COUNCIL AGENDA: 03-30-10
ITEM: 7.1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: John Stufflebean

SUBJECT: **AMENDMENTS TO SOLID WASTE SERVICE AGREEMENTS**

DATE: 03-18-10

Approved

Date 3/19/10

RECOMMENDATION

(a) Adopt a resolution authorizing the City Manager to negotiate contract amendments as follows:

(1) Amend the Residential Recycle Plus Services Agreements to extend the term of the Agreement with GreenWaste Recovery, Inc. for Citywide yard waste collection and processing, residential street sweeping, and multi-family dwelling solid waste processing services; and GreenTeam of San Jose for District B and multi-family solid waste collection and processing services through June 30, 2015; to enhance services; and to modify the compensation provisions.

(2) Exercise the option to extend the Recycle Plus Services Agreements with California Waste Solutions and Garden City Sanitation for an additional two years to June 30, 2015, and to negotiate and execute amendments to these Agreements for enhanced services and modified compensation.

(3) Exercise the option to extend the Agreement with GreenWaste Recovery, Inc. for Neighborhood Clean-Up Services in Recycle Plus Collection Districts A and C for an additional two years to June 30, 2015, and amend the Agreement to include enhanced services and modified compensation.

(4) Amend the Agreement with GreenWaste Recovery, Inc. for Public Litter Can Solid Waste Collection Services Citywide to extend the maximum term for an additional four years to June 30, 2015; to modify the compensation; and to make technical adjustments to Agreement terms.

(5) Amend the Agreement with GreenTeam of San Jose for Integrated Collections at City Facilities to extend the term an additional 30 months to expire June 30, 2015; to modify the compensation; and to make technical adjustments to the Agreement terms.

(b) If the Council directs staff to negotiate new solid waste collection agreements with the existing contractors for terms to June 2021, include as part of this direction the following:

(1) During the negotiation and until the Administration returns to Council with the proposed agreements, all contact between the existing contractors and the City must be directed to the Administration staff designated for negotiation, and all inquiries to staff, elected officials, and consultants should be referred to the designated staff;

(2) The terms include an option for contractors to provide billing, customer service, and remittance processing services; and

(3) Staff will return to Council with two-year extension amendments for Council consideration if the Administration and the contractors are unable to agree on proposed terms for service until 2021.

OUTCOME

Approval of this recommendation will reduce costs and improve service for the customers covered by these solid waste service agreements. These cost reductions will reduce the likelihood of customer rate increases in 2010-2011. Approving the staff recommendation will streamline some business processes and increase efficiency for the Integrated Billing System and the City Customer Contact Center, facilitating options for migrating to a new billing solution, if needed. Extending agreement terms will facilitate focusing the hauling community on the significant Commercial Solid Waste System redesign process currently underway. Finally, these amendments will improve the operation and administration of the City's integrated waste management program and increase recycling, furthering the City's Green Vision and Zero Waste goals of 75% waste reduction by 2013, and Zero Waste by 2022.

EXECUTIVE SUMMARY

On December 16, 2008, City Council (Council) approved the Zero Waste Strategic Plan which included an evaluation for extending the term for all six current residential Recycle Plus agreements for two additional years (July 1, 2013 to June 30, 2015). This report summarizes the results of staff's three-month negotiation with the haulers and the recommended terms for granting two-year extensions. These terms include financial savings; operational efficiencies, including contract administration and billing; enhanced environmental benefits; and other hauler concessions for the extension. Highlights of the proposed two-year extensions include:

- $6.7 million in Integrated Waste Management Fund savings that could be used to fund service enhancements or waste diversion programs to help the City achieve its Zero Waste goals. Some of the savings could also be used to mitigate future Recycle Plus rate increases.
- Program changes to support the Green Vision, including increased waste diversion for the Neighborhood Clean-Up and Large Item Collection programs, more stringent processing

standards for electronic waste, and more hauler cooperation for testing and submitting grant applications for alternative fuels, such as compressed natural gas and biodiesel.

- Contract changes to streamline billing and customer service operations, resulting in gained efficiencies in many operations, including the City's Customer Contact Center, Environmental Services' contract administration, and other billing business process units.

The report further discusses alternative policy options for Council consideration, including proposals and concessions the haulers have offered to extend the agreements eight additional years (July 1, 2013 to June 30, 2021), as well as offers to extend the contracts on an "evergreen" basis. More time would be needed to evaluate all the additional complexities surrounding longer term extensions. Staff does not recommend either of these alternatives, nor does it recommend allowing the Recycle Plus contracts to expire in 2013, which would make it difficult to complete a thorough program analysis and conduct a competitive process that ensures new contractors are in place by July 1, 2013.

BACKGROUND

On October 30, 2007, Council established a goal of 75% waste diversion by 2013, and Zero Waste by 2022. The Administration was directed to characterize the waste stream and return to Council with a plan to achieve Zero Waste. On December 16, 2008, Council approved the Zero Waste Strategic Plan (Plan) which included an evaluation for extending the term for all six current Recycle Plus agreements for two additional years to July 2015. The Plan outlined ten key strategies for achieving Zero Waste, one of which was to enhance residential recycling. The Plan further described several key initiatives to reach the City's goal of 75% diversion by 2013, and Zero Waste by 2022. Three of these initiatives relate to the residential solid waste stream: food scraps composting and recycling; residential system enhancements; and mixed waste recycling. The Plan also proposed implementation of pilot programs to test new collection and processing methods, including the collection and composting of residential food waste, and an evaluation of the term for the current Recycle Plus agreements.

The Recycle Plus service agreements are scheduled to terminate on June 30, 2013. While there is an option to extend the term for three of the six agreements (California Waste Solutions, Garden City Sanitation, and Green Waste Recovery Neighborhood Clean-Up Services) to June 2015, doing so would require procurement for the remaining services. For other services to begin in July 2013, new residential contracts would need to be in place by the summer 2011 to allow sufficient time to transition to the new service providers. Unlike the transition in 2007, which did not involve program changes, staff expects the new residential solid waste program would require a longer transition period to fully implement the program changes needed to meet Zero Waste goals. Aggressive goals will require an extensive re-design of the residential solid waste system, which originally only targeted a 35% recycling rate.

Residential Recycle Plus Agreements

Recycle Plus services are provided by four contractors operating under six separate agreements. Two of the agreements began in July 2002, with terms through June 2013.

- GreenTeam of San Jose (GreenTeam) provides garbage and recycling collection Citywide for multi-family dwellings (MFDs) and single-family dwellings (SFDs) in Service District B. GreenTeam also provides Neighborhood Clean-Up (NCU) Services in District B.
- GreenWaste Recovery, Inc. (GreenWaste) provides yard trimmings collection, street sweeping, and yard trimmings processing services (composting) in Service Districts A and B.

Three new Recycle Plus agreements for services previously provided by Norcal began in July 2007, also with terms through June 2013.

- Under a second agreement, GreenWaste provides the same services listed above (yard trimmings collection and processing, and street sweeping) in Service District C, in addition to providing MFD garbage processing Citywide.
- California Waste Solutions (CWS) provides recycling collection and processing services and Garden City Sanitation (Garden City) provides solid waste collection for SFD's in Service Districts A and C.

In August 2008, Council approved the agreement with GreenWaste for NCU Services in Districts A and C, with a term through June 30, 2013, and one additional two-year option to extend the agreement at the City's discretion. A map of the Recycle Plus Service Districts is included as Attachment A.

Public Litter Can and City Facility Agreements

The Public Litter Can (PLC) agreement provides for the collection and processing of waste collected from approximately 800 containers placed throughout the City. Historically, the City included PLC service in the residential solid waste service agreements, a practice which is common throughout municipalities in the Bay Area. In 2002, the provision of PLC service was removed from the residential contracts and the City conducted a separate procurement to provide an opportunity for smaller companies to compete. However, only two large companies proposed in the separate PLC procurement, GreenWaste and Norcal Waste Industries (under their Stevens Creek Disposal subsidiary). Norcal's proposal was approximately 50% more than the annual cost of the GreenWaste proposal, and the City awarded the PLC agreement to GreenWaste. This agreement was amended in May 2008 to require the processing of all PLC garbage at GreenWaste's new facility in San José. GreenWaste has exceeded the 70% recycling contract requirement for PLC's and is now at 82%. The current value of this contract is approximately $400,000 per year with an annual CPI adjustment and one extension year remaining. Alignment of the terms of the PLC contract with the larger residential contracts will provide the opportunity to recombine these services during the next procurement process which would likely provide some advantages for the City, including reduced costs due to operational efficiencies gained by incorporating PLC pickup into larger residential service routes. A map of the current PLC locations is included as Attachment B.

GreenTeam has provided City Facilities solid waste collection services since 1996 to approximately 182 service locations at 155 City-owned and operated facilities, and several large venues managed by third parties such as the McEnery Convention Center and the San José Museum of Art. A list of the City Facilities served under this agreement is included as Attachment C. In May 2008, this agreement was amended to include the processing of all

garbage collected, which is currently achieving an 82% recycling rate, at GreenWaste's processing facility. The agreement, currently on its second extension option, will expire on December 31, 2012. The last procurement process for City Facilities service was in 2006, and GreenTeam was the sole proposer. Staff evaluated potential proposer feedback and concluded that this response resulted from the service being too large and specialized for a small hauler due to requirements for multiple types of collection trucks, including backup vehicles. At the same time, the number of City facility accounts is too small to attract larger waste hauler proposers. For these reasons staff recommends amending the agreement to extend the term to align with the Recycle Plus agreements. Including City Facility collection in the residential services agreements provides an opportunity to allow both services to utilize the same equipment (such as MFD collection vehicles and containers), thus allowing the City to take advantage of some economies of scale. Both these PLC and City Facility agreements currently provide the best waste recycling performance from municipal operations in the United States.

Table 1 shows the current solid waste contractors, their collection districts, diversion requirements, and the services they provide.

TABLE 1: Current Solid Waste Agreements

Service	Contractor	2009-2010 Contract Value	Diversion Requirement	District A (93,500 households)	District B (48,500 households)	District C (67,000 households)	Multi Family (3,300 complexes; 95,500 units)
SFD Garbage	Garden City	$18,600,000	N/A	X		X	
SFD Recycling	CWS	$16,400,000	35%	X		X	
SFD Garbage & Recycling	GreenTeam	$11,400,000	35%		X		
MFD Garbage & Recycling	GreenTeam	$11,200,000	35%				X
Yard Trimmings & Residential Street Sweeping	GreenWaste	$22,400,000	95%	X	X	X	
MFD Garbage Processing	GreenWaste	$3,570,000	70%				X
NCU (Rubbish & Recycling)	GreenWaste	$750,000	75%	X		X	
NCU (Rubbish & Recycling)	GreenTeam	$88,000	50%		X		
City Facilities	GreenTeam	$1,480,000	70%	155 City-owned and operated facilities			
Public Litter Cans	GreenWaste	$400,000	70%	~800 containers throughout the City			
Total Value		**$86,288,000**					

Integrated Billing System and City Customer Contact Center
The City currently provides residential solid waste billing, customer service, and remittance processing through the Integrated Billing System (IBS), utilizing Oracle/PeopleSoft for licensing and support, Kubra for bill-print services and online payment capabilities, and the Customer Contact Center in the Information Technology Department. The IBS system also maintains the service data and contractor payment rates used to determine monthly compensation for most Recycle Plus services performed, approximately $84 million per year. All of these agreements expire in 2015, coinciding with the length of the anticipated useful life of the IBS. As detailed in Information Memoranda sent to Council in early March 2010, subsequent to the City signing the contract with PeopleSoft and Oracle acquiring PeopleSoft, the City was made aware that Oracle was not going to continue with support and maintenance of the PeopleSoft Enterprise Revenue Management (PS-ERM) product that the City purchased. Instead, Oracle was focusing on another Oracle product called Customer Care & Billing. The ramifications of Oracle's decision included their acknowledgement that no future versions of the product would be written and 'extended support' for PS-ERM would cease to be available.

The City currently provides billing services that most haulers already provide as a core part of their business model for other municipalities. This includes business functions such as billing, revenue collection, debt recovery, and customer service. Furthermore, in most cities in California, including Oakland and San Francisco, the haulers bill customers directly. Some of these cities use a lien system to collect delinquent accounts similar to the City's process. In the situation where haulers bill directly, the haulers can be responsible for collection activities and if those activities do not yield payment, the 'lien list' is provided by the hauler to the city for processing. The majority of haulers already have the resources, facilities, procedures, and technology in place to perform these functions and provide these services in a highly competitive environment to multiple customers.

The City began billing directly for residential garbage and recycling services in 1993, and at that time staff recommended direct billing to provide control over revenues and managing hauler performance. Those issues have largely been mitigated through advances in technology which could allow City staff web access to haulers' billing and customer services databases. There are also new banking solutions, including having the contractors deposit all revenue collected directly into the City's bank account, which could provide the City more control over revenue, even if the haulers bill directly for service.

ANALYSIS

In evaluating an extension, staff considered program goals and service needs, cost savings and opportunities for efficiencies, and current contractor performance. To meet these policy priorities, staff evaluated all existing Recycle Plus contracted services in order to determine how programs could be improved to better meet Zero Waste goals and be made more efficient and effective. The June 2013 residential contract termination dates were established in 2001, prior to City adoption of the Green Vision or Zero Waste goals. If the Recycle Plus contracts were extended to June 2015, staff would have the necessary time to perform this analysis and to develop programs that will help the City reach its Zero Waste goals.

To date, there have been no major performance issues with the current Recycle Plus contractors and customer satisfaction remains at consistently high levels. While occasional missed collections do occur, over 99.9% of collections occur as scheduled. To evaluate the cost considerations and program and service needs, staff has engaged in extensive negotiations with the four Recycle Plus contractors. These discussions have helped to identify nearly $6.7 million in potential savings to the City's Integrated Waste Management (IWM) Fund, as well as a number of proposed contract changes that will benefit the City, its residents, and the environment. It is important to note that if IWM Fund expenses exceed revenues, the General Fund must cover the loss. All of the services discussed in this report were funded in the General Fund until 1994 when the IWM Fund was created, and it is the Administration's objective to ensure that the IWM expenses can continue to be paid exclusively from IWM Fund revenues through careful management of sources and uses of the Fund.

Financial Benefits

As detailed in Table 2, all of the Recycle Plus contractors offered savings to the City in consideration of a two-year extension. The savings vary depending on the contractor, ranging from $500,000 to just over $4 million. This disparity can largely be explained due to differences in how equipment is amortized, the relative size of the contracts and service districts, and recent negative impacts to recycling commodities markets. Because the 2007 Recycle Plus contracts are for a shorter term than the 2002 contracts, the cost of equipment was amortized over a shorter period of time. Conversely, because the haulers should not have these higher amortization costs in the extended two-year term of the agreement, most were able to offer significant savings to the City. The earlier 2002 contracts, in turn, should have less amortization savings, as well as having higher costs for maintaining older equipment. Additionally, some savings were offset by the downturn in the recycling commodities markets. Beginning in fall 2009, the price paid for recyclables plummeted, affecting revenues for the contractors with recycling operations. Only Garden City, which solely provides garbage collection and disposal, was unaffected by the downturn in the recycling markets.

The financial benefits to the City come in a number of forms, including invoice deductions, the forgoing of cost of living adjustments (COLAs), services provided at no cost to the City, and changes to disposal payments. While a portion will be available in 2010-2011 ($802,000), the majority of the estimated $6.7 million in IWM Fund savings will occur during the extended term of the agreements (2013-2014 and 2014-2015). Although the savings realized from the recommendation are insufficient to allow for a Recycle Plus rate *decrease* due to such factors as increasing costs for contractual COLA's and City labor costs (related to solid waste program management, Customer Contact Center, billing, and credit and collections), and cost increases for additional contractual services which are not part of these negotiations (i.e. solid waste disposal, bill printing and remittance processing), the savings could be used to mitigate potential rate increases for next year and future years. Additionally, some of the savings could be used to fund service enhancements or waste diversion programs to help the City achieve its Zero Waste goals.

TABLE 2: Two-year Extension - Estimated IWM Fund Savings

Contractor	2010-2011 Savings	Five-Year Savings	Detail of Savings
CWS	$102,000	$510,000	CWS assumes costs of sending baled garbage to Newby Island Landfill starting in 2010-2011 *(Estimated Savings: $280,000)* Invoice deductions of approximately $46,000 annually starting in 2010-2011 *(Estimated Savings: $230,000)*
Garden City	$0	$4,050,000	Invoice deductions of $2,025,000 annually in 2013-2014 and 2015-2016 *(Savings: $4,050,000)*
GreenTeam	$60,000	$455,000	GreenTeam assumes costs of sending baled garbage to Newby Island Landfill starting in 2010-2011. Adjustment to disposal rate charged to GreenTeam. *(Total Estimated Savings: $218,000)* No COLA in City Facilities contract in CY 2010 *(Estimated Compounded Savings: $137,000)* Invoice deductions of $50,000 annually in 2013-2014 and 2015-2016. *(Savings: $100,000)*
GreenWaste	$640,000	$1,652,000	No COLA in District C Yard Trimmings contract for 2010-2011 *(Estimated Compounded Savings: $1,247,000)* No charge for servicing public litter cans in 2010-2011 *(Estimated Savings: $405,000)*
Total	**$802,000**	**$6,667,000**	

Environmental Benefits

In addition to the significant financial benefits of the two-year extensions, the proposed amendments also feature a number of environmental benefits, including:

- *Increased Recycling* – Contract changes include requirements for increased waste diversion that will help the City achieve its Green Vision and Zero Waste goals. Both GreenTeam and CWS will be required to divert 75% of the material collected under the Large Item Collection program. Additionally, GreenTeam will be required to divert 75% of the material collected in the Neighborhood Clean-Up program. These new waste diversion standards represent a significant increase over the previous 50% diversion standard. Administrative charges will apply should the contractors fail to meet minimum diversion standards.

- *Improved Processing Standards* – CWS, GreenTeam, and GreenWaste currently recycle electronic waste collected as part of the Neighborhood Clean-Up and Large Item Collection programs. The proposed amendments include more stringent processing standards for

electronic waste by requiring the contractors to comply with the Basel Action Network e-Stewardship Standard and Pledge (Pledge). The Pledge is a commitment to clean recycling and disallows the export of hazardous e-waste to developing countries. Processing requirements language would also be amended to make minor technical adjustments.

- *Alternative Fuels* – The proposed amendments include provisions that require all of the contractors to cooperate with the City in testing alternative fuel vehicles and assisting in the preparation and submission of grant requests. The testing and eventual use of vehicles that run on alternative fuels, such as compressed natural gas (CNG), can help improve air quality and reduce greenhouse gas emissions. CWS and Garden City have agreed to test biodiesel, thus joining GreenTeam and GreenWaste who already use this environmentally preferred alternative to diesel.

- *Recycle Bank Pilot Program* – The proposed GreenTeam amendment includes a provision that GreenTeam cooperate with the City should it decide to implement a Recycle Bank pilot program for multi-family residents. The City and GreenTeam have been in discussions with Recycle Bank to explore piloting the program to a limited number of multi-family homes. Recycle Bank encourages recycling by rewarding residents with valuable coupons as they recycle more. Should the City opt to pilot Recycle Bank, contract savings of $100,000 scheduled for the last two years of the extended agreement will be shifted to the first year of the pilot in order to provide funding for its operation.

Billing, Customer Service, Hauler Payment, and Data Improvements
In preparation for the expected end-of-life of IBS in 2015, several improvements to help streamline billing and customer service operations are incorporated into the proposed amendments, as well as more stringent requirements for data submittal and synchronization. These proposed changes include:

- *Hauler Billing of Large Item Collections* – Large Item collection is the most popular on-demand Recycle Plus service as the haulers and the City complete about 10,000 such service requests each year. Currently, the City receives the customer's service request and then transfers the request to either CWS or GreenTeam to complete the transaction. The charge for the service is billed by the City to the customer's account.

  One component of the two-year extension (at the City's sole option for implementation as early as July 1, 2010) is to have CWS and GreenTeam assuming customer service, billing, and revenue collection responsibilities for large item collections. The haulers would deal directly with the customer, largely removing the City from the middle of these transactions. The haulers would accept multiple payment methods, including check and credit cards, retain all revenues from large item collections, and undertake any credit and collections for service payment. Although this would result in an estimated net revenue decrease of $40,000 annually to the City, staff estimates that this loss would be more than offset by efficiencies gained in City operations, including in the City's Customer Contact Center, Environmental Services Department's program management operations, and in other billing business processes units. It is estimated that significant staff hours are devoted to customer service,

billing, hauler payment processing and reconciliation, and collections related to large item collections. Outreach to residents about large item collections would be necessary to avoid calls to the Customer Contact Center, some of which could be handled by adding large item pickups to the Interactive Voice Recognition system, which would direct the caller to the appropriate contractor. This proposal could also require that resident owners pre-pay for large item collections (currently owners are billed after the service is performed and tenants can pay in advance). The City would continue to set the customer rate for this service and ensure that the haulers provide quality service per the terms of the Recycle Plus agreements. Implementing this option would streamline complexities in the billing system, facilitating more billing options for IBS's end of life in 2015.

- *Simplification of Cart Exchange Payment and Customer Charge* – The complex payment structure for cart exchanges in the Recycle Plus contracts has led to an unwieldy process that significantly impacts both the IBS system and Customer Contact Center resources. Currently, customer service representatives (CSRs) must assess each cart exchange to determine if it is a "free" exchange or one where the contractor should be paid, often requiring research by the CSR. The proposed amendments include changes that will greatly simplify payment by setting an annual cap on hauler payments for "free" exchanges, thus eliminating the need to assess each individual cart exchange. In addition, the contractors have agreed to assume responsibility for handling all non-billable cart exchange calls, such as cart repairs and replacements, which would save approximately 700 staff hours per year in the City's Customer Contact Center.

- *Simplification of Hauler Alternative Fuel Payment* – Two of the Recycle Plus contracts, GreenTeam and GreenWaste, include an additional payment for using alternative fuel (biodiesel). The contracts are currently structured so that two separate sets of hauler rates must be maintained (representing hundreds of rates), resulting in increased staff time to manage in IBS. The proposed amendments will include a simplification of this processing, eliminating the need to maintain two sets of rates, thus reducing the impact to the billing system and staff resources.

- *Enhanced Hauler Performance Data for the City* – The proposed amendments will include several changes that will improve data reconciliation and oversight of hauler records. The contractors will be required to submit more detailed financial records to the City. Additionally, the amendments contain explicit provisions for contractor cooperation in syncing customer service data and for reconciling differences between contractor systems and the City's IBS system.

- *Hauler Contract Cost of Living Adjustments* – Under the current terms of the Recycle Plus agreements, there are no limits (either up or down) to annual COLAs. This can be problematic for a contractor that has experienced increased expenses despite a negative COLA, and conversely problematic to ratepayers if the COLA is exceptionally high. The proposed amendments will include language whereby any COLA amount below zero percent or over six percent will be carried over to the subsequent year. Although this provision is not

a strict limit to COLAs, it does serve to "smooth-out" one-time spikes and drops in annual adjustments, thus providing protection to ratepayers and contractors.

Service Changes and Enhancements
The proposed amendments include service changes and enhancements designed to improve customer service while offering savings back to the City. These proposed changes include:

- *Pilot Program for Blighted MFD Areas* – GreenTeam will assist the City with solutions to illegal dumping problems, including supplying one 30-yard covered roll-off box (at the current Neighborhood Clean-Up rate) to a pilot area for the clean-up of illegally dumped material. This pilot would test the feasibility of supplying these clean-up boxes throughout the City.

- *Improved Transition to Future Contractors* – The proposed amendments will require the contractors to provide customer and operations information to the City that will help solid waste companies prepare better cost estimates when responding to a future Request for Proposals (RFP). Additionally, the contractors will be required to cooperate fully when transitioning to a new contractor, including making employees available for trainings, removing contractor-owned containers, and the option to negotiate with incoming contractors to provide vehicles, equipment, or facilities.

- *Equipment Requirements and Contract Compliance Funding* – In negotiations with the Recycle Plus contractors, certain contract provisions were identified that if relaxed could gain efficiencies and offer savings back to the City. Two of the proposed amendments, GreenTeam and Garden City, include changes to requirements for the use of new or rebuilt vehicles, and the painting of vehicles. Instead of hard deadlines for these provisions, new language provides for more flexibility, while still ensuring safe and clean collection trucks. Additionally, by not requiring CWS to contribute to the cost of a consultant assisting in monitoring contract compliance, they have agreed to offer an equivalent savings to the City through the end of the agreement ($150,000 total). The City will continue to utilize the services of the contract compliance contractor through at least February 2011.

- *Potential "Hard-to-Serve" Rate* – It is more costly to provide collection service to some San José neighborhoods because of access issues that require additional staff or equipment. Currently, neither the customer is charged nor is the hauler paid for this more costly collection. The proposed amendments require the contractors to cooperate with the City if the City chooses to implement, or explore the implementation of, a hard-to-serve rate for existing or future customers. This may include assisting the City in the identification of specific hard-to-serve areas.

POLICY ALTERNATIVES

Alternative #1: Enter into solid waste service agreements with terms for eight additional years (expiring June 2021).

During the course of the two-year contract negotiations, the haulers proposed offers for extending the agreements for a longer term. A summary of these offers is discussed below. If directed to pursue this option, proposed contract language resulting from these negotiations would be brought to Council in June 2010 for consideration, with the term of any new agreements likely to be July 1, 2010 through June 30, 2021.

Financial Benefits

As detailed in Table 3, all Recycle Plus contractors offered additional value to the City in consideration for eight additional years of service past the current June 2013 termination date. The savings vary depending on the hauler and the total savings from an eight-year extension range from $37 to $38 million, or 5.5% of the total contract value over the eight-year extension period. Savings estimated to be realized in 2010-2011 total $3.3 million. As explained previously in this report, the disparity can largely be attributed to the amortization of equipment, service district size, and the relative variances of exposure by the haulers to the negative impacts of the recycling commodities markets in the past 18 months.

Program Enhancements

All of the haulers were willing to build upon the environmental benefits; billing, customer service, hauler payment and data improvements; and service changes, and enhancements as described in the preceding sections of this report for an additional eight years of service. In addition, a number of program enhancements were also offered by the haulers as part of the eight years, including:

- *Increased Recycling* – GreenWaste offered to increase the amounts of garbage currently being processed, at a rate to be negotiated between the City and GreenWaste. Currently, GreenWaste processes all MFD garbage and some SFD garbage (as part of the Zero Waste Organics Pilot Program). Because of this back-end processing, the MFD program is the best performing recycling system in the country. If the City selects this option, GreenWaste is prepared to process residential street sweeping waste at no additional charge to the City. Currently, both of these waste streams are disposed of at Newby Island Landfill. Implementing this option could obtain significantly higher levels of diversion for the City and would likely reduce some of the net savings depicted below.

- *Alternative Fuels* – A number of haulers proposed repowering or replacing vehicles to CNG technology, increasing the blend of biodiesel currently being used, or replacing vehicles with hybrid-drive technology. These proposals would allow the City to significantly reduce the carbon footprint of its residential solid waste collection fleet in the near term.

- *Billing, Customer Service, Remittance Processing* – All haulers were willing to negotiate an option for customer service, billing, and remittance processing at rates that are likely favorable to the City in comparison to current costs.

TABLE 3: Offered Benefits to the City for Eight Additional Service Years

Contractor	2010-2011 Savings	Eight-Year Savings	Program Enhancements*	Detail of Savings
CWS	$218,182	$2,400,000	Switch entire fleet from diesel to biodiesel during second half of 2014-2015 Replace all supervisor and appropriate light-duty vehicles to hybrid-drive technology during second half of 2014-2015	Compensation reductions of $218,182 per year starting in 2010-2011 accomplished by three actions: 1. CWS assumes costs of sending baled material to Newby Island Landfill starting in 2010-2011, at approximately $55,800 per year *(Estimated Savings: $613,800)* 2. Invoice deductions of approximately $30,000 per year starting in 2010-2011, payable in monthly installments *(Estimated Savings: $330,000)* 3. Invoice deductions of approximately $132,382 per year starting in 2010-2011, payable in the June invoice *(Estimated Savings: $1,456,200)*
Garden City	$0	$21,200,000	Repower entire 50 vehicle diesel fleet to CNG beginning in 2012-2013	Annual cash payments of $2,650,000 from 2013-2014 to 2020-2021, payable in monthly installments beginning July 1, 2013 *(Savings: $21,200,000)*
GreenTeam	Option 1 $38,146	$1,310,206	No additional enhancements from 2-year extension proposal	GT assumes costs of sending baled garbage to Newby Island Landfill starting in 2010-2011 *(Total Estimated Savings: $191,400)* No COLA in City Facility contract in CY 2010 *(Estimated Compounded Savings: $318,806)* Invoice deductions of $100,000 annually from 2013-2014 to 2020-2021 *(Savings: $800,000)*
GreenTeam	Option 2 $38,146	$510,206	Replace entire 40 vehicle diesel fleet to CNG beginning in 2011-2012 Fund construction of a slow-fill CNG fueling station	GT assumes costs of sending baled garbage to Newby Island Landfill starting in 2010-2011 *(Total Estimated Savings: $191,400)* No COLA in City Facility contract in CY 2010 *(Estimated Compounded Savings: $318,806)*

TABLE 3 (Cont'd.)

Contractor	2010-2011 Savings	Eight Year Savings	Program Enhancements*	Detail of Savings
GreenWaste	$3,005,060	$12,897,380	When replacement of vehicles is needed, hauler will consider replacing with CNG powered engines Process SFD garbage at a rate advantageous to the City that does not to exceed $75/ton to significantly improve overall SFD recycling rate No charge for processing residential street sweeping material in all eight extension years, contingent upon the City sending garbage tons for processing	No COLA in District A/B & C Yard Trimmings, Street Sweeping, and Multi Family Dwelling Processing contracts; and District A & C NCU contract in 2015-2016 *(Estimated Compounded Savings: $5,841,720)* Provide public litter can solid waste services from 2010-2011 to 2020-2021 at no additional cost to City *(Estimated Savings: $4,455,660)* Cash payment on July 1, 2010 *(Savings: $2,000,000)* Monthly invoice deductions during 2010-2011 *(Savings: $600,000)*
Total	**$3,261,388**	**$37 to $38 million****		

* All 8-year extension offers include an option for customer service, billing, and remittance processing with 24/7 City access to haulers billing and customer service information systems, at a cost to be determined.

** Equivalent to 5.5% of the total contract value over the eight-year extension period.

Pros:

a. Significant financial benefits due to ability for haulers to amortize equipment over a longer period, resulting in greater savings, some of which would be realized in 2010;
b. Haulers are willing to negotiate enhancements which could significantly increase SFD recycling rates;
c. Environmental benefits, such as moving to CNG and hybrid-drive technology beginning in 2010, could significantly reduce the carbon footprint of the residential solid waste collection fleet;
d. Ability to mitigate future rate increases and fund additional diversion programming, such as the processing and recycling of SFD garbage and residential street sweep waste;
e. Due to IBS end-of-life in 2015, the City could transition to a more cost effective hauler customer service and billing solution without investment in an interim billing system for Recycle Plus services;
f. Secure solid waste processing capacity in existing facilities through 2021; and
g. Longer term provides incentive for haulers to build additional solid waste processing infrastructure.

Cons:

a. Inconsistent with Council's direction regarding the maximum term for the 2000 and 2006 Recycle Plus services procurements;
b. The opportunity to make program changes mid-term will be more limited if those changes involve the purchase of additional capital equipment; and
c. The City would lose the opportunity to combine garbage and recycling collection services in Districts A and C. Efficiencies and economies of scale would not be realized if garbage and recycling services continue to be separate (i.e. the need for duplicate management and customer service staff, two corporate yards, etc.). Moreover, residents in these districts would need to contact two providers to resolve service issues should the City change to a hauler customer service solution.

Reason for Not Recommending: This proposal is beyond the scope of Council's direction to staff to evaluate a two-year extension. More time would be needed to evaluate all the additional complexities surrounding longer term extensions. Upon Council direction, staff would need to resume negotiations with the haulers to further define the terms, calculate the savings, and determine the details of the billing, customer service, and remittance processing solution.

Alternative #2: No action by the City. Procure new Recycle Plus services for 2013.

Pros:

a. The City would have the opportunity to redistrict and consolidate collection services to take advantage of hauler efficiencies and economies of scale (i.e. eliminate duplicate management and customer service staff, multiple corporate yards, etc.). This could translate to lower costs to the City, promote route efficiencies, and reduce environmental impacts.

Cons:

a. A 2013 timeline would have required that staff start drafting the RFP in January of 2010. This scenario would place significant strain on the resources of the City to accelerate writing the RFP, and undertake it without complete information from the Zero Waste Organics Pilots, which are scheduled to finish in August 2011. In addition, the hauling community may be less willing to participate in both the significant, and nearly simultaneous, residential and commercial solid waste RFP processes; and
b. Potential to lose very limited garbage processing capacity that the City currently has under contract.

Reason for Not Recommending: The negative impacts of a procurement in 2013 outweigh the benefits. The benefits associated with this alternative also apply to the recommendation for a two-year extension.

Alternative #3: Enter into evergreen/daily renewal solid waste service agreements.

During the negotiations, all of the contractors expressed some level of interest in "evergreen" (or "daily renewal") agreement terms with the City. An evergreen contract contains a provision that

the contract is automatically renewed without City Council action, so that the duration of the initial term is maintained at all times. Termination of the contract requires a long-term (as much as, or more than, a decade) notice to the contractor of the City's intent not to extend the agreement. This contrasts with an option that requires affirmative action by the City to extend up to a maximum period of time.

Pros:

a. Savings in staff resources resulting from avoided need to RFP for an extended amount of time;
b. No transition in services would be required; and
c. One contractor offered additional savings beyond those in the 8-year extension offer.

Cons:

a. It would be inconsistent with the City's historical practice of following a competitive procurement process to ensure that the City is obtaining a fair market test of the prices and quality of goods and materials;
b. While an evergreen contract may provide increased value to the company, it does not necessarily assure stability in the management and ownership of a company, nor in the quality of the services provided;
c. An evergreen contract is often presented as a cure to the increasing cost of capital assets (vehicles, bins, etc.) and their impact on rates. Yet the beneficiary of the evergreen contract has to pay the same costs for such capital assets as a new company. There are easier and less burdensome techniques available to a city for achieving such rate stability (e.g., specifying an average age for a fleet of vehicles (rather than new vehicles) at the commencement of services, and/or an option for the city to acquire vehicles at the end of the term, etc.);
d. An evergreen contract is particularly inappropriate when addressing the current dynamic conditions of the solid waste service industry. Local policies, State and federal regulations, and the market place of service providers and facilities are constantly changing. Locking into an evergreen contract prohibits the necessary flexibility of the City to respond to such changing conditions in a timely manner;
e. A longer term contract could require the City to pay the same collection costs despite a potential decrease in level of service due to increased recycling activities; and
f. Lost opportunity to take advantage of new technology and innovations that may become available.

Reason for Not Recommending: Limits Council's abilities to obtain a fair market assessment of other potential service providers, thereby locking in the current contractors and prohibiting Council's prerogative to select alternative solid waste service providers.

EVALUATION AND FOLLOW-UP

Staff will return to Council in June 2010 to recommend execution of any contract amendments required to implement Council's approved recommendation.

PUBLIC OUTREACH/INTEREST

✓ **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)**

☐ **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)**

This item meets Criteria #1: Requires Council action on the use of public funds equal to $1 million or greater.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Finance and Information Technology Departments, and the City Manager's Budget Office.

COST IMPLICATIONS

Approval of Staff's recommendation to proceed with a two-year extension would save the Integrated Waste Management Fund (423) approximately $800,000 in 2010-2011 and nearly $6.7 million over the extended term of the agreements as described in the Analysis section of the memo.

BUDGET REFERENCE

2009-2010 Adopted Operating Budget, Pages XI-50 and XI-51.

CEQA

Not a project.

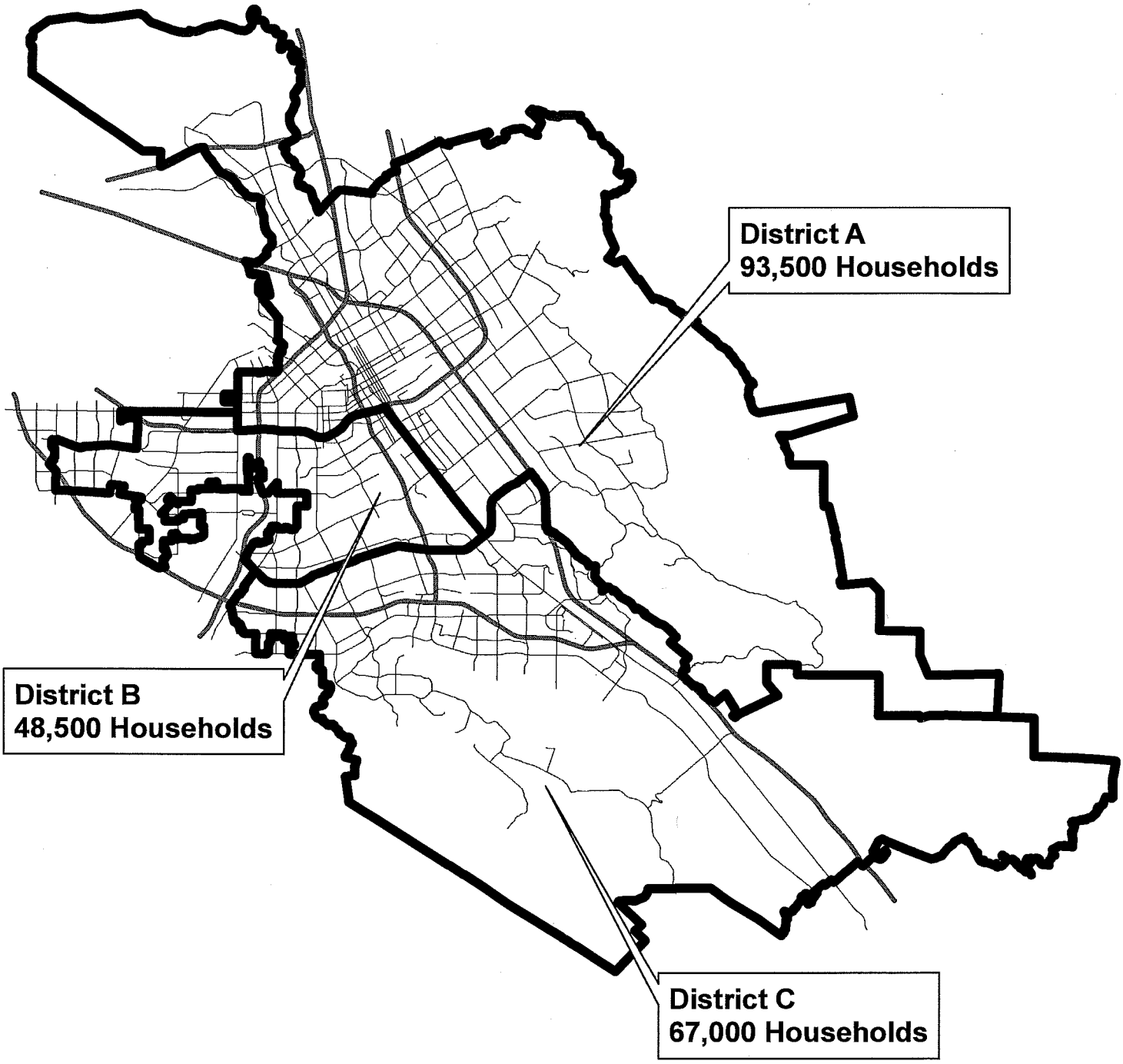
/s/
JOHN STUFFLEBEAN
Director, Environmental Services

Attachments:
A. Recycle Plus Service District Map
B. Citywide Public Litter Container Distribution Map
C. City Facilities Served by Green Team

For questions, please contact Jo Zientek, Deputy Director, Environmental Services Department, at (408) 535-8557.

ATTACHMENT A

Recycle Plus Service District Map



Legend

Hauler District Boundary

Major Roads and Highways

N
W E
S

0 1 2 4 Miles

Sources:
- ESD IWM Residential Geodatabase

Map By:
City of San José
Environmental Services Department

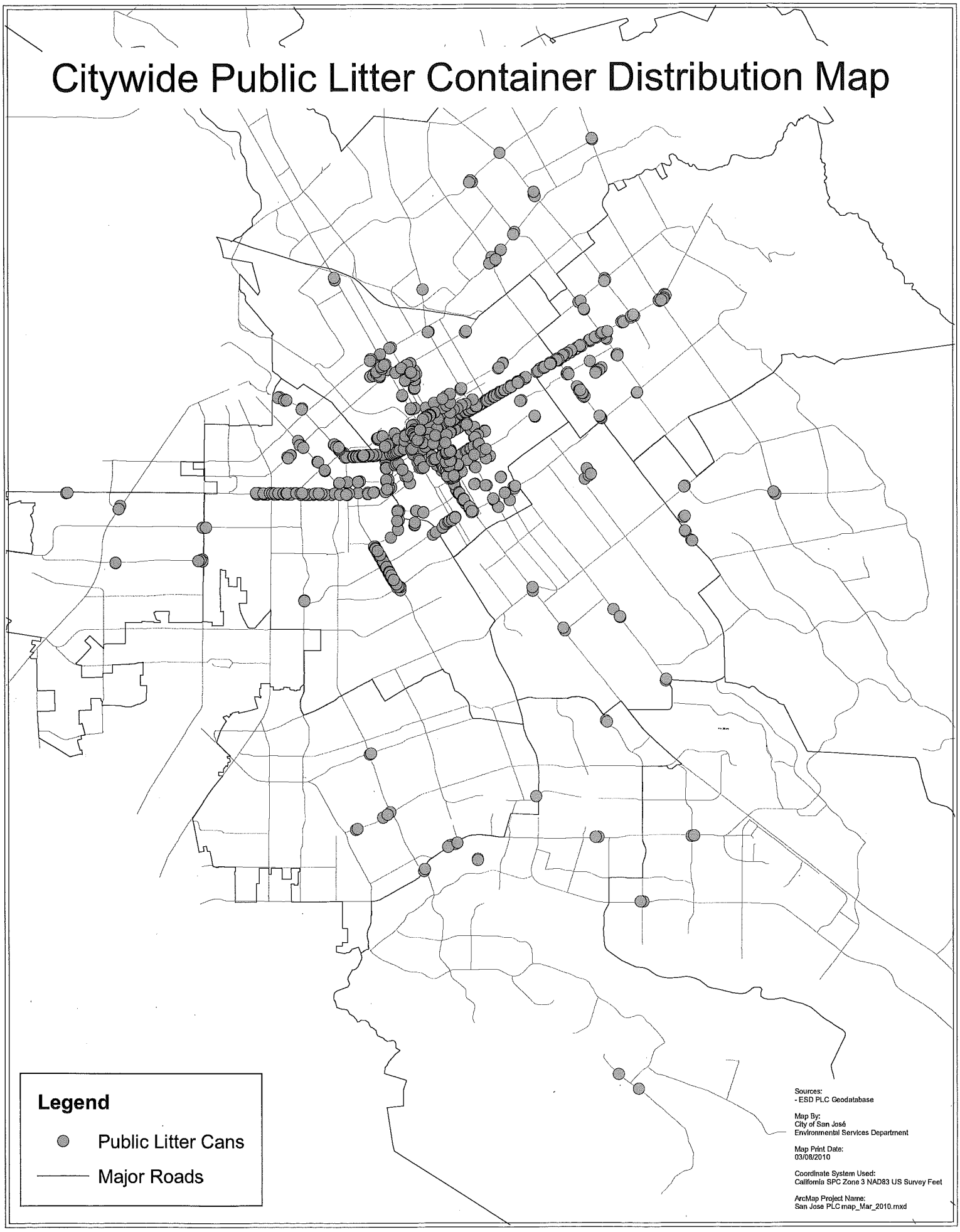
Map Print Date:
03/08/2010

Coordinate System Used:
California SPC Zone 3 NAD83 US Survey Feet

ArcMap Project Name:
IWM Res Hauler Dist Map March 2010.mxd

ATTACHMENT B

Citywide Public Litter Container Distribution Map



ATTACHMENT C
City Facilities Served by GreenTeam

Alma Senior Center
Almaden Community Center
Almaden Lake Park
Almaden Library Branch
Almaden Winery Community Center
Alum Rock Branch Library
Alum Rock Park
Alum Rock Youth Center
Alviso Branch Library
Alviso Community Police Center
Animal Care Services
Anti Graffiti Program
Backesto Park
Bernal Park
Berryessa Branch Library
Berryessa Youth Center
Biblioteca Latino Americana Branch
Boggini Park
Bramhall Park
Butcher Park
Cahalan Park
Calabazas Branch Library - closed
Calabazas Park
Cambrian Library Branch
Camden Park and Community Center
Capitol Park Neighborhood Center
Cataldi Park #1
Cataldi Park #2
Center for Performing Arts
Central Service Yard
City Hall
Civic Auditorium
Columbus Park
Convention Center
Coy Park
Cry Out Christian Fellowship (PRNS)
Cypress Senior Center
East San Jose Carnegie Branch Library
Edenvale Garden Park
Edenvale Library Branch
Edenvale Youth & Family Center
Educational Park Branch Library - closed
Emma Prusch Farm and Park
Evergreen Library Branch
Evergreen Park and Community Center
Fair Swim Center
Fair Youth Center
Peralta Adobe/Fallon House
Fire Station #01
Fire Station #02
Fire Station #03
Fire Station #04
Fire Station #05
Fire Station #09
Fire Station #10
Fire Station #13
Fire Station #14
Fire Station #16
Fire Station #18
Fire Station #20
Fire Station #26
Fire Station #30
Fire Station #34
Fire Training Facility
Fire Vehicle Maintenance Facility
Flickinger Park
Forest Street Annex (SJPD)
Fowler Creek Park
Gardner Community Center
George Page Park
Grace Baptist Community Center
Hamann Park
Hank Lopez Community Center
Hathaway Park
Health Building (SJPD)
Hillview Branch Library
Hillview Park
Joyce Ellington Branch Library
Kelly Park/Happy Hollow Zoo
Kirk Park & Community Center
La Colina Park
Lake Cunningham
Las Plumas/Innovation Center
Lo Bue Park
Los Paseos Youth Center
Mabury Yard
Mayfair Park and Community Center
McKinley Neighborhood Services
McLaughlin Park
Meadowfair Community Center
Meadowfair Park
Metcalf Park
Mexican Heritage Plaza
Mineta San Jose International Airport
Mise Park
Moreland West Community Center
Municipal Garage (PD Communications)
Municipal Water
Murdock Park
Northside Community Center
Oakmead Pump Station
Old Berryessa Branch/Park
Old City Hall
Old Martin Luther King Library
Olinder Community Center
Overfelt Gardens
Palmia Park
Parma Park
Paul Moore Park
Pearl Branch Library
Police Activities League (PAL) Stadium
Police Administration
Police Property Warehouse
Police Stables
Police Training Facility
Rainbow Park/Center
RAMAC Park
Ramblewood Park
River Glen Park
Roosevelt Community Center
Roosevelt Park/Center
Rose Garden
Rose Garden Branch Library
Rubino Park
Ryland Park
San Jose Museum of Art
San Tomas Park
Santa Teresa Branch Library
Santana Park
Saratoga Creek Park - South
Seventrees Branch Library - closed
Shady Oaks Park
Sherman Oaks Community Center
Shirakawa Community Center
Silver Creek - Picnic Meadow
Silver Creek Linear Park
Solari Park
South Service Yard
Southside Community Center
St. James Senior Center
Starbird Park/ Community Center
The Spot - Bret Harte Youth Center
Townsend Park
Tully Community Branch Library
Tully Road Ball Field
Vineland Branch Library
Vista Park
Water Pollution Control Plant
Welch Park
West Corporation Yard
West San Jose Community Center
West Valley Branch Library
Willow Glen Branch Library
Willows Senior Center
Work2Future