



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Stufflebean

**SUBJECT:** NON PROFIT RECYCLER  
REIMBURSEMENT PROGRAM

**DATE:** 11-26-07

Approved

Date

12/3/07

**COUNCIL DISTRICT:** City-Wide

## RECOMMENDATION

1. Adopt a resolution authorizing the City Manager to negotiate and execute agreements for Non Profit Recycler Reuse and Recycling as follows for 2007-2008:
  - Goodwill of Silicon Valley in the amount of \$356,176
  - The Salvation Army in the amount of \$125,870
  - HOPE Services in the amount of \$6,201.

## OUTCOME

Approval of this recommendation will provide financial assistance to Non-Profit Recyclers who provide a unique service for the City's Integrated Waste Management system by recycling discarded items donated by the public. This assistance will ensure timely and reliable financial support, as well as maintain City incentives for the diversion of solid waste. In addition, the recommended grant program will streamline the payment process, reducing the administrative overhead for both the non-profit recyclers and the City. The Non-Profit Recycler program supports the following City goals: Urban Environmental Accords Action # 4 and the City's Green Vision Goal # 5.

## BACKGROUND

Since 1992, the City has entered into Reuse and Recycling Agreements with Non-profit Recyclers (NPRs). These agreements have provided financial assistance to help offset the disposal costs of residue from the NPRs' collection, processing and distribution centers located in San José. This has been done in recognition of the important role these organizations play in redirecting reusable and recyclable materials from local landfills. Under the terms of the Agreements, the City provides financial reimbursement to offset that portion of the NPRs' disposal costs attributable to Commercial Solid Waste (CSW) Franchise Fees and Disposal Facility Taxes (DFT). Non-profit Recyclers play a significant role in the City's overall strategy

to divert reusable and recyclable materials from landfills by conducting salvage and reuse operations that assist the City in meeting the statutory waste diversion requirements of the California Integrated Waste Management Act of 1989.

In 2006-2007, the following NPRs were engaged in re-use, salvage operations in San Jose and had agreements with the City to receive financial assistance.

Goodwill of Silicon Valley

Goodwill diverts material from local landfills by selling donated goods at its 13 retail stores in Santa Clara County. In addition to the retail stores, Goodwill runs re-upholstered furniture operations. These operations provide necessary vocational training to County residents as well as diverting significant volumes of waste from the landfill.

The Salvation Army

Located near downtown San Jose, the Adult Rehabilitation Center (ARC) provides recovery program participants with transitional housing and an opportunity to integrate back into society as contributing members. The ARC successfully uses work as therapy to rebuild a person's self-esteem and confidence. In addition, work therapy serves as the basis for one of the nation's largest recycling programs. The income from the recycled materials provides the major sources of funding for this program.

HOPE Services

HOPE Services is the third largest non-profit in Santa Clara County and has been providing work training, job placement, professional counseling, and daily activities program for children, adults, and seniors with developmental disabilities for over 50 years. Each year, HOPE Services assists over 2,500 individuals. HOPE's donation pickup service provides free home pickups of clothing and small household items. Donation items are then resold at the HOPE Station store in Fremont, or at the chain of Savers thrift stores throughout California. Store proceeds directly benefit HOPE clients with job training, job placement and independent living services

NPRs have reported increasing solid waste disposal costs and are seeking various strategies for the reduction of their disposal costs. These strategies include becoming more selective about the materials they accept for re-use, closing less productive drop-off locations, and using Solid Waste Franchisees' Materials Recovery Facilities (MRF) as secondary recyclers to further reduce disposal fees.

**ANALYSIS**

Reimbursements to NPRs

San José Municipal Code Section 9.10.1436, based on California Public Resources Code (CPRC) 41904, sets out criteria to identify a Non Profit Recycler:

The organization (i) must be a charitable organization, as defined in Section 501c(3) of the Internal Revenue Code, (ii) must reuse and recycle donated goods or materials, and (iii) must receive more than 50% of its revenues from handling and sale of those donated goods or materials.

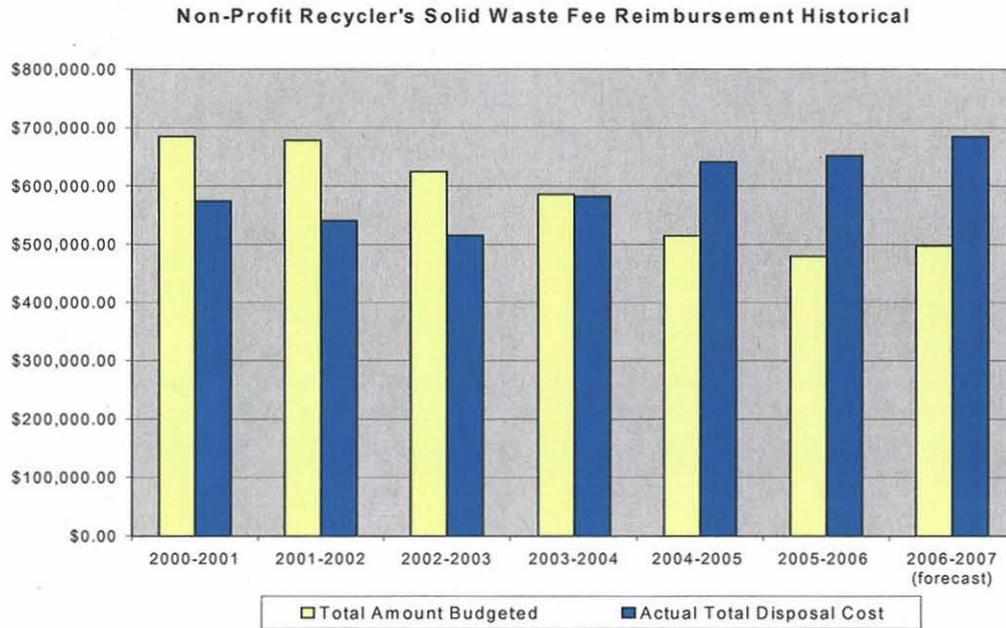
This definition serves to identify those non-profit organizations that are eligible for financial support from the City for waste diversion activities.

Staff has identified only four eligible NPRs in the City since 1992 that met the CPRC definition. One of these, the St. Vincent de Paul Society, has discontinued its local salvage and thrift shop operations and is no longer funded. Any new NPRs would need to apply to the City for funding in the next budget cycle and demonstrate their eligibility.

Currently, the City and NPRs have agreements in place to reimburse disposal costs attributed to CSW Franchise Fees (\$3.67 per cubic yard) and DFT (\$13.00 per ton). Franchised haulers servicing the NPRs pay CSW Franchise Fees to the City for the volume of CSW collected. Landfill operators remit DFT revenue to the City for tonnage of solid waste disposed of in local landfills. Because the current reimbursement model is based on the volume of solid waste services provided to the NPRs by the franchised haulers and tonnage of NPR solid waste disposed by the franchised haulers at local landfills, there are distinct disadvantages to the NPRs for utilizing Material Recovery Facilities to process their waste. For example, if the NPR haulers do not dispose of waste at the landfills, the Disposal Facility Tax (DFT) currently set at \$13 per ton is not reimbursed to the NPRs. If NPR waste is not disposed of at the landfill there is no DFT fee paid for the City to reimburse; however, NPR's still perceive this situation as a reduction of fiscal assistance from the City.

Under the current system, there is no reimbursement for collection fees charged by the haulers or for tipping fees charged by the landfill operators. Furthermore, pursuant to Municipal Code Section 9.10.1436, NPRs are exempt from the Commercial Source Reduction and Recycling Fee (AB939 Fee) of \$0.89 per cubic yard.

As noted in the bar graph below, NPR disposal costs have been increasing since 2002-2003. Generally, this is due to increases in franchise fees and increases in donations to the non-profits that cannot be reused and consequently end up as salvage residue at the landfill. As of 2004-2005, the NPR's disposal costs have exceeded the amount the City reimburses to NPRs as part of the Reuse and Recycling Agreements.



Proposed Streamlined Grant Agreement

At its January 30, 2007 meeting, Council specifically directed staff to recommend options to provide NPRs additional support for the costs these organizations incur for disposing of non-reusable goods they receive from the public. Staff recommends a streamlined agreement to provide financial support to NPRs that provide valuable community services through reuse and recycle activities. This would eliminate a reimbursement based on CSW Franchise Fees and the DFT and replace it with a lump sum payment. The payment for each qualifying NPR would be based on their current level of reimbursement funding. The NPR would receive funds in exchange for achieving goals that support the City's efforts of diverting materials from the landfill. The diversion target would be based on the previous calendar year. If the NPRs meet the diversion target set by the agreements, they would get their annual payment amount in one payment at the end of January. If the non-profit recycler does not meet the diversion goal, the payment would be reduced proportionally. The NPR would be required to submit an annual report on the quantity (volume and type) of waste disposed and diverted. Staff will establish and implement an audit process to verify the annual information submitted by the NPRs. Staff is in the process of developing a stronger audit process to verify the annual information submitted by each NPR. Staff will highlight in the next year's Council report on the Reuse and Recycling agreements.

Under the new program, financial support to the NPRs would not be connected to collection of any solid waste fees, thereby simplifying financial support while maintaining the incentive to recycle. Further, the new structure would reduce administrative oversight for the City and the NPRs, and streamline the reporting requirements. Funding would be limited to annual Budget Office appropriations, and subject to the appropriation of funds. Furthermore, the financial assistance would not be intended to fully compensate NPRs for the cost of CSW disposal, but to encourage their diversion efforts and continued reuse and recycling community service.

## **EVALUATION AND FOLLOW-UP**

Staff will include an evaluation of this new program when it brings forward NPR grant recommendations for 2008-2009.

## **POLICY ALTERNATIVES**

**Alternative 1:** Maintain current reimbursement based on CSW Franchise Fees and DFTs.

**Pros:** Current program in place.

**Cons:** Tracking and monitoring CSW quantities is difficult and resource intensive for both NPR's and the City; NPRs are challenged to comply with components of reimbursement program; NPRs cannot receive reduced garbage rates for increasing recycling and reimbursement from the City for garbage fees paid.

**Reason for not recommending:** Administrative burdens, disincentive to recycle.

**Alternative 2:** Create a new PRC 41904 Category of recyclables that would come under the regulations related to recycling and would not be subject to the CSW Franchise Fee.

**Pros:** Administrative efficiencies for City and NPRs, streamlined reporting requirements for the NPRs.

**Cons:** The new recyclables category would not reimburse NPRs for the DFT costs of disposing of residue and there would be no incentives for NPRs to divert waste from the landfill by recycling or secondary processing. Furthermore, administrative streamlining would not occur. In addition, some NPRs may have long-term hauling agreements with franchisees who cannot provide this category of recycling services.

**Reason for not recommending:** In addition to Cons above, the new category will be difficult to define as it is derived from a particular type of operations as opposed to the traditional approach of material composition and characterization.

## **PUBLIC OUTREACH/INTEREST**

This memorandum is not subject to outreach falling within any of the following criteria; however, this memorandum is posted on the City website for the December 18, 2007, Council meeting. In addition, staff has coordinated with all three existing eligible NPRs and all three support the proposed program conversion.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

**COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

**BUDGET REFERENCE**

Fund #	Appn. #	Appn. Name	RC.	Total Appn.	Amt. For Contract	2007-2008 Adopted Operating Budget (Page)	Last Budget Action (10-16-07)
001	0762	Non-Personal/ Equipment	500521	\$1,531,773	\$488,247	VIII-40	6/19/07 Ord No 28143

**CEQA**

Not a project.



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