

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: November 14, 2025

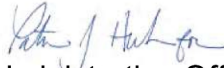
CAO File No. 0150-13098-0000

Council File No. 23-1032, 09-0170

Council District: All

To: The City Council

From: Matthew W. Szabo, City Administrative Officer



Subject: **RECOMMENDATION TO TERMINATE THE REMOVING BARRIERS TO RECYCLING PROGRAM COMPONENT OF THE RECYCLA SOLID RESOURCES FRANCHISE HAULING CONTRACTS**

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### RECOMMENDATIONS

That the City Council:

1. Find that the City cannot continue funding the Removing Barriers to Recycling (RBR) Program; and,
2. Instruct the Public Works, Bureau of Sanitation to:
  - a. Terminate the RBR Program provision of the RecycLA personal services contracts for exclusive franchise commercial and multi-family solid resources collecting and hauling for all 11 zones Citywide, encompassing the following agreements:
    - Arakelian Enterprises, Inc. dba Athens Services (C-128879)
    - Consolidated Disposal Service, LLC dba Republic Services (C-128880)
    - Universal Waste Systems, Inc. (UWS) (C-128881)
    - USA Waste of California, Inc. dba Waste Management (C-128878)
    - CalMet Services, Inc. (CalMet) (C-128875)
    - NASA Services, Inc. (NASA) (C-128876)
    - Ware Disposal, Inc. (Ware) (C-128877)
  - b. Provide written notice of termination to the RecycLA service providers with termination of the RBR to occur on January 31, 2027, upon the anticipated expiration date of the current contracts listed above, with notice to occur at least one calendar year prior to the effective termination date; and,
  - c. Complete all audits of the RBR Program, address any discrepancies including any reimbursements owed to the City, issue liquidated damages as appropriate, and pursue the resolution of outstanding liquidated damages owed by current RecycLA service providers through the RBR payment reconciliation process and other means, as necessary, prior to the termination of the contracts on January 31, 2027.

## **SUMMARY**

On October 13, 2023, the City Council approved the September 29, 2023 Energy and Environment Committee recommendation to authorize the Public Works, Bureau of Sanitation (Bureau) to begin development of a new request for proposals (RFP) for replacement contracts for the exclusive franchise commercial and multi-family residential waste hauling program, known as RecycLA, while concurrently pursuing contract amendment negotiations with current RecycLA service providers (RSPs) to address persistent program issues prior to considering contract extensions beyond the original 10-year term ending January 31, 2027 (C.F. No. 23-1032). Among other actions, the Council also directed the Bureau to extend the Removing Barriers to Recycling (RBR) Program of the RecycLA contracts until the Bureau, City Administrative Officer (CAO), and Chief Legislative Analyst (CLA) could return to Council with further recommendations. Since inception of the RBR Program in 2019, the City's General Fund has provided a cumulative subsidy for the Program of \$19.37 million through the Citywide Recycling Trust Fund (CRTF). RBR Program obligations are projected to cost the City \$85.2 million over the next two years, including an estimated \$58 million payout due at contract expiration. These costs are unsustainable for the CRTF and the General Fund.

On September 16, 2025, the Bureau released an RFP for replacement RecycLA contracts to commence on February 1, 2027, following unsuccessful negotiations with the current RSPs to amend the existing contracts, including efforts to mitigate the cost of the RBR Program. The new RFP has been developed to mitigate access and distance fee costs to customers without requiring subsidy from the City, thereby eliminating the need for the RBR Program in the new contracts. Our Offices worked with the Bureau on development and release of the RFP, have analyzed the current RBR program, considered the necessity and impacts of continuing to fund the RBR from the General Fund, and now present this report for the Council's consideration. This report details the Council consideration and actions that led to the issuance of the RFP, the cost impacts of the RBR Program, and the potential cost impacts on customers with termination of the program.

The current RecycLA franchise contracts provide Council authority to terminate the RBR Program with a minimum one-year notice to RSPs. Should the Council adopt the recommendation in this report to terminate the RBR Program effective as of January 31, 2027, the anticipated expiration date of the current contracts, it would limit City subsidy obligations that would otherwise continue to grow, at an estimated rate of up to \$2.49 million per month, if the new contracts are not in place by February 1, 2027. The CAO, in consultation with the CLA, recommend the Council instruct the Board of Public Works and Bureau to terminate the RBR Program effective January 31, 2027, by providing a one-year notice to RSPs.

## **BACKGROUND**

In January 2017, following Council approval (C.F. 10-1797-S17), the Bureau executed ten-year contracts (with two five-year renewal options) granting exclusive franchises to seven providers (RSPs) for the collection, hauling, processing, transfer and disposal of municipal solid waste from commercial and multi-family residential buildings and developments within the City. These agreements serve 66,000 customers across 11 Franchise Zones, which are known as the RecycLA

Program. The RecycLA exclusive franchise system was developed in part to meet California state requirements for commercial and multi-family residential recycling under Assembly Bill 341.

*Removing Barriers to Recycling (RBR)* – In February 2019, following implementation of the 2017 RecycLA agreements, the Council adopted contract amendments with all seven RSPs (C.F. 19-0170). The amendments were necessary to address various program issues and implement a settlement agreement between the City and RSPs, which included disputed charges for approximately 19,600 customers (30 percent) related to access and distance for retrieving solid resources bins behind enclosures or further than a certain distance from the street. The RBR Program was developed as part of the settlement and the contracts were amended in order to encourage recycling subscription and compliance. The RBR Program eliminated access and distance fees for all applicable RecycLA customers on recycling blue bin service, with the cost of the lost revenue instead split equally among the City and the RSPs, not billed to customers. The City agreed to compensate the RSPs, by way of payments or credits, its share of the RBR costs up to a maximum annual baseline amount, which has increased annually (rolling-cap). Excess “over-cap” amounts owed carry over to be paid after a mid-term check (March 31, 2023) and at the termination of the program or contracts. The settlement agreement also included a provision allowing the City to terminate the RBR Program with a minimum one-year written notice. The Bureau reported at the time that the projected initial 17-month (February 1, 2018 to June 30, 2019) cost of the RBR Program to the City was \$9.12 million but that costs would increase as blue bin subscription increased. The Council, in addition to approving the contract amendments that included the RBR provision, instructed the CLA and CAO to closely monitor the City’s obligations under the RBR Program.

*Midterm report, contract modifications, and RFP* – Beginning in March 2023, and in response to various motions requesting clarification on the year over year increasing costs of the RBR and other RecycLA contract issues, the Bureau submitted a series of reports for Council consideration and requested the Council’s direction on continuance of the RBR Program and continuance or modification of the existing RecycLA contracts. The Bureau reported that while customers had been relieved of over \$144 million in extra service fees related to blue bin collection and that recycling rates had steadily increased, the cost to the City for the RBR Program had become unsustainable, requiring \$18.46 million in General Fund support in 2022-23 in order to issue the required mid-term payout of \$28.75 million. In October 2023, after multiple hearings, presentations and discussion, the Council instructed the Bureau to pursue contract amendment negotiations with the RSPs in part to mitigate the costs of the RBR Program, and to concurrently and alternatively prepare an RFP for new contracts. Following months of negotiations with the RSPs, the Bureau reported to the Council in February 2024 that negotiations to amend the current contracts had failed and that, with its limited resources, the Bureau would solely focus on pursuing replacement contracts through a new RFP.

*Citywide Recycling Trust Fund* – The costs for the RBR Program, as well as the administration of the RecycLA Program overall, are budgeted in the Citywide Recycling Trust Fund (CRTF). The purpose of the CRTF is to receive private solid waste hauler (AB939) compliance fees and pay for the operation and administration of industrial, commercial, and multi-family recycling programs to increase the solid waste diversion rate amongst these and other non-residential sectors within the

City, as well as fund other waste diversion programs as directed by the City Council (Los Angeles Administrative Code Section 5.497). However, due to the large cost of the RBR Program, the CRTF required subsidies from the General Fund in Fiscal Years (FY) 2023, 2024, and 2026 for related costs and a \$18.46 million additional appropriation from the General Fund in FY 2023 to cover the cost of the first over-cap payout, resulting in a cumulative General Fund subsidy to-date for the Program of \$19.37 million. Funding for Citywide recycling and waste diversion programs was also limited as a result.

*Fiscal impact of the RBR on the City and General Fund* – The City’s annual obligation for the RBR Program has increased exponentially, from \$5.97 million in the first year of the program starting February 2018, to an estimated \$12.7 million in 2027. Over the past seven years, from FY 2019 through FY 2025 ending June 30, 2025, the City has paid a total of \$57.82 million for the RBR Program, in accordance with the annual limits. In FY 2023, the City additionally paid \$28.75 million to RSPs in the first of two over-cap payouts, for costs through FY 2022. With this payout, the total City payment to-date for the RBR Program is \$86.57 million. The estimated remaining City obligation for the RBR Program, including annual amounts for FY 2026 through 2027, and the second over-cap payout for FY 2023 through 2027, total \$85.16 million. This brings the total projected cost to the City for the RBR Program to \$167.55 million over the nine-year life of the program, averaging \$18.62 million per year, including a second over-cap payout estimated at \$56.84 million due to the RSPs in the upcoming FY 2027. Table 1 below lists the annual City obligations since inception of the RBR and the projected costs through 2026-27, and illustrates how a large General Fund subsidy of \$18.46 million was needed in 2022-23, the year of the first over-cap payout. A similar but much larger subsidy need is anticipated for the entire second over-cap payout of \$58 million due in January 2027 with the close of the current 10-year agreements.

**Table 1 – RBR Program Payments and CRTF Subsidies by Fiscal Year**

Fiscal Year	City RBR – Total Annual Accrued[1]	City RBR – Capped Payment[1]	City RBR – Over-Cap Payout	CRTF Budget [2]	Related Costs Subsidy	Direct General Fund Subsidy	Total General Fund Subsidy
2017-18	\$5,972,247			\$32,950,039			
2018-19	\$11,115,964	\$5,972,247		\$31,805,891			
2019-20	\$11,734,506	\$5,972,247		\$48,021,115			
2020-21	\$16,259,481	\$6,088,129		\$55,815,492			
2021-22	\$20,045,327	\$8,864,923		\$50,313,618			
2022-23	\$22,742,534	\$9,479,067	\$28,750,912	\$58,738,791	\$11,931,117	\$6,523,894	\$18,455,011
2023-24	\$25,848,341	\$9,915,620		\$44,297,216	\$648,427		\$648,427
2024-25*	\$27,140,758	\$11,524,317		\$57,542,883			\$0
2025-26*	\$28,497,796	\$12,100,533		\$62,201,993	\$268,488		\$268,488
2026-27*	\$2,374,816	\$12,705,559	\$57,983,400	TBD			TBD
Jan. 2027*		\$2,374,816					
<b>Subtotal</b>	<b>\$171,731,770</b>	<b>\$84,997,458</b>	<b>\$86,734,312</b>	<b>Total General Fund Subsidy To-Date</b>			<b>\$19,371,926</b>
<b>Total Projected City RBR</b>			<b>\$171,731,770</b>	<b>Yearly Average City RBR</b>			<b>\$19,081,308</b>

[1] RBR obligations accrued under the cap in one fiscal year are effectively paid in the following fiscal year.

[2] CRTF Budget amounts shown exclude funds set aside in the Fund’s reserve account.

\*RBR accrual and subsequent payment obligation amounts are estimated starting in 2024-25 based on data through Dec. 31, 2024.

*Termination of the RBR Program and impact on customers* – Termination of the RBR Program on January 31, 2027 as recommended in this report is anticipated to have no impact on customers who may be subject to the access and distance fees under the current contracts as long as the new contracts are in place by February 1, 2027. The Bureau confirms in its September 15, 2025 report to the Board of Public Works that access and distance fees are eliminated in the new RFP. Therefore, the cost to RSPs and passed onto customers for these fees will be considered in the overall base rate for bin service submitted by proposers and negotiated in the new contracts. The current contracts do include month-to-month extension provisions for up to six months, outside of two five-year contract renewal options. Should the new contracts not be in place by February 1, 2027, termination of the RBR Program as recommended would allow current RSPs to reinstate access and distance fees on customers. Based on updated data provided by the Bureau, if the RBR Program is discontinued, but the current contracts continue, customer bills may increase by an average of \$104 to \$633 per month, depending on their service needs. The RBR Program currently benefits approximately 19,100 or less than 30 percent of the commercial and multi-family residential customers serviced by the RSPs. Each residential customer (total: 11,755) represents at least five residential units and may include hundreds of units. Refer to Attachment 1 to this report for a breakdown of estimated customer impacts by type, Council District, and low-to-moderate income neighborhood impact, where a majority of households in a given Census tract are considered low-to-moderate income based on Housing and Urban Development data.

The City is expected to continue experiencing significant financial headwinds in FY 2026 and 2027 that make it difficult to continue justifying the RBR Program that subsidizes waste hauling costs for a portion of City residents and further depends on the General Fund to do so. Termination of the RBR Program will help the City pursue compliance of the City's Financial Policies for a structurally balanced budget. The Bureau has reported that RecycLA customer subscription to blue bins for recycling are now virtually at 100 percent, challenging the need for continued incentives to encourage recycling subscription. The Bureau further reported to the Board of Public Works on September 15, 2025 that none of the RSPs have met their waste reduction targets under the current contracts. Actual recycling and waste diversion increase is needed, but efforts should be aimed at education and outreach to do so.

*Liquidated damages / cost mitigation* – The Council previously identified funds to audit current RSPs for various contract compliance measures, including proper application of fees subject to the RBR Program. During the course of the Bureau's work and as part of these audits, the Bureau has levied fines, known as liquidated damages, on several RSPs for contract violations, primarily related to not meeting diversion goals. Roughly \$5 million of these fines remain unpaid, though a vast majority of that amount is in dispute. We have explored mitigating the impact of the second over-cap payout through withholding payment to RSPs that owe liquidated damages. The City Attorney has opined that the RecycLA contracts provisions only allow for the application of the City's payment under the RBR towards uncontested, unappealed payments owed by the RSPs. It is recommended that the Bureau complete all audits, address any discrepancies including any reimbursements owed to the City, issue liquidated damages as appropriate, and continue to pursue the resolution of any outstanding uncontested and contested liquidated damages owed by RSPs prior to the termination of the current contracts.

## **FISCAL IMPACT STATEMENT**

Adoption of the recommendations in this report would activate a required one-year notice period for RecycLA service providers to terminate the Removing Barriers to Recycling Program by January 31, 2027 and could mitigate costs to the Citywide Recycling Trust Fund (CRTF) by up to \$2.49 million per month should new waste collection contracts not be in place by February 1, 2027, which may then result in an equal amount of savings to the General Fund in reduced subsidies and appropriations required to support CRTF obligations in 2026-27. Adoption of the recommendation to instruct the Bureau of Sanitation to seek any owed reimbursements and resolve outstanding liquidated damages due to the City prior to the expiration of the current RecycLA contracts may result in additional revenue to the CRTF and further reduce its reliance on the General Fund, impacts of which are unknown at this time.

## **FINANCIAL POLICIES STATEMENT**

The recommendations in this report pursue compliance with the City's Financial Policies in that, to the extent possible, current operations will be funded by current revenues, and that special funds are to reimburse the General Fund for all direct expenditures and related costs provided to support their programs.

*MWS/PJH/JVW:JCY:10260089*

Attachment 1 – Termination of the RBR Program and Impacts on Customers

## ATTACHMENT 1 – Termination of the RBR Program and Impact on Customers

Should the Removing Barriers to Recycling (RBR) Program be terminated, RecycLA service providers are authorized to resume charging access and distance fees to customers. The charts below are the estimated impacts if these charges resume.

Note: One Customer represents one account. For Multi-Family, one account represents a minimum of five residential units and may include hundreds of units. For Commercial, one account may represent one business or multiple businesses within a development.

Table A1 – Customers with Blue Bin Access Charges

	Number of Customers with Blue Bin Access Fee ONLY (No Distance)	Average Monthly Blue Bin Access Fees
Multi-Family	6,938	\$106
Commercial	5,116	\$101
<b>Total/Average</b>	<b>12,054</b>	<b>\$104</b>

Table A2 – Customers with Distance Charges

	Number of Customers with Blue Bin Distance Fee ONLY (No Access)	Average Monthly Blue Bin Distance Fees
Multi-Family	2,109	\$383
Commercial	1,445	\$477
<b>Total/Average</b>	<b>3,554</b>	<b>\$421</b>

Table A3 – Customers with Blue Bin Access and Distance Charges

	Number of Customers with Blue Bin Access AND Distance Fees	Average Total Monthly Blue Bin Access and Distance Fees
Multi-Family	2,708	\$638
Commercial	779	\$616
<b>Total/Average</b>	<b>3,487</b>	<b>\$633</b>

Table B – Number of Customers with Access and/or Distance Fees by Council District

Council District	Number of Customers with Blue Bin Access and/or Distance Fees	Council District	Number of Customers with Blue Bin Access and/or Distance Fees
1	1,186	9	533
2	1,836	10	1,592
3	969	11	1,053
4	1,887	12	670
5	1,851	13	2,590
6	1,491	14	1,134
7	697	15	632
8	974		
Subtotal	10,891	Subtotal	8,204
<b>Total</b>		<b>19,095</b>	
<b>Percentage of All RecyclA Customers</b>			<b>28.9%</b>

Table B1 – Average Monthly Fees for Customers with Blue Bin Access and/or Distance Fees by Type and Council District

Council District	Number of Multi-Family Customers	Average Multi-Family Monthly Fees	Number of Commercial Customers	Average Commercial Monthly Fees
1	713	\$317	473	\$162
2	1,296	\$212	540	\$180
3	408	\$594	561	\$380
4	1,411	\$304	476	\$315
5	1,431	\$197	420	\$235
6	814	\$240	677	\$210
7	285	\$254	412	\$213
8	556	\$146	418	\$108
9	240	\$199	293	\$119
10	1,013	\$187	579	\$212
11	745	\$381	308	\$244
12	242	\$512	428	\$455
13	1,755	\$253	835	\$202
14	441	\$673	693	\$219
15	405	\$203	227	\$113
<b>Total/Average</b>	<b>11,755</b>	<b>\$278</b>	<b>7,340</b>	<b>\$229</b>

Table B2.1 – Average Monthly Fees for Multi-Family Customers with Blue Bin Access OR Distance Fees by Council District

Council District	Customers with Access ONLY	Average Monthly Access Fees	Customers with Distance ONLY	Average Monthly Distance Fees
1	427	\$115	129	\$393
2	787	\$101	240	\$283
3	211	\$144	59	\$1,076
4	828	\$109	212	\$380
5	895	\$97	279	\$254
6	504	\$120	110	\$270
7	179	\$122	43	\$462
8	338	\$77	87	\$160
9	165	\$99	38	\$237
10	596	\$107	205	\$200
11	452	\$92	128	\$434
12	125	\$129	37	\$923
13	991	\$104	307	\$344
14	229	\$152	126	\$1,095
15	211	\$90	109	\$248
<b>Total/Average</b>	<b>6,938</b>	<b>\$106</b>	<b>2,109</b>	<b>\$383</b>

Table B2.2 – Average Monthly Fees for Multi-Family Customers with Blue Bin Access AND Distance Fees by Council District

Council District	Customers with Access AND Distance	Average Monthly Fees
1	157	\$810
2	269	\$473
3	138	\$1,075
4	371	\$700
5	257	\$484
6	200	\$528
7	63	\$485
8	131	\$312
9	37	\$607
10	212	\$401
11	165	\$1,132
12	80	\$918
13	457	\$515
14	86	\$1,442
15	85	\$423
<b>Total</b>	<b>2,708</b>	<b>\$638</b>

Table B3.1 – Average Monthly Fees for Commercial Customers with Blue Bin Access OR Distance Fees by Council District

Council District	Customers with Access ONLY	Average Monthly Access Fees	Customers with Distance ONLY	Average Monthly Distance Fees
1	386	\$102	45	\$292
2	387	\$92	94	\$329
3	211	\$117	269	\$485
4	284	\$114	127	\$479
5	299	\$104	72	\$566
6	435	\$94	144	\$382
7	279	\$101	94	\$424
8	356	\$83	32	\$219
9	260	\$92	22	\$312
10	428	\$100	87	\$417
11	230	\$98	44	\$544
12	142	\$110	236	\$610
13	639	\$103	85	\$472
14	581	\$112	74	\$729
15	199	\$90	20	\$271
<b>Total</b>	<b>5,116</b>	<b>\$101</b>	<b>1,445</b>	<b>\$477</b>

Table B3.2 – Average Monthly Fees for Commercial Customers with Blue Bin Access AND Distance Fees by Council District

Council District	Customers with Access AND Distance	Average Monthly Fees
1	42	\$568
2	59	\$519
3	81	\$719
4	65	\$873
5	49	\$541
6	98	\$470
7	39	\$499
8	30	\$292
9	11	\$374
10	64	\$679
11	34	\$846
12	50	\$705
13	111	\$565
14	38	\$863
15	8	\$297
<b>Total</b>	<b>779</b>	<b>\$616</b>

Table C – Low-Moderate Income Neighborhoods (LMIN) Impact – Multi-Family Customers with Blue Bin Access and/or Distance Fees Living in Census Tracts Where More Than 50 Percent of Residents Make Less Than 80 Percent of the Area Median Income, by Council District

Council District	LMIN Customers with Blue Bin Access and/or Distance	Percentage of Multi-Family Customers w/ Access and/or Distance
1	700	98.2%
2	935	72.1%
3	326	79.9%
4	615	43.6%
5	509	35.6%
6	775	95.2%
7	255	89.5%
8	524	94.2%
9	240	100.0%
10	939	92.7%
11	209	28.1%
12	152	62.8%
13	1,586	90.4%
14	342	77.6%
15	343	84.7%
<b>Total</b>	<b>8,450</b>	<b>71.9%</b>
<b>Percentage of All RecycLA Customers</b>		<b>12.8%</b>