

## STAFF REPORT

**DATE:** November 15, 2022

**TO:** City Council

**FROM:** Stan Gryczko, Director - Public Works Utilities & Operations  
Adrienne Heinig, Assistant to the Director

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

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### **Recommendation**

1. Receive informational summary report on the status of the City's Solid Waste Fund (520) at the close of almost 5 years of rate adjustments, as presented in the staff report to the Utilities Commission on October 19, 2022; and
2. Approve the resolution (Attachment 1) that the fifth-year rate adjustment for the Solid Waste utility be implemented at 1.5%, with the adjustment occurring on January 1, 2023.

### **Fiscal Impact**

In February 2019, the Davis City Council approved a five-year rate adjustment schedule for Solid Waste Utility rates (Fund 520) with goals to recover from a fund deficit, restore balance to revenue and expenditures, and develop a reserve fund. The implementation of four years of adjustments have achieved these goals, just as the Utilities Commission is embarking on the next cost of service study. City staff and the Utilities Commission can shift focus to the delayed fund expenditures and prioritize spending on those items. The proposed action on rates will ensure the positive momentum of the fund continues as the next schedule of rates is discussed, with the potential rate adjustments well-below what was initially anticipated prior to the current rate structure implementation.

### **Council Goals**

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

### **Commission Input**

The implementation of utility rate adjustments, either at or below the established Proposition 218-complaint rate schedule, is under the direct authority of the City Council. In advance of this recommendation coming before the Council, staff proposed to the Utilities Commission (UC) that the City forgo the final rate adjustment of 5% entirely, citing the revenue returns and upcoming cost of service study. After deliberation (a more detailed summary of the discussion is included in the report) the Commission motioned to retain 1.5% of the originally planned 5% adjustment, to

continue to smooth rate adjustments, to prepare for uncertainties related to solid waste services and to prioritize the repayment of the loan from the City's Wastewater fund.

Motion: Recommend to the City Council that the fifth-year rate adjustment for the Solid Waste utility be implemented at 1.5%, with the adjustment occurring on January 1, 2023.

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

Ayes: G Braun, A Cullen, L Deos, S Gellen, L Kristov, E Roberts-Musser, J Troost

Noes:

Absent:

### **Background & Rate Summary as provided to the Utilities Commission**

#### *Solid Waste Rates Approved February 5, 2019*

Proposition 218, approved by voters in California in 1996, sets the terms by which a City can levy fees for utility services, including water, wastewater (or sewer), stormwater and solid waste services. For water, wastewater and solid waste utilities, customer rates can be set for five years at a time, after a comprehensive cost of service study. The most recent assessment of the City's solid waste rates was approved by City Council in February of 2019 and was comprised of rates for fiscal years (FY) 2019-2023. As originally recommended, the rates were:

<b>Prop 218 Rate Schedule (as presented 2/5/2019)</b>			
<b>Month/Year</b>	<b>Adjustment</b>	<b>\$ Impact</b>	<b>Rate (SFR 65 gal<sup>1</sup>)</b>
Mar 2019	13.5%	\$0.00	\$38.95
Jan 2021	10.0%	\$3.90	\$42.85
Jul 2021	8.0%	\$3.43	\$46.28
Jan 2022	5.0%	\$2.31	\$48.55
Jan 2023	5.0%	\$2.43	\$50.98

With the implementation of solid waste rates in 2019, City Council directed staff to shift the implementation of the second-year adjustment (10% on January 2020), to June 2020. The adjustment was achieved by the following:

1. Modeling a 15-year loan repayment on the loan from the City's Wastewater Fund, rather than the current 10-year repayment agreement, and;
2. Paying interest-only on the loan for the first year (fiscal year 2018/19), rather than paying interest and principal, and;

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<sup>1</sup> The Prop 218 schedule included reflects dollar amount impacts presented with the average cart size (65 gallon) per the Single-Family Rate (SFR)

3. Delaying the request for funding of the additional “other resources” cost components, including the old landfill mitigation and the increased environmental mitigation until fiscal year 2020/2021.

*An Emphasis on Deficit Recovery*

In addition to the shift of the implementation of the second-year rate adjustment, City Council also directed staff return to Council before each rate adjustment within the approved period with a report on the fiscal health of the fund and a recommendation for the next year’s rate adjustment. This is in part due to the anticipated slow recovery of the fund, based on the risk of deficit and the measured increases proposed by the UC and staff.

*May 2020 - An Unprecedented Challenge*

Prior to the scheduled adjustment for June 1, 2020, City staff returned to the Utilities Commission to discuss the solid waste rate fund health, the recommendations for the June rate adjustment and the impacts of the shelter-in-place order associated with COVID-19. Ultimately, the Commission recommended the shift of the second-year rate adjustment to January 1, 2021. At their meeting in May of 2020, the City Council approved the Utilities Commission recommendation, leaving the rates flat for an additional six months. As modified, the rates were:

<b>Prop 218 Rate Schedule (as revised 5/5/2020)</b>			
<b>Month/Year</b>	<b>Adjustment</b>	<b>\$ Impact</b>	<b>Rate (SFR 65 gal)</b>
Mar 2019	13.5%	\$0.00	\$38.95
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Jan 2021	10%	\$3.90	\$42.85
Jul 2021	8.0%	\$3.43	\$46.28
Jan 2022	5.0%	\$2.31	\$48.55
Jan 2023	5.0%	\$2.43	\$50.98

Until April 2020, the Solid Waste fund continued to perform at pace with expectations from the 2019 cost of service study. 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.

With the start of the COVID-19 pandemic and shelter-in-place orders, an additional pressure was introduced to the fund; a \$40,000 per month average loss in revenue sustained through the early stages of the pandemic.

*December 2020 - Mitigating the Impacts*

With the revenue losses and the progress in the recovery of the fund, discussions in November 2020 at the Utilities Commission and in December 2020 at the City Council

focused on the possibility of the fund balance exhausting faster than anticipated in the 2019 cost of service study, which would require another inter-fund loan for continued operation of the utility. Staff recommended to the Utilities Commission in October 2020 that the rate adjustments consisting of 12% on January 1, 2021 and 6% on July 1, 2021 be implemented. This recommendation was supported by the Commission (with one dissent vote) and ultimately approved by Council.

<b>Prop 218 Rate Schedule (as revised 12/15/2020)</b>			
<b>Month/Year</b>	<b>Adjustment</b>	<b>\$ Impact</b>	<b>Rate (SFR 65 gal)</b>
Mar 2019	13.5%	\$0.00	\$38.95
Jun 2020	Postponed	\$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
Jan 2023	5%	\$2.43	\$50.93

*November 2021 - Restoration of the Fund Balance*

After the two adjustments in 2021 (July 1, 2021 and January 1, 2022 at 5%), the goal of balancing expenditures and revenues was achieved, with a difference of around \$500K between the two. The restoration of the balance to the fund allowed staff to shift the discussion around the fund and rates to delayed fund expenditures and prioritizing spending (e.g. increasing payments to the existing inter-fund loan from the Wastewater fund). In the development of the fund review, staff noted two important items for consideration: first, the implementation of Senate Bill (SB) 1383 and associated cost impacts and the next solid waste cost of service study, to be started in early 2022.

*October 2022 - Current Considerations*

With the launch of the current cost of service study and the health of the fund (as shown in the fund update, included in the staff report to the Utilities Commission from October 19, 2022 - Attachment 2), the last adjustment in rates as scheduled is no longer a necessity. With the initiation of the cost of service study, key considerations will be need to be included in the planning for the next five years. In January 2022, portions of SB 1383 went into effect, beginning the multi-year process for jurisdictions across the state to comply with the sweeping legislation. However, even with the start of implementation, the actual costs remain ambiguous. Additional staff time for monitoring and enforcement will be necessary, as will additional resources for translation and printing of outreach, education and guidance materials, as well as studies. In the approach to 2024, a number of additional requirements, including food rescue and enforcement come into effect, which will likely require additional expenditure of staff time and resources. It is clear that the full financial impacts of SB 1383 will likely not be understood for a number of years to come.

Other key considerations will include: the City’s current waste hauler agreement that expires on December 31, 2027, increases in landfill tipping fees, prioritizing the loan payoff as close as possible to the anticipated timeframe and revisiting the deferred and postponed expenditures.

**Utilities Commission Review and Recommendations**

The Commission was presented with a memo prepared by staff, and a brief discussion of the contents of the memo at their October 19, 2022 meeting. As this is the end of the rate schedule, staff did not provide alternative scenarios for the Commission to consider.

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

- Concern about the liability of the outstanding loan to the current gains in reserve funds.
- Concern about increasing fuel costs and how those increases could impact Recology costs for operations (pass-through costs).
- Interest in discussing the City’s long-term strategies for waste diversion and creating a more circular economy for reusable and recyclable goods.
- What the adjustment of 1 or 2% would do to the revenue returns (rather than no increase).
- Uncertainty about SB 1383 implementation costs, and how the City and fund faired the initial implementation. Staff indicated that the introduction of mandatory organics (and associated infrastructure changes) in 2016 reduced the startup costs for compliance.
- A request for a better understanding from the cost of service study consultants about the estimates for fuel costs and other escalators used in the financial plan.

**Staff Recommendation**

*A rate adjustment of 1.5% on January 1, 2023*

<b>Month/Year</b>	<b>Adjustment</b>	<b>\$ Impact</b>	<b>Rate (SFR) 65 gal</b>
Mar 2019	13.5%	\$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
<b>Jan 2023</b>	<b>1.5%</b>	<b>\$0.73</b>	<b>\$49.28</b>

January 1, 2023 will represent the last of the five rate adjustments approved by Council in 2019 for the solid waste fund. The rates achieved at the end of the period are close to what was modeled in 2019, despite the modifications and changes (and a global pandemic) throughout the rate term.

While staff initially proposed no increase in rates, the Commission raised important concerns around maintaining smooth rate adjustments, preparation for uncertainties related to the cost of solid waste services and to prioritize the repayment of the loan from the City's Wastewater fund. For those reasons, staff do not object to the Commission recommendation as motioned in their meeting, and customers would see an increase of \$0.73 at the 65 gallon rate. Should Council prefer the original staff recommendation of no rate increase, the rate would remain the same as current billing. With program expenditures remaining lower than anticipated, and discussion of deferred expenditures to be included in the cost of service study, holding revenue steady would not have significant impacts. A slight adjustment, however, could benefit the City in paying down the current loan faster, and ensuring that future adjustments in the next 5 years are lower than originally anticipated.

As previously stated, with the start of the current cost of service study, the City will have the ability to once again review the expenditures, revenues and cost allocation of the utility in depth and determine the best recommendations for rate adjustments moving forward. The preliminary suggestions from the consultant indicate that rate adjustments will be lower than anticipated, with credit to the work to adjust the fund over the last few years.

Reviews of rates of surrounding communities, as is generally provided in these updates, will be included with the cost of service study.

### **Next Steps**

Should Council approve the proposed rate adjustment, it will go into effect on January 1, 2023. The Solid Waste cost of service study, with Commission recommendations, will be before Council in 2023, likely in the early summer or fall.

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. Staff memo to the Utilities Commission (October 19, 2022)

**RESOLUTION NO. 22-XXX, SERIES 2022**

**RESOLUTION ENACTING MODIFICATION TO CITY OF DAVIS CUSTOMER RATES  
FOR SOLID WASTE SERVICE FEES EFFECTIVE MARCH 1, 2019  
TO IMPLEMENT FIFTH-YEAR RATE ADJUSTMENT ON JANUARY 1, 2023**

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 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 fifth-year rate adjustment for the solid waste utility be implemented on January 1, 2023 at 1.5%.

PASSED AND ADOPTED by the City Council of the City of Davis on this 15th day of November, 2022, by the following vote:

AYES:

NOES:

Lucas Frerichs  
Mayor

ATTEST:

Zoe S. Mirabile, CMC  
City Clerk



# Memorandum

Date: October 19, 2022  
To: Utilities Commission  
From: Stan Gryczko, Director, Public Works Utilities & Operations  
Adrienne Heinig, Assistant to the Director  
Subject: Item 6A - Solid Waste Annual Fund Update & Rate Adjustment  
Recommendation to Council

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## Recommendation

1. Receive informational summary report on the status of the City’s Solid Waste Fund (520) at the close of almost 5 years of rate adjustments; and
2. Recommend to the City Council that the fifth-year rate adjustment for the Solid Waste utility (planned as 5% on January 1, 2023) not be implemented.

## Background

### *Solid Waste Rates Approved February 5, 2019*

Proposition 218, approved by voters in California in 1996, sets the terms by which a City can levy fees for utility services, including water, wastewater (or sewer), stormwater and solid waste services. For water, wastewater and solid waste utilities, customer rates can be set for five years at a time, after a comprehensive cost of service study. The most recent assessment of the City’s solid waste rates was approved by City Council in February of 2019 and was comprised of rates for fiscal years (FY) 2019-2023. As originally recommended, the rates were:

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1. Modeling a 15-year loan repayment on the loan from the City's Wastewater Fund, rather than the current 10-year repayment agreement, and;
2. Paying interest-only on the loan for the first year (fiscal year 2018/19), rather than paying interest and principal, and;
3. Delaying the request for funding of the additional "other resources" cost components, including the old landfill mitigation and the increased environmental mitigation until fiscal year 2020/2021.

*An Emphasis on Deficit Recovery*

In addition to the shift of the implementation of the second-year rate adjustment, City Council also directed staff return to Council before each rate adjustment within the approved period with a report on the fiscal health of the fund and a recommendation for the next year's rate adjustment. This is in part due to the anticipated slow recovery of the fund, based on the risk of deficit and the measured increases proposed by the Utilities Commission (UC) and staff.

*May 2020 - An Unprecedented Challenge*

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With the start of the COVID-19 pandemic and shelter-in-place orders, an additional pressure was introduced to the fund; a \$40,000 per month average loss in revenue sustained through the early stages of the pandemic.

*December 2020 - Mitigating the Impacts*

With the revenue losses and the progress in the recovery of the fund, discussions in November 2020 at the Utilities Commission and in December 2020 at the City Council focused on the possibility of the fund balance exhausting faster than anticipated in the 2019 cost of service study, which would require another inter-fund loan for continued operation of the utility. Staff recommended to the Utilities Commission in October 2020 that the rate adjustments consisting of 12% on January 1, 2021 and 6% on July 1, 2021 be implemented. This recommendation was supported by the Commission (with one dissent vote) and ultimately approved by Council.

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*November 2021 - Restoration of the Fund Balance*

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*October 2022 - Current Considerations*

With the launch of the current cost of service study and the health of the fund (as shown in the fund update, below), the last adjustment in rates as scheduled is no longer necessary. With the cost of service study, however, key considerations will be included in the planning for the next five years. In January 2022, portions of SB 1383 went into effect, beginning the multi-year process for jurisdictions across the state to comply with the sweeping legislation. However, even with the implementation, the actual costs remain ambiguous. Additional staff time for monitoring and enforcement will be necessary, as will additional resources for translations, printing and studies. As we approach 2024, a number of additional requirements, including food rescue and

enforcement come into effect, which will likely require additional expenditure of staff time and resources. The ultimate financial impacts of SB 1383 will likely not be fully understood for a number of years to come.

Other key considerations as the Commission considers the study and future years of the utility will include: the City's current waste hauler agreement that expires on December 31, 2027, the increase in landfill tipping fees (and ensuring the City's estimates for the increases are in the ballpark), prioritizing the loan payoff as close as possible to the anticipated timeframe and revisiting the deferred and postponed expenditures.

### **Fund Update**

The fund update presented in this report covers the City's Solid Waste Fund (Fund No. 520) for Fiscal Year (FY) 2021-2022.

#### *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. 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.

#### *Difference for this Summary*

For the current fund review, in keeping with the November 2021 review, any comparison to the model created in 2019 is provided for historical purposes. As the solid waste cost of service study has already been started for 2022 and this assessment represents the rate schedule approved in 2019, the cash-in-hand balance, expenditures and revenues will not be projected past FY 2023.

### **Annual Fund Review**

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

Solid Waste Fund revenues are 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 2021-2022, the service charges for all customers totaled \$15,913,135. This was significantly higher than last year, likely based on the 5% adjustment in January 2022 and the return to normalcy (after many years of COVID-19 interruptions) of business operations, rental housing occupancy and the return of the student body to the University of California at Davis. Recology Davis noted the marked increase in

commercial service with the “re-opening” of operations, which likely heavily contributed to the higher than anticipated returns.

*Drop Boxes*

Drop Box revenue is based on the number of drop boxes (large, temporary dumpsters used for construction, extra waste during summer move-out at apartments and large clean-outs at homes and businesses) ordered and used in Davis, and is highly dependent on construction activity. In FY 2021-2022, the revenue from these service charges totaled \$35,963.

*Interest from Investments/Other*

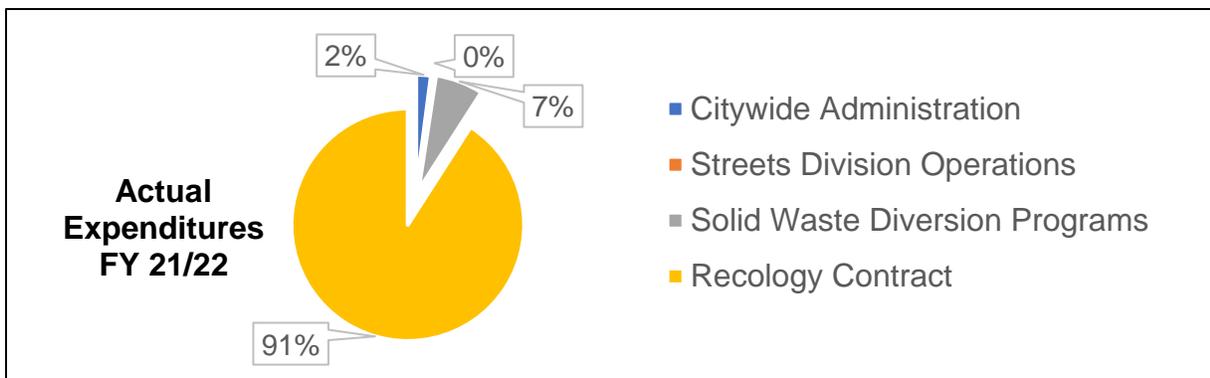
Interest revenue from investments and other sources (like leases) has historically been the smallest source of revenue for the Solid Waste Fund. In FY 2021-2022, the interest earned by the Solid Waste fund totaled \$11,633.

FY 2021-2022 Revenue	MODEL Forecast	BUDGET Projected	ACTUAL City Accounting
Service Charges	\$ 15,285,000	\$ 14,366,300	\$ 15,913,135
Other Revenues	\$ 40,000	\$ 40,495	\$ 35,963
Interest from Investments	\$ 0.00	\$ 0.00	\$ 11,633
<b>Total Revenue</b>	<b>\$ 15,325,000</b>	<b>\$ 14,406,795</b>	<b>\$ 15,960,732</b>

As would be expected, now that the City has implemented rate adjustments that match the adjustments recommended to this point in the original cost of service study, the comparison between the model and the actual revenue is close. The City’s budgeted revenue for FY 2021 reflects the anticipated reduction in revenue associated with COVID-19. While the solid waste fund did see a reduction (as discussed previously in this report), the impacts were temporary and didn’t reach the full reduction anticipated in late 2020 by staff.

**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 City's solid waste diversion programs and the contract with the City's solid waste hauler. A breakdown of costs using actual expenditure data is included below.

#### *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. **Of note:** The City has been adjusting the budget and cost allocations over the last year. Due to this, there are changes in the budget from previous fiscal years, with new, revised or removed expenditure line items. Some Citywide overhead, for example, has been moved to a different expenditure line.

#### *Streets Division*

Streets Division costs include those incurred when performing hazardous waste and material clean up and disposal. This cost component reflects activities within the year, and for that reason the cost will fluctuate each year. The cost currently represents 0.36% of total fund expenditures. The contract costs associated with the City's street sweeping (performed by Recology) are accounted for in the Streets program budget, however 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 7% of the total) is the Solid Waste Diversion program, 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 coordinating the implementation of new regulations (such as Senate Bill 1383).

#### *Contract Hauler*

By far the largest component of the cost of the City's solid waste utility, the contract hauler franchise agreement (currently held by Recology Davis) constitutes roughly 91% of the cost. 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.

*Discussion*

With the changes (as previously discussed above) in the cost allocations across departments, the largest difference between the model, the budget and actual accounting is in expenditures.

The most significant differences are in Citywide Administration, Streets Division costs (as discussed above), Major Projects and the debt payment. All expenditures are summarized in the table below.

<b>FY 2021-2022 Expenditures</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>	<b>ACTUAL City Accounting</b>
Citywide Administration	\$ 584,200	\$ 384,509	\$ 282,440
Streets Division	\$ 125,600	\$ 81,922	\$ 49,378
Solid Waste Diversion Program	\$ 1,075,500	\$ 1,121,875	\$ 919,752*
Recology Contract	\$ 12,654,300	\$ 12,550,000	\$ 12,538,231
Major Project Funding	\$ 362,000	\$ 0.00	\$ 0.00
Debt Payment	\$ 233,500	\$ 52,500	\$ 0.00
<b>Total Expenditures</b>	<b>\$ 15,035,100</b>	<b>\$ 14,190,806</b>	<b>\$13,789,801</b>

\*The somewhat minor reductions in the Solid Waste Diversion program reflect the adjustments to cost allocations through the revision of the budget process over the last year and about \$120,000 carried over into the current fiscal year in studies. The budget reflects the trend of the last few fiscal years of program expenditures just over \$1M (with the \$120K the total for the Diversion program is \$1,028,341).

In the model, the contribution of funds to major projects originally planned (such as the environmental mitigation assessment of the old landfill site and other projects discussed in 2019) are included in the calculations. With the revisions of the rate adjustments over the years, these projects were pushed out to future years or suspended indefinitely.

Similarly, the debt payments in the model include interest and principal. As discussed in the next section, the debt payments have remained interest-only with the modifications to the rate adjustments over the years. With the restoration of the fund balance, the Commission and staff have prioritized discussions of paying down that debt as soon as fiscally possible. **Of note:** the report for expenditures pulled in September of 2022 does not reflect the payment towards debt for FY 2022. With the inclusion of that payment, the overall actual expenditures for the year are closer to the budget projections.

### *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. The study 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 reflected an adjustment to the loan payoff to 15 years, rather than 10 years. Subsequently, with 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 (1) result in a larger payment due at the end of the now 15-year term of the loan, or (2) will necessitate an extension of the loan to 20 years and higher than anticipated payments of the principal to offset the interest-only payments in FYs 2020, 2021 and 2022.

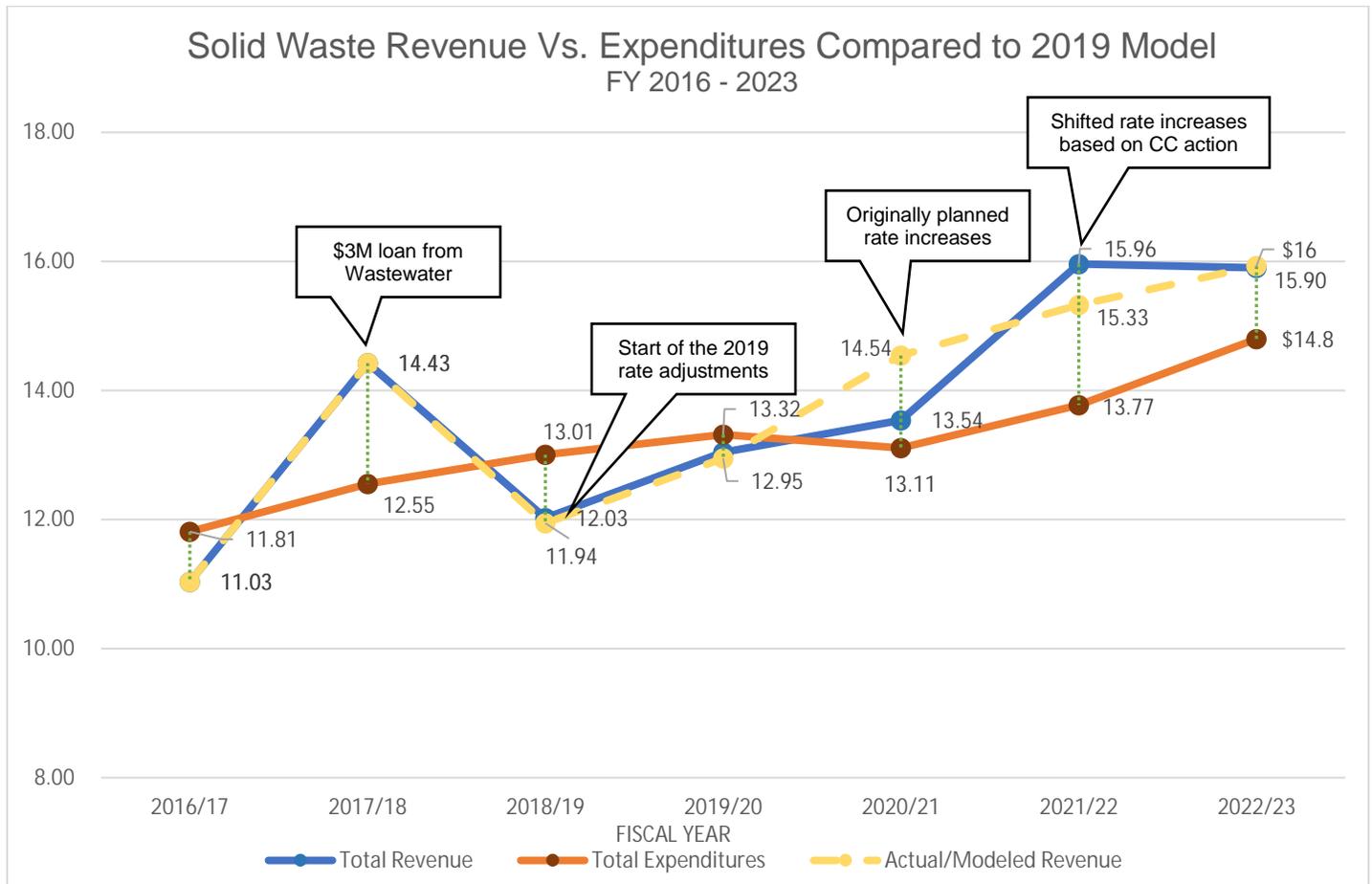
As of the writing of this report, the fund has paid a total of \$190,800 in interest toward the Wastewater Loan, with \$3,000,000 remaining in principal. As previously indicated, a plan to shift towards paying down the loan more aggressively is anticipated in the coming months, and as part of the current study intend to look at different payback options that are shorter than the current timeframe of 15 years.

### *Reserve Calculations*

The reserve calculation within the 2019 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 adjustments to the rate implementation, contributions to the development of the target reserve were decreased significantly. Now, based on current information and preliminary reviews of FY 2022, the fund has achieved the full reserve set by the current City policy, however it will behoove future discussions around the health of the fund to ensure the reserve is maintained moving forward.

**Cash-in-Hand Balance/Fund Status**

With the adjustments in cost allocations and expenditures, for this fund update we are not able to calculate the cash-in-hand balance (formally called fund balance). However, with the information available, the report remains positive. Fund expenditures continue to remain below revenue receipts, highlighting that the adjustments in revenue in 2021 aided the fund to meet the long-term goal. With the restored balance of the fund, the cash-in-hand balance has increased this year. Having some additional cash-in-hand will aid the City in implementing SB 1383 regulations with a lessened impact on ratepayers, as well as maintain minimal rate adjustments in future years. The table below illustrates the revenue and expenditures of the solid waste utility from FY 2016 (prior to the 2019 study and rate implementations) to present, compared to the model created in 2019 (of note, the revenue prior to 2019 is shown only as actual).



**Upcoming 2022-2023 Budget**

The purpose of this report, along with providing a summary of the last five years of solid waste rate recommendations, is to review the current state of the solid waste fund and recommend a rate adjustment at or below the scheduled 5% adjustment on January 1, 2023.

January 1, 2023 will represent the last of the five rate adjustments approved by Council in 2019 for the solid waste fund. The rates achieved at the end of the period are close to what was modeled in 2019, despite the modifications and changes (and a global pandemic) throughout the rate term.

The forecast and budget for FY 2022-2023 are very similar. The table below reflects no adjustment to the rates for January 1, 2023.

<b>FY 2022-2023 Revenue</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>
Service Charges	\$ 15,543,000	\$ 15,084,656
Other Revenues	\$ 40,000	\$ 65,000
Interest from Investments	\$ 0.00	\$ 0.00
<b>Total Revenue</b>	<b>\$ 15,583,000</b>	<b>\$ 15,149,656</b>

The budget projection without the January 1, 2023 adjustment of 5% shows that revenue continues to overtake expenditures next fiscal year, however in the 2019 model (modified not to include the 5% adjustment) it does not. The table below shows the modeled and budgeted expenditures for FY 2022-2023.

<b>FY 2022-2023 Expenditures</b>	<b>MODEL Forecast</b>	<b>BUDGET Projected</b>
Citywide Administration	\$ 620,000	\$ 395,194
Streets Division	\$ 129,700	\$ 73,164
Solid Waste Diversion Program	\$ 1,102,700	\$ 1,009,928
Major Projects	\$ 362,000	\$ 312,000
Recology Contract	\$ 13,159,300	\$ 12,962,200
Debt Payment/Other Expenses	\$ 233,500	\$ 45,600
<b>Total Expenditures</b>	<b>\$ 15,607,200</b>	<b>\$ 14,798,086</b>

It's important to note that the expenditures listed in the budget still do not include the deferred expenditures from the beginning of the study. Deferred payments to the wastewater loan (a difference of \$187,900) and deferred spending on the environmental mitigation assessment (\$362,000 annually) as well as mitigation set-aside for the old landfill (\$150,000 annually), would put expenditures for the fund at \$15,497,986 for the year. The \$312,000 in Major Projects is included as part of a larger flatwork repair effort, based in part on the impact the Recology trucks have on City roadways. This partially reinforces that the use of the model in later years of a rate term can be challenging.

**Solid Waste Rate Adjustment Staff Recommendation:**

*No rate adjustment on January 1, 2023.*

As previously stated, with the start of the current cost of service study, the Commission will have the ability to once again review the expenditures, revenues and cost allocation of the utility in depth and determine the best recommendations for rate adjustments moving forward. The preliminary suggestions from the consultant indicate that rate adjustments will be lower than anticipated, with credit to the work to adjust the fund over the last few years. While the health of the fund is on track, it is important that the Commission and staff continue regular check-ins moving forward.

**Next Steps**

The discussion and any recommendations from the Utilities Commission on rate adjustments for January 1, 2023 will be presented to Council in November or December (depending on the number of Utilities Commission meetings necessary to develop a recommendation).

As previously stated, the Commission started the next cost of service/rate study, so fund updates for the Solid Waste Fund will be put on hold until the study is completed.