



Office of the City Manager

WORKSESSION
February 10, 2015

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Andrew Clough, Director, Public Works

Subject: Zero Waste Commercial Franchise Study

SUMMARY

This report is in response to City Council's request for a feasibility study on replacing the existing non-exclusive commercial franchise collection system with an exclusive franchise, as well as to analyze the cost for the City to assume collection for commercial customers in the future.

On June 14, 2011, Council instructed staff to notify commercial franchise haulers that the City would be issuing cancellation notices for their franchise agreements. Letters to the franchise haulers were sent in September 2011 and gave the franchisees five years to cease service in Berkeley (as required by state law). All current franchise agreements will expire in September 2016.

During 2014, HF&H Consultants, LLC conducted a study of the non-exclusive franchise system and are proposing several options to replace the current system:

- Option 1:** City Provides All Commercial Services
- Option 1a:** City Provides All Service but Roll-Off Containers and Compactors
- Option 2:** Single Exclusive Franchisee
- Option 3:** Multiple Non-Exclusive Franchisees
- Option 4:** City Franchises Recyclables Collection

The details of this analysis are provided below.

CURRENT SITUATION AND ITS EFFECT

Berkeley is one of very few cities in California that operates its own waste management services, as well as owning and operating a Transfer Station. The City provides curbside collection of refuse, recyclables, and organics (food scraps and plant debris) for residential and commercial customers. In addition, the City has franchise agreements with five local waste management companies that authorize and restrict them to haul rubbish (dry trash) from commercial customers.

The current commercial collection system does not support the City's goal of zero waste going to landfill. Franchise agreement terms are complicated, and difficult to manage and enforce. In addition, Alameda County's adoption of mandatory commercial and

multi-family recycling increases the City's need to account for, and report on required service standards and tonnage.

As established by City Ordinance in 1999, the City collects 26% of the reported gross revenue from franchise haulers, and currently receives approximately \$841,000 per year from this fee. The franchise fee income is utilized by the City to pay for street sweeping and related activities under the Clean City Program, as well as mitigate the effects of recent changes to residential rates and collection patterns. With the current franchise agreements expiring in 2016, Council will need to make a decision on the future of commercial collection services.

BACKGROUND

In December 1999, Council adopted Ordinance Nos. 6,517–N.S. and 6,518–N.S. that were effective in January 2000. In this action, Council repealed and reenacted Berkeley Municipal Code (BMC) Chapter 9.60 to provide for non-exclusive franchises for rubbish collection; and amended BMC Section 9.04.176 and 9.04.240 to require private rubbish haulers to enter into non-exclusive franchise agreements. Resolution No. 60,327–N.S. set the franchise fee at 26% of gross revenue reported by the franchise haulers. The initial seven franchises were approved by Ordinances in June 2000; and there has been limited turnover in active agreements since then.

In June 2011, Council approved a motion¹ that included notifying the companies with current franchise agreements that the City will be issuing a notice of cancellation for those agreements; and for the City Manager to analyze the cost for the City to assume collection of commercial franchise customers in the future. Since the City issued the notice of cancellation for franchise agreements in 2011, no new franchise agreements have been issued, and all current agreements expire in September 2016.

On February 11, 2014 by Resolution No. 66,473-N.S., Council authorized Contract No. 9573 with HF&H Consultants, LLC for a franchise study. The outcome of this study offers several options to replace the non-exclusive franchise system:

- Option 1:** City Provides All Commercial Services
- Option 1a:** City Provides All Service but Roll-Off Containers and Compactors
- Option 2:** Single Exclusive Franchisee
- Option 3:** Multiple Non-Exclusive Franchisees
- Option 4:** City Franchises Recyclables Collection

¹ Council Annotated Agenda for June 14, 2011 – see item 31.h:
www.cityofberkeley.info/Clerk/City_Council/2011/06Jun/City_Council_06-14-2011_-_Regular_Meeting_Annotated_Agenda.aspx

HF&H analyzed each of these options for impacts to:

- Zero Waste Fund
- General Fund
- Staffing
- Required acquisition or sale of assets
- Berkeley's Zero Waste Goal
- Customer Service
- Cost of Service
- Street/Road and Traffic

In addition, HF&H had meetings with City staff to receive input on operations, rate structure, customer relations, and coordination with franchisees. Consideration for these findings was incorporated into the analysis.

HF&H presented their findings to the Zero Waste Commission at its meeting on November 24, 2014, and to Service Employees International Union (SEIU) Local 1021 representatives on December 1, 2014. Follow-up meeting were held with the Zero Waste Commission and SEIU Local 1021 in January 2015 to receive their input on the proposed options. Consideration for their input was incorporated into the analysis.

Attachment 1 provides a detailed summary of all options presented by HF&H.

ENVIRONMENTAL SUSTAINABILITY

Replacement of the current non-exclusive franchise system for commercial waste services with an exclusive system will help the City meet its zero waste and climate action goals by increasing control of recycling-related activities, and reducing vehicle trips, emissions, traffic congestion, and negative impacts to City streets.

POSSIBLE FUTURE ACTION

Public Works expects to return to Council in May 2015 with further information and a recommendation to proceed on a single option. Based on the outcome at that time, additional reports will be submitted to Council in the following months with actions to implement the selected plan. These actions include a revenue and expenditure plan; and steps necessary to acquire needed resources and/or execute an RFP process to contract for franchise services.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Public Works management has conducted further financial and operational analysis, met with Zero Waste Division employees, SEIU Local 1021 representatives, and again with the Commission. Public Works has identified the following options for further consideration:

Option 1: City Provides All Commercial Refuse and Recycling Services**Impact on Zero Waste Fund:**

- Commercial services revenue increases \$795K/year (net of projected new expenditures).
- New revenue would go towards debt service for new equipment and contribution to capital reserves (including planned Transfer Station replacement).
- Loss of \$348K/year of franchise fees that support residential collection services.

Impact on General Fund:

- Loss of franchise fee revenue of \$841K/year.
 - Including \$393K/year of funding support for the Clean City Program, which provides residential street sweeping and graffiti abatement.

Impact on Operations includes:

- Requires seven new employees and investment of \$1.6 million in equipment.
- Greatest control of recycling-related activities.
- Commercial customers have a single point of contact for all services.
- Commercial customers previously subscribing to a private hauler service may see rate increases.
- Reduced vehicle trips, emissions, traffic, and road impacts.

Additional Considerations include:

- Add customer outreach/technical assistance (\$50K-100K/year) to enhance mandatory recycling requirements compliance/effectiveness.
- Single-stream recycling for businesses to match current service and reduce confusion during transition.

Option 1a: City Provides All Commercial Refuse and Recycling Services Except Roll-Off Containers and Compactors**Impact on Zero Waste Fund:**

- Commercial services revenue increases \$196K/year (net of projected new expenditures).
- New revenue would go towards debt service for new equipment and contribution to capital reserves (including planned Transfer Station replacement).
- Loss of \$157K/year of franchise fees that support residential collection services.

Impact on General Fund:

- Loss of franchise fee revenue of \$599K/year.
- Sufficient funding for Clean City Program.

Impact on Operations includes:

- Requires six new employees and investment of \$1.3 million in equipment.
- Increased control of recycling-related activities.
- Cart/bin customers have one point of contact for service.
- Customers previously subscribing to City roll-off service will likely see rate reductions.
- Reduced vehicle trips, emissions, traffic, and road impacts.

Additional Considerations include:

- Add customer outreach/technical assistance (\$50K-100K/year) to enhance mandatory recycling requirements compliance/effectiveness.
- Single-stream recycling for businesses to match current service and reduce confusion during transition.

Option 2: All Commercial Services Provided by a Single Exclusive Franchisee

Impact on Zero Waste Fund:

- Residential services and Transfer Station share of overhead increases significantly by \$2.2M/year; \$353K/year of overhead costs for commercial services are eliminated.

Impact on the General Fund:

- Additional franchise fee revenue of \$4M/year.
- New revenue would cover reallocated costs (\$2.2M/year).
- City maintains BOSS, mechanical sweeping.
- Franchisee performs/pays for hand-sweeping, public litter collection, and sidewalk steam cleaning.

Impact on Operations includes:

- Loss of 25 employees; a net of \$1.2M demobilization revenue.
- Increased control of recycling-related activities, relative to non-exclusive system.
- Customers have one point of contact for all services.
- Rate increase unlikely, possible reductions if rate structure is well designed.
- Reduced vehicle trips, emissions, traffic, road impacts.

Additional Considerations include:

- Require flow control of franchise tonnage to Berkeley Transfer Station.
- Require franchisee to acquire City employees/equipment.
- Require franchisee to increase customer technical assistance.

CONTACT PERSON

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Attachments:

1. HF&H City of Berkeley Commercial Franchising Study (*pdf of PowerPoint file*)



City of Berkeley Commercial Franchising Study

City Council Workshop
February 10, 2015



Scope of Analysis

- Reviewed and Considered the Impacts to:
 - Zero Waste Fund
 - General Fund
 - Staffing and (De)mobilization
 - Berkeley’s Zero Waste Goal
 - Customer Service
 - Cost of Services
 - Street/Road and Traffic
- Meetings with City Staff
 - Received input on operations, rate structure, customer relations and coordination with franchisees
 - Incorporated findings into considerations



Background – Types of Materials

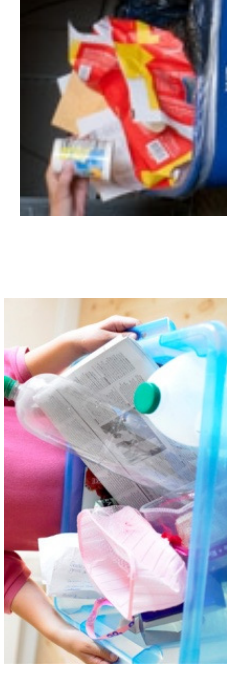
- “Recyclables,” “Containers,” & “Fibers”



- “Organics”



- “Dry Rubbish”



- “Solid Waste”

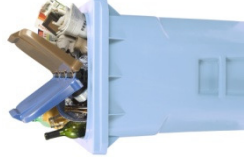


Images courtesy of: City of Berkeley, and
Stopwaste.org



Background – Types of Service

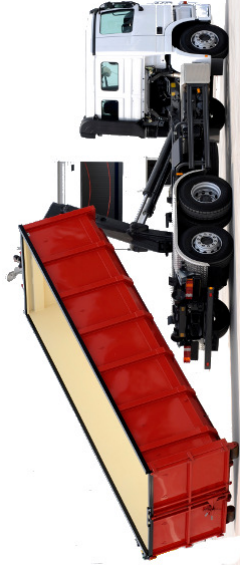
- “Carts” and “Split-Carts”



- “Bins”

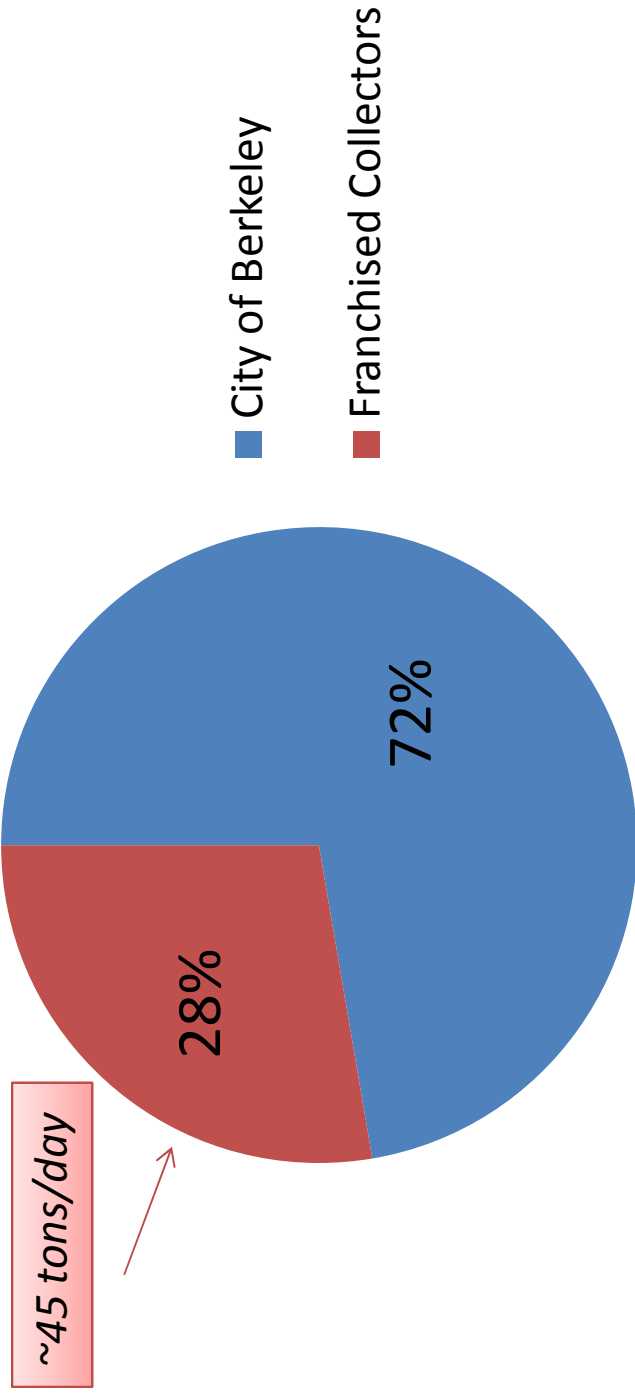


- “Roll-Offs”



Background – Current System

Estimated Total Tons Collected



**does not include non-franchised collectors*



Summary of Options Collection Summary by Material

Option	Residential All Materials	Commercial				Roll-Off All Materials
		Solid Waste	Dry Rubbish	Recyclables	Organics	
Status Quo	City	City	NEF	City, NEF	City	City, NEF
Option 1 <i>City Provides All Commercial Services</i>	City	City	N/A	City	City	City
Option 1a <i>City Provides All Service but Roll-Off</i>	City	City	N/A	City	City	NEF
Option 2 <i>Single Exclusive Franchisee</i>	City	EF	N/A	EF	EF	EF
Option 3 <i>Multiple Non-Exclusive Franchisees</i>	City	NEF	N/A	NEF	NEF	NEF
Option 4 <i>City Franchises Recyclables Collection</i>	City	City	N/A	EF	City	(N)EF

Legend:

- City – City Operated Collection Crews
- EF – Single, Exclusive Franchisee
- NEF – Multiple, Non-Exclusive Franchisees



Option 1: City Provides all Commercial Services

- ZW Fund: Net increase in commercial revenue of \$795K/year
 - New revenue would go towards:
 - Debt service for new equipment
 - Contribution to capital reserves (incl. Transfer Station replacement)
 - Loss of \$348K/year residential funding support from franchise fees
- General Fund: Loss of all franchise fee revenue (\$841K/year)
 - Reduced funding for residential street sweeping and graffiti abatement (\$393K)
- Requires 7 new employees and \$1.6M in equipment
- Greatest control of recycling-related activities
- Customers have one point of contact for all services
- Customers previously subscribing to private hauler service may see rate increases
- Reduced vehicle trips, emissions, traffic, road impacts



Option 1: City Provides all Commercial Services

Option 1 Summary

Zero Waste Fund	✓	Increased commercial revenue
General Fund	✗	Loss of franchise fees
Staffing and (De)mobilization	✓	New jobs Affordable start-up cost
Zero Waste Goal	✓	Greater control and management of recycling/dry rubbish
Customer Service	✓	One point of contact
Cost of Service	✗	Potential increase for bin customers
Street/Road and Traffic	✓	Reduced trips

Considerations

- Add customer outreach/technical assistance (\$50K-100K/year) to enhance mandatory recycling ordinance compliance/effectiveness
- Single-stream recycling to business to match current service and reduce confusion during transition



Option 1a: City Provides all Service but Roll-Off

- ZW Fund: Net increase in commercial revenue of \$196K/year
 - New revenue would go towards:
 - Debt service for new equipment
 - Contribution to capital reserves (incl. Transfer Station replacement)
 - Loss of \$157K/year residential funding support from franchise fees
- General Fund: Retain franchise fee revenue of \$599K/year
 - Sufficient funding for Clean City program (\$393K/year)
- Requires 6 new employees and \$1.3M in equipment
- Increased control of recycling-related activities
- Cart/bin customers have one point of contact for service
- Customers previously subscribing to City roll-off service will likely see rate reductions
- Reduced vehicle trips, emissions, traffic, road impacts

City Provides all Commercial Services as in Option 1, except Roll-Off, which is provided by a non-exclusive franchisee(s)



Option 1a: City Franchises Roll-Off

Option 1a Summary

Zero Waste Fund	✓	Increased commercial revenue
General Fund	✗	Loss of franchise fees
Staffing and (De)mobilization	✓	New jobs Affordable start-up cost
Zero Waste Goal	✓	Greater control and management of recycling/dry rubbish
Customer Service	✓	One point of contact for cart and bin customers
Cost of Service	✗ / ✓	Potential increase for bin customers Reduction for roll-off customers
Street/Road and Traffic	✓	Reduced trips

Considerations

- Add customer outreach/technical assistance (\$50K-100K/year) to enhance mandatory recycling ordinance compliance/effectiveness
- Single-stream recycling to business to match current service and reduce confusion during transition



Option 2: Single Exclusive Franchisee

- ZW Fund: Residential and Transfer Station share of overhead increases significantly (\$2.2M); \$353K of overhead costs eliminated
- General Fund: Additional gross franchise fee revenue (\$4M) covers reallocated costs and Clean Cities programs
 - Reallocated ZW Fund costs (\$2.2M)
 - City maintains BOSS, mechanical sweeping (\$887K)
 - Franchisee performs/pays for hand-sweeping, public litter collection, and sidewalk steam cleaning (\$1.7M)
- Loss of 25 employees; \$1.2M demobilization revenue
- Increased control of recycling-related activities, relative to non-exclusive system
- Customers have one point of contact for all services
- Rate increase unlikely, possible reductions if rate structure is well designed
- Reduced vehicle trips, emissions, traffic, road impacts



Option 2: Single Exclusive Franchisee

Option 2 Summary

Zero Waste Fund	X	Loss of commercial rate revenue
General Fund	✓	Increased franchise fee revenue
Staffing and (De)mobilization	X / ✓	Staffing cuts One-time demobilization revenue
Zero Waste Goal	X	Reduced control and management of recycling/dry rubbish
Customer Service	✓	One point of contact
Cost of Service	✓	Rate increase unlikely, possible reduction
Street/Road and Traffic	✓	Reduced trips

Considerations

- Require flow control of franchise tons to Berkeley Transfer Station
- Require franchisee to acquire City equipment/employees
- Require franchisee to increase customer technical assistance



Option 3: Multiple Non-Exclusive Franchisees

- ZW Fund: Residential and Transfer Station share of overhead increases significantly (\$2.2M); \$353K of overhead costs eliminated
- General Fund: Additional gross franchise fee revenue (\$4M) covers clean cities programs (\$2.3M), but not reallocated ZW Fund costs (\$2.2M)
- Significant demobilization impacts
 - Loss of 25 employees
 - Net \$805K shortfall
 - Not likely to secure jobs for displaced employees
- More difficult for City to control recycling-related activities
- Competition allows customers to change providers if they are not satisfied with service or price
- Likely reduction in some commercial customer rates, but rates will vary between service providers
- No significant change in vehicle trips, emissions, traffic or road impacts



Option 3: Multiple Non-Exclusive Franchisees

Option 3 Summary

Zero Waste Fund	X	Loss of commercial rate revenue
General Fund	✓	Increased franchise fee revenue
Staffing and (De)mobilization	X	Staffing cuts Demobilization shortfall
Zero Waste Goal	X	Reduced control and management of recycling/dry rubbish
Customer Service	✓	Competition allows customers to shop for service
Cost of Service	--	Possible rate reductions, but difficult to predict
Street/Road and Traffic	X	No improvement

Considerations

- Require flow control of franchise tons to Berkeley Transfer Station
- Require franchisees to increase customer technical assistance
- Additional enforcement/monitoring by City



Option 4: City Franchises Recyclables Collection

- ZW Fund: Reduced labor expense (\$789K); Cease providing a service with increasing costs that produces no rate revenue
- General Fund: Additional gross fee revenue (\$129K); reduced contribution from ZW Fund(\$86K)
- Loss of 6 employees; demobilization expense of \$133K
- Less control of recycling-related activities; continued or expanded code enforcement to ensure franchised hauler does not collect putrescibles
- Customer service messages may continue to compete
- No significant rate changes for customers likely
- Reduced vehicle trips, emissions, traffic, and road impacts

City collects all solid waste and organics, exclusive or non-exclusive franchisees collect recyclables



Option 4: City Franchises Recyclables Collection

Option 4 Summary

Zero Waste Fund	✓	Exit business with increasing costs and no rate revenue
General Fund	✓	Increased franchise fee revenue
Staffing and (De)mobilization	✗	Staffing cuts
Zero Waste Goal	✗	Reduced control and management of recycling/dry rubbish
Customer Service	✗	Potential for continued competing messages
Cost of Service	✓	No significant impact Potential to regulate recycling rates
Street/Road and Traffic	✓	Reduced trips, relative to non-exclusive system

Considerations

- Add enforcement/technical assistance (\$50K - \$100K/year)
- Require hauler to hire any displaced City employees



Zero Waste Division

Summary of Staffing Impacts

Option	Supervisors	Drivers	Workers	TOTAL
1 City Provides All Commercial Services	--	+4	+3	+7
1a City Provides All Service But Roll-Off	--	+3	+3	+6
2 Single Exclusive Franchisee	-2	-12	-11	-25
3 Multiple Non-Exclusive Franchisees	-2	-12	-11	-25
4 City Franchises Recyclables Collection	--	-3	-3	-6

NOTE: Does not include other City-wide staffing impacts resulting from reduced revenue



Summary Conclusions

Option 1 <i>City Provides All Commercial Services</i>	- Requires additional funding from General Fund for Clean Cities and residential program support - Start-up costs of \$1.6M, recovered over ~2 years through increased commercial revenue - Increased control and measurement of zero waste results - Eliminates City administrative obligation to monitor/audit franchisees - Simplified customer experience, one contact for all services, negligible change in cost of service
Option 1a <i>City Provides All Service but Roll-Off</i>	- Loss of residential funding support from General Fund may be recovered through operational efficiencies - No net impact to General Fund - Start-up costs of \$1.3M, recovered over ~7 years through increased commercial revenue - Increased control and measurement of zero waste results - Reduces City administrative and enforcement obligations - Simplified customer experience, negligible change in cost of service
Option 2 <i>Single Exclusive Franchisee</i>	- Additional franchise fee revenues available to support Clean Cities - One-time demobilization income of ~\$1.2M - Significant staff reductions - Decreased control and measurement of zero waste results - Reduces City administrative and enforcement obligations - Simplified customer experience, one contact for all services, negligible change in cost of service
Option 3 <i>Multiple Non-Exclusive Franchisees</i>	- Additional franchise fee revenues available to support Clean Cities - One-time unfunded demobilization costs of \$805K - Significant staff reductions - Decreased control and measurement of zero waste results - Increases administrative and enforcement obligations - Complicated customer experience, competition may result in lower costs for some customers
Option 4 <i>City Franchisees Recyclables Collection</i>	- Cost savings of \$1.1M/year to Zero Waste Fund - One-time demobilization costs of \$133K - Moderate staff reductions - Decreased control and measurement of zero waste results - Does not significantly resolve administrative and enforcement obligations - Does not significantly change customer experience, no change in cost of service likely



