



# CITY OF SUNNYVALE

## DEPARTMENT OF FINANCE

February 3, 2012

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

**THROUGH:** Grace Leung, Director of Finance *Grace Leung*

**FROM:** Drew Corbett, Budget Manager *Drew Corbett*

**SUBJECT:** Budget Issues Submissions

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Enclosed in this section of your Council Packet are the three budget issues that have been submitted for consideration at today's Budget Issues Workshop. Two of these budget issues were submitted for inclusion into the original Council packet for the January 10th public hearing. One additional budget issue was submitted after the public hearing. This final budget issue, Pilot Commercial Food Composting Program, has been included in the back of the Budget Issues tab of your updated Council binder.

## BUDGET ISSUE SUMMARY FORM

**Budget Issue Title:** Pilot Commercial Food Composting Program

**Lead Department:** Environmental Services

**Element or Sub-element:** Environmental Management (Chapter 7)

**1. What are the key elements of the issue? What precipitated it?**

During FY 2011/12 the City worked with franchised hauler Specialty Solid and Recycling to implement a pilot commercial food waste composting program. Those served by the pilot program include large customers (e.g. Yahoo, Juniper and NetApp) generating large amounts of cafeteria food waste. The pilot program responded to the interest of these and similar companies in commercial food composting collection service. Several companies had began working with outside (unfranchised) haulers to collect and compost this material, which is defined as solid waste in the City code and as such, should only be hauled by the City's franchised hauler, Specialty Solid Waste & Recycling.

In an effort to meet business needs and to proactively keep this material in the franchise, the City and Specialty found a low cost way to provide food waste collection service to a limited number of accounts. The post-collection cost to compost the food waste is more than the current cost to dispose of it at Kirby Canyon Landfill. However, because the pilot is generating new revenues for wastes that had been hauled outside the franchise, the net effect on the Solid Waste Fund is positive (more revenue than expense).

The two key elements of this issue are:

1. The increased expense of the pilot program (which is currently more than balanced by increased Solid Waste Fund revenues)
2. The potential for future Council action to expand commercial food waste composting service throughout the City in the context of its consideration of the Zero Waste Strategic Plan. Full scale expansion would result in a net cost to the Solid Waste Fund.

***Pilot Program Collection Process***

Customers place their food scraps and soiled paper items (single-use food ware, paper towels from restrooms) into clear plastic bags and place them in bins outside the place of business where they are collected by Specialty. The City provides outreach information and support, either on-site or by making posters and flyers available.

The collected food is driven by Specialty to GreenWaste Recovery at 1500 Berger Drive in San Jose. There, it is transferred to the Z-Best compost facility near Gilroy at a cost to the City of \$81.50 per ton.

### **Costs and Revenues of Pilot Program**

In order to keep pilot costs to a minimum, Specialty is using two underutilized routes<sup>1</sup> to provide collection to the pilot customers three days a week. While there should not be an increase in labor costs, there will be a small annual increase in Specialty's cost for fuel, tires and truck and container maintenance (approximately \$2,000) that will be reflected in the contractor payment beginning in FY 2013/14.

Pilot customers are being charged the same collection service rates for composting collection as for garbage collection. This means that, in general, participating in the program is costing them slightly more than what they currently pay for garbage alone, because they have added an extra bin for compostables. Many of these customers are working to "right size" their garbage service by either reducing the size of their bin or frequency of service.

For the pilot program, new revenue to the Solid Waste Fund is being generated by businesses who are now using this service who were previously having their food waste collected by unfranchised haulers instead of the City (by way of Specialty, the franchised hauler).

Cost and revenue changes resulting from the pilot program are:

- It is estimated that the program will collect around 50 tons per month of material (600 tons per year).
- The cost to have the material processed at an off-site facility and trucked to Z-Best in Gilroy is \$81.50 per ton. Total additional cost proposed for Activity 363100 is \$48,900 per year (600 tons x \$81.50).
- Avoided disposal costs for diverting the material away from Kirby Canyon landfill reduce expenditures in Activity 363230 by \$12,342. (\$20.57 in avoided taxes x 600 tons = a savings of \$12,342).
- Businesses participating in the pilot have generated \$22,330 of revenue from July-October 2011 (if projected out for 12 months it would be around \$67,000). However, assuming some customers will right size their bins, annual revenue is estimated to be lower, and probably closer to \$50,000 per year.
- The net change to the Solid Waste Fund is thus expected to be:

Increased expense for compost charges -	+\$48,900
Increased contractor payment to Specialty starting in FY 13/14 -	+\$2,000
Decreased expense for landfill disposal -	[\$12,342]
Revenue from food waste collection charges -	[\$50,000]
<b>Net Effect on Solid Waste Fund is increased revenue of</b>	<b>\$11,442</b>

<sup>1</sup> Specialty's drivers are paid on a "task day" basis for eight hours of work, even if the actual work day is shorter. Because waste quantities vary by day of week, certain days have "underutilized" routes for which drivers are paid for more time than they actually work.

**Potential Costs if Program is Expanded Beyond Pilot Scale**

The results of the commercial food composting pilot program and the prospects for its continuation or expansion will be evaluated as part of Council consideration in 2012 of the Zero Waste Strategic Plan.

Expanding the service City-wide would likely require that Specialty add a partial or full route once the underutilized route time is filled. The full cost of adding a full route is around \$220,000 per year. However, it is unlikely a full route would be needed and whatever costs were added, a roughly corresponding reduction in the cost of garbage collection would be realized as garbage collection bins were replaced by food composting bins.

There would be a cost increase after collection, because on a per ton basis, composting currently costs the City more than landfill disposal. If the service captured 15%, or 1050 tons per year of the available commercial food waste, the net change for composting vs. landfilling would be an increase of approximately \$64,000 per year. This calculation assumes that the City's waste quantities remain below the "put or pay" minimum in the Kirby Canyon disposal agreement.

**2. How does this relate to the General Plan or existing City Policy?**

This program supports Zero Waste Policy 3.2.4 which was adopted in December of 2008 and calls for the City to "encourage or if necessary require residents, businesses and agencies to use, reduce, and recycle materials".

3. Is the budget issue a: PROJECT \_\_\_\_\_ OPERATING  X

4. If the issue is operating, specify the change in service objective(s) that would result (from what, to what). If the issue is a project, write N/A.  
There is currently no change in service.

5. Origin of issue: Council \_\_\_\_\_ Councilmember \_\_\_\_\_  
Board and Commission \_\_\_\_\_ Board/Commission: \_\_\_\_\_  
Staff  X  Department  Environmental Services

**6. Projected cost (list rough annual cost of budget item):**

Operating Issue (none, there is a net financial benefit to the Solid Waste Fund resulting from the pilot program)

Capital/Project \$ \_\_\_\_\_ (Project Cost)  
\$ \_\_\_\_\_ (Associated Annual Operating Costs)

7. Recommended funding source:

**Solid Waste Fund (Activity 363100)**

At the current pilot program level, the Solid Waste Fund receives a net benefit of approximately \$11,000, factoring in collection costs, composting charges, avoided landfill costs and increased rate revenues.

If expanded City-wide, a commercial food waste compost service with a dedicated route would increase net Solid Waste Fund costs by an estimated \$64,000 per year.

8. Staff evaluation and recommendation of proposed budget issue:

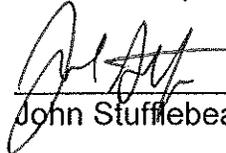
Evaluation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Refer budget issue for consideration in Recommended Budget

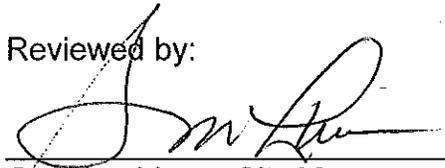
Defer budget issue to future fiscal year

Drop budget issue

Reviewed by:

  
\_\_\_\_\_  
John Stufflebean, Director of Environmental Services

Reviewed by:

  
\_\_\_\_\_  
Gary Luebbers, City Manager