



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:

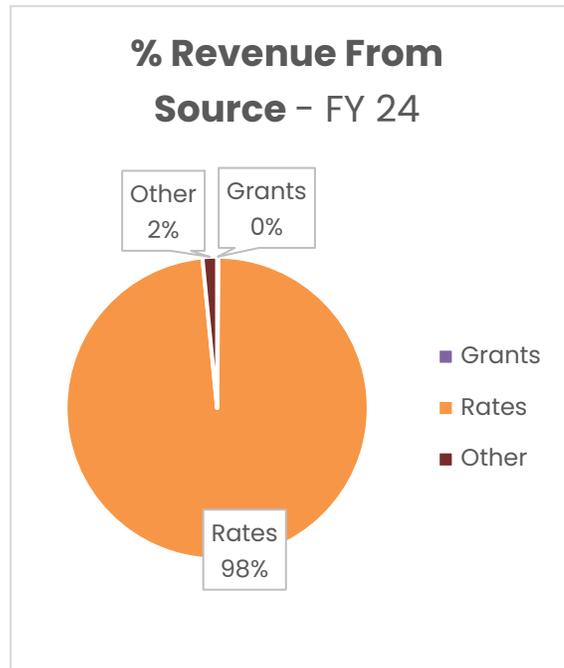
Sources of Funds

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.

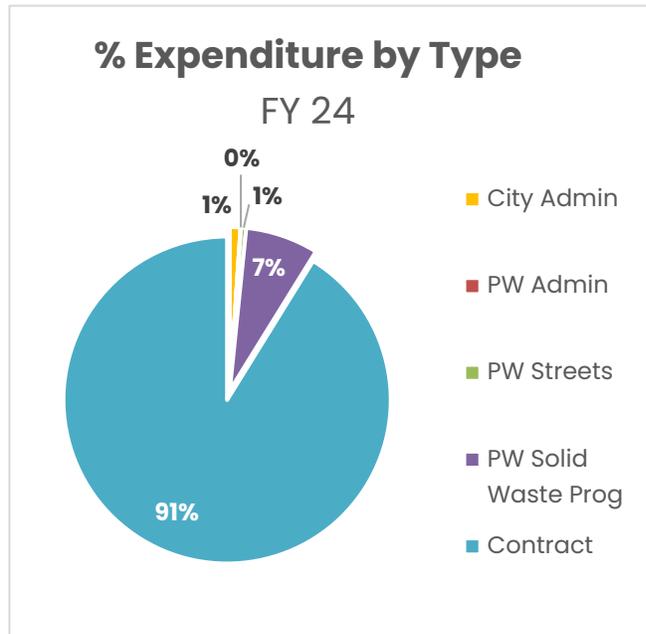
Streets Division

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
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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

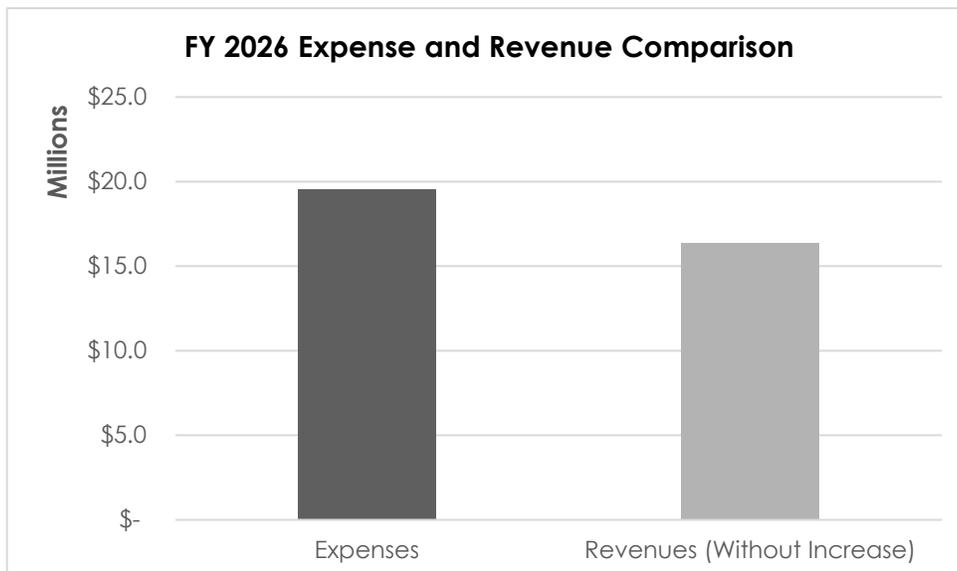
With a number of priority efforts underway, staff has proposed that the existing contract be extended (amount to be determined by Council) for two reasons: 1) to ensure that the proper amount of time is allocated to the process to review current service levels, survey residents on their preferences and 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.

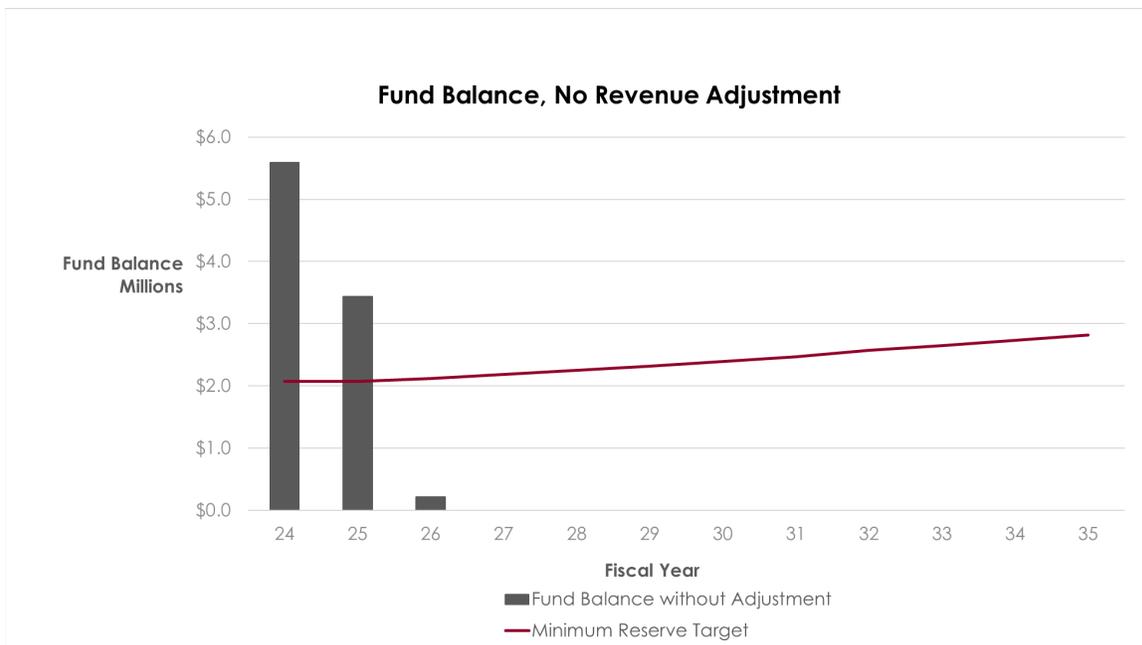
After loading the revenue sufficiency model and calibrating it to the City's financial dynamics, they conducted several interactive meetings with staff to review the data



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.



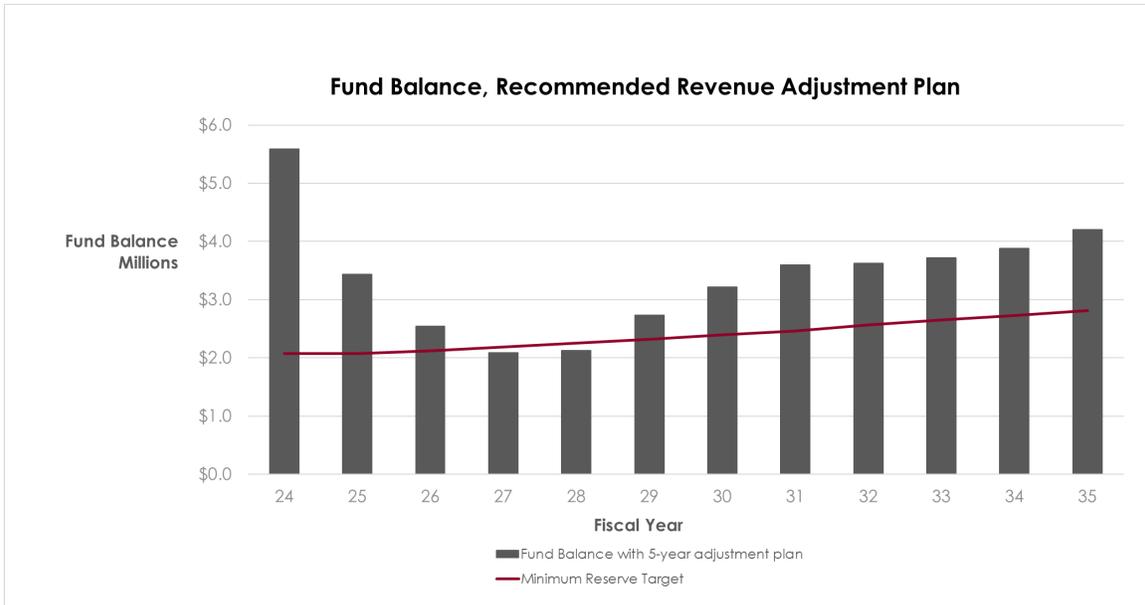
Without any rate adjustments, fund balance would be depleted by FY 2027. The recommendation from the rate consultant is in the table below, with the sample bill impact for residential solid waste customers (monthly rate):

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

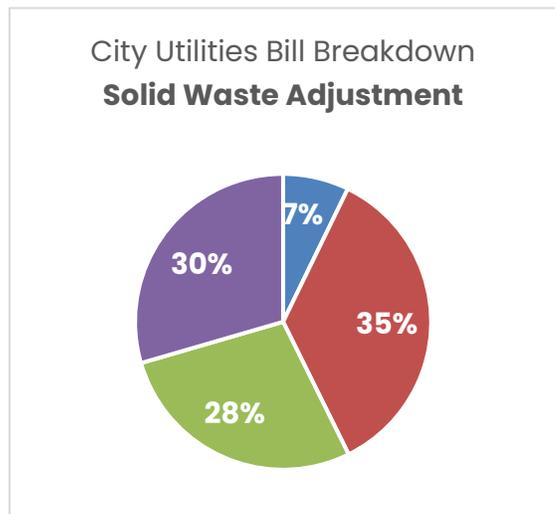
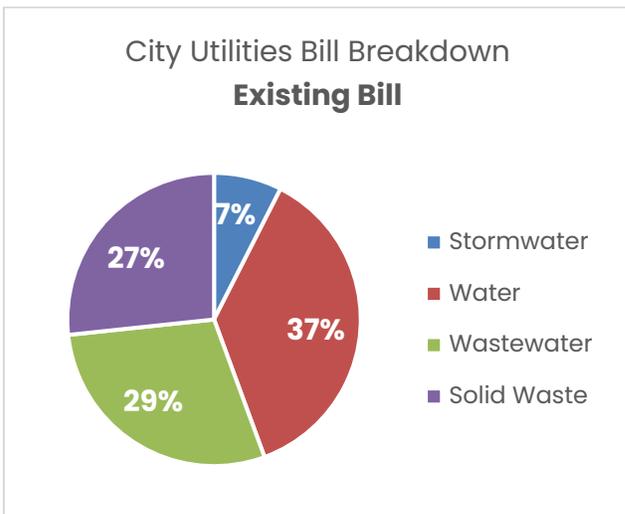
SCS recommends that a 15.00% rate increase in FY 2026, followed by annual increases of 6.50% from FY 2027 through FY 2029, and then inflationary-like increases of 3.00% in each year thereafter will be sufficient for the City to continue to meet its financial obligations.

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.