



WEST BAY SANITARY DISTRICT AGENDA ITEM 4

To: *Board of Directors*

From: *Phil Scott, District Manager*

Subject: *Consideration of Setting a Public Hearing Date for December 13, 2018 to Review Proposed Refuse Collection Rates for the Year 2018 and Providing Staff Direction by Minute Order Regarding the Collection Rate Adjustment for 2018 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 seventh 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 the Board has given direction to Staff to reduce the Commercial customers rate for the refuse collection program at this time.
- 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 incentivize 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 8 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.

The District has participated in talks with the County of San Mateo (County) to potentially have the County manage the District's solid waste collection program. The District's solid waste program is in the unincorporated areas of the County. It appears it would be beneficial to the public to have the County manage the solid waste program in these areas, as they do other parts of the County. The process will need to include San Mateo Local Agency Formation Commission (LAFCo) approval and a vote by the SBWMA Joint Powers Authority. Talks with the County are on-going at this time.

Analysis

HF&H Consultants, LLC were contracted this year to perform a rate analysis for the 2018 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 27th 2017, HF&H Consultants presented a preliminary report and status update of the rate study to the Board of Directors. In the presentation they discussed 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 time the Board discussed lowering rates on commercial customers since they are paying their fair share. 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. The District has been able to keep the residential rates lower than necessary because, as was industry practice, commercial revenues have contributed more than the cost of their services. Because of these factors, in the future, the District will continue to consider increasing the 20-gallon and 32-gallon rates at a greater percentage than the 64 and 96 gallon rates in order to have the smaller containers pay a larger percentage of their actual fixed costs. The cost still remains 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, over time, achieves the District's objective of a "cost of service" rate structure.

At its September 27, 2017 meeting, the District 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 2018.

**Table 7 of the HF&H Rate Study
District Board Proposed Rate Adjustments for
2018**

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	\$27.96	\$40.23	\$73.70	\$110.00	\$216.42	\$649.26	\$457.38	\$1,372.14
Proposed Rate Adjustment	25.2%	11.9%	-1.6%	-4.5%	-5.0%	-5.0%	-5.0%	-5.0%
2018 Proposed Rate / Mo.	\$35.00	\$45.00	\$72.50	\$105.00	\$205.60	\$616.80	\$434.51	\$1,303.53
Increase (Decrease) / Mo.	\$7.04	\$4.77	(\$1.20)	(\$5.00)	(\$10.82)	(\$32.46)	(\$22.87)	(\$68.61)
2018 Projected Revenue at Proposed Rates								
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>					
Projected Revenue at <u>Current Rates</u> ¹	\$1,190,052	\$323,155	\$1,513,207					
2018 <u>Proposed Rate</u> Revenue	\$1,316,130	\$306,997	\$1,623,127		A			
2018 Proposed Costs	1,281,935	201,519	1,483,453		B			
Excess Amount	\$34,195	\$105,479	\$139,674		A - B = C			
Excess Percentage	2.6%	34.4%	8.6%					

¹ Projected revenue at current rates is based upon the actual revenue for the first 7 months of 2017, 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 end of October.

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 December 13, 2017 meeting, for an effective date of January 1, 2018. If adopted, the new rates would be included in Recology's first full billing cycle which would be for January, February, and March 2018.

Fiscal Impact

2018 Rate Options

Staff has reviewed several rate options to fund the solid waste service program for 2018. Staff would like to receive confirmation from the Board as to the desired rate structure, 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 \$7.04 rate increase applied to the residential 20 gallon container, a \$4.77 rate increase applied to the 32 gallon container, a \$1.20 (-) reduction to the 64 gallon container, and a \$5.00 (-) reduction to the 96 gallon container in 2018 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 December 13, 2017, to review proposed refuse collection rates for year 2018; and
2. Provide staff direction by minute order regarding the collection rate adjustments for 2018 and the mailing of the Proposition 218 notice for a public hearing to be held on December 13, 2017 prior to adoption of the collection rates for 2018, and the acceptance of the Solid Waste Rate Study.

Attachments: Attachment 1—Draft Solid Waste Rate Study for 2018

Attachment 2—Sample 218 notice