

TO: FINANCE AND AUDIT COMMITTEE

FROM: MARIO IGLESIAS  
GENERAL MANAGER



DATE: April 22, 2022

**AGENDA ITEM**

**E-1**

**APRIL 27, 2022**

**CONSIDER DRAFT OF THE  
SOUTH COUNTY SANITARY SERVICES  
SOLID WASTE RATE APPLICATION REVIEW**

**ITEM**

Receive and review the Draft South County Sanitary Services Solid Waste Rate Review Memorandum ("Rate Study") and consider recommended rate increase as proposed by the South County Sanitary Service ("SCSS") [RECOMMEND RECEIVE, REVIEW, AND DISCUSS SOUTH COUNTY SANITARY SERVICES SOLID WASTE RATE REVIEW AND DIRECT STAFF]

**BACKGROUND**

The South County Sanitary Service ("SCSS") operates under a franchise agreement held by Nipomo Community Services District ("District") to provide solid waste collection services within District boundaries. SCSS is proposing a rate increase for their services.

The District enlisted the professional services of William Statler ("Consultant") to review the rate structure proposed by SCSS. The consultant provided these services to the District in 2019 for similar work and was hired by the South County communities of Arroyo Grande, Grover Beach, Oceano, and Pismo Beach. The Consultant is well versed in the nuances of solid waste management and rate structures in the South County area.

The attached presentation [Attachment A] provided by the Consultant, summarizes SCSS's Rate Application and provides the Consultant's commentary on SCSS proposed rate increase [Attachment B].

**FISCAL IMPACT**

Funding for the Consultant's work is provided by the SCSS as per the Franchise Agreement. There was staff time spent on reviewing the Consultant's work product and a minimal amount of time spent on drafting the staff report.

**STRATEGIC PLAN**

Goal 4. FINANCE. Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

B.1 Evaluate, plan for and maintain finances that are adequate for all needs, stable and reliable over the long-term.

Goal 5. OPERATIONS. Maintain a proactive program to ensure readiness of systems and cost-effectiveness of operations.

Goal 6. GOVERNANCE AND ADMINISTRATION. Conduct District activities in an efficient, equitable and cost-effective manner.

Goal 8. ADDITIONAL COMMUNITY SERVICES. Staff should focus on meeting the goals and objectives of existing services. Adding new services will be considered on a case-by-case basis and entered into only if funding can be found and existing services are not harmed.

- A.1 SOLID WASTE. Seek to maximize solid waste services for community and build understanding of services like hazardous waste, recycling, etc. and District's role.

**RECOMMENDATION**

It is recommended that the Committee receive and review the draft rate study for the Blacklake Street Lighting Assessment District, edit if necessary, and direct Staff bring the rate study back to the Board for adoption.

**ATTACHMENTS**

- A. April 18, 2022 Memorandum – Bill Statler – Solid Waste Rate w/Attachments
- B. Presentation – Summary of Rate Study
- C. Rate Adjustment Setting Schedule

APRIL 27, 2022

ITEM E-1

ATTACHMENT A

## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

# MEMORANDUM

April 18, 2022

TO: Mario Iglesias, General Manager, Nipomo Community Services District

FROM: Bill Statler 

SUBJECT: SOLID WASTE RATE REVIEW

### RECOMMENDATION

Approve the proposed rate increase from South County Sanitary Service (SCSS) for solid waste services of 21.27%.

### DISCUSSION

#### Background

SCSS submitted an initial rate application on October 20, 2021 requesting a 23.23% rate increase for all customers. However, due to complexity, concerns with pending rate increases by the Integrated Waste Management Authority (IWMA) and significant subsequent reviews and information exchanges, a revised application was submitted on February 18, 2022 proposing a rate increase of 21.27%.

The final application is the focus of this report in reviewing the SCSS rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications. This revised application was prepared in accordance with the District's Franchise Agreement with SCSS, which calls for rate requests to be prepared based on the "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates" (*Rate Manual*).

The SCSS application supporting the proposed 21.27% increase is provided in Attachment 1; and provided in Attachment 2 is a comprehensive rate review prepared for the communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach, which provides the foundation for this report.

**Summary of Findings and Recommendations**

There are two key differences between the initial and revised application:

- Greenwaste processing costs have been reclassified as “pass-through” costs: while costs may be recovered, no profit is allowed on them.
- IWMA fees have been excluded from the fee analysis. These are approved by a separate agency and will be charged separately on customer bills.

As detailed in Attachment 2, key cost drivers in this review include the following, which account for almost 90% of the cost increases since 2020 (last audited financial statements):

<b>2022 Cost Increase from 2020</b>			
	Amount	% of Total	Rate Impact*
Depreciation	998,708	36%	7.72%
Greenwaste	956,783	35%	7.39%
Insurance	298,612	11%	2.31%
Gas and Oil	131,422	5%	1.02%
Total Key Drivers	2,385,525	87%	18.43%
Other Costs	367,275	13%	2.84%
Total	\$2,752,800	100%	21.27%

**Rate Request Review**

SCSS, a subsidiary of Waste Connections, provides service to all south county communities under formal Franchise Agreements, including the:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District
- Avila Beach Community Services District
- County of San Luis Obispo for other unincorporated areas in the south county such as Rural Arroyo Grande

As noted above, Attachment 2 provides a comprehensive rate review prepared for the communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach, which provides the foundation for this report. As discussed in Attachment 2, joint agency review for these four agencies – with the District “piggybacking” on this review – makes sense because:

- SCSS provides the same services to each of these agencies under formally approved Franchise Agreements.
- Each of these Franchise Agreements use the same methodology for regulating rates and establishing procedures for considering rate increases.

- Financial information for SCSS is closely related for these four agencies (as well as all other south county communities).
- Except for Oceano CSD (where the rate is 5%), all agencies have adopted franchise fees of 10%.

In general, all the findings set forth in Attachment 2 are applicable to the District, with two key differences:

- The “allowable profit” (which is described in the attached report) is 7% (versus 8% in the other communities).
- Requirement that SCSS demonstrate that the requested rates are 1% less than what other agencies are paying for similar services.

These factors are why the requested rate increase of 21.27% is less than the proposed rate increase of 22.19% in other south county communities (except for Oceano CSD: as noted above, the franchise fee there is 5%, resulting in a slightly lower rate increase of 21.03%). Compared with similar agencies as presented in the rate survey on page 15 of Attachment 2 (Table 8) as well as other south county communities, SCSS has met their “1%” requirement.

### Findings

The key findings presented in the attached report also apply to the District:

- **Complete Application.** With its revised application, SCSS has fully provided the supporting documentation required for rate requests under the District’s Franchise Agreement.
- **High Level of Service at a Reasonable Cost.** SCSS provides a broad level of high-quality services to the District – including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services – at very competitive rates compared with many other communities. In fact, even with the recommended rate increase, rates in the District will be among the lowest of those surveyed. In short, south county communities have the best of both worlds: high quality services at a low cost (compared with other communities).
- **“Trigger Option.”** As discussed in greater detail in Attachment 2, the rate increase exceeds the cost of living threshold that “triggers” the option of terminating the Franchise Agreements within nine months after rate approval.
- **Need for Updated Rate-Setting Methodology.** The rate-setting process is based on the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for almost 30 years. Because of several complex issues that surfaced in the 2019 rate review that had not been encountered in the past in using this rate-setting methodology (most notably corporate overhead, greenwaste and materials recovery facility (MRF) costs as well as rate structure concerns), I

recommended updating the Rate Manual before the next *Base Year* review. This has not occurred, and accordingly, this review is based on the current methodology. However, the need for an update is even greater now: along with the 2019 concerns, new issues have surfaced in this review. As discussed in greater detail in Attachment 2, these include depreciation amortization period, interim rate reviews, cost allocation methodologies, accounting for disposal costs, timeframe for submitting and reviewing applications and trigger option.

- **Delayed Rate Implementation.** In the past, there has been no consideration of delayed rate implementation. However, the Rate Manual does provide for this if there is a delay of more than 120 days after application if it is “no fault of the franchise hauler.” Given the initial October 20, 2021 submittal date, this would indicate rate approval by March 1. However, there are three factors that mitigate this 120-day period:

1. When the 120-day period was set, the understanding at the time was that Proposition 218 45-day notice and protest requirements did not apply to approval of private company solid waste rates. However, since then many agencies have determined that these provisions are applicable to approval of rates by companies like SCSS. This alone conceptually adds up to 75 days to the review process.

2. Review was delayed pending consideration of rate increases by the IWMA and their possible impact on SCSS rates. These new rates were not adopted by the IWMA until March 9, 2022. Moreover, it was subsequently determined that since these rates are set by the IWMA – and not the franchising agencies – that they did not affect agency rate-setting. (As noted above, this resulted in a revised application from SCSS on February 18, 2022).

3. While SCSS has been very responsive in following-up on requests for supporting data, the scope and complexity of the 2022 application has been significantly greater, and subsequently taken longer, than envisioned in the Rate Manual.

**About Proposition 218 Notices**

Not all agencies prepare and issue “Proposition 218” notices for private sector solid waste rate increases. However, for those that do, the notice sets the maximum amount that rates can be increased at the public hearing: rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing. As such, it is recommended that the notices reflect the rates requested by SCSS.

In accounting for these factors, I recommend that delayed rate implementation apply for any rates with a May 1, 2022 start date. In short, while these delays were “no fault” of SCSS, they were not the fault of the District, either. That said, SCSS believes the delayed rate implementation start period should be March 1, 2022.

Where delayed rate implementation is applicable, the following temporary rate increases would be required depending on whether the delayed rate implementation start period is March 1 or May 1. (Note: The added rate increase goes up for each month of delay to be

## Solid Waste Rate Review

recovered while the amortization period is shortened.) Under either start date, rates would be reset in January 2023 to the “core rate” for the Interim Year adjustment.

### *Temporary Delayed Implementation Rate Increase\**

Effective Date	Start Period	
	March 1	May 1
May 1	5.55%	0.00%
June 1	9.51%	3.17%
July 1	14.80%	7.40%
August 1	22.19%	13.32%
September 1	33.29%	22.19%

\* Ends December 31, 2022

The District has indicated an interest in absorbing the cost of delayed rate increases. In that case, the following presents the one-time costs depending on start and implementation rates:

Effective Date	Start Period			
	Months		Cost	
	March 1	May 1	March 1	May 1
May 1	2	-	\$68,035	\$0
June 1	3	1	102,053	34,018
July 1	4	2	136,071	68,035
August 1	5	3	170,088	102,053
September 1	6	4	204,106	136,071

It should be noted that while the report recommends a May 1 start date for delayed rate implementation, a reasonable case could be made for an even later start date (such as June 1 or July 1) based on the mitigation factors discussed above.

Lastly, several of these review timeframe factors are not unique to the 2022 review. Accordingly, the application submittal and review schedule should be considered in the Rate Manual update.

### **Proposed Single Family Residential Rates**

Container Size	Current	Proposed	Increase
32 Gallons	\$20.24	\$24.54	\$4.30
64 Gallons	29.00	35.17	6.17
96 Gallons	38.02	46.11	8.09

### **Key Rate-Setting Factors**

As discussed in Attachment 2, reviewing rates under the Franchise Agreement with SCSS is based on organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio”.

## Solid Waste Rate Review

**Allowable Costs.** Under the District’s Franchise Agreement, SCSS is allowed a profit of 7% on “allowable” costs, such as:

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

**Pass-Through Costs.** SCSS can recover “pass-through” these costs but not earn a profit on them, such as:

- Disposal costs (landfill, recycling, food/greenwaste)
- Franchise fees
- Payments to affiliated companies (such as facility rent, interest and trucking charges)

**Excluded and Limited Costs.** No revenues are allowed for excluded or limited costs, such as:

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

### Rate Request Summary

The following summarizes the calculations that support the requested and recommended rate increase compared with other south county agencies:

	Nipomo	Others*
Allowable Costs	10,751,370	10,751,371
Allowable Profit **	809,242	934,901
Pass-Through Costs		
Disposal		
Landfill	1,805,407	1,805,407
MRF (Recycling)	1,143,280	1,143,280
Greenwaste	1,781,655	1,781,655
Franchise Fees	1,454,123	1,454,123
Related Party Costs	438,303	438,303
Total Pass-Through Costs	6,622,768	6,622,768
Allowed Revenue Requirements	18,183,381	18,309,041
Revenue without Rate Increase	15,260,677	15,260,678
Revenue Requirement: Shortfall (Surplus)	2,922,704	3,048,363
Rate Base Revenue	18,183,381	18,309,041
Percent Change in Revenue Requirement	19.14%	19.98%
Allowed Revenue Increase ***	21.27%	22.19%

\* Excludes Oceano CSD which has 5% franchise fee.

\*\* 7% operating ratio for Nipomo CSD and 8% for all others.

\*\*\* Adjusted for 10% franchise fee.

As noted above, all the factors discussed in the Attachment 2 that drive rate increases are the same for the District, except its operating profit ratio is 7% compared with others at 8%.

This factor is why the requested rate increase of 21.27% is less than the proposed rate increase of 22.19% in other south county communities. Accordingly, the schedules supporting the rate increase on pages 2 to 6 of the application (Attachment 1) are the same as the rate review report (Attachment 2). It is only page 1 of the application that is different in reflecting the difference noted above and the current rates in Nipomo.

**SUMMARY**

Based on the rate-setting policies and procedures formally adopted by the District, this report concludes that:

- SCSS has submitted the required documentation required under its Franchise Agreement with the District.
- This results in a recommended rate increase of 21.27%.

**ATTACHMENTS**

1. Rate Application to the Nipomo Community Services District
2. Solid Waste Rate Review for the Communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach



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**South County Sanitary Service**


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**2022 Base Year Rate Adjustment Application**


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**Summary****NIPOMO COMMUNITY SERVICE DISTRICT**

		Requested Increase	
Digester Expense	6.2%		
Capital Purchases	5.9%	Market Rate Wage Adjustment	5.6%
Comingle Processing Fee	1.9%	Other	1.7%
1. Rate Increase Requested			<b>21.27%</b>

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**Rate Schedule**


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Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 20.24	\$4.30		\$24.54
4. Standard Service (2- can curb)	\$ 29.00	\$6.17		\$35.17
5. Premium Service (3 - can curb)	\$ 38.02	\$8.09		\$46.11

(a) Calculated rates are rounded up to the nearest \$0.01.

6. <b>Multiunit Residential and Non-residential</b>	Rate increases of	<b>21.27%</b>
	will be applied to all rates in each structure	
	with each rate rounded to the nearest \$0.01	

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**Certification**


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To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Clarin**Title: **District Manager**

Signature:

Date: **10/20/21**  
**Revised 2/18/22**

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Financial Information

Historical		Current	Projected	
2019	2020	2021	Base Year 2022	2023

(from Pg. 4)

## Section I-Allowable Costs

6. Direct Labor	\$3,258,214	\$3,614,140	\$3,638,218	\$3,922,681	\$4,040,361
7. Corporate Overhead	\$350,343	\$356,299	\$359,149	\$378,184	\$389,529
8. Office Salaries	\$688,788	\$768,706	\$758,312	\$835,736	\$859,332
9. Other General and Admin Costs	\$4,482,056	\$4,990,560	\$5,899,433	\$5,614,771	\$7,809,122
10. Total Allowable Costs	\$8,779,401	\$9,729,705	\$10,655,112	\$10,751,372	\$13,098,345

## Section II-Allowable Operating Profit

11. Operating Ratio	97.3%	98.2%	103.6%	92.0%	92.0%
12. Allowable Operating Profit	\$245,196	\$179,075	(\$366,502)	\$934,902	\$1,138,986

## Section III-Pass Through Costs

13. Tipping Fees	\$2,754,458	\$2,924,849	\$3,012,594	\$4,730,341	\$2,978,173
14. Franchise Fees	\$1,482,198	\$1,629,121	\$1,652,070	\$1,454,123	\$1,497,747
15. AB939 Fees	\$0	\$0	\$0	\$0	\$0
16. Payments to Affiliated Companies*	\$281,020	\$337,664	\$377,981	\$438,302	\$477,779
17. Total Pass Through Costs	\$4,517,676	\$4,891,634	\$5,042,645	\$6,622,767	\$4,953,699

\* Affiliate Payments include interest, lease payments, and transportation

## Section III-Pass Through Costs

18. Revenue Requirement	\$13,542,273	\$14,800,414	\$15,331,255	\$18,309,041	\$19,191,030
19. Total Revenue Offsets (from Page 3)	\$13,542,273	\$14,800,414	\$15,331,255	\$15,260,678	\$15,413,625

## Section III-Pass Through Costs

20. Net Shortfall (Surplus)	\$3,048,363
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21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)		Oceano	Nipomo
	\$15,260,678	\$15,260,678	\$15,260,678
22. Percent Change in Residential and Non-residential Revenue Requirement	19.98%	19.98%	19.14%
23. Franchise Fee Adjustment Factor (1 - 6 percent)	90.000%	95.000%	90.000%
	22.19%	21.03%	21.27%
Limitation due to cumulative increases			
24. Percent Change in Existing Rates	22.19%	21.03%	21.27%

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
	2019	2020	2021	Base Year 2022	2023
<b>Residential Revenue (without increase in Base Yr.)</b>					
28. Single Family Residential	\$7,924,043	\$8,627,550	\$8,780,617	\$8,769,933	\$8,857,632
Multiunit Residential Dumpster					
29. Number of Accounts					
30. Revenues					
31. Less Allowance for Uncollectible Resi Accounts	\$0	\$0	\$0	\$0	\$0
32. <b>Total Residential Revenue</b>	<b>\$7,924,043</b>	<b>\$8,627,550</b>	<b>\$8,780,617</b>	<b>\$8,769,933</b>	<b>\$8,857,632</b>
<b>Non-residential Revenue (without increase in Base Yr.)</b>					
Account Type					
Non-residential Can					
33. Number of Accounts			11	11	12
34. Revenues			\$5,513	\$5,568	\$5,624
Non-residential Wastewheeler					
35. Number of Accounts			503	508	513
36. Revenues			\$544,220	\$549,662	\$555,159
Non-residential Dumpster					
37. Number of Accounts			1,576	1,592	1,608
38. Revenues	\$5,613,237	\$6,171,381	\$5,983,795	\$5,917,531	\$5,976,706
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
40. <b>Total Non-residential Revenue</b>	<b>\$5,613,237</b>	<b>\$6,171,381</b>	<b>\$6,533,528</b>	<b>\$6,472,761</b>	<b>\$6,537,488</b>
45. Interest on Investments	\$0	\$0	\$0	\$0	\$0
46. Other Income	\$4,993	\$1,483	\$17,111	\$17,984	\$18,505
47. <b>Total Revenue Offsets</b>	<b>\$13,542,273</b>	<b>\$14,800,414</b>	<b>\$15,331,255</b>	<b>\$15,260,678</b>	<b>\$15,413,625</b>

Fiscal Year: 1-1-2022 to 12-31-2022

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## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Cost Summary for Base Year

Description of Cost	BASE YEAR				
	2019	2020	2021	2022	2023
Labor	\$3,020,612	\$3,353,557	\$3,377,752	\$3,642,382	\$3,751,654
Payroll Taxes	\$237,602	\$260,583	\$260,466	\$280,299	\$288,708
<b>48. Total Direct Labor</b>	<b>\$3,258,214</b>	<b>\$3,614,140</b>	<b>\$3,638,218</b>	<b>\$3,922,681</b>	<b>\$4,040,361</b>
49. Corporate Overhead	\$370,263	\$387,844	\$460,472	\$484,877	\$499,423
Less limitation (enter as negative)	(\$19,920)	(\$31,545)	(\$101,323)	(\$106,693)	(\$109,894)
<b>Total Corporate Overhead</b>	<b>\$350,343</b>	<b>\$356,299</b>	<b>\$359,149</b>	<b>\$378,184</b>	<b>\$389,529</b>
Office Salaries	\$642,368	\$722,755	\$701,402	\$773,471	\$795,199
Payroll Taxes - Office	\$46,420	\$45,951	\$56,910	\$62,265	\$64,133
<b>50. Total Office Salaries</b>	<b>\$688,788</b>	<b>\$768,706</b>	<b>\$758,312</b>	<b>\$835,736</b>	<b>\$859,332</b>
Bad Debt	\$12,541	\$12,182	\$15,064	\$15,064	\$15,064
Allocated expenses	\$0	\$0	\$0	\$0	\$0
Bonds expense	\$6,877	\$5,221	\$5,153	\$5,426	\$5,589
Depreciation	\$406,756	\$535,997	\$1,129,264	\$1,534,705	\$1,827,206
Drive Cam fees	\$21,242	\$19,353	\$20,599	\$21,690	\$22,341
Dues and Subscriptions	\$20,483	\$5,793	\$19,974	\$21,033	\$21,664
Facilities	\$59,584	\$43,035	\$29,218	\$30,766	\$31,689
Gas and oil	\$914,400	\$821,425	\$947,541	\$952,847	\$980,712
Insurance	\$860,855	\$1,062,848	\$1,225,897	\$1,361,460	\$1,402,304
Laundry (Uniforms)	\$33,527	\$29,461	\$29,837	\$31,418	\$32,361
Legal and Accounting	\$43,392	\$46,291	\$51,310	\$53,890	\$55,428
Miscellaneous and Other	\$7,943	\$5,614	\$5,144	\$5,416	\$5,579
Office Expense	\$211,414	\$229,923	\$254,048	\$268,409	\$276,461
Operating Supplies	\$59,319	\$83,727	\$73,903	\$77,820	\$80,155
Other Taxes	\$37,649	\$40,287	\$39,285	\$41,236	\$42,399
Outside Services	\$1,128,991	\$1,244,791	\$1,231,253	\$328,750	\$2,120,266
Public Relations and Promotion	\$5,119	\$8,013	\$7,639	\$7,654	\$7,663
Postage	\$21,635	\$8,711	\$12,894	\$13,578	\$13,985
Permits	\$60,344	\$67,486	\$92,393	\$97,290	\$100,208
Relocation	\$18,530	\$30,701	\$22,040	\$22,040	\$22,040
Rent	\$3,000	\$2,250	\$11,023	\$12,497	\$12,872
Telephone	\$13,294	\$36,444	\$36,121	\$38,035	\$39,176
Tires	\$100,399	\$127,834	\$144,039	\$151,673	\$156,223
Travel	\$27,991	\$8,712	\$12,431	\$13,091	\$13,483
Truck Repairs	\$389,414	\$492,848	\$464,015	\$488,608	\$503,266
Utilities	\$17,357	\$21,613	\$19,349	\$20,375	\$20,986
<b>51. Total Other Gen/Admin Costs</b>	<b>\$4,482,056</b>	<b>\$4,990,560</b>	<b>\$5,899,433</b>	<b>\$5,614,771</b>	<b>\$7,809,122</b>
<b>52. Total Tipping Fees</b>	<b>\$2,754,458</b>	<b>\$2,924,849</b>	<b>\$3,012,594</b>	<b>\$4,730,341</b>	<b>\$2,978,173</b>
<b>53. Total Franchise Fee</b>	<b>1,482,198.00</b>	<b>\$1,629,121</b>	<b>\$1,652,070</b>	<b>\$1,454,123</b>	<b>1,497,747.16</b>
<b>54. Total AB 939/Regulatory Fees</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>55. Total Lease Pmt to Affil Co.'s</b>	<b>\$142,332</b>	<b>\$170,111</b>	<b>\$172,663</b>	<b>\$181,814</b>	<b>\$187,268</b>
<b>55a. Interest Expense (to affiliate)</b>	<b>\$87,922</b>	<b>\$133,282</b>	<b>\$162,043</b>	<b>\$213,214</b>	<b>\$247,236</b>
<b>55b. Total Transportation to Affil Co.'s</b>	<b>\$50,766</b>	<b>\$34,271</b>	<b>\$43,275</b>	<b>\$43,275</b>	<b>\$43,275</b>
<b>56. Total Cost</b>	<b>\$13,297,077</b>	<b>\$14,621,339</b>	<b>\$15,697,757</b>	<b>\$17,374,139</b>	<b>\$18,052,043</b>

# 2022 Base Year Rate Adjustment Application

**Base Year Revenue Offset Summary**

**For Information Purposes Only**

Description of Revenue	Section VII-Revenue Offsets						
	Overall	Franchise	Refuse Collection				Non-franchise
	Total	Total	Arroyo	Pismo	Grover	Unincorporated	Total
<i>Residential Revenue (without increase in Base Year)</i>							
57. Single Family Residential	\$8,769,933	\$8,769,933	\$1,826,861	\$1,185,972	\$1,173,008	\$4,584,092	
<i>Multiunit Residential Dumpster</i>							
58. Number of Accounts	0	0					
59. Revenues	\$0	\$0					
60. Less Allowance for Uncollectable	\$0	\$0					
61. <b>Total Residential Revenue</b>	<b>\$8,769,933</b>	<b>\$8,769,933</b>	<b>\$1,826,861</b>	<b>\$1,185,972</b>	<b>\$1,173,008</b>	<b>\$4,584,092</b>	<b>\$0</b>
<i>Non-residential Revenue (without increase in Base Year)</i>							
Account Type							
<i>Non-residential Can</i>							
62. Number of Accounts	11	11	5	1	4	2	
63. Revenues	\$5,568	\$5,568	\$1,416	\$280	\$1,033	\$2,840	
<i>Non-residential Wastewheeler</i>							
64. Number of Accounts	503	503	139	136	98	131	
65. Revenues	\$549,662	\$549,662	149,429	195,948	84,569	119,716	
<i>Non-residential Dumpster</i>							
66. Number of Accounts	1,576	1,576	402	229	321	625	0
67. Revenues	\$5,917,531	\$5,917,531	\$1,577,642	\$1,333,364	\$828,238	\$2,178,286	
68. Less: Allowance for Uncollectible Non-residential Accounts	\$0	\$0					
69. <b>Total Non-residential Revenue</b>	<b>\$6,472,761</b>	<b>\$6,472,761</b>	<b>\$1,728,486</b>	<b>\$1,529,592</b>	<b>\$913,840</b>	<b>\$2,300,842</b>	<b>\$0</b>
74. <b>Interest on Investments</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
75. <b>Other Income</b>	<b>\$17,984</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$17,984</b>
76. <b>Total Revenue Offsets</b>	<b>\$15,260,678</b>	<b>\$15,242,694</b>	<b>\$3,555,347</b>	<b>\$2,715,564</b>	<b>\$2,086,848</b>	<b>\$6,884,935</b>	<b>\$17,984</b>

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Operating Information

Historical				Current		Projected		
	Percent		Percent		Percent	Base Year	Percent	
2019	Change	2020	Change	2021	Change	2022	Change	2023

## Section IX-Operating Data

*Residential**Accounts*

77.	Arroyo Grande	5,827	1.1%	5,890	0.6%	5,924	1.0%	5,983	1.0%	6,043
	Grover Beach	4,216	0.4%	4,233	0.4%	4,249	1.0%	4,291	1.0%	4,334
	Pismo Beach	3,816	0.1%	3,819	0.2%	3,828	1.0%	3,866	1.0%	3,905
	Oceano CSD	1,863	0.4%	1,870	1.6%	1,899	1.0%	1,918	1.0%	1,937
	Nipomo CSD	4,066	0.8%	4,097	0.9%	4,135	1.0%	4,176	1.0%	4,218
	County	6,881	2.2%	7,034	1.4%	7,130	1.0%	7,201	1.0%	7,273
		26,669	1.0%	26,943	0.8%	27,165	1.0%	27,437	1.0%	27,711
78.	Routes-Garbage	7	26.5%	9	-13.9%	8	0.0%	8	0.0%	8
79.	Routes-Recycling	6	26.5%	8	-13.9%	7	0.0%	7	0.0%	7
80.	Direct Labor Hours	28,522	26.5%	36,082	-13.9%	31,059	0.0%	31,059	0.0%	31,059

*Non-residential Garbage**Accounts*

80.	Arroyo Grande	490	0.2%	491	0.6%	494	1.0%	499	1.0%	504
	Grover Beach	438	0.7%	441	0.5%	443	1.0%	447	1.0%	452
	Pismo Beach	386	1.8%	393	-0.5%	391	1.0%	395	1.0%	399
	Oceano CSD	190	0.5%	191	0.5%	192	1.0%	194	1.0%	196
	Nipomo CSD	214	-2.3%	209	0.0%	209	1.0%	211	1.0%	213
	County	508	-5.9%	478	2.5%	490	1.0%	495	1.0%	500
		2,226	-1.0%	2,203	0.7%	2,219	1.0%	2,241	1.0%	2,264
81.	Routes-garbage	8	26.5%	10	-13.9%	8	0.0%	8	0.0%	8
	Routes-recycling	3	26.5%	4	-13.9%	4	0.0%	4	0.0%	4
82.	Direct Labor Hours	22,871	26.5%	28,933	-13.9%	24,905	0.0%	24,905	0.0%	24,905

*Recyclable Materials - All areas-Commingled Recycling (in tons)**Accounts*

83.	Tons Collected	13,275	-4.0%	12,740	3.0%	13,123	3.0%	13,516	1.0%	13,651
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*Recyclable Materials - All areas-Greenwaste Recycling*

	Routes	5	26.5%	7	-13.9%	6	0.0%	6	0.0%	6
	Tons Collected	13,631	-0.9%	13,511	3.0%	13,916	3.0%	14,334	1.0%	14,477
	Direct Labor Hours	10,934	26.5%	13,833	-13.9%	11,907	0.0%	11,907	0.0%	11,907

	Garbage Tons Collected	43,020	-3.5%	41,507	3.0%	42,752	3.0%	44,034	1.0%	44,475
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*South County Sanitary Service*  
**SOLID WASTE RATE REVIEW**

*For the Communities of*

Arroyo Grande  
Grover Beach  
Oceano  
Pismo Beach

March 2022



**South County Sanitary Service  
Solid Waste Rate Review  
March 2022**

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**APPENDIX**

- A. Base Year Rate Request Application from South County Sanitary Service
- B. HZI Greenwaste Digester Cost Analysis

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## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

### South County Sanitary Service **SOLID WASTE RATE REVIEW** *For the Communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach*

#### REPORT PURPOSE

On October 20, 2021, South County Sanitary Service (SCSS) submitted a *Base Year* rate increase application to be effective January 1, 2022 to the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District (CSD). However, due to complexity, concerns with pending rate increases by the Integrated Waste Management Authority (IWMA) and significant subsequent reviews and information exchanges, a revised application was submitted on February 18, 2022.

The final application is the focus of this report in reviewing the SCSS rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make rate recommendations to these four agencies as appropriate.

#### SUMMARY OF FINDINGS AND RECOMMENDATIONS

In its final application, SCSS is requesting a rate increase of 22.19% in the cities of Arroyo Grande, Grover Beach and Pismo Beach; and 21.03% for the Oceano CSD (the difference is due to a 5% franchise fee rate in the Oceano CSD versus 10% in the other agencies). This compares with an initial rate request of 24.65% for three agencies (and 23.35% in the Oceano CSD). As discussed in greater detail below, all of the concerns that surfaced in the iterations and further analysis that followed in addressing issues with proposed costs for 2022 have been resolved.

There are two key differences between the initial and revised application:

#### Joint Agency Review

SCSS provides similar services to each of these agencies under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases.

Because the financial information for SCSS is closely related for these four agencies, this report jointly reviews rate requests and provides recommendations for each of them.

## Solid Waste Rate Review

- Greenwaste processing costs have been reclassified as “pass-through” costs: while costs may be recovered, no profit is allowed on them.
- IWMA fees have been excluded from the fee analysis. These are approved by a separate agency and will be charged separately on customer bills.

Key cost drivers in this review include the following, which account for almost 90% of the cost increases since 2020 (last audited financial statements):

2022 Cost Increase from 2020			
	Amount	% of Total	Rate Impact*
Depreciation	998,708	36%	8.05%
Greenwaste	956,783	35%	7.71%
Insurance	298,612	11%	2.41%
Gas and Oil	131,422	5%	1.06%
Total Key Drivers	2,385,525	87%	19.23%
Other Costs	367,275	13%	2.96%
Total	\$2,752,800	100%	22.19%

### Findings

- **Complete Application.** With its revised application, SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. The revised application (Appendix A) has been correctly prepared.
- **High Level of Service at a Reasonable Cost.** SCSS provides a broad level of high-quality services to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services—at very competitive rates compared with many other communities. In fact, even with the recommended rate increase, rates in these four agencies will be among the lowest of those surveyed. In short, South County communities have the best of both worlds: high quality services at a low cost (compared with other communities).
- **“Trigger Option.”** As discussed in greater detail below, the rate increase exceeds the cost of living threshold that “triggers” the option of terminating the Franchise Agreements within nine months after rate approval.
- **Need for Updated Rate-Setting Methodology.** The rate-setting process is based on the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for almost 30 years. Because of several complex issues that surfaced in the 2019 rate review that had not been encountered in the past in using this rate-setting methodology (most notably corporate overhead, greenwaste and materials recovery facility (MRF) costs as well as rate structure concerns), I recommended updating the Rate Manual before the next *Base Year* review. This has not occurred, and accordingly, this review is based on the current methodology.

## Solid Waste Rate Review

However, the need for an update is even greater now: along with the 2019 concerns, new issues have surfaced in this review. As discussed in greater detail below, these include depreciation amortization period, interim rate reviews, cost allocation methodologies, accounting for disposal costs, timeframe for submitting and reviewing applications and trigger option.

- **Delayed Rate Implementation.** In the past, there has been no consideration of delayed rate implementation. However, the Rate Manual does provide for this if there is a delay of more than 120 days after application if it is “no fault of the franchise hauler.” Given the initial October 20, 2021 submittal date, this would indicate rate approval by March 1. However, there are three factors that mitigate this 120-day period:
  1. When the 120-day period was set, the understanding at the time was that Proposition 218 45-day notice and protest requirements did not apply to approval of private company solid waste rates. However, since then many agencies have determined that these provisions are applicable to approval of rates by companies like SCSS. This alone conceptually adds 45 days to the review process.
  2. Review was delayed pending consideration of rate increases by the IWMA and their possible impact on SCSS rates. These new rates were not adopted by the IWMA until March 9, 2022. Moreover, it was subsequently determined that since these rates are set by the IWMA – and not the franchising agencies – that they did not affect agency rate-setting. (As noted above, this resulted in a revised application from SCSS on February 18, 2022).
  3. While SCSS has been very responsive in following-up on requests for supporting data, the scope and complexity of the 2022 application has been significantly greater, and subsequently taken longer, than envisioned in the Rate Manual.

### About Proposition 218 Notices

Not all agencies prepare and issue “Proposition 218” notices for private sector solid waste rate increases. However, for those that do, the notice sets the maximum amount that rates can be increased at the public hearing: rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing. As such, it is recommended that the notices reflect the rates requested by SCSS.

In accounting for these factors, I recommend that delayed rate implementation apply for any rates with a May 1, 2022 effective date. In short, while these delays were “no fault” of SCSS, they were not the fault of the agencies, either. That said, SCSS believes the delayed rate implementation start period should be March 1, 2022.

Where delayed rate implementation is applicable, the following temporary rate increases would be required depending on whether the delayed rate implementation start period is March 1 or May 1. (Note: The added rate increase goes up for each month of delay to be recovered while the amortization period is shortened.) Under either start date, rates would be reset in January 2023 to the “core rate” for the Interim Year adjustment.

## Solid Waste Rate Review

### *Temporary Delayed Implementation Rate Increase\**

Effective Date	Start Period			
	Oceano CSD		Other Agencies	
	March 1	May 1	March 1	May 1
May 1	5.26%	0.00%	5.55%	0.00%
June 1	9.01%	2.63%	9.51%	3.17%
July 1	14.02%	7.01%	14.80%	7.40%
August 1	21.03%	12.62%	22.19%	13.32%
September 1	31.55%	21.03%	33.29%	22.19%

\* Ends December 31, 2022

It should be noted that while the report recommends a May 1 start date for delayed rate implementation, a reasonable case could be made for an even later start date (such as June 1 or July 1) based on the mitigation factors discussed above.

Lastly, several of these review timeframe factors are not unique to the 2022 review. Accordingly, the application submittal and review schedule should be considered in the Rate Manual update.

### **Rate Recommendations**

It is recommended that cities of Arroyo Grande, Grover Beach and Pismo Beach adopt rate increases of 22.19%; and 21.03% in the Oceano CSD.

As discussed below, this rate increase significantly exceeds the cost of living threshold that triggers the option of terminating the Franchise Agreements within nine months after rate approval. However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that SCSS may request (or limit the amount that agencies may approve) under the methodology set forth in the Franchise Agreements.

**Cost of Living “Trigger” Option.** Along with establishing the rate review methodology, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase (assuming it was submitted in accordance with the rate-setting methodology).

This provision was subsequently amended in 2016 allowing for an added increase based on landfill rate increases (“weighted” for their proportion of total costs). It is important to note that other than a waiver for greenwaste cost increases in 2011, no other adjustments (including other pass-through costs) are allowed under the Franchise Agreements. As detailed later in this report, the calculated threshold limit is significantly less than the proposed rate increase.

## Solid Waste Rate Review

### Rate Summary for Single Family Residential Customers

Table 1 summarizes the proposed monthly rates for single family residential (SFR) customers. As reflected in this summary, given the significant cost drivers facing SCSS, the increases will be modest under the proposed rate increase. For example, for collection of a 32-gallon garbage container (the most common SFR service level) as well as separate waste wheelers for recycling and green waste, the proposed monthly rate will increase by about \$3.80 on average for the four agencies.

#### BACKGROUND

On October 20, 2021, SCSS submitted a *Base Year* rate increase to be effective January 1, 2022. As noted above, due to several complex issues, a revised application was submitted on February 18, 2022. This application was prepared in accordance with the rate review process and methodology formally set forth in its Franchise Agreements with Arroyo Grande, Grover Beach, Oceano and Pismo Beach.

In establishing a rate-setting process and methodology, each of these Franchise Agreements specifically reference the City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994 and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Arroyo Grande, Grover Beach, Oceano and Pismo Beach is closely related. For this reason, these four agencies jointly contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology) on October 6, 2022 to evaluate SCSS's rate increase application.

This is the seventh *Base Year* analysis performed under this rate-setting methodology. The first was prepared in September 2001; second in August 2004; the third in August 2007; the fourth in December 2012; September 2015; and the last one in April 2019. As discussed below, several *Interim Year* rate reviews have prepared since then.

**Table 1. Single Family Residential Rates**

	Container Size (Gallons)		
	32	64	96
<b>Current</b>			
Arroyo Grande	\$19.46	\$25.29	\$31.13
Grover Beach	17.65	23.85	30.03
Oceano	14.98	21.56	42.19
Pismo Beach	17.31	34.63	51.94
<b>Proposed</b>			
Arroyo Grande	23.78	30.90	38.04
Grover Beach	21.57	29.14	36.69
Oceano	18.13	26.09	51.06
Pismo Beach	21.15	42.32	63.47
<b>Increase: Proposed Rates</b>			
Arroyo Grande	4.32	5.61	6.91
Grover Beach	3.92	5.29	6.66
Oceano	3.15	4.53	8.87
Pismo Beach	3.84	7.69	11.53

## Solid Waste Rate Review

### Franchise Agreement Summary

Historically, each agency has had its own approach to determining service levels and adopted differing Franchise Agreements accordingly. While these became similar beginning in 1999, in 2008 the Cities of Arroyo Grande, Grover

Beach and Pismo Beach adopted renewed franchise agreements, followed by the Oceano Community Service District in Summer 2010, which are the same in all key provisions:

- Each agency contracts with SCSS for garbage, green/food waste and recycling; and SCSS provides the container (waste wheelers) for each service.
- As noted above, each agency has adopted the same rate-setting methodology, including the *option* of terminating the agreement within nine months following approval of the requested rate increase if it exceeds the cost of living threshold.
- Arroyo Grande, Grover Beach and Pismo Beach have adopted franchise fees of 10%; the Oceano CSD reduced its rate to 5% in February 2020.

Each of these agreements were similarly amended in 2016 to:

- Extend the term of the agreement for 20 years in recognizing the amortization of extensive investments in food and green waste processing.
- Revise the cost of living threshold “trigger” to include prorated landfill cost increases.

### RATE REVIEW WORKSCOPE

This report addresses four basic questions:

- Should SCSS be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

The following documents were closely reviewed in answering these questions:

- Franchise Agreements and any Amendments for each agency
- Independently audited financial statements for SCSS for 2019 and 2020.
- City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (Rate Manual)*
- SCSS rate increase application and supporting documentation
- Follow-up interviews, correspondence and briefings with agency and SCSS staff
- Rate surveys of Central Coast communities

*Table 2. Franchise Agreement Effective Dates*

Agency	Agreement	Amendments
Arroyo Grande	June 10, 2008	March 22, 2016 July 26, 2016
Grover Beach	July 7, 2008	June 20, 2016
Oceano	July 14, 2010	July 29, 2016
Pismo Beach	June 3, 2008	August 3, 2016

## Solid Waste Rate Review

### REVENUE AND RATE SETTING OBJECTIVES

In considering SCSS's rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the Franchise Agreements via the Rate Manual.

**Revenues.** These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

**Rate Structure.** Almost any rate structure can meet the revenue principles outlined above and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

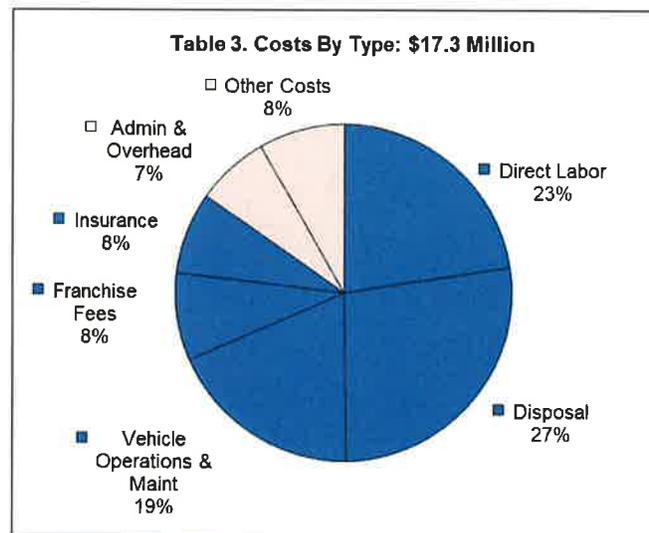
- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

### FINANCIAL OVERVIEW

While detailed financial and service information is provided in the SCSS rate request application (Appendix A), the following summarizes costs, revenues and account information based its proposal for 2022 for all areas serviced by SCSS.

**Costs by Type.** Total proposed costs for 2022 (after deducting for non-allowable and limited costs as discussed later in this report) are 17.3 million. As reflected in Table 3, five cost areas accounted for 85% of total costs:

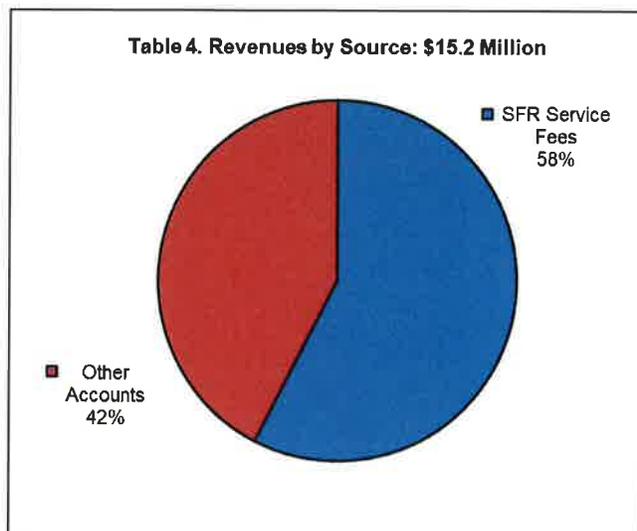
- Direct labor for collection: 23%
- Disposal: landfill, recycling and greenwaste: 27%
- Vehicle operations and maintenance (including depreciation): 19%
- Franchise fees: 8%
- Insurance: 8%



**Solid Waste Rate Review**

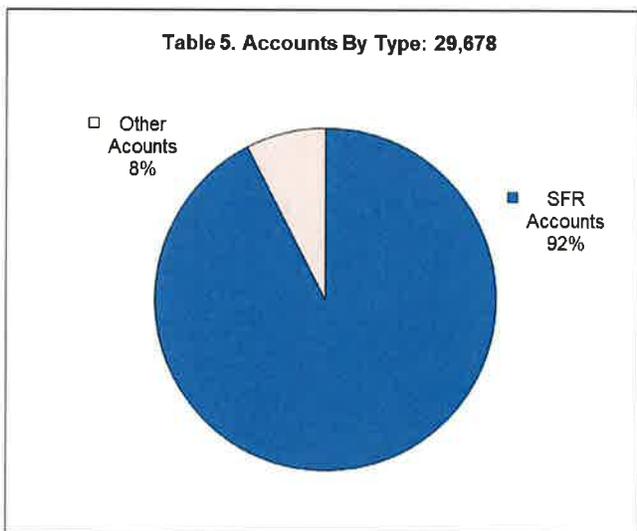
**Revenues by Source.** Total revenues (without proposed rate increases) are \$15.2 million. As reflected in Table 4, 58% of SCSS’s revenues come from single-family residential (SFR) accounts. Services to multi-family residential and non-residential customers account for 42% of their revenues, with less than 1% from other revenues.

This significant gap between revenues and expenses (plus allowable profit) drives the proposed rate increase.



**Service Accounts by Type.** While single-family residences account for 58% of revenues, they represent 92% of total accounts (Table 5).

This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



**RATE-SETTING PROCESS**

Under the Rate Manual, the rate-setting process follows a three-year cycle:

- **Base Year.** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the franchise agreements in determining fair and reasonable rates. As noted above, the last *Base Year* analysis for SCSS under this approach was prepared in April 2019.
- **Two Interim Years.** In both the second and third years, SCSS is eligible for *Interim Year* rate adjustments that address three key change factors: changes in the consumer price index (CPI-U) for “controllable” operating costs; changes in “pass-through costs” (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees.

The first two adjustment factors are “weighted” by the proportionate share that these costs

## Solid Waste Rate Review

represent of total costs (excluding franchise fees). For example, in the current *Base Year* analysis for recommended 2019 rates, controllable costs account for about 75% of total costs, with landfill disposal costs accounting for about 25%.

The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

### Rate Increase History

The following summarizes the SCSS rate review history beginning with 2005 (last eighteen years) based on the year of the application (which is typically the implementation year).

### Proposed Interim Year Rates

Consistent with past practice, SCSS has proposed an interim year approach that is slightly different from the Rate Manual methodology. In the interest of a more straightforward, streamlined process, SCSS proposes simply adjusting rates by changes in the CPI-U in 2023 and 2024. As noted in the past, the concept is consistent with the Rate Manual approach, but is simpler and allows for multi-year rate setting. Accordingly, it is recommended that four agencies continue using this approach.

Given the that interim review methodology set forth in the Rate Manual has not been used for several years, this is another area the update should consider.

**Table 6. SFR Rate History: 2005 to 2022 (Last 18 Years)**

Year	Review Type	Arroyo Grande	Grover Beach	Oceano	Pismo Beach (1)
2005	Base Year	5.60%	5.60%	5.60%	5.30%
2006	Interim Year	3.09%	3.09%	3.09%	2.95%
2007	Interim Year	3.76%	3.76%	3.76%	3.60%
2008	Base Year	3.00%	3.00%	3.00%	2.90%
2009	Interim Year	0.00%	0.00%	0.00%	0.00%
2010	Interim Year (2)	0.00%	0.00%	0.00%	0.00%
2011	Interim Year	0.00%	0.00%	0.00%	0.00%
2012	Interim Year (2)	5.15%	5.15%	5.15%	5.15%
2013	Base Year	3.20%	3.20%	3.20%	3.20%
2014	Interim Year	2.05%	2.05%	2.05%	2.05%
2015	Interim Year	0.00%	0.00%	0.00%	0.00%
2016	Base Year	3.25%	3.25%	3.25%	3.25%
2017	Interim Year	1.10%	1.10%	1.10%	1.10%
2018	Interim Year	1.60%	1.60%	1.60%	1.60%
2019	Base Year	10.06%	10.06%	10.06%	10.06%
2020	Interim Year	1.70%	1.70%	1.70%	1.70%
2020	Franchise Fee Rdctn (3)			-5.00%	
2021	Interim Year	0.70%	0.70%	0.70%	0.70%
2022	Base Year (4)	22.19%	22.19%	21.03%	22.19%

1. From 2004 to 2011, the franchise fee rate in Pismo Beach was 6% compared with 10% in the other three agencies, and as such, its rate increase was slightly less. In July 2011, Pismo Beach adopted a

## Solid Waste Rate Review

*10% franchise fee, bringing it in alignment with the other three agencies (as well as most other agencies in San Luis Obispo County). In implementing the 10% rate in 2011, Pismo Beach adopted an added 3.9% increase beyond the interim year rate increase of 5.15% requested by SCSS.*

2. *SCSS did not request a rate increase in 2010 (which would have been the “normal” cycle to do so), and accordingly, did not submit a Base Year rate application. However, SCSS did submit a rate request in 2011 using an Interim Year methodology. The reasonableness of using the resulting “hybrid” approach was discussed in detail in the 2011 Interim Year report, which concluded that this approach was reasonable given the circumstances.*
3. *In February 2020, the Oceano CSD reduced its franchise fee from 10% to 5%, reducing rates by 5%.*
4. *Proposed rate increase.*
5. *As noted above, this chart reflects SFR rate increases. SCSS began charging for commercial recycle containers. These rates were set at 50% of the garbage rates at that time.*

Assuming the proposed rate increases are approved, this will result in an average annual rate increase of 3.6% over the last eighteen years. While there have been notable peaks in 2019 and 2022, largely due to regulatory and external market changes for recyclables, this reflects a high level of rate stability and price containment for SCSS customers.

### RATE SETTING METHODOLOGY

#### Are the Costs Reasonable?

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

- Detailed review of costs and service responsibilities over time.
- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).
- Comparisons of rates with other communities.

Each of these was considered in preparing this report, summarized as follows.

#### *Detailed Cost Review*

In its rate application (Appendix A), SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2019 and 2020).
- Estimated results for 2021.
- Projected costs for the Base Year (2022).
- Estimated costs for the following year (2023).

## Solid Waste Rate Review

Additionally, for virtually all line items, SCSS provided supplemental detail upon request to support cost increases from 2020 to 2022.

Table 7 below provides actual costs for 2020 (most recent audit results) compared with requested and recommended cost projections for 2022. While there are significant cost increases in several categories, they are reasonable given the cost drivers facing SCSS.

**The Short Story.** The key drivers behind the proposed rate increases for 2022 can be summarized by four cost factors over the past two years:

- Truck depreciation.
- Food and green waste recycling.
- Insurance
- Gas and oil

All other cost increases including labor, ongoing maintenance, disposal costs at the landfill and MRF, account for less than 3% of the rate increase.

**Table 7. Detail Cost Review: 2020 Compared with 2022**

	2020	2022 Proposed	
	Actual	Amount	Change
Direct Labor	3,614,140	3,922,681	308,541
Administrative Costs			
Corporate Overhead	356,299	378,184	21,885
Office Salaries	768,706	835,736	67,030
Other Expenses			
Depreciation	535,997	1,534,705	998,708
Gas and Oil	821,425	952,847	131,422
Insurance			
Medical	674,318	779,174	104,856
General Liability	388,530	582,286	193,756
Office Expense	229,923	268,409	38,486
Operating Supplies	83,727	77,820	(5,907)
Outside Services	270,687	211,251	(59,436)
Permits	67,486	97,290	29,804
Tires	127,834	151,673	23,839
Truck Repairs	642,080	606,106	(35,974)
Other Costs	323,681	353,209	29,528
<b>Total Allowable Costs</b>	<b>8,904,833</b>	<b>10,751,371</b>	<b>1,846,538</b>
Pass-Through Costs			
Disposal Costs			
Landfill	1,701,768	1,805,407	103,639
MRF	1,223,081	1,143,280	(79,801)
Greenwaste	824,872	1,781,655	956,783
Franchise Fees	1,629,121	1,454,123	(174,998)
Facility Rent, Related Party	170,111	181,814	11,703
Interest, Related Party	133,282	213,214	79,932
Transportation, Related Party	34,271	43,275	9,004
<b>Total Pass-Through Costs</b>	<b>5,716,506</b>	<b>6,622,768</b>	<b>906,262</b>
<b>Total Costs</b>	<b>\$14,621,339</b>	<b>\$17,374,139</b>	<b>\$2,752,800</b>

## Solid Waste Rate Review

These costs are organized by costs where SCSS is allowed a profit (“Allowable”) and those where it can recover the cost but not earn a profit on them (“Pass-Through”).

The following describes the basis for each for the significant changes.

### *Allowable Costs*

- **Direct Labor.** This reflects a two-year increase of 8.5%, or about 4.2% per year. Given the tight labor market and current increases in CPI, this increase for retention and attraction is reasonable.
  - **Office Salaries.** This also reflect annual increases of about 4% per year. Again, given the tight labor market and current increases in CPI, this increase for retention and attraction is reasonable.
  - **Depreciation.** The 2019 *Base Year* report noted that as fully depreciated trucks were replaced, significant continuing higher depreciation costs were expected in the future due to two factors: annual depreciation costs on fully depreciated trucks would go from zero to about \$60,000 each; and the cost basis for new trucks would be significantly higher than in the past. Given replacements during 2021 and those proposed in 2022, the increased cost is reasonable. Combined with a possible change in amortization schedule as noted in the sidebar, planned replacements should result in stabilized costs in the future.
- Truck Amortization**

The Rate Manual calls for depreciating trucks over seven years. While this made sense in 1994, manufacturing improvements since then have resulted in longer lives, with ten years becoming the industry standard. As noted above, this change should be considered as part of the Rate Manual update.
- **Gas and Oil.** These costs are projected to increase by about 7.5% annually. Given the volatility (both up and down) of diesel and CNG costs (especially recent cost spikes), this is a reasonable assumption for 2022 costs.
  - **Insurance: Health Care and Liability.** These costs are projected to increase significantly by about 12.5% annually (7.5% for health care and 22.5% for liability insurance). Given increases in health care costs and current liability insurance market, these are reasonable assumptions for 2022 costs.
  - **All Other Allowable Costs.** While there are ups and downs in the other individual line items, in total these reflect modest annual increases of about 2%.

### *Pass-Through Costs*

- **Disposal Costs: Landfill.** No rate increases are reflected in the rate application (\$41.00 per ton). The modest two-year increase reflects increased tonnage.

## Solid Waste Rate Review

- **Disposal Costs: Recycling (Related Party).** This cost category reflects a decrease in the tonnage rate from \$96.00 to \$84.59.
- **Disposal Costs: Greenwaste.** After depreciation, this is the largest cost increase from 2020. These costs are incurred under an on-site agreement with HZI and reflect costs to build (via depreciation), operate and maintain the anaerobic digestion plant. The purpose of this plant is to process local food and greenwaste in meeting California regulation SB 1383. Key drivers include higher costs than initially projected for construction; ongoing operations and maintenance due to feedstock challenges; and local outbound material. The following further describes these challenges; and a cost summary is provided in Appendix B.

**Construction and startup** The construction of the anaerobic digester plan in San Luis Obispo was one of the first high solids digesters in the United States and the 99<sup>th</sup> overall renewable gas anaerobic plant built globally by HZI. The construction of the anaerobic digester in California posed unique challenges but was constructed safely and without any environmental incidents. Given the “first-of-the-kind” nature of the project in California, the actual cost to construct the anaerobic digestion plant exceeded the original budget originally set in 2014. The cost increases were mainly driven by labor availability, prevailing wage, civil and underground cost increases, and equipment and material escalations.

**Operation and maintenance.** The anaerobic digestion plant exceeds 95% availability (uptime) to process waste while producing renewable green electricity. To ensure the plant is reliably available to process local community waste, the operations and maintenance cost of the anaerobic digestion exceeds the original annual budget due to several factors:

1. The quantity of entrained inorganic material (such as sand and metal) entrained in the waste increases the wear and tear on the mechanical components of the plant, which inherently increases the number of staff required to operate and maintain the facility.
2. The lower than anticipated quantity of food was also increases the wear and tear on the equipment, which has mainly been driven need to continue to educate the community on organics recycling and the impacts of COVID on commercial businesses (most notably restaurants).
3. Plant labor costs have increased due to the requirements of processing the waste, maintaining the equipment, competitive labor market and inflationary costs in San Luis Obispo County and more broadly in California. Plant administrative costs such as insurance, legal and taxes continue to increase greater than was historically budgeted.

### Local Benefits

It should be noted that that while costs have increased, HZI and SCSS believe there are substantial local benefits to the greenwaste operation, including:

- Powering over 600 homes with 6.2 million kWh per year of renewable electricity.
- Diverting 72 million pounds of organics from landfills per year
- Reducing greenhouse gas emissions by 5,300 metric tons per year.

## Solid Waste Rate Review

In summary, key operation and maintenance cost increases reflect continual sand removal; increased equipment replacement and maintenance; increased labor hours and rates; and management of backend compost.

**Depreciation.** Plant depreciation expenses reflect the higher construction costs discussed above in addressing waste profile challenges such as sand and low food waste content.

**Lower Natural Gas Production (Revenue).** Due to the amount of inorganic material (like sand) and the lower than anticipated food waste content, the overall natural gas production is lower than planned. This directly limits the amount of overall natural gas production potential of the digester and ultimately electricity sales.

In the past, greenwaste contract costs have been considered “allowable” costs. However, as disposal costs, they are more like landfill and recycling costs, which are treated as “pass-through” costs that can be recovered but profit is not allowed on them. Accordingly, this is considered a pass-through cost in this rate review. However, this another area that should be reviewed as part of the rate manual update.

- **Franchise Fees.** This reflects the removal of IWMA fees from the cost base.
- **Interest (Related Party).** Interest is an allowable cost under the Rate Manual. In this case, interest costs are assessed internally by Waste Connections based on a methodology that takes into account its corporate costs of borrowing and financed assets. Accordingly, this is treated as a “pass-through” cost. SCSS’s auditors have previously provided a written opinion on the reasonableness of the cost methodology; and I have reviewed the calculations underlying the projected costs in accordance with this methodology. Given the increase in financed assets as reflected in depreciation costs, I believe the projected interest costs for 2022 are reasonable.

### *Trends in External Cost Drivers*

The most common external “benchmark” for evaluating cost trends is the consumer price index. Over the past two calendar years (2020 and 2021), the U.S. CPI-U increased by 8.5% (about 4.2% annually). Excluding the cost drivers discussed above, all other costs over the past two years increased by 4.1% (about 2% annually).

### *Rates in Comparable Communities*

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between “comparable” communities need to be carefully weighed because every community is different.

Nonetheless, surveys are useful assessment tools—but they are not perfect and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges
- Landfill costs (tipping fees)

## Solid Waste Rate Review

- Service levels (frequency, quality)
- Labor market
- Operator efficiency and effectiveness
- Voluntary versus mandatory service
- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks
- Percentage of non-residential customers, and how costs and rates are allocated between customer types
- Revenue collection procedures: Does the hauler or the franchising agency bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb)
- Different rates structures
- Land use and density (lower densities will typically result in higher service costs)
- Mix of residential and non-residential accounts

With these caveats, the following summarizes single family residential rates for other cities in the Central Coast area compared with the proposed rates for SCSS. As reflected below, even with the recommended or proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have among the lowest rates of the agencies surveyed.

**Table 8. Single Family Residential Rate Survey**

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero	\$28.55	\$44.50	\$55.77
Morro Bay	22.88	45.76	68.64
Paso Robles	30.90	51.12	57.25
San Luis Obispo*	22.51	45.03	67.56
Santa Maria	na	30.69	34.81
San Miguel	28.23	44.48	61.06
Templeton	31.40	45.01	44.48
Proposed: South County Sanitation Service Area			
Arroyo Grande	23.78	30.90	38.04
Grover Beach	21.57	29.14	36.69
Oceano CSD	18.13	26.09	51.06
Pismo Beach	21.15	42.32	63.47

\* Proposed 2022 rates scheduled for review in April 2022

## Solid Waste Rate Review

**Summary: Are the costs reasonable?** Based on the results of the three separate cost-review techniques—trend review, external factor analysis and rate comparisons—the proposed cost assumptions for 2022 are reasonable.

### What Is a Reasonable Return on these Costs?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements with SCSS includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

#### ***Allowable Costs (Operations and Maintenance): Reasonable Operating Profit Allowed***

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

#### ***Pass-Through Costs: Can be Recovered but No Profit Allowed***

- Disposal costs (landfill, recycling, greenwaste)
- Franchise fees
- Payments to affiliated companies (such as facility rent, interest and trucking charges)

#### ***Excluded and Limited Costs: No Revenues Allowed***

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is an 8% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

In the case of SCSS, about 60% of their costs are subject to the 8% operating profit ratio; and 40% are pass-through costs that may be fully recovered from rates but no profit is allowed. No recovery is allowed for excluded costs. The overall operating profit ratio after allowable and pass-through costs is 5%.

## Solid Waste Rate Review

### Preparing the Rate Request Application

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the Rate Manual. SCSS has prepared their rate increase application in accordance with these requirements (Appendix A); and the financial information provided in the application for 2019 and 2020 ties to its audited financial statements.

### Proposed Rate Summary

The following summarizes the calculations that support the requested and recommended rate increases:

**Table 9. Proposed Rate Increase Summary**

	Oceano	Others
Allowable Costs	10,751,371	10,751,371
Allowable Profit (8% Operating Ratio)	934,901	934,901
Pass-Through Costs		
Disposal		
Landfill	1,805,407	1,805,407
MRF (Recycling)	1,143,280	1,143,280
Greenwaste	1,781,655	1,781,655
Franchise Fees	1,454,123	1,454,123
Related Party Costs	438,303	438,303
Total Pass-Through Costs	6,622,768	6,622,768
Allowed Revenue Requirements	18,309,041	18,309,041
Revenue without Rate Increase	15,260,678	15,260,678
Revenue Requirement: Shortfall (Surplus)	3,048,363	3,048,363
Rate Base Revenue	18,309,041	18,309,041
Percent Change in Revenue Requirement	19.98%	19.98%
Allowed Revenue Increase *	21.03%	22.19%

\* Adjusted for 5% franchise fee in Oceano and 10% in others

As reflected in this summary, all the rate-setting factors are the same for all four agencies are the same except for the franchise fee adjustment (which reflects that higher franchise fees will be required with the rate increase): 5% for the Oceano CSD and 10% for the other three agencies.

### Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

- The “8%” operating profit ratio is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 10% to 6%.
- On the other hand, if past ratios have been stronger than this target, then the revenue base is re-set in the *Base Year* review.

## Solid Waste Rate Review

- Special rate increases for extraordinary circumstances *may* be considered.

The result of this process is a proposed rate increase of 22.19% (21.03% in the Oceano CSD).

### **RATE DIFFERENCES BETWEEN COMMUNITIES**

*If costs for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are so similar, why are the residential rates so different?*

The short answer: history and different approaches to rate structure philosophies.

#### **History**

Until 1999, service levels under the Franchise Agreements with SCSS between these four agencies were significantly different. The rates in place at that time became the basis for subsequent rate reviews.

#### **Rate Structure Principles**

Most significantly, each agency has adopted different rate structure principles to recover similar costs. For example, Pismo Beach has adopted a rate structure for its residential customers that more closely reflects a “pay-as-you-throw” philosophy under which the “per gallon” costs for 32, 64 and 96 gallon containers are the same (for example, a 64-gallon container costs twice as much as a 32-gallon one.) This results in lower monthly costs for 32-gallon customers and relatively higher rates for 64 and 96-gallon customers.

On the other hand, Arroyo Grande has adopted rates that do not have as much difference between container sizes (but still offer an incentive for smaller containers over larger ones), recognizing collection economies of scale for larger versus smaller containers. In this case, 32-gallon containers in Arroyo Grande are more expensive than in Pismo Beach, but 64-gallon containers are less.

Both rate structures have their strong points: in the case of Pismo Beach, rates are more reflective of disposal costs, whereas in Arroyo Grande they are more reflective of collection costs. But the important point is that the revenue generating capability is the same even though the rates are different.

#### **Multi-Family and Non-Residential Rates**

Lastly, multi-family and non-residential rates (which account for about 40% of SCSS revenues) are similar in all four agencies: it is only in *single family residential* rates that there are significant differences between communities.

### **COST ACCOUNTING ISSUES**

As noted above, SCSS’s financial operations for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are closely related. Keeping costs and revenues segregated is further complicated

## Solid Waste Rate Review

by the fact that SCSS is a subsidiary of Waste Connections US (which acquired the parent company in April 2002), which shares ownership with the following local companies:

- San Luis Garbage Company
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill
- Cold Canyon Processing Facility

Additionally, within the South County, SCSS's service area includes:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District
- Avila Beach Community Services District
- Other unincorporated areas in the South County such as rural Arroyo Grande

### Cost Accounting System

Audited financial statements are prepared for each company within Waste Connections' central coast operations by an independent certified public accountant; and SCSS's auditors have consistently issued "clean opinions" on its financial operations. However, only direct labor hours for collection (and related compensation), liability insurance, franchise fees and revenues are directly accounted for each company (like SCSS); and then within each agency serviced by it. As summarized below for major cost categories, all other costs are allocated between companies based on apportionments using generally accepted accounting principles:

*Table 10. Cost Allocation Bases*

Allocation Basis	Major Cost Categories
Customer counts	<ul style="list-style-type: none"> <li>• Region and division overhead</li> <li>• Office salaries</li> <li>• Office expense</li> <li>• Legal and accounting</li> </ul>
Direct labor hours	<ul style="list-style-type: none"> <li>• Truck depreciation</li> <li>• Truck repairs and tires</li> <li>• Mechanic labor</li> <li>• Gas and oil</li> </ul>
Tonnage	Disposal costs <ul style="list-style-type: none"> <li>• Landfill</li> <li>• MRF/recycling</li> <li>• Greenwaste</li> </ul>

## Solid Waste Rate Review

Revenue	<ul style="list-style-type: none"> <li>• Corporate overhead (adjusted for Rate Manual limitations)</li> <li>• Bad debt expense</li> <li>• Other taxes</li> </ul>
Containers	<ul style="list-style-type: none"> <li>• Container depreciation</li> <li>• Container labor</li> <li>• Container repairs</li> </ul>
Gallons	<ul style="list-style-type: none"> <li>• Diesel fuel</li> </ul>

These allocation bases seem reasonable. However, they are subject to periodic change as determined by Waste Connections. Since these apportionments are a key basis for rate setting, the bases of allocation for each cost category (including allocations of regional and district overhead and accounting for direct costs) should be established in an updated Rate Manual.

### **COST OF LIVING “TRIGGER OPTION”**

As noted above, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase. While this provision does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for SCSS to do so, if possible.

### **Calculation of the Cost of Living Threshold**

As recommended in the 2013 *Interim Year* rate review for consistency and clarity, the CPI-U rate increases used in calculating *Interim Year* increases and the “trigger” threshold are based on changes from June to June (given application submittal targets, this was the most recent date that would consistently be available).

Along with the adjustment for the “weighted” greenwaste rate increase in 2012 of 1.7% previously approved, the 2016 Franchise Agreement amendments provided for adjustments to the threshold “trigger” of landfill rate increases, weighted by the ratio of landfill costs to total costs (assumed at 25% based on recent trends).

- Table 11(a) provides the threshold calculation compared with actual rate increases and those recommended for 2022.
- Table 11(b) provides landfill rates since 2008.

As reflected in Table 11(a), the cumulative changes in the cost of living (with adjustments for greenwaste and landfill cost increases) is 34.87%. This compares with cumulative rate increases, including those recommended of 22.19% for 2022 (21.03% for Oceano CSD) of 61.76%. This would result in exceeding the “trigger” by 26.89%.

## Solid Waste Rate Review

**Table 11(a). Trigger Threshold Calculation**

US CPI-U Increase				Allowed Adjustments		Threshold	Rate Year	Rate Increase (2)
June	Index	Amount	Percent	Greenwaste	Landfill (1)			
2009	215.693							
2010	217.965	2.272	1.05%		4.27%	5.33%	2011	0.00%
2011	225.722	7.757	3.56%	1.70%	0.00%	5.26%	2012	5.15%
2012	229.478	3.756	1.66%		0.00%	1.66%	2013	3.20%
2013	233.504	4.026	1.75%		1.64%	3.40%	2014	2.05%
2014	238.343	4.839	2.07%		1.54%	3.61%	2015	0.00%
2015	238.638	0.295	0.12%		1.45%	1.58%	2016	3.25%
2016	241.018	2.380	1.00%		0.00%	1.00%	2017	1.10%
2017	244.955	3.937	1.61%		0.00%	1.61%	2018	1.61%
2018	251.989	7.034	2.79%		0.00%	2.79%	2019	10.06%
2019	256.143	4.154	1.62%		0.00%	1.62%	2020	1.70%
2020	257.797	1.654	0.64%		0.00%	0.64%	2021	0.70%
2021	271.696	13.899	5.12%		0.00%	5.12%	2022	22.19%
Cumulative Total		56.003	25.96%	1.70%	8.91%	34.87%		61.76%
Requested Rate Increase Above Trigger Threshold								26.89%

1. Landfill rate increases prorated at 25% of total costs
2. Recommended rate for 2022, except for Oceano (21.03%)

**Table 11(b). Landfill Rates Per Ton**

Year	Actual	Increase		Prorated @ 25%
		Amount	Percent	
2008	29.25	-	0.00%	0.00%
2009	29.25	-	0.00%	0.00%
2010	29.25	-	0.00%	0.00%
2011	34.25	5.00	17.09%	4.27%
2012	34.25	-	0.00%	0.00%
2013	34.25	-	0.00%	0.00%
2014	36.50	2.25	6.57%	1.64%
2015	38.75	2.25	6.16%	1.54%
2016	41.00	2.25	5.81%	1.45%
2017	41.00	-	0.00%	0.00%
2018	41.00	-	0.00%	0.00%
2019	41.00	-	0.00%	0.00%
2020	41.00	-	0.00%	0.00%
2021	41.00	-	0.00%	0.00%
2022	41.00	-	0.00%	0.00%

Note: Under long-term rate increases approved by the County, Cold Canyon Landfill was eligible for annual rate increases of \$2.25 per ton from 2017 to 2022, with a resulting rate of \$54.50 by 2022, However, it chose not to do so.

## Solid Waste Rate Review

However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that may be requested under the methodology set forth in the Franchise Agreements or approved by the agencies.

Accordingly, if the proposed rate increases are approved, I recommend that the agencies consider (as they did in as part of the 2019 *Base Year* review) adopting findings that they will not pursue the “trigger” option.

***Rate Manual Update.*** The merit of continuing with the “trigger option” is another area that should be considered with the Rate Manual update.

### COORDINATION WITH OTHER AGENCIES

SCSS has submitted similar rate requests to the three other agencies that regulate rates and services in the other South County areas that it serves: County of San Luis Obispo, Avila Beach Community Services District and the Nipomo Community Services District. These agencies are likely to act on the requested rate increases within the same time frame as the four agencies covered in this report.

Waste Connections (as San Luis Garbage Company) has also submitted a rate increase application to the City of San Luis Obispo of 17.75%, which is scheduled for Council review on April 19, 2022. As Mission County Disposal, it has also submitted initial rate applications for Los Osos and the north coastal areas of about 40%.

### SUMMARY

Based on the rate-setting policies and procedures formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements, this report concludes that:

- SCSS has submitted the required documentation required under its Franchise Agreements with the four agencies.
- This results in a recommended rate increase of 22.19% in the cities of Arroyo Grande, Grover Beach and Pismo Beach; and 21.03% in the Oceano CSD.

### ATTACHMENTS

Appendix A: Base Year Rate Request Application from South County Sanitary Service  
Appendix B: HZI Greenwaste Digester Cost Analysis

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# Appendix A

## BASE YEAR RATE REQUEST APPLICATION

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### 1. Base Year Application Summary

- City of Pismo Beach
- City of Arroyo Grande
- City of Grover Beach
- Oceano Community Services District

### 2. Supporting Schedules

- Financial Information: Cost and Revenue Requirements Summary
- Revenue Offset Summary
- Cost Summary for Base Year
- Base Year Revenue Offset Summary
- Operating Information
- Rate Survey

# South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

### Summary

### CITY OF PISMO BEACH

#### Requested Increase

Digester Expense	6.2%		
Capital Purchases	5.9%	Market Rate Wage Adjustment	5.6%
Comingle Processing Fee	1.9%	Other	2.6%

1. Rate Increase Requested

<b>22.19%</b>
---------------

#### Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
---------------	--------------	----------------	----------------	----------

#### Single Family Residential

2. Economy Service (1 - can curb)	\$17.31	\$3.84		\$21.15
4. Standard Service (2- can curb)	\$34.63	\$7.69		\$42.32
5. Premium Service (3 - can curb)	\$51.94	\$11.53		\$63.47

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

<b>22.19%</b>
---------------

will be applied to all rates in each structure  
with each rate rounded to the nearest \$0.01

#### Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date: 10/20/21  
Revised 2/18/22

**South County Sanitary Services Attachment 2**

**2022 Base Year Rate Adjustment Application**

**Summary**

**CITY OF ARROYO GRANDE**

Requested Increase			
Digester Expense	6.2%	Market Rate Wage Adjustment	5.6%
Capital Purchases	5.9%	Other	2.6%
Commingle Processing Fee	1.9%		
1. Rate Increase Requested			<b>22.19%</b>

Rate Schedule				
Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 19.46	\$4.32		\$23.78
4. Standard Service (2- can curb)	\$ 25.29	\$5.61		\$30.90
5. Premium Service (3 - can curb)	\$ 31.13	\$6.91		\$38.04

(a) Calculated rates are rounded up to the nearest \$0.01.

6. <b>Multiunit Residential and Non-residential</b>	Rate increases of	<b>22.19%</b>
	will be applied to all rates in each structure	
	with each rate rounded to the nearest \$0.01	

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Clarin** Title: **District Manager**  
 Signature: \_\_\_\_\_ Date: **10/20/21**  
**Revised 2/18/22**

**South County Sanitary Service Attachment 2**

**2022 Base Year Rate Adjustment Application**

**Summary**

**CITY OF GROVER BEACH**

**Requested Increase**

Digester Expense	6.2%		
Capital Purchases	5.9%	Market Rate Wage Adjustment	5.6%
Commingle Processing Fee	1.9%	Other	2.6%

1. Rate Increase Requested **22.19%**

**Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 17.65	\$3.92		\$21.57
4. Standard Service (2- can curb)	\$ 23.85	\$5.29		\$29.14
5. Premium Service (3 - can curb)	\$ 30.03	\$6.66		\$36.69

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential** Rate increases of **22.19%**  
 will be applied to all rates in each structure  
 with each rate rounded to the nearest \$0.01

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Clarin** Title: **District Manager**  
 Signature: Date: **10/20/21**  
**Revised 2/18/22**

**South County Sanitary Service****2022 Base Year Rate Adjustment Application****Summary****OCEANO COMMUNITY SERVICE DISTRICT**

Requested Increase			
Digester Expense	6.2%		
Capital Purchases	5.9%	Market Rate Wage Adjustment	5.6%
Comingle Processing Fee	1.9%	Other	1.4%
1. Rate Increase Requested			<b>21.03%</b>

Rate Schedule				
Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 14.98	\$3.15		\$18.13
4. Standard Service (2- can curb)	\$ 21.56	\$4.53		\$26.09
5. Premium Service (3 - can curb)	\$ 42.19	\$8.87		\$51.06

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential** Rate increases of **21.03%** will be applied to all rates in each structure with each rate rounded to the nearest \$0.01

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Clarin** Title: **District Manager**  
 Signature: \_\_\_\_\_ Date: **10/20/21**  
**Revised 2/18/22**

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Financial Information

Historical		Current	Projected	
2019	2020	2021	Base Year 2022	2023

(from Pg. 4)

## Section I-Allowable Costs

6. Direct Labor	\$3,258,214	\$3,614,140	\$3,638,218	\$3,922,681	\$4,040,361
7. Corporate Overhead	\$350,343	\$356,299	\$359,149	\$378,184	\$389,529
8. Office Salaries	\$688,788	\$768,706	\$758,312	\$835,736	\$859,332
9. Other General and Admin Costs	\$4,482,056	\$4,990,560	\$5,899,433	\$5,614,771	\$7,809,122
10. Total Allowable Costs	\$8,779,401	\$9,729,705	\$10,655,112	\$10,751,372	\$13,098,345

## Section II-Allowable Operating Profit

11. Operating Ratio	97.3%	98.2%	103.6%	92.0%	92.0%
12. Allowable Operating Profit	\$245,196	\$179,075	(\$366,502)	\$934,902	\$1,138,986

## Section III-Pass Through Costs

13. Tipping Fees	\$2,754,458	\$2,924,849	\$3,012,594	\$4,730,341	\$2,978,173
14. Franchise Fees	\$1,482,198	\$1,629,121	\$1,652,070	\$1,454,123	\$1,497,747
15. AB939 Fees	\$0	\$0	\$0	\$0	\$0
16. Payments to Affiliated Companies*	\$281,020	\$337,664	\$377,981	\$438,302	\$477,779
17. Total Pass Through Costs	\$4,517,676	\$4,891,634	\$5,042,645	\$6,622,767	\$4,953,699

\* Affiliate Payments include interest, lease payments, and transportation

## Section III-Pass Through Costs

18. Revenue Requirement	\$13,542,273	\$14,800,414	\$15,331,255	\$18,309,041	\$19,191,030
19. Total Revenue Offsets (from Page 3)	\$13,542,273	\$14,800,414	\$15,331,255	\$15,260,678	\$15,413,625

## Section III-Pass Through Costs

20. Net Shortfall (Surplus)	\$3,048,363
-----------------------------	-------------

	Oceano	Nipomo
21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)	\$15,260,678	\$15,260,678
22. Percent Change in Residential and Non-residential Revenue Requirement	19.98%	19.98%
23. Franchise Fee Adjustment Factor (1 - 6 percent)	90.000%	95.000%
	22.19%	21.03%
Limitation due to cumulative increases		
24. Percent Change in Existing Rates	22.19%	21.03%

South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
	2019	2020	2021	Base Year 2022	2023
<b>Residential Revenue (without increase in Base Yr.)</b>					
28. Single Family Residential	\$7,924,043	\$8,627,550	\$8,780,617	\$8,769,933	\$8,857,632
Multiunit Residential Dumpster					
29. Number of Accounts					
30. Revenues					
31. Less Allowance for Uncollectible Resi Accounts	\$0	\$0	\$0	\$0	\$0
32. <b>Total Residential Revenue</b>	<b>\$7,924,043</b>	<b>\$8,627,550</b>	<b>\$8,780,617</b>	<b>\$8,769,933</b>	<b>\$8,857,632</b>
<b>Non-residential Revenue (without increase in Base Yr.)</b>					
Account Type					
Non-residential Can					
33. Number of Accounts			11	11	12
34. Revenues			\$5,513	\$5,568	\$5,624
Non-residential Wastewheeler					
35. Number of Accounts			503	508	513
36. Revenues			\$544,220	\$549,662	\$555,159
Non-residential Dumpster					
37. Number of Accounts			1,576	1,592	1,608
38. Revenues	\$5,613,237	\$6,171,381	\$5,983,795	\$5,917,531	\$5,976,706
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
40. <b>Total Non-residential Revenue</b>	<b>\$5,613,237</b>	<b>\$6,171,381</b>	<b>\$6,533,528</b>	<b>\$6,472,761</b>	<b>\$6,537,488</b>
45. <b>Interest on Investments</b>	\$0	\$0	\$0	\$0	\$0
46. <b>Other Income</b>	\$4,993	\$1,483	\$17,111	\$17,984	\$18,505
47. <b>Total Revenue Offsets</b>	<b>\$13,542,273</b>	<b>\$14,800,414</b>	<b>\$15,331,255</b>	<b>\$15,260,678</b>	<b>\$15,413,625</b>

Fiscal Year: 1-1-2022 to 12-31-2022

Pg. 3 of 6

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Cost Summary for Base Year

Description of Cost	BASE YEAR				
	2019	2020	2021	2022	2023
Labor	\$3,020,612	\$3,353,557	\$3,377,752	\$3,642,382	\$3,751,654
Payroll Taxes	\$237,602	\$260,583	\$260,466	\$280,299	\$288,708
48. <b>Total Direct Labor</b>	<b>\$3,258,214</b>	<b>\$3,614,140</b>	<b>\$3,638,218</b>	<b>\$3,922,681</b>	<b>\$4,040,361</b>
49. Corporate Overhead	\$370,263	\$387,844	\$460,472	\$484,877	\$499,423
Less limitation (enter as negative)	(\$19,920)	(\$31,545)	(\$101,323)	(\$106,693)	(\$109,894)
<b>Total Corporate Overhead</b>	<b>\$350,343</b>	<b>\$356,299</b>	<b>\$359,149</b>	<b>\$378,184</b>	<b>\$389,529</b>
Office Salaries	\$642,368	\$722,755	\$701,402	\$773,471	\$795,199
Payroll Taxes - Office	\$46,420	\$45,951	\$56,910	\$62,265	\$64,133
50. <b>Total Office Salaries</b>	<b>\$688,788</b>	<b>\$768,706</b>	<b>\$758,312</b>	<b>\$835,736</b>	<b>\$859,332</b>
Bad Debt	\$12,541	\$12,182	\$15,064	\$15,064	\$15,064
Allocated expenses	\$0	\$0	\$0	\$0	\$0
Bonds expense	\$6,877	\$5,221	\$5,153	\$5,426	\$5,589
Depreciation	\$406,756	\$535,997	\$1,129,264	\$1,534,705	\$1,827,206
Drive Cam fees	\$21,242	\$19,353	\$20,599	\$21,690	\$22,341
Dues and Subscriptions	\$20,483	\$5,793	\$19,974	\$21,033	\$21,664
Facilities	\$59,584	\$43,035	\$29,218	\$30,766	\$31,689
Gas and oil	\$914,400	\$821,425	\$947,541	\$952,847	\$980,712
Insurance	\$860,855	\$1,062,848	\$1,225,897	\$1,361,460	\$1,402,304
Laundry (Uniforms)	\$33,527	\$29,461	\$29,837	\$31,418	\$32,361
Legal and Accounting	\$43,392	\$46,291	\$51,310	\$53,890	\$55,428
Miscellaneous and Other	\$7,943	\$5,614	\$5,144	\$5,416	\$5,579
Office Expense	\$211,414	\$229,923	\$254,048	\$268,409	\$276,461
Operating Supplies	\$59,319	\$83,727	\$73,903	\$77,820	\$80,155
Other Taxes	\$37,649	\$40,287	\$39,285	\$41,236	\$42,399
Outside Services	\$1,128,991	\$1,244,791	\$1,231,253	\$328,750	\$2,120,266
Public Relations and Promotion	\$5,119	\$8,013	\$7,639	\$7,654	\$7,663
Postage	\$21,635	\$8,711	\$12,894	\$13,578	\$13,985
Permits	\$60,344	\$67,486	\$92,393	\$97,290	\$100,208
Relocation	\$18,530	\$30,701	\$22,040	\$22,040	\$22,040
Rent	\$3,000	\$2,250	\$11,023	\$12,497	\$12,872
Telephone	\$13,294	\$36,444	\$36,121	\$38,035	\$39,176
Tires	\$100,399	\$127,834	\$144,039	\$151,673	\$156,223
Travel	\$27,991	\$8,712	\$12,431	\$13,091	\$13,483
Truck Repairs	\$389,414	\$492,848	\$464,015	\$488,608	\$503,266
Utilities	\$17,357	\$21,613	\$19,349	\$20,375	\$20,986
51. <b>Total Other Gen/Admin Costs</b>	<b>\$4,482,056</b>	<b>\$4,990,560</b>	<b>\$5,899,433</b>	<b>\$5,614,771</b>	<b>\$7,809,122</b>
52. <b>Total Tipping Fees</b>	<b>\$2,754,458</b>	<b>\$2,924,849</b>	<b>\$3,012,594</b>	<b>\$4,730,341</b>	<b>\$2,978,173</b>
53. <b>Total Franchise Fee</b>	<b>1,482,198.00</b>	<b>\$1,629,121</b>	<b>\$1,652,070</b>	<b>\$1,454,123</b>	<b>1,497,747.16</b>
54. <b>Total AB 939/Regulatory Fees</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
55. <b>Total Lease Pmt to Affil Co.'s</b>	<b>\$142,332</b>	<b>\$170,111</b>	<b>\$172,663</b>	<b>\$181,814</b>	<b>\$187,268</b>
55a. <b>Interest Expense (to affiliate)</b>	<b>\$87,922</b>	<b>\$133,282</b>	<b>\$162,043</b>	<b>\$213,214</b>	<b>\$247,236</b>
55b. <b>Total Transportation to Affil Co.'s</b>	<b>\$50,766</b>	<b>\$34,271</b>	<b>\$43,275</b>	<b>\$43,275</b>	<b>\$43,275</b>
56. <b>Total Cost</b>	<b>\$13,297,077</b>	<b>\$14,621,339</b>	<b>\$15,697,757</b>	<b>\$17,374,139</b>	<b>\$18,052,043</b>

# 2022 Base Year Rate Adjustment Application

**Base Year Revenue Offset Summary**

**For Information Purposes Only**

Description of Revenue	Section VII-Revenue Offsets						
	Overall	Franchise	Refuse Collection				Non-franchise
	Total	Total	Arroyo	Pismo	Grover	Unincorporated	Total
<i>Residential Revenue (without increase in Base Year)</i>							
57. Single Family Residential	\$8,769,933	\$8,769,933	\$1,826,861	\$1,185,972	\$1,173,008	\$4,584,092	
<i>Multifamily Residential Dumpster</i>							
58. Number of Accounts	0	0					
59. Revenues	\$0	\$0					
60. Less Allowance for Uncollectable	\$0	\$0					
61. <b>Total Residential Revenue</b>	<b>\$8,769,933</b>	<b>\$8,769,933</b>	<b>\$1,826,861</b>	<b>\$1,185,972</b>	<b>\$1,173,008</b>	<b>\$4,584,092</b>	<b>\$0</b>
<i>Non-residential Revenue (without increase in Base Year)</i>							
<i>Account Type</i>							
<i>Non-residential Can</i>							
62. Number of Accounts	11	11	5	1	4	2	
63. Revenues	\$5,568	\$5,568	\$1,416	\$280	\$1,033	\$2,840	
<i>Non-residential Wastewheeler</i>							
64. Number of Accounts	503	503	139	136	98	131	
65. Revenues	\$549,662	\$549,662	149,429	195,948	84,569	119,716	
<i>Non-residential Dumpster</i>							
66. Number of Accounts	1,576	1,576	402	229	321	625	0
67. Revenues	\$5,917,531	\$5,917,531	\$1,577,642	\$1,333,364	\$828,238	\$2,178,286	
68. Less: Allowance for Uncollectable Non-residential Accounts	\$0	\$0					
69. <b>Total Non-residential Revenue</b>	<b>\$6,472,761</b>	<b>\$6,472,761</b>	<b>\$1,728,486</b>	<b>\$1,529,592</b>	<b>\$913,840</b>	<b>\$2,300,842</b>	<b>\$0</b>
74. <b>Interest on Investments</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
75. <b>Other Income</b>	<b>\$17,984</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$17,984</b>
76. <b>Total Revenue Offsets</b>	<b>\$15,260,678</b>	<b>\$15,242,694</b>	<b>\$3,555,347</b>	<b>\$2,715,564</b>	<b>\$2,086,848</b>	<b>\$6,884,935</b>	<b>\$17,984</b>

## South County Sanitary Service

## 2022 Base Year Rate Adjustment Application

## Operating Information

Historical				Current		Projected		
	Percent		Percent		Percent	Base Year	Percent	
2019	Change	2020	Change	2021	Change	2022	Change	2023

## Section IX-Operating Data

*Residential**Accounts*

77.	Arroyo Grande	5,827	1.1%	5,890	0.6%	5,924	1.0%	5,983	1.0%	6,043
	Grover Beach	4,216	0.4%	4,233	0.4%	4,249	1.0%	4,291	1.0%	4,334
	Pismo Beach	3,816	0.1%	3,819	0.2%	3,828	1.0%	3,866	1.0%	3,905
	Oceano CSD	1,863	0.4%	1,870	1.6%	1,899	1.0%	1,918	1.0%	1,937
	Nipomo CSD	4,066	0.8%	4,097	0.9%	4,135	1.0%	4,176	1.0%	4,218
	County	6,881	2.2%	7,034	1.4%	7,130	1.0%	7,201	1.0%	7,273
		26,669	1.0%	26,943	0.8%	27,165	1.0%	27,437	1.0%	27,711
78.	Routes-Garbage	7	26.5%	9	-13.9%	8	0.0%	8	0.0%	8
79.	Routes-Recycling	6	26.5%	8	-13.9%	7	0.0%	7	0.0%	7
80.	Direct Labor Hours	28,522	26.5%	36,082	-13.9%	31,059	0.0%	31,059	0.0%	31,059

*Non-residential Garbage**Accounts*

80.	Arroyo Grande	490	0.2%	491	0.6%	494	1.0%	499	1.0%	504
	Grover Beach	438	0.7%	441	0.5%	443	1.0%	447	1.0%	452
	Pismo Beach	386	1.8%	393	-0.5%	391	1.0%	395	1.0%	399
	Oceano CSD	190	0.5%	191	0.5%	192	1.0%	194	1.0%	196
	Nipomo CSD	214	-2.3%	209	0.0%	209	1.0%	211	1.0%	213
	County	508	-5.9%	478	2.5%	490	1.0%	495	1.0%	500
		2,226	-1.0%	2,203	0.7%	2,219	1.0%	2,241	1.0%	2,264
81.	Routes-garbage	8	26.5%	10	-13.9%	8	0.0%	8	0.0%	8
	Routes-recycling	3	26.5%	4	-13.9%	4	0.0%	4	0.0%	4
82.	Direct Labor Hours	22,871	26.5%	28,933	-13.9%	24,905	0.0%	24,905	0.0%	24,905

*Recyclable Materials - All areas-Commingled Recycling (in tons)**Accounts*

83.	Tons Collected	13,275	-4.0%	12,740	3.0%	13,123	3.0%	13,516	1.0%	13,651
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*Recyclable Materials - All areas-Greenwaste Recycling*

	Routes	5	26.5%	7	-13.9%	6	0.0%	6	0.0%	6
	Tons Collected	13,631	-0.9%	13,511	3.0%	13,916	3.0%	14,334	1.0%	14,477
	Direct Labor Hours	10,934	26.5%	13,833	-13.9%	11,907	0.0%	11,907	0.0%	11,907

	Garbage Tons Collected	43,020	-3.5%	41,507	3.0%	42,752	3.0%	44,034	1.0%	44,475
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Attachment 2

**Rate Comparisons for Garbage Service**

Service Size	Pismo Beach <sup>1</sup>	South County Urban <sup>1</sup>	Arroyo Grande <sup>1</sup>	Atascadero	Templeton	San Miguel	Paso Robles <sup>2</sup>	City of Santa Maria <sup>3,4</sup>	Santa Barbara County (Northern) <sup>4</sup>	City of Santa Barbara
20 Gallon										
35 Gallon	\$ 17.31	\$ 25.60	\$ 19.46	\$ 28.55	\$ 31.40	\$ 28.33	\$ 30.90		\$ 25.84	\$ 45.30
65 Gallon	\$ 34.63	\$ 34.04	\$ 25.29	\$ 44.50	\$ 45.01	\$ 44.48	\$ 51.12	30.69	\$ 27.89	\$ 56.15
95 Gallon	\$ 51.94	\$ 47.46	\$ 31.13	\$ 55.77	\$ 45.95	\$ 61.06	\$ 57.25	34.81	\$ 29.86	\$ 67.00
2 yard (1X WK)	\$ 120.91	\$ 129.25	\$ 122.10	\$ 146.79	\$ 129.54	\$ 103.98	\$ 168.68	166.72	\$ 167.72	\$ 248.79

**Notes:**

<sup>1</sup> Scheduled increases in 1/1/2022

<sup>2</sup> Paso Robles does 40 gallon cart pricing

<sup>3</sup> 65 gallon Scheduled to increase to \$32.70 in 1/1/22 and \$34.71 in 7/1/22, and 95 gallon Scheduled to increase to \$38.07 in 1/1/22 and \$41.34 in 7/1/22

<sup>4</sup> Weekly Trash pick-up but every other week recycling and green waste pick-up.

## HZI Cost Increase Summary

## Appendix B

Cost Category	Original Plan	2021	2022	Variance		Comment
				Amount	%	
Staffing and Administrative Cost	\$ 1,090	\$ 1,592	\$ 1,706	\$ 616	57%	Staff operation requirements increased from 3 to 6 team members due to feedstock profile, increased maintenance, equipment change out and operational demands. Additionally salary increases have been necessary to meet CA labor market demands. Administratively pollution insurance was added and audit and legal fees were increased to meet reporting requirements.
O&M Expense	\$ 495	\$ 1,747	\$ 1,439	\$ 944	191%	Increased cost due to CHP maintenance increases related to gas cycling, dosing feeder erosion, screw feeder premature erosion, shredder blade erosion and damage due to contamination, digestate pump rebuild frequency due to sand, premature wear and replacement of the decanter, and continued vacuum truck clean out of the sand build-up. Added +250K/year for management of backend products and front end peak loading;
Capital Expense	\$ 1,487	\$ 1,945	\$ 1,946	\$ 459	31%	Added Capital cost includes Feed Bunker Wall extension, Speed Screen, Fat, Oils, and Grease system, and redundant pumps related to decreased food waste and sand issues in the CA environment
Total Cost	\$ 3,072	\$ 5,284	\$ 5,091	\$ 2,019		-
Total Service Fee	\$ 1,749	\$ 1,779	\$ 3,861	\$ 2,082	119%	Increase requested equates closely to cost increase seen since original plan of monthly service fees
Change	\$ (1,323)	\$ (3,505)	\$ (1,230)	\$ 63		

APRIL 27, 2022

ITEM E-1

ATTACHMENT B



# Nipomo Community Services District

## South County Sanitary Service Rate Review

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April 27, 2022

**William C. Statler**

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

# Presentation Overview

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- South County Sanitary Services:  
Rate Application Review
- Review and Commentary:  
South County Sanitary Services  
Rate Application



# Rate Application Review



# Three Year Rate Review Cycle

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- **Base Year.** The first year of the cycle - *Base Year* - requires comprehensive, detailed analysis of revenues, expenses and operating data
  - Last “base year” analysis completed in April 2019
  - This is a “base year” review
- **Interim Years.** In second and third years, SCSS is eligible for *Interim Year* rate adjustments that address three key change factors
  - Consumer price index (CPI) for “controllable” operating costs
  - “Pass-through costs” (primarily tipping fees)
  - Adjustment for franchise fees

# Proposed Interim Year

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- As in 2015 and 2019, SCSS proposes straightforward CPI increase for 2023 and 2024.

# Base Year: Two Key Questions

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- Should SCSS be granted a rate increase for 2022?
- If so, how much?
  - How much does it cost to provide required service levels?
  - Are these costs reasonable?
  - And if so, what is a reasonable level of return?

# Are costs reasonable?

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- Looked at costs from three separate perspectives
  - Detailed review of costs and changes by key cost components from 2020 to 2022
  - Comparison of cost increases with CPI
  - Rates in comparable communities

# Key Cost Drivers

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- Truck depreciation
- Food and green waste recycling
- Insurance
- Gas and oil

**Account for almost 90% of increase**

# Detail Review of Key Factors

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## ■ Allowable Costs

- Direct labor
- Office salaries
- Depreciation
- Gas and oil
- Insurance

**Everything else up  
about 2% annually**

## ■ Pass-Through

- Disposal
  - ❖ Landfill
  - ❖ MRF/recycling
  - ❖ Food/greenwaste
- Franchise fees
- Interest

# Cost of Living Index

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- U.S. CPI-U increased by 8.5% over the past two years.
- Excluding detailed review of cost drivers, SCSS costs increase by 4.1%.

# Single Family Residential Monthly Rates

	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero	\$26.49	\$41.56	\$52.18
Morro Bay	17.91	35.81	53.72
Paso Robles	32.33	42.41	46.81
San Luis Obispo*	22.51	45.03	67.56
San Luis Obispo (City) is currently under review			
San Miguel	28.23	44.48	61.06
Templeton	28.72	41.15	45.67
<b>Proposed</b>			
Nipomo CSD	24.54	35.17	46.11

# What's a reasonable return on these costs?

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- Allowable costs (operations and maintenance)
  - 7% operating profit ratio
- Pass-through costs
  - Disposal fees
  - Franchise fees
  - Related party lease and transportation costs
- Excluded costs
  - Charitable and political contributions
  - Entertainment
  - Income taxes
  - Non-IRS approved profit-sharing plans
  - Fines and penalties
  - Limits on officer compensation

## Allowed Revenue Increase

	Nipomo	Others*
Allowable Costs	10,751,370	10,751,371
Allowable Profit **	809,242	934,901
Pass-Through Costs		
Disposal		
Landfill	1,805,407	1,805,407
MRF (Recycling)	1,143,280	1,143,280
Greenwaste	1,781,655	1,781,655
Franchise Fees	1,454,123	1,454,123
Related Party Costs	438,303	438,303
Total Pass-Through Costs	6,622,768	6,622,768
Allowed Revenue Requirements	18,183,381	18,309,041
Revenue without Rate Increase	15,260,677	15,260,678
Revenue Requirement: Shortfall (Surplus)	2,922,704	3,048,363
Rate Base Revenue	18,183,381	18,309,041
Percent Change in Revenue Requirement	19.14%	19.98%
Allowed Revenue Increase ***	21.27%	22.19%

\* Excludes Oceano CSD which has 5% franchise fee.

\*\* 7% operating ratio for Nipomo CSD and 8% for all others.

\*\*\* Adjusted for 10% franchise fee.

# Conclusion

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- Costs are reasonable.
- Proposed rate increase meets “reasonable return” criteria.
  - Although it is higher than “trigger option.”

# Review and Commentary

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- Review Proposed rate increase from SCSS of 21.27%.

- “Piggybacks” on rate review prepared for

- ❖ Arroyo Grande
- ❖ Grover Beach
- ❖ Oceano
- ❖ Pismo Beach

- **Similar services**
- **Similar franchise agreements**
- **Same franchise fees (except Oceano CSD)**
- **Same rate review methodologies**
- **Same financial information**

# Relationship to Nipomo

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- Findings in report apply to Nipomo except
  - “Allowable profit” is 7% (versus 8% in the other communities).
  - SCSS must demonstrate that requested rates are 1% less than what other agencies pay for similar services.

**This is why proposed increase is 21.27% versus 22.19% in other SCSS agencies (except Oceano where franchise fee is 5%).**

# Board Review Schedule

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	2022
Report briefing (no action)	April 27
Adopt report; approve Prop 218 notice	May 11
Public hearing: rate adoption	July 13
New Rates Become Effective –	Sept 1

# Rate Recommendation

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Percent Increase	
Initial	23.23%
Proposed	21.27%

# Key Changes

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- Greenwaste processing costs reclassified as “pass-through” costs
  - Costs may be recovered but no profit is allowed on them.
- IWMA fees excluded from fee analysis.
  - Approved by separate agency and will be charged separately on customer bills.

# Single Family Residential Monthly Rates

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<b>Container Size</b>	<b>Current</b>	<b>Proposed</b>	<b>Increase</b>
32 Gallons	\$20.24	\$24.54	\$4.30
64 Gallons	29.00	35.17	6.17
96 Gallons	38.02	46.11	8.09

# Key Drivers

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<b>2022 Cost Increase from 2020</b>			
	<b>Amount</b>	<b>% of Total</b>	<b>Rate Impact*</b>
Depreciation	998,708	36%	7.72%
Greenwaste	956,783	35%	7.39%
Insurance	298,612	11%	2.31%
Gas and Oil	131,422	5%	1.02%
<b>Total Key Drivers</b>	<b>2,385,525</b>	<b>87%</b>	<b>18.43%</b>
Other Costs	367,275	13%	2.84%
<b>Total</b>	<b>\$2,752,800</b>	<b>100%</b>	<b>21.27%</b>

# Findings

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- Complete application.
  - Initially submitted October 20, 2021
  - Revised February 18, 2022
- Comprehensive level of service – curbside trash, recycling and green waste – at very competitive rates compared with similar communities.
- Trigger option.
- Need for updated rate-setting methodology.
- Temporary delayed rate increase.

# Rate Implementation Delay

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- Rate manual provides for this if delay more than 120 days after application if “no fault of the franchise hauler.”
  - ❖ March 1

*120 days after Feb. 18  
would be June 18*

- Mitigation Factors
  - Proposition 218
  - IWMA rate increase
  - Complex review
    - ❖ May 1

*May 1 is 72 days after  
Feb. 18, and represents a  
compromise*

# Other Considerations

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- These are not new factors.

Agency	2019	2015
Arroyo Grande	June	October
Grover Beach	June	October
Pismo Beach	May	October
Oceano CSD	June	October
Nipomo CSD	June	

- What's new? First time in almost 30 years hauler asked for a delayed rate increase.

# Other Considerations

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- Given 30-year life, many interpretations required over time for issues not addressed in Rate Manual (or other factors)
  - MRF costs
  - Greenwaste
  - Interim year increases
- Rate manual sets timeframes for 9 Steps: assumes no “friction.”
- Just one example
  - All Step 3 tasks (a to h): 15 days
  - Step 3(g): Request additional information or clarification

# Other Considerations

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- Step 1: 15 days
  - Agency reviews application for completeness.
    - ❖ Rate Manual doesn't address: what if isn't complete within 15 days?
  - “Complete” application not received until February 18.

# Temporary Delayed Implementation Rate Increase

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Effective Date	Start Period	
	March 1	May 1
May 1	5.55%	0.00%
June 1	9.51%	3.17%
July 1	14.80%	7.40%
August 1	22.19%	13.32%
September 1	33.29%	22.19%

*\* Ends December 31, 2022*

# If Impact Absorbed by District

Effective Date	Start Period			
	Months		Cost	
	March 1	May 1	March 1	May 1
May 1	2	-	\$68,035	\$0
June 1	3	1	102,053	34,018
July 1	4	2	136,071	68,035
August 1	5	3	170,088	102,053
September 1	6	4	204,106	136,071

# Questions?

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ATTACHMENT C

# NCSD Solid Waste Rate Schedule

# 2021

SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6			
8	9	10	11	12	13	14	7	8	9	10	11	12	7	8	9	10	11	12	7	8	9	10	11	12			
15	16	17	18	19	20	21	13	14	15	16	17	18	13	14	15	16	17	18	13	14	15	16	17	18			
22	23	24	25	26	27	28	19	20	21	22	23	24	19	20	21	22	23	24	19	20	21	22	23	24			
29	30	31					26	27	28	29	30	31	26	27	28	29	30	31	26	27	28	29	30	31			

# 2022

January 2022							February 2022							March 2022							April 2022						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6			
8	9	10	11	12	13	14	7	8	9	10	11	12	6	7	8	9	10	11	3	4	5	6	7	8			
15	16	17	18	19	20	21	13	14	15	16	17	18	13	14	15	16	17	18	10	11	12	13	14	15			
22	23	24	25	26	27	28	20	21	22	23	24	25	20	21	22	23	24	25	17	18	19	20	21	22			
29	30	31					27	28					27	28	29	30	31		24	25	26	27	28	29			

May 2022							June 2022							July 2022							August 2022						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6			
8	9	10	11	12	13	14	7	8	9	10	11	12	3	4	5	6	7	8	7	8	9	10	11	12			
15	16	17	18	19	20	21	12	13	14	15	16	17	10	11	12	13	14	15	14	15	16	17	18	19			
22	23	24	25	26	27	28	19	20	21	22	23	24	17	18	19	20	21	22	21	22	23	24	25	26			
29	30	31					26	27	28	29	30		24	25	26	27	28	29	28	29	30	31					

Date	Description
October 13, 2021	Award contract for Solid Waste Rate Study
October 27, 2021	Staff Presentation to Board – Impact of SB 1383 on Community
November 10, 2021	Introduce Ordinance Addressing SB 1383 – First Reading
December 8, 2021	Adopt Ordinance Addressing SB 1383 – Second Reading
December 8, 2021	Adopt MOA between IWMA and NCSD
April 27, 2022	Board Meeting: Receives Rate Study Presentation*
May 11, 2022	Board Meeting: Approves Rate Study, Initiate Prop. 218 Process*
May 20, 2022	Mail 45-Day Prop 218 Notice (Drop Dead Date)
May 25, 2022	Adopt Amended Franchise Fee Agreement – SCSS (No Later Than)
July 13, 2022	Board Meeting: Public Hearing - Board Adopts New Rates
Sept 1, 2022	Rates Go into Effect (minimum 30 days after rates adopted)