



City of San Carlos



Solid Waste Rate Projections

Draft 9/19/23



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS



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DATE: September 19, 2023

TO: Anna Denham & Vatsal Patel
City of San Carlos

FROM: Alex Handlers & Erik Helgeson
Bartle Wells Associates

RE: Solid Waste Rate Projections

Solid Waste Utility

The City of San Carlos provides solid waste, green waste, and recycling services to residents and businesses within the City. The City is a member of the South Bay Waste Management Authority (SBWMA), also known as RethinkWaste, a joint powers authority comprised of 11 public agencies in San Mateo County for the purposes of collectively managing, operating and negotiating cost-effective waste reduction, recycling, and solid waste programs for its member agencies. SBWMA member agencies contract with Recology of San Mateo County (formerly Norcal Waste Systems Inc.) for the collection, hauling, and disposal of garbage, compost, and recycling.

The City's solid waste utility is a self-supporting enterprise funded entirely from solid waste rates. As such, rates need to be adopted at adequate levels to support the costs of providing the City's contractual solid waste hauling and disposal expenses.

The City has provided good financial stewardship of its solid waste enterprise with adoption of gradual annual solid waste rate increases over each of the past 7 years. These increases have put the solid waste enterprise on a stronger financial footing, helped keep rates aligned with the escalating costs of providing service, and enabled the City to avoid larger rate spikes in response to annual fluctuations in solid waste operating expenses. The City most recently adopted 3 years of 6% annual solid waste rate increases with the last increase effective January 1, 2023.

Solid Waste Rates

The City establishes solid waste rates for different types of residential and commercial services. Rates are established by resolution of the City Council pursuant to the procedural requirements of Proposition 218. The City sets the rates but contracts with Recology for billing and collection. Recology bills the City's customers quarterly for solid waste service.

Single family residential rates vary by four cart sizes, ranging from 20 gallons to 96 gallons, with lower rates for smaller cart sizes. Most of the City's residential customers have 32-gallon carts. Standard residential service

includes weekly collection of solid waste and recyclables. Commercial rates, including multi-family residential service, vary by type and frequency of service.

Projected Cost Increases

The City's contractual costs for the provision of solid waste services are significantly increasing in 2024 due to a number of factors as summarized below.

- **Increased Solid Waste Disposal Costs at the Ox Mountain Landfill:** Costs for solid waste disposal at the Ox Mountain Landfill are substantially increasing. These costs get passed on to all SBWMA member agencies including San Carlos and are reflected in SBWMA's 2024 Budget.
- **New Shoreway Environmental Center Contract:** SBWMA's existing contract for operations of the Shoreway Environment Center terminates at the end of 2023. The existing contract operator has indicated for a number of years that additional cost recovery would be needed to maintain service levels. SBWMA competitively bid out a new contract and selected a new contract operator. As expected, the new contract that starts in 2024 includes significant cost increases for facility operations and regulatory compliance.
- **Contractual Cost Increases for Recology:** Costs for solid waste hauling services are projected to increase by more than 7% in 2024 based on SBWMA's contract with Recology.
- **New Bay Area Air Quality Management District Regulations:** SBWMA's 2024 Budget includes additional cost recovery for mitigation efforts to reduce methane emissions in order to comply with new air quality regulations. Additional costs for compliance may be needed in future years depending on the level of capital investment needed.
- **Green Waste Disposal:** One of SBWMA's two contracts for green waste disposal was recently renegotiated resulting in an increase in disposal costs which are factored in to SBWMA's 2024 Budget.
- **Contractual Cost Escalation & Future Costs for Regulatory Compliance:** In addition to the increased funding requirements identified above, SBWMA anticipates additional cost increases in upcoming years including contractual cost increases for solid waste hauling by Recology, operations at the Shoreway Environmental Center, and additional costs for regulatory compliance. To account for these anticipated cost increases, the financial projections include 5% cost escalation in 2025 and 2026, 4% cost escalation in 2027, and 3.5% annual cost escalation in future years.

The City's proactive rate increases in recent years have enabled the City to avoid the need for correspondingly large rate increases in 2024 and put the City in position to continue its practice of implementing gradual annual rate increases to keep rates aligned with the cost of providing service.

Solid Waste Financial & Rate Projections

Bartle Wells Associates (BWA) developed solid waste cash flow and rate projections under 2 scenarios:

A – Continue the City’s historical practice of implementing gradual annual rate increases each year.

B – Adopt no rate increase in 2024 coupled with slightly larger rate increases in subsequent years.

The following table compares the rate increases projected for each scenario along with an estimate of ending annual solid waste fund balances and projected monthly charge for a typical single family home with a 32-gallon cart size (the most common cart size).

Solid Waste Rate Scenarios					
	Current Solid Waste Rates	Proposed Solid Waste Rates Effective			
		January 1 2024	January 1 2025	January 1 2026	January 1 2027
Rate Increase Scenarios					
A - Gradual Annual Rate Increases		4.5%	4.5%	4.5%	4.5%
B - No Rate Increases in 2024		0.0%	6.0%	6.0%	6.0%
Projected Ending Fund Balances					
A - Gradual Annual Rate Increases		\$2,281,000	\$2,290,000	\$2,246,000	\$2,260,000
% of Annual Expenses		18.7%	17.9%	16.7%	16.2%
B - No Rate Increases in 2024		\$1,809,000	\$1,483,000	\$1,255,000	\$1,253,000
% of Annual Expenses		14.9%	11.6%	9.4%	9.0%
Single Family Monthly Charge 32-Gallon Cart					
A - Gradual Annual Rate Increases	\$46.04	\$48.11	\$50.27	\$52.53	\$54.89
B - No Rate Increases in 2024	46.04	46.04	48.80	51.73	54.83

Note that deferral of a rate increase in 2024 results in a) drawdown of roughly \$1 million of fund reserves over the next 4 years and b) the need for higher rate increases in subsequent years to ultimately support balanced budgets.

BWA’s preliminary recommendation would be to move forward with Scenario A and continue its historical practice of implementing smaller annual rate increases. However, Scenario B is provided as a viable alternative should the City instead opt to defer any solid waste increases in 2024 coupled with slightly larger rate increases in subsequent years.

Cash flow projections and supporting tables are included on the following pages.

Table A-1

San Carlos Solid Waste Financial Projections

Scenario A - Gradual Annual Rate Increases

	0	1	2	3	4	5	6	7	8	9	10
	Estimated 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030	Projected 2031	Projected 2032	Projected 2033
Effective Date of Rate Adjustment		Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1
Solid Waste Rate Adjustments											
Residential Rate Adjustments		4.5%	4.5%	4.5%	4.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Commercial Rate Adjustments		4.5%	4.5%	4.5%	4.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Cost Escalation											
Recology Compensation		7.4%	5.0%	5.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Disposal & Processing Fees		25.1%	5.0%	5.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Beginning Fund Balance	\$1,399,000 Preliminary	\$2,222,000	\$2,281,000	\$2,290,000	\$2,246,000	\$2,260,000	\$2,286,000	\$2,314,000	\$2,346,000	\$2,382,000	\$2,421,000
Revenues											
Service Charges, Single Fam Residential	5,003,000	5,228,000	5,463,000	5,709,000	5,966,000	6,175,000	6,391,000	6,615,000	6,847,000	7,087,000	7,335,000
Service Charges, Commercial	6,738,000	7,041,000	7,358,000	7,689,000	8,035,000	8,316,000	8,607,000	8,908,000	9,220,000	9,543,000	9,877,000
Total	11,741,000	12,269,000	12,821,000	13,398,000	14,001,000	14,491,000	14,998,000	15,523,000	16,067,000	16,630,000	17,212,000
Expenses											
Recology Contractor's Compensation	6,325,000	6,791,000	7,131,000	7,488,000	7,788,000	8,061,000	8,343,000	8,635,000	8,937,000	9,250,000	9,574,000
Disposal & Processing Fees	3,015,000	3,772,000	3,961,000	4,159,000	4,325,000	4,476,000	4,633,000	4,795,000	4,963,000	5,137,000	5,317,000
City Cost Recovery	1,578,000	1,647,000	1,720,000	1,795,000	1,874,000	1,928,000	1,994,000	2,061,000	2,131,000	2,204,000	2,279,000
Total	10,918,000	12,210,000	12,812,000	13,442,000	13,987,000	14,465,000	14,970,000	15,491,000	16,031,000	16,591,000	17,170,000
Revenues Less Expenses	823,000	59,000	9,000	(44,000)	14,000	26,000	28,000	32,000	36,000	39,000	42,000
Ending Fund Balance	2,222,000	2,281,000	2,290,000	2,246,000	2,260,000	2,286,000	2,314,000	2,346,000	2,382,000	2,421,000	2,463,000
Fund Balance % of Annual Exps	20.4%	18.7%	17.9%	16.7%	16.2%	15.8%	15.5%	15.1%	14.9%	14.6%	14.3%

Table A-2 Projected Solid Waste Rates					
Scenario A - Gradual Annual Rate Increases					
	Current Rates	Proposed Solid Waste Rates Effective			
	January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Rate Increase %		4.5%	4.5%	4.5%	4.5%
RESIDENTIAL CURBSIDE SERVICE					
<u>Cart Size (weekly pickup)</u>					
20 gallon	\$30.81	\$32.20	\$33.65	\$35.16	\$36.74
32 gallon	46.04	48.11	50.27	52.53	54.89
64 gallon	70.11	73.26	76.56	80.01	83.61
96 gallon	90.59	94.67	98.93	103.38	108.03
COMMERCIAL CART SERVICE					
<u>Cart Size (weekly pickup)</u>					
32 gallon	\$35.35	\$36.94	\$38.60	\$40.34	\$42.16
64 gallon	73.78	77.10	80.57	84.20	87.99
96 gallon	109.49	114.42	119.57	124.95	130.57
COMMERCIAL BIN SERVICE					
1 Yard (weekly pickup)	\$150.48	\$157.25	\$164.33	\$171.72	\$179.45
2 Yards (weekly pickup)	306.93	320.74	335.17	350.25	366.01
3 Yards (weekly pickup)	469.29	490.41	512.48	535.54	559.64
3 Yards (twice weekly pickup, includes frequency surcharge)	993.07	1,037.76	1,084.46	1,133.26	1,184.26

Table A-3 Projected City Solid Waste Cost Recovery Scenario A - Gradual Annual Rate Increases					
FY	2019	2020	2021	2022	2023
Waste Volume (tons)	78,000	78,000	78,000	78,000	78,000
Revenue (\$)	\$1,170,000	\$1,216,800	\$1,263,600	\$1,310,400	\$1,357,200
Cost (\$)	\$1,170,000	\$1,216,800	\$1,263,600	\$1,310,400	\$1,357,200
Net Income (\$)	\$0	\$0	\$0	\$0	\$0
Rate per Ton (\$)	\$15.00	\$15.60	\$16.20	\$16.80	\$17.40

Table A-3 Projected City Solid Waste Cost Recovery Scenario A - Gradual Annual Rate Increases					
FY	2019	2020	2021	2022	2023
Waste Volume (tons)	78,000	78,000	78,000	78,000	78,000
Revenue (\$)	\$1,170,000	\$1,216,800	\$1,263,600	\$1,310,400	\$1,357,200
Cost (\$)	\$1,170,000	\$1,216,800	\$1,263,600	\$1,310,400	\$1,357,200
Net Income (\$)	\$0	\$0	\$0	\$0	\$0
Rate per Ton (\$)	\$15.00	\$15.60	\$16.20	\$16.80	\$17.40

[illegible]

<div>Table B-1</div> <div>San Carlos Solid Waste Financial Projections</div> <div>Scenario B - No Rate Increase in 2024</div>											
	0	1	2	3	4	5	6	7	8	9	10
	Estimated 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030	Projected 2031	Projected 2032	Projected 2033
Effective Date of Rate Adjustment		Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1	Jan-1
Solid Waste Rate Adjustments											
Residential Rate Adjustments		0.0%	6.0%	6.0%	6.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Commercial Rate Adjustments		0.0%	6.0%	6.0%	6.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Cost Escalation											
Recology Compensation		7.4%	5.0%	5.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Disposal & Processing Fees		25.1%	5.0%	5.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Beginning Fund Balance	\$1,399,000 Preliminary	\$2,222,000	\$1,809,000	\$1,483,000	\$1,255,000	\$1,253,000	\$1,263,000	\$1,275,000	\$1,290,000	\$1,307,000	\$1,325,000
Revenues											
Service Charges, Single Fam Residential	5,003,000	5,003,000	5,303,000	5,621,000	5,958,000	6,167,000	6,383,000	6,606,000	6,837,000	7,076,000	7,324,000
Service Charges, Commercial	6,738,000	6,738,000	7,142,000	7,571,000	8,025,000	8,306,000	8,597,000	8,898,000	9,209,000	9,531,000	9,865,000
Total	11,741,000	11,741,000	12,445,000	13,192,000	13,983,000	14,473,000	14,980,000	15,504,000	16,046,000	16,607,000	17,189,000
Expenses											
Recology Contractor's Compensation	6,325,000	6,791,000	7,131,000	7,488,000	7,788,000	8,061,000	8,343,000	8,635,000	8,937,000	9,250,000	9,574,000
Disposal & Processing Fees	3,015,000	3,772,000	3,961,000	4,159,000	4,325,000	4,476,000	4,633,000	4,795,000	4,963,000	5,137,000	5,317,000
City Cost Recovery	1,578,000	1,591,000	1,679,000	1,773,000	1,872,000	1,926,000	1,992,000	2,059,000	2,129,000	2,202,000	2,277,000
Total	10,918,000	12,154,000	12,771,000	13,420,000	13,985,000	14,463,000	14,968,000	15,489,000	16,029,000	16,589,000	17,168,000
Revenues Less Expenses	823,000	(413,000)	(326,000)	(228,000)	(2,000)	10,000	12,000	15,000	17,000	18,000	21,000
Ending Fund Balance	2,222,000	1,809,000	1,483,000	1,255,000	1,253,000	1,263,000	1,275,000	1,290,000	1,307,000	1,325,000	1,346,000
Fund Balance % of Annual Exps	20.4%	14.9%	11.6%	9.4%	9.0%	8.7%	8.5%	8.3%	8.2%	8.0%	7.8%

Table B-2 Projected Solid Waste Rates					
Scenario B - No Rate Increase in 2024					
	Current Rates	Proposed Solid Waste Rates Effective			
	January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Rate Increase %		0.0%	6.0%	6.0%	6.0%
RESIDENTIAL CURBSIDE SERVICE					
<u>Cart Size (weekly pickup)</u>					
20 gallon	\$30.81	\$30.81	\$32.66	\$34.62	\$36.70
32 gallon	46.04	46.04	48.80	51.73	54.83
64 gallon	70.11	70.11	74.32	78.78	83.51
96 gallon	90.59	90.59	96.03	101.79	107.90
COMMERCIAL CART SERVICE					
<u>Cart Size (weekly pickup)</u>					
32 gallon	\$35.35	\$35.35	\$37.47	\$39.72	\$42.10
64 gallon	73.78	73.78	78.21	82.90	87.87
96 gallon	109.49	109.49	116.06	123.02	130.40
COMMERCIAL BIN SERVICE					
1 Yard (weekly pickup)	\$150.48	\$150.48	\$159.51	\$169.08	\$179.22
2 Yards (weekly pickup)	306.93	306.93	325.35	344.87	365.56
3 Yards (weekly pickup)	469.29	469.29	497.45	527.30	558.94
3 Yards (twice weekly pickup, includes frequency surcharge)	993.07	993.07	1,052.65	1,115.81	1,182.76

Table B-3 **Projected City Solid Waste Cost Recovery**
Scenario B - No Rate Increase in 2024

Table B-3 **Projected City Solid Waste Cost Recovery**
Scenario B - No Rate Increase in 2024

Table B-3 **Projected City Solid Waste Cost Recovery**
Scenario B - No Rate Increase in 2024

	Cost Esc.	Base	2024	2025	2026	2027
Projected Rate Increases			0.0%	6.0%	6.0%	6.0%
Service Charge Revenues		\$11,741,000	\$11,741,000	\$12,445,000	\$13,192,000	\$13,983,000
San Carlos Cost Recovery						
Franchise Fees (10% of net revenues)*		1,016,328	1,015,049	1,076,576	1,141,889	1,211,075
Litter Control (2% of net revenues)*		203,266	203,010	215,315	228,378	242,215
Steam Clean City Containers	4.0%	111,583	116,046	120,688	125,516	130,536
Street Sweeping	4.0%	159,545	165,927	172,564	179,466	186,645
City Management	4.0%	87,000	90,480	94,099	97,863	101,778
Misc/Other	4.0%	0	0	0	0	0
Total		1,577,721	1,590,512	1,679,242	1,773,112	1,872,249
<i>Rounded</i>		1,578,000	1,591,000	1,679,000	1,773,000	1,872,000
% Increase			0.8%	5.6%	5.6%	5.6%
* Net revenues equal total service charge revenues less all City fees.						