



TOWN OF FAIRFAX

STAFF REPORT

December 16, 2020

TO: Mayor and Town Council

FROM: Garrett Toy, Town Manager

SUBJECT: Adopt a resolution approving a 4.73% rate increase for Solid Waste Services provided by Marin Sanitary Service to be effective January 1, 2021

RECOMMENDATION

- 1) Conduct public hearing
- 2) Adopt resolution establishing maximum rates collected by Marin Sanitary Service for Solid Waste Services, to be effective January 1, 2021

BACKGROUND

Marin Sanitary Service (MSS) provides residential, commercial, and multi-family solid waste services, including garbage, recycling and organics collection and processing. MSS also provides garbage, recycling, and organics pick-up for Town of Fairfax (Town) facilities, parks, and sidewalk receptacles downtown and throughout Fairfax. Each year, the Town Council holds a public hearing to set the maximum collection rates that can be charged by MSS in Fairfax.

In December 2019, the Council adopted a second amendment to the agreement with MSS. Prior to the amendment, the contract with MSS was set to expire on December 1, 2021. The amendment extended the service agreement for 10 years, continued verifiable levels of quality services for the community, and simplified and streamlined the annual rate setting methodology to establish stable and predictable rates for the next 4 years, and a firm basis for rate control in future years. The new rate-setting methodology was also adopted by the Town of San Anselmo, and had previously been adopted by all the Marin Franchisor's Group members: San Rafael, Larkspur, Ross, the Las Gallinas Valley Sanitary District, and the County of Marin, including within the Ross Valley Sanitary District boundaries.

The new methodology calculates rates based on compensation due to MSS for collection services (which comprise 2/3 of the rates) and which are now adjusted annually based on one simple Water, Sewer, and Trash (WST) CPI index, which has increased between 2 to 5% annually in recent years. Compensation to MSS for other activities (including landfilling of garbage, composting of organics, recyclables sorting and marketing, and government fees, and comprising 1/3 of the rates) and are adjusted annually based on projections of actual expenses. The new methodology places more incentive on MSS to live within the regulated revenue amount and will significantly reduce annual costs and time for consultants and staff to conduct the annual reviews. Every 5 years MSS or the Town may request a detailed "cost-based" rate review should there be a need.

In addition to the streamlining stated above, the second amendment included a 2.5% minimum and a 5% maximum rate cap for MSS's operational expenses for collection activities. This

excludes franchise/agency fees and the cost of processing, recycling, composting, and disposal which are not subject to MSS control but are subject to fluctuation based on market conditions and amounts of waste generated by residents and businesses. This will not eliminate the possibility of experiencing an overall rate increase greater than 5% on occasion, but generally should curtail the likelihood of large future year rate increases. Using this new rate-setting methodology, the Council approved a 4.94% rate increase for MSS that was effective January 1, 2020. Under the previous methodology, the rate increase would have resulted in a 6.38% increase.

DISCUSSION

Pursuant to the agreement, MSS has submitted a combined rate application for its service area. R3 Consulting Group (R3), which is the firm all the agencies in the MSS combined service area contract with to review rates, has conducted its review and finds the rate request of 4.73% to be appropriate under the new methodology. Staff met with R3 Consulting, Vice-Mayor Hellman, and Councilmember Goddard (the Council's Zero Waste Subcommittee) to review the rate request.

In summary, the indexed rate adjustment reflects the following:

- Escalates Collector Operations by the WST CPI.
- Sets Garbage Landfilling and Organics Processing costs based on actual tons and tip fees; Fairfax has a higher relative tonnage than some of the other communities and, thus, has a higher relative cost.
- Calculates revenue for profit.
- Sets Recyclables processing costs based on actual tons and calculated tip fees; Fairfax has a higher relative tonnage than some of the other communities and, thus, has a higher relative cost.
- Escalates Interest by the WST CPI.
- Sets Zero Waste Marin (ZWM) Fees based on actual adopted ZWM fees for then-current rate year.
 - Zero Waste Marin is the formal name for the Marin Hazardous and Solid Waste Joint Powers Authority (JPA) and consist of representatives from every Marin municipality and County of Marin.
 - This increase is a one-time adjustment that was pro-rated among the JPA members to address a large discrepancy between actual "pass through" costs and what was paid to MSS.
 - See below under the ZWM section for additional detail regarding this cost and ZWM operations.
- Calculates revenue for Town Franchise Fees (10%)
- Sets Other Agency Fees at their actual amounts

For 2021, there is also the introduction of two extraordinary item requests which R3 Consulting indicates can be allowed under the agreement, and for which all MSS agencies bear a proportionate share:

- Change-in-law costs for AB 1826 which is for the Recyclist software program (pro-rated among the agencies)

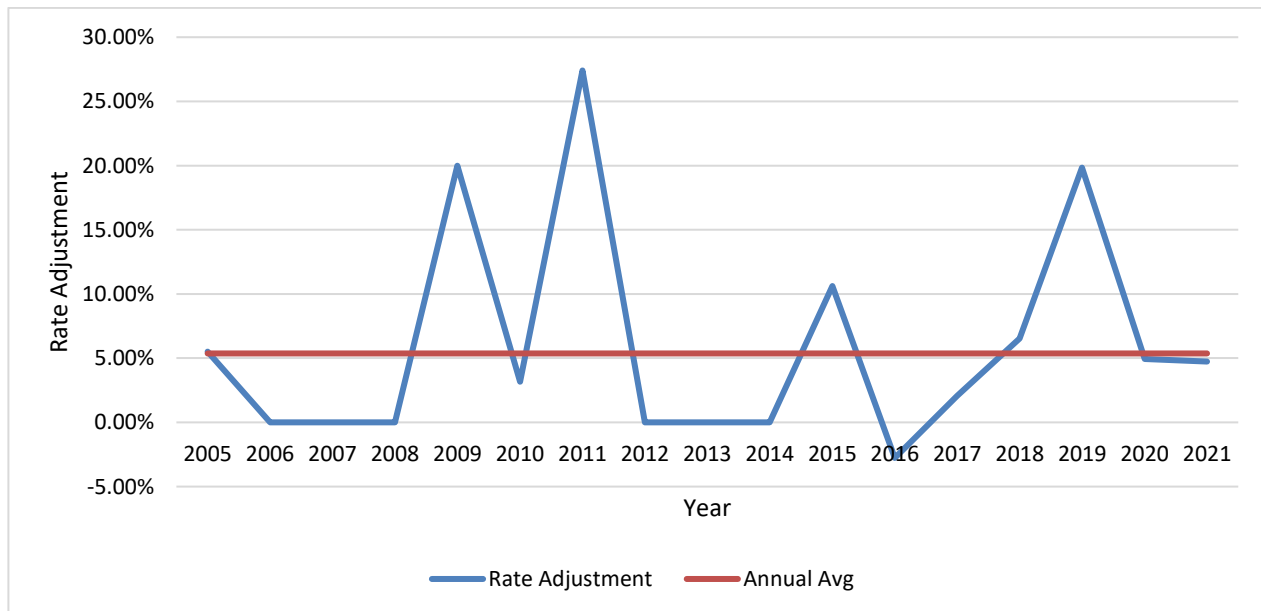
- Change in Recycling property insurance (allocated based on recycling tons) which is the result of industry-wide trends for such insurance (not caused by MSS)

R3 Consulting will provide more detail on the rate increase during its presentation at the meeting.

Given the above, Fairfax’s revenue requirement is increasing by \$106,144, yielding a 4.73% increase over 2020. See the table below for more specifics by line item.

	2020	2021	\$ Variance	% Variance	As % Rate Increase
Collector Operations	\$ 1,329,205	\$ 1,367,887	\$ 38,682	2.91%	1.72%
Garbage Landfilling and Organics Processing	\$ 320,768	\$ 345,008	\$ 24,240	7.56%	1.08%
Change in Law - AB 1826 Costs	\$ -	\$ 1,160	\$ 1,160	N/A	0.05%
Subtotal for Profit Calculation	\$ 1,649,973	\$ 1,714,055	\$ 64,082	3.88%	2.86%
Collector Profit (90.5% Operating Ratio)	\$ 173,202	\$ 179,928	\$ 6,726	3.88%	0.30%
Recyclable Materials Processing	\$ 69,569	\$ 72,011	\$ 2,442	3.51%	0.11%
Interest	\$ 21,154	\$ 21,770	\$ 616	2.91%	0.03%
Zero Waste Marin Fees	\$ 27,076	\$ 40,411	\$ 13,335	49.25%	0.59%
Franchise Fees	\$ 224,275	\$ 234,889	\$ 10,614	4.73%	0.47%
Other Agency Fees	\$ 77,500	\$ 77,500	\$ -	0.00%	0.00%
Extraordinary Item - Recycling Property Insurance	\$ -	\$ 8,329	\$ 8,329	N/A	0.37%
Total	\$ 2,242,749	\$ 2,348,893	\$ 106,144	4.73%	4.73%

MSS’s rates have tended to increase over time, with an average annual increase since 2012 of 4.92%. The chart below shows the how annual rate adjustments have varied over time in Fairfax. It should be noted that the increases in 2020 and 2021 via the new rate adjustment are more consistent with the overall average increase. Attachment D has additional detail on historical rate increases in Fairfax.



Overall, Fairfax rates will still be in the lower tier of rates paid by MSS customers. It is also important to consider when comparing rate increases among other communities that those costs which are adjusted annually based on projections of actual expenses will vary community to community. These differences will also affect the overall percentage increases.

ZERO WASTE MARIN

Zero Waste Marin (ZWM) funds a number of key programs in the County, including:

- Operation of the Household Hazardous Waste (HHW) Program at the facility in San Rafael.
- Remote collection programs for universal wastes including batteries, fluorescent bulbs, sharps, and pharmaceuticals.
- A grant program available to all member agencies for funding diversion programs.
- AB 939 compliance programs, including solid waste planning, reporting to the State of California, and specific programs such as the construction and demolition debris (C&D) recycling program. Outreach and education in schools.
- A countywide advertising campaign to promote source reduction and recycling.
- Facilitation of meetings including the “Local Task Force” advisory body.

To pay for these programs, ZWM sets and charges per ton fees to solid waste haulers and facility operators in Marin County. These fees are based on overall the number of garbage and construction and demolition tons collected, transferred and/or disposed with franchised haulers, MSS’s transfer station, or Redwood landfill. While ZWM’s overall fee revenue collections are projected to increase by 6.38% for FY 20/21, MSS’s portion of the fees increased by 26%+ from FY 19/20 to 20/21, which accounts for most of the change to this component for the 2021 rates.

The reason that the Zero Waste Marin Fees for MSS changed so much has to do with a significant decrease in the tonnages to non-MSS facilities that are used as the basis for the fee assessment, which increased the fee magnitude per ton. The prior year’s tonnage was higher (yielding a lower fee per ton) because of an influx of fire-related debris tons to Redwood landfill. Additionally, the ZWM fees for 2021 include an adjustment for discrepancies in the amounts of ZWM Fees paid by MSS in 2019 and 2020 versus what was recovered in the rates. This is a one-time adjustment that is allowed by the Agreement, and which will not be necessary going forward as the process for setting annual ZWM Fees in the MSS rates has been clarified.

FISCAL IMPACT

Increasing MSS’s rates will result in slight increases to the franchise fees paid by MSS to the Town.

ATTACHMENTS

- A. Resolution
- B. MSS Rate Application
- C. R3 Consulting Rate Review Report
- D. MSS Charts