



PUBLIC WORKS DEPARTMENT

CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3354 • FAX: (408) 777-3333
CUPERTINO.ORG

CITY COUNCIL STAFF REPORT

Meeting: November 19, 2024

Subject

Adopt a maximum rate schedule for Rate Period Five (RP 5) for Recology to provide recycling, organics, and solid waste collection, recycling and organics processing services, and transport for disposal as calculated using the allowed and approved methodology in the Franchise Agreement (Attachment A).

Recommended Action

Adopt Resolution No. 24-XXX (Attachment B) to:

- 1) Adopt a maximum rate schedule for RP 5 for Recology to provide recycling, organics, and solid waste collection, recycling and organics processing services, and transport for disposal pursuant to the Franchise Agreement (Attachment A (FA Exhibit E1)); and
- 2) Authorize the use of \$394,465 of restricted-use Enterprise Funds to smooth and mitigate the RP 5 adjustment.

Executive Summary

The City of Cupertino has a Franchise Agreement (FA) with Recology for the collection of all streams of waste and for the post-collection management of recyclables and organics. The FA as executed includes detailed methodologies for calculating rate adjustments each year. For the upcoming RP 5 covering February 1, 2025 – January 30, 2026, Recology conducted and submitted their calculations in accordance with the FA. Those calculations were reviewed for accuracy and the result was an inflation-based increase. For the average single-family home with a 32-gallon garbage cart, the rate will change from \$42.19 to \$44.30 per month, an increase of \$2.11, which includes using \$394,465 from the Resource Recovery Enterprise Fund to reduce the rate impacts to residents. Detailed explanation is provided in *Rate Adjustment and Rate Smoothing* section below.

This rate adjustment applies only to existing services and does not involve any change to garbage post-collection services that will be considered by the City Council in 2025.

This report provides information on the Recology FA, the regulation of maximum rates, review of the RP 5 application, rate adjustment and smoothing, and rate comparison with neighboring cities.

Reasons for Recommendation

Effective waste disposal programs that are convenient, well utilized and properly funded are essential to diverting recyclable and compostable materials from the landfill in accordance with Assembly Bill (AB) 939 and the City of Cupertino's Zero Waste Policy and comply with Senate Bill (SB) 1383. The City and Recology partner on many of the diversion and waste reduction activities described in Cupertino's Climate Action Plan 2.0 section "Getting to Zero Waste." The City has an FA with Recology for the collection of all streams of waste and for the post-collection management of recyclables and organics.

Background

On December 15, 2020, the Cupertino City Council approved a new 10-year Franchise Agreement (Attachment A)¹ with Recology South Bay d/b/a Recology Cupertino ("Recology") to provide recycling, organics, and solid waste collection, recycling and organics processing services, and transport for disposal. The FA as adopted included rates for the first three years along with detailed methodologies to calculate rates for each year through the remainder of the agreement term.

The methodology to determine the maximum rates for the upcoming RP 5, which begins February 1, 2025, is a multi-index-based adjustment detailed in Exhibit E.1 to the FA. City staff and Recology staff calculated the index-based adjustment as specified, and the resulting rates are hereby presented for approval by the City Council (Exhibit A to the Resolution). Under Exhibit E to the FA, "City Council shall make a good faith effort to approve Rates by January 1 of each year, and such Rates shall be effective on each subsequent February 1."

The RP 5 adjustment does not include changes to post-collection handling. The City Council will be considering options for changes to the post-collection handling of the garbage stream in 2025.

Regulation of Maximum Rates

The City does not set the rates for Recology's provision of solid waste services, but rather approves the maximum rates Recology may charge its customers.

Review of the Rate Period Five Application

¹ For ease of use and reduced file size, the attached copy of the Franchise Agreement has section bookmarks and Recology's original pre-negotiation proposal is not included. The full executed version can be accessed via [Cupertino.org/records](https://cupertino.org/records) and a search for agreement 21-232 or [via this link](#).

On August 1, in accordance with Section 8.2.C of the FA, Recology submitted its RP 5 application. To assess the appropriateness of Recology’s proposed rates, the City conducted a detailed review of the application and engaged a consultant, HF&H, to review the information. The review conducted by HF&H included determining completeness, compliance with the adjustment methodology, mathematical accuracy, and logical consistency of the assumptions supporting the projected revenues and expenses. The review found the calculations were done correctly per the methodology.

Rate Adjustment and Rate Smoothing

Per Recology’s RP 5 application and subsequent review, the overall increase to Recology’s Total Cost of Operations as described in Exhibit E methodology is 4.07%, which is below the allowed 5% cap on increases to Total Cost of Operations in multi-index adjustment years. The maximum rates approved by Council for the current Rate Period 4 (RP 4) included the use of restricted-use enterprise funds to smooth and mitigate the increase needed at that time. As a result of that use, the difference between RP 4 and RP 5 rates would manifest to customers as a 7.08% increase in rates. To lessen the impact on ratepayers, staff recommends authorizing the use of \$394,465 of restricted-use enterprise funds to mitigate the RP 5 adjustment down to 5%. The Resource Recovery Enterprise Fund is earmarked for uses that benefit solid waste ratepayers, including smoothing of rate impacts.

Table 1: Application of Rate Adjustment

Service Type	Monthly Rate		% change	\$ per month change
	Current	Rate Period Five (eff. 2/1/2025)		
Residential: 32-gallon garbage cart (bundled with recycling and organics carts)	\$42.19	\$44.30	5%	\$2.11
Commercial/MFD: 1-3yd/1x/week, MSW	\$317.04	\$332.89	5%	\$15.85
1.5yd/1x/week, Recycling	\$95.12	\$99.88	5%	\$4.76
1.5yd/1x/week, Organics	\$198.14	\$208.05	5%	\$9.91

Rate Comparisons with Neighboring Cities

Cupertino rates remain below average in comparison with those of neighboring cities even with the proposed rate increases, when comparing rates for 32 or 35 gallon carts. The following tables 2 and 3 show Cupertino’s current rates and proposed maximum rates for RP 5 in comparison to neighboring cities.

//

//

//

Table 2: Residential Monthly Rate Comparisons

Single-family residential garbage rates per month sorted by 32 gallon cart		
City	20 or 24 gallon cart	32 or 35 gallon cart
Milpitas	\$38.28	\$41.60
Cupertino (Current)	\$39.67	\$42.19
Cupertino (w/ 5% increase)	\$41.65 (\$1.98 inc.)	\$44.30 (\$2.11 inc.)
Sunnyvale	\$40.00	\$46.43
Mountain View	\$34.90	\$46.55
Palo Alto	\$27.81	\$50.07
Campbell	\$40.54	\$50.21
Los Altos	n/a	\$51.25
Santa Clara	\$43.61	\$51.51
Los Gatos	\$42.72	\$53.22
San Jose	n/a	\$53.45
Saratoga	\$44.95	\$55.81

Note: Comparative rates shown are as of October 2024.

Table 3: Commercial Rate Comparisons

City	3 CY bin 1x/week
San Jose	\$272.71
Milpitas	\$313.56
Cupertino (current)	\$317.04
Cupertino (RP 5 with 5% increase)	\$332.89
Mountain View	\$385.45
Campbell	\$395.23
Santa Clara	\$431.81
Palo Alto	\$437.20
Sunnyvale	\$481.70
Los Gatos	\$488.91
Saratoga	\$566.53
Los Altos	\$570.21

Note: Comparative rates shown are as of October 2024.

Sustainability Impact

This item aligns with Cupertino's Climate Action Plan 2.0 section "Getting to Zero Waste." Effective waste disposal programs align with AB 939, the California Integrated Waste Management Act that requires at least 50% diversion from landfill after 1/1/2020, the City of Cupertino's Zero Waste Policy adopted December 19, 2017, and comply with SB 1383 Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions.

Fiscal Impact

Recology collects funds from the ratepayers and uses those for their cost of operations, payment of landfill and recycling and compost processing fees, payment of franchise fees to the City, and payment of the Solid Waste Fund Operations Fee, which covers the City's staffing and management of the waste hauling agreement and compliance with State and local waste reduction and recycling regulations. Per the Franchise Agreement (section 7.1) the Franchise Fee will remain the same for the term of the agreement at 12% of Recology's gross receipts less the Solid Waste Fund Operations Fee. The Solid Waste Fund Operations Fee was increased by 3% per CPI.

Table 4 shows the fiscal impact to the City since the agreement began. Because the current Rate Period (RP 4) is not yet complete and RP 5 is projected, some numbers are not known yet and are shown in italics. Any budget needed adjustments will be brought in at midyear.

Table 4

Fiscal Summary	Feb 2021 – Jan 2022 (RP 1)	Feb 2022 – Jan 2023 (RP 2)	Feb 2023 – Jan 2024 (RP 3)	Feb 2024 – Jan 2025 (RP 4)	Feb 2025-Jan 2026 (RP 5)
Franchise Fees (for use by Gen. Fund)	\$1,513,007	\$1,771,937	\$2,146,182	\$2,140,000 (projected)	\$2,230,109 (projected)
Solid Waste Fund Operations Fees (Fund 520 – restricted use)	\$1,396,128	\$1,438,008	\$1,354,124	\$1,635,967	\$1,684,767
Total Received	\$2,909,135	\$3,209,945	\$3,500,306	\$3,775,967	\$3,914,876
Use of Fund 520 for rate smoothing	(\$ 686,072)	(\$ 957,082)	(\$ 840,405)	(\$547,800)	(\$394,465)
Net to City	\$2,223,063	\$2,252,863	\$2,659,901	\$3,228,167	\$3,520,411

City Work Program (CWP) Item: No

CWP Item Description: N/A

Council Goal: N/A

California Environmental Quality Act
Not applicable.

Prepared by: Ursula Syrova, Environmental Programs and Sustainability Manager

Reviewed by: Chad Mosley, Director of Public Works

Approved for Submission by: Tina Kapoor, Acting City Manager

Attachments:

A – Recology Franchise Agreement

B – Draft Resolution