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March 9, 2023

Mr. Diko Melkonian
Manager/Deputy Director
Environmental Services Bureau
City of Long Beach
2929 E. Willow Street
Long Beach CA 90806

Subject: Environmental Services Bureau Cost of Service and Rate Study

Dear Mr. Melkonian:

HF&H Consultants, LLC (HF&H) is pleased to submit this report to the City of Long Beach's Public Works Environmental Services Bureau (City). Sections I. through IV. of this report are the original sections included in our original report dated July 8, 2022, and relate specifically to the analysis performed for the rates proposed to City Council by City staff on August 23, 2022. These sections of the report include 1) the determination of how much projected revenue is needed from rates during fiscal year October 1, 2021- September 30, 2022 (FY 22) and fiscal year October 1, 2022 – September 30, 2023 (FY 23) (the period prior to implementation of an organics program for all customers, as further explained below); 2) the impact on the estimated operating surplus/shortfall for the City's solid waste system if rates are not increased; and, 3) recommended rate increases to cover costs for services currently provided, the expansion of commercial organics waste collection, and meet the City's reserve fund balance goals. During the August 23, 2022, Council meeting, City staff recommended two rate increases, with effective dates of September 1, 2022, and January 1, 2023. The Council approved the rate increase for September 1, 2022, but did not approve the rate increase recommended for January 1, 2023, instead requesting City staff analyze a phased in approach to the increase. Section V, and thereafter, is related to the additional analysis and evaluation performed to determine a scenario for phasing in a rate adjustment as requested by City Council.

I. BACKGROUND

The City provides solid waste services to single-family residents and small multi-family complexes located within the City's limits. The City is also the exclusive provider of solid waste collection services to smaller businesses (less than 3,000 gallons/week of service) and smaller multi-family complexes (less than 1,000 gallons/week, typically about 10 dwelling units). The City competes with permitted private haulers to provide solid waste hauling services to larger multi-family and commercial accounts. The City's recycling contractor, Waste Management, provides recycling services to all City-serviced solid waste accounts. The City services approximately 121,000 containers on a weekly basis. See **Figure 1** for detail of containers in service.

Figure 1. Total Containers in Service

Customer Class	Current Containers in Service
64-Gallon Solid Waste Carts	38,677
100-Gallon Solid Waste Carts	76,305
Total Carts	114,982
Commercial Solid Waste Bin - 2 YD	5,893
Commercial Solid Waste Bin - 3 YD	454
Commercial Solid Waste Bin - 4 YD	15
Total Bins	6,362
Total Containers in Service	121,344

To determine whether additional rate revenue is required for the forthcoming rate year, projected operating and capital expenses are compared with projected revenue from current rates. Rates are then proposed to be adjusted as necessary so that the expenses are covered and reserve goals are reached. The report reflects input from the City staff in refining the rates. The resulting rate increases are necessary for several reasons: (1) in recent years, the City's rates have not generated revenues sufficient to cover costs, resulting in drawing down reserves; (2) the cost of collection of solid waste has increased; and, (3) additional costs to comply with new State-mandated diversion programs (e.g., SB 1383, which requires collection of organic materials separate from solid waste).

The City requested HF&H prepare an analysis of the current solid waste rates, rate structure, and operating costs, and evaluate if, and to what extent, a rate increase may be necessary to cover the City's operational costs of its solid waste enterprise.

City goals contemplated in the analysis include the City's goal to establish an Operating Reserve fund balance equal to four months of solid waste related expenditures. The Operating Reserve will assist in mitigating future shortfalls, unexpected, but necessary, expenditures, and to assist in addressing anticipated, but unquantifiable, future costs, such as those related to Senate Bill 1383 compliance.

A. Senate Bill 1383 Consideration

Regulations implementing Senate Bill 1383 (SB 1383 Regulations), which took effect January 1, 2022, require local jurisdictions to divert organics from landfills. The SB 1383 Regulations have a pervasive impact and will result in the City incurring additional costs for items such as, but not limited to, collection and related equipment, processing, reporting, administrative functions for monitoring compliance, procurement, and public education. The City has submitted a Notice of Intent to Comply, in line with Senate Bill 619, to CalRecycle, with the expectation of Senate Bill 1383 (SB 1383) compliance by December 31, 2023.

The City intends to implement a commercial organics collection program in FY 23 and a residential organics collection program by December 31, 2023. This study considers anticipated operational costs of the commercial organics program, the administrative costs of the commercial and residential organics programs, and the purchase of an estimated 50% of the organic carts that will be needed upon the residential organics program roll-out. Further description on the SB 1383 related costs included can be found in the "**New Costs - SB 1383"** section of this report. The full extent of the cost impact of the residential organics program is unknown and cannot be reasonably estimated at the time of this report. Due to the level of uncertainty surrounding future residential organics related costs, such as processing, collection, reporting, and related administrative costs, proposed rate increases included in the report are limited to the next two fiscal. Another cost-of-service study will be performed to re-set the commercial and residential rates, inclusive of organics programs.

B. Proposition 218

To increase rates for these services, the City intends to comply with Article XIIID, Section 6 of the California Constitution, which was enacted by Proposition 218 in 1996. This Section requires that (1) revenues derived from fees or charges for property-related service not exceed the cost to provide service; (2) revenues derived from fees or charges not be used for any purpose other than that for which it was imposed; (3) the amount of a fee or charge upon an account not exceed the proportional cost of the service attributable to the parcel; (4) no fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property; and, (5) no fee or charge may be imposed for general governmental services.

The recommended rates from the conduct of our cost-of-service study satisfies the requirements of Proposition 218, as stated above, as follows:

1. Proposed rates were calculated based on separately-tracked and projected costs incurred to operate the solid waste services provided by the City's Environmental Services Bureau.

2. Revenue derived from the proposed rates are kept within the Environmental Services Bureau to cover their costs. No revenue is transferred out to other City departments.

3. To ensure the proposed rates for each customer class do not exceed their proportional costs, the cost-of-service analysis apportioned shared overhead costs (e.g., billing, general and administrative) to each customer class (e.g., residential carts, commercial bins) based on their proportionate share of levels of service provided (e.g., collections per week, volume collected) and costs solely attributable to each customer class (e.g., commercial organics collection costs) are bourn exclusively by the respective customer class.

4. Not all properties within the City are serviced by City operations. The City bills only those properties receiving City services and the charge is based on the level of service being provided (e.g., size of container and frequency of collection).

5. The proposed rates were calculated based solely on projected costs incurred to provide solid waste services, including support from non-solid waste City departments through interfund transfers which are supported by cost allocation nexus studies. We found no instances of interfund transfers out of the solid waste to fund general governmental services not utilized to provide solid waste services to the City's residents and businesses.

II. SCOPE OF WORK

Based on the operational statistics provided by the City, HF&H developed a solid waste rate model. The model was designed to develop rate increase scenarios to fund City's financial requirements, including operations and maintenance, capital improvement, and reserve fund goals.

We performed the following procedures as part of our analysis:

- Obtained cost, rate, and current customer account data from City staff
- Prepared a summary schedule projecting the City's costs and revenues for the next two fiscal years (FY 23 and FY 24). The City provided the FY 22 budget, which served as the starting point for projecting the City's expenses and revenues. Working with City staff, the projections include the following:
    - an inflationary increase of 7.1% in FY 23 and 4.0% in FY 24
    - an assumption that actual expenditures incurred will be 4.5% less than budgeted. Due to high turnover of Refuse Operator positions, refuse operations have historically come in under budget. The City is passing the savings on to rate payers by basing rates and reserve fund balances on the actual expenditures.
- Created a cost-of-service model, reflecting the estimated costs and revenues for future fiscal years with resulting rate increases by customer class to cover operating and capital costs. HF&H provided the model to City staff, which allowed City Staff to model various scenarios and rate adjustments (Scenario Model) to meet anticipated costs and the Operating Reserve fund target.
    - The Scenario Model was used to include additional expenditures for FY 23 based on City staff estimates. Examples of these expenditures include, but are not limited to, the increase in the recycling contract and certain estimated new organic services costs (e.g., administrative labor, carts, trucks, disposal, public education). The included organic services costs were estimated by the City and do not include <u>all</u> potential future costs of SB 1383 compliance. A cost-of-service study will be performed to establish rates for the FY 24 fiscal year incorporating the full cost of residential organic collection to comply with SB 1383 requirements.
    - HF&H reviewed various rate scenarios modeled by City staff, including the final rate scenario to be recommended to City Council, to confirm the mathematical accuracy of the model calculations and that the final rate scenario aligned with the City's goals.

III. LIMITATIONS

This study was prepared solely for the City of Long Beach, in accordance with the contract between the City and HF&H and is not in intended for use by any other party for any other purpose.

In preparing this study, HF&H relied on information and instructions from the City, which we consider to be accurate and reliable and did not independently verify. The subscription data supplied by the City required manual adjustments by city staff and we relied on the adjusted service levels in the cost-of-service calculations.

The rate model and Scenario Model, and accompanying analyses, contain projections of revenues and expenditures based on various assumptions and estimates provided by the City. While we reviewed those projections for reasonableness, actual results of operations will usually differ from projections because events and circumstances do not always occur as expected. Those differences may be significant and materially affect the analyses and findings presented in this report.

Rounding differences caused by stored values in electronic models may exist.

This study addresses relevant laws, regulations, and court decisions but should not be relied upon as legal advice. Questions concerning the interpretation of legal authorities referenced in this study should be referred to a qualified attorney.

The Scenario Model was created anticipating the new rates would be effective August 1, 2022. However, to ease the burden on rate payers, the City has moved the anticipated implementation date to September 1, 2022, without increasing rates to account for lost revenues. The City acknowledges a delay of the proposed rate increases will affect the projections modeled in this report, including the effects on the Operating Reserve fund balance. HF&H is not under obligation to revise the model, the projections, or this report.

IV. FINDINGS

A. Current Operations

HF&H reviewed the City's current (FY 21) revenues from collection operations less non-operating revenue. As shown in **Figure 2**, the City is anticipating a revenue shortfall of $4,619,698 in FY 22, based on projected revenues at current rates of $51,208,133 and projected costs of $55,827,831. The revenue shortfall will draw down the City's fund balance to $3,857,733 by September 30, 2022, well below the City's target fund balance of $18,609,277.

Figure 2. FY 22 Revenue Requirement Analysis

Analysis of Costs and Revenues at Current Rates	FY 21	FY 22	
Projected Costs		$ 55,827,831	A
Projected Revenue at Current Rates		$ 51,208,133	B
Deficiency of Revenues vs. Costs		$ (4,619,698)	B-A = C
Projected Rate Adjustment		9.0%	C/B = D
Fund Balance before use of Reserves		$ 8,477,431	E
Contribution of Fund Balance to Rates		$ (4,619,698)	C
Fund Balance after Use of Reserves	$ 8,477,431	$ 3,857,733	E + C = F
Months of Expenditures		0.8	F/A*12 = G
Target Fund Balance (4 Months)		$ 18,609,277	A/12*4=H

The results of this analysis indicate the need for rate increases and/or additional sources of revenue to cover operating and capital costs and maintain a prudent reserve fund balance. While reserves are available to accommodate the projected shortfall in FY 22, continued operating shortfalls will quickly deplete the City's reserves. Currently, the City has a goal of reaching an Operating Reserve fund balance that is, at least, equal to four months of operating expenses. At the start of Fiscal Year 22, the City has $8,477,431 in reserves, approximately 2 months of operating costs. If the City uses reserves to cover the shortfall, the remaining Operating Reserve fund balance of $3,857,733 will cover only 0.8 months of expenditures. A 9.0% rate increase would be necessary to cover operating and capital costs without utilizing reserve funds.

B. Projected Operations

Based on the data above, HF&H projected annual revenue requirements. As directed by City staff, HF&H applied a 7.1% inflation factor to the FY 22 budget and a 4.0% inflation factor annually thereafter. Additionally, City staff cited historical turnover in the Refuse Operator position has led to actual expenses incurred in recent years being approximately 4.5% less than budget. Though City staff aims to fill that position on a full-time basis in the future, the actual expenditures were included for modeling purposes to pass on the savings to the rate-payers. In addition, the City's revenue requirement was increased for new administrative costs related to the upcoming commercial organics collection program, as further discussed below, and the increase in the recycling contract (total increases being between $4,000,000 - $4,750,000 annually from FY 23 and thereafter). As shown in **Figure 3** below, under the assumptions of this scenario, revenues under current rates result in a significant shortfall when compared to the revenue requirement for the solid waste system as a whole.

Figure 3. Projected FY 22 and FY 23 Revenue Shortfalls at Current Rates

Analysis of Costs and Revenues at Current Rates	(In $1,000s)			
	FY 21	FY 22	FY 23	
Project Costs (Budgeted and Inflated)		$55,828	$62,447	A
Projected Costs (New Administrative)		-	4,026	B
Projected Costs		55,828	66,473	A + B = C
Actual Revenue at Current Rates		51,208	51,208	D
Deficiency of Revenues vs. Costs		$(4,620)	$(15,265)	D-C = E
Projected Rate Adjustment		9.0%	29.8%	-E/D = F
Fund Balance before use of Reserves		$8,477	$3,857	G
Contribution of Fund Balance to Rates		(4,620)	(15,265)	E
Fund Balance after Use of Reserves	$8,477	$3,857	$(11,408)	G + E = H
Months of Expenditures		0.8	(2.1)	H/C*12 = I
Target Fund Balance (4 Months)		$18,609	$22,158	C/12*4= J

The impact of not increasing rates results in a negative fund balance by the end of FY 23 of approximately $(11,408,000), which, absent rate increases, will continue to decline. To cover increases in operational, capital, and administrative costs, and generate additional funds to reach the target Operating Reserve fund balance, the City will need to implement rate increases.

C. Rate Adjustment Scenario

The City recognizes the need to increase revenues to cover its current operating costs, new costs, and generate sufficient reserve to meet the goal Operating Reserve fund balance. As such, City staff worked with HF&H to model a rate adjustment scenario that meets both the significant revenue requirement increases and builds toward the targeted Operating Reserve fund balance. After evaluating alternative timing of rate increase(s), City staff determined the final proposed rate increases are planned to occur on September 1, 2022 and January 1, 2023, subject to HF&H's limitations section.

As discussed above, the results of the cost-of-service study showed the City is incurring losses to provide solid waste services to both the residential solid waste customer cart class and the commercial solid waste bin customer class. The study also determined the rates currently charged to the residential solid waste customer class more closely aligned with their cost of service than the commercial solid waste bin customer class. Therefore, when modeling the rate adjustments, higher rate increases should be applied to the commercial solid waste bin customer class than the residential solid waste customer class. This methodology guided the structuring of the rate adjustment scenario.

Based on the above guidelines and goals, the City utilized the Scenario Model to develop a final rate scenario incorporating the following goals and assumptions:

- The four-month Operating Reserve target is projected to be reached by the end of FY 26, barring consideration of additional residential organic program costs to be incurred.

- The recycling contract is to be re-negotiated, leading to assumed costs being used beginning FY 23.

- New costs approximating $6,943,000, spread over FY 23 and FY 24, will be incurred to comply with SB 1383. See "**New Costs- SB 1383"** section below for further discussion of these costs.

1. New Costs- SB 1383

The City anticipates new operational and administrative costs will be incurred to comply with SB 1383. City intends to add two new sections to the Recycling and Waste Reduction division: Compliance & Enforcement and Program & Education. The Compliance & Enforcement section will be responsible for compliance with, and enforcement of, State laws, including SB 1383 Regulations, and providing all new reporting as required by the State. The Program & Education section will implement the education and recycling components required by new State laws, including SB 1383 Regulations. These new groups are necessary to implement efforts required by State laws, SB 1383, AB 1826, and AB 341. All new administrative staffing costs were allocated on a fifty/fifty basis to residential and commercial customers. In addition to the staffing requirements, capital needs and operational costs will increase.

A summary of the estimated new cost drivers related to SB 1383 in FY 23 and FY 24 are:

- $3,917,000 for anticipated capital purchases, including:
    - Approximately 4,850 organics carts for commercial customers
    - 27,500 organics carts for residential customers. This represents approximately 25% of anticipated total needed carts, but is included to build funds for purchase to meet the December 31, 2023, compliance deadline.
    - 2 pick-up trucks (non-collection vehicles) for refuse field investigators
- $3,924,000 for administrative organics collection costs for personnel, education, administration, and maintenance, increased for inflation annually, Including:
    - $1,825,000 for approximately 17 new full-time employees. Responsibilities for new employees will include, but are not limited to, route reviews (account audits), develop and implement food recovery programs, performing site visits, educational outreach, and other tasks needed for enforcing, tracking, monitoring, and reporting compliance with State laws.
    - $1,039,000 for fuel and vehicle expenses for commercial collection operations. This includes maintenance and leasing costs for eight (8) 25-yard side-loaders, which will be financed.

- $885,000 in disposal costs for the commercial organics program
- $175,000 for public education. Cost includes, but is not limited to, advertising, educational outreach program development, and material costs.

2. Rate and Fund Impact

Figure 4 summarizes the proposed rates for some of the most-common levels of service. **Figure 5** summarizes the proposed scenario's impact on the fund balance.

Figure 4. Proposed Monthly Rates

	FY 20	1-Sep-22		1-Jan-23	
	Rate	Rate Increase	New Rate	Rate Increase	New Rate
Residential 64-Gallon Solid Waste Cart	$ 20.44	18.63%	$ 24.25	18.63%	$ 28.77
Residential 100-Gallon Solid Waste Cart	$ 24.96	18.63%	$ 29.61	18.63%	$ 35.13
Commercial Solid Waste Bin - 2 YD	$ 106.79	29.25%	$ 138.03	40.14%	$ 193.43
Commercial Solid Waste Bin - 3 YD	$ 138.06	29.25%	$ 178.44	40.14%	$ 250.07
Commercial Solid Waste Bin - 4 YD	$ 218.62	29.25%	$ 282.57	40.14%	$ 395.99
Residential and Commercial Recycling Cart	$ 4.03	19.46%	$ 4.81	19.46%	$ 5.75

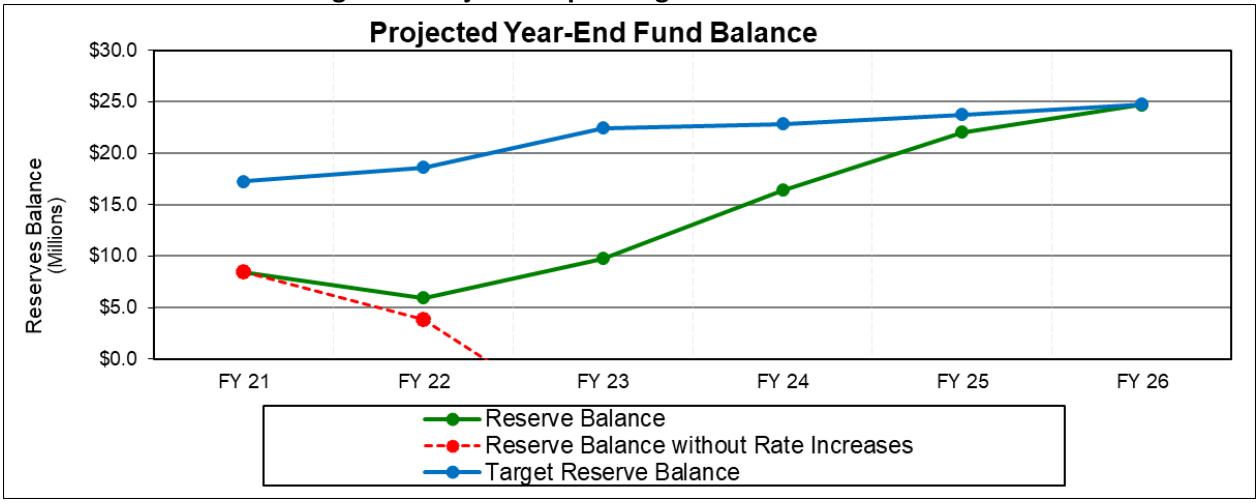
Figure 5. Impact of Proposed Rate Increases for FY 22 and FY 23

	($s are in $1,000s)				
		Rate Increase		Rate Increase	
	FY 21	1-Sep-22	FY 22	1-Jan-23	FY 23
Projected Costs			$55,828		$66,473
Projected Revenue at Increased Rates					
Residential Solid Waste		18.63%	34,236	18.63%	45,493
Commercial Solid Waste and Organics		29.25%	11,785	40.14%	17,883
Residential and Commercial Recycling Carts		19.46%	7,252	19.46%	9,126
Total Projected Revenue at Increased Rates			$53,273		$72,502
Excess (Deficiency) of Revenues vs. Costs			$(2,555)		$6,029
Fund Balance before use of Reserves			$8,477		$5,922
Contribution to/(of) Fund Balance from/(to) Rates			$(2,555)		$6,029
Funds Restricted for SB 1383 Related Costs			-		$(2,193)
Fund Balance after Use of Reserves	$8,477		$5,922		$9,758
Months of Expenditures	-		1.3		1.8
Target Fund Balance (4 Months)			$18,609		$22,158

HF&H reviewed the City's final scenario of an 18.6% residential increase, a 29.3% commercial increase, and a 19.5% recycling increase on September 1, 2022, and an 18.6% residential increase, a 40.1% commercial increase, and a 19.5% recycling increase on January 1, 2023. The revenue generated for organic carts and trucks in FY 23 ($2,193,000) and FY 24 ($1,724,000) will be restricted for SB 1383 capital costs. Finally, the City is projected to reach the four month Operating Reserve target by the end of FY 26, barring consideration of additional residential organic program costs to be incurred.

The impact of not increasing rates versus increasing rates by the scenario presented above on the City's Operating Reserve fund balance, barring consideration of additional residential organic program costs to be incurred and future rate increases to be determined upon the residential organics program implementation, can be seen in **Figure 6** below:

Figure 6. Projected Operating Reserve Fund Balance



The City may elect to not increase rates, but this will lead to a rapid depletion of the City's Operating Reserve fund balance. This will result in the need for larger rate increases in future years to make up for these shortfalls.

HF&H recommends the City increase residential, commercial, and recycling rates by their respective percentages in **Figure 4** on September 1, 2022 and January 1, 2023, to prevent the projected short-term depletion of reserve funds and to mitigate more significant rate increases in the future. As aforementioned, the City should, and intends to, perform another cost- of- service study to determine the necessary rate increases for FY 24 to account for unanticipated commercial organic program costs and new residential organics program costs.

V. CITY COUNCIL ACTION - AUGUST 23, 2022

On August 23, 2022, City Council approved the solid waste rate increases included in **Figure 7**, effective September 1, 2022.

Figure 7. September 1, 2022 Monthly Rate Increases

	FY 20 Rate	1-Sep-22 Rate Increase	1-Sep-22 New Rate
Residential 64-Gallon Solid Waste Cart	$ 20.44	18.63%	$ 24.25
Residential 100-Gallon Solid Waste Cart	$ 24.96	18.63%	$ 29.61
Commercial Solid Waste Bin - 2 YD	$ 106.79	29.25%	$ 138.03
Commercial Solid Waste Bin - 3 YD	$ 138.06	29.25%	$ 178.44
Commercial Solid Waste Bin - 4 YD	$ 218.62	29.25%	$ 282.57
Residential and Commercial Recycling Cart	$ 4.03	19.46%	$ 4.81

The recommended rate increases included in **Figure 8** were not approved by City Council on August 23, 2022.

Figure 8. Recommended January 1, 2023 Monthly Rate Increases Not Approved

	Sep-22 Rate	1-Jan-23 Rate Increase	1-Jan-23 New Rate
Residential 64-Gallon Solid Waste Cart	$ 24.25	18.63%	$ 28.77
Residential 100-Gallon Solid Waste Cart	$ 29.61	18.63%	$ 35.13
Commercial Solid Waste Bin - 2 YD	$ 138.03	40.14%	$ 193.43
Commercial Solid Waste Bin - 3 YD	$ 178.44	40.14%	$ 250.07
Commercial Solid Waste Bin - 4 YD	$ 282.57	40.14%	$ 395.99
Residential and Commercial Recycling Cart	$ 4.81	19.46%	$ 5.75

VI. 2023 PHASED IN RATE ADJUSTMENT OPTIONS

At the August 23, 2022 Council Meeting, the City Council requested City staff to develop reasonable approaches to phase-in the recommended January 1, 2023, increase to soften the impact to rate payers.

Working with City staff, HF&H developed four proposed rate adjustment options, which would defer the necessary increase, yet still result in achieving the City's target reserve balance by FY 26 (as shown in Figure 6). It should be noted that the effect of simply deferring the implementation of the exact recommended new rates shown in Figure 8 to a later date, would result in less revenue to the City's solid waste enterprise. As such, the solid waste enterprise would not reach the target reserve balance by FY 26, as intended, unless rates are increased something greater than originally proposed for January 1, 2023. Therefore, the four rate adjustment options result in slightly higher rates than the original recommendation. In addition, subsequent to the original analysis discussed in Sections I through I-V above, the projected costs for complying with the State's new regulations restricting organics waste

disposal (SB 1383) have increased, by approximately $1,362,000 in FY 23. These cost increases have also resulted in higher rates than originally recommended.

With the updated cost data and the direction to defer the January 1, 2023 rate adjustment, HF&H created four options which spreads the rate increases throughout FY 23, and FY 24 in one option, instead of all at once on January 1, 2023, as follows:

1. Rate increases effective June 1, 2023, and September 1, 2023
2. Rate increases effective June 1, 2023, and December 1, 2023
3. Rate increases effective June 1, 2023 , September 1, 2023, and December 1, 2023
4. Rate increase effective June 1, 2023

Figure 9 summarizes the necessary percentage increases for each option. The necessary increases were arrived at by assuming rate increases within each option involving more than one increase would be smoothed-in as equal percentages on each respective effective date and each option would result in achieving similar reserve target reserve balance by FY 26. HF&H and the City determined Option 1 is the appropriate recommendation to achieve the City's goals to ease the number and frequency of rate increases on the rate payers, while meeting the reserve fund target.

Figure 9. Potential Rate Increases – All Options

	Potential Rate Increases							
	Option 1		Option 2		Option 3			Option 4
Container Type *eff. date*	*1-Jun-23*	*1-Sep-23*	*1-Jun-23*	*1-Dec-23*	*1-Jun-23*	*1-Sep-23*	*1-Dec-23*	*1-Jun-23*
Solid Waste Cart Rates	11.25%	11.25%	11.71%	11.71%	7.66%	7.66%	7.66%	23.55%
Solid Waste Bin Rates	24.24%	24.24%	25.23%	25.23%	16.18%	16.18%	16.18%	50.75%
Recycling Cart Rates	11.75%	11.75%	12.23%	12.23%	8.00%	8.00%	8.00%	24.60%

Recommended Phased In Rate and Reserve Fund Impact

Figure 10 summarizes the proposed rates for some of the most-common levels of service if Option 1 is approved.

Figure 10. Monthly Rates Resulting from Recommended Increases – Option 1

	Sep-22	1-Jun-23		1-Sep-23	
	Rate	Rate Increase	New Rate	Rate Increase	New Rate
Residential 64-Gallon Solid Waste Cart	$ 24.25	11.25%	$ 26.98	11.25%	$ 30.02
Residential 100-Gallon Solid Waste Cart	$ 29.61	11.25%	$ 32.94	11.25%	$ 36.65
Commercial Solid Waste Bin - 2 YD	$ 138.03	24.24%	$ 171.49	24.24%	$ 213.06
Commercial Solid Waste Bin - 3 YD	$ 178.45	24.24%	$ 221.71	24.24%	$ 275.45
Commercial Solid Waste Bin - 4 YD	$ 282.57	24.24%	$ 351.07	24.24%	$ 436.17
Residential and Commercial Recycling Cart	$ 4.81	11.75%	$ 5.38	11.75%	$ 6.01

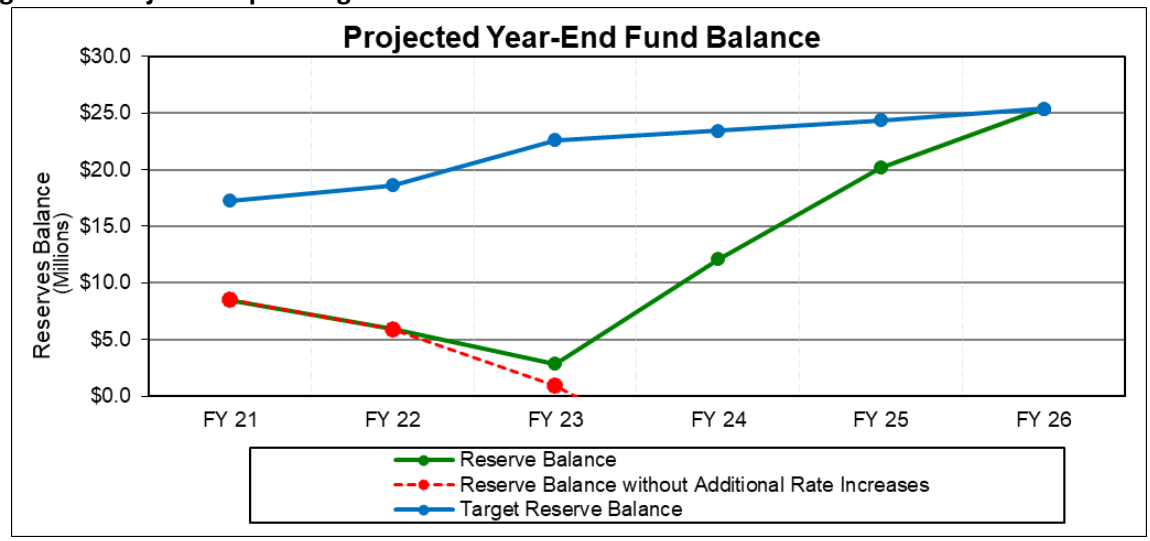
Figure 11 summarizes the proposed option's impact on the fund balance for FY 23. As shown in Figure 11, the deferred rate adjustments will result in an operating shortfall for FY 23 of $1,344,000; however, this shortfall can be covered by reserves.

Figure 11. Impact of Recommended Increases for FY 23

	Rate Increase		FY 23
	1-Jun-23	1-Sep-23	($s are in $1,000s)
Projected Costs			**$67,835**
Projected Revenue at Increased Rates			
Residential Solid Waste	**11.25%**	**11.25%**	**42,119**
Commercial Solid Waste and Organics	**24.24%**	**24.24%**	**15,882**
Residential and Commercial Recycling Carts	**11.75%**	**11.75%**	**8,490**
Total Projected Revenue at Increased Rates			**66,491**
Operating Surplus/(Shortfall)			**(1,344)**
Fund Balance before use of Reserves			**5,937**
Contribution of Fund Balance to Rates			**(1,344)**
Funds Restricted for SB 1383 Related Costs			**(1,724)**
Fund Balance after Use of Reserves			**$2,868**
Months of Expenditures			**0.5**
Target Fund Balance (4 Months)			**$22,612**

The projected FY 23 ending fund balance will be short of the City's target fund balance of $22,612,000 (i.e., four months of operating expenses), as the recommended increases will not have been in effect for all 12 months of the fiscal year. However, as shown in **Figure 12**, the fund balance is projected to reach the four month Operating Reserve target by the end of FY 26, as the September 1, 2023 recommended rates will be in effect for all 12 months of the proceeding years.

Figure 12. Projected Operating Reserve Fund Balance with No Increase vs Recommended Increases



The City may elect to not further increase rates or postpone rate increases beyond the dates recommended in Option 1; however, this will lead to a rapid depletion of the City's Operating Reserve fund balance (dotted red line in **Figure 12**), before the end of FY 24. This will result in the need for larger rate increases in future years to make up for these shortfalls.

As such, HF&H recommends the City increase residential, commercial, and recycling rates by their respective percentages in **Figure 13** on June 1, 2023 and September 1, 2023 (i.e., Option 1), to prevent the projected short-term depletion of reserve funds and to mitigate more significant rate increases in the future. As aforementioned, the City should, and intends to, perform another cost- of- service study to determine the necessary rate increases for FY 24, once the City has implemented the new residential organics program, as required by SB 1383.

Figure 13. Recommended Rate Increases (i.e., Option 1)

	Sep-22	1-Jun-23		1-Sep-23	
	Rate	Rate Increase	New Rate	Rate Increase	New Rate
Residential 64-Gallon Solid Waste Cart	$ 24.25	11.25%	$ 26.98	11.25%	$ 30.02
Residential 100-Gallon Solid Waste Cart	$ 29.61	11.25%	$ 32.94	11.25%	$ 36.65
Commercial Solid Waste Bin - 2 YD	$ 138.03	24.24%	$ 171.49	24.24%	$ 213.06
Commercial Solid Waste Bin - 3 YD	$ 178.45	24.24%	$ 221.71	24.24%	$ 275.45
Commercial Solid Waste Bin - 4 YD	$ 282.57	24.24%	$ 351.07	24.24%	$ 436.17
Residential and Commercial Recycling Cart	$ 4.81	11.75%	$ 5.38	11.75%	$ 6.01

* * * *

We appreciate the opportunity to be of service to the City. We value our relationship with you and the City and are committed to providing you the highest level of service in the performance of this matter for you. Should you have any questions, please feel free to reach Rick Simonson at rsimonson@hfh-consultants.com or (925) 977-6957.

Sincerely,

HF&H CONSULTANTS, LLC

Rick Simonson, Senior Vice President
Lindsey Lagos, CPA, Senior Associate
Danielle Derby, CPA, Senior Associate

Attachment A – Projected Revenue and Expense Summary (FY 23 through FY 26) Under Rates Originally Proposed

Attachment B – Projected Revenue and Expense Summary (FY 23 through FY 26) Under Newly Proposed Recommended Increases