



January 9, 2025

TO: LOCSD Board of Directors

FROM: Ron Munds, General Manager

SUBJECT: Agenda Item 5A – 01/09/2025 Board Meeting

Public Hearing to Consider and Tabulate Written Protests from Solid Waste Customers and Property Owners within the District's Solid Waste Service Area Regarding Proposed Solid Waste Rates and Amendments to the Mission Country Disposal Franchise Agreement Regarding the Annual Solid Waste Adjustment Methodology.

President

Vice President

Christine M. Womack

Directors

Charles L. Cesena
Matthew D. Fourcroy
Richard Hubbard
Tom Cross

General Manager

Ron Munds

District Accountant

Robert Stilts, CPA

Unit Chief

John Owens

Battalion Chief

Paul Provence

Mailing Address:

P.O. Box 6064
Los Osos, CA 93412

Offices:

2122 9th Street, Suite 110
Los Osos, CA 93402

Phone: 805/528-9370

FAX: 805/528-9377

www.losososcsl.org

DESCRIPTION

A Proposition 218/Article XIID of the California Constitution protest was duly noticed for the proposed Mission Country disposal solid waste rate increase and a Public Hearing was noticed and scheduled for the January 9, 2025 meeting to hear all testimony and protests. The proposed solid waste rates were thoroughly analyzed and examined by staff and R3 Consulting Group. This report summarizes the steps moving forward in the solid waste rate adoption process.

Additionally, at the November 7, 2024 Board meeting, the Board tentatively approved the new solid waste rate setting methodology outlined in the staff report. The recommended amendments are presented for the Board's consideration and approval in this report.

RECOMMENDED PROCEDURE

1. **Open the Public Hearing.**
2. Consider staff presentation and report.
3. Consider public comment, and receive written protests and withdrawal of previously filed written protests until the close of the Public Hearing.
4. **Close Public Hearing.**
5. Have Staff tabulate the number of valid written protests that have been submitted per Proposition 218/Article XIID of the California Constitution and report findings.
6. After tabulation of valid written protests that have been submitted per Proposition 218/Article XIID of the California Constitution and the finding that there is not a majority protest, consider the adoption of the new water rates and Amendment #2 to the Solid Waste Collection Franchise Agreement.
7. If written protests are presented by a majority of property owners and/or the customer of record, the District cannot move forward with the solid waste increase.

STAFF RECOMMENDATION

Motion: *I move that the Board*

1. **Adopt Resolution 2025-01, approving a solid waste rate increase retroactively effective to January 1, 2025; and**

2. ***Approve Amendment #2 to the Solid Waste Collection Franchise Agreement to include Appendix 1, the Annual Solid Waste Rate Adjustment Methodology, as presented and authorize the General Manager to execute the amended agreement with Mission Country Disposal/Waste Connections US, Inc.***

DISCUSSION

Background

At the November 7, 2024, Board Meeting, the Board was provided with an in-depth presentation regarding the Mission Country Disposal requested solid waste rate increase by staff and Garth Shultz from District's consultant, R3 Group. The information provided summarized the analysis of the rate increase request and the proposed new rate setting methodology developed and negotiated by a coalition of ten public agencies served by Waste Connections, Inc., the parent company of Mission Country Disposal and other solid waste hauling companies in the county. At the November 7th meeting, the Board tentatively approved the following:

1. Tentatively support the 2025 solid waste rates as presented.
2. Approve the publication and mailing of a notice consistent with Article XIID of the California Constitution and the Proposition 218 Omnibus Implementation Act (Proposition 218) as it relates to solid waste rates.
3. Set a hearing date of January 9, 2025, to consider the adoption of the solid waste rates if there is not a majority protest in accordance with Proposition 218.
4. Tentatively support the new rate setting methodology to be implemented in 2026 pending revisions to the franchise agreement.

2025 Solid Waste Rate Increase Analysis Summary

1. The 2025 application project projected 2025 costs for providing solid waste services based on the actual of providing services as follows:
 - Actual results for the most recently completed year (2023), which are based on the audited financial statements.
 - Projected results for the current year (2024), which are to be based on year-to-date information available at the time the application was submitted.
 - Projected results for the next year (2025).
2. Adjustments to the rates were then calculated based on the projected 2025 revenue requirements. R3 thoroughly reviewed the figures in the rate application, as well as supporting the documentation required for Waste Connections during their review process and found they were accurate and in accordance with the 1994 Rate Manual. Key rate drivers:
 - Increased Costs:
 - Higher organics processing costs due to external facility capital and operational changes.
 - Landfill tipping fees rose from \$41/ton to \$70/ton, reflecting market adjustments.
 - Collection costs including labor, vehicles, operating expenses and overhead.
 - Phased Profit Allowance to 9% 2025; 10% 2026.
 - Negotiated Service Enhancements:
 - Introduction of new services like cart exchanges and bulky waste collection, with partial cost recovery through rate adjustments.
 - Depreciation Schedule:
 - The depreciation lifespan for trucks increased from 7 years to 10 years, reducing costs slightly.

3. Revenue Funded Expenses:

- Overall, collection services comprise the single largest component rate funded expenses, at 56% of the total rate revenues. Post-collection services are the next largest component of rate funding, at 29% of total rate revenues. Franchise fees comprise 10% of rate revenues and profit allowance comprises 5% of rate revenues.
- The total rate-funded expenses are distributed as follows:
 - Collection Services: 56% of rate revenues.
 - Post-Collection Services: 29%.
 - Franchise Fees: 10%.
 - Profit Allowance: 5%.

4. Cost-of-Service Compliance:

- The revised rates are aligned with Proposition 218 requirements, ensuring proportional cost allocation among customer types.

This analysis highlights the balanced approach to covering rising costs while maintaining fairness and stability in rates. Incorporating elements of the proposed new rate setting methodology tentatively approved by the Board resulted in the **13.18% rate increase**.

A summary of changes in residential rates at the 13.18% rate adjustment are shown in the table below.

Service Description	Current Monthly Rate Effective 1/1/2024	Proposed Rate Adjustment	Proposed Monthly Rate Effective 1/1/2025
20 Gallon Waste Wheeler	\$27.74	\$3.66	\$31.40
32 Gallon Waste Wheeler	\$39.45	\$5.20	\$44.65
64 Gallon Waste Wheeler	\$60.57	\$7.98	\$68.55
96 Gallon Waste Wheeler	\$64.96	\$8.56	\$73.52

Proposed Annual Solid Waste Rate Adjustment Methodology

As presented at the November 7th meeting, the City of San Luis Obispo (City) acted as lead agency with support from the District in negotiating the new rate setting methodology. Eight other regional agencies joined the effort and all are considering franchise agreement changes similar to the one being presented at this meeting.

The main components of the proposed methodology are:

1. Primary Outcome:

- The outdated 1994 Rate Manual will be replaced with a new framework aimed at achieving rate stability, fairness, and predictability.
- Key changes include adjustments based on index-based rate adjustments using the Garbage and Trash CPI index which results in less frequent cost-based adjustments.

2. Enhanced Services:

Implementation of measures like low-income customer discounts, annual cart exchanges upon request, and free bulky waste collections during clean-up weeks to address community needs.

3. Rate Adjustments:

- CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers.
- Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers.
- Revenue Reconciliation Mechanism:** Calculations for profit allowance, franchise fee and annual revenue reconciliation can result in rate increases above and below the 5% threshold. The following is an example from Appendix 1:

Example Revenue Reconciliation of 1% Shortfall Annually

	2025	2026	2027	2028	2029
Collection Services	\$2,495,814	\$2,620,605	\$2,751,635	\$2,889,217	\$3,033,677
Profit Allowance	\$224,623	\$262,060	\$275,163	\$288,922	\$303,368
Post-Collection Services	\$1,056,516	\$1,109,341	\$1,164,808	\$1,223,049	\$1,284,201
Franchise Fee	\$419,661	\$443,556	\$470,397	\$493,949	\$518,698
Revenue Reconciliation Example	N/A	N/A	\$41,966	\$44,356	\$47,040
Total Cost Projection	\$4,196,613	\$4,435,563	\$4,703,970	\$4,939,492	\$5,186,984
Indexed Rate Adjustment		5.69%	6.05%	5.01%	5.01%

Example Revenue Reconciliation of 1% Surplus Annually

	2025	2026	2027	2028	2029
Collection Services	\$2,495,814	\$2,620,605	\$2,751,635	\$2,889,217	\$3,033,677
Profit Allowance	\$224,623	\$262,060	\$275,163	\$288,922	\$303,368
Post-Collection Services	\$1,056,516	\$1,109,341	\$1,164,808	\$1,223,049	\$1,284,201
Franchise Fee	\$419,661	\$443,556	\$461,071	\$484,092	\$508,349
Revenue Reconciliation Example	N/A	N/A	\$(41,966)	\$(44,356)	\$(46,107)
Total Cost Projection	\$4,196,613	\$4,435,563	\$4,610,712	\$4,840,924	\$5,083,488
Indexed Rate Adjustment		5.69%	3.95%	4.99%	5.01%

4. Proportional Cost Allocation:

- The rate structure ensures proportionality in cost distribution among customer categories, adhering to Proposition 218 guidelines.

5. Projected Stability:

- Adjustments aim to prevent large rate spikes by incorporating Consumer Price Index (CPI) adjustments (generally in the range of 2–5%) and less frequent cost-based revisions.

Conclusions:

- The methodology is expected to stabilize annual rate adjustments, align with regulatory mandates, and improve transparency and cost-effectiveness.
- Enhanced services and structured rate calculations ensure equitable and sustainable waste management for the District.

Summary of Franchise Agreement Changes

The attached Resolution and Exhibit A includes the proposed franchise agreement language for the new rate setting methodology. The following is a brief summary of the sections in the Exhibit:

Section 1: Objectives- Provide rate stability, predictability, fairness, transparency, ease of administration and cost effectiveness

Section 2: Index-based Rate Adjustments w/ examples; this method levels the magnitude of rate increases generally within the approximate range of 2% to 5%

Section 3: Cost-based Rate Adjustments – details the submittal requirements if called for by the District or the Franchisee but is not effective until January 1, 2030

Section 4: Annual Audited Financial Statements – copies available upon request and required with any Cost-Base Rate Adjustment request

Section 5: Extraordinary Adjustments – defines when rate adjustments outside the Index or Cost Based adjustments can be submitted

Attachments

Resolution Number 2025-01 w/ Exhibit A - Proposed Mission Country Disposal 2025 rates
Amendment #2 & Appendix 1 to the Franchise Agreement - Annual Solid Waste Rate Setting Adjustment Methodology amendment to franchise agreement