City of Palo Alto
City Manager's Report

TO:         HONORABLE CITY COUNCIL
FROM:       CITY MANAGER
DEPARTMENT: PUBLIC WORKS
DATE:       OCTOBER 20, 2008
CMR:416:08

REPORT TYPE: REPORTS OF OFFICIALS

SUBJECT: Adoption of a Mitigated Negative Declaration; Approval of a New Agreement with GreenWaste of Palo Alto to Provide Solid Waste, Recyclable Materials, Organic Materials, and Yard Trimmings Collection and Processing Services Effective July 1, 2009; Approval of Fueling Permit to GreenWaste of Palo Alto; and Approval of a Lease Agreement with GreenWaste of Palo Alto

RECOMMENDATION
Staff recommends that the Council:

1. Adopt the Mitigated Negative Declaration and Mitigation Monitoring Plan (Attachment A) for City-Wide Waste Hauling Service.

2. Approve and authorize the City Manager or his designee to execute in substantially the same form the attached contract with GreenWaste of Palo Alto (GreenWaste) to provide solid waste, recyclable materials, organic materials, and yard trimmings collection and processing services for a term of up to twelve years effective July 1, 2009 (Attachment B).

3. Approve and authorize the City Manager or his designee to execute in substantially the same form the attached fueling permit to GreenWaste (Attachment C) to fuel recycling vehicles with compressed natural gas (CNG) at the fueling station located at the City of Palo Alto’s Municipal Service Center.

4. Approve and authorize the City Manager or his designee to execute in substantially the same form the attached lease agreement with GreenWaste for the non parkland portion of the Geng Road site (Attachment D).

BACKGROUND
As a result of the current agreement ending on June 30, 2009 with the Palo Alto Sanitation Company/Waste Management (PASCO), a cross-departmental committee of City staff began in 2006 to develop a procurement timeline and process to obtain a new contractor. The committee and process considered the Zero Waste Operational Plan, the closure of the City landfill, and the City’s contractual commitments with the Sunnyvale Materials Recovery and Transfer (SMaRT) Station and the Kirby Canyon Landfill.
Council has provided staff direction on various key issues related to the procurement process and new agreement during the last two years, most recently in June and August 2008. At the Council meeting on June 23, 2008 (CMR:256:08), Council provided direction on the level of services to be included in the new agreement based on initial estimated highest rate impacts and projected annual diversion of materials. On August 4, 2008 (CMR:329:08), Council approved staff’s recommendation to negotiate an agreement with GreenWaste based on the comparison of proposals received, services and cost impacts.

DISCUSSION
Negotiations with GreenWaste progressed smoothly as both City and GreenWaste staff met regularly and worked through a multitude of details to incorporate in the new agreement (Attachment B). Staff met with GreenWaste 15 times, often twice weekly, with a focus on incorporating technical and procedural details into the final agreement and scope of work.

As previously directed by Council, the final agreement includes the same level of service PASCO currently provides (referred to as baseline services) as well as the six zero waste services (with the exception of residential food waste collection) recommended in the Zero Waste Operational Plan. The final agreement incorporates the major policy choices previously identified by Council, contains enhanced contractual language to address some of the problem areas of the old PASCO contract and addresses the recommendations made in the 2007 Pasco audit. A summary of these enhancements are:

- Zero waste programs. In September 2007 Council approved a Zero Waste Operational Plan that recommended adding six new waste diversion programs to the new hauling agreement. This agreement now includes these six new services projected to divert an estimated 21,579 tons annually from landfills. The six new services are:
  - Expanding organic materials collection to the commercial sector (food waste collection and processing);
  - Expanding single stream materials to the curbside programs;
  - Expanding Clean-up Day collection for reuse and recycling;
  - Enhancing recycling and composting with a future phased in mandatory participation program;
  - Increase construction and demolition recycling; and
  - Enhancing commercial recycling (providing recycling to all businesses).

- Contract structured to maximize diversion and recycling recovery through compensation provisions and incentives/disincentives;

- Detailed scope of services and transition plan that will facilitate retention of high level of service and smooth integration;

- Retention of PASCO employees and payment of equivalent wages;

- Purchase of low emission, quieter, more efficient vehicle fleet and incorporation of existing PASCO-owned CNG vehicles;
• Baseline compensation provision that eliminates “operating ratio” methodology in favor of comprehensive index adjustments;

• Upgraded commercial drop off boxes and bins;

• Increased commercial recycling collection frequency;

• Elimination of container storage on City’s landfill area;

• Increased public education requirements, technical assistance, waste audits, building plan reviews; and

• Implementation of recycling buddies for multi-family customers.

A copy of the complete agreement, together with the pertinent attachments, is contained in Attachment B.

The negotiation process focused on additions, modifications and clarifications to GreenWaste’s original proposal. This report focuses on these new items.

**Negotiation Items**

The negotiated items fall into the following three categories as compared to the original proposal: 1) items with additional cost impacts, 2) items with some potential cost impacts, and 3) items with service consequences but with no additional cost impacts.

**Items with Additional Cost Impacts**

There were significant negotiated items that had associated costs impacts or savings to GreenWaste’s compensation, as listed in Table 1 below, including the following:

1. Number of route supervisors. During negotiations, the number of route supervisors increased from one to three in order to match the PASCO supervisory staffing level in the field and to ensure the continued high customer service levels.

2. Operation of the Recycling Center. The operation of the Recycling Center was not included in the request for proposals and therefore it was an added item during negotiations which resulted in additional cost impacts. GreenWaste will now operate and maintain the temporary reduced-sized Recycling Center located at the entrance of the City Landfill. GreenWaste will receive, consolidate, arrange for transport and market the accepted recyclable materials. The Recycling Center will also continue to collect recyclable household hazardous waste materials such as electronic devices, waste oil, oil filters, antifreeze, vehicle and household batteries and fluorescent lights. It is anticipated that GreenWaste will operate the temporary reduced-sized Recycling Center until the City’s Landfill closes which is projected to be in June 2011.

3. Construction and demolition debris (C&D) drop box recycling. The projected number of C&D drop boxes being recycled in the new agreement was adjusted to better reflect the zero waste goals and the Zero Waste Operational Plan. An estimated additional 407 drop
boxes per month will be diverted as C&D instead of solid waste which will result in additional tons diverted. The C&D drop box collection is an item in the “extra services” compensation used to compensate GreenWaste on services provided. The C&D projection adjustment shown in Table 1 was incorporated into the projected extra service compensation in Table 2. The unit price was not changed.

4. Increased performance bond. The performance bond was increased from $1,000,000 to $5,000,000. In their proposal, GreenWaste included a 2-year renewable performance bond at $1,000,000. Due to concerns of the large contract cost, staff requested that the bond be increased to a $5,000,000 performance bond with the stipulation that after two years and the contractor’s good performance, the amount of the bond may be reduced.

5. Use of PASCO vehicles. GreenWaste agreed to purchase and utilize nine used PASCO vehicles (six recycling collection vehicles operating on compressed natural gas (CNG) and three roll off vehicles). As a consequence, GreenWaste will fuel these vehicles using the City’s CNG fueling station. The fueling permit is attached as Attachment C. GreenWaste’s purchase of the PASCO used vehicles resulted in reduced costs from not purchasing new vehicles as well as a slight reduction in fuel cost.

6. Hard to serve areas. The unit price for collection in the hard to serve areas was negotiated down from $21 per residence to $14 per residence, creating a potential annual savings of approximately $84,000. The unit price for this collection is an item in the “extra services” compensation that GreenWaste will be compensated for based on services provided.

Below is a summary of the costs associated with the new programs and adjustments described above.

| Table 1 |
|------------------|------------------|
| **Summary of Negotiated Items with Cost Impacts** |
| **FY 2009-10** |
| **Negotiated Item** | **Cost Impact** |
| Two route supervisors | $266,190 |
| Recycling Center | $215,280 |
| C&D projection adjustment | $326,385 |
| Increased performance bond | $59,406 |
| Other miscellaneous adjustments | $8,173 |
| PASCO vehicles | ($172,656) |
| Hard-to-serve rate reduction | ($84,000) |
| **Total** | **$618,778** |

*Items with Some Potential Future Cost Impacts*

The following negotiated items may have potential cost impacts in the future:

7. Special events. As part of their base compensation, GreenWaste will provide solid waste, recycling and organic collection services to sixteen special events. In order to provide the City with ability to have collection services at additional special events in the future, a unit price per event was added to the “extra services” compensation.
8. Incentives/disincentives for tonnage diversion. During negotiations, an incentive/disincentive clause was added to the agreement to ensure GreenWaste recovers a minimum amount of zero waste tonnages for recyclable and organic materials. The agreement now states that if GreenWaste falls below the set minimum tonnage levels for recyclable or organic materials, they will compensate the City for each ton short to pay for the City’s unplanned disposal costs. The agreement also has an incentive clause to encourage GreenWaste to compost additional organic materials beyond the zero waste goals and minimum tonnages. The organics incentive is that for each ton that GreenWaste recovers beyond the zero waste tonnage goals, they will receive additional compensation to cover their costs and profit for the collection and processing of additional tons. The agreement already had a built-in incentive to encourage GreenWaste to go beyond the zero waste goals for recyclable materials by having GreenWaste retain the revenues from the materials marketed.

9. Performance standards. The new agreement emphasizes the continuance of high quality, consistent, reliable and courteous services. As a result, if performance standards are not met, specific liquidated damages will be assessed (Attachment B, O: pages marked 1 of 5). The liquidated damages are in the categories of collection reliability, collection quality, customer responsiveness, reporting, processing, and miscellaneous.

*Items with No Additional Cost Impacts*

Other key areas that were further clarified during the negotiations process but did not result in additional costs impacts or savings to the GreenWaste compensation include:

10. Use of the Geng Road site. During negotiations, it was confirmed that GreenWaste will lease from the City .9 acres of the parcel located at 2000 Geng Road, approximately half of PASCO’s current operations yard. This is the non parkland portion of the site. The lease agreement is Attachment D. The site will be used for administrative offices including route supervision and customer service functions, and for limited storage of containers such as carts and bins to be delivered to customers. In their proposal, GreenWaste incorporated the lease costs into the base compensation and therefore, this item did not result in additional cost impacts.

11. Zero Waste services. The implementation of the zero waste services resulted in technical and procedural details to be clarified during the negotiations process and included in the collections scope of work (Attachment B, C: pages marked 1 of 38). The following services were affected:

   a. Expanding organic materials collection to the commercial sector. The technical details negotiated included material to be collected, collection frequency, and container options;

   b. Expanding collection of recyclable materials for items that have a sustainable market. The technical details negotiated include the list of new materials to be accepted: milk and juice containers, plastic bags, plastic film, rigid plastics (e.g. toys, buckets), electronic waste, and cell phones;
c. Expanding the annual Clean-Up Day collection for reuse and recycling to the multi-family and commercial sectors. The collection and processing scopes of work were further developed including the list of accepted materials;

d. Enhancing recycling and composting with a future phased in mandatory participation program. To reach the City's zero waste goals and recommendations from the Zero Waste Operational Plan, GreenWaste will phase in a mandatory program based on future Council direction requiring customers to place recyclable and compostable materials in the appropriate collection containers. The procedural details for the implementation and continuing services to be provided by GreenWaste were integrated into the scope of work;

e. Increasing construction and demolition (C&D) diversion. The procedural details for this service were further defined in the collections and processing scope of work; and

f. Enhancing commercial recycling. The technical details that were clarified include: materials to be collected, container options (carts and bins to be offered), and collection frequency (up to six days per week).

12. Processing of materials scope of work. The processing scope of work (Attachment B, E: pages marked 1 of 12) now details the requirements for processing of recyclable materials, organics, C&D, pallet recycling, and the processing of reusable bulky items collected through the Clean-up Day programs. The processing scope of work incorporates requirements for processing methods, marketing plans and certifications of end use of materials processed (verification of recycling). It also includes details on prohibited use of materials, residue rate requirements, tonnage tracking and reporting.

The recyclable materials collected by GreenWaste will be transported to the GreenWaste Material Recovery Facility (GreenWaste MRF) located in San Jose where the material will be processed for recycling. Organic materials will be delivered directly to the GreenWaste MRF and then loaded into transfer vehicles for transportation to the Z-Best Composting Facility (Z-Best) located in Gilroy for processing and composting. The roll-off boxes containing C&D materials will be delivered and processed at the Zanker Materials Processing Facility (ZMPF) or the Zanker Road Resource Recovery Operations and Landfill (ZRRROL).

13. Transition & Implementation Plan. The transition and implementation plan (Attachment B, B: pages marked 1 of 13) addresses GreenWaste's responsibilities and timeline to ensure a successful initiation of collection operations. The transition and implementation plan outlines GreenWaste's schedule for hiring and training personnel (including the hiring of existing qualified PASCO employees), acquiring collection vehicles, acquiring equipment such as containers, securing a local office, preparing customer information materials, public education and outreach to the community, and integration with the City's new SAP billing system.

14. Integration with the City's new SAP billing system. GreenWaste will provide a data management system that is capable of supporting the City's new SAP billing system. GreenWaste will work with the City to develop an electronic synchronization interface that will be fully functional and tested prior to July 2009.
Compensation to GreenWaste

GreenWaste’s total compensation for the new agreement is structured in two parts. The first part is a “base compensation” (including baseline and zero waste services) and the second part is for “extra services” provided on a unit-price basis. The extra service compensation based on a unit-price was created to minimize cost to the City for services that change or have the potential to change frequently depending on modifications in service levels. The extra services include: back/side yard solid waste collection from single family residences, collection in hard to service areas, drop box services, cart purchases, and additional special events. The additional compensation for the extra services will be paid to GreenWaste on a quarterly basis based on actual extra services provided and documentation provided by GreenWaste. For the purposes of this report, the extra service compensation is a projection. Below is a summary of GreenWaste’s compensation for the base compensation and projections for the extra services.

<table>
<thead>
<tr>
<th>Year</th>
<th>Presented at the August 2008 Council meeting</th>
<th>Final Compensation*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2009-10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Compensation:</td>
<td>$10,594,094</td>
<td>$10,367,279</td>
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<tr>
<td>Projected Extra Services:</td>
<td>$2,934,144</td>
<td>$3,779,737</td>
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<tr>
<td>Total:</td>
<td>$13,528,238</td>
<td>$14,147,016</td>
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<tr>
<td>FY 2010-11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Compensation:</td>
<td>$10,666,279</td>
<td>$10,450,674</td>
</tr>
<tr>
<td>Projected Extra Services:</td>
<td>$2,998,229</td>
<td>$3,846,504</td>
</tr>
<tr>
<td>Total:</td>
<td>$13,664,508</td>
<td>$14,297,178</td>
</tr>
<tr>
<td>Total Projected 8-Year Contract Term Compensation</td>
<td>$115,489,717</td>
<td>$121,205,552</td>
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<tr>
<td>Total Projected 12-year Contract Term Total Compensation</td>
<td>$181,344,013</td>
<td>$190,718,190</td>
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* The final compensation is above the amount projected in August 2008 (CMR:329:08) due to the negotiated cost impacts listed in Table 1. The final compensation including the 8-year and 12-year projection is lower than the second proposer.

**RESOURCE IMPACT**

The projected rate impact in the first year of the new agreement is approximately 14.2 percent (the projected net rate impact is 9.3 percent with avoided disposal and put-or-pay commitments at the SMaRT Station and Kirby Canyon Landfill). This is below the 17.2 percent maximum rate parameters obtained from Council in June 2008 (CMR:256:08).

The following table summarizes the projected rate impact in the first year of the new contract (after negotiations) compared to the rate impact presented to Council in August 2008.
<table>
<thead>
<tr>
<th>Projected Rate Impact</th>
<th>Rate Projected at the August 2008 Council meeting</th>
<th>Current Rate Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated rate impact based on total</td>
<td>FY 2009-10</td>
<td>FY 2009-10*</td>
</tr>
<tr>
<td>compensation</td>
<td>11.9 %</td>
<td>14.2 %</td>
</tr>
<tr>
<td>Estimated rate net impact of avoided</td>
<td>(4.9 %)</td>
<td>(4.9 %)</td>
</tr>
<tr>
<td>disposal and put-or-pay commitments at</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMaRT Station/Kirby**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total projected rate impact</td>
<td>7.0%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

* Additional funds will also be needed for the purchase of carts during the start-up phase of implementing the zero waste services, and for contract contingencies funds needed to allow for the fluctuation of the extra services compensation.

** The implementation of the Zero Waste services in the new agreement will result in less tons of waste delivered to the SMaRT Station and to the Kirby Canyon Landfill which will result in cost savings to the City.

**POLICY IMPLICATIONS**

The new agreement with GreenWaste is consistent with prior Council actions related to compensation and new levels of service. The new agreement meets the goals and recommendations from the Zero Waste Operational Plan. It is also consistent with the Palo Alto Comprehensive Plan (Programs N-48, N-49, and N-50) and with the development of new zero waste programs and recycling services.

The new agreement also completes our implementation of the City Auditor’s recommendations from the 2007 PASCO audit.

**ENVIRONMENTAL REVIEW**

In accordance with the California Environmental Quality Act, staff, in consultation with HDR, prepared an Initial Study and Draft Mitigated Negative Declaration which evaluated the potential impacts of the new waste hauling contract. The new hauling contract will generally maintain the existing level of baseline services. In addition, the new hauler will incorporate services and programs designed to significantly reduce the amount of waste produced by residents, businesses and institutions and to maximize the diversion of recyclable and compostable materials generated within the City. The potential environmental impacts were evaluated for the two service providers who submitted proposals to the City: Green Waste of Palo Alto and Noreal Waste Systems of Palo Alto. The Initial Study and Draft Mitigated Negative Declaration were made available for a 20-day public review period between August 22, 2008 and September 10, 2008.
No public comments were received during this review period. The Final Mitigated Negative Declaration, Initial Study and Mitigation Monitoring Plan are attached as Attachment A.

**ATTACHMENTS**
Attachment A: Final Mitigated Negative Declaration, Initial Study and Mitigation Monitoring and Reporting Program Plan
Attachment B: Agreement for Solid Waste, Recyclable Materials, Organic Materials and Yard trimmings Collection and Processing Services
Attachment B: Transition and Implementation Plan (pages marked 1 of 13)
Attachment C: Collection Scope of Work (pages marked 1 of 38)
Attachment E: Materials Processing Scope of Work (pages marked 1 of 12)
Attachment O: Liquidated Damages (pages marked 1 of 5)
Attachment C: Fueling Permit
Attachment D: Geng Road Lease Agreement

**PREPARED BY:**
[Signature]
P A U L A  B O R G E S  F U J I M O T O
Executive Assistant

**DEPARTMENT HEAD:**
[Signature]
G L E N N  S .  R O B E R T S
Director of Public Works

**CITY MANAGER APPROVAL:**
[Signature]
J A M E S  K E E N E
City Manager