



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**IBA Report Number:** 25-10

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# IBA Review and Analysis of the Solid Waste Collection Cost of Service Study and Proposed Fees

## OVERVIEW

On November 8, 2022, voters approved Measure B, which updated the People's Ordinance to, among other changes, allow the City to impose a fee to cover the costs for solid waste collection services including trash, recycling, and organics collection. Following passage of Measure B, the Environmental Services Department (ESD) began the process of planning and implementing such a fee, including the procurement of a consultant to conduct the required Cost-of-Service (COS) study to comply with Proposition 218's provisions regarding setting fees. This COS study, which was released on April 9<sup>th</sup>, 2025, includes an initial fee proposal to recover the City's cost for those services. The fee associated with the most common anticipated level of service is \$47.59 per month.<sup>1</sup>

Our Office conducted a thorough analysis of ESD's COS study and the rates proposed therein. This report provides that analysis and presents options the Council could consider that could result in decreases to the initial fee being proposed. Additionally, this report describes the differences between the initial fee estimate that was included in the Fiscal Impact Statement for Measure B in 2022 and the fees being proposed now.<sup>2</sup>

Overall, our Office finds that the COS study is sound and includes appropriate methods for allocating the costs of services under Proposition 218, though we note *there are options Council*

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<sup>1</sup> This amount is the fee proposed for one 95-gallon black, blue, and green bin. Lower monthly amounts are proposed for those with smaller black bins, and higher monthly amounts are associated with additional bins.

<sup>2</sup> This original Fiscal Impact Statement is contained in [IBA Report 22-23](#).

*could consider to both adjust assumptions and reduce proposed service level increases that could result in lower rates.* We also recommend that Council consider adopting rates for the next four years, instead of the five years currently being proposed.

## BACKGROUND

The People's Ordinance was initially adopted on April 8, 1919, by a majority of City residents, with subsequent amendments approved in 1981 and 1986. The People's Ordinance required the City to collect refuse, without charge, from any residential entity with direct access to City streets. This eventually resulted in the City paying for general refuse collection from most single-family residences in the City out of the City's General Fund, while other residents, including most individuals who live in multi-family residences, needed to pay private haulers to collect their refuse. Refuse collection is one of the only services paid for by the General Fund that confers an exclusive benefit onto only a subset of City residents. Our Office provided a more extensive history of the People's Ordinance prior to Measure B in [IBA Report 21-23](#).

Measure B both recodified the City's responsibility for waste management services, including providing clarity that City provided services would only be provided to residential properties with four residences or fewer, *and* provided the City the option to recover City costs for solid waste management services through the imposition of fees. As indicated in Measure B's Fiscal Impact Statement, any fee that the City might levy is prohibited from exceeding the cost to provide services, and must follow the Proposition 218 process, including the development of a COS study, public noticing, and a public hearing on the fee prior to approval. This process mirrors the process the City conducts when setting water and wastewater rates.

The item that will be presented to Council on April 14<sup>th</sup> is an action to set a June 9<sup>th</sup> Council hearing date for rates and to authorize the distribution of public mailers to impacted properties describing the proposed rates and providing an opportunity to protest those rates prior to the June 9<sup>th</sup> hearing. While *approval of an action on April 14<sup>th</sup> will not set actual rates*, it will set the *upper limit* of rates that can be considered on June 9<sup>th</sup>. While Council can ultimately adopt a rate *lower* than that noticed for the public hearing, it *will not be able to adopt a rate higher* than the amount noticed without restarting the Proposition 218 noticing process.

## FISCAL AND POLICY DISCUSSION

In general, our Office finds that the COS study is reasonable and sound, and that costs associated with individual line-items and services are appropriately allocated. That said, we note that there are some assumptions and service levels in the COS study that could be adjusted if Council wishes to reduce the proposed fees, which will be discussed in this report's next section.

We also acknowledge that the proposed fees are significantly higher than those that were initially estimated three years ago in the Fiscal Impact Statement for Measure B. The main drivers of that difference, as well as the main components that make up the proposed fees, are discussed below.

## CHANGES TO ASSUMPTIONS IN MEASURE B’S FISCAL IMPACT STATEMENT

In consultation with the Department of Finance, City Auditor, and ESD, our Office developed the Fiscal Impact Statement for Measure B in 2022. At that time, we estimated that the fees necessary to cover then-current costs, as well as some known additional costs,<sup>3</sup> would range from \$23 to \$29 per month per customer. This estimate assumed that annual costs to provide services totaled \$79 to \$98 million, and that ESD was serving a customer base of 285,000 households. The Fiscal Impact Statement also noted that “given that a Cost-of-Service Study could take several years to complete, and the costs to provide this service may increase over the next several years, the actual fee levied could be higher.” With the most common bundled fee now being proposed at \$47.59, it is important to examine what drives increases to the estimate from three years ago.

The table below provides a summary of changes that led to the increased proposed fee. The majority of the increase is related to 1) a smaller customer base than estimated in 2022; and 2) increased baseline operating costs for refuse collection. This section of this report provides more detail on each of these changes.

<b>Table 1: Changes to the Estimated Fiscal Impact Statement</b>				
	<i>Total Revenue Requirement</i> (\$ in millions)	<i>Estimated Customers</i>	<i>Estimated Monthly Rate</i>	<i>Rate Change</i>
Measure B Impact Statement	\$ 98.3	285,000	\$ 29	\$ -
Updating Customer Count	\$ 98.3	222,485	\$ 37	\$ 8
Updating Operating Costs	\$ 120.9	222,485	\$ 45	\$ 8
Additional Costs for Operations and New Services	\$ 155.4	222,485	\$ 58	\$ 13
Use of Special Fund Revenue	\$ 138.4	222,485	\$ 52	\$ (6)
Allocating Costs to Second Bins	\$ 128.8	222,485	\$ 48	\$ (4)

Note: Estimated monthly cost is rounded to the nearest dollar

### Customer Count Shift

One large driver in the increased fee does not relate to cost changes. Because the People’s Ordinance prior to Measure B essentially required ESD to pick up any wheeled trash bin placed on a City street, ESD was not required to have, and did not have, detailed knowledge of how

<sup>3</sup> Additional costs included those associated with establishing a customer service center, a bin replacement effort, billing software, and establishing a reserve. As will be discussed, the current need for each of these additions varies.

many addresses it was actually serving. ESD had historically estimated that its customer base was around 285,000 addresses, which is consistent with the assumption that most single-family homes received collection service from the City. However, after the rollout of green containers to all City-served residences in 2023 and additional due diligence work done in preparation for the COS study, it was determined that only 222,485 addresses are eligible for service. Holding all other assumptions constant, this change alone would have increased the \$29 per month estimate to \$37 dollars, which is an \$8 or 27.5% increase.

Adjustments to Baseline Operating Budget

The next major change is inflation in operating costs for ESD’s Collection Services division, as well as other costs directly related to the development of the Solid Waste Management Fee. The 2022 Fiscal Impact Statement used ESD’s FY 2023 Adopted Budget as a base, and included various additional costs related to Collection Services that could be covered by a solid waste management fee. This amount totaled \$79.1 million, to which \$19.2 million in potential additional costs was added to develop the upper range of the fee estimate.

The COS study completed this year shows baseline operating costs for FY 2026 of \$104.8 million, higher than was estimated in 2022, as shown in the table below. In addition to these, other additional costs associated with container replacement, billing software, and reserve requirements create a potential revenue requirement of \$120.9 million, which increases the potential fee estimate from \$37 (using the updated customer count) to \$45 per month.

<b>Table 2: Adjustments to Baseline Operating Budget</b>			
	<b>Fiscal Impact Statement Estimate</b>	<b>Cost-of-Service Estimate</b>	<b>Difference</b>
Ongoing Operations Costs	\$ 79.1	\$ 104.8	\$ 25.7
Additional Estimated Costs	\$ 19.2	\$ 16.0	\$ (3.2)
<b>Total Costs</b>	<b>\$ 98.3</b>	<b>\$ 120.9</b>	<b>\$ 22.6</b>
<i>Estimated Monthly Rate</i>	\$ 29	\$ 45	\$ 16

The reasons for the \$25.7 million increase in operating costs are varied and due to a combination of changes over the last three years. Examples of cost increase drivers include compensation increases for truck drivers and other personnel in collection services, increased costs for organics pickup related to the implementation of SB 1383 mandates, increased disposal fees at the Miramar Landfill, additional personnel required to oversee and implement the solid waste management fee, and increased internal fleet charges.

One of the larger increases is for expenses associated with ESD’s fleet of vehicles, at approximately \$8.0 million. Increases here are associated both with the cost of maintaining ESD’s fleet, as well as with increased costs to purchase replacement vehicles. Currently, funding for operations of the Department of General Services (DGS) Fleet Services Division, which provides services to ESD, as well as the acquisition and replacement of vehicles, is allocated to various funds and departments across the City, depending on the amount of work and vehicles required for each department.

Fleet charges for ESD and the Solid Waste Management Fund are now projected to increase based on fleet expense actuals directly tied to ESD operations, which have consistently come in \$3-4 million over budget for ESD over the last several years. This amount has further been adjusted to reflect shorter replacement timelines for packers and other vehicles to match their typical useful lives, altogether resulting in an increase of approximately \$3.6 million in fleet operating costs.

Additionally, vehicle procurement *financing* is expected to shift. While General Fund departments – including ESD – purchase vehicles using debt financing, enterprise funded departments typically purchase vehicles with cash. For ESD to switch from debt to cash financing, fleet assignment charges will be temporarily higher as ESD will be setting aside cash for the eventual replacement of existing vehicles, as well as paying off short term debt on its current vehicles. While this will ultimately result in lower costs over time, expenses over the first five years of the transition are impacted before normalizing in FY 2031, resulting in \$4.5 million in additional assignment fees for FY 2026.

<b>Table 3: Changes to Fleet Charges (\$ in millions)</b>			
	<i>FY 2025 Adopted Budget</i>	<i>FY 2026 Estimate</i>	<i>Difference</i>
Usage Fees	\$ 7.8	\$ 11.4	\$ 3.6
Assignment Fees	3.6	8.0	4.5
<b>Total</b>	<b>\$ 11.4</b>	<b>\$ 19.4</b>	<b>\$ 8.0</b>

Note: Usage Fees are charges to cover the cost for Fleet Services operations. Assignment Fees cover the cost for vehicle acquisition.

Beyond operating costs for Collection Services, Measure B’s Fiscal Impact Statement included an additional \$19.2 million in estimated needs to arrive at its estimated \$29 per month fee. These costs included 1) \$8.1 million for a bin replacement effort, 2) \$600,000 for billing software costs, 3) \$0.6 million for a reserve contribution, and 4) \$9.9 million for a customer service center. Each of these costs was updated in the COS study, and collectively they now total \$16.0 million, as shown in the following table and further discussed below.

<b>Table 4: Updating Additional Estimated Costs (\$ in millions)</b>		
	<i>Fiscal Impact Statement</i>	<i>Cost-of-Service</i>
Container Replacement	\$ 8.1	\$ 10.1
Billing Software	\$ 0.6	\$ 3.1
Reserves	\$ 0.6	\$ 2.9
Customer Service Support	\$ 9.9	\$ -
<b>Total</b>	<b>\$ 19.2</b>	<b>\$ 16.0</b>

The first change is an increase for the one-time citywide bin replacement effort, which is estimated to cost \$10.0 million in FY 2026. This increase is due to an increased contingency and updated costs that have been informed by ESD’s provision of green cans to implement SB 1383.

Providing new cans is a necessary step to ensuring that an accurate bin count is maintained by ESD. Replacing bins with new ones that contain RFID chips, as well as changing the colors of some bins, will ensure that ESD has an accurate count of the number of bins that exist systemwide, as well as how many bins each household possesses. This information is necessary to ensure compliance with Proposition 218.

Costs for the backend billing system are projected to be \$2.5 million higher in FY 2026 than projected three years ago, though this is a one-time increase, as ongoing maintenance costs for that system will be only \$400,000 in FY 2027 and beyond. This is another necessary expense to ensure that residents receive the services that they pay for, and to ensure residents have a reliable way to report service issues and to request changes in service levels.

Reserve contributions have also increased to \$2.9 million, based on reaching a 25% target by 2035. In initial years, much of this amount is associated with the Solid Waste Management Fund starting from a negative balance. The General Fund is assumed to provide \$10 million in FY 2026 support on a one-time basis, but there are not additional General Fund distributions anticipated beyond that. Our Office discusses additional potential changes to reserve targets later in this report.

Finally, the last major change is the *removal* of costs for a customer service center, which was estimated at \$9.9 million based on the size of the budget for a similar division within PUD. Nearly all of these costs are being *avoided* through the proposed use of tax roll billing for the new fee, which removes the need to bill on a monthly basis and any need to further develop collection system backends that would otherwise be required to send bills and accept payments. **The tax roll billing approach will result in lower bills for customers and avoid the need to stand up a new customer support and billing division within ESD.**

## **PROPOSED NEW OR EXPANDED SERVICES**

While adjustments to ESD's customer base and costs of providing existing services under an enterprise-fund model result in an estimated \$45 monthly fee before mitigations are considered, the activities detailed in the COS study also represent *increases to existing internal and external service levels* beyond those assumed three years ago. Those increases and associated costs are discussed below.

### *Additional Costs for Organics Collection and Other Items*

During the COS study process, ESD identified approximately \$15.8 million in additional costs that will be incurred by the enterprise fund. These costs collectively increase the estimated fee by approximately \$6 per month.

The largest item in this category is \$6.5 million related to debt repayments for new vehicles and containers associated with the implementation of the state's SB 1383 mandates. Implementation of the mandated organics collection program required the City to purchase new trucks and containers. The City used General Fund backed Lease Revenue Bonds for these purchases, and costs for General Fund debt were included under the Citywide Program Expenditures budget, and thus had not been included in ESD's budget. However, now that organics collection will be

covered by a fee, costs for these debt repayments can be borne by the Solid Waste Management Fund.

Other smaller increases are generally related to current operations or to the implementation of the fee, and include additional code compliance officers, customer service representatives, additional costs to pilot the use of electric vehicles to comply with state mandates, and payments to the General Fund and other funds for assets that those funds initially purchased, such as the Miramar Place facility (ESD's Collection Services storefront).

#### Operational Efficiency Analysis Costs

The next addition is related to implementing the findings of the department's recently completed Operational Efficiency Analysis, which was conducted in the past year. This analysis detailed operations necessary to run an effective collections system, and provided a more thorough understanding of current operations, including ESD's relationship with DGS Fleet Services. It made numerous recommendations that, if implemented, would cost \$13.6 million and increase the estimated fee by \$5 per month.

The largest expense in this category is \$8.3 million to procure additional automated side loader refuse packers to replace ageing units in the existing fleet. Over 38% of the existing fleet is beyond its useful life, which increases maintenance costs for both ESD and Fleet Services, and leads to additional downtime of packers and more missed collections. The Operational Efficiency Analysis recommends procuring 20 new vehicles per year. The COS study includes costs for 80 replacements over the first five years, which phases in this recommendation. This increase would ensure that the entire fleet of packers is replaced once every seven years, which is the expected useful life of those vehicles.

Other additions in this category are related to safety improvements, other fleet improvements, and routing software.

#### Additions for New Services

The final increases in expenditures are for service level enhancements recommended by ESD. All together, these increase the revenue requirement in FY 2026 by approximately \$5.1 million, resulting in an estimated fee increase of \$2 per month. These increases are for 1) weekly recycling at \$2.6 million, 2) a new missed collections crew at \$1.1 million, and 3) a bulky item pickup team at \$1.4 million.

As mentioned in the COS study, the weekly recycling and bulky item pickup do not begin until FY 2028 and are the major reason why fees are proposed to further increase during that year. However, there are associated costs included in FY 2026's revenue requirement to build up reserves to pay for the vehicles required for these services. Our Office discusses potential options for Council to consider in regard to these services later in our report.

## **ESD PROPOSED MITIGATIONS AND RESOURCES**

### Other Fund Balances

To this point, this report has addressed increases to anticipated revenue requirements. ESD is *also* proposing to use other resources to *lower* the proposed fee. These resources total \$17.0 million, and result in the proposed fee being \$6 per month lower than it would otherwise be.

The two resources include \$15.0 million from the Recycling Fund and \$2.0 million from the Automated Refuse Container Fund. The Recycling Fund has traditionally supported the costs for recycling collection within the City, with historical spending of between \$10-\$14 million per year. This revenue is anticipated to be used for all five years to lower fees, but the amount used decreases to \$7.5 million in FY 2028, to \$3.0 million in FY 2029, and to \$1.0 million in FY 2030. The potential to use additional Recycling Fund support over the next several years, and thereby further mitigate fee amounts, exists and will be further discussed.

### Updated Assumptions on Additional Bins

The final significant adjustment impacting the typical fee is related to the revenue expected from customers that request additional bins. As described in the COS study, the number, type, and size of bins is the nexus to determine both the benefit of these services and the appropriate fee to charge for these services. Measure B's Fiscal Impact Statement did not make an assumption about how much of the revenue requirement would fall onto those requesting additional bins, or on those customers that request a smaller trash bin, as that data was unknown. In the COS model, revenue from additional bins is estimated at \$9.6 million, which is revenue that a typical customer with only three bins would not be required to pay. This final adjustment reduces the typical fee by \$4 per month.

## **OPTIONS TO REDUCE PROPOSED FEES**

Over the last several months, our Office reviewed the financial models used in the COS study, beginning with the model that provided the initial \$53 monthly fee presented to the Environment Committee on February 13<sup>th</sup>. Since that time, we worked with ESD to suggest changes, identify opportunities for potential cost savings, and identify potential ways to mitigate proposed fees. ESD incorporated many of our recommendations into the model used for the final COS study, such as the phase-in of vehicle replacement and extended use of the Recycling Fund to support recycling collections, which resulted in the proposed \$47.59 per month fee. Additional options to lower that fee exist, though several come with policy trade-offs that should be carefully considered. This section covers options which could, in total, reduce the typical proposed fee to \$42.72 per month.

### **FEE MITIGATION OPTIONS**

The table below shows options to further lower the proposed typical fee (Bundle Option 3, which consists of one 95-gallon black, blue, and green bin). The incremental impact of each of these options is also presented. Attachment 1 to this report includes an appendix that shows the rates across all bundle types if all options are enacted.

Each of these mitigation options come with various impacts and risks, which will be discussed. Options are generally presented in order from those with the least potential impact to the



financial stability of the Solid Waste Management Fund to those with the most impact. However, *all are feasible mitigations* that Council could direct ESD to include when adopting fees in June.

To the extent Council wishes to move forward with these options now, it can also direct ESD to ensure the hearing notice reflects these mitigations, though Council should be mindful that amounts shown in the Proposition 218 notices authorized on April 14<sup>th</sup> will cap the total fees that can be adopted on June 9<sup>th</sup>.

<b>Table 5: Impact to Bundle Option 3 Pricing (incremental change in italics)</b>					
	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>
Current Bundle Option 3	\$ 47.59	\$ 50.03	\$ 59.42	\$ 61.24	\$ 62.48
Bulky Item Down to One Item	\$ 47.33	\$ 49.51	\$ 55.52	\$ 57.30	\$ 58.48
	<i>\$ (0.26)</i>	<i>\$ (0.52)</i>	<i>\$ (3.90)</i>	<i>\$ (3.95)</i>	<i>\$ (3.99)</i>
No Bulky Item Pickup	\$ 47.07	\$ 49.16	\$ 53.80	\$ 55.53	\$ 56.67
	<i>\$ (0.26)</i>	<i>\$ (0.35)</i>	<i>\$ (1.72)</i>	<i>\$ (1.76)</i>	<i>\$ (1.81)</i>
No Missed Collections Crew	\$ 46.70	\$ 48.80	\$ 53.41	\$ 55.13	\$ 56.26
	<i>\$ (0.37)</i>	<i>\$ (0.36)</i>	<i>\$ (0.39)</i>	<i>\$ (0.40)</i>	<i>\$ (0.41)</i>
No EV Pilot for Packers	\$ 45.85	\$ 48.56	\$ 52.20	\$ 54.09	\$ 55.91
	<i>\$ (0.86)</i>	<i>\$ (0.24)</i>	<i>\$ (1.21)</i>	<i>\$ (1.04)</i>	<i>\$ (0.35)</i>
Increasing Recycling Fund Usage	\$ 45.85	\$ 48.56	\$ 51.39	\$ 53.44	\$ 55.91
	\$ -	\$ -	<i>\$ (0.81)</i>	<i>\$ (0.65)</i>	\$ -
Changing Recycling Fund Schedule	\$ 45.85	\$ 50.18	\$ 49.77	\$ 53.44	\$ 55.91
	\$ -	<i>\$ 1.62</i>	<i>\$ (1.62)</i>	\$ -	\$ -
Lowering the Reserve Target	\$ 45.85	\$ 50.18	\$ 49.22	\$ 52.89	\$ 55.36
	\$ -	\$ -	<i>\$ (0.55)</i>	<i>\$ (0.55)</i>	<i>\$ (0.55)</i>
Removing Reserve Costs for Weekly Recycling	\$ 44.97	\$ 49.30	\$ 49.41	\$ 53.07	\$ 55.54
	<i>\$ (0.88)</i>	<i>\$ (0.89)</i>	<i>\$ 0.19</i>	<i>\$ 0.18</i>	<i>\$ 0.17</i>
Spreading Container Costs to Five Years	\$ 43.77	\$ 46.94	\$ 50.16	\$ 54.12	\$ 56.56
	<i>\$ (1.20)</i>	<i>\$ (2.36)</i>	<i>\$ 0.75</i>	<i>\$ 1.04</i>	<i>\$ 1.03</i>
Spreading Container Costs to Ten Years	\$ 42.72	\$ 45.87	\$ 49.04	\$ 52.96	\$ 55.39
	<i>\$ (1.05)</i>	<i>\$ (1.07)</i>	<i>\$ (1.11)</i>	<i>\$ (1.15)</i>	<i>\$ (1.17)</i>
<i>Total Monthly Price Change</i>	<i>\$ (4.87)</i>	<i>\$ (4.16)</i>	<i>\$ (10.38)</i>	<i>\$ (8.28)</i>	<i>\$ (7.08)</i>

Each mitigation measure is further discussed below.

*Removing Bulky Item Pick-up*

The COS study includes expenses associated with a bulky-item collections team that would allow customers to request two bulky-item pickups per year without additional fees. This service could promote equity for homeowners that do have access to vehicles that allow them to take large items to the landfill, and could also reduce illegal dumping.

ESD's staff report presents an option to reduce this team by half and only provide one pick-up per customer, as well as an option to remove this service entirely. In terms of fee mitigation measures, removing the bulky item pick-up teams has the least risk since it is largely an add-on based on community feedback. We note many private haulers do not offer this service for free, but rather have customers pay on a per item basis. *Removing this item would reduce fees by \$0.26 (one item pickup) or \$0.52 (no bulky item pickup) for the first year of the rates, with subsequent years having greater reductions.*

#### Removing the Missed Collections Crew

Another proposed new service is a dedicated missed collections crew. Missed collections are one of the most frequent complaints ESD receives and are largely due to vehicles being inoperable or drivers picking up routes from prior days. To address this, ESD is proposing a new crew dedicated to missed collections beginning in FY 2026.

While the need to address missed collections in the short term is real, we also note that given the other enhancements included in the new COS study, the long-term need for such a crew may be lower. Since missed collections are mostly related to trucks not being operational, the new expenditures supported by the proposed fees to increase maintenance and procurement of vehicles should improve the overall uptime of all packers. This should result in fewer missed collections in the long run. *Removing this service would reduce fees by an estimated \$0.37 per month.*

#### Removing the Electric Vehicle Pilot Program

The City's Climate Action Plan (CAP) calls for the complete transition of the City's fleet to zero emission vehicles by 2035, including ESD's packer fleet. Currently, packers run on compressed natural gas (CNG), which is derived from the methane gas that is generated at the landfill. While this is a renewable fuel source, it is not a zero-emission source.

Electric packers are starting to become available, and the COS study includes costs for electric packer procurement to pilot how these new vehicles could be integrated into ESD's operations. A large challenge with electric vehicle (EV) conversion, however, is the infrastructure necessary to charge the vehicles, which requires most facilities to be retrofitted.

While a pilot of this technology may ultimately be prudent, since full adoption of electric vehicles into the existing fleet will be a major undertaking, this pilot could be postponed to a future COS study and rate case as further developments in EV technology occur. The risk associated with not moving forward with a pilot now is that ESD could be delayed in adopting a zero-emission fleet, potentially putting it at odds with state regulations and the CAP goal. *Removing this expenditure would reduce fees by an estimated \$0.86 per month.*

#### Increasing the Use of the Recycling Fund

As mentioned, ESD proposed increasing use of the Recycling Fund to cover recycling collections costs in FY 2028 through FY 2030 above what was proposed in February. This option would *further* increase that fund's use, increasing the FY 2028 use from \$7.5 million to \$10 million, and increasing FY 2029 use from \$3.0 million to \$5.0 million. While this is feasible, potential tradeoffs include decreases in resources available to promote recycling activities

citywide, such as the collection of household hazardous waste, lithium batteries, and mattress recycling. Council should weigh whether it prefers to use these funds to lower rates for recycling customers, or whether these funds would be better put to other uses within the Recycling Fund. *This change would lower the proposed fee in FY 2028 by \$0.81 per month, and by \$0.65 per month in FY 2029.*

#### Changing the Schedule of Recycling Fund Use

One of the main drivers behind the jump in proposed fees in FY 2028 is the recommendation to move to weekly recycling pickup in that year. While our Office believes moving forward with weekly recycling collections is critical, this is an option to avoid large one-year rate jumps. Instead of using Recycling Fund dollars at \$15.0 million in FY 2027 and \$10.0 million in FY 2028, those subsidies could be reversed. This would cause an increase of \$1.62 per month in FY 2027, and a corresponding decrease in FY 2028. The impact to the Recycling Fund from this change would be minimal.

#### Lowering the Reserve Target

Another option for Council is to lower the desired reserve target for this enterprise fund. ESD is currently recommending a target of 25% to be reached in FY 2035, which is typical for the City's enterprise funds, including those managed by other departments (water and wastewater being the largest) as well as those that are managed by ESD, including the Recycling Fund and the Refuse Disposal Fund.

However, most of the other enterprise funds have distinct differences in the volatility of their revenues and expenditures as compared to the Solid Waste Management Fund. In regard to revenues, most other enterprise funds have more variability than is anticipated for the Solid Waste Management Fund: water and wastewater revenue is heavily dependent upon water sales, which vary by weather patterns. Revenue for other ESD funds is driven by utilization of the landfill since both funds generate their revenue from tipping fees. By contrast, the Solid Waste fund will have a set number of customers with a more consistent number of bins. While there might be some variability as customers change the number, type, and size of bins, most will select a level of service that will then remain unchanged for a long period of time. As such, revenue generation for the Solid Waste Management Fund should be more predictable.

Other enterprise funds also have more variable expenses, particularly for capital expenses. The Public Utilities Department (PUD) runs the largest Capital Improvement Program (CIP) in the City, and the ESD funds, particularly the Refuse Disposal Fund, typically fund large CIP projects as well, such as landfill improvements, transfer stations, or the new Organics Processing Facility. The Solid Waste Management Fund is not anticipated to finance similarly large capital projects, and as such large reserves are unlikely to be as necessary.

The General Fund has a reserve target of 16.7% of its revenues. Our Office believes this is a more appropriate target for the Solid Waste Management Fund. While this would not result in rate savings during the first two years, since reserve contributions in FYs 2026 & 2027 are set to bring the fund to a positive fund balance by the end of FY 2027, *changing the target could save around \$0.55 per month beginning in FY 2028.*

### Removing Reserve Costs for Weekly Recycling

The proposed rates reflect covering costs for new vehicles needed for weekly recycling over a 10-year period, starting in year one. While weekly recycling should be pursued, there is an option to instead spread costs over an eight-year period beginning in FY 2028. *This would lower rates in FY 2026 and FY 2027 by \$0.88 and \$0.89 per month, respectively.* Subsequent rates would be higher since these costs need to be made up in the subsequent years. Potential risks to this option are lower overall reserves since those costs would be incurred without having the additional revenue earlier, making it more likely that the fund will not maintain a positive balance in its initial years.

### Spreading out the Costs for New Container Replacement over Five or Ten Years

The final option we present is spreading out costs for new containers over the next five or ten years. Currently, costs for the *actual containers* are spread out over a ten-year period, but other *incremental costs* are not. *If these additional costs are spread out over a five-year period, there would be significant savings in FY 2026 (\$1.20 per month) and FY 2027 (\$2.36 per month), but rates would be higher in the later years. If the costs were spread over ten years, there would be additional savings in FY 2026 of \$1.05 per month and FY 2027 of \$1.07 per month, as well as savings in the later years that would be relatively smaller.*

This option carries the risk of incurring these costs without recovering the revenue in the same year. This would increase the likelihood of a negative fund balance for the enterprise fund in FY 2026 and FY 2027, with the Solid Waste Management Fund projected to establish a small positive fund balance in FY 2028.

## **MITIGATION OPTIONS THAT ARE NOT RECOMMENDED**

Two potential options to lowering fees have not been addressed yet in this report: not replacing existing black and blue containers, and not moving forward with weekly recycling. Our Office recommends that neither of these options be pursued.

### Container Replacement

The proposed fees include revenue needed to both replace all black and blue containers in year one, as well as the ongoing cost of replacing all containers in the future without an additional fee. While many have questioned the need for new black and blue containers, replacement of these containers is important to the overall success of ESD's collections services.

First, most black and blue containers used by City residents are well beyond their useful life, and ESD receives frequent complaints about broken containers. Beyond this, however, Proposition 218 compliance requires specific knowledge of the type and number of bins that are used by customers.

Proposed fees are specifically based on the type, size, and quantity of containers that each customer has. This prevents any customer from being charged more than the cost to provide the specific service received. In year one, ESD plans to charge every property the typical base bundle fee, and then adjust fees in year-two based on the service level chosen by customers during year-one. Due to the old People's Ordinance model, the City has not kept track of how many bins each property uses, and thus cannot charge for additional bins without first accounting

for them. This restriction results in year-one revenue being lower than the total revenue requirement by \$9.6 million, which is being backfilled with a General Fund subsidy in FY 2026.

By replacing all black and blue bins in the first year, the City will both ensure all customers have undamaged bins, and have the data needed to appropriately charge for these bins in subsequent years. Additionally, this change will ensure that City crews are only collecting from those bins for which residents are paying, which may protect the City from potential litigation moving forward. **Because of this, we recommend that Council not modify the schedule and costs included in the COS study for bin replacement beyond what was presented in the previous section.**

### Weekly Recycling

The other major new service proposed is moving from biweekly recycling collections to weekly collections in FY 2028. While this is an expanded service, we recommend it be maintained in any approved rate case.

First, we note the City is one of the last providers to maintain bi-weekly recycling. Most other haulers in the state, both public and private, have moved to weekly recycling collections because it improves diversion rates and reduces blue-bin contamination (trash being placed in recycling bins). Improving diversion rates is especially important to the City, not only to bring City collections in line with state requirements, but also to extend the life of the Miramar Landfill. Given current diversion and disposal rates, the Miramar Landfill is rapidly approaching the end of its useful life; if it closes, City crews will have to haul waste to the other landfills in the county, which will incur additional costs both for travel and disposal.

Weekly recycling is critical to meeting the City's Zero Waste goals and helping extend the life of the Miramar Landfill. **Because of these benefits, our Office strongly recommends that Council not modify the schedule and costs included in the COS study for weekly recycling beyond what was presented in the previous section.**

### **OTHER RECOMMENDATIONS**

Finally, our Office recommends that *Council consider and approve a rate case covering four years, FY 2026 through FY 2029*, as opposed to the five years currently proposed. We make this recommendation to 1) align the COS study for this service with other studies, and 2) to help mitigate unknowns that could arise during initial implementation of a fee and the establishment of the enterprise fund.

Regarding COS study alignment, it is important that all enterprise funds conduct routine COS studies of their fees to ensure that customers are paying an appropriate amount for the services received, as well as to periodically adjust rates and revenue to cover the actual cost of services. PUD has been working to move their water and wastewater studies onto a similar four-year cycle, and aligning ESD's next COS study with the PUD studies may help focus attention on these studies and allow for more regular and routine rate adjustments.

More importantly, a shorter rate-case will allow for rates to better align with sound COS principles. While we find the analysis and assumptions presented in this COS study to be

reasonable, sound, and informed by the most current knowledge that can be obtained, given that this is the first time the City is considering establishing a refuse collection fee, there will inevitably be a need for changes to current assumptions in the future. Shifts to ESD costs are possible, as is the potential that assumptions regarding types and quantities of bins per each customer will need to change, particularly if customers respond to rates by changing their level of service. Over the next four years, the City will gain a tremendous amount of data on these items, which will better inform future COS studies and ensure rates cover the costs of the service provided and that all ratepayers are paying based on the services they are actually receiving.

## CONCLUSION

The voters' approval of Measure B in 2022, allowing the City to impose a refuse collection fee, represents a major shift in the City's ability to provide reliable refuse collection services, and an opportunity to address a longstanding inequity that conferred an exclusive benefit – paid from the City's General Fund – onto only a subset of City residents. Prior to Measure B, the People's Ordinance resulted in most single-family residential properties being provided free refuse collection services, while other properties in the City (including multi-family residential properties) needed to contract with private waste haulers for the same service. Additionally, the refuse collection services provided by the City were forced to compete against other City programs – such as Police and Fire Department services and road maintenance – for funding, resulting in underfunded and often inefficient operations.

While the imposition of a waste collection fee will address these longstanding issues, it is also important that any fee be fully supported by a detailed COS study, closely follow Proposition 218 requirements, and properly allocate costs so that no customer pays more than the cost of providing that customer service. Over the last three years, ESD engaged in a process to meet those requirements, resulting in the COS Study and rate case being presented to Council.<sup>4</sup>

Our Office finds that ESD's COS study is sound and includes appropriate methods for allocating costs of services. The rate case presented to Council would result in the imposition of a \$47.59 per month fee on the typical customer, though actual amounts will vary based on the package of services selected by each customer.

Given cost sensitivity, this report also lays out a number of options to mitigate proposed fees, which if taken altogether would result in a typical monthly fee of \$42.72. It is important to note that any further decreases to fees would result in either decreased initial services and higher long-term costs and fees, or the need for additional General Fund subsidies, or both.

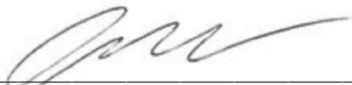
The item being presented to Council on April 14<sup>th</sup> is an action to set a June 9<sup>th</sup> Council hearing date for fee adoption and to authorize the distribution of public mailers to impacted properties. This action will not adopt fees, but will set the upper limit of fees that can be considered on June 9<sup>th</sup>. Given this, **we recommend that:**

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<sup>4</sup> That process resulted in updated and better information being available today than was available when Measure B was presented to voters; differences between assumptions three years ago and information known today is also discussed in this report.

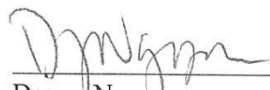
- 1) Council approve all proposed actions in ESD's staff report, including those associated with setting a hearing date to establish a solid waste management fee, beginning the Proposition 218 noticing and protest process, and setting a subsequent hearing date to use tax-roll-billing;
- 2) Council direct that the proposed rate case and fee schedule be modified to only cover four years, instead of five; and
- 3) Council ***EITHER*** direct the Independent Budget Analyst to work with Environmental Services and other appropriate departments to ensure mitigation options presented in Table 5 on page 9 of this report are presented as options for Council to implement at the June 9<sup>th</sup> hearing, ***OR*** direct Environmental Services to ensure that its Proposition 218 notification mailers reflect the implementation of those mitigation options.

Our Office would like thank staff of the Environmental Services Department for their assistance in our analysis. Our Office remains available to assist Council and City staff with any future next steps.




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Jordan More  
Principal Fiscal and Policy Analyst



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Donny Nguyen  
Senior Fiscal and Policy Analyst



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Charles Modica  
Independent Budget Analyst

Appendix 1

<b>Proposed Fee for 3-Container Bundle (cost per month) with All Potential Recommendations</b>					
Bundles	Effective Date				
	1-Jul-25	1-Jul-26	1-Jul-27	1-Jul-28	1-Jul-29
Bundle Option 1	\$31.93	\$34.55	\$35.70	\$39.36	\$41.45
Bundle Option 2	\$38.05	\$40.89	\$42.32	\$46.10	\$48.35
Bundle Option 3	\$42.72	\$45.74	\$47.38	\$51.25	\$53.63
<b>Proposed Fee for Additional Containers (cost per month per container)</b>					
35-gal trash container	\$6.89	\$7.15	\$7.46	\$7.60	\$7.78
65-gal trash container	\$13.05	\$13.54	\$14.13	\$14.39	\$14.74
95-gal trash container	\$17.79	\$18.45	\$19.26	\$19.62	\$20.09
95-gal recycling container	\$9.57	\$12.63	\$12.95	\$17.65	\$19.82
95-gal organics container	\$12.93	\$13.02	\$13.42	\$13.57	\$13.82