



Memorandum

Date: November 18, 2020
To: Utilities Commission
From: Stan Gryczko, Public Works Utilities and Operations Director
Adrienne Heinig, Management Analyst
Subject: Item 6B – Solid Waste Annual Fund Review/Rate Adjustment Recommendation to Council

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	Jun 2020	10.0%	\$3.90	\$42.85
Jan 2021	8.0%	\$3.43	\$46.28	Jan 2021	12.0%	\$4.67	\$43.62
Jan 2022	5.0%	\$2.31	\$48.59	Jul 2021	6.0%	\$2.62	\$46.24
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.

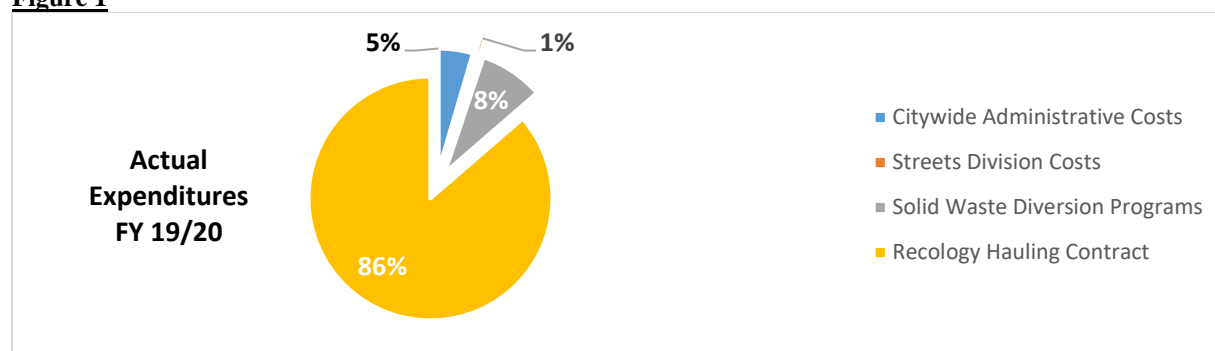
FY 2019-2020 Revenue	MODEL Forecast	BUDGET Projected	ACTUAL City Accounting
Service Charges	\$ 12,910,198	\$ 13,200,000	\$ 12,942,777
Other Revenues	\$ 40,000	\$ 12,000	\$ 63,398
Interest from Investments	\$ 0.00	\$ 48,000	\$ 35,411
Total Expenditures	\$ 12,950,198	\$ 13,260,000	\$ 13,041,586

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.

FY 2019-2020 Expenditures	MODEL Forecast	BUDGET Projected	ACTUAL City Accounting
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
Total Expenditures	\$ 13,628,600	\$ 13,755,437	\$ 13,317,727

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 now 15-year term of the loan, or will necessitate an extension of the loan to 20 years, and higher

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

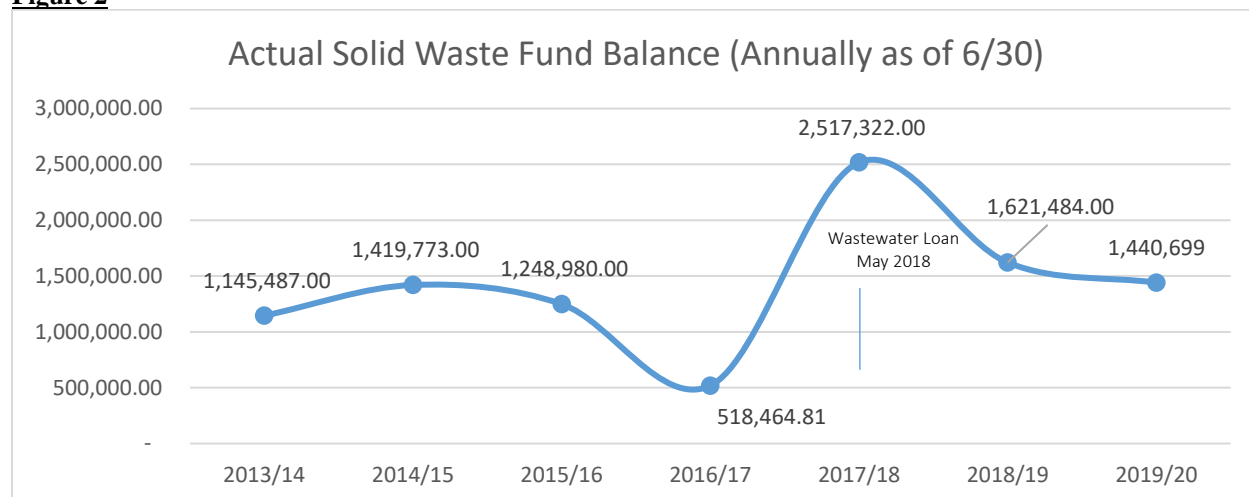
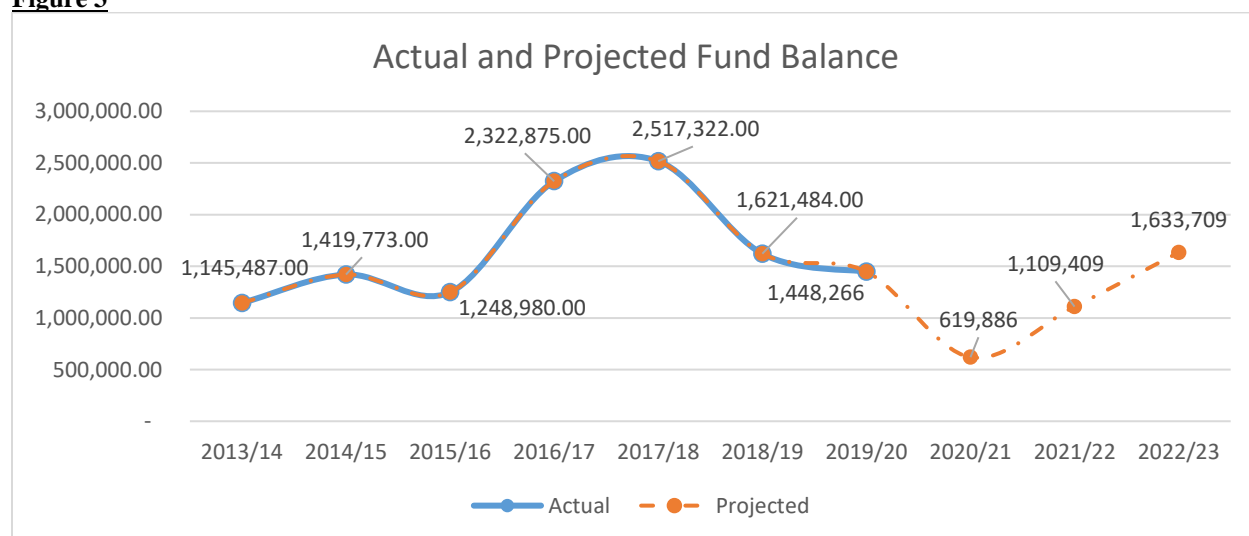


Figure 3



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.

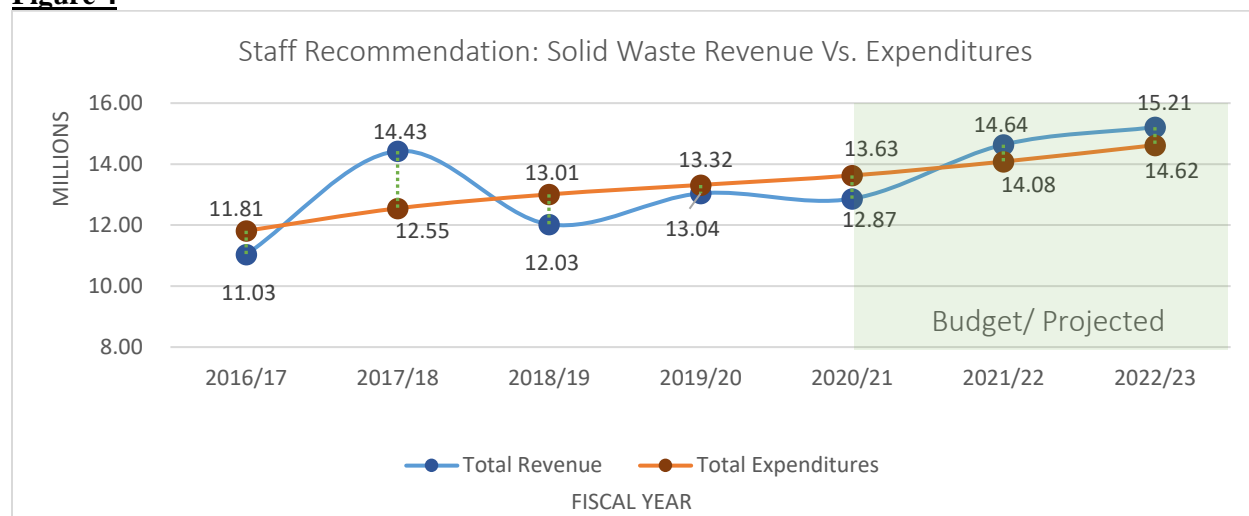
FY 2020-2021 Revenue	MODEL Forecast	BUDGET Projected	REVISED MODEL Forecast
Service Charges	\$ 14,504,635	\$ 12,540,000	\$ 12,732,720
Other Revenues	\$ 40,000	\$ 25,000	\$ 25,000
Interest from Investments	\$ 0.00	\$ 41,142	\$ 41,142
Total Expenditures	\$ 14,544,635	\$ 12,606,142	\$ 12,798,862

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.

FY 2020-2021 Expenditures	MODEL Forecast	BUDGET Projected
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
Total Expenditures	\$ 14,502,100	\$ 13,627,242

Figure 4



Current Events

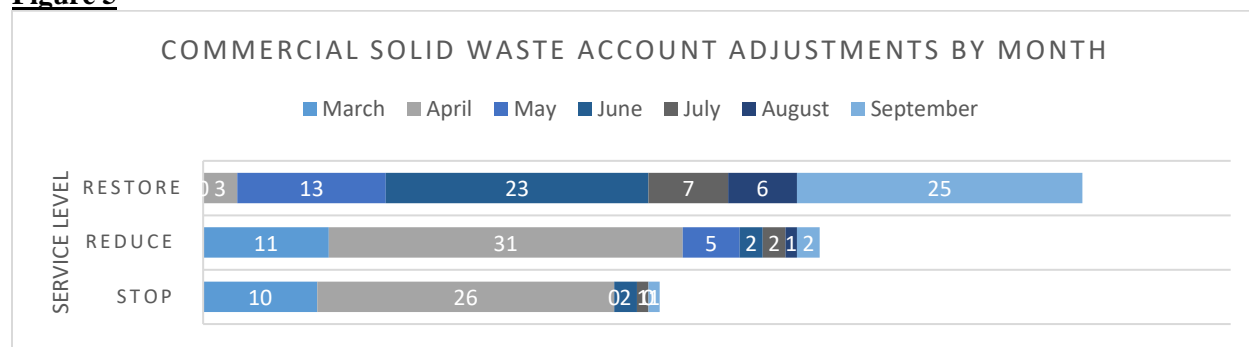
COVID-19

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
Jan 2021	12%	\$4.67	\$43.62
Jul 2021	6%	\$2.62	\$46.24
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.

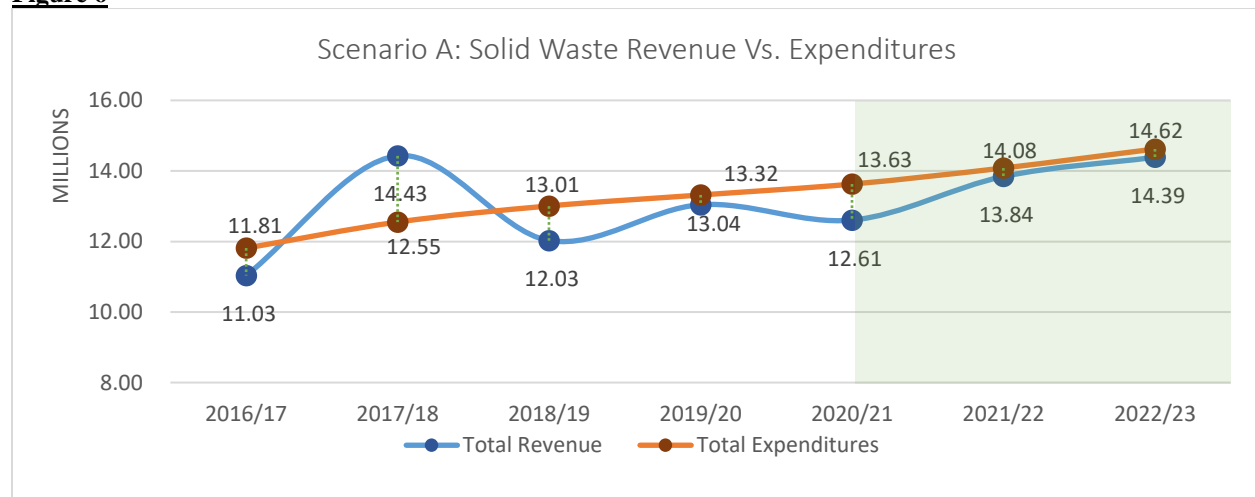
Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
Jan 2021	10%	\$3.90	\$42.85
Jul 2021	8%	\$3.43	\$46.27
Jan 2022	5%	\$2.31	\$48.59
Jul 2023	5%	\$2.43	\$50.02

A: Total increase in 2021: \$7.33

Scenario A

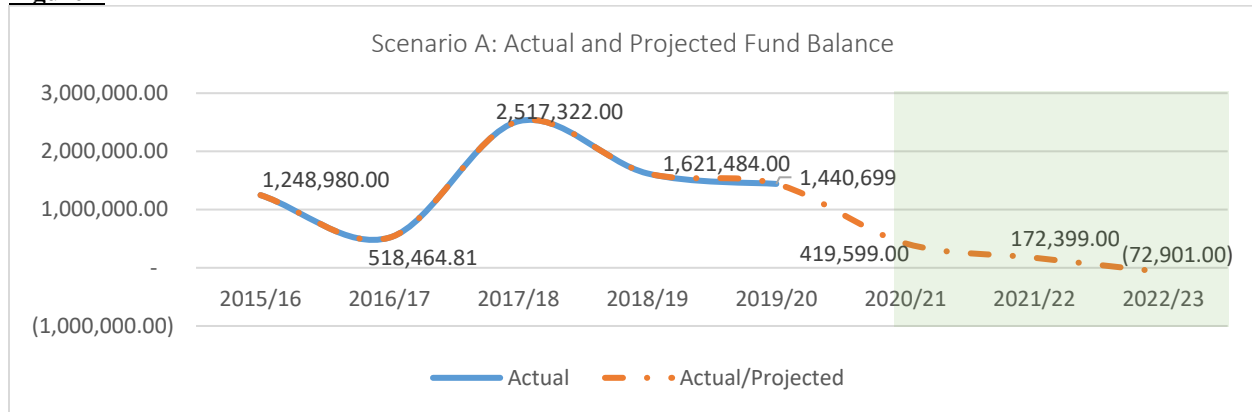
With the actual reduction in revenue, and the budgeted reduction for FY 2020-2021, the gains achieved to slow the reduction of the fund balance and close the gap between expenditures and revenue are lost. The table below shows the modeled and budgeted expenditures. Figure 6 below demonstrates this impact. 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



November 18, 2020

Figure 7



Solid Waste Rate Adjustment Scenario B:

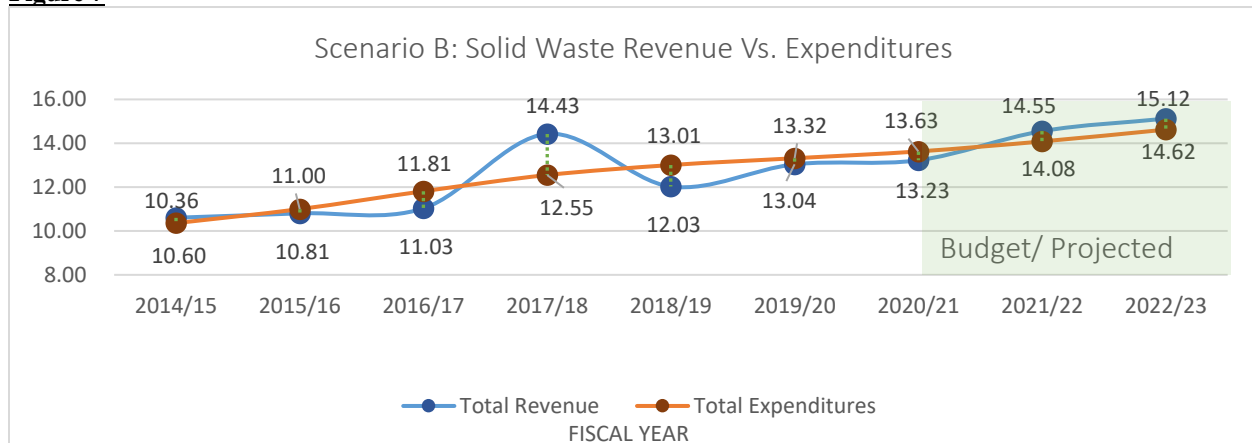
A combined rate adjustment of 18% on January 1, 2021, with two further adjustments of 5% annually thereafter in January.

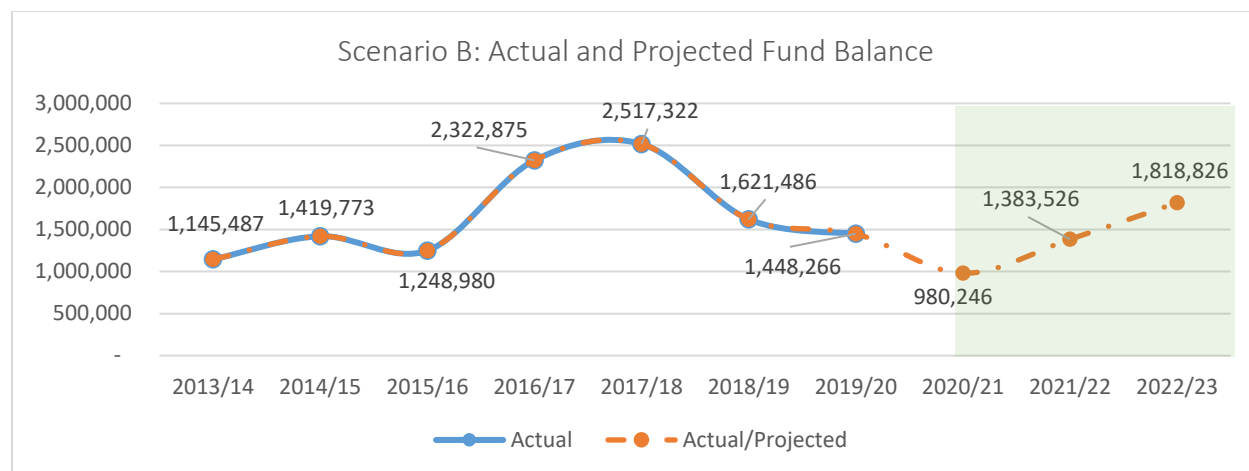
Month/Year	Adjustment	\$ Impact	Rate (SFR) 65 gal
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	None	\$0.00	\$38.95
Jan 2021	18%	\$7.01	\$45.96
Jan 2022	5%	\$3.43	\$46.27
Jul 2023	5%	\$2.43	\$51.02

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
Yolo	Davis	3/1/2019	\$35.19	\$38.95	\$46.47	Weekly	Weekly	Weekly	Weekly
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