



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Alex Khojikian, City Manager
PREPARED BY: Public Works Department
MEETING DATE: January 13, 2025

SUBJECT:

Solid Waste 2025 Rate Setting and Proposition 218 Notification —Approval

RECOMMENDATION:

Provide direction on proposed increases to residential and commercial solid waste rates and commercial organics collection rates and authorize staff to mail a Proposition 218 Notification to all property taxpayers proposing a not-to-exceed increase in solid waste, recycling, and compost collection rates for 2025.

BACKGROUND:

The City's Solid Waste Program (Program) includes waste diversion, compost/recycling education and outreach, special collection events, construction and demolition recycling plan processing, litter reduction programs, illegal dumping abatement, hazardous waste management, and ensures compliance with all county, regional, state, and federal regulations. Solid waste, recycling, and organics collection, processing, and disposal services are available to all residents and commercial businesses in the City of San Mateo.

Each year, Council approves the solid waste rates to cover the costs of the collection services provided by Recology San Mateo County (Recology); the processing and disposal services provided by South Bayside Industries, Inc. (SBI); the City's portion of the costs of membership in our joint powers authority, South Bayside Waste Management Authority (SBWMA); and the agency fees, which include the City's solid waste and street sweeping programs, trash capture device maintenance, the landfill fee, and franchise fees. The City retains HF&H Consultants (HF&H) to assist in developing a rate structure to fund the cost of solid waste services.

In 2021, the City adopted a long-term plan for incremental adjustment to the residential solid waste rates to bring them into alignment over time with their true cost of service. This is an ongoing effort. In addition, this year the City faces increased costs for collection, processing, and disposal services.

For instance, collection costs in 2025 are increasing 8 percent compared to 2024. Recology's annual compensation is set by the exclusive franchise agreement between the City and Recology. The agreement was renewed in 2019 and will expire in 2035. The cost increase is a result of the decision of the City Council last year to defer \$492,000 from 2024 to 2025, as allowed under the franchise agreement. That decision lowered rates in 2024 but must be accounted for this year.

The franchise agreement allows for inflationary increases to Recology's collection expenses: fuel costs, labor costs, vehicle maintenance costs, and other costs. Recology's annual compensation increases are reviewed and approved by the Board of Directors of the SBWMA of which the City is a member. After review, the SBWMA Board of Directors found the proper inflation factors were used to determine Recology's allowable compensation for 2025 and the increases were approved.

The processing and disposal fees set by the SBWMA are increasing 7 percent in 2025. The cost increase is a result of a partial

deferral of the scheduled 2024 tip fee increases, because last year, the SBWMA Board of Directors used rate stabilization reserves to temporarily reduce tip fee increases by 5 percent to smooth out 2024's necessary rate increases. However, these costs remain and have been accounted for in the 2025 tip fee increases. Processing and disposal fees by the Shoreway Environmental Center operator, South Bayside Industries, are established by their agreement with the SBWMA.

Maintaining current rates to meet the 2025 projected expenses described above would lead to an anticipated deficit of \$1,912,693. However, staff worked to lower the deficit to \$1,581,360. The reduction is a result of reducing Recology's compensation by \$331,333 through a one-year deferral of increases above 5 percent as was used in 2024. Such a deferral will require City Council approval of the "Cap Carry Forward" option described below.

Therefore, to be prudent, staff recommends the following steps be taken by the City Council to address the revenue shortfall for 2025:

1. Adopt the "Cap Carry Forward" option allowed under the City's franchise agreement, which will limit Recology's 2025 compensation to a 5 percent increase. This will defer \$331,333 of Recology's compensation to 2026 without incurring interest in the City's balancing account with Recology. If approved, staff will notify the SBWMA and Recology as required under the franchise agreement. The alternative will require an additional \$331,333 to be raised through rates in 2025.
2. Raise the 20-gallon commercial cart monthly rate by \$6.50 for solid waste service, as well as organics service, as shown in Table A. Raise the 32-gallon commercial cart monthly rate by \$5.75 for solid waste service, as well as organics service, as shown in Table B. No additional commercial rate increases are recommended because the current commercial rates cover their costs. After this increase, all commercial cart rates will meet their true cost of service.
3. Raise residential rates by a range of \$7.00-\$8.50 per month or by a range of \$7.50-9.00 per month, based on the cart size options presented in Table C and Table D. The higher range of 2025 rate increases in Table D if adopted by City Council will reduce the deficit the most and lead to lower annual increases in the following years if there are no additional increased costs in those years. The Solid Waste Fund has sufficient reserves to reduce the impact on rate payers in 2025, but the amount of reserves used increases as the rate paid by rate payers falls.

Tables A and B below summarize the current and proposed 2025 commercial solid waste and organic collection rates, respectively. Tables C and D summarize the current and proposed 2025 residential rate options. These rates include collection, processing, and disposal of garbage, recycling, and organics. Table C represents the lower range of increases and is referred to as "Option 1." Table D represents the higher range of increases and is referred to as "Option 2."

Table A – PROPOSED 2025 Commercial Solid Waste Rate Changes

Size of Collection Cart/Bin	2024 Current Monthly Rate	Proposed 2025 Monthly Rate	Monthly Difference
Commercial Cart Rates			
20 Gallon Cart	\$28.34	\$34.84	\$6.50
32 Gallon Cart	\$37.18	\$42.93	\$5.75
64 Gallon Cart	\$64.26	\$64.26	\$0.00
96 Gallon Cart	\$94.47	\$94.47	\$0.00
Commercial Cart Rates			
1 Yard	\$170.18	\$170.18	\$0.00
2 Yard	\$340.45	\$340.45	\$0.00
3 Yard	\$510.65	\$510.65	\$0.00
4 Yard	\$680.90	\$680.90	\$0.00

6 Yard	\$1,021.31	\$1,021.31	\$0.00
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Table B – PROPOSED 2025 Commercial Organic Rate Changes

Size of Collection Cart/Bin	2024 Current Monthly Rate	Proposed 2025 Monthly Rate	Monthly Difference
Commercial Cart Rates			
20 Gallon Cart	\$28.34	\$34.84	\$6.50
32 Gallon Cart	\$37.18	\$42.93	\$5.75
64 Gallon Cart	\$64.26	\$64.26	\$0.00
96 Gallon Cart	\$94.47	\$94.47	\$0.00
Commercial Cart Rates			
1 Yard	\$170.18	\$170.18	\$0.00
2 Yard	\$340.45	\$340.45	\$0.00
3 Yard	\$510.65	\$510.65	\$0.00
4 Yard	\$680.90	\$680.90	\$0.00
6 Yard	\$1,021.31	\$1,021.31	\$0.00

Table C – PROPOSED 2025 Residential Solid Waste Rate Changes (Lower Range of Increases) – OPTION 1

Size of Collection Cart/Bin	2024 Current Monthly Rate	Proposed 2025 Monthly Rate	Monthly Difference
Residential Cart Rates			
20 Gallon Cart	\$28.59	\$35.59	\$7.00
32 Gallon Cart	\$37.93	\$45.43	\$7.50
64 Gallon Cart	\$63.93	\$71.93	\$8.00
96 Gallon Cart	\$94.08	\$102.58	\$8.50

Table D – PROPOSED 2025 Residential Solid Waste Rate Changes (Higher Range of Increases) – OPTION 2

Size of Collection Cart/Bin	2024 Current Monthly Rate	Proposed 2025 Monthly Rate	Monthly Difference
Residential Cart Rates			
20 Gallon Cart	\$28.59	\$36.09	\$7.50
32 Gallon Cart	\$37.93	\$45.93	\$8.00
64 Gallon Cart	\$63.93	\$72.43	\$8.50
96 Gallon Cart	\$94.08	\$103.08	\$9.00

Staff Recommendation:

Staff recommends adoption of the rate increases in Tables A, B, and Table D (higher range of increases – Option 2) at a future City Council meeting as set forth below to meet the need for commercial and residential rates to meet their cost of service, to judiciously preserve the Solid Waste Fund reserves to blunt the impact of future rate increases over the next ten years as well as the City’s anticipated share of future capital improvements at the Shoreway Environmental Center forecast by the SBWMA, and to be better prepared for upcoming, anticipated increases from Recology and the SBWMA.

Balancing Account:

In accordance with the City’s franchise agreement, Recology maintains a balancing account which tracks the cumulative surplus or deficit between what Recology is owed and what is collected from solid waste rates. The City is charged interest

if the cumulative balancing account is a negative balance at the end of any given year. City Council direction has been to avoid interest charges by keeping the balancing account as low as possible.

In March 2024, the City Council authorized the use of \$1.0 million to be remitted to Recology to reduce the balancing account deficit before the year's end. The payment was made in August 2024 which avoided accruing additional interest on the deficit.

The goal of the long-term plan is to bring residential rates into alignment with their cost of service by the end of the current franchise agreement in 2035. By raising rates when necessary and judiciously using Solid Waste Fund reserves over time to blunt the effect on residential rate payers, this goal is attainable. These funds are derived from rate stabilization fees collected from 2019-2021 and from City Solid Waste Program savings over time.

Based on discussions with the Finance Department the Solid Waste Fund has \$4.4 million available for rate stabilization and to reduce any balancing account deficits.

Staff recommends the City Council use rate stabilization reserves in 2025 to remit up to \$500,000 to Recology to offset the balancing account deficit projected in 2025. If the City Council adopts the higher range of residential rate increases (Option 2 in Table D), staff recommends that City Council authorize \$400,000 in reserves to be paid to Recology. If the City Council adopts the smaller range of residential rate increases (Option 1 in Table C), staff recommends that City Council authorize \$500,000 in reserves to be paid to Recology. It is not necessary to make this decision until the March Proposition 218 Protest Hearing.

By adopting the recommended rate increases and a 2025 remittance to Recology, the City projects to have fully addressed its balancing account deficit by the end of 2025. City staff will continue to recommend strategic use of Solid Waste Fund reserves to help offset added costs for service and/or partially offset future rate increases as the cost-of-service implementation plan is implemented over the next ten years.

It is important to note that in addition to potential annual contractual inflationary increases, Recology, SBI, and the SBWMA must meet state regulations such as the move to zero emission vehicles, and the SBWMA is considering necessary capital improvement projects and bond measures, all of which will raise rates in the next few years.

Rate Setting Procedures:

Proposition 218 is a citizen-led initiative constitutional provision enacted in 1996 and is alternatively known as the "Right to Vote on Taxes Act." While the courts have not ruled that Proposition 218 applies to solid waste collection rates from a franchise hauler, in an abundance of caution, the City has historically followed the "majority protest" proceedings set forth in Proposition 218.

Accordingly, with the City Council's approval, a public notification of the proposed maximum increase in solid waste rates will be mailed to property owners no later than January 17, 2024. The two proposed notification mailers are attached, one for the lower range of rate increases (Option 1 in Table C) and one for the higher range of increases (Option 2 in Table D). The notification will instruct property owners wishing to submit a written protest that they must state the purpose in the protest letter; include the owner or customer's name, service address, assessor's parcel number, and the owner's or customer's signature for the property served; and mail the statement to the Office of the City Clerk. Statements of protest that include the above criteria will be accepted through the time of the public hearing currently scheduled for the March 3, 2025, City Council meeting. These requirements are set out by state law.

At the end of the public Proposition 218 protest hearing, the City Clerk will tally and report the qualifying written protests and the City Council will certify whether the written protests in opposition to the increase meet or do not meet the 50 percent +1 protest threshold. In accordance with Article XIID, Section 6, of the California Constitution, a "majority protest" exists if written protests against the proposed fee or charge are presented by a majority of owners of the identified parcels. If a majority protest is not received, the City Council may then approve adoption of the increased rates. If a majority protest is received, the City cannot increase the rates and the rates will remain unchanged.

BUDGET IMPACT:

There is sufficient funding in the Solid Waste Fund to cover the cost of mailing a notice to all property taxpayers proposing a not-to-exceed increase in solid waste, recycling, and compost collection rates. If the proposed rate adjustments are approved, the Solid Waste Fund's revenues will increase toward alignment with the costs of service.

ENVIRONMENTAL DETERMINATION:

This action by the City in setting the maximum rates to be charged by Recology San Mateo County relates to funding an on-going solid waste collection service and is not a project subject to CEQA, because it is a government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (CEQA Guidelines Section 15378(b)(4).)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed 2025 Solid Waste 218 Notification Mailer Option 1

Att 2 – Proposed 2025 Solid Waste 218 Notification Mailer Option 2

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