



**SBWMA Board Presentation of  
FAX Committee Findings Presentation:  
Franchise Agreement Extension Negotiations with Recology**

April 27, 2017

# Today's Agenda

- **Process Overview**
- **Goals of Parties**
- **Overview of Negotiated Agreement**
  - Service highlights + key contract terms
  - Cost proposal
  - Compensation method
  - Base Contractor Compensation Calcs
  - Benefits
- **Next Steps**
- **Recology Presentation**
- **Q&A**



# Franchise Services about 63% of Total System Costs

SBWMA Major Contract Values			
Contract	Contract Expires	Percent of Total Amount	Annual Contract Value
Zanker C&D Processing Agreement	2017	37%	\$ 1,588,000
Newby Composting Agreement	2017		\$ 2,653,000
Recology-Grover Composting Agreement	2020		\$ 1,817,000
Ox Mountain Disposal Agreement	2019		\$ 8,960,000
SBR- Shoreway Operations Agreement	2020		\$ 18,936,513
Recology Collection Services Agreement	2020	63%	\$ 58,500,000
		<b>TOTAL</b>	<b>\$ 92,454,513</b>

Source:2016/17 Budget



# Process Overview

# Negotiations Activities to Date

- **Board approved workplan** *(Apr 2016)*
- **TAC feedback** *(Sep 2016)*
- **RFQ/SBWMA Team Built** *(Fall 2016)*
- **Negotiations began** *(Nov 2016)*
- **Meetings held** *(Nov-Apr, 2017)*
  - **10 FAX meetings** *(Dec-Apr)*
  - **2 TAC meetings** *(Jan 5; Apr 13)*
  - **9 negotiation meetings** *(Nov-Apr)*



# Upcoming Negotiations Activities

- **Apr 27**                      **SBWMA Board Meeting** *(Info Session)*
- **May 1-22**                    **Member Agency Presentations**
- **May 3**                        **TAC Workshop**
- **May TBD**                    **Legal Review Workshop**
- **May 25**                      **SBWMA Board Meeting** *(Action Item)*
- **Jun-Dec**                      **Member Agency Negotiations w/Recology**

# Member Agency Input Process To Date

- **Initial MA Comments were solicited** *(Oct. 2016)*
- **TAC/FAX/Staff Input Session** *(Jan 5, 2017)*
- **Service and Satisfaction Survey** *(Dec 16, 2016 – Jan 6, 2017)*
  - Input from Board and Alternates; TAC; staff
  - 90% overall satisfaction rating
  - Identification of many desired deal points
- **Customer Growth Survey** *(Jan 9-27, 2017)*
  - Input from Senior Planners
  - Up to 2% estimated growth by Agency
- **Regular Board Updates** *(Nov 2016-Mar 2017)*



# Upcoming Member Agency Presentations

May 1<sup>st</sup> – May 22<sup>nd</sup>

- **½ Day Workshop #1: TAC/Staff Review (5/3)**
- **½ Day Workshop #2: Legal Review (TBD)**
- **SBWMA City Manager’s Mtg. (5/11)**





## Goals of Parties

# Goals for FAX Committee

- 1. Negotiate amended/restated Model Franchise Agreement for collection services commencing 2021**
- 2. Negotiate 2021 cost proposal for collection services to minimize increase**
- 3. Respond to TAC feedback affecting “Model Agreement”**

# Member Agency Priorities

- **Modify the compensation adjustment methodology to:**
  - Provide **greater rate stability/predictability** *(9 votes)*
  - **Maintain Fixed Cost strategy to contain costs**
  - Ensure that **allocation of costs fairly affects each MA's rates** *(2 Votes)*
  - **Simplify rate adjustment process/explanation of rate changes** *(9 votes)*
  - **Longer-term rate projections** *(5 votes)*
- **Provide recycling, organic, and bulky collection to Mixed Use Building residents** *(6 votes)*
- **Clear performance measures** *(3 votes)*
- **Enhance Pub Ed/Commercial technical support** *(2 Votes)*
- **Consider “clean fuel” vehicles during vehicle purchases** *(2 Votes)*

# Recology Priorities

- **Increase compensation** to reflect actual, higher costs of operations (“true up”) during the remaining term of the current Agreement
- **Modify annual compensation methodology** to adjust for actual costs and service level adjustments
- **Add additional fees to “Attachment Q”** to capture the cost of services
- **Provide a daily cap/additional compensation for BIC**
- **Allow Recology to retain all revenues** from customer billings
- **Reduce number of performance standards/related liquidated damages**
- **Reduce reporting requirements**



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# Overview of Negotiated Deal

# Core Collection Services (1 of 2)

- **Core collection services:** No changes
- **Bulky Item + Abandoned Waste Collection:** Daily cap
- **Mixed Use Buildings:** Definition of required services
- **Reporting:** Streamlined



# Core Collection Services (2 of 2)

- **Liquidated Damages:** No significant changes
- **Minimum Diversion Level Performance**  
Incentives/Disincentives: Prior 5 year avg.
- **Quarterly Contamination Audits:** Eliminated
- **Pub Ed + Recycling Tech Assist Plan:**  
Joint SBWMA/Recology---3-year planning cycles



# Other Key Contract Terms

- **Term and Extension Provisions:**

- **Options:** 10 or 15 yrs.
- **15-year term** Reflected in Model Agreement
- **Extension:** Up to one 12 month term (*Agency choice*)  
Unless Contractor demonstrates its operating at a loss (*Not yet finalized*)
- **Extension:** Up to one 5-year term (*mutual agreement*)

- **Vehicles:**

- **Use existing fleet** into new term
- **Replace all 140 vehicles by 2026**
- **\$48M capital cost**
- **Alternative fuel consideration** prior to vehicle acquisition

- **Containers:**

- Use of existing containers
- Replace over time, as needed



# Compensation Highlights (1 of 2)

- **Projected 2021 compensation true-up to 2016 using actual costs + projected CPI/vehicle replacement**
- **Final 2021 to be determined in 2020 with change in fuel index and service levels**
- **Annual allocation adjustment process** *(eliminated)*
- **Agency vs. total SBWMA-based adjustments**
- **Agency retention of billings net of compensation and disposal/processing costs** *(same as current)*
- **Recology retains Attachment Q fee, including new “Container Relocation” fee** *(same as current)*



## Compensation Highlights (2 of 2)

- **Regional vs. National Indices** (*current*)
- **Annual adjustment for change in service levels**  
*Uses 3-year rolling account average*
- **5% CAP on annual change in Contractor's Compensation**
- **New vehicle purchase cost adjustment effective 2027, and beyond** *With shared risk of cost increase*
- **Annual revenue reconciliation process** (*continued*)
- **No cost true-ups during the term**

# Preliminary Financial Results

- **Base Contractor's Compensation adjustments**

Adjustments: fuel + subscription level changes

- **2019-2020:** +2.4% (CPI Estimate)
- **2020-2021:** +10.2% (+ Fuel Index + Growth)
- **2022+:** +5% Annual CAP (CPI + Growth)

- **Total Billed Revenue:**

- **2019 – 2020:** + 3.3%
- **2020 – 2021:** + 7.8%
- Subject to disposal/processing cost and Agency fee change

- **Customer Rates**

Agency-specific conditions/mitigation measures

# Evaluation of Proposed 2021 Compensation

- **HF&H Rate Survey** (2016):
  - **SBWMA Average Cost:** \$32.55 (32-gal. cart)
  - **Bay Area Average Cost:** \$33.14 “ “
- **Operational Cost Review--Sloan Vasquez (SVM)**
- **Peer Review of Operational Cost Review--RJ Proto**
- **Total Annual Cost of Operations—Rate Comparison**
  - SVM original + restated pro formas vs. Recology's Actual Costs ranges = 5.5% to -1.8% \*

\* This variance is within a reasonable margin of error for this type of analysis.

# Base Contractor's Compensation Adjustment: Why 15 Yr. "Roll Forward"?

Option	2020	2021*
<b>10-Year</b>	<b>-7%</b>	<b>24.9%</b>
<b>15-Year</b>	<b>-7%</b>	<b>21.9%</b>
<b>10-Year "Roll Forward"</b>	<b>-.5%</b>	<b>17.2%</b>
<b>15-Year "Roll Forward"</b>	<b>2.4%</b>	<b>10.2%</b>

\* Possible additional adds: Service Level Adjustments (SLA) and Fuel (if actual exceeds assumption).

\*\* 2022+: CPI +SLAs (5% Annual CAP)

# 2016 vs. 2021 Base Contractor Compensation (BCC)

2016 Base BCC:	\$57.3M	
2020 Projected BCC:	\$53.8M*	
2021 Proposed BCC:	\$65.3M	

\* No depreciation included for RY 2020 (about \$4M)

Subtract:	<b>Normal CPI</b> ( <i>Rate Years 2016-2020 @ 2%</i> )	11.0%
Subtract:	<b>G &amp; A Increase</b>	6.0%
Subtract:	<b>Depreciation and Interest</b>	3.0%
Add:	<b>Fuel</b> ( <i>above +3% projection</i> )	?
Add:	<b>Service Level adjustment (+/-)</b>	?

# Benefits of Negotiated Recology Offer

- **Consistency with all existing collection services**
- **Avoidance of new service provider transition and pitfalls**
- **Improved rate-setting stability/predictability**
- **Rates continue to be in-line w/Bay Area**
- **Continued cost savings from collection efficiencies**
- **Sharing of future inflation risk by Recology**
- **Estimated \$2-3M cost avoidance** (e.g., RFP process, contractor transition, Pub Ed transition campaign, immediate need for new vehicles and containers).
- **Labor continuity with known company/mgmt. team**

# 5 Next Steps

**#1. SBWMA Board Meeting** *(April 27)* – First Review

**#2. Member Agency Meetings** *(May 25)*  
*FAX Findings and Recommendations*

**#3. SBWMA Board Meeting** *(May)* – Final Approval

**#4. Member Agencies “Accept” SBWMA** *(June)*  
Recommendations

**#5. Member Agency Negotiations** *(June-Dec.)*  
*Negotiate Individual Agreements*



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## Questions?

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