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November 22, 2019

Ms. Rosemary Hoerning, PE, PLS, MPA
Public Works Director
City of Upland
460 North Euclid Avenue
Upland, CA 91786

Subject: Review of Burrtec's Solid Waste Rate Adjustment Request

Dear Ms. Hoerning:

R3 Consulting Group, Inc. (R3) was engaged by the City of Upland (City) to review Burrtec Waste Industries, Inc.'s (Burrtec's) request for an annual adjustment to solid waste rates. The following letter report contains findings from our review of Burrtec's Rate Adjustment Request.

Extraordinary Rate Increase Summary

On March 15, 2019, Burrtec requested adjustments to solid waste rates that exceed the annual 4% maximum rate adjustment cap stipulated by Article 10.06.b.(1) of the Franchise Agreement (Agreement), as amended in Amendment 3 to the Agreement. This adjustment is considered a special rate review as described in Section 10.06.b.(1) of the Agreement (amended in Amendment 2).[1] Burrtec requested a special rate review due to "uncontrollable circumstances" including changes in law and tipping fee increases described in Burrtec's 2020 Refuse Rate Adjustment letter dated March 15, 2019.

Based on discussions with Burrtec's Vice President and Chief Financial Officer, R3 concluded that those circumstances include:

- The effect of China's "National Sword" policy significantly increasing costs and reducing commodity revenues at Burrtec's West Valley Material Recovery Facility (West Valley MRF), which is the facility used for tipping and processing City solid waste collected by Burrtec; and
- The effect of increased quantities of collected food scraps driven by state mandates requiring subscription to organics collection service at businesses in the City, which is in turn increasing the tipping fee costs for organic materials.

Based on the review of financial information provided by Burrtec during an on-site review, R3 is able to confirm that these factors are, in fact, increasing Burrtec's operating costs. Furthermore, based upon evaluation of similar rate increase requests and the back-up information provided during these similar reviews, R3 confirmed that these same issues are affecting operating costs for similar companies throughout California. R3 is aware of other public agencies that have approved special rate reviews due to these factors.

[1] Applicable Agreement text provided in Attachment 1 to this letter report.

The City intends to conduct a one-year Proposition 218 notice for the extraordinary increases in tipping fees, and a 5-year Proposition 218 notice for a future rate increase. This is to allow the City adequate time to plan for future legislative compliance, primarily related to Senate Bill (SB) 1383. A brief summary of SB 1383 is provided as Attachment 3 to this memorandum.

While some adjustments were contemplated and discussed with Burrtec and the City, R3 is not recommending any reduction in the rate adjustment proposed by Burrtec for residential customers for most container sizes. In fact, revisions to the catch-up period made by R3 resulted in a slight increase to residential rates due to later rate adoption than expected by Burrtec in its original request. R3 has removed the compliance fee from Burrtec's rate increase request for commercial customers, reducing the rate increase from around 11.5% for most container sizes to around 7.5% for most container sizes in commercial.

Recommendations and Next Steps

- R3 has conducted a preliminary 5-year financial plan to project City expenses and revenue into the solid waste fund. R3 recommends that the plan be conducted with a start date of FY 2021-2022 (effective January 1, 2021). The financial plan may result in recommended changes to the Program Cost component, which is retained by the City. The financial plan may also be affected by the results of the subscription/billing reconciliation process to be completed.
- The City must begin planning for future regulatory compliance in order to determine City's future revenue needs for compliance under SB 1383, the requirements for which are effective January 1, 2022.
- R3 recommends that the City complete negotiations with Burrtec to address a number of key questions and requirements, including:
    - Is Burrtec able to assist the City in future regulatory compliance at a reasonable cost to ratepayers?

      If Burrtec is not able to provide a reasonable cost proposal, R3 recommends building reasonable projections of future regulatory compliance costs into the Program Cost component of rates as a part of the 5-year financial plan;
    - The City may consider requiring the solid waste provider pay an additional fee for the privilege of the exclusive right to provide solid waste collection services in the City.

      R3 recommends that the City consider adding such a fee as a part of contract negotiations.
    - Amend the Agreement to describe food waste service and rate adjustments for food waste service; bundled recycling service and rate adjustments for bundled recycling service; and describe contamination monitoring and fees;
    - Revise the CPI series ID for future rate adjustment requests to the Riverside-San Bernardino-Ontario, CA (CUURS49CSA0, CUUSS49CSA0) because the geographical area listed in the franchise agreement (Los Angeles-Riverside-Orange County, CA) has been revised; and
    - All rates and charges are required to be included on the City's Proposition 218 notice.

Background

The City holds an exclusive Agreement with Burrtec for Integrated Solid Waste Management Services. The term of the Agreement began on November 27, 2000. The First Amendment provided for an annually-renewing "evergreen" term of seven years. The Third Amendment extended that term temporarily to 12 years until July 1, 2020, at which point the evergreen term extension of seven years would re-activate. As of the date of this letter report, if the City activates the Wind-Down provision prior to June 30, 2020, the Agreement would terminate on July 1, 2027. Implementing the Wind-Down would result in the removal of some fees paid by Burrtec to the City and the discontinuation of street sweeping services.

On May 29, 2007, the City and Burrtec entered into a Second Amendment to the Agreement, which provided a revision to Article 10 of the Agreement pertaining to Burrtec's customer rates, rate adjustment procedures, and billing practices. As a result, the City's current solid waste rate structure is based on a three-component system (i.e., Program Cost Component, Service Component, and Tipping Fee Component) where the City collects a portion of the total solid waste collection revenue through the "Program Cost Component" of rates. On May 27, 2014, the City and Burrtec entered into a Third Amendment to the Agreement that added the Street Sweeping, Vehicle Impact Fee components, which are assessed on a per-yard basis to commercial customer rates. The Street Sweeping, Vehicle Impact Fee HHW Fee is also included per-customer basis for residential customer rates. The per-yard fee is increased in Burrtec's rate application by CPI annually. The Street Sweeping Fee is the only fee paid to Burrtec; the rest is retained by the City.

As part of the Third Amendment, free recycling service under a bundled rate structure was for commercial customers added to assist in compliance with AB 341 requirements, although the mechanism for and rate structure of that service is not described.

The City approved rates effective February 1, 2017 for food waste service. The services provided and the basis of escalation of those rates has not been ratified in an amendment to the Agreement. The rates are currently being increased by the CPI index consistent with the rate adjustment methodology for the rest of the rates.

Under the current system, the Agreement requires Burrtec to bill commercial customers, and the City receives payment. The City directly bills and collects payment from residential customers on the sewer bill. Burrtec then submits a monthly invoice to the City for the service portion of residential and commercial collection services provided and the City pays Burrtec, retaining the portion of revenues received to pay for City "Program Costs." Following City direction on the 2020 Rate Adjustment, R3 will complete a 5-year financial study to project City expenses, intended for use as a basis for the next Proposition 218 rate notice. The prior Proposition 218 rate notice included rate increases over a five-year period, from 2014 to 2020.

Rate Adjustment Methodology

Per Section 10.06.b of the Agreement, the Service Component and the Program Cost Component of customer rates are subject to annual Consumer Price Index (CPI) adjustments effective July 1st of each Agreement year. The Third Amendment added the following Program Costs: City fees of $200,000 (Vehicle Impact Fee), and $150,000 (HHW Fee); and Burrtec's Street Sweeping fees of $278,000 per year.

As amended in the Third Amendment to the Agreement, the per-yard fee for the Vehicle Impact Fee and HHW Fee components are to be escalated by CPI in accordance with the provision in Section 10.06, which states that the same annual CPI increases are applied to those components.

Special Rate Review

Burrtec is requesting adjustments to solid waste rates that exceed the annual 4% maximum rate adjustment cap stipulated by Section 10.06.b.(1) of the Agreement. This section is excerpted as Attachment 4 to this memorandum. Specifically, *"the rate increase shall be subject to the City Council's sole judgement, and City Council may grant some, all or none of the requested increase."*

Burrtec's request for a special rate review includes changes in tipping fees for refuse disposal, recyclable materials and organics materials processing costs (altogether "tipping fees"). Burrtec's request, does not include changes due to inaccurate estimates of its anticipated cost of operations, unionization, changes in wage rates or employee benefits, or changes in disposal sites. The Service Component of the rate adjustment was escalated by CPI and did not exceed the 4% cap.

Burrtec's request for a rate adjustment included a "Compliance Fee" which is not described in the Agreement and has not been reasonably substantiated. In addition, Burrtec has requested a "Catch-Up Fee," to cover the period between February 1, 2019 and the date of the approved rate adjustment.

Review Methodology

R3 conducted a thorough analysis of Burrtec's rate request, which included:

- Review and analysis of the terms and conditions of the Agreement and all amendments;
- Interview of Burrtec's Chief Financial Officer and other staff;
- Review of the requested rate adjustment's mathematical accuracy and consistency with the terms and conditions of the Agreement and all amendments;
- Review of supporting documentation used as the basis for certain values in the rate adjustment calculations;
- Review and confirmation of the accuracy of the calculated CPI adjustment factor;
- Review and confirmation that rates tie to the City's approved rate schedule[2]; and
- Review of West Valley MRF's (Burrtec's intercompany) tipping fee charges and calculation methodology.

Rate Adjustment Review

With respect to the annual CPI rate adjustment allowed per Section 10.06 of the Agreement, R3 finds that Burrtec correctly:

- Calculated and applied the CPI adjustment factor;
- Escalated the Service component;
- Applied the refuse, organics and recycling disposal components; and
- Calculated the Program Cost Component (HHW and Vehicle Impact Fees) by multiplying the current fees by CPI.

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[2] Many rate components appear to be new or do not trace back to 2014. R3 confirmed that the total rates represented in Burrtec's rate application matched the total rates in prior approved rate increases. Please see Limitations section of this memorandum.

R3 has provided an alternative rate adjustment via Attachment 2 to this memorandum, which includes the following changes from Burrtec's rate application (changes are described in more detail in the following sections):

- Removed the "Compliance Fees" from the calculation, as described in more detail below; and
- Adjusted "pounds per yard" for food waste bins from 300 pounds to 320 pounds, which is the average pounds per cubic yard collected as reported by Burrtec; and the "pounds per barrel" for 65-gallon food waste containers from 200 pounds to 104 pounds based on converting the pounds per yard into the 65-gallon cart size.

Tipping Fees

Burrtec has represented, and R3 has verified, that Burrtec's tipping fees for refuse, organics and recyclables have increased by more than 10% in the prior two years, as shown in Table 2, below.

Table 2: Burrtec's Tipping Fees by Year[3]

Tipping Fee	2017	2019	% Increase 2017-2019
Refuse (Transfer and Disposal)	$43.83	$49.00	***11.8%***
Green Waste (Processing, Transfer, Recycling and Residual Disposal)	$42.95	$49.45	***15.1%***
Food Waste (Processing, Transfer, Recycling and Residual Disposal)	$70.56	$84.24	***19.4%***
Recyclables (Processing, Marketing, Transfer, Recycling and Residual Disposal)	$9.60	$34.56	***260%***

As shown above, Burrtec's tipping fee for refuse increased by 11.8% since 2017. Tipping fees for green waste increased by 15.1% and food waste by 19.4% since 2017.

All referenced tipping fees are intercompany tipping fees charges by Burrtec's owned and operated West Valley MRF to the Burrtec hauling operation providing service to the City. Because these tipping fees result in intercompany charges, R3 reviewed the basis for setting the tipping fees to ensure that the fees are fair, reasonable, and accurately calculated. R3 met with Burrtec's Chief Financial Officer to review the calculation methodology of the tipping fees, and was able to confirm that:

- Tipping fees are set based on actual and projected costs of operation;
- Burrtec's calculation of tipping fees are based on costs of operation that yield the tipping fees shown in Burrtec's rate request;
- Burrtec calculates tipping fees using a similar methodology to set tipping fees for all its West Valley MRF customers; and
- Tipping fees were set using reasonable and efficient operating assumptions (for example, Burrtec assumes that green waste tons will go to the lowest available cost option for the maximum number of potential tons).

[3] July 1 of each year.

R3 further confirmed the reasonableness of Burrtec's tipping fees by comparing them to other tipping fees within a reasonable haul distance from the City. Based on information available to R3, we determined that Burrtec's tipping rates for refuse are approximately 30% less than the average, with tipping fees for green waste being 24% less than the average.

Comparisons of recyclables tipping fees were not possible given available information; however, R3 has recently reviewed per ton recyclables tipping fees on behalf of other agencies throughout California and can confirm that Burrtec's $34.56 per ton tipping fee for recyclables is reasonable. R3 has recently seen recyclables tipping fees at other MRFs ranging as high as $100 to $180 per ton. To that end, Burrtec has indicated that further increases in recyclables tipping fees are anticipated in coming years, as the current recyclables tipping fee is set based on 2018 financial information; to date Burrtec has projected further losses anticipated in 2020 from the changes in the recyclables marketplace.

The tipping fees are all represented in Burrtec's rate application as applying to the rates via a "pounds per week" or "pounds per cubic yard" factor. Burrtec provided sufficient back-up information and R3 has determined that the factors used for the processing/disposal costs are reasonable and accurate, ***except for the commercial organics fee-to-container size factor***. R3 adjusted "pounds per yard" for food waste bins based upon actual data on food waste tons collected and yardage of containers used to collect that food waste (from June to October 2019). This analysis results in an increase in the pounds per yard factor from 300 pounds to 320 pounds. R3 adjusted the "pounds per barrel" for 65-gallon food waste containers from 200 pounds down to 104 pounds based on converting the pounds per yard into the 65-gallon cart size. This adjustment and the increase in the processing fee result in an increase in the rates for most bin sizes for food waste service of around 25%; and a reduction in the barrel rates by about 15%.

<u>City Recyclables Revenue Share:</u> Amendment 2 provides for a 50% share of recyclables revenue between the City and Burrtec. This revenue share results in a lower tipping fee represented on Burrtec's rate application; the tipping fee is lowered by approximately $10/ton compared to the amounts charged to Burrtec by West Valley MRF at the gate.

Escalation of Program Cost Component, Vehicle Impact Fee, HHW Fee, and Street Sweeping Fee

The per-yard fee for the Vehicle Impact Fee and HHW Fee components was increased in Burrtec's rate application by CPI in accordance with the provision in Section 10.05 (amended in the Third Amendment) which states that the same annual increases are applied to those components. All components are paid out of the Service Component of the rates; R3 has accepted an escalation of each of these fees by CPI, although we were unable to verify that the fees per yard represented in Burrtec's rate model actually results in revenue equal to the fees paid to the City. R3 agrees that the fees per yard are a reasonable mechanism to "hold" city fees in the rate structure. The Street Sweeping, Vehicle Impact Fee, and HHW Fee components are paid by Burrtec out of their portion of the rates, held in the Service Component – the fees are displayed as rate components, but they are all subject to CPI increases as they are truly portions of the Service Component in the rates.

The Program Cost component of the rates was set during the 2014 5-Year Financial Plan and escalated by CPI thereafter. R3 confirmed that the escalation was mathematically correct, although we were unable to confirm the historical Program Cost Components for every rate as some of the historical rate increase documentation only included the Total Rate.

Catch-Up Fee

Burrtec's request for a rate adjustment includes a "Catch-Up Fee", which is not described in the Agreement.

The "Catch-Up Fee" represents rate revenue that would have been captured by Burrtec if rates had been adopted 12 months after February 1, 2018. R3 accepted the Catch-Up Fee as proposed by Burrtec.

The catch-up period has been applied across 17 months (February through the end of June 2021), **after which time that component should drop off the rates**. R3 will build in a component of the 5-year rate study accounting for this adjustment.

Compliance Fee

As part of the adjustment request, Burrtec added a "compliance fee component" to assist the City in future regulatory compliance, mainly for SB 1383. Burrtec has not provided any additional back-up such as a proposal for services to be provided, and ***R3 recommends that the City negotiate an amendment to Burrtec's agreement for additional services to be provided rather than accepting a fee with no commitment or performance standards for performance.***

Schedule of Other Costs

R3 did not request back-up for other costs, as they were not a part of Burrtec's increase request. They were subject to the scheduled increase at CPI, which was calculated correctly.

The City's Program Fee is calculated on the basis of a set rate per container size. In future rate-setting years, the City should evaluate collected revenue under that fee component, and assess needed revenue for new programs such as future regulatory compliance.

Bundled Rates Summary

In addition, Burrtec also proposed to expand the provisioning of free recycling service to more businesses through increasing the existing "fund" for recycling, which is collected through refuse rates. Burrtec has also proposed to provide bundled food waste recycling service to customers with an "equalization" factor that supports the food waste rate, bringing it down equal to garbage rates. The mechanism for this equalization assumes nearly a 400% increase in food waste collection service, due to recently passed legislative requirements, from 27 customers currently to 125 commercial businesses.

Providing service under bundled rates has the advantage of encouraging customers to subscribe to what is "free" service; however, the mechanism of a recycling "fund" and food waste collection "fund" should be carefully evaluated and described. While R3 is aware that Burrtec provided a proposal for bundling recycling during negotiations in 2013 (described as Option 2 in the Solid Waste Rate Study Final Report dated August 26, 2013 by R3 Consulting), the mechanism of the fund, basis of calculating the program costs, and number of subscribers that are able to receive free service (whether it is zero, 500, or all customers) should be clearly described and explained in the Agreement such that future evaluations of this fund are more transparent and clear to both Burrtec and the City.

Bundled Recycling Rates Fund

At the same time as Amendment 3 was approved, the City transitioned to a commercial bundled rate system for recyclables which funds free recycling service for a certain number of customers by applying a rate to refuse service for all customers. R3 has reviewed the bundling mechanism for recycling rates and has confirmed that Burrtec's representation of commercial customer subscription is reasonably accurate based upon a review of Burrtec's actual subscription data.

As part of the rate adjustment request, Burrtec requested that they be allowed to build in a higher subscription volume assumption for the recycling bundling. They reported that 539 customers currently subscribe to recycling service, which is 31% of customers. The current rates support subscription of up to 50% of customers, or 809. They requested that the City allow for 75% subscription, or 943 customers. **R3**

recommends that the City consider describing the bundling methodology, adjustments over time, and the mechanism for holding recovered recycling program revenue for ratepayer benefit in future year; and consider a roll-out of recycling to a specified base of customers rather than providing revenue to Burrtec for customers not subscribed over time.

The City has requested that the Recycling Fee Bundling rate remain at the level set at the time of the bundling program increase in September 2018, resulting in a reduction in Burrtec's original proposed fee per yard from $2.15 per yard to $2.02 per yard for garbage containers.

Bundled Food Rates Fund

Burrtec's request included an option for bundled food waste service under the same model as the bundled recyclables fund, except that the difference between food waste and garbage rates is funded though that mechanism rather than the entire cost of providing organics service. R3 has reviewed the bundling mechanism for organics rates **and recommends that the City consider an alternative bundling approach to achieve its objectives via an amendment negotiation, and not Burrtec's proposal.**[4]

Burrtec proposed Food Waste rates that include the following components:

- Service Component – Burrtec has indicated that this component was developed by a dedicated operations team, and that the basis had been set at the time of the rate proposal. Burrtec indicated that the basis of the fee was a time-and-motion study. The rates have been in place for some time. R3 recommends that the City examine the Service Component, which is 41% higher than the Service Component for Garbage service, at the time that it negotiates for Food Waste bundled rates. ***R3 has requested, but not received, sufficient back-up from Burrtec to make a finding that the service component was calculated correctly. However, the fee (and the organics program rates) are not unreasonable and are comparable to organic collection rates in surrounding cites.***
- Processing Component – R3 adjusted the yardage conversion factor as described more thoroughly in the tipping fee sections of this report.
- Program Cost – The Food Waste standalone rates include a Program Cost component paid to the City, which Burrtec set equal to the Program Cost component for the garbage rates.

Burrtec's rate application included two options for treatment of food waste collection service:

- Option 1: Provide food waste collection service at a separate rate; and
- Option 2: Provide food waste collection service at the same rate as refuse service by increasing refuse service rates to partially pay for food waste service.

Note that Option 2 does not appear to provide for Food Waste service as a bundled rate; customers still are required to pay for the service, but part of those costs are supported by refuse rates. The City may consider requesting that Burrtec provide a bundled rate package similar to that used for recycling which would provide for free service on the part of some proportion of commercial customers.

Push/Pull Service

The Push/Pull Service rates are charged by Burrtec for customers requesting that Burrtec move their containers from a storage location to service them. Burrtec's rate application used rates prior to the

[4] All businesses that generate organics will be required to subscribe to organics service under State law beginning January 1, 2022. This should significantly reduce the Service Component of food waste collection, which is currently nearly double the Service Component of refuse service.

increase in September 2018; R3 has adjusted the Push/Pull Service "current" rates to match the September 2018 rates.

Limitations

R3 did not review the mathematical accuracy of historical rate requests. More detail on limitations is provided in the Review Methodology section above.

Findings

With respect to Burrtec's request for special rate review, R3 finds that Burrtec has sufficiently demonstrated that a special adjustment pursuant to Section 10.06.b.(1) of the Agreement is warranted. Specifically, Burrtec has demonstrated special changes in tipping fees, but not any other special costs.

Table 2: Burrtec's Rate Adjustment Request Compared to R3's Initial Adjustment Recommendation, Selection of Rates

Residential	**Original Rate, 2018**	**Burrtec's Requested, 2020**	**R3 Adjusted, 2020**
Refuse - 35 gallon	$17.61	$20.97	$21.17
Refuse - 65 gallon	$21.79	$25.42	$25.65
Refuse - 95 gallon	$26.23	$30.00	$30.23
Commercial, Selected			
Refuse - 1 yard/ 1x	$80.67	$88.16	$86.51
Refuse - 2 yards / 1 x	$111.09	$122.96	$119.48
Organics - 2 yard / 1x	$209.73	$245.10	$259.61
Organics - 65 Gallon / 1x	$66.60	$78.10	$56.37

* * * * * * *

We appreciate the opportunity to be of service to the City. Should you have any questions or need any additional information, please contact me by phone at (510) 647-9674 or by email at rradford@r3cgi.com.

Sincerely,

R3 CONSULTING GROUP

Rose Radford | Project Manager

Attachments:

1. Excerpts from Franchise Agreement and Amendments
2. Recommended Rates for Rate Period 3 (January 1, 2020 – December 31, 2020) calculated by R3
3. Summary of SB 1383 Requirements

Attachment 1: Excerpts from Franchise Agreement and Amendments

Section 10.06.b of the Agreement (amended in Amendment 3) describes scheduled rate increases and given below (underline added by R3 for emphasis).

> Upon the effective date of this Third Amendment, and annually thereafter during the term of this Agreement, the Collector shall, subject to compliance with all provisions of this Article, and subject to the notice and hearing requirements of Proposition 218, receive an annual adjustment in the Service Fees.
>
> The Service Component and the Program Cost Component of the Service Fees shall be increased or decreased by the percentage change in the published Consumer Price Index (CPI), All Urban Consumers for the Los Angeles-Riverside-Orange County Metropolitan Area. This adjustment shall not exceed four percent (4%) per annum, regardless of the percentage change in the CPI. If the CPI for the previous year was in excess of four percent (4%). The additional percentage may be rolled over to the following year so long as the CPI adjustment for that year does not exceed four percent (4%). The disposal fee (also referred to as the tipping fee) shall be adjusted annually by the lesser of I) the percent change in the CPI (not to exceed four percent (4%) per annum) or 2) the actual increase in disposal fees paid by Collector to third party disposal facilities, if any, not to exceed four percent (4%) per annum.

Burrtec is requesting adjustments to solid waste rates that exceed the annual 4% maximum rate adjustment cap stipulated by Section 10.06.b.(1) of the Agreement (as described in Amendment 3). This section is excerpted as given below (underline added by R3 for emphasis).

> c. Special Rate Review.
>
> (1) Description of the Adjustment. Collector is entitled to apply to City for consideration of a Special Rate Review, or City may initiate such a review, upon the occurrence of(a) an Uncontrollable Circumstance which increases or decreases Collector's Direct Costs and/or Indirect Costs of Services (provided that Collector shall first apply the proceeds of any insurance available to mitigate or eliminate the need for any such adjustment), or (b) a change in the Tipping Fee(s). Any change to the Service Fees resulting from an Uncontrollable Circumstance shall be an adjustment of the Service Component of the Service Fee, as applicable. Any change resulting from an increase or decrease in a Tipping Fee shall be an adjustment of the Tipping Fee Component of the Service Fee. No rate adjustment shall be made pursuant to this paragraph "c" for events or circumstances occurring prior to July 1, 2007.
>
> (2) Procedure. Collector shall seek no more than a single annual adjustment, which adjustment (if approved by City), shall become effective at the time of the CPI adjustment described in paragraph "b" of this Section 10.06. Collector must submit its request for a Special Rate Review and complete cost and operational data in a form and manner specified by City no later than March 15 of the year in which the proposed change in the Service Fee is to take effect. Should Collector request a Special Rate Review, City shall have the right to review any or all costs associated with Collector's Services under this Agreement. For each such request, the Company shall prepare a schedule documenting the extraordinary costs. Such request shall be prepared in a form acceptable to the City with support for assumptions made by the Company in preparing the estimate, and shall include documentation supporting its request.

Additionally, if required by the City, the Company shall also provide a copy of its certified annual financial statements prepared by a Certified Public Accountant or a licensed public accountant, which shall have been prepared in compliance with Rule 58 of the "Rules and Regulations of the State Board of Accountancy," as established by the California Code of Regulations, Title 16, Chapter L. Such Certified Public Accountant or licensed public accountant shall be entirely independent of the Company and shall have no financial interest whatsoever in the business of the Company. The City may specify the form and detail of the financial statements. The City shall have the right to verify the Company's reported changes in costs.

(3) Decision; Remedy. Collector shall bear the burden of justifying to City by Substantial Evidence any entitlement to an increase in the Service Fees under this Section. The City Council shall review Collector's request and, in the City Council's sole judgment (subject to compliance with Article XIIID, Sec. 6(a) of the California Constitution, to the extent applicable) make the final determination on the appropriate amount of the adjustment if any.

The City Council may grant some, all or none of the requested increase. If City rejects a special rate adjustment requested by Collector, grants a rate increase less than what was requested by Collector, or fails to act in a timely manner upon all or any part of Collector's special rate adjustment application, then Collector's sole remedies against City are (a) to file a petition for writ of mandate pursuant to Code of Civil Procedure Section 1085; or (b) terminate this Agreement. Collector expressly agrees that it does not have a cause for action for damages against City.

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To: Rosemary Hoerning and Michelle Madriz, City of Upland

From: Carrie Baxter, R3 Consulting Group, Inc.

Date: November 22, 2019

Subject: Comparative Analysis of Rates and Services for the City of Upland

R3 Consulting Group, Inc. (R3) was engaged by the City of Upland (City) to survey surrounding area jurisdictions with comparable services and rates specifically related to organics collection services. This letter report summarizes our findings based on that survey.

Methodology & Objectives

R3 originally started with a list of over ten (10) jurisdictions within 30 miles of Upland of comparable size and/or interest to the City. Below is a list of the twenty (20) successfully surveyed jurisdictions (including Upland):

- Azusa
- Banning
- Beaumont
- Burbank
- Calabasas
- Carlsbad
- Corona
- Covina
- Fontana
- Glendale
- Hemet
- Irwindale
- Laguna Beach
- Monrovia
- Rancho Cucamonga
- Riverside
- Rolling Hills Estates
- Santa Clarita
- Temple City
- Thousand Oaks
- Upland

Survey results were based on information obtained from jurisdiction websites and/or provided by participating jurisdictions through telephone interviews and/or emails conducted by R3. We collected the following information:

- Hauler, residential and commercial services provided;
- Residential/commercial services rate structures for recycling and organics (Green Waste / food waste / mixed green and food);
- Residential and commercial rates for garbage, recycle, and organics; and
- Services included in bundled rates.
- Rates were compared as listed on each of the surveyed cities' rate schedules. The information gathered includes a comparison of weekly residential cart collection, and commercial bin collection with one and three time per week collection frequencies.

Limitations

Many factors can affect the rates in a given jurisdiction, including the rate structure (e.g., variable can rate or unlimited service), the type, frequency and level of services, and the amount of fees. We have not attempted to adjust rates for any such differences.

R3 had initially included **Chino, Chino Hills, Commerce, Irvine, Mission Viejo, Montclair, Ontario, Oxnard, Palmdale, Pasadena, Pomona, San Bernardino, San Marino, Simi Valley, South El Monte,** and **Vernon** in our survey. However, due to limited information and/or difficulty in reaching the appropriate jurisdiction contact, we did not include these jurisdictions in our survey.

Findings

Hauler, Residential and Commercial Services Provided

R3 collected information of the hauler and population, as well as the residential and commercial services provided, specifically noting the frequency and type (single-stream, mixed waste) of garbage, recycling, and organics. We also determined if the "organics" service offered included only green waste, and/or food waste. Table 1 covers residential services, and Table 2 covers commercial services.

Table 1: Hauler & Services Comparison – Residential

City	County	Population Est. 2019	Contract Effective Date (or Last Amendment)	Hauler	Solid Waste Collection	Recycling		Organics		
						Freq.	Type	Freq.	Carts: Green Waste	Carts: Food Waste
Azusa	Los Angeles	49,954	2017	Athens	weekly	weekly	commingled / MRF	not specified	✓	X
Banning	Riverside	31,282	2011	WM	weekly	weekly	single stream	weekly	✓	X
Beaumont	Riverside	46,967	May 2019	WM	weekly	weekly	single stream	weekly	✓	✓
Burbank	Los Angeles	107,149	N/A	Municipal	weekly	weekly	single stream	weekly	✓	X
Calabasas	Los Angeles	24,202	Feb 2016	WM / G.I. Industries	weekly	weekly	single stream	Weekly	✓	✓
Carlsbad	San Diego	115,330	July 2012	WM	weekly	weekly	single stream	weekly	✓	X
Corona	Riverside	167,836	June 2017	WM	weekly	weekly	single stream	weekly	✓	X
Covina	Los Angeles	49,006	March 2011	Athens	weekly	weekly	single stream	weekly	✓	X
Fontana	San Bernardino	211,815	Jan 1997	Burrtec	weekly	weekly	single stream	weekly	✓	X
Glendale	Los Angeles	203,054	Municipal	Municipal	weekly	weekly	single stream	weekly	✓	X

Table 1: Hauler & Services Comparison – Residential

City	County	Population Est. 2019	Contract Effective Date (or Last Amendment)	Hauler	Solid Waste Collection	Recycling		Organics		
						Freq.	Type	Freq.	Carts	
									Green Waste	Food Waste
Hemet	Riverside	85,160	Sept 2015	CR&R	weekly	weekly	single stream	weekly	✓	✓
Hemet	Riverside	85,160	Sept 2015	CR&R	weekly	weekly	single stream	weekly	✓	✓
Irwindale	Los Angeles	1,450	Jan 2014	Athens	weekly	weekly	mixed waste	weekly	✓	✓
Laguna Beach	Orange	23,147	July 2013	WM	weekly	weekly	single stream	weekly	✓	X
Monrovia	Los Angeles	38,787	7/1/2016	Athens	weekly	weekly	single stream	weekly	✓	✓
Rancho Cucamonga	San Bernardino	177,452	2016	Burrtec	weekly	weekly	single stream	weekly	✓	X
Riverside	Riverside	327,728	Oct 2018	Municipal, Burrtec	weekly	weekly	single stream	weekly	✓	X
Rolling Hills Estates	Los Angeles	8,226	July 2018	WM	weekly	weekly	single stream	weekly	✓	✓
Santa Clarita	Los Angeles	210,888	May 2012	WM	weekly	weekly	single stream	weekly	✓	X
Temple City	Los Angeles	36,411	August 2008	Athens	twice weekly	twice weekly	mixed waste	twice weekly	✓	X
Thousand Oaks	Ventura	128,995	June 2013	WM, EJ Harrison	weekly	weekly	single stream	weekly	✓	X
Upland	**San Bernardino**	**76,999**	**May 2007**	**Burrtec**	**weekly**	**weekly**	**single stream**	**weekly**	✓	**X**

Table 2: Hauler & Services Comparison – Commercial									
City	County	Population Est.	Contract Effective Date (or Last Amendment)	Service Provider (Commercial)	Solid Waste Collection	Recycling		Organics	
		2019				Offered/ Mandatory	Type	Green Waste	Food Waste
Azusa	Los Angeles	49,954	2011	Athens	weekly	Mandatory	MW	✓	✓
Banning	Riverside	31,282	May 2019	WM	weekly	Mandatory	SS	✓	✓
Beaumont	Riverside	46,967	N/A	WM	weekly	Mandatory	SS	✓	✓
Burbank	Los Angeles	107,149	Feb 2016	Municipal, multiple haulers	weekly	offered	MW	✓	X
Calabasas	Los Angeles	24,202 (2017)	July 2012	WM / G.I. Industries	weekly	mandatory	SS	✓	✓
Carlsbad	San Diego	115,330	June 2017	WM	weekly	mandatory	SS	✓	X
Corona	Riverside	167,836	March 2011	WM	weekly	Offered	SS	✓	✓
Covina	Los Angeles	49,006	Jan 1997	Athens	weekly	Mandatory	MW	✓	✓
Fontana	San Bernardino	211,815	Municipal	Burrtec	weekly	Mandatory	SS	✓	✓
Glendale	Los Angeles	203,054	Sept 2015	Municipal	weekly	Offered?	SS	✓	X
Hemet	Riverside	85,160	Sept 2015	CR&R	weekly	mandatory	SS	✓	✓
Irwindale	Los Angeles	1,450	Jan 2014	Athens	weekly	mandatory	MW	X	X
Laguna Beach	Orange	23,147	July 2013	WM	weekly	mandatory	SS	✓	✓
Monrovia	Los Angeles	38,787	7/1/2016	Athens	weekly	mandatory	SS	✓	✓
Rancho Cucamonga	San Bernardino	177,452	2016	Burrtec	weekly	mandatory	SS	✓	✓
Riverside	Riverside	327,728	Oct 2018	Athens, Burrtec and CR&R	weekly	mandatory	SS	✓	✓
Rolling Hills Estates	Los Angeles	8,226	July 2018	WM	weekly	mandatory	SS	✓	✓
Santa Clarita	Los Angeles	210,888	May 2012	Burrtec	weekly	mandatory	SS	✓	✓
Temple City	Los Angeles	36,411	August 2008	Athens	weekly	mandatory	MW	✓	✓
Thousand Oaks	Ventura	128,995	June 2013	WM	weekly	mandatory	SS	X	X
Upland	**San Bernardino**	**76,999**	**May 2007**	**Burrtec**	**weekly**	**mandatory**	**SS**	✓	✓

SS = Single Stream
MW = Mixed Waste Processing

Residential and Commercial Rates for Garbage, Recycle, and Organics, and Extra Fees

Table 3 provides an overview of the residential rates in each of the jurisdictions surveyed. Upland's current residential refuse rate is between 10% – 24% lower than the average of nearby jurisdictions depending

on the container size. Burrtec has proposed an average increase to rates of 17%; revisions to the catch-up period made by R3 resulted in a slight increase to residential rates due to later rate adoption than expected by Burrtec in its original request.

Table 3[1]
Residential Rates

City	Effective Date	30-35 Gal	60-64 Gal	90-96 Gal
Upland (current)	2018	$17.61	$21.79	$26.23
Burbank	2019	$17.97	$32.84	$51.88
Calabasas	2018	$18.33	$26.96	$32.74
Glendale	2010	$18.34	$18.34	$18.34
Laguna Beach	2019	$18.53	$18.53	$18.53
Carlsbad	2019	$19.96	$22.03	$22.03
Upland (Burrtec Proposed)	2020	$20.97	$25.42	$30.00
Upland (R3 Revised)	2020	$21.17	$25.65	$30.23
Monrovia	2019	$23.18	$27.30	$33.03
Beaumont	2019	$24.99	$24.99	$24.99
Covina	2018	$26.95	$29.28	$31.58
Rolling Hills Estates	2019	$30.98	$36.50	$44.91
Temple City	2018	$35.91	not offered	not offered
Banning	2018	not offered	not offered	$21.71
Santa Clarita	2018	not offered	not offered	$22.71
Hemet	2019	not offered	$25.08	$28.61
Thousand Oaks	2019	not offered	$33.52	not offered
Corona	2019	not offered	not offered	$24.50
Riverside	2019	not offered	not offered	$26.85
Azusa	2019	not offered	not offered	$27.72
Fontana	2019	not offered	not offered	$29.71
Irwindale	2019	not offered	not offered	$32.71
Rancho Cucamonga	2020	not offered	not offered	$27.63
Average without Upland		$23.51	$23.51	$26.18
Percent Difference (current)		-25%	-25%	-17%
Percent Difference (Burrtec proposed)		-11%	-11%	-3%
Percent Difference (R3 Revised)		-10%	-10%	-2%

[1] Sorted by 30-25 gallon size.

Table 4, on the following page, indicates that Upland's current commercial customer garbage rates are between 18% lower and 9% higher than the average of nearby jurisdictions depending on the container size. Burrtec proposed an average increase to commercial customer garbage rates of 19%.

Many jurisdictions surveyed bundle recycling and garbage collection rates; however, it should be noted that the cities of Banning, Beaumont, Carlsbad, Corona, Fontana, and Thousand Oaks charge a separate rate to commercial customers for recycling collection. This recycling rate is not included in this comparison.

Table 4[1]
Commercial Garbage Rates

City	Effective Date	2 YD Bin		3 YD Bin		4 YD Bin		6 YD Bin	
		1x / Week	3x / Week	1x / Week	3x / Week	1x / Week	3x / Week	1x / Week	3x / Week
Santa Clarita	2018	$79.56	$230.72	$87.01	$252.32	$109.32	$317.07	$139.84	$405.49
Carlsbad	2019	$83.91	$211.46	$113.99	$301.67	$152.01	$415.78	not offered	not offered
Riverside	2019	$83.92	$218.61	$118.20	$297.91	$150.84	$391.45	$201.32	$520.58
Glendale	2010	$88.72	$202.87	$109.26	$269.95	not offered	not offered	not offered	not offered
Banning	2018	$93.41	$273.09	$122.34	$358.10	$163.70	$478.65	$230.44	$675.33
Corona	2019	$105.85	$295.73	$139.88	$391.51	$186.49	$522.00	$251.33	$703.04
Rolling Hills Estates	2019	$107.15	$321.51	$127.63	$382.93	$145.11	$435.38	$185.43	$556.28
Upland (current)	2018	$111.09	$309.24	$149.61	$424.78	$188.05	$540.30	$265.09	$771.19
Beaumont	2019	$112.59	$337.76	$153.43	$460.29	$223.45	$670.36	$303.42	$910.28
Upland (R3 Revised)	2020	$119.48	$332.86	$161.10	$457.69	$202.63	$582.45	$285.83	$831.90
Azusa	2019	$124.54	$238.24	$140.94	$282.83	not offered	not offered	not offered	not offered
Thousand Oaks	2019	$126.80	$226.45	$168.00	$300.40	$217.25	$393.70	$336.00	$600.80
Hemet	2019	$127.64	$325.04	$185.01	$459.88	$231.64	$570.40	$345.57	$895.34
Upland (Burrtec Proposed)	2020	$130.50	$366.01	$177.70	$507.58	$224.81	$649.08	$319.17	$931.97
Laguna Beach	2018	$141.41	$256.88	$158.49	$301.11	$211.32	$401.47	not offered	not offered
Covina	2018	$141.69	$336.75	$174.98	$427.89	not offered	not offered	not offered	not offered
Fontana	2019	$152.00	$375.30	$192.65	$506.35	$259.52	$702.09	not offered	not offered
Rancho Cucamonga	2020	$156.63	$348.23	$197.51	$452.65	$237.98	$565.08	$302.28	$771.24
Monrovia	2019	$172.24	$333.22	$192.71	$491.31	$235.05	$569.46	$342.94	$814.87
Temple City	2018	$189.83	$403.93	$214.01	$438.89	$250.73	$503.17	not offered	not offered
Irwindale	2019	$214.19	$467.01	$243.99	$554.69	$306.42	$681.65	$397.19	$882.98
Burbank	2019	$259.22	$690.18	$304.09	$802.79	$349.28	$916.92	$442.25	$1,147.09
Calabasas	2018	not offered	not offered	$93.22	$257.24	$101.09	$275.79	$116.87	$322.55
Average without Upland		$134.81	$320.68	$161.87	$399.54	$207.72	$518.26	$276.53	$708.14
Percent Difference (current)		-18%	-4%	-8%	6%	-9%	4%	-4%	9%
Percent Difference (Burrtec proposed)		-3%	14%	10%	27%	8%	25%	15%	32%
Percent Difference (R3 Revised)		-11%	4%	0%	15%	-2%	12%	3%	17%

[1] Sorted by 3 cubic yard containers pulled once weekly.

Table 5, below, provides an overview of the commercial organic collection rates in each of the jurisdictions surveyed. As shown, the current rate charged to Upland commercial organic customers is between 9% and 37% less than the average of surrounding jurisdictions. R3's adjustments resulted in rates between 5% higher and 23% lower than the average of surrounding jurisdictions. More details on this adjustment can be found in the draft letter report entitled "Review of Burrtec's 2020 Solid Waste Rate Adjustment Request" dated November 22, 2019.

Table 5
Commercial Organics Rates

City	Effective Date	60/90 Gallon	2 YD Bin	
			1x / Week	3x / Week
Fontana	2019	$38.78	$152.00	$375.30
Corona	2019	$45.44	$242.28	$725.62
Banning	2018	$47.05	$263.27	$789.87
Calabasas	2016	$48.34	$129.34	$388.00
Beaumont	2019	$51.79	$277.99	$833.98
Upland (R3 Revised)	2020	$56.37	$259.61	$687.20
Hemet	2019	$63.13	$263.69	$733.20
Upland (current)	2018	$66.60	$168.35	$415.78
Rancho Cucamonga	2020	$76.11	$297.47	$782.10
Upland (Burrtec proposed)	2020	$78.10	$195.57	$491.97
Rolling Hills Estates	2019	$88.73	not offered	not offered
Santa Clarita	2018	$107.81	$207.40	$610.27
Covina	2018	$120.50	not offered	not offered
Azusa	2019	$120.57	not offered	not offered
Laguna Beach	2018	bundled rate with garbage		
Monrovia	2019	bundled rate with garbage		
Burbank	2018	not offered	not offered	not offered
Glendale	2010	not offered	not offered	not offered
Thousand Oaks	2019	not offered	not offered	not offered
Riverside	2019	open market		
Irwindale	2019	*rate structure under negotiations*		
Temple City	2018	*rate structure under negotiations*		
Carlsbad	2019	yard waste only	not offered	not offered
Average without Upland		$73.48	$229.18	$654.79
Percent Difference (current)		-9%	-27%	-37%
Percent Difference (proposed)		6%	-15%	-25%
Percent Difference (R3 Revised)		-23%	13%	5%