



[Issue](#) | [Background](#) | [Findings](#) | [Conclusions](#) | [Recommendations](#) | [Responses](#) | [Attachments](#)

## **Summary of City of Millbrae Garbage Contract**

### **Are the Millbrae/South San Francisco Scavenger Company, Inc. Contract Rates and Services Fair and Reasonable?**

#### **Issue**

To what extent are the City of Millbrae's residential garbage rates and exclusive debris box service fair and reasonable when compared to other cities and districts in San Mateo County?

#### **Summary**

The City of Millbrae has had garbage franchise agreements with South San Francisco Scavenger Company, Inc. for over 40 years. The current contract was executed in February 1996, and has been amended and extended several times with an expiration date of February 28, 2009 (the contract).

In response to a citizen's complaint, the San Mateo County Civil Grand Jury (Grand Jury) investigated the residential garbage rates and debris box service as set forth in the contract. The Grand Jury determined that the garbage and debris box rates are higher than the average in San Mateo County (County), but they do not appear to be unreasonable. Millbrae's method of establishing rates is also used by several other agencies in the County.

The Grand Jury recommends that the City of Millbrae consider a competitive bidding process for its garbage franchise when the contract expires in 2009 and/or consider joining South Bayside Waste Management Authority. The Grand Jury also recommends that the City of Millbrae reconsider whether to grant any provider an exclusive right to debris box service within the City.

# **City of Millbrae Garbage Contract**

## **Are the Millbrae/South San Francisco Scavenger Company, Inc. Contract Rates and Services Fair and Reasonable?**

### **Issue**

To what extent are the City of Millbrae's residential garbage rates and exclusive debris box service fair and reasonable when compared to other cities and districts in San Mateo County?

### **Background**

The City of Millbrae (City or Millbrae) has had garbage franchise agreements with South San Francisco Scavenger Company, Inc. (Scavengers) for over 40 years. The current contract was originally approved on February 29, 1996, and provided for garbage collection, transportation, recycling, debris box service and hazardous waste removal. The contract was amended five times since 1996, the last in February 2006, to extend through February 28, 2009 (the contract).

The contract provides for garbage rates to be set by a "market basket" formula whereby garbage rates in cities and unincorporated areas in the county are averaged and adjusted for "pass through" costs such as city franchise fees, street sweeping fees and garbage vehicle impact fees. The average rate thus determined is then increased by five percent to account for differences in Millbrae's residential and commercial make-up.

The contract stipulates that Scavengers is the only provider allowed to offer debris box service within the City. This policy has been a part of Millbrae's contract for the past 40 years.-

### **Investigation**

The 2006-2007 San Mateo Civil Grand Jury (Grand Jury) investigation of garbage collection and debris box rates in the City of Millbrae resulted from a citizen's complaint

The Grand Jury interviewed a representative of Millbrae and obtained copies of the contract dated February 29, 1996, including all subsequent amendments and rate schedules.

The Grand Jury obtained rates and policies regarding residential garbage collection and debris box service from South San Francisco Scavenger Company, Inc., Coastside Scavenger Company, Norcal Waste Management, Redwood Debris Box Service, Peninsula Debris Box Service and Allied Waste Management. A South Bayside Waste Management Authority (SBWMA) representative was also interviewed. SBWMA, a joint powers authority in San

Mateo County, has 12 member agencies. Among other endeavors, the agency recommends rate modifications and negotiates franchise contracts for member agencies.

The Grand Jury reviewed Millbrae City Council meeting minutes and reports dealing with this issue and attended a Millbrae City Council meeting.

## Findings

- Millbrae’s residential garbage rate for a 32-gallon can is \$20.97 per month. The average rate for the agencies surveyed is \$16.54 (excluding Atherton and Hillsborough where side yard pick-up is provided and East Palo Alto where 96 gallon containers are used). Appendix A summarizes rates in the communities surveyed.
- The Millbrae contract specifies that all debris box service in Millbrae must be provided by Scavengers. The cities of South San Francisco, Brisbane, San Bruno, Pacifica, Moss Beach, El Granada and Montara have similar contract provisions with their waste hauling contractors.
- Millbrae debris box rate for a seven-day rental of a 14-yard box is \$449.99; the average seven-day rental cost of 14 to 16-yard debris boxes in other cities with an exclusive contract is \$414.26. The corresponding average rate from other providers in cities in the County without exclusive contracts is \$342.50 (see Appendix B).
- The relationship between Scavengers and Millbrae has at times been contentious and there have been conflicts related to rate schedules and Scavengers’ compensation. Efforts have been made to resolve these conflicts in the current contract extension.

## Conclusions

Cities with little or no commercial/industrial development tend to have higher residential garbage rates, as evident when looking at the highest rates in the County, e.g., Pacifica, Atherton, Hillsborough and Belmont. Debris box service is also higher in cities with few commercial accounts, e.g., Pacifica, Moss Beach and Millbrae. It should also be noted that cities with franchised (exclusive) debris box agreements tend to have higher debris box rates, as well. Using commercial and debris box rates to “subsidize” residential rates seems to be a common industry practice.

Millbrae adopted a market basket formula in 1996 abandoning its “cost plus” system. While there is some disagreement about which rate system is best for all concerned, both systems are commonly used in the industry. The market basket approach to setting garbage rates is used by a minority of agencies in the County, but does not appear to be an unreasonable practice in itself. Millbrae’s monthly residential garbage rates are about four dollars higher than the average of agencies sampled, but this is not necessarily unreasonable, given the system used to set the rates and the ratio of commercial to residential accounts.

## **Recommendations**

The Grand Jury recommends that the Millbrae City Council:

1. Evaluate the potential benefits of joining the South Bayside Waste Management Authority when the current Franchise Agreement with South San Francisco Scavenger Company, Inc. expires in February 2009.
2. Consider instructing the City Manager to conduct a competitive bidding process for future garbage franchise agreements, should the Millbrae City Council elect not to join the South Bayside Waste Management Authority.
3. Evaluate whether or not an exclusive franchise for debris box services best serves the interests of the community.

## Appendix A Comparison of Residential Rates

Note: Rates listed below may include “pass through” fees such as city franchise fees, street sweeping fees, garbage vehicle impact fees, etc. These “pass through” fees vary from agency to agency.

	<u>32-gallon</u>	<u>96-gallon</u>	<u>Remarks</u>
Pacifica	\$27.99		
East Palo Alto	---	\$25.13	
Atherton	\$23.68		Yard Pick-up
Hillsborough	\$23.23		Yard Pick-up
<b>Millbrae</b>	<b>\$20.97</b>		
South San Francisco	\$20.75		
Belmont	\$20.17		
San Bruno	\$19.45	\$58.31	
Fair Oaks	\$18.50		
Redwood City	\$16.95		
Brisbane	\$16.66		
Daly City	\$16.00		
West Bay	\$15.23		
San Carlos	\$15.07		
Menlo Park	\$13.50		
Half Moon Bay	\$13.09		
Burlingame	\$12.99		
Foster City	\$12.61		
San Mateo	\$11.07		
Moss Beach*	\$10.80		
<b>Average:</b>	<b>\$17.30</b>		

\* Moss Beach rates include Montara and El Granada.

## Appendix B Comparison of Debris Box Rates

### Waste Haulers Providing Exclusive Debris Box Service to San Mateo County Agencies

<u>PROVIDER</u>	<u>AGENCY</u>	<u>BOX SIZE</u>	<u>COST</u>
South San Francisco Scavenger Co., Inc.	Millbrae	14 yard	\$449.99
South San Francisco Scavenger Co., Inc.	South San Francisco	14 yard	\$418.99
South San Francisco Scavenger Co., Inc.	Brisbane	14 yard	\$338.99
Coastside Scavenger Company	Pacifica	14 yard	\$579.00
Coastside Scavenger Company	Moss Beach*	14 yard	\$423.93
Norcal Waste Management	San Bruno	16 yard	\$343.58

\*Moss Beach rates include Montara and El Granada.

### Waste Haulers Providing Debris Box Service to All Other San Mateo County Agencies

<u>PROVIDER</u>	<u>BOX SIZE</u>	<u>COST</u>
Allied Waste Management	15 yard	\$395.00
Norcal Waste Management	16 yard	\$365.00
Peninsula Debris Box Service	15 yard	\$310.00
Redwood Debris Box Service	15 yard	\$300.00



# City of Millbrae

621 Magnolia Avenue, Millbrae, CA 94030

August 8, 2007

Hon. JOM L. Grandsaert  
Judge of the Superior Court  
Hall of Justice  
400 County Government Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

MARC HERSHMAN  
Mayor  
NADIA V. HOLOBER  
Vice Mayor  
LINDA T. LARSON  
Councilwoman  
GINA PAPAN  
Councilwoman  
ROBERT G. GOTTSCHALK  
Councilman  
MARY VELLA TRESELER  
Treasurer

## Re: Grand Jury Report Regarding the City of Millbrae Garbage Contract

Dear Honorable Judge Grandsaert:

Thank you for your letter of May 15, 2007, and the accompanying Grand Jury Report regarding the City of Millbrae Garbage Contract. The subject matter is complex and the City appreciates the Grand Jury's efforts to understand these complexities and to issue a fair report regarding them.

We have thoroughly reviewed and considered the Report. We agree with the "findings" as stated. We also agree with the important conclusions in the Report that Millbrae's debris box rates and garbage rates are not unreasonable. Although the garbage rates are higher than some of the other cities in San Mateo County, there are legitimate and reasonable justifications for the differences, many of which are not addressed in the Report. We take this opportunity to clarify some issues related to the rate setting process for garbage services and to point out significant factors not covered in the Report related to the nature and the quality of the garbage services provided in Millbrae that affect rates.

Garbage rates vary from city to city because of differences in types of collection services, the frequency of collection pickups, the frequency of recycling pickups, the magnitude of yardwaste collection and other recycling services and programs, the amount of the franchise fee and various other factors. In addition, some cities use revenues paid by commercial businesses to help defray the costs of residential service. Millbrae and the South San Francisco Scavenger Company agreed to use a formula specified in the franchise contract which results in City residents paying the average or mean of the survey of cities in the County, which average rate is then adjusted for differences in services and fees. As this is a mathematical average taken at a snapshot in time, Millbrae's residential rates at any point in time should approximate the average. We believe Millbrae's rates to be fair and reasonable because the survey upon which they are based is taken at the same time every year, that survey is based upon an average of other cities' rates, and that average is fairly adjusted to account for differences in fees and services among the surveyed cities. Moreover, the staff time and consultant costs required to undertake the survey approach are substantially less than the resources utilized under the prior "cost plus" rate setting methodology. Thus, Millbrae's rates are no longer burdened with these additional costs.

Significantly, the Report does not address the important issues of *quality of service* and *sustainability policies* which are particularly relevant and timely in comparing garbage service rates among jurisdictions today. The old adage, "you get what you pay for," applies here. There are objective measures to assess factors related to quality of service. In this regard, we offer the following observations:

City Council/City Manager (650) 259-2334	City Clerk (650) 259-2334	Public Works/Engineering (650) 259-2339	Recreation (650) 259-2360	Police Department (650) 259-2300
Personnel (650) 259-2334	Finance/Water (650) 259-2350	Community Development (650) 259-2341	Building Division (650) 259-2330	Fire Department (650) 259-2400

- Millbrae has demonstrated extraordinary leadership in San Mateo County and throughout the entire State in instituting sustainability policies related to refuse collection and in satisfying statutory diversion goals. In the late 1990's, Millbrae was one of the first cities in San Mateo County to meet the 50% diversion goal under AB 939. The City's efforts were recognized by the California Integrated Waste Management Board (CIWMB) with the 2000 Trash Cutter's Award for small cities. Since then, Millbrae has continued to improve upon each succeeding year's diversion rate. In 2005 (the most recent current information recorded by the CIWMB), Millbrae's diversion rate stands at an impressive 67%. These accomplishments are due to a willing and cooperative partnership with the South San Francisco Scavenger Company where cooperatively the City and the Company have implemented effective programs to educate and communicate with the Millbrae garbage customers. The implementation of such policy priorities requires resources which clearly affect the level of rates charged to customers.
- As further evidence of the City's leadership, Millbrae was recently honored by Sustainable San Mateo County for the City's high quality, effective recycling programs. This award recognized that over the past decade the Millbrae City Council has considered these innovative sustainability programs a high priority and has determined that the costs of these programs are worth the price to improve our environment.
- In Millbrae, the number of citizens that register or publicly express complaints about garbage service or rates is extremely low. Indeed, the high quality of garbage service in Millbrae is widely acknowledged even among the handful of the same residents who have expressed concern with the rates. Such a record clearly indicates that Millbrae customers on the whole are very satisfied with the quality of garbage service they receive.

The recommendations in the Report include evaluating the benefits of joining the South Bayside Waste Management Authority (SBWMA), considering a competitive bid process for establishing the future garbage franchise when the current contract expires in 2009, and evaluating whether or not the exclusive debris box service best meets community needs. These recommendations concern important policy issues that deserve serious consideration when the Millbrae City Council takes up the planning and preparation for a new garbage franchise contract.

We offer some perspective on the first recommendation. Although the benefits of joining SBWMA may seem obvious, the decision is not an easy one. At present, this joint powers authority is comprised of 11 cities and there is a benefit in having different service providers and service arrangements within a region. Competition in the market place is good and healthy. Bigger does not always translate to better, and size can compromise quality. One could argue that the current garbage arrangement in Millbrae provides the best of both worlds. As a small city, Millbrae can take advantage of the rates the SBWMA may achieve through the City's current survey and averaging of rates approach, while at the same time maintain more control, quality and choice with a garbage hauler that is independent of SBWMA.



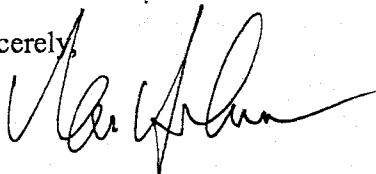
Honorable Judge Grandsaert  
August 8, 2007  
Page 3

The Grand Jury Report was presented to the City Council at its regular meeting held on May 22, 2007. Please find attached hereto a copy of my written report which was also presented at that meeting. Both reports were discussed in that public meeting which was broadcast over the City's cable television channel and is available for viewing on the cable channel's website.

All of the recommendations in the Report pertain to issues regarding future franchise arrangements when the current agreement expires in 2009. Since three members of our five member City Council will be out of office by December of this year due to councilmember term limits that exist in Millbrae, it is premature to pursue the recommendations now in any meaningful way at the policy level. The Millbrae Council has determined to pass these recommendations on to the new City Council that will be seated in 2008. That Council will be taking up these issues related to planning for the expiration of the current garbage contract.

Thank you for this opportunity to respond to the Grand Jury Report.

Sincerely,



Marc Hershman Mayor

Attachments

cc: City Council  
City Manager  
City Attorney

**CITY COUNCIL  
AGENDA REPORT**



**CITY OF MILLBRAE**  
621 Magnolia Avenue  
Millbrae, CA 94030

<b>SUBJECT:</b> Update on Refuse Collection Contract  <b>EXHIBITS:</b> Grand Jury Report on Review of Millbrae Garbage collection Contract	<b>Report No.</b> 4610
	<b>For Agenda of:</b> May 22, 2007
	<b>Department:</b> Council
	<b>Originator:</b> Marc Hershman
<b>Approved:</b> <i>Angela Lewis for Ralph Jack</i>	
Budget Action? Yes: ___ No: <u>X</u> General Services Review: N/A	

<b>REPORT TYPE:</b> ACTION _____ INFORMATION <u>X</u> _____
<b>ITEM TYPE:</b> CONSENT _____ PUBLIC HEARING _____ OLD BUSINESS _____ NEW BUSINESS <u>X</u> _____

**Recommendation:**

Review and discuss the processes used by the City of Millbrae in its negotiations and implementation of the 2004 garbage collection contract amendment.

**Fiscal Impact:**

None.

**Summary:**

In 2004 the City Council entered into an amendment to the garbage collection contract with South San Francisco Scavenger Company, Inc. (the "Company"). Key points to the amendment included a change from the cost plus approach for setting rates to the market basket approach and a 4-year extension to 2009.

Since the adoption of the 2004 amendment to the scavenger contract the City Council and city staff have received dozens of direct and indirect communications, primarily from one individual, in the nature of complaints and allegations regarding the contract negotiations and implementation of the modification to the garbage collection contract. These communications have included remarks made during the Public Comment portion of the Council's agenda as well as email and other written communications directly to council members and staff. There has also been indirect communication through the media and remarks made in presentations to community organizations.

I committed to review the issues raised. I have completed that review. I have found no evidence to support the accusations and claims that city staff has lied and intentionally misrepresented the facts with respect to the scavenger contract negotiations and its implementation. Public disparagement and personal attacks have no place in civil discourse.

As the result of a complaint made by a resident the San Mateo County Civil Grand Jury also reviewed the City's modification of the scavenger contract. On May 15, 2007 the Grand Jury issued its report. The Grand Jury found that Millbrae's garbage and debris box rates did not appear to be unreasonable and that the method of determining the rates to be employed under the contract is used by other agencies.

The Grand Jury provided three suggestions for the Council's consideration when the scavenger contract comes up in 2009. I recommend that the Council refer the Grand Jury report and recommendations to the next City Council for consideration at that time.

By placing this matter on the Council's agenda I am inviting discussion with respect to my investigation and the Grand Jury report.

#### Background/Analysis:

The City of Millbrae has contracted with the Company for over 40 years for residential and commercial garbage hauling, debris box and recycling services. The current contract was established in 1996 and expires in 2009. In 2004, the contract rate setting methodology was changed from a "cost plus" approach to "market basket" or survey basis. This was done to relieve a contentious situation over rate adjustments and to provide a simpler, shorter, and less expensive process which reduces residential rates.

Undisputed is the fact that the Company provides high quality service to consumers and the fact that the City of Millbrae has been a leader in its recycling and environmental programs which are funded by the franchise fee imposed under the contract with the Company.

The following is a summary of major issues raised and the results of my review:

#### 1. Cost Plus vs. Market Survey

There are different approaches to garbage contract rate setting commonly used by cities/districts. The cost plus approach typically involves determining the costs incurred in providing the scavenger services and then adding a pre-negotiated profit amount on top to arrive at the consumer rates. The market basket rate is usually the average of rates paid by consumers in other selected jurisdictions. Under either approach rates are typically adjusted over the course of the contract to reflect changed conditions.

Millbrae's scavenger contract historically employed the cost plus method for rate setting. This method proved costly and contentious. Rate reviews were often difficult as the Company and City would disagree over which Company costs should be included or excluded. When negotiations stalled there were threats of litigation and on one occasion the Company filed a lawsuit against the City. The cost plus rate review process was slow and very expensive requiring a great deal of City staff and Company time. Each side retained consultants and legal counsel. The cost of the consultant employed by the City for the 2002 rate review was nearly \$100,000. Ultimately these costs were passed along to the consumers.

Looking for a way to reduce rates and the costs associated with determining rates, the City proposed replacing the cost plus method for rate setting with the market basket rate survey approach. It was felt that the market basket rate setting methodology would help consumers in a city like Millbrae that is predominantly residential and where the City Council has placed a high emphasis on recycling solid waste.

I conclude that the market survey approach is reasonable and appropriate for Millbrae. If the Council is interested in continuing to employ this approach in the future, I suggest that scrutiny be given to each of the cities selected for inclusion in the survey.

## 2. Millbrae rates paid by consumers.

Rates vary from community to community, as do rate structures and services, complicating the comparison of rates among cities. For example, some cities charge higher commercial rates in order to subsidize residential rates. Franchise fees vary from one community to another. Service variables include differences in recycling programs and curbside versus yard pick-up.

Millbrae's rates are set at the average of other cities' rates. This serves to smooth out some of the differences between cities. Because Millbrae's rates are based on an average there will always be some rates that are higher than Millbrae's and some that are lower. The Grand Jury's review found that the rates paid by consumers in Millbrae are not unreasonable for the services Millbrae's ratepayers receive. I also note that the Grand Jury's report did not mention the impact that our franchise fee has on the rates paid by consumers in our city or the other surveyed cities.

I also note that a snapshot review of rates at any given point in time can be misleading as jurisdictions set their rates at different times. For instance, comparing Millbrae's rates to those in another jurisdiction just after Millbrae imposes a rate change and before the other jurisdiction imposes a rate change could lead to the conclusion that Millbrae's rates are higher. When surveying other cities' rates, the timing of rate reviews should be considered.

I do not find that Millbrae's rates are unreasonable. I suggest that to assist discussion regarding rates a distinction should be made between a base rate and the rate paid by consumers that includes the franchise fee and the cost of services added above the base rate and that consideration be given to timing the rate review to follow the adjustments made by the other jurisdictions that are included in the market basket survey.

## 3. Frequency charges.

Cities approach the issue of the frequency of waste collection and recycling pick-ups differently. In Millbrae a policy decision was made by the City Council in 2001, as recommended by the City's consultant, to discourage the use of scavenger pick-up services by adding frequency charges in order to increase recycling and reduce our contribution to the landfill. The policy adopted by the City Council provided for the compounding of the frequency charge for each pick-up after the first pick-up each week. All rates approved by the City Council since adoption of that policy have been consistently calculated using the compounding method that was established by the City Council in 2001. This program has been very successful as Millbrae's recycling program has been recognized for its excellence. Nearly 2/3 of Millbrae's solid waste is being recycled.

It has been alleged that this compounding practice is not a proper interpretation of the contract and City Council policy and that the rates for frequent pick-ups are not being properly applied. I am fully supportive of this policy of compounding as I believe it is consistent with our policy of promoting recycling and waste reduction. I find this practice as implemented to be proper, within the contract's provisions, and in compliance with Council's adopted policies.

## 4. Council approval of rates.

It has been alleged that some of the garbage collection rates have been set without the approval of the City Council. I find this statement to be incorrect. The City Council sets the policy with respect to rates. All of the rate changes adopted since the 2004 amendment to the contract reflect the policies adopted by the City Council and the City Council has specifically ratified each new set of rates. Further, since each new rate is based upon a

previous rate, Council ratifies both the previously imposed rates and the new rates when Council approves the new rates.

#### 5. South Bay Waste Management Authority (SBWMA) refund.

In 2003 it was discovered that the Company had enjoyed a savings of approximately \$600,000 due to a tipping fee rate reduction at Ox Mountain. It was the position of the City that these savings should benefit the consumers and not the Company. It was decided that the consumers would realize these savings through reduced collection rates. It has been alleged that Millbrae's consumers have not received these savings.

In 2003, the year prior to the implementation of the 2004 amendment to the Contract, the Company received \$4.3 million from Millbrae consumers. At that time, the Company was seeking a substantial increase in its fee for service in 2004, which if implemented would have cost consumers \$5.0 million.

In 2004, the first year of the amended contract, consumers paid the Company \$3.7 million. That equates to a \$600,000 reduction in the amount paid to the Company in 2004 as compared to the amount paid in 2003. It is estimated that the Company's current revenue from Millbrae consumers is \$4.0 million. All told, the Company has received \$1 million less from Millbrae consumers in the first 3 years of the amended agreement as compared to the sum paid in the last year of the cost basis agreement. This calculation does not take into account the fact that the franchise fee was raised in the amended agreement, the fact that rates under a cost basis contract would have likely been higher in 2004, 2005 and 2006 than they were in 2003 and the fact that almost no expenses for consultants and legal counsel have been incurred by consumers since 2003.

At the time of the negotiation of the 2004 amendment to the contract between the City and the Company the South Bay Waste Management Authority was negotiating a settlement with its franchisees that included an \$11.6 million refund to the 13 cities serviced by the SBWMA. By agreement, those refunds are paid out to the SBWMA cities over a number of years. It appears at this time that most, but perhaps not all of those funds, are being utilized to offset rate increases in the SBWMA cities. Millbrae benefits from these offsets through the use of the survey method to arrive at our consumers' rates.

I recommend that a survey of the 13 SBWMA cities be undertaken prior to the expiration of the current contract to determine what portion of the SBWMA refund, if any, was not applied for the benefit of SBWMA consumers.

#### 6. The calculation of other cities' franchise fees.

It has been alleged that the franchise fees charged by other cities in the county are not included correctly in Millbrae's rate setting calculations

The amount each city collects in franchise fees varies from city to city. Millbrae, when setting rates based on the market basket approach, has adjusted the rates of other the cities to remove their franchise fees. I find that the removal of the franchise fees of other jurisdictions from the market basket survey is proper and that this method of calculating rates is in keeping with Council policy.

#### 7. Debris box rates.

It has been alleged that Millbrae's debris box rates are among the highest in the County. In Millbrae, a city with a relatively small commercial base of scavenger customers, the revenue collected by the Company for debris boxes has historically been used to subsidize residential and commercial garbage rates.

The grand jury found that although Millbrae's debris box rates are higher than those found in some other cities in the County, they were not unreasonable.

It is my recommendation that when the garbage contract comes up for consideration the next City Council determine whether, as a matter of policy, it wishes to continue to use debris box rates to offset rates for other consumers. As a part of that discussion, the Council might consider asking the Company to compare the cost to Millbrae residential and business consumers of an exclusive debris box business versus the cost of a non-exclusive arrangement.

**Council Action:**

Review this report and the report of the San Mateo County Civil Grand Jury. Identify matters for Council review at the time the contract expires in 2009.



**RECEIVED**

MAY 16 2007

CITY OF MILLBRAE  
ADMIN DEPT.

## **Summary of City of Millbrae Garbage Contract**

### **Are the Millbrae/South San Francisco Scavenger Company, Inc. Contract Rates and Services Fair and Reasonable?**

#### **Issue**

To what extent are the City of Millbrae's residential garbage rates and exclusive debris box service fair and reasonable when compared to other cities and districts in San Mateo County?

#### **Summary**

The City of Millbrae has had garbage franchise agreements with South San Francisco Scavenger Company, Inc. for over 40 years. The current contract was executed in February 1996, and has been amended and extended several times with an expiration date of February 28, 2009 (the contract).

In response to a citizen's complaint, the San Mateo County Civil Grand Jury (Grand Jury) investigated the residential garbage rates and debris box service as set forth in the contract. The Grand Jury determined that the garbage and debris box rates are higher than the average in San Mateo County (County), but they do not appear to be unreasonable. Millbrae's method of establishing rates is also used by several other agencies in the County.

The Grand Jury recommends that the City of Millbrae consider a competitive bidding process for its garbage franchise when the contract expires in 2009 and/or consider joining South Bayside Waste Management Authority. The Grand Jury also recommends that the City of Millbrae reconsider whether to grant any provider an exclusive right to debris box service within the City.

# City of Millbrae Garbage Contract

## Are the Millbrae/South San Francisco Scavenger Company, Inc. Contract Rates and Services Fair and Reasonable?

### Issue

To what extent are the City of Millbrae's residential garbage rates and exclusive debris box service fair and reasonable when compared to other cities and districts in San Mateo County?

### Background

The City of Millbrae (City or Millbrae) has had garbage franchise agreements with South San Francisco Scavenger Company, Inc. (Scavengers) for over 40 years. The current contract was originally approved on February 29, 1996, and provided for garbage collection, transportation, recycling, debris box service and hazardous waste removal. The contract was amended five times since 1996, the last in February 2006, to extend through February 28, 2009 (the contract).

The contract provides for garbage rates to be set by a "market basket" formula whereby garbage rates in cities and unincorporated areas in the county are averaged and adjusted for "pass through" costs such as city franchise fees, street sweeping fees and garbage vehicle impact fees. The average rate thus determined is then increased by five percent to account for differences in Millbrae's residential and commercial make-up.

The contract stipulates that Scavengers is the only provider allowed to offer debris box service within the City. This policy has been a part of Millbrae's contract for the past 40 years.

### Investigation

The 2006-2007 San Mateo Civil Grand Jury (Grand Jury) investigation of garbage collection and debris box rates in the City of Millbrae resulted from a citizen's complaint

The Grand Jury interviewed a representative of Millbrae and obtained copies of the contract dated February 29, 1996, including all subsequent amendments and rate schedules.

The Grand Jury obtained rates and policies regarding residential garbage collection and debris box service from South San Francisco Scavenger Company, Inc., Coastside Scavenger Company, Norcal Waste Management, Redwood Debris Box Service, Peninsula Debris Box Service and Allied Waste Management. A South Bayside Waste Management Authority (SBWMA) representative was also interviewed. SBWMA, a joint powers authority in San



Mateo County, has 12 member agencies. Among other endeavors, the agency recommends rate modifications and negotiates franchise contracts for member agencies.

The Grand Jury reviewed Millbrae City Council meeting minutes and reports dealing with this issue and attended a Millbrae City Council meeting.

## Findings

- Millbrae's residential garbage rate for a 32-gallon can is \$20.97 per month. The average rate for the agencies surveyed is \$16.54 (excluding Atherton and Hillsborough where side yard pick-up is provided and East Palo Alto where 96 gallon containers are used). Appendix A summarizes rates in the communities surveyed.
- The Millbrae contract specifies that all debris box service in Millbrae must be provided by Scavengers. The cities of South San Francisco, Brisbane, San Bruno, Pacifica, Moss Beach, El Granada and Montara have similar contract provisions with their waste hauling contractors.
- Millbrae debris box rate for a seven-day rental of a 14-yard box is \$449.99; the average seven-day rental cost of 14 to 16-yard debris boxes in other cities with an exclusive contract is \$414.26. The corresponding average rate from other providers in cities in the County without exclusive contracts is \$342.50 (see Appendix B).
- The relationship between Scavengers and Millbrae has at times been contentious and there have been conflicts related to rate schedules and Scavengers' compensation. Efforts have been made to resolve these conflicts in the current contract extension.

## Conclusions

Cities with little or no commercial/industrial development tend to have higher residential garbage rates, as evident when looking at the highest rates in the County, e.g., Pacifica, Atherton, Hillsborough and Belmont. Debris box service is also higher in cities with few commercial accounts, e.g., Pacifica, Moss Beach and Millbrae. It should also be noted that cities with franchised (exclusive) debris box agreements tend to have higher debris box rates, as well. Using commercial and debris box rates to "subsidize" residential rates seems to be a common industry practice.

Millbrae adopted a market basket formula in 1996 abandoning its "cost plus" system. While there is some disagreement about which rate system is best for all concerned, both systems are commonly used in the industry. The market basket approach to setting garbage rates is used by a minority of agencies in the County, but does not appear to be an unreasonable practice in itself. Millbrae's monthly residential garbage rates are about four dollars higher than the average of agencies sampled, but this is not necessarily unreasonable, given the system used to set the rates and the ratio of commercial to residential accounts.

## **Recommendations**

The Grand Jury recommends that the Millbrae City Council:

1. Evaluate the potential benefits of joining the South Bayside Waste Management Authority when the current Franchise Agreement with South San Francisco Scavenger Company, Inc. expires in February 2009.
2. Consider instructing the City Manager to conduct a competitive bidding process for future garbage franchise agreements, should the Millbrae City Council elect not to join the South Bayside Waste Management Authority.
3. Evaluate whether or not an exclusive franchise for debris box services best serves the interests of the community.

## Appendix A Comparison of Residential Rates

Note: Rates listed below may include "pass through" fees such as city franchise fees, street sweeping fees, garbage vehicle impact fees, etc. These "pass through" fees vary from agency to agency.

	<u>32-gallon</u>	<u>96-gallon</u>	<u>Remarks</u>
Pacifica	\$27.99		
East Palo Alto	—	\$25.13	
Atherton	\$23.68		Yard Pick-up
Hillsborough	\$23.23		Yard Pick-up
Millbrae	\$20.97		
South San Francisco	\$20.75		
Belmont	\$20.17		
San Bruno	\$19.45	\$58.31	
Fair Oaks	\$18.50		
Redwood City	\$16.95		
Brisbane	\$16.66		
Daly City	\$16.00		
West Bay	\$15.23		
San Carlos	\$15.07		
Menlo Park	\$13.50		
Half Moon Bay	\$13.09		
Burlingame	\$12.99		
Foster City	\$12.61		
San Mateo	\$11.07		
Moss Beach*	\$10.80		
Average:	\$17.30		

\* Moss Beach rates include Montara and El Granada.

**Appendix B  
Comparison of Debris Box Rates**

**Waste Haulers Providing Exclusive Debris Box Service to San Mateo County Agencies**

<u>PROVIDER</u>	<u>AGENCY</u>	<u>BOX SIZE</u>	<u>COST</u>
South San Francisco Scavenger Co., Inc.	Millbrae	14 yard	\$449.99
South San Francisco Scavenger Co., Inc.	South San Francisco	14 yard	\$418.99
South San Francisco Scavenger Co., Inc.	Brisbane	14 yard	\$338.99
Coastside Scavenger Company	Pacifica	14 yard	\$579.00
Coastside Scavenger Company	Moss Beach*	14 yard	\$423.93
Norcal Waste Management	San Bruno	16 yard	\$343.58

\*Moss Beach rates include Montara and El Granada.

**Waste Haulers Providing Debris Box Service to All Other San Mateo County Agencies**

<u>PROVIDER</u>	<u>BOX SIZE</u>	<u>COST</u>
Allied Waste Management	15 yard	\$395.00
Norcal Waste Management	16 yard	\$365.00
Peninsula Debris Box Service	15 yard	\$310.00
Redwood Debris Box Service	15 yard	\$300.00