



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: Public Works Department
MEETING DATE: September 21, 2020

SUBJECT:
Solid Waste Update and Rate Notification

RECOMMENDATION:

Approve no rate increase for the solid waste, recycling, and compost collection in rate year 2021 and use designated funds within the Rate Stabilization Fund to offset any revenue shortfall.

BACKGROUND:

The City Council establishes the solid waste, recycling, and compost collection rates annually, which cover the cost of the solid waste program. The total cost of the solid waste program includes the cost of the collection services provided by Recology San Mateo County (Recology), disposal and processing expenses, and agency fees that include the City's Solid Waste and Trash Reduction Program. The Solid Waste and Trash Reduction Program is responsible for the City of San Mateo's waste diversion and trash reduction efforts.

The solid waste, recycling, and compost services are available to all residents and commercial businesses in San Mateo. Staff evaluates all options for setting the rates in the best interest of the City's ratepayers. Recology is required to submit an annual compensation application, which includes its collection cost, disposal and processing expenses, and the fees it collects from each member agency each year. The South Bay Waste Management Authority (SBWMA) audits and approves the compensation application. The compensation application was also reviewed for accuracy by HF&H, LLC (HF&H), the City's solid waste consultant, and City staff.

Recology's Compensation – Recology's 2021 compensation application includes a one-time, service-level adjustment as allowed in its collection agreement extension and estimates its 2021 collection services expenses for the City will be \$14,681,417. In the future, adjustments will be determined by applying the changes in several indices (e.g., Employment Cost Index, Fuel Index, and Consumer Price Index) to the approved 2021 fixed costs.

Disposal and Processing Fees at Shoreway Facility – The materials collected from the City's residents and businesses are delivered to the SBWMA-owned Shoreway Environmental Center (Shoreway). South Bay Recycling, LLC (SBR) operates the Shoreway facility under a separate contract with the SBWMA. SBR's costs include operating the transfer facility, operating the recycling facility, disposal fees at Ox Mountain Landfill, processing fees for composting organic material at Newby Island and Grover Environmental, debt service payments for 2019 bonds issued to refund 2009 bond debt service and capital improvements at the Shoreway facility, the cost for management of the SBWMA, and the franchise fee paid to the City of San Carlos. Based on the compensation application, the City's costs for disposal and processing services for 2021 are projected to be \$7,754,274.

City Fees – The 2021 City fees include a franchise fee based on 4% of Recology's net revenues; \$600,000 for the 3rd Ave Landfill closure surcharge; \$750,000 for capital projects related to the removal of trash to receiving waters; and

\$2,325,650 to fund the Solid Waste and Trash Reduction Programs. The Solid Waste and Trash Reduction Program supports the City's efforts to meet the State of California mandates and all regulatory agency compliance requirements including:

- 1) A 50 percent diversion rate of solid waste going into landfill mandated by AB 939;
- 2) The State of California's AB 341 goal of 75 percent statewide overall diversion of solid waste going into landfill by 2020;
- 3) The State of California's SB 1383 establishing targets to achieve a 50 percent reduction in level of the statewide disposal of organic waste from landfill based on the 2014 level by 2020, and a 75 percent reduction by 2025; and
- 4) Provisions C.10 of the Municipal Regional Stormwater Permit requiring reduction of trash discharge by 80 percent by 2019 and 100 percent by 2022.

To date, the City is compliant with each of the above mandates except for SB 1386, regarding organic waste diversion from landfill. CalRecycle, the State's regulatory agency, is in the process of determining the compliance performance measures for SB 1386, which will be enforceable in 2022. Proactively, the City is already working with the SBWMA and the County of San Mateo to meet the anticipated SB 1383 compliance requirements

Rate Stabilization Fund – A rate stabilization fund was created by Council during 2018 to offset the anticipated additional cost related to garbage collection services and any additional costs associated with a one-time service-level adjustment in rate year 2021 related to the Recology collection agreement extension. The rate stabilization fund will also help to offset any additional costs associated with market volatility related to recycling. There was a \$1,300,000 excess revenue in rate year 2019 designated to be placed into the rate stabilization fund.

Based on projected revenue and expenses for rate year 2021, the City estimates a structural deficit of approximately \$800,000 if current revenue and expenses do not change. A 3% increase in revenue for rate year 2021 would be needed to cover the increased cost of services and avoid the shortfall.

With the fund balance anticipated to reach approximately \$9.2 million at the end of 2020, staff finds there are sufficient existing reserves within the solid waste fund to cover the structural shortfall for the 2021 rate year. Additionally, staff is currently working on a longer-term financial model that considers several important items, including: (1) appropriate fund reserve policies, (2) balancing rates between residential and commercial customers, and (3) anticipated future increases in cost of service. Staff recommends no rate increase for the 2021 rate year and utilizing the fund balance to cover the revenue shortfall. Doing so will result in a fund balance of approximately \$9 million at the end of 2021. Staff will be presenting to Council on the longer-term financial model and requesting input on appropriate policies such that modified rates can be implemented for the 2022 rate year.

If the Council elects to increase solid waste rates by the 3% shortfall, a public hearing would be scheduled during November and a notification would be sent to all property taxpayers 45 days prior to the date of the public hearing stating the date of the hearing, the amount of and reason for the increase, and instructions how to protest the increase. If there is no increase or change to the solid waste rates, the public hearing and notification process is not required.

BUDGET IMPACT:

The program's revenue requirement will be covered without an increase to the solid waste collection rates using designated funds from the established Rate Stabilization Fund to offset the additional cost associated with collection and disposal to meet all state and regulatory compliance mandates.

ENVIRONMENTAL DETERMINATION:

This solid waste rate notification is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

None

STAFF CONTACT

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