TO: HONORABLE CITY COUNCIL  
ATTN: FINANCE COMMITTEE  
FROM: CITY MANAGER  
DEPARTMENT: PUBLIC WORKS  
DATE: MAY 15, 2007  
CMR:245:07  
SUBJECT: APPROVAL OF ADDITIONAL COMPENSATION TO THE PALO ALTO SANITATION COMPANY IN THE AMOUNT OF $814,832 FOR COST INCREASES PERTAINING TO SERVICES IN 2007-08

RECOMMENDATION
Staff requests that the Finance Committee recommend that the Council approve additional compensation of $814,832 to Palo Alto Sanitation Company (PASCO) for cost increases pertaining to services in 2007-08 and authorize the City Manager to execute a contract amendment for the additional compensation and services for 2007-08. This recommendation has also been discussed with the City Attorney’s Office and the City Auditor’s Office in order to ensure compliance with the PASCO contract and the recent PASCO contract audit.

BACKGROUND
The current refuse and recycling contract with PASCO allows staff to perform a good-faith review of PASCO’s compensation and recommend adjustments when PASCO goes outside the target operating ratio range set in the contract. Due to significant ongoing cost increases incurred by PASCO, staff recommends a prospective adjustment to PASCO’s compensation for 2007-08 and going forward. These cost increases are based on the results of operations as detailed in PASCO’s 2005-06 audited financial statements and the notion that the cost increases are continuing in nature.

DISCUSSION
PASCO has experienced considerable cost increases in its operations. Upon review of PASCO’s financial statements and meeting with PASCO representatives, staff recommends an additional adjustment to PASCO’s compensation of $814,832, which is based on the following cost increases:

- Operating Expenses
  - Disposal to landfill- $5,000
  - Construction and demolition processing fees- $40,000
  - Labor- wages (including merit increases)- $210,000
  - Labor- supplemental (sick pay, bonuses, and overtime)- $45,000
  - Labor- benefits (insurance, vacation, 401K, medical)- $80,000
  - Labor- payroll taxes- $10,000
  - Fuel costs (increased fuel costs and increased consumption due to C&D routes and redirection of debris boxes to SMaRT Station)- $300,000
Operating costs for trucks (including parts and exhaust system filters for equipment)- $10,000
Truck repairs (transmission, tires, lubes, third-party services)- $30,000
Safety program expense (protective equipment, monthly safety meetings, safety incentives)- $5,000

- General and Administrative Expenses
  - Wages and benefits- $34,832
  - General liability insurance (including insurance premium increases for vehicles and equipment)- $40,000
  - Travel to required training courses due to increased regulation requirements- $5,000

**RESOURCE IMPACT**
If the Finance Committee recommends that Council approve this additional compensation of $814,832 to PASCO in 2007-08, this adjustment will appear as an amendment to the City Manager’s 2007-09 Proposed Budget in Exhibit B of 2007-09 Budget Adoption CMR. Combining this additional compensation with the amount of $9,248,298 already included in the 2007-08 proposed budget would yield a total compensation amount of $10,063,130 for 2007-08. The recently proposed thirteen percent increase to the refuse rates are estimated to net an additional $2.9 million to the Refuse Fund annually (CMR:208:07, April 17, 2007) starting in 2007-08. This thirteen percent proposed rate increase would cover this additional expense.

**ENVIRONMENTAL IMPACT**
This report is not a project under the California Environmental Quality Act (CEQA) and an environmental review is not necessary.

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