TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: SEPTEMBER 11, 2006

CMR:348:06

SUBJECT: ADJUSTMENT TO RECYCLING COMPENSATION TO THE PALO ALTO SANITATION COMPANY IN THE AMOUNT OF $91,581 FOR DEFICIT OF RECYCLING REVENUES

This is an informational report and no Council action is required.

BACKGROUND

The current agreement with the Palo Alto Sanitation Company/Waste Management (PASCO) to provide refuse and recycling services within the City of Palo Alto was extended until June 30, 2009.

The agreement stipulates that the collector shall retain all revenues collected from the sale of recyclable material, as part of its compensation, and allows for the compensation of recycling services to be adjusted annually. Contract Section 4.3.4., Recycling Services, requires the “baseline revenue” to be adjusted each year on a rolling three year average. Section 4.7.2., Adjustment to Recycling Compensation, requires the collector to submit to the City an annual report describing its recycling income received for the contract year under review. This section specifies that “if collector’s gross recycling revenues for the preceding contract year were less than 15 percent under the baseline revenue, City shall pay to collector the amount of such deficit between the actual recycling revenues received by collector and the baseline revenue less 15 percent.”

For FY 2005-06, the rolling three-year average recycling revenues were established at $1,145,949 (Attachment A).

DISCUSSION

As required by the agreement, PASCO submitted a report detailing its gross recycling revenues (Attachment B) for FY 2005-06. The report shows the total recycling revenue to be $882,476. This is a shortfall of $91,581 from the allowed 15 percent less than the baseline revenues, as calculated below:

1. $1,145,949 (baseline recycling revenues) - (15%X $1,145,949) = $974,057

2. $974,057 - $882,476 (actual recycling revenues) = $91,581 (amount the City will compensate PASCO for its deficit in recycling revenues).

This is the first time the City has compensated PASCO for a deficit in recycling revenues. This shortfall is a result of the recycling materials being processed as single stream at the Davis Street
Material Recovery Facility in San Leandro. The recycling revenues are being used to cover the recycling processing cost. The baseline deficit for PASCO recycling revenues was much less than originally anticipated from the single stream program. Staff had originally estimated the deficit could reach $740,000 and was later revised and budgeted at $668,057.

**RESOURCE IMPACT**
The adjustment to the PASCO recycling compensation of $91,581 for FY 2005-06 will not require additional funding. The Refuse Fund operating budget included $668,057 for the deficit in the recycling revenues, consequently a Budget Amendment Ordinance was not required.

**POLICY IMPLICATIONS**
This report does not represent changes to existing City policies.

**ENVIRONMENTAL IMPACT**
This report is not a project under the California Environmental Quality Act (CEQA) and an environmental review is not necessary.

**ATTACHMENTS**
Attachment A: PASCO FY 2005-2006 Compensation
Attachment B: PASCO’s report on recycling revenues for FY 05-06

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