



City Council Agenda Item

City Council Meeting Date: August 2, 2022

TO: Dean Albro, City Manager

FROM: Christie Donnelly, Management Services Director
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SUBJECT: Consideration of Solid Waste Rate Adjustments; Schedule and Notice a Public Hearing for September 20, 2022 for Proposed Solid Waste Rate Adjustments, in accordance with Proposition 218

Recommendation:

Staff recommends the City Council review the public hearing notice (Attachment 1) and set a public hearing for the proposed Solid Waste Utility (Solid Waste) rate adjustments for September 20, 2022, in accordance with Proposition 218.

Background:

Proposition 218, passed by voters in 1996, requires compliance with a noticing process in order for Solid Waste rate adjustments to take effect. Major components of the noticing process include:

- The requirement to notify all affected parties at least 45 days prior to holding a hearing, at which the City Council could act on the proposed rate adjustments identified in the notice.
- At the public hearing, the City Council would be required to reject the rate adjustments if a majority of the affected parcels file written protests.
- Solid Waste collection rates must be set so that revenues do not exceed the funds required to provide the service, and the fee or charge imposed on any ratepayer must not exceed the proportional cost of the service.
- Rate adjustments cannot extend beyond five years.

The City conducts its Solid Waste operations similar to a business. The City generates revenue to pay for its Solid Waste collections and landfill operations through rates charged to its residents and businesses, and through tipping fees charged to users of the landfill. The City separately records its revenues and expenses for its Solid Waste operations in the Solid Waste enterprise fund. The revenues of the Solid Waste enterprise fund are intended to fully cover the City's current and future Solid Waste operating and capital costs.

The City's collection rates are subject to Proposition 218. When setting property-related user fees (such as Solid Waste collection rates), local jurisdictions must identify the nexus between the actual cost of service and the fees charged to customers. The City is required to set a public 'majority protest' hearing, and provide all customers and property owners with 45 days prior notice of the proposed rates. If a majority of parcels do not object to the proposed rates, then the City Council may adopt the proposed rates at the public hearing upon a majority vote. A parcel is considered to have filed a protest if any rate-paying tenant or the property owner from that parcel files a protest. Because they are not 'property-related,' the City's tipping fees are not subject to Proposition 218.

On June 3, 2014, the City Council approved a five year series of annual 3.6% rate adjustments to its collection rates from July 1, 2014, through July 1, 2018. However, the final 3.6% adjustment scheduled for July 1, 2018, was deferred and not implemented until July 1, 2022.

Discussion:

To meet the current and future financial obligations of the Solid Waste enterprise fund, the City needs to increase the collection rates it charges to residential, multi-family, and commercial customers, and increase the tipping fees it charges at its landfill. If the City does not increase current collection rates and tipping fees, and rates and fees remain at their current levels, the cash balance in the enterprise fund will fall below its minimum target balance in Fiscal Year (FY) 2023, and be completely depleted in FY 2024.

Recent trends in the solid waste industry are continuing to increase the City's Solid Waste operating costs, and create upward pressure on rates and fees. To fully fund the City's Solid Waste operations over the next five years, the City's collection rates need to increase *on average* by approximately 22.1% on October 1, 2022, followed by annual increases of approximately 20.0% in July of 2023, and approximately 10.0% in July of 2024. Following that, in July 2025 and 2026, collection rates will need to be increased by 5% each year.

As a part of the initial rate adjustment on October 1, 2022, the rate schedule would be restructured to ensure that the rates more accurately reflect the cost of service. As a result, not all customers would receive the same initial rate adjustment. For example, commercial customers with a 300-gallon container would initially only receive a 3.7% increase. However, commercial customers with a 95-gallon container would initially receive a 22.5% increase. Residential customers with 95-gallon carts (the most common level of service), would initially receive an increase of 16.7%. Table 1 and Table 2 on the following page, show the proposed rate adjustments for customers with the most common levels of residential and commercial service, respectively.

Table 1 – Proposed Monthly Rates – Single-family Customers

Service	Pickups	Actual	Actual	Actual	Proposed	Proposed	Proposed	Proposed	Proposed
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
65 - Gallon Container	1 x Week	\$ 30.88	\$ 30.88	\$ 31.99	\$ 39.45	\$ 47.34	\$ 52.07	\$ 54.68	\$ 57.41
Percent Increase			0.0%	3.6%	23.3%	20.0%	10.0%	5.0%	5.0%
95 - Gallon Container	1 x Week	\$ 39.97	\$ 39.97	\$ 41.40	\$ 48.31	\$ 57.97	\$ 63.77	\$ 66.95	\$ 70.30
Percent Increase			0.0%	3.6%	16.7%	20.0%	10.0%	5.0%	5.0%
Each Additional 65-Gallon Container	1 x Week	\$ 10.98	\$ 10.98	\$ 11.37	\$ 18.16	\$ 21.80	\$ 23.98	\$ 25.18	\$ 26.43
Percent Increase			0.0%	3.6%	59.8%	20.0%	10.0%	5.0%	5.0%
Each Additional 95-Gallon Container	1 x Week	\$ 16.49	\$ 16.49	\$ 17.08	\$ 27.02	\$ 32.43	\$ 35.67	\$ 37.45	\$ 39.33
Percent Increase			0.0%	3.6%	58.2%	20.0%	10.0%	5.0%	5.0%

Table 2 – Proposed Monthly Rates – Commercial Customers

Service	Pickups	Actual	Actual	Actual	Proposed	Proposed	Proposed	Proposed	Proposed
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
65 - Gallon Container	1 x Week	N/A	N/A	N/A	\$ 41.86	\$ 50.23	\$ 55.26	\$ 58.02	\$ 60.92
Percent Increase		N/A	N/A	N/A	N/A	20.0%	10.0%	5.0%	5.0%
95 - Gallon Container	1 x Week	\$ 39.97	\$ 39.97	\$ 41.41	\$ 50.72	\$ 60.86	\$ 66.95	\$ 70.30	\$ 73.81
Percent Increase			0.0%	3.6%	22.5%	20.0%	10.0%	5.0%	5.0%
300 - Gallon Container	1 x Week	\$ 88.21	\$ 88.21	\$ 91.36	\$ 94.74	\$ 113.68	\$ 125.05	\$ 131.31	\$ 137.87
Percent Increase			0.0%	3.6%	3.7%	20.0%	10.0%	5.0%	5.0%
450 - Gallon Container	1 x Week	\$ 111.31	\$ 111.31	\$ 115.28	\$ 117.08	\$ 140.49	\$ 154.54	\$ 162.27	\$ 170.38
Percent Increase			0.0%	3.6%	1.6%	20.0%	10.0%	5.0%	5.0%

In addition to increases in collection rates, the tipping fees at the landfill, which are not subject to Proposition 218, are recommended to be increased *on average* by approximately 18% on October 1, 2022, and thereafter by approximately 3% each year through 2026. Similar to the initial adjustment in collection rates, not all types of charges at the landfill would receive the same initial rate adjustment. The most significant factor driving the increase in landfill tipping fees is a \$5 million required capital expenditure to install a regulatory mandated stormwater management system at the Lompoc Landfill. Table 3 on the following page shows the actual and proposed rate adjustments for typical types of landfill transactions. These adjustments, along with the adjustments to the City's collection rates, are designed to adequately fund the City's Solid Waste operations over the next five years and position the City to meet its financial obligations.

Table 3 – Proposed Landfill per Load and per Ton Tipping Fees

Service		Actual	Actual	Actual	Proposed	Proposed	Proposed	Proposed	Proposed
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Passenger Vehicle	per load	\$10.00	\$10.00	\$10.00	\$15.00	\$16.00	\$17.00	\$18.00	\$19.00
			0.0%	0.0%	50.0%	6.7%	6.3%	5.9%	5.6%
Weighed Tons - Refuse	per ton	\$82.34	\$82.34	\$82.34	\$90.00	\$94.00	\$98.00	\$102.00	\$106.00
			0.0%	0.0%	9.3%	4.4%	4.3%	4.1%	3.9%
Weighed Tons - Greenwaste	per ton	\$40.00	\$40.00	\$40.00	\$65.00	\$65.00	\$65.00	\$65.00	\$65.00
			0.0%	0.0%	62.5%	0.0%	0.0%	0.0%	0.0%

On April 19, 2022, the City Council approved retention of MSW Consultants to conduct a Solid Waste cost of service study (Attachment 2). That study includes a financial plan, a cost of service analysis, and a rate design analysis. The analyses found that the current structure of the City’s collection rates needs to be modified to more accurately reflect the nexus between the cost of service and the fee charged to the customer. The collection rates proposed in the study are intended to modify the structure of the City’s collection rates.

The City’s rates are recommended to increase significantly over the next five years primarily due to upward pressure on costs due to industry trends and new organics recycling regulations as further outlined in Attachment 2. However, these same trends are also impacting all other jurisdictions. Even after the City’s rates are adjusted, they are expected to remain competitive in relation to other jurisdictions.

Rate schedules showing all of the proposed collection rates are included as Attachment 3. The Proposition 218 Notice is included as Attachment 1.

Fiscal Impact:

Over the next five years, the proposed rates are projected to generate approximately \$6.6 million in new revenue for the City’s Solid Waste enterprise fund as shown below in Table 4.

Table 4 – Fiscal Impact

Description	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027	Total
1st adjustment - October 1, 2022	\$1,142	\$1,142	\$1,142	\$1,142	\$1,142	\$5,710
2nd adjustment - July 1, 2023		\$1,842	\$1,842	\$1,842	\$1,842	\$7,368
3rd adjustment - July 1, 2024			\$1,147	\$1,147	\$1,147	\$3,441
4th adjustment - July 1, 2025				\$677	\$677	\$1,354
5th adjustment - July 1, 2026					\$712	<u>\$712</u>
Total						\$18,585

(in 000's)

Conclusion:

To meet the City's current and future financial obligations of the Solid Waste enterprise fund, the City needs to increase the collection rates it charges to residential, multi-family, and commercial customers, and increase the tipping fees it charges at its landfill. If the City does not increase current collection rates and tipping fees, and rates and fees remain at their current levels, the cash balance in the enterprise fund will fall below its minimum target balance in FY 2023, and be completely depleted in FY 2024.

Respectfully submitted,

Christie Donnelly, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Dean Albro, City Manager

- Attachments:
- 1) Proposition 218 Notice
 - 2) Proposed Rate Schedule
 - 3) MSW Consultants Solid Waste Cost of Service Study Report