

Appendix C
Final Report

**Opportunities for Alternative
Revenue Generating
Mechanisms for the Integrated
Waste Management Zero
Waste Strategic Plan
Development**



Prepared for:

City of San José
Environmental Services Department



November 3, 2008

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Section 1

Introduction

Background

In 2007, the City Council of San José (“City”) requested staff to develop an Integrated Waste Management (“IWM”) Zero Waste Strategic Plan that will establish policy as it relates to the City’s waste management program through the year 2040. The City’s objectives are to provide resource conservation, waste reduction, pollution prevention, and a sustainable economy. The IWM Zero Waste Strategic Plan addresses the following key components for achieving Zero Waste:

- Strengthen recycling programs;
- Identify infrastructure requirements for reuse, recycling and composting;
- Establish effective waste prevention programs, incentives, and fee structures; and,
- Identify economic development opportunities from expanding solid waste processing facilities and industries using recycled materials as feedstock.

In 2007, the City established a goal of 75 percent waste diversion by 2013, and a goal of Zero Waste by 2022. Staff has reviewed Zero Waste plans from other cities and found that many of the initiatives under development by Zero Waste cities are already being implemented or planned for the City.

R3 Consulting Group Inc., (“R3”) was retained by the City to prepare this Analysis of Alternative Revenue Generating Mechanisms for the City’s Zero Waste Strategic Plan.

In order to meet proposed waste reduction goals, the IWM Zero Waste Strategic Plan will consider key strategies such as food waste composting, reducing packaging, extended producer responsibility, the commercial solid waste system design, improved services for multi-family dwellings, and many others. Staff will also evaluate opportunities for generating energy from selected waste materials as a component of the City’s Zero Waste Strategic Plan.

Relationship to Other Studies Being Conducted for the City’s Zero Waste Strategic Plan

This Analysis of Alternative Financing Mechanisms is only one portion of a suite of studies that are being conducted to gather information for the City’s Zero Waste Strategic Plan. The various studies include:

- A Needs Assessment study to estimate the amounts and types of waste that will need to be diverted now through 2040;
- A review of the Construction and Demolition Debris Deposit Program (“CDDD”);
- A Commercial Solid Waste System Redesign and Enhancement Options Study;

The logo for R3 Consulting Group Inc. consists of the letters 'R' and '3' in a stylized, blue, handwritten font. The 'R' is on the left and the '3' is on the right, both rendered in a consistent blue color.

Introduction

- A Waste Characterization Study for Single-Family waste, MRF residuals and Commercial Waste; and,
- An Assessment of Infrastructure, Planning and Land Use Issues.

Goals

This Analysis of Alternative Financing Mechanisms has the following goals:

- Initially, to summarize the fees and taxes related to solid waste and recycling that the City is currently collecting;
- To discuss how the current fees and taxes will change over time, due to growth of the waste stream related to population increases;
- To discuss how the current fees and taxes will change over time, due to reductions to the waste stream as the Zero Waste Strategic Plan is implemented (i.e., decreases in fees at landfills as landfill tonnages decrease, and decreases in franchise fees as tonnage decreases); and,
- To identify alternative fees and taxes that may be imposed in order to replace existing revenues.

Project Approach

Description of Data Received

We requested and received several financial documents and ordinances from the City that summarized the City's current fee structure, current revenues, and current expenses for solid waste and recycling activities.

Calculations and Projection Methodology

There are several revenue sources that are summarized in this report. Each revenue source has a different assessment method. The calculations and projection methodology are described separately for each revenue source.

Limitations

Existing fees listed in this report are current as of July 1, 2008.

For existing fees, we used several data sources to compile information for this report. We relied on the on-line version of the City's municipal code, and assumed that the on-line municipal code is kept up-to-date. Very recent changes to the City's municipal code would not be reflected in this report. We also contacted and received information from the City's Code Enforcement Division regarding the Local Enforcement Agency fee, and received information from the County of Santa Clara's Solid Waste Program, and the County's Household Hazardous Waste Program, regarding the fees that those agencies collect.

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This report does not summarize the fees related to solid waste disposal that are imposed by the State of California (California Integrated Waste Management Board disposal fee.)

Introduction

Organization of this Report

This report is organized into 4 sections, as follows:

Section 1: Introduction

Section 2: Summary of Existing Fees

Section 3: Options for Modifying Existing Fees

Section 4: Alternative Fees that May be Utilized by the City in the Future

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List of Fees and Taxes Reviewed in This Report

This section summarizes eight fees and taxes that are currently collected by the City, relating to solid waste and recycling. The first six fees and taxes are imposed by the City, and the last two fees are imposed by the County of Santa Clara and later remitted to the City. This report does not summarize any fees or taxes imposed by the State of California.

The fees and taxes included in this report are:

1. The Disposal Facility Tax. This is a tax on operators of landfills in the City. The tax is \$13 per ton disposed, and the revenues are directed to the City's General Fund.
2. The Disposal Facility Operator Integrated Waste Management Fee. This is a City fee of \$0.00 per ton, and would be paid by operators of landfills and composting facilities in the City, but is currently suspended. The revenues from this fee would be directed to the City's Integrated Waste Management Fund for use in planning and implementing the City's AB 939 programs.
3. City Solid Waste Enforcement Fee. This fee is imposed by the City's "state Certified" solid waste Local Enforcement Agency ("LEA") on all state permitted solid waste facilities and operations to fund state mandated "comprehensive" solid waste enforcement related inspections and enforcement duties related to handling, transportation, illegal dumping (blight) enforcement and outreach, for all solid waste within the City. It is \$0.98 per ton. The revenue recovered from this fee supports the City's Code Enforcement Division as the California Integrated Waste Management Board's ("CIWMB") "sole agency responsible for carrying out solid waste enforcement in it's jurisdiction" (14 CRR Division 7, 27, CCR Division 2, and Division 30 of the Public Resource Code ["PRC"]).
4. Commercial Solid Waste Collection Franchise Fee. This fee is paid by the City's commercial waste generators and collected by commercial haulers. The fee is assessed on a per cubic yard basis, and revenues from this fee are deposited into the City's General Fund.
5. Commercial Source Reduction and Recycling Fee. This fee is paid by the City's commercial haulers. The fee is assessed on a per cubic yard basis, and revenues from this fee are deposited into the City's Integrated Waste Management fund.
6. CDDD Program. The CDDD deposits are neither fees nor taxes. However, some deposits become ineligible for refund, and can be used for activities related to the CDDD program and construction and demolition ("C&D") waste diversion.

Section 2

Summary of Existing Fees

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Summary of Existing Fees

7. County Planning Fee. Santa Clara County levies a County Planning fee at all solid waste facilities in the County to fund the preparation and implementation of its Countywide AB 939 Integrated Waste Management Plan and related documents. The fee is \$0.56 per ton of waste disposed.
8. Countywide AB 939 Implementation Fee and Countywide Household Hazardous Waste (HHW) Fee. This is an overall fee of \$3.55 on all tons of solid waste disposed in the County or transferred for out-of-county disposal. A portion of this fee (\$1.50) is distributed quarterly to the jurisdictions in the County based on the total waste disposed during that quarter by each jurisdiction. The other portion of the fee (\$2.05) is used by the County's Environmental Health Department to provide household hazardous waste (HHW) drop-off services for the entire County, including the City. The program is funded through several mechanisms, including a HHW fee assessed on tonnage disposed at disposal facilities in the County, State grants, and fees paid by small-quantity generators. The HHW fee is currently \$2.05 per ton.

Framework for Summary of Current Fees and Taxes

There are several fees and taxes associated with solid waste and recycling that are either directly assessed by the City, or collected by the County, and ultimately received by the City. For the purposes of this study, we did not include fees or taxes that are a revenue source for the County or the State, though such fees do exist.

The solid waste fees and taxes that are received by the City provide revenues for both the City's General Fund, and the City's Integrated Waste Management Fund.

In order to simplify the explanation of the fees and taxes, and to make them more understandable, we developed the following framework to describe each fee or tax:

- Name of Fee or Tax;
- Authority for Fee or Tax: the name of the document (i.e., municipal code) that authorizes the City or County to assess the fee or tax;
- Cost Basis and Assessment Method: such as whether the fee or tax is assessed on a "per ton" basis, or a "per cubic yard" basis, the amount of the fee or tax, and who is responsible for payment (such as a landfill operator or a waste hauler). This section also describes how the amount of the fee or tax may change over time, and what entity has the authority to increase the amount or change the assessment method.

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- Where funds are received: in this analysis, funds may be received initially by the County, and then remitted to the City, or may be received by the City directly;
- Name of fund receiving the Fee or Tax: in this analysis, the funds receiving the fee or tax are either the City's General Fund or Integrated Waste Management Fund;
- Limitations on how the Fee or Tax can be spent: in certain cases, fees can only be spent only on specified projects; and
- Amount collected annually through this Fee or Tax, and projections through 2040.

1. Disposal Facility Tax

Authority. The Disposal Facility Tax ("DFT") is authorized by the City's municipal code, in sections 4.78.010 through 4.78.470. It is the City's business tax for disposal facilities, and was imposed in lieu of a business license tax. In 1992, the DFT replaced a prior industry-specific business license tax, which had first been established in the 1980's on a volume basis and had been changed to \$3 per ton in 1989.

Cost Basis and Assessment Method. The DFT is assessed on all tons of solid waste disposed in landfills in the City, at the rate of \$13 per ton disposed. (All waste disposed at the landfills in the City is subject to the tax, regardless of whether the waste comes from the City or another jurisdiction.)

In addition, some alternative daily cover may be taxed at the same rate. Each facility is exempt from paying the DFT on the "first 33,500 tons of construction and demolition materials used at the site in each fiscal year (July 1 – June 30), provided that the materials have been approved by the California Integrated Waste Management Board"¹ as proper materials to use as alternative daily cover.

Where Funds are Received and Name of Receiving Fund. The disposal facility tax is paid by landfill operators each month directly to the City, and becomes revenue to the City's General Fund.

Limitations on How Fee or Tax Can Be Spent. There are no limitations on how this tax can be used by the City.

Amount Collected Annually and Projections through 2040. The City provided a 6-year history of amounts received through the DFT. The summary appears in the table below. The City has received between \$14 million and \$16 million per year for the past six (6) years. If each of the four landfills in the City used the maximum exemption tonnage of 33,500 tons per year, there would be a maximum uncollected/exempt tax revenue of \$1,742,000 per year.

¹ City of San José municipal code, section 4.78.020.D.

Summary of Existing Fees

**TABLE 2 - 1
Disposal Facility Tax Revenue
2002/03 through 2007/08**

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Disposal Tax (in Dollars)	\$ 16,260,805	\$ 14,552,127	\$ 14,973,616	\$ 15,343,616	\$ 14,717,336	\$ 13,701,351
Landfilled (in tons)	1,250,831	1,119,394	1,151,817	1,180,278	1,132,103	1,053,950

Disposal Facility Tax revenue is projected to decrease to approximately \$13.2 million in 2008/09, due to decreases in waste disposal as a result of the implementation of new waste diversion programs in the City facilities and multi-family sector.

In calendar year 2007, approximately 578,000 tons of waste from the City was disposed in the City landfills. (Another 120,000 tons of the City waste were disposed at facilities outside of the City.)

Compared to 2007 disposal quantities, the City will have to reduce disposal by another 200,000 tons in order to reach its diversion rate goal of 75% by 2013. If landfill disposal decreases by approximately 200,000 tons between 2008 and 2013, revenues from the DFT tax would decrease by approximately \$1.9 million per year, as compared to 2008/09 projections. However, this does not consider the effect of waste from other cities, which may increase or decrease over time.

If the City achieves Zero Waste in 2022, the lost revenue due to decreasing the City's waste stream entirely would be approximately \$7.5² million annually. This reduction may be partially offset if processing residues are disposed at waste-to-energy facilities in the City, which could be subject to the DFT if they were required to have Solid Waste Facility permits. Even without Zero Waste, overall revenues from the tax would decrease substantially during the 2020's as the landfills in the City begin to reach capacity³, and other jurisdictions that use landfills in the City implement more aggressive waste diversion goals.

² In 2007, 578,000 tons of waste from the City was disposed in landfills located in the City. At \$13 per ton, the disposal facility taxes from this waste were approximately \$7.5 million.

³ Landfill closure dates are based on current permit documents and current flows of waste into the landfills. Closure dates are subject to future changes.

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Disposal Sites

There are five operating disposal sites in the City. Two of the landfills are owned by Waste Management, Inc.: the Guadalupe Landfill and Kirby Canyon Landfill. The Newby Island Landfill is owned by Allied Waste Industries, Inc. (formerly BFI). The Zanker Road Landfill and Zanker Material Processing Facility (which includes a small disposal area) are owned by Zanker Road Resource Management.

Pursuant to settlement agreements with the City, and Newby Island, Kirby Canyon, and Guadalupe landfills, these operations may exempt certain materials from the DFT. Specifically, Newby Island Landfill is allowed to exempt the first 60,000 tons of green waste used each year as Alternative Daily Cover (“ADC”). Kirby Canyon Landfill and Guadalupe Landfill may each exempt annually 33,500 tons of construction and demolition materials used for ADC or may assign a share of one site’s exemption to the other.

Future Closure of Disposal Sites

Each of the landfill sites listed above has limited permitted capacity to accept waste. In September 2007, the City contracted with Environmental Planning Consultants to prepare a report entitled, “Resource Management Infrastructure Requirements Assessment.” This report found that, at current disposal rates, it is estimated that disposal capacity in the City could be severely limited in 2020’s, and that all current sites could close by the 2030’s. The City’s agreement with Newby Island Landfill expires in 2020 or until at permitted capacity. Increasing diversion could extend the life expectancy of local landfills significantly.

Note that the landfills will continue to receive waste until they are filled. Therefore, the same amount of Disposal Facility Tax will ultimately be received by the City over time, even if the City reduces disposal levels significantly. However, DFT revenues can be reduced by use of more tax-exempt materials than actually needed for cover or on-site construction. Total tax revenues might also be reduced by business decisions or changes in operations that dedicate landfill areas to other purposes, such as collection or processing facilities.

2. Disposal Facility Operator Integrated Waste Management Fee (a.k.a. AB 939 Fee)

Authority. The California Public Resources Code provides that the City may charge a fee to pay the costs incurred by the City in preparing, adopting and implementing the Integrated Waste Management Plan.

Cost Basis and Assessment Method. Solid waste landfill operators and composting facilities would be required to pay the fee but transfer stations are exempt. According to the City’s municipal code, the Disposal Facility Operator Integrated Waste Management Fee is assessed on “the types or amounts of wastes accepted at the disposal facility.” The amount of the fee is currently set at \$0.00 per ton; since the Countywide AB939 Implementation Fee is in effect.

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Summary of Existing Fees

The City Council establishes the fee by council resolution.

Where Funds are Received and Name of Receiving Fund. If the fee was not currently suspended, the Disposal Facility Operator Integrated Waste Management Fee would be paid by landfill and composting site operators each month directly to the City, and would become revenue in the City's IWM Fund.

Limitations on How Fee or Tax Can Be Spent. The City's municipal code specifies that the fee "shall be used to pay the costs incurred by the City in preparing, adopting and implementing the Integrated Waste Management Plan required under Division 30 of the California Public Resources Code."

Amount Collected Annually and Projections through 2040. For 2007/08, the City received no revenues from this fee since it is set at "0." It may, however, be implemented in future years.

3. City Solid Waste Enforcement Fee

Authority. The City municipal code section 9.10.960, through authority provided in California PRC sections 43213 and 43222 authorize the City's LEA to recover a Solid Waste Enforcement Fee for the implementation of "comprehensive" solid waste enforcement duties mandated in state law (PRC Division 30, and CCR Title 14 & 27), and municipal code. The City LEA acts as the lead permitting and enforcement agency for the CIWMB for all solid waste facilities, operations, transfer, processing, handling, illegal dumping, storage and blight outreach, within the City. The CIWMB conducts ongoing "Certification" of the Code Enforcement Department, housed within the City's Planning, Building, Code Enforcement Division, as the LEA for the City.

Cost Basis and Assessment Method. This fee is paid by solid waste facility operators, including landfills, composting facilities, and transfer stations. For fiscal year 2008/09, the fee is "\$0.98 per ton of refuse, including cover material, inert construction material and recyclable material."

The fee is set by council resolution, and can change periodically through the City's Fees and Charges resolution.

Where Funds are Received and Name of Receiving Fund. The Solid Waste Enforcement Fee is currently imposed on operators of facilities with a Solid Waste Facility permit issued by the CIWMB. Facilities subject to this fee can include landfills, transfer stations, MRFs, and compost facilities. Operators pay this fee each month directly to the City, and revenues are deposited in the City's General Fund.

Amount Collected Annually and Projections through 2040. Since this fee is based upon facility throughput, the fee may increase at transfer stations, MRFs and composting sites within the City as the City processes more material for diversion. At the same time, the fee may decrease at landfills as less waste is disposed of at landfills. For fiscal year 2007/08, the total amount collected through this fee program was \$2,843,839.

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4. Commercial Solid Waste Collection Franchise Fee

The City maintains a non-exclusive franchise system for commercial waste haulers. There are currently about 20 haulers authorized to provide service in the City. Haulers that collect commingled recyclables and/or garbage are required to obtain a San José Business Tax Certificate and a Commercial Solid Waste and Recyclables Collection Franchise. The franchise grants the holder the right to compete with other franchisees to collect solid waste and commingled recyclables from non-residential properties in San José, and to provide temporary debris box services to residences, businesses and construction sites.⁴

Authority. The Commercial Franchise Fee is authorized by section 9.10.1710 of the City's Municipal Code.

Cost Basis and Assessment Method. The franchise fee amount is set by City Council resolution. Haulers who do not perform front loader service are exempt from paying franchise fees for the first 20,000 uncompacted cubic yards collected each year. For 2008/09, the commercial solid waste franchise fees remain unchanged as follows:

- a. \$3.67 per cubic yard for each uncompacted cubic yard of solid waste collected;
- b. \$11.01 per cubic yard for each compacted cubic yard of solid waste collected;
- c. \$61.17 per ton for each ton of solid waste collected by Green Team of San José in roll-off containers and compactors pursuant to the Agreement for Solid Waste Collection Services at City Facilities for which franchise fees are required to be charged by weight rather than volume; and,
- d. \$0.00 for collection of recyclables.

Recyclables are also subject to this fee; however, the amount of the fee has historically been set at \$0.00. By not assessing fees for recyclables collection, commercial haulers are provided a financial incentive to reuse or recycle and divert materials from landfill disposal.

Commercial franchise fees are not charged on waste collected under the City's CDDD program, except for the small fraction of these materials that are collected by a franchised hauler and delivered to a landfill within the City for disposal.

Where Funds are Received and Name of Receiving Fund. Commercial Solid Waste franchise fees are deposited into the City's General Fund. Franchise Haulers submit monthly on-line reports to the Environmental Services Department substantiating the fees paid to the City.

⁴ Council Agenda Report regarding granting of franchise to All Points Roll-Off, Inc., June 12, 2001.

Summary of Existing Fees

Limitations on How Fee or Tax Can Be Spent. There are no limitations on how this fee can be used by the City.

Amount Collected Annually and Projections Through 2040. For 2007/08, the City's General Fund received just over \$12 million and the City projects receiving \$11.8 million for the General Fund in 2008/09 through this fee. As the City moves toward achieving its Zero Waste goals, these fees collected will decrease in proportion to the decreases in waste disposal.

5. Commercial Source Reduction and Recycling Fee

San José maintains a non-exclusive franchise system for commercial waste haulers. There are currently approximately 20 haulers authorized to provide service in the City.

Authority. The California PRC authorizes the City to collect a commercial source reduction and recycling fee (also called the commercial AB 939 fee) to be used by the City in preparing, adopting and implementing the Integrated Waste Management Plan. The City adopted this fee under section 9.10.1435 of the San José Municipal Code.

Cost Basis and Assessment Method. This fee is assessed on commercial solid waste generators (i.e., businesses), and is collected by the solid waste collector (i.e., commercial franchised hauler). The solid waste collector (i.e., hauler) is required to remit the fee to the City, accompanied by a report that summarizes how the fees were calculated. There are late charges for late reports and for paying fees late. Nonprofit charitable reusers, such as non-profit thrift stores, are exempt from the fee. Currently, the City exempts Salvation Army, Goodwill, and Hope Services as nonprofit charitable reusers. Small businesses that generate less than one cubic yard of solid waste per week, and are approved for inclusion in the City's residential solid waste collection program, also do not pay the fee. Recyclables can be subject to this fee; however, the amount of the fee has historically been set at \$0.00.

The Commercial AB 939 fee amount is set by City Council resolution. For 2008/09, the commercial AB 939 fees remain as follows:

- a. \$0.89 per cubic yard for each uncompacted cubic yard of solid waste collected;
- b. \$2.67 per cubic yard for each compacted cubic yard of solid waste collected; and,
- c. \$0.00 for collection of recyclables.

Where Funds are Received and Name of Receiving Fund. This fee is deposited into the Integrated Waste Management Fund.

Limitations on How Fee or Tax Can Be Spent. The City's municipal code specifies that the "fees shall be used to pay the costs incurred by the City in preparing, adopting and implementing the Integrated Waste Management Plan required under Division 30 of the California Public Resources Code."

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Summary of Existing Fees

Amount Collected Annually and Projections through 2040. The Integrated Waste Management's budget documents project revenues of approximately \$3.2 million through this fee for 2008/09.

6. Construction and Demolition Diversion Deposit ("CDDD") Program

Authority. The CDDD Program is authorized by section 9.10.2400 of the San José Municipal Code.

Cost Basis and Assessment Method. The CDDD deposits are fees that are paid at the time of application for a building permit. Most small C&D projects are exempt from the deposit program, but larger projects are not. Deposits are returned to applicants when they provide documentation proving that at least 50 percent of the waste generated by the project was diverted from landfill disposal. Partial deposits can be refunded for applicants that diverted less than 50 percent. Many applicants do not claim refunds.

Where Funds are Received and Name of Receiving Fund. Deposits are placed into the Integrated Waste Management Fund until they are claimed. Deposits are officially considered "abandoned" one year after the project has been finalized or listed as inactive. At this time, abandoned deposits may be used for CDDD purposes.

Limitations on How Fee or Tax Can Be Spent. The City's municipal code section 9.10.2470 specifies the CDDD unclaimed deposits can be used, as follows:

"Moneys received by the City as diversion deposits shall be used only for:

- A. Payment of diversion deposit refunds;
- B. Costs of administration of the program established by this part;
- C. Cost of programs whose purpose is to divert from landfill disposal the waste from construction, demolition and alteration projects; and
- D. Costs of programs whose purpose is to develop or improve the infrastructure needed to divert from landfill disposal the waste from construction, demolition and alteration projects."

Amount Collected Annually and Projections Through 2040. Prior to 2007, the City did not recognize any CDDD "ineligible refunds" as revenues. For the 2008/09 and 2009/10 fiscal years, IWM has budgeted \$800,000 in revenue, due to "ineligible refunds." This revenue source will vary as C&D activity increases or decreases. There is also a lag between the time that a CDDD deposit is initially paid, and the time that the deposit is considered as "ineligible for refund" or an abandoned deposit. The Environmental Services Department and R3 are currently conducting a full evaluation of the CDDD program, including an assessment of the reasons why CDDD deposits are abandoned. Resulting modifications to this program could yield fewer abandoned deposits and result in lower annual revenues from this source.

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Summary of Existing Fees

7. County Planning Fee

Santa Clara County levies a fee at all solid waste facilities in the County to fund the preparation of its Countywide AB 939 documents and implementation of Countywide diversion programs approved by the Santa Clara County Recycling and Waste Reduction Commission.

Authority. This fee is authorized by the County Board of Supervisors, and is also approved by all of the cities in the County through the review process of the Recycling and Waste Reduction Commission (RWRC) and its Technical Advisory Committee.

Cost Basis and Assessment Method. The fee is \$0.56 per ton of waste disposed. The fee is also assessed at transfer stations on waste that is disposed of in out-of-county landfills.

Where Funds are Received and Name of Receiving Fund. This fee is collected by Santa Clara County. The County retains the fee.

Limitations on How Fee or Tax Can Be Spent. These funds are reserved for costs associated with preparing the Countywide Integrated Waste Management Plan; participating in the preparation of other documents required by AB 939, such as Source Reduction and Recycling Elements, Non-Disposal Facility Elements, and Household Hazardous Waste Elements; design and implementation of Countywide diversion programs, such as those currently in place for Home Composting, Green Business, and Green Building; and Countywide public education efforts.

Amount Collected Annually and Projections through 2040. These fees are remitted to the County. The City does not receive any funding from this particular Countywide fee.

8. Countywide AB 939 Implementation Fee and Countywide Household Hazardous Waste (HHW) Fee

The County assesses an AB939 fee (\$3.55) on all tons disposed in the County or transferred for out-of-County disposal. A portion of this fee (\$1.50) is distributed quarterly to the jurisdictions in the County based on the total waste disposed during that quarter by each jurisdiction. The other portion of the fee (\$2.05) is used to fund Household Hazardous Waste (“HHW”) programs in the County.

The County’s Environmental Health Department provides household hazardous waste (HHW) drop-off services for the entire County, including San José. The program is funded through several mechanisms, including a HHW fee assessed on tonnage disposed at disposal facilities in the County, grants, and fees paid by small-quantity generators.

Authority. This fee is authorized by the County Board of Supervisors, and is approved in advance by all of the cities in the County through written agreement.

Cost Basis and Assessment Method. The AB 939 Implementation portion of the fee is \$1.50. The HHW fee is \$2.05 per ton. The entire fee is

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Summary of Existing Fees

assessed on in-county waste disposal and is also assessed at transfer stations on waste that is disposed of in out-of-county landfills.

Where Funds are Received and Name of Receiving Fund.

The overall fee is collected by Santa Clara County. The County remits \$1.50 of the fee (the AB 939 Implementation portion) to the City of waste generation. The County calculates the amounts due to the cities quarterly. When fees are remitted to the City of San José, they are deposited into the Integrated Waste Management Fund.

For the HHW portion of the fee, a formula is used for calculating fixed costs and variable costs of the program, and that formula is used to calculate the costs for each city's portion of the program. For some cities, the \$2.05 per ton fee at the landfills is sufficient to cover all HHW program costs, and for other cities, the \$2.05 per ton fee is insufficient. For San José, the \$2.05 per ton fee at the landfill has exceeded actual program costs that are covered by the County program. As a result, the County has remitted approximately \$200,000 per year to the City of San José for use in funding the City's additional HHW programs. This money is deposited into the IWM Fund.

Limitations on How Fee or Tax Can Be Spent. Funds are to be spent on AB 939 Implementation and HHW programs only, respectively.

Amount Collected Annually and Projections through 2040. The City has received approximately \$1 million per year through the AB 939 portion of this fee, and has projected receiving approximately \$1 million per year for the next few years through this fee.

For the HHW portion of this fee, the County typically receives in excess of \$1 million annually on behalf of San José, and operates the HHW program with those funds. The San José portion that is in excess of the program's fixed and variable expenses, as allocated to San José, have been approximately \$200,000 per year. The City projects that this additional revenue will continue to be approximately \$200,000 per year for the next several years.

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Summary of Existing Fees

Table 2-2, below, summarizes the various fee and tax revenues that the City receives each year related to solid waste.

TABLE 2 - 2 Summary of Fees 2008/09 Time Period (rounded to nearest hundred thousand dollars)		
Fee Name	General Fund Revenues	IWM Fund
1. Disposal Facility Tax	\$13,200,000	
2. Disposal Facility Operator AB 939 Fee		\$0
3. City Solid Waste Enforcement Fee ¹	\$3,300,000	
4. Commercial Solid Waste Collection Franchise Fee	\$12,000,000	
5. Commercial Source Reduction and Recycling Fee		\$3,200,000
6. Construction and Demolition Diversion Deposit ("CDDD") Program		\$800,000
7. County Planning Fee		\$0
8.A. Countywide AB 939 Implementation Fee		\$1,000,000
8.B. Countywide Household Hazardous Waste ("HHW") Fee, portion returned to City		\$200,000
Subtotals, by Fund	\$28,500,000	\$5,200,000
GRAND TOTAL	\$33,700,000	

¹ Although this fee is designated for code enforcement, the revenues are placed in the City's General Fund.

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Options for Modifying Existing Fees

This section reviews some potential opportunities for modifying existing fees. Further analysis for any of these options will include a thorough legal review and a cost study to confirm that costs attributed to a fee are appropriate, not recovered by another fee, and fee revenue does not exceed cost recovery.

- A. Some of the fees summarized in this report can be set to automatically increase every year provided the increase does not exceed actual cost of the programs.

Automatic increases can reduce uncertainty for fee-payers, because they will know about scheduled increases in advance. Also, small annual increases can reduce the need for periodic larger increases (“spikes”) in fee amounts. For example, the County of Los Angeles assesses a “Countywide Integrated Waste Management Fee” on all tons disposed of in the County. That fee will increase each year at the same percentage increase as the Consumer Price Index.

- B. The City could explore revising its ordinance to assess the disposal facility tax on the waste that is collected in the City but disposed of in landfills outside of the City, thus avoiding payment of the City’s Disposal Facility Tax.

- C. If the State and the County consider charging an AB939 fee on materials used for alternative daily cover (“ADC”) and for other “beneficial uses” at disposal facilities, the City may want to evaluate taking similar action.

As an example, a Los Angeles County ordinance allows the Director of Public Works to establish standards for exemption for non-soil ADC materials. One advantage of this approach would be that a new fee on ADC would bring in new revenues from collectors, such as landscapers, which currently pay no solid waste related fees or taxes to the City.

- D. If the State considers expanding or clarifying local government’s authority for charging AB939 fees, the City might consider imposing fees on materials that are collected and/or processed in the City, but are recycled or composted, and not disposed.

The City could still keep the diversion incentive in place by placing much smaller fees on recycling and composting than disposal. Such a fee might affect companies that are not currently paying integrated waste fees or taxes to the City. Example companies are clean-up companies and haulers that do not obtain a franchise to collect in the City.

- E. The CDDD program is a major component of the City’s waste diversion plan. These materials constitute a large percentage of the City’s waste stream, yet the City receives no franchise fees related to

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Options for Modifying Existing Fees

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Options for Modifying Existing Fees

the collection or processing of C&D materials, except for the small fraction collected by franchised haulers for disposal at landfills within the City. There are several points at which a fee could be collected, and there are advantages and disadvantages of assessing the franchise fees and/or cost recovery fees in various ways, as discussed below.

- i. Assess the fee when a building permit or demolition permit is issued. This is the same fee assessment method that is used to collect CDDD deposits. One disadvantage of assessing a fee on CDDD material as a condition of receiving a building permit is that it increases the total cost burden of receiving a building permit.
 - ii. A second option would be to retain a small portion, perhaps five percent of the CDDD deposit amount, as a “City Administrative Fee,” that could be used by the City as though they were franchise fees. As a result, the CDDD deposit program would only return ninety-five percent of the deposit back to an applicant who fully complies with the program requirements. This option would bring in new monies for the general fund in addition to the monies from the “ineligible deposits” that accrue to the Integrated Waste Management Fund.
 - iii. A third option would be to assess franchise fees or business license taxes on the CDDD facilities themselves. One disadvantage of this approach is that the fee would apply to CDDD facilities that are located in the City of San José; the City would have no authority to assess franchise fees on facilities that are located in another jurisdiction.
 - iv. A fourth option would be to assess franchise fees on C&D waste that is collected by the franchised haulers. A disadvantage of this approach is that C&D waste is hauled by many types of entities, and only some of them are franchised. The franchised haulers could be put at a disadvantage when competing for business to haul C&D waste.
- F. In Commercial system re-design, as new exclusive franchise agreements are put in place, the City could explore requiring haulers to pay a fee for waste disposed of in landfills outside of the City.

Except for the Solid Waste Enforcement Fee (“SWEF,”), landfill fees set by the City, County and State are currently applied only to wastes that are reported as “disposal” under the State’s Disposal Reporting System. This excludes the materials that were exempted from the Disposal Facility Tax in 1992 (cover material and inert construction material used at the disposal facility and recyclable materials that are removed from the sites.) As reporting requirements and operations have changed over time, it also excludes Alternative Daily Cover and other waste materials that are put to “beneficial use” at the site, such as shredded yard

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trimmings used for erosion control and C&D processing residues delivered to other facilities for use as Alternative Daily Cover. As a result, more than 30% of landfilled wastes are now exempted from fees and taxes. The City will continue work with the County to evaluate applying the Countywide AB 939 Implementation Fee to a broader range of landfilled materials.

- G. Commercial franchise fees can be assessed on gross receipts, rather than on loose cubic yards. Assessing commercial franchise fees on gross receipts would ensure that the City was receiving a portion of the revenues for all integrated waste management services, not just garbage collection service. It will be especially important to collect franchise fees on the expanded basis of services, as the City implements new programs to reduce the amount of commercial waste landfilled. Over time, as haulers' rates increase, their gross receipts will increase, and the City's franchise fee receipts would increase accordingly.
- H. Remove the 20,000 uncompacted cubic yard annual exemption for Franchised Haulers who do not perform front loader service from paying the Commercial Solid Waste Franchise Fee. The exemption was originally designed to apply to small businesses, but it currently affects the majority of haulers that provide debris box services (approximately 18 haulers). The annual value of removing this exemption is over \$1.3 million in increased General Fund revenues.
- I. The Mayor's March, 2008 Budget Message emphasized that all City departments should assess fees that provide for full cost recovery. Accordingly, the Integrated Waste Management Department could review the fees it charges for certain activities, to ensure the fees reflect reasonable cost recovery. Examples include the fee charged to non-disposal solid waste facilities (such as transfer/processing stations and Material Recovery Facilities) for an amendment of the City's Non-Disposal Facility Element ("NDFE"), or the fee charged to a solid waste hauler for initial application or renewal of their annual franchise. The fees that are currently charged to the haulers and facility operators are nominal, and do not cover the cost of staff time that is needed to process the applications or renewals.

Options for Modifying Existing Fees

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Options for Modifying Existing Fees

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Alternative Revenue Generating Mechanisms

List of Alternative Revenue Generating Mechanisms that are Included in this Report

This section summarizes seven revenue generating mechanisms that are not currently being used by the City. Many of these mechanisms are being used in various Cities throughout the state, and we have provided examples of these practices. Further analysis for any of these mechanisms will include a thorough legal review and a cost study to confirm that costs attributed to a fee are appropriate, not recovered by another fee, and fee revenue does not exceed cost recovery.

The alternative revenue generating mechanisms included in this report are:

1. Fees Assessed on the Hauler. This fee type includes a group of various fees that are assessed on haulers, including franchise fees, AB 939 fees, public education fees, billing fees, administrative fees, etc.
2. Solid Waste Development Impact Fees. These fees are designed to help a municipality recover the initial capital costs associated with expanding its solid waste operations to accommodate and serve new developments.
3. Vehicle Impact Fees. Vehicle impact fees are fees that are charged to collection service providers to recover street maintenance costs associated with the collection of solid waste, recycling, and yard waste.
4. Street Sweeping Fees. These are designed to recover costs of street sweeping by applying a portion of the street sweeping cost to each user, either on a per-account basis, or on a percentage basis.
5. Host Fees Assessed on Solid Waste Facilities. Host fees are fees charged to solid waste facility operators. Such facilities include landfills, transfer stations, or material recovery facilities (“MRFs”). Host fees are designed to recover street maintenance, litter abatement, code enforcement or other costs resulting from the impacts of the facility.
6. Extended Producer Responsibility (“EPR”) Fees and Advanced Disposal or Advanced Recycling Fees. Extended Producer Responsibility is a policy approach that extends the responsibility of producers for their products throughout the products’ lifecycles. There are generally no governmental fees associated with EPR. Governmental fees are more likely to take the form of an

Section 4 Alternative Revenue Generating Mechanisms

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Alternative Revenue Generating Mechanisms

Advanced Recycling Fee, where the government collects a fee at the point of sale for a particular product, and uses the fee revenue to fund recycling programs for that type of product.

7. Revenues from the Sale of Carbon Credits. Carbon credits may be available for sale if they are allowed for recycling programs through a future “cap-and-trade” system for greenhouse gas emissions, which may be established in California or the entire United States in the next few years.

Framework for Descriptions of Alternative Revenue Generating Mechanisms

We developed the following framework to describe each potential new revenue source that is included in this section of this report:

- Name of Revenue Generating Mechanism;
- General Description;
- Consistency with City’s Existing Programs;
- Risks and Constraints, such as Proposition 218; and,
- Volatility of Funds from this Mechanism and Expected Revenues.

Methodology

To gather information on Alternative Revenue-Generating Mechanisms, we reviewed our internal databases in order to identify revenue-generating programs related to solid waste that are currently being used by other cities in California. We then contacted cities by telephone to verify the current fee amounts and structures of the fees. In some cases, we conducted telephone surveys to gather new information. Some cities also provided background documents to us.

Researchers also included attending a seminar on carbon credits, and reviewing published works on carbon credits and EPR.

1. Fees Assessed on the Hauler

General Description

Franchise fees, AB 939 fees, and other administrative fees are assessed on refuse collection contractors in the majority of cities in the State of California. The various fees can include franchise fees, AB 939 fees, public education fees, billing fees, administrative fees, environmental mitigation fees, etc. There are a variety of methods for fees assessed on the hauler, including:

- Annual flat fee, either a fixed flat fee, or a base amount that is either fixed in some cases, or adjusted annually by changes in the Consumer Price Index (“CPI.”) Example cities for flat franchise fees include Oakland, Las Gallinas, Novato, West Bay Sanitary District, and Sunnyvale;

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- The most common franchise fee and AB 939 fee assessment method is a percentage fee based on gross receipts, or receipts net of disposal costs. Hundreds of cities in California assess fees using this method, and the fees are required by either municipal code language or contract language. The percentage amounts of the fees range from 2% to 24%. Many cities assess BOTH franchise fees and AB 939 fees;
- Specific dollar amount per ton or per cubic yard. The City currently collects AB 939 fees in this way, and a few cities collect AB 939 fees on a per-ton basis; and
- Fees per account, such as an amount per account per year or per month.

In general, these fees are included in the rates that customers pay, and are not shown on the customers' bills.

Consistency of Hauler Fees with City's Existing Programs

Franchise fees are authorized by the City's municipal code. Franchise fee requirements are included as a provision in the franchise agreement between the City and the Hauler, and/or the agreement may reference the municipal code. For the City, new franchise fees could be imposed at the time that new contracts are established. Many cities consider franchise fee revenues as unrestricted revenues, and franchise fees are generally deposited into the city general funds.

Volatility of Hauler Fees, and Expected Revenues through 2040

If franchise fees are set as a percentage of gross receipts, the amount of franchise fees collected would change each year, based on the collection contractor's overall revenues. The haulers' revenues, and thus the City's franchise fees, generally rise and fall as the overall economy rises and falls.

If franchise fees are set as a fixed dollar amount per year for the entire contract term, they would remain stable over time. Cities with fixed dollar amount franchise fees typically include an escalator clause, so that the dollar amount increases each year, in keeping with inflation.

Table 4 – 1 below provides a sample of the fees assessed on the hauler by various cities.

Alternative Revenue Generating Mechanisms

**TABLE 4 - 1
Summary of Fees Assessed on the Hauler**

City	Population, 2008	Exclusive or non-Exclusive Commercial Collection	Fee Name	Fee Methodology	Annual Escalator	Annual Amount / Percentage	How Are Fees Assessed?
Elk Grove ⁽¹⁾	139,542	Permit System	Commercial Refuse Hauler Fees	% of Gross Revenue	No	Amount Ranges from 8% to 35% based on Diversion Amounts	Included in rates
Las Galinas Sanitary District	48,383	Yes	Franchise Fee	Flat Fee	No	\$25,000	Included in rates
City of LA ⁽²⁾	4,045,873	Permit System	AB 939	% of Gross Revenue	No	10%	All Customers
Novato	52,737	Yes	Franchise Fee	Flat Fee	No	\$45,000	Included in rates
Oakland	420,183	Yes	Franchise Fee	Flat Fee	Yes, 80% of CPI	\$4,320,000	All Customers
			Other Fees	Flat Fee	Yes, 80% of CPI		All Customers
Rancho Santa Margarita	49,764	Yes	Franchise Fee	5%			Included in rates
			Outreach Fee	Flat Fee	Yes, CPI	\$60,000	Included in rates
San Francisco	824,525	1 Hauler with 2 permits	Impound Account	Calculated Amount	Based on City Solid Waste Budget	\$6,000,000	Residential Only
Sunnyvale	137,538	Yes	Franchise Fee	Flat Fee	Yes, 100% of CPI	\$1,535,737	All Customers
San Diego	1,336,865	Permit System	AB 939 Fee ⁽³⁾	\$7.00 Per ton	Set by Council Resolution	\$10,100,000	Included in rates
			Franchise Fee ⁽³⁾	\$12.00 per ton			Included in rates
			Refuse Collector Business Tax ⁽⁴⁾	\$8.00 per ton			Included in rates
West Bay Sanitary District	3,000	Yes	Franchise Fee	Flat Fee	No	\$5,000	Included in rates

⁽¹⁾ Fee is based on diversion requirement of 30% or greater = 8% fee, Under 21% diversion = 14% fee, Less than 3% diversion = 35% fee

⁽²⁾ Applies to haulers collecting over 1,000 tons per year

⁽³⁾ Applies to haulers generating over 75,000 tons per year

⁽⁴⁾ Applies to self haul tons over two ton loads and all out-of-City waste

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2. Solid Waste Development Impact Fees

General Description

Solid waste development impact fees are designed to help a municipality recover the initial capital costs associated with expanding its solid waste operations to accommodate and serve new developments. Expansion costs that need to be recovered may include the costs of purchasing solid waste and recycling collection vehicles and collection containers, building new facilities or expanding current ones, and occasionally include the costs of recruiting new staff. These fees are specifically related to one-time expansion costs, as opposed to on-going operating costs.

Residential impact fees are typically calculated on a per unit basis, while commercial impact fees are typically calculated on the basis of waste volume. Cities may re-calculate the fees every few years, or increase the fee each year by the Consumer Price Index (CPI), or other escalation factor.

R3 has identified 8 cities in California that assess or are considering assessing such fees on new developments: Clovis, Redlands, Merced, Hanford, Lompoc, Hemet, Fresno and Roseville.

Consistency of Development Impact Fees with City's Existing Programs

Development fees are generally stand-alone programs, and do not impact the City's existing programs or existing contracts. However, most cities are sensitive to the financial pressure that new development fees place on new development in the City, and may waive certain development fees in times of lower volumes of new construction.

Volatility of New Development Impact Fees, and Expected Revenues through 2040

New developments can be expensive for the City to service initially. For example, providing new carts and public education to a new home can cost the City \$150 – 200 as a one-time cost. Some proposed new developments may have 5,000 to 10,000 new homes, and at \$150 per home, the costs to the City to set up new collection services for 5,000 homes could range from \$750,000 to \$1,000,000.

New development impact fees are subject to new construction cycles. In times of more development, the fees would rise, and the fees would be lower in years where new development volumes decrease. Table 4 – 2 below summarizes the fees charged by the cities and other related details.

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Alternative Revenue Generating Mechanisms

TABLE 4 - 2 Summary of Development Impact Fee Survey							
City	Fee Amount Per Building Type					Fee Methodology	
	Single-Family (\$/unit)	Multi-Family (\$/unit)	Mobile Home (\$/unit)	Com.	Ind.	Res.	Com.
Redlands	\$650	\$325	N/A	\$52/ppd		N/A	Waste Generation
Hemet Container	\$59	\$59	\$59	\$225 - \$520		Per Unit	Waste Volume
Equip.	\$53	\$37	\$53	\$0.033/ gsf	\$0.027/ gsf		
Clovis	\$306	\$114	N/A	\$114/unit		Per Unit	Fixed Rate/ Waste Volume
Lompoc	60 gal - \$67.41	No Standardized Fee. Dependent on the number and size of containers at the project site.				Per Unit	Waste Volume
	90 gal - \$68.48						
	350 gal - \$271.68						
	450 gal - \$341.57						
Merced	\$299.55	\$207.55	\$299.55	All non-residential cost of bin + proportion of truck used		Per Unit	Waste Volume
Hanford	\$215.46	\$119.79	N/A	All non-residential cost of bin + proportion of truck used		Per Unit	Waste Volume

ppd = pounds per day
gsf = gross square foot

3. Vehicle Impact Fees

General Description

Vehicle impact fees are fees that are charged to collection service providers to recover street maintenance costs associated with the collection of solid waste, recycling, and yard waste. In addition, some cities have imposed vehicle impact fees on construction vehicles, as well. A vehicle impact fee can be determined by analyzing the impacts of the vehicles on the jurisdiction's streets as a percentage of total vehicle impacts and allocating a proportional share of street maintenance cost requirements to those vehicles.

There are over 30 cities in California that have studied refuse vehicle impact fees and/or construction vehicle impact fees. We have included details for seven cities in California that have assessed a vehicle impact fee: Alameda, Modesto, Menlo Park, Rolling Hills Estates, Tiburon, Twenty-nine Palms, and Woodside.

Consistency of Vehicle Impact Fees with City's Existing Programs

Once the vehicle impact fee amount is calculated, it can be assessed in a variety of ways. For refuse vehicle impacts, a flat fee can be charged to the hauler, with or without an annual escalator, or a fee can be calculated as a percentage of gross receipts.

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For construction vehicle impacts, the fee can be assessed as a percentage of permit valuation, on a per-square-foot of construction basis, or in other ways, as determined by the City.

Volatility of Vehicle Impact Fees, and Expected Revenues through 2040

Table 4 – 3 below summarizes cities implementing a vehicle impact fee and the fees charged by the cities.

Alternative Revenue Generating Mechanisms

**TABLE 4 - 3
Summary of Vehicle Impact Fees**

City	Population, 2008	Does City charge a Vehicle Impact fee on refuse? On construction?	When was VIF established?	Is the fee charged to the hauler only, or is it visibly shown on the customer's bill?	If charged to hauler, how? Annual lump-sum payment to City?	How much does the City collect annually from this fee?
Alameda	75,823	Yes	2002	Fee is charged to customer, but was reimbursed to the customer by the City for the first two years		N/A
Modesto	209,936	Yes Refuse		10.5% of gross receipts passed through on the garbage rates charged to customers	N/A	\$1.7 million
Menlo Park	31,490	Yes Construction	2005	Fee is charged to contractor	0.58% of the total construction project value and exempting residential alterations, residential repairs, and all projects less than \$10,000 in value	varies
Rolling Hills Estates	8,185	Yes Refuse	2005	Hauler Only	Annual lump-sum in advance	\$131,250 4/1/08 \$150,000 4/1/09
Tiburon	8,917	Yes Refuse & Construction	2005		Construction - 1% of permit valuation	Refuse - \$70,000
Twentynine Palms	27,966	Yes Refuse	2004	Hauler Only	15% franchise fee to offset costs of impacts to streets	N/A
Woodside	5,625	yes Construction	1991	Fee is charged to contractor / hauler	\$1 / cubic yard, for everything over 30 cubic yards	varies

4. Street Sweeping Fees

General Description

Street sweeping fees are included in refuse collection rates in cities throughout California. In San José, street sweeping costs are included in residential refuse collection fees, and some commercial street sweeping costs are also charged to businesses.

In many cities, street sweeping fees are designed to simply recover costs of street sweeping by applying a portion of the street sweeping cost to each user, either on a per-account basis, or on a percentage basis. In addition to street sweeping, some cities also recover costs for tree trimming and/or median island maintenance through the solid waste fund as well. R3 has identified 8 cities in California that assess or are

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Alternative Revenue Generating Mechanisms

considering assessing such fees on new developments: Calabasas, Claremont, Culver City, Glendale, Merced, Santa Monica, Sacramento and Whittier.

Consistency of Street Sweeping Fees with City's Existing Programs

In the City, the cost of residential street sweeping is already passed through to residential customers, included in the residential rates.

Volatility of Street Sweeping Fees, and Expected Revenues through 2040

Table 4 – 4 below summarizes cities implementing street sweeping fees and the fees charged by the cities.

TABLE 4 - 4 Summary of Street Sweeping Fees								
City	Population, 2008	Street Sweeper	Dept/Fund Cost is Acctd	Are Fees Assessed to Customer?	How Are Fees Assessed	In refuse rates or as separate rate?	Allocation Method (Res/Com)	Do you conduct protest hearings?
Calabasas	23,725	Yes	AB 939 Regulatory Fees	Per Ton, sliding scale	No	Approx. \$230,000 per year	Fees are charged on a per-ton basis, with the dollar amount of the fee dependent on the quarterly diversion rate of the hauler, ranging from \$12.50/ton for 50% diversion, to \$10/ton for 75% diversion.	AB 939 fund
Claremont	37,242	Contracted Out	Sanitation Fund	Yes	Com. - by bldg. \$10/month/owner Single Family - \$10.31 per qtr per/home	Separate charge on refuse bill	N/A	No. On bills prior to 1996
Culver City	40,694	Clean Street	SW Acct	Yes	N/A	In refuse rate	By curb mile, 48% residential, 52% commercial	Yes for Residential Rates
Glendale	207,157	City Crews	Integrated Waste Mgmt Fund	Yes	N/A	in "refuse base rate" but not itemized	By curb mile, 80% residential, 20% commercial	N/A
Merced	80,608		Solid Waste Rates	Yes	\$1.53 per month per customer	In refuse rate	N/A	N/A
Santa Monica	91,439	City Crews	Solid Waste Ent. Fund	Res - no Comm - yes	Water meter size (1", 1 1/4", 2")	Res - Included Comm - separate fee	N/A	Pre 1996
Sacramento	475,743	City Crews	Public Works Ent. Fund	Yes	Variable from \$1.24 to \$4.06 per month, based on type of service account	Fees on Utility Bills	N/A	N/A
Whittier	86,945	City Crews	Public Works Ent. Fund	Yes		Separate charge on refuse bill	N/A	N/A

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5. Host Fees Assessed on Solid Waste Facilities

General Description

Host fees are fees charged to the solid waste facility operators. Facilities may include landfills, transfer stations, or material recovery facilities (“MRFs”). Host fees are designed to recover street maintenance, litter abatement, code enforcement, or other costs resulting from the impact of such facilities. A host fee can be determined by analyzing the cost impacts related to vehicles on the jurisdiction’s streets, potential litter abatement costs, and staff costs for inspections. Host fees are sometimes calculated by allocating a proportional share of those costs to each ton of material that the facility receives.

Hosts fees may be assessed on the following materials or other bases:

- All tons disposed (may exempt tons diverted);
- All tons received;
- Out of City/County tons;
- A percentage of gate revenue; or
- A fixed amount per year.

Consistency of Host Fees with City’s Existing Programs

Host fees are authorized through various mechanisms, including through the City’s municipal code, Conditional Use Permits, Franchise Agreements, Memorandums of Understandings (MOU’s), or Business Permits. Host fee requirements are typically listed as a clause in the contract between the host city and the facility operator, and/or the contract may reference the municipal code. For the City, new host fees could be imposed at the time that new solid waste or recycling facilities are developed or existing solid waste or recycling facilities are expanded. There may also be opportunities to charge host fees on solid waste facilities located on public property like the HHW facility on Las Plumas or facilities which may be located in the future on lands owned by the City-Santa Clara Water Pollution Control Plant.

Host fees may be considered either unrestricted revenue or revenue to be used for a defined purpose. Many cities consider host fee revenues as unrestricted revenues and are host fees are generally deposited into a city’s general fund.

Volatility of Host Fees, and Expected Revenues through 2040

If a per-ton fee assessment method is used, the volatility of host fees would be related to the volume of material received by the facility. Solid waste volumes will generally rise and fall with the economy, and with development. Solid waste volumes may fall as new diversion programs are implemented.

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Alternative Revenue Generating Mechanisms

If the assessment method is a flat fee, the impacts may be as follows:

The host fee amount would be exactly the same every year, unless an escalator clause is included that would increase the fee each year.

While a flat fee protects the City from lower revenues in times of lower waste volumes, it also keeps the City from sharing in higher revenues when larger waste volumes are received.

The impacts on the facility are the opposite. The facility may suffer from the relatively high obligation of the flat host fee when waste volumes are low, and may experience proportionally higher profits when waste volumes are higher, due to the flat host fee.

Host fees based on disposal or out-of-city/county tons will decrease as the cities implement new programs to support zero waste goals.

Host fees based on all tons including disposal, diverted, and recyclable tons will experience less volatility in total revenue generate per year through the year 2040.

Table 4 – 5 below provides a sample of the Host fees assessed on various solid waste facilities in California.

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**TABLE 4 - 5
Facility Host Fees**

Facility	Facility Location	Owner	Operator	Permitted Tons/Day	"Host" Fee	Authorization	Adjustment	Based on	Equivalent Fee/Assessed Per Ton	Recipient/ Use
Transfer Stations & Recycling Facilities										
Downey Area Recycling & Transfer - DART	Downey	Los Angeles County Sanitation District	Los Angeles County Sanitation District	1,500	\$1.32 per ton	Development Agreement	Based on tipping fees and sale of recyclables	Disposal tons and recycling sales	\$1.32	General Fund
Rainbow Transfer Station & MRF	Huntington Beach	JBST Properties	Rainbow Disposal	2,800	2% of gross receipts	Franchise Agreement	None	Public dumping charges ("paid disposal")	\$0.64	General Fund
Waste Management Transfer Station	South Gate	Waste Management	Waste Management	2,000	\$400,000 per year	Operating Agreement	CPI	Flat fee	\$0.64 or more, depending on actual throughput	General Fund
South Gate Transfer Station	South Gate	Los Angeles County Sanitation District	Los Angeles County Sanitation District	1,000	\$1.26 per ton	Permit Fee	CPI	All inbound tons	\$1.26	General Fund
Interior Removal Specialist - MRF	South Gate	Interior Removal Specialist	Interior Removal Specialist	3,000	\$1.25 per ton	Permit Fee	\$.05 per ton per year	All inbound tons	\$1.25	General Fund
Hanson Aggregate C&D Recycling	South Gate	Hanson Aggregate C&D Recycling	Hanson Aggregate C&D Recycling	1,000	2% of gate revenue	Permit Fee	Based on gate revenues	All inbound tons	\$.14 (3)	General Fund
Landfills										
Olinda Alpha Sanitary Landfill	Brea	County of Orange IW MD	County of Orange IW MD	8,000	\$1.50 per ton (1)	MOU	Adjusts to \$1.50 per ton on 2014	All <u>Out-of-city</u> tons	\$1.50 per ton (1)	City of Brea Sanitation and Streets Fund
Colton Sanitary Landfill	Colton	City of San Bernardino	City of San Bernardino	3,100	\$1.00 per ton (2)	MOU	No	Disposal tons	\$1.00	City Of Colton
Scholl Canyon Landfill	Glendale	City of Glendale	Los Angeles County Sanitation District	3,400	25% of Gate Fee	City Ordinance	Based on Tipping fee	All <u>Out-of-city</u> tons	\$10.02	City of Glendale General Fund
Frank K. Bowerman Sanitary Landfill	Irvine	County of Orange IW MD	County of Orange IW MD	8,500	\$1.50 per ton (1)	MOU	Adjusts to \$1.50 per ton on 2014	All <u>Out-of-city</u> tons	\$1.50 per ton (1)	City of Irvine Sanitation and Streets Fund
Puente Hills Landfill	Los Angeles County - Unincorporated Area (Whittier)	Los Angeles County Sanitation District	Los Angeles County Sanitation District	13,200	\$1.00 per ton	CUP	No	Disposal tons	\$1.00	Los Angeles County Community Enhancement Fund
					\$1.00 per ton	CUP	No	Disposal tons	\$1.00	Puente Hills Native Habitat Land Trust
					10% of Gate Fee	County Ordinance	Based on tipping fee	Disposal tons	\$2.94	Los Angeles County General Fund
San Timoteo Sanitary Landfill	Redlands	County of San Bernardino	County of San Bernardino	1,000	\$1.00 per ton (2)	MOU	No	Disposal tons	\$1.00	City of Redlands
Mid-Valley Landfill	Rialto	County of San Bernardino	County of San Bernardino	7,500	\$4.98 per ton	Development Agreements	Yes	Disposal tons	\$2.49 to each city	City of Rialto and City of Fontana
Victorville Sanitary Landfill	Victorville	County of San Bernardino	County of San Bernardino	1,600	\$.50 per ton (2)	MOU	No	Disposal tons	\$0.50	City of Victorville and City of Hesperia

(1) The Host fee is a fixed amount until 2014. Then the fee converts to \$1.50 per ton.

(2) Landfill Mitigation Fund - for mitigation of hosting landfill, road repair, illegal dumping

(3) Source - Estimated amount per ton by Public Works Director

6. Extended Producer Responsibility Fees and Advanced Disposal/Recycling Fees

General Description

Extended Producer Responsibility (“EPR”) is a policy approach that extends the responsibility of producers for their products throughout the products’ lifecycles. There are generally no governmental fees associated with EPR. The original definition by Professor Thomas Lindqvist emphasized “total life cycle environmental improvement of product systems by extending the responsibilities of the manufacturer of the product to various parts of the entire life cycle of the product, and especially to the take-back, recycling and final disposal of the product.”⁵ EPR can include programs that emphasize the end-of-life management of products, after consumers discard them. Alternatively, the definition used by the California Integrated Waste Management Board emphasizes reducing environmental impacts:

“Extended Producer Responsibility (EPR) is the extension of the responsibility of producers, and all entities involved in the product chain, to reduce the cradle-to-cradle impacts of a product and its packaging; the primary responsibility lies with the producer, or brand owner, who makes design and marketing decisions.”⁶

The vast majority of EPR systems are established at the country or state level. EPR systems would be difficult to establish for an individual city, because if a manufacturer refused to participate, that manufacturer could still offer their products for sale in neighboring jurisdictions. In addition, it is difficult and costly for a jurisdiction to establish enforcement systems with manufacturers and retailers, because, unlike state governments, these are not pre-existing enforcement relationships. State governments are already in the business of imposing sales taxes and regulating products sold by retailers, for example. There may also be issues of consistency with state law.

Advanced Disposal/Recycling Fees

An alternative policy to EPR is one that uses “Advanced Disposal Fees” or “Advanced Recycling Fees” collected when products are purchased. When using an Advanced Recycling Fee, the government collects a fee at the point of sale for a particular product, and uses the fee revenue to conduct recycling programs for that type of product. This approach

⁵ Lindqvist, Thomas. (2000) *Extended Producer Responsibility in Cleaner Production*. IIIIEE Dissertations 2000:2. Lund: IIIIEE, Lund University.

⁶ California Integrated Waste Management Board, EPR Framework Policy

generally has higher administrative costs than EPR systems, because it involves a third party, the government, in the process.

California Electronic Waste Recycling Act

An example of an Advanced Recycling Fee (“ARF”) is California’s Electronic Waste Recycling Act, which went into effect in 2005. In this system, consumers pay an advanced recycling fee when they purchase a product covered by the act, such as a computer monitor or television. The fees paid by consumers are deposited into a fund that is managed by the State of California. The state then pays recyclers for collecting and processing electronics that are collected under the Act. One of the goals of the Act was to relieve local governments of the costs of collecting and recycling electronic wastes, which are banned from landfill disposal.

Environmental Levy for Alcohol Bottles in Ontario, Canada

The Province of Ontario, Canada places an environmental levy of 10 cents on non-refillable alcohol containers. This offers brewers, vintners and alcohol producers a financial incentive to package in refillable bottles. Funds from the environmental levy are placed in the general fund of the province, and there is no restriction on how the funds can be spent. This example shows how one Extended Producer Responsibility fee is used to bring funding to a government, though the primary purpose of the fee is to encourage greater use of refillable alcohol beverage containers.

San Francisco’s Litter Reduction Efforts with Businesses

The City of San Francisco has been exploring new ways to deal with litter production in the City. San Francisco conducted a survey of litter and found some of the top components of litter were cigarette butts and items related to fast food (napkins, containers, etc.) The City then began a dialogue with fast food retailers. Ideas have been explored to have retailers provide additional litter containers, and to “adopt-a-block” to clean up the entire block rather than cleaning limited to their own property. While such an approach would not bring fees directly to the City, if the businesses take on direct responsibility for more litter clean-up activities, the City’s cost of litter clean-up would be reduced.

Single-use Carryout Bag Reduction Initiative

The City is currently reviewing its options with reducing single-use carryout bags. These options may involve a component that would levy a fee on plastic and/or paper carryout bags. That fee could be used by the City for litter-related education and/or litter reduction related to single-use carryout bags. Such a fee should be carefully coordinated with the City Attorney to ensure compliance with State law. Some jurisdictions, such as the County of Los Angeles, have investigated assessing a fee on plastic carryout bags. The City is participating in the “Cities Keep It Clean” program, initiated by Save the Bay. The Cities Keep It Clean program is considering fees and/or bans for plastic grocery bags as one option to reduce litter.

Alternative Revenue Generating Mechanisms

Existing law requires large grocery stores to have on-site containers for collection of plastic bags for recycling. Recently proposed (but not approved) statewide legislation (AB 2058 and AB 2769) would have imposed a \$0.25 fee on single-use carryout bags at large grocery stores. A portion of the fee would have been remitted to the CIWMB, and monies would have been expended to administer and enforce the provisions of the single-use carryout bag law. The remainder of the fee would have been used for grants to cities and counties, to implement single-use carryout bag recycling, and pollution prevention and outreach programs. The law would have required stores to develop public education materials related to single-use carryout bag recycling.

Takeout Food Packaging

In recent years, more than a dozen cities in the State of California have begun to regulate takeout food packaging. Several of them have banned foamed polystyrene from City facilities, and others have banned foamed polystyrene from use for takeout food packaging at local restaurants. To date, these programs have not included a fee component; however, a fee or fine could be a component of these programs. Fees could be used for recycling education or litter reduction. The City is participating in the Save the Bay program, "Cities Keep It Clean." Fees or bans on non-biodegradable or non-compostable take out food containers are being considered as an option for reducing litter under that program.

Consistency of EPR or ARF Fees with City's Existing Programs

Extended Producer Responsibility aligns well with the City's Zero Waste planning efforts. Consistency of specific EPR or ARF fees with the City's existing programs would need to be determined on a case-by-case basis, depending on the product type.

There is usually a very strong link between imposing an EPR or ARF fee and the policy goal that the fee is intended to accomplish. EPR and ARF fees are not usually implemented in order to provide general fund revenues or overall program revenues. The example in Ontario Canada of the environmental levy on non-refillable alcohol beverage containers showed that an EPR fee was imposed to encourage refillables over one-way beverage containers, and a side benefit is that that fee provides general fund revenues to the Province. Another example is that the California electronics fee is used solely to fund the electronics program. A direct program-funding approach is nearly always the case in the design of ARF fee programs.

Volatility of EPR or ARF Fees, and Expected Revenues through 2040

EPR and ARF fees are generally tied to one specific type of product, and the annual amount of the fees collected is tied to the sales of the product. Fees are generally charged on a "per product sold" basis. This can be a very appropriate way to generate just the right amount of fees to handle a specific volume of waste. For instance, the electronic waste fees collected

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in the State of California increase as sales of electronic products increase, and that may occur at the same rate that old electronics are discarded.

Revenues from EPR and ARF fees would need to be projected on a case-by-case basis. Revenue projections would be speculative, because there are very few examples to draw from, especially on the level of an individual jurisdiction.

7. Revenues from the Sale of Carbon Credits

General Description

While there is widespread agreement that an industrial “cap-and-trade” system for greenhouse gas (“GHG”) emissions⁷ will be established in the United States in the next few years, there is a great deal of speculation and uncertainty about the exact details of that system. A “cap-and-trade” system would establish an overall upper limit, a cap, on the total amount of greenhouse gas emissions allowable nationwide. Within that overall cap, portions of the total allowable emissions would be allotted to various businesses and organizations within the country (or state, if a state system.)

An individual business or organization is termed an “operator.” Each operator would have an allowance of carbon credits. A carbon credit is a permit that allows the holder to emit one ton of carbon dioxide⁸. If their actual emissions were below the allowance, that operator would have excess carbon credits that could be sold. In contrast, if an operator chooses to exceed their allowance, that operator would have to purchase carbon credits from another operator. In this way, the market system seeks to reduce carbon emissions at the lowest possible cost. For example, in certain cases, it will be cheaper for an operator to purchase carbon credits from another operator than it will be to install new equipment to reduce emissions. Credits can be bought and sold, and can be widely traded in open markets, as is currently the case in many Countries that signed on to the Kyoto Protocol.⁹

⁷ The major greenhouse gases which affect the climate include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, and others. They are generally expressed in terms of carbon dioxide equivalents (eCO₂.)

⁸ One ton of carbon dioxide emissions is the standard unit of measurement for greenhouse gases. Emission of other greenhouse gases, such as methane, are expressed in “carbon dioxide equivalents,” based upon their relative global warming potential.

⁹ The Kyoto Protocol was adopted at the United Nations Framework Convention on Climate Change in 1997. It contains legally binding commitments for countries to reduce their anthropogenic emissions of greenhouse gases.

Alternative Revenue Generating Mechanisms

Legislation has been introduced in the United States Congress to implement a cap-and-trade system, but the legislation did not pass into law. In California, AB 32 became law in 2006. As a result of AB 32, the State's Air Resources Board is charged with establishing a program to reduce statewide greenhouse gas emissions. "The Act caps California's greenhouse gas emissions at 1990 levels by 2020. The Act authorizes the state board to adopt market-based compliance mechanisms including cap-and-trade."¹⁰

Consistency of Carbon Credits with City's Existing Programs

The City of San José is in the process of implementing new solid waste diversion programs that will reduce greenhouse gas emissions, and many more GHG-reducing programs are planned to be implemented as part of the City's Zero Waste Strategic Plan. However, these programs do not qualify as carbon credit projects under the currently available industry project protocols and standards. As mentioned, there is collaborative state action to coordinate programs to statewide greenhouse gas emissions reductions. California Climate Action Registry ("CCAR") will be working with the Air Resources Board to implement AB 32. In addition, CCAR has created a division called the Carbon Action Reserve. The purpose of this new division is to build more creditability into the voluntary, volatile carbon credit market. The Reserve has launched a growing public database of all carbon credits produced and then retired (retirement due to a monetary donation given to retire the credit). A prerequisite to build creditability and qualify credit projects is by creating standard guidelines of how to measure and report carbon credits. Currently the CCAR Reserve has four approved project protocols: Livestock, Landfills, Forest, and Urban Forestry. Although there are a limited number of project protocols currently approved, CCAR is working on creating several new project protocols. The most recent development includes discussions of developing a Co-Digester Protocol, which could potentially include some projects included in the proposed Zero Waste Strategic Plan.

The State of California has yet to decide the following key parameters of a cap-and-trade system:

- Which industries will be affected, and therefore given allowances that may be traded;
- The year of the baseline for new programs to "count" – typically, programs established before this year are considered "existing programs," and only "new" emissions reductions will qualify for carbon credits that can be sold;
- Which set of protocols might be used in California. There are several competing systems to calculate each "carbon credit," each

¹⁰ As taken from the web site of the Pew Center on Global Climate Change, regarding the California Global Warming Solutions Act of 2006.

with its own calculation methodology, and its own determination of what activities “count.”

Revenues from Carbon Credits – Risks and Constraints

There are many unresolved issues associated with carbon credits. The initial risk is that recycling and other waste reduction activities may be entirely left out of the State’s cap-and-trade system that is currently being designed by the Air Resources Board to implement AB 32. Therefore, recycling and composting may be ineligible for carbon credits. Waste reduction activities need to be defined in the California and/or national cap-and-trade system in order to create revenues from the sale of carbon credits.

If recycling and composting are eligible for carbon credits, the resulting issue is determining which entity owns the carbon credits. Some companies, such as lessors of rooftop solar panels, are preemptively including clauses in contracts that state that the carbon credits belong to the lessor, even though no such credits exist at this time. The City could likewise claim future rights to any carbon credits in its contracts with franchised haulers. This may or may not be effective for the City, however, since carbon credits may not be defined as belonging to the entity that produces the recyclables or compostables, but rather may be defined as belonging to the entity that purchases the recycled or composted material.

Volatility of Revenues from the Sale of Carbon Credits, and Expected Revenues through 2040

Timing, eligibility and pricing of carbon credits resulting from waste reduction activities is entirely speculative at this point. The City may benefit from remaining engaged in the ongoing discussions at the Air Resources Board. The City and others in the recycling industry may be able to advocate for inclusion of waste reduction activities, creating a potential benefit of additional financing for waste reduction activities in the future.

Carbon Offsets

A carbon offset is a consumer product in which consumers can purchase “carbon offsets” to balance the impact of carbon emissions from individual daily actions. Carbon offset project developers “sell” the rights of offsets to consumers and then direct the money into developing carbon-reduction projects that would otherwise not have taken place. An example might include planting trees to sequester the equivalent amount of carbon emissions that offset an individual’s estimated emissions due to their household use of electricity. As compared to the industrial carbon credits under the proposed cap and trade system, carbon offsets are the consumer version. Carbon offsets are voluntarily “purchased,” and do not occur as a result of regulation. Currently carbon offsets can be purchased in the price range of \$4 to \$10 per ton. In contrast, if a cap-and-trade system is established, carbon credits may be priced at around \$30 per ton, which is the approximate current value in European markets.

Alternative Revenue Generating Mechanisms

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Alternative Revenue Generating Mechanisms

While some of the City's Green Vision plans might be partially funded by sale of carbon offsets using existing models, such as tree planting, structuring marketable carbon offsets related the Zero Waste efforts may be much more difficult. Each of the components of the Zero Waste Strategic Plan should be evaluated for this purpose during design and implementation.

Similarly, solid waste diversion programs do not qualify as carbon credit programs under the currently available industry project protocols and standards. Carbon credits are sold for several times the value of carbon offsets. Because of the higher value paid for carbon credits, the City may find it worthwhile to remain engaged in the ongoing discussions of new project protocols being developed by CCAR, to ensure that the City's projects become eligible to qualify as carbon credits.

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