

## **2002-2003 SANTA CLARA COUNTY CIVIL GRAND JURY**

### **INQUIRY INTO RESIDENTIAL DEBRIS BOX SERVICE CITY OF PALO ALTO**

#### **Summary**

In response to a complaint from a resident of the City of Palo Alto, the 2002-2003 Santa Clara County Civil Grand Jury (Grand Jury) conducted an analysis of the current service Palo Alto provides for its residents who have a need for debris boxes. For purposes of this analysis, the Grand Jury is defining “debris box” as a large metal container of 15 to 18 cubic yards capacity, into which is deposited debris from construction or similar projects performed by an individual resident (or the resident's contractor) of the city. “Debris box service” is defined as delivery of the debris box to the site for a period of at least one week, and then removal to a dump licensed to receive waste material.

Collecting and disposing of debris box waste material is a complex task in California, which by law requires that all cities recycle a minimum level of 50% of all waste material generated within the city's jurisdiction. Although the scope of this inquiry was primarily confined to Palo Alto, the Grand Jury included, for comparison purposes, several other cities. The Grand Jury met with officials of Palo Alto and obtained reports and studies pertaining to that city's debris box program. The Grand Jury studied published reports and surveys giving information about the debris box programs of Cupertino, Los Altos, Los Altos Hills, Milpitas, Morgan Hill, Mountain View, Santa Clara, and Sunnyvale. The Grand Jury also discussed some of this material with the officials of Mountain View, Sunnyvale, Santa Clara, and Los Altos. In addition, the Grand Jury discussed debris box service with several commercial companies not having exclusive contracts with one or more cities. The Grand Jury learned that all of these cities offer or make available debris box service to both residents and commercial customers. Commercial debris box service differs in the type of debris collected, its disposal, and the terms and conditions of service contracts. This inquiry is confined to residential service.

In the communication to the Grand Jury, the complainant stated that Palo Alto maintained an exclusive contract with the Palo Alto Sanitation Company (PASCO) which denied other debris box companies from offering a competing service, resulting in significantly higher charges for residents of Palo Alto. The complainant

indicated that other cities in the county take a different approach and offer a more cost-effective debris box service to their residents.

The Grand Jury learned that while there is a significant difference in the cost of debris boxes provided by Palo Alto and boxes that might be provided by other companies, city managers claim that there are specific reasons for this difference in cost. The Grand Jury also learned that nearby cities offer a service very similar to Palo Alto's, for rates only slightly less. The Grand Jury presents one finding and one recommendation as a result of this inquiry.

## **Background**

The disposal of waste material in American society is a monumental problem. The sheer volume of waste material generated by a society driven by a high level of consumerism is rapidly filling available land-based depositories. The State of California, recognizing this problem in the early 1990s, enacted AB939, which requires that cities and counties throughout the state achieve a minimum level of 50% in the reduction of waste material going to landfill sites by the year 2000. Significant fines can be levied for non-compliance. The Grand Jury learned that the cities included in this inquiry have achieved or exceeded this level. Recycling of materials placed in both commercial and residential debris boxes contributed to this success. The Grand Jury believes that incorporating debris box materials into the total recycling program leads to the higher prices charged for debris boxes by cities with exclusive provider contracts.

Palo Alto, and most of the cities studied for comparison purposes in this inquiry categorize waste material destined for debris boxes as follows: mixed waste from either new construction or remodeling; dirt and concrete from excavations and certain demolitions; garden and compostable material such as major tree trimmings, wastepaper, and cardboard. When materials placed in a debris box are homogeneous or single stream, such as all dirt, all compostables, or all wastepaper and cardboard, then cities, including Palo Alto, are more likely to allow outside service providers to enter the city with their debris boxes. They do this because the single stream material has already been sorted and is ready for recycling. They can then direct where the material is to be deposited, often in the cities' own landfill areas or in the SMART recycling center jointly operated by Palo Alto, Mountain View, and Sunnyvale.

For the resident who requires a debris box on rare occasions, such as when remodeling a home, a single stream debris box is not much help. Remodelers typically use mixed waste debris boxes. Palo Alto officials argue that mixed construction debris is the worst kind of debris from the city's point of view, since this presents the greatest challenge, and therefore expense, to recycling. However, they

also believe that by controlling and recycling construction waste through its exclusive provider contracts, the city can significantly improve its ability to increase its total recycled material as required by state law. However, one Sunnyvale waste management official told the Grand Jury that there is little to recycle in mixed construction material.

The Grand Jury learned from both Palo Alto and Mountain View waste management officials that many factors play a part in the cost differential between the cities' exclusive providers and the open market provider. Palo Alto and neighboring cities contend that one of the reasons outside or non-exclusive service providers can offer lower rates than the exclusive provider, is that they can take mixed waste debris to distant landfill sites that do not have the stringent sorting regulations, and corresponding dumping fees. Also, the exclusive city provider is required to carry a higher rate of liability insurance to protect the city and the customer than is usually the case for the open market provider. In addition, the exclusive provider pays a franchise fee to the city for the privilege of hauling waste material from within the city's limits, whereas the open market provider may not.

## **Discussion**

The issues to be resolved by this inquiry are whether or not Palo Alto charges more for residential debris box service than 1) nearby cities, or 2) open market or non-exclusive commercial companies offering debris box service, and if so, is this justified.

As to the first issue, the Grand Jury learned that in addition to Palo Alto, the cities of Cupertino, Los Altos, Milpitas, Morgan Hill, Mountain View, Santa Clara, Sunnyvale, and the town of Los Altos Hills, have exclusive franchises for residential debris boxes with the same company with which the city or town contracts for its regular weekly trash service. All engage in extensive recycling and are in compliance with state law. Some of these cities allow an open market for commercial customers, typically large companies with paper and cardboard waste. Based on the data the Grand Jury obtained, the average weekly rate for a residential debris box, including delivery, pickup, and all landfill fees, is \$383.00. Palo Alto charges \$421.00 for this service, or a difference from the average of \$38.00. The Grand Jury considers this an insignificant difference and concludes that Palo Alto is in line for this service with its neighboring cities. It is interesting to note that in 1994, Palo Alto's charge for this service was \$417.00, while the neighboring city average was \$220.00, or a difference of \$197.00 (90%). The Grand Jury presumes that this narrowing gap in charges reflects the cost of the other cities' efforts to comply with AB939 by expanding their recycling programs.

Based on information given to the Grand Jury by five commercial companies, it was

learned that the average cost for residential debris box service to Palo Alto would be \$289.00. Compared to the current Palo Alto price of \$421.00, this is a difference of \$132.00 (45.7%). The Grand Jury considers this a very significant difference. The Grand Jury notes that if Palo Alto and its neighboring cities with exclusive debris box contracts are charging their customers roughly the same (\$421 vs an average \$383), then it follows that these cities' rates are also significantly higher than those charged by open-market providers. Is Palo Alto justified in charging its residents over 45% more for a similar service?

In attempting to answer this question, one must keep in mind two factors: The first is that Palo Alto enjoys a special relationship with its trash collection service, PASCO. PASCO has an association with Palo Alto that spans 35 years. The company started as a family-owned business that served only Palo Alto. The city treated the company then as if it were part of its utility business, including PASCO's service costs on the city's monthly utility bills. Several years ago, PASCO was purchased by a large national waste management company. At that time, Palo Alto officials negotiated an exclusive contract for PASCO so that PASCO appears to be an independent company within the national corporation. This has enabled Palo Alto officials to negotiate periodic service contracts directly with PASCO, setting the rates to be charged for services provided without reference to the parent corporation. For example, the Palo Alto resident has the option of paying PASCO directly for the residential debris box service, or having the cost applied to the monthly utility bill. The cost is the same to the customer in either case. PASCO, however, must pay Palo Alto 67% of the amount collected directly by the company for residential debris boxes. For debris box services billed by the city, a similar allocation for debris box service (67% vs 33%) is made on an annual basis, as the contract is adjusted each fiscal year. In other words, PASCO receives 33% of the charge for its service, while Palo Alto receives 67%, regardless of the billing method used.

The second factor to keep in mind is that Palo Alto owns all of its utility services. This includes water, gas, electricity, sewage and storm drain systems. (Santa Clara owns part of its utilities.) Palo Alto claims that this has resulted in significantly lower utility bills than those paid by customers of Pacific Gas and Electric Company. Palo Alto administrators say that the utility service, including the PASCO service, generates revenues in excess of the cost of operations, and that this results in funds for other city programs, although the Grand Jury has not independently verified this as fact. City officials do not deny that the utility service operates at a profit.

The City of Santa Clara has an interesting arrangement in regard to debris boxes. The residential service is by arrangement with an exclusive provider. However, fifteen companies compete for the industrial/commercial service. These companies pay the city franchise fees, but do not carry extra insurance above the standard for the industry. An official of Santa Clara's waste management program told the Grand Jury that the city offers incentives to these companies to recycle. The higher the

percentage of collected waste recycled, the lower the franchise fee paid to the city. This official believes this has resulted in competitive pricing for the city's commercial establishments and also believes the same incentive program would work with the residential service as well.

In the case of Palo Alto, it may be possible for the city to maintain its current high standard for recycling waste generated within the city limits, and at the same time reduce the cost of debris boxes to residential customers. Although this was not part of this analysis, it may be that if Palo Alto took the approach that Santa Clara has taken, it could also open the market to greater competition for debris box service, and enable commercial establishments in Palo Alto to enjoy more competitive rates for the service.

## **Conclusion**

The Grand Jury concludes that the City of Palo Alto is offering a good refuse collection and recycling service to its residents and commercial establishments. The service it offers under exclusive arrangement with PASCO is appropriately managed with strong and regular oversight on the part of city staff responsible for the city's waste management programs. This program is in line with similar programs provided by neighboring cities, both as to service and rates charged. However, since the city has chosen to offer this service as a regulated monopoly, the Grand Jury believes improvement is possible. The Grand Jury further concludes that the same can be said for those other cities mentioned in the report that have exclusive debris box contracts and suggests those cities may wish to take this information under advisement.

## **Finding**

The Grand Jury finds that in the matter of debris box service to residential customers, the City of Palo Alto has a substantial rate differential between PASCO rates and rates available through the open market.

## **Recommendation**

The Grand Jury believes there are two ways by which the city can bring the PASCO rate more in line with open-market rates and leaves the choice of which method to implement up to the city. The Grand Jury recommends that Palo Alto either: 1) Renegotiate its current contract with PASCO so that the company is relieved of paying all or part of its surcharge of 67% of collected charges to the city for

residential debris box service, with the proviso that savings be passed on to its customers, or 2) Open the residential debris box service to bids from service providers other than PASCO, with the city setting standards regarding insurance coverage, franchise fee, recycling incentives and other reasonable provisions, so that an open market would prevail in the matter of residential debris box service.

**PASSED** and **ADOPTED** by the Santa Clara County Civil Grand Jury on this 29<sup>th</sup> day of May, 2003.

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Fred de Funiak  
Foreperson

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Ron R. Layman  
Foreperson Pro Tem

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Patricia L. Cunningham  
Secretary

## References

### Documents

*City Manager's Report: Approval of a New Agreement with Palo Alto Sanitation Company*, Department of Administrative Services, August 9, 1999.

*City of Mountain View Memorandum: Solid Waste Rate Changes*, Public works business Manager, April 20, 2001.

*City of Mountain View: Refuse Rate Analysis Report*, Hilton Farnkopf & Hobson, August 24, 1994.

*Council Report: Extension of Agreement for Solid Waste Collection Services with Foothill Disposal Company*, Department of Public Works, Mountain View, November 19, 2002.

### Interviews

Director of Public Works, City of Palo Alto, March 17, 2003.

Additional information obtained through personal and telephone interviews with various city officials and commercial companies.