



## 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

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### **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%
<b>35 GAL/Small</b>	\$44.52	\$51.20	\$54.53	\$58.07	\$61.84	\$63.70
<b>65 GAL*/Medium</b>	\$49.28	\$56.67	\$60.36	\$64.28	\$68.46	\$70.51
<b>95 GAL/Large</b>	\$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.*

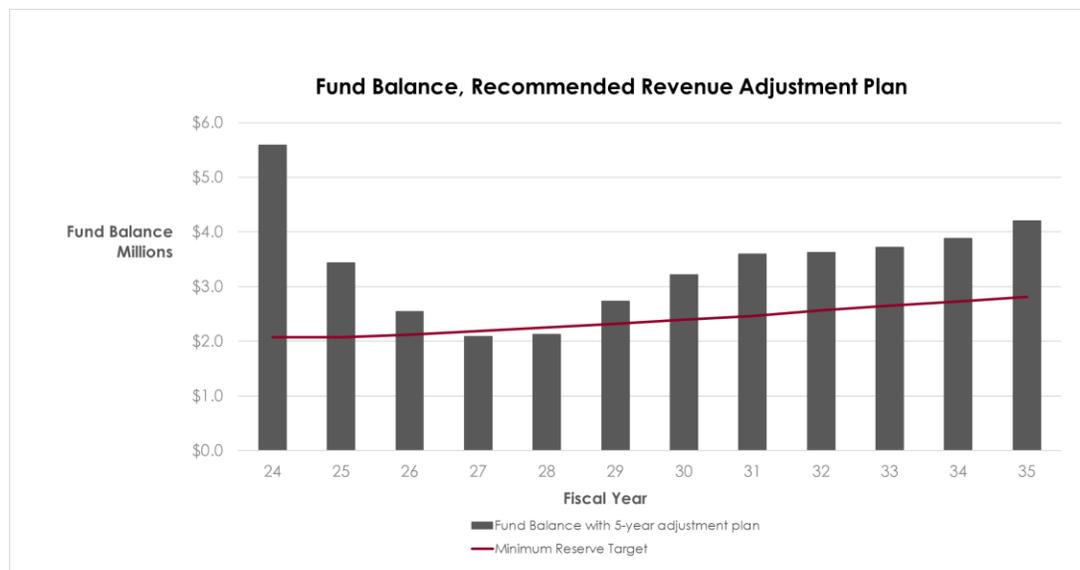
**2. The report says there are no adjustments to the rate structure, service levels or cost allocation being proposed. Why is this?**

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)
<b>Municipal Solid Waste (Landfilled Garbage)</b>	\$50.48	\$51.88	\$53.32	\$56.31	<b>\$61.06</b>	<b>\$62.77</b>	\$64.54	<b>\$66.36</b>	<b>\$70.61</b>
<b>Food Scraps &amp; Organics (Collection Carts)</b>	\$64.00	\$66.00	\$75.00	\$72.67	<b>\$72.67</b>	<b>\$79.50</b>	\$82.49	\$83.54	\$83.54

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

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