

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:

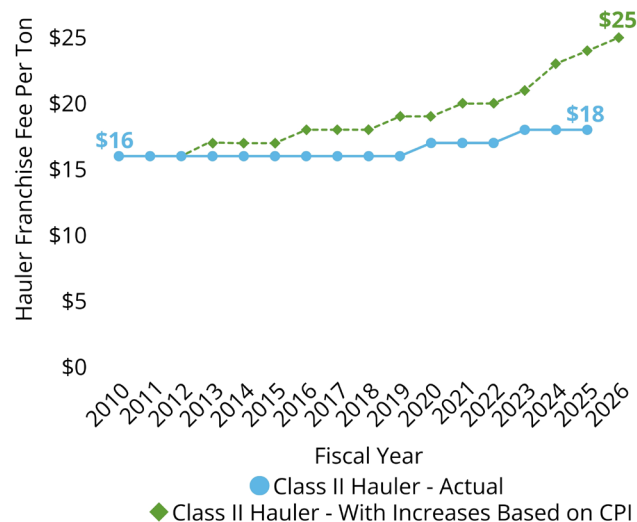
- (1) Determine if the City's franchise hauler agreements ensure compliance with the City's Zero Waste Plan goals, Climate Action Plan goals, and other relevant state and local regulations;
- (2) Determine if the City's fee structure for waste, recycling, and organics collection and disposal conducted 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.

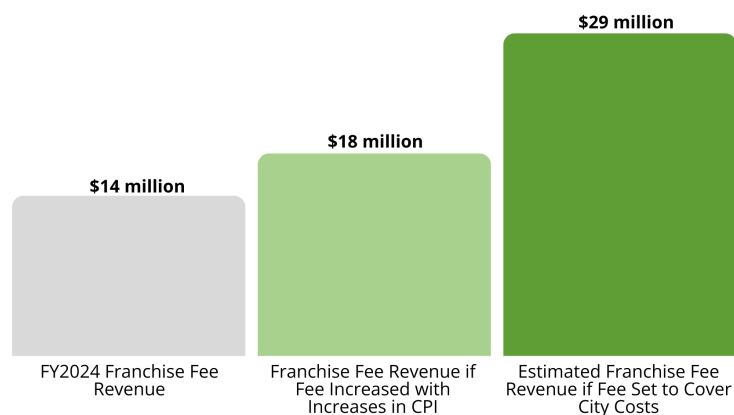
Exhibit 7: Franchise Fees Have Only Increased by 13% Since 2010, While CPI Increased by 54%



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

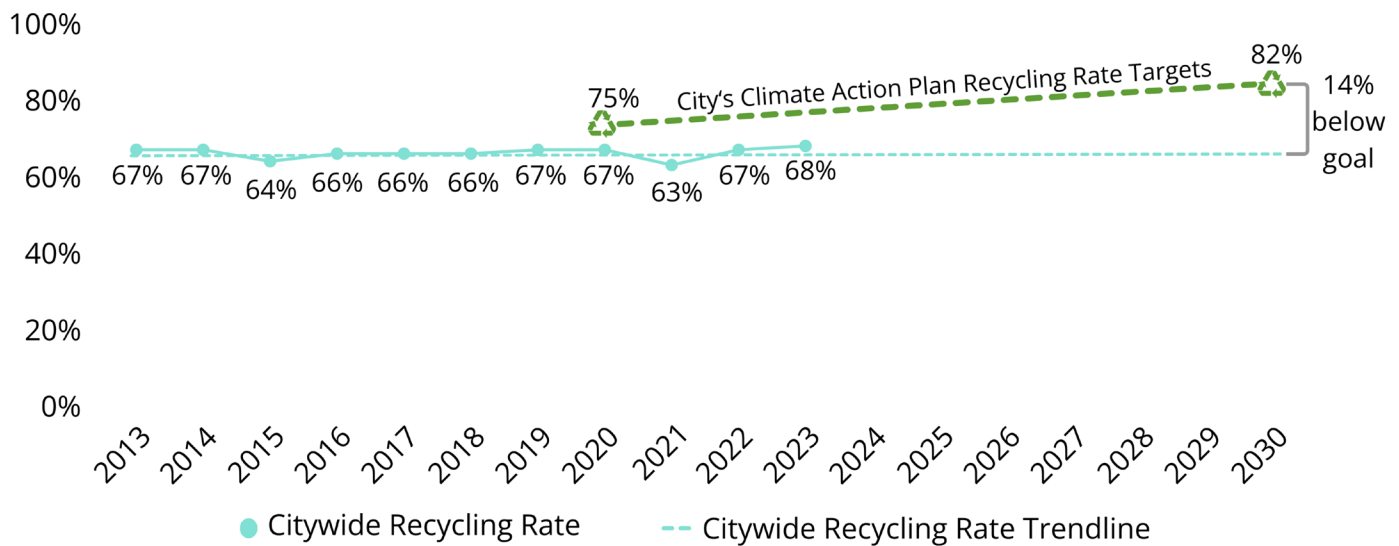
- However, even with increases for inflation, we estimate franchise fee revenue would not fully cover the City's costs. We estimate that the **City likely spends \$29 million per year repairing street damage from private waste hauler trucks and for oversight of the franchise hauler agreements.**
- Increasing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

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