

RE: Atherton Solid Waste Contract

Date: July 27, 2020

To: Atherton City Council

FR: Atherton Property Owner

The presentation material prepared by Staff and R3 is incomplete and the decision is nowhere near as clear-cut as the report suggests. A decision at the end of July is unnecessarily late and the needed SBWMA information is still unavailable. According to the RFP issued in 2019, a decision was to be made six months ago. The only excuse for this delay appears to be a nine-month "Souk or Bazaar" style negotiation with Greenwaste.

The vendor starts out with an absurd opening price and negotiations commence. After getting a 40% reduction in price, the buyer believes he has a great deal. However, despite all the haggling, the buyer ends up overpaying unaware of the true market price.

Market Conditions

Atherton's negotiation team only compared Recology to Greenwaste's proposal and failed to look at what was happening in the market. Last year, Greenwaste renegotiated 10-15-year contracts with Los Altos Hills and Portola Valley/Woodside. Greenwaste provided comparative operational statistics for these Towns in its October 2019 proposal on pages 13 and 14. Los Altos Hills has roughly 20% more customers and Woodside 20% less. Due to topography, road conditions, greater size and five times as many drive-on customers LAH needs six drivers and smaller trucks, while Woodside needs five. Greenwaste's Atherton proposal indicates four drivers and four large trucks (Recology only uses three). Recycling levels are about the same in the three cities, Yard Waste is the only area where Atherton volumes exceed Los Also Hills, the least costly material to process. Based on metrics, demographics, and topography, Atherton's Greenwaste cost would be expected to be between Los Altos Hills and Woodside. In 2019, Greenwaste told Los Altos Hills it needed a 33% price increase to achieve its 11% profit margin in 2020, approximately \$2.8 million before franchise fees, and the Woodside consultant's cost estimate after the 30+% increase it received in 2020 is about \$2.5 million. The spreadsheet in attachment six shows Atherton 2021 cost proposal to be \$3.15 million before franchise fees, \$350,000 or 12% more than the Los Altos Hills. Los Altos Hills has 25% more street miles, 20% more residential customers and requires 50% more trucks and drivers.

To avoid the proposed 33% one-time price increase, Los Altos Hills agreed to a five-year-phased smoothing of rates. On July 16, 2020 at the Los Altos Hills Council Meeting, Greenwaste presented a chart showing the Town's estimated cost over the fourteen years from 2021-2034 to be \$57.5 million, including a 7.5% franchise fee. Included are four additional years of set nine percent per year increases. Over the same period, Atherton's cost is estimated to be \$76 million, \$18.5 million or 32% more than Los Altos Hills.

<https://losaltoshillsca.civicclerk.com/Web/GenFile.aspx?ad=50>

Greenwaste's opening bid with Atherton was an absurd \$4.3 million and never reached the price it offered Atherton's neighbors. This is most likely due to the negotiators believing they only needed to get below what they projected Recology's cost to be to achieve their objective.

Recology vs. Greenwaste Projections

Unfortunately, R3's Recology projection also raises many questions. Why would Recology collection costs increase 13.9% in 2021 and five percent per year every year thereafter when increases in their contract are based on CPI? Fourteen successive years of five percent CPI increase has never happened and is unreasonable and excessive to expect. Post-collection compensation increases 18.5%, 10% and 10% in the first three years and then seven percent a year thereafter. Once again, extremely unlikely cost increases. Yes, SB1383 is expected to raise costs by about 10%, but subsequent year costs should be based on inflation.

At the same time Recology is burdened with these unreasonable annual increases, Greenwaste's CPI increase is 3 percent. The primary reason for Recology's \$4.2 million greater cost over 15 years is the difference in the annual inflation factor. Through 2029 the difference in Recology and Greenwaste cumulative cost is only \$500,000. Eighty percent, or \$3.4 million of the difference occurs in years 10 through 15 and is simply due to the difference in inflation rate assumptions between the two vendors. The other variance is due to a \$1 million difference in "unscheduled and intermittent services" charges to Recology, which apparently is due to residents overfilling their garbage carts and \$400,000 more in franchise fee due to higher projected revenue, both of which are avoidable and shouldn't drive the decision.

Greenwaste Proposal Anomalies

Greenwaste's annual costs appear to be "engineered" to produce the desired outcome of being "just enough" to dislodge Recology. Why are Greenwaste's cost in the first four years roughly \$1.2 million less than Recology's, but in the next five years \$700,000 more, despite Recology's higher annual inflation rate? What economic conditions justify Greenwaste's cost going up 11% per year in year four, five, and six and 8% in year seven when inflation is expected to be three percent? Is this cost manipulation all due to offset the upfront cost of exiting the SBWMA agreement? Over the first nine years, Greenwaste cost is just \$500,000 less than Recology, not enough to offset exit costs.

SBWMA/SB138

The analysis does not mention or consider the \$1-2 million estimated up front cost of exiting SBWMA. Shouldn't this cost influence the decision? SBWMA Board does not meet in August. When will the Town know if it can exit and at what price? It is reasonable to have concerns for unknown SB1383 implementation costs and limited flexibility in being the smallest member of a twelve-member Joint Power Authority. However, from the information provided it does not appear the Town sought to determine or mitigate the unknown with SBWMA or use reasonable assumptions in its projections for the Recology/SBWMA future costs.

Decision

The bargaining with Greenwaste dragged on far too long and did not produce competitive results. With a more realistic model or a more competitive bid from Greenwaste the right decision will be easier to determine. Can Atherton postpone the decision another year, or is it now or 15 years from now that the Town has the next option to exit? More work is necessary before a prudent decision can be made.