



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Vilcia Rodriguez

SUBJECT: SEE BELOW

DATE: August 20, 2008

Approved

Date

8/20/08

SUBJECT: COMMERCIAL SOLID WASTE SYSTEM REDESIGN
[Transportation and Environment Committee Referral – Item c]

On August 18, 2008 staff presented a report on Commercial Solid Waste System Redesign to the Transportation and Environment Committee.

Upon the motion of Councilmember Judy Chirco, and seconded by Vice Chair Sam Liccardo, the Committee voted to accept the report and requested that the item be cross-referenced for full Council consideration.

Attached is the report that was presented to the Transportation and Environment Committee.

VILCIA RODRIGUEZ
Senior Executive Analyst

Attachment



Memorandum

TO: TRANSPORTATION AND ENVIRONMENT COMMITTEE

FROM: John Stufflebean

SUBJECT: COMMERCIAL SOLID WASTE SYSTEM REDESIGN

DATE: 08-04-08

Approved

Date 8/9/08

RECOMMENDATIONS

Accept this report and recommend it be placed on the Council Agenda for discussion, with the following recommendation and direction to staff:

1. Prepare a procurement strategy for Council consideration to solicit proposals for commercial solid waste collection, with two to three haulers awarded exclusive franchise agreements for services within geographical districts.
2. Approve the scope of the franchise system, with certain exemptions, to include collection of solid waste, recyclables, and organics, in bags, carts, front-load bins, roll-off boxes, and compactors; and
3. Return to the Transportation and Environment Committee in December 2008 with a procurement strategy and final recommendation for the commercial solid waste system redesign including an implementation plan, terms of an exclusive franchise, an implementation plan for securing processing and disposal capacity, and related policy issues for Council consideration.

OUTCOME

Changing the current commercial solid waste collection system (commercial system) to an exclusive system as outlined in this memo would yield the following outcomes:

1. *Achievement of Environmental Goals:* Redesigning the commercial system creates the opportunity to increase recycling and waste diversion, which supports the City's Zero Waste Goal of meeting 75% diversion by 2013, and Green Vision Goal #5 of diverting 100% of waste from our landfill. It also will reduce environmental impacts by creating a more efficient system with fewer trucks on the road generating air pollution.

2. *Stabilized revenues:* The system redesign provides the opportunity for a stable flat-rate franchise fee that offers a guaranteed revenue stream to the General Fund and other City funds.
3. *Expanded, more efficient service:* Redesigning the collection system would put the City in a better position to ensure that businesses have more service options, including educational assistance for employees, and a single service provider that can help with all aspects of their waste needs. In addition, moving to a franchise system also allows the City to provide consistency in rate setting.

EXECUTIVE SUMMARY

In 1995, Council directed staff to implement the City's current non-exclusive franchise system for the commercial sector. The City changed from an exclusive to a non-exclusive system, with financial incentives for recycling, to drive higher waste diversion rates for businesses in San José. Currently, about 20 solid waste haulers (franchised haulers) now hold Commercial Solid Waste and Recyclables Collection Franchises and compete with each other on a customer-by-customer basis to provide collection services.

An evaluation of the commercial system has been in process for many years. The City first notified the current franchised haulers in May 2001 that it may provide or will contract for exclusive solid waste collection services for the non-residential sector after July 2006.

On December 3, 2007, staff presented the "Commercial Redesign White Paper" prepared by HF&H Consultants to the Transportation and Environment (T&E) Committee. Key findings from this document are summarized below:

- Significant opportunities exist to increase diversion of materials from the commercial waste stream;
- Recycling services available to most customers are limited in the current system; and
- Customer service and hauler compliance with franchise agreements and municipal code provisions are inconsistent and difficult to enforce in the current system.

The commercial/industrial sector, excluding construction and demolition (C&D) waste, represents 35% of the disposed tonnage each year. Our studies show that only 10% of this material is currently being recycled. A waste characterization study in March 2008 revealed that, of the 90% of this material that is being disposed of at landfills, 79% could be recycled or composted. Consequently, improving waste diversion rates in this sector is a key strategy toward achieving the City's long range Green Vision goals of diverting 100% of our waste sent to landfill by 2022, and the short term Zero Waste goal of diverting 75% of our waste by 2013. If the City could increase the recycling rate of the commercial waste stream (excluding C&D) from the current rate of 10% to its full potential rate, the City's overall diversion rate would be increased from 62% to approximately 73%.

An extensive stakeholder input process was undertaken by staff to understand the interests of the business community. Using the results of the waste characterization study, stakeholder input, and models used in other jurisdictions staff analyzed seven different commercial system options.

Staff is proposing to change the current commercial system to an exclusive franchise agreement system similar to that currently in place for citywide residential waste collection. In this model, two or three waste hauling companies (haulers) would be awarded agreements to provide waste and recycling collection services in specified geographic areas of the city. This proposed system would not include construction and demolition (C&D) waste collection and processing; this material would remain in a non-exclusive system. Due to the effectiveness of the City's existing Construction Demolition Diversion Deposit (CDDD) program, traditionally high recycling rates for C&D materials, and feedback received from the hauling community, staff recommends that C&D materials not be included in the proposed exclusive scope. C&D is the primary material collected by 13 of the 20 existing franchised haulers. Leaving C&D out of the exclusive franchise agreements minimizes the impact of changing to an exclusive system for the majority of the current commercial solid waste franchised haulers in San José.

The new collection system puts the City in a better position to achieve its environmental goals, stabilize revenue, and offer expanded more efficient service to businesses. The following summarizes the key benefits to the proposed commercial system:

- The City would require haulers to provide a wider range of recycling services and improved service performance in the new collection system. Staff would also oversee the haulers on-going performance in providing these services
- Haulers that have a guaranteed customer base and longer term contracts are more likely to invest in infrastructure and resources to achieve higher diversion goals.
- Haulers would be able to maximize efficiencies in their service collection routes, which would reduce air pollution, fuel consumption, noise, and traffic congestion.
- The City would have the broadest range of options available for restructuring City fees to both stabilize revenues and eliminate the current disincentive against recycling.
- Economies of scale and service delivery efficiencies realized in an exclusive system could standardize service cost.
- The City could ensure that rates are equitable and provide businesses with incentives to recycle.

BACKGROUND

In 1995, Council directed staff to implement the City's current non-exclusive franchise system for the commercial sector. The City changed from an exclusive to a non-exclusive system, with financial incentives for recycling, to drive higher waste diversion rates for businesses in San José. Currently, about 20 solid waste haulers (franchised haulers) now hold Commercial Solid Waste and Recyclables Collection Franchises and compete with each other on a customer-by-customer basis to provide collection services. The haulers bill their customers directly at rates agreed upon between the hauler and the customer; the City does not establish these rates. Franchised haulers pay Commercial Solid Waste Franchise Fees to the City each month based on the volume of garbage collected. The haulers also collect Source Reduction and Recycling (AB939) fees from the businesses and remit these fees monthly to the City to fund Integrated Waste Management (IWM) programs.

San José is one of the only Bay Area cities with a non-exclusive franchise arrangement for commercial waste collection. The large number of haulers makes oversight of the commercial system challenging and has negative environmental impacts. For example, multiple haulers leads to overlapping collection routes, where trucks from competing haulers travel on the same streets on the same days which contributes to noise and traffic. Haulers also use a variety of facilities to dispose of and process the waste collected. These facilities may or may not be located in San José meaning the system is likely contributing to environmental impacts related to travel.

An evaluation of the commercial system has been in process for many years. The City notified the current franchised haulers in May 2001 that it may provide or will contract for exclusive solid waste collection services for the non-residential sector after July 2006. In December 2007, the City sent continuation notices to all commercial haulers to inform them that it was evaluating changing the current non-exclusive system. During 2007, staff contracted with HF&H Consultants to assist in the evaluation process. On December 3, 2007, staff presented the "Commercial Redesign White Paper" prepared by HF&H Consultants to the Transportation and Environment (T&E) Committee. Key findings from this document are summarized below:

- Significant opportunities exist to increase diversion of materials from the commercial waste stream;
- Improved economies of scale and reduced environmental impact of the commercial collection system, including greenhouse gas emissions, could be realized through more efficient citywide service delivery models;
- Recycling services available to most customers are limited in the current system;
- Customer service and hauler compliance with franchise agreements and municipal code provisions are inconsistent and difficult to enforce in the current system; and
- Customer rates vary significantly for the same level of service, creating opportunities to provide rate equity among customers and to provide economic incentives for waste diversion.

A complete discussion of these findings and options can be found at:

http://www.sanJoseca.gov/clerk/CommitteeAgenda/TE/120307/TE120307_6.pdf.

Additional information on the current system and franchised haulers is provided in Attachment 1, Current Commercial Solid Waste System.

ANALYSIS

Based on HF&H's key findings, staff began to analyze options for changing the commercial system and prepared for this recommendation by performing a waste characterization study, conducting outreach to stakeholders, and studying different commercial system models.

Analysis of Commercial Collection System Options

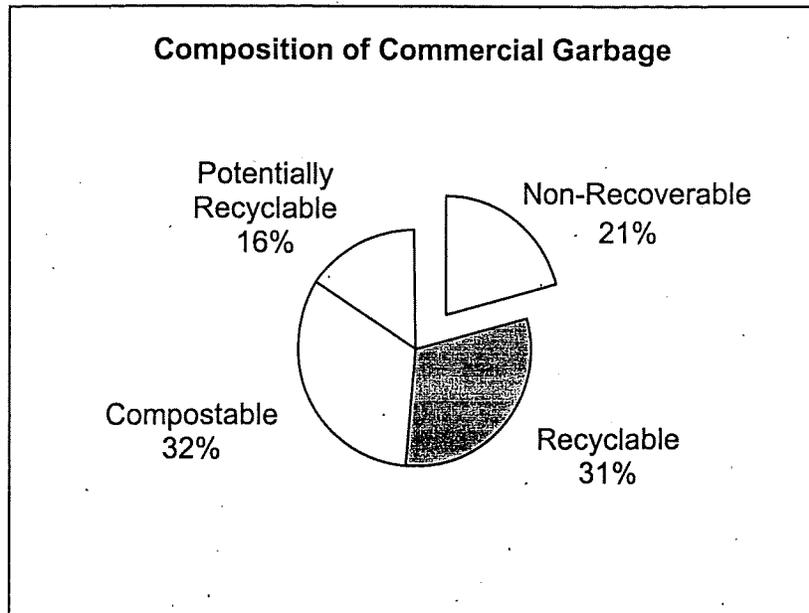
Staff considered the following key criteria in analyzing the commercial collection system options:

Table 1: Criteria and Considerations

Criteria	Considerations
Environmental Impacts; Support City's Green Vision Goals	<ul style="list-style-type: none"> • Increase commercial sector waste diversion • Implement user-friendly recycling and composting programs • Potential to incorporate conversion of waste to energy • Support City's Green House Gas Reduction Goals • Support the City's Green Vision Goal #5
Stabilize Revenues	<ul style="list-style-type: none"> • Provide fair and equitable rates for businesses • Ensure City's revenue streams remain stable • Ability to audit and provide cost effective contract management
Expanded, More Efficient Service	<ul style="list-style-type: none"> • Provide a broader range of collection and container options • Improve customer support and technical assistance for recycling • Control graffiti, litter, and other aesthetics

Waste Characterization Study

Cascadia Consulting Group conducted a waste characterization study in March 2008. The study involved sorting commercial garbage into nearly 60 categories to identify the types and quantities being sent to the landfill. The results of the study highlighted that 79 % of disposed business waste is potentially recyclable or compostable. Paper, organics, and plastics were the largest components of the commercial waste stream. The pie chart below shows the composition of San José's commercial waste based on recoverability, which is the ability for materials to either be recycled or composted.



Recoverability categories include:

- **Recyclable:** This includes materials for which technologies and markets exist in California to recover these materials from the waste stream through recycling or composting.
Examples: #1- #7 plastics, aluminum cans, appliances, clean paper, cardboard, glass bottles and jars, untreated wood, rock, and tires.
- **Potentially Recyclable:** This includes materials for which methods and/or technologies may exist or are being developed for recycling, reuse, or other beneficial uses, although programs to collect and process the materials are rare or nonexistent in the San José area.
Examples: ceramics, flat glass, asphalt shingles, carpet padding, leather, and rubber.
- **Compostable:** This includes organic materials appropriate for municipal composting programs.
Examples: food soiled paper products, food scraps, leaves, grass, brush, branches, and stumps.
- **Non-Recoverable:** This includes materials that do not fit any of the definitions above and are not easily diverted from disposal. This includes materials for which technologies and markets have not been adequately developed to allow recovery of these materials from the waste stream as well as materials typically defined as hazardous or universal waste.
Examples: ash, diapers, mixed residue, treated medical waste, and materials that are contaminated to the point of no recovery.

This study was presented at the May 2008 T&E Committee meeting and can be found at: http://www.sanJoseca.gov/clerk/CommitteeAgenda/TE/050508/TE050508_f.pdf

Stakeholder Input

From January through July 2008, staff conducted an extensive outreach engagement effort on the current commercial system and redesign options that included in-person interviews, presentations, media outreach, and on-line surveys. This effort included the Office of Economic Development, the Department of Planning, Building and Code Enforcement, the San José Redevelopment Agency, the existing commercial haulers, individual businesses, and business associations. Staff engaged business districts and associations, chambers of commerce, business and non-profit leadership groups, and other organizations during this process.

Staff distributed a business recycling survey in spring 2008, to obtain feedback from customers and stakeholders. A multi-media campaign to promote participation included print and on-line advertisements, staff presentations, and direct solicitations via 1,400 e-mails and 20,000 mailers sent to businesses in the City's business tax database. More than 500 customers completed the survey, and staff conducted 22 in-person interviews with both businesses and the haulers. The campaign yielded input from a wide representation of all business types including non-profits, schools, and churches. The following is a summary of the feedback:

- Businesses respondents identified the biggest barriers to recycling as lack of service options lack of technical assistance, difficulty in sorting materials, cost, and space.
- Among respondents, 36% of businesses indicated that they would be willing to pay 5-10% more to have services such as sorting of garbage to remove recyclables.
- Another 25% indicated that they would pay 5-10% more to have recycling technical assistance provided.
- Without any prior education on the details of an exclusive system, about half of all respondents were in favor of moving toward some type of exclusive system where the City selects the hauler and sets service rates.
- Among large businesses and businesses from the construction industry, about 60% preferred a non-exclusive system. (These businesses typically have extensive recycling programs and had concerns that a new system would take away some of their recycling options. This feedback was then addressed through post-survey outreach.)
- 68% of businesses responding were in favor of the City establishing mandates for a minimum level of recycling.
- Most of the existing haulers were in favor of mandates on businesses for minimum recycling and indicated that haulers can help with enforcement in an exclusive system.
- Many business respondents requested more incentives for recycling, either through lower rates or other rewards.

Outreach efforts in June and July 2008 focused on communicating to the business community and haulers the results of the survey and the staff recommendation for a geographic district-based exclusive commercial system. Staff gave presentations to various business groups, and held individual meetings with businesses that had expressed concerns about an exclusive system as well as with each of the interested franchised haulers. This allowed staff to educate the community about the recommendation and address any concerns early in the process. The responses from these meetings and presentations are highlighted below:

- The smaller haulers were opposed to the idea of an exclusive system, particularly one that includes C&D material and temporary debris boxes, since this constitutes the majority of their business. These same haulers were more supportive of redesign options that excluded the C&D service from the exclusive system. Staff re-evaluated the proposed exclusive system option based on this feedback.
- The four largest haulers representing 90% of the City's commercial franchise business were generally supportive of an exclusive system.
- All haulers expressed some support for the City to procure local recyclables processing capacity for the entire commercial waste stream which would allow more haulers to compete for the solid waste and recycling collection services only.
- The business community understands the need to move towards a system that results in greater recycling.

Attachment 3, Stakeholder Input Process, provides more information on the outreach campaign.

Recommended Commercial System

Staff recommends that the commercial system identified for further evaluation use an exclusive service district model in order to maximize collection routing efficiencies; establish recycling standards for all waste streams; facilitate equitable rate setting; enforce performance standards for all haulers; provide the most options for setting and collecting City fees; and to establish standards for all collection vehicles. The new system would grant contractors exclusive rights to collect within geographic districts. To achieve maximum efficiency while still allowing multiple haulers to provide service to the City, staff recommends two to three districts with no more than two to three haulers assigned franchises within those areas. Districts would be of different sizes based on projected revenue to allow for haulers of different sizes to compete during the procurement process. The districts also allow for haulers to meet specific needs of the part of the City that they service. For example, downtown has special service interests due to time restrictions, aesthetics, and the mixed use nature of the area. An exclusive system would offer better collection options for this part of the city. This model has proven effective in the residential Recycle Plus program. However, unlike the residential program, one hauler would collect all material types so that the businesses located within that district would only have to contact one company for all of their waste and recycling needs. Staff is also analyzing whether or not processing will be part of this or a separate procurement process.

Since no public funds would be expended for these services, the City's Prevailing Wage Policy does not apply to exclusive commercial franchise agreements. Staff will bring its recommendation on Prevailing Wage to Council in December as part of the implementation strategy.

Staff recommends that the scope of the new exclusive franchise system include 1) all generator types except those that are already included in an existing exclusive contract (i.e., City Facilities), and 2) all solid waste and recyclable material generated by those customers covered by the franchise, except as specified in Table 2 below.

Staff also recommends that the new system include the following container types: bags, carts, front-load bins, roll-off boxes, and compactors.

Table 2: Exceptions to the Recommended Exclusive System

Consideration	Exceptions
Customer Type	<ul style="list-style-type: none"> • Small businesses included in Recycle Plus residential program • Mixed use developments included in the Recycle Plus residential program that are primarily residential and combine their residential and commercial wastes • City facilities, multi-family, and single-family dwellings which are currently covered under existing exclusive agreements whose contract terms extend past the proposed timeline • Agencies that are legally exempt from exclusive franchise agreements
Material Type	<ul style="list-style-type: none"> • Specialty recyclable/organic materials hauled by City permit • Recyclable material for which the generator (business) is compensated • Self-hauled waste as defined by contract • Donated materials • Organic materials composted on-site • Sewage treatment by-product • Hazardous and infectious waste • Construction and Demolition (C&D)Debris

Due to the effectiveness of the City's (CDDD) program, traditionally high recycling rates for C&D materials, and feedback received from the hauling community, staff recommends that C&D materials be exempt from the proposed exclusive scope. C&D is the primary material collected by most of the existing franchised haulers. Leaving C&D out of the exclusive franchise agreements will minimize potential adverse affects on haulers where a large portion of their business is collection of this material in San José.

Staff concluded that the recommended system redesign option best satisfied the analysis criteria as highlighted in Table 3:

Table 3: Analysis of System Criteria

Criteria	Analysis
Achievement of Environmental Goals	<ul style="list-style-type: none"> • Haulers with a guaranteed customer base and longer term contracts are more likely to invest in infrastructure and resources to achieve higher diversion goals. • Haulers would be able to maximize efficiencies in their service collection routes, which would reduce air pollution, fuel consumption, noise, and traffic congestion.
Stabilized revenues	<ul style="list-style-type: none"> • The City would have the broadest range of options available for restructuring City fees.
Expanded, more efficient service	<ul style="list-style-type: none"> • The City would require and manage haulers to provide a wider range of services and improved service performance in the redesigned franchise agreements. • Economies of scale and service delivery efficiencies realized in an exclusive system could standardize service cost. • The City could ensure that rates are equitable and provide businesses with incentives to recycle.

Improving San José's commercial recycling programs in both the short and long term necessitates local recyclables and organics processing capacity. It is crucial that the City encourage adequate infrastructure for processing recyclable materials. An exclusive system can lend itself to more investment in material processing infrastructure by structuring agreement terms that make it favorable for contractors to invest in new or existing local infrastructure. Having local processing facilities also reduces vehicle miles traveled and lowers operating costs, which can in turn lower customer rates and reduce adverse environmental impacts associated with vehicle emissions, noise, traffic, and safety.

Two fees are generated from the commercial system: Franchise fees which go to the General Fund and AB939 fees which go to the Integrated Waste Management fund which is used for waste diversion programs. The commercial system is expected to generate an estimated \$11.8 million in franchise fees and \$3.0 million in AB939 fee revenue for 2008-2009. Both of these

fees are currently calculated on the volume of garbage collected. The basis for the fees creates a systemic and challenging dilemma for the City – as waste reduction programs become more successful, revenue to the City is reduced while program costs remain the same or increase. A more stable flat rate is not feasible under the current non-exclusive system because without a guaranteed customer base, haulers are not ensured that they will generate sufficient revenue to pay a flat franchise fee to the City. If a guaranteed customer base is established through the proposed system, flat rate fees could ensure more stable revenues.

To achieve high diversion goals, the redesigned system would incorporate some type of incentives for the hauler and waste generator to recycle. For example, the City's residential Recycle Plus contracts establish recycling performance targets for the haulers with financial incentives if the goals are achieved and penalties if they are not. Customer incentives could include rate benefits for recycling or greater service options. Cities such as San Diego have implemented mandatory recycling for businesses while cities like San Francisco are planning to implement this option in 2009. Under these mandates, waste generators (e.g. businesses) could be required to recycle certain material types (e.g. paper, cardboard, cans, and bottles), provide signage, and offer employee education programs. Currently, San José does not mandate any recycling participation by businesses. These types of mandatory programs would be most effective to implement under an exclusive system. However, staff is not recommending that generator mandates at this time. Mandates require significant staff resources to effectively implement and enforce. Based on recent communication with staff in San Diego, effective implementation of their mandates has been difficult. Additionally, staff believes that once businesses are offered more recycling options through an exclusive system, diversion rates will significantly improve and mandates may not be needed.

For more detail on the options analysis refer to Attachment 2, Evaluation of Commercial Redesign Options.

Proposed Timeline/Key Milestones for Implementing New System

Staff recommends the following next steps in the redesign process:

December 2008	Final recommendations and procurement strategy to T&E
January 2009	Begin procurement process
February 2011	Award new franchise agreements
July 2012	Implement new commercial collection system

EVALUATION AND FOLLOW-UP

Staff will return to the T&E Committee in December 2008, with a detailed analysis of and a recommendation for the commercial collection system, and, if applicable, a proposed procurement strategy for services and service providers for the new system.

POLICY ALTERNATIVES

Alternative 1: No change.

Pros: No transition to new service model and no resulting impact to businesses, existing haulers, or staff due to transition to new program.

Cons: The City would have limited ability to improve diversion results for the commercial sector and would not meet its 75% waste diversion goal; would have limited tools available to assure stable revenue from Commercial Solid Waste Franchise Fees; would not provide businesses with expanded recycling opportunities; and would not improve system and routing efficiencies to minimize traffic and reduce vehicle emissions and hauler costs.

Reasons for not recommending: The current commercial diversion level, which is very low, would not be increased. The City will not achieve environmental goals and as a result, the City would not achieve its Zero Waste goal. Businesses would likely not get the improved recycling services they are requesting.

Alternative 2: Modify staff recommendation to prepare a procurement strategy to solicit proposals to provide commercial solid waste collection and processing services in one citywide collection district, assigning one franchise agreement to one hauler.

Pros: This alternative would be the most efficient in terms of contract management, implementing contract parameters, achieving diversion standards, providing uniform services to businesses, calming vehicle traffic and reducing GHG emissions. Without the presence of other haulers, which are often viewed as competitors, a better working relationship could be established with the contractor that may help drive innovation.

Cons: This alternative would not allow most of the existing franchised haulers to continue to operate in San José, except those serving the C&D demand. If the contractor selected was not performing, or had service problems, the City could experience service interruptions. Having one service district citywide does not allow contractors to specialize in any specific needs on which haulers with smaller districts may be able to focus.

Reasons for not recommending: Specific community needs may not get met and the potential for adverse effects on the existing hauling community are great. The risk to the City from failure to perform, strike, etc is too great.

PUBLIC OUTREACH/INTEREST

From January through July 2008, the City provided businesses and franchised haulers with numerous opportunities to provide input regarding the commercial collection system. Staff sent 20,000 mailings to City businesses notifying them of the evaluation effort and inviting them to participate in the process. Over 500 businesses completed an on-line survey and staff conducted interviews with nineteen businesses and four haulers. In response to the first round of outreach, staff held meetings with haulers and key businesses to introduce the concept of an exclusive system and obtain feedback on this proposal. That feedback was incorporated into the final recommendation.

Criteria 3 applies to this report.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)

Criteria 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. **(Required: E-mail and Website Posting)**

- X Criteria 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. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memo has been coordinated with the Department of Planning, Building, and Code Enforcement, The Finance Department, The Office of Equality Assurance, and The Office of Economic Development, the City Attorney, and City Manager's Budget Offices.

COST SUMMARY/IMPLICATIONS

If the City proceeds with implementation of an exclusive franchise collection system, the City will incur one-time costs for conducting a procurement process for one or more haulers. These one-time costs are estimated not to exceed \$250,000 for consulting services in 2008-2009. Ongoing administrative costs of the recommended option are anticipated to be equivalent to the costs of the current system.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	RC.	Total Appn.	Amt. For Contract	2008-09 Proposed Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
423	0762	Non-Personal/ Equipment	500521	\$5,507,121	\$250,000	XI-48	Ord. No. 28349 6/24/08

CEQA

Not a project.



JOHN STUFFLEBEAN
Director, Environmental Services

Attachments:

1. Current Commercial Solid Waste System
2. Evaluation of Commercial Redesign Options
3. Stakeholder Input Process

For questions, please contact Jo Zientek, Deputy Director, Integrated Waste Management Division, at 408-535-8557.

Attachment 1 Current Commercial Solid Waste System

Key Findings and Issues of the Current Non-Exclusive Franchise System

An assessment of the current system identified the following areas that need improvement to meet the City's interests and Green Vision goals.

- **Recycling Rate:** The recent waste characterization study identified that 79% of the commercial material currently sent to the landfill may be recoverable. To achieve the Zero Waste goal of 75% diversion by 2013, significant improvements are necessary.
- **Environmental Impacts:** Opportunities exist to reduce energy use, vehicle emissions and environmental impact. This can be achieved by converting vehicle fleets to include improved emissions technology and by using alternative fuels. Because all non-exclusive haulers collect citywide, a large number of relatively older vehicles are deployed inefficiently, resulting in adverse environmental impacts, including vehicle emissions, traffic, noise, fuel consumption, and wear and tear on streets.
- **Inconsistent Rate Structure:** Current rates are applied inconsistently due to the open market system and the fact that each hauler implements its own rate structures. Service rates for commercial customers vary widely and are not necessarily based on customer size, ease of service, and recycling participation.
- **Customer Service:** The current franchise system does not incorporate consistent monitoring of performance standards. Quality of service and customer satisfaction is difficult to measure due to the large number of companies collecting commercial solid waste collections and the lack of information provided to the City. Current haulers tend to focus on providing an array of recycling services to larger businesses. As a result, small and medium sized businesses appear to participate less in recycling services.
- **Processing Infrastructure:** Infrastructure for processing recyclables is limited and the commercial solid waste haulers generally have not made significant investments in facilities to recycle waste. These commitments are difficult for the haulers in the current system which does not guarantee a customer base.

Summary of Current Franchised Haulers Operating in San José

The following is a summary of the franchised haulers that provided commercial solid waste services in San José during 2007. This does not include the 16 haulers that provide C&D collection activities exclusively.

Some of the haulers providing commercial waste and recycling services also hold other contracts with the City. For example, Green Team (GT Waste) and Green Waste Recovery have large multi-year solid waste and recycling service contracts with the City. GreenTeam (GT Waste) contracts include citywide multi-family, single-family District B, and city facilities garbage and recycling collection, totaling about \$22 million in 2008-2009. GreenWaste Recovery is expected to be compensated approximately \$25 million by the City in 2008-2009 for provision of yard

trimmings and other recycling services. Other companies on this list, such as Allied Waste Services and Stevens Creek Disposal and Recycling are affiliated with larger organizations with significant business outside of San José.

2007 Franchised Haulers Summary				
Hauler	Total Revenue	Total Vehicles	Tons Recycled Recyclables & Organics	Tons Disposed Solid Waste
Stevens Creek Disposal & Recycling (Norcal Waste Systems)	\$23,091,943	34	10,436	94,574
Allied Waste Services of Santa Clara County	\$16,641,167	78	5,585	107,049
GreenWaste Recovery	\$5,591,274	14	15,765	9,030
GT Waste (Waste Connections/Green Team)	\$3,448,400	9	15,872	9,961
Total	\$48,772,784	135	47,658	220,614

For more detailed information:

http://www.sanJoseca.gov/clerk/CommitteeAgenda/TE/120307/TE120307_6.pdf

Attachment 2
Evaluation of Commercial Redesign Options

This attachment outlines the process and details for the evaluation of seven commercial collection system options, and the considerations used in the evaluation process.

Current Commercial Collection System

The City of San José currently utilizes an open market system for the collection of recyclables and garbage from the commercial sector. Private haulers are required to obtain a non-exclusive franchise that allows them to compete with each other on a customer-by-customer basis to provide solid waste and recyclables collection services. The City does not limit the number of haulers, and does not manage the services provided by them.

Evaluation of Current System

The City contracted with HF&H Consultants to identify and evaluate potential enhancements to the existing commercial collection system. The “Commercial Redesign White Paper” prepared by HF&H Consultants and presented to the T&E Committee on December 3, 2007, provided a wide range of municipal commercial collection systems the City might consider to best support the types of improvements needed to meet the City’s goals and interests.

Commercial Collection Systems in Other Cities

The commercial collection system must address the requirements of all sizes and types of commercial customers, as well as various classifications of material types, geographic service areas, and hauler regulation arrangements. Existing commercial collection systems in other cities handle these variables in a variety of ways. For example, the City of Seattle’s system collects solid waste on an exclusive basis, and collects recyclables on a non-exclusive basis. San Francisco’s model gives exclusive rights to one hauler for solid waste and recycling citywide. Some cities have adopted mandatory business recycling ordinances to help increase diversion of waste. Sacramento Regional Solid Waste Authority, San Diego, San Francisco (planned for 2009), Santa Cruz County, Portland, Seattle, and Montgomery County, Maryland have all adopted such mandatory commercial customer recycling requirements.

Seven Systems Evaluated

There are potentially hundreds of system options available. The City narrowed its focus to the following seven systems, which cover a range of options and are based on systems in other large cities:

System	Description	Ranking
1	Non-exclusive system throughout the City with multiple collection companies and mandatory customer participation. (Similar to current system)	7
2	One downtown-area district with an exclusive franchise agreement for all materials with a non-exclusive system for the other portions of the City with mandatory customer participation.	6
3	Two or three exclusive franchise agreements for all materials assigning each hauler a different area of the City. (Recommended System)	1
4	One district with exclusive franchise agreements assigning two or three haulers the right to collect different material types (e.g., solid	4

System	Description	Ranking
	waste, recyclables, organics) throughout the City	
5	One district with exclusive franchise agreement for recyclable and/or organic materials and non-exclusive system for solid waste	5
6	One district with two exclusive franchise agreements allowing two haulers to compete against each other throughout the City.	3
7	One district with one exclusive agreement with one company for all materials.	2

Of these, a non-exclusive franchise system supported by City policies for mandatory customer and hauler participation in diversion programs represents one end of the spectrum. An exclusive citywide franchise system for all materials represents the other end. The other options fall somewhere in between. The City's current system is non-exclusive, without mandatory customer participation for recycling.

Process for Evaluating Each System

In evaluating the different options, staff reviewed the City's four key goals for the redesign process and assigned weighting to each goal. The criteria used are shown in Table 1. Staff assessed the seven commercial collection system options by evaluating their ability to advance the four key redesign goals. Staff used the criteria weighting and point system to calculate numerical scores for the seven options.

When conducting the analysis, staff used to the following assumptions:

- All systems that included an exclusive franchise system would include some hauler requirements for diversion and performance standards but would not necessarily include requirements for the generators of the waste.
- Systems that were based on a non-exclusive franchise system would include a "generator mandate" requiring businesses to meet some recycling requirements.
- In a non-exclusive system the City can require haulers to use processing facilities or establish hauler and generator diversion requirements and customer service performance standards.
- When considering the environmental impact, the benchmark is improvement from current conditions.
- When considering system based on materials, staff assumed one hauler for solid waste and one or two for recyclables and organics, total not-to-exceed three haulers assigned by material type.

Based on staff analysis, System 3 ranked the highest of the seven systems.

Table 1: Exclusive Collection System Key Considerations

Criteria	Considerations
Support City's Green Vision Goals	<ul style="list-style-type: none"> • Increase commercial sector waste diversion • Implement user-friendly and comprehensive recycling and composting programs • Potential to incorporate conversion of waste to energy • Ease of implementation/enforcement of generator mandates • City ability to influence diversion program and offer incentives • Impact on overall diversion • Encourage investment in processing infrastructure • Cost • Ability for hauler to do entire waste assessment and have ownership of entire stream
Stabilize/Minimize Fiscal Impacts	<ul style="list-style-type: none"> • Provide fair and equitable rates for businesses • Options to stabilize City's revenue streams • Ability to audit and provide cost effective contract management • Encourage investment in processing infrastructure • Ability for City to set rates • Economies of scale to reduce costs of programs • Opportunities for small and large hauling companies • Displacement/opportunity for existing hauling community • Cost to provide City/Customer programs that support goals • Level of difficulty in transition to new system
Improve Customers' Quality of Service	<ul style="list-style-type: none"> • Broader range of service collection and container options • Improve front-line customer service • Ability to provide education and technical assistance • Control of graffiti, litter; and other aesthetics • Uniform service throughout City • Encourage investment in processing infrastructure • Advantage of hauler competition • Customer's ability to negotiate own rates • Likelihood of customer rate increases • Ease of communication for customer: one company to call for service, payment, etc. • Hauler ability to do waste assessments • Ability to provide technical assistance • Contractor specialty areas • Customer ability to change haulers • Level of difficulty in transition to new system
Minimize Environmental Impacts	<ul style="list-style-type: none"> • Ability to reduce vehicle air pollution • Ability to reduce fuel consumption • Ability to reduce vehicle noise • Ability to reduce traffic congestion • City ability to influence vehicle standards • Support City's Green House Gas reduction policy • Support City's Traffic Calming Policy • Encourage investment in processing infrastructure

Attachment 3 Stakeholder Input Process

In order to obtain a comprehensive view of current recycling practices in the business community, staff engaged in an extensive outreach campaign. Stakeholder input came from San José small and large businesses, schools, faith-based organizations, non-profits, and garbage/recycling haulers. Staff completed the outreach campaign in two phases. Phase one included information gathering intended to help staff evaluate system options. During this phase staff received from 535 on-line business surveys, conducted 22 individual business interviews, and spoke seven franchised haulers via a written survey or face to face interview. Information was collected about current business recycling programs, barriers to recycling, and input on potential changes to the collection system. Phase two expanded on the first phase, educating the business community on the evaluation process. In Phase two, staff conducted presentations to the Silicon Valley Leadership Group Environmental Committee, Joint Venture Silicon Valley, the Silicon Valley Chamber of Commerce, and the Construction Roundtable. In addition, staff conducted informational meetings with business that wanted to participate in the process beyond Phase one and individually with all the current franchised haulers who wanted to meet.

This attachment details the stakeholder engagement activities used to obtain feedback from the business community.

Phase One –Proposal Research

Online Survey - An online survey on the City's Environmental Services webpage was made available during the period of February 8 to April 17, 2008. More than 500 business customers responded to the survey. This survey was advertised through a multi-lingual direct mail postcard that was sent to 20,000 businesses and advertisements through the San José Business Journal. In addition over 25 business associations were contacted about this tool.

Presentations- City staff gave presentations to the following organizations; presentations included both an explanation of the evaluation process and an opportunity for feedback on the current garbage and recycling system.

- San José Downtown Association
- Story Road Business Association
- West San Carlos Street Business Association
- Hispanic Chamber of Commerce of Silicon Valley
- BOMA (Building Owners and Managers Association)
- IFMA (International Facility Management Association)
- Silicon Valley Association of Non-Profits
- San José Redevelopment Agency's Business District Managers

Case Study Interviews- Staff conducted twenty-two individual interviews with facilities managers or other representatives from the following businesses:

- Restaurants (Peets, City Bagel)
- Hotels (Fairmont Hotel)
- Retail (The Plant Shopping Center, Oakridge Mall, West San Carlos (strip mall), Copyland, PW Market, Whole Foods)
- Office (Equity Office, Doubleday Relocation)
- High tech (Adobe, Cisco, Xilinx, Altera)
- Entertainment (Camera Cinema, San José Repertory, San José Giants Stadium)
- Schools (Franklin-McKinley School District, Union School District)
- Other (Kaiser Hospital)

Staff selected these businesses for case studies because many of them had employees who were dedicated to managing their garbage and recycling services as a primary job function.

Phase 1 Results - Results from the survey, presentations, and interviews yielded the following:

- The biggest barriers to recycling are cost, limited options for recycling provided by haulers, space for containers, and difficulty in sorting materials.
- Survey respondents stated that they could increase recycling by having more recycling choices available, decreasing the cost of recycling service, and receiving technical assistance.
- With no background details on program structure or benefits, responses were split on the subject of exclusive versus non-exclusive collection systems, with large businesses being slightly more in favor of the current system and small to medium sized businesses favoring exclusive.
- The business community expressed a strong desire to increase their recycling, and there was a great deal of interest about the City's proposed changes in support of the Green Vision.

Detailed results of the survey can be found at:

http://www.sjrecycles.org/business/pdf/BusinessRecyclingSurveyResults_5-9-08.pdf

Phase Two- Proposal Evaluation

This phase was focused on educating the businesses about the evaluation process, including the benefits of an exclusive system and addressing any concerns that may have been identified in the survey process.

Presentations- Staff presented the survey results and proposed recommendations to the Silicon Valley Leadership Group, Joint Venture Silicon Valley, Silicon Valley Chamber of Commerce, and the Construction Roundtable.

One-on-One Interviews- Staff conducted follow-up conversations with some businesses that had expressed concern during the first phase of outreach.

Phase Two Results- When businesses were presented with the data from the waste characterization along with the results of the survey data, there was a general understanding of the City's desire to pursue an exclusive system. Many of the businesses that were initially opposed to the idea of an exclusive system were more supportive after having seen the data and learning more about the benefits such a system could provide. Staff will continue to engage the business community throughout the evaluation and re-design process.

Hauler Outreach

Staff engaged the current franchised haulers for input on the current system, barriers to increased recycling, and reaction to redesign options.

Phase One- Information Gathering

The four largest haulers who have 90% of the commercial accounts and other interested haulers took part in in-person interviews and completed a survey. Staff conducted an information meeting for all haulers that included an overview of the current system, the Zero Waste and Green Vision goals, and a summary of the commercial evaluation process.

Company	Written Survey	In-person interview
A & A Recycling	X	
Allied Waste Services	X	X
GreenWaste Recovery	X	X
GT Waste	X	X
Stevens Creek Disposal	X	X
Valley Recycling	X	
Recycle West		X

Staff solicited input on the current obstacles to commercial solid waste collection in San Jose. Responses included:

- City dictating or limiting collection times
- Current franchise fees structure and administration
- Paying high landfill fees and having to charge lower prices to compete with haulers operating in the City without a franchise or outside the franchise system.

The highlights from the survey, presentation, and interviews are detailed below:

- When haulers were asked if prices would increase under each of the exclusive system options being considered, four of the six replied that they may increase. Two of six respondents stated that they would not necessarily increase, because these systems may allow for better route efficiencies and guaranteed customer base.

- The haulers that responded were generally in favor of generator mandates for recycling. Several responded that they would be willing to help enforce such mandates. Respondents also were in favor of performance and/or diversion mandates on the hauling companies themselves.
- The hauler community also recognizes barriers to increasing recycling through the current system.
- Haulers would like to see increased education for the business community, mandatory recycling, hauler diversion mandates, and lower fees for processing and/or landfill.

Phase Two Evaluation Follow-Up

When presented with the proposed concept of a district-based exclusive system, the four largest haulers and some of the smaller haulers were supportive of the concept. The smaller haulers, who mostly deal with drop box and/or Construction and Demolition (C&D) debris, were generally opposed to an exclusive system including C&D collection because it would most likely eliminate their ability to do business in San José. As a result of this feedback, staff re-evaluated including C&D in the proposed exclusive system. All of the haulers expressed an interest in the City procuring processing capacity to allow more haulers the ability to compete in the selection process. Many also requested that the City procure disposal capacity.

Staff plans to continue to work with the hauler community throughout the evaluation process.