



WEST BAY SANITARY DISTRICT AGENDA ITEM 5

To: *Board of Directors*

From: *Phil Scott, District Manager*

Subject: *Consideration of Setting a Public Hearing Date for January 11, 2017 to Review Proposed Refuse Collection Rates for the Year 2017 and Providing Staff Direction by Minute Order Regarding the Collection Rate Adjustment for 2017 and the Mailing of the Proposition 218 Notice for a Public Hearing*

Background

As a member of the South Bayside Waste Management Authority (SBWMA), West Bay Sanitary District, as well as the other Member Agencies is closing the sixth year of the new Collection Services provided by Recology San Mateo County. The transition to these services commencing on January 1, 2011 has been significant in not just the expanded scope of services but also on diversion of materials from landfill. We've seen significant increases in residential recycling and organic materials collection. Solid waste generation has significantly decreased. The collection services now include more convenient weekly collection of single stream recycling, organic materials (yard trimmings and food scraps) and solid waste. The Shoreway Environmental Center which is operated by South Bay Recycling has undergone substantial capital improvements to facilitate single stream recycling service provided by Recology, enhance onsite public recycling activities and greatly improve traffic circulation.

The Board has expressed the need to actively move rates toward a "cost for service" level. This requires rates to be adjusted so customers are paying their fair share for the service they receive. In order to accomplish this, rate adjustments will be necessary in both increases and reductions to the rates. Considerations taken for such adjustments are as follow:

- The 20 gallon container rate nor the 32 gallon container rate approaches paying for the true cost for collection and processing;
- Based on revenue requirements Commercial customers are not required to contribute more towards the refuse collection program at this time; and
- Implementation of the proposed rate adjustments will assist in balancing the cost of service in the program.

In the past, residential rates were set to incentives the use of smaller containers and promote more recycling. This was done by making small residential container rates much lower than the larger residential containers. With the outreach efforts over the past 7 years and educating residents on the importance of recycling, Staff feels the incentive aspect of the rate is no longer warranted. In some cases, it's been reported that the 20 gallon container users may be contributing to cross contamination of recyclables because the can is too small for their need and excess waste ends up in the recycling container. Therefore, if a customer really needs a 32 gallon container versus a 20 gallon container the price difference should not be set artificially low so as to dissuade someone from acquiring the size can that best fits their needs. This should help avoid the unintended consequence of cross contamination, by having the 20 gallon can rate artificially low. The Board's goal is to have customers pay rates that are more in line with cost for service.

Lastly, over the past three (3) years, the District's rates for collection services have remained unchanged.

Analysis

HF&H Consultants, LLC were contracted this year to perform a rate analysis for the 2017 rates. The rate study analyzed rates that are more in line with "Cost for Service" and reviewed rates for residential and commercial services. On September 28th 2016, HF&H Consultants presented a preliminary report and status update of the rate study to the Board of Directors. In the presentation they discussed having three potential options for adjusting rates for residential and commercial customers. HF&H Consultants also discussed options for adjusting certain cart sizes to become more in line with their respective cost for service. At that meeting the Board requested a working model of the rates spreadsheet so that it may review other potential impacts when adjusting rates up or down. On October 12th, 2016 the Board revisited and reviewed other options and alternatives on adjusting some rates so that the goal to have customers pay their fair share for the service is obtained. Upon direction from the Board the rate study has been completed. The Board will be asked to establish a date for a public hearing on the new Solid Waste rates.

As we have seen in other jurisdictions over the past few years the District's rate structure has encouraged customers to "downsize" their solid waste container by placing more materials in their recyclable material and organics carts, rather than in their solid waste containers; ultimately, reducing the amount of trash sent to the landfill. As customers reduce their container size, less revenue is generated; however, there is not an equal reduction of the cost to drive by, collect, and process the materials. Only 20.0% of residents (those customers receiving 64- or 96-gallon service) cover the fixed costs to provide such service (see Table 4 of the HF&H Rate Study). The District has been able to keep the residential rates lower than necessary because, as was the industry practice, commercial revenues have contributed more than the cost of their services. Because of these factors, in the future, the District will consider increasing the 20-gallon and 32-gallon rates a greater percentage than the 64 and 96 gallon rates in order to have the smaller containers pay a larger percentage of their fixed costs but still remain significantly lower than the 64 gallon rate to incentivize customers to reduce the

amount of materials disposed of in the landfill. The aligning of residential rates to the cost of service at each container size and the overall reduction of the commercial customer class rates by a flat percentage over time, achieves the District's objective of a cost of service rate structure.

At its October 12, 2016 meeting, the District's Board proposed to implement, as part of a 3 to 5 year plan, the following rate adjustments for residential and commercial rates which will close the gap between the rates and the cost for the 20 gallon and 32 gallon services while generating sufficient revenue to cover the projected collection and processing costs for 2017.

**Table 7 of the HF&H Rate Study
District Board Proposed Rate
Adjustments**

| 2017 Monthly Rates by Size of Container | | | | | | | | |
|--|--------------------|-------------------|-----------------|-----------------|--------------------|--------------------|--------------------|--------------------|
| | Residential | | | | Commercial | | | |
| | 20 Gallon | 32 Gallon | 64 Gallon | 96 Gallon | 1YD Bin 1x/week | 1YD Bin 3x/week | 3YD Bin 1x/week | 3YD Bin 3x/week |
| Current Rates | \$23.30 | \$37.60 | \$73.70 | \$110.00 | \$227.81 | \$683.42 | \$481.45 | \$1,444.35 |
| Proposed Rate Adjustment | 20.0% | 7.0% | 0.0% | 0.0% | -5.0% | -5.0% | -5.0% | -5.0% |
| 2017 Proposed Rate/Mo. | \$27.96 | \$40.23 | \$73.70 | \$110.00 | \$216.42 | \$649.25 | \$457.38 | \$1,372.13 |
| Increase (Decrease)/Mo. | \$4.66 | \$2.63 | \$0.00 | \$0.00 | (\$11.39) | (\$34.17) | (\$24.07) | (\$72.22) |
| 2017 Projected Revenue at Proposed Rates | | | | | | | | |
| | Residential | Commercial | Total | | | | | |
| Projected Revenue at Current Rates ¹ | \$1,160,271 | \$334,644 | \$1,494,915 | | | | | |
| 2017 Proposed Rate Revenue | \$1,207,907 | \$317,912 | \$1,525,819 | | A | | | |
| 2017 Projected Costs | 1,235,155 | 218,462 | 1,453,617 | | B | | | |
| Excess (Deficiency) Amount | (\$27,247) | \$99,450 | \$72,203 | | A-B=C | | | |
| Excess (Deficiency) Percentage | -2.26% | 31.28% | 4.73% | | | | | |

¹ Projected Revenue at current rates is based upon the first 6 months of 2016 actual revenue annualized.

Proposition 218

For a rate increase to be considered for adoption, public noticing and majority protest procedures as outlined by Proposition 218 need to be followed. Notifications would be distributed by the second week of November.

The costs (approximately \$5,000) would be paid by the District and recovered through the Franchise Fee. Following the required minimum 45 day noticing period, the District Board would then consider adoption of the rate increase at its January 11, 2017 meeting, for an effective date of April 1, 2017. If adopted, the new rates would be included in Recology's first full billing cycle which would be for April, May and June 2017.

Fiscal Impact

2017 Rate Options

Staff has reviewed several rate options to fund the solid waste service program for 2017. Staff would like to receive confirmation from the Board as to the desired rate structure below, which would meet the needs expressed by the Board members and present this rate structure scenario at the soon to be scheduled public hearing.

Recommendation

The District Manager recommends the adoption of a 20% rate increase applied to the residential 20 gallon container in 2017 and a 7% rate increase applied to the 32 gallon container in 2017 and a 5% (-) reduction uniformly in the commercial rates. In addition the District Manager recommends the adoption of the rates for Unscheduled Services as described in attachment 3 of this report. With the adoption of these adjustments, West Bay's rates for most residential and commercial customers would remain amongst the mid-range within the SBWMA.

Therefore, the District Manager recommends:

1. The Board set a Public Hearing date for January 11, 2017, to review proposed refuse collection rates for year 2017; and
2. Provide staff direction by minute order regarding the collection rate adjustments for 2017 and the mailing of the Proposition 218 notice for a public hearing to be held on January 11, 2017 prior to adoption of the collection rates for 2017, and the acceptance of the Solid Waste Rate Study.

Attachments: Attachment 1—Draft Solid Waste Rate Study for 2017

Attachment 2—Sample 218 notice

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October 20, 2016

Sent via e-mail

Mr. Phil Scott
District Manager
West Bay Sanitary District
500 Laurel Street
Menlo Park, CA 94025

Subject: Update the District's Solid Waste/Recycling Rate Model

Dear Mr. Scott:

HF&H Consultants, LLC (HF&H) at your request has reviewed the West Bay Sanitary District's (District's) projected 2017 residential and commercial costs and revenues as presented in the final report submitted by the South Bayside Waste Management Authority (SBWMA) to determine the estimated surplus/shortfall for each customer class (residential and commercial). Additionally we have updated the District's solid waste/recycling "cost of service" rate model to reflect 2017 projected results.

Based upon the findings described in this report, and presented to the District's Board at its October 12, 2016 meeting, the District's Board proposed the following rate adjustments for 2017:

- A 20% increase to the 20 gallon rate and a 7% increase to the 32 gallon rate for residential services; and,
- An overall 5% reduction to commercial carts, commercial bins, and commercial compactor rates.

The rate adjustments for residential and commercial will better reflect the cost of service while generating sufficient revenue to cover the projected collection and processing costs for 2017. As part of a 3-year plan similar adjustments are projected for 2018 and 2019.

BACKGROUND

As a member of the South Bayside Waste Management Authority (SBWMA or Rethink Waste), the District transitioned collection services and operation of the Shoreway Recycling and Disposal Center in San Carlos from Allied Waste/Republic to Recology San Mateo County (RSMC) and South Bay Recycling (SBR). RSMC and SBR took over collection services and operation of the Shoreway Environmental Center (Shoreway), respectively, beginning January 1, 2011.

Annually, the SBWMA provides the District with its allocation of the projected costs to provide collection service and operation of Shoreway. This information is utilized in the rate-setting process. The current

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rate model was developed by HF&H and adopted by the District's Board of Directors (Board) on December 14, 2011.

SCOPE OF WORK

Based on the results provided by the SBWMA, there is not a rate adjustment required for 2017 as combined current revenue in general is sufficient to cover total costs. However, as requested, HF&H prepared an analysis of current solid waste rates and proposes a revised rate structure for residential and overall adjustment to commercial carts, commercial bins, and commercial compactor rates to better reflect the cost of service while generating sufficient revenue to cover the projected collection and processing costs for 2017 through 2026. We performed the following procedures as part of our review:

- Obtained cost, rate and current customer account data from the District and the final SBWMA report (FINAL_8-12-16);
- Prepared a summary schedule projecting the District's revenues and revenue for the next nine years through 2025. We assumed an annual 3% inflation to costs over the nine year period;
- Prepared a schedule projecting residential and commercial revenue requirement through 2025 with the objective of the residential revenue to equal the costs to provide the service; and,
- Prepared a schedule proposing adjustments to the rates for the various residential carts with the objective of specific cart size revenue to equal its respective cost to provide the service.

LIMITATIONS

Our conclusions are based in part on Recology's projections of its financial results of operations and included in the August 12, 2016 SBWMA Final Report Reviewing the 2017 Recology Compensation application. Actual results of operations will usually differ from projections because events and circumstances frequently do not occur as expected and the difference may be significant.

FINDINGS

Our findings are summarized below:

General

HF&H has approached this rate structure analysis from a two-step process. The first step divides the solid waste collection system into two customer classes: residential and commercial. For purposes of this study, we are including multi-family customers with the commercial customer class and, we have not factored any surplus or deficit from prior year revenue reconciliations. We then reviewed the

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revenues and the revenue requirements for each customer class independently. The second step is to further review the residential customer class by examining the rate and cost to provide service for each size of container (20 gallon, 32 gallon, 64 gallon and 96 gallon).

Step 1 – Residential and Commercial Customer Classes

The following table shows the Rate Year 2017 revenue and revenue requirement by customer class. The solid waste collection system as a whole is projected to generate slightly over \$41,000 of excess revenue. However, as shown below, the residential customer class' revenue is significantly below its costs.

Table 1
2017 Projected Revenue and Costs by Customer Class

| | <i>Residential</i> | <i>Commercial</i> | <i>Total</i> |
|--|--------------------|-------------------|------------------------------|
| Projected Revenue at <u>Current Rates</u> ¹ | \$1,160,271 | \$334,644 | \$1,494,915 A |
| Projected 2017 Costs | | | |
| Collection | \$799,908 | \$146,102 | \$946,010 |
| Disposal/Processing | 351,234 | 59,994 | 411,228 |
| Agency Fees | 84,013 | 12,366 | 96,378 |
| Total Costs | \$1,235,155 | \$218,462 | \$1,453,617 B |
| Excess (Deficiency) of Revenues vs Costs | (\$74,884) | \$116,182 | \$41,298 A-B=C |
| Projected Rate Adjustment | 6.45% | -34.7% | -2.76% |

NOTE: The amounts shown above are for 2017 activity only. Prior year surplus/shortfalls are NOT included.

¹ Projected Revenue is based upon the first 6 months of 2016 actual revenue annualized.

If the District elects to have the residential customer class rates generate sufficient revenue to cover its costs, rates could be adjusted all at once or over a period of time. The table below shows possible rate adjustments to both customer classes over a five year period, assuming costs will increase annually by 3.0%, and with the goal of each generating sufficient revenue to cover its costs.

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Table 2
Proposed Rate Adjustments

| | <u>Residential</u> | <u>Commercial</u> |
|-------------|--------------------|-------------------|
| 2017 | 4.00% | -6.00% |
| 2018 | 3.75% | -6.00% |
| 2019 | 3.75% | -6.00% |
| 2020 | 3.50% | -6.00% |
| 2021 | 3.50% | -6.00% |

The following table shows the projected revenues after the above rate adjustments. By 2021, the revenues are just slightly above the cost for Residential and slightly below the cost for Commercial.

Table 3
5-year Projected Revenue and Costs

| Projections - Balance Revenue & Costs over 5 Years | | | | | | | | | |
|---|-------------------|-----------------|-----------------|-------------------|-----------------|-----------------|-------------------|-----------------|-----------------|
| | 1 2017 | | | 2 2018 | | | 3 2019 | | |
| | Residential | Commercial | Total | Residential | Commercial | Total | Residential | Commercial | Total |
| Revenue | \$1,206,682 | \$314,565 | \$1,541,326 | \$1,251,932 | \$295,691 | \$1,547,624 | \$1,298,880 | \$277,950 | \$1,576,830 |
| Costs | 1,235,155 | 218,462 | 1,453,617 | 1,272,209 | 225,016 | 1,497,225 | 1,310,376 | 231,766 | 1,542,142 |
| Excess (Deficiency) Amount | <u>(\$28,473)</u> | <u>\$96,104</u> | <u>\$87,709</u> | <u>(\$20,277)</u> | <u>\$70,676</u> | <u>\$50,399</u> | <u>(\$11,496)</u> | <u>\$46,184</u> | <u>\$34,688</u> |
| Excess (Deficiency) Percentage | -2.36% | 30.55% | 5.69% | -1.62% | 23.90% | 3.26% | -0.89% | 16.62% | 2.20% |
| | 4 2020 | | | 5 2021 | | | | | |
| | Residential | Commercial | Total | Residential | Commercial | Total | | | |
| Revenue | \$1,344,341 | \$261,273 | \$1,605,614 | \$1,391,393 | \$245,597 | \$1,636,989 | | | |
| Costs | 1,349,687 | 238,719 | 1,588,406 | 1,390,178 | 245,881 | 1,636,058 | | | |
| Excess (Deficiency) Amount | <u>(\$5,346)</u> | <u>\$22,554</u> | <u>\$17,208</u> | <u>\$1,215</u> | <u>(\$284)</u> | <u>\$931</u> | | | |
| Excess (Deficiency) Percentage | -0.40% | 8.63% | 1.07% | 0.09% | -0.12% | 0.06% | | | |

Step 2 – Residential Container Rates

We reviewed the residential rates by container size and compared the rates to the cost of service by container size projected by the SBWMA which assumed the variable cost between container sizes is primarily the disposal cost. Additionally HF&H calculated the cost of service by container size using an approach which assumed the following:

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- **Organics collection cost** is fixed per household as every customer receives the same size container and is serviced at the same frequency, (64 gallon cart, serviced 1 time per week). For 2017, the fixed cost is \$19.78, per home per month;
- **Recycling collection costs** are also fixed per household for the same reason as above, (64 gallon cart, serviced 1 time per week). For 2017, the fixed cost is \$10.31, per home per month;
- **Disposal cost** is variable based upon the capacity/gallon size of the solid waste cart serviced. For 2017 the projected variable cost is \$0.12 per gallon; and,
- **All other solid waste (SW) route costs** are attributed to each can size using equivalent cart units (ECU) calculated by applying routing metrics. (The ECU basic principle establishes the numeric relationship between cart size and route capacities). For 2017 the projected monthly cost per ECU is \$8.704 multiplied by a factor of:
 - 1.00 for a 20 gallon cart service;
 - 1.13 for a 32 gallon cart;
 - 2.00 for a 64 gallon cart; and,
 - 4.12 for a 96 gallon cart.

The following table shows the current rates (2016), the SBWMA and the HF&H projected 2017 costs by cart size.

Table 4
2016 Residential Rates and Projected 2017 Costs by Container Size

| <i>Analysis of Costs by Size of Container</i> | | | | | | | |
|---|---------------------|-----------------------|-------------------------|---|---|----------------------------------|-------------------------------------|
| | <u>Subscription</u> | <u>Container Size</u> | <u>Current Mo. Rate</u> | <u>* Mo. Cost per Cart per HF&H</u> | <u>Excess (Deficiency) of Revenues vs Costs</u> | <u>Projected Rate Adjustment</u> | <u>* Mo Cost per Cart per SBWMA</u> |
| 24% | 525 | 20 | \$23.30 | \$41.16 | -\$17.86 | 76.7% | \$44.21 |
| 55% | 1225 | 32 | \$37.60 | \$43.68 | -\$6.08 | 16.2% | \$45.63 |
| 17% | 386 | 64 | \$73.70 | \$55.08 | \$18.62 | -25.3% | \$49.42 |
| <u>3%</u> | <u>75</u> | 96 | \$110.00 | \$77.35 | \$32.65 | -29.7% | \$53.22 |
| 100% | 2211 | | | | | | |

* rounded to the nearest cent

The following table shows possible adjustments to achieve the desired residential customer class results from Step 1 and align the rates to the cost of service at each residential container size from Step 2. These are projections based upon an annual 3% increase in costs each year and would need to be revised as the actual costs are known and projections revised.

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Table 5
Possible Rate Adjustments to Achieve Cost of Service by Cart Size

| | Container Size | | | | | | | |
|-----------------|----------------|---------|-----------|---------|-----------|---------|-----------|----------|
| | 20 gallon | | 32 gallon | | 64 gallon | | 96 gallon | |
| Current | | \$23.30 | | \$37.60 | | \$73.70 | | \$110.00 |
| 2017 | 7.0% | \$24.93 | 7.0% | \$40.23 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2018 | 10.0% | \$27.42 | 5.0% | \$42.24 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2019 | 10.0% | \$30.16 | 5.0% | \$44.35 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2020 | 10.0% | \$33.18 | 5.0% | \$46.57 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2021 | 10.0% | \$36.50 | 5.0% | \$48.90 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2022 | 8.0% | \$39.42 | 3.0% | \$50.37 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2023 | 8.0% | \$42.57 | 3.0% | \$51.88 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2024 | 8.0% | \$45.98 | 3.0% | \$53.44 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2025 | 8.0% | \$49.66 | 3.0% | \$55.04 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| 2026 | 8.0% | \$53.63 | 3.0% | \$56.69 | 0.0% | \$73.70 | 0.0% | \$110.00 |
| Cost of Service | | \$53.69 | | \$56.98 | | \$71.86 | | \$100.92 |

Rate Structure Summary

Current Rate Structure

Under the current rate structure, rate revenue (assuming current rates) is projected to produce an excess of approximately \$41K in revenue for the forthcoming year (see Table 1).

Alternative Rate Adjustments

Residential and Commercial Customer Class

If the District elects to have the residential customer class rates generate sufficient revenue to cover its costs, rates could be adjusted all at once or over a period of time. This maintains the current rate structure and rate relationships between service levels but does not immediately address the cost of service by container size. In the first step described above, HF&H divided the solid waste collection system into two customer classes: residential and commercial and modeled a rate structure which achieved a cost of service balance between the customer classes in 5 years. Residential rates are increased by 4.0% and commercial rates are decreased by 6.0% in 2017 (see Table 2 and Table 3).

Residential Cost of Service by Container Size

If the District elects to align individual residential rates to the cost of service and address the commercial customers as a class, same as the Residential and Commercial Customer Class alternative above, except; it also revises residential rates to "cost-of-service" rates. This means the rate would have a fixed components regardless of SW container size (Organics and Recycling collection costs are fixed) plus

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variable costs and a per-gallon disposal rate. This type of rate structure may be more equitable, but may not be reasonable to implement all at once; therefore, we have modeled a scenario which will allow the implementation of this type of rate structure over time. The scenario as modeled above results in a 7.0% increases to 20- and 32-gallon rates in 2017 and subsequent 10.0% to 8.0% increases over the next nine years, while 64-gallon and 96-gallon rates would remain flat (see Table 5).

Recommendation

As we have seen in other jurisdictions over the past few years the District's rate structure encourages customers to "downsize" their solid waste container by placing more materials in their recyclable material and organics carts, rather than in their solid waste containers; ultimately, reducing the amount of trash sent to the landfill. As customers reduce their container size, less revenue is generated; however, there is not an equal reduction of the cost to drive by, collect, and process the materials. Only 20.0% of residents (those customers receiving 64- or 96-gallon service) cover the fixed costs to provide such service (see Table 4). The District has been able to keep the residential rates lower than necessary because, as was the industry practice, commercial revenues have contributed more than the cost of their services. Because of these factors, in the future, the District should consider increasing the 20-gallon and 32-gallon rates a greater percentage than the 64-, and 96-gallon rates to have them pay a larger percentage of their fixed costs but still be lower than the 64-gallon rate to incentivize customers to reduce the amount of materials disposed of in the landfill. The aligning of residential rates to the cost of service at each container size and the overall reduction of the commercial customer class rates by a flat percentage over time, achieves the District's objective of a cost of service rate structure.

The following table shows a comparison of possible 2017 adjustments to achieve, over time, the desired customer class results and align the rates to the cost of service at each residential container size.

Table 6
Comparison of Rates and Rate Adjustments

| 2017 Monthly Rates by Size of Container | | | | | | | | | | |
|---|--------------------|----------------|----------------|-----------------|--------------------|--------------------|--------------------|--------------------|------------|------------|
| | <u>Residential</u> | | | | <u>Commercial</u> | | | | | |
| | 20 Gallon | 32 Gallon | 64 Gallon | 96 Gallon | 1YD Bin 1x/week | 1YD Bin 3x/week | 3YD Bin 1x/week | 3YD Bin 3x/week | | |
| Current Rates | \$23.30 | \$37.60 | \$73.70 | \$110.00 | \$227.81 | \$683.42 | \$481.45 | \$1,444.35 | | |
| HF&H Cost of Service | \$41.16 | \$43.68 | \$55.08 | \$77.35 | -34.72% | \$148.72 | \$446.15 | \$314.30 | \$942.90 | |
| Customer Class (over 5 yrs.) | 4.00% | \$24.23 | \$39.10 | \$76.65 | \$114.40 | -6.00% | \$214.14 | \$642.41 | \$452.56 | \$1,357.69 |
| Customer Class (over 10 yrs.) & Residential "Cost of Service" by container size ¹ | \$24.93 | \$40.23 | \$73.70 | \$110.00 | -4.00% | \$218.70 | \$656.08 | \$462.19 | \$1,386.58 | |

¹ Residential - Organics & Recycling Fixed per Account and a 7% to 10% increase between 2017 and 2026 for the 20 and 32 gallon SW cart customers
 Commercial rates could be decreased by 4% for the first six years than increased by CPI thereafter to achieve cost of service by customer class.

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At its October 12, 2016 meeting, the District's Board proposed to implement, as part of a 3 year plan, the following rate adjustments for residential and commercial rates which will close the gap between the rates and the cost for the 20 gallon and 32 gallon services while generating sufficient revenue to cover the projected collection and processing costs for 2017.

Table 7
District's Board Proposed Rate Adjustments

| 2017 Monthly Rates by Size of Container | | | | | | | | |
|--|--------------------|-------------------|----------------|-----------------|--------------------|--------------------|--------------------|--------------------|
| | Residential | | | | Commercial | | | |
| | 20 Gallon | 32 Gallon | 64 Gallon | 96 Gallon | 1YD Bin 1x/week | 1YD Bin 3x/week | 3YD Bin 1x/week | 3YD Bin 3x/week |
| Current Rates | \$23.30 | \$37.60 | \$73.70 | \$110.00 | \$227.81 | \$683.42 | \$481.45 | \$1,444.35 |
| Proposed Rate Adjustment | 20.0% | 7.0% | 0.0% | 0.0% | -5.0% | -5.0% | -5.0% | -5.0% |
| 2017 Proposed Rate/Mo. | \$27.96 | \$40.23 | \$73.70 | \$110.00 | \$216.42 | \$649.25 | \$457.38 | \$1,372.13 |
| Increase (Decrease)/Mo. | \$4.66 | \$2.63 | \$0.00 | \$0.00 | (\$11.39) | (\$34.17) | (\$24.07) | (\$72.22) |
| 2017 Projected Revenue at Proposed Rates | | | | | | | | |
| | Residential | Commercial | Total | | | | | |
| Projected Revenue at <u>Current Rates</u>¹ | \$1,160,271 | \$334,644 | \$1,494,915 | | | | | |
| 2017 <u>Proposed Rate</u> Revenue | \$1,207,907 | \$317,912 | \$1,525,819 | | A | | | |
| 2017 Projected Costs | 1,235,155 | 218,462 | 1,453,617 | | B | | | |
| Excess (Deficiency) Amount | (\$27,247) | \$99,450 | \$72,203 | | A-B=C | | | |
| Excess (Deficiency) Percentage | -2.26% | 31.28% | 4.73% | | | | | |

¹ Projected Revenue at current rates is based upon the first 6 months of 2016 actual revenue annualized.

* * * *

We appreciate the opportunity to be of continued service to the District. We value our relationship with you and the District and are committed to providing you the highest level of service in the performance of this matter for you. Should you have any questions, please feel free to call me at (925) 977-6961.

Very truly yours,
 HF&H Consultants, LLC

Marva M. Sheehan, CPA
 Vice President

Attachment 2

Rates for Other Services

The following are rates that would be charged for unscheduled services as necessary

| Service Category | Rate | Description of Rate |
|--|--|---|
| Backyard Collection Service—Single Family Dwelling | For one Solid Waste Cart: \$19.81 (0-50 ft) \$23.10 (51-100ft) | Rates vary based on distance & number of carts. Contact the District for rates for distances beyond 100 feet and for more than one solid waste cart. |
| Return Trip Cost—Single Family Dwelling (Request to provide collection service after the regularly scheduled collection day) | \$16.51 | Per collection event. |
| On-Call Bulky Item Collection | \$89.74 | Per each collection event beyond first 2 per year. (Each customer receives 2 free bulky collections per year) |

| | | |
|---|--|--|
| Distance charge—MFD and Commercial Accounts | A – 10% of base monthly rate B – 25% of base monthly rate | A – 51 to 100 feet from access by contractor's collection vehicle B – 101 feet or more from access by contractor's collection vehicle |
| Extra Pick-Up Cost—MFD and Commercial Accounts | 25% of the base monthly rate for the size of container collected once per week | Per collection event |
| Additional Targeted Recyclable Materials or Organic Materials Cart Rental or Purchase | A -- \$ 3.30 B -- \$69.32 C -- \$75.92 | A – Monthly rental fee (any size cart) B – Customer purchase of a 64 gallon cart C – Customer purchase of a 96 gallon cart |
| Collection of Contaminated Targeted Recyclable Materials or Organic Materials Container | 25% of the base monthly rate for the size of container collected once per week Plus: \$16.51 | Per collection event |
| Key Service | A -- \$9.35 per month B -- \$10.45 per month | A – Residential Customers B – Commercial Customers |
| Lock Purchase | \$18.70 –one time charge | One-time charge per account. No fee for replacement locks. |
| Overage Fee | 100% of base monthly rate | Per collection event |
| Overage Bags / Tags | 50% of the base monthly rate or minimum (A or B) | A - \$8.39 rate per bag B - \$7.10 rate per tag |
| Container Cleaning | A -- \$55.02 B -- \$93.53 | A – per Cart B – per Bin or Drop-Box |
| Dirty Cart Replacement | A -- \$71.52 B -- \$82.53 C -- \$93.53 | A – per 32 gallon Cart B – per 64 gallon Cart C – per 96 gallon Cart |
| Additional Compost Material Delivery | A -- \$137.54 B -- \$275.09 | A – One way delivery B – Round trip delivery |

If you would like additional information on the proposed rates, please call the District at 650-321-0384.

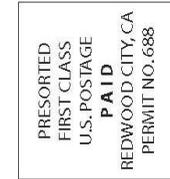
If you wish to file a written protest, please send a letter in a sealed envelope addressed to:

West Bay Sanitary District
Attn: District Manager (Solid Waste Rates)
500 Laurel Street, Menlo Park, CA 94025

Your letter must identify the real property you own or rent by street address and assessor's parcel number (APN). Your letter must be legibly signed by any one of the current property owners or ratepayers of record.

The District must receive your letter in a sealed envelope by 4:00 p.m. on January 11, 2017 or it must be presented at the District Board meeting on January 11, 2017 prior to the close of the public hearing on this matter.

Any person interested, including all solid waste/recycling collection customers of the West Bay Sanitary District, may appear at the public hearing and be heard on any matter related to the proposed increase in rates.



West Bay Sanitary District
500 Laurel Street
Menlo Park, CA 94025

Important Information - Notice of Public Hearing
"Solid Waste & Recyclable Material Rate Increase"
Wednesday, January 11, 2017 at 7:00 p.m.



www.westbaysanitary.org

Attachment 2

NOTICE OF INTENT TO INCREASE COLLECTION RATES FOR SOLID WASTE/RECYCLABLE MATERIALS IN THE WEST BAY SANITARY DISTRICT

The District Board of the West Bay Sanitary District hereby gives public notice of its intent to increase some of the existing residential rates for the collection of recyclable materials, compost, and refuse for 2017. The District Board plans to consider this rate increase at a public hearing on January 11, 2017 at 7:00 p.m. in the Board Conference Room located at 500 Laurel Street, Menlo Park.

The need for this increase was discussed by the District Board at the October 26, 2016 Regular Board meeting. The staff report for this matter is available at the District Office located at 500 Laurel Street, Menlo Park or online at www.westbaysanitary.org

Approximately sixty percent (55%) of residential service containers are a 32 gallon size. The new rate for 2017 for a 32 gallon container would increase from \$37.60 per month to \$40.23 per month, a \$2.63 per month increase. The new rate for the 20 gallon container would increase from \$23.30 per month to \$27.96 per month, a \$4.66 per month increase.

The District's proposed rates would remain amongst the mid-range of all the agencies. For comparison purposes, the proposed maximum typical residential rates for 32 gallon containers for SBWMA Cities including Atherton, Burlingame, Belmont, Hillsborough, Menlo Park, Redwood City, San Carlos, and San Mateo, range from a low of \$22.13 (San Mateo) to a high of \$55.96 (Atherton).

The following table shows the current rates and the proposed rates for West Bay Sanitary District Franchised Customers to be effective beginning April 1, 2017.

Proposed Maximum Solid Waste Rates for 2017

| Customer Service Level | MONTHLY RATES | | | QUARTERLY RATES | | |
|----------------------------------|----------------------|-----------------------|------------------|------------------------|-------------------------|--------------------|
| | Current Monthly Rate | Proposed Monthly Rate | Monthly Increase | Current Quarterly Rate | Proposed Quarterly Rate | Quarterly Increase |
| <i>Residential:</i> | | | | | | |
| 20 gallon can | \$23.30 | \$27.96 | \$4.66 | \$69.90 | \$69.90 | \$6.90 |
| 32 gallon can | \$37.60 | \$40.23 | \$2.63 | \$112.80 | \$112.80 | \$10.80 |
| 64 gallon can | \$73.70 | \$73.70 | \$0.00 | \$221.10 | \$221.10 | \$20.10 |
| 96 gallon can | \$110.00 | \$110.00 | \$0.00 | \$303.00 | \$330.00 | \$27.00 |
| <i>*Commercial:(Per Pick Up)</i> | | | | | | |
| 1 yard bin | \$227.81 | \$216.42 | (\$11.39) | n/a | n/a | n/a |
| 2 yard bin | \$432.35 | \$410.73 | (\$21.62) | n/a | n/a | n/a |
| 3 yard bin | \$481.45 | \$457.38 | (\$24.07) | n/a | n/a | n/a |
| 4 yard bin | \$641.92 | \$609.82 | (\$32.10) | n/a | n/a | n/a |
| 6 yard bin | \$795.78 | \$755.99 | (\$39.79) | n/a | n/a | n/a |
| 32-Gallon Cart | \$37.60 | \$35.72 | (\$1.88) | n/a | n/a | n/a |
| 64-Gallon Cart | \$73.70 | \$70.02 | (\$3.68) | n/a | n/a | n/a |
| 96-Gallon Cart | \$110.00 | \$104.50 | (\$5.50) | n/a | n/a | n/a |

*Commercial bin rates reflect collection charge for one pick up per week; To calculate charge for more than one collection per week, multiply rate by number of collections per week. For example, 1-Cubic Yard Bin (at proposed rate) collected 3 times per week = \$683.43 (\$227.81 x 3 collections/wk)



Serving Our Community Since 1902

500 Laurel Street, Menlo Park, California 94025-3486

(650) 321-0384 (650)321-4265 FAX

NECESSITY FOR THE NEW RATES

The West Bay Sanitary District is a member of the South Bayside Waste Management Authority, and contracts with Recology San Mateo County (RSMC) and South Bay Recycling (SBR) for collection services and operation of the Shoreway Center, respectively, as of January 1, 2011. The proposed rates result from the weekly recycling, organic materials and solid waste collection services and Shoreway operations provided by RSMC and SBR, contractual compensation adjustments, migration to smaller containers, in addition to the curbside household hazardous waste collection program provided by Curbside Inc. which began August 1, 2010.

The collection services include the more convenient weekly collection, rather than bi-weekly collection, of single stream recycling, organic materials (yard trimmings and food scraps) and solid waste. The Shoreway facility has also undergone substantial capital improvements to construct a new Materials Recovery Facility (MRF) and an expanded Transfer Station. These improvements facilitate single stream (mixed) recycling, enhance onsite public recycling activities, and improve traffic circulation at the Shoreway Facility.

Currently, the 20 and 32 gallon cans are priced below the cost-of-service level. The District will be restructuring pricing, over time, so that a transition is made whereby the smaller cans will support the cost of collection and disposal.

The West Bay Sanitary District hereby gives notice of a public hearing to be held at its Board meeting on January 11, 2017, at 7:00 p.m. in the Districts "Ronald W. Shepherd" Administration Building located at 500 Laurel Street, Menlo Park, CA. At this hearing, the Board of Directors will consider public comment as well as written protests by ratepayers regarding the proposed increase in collection rates. If written protests are presented by a majority of the affected ratepayers prior to the close of the public hearing, the Board of Directors will not increase the rates as a matter of State law, however levels of service may be impacted.