

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 19, 2023
FROM: PUBLIC WORKS DEPARTMENT WARDS: ALL
SUBJECT: PUBLIC HEARING – PROPOSED RESIDENTIAL SOLID WASTE RATE INCREASE FROM NOVEMBER 1, 2023 THROUGH JUNE 30, 2028

ISSUES:

Conduct a public hearing pursuant to Proposition 218 to consider oral comments and written protests to the proposed solid waste rate increase and consider adoption of a resolution authorizing residential collection and processing rates from November 1, 2023 through June 30, 2028.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing to consider all oral comments and written protests to the proposed rate increase for residential and commercial refuse rates through June 30, 2028; and,
2. If a majority protest does not exist, adopt a Resolution approving the residential rate structure from November 1, 2023, through June 30, 2028.

LEGISLATIVE HISTORY:

State Regulation

In 2016, the State of California passed Senate Bill (SB) 1383, California’s Short-Lived Climate Pollutant Reduction Strategy, which aims to reduce methane and other greenhouse gas (GHG) emissions statewide. To meet this goal, the bill establishes two targets by 2025:

- Reduce organic waste disposal 75% by 2025
- Rescue for people to eat at least 20% of currently disposed surplus food by 2025

SB 1383 is overseen by CalRecycle, however, the implementation is managed by individual jurisdictions. Jurisdictions not in compliance with SB 1383 may be subject to daily fines ranging from \$500 to \$1,000.

On January 1, 2022 SB 1383 requirements went into effect, and jurisdictions became responsible to provide organic waste collection services to all residents and businesses, along with the requirement to recycle organic materials using recycling facilities such as anaerobic digestion facilities that create

biofuel and electricity, and composting facilities that make soil amendments. As California collects and recycles organic materials, local governments will be required to use the recycled material and convert them into different products, such as renewable energy, compost, or mulch. The bill has generated a need for a substantial infrastructure investment in order to process organics into certain specifications and to reduce contamination. There is an additional need to establish markets for compost and renewable fuels. Currently, there is no funding source associated with the regulation.

Foreign Policy

“National Sword” (China Waste Ban) explained: China has historically been the largest buyer of U.S. recycling (newspapers, cardboard, plastic bottles and aluminum cans). However, Chinese authorities announced a country-wide ban on some grades of paper and plastic at the end of 2017 in response to high levels of “contamination.” The ban formally went into effect on January 1, 2018, which reduced acceptable recycling levels of recovered paper and plastic from 3% to no greater than 0.5% contamination. Contamination occurs when non-recyclable items are mixed in with the good recycling.

China’s ban resulted in impacts to waste sorting operations, including a need to add personnel to sort lines, increase inspections to reduce contamination, implement new education materials, and explore other domestic and international markets. The National Sword policy caused a significant shift in recycling markets and severely impacted commodity sales such that revenues no longer offset the costs of processing, transportation, and residual disposal (contaminated recycling or non-recyclable material, i.e., trash).

BACKGROUND:

The City of Riverside Public Works Department is responsible for providing high-quality and comprehensive solid waste (trash and recycling) management services to our residents and businesses with the goal of preserving the health, welfare, and sustainability of our community and to meet State regulatory requirements. Riverside offers a variety of recycling programs and services to meet customer needs and State mandates. However, like many other cities throughout California and the U.S., the City of Riverside solid waste system is facing a variety of challenges.

Solid waste collection and street sweeping services for the City’s 63,484 residential accounts and 7,408 commercial accounts are currently provided through a combination of City staff and contracted haulers. City staff provide residential waste collection services for approximately two-thirds of the City’s residential customers (42,323 customers) and street sweeping on more than 800 miles of streets twice monthly to ensure compliance with State regulations. The remaining one-third of residential customers (21,161 customers) are serviced by a hauler through an Exclusive Franchise that was approved by City Council on June 6, 2023. The City has a Transfer Service Agreement with Agua Mansa Transfer Station/Material Recovery Facility (MRF) to handle all collected trash, recyclable material, and organic recyclable material which includes source-separated food waste. This Transfer Service Agreement requires all haulers to transfer these commodities to the MRF through March 30, 2029.

Rate History from 2008 to 2018

Following the Great Recession, solid waste services rate increases were at or below 2% for 10 years as shown in the following table.

Table 1 – 2008-2018 Solid Waste Services Rates

Year	Rate Increase
2008/09	0.00%
2009/10	0.10%
2010/11	1.00%
2011/12	1.00%
2012/13	1.00%
2013/14	1.90%
2014/15	1.10%
2015/16	0.70%
2016/17	2.00%
2017/18	2.00%

Rate History from 2019 - 2023

On December 18, 2018, the City Council approved an extraordinary increase request for waste processing, and an 18-month solid waste rate plan through June 30, 2020.

Table 2 – Solid Waste Rates for 2018/19 – 2022/23

Year	Rate Increase
2018/19	9.80%
2019/20	3.20%
2020/21	7.7%
2021/22	6.7%
2022/23	4.7%

On January 14, 2020, the R3 Consulting Group, Inc provided the City Council a comprehensive report on the solid waste and recycling program strategy, and an economic study. This addressed the City's own residential solid waste operation, a review of the commercial contracts, compliance with state-mandated programs, and a preliminary rate analysis to support operations of the required programs.

On September 15, 2020, the City Council approved a five-year rate increase structure for residential and commercial solid waste services for January 1, 2021 to June 30, 2025. These increases did not incorporate the scale and impacts of SB 1383 as the information was not known at the time.

On June 27, 2023, the City Council set tonight's public hearing for the establishment of a five-year plan for residential solid waste services.

Proposition 218 Procedural Compliance

Proposition 218 provides that prior to adoption of increases to solid waste rates, the City must provide written notice to all affected ratepayers informing them about the proposed rate increase for residential and commercial solid waste services, and to set a public hearing for consideration no less than 45 days after mailing. The City must record receipt of all written protests against the proposed refuse rate service increases. Notices were mailed on July 24, 2023. The City also scheduled the notice to be published in the Press Enterprise on August 31, 2023 and September 7, 2023. If the City receives written protests from a majority of the affected ratepayers, the City cannot implement the proposed rate increases.

The City has provided the appropriate notice and the written protests will be tabulated at the close of the public hearing. If approved, the new rates will become effective November 1, 2023.

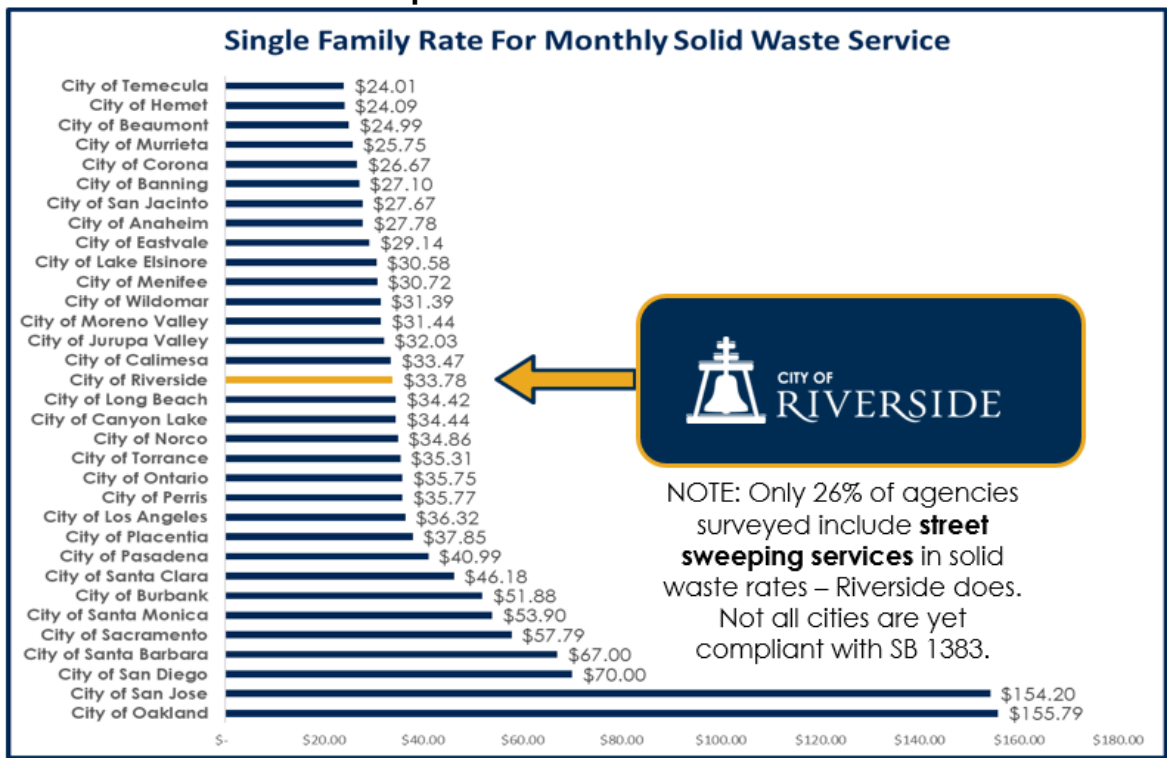
DISCUSSION:

The current five-year solid waste rate plan, effective through June 30, 2025, is being outpaced by the acceleration of inflation in the general economy. Like many other jurisdictions throughout California and the U.S., the City of Riverside’s solid waste services face challenges such as:

- Inflation causing increased construction/equipment costs
- Continued impacts of China’s National Sword policy
- 12% increase of waste throughout the COVID-19 pandemic
- Increased costs associated with the implementation of SB 1383 and the diversion of over 97 million pounds of green waste from landfills (up 8% from 2021)
- Newly implemented mandates and adhering to impactful regulatory compliance.

The chart below illustrates how Riverside’s solid wastes rates compare to other California cities. Only 26% of the agencies surveyed provide street sweeping as part of solid waste services like Riverside does. Not all of the surveyed cities are currently in compliance with Senate Bill 1383.

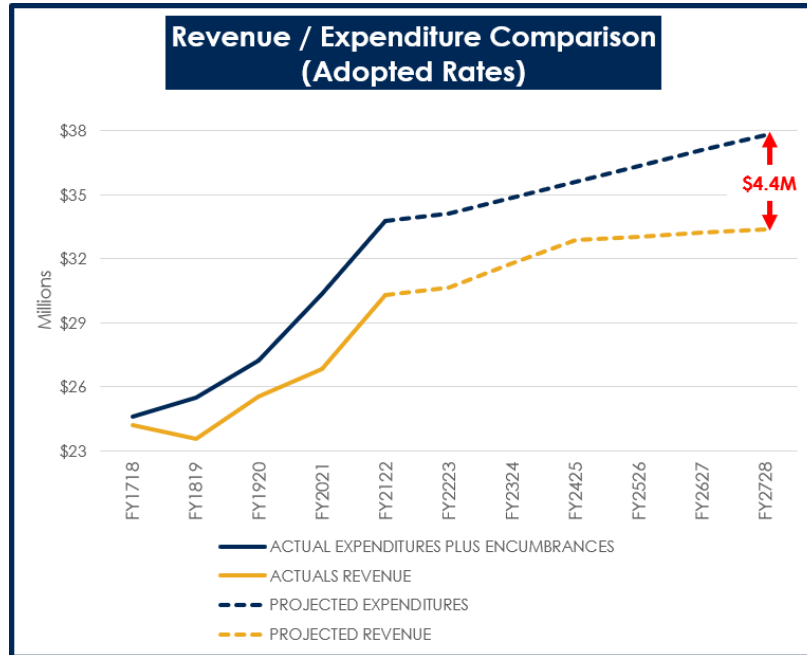
Chart 1 – Comparison of Residential Solid Waste Service Rates



In an effort to keep rates low, an average of \$2 million from the Refuse Fund Reserves has been used each year to fund operations, and an additional subsidy of \$11 million has come from the General Fund for solid waste and street sweeping vehicles and equipment. Awarded grant funds in the amount of \$1.3 million have been used to decrease the impacts of increasing costs.

Without rate increases, Refuse Fund Reserves are projected to be exhausted by FY 2026/27, the gap between revenues and expenditures will continue to widen, and are projected to reach \$4.4 million per year by FY 2027/28 as illustrated in the following chart.

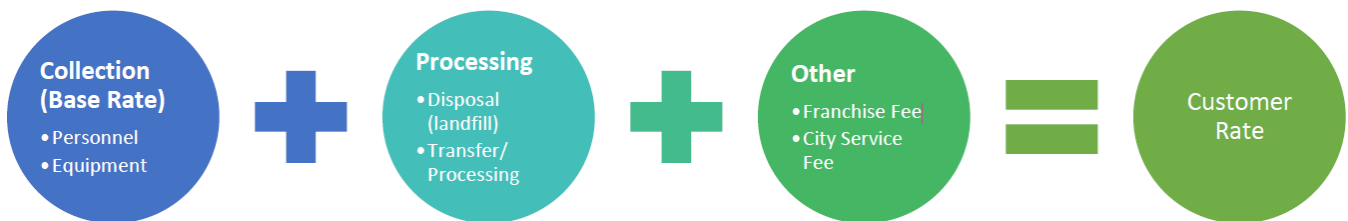
Chart 2 – Projected Solid Waste Revenues and Expenditures



Rate Structure

Solid waste rates are made up of collection and processing. These two functions operate independently under separate contracts, but together contain the elements of the customer rate. This includes a *base rate*, *processing fee*, *disposal fee*, *franchise fee*, and *city service fee*.

Historically, each contract provides a provision to adjust compensation and rates by the Consumer Price Index (CPI). CPI is regulated by the Bureau of Labor Statistics (BLS), U.S. Department of Labor, and is a commonly accepted economic indicator of inflationary price changes using a market basket of goods and services for a prescribed geographic area.



To calculate a proposed residential solid waste rate increase, Public Works staff recommended the solid waste rate increase by incorporating the analysis conducted by R3 Consulting Group, Inc., in 2020 by benchmarking against other jurisdictions.

Collection (Base Rate): Collection is the physical process of picking up the trash. In Riverside, this is provided through a combination of City staff and contracted haulers. The base rate accounts for fleet replacement strategies.

Processing (Landfill and Transfer Processing Fees): The disposal (landfill) fee is set each year by the County of Riverside and is a pass-through cost under the terms of the City's agreement with the County. Increases have historically adjusted annually at approximately 3%, though additional increases have been dependent on final County of Riverside numbers released each May. Processing includes costs associated with mixed organic processing.

Other (Franchise Fee and City Service Fee): Franchise fees are established by the City in commercial and hauling agreements. Revenue generated by the franchise fee is deposited into the City General Fund. Franchise fee revenue is currently estimated at \$3.2 million for both commercial and residential haulers and is intended to compensate the City for the use by a private entity (waste haulers) of certain City property, such as streets, in providing a utility service. City service fees include landfill closure maintenance (post Tequesquite Landfill closure remediation activity), regulatory requirements, street sweeping, and administrative costs. Increased operational costs for hiring extra staff to assist with outreach and education initiatives, purchasing software required to complete reporting requirements, and hiring a third party to inspect all food generators in the City of Riverside to remain in compliance with State regulations are considered in this category.

Customer Rates: Rates are based on the components outlined above and set on a per ton basis, which is then converted into customer service rates using estimated volumes per commodity (i.e. trash, recycling or greenwaste) and customer counts.

Residential Solid Waste Rate Proposal

The Public Works Department is proposing a five-year solid waste rate plan to achieve fiscal sustainability for the Refuse Fund and end General Fund subsidies, as shown in the following table.

Table 4 – Proposed Five-Year Residential Solid Waste Services Rate Plan

Proposed Solid Waste Rates		
Years 2023-2027 Proposed for consideration		
Date	Rate Increase	Dollar Increase
Nov-23	2.92%	\$0.94 / Month
Jul-24	7.50%	\$2.60 / Month
Jul-25	6.50%	\$2.43 / Month
Jul-26	6.50%	\$2.58 / Month
Jul-27	6.50%	\$2.75 / Month

The following table provides the current solid waste rate and the monthly additional cost to residents if the rate proposal is approved.

Table 5 - Estimated Monthly Residential Rates

Current	*Future Proposed Increases & Effective Dates				
	1-Nov-23	1-Jul-24	1-Jul-25	1-Jul-26	1-Jul-27
\$33.78	\$34.72	\$37.32	\$39.75	\$42.33	\$45.08
Incremental Monthly Rate Increase	\$2.42	\$2.60	\$2.43	\$2.58	\$2.75

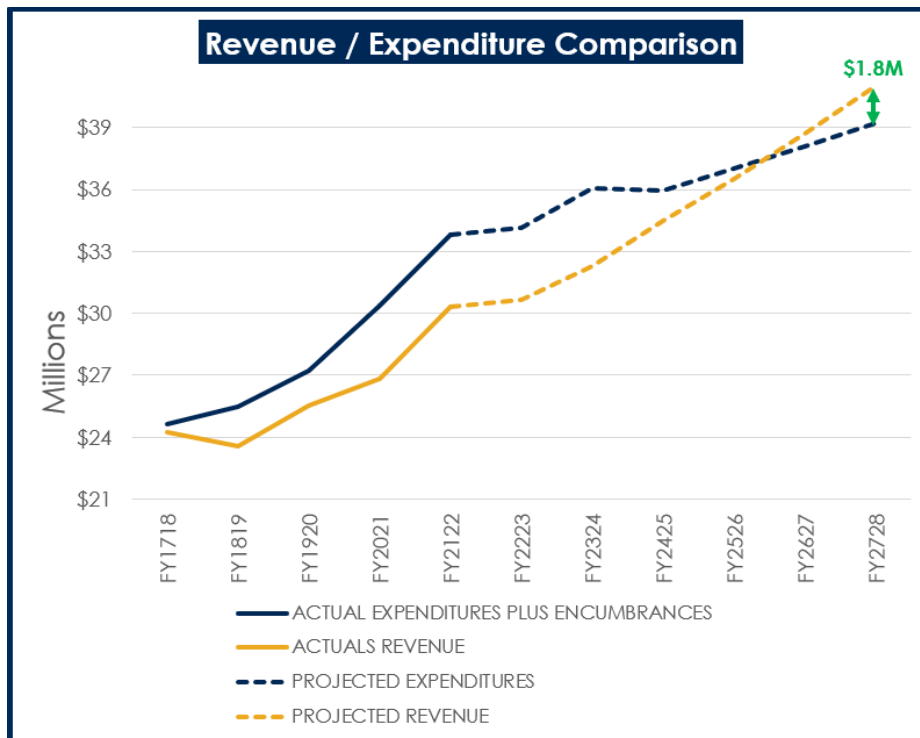
The following table provides a breakdown by service of the upper limit of the rates.

Table 6 – Estimated Monthly Residential Rates

Service	Current	Future Proposed Increases & Effective Dates				
		11/1/23	7/1/24	7/1/25	7/1/26	7/1/27
Standard Curbside/Disabled	\$33.78	\$34.72	\$37.32	\$39.75	\$42.33	\$45.08
Mobile Home/Apt	\$19.27	\$19.81	\$21.30	\$22.68	\$24.15	\$25.72
Driveway	\$46.32	\$47.61	\$51.18	\$54.51	\$58.05	\$61.82
Backyard	\$55.57	\$57.13	\$61.41	\$65.40	\$69.65	\$74.18
Condo/Townhouse	\$20.85	\$21.42	\$23.03	\$24.53	\$26.12	\$27.82
Extra Container (Brown – Trash)	\$14.38	\$14.78	\$15.89	\$16.92	\$18.02	\$19.19
Extra Container (Green-Yard waste)	\$6.59	\$6.77	\$7.28	\$7.75	\$8.25	\$8.79
Extra Container (Blue – Recycling)	\$2.62	\$2.69	\$2.89	\$3.08	\$3.28	\$3.49

The following chart depicts revenue and expenditure projections and shows that in FY26/27, revenues are expected to meet expenditures, and then begin to rebuild a reserve balance.

Chart 3 – New Project Revenues and Expenditures



The proposed five-year rate plan will address challenges to solid waste services provided by the City such as of the rising cost of processing recycling and organics and meeting operational cost increases not covered by CPI (e.g. higher costs of refuse bins, vehicles, maintenance, and repairs). Additionally, Public Works will use the funds to hire five relief drivers to provide staffing

coverage and minimize overtime, address technology deficiencies, obtain software needed to comply with State requirements, hire two Environmental Compliance Inspectors to assist with new mandated compliance, and prepare for the on-going maintenance and repair of the Tequesquite Landfill Flare Station. Public Works recently purchased 19 new solid waste vehicles and the new rate schedule would allow the replacement of at least one additional vehicle each year going forward.

Community Engagement

In June, City staff began a robust community engagement effort by attending and hosting community group meetings, including evenings, at community and senior centers for residents, and engaging with the Chamber of Commerce. A detailed presentation on each rate proposal was presented, and staff facilitated conversation with attendees.

A website was developed for information on rate proposals, community meetings, this public hearing, and FAQs.

The link to the rates website is <https://www.riversideca.gov/proposed-rates>.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 4 – Environmental Stewardship** and **Goal 4.4 – Implement measures and educate the community to responsibly manage goods, products, and services throughout their life cycle to achieve waste reduction outcomes**, and **Strategic Priority 5 – High Performing Government** and **Goal 5.4 – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.**

This project aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The proposed rates will allow the City to significantly improve solid waste service for residents.
2. **Equity** – The Riverside Public Works-Solid Waste Division provides additional services to elderly and disabled residents requiring assistance at no additional charge.
3. **Fiscal Responsibility** – Adopting new rates will minimize revenue losses to the Refuse fund and allow for critical investment in service and fleet maintenance.
4. **Innovation** – Adopting the new rates will facilitate innovative technologies to improve driver safety and vehicle management and provide more efficient services to the community.
5. **Sustainability & Resiliency** – The new rates will allow the City to continue to meet compliance requirements for state-mandated programs with sustainability objectives, such as SB 1383.

FISCAL IMPACT:

In FY 2022/23, beginning working capital was approximately \$7.35 million, the Refuse Fund operated at an estimated deficit of \$3.47 million and the fiscal year is projected to close out with a remaining working capital of approximately \$3.88 million. Due to anticipated cost increases related to the above-mentioned issues, the Refuse Fund is trending toward a \$4.4 million shortfall

between projected expenditures and projected revenues by FY 2027/28. Without a rate increase, fund reserves are projected to be depleted by FY 2026/27. The proposed rate plan will utilize an estimated \$3.0 million of reserves over five-year period.

PROPOSED RATE PROJECTION			
FY	Revenue	Expenditures (Incl. Encumbrances)	*Revenue/ Expenditures
2023/24	\$32,321,195	\$36,038,343	90%
2024/25	\$34,522,696	\$35,965,294	96%
2025/26	\$36,587,927	\$37,007,088	99%
2026/27	\$38,779,532	\$38,080,136	102%
2027/28	\$41,105,375	\$39,185,376	105%

**Less than 100% equates to operating in deficit*

Prepared by: Gilbert Hernandez, Public Works Director
 Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
 Approved by: Kris Martinez, Assistant City Manager
 Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Resolution
2. MRF Facility Adjustment Rates for Processing Fee FY23/24
3. Public Hearing Notice
4. Presentation