



**AGENDA SUMMARY
EUREKA CITY COUNCIL**

TITLE: Annual Rate Review of Service Rate Adjustment for Solid Waste Collection

DEPARTMENT: Community Services

PREPARED BY: Robin Praszker

PRESENTED FOR: Action Information only Discussion/Direction

RECOMMENDATION:

Hold a Public Hearing; and
Adopt a Resolution of the City Council approving 10.44 % increase in the rates for solid waste collection by Recology Humboldt County effective July 1, 2023.

FISCAL IMPACT

No Fiscal Impact Included in Budget Additional Appropriation

The City receives a Franchise Fee from Recology Humboldt County (9% of gross revenues derived by the company from the provision of services within the City) which totals an estimated \$965,421 for fiscal year 2023-24. These funds are placed into the General Fund.

COUNCIL GOALS/ STRATEGIC VISION

NA

DISCUSSION

Attached for the Council's consideration and action is a proposed rate schedule for solid waste collection within the City for FY 2023-24. The rates for next fiscal year reflect a 10.44% increase from the current rates. Collection services in the City are currently provided through a Franchise Agreement with Recology Humboldt County. If Council approves staff recommendation, the collection rates will increase for all customers on July 1, 2023.

Breakdown of increase:

7.44% of the total increase is due to an increase by Humboldt Waste Management Authority (HWMA) for municipal solid waste tip fees, and 3% of the increase is due to Recology increasing the recycling processing fees, allowable costs, pass-through costs,

and disposal costs, totaling at a 10.44% increase to the rates. The green waste rate is also receiving an increase which is only applied to green waste customers.

HWMA is responsible for managing the Hawthorne Street Transfer Station and oversees the management of all member agency's solid waste, including the City of Eureka. In essence they manage the transportation and disposal aspects of solid waste, with these costs being applied to curbside customers rates. On May 3rd, HWMA adopted their Waste Management Fee Structure for the upcoming fiscal year which resulted in an increase to their Franchise tip fee of just under 26%.

This increase can largely be attributed to the loss of backhauls related to the solid waste transportation and disposal contract. In the past, HWMA has been fortunate to average a 60-70% backhaul rate. In early 2023, the backhaul rate realized by HWMA began to drop precipitously from this historical average to around a 20% backhaul rate. HWMA anticipates a 15% backhaul rate for the coming year after consulting with their contracted waste haulers. Backhauling is when trucks that deliver material to the landfill are contracted by another party to haul material back to Humboldt county, thus reducing the total transportation rate realized by the Authority.

Lastly, the green waste tip fee has increased by Wes Green due to higher transportation and processing costs. The green waste fee is calculated separately from the other rates and therefore does not increase by 10.44%. Rather, the rates increase by \$2.98 per green waste customer, plus an additional .94% due to an increase in Recology's allowable costs and pass-through costs. This totals to \$3.38 increase per month per green waste customer.

Financial analysis:

Per the Franchise Agreement section 8.2.6 City Right to Inspect and Audit, staff contracted with a Certified Public Accountant with an emphasis in waste management accounting to perform a financial analysis of the proposed rate application to ensure accuracy and compliance with the terms of the franchise agreement.

There are two aspects to be reviewed during a rate review. The first is financial, and the second is the operational data used to allocate costs when a collection company provides service to two or more jurisdictions. Therefore, the processes a company implements to gather data to manage the company and report to regulators are a concern. To understand these processes, interviews, data collection, and examination of the evidence were completed during the site visit to Recology's office in Samoa.

Following this process, the CPA made the following conclusion:

"The procedures utilized by Recology to collect and report the results of operations in Eureka are practical and prudent. Nothing I observed during my site visit and information review would lead me to believe the rate request submitted to the City is not a reasonable representation of the cost of collection services in Eureka."

ANNUAL RATE ADJUSTMENT DETAILS

Per terms of the City's Solid Waste Franchise Agreement with Recology, the City Council performs a rate adjustment review each year to ensure (in protecting the public's interest) that rates do not exceed the reasonable cost of providing services. The Agreement allows for an Annual Review of Recology's contracted Revenue Requirement. The Revenue Requirement represents Recology's full compensation for all labor, equipment, materials and supplies, overhead, profit and all other costs necessary to perform the services required by the Franchise Agreement. The Agreement also allows for a Periodic Rate Review and Adjustment every three years, which means that the actual costs associated with performing all the existing programs are shored up against the costs that were projected in the previous two annual rate reviews. This rate adjustment is an Annual Review.

As compensation, Recology is authorized to collect service rates sufficient to meet its authorized Revenue Requirement. Service costs generally increase each year because of higher insurance and fuel costs, allowable cost-of-living increases, and increases related to the contracted disposal tonnage rates through the HWMA. The franchise fee percentage and allowable profit compensation percentage remain the same, and are calculated on the increased baseline costs.

Cost Items

Included in the proposed annual service rate are the following cost items and adjustments:

1. **Total Allowable Costs:** These costs include non-escalating costs such as equipment leases, escalating costs such as health insurance costs, labor costs and fuel costs, and escalating CPI costs such as administrative overhead, computer services, property rentals, freight and repairs. The Total Allowable Costs resulted in an estimated increase of \$198,553 from the previous rate review of July 2022. This is due to increases associated with escalating costs.
2. **Total Pass Through Costs:** These costs include items such as insurance costs (other than health), property taxes, licenses and fees. The cumulative Total Pass Through Costs resulted in an estimated increase of \$33,352 from the previous rate review of July 2022. This is due to slight increases in insurance, property taxes and vehicle license fees.
3. **Disposal Costs:** The disposal costs this year are estimated to increase by \$630,261 from the previous rate review of July 2022. This is due to an increase in the solid waste tip fee by HWMA.
4. **Franchise Fee:** The Agreement includes a price factor for the City's franchise fee. As the contract amounts are adjusted, so is the Franchise Fee amount, which is calculated as 9% of gross receipts. The Franchise Fee estimate for FY 2023-24 is \$965,421 an increase of \$89,197 over last year.

5. Margin (20% of allowable costs): The agreement includes a profit margin by Recology which is 20% of allowable costs. The profit margin for FY 2023-24 is estimated at \$952,510, an increase of \$39,710 over last year.

Rate Adjustment Summary

Below is a table reflecting costs associated with the 10.44% increase. Please note that all cost factor amounts are close approximations:

COST FACTOR	AMOUNT
1. Total Allowable Costs (including fuel)	\$198,553
2. Total Pass Through Costs	\$33,352
3. Disposal Costs	\$630,261
4. Franchise Fee	\$89,197
5. Margin	\$39,710
Total Increased Costs	\$991,073
TOTAL COST INCREASE	\$991,073 (10.44%)
Effective July 1, 2023	
<i>Increase for average commercial customer (1 yard bin)</i>	\$225.23 per month (increase of \$21.30/month)
<i>Increase for average residential customer (30 gallon can)</i>	\$37.08 per month (increase of \$3.50/month)
<i>Increase for green waste customers (96 gallon can)</i>	\$9.99 per month (increase of \$3.38)

REVIEWED AND APPROVED BY:
Attorney

- City
- City Clerk/Information Services
- Development Services
- Finance
- Fire
- Community Services
- Personnel
- Police
- Public Works

ATTACHMENTS:

Resolution (2023-24 Rate Review)
Annual Rate Review and Adjustment Fiscal Year 2023-24