



## City Council Agenda Item

**City Council Meeting Date:** February 21, 2023

**TO:** Dean Albro, City Manager

**FROM:** Christie Donnelly, Management Services Director  
c\_donnelly@ci.lompoc.ca.us

**SUBJECT:** Consideration of Solid Waste Rate Adjustments; Schedule and Notice a Public Hearing for April 18, 2023, 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 April 18, 2023, 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.
- The City Council can approve a schedule of automatic rate adjustments for a period of up to 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.

On August 2, 2022, staff presented a report to City Council for consideration of Solid Waste Rate Adjustments with a request to schedule and notice a public hearing for September 20, 2022. At that time, City Council requested additional scenarios for possible rate adjustments to be presented at a future meeting and deferred scheduling a public hearing until after that future presentation. This report and its attachments serve to meet the request of City Council for additional rate adjustment scenarios. Due to changes in project scope and data inputs since the original report was presented, this report supersedes the report presented on August 2, 2022, and should be read independently of that report presented previously.

### **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 during Fiscal Year (FY) 2022-23, and be completely depleted in FY 2023-24.

Recent trends in the solid waste industry are continuing to increase the City's solid waste operating costs. In addition, a required approximately \$6.2 million capital project to install a stormwater remediation system at the Lompoc Landfill will require the City to issue debt, and increase its annual debt service expense. The issuance of debt will require the enterprise fund to generate a greater surplus to achieve a debt service coverage ratio of at least 1.3. These two factors, industry trends and the stormwater remediation system, are creating significant upward pressure on rates and fees.

To fund the City's solid waste operations and pay for the stormwater remediation system, the City will need to increase its collection rates and tipping fees over the next five years.

The amount of those rate increases depends upon the level at which the City intends to maintain the cash balance in the solid waste enterprise fund. It has been the City's policy to target a minimum cash reserve balance equal to at least three months of operating expenses (i.e., a target reserve balance of at least 25% of annual operating costs). If the City were to allow future cash reserve balances to fall below the 25% target, the amount of future rate increases could be reduced.

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.

After the initial report was submitted and presented on August 2, 2022, MSW then developed four alternate 5-year rate adjustment scenarios that reflect various increases in collection rate revenues and various levels of corresponding projected cash reserve balances. Those alternate scenarios are the following.

#### Scenario 1 – Cash Below Target

The projected cash reserve balance over the next five years is allowed to fall and stay below the target balance at approximately 8% of annual operating expenses; equal to approximately one month of annual operating expense. Rates are increased an average of 15.6% on July 1, 2023, and thereafter each year by 20%, 15%, 5% and 5%. Of the four scenarios, this scenario entails the lowest initial rate adjustment while preserving the sinking funds, the second highest rates at the end of five years, and the lowest cash reserve balances.

#### Scenario 2 – Replenish Cash in One Year

The projected cash reserve balance is replenished over FY 2023-24 to meet the minimum target cash reserve balance. Rates are increased an average of 49.5% on July 1, 2023, and thereafter each year by 3%, 3%, 3% and not adjusted on July 1, 2027. Of the four scenarios, this scenario entails the highest initial rate adjustment, the lowest rates at the end of the five years, and the highest cash reserve balances.

#### Scenario 3 – Replenish Cash by FY 2028

The projected cash reserve balance is replenished gradually over the next five years to meet the minimum target cash reserve balance by the end of FY 2027-28. Rates are increased an average of 24.3% on July 1, 2023, and thereafter each year by 15%, 15%, 5% and 4%. Of the four scenarios, this scenario entails the second highest initial rate adjustment, the highest rates at the end of the five years, and the second highest cash reserve balances.

Scenario 4 – Replenish Cash by FY 2028; Postpone Establishment of Sinking Funds

This scenario is a variation of Scenario 3. The projected cash reserve balance is replenished over the next five years to meet the minimum target cash reserve balance by the end of FY 2027-28. Amounts set aside to establish sinking funds for a future transfer station or extension of the life of the landfill, as well as vehicle replacements, are postponed. In addition, the previously-approved short-term, pre-debt issuance inter-fund loan would be increased to \$1.0M above the anticipated debt service. Rates are increased an average of 14.9% on July 1, 2023, and thereafter each year by 15%, 15%, 15% and 3%. Of the four scenarios, this scenario entails the lowest initial rate adjustment, the lowest rates at the end of the five years, and the highest cash reserve balances. If this scenario is adopted, it is recommended that rates be reevaluated with a subsequent rate study after three years rather than the typical five years so that establishment of recommended sinking funds would not be postponed longer than necessary.

The impacts of the alternative scenarios are summarized in the following Table 1. For each of the four scenarios, Table 1 shows: the average rate adjustment in collection rates for the next five years beginning on July 1, 2023, the monthly rates for a single-family 95-gallon cart (the most common level of service) for the next five years beginning on July 1, 2023, and, the projected cash balances at the end of the current and next five fiscal years.

**Table 1 – Impacts Alternative Rate Adjustment Scenarios**

Description	Take No Action	1. Cash Below Target	2. Replenish Cash in 1 Year	3. Replenish Cash by FY 2028	4. Replenish Cash by FY 2028; Postpone Sinking Funds
<b>Average Rate Adjustment Effective:</b>					
July 1, 2023	0.0%	15.6%	49.5%	24.3%	14.9%
July 1, 2024	0.0%	20.0%	3.0%	15.0%	15.0%
July 1, 2025	0.0%	15.0%	3.0%	15.0%	15.0%
July 1, 2026	0.0%	5.0%	3.0%	5.0%	15.0%
July 1, 2027	0.0%	5.0%	0.0%	5.0%	3.0%
<b>Monthly Rates for 95 gallon cart Effective:</b>					
July 1, 2023	\$41.40	\$47.07	\$60.65	\$50.60	\$36.97
July 1, 2024	\$41.40	\$56.48	\$62.47	\$58.19	\$42.51
July 1, 2025	\$41.40	\$64.95	\$64.34	\$66.92	\$48.89
July 1, 2026	\$41.40	\$68.20	\$66.27	\$70.27	\$56.22
July 1, 2027	\$41.40	\$71.61	\$66.27	\$73.78	\$57.91
<b>Projected Cash Balance (in 000s):</b>					
June 30, 2023	\$1,723	\$1,723	\$1,723	\$1,723	\$1,723
June 30, 2024	(383)	766	3,275	1,411	1,718
June 30, 2025	(3,067)	951	4,599	1,913	1,861
June 30, 2026	(7,649)	804	4,389	2,132	2,031
June 30, 2027	(12,516)	986	4,267	2,700	3,911
June 30, 2028	(\$17,554)	\$1,652	\$3,999	\$3,774	\$6,091

*Landfill Tipping Fees*

In addition to increases in collection rates, the tipping fees at the landfill will need to be increased on average by approximately 22% on July 1, 2023, and thereafter by approximately 4% each year through 2026. Similar to the initial adjustment in collection rates, not all types of charges at the landfill will receive the same initial rate adjustment.

The most significant factor driving the increase in landfill tipping fees is an approximate \$6.2 million required capital expenditure to install a regulatory mandated stormwater management system at the Lompoc Landfill. Table 2 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 such that it will be able to meet its financial obligations.

**Table 2 – 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%

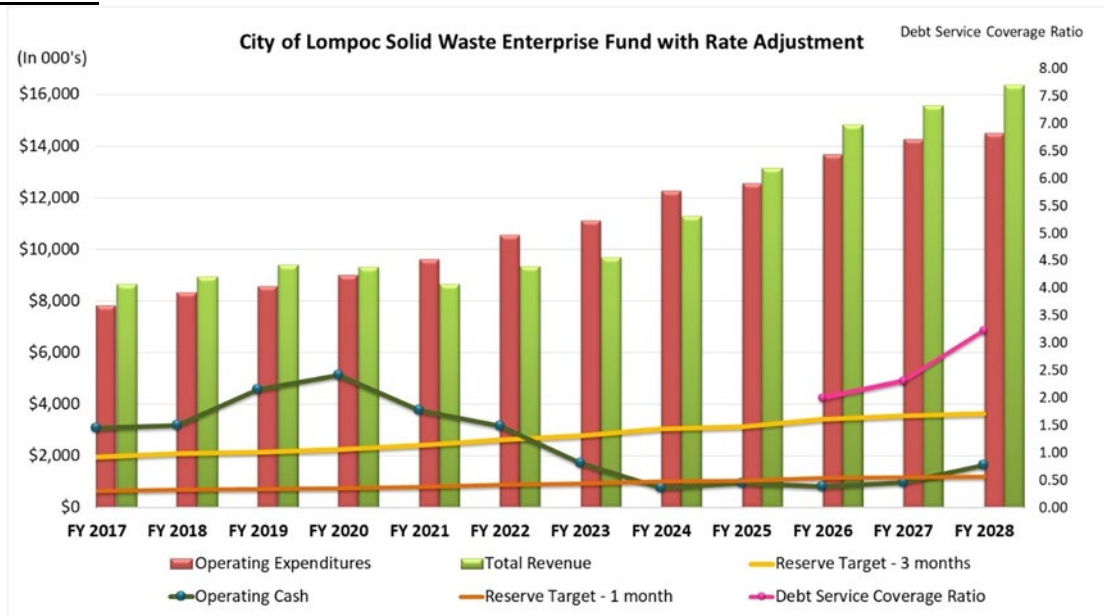
The City’s rates are recommended to increase significantly over the next five years primarily due to upward pressure on costs due to industry trends and new organics recycling regulations as further outlined in Attachment 2. However, these same trends are also impacting all other jurisdictions. Even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

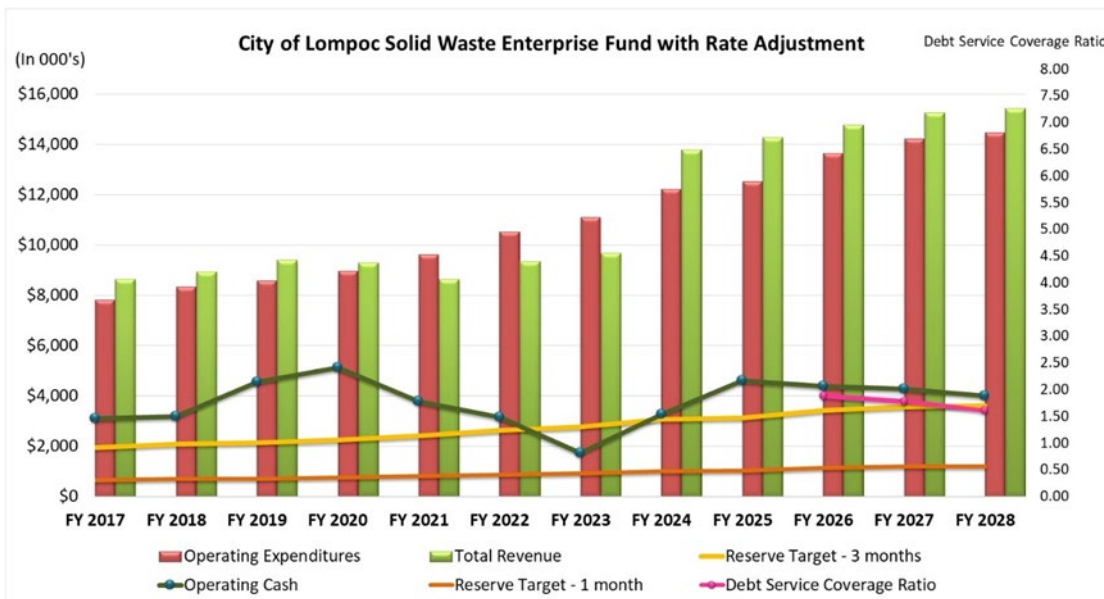
**Fiscal Impact:**

Over the next five years, the proposed rates are projected to generate increased revenue for the City’s Solid Waste enterprise fund. The extent of the increased revenue depends upon which scenario is implemented. The full analysis of the fiscal impact of each of the scenarios is detailed in the full report found in Attachment 2. Projected Operating Results with Rate Adjustments are also diagramed in Attachment 2, and are summarized below.

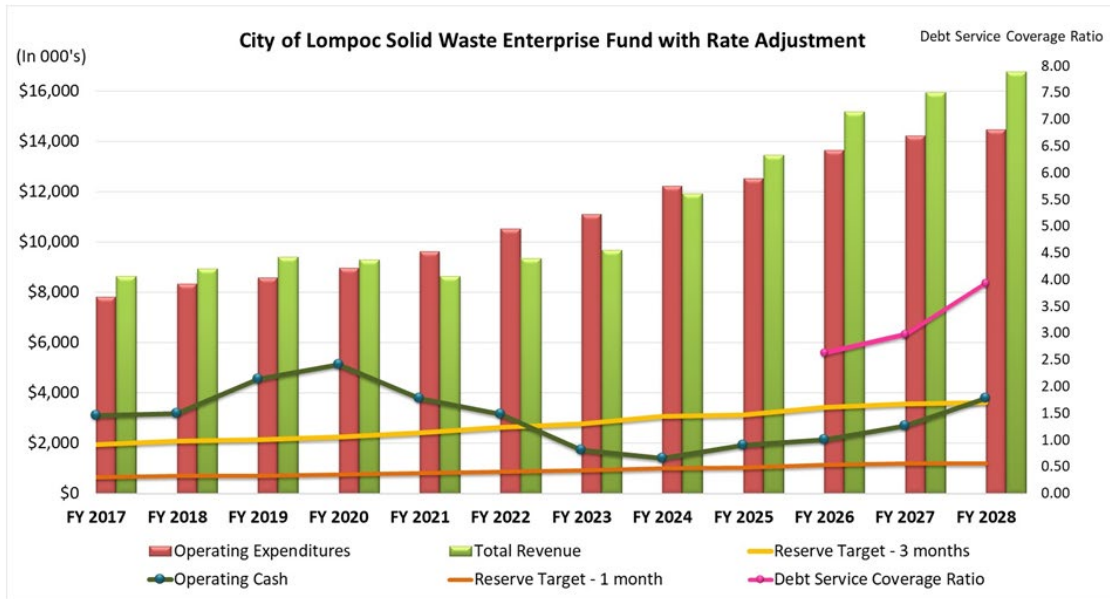
**Scenario 1:**



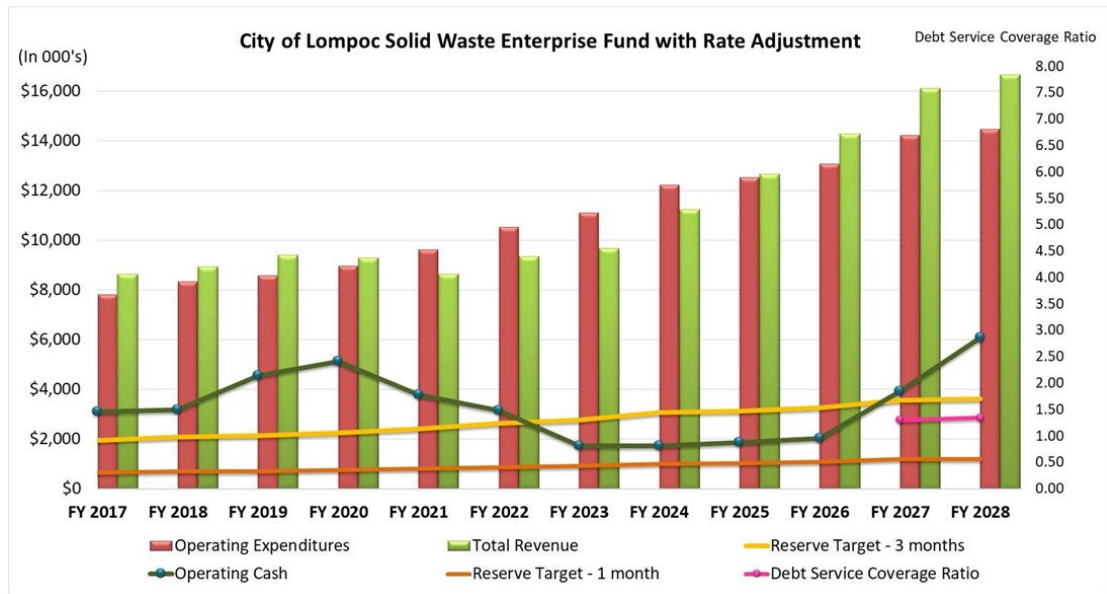
**Scenario 2:**



**Scenario 3:**



**Scenario 4:**



**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 2023-24, and be completely depleted in FY 2024-25.

Respectfully submitted,

---

Christie Donnelly, Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

---

Dean Albro, City Manager

- Attachments: 1) Proposition 218 Notice  
2) MSW Consultants Solid Waste Cost of Service Study Report,  
including Proposed Rate Schedules dated Feb 15, 2023