



May 7, 2020

Chip Rerig, City Administrator
City of Carmel-by-the-Sea
Post Office Box CC
Carmel-by-the-Sea, CA 93921

Subject: Cost-Based and Annual Rate Adjustments and Provision of Services Beginning July 1, 2020

Dear Mr. Rerig,

We are in receipt of your letter dated April 9, 2020 and agree we are in unprecedented times. Our partnership with the City of Carmel-by-the-Sea is incredibly important to us – so too is our ability to provide uninterrupted services. We understand your concerns with regard to the collective workload of the City responding to COVID-19 issues to protect the community and City employees as well as the steep budget cuts facing the City. We sincerely hope you can similarly appreciate the challenges we face as well; we are entirely reliant on ratepayer revenue in order to provide services under the Franchise Agreement.

GreenWaste is an Essential Business providing Essential Services to protect the human health and safety of your community. Most of our employees do not have the luxury of working from home and they are out on the front lines touching every container of waste generated in the City. We have been incredibly vigilant outfitting our employees in proper Personal Protective Equipment, maintaining social distancing, and in many cases exceeding both required and recommended protocols to ensure their safety. Our fixed costs have not decreased, and our variable costs will only temporarily decrease as a result of reduced tonnages, a savings that will actually be offset by the tip fee increases at the Monterey Regional Waste Management District (MRWMD) and the new charges for processing recyclable materials. The net result is that our costs have and will continue to increase, while our revenues will drastically decline and remain suppressed until the economy fully recovers.

When we first received your letter, we remained hopeful that we could find a creative solution and sought out data to assess how and to what extent we could minimize the impact to ratepayers while still sustaining our operation. At that time, we had only been under Shelter-in-Place for approximately two (2) weeks and did not yet know the full extent of the potential impact. Pulling billing data in April did not reveal the full extent of the impact as the commercial sector is billed in arrears and the residential sector is billed quarterly in advance. Instead, we sought to dive deep into week over week tonnage data that is the proverbial “canary in the coal mine.” Using the 12-month period ending December 31, 2019, weighted for the revenue-generating aspect by material type, we predict the result of COVID-19 will be on the order of a 27% drop in revenue as follows:

Description	Total Revenue by Line of Business	Actual 12- Month Rate Revenue	Projected % Change	Anticipated Revenue Loss	Projected Revenue Post COVID-19
Residential	44.04%	\$ 944,208	-11.72%	\$ (110,661)	\$ 833,546
Commercial	39.69%	\$ 850,962	-42.84%	\$(364,552)	\$ 486,410
Debris Box	3.27%	\$ 70,101	-35.76%	\$ (25,068)	\$ 45,033
Franchise Fee	13.00%	\$ 278,718	-26.82%	\$ (74,755)	\$ 203,963
Totals	100.00%	\$ 2,143,988	-26.82%	\$ (575,036)	\$ 1,568,952

**The City could consider utilizing the Franchise Fee to minimize the impact of the rate increase.*

This loss in revenue to GreenWaste as a result of COVID-19 will be further compounded by the following: 1) the Cost-Based Rate Adjustment (CBRA) performed by HFH Consultants revealed the City has been receiving what amounts to a 33.67% subsidy that will disappear on July 1, 2020, and 2) GreenWaste is also due our Multi-Index Rate Adjustment (MIRA) July 1, 2020. The 33.67% subsidy is comprised of two (2) components:

- a) Ratepayers in neighboring jurisdictions have been unknowingly subsidizing 21.36% of the costs to provide services to City residents and businesses, and
- b) GreenWaste has also provided a subsidy of 12.31% in the form of additional services that were beyond the scope of the Franchise Agreement without a means to recover these costs.

During 2019 alone, the City of Carmel-by-the-Sea received a total subsidy of \$704,186 comprised of \$446,727 from neighboring jurisdictions and \$257,459 from GreenWaste.

The MIRA will be an additional 6.67% on top of the CBRA and includes:

- a) the prescribed cost-of-living adjustments that use prescribed indices that are applied to differing components of the rates (e.g. labor, fuel and other expenses), and
- b) pass-through expenses that include a five percent (5%) increase in tip fees at the MRWMD and a new charge for processing recyclable materials, and
- c) one-time adjustments that include unanticipated charges from the MRWMD for residue in the recyclable materials delivered for processing and the costs of a one-time mailer to message customers about the rate increase.

The 6.67% MIRA adjustment includes approximately 2.51% to GreenWaste, approximately 4% to the MRWMD as a pass-through, and 0.16% as a one-time cost of the mailer.

The April 9, 2020 letter from the City explained the City's desire for community engagement was the primary explanation for the City's request to postpone the rate adjustment. We do understand the City's desire to engage the public in its decisions, which is something that sets the City apart from neighboring jurisdictions. However, the action that must be taken to approve rates is simply the City receiving the report from HFH Consultants, the third-party hired by the City to perform the extensive examination analysis, and for the City Council to approve the new rates, as follows:

July 1, 2020 Rate Adjustment - Not Subject to Council Discretion

20.97%	Base Service Cost-Based Rate Adjustment performed by HFH
0.39%	GreenWaste Retains Curbside Supplemental Program Funds per the Franchise Agreement
21.36%	Base Service CBRA (Includes Reduction in GreenWaste-subsidized Services)
6.67%	July 1, 2020 MIRA
29.46%	July 1, 2020 <u>Non-Discretionary</u> Rate Adjustment (CBRA and MIRA)

There is only one (1) aspect of the CBRA analysis that is subject to Council direction, whether GreenWaste continues to provide the additional services and service accommodations that GreenWaste has been providing without the inclusion of those costs in the rates. These additional/accommodated services include:

- ✓ Additional reporting to and on behalf of the City and the MRWMD to the State of California beyond that which is required in the Franchise Agreement, and
- ✓ Collection of City cans (and provision of associated services including wiping cans, emptying ashtrays and filling doggy bags) twice daily for the remaining two (2) days per week not covered by the Superintendent, and

- ✓ Collection of recycling cans along the beaches seven (7) days per week, and
- ✓ Collection in an extremely narrow window of time for commercial collection (approximately 8:00am – 10:00am) for all materials to:
 - Allow drivers to stay in the truck while helpers dismount the truck and retrieve carts such that we can minimize the duration where our collection vehicles are blocking traffic, including other delivery vehicles, and preventing vehicles from parking/unparking, truck traffic, and
 - Allow businesses to set out carts the morning of collection rather than the night before, with prompt collection thereafter with the goal of preserving limited parking and improving the aesthetics of the downtown area (and minimizing the duration food waste containers are visible), and
 - Allow us to accommodate the requests of hotels that prefer we not be in the area early as to minimize disruption to overnight guests.

Additional July 1, 2020 Rate Adjustment - Subject to Council Discretion

0.91%	Value of 0.9FTE Provided to City w/o Cost-Recovery (<i>Compliance Reporting</i>)
11.79%	Value of 1.75 FTEs Provided to City w/o Cost-Recovery (<i>Additional/Accommodated Services</i>)
12.70%	CBRA (No Reduction in GreenWaste-provided Additional/Accommodated Services)
6.00% -8.00%	July 1, 2020 MIRA (<i>TBD by HFH</i>)
19.47% - 21.72%	July 1, 2020 Discretionary Rate Adjustment (CBRA and MIRA)

In order to provide these services, GreenWaste added two (2) FTEs beyond what was budgeted. This is the only way we could provide these additional City can and beach can recycling services and provide accommodated service the downtown area in a tight timeframe per the request of the City and the business community. If this component of the rate adjustment is not approved, then GreenWaste will have no choice but to discontinue these services beginning July 1, 2020.

Finally, would also like to clarify that contrary to what was suggested in your letter that “*rate-adjustment extensions beyond July 1 of each year are expressly permitted per Exhibit E of the Franchise Agreement,*” Exhibit E to the Franchise Agreement expressly states:

The Agency’s City Council **shall make a good faith effort to approve Rates by June 1 of each year**, and such Rates shall be effective on each subsequent July 1. If Rates are not effective by July 1 due to a delay caused solely by Agency, Agency shall allow Contractor to retroactively bill Customers for the amount of the Rate increase for any period of said delay that is solely caused by Agency.

In the event the City *did* in fact make a good faith effort and rates were not approved in June (to become effective July 1, 2020), GreenWaste would then retroactively bill for the difference on the next invoice once rates were approved, which would result in an even more substantial negative impact to the residents and businesses and is definitely not advisable.

Recommendation: Deferral of the non-discretionary portion of the CBRA and MIRA rate increase will have significant and lasting implications on GreenWaste’s ability to continue to perform the services under the Franchise Agreement. At a minimum, GreenWaste strongly urges the City to approve the non-discretionary portion of the CBRA and MIRA for a total rate increase of 29.46% beginning July 1, 2020 (final numbers to be provided to the City by HFH Consultants). If the City decides to defer the decision on whether to approve the discretionary portion of the CBRA and MIRA that amounts to an additional 19.47% - 21.72% (final numbers to be provided by HFH Consultants), then GreenWaste will be unable to continue to provide the additional and accommodated services to the commercial sector described above until such time that additional funds are provided to continue these services

We understand and appreciate the timing of this rate adjustment could not be more inopportune. When the impacts of COVID-19 began to unfold, we anticipatorily began looking at ways to minimize the impacts of prescriptive rate adjustments and explore deferrals to ease the burden to the ratepayers throughout all the jurisdictions we serve. However, with the loss of the subsidy from your neighboring jurisdictions that must be made up by the ratepayers, combined with the significant costs for us to provide additional and accommodated services without cost recovery and the anticipated revenue losses resulting from the Shelter-in-Place orders, we are unfortunately not in a position to be able to defer such an adjustment without severely impacting our ability to perform.

Despite the challenges we have faced with the Shelter-in-Place orders, we are delighted that we have been able to safely provide all the services under the Franchise Agreement (e.g. bulky item pick-ups and collection of extra materials) that have been discontinued by so many other haulers. As the ratepayers in the City of Carmel-by-the-Sea are faced with the upcoming July 1, 2020 rate increases, we are hopeful that we can message the increase appropriately such that they can find some relief knowing they have enjoyed artificially low rates for the services provided over the past five (5) years.

We hope the City and your ratepayers have been pleased with our services to date and will continue to enjoy us as your service provider for at least the next decade.

In partnership,

A handwritten signature in blue ink, appearing to read "Tracy M. Adams", with a stylized flourish at the end.

Tracy Adams
Co-CEO

Cc: Mayor Potter and Members of the City Council
Dave Hilton, HF&H
Tim Flanagan, Monterey Peninsula Waste Management District
Robert Harary, P.E., Public Works Director
Agnes Martelet, Environmental Compliance Manager

CARMEL-BY-THE-SEA
Declining Tonnages following Shelter-in-Place Orders

MSW	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Single-Family	14.78	13.05	-11.72%
MFD	0.61	0.50	-18.03%
Commercial	12.78	8.89	-30.47%
Total	28.17	22.44	-20.36%

RECYCLE	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Single-Family	13.90	10.85	-21.97%
MFD	0.38	0.25	-34.92%
Commercial	10.40	5.54	-46.73%
Total	24.69	16.64	-32.61%

YARD TRIMMINGS	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Single-Family	27.61	31.46	13.96%
MFD	0.14	0.15	6.80%
Commercial	0.36	0.40	11.31%
Total	28.11	32.02	13.89%

FOOD WASTE	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Commercial	7.04	1.80	-74.40%
Total	7.04	1.80	-74.40%

C&D	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Debris Box	4.53	2.91	-35.76%
Total	4.53	2.91	-35.76%

TOTALS	Weekly Average (Mar. 1 - Mar. 20)	Weekly Average (Mar. 22 - Apr. 25)	Pre- v. Post-SIP
Single-Family	56.29	55.35	-1.66%
MFD	1.14	0.90	-20.61%
Commercial	30.59	16.64	-45.62%
Debris Box	4.53	2.91	-35.76%
Total	92.55	75.81	-18.09%