

STAFF REPORT

DATE: September 16, 2025

TO: City Council

FROM: Stan Gryczko, Director, Assistant City Manager
Adrienne Heinig, Deputy Director
Jeanette Hernandez, Management Analyst
Jennifer Gilbert, Conservation Coordinator

RE: Solid Waste Utility Cost of Service and Rate Study and Approval to Initiate City Solid Waste Utility Fee Proposition 218 Process

Recommendations

1. Receive reports from staff presented to the Fiscal Commission (Attachments 1&2) on the Solid Waste Utility Cost of Service Study and development of rate adjustment recommendations; and
2. Direct staff to initiate the Proposition 218 process and take necessary steps including the preparation of Notices for City customers to be mailed, noticing a public hearing to be held on or after November 18, 2025 to consider implementation of rate adjustments by January 1, 2026; and
3. Approve the Resolution (Attachment 3) authorizing to extend the current Agreement for Collection and Handling of Solid Waste Between the City of Davis and Recology Davis for two (2) additional years, with a new expiration date of December 31, 2029, with all terms and conditions of the Agreement continuing in full force and effect.

Fiscal Impact

Solid Waste utility rates were last adjusted by City Council in 2023. Since the end of the last approved rate adjustment calendar, costs of providing solid waste services have once again exceeded revenue and will continue to put significant pressure on the reserve for the Solid Waste utility fund (520) if not adjusted. The proposed rate adjustments will ensure that utility expenditures do not exceed revenue, maintain a positive fund balance, safeguard the fund reserve and quality solid waste services continue for ratepayers. This action will also ensure that the fund will be stable and can support the upcoming discussions about the renegotiation or request for proposals for the City's waste hauling contract. Without action on rates at this time, the fund reserve will be expended, and a loan would be necessary to maintain operations. With this increase, the total revenue anticipated for the remainder of Fiscal Year 2026 will be an increase of just over \$200,000 per month over current rate revenue returns.

Any changes to the rates or rate structure are fully within the Solid Waste utility funds and do not affect the General Fund.

Commission Input

Recommendations for utility rate setting and structures that are able to sufficiently meet the financial needs of City utilities, as well as distribute the proportionate share of the operational, regulatory and capital improvement costs (when applicable) of the utility among ratepayers, is a core function of the City's Fiscal Commission. The Fiscal Commission reviewed in-depth reports from staff on the Solid Waste utility's financial needs and regulatory requirements and recommendations from the City's rate consultant on the recommended adjustments along with discussion of ongoing (labor and equipment cost increases) and upcoming (landfill tipping fees) pressures on the cost of providing Solid Waste services. Ultimately, the Commission recommended Council establish a five-year rate adjustment schedule for the City's Solid Waste utility fees at their meeting in September of 2025.

City Council Goals

This effort is consistent with the Council Goals to Achieve Greater Fiscal Resilience, Strengthening Climate Resilience, and Maintaining High Quality Infrastructure and Services.

Background

The City of Davis Solid Waste Utility is housed & overseen within the Public Works Utilities & Operations Department. It is supported by an enterprise fund, meaning revenues are derived primarily from service charges, which must be adequate to fund the utility operation, capital programs (when applicable) and debt service.

The Utility serves all commercial, multi-family and single-family properties in Davis and includes the collection of organic waste, recycling and trash. The collection of solid waste is carefully regulated by the State of California for human and environmental health and safety purposes, as managing waste appropriately is necessary in order to ensure healthy communities. Unlike the City's other three utilities, Solid Waste services are provided only for City customers (no County Service Areas receive Solid Waste services from the City of Davis) and the City relies on a contractor, currently Recology Davis, to provide collection services to customers. This is done through an exclusive franchise agreement. The City plans and implements a wide variety of waste diversion programs and ensures adherence to state regulations.



What is a Solid Waste Utility?

At its most simplistic, it is the collection of organic waste, recycling and trash. However, beneath the surface, it is much more complex. Regulated by the State for human and environmental health & safety, the largest drivers of cost associated with utility are state regulations. Jurisdictions in California are required to meet waste diversion minimums (calculated as a percentage of waste diverted from the landfill attributed to that

jurisdiction), which is accomplished by reuse, recycling and composting (organics). Regulations also cover where and how all manner of materials are disposed of (such as construction and demolition waste, hazardous waste and organic waste); include detailed requirements for the physical placement of collection bins; the color of bins; the establishment of state-wide recyclability standards and more. While the City and community of Davis is supportive of environmental goals associated with solid waste and have a long history of innovative policies & actions¹, these efforts come with costs.



Additional Background on the Utility

Updated annually, the [City of Davis Solid Waste Utility 101](#) provides a full spectrum overview of the utility, its programs, funding mechanisms, guiding regulations and plans for resiliency. The Solid Waste Utility 101 document also details what happens to all the materials collected by Recology, outreach strategies that the City uses to inform customers of waste diversion requirements and upcoming changes to the utility and the solid waste industry at large.

Program Website: www.DavisRecycling.org

Current Rates & Cost of Service Study

The last cost of service study for the Solid Waste utility was completed in 2018-19, with the last rate adjustment of rates at 1.5% in January of 2023. At the time of the last adjustment, all financial goals for the utility had been met, including the establishment of a reserve fund. Current rates are shown for single-family residential customers per month.

Level of Service	Per Month
Curbside collection / 35-gallon	\$44.52
Curbside collection / 65-gallon	\$49.28
Curbside collection / 95-gallon	\$58.80
No garbage collection	\$31.00

Residential Customers

Residential solid waste rates are billed monthly and are determined by garbage cart size. The cost is inclusive of weekly collection of garbage, unlimited dual-stream recycling, one organics cart and unlimited cardboard recycling, as well as street sweeping, seasonal on-street yard material pile collection, an annual bulky-waste

¹ The City of Davis recently celebrated 50 years of curbside recycling, which ties with Berkeley as the first two recycling programs in the country.)

voucher for the Yolo County Central Landfill, access to residential hazardous waste disposal and various other programs.

Commercial/Industrial Customers

Non-residential solid waste rates for commercial and multifamily customers are also billed monthly and the rates are determined by the garbage cart/bin volume and pick-up frequency. The cost is inclusive of weekly pick-up of garbage, unlimited recycling service, one organics cart, unlimited cardboard recycling service as well as street sweeping and seasonal on-street yard material pile collection. Additional collections, bins or carts as needed by the commercial or multifamily customer are billed separately as needed.

Cost of Service and Need for Urgent Action on Rates

The City contracted with SCS Engineers to review the Solid Waste rates, expenditures and debt, as well as future potential financial impacts. SCS conducted a Revenue Sufficiency Analysis to determine the revenue adjustment that might be necessary to help the City meet its operating cost requirements and maintain healthy operating reserves. Beginning in fiscal year 2024, expenditures have overtaken revenues, due largely to increases in the cost of labor, materials and equipment, as well as more-than-usual adjustments in landfill tipping fees at the Yolo County Landfill². This imbalance has put significant pressure on the Solid Waste reserve, and without adjustment will exhaust the reserve by next fiscal year. This requires quick action by the City to adjust rates to maintain the stability of the fund.

Proposition 218 Passed by Voters

In 1996, California voters passed Proposition 218, also called the “Right to Vote on Taxes” Act. Proposition 218 defines the majority protest process by which fees associated with sewer, water and solid waste (refuse) collection services can be enacted. A notice is required to be mailed to all property owners within the service area for a 45-day protest period, and charges are required to reflect the cost of providing the service. The notice includes the instructions necessary to submit a written protest to the City, there is no specific form required but it does need to be in writing, either mailed or hand-delivered to the City.

Drivers of Adjustments

The greatest influence of the cost of providing solid waste service are various California regulations, which impact every aspect of the utility, from City staffing to hauler costs at the landfill. Specifically, this is due to the fact that the State will decide what, how and where materials are disposed of or recycled, and what regulates those sites. Depending on those determinations, agencies will incur costs associated with increased resource needs, infrastructure improvements or other impacts.

As previously mentioned, and discussed at length in the attached reports to the Fiscal Commission, inflation pressures and subsequent increases in labor, equipment and

² More details around the cost increases can be found in the staff memo to the Fiscal Commission from August 2025.

repair costs have also put pressure on the City and the hauler to continue operating the programs.

Proposed Rate Structure Adjustments

Due to the need for quick action to adjust rates and for the additional reasons to delay service-level changes discussed below, only two recommendations to rate structures are being proposed at this time:

1. As the size of residential waste carts does vary by a small amount based on where the carts have been procured, staff recommends that the current delineation of gallon size for carts be revised to “small, medium and large” instead. This revision is included in the proposed rate amount table.
2. Commercial and multifamily bins come in a variety of sizes, however there has been a lack of consistency in how the bins are counted for purposes of billing. Implementation of the revised rate structure will include a clarification and revision on how services are billed for these customers.

Proposed Rate Amount Adjustments

Through the cost-of-service study, it was determined that revenue adjustments would be necessary to accomplish the following:

- Support program operations
- Balance expenditures & revenue
- Continue fiscal stability of fund

To meet these minimums, the consultant and staff put forward the adjustments for the utility each year for five years. The proposed table showing single-family residential rates from the study is included below:

Cart Size	Current	Fiscal Year				
		2026 15%	2027 6.5%	2028 6.5%	2029 6.5%	2030 3%
Small/34-35 GAL	\$44.52	\$51.20	\$54.53	\$58.07	\$61.84	\$63.70
Medium/64-65 GAL	\$49.28	\$56.67	\$60.36	\$64.28	\$68.46	\$70.51
Large/95-96 GAL	\$58.80	\$67.62	\$72.02	\$76.70	\$81.68	\$84.13

Adjustments Without Substantive Rate Structure or Service Changes

There are two reasons why staff is recommending moving forward with no substantive adjustments to rate structure or service levels at this time:

1. The pressure on the reserve with expenditures exceeding revenues is such that an adjustment of the rates is necessary to ensure the fiscal stability of the utility in the short-term. No adjustment to the rates would potentially mean the utility would require an additional inter-fund loan (should one be available to the utility) to maintain operations, which would in turn impact rates in the future in the form of debt payments.

2. With the discussion around new franchise hauler contract upcoming, it is assumed that significant adjustments will be made within the rate structure/cost allocation at that time to reflect the new contract. As part of the preparation for this effort, staff is also recommending the existing contract be extended for two years to ensure that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and allow careful negotiation of a successful hauling contract.

Fiscal Commission Discussion and Action

The Fiscal Commission received two reports from City staff. The first report, provided in August, provided an extensive discussion of the City's Solid Waste Utility, including program operations, expenditures, revenue and debt obligations. The Commission was asked to review the report and provide any questions for staff by August 20, 2025. The second report, received with a presentation in September, included answers to the questions submitted by the Commission, in addition to detail about the Proposition 218 process for utility rate setting.

On September 3, 2025, the Fiscal Commission approved staff recommendation to recommend Council adopt the 5-year solid waste utility rate table to provide sufficient revenue for the utility. The motion was moved by L Ang, and seconded by R Vaitla, and was unanimous (4-0-2).

Solid Waste Questions and Answers

Below, please find answers to questions that have been received regarding solid waste rates and service levels:

- 1. Is it normal for municipalities to utilize a private company for waste hauling?**

Yes. In fact, agencies in California have a wide variety of ways to provide waste hauling services for residents. Some agencies fully municipalize solid waste services (these are generally very large municipalities), some have a hybrid approach with an exclusive franchise hauler and some have no internal services at all, with all billing, hauling etc. being handled by the hauler via a contract (these are generally very small municipalities). For mid-size cities like Davis, Woodland or West Sacramento, having a hybrid model also helps provide some cost savings in terms of scale, since waste hauling companies have access to specialized equipment and labor that might be required versus smaller companies with less-ready access.

- 2. What solid waste services are required by law and what services are nice to have?**

While the current discussion is not about service levels, the State does require all jurisdictions to provide certain solid waste services to all customers, namely weekly collection of trash and organic waste and recycling service (there is no mandated frequency for recycling). As part of the City's waste diversion plans

(also mandated by the State), the City needs to offer some kind of bulky waste program for residents, a hazardous waste disposal option for residents and various other waste diversion programs. Annual outreach to all customers on waste diversion and other solid waste issues is required, but how that outreach is achieved is up to each jurisdiction.

One of the more complicated and expensive programs to operate is the on-street yard material collection service. While this allows customers a convenient way to dispose of excess yard debris, this is a “nice to have” program and is not required by law. In fact, Davis is one of only 5 communities in California to offer this program to customers.

3. Why is the largest adjustment first? Could that be evened out over the other years?

When expenditures outpace revenue, the only way to correct it is for a higher first-year adjustment to effectively jump-start the re-balance and lessen pressure on the operating reserve.

4. What accommodations are being made for people who just can't afford a service charge increase?

Unfortunately, it is not possible to offer discounted rates to residents without making up the subsidy from some other source, and State law (Prop 218) prohibits any property owner from being charged more than their proportional fair share the cost of service. In other words, the City cannot subsidize some of its customers by overcharging other customers.

5. Can a customer cancel trash service?

No, by State law, all residential, multi-family, and commercial properties are required to recycle organic waste that is generated on-site. Furthermore, trash, organics and recycling service are mandatory for all residential and commercial properties within the City, per Municipal Code § 32.01.020 (Mandatory service).

6. Are renters included in the noticing and protest process for these rates?

When the renter is designated as a tenant of record with the City, they can protest the rate adjustment on behalf of the owner, but no more than one protest is permitted per parcel. Otherwise, by State law a valid protest must be submitted by the property owner only.

Rates of Surrounding Communities & Degree of Impact

As part of the presentation to the Fiscal Commission, City staff conducted a survey of solid waste rates and service levels in surrounding communities, using the average single-family customer charge (65-gallon trash cart). The table below shows the City's current and proposed rates compared to seven other agencies (as of July 1, 2025).

Jurisdiction	Total Monthly Rate (64-gallon)	64-Gallon		96-Gallon Organics Rate	Included?		OTHER NOTABLE SERVICES INCLUDED IN RATES
		Trash Rate	Recycling Rate		On-Street Yard	Street Sweeping	
Woodland	\$40.03	\$18.02	\$2.00	\$20.01	Yes	Yes	Bulky waste voucher, weekly HHW drop-off
Davis (now)	\$49.28	\$49.28	Included	Included	Yes	Yes	Unlimited recycling, loose cardboard collection, bulky waste voucher, weekly HHW drop-off
Sacramento	\$52.35	\$25.07	\$8.10	\$19.18	Yes	Yes	Two bulky pickups per year. Free HHW drop-off
Santa Barbara	\$52.70	\$23.42	\$11.71	\$17.57	N/A	No	Four free bulky pickups per year. Free holiday tree collection. Free HHW drop-off
Davis (proposed)	\$56.67	\$56.67	Included	Included	Yes	Yes	<i>See above</i>
Santa Rosa	\$57.62	\$57.62	Included	Included	N/A	Yes	Two bulky pickups per year. Free HHW drop-off
Yolo County (Willowbank)	\$87.18	\$18.70	\$11.47	\$57.01	Yes	No	Bulky waste voucher, weekly HHW drop-off
Berkeley	\$87.60	\$87.60	Included	Included	N/A	No	Compost carts are 64 gallons
San Francisco	\$88.14	\$58.74	\$14.70	\$14.70	N/A	No	64-gallon compost. HHW pick-up/drop off available. Two bulky waste pickups per year. Fee includes base charge of \$17.60 and "excess trash premium" of \$11.74.

The City of Davis is not the only agency seeking to increase rates. Solid waste rates are generally adjusted annually, and it anticipated that the rates in surrounding communities will continue to rise based on their contract discussions and other factors, including landfill tipping fees and regulatory changes. However, it's important to note that with the proposed adjustment, rates paid by City customers remain under the average of just over \$64 per month for a 65-gallon cart, with a wider variety of services available to City of Davis customers at no additional cost than most agencies.

Degree of Impact

The Environmental Protection Agency (EPA) has issued guidance³ to municipalities to aid in the consideration of the degree of economic and social impact of potential *water*

³ <https://www.epa.gov/system/files/documents/2023-01/cwa-financial-capability-assessment-guidance.pdf>

utility decisions that would in turn impact the cost of providing water service to the consumer. The full tool can be used to determine if debt financing is an avenue for utility providers to make necessary upgrades and examine all financial impacts, including those on rate payers. This guidance includes a Residential Indicator Score calculation that characterizes whether the proposed rates impose a “low,” “mid-range”, or “high” financial impact on residential customers. While not specifically for solid waste utilities, the tool can be used to review other utility fee impacts on residential customers.

RESIDENTIAL INDICATOR FINANCIAL IMPACT	RESIDENTIAL INDICATOR (CPH AS % MHI) ¹²
Low	Less than 1.0 Percent of MHI
Mid-Range	1.0 to 2.0 Percent of MHI
High	Greater than 2.0 Percent of MHI

This indicator is determined by dividing the cost of the proposed monthly bill for solid waste service by the average household income for Davis (for 2024).

Proposed Single Family Monthly Bill	\$56.67
Davis Proposed Average Annual Bill	\$680.04
Davis Average Household Income (2022)	\$82,394
<hr/>	
% of Davis Household Income of Wastewater Bill	0.83%

The percentage indicates that the degree of impact of the proposed rate on residential users is “low.”

Extending the Current Hauling Contract

As included in the memo to the Fiscal Commission on August 6: As it stands, the current contract with Recology (which had been held until 2018 with Davis Waste Removal), expires December 31, 2027. Previous discussions with the community in regards to solid waste service and collection have been robust, and it is anticipated that discussions about the hauling agreement will be no different. It is also assumed that with the outcome of hauling contract discussions, another cost-of-service study will be conducted to ensure appropriate proportion of costs with any programmatic changes. Extending the contract for two additional years ensures that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and allow careful negotiation of a successful hauling contract.

Staff Rate Recommendation

Consistent with the recommendations from the Fiscal Commission and SCS Engineers, staff recommend that Council move forward with the Proposition 218 Notices containing Solid Waste rate adjustments for solid waste utility customers as presented.

Should Council determine that the Proposition 218 Notice for customers be sent, staff will return to Council after the 45-day noticing period with a public hearing to receive all protests and determine if the rate adjustments can move forward.

It is important to note that the rate schedule proposed would represent the highest amount and soonest dates Solid Waste rates could be adjusted. Should the annual fund updates provided to the Fiscal Commission and Council indicate the adjustment for a year within the 5-year set schedule can be reduced and the City still meet service levels and goals; staff will recommend a reduced adjustment to the Commission and Council (this was the case in January 2023, when solid waste rates increased 1.5% instead of the maximum 5%).

Absent deferring a previously- approved increase to a future year within the 5-year calendar, staff cannot recommend a higher adjustment than was originally approved without issuing another Proposition 218 notice to all rate payers, and going through the full protest process again.

Tentative Timeline for Proposition 218 Notice and Rate Implementation

Date	Action
August 8, 2025	Fiscal Commission: Introduction & Request for Questions
September 3, 2025	Fiscal Commission: Follow-up with Answers to Questions, Presentation
September 16, 2025	City Council Meeting: Initiation of Prop 218 Notices
On or after September 30, 2025	Notices Sent to Property Owners (Postmarked by)
On or after November 18, 2025	City Council Meeting: Public Hearing/Protest Hearing
January 1, 2026	Rates Become Effective (If adopted)

Attachments

1. Fiscal Commission Memo: Introduction & Request for Questions
2. Fiscal Commission Memo: Follow-up with Answers to Questions
3. Resolution



Memorandum

Date: August 6, 2025
To: Fiscal Commission
From: Adrienne Heinig, Deputy Director – Public Works Utilities & Operations
Jeanette Hernandez, Management Analyst
Stan Gryczko, Assistant City Manager
Subject: Solid Waste Cost of Service Report / Rate Adjustment Recommendation Introduction

Recommendation

1. Receive informational report on the City's Solid Waste Utility, including program operations, expenditures, revenue and debt obligations; and
2. Provide any questions regarding the report and/or Solid Waste Utility to the Fiscal Commission liaison by **Wednesday, August 20, 2025** to provide staff time to prepare and discuss the utility at the September 3rd meeting of the Commission.

Background

The City's solid waste utility serves all commercial, multi-family and single-family properties in Davis and includes the collection of organic waste, recycling and trash. The collection of solid waste is carefully regulated by the State of California for human and environmental health and safety purposes, as managing waste appropriately is necessary in order to ensure healthy communities. With this in mind, solid waste management has changed drastically over the past 30 years by evolving to view waste as a resource rather than just trash. This expansion of the role of solid waste collection throughout California is important to keep in mind when considering the cost of providing municipal solid waste service.

Unlike the City's other utilities, which are owned and operated by the City, the solid waste utility relies on a contractor, currently Recology Davis, to provide collection services to customers. This is done through an exclusive franchise agreement. Rather than providing the actual collection of waste, the City plans and implements a wide variety of waste diversion programs and ensures adherence to state regulations.



Additional Background on the Utility

Updated annually, the City of Davis Solid Waste Utility 101 provides a full spectrum overview of the utility, its programs, funding mechanisms, regulations that guide it and plans for resiliency. The Solid Waste Utility 101 document also details what happens to all the materials collected by Recology, outreach strategies that the City uses to inform customers of waste diversion requirements and upcoming changes to the utility and the solid waste industry at large.

Program Website: www.DavisRecycling.org

Proposition 218 & Utility Rates

In 1996, California voters passed Proposition 218, also called the “Right to Vote on Taxes” Act. Proposition 218 defines the majority protest process by which fees associated with sewer, water and refuse (solid waste) collection services can be enacted. Studies are performed to ensure that charges to customers reflect the cost of providing service. In addition, the City is required to mail a notice to all solid waste ratepayers for a 45-day protest period, during which time formal protests against the adjustment of rates can be filed with the City. A simple majority of ratepayers is required for the protest to be considered valid and proposed rates not enacted.

As with annual fund updates, financial information (including program revenue and expenditures) will be provided in this report. Unlike a shorter annual fund update, this report will go into greater detail with the financial information and demonstrate drivers of cost where applicable.

Solid Waste Utility Program Financial Review

Revenue:

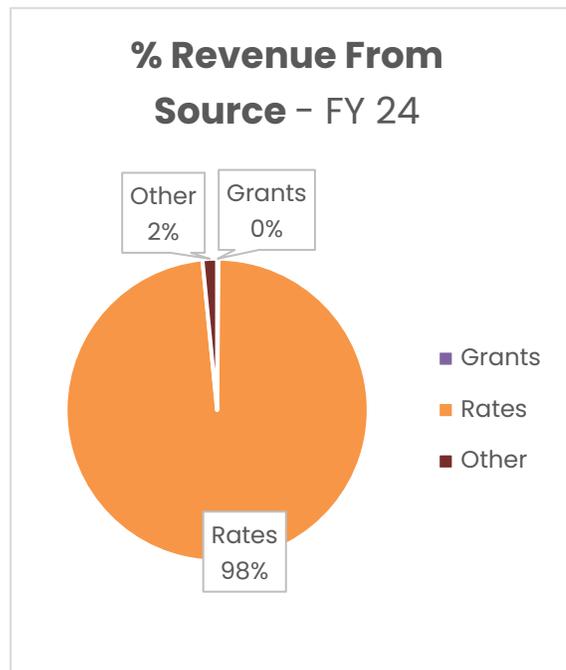
Sources of Funds

Solid Waste Fund revenues are collected from many sources including: service charges paid by the utility customers, revenue from special drop box orders, revenue from leases, interest paid from utility investments and CalRecycle grants.

Service Charges

Service Charge revenue is the largest source of revenue for the Solid Waste Fund. Currently just about 98% of the revenue for the Utility comes from service charges.

Solid Waste Rates: Charges are based on the subscription level of trash service. The rates are made up primarily of four parts:



- The franchise agreement the City holds with the waste hauler (Recology-Davis) for waste collection and street sweeping, which includes pass-through program expenses (such as landfill tipping fees and environmental mitigation for roadway wear and tear)
- The cost of the City's Solid Waste and Diversion Programs
- Other associated City administrative costs (internal city charges, etc.)
- The reserve/debt service coverage requirements

A significant proportion of the rates are made up of costs that are fixed, by contract terms either with the hauler or with the debt service associated with the repayment of the inter-fund loan. However, unlike the other utilities in the City, which are often straightforward in terms of costs (the level of service is often fixed, e.g. a resident receives water or does not), portions of the costs for the solid waste utility are open to adjustments, based on the level of service requested by the customer. This variation of costs is most significant with commercial customers, as changes in the type of service (i.e., a bank versus a bar) or frequency of service, can influence revenue returns. Residential customers can also opt to size up or down with their garbage carts to adjust monthly cost.

Other Revenue

The remaining 2% of revenue comes from special drop box orders by customers, revenue from leases, interest paid from utility investments and CalRecycle grants. 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 the time of year and construction activity. Interest revenue from investments and other sources (like leases) has historically been the smallest source of revenue for the Solid Waste Fund. CalRecycle grants are mostly small (~\$20k or less) two-year grants to support used oil recycling and bottles and cans recycling programs. Other, larger one-time grants from CalRecycle to implement regulatory changes (most recently with SB 1383) have been granted to the City but do not contribute to ongoing expenses.

Most Recent Rate Discussions

Solid waste rates were last adjusted for City customers on January 1, 2023, by 1.5%. The previous rate study, marked by the COVID-19 pandemic and challenges with utility revenue, achieved the establishment of a fund reserve and recovery from a previous deficit. Recovery was faster than originally anticipated, and the City did not seek the full 5% adjustment previously approved by City Council as revenue was already meeting expectations. Unfortunately, with significant changes in the market, cost of labor, equipment and other challenges since 2023, upcoming adjustments will by consequence be higher than originally anticipated at the end of the last rate study.

Expenditures:

Expenditures for the utility are divided into four major sections: overall city administration, costs associated with Public Works Utilities and Operations (PWUO) 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 by departments outside of PWUO. This includes support for the Finance and Fire Departments (utility billing and after-accident or emergency event hazardous waste clean-up, respectively).

PWUO Administration

Support from PWUO for overall administration of the program, including human resources, budget, etc. is included in this line item.

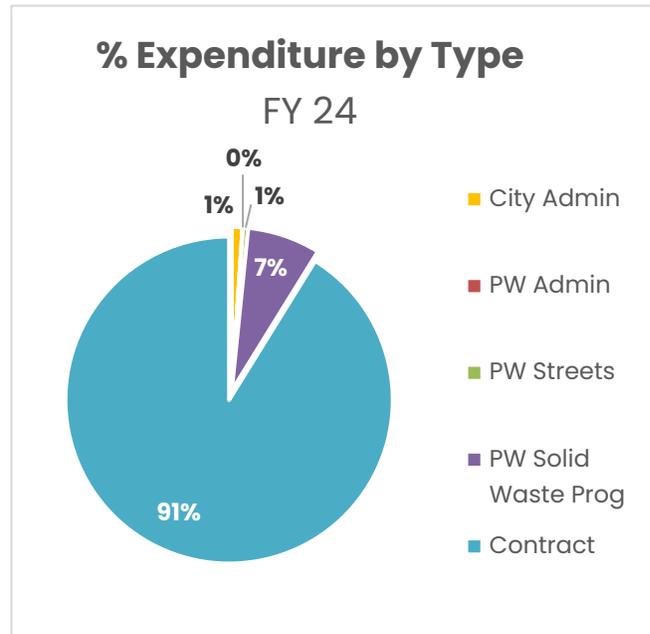
Streets Division

Streets Division costs include those incurred when performing smaller, more common hazardous waste material clean up and disposal within PWUO. This cost component reflects activities within the year, and for that reason the cost will fluctuate each year.

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 required 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 regulations. Staff are also responsible for all reporting to regulatory bodies, including to CalRecycle and coordinating the implementation of State regulations (such as SB 1383). Additional programs include:

- Business outreach programs, including site visits, educational materials and supplies to ensure compliance with State regulations;
- Collaboration with the Davis Joint Unified School District, including presentations to classrooms and at school assemblies and materials to ensure compliance with State regulations;
- Multi-family property programs, including required mailers with important environmental information, reminders about compliance with State regulations and tools for compliance;



- Waste sorting presentations, composting classes, free kitchen scrap pails, annual reminders on how to sort waste correctly and how to manage hazardous wastes; and
- The Greener Davis social media presence on Facebook, Instagram, YouTube and the monthly newsletter.

Program Cost Changes

For the most part, City program costs are stable, with most activities performed by staff to be based on state regulations (more below) and to maintain or increase City waste diversion rates. Fluctuations in costs are generally caused by labor adjustments, or one-time professional services contracts. Recent examples include professional services costs associated with consultant support for the implementation of SB 1383.

State Regulations

The greatest influence of the cost of providing solid waste service are various California regulations, which impact every aspect of the Utility, from City staffing to hauler costs at the landfill. Specifically, this is due to the fact that the State will decide what, how and where materials are disposed of or recycled, and what regulates those sites. Depending on those determinations, agencies will incur costs associated with increased resource needs, infrastructure improvements or other impacts. While there are some State grant programs available, they are often one-time grants of funds and generally do not cover the full cost of implementation. Recent concerns regarding the protection of groundwater beneath active landfill sites across the state and other increased regulations around composting facilities have, in turn, increased disposal costs for everyone in California.

Debt

In May 2018 (FY 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 a cost-of-service study. With the adoption of the rate schedule after that study, the City continued to pay interest only installments for the loan. Discussions at the previously formed Utilities Commission included the recommended prioritization of paying down the loan with principal and interest installments. While a \$1M payment towards the debt was planned (with \$2M remaining on the loan to be paid in interest and principal) the current draw on the fund balance makes the \$1M payback a bigger challenge. Should Council wish to prioritize the payback of the loan with the \$1M from fund balance, the initial rate adjustment recommendation increases by 5%. Regardless of the one-time payback, staff continues to model interest and principal payments and plans in future years to accelerate the repayment of the loan as supported by the fund health.

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, street sweeping, the performance of 50 annual waste audits for businesses and the

operation of the Materials Recovery Facility (MRF) in Davis, among other contractual obligations, including:

- A bulky items program offered every year. Previously, this took the form of a two-day Bulky Items Drop-Off Program at the Recology Recycling Centers each April. Since 2020, a Bulky Waste Voucher has been mailed out to customers instead, giving customers the ability to bring a load of bulky items to the Yolo County Central Landfill (YCCL) any time within the voucher period;
- Two free shredding events per year;
- Free drop-off 24/7 for scrap metals, used motor oil and filters, paper, cardboard, plastics and glass and metal food and beverage containers;
- A CRV buyback center; and
- Acceptance of mattresses, box springs and used sharps waste for recycling/safe disposal at no charge during the buyback center hours.

Hauler Cost Adjustments

Per the City's franchise waste hauling agreement, the rates that the City pays Recology can be adjusted each year based on the Refuse Rate Index (RRI), or by a detailed rate review, which can be requested no more than once every three years within the contract period. The detailed rate review involves a third-party review of Recology's services to determine if the rates being paid by the City are commensurate with the service provided.

In 2023, as allowed by the contract, Recology requested a detailed rate review rather than the annual RRI adjustment. Recology had been operating under the contract with just RRI adjustments since 2018, and considerable changes to the market nationwide was causing strain. Under the contract, the City is obligated to consider the outcome of the detailed rate review in rate setting. It was determined by a third-party consultant that Recology rates required a one-time adjustment of 18.8%. While the extent of the increases in cost could not have been anticipated at the time of the City's previous rate review study, this adjustment was not a surprise, especially given the significant increases in labor, material and equipment costs impacting nearly every industry, and market fluctuations have continued to cause challenges with budgeting statewide (particularly with the City's own recent budget process). Combined with other impacts on the solid waste utility, including unexpected increases in landfill tipping fees (see more detail below), the expenditures for the program are outpacing revenues once again.

Yolo County Landfill Tipping Fees

The City has a waste flow agreement with Yolo County Central Landfill (YCCL) that guarantees all trash hauled by our franchise waste hauler contractor will be disposed of at the YCCL. There is a second contract that guarantees all organic waste hauled by our contractor will be accepted at the YCCL compost facility. In return, the City receives a discounted tipping fee for trash and organic waste and all Davis residents have access to free household hazardous waste drop-off every Thursday, Friday and Saturday at the YCCL hazardous waste facility.

As the tipping fees for organic waste composting and the disposal of waste at the landfill is a pass-through expense, the City’s hauling contract also allows for adjustments to contractor rates when the tipping fees are updated (generally in July each year). By far the most challenging aspect of solid waste costs to predict, landfill tipping fees are a per-ton charge on materials brought to the YCCL for disposal and composting. Fees vary by material type, and are influenced by the cost of disposition of the materials. Table 1 below shows tipping fees since 2019 and the associated annual tipping fees for waste. In recent years adjustments have been smoother and more predictable, however, the YCCL was recently noticed by the State Water Resources Control Board (SWRCB) of necessary improvements related to correctional orders that will increase tipping fees over the next few years, beginning with a \$4.25 per ton increase for trash in September 2025 (in addition to a more normal \$1.82 increase in July). Future work (if required by SWRCB) may have much more significant impacts on tipping fees.

Table 1: Yolo County Landfill Tipping Fees

Fee Type	Landfill Tipping Fee Effective Date								
	2019	2020	2021	2022	2023 (Jan)	2023 (July)	2024	2025 (July)	2025 (Sept)
Municipal Solid Waste (Landfilled Garbage)	\$50.48	\$51.88	\$53.32	\$56.31	\$61.06	\$62.77	\$64.54	\$66.36	\$70.61
Green Waste (Yard Material Piles)	\$56.00	\$62.00	\$75.00	\$72.67	\$72.67	\$79.50	\$82.49	\$83.54	\$83.54
Food Scraps & Organics (Collection Carts)	\$64.00	\$66.00	\$75.00	\$72.67	\$72.67	\$79.50	\$82.49	\$83.54	\$83.54

Type of Material & Cost	Landfill Tipping Fees Annual Cost					
	2019	2020	2021	2022	2023	2024
MSW (residential + commercial) tons	20,787.31	19,837.46	19,384.46	20,292.25	25,201.38	22,612.25
MSW Cost	\$939,586.41	\$1,001,394.98	\$1,005,665.78	\$1,081,982.77	\$1,191,853.94	\$1,419,370.93
Organics tons	12,066.85	12,744	12,196.65	11,037.51	11,636.74	12,056.54
Organics Cost	\$713,732.86	\$782,437.60	\$790,235.06	\$827,813.25	\$845,641.90	\$958,494.93
Total Tipping Fees	\$1,653,319.27	\$1,783,832.58	\$1,795,900.84	\$1,909,796.02	\$2,037,495.83	\$2,377,865.86

Contract Renewal

As it stands, the current contract with Recology (which had been held until 2018 with Davis Waste Removal), expires December 31, 2027. Previous discussions with the community in regards to solid waste service and collection have been

robust, and it is anticipated that discussions about the hauling agreement will be no different.

Adjustments Without Service Level Changes

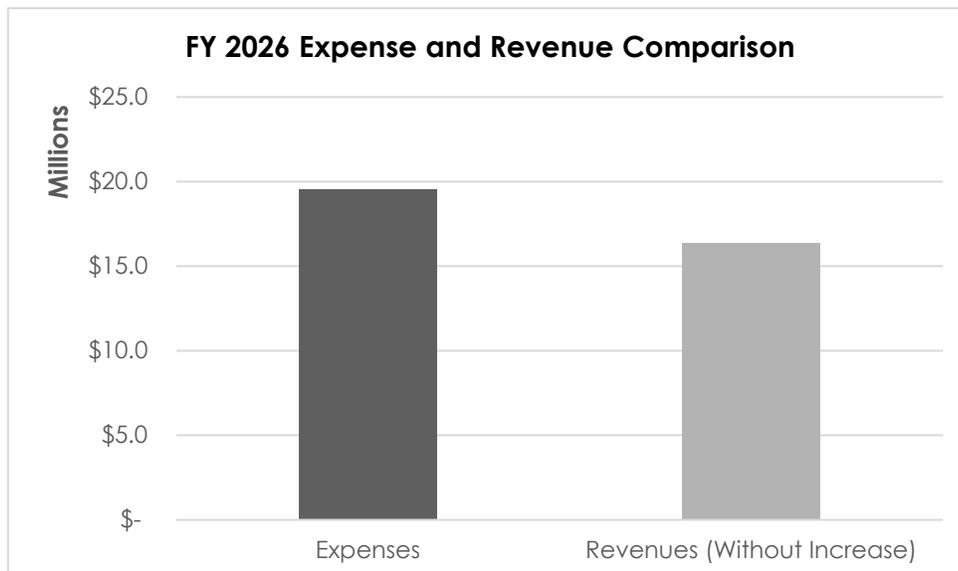
With a number of priority efforts underway, staff has proposed that the existing contract be extended (amount to be determined by Council) for two reasons: 1) to ensure that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and allow careful negotiation of a successful hauling contract, and 2) the current status of the solid waste fund does not support delaying rate adjustments until after these contract conversations have taken place. While, at this time, no adjustments to the rate structure, service levels or cost allocation are being proposed, it is assumed that with the outcome of hauling contract discussions in the future, another cost-of-service study will be conducted to ensure appropriate proportion of costs with any programmatic changes.

While the previous solid waste rate studies would not have anticipated such a significant increase in costs, the establishment of a reserve for the solid waste utility in the previous study has functioned as intended and buffered the utility from a short-term default.

Cost of Service Study

Understanding the pressures on the solid waste fund, the City has worked with a consultant, SCS Engineers, to develop an adjusted rate schedule for rates to support program operations, balance expenditures and revenue and continue the fiscal stability of the fund. SCS Engineers conducted a Revenue Sufficiency Analysis for the City's Solid Waste operations to determine an adequate revenue adjustment that can help the City meet its respective operating cost requirements while maintaining healthy operating reserves.

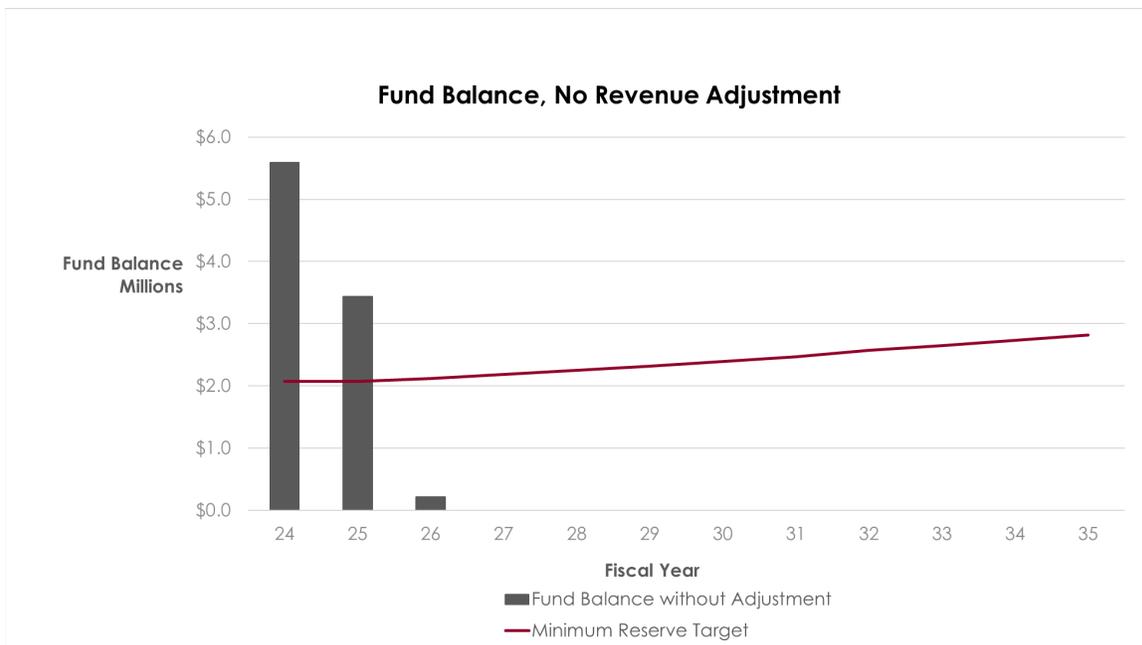
After loading the revenue sufficiency model and calibrating it to the City's financial dynamics, they conducted several interactive meetings with staff to review the data



provided and preliminary results. Once the financial projections were refined, SCS developed a corresponding financial management plan and series of annual rate adjustments that would allow the City to meet its cost requirements while attaining its strategic goals and financial performance objectives.

As shown in the graph above, the City’s projected expenditures are expected to continue to exceed revenues in FY 2026 and every year thereafter (with no rate adjustment). This is, in part, due to anticipated tonnage growth and the landfill tipping fee increase, estimated to generate additional disposal expense of approximately \$100,000 per year. Due to increasing costs and revenues insufficient to cover those expenses, the City will need to use reserves to fund its operational needs.

However, reserve levels can only temporarily compensate for insufficient revenue. The graph below shows the City’s cash flow and fund balance levels over a 10-year projection period without a revenue adjustment.



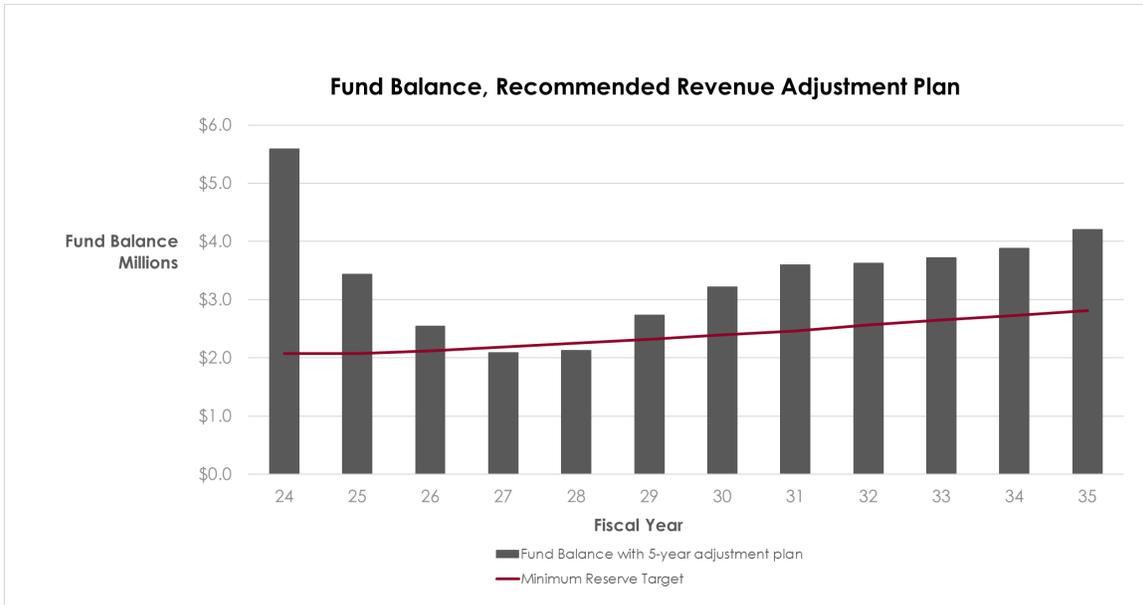
Without any rate adjustments, fund balance would be depleted by FY 2027. The recommendation from the rate consultant is in the table below, with the sample bill impact for residential solid waste customers (monthly rate):

Cart Size	Fiscal Year					
	Current	2026 15%	2027 6.5%	2028 6.5%	2029 6.5%	2030 3%
35 GAL	\$44.52	\$51.20	\$54.53	\$58.07	\$61.84	\$63.70
65 GAL *	\$49.28	\$56.67	\$60.36	\$64.28	\$68.46	\$70.51
95 GAL	\$58.80	\$67.62	\$72.02	\$76.70	\$81.68	\$84.13

*Average single-family customer cart size

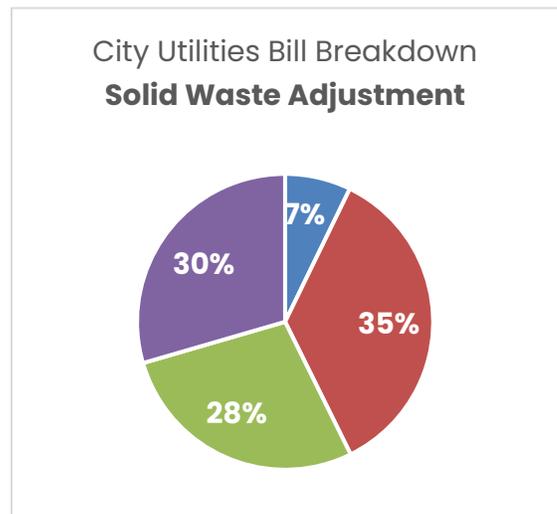
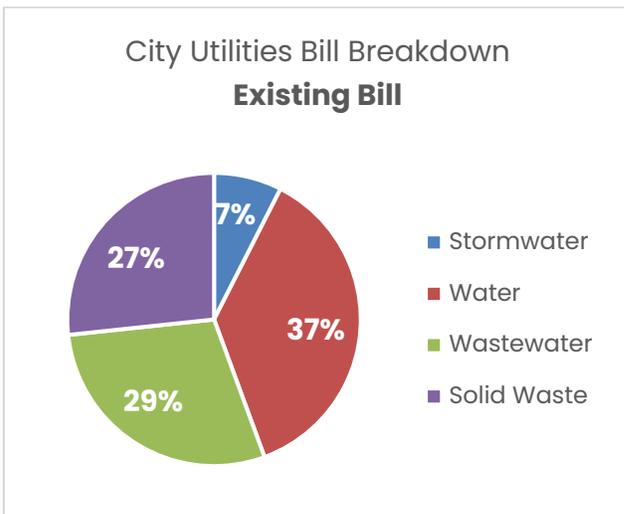
SCS recommends that a 15.00% rate increase in FY 2026, followed by annual increases of 6.50% from FY 2027 through FY 2029, and then inflationary-like increases of 3.00% in each year thereafter will be sufficient for the City to continue to meet its financial obligations.

The graph below reflects the fund balance with the recommended revenue adjustments. It is important to note that, as FY 2026 has already begun, the revenue adjustment scenario assumes that the rate increase will be implemented beginning late 2025/early 2026. Hence, about 67% of the full revenue adjustment was assumed to be realized in FY 2026.



Impact to Average Residential City Utility Bill

Current vs. Proposed City Utility Bill Impact



Higher First Year Adjustment

On the occasion that expenditures outpace revenues, corrective action necessitates a higher first year adjustment for rates to effectively jump-start the re-balance and lessen pressure on the operating reserve.

Next Steps

The Commission is being asked to review this report and provide any questions to their staff liaison by August 20, 2025. PWUO staff will then review the questions and provide a presentation on the report with responses to the Commission at their meeting on September 3, 2025.

Once comfortable doing so, the Commission will be asked to either support staff recommendation for the rate adjustments, or provide an alternative recommendation that staff will bring forward to City Council. City Council will determine if they would like to pursue the rate adjustment and if they do, will then authorize the mailing of Proposition 218 notices to the community. These notices are mailed two weeks after Council authorization.

When the notices are mailed, the protest period of 45 days begins. At the next Council meeting after the 45 days have elapsed, the Council will hold a public hearing and determine if the necessary number of protests have been received. Should a majority protest *not* occur, Council will then have the option of setting the solid waste rate adjustments.

The rates would represent the maximum amount for the adjustments for the next five years. Based on annual fund reviews (also seen by the Fiscal Commission) Council could act to postpone or forego future adjustments to rates based on the health of the fund in future years. Also, as previously stated, once a new franchise hauling agreement is finalized, staff will revisit the rates to determine if changes should be made.



Memorandum

Date: September 3, 2025
To: Fiscal Commission
From: Adrienne Heinig, Deputy Director – Public Works Utilities & Operations
Jeanette Hernandez, Management Analyst
Jennifer Gilbert, Conservation Coordinator II
Stan Gryczko, Assistant City Manager
Subject: Solid Waste Cost of Service Report / Rate Adjustment Recommendation
Discussion and Response to Questions

Recommendation

1. Receive presentation from staff on the City's Solid Waste Utility and Proposition 218 process for utility rate setting; and
2. Receive answers to questions submitted about the report received by the Commission on August 6, 2025; and
3. Consider support for staff recommendation that Council adopt the 5-year solid waste utility rate table to provide sufficient revenue for the utility.

Background

In preparation for this discussion, the Commission received a report from Public Works Utilities & Operations staff at their meeting on August 6, 2025. Provided on the consent calendar for the evening, staff asked for the Commission members to submit questions on the report by August 20, 2025 to allow for time to prepare this report and presentation. At the submission deadline, one set of questions was received. These questions are included in this report, along with the answers from City staff.

Rather than reiterate information already provided, as background please see the comprehensive report on the solid waste utility provided in the report received by the Commission in August.

Questions Received

A total of 8 questions were received from the Commission. These questions are included below, with answers from staff. A more detailed discussion of the Proposition 218 process as it sets requirements for utility rate setting is included after the questions.

1. Do fees have automatic annual CPI increase?

Fees set via the Proposition 218 *majority protest* process, allowed for municipal utilities (including water, wastewater and solid waste service) do not have CPI increases. Instead, fees are set for a total of 5 years at a time, with the percent adjustment determined for each of those 5 years to be the highest, and soonest a rate can be adjusted.

The proposed rates are included in the table below, with adjustments for each year with the sample bill impact for residential solid waste customers (monthly rate):

Cart Size	Fiscal Year					
	Current	2026 15%	2027 6.5%	2028 6.5%	2029 6.5%	2030 3%
35 GAL/Small	\$44.52	\$51.20	\$54.53	\$58.07	\$61.84	\$63.70
65 GAL*/Medium	\$49.28	\$56.67	\$60.36	\$64.28	\$68.46	\$70.51
95 GAL/Large	\$58.80	\$67.62	\$72.02	\$76.70	\$81.68	\$84.13

*Average single-family customer cart size

It's important to note that should the annual fund update indicate the adjustment for a year within the 5-year set schedule can be reduced and the City still meet service levels and goals; staff will recommend a reduced adjustment to the Commission and Council. Absent deferring a previously-approved increase to a future year within the 5-year calendar, staff cannot recommend a higher adjustment than was originally approved without issuing another Proposition 218 notice to all rate payers, and going through the full protest process again.

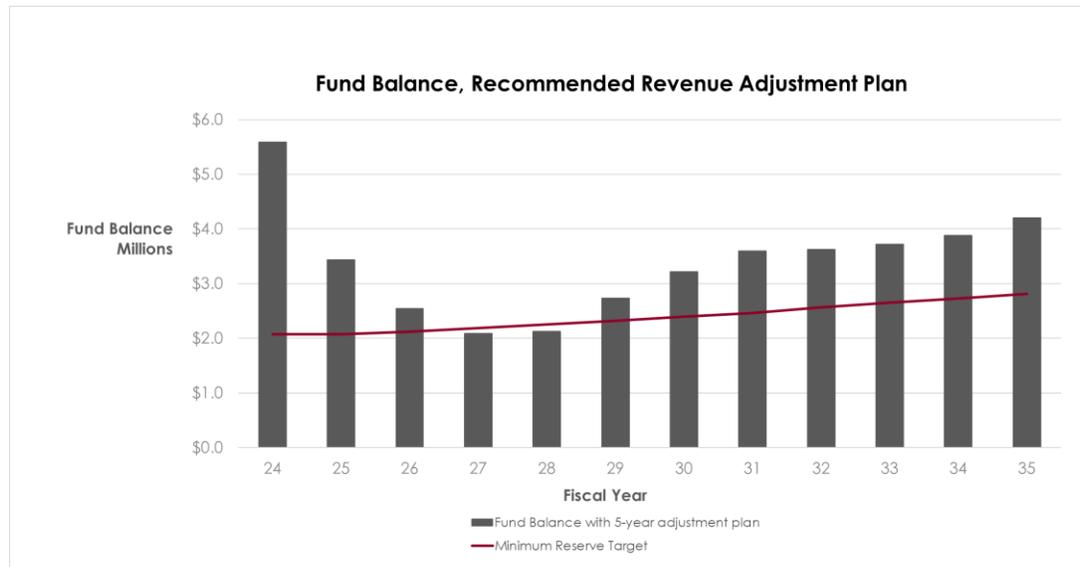
2. The report says there are no adjustments to the rate structure, service levels or cost allocation being proposed. Why is this?

There are two reasons staff is recommending moving forward with no adjustments to rate structure or service levels at this time. First, the pressure on the reserve with expenditures exceeding revenues is such that an adjustment of the rates is necessary to ensure the fiscal stability of the utility in the short-term. There is limited time to adjust rates without the need to secure an additional inter-fund loan (should one be available to the utility) to maintain operations. Secondly, with the new franchise hauler contract upcoming, it is assumed that significant adjustments will be made within the rate structure/cost allocation at that time to reflect the new contract. This is the time when we will be also looking at making adjustment to service levels. Making these adjustments with the new contract will decrease confusion among ratepayers as those adjustments will happen once. Staff is also recommending the existing contract be extended to ensure that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and allow careful negotiation of a successful hauling contract.

3. What is the program’s reserve balance? What is target level of reserves?

As of the last calculation (June 30, 2025), the reserve balance for the solid waste utility was just under \$4.3M. The approved Enterprise Fund Reserve Policy is attached (Attachment A). The target level of reserves for the utility is 12 months of operating expenses for the City’s portion of the program, currently is just under \$2M. As stated in the last report, there is significant pressure on the reserve based on the adjustment in payments to Recology without the additional adjustments to rates for customers, which depletes the reserve in short order.

With the recommended adjustments we would continue to dip into the reserve for a short while, but would see the recovery within two fiscal years. This initial drop is also why we would recommend the rates start higher (to effectively jump-start the re-balance and lessen pressure on the operating reserve).



4. Provide program financial statements for last three years. Especially show details of amounts paid to Recology.

This is provided as Attachment B to this report. The financials are divided by revenue and expenditures. Within those categories are grouped line-item totals for each subtype of revenues and expenditures, with the contract payments separated out from operations. Significant variances between years are also highlighted with descriptions.

5. Provide the consultant report that determined Recology rates required an adjustment of 18.8%. If this was not an “audit”, should we audit Recology’s expenses?

The process for the Detailed Rate Review is outlined in the City’s contract with Recology, Section 9: Billing and Payments, 9.G Adjustments to Contractor Maximum Rates, subsection ii Detailed Rate Review (this starts on page 52 of the [contract online](#)).

Both parties in the agreement (the City or the hauler) have the right to initiate a detailed rate review, no more than once every three years. This process mimics the RRI calculations, but goes into more detail. Whomever requests the review is responsible for hiring the consultant (the other party must agree with the choice) and pay for the review. During the review process (not a formal audit, but certainly comprehensive), the financial information as defined in the contract is made available to the consultant, and the review, with the process also defined in the contract, is conducted. Once this is complete, the City receives a transmittal letter with an excel spreadsheet with the adjustments of the rates (spreadsheet included as Attachment C). The City is obligated by the contract to honor the rates (questions and discussions are of course permitted) by the next adjustment, or owe the hauler back pay if the rate adjustments are delayed. The City did move forward with the adjustment to the Recology rates as the cost of service study was forthcoming, and the utility cash-in-hand could support some delay in the adjustment on the ratepayer side.

The detailed rate review requested in 2023 was the first one requested by Recology since the purchase of the City's waste hauling agreement in 2018. Between the purchase and the request for the detailed rate review, adjustments to contractor compensation included only RRI increases and landfill tipping fee increases as allowed by the agreement.

As stated in the previous report, while the extent of the increases in cost may not have been anticipated, this adjustment was not a surprise, especially given the significant increases in labor, material and equipment costs impacting nearly every industry, and market fluctuations have continued to cause challenges with budgeting statewide.

6. What outreach is being done to prepare ratepayers for the increase?

Please see the information in this report regarding the Proposition 218 process for a detailed answer to this question.

7. Can we link fee increase to increased service level? For example, providing a food waste container to each resident?

No, as there is no change to the current level of service being recommended at this time (and food waste containers are still provided to residents as part of their solid waste service, which has been the case since 2016). As included in the report received by the Commission in August, the cost of providing service has increased substantially, resulting in adjustments in program expenses (the increased cost of labor being one of the largest drivers) across all industries. This is also clearly shown in the budgeting challenges experienced by the City of Davis, with significant increases in labor and the cost of providing current service levels continuing to pressure the City's reserve. Simply put, the cost of doing business is up, and rates need to be adjusted to keep up.

For solid waste in particular, it's also important to note that four adjustments in landfill tipping fees over two fiscal years (2023 and 2025) have also increased costs for the City and Recology. The table from the August 6 report details the adjustments in costs and the increase in annual fees year over year, impacting the program.

Table 1: Yolo County Landfill Tipping Fees

Fee Type	Landfill Tipping Fee Effective Date								
	2019	2020	2021	2022	2023 (Jan)	2023 (July)	2024	2025 (July)	2025 (Sept)
Municipal Solid Waste (Landfilled Garbage)	\$50.48	\$51.88	\$53.32	\$56.31	\$61.06	\$62.77	\$64.54	\$66.36	\$70.61
Food Scraps & Organics (Collection Carts)	\$64.00	\$66.00	\$75.00	\$72.67	\$72.67	\$79.50	\$82.49	\$83.54	\$83.54

Type of Material & Cost	Landfill Tipping Fees Annual Cost					
	2019	2020	2021	2022	2023	2024
MSW (residential + commercial) tons	20,787.31	19,837.46	19,384.46	20,292.25	25,201.38	22,612.25
MSW Cost	\$939,586.41	\$1,001,394.98	\$1,005,665.78	\$1,081,982.77	\$1,191,853.94	\$1,419,370.93
Organics tons	12,066.85	12,744	12,196.65	11,037.51	11,636.74	12,056.54
Organics Cost	\$713,732.86	\$782,437.60	\$790,235.06	\$827,813.25	\$845,641.90	\$958,494.93
Total Tipping Fees	\$1,653,319.27	\$1,783,832.58	\$1,795,900.84	\$1,909,796.02	\$2,037,495.83	\$2,377,865.86

From 2019 to 2022, municipal solid waste (MSW) tipping fees at the Landfill averaged about \$1.94/ton. With two adjustments in the last two years of a little over \$4, the average has nearly doubled to \$2.86/ton. Between 2023 and 2025, tipping fees have increased \$9.55, with the four years prior totaling \$5.83. Previous fiscal years bore the significant adjustments in the cost of disposing of organics materials (especially with the implementation of SB 1383 and state-mandated organics disposal in all communities), which have smoothed out to about \$2.50 per year on average and are holding steady, in part due to the City's organics disposal agreement with the County. Current drivers of the municipal solid waste tipping fees similarly include regulatory obligations from the state (Water Resources Control Board, Air Resource Board, CalRecycle, etc.), and it remains to be seen how long the tipping fees will be subject to such high adjustments to ensure that the Landfill will comply with those regulations. The variable of how much tonnage the City is sending to the landfill is also a somewhat unpredictable factor in how the adjustments to fees will impact solid waste operations. It may be of interest to revisit the Enterprise Reserve Fund

Policy for Solid Waste to determine if any adjustments should be made, perhaps with the inclusion of a buffer for landfill tipping fees of some kind.

8. How does Davis compare to other cities regarding level of recycling and amount of waste per resident?

Below is a chart from CalRecycle data showing the amount of municipal solid waste (MSW, aka “trash”) from Davis and several other cities that was landfilled in each year. Population data is also shown (from 2020 census data) and the per capita disposal rate is calculated for each city. Per capita disposal is how the State measures the amount of waste diversion achieved by each City--it’s measured by the annual amount of trash generated, divided by the population to calculate the pounds of waste generated per person in the city each day (shown as pounds of trash generated per person, per day, or PPD in the chart below). As you can see in the charts below, the amount of waste generated by the City of Davis is very low in comparison to other cities.

Jurisdiction	Population	2020		2021		2022		2023		2024	
		tons of MSW	PPD								
Davis	66,850	31,106	2.5	33,616	2.8	33,407	2.7	34,797	2.9	34,612	2.8
Woodland	61,032	53,145	4.8	59,809	5.4	60,017	5.4	59,744	5.4	57,835	5.2
Vacaville	102,386	106,426	5.7	106,351	5.7	110,966	5.9	102,485	5.5	100,939	5.4
Sacramento	524,943	582,918	6.1	655,490	6.8	647,740	6.8	676,821	7.1	620,965	6.5
West Sac	53,915	56,855	5.8	61,731	6.3	58,017	5.9	53,857	5.5	50,362	5.1
Vallejo	126,090	92,252	4.0	98,452	4.3	120,859	5.3	111,862	4.9	100,689	4.4
San Francisco	873,965	504,397	3.2	506,113	3.2	494,642	3.1	514,744	3.2	481,547	3.0
Palo Alto	68,572	37,512	3.0	37,348	3.0	19,433	1.6	14,147	1.1	22,949	1.8
Santa Barbara	88,665	119,015	7.4	111,431	6.9	94,127	5.8	122,073	7.5	129,039	8.0

The Proposition 218 Process

Passed in November 1996, Proposition 218 is a constitutional amendment that affects the ability of cities, counties and other local governments to levy and collect taxes, assessments and property-related fees and charges. The Proposition 218 process essentially acts as the guide for all rate-setting processes and sets the procedure each City is required to follow.

Proposition 218 requires ballot vote approval prior to the imposition or an increase in general tax assessments or user fees with an exception for *certain utility services*. Water, wastewater and solid waste utilities are within the exception, while stormwater utility charges currently fall into the category of required ballot vote approval.

Regardless of whether a ballot vote is required or not, the initial procedural requirements of Proposition 218 for all utility rate increases are as follows:

- **Noticing Requirement:** The City must mail a notice of proposed rate increases to all affected property owners. The notice must specify the basis of the fee, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.

- **Public Hearing:** The City must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed (for Davis, this is an agenda item at a City Council meeting).
- **Rate Increases Subject to Majority Protest:** At the public hearing, the proposed rate increases are subject to majority protest. If 50% of affected property owners submit written protests the proposed rate increases, the increases cannot be adopted.
- **Ballot Vote Approval (Stormwater Utility Only)**

For those utility services that do require ballot vote approval, the initiation of the balloting would happen at the same public hearing for the majority protest.

Proposition 218 requires that utility rates meet the following conditions:

- Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.
- Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
- No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property in question.

In addition to Proposition 218 requirements, rate setting should also follow generally accepted rate-making principles, set by industry standards in each utility. While methodologies for establishing utility rates, charges, and fees can vary slightly by utility; overall they will include the following:

1. **Revenue Sufficiency:** Rates should recover the annual cost of service and provide revenue stability. The City aims to ensure that expenditures not exceed rate revenue.
2. **Rate Impact:** While rates are calculated to generate sufficient revenue to cover operating and capital costs, they should be designed to minimize, as much as possible, the impacts on ratepayers.
3. **Equitability:** Rates should be fairly allocated among all customer classes based on their estimated demand characteristics. Each user class only pays its proportionate share (this is also required under Proposition 218).
4. **Practicality:** Rates should be simple in form, adaptable to changing conditions, easy to administer and easy to understand.

Next Steps

Once comfortable doing so, the Commission will be asked to either support staff recommendation for the rate adjustments, or provide an alternative recommendation that staff will bring forward to City Council. City Council will determine if they would like to pursue the rate adjustment and if they do, will authorize the mailing of Proposition 218 notices to the community. These notices are mailed two weeks after Council authorization.

When the notices are mailed, the protest period of 45 days begins. At the next Council meeting after the 45 days have elapsed, the Council will hold a public hearing and determine if the necessary number of protests have been received. Should a majority protest *not* occur, Council will then have the option of setting the solid waste rate adjustments.

The rates would represent the maximum amount for the adjustments for the next five years. Based on annual fund reviews (also seen by the Fiscal Commission) Council could act to postpone or forego future adjustments to rates based on the health of the fund in future years. Also, as previously stated, once a new franchise hauling agreement is finalized, staff will revisit the rates with the Commission to determine if changes should be made.

Attachments

- A. Enterprise Fund Reserve Policy
- B. Solid Waste Utility Fund Summary (FY 2022-2025)
- C. Exhibit C 10.01.2023 (Rate Review)



**CITY OF DAVIS
WATER, WASTEWATER, SOLID WASTE, AND STORMWATER FUND
RESERVE POLICY**

1. PURPOSE

The purpose of this policy is to establish targeted levels of Water, Wastewater, Solid Waste and Stormwater Utility fund reserves, a crucial component in the financial resilience of public owned utilities. Strong and transparent financial policies, including maintaining adequate reserves for emergencies, rate stability, and working capital, are consistent with best practices in the utility industry, as they help to:

- 1) Ensure cash for daily financial needs to counter revenue volatility and unanticipated expenses is readily available
- 2) Fund equipment and infrastructure purchases to mitigate damages related to a catastrophic event such as a natural disaster
- 3) Protect constituents from rate increases due to unexpected variances from forecasted results that arise from non-recurring events or factors

2. BACKGROUND

The City of Davis Public Works Utilities and Operations Department provides water, wastewater, stormwater and solid waste services for citizens, businesses, and organizations. Public owned utilities are expected to provide uninterrupted service 24 hours a day, 7 days a week while relying largely on service-based revenue. As highlighted by the American Water Works Association, cash reserve balances are a critical component to the utility's financial resiliency and sustainability.

3. DEFINITIONS

Operating Reserve: liquid, unrestricted assets that an organization can utilize to support its operations in the event of an unanticipated loss of revenue, working capital deficiencies, or an increase in expenses.

Emergency Capital Reserve: Funds reserved in this category shall be used to mitigate costs associated with capital purchases due to unforeseen emergencies, including natural disasters. Should unforeseen and unavoidable events occur that require expenditure of City resources beyond those provided in the annual budget, the City Manager shall have authority to approve appropriation of Emergency Reserve funds. The City Manager shall then present to the City Council – as soon as possible– a resolution confirming the nature of the emergency and formally authorizing the appropriation of Emergency Reserve funds.

Rate Stabilization Reserve: Rate stabilization reserves are established to cover wide fluctuations in projected revenue from season to season or year to year. A rate stabilization reserve allows a utility to draw on the fund balance during revenue shortfalls that result from lower than expected revenue. When use of the fund is deemed necessary, the City Manager shall present to the City Council a resolution confirming the nature of the need and authorizing the appropriation of Rate Stabilization Reserve funds.

4. POLICY

The policy illustrated below is the framework established for the Water, Sewer and Stormwater fund. The Public Works Utilities and Operations Director in conjunction with the City Treasurer shall review the Utility reserve balances annually and provide any updates as necessary to the Finance and Budget Commission, Utilities Commission and the City Council.

Reserve Type	Key Considerations	Policy	Methods to Achieve Funding Levels
Operating	<ul style="list-style-type: none"> • Revenue fluctuations • Working capital • Potential risks • Risk management • Daily financial needs • Operating expenditures 	The City will maintain a target 3-month reserve balance for each utility.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the operating funds.
Emergency Capital	<ul style="list-style-type: none"> • Cost of critical assets • Critical facilities • Catastrophic events such as natural disasters • Availability of other funds • Address unanticipated, nonrecurring needs. 	Target reserve for each utility shall be the average of the planned expenditures in the 5-year Capital Improve Program as provided in each Utility Cost of Service Study (not including any debt-financed projects).	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the capital funds.
Rate Stabilization	<ul style="list-style-type: none"> • Impacts of revenue shortfalls • Drought restrictions • Revenue volatility • Weather • Regional economic conditions • Rate variability • Sharp demand reduction 	Target reserve shall be 5% of annual operating revenue for Stormwater and Wastewater, and 10% of operating revenue for Water.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the rate stabilization funds.

Solid Waste Reserve Fund Policy: The City of Davis Solid Waste Division is responsible for recycling, garbage, organics collections, street sweeping, and landfill tipping. Eighty-

six percent of the total cost in the fund is a franchise agreement with the waste hauler and the other fourteen percent accounts for state mandated programs, city administrative costs related to operations, and debt service requirements. The solid waste utility does not have assets or large capital expenditures similar to the other City utilities. Due to this difference, and to ensure the fiscal sustainability of the fund, the target reserve is **12** months of *non-contractual* operating expenditures. Non-contractual expenditures are defined as expenditures relating to obligations not expressed in a contract. This allows a reserve for changes in contracted service, emergency services, and revenue fluctuations.

Solid Waste Reserve Policy

Reserve Type	Key Considerations	Policy	Methods to Achieve Funding Levels
Operating	<ul style="list-style-type: none"> • Revenue fluctuations • Working capital • Potential risks • Risk management 	Target reserve is 12 months of non-contractual operating expenditures.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the operating funds.

Solid Waste Utility Financial Detail

Fiscal Year	2022		2023		2024		2025	
Beginning Fund Balance	\$1,827,611		\$4,093,108		\$5,874,993		\$5,630,294	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
REVENUE								
Service Charges	\$14,366,300	\$15,913,094	\$15,838,900	\$16,598,743	\$16,566,800	\$16,846,415	\$16,939,873	\$16,939,873
All Other Operating Revenue	\$92,800	\$107,247	\$88,200	\$139,278	\$88,634	\$45,462	\$88,634	\$29,935
Total Revenue	\$14,459,100	\$16,020,341	\$15,927,100	\$16,738,022	\$16,655,434	\$16,891,877	\$17,028,507	\$16,969,808
EXPENDITURES								
Operating Expenses								
Total Salaries and Wages	\$645,877	\$611,191	\$685,026	\$613,312	\$680,218	\$602,610	\$799,149	\$518,426
Non-Labor Operations Costs	\$942,429	\$582,020	\$1,033,861	\$674,521	\$837,341	\$661,656	\$859,603	\$671,002
Recology Contract Costs	\$12,550,000	\$12,538,232	\$12,962,200	\$13,219,193	\$13,648,492	\$15,610,410	\$14,081,077	\$16,995,797
Total Operating Expenses	\$14,138,306	\$13,731,443	\$14,681,087	\$14,507,026	\$15,166,051	\$16,874,676	\$15,739,829	\$18,185,224
Non-Operating Expenses								
CIP	\$15,000	\$0	\$312,000	\$403,511	\$312,000	\$224,399	\$312,000	\$0
Debt	\$37,500	\$23,400	\$45,600	\$45,600	\$37,500	\$37,500	\$123,500	\$123,500
Total Non-Operating Expenditures	\$52,500	\$23,400	\$357,600	\$449,111	\$349,500	\$261,899	\$435,500	\$123,500
Total Expenditures	\$14,190,806	\$13,754,843	\$15,038,687	\$14,956,137	\$15,515,551	\$17,136,575	\$16,175,329	\$18,308,724
Net Revenue	\$2,265,497		\$1,781,884		(\$244,698)		(\$1,338,916)	
Ending Fund Balance	\$4,093,108		\$5,874,993		\$5,630,294		\$4,291,378	
<i>Fund Balance Target</i>	\$2,000,000		\$2,000,000		\$2,000,000		\$2,000,000	

Variiances

Non-Labor Operating Costs, FY 2022 & 2023: Multiple professional services projects were started in 2022, however challenges with resources delayed projects through FY 2024.

Recology Contract Costs, FYs 2023-2025:

2023 Includes 18.8% adjustment to Recology Contract (Oct) and increase in tipping fees (July)

2024 Includes RRI adjustment in Oct, increase in tipping fees (July)

2025 Includes RRI adjustment in Oct, increase in tipping fees (July/Sept)

CONTRACTOR SANITATION COMPENSATION MONTHLY RATES BY TYPE OF SERVICE

INDIVIDUALLY SERVICED RESIDENCES (CITY FEES NOT INCLUDED)		BUSINESSES AND COMMUNALLY SERVICED RESIDENCES (City fees NOT included)											
LEVEL OF SERVICE PER MONTH		CART SERVICE											
		LEVEL OF SERVICE	1X/WK		2X/WK		3X/WK		4X/WK		5X/WK		6X/WK
		CART	MID-WEEK	SAT	ALL MD-WK	1X/WK +SAT	ALL MD-WK	2X/WK +SAT	ALL MD-WK	3X/WK +SAT	ALL MD-WK	4X/WK +SAT	
CURBSIDE CART	\$52.25	1	\$87.98	\$94.56	\$153.27	\$163.21	\$228.44	\$238.38	\$306.97	\$320.13	\$385.51	\$408.89	\$429.43
HANDICAPPED CART	\$52.25	2	\$149.98	\$159.89	\$280.56	\$293.74	\$421.11	\$434.28	\$568.97	\$581.44	\$698.81	\$718.61	\$862.44
NO GARBAGE	\$30.65	3	\$202.08	\$221.86	\$384.81	\$421.11	\$584.00	\$613.69	\$779.91	\$809.63	\$972.54	\$1,005.53	\$1,184.90
DROP BOX & CONSTRUCTION BIN SERVICE (CITY FEES NOT INCLUDED)		BIN SERVICE											
LEVEL OF SERVICE PER PICK UP		LEVEL OF SERVICE	1X/WK		2X/WK		3X/WK		4X/WK		5X/WK		6X/WK
YARDS		YARDS	MID-WEEK	SAT	ALL MD-WK	1X/WK +SAT	ALL MD-WK	2X/WK +SAT	ALL MD-WK	3X/WK +SAT	ALL MD-WK	4X/WK +SAT	
2 YARDS	\$93.31	1	\$0.00	N/A	BASE SERVICE	N/A	\$88.73	N/A	\$154.03	N/A	\$229.20	N/A	
4 YARDS	\$181.97	EACH ADD'L	\$51.99	\$61.87	\$104.15	\$127.25	\$162.84	\$179.33	\$210.85	\$228.12	\$273.63	\$286.80	\$322.43
** DOES NOT INCLUDE LANDFILL FEES **		EACH ADD'L	\$39.73	N/A	\$79.45	N/A	\$119.18	N/A	\$158.89	N/A	\$198.62	N/A	
10 YARDS	\$252.57	FOOD WASTE											
20 YARDS	\$252.57	1	\$0.00	N/A	BASE SERVICE	N/A	\$88.73	N/A	\$154.03	N/A	\$229.20	N/A	
30 YARDS	\$310.24	EACH ADD'L	\$39.73	N/A	\$79.45	N/A	\$119.18	N/A	\$158.89	N/A	\$198.62	N/A	
40 YARDS	\$409.33	FOOD CART											
50 YARDS	\$545.38	EMPTIED ON											
CUSTOMER OWNED COMPAC	\$365.57	SERVICE DAY	\$39.73	N/A	\$79.45	N/A	\$119.18	N/A	\$158.89	N/A	\$198.62	N/A	
NO GARBAGE SERVICE		BIN SERVICE											
LEVEL OF SERVICE PER MONTH		LEVEL OF SERVICE	1X/WK		2X/WK		3X/WK		4X/WK		5X/WK		6X/WK
		YARDS	MID-WEEK	SAT	ALL MD-WK	1X/WK +SAT	ALL MD-WK	2X/WK +SAT	ALL MD-WK	3X/WK +SAT	ALL MD-WK	4X/WK +SAT	
NONE	\$30.65	1	\$144.01	\$167.22	\$268.77	\$291.85	\$403.43	\$426.49	\$540.27	\$564.75	\$682.55	\$702.29	\$836.98
		1.5	\$193.24	\$220.23	\$353.93	\$376.99	\$550.90	\$577.29	\$737.98	\$761.06	\$915.10	\$938.20	\$1,135.19
		2	\$232.47	\$272.08	\$448.95	\$485.17	\$668.64	\$708.27	\$894.94	\$931.27	\$1,121.30	\$1,160.95	\$1,380.87
		2.5	\$288.26	\$324.51	\$543.94	\$583.61	\$826.02	\$865.63	\$1,089.80	\$1,144.39	\$1,387.16	\$1,426.70	\$1,702.25
		3	\$344.02	\$383.61	\$645.58	\$685.12	\$980.14	\$1,026.26	\$1,321.52	\$1,361.11	\$1,652.70	\$1,695.63	\$2,030.18
		4	\$448.95	\$501.73	\$845.50	\$904.89	\$1,285.14	\$1,344.58	\$1,718.08	\$1,774.11	\$2,150.93	\$2,210.27	\$2,755.37
		5	\$547.22	\$619.83	\$1,052.02	\$1,121.30	\$1,593.32	\$1,665.90	\$2,131.04	\$2,203.71	\$2,662.25	\$2,731.60	\$3,378.26
		6	\$652.15	\$737.98	\$1,255.43	\$1,331.38	\$1,901.48	\$1,980.68	\$2,537.62	\$2,620.05	\$3,173.34	\$3,256.19	\$4,004.70
		EACH ADD'L YARD	\$96.52	\$106.40	\$190.63	\$207.21	\$291.49	\$301.35	\$385.62	\$402.15	\$476.51	\$496.29	\$590.50
		ADD SURCHARGE FOR											
		PER COMPACTED Y	\$104.38	\$114.29	\$206.51	\$219.68	\$315.12	\$321.77	\$417.19	\$430.46	\$519.29	\$535.77	\$635.15

ADDITIONAL RESIDENTIAL GARBAGE CART \$11.27 PER MONTH
 EXCHANGE RESIDENTIAL GARBAGE CART IN EXCESS OF ONCE PER CALENDAR YEAR \$20.00 PER EXCHANGE
 ADDITIONAL ONLY ORGANICS GARBAGE CART (NON FOOD ONLY) \$7.59 PER MONTH
 BASE FOOD ORGANICS SERVICE ONE 65 GALLON CART EMPTIED TWICE PER WEEK

ADDITIONAL RESIDENTIAL GARBAGE CART \$11.27 PER MONTH
 EXCHANGE RESIDENTIAL GARBAGE CART IN EXCESS OF ONCE PER CALENDAR YEAR \$20.00 PER EXCHANGE
 ADDITIONAL ONLY ORGANICS GARBAGE CART (NON FOOD ONLY) \$7.59 PER MONTH
 BASE FOOD ORGANICS SERVICE ONE 65 GALLON CART EMPTIED TWICE PER WEEK

RESOLUTION NO. 25-XXX, SERIES 2025

RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE AN AMENDMENT TO EXTEND THE TERM OF THE AGREEMENT FOR COLLECTION AND HANDLING OF SOLID WASTE BETWEEN THE CITY OF DAVIS AND RECOLOGY DAVIS UNTIL DECEMBER 31, 2029

WHEREAS, the City of Davis manages a municipal solid waste utility that includes an exclusive franchise agreement for waste hauling and disposal services; and

WHEREAS, Recology Inc. (Recology) has held the exclusive franchise agreement and has been providing reliable solid waste services to the Davis community since purchasing Davis Waste Removal in 2018; and

WHEREAS, the Agreement between the City and Recology will expire on December 31, 2027; and

WHEREAS, with a number of high priority projects underway, the City wishes to ensure that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and allow careful negotiation of a successful hauling contract prior to the expiration of the existing franchise agreement.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Davis does hereby authorize the City Manager to execute an amendment to the Agreement for Collection and Handling of Solid Waste with Recology Inc. to extend the expiration date to December 31, 2029, with all terms and conditions of the Agreement continuing in full force and effect.

PASSED AND ADOPTED by the City Council of the City of Davis on this 16th day of September, 2025, by the following vote:

AYES:

NOES:

Bapu Vaitla
Mayor

ATTEST:

Zoe S. Mirabile, CMC
City Clerk