


DATE: 12/7/99 AGENDA ITEM # 19
() APPROVED () DENIED
() CONTINUED TO _____

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services 
SUBJECT: Paso Robles Waste Disposal - Rate Increase Request
Franchise Agreement Extension
Reporting Requirement Changes
DATE: December 7, 1999

Needs:

For the City Council to consider adoption of a resolution establishing increased solid waste collection rates, franchise agreement extension and reporting requirement changes.

Facts:

1. The current franchise agreement with Paso Robles Waste Disposal (PRWD) had a fifteen year term, expiring 12/31/03.
2. The City received a letter dated August 17, 1999 (copy attached) from PRWD requesting a franchise agreement extension.
3. While the August 17th letter does not contain any reference to a request for a rate increase, during a meeting with Dale Gomer and his attorney, Terry Schubert, to discuss a franchise agreement extension, the need for a rate increase was raised.
4. The financial statements which accompanied the August 17th letter support PRWD's need for rate increase. These financials, for the fiscal year ending 10/31/98, reflect an operating loss of \$ <16,522 >.
5. The current franchise agreement provides that PRWD shall receive a 'fair and reasonable rate of return' which is defined as an operating ratio of 90 to 92% (gross operating expenses divided by gross revenues).
6. Based upon this provision of the agreement, PRWD is eligible for a 11.6% rate increase.
7. The County Board of Supervisors just approved a 12.5% rate increase for PRWD's county operations.
8. The Council's ad hoc fiscal policy committee and landfill committee both concluded that a 11.6% rate increase for Paso Robles residents was unacceptable and directed staff to negotiate a lower rate increase in exchange for a long term extension to the PRWD's franchise agreement.
9. Per Council's ad hoc fiscal policy committee direction, staff successfully negotiated a lower rate increase and the ad hoc fiscal policy recommends its approval.
10. The proposed rate increase as recommended by the ad hoc fiscal policy committee provides for a series of smaller increases spread over four years at the rate of 4%, 4%, 3% and 3%.

Analysis
and
Conclusion:

The request for a franchise agreement extension is reasonable. There are only four years remaining on the current agreement which is problematic for PRWD to receive bank financing for equipment acquisition. Banks are extremely reluctant if not outright opposed to providing major equipment acquisition financing when the desired term length of the financing exceeds the remaining term length of the franchise agreement. As proposed, the franchise agreement amendment, if adopted as presented, would provide for a full fifteen year term, expiring 12/31/14.

With regard to the rate increase, as noted above, PRWD experienced an operating loss for the fiscal year ended October 31, 1998. It won't be known until late November or early December the results of the fiscal ending October 31, 1999 but it is expected to also reflect an operating loss. Based upon the current franchise agreement, PRWD is eligible for a rate increase. Furthermore, the formula indicates that an 11.6% rate increase is required to provide PRWD an operating ratio of 90%.

When this matter was presented to the fiscal policy committee for their consideration, it was the committee's position that an immediate 11.6% rate increase was unacceptable. The committee directed staff to negotiate a series of smaller rate increases over four years in return for a long term extension to the franchise agreement. The landfill ad hoc committee concurred with the position taken by the fiscal policy committee and the direction given staff.

Accordingly, staff has met with Dale Gomer of PRWD and negotiated a series of rate increase over four years at 4%, 4%, 3% and 3%. After the fourth year, rate increases will be negotiated on an as needed basis. Additionally, financial reporting requirements have been modified in order to provide a greater degree of disclosure. Lastly, as noted above, it is recommended that PRWD be given a franchise agreement extension to 2014.

PRWD's last rate increase was granted two years ago, November 7, 1997. The rate increase of 9.7% was only applied to the commercial collection rates for the purpose of providing sufficient revenues to cover the operating expenses of the commercial recycling program. In April, 1996, PRWD received a 10% rate increase which was applied to all rate categories. However, the rate increase simply represented a "pass through" for the landfill tipping fee increase which occurred at the same time. Had it not been for the landfill tipping fee increase, the 10% rate increase for PRWD would not have been considered or adopted.

Fiscal
Impact:

While a series of rate increases totaling 14% over four years are more than the 11.6%. There is a very high probability given the 'fair and reasonable rate of return' provision of the current franchise agreement that there would be subsequent annual rate increases which might far exceed the 14% currently being proposed. The following tabulation illustrates the impact upon various residential collection rate categories:

	Current	4% Increase	4% Increase	3% Increase	3% Increase
40 gal. auto container @ curb	\$14.45	\$15.03	\$15.63	\$16.10	\$16.58
60 gal. auto container @ curb	19.60	20.38	21.20	21.84	22.50
90 gal auto container @ curb	21.85	22.72	23.63	24.34	25.07

Options:

- a. That the City Council adopt the attached resolution providing for a franchise agreement extension; a series of four annual rate increases and a change financial reporting requirements; or
- b. Amend, modify, or reject the above option.

RESOLUTION NO. 99-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
ADOPTING INCREASED SOLID WASTE COLLECTION FEES AND
AMENDMENTS TO THE FRANCHISE AGREEMENT

WHEREAS, the City Council has received a request from Paso Robles Waste Disposal, the City's solid waste collection franchisee, for an extension to their existing franchise agreement and an increase in solid waste collection rates; and

WHEREAS, the Municipal Code provides for the establishment of various fees and charges and also provides that the City Council may adjust said fees and charges as deemed necessary from time and time; and

WHEREAS, the franchise agreement provides that Paso Robles Waste Disposal shall eligible for a return on investment of 8 to 10%; and

WHEREAS, Paso Robles Waste Disposal can not maintain financial and economic viability without the implementation of rates which provide adequate revenues; and

WHEREAS, Paso Robles Waste Disposal is prepared to accept a series of smaller annual rate increases in exchange for a franchise agreement extension.

THEREFORE, BE IT RESOLVED by the City Council of the City of El Paso de Robles that the franchise amendment attached herewith as Exhibit "A" providing for an extended term length to 12/31/2014 and modifying the financial reporting requirements contained in Section 2.B is hereby approved.

BE IT FURTHER RESOLVED by the City Council of the City of El Paso de Robles that the solid waste collection rates identified in the attached Exhibit "B" are hereby approved effective December 1, 1999.

PASSED AND ADOPTED by the City Council of the City of El Paso de Robles this 7th day of December, 1999, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Duane J. Picanco, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

EXHIBIT "A"

AMENDMENT TO SOLID WASTE COLLECTION SERVICES FRANCHISE AGREEMENT

THIS AMENDMENT is entered into this _____ day of _____, 1999 and between the CITY OF EL PASO DE ROBLES, a municipal corporation (the "CITY") and PASO ROBLES WASTE DISPOSAL, INCORPORATED, a California corporation ("COMPANY").

RECITALS

- A. CITY and COMPANY have previously entered into a Solid Waste Collection Services Franchise Agreement, dated November 24, 1993, (the "Agreement") granting COMPANY the exclusive privilege of collecting and disposing of all solid waste material accumulated in the CITY.
- B. CITY and COMPANY wish to make certain changes to the Agreement, as set forth in this Amendment.

NOW, THEREFORE, in consideration of the foregoing recitals and covenants and agreements each of the parties mutually do agree as follows:

Section 1. The first sentence of Section 1 of the Agreement is hereby deleted and the following is hereby added in its place to read as follows:

"1. Exclusive Franchise and Term. The CITY hereby grants to the COMPANY the exclusive privilege of collecting and disposing of all solid waste material accumulated in the CITY for the period terminating as of December 31, 2014."

Section 2. The second paragraph of Section 2.B. of the Agreement is hereby amended in its entirety to read as follows:

Within ninety (90) days after the expiration of each calendar year COMPANY shall furnish to CITY financial statements prepared and duly certified by an independent public accountant in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, discussing in reasonable detail all revenue, expenses, balance sheets and related statements of income, retained earnings, and cash flow that are developed as a direct result of this Franchise Agreement.

Within ninety (90) days after the expiration of every third calendar year, (with the first audited statement due by April 1, 2003) COMPANY shall provide to CITY an audited financial statement, prepared by an independent certified public accountant, of all operations conducted by COMPANY pursuant to this Franchise Agreement.

The CITY may request in writing additional financial information from COMPANY as desired including but not limited to:

Equipment Inventory including date of acquisition, acquisition costs, trade in value, life assigned for depreciation and type of depreciation, depreciation schedule, capital improvements to increase life of equipment, and improvement or maintenance costs not capitalized;
Chart of Accounts;

Plan for wages and salary adjustments;
Employee benefits;
Officer's salaries;
Policy for acquisition of property, equipment, and special services;
Delinquent account collection practices and success;
Franchise tax computation and payments.

Section 3. Except as set forth in this Amendment, all the terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by and between their respective officers thereunto duly authorized on the date written below their signatures.

Date: _____, 1999 CITY OF EL PASO DE ROBLES

By: _____
Duane J. Picanco
Mayor

Attest:

By: _____
City Clerk
"CITY"

-AND-

Date: _____, 1999

PASO ROBLES WASTE DISPOSAL, INC.
A California corporation

By: _____
Title

Date: _____, 1999

By: _____
Title

"COMPANY"

EXHIBIT "B"

**City of El Paso de Robles
Solid Waste Collection Rates**

	Current Rate	4% Effective 1/1/2000	4% Effective 1/1/2001	3% Effective 1/1/2002	3% Effective 1/1/2003
Residential - Automated:					
40 Gallon Automated at Curb	\$ 14.45	\$ 15.03	\$ 15.63	\$ 16.10	\$ 16.58
40 Gallon Automated in Yard	24.20	25.17	26.17	26.96	27.77
40 Gallon Automated in Yard - disabled	14.45	15.03	15.63	16.10	16.58
60 Gallon Automated at Curb	19.60	20.38	21.20	21.84	22.49
60 Gallon Automated in Yard	29.65	30.84	32.07	33.03	34.02
60 Gallon Automated in Yard - disabled	19.60	20.38	21.20	21.84	22.49
90 Gallon Automated at Curb	21.85	22.72	23.63	24.34	25.07
90 Gallon Automated in Yard	31.90	33.18	34.50	35.54	36.60
90 Gallon Automated in Yard - disabled	21.85	22.72	23.63	24.34	25.07
90 Gallon Automated @ Duplex	25.20	26.21	27.26	28.07	28.92
90 Gallon Automated @ Triplex	35.95	37.39	38.88	40.05	41.25
Multi-unit per container: same as single unit rate					
Special tag	1.85	1.92	2.00	2.06	2.12
Residential - Non-automated:					
1 Can at Curb	12.80	13.31	13.84	14.26	14.69
1 Can in Yard	22.50	23.40	24.34	25.07	25.82
1 Can in Yard-physically disabled	12.80	13.31	13.84	14.26	14.69
2 Cans at Curb	17.40	18.10	18.82	19.38	19.97
2 Cans in Yard	27.45	28.55	29.69	30.58	31.50
2 Cans in Yard-physically disabled	17.40	18.10	18.82	19.38	19.97
3 Cans at Curb	21.70	22.57	23.47	24.17	24.90
Multi-unit per can: (first can for each unit @ single can rate and every can thereafter at this rate)	9.05	9.41	9.79	10.08	10.38
Special tag	1.85	1.92	2.00	2.06	2.12

	Current Rate	4% Effective 1/1/2000	4% Effective 1/1/2001	3% Effective 1/1/2002	3% Effective 1/1/2003
3 cans, 1 time per week	32.15	33.44	34.77	35.82	36.89
4 cans, 1 time per week	40.20	41.81	43.48	44.78	46.13
5 cans, 1 time per week	48.20	50.13	52.13	53.70	55.31
1 can, 2 times per week	29.60	30.78	32.02	32.98	33.97
2 cans, 2 times per week	48.20	50.13	52.13	53.70	55.31
3 cans, 2 times, per week	64.35	66.92	69.60	71.69	73.84
4 cans, 2 times per week	80.40	83.62	86.96	89.57	92.26
5 cans, 2 times per week	96.50	100.36	104.37	107.51	110.73
40 gal. can, 1 time per week	17.90	18.62	19.36	19.94	20.54
40 gal. can, 2 times per week	31.45	32.71	34.02	35.04	36.09
60 gal. can, 1 time per week	26.50	27.56	28.66	29.52	30.41
60 gal. can, 2 times per week	50.65	52.68	54.78	56.43	58.12
90 gal. can, 1 time per week	33.25	34.58	35.96	37.04	38.15
90 gal. can, 2 times per week	68.30	71.03	73.87	76.09	78.37
1 Yard					
1 bin, 1 time per week	48.20	50.13	52.13	53.70	55.31
1 1/2 Yard					
1 bin, 1 time per week	54.70	56.89	59.16	60.94	62.77
1 bin, 2 times per week	86.85	90.32	93.94	96.76	99.66
1 bin, 3 times per week	119.00	123.76	128.71	132.57	136.55
1 bin, 4 times per week	151.15	157.20	163.48	168.39	173.44
1 bin, 5 times per week	183.30	190.63	198.26	204.20	210.33
1 bin, 6 times per week	215.45	224.07	233.03	240.02	247.22
2 Yards					
1 bin, 1 time per week	64.35	66.92	69.60	71.69	73.84
1 bin, 2 times per week	106.10	110.34	114.76	118.20	121.75
1 bin, 3 times per week	147.95	153.87	160.02	164.82	169.77
1 bin, 4 times per week	189.65	197.24	205.13	211.28	217.62
1 bin, 5 times per week	231.50	240.76	250.39	257.90	265.64
1 bin, 6 times per week	273.30	284.23	295.60	304.47	313.60
3 Yards					
1 bin, 1 time per week	83.65	87.00	90.48	93.19	95.99
1 bin, 2 times per week	143.05	148.77	154.72	159.36	164.15

	Current Rate	4% Effective 1/1/2000	4% Effective 1/1/2001	3% Effective 1/1/2002	3% Effective 1/1/2003
1 bin, 6 times per week	381.10	396.34	412.20	424.56	437.30
4 Yards					
1 bin, 1 time per week	122.20	127.09	132.17	136.14	140.22
1 bin, 2 times per week	199.30	207.27	215.56	222.03	228.69
1 bin, 3 times per week	276.55	287.61	299.12	308.09	317.33
1 bin, 4 times per week	353.75	367.90	382.62	394.09	405.92
1 bin, 5 times per week	430.90	448.14	466.06	480.04	494.44
1 bin, 6 times per week	508.10	528.42	549.56	566.05	583.03

PASO ROBLES WASTE DISPOSAL, INC.

P.O. BOX 278
2951 WALLACE DR.
PASO ROBLES, CALIFORNIA 93447
(805) 238-2381

HAND DELIVERED

August 17, 1999

Mr. James L. App, City Manager
City of Paso Robles
1000 Spring Street
Paso Robles, CA 93446

Dear Mr. App:

This letter is to formally request that Paso Robles Waste Disposal, Inc. (PRWDI) be granted a contract extension of our solid waste hauling franchise with the City of Paso Robles. The Gomer family has operated PRWDI for over 42 years and would like the opportunity to continue serving the citizens of Paso Robles. Our current franchise agreement expires December 31, 2003.

The Gomer Family philosophy has been to serve the citizens of Paso Robles with the best possible service, rates, and customer relations. PRWDI prides itself in having one of the better fleets of solid waste vehicles in our area. While keeping up with the pace of technology in our industry we offer residential and commercial rates comparable to and in most cases lower than the three major solid waste haulers in the county. We have consolidated our yard and administrative offices to better service our customers. We have expanded our yard by 300% and our office space by 400% without a rent increase. We have upgraded our computer hardware and installed new solid waste software to ensure efficient service to our customers. We have installed an ecologically sensitive water recovery system to steam clean our trucks, containers, and bins. Our water recovery system recycles 100% of the water, and eliminates any potential contamination from going into septic or sewer systems. PRWDI has been recognized by the San Luis Obispo



County Pollution Prevention Awards Committee for our water recovery system, a copy of the award is enclosed.

We have enclosed a copy of the Van Beurden Insurance letter congratulating PRWDI on achieving a 79% experience modification on our workers compensation policy. PRWDI has been rated in the top 15% of all ratable refuse collection companies in the 805 area code, and we have the lowest experience modification rates of the three major solid waste hauling companies in the county. We have hired an experienced safety officer who also serves as our foreman and recycling coordinator. Our Safety Officer ensures that our company is in compliance with all state and federally mandated programs such as AB198, Injury Illness and Prevention Program, DOT 49CFR (pertaining to random drug and alcohol testing for all of our commercial drivers), and the California Department of Motor Vehicle Pull-Notice Program. We have retained a full time professional diesel mechanic to reduce expenses for truck repairs and maintenance as well as ensure our vehicles constantly operate safely and efficiently. Enclosed is a copy of the Certificate of Achievement for the Biennial Inspection of Terminals Program (BIT) awarded to PRWDI by the California Highway Patrol for five consecutive satisfactory ratings since February 7, 1991. The BIT Program requires all motor carriers operating trucks from terminals located in California to undergo an inspection of each operational terminal to rate their compliance with applicable laws and regulations relating to motor carriers safety.

When we last appeared before the city council on November 18, 1997, we committed to perform an Operational Audit before addressing the council for any future needs. Enclosed is the PRWDI 1999 Operational Audit performed by Armanino McKenna LLP. Armanino McKenna is one of the largest and most respected Certified Public Accounting and consulting firms in Northern California. Armanino McKenna was established in 1953 and in over the last twenty years has specialized in providing the Solid Waste and Recycling Industry with accounting, consulting, and technological services.

We have also enclosed PRWDI Reviewed Financial Statements for the year ending October 31, 1998 prepared by Barbich, Longier, Hooper and King for your review and consideration.

In conclusion, PRWDI would appreciate the opportunity to continue to provide solid waste and recycling services to the City of Paso Robles and its citizens.

Sincerely,



Dale Gomer
General Manager

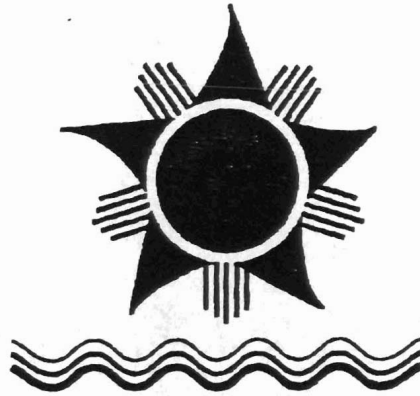
Enclosures:

Honorable Mention – SLO County
VanBuerden letter
Certificate – CHP
99' Operational Audit
10/31/98 Reviewed Financial Statements

cc (with enclosures):

P. Terence Schubert
John McCarthy, Director of Public Works
Mike Compton, Director of Administrative Services
Duane Picaño, Mayor
City Council Members:
Frank Meecham
Tom Baron
Lee Swanson
Walt Macklin

Honorable Mention



1998

San Luis Obispo County
Pollution Prevention Awards

Presented to

Paso Robles Waste Disposal, Inc.

in recognition of your significant achievements toward pollution prevention in San Luis Obispo County

A handwritten signature in black ink, appearing to read "William A. Worrell".

William A. Worrell, Chair

San Luis Obispo County Pollution Prevention Awards Committee

1998



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Suite D
Mailing Address
Post Office Box 6750
Los Osos, California
93412-6750
(805) 528-1484
Fax: (805) 528-1487
www.vanbeurden.com
Corporate License No. 0376731

August 18, 1999

Paso Robles Waste Disposal, Inc.
P. O. Box 278
Paso Robles, CA 93447

Attention: Mr. Dale Gomer
General Manager

Regarding: 1999 Experience Modification

Dear Dale,

Congratulations on achievement of an excellent 79% experience modification effective on renewal of the workers compensation policy, October 1, 1999. In a check of all ratable refuse collection services in the 805 area code, Paso Robles Waste Disposal was in the top 15%. This is a compliment to your continued effort to provide a safe work environment and maintain an effective safety program that minimizes the cost of workers compensation insurance.

I look forward to meeting with you and providing the renewal proposals. Please contact me if you have any questions.

Regards,

Mark D. O'Bryan
Vice President

MDO: mo

CALIFORNIA HIGHWAY PATROL

hereby awards this

Certificate of Achievement

to

PASO ROBLES WASTE DISPOSAL, INC.

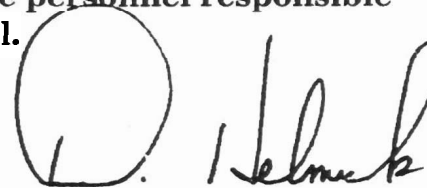
**2951 WALLACE DR
PASO ROBLES**

5 Consecutive Satisfactory Ratings Since FEBRUARY 7, 1991

There is established in the California Vehicle Code a biennial motor carrier safety compliance inspection program to be conducted by the California Highway Patrol.

That program, known as the Biennial Inspection of Terminals (BIT) Program, requires all motor carriers operating trucks from terminals located in California to undergo an inspection of each operational terminal to rate their compliance with applicable laws and regulations relating to motor carrier safety.

This is to certify that this terminal has achieved consecutive satisfactory safety compliance ratings as indicated above. The California Highway Patrol congratulates this terminal on this meritorious achievement and recognizes the commitment to highway safety demonstrated by the personnel responsible for the operation of this terminal.



COMMISSIONER

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL