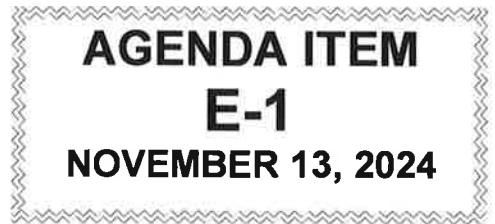


TO: BOARD OF DIRECTORS  
FROM: RAY DIENZO *R.D.*  
GENERAL MANAGER  
DATE: NOVEMBER 7, 2024



**APPROVE FINAL DRAFT OF THE SOUTH COUNTY SANITARY SERVICES RATE STUDY REPORT AND DIRECT STAFF TO INITIATE A PROPOSITION 218 PROCESS, INCLUDING SETTING A PUBLIC HEARING DATE FOR JANUARY 22, 2025**

**ITEM**

Approve final draft of the South County Sanitary Service rate study report and direct staff to initiate Proposition 218 process and set the public hearing date for January 22, 2025 [RECOMMEND APPROVE REPORT, DIRECT STAFF TO INITIATE PROPOSITION 218 PROCESS AND SET JANUARY 22, 2025 FOR PUBLIC HEARING]

**BACKGROUND**

South County Sanitary Services (“SCSS”) provides solid waste collection, recycling, and green waste services within the Nipomo Community Services District (“District”) service area under a Franchise Agreement (“Agreement”). SCSS is seeking a rate adjustment to cover increased costs associated with cost-of-living adjustment for collection operations, increased costs associated with the organics digester facility and landfilling.

Annual adjustments to SCSS’ solid waste rates have historically been reviewed in accordance with the “City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates” which was originally established in 1994 (“1994 Rate Manual”). The 1994 Rate Manual allows for a cost-based rate adjustment every three years and interim rate adjustments in the other two years. In interim rate periods, SCSS is limited to adjustments based on inflation, tipping fee adjustments, and franchise or regulatory fee changes. During cost-based rate adjustment years, SCSS is able to request adjustments due to changes in other operational costs as set forth in the 1994 Rate Manual.

SCSS and other agencies in San Luis Obispo County have, for several years, intended to update the annual rate adjustment methodology. The City of San Luis Obispo has been working with Waste Connections, SCSS’s parent company, to develop and implement a new rate adjustment methodology to replace the 30-year-old Rate Manual. The key objectives for a new rate adjustment methodology are to enhance rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness. The City of San Luis Obispo contracted with R3 Consulting Group, Inc. (“R3”) to support development and negotiation of a new rate adjustment methodology and the new rate adjustment methodology is available for consideration by other public agencies in San Luis Obispo County. The District has been following the development of the new rate adjustment methodology, which will be presented to the Board as an amendment to the Agreement with SCSS in association with the January 22, 2025 public hearing regarding the 2025 rate adjustment.

The City of San Luis Obispo also contracted with R3 to conduct a detailed review of the 2025 cost-based rate applications submitted by Waste Connections to ten agencies in San Luis Obispo County, including the District. The District received an initial rate adjustment request from SCSS on July 3, 2024, for an adjustment to the District’s solid waste rates of 3.23% effective January 1,

2025. After R3's review, adjustments necessary for implementation of the new rate methodology and new regional service enhancements, the recommended 2025 rate adjustment is 5.04%.

**DISCUSSION**

**Cost-Based Rate Adjustment**

R3 completed a thorough review of SCSS' 2025 cost-based rate adjustment application and adjustments necessary for the new recommended rate adjustment methodology. After careful review of the rate adjustment request, and the outcomes of negotiations of a new rate adjustment methodology between the City of San Luis Obispo and Waste Connections, R3 completed a report evaluating the 2025 rate adjustment request and the new rate methodology (Attachment A). R3's review suggests that the original 3.23% adjustment effective January 1, 2025, is justifiable in accordance with the 1994 Rate Manual and may be accepted by the District in the event that the District does not adopt the new rate adjustment methodology.

R3's report further recommends the new rate adjustment methodology and the corresponding rate adjustment of 5.04%, which will provide key benefits to the District in terms of rate predictability and stability and new enhanced services. The table below shows the current and proposed monthly residential solid waste and recycling rates given the recommended 5.04% adjustment. Note that SCSS will pro-rate the rate adjustment given that Board authorization of rate adjustment would be after January 1, 2025.

**Table 1. Proposed Single Family Residential Monthly Rates**

| Container Size | Current 2024 Charges | Monthly Rates |          |
|----------------|----------------------|---------------|----------|
|                |                      | Proposed 2025 | Increase |
| 32 Gallons     | \$27.57              | \$28.96       | \$1.39   |
| 64 Gallons     | \$39.52              | \$41.51       | \$1.99   |
| 96 Gallons     | \$51.81              | \$54.42       | \$2.61   |

**New Rate Adjustment Methodology**

The City of San Luis Obispo, in its capacity as the lead agency on the solid waste rate adjustment methodology update process, and in partnership with Los Osos Community Services District and Waste Connections, completed negotiations and arrived at tentative agreement with Waste Connections regarding the terms and conditions of a new rate adjustment methodology. The outcome was the result of extensive good faith negotiations between the City of San Luis Obispo and Waste Connections, with consideration to input provided by other public agency stakeholders, including Nipomo Community Services District.

Pending Board approval, the new rate adjustment methodology will replace the 1994 Rate Manual and will regulate annual rate adjustments for the District's solid waste rates starting in 2026. The new methodology fulfills key objectives including rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness. Additionally, the new methodology can be applied on a regional scale and is available as a recommended alternative to the 1994 Rate Manual for all agencies, including the District. The key features of the new methodology include:

- **Capped CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or

over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers.

- **Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above. It should be noted that SCSS's 2023 net income was such that, were a revenue balancing mechanism in place at the time, surplus revenues would have been carried forward to the 2025 rate year and would have offset the forthcoming rate adjustment.
- **Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Manual every three years on Waste Connections' costs. Via the new methodology, cost-based adjustments would occur at a maximum of every five years, and only if requested by Waste Connections or the District. The first opportunity for a cost-based adjustment will be for the year 2030. If neither Waste Connections nor the District request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections' consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the District will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized.
- **Updated Depreciation Lifespan for Trucks:** The 1994 Rate Manual set a 7-year depreciation schedule for solid waste collection trucks. Modern solid waste collection trucks have a 10-year lifespan, and the depreciation schedule was adjusted accordingly.
- **Updated Profit Allowance:** The 2025 rate adjustment will include a 9% profit allowance of projected collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standards for solid waste services. For context, the 2025 profit allowance is approximately 5% of revenues and R3 estimates that the 2026 profit allowance will be approximately 5.5% of revenues.
- **Removed Limitation on Corporate Overhead:** The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The prior limitation is recommended for removal in order to fund these services. Compensation to Waste Connections for corporate overhead will be capped via the CPI adjustment through 2029 and may be cost-adjusted in 2030 and subject to justification and potential adjustment or limitation at that time.
- **Extraordinary Adjustments:** The California Air Resources Board ("CARB") Advanced Clean Fleets ("ACF") regulation is requiring all solid waste collection trucks to be zero emissions in 2042. This includes a phased in plan to get the percentage of the fleet to be zero emission vehicle ("ZEV") with 10% by 2030, 25% by 2033, 50% by 2036, 75% by 2039 and 100% by 2042. During CPI Adjustment years, Waste

Connections may request extraordinary rate adjustments due to changes in law affecting collection operations, including for compliance with CARBS's ACF electrification mandate (which may necessitate change to depreciation schedules). The District may, but is not obligated to, consider requests for extraordinary rate adjustments due to changes in law affective post-collection operations. Requests for extraordinary change are subject to good faith meet and confer negotiations between the District and Waste Connections.

- **Regional Service Enhancements:**
  - **Customer Assistance Program:** This would apply to the jurisdictions that currently have an existing customer assistance program. The NCSD does not have such a program, but it could consider one in the future.
  - **Free Bulky Waste Collections:** Collection of a bulky waste item twice annually from residential accounts at no cost via bi-annual voucher program.
  - **Annual Cart Exchange:** Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

Per R3's report, the key factors affecting the 2025 rate adjustment are summarized as follows:

- A doubling of post-collection costs for organics processing since 2022 due to updated costs for processing infrastructure to meet the requirements of Senate Bill (SB) 1383.
- Market rate adjustment of post-collection costs for landfill disposal, which have remained flat since 2016. Landfill disposal costs have been below market at \$41 per ton since 2016 and will increase to a fair market cost of \$70 per ton in 2025.
- Cost-of-living changes in collection costs, which include labor, capital, operating expenses, insurance, and overhead costs, for 2025 increases over 2024 amounting to approximately 4.21%.
- Additional costs for regional service enhancements described above, which add 0.55% to the 2025 rate adjustment.

Taken altogether, and including appropriate adjustments to SCSS' original request to achieve the objectives of the new rate methodology, the 2025 rate adjustment effective January 1, is 5.04% as shown in the table below:

|   |              |
|---|--------------|
| <b>Original Adjustment per 1994 Rate Manual</b> | <b>3.23%</b> |
| Revised Depreciation Schedule                   | -1.33%       |
| Remove Limitation on Corporate Overhead         | 1.51%        |
| Regional Service Enhancements                   | 0.55%        |
| Updated Profit Allowance                        | 0.90%        |
| Recalculated Franchise Fee                      | 0.18%        |
| <b>Revised Adjustment for New Methodology</b>   | <b>5.04%</b> |

Should your Board accept the recommendations in the rate study, your Board will need to approve the public notice that the District's solid waste customers will receive. The Draft NCSD Proposition 218 notice [Attachment B] will be sent to District customers and will start the minimum 45-day

protest period. Staff recommends setting the date for a Public Hearing on January 22, 2025. Rates for solid waste collections are addressed in the District's Ordinance. The Public Hearing will be held concurrent with your Regular Board Meeting wherein staff will tally all protest votes received and determine whether a majority protest exists. If there is not a majority protest, the Board may authorize the new rates effective January 1, 2025 (SCSS will prorate customer bills back to that date).

**FISCAL IMPACT**

Funding the time and materials needed for NCSD staff to compile and complete the information to provide staff reports associated with solid waste is included in the Solid Waste Fund #300 budget. The cost of the consultant's work is paid by SCSS. The fiscal impact on the District is accounted for.

**STRATEGIC PLAN**

Strategic Plan Goal 8.

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**

Staff recommends your Board approve the rate review report, direct staff to initiate Proposition 218 process, and set January 22, 2025 as the Public Hearing date.

**ATTACHMENT**

- A. R3 Consulting Group, Inc. Rate Report
- B. Draft NCSD Proposition 218 Notice

NOVEMBER 13, 2024

ITEM E-1

ATTACHMENT A

# REPORT

City of San Luis Obispo and Participating Agencies

## New Solid Waste Rate Adjustment Methodology and 2025 Rates

*Submitted electronically: November 1, 2024*



November 1, 2024

Ms. Meg Buckingham  
Solid Waste and Recycling Coordinator  
Public Utilities  
879 Morro, San Luis Obispo, CA 93401  
*submitted via email: mbuckin@slocity.org*

**SUBJECT: New Solid Waste Rate Adjustment Methodology and 2025 Rates**

Dear Ms. Buckingham and Participating Agencies,

R3 Consulting Group, Inc. (R3) was engaged by the City of San Luis Obispo (City) to provide solid waste consulting services via two engagements supporting the City's negotiations of a new solid waste services agreement with Waste Connections, the solid waste hauler. R3 was originally engaged by the City to work in collaboration with Los Osos Community Services District and Waste Connections to update the methodology for annual adjustments to the solid waste rates charged by Waste Connections. The key objectives for updating the rate adjustment methodology were to enhance rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness.

As that engagement proceeded, eight other agencies in San Luis Obispo County (the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach, Avila Beach Community Services District, Cambria Community Services District, Cayucos Sanitary District, Nipomo Community Services District, and Oceano Community Services District – altogether "Participating Agencies" or "Agencies") were included as stakeholder participants in the development of new rate adjustment methodology. With the inclusion of these additional Agencies, objectives for the engagement were updated to include regional scale applicability of the new rate adjustment methodology. R3 was then engaged by the City to review Waste Connections' rate adjustment requests for the 2025 rate year on behalf of all ten Agencies with the objective of determining 2025 solid waste rates that would be an appropriate starting point for a new rate adjustment methodology starting in 2026.

The City of San Luis Obispo served as the lead contracting agency for both engagements, providing primary oversight and direction of R3's work. Input and feedback were also sought from the other nine Agencies, and the results reflect their stakeholder input. Ultimately, the outcomes of both engagements are the conclusion of good faith contract negotiations between the City and Waste Connections. In summary, the City and Waste Connections have tentatively agreed to updated terms and conditions for annual rate adjustment which fulfill key objectives while also securing enhanced services that will protect low income households, prevent illegal dumping, and clean solid waste collection containers. The new rate adjustment methodology and enhanced services also resulted in updated adjustments to solid waste rates for 2025.

The City intends to recommend a new agreement with Waste Connections to the City Council that will include the new rate adjustment methodology and enhanced services along with the 2025 adjustments to solid waste rates. In keeping with the objective for the results to be applicable on a regional scale, Waste Connections is willing to offer the new rate adjustment methodology and



select enhanced services to the other nine Agencies at the updated 2025 adjustments to solid waste rates.

R3 would like to recognize that this has been a significant undertaking, and we'd like to thank the City of San Luis Obispo, Waste Connections, Los Osos Community Services District, and Participating Agencies for your involvement in providing feedback during this process. In closing, R3 recommends City and stakeholder consideration of the revised 2025 rates and the new rate adjustment methodology as a means of achieving shared rate fairness, stability, and predictability objectives. Here's what Waste Connections has shared regarding the outcomes:

*"San Luis Garbage (SLG) had the opportunity to negotiate with the City of San Luis Obispo on the re-write of the 1994 rate-making manual. The goal of this endeavor was to simplify and streamline the rate-making process for all parties and provide an improved model going forward for potential refuse collection rate changes. The process included a considerable amount of discussion and analysis and although arduous at times, SLG feels the negotiations were performed in good faith, were collaborative in nature and carried out with mutual respect. In addition to updating the rate-making methodology, both parties took the opportunity to establish some new service enhancements that will discourage illegal dumping, provide cart cleaning exchanges, and offer rate relief for low-income customers. SLG believes the outcome of the negotiation has provided a much-improved rate-review process for the City of San Luis Obispo and other cities currently under the old rate-making methodology which will ultimately allow for an easier path to fair and reasonable rates for all customers."*

\* \* \* \* \*

We appreciate the opportunity to be of service to the City and would like to thank the City and the Participating Agencies for their involvement and feedback. We would also like to recognize Waste Connections staff for being communicative and responsive to requests for information during the process.

Sincerely,



Garth Schultz | *Principal*  
**R3 Consulting Group, Inc.**  
510.292.0853 | [gschultz@r3cgi.com](mailto:gschultz@r3cgi.com)

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## Attachments

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- 2 Revised 2025 Rate Adjustments
- 3 CPI-U for Garbage and Trash
- 4 Example Rate Calculations for 2026 through 2029

# 1. EXECUTIVE SUMMARY

## New Rate Adjustment Methodology

The City of San Luis Obispo, in its capacity as the lead agency on the solid waste rate adjustment methodology update process, and in partnership with Los Osos Community Services District and Waste Connections, completed negotiations and arrived at tentative agreement with Waste Connections regarding the terms and conditions of a new methodology. The outcome was the result of extensive good faith negotiations between the City and Waste Connections, with due consideration to input provided by other public agency stakeholders.

**Pending City Council approvals, the new methodology will replace the 1994 Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (1994 Rate Manual) and will regulate annual rate adjustments for the City's solid waste rates starting in 2026.**

The new methodology fulfills key objectives established by the City and Waste Connections, including rate stability, predictability, fairness, transparency, ease-of-administration, and cost-effectiveness. Additionally, in response to requests by other Agencies that contract with Waste Connections in San Luis Obispo County, the new methodology can be applied on a regional-scale and is available as recommended alternative to the 1994 Rate Adjustment Manual for those Agencies.

The key features of the new methodology include:

- › **CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers.
- › **Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above (there is no cap on these amounts).
- › **Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Adjustment Manual every three years on Waste Connections' costs. Via the new methodology, cost-based adjustments would occur a maximum of every five years, and only if requested by Waste Connections or the City. The first opportunity for a cost-based adjustment will be for the 2030 rate year. If neither Waste Connections nor the City request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections' consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the City will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized. These timeframes will be delineated in the forthcoming amendment to the agreement with Waste Connections.
- › **Updated Depreciation Lifespan for Trucks:** The 1994 Rate Manual set a 7-year depreciation schedule for solid waste collection trucks. Modern solid waste collection trucks have a 10-year lifespan, and the depreciation schedule was adjusted accordingly.
- › **Updated Profit Allowance:** The 2025 rate adjustment will include a 9% profit allowance of projected collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standard ranges for solid waste services. For

context, the 2025 profit allowance is approximately 5% of revenues and we estimate that the 2026 profit allowance will be approximately 5.5% of revenues. Profit will not be allowed on post-collection costs.

- › **Removed Limitation on Corporate Overhead:** The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The City and Waste Connections agreed to remove the prior limitation in order to fund these services. In the near-term, compensation to Waste Connections for corporate overhead will be limited by the CPI adjustment noted above. Cost-based adjustments to corporate overhead are possible in 2030, and will be subject to review, justification, and potential limitation at that time.
- › **Extraordinary Adjustments:** The California Air Resources Board (CARB) Advanced Clean Fleets (ACF) regulation is requiring all solid waste collection trucks to have zero emissions by 2042. This includes a phased in plan to get the percentage of the fleet to be zero emission vehicle (ZEV) with 10% by 2030, 25% by 2033, 50% by 2036, 75% by 2039 and 100% by 2042. During CPI Adjustment years, Waste Connections may request extraordinary rate adjustments due to changes in law affecting collection operations, including for compliance with CARB's ACF zero emission mandate (which may necessitate change to depreciation schedules). The City may, but is not obligated to, consider requests for extraordinary rate adjustments due to changes in law affecting post-collection operations. Requests for extraordinary change are subject to good faith negotiations between City and Waste Connections.

## New Service Enhancements

During negotiations, the City and Waste Connections also took the opportunity to establish new service enhancements that will discourage illegal dumping, provide cart cleaning exchanges, and offer rate relief for low-income customers. The below service enhancements are available to the other Agencies that approve the new rate adjustment methodology in association with adjusted 2025 solid waste rates:

- › **Customer Assistance Program:** 20% low-income discount provided to residential customers using 32-gallon cart service, using existing jurisdictional practices on low-income relief for their offered utility type services with evidence of qualifying financial hardship.
- › **Free Bulky Waste Collections:** Collection of a bulky waste item twice annually from residential accounts at no separate cost, via clean-up week or voucher program depending on existing program.
- › **Annual Cart Exchange:** Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

## 2025 Rate Adjustments

As a result of the above, Waste Connections' 2025 rate adjustment request was revised from a 9.29% increase to a 9.89% increase in solid waste rates, effective January 1, 2025 (and prior to other rate structure adjustments that the City and Waste Connections may enact). When the new rate methodology changes and service enhancements are equally applied to the other regional Agencies, the results are as shown in Table 1 on the following page. Additional details are included in Section 3 of this report.

**Table 1: 2025 Rate Adjustments**

| <b>Agency</b>           | <b>Original</b> | <b>Revised</b> |
|-------------------------|-----------------|----------------|
| City of San Luis Obispo | 9.29%           | 9.89%          |
| City of Arroyo Grande   | 3.97%           | 4.92%          |
| Los Osos CSD            | 12.47%          | 13.18%         |
| City of Pismo Beach     | 3.97%           | 4.82%          |
| Cambria CSD             | 12.78%          | 12.59%         |
| City of Grover Beach    | 3.97%           | 5.02%          |
| Nipomo CSD              | 3.23%           | 5.04%          |
| Oceano CSD              | 3.76%           | 4.98%          |
| Cayucos SD              | 12.47%          | 14.32%         |
| Avila Beach CSD         | 3.97%           | 4.60%          |

## 2. BACKGROUND

### 1994 Rate Manual

The 1994 Rate Manual is a 120-page document that provides step-by-step directives regarding annual adjustments to solid waste rates in the City. Though the 1994 Rate Manual specifically references the City of San Luis Obispo, other agencies in San Luis Obispo County (including the nine Agencies referenced in this report) also follow the 1994 Rate Manual for annual adjustments to solid waste rates.

The 1994 Rate Manual established a three-year cycle for adjustments to solid waste rates. The first year of each three-year cycle (called a “base year”) adjusted rates based on the documented costs of providing solid waste services. In the second and third years, solid waste rates were adjusted in accordance with external indicators, such as the Consumer Price Index (CPI).

While the 1994 Rate Manual was an appropriate approach to annually adjusting solid waste rates at the time, changing regulatory conditions and modern best practices in solid waste rate setting indicate that the prior approach has outlived its usefulness. In particular, cost-based adjustments on a fixed three-year cycle are no longer the industry norm. Most solid waste rate adjustment methodologies in California today either do not include regular cost-based adjustments or do so less frequently. When allowed, cost-based adjustments are typically the result of extraordinary changes in cost due to factors like changes in law or other uncontrollable factors (such as China’s National Sword Policy in 2017 and the COVID pandemic in 2020). Additionally, step-by-step instructions and timelines in the 1994 Rate Manual are outdated and do not contemplate current approaches to public noticing, public hearings, and review timelines for authorizing rate adjustments.

### RFQ for New Rate Adjustment Methodology

Recognizing the limitations of the 1994 Rate Manual, the City and Los Osos Community Services District issued a request for quotes (RFQ) in early 2024 seeking a consultant to develop a new rate adjustment methodology. Pursuant to the RFQ process, R3 was awarded an agreement to provide support in developing a new rate adjustment methodology.

### Rate Adjustment History

Rate adjustments experienced by the City and participating Agencies have varied significantly in the prior ten years from 2015 through 2024, as shown in Table 2, on the following page. As shown in the table, rate adjustments by agency have varied from 0% (most Agencies in 2015) to over 20% (most Agencies in 2022).

There are important reasons for these variances, primarily related to the unfunded State mandates of SB 1383 (Short-lived Climate Pollutants Act) which required all agencies in California to implement programs to recover and recycle organic waste to reduce methane emissions from landfills. While rate adjustments were necessary to fund the required SB 1383 programs, the combination of new costs with the three-year cost-based adjustment approach in the 1994 Rate Manual resulted in rate adjustment spikes in 2016, 2019, and 2022. Overall, across the Agencies, the average annual rate adjustment from 2015 through 2024 has been 6.76%.

One important objective of the new rate adjustment methodology is to minimize the recurrence of such spikes by reducing the frequency of cost-based rate adjustments. From R3’s experience implanting new rate methodologies with other clients, the result has been stable and predictable annual rate adjustments.

**Table 2: 2015 – 2024 Rate Adjustments by Agency**

| Agency                  | 2015  | 2016   | 2017  | 2018  | 2019   | 2020  | 2021  | 2022   | 2023  | 2024  |
|-------------------------|-------|--------|-------|-------|--------|-------|-------|--------|-------|-------|
| City of San Luis Obispo | 0.00% | 5.25%  | 1.00% | 1.60% | 13.70% | 1.70% | 0.70% | 17.75% | 9.10% | 3.00% |
| City of Arroyo Grande   | 0.00% | 3.25%  | 1.00% | 1.60% | 10.06% | 1.70% | 0.70% | 22.19% | 9.10% | 3.00% |
| Los Osos CSD            | 2.00% | 10.37% | 1.00% | 1.60% | 25.74% | 1.70% | 0.70% | 41.87% | 7.70% | 2.70% |
| City of Pismo Beach     | 0.00% | 3.25%  | 1.00% | 1.60% | 10.06% | 1.70% | 0.70% | 22.19% | 9.10% | 3.00% |
| Cambria CSD             | 1.92% | 9.93%  | 1.00% | 1.60% | 25.32% | 1.70% | 0.70% | 41.50% | 9.10% | 3.00% |
| City of Grover Beach    | 0.00% | 3.25%  | 1.00% | 1.60% | 10.06% | 1.70% | 0.70% | 22.19% | 9.10% | 3.00% |
| Nipomo CSD              | 0.00% | 0.00%  | 1.00% | 1.60% | 15.08% | 1.70% | 0.70% | 21.27% | 9.10% | 3.00% |
| Oceano CSD              | 0.00% | 3.25%  | 1.00% | 1.60% | 10.06% | 1.70% | 0.70% | 21.03% | 9.10% | 3.00% |
| Cayucos SD              | 2.00% | 27.39% | 1.00% | 1.60% | 26.43% | 1.70% | 0.70% | 43.30% | 9.10% | 3.00% |
| Avila Beach CSD         | 0.00% | 3.25%  | 1.00% | 1.60% | 10.06% | 1.70% | 0.70% | 22.19% | 9.10% | 3.00% |

## Financial Statement History

There are three Waste Connections business units serving the ten participating Agencies (San Luis Garbage, Mission Country Disposal, and South County Sanitary Service). Each business unit prepares annual audited financial statements which are used as the basis for base year rate applications to the Agencies. R3 analyzed Waste Connections’ audited financial statements for the six years from 2018 through 2023 to evaluate profit achievement, with the results summarized in Table 3, below. Table 3 also includes estimated profit achievement in 2024 (still underway) and for 2025 (prior to 2025 rate adjustments).

**Table 3: 2018 – 2023 Profit Achievement**

| Business Unit                 | 2018          | 2019           | 2020          | 2021          | 2022         | 2023         | 2024         | 2025          |
|-------------------------------|---------------|----------------|---------------|---------------|--------------|--------------|--------------|---------------|
| San Luis Garbage              | -13.84%       | -16.84%        | -9.66%        | -3.41%        | 12.47%       | 6.30%        | -0.64%       | -6.62%        |
| Mission Country Disposal      | -19.26%       | -30.77%        | -9.28%        | -19.84%       | -10.21%      | 2.47%        | -4.09%       | -8.95%        |
| South County Sanitary Service | 5.38%         | 1.40%          | 0.25%         | -5.56%        | 5.93%        | 15.85%       | 8.43%        | 2.38%         |
| <b>Overall</b>                | <b>-7.22%</b> | <b>-12.45%</b> | <b>-5.22%</b> | <b>-7.88%</b> | <b>4.66%</b> | <b>9.67%</b> | <b>2.61%</b> | <b>-3.16%</b> |

As shown in Table 3, in total across all three business units, Waste Connections operated without any net income between 2018 and 2021, with net positive profitability being achieved in 2022 and 2023. Profit achievement varied by business unit, with South County Sanitary Service consistently experiencing greater profit achievement and Mission Country Disposal consistently experiencing lesser or no profit achievement. This is one of the key reasons that rate adjustments for the Agencies served by Mission Country Disposal (Cambria Community Services District, Cayucos Sanitary District, and Los Osos Community Services District) were higher than the other Agencies in 2019 and 2022.

Table 3 also shows that projected profit achievement in 2024 will be lower than 2023, which is primarily the result of Waste Connections incurring increased landfill disposal costs (provided by a related party) and increased organics processing costs (provided by a non-affiliated third party processor). Projected profit achievement for 2025 – which, importantly, is **prior to 2025 adjustments to solid waste rates** – demonstrates no net profit for San Luis Garbage and Mission Country Disposal and low net income for South County Sanitary Service. Overall, without adjustments to rates, Waste Connections service to the Agencies in 2025 will not yield net income.

It should be noted that Waste Connections allocates costs between business units based on allocation metrics that include vehicle operating hours, number of solid waste containers, and number of customer accounts. While such metrics are useful means of allocating costs, they do not necessarily represent the exact cost of providing service within a given business unit.

### Rate Comparison

R3 compared current 2024 solid waste rates for the Agencies to rates in other jurisdictions in San Luis Obispo County, Santa Barbara County, and Monterey County. The results are shown in Table 4, below and on the following page, and are organized in ascending order by 32-gallon monthly rate (common residential subscription level).

**Table 4: Regional Comparison of Monthly Rates**

| Agency                                 | 20 Gallon | 32 Gallon | 64 Gallon | 96 Gallon | 2 Cubic Yards |
|--|-----------|-----------|-----------|-----------|---------------|
| Oceano CSD                             | N/A       | \$20.37   | \$29.31   | \$57.39   | \$128.75      |
| San Luis Obispo                        | \$14.74   | \$23.53   | \$47.06   | \$70.59   | \$185.21      |
| Pismo Beach                            | N/A       | \$23.76   | \$47.56   | \$71.33   | \$166.02      |
| Grover Beach                           | N/A       | \$24.23   | \$32.74   | \$41.23   | \$147.95      |
| Arroyo Grande                          | N/A       | \$27.33   | \$35.52   | \$43.73   | \$167.65      |
| Nipomo CSD                             | N/A       | \$27.57   | \$39.52   | \$51.81   | \$136.62      |
| Avila Beach CSD                        | N/A       | \$28.31   | \$46.78   | \$65.24   | \$177.68      |
| Santa Barbara County Zone 4 Lompoc     | N/A       | \$31.41   | \$36.13   | \$40.70   | \$179.98      |
| Cayucos SD                             | N/A       | \$32.60   | \$38.52   | \$44.48   | \$184.32      |
| Santa Barbara County Zone 5            | N/A       | \$33.03   | \$37.84   | \$42.46   | \$192.87      |
| City of Atascadero                     | N/A       | \$33.67   | \$52.80   | \$66.35   | \$172.24      |
| San Miguel                             | N/A       | \$34.13   | \$53.80   | \$72.88   | \$124.12      |
| Santa Barbara County Zone 4 Santa Ynez | N/A       | \$34.33   | \$42.62   | \$50.77   | \$254.11      |
| City of Morro Bay                      | \$22.21   | \$35.54   | \$71.07   | \$106.63  | \$265.30      |
| Solvang                                | N/A       | \$36.28   | \$45.20   | \$54.69   | \$256.55      |



| Agency                       | 20 Gallon | 32 Gallon | 64 Gallon | 96 Gallon | 2 Cubic Yards |
|------------------------------|-----------|-----------|-----------|-----------|---------------|
| Goleta                       | N/A       | \$37.39   | \$41.88   | \$48.35   | \$240.10      |
| Templeton                    | N/A       | \$38.73   | \$54.63   | \$60.41   | \$149.58      |
| Los Osos CSD                 | \$27.74   | \$39.45   | \$60.57   | \$64.96   | \$228.72      |
| Buellton                     | N/A       | \$40.51   | \$48.40   | \$56.38   | \$281.13      |
| Cambria CSD                  | N/A       | \$41.52   | \$83.03   | \$124.55  | \$201.94      |
| King City                    | \$32.43   | \$42.83   | \$53.68   | \$63.52   | \$288.00      |
| Santa Barbara County Zone 2  | N/A       | \$43.25   | \$54.66   | \$65.92   | \$259.61      |
| City of Paso Robles          | \$38.15   | \$43.32   | \$57.42   | \$63.59   | \$188.36      |
| Santa Barbara County Zone 3  | N/A       | \$45.22   | \$51.52   | \$57.75   | \$215.72      |
| MRWMD                        | \$38.28   | \$46.54   | \$72.92   | \$91.20   | \$277.20      |
| City of Santa Barbara        | N/A       | \$48.26   | \$59.82   | \$71.38   | \$277.66      |
| WM Area (Formerly Mid-State) | N/A       | \$48.72   | \$71.31   | \$93.84   | \$214.46      |
| Santa Barbara County Zone 1  | N/A       | \$56.60   | \$62.86   | \$69.25   | \$256.74      |
| Santa Maria                  | N/A       | N/A       | \$38.74   | \$47.87   | \$166.72      |

Table 4 demonstrates that solid waste rates for the City and other Participating Agencies compare favorably to others in the region. Charts 1 through 4, below and on the following pages, show the information from Table 4 in graphical format.

Chart 1: Regional Comparison of Monthly 32-gallon Cart Rates

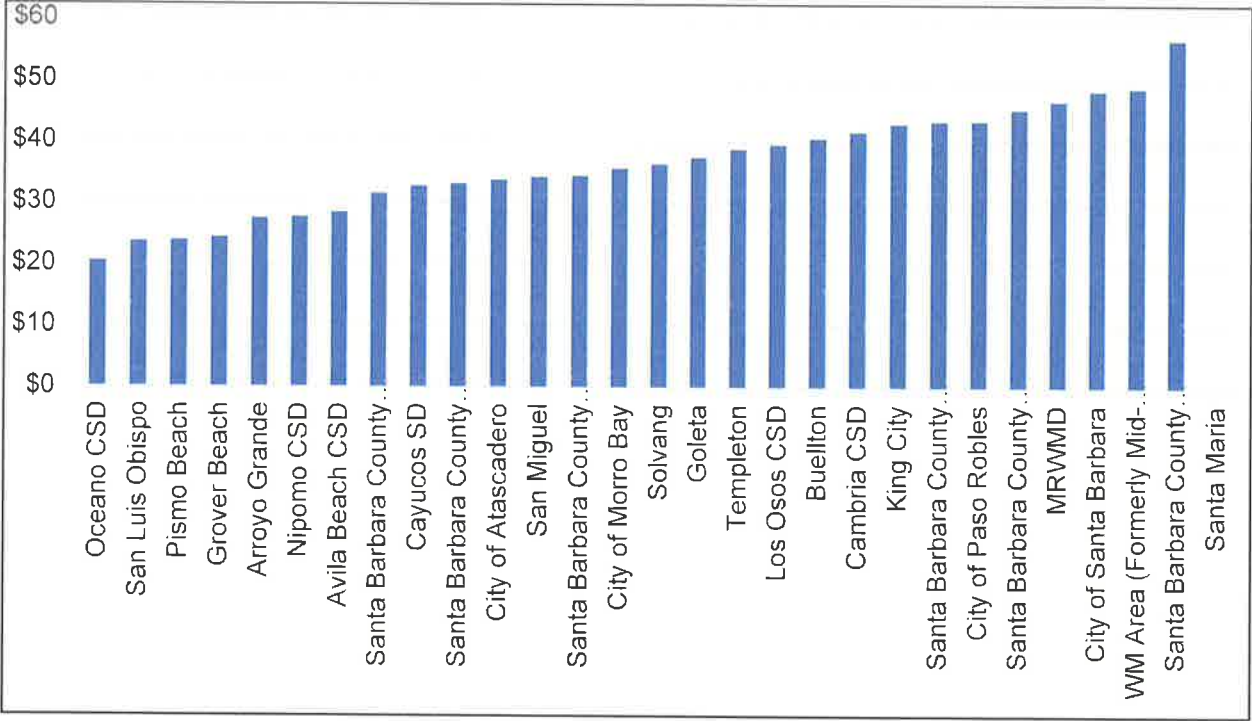
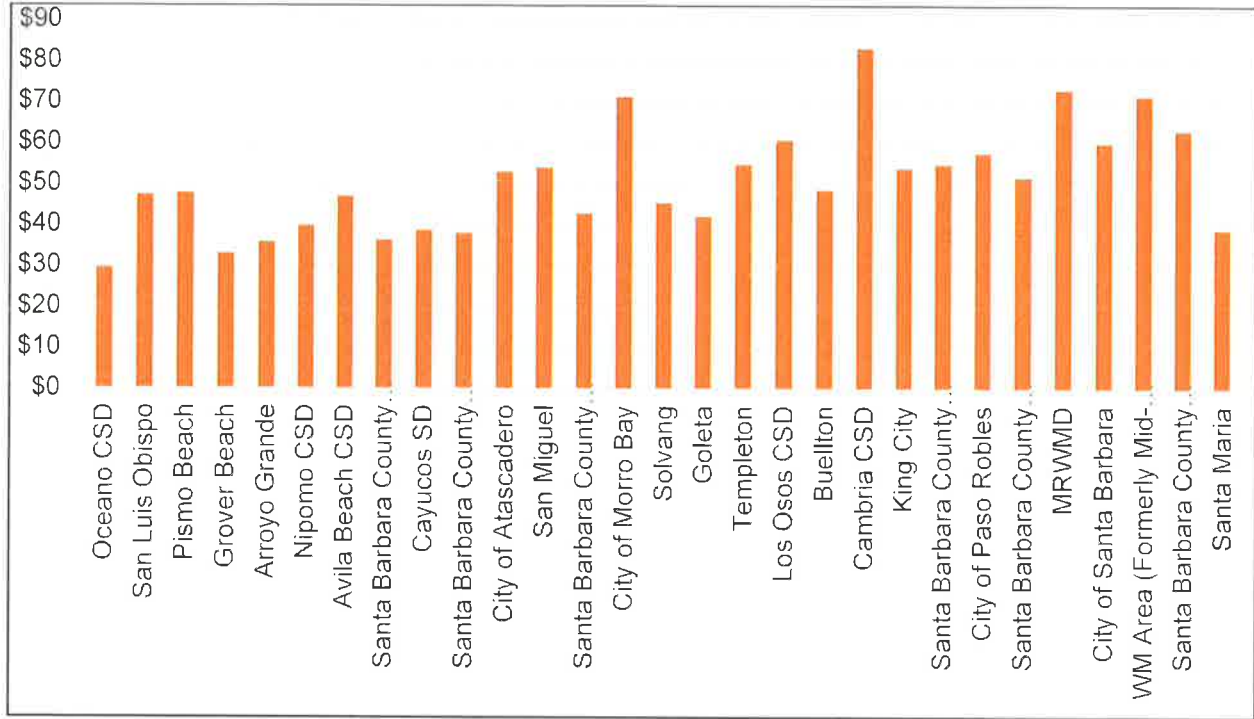


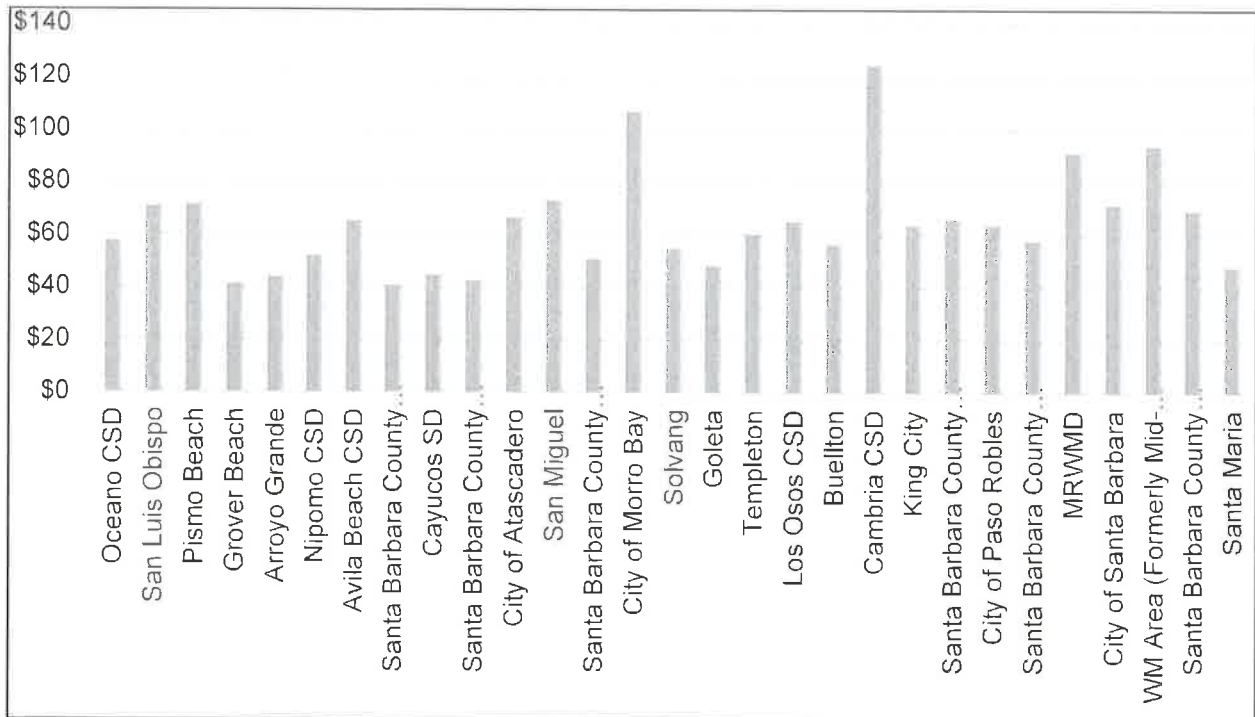
Chart 1, which is organized in ascending order of 32-gallon monthly rate, demonstrates that the rates for 32-gallon monthly service (the most subscribed residential service level) for all Participating Agencies

other than Cambria Community Services District, Cayucos Sanitary District, and Los Osos Community Services District are the lowest in the region. Chart 2 shows how 64-gallon monthly rates compare.

**Chart 2: Regional Comparison of Monthly 64-gallon Cart Rates**

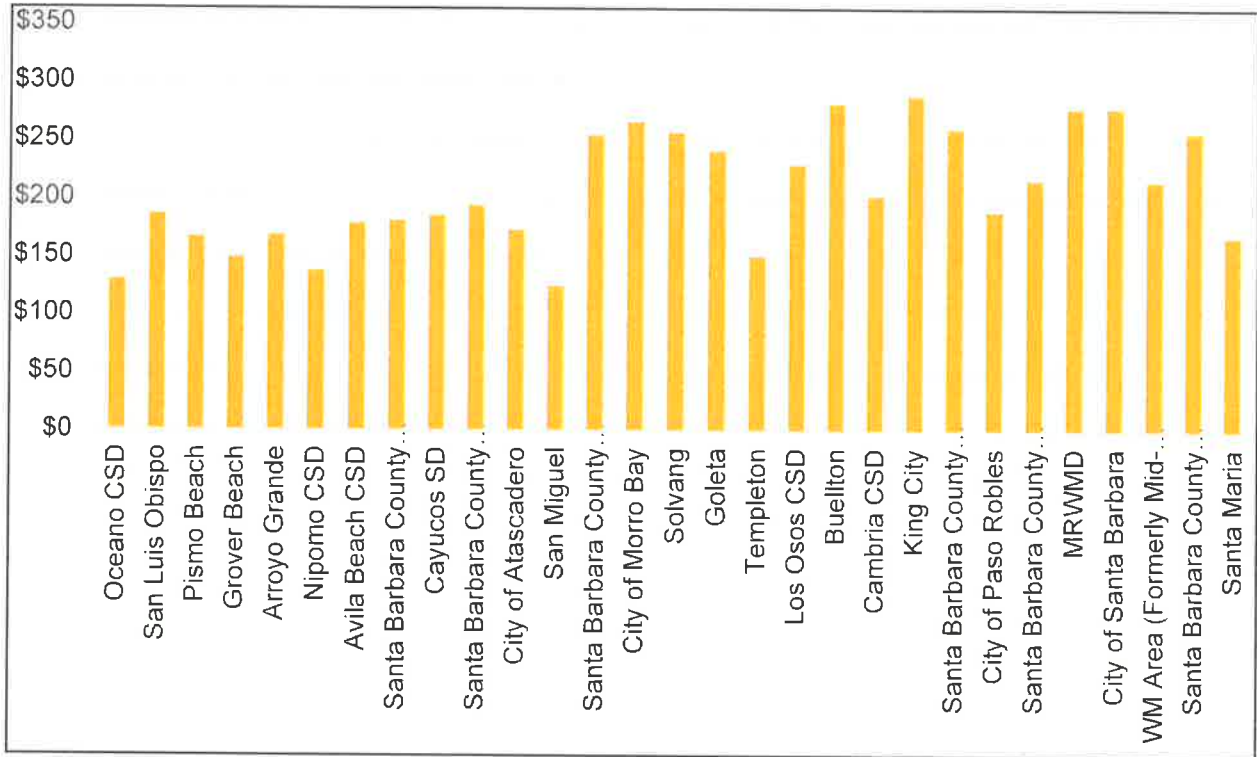


**Chart 3: Regional Comparison of Monthly 96-gallon Cart Rates**



Charts 3 and 4 keep the same ordering as Charts 1 and 2 and show how large residential 96-gallon service and commercial two (2) cubic yard bin service compare with the region. Overall, while exceptions exist, rates for solid waste service for the City and the Participating Agencies are among the lowest in the region, including San Luis Obispo County, Santa Barbara County, and Monterey County.

**Chart 4: Regional Comparison of Monthly 2 Cubic Yard Rates**



# 3. NEW RATE ADJUSTMENT METHODOLOGY AND 2025 RATES

## 2025 Base Year Rate Adjustments

Waste Connections submitted base year rate applications to the Agencies for rates effective January 1, 2025.<sup>1</sup> Those rate applications were prepared in accordance with the 1994 Rate Manual, with modification for an effectiveness date of January 1, 2025, instead of the October 1, 2024 date that otherwise would have been the effective date given strict adherence to the 1994 Rate Manual. In simple terms, the applications project future 2025 costs for providing solid waste services based on the actual costs of providing services as follows:

- › Actual results for the most recently completed year (2023), which are based on the audited financial statements.
- › Projected results for the current year (2024), which are to be based on year-to-date information available at the time the application is submitted.
- › Projected results for the next year (2025).

Adjustments to solid waste rates are then calculated based on the projected 2025 revenue requirement, which is the sum of:

- › Allowed costs.
- › Allowable operating profit.
- › Pass through costs.

In reviewing the 2025 base year rate applications for the Agencies, R3:

- › Checked calculations for mathematical accuracy and consistency.
- › Tied projected costs back to the 2023 audited financial statements.
- › Evaluated the root causes of extraordinary changes in cost for landfilling and organics processing.
- › Reviewed 2024 revenues year to date to determine accuracy of projected revenues at current rates for 2025.
- › Proposed adjustments to solid waste collection vehicle depreciation lifetimes.

A summary of Waste Connections' original 2025 base year rate adjustments per the applications submitted to the Agencies is included as Attachment 1.

It should be noted that Waste Connections' base year rate applications are made at the business unit level (San Luis Garbage, Mission Country Disposal, and South County Sanitary Service) with no allocation of projected costs to individual Agencies served by those business units. Rather, the base year rate adjustment applications use total costs and revenues for those business units to calculate rate adjustments for the individual Agencies. For the purposes of our analysis, and as documented in Attachment 1, R3 allocated projected expenses by agency in accordance with proportion of revenues – this allocation approach is what the base year rate application achieve in practice, and the result is an exact match to the rate adjustment calculations included in the base year rate applications for each agency.

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<sup>1</sup> Authorization of the January 1, 2025 rate adjustments are expected to occur after that date. Waste Connections will prorate adjustment amounts on customer bills to account for the timing difference.

## New Rate Adjustment Methodology and 2025 Rates

R3 thoroughly reviewed the figures included in the 2025 rate adjustment calculations, as well as supporting documentation requested of Waste Connections during the review process and found that Waste Connections' rate applications were accurate and in accordance with the 1994 Rate Manual. The rate adjustments shown in Table 5 on the following page are the correct rate adjustments per the 1994 Rate Manual and are the default rate adjustments effective January 1, 2025, if the City and the Participating Agencies do not move forward with revisions to the 2025 rates in accordance with the new rate adjustment methodology.

**Table 5: 2025 Rate Adjustments Per 1994 Rate Manual**

| Agency                  | January 1, 2025, Default Rate Adjustment |
|-------------------------|--|
| City of San Luis Obispo | 9.29%                                    |
| City of Arroyo Grande   | 3.97%                                    |
| Los Osos CSD            | 12.47%                                   |
| City of Pismo Beach     | 3.97%                                    |
| Cambria CSD             | 12.78%                                   |
| City of Grover Beach    | 3.97%                                    |
| Nipomo CSD              | 3.23%                                    |
| Oceano CSD              | 3.97%                                    |
| Cayucos SD              | 12.47%                                   |
| Avila Beach CSD         | 3.97%                                    |

### Revisions for New Rate Adjustment Methodology

In negotiating the terms and conditions of a new rate adjustment methodology starting in 2026, the City and Waste Connections made the following revisions to the 2025 base year rate adjustments:

#### Updated Depreciation Lifespan for Trucks

The 1994 Rate Manual set a 7-year depreciation schedule for solid waste collection trucks. Modern solid waste collection trucks have a 10-year lifespan, and the depreciation schedule was adjusted by Waste Connections accordingly. Table 6, on the following page, shows the dollar magnitude of this change and the effect on the 2025 rate adjustment, with the effect being a reduction in the rate adjustment calculation ranging from 1.33% to 1.62%, depending on agency. Differences in effect by agency are the result of business unit allocations described earlier in this report.

## New Rate Adjustment Methodology and 2025 Rates

**Table 6: Change in Depreciation Lifespan**

|                                  | San Luis Obispo | Los Osos CSD  | Cambria CSD   | Cayucos SD    | Arroyo Grande | Pismo Beach   | Grover Beach  | Nipomo CSD    | Oceano CSD    | Avila CSD     |
|----------------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Original Depreciation            | \$1,338,367     | \$376,989     | \$295,515     | \$131,502     | \$398,063     | \$316,350     | \$236,919     | \$225,376     | \$114,616     | \$26,441      |
| Revised Depreciation             | 1,125,720       | 317,545       | 248,918       | 110,766       | 336,460       | 267,393       | 200,254       | 190,498       | 96,879        | 22,349        |
| Change in Calculations           | (212,647)       | (59,444)      | (46,597)      | (20,735)      | (61,603)      | (48,957)      | (36,665)      | (34,878)      | (17,737)      | (4,092)       |
| <b>Effect on Rate Adjustment</b> | <b>-1.47%</b>   | <b>-1.62%</b> | <b>-1.62%</b> | <b>-1.62%</b> | <b>-1.33%</b> | <b>-1.33%</b> | <b>-1.33%</b> | <b>-1.33%</b> | <b>-1.33%</b> | <b>-1.33%</b> |

### Removed Limitation on Corporate Overhead

The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The City and Waste Connections agreed to remove the prior limitation in order to fund these services. Table 7, below, shows the effect of removing the prior limitation on corporate overhead. Differences in effect by agency are the result of different original proportionate amounts of corporate overhead between Agencies. In the near-term, compensation to Waste Connections for corporate overhead will be limited by the CPI adjustment noted above. Cost-based adjustments to corporate overhead are possible in 2030, and will be subject to review, justification, and potential limitation at that time.

**Table 7: Change in Corporate Overhead**

|                                  | San Luis Obispo | Los Osos CSD | Cambria CSD  | Cayucos SD   | Arroyo Grande | Pismo Beach  | Grover Beach | Nipomo CSD   | Oceano CSD   | Avila CSD    |
|----------------------------------|-----------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Original Corporate Overhead      | \$246,296       | \$46,213     | \$36,226     | \$16,120     | \$93,625      | \$74,406     | \$55,724     | \$53,009     | \$26,958     | \$6,219      |
| Revised Corporate Overhead       | 430,378         | 80,753       | 63,301       | 28,168       | 163,600       | 130,017      | 97,371       | 92,627       | 47,106       | 10,867       |
| Change in Calculations           | 184,082         | 34,540       | 27,075       | 12,048       | 69,975        | 55,611       | 41,648       | 39,619       | 20,148       | 4,648        |
| <b>Effect on Rate Adjustment</b> | <b>1.28%</b>    | <b>0.94%</b> | <b>0.94%</b> | <b>0.94%</b> | <b>1.51%</b>  | <b>1.51%</b> | <b>1.51%</b> | <b>1.51%</b> | <b>1.51%</b> | <b>1.51%</b> |

## New Rate Adjustment Methodology and 2025 Rates

### 50% Cost Share for Regional Service Enhancements

Waste Connections is offering new service enhancement to the benefit of the City and the Agencies including:

- › Collection of a bulky waste item twice annually from residential accounts at no cost, via clean-up week or voucher program depending on existing program.
- › Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

Waste Connections has estimated the annual cost of offering these service regionally and is proposing recovery of 50% of the projected costs via the 2025 rate adjustment. The City and Waste Connections have tentatively agreed to this cost sharing as part of the new agreement and for inclusion in the 2025 rates. Waste Connections is proposing the low income discount customer assistance program without a change in rate adjustment.

Table 8, below, shows the effect of including the 50% cost sharing for these two service enhancements into the 2025 rate adjustment. Cost allocations are by percentage of accounts by agency, which is the reason for differences in the effect of rate adjustment by agency.

**Table 8: 50% Cost Share for Service Enhancements**

|                                  | San Luis Obispo | Los Osos CSD | Cambria CSD  | Cayucos SD   | Arroyo Grande | Pismo Beach  | Grover Beach | Nipomo CSD   | Oceano CSD   | Avila CSD    |
|----------------------------------|-----------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| New Annual Cart Exchange         | \$26,376        | \$9,889      | \$7,223      | \$3,623      | \$11,445      | \$7,566      | \$8,179      | \$7,987      | \$3,681      | \$320        |
| Bulky Clean-up Enhancements      | 21,091          | 7,908        | 5,776        | 2,897        | 9,152         | 6,050        | 6,540        | 6,386        | 2,944        | 256          |
| Change in Calculations           | 47,467          | 17,797       | 12,999       | 6,520        | 20,597        | 13,616       | 14,719       | 14,373       | 6,625        | 576          |
| <b>Effect on Rate Adjustment</b> | <b>0.33%</b>    | <b>0.48%</b> | <b>0.45%</b> | <b>0.51%</b> | <b>0.45%</b>  | <b>0.37%</b> | <b>0.54%</b> | <b>0.55%</b> | <b>0.50%</b> | <b>0.19%</b> |

### Corrections to AB 939 Fees

Agency fees, which include AB 939 Fees and Franchise Fees, are included as estimates in rate adjustment applications. Because the rate applications are at the company business unit level, and not at the individual agency level, AB 939 fees in the application are allocated to the Agencies in proportion to revenues. However, only the City of San Luis Obispo and Cayucos Sanitary District receive AB 939 Fees – therefore this was corrected in the revised 2025 rate adjustments as shown in Table 9, on the following page. Note that the values for the City of San Luis Obispo also include a correction to Franchise Fee revenues.<sup>2</sup>

<sup>2</sup> Specifically, to remove the 1994 Rate Manual’s approach to “grossing up” the calculated rate adjustment to account for the Franchise Fee by including the projected Franchise Fee payment amounts in the rate adjustment calculation itself. This approach is also recommended for the other Agencies starting with the 2026 rate adjustment.

## New Rate Adjustment Methodology and 2025 Rates

**Table 9: Corrections to AB 939 Fees**

|                                  | San Luis Obispo     | Los Osos CSD  | Cambria CSD   | Cayucos SD   | Arroyo Grande | Pismo Beach  | Grover Beach | Nipomo CSD   | Oceano CSD   | Avila CSD    |
|----------------------------------|---------------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Original Agency Fees             | \$362,140           | \$5,226       | \$4,097       | \$1,823      | \$-           | \$-          | \$-          | \$-          | \$-          | \$-          |
| Revised Agency Fees              | 439,411             | -             | -             | 12,754       | -             | -            | -            | -            | -            | -            |
| Change in Calculations           | 77,271 <sup>3</sup> | (5,226)       | (4,097)       | 10,931       | -             | -            | -            | -            | -            | -            |
| <b>Effect on Rate Adjustment</b> | <b>0.54%</b>        | <b>-0.14%</b> | <b>-0.14%</b> | <b>0.85%</b> | <b>0.00%</b>  | <b>0.00%</b> | <b>0.00%</b> | <b>0.00%</b> | <b>0.00%</b> | <b>0.00%</b> |

### Updated Profit Allowance

The 1994 Rate Manual, along with the Agencies agreements with Waste Connections, limits allowable profit based on an “operating ratio” of 92% or 93% of allowable collection expenses (not including post-collection disposal, processing or recycling expenses nor agency fees) depending on the agency. A 93% operating ratio is the equivalent of a 7.53% profit margin, and a 92% operating ratio is the equivalent of an 8.7% profit margin.

A key negotiation point between the City and Waste Connections was a change to the profit allowance. Ultimately, after much discussion and negotiation, the City and Waste Connections agreed that the 2025 rate adjustment will include a 9% profit allowance of projected allowable collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standards for solid waste services.

For context, the 2025 profit allowance is approximately 5% of revenues and we estimate that the 2026 profit allowance will be approximately 5.5% of revenues. Table 10, on the following page, shows the effect of changing the profit allowance to 9% of collection costs for all Agencies for the 2025 rate adjustments. Differences in the effect on rate adjustment are due to differences in existing profit allowances by agency, as well as differences in the depreciation, corporate overhead and new service enhancements shown in earlier tables.

<sup>3</sup> Includes adjustment to Franchise Fee to remove “grossing up” method from City’s 2025 rate adjustment calculations.



## New Rate Adjustment Methodology and 2025 Rates

**Table 10: 9% Profit Allowance on Allowable Collection Costs**

|                                  | San Luis Obispo | Los Osos CSD | Cambria CSD  | Cayucos SD   | Arroyo Grande | Pismo Beach  | Grover Beach | Nipomo CSD   | Oceano CSD   | Avila CSD    |
|----------------------------------|-----------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Original Profit Allowance        | \$641,302       | \$188,392    | \$170,609    | \$65,715     | \$227,094     | \$180,477    | \$135,161    | \$111,295    | \$65,388     | \$15,085     |
| Revised Profit Allowance         | 768,515         | 224,623      | 175,993      | 78,382       | 237,649       | 188,618      | 141,665      | 134,797      | 68,490       | 15,714       |
| Change in Calculations           | 127,213         | 36,231       | 5,384        | 12,667       | 10,555        | 8,141        | 6,504        | 23,502       | 3,102        | 629          |
| <b>Effect on Rate Adjustment</b> | <b>0.88%</b>    | <b>0.99%</b> | <b>0.19%</b> | <b>0.99%</b> | <b>0.23%</b>  | <b>0.22%</b> | <b>0.24%</b> | <b>0.90%</b> | <b>0.23%</b> | <b>0.20%</b> |

### Total Revisions for New Rate Adjustment Methodology

Taken altogether, the revisions to the 2025 rate adjustment result in small increases to the original 2025 rate adjustment calculations. These are shown in Table 11, on the following page, and are also shown in Attachment 2.

## New Rate Adjustment Methodology and 2025 Rates

**Table 11: Overall Revisions to 2025 Rate Adjustments**

|   | San Luis Obispo    | Los Osos CSD     | Cambria CSD      | Cayucos SD       | Arroyo Grande    | Pismo Beach      | Grover Beach     | Nipomo CSD       | Oceano CSD       | Avila CSD       |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| Original 2025 Revenue Calculation               | \$15,640,734       | \$4,089,595      | \$3,228,699      | \$1,426,540      | \$4,786,646      | \$3,804,059      | \$2,848,911      | \$2,692,832      | \$1,378,241      | \$317,951       |
| Change in Depreciation                          | (212,647)          | (59,444)         | (46,597)         | (20,735)         | (61,603)         | (48,957)         | (36,665)         | (34,878)         | (17,737)         | (4,092)         |
| Change in Corporate Overhead                    | 184,082            | 34,540           | 27,075           | 12,048           | 69,975           | 55,611           | 41,648           | 39,619           | 20,148           | 4,648           |
| Enhanced Services                               | 47,467             | 17,797           | 12,999           | 6,520            | 20,597           | 13,616           | 14,719           | 14,373           | 6,625            | 576             |
| Updated Profit Allowance                        | 127,213            | 36,231           | 5,384            | 12,667           | 10,555           | 8,141            | 6,504            | 23,502           | 3,102            | 629             |
| Corrections to AB 939 Fees                      | 77,271             | (5,226)          | (4,097)          | 10,931           | -                | -                | -                | -                | -                | -               |
| <b>Revised 2025 Revenue Calculation</b>         | <b>15,864,119</b>  | <b>4,113,493</b> | <b>3,223,463</b> | <b>1,447,971</b> | <b>4,826,170</b> | <b>3,832,470</b> | <b>2,875,118</b> | <b>2,735,447</b> | <b>1,390,379</b> | <b>319,712</b>  |
| <b>Revenues at Current Rates</b>                | <b>14,435,726</b>  | <b>3,677,194</b> | <b>2,882,493</b> | <b>1,282,686</b> | <b>4,621,616</b> | <b>3,672,906</b> | <b>2,750,690</b> | <b>2,616,676</b> | <b>1,330,724</b> | <b>306,989</b>  |
| <b>Shortfall</b>                                | <b>(1,428,393)</b> | <b>(436,299)</b> | <b>(340,970)</b> | <b>(165,285)</b> | <b>(204,554)</b> | <b>(159,564)</b> | <b>(124,428)</b> | <b>(118,771)</b> | <b>(59,655)</b>  | <b>(12,724)</b> |
| <b>Revised 2025 Rate Adjustment<sup>4</sup></b> | <b>9.89%</b>       | <b>13.18%</b>    | <b>12.59%</b>    | <b>14.32%</b>    | <b>4.92%</b>     | <b>4.82%</b>     | <b>5.02%</b>     | <b>5.04%</b>     | <b>4.98%</b>     | <b>4.60%</b>    |

### Proportionality in Cost of Service

R3 analyzed the 2025 rate adjustments for adequacy with respect to the cost-of-service requirements of Proposition 218. Because the base year rate adjustment methodology is based on the documented cost of provided solid waste services as expressed in Waste Connections' audited financial statements, we find that the current and proposed solid waste service rates will generate revenues sufficient to cover the cost-of-providing service plus a reasonable profit allowance commensurate with normal expectations in the solid waste industry.

R3 also analyzed the proposed solid waste service rates for adequacy with respect to proportionate allocation of costs among solid waste service customers. R3 found that the current (and thus also

<sup>4</sup> Rate adjustments shown include grossing up for franchise fees per 1994 Rate Manual methodology, except for San Luis Obispo.

## New Rate Adjustment Methodology and 2025 Rates

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proposed) solid waste rate structure proportionately allocates costs to service types and container sizes based on the relative differences in cost associated with the types of services provided to customers.

For example, for customers subscribing to 60- or 90-gallon cart solid waste service, the per-gallon cost-of-service for those subscribed to the larger container size (90-gallons) is proportionately less than those subscribed to the smaller container size (60-gallons). This is because solid waste service is comprised of both fixed and variable costs, with the fixed cost portion being for the cost of collection (labor, fuel, capital equipment, and other shared costs) as well as the costs related to post-collection disposal, processing, recycling and composting. Thus, the cost-of-service for the larger container size (90-gallons) has a lesser proportion of fixed costs to variable costs compared to the smaller (60-gallon) container size.

### Factors Affecting 2025 Rate Adjustments

Overall, for the Agencies and the three Waste Connections business units, the 2025 rate adjustments reflect an 8.12% increase in revenues to meet increased costs and revised profit allowances. The largest contributors to the overall increase are:

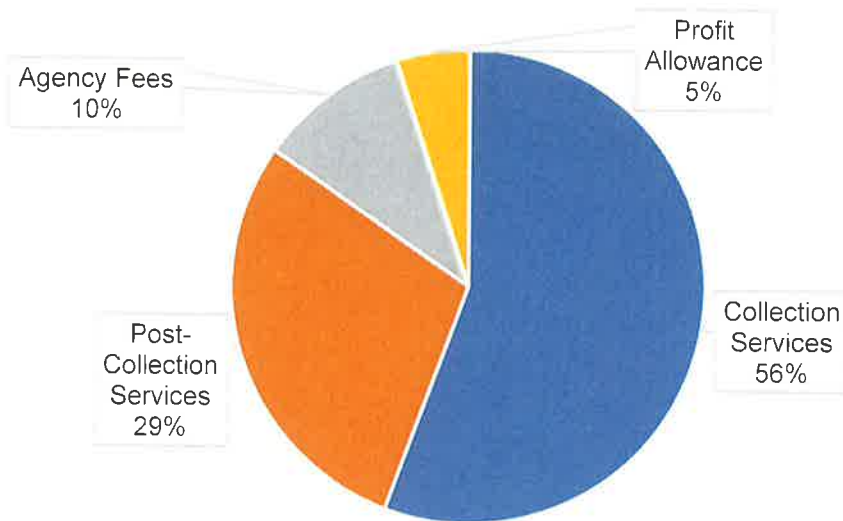
- › **Increases in organics processing costs** – Third-party costs for the organic waste post-collection processing facility operated by the company formerly named Hitachi Zosen INOVA, and which are not within Waste Connections' control, have doubled since 2022. The change in cost is the result of changes in facility capital and operating costs.
- › **Increases in landfill disposal costs** – Related party costs for landfill waste disposal at Cold Canyon have remained flat since 2016. The 2025 rate adjustment reflects a market adjustment to these costs, from a per ton tipping fee of \$41 per ton (in place since 2016) to a per ton tipping fee of \$70. Waste Connections provided market comparison demonstrating the applicability of the \$70 per ton market tipping fee.

Other factors play minor roles in the 2025 rate adjustment:

- › **Collection costs including labor, vehicles, operating expenses and overhead** – These costs are increasing in proportion to the Consumer Price Index and are projected to increase by 3.20% in 2024 and 4.21% for 2025.
- › **Agency fees** – These costs are mostly proportionate to changes in rates and are projected to increase by 2.22% in 2024 and 3.30% in 2025.

Overall, collection services comprise the single largest component overall rate funded expenses, at 56% of total rate revenues. Post-collection services are the next largest component of rate funding, at 29% of total rate revenues. Agency fees comprise 10% of rate revenues and profit allowance comprises 5% of rate revenues. This is demonstrated in Chart 5, on the following page.

Chart 5: Summary Components of 2025 Rate Revenues



## New Rate Adjustment Methodology

The City and Waste Connections negotiated a new methodology for adjusting rates starting in 2026, which are summarized below. R3 is preparing an exhibit to the City's new agreement with Waste Connections that will further detail the terms and conditions of the new methodology in accordance with the following points, which have been tentatively agreed to by the parties. The exhibit will be finalized and ready for distribution to the Agencies on or around November 18, 2024. It is recommended that the Agencies bring forward the exhibit as an amendment to their agreements with Waste Connections when considering the 2025 rate adjustments, which is anticipated to occur in January 2025.

The features of the new methodology include:

- › **CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers. The proposed CPI is the Consumer Price Index for all Urban Consumers for Garbage and Trash in the United States, all City average. Details and prior results for this CPI are included in Attachment 3. This is the same CPI used by Waste Connections in preparing its 2025 base year application.
- › **Updated Profit Allowance:** As stated previously, the 2025 rate adjustment includes a 9% profit allowance of projected collection costs. The City and Waste Connections have tentatively agreed that, in 2026 and thereafter, the profit allowance will be 10% of collection costs.
- › **Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above.
- › **Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Manual every three years on Waste Connections' costs. Via the new methodology,

## New Rate Adjustment Methodology and 2025 Rates

cost-based adjustments would occur a maximum of every five years, and only if requested by Waste Connections or the City. The first opportunity for a cost-based adjustment will be for the 2030 rate year. If neither Waste Connections nor the City request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections' consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the City will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized.

- › **Extraordinary Adjustments:** The California Air Resources Board (CARB) Advanced Clean Fleets (ACF) regulation is requiring all solid waste collection trucks to be zero emissions in 2042. This includes a phased in plan to get the percentage of the fleet to be zero emission vehicle (ZEV) with 10% by 2030, 25% by 2033, 50% by 2036, 75% by 2039 and 100% by 2042. During CPI Adjustment years, Waste Connections may request extraordinary rate adjustments due to changes in law affecting collection operations, including for compliance with CARB's ACF zero emission mandate (which may necessitate change to depreciation schedules). The City may, but is not obligated to, consider requests for extraordinary rate adjustments due to changes in law affective post-collection operations. Requests for extraordinary change are subject to good faith meet and confer negotiations between City and Waste Connections.

### Example Calculations for 2026 through 2029

R3 has prepared example calculations of projected rate adjustments for 2026 through 2029 based on the tentatively agreed to terms and conditions outlined above (including adjustment to 10% profit allowance on collection services starting in 2026). Table 12, below, demonstrates this example for the City of San Luis Obispo, and Attachment 4 provides examples for all Agencies. Note that the example in Table 12 and Attachment 4 includes the following assumptions:

- › CPI at the 5% cap (note that CPI below the 5% cap will result in lower rate adjustments)
- › Revenue reconciliation at 1% below annual rate revenue projections (note that amounts above rate revenue projections will offset rate adjustments, not add to them).
- › Discontinuance of the prior Franchise Fee grossing method on rate adjustment for all Agencies starting in 2026.

**Table 12: Example Calculation of New Rate Methodology for the City of San Luis Obispo**

|                                | 2025              | 2026              | 2027              | 2028              | 2029              |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Collection Services            | \$8,539,055       | \$8,966,008       | \$9,414,308       | \$9,885,024       | \$10,379,275      |
| Profit Allowance               | 768,515           | 896,601           | 941,431           | 988,502           | 1,037,927         |
| Post-Collection Services       | 4,602,096         | 4,832,201         | 5,073,811         | 5,327,501         | 5,593,876         |
| Franchise Fee                  | 1,586,412         | 1,675,695         | 1,777,106         | 1,866,072         | 1,959,572         |
| AB 939 Fee                     | 368,041           | 386,443           | 405,765           | 426,053           | 447,356           |
| Revenue Reconciliation Example | N/A               | N/A               | 158,641           | 167,569           | 177,711           |
| <b>Total Revenues</b>          | <b>15,864,119</b> | <b>16,756,947</b> | <b>17,771,062</b> | <b>18,660,722</b> | <b>19,595,717</b> |
| <b>Indexed Rate Adjustment</b> |                   | <b>5.63%</b>      | <b>6.05%</b>      | <b>5.01%</b>      | <b>5.01%</b>      |

## Attachment 1: Summary of Waste Connections' Original 2025 Rate Application Calculations

| Category                                    | San Luis Garbage Company (SLG)                               | Mission Country Disposal (MCD) |                  |                  | South County Sanitary Service (SCSS) |                  |                  |                  |                  |                  |                |
|---|--|--------------------------------|------------------|------------------|--------------------------------------|------------------|------------------|------------------|------------------|------------------|----------------|
|   | San Luis Obispo  | Los Osos                       | Cambria          | Cayucos          | Arroyo Grande                        | Pismo Beach      | Grover Beach     | Nipomo           | Oceano           | Avila            |                |
| Current Revenues                            | Single Family Residential                                    | \$ 5,282,964                   | \$ 2,795,167     | \$ 2,201,010     | \$ 907,378                           | \$ 2,379,516     | \$ 1,598,158     | \$ 1,580,148     | \$ 1,570,029     | \$ 684,117       | \$ 91,445      |
|   | Multi-Family Dumpsters                                       | 2,556,077                      |                  |                  |                                      |                  |                  |                  |                  |                  |                |
|   | Non-Residential Cans   | 729,282                        | 100,710          | 77,805           | 33,710                               | 256,857          | 237,767          | 134,053          | 119,843          | 74,076           | 24,711         |
|   | Non-Residential Dumpsters                                    | 5,848,777                      | 776,244          | 599,701          | 259,830                              | 1,978,701        | 1,832,640        | 1,033,238        | 923,712          | 870,056          | 190,659        |
|   | <b>Total Rate Revenue</b>                                    | <b>14,415,100</b>              | <b>3,672,121</b> | <b>2,878,516</b> | <b>1,280,918</b>                     | <b>4,616,154</b> | <b>3,668,565</b> | <b>2,747,439</b> | <b>2,613,584</b> | <b>1,329,151</b> | <b>306,628</b> |
| Other Income (Allocated)                    | 30,526   | 5,073                          | 3,977            | 1,770            | 5,462                                | 4,341            |                  | 3,251            | 3,092            | 1,579            |                |
| <b>Total Current Revenues</b>               | <b>14,435,726</b>  | <b>3,677,194</b>               | <b>2,882,493</b> | <b>1,282,686</b> | <b>4,621,616</b>                     | <b>3,672,906</b> | <b>2,750,690</b> | <b>2,616,676</b> | <b>1,330,724</b> | <b>308,207</b>   |                |
| Collection Services                         | Labor  | 3,658,710                      | 1,042,706        | 817,360          | 363,719                              | 1,113,222        | 884,704          | 662,567          | 630,287          | 320,535          | 73,945         |
|   | Depreciation   | 1,338,367                      | 376,389          | 295,515          | 131,502                              | 398,063          | 316,350          | 236,919          | 225,376          | 114,616          | 26,441         |
|   | Insurance  | 1,124,499                      | 316,418          | 248,035          | 110,374                              | 329,978          | 262,241          | 196,396          | 186,828          | 95,012           | 31,919         |
|   | Other G&A  | 976,729                        | 282,701          | 221,605          | 98,612                               | 304,307          | 241,840          | 181,117          | 172,293          | 87,621           | 30,213         |
|   | Fuel   | 754,387                        | 321,408          | 251,946          | 112,114                              | 254,951          | 202,616          | 151,742          | 144,349          | 73,409           | 16,933         |
|   | Maintenance  | 421,166                        | 116,487          | 91,312           | 40,633                               | 117,432          | 93,326           | 69,893           | 65,488           | 33,813           | 7,800          |
|   | Corporate Overhead   | 248,295                        | 45,213           | 35,226           | 16,130                               | 93,615           | 74,456           | 53,724           | 53,009           | 26,032           | 6,210          |
|   | <b>Total Collection Services</b>                             | <b>8,520,154</b>               | <b>2,502,921</b> | <b>1,981,999</b> | <b>873,874</b>                       | <b>2,911,578</b> | <b>2,075,482</b> | <b>1,554,357</b> | <b>1,478,629</b> | <b>751,964</b>   | <b>173,473</b> |
| Post-Collection & Affiliated Party Services | Garbage Landfilling  | 2,408,278                      | 349,264          | 273,762          | 121,631                              | 508,314          | 403,969          | 302,538          | 287,798          | 146,361          | 33,793         |
|   | Organics Processing  | 1,108,784                      | 477,019          | 373,927          | 166,395                              | 660,532          | 525,394          | 393,325          | 374,162          | 190,282          | 43,897         |
|   | Recyclables Processing                                       | 916,950                        | 178,112          | 135,700          | 60,385                               | 270,385          | 214,881          | 160,927          | 153,067          | 77,853           | 17,960         |
|   | Affiliated Party Costs                                       | 168,154                        | 57,121           | 44,776           | 19,925                               | 46,123           | 36,659           | 27,455           | 26,117           | 13,282           | 3,054          |
|   | <b>Total Post-Collection &amp; Affiliated Party Services</b> | <b>4,602,096</b>               | <b>1,058,516</b> | <b>828,185</b>   | <b>368,536</b>                       | <b>1,485,678</b> | <b>1,180,703</b> | <b>884,245</b>   | <b>841,163</b>   | <b>427,778</b>   | <b>98,606</b>  |
| Pass-Through Services                       | Franchise Fee  | 1,515,042                      | 336,540          | 263,809          | 117,393                              | 462,296          | 367,397          | 275,149          | 261,744          | 133,111          | 30,708         |
|   | AB 939 Fee   | 362,140                        | 5,235            | 4,007            | 1,823                                |                  |                  |                  |                  |                  |                |
| <b>Total Pass-Through Services</b>          | <b>1,877,182</b>   | <b>341,786</b>                 | <b>267,805</b>   | <b>119,216</b>   | <b>462,296</b>                       | <b>367,397</b>   | <b>275,149</b>   | <b>261,744</b>   | <b>133,111</b>   | <b>30,708</b>    |                |
| <b>Total Compensation for Services</b>      | <b>14,999,432</b>  | <b>3,901,203</b>               | <b>3,058,090</b> | <b>1,360,825</b> | <b>4,559,552</b>                     | <b>3,623,582</b> | <b>2,713,750</b> | <b>2,581,537</b> | <b>1,312,853</b> | <b>302,856</b>   |                |
| Allowed Operating Margin                    | 641,302  | 184,392                        | 176,909          | 65,715           | 227,094                              | 180,477          | 135,161          | 111,293          | 55,388           | 15,685           |                |
| <b>Total Revenue Requirement</b>            | <b>15,640,734</b>  | <b>4,089,595</b>               | <b>3,228,699</b> | <b>1,426,540</b> | <b>4,786,646</b>                     | <b>3,804,059</b> | <b>2,848,911</b> | <b>2,692,832</b> | <b>1,378,241</b> | <b>317,951</b>   |                |
| Surplus (Shortfall)                         | (1,205,008)  | (412,401)                      | (346,206)        | (143,854)        | (165,030)                            | (131,153)        | (98,222)         | (78,155)         | (47,518)         | (10,962)         |                |
| Calculated Adjustment to Rate Revenues      | 8.36%  | 11.22%                         | 12.01%           | 11.22%           | 3.57%                                | 3.57%            | 3.57%            | 2.91%            | 3.57%            | 3.57%            |                |
| Grossing up for Franchise Fees              | 9.29%  | 12.47%                         | 12.78%           | 12.47%           | 3.97%                                | 3.97%            | 3.97%            | 3.23%            | 3.76%            | 3.97%            |                |

## Attachment 2: Summary of Revised 2025 Rate Application Calculations

| Category   |  | San Luis Garbage Company (SLG) | Mission Country Disposal (MCD) |                  |                  | South County Sanitary Service (SCSS) |                  |                  |                  |                  |                |
|--|--|--------------------------------|--------------------------------|------------------|------------------|--------------------------------------|------------------|------------------|------------------|------------------|----------------|
|  |  | San Luis Obispo                | Los Osos                       | Cambria          | Cayucos          | Arroyo Grande                        | Pismo Beach      | Grover Beach     | Nipomo           | Oceano           | Avila          |
| Current Revenues                                   | Single Family Residential                                    | \$ 5,282,964                   | \$ 2,795,167                   | \$ 2,201,010     | \$ 987,376       | \$ 2,379,516                         | \$ 1,598,158     | \$ 1,580,148     | \$ 1,570,029     | \$ 684,117       | \$ 91,446      |
|  | Multi-Family Dumpster  | 2,356,077                      | -                              | -                | -                | -                                    | -                | -                | -                | -                | -              |
|  | Non-Residential Cans   | 729,282                        | 100,710                        | 77,805           | 33,710           | 236,857                              | 207,767          | 134,053          | 119,843          | 74,076           | 24,711         |
|  | Non-Residential Dumpsters                                    | 5,646,777                      | 776,244                        | 599,701          | 250,820          | 1,070,781                            | 1,832,640        | 1,031,339        | 923,713          | 570,908          | 100,489        |
|  | <b>Total Rate Revenue</b>                                    | <b>14,415,100</b>              | <b>3,672,121</b>               | <b>2,878,516</b> | <b>1,280,916</b> | <b>4,016,153</b>                     | <b>3,668,565</b> | <b>2,747,439</b> | <b>2,613,584</b> | <b>1,320,152</b> | <b>306,626</b> |
| Other Income (Allocated)                           | 20,625   | 5,073                          | 3,977                          | 1,770            | 5,462            | 4,841                                | 3,251            | 3,022            | 1,373            | 353              |                |
| <b>Total Current Revenues</b>                      |  | <b>14,435,726</b>              | <b>3,677,194</b>               | <b>2,882,493</b> | <b>1,282,686</b> | <b>4,621,615</b>                     | <b>3,672,905</b> | <b>2,750,689</b> | <b>2,616,676</b> | <b>1,330,724</b> | <b>306,989</b> |
| Collection Services                                | Labor  | 3,658,710                      | 1,042,706                      | 817,360          | 363,719          | 1,113,222                            | 884,704          | 662,957          | 630,287          | 320,536          | 72,043         |
|  | Depreciation   | 1,125,720                      | 317,545                        | 243,918          | 116,766          | 336,460                              | 267,353          | 200,254          | 109,498          | 95,878           | 22,349         |
|  | Insurance  | 1,124,499                      | 316,418                        | 248,035          | 110,374          | 329,078                              | 262,241          | 196,496          | 186,826          | 95,012           | 21,919         |
|  | Other G&A  | 1,024,196                      | 300,498                        | 234,604          | 105,132          | 324,904                              | 255,456          | 195,836          | 186,885          | 94,246           | 20,730         |
|  | Fuel   | 754,387                        | 321,408                        | 251,946          | 112,114          | 254,951                              | 202,616          | 151,742          | 144,349          | 73,409           | 16,935         |
|  | Maintenance  | 471,167                        | 116,487                        | 91,312           | 40,633           | 117,431                              | 93,376           | 69,893           | 65,486           | 33,813           | 7,890          |
|  | Corporate Overhead   | 430,378                        | 80,753                         | 63,301           | 28,198           | 169,600                              | 130,017          | 97,371           | 92,627           | 47,166           | 10,342         |
|  | <b>Total Collection Services</b>                             | <b>8,539,055</b>               | <b>2,495,814</b>               | <b>1,955,476</b> | <b>870,906</b>   | <b>2,640,547</b>                     | <b>2,095,751</b> | <b>1,524,059</b> | <b>1,497,742</b> | <b>761,600</b>   | <b>174,603</b> |
| Post-Collection & Affiliated Party Services        | Garbage Landfilling  | 2,408,278                      | 349,264                        | 273,782          | 121,631          | 508,314                              | 403,969          | 302,638          | 287,798          | 145,361          | 33,793         |
|  | Organics Processing  | 1,108,784                      | 477,019                        | 373,927          | 166,395          | 660,852                              | 525,184          | 393,325          | 374,162          | 190,282          | 43,897         |
|  | Recyclables Processing                                       | 916,890                        | 173,112                        | 135,700          | 60,395           | 270,385                              | 214,681          | 160,927          | 153,087          | 77,853           | 17,860         |
|  | Affiliated Party Costs                                       | 168,154                        | 57,121                         | 44,776           | 19,925           | 46,128                               | 35,650           | 27,455           | 26,117           | 13,282           | 3,064          |
|  | <b>Total Post-Collection &amp; Affiliated Party Services</b> | <b>4,602,096</b>               | <b>1,056,516</b>               | <b>828,185</b>   | <b>368,336</b>   | <b>1,485,679</b>                     | <b>1,180,703</b> | <b>884,243</b>   | <b>841,164</b>   | <b>427,779</b>   | <b>98,609</b>  |
| Pass-Through Services                              | Franchise Fee  | 1,598,412                      | 336,540                        | 263,809          | 117,393          | 462,296                              | 367,397          | 275,149          | 261,744          | 133,111          | 30,708         |
|  | AB 939 Fee   | 368,041                        | -                              | -                | 12,724           | -                                    | -                | -                | -                | -                | -              |
| <b>Total Pass-Through Services</b>                 |  | <b>1,954,453</b>               | <b>336,540</b>                 | <b>263,809</b>   | <b>130,117</b>   | <b>462,296</b>                       | <b>367,397</b>   | <b>275,149</b>   | <b>261,744</b>   | <b>133,111</b>   | <b>30,708</b>  |
| <b>Total Compensation for Services</b>             |  | <b>15,095,604</b>              | <b>3,888,870</b>               | <b>3,047,470</b> | <b>1,369,589</b> | <b>4,588,521</b>                     | <b>3,643,852</b> | <b>2,733,452</b> | <b>2,600,650</b> | <b>1,321,890</b> | <b>303,998</b> |
| Allowed Operating Margin                           |  | 788,315                        | 224,623                        | 171,993          | 78,382           | 237,648                              | 168,818          | 141,865          | 134,797          | 66,480           | 15,714         |
| <b>Total Revenue Requirement</b>                   |  | <b>15,864,119</b>              | <b>4,113,493</b>               | <b>3,223,463</b> | <b>1,447,971</b> | <b>4,826,170</b>                     | <b>3,832,470</b> | <b>2,875,117</b> | <b>2,735,447</b> | <b>1,390,380</b> | <b>319,712</b> |
| Surplus (Shortfall)                                |  | (1,428,393)                    | (436,299)                      | (340,970)        | (165,285)        | (204,555)                            | (159,564)        | (124,428)        | (118,771)        | (59,655)         | (10,724)       |
| Calculated Adjustment to Rate Revenues             |  | 9.89%                          | 11.86%                         | 11.23%           | 12.89%           | 4.43%                                | 4.34%            | 4.52%            | 4.54%            | 4.48%            | 4.14%          |
| Grossing up for Franchise Fees                     |  |                                | 13.18%                         | 12.59%           | 14.32%           | 4.92%                                | 4.82%            | 5.02%            | 5.04%            | 4.98%            | 4.60%          |
| <b>Profit Margin on Collection Services (2025)</b> |  | <b>9.0%</b>                    | <b>9.0%</b>                    | <b>9.0%</b>      | <b>9.0%</b>      | <b>9.0%</b>                          | <b>9.0%</b>      | <b>9.0%</b>      | <b>9.0%</b>      | <b>9.0%</b>      | <b>9.0%</b>    |
| Franchise Fee                                      |  | 10.0%                          | 10.0%                          | 6.0%             | 10.0%            | 10.0%                                | 10.0%            | 10.0%            | 10.0%            | 10.0%            | 10.0%          |
| Change to Original Rate Application                |  | 0.60%                          | 0.71%                          | -0.19%           | 1.85%            | 0.95%                                | 0.85%            | 1.05%            | 1.81%            | 1.22%            | 0.63%          |

# ATTACHMENT 3

## Consumer Price Index for All Urban Consumers (CPI-U) Original Data Value

Series Id: CUUR0000SEHG02  
 Not Seasonally Adjusted  
 Series Title: Garbage and trash collection in U.S. city average, all  
 Area: U.S. city average  
 Item: Garbage and trash collection  
 Base Period: DECEMBER 1983=100  
 Years: 2014 to 2024

| Year                   | Jan     | Feb     | Mar     | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     | HALF1   | HALF2   | Annual Change |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------------|
| 2014                   | 422.440 | 422.483 | 423.413 | 425.393 | 425.242 | 425.930 | 426.562 | 426.771 | 427.327 | 427.995 | 427.808 | 428.187 |         |         |               |
| 2015                   | 427.734 | 429.248 | 429.235 | 429.807 | 431.234 | 430.813 | 431.229 | 432.967 | 433.843 | 434.829 | 436.428 | 436.996 |         |         | 1.46%         |
| 2016                   | 437.205 | 438.296 | 437.699 | 437.676 | 438.317 | 437.858 | 438.607 | 439.358 | 439.707 | 440.311 | 443.343 | 444.745 |         |         | 1.71%         |
| 2017                   | 446.266 | 447.699 | 446.987 | 447.129 | 447.272 | 448.046 | 448.328 | 448.717 | 449.008 | 452.196 | 453.820 | 453.596 |         |         | 2.20%         |
| 2018                   | 453.354 | 454.915 | 455.230 | 458.722 | 462.887 | 465.041 | 465.579 | 470.457 | 471.026 | 472.535 | 486.650 | 485.935 | 458.358 | 475.364 | 3.96%         |
| 2019                   | 475.687 | 477.474 | 478.569 | 479.449 | 480.865 | 480.984 | 482.138 | 483.987 | 484.346 | 486.133 | 486.485 | 486.708 | 478.838 | 484.966 | 3.22%         |
| 2020                   | 491.003 | 494.429 | 495.288 | 494.432 | 494.946 | 496.679 | 498.564 | 500.882 | 501.756 | 503.315 | 504.970 | 508.190 | 494.463 | 502.946 | 3.49%         |
| 2021                   | 512.722 | 517.270 | 518.505 | 518.579 | 516.440 | 517.202 | 521.185 | 524.408 | 529.934 | 530.114 | 529.053 | 532.538 | 516.786 | 527.872 | 4.74%         |
| 2022                   | 533.078 | 538.313 | 540.719 | 542.564 | 544.546 | 547.554 | 548.187 | 548.706 | 558.254 | 561.090 | 563.816 | 565.185 | 541.129 | 557.540 | 5.17%         |
| 2023                   | 570.412 | 575.697 | 576.773 | 580.124 | 587.431 | 589.812 | 596.167 | 597.347 | 596.997 | 597.569 | 601.631 | 602.164 | 580.042 | 598.646 | 7.28%         |
| 2024                   | 606.773 | 610.551 | 610.015 | 611.073 | 609.538 | 611.946 | 614.089 | 615.880 |         |         |         |         | 609.983 |         | 3.71%         |
| <b>10-Year Average</b> |         |         |         |         |         |         |         |         |         |         |         |         |         |         |               |
| 3.69%                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |               |



## Attachment 4 - Indexed Rate Adjustment Methodology Example Calculations

Example CPI      5%                      5%                      5%                      5%

### San Luis Obispo

|  | 2025              | 2025              | 2026              | 2027              | 2028              | 2029              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Collection Services                        | \$ 8,539,055      | \$ 8,539,055      | \$ 8,966,008      | \$ 9,414,308      | \$ 9,885,024      | \$ 10,379,275     |
| Profit Allowance                           | 768,515           | 768,515           | 896,601           | 941,431           | 988,502           | 1,037,927         |
| Post-Collection Services                   | 4,602,096         | 4,602,096         | 4,832,201         | 5,073,811         | 5,327,501         | 5,593,876         |
| Franchise Fee                              | 1,586,412         | 1,586,412         | 1,675,695         | 1,777,106         | 1,866,072         | 1,959,572         |
| AB 939 Fee                                 | 368,041           | 368,041           | 386,443           | 405,765           | 426,053           | 447,356           |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>        | <b>N/A</b>        | <b>N/A</b>        | <b>158,641</b>    | <b>167,569</b>    | <b>177,711</b>    |
| <b>Total Revenues</b>                      | <b>15,864,119</b> | <b>15,864,119</b> | <b>16,756,947</b> | <b>17,771,062</b> | <b>18,660,722</b> | <b>19,595,717</b> |
| <b>Indexed Rate Adjustment</b>             |                   |                   | <b>5.63%</b>      | <b>6.05%</b>      | <b>5.01%</b>      | <b>5.01%</b>      |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>        | <b>(158,641)</b>  | <b>(167,569)</b>  | <b>(177,711)</b>  | <b>(186,607)</b>  | <b>(195,957)</b>  |

### Arroyo Grande

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 2,640,547     | \$ 2,640,547     | \$ 2,772,575     | \$ 2,911,203     | \$ 3,056,763     | \$ 3,209,602     |
| Profit Allowance                           | 237,649          | 237,649          | 277,257          | 291,120          | 305,676          | 320,960          |
| Post-Collection Services                   | 1,485,678        | 1,485,678        | 1,559,962        | 1,637,960        | 1,719,858        | 1,805,851        |
| Franchise Fee                              | 462,296          | 484,875          | 512,199          | 543,197          | 570,391          | 598,970          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>48,487</b>    | <b>51,220</b>    | <b>54,320</b>    |
| <b>Total Revenues</b>                      | <b>4,826,170</b> | <b>4,848,749</b> | <b>5,121,993</b> | <b>5,431,968</b> | <b>5,703,909</b> | <b>5,989,703</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.64%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(48,487)</b>  | <b>(51,220)</b>  | <b>(54,320)</b>  | <b>(57,039)</b>  | <b>(59,897)</b>  |

### Los Osos CSD

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 2,495,814     | \$ 2,495,814     | \$ 2,620,605     | \$ 2,751,635     | \$ 2,889,217     | \$ 3,033,677     |
| Profit Allowance                           | 224,623          | 224,623          | 262,060          | 275,163          | 288,922          | 303,368          |
| Post-Collection Services                   | 1,056,516        | 1,056,516        | 1,109,341        | 1,164,808        | 1,223,049        | 1,284,201        |
| Franchise Fee                              | 336,540          | 419,661          | 443,556          | 470,397          | 493,949          | 518,698          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>41,966</b>    | <b>44,356</b>    | <b>47,040</b>    |
| <b>Total Revenues</b>                      | <b>4,113,493</b> | <b>4,196,613</b> | <b>4,435,563</b> | <b>4,703,970</b> | <b>4,939,492</b> | <b>5,186,984</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.69%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(41,966)</b>  | <b>(44,356)</b>  | <b>(47,040)</b>  | <b>(49,395)</b>  | <b>(51,870)</b>  |

### Pismo Beach

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 2,095,751     | \$ 2,095,751     | \$ 2,200,539     | \$ 2,310,566     | \$ 2,426,094     | \$ 2,547,399     |
| Profit Allowance                           | 188,618          | 188,618          | 220,054          | 231,057          | 242,609          | 254,740          |
| Post-Collection Services                   | 1,180,703        | 1,180,703        | 1,239,738        | 1,301,725        | 1,366,811        | 1,435,152        |
| Franchise Fee                              | 367,397          | 385,008          | 406,703          | 431,316          | 452,909          | 475,602          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>38,501</b>    | <b>40,670</b>    | <b>43,132</b>    |
| <b>Total Revenues</b>                      | <b>3,832,470</b> | <b>3,850,080</b> | <b>4,067,035</b> | <b>4,313,165</b> | <b>4,529,095</b> | <b>4,756,025</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.64%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(38,501)</b>  | <b>(40,670)</b>  | <b>(43,132)</b>  | <b>(45,291)</b>  | <b>(47,560)</b>  |

**Cambria CSD**

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 1,955,476     | \$ 1,955,476     | \$ 2,053,250     | \$ 2,155,912     | \$ 2,263,708     | \$ 2,376,894     |
| Profit Allowance                           | 175,993          | 175,993          | 205,325          | 215,591          | 226,371          | 237,689          |
| Post-Collection Services                   | 828,185          | 828,185          | 869,595          | 913,074          | 958,728          | 1,006,664        |
| Franchise Fee                              | 263,809          | 188,914          | 199,670          | 211,664          | 222,261          | 233,395          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>31,486</b>    | <b>33,278</b>    | <b>35,277</b>    |
| <b>Total Revenues</b>                      | <b>3,223,463</b> | <b>3,148,569</b> | <b>3,327,840</b> | <b>3,527,727</b> | <b>3,704,346</b> | <b>3,889,920</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.69%</b>     | <b>6.01%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(31,486)</b>  | <b>(33,278)</b>  | <b>(35,277)</b>  | <b>(37,043)</b>  | <b>(38,899)</b>  |

**Grover Beach**

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 1,574,059     | \$ 1,574,059     | \$ 1,652,762     | \$ 1,735,400     | \$ 1,822,170     | \$ 1,913,278     |
| Profit Allowance                           | 141,665          | 141,665          | 165,276          | 173,540          | 182,217          | 191,328          |
| Post-Collection Services                   | 884,245          | 884,245          | 928,457          | 974,880          | 1,023,624        | 1,074,805        |
| Franchise Fee                              | 275,149          | 288,885          | 305,166          | 323,634          | 339,836          | 356,864          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>28,889</b>    | <b>30,517</b>    | <b>32,363</b>    |
| <b>Total Revenues</b>                      | <b>2,875,117</b> | <b>2,888,854</b> | <b>3,051,661</b> | <b>3,236,343</b> | <b>3,398,364</b> | <b>3,568,639</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.64%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(28,889)</b>  | <b>(30,517)</b>  | <b>(32,363)</b>  | <b>(33,984)</b>  | <b>(35,686)</b>  |

**Nipomo CSD**

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 1,497,742     | \$ 1,497,742     | \$ 1,572,629     | \$ 1,651,261     | \$ 1,733,824     | \$ 1,820,515     |
| Profit Allowance                           | 134,797          | 134,797          | 157,263          | 165,126          | 173,382          | 182,051          |
| Post-Collection Services                   | 841,164          | 841,164          | 883,223          | 927,384          | 973,753          | 1,022,441        |
| Franchise Fee                              | 261,744          | 274,856          | 290,346          | 307,917          | 323,333          | 339,533          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>27,486</b>    | <b>29,035</b>    | <b>30,792</b>    |
| <b>Total Revenues</b>                      | <b>2,735,447</b> | <b>2,748,559</b> | <b>2,903,461</b> | <b>3,079,173</b> | <b>3,233,326</b> | <b>3,395,332</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.64%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(27,486)</b>  | <b>(29,035)</b>  | <b>(30,792)</b>  | <b>(32,333)</b>  | <b>(33,953)</b>  |

**Oceano CSD**

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 761,000       | \$ 761,000       | \$ 799,050       | \$ 839,002       | \$ 880,953       | \$ 925,000       |
| Profit Allowance                           | 68,490           | 68,490           | 79,905           | 83,900           | 88,095           | 92,500           |
| Post-Collection Services                   | 427,779          | 427,779          | 449,168          | 471,626          | 495,207          | 519,968          |
| Franchise Fee                              | 133,111          | 139,697          | 147,569          | 156,500          | 164,335          | 172,569          |
| AB 939 Fee                                 | -                | -                | -                | -                | -                | -                |
| <b>Revenue Reconciliation Example</b>      | <b>N/A</b>       | <b>N/A</b>       | <b>N/A</b>       | <b>13,970</b>    | <b>14,757</b>    | <b>15,650</b>    |
| <b>Total Revenues</b>                      | <b>1,390,380</b> | <b>1,396,966</b> | <b>1,475,692</b> | <b>1,564,998</b> | <b>1,643,347</b> | <b>1,725,686</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.64%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <b>Revenue Surplus (Shortfall) Example</b> | <b>-1%</b>       | <b>(13,970)</b>  | <b>(14,757)</b>  | <b>(15,650)</b>  | <b>(16,433)</b>  | <b>(17,257)</b>  |

**Cayucos SD**

|  | 2025             | 2025             | 2026             | 2027             | 2028             | 2029             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Collection Services                        | \$ 870,906       | \$ 870,906       | \$ 914,452       | \$ 960,174       | \$ 1,008,183     | \$ 1,058,592     |
| Profit Allowance                           | 78,382           | 78,382           | 91,445           | 96,017           | 100,818          | 105,859          |
| Post-Collection Services                   | 368,536          | 368,536          | 386,962          | 406,311          | 426,626          | 447,957          |
| Franchise Fee                              | 117,393          | 147,842          | 156,250          | 165,705          | 174,002          | 182,720          |
| AB 939 Fee                                 | 12,754           | 12,754           | 13,392           | 14,061           | 14,764           | 15,503           |
| Revenue Reconciliation Example             | N/A              | N/A              | N/A              | 14,784           | 15,625           | 16,571           |
| <b>Total Revenues</b>                      | <b>1,447,971</b> | <b>1,478,420</b> | <b>1,562,501</b> | <b>1,657,053</b> | <b>1,740,019</b> | <b>1,827,202</b> |
| <b>Indexed Rate Adjustment</b>             |                  |                  | <b>5.69%</b>     | <b>6.05%</b>     | <b>5.01%</b>     | <b>5.01%</b>     |
| <i>Revenue Surplus (Shortfall) Example</i> | <i>-1%</i>       | <i>(14,784)</i>  | <i>(15,625)</i>  | <i>(16,571)</i>  | <i>(17,400)</i>  | <i>(18,272)</i>  |

**Avila Beach CSD**

|  | 2025           | 2025           | 2026           | 2027           | 2028           | 2029           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Collection Services                        | \$ 174,605     | \$ 174,605     | \$ 183,335     | \$ 192,502     | \$ 202,127     | \$ 212,234     |
| Profit Allowance                           | 15,714         | 15,714         | 18,334         | 19,250         | 20,213         | 21,223         |
| Post-Collection Services                   | 98,686         | 98,686         | 103,620        | 108,801        | 114,241        | 119,953        |
| Franchise Fee                              | 30,708         | 32,112         | 33,921         | 35,974         | 37,775         | 39,667         |
| AB 939 Fee                                 | -              | -              | -              | -              | -              | -              |
| Revenue Reconciliation Example             | N/A            | N/A            | N/A            | 3,211          | 3,392          | 3,597          |
| <b>Total Revenues</b>                      | <b>319,712</b> | <b>321,117</b> | <b>339,210</b> | <b>359,738</b> | <b>377,748</b> | <b>396,675</b> |
| <b>Indexed Rate Adjustment</b>             |                |                | <b>5.63%</b>   | <b>6.05%</b>   | <b>5.01%</b>   | <b>5.01%</b>   |
| <i>Revenue Surplus (Shortfall) Example</i> | <i>-1%</i>     | <i>(3,211)</i> | <i>(3,392)</i> | <i>(3,597)</i> | <i>(3,777)</i> | <i>(3,967)</i> |

**Total**

|  | 2025              | 2025              | 2026              | 2027              | 2028              | 2029              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Collection Services                        | \$ 22,604,956     | \$ 22,604,956     | \$ 23,735,204     | \$ 24,921,964     | \$ 26,168,062     | \$ 27,476,465     |
| Profit Allowance                           | 2,034,446         | 2,034,446         | 2,373,520         | 2,492,196         | 2,616,806         | 2,747,647         |
| Post-Collection Services                   | 11,773,587        | 11,773,587        | 12,362,266        | 12,980,380        | 13,629,399        | 14,310,869        |
| Franchise Fee                              | 3,834,558         | 3,948,262         | 4,171,077         | 4,423,411         | 4,644,863         | 4,877,591         |
| AB 939 Fee                                 | 380,795           | 380,795           | 399,835           | 419,826           | 440,818           | 462,859           |
| Revenue Reconciliation Example             | N/A               | N/A               | N/A               | 407,420           | 430,419           | 456,452           |
| <b>Total Revenues</b>                      | <b>40,628,342</b> | <b>40,742,046</b> | <b>43,041,902</b> | <b>45,645,198</b> | <b>47,930,367</b> | <b>50,331,883</b> |
| <b>Indexed Rate Adjustment</b>             |                   |                   | <b>5.65%</b>      | <b>6.05%</b>      | <b>5.01%</b>      | <b>5.01%</b>      |
| <i>Revenue Surplus (Shortfall) Example</i> | <i>-1%</i>        | <i>(407,420)</i>  | <i>(430,419)</i>  | <i>(456,452)</i>  | <i>(479,304)</i>  | <i>(503,319)</i>  |

NOVEMBER 13, 2024

ITEM E-1

ATTACHMENT B

## **Notice of Public Hearing Regarding Proposed Solid Waste Rate Adjustment**

### **Property Owners and Tenants - Customers:**

This notice is intended to inform you that the Nipomo Community Services District (the “Nipomo CSD” or “District”) will hold a public hearing regarding rate Adjustments (the “Proposed Rate Adjustment”) proposed by South County Sanitary Service (the “Garbage Company”) for properties and customers receiving solid waste, recycling, and green waste services within the Nipomo CSD’s service area. The Proposed Rate Adjustment will be considered for approval by the Nipomo CSD Board of Directors at the date, time, and location specified below. Consistent with the requirements of Proposition 218, this notice also provides you with the following information:

- The Date, Time, and Place of the Public Hearing;
- The Reason for the Proposed Rate Adjustment;
- The Effective date of the Proposed Rate Adjustment;
- The Amount of the Proposed Rate Adjustment; and
- The Majority Protest Procedures.

### **NOTICE OF PUBLIC HEARING**

**The Public Hearing for the Proposed Rate Adjustment within the Nipomo CSD service area will be held on:**

**Date:** January 22, 2025      **Time:** 9:00 am  
**Place:** JON S. SEITZ BOARD ROOM, 148 SOUTH WILSON STREET, NIPOMO, CA

**At the Public Hearing, the Nipomo CSD will consider all public comment in support of and in opposition to the Proposed Rate Adjustment and whether or not a Majority Protest exists pursuant to the California Constitution (as described below). If approved, the Proposed 2025 Rate Adjustment would become effective on January 1, 2025 and annual adjustments would be effective each January 1 of 2026, 2027, 2028 and 2029.**

### **Reason For and Basis of the Proposed Rate Adjustments**

The Proposed Rate Adjustment for 2025 is based on the Garbage Company’s documented cost of providing solid waste services and is a 5.04% increase above current solid waste rates. This cost-based adjustment is necessary for the Garbage Company to continue to provide safe, environmentally sound and reliable solid waste removal, transportation and disposal services to the residents and businesses of the CSD. The adjustments are requested due to:

- Increases in organics processing costs – Third-party costs for the organic waste post-collection processing facility operated by the company formerly named Hitachi Zosen INOVA, and which are not within the Garbage Company’s control, have doubled since 2022. The change in cost is the result of changes in facility capital and operating costs.
- Increases in landfill disposal costs – Related party costs for landfill waste disposal at Cold Canyon have remained flat since 2016. The 2025 rate adjustment reflects a market adjustment to these costs, from a per ton tipping fee of \$41 per ton (in place since 2016) to a per ton tipping fee of

\$70. The Garbage Company provided market comparison demonstrating the applicability of the \$70 per ton market tipping fee.

- Collection costs including labor, vehicles, operating expenses and overhead – These costs are increasing approximately 4.21% in 2025.
- Adjustments necessary for moving to a new methodology for annual rate adjustments that provides for increased rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness. These include updated depreciation lifespans for solid waste collection vehicles, removal of a limitation on corporate overhead costs for legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs, and updated profit allowance in-keeping with industry standards.
- Adjustments for new service enhancements, including the ability for residents to exchange a solid waste collection cart once annually at no additional cost, no charge collection for one bulky item twice annually via voucher program, and a rate assistance program as an option if the NCSD adopts a program in the future.

The Proposed Rate Adjustments for 2025 applicable to residential solid waste customers are shown in the table below.

| <b>Garbage Container Size</b> | <b>2024</b> | <b>2025</b> | <b>Change in Monthly Rate</b> |
|-------------------------------|-------------|-------------|-------------------------------|
| 32-gallon                     | \$27.57     | \$28.96     | \$1.39                        |
| 64-gallon                     | \$39.52     | \$41.51     | \$1.99                        |
| 96-gallon                     | \$51.81     | \$54.42     | \$2.61                        |

In addition, commencing each January 1 of 2026, 2027, 2028 and 2029 solid waste rates will be adjusted based on the following:

- Annual change in the Bureau of Labor Statistics’ Consumer Price Index (CPI) for Garbage and Trash Collection in the U.S all city average, with a minimum 2% adjustment and a maximum 5% adjustment. Amounts below the minimum or above the maximum will carry forward to the following year.
- Calculation of a 10% profit allowance starting in 2026 (estimated at additional 0.67% to 0.69% adjustment in 2026).
- Addition of a revenue balancing mechanism starting in 2027, wherein actual revenues from solid waste rates over or under projections carry forward as additions to, or offsets against, the annual CPI adjustment.
- Rate adjustments for January 1, 2026, 2027, 2028 and 2029 are not expected to exceed 7%.

The Proposed Rate Adjustments have been independently reviewed for consistency with the City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management dated June 1994 and in accordance with the provisions of the CSD’s Franchise Agreement with the Garbage Company, as amended, governing solid waste service within the boundaries of the CSD. The Proposed Rate Adjustments contemplate implementation of a new methodology for annual rate adjustments which is described in New Solid Waste Rate Adjustment Methodology and 2025 Rates report authored by independent reviewer, R3 Consulting Group, Inc. The consultant’s report and the complete set of proposed 2025 solid waste rates is available at the Nipomo CSD office located at 148 South Wilson Street, Nipomo, CA 93444, and on the Nipomo CSD website: [ncsd.ca.gov](http://ncsd.ca.gov).

### **How Do I Protest the Proposed Rate Adjustment?**

Pursuant to Section 6 of Article XIII D of the California Constitution, the following persons may submit a written protest against the Proposed Rate Adjustment to the Clerk of the Board before the close of the Public Hearing referenced above.

- An owner(s) of property (“owner of record”) within the District’s boundaries. If the person(s) signing the protest is not shown on the last equalized assessment roll as the owner of the parcel(s) then the protest must contain or be accompanied by written evidence that such person signing the protest is the owner of the parcel(s) receiving solid waste, recycling, or green waste service from the Garbage Company; OR
- “Customer of record” (tenant(s)) whose name appears on the Garbage Company’s records as the customer of record for the corresponding parcel receiving solid waste, recycling, or green waste service from the Garbage Company within the District’s boundaries.

A written protest must:

- 1) State that the identified property owner or customer of record is in opposition to the proposed solid waste, recycling, or green waste rate change;
- 2) Provide the identity of the affected parcel by assessor’s parcel number or street address;
- 3) Include the name and original signature (not a photocopy, email or fax copy) of the property owner or customer submitting the protest; **AND**
- 4) Include the date that the protest was signed.

One written protest per parcel will be counted in calculating a majority protest to the Proposed Rate Adjustment subject to the requirements of Section 6 of Article XIII D of the California Constitution. Written protests will not be accepted by e-mail or by facsimile. Verbal protests will not be counted in determining the existence of a majority protest. To be counted, a protest must be received in writing by the Clerk of the Board before the close of the Public Hearing referenced above.

#### **Written protests may be mailed to:**

**Nipomo CSD  
P.O. Box 326  
Nipomo, CA 93444-0326**

#### **Written protests may be personally delivered to:**

The Nipomo CSD administrative office. (“Office”) is located at 148 S. Wilson Street, Nipomo CA. Persons interested in delivering a written protest in-person can present their protest during normal business hours at the Office or place their protest in the drop box located in the parking lot of the Office. Protests will be counted so long as they are **received** prior to the conclusion of the public hearing set for January 22, 2025, beginning at 9:00 am. Post-marked mailed protests received after conclusion of the public hearing are not counted. Protests submitted via e-mail or other electronic means will not be counted; only protests with original signatures will be counted.

If valid written protests are received from a majority of owners and/or tenants – customers on parcels receiving solid waste, recycling, and green waste services within the District’s service area – then the District will not adjust/Adjustment the rates for the services. Please see the Nipomo Community Services District’s website “ncsd.ca.gov” for additional information or contact the Garbage Company @ (805) 489-4246.

**SOUTH COUNTY SANITARY SERVICE**  
**EFFECTIVE JANUARY 1, 2025**  
**NIPOMO CSD**

| <b>Service Description</b>  | <b>Pickups Per Week</b> | <b>Monthly Rate Effective 01/01/2024</b> | <b>Proposed Rate Adjustment</b> | <b>Monthly Rate Effective 01/01/2025</b> |
|---|-------------------------|--|---------------------------------|--|
| <b>RESIDENTIAL SINGLE FAMILY DWELLING AND MULTI-UNIT (4 UNITS OR LESS):</b>   |                         |  |                                 |  |
| 32 Gallon Waste Wheeler   | 1                       | \$27.57                                  | 1.39                            | \$28.96                                  |
| 64 Gallon Waste Wheeler   | 1                       | \$39.52                                  | 1.99                            | \$41.51                                  |
| 96 Gallon Waste Wheeler   | 1                       | \$51.81                                  | 2.61                            | \$54.42                                  |
| TWO-64 Gallon Waste Wheelers  | 1                       | \$61.67                                  | 3.11                            | \$64.78                                  |
| ONE 64 & ONE 96 Gallon  | 1                       | \$71.53                                  | 3.61                            | \$75.14                                  |
| TWO-96 Gallon Waste Wheelers  | 1                       | \$81.45                                  | 4.11                            | \$85.56                                  |
| Residential customers must use the waste wheelers provided by the garbage company. This solid service fee for residential trash collections (container with black or gray lid) includes once a week pick-up of one greenwaste/organics container (green lid), and one recycling container (blue lid). |                         |  |                                 |  |
| <b>MULTI-FAMILY (5 or MORE)</b>   |                         |  |                                 |  |
| Rates are the same as commercial dumpsters and waste wheeler rates (below).   |                         |  |                                 |  |
| <b>COMMERCIAL DUMPSTERS - ALL AREAS:</b>  |                         |  |                                 |  |
| 1 yd dumpster   | 1                       | \$105.76                                 | 5.33                            | \$111.09                                 |
| 1 yd dumpster   | 2                       | \$152.16                                 | 7.67                            | \$159.83                                 |
| 1 yd dumpster   | 3                       | \$201.07                                 | 10.13                           | \$211.20                                 |
| 1 yd dumpster   | 4                       | \$247.48                                 | 12.47                           | \$259.95                                 |
| 1 yd dumpster   | 5                       | \$298.99                                 | 15.07                           | \$314.06                                 |
| 1 yd dumpster   | 6                       | \$348.01                                 | 17.54                           | \$365.55                                 |
| 1 yd dumpster   | 7                       | \$463.98                                 | 23.38                           | \$487.36                                 |
| 1.5 yd dumpster   | 1                       | \$126.29                                 | 6.37                            | \$132.66                                 |
| 1.5 yd dumpster   | 2                       | \$193.22                                 | 9.74                            | \$202.96                                 |
| 1.5 yd dumpster   | 3                       | \$260.40                                 | 13.12                           | \$273.52                                 |
| 1.5 yd dumpster   | 4                       | \$363.43                                 | 18.32                           | \$381.75                                 |
| 1.5 yd dumpster   | 5                       | \$443.32                                 | 22.34                           | \$465.66                                 |
| 1.5 yd dumpster   | 6                       | \$528.44                                 | 26.63                           | \$555.07                                 |
| 1.5 yd dumpster   | 7                       | \$698.64                                 | 35.21                           | \$733.85                                 |
| 2 yd dumpster   | 1                       | \$136.62                                 | 6.89                            | \$143.51                                 |
| 2 yd dumpster   | 2                       | \$224.21                                 | 11.30                           | \$235.51                                 |
| 2 yd dumpster   | 3                       | \$319.50                                 | 16.10                           | \$335.60                                 |
| 2 yd dumpster   | 4                       | \$466.59                                 | 23.52                           | \$490.11                                 |
| 2 yd dumpster   | 5                       | \$572.35                                 | 28.85                           | \$601.20                                 |



**SOUTH COUNTY SANITARY SERVICE**  
**EFFECTIVE JANUARY 1, 2025**  
**NIPOMO CSD**

| Service Description | Pickups Per Week | Monthly Rate Effective 01/01/2024 | Proposed Rate Adjustment | Monthly Rate Effective 01/01/2025 |
|---------------------|------------------|-----------------------------------|--------------------------|-----------------------------------|
| 2 yd dumpster       | 6                | \$683.08                          | 34.43                    | \$717.51                          |
| 2 yd dumpster       | 7                | \$935.65                          | 47.16                    | \$982.81                          |
| 3 yd dumpster       | 1                | \$162.39                          | 8.18                     | \$170.57                          |
| 3 yd dumpster       | 2                | \$304.08                          | 15.33                    | \$319.41                          |
| 3 yd dumpster       | 3                | \$425.29                          | 21.43                    | \$446.72                          |
| 3 yd dumpster       | 4                | \$757.75                          | 38.19                    | \$795.94                          |
| 3 yd dumpster       | 5                | \$899.61                          | 45.34                    | \$944.95                          |
| 3 yd dumpster       | 6                | \$1,051.64                        | 53.00                    | \$1,104.64                        |
| 3 yd dumpster       | 7                | \$1,448.53                        | 73.01                    | \$1,521.54                        |
| 4 yd dumpster       | 1                | \$234.53                          | 11.82                    | \$246.35                          |
| 4 yd dumpster       | 2                | \$353.23                          | 17.80                    | \$371.03                          |
| 4 yd dumpster       | 3                | \$507.76                          | 25.59                    | \$533.35                          |
| 4 yd dumpster       | 4                | \$796.54                          | 40.15                    | \$836.69                          |
| 4 yd dumpster       | 5                | \$987.16                          | 49.75                    | \$1,036.91                        |
| 4 yd dumpster       | 6                | \$1,121.28                        | 56.51                    | \$1,177.79                        |
| 4 yd dumpster       | 7                | \$1,742.43                        | 87.82                    | \$1,830.25                        |
| 6 yd dumpster       | 1                | \$351.80                          | 17.73                    | \$369.53                          |

The rates shown above include the monthly container rental fee and a semi-annual dumpster cleaning.

**COMMERCIAL GARBAGE CANS - ALL AREAS:**

|                         |   |          |      |          |
|-------------------------|---|----------|------|----------|
| 32 Gallon Waste Wheeler | 1 | \$30.50  | 1.54 | \$32.04  |
| 32 Gallon Waste Wheeler | 2 | \$51.02  | 2.57 | \$53.59  |
| 64 Gallon Waste Wheeler | 1 | \$60.99  | 3.07 | \$64.06  |
| 64 Gallon Waste Wheeler | 2 | \$102.03 | 5.14 | \$107.17 |
| 96 Gallon Waste Wheeler | 1 | \$93.50  | 4.71 | \$98.21  |
| 96 Gallon Waste Wheeler | 2 | \$153.04 | 7.71 | \$160.75 |

**COMMERCIAL - OTHER CHARGES:**

Rates for all commercial customers include recycling or greenwaste/organics pickup once per week, included with the garbage service rate. Customers can choose from a 64 or 96 gallon blue commingled recycle waste wheeler or a 32 or 64 gallon organics waste wheeler included with the garbage service rate (96 gallon waste wheelers can only be used with green waste due to weight). If you need a bin for recycling there is a charge (see below).

**If you need more frequent recycling, including organics/greenwaste service, it can be provided at a 50% discount from the garbage service rates for the specified level of service required.**

**MISCELLANEOUS CHARGES - ALL CUSTOMERS:**

**SOUTH COUNTY SANITARY SERVICE**  
**EFFECTIVE JANUARY 1, 2025**  
**NIPOMO CSD**

| <b>Service Description</b>   | <b>Pickups Per Week</b> | <b>Monthly Rate Effective 01/01/2024</b> | <b>Proposed Rate Adjustment</b> | <b>Monthly Rate Effective 01/01/2025</b> |
|--|-------------------------|--|---------------------------------|--|
| Overstacked Garbage & extra bags Minimum/unit                                | each                    | \$7.45                                   | 0.38                            | \$7.83                                   |
| Overstacked Green waste & extra bags Minimum/unit                            | each                    | \$3.73                                   | 0.19                            | \$3.92                                   |
| Overstacked Recycle & extra bags Minimum/unit                                | each                    | \$3.73                                   | 0.19                            | \$3.92                                   |
| In yard service (per can or commodity) IN ADDITION TO STANDARD GARBAGE RATES | per month               | \$18.60                                  | 0.94                            | \$19.54                                  |
| Vacant Rate  | per month               | \$17.33                                  | 0.87                            | \$18.20                                  |
| Waste wheeler cleaning   | each time               | \$27.74                                  | 1.40                            | \$29.14                                  |
| Trip charge  | each time               | \$18.60                                  | 0.94                            | \$19.54                                  |
| Non-payment downsize service   | each time               | \$44.71                                  | 2.25                            | \$46.96                                  |
| Non-payment redeliver waste wheeler  | each time               | \$18.60                                  | 0.94                            | \$19.54                                  |
| <b>MISCELLANEOUS CHARGES - ALL CUSTOMERS (Con't):</b>                        |                         |  |                                 |  |
| Non-payment reconnect service  | each time               | \$44.71                                  | 2.25                            | \$46.96                                  |
| Small item pickup (TV, toilet)   | each                    | \$43.63                                  | 2.20                            | \$45.83                                  |
| Appliance pickup-residential   | each                    | \$61.51                                  | 3.10                            | \$64.61                                  |
| Larger than residential appliance or glass, glass doors, or plate glass      | by quote only           |  |                                 |  |
| Garbage extras on your scheduled pickup day                                  | per yard                | \$15.70                                  | 0.79                            | \$16.49                                  |
| Garbage extras -NOT ON YOUR SCHEDULED PICKUP DAY                             | per yard                | \$43.33                                  | 2.18                            | \$45.51                                  |
| Commercial Waste Wheeler rent  | per month               | \$3.93                                   | 0.20                            | \$4.13                                   |
| Re-deliver bin on stopped acct   | each time               | \$53.35                                  | 2.69                            | \$56.04                                  |
| Compactor  | per yard                | \$69.17                                  | 3.49                            | \$72.66                                  |
| Sunday Service (in additional to garbage service level)                      | per month               | \$93.12                                  | 4.69                            | \$97.81                                  |
| Tax Lien Cert. Mail Fee  |                         | \$6.21                                   | 0.31                            | \$6.52                                   |
| Recycle bin rental   | per month               | \$63.13                                  | 3.18                            | \$66.31                                  |
| Stand by time  | per hour                | \$94.02                                  | 4.74                            | \$98.76                                  |
| Extra bin cleaning   |                         | \$83.23                                  | 4.19                            | \$87.42                                  |
| Replacement/Repair of bins or waste wheelers                                 | at market price         |  |                                 |  |

**SOUTH COUNTY SANITARY SERVICE**  
**EFFECTIVE JANUARY 1, 2025**  
**NIPOMO CSD**

| <b>Service Description</b>                       | <b>Pickups Per Week</b> | <b>Monthly Rate Effective 01/01/2024</b> | <b>Proposed Rate Adjustment</b> | <b>Monthly Rate Effective 01/01/2025</b> |
|--|-------------------------|--|---------------------------------|--|
| Lock Charge                                      | per month               | \$10.33                                  | 0.52                            | \$10.85                                  |
| City Clean Up                                    | per item                | \$17.06                                  | 0.86                            | \$17.92                                  |
| Extra 32, 64, 96 Gal Waste Wheeler - Recycle     | per month               | \$3.86                                   | 0.19                            | \$4.05                                   |
| Extra 32, 64, 96 Gal Waste Wheeler - Green Waste | per month               | \$5.16                                   | 0.26                            | \$5.42                                   |
| <b>Short Term Dumpsters:</b>                     |                         |  |                                 |  |
| Delivery & Pickup-Bin                            |                         | \$53.35                                  | 2.69                            | \$56.04                                  |
| Delivery & Pickup-Waste Wheeler                  |                         | \$18.60                                  | 0.94                            | \$19.54                                  |
| Rental   | Per Day                 | \$3.93                                   | 0.20                            | \$4.13                                   |
| Empties  | Per Yard                | \$43.33                                  | 2.18                            | \$45.51                                  |
| <b>Mattress:</b>                                 |                         |  |                                 |  |
| Twin   | Each                    | \$24.72                                  | 1.25                            | \$25.97                                  |
| Double   | Each                    | \$24.72                                  | 1.25                            | \$25.97                                  |
| Queen  | Each                    | \$24.72                                  | 1.25                            | \$25.97                                  |
| King   | Each                    | \$24.72                                  | 1.25                            | \$25.97                                  |

**ADDITIONAL INFORMATION ALL CUSTOMERS:**

- Customers requesting Temporary Bins or Roll-off Box Service can call the office for current rates
- Polystyrene (Styrofoam, Plastic #6) is not collected for recycling and should be thrown away as trash. Please bag Styrofoam packing peanuts before placing in trash container.
- It is encouraged to bag your trash in the garbage container but do not bag your recyclables or green waste in their respective containers and keep it loose.
- Recycling, Greenwaste/Organics and Garbage containers should spaced 3 feet apart away from any obstacles (i.e mailboxes, cars, etc) before 6:00am on collection service day.
- The fee schedule above only includes the Garbage Company rates and does not include IWMA fees, which are separately noted on the billings.
- Cleaning fees will be billed on a time and materials basis
- Late Fees are imposed for residential customers over 30 days delinquent. The fee is 1.5% per month of the outstanding charge, with a minimum fee of \$5.00. No prior notice is required, as this late fee policy is stated at the bottom of every bill.
- Customers can be charged for contamination fees in the trash, recycling and/or the greenwaste/organics containers.

**Any additional recycling, including greenwaste/organic services are charged out at 50% of the garbage rate.**