



DATE: June 8, 2021

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Landfill Disposal Agreement and SMaRT® Station Memorandum of Understanding**

RECOMMENDATION

1. Authorize the City Manager to execute a Disposal Agreement with Waste Management to dispose solid waste at the Kirby Canyon Landfill.
2. Authorize the City Manager to execute a Memorandum of Understanding between the cities of Mountain View and Sunnyvale relating to the operation of the Sunnyvale Materials Recovery and Transfer (SMaRT®) Station from January 1, 2022 to December 31, 2036.
3. Authorize the City Manager to execute an amendment to the current Memorandum of Understanding among the cities of Mountain View, Sunnyvale, and Palo Alto for use of the SMaRT Station extending the term of the agreement from October 15, 2021 to December 31, 2021.

BACKGROUND

Mountain View's solid waste and recycling collection, processing, and disposal system is made up of services provided by three separate entities under different agreements: (1) Recology provides solid waste collection services; (2) the SMaRT Station processes solid waste to extract recyclables; and (3) residual waste is disposed at the Kirby Canyon Landfill. The budget for the three agreements total over \$26 million in Fiscal Year 2020-21 and all expire near the end of 2021.

On [October 29, 2019](#), the City Council authorized staff to begin negotiations with the current service providers (Recology, City of Sunnyvale, and Waste Management) to establish new agreements for solid waste collection and processing services.

On [January 28, 2020](#), the City Council approved a scope of services for Recology and negotiating parameters for a new SMaRT Station Memorandum of Understanding

(MOU) with the City of Sunnyvale. On [October 27, 2020](#), Council approved a new agreement with Recology effective July 1, 2021.

Staff has now completed negotiations with Waste Management for disposal at Kirby Canyon Landfill and with the City of Sunnyvale for the SMaRT Station. This report presents the details of the recommended landfill disposal agreement and SMaRT Station MOU.

ANALYSIS

Waste Management Disposal Agreement

The recommended agreement with Waste Management is consistent with Council direction to obtain a disposal fee in line with current market rates. Staff used the bid price the City of Milpitas received for disposal at Kirby Canyon Landfill after recently publicly bidding their contract as a starting point for negotiations. Waste Management responded with a lower price in exchange for an extended agreement. The agreement is for a 10-year term beginning January 1, 2022, with an extension option of up to five years. Under this agreement, all residual material resulting from processing Mountain View's garbage and recycling at the SMaRT Station must be disposed at Kirby Canyon Landfill. This is consistent with the recommended SMaRT Station MOU as Sunnyvale also has a landfill disposal agreement with Waste Management.

The fee for Fiscal Year 2020-21 under the current agreement with Waste Management is \$74.12 per ton (including taxes and fees) and is estimated at \$75.21 per ton for the first half of Fiscal Year 2021-22 (the current agreement expires on December 31, 2021). Under the recommended agreement, beginning January 1, 2022, the fee will be \$45.30 per ton (including taxes and fees). This represents a significant reduction in landfill disposal costs over the next 10- to 15-year period for Mountain View. Staff estimates an annual savings of \$580,000 based on current disposal levels. Landfill fees are paid through the SMaRT Station budget; therefore, the savings are reflected in the anticipated fiscal impacts of the recommended SMaRT Station MOU.

SMaRT Station Memorandum of Understanding

The current SMaRT Station MOU between the cities of Sunnyvale, Mountain View, and Palo Alto expires on October 15, 2021. The three cities began a series of meetings in 2019 to discuss a future MOU. Palo Alto ended active participation in the discussion in late summer 2020. The MOU, as presented to Council for approval, is between the cities of Mountain View and Sunnyvale; however, there are provisions allowing additional cities to join during the term.

Staff believes each of the negotiating parameters approved by Council at the January 28, 2020 meeting have been satisfactorily addressed in the recommended new MOU. The general terms of the recommended MOU are described below:

- Agreement Term: The term of the recommended MOU is 15 years with a start date of January 1, 2022. The term of the current SMaRT Station MOU will end on October 15, 2021. The City of Palo Alto has requested a term extension to December 31, 2021 so that it coincides with the expiration date of the current Waste Management disposal agreement. Mountain View and Sunnyvale staff concur it would be desirable for the new Waste Management agreement and new SMaRT MOU to have the same start date of January 1, 2022; therefore, it is recommended that the current MOU be extended from October 15 to December 31, 2021.

The 15-year term length is desirable to spread large capital costs over time, receive discounted pricing from a third-party organics processor, and be compatible with the terms of Mountain View's collection and landfill disposal agreements. The cities will meet and confer three years prior to the expiration of the MOU to discuss a potential extension or new MOU.

- Services Provided: The SMaRT Station will process a reduced number of materials from Mountain View under the recommended MOU. Construction and demolition materials and commercial recycling will now be processed by third parties as arranged under the already approved agreement with Recology. In addition, residential organics will bypass the SMaRT Station and be taken by Recology directly to their composting facility located in Gilroy. Table 1 summarizes the service changes.

The SMaRT Station will also continue to provide all the same convenient and free services to Mountain View residents specified in the current MOU, including self-haul with clean-up vouchers, compost pickup, California Refund Value (CRV) redemption, and drop-off of recycling, electronics, paint, batteries, mattresses, and sharps.

Table 1: SMaRT Station Services

Services	Current MOU	Proposed MOU
Garbage Sorting (to recover recyclables and organics)	X	X
Residential Recycling Processing	X	X
Commercial Recycling Processing**	X	
Construction and Demolition Waste Processing**	X	
Yard Trimmings Processing and Transfer for Composting*	X	X
Residential Organics (food and yard combined) Processing and Transfer for Composting**	X	

* Mostly generated by City operations.

** Service to be provided by a third-party processor.

- Capital Improvements:** Improvements are planned to the sorting equipment and building both to address aging and to increase diversion. The solid waste and recycling sorting lines will be upgraded by 2025, with the detailed design process beginning upon execution of the new MOU. The estimated cost of the initial upgrades is \$28.8 million, and Mountain View’s share is approximately 33%, which is \$0.9 million per year amortized over the 10-year term of the MOU.
- Diversion Estimates:** The new solid waste sorting equipment will target organics (primarily food and compostable paper) to be diverted for composting. The goal is to increase diversion from incoming garbage from approximately 29% to 39%, representing an additional 2,700 tons of diversion from landfill for Mountain View.
- Cost-Sharing Methodology:** As Mountain View requested, partners will pay a specified “tip fee” for each ton delivered of each type of material (garbage, recycling, organics) rather than paying all operating costs based only on the tons of garbage delivered. This is a more accurate way to distribute costs as Sunnyvale and Mountain View will be using the SMaRT Station in different ways, and each partner will pay based on their specific use.

Processing Services Cost Increases

Although several processing services are shifting from the SMaRT Station, there will be cost increases associated with the processing services to remain under the new MOU. However, these cost increases are offset by the significant 39% decrease in landfill disposal costs. The basis for the cost increases includes the following:

- A new labor agreement for the contracted SMaRT Station operator includes an 8% increase in Fiscal Year 2021-22 (and additional increases in future years) to bring compensation in line with other local solid waste companies;
- Organics recovered from garbage sorting is sent to Z-Best for processing. Processing fees are expected to increase by 10% as Z-Best implements capital improvements and the demand for organics processing continues to rise (the City is experiencing similar increases for commercial and residential organic composting services provided by Recology); and
- The current host fee paid to Sunnyvale does not include land rent. The host fee will increase by \$115,265 per year to include Mountain View's share of the land rent for the SMaRT Station facilities paid to Sunnyvale (from \$3.96 per ton to \$6.07 per ton). The Sunnyvale Solid Waste Fund, an enterprise fund, also pays land rent to Sunnyvale's General Fund.

Summary of Solid Waste Program Agreements

Table 2 provides a summary of Mountain View's solid waste program based on the recently executed Recology agreement, the recommended agreement with Waste Management, and the recommended SMaRT Station MOU.

Table 2: New Solid Waste Agreements

Provider	Service Type	Agreement Time Period
Recology Mountain View	<ul style="list-style-type: none"> • Collect garbage, recycling, and organics from residences, businesses, schools, and construction sites and deliver to processing facilities. • Compost organics collected from residents and businesses. • Process construction and demolition waste and commercial recycling (via third-party processors). • Operate a local recycling center and buy-back center. 	July 1, 2021 to June 30, 2031 (plus an option to extend up to four years)
Sunnyvale SMaRT Station	<ul style="list-style-type: none"> • Process garbage to remove recyclables. • Process residential recyclables. • Transfer remaining waste to landfill. 	January 1, 2022 to December 31, 2036 (confer on possible extension beginning in 2033)
Waste Management	<ul style="list-style-type: none"> • Dispose residual waste at Kirby Canyon Landfill in San Jose after sorting of garbage and recycling at SMaRT Station. 	January 1, 2022 to December 31, 2031 (with a five-year extension option)

FISCAL IMPACT

As noted above, the recommended Waste Management agreement lowers landfill disposal costs by 39% over the current agreement. The landfill fees are paid for through the SMaRT Station budget, and this cost reduction will help offset increased costs in the SMaRT Station MOU.

The City’s SMaRT Station budget for Fiscal Year 2021-22 reflects one-half year under the old MOU and one-half year under the recommended MOU. The Fiscal Year 2020-21 budget (for all processing and landfill disposal services currently provided by the SMaRT Station) is \$8,049,914. The recommended Fiscal Year 2021-22 budget (with one-half year under the new MOU and with some services provided by SMaRT and some by other processors) is \$7,809,066, a 10% decrease.

In addition to the processing services by the SMaRT Station under the new MOU, the City will have a cost increase estimated at \$1.25 million in Fiscal Year 2021-22 for the services shifting from the SMaRT Station to Recology under the new collection agreement previously approved by Council. The new processing services would begin January 1,

2022 with the implementation of the new MOU. Thus, the cost increase is only for six months of Fiscal Year 2021-22 and represents approximately half the cost for these services.

The new processing services shifting to Recology under the new collection agreement include processing of construction and demolition debris at Zanker Materials Management, commercial recycling at GreenWaste Recovery, and residential organics at South Valley Organics. Staff anticipates increased recovery/diversion rates by shifting these materials to specialized processors.

For Fiscal Year 2021-22, the projected increase in Recology expenditures is \$1.48 million, a 7.7% increase, of which 5.8% is for enhanced services and 1.9% is a Consumer Price Index (CPI) adjustment.

With the completion of the three agreements, the overall net increases in Solid Waste costs for Fiscal Year 2021-22 over Fiscal Year 2020-21 is \$1,928,500, broken down as follows:

SMaRT operating budget reduction (includes reduction in landfill cost)	(\$830,000)
Recology enhanced waste processing	1,250,000
Recology expanded collection services	<u>1,480,000</u>
Net Annual Increase	<u>\$1,900,000</u>

As a result of these increases and City cost increases, operating costs are rising approximately 5.8% overall. As stated in the Proposition 218 letter mailed on or before May 7, 2021, the combination of the supplier and CPI (for City costs) increases would require an approximate 5.8% rate increase to generate sufficient revenue to the cost increases; however only a 4.0% increase in trash and recycling rates is proposed for Fiscal Year 2021-22. Currently the Solid Waste Management Fund has sufficient fund balance to be able to implement the rate increases needed over multiple fiscal years. This results in a monthly increase of \$1.45 for a 32-gallon cart. The gap between projected revenues and expenditures will be funded by the available Solid Waste Management Fund balance. For Fiscal Year 2020-21, the Fund has an estimated ending balance of \$9.2 million and reserves of \$5.6 million.

Future rate impacts of the new Recology, SMaRT Station, and landfill disposal agreements will be based on an updated cost-of-service study, which will be conducted in Fiscal Year 2021-22. The cost-of-service study will also evaluate possible changes to the rate structure needed to stabilize revenues linked to a declining solid waste base resulting from Zero Waste programs and policies.

Future SMaRT Station Costs

The Fiscal Year 2021-22 SMaRT Station budget does not include capital improvement expenses. As described above, it is anticipated that over \$28 million in building and equipment improvements will be completed in early 2025. Future SMaRT Station budgets will include capital financing as well as anticipated labor savings from increased automation resulting from equipment improvements. An additional rate increase may be necessary in the next few years once the capital improvements for the SMaRT Station have been implemented.

CONCLUSION

Staff used a recent public bid to start negotiations with Waste Management for use of the Kirby Canyon Landfill. Waste Management responded by offering a lower price in exchange for a 10-year agreement with a five-year extension. Waste Management's proposal is very competitive and lowers the City's per-ton disposal cost by 39%. This represents a substantial savings for the Solid Waste Fund and puts downward pressure on garbage rates charged to businesses and residents.

Staff has worked closely with the City of Sunnyvale to develop a new SMaRT Station MOU that is equitable. The change in cost sharing based on the number of tons by commodity type increases accuracy and simplifies cost distribution, and the planned capital improvements will increase the City's diversion rate. The recommended MOU is in line with the City Council goal to "Promote Environmental Sustainability and the Quality of Life for the Enjoyment of Current and Future Generations with a Focus on Measurable Outcomes," and it is the best option for processing the City's solid waste and residential recycling.

Council's approval of the recommended actions will conclude a two-year process of negotiating and developing new agreements to replace the three solid waste agreements that are expiring in 2021. The new agreements continue services with no disruptions to residents and businesses while helping to advance the City's Zero Waste goal to divert more waste from the landfill.

ALTERNATIVES

1. Direct staff to negotiate modifications to the terms of the Landfill Disposal Agreement and/or SMaRT Station MOU.
2. Provide other direction.

PUBLIC NOTICING

Agenda posting, notice sent to community members, stakeholders on the zero waste interest list, current vendors and partners, and other service providers, and social media posts.

Prepared by:

Damian Skinner
Assistant Public Works Director

Approved by:

Dawn S. Cameron
Public Works Director

Audrey Seymour Ramberg
Assistant City Manager/
Chief Operating Officer

DS/EP/6/CAM
957-06-08-21CR
200273