



Legislation Details (With Text)

File #: ID17-1456 **Version:** 1 **Name:**
Type: Action Item **Status:** Continued in Council
File created: 10/18/2017 **In control:** City Council
On agenda: 11/2/2017 **Final action:**
Title: Approve the annual Index-Based Rate Adjustments (Rate Period 7) for Commercial Solid Waste Franchise Services as Requested by Allied Waste Services and Mid Valley Disposal for Disposal of Multi-Family, Commercial Solid Waste, Recyclable and Organic Material (Citywide)
Sponsors: Department of Public Utilities
Indexes:
Code sections:
Attachments: 1. Rate Increase Attachment 1.pdf, 2. Rate Increase Attachment 2.pdf, 3. Rate Increase Attachment 3.pdf

Date	Ver.	Action By	Action	Result
11/2/2017	1	City Council	continued	

REPORT TO THE CITY COUNCIL

November 2, 2017

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SUBJECT

Approve the annual Index-Based Rate Adjustments (Rate Period 7) for Commercial Solid Waste Franchise Services as Requested by Allied Waste Services and Mid Valley Disposal for Disposal of Multi-Family, Commercial Solid Waste, Recyclable and Organic Material (Citywide)

RECOMMENDATION

Staff recommends City Council approve the Index-Based Rate Adjustments for commercial contractors Allied Waste Services (Allied) and Mid Valley Disposal (Mid Valley) pursuant to the Multi-Family and Commercial Solid Waste Services Franchise Agreements.

EXECUTIVE SUMMARY

On September 29, 2011, Council awarded exclusive commercial solid waste franchises to Allied Waste Services and Mid Valley Disposal ("Franchisees") to provide commercial solid waste services

within the municipal corporate limits of the City. The Multi-Family and Commercial Solid Waste Franchise Agreement (CSW Agreement) allows Allied and Mid Valley, on an annual basis, to submit requests for commercial solid waste service rate increases.

In October 2017, both Allied and Mid Valley submitted requests for an Index-Based Rate Adjustment for CSW services, with the new rates planned to become effective January 2018. City staff reviewed the rate increase requests and supporting documentation from the Franchisees, and determined both Allied and Mid Valley are contractually entitled to an Index-Based Rate Adjustment for Rate Period 7 (Calendar Year 2018) in the amount of 2.97 percent for Allied and 2.90 percent for Mid Valley. The adjustments differ slightly due to variation in fuel consumption related to the Franchisees' service areas.

City staff confirmed the methodology used by Allied and Mid Valley in the rate increase requests complies with Article II of the CSW Agreement. Therefore, City staff recommends that Council approve the annual Index-Based Rate Increases for Allied and Mid Valley for CSW services in the City of Fresno.

BACKGROUND

In 2010, City staff planned and developed a commercial solid waste franchising system, procured contractors (Allied and Mid Valley), and negotiated two identical CSW Agreements (Agreements, or each an Agreement). On September 29, 2011, Council awarded exclusive CSW Agreements to Allied and Mid Valley (Franchisees) to provide commercial solid waste services within the municipal corporate limits of the City. Allied and Mid Valley commenced commercial operations in the City of Fresno under their respective franchise agreements on December 5, 2011, providing commercial solids waste services for solid waste, recyclable materials, and organic materials generated at multi-family and commercial properties.

Contract Provisions for Annual Rate Adjustments

Both Agreements allow annual rate increases to account for changes in the consumer price index, fuel costs, and other related cost-of-service items. In order for a rate increase requests to be given consideration by the City, the Franchisees must submit an application requesting the rate increase by October of each year, with the effective date of the rate increase anticipated for January of the following year. The documentation required to be submitted with the rate increase applications is defined in Article II of the Agreements. The process for evaluating rate adjustments is determined using one of two methods: 1) an Index-Based Adjustment or 2) Cost-Based Adjustment.

- **The Index-Based Adjustment**, described in the Article II, Section 11.3 of the Agreement involves the use of various cost adjustment factors to calculate allowable rate increases.
- **The Cost-Based Adjustment** involves a detailed review of a Franchisee's actual costs; provided, however, the Operating Component portion of the rate increase does not exceed 3 percent for Rate Period 3 (Calendar Year 2014) adjustment and 6 percent for any other Rate Period.

Attachment 1 of the Agreements specifies when each of the rate adjustment methods will be used.

Rate Adjustment History

Since the inception of the Agreements, six Rate Periods (Calendar Years) have passed (2012, 2013, 2014, 2015, 2016 and 2017) and 2018 will be Rate Period 7. Since the effective date of the Agreements, rate increases have been approved for two Rate Periods- Rate Period 2 (Calendar Year 2013) and Rate Period 5 (Calendar Year 2016). Council approved both increases based upon staff determination that the applications for adjustment complied with the Agreements and were appropriately justified.

Rate Period 7 Rate Increase Request

As specified in the Agreements, on October 1, 2017, both Allied and Mid Valley submitted applications and supporting documents for rate increases for Rate Period 7 (Calendar Year 2018), with rate increases to become effective January 2018. The Agreements specify the rate increases for Rate Period 7 are to be set based on the Index Rate Adjustment methodology. The Index Rate Adjustment methodology provides for adjustments to each of the following four rate components:

- 1) Operating Component;
- 2) Disposal Component;
- 3) Processing Component; and
- 4) Fee Component.

Attachment 2 shows the recommended calculation adjustments to each of the rate components. Attachment 3, based on the adjusted rates, presents the recommended adjusted values for each of the customer rate component, Rate Period 7 (Calendar Year 2018), as compared to the currently approved customer rates, for Rate Period 6 (Calendar Year 2017).

Based on City staff findings, the allowable rate increase for Rate Period 7 for commercial solid waste services has been determined to be 2.97 percent for Allied and 2.90 percent for Mid Valley. Allied and Mid Valley agreed to accept the allowable rate increases for Rate Period 7 and will implement a 2.97 percent and 2.90 percent rate increase, respectively, effective January 2018.

Staff Recommendation

Based on City staff review of the rate increase application documents provided by Allied and Mid Valley for Rate Period 7 (Calendar Year 2018), City staff recommends City Council approve the allowable rate increase of 2.97 percent for Rate Period 7 for Allied and 2.90 percent for Rate Period 7 for Mid Valley.

- 1) Allied has communicated to City staff that it will implement the approved rate increase of 2.97 percent for Rate Period 7. The Allied rate increases will become effective January 2018.
- 2) Mid Valley has communicated to City staff that it will implement the approved rate increase of 2.90 percent for Rate Period 7. The Mid Valley rate increases will become effective January 2018.

ENVIRONMENTAL FINDINGS

Pursuant to CEQA Guidelines section 15378, this is not a project for purposes of CEQA.

LOCAL PREFERENCE

Local preference is not considered because this rate increase is not an award of a construction or services contract.

FISCAL IMPACT

The impact of the rate adjustment will generate approximately an additional \$102,875 annually to the General Fund.

Attachments:

Attachment 1 - Adjustments to Rate Components (percent)

Attachment 2 - Recommended Adjusted Customer Rates

Attachment 3 - Rating Period Schedule