



CONSULTING GROUP, INC.

RESOURCES · RESPECT · RESPONSIBILITY

FINAL REPORT

Solid Waste Fund 10-Year Financial Plan and 5-Year Rate Model



FINAL REPORT SUBMITTED TO:

City of Roseville

March 13, 2019

Report Submitted Digitally as PDF



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March 13, 2019

Ms. Shelly Tilley
Refuse Superintendent
Roseville Refuse & Stormwater Division
2005 Hilltop Circle
Roseville, CA 95747

Subject: City of Roseville Solid Waste Fund 10-Year Financial Plan and 5-Year Rate Model Final Report

Dear Ms. Tilley:

R3 Consulting Group, Inc. (R3) is pleased to submit the attached final report for the City of Roseville's 10-Year Financial Plan and 5-Year Rate Model. This report details our methodology, analysis, and recommendations for maintaining the financial health of the City's Solid Waste Funds and continuing to offer quality refuse and materials recovery service to citizens.

Highlights of the report include the following recommendations: redistributing surplus from the Solid Waste Operations Fund to better utilize Reserve Funds and maintain healthy account balances, implementing a rate increase of 5% each year for the next 4 years (FY19/20 - FY22/23) followed by lower increases in out years; and transitioning commercial garbage and recycling rates to a new rate structure which is more reflective of the cost of operating services.

R3 has worked closely with City of Roseville staff to address needs specific to the systems the City operates and to establish recommendations that can be implemented to best serve the Roseville community. We appreciate the opportunity to submit our final report to the City of Roseville. Should you have any questions regarding our work or need any additional information please contact me by phone at (510) 647-9674 or by email at slarock@r3cgi.com.

Sincerely,

R3 CONSULTING GROUP

Sarah LaRock | Project Manager

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Section 1 | 10-Year Financial Plan

Background on Roseville’s Solid Waste Funds

The City of Roseville (City) engaged R3 Consulting Group (R3) to assist in developing a 10-Year Financial Plan encompassing the City’s four Solid Waste Funds, and to recommend customer rate adjustments for the next five years (FY 18/19 through FY 22/23) that will keep each fund appropriately balanced. The four Solid Waste Funds are listed below along with an explanation of the functions they serve.

- **Fund 460** – Solid Waste Operations Fund (Solid Waste Operations Fund): collects revenues through rates (“Utility Sales”) to provide for the City’s solid waste collection, processing, and disposal services.
- **Fund 462** – Solid Waste Capital Purchase Fund (Capital Purchase Fund): accumulates revenue through a Solid Waste Impact Fee charged to developers of new properties to pay for the relative cost of implementing new routes to serve City’s the growing population.
- **Fund 463** – Solid Waste Rehabilitation Fund (Rehabilitation Fund): financed predominantly through contributions from the Solid Waste Operations Fund to account for the purchase of solid waste related equipment (eg. carts, containers, technology, etc.).
- **Fund 464** – Solid Waste Rate Stabilization Fund (Rate Stabilization Fund): supported by contributions from the Solid Waste Operations Fund to serve as a contingency reserve utilized to prevent rate spikes.

Methodology

The 10-Year Financial Plan was built using source data and input provided by the City and expanded upon through the addition of an interactive dashboard provided by Raftelis (the City’s prime consultant for this project). R3 used the following steps to construct the Plan which is included in this document as Attachment 1 (10-Year Financial Plan Summary) and Attachment 2 (10-Year Financial Plan Detail):

- Aligned 5-Years of historic detailed budget actuals (FY13/14 – FY 17/18) by year, fund, line item, and category subtotal;
- Applied current FY18/19 projected operating budget adjusted to tie to FY18/19 Fund Summary:
 - Added expense line items for transfers to different funds; and
 - Added expense line items to account for EU costs/Reimbursed costs.
- Further adjusted FY18/19 operating budget to account for City approved R3 recommendations:
 - Removed Contingency Fund expense; and



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- Removed Recycling Revenue.
- Increased FY18/19 “Utility Sales” revenue by 2% from FY17/18 figure to account for the 2018 rate increase;
- Changed the FY18/19 Solid Waste Operations starting fund balance from \$15,352,916 (per fund summary) to \$19,597,572 (FY17/18 end year actual) per City direction;
- Used escalation factors provided by the City to project expense/revenue increases over time as shown in Attachment 3 (10-Year Financial Plan Escalation Factors):
 - 2% - Salaries & Benefits, 2.5% - Disposal Tip Fees, 3% - General Expenses, etc.;
 - Color coded to identify which line items increase at what percentage annually; and
 - Adjusted escalation factors for specific years per City direction.
- Adjusted individual line items in specific years for known future expenses at City direction (e.g. landfill tip fee increases, salaries where new positions will be created);
- Worked with Raftelis to add dashboard that allows City to preview different financial scenarios;
- Established inter-fund transfers between Solid Waste Operations and Rate Stabilization ensuring that:
 - 10% of the following year’s operating expenses are held in the Solid Waste Operations Fund; and
 - 15% of the following year’s operating expenses are held in the Rate Stabilization Fund.
- Established inter-fund transfers between Solid Waste Operations and Rehabilitation to cover expected yearly equipment costs; and
- Assessed and determined optimal necessary rate increases over a ten-year period.

Current Conditions and Relevant Recommendations

Solid Waste Operations Fund Revenues

The Solid Waste Operations Fund receives revenue primarily from rates charged to the City’s residents and businesses. Revenue is also generated through growth of interest on investments, transfers from other funds, fees, and historically, from the sale of recycled materials.

While past budgets have projected yearly recycling revenues bringing in between \$200,000-\$400,00 per year, changes in market conditions have made this revenue stream unreliable as most recycling facilities have failed to cover their costs from the sale of material this year like they had in the past. Due to this change, R3 has recommended the City not project income from recycling revenues for the next several years and, because the market is difficult to anticipate many years out. Additionally, the Solid Waste Operations Fund received \$4 million in contributions from the Water and Waste Water Funds in FY18/19 earmarked for the purchase of land to accommodate a new corps yard for the Environmental Utilities Department. This revenue is acknowledged in the Net Cashflow section (lines 481-495 of



Attachment 2) of the 10-Year Financial Plan but is not considered part of the operational budget and is not projected as potential income for subsequent years.

Reserve Fund Balances

The Solid Waste Rehabilitation and Rate Stabilization Funds rely primarily on transfers from the Solid Waste Operations Fund for revenue aside from what is gained through interest on investment. The fund balance for Rehabilitation currently stands at a surplus healthy enough to accommodate the FY18/19 budgeted expenditures (\$734,753), which are slightly more than twice the revenues earmarked for contribution to the fund in the same year (\$325,000). While this circumstance is appropriate for the current year, the City will need to stay within the fund's budgeted revenues moving forward. Because the Solid Waste Operations Fund has been healthy in recent years there has not been a need to contribute largely to the Rate Stabilization Fund. Considering the current position of the Solid Waste Operations Fund discussed below, it would be prudent for the City to increase its contributions to the Rate Stabilization Fund such that it is financed to maintain reserves at 15% of the next year's operating budget.

Considering this analysis, R3 has expressed the following recommendations within the 10-Year Financial Plan:

- Solid Waste Rehabilitation:
 - Budget \$325,000 annually, escalating at 3% each year in the Solid Waste Operations budget to ensure funds are available for the purchase of Rehabilitation equipment; and
 - Limit expenditures in following years to stay within the combined revenues from interest on investment and transfers from the Solid Waste Operations Fund.
- Solid Waste Rate Stabilization:
 - Budget \$100,000 annually, escalating at 3% each year in the Solid Waste Operations budget to ensure revenue for Rate Stabilization; and
 - Move \$1,908,032 of existing surplus from the Solid Waste Operations Fund to store reserves at 15% operating budget in Rate Stabilization.

Finally, the Solid Waste Capital Purchase Fund's revenue generating Development Impact Fee has not been updated in several years. Since its initiation in FY05/06, CPI for related materials have increased by 20-30%, and the cost to purchase vehicles has increased over 50%. These increases and a recommended rate adjustment for this fee are discussed below in Section 2.

Solid Waste Operating Expenses and Solid Waste Operations Fund Balance

Solid Waste Operations Fund expenses have grown by over 35% in the past two years: 23.4% between FY16/17 - FY17/18, and 14.1% between FY17/18 - FY18/19. The first increase was largely due to Pension Expenses and the introduction of Reimbursed Costs. Pension Expenses did not carry over to the following year, but Reimbursed Costs continued to grow along with the cost of Residential and Commercial Solid Waste Pickup service and significant increases in tip fees for waste disposal.

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In years previous to FY17/18 the Fund had been generating revenue surpluses of 30-40% of operating expenses (\$5.3 million to over \$6 million). The expense increases in FY17/18 were met by a 2% rate increase which considerably tightened the margin for surplus to 10% (\$2.25 million). Due to this sudden change, the 2% rate increase provided for in FY18/19 is not currently projected to accommodate the 14% rise in expenses. The current budget figures indicate an annual structural deficit of approximately \$700,000. It is important to recognize that this projection is based on budget estimates that may not be expended and revenues that have been conservatively predicted. Considering this, end of year actuals still have the potential to break even or bring in a surplus.

Outside of this structural deficit in the Solid Waste Operations budget for FY18/19, the Environmental Utilities Department plans to spend down \$8 million (in addition to the \$4 million passing through the Fund from Water/Waste Water) of the cumulative Fund balance in contributions to the purchase of land for development of the City' yard.

Due to conservative planning in previous years, the overall starting balance for the Solid Waste Operations Fund in FY18/19 (\$19,597,572) is more than sufficient to cover the possible deficit and \$8 million commitment. After all transfers and expenditures, the cumulative balance for the Fund at the end of FY18/19 is projected to land at over \$9.25 million, well above the established reserve target of 10%.

Having established the conditions discussed above, R3 structured its 5-Year Rate Model to be responsive to the current and projected needs expressed within the 10-Year Financial Plan.

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Background on Rate Setting

To fund solid waste collection services throughout their communities, jurisdictions use a range of rate structures. In California, variable can rates are common. The term “variable can rate” (or “pay-as-you-throw”) refers to the structuring of garbage collection rates so that different sized containers are charged different rates. Alternatively, a “flat rate” refers to pricing that is the same regardless of the volume serviced (e.g., the cost for a 64-gallon container is the same as a 90-gallon container).

There are four general types of variable can rate pricing structures:

1. **Regressive:** The per-unit¹ rate for servicing containers decreases as container size increases.
2. **Volume-based:** The per-unit rate is the same for all container sizes.
3. **Progressive:** The per-unit rate increases as the container size increases.
4. **Cost of Service:** The per-unit rate is set based on the actual cost to service the different container sizes.

The objectives of offering variable can rates are often to provide economic incentive for residential and commercial waste generators to increase participation in recycling and/or to decrease the frequency of their refuse collection service.

While variable can rates have supported diversion efforts by providing a financial incentive to reduce solid waste volumes and service level, they have also resulted in the need to periodically increase solid waste rates to account for the lost revenue associated with the “migration” of accounts from larger (higher revenue generating) to smaller (lower revenue generating) weekly service volumes or from more to less frequent collection. Via this 5-year rate model R3 proposes revisions to the City’s commercial rates to align rates with the cost of providing commercial solid waste services.

Projected Rate Increases

As with the current budget year, expense increases are projected to continue to increase at levels higher than the City has experienced historically. These increases are largely driven by tight labor markets for commercial truck drivers and rising tip fees levied to fund new organics processing infrastructure. Revenue is also expected to decrease due to the loss of income from recycling markets, which is affecting solid waste operations throughout California and the United States. To accommodate these changing factors, R3 worked closely with City staff to determine that a steady rate increase of 5% per year through FY22/23 (four years) would enable the City to adequately maintain its quality of service, while providing for sufficient reserves in the event that unknown expenses (or decreases in revenues) arise in the future. In

¹ Referencing volumetric units, usually measured in gallons or cubic yards (e.g., per-gallon cost).

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the coming years (FY23/24 – FY27/28) expenses are expected to level off, reducing the necessary rate increases to between 2% and 3.5% per year.

As shown in Table 1 below, although the 5% rate increases in the next four years are higher than recent annual rate adjustments, the yearly operational fund balance maintains a slight deficit for every year through FY23/24. Because the City has budgeted conservatively in the past, the cumulative fund balance can cover these projected shortfalls so that rate increases can be minimized and still provide for the necessary expenses.

**Table 1:
Recommended Solid Waste Rate Adjustments and Related Fund Impacts**

Solid Waste Operations Fund 460	Budgeted	Forecast								
	2018-2019	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027	2027 - 2028
Recommended Rate Adjustment	2.00%	5.00%	5.00%	5.00%	5.00%	2.00%	3.50%	3.00%	3.00%	2.00%
Yearly Budget Surplus/Deficit	-\$707,333	-\$803,980	-\$1,410,413	-\$784,230	-\$107,070	-\$267,810	\$16,040	\$161,170	\$315,810	\$149,850
Cumulative End Year Fund Balance	\$9,268,005	\$8,499,839	\$7,245,319	\$6,598,153	\$6,621,976	\$6,483,927	\$6,629,806	\$6,925,184	\$7,382,656	\$7,681,657

Residential Rates

Current Rate Structure Analysis

The City charges a single base rate (flat rate) of \$24.35 per month for weekly solid waste and green waste collection of up to 90-gallons each. Smaller 60-gallon carts are available for the same base rates. Charges apply for additional green waste (\$8.84) and refuse containers (\$16.65). The full residential charges can be found in Attachment 4 (5-Year Rate Model Rate Sheets). While many jurisdictions employ variable can rates to incentivize diversion through source separated recycling, the City of Roseville has pre-empted the need for this approach by providing one cart for garbage and recycling to accommodate the residential waste stream which is then processed at the Western Placer Waste Management Authority’s Material Recovery Facility (MRF).

Recommendations

R3 does not suggest changes to the residential rate structure at this time. While the City could consider establishing some cost differential between 60-gallon and 90-gallon service (i.e., a 10% differential intended to reflect variation in potential disposal charges and other minor service expenses), there are associated costs in administering the transition (e.g., cart inventory, billing management, and migration). Based on our evaluation, we find the current residential structure to be appropriate and in keeping with the cost of providing residential solid waste services.



Commercial Rates

Current Rate Structure Analysis

Of the variable can rates discussed above, the City presently charges a volume-based rate for commercial collection service, wherein the rates paid by customers are established according to the weekly service volume. This structure provides no financial incentive for businesses to reduce their service frequency by switching to larger containers because they pay the same rate for a 1-yard dumpster serviced four times per week (4 weekly cubic yards of service) as they would pay for a 4-yard dumpster serviced once per week (also 4 weekly cubic yards of service). Although the rates for these services are the same for the ratepayer, it costs the city significantly more to service an account four times per week than one time per week. It also increases vehicle traffic and reduces solid waste collection system efficiency.

The City’s commercial rates are based on a flat rate of \$9.99 per cubic yard which is applied per week and charged per month (at \$43.29 per month per cubic yard).² As shown in Table 2, this flat amount is multiplied by the service frequency and the container size to achieve the different rates relevant to various weekly service volumes. The colored cells highlight some examples of rates that are the same despite differences in frequency and cost to the City.

**Table 2:
Current Monthly Commercial Rates**

Current		Frequency (times/week)						
		1	2	3	4	5	6	7
Bin Size (cubic yds)	1.0	\$ 43.29	\$ 86.58	\$ 129.87	\$ 173.16	\$ 216.45	\$ 259.74	\$ 303.03
	1.5	\$ 64.94	\$ 129.87	\$ 194.81	\$ 259.74	\$ 324.68	\$ 389.61	\$ 454.55
	2.0	\$ 86.58	\$ 173.16	\$ 259.74	\$ 346.32	\$ 432.90	\$ 519.48	\$ 606.06
	3.0	\$ 129.87	\$ 259.74	\$ 389.61	\$ 519.48	\$ 649.35	\$ 779.22	\$ 909.09
	4.0	\$ 173.16	\$ 346.32	\$ 519.48	\$ 692.64	\$ 865.80	\$ 1,038.96	\$ 1,212.12
	5.0	\$ 216.45	\$ 432.90	\$ 649.35	\$ 865.80	\$ 1,082.25	\$ 1,298.70	\$ 1,515.15
	6.0	\$ 259.74	\$ 519.48	\$ 779.22	\$ 1,038.96	\$ 1,298.70	\$ 1,558.44	\$ 1,818.18
	8.0	\$ 346.32	\$ 692.64	\$ 1,038.96	\$ 1,385.28	\$ 1,731.60	\$ 2,077.92	\$ 2,424.24

Recommendations

R3 recommends that the City move its commercial rate structure toward a model where frequency and container sizes are factored into the rates based on their respective share of the operations and maintenance costs rather than their impact on determining cost based on weekly service volume. This would increase the City’s efficiency, ensure that rates are in-keeping with the cost of providing services, and could also result in fewer vehicle trips. R3’s recommendations for commercial rates can be found in Attachment 5 (5-Year Rate Model Commercial and Recycling Rates).

Below, R3 has provided an alternative rate structure for commercial solid waste collection which incentivizes commercial rate payers to move from high frequency pickup with smaller bins to lower frequency pickup with larger bins. This structure has been designed to produce 5% higher annual revenue than FY19/20 rates at the current subscription levels to account for

² \$9.99 x 52 weeks = \$519.48 / 12 months = \$43.29.



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the recommended 5% rate increase in FY20/21. This target was then adjusted to account for potential loss of revenue due to the effects of subscriber migration towards less expensive service levels so that, if up to 50% of current subscribers migrate, revenues will still meet the targeted 5% increase.

**Table 3:
R3 Proposed Monthly Commercial Rates**

R3 Proposed		Frequency (times/week)						
		1	2	3	4	5	6	7
Bin Size (cubic yds)	1.0	\$ 67.69	\$ 184.22	\$ 321.18	\$ 468.61	\$ 622.13	\$ 779.49	\$ 939.44
	1.5	\$ 78.41	\$ 216.79	\$ 380.24	\$ 556.56	\$ 740.35	\$ 928.86	\$ 1,120.55
	2.0	\$ 89.13	\$ 249.35	\$ 439.31	\$ 644.51	\$ 858.57	\$ 1,078.23	\$ 1,301.65
	3.0	\$ 110.57	\$ 314.48	\$ 557.43	\$ 820.41	\$ 1,095.01	\$ 1,376.97	\$ 1,663.87
	4.0	\$ 132.01	\$ 379.61	\$ 675.56	\$ 996.31	\$ 1,331.45	\$ 1,675.70	\$ 2,026.08
	5.0	\$ 153.45	\$ 444.74	\$ 793.69	\$ 1,172.21	\$ 1,567.90	\$ 1,974.44	\$ 2,388.29
	6.0	\$ 174.89	\$ 509.87	\$ 911.82	\$ 1,348.11	\$ 1,804.34	\$ 2,273.18	\$ 2,750.50
	8.0	\$ 217.77	\$ 640.13	\$ 1,148.08	\$ 1,699.90	\$ 2,277.22	\$ 2,870.66	\$ 3,474.93

Appropriate to the intent of the recommended transition, the proposed structure offers rate decreases to all accounts serviced once per week (exclusive of 4 accounts with 1.5-yard container service which the City has advised will be discontinued when these rates would go into effect) and incrementally larger rate increases to accounts serviced multiple times per week. As shown in Table 4 below, when analyzed to predict the impact on subscribers at their current service levels, this structure offers decreases to 44% and increases to 56% of all accounts respectively. Due to their use of the smallest containers serviced at the highest frequency, 5% of all current accounts would receive a significant rate increase of 50%-90%. These subscribers, in addition to any other account that would be subject to a rate increase under this structure, can decrease their rate by switching to larger bins serviced less frequently.

As the increases for this small percentage of subscribers is so highly impactful, and the number of subscribers at this level (97) is manageable for targeted outreach, it would be in the City's interest to advise highly impacted subscribers about the upcoming change in rate structure so that they can prepare to make decisions about their service level. The City may need time to perform this outreach comprehensively and, as such, would benefit from waiting a year to implement changes to the current rate structure.

**Table 4:
Impact of R3 Proposed Commercial Rates on Current Subscribers**

Impact on Current Subscribers	# Accounts	% Total Accounts	Increase v Decrease
Accounts receiving >50% increase	97	5%	56%
Accounts receiving 25%-50% increase	238	12%	
Accounts receiving <25% increase	755	39%	
Accounts receiving rate decrease	862	44%	44%

Further detail regarding this analysis can be found in the Attachment 6 (Commercial and Recycling Rate Structure Analysis).



Commercial Cardboard Rates

Current Rate Structure Analysis

Unlike the mixed material service offered for residential recycling, the City provides some source separated recycling service to its commercial accounts in order to collect (and historically, to bring in revenue from) the sale of “clean” cardboard. Traditionally, this service earned between \$200,000 to \$400,000 in revenue annually which could be used to offset the cost of service.

As with most jurisdictions, this offset enabled the City to keep charges for recycling collection considerably lower than the charges for garbage service. Currently, the City structures its recycling rates according to the same volume-based formula as discussed above for commercial garbage rates but, due to the unique revenue offset, applies the recycling charge as only 31% of what they charge for garbage. As mentioned in Section 1, recycling markets are not able to produce the revenue once realized, a fact that has caused recycling rates to increase drastically throughout the state and nation. Taking this lost revenue into account, R3 has worked with the City to establish a new recycling rate based on the new commercial rates discussed above.

Recommendations

While the City anticipates that it can no longer rely on revenues to offset the cost of collecting recyclables, it is also confident that it will not incur a cost to process its clean commercial cardboard. Considering these conditions, the City can expect the cost of recycling service to be the same as the cost of providing garbage service without the cost of disposal (landfill tipping fee). Given that disposal makes up 32% of the City’s overall service expense, it can be determined that recycling service costs 68% of garbage service. R3’s recommendations for commercial recycling rates can be found in Attachment 5 (5-Year Rate Model Commercial and Recycling Rates).

To provide an updated rate and rate structure for recycling services, R3 applied 68% to the cost per cubic yard (\$9.99) from which the commercial structure was derived, yielding the same structure based on \$6.79 as the cost per cubic yard for recycling service. The results, as seen in Tables 5 and 6 are similar to the transition proposed for commercial rates. Of course, because subscription levels for recycling are much lower than subscription levels for garbage, only 17 accounts would receive significant increases (over 50%) to their rates, and like with the proposed commercial structure, can mitigate the extra cost by switching to larger bins serviced less frequently.

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**Table 5:
R3 Proposed Commercial Cardboard Recycling Rates**

R3 Proposed Recycling		Frequency (times/week)						
		1	2	3	4	5	6	7
Bin Size (cubic yds)	1.0	\$ 21.03	\$ 57.23	\$ 99.78	\$ 145.58	\$ 193.27	\$ 242.16	\$ 291.85
	1.5	\$ 24.36	\$ 67.35	\$ 118.13	\$ 172.90	\$ 230.00	\$ 288.56	\$ 348.11
	2.0	\$ 27.69	\$ 77.46	\$ 136.48	\$ 200.23	\$ 266.73	\$ 334.97	\$ 404.38
	3.0	\$ 34.35	\$ 97.70	\$ 173.18	\$ 254.87	\$ 340.18	\$ 427.78	\$ 516.91
	4.0	\$ 41.01	\$ 117.93	\$ 209.87	\$ 309.52	\$ 413.64	\$ 520.58	\$ 629.43
	5.0	\$ 47.67	\$ 138.17	\$ 246.57	\$ 364.16	\$ 487.09	\$ 613.39	\$ 741.96
	6.0	\$ 54.33	\$ 158.40	\$ 283.27	\$ 418.81	\$ 560.55	\$ 706.20	\$ 854.49
	8.0	\$ 67.65	\$ 198.87	\$ 356.67	\$ 528.10	\$ 707.45	\$ 891.81	\$ 1,079.54

**Table 6:
Impact of Proposed Commercial Cardboard Recycling Rates on Current Subscribers**

Impact on Current Subscribers	# of Accounts	% Total Accounts	Increase v Decrease
Accounts receiving >50% increase	17	4%	55%
Accounts receiving 25%-50% increase	97	25%	
Accounts receiving <25% increase	98	25%	45%
Accounts receiving rate decrease	174	45%	

Further detail regarding this analysis can be found in the Attachment 6.

Organics Rates

The City has expressed satisfaction with its current organics rates and rate structures for both residential and commercial organics recovery services. While R3 does not recommend changes to the organics rates at this time, the City should consider the impending impact of State imposed requirements for organics collection and food recovery.

Under SB 1383, as currently drafted, the City will be required to take steps to recover edible food from its commercial waste stream (e.g. grocery stores, restaurants), and have that food distributed to those in need. SB 1383 food recovery is a waste management operation and has a cost. As such, some level of SB 1383 food recovery funding through the commercial organics rate structure is reasonable (e.g., an SB 1383 Tier 1 and Tier 2 covered generator - food recovery rate component). R3 suggests that the City consider potential funding options for SB 1383 food recovery operations as it expands its commercial organics collection system, and that it integrate SB 1383 food recovery generator identification, outreach, education and technical assistance into its commercial organics collection program in anticipation of the regulation which will begin implementation in 2022.

Shared Compactor Rates

Current Rate Structure Analysis

In addition to regular 2 to 8-yard commercial bin service, the City offers commercial garbage collection to customers located at three sites serviced through high capacity compactors which are shared by different businesses. The different businesses are charged a fee for this service at different levels determined by the square footage of their facility. Currently, customers at



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- Commercial/Industrial developments \$0.34 per square foot (ft²)

Recommendations

Since these fees were calculated in 2006 the cost of collection vehicles, residential carts and commercial containers have all increased. Reliable units of measure to estimate the increases in these costs between 2006 and 2017 can be found in the following indices:

- The San Francisco Consumer Price Index increased by 31%
- The Motor Vehicle Body Manufacturing Producer Price Index increased 20%

In accordance with the above indices, it would be appropriate for the City to increase its Solid Waste Impact Development Fees by at least 20% from the 2006 level. R3 recommends implementing these increases incrementally over time to achieve the necessary fund revenue while working to moderate rate shock to the consumer.

Special Services Rates

In addition to the adjustments discussed above, the City has requested that R3 recommend rates for special services provided to customers on an as-needed basis. These special charges include: green waste contamination fees, return trip charges, hazardous material collection charges (for residential accounts), a rear loader service premium, push/pull charges, standby charges for roll-off service, and more.

