



City of Placerville MEMORANDUM

DATE: May 13, 2008

TO: City Council

FROM: John Driscoll, City Manager/City Attorney

**SUBJECT: AMENDMENT TO FRANCHISE AGREEMENT BETWEEN
EL DORADO DISPOSAL AND CITY OF PLACERVILLE**

RECOMMENDATION

That the City Council adopt a resolution authorizing the Mayor to execute an amendment to the Franchise Agreement for waste collection with Waste Connections doing business as El Dorado Disposal.

DISCUSSION

The existing Franchise Agreement with El Dorado Disposal was entered into in 1994 and contains a 15-year term, with the Agreement terminating on December 31, 2013. The Franchise Agreement was transferred to Waste Management, doing business as El Dorado Disposal, in 1998, and again transferred in 2006 to Waste Connections doing business as El Dorado Disposal.

Last year, El Dorado Disposal commenced a pilot program in Placerville for the 3-cart system, which had previously been implemented in other areas of El Dorado County. The system includes a 64-gallon waste cart, a 64-gallon recycle cart, and a 96-gallon green waste cart. The pilot program encompassed approximately 150 residences in the City and has been a big success. El Dorado Disposal chose the program area, in part, because it was one of the difficult areas in the City to serve. Comments received by El Dorado Disposal indicate that over 95% of those participating in the program want to continue. In fact, the City has received calls from residents outside the pilot program area inquiring as to when they would be able to have the 3-cart system instituted.

As a result, City staff began meeting with El Dorado Disposal personnel to implement the 3-cart system citywide and to make the necessary amendments to the Franchise Agreement. Implementing the 3-cart system, however, does not come without a cost. Whenever El Dorado Disposal has previously instituted the 3-cart system in other areas of El Dorado County, there has been a corresponding rate increase to cover the cost of the carts. The carts represent a capital

expenditure by El Dorado Disposal of between \$300,000 and \$400,000. Additionally, El Dorado Disposal will be purchasing a smaller truck at a cost of approximately \$180,000 to service some of the more difficult areas of the City.

The initial proposal of El Dorado Disposal spread the cost of the carts, together with attendant equipment, over a five-year period, and resulted in a substantial rate increase for the City's ratepayers. The rate increase was further exacerbated by the fact that the City ratepayers had not had a rate increase since 2006 and El Dorado Disposal was due for a Consumer Price Index (CPI) rate increase, as well as an additional increase in the fuel surcharge, which was instituted in 2006.

In order to reduce the impact on the City ratepayers, City staff and El Dorado Disposal personnel looked at other alternatives. It was identified that, as a result of implementation of the 3-cart system City-wide, El Dorado Disposal would experience savings in workers' compensation costs, as well as the resulting efficiency of operations. These savings were factored into the rate calculations. Additionally, spreading the cost over a longer period of time than five years was examined. Because the current Franchise Agreement is due to expire in five years, using a longer amortization period for the carts and other equipment would require a Franchise Agreement extension. Extending the term of the Agreement for an additional 10 years would produce significant savings for the City's ratepayers. It is also felt that a rate structure that rewards recycling and conservation would benefit a majority of the City's ratepayers since well over 50% of the City's ratepayers utilize a 32-gallon container. As a result, the proposed rates are weighted in favor of the small container user.

One additional factor was used in order to reduce the rate increase to as low as possible. During negotiations with El Dorado Disposal, there was considerable discussion of the City going to mandatory garbage collection. If the City went mandatory, the rates would be less than in a non-mandatory setting. Obviously, the City has not instituted a mandatory garbage collection ordinance, but in order to reduce the initial impact on the ratepayers and as an incentive to go to mandatory collection, El Dorado Disposal has agreed to a four-year rate structure that for the first year is based on a mandatory rate. Then, over the next three years, the rates gradually go back to what a non-mandatory rate would be. This gives the City an opportunity to pass a mandatory collection ordinance and retain a rate structure based upon a mandatory rate calculation. In the proposed Franchise Agreement, any time that the City goes mandatory, the rates would be adjusted to reflect the non-mandatory savings. The proposed rate schedule, commencing July 1, 2008, is as follows ¹:

Existing Rate with Fuel		New Rate with CPI		New Rate with Fuel	
32-gal.	15.56	32-gal.	16.53	32-gal.	17.37
64-gal.	24.48	64-gal.	25.71	64-gal.	27.02
96-gal.	33.39	96-gal.	30.85	96-gal.	32.42

¹ These rates do not reflect the senior rate, which is 10% less for ratepayers 65 years of age or older.

The four-year rate schedule for residential users, which is incorporated into the proposed Amendment, is attached to this staff report and marked Exhibit “B.”

You will note that the rates increase substantially for users of a 64- or 96-gallon cart. This was done in order to encourage recycling and to reduce the rate increase impact on the majority of City ratepayers. It should be noted that in jurisdictions where the 3-cart system is in place, there has been a notable reduction in trash and a corresponding increase in recyclables, thereby increasing the jurisdiction’s diversion rates. It is anticipated that many of the larger container users in the City will be able to go to a smaller cart as a result of increased recycling.

Included in the rate increase is the fuel surcharge, which this year goes from 3.57% to 5.08%. El Dorado Disposal currently has Franchise Agreements with the Cameron Park CSD, El Dorado Hills CSD, and with El Dorado County for the remaining unincorporated areas. El Dorado Disposal is currently seeking a CPI increase as well as a fuel surcharge for those franchises. The proposed fuel surcharge for El Dorado Hills is 5.08%, and for Cameron Park and other areas of the County it is 5.38%. Additionally, for each franchise El Dorado Disposal is requesting a 3.3% CPI increase.

For comparison purposes, the following reflects the proposed rates for Placerville, El Dorado Hills, Cameron Park and El Dorado County. These rates include the CPI increase and the fuel surcharge increase.

	Placerville	El Dorado Hills	El Dorado County	Cameron Park
32-gal.	17.37	22.00	19.72	19.85
64-gal.	27.02	23.70	28.62	23.54
96-gal.	32.42	33.21	29.30	23.96

It should be noted that the 32-gallon rate in El Dorado County is only for customer-supplied containers, as the 3-cart system in the County does not have a 32-gallon cart. Also, the 32-gallon cart rate in Cameron Park is available only to seniors. The proposed City-wide 3-cart system will provide the option of a 32-gallon, 64-gallon or 96-gallon trash cart for all residents. Additionally, each City customer will have the option of receiving a 64-gallon recycling cart and/or a 96-gallon green waste cart at no extra charge. The proposed Franchise Amendment will also allow a City customer to request an additional recycle cart or green waste cart at no extra cost.

In reviewing the proposed rates for the various franchises in El Dorado County, it is apparent that there is a considerable disparity amongst the rates charged for the same size container. Rates are driven by the goals of each franchise jurisdiction. For example, in El Dorado Hills, the majority of customers utilize a 64-gallon container. Therefore, the goal in El Dorado Hills is to keep the 64-gallon container rate as low as possible. This has the effect of increasing the rate for the 32-gallon container offered in El Dorado Hills, as well as the 96-gallon container offered in El Dorado Hills.

In contrast, in Placerville, the vast majority of customers utilize a 32-gallon container. In order to provide the most benefit to the majority of citizens, City staff, in negotiations with El Dorado

Disposal, strove to achieve the lowest possible rates for the 32-gallon cart user. In order to maintain lower rates for the 32-gallon cart user, rates for the 64-gallon cart and the 96-gallon cart had to be increased. Staff feels that this will also serve as an incentive to the larger container users to recycle more, and thereby reduce the size of their trash container.

The changes in commercial rates are set forth in Exhibits “C” and “D,” included with this staff report for the Council’s information. Exhibit “C” reflects the present commercial rates in existence, while Exhibit “D” reflects the changes to those commercial rates as proposed with this Amendment to the Franchise Agreement. The proposed rates include both the CPI increase of 3.3% and the fuel surcharge of 5.08%

As previously indicated, in order to reduce the impact to City ratepayers, the Franchise Agreement would have to be amended and the term extended for an additional 10 years. The proposed amendment to the Agreement reflects that extension, extending the term to June 30, 2023. However, there are other changes to the Franchise Agreement contained in the proposed amendment. Since the Franchise Agreement would need to be amended for the extension, staff reviewed the entire Agreement in order to determine what other changes might be in order.

The following bullet points summarize the changes and modifications to the existing Franchise Agreement, which are included in the proposed Amendment to the Franchise Agreement. It should be noted that some of these bullet point items are currently being provided by El Dorado Disposal, but the current agreement does not include them.

- Provisions are included for the collection of commercially generated recyclable materials.
- Provisions are included in the Amendment to implement a construction and debris collection ordinance should the City decide to adopt such an ordinance.
- Hours of collection on single-family residential routes shall not start before 4:45 a.m., or continue after 7:00 p.m., Mondays through Fridays, and on Saturdays following non-working holidays. Commercial collection shall not start before 3:35 a.m., nor continue after 7:00 p.m. on any day.
- The City will not be charged for collection services at the following location: City Hall; Town Hall; Police Department; all City cans on Main Street; and all City cans in the City parking garage. Further, in the event the City was to institute mandatory collection service, there will be no charge for collection services provided for all City parks.
- Each customer shall be provided with a coupon for free “bulky waste” pick-ups on an annual basis.
- Each residential customer will be provided on an annual basis a coupon allowing them to dispose of up to 2.5 cubic yards of unsorted waste at the Materials Recovery Facility.
- Residential customers will be provided with the collection of used motor oil and filters.

- Residential solid waste customers who are unable to place their solid waste and recyclables at curbside due to illness, physical strength, or other verifiable reasons, will be provided with special assistance for pick-up of their solid waste and recyclable materials.
- Bare holiday trees will be picked up at no additional charge for customers receiving residential solid waste service during the first two full collections weeks of every January.
- The City will be provided with two City-wide community clean-up days each year throughout the term of the Agreement.
- “Problem Property Clean-Up.” Up to four times per year, El Dorado Disposal will provide a 30-yard roll-off box at any problem property for the purpose of neighborhood clean-up of that property.
- In the event an application is made for a franchise transfer, the City shall be entitled to recover the anticipated costs of all direct administrative expenses owed the City with respect to such application, in an amount not to exceed \$10,000 (Presently, the Franchise Agreement has a \$2,500 limit on this expense).
- From time to time and in the discretion of the City, the City can conduct a performance and quality of service review with respect to the Franchisee, as well as perform a rate review.
- The procedure for rate increases has been simplified in that the base rates for the first four years of the Agreement are included in the Amendment, which further provides that the Franchisee will be entitled to rate increases based on changes in the CPI each year, provided that requests for rate adjustments are submitted no earlier than January 1, and no later than April 1, of each year. Extraordinary increases, such as the fuel surcharge, are also provided for in the proposed Amendment, but such increases are not automatic and need to be requested on an annual basis.
- The Agreement provides that the Franchisee will use commercially reasonable efforts to explore the use of new management practices, including new technologies to help reduce waste management activity-based greenhouse gas and carbon release emissions.
- The proposed Agreement requires that representatives of the Franchisee be available during normal office hours for communication with the public in person and by telephone, either at the Franchisee’s Diamond Springs office or at such other location in El Dorado County as the Franchisee may designate.
- The proposed Amendment has within it performance criteria, which, if not met, will have the effect of reducing the amount of any annual CPI rate increase requested by the Franchisee.

FISCAL IMPACT

The fiscal impact to the City will be a moderate savings as a result of free pick-up for certain City facilities. Further, in the event of a franchise transfer, the City will be able to recover its costs up to \$10,000.

Respectfully submitted,

Reviewed for fiscal impact:

John Driscoll
City Manager/City Attorney

Dave Warren
Finance Director