



Legislation Text

File #: 18-570, **Version:** 1

TO: Board of Supervisors

FROM: Lars Ewing, Public Services Director

DATE: June 26, 2018

SUBJECT: Consideration of (a) Amendment One to Agreement between the County of Lake and Lake County Waste Solutions, Inc. for Solid Waste Handling and Recycling Services; and (b) Amendment One to Agreement between the County of Lake and South Lake Refuse Company, LLC for Solid Waste Handling and Recycling Services

Background

The primary entities involved with the administration of the County's waste management program, specifically the Eastlake Landfill operated by the County of Lake and the two contracted franchise waste haulers for the unincorporated portions of Lake County, are faced with the challenge of operating programs during a time of declining waste quantities as a result of successful recycling and diversion efforts, while at the same time confronted with increasing labor, fuel and equipment costs, escalating regulatory compliance expenses, and a crumbling recyclables market. These stressors are not new to the County's waste management program; in 2012 the County, recognizing the financial pressure that these issues were beginning to place upon the integrated waste management division, began a five-year contract with Solid Waste Systems of Ukiah for the acceptance of approximately 20,000 tons of waste per year from the Ukiah transfer station. The intent of the temporary import contract was to generate additional revenue by increasing disposal quantities rather than raising fees. While laudable, this stop-gap measure was never intended to be a permanent solution, and out of concerns following the 2015 wildfires that the landfill would reach its' maximum capacity before an expansion could be constructed your Board determined in early 2016 to allow the contract to expire in December 2016 rather than exercise the five-year extension option. The last couple years the loss of import revenue at the landfill has been sufficiently offset by revenue generated from the disposal of wildfire debris. However, looking ahead it becomes necessary to consider rate increases in order to adequately fund landfill operations and capital improvements (such as expansion), curbside collection, unfunded regulatory compliance mandates, and recycling and diversion programs.

County Integrated Waste Management Funding

Annual expenditures for the County solid waste enterprise fund amount to approximately \$3.4 million, broken down as follows:

- Landfill Labor: \$750,000
- Landfill Operations: \$775,000

- Landfill Gas System (Operations, Maintenance, Monitoring, Reporting): \$100,000
- Landfill Equipment Maintenance: \$175,000
- Landfill Equipment Replacement: \$150,000
- Landfill Expansion (annualized cost over 20 years): \$600,000
- Landfill Closure/Post-Closure Maintenance Financial Assurances: \$150,000
- Landfill Regulatory Improvements: \$50,000
- Department Administration: \$475,000
- Recycling/HHW Programs: \$175,000

Revenue for the solid waste enterprise fund comes primarily from landfill gate fees (approximately 75%), with hauler franchise fees (15%) making up the bulk of the remaining revenue stream. Under the current landfill gate fee and waste hauler franchise fee schedule, however, revenue projections for FY 18/19 amount to only \$2.7 million. The \$700,000 operational expense deficit is primarily a result of the loss of import revenue and secondarily from increased operational and annualized capital costs resulting from the landfill gas collection and control system and other state-mandated compliance programs.

To address these challenges, the Solid Waste Task Force (SWTF) recommended to staff to evaluate an increase to both landfill tipping fees and waste hauler franchise fees paid to the County. To that end, in August 2017 the County completed a pro-forma cost and revenue model to determine recommended fee schedules that in combination would provide adequate funding for the solid waste enterprise fund.

Gate Fees:

The current tonnage rate at the landfill is \$51.12/ton and has been stagnant since 2014. During that time the costs to operate the landfill continued to rise, and even in 2014 the rate was not sufficient for sustainable landfill and waste management operations. Staff's recommendation based on the cost and revenue model is to increase the tonnage rate to \$59.33/ton (in concert with the waste hauler franchise fee increase described later). Additional changes to the tipping fee schedule are proposed in order to bring fees into proportional equivalence with the tonnage increase and to establish a schedule of items that allow for more efficient gatehouse operations and better standardization of fees. The proposed fee schedule is shown in Exhibit A.

Waste Hauler Franchise Fee:

Currently both waste hauler contracts require each hauler, as consideration for the County's grant of the exclusive franchise right to collect and dispose of solid waste generated in their territory, to remit to the County both a disposal-based franchise fee and a revenue-based franchise fee. The disposal-based fee requires the hauler to pay to the County 6% of the sum of the gross aggregate tipping fees incurred by the hauler at the landfill, whereas the revenue-based fee requires the hauler to pay to the County 5% of the gross amount of revenue received by the hauler for their services under the contract. Staff's recommendation, as negotiated with the haulers, is to eliminate the disposal-based fee and increase the revenue-based fee to 10%. This structure is consistent with the solid waste collection industry standard.

Franchise Hauler Amendment

The County's two franchise waste haulers, Lake County Waste Solutions (LCWS) and South Lake Refuse & Recycling (SLRR), provide a service similar to other essential public services such as power, water, and sewer. Ensuring their financial ability to continue providing refuse services is important for all residents and businesses of Lake County. They have both been operating in Lake County for decades and are under contract to provide service to customers in the unincorporated portions of their franchise geographic area. The most recent contracts for both haulers became effective January 2015, have a 20-year term with a 10-year renewal option, and specify an annual allowable rate increase for 2018 and beyond equal to the "All Urban Consumers: U.S. City Average" Consumer Price Index. The contracts allow for increases or decreases in service rates to eliminate, to the maximum extent possible, each company's increased or decreased costs or revenues resulting from industry changes outside of their control. Examples include changes in the law, regulatory mandated modifications or replacements of vehicles or equipment, significant labor rate changes, or similar items.

Between 2010 and 2018 the contract specified a rate modification equal to the "All Urban Consumers: U.S. City Average" CPI or 4%, whichever was greater. This temporary rate modification option was put in place in 2010 with the intent to make the haulers whole by the year 2018 in consideration of hauler revenues that had not kept pace with vehicle and equipment expenses and labor rates. However, the 4% annual rate modification lagged behind actual escalating industry costs by a total of approximately 14% over that period. Consequently in 2017 the haulers requested a "true-up" increase of approximately 14% as well as a CPI change from "All Urban Consumers: U.S. City Average" to "All Urban Consumers: San Francisco-Oakland-San Jose, CA". Staff rejected that proposal but, recognizing the shared responsibility to stabilize costs and revenues for curbside collection, negotiated with the haulers a 4% rate modification over the next three years to account for the "true-up", exercising of the 10-year renewal option, and a change in rate modification index from the "All Urban Consumers: U.S. City Average" CPI, to an average of the following two indices: 1) the "All Urban Consumers: San Francisco-Oakland-San Jose, CA" CPI; and 2) the "All Urban Consumers: Water and Sewer and Trash Collection Services" CPI. Staff contracted with an outside solid waste management consultant to ensure that the terms were consistent with industry activity, and that the proposed index better represents the regional solid waste industry to sustain hauler operations.

Other relatively minor but important changes to the contract are recommended. A change to SLRR's vehicle impact fee is necessary to align with recommendations from the Department of Public Works. Additionally, language has been added to establish the mutual understanding of the possibility of future universal residential curbside collection in community growth areas. Finally the amendment adds a clause to the contract requiring the haulers to adopt programs in support of anticipated future implementation of SB 1383 to achieve a statewide 50 percent reduction of organic waste disposal by 2020 and a 75 percent reduction by 2025.

FISCAL IMPACT: ___ None X Budgeted ___ Non-Budgeted

Estimated Cost: N/A

Amount Budgeted: N/A

Additional Requested: N/A

Annual Cost (if planned for future years): N/A

FISCAL IMPACT (Narrative): Currently the solid waste disposal rates of surrounding areas are significantly higher than in Lake County. For example, the average per ton tip rate of the ten nearest landfills is 42% more than the Eastlake Landfill tip fee. For curbside collection, the difference is even more drastic: surrounding area collection rates are on average 70% higher than within Lake County.

If the recommended fee increases are implemented, the solid waste disposal rates in Lake County will still be significantly lower than surrounding areas. Landfill tip fees at surrounding areas will be on average 22% more than the Eastlake Landfill tip fee, and average curbside collection rates at surrounding areas will be 46% higher than in Lake County.

RECOMMENDED ACTION:

- (a) Approve Amendment One to Agreement between the County of Lake and Lake County Waste Solutions, Inc. for Solid Waste Handling and Recycling Services and authorize the Chair to sign.
- (b) Approve Amendment One to Agreement between the County of Lake and South Lake Refuse Company, LLC for Solid Waste Handling and Recycling Services and authorize the Chair to sign.