpluses are projected to be drawn down over the course of 3 to 4 years with anticipated increases in service delivery costs.

Several factors are contributing to an anticipated future need for rate increases. The disposal and processing component of service rates is automatically adjusted as a direct pass-through based on Monterey Regional Waste Management District fees and the City's prior year's tonnages by material type. The processing of recyclable materials is now being performed by the Municipal Recycling Facility (MRF). MRWMD was crediting \$40.00/ton to GWR on the monthly disposal bill for recyclable materials which is passed on to the rate payers up through June 30, 2019. Starting July 1, 2020 MRWMD instituted a \$40.00/ton charge on recyclables processing due to significant reductions in recyclable material value. MRWMD also adopted a 5% tip fee increase applied to waste. HF&H incorporated these increases in the rate analysis for 2020-2021.

Senate Bill 1383 requires increasing the rate of organic waste diversion from landfills over the next few years up to a rate of 75% by 2025. The necessary changes are currently being considered by the Technical Advisory Committee for MRWMD which anticipates significant changes to the methods of organic waste segregation, collection, and diversion which will result in increased service costs.

City Council should consider the following options regarding future solid waste service rates and the surplus rate revenues:

- 1) Leave rates as set on June 5th, 2018 until such time as the surplus has been expended and address further service cost increases with a rate increase at the subsequent regularly scheduled rate adjustment.
- 2) Rebate surplus revenues minus the cost of processing the rebate and adjust rates at the next regularly scheduled rate adjustment.
- 3) Rebate surplus revenues and adjust rates down out of cycle to bring revenue in line with cost identified by the last cost-based rate adjustment and subsequent index-based rate adjustment.

Staff recommends option 1 given the impending need for rate increases driven by changes in requirements for organics recycling and increasing costs for processing recycling.

Option 2 may be welcome by rate payers. The rebate would likely precede a rate increase on July 1, 2021. Rebates would go to the account holders. Some rebates may go unclaimed and rebates to landlords may not be passed on to tenants.

Option 3 is not recommended. Adjusting rates downward would require additional analysis on the part of GWR and the City delaying any adjustment until 6 months or less before the next regularly scheduled rate setting. Out of cycle reductions followed by an increase in less than a year may be confusing to the rate payers.

FISCAL IMPACT:

The cost of the rate studies performed by HF&H were incorporated into the rate reduction calculations and reduced the surplus revenue by an equivalent amount resulting in no cost to the City.

The surplus revenue identified by the studies belongs to the rate payers and is currently being used to freeze service rates at that were set on July 1, 2018. The Franchise Agreement has a 15% franchise fee of gross receipts which is remitted to the City. Any rate change provides a corresponding change in franchise fee revenue.

CONCLUSION:

This request is submitted for City Council consideration and direction to staff.

Respectfully submitted,

Brian McMinn, P.E., P.L.S.
Public Works Director/City Engineer
City of Marina

REVIEWED/CONCUR:

Layne Long
City Manager
City of Marina

Exhibit A – 2018/19 GWR rates

Exhibit B – 2017/2018 Projected vs. Actual GWR Revenue

Exhibit C – Summary of HF&H's review for 2019/2020 and 2020/20201 GWR's rates