



A Public Agency

# COLLECTION AND RECYCLING PROGRAM SUPPORT AND COMPLIANCE



## STAFF REPORT

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To: SBWMA Board Members  
From: Joe La Mariana, SBWMA Executive Director  
Date: April 27, 2017 Board of Directors Meeting  
Subject: Franchise Agreement Extension Committee Findings and Recommendations to Proposed Recology Model Franchise Agreement and Compensation Package

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### Recommendation

This is an informational report and no action is necessary.

### Summary

The Franchise Agreement for Collection Services for Garbage, Recycling and Organic Materials with Recology expires on December 31, 2020. The SBWMA's ad hoc Franchise Agreement Extension (FAX) committee, staff and consultants have negotiated with Recology of San Mateo County (Recology) representatives since November 2016 to arrive at a mutually-agreeable, amended and restated Model Franchise Agreement and cost for service. The proposed agreement extension is for a term of 15-year (through 2025) and will provide the member agencies the same comprehensive high-quality services currently delivered by Recology. This staff report and the attached **FAX Committee's Final Findings and Recommendations Report (Attachment A)** and **Redlined Model Franchise Agreement (Attachment B)** are the outcome of the negotiation process. Because several negotiation points are still being finalized, detailed financial worksheets will be presented and handed out in the May 3<sup>rd</sup> ½ day workshop and will be discussed at the May 25<sup>th</sup> Board meeting and distributed by May 18<sup>th</sup> as part of this board meeting's agenda packet.

### Analysis

Staff was tasked to negotiate a restated and amended Model Franchise Agreement and cost for services with Recology. During these negotiations, SBWMA staff worked with the FAX committee, consultants and Recology during numerous meetings to develop these two deliverables for the collection of garbage, recycling and organic materials within the SBWMA service area for 2020 and beyond.

Prior to beginning negotiations, the SBWMA performed two studies to provide important cost and rate background information:

1. ***A Solid Waste Rate Comparison by Jurisdiction Study*** to quantify the SBWMA's rates for garbage, recycling and organics collection compared to the rates that are charged by other Bay Area cities. The study showed that **the SBWMA is currently below the average cost customers are charged for a 32-gallon cart in over 60 Bay Area cities.** This study was conducted by HF&H Consultants in April 2016.

2. ***A Recology Operations Collection Cost Review*** to assess the “reasonableness” of Recology’s cost proposal. The cost review analyzed all aspects of Recology’s operations and compared this against industry norms. The review concluded that **Recology’s total annual cost of operations were “reasonable” and varied by only 5.5% from the consultant’s model and were within the norms of the solid waste industry.** This analysis was performed by Sloan Vasquez Consultants between April 2016 and February 2017. A second review was commissioned with RJ Proto Consultants to peer review the Sloan Vasquez results and provide a second opinion. RJ Proto verified that the original review was accurate and that Recology’s costs of operations were within industry norms.

During the last six months of the negotiation process, the FAX committee, SBWMA staff and consultants have worked closely with Recology to define the cost for services, the rate setting methodology, and an amended and restated Franchise Agreement. The following outlines the results from these discussions.

- **Term:** Recology has proposed the option of a 10-year or a 15-year term for the new Agreement. After considering the financial benefits of spreading the depreciation cost of a new collection fleet, the FAX committee is recommending a 15-year term. At the end of the current contract, Recology’s \$36.3 million collection fleet will be fully depreciated, however, the company has indicated that it can continue to use the vehicles for 2-3 additional years. By agreeing to a 15-year term, and combining the use of the current and new vehicle for a longer term, the member agencies will benefit from a reduction in depreciation and interest expense (approximately \$1.7 million per year) resulting in a 3.4% favorable effect on Recology’s costs when compared to the 10-year option.
- **Compensation:** The FAX committee is recommending an agreement with a 2021 Base Contractor’s Compensation of \$65,330,616 which assumes a 15-year term and the inclusion of depreciation expense for the replacement collection vehicles in rate year 2020 of the Current Agreement. Based on these assumptions, the Base Contractor’s Compensation will:
  - Increase 2.4% from 2019 to 2020 (instead of a ~7% reduction built into the current Agreement).
  - Increase 10.2% from 2020 to 2021.
  - Adjust thereafter per changes in industry indices and service levels changes (capped at 5% increase/year).
- **Rate setting methodology:** This topic has been a focus of the negotiation process with the goal of maintaining rate stability and predictability (specifically, Recology’s compensation and rate setting methodology regarding depreciation of the vehicles, fuel cost indexing, administrative costs (G&A), and adjustments for growth).
- **Amended and Restated Franchise Agreement:** Throughout the negotiations process the SBWMA staff has worked closely with Recology to streamline the Agreement and make changes to clarify service expectations. The newly amended and restated Franchise Agreement language is approximately 90% unchanged and has been reviewed by both the SBWMA’s and Recology’s legal counsel. Though residential and commercial customers will not experience any changes to their current collection services, there are four minor modifications to the Franchise Agreement for residential and commercial services, which include:
  1. **Mixed Use Buildings:** The Agreement defines a new class of service – Mixed Use Buildings which contain commercial on the ground floor and residential above. The commercial element shall receive the services currently provided to commercial customers and the residential element of Mixed Use

Buildings will receive the services currently provided to multi-family customers. This building type and other multifamily and commercial customers will also be able to receive bin relocation services (at an additional fee) which may be required due to the below-street level location of bin enclosures on the property.

2. **Bulky Item Collection:** Residential customers will continue to receive up to two bulky item collection services annually without charge, within one week of request, however this service will be capped at 150 per day (Recology currently provides approximately 120 bulky item collections per day), and if the number of requests exceeds 150 per day, Recology will roll the service date one week.
3. **Abandoned Waste Collection:** Member Agency's will continue to receive abandoned waste collection services but a cap of 30 pick-ups per day has been established (when the average number reaches 25 daily events, the SBWMA and Recology will meet to add collection resources and provide additional compensation to Recology or take some other action to respond to the increased demand).
4. **Reporting:** Recology's reporting requirements have been adjusted to streamline data collection and reporting with the collection and customer service goals.

### **Background**

SBWMA member agencies are currently in the seventh year of a ten-year Franchise Agreement for Collection Services for Garbage, Recycling and Organic Materials with Recology. During this time, feedback provided by Board Members, Member Agency staff, and community members surveyed, has consistently established that Recology has provided a high-level of professional competency during the execution of their operations throughout this period, in addition to the intense three-year pre-service rollout period.

The SBWMA Board of Directors approved the Final Plan and Recommended Process for Supporting Member Agencies with Negotiating a Potential Franchise Agreement Extension with Recology (Plan) on April 28, 2016, which recommended a schedule that, if adhered to, was intended to result in negotiating amendments to each member agency's existing Franchise Agreements with Recology by the end of 2016. The timeline for this plan was adjusted to allow the new Executive Director time to address other urgent contractual matters, to establish a new timeline, and to initiate the Recology negotiation meetings, the FAX committee meetings, and all internal SBWMA staff meetings that were necessary for moving the negotiation process forward.

At the SBWMA Board of Directors' (Board) direction, the FAX committee, Staff and consultants have worked closely with Recology since November 2016 holding a special TAC meeting in January and April, ten FAX committee meetings, seven negotiation sessions with Recology (several phone meetings were also held between Recology, HFH Consultants and SBWMA staff) and two additional all-day negotiations sessions to finalize negotiations. The team was able to obtain and include feedback from the SBWMA Technical Advisory Committee (TAC) at its April 13<sup>th</sup> meeting.

The final goal of the process is to have the SBWMA Board of Directors approve these documents and for the SBWMA staff to provide assistance to each member agency to coordinate with Recology to finalize the contract language, specific scope of services and the pricing of additional services for their respective agency by December 31, 2017. A RFP process to solicit a new collection services provider will be initiated if the majority of member agencies are not formerly in contract with Recology by December 31, 2017.

The negotiated deal to be considered by the Board provides:

- Consistency with all existing solid waste, recycling and organics services.
- No new-service provider transition pitfalls (i.e., container switch-out, customer service center setup & billing setup, driver route training, hard-rollout a new truck fleet, developing a new rate setting process, and end-of-contract buyouts (e.g. Allied Waste's exit)
- Rate-setting stability/predictability-after an initial rate true-up, rate increases are tied to indexes.
- SBWMA rates will continue to be in-line with Bay Area communities.
- Continued cost savings from collection efficiencies gained by Recology's years of experience.
- Sharing of future inflation risk by Recology in their 2021 Cost Proposal.
- Savings of an estimated \$2 million in avoided RFP and contractor-transition costs.
- Labor peace by continuing with a known company and management team.

### **Fiscal Impact**

Recology's operating costs are anticipated to increase between rate years 2020 and 2021. There are many variables that will occur between 2017 and 2021 that will affect the cost of collection services including inflation, fuel cost, collective bargained labor, new laws, and fleet replacement. Additionally, the specific cost of collection services will vary based on the specific services requested by each member agency and their individual rate-setting philosophy. The FAX committee and Recology have attempted to forecast each cost element and actual costs will be used to determine the final costs that will be implemented in 2021. Note that Collection Services represents approximately 63% of the total costs to provide solid waste management services, and does not include Member Agency fees, disposal & processing costs and SBWMA .Based on certain reasonable assumptions regarding these other costs Customer Rates may increase from 2019 to 2020 by 3.3% and from 2020 to 2021 by 7.8%. Other reasonable assumptions could be made regarding these future fees and the results would be different i.e., the rate impact on any specific Member Agency customer would be affected by its existing rates and any surplus it may be generating (or may have generated) that could be applied to offset these increases.

### **Attachments:**

Attachment A: FAX Committee's Findings and Recommendations

Attachment B: Model Franchise Agreement (DRAFT)—redline version (Available online only at [www.rethinkwaste.org](http://www.rethinkwaste.org))



## FRANCHISE AGREEMENT EXTENSION (FAX) COMMITTEE FINAL FINDINGS AND RECOMMENDATIONS **DRAFT** REPORT

610 Elm Street, Suite 202  
San Carlos, CA 94070

April 20, 2017



# Table of Contents

- 1. **RECOMMENDATION** ..... 3
- 2. **EXECUTIVE SUMMARY** ..... 4
- 3. **BACKGROUND** ..... 7
  - 3.1 Goals of the Collection Services Franchise Agreement Negotiations ..... 7
  - 3.2 Overview of Negotiation Process..... 8
  - 3.3 Negotiation Team Personnel ..... 8
  - 3.4 2016 Rate Survey ..... 10
  - 3.5 Development of Existing Operations Cost Review..... 10
  - 3.6 Two-tiered Peer Review of Current Collections Operations Costs ..... 11
  - 3.7 Member Agency Input ..... 11
- 4. **Negotiation Results** ..... 13
  - 4.1 Achievement of Negotiating Goals ..... 13
  - 4.2 Benefits of the Negotiated Recology Offer ..... 14
- 5. **Agreement and Financial Results** ..... 14
  - 5.1 Amended and Restated Agreement ..... 14
  - 5.2 Financial Considerations ..... 19
- Attachment A: Negotiations Schedule** ..... 23
- Attachment B: HFH Consulting - 2016 Solid Waste Rate Survey**..... 29
- Attachment C: Review of Current Collections Operations Costs** ..... 33
- Attachment D: TAC/FAX Meeting Context Map and Mandala Visioning** ..... 37
- Attachment E: SBWMA Member Agency Input Survey: Garbage & Recycling Collection Services** ..... 41
- Attachment F: SBWMA Member Agency Projected Growth Rate Survey** ..... 57
- Attachment G: Franchise Agreement Section-by-Section Summary of Proposed Changes** ..... 71

# 1. RECOMMENDATION

The South Bayside Waste Management Authority (SBWMA dba RethinkWaste) is close to completing a year-long negotiation process with Recology of San Mateo (Recology), to extend their hauling contract beyond 2020. The following provides the recommendations agreed upon by the SBWMA, Franchise Agreement Extension Negotiation Ad Hoc Committee (FAX), the Technical Advisory Committee (TAC), and the Financial Committee.

1. **Authorize staff to provide the SBWMA Board with a Model Franchise Agreement with Recology San Mateo County (Recology) to provide Recyclable Materials, Organic Materials, and Solid Waste Collection Services for 15-year term of January 1, 2021 through December 31, 2036.** The Model Franchise Agreement will have been mutually agreed upon by SBWMA's TAC/FAX/Staff and Recology, and provided to the Member Agencies for use to finalize their own agreements. The goal of the negotiations process is to pursue a sole source agreement with Recology and not to pursue a public procurement process.
2. **Authorize staff to provide the SBWMA Board with a base-cost proposal for all core collection services outlined in the Model Franchise Agreement to be provided to all 12 Member Agency for 2021 (also known as rate year 11).**
3. **Authorize SBWMA Senior staff to provide technical support with each of our 12 member agencies during their entire negotiation process with Recology as they discuss agency-specific services and costs (beyond the base-cost proposal).**
4. **Once the Model Franchise Agreement with Recology is accepted by the SBWMA Board, each Member Agency will negotiate with Recology any Member Agency-specific considerations for approval by December 31, 2017.**

**First Amended and Restated Joint Exercise Powers Agreement  
SBWMA Article 7.1.1.c:**

*“Entering into or amending Franchise Agreements for the operation of the Facilities require the approval of two-thirds vote of its members”.*

The SBWMA TAC/FAX Committees and Recology have agreed to the base-cost proposal for all core collection services, and are in the process of finalizing the Model Franchise Agreement. The TAC/FAX/Staff negotiations team recommends moving forward with the current cost proposal because it has been determined that it is a *“good deal”* for the Member Agencies. Nearly every aspect of the cost proposal has been reviewed and was deemed *“reasonable”* and *“within local market pricing”*. However, the team was unable to receive satisfying cost detail from Recology on what their general and administrative (G&A) costs were in this proposal (these costs represent about 16% of the total cost and increase from 2016 to 2021). Although Recology has not provided sufficient detail in this area, the TAC/FAX/Staff team acknowledges that the G&A costs are within the average for the industry and, therefore, should not hold up the Agreement process.

## 2. EXECUTIVE SUMMARY

Currently the Member Agencies are in the seventh year of a ten-year Franchise Agreement for Collection Services for Garbage, Recycling and Organic Materials with Recology. In anticipation of the Agreement's expiration in 2020, the SBWMA initiated discussions of a contract extension with the company. A starting point for this process was the gathering of stakeholder input from SBWMA Board Members, Member Agency staff, and community members. All groups surveyed expressed a high-level of satisfaction with Recology and concur that the company has consistently provided professional, competent, reliable service in the execution of their collection services. Based on this strong performance and survey response, the SBWMA Board approved a plan and recommended a negotiation process during Spring 2016. The Plan included a key assumption that all Member Agencies intend to participate in a Franchise Agreement extension with Recology by December 31, 2017.

### Negotiations Process

As part of the Plan and recommended negotiation process, the Board created the Franchise Agreement Extension committee (FAX) with the primary tasks of:

- **Develop an amended and restated Model Franchise Agreement** to be presented to the SBWMA Board of Directors at the April 27, 2017 meeting.
- **Obtain Recology's total revenue requirement (cost) to perform collection services starting in rate year 2021** and establish a compensation adjustment methodology to govern the rate changes in future contract years.
- **Obtain and include feedback from the SBWMA Technical Advisory Committee (TAC)** at its April 13<sup>th</sup> meeting.

Since November, the SBWMA negotiation team has held special TAC meetings in January and April, ten FAX committee meetings, seven negotiation sessions with Recology (many phone meetings were also held between Recology, HFH Consultants and SBWMA staff), and two additional all-day negotiations sessions were held on April 4<sup>th</sup> and 6<sup>th</sup> to finalize negotiations. This negotiated deal will provide:

- **Consistency with all existing solid waste, recycling and organics services.**
- **No new-service provider transition pitfalls** (i.e., container switch-out, customer service center setup & billing setup, driver route training, hard-rollout of a new truck fleet, developing a new rate setting process, and end-of-contract buyouts (e.g. Allied Waste's exit).
- **Rate-setting stability/predictability** after an initial rate true-up, rate increases are tied to indices.
- **SBWMA rates will continue to be in-line with Bay Area communities.**
- **Continued cost savings from collection efficiencies** gained by Recology's years of experience.
- **Sharing of future inflation risk by Recology** beginning with their 2021 Cost Proposal.
- **Avoidance of an estimated \$2-3 million** in avoided RFP and potential contractor-transition costs.
- **Maintain labor peace** by continuing with a known company and management team.

Prior to the negotiation process, the SBWMA performed two studies to provide important cost and rate background for the negotiation process:

1. **A Solid Waste Rate Comparison by Jurisdiction Study** to quantify the SBWMA's rates for garbage, recycling and organics collection compared to the rates that are charged by over 60 other Bay Area cities. The study showed that the SBWMA is currently below the average cost customers are charged for a 32-gallon can each month for surveyed Bay Area cities.
2. **A Recology Operations Collection Cost Review** to assess the "reasonableness" of Recology's cost proposal. The cost review analyzed all aspects of Recology's operations and compared this against industry norms. The review by the two consultants concluded that Recology's total annual cost of operations were "reasonable" and varied by only 5.5% from the consultant's model and were within the norms of the solid waste industry.

### **Term, Compensation, and Rate Setting Methodology**

**Term:** Recology has proposed the option of a 10-year or a 15-year term for the new Agreement. After considering the financial benefits of spreading the depreciation cost of a new collection fleet, the FAX committee is recommending 15-year term. At the end of the current contract, Recology's \$36.3 million collection fleet will be fully depreciated, however, the company has indicated that it can continue to use the vehicles for 2-3 additional years. By agreeing to a 15-year term, and combining the use of the current and new vehicles for a longer term, the member agencies will benefit from a reduction in depreciation and interest expense (approximately \$1.7 million per year, or 3.4% of the total projected cost).

**Compensation:** The FAX committee is recommending an agreement with a 2021 Base Contractor's Compensation of \$65,303,616 which assumes a 15-year term and the inclusion of depreciation expense for the replacement collection vehicles in rate year 2020 of the Current Agreement. This amount will be adjusted for the change in the cost of fuel and customer subscription levels.

Based on these assumptions and subject to the adjustments described above, the Base Contractor's Compensation would increase approximately 2.4% from 2019 to 2020 (instead of a 7% reduction that would have occurred as depreciation payments ended), and increase approximately 10.2% from 2020 to 2021. The actual increase will depend on several future adjustments. For example:

- The actual 2019 and 2020 Base Contractor's Compensation determined in accordance with the existing Agreement are subject to future changes. Recology forecasted this amount based on historical increases from 2013 to 2017 and arrived at an 8.2% increase. Because that period included an extraordinary "true up" of Base Contractor's Compensation to actual cost in 2013, it is not included in the calculation of the 10.2% increase described above.
- Adjustments to the 2021 Base Contractors Compensation as described above. A \$1 per gallon increase to the price of fuel results in a \$987,000 (1.5%) increase to Base Contractor's Compensation. A 2% per year increase in customer subscriptions to all lines of business results in a \$1,023,000 (1.6%) increase to Base Contractor's Compensation.

Thereafter, annual adjustments to the Contractor's Base Compensation would correspond to the changes in the indices for wages, benefits, fuel and other expenses plus a growth adjustment up to a maximum increase of 5%.

Customer rates, plus the use of any reserves, are set to equal the Total Customer Billed Revenue. **Total Customer Billed Revenue is comprised of Recology's cost plus Member Agency fees; plus Disposal and Processing costs.** Based on certain reasonable assumptions regarding these fees, the Total Customer Billed Revenue may annually increase from 2018 to 2020 by 3.3% and from 2020 to 2021 by 7.8%. Other reasonable assumptions could be made regarding these future fees and the results would be different - i.e., the rate impact on any specific Member Agency customer would be affected by its existing rates and any surplus it may be generating (or may have generated) that could be applied to offset these increases.

It should be noted there are other factors that will affect the customer rates, which include processing costs and tip fees from these other facilities. The current agreement with Recology for Collection Services represents about two-thirds of the entire waste collection, handling and transportation system costs. Therefore, the remaining costs which are components of our overall system costs are all tied to contracts outside the Franchise Agreement negotiations discussion. For example, in February 2017, the Agency renewed its contract Construction and Demolition materials processing contract so those costs are now known through 2022. The Agency has, however, three other significant materials handling, processing and/or disposal contracts that will expire before 2020. There is no clear understanding of what the negotiations with those contracts will hold, or what the new rates will be.

**Rate setting methodology:** This topic has been a primary focus of the negotiation process and maintaining rate stability and predictability has been a major goal for the SBWMA (specifically, Recology's compensation and rate setting methodology regarding depreciation of the vehicles, fuel cost indexing, General and Administrative costs (G&A), and adjustments for growth were areas of focus).

## **Amended and Restated Franchise Agreement**

Throughout the negotiations process the SBWMA has worked closely with Recology in reviewing the 2013 amended Franchise Agreement to streamline the agreement and make changes to clarify service expectations. The newly amended and restated Franchise Agreement language is approximately 90% unchanged and has been reviewed by both the SBWMA and Recology's legal counsel. Though residential and commercial customers will not experience any changes to their current collection services, there are four minor modifications to the Franchise Agreement for residential and commercial services:

1. **Mixed Use Buildings:** The agreement defines a new class of service – Mixed Use Buildings - which contain commercial uses on the ground floor and residential uses above. The residential element of Mixed Use Buildings will receive the services currently provided to multi-family customers and the commercial element shall receive the services currently provided to commercial customers. This building type and other multifamily and commercial customers will also be able to receive bin relocation services (at an additional fee) which may be required due to the below-street level location of bin enclosures on the property.

2. **Bulky Item Collection:** Residential customers will continue to receive up to two bulky item collection services annually without charge, within one week of request, however this service will be capped at 150 collections system-wide per day (Recology currently makes approximately 120 bulky item collections per day), and if the number of requests exceeds 150 per day, Recology will roll the service date by one week.
3. **Abandoned Waste Collection:** Member Agencies will continue to receive abandoned bulky waste collection services, but a cap of 30 pick-ups per day has been established. In the future, when the average number reaches 25 daily events, the SBWMA and Recology will meet to add collection resources and provide additional compensation to Recology, or take some other action to respond to the increased demand.
4. **Reporting:** Recology's reporting requirements have been adjusted to align data collection and reporting with the collection and customer service goals.

### 3. BACKGROUND

SBWMA is in the seventh year of a ten-year Franchise Agreement for Collection Services for Garbage, Recycling and Organic Materials with Recology. During this time, feedback provided by Member Agency staff, SBWMA Board Members and community members surveyed, demonstrated that Recology has consistently provided professional competency in the execution of their operations. As a result of their strong performance, the SBWMA Board finalized a plan and recommended process for negotiations during Spring 2016. This section details the goals of the Recology negotiations and provides background and clarification regarding the plan and recommended process followed.

#### 3.1 Goals of the Collection Services Franchise Agreement Negotiations

Three goals were identified during the planning phases of the Recology negotiation process. These goals were the primary focus of the FAX committee, and include:

- Develop an **amended and restated Model Franchise Agreement** to be presented to the SBWMA Board of Directors at the April 27, 2017 meeting. The Model Franchise Agreement is to serve as a template document for each member agency to further refine and approve.
- **Obtain Recology's Total Revenue Requirement to perform collection services in future rate year 2021, as well as establishing an ongoing compensation adjustment methodology.** Upon SBWMA Board approval of these documents, each member agency is strongly encouraged to immediately work with Recology to finalize the contract language, specific scope of services and the pricing of any added or changed services for their respective agency by December 31, 2017. A RFP process to solicit a new collection services provider will be initiated if at least eight Member Agencies are not formally in contract with Recology by December 31, 2017.
- **Obtain and include feedback from the SBWMA Technical Advisory Committee (TAC)** at its April 13<sup>th</sup> meeting.

## 3.2 Overview of Negotiation Process

The Final Plan and Recommended Process for Supporting Member Agencies with Negotiating a Potential Franchise Agreement Extension with Recology (Plan) was approved by the SBWMA Board of Directors on April 28, 2016, which recommended a schedule that, if adhered to, was intended to result in negotiating amendments to each member agency's existing Franchise Agreements with Recology by the end of 2017. The timeline for this plan was adjusted to allow the new Executive Director, who began in August 2016, time to address other urgent contractual matters, to establish a new timeline (as seen in Attachment A), and to initiate the Recology negotiation meetings, the FAX committee meetings, and all internal SBWMA staff meetings that were necessary for moving the negotiation process forward within the afore mentioned timeline. The Plan included a key assumption that all Member Agencies intended to negotiate a Franchise Agreement extension with Recology and were required to notify SBWMA staff by May 31, 2016 of their intent to participate in the process. All Member Agencies provided their commitment to participate by the deadline.

## 3.3 Negotiation Team Personnel

SBWMA staff was tasked with developing a team to drive the negotiation process and work closely with the FAX Committee. The FAX Committee was created and approved by the SBWMA Board of Directors, and provides a well-rounded team of senior Member Agency staff for the negotiation process. The following details provide the background on each team.

### FAX Committee Formation and Composition

During the April 28, 2016 SBWMA Board of Directors meeting, the Franchise Agreement Extension (FAX) Ad Hoc Committee was formed to represent the interests of the community's rate payers as the SBWMA staff and consultants negotiated with Recology to deliver a new contract. This FAX Committee consists of six members, as presented in Table 1.

Table 1. FAX Committee Team Members

FAX Committee Team Members	
Title	Personnel
City of Belmont, Public Works Director, <i>TAC Chair</i>	Afshin Oskoui
City of East Palo Alto, Finance Director	Brenda Olwin
City of Menlo Park, Environmental Services Manager	Heather Abrams
City of Redwood City, City Manager, <i>FAX Vice Chair</i>	Melissa Stevenson Diaz
City of San Mateo, City Manager	Larry Patterson
County of San Mateo, Public Works Director, <i>FAX Chair</i>	Jim Porter

In addition to these six (6) city representatives, senior SBWMA staff, two industry experts, a leading solid waste industry financial consultant, and the Agency's attorney also participated with this committee to provide technical support throughout the negotiation process.

In February 2017, Heather Abrams left the City of Menlo Park and, thereby, stepped off the FAX Committee. Significant discussion occurred between the SBWMA Board of Directors and FAX committee members regarding their options on how to address this unexpected vacancy. The City Managers from two Member Agencies (Atherton and Menlo Park) each stated their interest in filling the vacancy on the FAX committee. On February 23, 2017, the SBWMA Board of Directors decided to keep the FAX committee at five city representatives and not to add anyone to the FAX committee.

Eight FAX committee meetings were held between December 6, 2016 and March 28, 2017, and one additional joint TAC/FAX meeting was held on April 13, 2017. The primary purpose of this joint meeting was to seek input and feedback on the scope of services to be provided by Recology and provide recommendations to the Negotiation and FAX committees. The TAC/FAX committee reviewed the FAX Committee's Findings and Recommendations prior to consideration by the SBWMA Board at their April 27<sup>th</sup> meeting.

### SBWMA Negotiation Team Members

The SBWMA staff established a Negotiations Team composed of SBWMA staff and consultants who had primary responsibility for direct negotiations with Recology. This team was established to provide continuity, support and expert navigation to the FAX committee during the negotiation process and provide the key deliverables of a draft Model Franchise Agreement and Recology's cost proposal for rate year 2021. These members are shown in Table 2.

Table 2. SBWMA Negotiation Team Members

SBWMA Negotiation Team Members	
Title	Personnel
SBWMA, Executive Director	Joe La Mariana
SBWMA, Sr. Facilities & Major Contracts Mgr.	Hilary Gans
Team Administrative Support	Cyndi Urman, SBWMA, Tracie Bills (SCS Engineers)
Solid Waste Industry Subject Matter Expert	Ron Proto, RJ Proto Consulting
Solid Waste Industry Financial Consultants, Lead Negotiators	Bob Hilton, Tracy Swanborn, Marva Sheehan (HFH Consultants)
SBWMA Attorney	Jean Savaree, ADLC

### Recology Negotiation Team Members

The Recology Negotiation Team consists of seven members, as shown in Table 3.

Table 3. Recology Negotiation Team Members

Recology Negotiation Team Members	
Title	Personnel
Vice President, San Mateo/South Bay Region	Mario Puccinelli
General Manager, San Mateo County Division	Mike Kelly
Controller, San Mateo/South Bay Region	Carl Mennie
Administrative Services Manager, San Mateo Division	Tammy Del Bene
Public Affairs Manager, San Mateo Division	Gino Gasparini
Customer Service Manager, San Mateo Division	Jeanette Haskell
Attorney, Recology Corporate	Bryce Giddens

The team's first joint meeting was held as a two-day introductory orientation on November 2 and 3, 2016, with the goal to identify critical discussion points that would shape the scope of the negotiations. These initial two meetings did not include HFH Consultants (their contract was approved in December), Jean Savaree (SBWMA staff and Recology agreed to have an open dialogue prior to attorneys becoming involved), or Bryce Giddens. There were a total of nine, three-hour negotiation meetings and two final eight-hour meetings.

### 3.4 2016 Rate Survey

The SBWMA contracted HF&H Consultants, LLC (HF&H) to survey the solid waste rates for the jurisdictions located in the Bay Area counties of Alameda, Contra Costa, Marin, Santa Clara and San Mateo. The results of this survey showed that the SBWMA is currently below the Bay Area average cost that is charged to residential customers for a 32 gallon garbage can each month (average cost for a residential 32 gallon garbage can within the SBWMA averages \$32.55 per month (monthly service costs ranged from \$22 - \$55 between jurisdictions) while the Bay Area surveyed averaged is \$33.14 per month (costs ranged from \$24.41 - \$43.75 between jurisdictions). For further information, refer to **Attachment B** which details the rates for each jurisdiction and how they compare to member agency rates.

### 3.5 Development of Existing Operations Cost Review

The SBWMA engaged Sloan Vasquez McAfee (SVM) in May 2016, to review and assess Recology's 2016 costs, and to develop an Operational Cost Model (pro forma) that provides a cost of service analysis of Recology's cost to deliver services required by their agreement with the SBWMA. The pro forma was used to validate Recology's cost of service for reasonableness. SVM used Recology's actual costs as of 3/31/2016 to develop the pro forma. Recology calculated those costs using 6 months actual costs, October 2015 - March 2016, then projected the remaining 6 months. Where Recology did not provide information, SVM developed estimates based on accounting and financial principles, and their extensive experience and knowledge of the waste industry.

## 3.6 Two-tiered Peer Review of Current Collections Operations Costs

As a secondary step, a peer review was performed of the SVM pro forma by R.J. Proto Consulting Group (RJP) in order to evaluate its accuracy. After this review, RJP provided findings to SVM, who then developed a restated pro forma which included those findings. RJP reviewed the SVM **Original Pro Forma** and found it was a thorough, well-developed model, drawing numbers, formulas, and calculations from multiple interactive worksheets.

The findings showed the Total Annual Cost of Operations variance between the SVM pro forma and Recology's 2016 Actual Costs of 3/31/16 is -5.5%, (meaning the SVM pro forma costs were 5.5% lower than Recology's 2016 costs as of 3/31/16) and that it was within a reasonable margin of error for this type of analysis. SVM took the findings from RJP's analysis and made changes to the original pro forma, developing a **Restated Pro Forma**. The difference between the original and restated pro forma is mostly due to a pension cost variance which was only 0.5%, or \$146,000 more than Recology Actual costs. SVM also attributed some of the other findings to timing differences. The restated pro forma has a variance of -1.8% meaning the SVM pro forma costs were 1.8% lower than Recology's 2016 actual costs.

The Total Annual Cost of Operations variance between the SVM original and restated pro formas and Recology's Actual Costs as of 3/31/16 ranges between -5.5% to -1.8%. This variance is within a reasonable margin of error for this type of analysis. The results from this analysis can be found in **Attachment C**.

## 3.7 Member Agency Input

Member Agency input is always highly-valued, and was specifically solicited by staff during the negotiation process in a variety of ways that are identified in this section. This feedback provided the SBWMA Negotiation Team (Team) with clarification on ratepayer satisfaction with Recology's collection services, customer support, and rates. This clarification, in turn, shaped the Team's discussion and deal points for the entire negotiation process with Recology. This stakeholder input process is detailed below.

### A. SBWMA TAC Meetings

There were two SBWMA TAC meetings that allowed for participation by each Member Agency during the Recology negotiation process.

- **January 5, 2017:** HF&H Consultants facilitated an agency-wide input session with the TAC and FAX members to identify and rank important discussion points for the Franchise Agreement negotiations. The results from this collaborative dialogue included a Context Map and Mandala Visioning session that provided clarity on the concerns and direction the Member Agencies would like to see. This session was attended by over forty Member Agency representatives. For further detail, see **Attachment D**.
- **April 13, 2017:** A joint TAC and FAX committee meeting was held to provide context, share results and seek feedback on the recommendations by the Negotiation and FAX committee. This meeting was the first glimpse the TAC members had of the proposed changes and compensation package. The feedback was positive regarding the direction of the negotiations and the progress made to date.

The biggest take-away from the meeting was for SBWMA staff to provide a half-day workshop and financial review for the TAC, to be briefed on the Amended and Restated Franchise Agreement, and compensation package. The TAC members believe this would help with understanding the changes and prepare them for the council meeting discussions in May. A second half-day will also be scheduled for early/mid-May to review the financial data and contract language with the Member Agency legal staff. The other feedback provided by TAC members included:

- Upon confirmation of all deal points, provide more detailed financial information to understand all changes in the Amended and Restated Franchise Agreement.
- Confirming public outreach efforts associated with the Master Franchise Agreement should be managed by the Member Agency, as they define their own Amended and Restated Franchise Agreement and rate structure.
- Collaborating on any common negotiating points between the Member Agencies, as they discuss options with Recology, it would be good to identify other Member Agencies that are working on the same topic to try and streamline the negotiation process.
- Providing an outline of all changes in the Amended and Restated Franchise Agreement to make the review easier.

A half day workshop will be held on May 3, 2017 for the TAC representatives and Member Agency staff (those working with Recology and SBWMA when the new contract is executed) to outline changes to the Amended and Restated Model Franchise Agreement and Cost Proposal with Recology. The intent of this workshop is to provide opportunity to ask questions and walk through the details in preparation for the Member Agency City Council meetings during the month of May.

### **B. SBWMA Member Agency Input Survey: Garbage & Recycling Collection Services**

**A survey was generated to seek input from Elected Officials in order to understand satisfaction with different services provided by Recology, and to seek feedback on the level of interest for each Member Agency in pursuing new or changed services.** These details provided critical insight and guidance for the negotiation process. The survey was distributed to all SBWMA TAC members on December 16, 2016, who then sent the survey to their fellow Elected Officials for feedback. The information was gathered via SurveyMonkey and a response was requested by January 6, 2017. The deadline was extended to January 13 to allow for every Member Agency to respond. All Member Agencies responded. Results of the Survey can be found in **Attachment E**.

### **C. SBWMA Member Agency Projected Growth Rate Survey**

**A survey was generated to seek input from all Member Agency Senior Planning staff in order to understand projected development in their service area.** This aspect was significant to our discussions throughout the negotiations due to the concerns Recology has stated surrounding their lack of compensation for an increase in accounts due to the growth in commercial and multi-use buildings over the past few years. The survey was distributed to all SBWMA TAC members on January 9, 2017, who then sent the survey to their planning departments for feedback. The

information was gathered via SurveyMonkey and a response was requested by January 27, 2017. All but one Member Agency responded. Results of the Survey can be found in **Attachment F**.

#### D. Redline Franchise Agreement Submittals

In December 2016, the SBWMA staff provided a redline franchise agreement document to all Member Agency TAC members with the initial intent to seek feedback on any areas that would be a concern. This redline document was provided by Recology as an initial step during the negotiations process. An additional redline document was provided to the Member Agencies on April 20, 2017, which incorporated all feedback from Recology, the FAX committee, Negotiation committee and SBWMA staff.

#### E. Monthly Board Briefings

The SBWMA Executive Director provided negotiation progress updates to the SBWMA Board of Directors, on the related activities that had been performed during the previous month, including critical highlights of events, and next steps during the negotiation process. These updates were provided to the SBWMA Board on November 17<sup>th</sup>, 2016; January 26<sup>th</sup>, 2017; February 23<sup>rd</sup>, 2017; and March 23<sup>rd</sup>, 2017.

## 4. Negotiation Results

This section provides overall results on committee feedback, achievements of negotiating goals and the benefits of the negotiated Recology offer.

### 4.1 Achievement of Negotiating Goals

Since November, the SBWMA negotiation team held ten FAX Committee Meetings, two special TAC meetings in January and April, seven planned joint negotiation meetings, and also many phone meetings between Recology, HFH Consultants and SBWMA staff to continue moving the process forward to maintain the Board's FAX schedule. Negotiations moved along smoothly, however, Recology's initial cost proposal for the current agreement's last rate year (2020) and the start of the presumed new agreement (2021) known as the "jump-off point" was not in line with Agency expectations, which was to remain under a two digit percent increase. Both parties agreed to hold subsequent final discussions during two all-day meetings that were conducted on April 4<sup>th</sup> and 6<sup>th</sup>, 2017. Although the negotiation team experienced a bit of a delay with negotiations, the team was able to obtain and include feedback from the SBWMA Technical Advisory Committee (TAC) at its April 13<sup>th</sup> meeting, provide an amended and restated Model Franchise Agreement to the SBWMA Board of Directors at the April 27, 2017 meeting, to obtain Recology's total revenue requirement estimated to perform these services in future rate year 2021, and to establish a compensation adjustment methodology. These deliverables are highlighted in Section 5 to follow.

The final goal of the process is to have the SBWMA Board of Directors approve these documents and for the SBMWA staff to provide assistance to each member agency to coordinate with Recology to finalize the contract language, specific scope of services and the pricing of additional services for their respective agency by December 31, 2017. A RFP process to solicit a new collection services provider will be initiated if at least

eight of the Member Agencies are not formally in contract with Recology by December 31, 2017, (in accordance with section 7.1.1.c of the Agency's overarching JPA agreement).

## 4.2 Benefits of the Negotiated Recology Offer

Recology has been a proven and reliable partner over the last seven years and has provided excellent service to the SBWMA community. The negotiations team recognizes that Recology's cost of operations are similar to other companies (industry experts have verified that Recology's costs are within industry norms) and that no large cost savings are likely to be gained by installing a new collection contractor. Additionally, it is important to recognize that Recology has provided excellent service to the SBWMA community and that there is no guaranty that another service provider will meet the same standards. The FAX committee believes that the negotiated deal to be considered by the SBWMA Board provides:

- **Consistency with all existing solid waste, recycling and organics services.**
- **No new-service provider transition pitfalls** (i.e., container switch-out, customer service center setup & billing setup, driver route training, hard-rollout a new truck fleet, developing a new rate setting process, and end-of-contract buyouts (e.g. Allied Waste's exit).
- **Rate-setting stability/predictability** after an initial rate true-up, rate increases are tied to indices.
- **SBWMA rates will continue to be in-line with Bay Area communities.**
- **Continued cost savings from collection efficiencies** gained by Recology's years of experience.
- **Sharing of future inflation risk by Recology** beginning with their 2021 Cost Proposal.
- **Avoidance of an estimated \$2-3 million** in avoided RFP and potential contractor-transition costs.
- **Labor peace** by continuing with a known company and management team.

## 5. Agreement and Financial Results

This section details the financial impact associated with the agreed upon compensation package and Model Franchise Agreement.

### 5.1 Amended and Restated Agreement

Over the past few months the SBWMA has worked closely with Recology in reviewing the 2013 amended Franchise Agreement to streamline and make critical changes that will enhance the overall clarity and productivity of the document. This document's language is approximately 90% unchanged and received legal review by both the SBWMA and Recology's legal counsel. It is important to note that, while this document is substantively complete, it still must complete a final, comprehensive legal review. This review will be completed in early May and a final proposed Model Franchise Agreement document will be distributed in the May 25<sup>th</sup> SBWMA Board agenda packet. (A section-by-section summary of the proposed changes can be seen in Attachment G).

The FAX and TAC committee participants expressed satisfaction with the current scope of services, however, enhancements were requested. The most significant of these included:

- Providing recycling, organic, and bulky waste services to the residential component of mixed use development.
- Improving public education and technical support services to commercial customers.
- Modifying the compensation adjustment methodology to:
  - provide greater stability and predictability;
  - ensure that the allocation of costs fairly affects each Member Agency's rates; and
  - simplify the adjustment process and explanation of rate changes.
- Considering "clean fuel" vehicles when the replacement of the existing fleet occurs.
- Providing reports that are easy to read, useful and not redundant.

Recology also identified areas where it wished to see changes (Note: not all of Recology's requests were accepted). The most significant of these included:

- Increasing the current Base Contractor's Compensation to reflect Recology's actual higher costs of operations (True Up) during the remaining term of the current Agreement.
- Converting to an annual compensation adjustment methodology that adjusts compensation to account for actual costs.
- Adding additional fees to "Attachment Q" that capture the cost of services (e.g., relocation fee).
- Provide a cap and additional compensation for bulky item collection.
- Allowing Recology to retain all revenues from customer billings.
- Reducing the number of performance standards and related liquidated damages.
- Reducing reporting requirements.

The driver for many of Recology's request was, in part, due to their stated decrease in their profitability during the past seven years. Recology has also stated that, if this current trend line were to continue, their division could operate at a loss by this end of the current term of this agreement. The current Recology franchise agreement has compensation based on adjustments using different industry indices (e.g. Consumer Price Index for fuel) and independent of cost factors (e.g. labor rates). **In the last seven years many of the Member Agencies have experienced significant growth in their commercial sector, and this growth was not factored into the current compensation model. As an example, for every new business added, Recology incurs the expense of providing service, but the new revenue is retained by the individual member agencies.** To date, Recology has effectively managed these new and additional costs by evaluating their operations and streamlining efficiencies to make up for any losses, but the company's senior management has stated that they have now hit a point of diminishing returns. The findings outlined in section 3.6 and **Attachment C** of this report provide two levels of independent review corroborating Recology's operational efficiencies.

The following sections describe the results of the negotiations.

## Residential and Commercial Services

Residential customers will not experience any changes to their collection services, thus avoiding complaints resulting from the implementation of new services or the change in service providers. Most commercial customers will also not experience any changes to their collection services. A very small sub-set of commercial accounts (Recology has identified about 20 accounts) will need to improve their container access for Recology's workers, or they will be subject to a new container relocation fee due to the special handling that will be required to properly service those units.

There are four primary modifications to the amended and restated Franchise Agreement for residential and commercial services, which include: mixed use building services, bulky item collection, abandoned waste collection and reporting requirements.

**Mixed Use Buildings:** The residential component of Mixed Use Buildings will receive all services currently provided to multi-family customers (including recycling, organics and bulky item collection) and the commercial element shall receive the services currently provided to commercial customers. This building type and other multifamily and commercial customers will also be able to receive bin relocation services (at an additional fee) which are required due to the below street level location of bin enclosures on the property.

**Bulky Item Collection:** Residential customers will continue to receive up to two bulky item collection services annually within one week of request, without charge. Currently, approximately 120 bulky item collections occur daily. Once the demand for these services increases to 150 (a 25% increase), Recology can extend the service delivery date by one week. (This was done to align the services with the costs included in Recology's Base Contractor's Compensation.) At such time, the Member Agency, SBWMA and Recology will meet to address whether to add an additional route and compensate Recology; or, take some other action to respond to the increased demand.

**Abandoned Waste Collection:** Member Agencies will continue to receive abandoned bulky waste collection services at no cost to the agencies or customers. A limit of thirty (30) pick-ups per day has been established, to align the services with the costs included in Recology's Base Contractor's Compensation. When the average number reaches 25 daily events, the SBWMA and Recology will meet to address whether to add collection resources and compensate Recology or take some other action to respond to the increased demand.

**Reporting:** Reporting requirements have been streamlined, reducing effort in the preparation of the reports, while maintaining the reporting elements.

## Compensation and Rate Setting Methodology

The compensation and rate setting methodology discussions took the longest to complete and are, by far, the most critical element to the negotiation process. Major discussions during the meetings contained the rate setting methodology in order to provide stability and predictability, depreciation of the vehicles, fuel cost, administrative costs, and compensation adjustments for growth in the number of accounts. Extensive discussions during the FAX Committee meetings involved the current agreement and any changes that would be made to Recology's compensation. Ultimately, the Amended and Restated Agreement:

- Avoids any increase (or True-Up) during the remaining term of the current Agreement.
- Allows Member Agencies to retain the difference between actual revenues and the Total Customer Billed Revenue (Base Contractor's Compensation plus disposal/processing expense and Member Agency fees).
- Includes two reasonable new "Attachment Q fees" for bin relocation services that are 1) particularly applicable for buildings with below street level bin enclosures, and 2) a charge for agency-specific reporting requirements for Abandoned Waste support services.

**Evaluation and agreement upon Recology's initial cost proposal for the current agreement's last rate year (2020) and the start of the presumed new agreement (2021) referred to as the "jump-off point" was negotiated.** The agreed upon compensation for 2021 reflects a one-time increase to bring the Base Contractor's Compensation up to Recology's actual costs. It includes an amount for inflation between 2017 and 2021 (@2%) except for fuel expense which reflects 2016 fuel prices. It does not include any increase in the cost of operations from the increase to customer subscription levels experienced since the start of Recology's services. It also includes estimated depreciation and interest expense for the replacement of the existing fleet of collection vehicles.

**This agreed upon compensation for 2021 will be adjusted according to a methodology as follows:**

- The projected Base Contractor's Compensation will not be adjusted for differences between the assumed and actual inflation rate between 2017 and 2021 with the exception of changes in the fuel price index.
- The Base Contractor's Compensation will not be adjusted for costs arising from collective bargaining agreement changes.
- The Base Contractor's Compensation will be adjusted for changes to fuel prices, based on changes in a Bay Area fuel index.
- The Base Contractor's Compensation will be adjusted annual for changes to subscription levels using a 3-year rolling average of subscription levels to moderate the effect of such changes. The subscription level change for 2021 will reflect service level changes from 2016 to 2020.
- Effective in 2027 through the remaining term, the Base Contractor's Compensation will be adjusted for the difference between the assumed depreciation and interest expense for replacement collection vehicle fleet and the actual expense. (Adjustments by 50% for any depreciation expense increase up to \$700,000 and no adjustment for increase greater than \$700,000; adjustments for change in interest expense from that assumed resulting from the increase in the actual cost of the replacement vehicle fleet.)

**The Amended and Restated Agreement maintains incentives for Recology to continue to manage costs and provides stability and predictability of changes to the Base Contractor's Compensation.**

- It continues to use published indices to adjust Base Contractor's Compensation, rather than Recology's actual costs. New indices have been selected to more appropriately reflect changes to the Bay Area's costs.
- An annual adjustment to Base Contractor's Compensation for changes to customer subscription levels has been provided. This adjustment uses a 3-year rolling average of customer subscription to moderate fluctuations.
- Only 50% of the increase in depreciation up to \$700,000 resulting from the increase in cost of the replacement collection vehicle fleet is compensated to Recology.
- A new 5% cap on the annual increase to Base Contractor's Compensation has been agreed to by Recology. Any excess amount will roll-forward to the following year to be compensated but such roll-forward amount will still be subject to the 5% cap in the following year. Should the roll-forward amount equal more than 10% of Base Contractor's Compensation, the Agency and Recology shall meet and confer to discuss the Agency's plan to compensate Recology for the roll forward amount during the remaining term of the current Agreement.

**The Amended and Restated Agreement modifies the current method of calculating each Member Agency's Base Contractor's Compensation.** Currently, total Base Contractor's Compensation is determined and then it is allocated among the Member Agencies. The new method starts with the agreed upon 2021 Total Base Contractor's Compensation and allocates these costs among the Member Agencies. Thereafter, each Member Agency's Base Contractor's Compensation will be adjusted in accordance with the change in the indices and for its own change to customer subscriptions, without regard to any other Member Agency's change to customer subscriptions.

## Other Key Terms and Conditions

**Other non-financial changes that were made include the discussion of a Public Education and Technical Assistance Plan, and the type of vehicles that may be selected come the new term.** Both are outlined below.

**Prior to 2021, and every three years thereafter, Member Agencies, the SBWMA and Recology will jointly develop a Public Education & Technical Assistance Plan.** The plan will include specific objectives, tasks, performance standards, reporting requirements and costs. This will allow the Plan to be responsive to the then current conditions, local policies and State requirements. Should the Plan require costs beyond those included in the Base Contractor's Compensation, the parties shall meet and confer to agree upon an appropriate compensation amount and the allocation of that amount among the Member Agencies.

**Prior to the replacement of the existing fleet of collection vehicles (estimated in year 2023), the Member Agencies, SBWMA and Recology shall agree on the type of replacement vehicles.** This will allow the parties to consider current conditions, the then available technologies and their costs, local policies and State requirements. Should the Plan require costs beyond those included in the Base Contractor's Compensation, the parties shall meet and confer to agree upon an appropriate compensation amount and the allocation of that amount among the Member Agencies.

## 5.2 Financial Considerations

This section outlines financial considerations for the franchise agreement and compensation package. It should be noted that there are other factors that will affect the customer rates, which include processing costs and tip fees. The current agreement with Recology for Collection Services represents about two-thirds of the entire waste collection, handling and transportation system costs. Therefore, the remaining costs which are components of our overall system costs are all tied to contracts outside the Franchise Agreement negotiations discussion.

In February 2017, the Agency renewed its contract Construction and Demolition materials processing contract so those costs are through 2022. The Agency has, however, three other significant materials handling, processing and/or disposal contracts that will expire before 2020. There is no clear understanding of what the negotiations with those contracts will hold, or what the new rates will be. These contracts are identified below in Table 4.

Table 4. SBWMA Major Contract Values

SBWMA Major Contract Values				
Contract	Contract Expires	Tons Per Year	Percent of Total Amount	Annual Contract Value
Zanker C&D Processing Agreement	2017	38,625	37%	\$ 1,588,000
Newby Composting Agreement	2018	50,100		\$ 2,653,000
Recology-Grover Composting Agreement	2020	50,891		\$ 1,817,000
Ox Mountain Disposal Agreement	2019	217,900		\$ 8,960,000
SBR- Shoreway Operations Agreement	2020	471,890		\$ 18,936,513
Recology-Collection Services Agreement	2020	N/A	63%	\$ 58,500,000
<b>Total Solid Waste System Costs:</b>			<b>100%</b>	<b>\$ 92,454,513</b>

Source:2016/17 Budget

### Proposed 2021 Compensation and potential Customer Revenue Impacts

The agreed upon 2021 Base Contractor's Compensation is \$65,303,616. It assumes a 15-year term and the inclusion of depreciation expense for the replacement collection vehicles in rate year 2020 of the Current Agreement. Based on these assumptions and subject to the adjustments described above, the Base Contractor's Compensation would:

- Increase 2.4% from 2019 to 2020 (instead of a 7% reduction).

- Increase 10.2% from 2020 to 2021 (+5%, range of 5.2% to 15.2%).
- Thereafter, adjustments would correspond to the changes in the indices plus the growth adjustments up to a maximum increase of 5%.

Because several important deal-points are still being finalized, detailed financial worksheets will be presented and handed out in the May 3<sup>rd</sup> half-day workshop and will be discussed at the May 25<sup>th</sup> Board meeting and distributed by May 18<sup>th</sup> as part of this Board meeting's agenda packet.

## Compensation Subject to Adjustment in 2020 to set 2021

Customer rates, plus the use of any reserves, are set to equal the Total Customer Billed Revenue. This is comprised of Recology's Base Compensation (approximately 58% of the total Rates); plus Member Agency fees (~27%); plus Disposal and Processing Fees (~15%). Between 2017 and 2021, Member Agency fees and disposal and processing fees will be adjusted. Based on certain reasonable assumptions regarding these fees, the Total Customer Billed Revenue may increase from 2019 to 2020 by 3.3% and from 2020 to 2021 by 7.8%. Other reasonable assumptions could be made regarding these future fees and the results would be different. The rate impact on any specific Member Agency customer would be affected by its existing rates and any surplus it may be generating (or may have generated) that could be applied to offset these increases.

## Methods to Mitigate Rate Increase

By including a portion of future depreciation expense in 2020, extending the term of the Amended and Restated Agreement 15-years instead of 10-years, and providing a 3-year rolling average for the change in customer subscription levels, steps have already been taken to mitigate increases in Base Contractor's Compensation. Additional steps Member Agencies may take include:

- Applying existing reserves to offset the increase.
- Increasing rates between 2017 and 2020 to have a higher base rate in 2019 and, thereby, reduce the amount of the increase to rates in 2020, and to use the excess revenue generated to add to existing reserves or create reserves that can be used to phase in the customer rate increase.
- Changing the rate structure to incorporate rates for recycling services and increase the rates for organic services, to mitigate the increase in garbage rates.



# NEGOTIATIONS TIMELINE SCHEDULE





## SBWMA Negotiations Schedule December 2016 – April 2017

Date	Time	Meetings	Meeting Location	In Attendance
Nov. 10, 2016	2-4pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
Nov. 17, 2016	2-4pm	SBWMA Board Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	SBWMA Board and Staff
Dec. 7, 2016	2-4pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
Dec. 14, 2016	2-4pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
Jan. 5, 2017	1-4pm	SBWMA TAC/FAX Meeting	City of Belmont EOC Room 1 Twin Pines Lane 2 <sup>nd</sup> Floor	TAC Members, FAX Members SBWMA Staff, HF&H
Jan. 6, 2017		MEMBER AGENCY SURVEY INPUT DUE		SBWMA Board Members and Alternates, City Managers, TAC Members
Jan. 11, 2017	1:30-4:30pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
Jan. 12, 2017	12-2pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
Jan. 23, 2017	1:30-4:30pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
Jan. 24, 2017	12-2pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
January 26, 2017	2-4pm	SBWMA Board Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	SBWMA Board and Staff, Technical Contractors
Feb. 2, 2017	11:30-2:30pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
Feb. 6, 2017	12:30-2:30pm	FAX Committee Meeting	San Carlos Library 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
Feb 9, 2017	11:30-2:30pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams

## SBWMA Negotiations Schedule December 2016 – April 2017

Date	Time	Meetings	Meeting Location	In Attendance
Feb. 10, 2017	12 – 2pm	SBWMA Subcommittee prepare redlines	SBWMA Offices	SBWMA Staff
Feb. 13, 2017	N/A	HF&H Franchise Revisions Due to SBWMA		
Feb. 15, 2017	N/A	SBWMA Franchise Revisions Redline Comments due to HF&H		
Feb. 21, 2017	12-2pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
Feb. 22, 2017		Franchise Revisions HF&H Finalize Draft for Distribution to Recology		
February 23, 2017	2-4pm	SBWMA Board Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	SBWMA Board and Staff, Technical Contractors
Feb. 27, 2017		Franchise Revisions Recology to provide Redline for SBWMA Review		
Feb 28, 2017 <b>Not Held</b>	11:30-2:30pm	Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
March 3, 2017		Franchise Revisions HF&H Provides Redline for SBWMA Review		
March 7, 2017		Franchise Revisions SBWMA provides redline comments to HF&H		
Mar. 8, 2017	2-4pm	FAX Committee Meeting	San Carlos City Hall, Room 207	FAX Committee, SBWMA Negotiation Team
March 13, 2017		Franchise Revisions HF&H provides redline for SBWMA Review		

## SBWMA Negotiations Schedule December 2016 – April 2017

Date	Time	Meetings	Meeting Location	In Attendance
March 16, 2017		Franchise Revisions Recology provides redline for SBWMA review		
Mar. 20, 2017	1:30-4:30pm	FINAL Negotiation Team Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room B	SBWMA and Recology Negotiation Teams
March 23, 2017	2-4pm	SBWMA Board Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	SBWMA Board and Staff, Technical Contractors
March 24, 2017		Franchise Revisions HF&H or SBWMA Finalize Franchise Agreement		
Mar. 28, 2017	2-4pm	FAX Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
April 4, 2017	All Day	Negotiation Meeting	SBWMA Offices	Partial Recology and SBWMA Negotiation Teams
April 4, 2017	12:15 to 1:30pm	SBWMA Finance Committee Meeting	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	Finance Committee, SBWMA Staff, HF&H
April 5, 2017 <b>Not Needed</b>	2-4pm	FAX Committee Meeting	San Carlos Library 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
April 6, 2017	All Day	Negotiation Meeting	SBWMA Offices	Partial Recology and SBWMA Negotiation Teams
April 13, 2017	2-4pm	Joint TAC/FAX Meeting (Final Draft FAX Report Due –Action Item)	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	TAC and FAX Committee Members
April 14, 2017		FAX/TAC Comments Due to SBWMA Staff		
April 18, 2017	12-2pm	FAX Committee Meeting	San Carlos Library 2 <sup>nd</sup> Floor Conference Room A	FAX Committee, SBWMA Negotiation Team
April 27, 2017	2-4pm	SBWMA Board Meeting (Final FAX Report Due – Action item)	San Carlos Library, 2 <sup>nd</sup> Floor Conference Room A	SBWMA Board and Staff

**KEY:**

-  Green – FAX Committee Meetings
-  Gold – Negotiations Meetings
-  Grey – SBWMA Board Meetings
-  Stone– Franchise Agreement Revision Deadlines
-  Lavender – SBWMA Finance Committee Meeting
-  Pink – Member Agency Input Due
-  Light Blue – Combined FAX/TAC Meetings

# 2016 HF&H SOLID WASTE RATE SURVEY



RethinkWaste Solid Waste Rate Survey  
April 2016

Jurisdiction	County	Res. Single-Family				Commercial				Service Info		
		20 Gallon	30-35Gal.	60-64Gal.	90-96Gal.	1YD Bin 1x/week	1YD Bin 3x/week	3YD Bin 1x/week	3YD Bin 3x/week	Rec. Freq.	YW Freq.	Sort
City of Alameda	Alameda	\$30.65	\$38.68	\$63.56	\$88.77	\$147.36	\$450.90	\$442.08	\$1,352.71	Weekly	Weekly	Single
City of Albany	Alameda	\$36.72	\$41.13	\$71.08	\$101.02	\$163.87	\$491.61	\$491.61	\$1,474.83	Weekly	Weekly	Single
City of Berkeley (District 1 & 2)	Alameda	\$23.79	\$38.05	\$76.05	\$114.03	\$151.42	\$426.65	\$419.05	\$1,244.70	Weekly	Weekly	Dual stream
City of Berkeley (District 3) <sup>8</sup>	Alameda	\$24.82	\$39.62	\$79.18	\$118.75	\$151.42	\$426.65	\$419.05	\$1,244.70	Weekly	Weekly	Dual stream
City of Dublin	Alameda	N/A	\$22.06	\$40.52	\$58.98	\$107.03	\$374.35	\$321.09	\$1,016.53	Weekly	Weekly	Single
City of Emeryville	Alameda	\$10.93	\$18.10	\$36.19	\$54.29	\$107.78	\$323.34	\$323.34	\$970.02	Weekly	Weekly	Single
City of Fremont	Alameda	\$31.21	\$31.89	\$34.99	\$51.47	\$93.09	\$363.24	\$209.26	\$835.91	Weekly	Weekly	Single
City of Livermore	Alameda	\$23.61	\$32.96	\$57.54	\$90.41	\$116.72	\$364.16	\$350.16	\$1,115.62	Weekly	Weekly	Single
City of Newark	Alameda	\$26.89	\$29.89	\$52.94	\$75.97	\$121.12	\$377.91	\$320.45	\$873.90	Weekly	Weekly	Single
City of Oakland	Alameda	\$32.10	\$36.82	\$67.19	\$102.43	\$194.10	\$582.30	\$462.27	\$1,386.81	Weekly	Weekly	Single
City of Piedmont <sup>5</sup>	Alameda	\$51.39	\$53.99	\$63.42	\$74.71	\$169.43	\$477.82	N/A	N/A	Weekly	Weekly	Single
City of Pleasanton	Alameda	N/A	\$33.80	N/A	\$45.48	\$168.23	\$440.28	\$480.44	\$1,296.58	Weekly	Weekly	Dirty MRF
City of San Leandro	Alameda	\$22.84	\$28.46	\$47.37	\$66.26	\$124.78	\$377.23	\$377.23	\$1,131.68	Weekly	Weekly	Single
City of Union City <sup>10</sup>	Alameda	\$38.41	\$44.93	\$77.58	\$110.18	\$135.44	\$374.10	\$354.94	\$967.33	Weekly	Weekly	Single
Castro Valley Sanitary District	Alameda	\$24.54	\$38.07	\$66.10	\$94.17	\$270.29	\$810.98	\$719.20	\$2,015.49	Weekly	Weekly	Single
Oro Loma Sanitary District (L1)	Alameda	\$12.92	\$21.20	\$37.84	\$54.43	\$130.36	\$303.99	\$317.93	\$838.83	Bi-weekly	Weekly	Single
Oro Loma Sanitary District (L2) <sup>9</sup>	Alameda	\$11.17	\$19.45	\$36.09	\$52.68	\$130.36	\$303.99	\$317.93	\$838.83	Bi-weekly	Weekly	Single
Oro Loma Sanitary District (L3)	Alameda	\$14.20	\$23.85	\$16.26	\$62.30	\$150.80	\$351.71	\$367.89	\$970.62	Bi-weekly	Weekly	Single
City of Richmond	Contra Costa	\$27.42	\$33.32	\$63.39	\$94.32	\$220.94	\$558.96	\$501.75	\$1,371.68	Bi-weekly	Bi-weekly	Single
City of San Pablo	Contra Costa	\$23.69	\$28.84	\$55.95	\$83.86	\$219.89	\$554.10	\$505.02	\$1,379.20	Bi-weekly	Bi-weekly	Single
City of El Cerrito <sup>5</sup>	Contra Costa	\$32.40	\$43.00	\$86.40	N/A	\$287.87	\$799.37	N/A	N/A	Weekly	Weekly	Single
City of Hercules	Contra Costa	\$29.47	\$34.60	\$61.01	\$88.21	\$249.76	\$625.90	\$568.13	\$1,545.77	Bi-weekly	Bi-weekly	Single
City of Pinole	Contra Costa	\$27.94	\$33.11	\$58.91	\$85.50	\$247.85	\$626.97	\$572.72	\$1,567.90	Bi-weekly	Bi-weekly	Single
Unincorp.-West Contra Costa	Contra Costa	\$25.72	\$31.40	\$60.14	\$89.59	\$209.99	\$528.19	\$471.06	\$1,281.87	Bi-weekly	Bi-weekly	Single
Town of Fairfax	Marin	\$26.10	\$31.29	\$62.58	\$93.87	\$183.95	\$435.70	\$431.25	\$1,128.85	Weekly	Weekly	Dual stream
RVSD-N (Oak Manor)	Marin	\$23.82	\$38.29	\$77.37	\$117.13	\$207.60	\$622.90	\$622.90	\$1,868.75	Weekly	Weekly	Dual stream
RVSD-N (Sleepy Hollow)	Marin	\$24.59	\$39.54	\$79.86	\$120.91	\$207.60	\$622.90	\$622.90	\$1,868.75	Weekly	Weekly	Dual stream
Town of San Anselmo <sup>13</sup>	Marin	\$28.02	\$36.62	\$73.30	\$109.95	N/A	N/A	\$601.01	\$1,803.16	Weekly	Weekly	Dual stream
City of Belvedere <sup>5</sup>	Marin	\$37.42	\$46.25	\$78.47	\$110.69	\$205.43	\$567.46	N/A	N/A	Weekly	Weekly	Single
City of Novato <sup>4</sup>	Marin	\$12.09	\$19.33	\$38.64	\$57.98	N/A	N/A	\$251.87	\$624.95	Weekly	Weekly	Single
City of Sausalito <sup>5,7</sup>	Marin	N/A	\$36.90	\$73.80	\$110.74	\$145.95	\$437.84	N/A	N/A	Weekly	Bi-weekly	Single
Town of Tiburon <sup>5,7</sup>	Marin	\$34.59	\$39.02	\$71.05	\$102.54	\$185.67	\$506.76	N/A	N/A	Weekly	Weekly	Single
Town of Corte Madera <sup>5,7</sup>	Marin	\$27.61	\$32.47	\$65.11	\$97.75	\$151.87	\$409.79	N/A	N/A	Weekly	Weekly	Single
City of Mill Valley <sup>5,7</sup>	Marin	\$37.73	\$41.61	\$69.47	\$97.28	\$184.28	\$495.92	N/A	N/A	Weekly	Weekly	Single
City of San Rafael	Marin	\$28.80	\$33.88	\$67.76	\$101.64	N/A	N/A	\$418.55	\$1,165.80	Weekly	Weekly	Dual stream
Las Gallinas Valley San Dist- County	Marin	\$25.18	\$29.62	\$59.24	\$88.86	\$212.05	\$636.65	\$429.05	\$1,197.50	Weekly	Weekly	Dual stream
City of Larkspur <sup>6</sup>	Marin	\$31.64	\$37.22	\$74.44	\$111.66	\$236.30	\$708.70	\$474.57	\$1,244.38	Weekly	Weekly	Dual stream
Town of Ross	Marin	\$27.51	\$32.37	\$64.74	\$97.11	N/A	N/A	\$415.66	\$1,246.84	Weekly	Weekly	Dual stream
County (RVSD-S)	Marin	\$21.92	\$36.29	\$75.50	\$117.75	\$303.45	\$769.35	\$469.30	\$1,232.35	Weekly	Weekly	Dual stream
County - Marin Franchisors' Group	Marin	\$21.61	\$35.78	\$74.47	\$116.13	N/A	N/A	\$473.65	\$1,236.80	Weekly	Weekly	Dual stream
City of Campbell <sup>1</sup>	Santa Clara	\$19.00	\$24.79	\$49.58	\$74.37	\$123.93	\$375.33	\$247.86	\$750.66	Weekly	Weekly	Single

RethinkWaste Solid Waste Rate Survey  
April 2016

Jurisdiction	County	Res. Single-Family				Commercial				Service Info		
		20 Gallon	30-35Gal.	60-64Gal.	90-96Gal.	1YD Bin 1x/week	1YD Bin 3x/week	3YD Bin 1x/week	3YD Bin 3x/week	Rec. Freq.	YW Freq.	Sort
City of Cupertino <sup>1</sup>	Santa Clara	N/A	\$24.07	\$48.14	\$72.22	\$140.39	\$421.21	\$224.64	\$673.91	Weekly	Weekly	Single
City of Los Altos	Santa Clara	\$29.25	\$31.50	\$63.00	\$94.50	\$123.59	\$370.79	\$370.78	\$1,112.38	Weekly	Weekly	Single
City of Monte Sereno <sup>1</sup>	Santa Clara	\$22.06	\$28.77	\$57.54	\$86.30	\$169.24	\$512.63	\$338.48	\$1,025.26	Weekly	Weekly	Single
City of Mountain View	Santa Clara	\$18.20	\$26.60	\$53.20	\$79.80	\$122.15	\$366.05	\$345.55	\$996.15	Bi-weekly	Bi-weekly	Dual stream
City of Palo Alto	Santa Clara	\$24.30	\$43.75	\$87.51	\$131.26	\$170.04	\$523.20	\$416.38	\$1,322.17	Weekly	Weekly	Single
City of San Jose <sup>11</sup>	Santa Clara	N/A	\$32.07	\$64.14	\$96.21	\$166.41	\$476.53	\$499.23	\$1,429.59	Weekly	Weekly	Single
City of Santa Clara	Santa Clara	\$26.11	\$28.11	\$56.23	\$84.34	\$110.31	\$330.94	\$330.94	\$992.82	Weekly	Weekly	Single
City of Sunnyvale	Santa Clara	N/A	\$36.94	\$44.12	\$51.30	\$163.03	\$454.94	\$390.43	\$1,134.45	Weekly	Weekly	Multiple
City of Saratoga <sup>1</sup>	Santa Clara	\$20.42	\$26.63	\$53.26	\$79.89	\$175.06	\$530.50	\$350.13	\$1,061.01	Weekly	Weekly	Single
Town of Los Altos Hills	Santa Clara	\$27.95	\$38.97	\$77.96	\$116.92	\$98.13	\$206.66	\$153.56	\$359.07	Bi-weekly	Bi-weekly	Single
Town of Los Gatos <sup>4</sup>	Santa Clara	\$18.63	\$24.41	\$48.83	\$73.24	\$141.92	\$429.95	\$283.85	\$859.90	Weekly	Weekly	Single
Town of Atherton	San Mateo	\$27.00	\$55.00	\$110.00	\$164.00	\$200.00	\$600.00	\$550.00	\$1,650.00	Weekly	Weekly	Single
City of Belmont	San Mateo	\$21.19	\$35.17	\$71.67	\$112.30	\$195.96	\$605.43	\$594.47	\$1,801.27	Weekly	Weekly	Single
City of Burlingame	San Mateo	\$12.90	\$23.85	\$47.71	\$70.80	\$150.52	\$469.60	\$451.53	\$1,408.79	Weekly	Weekly	Single
City of East Palo Alto <sup>3</sup>	San Mateo	N/A	N/A	N/A	\$40.77	\$216.17	\$503.33	\$456.71	\$1,164.53	Weekly	Weekly	Single
City of Foster City	San Mateo	\$13.74	\$22.00	\$44.00	\$66.00	\$105.53	\$321.60	\$316.59	\$964.78	Weekly	Weekly	Single
Town of Hillsborough <sup>14</sup>	San Mateo	\$41.30	\$50.80	\$78.90	\$111.80	\$132.00	\$404.38	\$396.00	\$1,214.64	Weekly	Weekly	Single
City of Menlo Park	San Mateo	\$13.99	\$23.40	\$55.99	\$83.72	\$124.69	\$389.04	\$374.08	\$1,219.00	Weekly	Weekly	Single
No. Fair Oaks	San Mateo	\$27.31	\$27.31	\$27.31	\$84.14	\$161.11	\$483.32	\$483.32	\$1,449.96	Weekly	Weekly	Single
City of Redwood City	San Mateo	\$11.38	\$27.30	\$54.61	\$81.06	\$127.63	\$382.89	\$382.89	\$1,148.67	Weekly	Weekly	Single
City of San Carlos	San Mateo	\$20.87	\$31.18	\$52.23	\$68.45	\$121.48	\$379.00	\$378.88	\$1,137.01	Weekly	Weekly	Single
City of San Mateo <sup>15</sup>	San Mateo	\$13.18	\$21.08	\$46.41	\$72.05	\$140.97	\$435.58	\$423.01	\$1,306.79	Weekly	Weekly	Single
Unincorporated County	San Mateo	\$30.21	\$35.90	\$61.95	\$88.00	\$226.22	\$526.73	\$477.99	\$1,218.73	Weekly	Weekly	Single
West Bay Sanitary District	San Mateo	\$23.30	\$37.60	\$73.70	\$110.00	\$227.81	\$683.42	\$481.45	\$1,444.35	Weekly	Weekly	Single
50th Percentile		\$25.00	\$33.04	\$62.58	\$88.82	\$162.07	\$452.92	\$418.80	\$1,216.69			
75th Percentile		\$29.14	\$38.06	\$73.50	\$109.96	\$205.97	\$555.32	\$479.83	\$1,377.32			
<b>SBWMA Average</b>		\$21.36	<b>\$32.55</b>	\$60.37	\$88.70	\$163.85	\$475.72	\$443.61	\$1,317.58			
<b>All City Average</b>		\$25.06	<b>\$33.14</b>	\$61.01	\$89.11	\$168.81	\$478.53	\$417.97	\$1,210.10			

<sup>1</sup> 1 cubic yard containers not available. Rates reflected are for 1.5 cubic yards.

<sup>2</sup> City has one rate for unlimited residential solid waste collection from customer-provided containers

<sup>3</sup> 96 gallon cart is the only available option for Residential.

<sup>4</sup> Smallest commercial bin is 2 cubic yards.

<sup>5</sup> Largest commercial bin is 2 cubic yards.

<sup>6</sup> One cubic yard bin is no longer offered to new customers.

<sup>7</sup> Rate is for 1, 2, and 3 30 gallon cans in lieu of 60 and 90 gallon cans.

<sup>8</sup> Berkeley's District 3 pays a fire surcharge on Residential rates.

<sup>9</sup> OLSD L2 district doesn't provide recycling services to residents. Recycling rates are included in rate for L1 & L3.

<sup>10</sup> Recycling provided by Tri-CED.

<sup>11</sup> San Jose residential rate includes loose, in the street yard trimmings; commercial rate is for wet service.

<sup>12</sup> The Newark rate does not include an ACWMA Benchmark Service Information Fee which is included as a separate line item Republic's invoice.

<sup>13</sup> San Anselmo offers a very low rate for "Intensive Recycling (20 gallon cart Every Other Week -EOW) rate.

<sup>14</sup> Hillsborough includes an additional \$25.00 that is billed on the property tax role.

<sup>15</sup> San Mateo includes an additional Landfill Closure fee and Street Sweeping Fee.

# REVIEW OF CURRENT COLLECTIONS OPERATIONS COSTS





## Assessment of Recology's Costs as of 3/31/16

The SBWMA engaged Sloan Vasquez McAfee (SVM), to assess Recology's 2016 costs and to develop a pro forma that provides a cost of service analysis of Recology's cost to deliver services required by their agreement with the SBWMA. The pro forma was used to validate Recology's cost of service for reasonableness.

SVM's pro forma is similar to a financial model that could be used to bid a solid waste and recycling collection contract. SVM used Recology's 2016 Actual Costs as of 3/31/2016 to develop the pro forma. Recology calculates these costs using 6 months actual costs (October 2015 through March 2016) and projects the remaining 6 months. Where Recology did not provide information, SVM developed estimates based on accounting and financial principles, and their extensive experience and knowledge of the waste industry.

As a secondary step, a peer review was performed of the SVM pro forma by R.J. Proto Consulting Group (RJP) in order to evaluate its reasonableness. After this review, RJP provided findings to SVM, who then developed a restated pro forma, which included the findings. A final step was performed by SVM who provided feedback on the new results. The following outlines the findings.

### Bottom Line—Total Annual Cost of Operations

***The Total Annual Cost of Operations variance between the SVM original and restated pro formas and Recology's Actual Costs as of 3/31/16 ranges between -5.5% to -1.8%. This variance is within a reasonable margin of error for this type of analysis.***

### Original Pro Forma

RJP reviewed the SVM pro forma and found it to be a well-developed complex model, drawing numbers, formulas, and calculations from multiple interactive worksheets. According to the analysis, there is a slight difference between the SVM pro forma and Recology's 2016 costs as of 3/31/16.

The Total Annual Cost of Operations variance between the SVM pro forma and Recology's 2016 Actual Costs as of 3/31/16 is -5.5%, meaning the SVM pro forma costs were 5.5% lower than Recology's costs. This variance is within a reasonable margin of error for this type of analysis.

The original pro forma highlighted two main variances: Other Direct Costs and Depreciation.

- **Other Direct Costs:** There is slightly more than \$1 million variance between the SVM pro forma and Recology's 2016 actual costs. Recology provided Equipment Operations and Maintenance (Equipment O&M) detail, which included fuel and maintenance costs. Using Recology's Equipment O&M detail, SVM was within -3% of the fuel number, but fell short on maintenance by more than \$1 million. Recology did not provide sufficient detail for SVM to verify Recology's \$2,291,232 maintenance costs. Discussing this with SVM, Recology will need to provide more Equipment O&M detail or they should explain the \$1 million variance.

- Depreciation: Recology calculates depreciated using all the equipment purchased at the beginning of the contract over a 9 year period, the same as the pro forma. However, Recology, has purchased new trucks and containers since the contract started. These new assets are depreciated from the date of purchase to the end of the remaining life of the contract, a shorter time period, which increases depreciation and calculates it differently than the pro forma. In addition, Recology's 2016 Actual Costs report vehicle and containers as leasing costs from Recology, Incorporated. The SVM pro forma assumes depreciation costs and interest expense based on the current asset listing.

Overall, SVM's Original Pro Forma reasonably compares to Recology's 2016 Actual Costs as of 3/31/16, considering the differences listed above.

### **Restated Pro Forma**

After the initial review of the SVM pro forma by RJP, findings were provided to SVM. These findings included:

- Holiday pay calculated at two times the regular wage compared to three times the regular wage as listed in Recology's Collective Bargaining Agreement (CBA) with the Teamsters Union.
- The original pro forma did not include all the pension benefits listed in the CBA. In addition, there was a seven vehicle and a three person headcount difference.

The last two items may be due to a timing difference. RJP used Recology's 2016 Annual Report submitted to the SBWMA, which includes the full year of truck and head counts. SVM used the truck and head counts Recology provided for 2016 as of March 31, 2016 which includes six months actuals and six months projected.

The restated pro forma also highlighted two main variances:

- Total Direct Labor: The increase in Total Direct Labor was due to the increases in holiday pay, pension benefits, and to a lesser extent, headcount.
- Total Allocated Costs: The increase in Total Allocated Cost is directly related to the increase in the General and Administrative Expenses (G&A) and the method SVM used to calculate it. Recology did not provide sufficient detail for SVM to verify Recology's G&A costs. SVM estimated G&A by grossing up Recology's Total Costs by 15%. SVM gave Recology credit for the \$4 million they provided detail for (CBA and Non-CBA Clerical indirect labor and related costs). SVM used their own calculation to estimate CBA and Non-CBA Clerical indirect labor and related costs. The restated pro forma substantially increased total direct labor, which increased G&A costs.

SVM used these findings to make changes to the original pro forma, developing a restated pro forma. SVM then reviewed the results from the restated pro forma and claimed that adding the findings was too aggressive. SVM believes they captured the pension costs in other ways because the variance in Total Direct Labor Related Costs in the Original Pro Forma only 0.5%, or \$146,000 more than Recology Actual costs. SVM also attributed some of the other findings to timing differences.

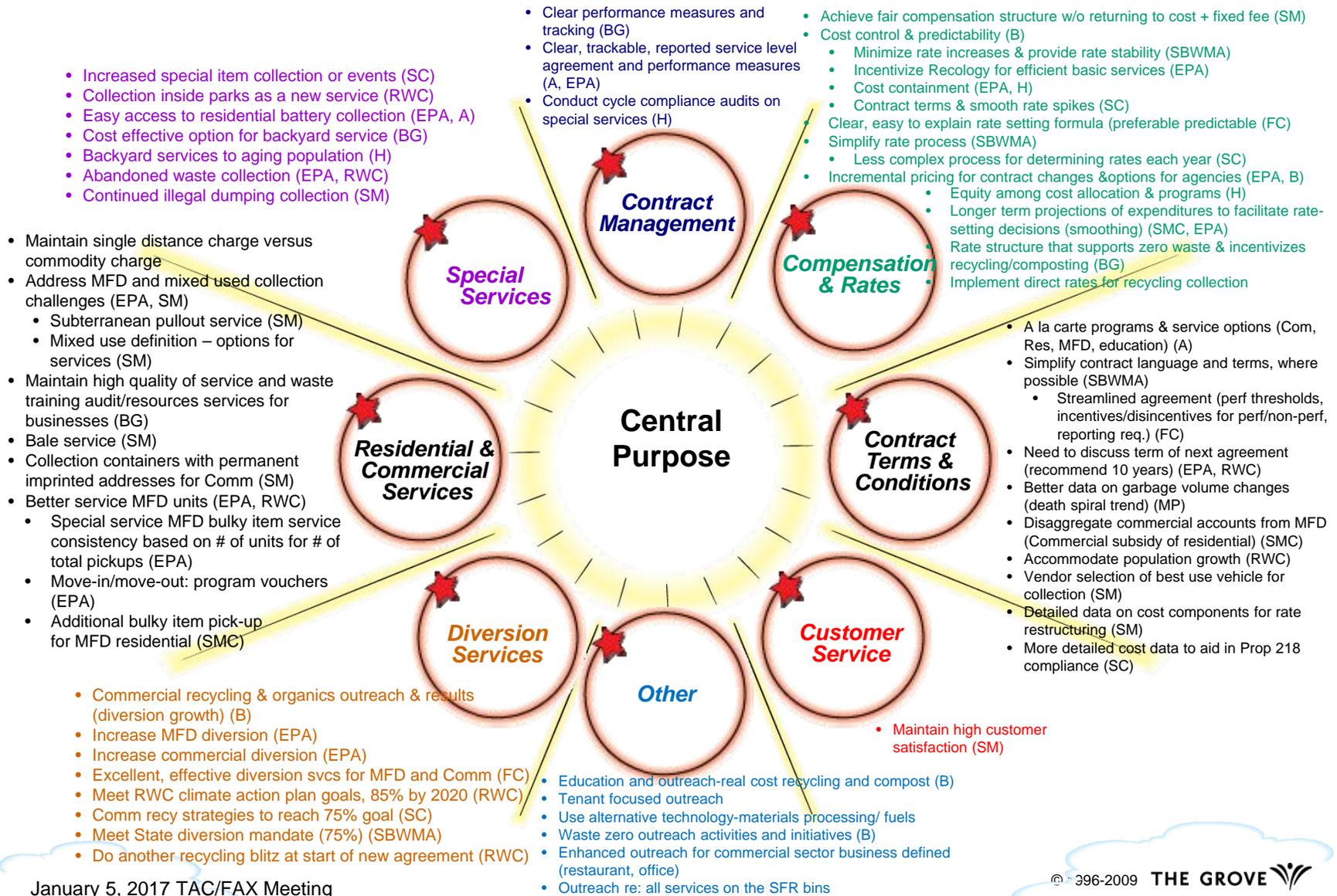
The Restated Pro Forma has a variance of -1.8% meaning the SVM pro forma costs were 1.8% lower than Recology's 2016 actual costs as of 3/31/16. This variance is within a reasonable margin of error for this type of analysis.

# TAC/FAX CONTEXT MAP AND MANDALA VISIONING



# Rethink Waste (SBWMA) Future Franchise Goals

**Legend:** Atherton (A) Belmont (B) Burlingame (BG) East Palo Alto (EPA), Foster City (FC) Hillsborough (H) Menlo Park (MP) Redwood City (RWC), San Carlos (SC) San Mateo (SM) San Mateo County (SMC), West Bay Sanitary District (WB)



January 5, 2017 TAC/FAX Meeting

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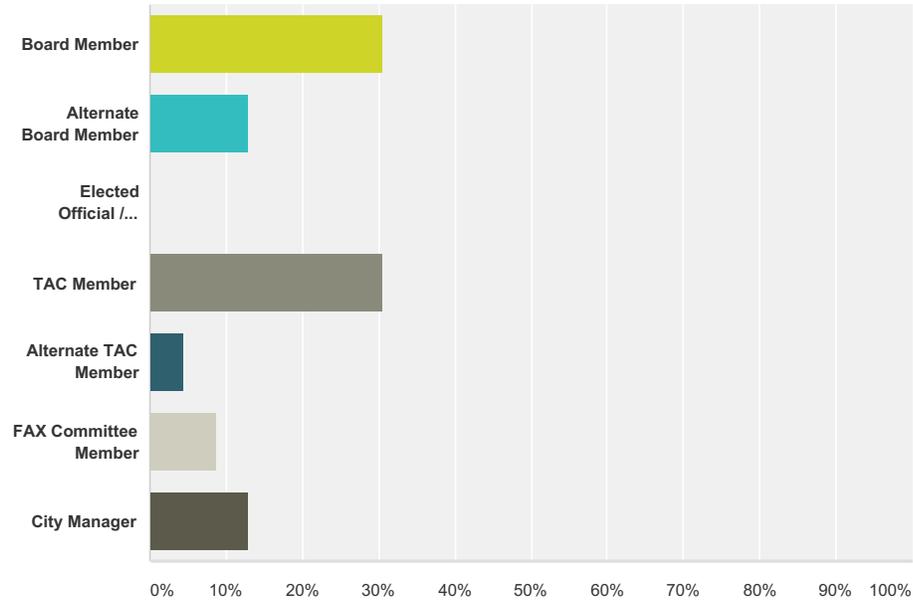


# SBWMA MEMBER AGENCY INPUT SURVEY: GARBAGE & RECYCLING COLLECITON SERVICES



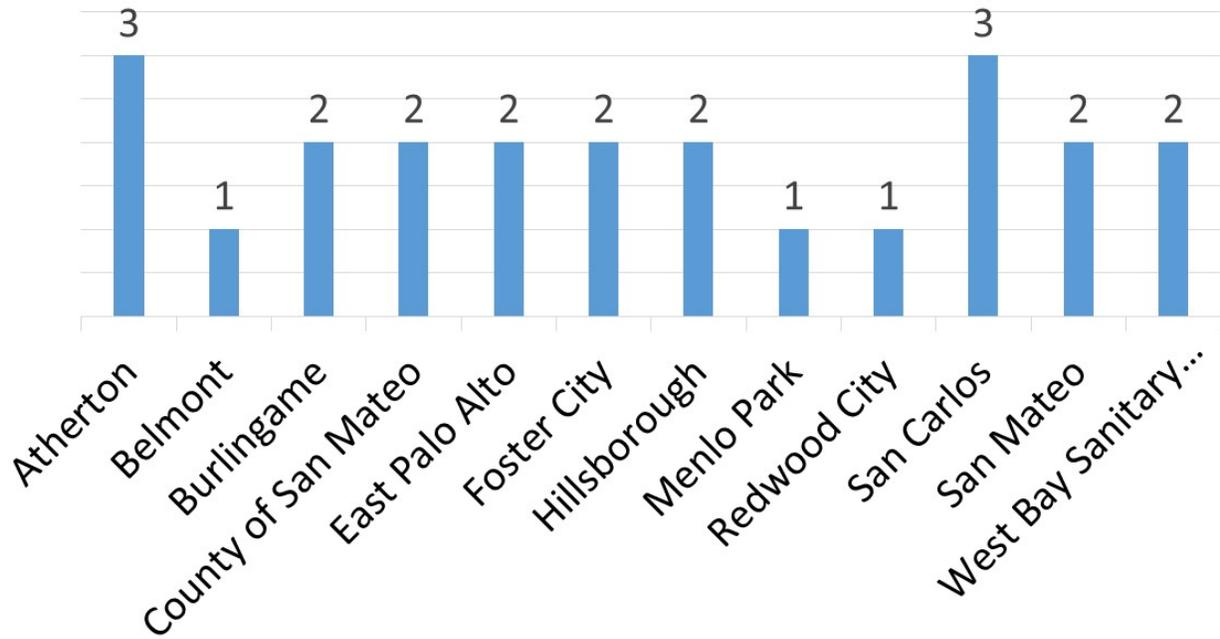
### Q1 What is your role with the SBWMA?

Answered: 23 Skipped: 0



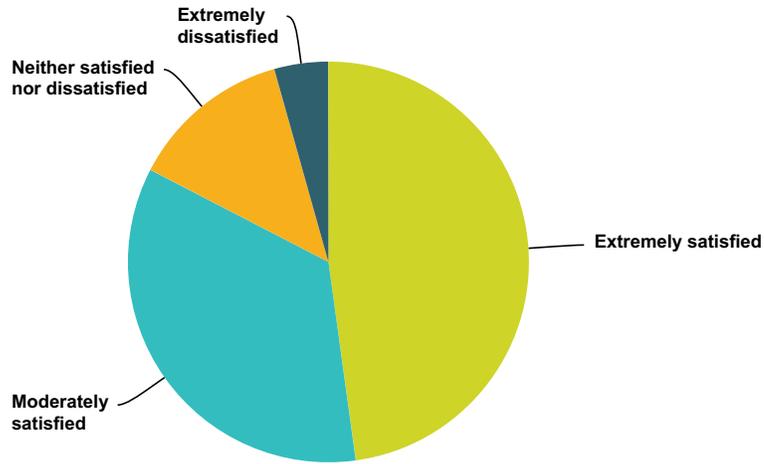
Answer Choices	Responses
Board Member	30.43% 7
Alternate Board Member	13.04% 3
Elected Official / Council Member	0.00% 0
TAC Member	30.43% 7
Alternate TAC Member	4.35% 1
FAX Committee Member	8.70% 2
City Manager	13.04% 3
<b>Total</b>	<b>23</b>

## Q2. Which jurisdiction do you represent?



### Q3 How satisfied are you with Recology's Collection Services?

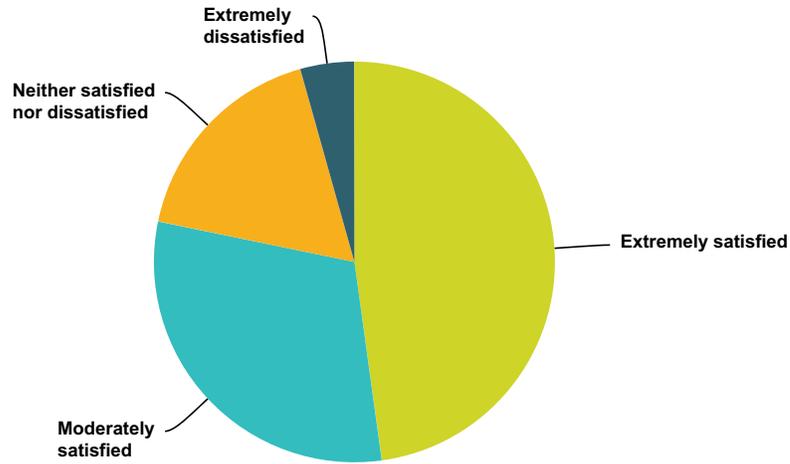
Answered: 23 Skipped: 0



Answer Choices	Responses	
Extremely satisfied	47.83%	11
Moderately satisfied	34.78%	8
Neither satisfied nor dissatisfied	13.04%	3
Moderately dissatisfied	0.00%	0
Extremely dissatisfied	4.35%	1
<b>Total</b>		<b>23</b>

### Q4 How satisfied are you with Recology's Customer Service?

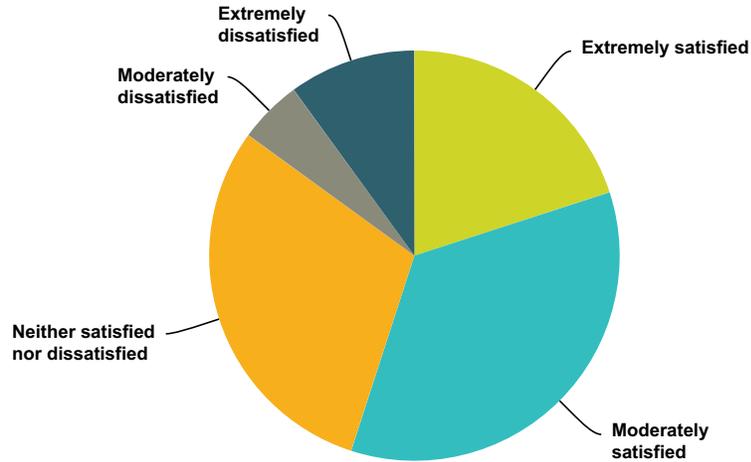
Answered: 23 Skipped: 0



Answer Choices	Responses	
Extremely satisfied	47.83%	11
Moderately satisfied	30.43%	7
Neither satisfied nor dissatisfied	17.39%	4
Moderately dissatisfied	0.00%	0
Extremely dissatisfied	4.35%	1
<b>Total</b>		<b>23</b>

### Q5 How satisfied are you with the Abandoned Waste/Illegal Dumping collection provided by Recology?

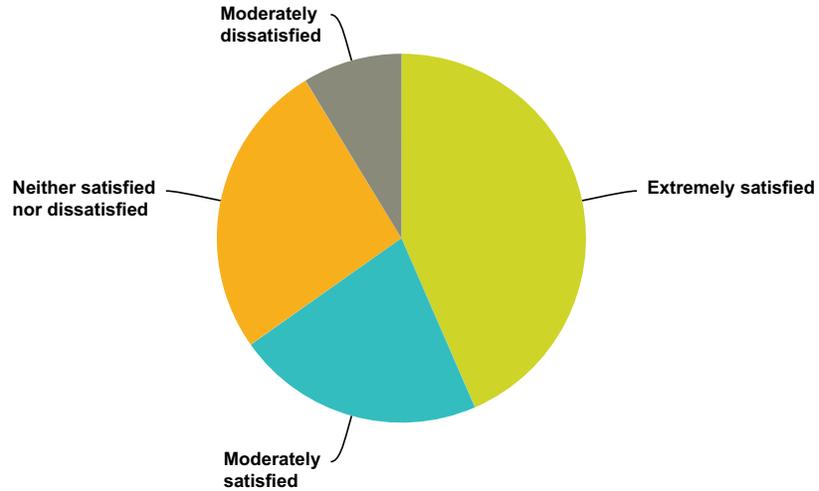
Answered: 20 Skipped: 3



Answer Choices	Responses	Count
Extremely satisfied	20.00%	4
Moderately satisfied	35.00%	7
Neither satisfied nor dissatisfied	30.00%	6
Moderately dissatisfied	5.00%	1
Extremely dissatisfied	10.00%	2
<b>Total</b>		<b>20</b>

### Q6 How satisfied are you with the Bulky Item Collection program provided by Recology?

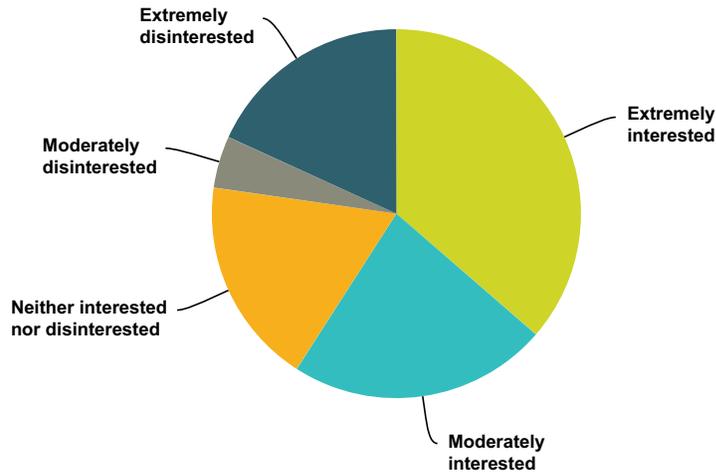
Answered: 23 Skipped: 0



Answer Choices	Responses	
Extremely satisfied	43.48%	10
Moderately satisfied	21.74%	5
Neither satisfied nor dissatisfied	26.09%	6
Moderately dissatisfied	8.70%	2
Extremely dissatisfied	0.00%	0
<b>Total</b>		<b>23</b>

**Q7 How interested would you be in expanding the Bulky Item Collection program for Multi-Family Dwellings if there was an (yet to be determined) additional cost?**

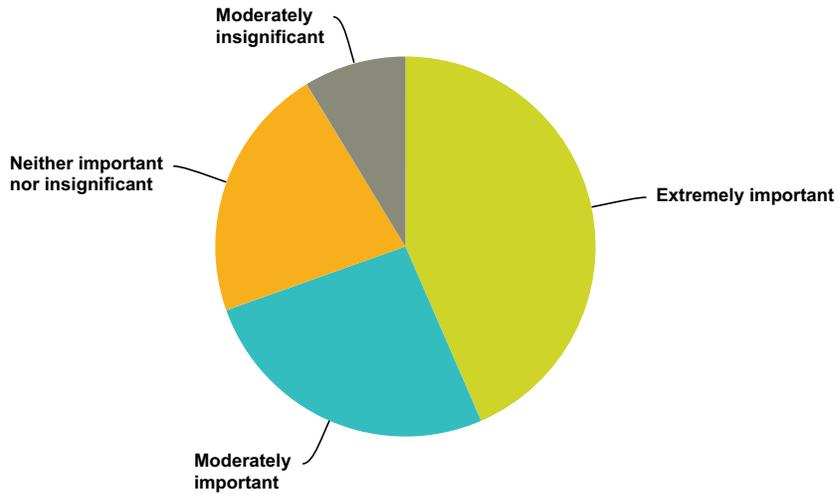
Answered: 22 Skipped: 1



Answer Choices	Responses
Extremely interested	36.36% 8
Moderately interested	22.73% 5
Neither interested nor disinterested	18.18% 4
Moderately disinterested	4.55% 1
Extremely disinterested	18.18% 4
<b>Total</b>	<b>22</b>

**Q8 The current program includes the curbside pickup of Household Batteries and Mobile Phones. How important is it to your jurisdiction to have curbside pickup of Household Batteries & Mobile Phones?**

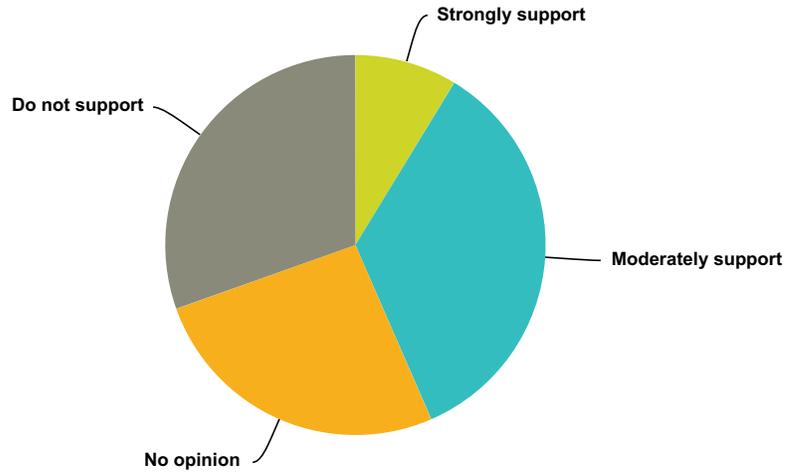
Answered: 23 Skipped: 0



Answer Choices	Responses	
Extremely important	43.48%	10
Moderately important	26.09%	6
Neither important nor insignificant	21.74%	5
Moderately insignificant	8.70%	2
Extremely insignificant	0.00%	0
<b>Total</b>		<b>23</b>

### Q9 Would you support additional charges for commercial & Multi-Family Dwelling accounts requesting special weekend service?

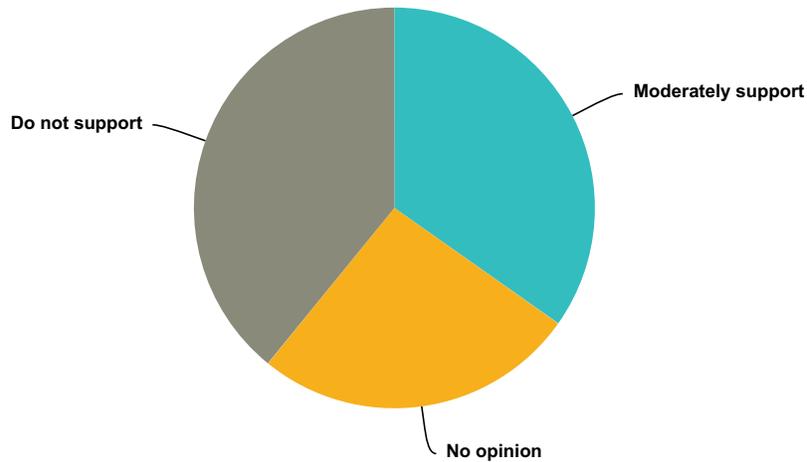
Answered: 23 Skipped: 0



Answer Choices	Responses	
Strongly support	8.70%	2
Moderately support	34.78%	8
No opinion	26.09%	6
Do not support	30.43%	7
<b>Total</b>		<b>23</b>

**Q10 Would you support additional charges for residential Backyard Service of recycling and organics containers?**

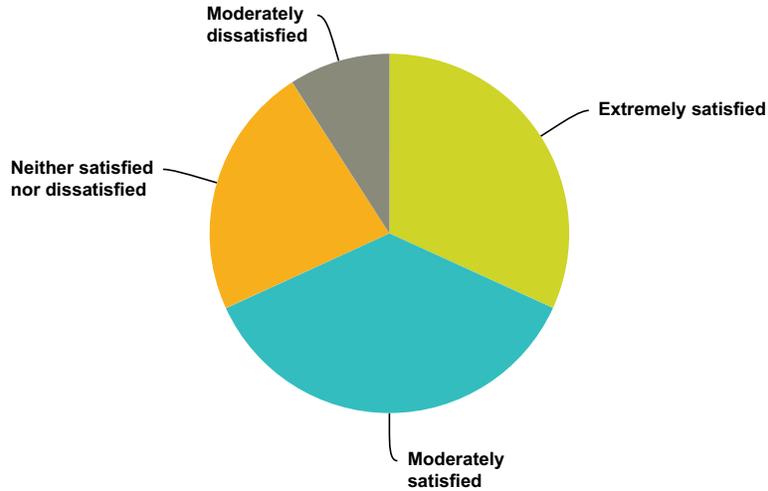
Answered: 23 Skipped: 0



Answer Choices	Responses	
Strongly support	0.00%	0
Moderately support	34.78%	8
No opinion	26.09%	6
Do not support	39.13%	9
<b>Total</b>		<b>23</b>

### Q11 How satisfied are you with the recycling programs in your Member Agency?

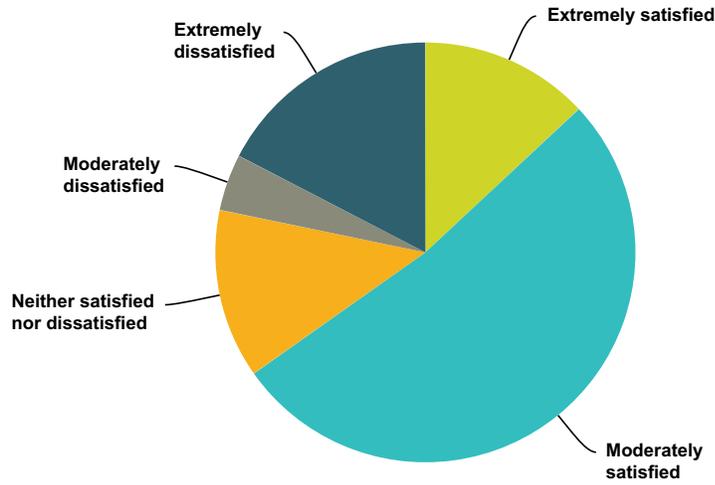
Answered: 22 Skipped: 1



Answer Choices	Responses	
Extremly satisfied	31.82%	7
Moderately satisfied	36.36%	8
Neither satisfied nor dissatisfied	22.73%	5
Moderately dissatisfied	9.09%	2
Extremly dissatisfied	0.00%	0
<b>Total</b>		<b>22</b>

### Q12 How satisfied are you with the outreach efforts provided by Recology?

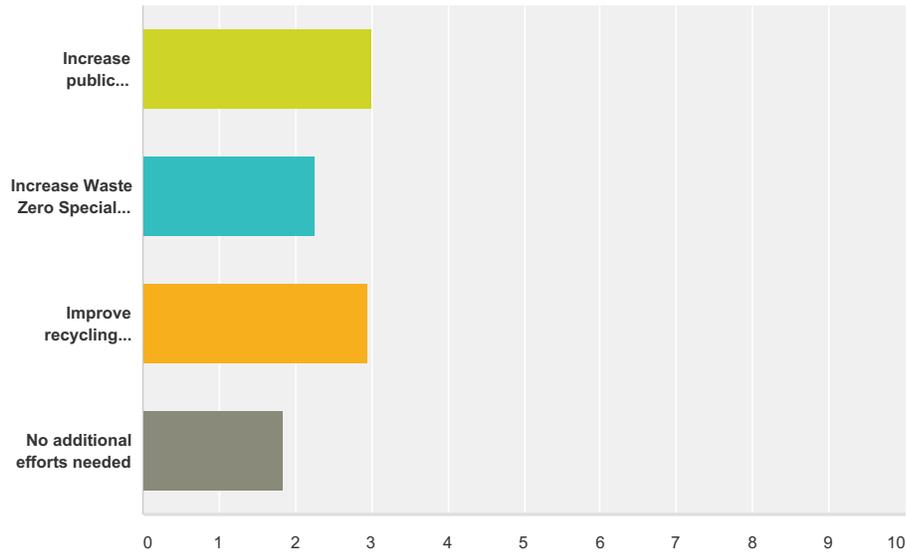
Answered: 23 Skipped: 0



Answer Choices	Responses	
Extremely satisfied	13.04%	3
Moderately satisfied	52.17%	12
Neither satisfied nor dissatisfied	13.04%	3
Moderately dissatisfied	4.35%	1
Extremely dissatisfied	17.39%	4
<b>Total</b>		<b>23</b>

**Q13 How important are these four program elements to the future collection services in your jurisdiction? Please indicate your preference by rating on a scale of 1-4 (1 being most favorable).**

Answered: 23 Skipped: 0



	1	2	3	4	Total	Score
Increase public education and awareness	30.43% 7	47.83% 11	13.04% 3	8.70% 2	23	3.00
Increase Waste Zero Specialist outreach activities	5.00% 1	35.00% 7	40.00% 8	20.00% 4	20	2.25
Improve recycling facility to capture more recyclables	50.00% 11	9.09% 2	27.27% 6	13.64% 3	22	2.95
No additional efforts needed	21.05% 4	5.26% 1	10.53% 2	63.16% 12	19	1.84

**Q14 Please add other comments regarding  
service or contract that you would like  
considered during the negotiation with  
Recology**

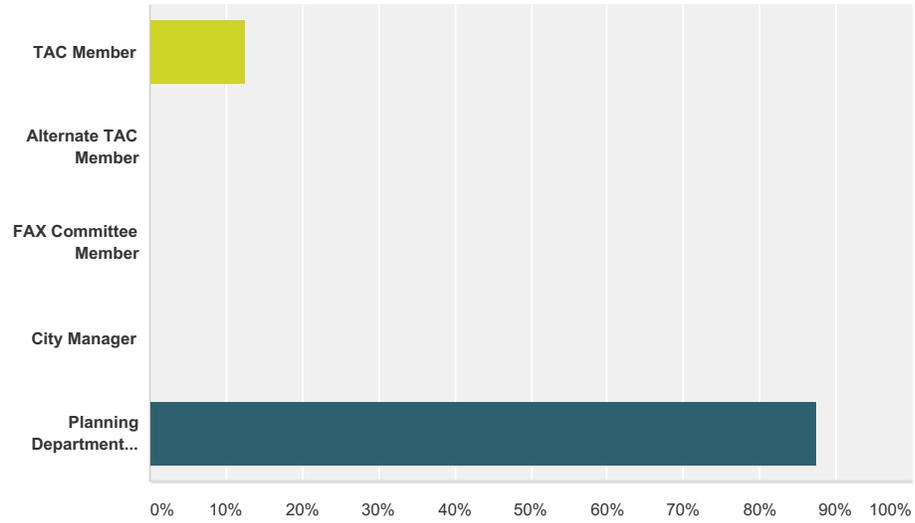
Answered: 15 Skipped: 8

# SBWMA MEMBER AGENCY PROJECTED GROWTH RATE SURVEY

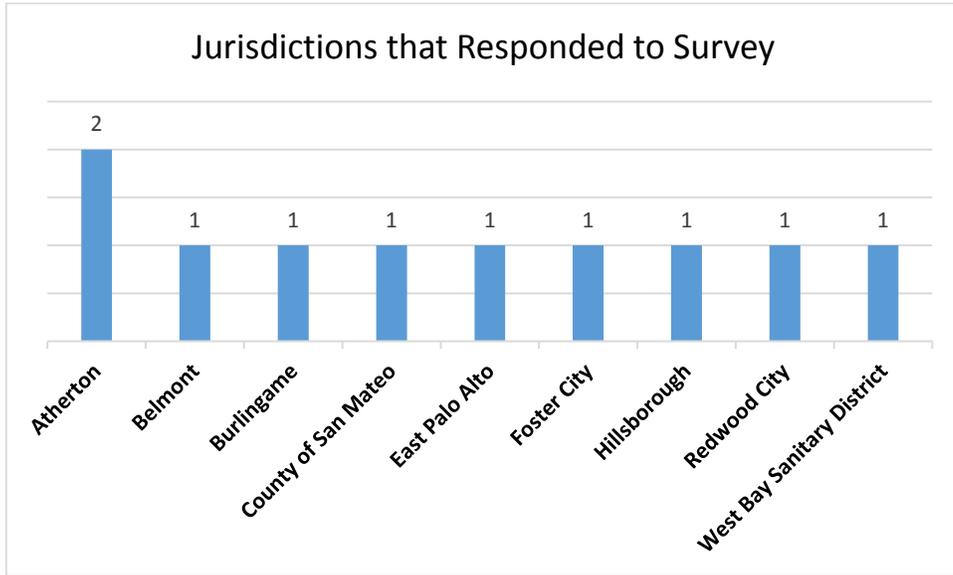


### Q1 What is your role with the SBWMA?

Answered: 8 Skipped: 2

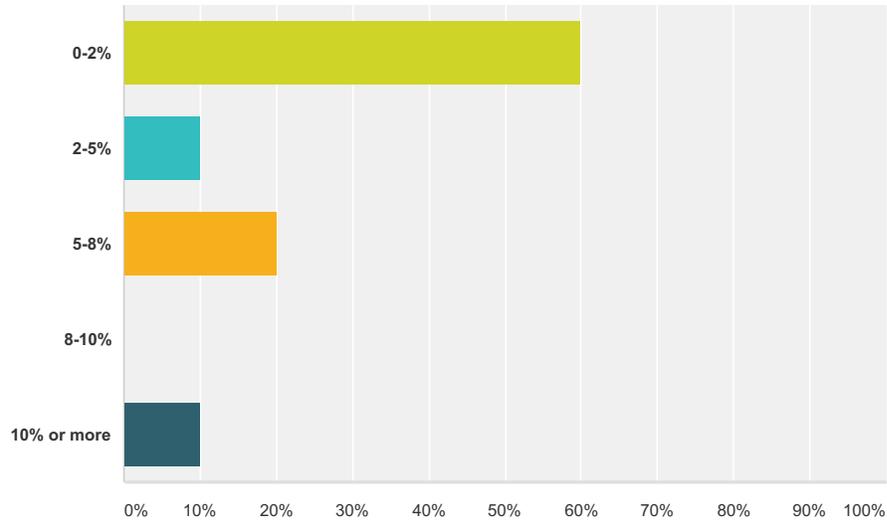


Answer Choices	Responses
TAC Member	12.50% 1
Alternate TAC Member	0.00% 0
FAX Committee Member	0.00% 0
City Manager	0.00% 0
Planning Department Staff	87.50% 7
<b>Total</b>	<b>8</b>



### Q3 On average, what was the population growth rate from 2010 to 2016?

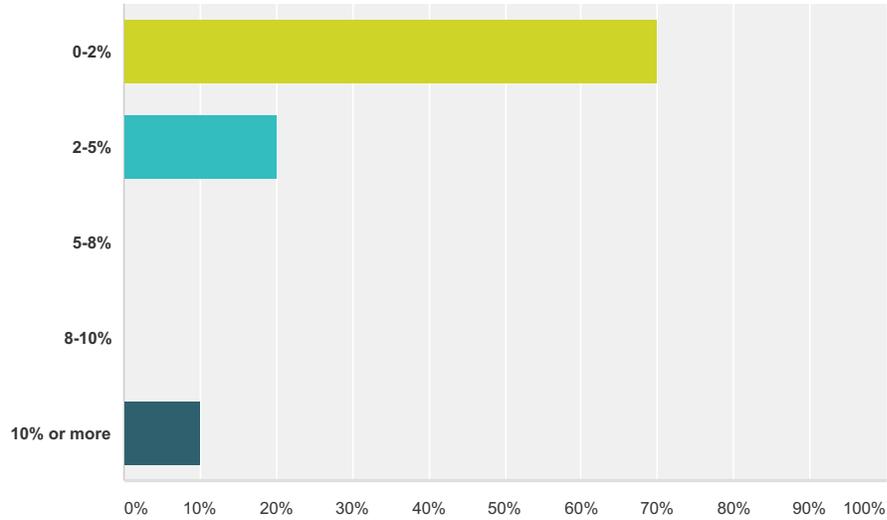
Answered: 10 Skipped: 0



Answer Choices	Responses	Count
0-2%	60.00%	6
2-5%	10.00%	1
5-8%	20.00%	2
8-10%	0.00%	0
10% or more	10.00%	1
<b>Total</b>		<b>10</b>

**Q4 On average, what is the anticipated population growth rate each year from 2020 to 2030?**

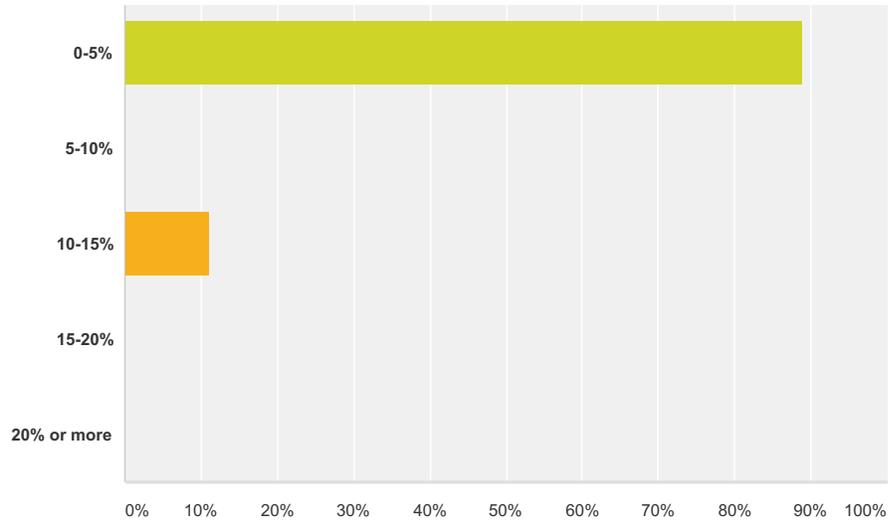
Answered: 10 Skipped: 0



Answer Choices	Responses	
0-2%	70.00%	7
2-5%	20.00%	2
5-8%	0.00%	0
8-10%	0.00%	0
10% or more	10.00%	1
<b>Total</b>		<b>10</b>

### Q5 What is your current unemployment rate?

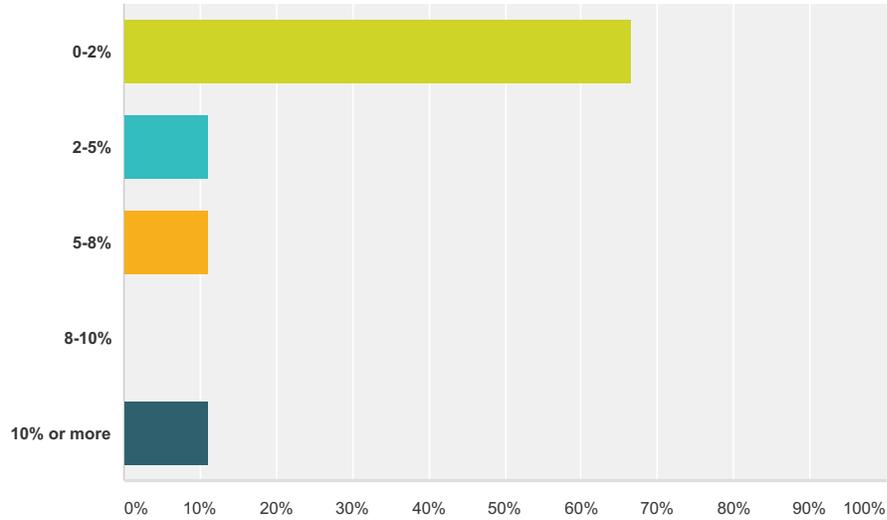
Answered: 9 Skipped: 1



Answer Choices	Responses	Count
0-5%	88.89%	8
5-10%	0.00%	0
10-15%	11.11%	1
15-20%	0.00%	0
20% or more	0.00%	0
<b>Total</b>		<b>9</b>

**Q6 On average, what was the commercial growth rate (based on square footage) from 2010 to 2016?**

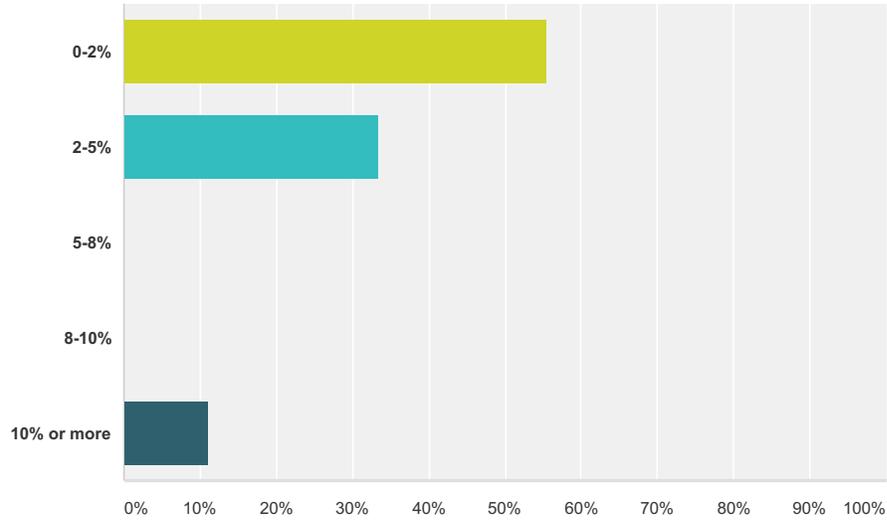
Answered: 9 Skipped: 1



Answer Choices	Responses
0-2%	66.67% 6
2-5%	11.11% 1
5-8%	11.11% 1
8-10%	0.00% 0
10% or more	11.11% 1
<b>Total</b>	<b>9</b>

**Q7 On average, what is the anticipated commercial growth rate (based on square footage) each year from 2020 to 2030?**

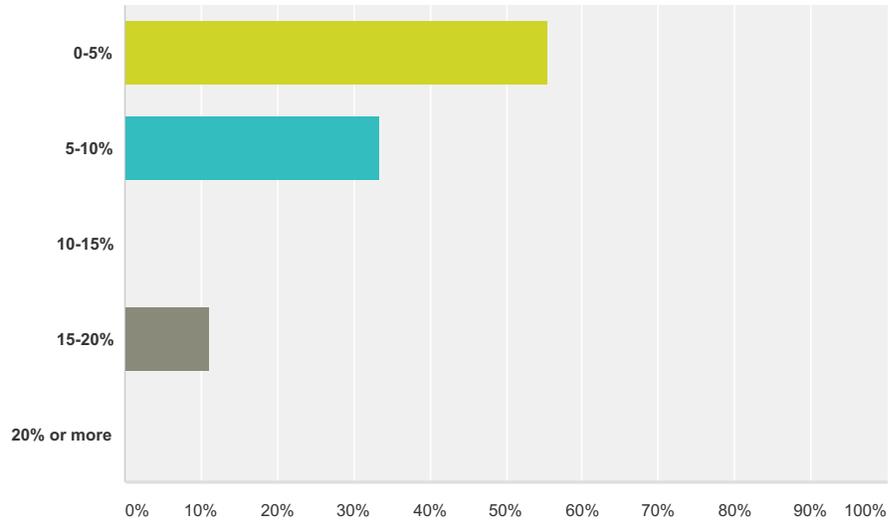
Answered: 9 Skipped: 1



Answer Choices	Responses
0-2%	55.56% 5
2-5%	33.33% 3
5-8%	0.00% 0
8-10%	0.00% 0
10% or more	11.11% 1
<b>Total</b>	<b>9</b>

### Q8 What is your current commercial vacancy rate?

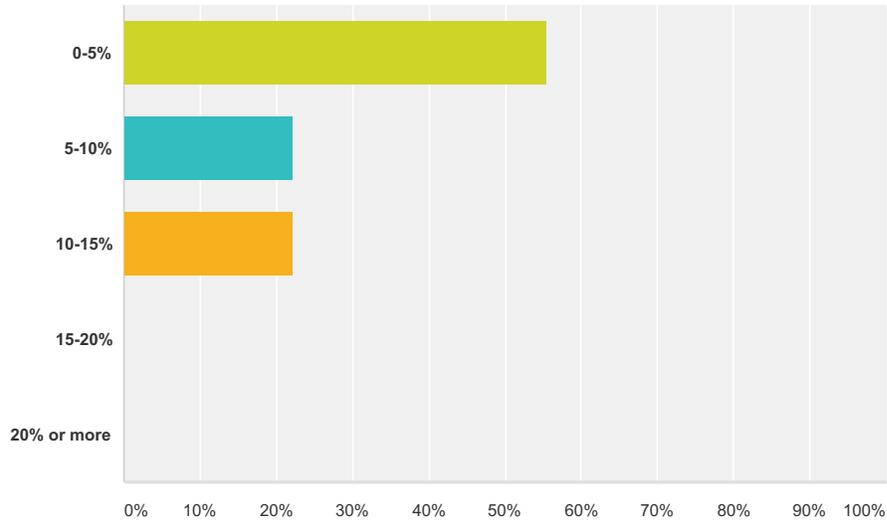
Answered: 9 Skipped: 1



Answer Choices	Responses	
0-5%	55.56%	5
5-10%	33.33%	3
10-15%	0.00%	0
15-20%	11.11%	1
20% or more	0.00%	0
<b>Total</b>		<b>9</b>

### Q9 What is your anticipated commercial vacancy rate each year from 2020 to 2030?

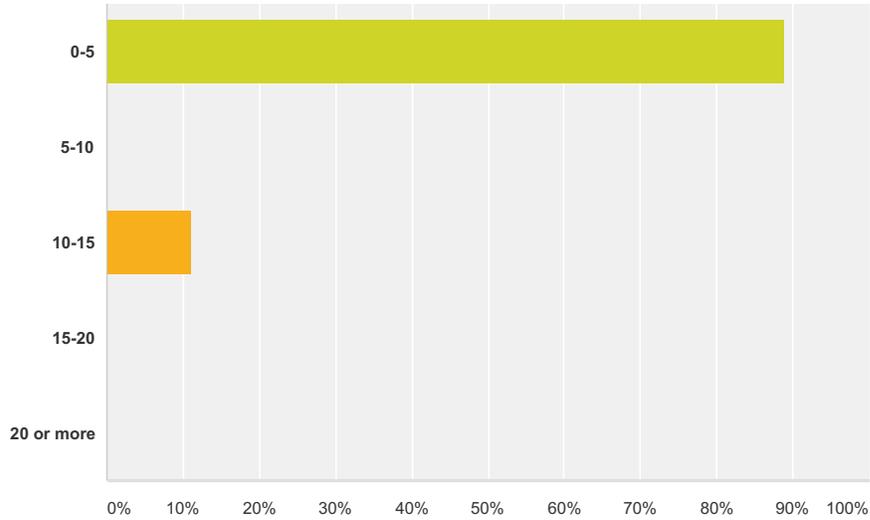
Answered: 9 Skipped: 1



Answer Choices	Responses	Count
0-5%	55.56%	5
5-10%	22.22%	2
10-15%	22.22%	2
15-20%	0.00%	0
20% or more	0.00%	0
<b>Total</b>		<b>9</b>

**Q10 On average, how many Mixed Use buildings have been developed from 2010 to 2016?**

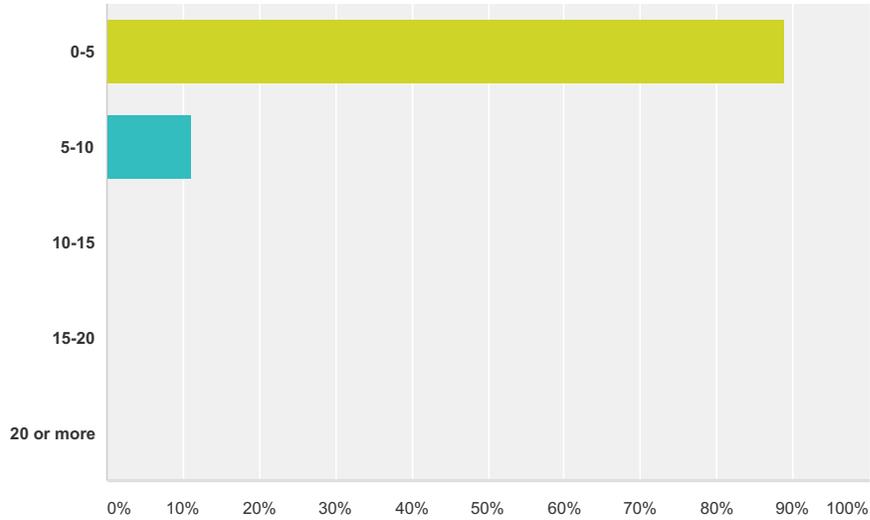
Answered: 9 Skipped: 1



Answer Choices	Responses	Count
0-5	88.89%	8
5-10	0.00%	0
10-15	11.11%	1
15-20	0.00%	0
20 or more	0.00%	0
<b>Total</b>		<b>9</b>

**Q11 On average, what is the anticipated number of Mixed Use buildings to be developed each year from 2017 to 2030?**

Answered: 9 Skipped: 1



Answer Choices	Responses	
0-5	88.89%	8
5-10	11.11%	1
10-15	0.00%	0
15-20	0.00%	0
20 or more	0.00%	0
<b>Total</b>		<b>9</b>

**Q12 Please add other comments that you would like for SBWMA to know about the current and potential growth within your city.**

Answered: 5 Skipped: 5

# SECTION-BY-SECTION SUMMARY OF PROPOSED FRANCHISE AGREEMENT CHANGES



## SBWMA/Recology Model Franchise Agreement Summary of Modifications as of April 6, 2017

Reference	Section Description	Modifications to Model Agreement
<b>Entire Document</b>		<ul style="list-style-type: none"> <li>• Changed “Authority” to SBWMA to be consistent with current use of names.</li> <li>• Integrated changes pursuant to the 2013 First Amendment to the current franchise agreement (2009 Franchise Agreement).</li> </ul>
<b>Recitals</b>		<ul style="list-style-type: none"> <li>• Added several recitals describing the process for Amending and Restating the Agreement.</li> <li>• Identified a 15-year term for amended and restated Agreement (in addition to the original 10-year term of the current franchise).</li> <li>• Included references to recent State regulations/legislation (e.g., AB 341, AB 1826, SB 1383).</li> </ul>
<b>2.09</b>	<b>Statements and Information In Proposal</b>	Amended this Section to reference Contractor’s proposal submitted as part of this process to amend and restate the Agreement rather than referencing the original 2008 proposal.
<b>2.10</b>	<b>Iran Contracting Certification</b>	Added a new Section for Contractor’s certification related to the Iran Contracting Act of 2010 (California Public Contract Code Section 2203 of the Iran Contracting Act of 2010).
<b>3.01</b>	<b>Effective Date</b>	Amended Effective date to June 30, 2018, which is the date the Agreement becomes binding and enforceable provided that all conditions set forth in Sections 3.04.A and 3.04.B have been satisfied or waived. Note that the services do not commence until January 1, 2021.
<b>3.02</b>	<b>Term</b>	<ul style="list-style-type: none"> <li>• Defined the term of the amended and restated Agreement to be 15 years in addition to the 10-year term of the current 2009 Franchise Agreement for a total of 25 years.</li> <li>• Described that the 2009 Franchise Agreement will govern through December 31, 2020, and that the amended and restated Agreement will govern from and after January 1, 2021.</li> </ul>
<b>3.03</b>	<b>Extension of Term</b>	<ul style="list-style-type: none"> <li>• Added provision allowing an extension of up to 5 years (for a total maximum term of 30 years) at Agency’s discretion, but subject to Contractor’s consent.</li> <li>• Specified that if parties do not mutually agree on an extension, an extension of up to 1 year at Agency’s sole discretion will be allowed. The extension would be subject to a meet and confer if Contractor is experiencing a net financial loss in operations under the Agreement.</li> <li>• Indicated that a three year noticing period is required if Agency wants to extend the Term.</li> </ul>
<b>3.04A</b>	<b>Conditions to Effectiveness of Agreement</b>	Removed requirement for Contractor to provide a performance bond on June 30, 2018 because Contractor has a valid bond in place under the 2009 Franchise Agreement. Note that a performance bond is required on the Commencement Date (January 1, 2021) pursuant to Section 13.03.
<b>4.02</b>	<b>Limitations to Scope</b>	Amended language to include Recyclable Materials and Organic Materials as materials that may be handled by Persons other than the Contractor when the removal of such materials is an incidental service to landscaping and construction-related services.
<b>5.01</b>	<b>General Collection Services</b>	Amended language as follows: “...new programs that may impact the overall quantity or composition of Solid Waste, <u>Targeted Recyclable Materials, and/or Organic Materials</u> to be Collected by Contractor.”
<b>5.02.A</b>	<b>Single-Family Solid Waste Collection Service</b>	<ul style="list-style-type: none"> <li>• Modified language to generally provide additional clarity and improve organization of the content.</li> <li>• Included language that allows Contractor, on an annual basis, to request reverification of Special Handling Service eligibility from Customer.</li> </ul>

Reference	Section Description	Modifications to Model Agreement
5.02.B	<b>Multi-Family Solid Waste Service</b>	<ul style="list-style-type: none"> <li>Modified language to generally provide additional clarity and improve organization of the content.</li> <li>Amended language regarding the service requirements to be provided at no cost to Customers and Long Distance Service and Container Relocation Service to be provided by Contractor <u>upon Customer request</u> for an additional charge. The Long Distance Service is the same as the current Distance Service, but language was amended to more clearly define the service conditions under which this applies.</li> <li>Added new Container Relocation Service and related Attachment Q charge that will allow Contractor to charge <u>Customers that request</u> relocation of their Containers from a location that is not accessible by the Collection vehicles or cannot be safely moved by route personnel, and that requires Contractor to dispatch a special vehicle to relocate the Container.</li> <li>Addressed slope access conditions, which may necessitate Container Relocation Service, if the Customer does not place Containers in an accessible location.</li> <li>Included language on how disputes related to slope, Long Distance Service, and Container Relocation Services will be handled.</li> </ul>
5.02.C	<b>Commercial Solid Waste Collection Service</b>	Clarified and streamlined language by referring to relevant sections of the Multi-Family provisions including the above slope, Long Distance Service, and Container Relocation Services.
5.02.D	<b>Agency Solid Waste Collection</b>	<ul style="list-style-type: none"> <li>Clarified and streamlined language by referring to relevant sections of the Multi-Family provisions including the above slope, Long Distance Service, and Container Relocation Services.</li> <li>Removed public recycling Container service from this Section on Solid Waste and added it to Section 5.03.D on Agency Recycling Collection.</li> </ul>
5.03	<b>Targeted Recyclable Materials Collection</b>	<ul style="list-style-type: none"> <li>Clarified and streamlined language generally.</li> <li>Deleted requirements that pertained to the initial contract roll-out in 2010, including universal implementation of recycling to all Customers.</li> </ul>
5.04	<b>Organics Material Collection</b>	<ul style="list-style-type: none"> <li>For Single-Family, clarified that additional Organic Materials Carts and weekly service thereof is available for an extra charge specified in Attachment Q. Eliminated the option of Customers renting or purchasing their own Containers.</li> <li>Added clarification that standard Organics service for Single-Family is a 96-gallon Cart.</li> <li>Deleted requirements that pertained to initial contract roll-out in 2010.</li> <li>Shifted the start of holiday tree collection from December 26 to January 2.</li> <li>Streamlined language generally by deleting provisions that were redundant with other sections (by referencing the relevant sections).</li> </ul>
5.05.A and 5.05.B	<b>Single-Family and Multi-Family Bulky Item Collection Service</b>	<ul style="list-style-type: none"> <li>Added for clarification that Contractor shall provide two Bulky Item Collections at no cost to the Customer annually and shall charge Customers that request additional Bulky Item Collection service at Agency-approved charges in Attachment Q. This clarification allowed for elimination of Section 5.12, Fee for Service Bulky Collection, as it was redundant.</li> <li>Amended acceptable materials to allow residents to set out up to three large items of their choice whereas they were previously limited to one each of appliance, bulky items, or e-scrap (for example, the amended language allows for three appliances).</li> <li>Eliminated requirement that a route supervisor will visit each residence prior to the bulky pick-up to assess the materials.</li> <li>Removed specification of the type of vehicle Contractor shall use, allowing Contractor its choice.</li> <li>Established a maximum "daily limit" of 150 Bulky Item Collection pick-ups for the SBWMA Service Area to align with program costs included in Contractor's Compensation. Included a meet and confer process with SBWMA and Agency when the average number of pick-ups is approaching the daily limit in order to discuss</li> </ul>

Reference	Section Description	Modifications to Model Agreement
		strategy on handling increasing number of events. Identified that liquidated damages will not apply when the pick-ups are not scheduled within 10 days due to reaching the maximum number of pick-ups limit.
5.06	<b>Agency Facility On-Call Bulky Item Collection Service</b>	<ul style="list-style-type: none"> <li>Added for clarification that Contractor shall provide one Bulky Item Collection event for each Agency facility at no cost to Agency and may charge for additional events.</li> <li>Amended acceptable materials to allow facilities to set out up to three large items of their choice; whereas, they were previously limited to one each of appliance, bulky items, or e-scrap (for example, the amended language allows for three appliances).</li> </ul>
5.07	<b>Confidential Document Destruction Event Service</b>	Amended language to clarify that the SBWMA coordinates these events (not Recology) and Recology will pay up to \$1,200 per year per Member Agency for one event (which is consistent with the 2013 Amendment to the 2009 Franchise Agreement).
5.08	<b>Collection for Large Venues and Events</b>	<ul style="list-style-type: none"> <li>Changed “Events” to “Community Events” to avoid confusion with “events” used in other context in the Agreement and amended related definition in Attachment A.</li> <li>Specified that Contractor services the Agency-sponsored Venues and Community Events listed in Attachment C, which may be modified as part of the Three-Year Public Education Plan (in accordance with Section 7.03.B).</li> </ul>
5.09.A	<b>Abandoned Waste Clean Up</b>	<ul style="list-style-type: none"> <li>Established a “daily limit” of 30 abandoned bulky pick-ups per day for the SBWMA service area to align with program costs in Contractor’s Compensation. Included requirement to notify the SBWMA and Agency when the average number of clean-ups reaches 25 daily events and meet and confer to discuss strategy on handling increasing number of events.</li> <li>Clarified that Contractor is only required to Collect the types of materials defined for the On-Call Bulky Item Collection program.</li> <li>Documented that Contractor shall Collect in public right of ways and not be responsible for any Collection of abandoned waste materials that are on private properties or easements where ownership of properties are in question or shared.</li> <li>Included new provision that an Agency has the option of requiring Contractor to interface with an Agency-specific, web-based application for reporting completion of abandoned waste collections. Also identified that Agency shall compensate Contractor on an annual basis for this additional effort in the amount specified in Attachment Q.</li> </ul>
5.10	<b>Coats for Kids</b>	Edited language to clarify a 60-day advanced noticing requirement to Agency prior to the start and end date of the program.
5.11	<b>Compost Give-Away</b>	Identified that Contractor shall only attend compost give-away events if their attendance is specifically required in the Three-Year Public Education Plan. Edited other language to provide more clarity.
5.12	<b>Fee for Service On-Call Bulky Collection</b>	By amending Section 5.05 to address fee for service Bulky Item Collection, this Section could be deleted.
5.14	<b>Week Long Agency-Wide Bulky Item Collection</b>	Deleted this entire service requirement because it was not used by Agencies.
5.14	<b>Mixed Use Building</b>	<p>Included new section for Mixed Use Buildings specifying the following services:</p> <ul style="list-style-type: none"> <li>Solid Waste, Recyclables, and Organic Collection services like Commercial Customers;</li> <li>96-gallons of Recycling capacity per residential unit per week at a minimum;</li> <li>Residential units of Mixed Use Buildings to receive cell phone and battery collection service, recycling totes, and recycling program promotion like Multi-Family Customers;</li> <li>Two on-call Bulky Item Collection pick-ups to be provided at no cost and additional pick-ups at a charge;</li> <li>Recycling technical assistance like Commercial and Multi-Family Customers; and,</li> </ul>

Reference	Section Description	Modifications to Model Agreement
		<ul style="list-style-type: none"> <li>Development of a method for coding Mixed Use Buildings in the Contractor's customer service and routing databases to allow for various reports to be generated.</li> </ul>
6.02	<b>Limitation on Contamination</b>	<ul style="list-style-type: none"> <li>Acknowledged that recent State regulations/legislation (e.g., AB 341, AB 1826, SB 1383) may impact diversion.</li> <li>Revised Single-Family and Commercial Targeted Recyclable Materials maximum contamination levels in Table 1 to align with the 2013 Amendment to the 2009 Franchise Agreement.</li> <li>Removed the quarterly contamination testing requirements (and related Attachment E-2) since contamination has not been an issue and the quarterly testing process was time consuming and costly. Note that SBWMA still has right to test single loads for contamination.</li> <li>Removed maximum contamination level provisions related to initial contract implementation in 2010.</li> <li>Added clarification in the event an entire load is sorted to determine contamination, then Contractor or its representative shall have the right to be present at, observe, and photograph and video all aspects of the sort (which is consistent with the current rights of Attachment E-1).</li> <li>Deleted Section 6.02.F, Agency-Directed Change in Controlling Contamination, which considered the SBWMA directing a reduction in Contractor's efforts to manage Contamination and SBWMA paying Contractor for the resulting increase in Contamination.</li> <li>Streamlined contract language generally throughout Section 6.02.</li> </ul>
6.04	<b>Processing of Other Materials</b>	Added clarification that an Agency request to process additional materials will be a change in scope and may include adjustment of Contractor's Compensation.
7.01.C	<b>Local Office</b>	<ul style="list-style-type: none"> <li>Indicated that if space is not available at SRDC, that Contractor shall provide an office in the SBWMA Service Area and such change will be handled as a change in scope.</li> <li>Revised number of allowable holidays in which the office may close from 2 to 9 holidays.</li> </ul>
7.02.A	<b>Customer Service</b>	Same as Section 7.01.C changes.
7.03.B	<b>Three-Year Public Education and Technical Assistance Plan</b>	<ul style="list-style-type: none"> <li>Revised the entire section to specify a collaborative process of developing a Public Education and Recycling Technical Assistance Plan every three years that allows the SBWMA and Contractor flexibility in determining (for the coming three Rate Years) the focus of the education and recycling technical assistance efforts, goal, specific tasks, and reporting needs and how resources and staffing will be used.</li> <li>Reduced the number of Waste Zero Specialist (WZS) from 8 to 6 full-time equivalents as part of the proposed 2021 Contractor's Compensation. Such change is shown in Attachment O. Agreed that future changes in WZS staffing levels can be handled as a change in scope.</li> <li>Acknowledged that reporting requirements will be defined in the three-year plans.</li> </ul>
7.03.D and 7.03.E	<b>Public Education Activities</b>	Revised the list of public education activities to be performed by SBWMA and by Contractor to reflect current practice.
7.04.A	<b>Commercial Recycling Program Staff</b>	<ul style="list-style-type: none"> <li>Added requirement that if any Waste Zero Specialist position is unfilled for 90 days, the Contractor and SBWMA shall meet and confer to discuss how to remedy the employment gap. Also, Contractor shall compensate the Agency for the unfilled position as an adjustment to the Contractor's Compensation.</li> <li>Identified that if SBWMA requests to change the number of Waste Zero Specialists, the change will be handled as a change in scope.</li> </ul>
7.04.C	<b>Community Events</b>	Added for clarification that Attachment C presents a preliminary list of the Community Events, which may be modified annually through the development of the Three-Year Public Education and Recycling Technical Assistance Plan.

Reference	Section Description	Modifications to Model Agreement
7.04.E	<b>Targeted Commercial Recycling Promotion</b>	Specified that recycling technical assistance and waste assessments shall be performed in accordance with the Three-Year Recycling Technical Assistance Plan.
7.04.I	<b>Mandatory Commercial Recycling Assistance to Agency</b>	Amended to identify need for monitoring and reporting related to AB 341, AB 1826, and other similar applicable law.
7.05	<b>Multi-Family Recycling Promotion</b>	Modified language to generally provide additional clarity as well as to reflect inclusion of promotion and technical assistance related to Organic Materials Collection.
7.06	<b>Waste Generation/ Characterization Studies</b>	<ul style="list-style-type: none"> <li>Amended provision to acknowledge that recent State regulations/legislation (e.g., AB 341, AB 1826, SB 1383) may impact diversion.</li> <li>Deleted reference to using quarterly Contamination Levels because the quarterly testing requirement has been removed from the Agreement (See Section 6.02).</li> </ul>
7.09	<b>MFD and Commercial Recycling Blitz</b>	Added for clarification that in the event an Agency wants Contractor to host a recycling blitz, the change would be handled as a change in scope.
7.10	<b>Carbon Footprint Measuring</b>	Modified requirement to allow for Contractor to provide information upon request rather than submit annual reporting. Note that Contractor is still required to file emissions data annually with California Climate Action Registry.
7.13	<b>Right of SBWMA to Make Changes to Other Services</b>	<ul style="list-style-type: none"> <li>Established quarterly meeting requirements for Contractor and SBWMA to review progress on the Three-Year Public Education and Recycling Technical Assistance Plan.</li> <li>Added a new section to provide flexibility to the SBWMA to request and increase or decrease the Contractor's scope of services without amendment of the Agreement related to the scope of public education and outreach, recycling technical assistance, waste generation/characterization studies, and program evaluation services.</li> <li>Reserved right to have other parties perform added services if Contractor and SBWMA do not come to agreement on the services.</li> </ul>
8.01.A	<b>Collection Hours</b>	<ul style="list-style-type: none"> <li>Added Mixed Use Buildings to Commercial for the purpose of Collection hours.</li> <li>Noted that modifications to Collection hours may be mutually agreed upon.</li> </ul>
8.02.B	<b>Servicing Containers and Missed Pick-Ups</b>	Added clarification regarding the additional services Contractor may provide related to Long Distance and Container Relocation Services.
8.02.G	<b>Collection of Excess Materials (Overages)</b>	Indicated that Contractor may assess an overage charge for overages in addition to the two free overage pick-ups per year if the Contractor has notified the Customer by phone or email of the overage collection.
8.02.H	<b>Care of Private Property</b>	Added language that damage to property shall not apply to damage caused by the weight of Contractor's vehicles on public or private roads or driveways. Specified that if a Customer requests Contractor to provide services on-premises that requires driving of Collection vehicles on a private road or driveway, Contractor shall require the Customer or other responsible party to sign a reasonable waiver releasing Contractor from liability for any such damage.
8.03	<b>Unloading Materials at the Designated Transfer and Processing Facility</b>	Added for clarification "other materials (e.g., Batteries, Cell Phones, Used Motor Oil, and Used Motor Oil Filters)" to be unloaded at the SRDC in cooperation with the facility operator.

Reference	Section Description	Modifications to Model Agreement
8.04.A	Vehicle Specification	<ul style="list-style-type: none"> <li>Stated the need to use an on-board computer system for tracking route information and described general requirements, but removed the specification that "Routeware" must be used.</li> <li>Described that Contractor will continue to use the current fleet of Collection vehicles and will phase in the purchase of new vehicles. Agreed to adjust the vehicle depreciation and interest expense for actual vehicle acquisition costs to be effective in Rate Year 2027 for a total increase in rate payers' costs of \$350,000, which reflects a 50/50 share of increased vehicle acquisition costs up to \$700,000 and Contractor's agreement to pay any additional costs beyond \$700,000 (where such adjustment is describe in Attachment K).</li> </ul>
8.04.B.10	Vehicle Specification	Specified that Contractor and SBWMA shall meet and confer before Contractor's initial purchase of new vehicles to discuss fuel options and agree on fuel choice. Noted that the meet and confer process is not applicable for subsequent vehicle purchases unless Parties agree otherwise.
8.05.B	Container Specifications	<ul style="list-style-type: none"> <li>Added for clarification that Contractor shall provide Customers with a choice of Container capacities specified in Attachment D, and Customers may select their preferred Container size(s).</li> <li>Removed the requirement that Containers must be new to recognize that the existing Containers will continue to be used by Customers.</li> </ul>
8.05.E	Container Repair and Replacement	Documented that Contractor estimated Container replacement needs and related depreciation and interest expense over the Term, and that these expenses are included in Contractor's Compensation in the amount specified in Attachment N and K. Stated that Contractor shall not be entitled to any additional compensation for Container replacements purchased during the Term of the Agreement.
8.05.F	Agency Right to Containers	Added clarification regarding Contractor's obligation to remove Containers in the event the Agency's does not exercise its right to take ownership of Containers at end of Term.
8.05.G	Lock Service	Included new language describing lock (key) service currently provided by Contractor and Contractor's right to charge for the service.
8.06.B	Employees of Previous Contractor	Deleted this Section as it was applicable to the initial implementation of the 2009 Franchise Agreement.
8.06.C	Collective Bargaining Agreement	Removed references to "Previous Contractor" and described that Contractor's Compensation will not be adjusted for wage and benefit costs greater than the adjustments provided though the compensation mechanism in Attachment K (which provides CPI and service level adjustments on wage and benefits).
9.04.C	Reporting Submittal Schedule and Instructions	<ul style="list-style-type: none"> <li>Clarified requirements that Contractor provide source files for some data.</li> </ul> Provided clarification that each quarterly report shall be in lieu of the monthly report for the third month of the relevant quarter.
9.05 / 9.06 / 9.07	Reporting	<ul style="list-style-type: none"> <li>Streamlined reporting requirements while generally maintaining the same reporting elements.</li> <li>Added monthly abandoned waste event reporting.</li> <li>Removed requirement that Contractor shall periodically conduct Multi-Family analysis if Multi-Family Tonnage data is not separately reported.</li> <li>Removed several public education and outreach reporting requirements and replaced it instead with a statement that reports shall be provided as defined in the then-current Three-Year Public Education and Recycling Technical Assistance Plan.</li> <li>Included acknowledgement that Agency may request additional information to support reporting related to the AB 939, AB 341, AB 1826, and SB 1383.</li> </ul>

Reference	Section Description	Modifications to Model Agreement
11	<b>Contractor's Compensation, Pass-Through Costs, and Rates</b>	Updated language generally in Article 11 to shift Rate Years and dates that related to the 2009 Franchise Agreement to Rate Years and dates relevant to the amended and restated Agreement.
11.02	<b>Determination of Contractor's Compensation</b>	<ul style="list-style-type: none"> <li>Identified that compensation adjustment for Rate Year Eleven (the first Rate Year in the amended and restated Agreement) will involve adjusting Contractor's proposed 2021 compensation to reflect actual changes in service levels and changes in fuel cost indices from 2016 through 2020 (in accordance with Attachment K).</li> <li>Described how compensation will be adjusted in subsequent Rate Years for changes in cost indices and differences in service levels.</li> <li>Documented that the depreciation amount for Rate Year Ten under the 2009 Franchise Agreement shall be adjusted and shall include some depreciation costs related to the new vehicles that will be purchased under the Term of the amended and restated Agreement. This is intended to smooth out rate adjustments from 2019 through 2021.</li> </ul>
11.03	<b>Annual Revenue Reconciliation</b>	Amended language to provide clarification on revenues attributable to Attachment Q charges including Agency share of Backyard Collection Service revenues pursuant to the 2013 Amendment to the 2009 Franchise Agreement.
11.05	<b>Special Compensation Review</b>	<ul style="list-style-type: none"> <li>Added language that allows for Contractor to request special compensation review during the regular compensation adjustment process if one or more of the "special" events occur and cause an increase or decrease to Contractor's Compensation by less than 2% for the then-current Rate Year and to compensated Contractor retroactively. Note that current language was retained that states if events cause cost increases or decreases greater than 2%, Contractor can request a special compensation review at any time.</li> <li>Removed language that pertained to Rate Years One and Three under the 2009 Franchise Agreement.</li> </ul>
11.07	<b>Rate-Setting Process</b>	Identified that interest payment arrangements associated with revenue reconciliation process shall governed by the July 8, 2015 Memorandum of Understanding between Contractor and SBWMA, which is provided in new Attachment S.
13.03	<b>Faithful Performance Bond</b>	Specified that the CPI to be used in adjusting the amount of the performance bond every two years.
13.06	<b>Indemnification related to Various State Requirements</b>	Amended this Section, which previously focused on the Contractor's indemnification related to AB 939, to be inclusion of indemnification related to AB 939, AB 341, AB 1826, AB 1594, SB 1016, SB 1383, and other laws, regulations or permits issued or enforced by the CalRecycle or the LEA. Note that the indemnification is applicable to the extent it relates to Contractor's failure to perform obligations under this Agreement.
14.09.A	<b>Excuse from Performance – Force Majeure</b>	No changes have been made to the language as of this date; however, the Parties are still discussing force majeure language related to labor unrest.
<b>ATTACHMENTS</b>		
<b>Attach A</b>	<b>Definitions, New Definitions</b>	Added several definitions including: 2009 Franchise Agreement, AB 341, AB 1826, Bulky Item Collection, Container Relocation Service, Mixed Use Buildings, Long Distance Service, SB 1383, and Shoreway Recycling and Disposal Facility.
<b>Attach A</b>	<b>Definitions, Minor Clarifications</b>	Provided minor clarifications to the following definitions: Commercial Diversion Level, Food Scraps, Holidays, Holiday Collection Schedule, Overall Diversion, Previous Contractor, Rate Year, Recycling Blitz, Residential Diversion Level, Revenue Requirement, Service Day, Targeted Recyclable Materials

Reference	Section Description	Modifications to Model Agreement
Attach A	Definition, Community Event	Changed "Event" to "Community Event" which means Agency-sponsored or other community events that are one (1) or two (2) days in duration and have up to 10,000 attendees per day. Community Events may include "large events" as defined by AB 939. Removed the specification that it includes any event "that serves an average of at least 2,000 attendees and workers per day, and Agency-sponsored community events."
Attach A	Definition, Contractor's Proposal	Deleted "Contractor's Proposal" as it referred to the original 2007 Recology proposal, which was not needed for the purpose of this Agreement
Attach B	Service Level of Agency Facilities	No changes were made. This is an Agency-specific Attachment to be modified by each Member Agency.
Attach C	Community Events	Clarified that events may be modified through Three-Year Public Education Plan process. Otherwise, no changes were made. This is an Agency-specific Attachment to be modified by each Member Agency.
Attach D	Container Specifications	Amended to reflect current container sizes and colors, eliminated 2009 container costs, and eliminated compactor specifications, as Recology will no longer be providing compactors to customers.
Attach E-1	Contamination Measurement Methodology-Single Loads	No changes were made to this Attachment.
Attach E-2	Contamination Measurement Methodology - Quarterly	This Attachment has been eliminated since contamination has not been an issue and the quarterly testing process was time consuming and costly. Note that SBWMA still has the right to test single loads for contamination pursuant to Attachment E-1 and Section 6.02.
Attach F	Performance Bond	Revised date from 2011 to 2021.
Attach G	Guaranty	Made minor changes to company and contact names and effective date.
Attach H	Delinquent Payment Policy	No changes were made to this Attachment. This is an Agency-specific Attachment to be modified by each Member Agency.
Attach I	Performance Incentives and Disincentives	Amended Attachment I as follows: <ul style="list-style-type: none"> <li>• Eliminated language pertaining to initial contract roll-out in 2010.</li> <li>• Eliminated contamination disincentive language and related payments for contamination since Section 6.02 requires Recology to pay for extra processing for contaminated loads or disposal of contaminated loads</li> <li>• Eliminated Single-Family missed pick-up initial complaints pursuant to 2013 First Amendment to the 2009 Franchise Agreement.</li> <li>• Changed diversion level incentive/disincentive benchmark to be set equal to the average diversion level for the most recent 5 years.</li> <li>• Modified the 90 second maximum hold time provision pursuant to the 2013 First Amendment with additional clarification that measurement and LDs are calculated separately for each quarter.</li> <li>• Established an annual maximum disincentive and incentive payments at \$100,000.</li> </ul>
Attach J	Liquidated Damages	Amended to: (i) state that monthly (rather than quarterly) reports shall be generated; (ii) eliminate language that pertained to the initial contract roll-out in 2010; (iii) update Table 2, Monthly Allowances for Each Member Agency for Select Collection Quality Standards allocating total based on the number of current single-family service opportunities.

Reference	Section Description	Modifications to Model Agreement
<b>Attach K</b>	<b>Compensation and Rate Setting Process</b>	<p>Removed and replaced Attachment K to present a simplified adjustment process for Contractor's Compensation. It presents the following:</p> <ul style="list-style-type: none"> <li>• Definition and use of Bay Area cost indices (rather than U.S. indices in the 2009 Franchise Agreement)</li> <li>• Methodology for adjustment of Contractor's proposed 2021 compensation to reflect actual changes in service levels and changes in fuel cost indices from 2016 through 2020</li> <li>• Methodology for adjustment of Contractor's Compensation for 2022 through the end of the term, which includes adjustments for changes in service levels and changes in four-different cost indices.</li> <li>• Description of how service level changes are calculated annually based on the percentage change in a rolling three-year average of customer subscription levels, which shall be performed separately for customer type and material type.</li> <li>• Inclusion of 5% cap on the annual increase in the Contractor's Compensation with explanation of how the cap is calculated and how the Contractor is made whole in following years.</li> <li>• Method of adjusting depreciation and interest expense to reflect actual acquisition cost of new vehicles to be effective in Rate Year 2027 for a total increase in rate payers' costs of \$350,000, which reflects a 50/50 share of increased vehicle acquisition costs up to \$700,000 and Contractor's agreement to pay any additional costs beyond \$700,000.</li> <li>• Removal of implementation items related to the 2009 Franchise Agreement.</li> <li>• Removal of contamination performance disincentives.</li> <li>• Inclusion of annual CPI adjustment to Attachment Q charges.</li> <li>• Updated language generally to shift Rate Years and dates that related to the 2009 Franchise Agreement to Rate Years and dates relevant to the amended and restated Agreement.</li> </ul>
<b>Attach L</b>	<b>Implementation Plan</b>	Deleted Attachment L, Implementation Plan, as it related to the initial contract roll-out in 2010.
<b>Attach M</b>	<b>Agency's Franchise Fee and Other Fees</b>	Added language clarifying that the franchise fee shall be calculated on Gross Revenue Billed and specifying that fixed annual payments shall be adjusted annually by the change in the CPI-U. Note that this is an Agency-specific Attachment to be modified by each Member Agency.
<b>Attach N</b>	<b>2020 Compensation and Ops Stats</b>	Removed and replaced Attachment N to reflect 2021 Contractor's Compensation and operating statistics.
<b>Attach O</b>	<b>List of Contractor's Personnel</b>	Revised staffing chart to: (i) reflect number of personnel projected for 2021; (ii) shift personnel that were non-CBA (collective bargaining agreement) employees in 2009 and are now CBA employees into the CBA category; (iii) rename some categories; (iv) eliminate some positions that are now reflected in the general and administrative costs; and (v) reduce number of Waste Zero Specialists from 8 to 6 full-time positions.
<b>Attach P</b>	<b>Vehicle Specifications</b>	No changes have been made to the language as of this date; however, the Parties are still discussing if it will be revised to reflect specifications for new vehicles during the Term of the amended and restated Agreement.
<b>Attach Q</b>	<b>Additional Services</b>	<p>Removed and replaced Attachment in its entirety making the following modifications:</p> <ul style="list-style-type: none"> <li>• Renamed Attachment from "Unscheduled Services" to "Additional Services".</li> <li>• Changed terminology from Contractor's "costs" to Contractor's "Charges" for services.</li> <li>• Removed annual CPI adjustment to Charges as this is covered by Attachment K.</li> <li>• Grouped services for customers separately from those for Agency.</li> </ul>

Reference	Section Description	Modifications to Model Agreement
		<ul style="list-style-type: none"> <li>• Clarified conditions under which certain rates apply and how rates are calculated.</li> <li>• Added two new charges for Container Relocation Service and Agency-specific reporting for abandoned waste collections.</li> <li>• Eliminated recycling cart rental or purchase instead specifying additional recycling cart service for a monthly fee.</li> </ul>
<b>Attach R</b>	<b>Secretary's Certificate</b>	Included this new Attachment to document that the Recology representative signing the contract is authorized to do so by the company secretary.
<b>Attach S</b>	<b>Interest Arrangements</b>	Attached July 8, 2015 Memorandum of Understanding between SBWMA and Contractor describing interest payment arrangements related to the annual revenue reconciliation process.