

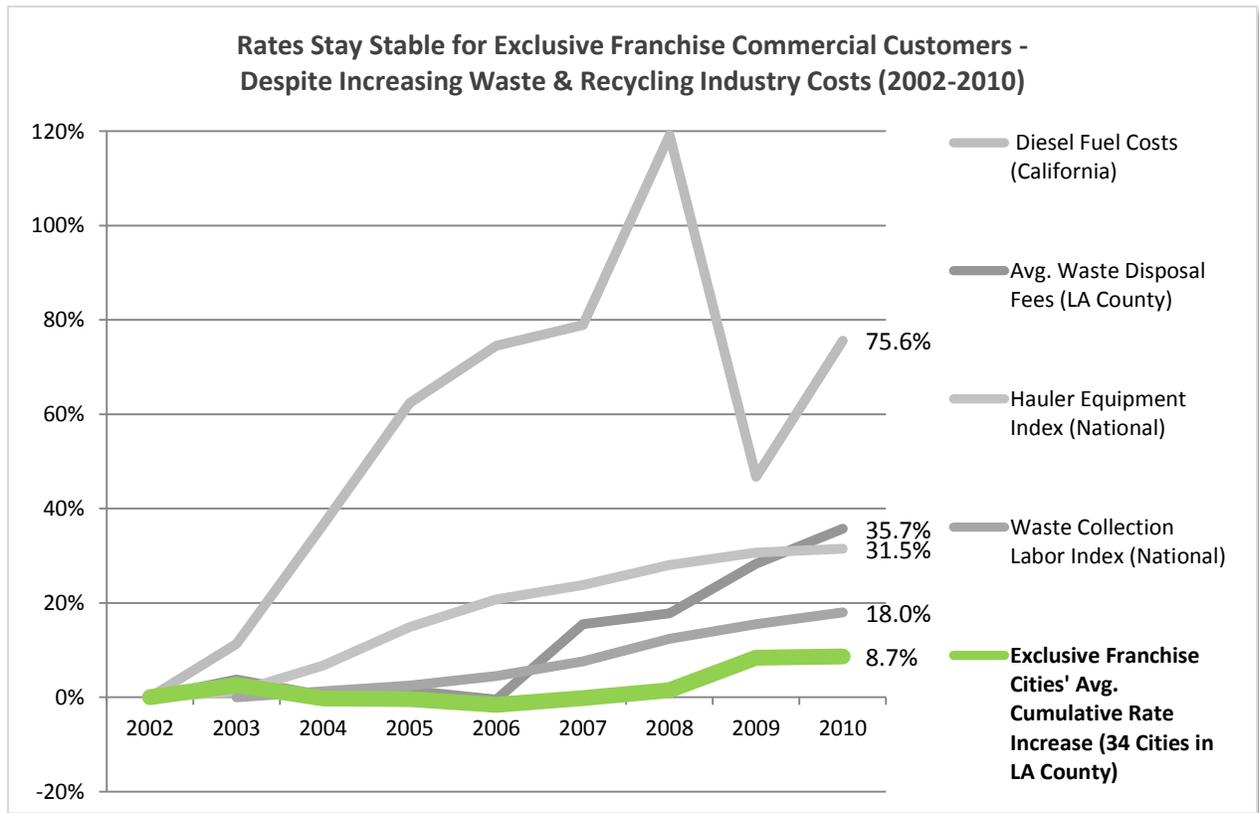


Stabilizing Customer Rates in Exclusive Franchise Waste and Recycling Systems:

An Analysis of Commercial Rates & Cost Drivers in LA County

INTRODUCTION: RATES BEST CONTROLLED IN EXCLUSIVE FRANCHISE SYSTEMS

Los Angeles County cities with exclusive franchise waste and recycling systems have been able to protect customers and ensure stability in their commercial waste rates despite marked increases in disposal fees, fuel and equipment costs. We analyzed inflation-adjusted commercial rates over the past ten years from 34 exclusive franchise cities in the County, and compared them with average increases in the principal cost factors experienced by the waste and recycling industry over the same time period.¹



While costs impacting haulers increased significantly during this time frame – and are projected to continue rising – the average commercial customer rate in exclusive franchise cities remained stable, increasing by less than nine percent cumulatively (not annually).² This customer rate stability is made possible by the structure of exclusive franchise systems: haulers submit competitive bids, cities negotiate final rates in their franchise agreements, and contracts codify how and by how much a company may adjust rates each year. Rate increases in these contracts are most frequently tied to the

rate of inflation as measured by the Consumer Price Index. Exclusive franchises allow haulers to offer better pricing by making it easier to secure low-cost financing for necessary infrastructure investment, while spreading costs over the term of the contract and realizing substantial operating efficiencies. This stability and control is not possible in a non-exclusive franchise system, where cost increases are passed through to customers and rates can vary drastically for the same service in the same area.

Rates remain stable for exclusive franchise customers because exclusive franchise contracts prevent haulers from dramatically increasing rates; the long-term, exclusive agreements allow haulers more security, helping keep rates low.

This research builds on the findings of the City of Los Angeles Commercial Solid Waste Cost and Fee Analysis report by HF&H Consultants, which provided an overview of waste costs in exclusive and non-exclusive franchise systems in Los Angeles County. HF&H Consultants compared systems based on cities' net costs per ton collected, and found one city's costs went down by 25 percent when they transitioned to an exclusive franchise system.³ Where HF&H Consultants analyzed exclusive and non-exclusive systems at a set moment in time, this paper focuses on the degree to which customer rates changed over time within an exclusive franchise city. Rates analyzed were monthly rates for standard service (one 3-cubic yard bin collected weekly), and include city fees passed through to customers.

CURRENT LANDSCAPE: ESCALATING COSTS IN THE WASTE AND RECYCLING INDUSTRY

Costs are rising for the waste and recycling industry, and will only continue to grow as landfills near capacity, fuel costs rise, and new truck fleets are required. Under our current non-exclusive permit system for businesses and apartments, waste haulers can pass increasing costs on to customers with little transparency or incentive to sufficiently increase recycling and diversion. Under the current

WITHOUT EXCLUSIVE SYSTEMS, RATE UNCERTAINTY

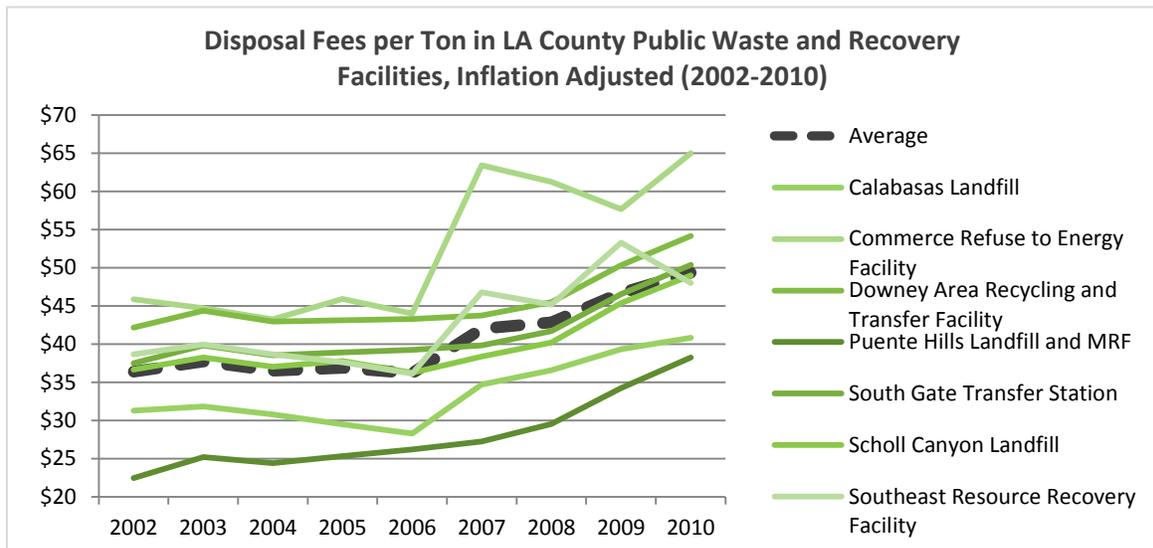
Customers in LA's current system pay rates anywhere from \$90 to nearly \$400 a month for the same services and within a few miles of each other.

system, the City of Los Angeles (hereafter referred to as "the City") has no ability to ensure rates are consistent, and many small businesses don't have the option to recycle or can't afford it. Moreover, large businesses may be able to negotiate continued low prices despite rising costs – but small businesses don't have the

leverage, information, or capacity to effectively comparison shop for rates. For instance, LAANE surveyed 70 commercial customers and found customers paying anywhere from \$90 to nearly \$400 a month for the same services and within a few miles of each other.⁴ The same is true in non-exclusive franchise systems; HF&H Consultants found that these cities' rates "cannot be verified, since there is no official rate schedule. Each hauler may charge a different rate in a non-exclusive system, and sometimes the same hauler will charge different rates to different customers for the same level of service."⁵

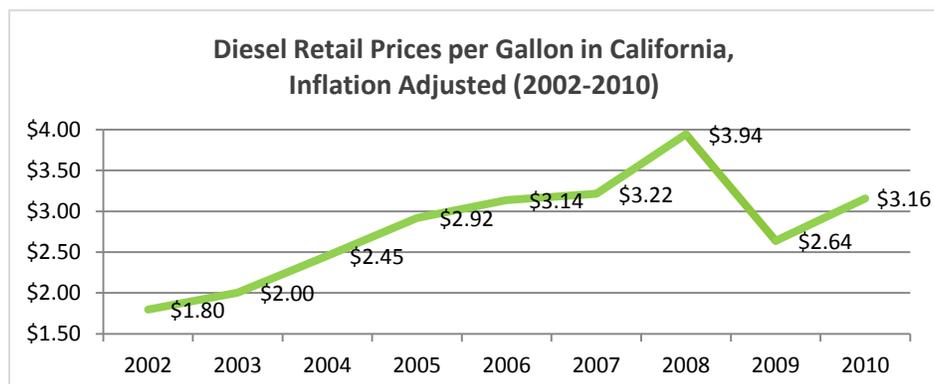
DISPOSAL COSTS

Landfills in Los Angeles County are filling up, with a projected shortage of available landfill space as soon as 2014.⁶ As landfills near capacity, waste and recycling facilities are raising the disposal or “tipping” fees they charge haulers to dispose of their waste; the average fee rose almost 36 percent from 2002 to 2010.⁷ Puente Hills Landfill, whose rates increased by 70 percent during that time, is slated for closure in October of 2013. It is the largest area landfill, with a permitted daily disposal capacity of 13,200 tons.⁸ As the largest regional landfill, its tipping fees have a considerable effect on the tipping fees of other regional landfills, and as Puente Hills fees have increased, so have other regional tipping fees.



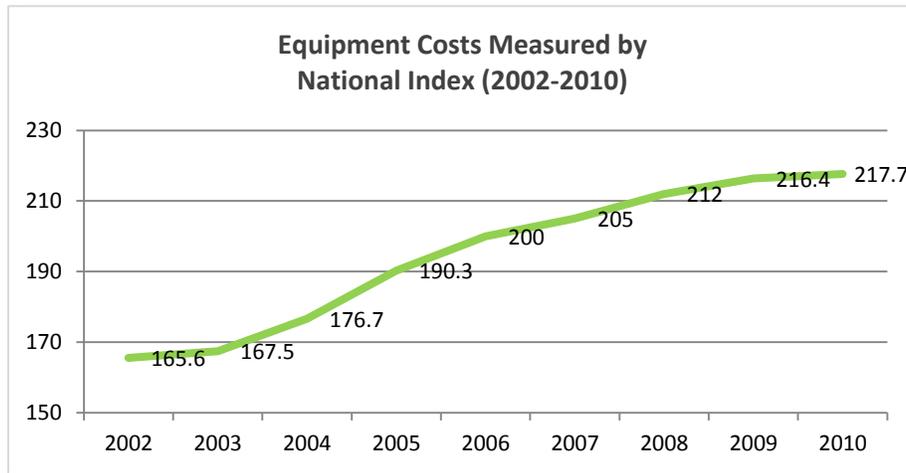
FUEL COSTS

Diesel fuel costs in California increased over 75 percent from 2002 to 2010, from \$1.80 to \$3.16 per gallon.⁹ According to the South Coast Air Quality Management District (SCAQMD), about 75 percent of the region’s 2,600 waste trucks are privately owned – and 75 percent of those are diesel trucks, meaning a substantial portion of the trucks servicing LA County’s exclusive franchise cities relied on diesel fuel during this time frame. The City of Los Angeles hosts a reported 1,115 solid waste collection vehicles.¹⁰



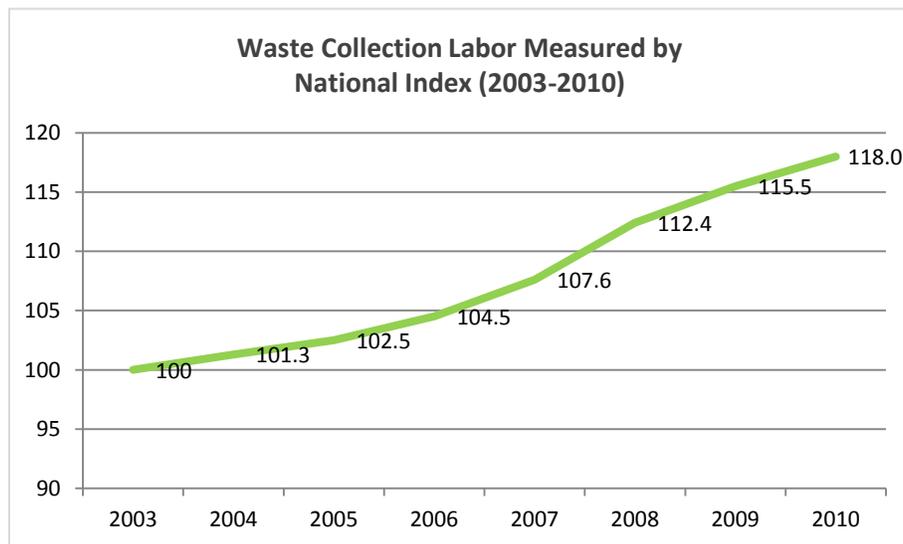
EQUIPMENT COSTS

Equipment costs, measured by this index, increased more than 30 percent from 2002 to 2010.¹¹ This national producer price index includes solid waste collection vehicles and other heavy duty vehicles. This index is compiled by the Bureau of Labor Statistics and is used by many cities and hauling companies as a factor in determining rate adjustments. Other types of equipment costs, such as vehicle maintenance, safety equipment, and costs related to facilities, would be absorbed independent of those measured by this index.



LABOR COSTS

Labor costs, measured by a national index that charts waste collection labor costs, increased nearly 20 percent from 2003 to 2010.¹² This national measure, which is also compiled by the Bureau of Labor Statistics, represents waste collection workers' labor, and is used by many cities and hauling companies as a factor in determining rate adjustments in addition to disposal, fuel and equipment costs.



DISPOSAL FEES

With Puente Hills Landfill's impending closure, the region and the City are running out of space for the waste we generate. Given that, a reasonable expectation is that tipping fees will only increase further. In the face of our shrinking capacity, the alternatives *other than increased diversion* are waste-by-rail, trucking waste to other counties, or incineration. These strategies are limited, expensive, and environmentally dubious.

Waste-by-rail entails a \$450 million waste-to-rail system to transport the City's trash to the Colorado Desert at a projected initial tipping fee of \$80 per ton when the facility opens. This is more than double Puente Hills' current tipping fee. That rate is projected to increase to \$120 per ton by 2024.¹³

Exporting waste to neighboring counties increases fuel costs, vehicle wear and tear, and impacts on the environment. Adding to the cost of that strategy, neighboring counties to Los Angeles have begun to create disincentives against Los Angeles County's waste: Riverside is charging a \$5 additional fee per ton for "out of county incidental amounts of refuse," and Ventura recently approved a \$4 "sustainability fee" on top of disposal fees for each ton of Los Angeles County waste over 75,600 tons per quarter.¹⁴

Finally, incinerating – or "converting" – waste is the most expensive currently available option analyzed, at close to \$65 per ton. Depending on the technology, this strategy poses significant environmental risks: traditional incinerators emit more CO₂ per unit of power produced than coal, natural gas, or oil power plants, and are disproportionately sited near low-income communities of color.¹⁵

The impacts of Puente Hills' closure are exacerbated by the fact that it accepts nearly half of the county's organic waste as "alternative daily cover". This waste, such as grass clippings, is laid over the day's deposition of waste to reduce odors and is considered an asset. Once Puente Hills Landfill closes, that tremendous amount of material will have to be processed or disposed of, likely at increased fees.

As Puente Hills Landfill draws near to closure, and as an improving economy is likely to increase waste streams, a landfill capacity crisis seems imminent - increasing disposal costs if unchecked. Absent a robust commitment to zero waste diversion goals and programming, the alternatives portend even greater costs to waste hauling companies that are likely to impact rates without customer protections.

FUEL COSTS

The diesel solid waste collection vehicles currently operated by private haulers in the City will continue to grapple with fluctuating diesel fuel prices, even as larger haulers transition to alternative-fuel fleets in compliance with the replacement schedule required under SCAQMD Rule 1193. Smaller hauling companies are exempt from the replacement schedule and will continue to deal with diesel fuel price volatility for the foreseeable future.¹⁶ And while compressed natural gas currently has stable prices, it is not a renewable resource and could fluctuate as more vehicles convert to alternative fuels.

EQUIPMENT COSTS

For purposes of this analysis, we assumed that under any type of franchise system, private haulers will become subject to SCAQMD Rule 1193. This rule requires waste haulers in contract with municipalities to phase in alternative fuel vehicles over five years if their fleets are greater than fifteen vehicles. Smaller fleets are required to phase in alternative fuel vehicles as they acquire or replace vehicles.¹⁷ Given that the equipment index is calculated at a national level, it does not demonstrate the substantial cost increases expected as companies are required to comply with Rule 1193. SCAQMD staff estimate that the required natural gas vehicles cost \$40,000 more per vehicle than equivalent diesel vehicles.¹⁸

FINDINGS: STEADY RATES IN EXCLUSIVE FRANCHISE SYSTEMS, DESPITE COST INCREASES

Despite the volatility in costs affecting the waste industry, commercial customer rates remained stable, increasing around eight percent from 2002 to 2010 in real dollars. This finding is based on responses from 34 Los Angeles County exclusive franchise cities.¹⁹ Eight cities experienced a decrease in customer rates: Azusa, Bellflower, Beverly Hills, Downey, Hawaiian Gardens, Palmdale, Paramount, and West Hollywood. Even cities that saw larger percentage changes had relatively low rate increases.

Rates have remained stable in these cities because the structure of exclusive franchises sets rates and allowable adjustments over the term of the contract, and doesn't allow unwarranted or dramatic rate increases. Exclusive franchises systems require contracts that typically specify how rate adjustments – increases – are locked in for a period of time. In these contracts, cities limit how much haulers can adjust rates each year – usually by allowing adjustments for inflation as measured by the Consumer Price Index (CPI), or a combination of weighted costs (such as the disposal fees, fuel costs, equipment and labor indices discussed in this paper). In order to increase rates beyond what's allowed in the contract, haulers must provide justification to elected bodies for approval before rates can be increased.

The stability of long-term exclusive contracts provides additional structural rate control. Longer-term contracts and their inherent security allow waste hauling companies to distribute costs over the terms of the contract – and to secure the capital to make necessary investments. Waste haulers often speak on behalf of exclusive franchise systems' stability when seeking contract extensions in neighboring cities. For example, when discussing exclusive arrangements, Thor Schmidt of Athens Services told the *La Canada Valley Sun* that "certainly we prefer longer, exclusive contracts with which we can be a lot more aggressive with pricing and offerings."²⁰ He also stated that the ten-year term and the exclusivity of their contract with Altadena allowed Athens to amortize the costs of new capital equipment. Consistent with that, in a letter to the City Manager of West Hollywood, Athens' Chief Operating Officer Gary Clifford stated that Athens could expand recycling while mitigating associated

HAULERS AGREE: EXCLUSIVE = BETTER RATES

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cost increases if the City extended their contract, allowing them to “amortize this added cost out over additional time” and that it would “create rate stabilization and long term protection of...diversion.”²¹

**Monthly Commercial Rates for Standard Service
in Exclusive Franchise Cities (inflation adjusted)**

City	2002	2010	Cumulative Percent Change
Average	\$117.92	\$128.12	8.7%
Artesia	\$135.81	\$152.87	12.6%
Azusa	\$108.09	\$106.67	-1.3%
Baldwin Park	\$142.96	\$162.45	13.6%
Bellflower	\$114.08	\$107.06	-6.1%
Beverly Hills	\$133.90	\$110.40	-17.6%
Cerritos	\$98.32	\$114.08	16.0%
Compton	\$127.50	\$128.59	0.9%
Covina	\$120.45	\$137.67	14.3%
Diamond Bar	\$84.31	\$108.89	29.2%
Downey	\$112.77	\$90.64	-19.6%
Duarte	\$112.76	\$136.86	21.4%
Glendora	\$142.63	\$155.28	8.9%
Hawaiian Gardens	\$162.76	\$146.67	-9.9%
La Mirada	\$136.38	\$157.23	15.3%
La Puente	\$88.51	\$119.70	35.2%
La Verne	\$101.08	\$112.21	11.0%
Lakewood	\$100.21	\$112.68	12.4%
Lancaster	\$102.73	\$118.92	15.8%
Lomita	\$98.65	\$116.05	17.6%
Lynwood	\$121.44	\$126.05	3.8%
Manhattan Beach	\$94.63	\$97.65	3.2%
Maywood	\$111.03	\$136.94	23.3%
Palmdale	\$120.26	\$105.96	-11.9%
Paramount	\$110.39	\$105.40	-4.5%
Pico Rivera	\$91.68	\$115.31	25.8%
Rosemead	\$95.22	\$124.47	30.7%
San Dimas	\$124.97	\$151.13	20.9%
San Gabriel	\$145.27	\$163.93	12.8%
South El Monte	\$154.56	\$176.98	14.5%
South Gate	\$107.00	\$121.88	13.9%
South Pasadena	\$124.51	\$136.82	9.9%
Temple City	\$153.51	\$171.09	11.4%
Walnut	\$94.94	\$106.92	12.6%
West Hollywood	\$135.81	\$120.64	-11.2%

CONCLUSION: STABILITY ENSURED THROUGH EXCLUSIVE FRANCHISE SYSTEMS

Costs are rising for the waste and recycling industry – and will only continue to do so as area landfills reach capacity, new standards and goals are put into place, and the economy improves. In the face of those costs, exclusive franchise systems allow cities to protect small businesses and landlords and ensure transparency and accountability. The vehicle of the exclusive franchise bidding and contracting opens up competitive pricing for *all* commercial customers, making it impossible for haulers to pass through costs arbitrarily or subsidize pricing benefits for one group of customers with increased rates for others. At an industry level, the stability that exclusive systems provide allows haulers to invest in needed infrastructure and increase efficiencies – and to incentivize the increased recycling necessary to reduce reliance on increasingly costly landfilling and disposal.

¹ Cost measures analyzed are those commonly used in franchise contracts to set rate adjustments by cities and companies in cities that use a Rate Adjustment Methodology other than the Consumer Price Index.

² LAANE submitted a California Public Records Request to all 55 exclusive franchise waste and recycling cities in Los Angeles County for the years 2000 to 2011. The request included solid waste and recycling rates for all customers, and for rate adjustment information. Of these, 34 cities responded with rate information from 2002 to 2010. Rates analyzed are for commercial monthly rates for weekly pickup of three cubic yard bins. All dollars were adjusted to 2010 dollars using the Consumer Price Index (CPI) for all urban consumers for Los Angeles, Riverside, and Orange counties, provided by the Bureau of Labor Statistics.

³ HF&H Consultants. [City of Los Angeles Commercial Solid Waste Cost and Fee Analysis: Final Report](#). Los Angeles, 24 August 2012: 12.

⁴ Bornstein, Sabrina, Los Angeles Alliance for a New Economy. [Don't Waste L.A.: A Path to Green Jobs, Clean Air and Recycling for All](#). Los Angeles, January 2011: 16.

⁵ HF&H Consultants. [City of Los Angeles Commercial Solid Waste Cost and Fee Analysis: Final Report](#). Los Angeles, 24 August 2012: 3.

⁶ This scenario considers the use of existing disposal infrastructure and up to 7,500 tons per day of out-of-County landfill capacity and assumes that there will be no expansion of existing landfills, no new landfills and no additional capacity from alternative technologies. County of Los Angeles, Department of Public Works (DPW). County of Los Angeles Countywide Integrated Waste Management Plan. October 2009. Accessed from <http://grandjury.co.la.ca.us/pdf/2009-2010%20CIVIL%20GRAND%20JURY.pdf>.

⁷ The average fee rose 35.7 percent from 2002 to 2010. Puente Hills Landfill fee rose 70.2 percent from 2002 to 2010. Data compiled by the Los Angeles County Sanitation District for the public solid waste materials recovery, transfer and disposal facilities. Fees used are for municipal solid inert waste per ton. Puente Hills MRF opened in 2005 and shares the same rates as the Puente Hills Landfill.

⁸ Los Angeles County Sanitation District. [Puente Hills Landfill: Discover How the Latest Technologies are Keeping Neighborhoods Cleaner and Greener](#). Accessed from <http://www.lacsd.org/civica/filebank/blobload.asp?BlobID=3708>.

⁹ The percentage change between 2002 and 2010 was 75.6 percent. Data for No. 2 diesel prices for California provided by the U.S. Department of Energy's Energy Information Agency. Accessed from http://www.eia.gov/oog/info/wohdp/diesel.asp#graph_buttons.

¹⁰ South Coast Air Quality Management District (SCAQMD). [Draft Final Report: Clean On-Road Residential and Commercial Refuse Collection Vehicles](#). Attachment E. July 2010: 36.

¹¹ The Bureau of Labor Statistics creates Producer Price Indices for the net output of selected industries and their products. The index analyzed tracks the output of Motor body vehicle manufacturing, NAICS code 336211. NAICS describes this industry as "establishments primarily engaged in manufacturing truck and bus bodies and cabs and automobile bodies."

¹² The index, a Bureau of Labor Statistics created Producer Price Index, analyzed tracks the output of Waste collection labor costs, NAICS code 56211. Data was not available for this index before 2003.

¹³ Coke, Janet, Manager Waste-by-rail of LA County Sanitation Districts. County Sanitation Districts of Los Angeles County. "Waste By Rail System." Presentation to the Los Angeles Chamber of Commerce, 18 September 2008. Accessed from http://www.lachamber.com/clientuploads/EWE_committee/waste_by_rail_091808.pdf.

¹⁴ Alva, Paul, Los Angeles County Department of Public Works. Solid Waste Management in Los Angeles County. Presentation, 2007. Accessed from dpw.lacounty.gov/epd/swims/ShowDoc.aspx?id=126&hp=yes.

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¹⁵ Platt, Brenda, David Ciplet, Kate M. Bailey and Eric Lombardi. Stop Trashing the Climate. Institute for Local Self-Reliance, Global Anti-Incinerator Alliance/Global Alliance for Incinerator Alternatives, Eco-Cycle, 2008.

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¹⁶ SCAQMD. Draft Final Report: Clean On-Road Residential and Commercial Refuse Collection Vehicles. Attachment E. July 2010: 36.

¹⁷ SCAQMD. "Summary of Rule 1193 Requirements: Clean On-Road Residential and Commercial Refuse Collection Vehicles Fact Sheet." July 2011. Accessed from www.aqmd.gov/TAO/FLEETRULES/1193Refuse/index.htm.

¹⁸ SCAQMD. Staff Report: Proposed Rule 1193 – Clean On-Road Residential and Commercial Refuse Vehicles. 2000. Accessed from http://www.aqmd.gov/tao/FleetRules/1193Refuse/Rule_1193_Staff_Report.pdf.

¹⁹ Rates given are commercial monthly rates for a typical 3 yard bin with weekly pickup, and were collected via a survey of the 34 of Los Angeles County's 55 exclusive franchise cities that complied with LAANE's public records request.

²⁰ Siegal, Daniel. "Trash Choice Brings Higher Price," La Cañada Valley Sun. 14 September 2011. Accessed from <http://www.lacanadaonline.com/news/tn-vsl-0915-trash,0,430912.story>.

²¹ Clifford, Gary. Letter to West Hollywood City Manager Paul Arevalo, 29 December 2011. Exhibit A to West Hollywood City Council meeting. 16 July 2012. Accessed from http://weho.granicus.com/Viewer.php?meta_id=55459&view=&showpdf=1.