# Performance Audit of the City's Trash, Recycling, and Organics Collection and Handling

***MAY 2025*** | OCA-25-08

## Finding 1

The City could recover at least $4 million more per year by increasing hauler fees to cover City costs.

## Finding 2

The City can do more to hold itself and private waste haulers accountable to meet the Climate Action Plan targets, which are designed to help limit poor air quality, extreme weather events, and other negative impacts of climate change.


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# Performance Audit of the City's Trash, Recycling, and Organics Collection and Handling

## *Why OCA Did This Study*

To combat landfill waste's negative effects, the City set targets to divert all waste from landfills by 2040. However, the City has not met its targets and the City's oversight of private waste haulers (haulers) is critical to achieving these targets, since the haulers collect most of the waste in San Diego.

Therefore, we conducted a performance audit with three objectives:

(1) Determine if the City's franchise hauler agreements ensure compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations;

(2) Determine if the City's fee structure for waste, recycling, and organics collection and disposal conducted by franchise haulers ensures compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations and goals; and

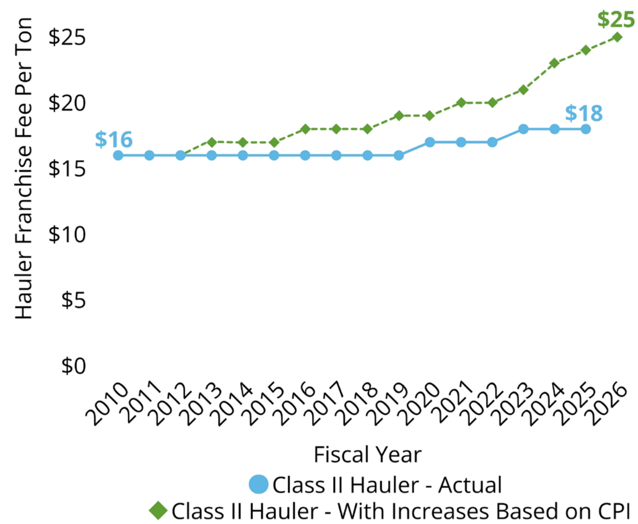
(3) Determine if the City's oversight of the franchise hauler agreements ensure compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, relevant state and local regulations, and required fees.

## *What OCA Found*

**Finding 1: The City could recover at least $4 million more per year by increasing hauler fees to cover City costs.**

- **Franchise fees have not kept pace with rising City costs**, despite Municipal Code requirements that they compensate for the value of the franchise granted.
- Since 2010, the City has missed out on more than $25 million in revenue total because franchise fees were not adjusted for inflation like AB939 fees are.
- **If franchise fees had kept pace with inflation, the City would have collected $18 million** in FY2024, instead of just $14 million.
- **The City's current fee structure does not incentivize recycling**, making it harder for the City to reduce landfill waste.

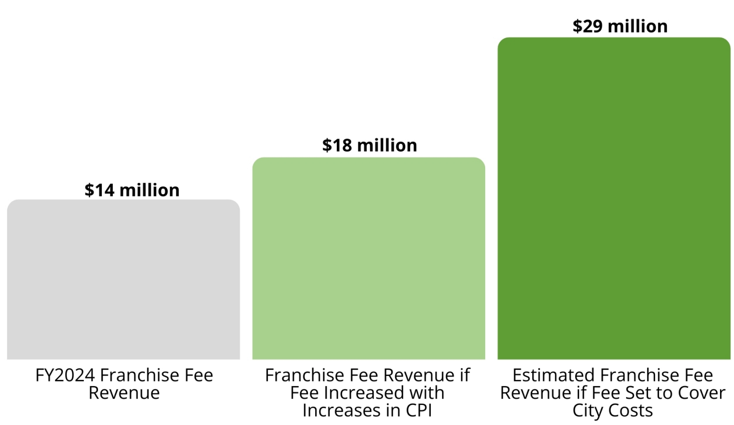
***Exhibit 7: Franchise Fees Have Only Increased by 13% Since 2010, While CPI Increased by 54%***




Source: OCA generated based on City Council resolutions and CPI data.

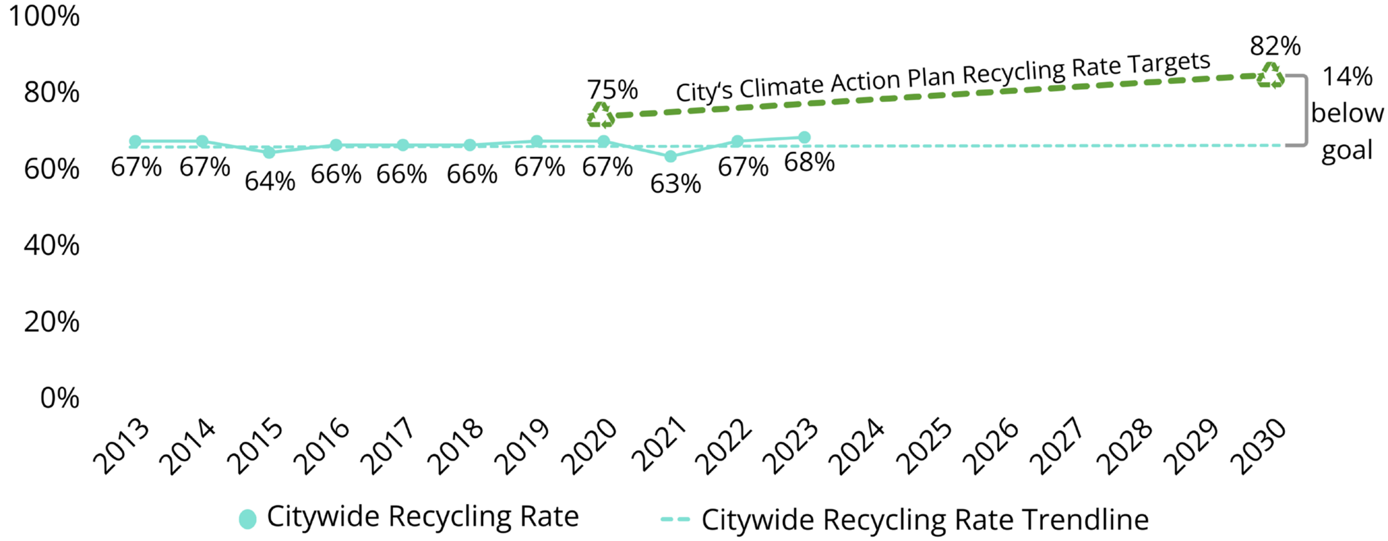
- However, even with increases for inflation, we estimate franchise fee revenue would not fully cover the City's costs. We estimate that the **City likely spends $29 million per year repairing street damage from private waste hauler trucks and for oversight** of the franchise hauler agreements.
- Increasing franchise fees to cover City costs would not necessarily translate to substantially increased prices for customers.

***Exhibit 10: The City's Current Franchise Fee Revenue Does Not Keep Pace with the City's Street Damage and Oversight Costs***




Source: OCA generated based on data from SAP, the Office of the City Treasurer, ESD and the Transportation Department.

*Exhibit 13: The City Did Not Meet the Climate Action Plan Target for 2020 and Currently Falls 14 Percentage Points Below the Upcoming 2030 Target*




Source: OCA generated based on the City's Zero Waste Plan, Climate Action Plan, and ESD recycling rate data.

**Finding 2: The City can do more to hold itself and private waste haulers accountable to meet the Climate Action Plan targets, which are designed to help limit poor air quality, extreme weather events, and other negative impacts of climate change.**

- **The City's recycling rate has remained stagnant** around 67 percent **for the past decade**.
- The City failed to meet its target recycling rate of 75 percent in 2020 and is not on track to meet upcoming targets.
- Private waste haulers collect most of San Diego's waste. The City must increase **haulers' diversion rates for the City to meet its targets and reduce landfill waste**.
- Haulers' collective diversion rate increased when ESD set and increased diversion rate requirements. However, when ESD stopped increasing diversion rate requirements, haulers' collective diversion rate became relatively stagnant.
- ESD has not consistently required compliance plans or assessed liquidated damages. ESD also allowed **four haulers to continue to operate in the City, despite repeatedly not meeting the diversion rate requirements**.
- **The City cannot meet its targets unless City Collections also increases its diversion rate**, which was 32 percent in 2023.

## *What OCA Recommends*

We made **8 recommendations** to help ensure the City recovers costs and reduces landfill waste. Key recommendations include:

- Propose an action to City Council to set franchise fees at the rate the fees would be if they had increased by CPI since FY2010 and require the fees to increase annually based on CPI.
- Conduct a fee study to assess the appropriate franchise fee and AB939 fee rates to recover City costs and incentivize recycling.
- Propose amendments to the franchise agreements to include increases in diversion rate requirements.
- Present each hauler's performance in meeting diversion rate requirements before City Council extends the hauler's franchise agreement.
- Set a diversion rate performance goal for City Collections.

City Management **agreed to all 8 of the recommendations.**

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.

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# Background

Landfill waste emits greenhouse gases as it decomposes, which contribute to negative impacts of climate change, such as poor air quality and extreme weather events. To combat these negative effects, the City of San Diego (City) set a target to divert 75 percent of all waste from landfills by 2020 and 100 percent by 2040.[1] However, the City is not meeting its targets and the City's oversight of private waste haulers is critical to achieving these targets, since the private waste haulers collect the majority of the waste in San Diego. Therefore, we conducted a performance audit of the City's Trash, Recycling, and Organics Collection and Handling in accordance with the Office of the City Auditor's Fiscal Year (FY) 2024 Audit Work Plan. The objectives of this audit were to:

1. Determine if the City's franchise hauler agreements ensure compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations;
2. Determine if the City's fee structure for waste, recycling, and organics collection and disposal conducted by franchise haulers ensures compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations and goals; and
3. Determine if the City's oversight of the franchise hauler agreements ensures compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, relevant state and local regulations, and required fees.

## The City Council adopted the Zero Waste Plan to reduce landfill waste.

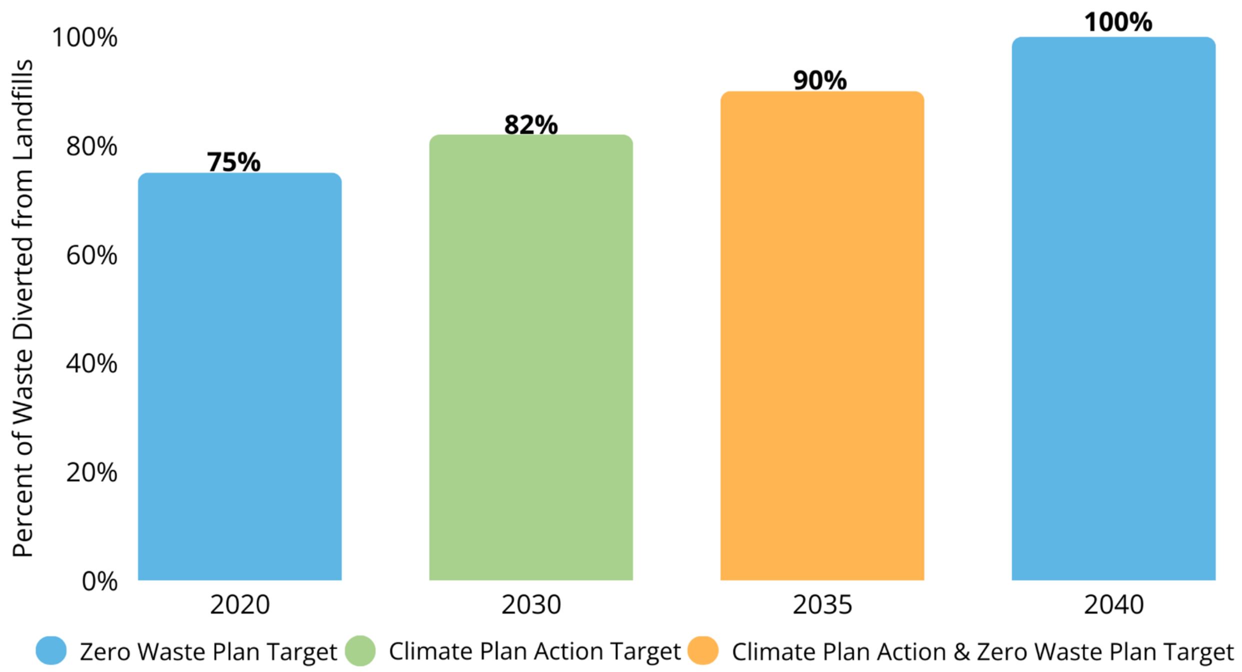
Most residential and commercial waste ends up in landfills, left to decompose over decades, producing greenhouse gases that contribute to climate change and its effects, including the increased risk of extreme weather events, such as floods and heat waves; constrained resources, such as water and food production; and hazardous air pollutants that can impair the health of residents and cause premature death. Additionally, according to the City's Climate Action Plan, the effects of climate change, such as poor air quality, extreme heat, and infrastructure degradation, disproportionately impact communities of color in San Diego. Therefore, failing to reduce greenhouse gas emissions and address the impacts of climate change not only negatively impacts all residents of San Diego, but raises equity concerns as low-income communities, communities of color, and indigenous peoples and tribal nations suffer first and worst from climate disasters, according to the City's Climate Equity Index Report.

1 Throughout the report, when we refer to private waste haulers operating within the City, we are referring to the geographical area of the City of San Diego. Similarly, when discussing the City's overall recycling rate and overall diversion rate, we are referring to the City of San Diego as a whole, encompassing its residents and businesses.

To limit landfill waste, reduce harmful greenhouse gases, and encourage recycling, the City Council adopted the Zero Waste Plan in 2015. As shown in **Exhibit 1**, the Zero Waste Plan supports the City's broader Climate Action Plan targets and sets incremental targets to divert 75 percent of all waste from landfills by 2020, 90 percent by 2035, and 100 percent by 2040. In the City's Climate Action Plan, the strategy tied to reducing landfill waste, eliminating food waste, and capturing landfill gas is essential to meeting the City's overall greenhouse gas reduction targets.

*Exhibit 1*

**The City's Climate Action Plan and Zero Waste Plan Set Increasing Targets to Divert 100 Percent of Waste from Landfills by 2040**




Source: OCA generated based on the City's Climate Action Plan and Zero Waste Plan.

## San Diego diverts waste from landfills at a higher rate than many other large cities in the state and county, but it is not meeting its Zero Waste Plan targets.

The City has diverted waste from landfills at a higher rate compared to most other large California municipalities, as shown in **Exhibit 2**, but still needs improvement to reach its targets. To measure waste diversion, California's Department of Resources Recycling and Recovery (CalRecycle) calculates the disposal rate by estimating the amount of trash a city was expected to dispose of based on employment data and disposal trends. That estimate is then compared to the actual amount of trash disposed in landfills. Using CalRecycle's most recent data and a methodology approved by CalRecycle, ESD calculates the City's recycling rate annually. The City's recycling rate in 2022 was 67 percent. This is below the City's 2020 target of 75 percent.

*Exhibit 2*

**San Diego's Recycling Rate is Higher Than 6 of the 10 Largest Cities in California and 3 of the 5 Largest Cities in the County**

| | Municipality | 2022 Recycling Rate | Franchise Structure |
|---|---|---|---|
| Major California Cities | San Francisco | 81% | No Franchise |
| | Oakland | 74% | Exclusive |
| | Long Beach | 68% | Non-Exclusive |
| | San Diego | 67% | Non-Exclusive |
| | Los Angeles | 61% | Exclusive |
| | San Jose | 61% | Exclusive |
| | Fresno | 54% | Exclusive |
| | Anaheim | 52% | Exclusive |
| | Sacramento | 48% | Non-Exclusive |
| | Bakersfield | 45% | No Franchise |
| San Diego County | Oceanside | 72% | Exclusive |
| | San Diego | 67% | Non-Exclusive |
| | Chula Vista | 65% | Exclusive |
| | San Diego County | 61% | Non-Exclusive |
| | Carlsbad | 60% | Exclusive |
| | Escondido | 44% | Exclusive |

Note: The differences among the franchise structure categories are discussed in the following section.

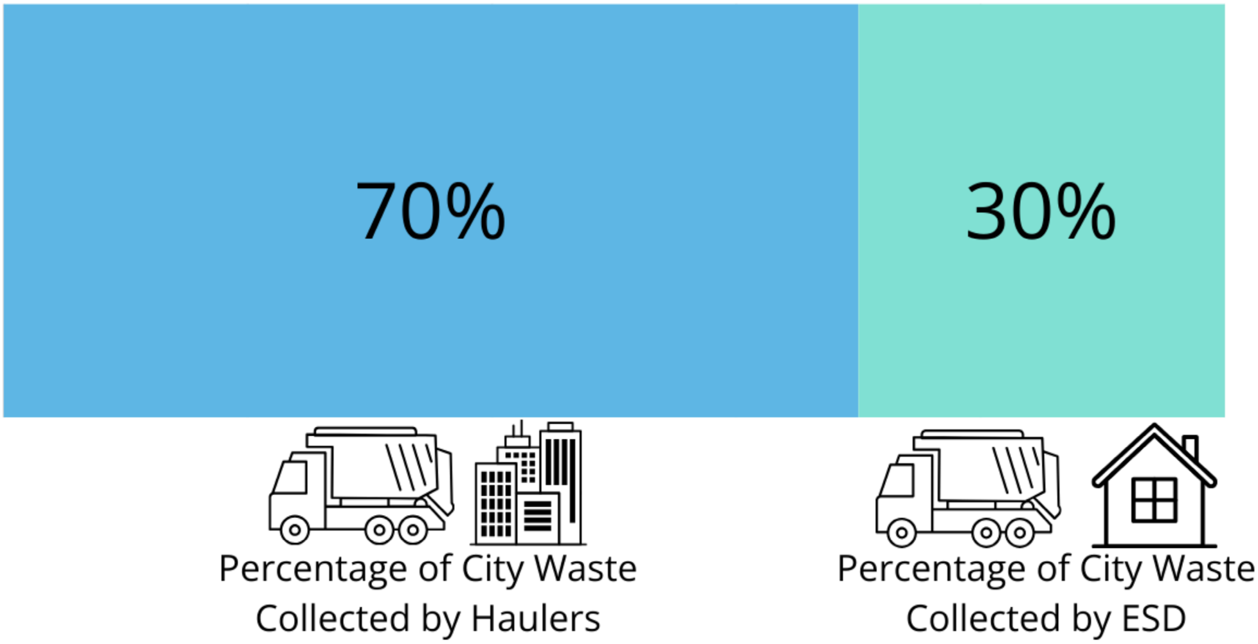
Source: OCA generated based on the most recent data available online from CalRecycle on each municipalities' recycling rate based on employment.

## Most of the City's waste is collected by private waste haulers.

Private waste haulers and the City, specifically the Environmental Services Department (ESD), collect the City's waste. While ESD Collection Services Division picks up landfill, recycling, and organic waste from single-family homes and small multi-family properties, most multi-family residences and all businesses must contract with a private waste hauler approved by the City. As shown in **Exhibit 3**, 70 percent of waste collected in the City is collected by private waste haulers.

*Exhibit 3*

**Private Waste Haulers Collect Most of the City's Waste**




Source: OCA generated based on ESD data.

The City operates under a non-exclusive franchise agreement system, meaning the City grants haulers who want to collect waste in San Diego permission to do so through franchise agreements. The franchise agreements do not restrict where haulers can operate, so customers anywhere in the City can choose any of the haulers they would like to contract with.

Most cities in California use a franchise system that limits waste collection to one or more specific companies. Cities can establish these franchise agreements with haulers through a bidding process or direct negotiations.

- In non-exclusive franchise systems, the city authorizes multiple private waste haulers to operate within the city and compete for customers. According to a 2018 consultant study for the City, non-exclusive franchise systems result in more damage to roadways, more traffic, more noise, and more greenhouse gas emissions than exclusive franchise systems. At the same time, some cities have seen customers pay lower prices for service under a non-exclusive franchise system.
- In exclusive franchise systems, only one hauler is authorized to provide waste collection services in the city, or the city is organized into districts and a single hauler is authorized to operate in each district. The same consultant study noted that a key reason other cities have implemented exclusive systems is their potential to improve waste diversion from landfills.
- If a city does not have a franchise system, that means the city collects waste itself or uses a vendor, through a contract or permit, but does not grant private waste haulers franchise rights to operate in the city.

*In San Diego, 3 parent companies collectively haul more than 90% of the waste.*

In the City's non-exclusive franchise agreement system, haulers are classified into Class I and Class II categories. Class I haulers collect a maximum of 75,000 tons of solid waste per year, while Class II collect more than 75,000 tons. As shown in **Exhibit 4** below, there are currently 21 franchise haulers permitted to operate in the City, but three parent companies own many of the smaller companies and collectively, these parent companies haul more than 90 percent of the waste. Only 15 of the 21 permitted haulers are active as some have not collected waste in years.

*Exhibit 4*

### 21 Franchise Haulers Are Permitted to Provide Waste Collection Services in the City

| Hauler | Percent of Waste Collected in 2023 |
|---|---|
| **Class II Haulers, Organized by Parent Company** | |
| **Republic**<br>Republic Services (Allied)<br>Tayman Industries<br>Dependable Disposal & Recycling* | 40% |
| **EDCO**<br>EDCO Disposal Corporation<br>Sani-Tainer Inc.<br>Express Waste & Recycling<br>Daily Disposal Services, Inc.<br>EDCO Waste & Recycling Services, Inc.<br>WEBCO* | 27% |
| **Waste Management**<br>Waste Management of San Diego<br>USA Waste of California, Inc.<br>BDC Special Waste Services*<br>Coast Waste Management, Inc.<br>Emerald Waste and Recovery*<br>Moor Refuse*<br>Reliable Waste* | 25% |
| **Class I Haulers** | |
| **Ware Disposal Co., Inc.** | 4% |
| **Allan Company**** | 2% |
| **Debris Box** | 2% |
| **Diamond Solid Waste Services** | 1% |
| **Universal Waste Systems, Inc.** | <1% |

* These haulers have not reported disposing waste in the city for at least two years.

** Allan Company only collects recyclables from commercial and industrial businesses.

Note: Due to rounding, percentages equal more than 100 percent.

Source: OCA generated based on 2023 ESD tonnage data.

## Haulers pay fees to the City based on the tons of waste they collect.

*Franchise fees are intended to recover the cost of allowing companies to profit from a public resource, the cost of the impact to the public resource, and the cost of oversight.*

To operate within the City, haulers are required to comply with the terms of their franchise agreements and pay a franchise fee per each ton of waste collected within the City. The fees are intended to recover the cost of allowing private companies to profit from a public resource, the cost of the impact to the public resource, and the cost of their oversight. In FY2024, the franchise fee was $17 per ton for Class I haulers and $18 per ton for Class II haulers, and the City collected $14 million in revenue from franchise fees from haulers.

In addition to franchise fees, haulers pay a California Assembly Bill 939 (AB939) fee, which covers the cost of preparing, adopting, and implementing state-mandated waste diversion programs, such as the Integrated Waste Management Plan. AB939 fees pay for education and outreach programs, activities, and materials related to recycling and waste reduction. In FY2024, AB939 fees from haulers totaled just under $9 million. These fees apply to all solid waste collected in the City.

Franchise agreements also require haulers to report the tons of waste they collect to the City through quarterly reports. The Office of the City Treasurer (Treasurer) audits the tons of waste haulers reported and the fees they paid to ensure accuracy and compliance with City regulations and underlying franchise agreements with each hauler. Additionally, ESD uses these reports to track haulers' progress in meeting diversion rate requirements, discussed in the following section.

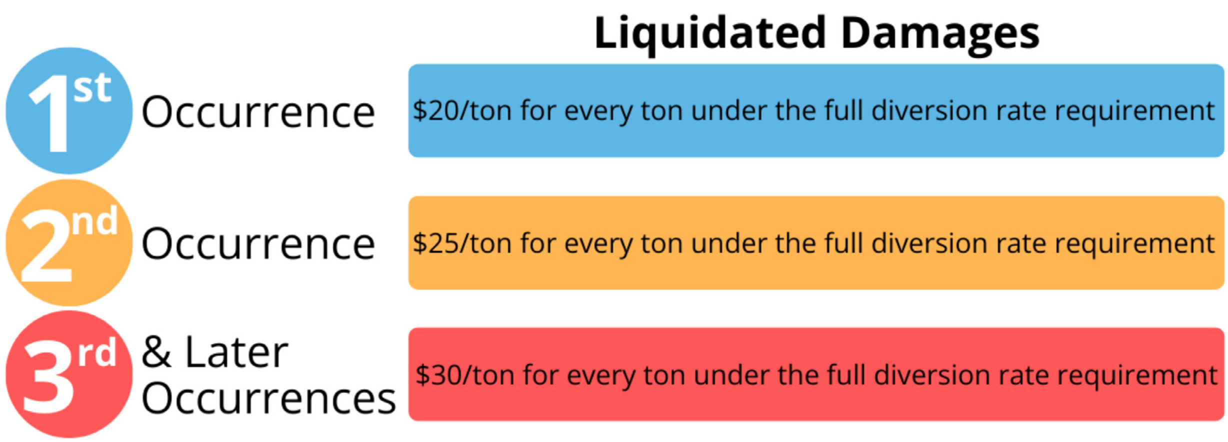
## To meet the City's Zero Waste Plan targets, ESD requires private waste haulers to ensure at least 50 percent of the waste they collect is diverted from landfills to recycling or organics processing.

Franchise agreements require haulers to meet diversion rates. These diversion rate requirements set a minimum percentage of haulers' collected waste that must be kept out of landfills through recycling, composting, or other methods. ESD calculates haulers' diversion rates by dividing the tons of recycling and organic waste haulers collect by the total amount of waste they report to the City, including landfill waste. Haulers' diversion rates differ from the City's recycling rate in both calculation and function. Diversion rates are calculated by the City to monitor haulers' individual performance and compliance with franchise agreements. The City's recycling rate is calculated by CalRecycle to assess the City's overall performance towards waste diversion.

If haulers do not meet diversion rate requirements, the franchise agreements set out enforcement tools ESD can use, such as compliance plans and liquidated damages. ESD applies liquidated damages based on the number of tons a hauler falls below the diversion rate requirement. The liquidated damages rate increases each time a hauler does not meet the annual diversion rate requirement, as shown in **Exhibit 5**.

*Exhibit 5*

**The City's Liquidated Damage Rates Increase Each Year That Haulers Do Not Meet Annual Minimum Diversion Rate Requirements**




Source: OCA generated based on the City's previous and current franchise hauler agreements.

## ESD oversees haulers, among other waste management responsibilities.

ESD oversees the franchise hauler system by updating franchise agreements, ensuring haulers report required data, monitoring compliance with diversion rates, and assessing liquidated damages when haulers fail to meet their diversion rate requirements. In addition to overseeing franchise haulers and collecting waste from single-family homes, ESD manages Citywide recycling and waste diversion programs, such as the Organic Waste Recycling Program and Blue Bin Recycling Program, among many others.

ESD also operates the Miramar Landfill and Greenery, where more than half of the City's waste is taken. To reduce landfill waste, the Miramar Greenery processes yard trimmings and food scraps into compost, mulch, and wood chips. **Exhibit 6** illustrates an ESD truck disposing of organic waste at the Miramar Greenery.

*Exhibit 6*

**The City Composts Organic Waste at the Miramar Greenery**


Source: Auditor picture taken during a site visit to the Miramar Greenery.

In FY2025, ESD was budgeted $194.3 million across all funds and was budgeted 609 full time employees to support its operations.

## The City plans to begin charging to recover the cost of its collections.

In 2022, San Diego residents voted to allow the City to charge a fee for City-provided trash and recycling collection services to eligible single-family residential properties and multi-family residential properties with up to four residences on a single lot. The City's People's Ordinance previously prohibited the City from charging single-family residents for trash collection. As a result, ESD began working with a consultant to conduct a cost-of-service study to assess potential fee amounts and evaluate service levels based on community feedback. ESD presented the results of the study to City Council on April 14, 2025.

## OCA's 2014 audit recommended that the City take additional steps to improve recycling rates.

*OCA's 2014 audit made recommendations to improve recycling rates and assess how an exclusive franchise system could reduce pollution and street damage.*

The Office of the City Auditor (OCA) conducted a performance audit of the City's waste reduction and recycling programs in 2014.[2] At the time, we found ESD had implemented programs that helped increase the City's recycling rate from 50 percent to 68 percent, but made recommendations for the City to continue to improve recycling rates and assess the extent to which a districted exclusive franchise system could reduce street deterioration, air pollution, and greenhouse gas emissions. Relevant key recommendations included:

- Revise the current franchise agreements to establish a target diversion rate requirement of between 50 percent and 60 percent by 2020. The revised franchise agreements should include incremental increases in the diversion rate to achieve the 50–60 percent goal by 2020.
    - Current status: Since 2020, all franchise hauler agreements have required a 50 percent diversion rate.
- Include City Recycling Ordinance enforcement and minimum diversion requirements in all franchise agreements with liquidated damages for non-compliance.
    - Current status: Franchise agreements permit the City to assess liquidated damages if haulers do not comply with the minimum diversion rate requirements.
- Review haulers' minimum diversion rate requirements annually to ensure hauler diversion rates are adequate to achieve the City's Zero Waste targets.
    - Current status: Franchise agreements were revised, requiring the City to annually review and assess if the diversion requirement should increase.
- Present the results of a study on using a districted exclusive franchise system as an alternative to the current non-exclusive franchise system.
    - Current status: The consultant completed the study in 2018 and recommended the City use a districted exclusive franchise system to reduce traffic, air quality emissions,

2 Performance Audit of the Environmental Services Department's Waste Reduction and Recycling Programs, issued August 2014: https://www.sandiego.gov/sites/default/files/15-003_Environmental_Services_Recycling.pdf

greenhouse gas emissions, and noise.[3] However, ESD staff recommended City Council not proceed with transitioning to a districted system, citing issues the City of Los Angeles was experiencing at the time transitioning from a non-exclusive to an exclusive franchise system. The City Council ultimately chose to retain the non-exclusive system based on ESD's recommendation, but the intent at the time was to increase franchise fees to account for the street damage caused by franchise haulers and to better reflect the value of the franchise.

3 R3 Consulting Group Districted Exclusive Collection System Study, submitted August 2018: https://sandiego.hylandcloud.com/211agendaonlinecomm/Documents/ViewDocument/Attachment%20A%20-%20Districted%20Exclusive%20Collection%20Study%20Final%20Report.pdf.pdf?meetingId=1320&documentType=Agenda&itemId=28322&publishId=119659&isSection=false

# Finding 1

***The City could recover at least $4 million more per year by increasing hauler fees to cover City costs.***

## Finding Summary

Although the City of San Diego (City) requires private waste haulers to pay franchise fees to collect waste and use the City's streets and rights-of-way to operate, franchise fees have not kept pace with rising expenses, resulting in the City absorbing the increased costs of oversight and impacts to infrastructure. The City collected $14 million in franchise fees from haulers in fiscal year 2024, but we estimate if franchise fees had kept pace with increases in the Consumer Price Index since 2010, the City would have collected over $18 million. Moreover, the franchise fee in place in 2010 may not have accounted for all of the City's oversight costs and hauler impacts. We estimate that the City likely spends $29 million per year repairing street damage from private waste hauler trucks and on oversight costs. As a result, the City could be absorbing as much as $15 million per year in costs.

Additionally, while the City's AB939 fee is intended to support recycling, it is unclear whether the current fee rate is effective. The City is not meeting its Climate Action Plan targets, as discussed in Finding 2, which suggests that existing policies, including the AB939 fee structure, may not be effectively supporting recycling. Furthermore, because haulers pay the same fee rates whether waste is sent to the landfill or recycled, there is little financial incentive to prioritize recycling.

Therefore, to help ensure the City's revenue supports its waste reduction program needs and aligns with its long-term environmental goals, we recommend the City conduct a fee study and adjust hauler franchise and AB939 fees to keep up with oversight and infrastructure costs. Additionally, in the meantime, we recommend the City set the franchise fee at the rate it would have been had the fee increased based on increases in the Consumer Price Index, similar to the AB939 fee.

## Without regular adjustments, franchise fees have not kept pace with rising costs, despite Municipal Code requirements that they compensate for the value of the franchise granted.

San Diego Municipal Code Section 66.0107 requires compensation for the value of the franchise issued to private waste haulers. The City grants haulers a special right through a franchise agreement to use public streets for their business. According to the franchise agreement, haulers agree to pay franchise fees in an amount approved by the City Council, which may modify the fee at any time through a Council Resolution. The fees are intended to recover the cost of allowing private companies to profit from a public resource and the cost of overseeing their use. However, as shown in **Exhibit 7**, since fiscal year (FY) 2010, the City has increased the franchise fees only twice, by $1 per ton in FY2020 and an additional $1 per ton in FY2023. Without regular adjustments, these fees have not kept pace with increasing costs, limiting the City's ability to recover the full value of the franchise granted to haulers.

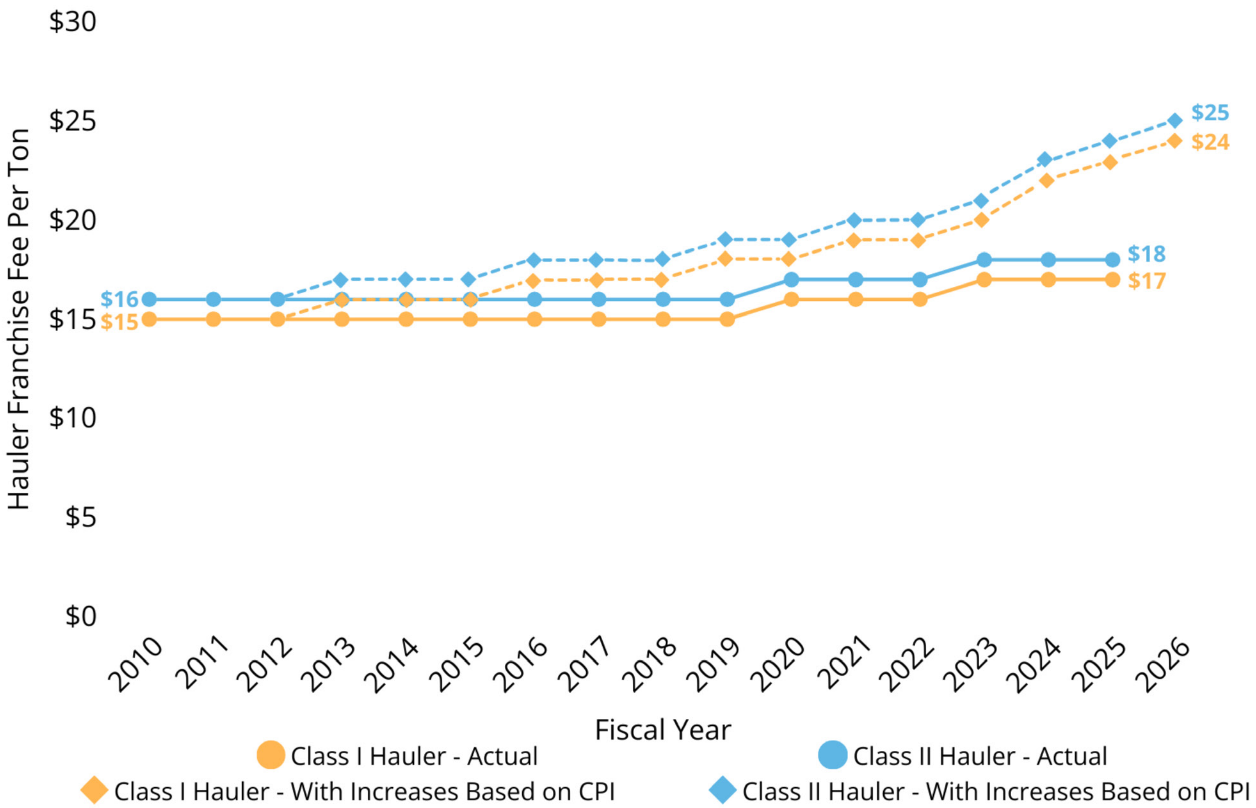
## The City does not annually increase the franchise fees based on the Consumer Price Index, unlike the AB939 fee or other benchmarked California cities.

Unlike other benchmarked California cities and the City's California Assembly Bill 939 (AB939) fee, which is also charged to haulers, the City's franchise fee does not increase annually based on the Consumer Price Index (CPI).[4] In total, the franchise fee increased by 13 percent from 2010 to 2025. Meanwhile, the CPI for San Diego increased by approximately 54 percent from 2010 to 2024.

4 According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) measures the average change in price over time of consumer goods and services. The CPI is the most noted measure of consumer inflation in the United States.

*Exhibit 7*

**Franchise Fees Have Only Increased by 13% Since 2010, While CPI Increased by 54%**




Source: OCA generated based on City Council resolutions and the U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers San Diego-Carlsbad, CA 2008–2025.

As shown in **Exhibit 8**, if the franchise fee had increased along with CPI starting in FY2011, the franchise fee for FY2026 would have been $25 per ton.[5] In FY2024, the fee based on CPI would have generated approximately $18 million in revenue.[6] However, the City currently charges franchise fees at a rate of $17 per ton for Class I haulers and $18 per ton for Class II haulers, and generated $14 million in franchise fee revenue in FY2024.

5 These calculations use FY2010 as the base year because FY2010 was the most recent substantial increase in the franchise fees. (City Council raised the franchise fees by 33 percent from FY2009 to FY2010, citing economic indicators.) We calculated what the franchise fee would have been each fiscal year based on the franchise fee from the previous fiscal year plus the CPI increase from the past full calendar year. (For example, for FY2011, the fiscal year starts on July 1, 2010, so the last full calendar year would have been 2009.)

6 This estimate is based on the initial rate of $16 per ton for Class II haulers. Class II haulers hauled more than 90 percent of the waste hauled by private waste haulers.

### *Exhibit 8*

## Since 2010, the City Has Missed Out on More Than $25 Million in Revenue Because Franchise Fees Were Not Adjusted for Inflation

| Fiscal Year | Actual Franchise Fee for Class II Haulers* | Franchise Fee for Class II Haulers if the Fee Increased with CPI* | Actual Franchise Fee Revenue | Estimated Revenue if Franchise Fee Increased with CPI | Foregone Revenue |
|---|---|---|---|---|---|
| **2010** | $16 | | $9,169,153 | $9,169,153 | Base Year |
| **2011** | $16 | $16 | $9,004,300 | $9,004,300 | $0 |
| **2012** | $16 | $16 | $9,004,300 | $9,205,643 | $118,138 |
| **2013** | $16 | $17 | $9,607,187 | $10,024,043 | $416,856 |
| **2014** | $16 | $17 | $10,123,217 | $10,731,463 | $608,246 |
| **2015** | $16 | $17 | $10,147,652 | $10,897,212 | $749,560 |
| **2016** | $16 | $18 | $10,786,619 | $11,803,460 | $1,016,841 |
| **2017** | $16 | $18 | $10,993,506 | $12,222,328 | $1,228,822 |
| **2018** | $16 | $18 | $12,960,625 | $14,697,512 | $1,736,887 |
| **2019** | $16 | $19 | $12,663,875 | $14,791,824 | $2,127,949 |
| **2020** | $17 | $19 | $13,393,541 | $15,224,468 | $1,830,927 |
| **2021** | $17 | $20 | $12,708,051 | $14,791,956 | $2,083,905 |
| **2022** | $17 | $20 | $13,122,934 | $15,503,996 | $2,381,062 |
| **2023** | $18 | $21 | $16,189,689 | $19,003,928 | $2,814,239 |
| **2024** | $18 | $23 | $14,394,289 | $18,197,461 | $3,803,172 |
| **2025** | $18 | $24 | $13,500,000** | $17,937,299 | $4,437,299 |
| **2026** | $18 | $25 | | | |
| **Total** | | | | | **$25,353,903** |

*This franchise fee amount is based on the initial rate of $16 per ton for Class II haulers. Class II haulers hauled the vast majority of waste hauled by private waste haulers in the City.

** FY2025 franchise fee revenue is budgeted revenue rather than actual revenue, since FY2025 has not concluded, as of this report's publication.

Source: OCA generated based on City Council resolutions, U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers San Diego-Carlsbad, CA 2008–2025, City of San Diego Adopted Budgets FY2010–FY2025, and City revenue data from SAP.

In four of the nine other largest cities in California, franchise fees are based on haulers' gross receipts.[7] Since gross receipts change with economic conditions, those cities' fees adjust with cost-of-living increases. In contrast, because the City's franchise fees are a flat rate, they stay the same each year, unless they are manually increased. This causes the fees to lose their value over time. As a result, since 2010, the City has forgone an estimated $25 million in revenue, as shown in **Exhibit 8**. Therefore, setting the franchise fees to increase annually based on CPI, like the AB939 fee, could help ensure that revenue keeps up with expenses and that the fees reflect the current value haulers receive from operating in the City.

7 According to the Internal Revenue Service, gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses.

## We estimate the City's franchise fees are lower than franchise fees collected in many comparable cities.

While CPI adjustments would prevent the franchise fees from losing value over time, they would not address whether the franchise fees were set at an appropriate rate in the first place. We estimate that the City's franchise fees are lower than many other California cities, as shown in **Exhibit 9** below.

*Exhibit 9*

### We Estimate the City's Franchise Fees are Lower Per Ton Than the Franchise Fees of Other Comparable Cities in the State and County

| Municipality | Franchise Structure | Fee Structure | Estimated Fee Per Ton |
|---|---|---|---|
| San Jose | Exclusive | Flat annual fee applicable to commercial waste only, adjusted for CPI | $49/ton |
| Chula Vista | Exclusive | Fee based off a percentage of gross receipts | $41/ton |
| Sacramento | Non-Exclusive | Fee based off a percentage of gross receipts of disposed waste, excluding diverted waste | $32/ton |
| Long Beach | Non-Exclusive | Fee based off a percentage of gross receipts | $30/ton |
| Los Angeles | Exclusive | Fee based off a percentage of gross receipts | $23/ton |
| San Diego | Non-Exclusive | Flat fee charged per ton | $17 or $18 /ton |
| Carlsbad | Exclusive | Fee based off a percentage of gross receipts | $17/ton |
| Oceanside | Exclusive | Fee based off a percentage of gross receipts | $15/ton |
| San Diego County | Non-Exclusive | Fee charged per ton, adjusted for CPI | $9/ton |
| Anaheim | Exclusive | No franchise fees applied | $0 |

Note: These estimates are based on the most recently available data from 2018–2025. To estimate the fee per ton in jurisdictions that collect revenue based on a percentage of gross receipts, we used the franchise fee revenue the City received from haulers in a period and divided it by the total applicable tonnage the haulers disposed of in that same period. Additionally, San Jose and Sacramento limit their franchise fees to certain types of waste, therefore the rate was calculated using only those applicable types of waste.

Source: OCA generated based on data provided by the municipality or publicly available data on franchise fee revenue and latest available reported disposed tons.

We also found that some cities charge additional fees on top of franchise and AB939 fees, to cover specific programs and services. For example, Chula Vista charges haulers Annual Bonus Payments as additional compensation for being granted the franchise by the City, as well as Recycling Education Fees to partially fund public information and enforcement, that both increase yearly. Oceanside charges a monthly Solid Waste Programming Fee to reimburse the City for waste-related services and programs, including waste and recycling administration.

*The City does not have formal documentation explaining the value of the franchise or what costs the fees should cover.*

While other cities charge separate fees to cover these costs, it is unclear whether the City of San Diego absorbs these costs or if they are covered by the existing franchise and AB939 fees. This is unclear because the City does not have any formal documentation or study explaining the value of the franchise or what costs the fees should cover. Instead, these fees were set through negotiations with haulers, rather than through a formal cost analysis. Because the fees were determined through negotiations, the City does not have a formal process to assess whether the haulers are paying an appropriate amount for the value of the franchise or AB939 fees.

For user fees, Council Policy 100-05 recommends, and Administrative Regulation 95.25 requires, departments to annually update fees based on CPI inflation estimates and to conduct a comprehensive user fee study every three to five years. However, franchise fees and AB939 are not subject to this process, which means there is no structured review to ensure they remain aligned with costs and policy goals. Therefore, establishing a clearer framework could provide more transparency and help ensure the fees reflect both the value of the franchise and the City's cost recovery needs.

*The City's franchise fee structure does not fully reflect the costs the City incurs and the value haulers receive.*

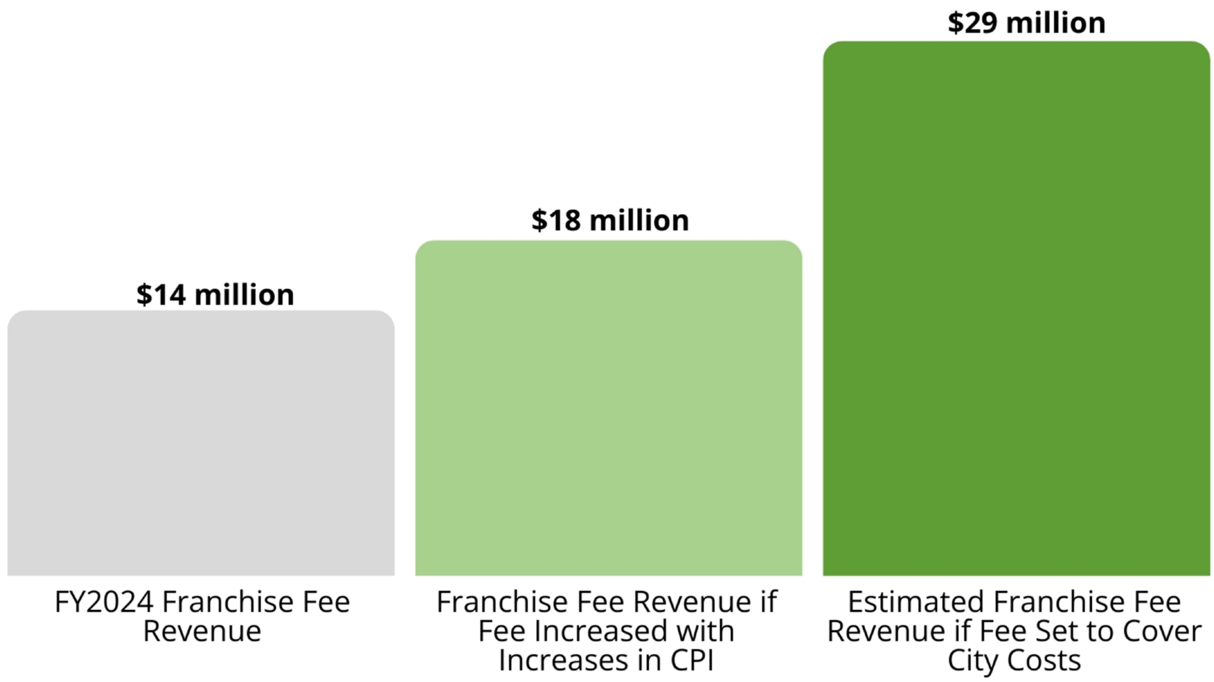
Moreover, a 2022 California Supreme Court decision confirmed that franchise fees are not considered taxes under Proposition 26's tax definition if they are reasonable and based on the costs the City incurs and the benefits haulers receive. Although the decision does not set a specific fee amount, it provides a legal framework for determining whether a fee is fair. Since we estimate other comparable cities charge higher and additional fees, and as discussed below, oversight and other hauler impacts cost an estimated $29 million, the City's current franchise fee structure does not fully reflect the costs the City incurs and the value haulers receive from operating in the City. At a minimum, the City should increase the franchise fee to the current CPI-adjusted rate ($25 per ton in FY2026), since increasing the fee to the CPI-adjusted rate would simply ensure the fee continues to cover the costs it covered in 2010. The City should also conduct a study to determine the longer-term rates necessary for full cost recovery.

## The current franchise fee does not address the increasing infrastructure and oversight costs, which could add financial challenges to the City's already limited budget.

The City's franchise fee does not reflect the increasing costs of infrastructure and oversight, which leaves the City at risk of absorbing these expenses. In FY2024, the City collected approximately $14 million in franchise fees from haulers. However, if franchise fees were adjusted just for inflation using the CPI starting in 2010, we estimate the City could have generated approximately $18 million in FY2024. Because there is no documented fee study to ensure the rate set in 2010 recoups the cost of the franchise system and the value of the franchise, the City should calculate its oversight and impact costs. We estimate the costs the City incurs under the franchise system total approximately $29 million, as shown in **Exhibit 10** below.

*Exhibit 10*

**The City's Current Franchise Fee Revenue Does Not Keep Pace with the City's Estimated Street Damage and Oversight Costs**




Source: OCA generated based on data from SAP, the Office of the City Treasurer, ESD, and the Transportation Department.

***We estimate haulers are responsible for about $28 million in annual street repair costs.***

The City's most recent franchise fee increase took effect in FY2023 and was intended to address street damage caused by haulers' vehicles based on the results of a 2018 consultant study.[8] However, the City does not have documentation showing how the specific fee increase amount was determined or how it aligns with actual street damage costs.

The consultant study projected that haulers' commercial trash vehicles were responsible for 16.5 percent of the total vehicle impacts to the City's commercial streets. According to the consultant study, these impacts equated to almost $4 million in annual commercial street repair needs in 2018. However, street maintenance costs have increased significantly since 2018. For example, our recent Performance Audit of the City's Street Maintenance Program found that from FY2020 to FY2023 alone, street maintenance costs increased by 120 percent to 325 percent depending on treatment type.[9]

*Street maintenance costs have increased by 120% to 325%.*

Additionally, the consultant study limited its analysis to commercial streets costs due to data availability. However, haulers provide waste collection services to multi-family residences often found on residential streets or accessed through alleys.

Using cost data from the 2024 Pavement Management Plan and applying the consultant's methodology to calculate the impact across residential as well as commercial streets, we estimate that $28 million in average annual street repair costs result from haulers' vehicle impacts, as shown in **Exhibit 11**. However, this analysis is an estimate and the true figure may be lower, as our analysis includes most residential streets in San Diego, some of which haulers may not drive on because they do not collect from single-family homes.[10] At the same time, the true figure may be higher, as we used the consultant's 16.5 percent impact rate across all street types, while research shows hauler trucks may actually do more damage to alleys and residential

8 In 2014, OCA recommended a study examining the potential for a districted exclusive collection system as an alternative to the current non-exclusive franchise system. The City completed the recommended study, which included an analysis of haulers' vehicle impacts on street conditions and maintenance costs. Performance Audit of the Environmental Services Department's Waste Reduction and Recycling Programs, issued August 2014: https://www.sandiego.gov/sites/default/files/15-003_Environmental_Services_Recycling.pdf

9 Performance Audit of the City's Street Maintenance Program, issued February 2024: https://www.sandiego.gov/sites/default/files/2024-02/24-07_performance_audit_citys_street_maintenance.pdf

10 Our cost calculation excluded miles of City streets categorized as residential cul-de-sacs and two-lane collector streets because the San Diego Street Design Manual defines those street types as serving single-family residences and low-density multiple-family residences. Our cost calculation includes other residential streets because the design manual stipulates that those street types serve multi-family residences and local mixed-use land. The City's 2017 Street Design Manual: https://www.sandiego.gov/planning/programs/transportation/library/stdesign

streets than to the commercial streets the consultant's study based its analysis on.

*Exhibit 11*

**An Estimated $28 Million in Street Maintenance Costs Annually Can Be Attributed to Impacts from Haulers' Trucks**

| **$1.9 billion** | **×** | **90%** | **×** | **16.5%** | **÷** | **10 years** | **=** | **$28 million** |
|---|---|---|---|---|---|---|---|---|
| City's 10-Year Street Maintenance Investment Needed per 2024 Pavement Management Plan | | Estimated Percent of Lane Miles Haulers Drive on* | | Street Impact Rate Caused by Haulers, According to 2018 Consultation study | | Number of Years in the Period | | Annual Cost of Haulers' Impact on Streets |

*This is the estimated percent of lane miles haulers drive on, based on the street classifications from the City's Cartegraph data. Our cost calculation excluded miles of City streets categorized as residential cul-de-sacs and two-lane collector streets because the San Diego Street Design Manual defines those street types as serving single-family residences and low-density multiple-family residences. Our cost calculation includes other residential streets because the design manual stipulates that those street types serve multi-family residences and local mixed-use land.

Source: OCA generated based on the City's 2024 Pavement Management Plan, the 2018 consultant study by R3, the City's Cartegraph data provided by the Department of Transportation, and the City's 2017 Street Design Manual.

The current amount of street damage caused by haulers is also likely higher than the 2018 consultant study found because the number of haulers' trucks and daily pickups have also likely increased. The consultant study noted that collection services were expected to greatly expand by 2020, with the passage of California Assembly Bill 1826 (AB1826), which increased the number of businesses required to recycle their organic waste.[11] Furthermore, to comply with California State Senate Bill 1383 (SB1383), and corresponding San Diego Municipal Code requirements, haulers are now mandated to collect organic waste weekly.

11 Following AB1826 implementation, the City was placed on a compliance plan with California's Department of Resources Recycling and Recovery (CalRecycle) because haulers were not providing the required services. In response, the Environmental Services Department (ESD) increased monitoring by requiring the haulers to meet monthly and provide customer subscription counts to the department. These measures suggest that service frequency and number of trucks had to expand to meet requirements. As such, increased hauler collection frequency adds more vehicle traffic to City streets.

***We estimate the City spends approximately $720,000 per year on hauler oversight.***

ESD monitors hauler compliance with the San Diego Municipal Code and state law, reviews and analyzes hauler reports, and enforces the franchise hauler agreement provisions, such as diversion rate requirements. According to ESD, staff workload related to hauler oversight has increased recently due to overseeing the implementation of new state requirements, such as those in AB1826 and SB1383. In total, ESD's estimated hauler oversight responsibilities cost about $636,000 per year, including overhead.

The Office of the City Treasurer (Treasurer) also conducts audits of franchise fee and AB939 revenue to ensure haulers pay the correct fees and that exemptions to fees are properly accounted for. Previously, the Treasurer conducted hauler audits every four years due to competing audit responsibilities, but the department is now aiming to audit every two years. The Treasurer estimates more frequent audits will cost on average $80,000 per year, including overhead.

As workload has increased, salary and personnel costs have also risen. Yet, franchise fees have not been adjusted to reflect these growing expenses. At the same time, infrastructure and oversight costs continue to increase, widening the funding gap for the City. Without adjustments, the City is absorbing these costs and may need to shift funds from other programs to do so.

*A fee study could determine the appropriate franchise fee rates to recover the costs of oversight and street damage.*

By conducting a fee study, the City could determine the appropriate franchise fee rates to recover the City's increased costs of street damage caused by haulers' vehicles and increased oversight of haulers' regulatory compliance and audits. ESD stated it is currently in communication with the City Attorney's Office regarding the possibility of a comprehensive franchise fee study.

## Residents also pay for indirect costs of the current hauler franchise structure, which include pollution, traffic, and noise.

The current franchise system creates unintended costs and impacts for residents including traffic, pollution, and noise. While residents experience these effects directly, the City also spends taxpayer dollars to manage them. For example, under the current non-exclusive system, multiple haulers operate on the same streets daily, which contributes to approximately 7 million vehicle miles traveled per year, according to the 2018 consultant study. This worsens traffic congestion, which in turn, increases travel time and fuel costs for both individuals and businesses.

Traffic congestion also reduces air quality and increases greenhouse gas emissions, which affect the climate in the long term. Many communities exposed to higher traffic congestion also have higher poverty rates, making them more vulnerable to the health impacts of air pollution. Additionally, hauler trucks are among the loudest vehicles on the street, and the noise negatively impacts residents' quality of life, particularly in neighborhoods with many routes. According to the same 2018 consultant study, one hauler truck traveling at 35 miles per hour makes as much noise as 19 cars. Because these externalities exist, the City must spend more on street maintenance, climate mitigation, and regulation enforcement to manage their impact.

*One waste collection truck traveling 35 miles per hour makes as much noise as 19 cars.*

The costs caused by traffic, pollution, and noise are higher under the current non-exclusive system than they would be under an exclusive system. However, haulers have expressed opposition to transitioning to an exclusive franchise system. Given the costs the public and the City absorb under the current system, and the benefits haulers receive from the current system, it is reasonable for these costs to be included when the City calculates the costs of the franchise system.

### The franchise the City grants haulers has value beyond simply the costs incurred.

While haulers pay franchise fees in exchange for the right to use the City's streets for their business, the value they receive includes the usage of streets and rights-of-way—a public good used for private businesses to profit. The franchise system also provides a stable customer base and operational advantages that haulers without franchises do not receive.

*Under the non-exclusive franchise system, haulers set their own customer rates without City oversight.*

For example, because only City-approved haulers can collect, transport, and dispose waste, haulers gain sole access to a specific market of customers. Additionally, as waste separation and collection regulations expand, haulers benefit from an increased demand for services. Moreover, under the City's non-exclusive franchise system, haulers set their own rates without City oversight. This system gives haulers greater pricing flexibility as customer rates are not approved or regulated by the City.

## Increased franchise fees do not necessarily translate to substantially increased prices for customers.

The City does not set rates in franchise hauler agreements, so haulers control their own pricing. This means the City cannot control what haulers charge customers and the City does not have the ability to see the prices haulers set for their customers. However, lower prices for customers due to increased competition was one of the main arguments for keeping the existing non-exclusive franchise agreement structure. Under the current structure, if some haulers choose to pass on the increased franchise fee cost, those customers could choose from other approved haulers who may not choose to pass on the cost increase.

*If the City set the fee at $25 per ton, we estimate costs per household would increase by $1.74 per month.*

However, if haulers choose to pass the total additional franchise fee cost to customers, the cost per household would be relatively minor. For example, if the City set the fee at $25 per ton, in line with increases in the CPI since 2010, we estimate the additional cost per household would increase by just $1.74 per month. If the City conducted a study and set the franchise fee to $30 per ton, potentially more in line with other large California cities, we estimate the additional cost per household would increase by $2.98 per month.

These cost estimates are based on CalRecycle's data, which states that the average person in San Diego disposed of 6.4 pounds of waste per day. The Census reports the average household size in San Diego is 2.6 people. Therefore, the average household disposes of an estimated 16 pounds per day, which equates to 0.25 tons per month. The current franchise fee is $18 per ton for most waste haulers, so if the hauler passed all of the costs on to the customer, the average household would currently pay $4.47 per month, and if franchise fees increased to $25 per ton, the average household would pay $1.74 more, totaling $6.21 per month. However, since multi-family homes typically generate less waste than single-family homes, the actual franchise fee costs per household may be lower than estimated. Additionally, this estimate is based on residential data and it does not include commercial waste estimates.

## Increased fees could fund more education programs to increase recycling rates.

As discussed in **Finding 2**, haulers are best positioned to educate and incentivize their customers to increase recycling.[12] However, the City could use increased revenue from fees to increase Citywide recycling campaigns that benefit both the City and the haulers through increased diversion rates. For instance, both haulers and ESD noted that the City's recent SB1383 education and outreach efforts were successful. Additionally, other cities have implemented additional fees on top of franchise fees to cover specific costs. For example, Chula Vista charges its hauler a separate fee to partially fund the City's recycling public information and enforcement program. This fee increases annually and is currently estimated to be about $122,000.

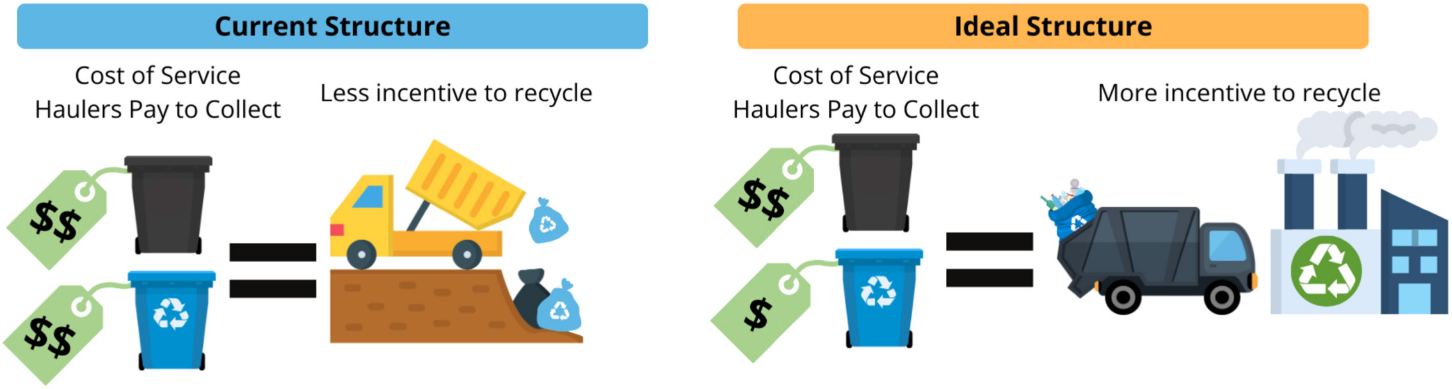
## The City's current fee structure does not incentivize recycling, which could make it harder for the City to achieve its Zero Waste Plan goals.

The City's current fee structure does not encourage recycling, which may slow progress toward its Zero Waste Plan goals and increase landfill waste. According to the U.S. Environmental Protection Agency, to incentivize recycling, the cost of recycling should be less than the cost of landfilling. However, in the City's current fee structure, haulers pay the same franchise fee and AB939 fee rates for all waste collected in the City, regardless of if the waste is landfill waste or recyclable, as shown in **Exhibit 12**. Therefore, this structure creates no financial incentive to recycle.

12 In this report, the term recycling includes materials hauled to recycling centers, such as glass and plastic materials, as well as organic waste, such as yard trimmings and food waste, hauled to organic processing centers.

*Exhibit 12*

**Revising the City's Fee Structure to Charge More for Landfill Waste and Less for Recycled Waste Could Encourage Recycling**




Source: OCA generated based on the City's current franchise fee and AB939 fee rates for franchise haulers.

Although haulers do not control how residents and businesses decide what to throw away and where, haulers do decide how much to charge for collecting landfill waste, recycling, and organics. Therefore, if all waste is charged the same franchise and AB939 fees, the City is missing a key opportunity to financially incentivize haulers to promote or invest in programs to increase recycling. Additionally, haulers are not incentivized to offer pricing that encourages their customers to recycle, especially if landfill disposal is the same cost. While other factors, such as resident participation and industry challenges, can also affect recycling rates, financial incentives play a key role in shaping hauler behavior. Therefore, by decreasing franchise and/or AB939 fees for recyclables and increasing costs for landfill waste, the City could strengthen diversion efforts by giving haulers a stronger financial incentive to increase recycling rates.

# Recommendations

To ensure that the private waste hauler fee structure recovers all relevant City costs and incentivizes recycling, we recommend:

## *Recommendation 1.1* (Priority 1)

The Environmental Services Department should prepare and present a proposed action to City Council to set the non-exclusive solid waste collection franchise fees for Class I and Class II haulers at the rates that the fees would be if the rates had increased by the Consumer Price Index (CPI) increases in San Diego since fiscal year 2010. The proposed action should also require that the non-exclusive solid waste collection franchise fees increase annually based on the CPI, similar to the AB939 fee.

**Management Response:** Agree [See full response beginning on page 56.]

**Target Implementation Date:** July 2028

## *Recommendation 1.2* (Priority 1)

The Environmental Services Department (ESD), in consultation with other relevant departments, should conduct or contract for a fee study to assess appropriate franchise fee and AB939 fee rates to recover City costs, such as:

a. Increased costs of street damage caused by haulers' vehicles;

b. Increased costs of overseeing haulers' regulatory compliance;

c. Increased costs of City Treasurer audits;

d. Other potential costs to the City and residents, such as traffic, pollution, and noise;

e. The inherent value of the franchise; and

f. The costs of public education programs designed to decrease landfill waste across all customers.

ESD should present the fee study to the City Council and should prepare and present a proposed action to City Council to revise franchise fees. The proposed fees should be based on the results of the fee study.

ESD should adopt a policy requiring the recommended fee study and presentation to City Council be completed at least every 5 years.

**Management Response:** Agree [See full response beginning on page 56.]

**Target Implementation Date:** June 2028

## *Recommendation 1.3* (Priority 2)

The Environmental Services Department (ESD) should ensure the study in Recommendation 1.2 also analyzes and presents the benefits and costs of alternative fee structures that incentivize recycling, including but not limited to charging more for landfill waste and less for recycled waste. The costs should include additional oversight to ensure landfill waste is not placed in recycling containers at a higher rate due to the cost increase. The costs should also include the increased cost of the City Treasurer auditing franchise hauler payments to verify the type of waste collected and disposed of, to ensure landfill waste is not claimed as recycling waste by haulers.

**Management Response:** Agree [See full response beginning on page 57.]

**Target Implementation Date:** June 2028

# Finding 2

## *The City can do more to hold itself and private waste haulers accountable to meet the Climate Action Plan targets, which are designed to help limit poor air quality, extreme weather events, and other negative impacts of climate change.*

### Finding Summary

While setting franchise fees for landfill waste higher than for recyclables to incentivize more recycling can help the City of San Diego (City) reach its Climate Action Plan targets, the City can do more to hold private waste haulers (haulers) and itself accountable for their parts in achieving these targets. Specifically, we found:

- The haulers' collective diversion rate increased when the City set and increased diversion rate requirements. However, since the City stopped increasing the requirement in 2020, the haulers' diversion rate has stayed relatively stagnant, averaging 42 percent.

- Including provisions for liquidated damages if haulers fail to meet diversion rate goals appears to have increased compliance for some haulers, but the Environmental Services Department (ESD) has not consistently applied its enforcement mechanisms on all haulers.

- The City has not set a diversion rate goal for the trash it collects and its diversion rate has been lower than haulers' collective diversion rate.

Although the City recycles more than many other large cities in California, the City is still not meeting its Climate Action Plan targets to reduce the amount of waste that ends up in landfills.[13] Increasing the diversion rate of haulers and City Collections is essential to that target, which was set because reducing landfill waste reduces greenhouse gases, extends the life of local landfills, and helps conserve natural resources.

Therefore, to ensure the City holds itself and haulers accountable to standards that align with Climate Action Plan targets, we recommend that ESD continue to regularly increase diversion rate requirements in franchise agreements. We also recommend ESD review and present haulers' historical performance before granting franchise agreement extensions, assess liquidated damages and other enforcement mechanisms consistently when haulers do not meet diversion rate requirements, and set a diversion rate goal for City Collections that aligns with the minimum diversion rate requirements for haulers.

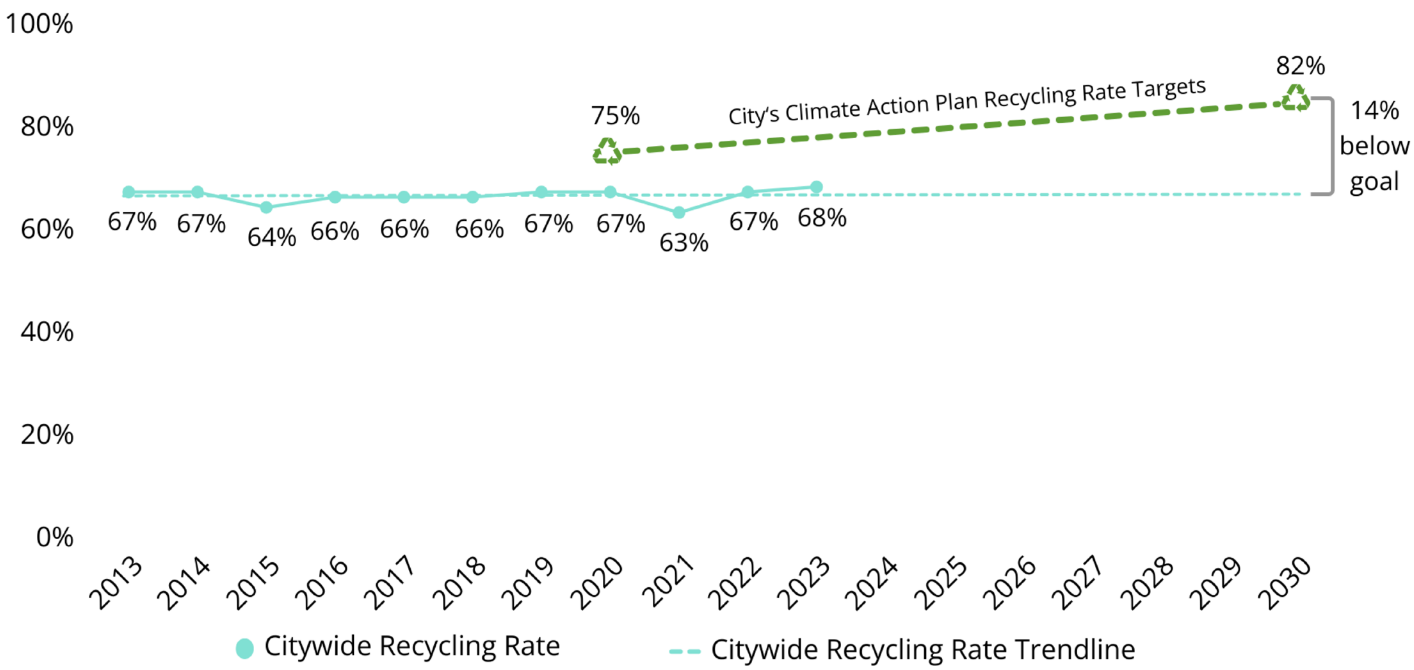
13 In this report, the term recycling includes materials hauled to recycling centers, such as glass and plastic materials, as well as organic waste, such as yard trimmings and food waste, hauled to organic processing centers.

### The City fell short of its Climate Action Plan recycling target for 2020 and the recycling rate has remained stagnant since City Council adopted the targets a decade ago.

We found that the City did not meet its Climate Action Plan target of a 75 percent recycling rate by 2020. In fact, since 2013, the Citywide recycling rate has not increased, but rather has remained stagnant around 67 percent. As shown in **Exhibit 13**, the City is not on track to meet its targeted recycling rate for 2030 either.

*Exhibit 13*

### The City Did Not Meet the Climate Action Plan Target for 2020 and Currently Falls 14 Percentage Points Below the Upcoming 2030 Target




Source: OCA generated based on the City's Zero Waste Plan, the City's 2022 Climate Action Plan, and annual recycling rate data provided by ESD.

ESD calculates the Citywide recycling rate based on the California's Department of Resources Recycling and Recovery's (CalRecycle) methodology and data. To determine the annual Citywide recycling rate, ESD compares the total tons of trash disposed in landfills to the estimated total waste generated, based on how many employees worked in the City.[14]

14 According to CalRecycle, the estimated total waste generated is based on the average waste generated in the jurisdiction from 2003 to 2006. Employment is the estimated annual average number of people aged 16 or older employed at places within the jurisdiction's boundaries, as prepared by the California Employment Development Department.

## Reducing landfill waste reduces greenhouse gases, expands the life of local landfills, and helps conserve natural resources.

The City's Climate Action Plan targets aim to reduce the amount of trash sent to landfills. Reducing the amount of trash sent to landfills reduces hazardous landfill gases containing greenhouse gases, expands the life of existing local landfills, and conserves natural resources by recycling items like metals, glass, and food waste for future use.

*To address the climate crisis locally, the City set an ambitious target of achieving net zero greenhouse gas emissions by 2035.*

To address the climate crisis locally, the City set an ambitious target of achieving net zero greenhouse gas emissions by 2035. Greenhouse gas emissions cause global temperatures to rise, which causes many negative effects, including increasing the risk of extreme weather events, such as heat waves, droughts, and floods. The waste that ends up in landfills emits greenhouse gases as it decomposes. Therefore, reducing landfill waste reduces greenhouse gas emissions, and reducing greenhouse gas emissions can help mitigate the frequency of extreme weather events and other negative impacts of climate change.

*The City's landfill is projected to reach capacity in 6 years.*

Additionally, the City's landfill that receives most of the City's trash is projected to reach capacity in the next 6 years and the two other local landfills that receive a large amount of the City's trash expect to reach capacity between 5 to 17 years from now, per publicly available regulatory permit information. The landfill closure estimates are based on current disposal rates, according to ESD, and the landfills may reach capacity earlier than estimated. Diverting materials from the landfill by increasing recycling rates will help extend the lifespan of these landfills. As local landfills close, the cost to dispose trash will likely increase. New land would need to be allocated for use as a landfill or trash would need to be hauled to landfills farther away, potentially outside of San Diego County or outside of California.

Furthermore, recycling conserves natural resources like timber and minerals. Recycling items like paper, cardboard, and cans reduces the need to extract new raw materials from the land. Similarly, composting items like food scraps and yard waste creates high quality compost that local residents, businesses, and the City itself can use.[15]

15 In this report, the term recycling includes materials hauled to recycling centers, such as glass and plastic materials, as well as organic waste, such as yard trimmings and food waste, hauled to organic processing centers.

## Private waste haulers' diversion rates must increase for the City to meet its Climate Action Plan targets and reduce landfill waste.

*Almost 75% of commercial waste brought to landfills could be diverted.*

Generally, more than 70 percent of San Diego's waste is hauled by private waste haulers, making haulers essential partners in the City's efforts to decrease landfill waste. Although since 2019 the haulers' collective diversion rate has ranged from 37–45 percent, almost 75 percent of commercial waste brought to local landfills by haulers could be diverted from landfills, according to the City's most recent waste characterization study.[16] Therefore, a significant proportion of haulers' landfill waste can still be recycled or composted, and it is possible for haulers to significantly increase their diversion rates.

Haulers are in the best position to increase recycling among their customers. Research has shown that educating customers about recycling and incentivizing recycling through pricing increase recycling rates. When we spoke with the directors of the San Diego County Disposal Association, which represents the larger haulers in the City, it emphasized that educating customers is key to meeting the City's Climate Action Plan targets. The association said the City should manage education campaigns, not haulers. However, we found haulers are still best situated to determine the most effective educational campaigns for their specific customers. This is because businesses and large housing complexes will have different barriers to recycling than the single-family homes served by City Collections. Furthermore, haulers control the prices and terms in their customer contracts, which the hauler can use to increase recycling through pricing or other means, such as discounts for smaller landfill waste bins. Additionally, because many of these haulers operate throughout California and several operate nationally, they may have broader insight on the types of incentives, customer educational campaigns, and pricing structures, that have been effective in other jurisdictions where they operate.

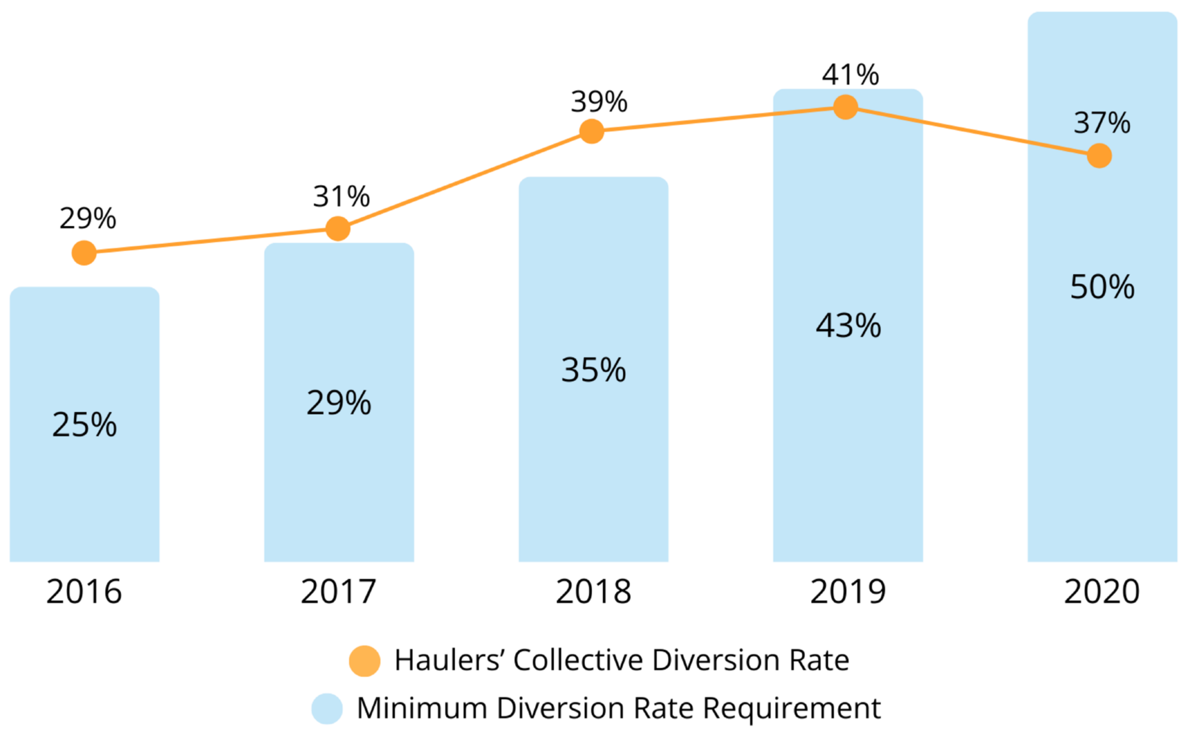
16 The waste characterization study consisted of a consultant analyzing landfill waste samples from various waste streams (hauler or City collected residential waste, hauler collected commercial waste, military waste, and self-haul waste) over multiple seasons, to determine the typical content of the waste.

## Haulers' collective diversion rate improved when ESD set and increased diversion rate requirements.

Prior to the implementation of diversion rate requirements, haulers had a collective diversion rate of 26 percent. Once ESD set and increased the diversion rate haulers were required to meet, the haulers' collective diversion rate increased. Collectively, haulers' diversion rates increased from 29 percent in 2016 to 37 percent in 2020, as shown in **Exhibit 14**.[17] Starting in 2016, the franchise agreements required haulers to divert at least 25 percent of waste from landfills. By 2020, the franchise agreements required haulers to divert at least 50 percent of waste.

*Exhibit 14*

### From 2016 Through 2020, Haulers' Collective Diversion Rate Generally Increased as the Diversion Rate Requirements Increased



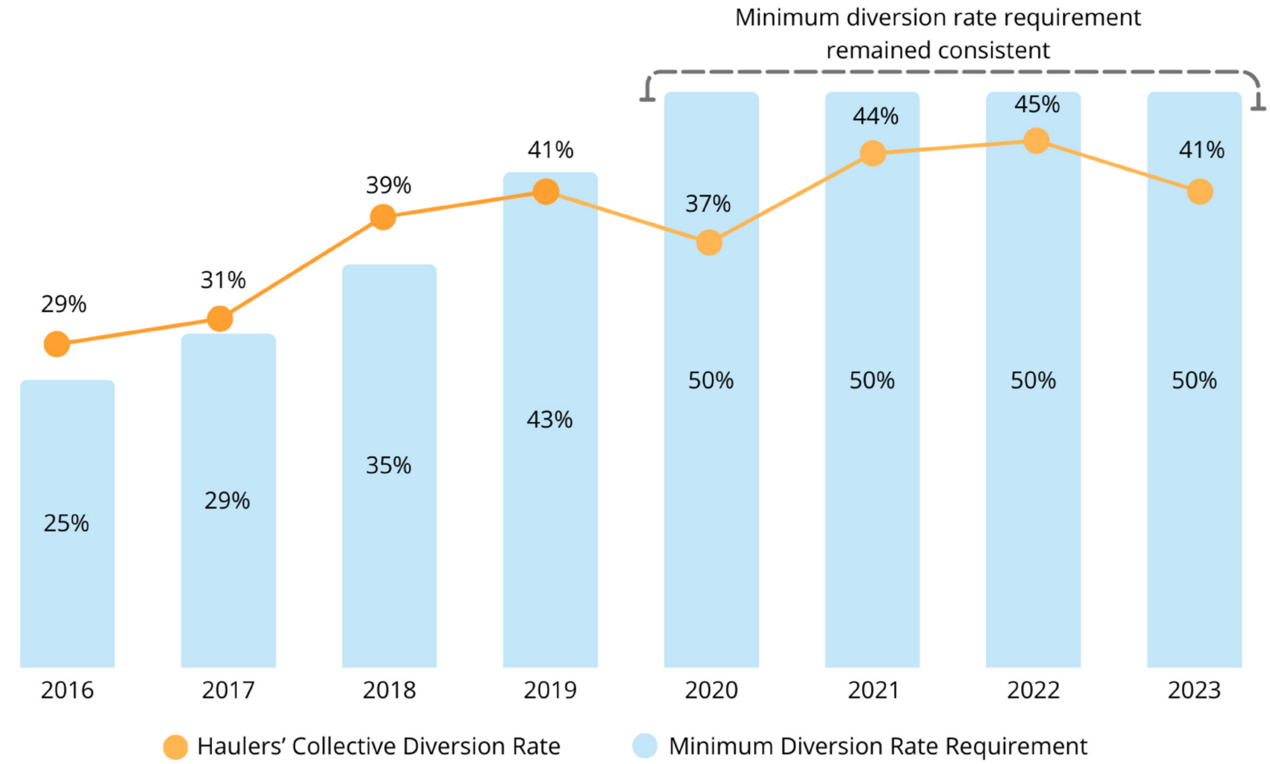

Source: OCA generated based on the City's past and current franchise hauler agreements and annual waste tonnage data provided by ESD.

17 Haulers' diversion rate refers to the amount of waste recycled in a year compared to the total amount of waste (recyclables and trash) hauled in the same year.

However, since 2020, ESD has not continued to increase diversion rate requirements and has instead kept the 50 percent minimum diversion rate requirement stagnant. As a result, we found that since 2020, haulers' collective diversion rate no longer increased at the same rate, and remained 5 percent or more below the 50 percent minimum requirement, as shown in **Exhibit 15**. OCA's 2014 Performance Audit of the City's Waste Reduction and Recycling Programs found that setting minimum diversion rates has successfully increased haulers' diversion rates in other jurisdictions.[18]

*Exhibit 15*

**When ESD Stopped Increasing Haulers' Diversion Rate Requirements, Haulers' Collective Diversion Rate Became Relatively Stagnant**




Note: ESD noted that the impacts of the COVID pandemic created an increase in trash in the City, which likely caused the decrease in the collective diversion rate in 2020.

Source: OCA generated based on the City's past and current franchise hauler agreements and annual waste tonnage data provided by ESD.

18 The 2014 Performance Audit of the Environmental Services Department's Waste reduction and Recycling Programs can be found here: https://www.sandiego.gov/sites/default/files/15-003_Environmental_Services_Recycling.pdf

OCA's 2014 audit also found that the City will likely need to achieve a hauler diversion rate significantly higher than 35 percent to meet its Climate Action Plan targets and that haulers are unlikely to divert more waste than the minimum amount required in the franchise agreement. Therefore, in 2014 we recommended that ESD establish a target diversion rate requirement that incrementally increases to 50–60 percent by 2020, and that ESD annually review haulers' required diversion rates to determine if increases are needed based on the City's overall recycling rates targets and the availability of recyclable materials. ESD implemented the diversion rate requirement but stopped increasing the requirement at 50 percent in 2020. As a result, the City is still far from meeting its Climate Action Plan targets. Therefore, ESD should continue to annually review haulers' required diversion rates to determine if increases are necessary to meet City targets.

*In 2014, we recommended ESD increase the diversion rate requirements to 50–60% by 2020.*

Furthermore, other California jurisdictions currently have hauler diversion rate requirements higher than 50 percent. For example, San Diego County's 2021 non-exclusive franchise agreements require haulers to divert 54 percent of waste from landfills, effective 2025. Similarly, the City of Los Angeles requires haulers to divert at least 65 percent of waste in its 2017 exclusive franchise agreements.

*Los Angeles requires haulers to divert at least 65% of waste.*

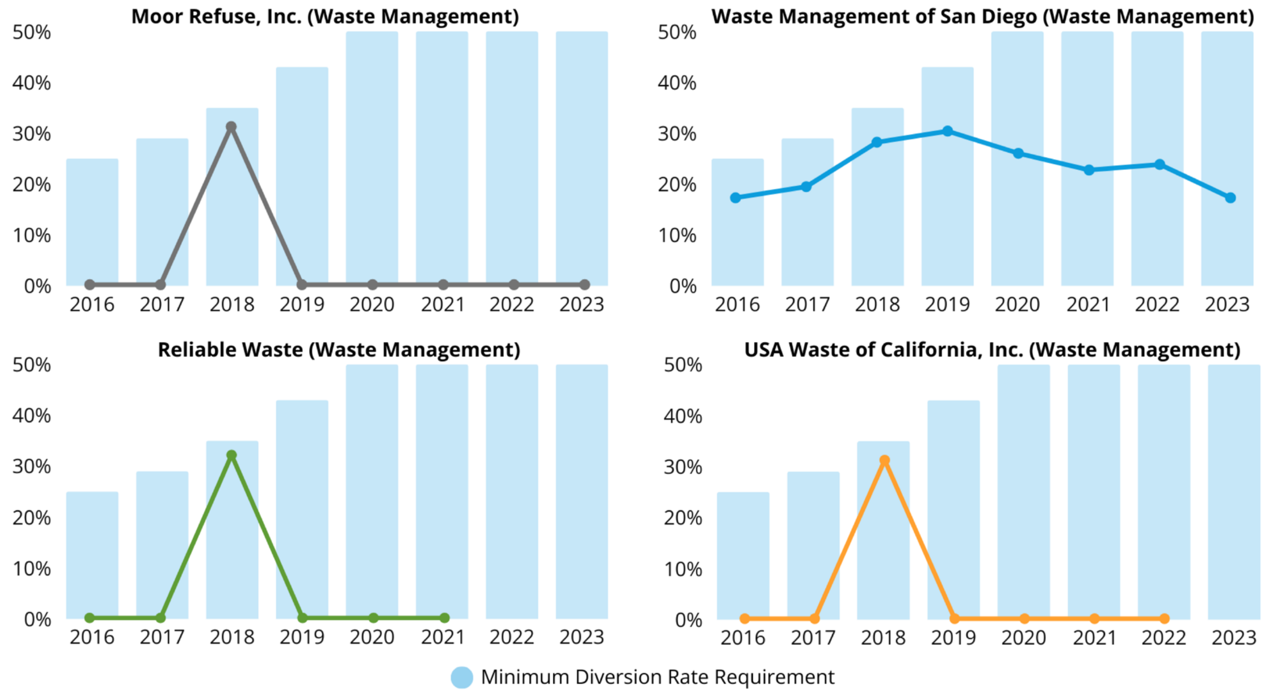
When we spoke to the directors of the San Diego County Disposal Association, they stated haulers have expressed concern that they will lose customers if they strictly enforce customer compliance to try to meet minimum diversion rate requirements. However, our recommendation is that ESD hold all haulers in San Diego to the same performance and enforcement standards. Therefore, customers should not be able to shop for haulers that are more lenient on compliance and enforcement. To encourage all haulers to improve their diversion rates, ESD should amend the franchise agreement to again include annual increases in diversion rate requirements that balance the City's Climate Action Plan targets as well as the achievability of these rates based on the City's most recent waste characterization study. The current franchise agreement states the agreements can be amended and extended effective January 1, 2027.

## ESD allowed four haulers to continue to operate in the City, despite continued noncompliance, diminishing the City's ability to hold haulers accountable for their diversion rate requirements.

From 2016 to 2023, 4 of the 15 haulers that operated in the City never met the minimum mandatory diversion rate requirements.[19] As shown in **Exhibit 16**, these haulers continued to operate in the city despite the fact that the franchise agreements in effect during this time stated that agreement extensions were contingent upon haulers meeting all performance requirements within the agreement. When asked, ESD stated that the City has never refused to renew a hauler's franchise agreement.

*Exhibit 16*

### Four Haulers Never Met the Required Minimum Diversion Rates in the Past Eight Years




Source: OCA generated based on the City's past and current franchise hauler agreements and annual waste tonnage data provided by ESD.

Allowing these four haulers to continue to operate despite repeatedly failing to meet the performance requirements in the franchise agreement limits ESD's ability to hold other haulers accountable for meeting minimum diversion rate requirements. Diversion rate

19 The City currently has franchise agreements with 21 haulers. However, only 15 haulers collected waste in the City from 2016 through 2023.

requirements are essential for increasing the rate of recycling and reducing greenhouse gas emissions from landfill waste. Removing a hauler's ability to operate in the City because it did not comply with diversion rate requirements after repeatedly working with the hauler through corrective action plans and assessing liquidated damages, would incentivize haulers to meet diversion rate requirements, ensure compliance with the franchise agreements, and limit landfill waste.

*ESD should consider a hauler's ability to meet diversion rate requirements before extending the franchise agreement.*

To ensure franchise haulers continue to comply with franchise agreements and diversion rate requirements in the future, ESD should consider a hauler's ability to meet all terms of the franchise agreement before extending the franchise agreement. Currently, San Diego Municipal Code Section 66.0114 requires the ESD Director to consider if a new hauler that is applying to operate in the City can meet all terms of the franchise agreement. However, the Municipal Code does not require the same review when extending a hauler's franchise agreement. When the haulers' franchise agreements were last presented to the City Council for amendment in 2022, ESD provided City Council with information on each hauler's past performance in meeting diversion rate requirements. However, the motion presented to City Council renewed the franchise agreements for all haulers collectively.

Therefore, the City should amend the Municipal Code to require ESD to consider the ability of the hauler to meet the terms of the franchise agreement both when the hauler first applies and when the hauler applies to extend the agreement. In the case of extensions, the benefit is that ESD can provide City Council the hauler's historical performance information to determine if the hauler can meet the terms of the franchise agreement.

## Holding haulers accountable will not leave San Diego without private waste haulers, since the City can accept new applicants.

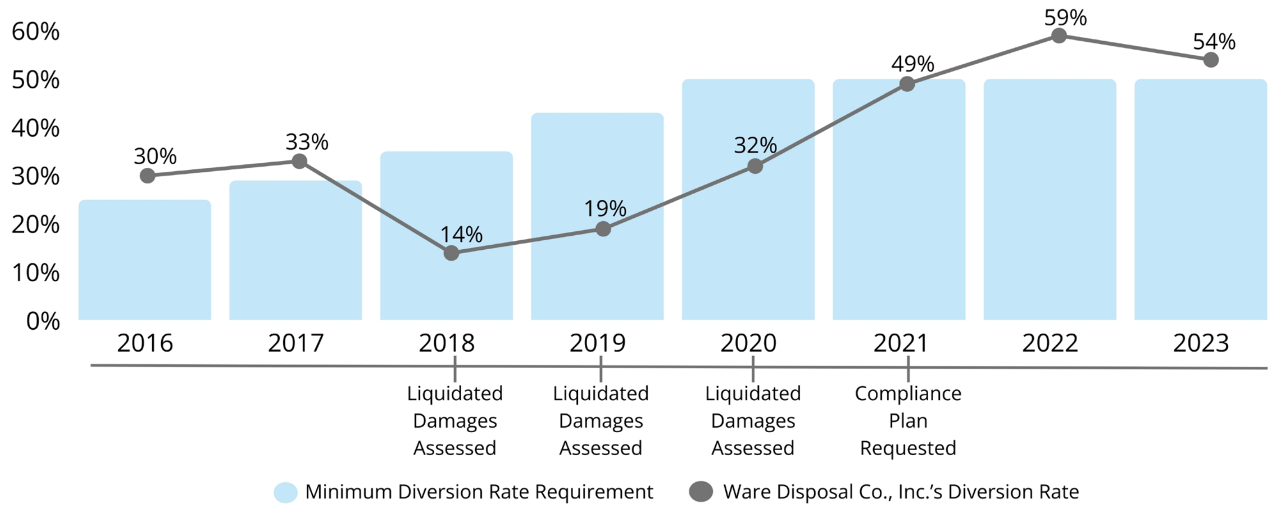
If the City does not renew franchise agreements with haulers that cannot comply with the diversion rate requirements, ESD could accept applications from new haulers to maintain the competitive market of the non-exclusive franchise structure. ESD stated that it has not accepted applications from new haulers interested in hauling in the City since the early 2000s because there are already a significant number of haulers operating in the City. Under the City's non-exclusive franchise structure, the City currently has agreements with 21 haulers. Therefore, if the City determines that a few of the current haulers have not met the terms of the franchise agreement and the City ends their franchise agreements, there are still enough available haulers to serve all residents and businesses.

## To increase haulers' diversion rates, ESD requests compliance plans and assesses liquidated damages when haulers do not meet the mandatory diversion rate requirements.

Some haulers' diversion rates noticeably improved after franchise agreements allowed ESD to require corrective action plans or assess liquidated damages when haulers failed to meet required diversion rates.[20] For instance, ESD assessed liquidated damages on Ware Disposal Co., Inc. in 2018, 2019, and 2020, and requested a compliance plan in 2021, when Ware Disposal did not meet the mandatory minimum diversion rate requirements in those years. However, Ware Disposal Co., Inc. improved its diversion rate each year and ultimately, in 2022 and 2023, surpassed the minimum 50 percent diversion rate requirement, as shown in **Exhibit 17**.

*Exhibit 17*

### Ware Disposal Co., Inc.'s Diversion Rate Improved After It Was Assessed Liquidated Damages and Required to Submit a Compliance Plan to the City



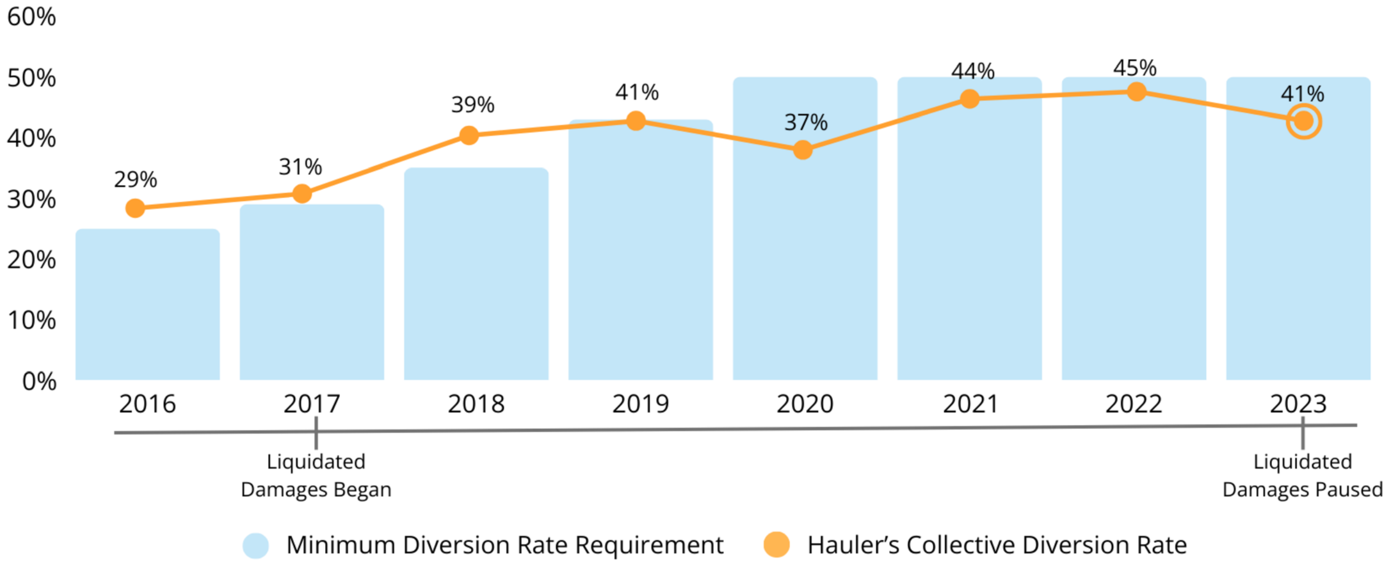

Source: OCA generated based on the City's past and current franchise hauler agreements, liquidated damage invoices to Ware Disposal, Ware Disposal's 2021 compliance plan, and annual waste tonnage data provided by ESD.

20 ESD included liquidated damages in the franchise agreements after a recommendation from OCA's 2014 Performance Audit of the City's Waste Reduction and Recycling Programs: https://www.sandiego.gov/sites/default/files/15-003_Environmental_Services_Recycling.pdf

Additionally, the decline in the haulers' 2023 collective diversion rate shows the threat of liquidated damages may increase haulers' diversion rates. When ESD agreed ahead of time to not assess any liquidated damages in 2023, haulers' collective diversion rate notably decreased for only the second time since liquidated damages began seven years ago, as shown in **Exhibit 18**.

*Exhibit 18*

**Haulers' Collective Diversion Rate Decreased in 2023, When ESD Had Agreed to Changes in the Franchise Agreements, Including Pausing the Assessment of Liquidated Damages**



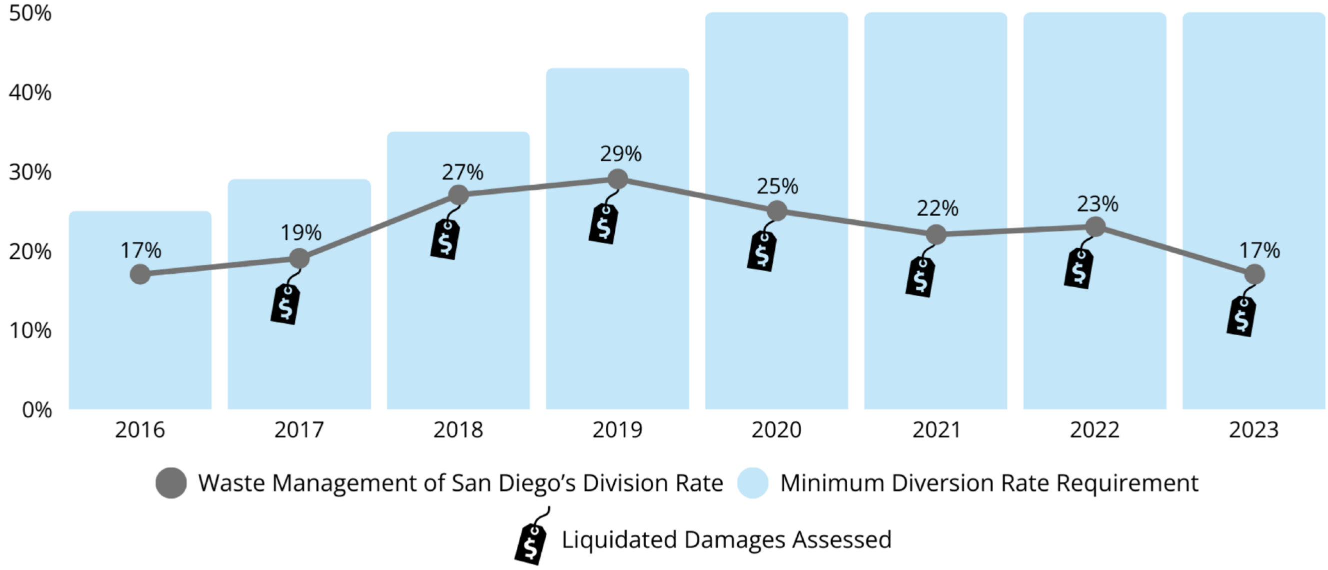

Source: OCA generated based on the previous and current franchise agreements, as well as annual tonnage data provided by ESD.

## Liquidated damages have not incentivized all haulers to comply with the mandatory minimum diversion rate requirements.

While some haulers' diversion rates increased after ESD assessed liquidated damages or required compliance plans for not meeting the diversion rate requirements, other haulers' diversion rates did not improve. For instance, five subsidiaries of Waste Management did not increase their diversion rates, despite continual annual assessments of liquidated damages. **Exhibit 19** shows one of the subsidiaries, as an example.

*Exhibit 19*

**Waste Management of San Diego, A Subsidiary of Waste Management, Consistently Has Not Met Minimum Diversion Rate Requirements, Despite Continual Assessments of Liquidated Damages**




Source: OCA generated based on annual tonnage data provided by ESD.

The cost of the liquidated damages may not have influenced Waste Management to change its behavior because, as one of the larger haulers operating in the City and as a publicly traded company, the dollar value of liquidated damages was not as significant to Waste Management compared to other haulers. Liquidated damages totaled $9.3 million from 2017 to 2022, while Waste Management reported over $22 billion in revenue nationwide in 2024 alone.[21]

Therefore, when haulers continually do not meet the minimum diversion rates even with the requirement of compliance plans and the assessment of liquidated damages, ESD and the City can use other mechanisms to hold them accountable. For instance, as previously mentioned, franchise agreement extensions are contingent upon haulers meeting all performance requirements within the agreement. As a result, ESD can recommend to City Council to not renew a haulers' franchise agreement based on the haulers' inability to perform to the standards outlined in the franchise agreement.

21 Waste Management changed its name to WM in 2022. This report refers to WM as Waste Management because that is the name of the organization in ESD's current records.

## ESD has not required compliance plans or assessed liquidated damages across all haulers consistently.

Inconsistently holding haulers accountable for meeting the diversion rate requirements weakens the incentive for haulers to meet these requirements. Since liquidated damages began in 2017, ESD has almost always followed the franchise agreement language and assessed liquidated damages when haulers do not meet the diversion rate requirements. When a hauler's diversion rate is within 2 percentage points of the requirement, ESD may require a compliance plan in lieu of assessing liquidated damages, as outlined in the franchise agreement.

*ESD did not require a compliance plan or assess liquidated damages when two haulers failed to meet diversion rate requirements.*

However, twice since 2017, ESD did not require a compliance plan or assess liquidated damages when a hauler's diversion rate did not meet diversion rate requirements and was not within 2 percentage points of the diversion rate requirement. ESD stated it did not assess liquidated damages or require compliance plans because the parent company, Waste Management, requested the City waive the requirements because the haulers' diversion rates were close to the requirement. The previous and current versions of the franchise agreement state that, "the assessment of any and all liquidated damages is at the City's sole discretion." Therefore, ESD technically complied with the language of the franchise agreements, but it was not consistent in requiring haulers to meet the requirements or in issuing penalties in the franchise agreements. This weakens the incentive for haulers to meet these requirements. It also creates inequity, as one hauler was treated differently than the rest, as ESD required other haulers to provide compliance plans and pay liquidated damages when they fell just short of diversion rate requirements.

ESD should amend the existing franchise agreement language to increase transparency and ensure ESD treats haulers consistently across the board and requires a compliance plan or assesses liquidated damages on any hauler that does not meet the diversion rate requirements.

## Allowing credit for tons of recycling the haulers did not haul themselves causes haulers' diversion rates to appear higher than actual performance.

Including tons of businesses' recyclables that haulers did not haul themselves in haulers' diversion rate calculations causes haulers' diversion rates to appear higher than their actual performance. The franchise agreement specifies that when ESD calculates haulers' annual diversion rates, ESD will allow haulers to include the recycling that some businesses manage themselves as part of the haulers' diverted waste. Haulers haul the landfill waste for that business, but the recycling is hauled by the business itself or by a third party. ESD refers to this additional recycling as a third-party credit.

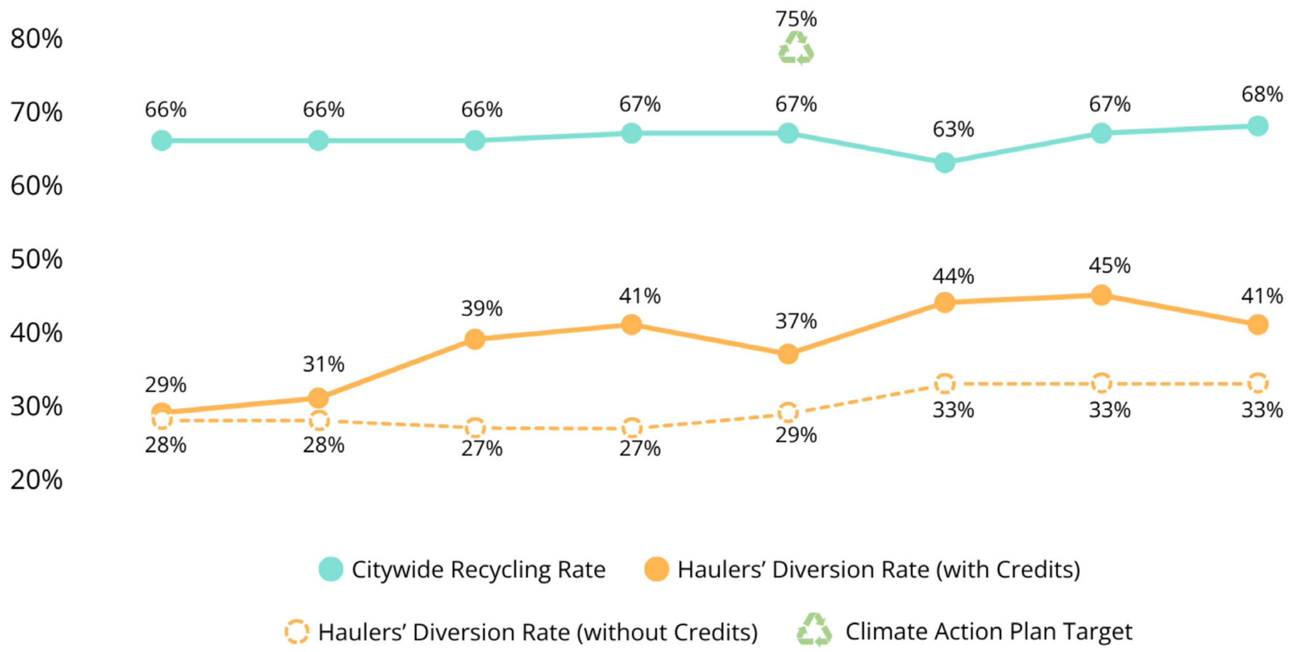
*Third-party credits inflate hauler diversion rates higher than actual performance.*

While the third-party credit recognizes that recycling occurs, it inflates hauler diversion rates higher than actual performance because the credit represents recycling the haulers did not haul themselves. As shown in **Exhibit 20**, haulers' initial collective diversion rate, before including third-party credits, is lower than their collective diversion rate with the third-party credits. Additionally, in some cases, the same recyclables might be included in two haulers' diversion rate calculations. For instance, the diversion rate for Allan Company, who only hauls industrial and commercial recyclables, includes the recyclables it hauls from specific businesses. However, those businesses likely use other haulers to collect their trash. The current process, effective as of 2023 according to ESD, allows these other haulers to include the recyclables that Allan Company hauled, as a third-party credit, within their own diversion rate calculations.

Moreover, trends in the initial collective diversion rate more closely align with trends in the Citywide recycling rate, also shown in Exhibit 20. Therefore, the initial diversion rate, without third-party credits, more accurately shows the haulers' progress in helping the City achieve its recycling targets. Allowing third-party credits has reduced haulers' incentive to increase their actual diversion of waste over time, as haulers can prioritize improving their diversion rates by finding additional third-party credits, rather than diverting more waste from landfills. Ultimately, unless the haulers increase their diversion rates without third-party credits, the City cannot meet its Climate Action Plan targets.

*Exhibit 20*

**Haulers' Diversion Rate with Credits Overstates Haulers' Actual Performance of Diverting Waste from Landfills**




Note: The Citywide Recycling Rate (the teal line in the exhibit) is based on CalRecycle's methodology and data that compares expected landfill waste to actual landfill waste. The haulers' diversion rates (the orange lines in the exhibit) are based on the amount of waste recycled in a year compared to the total amount of waste (recyclables and trash) hauled in the same year.

Source: OCA generated based on the current franchise agreements, the City's Zero Waste Plan, annual tonnage data provided by ESD, and annual recycling rate data provided by ESD.

ESD reported that most other California cities do not offer the third-party credit for businesses' recyclables that haulers do not haul themselves. We also could not find examples of other California jurisdictions that allow the third-party credit in haulers' diversion rate calculations. Additionally, ESD currently expends many staff hours verifying the third-party credits reported by the haulers.

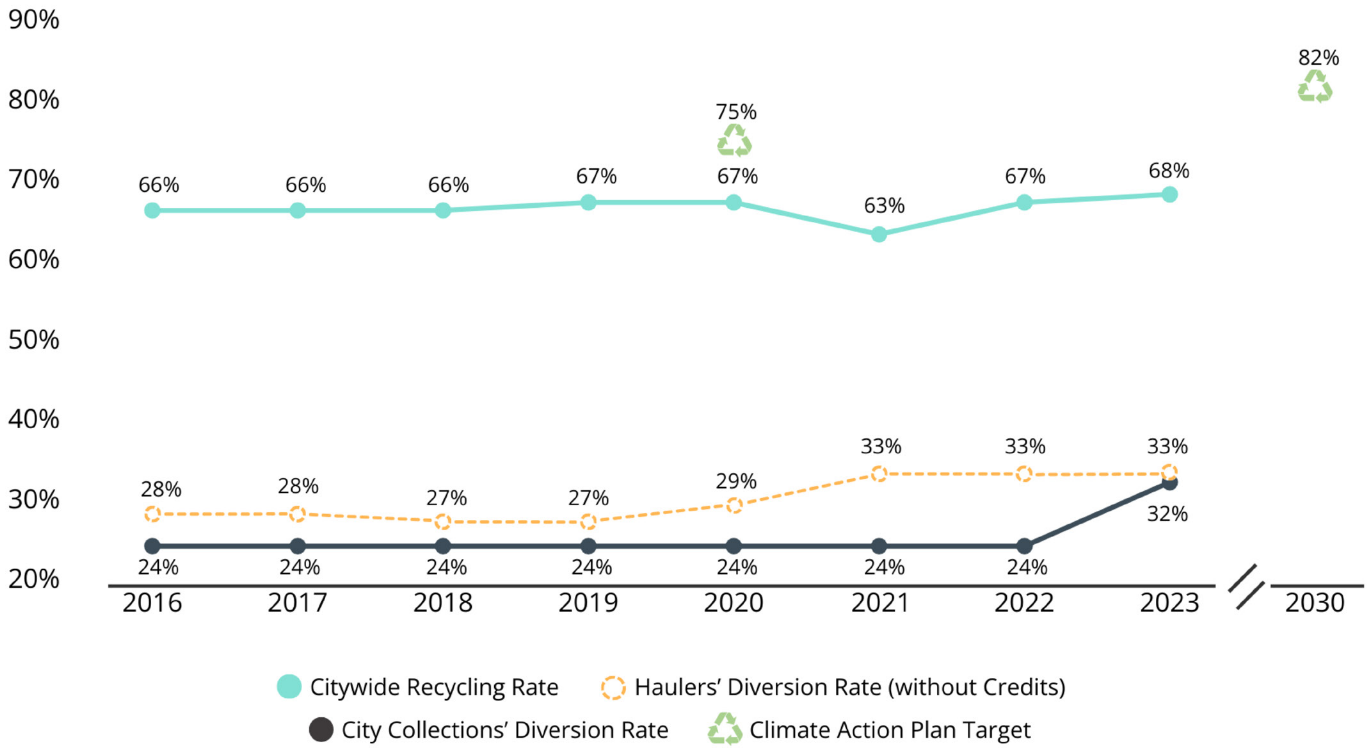
To begin to address this issue, in 2023, ESD capped the third-party credit at 15 percentage points and will lower the cap to 10 percentage points for 2025. To ensure haulers' actual performance of diverting waste improves, which will help the City meet its Climate Action Plan targets, ESD should amend the franchise agreement upon renewal in 2027 so that the cap steadily decreases to 0 percentage points by 2032.

## The City cannot meet its Climate Action Plan targets unless City Collections also increases its diversion rate.

From 2016 to 2022, City Collections maintained a flat diversion rate of 24 percent, while haulers' collective diversion rate, without third-party credits, increased from 28 percent to 33 percent. As shown in **Exhibit 21**, City Collections increased its diversion rate to 32 percent in 2023, likely due to the rollout of organic waste hauling, as required by California Senate Bill 1383 (SB1383).

*Exhibit 21*

### City Collections' Diversion Rate Consistently Falls Below Haulers' Collective Diversion Rate




Source: OCA generated based on the current franchise hauler agreement, the City's Zero Waste Plan, the City's 2022 Climate Action Plan, annual tonnage data provided by ESD, and annual recycling rate data provided by ESD.

While the franchise agreements include minimum diversion rate requirements for haulers, ESD has not set a diversion rate performance goal for City Collections. Moreover, the City's most recent waste characterization study states that almost 80 percent of the residential waste City Collections hauled to landfills could be diverted. Therefore, City Collections can divert more of the waste that it currently hauls to landfills.

*To significantly increase the Citywide recycling rate, both City Collections and the haulers must increase their diversion rates.*

City Collections' performance can directly impact the Citywide recycling rate. For example, in 2023, when City Collections increased its diversion rate by 8 percentage points, the relatively stagnant Citywide Recycling rate increased by 1 percentage point, from 67 percent to 68 percent, as shown in **Exhibit 21** above. While the haulers collectively haul most of the waste from within the City, City Collections typically hauls more tons than any individual hauler. Consequently, to significantly increase the Citywide recycling rate, both City Collections and the haulers must increase their diversion rates. Ultimately, the City still falls far behind its 2030 Climate Action Plan target, as the Citywide recycling rate remains 14 percentage points below the upcoming 82 percent diversion rate target.

The City currently is in the process of implementing Measure B, which allowed the City to charge a fee for City Collections. If the proposed fee and service enhancements are approved by City Council, ESD proposes to increase the frequency of residential recycling collection from every other week to every week by July 1, 2027. This change would likely improve City Collections' diversion rate, as best practice has shown recycling rates increase when recycling is more convenient and accessible. ESD also intends to propose a tiered rate system based on the size of trash bins to incentivize residents to maximize opportunities to recycle more. Therefore, ESD should set a diversion rate goal for City Collections that aligns with the minimum diversion rate requirements in the franchise agreements. The goal can increase incrementally over time to take into consideration factors related to the implementation of Measure B, such as increasing the goal if the frequency of recycling collection increases from every other week to every week. Also, to provide an update on the progress of the Climate Action Plan targets, ESD should present City Collections' annual diversion rate performance as well as haulers' collective and individual diversion rate performance annually to the City Council's Environment Committee.

# Recommendations

To help the City reach its Climate Action Plan targets, we recommend:

### *Recommendation 2.1* (Priority 1)

The Environmental Services Department should propose an amendment to the franchise agreements upon renewal in 2027 to continue to include regular increases in diversion rate requirements. These increased diversion rates should be based on an evaluation of the most recent waste characterization study to ensure diversion rate requirements are achievable but also help the City meet its Climate Action Plan targets.

**Management Response:** Agree [See full response beginning on page 57.]

**Target Implementation Date:** January 2027

### *Recommendation 2.2* (Priority 1)

The Environmental Services Department (ESD) should propose to City Council an amendment to the Municipal Code to require ESD to consider the ability of the hauler to meet the terms of the franchise agreement both when the hauler first applies and when the hauler applies to extend the agreement. ESD's review and report to City Council should include the hauler's historical performance, including whether it complied with diversion rate requirements or showed improvement over time, before City Council grants a franchise agreement extension.

**Management Response:** Agree [See full response beginning on page 57.]

**Target Implementation Date:** January 2027

### *Recommendation 2.3* (Priority 1)

To ensure the Environmental Services Department (ESD) consistently enforces the terms of the franchise agreement and treats all haulers equally by requiring compliance plans and assessing liquidated damages when set forth in the franchise agreement, ESD should draft, adopt, and train staff on an internal policy that directs staff to follow the enforcement mechanisms set forth in the franchise agreement. Additionally, ESD should propose amendments to the current franchise agreement upon renewal in 2027 to remove the language stating that "the assessment of any and all liquidated damages is at the City's sole discretion," and clarify that "a second occurrence of failure to achieve compliance will require a presentation by Franchisee to City Council," rather than "may require."

**Management Response:** Agree [See full response beginning on page 58.]

**Target Implementation Date:** January 2027

### *Recommendation 2.4* (Priority 2)

The Environmental Services Department should continue its plan to lower the cap of third-party credits to 10 percentage points of the required 50 percent diversion rate, effective 2025, and propose an amendment to the current franchise agreements upon renewal in 2027 so that the cap steadily decreases to 0 percent by 2032 at the latest.

**Management Response:** Agree [See full response beginning on page 58.]

**Target Implementation Date:** January 2027

### *Recommendation 2.5* (Priority 2)

The Environmental Services Department (ESD) should set a diversion rate performance goal for City Collections that closely aligns with the minimum diversion rate requirements in the franchise agreements to help the City meet its Climate Action Plan targets. The goal can be implemented to increase incrementally over time and could take into consideration factors related to the implementation of Measure B. For example, ESD could set a goal under the current frequency of recycling collection and then increase the goal if the frequency of recycling collection increased from every other week to every week. ESD should present City Collections' annual diversion rate performance as well as haulers' collective and individual diversion rate performance annually to the City Council's Environment Committee.

**Management Response:** Agree [See full response beginning on page 58.]

**Target Implementation Date:** December 2027

# Appendix A

## *Definition of Audit Recommendation Priorities*

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below.

While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

| PRIORITY CLASS* | DESCRIPTION |
|---|---|
| 1 | Fraud or serious violations are being committed.<br>Significant fiscal and/or equivalent non-fiscal losses are occurring.<br>Costly and/or detrimental operational inefficiencies are taking place.<br>A significant internal control weakness has been identified. |
| 2 | The potential for incurring significant fiscal and/or equivalent nonfiscal losses exists.<br>The potential for costly and/or detrimental operational inefficiencies exists.<br>The potential for strengthening or improving internal controls exists. |
| 3 | Operation or administrative process will be improved. |

* The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

# Appendix B

## *Audit Objectives, Scope, and Methodology*

### Objective

In accordance with the Office of the City Auditor's approved Fiscal Year 2024 Audit Work Plan, we conducted a performance audit of the City of San Diego's (City's) Trash, Recycling, and Organics Collection and Handling. The objectives of this audit were to:

1. Determine if the City's franchise hauler agreements ensure compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations;
2. Determine if the City's fee structure for waste, recycling, and organics collection and disposal conducted by franchise haulers ensures compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations and goals; and
3. Determine if the City's oversight of the franchise hauler agreements ensures compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, relevant state and local regulations, and required fees.

### Scope

Our analysis focused primarily on the Environmental Services Department's (ESD) oversight and management of the City's non-exclusive franchise hauler agreements from 2016 to 2024. In certain instances, our review looked at the haulers' performance, fees paid, and terms of the franchise agreements from as early as 1996 to determine trends over time in liquidated damages, corrective action plans, minimum diversion rates, and franchise hauler performance requirements.

Our audit scope did not include analysis of the efficiency or effectiveness of the City's Collection Services Division, aside from the Collection Services Division's diversion rates and their contribution to the City meeting its Climate Action Plan and Zero Waste Plan targets.

### Methodology

**To address Objectives 1 and 3, we:**

- Assessed the City's Zero Waste Plan, Climate Action Plan, Climate Equity Index Report, Recycling Ordinance, City Municipal Code, City Council Resolutions, and other City policies and regulations related to private hauler waste collection and reducing landfill waste.

- Reviewed and compared franchise hauler agreements in place from 1996 to 2025.
- Reviewed state regulations related to waste hauling, including requirements in California Senate Bill 1383, California Assembly Bill 1276, and California Senate Bill 1016, and the 2010 adoption of California Proposition 26.
- Synthesized research on best practices relevant to waste management and climate action plans from:
    - United States Environmental Protection Agency
    - California's Department of Resources Recycling and Recovery (CalRecycle)
    - Other relevant industry resources
- Reviewed adopted and proposed City budget documents relevant to waste management from 2023 to 2025.
- Reviewed the Office of the City Auditor's previous performance audits of ESD's Waste Reduction and Recycling Programs (2014) and the City's Street Maintenance Program (2024).
- Reviewed waste management audits and reviews conducted by:
    - United States Government Accountability Office
    - Chicago, IL
    - Dallas, TX
    - Denton, TX
    - Denver, CO
    - Portland, OR
    - San Jose, CA
    - Seattle, WA
- Reviewed ESD presentations to the City's Environment Committee and City Council to determine how it communicated the status of franchise hauler's diversion rates and proposed changes to the non-exclusive franchise hauler agreements.
- Analyzed ESD's review and analysis of haulers' self-reported tonnage data from 2016 through 2023.
- Analyzed ESD waste tonnage data for City Collection Services Division from 2016 through 2023.
- Analyzed ESD's calculations of Citywide diversion rates, based on a methodology approved by CalRecycle.
- Analyzed the methodology and results of the City Treasurer's two most recent revenue audit reports of franchise haulers, which were completed from 2009 through 2023.
- Interviewed key City staff from:
    - ESD
    - Councilmembers and staff of two City of San Diego

    - Councilmember Offices on the Environment Committee
    - City Treasurer
    - Office of the Independent Budget Analyst
    - Development Services Department's Solid Waste Local Enforcement Agency
- Interviewed representatives from:
    - San Diego Food System Alliance
    - City Heights Community Development Corporation
    - San Diego County Disposal Association
- Attended community-based organization meetings hosted by ESD, pertaining to the implementation of Measure B.
- Attended the 12th Annual Zero Waste San Diego Symposium.
- Conducted site visits to:
    - Miramar Landfill and Greenery
    - Sycamore Landfill
    - Allan Company Recycling Center location in San Diego
- Benchmarked ESD's approach for managing the franchise agreement system and current diversion rate requirements with the following municipalities:
    - County of San Diego, CA
    - Carlsbad, CA
    - Chula Vista, CA
    - Escondido, CA
    - Fresno, CA
    - Los Angeles, CA
    - Sacramento, CA
    - San Francisco, CA
    - San Jose, CA
    - Oceanside, CA
- Used CalRecycle's waste disposal data to calculate comparable recycling rates for the following municipalities:
    - County of San Diego, CA
    - Anaheim, CA
    - Bakersfield, CA
    - Carlsbad, CA
    - Chula Vista, CA
    - Escondido, CA

    - Fresno, CA
    - Long Beach, CA
    - Los Angeles, CA
    - Oakland, CA
    - Oceanside, CA
    - Sacramento, CA
    - San Francisco, CA
    - San Jose, CA

**To address Objective 2, in addition to the work above, we:**

- Reviewed reports from the Office of the Independent Budget Analyst pertaining to the franchise fees and AB939 fees.
- Reviewed City Council Resolutions pertaining to changes in the non-exclusive franchise hauler agreements and the assessment of franchise fees and AB939 fees.
- Analyzed the historical changes in the franchise fee and AB939 fee rates.
- Analyzed the City's franchise fee revenue from fiscal year 2010 to fiscal year 2024.
- Analyzed data from the Bureau of Labor Statistic's Consumer Price Index for all Urban Consumers in San Diego from 2008 to 2024.
- Analyzed per capita disposal data from CalRecycle and household size data from the U.S. Census Bureau to estimate the impact of the fee increase on the average household
- Reviewed the City's Pavement Management Plan, San Diego Street Design Manual, and R3 Consulting Group's Districted Exclusive Collection System Study to estimate street damage costs caused by hauler vehicle impacts.
- Benchmarked ESD's assessment of franchise hauler and AB939 fees with:
    - County of San Diego, CA
    - Anaheim, CA
    - Bakersfield, CA
    - Carlsbad, CA
    - Chula Vista, CA
    - Los Angeles, CA
    - Long Beach, CA
    - Sacramento, CA
    - San Jose, CA
    - Oceanside, CA

## Data Reliability

To calculate haulers' collective diversion rates, we used ESD's individual hauler diversion rate calculations. ESD uses the self-reported franchise hauler tonnage data to calculate haulers' diversion rates. ESD conducts the initial review of the data and the City Treasurer audits the total tonnage data based on risk in its revenue audit reports of franchise haulers. We conducted data reliability tests and determined that the data ESD uses to calculate haulers' diversion rates were sufficiently reliable for the intended purposes of this report.

To assess the City recycling rate, we used ESD's calculations based on a methodology approved by CalRecycle. We conducted data reliability tests and determined that the data ESD uses to calculate the City recycling rate were sufficiently reliable for the intended purposes of this report.

For historic City franchise fee revenue data, we primarily used data from SAP, the City's financial management system.

## Internal Controls Statement

We limited our review of internal controls to specific controls relevant to our audit objectives, described above.

## Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix C

## *Historic Haulter and City Collections Diversion Rates*

### Private Waste Haulers' and City Collections' Diversion Rates With Third-Party Credits, Calculated by the Environmental Services Department

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| **Diversion Rate Goals** | 25% | 29% | 35% | 43% | 50% | 50% | 50% | 50% |
| **Allan Company** | **86%** | **89%** | **97%** | **96%** | **95%** | **96%** | **100%** | **100%** |
| **Debris Box** | **57%** | **60%** | **50%** | **45%** | **43%** | **47%** | **43%** | **42%** |
| **Diamond Solid Waste Services** | **58%** | **64%** | **58%** | **49%** | **62%** | **55%** | **49%** | **45%** |
| **EDCO - all** | **30%** | **32%** | **37%** | **45%** | **54%** | **56%** | **56%** | **48%** |
| Daily Disposal Services, Inc. | 30% | 30% | 37% | 46% | 52% | 55% | 55% | 56% |
| EDCO Disposal Corporation | 31% | 33% | 37% | 45% | 54% | 57% | 56% | 46% |
| EDCO Waste & Recycling Services, Inc. | 29% | 31% | 37% | 43% | 59% | 64% | 62% | 57% |
| Express Waste & Recycling | 26% | 30% | 38% | 46% | 53% | 53% | 56% | 60% |
| Sani-Tainer Inc. | 25% | 30% | 37% | 46% | 50% | 54% | 55% | 70% |
| WEBCO | * | * | * | * | * | * | * | * |
| **John Smith Earthworks, Inc./Universal Waste Systems, Inc.**** | **45%** | **57%** | **42%** | **55%** | **41%** | **52%** | **93%** | **11*** |
| **Republic - all** | **22%** | **29%** | **42%** | **42%** | **26%** | **45%** | **46%** | **44%** |
| Dependable Disposal & Recycling | 32% | 21% | 24% | 25% | 14% | 60% | 26% | 14% |
| Republic Services (Allied) | 19% | 30% | 44% | 44% | 26% | 42% | 47% | 46% |
| Tayman Industries | 28% | 25% | 27% | 26% | 28% | 52% | 47% | 40% |
| **Ware Disposal Co., Inc.** | **30%** | **33%** | **14%** | **19%** | **32%** | **49%** | **59%** | **54%** |
| **Waste Management - all** | **17%** | **19%** | **27%** | **29%** | **25%** | **21%** | **22%** | **17%** |
| BDC Special Waste Services | * | * | * | * | * | * | * | * |
| Coast Waste Management, Inc. | 41% | 47% | 53% | 53% | 35% | 19% | 18% | * |
| Emerald Waste and Recovery | * | * | * | * | * | * | * | * |
| Moor Refuse, Inc. | 0% | 0% | 33% | 0% | 0% | 0% | 0% | * |
| Reliable Waste | 0% | 0% | 34% | 0% | 0% | 0% | * | * |
| USA Waste of California, Inc. | 0% | 0% | 33% | 0% | 0% | 0% | 0% | * |
| Waste Management of San Diego | 17% | 19% | 27% | 29% | 25% | 22% | 23% | 17% |
| **Haulers' Collective Rate** | **29%** | **31%** | **39%** | **41%** | **37%** | **44%** | **45%** | **41%** |
| **City Collections' Rate** | 24% | 24% | 24% | 24% | 24% | 24% | 24% | 32% |
| **Haulers' and City Collections' Collective Rate** | **27%** | **29%** | **35%** | **37%** | **33%** | **39%** | **40%** | **38%** |

* Indicates private waste hauler did not haul waste in San Diego during this year.

** Universal Waste Systems purchased John Smith Earthworks, Inc., and John Smith Earthworks, Inc.'s franchise agreement transferred to Universal Waste Systems in 2023.

Source: Data provided by the Environmental Services Department.

## Private Waste Haulers' and City Collections' Diversion Rates Without Third-Party Credits, Calculated by the Environmental Services Department

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| **Diversion Rate Goals** | 25% | 29% | 35% | 43% | 50% | 50% | 50% | 50% |
| **Allan Company** | **86%** | **89%** | **97%** | **96%** | **95%** | **96%** | **100%** | **100%** |
| **Debris Box** | **57%** | **60%** | **50%** | **45%** | **43%** | **47%** | **43%** | **42%** |
| **Diamond Solid Waste Services** | **58%** | **64%** | **58%** | **49%** | **62%** | **55%** | **49%** | **45%** |
| **EDCO - all** | **30%** | **32%** | **37%** | **45%** | **54%** | **56%** | **56%** | **48%** |
| Daily Disposal Services, Inc. | 30% | 30% | 37% | 46% | 52% | 55% | 55% | 56% |
| EDCO Disposal Corporation | 31% | 33% | 37% | 45% | 54% | 57% | 56% | 46% |
| EDCO Waste & Recycling Services, Inc. | 29% | 31% | 37% | 43% | 59% | 64% | 62% | 57% |
| Express Waste & Recycling | 26% | 30% | 38% | 46% | 53% | 53% | 56% | 60% |
| Sani-Tainer Inc. | 25% | 30% | 37% | 46% | 50% | 54% | 55% | 70% |
| WEBCO | * | * | * | * | * | * | * | * |
| **John Smith Earthworks, Inc./Universal Waste Systems, Inc.**** | **45%** | **57%** | **42%** | **55%** | **41%** | **52%** | **93%** | **11*** |
| **Republic - all** | **22%** | **29%** | **42%** | **42%** | **26%** | **45%** | **46%** | **44%** |
| Dependable Disposal & Recycling | 32% | 21% | 24% | 25% | 14% | 60% | 26% | 14% |
| Republic Services (Allied) | 19% | 30% | 44% | 44% | 26% | 42% | 47% | 46% |
| Tayman Industries | 28% | 25% | 27% | 26% | 28% | 52% | 47% | 40% |
| **Ware Disposal Co., Inc.** | **30%** | **33%** | **14%** | **19%** | **32%** | **49%** | **59%** | **54%** |
| **Waste Management - all** | **17%** | **19%** | **27%** | **29%** | **25%** | **21%** | **22%** | **17%** |
| BDC Special Waste Services | * | * | * | * | * | * | * | * |
| Coast Waste Management, Inc. | 41% | 47% | 53% | 53% | 35% | 19% | 18% | * |
| Emerald Waste and Recovery | * | * | * | * | * | * | * | * |
| Moor Refuse, Inc. | 0% | 0% | 33% | 0% | 0% | 0% | 0% | * |
| Reliable Waste | 0% | 0% | 34% | 0% | 0% | 0% | * | * |
| USA Waste of California, Inc. | 0% | 0% | 33% | 0% | 0% | 0% | 0% | * |
| Waste Management of San Diego | 17% | 19% | 27% | 29% | 25% | 22% | 23% | 17% |
| **Haulers' Collective Rate** | **29%** | **31%** | **39%** | **41%** | **37%** | **44%** | **45%** | **41%** |
| **City Collections' Rate** | 24% | 24% | 24% | 24% | 24% | 24% | 24% | 32% |
| **Haulers' and City Collections' Collective Rate** | **27%** | **29%** | **35%** | **37%** | **33%** | **39%** | **40%** | **38%** |

* Indicates private waste hauler did not haul waste in San Diego during this year.

** Universal Waste Systems purchased John Smith Earthworks, Inc., and John Smith Earthworks, Inc.'s franchise agreement transferred to Universal Waste Systems in 2023.

Source: Data provided by the Environmental Services Department.

THE CITY OF SAN DIEGO

**M E M O R A N D U M**

| | |
|---|---|
| DATE: | May 2, 2025 |
| TO: | Andy Hanau, City Auditor, Office of the City Auditor |
| FROM: | Kirby Brady, Interim Director, Environmental Services Department |
| SUBJECT: | Management Response to the Office of the City Auditor's Performance Audit of the City's Trash, Recycling, and Organics Collection and Handling |

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This memorandum serves as the management response to the City Auditor's Performance Audit of the City's Trash, Recycling, and Organics Collection and Handling (Performance Audit). At the time this response was written, the draft Performance Audit provided to management contained two findings and eight recommendations. Management appreciates the Performance Audit prepared by the Office of the City Auditor and thanks the staff involved.

The City of San Diego, Environmental Services Department has made significant strides in advancing our Zero Waste Plan and Climate Action Plan goals. Our efforts have led to meaningful improvements in waste diversion and sustainable practices citywide, such as amendments to our City Recycling Ordinance and continued implementation of California's short-lived climate pollutant reduction strategy, Senate Bill 1383,to divert organic waste from the landfill. However, we recognize the need to reevaluate and enhance our approach for further waste diversion, particularly in alignment with our franchise hauler agreements and City Collections operations. Improving diversion is essential to meet the City's waste reduction goals and prolong the life of the only City-operated waste disposal site in our region, Miramar Landfill, which is currently anticipated to close by 2031. Addressing these challenges will require close coordination with our franchise haulers and strong internal collaboration within our department.

ESD acknowledges that a citywide waste characterization study needs to be conducted, as the last comprehensive study was conducted in 2012-2013. An upcoming study is anticipated to collect data about the amounts and types of waste disposed by residents, businesses, and military sites. This information will inform the development of more targeted recycling and diversion strategies.

Management agrees with the recommendations within the Performance Audit. To effectively carry out these initiatives and ultimately increase diversion rates, additional resources, including full-time equivalent positions and contractor support will be necessary. Funding for these resources will need to be made through the annual budget process and ultimately adopted by the City Council. A list of resource needs is provided below.

- Consultant(s)
    - To lead and conduct the franchise fee and AB 939 fee cost-of-service study and advise on fees
    - To conduct an alternative fee structure analysis

- To conduct a citywide waste characterization study

- Five (5) full-time equivalent positions
  - To ensure we have adequate internal capacity for planning, oversight, and implementation:
    - One (1) Recycling Specialist Supervisor
    - Two (2) Recycling Specialist III
    - One (1) Senior Management Analyst
    - One (1) Associate Management Analyst

**Recommendation 1.1:** The Environmental Services Department should prepare and present a proposed action to City Council to set the non-exclusive solid waste collection franchise fees for Class I and Class II haulers at the rates that the fees would be if the rates had increased by the Consumer Price Index (CPI) increases in San Diego since fiscal year 2010. The proposed action should also require that the non-exclusive solid waste collection franchise fees increase annually based on the CPI, similar to the AB939 fee. (Priority 1)

**Management Response: Agree with the recommendation.** As outlined in Management Response 1.2, The Environmental Services Department (ESD) will conduct a comprehensive rate study to ensure that the proposed franchise fee is legally defensible. In the interim, ESD will collaborate with the City Attorney's office to assess the feasibility and legality of implementing a rate increase prior to the completion of the rate study. Once the appropriate fees are determined, ESD will work with relevant departments and a consultant to present revised Class I and Class II franchise hauler fees, supported by the rate study, to City Council.

**Target Implementation Date: July 2028**

**Recommendation 1.2:** The Environmental Services Department, in consultation with other relevant departments, should conduct or contract for a rate study to assess appropriate franchise fee and AB939 fee rates to recover City costs, such as:

a. Increased costs of street damage caused by haulers' vehicles;
b. Increased costs of overseeing haulers' regulatory compliance;
c. Increased costs of City Treasurer audits;
d. Other potential costs to the City and residents, such as traffic, pollution, and noise;
e. The inherent value of the franchise; and
f. The costs of public education programs designed to decrease landfill waste across all customers.

ESD should present the fee study to the City Council and should prepare and present a proposed action to City Council to revise franchise fees. The proposed fees should be based on the results of the fee study.

ESD should adopt a policy requiring the recommended fee study and presentation to City Council be completed at least every 5 years. (Priority 1)

**Management Response: Agree with the recommendation.** ESD will develop a Request for Proposals (RFP) and retain a consultant to conduct a comprehensive rate study that is compliant with Proposition 26, as applicable, and which will assess costs that are legally permissible to include. ESD is not able to consider costs that are not permissible under Proposition 26. In

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Andy Hanau, City Auditor, Office of the City Auditor
May 2, 2025

addition, ESD will establish an interdepartmental workgroup to support and participate in the rate study analysis. Upon completion of the study, ESD will present their initial findings and fee recommendations to the franchise haulers for their input and then present to City Council. ESD will also determine an appropriate policy for the frequency of future rate studies and presentations to City Council to ensure alignment with franchise hauler agreements.

**Target Implementation Date:** June 2028

**Recommendation 1.3:** The Environmental Services Department (ESD) should ensure the study in Recommendation 1.2 also analyzes and presents the benefits and costs of alternative fee structures that incentivize recycling, including but not limited to charging more for landfill waste and less for recycled waste. The costs should include additional oversight to ensure landfill waste is not placed in recycling containers at a higher rate due to the cost increase. The costs should also include the increased cost of the City Treasurer auditing franchise hauler payments to verify the type of waste collected and disposed of, to ensure landfill waste is not claimed as recycling waste by haulers. (Priority 2)

**Management Response: Agree with the recommendation.** ESD and the consultant will evaluate differential pricing for related hauling collection fees and fee structures to incentive recycling to the extent possible while also complying with Proposition 26. ESD will also analyze costs associated with increased auditing and monitoring. ESD will prepare and present recommendations alongside the broader rate study.

**Target Implementation Date:** June 2028

**Recommendation 2.1:** The Environmental Services Department should propose an amendment to the franchise agreements upon renewal in 2027 to continue to include regular increases in diversion rate requirements. These increased diversion rates should be based on an evaluation of the most recent waste characterization study to ensure diversion rate requirements are achievable but also help the City meet its Climate Action Plan targets. (Priority 1)

**Management Response: Agree with the recommendation.** ESD will develop an RFP and select a consultant to conduct a citywide waste characterization study. Evaluation of the waste characterization study results and consultation from the contractor will help ESD determine amended target diversion rate increases for the next franchise agreement cycle to achieve the City's waste diversion goals.

**Target Implementation Date:** January 2027

**Recommendation 2.2:** The Environmental Services Department (ESD) should propose to City Council an amendment to the Municipal Code to require ESD to consider the ability of the hauler to meet the terms of the franchise agreement both when the hauler first applies and when the hauler applies to extend the agreement. ESD's review and report to City Council should include the hauler's historical performance, including whether it complied with diversion rate requirements or showed improvement over time, before City Council grants a franchise agreement extension. (Priority 1)

**Management Response: Agree with the recommendation.** Per the Municipal Code, ESD has the authority to evaluate the hauler's historical performance and ability to meet the terms of the franchise agreement both when the hauler first applies and when determining if an agreement should be extended or terminated. The current franchise agreement conditions extension is on, among other things, the franchisee having satisfied all performance requirements of the agreement. ESD will propose an amendment to the franchise agreement to City Council that outlines in more detail the conditions and criteria by which haulers will be evaluated when determining whether to extend, suspend or terminate the agreement. Future reviews and reports to City Council regarding franchise agreement extensions will include an assessment of each hauler's historical performance, with attention to compliance with diversion rate requirements and demonstrated improvement over time.

**Target Implementation Date:** January 2027

**Recommendation 2.3:** To ensure the Environmental Services Department (ESD) consistently enforces the terms of the franchise agreement and treats all haulers equally by requiring compliance plans and assessing liquidated damages when set forth in the franchise agreement, ESD should draft, adopt, and train staff on an internal policy that directs staff to follow the enforcement mechanisms set forth in the franchise agreement. Additionally, ESD should propose amendments to the current franchise agreement upon renewal in 2027 to remove the language stating that "the assessment of any and all liquidated damages is at the City's sole discretion," and clarify that "a second occurrence of failure to achieve compliance will require a presentation by Franchisee to City Council," rather than "may require." (Priority 1)

**Management Response: Agree with the recommendation.** ESD will develop and implement updated written internal guidance to ensure consistent enforcement of franchise compliance plans and the application of liquidated damages. Staff will be trained to support uniform implementation of these procedures. Additionally, ESD will propose amendments to the franchise agreements to revise "City's sole discretion" language to promote consistency while allowing discretion when there are extenuating circumstances, and to require a presentation to City Council in cases after repeated noncompliance.

**Target Implementation Date:** January 2027

**Recommendation 2.4:** The Environmental Services Department should continue its plan to lower the cap of third-party credits to 10 percentage points of the required 50 percent diversion rate, effective 2025, and propose an amendment to the current franchise agreements upon renewal in 2027 so that the cap steadily decreases to 0 percent by 2032 at the latest. (Priority 2)

**Management Response: Agree with the recommendation.** ESD will continue its planned reduction of third-party credit cap to 10% in 2025 based on the current franchise agreements. ESD will evaluate with input from the franchise haulers, a proposed amendment to the franchise agreements to further phase down the third-party cap.

**Target Implementation Date:** January 2027

**Recommendation 2.5:** The Environmental Services Department (ESD) should set a diversion rate performance goal for City Collections that closely aligns with the minimum diversion rate requirements in the franchise agreements to help the City meet its Climate Action Plan targets. The goal can be implemented to increase incrementally over time and could take into consideration factors related to the implementation of Measure B. For example, ESD could set a goal under the current frequency of recycling collection and then increase the goal if the frequency of recycling collection increased from every other week to every week. ESD should present City Collections' annual diversion rate performance as well as haulers' collective and

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Andy Hanau, City Auditor, Office of the City Auditor
May 2, 2025

individual diversion rate performance annually to the City Council's Environment Committee. (Priority 2)

**Management Response: Agree with the recommendation.** ESD will establish diversion targets for City Collection services. This will occur after evaluation of the anticipated changing residential collection waste stream following the implementation of citywide residential service changes for City-serviced properties. The evaluation of these targets will also depend on potential service enhancements – such as weekly recycling starting 2027 – that may be adopted pending City Council's approval of the proposed solid waste management fee (Measure B) on June 9, 2025.

Additionally, ESD will report annually on the diversion performance of both City Collection and franchise haulers to the City's Environment Committee.

**Target Implementation Date:** December 2027

Thank you for the opportunity to provide responses to these recommendations. Management appreciates your team's professionalism throughout this review.

Thank you,

Kirby Brady
Interim Director
Environmental Services Department

KB/ad

cc: Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Alia Khouri, Deputy Chief Operating Officer
Kris McFadden, Deputy Chief Operating Officer
Kristina Peralta, Deputy Chief Operating Officer
Casey Smith, Deputy Chief Operating Officer
Matthew Vespi, Chief Financial Officer
Robert Logan, Chief, Fire-Rescue Department
Scott Wahl, Chief, Police Department
Christiana Gauger, Chief Compliance Officer, Compliance Department
Matt Yagyagan, Director of Policy, Office of the Mayor
Emily Piatanesi, Policy Advisor, Office of the Mayor
Trisha Tacke, Program Manager, Compliance Department

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