



September 18, 2019 – 4 P.M.

PUBLIC WORKS SUBCOMMITTEE AGENDA

SPECIAL MEETING

**CITY OF RANCHO CUCAMONGA – CITY HALL,
TAPIA CONFERENCE ROOM**

10500 CIVIC CENTER DRIVE, RANCHO CUCAMONGA, CA 91730-3801

A. CALL TO ORDER

A Roll Call: Kennedy _____ Hutchison _____

B. PUBLIC COMMUNICATIONS

This is the time and place for the general public to address the Public Works Subcommittee on any item listed on the agenda. State law prohibits the Subcommittee from addressing any item not previously included on the Agenda. The Subcommittee may receive testimony and set the matter for a subsequent meeting. Comments are to be limited to five minutes per individual.

C. ITEM(S) FOR DISCUSSION

- C1. Approve and File Minutes of: June 6, 2019.
- C2. Review Solid Waste Collection Rate Adjustment Request and Consider Presentation of Proposed Rates to City Council for Consideration

D. ADJOURNMENT

I, Linda A. Troyan, MMC, City Clerk Services Director, or my designee, hereby certifies that a true, accurate copy of the foregoing agenda was posted on September 12, 2019, at least twenty-four (24) hours prior to the meeting per Government Code 54954.2 at 10500 Civic Center Drive, Rancho Cucamonga, California, and on the City's website.

**Linda A. Troyan, MMC
City Clerk Services Director
City of Rancho Cucamonga**



If you need special assistance or accommodations to participate in this meeting, please contact the City Clerk's Office at (909) 774-2023. Notification of 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility. Listening devices are available for the hearing impaired.

June 6, 2019

CITY OF RANCHO CUCAMONGA | PUBLIC WORKS SUBCOMMITTEE SPECIAL MEETING MINUTES

A. CALL TO ORDER – TRI-COMMUNITIES CONFERENCE ROOM

A special meeting of the Rancho Cucamonga Public Works Subcommittee was held on Thursday, June 6, 2019, in the Tapia Conference Room of the Rancho Cucamonga City Hall located at 10500 Civic Center Drive, Rancho Cucamonga, California, Mayor Pro Tem Lynne B. Kennedy, and Council Member Ryan A. Hutchison called the meeting to order at 2:30 p.m.

A1. Roll Call: Present were Mayor Pro Tem Lynne B. Kennedy, and Council Member Ryan A. Hutchison.

Also, present: Matt Burris, Deputy City Manager Economic & Community Development; Jason C. Welday, Engineering Services Director/City Engineer; Fred Lyn, Utilities Division Manager; Linda Ceballos, Environmental Programs Manager; Marissa Ostos, Management Analyst I; and Rebecca Fuller, Executive Assistant.

B. PUBLIC COMMUNICATIONS

B1. No public communications were made.

C. ITEM(S) FOR DISCUSSION

C1. Approve and File Minutes Of: May 1, 2019

Approved – Motion moved by Council Member Ryan A. Hutchison to approve the May 1, 2019 minutes; seconded by Mayor Pro Tem Lynne B. Kennedy.

C2. Update on the Bi-annual Franchise Waste Hauler Review, Completed in Accordance with the City's Franchise Waste Hauler Agreement.

Linda Ceballos, Environmental Programs Manager, presented the staff report and provided background and analysis on the audit R3 Consulting Services Group, Inc provided to the City.

The Subcommittee concurred with staff's recommendation to receive and file the Bi-annual Franchise Waste Hauler Review, completed by R3 Consulting Services Group, Inc. and update the Council with a Memorandum.

D. ADJOURNMENT

D1. The Public Works Subcommittee meeting adjourned at 2:55 p.m.

Respectfully submitted,

Jason C. Welday
Director of Engineering Services/City Engineer

Date: _____



STAFF REPORT

DATE: September 18, 2019
TO: Public Works Subcommittee
FROM: Jason C. Welday, Director of Engineering Services/City Engineer
INITIATED BY: Linda Ceballos, Environmental Programs Manager
SUBJECT: **REVIEW SOLID WASTE COLLECTION RATE ADJUSTMENT REQUEST AND CONSIDER PRESENTATION OF PROPOSED RATES TO CITY COUNCIL FOR CONSIDERATION**

RECOMMENDATION:

Staff is recommending the Public Works Subcommittee provide approval for staff to present the proposed solid waste rate adjustments included as Exhibit A for City Council consideration.

BACKGROUND:

The City of Rancho Cucamonga's (City) franchise waste hauler, Burrtec Waste Industries, Inc. (Burrtec) submitted a written request for a bi-annual adjustment to solid waste collection rates to the City, pursuant to the franchise agreement (Agreement) between the City and Burrtec. The agreement contains specific criteria, deadlines, and rate adjustment methodology that is required of Burrtec to be considered for a bi-annual rate adjustment. The bi-annual adjustment is limited to an increase of five percent (5%) compared to the previous rate period. The agreement also contains specific criteria for requesting an extraordinary rate adjustment should changes in tipping fees, disposal costs, or cost to process organics and recycling increase more than 10%. Per Section 6.4 of the agreement, Burrtec has also submitted a written request to the City for an extraordinary rate adjustment as a result of increases to tipping fees, disposal costs, and processing costs for organics and recycling.

The rate adjustment submittals have both been reviewed by staff and additionally by a consultant to ensure they are in accordance with the terms of the franchise agreement. The last solid waste rate adjustment occurred in 2017. In order to consider a rate increase, a 45-day notification to the public is required in accordance with Proposition 218.

ANALYSIS:

As previously mentioned, the franchise agreement establishes frequency and methodology for rate adjustment requests. For the current request covering 2019 to 2021 rate period, increases are capped at five percent (5%) compared to the previous rate period unless an extraordinary rate adjustment is requested by Burrtec and approved by the City. In addition to staff review, the City utilized the expertise and services of a consultant to review Burrtec's rate packet submittals and supporting documentation. As outlined in the attached report the consultant reviewed two rate adjustment packets, one with the five percent rate cap, and the second for the extraordinary rate increase request.

Five Percent Rate Adjustment Request

Upon review, the consultant found that the five percent (5%) rate adjustment request was in accordance with the rate adjustment methodology in the agreement. The proposed five percent rate adjustment request includes an increase to the service component by the Consumer Price Index, a pass through of any disposal/processing costs, and an adjustment in City fees based on the overall adjusted rate.

PUBLIC WORKS SUB-COMMITTEE STAFF REPORT – SOLID WASTE COLLECTION RATE
ADJUSTMENT AND CONSIDER PRESENTATION OF PROPOSED RATES

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Extraordinary Rate Adjustment Request

The consultant found that Burrtec did sufficiently demonstrate that an extraordinary rate adjustment pursuant to Section 6.4 of the Agreement was warranted. Specifically, Burrtec has demonstrated that the effect of China's "National Sword" policy has significantly increased costs for processing and tipping fees and reduced commodity revenues. Additionally, Burrtec demonstrated that the effect of Assembly Bill 1826, which mandates organics recycling for businesses, has in turn caused an increase in the costs to process organic materials.

Based on review of information provided by Burrtec to the consultant during an on-site review, the consultant has confirmed that these factors are, in fact, increasing Burrtec's tipping fees. Furthermore, based on evaluation of similar rate increase requests and the back-up information provided during those reviews, the consultant has confirmed that these same issues are affecting operating costs for similar companies throughout California.

The consultant did not find that Burrtec could sufficiently demonstrate the extraordinary changes in cost that would justify the magnitude of its proposed extraordinary rate adjustment which included a 31.38% increase to residential rates and increases to other rate classifications. While Burrtec has satisfactorily demonstrated extraordinary changes in tipping fees, its request for an extraordinary increase is a result of the difference between rates subject to the maximum increases allowed in Section 6.3.2 of the Agreement, and what those rates would be without application of the five percent (5%) cap (including the removal of prior rate stabilization amounts).

The consultant does not recommend adoption of Burrtec's proposed extraordinary rate adjustments as they are not, with the exception of the increases in tipping fees, based on extraordinary changes in Burrtec's costs for providing service under the Agreement. It is recommended that the City Council consider approving rates above the five percent (5%) maximum, but only for the extraordinary increases in tipping fees as allowed by Section 6.4 of the Agreement, as well as the associated changes in the City's fees. The recommended rate adjustments provided by the consultant are included as Exhibit A and are summarized in the attached report. Exhibit B includes the proposed rates as well as a solid waste rate comparison of neighboring cities. The most utilized services and recommended rate adjustments, as well as new proposed services, are described below.

Residential

The proposed adjustment for standard residential barrel service, if approved, would increase the rate by \$2.51 per month. The current rate for residential service is \$23.26 per month, and the proposed rate is \$25.77 per month. This represents a 10.79% increase from the current rate.

The proposed adjustment to the senior rate, if approved, would increase the rate by \$1.69 per month. Currently, the rate is \$15.58 per month, and the proposed rate is \$17.27 per month. This represents a 10.85% increase from the current rate.

Commercial and Industrial

The proposed adjustment for commercial/industrial solid waste collection service, if approved, would result in an increase of approximately 15%. The actual dollar amount increase will vary based on the bin size and pick-up frequency of each commercial/industrial customer. As an example, the current rate for a commercial customer with a 3-yard trash and recycle bin serviced one time per week is, \$162.35 per month, and the proposed rate is \$188.26 per month. This represents a 15.96% increase from the current rate. The other bin size and frequency rates are included in Exhibit A.

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New proposed services

Burrtec has proposed the following new or expanded services and fees for consideration.

1. Commercial Extra Pick-up Rate for food barrel: \$63.90.
2. Illegal Bin Impound Fee: \$100 per day.

If approved for City Council consideration staff will then commence with the public hearing notification procedures outlined under Proposition 218. The procedures include:

Action	Date
Public Hearing Notification: Burrtec to mail out 45-day public hearing notification to rate payers. City to advertise Public Hearing in an advertisement in The Daily Bulletin.	Mail public hearing notices by September 26, 2019 Newspaper advertisement on September 26, 2019
Hold public hearing.	City Council Meeting on November 20, 2019
Effective date for adjustment if approved by City Council.	January 1, 2020

FISCAL IMPACT:

The City receives a franchise fee from Burrtec, paid quarterly, which equals fifteen percent (15%) of the gross receipts received by Burrtec. The franchise fee amount is expected to change as the proposed adjusted rate is revised.

ATTACHMENTS:

- Attachment 1 – Exhibit A - Proposed Solid Waste Collection Rate
- Attachment 2 – Exhibit B - Solid Waste Rate Comparison
- Attachment 3 – Final Report from R3 Consulting Services

EXHIBIT A
CITY OF RANCHO CUCAMONGA, CALIFORNIA
2019 PROPOSED SOLID WASTE RATES
ALL RATES ARE BILLED MONTHLY UNLESS OTHERWISE NOTED

ATTACHMENT 1

Current Rate		Proposed Rate		Current Rate		Proposed Rate		Current Rate		Proposed Rate	
Residential Barrel Service				Commercial Trash & Recycling Bin Service							
Includes 1 barrel each for trash, recycling, & green waste.				*Rate includes 1 trash & 1 recycling bin of the same size & service frequency.							
Standard	\$23.26	\$25.77		Bin Size	Per Week			Bin Size	Per Week		
*Senior	\$15.58	\$17.27		95 Gal	1	\$28.38	\$32.62	1.5 yd	1	\$101.19	\$107.64
<i>*Primary acct. holder 60 yrs. of age or older are eligible to apply for Senior rate</i>				95 Gal	2	\$47.07	\$55.06	1.5 yd	2	\$145.29	\$155.36
Additional Trash Barrel	\$7.33	\$7.70		95 Gal	3	\$64.53	\$76.23	1.5 yd	3	\$188.33	\$201.95
Additional Recycling Barrel	\$1.48	\$1.55		95 Gal	4	\$81.92	\$97.28	1.5 yd	4	\$231.99	\$249.18
Additional Green Waste Barrel	\$3.79	\$3.98		95 Gal	5	\$99.29	\$118.34	1.5 yd	5	\$275.64	\$296.40
Backyard Pull-Out Service	\$49.29	\$51.75		95 Gal	6	\$116.78	\$139.51	1.5 yd	6	\$319.82	\$344.19
Multi-Family-Per Unit	\$22.26	\$24.66		1.5 yd	1	\$117.14	\$131.88	2 yd	1	\$111.75	\$119.20
Temporary Bins	\$106.47	\$111.79		1.5 yd	2	\$175.95	\$202.54	2 yd	2	\$165.42	\$177.41
Temporary Bins-Extra Pick-Up	\$106.47	\$111.79		1.5 yd	3	\$233.64	\$272.00	2 yd	3	\$219.39	\$235.95
Bulky Items (in excess of 4 collections/5 items per collection)				1.5 yd	4	\$310.35	\$361.45	2 yd	4	\$271.45	\$292.47
Trip Charge	\$30.84	\$32.38		1.5 yd	5	\$373.59	\$436.75	2 yd	5	\$323.53	\$349.00
Per Item Charge	\$11.31	\$11.88		1.5 yd	6	\$437.36	\$512.61	2 yd	6	\$376.18	\$406.15
<i>Residential customers are billed every 2 months.</i>				2 yd	1	\$132.53	\$151.01	4 yd	1	\$151.82	\$163.13
Residential Single & Multi-Family Trash & Recycling Bin Service				2 yd	2	\$205.66	\$239.67	4 yd	2	\$232.88	\$251.96
Rate includes 1 trash & 1 recycling bin of the same size & service frequency.				2 yd	3	\$279.10	\$328.64	4 yd	3	\$313.69	\$340.53
Bin Size	Per Week			2 yd	4	\$375.94	\$442.17	4 yd	4	\$394.40	\$429.02
3 yd	1	\$156.82	\$182.46	2 yd	5	\$454.11	\$536.13	4 yd	5	\$475.11	\$517.48
3 yd	2	\$253.50	\$301.76	2 yd	6	\$532.90	\$630.69	4 yd	6	\$556.11	\$606.24
3 yd	3	\$350.15	\$421.03	3 yd	1	\$162.35	\$188.26	6 yd	1	\$175.63	\$190.01
3 yd	4	\$423.15	\$515.45	3 yd	2	\$256.23	\$304.62	6 yd	2	\$286.71	\$312.20
3 yd	5	\$512.54	\$627.11	3 yd	3	\$350.82	\$421.73	6 yd	3	\$397.78	\$434.42
3 yd	6	\$602.56	\$739.43	3 yd	4	\$444.93	\$538.33	6 yd	4	\$509.16	\$556.95
Green Waste Bin Service				3 yd	5	\$539.06	\$654.96	6 yd	5	\$620.23	\$679.16
Size	Per Week			3 yd	6	\$633.84	\$772.27	6 yd	6	\$731.24	\$801.31
3 yd	1	\$151.13	\$164.06	4 yd	1	\$191.75	\$225.06	Food Waste Service			
3 yd	2	\$233.82	\$256.26	4 yd	2	\$311.15	\$374.14	Bin Size	Per Week		
3 yd	3	\$317.24	\$349.22	4 yd	3	\$430.28	\$522.94	65 gal	1	\$67.51	\$76.11
3 yd	4	\$400.19	\$441.69	4 yd	4	\$549.34	\$671.69	65 gal	2	\$123.07	\$139.68
3 yd	5	\$483.07	\$534.09	4 yd	5	\$668.39	\$820.39	65 gal	3	\$174.81	\$199.22
3 yd	6	\$566.70	\$627.28	4 yd	6	\$787.71	\$969.41	65 gal	4	\$226.86	\$259.10
Trash Roll-Off Service				6 yd	1	\$234.35	\$281.65	65 gal	5	\$286.30	\$326.73
*10 Yard	\$571.63	\$621.40		6 yd	2	\$402.71	\$493.99	65 gal	6	\$330.47	\$378.31
*20 Yard	\$571.63	\$621.40		6 yd	3	\$571.05	\$706.35	1.5 yd	1	\$211.24	\$237.46
*40 Yard	\$571.63	\$621.40		6 yd	4	\$739.71	\$919.01	1.5 yd	2	\$373.03	\$423.00
*40 Yard Compactor	\$830.39	\$907.22		6 yd	5	\$908.06	\$1,131.36	1.5 yd	3	\$524.78	\$598.03
End Dump	\$183.64	\$192.82		6 yd	6	\$1,076.36	\$1,343.64	1.5 yd	4	\$675.26	\$771.69
<i>*Roll-off and compactor service rate is charged per service.</i>				Commercial Trash & Recycling Compactor Bin Service							
Recycling Roll-Off Service				*Rate includes 1 trash & 1 recycling bin of the same size & service frequency.							
*10 Yard-C&D	\$234.18	\$245.90		Bin Size	Per Week			2 yd	1	\$263.41	\$297.47
*40 Yard-C&D	\$183.50	\$192.68		3 yd	1	\$266.48	\$302.42	2 yd	2	\$481.57	\$547.42
*20/40 Yard-Recycling	\$183.50	\$192.68		3 yd	2	\$430.40	\$497.16	2 yd	3	\$685.18	\$782.10
*40 Yard-Recycling Compactor	\$183.50	\$192.68		3 yd	3	\$595.32	\$692.93	2 yd	4	\$890.10	\$1,018.14
*40 Yard-Wood/Green Waste	\$183.50	\$192.68		3 yd	4	\$759.56	\$888.00	2 yd	5	\$1,122.92	\$1,283.50
<i>*Roll-off service rate is charged per service and subject to disposal and processing fees charged per ton. Also subject to Transportation Fee, if customer requests direct haul to a specific location.</i>				3 yd	5	\$923.73	\$1,082.99	2 yd	6	\$1,297.84	\$1,488.06
Additional Services				3 yd	6	\$1,088.98	\$1,279.12	Contamination Fee			
Extra Pick-Up (barrel)	\$21.14	\$22.20		4 yd	1	\$318.57	\$364.65	\$44.61	\$ 46.84	*One-time no charge courtesy collection of contaminated container will be allowed with the exception of hazardous waste material, or biohazardous material.	
Extra Pick-Up (bin)	\$44.61	\$46.84		4 yd	2	\$528.12	\$612.82	New Rates			
Extra Pick-Up (compactor)	\$89.23	\$93.69		4 yd	3	\$737.57	\$864.90	Commercial Extra Pick-up Food Waste Barrel	\$63.90		
Tilthopper Rental	\$41.09	\$43.14		4 yd	4	\$946.86	\$1,114.82	Illegal Hauler Impound Fee= Per Day	\$100.00		
Bin Lock	\$11.74	\$12.33		4 yd	5	\$1,156.14	\$1,364.71				
*Roll-off Rental Fee	\$25.15	\$26.41		4 yd	6	\$1,365.58	\$1,614.78				
<i>*Per day after 7 days if not scheduled for weekly service.</i>				6 yd	1	\$417.41	\$483.53				
Additional Recycling Bin Service-For Existing Accounts Only				6 yd	2	\$720.58	\$847.06				
Not available to accounts established after 6/30/2017.				6 yd	3	\$1,023.69	\$1,210.58				
Bin Size	Per Week			6 yd	4	\$1,326.64	\$1,573.89				
3 yd	1	\$50.53	\$55.86	6 yd	5	\$1,629.60	\$1,937.23				
3 yd	2	\$87.11	\$97.06	6 yd	6	\$1,932.68	\$2,300.70				
3 yd	3	\$115.40	\$129.54	Extra Recycling Barrel-Commercial							
3 yd	4	\$144.94	\$163.35	65 gal		\$1.77	\$1.86				
3 yd	5	\$173.68	\$196.33	Push-Out Rates (per container, per service frequency)							
3 yd	6	\$203.44	\$230.36	26-50 ft		\$40.85	\$42.89				
				Over 50 ft.		\$81.68	\$85.76				
				Relocation Fee							
						\$63.35	\$66.52				
				*Hourly service rate, and also subject to actual disposal and processing fees.							

Exhibit B
City of Rancho Cucamonga
2019 Solid Waste Rates Comparison

Residential Barrel Service								
Service Type	Current Monthly Rate	5% Cap	Burrtec Extraordinary Proposed	R3 Proposed	Fontana	San Bernardino	Highland	Rialto
Residential	23.26	24.42	30.46	25.77	29.71	25.23	26.64	32.51
% Increased	N/A	5%	30.95%	10.79%				
\$ Increased		1.16	7.20	2.51				
Senior Rate	15.58	16.36	20.41	17.27	23.77	N/A	21.31	N/A
% Increased	N/A	5%	31%	10.85%				
\$ Increased		0.78	4.83	1.69				
Multi-Family	22.26	23.37	29.15	24.66	29.71	25.23	26.28	55.69
% Increased	N/A	5%	30.95%	10.78%				
\$ Increased		1.11	6.89	2.40				
Additional Recycle Bins - Commercial Accounts established before June 1, 2017								
1 x week	50.53	53.06	143.04	55.86	75.75	N/A	122.08	N/A
% Increased	N/A	5%	183.08%	10.55%				
\$ Increased		2.53	92.51	5.33				
2 x week	87.11	91.47	214.64	97.06	112.55	N/A	170.05	N/A
% Increased	N/A	5%	146.4%	11.42%				
\$ Increased		4.36	127.53	9.95				
3 x week	115.4	121.18	286.96	129.54	139.82	N/A	217.04	N/A
% Increased	N/A	5%	148.67%	12.25%				
\$ Increased		5.78	171.56	14.14				
4 x week	144.94	152.19	358.8	163.35	169.17	N/A	279.88	N/A
% Increased	N/A	5%	147.55%	12.7%				
\$ Increased		7.25	213.86	18.41				
5 x week	173.68	182.36	430.66	196.33	195.24	N/A	330.82	N/A
% Increased	N/A	5%	147.96%	13.04%				
\$ Increased		8.68	256.98	22.65				
6 x week	203.44	213.61	503.17	230.36	224.75	N/A	383.95	N/A
% Increased		5%	147.33%	13.23%				
\$ Increased		10.17	299.73	26.92				
Additional Recycle Bins - NEW Accounts								
1.5 CY/Week	101.19	106.26	109.08	107.64	86.58	N/A	101.67	N/A
% Increased	N/A	5%	7.80%	6.37%				
\$ Increased		5.07	7.89	6.45				
2 CY/Week	111.75	117.34	120.72	119.2	101.33	139.46	N/A	N/A
% Increased	N/A	5%	8.03%	6.67%				
\$ Increased		5.59	8.97	7.45				
4 CY/Week	151.82	159.41	164.95	163.13	N/A	163.99	265.05	N/A
% Increased	N/A	5%	8.65%	7.45%				
\$ Increased		7.59	13.13	11.31				
6 CY/Week	175.63	184.42	191.82	190.01	N/A	238	N/A	N/A
% Increased	N/A	5%	9.22%	8.19%				
\$ Increased		8.79	16.19	14.38				
Commercial Solid Waste with Recycling								
95 gal/Week	28.38	29.8	34.36	32.62	38.78	51.16	41.13	48.74
% Increased	N/A	5%	21.07%	14.94%				Equalized with food & recycling
\$ Increased		1.42	5.98	4.24				
1.5 CY/Week	117.14	122.99	137.15	131.88	124.5	102.32	145.66	144.89
% Increased	N/A	5%	17.08%	12.58%				
\$ Increased		5.85	20.01	14.74				
2 CY/Week	132.53	139.16	158.15	151.01	152	153.48	166.84	197.98

Service Type	Current Monthly Rate	5% Cap	Burrtec Extraordinary Proposed	R3 Proposed	Fontana	San Bernardino	Highland	Rialto
% Increased	N/A	5%	19.33%	13.94%				
\$ Increased		6.63	25.62	18.48				
3 CY/Week	162.35	170.47	199.17	188.26	192.65	205.26	210.34	263.56
% Increased	N/A	5%	22.68%	15.96%				
\$ Increased		8.12	36.82	25.91				
4 CY/Week	191.75	201.34	239.8	225.06	259.52	256.42	255.15	N/A
% Increased	N/A	5%	25.06%	17.37%				
\$ Increased		9.59	48.05	33.31				
6 CY/Week	234.35	246.07	304.09	281.65	N/A	307.58	321.52	N/A
% Increased	N/A	5%	29.76%	20.18%				
\$ Increased		11.72	69.74	47.30				
Multi-Family Solid Waste & Recycling - 3 Yard Bin								
1 x Week	156.82	164.66	193.42	182.46	193.6	148.82	210.34	266.66
% Increased	N/A	5%	23.34%	16.35%				
\$ Increased		7.84	36.60	25.64				
2 x Week	253.5	266.17	324.05	301.76	357.91	281.87	346.85	460.82
% Increased	N/A	5%	27.83%	19.04%				
\$ Increased		12.67	70.55	48.26				
3 x Week	350.15	367.66	454.69	421.03	504.78	418.8	482.4	654.54
% Increased	N/A	5%	29.86%	20.24%				
\$ Increased		17.51	104.54	70.88				
4 x Week	423.15	444.31	560.69	515.45	654.43	550.17	617.87	848.77
% Increased	N/A	5%	32.48%	21.81%				
\$ Increased		21.16	137.44	92.30				
5 x Week	512.54	538.17	683.61	627.11	802.21	684.17	753.3	1042.53
% Increased	N/A	5%	33.38%	22.35%				
\$ Increased		25.63	171.07	114.57				
6 x Week	602.56	632.69	807.31	739.43	952.45	1,047.09	890.92	1236.27
% Increased	N/A	5%	33.98%	22.71%				
\$ Increased		30.13	204.75	136.87				
Commercial- Compactor Solid Waste & Recycling								
3 CY/Week	266.48	279.8	305.99	302.42	237.48 (Equalized)	165.15	269.57	344.27
% Increased	N/A	5%	14.83%	13.49%				
\$ Increased		13.32	39.51	35.94				
4 CY/ Week	318.57	334.49	369.64	364.65	332.48	N/A	319.79	437.05
% Increased	N/A	5%	16.03%	14.46%				
\$ Increased		15.92	51.07	46.08				
6 CY/Week	417.41	438.28	491.36	483.53	N/A	N/A	N/A	N/A
% Increased	N/A	5%	17.72%	15.84%				
\$ Increased		20.87	73.95	66.12				
Commercial Green Waste (Landscape)								
3 CY/Week	151.13	158.68	174.71	164.06	155.65	127.02	184.18	
% Increased	N/A	5%	15.6%	8.56%				
\$ Increased		7.55	23.58	12.93				
Commercial Food Waste								
65 gal/week	67.51	70.88	76.63	76.11	38.78 (Equalized)	74.91	42.23	48.74
% Increased	N/A	5%	13.51%	12.74%				
\$ Increased		3.37	9.12	8.60				
1.5 CY/Week	211.24	221.8	239.22	237.46	124.5	230.84	145.66	N/A
% Increased	N/A	5%	13.25%	12.41%				
\$ Increased		10.56	27.98	26.22				
2 CY/Week	263.41	276.58	299.49	297.47	152	251.6	166.84	197.98

Service Type	Current Monthly Rate	5% Cap	Burrtec Extraordinary Proposed	R3 Proposed	Fontana	San Bernardino	Highland	Rialto
% Increased	N/A	5%	13.7%	12.93%				
\$ Increased		13.17	36.08	34.06				
Roll-Off- Solid Waste								
40 CY	571.63	600.21	625.89	621.4	587.98	588	517.15	719.29
% Increased	N/A	5%	9.49%	8.71%				
\$ Increased		28.58	54.26	49.77				
40 CY/ Compactor	830.39	871.91	912.61	907.22	784.8	588	630.85	870.09
% Increased	N/A	5%	9.90%	9.25%				
\$ Increased		41.52	82.22	76.83				
Roll-Off- Recycling								
20/40 CY Recyclables	183.5	192.68	195.81	192.68	238.84	364.44	517.15	196.8
% Increased	N/A	5%	6.71%	5%				
\$ Increased		9.18	12.31	9.18				
40 CY C&D	183.5	192.68	195.81	192.68	N/A	N/A	232.91	697.06
% Increased	N/A	5%	6.71%	5%				
\$ Increased		9.18	12.31	9.18				
Push Out Services								
26-50 Feet	40.85	42.89	43.59	42.89	41.44	N/A	N/A	56.31
% Increased	N/A	5%	6.71%	5%				
\$ Increased		2.04	2.74	2.04				
Extra Residential Services								
Additional Trash	7.33	7.7	7.82	7.7	7.19	14.1	8.47	7.04
% Increased	N/A	5%	6.7%	6.7%				
\$ Increased		.37	.49	.49				
Additional Recycling	1.48	1.55	1.58	1.55	N/A	N/A	2.12	2.14
% Increased	N/A	5%	6.8%	6.8%				
\$ Increased		.07	.10	.10				
Additional Green Waste	3.79	3.98	4.04	3.98	N/A	14.1	4.23	1.71
% Increased	N/A	5%	6.6%	5%				
\$ Increased		.19	.25	.19				
Backyard Pull- Out Service	49.29	51.75	52.6	51.75	N/A	N/A	N/A	N/A
% Increased	N/A	5%	6.71%	5%				
\$ Increased		2.46	3.31	2.46				
Temporary Bins	106.47	111.79	113.61	111.79	108.31	N/A	105.18	118.27
% Increased	N/A	5%	6.71%	5%				
\$ Increased		5.32	7.14	5.32				
Temporary Bins Extra Pick-up	106.47	111.79	113.61	111.79	86.36	N/A	62.85	105.77
% Increased	N/A	5%	6.71%	5%				
\$ Increased		5.32	7.14	5.32				
Bulky Items: Trip Charge	30.84	32.38	32.91	32.38	35.44	N/A	35	28.95
% Increased	N/A	5%	6.71%	5%				
\$ Increased		1.54	2.07	1.54				
Bulky Items: Per Item Charge	11.31	11.88	12.07	11.88	13	N/A	10	11.58
% Increased	N/A	5%	6.71%	5%				
\$ Increased		.57	.76	.57				
Contamination Fee	44.61	46.84	47.6	46.84	58.08	N/A	55	54.25
% Increased	N/A	5%	6.71%	5%				
\$ Increased		2.23	2.99	2.23				

*Please note, City of Ontario and Upland are in the rate review process.

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September 6, 2019

Ms. Marissa Ostos
 City of Rancho Cucamonga
 10500 Civic Center Drive
 Rancho Cucamonga, CA 91730

Subject: Review of Burrtec’s Rate Period 3 Bi-Annual Solid Waste Rate Adjustment Request

Dear Ms. Ostos:

R3 Consulting Group, Inc. (R3) was engaged by the City of Rancho Cucamonga (City) to review Burrtec Waste Industries, Inc.’s (Burrtec’s) request for a bi-annual adjustment to solid waste rates for Rate Period 3 (July 1, 2019 through June 30, 2021). This report contains findings and recommendations resulting from our review.

Executive Summary

As the City is aware, Burrtec is requesting adjustments to solid waste rates that exceed the bi-annual 5% maximum rate adjustment cap stipulated by Section 6.3.2 of the Franchise Agreement (Agreement).

Burrtec is requesting an extraordinary rate adjustment under Agreement Section 6.4, and due to factors outlined in Attachment 1, Burrtec’s 2019 Bi-annual Solid Waste Rate Review letter dated March 29, 2019. Those factors include the effect of China’s “National Sword” policy, which has significantly increased costs and reduced commodity revenues at Burrtec’s West Valley Material Recovery Facility (West Valley MRF), which is the facility used for tipping and processing of City solid waste collected by Burrtec. Other factors include the effect of increased quantities of collected food scraps, which has been driven by increasing state mandates for subscription to organics collection service at businesses in the City, which is in turn increasing the tipping fee costs for organic materials.

Based on review of information provided by Burrtec during an on-site review, R3 is able to confirm that these factors are, in fact, increasing Burrtec’s tipping fees. Furthermore, based upon evaluation of similar rate increase requests and the back-up information provided during these similar reviews, R3 confirms that these same issues are affecting operating costs for similar companies throughout California. R3 is aware of other public agencies that have approved extraordinary rate adjustments due to these factors. Per Agreement Section 6.4, the City retains “sole judgment and absolute, unfettered discretion” to make its determination as to “whether an adjustment to the maximum rates will be made, and, if an adjustment is permitted, the appropriate amount of the adjustment.” To that end, the City has the following main options:

- 1) Deny Burrtec’s request for an extraordinary adjustment to solid waste rates, and **approve the 5% bi-annual rate adjustment calculated as per Agreement Exhibit 5 (Attachment 2);¹ OR**

¹ Which the City is generally obligated to approve. Per the Agreement: “Adjustment to the maximum rates is subject to the approval of the City Council at a public hearing, although the Council’s (continued on next page)

- 2) Accept Burrtec's request for an extraordinary adjustment to solid waste rates and approve the bi-annual rate adjustment requested by Burrtec (with one minor correction by R3 – see footnote #9 on page 8), including **increases to residential rates of 31.38%** (Attachment 3); **OR**
- 3) Accept Burrtec's request for an extraordinary adjustment to solid waste rates and approve the bi-annual rate adjustment recommended by R3, including **increases to residential rates of 10.79%** (Attachment 4), accounting for a 5% change to Burrtec's service rate component (less prior amounts of rate stabilization), the extraordinary increases in tipping fees, and the resulting changes in the City's fees.

R3 does not recommend the first option because Burrtec has demonstrated – and the entire solid waste industry is experiencing – increased expenses and reduced revenues due to the crisis in the recycling marketplace and the demands on organics processing infrastructure. R3 does not recommend the second option because Burrtec has not sufficiently demonstrated that it has experienced extraordinary increases in costs, other than the increases in tipping fees. R3 recommends the third option because Burrtec has demonstrated extraordinary increases in tipping fees, and because those tipping fees are reasonable.

In reviewing Burrtec's request for an extraordinary increase, R3 became aware that Burrtec anticipates the need for additional extraordinary increases in the future. Burrtec's recycling tipping cost is calculated one-year in arrears (due to the complexity of projecting recyclables net costs) and, as a result, the current extraordinary increase is only capturing a portion of the impacts in the recycling marketplace. That, combined with the expectation that organics tons and costs will continue to increase in the immediate future (due to implementing the requirements of AB 1826 and SB 1383), indicates a likelihood that Burrtec will experience further extraordinary increases in tipping fees.

As a result, R3 recommends that the City review and potentially amend the provisions of Section 6.4 to, first, clarify expectations regarding potential future extraordinary adjustments, and, second, set a standard format for potential future extraordinary adjustments that Burrtec may request.

Findings and Recommendations

Methodology

R3 conducted a thorough analysis of Burrtec's rate request including:

- Review and analysis of the terms and conditions in Agreement Section 6 and Exhibit 5;
- Preparation and analysis of detailed requests for supporting information necessary for evaluation of the rate adjustment request;
- Interviews with Burrtec's Chief Financial Officer and other staff;
- Review of the requested rate adjustment's mathematical accuracy and consistency with the terms and conditions of the Agreement;
- Review of supporting documentation used as the basis for certain values in the rate adjustment calculations;

discretion shall be limited to determining, based on substantial evidence, whether the requested maximum rate adjustment meets the requirements as set forth herein." R3 confirms that Burrtec's bi-annual rate adjustment of 5% meets the requirements of the Agreement.

- Review and confirmation of the accuracy of the calculated CPI adjustment factor;
- Review and confirmation that rates tie to the City's approved rate schedule²;
- Review of Burrtec's intercompany tipping fee charges and calculation methodology.

CPI Adjustment

With respect to the bi-annual CPI rate adjustment allowed per Section 6 of and Exhibit 5 to the Agreement (included as Attachment 5), R3 finds that Burrtec:

- Correctly calculated and applied the CPI adjustment factor;
- Correctly calculated the City Fees (i.e., Franchise Fee and HHW – aka HazMat – Fee);
- Used the correct refuse, organics and recycling disposal components;
- Correctly calculated the Additional Service Fees by multiplying the current fees by the calculated CPI adjustment factor;³ and
- Correctly calculated rates, with the application of the “rate stabilization offset” or “carry forward” as shown in Attachment 2, that do not exceed the 5% maximum increase established for Rate Period 3.

Based on these findings, were the City not to consider Burrtec's request for extraordinary rate adjustment, R3 would recommend approval of the 5% increase in rates as proposed by Burrtec, as shown in Attachment 2, and as calculated per Agreement Exhibit 5.

Extraordinary Adjustment

With respect to Burrtec's request for extraordinary rate adjustment, R3 finds that Burrtec has sufficiently demonstrated that an extraordinary adjustment pursuant to Section 6.4 of the Agreement is warranted. Specifically, Burrtec has demonstrated extraordinary changes in tipping fees that are the result of the changes noted by Burrtec in Attachment 1. R3 recommends that the City consider approving rates for Rate Period 3 that exceed the 5% maximum increase allowed per Section 6.3.2.

However, R3 also finds that Burrtec has not sufficiently demonstrated extraordinary changes in cost that would justify the magnitude of its proposed extraordinary rate adjustments, included as Attachment 3. Burrtec's extraordinary rate adjustment is for a 31.38% increase to residential rates and increases to all other rate classifications. While Burrtec has satisfactorily demonstrated extraordinary changes in tipping fees, its request for an extraordinary increase is the result of the difference between rates subject to the maximum increases allowed per Section 6.3.2, and what those rates would be without application of the 5% cap (including removal of prior rate stabilization amounts).

R3 finds that Burrtec's proposed extraordinary rate adjustments are not fit for adoption in that they are not – with the exception of the increases in tipping fees – based on extraordinary changes in Burrtec's costs for providing service under the Agreement. R3 therefore recommends that the City consider approving rates above the 5% maximum, but only for the extraordinary increases in tipping fees as allowed per Section 6.4, as well as the associated changes in the City's fees. R3's recommended rate

² Burrtec included new rates for Commercial Extra Pickups for a Barrel of Food Waste and Illegal Hauler Impound Fee of \$100 per day. The City should review and confirm the legitimacy of these new rates.

³ Exhibit 5 does not establish a methodology for adjusting these rates.

adjustments are included as Attachment 4 and are summarized below in comparison to Burrtec's request for extraordinary adjustment, and the Exhibit 5 maximum rates that would be allowed without consideration of an extraordinary rate adjustment.

Table 1: Comparison of City's Rate Adjustment Options to Current Rates

		Comparison of Rate Adjustment Options			
		Rate Period 2 Current Rates: July 1, 2017 through June 30, 2019	Rate Period 3 Rate Adjustment Options: July 1, 2019 through June 30, 2021		
			5% Cap Per Exhibit 5	Requested by Burrtec	Recommended by R3
Residential Barrel Rates	Monthly Rate	\$ 23.26	\$ 24.42	\$ 30.46	\$ 25.77
	\$ Increase	NA	\$ 1.16	\$ 7.20	\$ 2.51
	% Increase	NA	5.0%	31.0%	10.8%
Multi-Family Barrel Rates	Monthly Rate	\$ 22.26	\$ 23.37	\$ 29.15	\$ 24.66
	\$ Increase	NA	\$ 1.11	\$ 6.89	\$ 2.40
	% Increase	NA	5.0%	31.0%	10.8%
Recycling Bin Service for Existing (3 cy once per week)	Monthly Rate	\$ 50.53	\$ 53.06	\$ 143.04	\$ 55.86
	\$ Increase	NA	\$ 2.53	\$ 92.51	\$ 5.33
	% Increase	NA	5.0%	183.1%	10.5%
Commercial Refuse Bin Service w/Recycling (3 cy once per week)	Monthly Rate	\$ 162.35	\$ 170.47	\$ 199.17	\$ 188.26
	\$ Increase	NA	\$ 8.12	\$ 36.82	\$ 25.91
	% Increase	NA	5.0%	22.7%	16.0%
Multi-Family Refuse Bin Service w/Recycling (3 cy once per week)	Monthly Rate	\$ 156.82	\$ 164.66	\$ 193.42	\$ 182.46
	\$ Increase	NA	\$ 7.84	\$ 36.60	\$ 25.64
	% Increase	NA	5.0%	23.3%	16.3%
Commercial Refuse Compactor Bin Service w/Recycling (3 cy once per week)	Monthly Rate	\$ 266.48	\$ 279.80	\$ 305.99	\$ 302.42
	\$ Increase	NA	\$ 13.32	\$ 39.51	\$ 35.94
	% Increase	NA	5.0%	14.8%	13.5%
Commercial Green Waste Bins (3 cy once per week)	Monthly Rate	\$ 151.13	\$ 158.68	\$ 174.71	\$ 164.06
	\$ Increase	NA	\$ 7.55	\$ 23.58	\$ 12.93
	% Increase	NA	5.0%	15.6%	8.6%
Food Waste (2 cy once per week)	Monthly Rate	\$ 263.41	\$ 276.58	\$ 299.49	\$ 297.47
	\$ Increase	NA	\$ 13.17	\$ 36.08	\$ 34.06
	% Increase	NA	5.0%	13.7%	12.9%
Roll-off Refuse (40 cy per pull)	Per Pull Rate	\$ 571.63	\$ 600.21	\$ 625.89	\$ 621.40
	\$ Increase	NA	\$ 28.58	\$ 54.26	\$ 49.77
	% Increase	NA	5.0%	9.5%	8.7%

As shown in Table 1 and Attachment 4, R3 is recommending rates that are higher than the 5.0% cap, but lower than the rates requested by Burrtec for all rate classifications. R3's methodology for developing these rates involved:

- Escalating Burrtec's service component, less prior amounts of rate stabilization, by the 5% cap;
- Setting Burrtec's processing and disposal components based on actual increases in tipping fees;
- Setting the City's Franchise and HazMat Fees to actual based on the changes in the other rate components; and

- Removing the rate stabilization amounts from the calculation, as they have been applied to the Burrtec's service component.

This methodology has the result of no longer calculating the gross amount of carry forward, meaning that the accrued difference between approved rates and what those rates would have been without the bi-annual rate increase cap is not shown in Attachment 4. If the City approves the rates as recommended by R3, the City and Burrtec will need to resolve whether and how the carry forward should be calculated in the future, as discussed elsewhere in this report.

Additional Recommendations

R3 recommends that the City consider amending the Agreement to clarify and potentially revisit the rate adjustment provisions of Section 6 and Exhibit 5, specifically with respect to:

- Clarifying the specifics of how accrued amounts of rate stabilization offset / carry forward are to be carried forward or applied in subsequent rate periods, per Section 6.3.2;
- Clarifying the specifics of how future Section 6.4 extraordinary adjustments may be requested and considered, including clarification regarding:
 - Whether carry forward amounts may be requested;
 - The timeframes over which extraordinary cost increases may be considered; and
 - The intention of the 10% change-in-cost limitations for tipping fees, given the biannual rate-setting period.
- Setting a City-approved standard format for potential future Burrtec requests for extraordinary rate adjustment.

Analysis

Background

The City holds an exclusive Agreement with Burrtec for Integrated Solid Waste Management Services. The term of the Agreement began on July 1, 2016 and expires on June 30, 2028. Article 6 of the Agreement (Burrtec Compensation and Rates) provides for bi-annual adjustments to the maximum rates listed in Exhibit 4 of the Agreement. Per the Agreement, Burrtec may submit a request for a bi-annual adjustment to the maximum rates, which is to be received by the City by April 1 preceding the Rate Period for which the adjustment is requested.

The methodology for calculating the bi-annual rate adjustment is specified Article 6 and Exhibit 5 of the Agreement, included as Attachment 5. The rate adjustment methodology specified in Exhibit 5 involves the following steps to determine the rates for the coming Rate Period:

- Adjust the Service Component for the current Rate Period by the CPI;
- Adjust the Disposal Component and/or Processing Component(s) by the actual changes to those components;

- Adjust the Franchise Fee⁴ and Household Hazardous Waste (HHW) Fee⁵ Components based on the agreed-upon percentage of gross receipts; and
- Adjusting the overall rate adjustment not to exceed 5%.

Burrtec submitted its request for bi-annual rate adjustment to the City on March 29, 2019, which is prior to the April 1 date described in Exhibit 5, but after the date that the City requested an extraordinary rate adjustment.

Extraordinary Adjustment

Burrtec is requesting adjustments to solid waste rates that exceed the bi-annual 5% maximum rate adjustment cap stipulated by Section 6.3.2 of the Agreement. Extraordinary adjustments as allowed per Section 6.4, which states the following (underline added by R3 for emphasis):

“Contractor may request in writing an adjustment to maximum rates other than that allowed under Section 6.2 in the event of extraordinary changes in the cost of providing service under this Agreement. Contractor may submit a request not more frequently than once every twenty-four (24) months. Such changes shall not include changes in tipping fees for Refuse Disposal of less than 10%, changes in Recyclable Materials or Organic Materials processing costs of less than 10%, changes in the market value of Recyclable Materials of less than 10%, inaccurate estimates by the Contractor of its anticipated cost of operations, unionization of Contractor's work force, change in wage rates or employee benefits, or the inability of the Contractor to Dispose of any or all Refuse at a selected landfill, including due to closure of the Disposal Site. The only exception that would permit an extraordinary adjustment based upon changes to the Refuse Disposal gate rate of less than 10% would be an increase in a direct per ton surcharge assessed at the Disposal Site by federal, State or local regulatory agencies after the Effective Date. Contractor is expected to comply with SCAQMD Rule 1193, and the Air Resource Board's emission standards as they may be approved for Refuse removal vehicles, as well as other Federal, State and local laws and regulations that may be enacted during the Term, with no additional compensation. Extraordinary rate adjustments shall only be effective after approval by City Council and may not be applied retroactively.

For each request for an adjustment to the maximum rates that Contractor may charge Customers brought pursuant to this Section, Contractor shall prepare a schedule documenting the extraordinary costs. Such request shall be prepared in a form acceptable to City with support for assumptions made by Contractor in preparing the estimate. Contractor shall also submit a schedule showing how its total costs and total revenues have changed over the past three (3) years for the services provided under this Agreement.

City shall review the Contractor's request and, in City's sole judgment and absolute, unfettered discretion, make the final determination as to whether an adjustment to the maximum rates will be made, and, if an adjustment is permitted, the appropriate amount of the adjustment. City may consider increases or decreases in the Contractor's total revenues and total cost of services when

⁴ Franchise Fee – Per Section 3.1 of the Agreement, the Franchise Fee is equal to fifteen percent (15%) of the Gross Receipts received by Burrtec.

⁵ Household Hazardous Waste Fee – Per Section 3.2 of the Agreement, the Household Hazardous Waste (HHW) Fee is equal to seventy-five hundredths of one percent (0.75%) of the Gross Receipts received by Burrtec.

reviewing an extraordinary rate adjustment request. City may require Contractor to fund a review of any extraordinary rate adjustment, by a third party of City's choosing, up to thirty-five thousand dollars (\$35,000.00) per request.”

Burrtec’s request for extraordinary adjustment includes changes in tipping fees for refuse disposal, recyclable materials and organics materials processing costs (altogether “tipping fees”). Burrtec’s request, appropriately, does not include changes due to inaccurate estimates of its anticipated cost of operations, unionization, changes in wage rates or employee benefits, or changes in disposal sites.

However, as demonstrated in Attachments 1 and 3, Burrtec’s request for extraordinary adjustment includes “a carry forward amount for the subsequent⁶ [sic] Rate Adjustment Period (2017-2019)”. The carry forward amounts in question reference the difference between the rates for Rate Period 2⁷ and what the Rate Period 2 rates would have been without application of the Section 6.3.2 cap. These carry forward amounts are shown in Attachment 2 as “Rate Stabilization” elements of the total requested rates. For example, in Attachment 2, the net carry forward/Rate Stabilization for residential customers is \$5.09, resulting in a total monthly rate of \$24.42 instead of a total monthly rate of \$30.46⁸ as shown in Attachment 3.

Schedule of Tipping Fee Extraordinary Costs

Burrtec has represented, and R3 has verified, that Burrtec’s tipping fees for refuse, organics and recyclables have increased by more than 10% in the prior two years, as shown in Table 2, below.

Table 2: Burrtec’s Tipping Fees by Year

Tipping Fee	2016	2017	2018	2019	% Increase 2017-2019
Refuse (Transfer and Disposal)	\$ 41.80	\$ 43.83	\$ 47.48	\$ 49.00	11.8%
Green Waste (Processing, Transfer, Recycling and Residual Disposal)	\$ 35.61	\$ 42.95	\$ 47.97	\$ 49.45	15.1%
Recyclables (Processing, Marketing, Transfer, Recycling and Residual Disposal)	\$ (30.00)	\$ 25.15	\$ 25.01	\$ 44.80	78.1%

As shown above, Burrtec’s tipping fee for refuse increase by 11.8% since 2017. Tipping fees for organics and recyclables increased by 15.1% and 78.1%, respectively.

It should be noted that all referenced tipping fees are intercompany tipping fees charges by Burrtec’s owned and operated West Valley MRF to the Burrtec hauling operation providing service to the City. Because these tipping fees result in intercompany charges, R3 reviewed the basis for setting the tipping

⁶ Attachment 1 states “subsequent” but the meaning conveyed in the letter indicates “prior” and R3 is interpreting Burrtec’s meaning in reference to the prior rate adjustment period.

⁷ Which were also reviewed by R3 and capped at an increase of 3.5%, with the report included as Attachment 6.

⁸ Note that the difference between the \$24.42 rate with application of the 5% cap is actually \$6.04 less than the rate without the 5% cap, which is the due to changes in the Franchise Fees and HazMat Fees portions of the rate with and without the 5% cap.

fees to ensure that the fees are fair, reasonable, and accurately calculated. R3 met with Burrtec's Chief Financial Officer to review the calculation methodology of the tipping fees, and was able to confirm that:

- Tipping fees are set based on actual and projected costs of operation;
- Burrtec's calculation of tipping fees based on costs of operation yield the tipping fees shown in Burrtec's rate request;⁹
- Burrtec calculates tipping fees using a similar methodology to set tipping fees for all its West Valley MRF customers; and
- Tipping fees were set using reasonable and efficient operating assumptions (for example, Burrtec assumes that green waste tons will go to the lowest available cost option for the maximum number of potential tons).

R3 further confirmed the reasonableness of Burrtec's tipping fees by comparing them to other tipping fees within a reasonable haul distance from the City. Based on information available to R3, we determined that Burrtec's tipping rates for refuse are approximately 30% less than the average, with tipping fees for green waste and food waste being 24% less and 4% more than the average, respectively.

Comparisons of recyclables tipping fees were not possible given available information; however, R3 has recently reviewed per ton recyclables tipping fees on behalf of other agencies and can confirm that Burrtec's \$44.80 per ton tipping fee for recyclables is relatively low. R3 has recently seen recyclables tipping fees at other MRF's ranging as high as \$100 to \$180 per ton. To that end, Burrtec has indicated that further increases in recyclables tipping fees are anticipated in coming years, as the current recyclables tipping fee is set based on 2018 financial information; so far to date in 2019 Burrtec has projected further losses from the changes in the recyclables marketplace.

No City Recyclables Revenue Share

It is important to note that the recyclables tipping fee takes into account revenues received from Burrtec's sale and redemption of recyclable materials, meaning that the tipping fees are based on West Valley MRF's operating costs for recyclables processing less revenues from sale and redemption. As such, there is no additional "revenue share" offered or due the City from the sale and redemption of recyclable materials.

That said, Burrtec does have contractual obligations for sharing recyclables revenues with other cities. R3 is confirming with Burrtec whether revenues shared with other cities count towards West Valley MRF's operating costs, or not. If shared revenues do not count towards West Valley MRF's operating costs used as the basis of calculating recyclables tipping fees, then no adjustment is necessary. However, if shared revenues are included in West Valley MRF's operating costs used as the basis for setting recyclables tipping fees, then R3 recommends that adjustments be made to ensure that the tipping fees extended to the City are not affected by Burrtec's revenue sharing obligations with other cities.

⁹ With the exception of the 2019 refuse tipping fee, which was shown as \$49.90 per ton in Burrtec's application and supporting documentation, but which is actually set to \$49.00 per ton. The error in the application and letter was due to a typo in the letter from the West Valley MRF to Burrtec's hauling operation, setting the tipping fees for the coming year. R3 made the appropriate connection to Burrtec's rate requests as shown in Attachments 2 and 3.

Schedule of Other Extraordinary Costs

In its rate request, Burrtec provided a schedule demonstrating the percentage change in Burrtec's costs from 2013-2019 for cost categories including CPI, minimum wage, compressed natural gas (CNG), driver compensation per hour, workers' compensation (showing a decrease in the premiums paid for workers' compensation insurance), liability and medical insurance, and auto insurance costs. R3 finds that the schedule is insufficient for the purposes of considering an extraordinary adjustment to the rates in that it does not identify, or document, extraordinary costs incurred by Burrtec to services provided under the Agreement. R3 recommends that the City make no extraordinary adjustment to solid wastes for the cost elements identified above.

Costs and Total Revenues Over Past Three Years

Burrtec did not submit a schedule showing how its total costs and total revenues have changed over the past three years for the services provided under this Agreement, as required per Section 6.4.

Burrtec did allow R3 to review an internal Burrtec schedule on-site at Burrtec's offices that showed increasing operating expenses, decreasing income from operations, and decreasing company profits since 2016. However, as this schedule was neither submitted to the City nor could it be directly tied to services provided under the Agreement, and as a result R3 was unable to use this information for the purposes of reviewing Burrtec's request for extraordinary rate adjustment for costs other than tipping fees.

* * * * *

We appreciate the opportunity to be of service to the City. Should you have any questions or need any additional information, please contact me by phone at (510) 292-0853 or by email at gschultz@r3cgi.com.

Sincerely,

R3 CONSULTING GROUP



Garth Schultz | Principal

Attachments:

- 1 Burrtec's March 29, 2019 Letter, RE: 2019 Bi-annual Solid Waste Rate Review
- 2 Requested Rates for Rate Period 3 (July 1, 2019 – June 30, 2021) calculated per Exhibit 5
- 3 Extraordinary Requested Rates for Rate Period 3 (July 1, 2019 – June 30, 2021) calculated by Burrtec
- 4 Recommended Rates for Rate Period 3 (July 1, 2019 – June 30, 2021) calculated by R3
- 5 Franchise Agreement Excerpts: Section 6 and Exhibit 5
- 6 R3's Rate Period 2 Review Final Report