



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
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Staff Report
June 10, 2008

**Honorable Mayor and
 Members of the City Council**

Title: AMENDMENT NUMBER TWO TO THE AGREEMENT BETWEEN THE CITY OF SACRAMENTO AND BLT ENTERPRISES OF SACRAMENTO, INC.

Location/Council District: City Wide

Recommendation: Staff recommends the City Council adopt a resolution 1) approving and authorizing the City Manager to execute Amendment Number 2 to City Agreement No. 98-131 between the City of Sacramento and BLT Enterprises of Sacramento, Inc. (the "Service Agreement") modifying the service fee to include a separate fuel cost adjustment component and providing for transfer of 25,000 tons of municipal solid waste that would otherwise be delivered to the BLT facility to the Sacramento County North Area Recovery Station or another in region disposal facility for a two year period terminating on July 14, 2010; 2) extending the term of City Agreement 2007-1285 (Agreement For Purchase of Recyclables) for four additional years with a new expiration date of February 12, 2013; and 3) directing staff to take the necessary steps to secure the long term disposal to an in-region facility within 12 to 24 months.

Contact: Marty Hanneman, Assistant City Manager, 808-5704
 Edison Hicks, Integrated Waste General Manager, 808-4949

Presenter: Edison Hicks, Integrated Waste General Manager

Department: Utilities

Division: Solid Waste Services

Organization No: 3361

Description/Analysis

Issue:

The proposed amendment modifies the service fee's annual cost adjustment applied on July 1 each year to allow for separate increases for non-fuel costs (using the Consumer Price Index (CPI) as has been done to date) and for fuel costs (using increases in the EIA Diesel Retail Price). The non-fuel component of the service fee could increase by up to 6% annually, and the proposed service fee (including the combined fuel and non-fuel component adjustments) could increase by up to 10% annually. Additionally, this

amendment increases the service fee from \$39.23 per ton to \$41.94 per ton on the effective date of the proposed amendment. Based on the adjustments to the base amount of the service fee and methodology for calculating yearly increases, the service fee would be \$45.57 per ton effective July 1, 2008 for FY2008/09. Added to the annual service fee is a regulatory fee which is determined annually and is currently \$0.17 per ton.

The City is currently exploring options for the disposal of solid waste including in-region disposal facilities and/or new technology (e.g., Waste to Energy) which is consistent with the City's policy to lessen the carbon footprint caused by City activities. The proposed amendment provides for BLT Enterprises of Sacramento, Inc. (BLT) and the City to work towards utilizing one or more in-region disposal facilities within 12-24 months to lower the fuel cost now experienced by transferring municipal solid waste to Lockwood, Nevada for disposal. If a regional disposal site is used in place of Lockwood, Nevada, the service fee will be adjusted based on the new transportation and disposal costs.

This amendment also provides for an understanding between the parties for the delivery of 25,000 tons of municipal solid waste (MSW) per year to Sacramento County's North Area Recovery Station (NARS) or to another in-region disposal facility for up to two additional years (i.e., until July 15, 2010). The resolution extends the term of the City-BLT recycling contract, Agreement for the Purchase of Recyclables, City Agreement No. 2007-1285, for four additional years, until February 12, 2013. The 25,000 tons per year shall be returned to the BLT facility on Fruitridge Road no later than July 15, 2010 unless both parties have agreed otherwise in writing.

Policy Considerations:

Approval of the proposed Amendment No. 2 to Agreement 98-131 will include an increase in the service fee in exchange for obligating both parties to actively seek an alternative disposal site within the region, and will include provisions concerning the City's delivery of 25,000 tons per year for up to 2 years terminating on July 14, 2010 that would otherwise be delivered to the BLT facility to NARS or to another in-region disposal facility and an extension of Agreement No. 2007-1285 until February 12, 2013.

Environmental Considerations:

The County of Sacramento's North Area Recovery Station is a solid waste facility permitted by the State Integrated Waste Management Board under state statutes and regulations promulgated by the Board, including requirements for appropriate environmental review under the California Environmental Quality Act (CEQA). Deliveries of waste by City to the County facility will be within the permitted capacity for the facility. No further environmental review is necessary to allow for the delivery of waste to the County facility pursuant to the terms of the proposed Amendment Number Two. To the extent other in-region disposal facilities are identified through the efforts of staff as directed by the proposed resolution, appropriate environmental review will take place as agreements are reached concerning the City's use of such facilities. The increase in disposal cost is incorporated into the Solid Waste Services monthly rates to its customer base, and therefore this proposed amendment is exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15273: "CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of

rates, tolls, fares, or other charges by public agencies.”

Sustainability Considerations:

Approval of Amendment No. 2 will contribute to the City's goal to reduce green house gas emissions by seeking an alternative disposal site within the region and avoiding the transfer of municipal solid waste to Lockwood, Nevada. The use of NARS for a portion of the City's north area waste for two additional years will also reduce green house gas emissions from the City's collection vehicles by reducing the miles driven to the transfer facility.

Commission/Committee Action: None

Rationale for Recommendation:

The annual CPI increases in the current agreement have not kept up with the rising cost of fuel. Approval of Amendment No. 2 will adjust rates to reflect rising fuel costs, while committing both parties to seek an alternate disposal site in the Sacramento region. City costs associated with collection in the north area of the City can be reduced by driving a shorter distance to a transfer station. Approval of Amendment No. 2 will extend the City's delivery of 25,000 tons per year to NARS for a two year period and extend Agreement No. 2007-1285 (the BLT Recyclables Agreement) for an additional four years.

Financial Considerations:

The original Service Agreement provided for automatic annual service fee increases, adjusted based on 75% of CPI up to 6% with a possible increase up to 10% upon City agreement or review by an independent engineer. This amendment's proposed service fee adjustments (including the combined fuel and non-fuel adjustments) could result in an increase to the service fee of up to 10% annually without review.

This amendment also increases the service fee from \$39.23 per ton to \$41.94 per ton on the effective date of the proposed amendment while providing separate fuel and non-fuel adjustments. As a result of the changes in the base amount of the service fee and methodology for calculating yearly increases, the 2008/09 service fee will be \$45.57 per ton. In addition, the annual service fee also includes a per ton regulatory fee which is determined annually and is currently \$0.17 per ton.

The 2008/09 total service fee increase is approximately \$843,220 based on the 2007 tonnage of 133,000 tons. The Department of Utilities is proposing a 10.5% solid waste rate increase which includes a 2.65% increase for BLT's fuel costs to cover most of the 2008/09 service fee adjustments proposed in this amendment.

Emerging Small Business Development (ESBD):

There is no Emerging Small Business impact by approval of Amendment No. 2.

Respectfully Submitted by: Edison S. Hicks
Edison Hicks
Integrated Waste General Manager

Approved by: Marty Hanneman
Marty Hanneman
Assistant City Manager

Recommendation Approved:

Ray Kerridge
Ray Kerridge
City Manager

Table of Contents:

Report	pg. 1
Attachments	
1 Background	pg. 5
2 Resolution	pg. 6

BACKGROUND

Following the closure of the City of Sacramento's 28th Street Landfill, the City issued two separate Request For Proposals (RFP), one in 1996 and one in 1997, to design, build and operate a transfer station. The City selected BLT Enterprises of Sacramento (BLT) out of the RFP process and entered into City Agreement No. 98-131 ("Service Agreement") with BLT concerning the transfer and disposal of City waste. At the time the City entered into the Service Agreement, the City estimated a cost savings of approximately \$1 million per year when compared to other available options. The Service Agreement was amended in 2005 (Amendment Number One) to 1) extend the term of the Service Agreement for five years, 2) proceed with development of a BLT North Facility, 3) provide for delivery of 25,000 tons per year by the City to the NARS for up to three years (i.e., until July 15, 2008), and 4) provide for delivery of 5,000 tons per year of green waste to BLT during the time that the City is delivering MSW to NARS.

Article 25 of the Service Agreement allows for annual cost increases using the CPI as a benchmark. The cost increases are calculated by multiplying the yearly increases in CPI by 75%. Each yearly increase is to be no more than 6%, or can be as high as 10% with City approval or determination by an independent engineer upon request by BLT. However, fuel cost increases have exceeded the annual CPI increases. In early 1998, the cost per gallon of fuel was approximately \$1.03. For the first quarter of calendar year 2008, the cost of fuel has risen to approximately \$3.64, a total increase of \$2.61 or over 254% per gallon. The distances associated with the transfer of municipal solid waste to Lockwood, Nevada have also contributed to the rising cost of disposal.

The proposed amendment modifies the annual cost adjustment to allow for separate increases for fuel and non-fuel costs. The non-fuel component of the service fee could increase by up to 6% annually, and the proposed service fee (including the combined fuel and non-fuel component adjustments) could increase by up to 10% annually. Additionally, this amendment increases the service fee from \$39.23 per ton to \$41.94 per ton on the effective date of the proposed amendment. Added to the annual service fee is a regulatory fee which is determined annually and is currently \$0.17 per ton.

The proposed amendment provides for BLT and the City to work towards utilizing one or more in-region disposal facilities within 12-24 months. Furthermore, the proposed amendment includes provisions concerning the City's delivery of 25,000 tons per year to NARS or to another in-region disposal facility that would otherwise be delivered to the BLT facility for up to two years (i.e., until July 15, 2010), and extends the term of Agreement No. 2007-1285, the BLT Recyclables Agreement, for four additional years with a new expiration date of February 12, 2013.

RESOLUTION NO.
Adopted by the Sacramento City Council

**AMENDMENT NUMBER TWO TO THE AGREEMENT BETWEEN THE CITY OF
SACRAMENTO AND BLT ENTERPRISES OF SACRAMENTO, INC.**

BACKGROUND

- A. Agreement 98-131, Article 25, describes the process for calculating an annual cost increase for processing and transferring municipal solid waste delivered by the City of Sacramento to BLT Enterprises of Sacramento (BLT).
- B. Currently the annual cost increase is 75% of the increase in the Consumer Price Index (CPI) in July of that year when compared to the July value for the previous year.
- C. Agreement 98-131 between the City of Sacramento and BLT does not address fuel cost increases as a separate item when requesting an annual cost increase.
- D. Fuel cost increases have exceeded annual CPI increases.
- E. The cost of fuel has risen from \$1.03 in early 1998 to \$3.64 in the first quarter of 2008.
- F. The City of Sacramento is actively seeking an alternative disposal site within the Sacramento region to lower disposal cost and stabilize rates to the City's residential customers.
- G. Agreement No. 2007-1285, dated February 13, 2008, between the City of Sacramento and BLT provided for four one-year options to be exercised at the discretion of the City Council.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

- Section 1. Amendment No. 2 to City Agreement 98-131 between the City of Sacramento and BLT Enterprises of Sacramento, Inc. modifying the service fee to include a separate fuel cost adjustment component and providing for transfer of 25,000 tons of municipal solid waste that would otherwise be delivered to the BLT facility to the Sacramento County North Area Recovery Station or another in region disposal facility for a two year period terminating on July 14, 2010 is approved and the City Manager is authorized to execute Amendment No. 2 to City Agreement 98-131.

- Section 2. Agreement No. 2007-1285 (Agreement for Purchase of Recyclables) is extended for an additional four years with an expiration date of February 12, 2013.
- Section 3. In meeting the City's policy to lessen the carbon footprint caused by City activities and consistent with Council's adopted Sustainability Master Plan, staff is directed to take the necessary steps to secure the long term disposal of all city-generated solid waste collected by the Department of Utilities, BLT and its customers to an in-region facility within 12 to 24 months.