



City of Palo Alto

City Council Staff Report

(ID # 9752)

Report Type: Action Items

Meeting Date: 1/22/2019

Council Priority: Environmental Sustainability

Summary Title: Approval of GreenWaste Amended and Restated Agreement #2

Title: Approval of the Second Amended and Restated Agreement for Solid Waste, Recyclable Materials and Compostable Materials Collection and Processing Services With GreenWaste of Palo Alto, Inc. In the Estimated Average Annual Amount of \$22,183,000 and Approval of the Addendum to the 2008 Mitigated Negative Declaration for City-wide Waste Hauling Service as Adequate and Complete Under the California Environmental Quality Act (CEQA)

From: City Manager

Lead Department: Public Works

Recommendations

Staff recommends that Council:

- 1) Approve the [Second Amended and Restated Agreement](#) for Solid Waste, Recyclable Materials and Compostable Materials Collection and Processing Services with GreenWaste of Palo Alto, Inc. ; and
- 2) Approve the [Addendum](#) to the [2008 Mitigated Negative Declaration](#) for City-wide Waste Hauling Service as Adequate and Complete under CEQA.

Executive Summary

Staff is returning to Council as directed ([Staff Report #9237](#)) with an amended and restated agreement with GreenWaste of Palo Alto, Inc. (GreenWaste) that would facilitate the implementation of new zero waste initiatives, replace older waste collection vehicles and extend the agreement from 2021 to 2026.

A new [Zero Waste Plan](#) was accepted by Council in August 2018 containing new initiatives needed to meet the City's sustainability and zero waste goals. The amended GreenWaste agreement includes new services that would facilitate some of these new initiatives including: an expanded Clean Up Day program focusing on recyclables and reusable materials, and increased efforts to clean up commercial recyclable materials so these materials can continue to be accepted by markets that have implemented stricter contamination standards. New construction related waste management collection services and a new fee structure are also included in this amended agreement but are contingent on Council approval of an ordinance expected in the spring of 2019.

This amended and restated agreement would also extend the agreement for an additional five years beyond the current termination date of June 30, 2021. This extension is recommended to lock in local collection and processing facility capacity before a number of other neighboring cities conduct solicitations in the 2021 timeframe. An extension would also ensure continuity of existing services and more fully utilize new waste collection vehicles over their useful life.

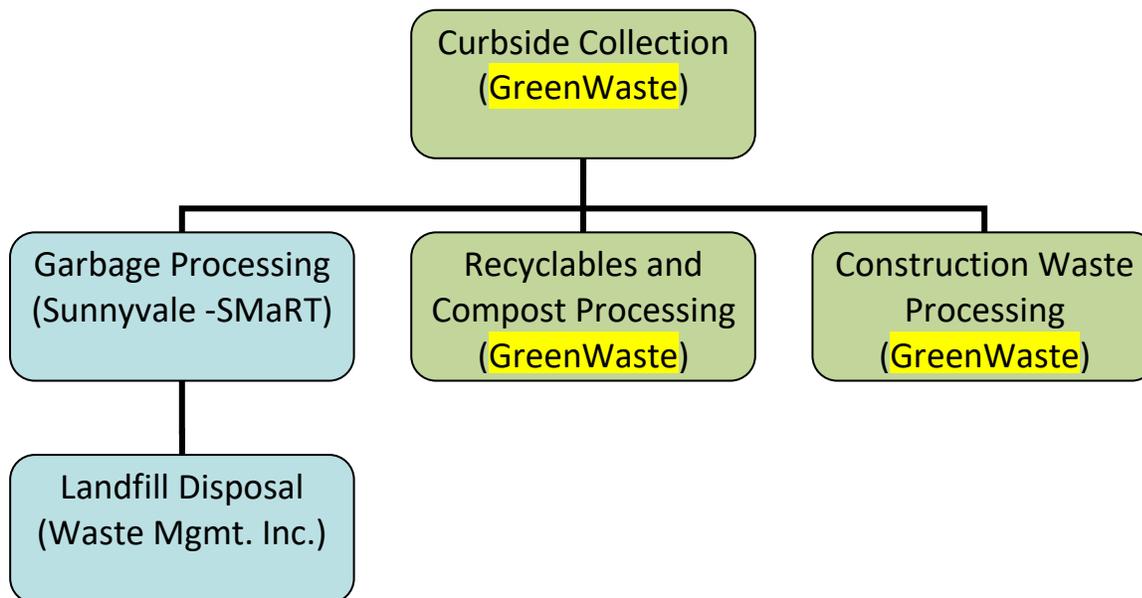
The new scope of services in this amended and restated agreement would have an ongoing annual cost of approximately \$1.4 million per year and one-time costs for new vehicles of \$9.8 million over three Fiscal Years. Ongoing near term costs will be offset by excess Refuse Fund revenues (above expenses) and the one-time costs can be funded by the rate stabilization reserves (RSR). The RSR has risen above City Guidelines and the \$9.8 million vehicle purchase will reduce the RSR closer to the guideline range. No rate increases for FY 2020 are anticipated.

Background

GreenWaste was awarded the contract as the City's waste contractor in 2009 after a competitive solicitation process. The previous waste contractor, PASCO, had been the City's waste contractor for over 50 years prior to GreenWaste taking over the service in 2009. The City developed a zero waste plan in 2007 prior to the GreenWaste contract award. The plan included zero waste programs which raised the City's waste diversion levels from 64% to approximately 80% in 2018. An updated 2018 Zero Waste plan was developed in response to a [Sustainability/Climate Action Plan Framework](#) that the Council adopted in 2016, which set a new goal of 95% of waste generated to be diverted from landfills by

2030.

The City currently has three significant refuse management agreements all ending in 2021: 1) GreenWaste - all refuse collection and materials processing from blue and green containers, and collection and processing of construction and demolition debris (C&D); 2) Sunnyvale Materials Recovery and Transfer Station (SMaRT) - garbage processing facility for the contents of black containers; and 3) Waste Management, Inc. - landfill disposal of residual garbage. The following is a simple diagram of these agreements and their refuse management function.



On August 27, 2018, Council directed staff to develop and negotiate a contract amendment and extension of the GreenWaste contract to continue service through 2026 and implement key elements of the 2018 Zero Waste Plan, as well as to replace aging waste collection vehicles that have been in operation since the start of service under the agreement in 2009. ([Staff Report #9237](#), Recommendation #2)

"2) Direct staff to develop a contract amendment to add scope and extend the term of the current contract with GreenWaste of Palo Alto, Inc. (GreenWaste) for collection of all refuse containers, processing recyclable and compostable materials (contents of blue and green containers), and implementation of key Zero Waste Plan initiatives;"

Discussion

The proposed second amended and restated agreement with GreenWaste includes provisions to implement six new (programmatic) related initiatives that are included in the 2018 Zero Waste Plan. These new initiatives include:

Zero Waste Plan Initiatives 1, 2 and 4 – Construction-Related Waste Management

A new scope of services component has been added to allow GreenWaste to manage new construction related waste requirements (deconstruction and source separation of materials), if an ordinance is approved by Council in the spring of 2019. The primary goal of the new construction-related waste ordinance would be to increase the amount and quality of recyclable materials recovered from all construction and demolition projects. GreenWaste would provide small bins to construction contractors to sort separated materials during projects, and would manage and process these materials. The diversion potential is estimated to be greater than 7,500 tons per year (about 16% of City's total landfilled waste).

Zero Waste Plan Initiatives 3 and 20 – Recyclables Clean-up Efforts

Under the proposed contract amendment, GreenWaste would expand and improve outreach and enforcement of sorting requirements for commercial customers and add an additional recyclables collection route to improve the quality of these materials which would reduce rejection of the materials from being sold. GreenWaste would provide additional sorting of marginally contaminated recyclables at their processing facility to ensure the marketability of the materials. GreenWaste would also provide additional personnel to support the City's refuse enforcement program and enhance the management of commercial recyclables that are routinely contaminated with food or garbage with a primary goal of cleaning up the City's recyclables so that they will be accepted as manufacturing feedstock in world markets whose standards for recyclable cleanliness have become much stricter. The diversion potential is 2,450 tons per year (about 5% of the City's total landfilled waste).

Zero Waste Initiative 10 – Add and Enhance Clean Up Day Collection Program

Under the amended agreement, GreenWaste would implement an expanded Clean Up Day service to residential customers and modify the collection to focus on reusable items, excess recyclable materials, small amounts of construction-related waste as well as waste oil, filters and batteries. GreenWaste has committed to forming a relationship with non-profit organizations that would

accept the reusable items. There will be two collection events per year, organized by neighborhoods at no additional cost to residential customers. Customers who need additional service can request it through GreenWaste at a cost, as it is available currently. Individual customers with special circumstances can contact GreenWaste to discuss alternatives and options. The diversion potential of this expanded program is 390 tons per year, it would utilize the best and highest use of discards and save an estimated 1,730 MTCO₂e (greenhouse gas emissions).

New GreenWaste Scope of Services and Related Annual Ongoing Costs

Ongoing Programs	Annual Cost
<u>New Construction Materials Management Initiatives</u> (Contingent upon Council approval of an ordinance) <ul style="list-style-type: none"> • Additional GreenWaste Personnel (1 Driver, ½ Admin. Assistant, ½ Environmental Outreach Coordinator) • Processing surcharge for overweight boxes (estimate) <p style="text-align: right;">Subtotal</p>	\$297,000 <u>\$270,000</u> \$567,000
<u>Recyclables Clean-up Efforts</u> <ul style="list-style-type: none"> • Additional GreenWaste Personnel (1 Driver) • Additional sorting of contaminated recyclables • Enforcement Support (½ Environ. Outreach Coordinator) <p style="text-align: right;">Subtotal</p>	\$165,000 \$234,000 <u>\$ 70,000</u> \$469,000
<u>Enhanced Clean Up Day Program</u> <ul style="list-style-type: none"> • Additional GreenWaste Personnel (1 Driver) • Expanded outreach and noticing to customers <p style="text-align: right;">Subtotal</p>	\$165,000 <u>\$57,000</u> \$222,000
<u>Other GreenWaste Ongoing Costs</u>	\$165,000
Total Estimated Additional Annual Ongoing Cost	<u>\$1,423,000</u>

Percent Increase in GreenWaste Compensation for FY20 (FY19 GreenWaste Compensation = \$16.25m)	+8.8%
Percent Increase of Overall Refuse Fund Budget for FY20 (FY19 Refuse Fund Budgeted Expenses = \$29.75m)	+4.8%

GreenWaste Infrastructure Upgrades

This new amended and restated agreement would facilitate the replacement and upgrading of aging GreenWaste infrastructure by compensating GreenWaste to replace older trucks purchased at the inception of service under the agreement in 2009 that have reached their end of useful life. Other infrastructure needed are: 1) additional containers to support new programs; 2) one-time additional maintenance expense to compensate GreenWaste to maintain the older fleet until new vehicles can be ordered and delivered; 3) new customer database software; and 4) a small scale to weigh bins containing source separated construction-related waste before consolidating into larger boxes.

GreenWaste One-Time Costs Distributed by Fiscal Year

One-Time Costs Items	Estimated Cost			
	FY19	FY20	FY21	TOTAL
New Replacement Vehicles*	\$216,000	\$7,073,000	\$1,843,000	\$9,132,000
Additional Debris Boxes for Deconstruction and General Use**	\$75,000	\$231,000		\$306,000
Additional Maintenance on Older Vehicles	\$100,000	\$100,000		\$200,000
Customer Database Program Replacement	\$125,000			\$125,000
Small scale for construction related materials collection**		\$12,000		\$12,000
Total Estimated One-Time Costs	\$516,000	\$7,416,000	\$1,843,000	\$9,775,000

*These costs for new vehicles would be incurred in the year the vehicles are received and put in use. Due to longer manufacturing lag time a few vehicles would not be received and paid for until FY21.

**Costs related to construction materials management contingent on Council approval of a construction related waste ordinance.

Future Fee considerations after 2021

This amended and restated agreement contains two compensation changes that would become effective during the extension period after the current term of the agreement ends on June 30, 2021.

- 1) The commercial compost per ton fee would increase by approximately 5% above the current fee. GreenWaste has communicated that the City currently pays the lowest fee for commercial compost (food related materials) out of all of their customers processing organic material at their Zero Waste Energy Development Facility.

- 2) Recyclables fee impacts - China has stopped accepting most of the world's recyclable materials and current markets have implemented much stricter contamination standards. As a result, recyclables no longer have the same monetary value as in the past few years, and some recyclables have been rejected by recyclables brokers and disposed in landfills. In response to these events, the revised fee structure in the GreenWaste agreement would eliminate the credit to the City that represented the value of recyclable materials. Instead, after June 30, 2021, the City would pay GreenWaste a fixed fee of \$25 per ton for the recyclables collected and processed by GreenWaste, and would be eligible for a 50%-50% revenue share for sale of the City's recyclables when certain triggers are achieved. If conditions change and the price of marketable recyclables rises, the City could redirect its recyclables elsewhere if better pricing can be achieved.

Environmental and Social Impacts of Processing Recyclable Materials

As mentioned above, overseas markets for recyclable materials have imposed much stricter contamination standards on recyclable materials (mainly mixed paper and plastics). This has forced waste companies, including the City's refuse hauler GreenWaste, to find other markets internationally and domestically, or worse case, to dispose of rejected materials in landfills. In addition, there are also concerns about the quality of overseas recycling facilities, specifically with worker safety, pay, child labor and whether discarded materials are being properly disposed.

Staff has added a new attachment to the GreenWaste Agreement (Attachment K-3: Environmental and social impacts of processing recyclable materials) to the agreement to address these concerns. The attachment verbiage states that the recycling commodity market is unstructured and brokers may only have limited information about the ports to which commodities are being shipped. Once at the ports, materials are sent to various plants and manufacturers, making the full life-cycle of materials extremely difficult to track. The following provisions have also been added to the GreenWaste agreement to address these issues:

- 1) GreenWaste shall attempt to gather information on the environmental and social implications associated with the full life-cycle of Palo Alto's recyclable materials by requesting from purchaser, once per year, to provide information regarding the disposition of recyclable materials.
- 2) Once the information has been obtained, GreenWaste will conduct an analysis of publicly available evidence from credible media, authoritative institutions and civil society organizations to assess for risk of human rights and/or environmental violations in the locations provided in item 1 above.
- 3) The City may establish a policy covering human rights and environmental standards to guide City involvement with at-risk purchasers/secondary processors and may direct GreenWaste to utilize alternative purchasers and/or secondary processors if environmental or social issues are found to exist in association with recyclables processing.
- 4) Should the City direct GreenWaste to utilize alternative markets, City would compensate GreenWaste for increased cost as negotiated.
- 5) City will have the option to incentivize domestic processing locations or locations without human rights and/or environmental violations.
- 6) On July 1st of each year, available domestic processing options, together with comparative costs, shall be presented to the City. The City will determine whether to direct GreenWaste to utilize domestic markets.

Timeline

Upon Council approval of this restated and amended agreement, the contract will be extended to expire on June 30, 2026. Staff will direct GreenWaste to begin ordering new waste vehicles that could take over 12 months to be manufactured and delivered. Staff will also begin preparation to implement key short term initiatives such as changes to the Clean Up Day and commercial recyclables clean-up efforts. No budget request is needed until FY20. Staff forecasts bringing a

construction-related materials ordinance to Council in spring 2019.

Resource Impact

In the past few years, the Refuse Fund has been realizing more revenue than expenses. This trend is expected to continue at least through fiscal year 2021 with the exception of the large one-time costs mentioned above. Staff is forecasting no rate increases will be needed until FY22 at the earliest. An annual analysis of revenues will be completed each year to ensure revenues will continue to cover expenses. If revenues continue to grow, rate decreases (primarily in the commercial sector) will also be considered.

Staff determined the expense increase for FY19 can be absorbed in the existing contract budget. Funding of the contract for FY20 and beyond is subject to Council approval as part of the budget development process. Staff proposes to compensate GreenWaste in FY20 and FY21 for the one-time expenses to purchase new vehicles using rate stabilization reserves. This option avoids the Refuse Fund to pay for ongoing vehicle depreciation during the extended term of the agreement through FY26 and would save the City finance charges of \$200k per year for a total of \$1.2M. The one-time cost would also bring the rate stabilization reserve amount down closer to the City’s recommended range.

The table below shows the financial impacts and Refuse Fund’s rate stabilization reserve balance for FY19, FY20, FY21, assuming Council’s approval of staff’s recommendations and the budget implications.

Refuse Fund Summary and Forecast (with GreenWaste amendment)

Budget Category In Millions	FY18 (CAFR)	FY19 (Budget)	FY20 (Estimate)	FY21 (Estimate)
Revenues	\$34.6	\$33.1	\$34.1	\$34.1
Expenses	\$28.3	\$29.7	\$39.3	\$34.8
Operating Income	\$6.4	\$3.4	<\$5.2>	<\$0.7>
Rate Stabilization Reserves	\$14.7	\$18.1	\$12.9	\$12.2

As mentioned above, Staff recommends compensating GreenWaste for the one-

time expenses using rate stabilization reserves instead of paying GreenWaste for depreciation during the term of the agreement (through 2026) for the following reasons:

- The City would save the finance charges - \$200k per year (through FY26) for a total of \$1.2M;
- The one-time cost would bring the rate stabilization reserve amount down and closer to the City's recommended range.

Staff will obtain Council approval separately as part of the budget development process for selective expenses (ongoing and one-time) presented in this staff report.

Policy Implications

The City adopted sustainability and Zero Waste goals in the SCAP framework in 2016. The new amended and restated agreement would facilitate implementation of short term initiatives to help the City meet these goals.

Environmental Review

An [Addendum](#) to the [2008 Initial Study/Mitigated Negative Declaration](#) for City-Wide Waste Hauling Service has been completed. The analysis shows that the proposed modifications to the approved project would not result in new or more severe significant impacts, and that none of the conditions described in CEQA Guidelines §15162 have occurred. Therefore, CEQA Guidelines Sections 15162 and 1513 have not been triggered and a Subsequent MND or EIR is not required.