



CITY COUNCIL STAFF REPORT

MEETING DATE: September 25, 2023

ITEM TITLE: Consideration of Adopting a Resolution Setting a Public Hearing for November 13, 2023 to Consider a Four-Year Rate Plan for Residential and Commercial Solid Waste Rates, Including Unscheduled Services, Pursuant to Proposition 218.

RECOMMENDATION:

Staff recommends that the City Council review and discuss options for solid waste rates and adopt a Resolution setting a Public Hearing for November 13, 2023, to pursue a four-year rate plan for residential and commercial solid waste rates, including unscheduled services pursuant to Proposition 218.

FISCAL IMPLICATIONS:

Solid waste collection service costs are covered by the solid waste rates paid by residents and businesses in San Carlos. The cost of these services does not impact the General Fund directly unless the City Council chooses to use General Funds as a subsidy.

BACKGROUND:

The Solid Waste Franchise Agreement (“Agreement”) between Recology and the City of San Carlos requires that the South Bayside Waste Management Authority (“SBWMA”) review the annual Recology Compensation Application (“Application”) for completeness and accuracy. Each member agency reviews the Application, and at the conclusion of these reviews, SBWMA staff issues a report to the SBWMA Board of Directors for approval. This SBWMA staff report (“Report”) includes the cost of solid waste, recycling, and compost collection services by Recology for each of the member agencies. Once approved, the Report becomes binding between each member agency and Recology regarding the amount of revenue that must be paid for solid waste collection services.

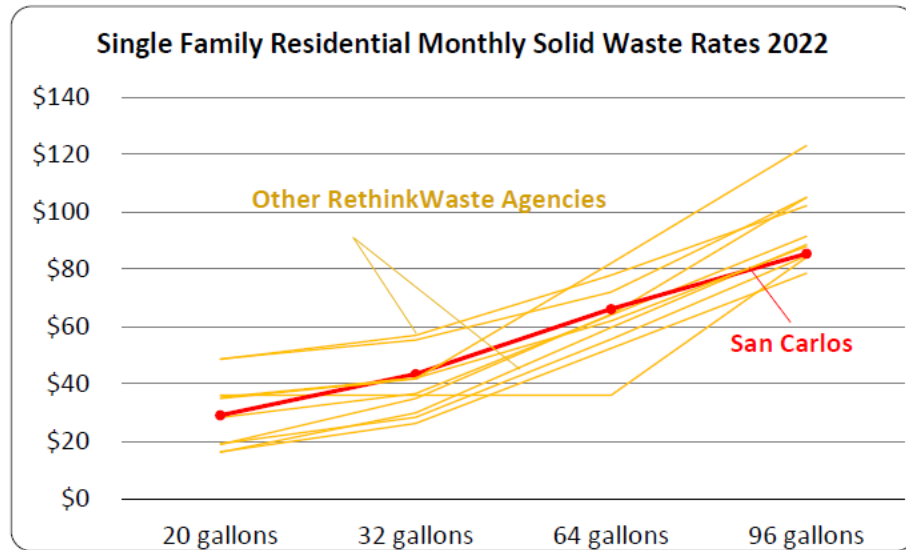
The Report estimates the total cost of service, known as the Revenue Requirement, which includes: Recology’s collection cost; disposal expense at Shoreway; and each agency’s franchise and other fees. The Report also includes an estimate of the base revenue before any rate adjustment, which is used to pay for these collection services in the coming year. The difference between the base revenue and the total Revenue Requirement determines the recommended rate adjustments needed by each agency to generate enough revenue to pay for these services as of January 1st of each year.

The City of San Carlos last adopted solid waste rate increases in May 2021, which resulted in three years of rate adjustments effective from mid-2021 through 2023. The City's solid waste rates are currently in the middle range compared with other SBWMA member agencies.

Residential Solid Waste Rate Survey

The following table and chart compare single family residential rates for SBWMA member agencies for 2022. San Carlos' solid waste rates are currently in the upper middle range for 32-gallon and 64-gallon cart sizes, with rates for 20-gallon and 96-gallon cart sizes below the regional averages. San Carlos is one of the few agencies that has addressed cost of service rate realignment between cart sizes.

Single Family Residential Solid Waste Rate Survey 2022				
	Monthly Rate per Cart Size			
	20 gallons	32 gallons	64 gallons	96 gallons
San Mateo	\$19.19	\$28.29	\$55.52	\$84.69
Foster City	16.36	26.21	52.40	78.62
Menlo Park	28.31	36.64	63.97	91.46
Burlingame	16.13	29.83	59.66	88.54
Redwood City	18.87	34.86	64.20	105.00
Belmont	34.94	41.68	82.06	123.08
North Fair Oaks	36.07	36.07	36.07	84.14
San Carlos	29.07	43.43	66.14	85.46
San Mateo County	35.33	41.99	61.95	88.00
Hillsborough	48.55	56.90	77.86	102.15
West Bay SD (Menlo Pk)	48.75	55.25	72.00	105.00
East Palo Alto	All customers billed \$52.90 for a 96-gallon cart			
Average*	\$30.14	\$39.20	\$62.89	\$94.19
Median*	29.07	36.64	63.97	88.54
<i>San Carlos</i>	<i>29.07</i>	<i>43.43</i>	<i>66.14</i>	<i>85.46</i>
* Average & median exclude East Palo Alto, which only provides 96-gallon carts.				



Factors Affecting Solid Waste Rates

The City's contractual costs for the provision of solid waste services are significantly increasing in 2024 due to several factors 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 related to 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 a 5% cost escalation in 2025 and 2026, a 4% cost escalation in 2027, and a 3.5% annual cost escalation in future years.

ANALYSIS:

Financial projections developed by consultant Bartle Wells Associates (“BWA”) indicate that the City will need to increase its solid waste rates in upcoming years. BWA recommends that the City continue its historical practice of implementing smaller annual rate increases across all service categories to keep rates aligned with the cost of providing service, while minimizing the annual impact on ratepayers.

Rate Scenario A on the following table details the preliminary recommendation from BWA of 4.5% annual increases, for four years, to cover increased costs and maintain the reserve fund balance at just below 20% of projected expenditures over the next four years. Scenario B provides an alternative with no rate increase in 2024, coupled with higher rate increases in subsequent years to catch-up for the first-year rate deferral. Scenario B is projected to result in a more substantial draw down of the Solid Waste Reserve Fund.

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.

Attachment Q – Rates for Unscheduled Services

The City's solid waste rates include unscheduled services as defined in Attachment Q of the Agreement. These rates cover a variety of miscellaneous costs for special services, such as backyard service or overage events that the customer is obligated to pay the company. The cost items are separate and distinct from the base Revenue Requirement and are passed directly on to the customers who subscribe to these services in the form of rates set by the City as provided in the proposed Rates for Unscheduled Services. Staff recommends that the rates for the services outlined in Attachment Q be increased at a rate consistent with solid waste cart service scheduled rate increases.

Solid Waste Rate Notice Process

Should the City Council choose a gradual rate increase as outlined in Scenario A above, the next step in the Solid Waste Rate setting process is to issue a notice of the proposed rate increase by September 29, 2023, and then to hold a public hearing for the proposed rate increase 45 days or more after this notice is mailed to the affected rate payers. That public hearing can be scheduled for the City Council's regularly scheduled meeting on November 13, 2023. Once such a hearing has been held and the new rates have been approved, Recology will put the new rates into effect beginning January 1, 2024.

Staff recommends adopting a series of 4.5% rate increases for all rate classes each year for the next four years. This alternative meets the City's projected solid waste funding needs, accounts for the cost increases related to legislative, contractual, and service changes, and helps maintain a prudent minimal level of fund reserves.

However, if the City Council wishes to defer the rate increase in 2024, staff has prepared an alternate no rate increase scenario in 2024, followed by a 6% increase each year in 2025, 2026 and 2027, for the Council's consideration.

Staff also recommends that the Council authorize staff to issue a Notice of Public Hearing in accordance with Proposition 218 detailing proposed rates in the Resolution and the date, time, and location of a Public Hearing proposed to be held on November 13, 2023.

ALTERNATIVES:

The alternatives available to the City Council include:

1. Adopt a Resolution setting a Public Hearing for November 13, 2023 to consider a four-year rate plan for residential and commercial solid waste rates, including unscheduled services, pursuant to Proposition 218 and provide staff with direction on how to proceed with a rate increase; or
2. Do not adopt the Resolution and do not authorize staff to issue a Proposition 218 Notice; or
3. Provide staff with alternative direction.

Respectfully submitted by:

Steven Machida, Public Works Director

Approved for submission by:

A handwritten signature in black ink, appearing to be 'J. Maltbie', written over a horizontal line.

Jeff Maltbie, City Manager

ATTACHMENT(S):

1. Resolution
2. Attachment Q - Additional Services
3. San Carlos Solid Waste Rate Projections