

TO: BOARD OF DIRECTORS  
FROM: RAY DIENZO *RWD*  
GENERAL MANAGER  
DATE: JANUARY 17, 2025

**AGENDA ITEM  
E-1  
JANUARY 22, 2025**

**CONDUCT A PUBLIC HEARING AND CONSIDER ANY PROTESTS REGARDING THE PROPOSED SOLID WASTE RATE ADJUSTMENT SET FORTH IN THE ATTACHED RESOLUTION. IF THERE IS NO MAJORITY PROTEST, ADOPT A RESOLUTION ESTABLISHING INTEGRATED SOLID WASTE COLLECTION SERVICE RATES FOR JANUARY 1, 2025, AND EACH JANUARY 1 FROM 2026 THROUGH 2029, MAKE FINDINGS AS INCLUDED IN THE ATTACHED RESOLUTION THAT ESTABLISHING SOLID WASTE RATES ARE NOT A PROJECT SUBJECT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT; AND APPROVE THE THIRD AMENDMENT TO THE SOLID WASTE, RECYCLABLE MATERIALS, AND ORGANIC MATERIALS COLLECTION FRANCHISE AGREEMENT BETWEEN THE DISTRICT AND SOUTH COUNTY SANITARY SERVICES, INC. INCORPORATING THE NEW RATE SETTING METHODOLOGY**

**ITEM**

Conduct a public hearing and consider any protests regarding the proposed solid waste rate adjustment set forth in the attached Resolution. If there is no majority protest, adopt a Resolution [Attachment A) establishing integrated solid waste collection service rates for January 1, 2025, and each January 1 from 2026 through 2029, make findings as included in the attached Resolution that establishing solid waste rates are not a project subject to the California Environmental Quality Act ("CEQA"); and approve the Third Amendment to the Amended and Restated Solid Waste, Recyclable Materials, and Organic Materials Collection Franchise Agreement between the Nipomo Community Services District and South County Sanitary Services, Inc. incorporating the new rate setting methodology.

[RECOMMEND CONDUCT PUBLIC HEARING AND CONSIDER PROTESTS. IF THERE IS NO MAJORITY PROTEST THEN ADOPT A RESOLUTION SETTING NEW SOLID WASTE RATES AND MAKING CEQA FINDING; APPROVE THE THIRD AMENDMENT TO THE FRANCHISE AGREEMENT]

**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 pursuant to the Franchise Agreement 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’ 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. District staff followed this process and concurs with 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 this 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%.

On November 13, 2024 the District Board of Directors reviewed the Solid Waste Rate Review report completed by R3 [Attachment B] and received a presentation. R3 completed a thorough review of SCSS’ 2025 cost-based rate adjustment application and adjustments necessary for the new recommended rate adjustment methodology. R3’s report includes 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 Board of Directors set the Public hearing for January 22, 2025, to consider adjusting the solid waste rates for January 1, 2025 and each January 1 from 2026 through 2029, and to consider amending the Agreement to incorporate the new rate setting methodology.

## **DISCUSSION**

### **Cost-Based Rate Adjustment**

As stated above, 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. 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

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>

### **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.

- **Revised 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 CARB'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 NCS D 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.

#### **SUMMARY OF FRANCHISE AGREEMENT CHANGES**

The attached Third Amendment and Appendix 1 includes the proposed franchise agreement language for the new rate setting methodology. The following is a brief summary of the sections in the Exhibit:

Section 1: Objectives – Provide rate stability, predictability, fairness, transparency, ease of administration and cost effectiveness

Section 2: Index-based Rate Adjustments w/ examples – this method levels the magnitude of rate increases generally within the approximate range of 2% to 5%

Section 3: Cost-based Rate Adjustments – details the submittal requirements if called for by the District or the Franchisee but is not effective until January 1, 2030

Section 4: Annual Audited Financial Statements – copies available upon request and required with any Cost-Base Rate Adjustment request

Section 5: Extraordinary Adjustments – defines when rate adjustments outside the Index or Cost Based adjustments can be submitted

#### **PROPOSITION 218 PROCESS**

The District's practice is to apply the provisions of Proposition 218 to solid waste rates and to require that all property owners and tenant customers receiving solid waste collection services

receive written notice by mail at least 45 days prior to the Board of Directors' consideration of approving solid waste rate adjustments. The notice must include the amount of the fee, the basis on which the fee was calculated and the date, time and place of the public hearing and must clearly advise of the right to protest the fee increase. Proposition 218 notices for the contemplated rate adjustments were mailed by December 6, 2024. A copy of the mailed notice is provided in Attachment C. If written protests to the proposed rate increase are received from a majority of affected parcels, the Board of Directors may not adopt the proposed rates. There are currently 4,374 parcels in the District receiving solid waste collection services. Therefore, 2,188 protests would represent a majority. According to State law, one written protest per parcel will be counted toward reaching a majority. The protest must be submitted in writing, signed by the property owner or the authorized representative of the property owner, or the tenant customer. At the time this report was prepared, three (3) protest letters have been received. Protests have been accepted in person as well as by mail, and will be accepted up to the close of the public hearing. At that time, the total protests received will be counted and, if no majority protest has occurred, the Board of Directors may adopt the proposed Resolution setting forth the solid waste rates that will go into effect on January 1, 2025.

### **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:

1. Conduct a public hearing and consider any protests regarding the proposed solid waste rate adjustment set forth in the attached Resolution [Attachment A] and the Notice of Public Hearing provided to solid waste rate customers [Attachment C] based on the Solid Waste Rate Review [Attachment B]; and
2. If there is no majority protest, adopt a Resolution establishing solid waste collection service rates for January 1, 2025, and each January 1 from 2026 through 2029; and
3. Make findings as included in the attached Resolution that establishing solid waste rates are not a project subject to CEQA because the action has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.); and
4. Approve Third Amendment to the Agreement to include Appendix 1, the Annual Solid Waste Rate Adjustment Methodology.

### **ATTACHMENT**

- A. Resolution 2025-XXXX
- B. R3 Consulting Group, Inc. Rate Report
- C. NCSD Proposition 218 Notice

- D. Third Amendment to Franchise Agreement
  - Appendix 1 – Annual Solid Waste Rate Adjustment Methodology

**THIS PAGE INTENTIONALLY LEFT BLANK**



JANUARY 22, 2025

ITEM E-1

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 2025-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY  
SERVICES DISTRICT ADOPTING 2025 SOLID WASTE RATES**

**WHEREAS**, on November 13, 2024, the Board of Directors reviewed the rate adjustment application from South County Sanitary Service requesting a rate increase for 2025; and

**WHEREAS**, based on this review, the Board of Directors deemed the rate adjustment consistent with the Franchise Agreement's referenced 1994 Solid Waste Rate Setting Methodology as amended; and

**WHEREAS**, consistent with Article XIID of the California Constitution and Proposition 218 Omnibus Implementation Act (commencing with Section 53750 of the California Government Code), notices regarding the requested rate increase were mailed to all property owners and customers 45-days prior to the January 22, 2025, public hearing; and

**WHEREAS**, it has been determined that the number of valid written protests filed with the District before the close of the public hearing did not constitute a majority (50%+1) of the parcels receiving solid waste services under the Franchise Agreement and was not sufficient to prevent approval of the rate increase and adopted the proposed rates as published; and

**NOW THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE  
NIPOMO COMMUNITY SERVICES DISTRICT BOARD OF DIRECTORS AS FOLLOWS:**

1. Incorporation of Recitals

The above Recitals are true and correct and incorporated herein by this reference and constitute findings in support of this Resolution.

2. Rates and Charges

The rates and charges for commercial and residential collection and disposal of solid waste, as established in Exhibit "A", attached hereto and incorporated herein by this reference, are approved and adopted. Additionally, solid waste rates will increase January 1st of calendar years 2026, 2027, 2028 and 2029 based on the Bureau of Labor Statistics Garbage and Trash Consumer Price Index and in accordance with the Annual Solid Waste Rate Adjustment Methodology in Third Amendment/Appendix 1 to the South County Sanitary Service franchise agreement.

3. Severability.

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

4. Effect of Repeal on Past Actions and Obligations.

This Resolution does not affect prosecutions for violations committed prior to the effective date of

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 2025-xxxx**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY  
SERVICES DISTRICT ADOPTING 2025 SOLID WASTE RATES**

this Resolution, does not waive any fee or penalty due and unpaid on the effective date of this Resolution.

5. CEQA Findings.

The Board of Directors of the District finds that the rates and charges adopted by this Resolution exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices and findings.

6. Inconsistency.

To the extent that the terms of provision of this Resolution may be inconsistent or in conflict with the terms or conditions of any prior District Ordinance(s), Motions, Resolutions, Rules, or Regulations, governing the same subject matter thereof, then such inconsistent and conflicting provisions of prior Ordinances, Motions, Resolutions, Rules, and Regulations are hereby repealed.

7. Effective Date.

This Resolution shall take effect immediately. The rates and charges adopted by this Resolution shall take effect January 1, 2025.

Upon motion by \_\_\_\_\_, seconded by \_\_\_\_\_, and on the following roll call vote, to wit:

**AYES:**

**NOES:**

**ABSENT:**

**CONFLICTS:**

the foregoing resolution is hereby passed and adopted this 22<sup>ND</sup> day of January 2025.

\_\_\_\_\_  
**ED EBY**  
President of the Board

ATTEST:

APPROVED:

\_\_\_\_\_  
**RAY DIENZO**  
General Manager and Secretary to the Board

\_\_\_\_\_  
**CRAIG STEELE**  
District Legal Counsel

**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
<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:**

1. Customers requesting Temporary Bins or Roll-off Box Service can call the office for current rates
2. 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.
3. 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.
4. 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.
5. The fee schedule above only includes the Garbage Company rates and does not include IWMA fees, which are separately noted on the billings.
6. Cleaning fees will be billed on a time and materials basis
7. 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.
8. 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.**

JANUARY 22, 2025

ITEM E-1

ATTACHMENT B



# 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.

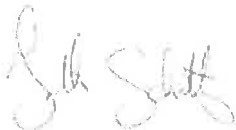
R3 would like to recognize that this has been a significant undertaking, and we'd like to thank the City of San Luis Obispo, Waste Connections, Los Osos Community Services District, and Participating Agencies for your involvement in providing feedback during this process. In closing, R3 recommends City 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)

# TABLE OF CONTENTS

**1. Executive Summary**  
page 1



**2. Background**  
page 4



**3. New Solid Waste Rate Adjustment  
Methodology and 2025 Rates**  
page 10



## Attachments

- 1 Summary of Original 2025 Base Year Rate Adjustments
- 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

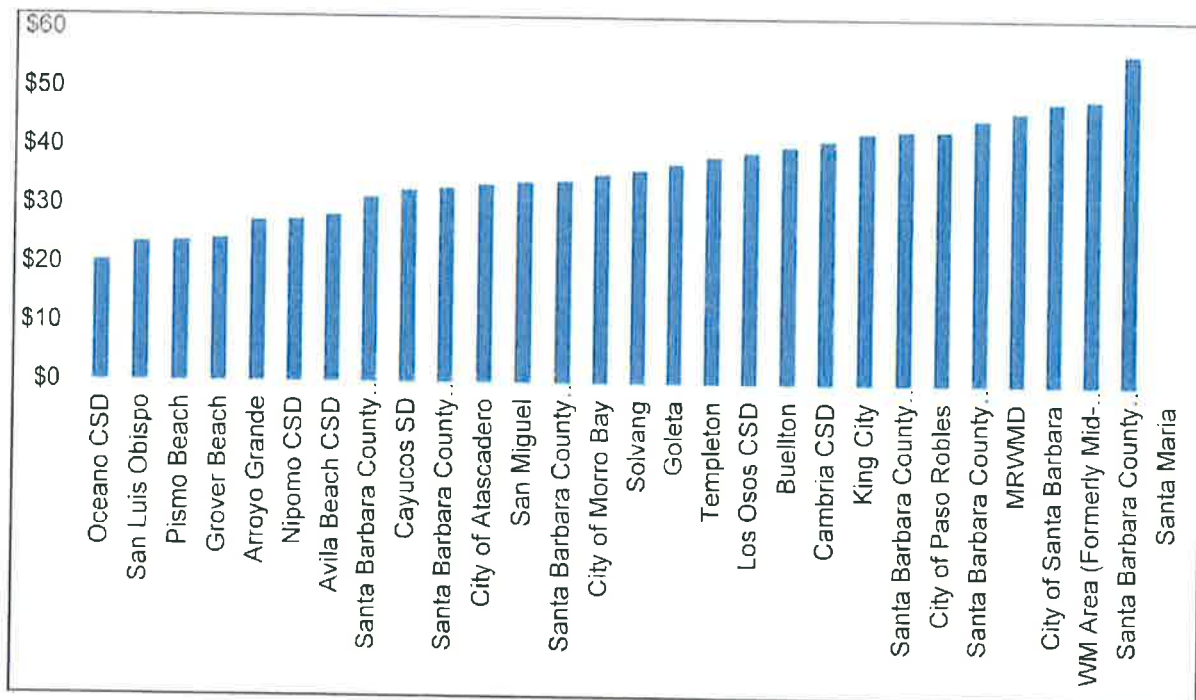


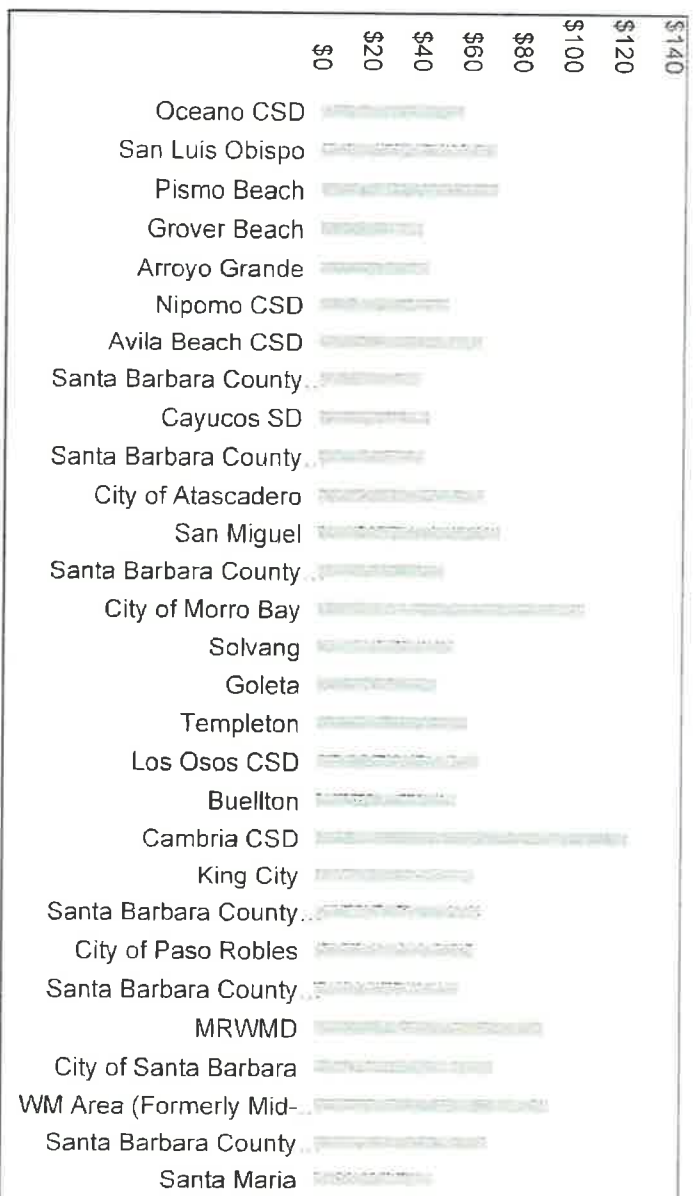
Chart 1, which is organized in ascending order of 32-gallon monthly rate, demonstrates that the rates for 32-gallon monthly service (the most subscribed residential service level) for all Participating Agencies

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

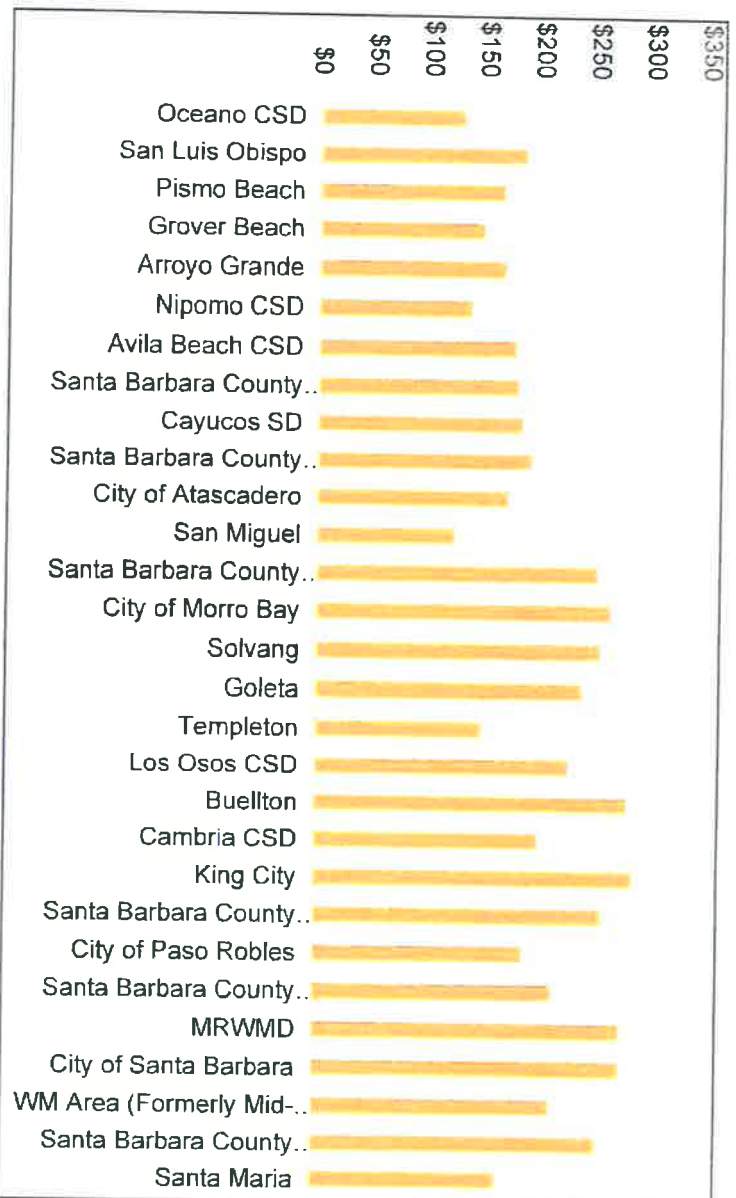


Chart 3: Regional Comparison of Monthly 96-gallon Cart Rates



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.

---

<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>



**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	Oceanside 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
Effect on Rate Adjustment	0.88%	0.99%	0.19%	0.99%	0.23%	0.22%	0.24%	0.90%	0.23%	0.20%

### 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	Nilpomo 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

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:

- 1) **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.
- 1) **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.

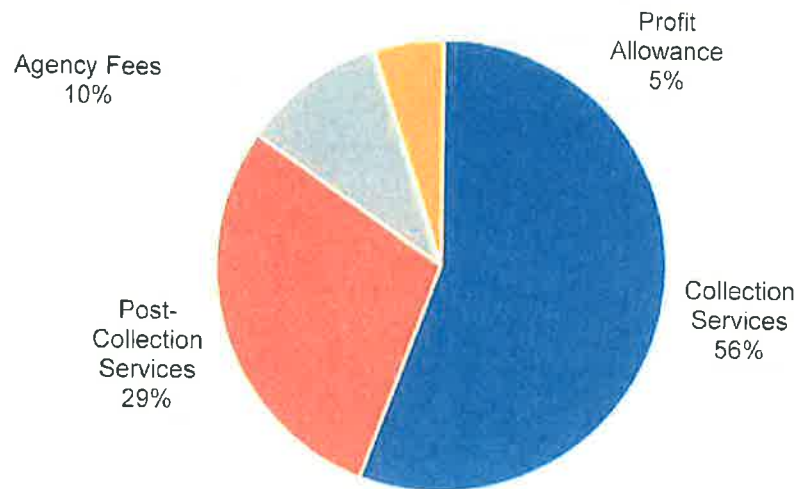
Other factors play minor roles in the 2025 rate adjustment:

- 1) **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.
- 1) **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.

## New Rate Adjustment Methodology and 2025 Rates

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	\$ 1,292,994	\$ 2,785,157	\$ 2,201,010	\$ 687,375	\$ 2,879,316	\$ 1,007,195	\$ 1,350,148	\$ 1,570,029	\$ 624,117	\$ 311,604
	Multi-Family Dumpsters	2,556,077									
	Non-Residential Cans	725,233	100,710	77,835	55,710	235,337	131,759	134,053	119,843	74,074	24,711
	Non-Residential Dumpsters	5,848,773	776,244	799,731	250,830	1,875,761	1,831,547	1,533,738	823,712	276,500	270,450
	<b>Total Rate Revenue</b>	<b>14,413,180</b>	<b>3,672,121</b>	<b>2,878,316</b>	<b>1,260,810</b>	<b>4,815,114</b>	<b>3,569,565</b>	<b>2,747,429</b>	<b>2,613,184</b>	<b>1,229,151</b>	<b>306,626</b>
Other Income (Excludes)	20,626	1,873	3,877	1,770	5,403	4,341	3,721	3,000	1,572	263	
<b>Total Current Revenues</b>	<b>14,433,726</b>	<b>3,673,994</b>	<b>2,882,193</b>	<b>1,262,580</b>	<b>4,820,517</b>	<b>3,573,906</b>	<b>2,751,150</b>	<b>2,616,184</b>	<b>1,230,723</b>	<b>306,889</b>	
Collection Services	Labor	3,658,710	1,042,706	817,360	363,719	1,113,222	854,704	867,557	630,287	320,326	73,943
	Depreciation	1,338,967	376,369	255,515	131,502	398,063	316,350	294,919	225,376	114,616	34,421
	Insurance	1,124,459	316,416	248,033	119,374	325,978	262,241	196,396	181,117	95,012	37,815
	Other G&A	876,729	282,701	221,603	98,612	304,307	241,840	181,117	170,203	87,821	26,213
	Fuel	751,987	216,487	251,946	112,154	254,951	202,616	151,742	144,349	74,405	18,833
	Maintenance	231,168	66,213	81,312	40,633	117,457	93,326	69,853	66,438	33,811	7,910
	Supplies/Overhead	248,293	66,213	56,226	26,129	80,825	74,496	55,724	33,608	26,012	6,215
<b>Total Collection Services</b>	<b>8,520,154</b>	<b>2,592,521</b>	<b>1,981,993</b>	<b>873,027</b>	<b>2,611,578</b>	<b>2,075,442</b>	<b>1,534,457</b>	<b>1,474,629</b>	<b>751,964</b>	<b>171,473</b>	
Post-Collection & Affiliated Party Services	Contract Handling	2,438,777	349,264	273,767	121,831	508,314	403,960	302,538	297,798	146,361	33,701
	Organics Processing	1,008,704	477,019	373,027	166,395	640,952	525,084	393,325	474,162	190,282	43,097
	Recyclables Processing	216,999	173,112	135,700	67,385	270,365	214,981	180,027	153,087	77,858	17,064
	Affiliated Party Costs	168,114	57,421	44,778	19,505	58,123	38,618	27,422	26,217	13,237	3,264
<b>Total Post-Collection &amp; Affiliated Party Services</b>	<b>4,602,694</b>	<b>1,056,816</b>	<b>827,188</b>	<b>365,216</b>	<b>1,450,672</b>	<b>1,180,740</b>	<b>854,242</b>	<b>841,166</b>	<b>427,778</b>	<b>97,066</b>	
Pass-Through Services	Franchise Fee	1,513,042	536,583	263,599	117,393	462,292	367,397	275,149	261,744	132,111	30,738
	AS/SD Fee	362,143	5,233	2,197	1,220						
	<b>Total Pass-Through Services</b>	<b>1,875,185</b>	<b>541,816</b>	<b>265,796</b>	<b>118,613</b>	<b>462,292</b>	<b>367,397</b>	<b>275,149</b>	<b>261,744</b>	<b>132,111</b>	<b>30,738</b>
<b>Total Compensation for Services</b>	<b>14,699,432</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>302,866</b>	
Allowed Operating Margin	641,200	233,870	172,509	83,711	327,094	230,477	135,111	111,200	61,308	15,640	
<b>Total Revenue Requirement</b>	<b>15,340,632</b>	<b>4,089,595</b>	<b>3,230,599</b>	<b>1,426,540</b>	<b>4,786,646</b>	<b>3,804,059</b>	<b>2,848,861</b>	<b>2,692,737</b>	<b>1,374,161</b>	<b>318,506</b>	
Surplus (Shortfall)	(1,206,906)	(412,401)	(348,406)	(143,854)	(466,129)	(310,153)	(90,222)	(76,153)	(47,518)	(10,617)	
Calculated Adjustment to Rate Revenues	8.36%	11.22%	12.01%	11.22%	3.57%	8.57%	2.97%	2.91%	3.57%	3.57%	
Grossing up for Franchise Fees	8.29%	12.47%	12.72%	12.47%	3.97%	8.97%	3.97%	3.97%	4.74%	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	Plsimo Beach	Grover Beach	Nipomo	Oceano	Avila	
Current Revenues	Single Family Residential	\$ 5,267,864	\$ 2,795,167	\$ 2,201,010	\$ 987,376	\$ 2,379,516	\$ 1,598,158	\$ 1,580,149	\$ 1,570,029	\$ 654,117	\$ 91,704
	Multi-Family Dumpster	3,238,073									
	Non-Residential C&I	729,592	100,710	77,805	33,710	236,957	237,767	134,053	119,843	74,076	34,711
	Non-Residential Disposables	5,846,777	776,244	598,701	329,626	1,970,381	1,732,613	1,533,238	923,212	376,962	159,429
<b>Total Rate Revenue</b>	<b>14,418,106</b>	<b>3,672,121</b>	<b>2,878,516</b>	<b>1,350,312</b>	<b>4,616,153</b>	<b>3,668,565</b>	<b>2,747,439</b>	<b>2,612,944</b>	<b>1,329,152</b>	<b>386,236</b>	
Other Income (Allocated)	30,638	5,073	3,577	1,726	3,462	4,347	3,251	3,292	3,373	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>386,989</b>	
Collection Services	Labor	3,654,716	1,049,766	817,365	383,719	1,113,222	864,704	662,557	590,227	308,236	92,643
	Depreciation	1,125,720	317,843	243,918	110,790	336,450	267,322	209,254	103,764	76,472	21,549
	Insurance	1,124,490	316,438	246,075	110,374	329,878	263,241	196,196	186,829	95,012	21,921
	Other G&A	1,024,156	300,452	234,534	105,730	324,904	254,473	195,830	159,863	84,246	24,740
	Fuel	754,387	201,408	151,946	112,114	254,951	202,616	161,742	144,249	72,705	18,031
	Maintenance	471,167	118,487	91,312	40,630	117,431	93,824	69,893	65,468	33,813	7,820
	Collection Overhead	492,370	140,750	109,121	51,180	160,857	126,511	97,227	81,627	41,136	10,261
<b>Total Collection Services</b>	<b>8,539,055</b>	<b>2,489,614</b>	<b>1,995,478</b>	<b>879,396</b>	<b>2,643,617</b>	<b>2,007,711</b>	<b>1,579,059</b>	<b>1,497,712</b>	<b>761,600</b>	<b>174,655</b>	
Post-Collection & Affiliated Party Services	Garbage Lifting	2,408,278	349,264	274,792	121,811	508,314	403,969	302,828	297,796	148,961	33,765
	Organics Processing	1,109,784	477,019	373,927	166,395	560,512	525,384	393,323	374,362	190,282	43,897
	Recyclables Processing	916,850	173,112	135,700	60,383	270,385	214,891	160,927	153,087	77,833	17,050
	Affiliated Party Costs	168,154	37,121	44,776	19,313	46,128	38,429	27,431	26,117	12,232	3,011
<b>Total Post-Collection &amp; Affiliated Party Services</b>	<b>4,602,066</b>	<b>1,036,516</b>	<b>829,195</b>	<b>367,506</b>	<b>1,485,478</b>	<b>1,180,783</b>	<b>884,743</b>	<b>841,124</b>	<b>437,776</b>	<b>97,683</b>	
Pass-Through Services	Franchise Fee	1,233,412	336,540	263,809	117,393	462,296	367,297	275,149	261,744	133,111	30,763
	All other Fees	362,043									
<b>Total Pass-Through Services</b>	<b>1,954,453</b>	<b>336,540</b>	<b>263,809</b>	<b>130,147</b>	<b>462,296</b>	<b>367,297</b>	<b>275,149</b>	<b>261,744</b>	<b>133,111</b>	<b>30,763</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	768,042	224,834	171,000	78,147	251,630	202,810	148,800	144,720	74,436	17,221	
<b>Total Revenue Requirement</b>	<b>15,864,159</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>1,390,305</b>	<b>319,712</b>	
<b>Surplus (Shortfall)</b>	<b>(1,438,883)</b>	<b>(436,299)</b>	<b>(340,978)</b>	<b>(165,285)</b>	<b>(204,555)</b>	<b>(159,564)</b>	<b>(124,428)</b>	<b>(118,771)</b>	<b>(59,655)</b>	<b>(32,724)</b>	
Calculated Adjustment to Rate Revenues	9.89%	11.86%	17.83%	12.89%	4.51%	4.34%	4.52%	4.62%	4.89%	8.12%	
Grossing up for Franchise Fees		13.18%	12.59%	14.32%	8.02%	4.82%	5.92%	5.04%	4.89%	4.60%	
<b>Profit Margin on Collection Services (2025)</b>	<b>9.0%</b>	<b>9.2%</b>	<b>9.0%</b>	<b>9.9%</b>	<b>9.8%</b>	<b>9.2%</b>	<b>9.9%</b>	<b>9.2%</b>	<b>9.8%</b>	<b>8.5%</b>	
Franchise Fee	10.0%	10.0%	8.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
<b>Change to Original Rate Application</b>	<b>0.60%</b>	<b>0.71%</b>	<b>-0.19%</b>	<b>1.85%</b>	<b>0.53%</b>	<b>0.85%</b>	<b>1.95%</b>	<b>1.81%</b>	<b>1.22%</b>	<b>5.63%</b>	

# 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%
<b>San Luis Obispo</b>							
	<b>2025</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	
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	
<i>Revenue Reconciliation Example</i>	N/A	N/A	N/A	158,641	167,569	177,711	
<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>	
<i>Revenue Surplus (Shortfall) Example</i>	-1%	(158,641)	(167,569)	(177,711)	(186,607)	(195,957)	
<b>Arroyo Grande</b>							
	<b>2025</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	
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	-	-	-	-	-	-	
<i>Revenue Reconciliation Example</i>	N/A	N/A	N/A	48,487	51,220	54,320	
<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>	
<i>Revenue Surplus (Shortfall) Example</i>	-1%	(48,487)	(51,220)	(54,320)	(57,039)	(59,897)	
<b>Los Osos CSD</b>							
	<b>2025</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	
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	-	-	-	-	-	-	
<i>Revenue Reconciliation Example</i>	N/A	N/A	N/A	41,966	44,356	47,040	
<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>	
<i>Revenue Surplus (Shortfall) Example</i>	-1%	(41,966)	(44,356)	(47,040)	(49,395)	(51,870)	
<b>Pismo Beach</b>							
	<b>2025</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	
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	-	-	-	-	-	-	
<i>Revenue Reconciliation Example</i>	N/A	N/A	N/A	38,501	40,670	43,132	
<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>	
<i>Revenue Surplus (Shortfall) Example</i>	-1%	(38,501)	(40,670)	(43,132)	(45,291)	(47,560)	

**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	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	31,486	33,278	35,277
<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>			5.69%	6.01%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(31,486)	(33,278)	(35,277)	(37,043)	(38,899)

**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	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	28,889	30,517	32,363
<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>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(28,889)	(30,517)	(32,363)	(33,984)	(35,686)

**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	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	27,486	29,035	30,792
<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>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(27,486)	(29,035)	(30,792)	(32,333)	(33,953)

**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	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	13,970	14,757	15,650
<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>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(13,970)	(14,757)	(15,650)	(16,433)	(17,257)

**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>
Revenue Surplus (Shortfall) Example	-1%	(14,784)	(15,625)	(16,571)	(17,400)	(18,272)

**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>
Revenue Surplus (Shortfall) Example	-1%	(3,211)	(3,392)	(3,597)	(3,777)	(3,967)

**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>
Revenue Surplus (Shortfall) Example	-1%	(407,420)	(430,419)	(456,452)	(479,304)	(503,319)

JANUARY 22, 2025

ITEM E-1

ATTACHMENT C

## **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 NCS D adopts a program in the future.

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

Garbage Container Size	2024	2025	Change in Monthly Rate
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**

<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>
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:**

1. Customers requesting Temporary Bins or Roll-off Box Service can call the office for current rates
2. 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.
3. 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.
4. 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.
5. The fee schedule above only includes the Garbage Company rates and does not include IWMA fees, which are separately noted on the billings.
6. Cleaning fees will be billed on a time and materials basis
7. 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.
8. 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.**

JANUARY 22, 2025

ITEM E-1

ATTACHMENT D

**THIRD AMENDMENT  
TO  
AMENDED AND RESTATED SOLID WASTE,  
RECYCLABLE MATERIALS, AND ORGANIC MATERIALS  
COLLECTION FRANCHISE AGREEMENT**

**BETWEEN**

**NIPOMO COMMUNITY SERVICES DISTRICT**

**AND**

**SOUTH COUNTY SANITARY SERVICES, INC.**

**JANUARY 22, 2025**

**THIS THIRD AMENDMENT** to the Amended and Restated Solid Waste, Recyclable Materials, and Organic Materials Collection Franchise Agreement (the “Third Amendment”) between the Nipomo Community Services District (“District”) and South County Sanitary Services, Inc. (“Contractor”) is made and entered into this 22d day of January, 2025.

WHEREAS, the District and Contractor entered into the Amended and Restated Solid Waste Collection Franchise Agreement on August 27, 2008, as amended by the First Amendment to Amended and Restated Solid Waste Collection Franchise Agreement on November 12, 2015, and the Second Amendment to Amended and Restated Solid Waste, Recyclable Materials, and Organic Materials Collection Franchise Agreement on November 1, 2022, (together the “Agreement”) pursuant to which the Contractor renders solid waste, recyclable materials and organic materials collection, processing and disposal services to residents and businesses in the District; and

WHEREAS, pursuant to the Agreement, the process by which solid waste rates charged by Contractor to residents and businesses has been subject to annual adjustment pursuant to the “City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates” which was established in 1994 (“1994 Rate Manual”); and

WHEREAS, the 1994 Rate Manual is outdated and the District and the Contractor mutually desire to replace it with a new methodology for processing annual adjustments to solid waste rates that will enhance rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness; and

WHEREAS, the District partnered with the City of San Luis Obispo – acting as the lead agency on behalf of the District and eight other public agencies in San Luis Obispo County – and the Contractor, in developing the features and parameters of a new methodology; and

WHEREAS, the District Board of Directors heard a presentation regarding the features and parameters of a new methodology on November 13, 2024; and

WHEREAS, on November 13, 2024, the District Board of Directors directed staff and the Contractor to mail written notice to residents and businesses in the District regarding a) the features and parameters of the new methodology, b) the proposed adjustments to solid waste rates pursuant to the new methodology to be effective January 1, 2025, and c) the time and place of a public hearing regarding the proposed solid waste rates and the new methodology, and the District has provided such notice according to applicable law; and

WHEREAS, the City of San Luis Obispo, acting as lead agency, met in good faith with the Contractor to develop the terms and conditions of the new rate adjustment methodology, attached hereto as Appendix 1; and

WHEREAS, Appendix 1 includes the features and parameters of the new methodology that were previously presented to the District Board of Directors; and



WHEREAS, District and Contractor agree that Appendix 1 meets both parties' objectives for a new rate adjustment methodology that will enhance rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness; and

WHEREAS, District and Contractor mutually desire to amend the Agreement to replace references to the 1994 Rate Manual with Appendix 1 to this Third Amendment.

NOW THEREFORE, it is mutually agreed as follows:

1. **Section 10.10, "Annual Financial Audit,"** shall be amended as follows:

The reference to *"City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Rates dated June 1994"* is deleted and hereby replaced by *"Appendix 1, Annual Solid Waste Rate Adjustment Methodology."*

2. **The second paragraph of Section 11.1, "General,"** shall be amended as follows:

The reference to *"City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Rates dated June 1994"* is deleted and hereby replaced by *"Appendix 1, Annual Solid Waste Rate Adjustment Methodology."*

3. **Section 11.4 "Requests for Rate Adjustments,"** shall be amended in its entirety to read as follows:

**"Applications for Rate Review.** Contractor shall submit to the District an application for rate review annually in accordance with the procedures described in Appendix 1, Annual Solid Waste Rate Adjustment Methodology."

4. **Section 11.5, "Special Interim Rate Review,"** shall be amended in its entirety to read as follows:

**"Extraordinary Adjustments.** Extraordinary adjustments may be made in accordance with the procedures set forth in Appendix 1, Annual Solid Waste Rate Adjustment Methodology."

5. **Section 11.6, "Allowable Profit,"** shall be amended in its entirety to read as follows:

**"Allowable Profit.** When performing the procedures described in the "Appendix 1, Annual Solid Waste Rate Adjustment Methodology," the allowable profit on expenses shall be as set forth therein."

6. **Section 11.7, "Reduction in Allowable Profit,"** shall be deleted in its entirety.

7. Appendix 1, Annual Solid Waste Rate Adjustment Methodology, attached hereto, is hereby incorporated into the Agreement. All applicable references to the "City" in Appendix A shall mean "District."
8. **District and Contractor agree and acknowledge that**, except as explicitly modified by this Amendment or by necessary implication, the Agreement remains in full force and effect. In the event of a conflict between the terms of the Agreement and this Third Amendment, the terms of this Third Amendment shall prevail, and the terms of Appendix 1 shall prevail in the event of a conflict relating to rate setting procedures among or between the foregoing documents.
9. Each party executing this Third Amendment represents and warrants that it is duly authorized to cause this Third Amendment to be executed and delivered.
10. This Third Amendment may be executed in one or more facsimile or original counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment the day and year first above written.

South County Sanitary Services, Inc.

Nipomo Community Services District

By: \_\_\_\_\_  
President

By: \_\_\_\_\_  
Ed Eby, President

By: \_\_\_\_\_  
Secretary

ATTEST:

By: \_\_\_\_\_  
Raymond Dienzo, P.E.

Secretary

APPROVED AS TO FORM:

By: \_\_\_\_\_  
Craig A. Steele, General Counsel



# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

### Section 1 Objectives

This Exhibit details the process by which Maximum Service Rates are adjusted annually to provide fair and adequate compensation to Franchisee for collection of solid waste and other services provided to Customers and the District per the Agreement. The annual rate adjustment methodology described herein fulfills key objectives established by the District and Franchisee, including rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness.

### Section 2 Index-Based Rate Adjustments

Except in the case of a Cost-Based Rate Adjustment (see Section 3, below) Franchisee's Maximum Service Rates shall be adjusted via the Index-Based Rate Adjustment methodology described in this section. The Index-Based Rate Adjustment methodology shall be used to adjust Maximum Service Rates effective each January 1 of 2026, 2027, 2028, and 2029 and any subsequent year during which a Cost-Based Rate Adjustment is not allowed or not requested by the District or the Franchisee.

In years during which Maximum Services Rates are to be adjusted pursuant to this Index-Based Rate Adjustment methodology, Franchisee shall submit a report to the District on or before September 1 detailing its calculations of Index-Based Rate Adjustment. District shall have the right to review Franchisee's calculations of Index-Based Rate Adjustment for mathematical accuracy and adherence to the terms and conditions of this Exhibit. District shall prepare written findings regarding adjustments to the Franchisee's calculations of Index-Based Rate Adjustment that are required for mathematical accuracy and adherence to the terms and conditions of this Exhibit on or before October 30.

Index-Based Rate Adjustments shall be prepared and calculated in accordance with the steps described below. All Index-Based percentages shall be rounded to the nearest hundredth of a percent, and all cost calculations shall be rounded to the nearest dollar.

#### A. Calculation of CPI Adjustment to Franchisee's Collection Services and Post-Collection Services

Franchisee's prior year cost projections for Collection Services and Post-Collection Services shall be adjusted in accordance with the Consumer Price Index (CPI) for Garbage and Trash Collection, U.S. City average, Bureau of Labor Statistics Series I.D. CUUR0000SEHG02.

The CPI Adjustment shall be equal to the percentage change in the average 12-month CPI value ending June of the current year and compared to the average 12-month CPI value ending June of the prior year.

For example, the CPI used to set the 2026 rates shall be calculated as follows:

$$\frac{(\text{Average CPI from July 1, 2024 to June 30, 2025}) - (\text{Average CPI from July 1, 2023 to June 30, 2024})}{\text{Average CPI from July 1, 2023 to June 30, 2024}}$$

If the percentage change is below 2%, the applicable CPI Adjustment shall be 2%, with the difference in the amount below 2% being carried forward as a credit on the rates and applied to the subsequent year. If the percentage change is above 5%, the applicable CPI Adjustment shall be 5%, with the difference in the amount above 5% being carried forward and applied to the rates in subsequent years. Franchisee's prior year cost projections for Collection Services and Post-Collection Services shall be escalated by the resultant CPI Adjustment, rounded to the nearest dollar.

Franchisee's 2025 cost projection for Collection Services is \$1,497,742 and Franchisee's 2025 cost projection for Post-Collection Services is \$841,164. For 2026, by way of example, if the percentage

## Appendix 1

### Annual Solid Waste Rate Adjustment Methodology

change in the average 12-month CPI value ending June 2026 compared to the average 12-month CPI value ending June of 2025 is 5%, then Franchisee's 2026 cost projection for Collection Services shall be \$1,572,629 and Franchisee's 2026 cost projection for Post-Collection Services shall be \$883,223. Likewise, if the percentage change in the average 12-month CPI value ending June 2026 compared to the average 12-month CPI value ending June of 2025 is 2%, then Franchisee's 2026 cost projection for Collection Services shall be \$1,527,697 and Franchisee's 2026 cost projection for Post-Collection Services shall be \$857,988.

Example Calculation for application of amounts above cap on CPI increases applied to Collection Services component of CPI Adjustment (noting that cap on CPI increases also applies to Post-Collection Services):

#### Year 1

Collection Services: \$1,497,742

12-month average CPI index increase: 6.00%

$$\$1,497,742 \times (1+5.00\%^*) = \$1,572,629$$

*\*5% cap on CPI increases. 1% difference carried over to next year*

#### Year 2

Collection Services: \$1,572,629

12-month average CPI index increase: 6.00%

$$\$1,572,629 \times (1+5.0\%^*) = \$1,651,261$$

*\*5% cap on CPI increases. 1% difference carried over to next year*

#### Year 3

Collection Services: \$1,651,261

12-month average CPI index increase: 3.00%

$$\$1,651,261 \times (1+5.0\%^*) = \$1,733,824$$

*\*3.00% + 1.00% carried forward from Year 1 + 1.00% carried forward from Year 2*

The above is also demonstrated in Table 1, on the following page.

# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

**Table 1 – Example of CPI Cap and Carryforward**

	2025	2026	2027	2028
Collection Services	\$1,497,742	\$1,572,629	\$1,651,261	\$1,733,824
12-Month Average CPI	6.00%	6.00%	3.00%	
<b>CPI Adjustment (5% Cap)</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	

### B. Calculation of Profit Allowance

The Index-Based Rate Adjustment methodology includes a component for Franchisee's fair and reasonable Profit Allowance. Profit Allowance is used for the purposes of calculating Index-Based Rate Adjustments and does not constitute a guarantee of profit to the Franchisee.

Franchisee's Profit Allowance for the purposes of Index-Based Rate Adjustments is calculated as a function of Franchisee's current year cost projection for Collection Services. For 2025, Franchisee's Profit Allowance is 9% of the cost projection for Collection Services and in 2026 and thereafter, Franchisee's Profit Allowance shall be 10% of the cost projection for Collection Services.

Franchisee's 2025 cost projection for Collection Services is \$1,497,742; therefore, Franchisee's Profit Allowance for 2025 is \$1,497,742 times 9%, rounded to the nearest dollar, equaling \$134,797. Using the first example from Section 2.A above, if Franchisee's 2026 cost projection is \$1,572,629 (corresponding to a 5% CPI Adjustment), Franchisee's 2026 Profit Allowance for the purposes of calculating Index-Based Rate Adjustment shall be \$157,263. Likewise, and using the second example from Section 2.A above, if Franchisee's 2026 cost projection is \$1,527,697 (corresponding to a 2% CPI Adjustment), Franchisee's 2026 Profit Allowance for the purposes of calculating Index-Based Rate Adjustment shall be \$152,770.

### C. Calculation of Franchise Fee

Franchisee pays the District a Franchise Fee of 10% of Franchisee's gross revenues received from Customers in the District. For the purposes of Index-Based Rate Adjustments, the Franchise Fee is calculated as 10% of Franchisee's annual Total Cost Projection, per Section 2.E below, rounded to the nearest dollar. For 2025, Franchisee's annual Total Cost Projection is \$2,748,559, yielding Franchise Fee component of \$274,856. Actual Franchise Fee payments made by Franchisee to District shall be calculated as a function of Franchisee's gross revenues received from Customers in the District and may differ from the amount used in calculating adjustments to the Maximum Service Rates.

### D. Calculation of Annual Revenue Reconciliation

Starting with the 2027 Index-Based Rate Adjustment, the difference between the Franchisee's annual Total Cost Projection and the Franchisee's actual annual total billings to Customers in the District shall be included in the annual Index-Based Rate Adjustment as an Annual Revenue Reconciliation.

For example, for the 2027 Index-Based Rate Adjustment, the difference between Franchisee's 2025 Total Cost Projection and Franchisee's total 2025 billings to Customers in the District shall be included in the 2027 annual Total Cost Projection. By way of example, if Franchisee's 2025 total billings to Customers in the District is a shortfall of 1% (-\$27,486) then \$27,486 will be added to Franchisee's Total Cost Projection for 2027. Conversely, if Franchisee's 2025 total billings to Customers in the District is a surplus of 1% (+\$27,486) then \$27,486 will be subtracted from Franchisee's Total Cost Projection for 2027.

Table 2, on the following page, provides an example of the case in which there is a 1% shortfall of

## Appendix 1

### Annual Solid Waste Rate Adjustment Methodology

billed revenues in 2025, which is added to the Total Cost Projection in 2027. The table shows a continuation of 1% shortfalls being added in 2028 and 2029 for example purposes only, and assumes the CPI adjustment to Collection Services, and Post-Collection Services at the 5% cap. Table 2a below, provides an example of the case in which there is a 1% surplus of billed revenues in 2025, which is added to the Total Cost Projection in 2027. The table shows a continuation of 1% surpluses being added in 2028 and 2029 for example purposes only, and assumes the CPI adjustment to Collection Services and Post-Collection Services at the 5% cap.

**Table 2 – Example Revenue Reconciliation of -1% Annually**

	2025	2026	2027	2028	2029
Collection Services	\$1,497,742	\$1,572,629	\$1,651,261	\$1,733,824	\$1,820,515
Profit Allowance	\$134,797	\$157,263	\$165,126	\$173,382	\$182,051
Post-Collection Services	\$841,164	\$883,223	\$927,384	\$973,753	\$1,022,441
Franchise Fee	\$274,856	\$290,346	\$307,917	\$323,333	\$339,533
Revenue Reconciliation Example	N/A	N/A	\$27,486	\$29,035	\$30,792
<b>Total Cost Projection</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>		5.64%	6.05%	5.01%	5.01%

**Table 2a – Example Revenue Reconciliation of +1% Annually**

	2025	2026	2027	2028	2029
Collection Services	\$1,497,742	\$1,572,629	\$1,651,261	\$1,733,824	\$1,820,515
Profit Allowance	\$134,797	\$157,263	\$165,126	\$173,382	\$182,051
Post-Collection Services	\$841,164	\$883,223	\$927,384	\$973,753	\$1,022,441
Franchise Fee	\$274,856	\$290,346	\$301,809	\$316,880	\$332,758
Revenue Reconciliation Example	N/A	N/A	\$(27,486)	\$(29,035)	\$(30,181)
<b>Total Cost Projection</b>	<b>\$2,748,559</b>	<b>\$2,903,461</b>	<b>\$3,018,094</b>	<b>\$3,168,805</b>	<b>\$3,327,584</b>
<b>Indexed Rate Adjustment</b>		5.64%	3.95%	4.99%	5.01%

Significant, unexpected increases or decreases in revenue may be included or excluded from the Annual Revenue Reconciliation if deemed reasonable by the parties. As a one-time exercise, the Franchisee may request to review the entirety of its revenue earnings with the District as a check-in to evaluate alignment with its revenue forecast and conditions outlined in this exhibit. By no later than September 30, 2025, the Franchisee shall provide the District with documentation of actual to-date receipts or billings, accompanied by an analysis of all corresponding service trends. Upon receipt of these materials, the District and the Franchisee shall engage in a good-faith meet-and-

## Appendix 1

### Annual Solid Waste Rate Adjustment Methodology

confer process to discuss and determine an appropriate resolution, which may include a rate adjustment in January 2026 if necessary.

#### E. Calculation of Total Cost Projection

Franchisee's annual Total Cost Projection shall be the sum of the resultant values from Section 2.A through 2.D above. For 2025, the Total Cost Projection is \$2,748,559. Table 3 below demonstrates the 2026 Total Cost Projection if the percentage change in the average 12-month CPI value ending June 2026 compared to the average 12-month CPI value ending June of 2025 is 5%. Table 4, on the following page, demonstrates the 2026 Total Cost Projection in the percentage change in the average 12-month CPI value ending June 2026 compared to the average 12-month CPI value ending June of 2025 is 2%.

**Table 3 – 2026 Total Cost Projection at 5% CPI Value for 2026**

	2025	2026
<b>Collection Services</b>	\$1,497,742	\$1,572,629
<b>Profit Allowance</b>	\$134,797	\$157,263
<b>Post-Collection Services</b>	\$841,164	\$883,223
<b>Franchise Fee</b>	\$274,856	\$290,346
<b>Total Cost Projection</b>	<b>\$2,748,559</b>	<b>\$2,903,461</b>

**Table 4 – 2026 Total Cost Projection at 2% CPI Value for 2026**

	2025	2026
<b>Collection Services</b>	\$1,497,742	\$1,527,697
<b>Profit Allowance</b>	\$134,797	\$152,770
<b>Post-Collection Services</b>	\$841,164	\$857,988
<b>Franchise Fee</b>	\$274,856	\$282,050
<b>Total Cost Projection</b>	<b>\$2,748,559</b>	<b>\$2,820,505</b>

#### F. Calculation of Annual Index-Based Rate Adjustments

The Index-Based Rate Adjustment shall be the calculated as function of the Franchisee's forthcoming annual Total Cost Projection divided by the then current year Total Cost Projection, minus 100%, rounded to the nearest hundredth of a percent.

For example, taking the results shown in Table 3, the Index-Based Rate Adjustment for 2026 would be \$2,903,461, divided by \$2,748,559, minus 100%, yielding a 5.64% adjustment to the Maximum



# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

Service Rates effective January 1, 2026. Using the results of Table 4, above as an example, the Index-Based Rate Adjustment for 2026 would be \$2,820,505, divided by \$2,748,559, minus 100%, yielding a 2.62% adjustment to the Maximum Service Rates effective January 1, 2026.

This Index-Based Rate Adjustment calculation described herein shall repeat in 2027, 2028, and 2029, with the addition of the Annual Revenue Reconciliation amounts calculated pursuant to Section 2.D of this Exhibit. Rate adjustments shall be effective on January 1<sup>st</sup> of each year (unless otherwise agreed to in writing by the parties) and any delay in rate change approval not caused by Franchisee will result in additional adjustments so that all required revenues are billed within the rate year. Any delay in rate change approval that is caused by Franchisee shall not result in additional adjustments corresponding with the delay in approval.

### **Section 3 Cost-Based Rate Adjustments**

Franchisee or District shall have the right to request a Cost-Based Rate Adjustment effective January 1, 2030. Franchisee's request for Cost-Based Rate Adjustment in 2030 shall be requested in writing on or before January 15, 2029 and District's request for Cost-Based Rate Adjustment in 2030 shall be requested in writing on or before January 31, 2029. To the extent possible any District request for Cost-Based Rate Adjustment shall be coordinated with the other agencies in San Luis Obispo County that follow the rate adjustment methodology described in this Exhibit, with all such agencies opting to request Cost-Based Rate Adjustment effective in the same rate year

Upon request by either party for Cost-Based Rate Adjustment, Franchisee shall prepare and submit financial records and calculations to the District in accordance with this Section by April 30, 2029. District shall have the right to review Franchisee's financial records related to the Cost-Based Rate Adjustment and calculations of Cost-Based Rate Adjustment for mathematical accuracy and adherence to the terms and conditions of this Section. District shall prepare written findings regarding adjustments to the Franchisee's calculations of Cost-Based Rate Adjustment that are required for mathematical accuracy and adherence to the terms and conditions of this Exhibit on or before June 30, 2029. District shall make every effort to seek Board of Directors authorization of Cost-Based Rate Adjustment prior to August 30, 2029. If neither party requests a Cost-Based Rate Adjustment in writing as specified above, then an Index-Based Rate Adjustment shall be applied for adjustments to Maximum Service Rates effective January 1, 2030 and subject to the terms and conditions of Section 2 of this Exhibit.

Franchisee or District shall have the right to request subsequent Cost-Based Rate Adjustments no more frequently than every five (5) years following the prior Cost-Based Rate Adjustment. For example, if a Cost-Based Rate Adjustment is requested as stipulated in above in January, 2029 (and effective January 1, 2030) then the next Cost-Based Rate Adjustment may not be requested by either party until January, 2034 (for effectiveness in 2035). The schedule from the following paragraph would also apply: Franchisee would prepare and submit financial records and calculations by April 30, 2034, District would prepare written findings regarding adjustments to Franchisee's calculations of Cost-Based Rate Adjustment that are required for mathematical accuracy and adherence to the terms and conditions of this Exhibit by June 30, 2034, and District would make every effort to seek Board of Directors authorization of Cost-Based Rate Adjustment prior to August 30, 2034.

Notwithstanding the above, nothing shall prevent the parties from mutually agreeing to conduct Cost-Based Rate Adjustments in other years (i.e., years other than 2030 and 2035), provided that both parties agree in writing to waive the five (5) year limitation on Cost-Based Rate Adjustments expressed herein. If neither party requests Cost-Based Rate Adjustments in subsequent years pursuant to the five (5) year schedule described above, then Index-Based Rate Adjustments shall be applied for adjustments to Maximum Service Rates in such years, subject to the terms and conditions of Section 2 of this Exhibit.

Franchisee shall provide all financial information and supporting documentation required by this review in a format acceptable to District (or District's designated consultant) in a timely manner. Franchisee shall not require District (or District's designated consultant) to review any such documents at Franchisee's worksite but shall instead allow for all required information and supporting documentation to be provided

# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

to District (or its designated consultant) via physical mail, e-mail, or any other delivery method approved by District.

Cost-Based Rate Adjustments shall be prepared and calculated in accordance with the steps described below.

### A. **Projection of Collection Services and Post-Collection Service Costs**

Franchisee shall prepare financial records and calculations of Cost-Based Rate Adjustment using audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Franchisee's immediately preceding three (3) fiscal years. Such financial records and calculations shall include Franchisee's projected costs for Collection Services and Post-Collection Services as well as Franchisee's projected gross revenues at then-current Maximum Service Rates for the forthcoming year (e.g., 2030 at the earliest).

Franchisee shall promptly assemble, provide, and submit such information that is reasonably necessary to support the assumptions made by the Franchisee with regard to the assumptions underlying the forecast. Upon submission of such information, the District holds the ability to make appropriate changes for non-allowable costs, large unsupported variances in cost projections including but limited to corporate transactions and allocations, large variances in inter-company and related party transactions and allocations, unjustifiable variances in any cost category, non-conformance with agreed upon depreciation terms, non-conformance agreed upon profit allowances, and other customary and reasonable adjustments as detailed in the Agreement. Cost projections for Collection Services and Post-Collection Services prepared by Franchisee must be justifiable, supportable with financial information, and provide accountability for all expenditures. In preparing such cost projections, Franchisee shall assemble and submit its forecasts of:

- a. Revenues at current Maximum Service Rates for the then-current year, including delineation of revenues by sector (single-family residential vs. commercial and multi-family) and with details of the number of subscribers by type within each sector.
- b. Projected costs of Collection Services for the then-current year and the forthcoming year, with comparison to and explanation of any variances to actual costs for Collection Services in the prior three (3) fiscal years. Costs for Collection Services include labor, corporate overhead, depreciation (with rolling stock at 10-year depreciation lifespan), and general and administrative costs and shall be delineated as per the primary cost categories included in Franchisee's Audited Financial Statements. Franchisee must provide documentation of, and explanation for, material variances in any cost category. Projected costs for the forthcoming year shall be based on Franchisee's actual costs per Audited Financial Statements and escalated by the CPI Adjustment described in Section 2.A of this Exhibit, with the exception that Franchisee may adjust projections to account for other documentable changes in costs. Corporate overhead costs shall be limited to be less than 4% of Franchisee's Total Cost Projection for the forthcoming year and Franchisee must provide documentation and justification for any amounts of Corporate Overhead above 3% of Franchisee's Total Cost Projection for the forthcoming year. District retains the right to make appropriate adjustments to cost projections to cost categories for which Franchisee does not or cannot provide adequate documentation and explanation of material variances compared to prior years.
- c. Projected costs of Post-Collection Services for the then-current year and the forthcoming year, with comparison to and explanation of any variances to actual costs for Collection Services in the prior three (3) fiscal years. Costs for Post-Collection Services include landfill disposal, organics processing, recyclables processing and marketing, related-party transportation, and related-party rent and shall be delineated as per the primary cost categories included in Franchisee's Audited Financial

## Appendix 1

### Annual Solid Waste Rate Adjustment Methodology

Statements. Franchisee must provide documentation of, and explanation for, material variances in any cost category. Projected costs for the forthcoming year shall be based on Franchisee's actual costs per Audited Financial Statements and escalated by the CPI Adjustment described in Section 2.A of this Exhibit, with the exception that Franchisee may adjust projections to account for other documentable changes in costs. District retains the right to make appropriate adjustments to cost projections to cost categories for which Franchisee does not or cannot provide adequate documentation and explanation of material variances compared to prior years.

- d. Franchisee shall not include any non-allowable costs in its cost projections for Collection Services or Post-Collection Services. Non-allowable costs include but are not limited to:
  - i. Entertainment and non-work related travel expenses, unless authorized in advance by District.
  - ii. Advertising for services not within the scope of this Agreement or outside of the service area of Nipomo Community Services District.
  - iii. Fines or penalties of any nature.
  - iv. Liquidated damages assessed under this Agreement.
  - v. Federal or State income taxes.
  - vi. Profit sharing payments not related to an IRS approved pension program.
  - vii. Charitable or political donations.
  - viii. Attorneys' fees and other expenses incurred by Franchisee in any court proceeding in which District and Franchisee are adverse parties, unless Franchisee is the prevailing party in said proceedings.
  - ix. Attorneys' fees and other expenses incurred by Franchisee in any court proceeding in which Franchisee's own negligence, violation of law or regulation, or other wrongdoing, is in issue and occasions part of the attorneys' fees and expenses claimed, provided, however, such attorneys' fees will be allowed to the extent Franchisee can demonstrate they were reasonable and necessary and a cost of doing business, and were not the result of any intentional or willful misconduct by Franchisee or its employees; and attorneys' fees and expenses incurred by Franchisee in a court proceeding in which the legal theory or statute providing a basis of liability against Franchisee also provides for separate strict liability for District arising from the action of its citizens or ratepayers (such as in a CERCLA lawsuit).
  - x. Payments to related party entities for products or services (other than lease expense, calculated as provided below), in excess of the fair market value for those products or services. For purposes of this Agreement, related party expenses are those resulting from transactions between Franchisee and another company (companies) that has (have) common ownership or management control.
- e. Franchisee's audited financial statements, and any other documentation as deemed necessary by the District, will be reviewed to determine Franchisee's cost projections for each of the foregoing categories during the year involved. District will use the financial statements to determine that costs have actually been incurred and have been assigned to the appropriate category.
- f. District may adjust the actual costs in two ways: (1) to exclude any non-allowable costs, set out above, and (2) to exclude and/or reduce any costs that were actually

# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

incurred but which are not reasonable and necessary in keeping with industry standard best practices.

### **B. Calculation of Profit Allowance**

Franchisee's Profit Allowance shall be 10% of the cost projection for Collection Services, rounded to the nearest dollar.

### **C. Calculation of Franchise Fee**

Calculation of Franchise Fee shall be calculated in accordance with Section 2.C, above, for the applicable year as appropriate.

### **D. Calculation of Annual Revenue Reconciliation**

Calculation of Annual Revenue Reconciliation shall be calculated in accordance with Section 2.D, above, for the applicable year as appropriate.

### **E. Calculation of Total Cost Projection**

Calculation of Total Cost Projection shall be calculated in accordance with Section 2.E, above, for the applicable year as appropriate.

### **F. Calculation of Cost-Based Rate Adjustment**

The Cost-Based Rate Adjustment shall be the calculated as function of the Franchisee's forthcoming annual Total Cost Projection divided by the then current year Total Cost Projection, minus 100%, rounded to the nearest hundredth of a percent. This is the same calculation described in Section 2.F, above. The resultant percentage shall be applied to the then-current Maximum Service Rates and be effective January 1 of the forthcoming year.

Rate adjustments shall be effective on January 1st of each year (unless otherwise agreed to in writing by the parties) and any delay in rate change approval not caused by Franchisee will result in additional adjustments so that all required revenues are billed within the rate year. Any delay in rate change approval that is caused by Franchisee shall not result in additional adjustments corresponding with the delay in approval.

## **Section 4 Annual Audited Financial Statements**

Franchisee shall annually prepare Audited Financial Statements in accordance with Generally Accepted Accounting Principles (GAAP) for its operations in the San Luis Obispo County region. Franchisee shall provide District with copies of the annual Audited Financial Statements upon request and with any Cost-Based Rate Adjustment submittal.

## **Section 5 Extraordinary Adjustments**

Except as provided herein, Franchisee may not request adjustments to Maximum Service Rates in years during which Index-Based Rate Adjustments are scheduled to be applied and must follow the timeline described in Section 3. Notwithstanding the above, Franchisee may request extraordinary adjustments to Maximum Service Rates due to changes in law affecting collection operations, including for compliance with the California Air Resource Board's (CARB's) Advanced Clean Fleet (ACF) electrification mandate. The District may, but is not obligated to, consider requests for extraordinary adjustment to Maximum Service Rates due to changes in law affecting Post-Collection Services. Requests for extraordinary changes in Maximum Service Rates are subject to good faith negotiations between District and Franchisee.

In the event of any Change in Scope or Change in Law (each as described below) that results in a material increase or decrease in Franchisee's costs or revenues, in the event of an Extraordinary Cost Increase (as defined below), or in the event of any Change in Fees (as described below), an appropriate adjustment will be made to the Maximum Service Rates in order to compensate, to the maximum extent

# Appendix 1

## Annual Solid Waste Rate Adjustment Methodology

possible, for such increase or decrease in costs, revenues or Fees, commencing from the Effective Date(s) such increase or decrease first occurs. Any adjustment to Maximum Service Rates due to a Change in Scope, a Change in Law or an Extraordinary Cost Increase shall be in the reasonable discretion of the District.

- A. "Change in Scope" shall mean any change in the services provided by the Franchisee under the Agreement whether proposed by the Franchisee or by the District.
- B. "Change in Law" shall mean the enactment, adoption, promulgation, issuance, modification or written change in any law, regulation, order or judgment of any governmental body that affects the Franchisee's performance of services under the Agreement including, without limitation, the issuance of final regulations under existing laws.
- C. "Change in Fees" shall mean any change in franchise fees, vehicle impact fees and other fees charged to the Franchisee by the District connection with the services provided by the Franchisee under the Agreement the cancellation of any existing fees, and the adoption of any new fees.
- D. "Extraordinary Cost Increase" shall mean a substantial increase in the Franchisee's operating or capital costs or expenses that is outside of the Franchisee's control but not due to a Change in Scope or Change in Law.
- E. "Effective Date" shall mean the date in which the Franchisee notifies the District of the reasons for the cost estimate associated with a Change in Law, Change in Fees, and/or Extraordinary Cost Increase or when the Franchisee begins incurring costs for the Change in Law, Change in Fees, or Extraordinary Cost Increase, whichever is later.

In the case of a Change in Scope, a Change in Law or an Extraordinary Cost Increase, the Franchisee shall provide the District with projected operational, cost and revenue data reflecting the entire financial effect of such Change. The District reserves the right to require that the Franchisee supply any additional operational, cost and revenue data, or any other information it may reasonably need, to ascertain the appropriate financial impact of the Change and any necessary adjustment to Maximum Service resulting from such Change.

Extraordinary adjustments to Maximum Service Rates for a qualifying Change in Scope or Change in Law, for a Change in Fees, or for an Extraordinary Cost Increase shall take effect as of the beginning of the next year and will include all impacts of the extraordinary adjustment from the Effective Date of the impact; provided, however, that, in the case of any Change in Fees charged by the District, the Extraordinary adjustment shall take effect as of the Effective Date of such Change in Fees. The underlying service, cost, revenue or Fee changes supporting any rate adjustment under this Section 5 will be added to the appropriate category under Sections 2 and 3 above for purposes of future cost projections.