RECOMMENDATION:

Review, discuss and provide direction to staff regarding next steps on withdrawal from the SBWMA.

BACKGROUND

Pursuant to the provisions of the SBWMA Agreement, a member may not withdraw from the SBWMA until the following is achieved:

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- Provision of a Notice of Intent to Withdraw at least six (6) months prior to the end of the current Rate Year.
- The approval of such withdrawal by a 4/5 affirmative vote of Equity Members.

On June 29, 2020, the Town issued a Notice of Intent to Withdraw to the SBWMA, effective December 31, 2020. On July 27, 2020, the City Council authorized the Refuse Services Ad Hoc Subcommittee to make a presentation to the SBWMA regarding the Town’s Notice of Intent to Withdraw from the SBWMA and negotiate the exit costs related thereto. The Subcommittee was implicitly authorized to negotiate up to the maximum amount available within the Rate Stabilization Fund (approximately $1,800,000).

In response to the Town’s Notice of Intent to Withdraw and the Town’s desire for the SBWMA to advise with respect to the Town’s exit costs, the Board opted to schedule the item for a Board Meeting determination rather than sit down and negotiate with the Subcommittee.

Staff and representatives from the Town’s Subcommittee made a presentation to the SBWMA Board of Directors at their Special Meeting on August 20, 2020 regarding the Town’s withdrawal.
After hearing the presentation(s), the Board voted to approve an exit cost of $2,203,016. This is a combination of $2,103,016 for bond costs and $100,000 (approximate) for administrative costs. The Board is now assisting member agencies with a model staff report to allow their Councils and Boards to approve the Town’s exit.

At the September 2 Special Meeting/Study Session, staff presented options for consideration by the Council and walked through a spreadsheet of future compensation requirements comparing Greenwaste Recovery (GWR) to Recology/SBWMA over the course of a 15-year term.

Following discussion, the Council asked that the item return to the September 16 Regular Agenda for further direction and that in the intervening time, staff revise the spreadsheet to provide detail on rate revenue over the course of the term as well as have the Ad Hoc Subcommittee circle back with GWR for further opportunities.

**ANALYSIS**

Attached is a spreadsheet that reflects the projected compensation requirements for both Recology/SBWMA and GWR over the course of a 15-year term. Staff has also added a rate revenue projection that provides an estimate of rate adjustment requirements over that same term. The spreadsheet is divided into three tabular analyses. Table 1 is Recology/SBWMA over the course of a 15-year term showing base compensation, rate revenue, use of the Rate Stabilization Fund, and the percentage rate revenue increase required each year. Table 2 is the same data for GWR. Table 3 provides the annual comparison of the necessary rate revenue between Recology/SBWMA to GWR.

Rate adjustments over the course of the contract are a function of the compensation requirements of the hauler for disposal and processing as well as the amount of rate stabilization funds that the Town has to smooth rate adjustments over the term of the franchise.

For Recology/SBWMA, the average annual rate adjustment required over the course of a 15-year term is 6.25%. For GWR, the average annual rate adjustment required over the course of a 15-year term is 5.13%. As noted, rate adjustments are affected by a number of factors and can be spread over the course of the franchise term with some years being skipped and others being higher than the compensatory requirements of the hauler for a singular year. This allows for the maintenance of a Rate Stabilization Fund while gradually adjusting rates for cost recovery.

As was reported at the September 2 Meeting, exit from the SBWMA would result in an increase in the anticipated cost to the Town by $1 million. GWR offered to assist the Town with its exit costs by contributing $300,000 toward that unanticipated $1 million in exit cost. GWR offered an additional $100,000 but required that additional funds be recouped over the course of the franchise agreement. The Council asked that the Ad Hoc Subcommittee meet again with GWR to further refine the proposal and return on September 16 for reconsideration. The attached spreadsheet reflects the $300,000 contribution from GWR.
Staff and the Ad Hoc Subcommittee met with GWR on September 9. Staff suggested that GWR needs to further assist the Town in closing the $1 million unanticipated cost gap beyond the initial $300,000 by contributing an additional $285,000. This could be done by reducing the initial compensation requirement in year 1 or year 2 of the agreement; or, GWR could provide an additional financial contribution toward funding the gap in year 2. There were several alternatives discussed. Some of the alternatives involved slight modifications to processing during the first year of the franchise and some involved a straight financial contribution or some combination of both.

On Friday, GWR advised that they were agreeable to providing an additional $285,000 on January 1, 2022 (year 2). To compensation for this additional contribution, GWR will landfill the black bin (with food scraps) in 2021 only and begin processing of the black bin food scraps in 2022. In addition to effectuating a cost savings that will allow the contribution from GWR, this will also allow for a smoother transition period for the new system. In addition, GWR asks that the Town waive rights to Liquidated Damages during the first 6 months of the franchise agreement if the issues are related to service transition. GWR also asks that the per unit magnitude of liquidated damages be fixed. Lastly, the franchise agreement called for a bulky item drop-off event each year, but the Town has typically only hosted an annual Compost Giveaway, Shred-it, and E-waste drop off event. GWR asks that the annual event be limited to the Compost Giveaway, Shred-it and E-waste drop off event.

There remain two options for consideration by the Council.

1. **Agree to the $2,203,016 exit cost from the SBWMA; accept the financial contribution from GWR toward that exit cost; direct staff to facilitate remittance of the exit cost from the Town’s Rate Stabilization Fund; direct the City Attorney to complete final revisions to the GWR Franchise Agreement; and authorize the Mayor to execute the agreement on behalf of the Town.**

2. **Reject the $2,203,016 exit cost and direct staff to revoke the Town’s Notice of Intent to Withdraw; and authorize the Mayor or City Manager to execute the Amended and Restated Agreement with Recology (time is of the essence with this option).**

A franchise with GWR is a long-term partnership between GWR and the Town. There is a benefit to the Town not only in local control but also in GWR’s commitment to bring the Town to 92% diversion. Staff and the Subcommittee support the proposal by GWR and recommend Option 1.

**POLICY FOCUS**

Policy focus for the Council is weighing the benefits of a long-term and more fiscally predictable franchise with Greenwaste Recovery for refuse service and processing against the financial impact of exiting the SBWMA and/or more fiscally unpredictable franchise with Recology/SBWMA. In addition, with the current sharing formula of the SBWMA, the Town and its residents pay for services and programs at the Shoreway Facility for which they do not receive benefit. Both
potential franchises have some unknowns in the future, but the Greenwaste Recovery Franchise Agreement has been drafted with more predictable fiscal controls.

It was anticipated that the Town would be able to exit from the SBWMA at a cost that would maintain some of the Rate Stabilization Fund and that the franchise with Greenwaste Recovery would restore the balance of the Rate Stabilization fund within the first few years of the franchise. At the current exit cost, that will not occur. Payment of the $2,203,016 exit cost would fully deplete the Town’s Rate Stabilization Fund.

FISCAL IMPACT

There is approximately $1.8 million in the Town’s Refuse Rate Stabilization Fund. Remittance to the SBMWA of the $2,203,016 in exit costs would fully deplete the Fund. Additional funds would be required. Some funds would be restored to the Rate Stabilization Fund over the first few years of the contract.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town’s electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town’s electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials. The Town maintains an active and up to date Project Website at http://ca-atherton.civicplus.com/index.aspx?NID=290.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item ___ has or ___X__ has not been before a Town Committee or Commission.

___ Audit/Finance Committee (meets every other month)
___ Bicycle/Pedestrian Committee (meets as needed)
___ PMC & Civic Center Advisory Committee (meets as needed)
___ Environmental Programs Committee (meets every other month)
___ Park and Recreation Committee (meets each month)
___ Planning Commission (meets each month)
___ Rail Committee (meets every other month)
___ Transportation Committee (meets every other month)

ATTACHMENTS

1. September 2, 2020 Staff Report – Staff Report Only
2. Revised Compensation and Rate Revenue Spreadsheet
TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: GEORGE J. RODERICKS, CITY MANAGER
DATE: SEPTEMBER 2, 2020
SUBJECT: DIRECTION TO STAFF REGARDING NEXT STEPS ON WITHDRAWAL FROM THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA)

RECOMMENDATION:

Review, discuss and provide direction to staff regarding next steps on withdrawal from the SBWMA.

BACKGROUND

Pursuant to the provisions of the SBWMA Agreement, a member may not withdraw from the SBWMA until the following is achieved:

- Liquidation in full of its proportion of any and all existing debts, obligations, and liabilities incurred, earned, or expected to be earned by the date of withdrawal, including but not limited to the Revenue Bonds, as determined by the Board.
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In response to the Town’s Notice of Intent to Withdraw and the Town’s desire for the SBWMA to advise with respect to the Town’s exit costs, the Board opted to schedule the item for a Board Meeting determination rather than sit down and negotiate with the Subcommittee.

Staff and representatives from the Town’s Subcommittee made a presentation to the SBWMA Board of Directors at their Special Meeting on August 20, 2020 regarding the Town’s withdrawal.
A copy of that presentation is attached. After hearing the presentation(s), the Board voted to approve an exit cost of $2,203,016. This is a combination of $2,103,016 for bond costs and $100,000 (approximate) for administrative costs. This is identified as Option 1 within the SBWMA Staff Report Item 5A, attached.

**ANALYSIS**

The Board did not support the Town’s exit at less than the full defeasance amount articulated by their consultant and several noted that they could not impose the difference on their constituencies. Option 3 within the SBWMA Staff Report shows the cost differential if the SBWMA accepted the Town’s offer of $903,623. A table within the Staff Report provides that the total annual debt service difference is $67,319. This amount is spread across 22 years of bond debt service.

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The annual amount can also be shown as an amount per ratepayer per year for each agency.
The decision by the SBWMA Board to resolve the Town’s exit at $2,203,016 is not appealable. Following the Board’s decision, the Board directed that SBWMA staff assist each member agency with scheduling their city/town/agency approval of the Town’s withdrawal by December 31, 2020. The Board itself is not making the determination of approval of the Town’s exit. In the SBWMA’s interpretation of the Agreement, each specific member agency Board or Council must vote regarding the Town’s withdrawal and there must be approval of such exit by 4/5ths of the 12 equity members (10 members).

Because the cost to exit exceeds the Town’s available resources within its Rate Stabilization Fund and the amount must be remitted in full to the SBWMA, the Town must make up the approximate $400,000 difference via the Town’s General Fund, Contingency Reserves, or via savings in the contract proposed with Greenwaste Recovery. Remittance will exhaust all funds within the Rate Stabilization Fund.

Following the SBWMA Board Meeting, staff reached out to Greenwaste Recovery to advise of the outcome and asked if they would be willing to making up the difference between what the Town has in the Rate Stabilization Fund and the amount due to the SBWMA. At the time of writing this staff report, the Town has not yet had a final response from Greenwaste Recovery; however, their initial response has been positive. Staff will advise upon receipt of a final response.

At the end of the day, or at least the end of a long-term franchise, Greenwaste Recovery remains the better economic choice for Atherton residents. In addition, outside of the SBWMA, the Town has a better opportunity to control its own fate with respect to refuse service and processing costs and programs. There are still unknowns in both franchise opportunities. However, if Greenwaste Recovery is unable to make up the difference needed and/or the Town is not able to recover that difference in a timely fashion under that new contract, staff does not recommend that the Town exit the SBWMA. Exiting under this scenario would force the Town to fully deplete the Rate Stabilization Fund and use its General Fund or Contingency Reserves to make up the difference required. This is not recommended given the Town’s fiscal priority of the Town Center over the next couple of years, the current ongoing pandemic and possible operational cost impacts, and other fiscal priorities and uncertainties.

Staff is seeking specific direction from the Council:

1) Agree to the $2,203,016 exit cost, remit the cost supplementing from the Town’s General Fund or Contingency Fund Reserves and move forward with Greenwaste Recovery under the parameters of the current negotiated deal.

2) Agree to the $2,203,016 exit cost, remit the cost supplementing from the Town’s General Fund or Contingency Fund Reserves with the stipulation that Greenwaste Recovery make up the difference such that the Town can recover those costs to its Reserves or General Fund.

3) Reject the $2,203,016 exit cost and direct staff to revoke the Town’s Notice of Intent to Withdraw; and authorize the Mayor or City Manager to execute the Amended and Restated Agreement with Recology (time is of the essence with this option).
POLICY FOCUS

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ATTACHMENTS

1. Town Presentation to the SBWMA Board
2. SBWMA Staff Report Item 5A
### Table 1: RECLOSING + SBWMA

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### Table 2: GWR

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### Table 3: AVERAGE COMPARISON OF DECREASED RATES

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<td>$4,702,000</td>
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<td>$5,202,000</td>
<td>$5,302,000</td>
<td>$5,402,000</td>
</tr>
<tr>
<td>Revenues Due to Other Factors</td>
<td>$3,913,000</td>
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<td>$4,100,000</td>
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<td>$4,302,000</td>
<td>$4,402,000</td>
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<td>$5,004,000</td>
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<td>$5,202,000</td>
<td>$5,302,000</td>
<td>$5,402,000</td>
</tr>
<tr>
<td>Revenues Due to Rate Increases</td>
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<td>$4,402,000</td>
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<td>$5,100,000</td>
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<td>$5,402,000</td>
</tr>
<tr>
<td>Percentage Rate Increase</td>
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</tbody>
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