

## STAFF REPORT

**DATE:** December 15, 2020

**TO:** City Council

**FROM:** Stan Gryczko, Public Works Utilities and Operations Director  
Adrienne Heinig, Management Analyst

**SUBJECT:** Solid Waste Annual Fund Review/Rate Adjustment Recommendation

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### **Recommendation**

1. Receive informational item on the financial status of the City's Solid Waste Fund (520) for Fiscal Year 2018-2019 as presented in the staff report to the Utilities Commission on November 18, 2020; and
2. Approve the resolution (Attachment 1) that the second-year rate adjustment for the Solid Waste utility, postponed due to COVID-19 in June 2020, be implemented with an additional 2%, to 12%, with the adjustment occurring on January 1, 2021, and the third-year rate adjustment be implemented on July 1, 2021, reduced by 2%, to 6%.

### **Fiscal Impact**

The City's Solid Waste Fund expenditures continue to outpace revenue. In the months since May 2020, the City's Solid Waste rate revenue has decreased by roughly \$40,000 per month, likely as a result of the COVID-19 restrictions on commercial activity. This is in addition to the six months of "lost" revenue from the postponed rate increase from June 1, 2020. If this trend of reduced revenue continues, the fund would see a 9-10% overall reduction in revenue for FY 2020-2021. This is a substantial impact to the fund, and with no action on rates now, would likely result in the fund requiring an additional loan to stay solvent at the end of the current fiscal year.

### **City Council Goals**

This effort is consistent with the Council Goal to Ensure Fiscal Resilience.

### **Background**

#### *Approval of Five-Year Rate Adjustments*

In February of 2019, after months of discussion with the Utilities Commission and the City Council, the Council approved a five-year schedule of rate adjustments for the Solid Waste Utility. Pressures on the Solid Waste fund, as well as the results from the solid waste rate study conducted in 2019, necessitated the implementation of larger-than-average adjustments to rates to establish fiscal sustainability and a reserve for the fund, which would buffer the fund and ratepayers from future demands of service level changes, regulatory changes, or other adjustments. Prior to the adoption of the rate schedule, staff and Council worked to adjust the recommended implementation dates to further buffer ratepayers from the initial rate adjustments, moving the recommended January 2020 rate adjustment to June 2020. The precarious position of the fund, in these years of recovery, leaves it more vulnerable to changes in revenue or

expenditure than other City utilities, and it was hoped that the initial adjustments would shorten this period of vulnerability to two to three years.

#### *Council Direction in May 2020*

As part of the City Council direction to return prior to each Solid Waste rate adjustment with a report on the fiscal health of the Solid Waste fund, and a recommendation for the next rate adjustment (within the approved Proposition 218 period of rate adjustments), staff presented an annual fund update to City Council on May 5, 2020, prior to the implementation of the scheduled 10% rate adjustment in June. Staff recommendation was to move forward with the planned rate adjustment, based on the need for continued revenue increases for the Solid Waste fund to cover all expenditures, and develop a fund reserve.

Just prior to the presentation of the fund update to the Council, Yolo County (along with the entire State of California) was placed under a shelter-in-place order to reduce the spread of the novel coronavirus, COVID-19. In the months since the shelter-in-place order was put into effect, many local businesses have been struggling to maintain operations with low to no customers (some have since reopened with reduced capacity or adjusted operations), and residents have experiencing layoffs and mounting bills. On March 24, 2020, the City Council approved an urgency ordinance to in part waive new City utility bill late fees for all residential and commercial customers, allowing late payments without penalty through May 2020. As of the drafting of this report, the urgency ordinance has since been extended through December 2020.

As a result of the pandemic, and associated economic impacts, Council postponed the June 1, 2020 Solid Waste rate increase, leaving rates for the utility flat for an additional six months. The current approved rate adjustment schedule is (using the Single-Family Rate (SFR) for a 65-gallon garbage bin for the cost impact demonstration):

Month/Year	Adjustment	\$ Impact	Rate (SFR 65 gal)
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	10.0%	\$3.90	<b>POSTPONED</b> \$42.85
Jan 2021	8.0%	\$3.43	\$46.28
Jan 2022	5.0%	\$2.31	\$48.59
Jan 2023	5.0%	\$2.43	\$51.02

The annual fund review for Fiscal Year 2019/2020 for the city's Solid Waste Fund is included in pages 3-7 in the attached staff report to the Utilities Commission, presented on November 18, 2020 (Attachment 2).

Until April 2020, the fund continued to perform at pace with expectations, as shown in the report. While the fund expenditures did remain higher than revenue, and the fund balance continued to drop, the amount of the fund balance drop lessened by the end of FY 19/20, as anticipated. Between FY 17/18 and 18/19, the fund balance dropped by \$895,838, while the drop between FY 18/19 and 19/20 was \$180,785. This is consistent with the cost of service model

showing a decrease in the fund balance until year 3 (2021) of the 5-year adjustment period, when revenue would overtake expenditures and the fund balance would begin to rebuild. This is all prior to the COVID-19 shelter-in-place orders and the \$40,000 per month average loss in revenue currently impacting the Solid Waste utility.

The possibility of a reduction in existing revenue was discussed with the Utilities Commission and City Council in April and May, with the caution that a reduction in existing revenue, rather than a reduction in *anticipated increases* in revenue (i.e. postponing the June 1, 2020 increase), at this stage in the recovery of the fund would exhaust the current fund balance faster than the model anticipated, and a loan from another utility would likely be required for continued operation. Staff have carefully tracked revenue from the utilities since March of this year, to identify any impacts of the actions by Council in March to forgo the implementation of new late fees for non-payment of utility bills, and note that the Solid Waste fund is the only utility fund that has seen appreciable impacts to revenue since the beginning of the COVID-19 pandemic response. Stormwater, Water and Wastewater utilities continue to see actual revenue each month at pace with previous year performance, or slightly higher.

### **Utilities Commission Review and Recommendations**

For the presentation to the Utilities Commission, staff prepared charts to demonstrate the estimated impact of the staff recommended rate structure of 12% on January 1, 2021, and 6% on July 1, 2021, as well as models showing the outcome of initiating the original recommendation of a 10% adjustment on January 1, 2021, with an 8% adjustment on July 1, 2021, and an 18% adjustment on January 1, 2021. It was noted to the Commission that the City's current budget reflects a 9% reduction in rate revenue overall (estimated economic impacts from COVID-19), and a 10% increase in rates as of January 1, 2021, so proceeding with any increase below 10% for January 1, 2021 would likely necessitate an additional loan for the utility before the end of the current fiscal year.

Commission discussion on the solid waste fund update and rate recommendation from staff included the following:

- Challenges associated with having private company as solid waste hauler, since the majority of expenditures related to the fund are cost of contract for services, and there is little ability to see contingency planning of the hauler related to what may be on the horizon. A question was raised on whether the volatility of the recycling markets experienced in recent years would continue to be a concern, and a possible impact to the hauler's costs.
- Concerns about the increasing budget for overhead costs (with the costs increasing at a higher rate than actual costs each year), and the discrepancy between budgeted and actual expenditures for the fund, specifically related to the budget for street sweeping.
- If the City could smooth out the increase by adjusting rates more slowly now, with higher than planned increases in the outer years of the current Proposition 218 scheduled rates.
- If the City would be able to increase the existing loan from Wastewater, or obtain another loan from a City utility, if the determined recommendation would not be to increase rates.

- In anticipation of an economic recovery in the second half of 2021 (especially with the advent of a vaccine for COVID-19), the request that the City adjust rates by 6% in January 2021, 6% in July 2021, and 8% each January 2022 and 2023 (the total would still equal the approved increase of 41.5% over the five years).
- To assure the City Council that the Utilities Commission will be checking in with the Solid Waste Fund on a regular basis (every 6 months), to look for possible contingencies that might impact the Solid Waste Fund
- Frustration with the issuance of unfunded mandates from the State, specifically in regulatory matters, and the assumption that jurisdictions can take on additional reporting, education and monitoring requirements without additional funding.

Ultimately, the Commission made the following motion:

To approve the [Solid Waste] rates recommended by staff, with contingency check-ins every six months.

Moved by E Roberts-Musser, seconded by M Williams. The motion passed by the following votes:

Ayes: Braun, Kristov, Roberts-Musser, Troost, Williams

Noes: Bystrom

Absent: Deos, Franco

One commissioner dissented to the motion. In his dissent, O Bystrom underscored that the current economic uncertainties associated with the COVID-19 pandemic are still a reality, and a large second wave is likely upcoming. With the additionally stated uncertainties around the increases in budgeted expenditures over actuals, and the likelihood of an economic recovery in the second half of 2021, he indicated that the rate adjustments should either be postponed entirely, or lowered in the next year, with increases in anticipated adjustments in 2022 and 2023 to recover the full recommended rate adjustments from the 2018-19 cost of service study.

The Commission will continue to conduct annual fund reviews of the Solid Waste fund (as well as the other three utility funds) and will (as per the motion) check in every six months with staff to determine if there are contingencies that may impact the Solid Waste fund in the near or short term. With this recommendation, the rates would be set for adjustment on January 1, 2021 and July 1, 2021. The Commission will conduct another fund update in October 2021, with anticipation of City Council review in November 2021 for the January 1, 2022 adjustment recommendation.

### **Staff Assumptions and Recommendations**

Each fund update associated with the Solid Waste Fund retains assumptions made by staff established in April 2020 (prior to the June 2020 postponement), and with some additional assumptions included in the current report. These assumptions are:

1. The full anticipated adjustment for the Proposition 218 approval period will be implemented. Scenarios which dropped a year of the adjustments demonstrated the action was not feasible to maintain the fund.
2. The scenarios assume that the next rate study (to be conducted in 2022/23) would likely result in recommended rate adjustments slightly higher than anticipated with the original recommendations, and would be necessary to maintain the fund and to be able to implement projects and studies beyond basic utility operations.
3. For the remainder of the approved rate adjustment period, planned expenditures for any activities not immediately required for operations by the utility would be deferred indefinitely.
4. The target reserve would likely not be reached within the approved rate adjustment period, and the City would not have any cushion (fund balance above a reserve) to aid in rate impacts associated with the implementation of Senate Bill (SB) 1383. The fund would also not provide a cushion for additional regulatory changes, detailed rate reviews requested by the contract hauler, major emergencies, or other unforeseen financial impacts.

The calculations also include the following *new* assumptions for this rate recommendation:

5. Overall revenue estimates have been adjusted down for the fiscal year to account for potential lost customers.
6. The 10% adjustment in rates in January 1, 2021 is built into the City's revenue estimate for the current fiscal year. This is along with the reduction of revenue overall anticipated based on lost customers. Dropping the 10% adjustment is not feasible to maintain the fund.
7. The 8% adjustment in rates scheduled for January 1, 2021 (or a portion of the 8%, should the rate adjustments be altered as recommended by City staff) should be implemented as close as possible to January. As previously stated, the first two years of the fund development are the most essential to the overall health of the fund.

With these assumptions in mind, staff developed the following recommendation:

*A rate adjustment of 12% on January 1, 2021, and a rate adjustment of 6% on July 1, 2021, with two further adjustments of 5% annually thereafter in January.*

Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
<b>Jan 2021</b>	<b>12%</b>	<b>\$4.67</b>	<b>\$43.62</b>
<b>Jul 2021</b>	<b>6%</b>	<b>\$2.62</b>	<b>\$46.24</b>
Jan 2022	5%	\$2.31	\$48.55
Jul 2023	5%	\$2.43	\$50.93

Total increase in 2021 for average single-family customer: \$7.29
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This recommendation is same as approved by the Utilities Commission, with the one dissenting vote.

#### *Rates of Surrounding Communities*

As included in the staff memo to the Utilities Commission on November 18, 2020, a short survey was conducted of surrounding jurisdictions to understand how the City of Davis solid waste rates compare. This survey yielded the interesting note that 8 of the 12 surveyed have raised rates during the COVID-19 pandemic, likely in preparation for the implementation of SB 1383. Now that the rulemaking is completed, more cities will be in earnest to develop their implementation plans.

#### **Final Rulemaking and Adoption of SB 1383**

The California Department of Resources, Recycling and Recovery (CalRecycle) has made it clear that the implementation of SB 1383 (Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions) will continue as previously planned, despite COVID-19 and the economic impacts of the shelter-in-place order. Due to the complexity of the regulations, the rulemaking process for SB 1383 was slightly delayed from the original timeline to adopt the regulations in late 2019. Further delays due to the State and local pandemic response shifted the final adoption of the regulations to November 3, 2020, leaving only one year for jurisdictions to prepare before the regulations begin to go into effect in January 2022. Additional information on SB 1383, and the potential rate impacts to jurisdictions, is included in the staff report on the SB 1383 Implementation Plan Professional Agreement Award.

#### **Next Steps**

Should Council approve the proposed rate adjustments, they will go into effect on January 1, 2021 and July 1, 2021. The next fund review of the Solid Waste Utility will be presented to the Council in November or December 2021, unless there are significant changes in the fund (either positive or negative) by mid-year. If Council directs staff to shift the dates of the rate adjustments, the implementation of the rate adjustments and the timeline for the next fund review will be adjusted.

Staff will continue to closely monitor revenue returns for all utilities. In addition, staff will continue to review the operation of each utility to find opportunities to reduce expenditures.

#### **Attachments**

1. Resolution
2. Excerpts from staff memo to the Utilities Commission (November 18, 2020)

**RESOLUTION NO. 20-XXX, SERIES 2020**

**RESOLUTION ENACTING MODIFICATION TO CITY OF DAVIS CUSTOMER RATES  
FOR SOLID WASTE SERVICE FEES  
EFFECTIVE MARCH 1, 2019**

WHEREAS, Article 32.01.120 of the Davis Municipal Code authorizes the City Council to periodically amend, by resolution, fees for solid waste management services; and

WHEREAS, the City of Davis conducted a solid waste rate study, completed in October 2018 to review and recommend any necessary modifications to the City solid waste rates; and

WHEREAS, after a duly noticed public hearing on February 5, 2019, maximum solid waste service fees became effective March 1, 2019 with four additional maximum authorized annual increases thereafter through January 1, 2023; and

WHEREAS, these fees as established are for the purpose of maintaining and continuing the provision of the City's solid waste services; and

WHEREAS, the City Council retains the right to adjust or amend fees within the fee schedule established and adopted into the Municipal Code, and while the City Council has recognized that these are extraordinary times, the rate adjustments as established and approved through January 1, 2023 are necessary to ensure the fiscal resilience of the solid waste fund and prevent a future fund deficit.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Davis that the second-year rate adjustment for the solid waste utility, postponed due to COVID-19 in June 2020, be implemented with an additional 2%, to 12%, with the adjustment occurring on January 1, 2021, and the third-year rate adjustment be implemented on July 1, 2021, reduced by 2%, to 6%.

PASSED AND ADOPTED by the City Council of the City of Davis on this 15th day of December, 2020, by the following vote:

AYES:

NOES:

Gloria Partida  
Mayor

ATTEST:

Zoe S. Mirabile, CMC  
City Clerk



## Memorandum

Date: October 21, 2020  
To: Utilities Commission  
From: Stan Gryczko, Public Works Utilities and Operations Director  
Adrienne Heinig, Management Analyst  
Subject: Item 6C – Solid Waste Annual Fund Review/Rate Adjustment Recommendation to Council

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### **Recommendations**

1. Receive informational item on the financial status of the City's Solid Waste Fund (520) for Fiscal Year 2019-2020.
2. Approve staff recommendation to City Council that the second-year rate adjustment for the Solid Waste utility, postponed due to COVID-19 in June 2020, be implemented with an additional 2%, to 12%, with the adjustment occurring on January 1, 2021, and the third-year rate adjustment be implemented on July 1, 2021, reduced by 2%, to 6%.

### **Background**

#### *Commission Discussion and Council Direction in April/May 2020*

As part of the City Council direction to return each year with a report on the fiscal health of the Solid Waste fund, and a recommendation for the next year's rate adjustment (within the approved Proposition 218 period of rate adjustments), staff presented an annual fund update to the Utilities Commission on April 15, 2020, prior to the implementation of a 10% rate adjustment in June. Staff recommendation was to move forward with the planned rate adjustment, based on the need for continued revenue increases for the Solid Waste fund to cover all expenditures, and develop a fund reserve.

Just prior to the presentation of the fund update to the Commission, Yolo County (along with the entire State) was placed under a shelter-in-place order to reduce the spread of the novel coronavirus, COVID-19. In the months since the shelter-in-place order was put into effect, many local businesses have been struggling to maintain operations with low to no customers (some have since reopened with reduced capacity or adjusted operations), and residents have experiencing layoffs and mounting bills. On March 24, 2020, the City Council approved an urgency ordinance to in part waive new City utility bill late fees for all residential and commercial customers, allowing late payments without penalty through May 2020. The urgency ordinance has since been extended through October 2020.

As the rate recommendation of June 1, 2020 was before the Commission and Council at the beginning of the COVID-19 pandemic response, and it was unknown at the time what revenue



reductions would be seen by the Solid Waste Utility, City staff presented a number of scenarios to the Commission in April to estimate the impact to the Solid Waste fund should the Commission recommend postponing the June 1, 2020 rate increase. These scenarios were shown with the following assumptions:

1. The full anticipated adjustment for the Proposition 218 approval period will be implemented. Scenarios which dropped a year of the adjustments demonstrated the action was not feasible to maintain the fund.
2. The scenarios assume that the next rate study (to be conducted in 2022/23) would likely result in recommended rate adjustments slightly higher than anticipated with the original recommendations, and would be necessary to maintain the fund and to be able to implement projects and studies beyond basic utility operations.
3. For the remainder of the approved rate adjustment period, planned expenditures for any activities not immediately required for operations by the utility would be deferred indefinitely.
4. The target reserve would likely not be reached within the approved rate adjustment period, and the City would not have any cushion (fund balance above a reserve) to aid in rate impacts associated with the implementation of Senate Bill (SB) 1383, which is currently still on track to be implemented in phases beginning in 2022. The fund would also not provide a cushion for additional regulatory changes, detailed rate reviews requested by the contract hauler, major emergencies, or other unforeseen financial impacts.

After Commission review and discussion of the rate adjustment scenarios, and with the understanding of the potential short-term and long-term impacts to the Solid Waste fund, the recommendation to postpone the June 1, 2020 increase was sent to, and ultimately approved by, the City Council at their meeting on May 5, 2020. The staff report to Council on this item from the May 5, 2020 Council meeting is included for reference as Attachment A.

The fund update presented in this report covers the City's Solid Waste Fund (Fund No. 520) for Fiscal Year (FY) 2019-2020. The second-year rate adjustment would have been implemented in June 2020, only a month before the end of the fiscal year. Therefore, the majority of the impacts from the postponement of the increase will be reflected in the projections for FY 2020-2021.

The originally approved and revised Proposition 218 rate schedules:

Originally Approved Prop 218 Rate Schedule				Revised Prop 218 Rate Schedule (after 5/5/20 CC action)			
Mon/Year	Adjustment	\$ Impact	Rate (SFR 65 gal)	Mon/Year	Adjustment	\$ Impact	Rate (SFR 65 gal)
Mar 2019	13.5%	\$0.00	\$38.95	Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	10.0%	\$3.90	\$42.85	<del>Jun 2020</del>	<del>10.0%</del>	<del>\$3.90</del>	<del>\$42.85</del>
Jan 2021	8.0%	\$3.43	\$46.28	<b>Jan 2021</b>	<b>12.0%</b>	<b>\$4.67</b>	<b>\$43.62</b>
Jan 2022	5.0%	\$2.31	\$48.59	<b>Jul 2021</b>	<b>6.0%</b>	<b>\$2.62</b>	<b>\$46.24</b>
Jan 2023	5.0%	\$2.43	\$51.02	Jan 2022	5.0%	\$2.31	\$48.55
				Jan 2023	5.0%	\$2.43	\$50.98

*\*the revised Prop 218 schedule included reflects staff recommendation for rate adjustments, with dollar amount impacts presented with the average Single-Family Rate (SFR)*

### *Annual Commission Utility Fund Reviews*

This update is part of a regular series on the status of the City's utility funds. The information presented includes a summary of the revenue and expenditures of the preceding closed fiscal year, compared to the projections from the utility model (developed during the most recent cost-of-service study for that utility). The intent of the update is to give a snapshot of the status of the fund and highlight any outstanding differences between the actual data and the projected numbers from the model, in between full cost-of-service studies.

### **Annual Fund Review**

#### ***Sources of Funds***

Solid Waste Fund revenues are largely collected from three sources: service charges paid by the utility customers, revenue from special drop box orders by customers, and interest paid from utility investments.

#### ***Service Charges***

Service Charge revenue is the largest source of revenue for the Solid Waste Fund. In FY 2019-2020, the service charges for all customers totaled \$12,942,777.

#### ***Drop Boxes***

Drop Box revenue is based on the number of drop boxes ordered and used in Davis, and is highly dependent on construction activity. In FY 2019-2020, the service charges totaled \$63,398.

#### ***Interest from Investments***

Interest from investment revenue has historically been the smallest source of revenue for the Solid Waste Fund. In FY 2019-2020, the interest earned by the Solid Waste fund totaled \$35,411.

The most recent model developed for the fund was completed in 2019, and actual costs from FY 2017-2018 and city budget for FY 2018-2019 were used as the basis for the model's projections. Model projections are used for comparisons of fiscal years after 2019.

When comparing the revenue included in the model (based on projections) to the actual revenue received in FY 2019-2020, the estimate is extremely close to the actual revenue collected. The largest difference was the revenue received as income from investments, which had not been included in the model, as the fund did not receive significant interest from investments prior to FY 2018-2019. Additionally, the City saw increases in drop box revenue, likely due to increased construction activity.

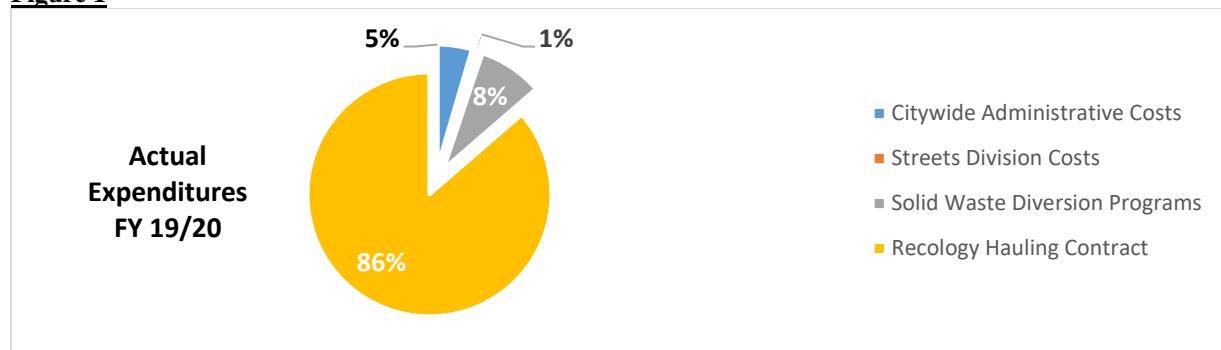
<b>FY 2019-2020 Revenue</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>	<b>ACTUAL City Accounting</b>
Service Charges	\$ 12,910,198	\$ 13,200,000	\$ 12,942,777
Other Revenues	\$ 40,000	\$ 12,000	\$ 63,398
Interest from Investments	\$ 0.00	\$ 48,000	\$ 35,411
<b>Total Expenditures</b>	<b>\$ 12,950,198</b>	<b>\$ 13,260,000</b>	<b>\$ 13,041,586</b>

Comparing the model and the actual income received by the Solid Waste Fund, the actual income was \$91,388 over what was projected, and in keeping with the prior year revenue actuals as well. Budget numbers are generally slightly higher than the model, as the budget was developed anticipating a 10% rate adjustment in June 2020.

### ***Uses of Funds***

Expenditures for the utility are divided into four major sections: overall city administration, costs associated with Public Works Utilities and Operations hazardous waste removal, the Solid Waste diversion programs, and the contract with the City's solid waste hauler. A breakdown of costs using actual expenditure data is included in Figure 1 below.

**Figure 1**



### ***City Administration***

City administrative costs cover the operations and labor for work done in support of the Solid Waste Utility. This includes support for the Finance Division of the Administrative Services Department, where the billing for the utility is done, the Fire Department, where hazardous waste removal is also performed, and for Public Works Utilities and Operations Department administrative staff outside of the Solid Waste Diversion programs.

### ***Streets Division***

Streets Division costs include those incurred when performing hazardous waste and material clean up and disposal. The contract hauler costs associated with the City's street sweeping are also accounted for in the Streets program budget (in Figure 1 above, the street sweeping contract costs have been included with the waste hauling costs, to show the total cost of the Recology contract.)

### ***Solid Waste Diversion Program***

The second largest cost to the fund (though only 8% of the total), the Solid Waste Diversion program is the outreach, education, and regulatory side of the City's Solid Waste utility. This total also includes internal budget transfers and debt payments. Staff within the Diversion program are responsible for providing all outreach and education materials and tools for customers, from single-family residential customers through commercial customers, to ensure compliance with the City and State solid waste ordinances and requirements. Staff are also responsible for all reporting to regulatory bodies, including to CalRecycle, and tracking

upcoming legislation, (such as Senate Bill 1383) which may change solid waste collection requirements for the City, the City's customers, or both.

### *Contract Hauler*

By far the largest component of the cost of the City's Solid Waste Utility, the contract hauler constitutes roughly 86% of the cost, and is currently held by Recology Davis. This includes the services to all City customers for waste hauling, the performance of annual waste audits, and the operation of the Materials Recovery Facility (MRF) in Davis, among other contractual obligations.

As with the revenue comparison between the model and the City's actual operating expenditures, the expenditures shown in the model and the actual expenditures are very similar, with the exception of the Streets Division and debt payments. The City's budget numbers are slightly higher across the board, which is expected (based on mid-year budget adjustments, variations in human resources costs over the year, and the addition of a CIP project expenditure). These expenditures are summarized in the table below.

<b>FY 2019-2020 Expenditures</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>	<b>ACTUAL City Accounting</b>
Citywide Administration	\$ 577,000	\$ 610,293	\$ 564,862
Streets Division	\$ 90,700	\$ 95,132	\$ 77,675
Solid Waste Diversion Program	\$ 1,025,100	\$ 1,158,012	\$ 1,045,204
Capital Improvement Projects	\$ 0.00	\$ 15,000	\$ 15,000
Recology Contract	\$ 11,702,300	\$ 11,817,000	\$ 11,554,985
Debt Payment	\$233,500	\$60,000	\$60,000
<b>Total Expenditures</b>	<b>\$ 13,628,600</b>	<b>\$ 13,755,437</b>	<b>\$ 13,317,727</b>

### *Debt*

In May 2018 (FY 17/18), the Solid Waste Utility received a \$3,000,000 loan from the Wastewater Utility to maintain a positive fund balance and continue program operations in advance of the completion of the cost of service study, which had been delayed by about a year during the activity around the assigning of the City's waste hauling contract to Recology Davis, after Recology purchased Davis Waste Removal (the former contractor).

The loan terms as originally prepared included a 10-year term, with interest-only payments required each year, and the full loan amount due by the end of the term. The initial recommendation from the consultant preparing the financial model for the Solid Waste utility included principal payments each year, in addition to the interest, to ensure timely payoff of the loan. However, this recommendation was accompanied by rate adjustments in March 2019 and each January thereafter until 2023. Council direction at the February 5, 2019 meeting shifted the second-year increase to June 2020. This adoption reflected an adjustment to the loan payoff to 15 years, rather than 10 years. Subsequently, with the consideration of the postponement of the June 2020 rate adjustment, the model showed interest-only payments through the duration of the current Proposition 218 term, which will either result in a larger payment due at the end of the

payments of the principal than anticipated to offset the interest-only payments in FYs 2020, 2021 and 2022.

As of the writing of this report, the fund has paid a total of \$186,900 in interest toward the Wastewater Loan, with \$3,000,000 remaining in principal.

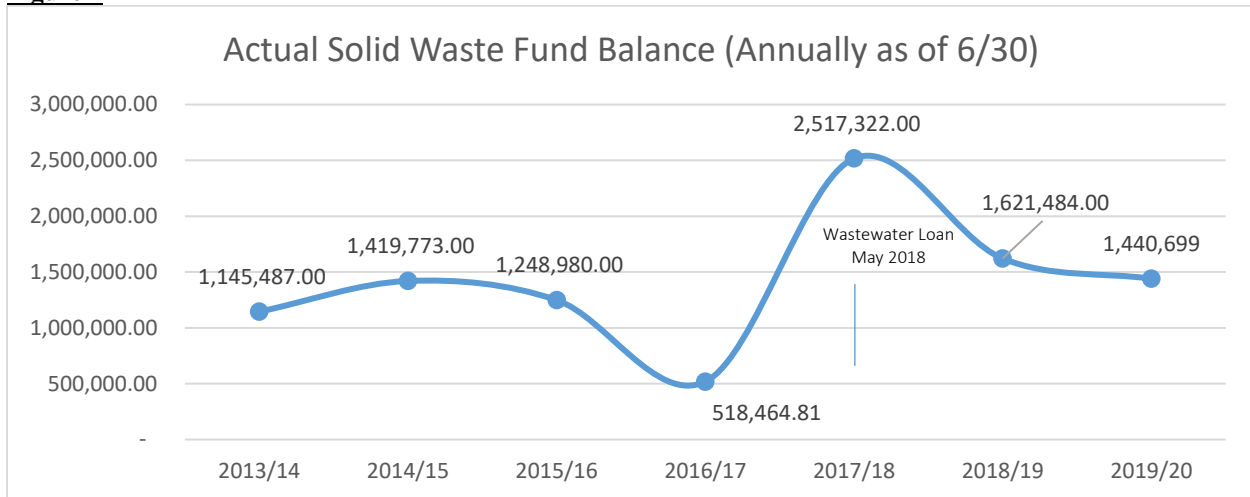
#### *Reserve Calculations*

The reserve calculation within the study, developed by the consultant working with the City in lieu of a formal reserve policy (which was in development at the time) was set at 15% of annual operating expenses for the utility. On January 28, 2020, the City Council adopted a formal reserve policy, which set the reserve calculation for the Solid Waste fund at 12 months of non-contractual operating expenses. When the costs associated with the Recology Davis contract are removed from the annual expenses, the remaining costs are roughly equivalent to 13% of annual operating costs, or about \$1.8 to \$2 million on average. With the postponement of the June 2020 adjustment to the fund, contributions to the development of the target reserve were decreased significantly, with the full development of the reserve now anticipated to be outside of the current Proposition 218 term. Projections of revenue for FY 2020-2021 (discussed later in this report) further impact the development of a reserve fund in the near-term.

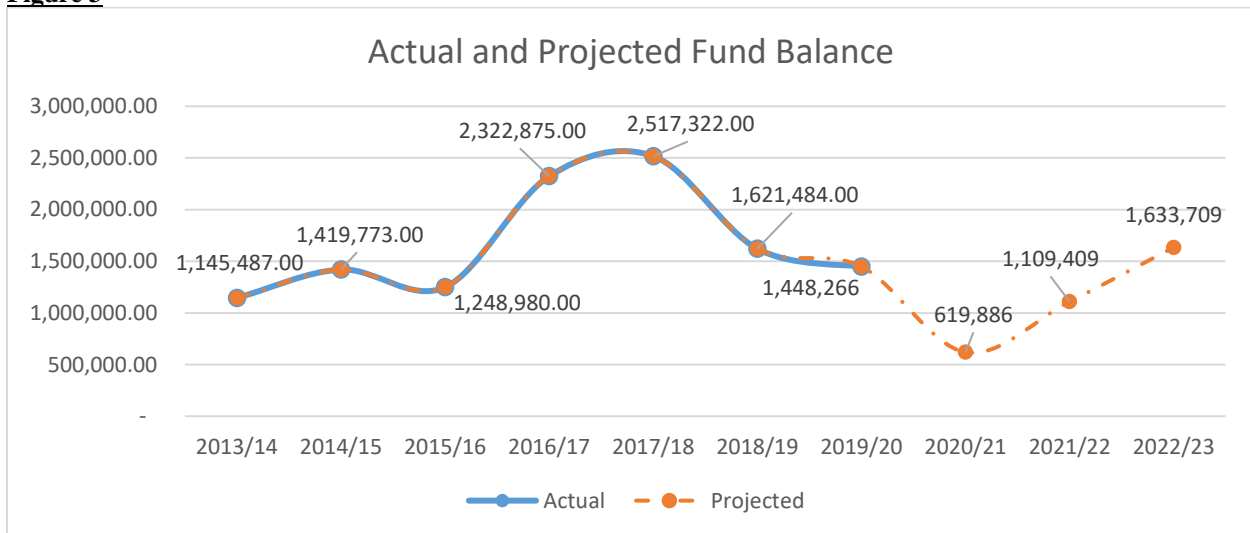
#### *Fund Balance*

Based on the planned, slow-growth approach to the fund, from the beginning of this Proposition 218 adjustment period, it has been anticipated that expenditures would continue to outpace revenue, and draw more from fund balance, until the third year of this 5-year rate structure, when the revenue would overtake expenditures. It was anticipated that after the third year of adjustments, the fund balance would slowly trend upwards, based on the rate adjustment recommendations each year. As shown in Figure 2, the fund balance drop at the end of FY 2019-2020 is less than the prior year, with some stability returning to the fund. However, projected fund balances are far less stable than anticipated. Based on the postponement of the June 2020 rate adjustment, and the FY 2020-2021 revision in anticipated rate revenue due to COVID-19 impacts, the model no longer reflects this consistent improvement in the fund balance, as shown in Figure 3, with the drop in fund balance this FY (note, the projected fund balance reflects the recommended 12% rate adjustment on January 1, 2021 and 6% on July 1, 2021).

**Figure 2**



**Figure 3**



### ***Current Fund Status***

As of the end of FY 2019-2020, the Solid Waste fund is performing as anticipated during the cost of service study and development of the financial plan. The fund expenditures do remain higher than revenue, and the fund balance continues to drop, however it has begun to drop more slowly.

### **Upcoming 2020-2021 Budget & Model projections**

The request on hand is to review the current state of the Solid Waste Fund, and recommend a rate adjustment at, or below the postponed second-year approved adjustment of 12%, in addition to the consideration of the third-year rate adjustment of 6%, which modifies slightly the originally scheduled increases for June 1, 2020 and January 1, 2021. This report will also include a discussion of the economic impacts (so far) of the unforeseen global pandemic, as well as upcoming regulatory changes, and how those impacts are estimated to affect the development of the Solid Waste fund, however this section will focus on the current model/budget comparison for the second- and third-year adjustments.

Throughout the discussions of the Solid Waste rate adjustments, staff has emphasized that the first two years of the rate adjustments are the most important to getting the fund back on track. These adjustments were planned to be higher than subsequent years (13.5% and 10% vs 5%) to ensure that expenditures do not continue to exceed revenue and to support the development of a reserve fund. What has not been anticipated until now, however, is the impact of the COVID-19 pandemic on City utility customers, and on rate revenue for the fund. Previous discussions looking to postpone the second-year rate adjustment of 10% were modeled with minimal impacts to rate revenue. In the months since April 2020, the City's Solid Waste rate revenue has decreased by roughly \$40,000 per month (Recology's invoices to the City have also decreased, but by about one-half to one-third the revenue decrease). This is in addition to the six months of "lost" revenue from the postponed increase. If this trend of reduced revenue continues, the fund would see a 9-10% overall reduction in revenue for FY 2020-2021. This is a substantial impact to the fund, as shown in Figure 3, with the decrease in revenue causing a drop in fund balance.

<b>FY 2020-2021 Revenue</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>	<b>REVISED MODEL Forecast</b>
Service Charges	\$ 14,504,635	\$ 12,540,000	\$ 12,732,720
Other Revenues	\$ 40,000	\$ 25,000	\$ 25,000
Interest from Investments	\$ 0.00	\$ 41,142	\$ 41,142
<b>Total Expenditures</b>	<b>\$ 14,544,635</b>	<b>\$ 12,606,142</b>	<b>\$ 12,798,862</b>

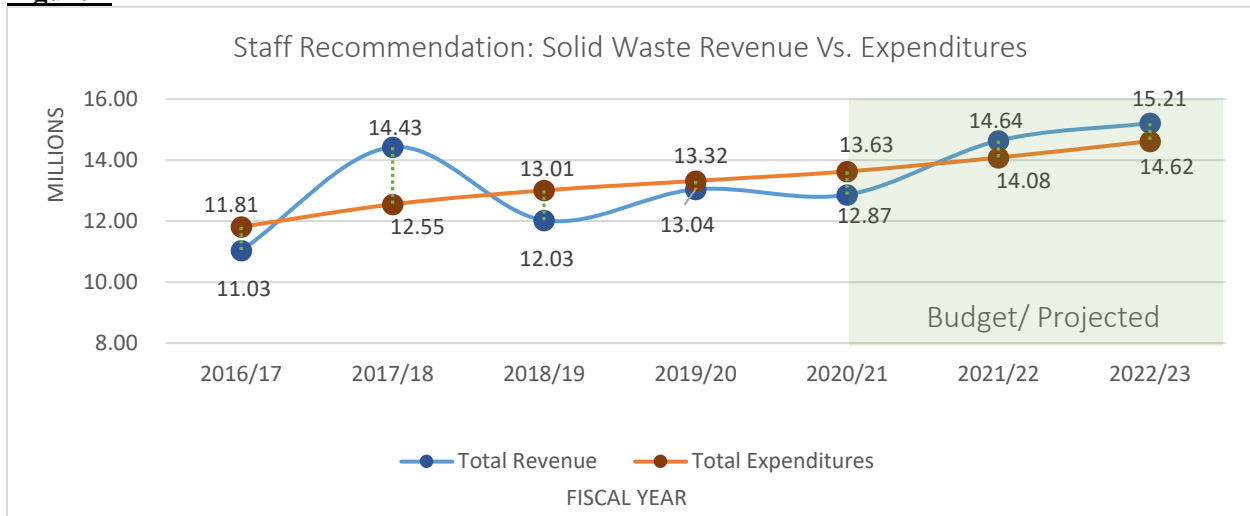
As originally modeled, the 2020-2021 revenue would reflect the 10% increase in rates from June 1, 2020, and an 8% increase in January 1, 2021. The City's current budget reflects a 9% reduction in rate revenue overall (estimated economic impacts from COVID-19), and a 10% increase in rates as of January 1, 2021. Based on staff recommendations, the revised model forecast shown in the table above includes an adjusted January 1, 2021 increase of 12%, and a 6% adjustment in rates on July 1, 2021, however the July increase would be reflected in the revenue for FY 2021-2022 (it is included to show projected expenditures and revenues for this report).

As shown in Figure 4, the future forecast modeled with the increase in the January 1, 2021 adjustment to 12%, and an 6% rate adjustment in July 1, 2021, the revenue is still on track to overtake expenditures within the next fiscal year. The original 10%/8% rate adjustment is modeled as Scenario A in this report for comparison. The table below shows the modeled and budgeted expenditures for FY 2020-2021.

<b>FY 2020-2021 Expenditures</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>
Citywide Administration	\$ 566,900	\$ 627,200
Streets Division	\$ 121,600	\$ 139,522
Solid Waste Diversion Program	\$ 1,049,000	\$ 650,920
Capital Improvement Projects	\$ 0.00	\$ 15,000
Recology Contract	\$ 12,169,200	\$ 12,149,000
Debt Payment/Other Expenses	\$ 595,400	\$ 45,600
<b>Total Expenditures</b>	<b>\$ 14,502,100</b>	<b>\$ 13,627,242</b>



**Figure 4**



## **Current Events**

### **COVID-19**

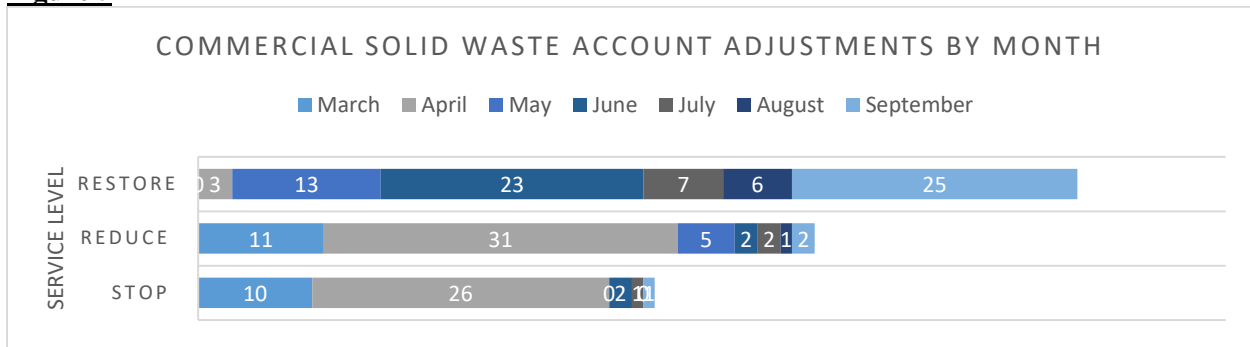
When presented to the Commission in April 2020, about a month into the shelter-in-place order as a result of the COVID-19 pandemic, it was unclear what the duration of the order would be, the economic impact would be, or what recovery might look like. At the time, it was also not clear if the City would see utility bills paid later than generally expected (due to the late fee waiver) or if the City would lose customers.

Now in October, there is some clarity on some of these questions, however the situation is still evolving and changing. Many counties across California re-opened in late April or early May, only to close again when COVID-19 cases increased across the state after Memorial Day weekend. Cases are dropping again, leading counties such as Yolo County to slowly reopen, however it is unclear if the fall and winter months will bring an resurgence of COVID-19 cases along with the seasonal flu.

Since March, 115 area businesses have requested modifications to their solid waste service; either reducing the level of service, or stopping it all together. As of the drafting of this report, 15 businesses still have no service, 59 business have restored some service but have not returned to pre-COVID-19 service levels, 14 businesses have restored their solid waste service to pre-COVID-19 levels, and 27 businesses have increased their solid waste services beyond their pre-COVID-19 level of service. The general trend in commercial solid waste account adjustments is shown in Figure 5 below, and is likely a driver of the decreases seen in Solid Waste revenue. With the recent uptick in commercial accounts restoring service, the fund will likely see more revenue.



**Figure 5**



Prior to the adoption of the 2020/2022 City budget, revenue expectations from all fee-based revenue sources were lowered in anticipation of decreased demand or decreased customers. The Solid Waste fund, however, is the only utility fund showing an appreciable drop in revenue, and is the only fund with budgeted expenditures outpacing revenue. The lowering further of revenue estimates exacerbates the already precarious position of the fund.

With these considerations in mind, staff have reviewed the current rate adjustment schedule for Solid Waste rates, and have three scenarios for the Commission to review. Along with the basic assumptions included in these calculations that had been developed for the April 2020 rate adjustment exercise (included again for reference):

1. The full anticipated adjustment for the Proposition 218 approval period will be implemented. Scenarios which dropped a year of the adjustments demonstrated the action was not feasible to maintain the fund.
2. The scenarios assume that the next rate study (to be conducted in 2022/23) would likely result in recommended rate adjustments slightly higher than anticipated with the original recommendations, and would be necessary to maintain the fund and to be able to implement projects and studies beyond basic utility operations.
3. For the remainder of the approved rate adjustment period, planned expenditures for any activities not immediately required for operations by the utility would be deferred indefinitely.
4. The target reserve would likely not be reached within the approved rate adjustment period, and the City would not have any cushion (fund balance above a reserve) to aid in rate impacts associated with the implementation of Senate Bill (SB) 1383. The fund would also not provide a cushion for additional regulatory changes, detailed rate reviews requested by the contract hauler, major emergencies, or other unforeseen financial impacts.

The calculations also include the following *new* assumptions for this rate recommendation:

5. Overall revenue estimates have been adjusted down for the fiscal year to account for potential lost customers.
6. The 10% adjustment in rates in January 1, 2021 is built into the City's revenue estimate for the current fiscal year. This is along with the reduction of revenue overall anticipated

based on lost customers. Dropping the 10% adjustment is not feasible to maintain the fund.

7. The 8% adjustment in rates scheduled for January 1, 2021 (or a portion of the 8%, should the rate adjustments be altered as recommended by City staff) should be implemented as close as possible to January. As previously stated, the first two years of the fund development are the most essential to the overall health of the fund.

For this fund review and rate adjustment recommendation, the recommendation before the Commission and Council is for the January 1, 2021 increase of up to 18% (the June 1, 2020 postponed 10% increase in addition to the planned January 1, 2021 increase of 8%). Rate adjustments beyond 2021 do not have to be determined now.

***Solid Waste Rate Adjustment Staff Recommendation:***

*A rate adjustment of 12% on January 1, 2021, and a rate adjustment of 6% on July 1, 2021, with two further adjustments of 5% annually thereafter in January.*

Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
<b>Jan 2021</b>	<b>12%</b>	<b>\$4.67</b>	<b>\$43.62</b>
<b>Jul 2021</b>	<b>6%</b>	<b>\$2.62</b>	<b>\$46.24</b>
Jan 2022	5%	\$2.31	\$48.55
Jul 2023	5%	\$2.43	\$50.93

A: Total increase in 2021: \$7.29

When approaching the recommendation for the rate adjustment for January 2021, the initial calculations using the planned increases of 10% and 8%, when combined with the anticipated decrease in revenue due to COVID-19 economic impacts, showed a continuation of the expenditures outpacing revenue, and a steep reduction in fund balance, resulting in a negative balance in FY 2022-2023.

Because of this set of calculations, the staff recommendation was developed with the following goals in mind; 1) to restore the balance of the fund (with revenues exceeding expenditures), thus relieving the pressure on the fund balance, and 2) to allow for the development of the reserve, to provide a buffer against future losses in customers as a result of COVID-19, as well as regulatory changes required in the next year. The current approved Proposition 218 rate schedule includes an 8% increase planned for January 1, 2021, and a combination of the two adjustments can be used after the implementation date has been reached. With this scenario, rate payers will see an increase of 18% in 2021, and the average single-family customer will pay \$7.29 more for solid waste services in 2021.

The recommendation from staff restores the balance of the fund around the time originally anticipated, and brings the total fund balance up at a faster pace, to buffer against future losses

and regulatory impacts. With this adjustment, it is also likely that *future* rate adjustments (outside of the current Proposition 218 period) for the Solid Waste rates will be within previous expectations (around 5% annually), rather than higher to account for the deferred payments to the loan or other deferred expenditures.

***Solid Waste Rate Adjustment Scenario A:***

*A rate adjustment of 10% on January 1, 2021, and a rate adjustment of 8% on July 1, 2021, with each adjustment 5% annually thereafter in January.*

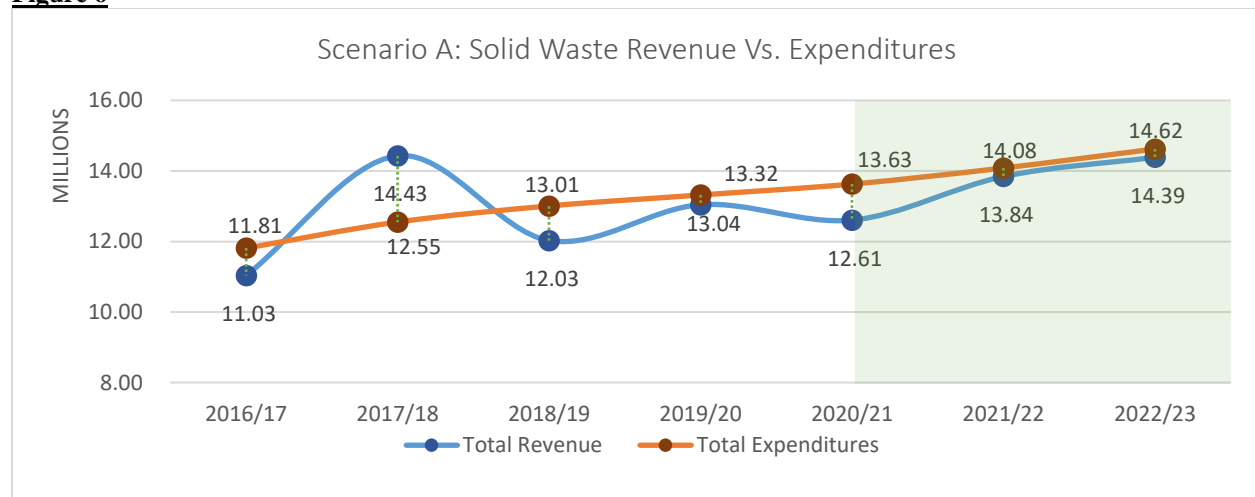
Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
<b>Jan 2021</b>	<b>10%</b>	<b>\$3.90</b>	<b>\$42.85</b>
<b>Jul 2021</b>	<b>8%</b>	<b>\$3.43</b>	<b>\$46.27</b>
Jan 2022	5%	\$2.31	\$48.59
Jul 2023	5%	\$2.43	\$50.02

A: Total increase in 2021: \$7.33

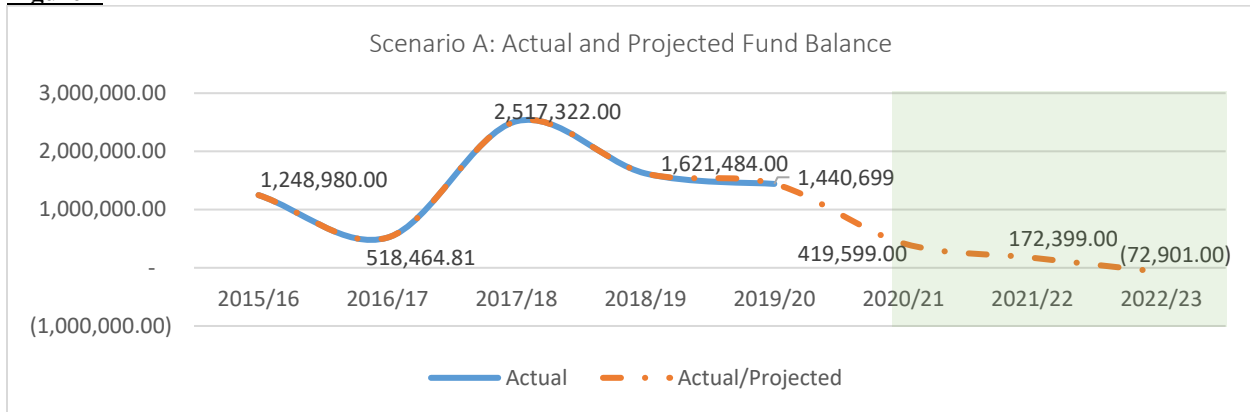
**Scenario A**

With the actual reduction in revenue, and the budgeted reduction for FY 2020-2021, the gains achieved to slow the reduction of the fund balance and close the gap between expenditures and revenue are lost. The table below shows the modeled and budgeted expenditures. Figure 6 below demonstrates this impact. Additionally, as shown in Figure 7, the fund balance is projected to be negative by 2022, necessitating either an additional rate adjustment, or another loan.

**Figure 6**



**Figure 7**



**Solid Waste Rate Adjustment Scenario B:**

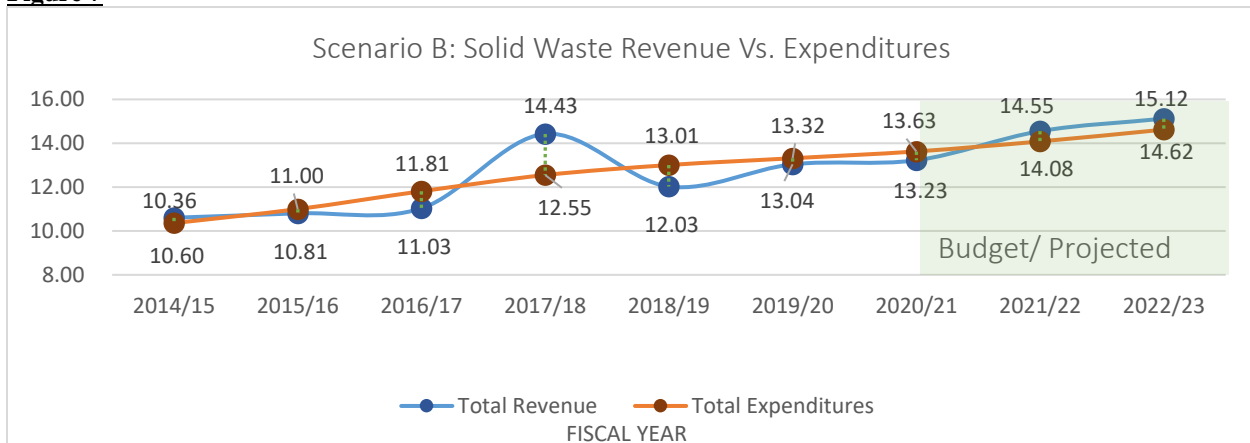
A combined rate adjustment of 18% on January 1, 2021, with two further adjustments of 5% annually thereafter in January.

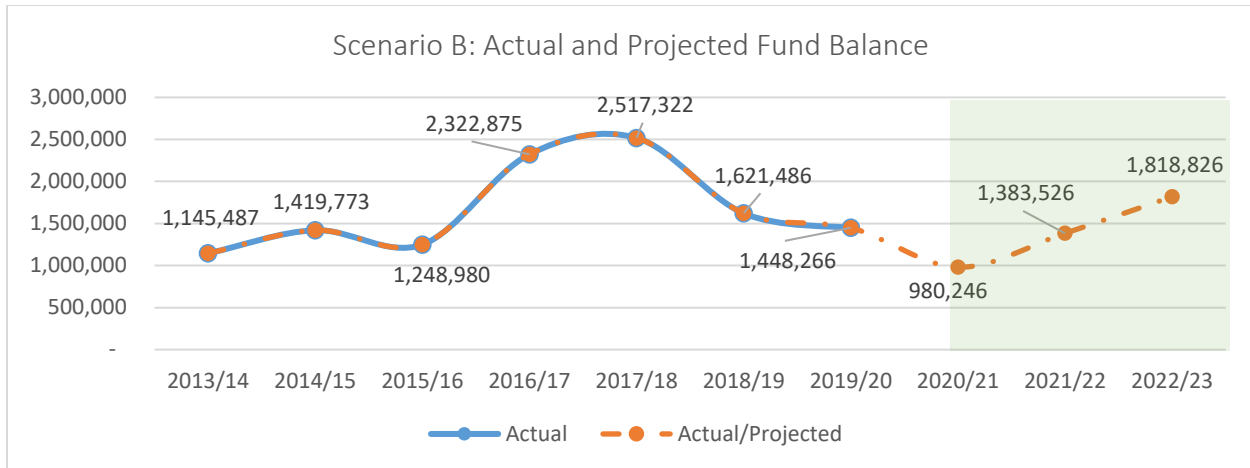
Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
Jan 2021	18%	\$7.01	\$45.96
Jan 2022	5%	\$3.43	\$46.27
Jul 2023	5%	\$2.43	\$51.02

B: Total increase in 2021: \$7.01

This scenario was developed in case the Commission wished to see what the implementation of the full rate adjustment currently allowed (the postponed June 2020 adjustment and the January 1, 2021 adjustment). This scenario restores the balance of the fund before the same is achieved in the staff recommendation, and provides the buffer for future customer losses and regulatory changes. As with the staff recommendation, this adjustment would also provide for expected rate increases for Solid Waste to account for the deferred payments to the loan or other deferred expenditures.

**Figure 7**





As previously stated, the need for the highest possible increases within the next year is essential to the overall health of the Solid Waste fund, and to allow for the fund to adopt to a decreasing customer base, and expand services beyond essential only. This is especially important given the upcoming implementation of SB 1383.

### **SB 1383**

The California Department of Resources, Recycling and Recovery (CalRecycle) has made it clear that the implementation of SB 1383 (Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions) will continue as previously planned, despite COVID-19 and the economic impacts of the shelter-in-place order. In April of this year, it was anticipated that the finalized regulations would be in place by July 2020. However, continued delays have shifted the anticipated date for finalized regulations to the end of the calendar year, and CalRecycle has started to release draft tool kits for agencies to view model ordinance updates, franchise agreements, and other tools to implement the sweeping legislation.

As a reminder, SB 1383 establishes targets to achieve a 50 percent reduction in the level of the statewide disposal of organic waste from the 2014 level by 2020, and a 75 percent reduction by 2025. The law grants CalRecycle the regulatory authority required to achieve the organic waste disposal reduction targets and establishes an additional target that not less than 20 percent of currently disposed edible food is recovered for human consumption by 2025. The regulations (when formally adopted) are scheduled to go into effect by into effect January 1, 2022, and strict enforcement of the regulations would be in place by 2024. The full implementation of the new regulations would be in place by 2032.

There are a number of items in the regulations that would have impacts on Davis, and utility ratepayers, including the following:

- Changing the labels and lid colors for all Recology Davis collection bins to be complaint with the regulations (current bins do not match the requirements)
- The establishment of an edible food recovery program

- Translate a variety of mandated outreach items to customers in their native language (for any language spoken by 5% of more of our customers)
- New reporting requirements to the state
- Inspections, audits and recordkeeping of organic waste generators, and more

The City released a request for proposals (RFP) in August for a consultant to assist staff in development the best path forward for the City to achieve compliance. Fortunately, the city-wide organics collection program that began in 2016 is a huge benefit to the City (and to ratepayers), as Davis is one of only a handful of agencies in California that already requires organics collection from all customers, and is already accounting for that service in the rate structure.

### **Rates of Surrounding Communities**

A recent review of the Solid Waste rates of surrounding jurisdictions yielded the interesting note that 8 of the 12 surveyed have raised rates during the COVID-19 pandemic. Likely this is in preparation for the implementation of SB 1383. Four of the jurisdictions surveyed (including the jurisdiction with the lowest solid waste rates) still do not have an organics program in place, and will likely see further rate increases in the short term to implement one. Also of note is the provision of bi-weekly recycling services, rather than weekly services as offered by Davis in those jurisdictions with no organics program. A summary of the jurisdictions surveyed and the basic services is included below. Please note, this table does not include detail related to program offerings such as free shred days, buy-back centers, bulky waste drop-off programs and other services that Davis residents receive free of charge.

County	Jurisdiction					Included Basic Services			
		Effective Date	32-35 gal	64-68 gal	95-96 gal	Refuse	Recycling	Yard Waste	Food Waste
Placer	Roseville	7/1/2020	N/A	N/A	\$25.57	Weekly	X	Biweekly	X
Solano	Dixon	10/1/2020	N/A	N/A	\$27.39	Weekly	Weekly	Weekly	Weekly
Solano	Vacaville	6/1/2020	\$27.30	N/A	\$30.88	Weekly	Weekly	Weekly	Weekly
Sacramento	Elk Grove	7/1/2020	\$24.81	\$28.32	\$35.40	Weekly	Biweekly	Biweekly	X
Sacramento	Rancho Cordova	7/1/2020	\$22.88	\$27.05	\$35.71	Weekly	Biweekly	Biweekly	X
Yolo	West Sacramento	6/17/2020	\$22.52	\$28.08	\$37.54	Weekly	Weekly	Weekly	Weekly
Yolo	Woodland	1/1/2020	\$30.93	\$33.20	\$41.82	Weekly	Weekly	Weekly	Weekly
<b>Yolo</b>	<b>Davis</b>	<b>3/1/2019</b>	<b>\$35.19</b>	<b>\$38.95</b>	<b>\$46.47</b>	<b>Weekly</b>	<b>Weekly</b>	<b>Weekly</b>	<b>Weekly</b>
Sacramento	Sacramento	7/1/2020	\$37.26	\$42.59	\$47.39	Weekly	Biweekly	Weekly	X
Yolo	Winters	7/7/2020	\$37.57	\$41.50	\$48.69	Weekly	Weekly	Weekly	Weekly
Sonoma	Santa Rosa	1/1/2020	\$33.13	\$48.21	\$73.63	Weekly	Weekly	Weekly	Weekly
San Mateo	San Mateo	1/1/2020	\$24.93	\$54.93	\$85.08	Weekly	Weekly	Weekly	Weekly
Santa Clara	Palo Alto	7/1/2017	\$50.07	\$100.15	\$150.22	Weekly	Weekly	Weekly	Weekly

### **Staff Recommendation**

While there are still unknowns ahead, specifically the duration of the pandemic, if it will get worse in the Fall when combined with flu season, or if the restoration of commercial accounts will significantly impact Solid Waste revenues, we do know that the anticipated decrease in Solid Waste revenue has exacerbated the existing problem of expenditures outpacing revenues, and could cause significant deterioration of the fund balance in the near term if not addressed

now. As has been stated in presentations to the Commission and to Council, the first two years of the rate adjustments for the utility are the most important to bringing stability to the fund, and smoothing out the future year rate adjustments.

With these considerations, staff recommend the second-year rate adjustment for the Solid Waste Utility be implemented with an increase of 2%, for a total of 12% on January 1, 2021, with the next adjustment of a 6% increase occur on July 1, 2021.

### **Next Steps**

The discussion and any recommendations from the Utilities Commission on rate adjustments for January 1, 2021 and July 1, 2021 will be presented to Council in November or December (depending on the number of Utilities Commission meetings necessary to develop a recommendation), as the next rate adjustment is scheduled for January 1, 2021. The next fund review of the Solid Waste Utility will be presented to the Commission in November 2021, unless there are significant changes in the fund (either positive or negative) by mid-year. If recommendations shift the dates of the rate adjustments, the timeline for the next fund review may be shifted.

### **Attachments**

1. City Council Meeting Item 04 - Solid Waste Fund Update and Rate Recommendation (May 5, 2020)
2. Fund Update Detail for Staff Recommendation

## STAFF REPORT

**DATE:** May 5, 2020

**TO:** City Council

**FROM:** Stan Gryczko, Public Works Utilities and Operations Director  
Adrienne Heinig, Management Analyst

**SUBJECT:** Solid Waste Annual Fund Review/Rate Adjustment Recommendation

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### **Recommendation**

1. Receive informational item on the financial status of the City's Solid Waste Fund (520) for Fiscal Year 2018-2019 as presented in the staff report to the Utilities Commission on April 22, 2020; and
2. Approve the resolution (Attachment 1) to delay the second-year rate adjustment for the Solid Waste Utility, due to the COVID-19 emergency, previously scheduled to occur on June 1, 2020.

### **Fiscal Impact**

The City's Solid Waste Fund expenditures continue to outpace revenue, however, with the March 2019 implantation of the rate adjustment schedule, the gap is shrinking as anticipated. By postponing the revenue adjustment of a 10% increase planned on June 1, 2020, the fund balance of the Solid Waste Utility is projected to drop to \$565,000 in Fiscal Year (FY) 2020/2021, and the Utility will continue to pay annual interest-only payments on the loan received from the Wastewater Utility.

### **City Council Goals**

This effort is consistent with the Council Goal to Ensure Fiscal Resilience.

### **Background**

#### *Council Direction in February 2019*

When the current customer rates for Solid Waste services were approved on February 5, 2019, Council directed staff to return before each rate adjustment within the approved Proposition 218 period (2019/20 through 2022/23), with a report on the fiscal health of the solid waste fund, and a recommendation for the next year's rate adjustment (within the approved adjustments).

Generally, this is not done with an approved Proposition 218 period for a utility. However, with the anticipated slow growth of the fund, Council requested this review for each adjustment prior to implementation. The current approved rate adjustment schedule is (using the Single-Family Rate (SFR) for a 65-gallon garbage bin for the cost impact demonstration):



Month/Year	Adjustment	\$ Impact	Rate (SFR 65 gal)
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	10.0%	\$3.90	\$42.85
Jan 2021	8.0%	\$3.43	\$46.28
Jan 2022	5.0%	\$2.31	\$48.59
Jan 2023	5.0%	\$2.43	\$51.02

The annual fund review for Fiscal Year 2018/2019 for the city's Solid Waste Fund (Fund No. 520) is included in pages 2-6 in the attached staff report to the Utilities Commission, presented on April 22, 2020 (Attachment 2).

The fund continues to perform at pace with expectations. As presented to the Commission, fund expenditures remain higher than revenue received by the Solid Waste Utility, and the fund balance continues to drop. This is consistent with the cost of service model showing a decrease in fund balance until year 3 (2021) of the 5-year rate adjustment period. Actual revenue was approximately \$100,000 higher than what was anticipated by the modeling, showing that the approach to develop the fund back to a sustainable level in a measured fashion has to date been working as planned.

### **Utilities Commission Review and Recommendations**

The plan for the fund recovery has been impacted, however, by the shelter-in-place order and the subsequent economic impacts of COVID-19. In preparation for the review of the fund and rate recommendation by the Utilities Commission in April 2020, staff presented three scenarios for the next five years of rates, and how those scenarios of adjustment might impact the recovery of the fund. Staff recommended that the rate adjustment for June 1, 2020 proceed as planned, with the understanding that the Commission would review the fund and third year adjustment in October of this year. In addition, none of the other utilities are anticipating increases in rates within the next six months, so the adjustment to the solid waste rate would be the only adjustment for customers on their bills.

While it is important to note that the determination of the Commission was focused solely on the rate increase scheduled for June 1, 2020, staff felt that the Commission could make an informed decision on the rate adjustment only if they understood the potential for future rate and/or ratepayer impacts should the second-year adjustment be modified.

The three scenarios included the unchanged scheduled adjustment (to move forward with the planned 10% increase on June 1, 2020); to push the June 1, 2020 increase to January 1, 2021 (Scenario A); and to move forward with the June 1 increase as planned, but look to shift the third year increase out past 2021 (Scenario B). The full scenario presentations are included in Attachment 2, beginning on page 8.

After the Commission review and discussion, and with understanding of the potential short-term and long-term impacts to the fund, the Commission made the following motion:

*Approve Scenario A, regarding the rate increase for June 2020.*

Scenario A, as presented, pushes the next rate increase to January 1, 2021. There was additional discussion about swapping the January 1, 2021 increase of the now-recommended 10%, with the January 1, 2022 increase of 8%, but there was no formal motion on this idea. It is important to note that the Commission will review the fund health and recommend the next rate adjustment in October of this year, in preparation for Council review in November, when the impacts of COVID-19 on solid waste utility revenue should be clearer. The only action being taken at this time, as recommended, is delaying the June 1, 2020 increase of 10%.

### **Reduced Revenue, New Regulatory Requirements and Staff Recommendation**

The models presented to the Utilities Commission reviewed the impacts of reductions of an anticipated increase in revenue, not on a reduction to existing revenue due to COVID-19 impacts. In an exercise to review of the impact of reduced revenue on all utility funds, it is clear that at this stage in the recovery of the solid waste fund, a reduction in revenue would exhaust the current fund balance quickly, and a loan from another utility could be required for continued operation (depending on revenue impacts, potentially as soon as next fiscal year). There are roughly 70 commercial businesses that have thus far requested modifications in their solid waste service levels; currently not enough to materially impact the fund, but a negative trend that could have serious implications. Staff anticipate that reduced service levels requested by customers will show a reduction in waste hauling contract costs (the contract constituting approximately 85% of the fund expenditures), but it is likely that the reduction will not equal to the lost revenue. At this early stage it is difficult to know how this will impact the contract and the fund.

What is known, however, is regulatory requirements associated with Senate Bill (SB) 1383 will likely require increased expenditures for the City's Solid Waste diversion program (the regulatory compliance/education & outreach component of the program) with new reporting, outreach and programmatic requirements being phased in starting in 2022. CalRecycle, the entity establishing this program, has indicated that the deadlines for compliance are statutory, meaning it is extremely unlikely the timeline will be pushed back without action from the State. Early estimates put the impact on residential accounts up to \$3-5/per month, and up to \$70-90/per month for commercial. Davis has already established a mandatory organics program (unlike many jurisdictions in California) so ratepayers may see less in the way of needed increases for the implementation of the regulations. While the near-term fiscal impact of SB 1383 is at least one year away, and the full impact a few years away, any delay or reduction in currently approved rates may necessitate larger rate adjustments during the next cost of service study for the solid waste utility.

The Utilities Commission, in recommending to postpone the rate increase, argued that the idea of increasing rates (even a small increase) would send the wrong message to the community at this time. Staff, although focused on the health of the fund, and concerned that a drop in revenue could significantly impact the ability for the solid waste fund to recover within the next five years, understands this. The situation is unprecedented, and Council has already taken a number of actions to reduce financial stress on the community during the shelter-in-place order. In forming a recommendation, staff consulted the City's Finance Director, who shares the concern about a delay in implementing the increase, considering the fiscal position of the fund, but understands the reason for postponement in the current situation. Staff recommends that Council should postpone the solid waste utility 10% rate increase in June. Staff does caution that it is possible the fund may require another loan, should revenue drop significantly during the shelter-in-place order, or continue to drop after the order is lifted.

### **Next Steps**

Staff anticipates recommending at least a 10% increase for the third-year adjustment on January 1, 2021, barring any unforeseen impacts to the fund between now and the next fund review, which may influence that recommendation. It is anticipated that the next solid waste utility fund review will be before the Utilities Commission in October and before the Council in November of this year.

Moving forward, staff will closely monitor revenue returns for all utilities for the next six months. In addition, staff will continue to review each utility's operations to find opportunities to reduce expenditures.

### **Attachments**

1. Resolution
2. Staff memo to the Utilities Commission (April 22, 2020)

**RESOLUTION NO. 20-XXX, SERIES 2020**

**RESOLUTION ENACTING MODIFICATION TO CITY OF DAVIS CUSTOMER RATES  
FOR SOLID WASTE SERVICE FEES  
EFFECTIVE MARCH 1, 2019**

WHEREAS, Article 32.01.120 of the Davis Municipal Code authorizes the City Council to periodically amend, by resolution, fees for solid waste management services; and

WHEREAS, the City of Davis conducted a solid waste rate study, completed in October 2018 to review and recommend any necessary modifications to the City solid waste rates; and

WHEREAS, after a duly noticed public hearing on February 5, 2019, maximum solid waste service fees became effective March 1, 2019 with four additional maximum authorized annual increases thereafter through January 1, 2023; and

WHEREAS, these fees as established are for the purpose of maintaining and continuing the provision of the City's solid waste services, including the following:

1. Projected increases in the costs of operations provided by Recology for solid waste collection, disposal, and processing services; and
2. Current budget deficits in the City's Solid Waste Fund; and
3. Loan and capital debt service payments owed to the City's Wastewater Division; and
4. Environmental mitigation costs for road repair due to wear-and-tear associated with solid waste collection services; and
5. Establishing minimal emergency reserves in the City's Solid Waste Fund; and
6. Administrative and regulatory costs of providing these services, including billing and collection of the service fees.

WHEREAS, and while the full economic impact of the international, national, state, and local outbreak of COVID-19 is not yet known, the public health emergency and the precautions recommended by health authorities have caused many residents in Davis to experience or expect soon to experience sudden and unexpected income loss; and

WHEREAS, the City Council has recognized the need to provide assistance where possible during these extraordinary times, and retains the right to adjust or amend fees within the fee schedule established and adopted into the Municipal Code.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Davis that the next scheduled rate fee adjustment scheduled for June 1, 2020 shall be postponed until such time as the Council, in consultation with the Public Works Utilities & Operations Director and Finance Director, determines that the adjustment should be implemented.

PASSED AND ADOPTED by the City Council of the City of Davis on this 5th day of May, 2020, by the following vote:

AYES:

NOES:

Brett Lee  
Mayor

ATTEST:

Zoe S. Mirabile, CMC  
City Clerk



## Memorandum

Date: April 22, 2020  
To: Utilities Commission  
From: Stan Gryczko, Public Works Utilities and Operations Director  
Adrienne Heinig, Management Analyst  
Subject: Item 4A – Solid Waste Annual Fund Review/Rate Adjustment Recommendation to Council

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### **Recommendations**

1. Receive informational item on the financial status of the City's Solid Waste Fund (520) for Fiscal Year 2018-2019.
2. Approve staff recommendation to City Council that the second-year rate adjustment for the Solid Waste Utility be implemented unchanged from the approved Proposition 218 rate adjustment schedule, with the next adjustment occurring on June 1, 2020.

### **Background**

#### *Council Direction in February 2020*

When the City Council established the current customer rates for Solid Waste services on February 5, 2019, they also directed staff to return to Council before each rate adjustment within the approved Proposition 218 period (2019/20 through 2022/23), with a report on the fiscal health of the fund, and a recommendation for the next year's rate adjustment (within the approved adjustments). Generally, this is not done with an approved Proposition 218 period for a utility. However, with the anticipated slow growth of the fund, the City Council has requested this review for each adjustment prior to implementation. The staff report to Council on this item from the February 5, 2019 Council meeting is included for reference as Attachment A.

The current approved rate adjustment schedule is:

Month/Year	Adjustment	\$ Impact	Rate (SFR 65 gal)
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	10.0%	\$3.90	\$42.85
Jan 2021	8.0%	\$3.43	\$46.28
Jan 2022	5.0%	\$2.31	\$48.59
Jan 2023	5.0%	\$2.43	\$51.02

### *Annual Commission Utility Fund Reviews*

This update is part of a regular series on the status of the city's Utility funds. The information presented includes a summary of the revenue and expenditures of the preceding closed fiscal year, compared to the projections from the utility model (developed during the most recent cost-of-service study for that utility). The intent of the update is to give a snapshot of the status of the fund and highlight any outstanding differences between the actual data and the projected numbers from the model, in between full cost-of-service studies. The update covers the city's Solid Waste Fund (Fund No. 520) for Fiscal Year (FY) 2018-2019.

## **Annual Fund Review**

### ***Sources of Funds***

Solid Waste Fund revenues are largely collected from three sources: service charges paid by the utility customers, revenue from special drop box orders by customers, and interest paid from utility investments.

### *Service Charges*

Service Charge revenue is the largest source of revenue for the Solid Waste Fund. In FY 2018-2019, the service charges for all customers totaled \$11,996,560.

### *Drop Boxes*

Drop Box revenue is based on the number of drop boxes ordered and used in Davis, and is highly dependent on construction activity. In FY 2018-2019, the service charges totaled \$29,635.

### *Interest from Investments*

Interest from investment revenue has historically been the smallest source of revenue for the Solid Waste Fund. With the slow establishment of a reserve fund, and the presence of a fund balance due to the Wastewater Utility loan, however, the interest earned by the Solid Waste fund totaled \$58,695 in FY 2018-2019.

The most recent model developed for the fund was completed in 2019, and actual costs from fiscal year 2017-2018 and city budget for 2018-2019 were used as the basis for the model's projections.

When comparing the revenue included in the model (based on adjusted budget numbers for FY 2018-2019) to the actual revenue received in that year, the estimate is extremely close to the actual revenue collected. The largest difference was the revenue received as income from investments, which had not been included in the model, as the fund did not receive significant interest from investments prior to FY 2018-2019.

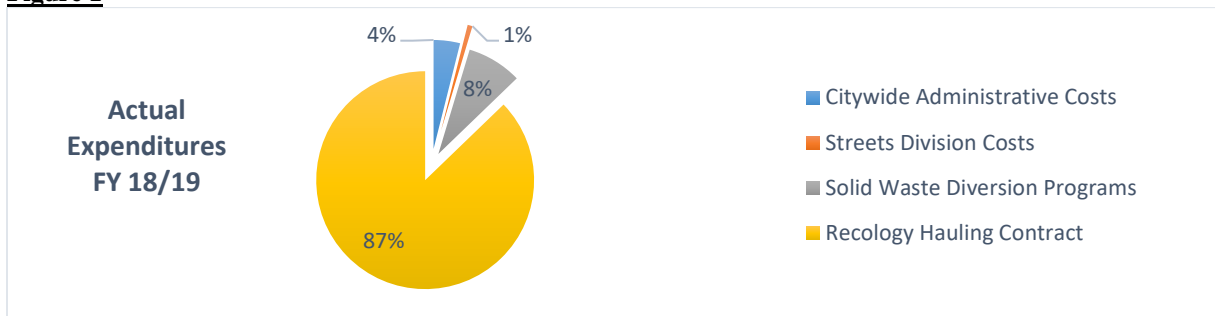
<b>FY 2018/2019</b>	<b>MODEL Adjusted Budget</b>	<b>ACTUAL City Accounting</b>
Service Charges	\$ 11,903,000	\$ 11,996,560
Other Revenues	\$ 40,000	\$ 29,635
Interest from Investments	\$ -	\$ 58,695
<b>TOTAL INCOME</b>	<b>\$ 11,943,000</b>	<b>\$ 12,026,195</b>

Between the two, the Model estimated a return of \$11,943,000. The actual returns totaled \$12,026,195, a difference of \$83,195.

### ***Uses of Funds***

Expenditures for the utility are divided into four major sections: overall city administration, costs associated with Public Works Utilities and Operations hazardous waste removal, the diversion programs, and the contract with the City’s solid waste hauler. A breakdown of costs using actual expenditure data is included in Figure 1 below.

**Figure 1**



### ***City Administration***

City administrative costs cover the operations and labor for work done in support of the solid waste utility. This includes support for the Finance Division of the Administrative Services Department, where the billing for the utility is done, the Fire Department, where hazardous waste removal is also performed, and for Public Works Utilities and Operations Department administrative staff outside of the Solid Waste Diversion programs.

### ***Streets Division***

Streets Division costs include those incurred when performing hazardous waste and material clean up and disposal. The contract hauler costs associated with the City’s street sweeping are also accounted for in the Streets program budget (in Figure 1 above, the street sweeping contract costs have been included with the waste hauling costs, to show the total cost of the contract.)

### ***Solid Waste Diversion Program***

The second largest cost (though only 8% of the total), the Solid Waste Diversion program is the outreach, education, and regulatory side of the Solid Waste utility. Staff within the Diversion program are responsible for providing all materials and tools for customers, from single family



residential customers through commercial customers, to ensure compliance with the City and State solid waste ordinances and requirements. Staff are also responsible for all reporting to regulatory bodies, including to CalRecycle, and tracking upcoming legislation, (such as Senate Bill 1383) which may change solid waste collection requirements for the City, the City's customers, or both.

#### *Contract Hauler*

By far the largest component of the cost of the City's Solid Waste Utility, the contract hauler constitutes roughly 87% of the cost, and is currently held by Recology Davis. This includes the services to all City customers for waste hauling, the performance of annual waste audits, and the operation of the Materials Recovery Facility (MRF) in Davis, among other contractual obligations.

As with the revenue comparison between the model and the City's actual operating expenditures, the expenditures shown in the model and the actual expenditures are nearly identical, which is not unexpected given the timing of the creation of the model and the development of the City budget. The costs are included in the table below:

<b>FY 2018/2019</b>	<b>MODEL</b> Adjusted Budget	<b>ACTUAL</b> City Accounting
Citywide Administrative Costs	\$ 559,961	\$ 509,391
<i>Subtotal City</i>	<b>\$ 559,961</b>	<b>\$ 509,391</b>
Streets Division Costs	\$ 87,808	\$ 93,949
Recology Street Sweeping	\$ 452,000	\$ 458,646
<i>Subtotal Streets</i>	<b>\$ 539,808</b>	<b>\$ 552,595</b>
Solid Waste Diversion Programs	\$ 1,000,359	\$ 1,057,092
Recology Hauling Contract	\$ 10,815,107	\$ 10,865,980
<i>Subtotal Solid Waste</i>	<b>\$ 11,815,466</b>	<b>\$ 11,923,072</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 12,915,235</b>	<b>\$ 13,006,358</b>

#### *Debt*

In May 2018 (FY 17/18), the Solid Waste Utility received a \$3,000,000 loan from the Wastewater Utility to maintain a positive fund balance and continue program operations in advance of the completion of the cost of service study, which had been delayed by about a year during the activity around the assigning of the City's waste hauling contract to Recology Davis, after Recology purchased Davis Waste Removal (the former contractor).

#### *Reserve Calculations*

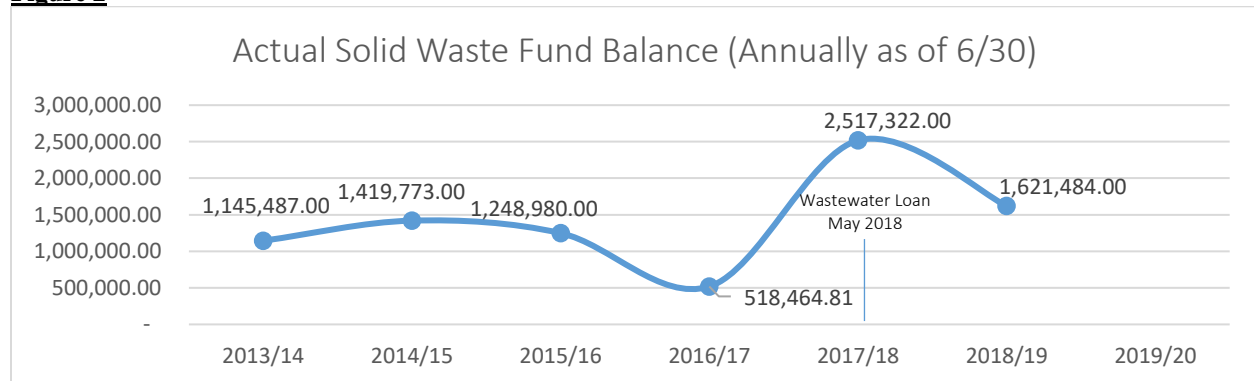
The reserve calculation within the study, developed by the consultant working with the City in lieu of a formal reserve policy (which was in development) was set at 15% of annual operating expenses for the utility. On January 28, 2020, the City Council adopted a formal reserve policy, which set the reserve calculation for the Solid Waste fund at 12 months of non-contractual operating expenses. When the costs associated with the Recology Davis contract are removed

from the annual expenses, the remaining costs are roughly equivalent to 13% of annual operating costs, or about \$1.8 to \$2 million on average. The gradual nature of the growth of the Solid Waste fund, due to the adjustments spaced out across five years, means the development of reserve is still in progress.

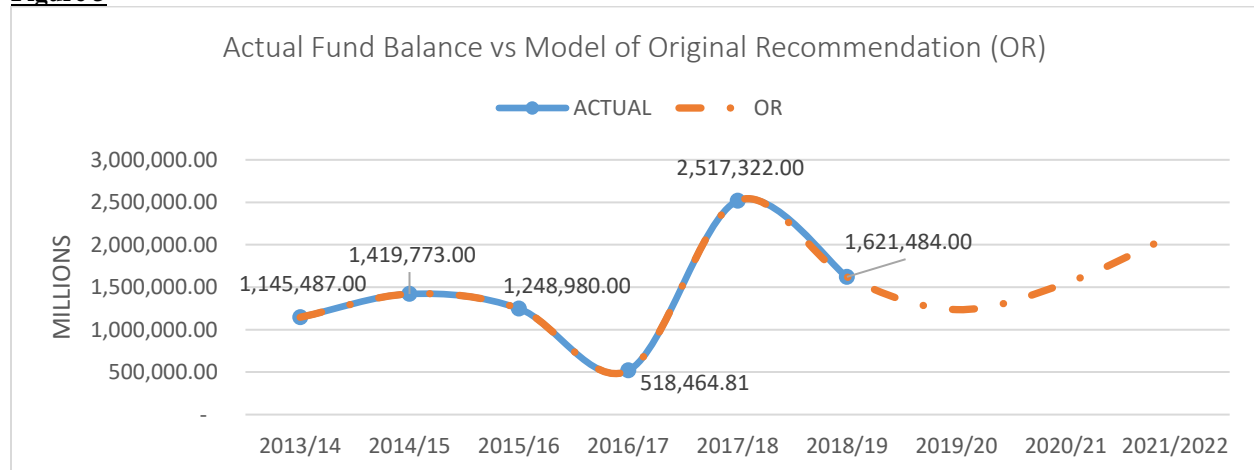
### Fund Balance

As previously mentioned, the Solid Waste Utility received a loan in May of 2018, due to the utility expenditures outpacing revenue for periods of time. In addition, the overall fund balance for the utility was at risk of running into deficit. With the loan, the fund balance increased, as can be seen by the sharp increase in Figure 2 during FY 17/18 below. With the slow growth intended from the five-year rate adjustments, the initial steep decrease and slow shift to the next increase was anticipated, and is shown in the actual fund balance amounts included in Figure 2. It was assumed that the expenditures would continue to outpace revenue, and draw more from fund balance, until the third year of this 5-year rate structure, when the revenue would overtake expenditures. After the third year of the adjustments, the fund balance would slowly trend upwards. This is shown in Figure 3, which models the approved Proposition 218 rate adjustments.

**Figure 2**



**Figure 3**



### **Current Fund Status**

As anticipated, fund expenditures remain higher than revenue received by the Solid Waste Utility, and the fund balance continues to drop. Actual revenue was approximately \$100,000 higher than what was anticipated, showing that the slow approach to develop the fund back to a sustainable level is working as planned.

### **Upcoming 2019-2020 Budget & Model projections**

The request on hand is to review the current state of the Solid Waste Fund, and recommend a rate adjustment at, or below the second-year approved adjustment of 10%. This report will also include a discussion of current unforeseen circumstances (and upcoming regulatory changes), and how those circumstances may impact fund revenue, however this section will focus on the current model/budget comparison for the second-year adjustment.

With the planned slow development of the fund, the first two years of the rate adjustments are the most important to keeping the fund on track. The table below shows the revenue comparison of the model versus the current City budget for the fiscal year that ends in June.

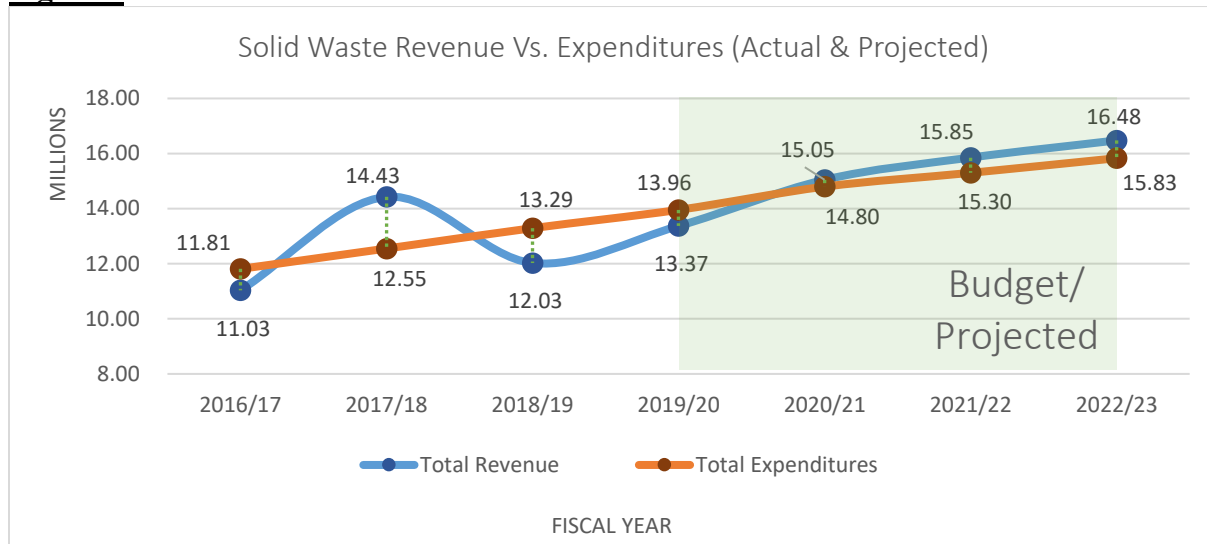
<b>FY 2019/2020</b>	<b>MODEL Forecast</b>	<b>ACTUAL City Budget</b>
Service Charges	\$ 12,910,198	\$ 13,310,000
Other Revenues	\$ 40,000	\$ 60,000
Interest from Investments	\$ -	\$ 48,000
<b>TOTAL INCOME</b>	<b>\$ 12,950,198</b>	<b>\$ 13,370,000</b>

With an anticipation of slightly higher revenue based on the returns from FY 2018-2019, the fund shows a steady growth. Expenditures compared across the model and the City's budget show slight increases in the budget over the model, but a difference of about \$300,000 overall. This is summarized in the table below:

<b>FY 2019/2020</b>	<b>MODEL Adjusted Budget</b>	<b>ACTUAL City Budget</b>
Citywide Administrative Costs	\$ 577,000	\$ 610,293
<i>Subtotal City</i>	<b>\$ 577,000</b>	<b>\$ 610,293</b>
Streets Division Costs	\$ 90,700	\$ 95,128
Recology Street Sweeping	\$ 466,000	\$ 774,000
<i>Subtotal Streets</i>	<b>\$ 556,700</b>	<b>\$ 869,128</b>
Solid Waste Diversion Programs	\$ 1,025,100	\$ 1,157,942
Recology Hauling Contract	\$ 11,236,300	\$ 11,043,000
<i>Subtotal Solid Waste</i>	<b>\$ 12,261,400</b>	<b>\$ 12,200,942</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 13,395,100</b>	<b>\$ 13,680,363</b>

Future model forecasting, built with the assumption of a 10% rate adjustment on June 1, 2020, shows the revenue exceeding expenditures in early FY 20/21, likely after the 8% adjustment on January 1, 2021.

**Figure 4**



## Current Events

### COVID-19

Since March 18, 2020, Yolo County has been under a shelter-in-place order to reduce the spread of the novel coronavirus, COVID-19. This order has significantly impacted the community, with many local businesses struggling to maintain operations with low to no customers, and residents experiencing layoffs and mounting bills. On March 24, 2020, the City Council approved an urgency ordinance to in part waive new City utility bill late fees for all residential and commercial customers, allowing late payments without penalty through May 2020 (or longer, if extended).

On April 7, 2020, the City Council received an update on the City's response to the COVID-19 which included the following statement related to the potential impacts on the city's budget and revenue:

*“Finance is working on identifying the impacts of COVID-19 pandemic on the City's financial position for the current fiscal year as well as the upcoming fiscal year. It is expected the impact will be across all City programs. With respect to the General Fund, it is estimated that there will be notable impact on the general tax revenues such as sales tax, transactions and use tax, transient occupancy tax, and business license tax. Property tax revenue will be affected, but likely, the City will not see the full impact until fiscal year (FY) 2021-22. All departments are being asked to re-evaluate fee-based programs revenue projections for the current and coming fiscal years.”*

What is clear in this situation (and perhaps the only thing that is clear), is that there is no ‘playbook’ for understanding impact on revenue in the current or upcoming fiscal years from the shelter-in-place order, or for understanding how and when the economy (local, state and national) might recover. It is also unknown if the likely delay in the payment of utility bills, or the loss of utility customers will be a shorter- or longer-term impact. As of April 9, 58 commercial solid waste customers have either reduced or stopped their solid waste collection service.

With these considerations in mind, staff have reviewed the current rate adjustment schedule for Solid Waste rates, and have two scenarios for the Commission to review. Basic assumptions are included in these calculations:

1. The full anticipated adjustment for the Proposition 218 approval period will be implemented. Scenarios which dropped a year of the adjustments demonstrated the action was not feasible to maintain the fund.
2. The scenarios assume that the next rate study (to be conducted in 2022/23) would likely result in recommended rate adjustments slightly higher than anticipated with the original recommendations, and would be necessary to maintain the fund and to be able to implement projects and studies beyond basic utility operations.
3. For the remainder of the approved rate adjustment period, planned expenditures for any activities not immediately required for operations by the utility would be deferred indefinitely.
4. The target reserve would likely not be reached within the approved rate adjustment period, and the City would not have any cushion (fund balance above a reserve) to aid in rate impacts associated with the implementation of Senate Bill (SB) 1383, which is currently still on track to be implemented in phases beginning in 2022. This implementation is also discussed later in this report. The fund would also not provide a cushion for additional regulatory changes, detailed rate reviews requested by the contract hauler, major emergencies, or other unforeseen financial impacts.

It is important to note that the recommendation before the Commission and Council is only for the June 1, 2020 increase of up to 10%. Potential delays on future adopted rate increases do not have to be determined now. The scenarios are presented to show the modeled impacts to the fund if such delays were ultimately chosen by Council.

***Solid Waste Rate Adjustment Scenario A:***

*Defer the June 1, 2020 rate adjustment to January 1, 2021, and push the scheduled third-year rate adjustment to July 2021. Each adjustment annually thereafter in either July (Table 1) or January (Table 2).*

**Scenario A - Table 1**

Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
Jan 2021	10%	\$3.90	\$42.85
Jul 2021	8%	\$3.43	\$46.28
Jul 2022	5%	\$2.31	\$48.59
Jul 2023	5%	\$2.43	\$51.02

**Scenario A - Table 2**

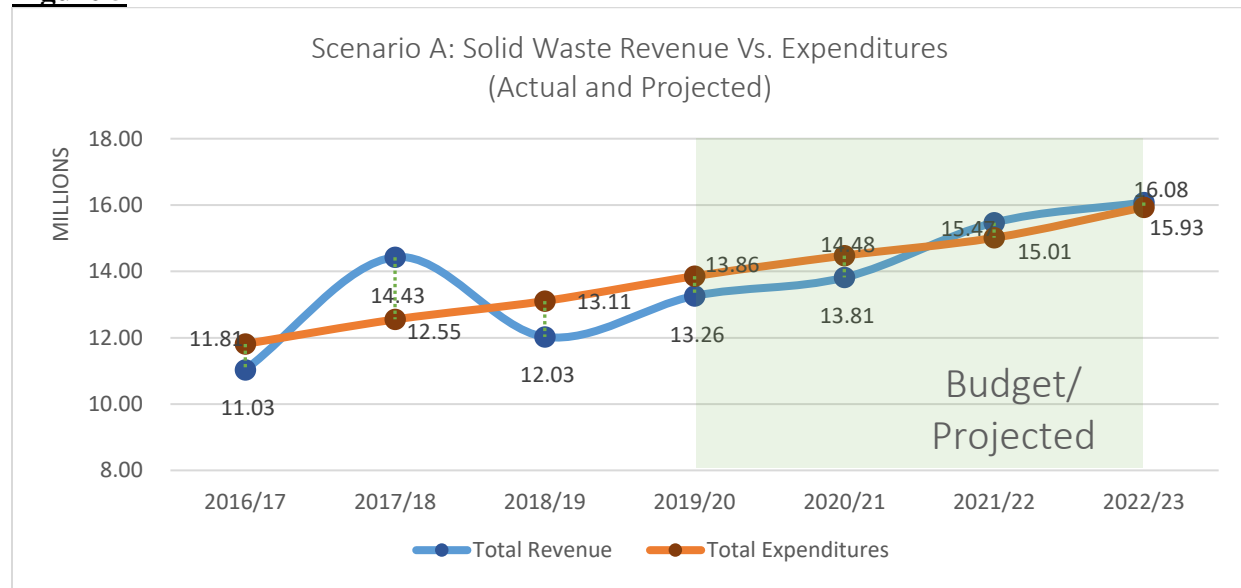
Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
Jan 2021	10%	\$3.90	\$42.85
Jul 2021	8%	\$3.43	\$46.28
Jan 2022	5%	\$2.31	\$48.59
Jan 2023	5%	\$2.43	\$51.02

A.1: Total increase in 2021: \$7.33

A.2: Total increase in one year: \$9.64

This scenario was developed to demonstrate the impact to revenue and on the fund development should the Commission recommend postponing the next scheduled rate adjustment on June 1, 2020 to January 1, 2021, and bump the third-year rate adjustment to July 1, 2021. The current approved Proposition 218 rate schedule has annual adjustment in January of each year after 2020. However, if the June 1, 2020 rate adjustment is shifted forward to January 2021, and the annual adjustments continue to occur on January 1, the rate payers will have a 23% increase in one year. If the fourth- and fifth-year adjustments are shifted to July 1 as well, the increase is 18%.

**Figure 5**



This scenario also impacts the development of the fund. As shown in Figure 5 above, the transition to taking in enough revenue to support expenditures is pushed out further than the original recommendation has modeled, and FY 19-20, and 20-21 would likely further lower the utility fund balance.

**Solid Waste Rate Adjustment Scenario B:**

Continue with the June 1, 2020 rate adjustment, and push the scheduled third-year rate adjustment to January 2022. Each adjustment annually thereafter either July.

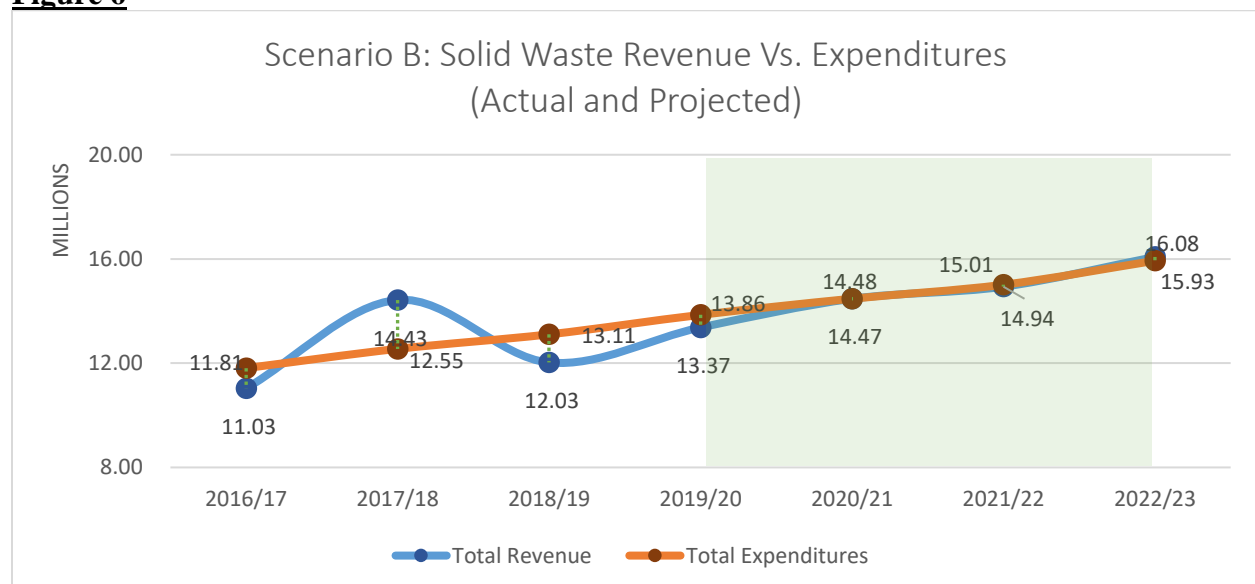
**Scenario B**

Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	10.0%	\$3.90	\$42.85
Jan 2021	None	\$0.00	\$42.85
Jan 2022	8%	\$3.43	\$46.27
Jul 2022	5%	\$2.31	\$48.59
Jul 2023	5%	\$2.43	\$51.02

B: Total increase in 2022: \$5.74

This scenario was developed in case the Commission wished to recommend the currently scheduled rate adjustment, but defer the adjustments scheduled for FY 21/22, anticipated to be when the full impacts of the current shelter-in-place order on revenue would be clearer. This scenario maintains the important first two years of adjustments, but offers another potential slowdown on the remaining years. As shown in Figure 6 below, the revenue continues to come in below expenditures until next fiscal year, when the revenue and expenditure totals remain nearly identical for a few years, until a slight revenue shift upwards.

**Figure 6**



As previously stated, while these scenarios are possible, the Solid Waste fund would likely require significant increases in outlying years (after FY 23/24) to continue to build the fund balance, and protect the fund against unforeseen fiscal impacts. The fund operations would be

likely be limited to essential services only. This would be especially concerning given the upcoming implementation of SB 1383.

### ***SB 1383***

Another upcoming impact on rates is the implementation of SB 1383, Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions by the California Department of Resources, Recycling and Recovery (CalRecycle). These regulations (still being finalized) are extensive.

As it pertains to CalRecycle, SB 1383 establishes targets to achieve a 50 percent reduction in the level of the statewide disposal of organic waste from the 2014 level by 2020, and a 75 percent reduction by 2025. The law grants CalRecycle the regulatory authority required to achieve the organic waste disposal reduction targets and establishes an additional target that not less than 20 percent of currently disposed edible food is recovered for human consumption by 2025.

There are a number of items in the regulations that would have impacts on Davis, and utility ratepayers, including the following:

- Changing the labels and lid colors for all Recology Davis collection bins to be compliant with the regulations (current bins do not match the requirements)
- The establishment of an edible food recovery program
- Translate a variety of mandated outreach items to customers in their native language (for any language spoken by 5% of more of our customers)
- New reporting requirements to the state
- Inspections, audits and recordkeeping of organic waste generators, and more

The regulations (when formally adopted) are currently scheduled to go into effect January 1, 2022, and strict enforcement of the regulations would be in place by 2024. It is anticipated that the regulations will be finalized by July 2020. Given the current situation with the COVID-19 pandemic however, advocacy groups have asked that CalRecycle delay implementation of the regulations. Staff has not yet heard from CalRecycle if any additional delays will be granted.

The City plans to release a request for proposals (RFP) in the coming months for a consultant to assist staff in developing the best path forward towards compliance. Fortunately, the city-wide organics collection program that began in 2016 is a huge benefit to the City (and to ratepayers), as Davis is one of only a handful of agencies in California that already requires organics collection from all customers, and is already accounting for that service in the rate structure.

### **Staff Recommendation**

There is a great deal about the current situation that is, unfortunately, unknown. At this time, only assumptions can be made about revenue impacts to City utilities, general fund impacts due to sales tax revenue reduction, or other fiscal challenges brought by COVID-19. It is also



unknown what the economic recovery timeline might look like once the order is lifted. What is known, however, is that there will be demands on the Solid Waste Utility in addition to the costs associated with COVID-19, and currently the fund is not able to support those demands (let alone unforeseen costs) without additional rate adjustments. As has been stated in presentations to the Commission and to Council, the first two years of the rate adjustments for the utility are the most important to bringing stability to the fund, and smoothing out the future year rate adjustments.

It is again also important to keep in mind that this rate recommendation to Council is for the rate adjustment scheduled on June 1, 2020. If the timeline of rate adjustments continues to follow the approved Proposition 218 rate schedule, the Commission will have another opportunity to review the fund and recommend rate adjustments in November of this year.

With these considerations, staff recommend the second-year rate adjustment for the Solid Waste Utility be implemented unchanged from the approved Proposition 218 rate adjustment schedule, with the next adjustment of a 10% increase occur on June 1, 2020.

### **Next Steps**

The discussion and any recommendations from the Utilities Commission will be presented to Council in May, as the next rate adjustment is scheduled for June 1, 2020. If the current schedule of adjustments does not change, the next fund review of the Solid Waste Utility will be presented to the Commission in November 2020, with a recommendation to Council for the rate adjustment on January 1, 2021. If recommendations shift the dates of the rate adjustments, the timeline for the next fund review may be shifted.

### **Attachments**

1. Fund Update Detail Spreadsheets for the Original Recommendation and Scenarios A & B
2. Feb 5, 2019 City Council Meeting Item 04 - Solid Waste Rate Proposition 218 Public Hearing and Rate Recommendations

12% INCREASE ON JANUARY 1, 2021/6% INCREASE JULY 1, 2021/ANNUAL INCREASES EACH JANUARY

Income and Expense Detail		MODEL Forecast 2019-2020	BUDGET City Accounting 2019-2020	ACTUAL City Accounting 2019-2020	MODEL Forecast 2020-2021	BUDGET City Budget 2020-2021	REV MODEL Forecast 2021-2022	REV MODEL Forecast 2022-2023
Fund Balance as of July 1		\$ 1,468,265	\$ 1,247,279	\$ 1,621,486	\$ 791,863	\$ (121,525)	\$ 619,886	\$ 1,109,409
Income								
	Charges for Service July - December	\$ 6,449,850	\$ 6,600,000	\$ 6,522,114	\$ 7,026,635	\$ 6,006,000	\$ 7,130,323	\$ 7,412,000
	Estimated Migration Losses	\$ (32,000)	\$ -	\$ -	\$ (35,000)	\$ -	\$ (36,000)	\$ (37,000)
	Charges for Service January - June	\$ 6,525,348	\$ 6,600,000	\$ 6,420,663	\$ 7,551,000	\$ 6,726,720	\$ 7,449,000	\$ 7,744,000
	Estimated Migration Losses	\$ (33,000)	\$ -	\$ -	\$ (38,000)	\$ -	\$ (37,000)	\$ (39,000)
	Subtotal Service Charges	\$ 12,910,198	\$ 13,200,000	\$ 12,942,777	\$ 14,504,635	\$ 12,732,720	\$ 14,506,323	\$ 15,080,000
	Other Revenues	\$ 40,000	\$ 60,000	\$ 98,809	\$ 40,000	\$ 66,142	\$ 66,000	\$ 66,000
	One-Time Loan from Wastewater	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Income		\$ 12,950,198	\$ 13,260,000	\$ 13,041,586	\$ 14,544,635	\$ 12,798,862	\$ 14,572,323	\$ 15,146,000
Operating Expenses								
City-wide Overhead								
	Overhead (City Manager's Office)	\$ 3,900	\$ 3,750	\$ -	\$ 4,100	\$ 3,750	\$ 3,900	\$ 4,100
	Overhead (Finance)	\$ 235,100	\$ 237,121	\$ 237,121	\$ 242,200	\$ 239,978	\$ 247,200	\$ 254,700
	Overhead (Sustainability Management)	\$ 81,300	\$ 90,811	\$ 89,678	\$ 83,800	\$ 143,291	\$ 147,600	\$ 152,100
	Overhead (Natural Resources Commission)	\$ 5,600	\$ 5,641	\$ 6,779	\$ 5,800	\$ 5,618	\$ 5,800	\$ 6,000
	Overhead (Parks Division)	\$ 38,000	\$ 48,776	\$ 2,654	\$ 39,200	\$ 47,250	\$ 48,700	\$ 50,200
	Overhead (Fire Dept. Haz. Mat.)	\$ 124,800	\$ 130,576	\$ 137,368	\$ 128,600	\$ 137,826	\$ 142,000	\$ 146,300
	Overhead (Public Works Info Admin)	\$ 61,300	\$ 63,820	\$ 66,348	\$ 63,200	\$ 49,487	\$ 51,000	\$ 52,600
	Overhead (Engineering & Transportation Div/Dept)	\$ 27,000	\$ 29,798	\$ 24,914	\$ 27,900	\$ 32,105	\$ 33,100	\$ 34,100
	Subtotal City-wide Overhead	\$ 577,000	\$ 610,193	\$ 564,862	\$ 594,800	\$ 659,305	\$ 679,300	\$ 700,100
Streets								
	Overhead (Public Works Corp Yard)	\$ 1,300	\$ 1,444	\$ 2,184	\$ 1,400	\$ 9,584	\$ 9,900	\$ 10,200
	Streets Haz. Mat. Clean Up	\$ 46,400	\$ 47,582	\$ 35,685	\$ 47,800	\$ 47,960	\$ 49,400	\$ 50,900
	Overhead (Street Maintenance and Repair)	\$ 200	\$ 112	\$ 112	\$ 300	\$ 139	\$ 200	\$ 300
	Streets Cleaning Labor/Benefits	\$ 24,100	\$ 29,142	\$ 22,916	\$ 24,900	\$ 31,917	\$ 32,900	\$ 33,900
	Overhead (Streets)	\$ 18,700	\$ 16,852	\$ 16,778	\$ 19,300	\$ 17,817	\$ 18,400	\$ 19,000
	Street Sweeping Service by Recology	\$ 466,000	\$ 774,000	\$ 445,326	\$ 480,000	\$ 774,000	\$ 797,000	\$ 821,000
	Subtotal Streets	\$ 556,700	\$ 869,132	\$ 523,001	\$ 573,700	\$ 881,417	\$ 907,800	\$ 935,300
Solid Waste Programs								
	520-7701-490.01-01 SALARIES/WAGES	\$ 201,500	\$ 197,810	\$ 157,378	\$ 209,200	\$ 235,290	\$ 244,200	\$ 253,500
	520-7701-490.04-01 SALARIES/WAGES	\$ 7,200	\$ 6,988	\$ 4,251	\$ 7,500	\$ 7,045	\$ 7,300	\$ 7,600
	520-7701-490.05-01 SALARIES/WAGES	\$ 3,400	\$ 3,300	\$ 885	\$ 3,500	\$ 3,300	\$ 3,400	\$ 3,500
	520-7701-490.01-03 BENEFITS: INSURANCE	\$ 3,100	\$ 3,122	\$ 3,201	\$ 3,200	\$ 3,724	\$ 3,900	\$ 4,000
	520-7701-490.04-03 BENEFITS:INSURANCE	\$ 200	\$ 160	\$ 53	\$ 200	\$ 168	\$ 200	\$ 200
	520-7701-490.01-04 BENEFITS:RETIREMENT	\$ 62,100	\$ 70,508	\$ 71,066	\$ 64,500	\$ 87,073	\$ 90,400	\$ 93,800
	520-7701-490.12-01 CAFETERIA BENEFITS	\$ 35,900	\$ 23,580	\$ 23,362	\$ 37,300	\$ 29,139	\$ 30,200	\$ 31,300
	520-7701-490.12-15 LONGEVITY PAY	\$ 4,000	\$ 3,855	\$ 1,596	\$ 4,200	\$ 4,404	\$ 4,600	\$ 4,800
	520-7701-490.12-17 CELLULAR PHONE STIPEND	\$ 100	\$ 109	\$ 107	\$ 100	\$ 109	\$ 100	\$ 100
	520-7701-490.13-10 RETIREE MEDICAL	\$ 42,000	\$ 46,504	\$ 20,762	\$ 42,800	\$ 59,771	\$ 61,000	\$ 62,200
	520-7701-490.13-11 UNEMPLOYMENT	\$ 900	\$ 888	\$ 802	\$ 900	\$ 1,064	\$ 1,100	\$ 1,100
	520-7701-490.13-12 WORKERS COMPENSATION	\$ 5,400	\$ 5,982	\$ 5,099	\$ 5,500	\$ 16,700	\$ 17,000	\$ 17,300
	520-7701-490.23-10 M&So GENERAL OFFICE	\$ 22,000	\$ 16,050	\$ 6,727	\$ 22,400	\$ 16,050	\$ 16,400	\$ 16,700
	520-7701-490.25-10 ST&Eo GENERAL OFFICE	\$ 1,000	\$ 1,500	\$ 51	\$ 1,000	\$ 1,500	\$ 1,500	\$ 1,500
	520-7701-490.41-01 BUILDING MAINTENANCE	\$ 34,700	\$ 25,907	\$ 25,907	\$ 35,400	\$ 25,907	\$ 26,400	\$ 26,900
	520-7701-490.41-11 POSTAL	\$ 1,900	\$ 1,851	\$ -	\$ 1,900	\$ 1,851	\$ 1,900	\$ 1,900
	520-7701-490.41-12 STORES	\$ 700	\$ 647	\$ 647	\$ 700	\$ 647	\$ 700	\$ 700
	520-7701-490.41-15 MIS SERVICES	\$ 34,000	\$ 35,609	\$ 35,609	\$ 34,700	\$ 35,609	\$ 36,300	\$ 37,000
	520-7701-490.41-25 EQUIPMENT-CITY VEHICLE	\$ 9,700	\$ 10,073	\$ 10,073	\$ 9,900	\$ 10,073	\$ 10,300	\$ 10,500
	520-7701-490.41-29 EQUIP-CITY VEHICLE REPL	\$ 3,100	\$ 2,637	\$ 2,637	\$ 3,200	\$ 2,637	\$ 2,700	\$ 2,800
	520-7701-490.41-30 EQUIP REPLACEMENT - IS	\$ 3,600	\$ 3,522	\$ 3,522	\$ 3,700	\$ 3,522	\$ 3,600	\$ 3,700
	520-7701-490.41-32 EQUIP RPLCMNT-PC HARDWARE	\$ 2,200	\$ 3,417	\$ 3,417	\$ 2,200	\$ 3,417	\$ 3,500	\$ 3,600
	520-7701-490.41-34 SOFTWARE REPLACEMENT	\$ 2,100	\$ 2,237	\$ 2,237	\$ 2,100	\$ 2,237	\$ 2,300	\$ 2,300
	520-7701-490.41-37 TELEPHONE SYS REPLACEMENT	\$ 600	\$ 624	\$ 624	\$ 600	\$ 624	\$ 600	\$ 600
	520-7701-490.41-42 INSURANCE - LIABILITY CHG	\$ 5,500	\$ 4,546	\$ 4,546	\$ 5,600	\$ 5,477	\$ 5,600	\$ 5,700
	520-7701-490.45-02 LEGAL	\$ 10,200	\$ 15,000	\$ 9,235	\$ 10,400	\$ 15,000	\$ 15,300	\$ 15,600
	520-7701-490.45-07 ADVERTISING	\$ 20,400	\$ 11,000	\$ 15	\$ 20,800	\$ 11,000	\$ 11,200	\$ 11,400
	520-7701-490.45-50 OTHER PROFESSIONAL SVCS	\$ 20,400	\$ 74,882	\$ 33,777	\$ 20,800	\$ 20,000	\$ 20,400	\$ 20,800
	520-7701-490.46-01 LAB ANALYSIS SVC	\$ 2,000	\$ 5,500	\$ -	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
	520-7701-490.46-05 PRINTING & BINDING	\$ 25,500	\$ 25,000	\$ 23,374	\$ 26,000	\$ 25,000	\$ 25,500	\$ 26,000
	520-7701-490.48-01 RECOLOGY (Jan - June)	\$ 5,590,200	\$ 5,521,500	\$ 4,645,673	\$ 5,815,500	\$ 5,687,500	\$ 5,858,100	\$ 6,094,200
	520-7701-490.48-01 RECOLOGY (July - Dec)	\$ 5,646,100	\$ 5,521,500	\$ 6,463,986	\$ 5,873,700	\$ 5,687,500	\$ 5,916,700	\$ 6,155,100
	520-7701-490.48-06 TELEPHONE SERVICE	\$ 400	\$ 380	\$ 292	\$ 400	\$ 380	\$ 400	\$ 400
	520-7701-490.48-07 WATER & GARBAGE	\$ 2,000	\$ 2,000	\$ 363	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
	520-7701-490.48-08 CELLULAR PHONE SERVICE	\$ 1,500	\$ 1,500	\$ 1,841	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
	520-7701-490.48-10 HAZARDOUS WASTE DISPOSAL	\$ 2,000	\$ 3,640	\$ 5,288	\$ -	\$ 2,500	\$ -	\$ -
	520-7701-490.48-11 OUTSIDE POSTAGE/DELIVERY	\$ 100	\$ 100	\$ -	\$ 100	\$ 100	\$ 100	\$ 100
	520-7701-490.50-08 FEES/PERMITS REQUIRED	\$ 2,000	\$ 2,000	\$ 1,948	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
	520-7701-490.50-10 ASSMT DUE OTH AGENCY	\$ 1,500	\$ 1,500	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
	520-7701-490.52-02 PROPERTY TAX	\$ 900	\$ 900	\$ 980	\$ 900	\$ 900	\$ 900	\$ 900
	520-7701-490.54-03 MEMBERSHIP FEES/DUES	\$ 500	\$ 500	\$ 200	\$ 500	\$ 500	\$ 500	\$ 500
	520-7701-490.54-06 SUBSCRIPTION/PUBLICATIONS	\$ 200	\$ 200	\$ 37	\$ 200	\$ 200	\$ 200	\$ 200
	520-7701-490.54-07 STAFF DEVELOPMNT/TRAINING	\$ 4,100	\$ 4,000	\$ 1,211	\$ 4,200	\$ 4,000	\$ 4,100	\$ 4,200
	520-7765-490.88-01 OVERHEAD SUPPORT	\$ 444,500	\$ 538,484	\$ 538,414	\$ 453,400	\$ 5,002	\$ 5,100	\$ 5,200
	520-9898-990.93-10 EXPENDITURE OFFSET / PENSION EXPENSE	\$ -	\$ -	\$ 43,670	\$ -	\$ -	\$ -	\$ -
	Subtotal Solid Waste Programs	\$ 12,261,400	\$ 12,201,012	\$ 12,154,864	\$ 12,738,200	\$ 12,025,920	\$ 12,442,700	\$ 12,936,900
Total Operating Expenses		\$ 13,395,100	\$ 13,680,437	\$ 13,242,727	\$ 13,906,700	\$ 13,566,642	\$ 14,029,800	\$ 14,572,300
Other Operating Expenses								
	Increase to Environmental Mitigation Assessment	\$ -	\$ -	\$ -	\$ 212,000	\$ -	\$ -	\$ -
	Closed Landfill Mitigation Funding	\$ -	\$ -	\$ -	\$ 150,000	\$ -	\$ -	\$ -
	Interest on Interfund Loan	\$ 60,000	\$ 60,000	\$ 60,000	\$ 56,500	\$ 45,600	\$ 53,000	\$ 49,400
	Principal on Interfund Loan	\$ 173,500	\$ -	\$ -	\$ 176,900	\$ -	\$ -	\$ -
	Future Capital Debt Service PI Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	GIS Master Plan CIP	\$ -	\$ 15,000.00	\$ 15,000.00	\$ -	\$ 15,000	\$ -	\$ -
	Subtotal Other Operating Expenses	\$ 233,500	\$ 75,000	\$ 75,000	\$ 595,400	\$ 60,600	\$ 53,000	\$ 49,400
Grand Total Operating Expenses		\$ 13,628,600	\$ 13,755,437	\$ 13,317,727	\$ 14,502,100	\$ 13,627,242	\$ 14,082,800	\$ 14,621,700
Income less Operating Expenses		\$ (678,402)	\$ (495,437)	\$ (276,141)	\$ 42,535	\$ (828,380)	\$ 489,523	\$ 524,300