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June 5, 2025

Erick Lee
Public Works Director
City of Manhattan Beach
3621 Bell Avenue
Manhattan Beach, CA 90266

Sent via email: elee@manhattanbeach.gov

Subject: Diversion Realignment

Dear Erick Lee:

The City of Manhattan Beach (City) and Waste Management (WM) entered into an agreement for Integrated Solid Waste Management Services (Franchise Agreement), which commenced on July 1, 2020. Section 3.8.1, Hauler Diversion Requirements, of the Franchise Agreement requires WM to annually divert 50% of the tons collected within the City. Transformation (waste-to-energy) was previously allowed to be counted as materials diverted from landfilling (diversion), however, Assembly Bill 1857, effective January 1, 2023 (subsequent to the effective date of the Agreement) disallowed transformation from counting for diversion credit. This change in law, amongst other general shifts in the industry (packaging changes, digitization of previously printed materials, etc.), contributes to WM not meeting the contractual diversion requirement of 50%. WM has proposed amending the Franchise Agreement to reduce the annual contractual diversion requirement to 37% of all materials collected in the City by WM.

During the February 4, 2025, City Council meeting, Council directed City staff to:

1. analyze and confirm that 37% is the diversion rate that WM can achieve, and,
2. analyze the valuation (potential cost savings) for the loss in diversion and return at a later date with recommendations.

HF&H Consultants, LLC (HF&H) was requested to support the City with the above analysis and has summarized our findings below.

Request 1: Analyze and confirm that 37% is the diversion rate that WM can produce.

City staff requested WM provide an analysis of approaches it could take to improve diversion. WM categorized the impacts of identified diversion improvements within the "Diversion Shortfall & Impact of Change in Law" PowerPoint slide sent to City staff on September 29, 2024. These measures and the increased diversion percentages expected to be achieved are provided in Figure 1 below.



Figure 1. WM's Diversion Improvements

| | |
|--|-----------|
| Improved Processing | 2% |
| Other (Outreach Efforts, Volume Changes, Etc.) | 1% |
| Commercial Recycling & Organics Enforcement | 1% |
| Residential Organics Campaign | 1% |
| WM Diversion Improvements | 5% |

HF&H reviewed the diversion results presented in WM's annual tonnage reporting since 2021 and calculated diversion using two approaches:

1. **Reported Results.** HF&H calculated actual diversion reported, less transformation, as transformation is no longer a valid diversion method in the State of California (State). See results in Figure 2.

Figure 2. Reported Diversion without Transformation for CY 2021-2024

| | 2021 | 2022 | 2023 | 2024 |
|--|--------------|--------------|--------------|--------------|
| Diversion Reported | 42.7% | 45.3% | 34.6% | 37.2% |
| Total Transformation Diversion Credit Reported | 10.5% | 14.0% | 2.6% | - |
| Reported Diversion Without Transformation | 32.2% | 31.3% | 32.0% | 37.2% |

Adding the 5% diversion improvement presented in Figure 1 to the 2023 result above would result in diversion of 37%. WM asserted that during 2024, it performed certain efforts that are included in the diversion improvements, resulting in attaining the proposed 37% diversion rate during 2024.

Based on the actual diversion reported by WM for recent years, the proposed diversion rate of 37% is achievable.

2. **Proposed Diversion.** In 2018, WM proposed a 46% diversion rate in its original proposal in response to the City's request for proposals for integrated waste management services. This diversion rate was negotiated to 50% at the City Council meeting awarding the Franchise Agreement. The proposed 46% diversion rate in 2018 included the ability to report transformation as diversion. HF&H calculated the originally proposed diversion rate, net of transformation results for 2022, the last year in which transformation counted as diversion, and is shown in Figure 3 below. This rate, net of transformation, represents WM's expectation of its own diversion capabilities at the time of proposing to the City. The additional 5% in diversion expected to be achieved through WM's diversion improvements, as detailed in Figure 1, is added to the calculation in Figure 3, and results in a proposed diversion rate of 37%.

Figure 3. Proposed Diversion, without Transformation, plus WM Diversion Improvements for CY 2022

| | 2022 |
|--|--------------|
| Originally Proposed Diversion | 46% |
| Total Transformation Diversion Credit Reported | 14.0% |
| Originally Proposed Diversion, Net of Transformation | 32.0% |
| WM Diversion Improvements | 5.0% |
| Originally Proposed Diversion, Net of Transformation Plus WM Diversion Improvements | 37.0% |



Conclusion:

The proposed 37% diversion rate is reasonable because:

- Diversion rate of 37.2% was reported by WM for calendar year 2024 (described in Figure 2).
- Adding 5% in diversion from additional diversion efforts, described in Figure 1 to 2023 diversion reported, results in a diversion rate of 37%.
- WM's original proposal of a 46% diversion rate, adjusted for lost transformation and inclusion of WM's diversion improvements, results in a diversion rate of 37%.

Request 2: Analyze the valuation of the loss in diversion.

To analyze the value of the loss in the diversion rate, HF&H considered two valuation methodologies described below.

1. **Method 1: Transformation Cost Savings**

Prior to the closure of the Southeast Resource Recovery Facility (SERRF) in Long Beach, and elimination of the diversion credit for transformation by the State, WM delivered solid waste to the facility for conversion to energy, which counted toward achievement of the State's diversion goals. The waste that was previously delivered to SERRF has been redirected to a landfill at a reduced cost.

HF&H compared the cost to transform one ton of materials at SERRF during 2022 (the final year transformation was allowable per Assembly Bill 1857 described above) to the current cost to landfill one ton of materials. The savings per ton were applied to the City's actual tons transformed in 2022. The calculation of this cost savings as a percentage of WM's 2023 City rate revenue is included in Figure 4. The estimated cost savings are approximately 2.4% of rate revenue using this approach.

Figure 4. 2022 SERRF Cost/Ton vs 2025 Disposal Cost/Ton

| | | |
|---|-----------------------|----|
| 2022 SERRF Transformation Cost per Ton | \$130.28 | * |
| 2025 Landfill Cost per Ton | <u>\$80.31</u> | * |
| Cost Savings per Ton | \$49.97 | |
| 2022 Transformation Tons | <u>3,074</u> | * |
| Cost Savings | \$153,607.78 | |
| 2023 Annual Residential & Commercial Rate Revenue | <u>\$6,384,740.00</u> | ** |
| Cost Savings as % of Revenue | 2.4% | |

* Data from WM's "Diversioncost2025final" file submitted via email March 28, 2025.

** Per "Labor_EI_Request_Manhattan_Beach" submitted to the City via email March 22, 2024.

2. **Method 2: Liquidated Damages Cost Savings**

WM is required to pay to the City liquidated damages if it is unable to achieve the 50% diversion requirement included in the Franchise Agreement. If the City reduces the diversion requirement to 37%, the amount of liquidated damages would be reduced.



Section 10.4.B.7 of the Franchise Agreement establishes a liquidated damage of \$25 per ton for every ton WM falls below the minimum diversion rate necessary to meet the 50% requirement. HF&H calculated the liquidated damages that would be assessed if WM had achieved 37% diversion (the proposed diversion rate) in 2023. The calculation of the liquidated damages using 37% diversion as a percentage of WM's 2023 City rate revenue is included in Figure 5. The estimated cost savings are approximately 1.6% of rate revenue using this approach.

Figure 5. 2023 Liquidated Damage Calculation, Adjusted to 37% Diversion

| | |
|--|------------------|
| Total Tons Collected | 31,927.26 |
| Required Diversion Percentage | 50% |
| Required Diverted Tons | 15,963.63 |
| Tons at 37% Diversion (<i>Set to equal 37% of Total Tons Collected</i>) | 11,813.09 |
| Diversion Shortfall, Tons | 4,150.54 |
| Liquidated Damage/Ton (Section 10.4.B.7) | \$25.00 |
| Liquidated Damages at 37% diversion | \$103,763.59 |
| 2023 Annual Residential & Commercial Rate Revenue | \$6,384,740.00 * |
| Liquidated Damages as a % of Revenue | 1.6% |
| * Per "Labor_EI_Request_Manhattan_Beach" submitted to the City via email March 22, 2024. | |

3. Proposed Reduction to Customer Rates to Offset Cost Savings

The average of these two methodologies was used to determine a rate reduction of 2.0%, as calculated in Figure 6 below. This may be phased-in as a 1.0% reduction to the annual rate adjustment on July 1, 2025, and an additional 1% reduction on July 1, 2026.

Figure 6. Calculation of July 1, 2025 and 2026 Rate Reduction.

| | |
|---|---------------|
| Cost Savings from Landfilling Instead of Transforming as a % of Revenue | 2.4% |
| Liquidated Damages as a % of Revenue | 1.6% |
| Total of Cost Savings Percentages | 4.0% |
| Average of Cost Savings Methodologies | 2.0% |
| Annual Rate Reduction (Each Year for Two Years) | 1.0% * |

*Rate adjustment for July 1, 2025 and July 1, 2026 to be reduced by this figure.

Thank you for the opportunity to assist on this matter.

Sincerely,

Laith B. Ezzet, CMC
Senior Vice President

Lindsey Lagos, CPA
Project Manager