

CITY OF PACIFICA CITY COUNCIL AGENDA

MAYOR MARY ANN NIHART
MAYOR PRO TEM PETE DEJARNATT
COUNCILMEMBER JIM VREELAND
COUNCILMEMBER SUE DIGRE
COUNCILMEMBER LEN STONE

CITY COUNCIL CHAMBERS
2212 BEACH BOULEVARD
PACIFICA, CALIFORNIA 94044

March 28, 2011

www.cityofpacifica.org

Off-street parking is allowed by permit for attendance at official public meetings. Vehicles parked without permits are subject to citation. You should obtain a permit from the rack in the lobby and place it on the dashboard of your vehicle in such a manner as is visible to law enforcement personnel.

Call to Order – Open Meeting

CLOSED SESSION ITEM:

None.

OPEN SESSION

7:00 p.m.

Call to Order
Roll Call
Salute to the Flag led by Councilmember Digre
Commission Liaisons:
Closed Session Report:

CONSENT CALENDAR

Items on the consent calendar will be adopted by one motion unless a Councilmember or person in the audience requests, before the vote on the motion, to have an item discussed under the Consideration portion of the agenda. Time limit on comments is three minutes or less.

1. Approval of Disbursements dated 03/07/11 to 03/14/11 in the amount of \$761,205.47 Regular and quick checks numbered 81937 and 12614 to 12806 (**Proposed action:** approve)
2. Approval of Minutes of Regular City Council Meeting of March 14, 2011 (**Proposed action:** approve)

SPECIAL PRESENTATION

- ❖ Proclamation – National Volunteer Appreciation Week
- ❖ Earth Day Proclamation

PUBLIC HEARING

During public hearings, an applicant or their agent and appellants have ten minutes for their opening presentation and three minutes for rebuttal before the public hearing is closed. Members of the public are limited to three minutes.

None.

COUNCIL COMMUNICATIONS

The purpose of Council Communications is for Councilmembers to inform each other of items of potential interest to other Councilmembers, such as interagency meetings.

ORAL COMMUNICATIONS

This portion of the Agenda is available for the public to address the City Council on any issue that is not on the Agenda. Any person wishing to address the Council shall be recognized by the Mayor during Oral Communications, provided, however, that during the Oral Communications portion of the agenda, only items not on the agenda for that meeting may be addressed. All remarks shall be addressed to the Council as a body and not to any member thereof. Councilmembers shall not enter into debate with speakers under Oral Communications. A maximum time of three minutes will be allowed for any speaker. Pursuant to Pacifica Municipal Code Title 2, Chapter 1, Section 2-1.118 any person making impertinent, slanderous, or profane remarks or who becomes boisterous while addressing the Council shall be called to order by the presiding officer and, if such conduct continues, may, at the direction of the presiding officer, be ordered barred from further audience before the Council during the meeting.

CONSIDERATION

3. Update on Research Conducted on the Various Options for Providing Police Services in the City of Pacifica (**Proposed action:** accept update and concur in beginning the recruitment of a new Police Chief)
4. Recology of the Coast Rate Increase Application (**Proposed action:** move that the City Council adopt a Resolution of the City of Pacifica Directing Staff to Issue Notice of Public Hearing for New or Increased Solid Waste Collection Services Fee and Charges)

ADJOURN

NOTICE: If you challenge a city's zoning, planning or other decision in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the City Council at, or prior to, the public hearing. Judicial review of any city administrative decision may be had only if a petition is filed with the court not later than the 90th day following the date upon which the decision becomes final. Judicial review of environmental determinations may be subject to a shorter time period for litigation, in certain cases 30 days following the date of final decision.

The City of Pacifica will provide assistance for disabled citizens upon at least 24 hours advance notice to the City Manager's Office (650) 738-7301, or send request via email to: o'connellk@ci.pacifica.ca.us If you need sign language assistance or written material printed in a larger font or taped, advance notice is necessary. All meeting rooms are accessible to the disabled.

The Pacifica Municipal Code is available on line at the City's website (www.cityofpacifica.org); at the website, scroll down to find the Link.

HOW TO OBTAIN CITY COUNCIL AGENDAS

Posted agendas:

Agendas are posted the Friday prior to the City Council meeting date, at the entrance to City Hall, 170 Santa Maria Avenue

View on the Internet:

Follow the link to Council agenda, at www.cityofpacifica.org

E-mail subscription:

Send a request to Kathy O'Connell, at o'connellk@ci.pacifica.ca.us

City Clerk's Office/City Manager's Office

City Hall, 170 Santa Maria Avenue, 2nd Floor

Council meetings:

Agendas are available at the City Council meeting

HOW TO OBTAIN CITY COUNCIL AGENDA PACKET MATERIALS

City Clerk's Office or the Library:

A copy of the complete agenda packet is available for public review on the Friday prior to the City Council meeting, at the Pacifica Library, 104 Hilton Way or the Sanchez Library, 1111 Terra Nova Blvd., Pacifica

View staff reports on the Internet:

Follow the link to Council agenda, www.cityofpacifica.org

Council meetings:

A complete agenda packet is available for review at the City Council meeting.

HOW TO REACH YOUR LEGISLATORS

- Governor Jerry Brown, State Capitol Building, Sacramento CA 95814 (916) 445-2841
- State Senator Leland Yee, 400 So. El Camino Real, Ste. 630, San Mateo, CA 94402 (650) 340-8840
- Assemblymember Jerry Hill, 1528 So. El Camino Real, Ste 302, San Mateo CA 94402 (650) 341-4319
- Congresswoman Jackie Speier, 400 So. El Camino Real, Ste 750 San Mateo CA 94402 (650) 342-0300
- Senator Barbara Boxer, 1700 Montgomery Street, Ste 240, San Francisco CA 94111 (415) 403-0100
- Senator Dianne Feinstein, #1 Post Street, Ste 2450, San Francisco CA 94104 (415) 393-0710
- President Barack Obama, 1600 Pennsylvania Ave. NW, Washington DC 20500 (202) 456-1111

CITY OF PAFICICA
COUNCIL AGENDA SUMMARY REPORT
March 28, 2011

Agenda Item No. 3

SUBJECT:

Update on research conducted on the various options for providing Police Services in the City of Pacifica.

ORIGINATED BY:

Police Department/City Manager

DISCUSSION:

In November 2010 the City Council directed the City Manager to explore options for the provision of Police Services in the City of Pacifica. At that time, there were a number of jurisdictions examining the issue. Since the Police Chief had announced his retirement it was an appropriate time to review the issue prior to beginning recruitment for a new Chief.

The Chief was retained under contract and one of the assigned tasks was looking at various options for the police department in an effort to reduce costs and increase efficiency. Since then the Police Chief, and on occasion the City Manager, has met with the neighboring cities' representatives and the Sheriff's Office. The cities of Daly City and South San Francisco were interested in considering ideas, but felt substantial work was required to ascertain the benefits of such an arrangement. Since San Bruno was working with Millbrae on a plan they needed to devote their effort to that plan. The Sheriff's Office has submitted a proposal to Half Moon Bay and wants to wait and see what happens before they would consider service provision to Pacifica. The District of Broadmoor would be interested in discussing different ideas; however the current chief is under contract through December of 2011.

Pacifica has submitted a proposal to the City of Half Moon Bay to provide police services to that community and we expect a decision in the next month. If that contract is awarded to Pacifica it would certainly require the Police Chief to administer the contract.

Given the above information, staff believes that we should continue our current operation of the Police Department and commence recruitment for a new Chief. At the same time we should continue to participate in the discussions regarding alternative service provision and be prepared to consider ways to reduce the cost. As an example, there are continuing discussions regarding consolidating Dispatch Services as well as other police functions.

FINANCIAL IMPACT:

N/A

ATTACHMENTS:

None

COUNCIL ACTION REQUESTED:

Accept update and concur in beginning the recruitment of a new Police Chief.

CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT

March 28, 2011

Agenda Item No. 4

SUBJECT:

Recology of the Coast Rate Increase Application.

ORIGINATED BY:

City Manager, Administrative Services and City Attorney

BACKGROUND

In February 2010, the City of Pacifica entered into a franchise agreement with Recology of the Coast ("Recology") for Recyclable Materials, Organic Materials, and Solid Waste Collection Services. Under the agreement, Recology implemented new collection services in August 2010 and an accompanying 5% rate increase in August of 2010. The increase was effective from August 1, 2010 to March 1, 2011. The increase provided for the additional cost of the new services, including the purchase of new carts and trucks. In order to allow Recology to gain updated statistical data from the new Collection services as described above, it was agreed that there would be a delay in the submission of rate application (from September 1, 2010 to November 1, 2010) allowing for at least two (2) months of the new service actual costs and operating conditions.

The rate adjustment for Rate Period Two, per the franchise agreement, is for the time period of March 1, 2011 to December 31, 2011 and provides a set "floor" and "ceiling" for the rate of no more than eight percent (8%) and no less than four percent (4%) above the rates that were effective on August 1, 2010. There was a delay in the implementation of the rate setting process due to the settlement of a lawsuit between the City of Pacifica, Lionel Emde and Recology. The March 1, 2011 rate request now covers the time period of July 1, 2011 to December 31, 2011. The revenue shortfall (\$45,175 per month) for the time period of March 1, 2011 to July 1, 2011 will be accounted for in the rate setting process for Rate Period Three (January 1, 2012 through December 31, 2012).

The Rate Period Two rate application was received in November 2010 and the City, utilizing the firm of HF&H Consultants, LCC (rate consultants retained by the City), has analyzed the application per the terms of the franchise agreement. Based on analysis of the materials submitted by Recology as required pursuant to the Franchise Agreement, HF&H determined that an 8.61% increase is necessary to compensate Recology for its expenses and agreed upon profit. Recology had calculated a 9.20% rate increase to cover its projected \$623,409 revenue shortfall. Per the Franchise Agreement, the maximum increase allowed for Rate Period Two is 8%, therefore staff is recommending that the City Council initiate proceedings to review the rate application to revise rates by 8% (the maximum permitted) for implementation on July 1, 2011.

Pursuant to a settlement agreement entered into between the City, Lionel Emde, and Recology, Franchise Fees shall be an annual amount of \$805,000 and the Contingency Fee of \$10,000 shall be eliminated. Therefore, HF&H recommends a decrease of \$9,289 and \$10,000 to the amount included by Recology for franchise fees and the contingency fee, respectively.

Proposed Rate Increase:
 The impact of the proposed increases are:

	Current Rates	Proposed Rates
<u>Single-Family Residential Service</u>		
One time additional 32 gallon bag	\$7.33	\$7.92
Each additional gallon over 32 per pick up	\$1.28	\$1.38
Mini can 20 gallons or less (must use 20 gallon can)	\$20.24	\$21.86
32 gallon Cart	\$31.70	\$34.24
48 gallon Cart	\$47.55	\$51.35
64 gallon Cart	\$63.40	\$68.47
96 gallon Cart (acknowledged by City)	\$95.10	\$102.71
Extra Recycling Cart	\$3.00	\$3.24
Extra Organic Materials Cart	\$3.00	\$3.24

Residential service rates are for solid waste container sizes and include costs for Recyclables and Organics Materials Collection service

Commercial Solid Waste Bin Collection Service

Commercial container rentals

1 cubic yard	\$54.21	\$58.55
2 cubic yards	\$63.22	\$68.28

Commercial container pick up for Solid Waste

1 cubic yard	\$49.69	\$53.67
2 cubic yards	\$72.28	\$78.06

Process:

In accordance with the settlement agreement between the City of Pacifica, Recology and Lionel Emde, a public notice will be sent to all customers liable for payment of the proposed fee increase informing them of a public hearing on May 23, 2011 and the process for the protest hearing. In order to meet a 45 day noticing period, notices will be mailed April 6, 2011.

At the public hearing, individuals will have the opportunity to comment on the proposed rate increase and at the conclusion of the public hearing, the City Clerk shall complete the tabulation of all protests received, including those received during the public hearing and shall report the results of the tabulation to the City Council upon completion. If review of the protests received demonstrates that the number received is manifestly less than one-half of the parcels served by the City with respect to the fee which is the subject of the protest, then the Clerk may advise the City Council of the absence of a majority protest without determining the validity of all protests.

FISCAL IMPACT:

The changes for the City fees are the establishment of a flat franchise fee in an annual amount of \$805,000 (currently \$745,700) and the elimination the contingency fee of \$10,000. Residential customers, most of whom subscribe to the 20 gallon can (over 44% of the city's residential customers switched to the smaller can service with the new recycling and composting program) monthly rate would increase from \$20.24 to \$21.86 or an increase of \$1.62 per month or \$19.44 annually.

ATTACHMENTS:

- HF&H Report regarding Recology of the Coast's Rate Application
- Refuse Collection Rate Schedule – Current and Proposed
- Resolution Directing Staff to Issue a Notice of Public Hearing for New or Increased Solid Waste Collection Services Fees and Charges

COUNCIL ACTION REQUESTED:

1. Move that the City Council adopt a Resolution of the City of Pacifica Directing Staff to Issue Notice of Public Hearing For New or Increased Solid Waste Collection Services Fees and Charges.



201 N. Civic Drive, Suite 230
Walnut Creek, California 94596
Telephone: 925/977-6950
Fax: 925/977-6955
www.hfh-consultants.com

Robert D. Hilton, CMC
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC
Marva M. Sheehan, CPA

March 22, 2011

Ms. Ann E. Ritzma
Administrative Services Director
City of Pacifica
170 Santa Maria Avenue
Pacifica, CA 94044

Subject: Review of Recology of the Coast's Rate Application for the Period March 1, 2011 – December 31, 2011

Reference Number: S3798

Dear Ms. Ritzma:

HF&H Consultants, LLC's (HF&H) was retained by the City of Pacifica (City) to assist with a review of Recology of the Coast's (Recology) request for a 9.20% increase to customer rates, effective March 1, 2011 (Application), submitted to the City. This report presents our findings and recommendations and is organized into three sections:

- Background
- Summary and Recommendations; and,
- Rate Adjustment Calculation.

BACKGROUND

The City entered into an agreement for the Collection and Disposal of Solid Waste and Recycling Program Services with Coastside Scavenger Company (Coastside). Coastside and Recology entered an agreement by which Recology would acquire Coastside. The City agreed to consent to the assignment of Coastside's agreement with the City and entered into a separate franchise agreement with Recology for Recyclable Materials, Organic Materials, and Solid Waste Collection Services (Agreement). The Agreement was effective February 9, 2010.

Under the new Agreement, Recology was to initially provide the same services as Coastside between August 1, 2010 and September 1, 2010. Recology was to thereafter phase in and fully implement new collection services. The new services were to improve customer convenience through the provision of wheeled carts for single-family residents and enhance residential and commercial diversion through the collection of single-stream recyclables and organic materials.

During the first 11 months of service, the Agreement provided for a rate increase of 5% effective August 1, 2010 to March 1, 2011. The increase was to provide for the additional cost of the new services,



Ms. Ann Ritzma
March 22, 2011
Page 2 of 9

including the purchase of new carts and trucks. In order to allow Recology to gain updated statistical data from the new Collection services as described above, it was agreed there would be a delay in the submission of a rate application (from September 1, 2010 to November 1, 2010) allowing for at least two (2) months of the new service actual costs and operating conditions. The rate adjustment for Rate Period Two would become effective March 1, 2011 and the rates would increase by no more than eight percent (8%) and no less than four percent (4%) above the rates that were effective August 1, 2010.

Recology and the City have agreed the revenue shortfall (\$45,175 per month) due to the late implementation of the rate increase resulting from the settlement of a lawsuit between the City, Lionel Emde, and Recology. This shortfall will be accounted for in the rate setting process for Rate Period Three (January 1, 2012 through December 31, 2012).

SUMMARY AND RECOMMENDATIONS

Recology's compensation calculations for Rate Period Two were submitted on November 1, 2010. Recology calculated its compensation requirement for Rate Period Two to be \$7,402,386 and estimated rate revenues for the same period to be \$6,778,977. In order to cover its projected \$623,409 revenue shortfall, Recology calculated a 9.20% rate increase to the current rates. Based on our review and adjustments (agreed upon by Recology management and HF&H) to Recology's Application, HF&H determined an 8.61% increase is necessary to compensate Recology for its expenses and agreed-upon profit. However, per the Agreement, the maximum increase allowed for Rate Period Two is 8%, therefore, we recommend the rates be adjusted by the 8% maximum allowed.

Table 1
Summary of Rate Increase

	Recology Submitted Costs	HF&H Revised Costs	Final Proposed Costs Subject to 8% Maximum Rate Increase
Company Compensation Requirement	\$ 7,402,386	\$ 7,362,497	\$ 7,321,074
Route Revenue at Current Rates Proposed by Recology	6,778,977	6,778,977	6,778,977
Revenue Shortfall	\$ 623,409	\$ 583,520	\$ 542,097
Rate Adjustment	9.20%	8.61%	8.00%

Limitations

Our review was substantially different in scope than an examination in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.



Ms. Ann Ritzma
 March 22, 2011
 Page 3 of 9

Additionally, HF&H's scope of services does not include auditing of information provided by Recology such as customer account data, tonnage data, or revenues and expenses reported from Recology's general ledger. Therefore, we have relied on the data provided by Recology in our analysis.

Our conclusions are based on the review of Recology's projections of its financial results of operations. Actual results of operations will usually differ from projections because events and circumstances frequently do not occur as expected and the difference may be significant.

RATE ADJUSTMENT CALCULATION

There are two components to Recology's Application: 1) Recology's compensation to perform the services prescribed in the Agreement; and, 2) Projected revenue from residential and commercial customers for the services provided by Recology.

The following table summarizes HF&H's proposed adjustments to Recology's projected Rate Period Two (March 1, 2011 to December 31, 2011) revenues and compensation.

Table 2
Adjusted Rate Application Summary

	Recology Submitted Costs	HF&H Proposed Adjustments	HF&H Revised Costs	Adjustment to 8% Maximum Rate Increase	Final Proposed Costs Subject to 8% Maximum Rate Increase
Operating Expenses:					
Labor & Labor-Related Costs	\$ 2,771,531	\$ 3,778	\$ 2,775,309	\$ (23,590)	\$ 2,751,719
Vehicle-Related Costs	322,143		322,143	(2,738)	319,405
Fuel	218,093		218,093	(1,854)	216,239
Organics Processing	357,855		357,855		357,855
Lease Costs	657,035		657,035		657,035
Other Costs	1,003,964	(3,315)	1,000,649	(9,098)	991,551
Total Operating Expenses	5,330,621	463	5,331,084	(37,281)	5,293,804
Profit	592,291	51	592,343	(4,142)	588,200
Pass-through Costs:					
Franchise Fees	814,289	(9,289)	805,000		805,000
Other City Fees	115,000	(10,000)	105,000		105,000
Greenwaste Settlement	(56,250)		(56,250)		(56,250)
Recyclable Material Processing	(118,549)		(118,549)		(118,549)
Disposal	724,984	(21,116)	703,868		703,868
Total Pass-through Costs	1,479,474	(40,404)	1,439,069		1,439,069
Total Company Compensation Requirement	7,402,386	(39,890)	7,362,497	(41,423)	7,321,074
Projected Revenues at Current Rates	6,778,977		6,778,977		6,778,977
Revenue Shortfall	\$ 623,409	\$ (39,890)	\$ 583,520	\$ (41,423)	\$ 542,097
Proposed Rate Adjustment	9.20%		8.61%		8.00%



Ms. Ann Ritzma
March 22, 2011
Page 4 of 9

Recology's Compensation for Rate Period Two

The City engaged HF&H to perform a limited review of the Application in accordance with Section 11.02.C of the Agreement. The scope of this review is described in our engagement letter dated November 17, 2010. These procedures included the following tasks:

- Comparison of Recology's compensation adjustment application to the procedures listed in Section 11.02.C and Attachments P, K and M of the Agreement;
- Verification that all cost indices used conformed to Attachment K of the Agreement; and,
- Verification of the mathematical accuracy of Recology's compensation adjustment calculations.

Findings

Recology's calculated contractor's compensation for Rate Period Two was \$7,402,386. In accordance with the City's request, HF&H reviewed Recology's adjustment calculations. We revised the compensation calculations to conform to calculation procedures specified by the Agreement and adjusted profit and franchise fees resulting from any proposed adjustments. The final recommended Rate Period Two contractor's compensation is \$7,321,174.

The following describes our analysis and conclusion of the cost components of Recology's Application:

- 1. Verification of Base Data and Allocation Methodology:** We found that Recology used the most recent two months of expenses (August and September of 2010) per the Agreement as a starting point for Rate Period Two estimated costs. HF&H agreed Recology's income statement (unaudited) for the two months ended September 30, 2010 to the Rate Application with the following exceptions:
 - a. Non-Allowable costs such as donations and fines shown in its income statement were properly excluded from the projected costs included in Recology's application.
 - b. Organic Processing, Recyclable Material Processing, and Disposal Fee (see projection methodology described below) shown in its income statement were adjusted by Recology in accordance with the Agreement.
 - c. Corporate and Regional Overhead Accounts and Insurance were estimated by Recology using 2011 budgeted costs (rather than the actual amounts for the two months ending September 30, 2010). Overhead costs were then adjusted for a cap of 5.7% of Total Annual Costs of Operations. The Agreement states Total Annual Costs of Operations should be for the most-recently completed 12-month period ending April 30. However, since the costs were based on two months of operations, Recology annualized the two months in determining the cap, which is reasonable.



Ms. Ann Ritzma
March 22, 2011
Page 5 of 9

- d. Lease costs totaling \$522,035 for Equipment and \$135,000 for Property are allowed for Rate Period Two and are specified in the Agreement (Attachment K, section 2.10). Lease costs are not estimated using the August and September actual costs as a basis.

Recology used the allocation method as presented in Attachment P to the Agreement to allocate operational costs. The actual number of routes, hauls, and single-family households are used to allocate Recology's Rate Period Two costs (estimated in 2010 dollars) to the City "Pacifica" and to "Other" areas which are jointly serviced by the Recology facility and staff. No exceptions were noted.

2. **Collective Bargaining Agreement Labor Costs:** Per the Agreement, increases to Collective Bargaining Agreement (CBA) Labor Costs are capped at 6.0% with the exception of health and welfare costs which are not subject to the cap. We found that Recology correctly calculated the Labor adjustment per the current CBA Agreement as follows: a 1.32% increase in Salaries, Wages, and CBA Workers Compensation; a 1.16% increase in Pension Expense; and, a 6.0% (cap) increase to CBA Retirement Security Plan (actual increase was 12.0%). HF&H revised the calculation of the Health Insurance costs to reflect an additional 1.0% increase in the 2011 cost for a total of 9.0%. HF&H was notified by Recology of the additional 1.0% increase subsequent to Recology's submission of its Rate Application. HF&H recommends a \$3,778 increase to Health Insurance costs.
3. **Non-Collective Bargaining Agreement Labor Costs:** We found that Recology correctly calculated and applied the Labor Index increase of 1.29% to Non-CBA Labor Costs. The adjustment was calculated as the percentage change of the Consumer Price Index (CPI) for Urban Wage Earners, as specified by the Agreement. No adjustment is recommended.
4. **Vehicle-Related Costs:** We found that Recology applied the correct Motor Vehicle Maintenance and Repair Index increase of 2.83%. No adjustment is recommended.
5. **Fuel Costs:** The Agreement (Attachment K, Section 3.3.6) states that projected fuel costs for the coming rate year shall equal fuel costs for the current rate year multiplied by one plus the annual percentage change in the Producer Price Index, Commodities, No. 2 Diesel (PPI) Index. Additionally the annual percentage change cap of 6.0% does not apply in the case of the PPI Index. The average change for the PPI Index for Fuels was a negative 24.04%. Recology applied a negative 7.70% which they stated represents the reduction from \$3.25/gallon (used in the original pro forma) to \$3.00/gallon (the current rate at the time of submission). The Agreement is specific for the calculation of fuel costs beginning in Rate Period Three as noted above. For Rate Period Two, it states the company is to submit "reasonably anticipated" costs. Recology used the current price per gallon for fuel which is reasonable. No adjustment is recommended.
6. **Organic Materials Transfer/Transport and Processing Costs:** Per the Agreement the cost to process organic materials is calculated based on the total tons of Organic Materials Collected during the period from September 1, 2010 to October 15, 2010 divided by 1.5 months and



Ms. Ann Ritzma
March 22, 2011
Page 6 of 9

multiplied by 12 months then multiplied by three fees as follows: the Organics Transfer Fee of \$5.38 per ton; Transport Fee of \$23.61 per ton; and, Processing Fee of \$45.75 per ton. Recology correctly calculated the annual processing costs using the three per ton fees and the total annual tons of 4,788. No adjustment is recommended.

7. **Lease Costs:** Lease costs totaling \$522,035 for Equipment and \$135,000 for Property are allowed for Rate Period Two and are specified in the Agreement (Attachment K, Section 2.10). Recology included the correct amounts in the calculation of Rate Period Two. No adjustment is recommended.
8. **Other Costs:** Recology's Rate Application has eight line items that are collectively called corporate and regional overhead expenses. These expenses are: regional accounting fees, regional management fees, corporate accounting, IT fee, environmental compliance, human resources fee, corporate management, and public relations. Per Attachment K in the Franchise Agreement, corporate and regional overhead expenses are not allowed to be greater than 5.7% of Total Annual Cost of Operations for the most-recently completed twelve (12) month period ending April 30. This cap on expenses applies to the sum total of all of the line item expenses. The Agreement states it should be for the most-recently competed twelve month period ending April 30. However, due to basing the expenses on the August and September operations, Recology annualized the two months in determining the cap, which is reasonable.

Recology removed \$42,497 (amount greater than the 5.7% cap) from their estimated Rate Period Two projection of overhead expenses in the Rate Application prior to applying the change in the appropriate CPI. Recology then increased all eight corporate and regional overhead expenses by the change in the appropriate CPI adjusting them to 2011 expenses. The removal of the expenses in excess of the cap prior to the application of the change in CPI caused the result, after the application of the change in CPI, to exceed 5.7%. Therefore, HF&H recommends a reduction to the Overhead Costs of \$3,315 to reduce it to the 5.7% cap.

9. **Profit:** We found that Recology calculated profit in accordance with procedures described in the Agreement; however, due to the proposed adjustments described herein, HF&H recommends a increase of \$51 to Recology's calculated profit.
10. **Pass-Through City Fees:** Recology included City Fees (Frontierland Park Remediation Fee, AB 939 Fee, and Contingency Fee) per Attachment M of the Agreement. Pursuant to a settlement agreement entered into between the City, Lionel Emde, and Recology, Franchise Fees shall be an annual amount of \$805,000 and the Contingency Fee of \$10,000 shall be eliminated. Therefore, HF&H recommends a decrease of \$9,289 and \$10,000 to the amount included by Recology for franchise fees and the contingency fee, respectively.



Ms. Ann Ritzma
March 22, 2011
Page 7 of 9

11. Other Pass-Through Expenses:

- a. **Six Months Greenwaste Settlement:** Rates for Rate Period Two shall include a reduction in the amount of \$56,250 to provide for the reimbursement of the City and its residents of the amounts resulting from Coastside's erroneous disposal of green waste and allocation of costs to its affiliate, Sea Coast Disposal Company. Such adjustment shall not continue beyond Rate Period Two as stated in Attachment K Section 3.6.1. Recology included the correct amount in their Rate Application, therefore no adjustment is recommended.
- b. **Recyclable Materials Processing Costs:** For Rate Period Two, the cost to process recyclable materials is calculated based on total tons of recyclable materials collected for the period September 1, 2010 to October 15, 2010 divided by 1.5 months and multiplied by 12 months. Per the Agreement the calculated tonnage is multiplied by two fees: 1) the Recyclable Transfer Cost Fee of \$6.20/ton; and, 2) the Recyclable Transport Fee of \$21.16/ton for Rate Period Two. Also included in the net Recyclable Materials Processing cost is a "Recyclables Commodities Sales Offset". Per the Agreement (Attachment K, Section 2.19) the "Recyclables Commodities Sales offset" is a fixed annual credit amount of \$269,300 for Rate Periods Two through Eight. The offset reflects net revenues from the sale of Recyclables; therefore, the costs of processing Recyclable Materials are not included in the Rate adjustment process. We found that Recology's calculation of the Recyclable Materials Processing costs was correct. No adjustment is recommended.
- c. **Disposal:** Disposal costs for Rate Period Two should equal the per-ton disposal fee at the Designated Disposal Facility (currently Ox Mountain Landfill) multiplied by the total tons of Solid Waste collected by Recology for the coming Rate Year. In Section 3.6.5 of Attachment K of the Agreement, the total tons of Solid Waste collected for Rate Period Two shall be calculated by dividing the actual disposal tons from the period September 1, 2010 to October 15, 2010 by 1.5 months and multiplying them by 12 months. The total per ton tipping fee to dispose of Municipal Solid Waste (MSW) at Ox Mountain Landfill is currently \$52.37. The disposal fee is made up of four components: 1) the base fee of \$41.14; 2) a HHW/LEA fee of \$5.02; 3) a solid waste management and diversion fee per ton of \$4.81; and, 4) an AB 1220 fee of \$1.40 per ton. At the time of submission of the Application Recology had not been notified by Ox Mountain Landfill of a 2011 increase to the current tip fee. Recology assumed a 3.0% increase to the total disposal fee for the disposal cost calculation included in its Application.

Subsequent to the submission of the Application, Recology was informed by management of the Ox Mountain Landfill that there will not be an increase in tip fees for 2011. Therefore, HF&H recalculated the MSW disposal fees based on the current tipping fee resulting in a decrease to disposal of \$21,116. No changes were made to the tonnage calculations.



Ms. Ann Ritzma
March 22, 2011
Page 8 of 9

12. 8% Maximum Rate Adjustment: In accordance with Section 11.02.C of the Agreement, the rate adjustment for Rate Period Two cannot exceed 8%. Based on Recology's requested compensation adjusted as noted above, the Rate Period Two rate adjustment would be 8.85%. Therefore, HF&H proposes an additional reduction to costs of \$58,066. The adjustment has been prorated to the various cost categories that are not specifically set per the Agreement.

Rate Revenue

Recology's Application projected the Rate Period Two revenue by using the actual billed revenue from August and September of 2010 and multiplying it by 6. This method is in accordance with the procedures described in Section 11.02.C. of the Agreement and has taken into consideration migration by customers from one type or level of service to another that occurred with the roll-out of the new services. Our review of the reasonableness of Recology's estimated annual Rate Revenue involved the following three tasks:

1. Review of the estimated Rate Period Two customer count and level of service;
2. Recalculation of Rate Period Two customer revenues based upon current rates and compared to Recology's projected Rate Period Two revenues; and,
3. Recalculation of Rate Period Two customer revenues based on four months of billed revenue and compared to Recology's projected Rate Period Two revenues.

Findings

1. **Rate Period Two customer count and level of service.** Recology provided a listing of the various service levels provided and the number of customers at each service level as of November 30, 2010. HF&H reviewed the service listing. We noted the number of customers was consistent with the anticipated number of customers when Recology began providing service in February 2010; however, the levels of service were different. Customers had transitioned to lower volume containers at lower rates, or in the case of commercial customers, required fewer pick-ups.
2. **Estimating Rate Period Two customer revenues based upon current rates.** Using the account data, HF&H calculated estimated monthly revenue for residential and commercial customers and multiplied the monthly revenue by 12 to calculate the annual revenue. The estimated annual revenue was less than Recology's projected revenue by approximately \$180,000. The difference is reasonable in light of: 1) extra charges billed to customers for special services during the month and this added to the basic billed revenue, and 2) roll-off revenue can vary from month to month.
3. **Estimating Rate Period Two customer revenues based on four months of actual billed revenue.** HF&H requested the billed revenue for the months of August, September, October



Ms. Ann Ritzma
March 22, 2011
Page 9 of 9

and November for each line of business (residential, commercial and roll-off) from Recology. We annualized the four months of revenue and compared the annualized revenue to Recology's projected revenue. The difference was approximately \$19,000 or 0.2% of Recology's projected revenue and is reasonable.

Based on the procedures performed, we do not propose an adjustment to Recology's projected revenue for Rate Period Two.

* * * * *

We would like to express our appreciation to the Recology management and staff for their assistance. In addition, we express our appreciation to you for assistance and guidance during the course of the review. Should you have any questions, please call either of us directly. Bob Hilton can be reached at 925/977-6952 or rhilton@hfh-consultants.com; or, Marva Sheehan may be reached at 925/977-6961 or msheehan@hfh-consultants.com.

Very truly yours,
HF&H CONSULTANTS, LLC

Robert D. Hilton, CMC
President

Marva M. Sheehan, CPA
Vice President

cc: Mark Arsenault, Recology
Mike Kelly, Recology
Chuck Collins, Recology
HF&H Client Files

City of Pacifica
 Recology of the Coast
Refuse Collection Rate Schedule

	<u>Current Rates</u>	<u>Proposed Rates</u>
<u>Single-Family Residential Service</u>		
One time additional 32 gallon bag	\$7.33	\$7.92
Each additional gallon over 32 per pick up	\$1.28	\$1.38
Mini can 20 gallons or less (must use 20 gallon can)	\$20.24	\$21.86
32 gallon Cart	\$31.70	\$34.24
48 gallon Cart	\$47.55	\$51.35
64 gallon Cart	\$63.40	\$68.47
96 gallon Cart (acknowledged by City)	\$95.10	\$102.71
Extra Recycling Cart	\$3.00	\$3.24
Extra Organic Materials Cart	\$3.00	\$3.24
 Residential service rates are for solid waste container sizes and include costs for Recyclables and Organics Materials Collection service		
<u>Commercial Solid Waste Bin Collection Service</u>		
<u>Commercial container rentals</u>		
1 cubic yard	\$54.21	\$58.55
2 cubic yards	\$63.22	\$68.28
 <u>Commercial container pick up for Solid Waste</u>		
1 cubic yard	\$49.69	\$53.67
2 cubic yards	\$72.28	\$78.06
 <u>Compacted commercial container pick up for Solid Waste</u>		
1 cubic yard	\$81.30	\$87.80
2 cubic yards	\$139.75	\$150.93
 <u>Commercial container pick up for Organics</u>		
1 cubic yard	\$44.72	\$48.30
2 cubic yards	\$65.05	\$70.25
 <u>Compacted commercial container pick up for Organics</u>		
1 cubic yard	\$73.17	\$79.02
2 cubic yards	\$125.78	\$135.84

	Current Rates	Proposed Rates
Commercial Can/Cart Solid Waste Pick Up		
Each additional gallon over 32	\$1.72	\$1.86
32 gallon Cart	\$36.12	\$39.01
48 gallon Cart	\$54.18	\$58.51
64 gallon Cart	\$72.24	\$78.02
96 gallon Cart	\$108.36	\$117.03
Commercial Can/Cart Organics Pick Up		
32 gallon Cart	\$32.51	\$35.11
48 gallon Cart	\$48.76	\$52.66
64 gallon Cart	\$65.02	\$70.22
96 gallon Cart	\$97.52	\$105.32
Debris Box Solid Waste and Construction and Demolition Debris Collection		
14 yard container (2 days)	\$458.85	\$495.56
Each additional day	\$38.32	\$41.39
20 yard container (2 days)	\$591.15	\$638.44
Each additional day	\$45.15	\$48.76
Miscellaneous Single-Family Services		
Service from side or rear of house	\$5.35	\$5.78
Return pick up charge	\$9.27	\$10.01
Special call for large items	Quotation	Quotation
Extra charge for collection private driveways:		
1 to 30 feet	No charge	No charge
Over 30 feet (for every 10 feet or part thereof)	\$5.35	\$5.78
Life line rates (available only for 20 gallon Cart Customers)	15% reduction to 20 gallon rate	15% reduction to 20 gallon rate
Single Family return trip charge (i.e. provision of collection service after the regularly scheduled collection day) per event	\$15.00	\$16.20

	Current Rates	Proposed Rates
Miscellaneous Commercial and Multi-Family Services		
Recycling services provided to commercial and multi-family customers	No charge	No charge
<u>Distance charge for MFD and commercial accounts for container size of 3 cubic yards or less:</u>		
Within fifty (50) feet of access by Contractor's collection vehicle	No charge	No charge
51 feet or more from access by Contractor's collection vehicle	10% of base monthly rate	10% of base monthly rate
<u>Distance charge for MFD and commercial accounts for container size larger than 3 cubic yards or less:</u>		
0 to fifty (50) feet of access by Contractor's collection vehicle	10% of base monthly rate	10% of base monthly rate
51 feet or more from access by Contractor's collection vehicle	25% of base monthly rate	25% of base monthly rate
Extra pick up charge for MFD and commercial customers (charge per collection event)	25% of base monthly rate for size of container collected once per week	25% of base monthly rate for size of container collected once per week
Lock purchase fee (one time charge; replacement at no additional charge)	\$17.00	\$18.36
Key service (unlock and relock bin). Monthly charge based on once per week service	\$9.50	\$10.26
Container steam cleaning (or clean container exchange) Bin or debris box	\$85.00	\$91.80
Fee to collect contaminated Targeted Recyclable Materials or Organic Materials (per container)	25% of base monthly rate plus \$15.00 surcharge	25% of base monthly rate plus \$16.20 surcharge

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PACIFICA
DIRECTING STAFF TO ISSUE NOTICE OF PUBLIC HEARING FOR NEW OR
INCREASED SOLID WASTE COLLECTION SERVICES FEES AND CHARGES**

WHEREAS, The City of Pacifica (“City”) entered into a Franchise Agreement (“Agreement”) with Recology of the Coast (“Recology”) pursuant to which Recology provides services regarding recyclable materials, organic materials, and solid waste collection (“Services”);

WHEREAS, pursuant to the Franchise Agreement, Recology has the right to charge and collect from customers rates for the Services subject to a maximum not to exceed the amount set forth in the Franchise Agreement;

WHEREAS, Recology has applied for a rate adjustment to be approved at a public hearing; and

WHEREAS, the City Council desires to initiate proceedings to review Recology’s request to revise the rates effective beginning July 1, 2011.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pacifica that:

Section 1. The City Council directs staff to schedule a public hearing at which all interested persons shall be permitted to present oral and written testimony with respect to the proposed rate revision. The City Council further directs staff to give written notice of the hearing via the United States Postal Service, postage prepaid, at least forty-five (45) days before the date set for the public hearing.

Section 2. The City Council finds that this Resolution is exempt from the California Environmental Quality Act (“CEQA”) pursuant Section 15273 of the CEQA Guidelines.

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Pacifica, California, held on March 28, 2011 by the following vote of the members thereof:

AYES, Councilmembers:

NOES, Councilmembers:

ABSENT, Councilmembers:

ABSTAIN, Councilmembers:

Mary Ann Nihart, Mayor

ATTEST:

Kathy O'Connell, City Clerk

APPROVED AS TO FORM:

Cecilia Quick, City Attorney

Exhibit "A"
Procedures for Conducting Protest Hearings

Submission of Protests

1. Any property owner/ billing account holder may submit a written protest to the City Clerk, either by delivery to the office of the City Clerk or by submitting the protest at the public hearing. Protests must be received by the end of the public hearing. No postmarks will be accepted.
2. Each protest must identify the affected property (by assessor's parcel number or street address) and include the signature of the record property owner/ billing account holder. Email protests cannot be accepted. Although oral comments at the public hearing will not qualify as a formal protest unless accompanied by a writing, the City Council welcomes input from the community during the public hearing on the proposed fees.
3. If a parcel served by the City is owned by more than a single record owner, each owner may submit a protest, but only one protest will be counted per parcel and any one protest submitted in accordance with these rules will be sufficient to count as a protest for that property.
4. In order to be valid a protest must bear the original signature of the record owner with respect to the property identified on the protest. Protests not bearing the original signature of a record owner shall not be counted.
5. Any person who submits a protest may withdraw it by submitting to the City Clerk a writing request that the protest be withdrawn. The withdrawal of a protest shall contain sufficient information to identify the affected parcel and the name of the record owner or record customer who submitted both the protest and the request that it be withdrawn.
6. A fee protest proceeding is not an election.
7. To ensure transparency and accountability in the fee protest tabulation, protests shall constitute disclosable public records from and after the time they are received.
8. Failure of any person to receive notice shall not invalidate the proceedings.

Tabulation of Protests.

1. The City Clerk shall determine the validity of all protests. The City Clerk shall not accept as valid any protest if the City Clerk determines that any of the following conditions exist:

- a. The protest does not identify a property served by the City.
 - b. The protest does not bear an original signature of a record owner of the parcel /billing account holder identified on the protest.
 - c. The protest does not state its opposition to the proposed fees.
 - d. The protest was not received by the City Clerk before the close of the public hearing on the proposed fees.
 - e. A request to withdraw the protest is received prior to the close of the public hearing on the proposed fees.
3. The City Clerk's decision that a protest is not valid or does not apply to a specific fee shall constitute a final action of the City and shall not be subject to any internal appeal.
 4. A majority protest exists if written protests are timely submitted and not withdrawn by the record owners of, or customers with respect to, a majority of the properties subject to the proposed fee.
 5. At the conclusion of the public hearing, the City Clerk shall complete the tabulation of all protests received, including those received during the public hearing and shall report the results of the tabulation to the City Council upon completion. If review of the protests received demonstrates that the number received is manifestly less than one-half of the parcels served by the City with respect to the fee which is the subject of the protest, then the Clerk may advise the City Council of the absence of a majority protest without determining the validity of all protests.