



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** June 13, 2022
FROM: Matthew Bronson, City Manager
PREPARED BY: Deanne Purcell, Administrative Services Director
SUBJECT: Proposed South County Sanitary Service Rate Increases

RECOMMENDATION

1) Conduct the Proposition 218 public hearing and determine the official number of written protests received on proposed rate increase and 2) if the number of valid protests is below 50% of the number of property owners or customers authorized to vote, adopt the Resolution approving the request by South County Sanitary Service for rate increases for solid waste collection and disposal services pursuant to the City's Franchise Agreement effective June 15, 2022, January 1, 2023 and January 1, 2024.

BACKGROUND

South County Sanitary Service (SCSS) is a private company that has been providing solid waste collection and disposal services including recycling services under a Franchise Agreement with the City of Grover Beach beginning July 7, 2008 with a term of 15 years. This agreement was amended on June 20, 2016 to extend the term of the agreement by 20 years beginning the first day of operation of a new Kompogas organics processing facility.

The Franchise Agreement allows for a base rate adjustment every three (3) years and interim rate increases in the other two (2) years. In interim periods, the operator is limited to increases resulting from inflation, tipping fee adjustments, and franchise or regulatory fee increases. On October 20, 2021, SCSS submitted a base year rate increase application to be effective January 1, 2022, with an initial rate increase request of 24.65%. However, due to the complexity, concerns with pending rates increases by the Integrated Waste Management Authority (IWMA) and subsequent reviews and information exchanges, a revised application was submitted on February 18, 2022. The February 18, 2022 rate application is attached to this report and in this latest application, SCSS is requesting a rate increase of 22.19%.

The two key differences between the initial and revised application:

- Greenwaste processing costs have been reclassified as "pass-through" costs: while costs may be recovered, no profit is allowed on them.
- IWMA fees have been excluded from the fee analysis. These are approved by a separate agency and will be charged separately on customer bills.

Key cost drivers, which account for almost 90% of the cost increases are shown on the following page:

| 2022 Cost Increase from 2020 | Amount | % of Total | Rate Impact |
|--|------------------|-------------|-----------------|
| Truck Depreciation | 998,708 | 36% | 8.05% |
| Food and green waste recycling via Materials Recovery Facility (MRF) operations to comply with Senate Bill (SB) 1383 | 956,783 | 35% | 7.71% |
| Insurance (Health & Liability) | 298,612 | 11% | 2.41% |
| Gas & Oil | 131,422 | 5% | 1.06% |
| Total Key Drivers | 2,385,525 | 87% | 19.23% |
| Other Costs (Labor, ongoing maintenance, disposal costs at the landfill and MRF, and other pass-through costs) | 367,275 | 13% | 2.96% |
| Total | 2,752,800 | 100% | 22.19% * |

*In addition, there will be a 5.12% increase to recover revenue lost due to this rate increase being delayed from May 1, 2022 to June 15, 2022. This recovery component will expire January 1, 2023, so the temporary increase of 5.12% will be added to the 22.19% increase for a **total increase of 27.32%**, effective from June 15, 2022 to December 31, 2022.

In addition, commencing on January 1, 2023 and January 1, 2024, rates shall be increased based on the following:

1. Changes in the Consumer Price Index (CPI) for Bureau of Labor Statistics' CPI for Urban Consumers based on All U.S. City Average, Bureau of Labor Statistics for the month of June 2022 for January 1, 2023 and June 2023 for January 1, 2024;
2. Changes in pass-through costs (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors);
3. An adjustment to cover increased franchise fees.

These requested rate increases are similar to requested increases in Arroyo Grande, Pismo Beach, and Oceano. Pismo Beach has already approved these increases and Arroyo Grande will consider them on June 14. At the March 9, 2022, San Luis Obispo County Integrated Waste Management Authority (IWMA) Board Meeting, a 5.4% solid waste management fee was adopted to account for operational and capital cost increases due largely to the implementation of SB 1383. The adopted fee will be effective on July 1, 2022. The City has authorized SCSS to bill this fee on-behalf of the IWMA.

Per the Franchise Agreement with SCSS, a rate review was carried out upon submission of the rate application in accordance with the "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates." As the City has done in the past, Grover Beach joined with other South County entities in contracting with Mr. Bill Statler to provide an independent review of the rate adjustments that were set by SCSS. Mr. Statler is the former Finance Director for the City of San Luis Obispo and the author of the "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates" noted above. In his review shown in Attachment 3, Mr. Statler finds the rate adjustments for all three years justified and recommends their approval based on the following findings and will be available at the Council meeting to answer questions:

- *Complete Application:* With its revised application, SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. The revised application (Attachment 3) has been correctly prepared.

- *High Level of Service at a Reasonable Cost:* SCSS provides a broad level of high-quality services to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided "waste wheeler" containers for all three services—at very competitive rates compared with many other communities. In fact, even with the recommended rate increase, rates in the four South County agencies will be among the lowest of those surveyed.
- *"Trigger Option":* As discussed in greater detail in the SCSS Solid Waste Rate Review (Attachment 3), the rate increase exceeds the cost-of-living threshold that "triggers" the option of terminating the Franchise Agreements within nine months after rate approval.
- *Need for Updated Rate-Setting Methodology:* The rate-setting process is based on the City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. With very minor modifications, this approach has been in place for almost 30 years. There were several issues that surfaced in the 2019 rate review that had not been encountered previously including corporate overhead, greenwaste and materials recovery facility (MRF) costs as well as rate structure concerns. As a result, Mr. Statler recommends updating the Rate Manual before the next *Base Year* review. Staff concurs with this recommendation and will work with other agencies on updating this Rate Manual.

The Proposition 218 notice was mailed on April 28, 2022, to all customers and owners of record of a property that receive service from SCSS for garbage, recycling and green waste collection and disposal, in compliance with the 45-day notification requirement. The City also put information about the proposed rate increase on the City's website. Attachment 2 includes a copy of the notice which informed customers about the proposed rate increases, the June 13th public hearing and how to submit a protest. At the time of the agenda posting, 11 protests have been received out of 4,271 mailed to property owners and account holders. There are 4,311 residential customers and 447 commercial customers for a total of 4,758 accounts. The reason there were fewer notifications mailed was because some customers owned multiple properties, so the duplicate addresses were removed to prevent multiple notices going to the same address.

Any owner or customer of record that is required to pay the subject fees of a parcel subject to the proposed rates may submit a written protest against the proposed rate revisions. A written protest must contain the street address or Assessor's Parcel Number (APN) for the parcel(s) with respect to which the protest is made. The protest must also be signed by the owner or customer who pays the fees. Protests may be mailed or hand-delivered to the City's office. Protests may also be delivered to the City Clerk at the public hearing. To be valid, a signed written protest must be received by the City Clerk at or before the time of the protest hearing. At the end of the public hearing, the City Clerk will tally and report the qualifying written protests and the Council will then certify whether the written protests opposing the increases meet the 50% threshold required to constitute a majority protest. If a majority protest does not exist, the Council may approve the Resolution to adopt the proposed rates. If adopted, the initial rate increase would be effective on June 15, 2022. In addition, SCSS has also requested interim adjustments to be effective January 1, 2023 and January 1, 2024.

FISCAL IMPACT

If approved, the proposed rate increase would apply to all residential and business accounts in Grover Beach. The table below shows a sample of some of the increases in monthly costs to SCSS residential customers in Grover Beach using the proposed rate increases that would become effective June 15, 2022.

| Single Family Residential - Container Size | Current Monthly Rate | Proposed Rate Adjustment using May 1-27.31% | New Monthly Rates Effective 6-15-2022 |
|--|----------------------|---|---------------------------------------|
| 32-gallon | \$ 17.65 | \$ 4.82 | \$ 22.47 |
| 64-gallon | \$ 23.85 | \$ 6.51 | \$ 30.36 |
| 96-gallon | \$ 30.03 | \$ 8.20 | \$ 38.23 |

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act. A public hearing notice was published in *New Times* and posted accordingly in the locations for public notices. SCSS mailed Prop. 218 notices directly to all customers located in Grover Beach in April 2022.

Attachments

1. Resolution No. 22-__
2. Notice of Public Hearing Regarding Proposed Solid Waste Rate Increase including SCSS 2022 base year rate increases effective June 15, 2022 for the City of Grover Beach
3. SCSS Solid Waste Rate Review dated March 2022 and prepared by Bill C. Statler
4. Historical South County Sanitary Service Rate Changes

RESOLUTION NO. 22-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GROVER BEACH, CALIFORNIA, ADOPTING INTEGRATED SOLID WASTE RATES FOR JUNE 15, 2022, JANUARY 1, 2023, AND JANUARY 1, 2024

WHEREAS, South County Sanitary Service has submitted a rate increase application in accordance with the City's franchise agreements for solid waste, recycling, green waste, and organic waste services; and

WHEREAS, this application has been comprehensively reviewed in accordance with the City's rate-setting policies; and

WHEREAS, notices of the proposed and requested rate increase were sent to property owners and tenants and a Public Hearing was held on June 13, 2022 to consider public testimony regarding the proposed rate increase.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF GROVER BEACH:

1. The request for solid waste rates set forth in Exhibit A is approved and shall become effective on June 15, 2022.
2. The request for solid waste rates increases as follows on January 1, 2023 and January 1, 2024 is also approved and the rates will be an:
 - a. Increase, if any, in the Consumer Price Index (CPI) for Bureau of Labor Statistics' CPI for Urban Consumers based on All U.S. City Average, Bureau of Labor Statistics for the month of June 2022 for January 1, 2023 and June 2023 for January 1, 2024;
 - b. Increase, if any, in pass-through costs (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors);
 - c. Increase, if any, adjustment needed to cover increased franchise fees.
3. Due to the reasonableness of the requested rate increase, the City will not pursue the termination option set forth in Section 8.3 of the City's Franchise Agreement with South County Sanitary Service.

On motion by ___-, seconded by ____, and on the following roll call vote, to wit:

AYES:
NOES:
ABSENT:
ABSTAIN:

Resolution No. 22-

the following Resolution was **PASSED, APPROVED, and ADOPTED** at the Regular Meeting of the City Council of the City of Grover Beach, California, June 13th, 2022.

****DRAFT****

JEFF LEE, MAYOR

Attest:

WENDI B. SIMS, CITY CLERK



CITY OF GROVER BEACH NOTICE OF PUBLIC HEARINGS

NOTICE IS HEREBY GIVEN that the City Council of the City of Grover Beach will conduct Public Hearings at **6:00 p.m.**, or soon thereafter, on **Monday, June 13, 2022** in City Hall, Council Chambers, 154 South Eighth Street, Grover Beach, CA to consider the following items:

SUBJECTS:

PROPOSED RATE ADJUSTMENT REQUEST FROM SOUTH COUNTY SANITARY SERVICE – Under the terms of the Franchise Agreement with South County Sanitary Service the City Council will consider a rate adjustment request from South County Sanitary Service for properties and customers receiving solid waste, recycling, and green waste services within the City. The Proposed Rate Increase is 22.19 percent for solid waste, recycling, and green waste/organics collection services. In addition, there will be a 5.12 percent increase to recover revenue lost due to this rate increase being delayed from May 1, 2022 to June 15, 2022. This recovery component will expire January 1, 2023. Several factors contributed to this rate increase including, but not limited to: increase costs associated with the purchase and operation of collection vehicles, fuel costs, labor costs, and increased costs associated with the organics digester facility.

For example, residential customers would see the following increase:

32-gallon container from the current rate of \$17.65 to \$22.47 per month;
 64-gallon container from the current rate of \$23.85 to \$30.36 per month;
 96-gallon container from the current rate of \$30.03 to \$38.23 per month;
 Two 64-gallon containers from the current rate of \$36.24 to \$46.13 per month;
 One 64-gallon and one 96-gallon container from \$42.43 to \$54.01 per month; and
 Two 96-gallon containers from \$48.63 to \$61.91 per month.

Commercial customers would see the following increase:

32-gallon container from the current rate of \$23.24 to \$29.59 per month;
 64-gallon container from the current rate of \$42.26 to \$53.80 per month;
 96-gallon container from the current rate of \$52.83 to \$67.26 per month;
 Re-deliver bin to stopped account from the current rate \$39.44 to \$50.21 per month.

In addition, commencing on January 1, 2023, and January 1, 2024, South County Sanitary Services is proposing that all rates shall be increased based on the following:

1. Increase, if any, in the Consumer Price Index (CPI) for Bureau of Labor Statistics' CPI for Urban Consumers based on All U.S. City Average, Bureau of Labor Statistics for the month of June 2022 for January 1, 2023, and June 2023 for January 1, 2024;
2. Changes in pass-through costs (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors);
3. An adjustment to cover increased franchise fees.

At the March 9, 2022, San Luis Obispo County Integrated Waste Management Authority (IWMA) Board Meeting, a 5.4% solid waste management fee was adopted to account for operational and capital cost increases due largely to the implementation of SB 1383. SB 1383 is a recent state law passed with the goal of reducing methane. Methane is a potent greenhouse gas, with more than 80 time the warming power of carbon dioxide and is a major component of decomposing organic waste. Key components of SB 1383 include implementing organic waste collection programs (including food waste), monitoring organic carts for contamination, and reporting data.

The IWMA is a Joint Powers Authority (JPA) formed to plan and implement regional solid waste and hazardous waste programs mandated by State law. The JPA between the City of San Luis Obispo and the IWMA can be made available by the City upon request or on the IWMA website at www.iwma.com.

A copy of the 2022 Base Year Rate Adjustment Application, which provides additional information on the proposed rate increases, is available at the City Clerk's Office located at Grover Beach City Hall located at 154 South Eighth Street, Grover Beach.

Where You Come In:

Any member of the public may appear at the meeting and be heard on the item described in this notice or submit written comments to the City Clerk prior to the meeting by personal delivery or by mail to: City Clerk's Office, 154 South Eighth Street, Grover Beach, CA 93433. If you require special accommodations to participate in the public hearing, please contact the City Clerk's office at least 48 hours in advance of the meeting by calling (805) 473-4567.

For More Information:

If you have any questions or would like more information regarding the item described in this notice, please contact: City Manager Matthew Bronson by telephone at (805) 473-4567 or send an e-mail to mbronson@groverbeach.org

The City Council may also discuss other hearings or items of business at this meeting. The complete meeting agenda and copy of the staff report on the above item will be available at the customer service counter at Grover Beach City Hall at least 72 hours in advance of the meeting. This information will also be posted on the City website at www.groverbeach.org. Live broadcasts of City Council meetings may be seen on cable television Channel 20, as well as over the Internet at www.groverbeach.org (click on the icon "Government Access Local Channel 20" and then "Channel 20"). City Council meetings are rebroadcast throughout the week.

If you challenge the nature of the proposed action in court, you may be limited to raising only those issues you or someone else raised at the Public Hearing(s) described in this notice, or in written correspondence delivered to the City at, or prior to, the Public Hearing.

WENDI B. SIMS, CITY CLERK
Dated: Thursday, June 2, 2022

PUBLISH ONE TIME: (on Thurs., June 2, 2022)
NEW TIMES

POSTED on Thursday, June 2, 2022
GROVER BEACH CITY HALL

South County Sanitary Service
SOLID WASTE RATE REVIEW

For the Communities of

Arroyo Grande
Grover Beach
Oceano
Pismo Beach

March 2022



William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

South County Sanitary Service
Solid Waste Rate Review
March 2022

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APPENDIX

- A. Base Year Rate Request Application from South County Sanitary Service
- B. HZI Greenwaste Digester Cost Analysis

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

South County Sanitary Service **SOLID WASTE RATE REVIEW**

*For the Communities of Arroyo Grande, Grover Beach,
Oceano and Pismo Beach*

REPORT PURPOSE

On October 20, 2021, South County Sanitary Service (SCSS) submitted a *Base Year* rate increase application to be effective January 1, 2022 to the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District (CSD). However, due to complexity, concerns with pending rate increases by the Integrated Waste Management Authority (IWMA) and significant subsequent reviews and information exchanges, a revised application was submitted on February 18, 2022.

The final application is the focus of this report in reviewing the SCSS rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make rate recommendations to these four agencies as appropriate.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

In its final application, SCSS is requesting a rate increase of 22.19% in the cities of Arroyo Grande, Grover Beach and Pismo Beach; and 21.03% for the Oceano CSD (the difference is due to a 5% franchise fee rate in the Oceano CSD versus 10% in the other agencies). This compares with an initial rate request of 24.65% for three agencies (and 23.35% in the Oceano CSD). As discussed in greater detail below, all of the concerns that surfaced in the iterations and further analysis that followed in addressing issues with proposed costs for 2022 have been resolved.

There are two key differences between the initial and revised application:

Joint Agency Review

SCSS provides similar services to each of these agencies under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases.

Because the financial information for SCSS is closely related for these four agencies, this report jointly reviews rate requests and provides recommendations for each of them.

Solid Waste Rate Review

- Greenwaste processing costs have been reclassified as “pass-through” costs: while costs may be recovered, no profit is allowed on them.
- IWMA fees have been excluded from the fee analysis. These are approved by a separate agency and will be charged separately on customer bills.

Key cost drivers in this review include the following, which account for almost 90% of the cost increases since 2020 (last audited financial statements):

| 2022 Cost Increase from 2020 | | | |
|------------------------------|-------------|------------|--------------|
| | Amount | % of Total | Rate Impact* |
| Depreciation | 998,708 | 36% | 8.05% |
| Greenwaste | 956,783 | 35% | 7.71% |
| Insurance | 298,612 | 11% | 2.41% |
| Gas and Oil | 131,422 | 5% | 1.06% |
| Total Key Drivers | 2,385,525 | 87% | 19.23% |
| Other Costs | 367,275 | 13% | 2.96% |
| Total | \$2,752,800 | 100% | 22.19% |

Findings

- **Complete Application.** With its revised application, SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. The revised application (Appendix A) has been correctly prepared.
- **High Level of Service at a Reasonable Cost.** SCSS provides a broad level of high-quality services to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services—at very competitive rates compared with many other communities. In fact, even with the recommended rate increase, rates in these four agencies will be among the lowest of those surveyed. In short, South County communities have the best of both worlds: high quality services at a low cost (compared with other communities).
- **“Trigger Option.”** As discussed in greater detail below, the rate increase exceeds the cost of living threshold that “triggers” the option of terminating the Franchise Agreements within nine months after rate approval.
- **Need for Updated Rate-Setting Methodology.** The rate-setting process is based on the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for almost 30 years. Because of several complex issues that surfaced in the 2019 rate review that had not been encountered in the past in using this rate-setting methodology (most notably corporate overhead, greenwaste and materials recovery facility (MRF) costs as well as rate structure concerns), I recommended updating the Rate Manual before the next *Base Year* review. This has not occurred, and accordingly, this review is based on the current methodology.

However, the need for an update is even greater now: along with the 2019 concerns, new issues have surfaced in this review. As discussed in greater detail below, these include depreciation amortization period, interim rate reviews, cost allocation methodologies, accounting for disposal costs, timeframe for submitting and reviewing applications and trigger option.

- **Delayed Rate Implementation.** In the past, there has been no consideration of delayed rate implementation. However, the Rate Manual does provide for this if there is a delay of more than 120 days after application if it is “no fault of the franchise hauler.” Given the initial October 20, 2021 submittal date, this would indicate rate approval by March 1. However, there are three factors that mitigate this 120-day period:
 1. When the 120-day period was set, the understanding at the time was that Proposition 218 45-day notice and protest requirements did not apply to approval of private company solid waste rates. However, since then many agencies have determined that these provisions are applicable to approval of rates by companies like SCSS. This alone conceptually adds 45 days to the review process.
 2. Review was delayed pending consideration of rate increases by the IWMA and their possible impact on SCSS rates. These new rates were not adopted by the IWMA until March 9, 2022. Moreover, it was subsequently determined that since these rates are set by the IWMA – and not the franchising agencies – that they did not affect agency rate-setting. (As noted above, this resulted in a revised application from SCSS on February 18, 2022).
 3. While SCSS has been very responsive in following-up on requests for supporting data, the scope and complexity of the 2022 application has been significantly greater, and subsequently taken longer, than envisioned in the Rate Manual.

About Proposition 218 Notices

Not all agencies prepare and issue “Proposition 218” notices for private sector solid waste rate increases. However, for those that do, the notice sets the maximum amount that rates can be increased at the public hearing: rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing. As such, it is recommended that the notices reflect the rates requested by SCSS.

In accounting for these factors, I recommend that delayed rate implementation apply for any rates with a May 1, 2022 effective date. In short, while these delays were “no fault” of SCSS, they were not the fault of the agencies, either. That said, SCSS believes the delayed rate implementation start period should be March 1, 2022.

Where delayed rate implementation is applicable, the following temporary rate increases would be required depending on whether the delayed rate implementation start period is March 1 or May 1. (Note: The added rate increase goes up for each month of delay to be recovered while the amortization period is shortened.) Under either start date, rates would be reset in January 2023 to the “core rate” for the Interim Year adjustment.

Temporary Delayed Implementation Rate Increase*

| Effective Date | Start Period | | | |
|----------------|--------------|--------|----------------|--------|
| | Oceano CSD | | Other Agencies | |
| | March 1 | May 1 | March 1 | May 1 |
| May 1 | 5.26% | 0.00% | 5.55% | 0.00% |
| June 1 | 9.01% | 2.63% | 9.51% | 3.17% |
| July 1 | 14.02% | 7.01% | 14.80% | 7.40% |
| August 1 | 21.03% | 12.62% | 22.19% | 13.32% |
| September 1 | 31.55% | 21.03% | 33.29% | 22.19% |

* Ends December 31, 2022

It should be noted that while the report recommends a May 1 start date for delayed rate implementation, a reasonable case could be made for an even later start date (such as June 1 or July 1) based on the mitigation factors discussed above.

Lastly, several of these review timeframe factors are not unique to the 2022 review. Accordingly, the application submittal and review schedule should be considered in the Rate Manual update.

Rate Recommendations

It is recommended that cities of Arroyo Grande, Grover Beach and Pismo Beach adopt rate increases of 22.19%; and 21.03% in the Oceano CSD.

As discussed below, this rate increase significantly exceeds the cost of living threshold that triggers the option of terminating the Franchise Agreements within nine months after rate approval. However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that SCSS may request (or limit the amount that agencies may approve) under the methodology set forth in the Franchise Agreements.

Cost of Living “Trigger” Option. Along with establishing the rate review methodology, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase (assuming it was submitted in accordance with the rate-setting methodology).

This provision was subsequently amended in 2016 allowing for an added increase based on landfill rate increases (“weighted” for their proportion of total costs). It is important to note that other than a waiver for greenwaste cost increases in 2011, no other adjustments (including other pass-through costs) are allowed under the Franchise Agreements. As detailed later in this report, the calculated threshold limit is significantly less than the proposed rate increase.

Rate Summary for Single Family Residential Customers

Table 1 summarizes the proposed monthly rates for single family residential (SFR) customers. As reflected in this summary, given the significant cost drivers facing SCSS, the increases will be modest under the proposed rate increase. For example, for collection of a 32-gallon garbage container (the most common SFR service level) as well as separate waste wheelers for recycling and green waste, the proposed monthly rate will increase by about \$3.80 on average for the four agencies.

BACKGROUND

On October 20, 2021, SCSS submitted a *Base Year* rate increase to be effective January 1, 2022. As noted above, due to several complex issues, a revised application was submitted on February 18, 2022. This application was prepared in accordance with the rate review process and methodology formally set forth in its Franchise Agreements with Arroyo Grande, Grover Beach, Oceano and Pismo Beach.

In establishing a rate-setting process and methodology, each of these Franchise Agreements specifically reference the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994 and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Arroyo Grande, Grover Beach, Oceano and Pismo Beach is closely related. For this reason, these four agencies jointly contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology) on October 6, 2022 to evaluate SCSS’s rate increase application.

This is the seventh *Base Year* analysis performed under this rate-setting methodology. The first was prepared in September 2001; second in August 2004; the third in August 2007; the fourth in December 2012; September 2015; and the last one in April 2019. As discussed below, several *Interim Year* rate reviews have prepared since then.

Table 1. Single Family Residential Rates

| | Container Size (Gallons) | | |
|---------------------------------|--------------------------|---------|---------|
| | 32 | 64 | 96 |
| Current | | | |
| Arroyo Grande | \$19.46 | \$25.29 | \$31.13 |
| Grover Beach | 17.65 | 23.85 | 30.03 |
| Oceano | 14.98 | 21.56 | 42.19 |
| Pismo Beach | 17.31 | 34.63 | 51.94 |
| Proposed | | | |
| Arroyo Grande | 23.78 | 30.90 | 38.04 |
| Grover Beach | 21.57 | 29.14 | 36.69 |
| Oceano | 18.13 | 26.09 | 51.06 |
| Pismo Beach | 21.15 | 42.32 | 63.47 |
| Increase: Proposed Rates | | | |
| Arroyo Grande | 4.32 | 5.61 | 6.91 |
| Grover Beach | 3.92 | 5.29 | 6.66 |
| Oceano | 3.15 | 4.53 | 8.87 |
| Pismo Beach | 3.84 | 7.69 | 11.53 |

Franchise Agreement Summary

Historically, each agency has had its own approach to determining service levels and adopted differing Franchise Agreements accordingly. While these became similar beginning in 1999, in 2008 the Cities of Arroyo Grande, Grover Beach and Pismo Beach adopted renewed franchise agreements, followed by the Oceano Community Service District in Summer 2010, which are the same in all key provisions:

Table 2. Franchise Agreement Effective Dates

| Agency | Agreement | Amendments |
|---------------|---------------|---------------------------------|
| Arroyo Grande | June 10, 2008 | March 22, 2016 July 26, 2016 |
| Grover Beach | July 7, 2008 | June 20, 2016 |
| Oceano | July 14, 2010 | July 29, 2016 |
| Pismo Beach | June 3, 2008 | August 3, 2016 |

- Each agency contracts with SCSS for garbage, green/food waste and recycling; and SCSS provides the container (waste wheelers) for each service.
- As noted above, each agency has adopted the same rate-setting methodology, including the *option* of terminating the agreement within nine months following approval of the requested rate increase if it exceeds the cost of living threshold.
- Arroyo Grande, Grover Beach and Pismo Beach have adopted franchise fees of 10%; the Oceano CSD reduced its rate to 5% in February 2020.

Each of these agreements were similarly amended in 2016 to:

- Extend the term of the agreement for 20 years in recognizing the amortization of extensive investments in food and green waste processing.
- Revise the cost of living threshold “trigger” to include prorated landfill cost increases.

RATE REVIEW WORKSCOPE

This report addresses four basic questions:

- Should SCSS be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

The following documents were closely reviewed in answering these questions:

- Franchise Agreements and any Amendments for each agency
- Independently audited financial statements for SCSS for 2019 and 2020.
- City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (Rate Manual)*
- SCSS rate increase application and supporting documentation
- Follow-up interviews, correspondence and briefings with agency and SCSS staff
- Rate surveys of Central Coast communities

REVENUE AND RATE SETTING OBJECTIVES

In considering SCSS’s rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the Franchise Agreements via the Rate Manual.

Revenues. These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

Rate Structure. Almost any rate structure can meet the revenue principles outlined above and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

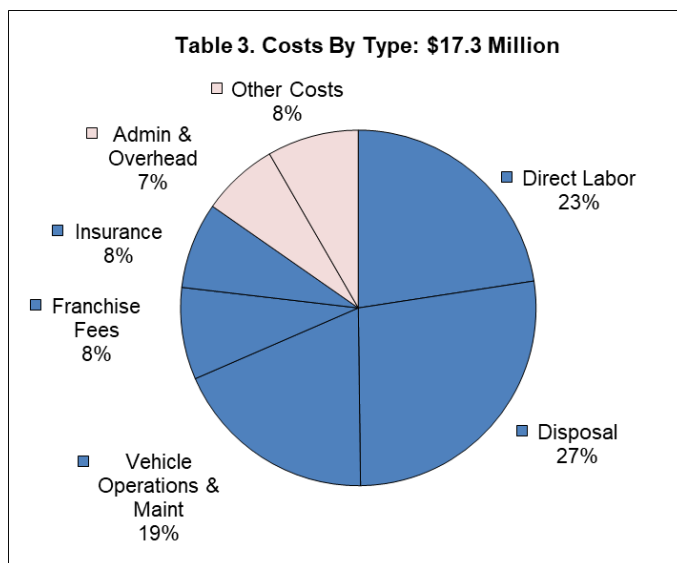
- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

FINANCIAL OVERVIEW

While detailed financial and service information is provided in the SCSS rate request application (Appendix A), the following summarizes costs, revenues and account information based its proposal for 2022 for all areas serviced by SCSS.

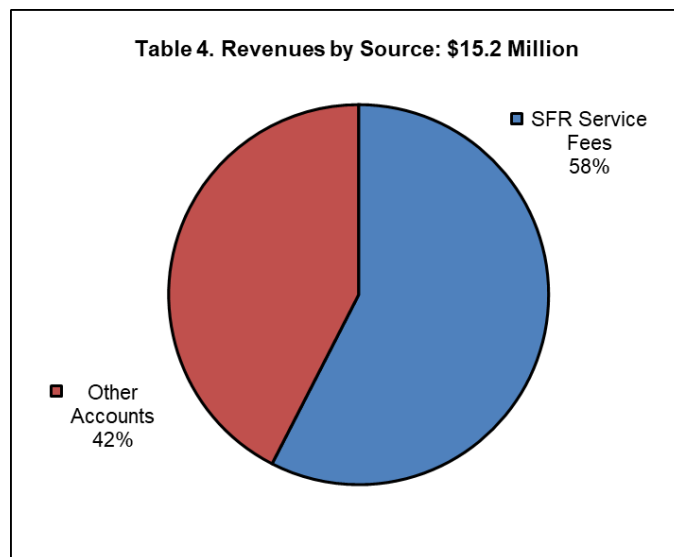
Costs by Type. Total proposed costs for 2022 (after deducting for non-allowable and limited costs as discussed later in this report) are 17.3 million. As reflected in Table 3, five cost areas accounted for 85% of total costs:

- Direct labor for collection: 23%
- Disposal: landfill, recycling and greenwaste: 27%
- Vehicle operations and maintenance (including depreciation): 19%
- Franchise fees: 8%
- Insurance: 8%



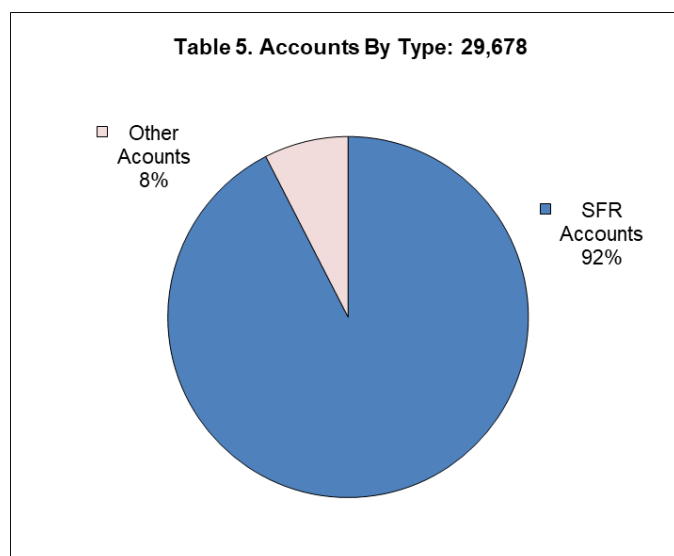
Revenues by Source. Total revenues (without proposed rate increases) are \$15.2 million. As reflected in Table 4, 58% of SCSS’s revenues come from single-family residential (SFR) accounts. Services to multi-family residential and non-residential customers account for 42% of their revenues, with less than 1% from other revenues.

This significant gap between revenues and expenses (plus allowable profit) drives the proposed rate increase.



Service Accounts by Type. While single-family residences account for 58% of revenues, they represent 92% of total accounts (Table 5).

This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



RATE-SETTING PROCESS

Under the Rate Manual, the rate-setting process follows a three-year cycle:

- **Base Year.** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the franchise agreements in determining fair and reasonable rates. As noted above, the last *Base Year* analysis for SCSS under this approach was prepared in April 2019.
- **Two Interim Years.** In both the second and third years, SCSS is eligible for *Interim Year* rate adjustments that address three key change factors: changes in the consumer price index (CPI-U) for “controllable” operating costs; changes in “pass-through costs” (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees.

The first two adjustment factors are “weighted” by the proportionate share that these costs

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represent of total costs (excluding franchise fees). For example, in the current *Base Year* analysis for recommended 2019 rates, controllable costs account for about 75% of total costs, with landfill disposal costs accounting for about 25%.

The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

Rate Increase History

The following summarizes the SCSS rate review history beginning with 2005 (last eighteen years) based on the year of the application (which is typically the implementation year).

Proposed Interim Year Rates

Consistent with past practice, SCSS has proposed an interim year approach that is slightly different from the Rate Manual methodology. In the interest of a more straightforward, streamlined process, SCSS proposes simply adjusting rates by changes in the CPI-U in 2023 and 2024. As noted in the past, the concept is consistent with the Rate Manual approach, but is simpler and allows for multi-year rate setting. Accordingly, it is recommended that four agencies continue using this approach.

Given the that interim review methodology set forth in the Rate Manual has not been used for several years, this is another area the update should consider.

Table 6. SFR Rate History: 2005 to 2022 (Last 18 Years)

| Year | Review Type | Arroyo Grande | Grover Beach | Oceano | Pismo Beach (1) |
|------|-------------------------|---------------|--------------|--------|-----------------|
| 2005 | Base Year | 5.60% | 5.60% | 5.60% | 5.30% |
| 2006 | Interim Year | 3.09% | 3.09% | 3.09% | 2.95% |
| 2007 | Interim Year | 3.76% | 3.76% | 3.76% | 3.60% |
| 2008 | Base Year | 3.00% | 3.00% | 3.00% | 2.90% |
| 2009 | Interim Year | 0.00% | 0.00% | 0.00% | 0.00% |
| 2010 | Interim Year (2) | 0.00% | 0.00% | 0.00% | 0.00% |
| 2011 | Interim Year | 0.00% | 0.00% | 0.00% | 0.00% |
| 2012 | Interim Year (2) | 5.15% | 5.15% | 5.15% | 5.15% |
| 2013 | Base Year | 3.20% | 3.20% | 3.20% | 3.20% |
| 2014 | Interim Year | 2.05% | 2.05% | 2.05% | 2.05% |
| 2015 | Interim Year | 0.00% | 0.00% | 0.00% | 0.00% |
| 2016 | Base Year | 3.25% | 3.25% | 3.25% | 3.25% |
| 2017 | Interim Year | 1.10% | 1.10% | 1.10% | 1.10% |
| 2018 | Interim Year | 1.60% | 1.60% | 1.60% | 1.60% |
| 2019 | Base Year | 10.06% | 10.06% | 10.06% | 10.06% |
| 2020 | Interim Year | 1.70% | 1.70% | 1.70% | 1.70% |
| 2020 | Franchise Fee Rdctn (3) | | | -5.00% | |
| 2021 | Interim Year | 0.70% | 0.70% | 0.70% | 0.70% |
| 2022 | Base Year (4) | 22.19% | 22.19% | 21.03% | 22.19% |

1. From 2004 to 2011, the franchise fee rate in Pismo Beach was 6% compared with 10% in the other three agencies, and as such, its rate increase was slightly less. In July 2011, Pismo Beach adopted a

10% franchise fee, bringing it in alignment with the other three agencies (as well as most other agencies in San Luis Obispo County). In implementing the 10% rate in 2011, Pismo Beach adopted an added 3.9% increase beyond the interim year rate increase of 5.15% requested by SCSS.

- 2. SCSS did not request a rate increase in 2010 (which would have been the “normal” cycle to do so), and accordingly, did not submit a Base Year rate application. However, SCSS did submit a rate request in 2011 using an Interim Year methodology. The reasonableness of using the resulting “hybrid” approach was discussed in detail in the 2011 Interim Year report, which concluded that this approach was reasonable given the circumstances.*
- 3. In February 2020, the Oceano CSD reduced its franchise fee from 10% to 5%, reducing rates by 5%.*
- 4. Proposed rate increase.*
- 5. As noted above, this chart reflects SFR rate increases. SCSS began charging for commercial recycle containers. These rates were set at 50% of the garbage rates at that time.*

Assuming the proposed rate increases are approved, this will result in an average annual rate increase of 3.6% over the last eighteen years. While there have been notable peaks in 2019 and 2022, largely due to regulatory and external market changes for recyclables, this reflects a high level of rate stability and price containment for SCSS customers.

RATE SETTING METHODOLOGY

Are the Costs Reasonable?

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

- Detailed review of costs and service responsibilities over time.
- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).
- Comparisons of rates with other communities.

Each of these was considered in preparing this report, summarized as follows.

Detailed Cost Review

In its rate application (Appendix A), SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2019 and 2020).
- Estimated results for 2021.
- Projected costs for the Base Year (2022).
- Estimated costs for the following year (2023).

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Additionally, for virtually all line items, SCSS provided supplemental detail upon request to support cost increases from 2020 to 2022.

Table 7 below provides actual costs for 2020 (most recent audit results) compared with requested and recommended cost projections for 2022. While there are significant cost increases in several categories, they are reasonable given the cost drivers facing SCSS.

The Short Story. The key drivers behind the proposed rate increases for 2022 can be summarized by four cost factors over the past two years:

- Truck depreciation.
- Food and green waste recycling.
- Insurance
- Gas and oil

All other cost increases including labor, ongoing maintenance, disposal costs at the landfill and MRF, account for less than 3% of the rate increase.

Table 7. Detail Cost Review: 2020 Compared with 2022

| | 2020 Actual | 2022 Proposed | |
|-------------------------------|----------------|---------------|-------------|
| | | Amount | Change |
| Direct Labor | 3,614,140 | 3,922,681 | 308,541 |
| Administrative Costs | | | |
| Corporate Overhead | 356,299 | 378,184 | 21,885 |
| Office Salaries | 768,706 | 835,736 | 67,030 |
| Other Expenses | | | |
| Depreciation | 535,997 | 1,534,705 | 998,708 |
| Gas and Oil | 821,425 | 952,847 | 131,422 |
| Insurance | | | |
| Medical | 674,318 | 779,174 | 104,856 |
| General Liability | 388,530 | 582,286 | 193,756 |
| Office Expense | 229,923 | 268,409 | 38,486 |
| Operating Supplies | 83,727 | 77,820 | (5,907) |
| Outside Services | 270,687 | 211,251 | (59,436) |
| Permits | 67,486 | 97,290 | 29,804 |
| Tires | 127,834 | 151,673 | 23,839 |
| Truck Repairs | 642,080 | 606,106 | (35,974) |
| Other Costs | 323,681 | 353,209 | 29,528 |
| Total Allowable Costs | 8,904,833 | 10,751,371 | 1,846,538 |
| Pass-Through Costs | | | |
| Disposal Costs | | | |
| Landfill | 1,701,768 | 1,805,407 | 103,639 |
| MRF | 1,223,081 | 1,143,280 | (79,801) |
| Greenwaste | 824,872 | 1,781,655 | 956,783 |
| Franchise Fees | 1,629,121 | 1,454,123 | (174,998) |
| Facility Rent, Related Party | 170,111 | 181,814 | 11,703 |
| Interest, Related Party | 133,282 | 213,214 | 79,932 |
| Transportation, Related Party | 34,271 | 43,275 | 9,004 |
| Total Pass-Through Costs | 5,716,506 | 6,622,768 | 906,262 |
| Total Costs | \$14,621,339 | \$17,374,139 | \$2,752,800 |

These costs are organized by costs where SCSS is allowed a profit (“Allowable”) and those where it can recover the cost but not earn a profit on them (“Pass-Through”).

The following describes the basis for each for the significant changes.

Allowable Costs

- **Direct Labor.** This reflects a two-year increase of 8.5%, or about 4.2% per year. Given the tight labor market and current increases in CPI, this increase for retention and attraction is reasonable.
- **Office Salaries.** This also reflect annual increases of about 4% per year. Again, given the tight labor market and current increases in CPI, this increase for retention and attraction is reasonable.
- **Depreciation.** The 2019 *Base Year* report noted that as fully depreciated trucks were replaced, significant continuing higher depreciation costs were expected in the future due to two factors: annual depreciation costs on fully depreciated trucks would go from zero to about \$60,000 each; and the cost basis for new trucks would be significantly higher than in the past. Given replacements during 2021 and those proposed in 2022, the increased cost is reasonable. Combined with a possible change in amortization schedule as noted in the sidebar, planned replacements should result in stabilized costs in the future.
- **Gas and Oil.** These costs are projected to increase by about 7.5% annually. Given the volatility (both up and down) of diesel and CNG costs (especially recent cost spikes), this is a reasonable assumption for 2022 costs.
- **Insurance: Health Care and Liability.** These costs are projected to increase significantly by about 12.5% annually (7.5% for health care and 22.5% for liability insurance). Given increases in health care costs and current liability insurance market, these are reasonable assumptions for 2022 costs.
- **All Other Allowable Costs.** While there are ups and downs in the other individual line items, in total these reflect modest annual increases of about 2%.

| Truck Amortization |
|--|
| The Rate Manual calls for depreciating trucks over seven years. While this made sense in 1994, manufacturing improvements since then have resulted in longer lives, with ten years becoming the industry standard. As noted above, this change should be considered as part of the Rate Manual update. |

Pass-Through Costs

- **Disposal Costs: Landfill.** No rate increases are reflected in the rate application (\$41.00 per ton). The modest two-year increase reflects increased tonnage.

- **Disposal Costs: Recycling (Related Party).** This cost category reflects a decrease in the tonnage rate from \$96.00 to \$84.59.
- **Disposal Costs: Greenwaste.** After depreciation, this is the largest cost increase from 2020. These costs are incurred under an on-site agreement with HZI and reflect costs to build (via depreciation), operate and maintain the anaerobic digestion plant. The purpose of this plant is to process local food and greenwaste in meeting California regulation SB 1383. Key drivers include higher costs than initially projected for construction; ongoing operations and maintenance due to feedstock challenges; and local outbound material. The following further describes these challenges; and a cost summary is provided in Appendix B.

Construction and startup The construction of the anaerobic digester plant in San Luis Obispo was one of the first high solids digesters in the United States and the 99th overall renewable gas anaerobic plant built globally by HZI. The construction of the anaerobic digester in California posed unique challenges but was constructed safely and without any environmental incidents. Given the “first-of-the-kind” nature of the project in California, the actual cost to construct the anaerobic digestion plant exceeded the original budget originally set in 2014. The cost increases were mainly driven by labor availability, prevailing wage, civil and underground cost increases, and equipment and material escalations.

Operation and maintenance. The anaerobic digestion plant exceeds 95% availability (uptime) to process waste while producing renewable green electricity. To ensure the plant is reliably available to process local community waste, the operations and maintenance cost of the anaerobic digestion exceeds the original annual budget due to several factors:

1. The quantity of entrained inorganic material (such as sand and metal) entrained in the waste increases the wear and tear on the mechanical components of the plant, which inherently increases the number of staff required to operate and maintain the facility.
2. The lower than anticipated quantity of food was also increases the wear and tear on the equipment, which has mainly been driven need to continue to educate the community on organics recycling and the impacts of COVID on commercial businesses (most notably restaurants).
3. Plant labor costs have increased due to the requirements of processing the waste, maintaining the equipment, competitive labor market and inflationary costs in San Luis Obispo County and more broadly in California. Plant administrative costs such as insurance, legal and taxes continue to increase greater than was historically budgeted.

| Local Benefits |
|--|
| <p>It should be noted that that while costs have increased, HZI and SCSS believe there are substantial local benefits to the greenwaste operation, including:</p> <ul style="list-style-type: none">• Powering over 600 homes with 6.2 million kWh per year of renewable electricity.• Diverting 72 million pounds of organics from landfills per year• Reducing greenhouse gas emissions by 5,300 metric tons per year. |

In summary, key operation and maintenance cost increases reflect continual sand removal; increased equipment replacement and maintenance; increased labor hours and rates; and management of backend compost.

Depreciation. Plant depreciation expenses reflect the higher construction costs discussed above in addressing waste profile challenges such as sand and low food waste content.

Lower Natural Gas Production (Revenue). Due to the amount of inorganic material (like sand) and the lower than anticipated food waste content, the overall natural gas production is lower than planned. This directly limits the amount of overall natural gas production potential of the digester and ultimately electricity sales.

In the past, greenwaste contract costs have been considered “allowable” costs. However, as disposal costs, they are more like landfill and recycling costs, which are treated as “pass-through” costs that can be recovered but profit is not allowed on them. Accordingly, this is considered a pass-through cost in this rate review. However, this another area that should be reviewed as part of the rate manual update.

- **Franchise Fees.** This reflects the removal of IWMA fees from the cost base.
- **Interest (Related Party).** Interest is an allowable cost under the Rate Manual. In this case, interest costs are assessed internally by Waste Connections based on a methodology that takes into account its corporate costs of borrowing and financed assets. Accordingly, this is treated as a “pass-through” cost. SCSS’s auditors have previously provided a written opinion on the reasonableness of the cost methodology; and I have reviewed the calculations underlying the projected costs in accordance with this methodology. Given the increase in financed assets as reflected in depreciation costs, I believe the projected interest costs for 2022 are reasonable.

Trends in External Cost Drivers

The most common external “benchmark” for evaluating cost trends is the consumer price index. Over the past two calendar years (2020 and 2021), the U.S. CPI-U increased by 8.5% (about 4.2% annually). Excluding the cost drivers discussed above, all other costs over the past two years increased by 4.1% (about 2% annually).

Rates in Comparable Communities

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between “comparable” communities need to be carefully weighed because every community is different.

Nonetheless, surveys are useful assessment tools—but they are not perfect and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges
- Landfill costs (tipping fees)

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- Service levels (frequency, quality)
- Labor market
- Operator efficiency and effectiveness
- Voluntary versus mandatory service
- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks
- Percentage of non-residential customers, and how costs and rates are allocated between customer types
- Revenue collection procedures: Does the hauler or the franchising agency bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb)
- Different rates structures
- Land use and density (lower densities will typically result in higher service costs)
- Mix of residential and non-residential accounts

With these caveats, the following summarizes single family residential rates for other cities in the Central Coast area compared with the proposed rates for SCSS. As reflected below, even with the recommended or proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have among the lowest rates of the agencies surveyed.

Table 8. Single Family Residential Rate Survey

| Single Family Residential Monthly Trash Rates | | | |
|---|--------------------------|---------|---------|
| | Container Size (Gallons) | | |
| | 30-40 | 60-70 | 90-101 |
| Atascadero | \$28.55 | \$44.50 | \$55.77 |
| Morro Bay | 22.88 | 45.76 | 68.64 |
| Paso Robles | 30.90 | 51.12 | 57.25 |
| San Luis Obispo* | 22.51 | 45.03 | 67.56 |
| Santa Maria | na | 30.69 | 34.81 |
| San Miguel | 28.23 | 44.48 | 61.06 |
| Templeton | 31.40 | 45.01 | 44.48 |
| Proposed: South County Sanitation Service Area | | | |
| Arroyo Grande | 23.78 | 30.90 | 38.04 |
| Grover Beach | 21.57 | 29.14 | 36.69 |
| Oceano CSD | 18.13 | 26.09 | 51.06 |
| Pismo Beach | 21.15 | 42.32 | 63.47 |

* Proposed 2022 rates scheduled for review in April 2022

Summary: Are the costs reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor analysis and rate comparisons—the proposed cost assumptions for 2022 are reasonable.

What Is a Reasonable Return on these Costs?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements with SCSS includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

Allowable Costs (Operations and Maintenance): Reasonable Operating Profit Allowed

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

Pass-Through Costs: Can be Recovered but No Profit Allowed

- Disposal costs (landfill, recycling, greenwaste)
- Franchise fees
- Payments to affiliated companies (such as facility rent, interest and trucking charges)

Excluded and Limited Costs: No Revenues Allowed

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is an 8% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

In the case of SCSS, about 60% of their costs are subject to the 8% operating profit ratio; and 40% are pass-through costs that may be fully recovered from rates but no profit is allowed. No recovery is allowed for excluded costs. The overall operating profit ratio after allowable and pass-through costs is 5%.

Preparing the Rate Request Application

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the Rate Manual. SCSS has prepared their rate increase application in accordance with these requirements (Appendix A); and the financial information provided in the application for 2019 and 2020 ties to its audited financial statements.

Proposed Rate Summary

The following summarizes the calculations that support the requested and recommended rate increases:

Table 9. Proposed Rate Increase Summary

| | Oceano | Others |
|--|------------|------------|
| Allowable Costs | 10,751,371 | 10,751,371 |
| Allowable Profit (8% Operating Ratio) | 934,901 | 934,901 |
| Pass-Through Costs | | |
| Disposal | | |
| Landfill | 1,805,407 | 1,805,407 |
| MRF (Recycling) | 1,143,280 | 1,143,280 |
| Greenwaste | 1,781,655 | 1,781,655 |
| Franchise Fees | 1,454,123 | 1,454,123 |
| Related Party Costs | 438,303 | 438,303 |
| Total Pass-Through Costs | 6,622,768 | 6,622,768 |
| Allowed Revenue Requirements | 18,309,041 | 18,309,041 |
| Revenue without Rate Increase | 15,260,678 | 15,260,678 |
| Revenue Requirement: Shortfall (Surplus) | 3,048,363 | 3,048,363 |
| Rate Base Revenue | 18,309,041 | 18,309,041 |
| Percent Change in Revenue Requirement | 19.98% | 19.98% |
| Allowed Revenue Increase * | 21.03% | 22.19% |

** Adjusted for 5% franchise fee in Oceano and 10% in others*

As reflected in this summary, all the rate-setting factors are the same for all four agencies are the same except for the franchise fee adjustment (which reflects that higher franchise fees will be required with the rate increase): 5% for the Oceano CSD and 10% for the other three agencies.

Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

- The “8%” operating profit ratio is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 10% to 6%.
- On the other hand, if past ratios have been stronger than this target, then the revenue base is re-set in the *Base Year* review.

- Special rate increases for extraordinary circumstances *may* be considered.

The result of this process is a proposed rate increase of 22.19% (21.03% in the Oceano CSD).

RATE DIFFERENCES BETWEEN COMMUNITIES

If costs for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are so similar, why are the residential rates so different?

The short answer: history and different approaches to rate structure philosophies.

History

Until 1999, service levels under the Franchise Agreements with SCSS between these four agencies were significantly different. The rates in place at that time became the basis for subsequent rate reviews.

Rate Structure Principles

Most significantly, each agency has adopted different rate structure principles to recover similar costs. For example, Pismo Beach has adopted a rate structure for its residential customers that more closely reflects a “pay-as-you-throw” philosophy under which the “per gallon” costs for 32, 64 and 96 gallon containers are the same (for example, a 64-gallon container costs twice as much as a 32-gallon one.) This results in lower monthly costs for 32-gallon customers and relatively higher rates for 64 and 96-gallon customers.

On the other hand, Arroyo Grande has adopted rates that do not have as much difference between container sizes (but still offer an incentive for smaller containers over larger ones), recognizing collection economies of scale for larger versus smaller containers. In this case, 32-gallon containers in Arroyo Grande are more expensive than in Pismo Beach, but 64-gallon containers are less.

Both rate structures have their strong points: in the case of Pismo Beach, rates are more reflective of disposal costs, whereas in Arroyo Grande they are more reflective of collection costs. But the important point is that the revenue generating capability is the same even though the rates are different.

Multi-Family and Non-Residential Rates

Lastly, multi-family and non-residential rates (which account for about 40% of SCSS revenues) are similar in all four agencies: it is only in *single family residential* rates that there are significant differences between communities.

COST ACCOUNTING ISSUES

As noted above, SCSS’s financial operations for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are closely related. Keeping costs and revenues segregated is further complicated

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by the fact that SCSS is a subsidiary of Waste Connections US (which acquired the parent company in April 2002), which shares ownership with the following local companies:

- San Luis Garbage Company
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill
- Cold Canyon Processing Facility

Additionally, within the South County, SCSS's service area includes:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District
- Avila Beach Community Services District
- Other unincorporated areas in the South County such as rural Arroyo Grande

Cost Accounting System

Audited financial statements are prepared for each company within Waste Connections' central coast operations by an independent certified public accountant; and SCSS's auditors have consistently issued "clean opinions" on its financial operations. However, only direct labor hours for collection (and related compensation), liability insurance, franchise fees and revenues are directly accounted for each company (like SCSS); and then within each agency serviced by it. As summarized below for major cost categories, all other costs are allocated between companies based on apportionments using generally accepted accounting principles:

Table 10. Cost Allocation Bases

| Allocation Basis | Major Cost Categories |
|--------------------|---|
| Customer counts | <ul style="list-style-type: none"> • Region and division overhead • Office salaries • Office expense • Legal and accounting |
| Direct labor hours | <ul style="list-style-type: none"> • Truck depreciation • Truck repairs and tires • Mechanic labor • Gas and oil |
| Tonnage | Disposal costs <ul style="list-style-type: none"> • Landfill • MRF/recycling • Greenwaste |

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| | |
|------------|--|
| Revenue | <ul style="list-style-type: none"> • Corporate overhead (adjusted for Rate Manual limitations) • Bad debt expense • Other taxes |
| Containers | <ul style="list-style-type: none"> • Container depreciation • Container labor • Container repairs |
| Gallons | <ul style="list-style-type: none"> • Diesel fuel |

These allocation bases seem reasonable. However, they are subject to periodic change as determined by Waste Connections. Since these apportionments are a key basis for rate setting, the bases of allocation for each cost category (including allocations of regional and district overhead and accounting for direct costs) should be established in an updated Rate Manual.

COST OF LIVING “TRIGGER OPTION”

As noted above, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase. While this provision does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for SCSS to do so, if possible.

Calculation of the Cost of Living Threshold

As recommended in the 2013 *Interim Year* rate review for consistency and clarity, the CPI-U rate increases used in calculating *Interim Year* increases and the “trigger” threshold are based on changes from June to June (given application submittal targets, this was the most recent date that would consistently be available).

Along with the adjustment for the “weighted” greenwaste rate increase in 2012 of 1.7% previously approved, the 2016 Franchise Agreement amendments provided for adjustments to the threshold “trigger” of landfill rate increases, weighted by the ratio of landfill costs to total costs (assumed at 25% based on recent trends).

- Table 11(a) provides the threshold calculation compared with actual rate increases and those recommended for 2022.
- Table 11(b) provides landfill rates since 2008.

As reflected in Table 11(a), the cumulative changes in the cost of living (with adjustments for greenwaste and landfill cost increases) is 34.87%. This compares with cumulative rate increases, including those recommended of 22.19% for 2022 (21.03% for Oceano CSD) of 61.76%. This would result in exceeding the “trigger” by 26.89%.

Solid Waste Rate Review

Table 11(a). Trigger Threshold Calculation

| US CPI-U Increase | | | | Allowed Adjustments | | Threshold | Rate Year | Rate Increase (2) |
|-------------------|---------|--------|---------|---------------------|--------------|-----------|-----------|-------------------|
| June | Index | Amount | Percent | Greenwaste | Landfill (1) | | | |
| 2009 | 215.693 | | | | | | | |
| 2010 | 217.965 | 2.272 | 1.05% | 1.70% | 4.27% | 5.33% | 2011 | 0.00% |
| 2011 | 225.722 | 7.757 | 3.56% | | 0.00% | 5.26% | 2012 | 5.15% |
| 2012 | 229.478 | 3.756 | 1.66% | | 0.00% | 1.66% | 2013 | 3.20% |
| 2013 | 233.504 | 4.026 | 1.75% | | 1.64% | 3.40% | 2014 | 2.05% |
| 2014 | 238.343 | 4.839 | 2.07% | | 1.54% | 3.61% | 2015 | 0.00% |
| 2015 | 238.638 | 0.295 | 0.12% | | 1.45% | 1.58% | 2016 | 3.25% |
| 2016 | 241.018 | 2.380 | 1.00% | | 0.00% | 1.00% | 2017 | 1.10% |
| 2017 | 244.955 | 3.937 | 1.61% | | 0.00% | 1.61% | 2018 | 1.61% |
| 2018 | 251.989 | 7.034 | 2.79% | | 0.00% | 2.79% | 2019 | 10.06% |
| 2019 | 256.143 | 4.154 | 1.62% | | 0.00% | 1.62% | 2020 | 1.70% |
| 2020 | 257.797 | 1.654 | 0.64% | | 0.00% | 0.64% | 2021 | 0.70% |
| 2021 | 271.696 | 13.899 | 5.12% | 0.00% | 5.12% | 2022 | 22.19% | |
| Cumulative Total | | 56.003 | 25.96% | 1.70% | 8.91% | 34.87% | | 61.76% |

Requested Rate Increase Above Trigger Threshold

26.89%

1. Landfill rate increases prorated at 25% of total costs
2. Recommended rate for 2022, except for Oceano (21.03%)

Table 11(b). Landfill Rates Per Ton

| Year | Actual | Increase | | Prorated @ 25% |
|------|--------|----------|---------|----------------|
| | | Amount | Percent | |
| 2008 | 29.25 | - | 0.00% | 0.00% |
| 2009 | 29.25 | - | 0.00% | 0.00% |
| 2010 | 29.25 | - | 0.00% | 0.00% |
| 2011 | 34.25 | 5.00 | 17.09% | 4.27% |
| 2012 | 34.25 | - | 0.00% | 0.00% |
| 2013 | 34.25 | - | 0.00% | 0.00% |
| 2014 | 36.50 | 2.25 | 6.57% | 1.64% |
| 2015 | 38.75 | 2.25 | 6.16% | 1.54% |
| 2016 | 41.00 | 2.25 | 5.81% | 1.45% |
| 2017 | 41.00 | - | 0.00% | 0.00% |
| 2018 | 41.00 | - | 0.00% | 0.00% |
| 2019 | 41.00 | - | 0.00% | 0.00% |
| 2020 | 41.00 | - | 0.00% | 0.00% |
| 2021 | 41.00 | - | 0.00% | 0.00% |
| 2022 | 41.00 | - | 0.00% | 0.00% |

Note: Under long-term rate increases approved by the County, Cold Canyon Landfill was eligible for annual rate increases of \$2.25 per ton from 2017 to 2022, with a resulting rate of \$54.50 by 2022, However, it chose not to do so.

However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that may be requested under the methodology set forth in the Franchise Agreements or approved by the agencies.

Accordingly, if the proposed rate increases are approved, I recommend that the agencies consider (as they did in as part of the 2019 *Base Year* review) adopting findings that they will not pursue the “trigger” option.

Rate Manual Update. The merit of continuing with the “trigger option” is another area that should be considered with the Rate Manual update.

COORDINATION WITH OTHER AGENCIES

SCSS has submitted similar rate requests to the three other agencies that regulate rates and services in the other South County areas that it serves: County of San Luis Obispo, Avila Beach Community Services District and the Nipomo Community Services District. These agencies are likely to act on the requested rate increases within the same time frame as the four agencies covered in this report.

Waste Connections (as San Luis Garbage Company) has also submitted a rate increase application to the City of San Luis Obispo of 17.75%, which is scheduled for Council review on April 19, 2022. As Mission County Disposal, it has also submitted initial rate applications for Los Osos and the north coastal areas of about 40%.

SUMMARY

Based on the rate-setting policies and procedures formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements, this report concludes that:

- SCSS has submitted the required documentation required under its Franchise Agreements with the four agencies.
- This results in a recommended rate increase of 22.19% in the cities of Arroyo Grande, Grover Beach and Pismo Beach; and 21.03% in the Oceano CSD.

ATTACHMENTS

Appendix A: Base Year Rate Request Application from South County Sanitary Service
Appendix B: HZI Greenwaste Digester Cost Analysis

Appendix A

BASE YEAR RATE REQUEST APPLICATION

1. Base Year Application Summary

- City of Pismo Beach
- City of Arroyo Grande
- City of Grover Beach
- Oceano Community Services District

2. Supporting Schedules

- Financial Information: Cost and Revenue Requirements Summary
- Revenue Offset Summary
- Cost Summary for Base Year
- Base Year Revenue Offset Summary
- Operating Information
- Rate Survey

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Summary

CITY OF PISMO BEACH

Requested Increase

| | | | |
|--------------------------|------|-----------------------------|------|
| Digester Expense | 6.2% | | |
| Capital Purchases | 5.9% | Market Rate Wage Adjustment | 5.6% |
| Commingle Processing Fee | 1.9% | Other | 2.6% |

1. Rate Increase Requested **22.19%**

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate |
|---------------|--------------|----------------|----------------|----------|
|---------------|--------------|----------------|----------------|----------|

Single Family Residential

| | | | | |
|-----------------------------------|---------|---------|--|---------|
| 2. Economy Service (1 - can curb) | \$17.31 | \$3.84 | | \$21.15 |
| 4. Standard Service (2- can curb) | \$34.63 | \$7.69 | | \$42.32 |
| 5. Premium Service (3 - can curb) | \$51.94 | \$11.53 | | \$63.47 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential** Rate increases of **22.19%**
will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin Title: District Manager

Signature: Date: 10/20/21
Revised 2/18/22

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Summary

CITY OF ARROYO GRANDE

Requested Increase

| | | | |
|--------------------------|------|-----------------------------|------|
| Digester Expense | 6.2% | | |
| Capital Purchases | 5.9% | Market Rate Wage Adjustment | 5.6% |
| Commingle Processing Fee | 1.9% | Other | 2.6% |

1. Rate Increase Requested

22.19%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate |
|---------------|--------------|----------------|----------------|----------|
|---------------|--------------|----------------|----------------|----------|

Single Family Residential

| | | | | |
|-----------------------------------|----------|--------|--|---------|
| 2. Economy Service (1 - can curb) | \$ 19.46 | \$4.32 | | \$23.78 |
| 4. Standard Service (2- can curb) | \$ 25.29 | \$5.61 | | \$30.90 |
| 5. Premium Service (3 - can curb) | \$ 31.13 | \$6.91 | | \$38.04 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

22.19%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date: 10/20/21
Revised 2/18/22

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Summary

CITY OF GROVER BEACH

Requested Increase

| | | | |
|--------------------------|------|-----------------------------|------|
| Digester Expense | 6.2% | Market Rate Wage Adjustment | 5.6% |
| Capital Purchases | 5.9% | Other | 2.6% |
| Commingle Processing Fee | 1.9% | | |

1. Rate Increase Requested

22.19%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate |
|---------------|--------------|----------------|----------------|----------|
|---------------|--------------|----------------|----------------|----------|

Single Family Residential

| | | | | |
|-----------------------------------|----------|--------|--|---------|
| 2. Economy Service (1 - can curb) | \$ 17.65 | \$3.92 | | \$21.57 |
| 4. Standard Service (2- can curb) | \$ 23.85 | \$5.29 | | \$29.14 |
| 5. Premium Service (3 - can curb) | \$ 30.03 | \$6.66 | | \$36.69 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

22.19%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date: 10/20/21
Revised 2/18/22

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Summary

OCEANO COMMUNITY SERVICE DISTRICT

Requested Increase

| | | | |
|--------------------------|------|-----------------------------|------|
| Digester Expense | 6.2% | | |
| Capital Purchases | 5.9% | Market Rate Wage Adjustment | 5.6% |
| Commingle Processing Fee | 1.9% | Other | 1.4% |

1. Rate Increase Requested **21.03%**

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate |
|---------------|--------------|----------------|----------------|----------|
|---------------|--------------|----------------|----------------|----------|

Single Family Residential

| | | | | |
|-----------------------------------|----------|--------|--|---------|
| 2. Economy Service (1 - can curb) | \$ 14.98 | \$3.15 | | \$18.13 |
| 4. Standard Service (2- can curb) | \$ 21.56 | \$4.53 | | \$26.09 |
| 5. Premium Service (3 - can curb) | \$ 42.19 | \$8.87 | | \$51.06 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential** **21.03%**
Rate increases of
will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date: 10/20/21
Revised 2/18/22

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Financial Information

| Historical | | Current | Projected | |
|------------|------|---------|-------------------|------|
| 2019 | 2020 | 2021 | Base Year 2022 | 2023 |

(from Pg. 4)

Section I-Allowable Costs

| | | | | | |
|----------------------------------|--------------------|--------------------|---------------------|---------------------|---------------------|
| 6. Direct Labor | \$3,258,214 | \$3,614,140 | \$3,638,218 | \$3,922,681 | \$4,040,361 |
| 7. Corporate Overhead | \$350,343 | \$356,299 | \$359,149 | \$378,184 | \$389,529 |
| 8. Office Salaries | \$688,788 | \$768,706 | \$758,312 | \$835,736 | \$859,332 |
| 9. Other General and Admin Costs | \$4,482,056 | \$4,990,560 | \$5,899,433 | \$5,614,771 | \$7,809,122 |
| 10. Total Allowable Costs | \$8,779,401 | \$9,729,705 | \$10,655,112 | \$10,751,372 | \$13,098,345 |

Section II-Allowable Operating Profit

| | | | | | |
|---------------------------------------|-----------|-----------|-------------|-----------|-------------|
| 11. Operating Ratio | 97.3% | 98.2% | 103.6% | 92.0% | 92.0% |
| 12. Allowable Operating Profit | \$245,196 | \$179,075 | (\$366,502) | \$934,902 | \$1,138,986 |

Section III-Pass Through Costs

| | | | | | |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 13. Tipping Fees | \$2,754,458 | \$2,924,849 | \$3,012,594 | \$4,730,341 | \$2,978,173 |
| 14. Franchise Fees | \$1,482,198 | \$1,629,121 | \$1,652,070 | \$1,454,123 | \$1,497,747 |
| 15. AB939 Fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| 16. Payments to Affiliated Companies* | \$281,020 | \$337,664 | \$377,981 | \$438,302 | \$477,779 |
| 17. Total Pass Through Costs | \$4,517,676 | \$4,891,634 | \$5,042,645 | \$6,622,767 | \$4,953,699 |

* Affiliate Payments include interest, lease payments, and transportation

Section III-Pass Through Costs

| | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| 18. Revenue Requirement | \$13,542,273 | \$14,800,414 | \$15,331,255 | \$18,309,041 | \$19,191,030 |
| 19. Total Revenue Offsets (from Page 3) | \$13,542,273 | \$14,800,414 | \$15,331,255 | \$15,260,678 | \$15,413,625 |

Section III-Pass Through Costs

| | |
|-----------------------------|-------------|
| 20. Net Shortfall (Surplus) | \$3,048,363 |
|-----------------------------|-------------|

| | Oceano | Nipomo |
|---|---------------|---------------|
| 21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76) | \$15,260,678 | \$15,260,678 |
| 22. Percent Change in Residential and Non-residential Revenue Requirement | 19.98% | 19.98% |
| 23. Franchise Fee Adjustment Factor (1 - 6 percent) | 90.000% | 95.000% |
| | 22.19% | 21.03% |
| Limitation due to cumulative increases | | |
| 24. Percent Change in Existing Rates | 22.19% | 21.03% |

2022 Base Year Rate Adjustment Application

Revenue Offset Summary

| | Section VII - Revenue Offsets | | | | |
|---|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Historical | | Current | Projected | |
| | 2019 | 2020 | 2021 | Base Year 2022 | 2023 |
| <i>Residential Revenue (without increase in Base Yr.)</i> | | | | | |
| 28. Single Family Residential | \$7,924,043 | \$8,627,550 | \$8,780,617 | \$8,769,933 | \$8,857,632 |
| Multiunit Residential Dumpster | | | | | |
| 29. Number of Accounts | | | | | |
| 30. Revenues | | | | | |
| 31. Less Allowance for Uncollectible Resi Accounts | \$0 | \$0 | \$0 | \$0 | \$0 |
| 32. Total Residential Revenue | \$7,924,043 | \$8,627,550 | \$8,780,617 | \$8,769,933 | \$8,857,632 |
| <i>Non-residential Revenue (without increase in Base Yr.)</i> | | | | | |
| Account Type | | | | | |
| Non-residential Can | | | | | |
| 33. Number of Accounts | | | 11 | 11 | 12 |
| 34. Revenues | | | \$5,513 | \$5,568 | \$5,624 |
| Non-residential Wastewheeler | | | | | |
| 35. Number of Accounts | | | 503 | 508 | 513 |
| 36. Revenues | | | \$544,220 | \$549,662 | \$555,159 |
| Non-residential Dumpster | | | | | |
| 37. Number of Accounts | | | 1,576 | 1,592 | 1,608 |
| 38. Revenues | \$5,613,237 | \$6,171,381 | \$5,983,795 | \$5,917,531 | \$5,976,706 |
| 39. Less: Allowance for Uncollectible Non-resid | \$0 | \$0 | \$0 | \$0 | \$0 |
| 40. Total Non-residential Revenue | \$5,613,237 | \$6,171,381 | \$6,533,528 | \$6,472,761 | \$6,537,488 |
| 45. Interest on Investments | \$0 | \$0 | \$0 | \$0 | \$0 |
| 46. Other Income | \$4,993 | \$1,483 | \$17,111 | \$17,984 | \$18,505 |
| 47. Total Revenue Offsets | \$13,542,273 | \$14,800,414 | \$15,331,255 | \$15,260,678 | \$15,413,625 |

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Cost Summary for Base Year

| Description of Cost | BASE YEAR | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| | Labor | \$3,020,612 | \$3,353,557 | \$3,377,752 | \$3,642,382 |
| Payroll Taxes | \$237,602 | \$260,583 | \$260,466 | \$280,299 | \$288,708 |
| 48. Total Direct Labor | \$3,258,214 | \$3,614,140 | \$3,638,218 | \$3,922,681 | \$4,040,361 |
| 49. Corporate Overhead | \$370,263 | \$387,844 | \$460,472 | \$484,877 | \$499,423 |
| Less limitation (enter as negative) | (\$19,920) | (\$31,545) | (\$101,323) | (\$106,693) | (\$109,894) |
| Total Corporate Overhead | \$350,343 | \$356,299 | \$359,149 | \$378,184 | \$389,529 |
| Office Salaries | \$642,368 | \$722,755 | \$701,402 | \$773,471 | \$795,199 |
| Payroll Taxes - Office | \$46,420 | \$45,951 | \$56,910 | \$62,265 | \$64,133 |
| 50. Total Office Salaries | \$688,788 | \$768,706 | \$758,312 | \$835,736 | \$859,332 |
| Bad Debt | \$12,541 | \$12,182 | \$15,064 | \$15,064 | \$15,064 |
| Allocated expenses | \$0 | \$0 | \$0 | \$0 | \$0 |
| Bonds expense | \$6,877 | \$5,221 | \$5,153 | \$5,426 | \$5,589 |
| Depreciation | \$406,756 | \$535,997 | \$1,129,264 | \$1,534,705 | \$1,827,206 |
| Drive Cam fees | \$21,242 | \$19,353 | \$20,599 | \$21,690 | \$22,341 |
| Dues and Subscriptions | \$20,483 | \$5,793 | \$19,974 | \$21,033 | \$21,664 |
| Facilities | \$59,584 | \$43,035 | \$29,218 | \$30,766 | \$31,689 |
| Gas and oil | \$914,400 | \$821,425 | \$947,541 | \$952,847 | \$980,712 |
| Insurance | \$860,855 | \$1,062,848 | \$1,225,897 | \$1,361,460 | \$1,402,304 |
| Laundry (Uniforms) | \$33,527 | \$29,461 | \$29,837 | \$31,418 | \$32,361 |
| Legal and Accounting | \$43,392 | \$46,291 | \$51,310 | \$53,890 | \$55,428 |
| Miscellaneous and Other | \$7,943 | \$5,614 | \$5,144 | \$5,416 | \$5,579 |
| Office Expense | \$211,414 | \$229,923 | \$254,048 | \$268,409 | \$276,461 |
| Operating Supplies | \$59,319 | \$83,727 | \$73,903 | \$77,820 | \$80,155 |
| Other Taxes | \$37,649 | \$40,287 | \$39,285 | \$41,236 | \$42,399 |
| Outside Services | \$1,128,991 | \$1,244,791 | \$1,231,253 | \$328,750 | \$2,120,266 |
| Public Relations and Promotion | \$5,119 | \$8,013 | \$7,639 | \$7,654 | \$7,663 |
| Postage | \$21,635 | \$8,711 | \$12,894 | \$13,578 | \$13,985 |
| Permits | \$60,344 | \$67,486 | \$92,393 | \$97,290 | \$100,208 |
| Relocation | \$18,530 | \$30,701 | \$22,040 | \$22,040 | \$22,040 |
| Rent | \$3,000 | \$2,250 | \$11,023 | \$12,497 | \$12,872 |
| Telephone | \$13,294 | \$36,444 | \$36,121 | \$38,035 | \$39,176 |
| Tires | \$100,399 | \$127,834 | \$144,039 | \$151,673 | \$156,223 |
| Travel | \$27,991 | \$8,712 | \$12,431 | \$13,091 | \$13,483 |
| Truck Repairs | \$389,414 | \$492,848 | \$464,015 | \$488,608 | \$503,266 |
| Utilities | \$17,357 | \$21,613 | \$19,349 | \$20,375 | \$20,986 |
| 51. Total Other Gen/Admin Costs | \$4,482,056 | \$4,990,560 | \$5,899,433 | \$5,614,771 | \$7,809,122 |
| 52. Total Tipping Fees | \$2,754,458 | \$2,924,849 | \$3,012,594 | \$4,730,341 | \$2,978,173 |
| 53. Total Franchise Fee | 1,482,198.00 | \$1,629,121 | \$1,652,070 | \$1,454,123 | 1,497,747.16 |
| 54. Total AB 939/Regulatory Fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| 55. Total Lease Pmt to Affil Co.'s | \$142,332 | \$170,111 | \$172,663 | \$181,814 | \$187,268 |
| 55a. Interest Expense (to affiliate) | \$87,922 | \$133,282 | \$162,043 | \$213,214 | \$247,236 |
| 55b. Total Transportation to Affil Co.'s | \$50,766 | \$34,271 | \$43,275 | \$43,275 | \$43,275 |
| 56. Total Cost | \$13,297,077 | \$14,621,339 | \$15,697,757 | \$17,374,139 | \$18,052,043 |

2022 Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

| Description of Revenue | Section VII-Revenue Offsets | | | | | | |
|--|-----------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|-----------------|
| | Overall | Franchise | Refuse | Collection | | | Non-franchise |
| | Total | Total | Arroyo | Pismo | Grover | Unincorporated | Total |
| <i>Residential Revenue (without increase in Base Year)</i> | | | | | | | |
| 57. Single Family Residential | \$8,769,933 | \$8,769,933 | \$1,826,861 | \$1,185,972 | \$1,173,008 | \$4,584,092 | |
| <i>Multiunit Residential Dumpster</i> | | | | | | | |
| 58. Number of Accounts | 0 | 0 | | | | | |
| 59. Revenues | \$0 | \$0 | | | | | |
| 60. Less Allowance for Uncollectable | \$0 | \$0 | | | | | |
| 61. Total Residential Revenue | \$8,769,933 | \$8,769,933 | \$1,826,861 | \$1,185,972 | \$1,173,008 | \$4,584,092 | \$0 |
| <i>Non-residential Revenue (without increase in Base Year)</i> | | | | | | | |
| Account Type | | | | | | | |
| <i>Non-residential Can</i> | | | | | | | |
| 62. Number of Accounts | 11 | 11 | 5 | 1 | 4 | 2 | |
| 63. Revenues | \$5,568 | \$5,568 | \$1,416 | \$280 | \$1,033 | \$2,840 | |
| <i>Non-residential Wastewheeler</i> | | | | | | | |
| 64. Number of Accounts | 503 | 503 | 139 | 136 | 98 | 131 | |
| 65. Revenues | \$549,662 | \$549,662 | 149,429 | 195,948 | 84,569 | 119,716 | |
| <i>Non-residential Dumpster</i> | | | | | | | |
| 66. Number of Accounts | 1,576 | 1576 | 402 | 229 | 321 | 625 | 0 |
| 67. Revenues | \$5,917,531 | \$5,917,531 | \$1,577,642 | \$1,333,364 | \$828,238 | \$2,178,286 | |
| 68. Less: Allowance for Uncollectable Non-residential Accounts | \$0 | \$0 | | | | | |
| 69. Total Non-residential Revenue | \$6,472,761 | \$6,472,761 | \$1,728,486 | \$1,529,592 | \$913,840 | \$2,300,842 | \$0 |
| 74. Interest on Investments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 75. Other Income | \$17,984 | \$0 | \$0 | \$0 | \$0 | \$0 | \$17,984 |
| 76. Total Revenue Offsets | \$15,260,678 | \$15,242,694 | \$3,555,347 | \$2,715,564 | \$2,086,848 | \$6,884,935 | \$17,984 |

South County Sanitary Service

2022 Base Year Rate Adjustment Application

Operating Information

| Historical | | | | Current | | Projected | | |
|------------|---------|------|---------|---------|---------|-----------|---------|------|
| | Percent | | Percent | | Percent | Base Year | Percent | |
| 2019 | Change | 2020 | Change | 2021 | Change | 2022 | Change | 2023 |

Section IX-Operating Data

Residential

Accounts

| | | | | | | | | | | |
|-----|--------------------|--------|-------|--------|--------|--------|------|--------|------|--------|
| 77. | Arroyo Grande | 5,827 | 1.1% | 5,890 | 0.6% | 5,924 | 1.0% | 5,983 | 1.0% | 6,043 |
| | Grover Beach | 4,216 | 0.4% | 4,233 | 0.4% | 4,249 | 1.0% | 4,291 | 1.0% | 4,334 |
| | Pismo Beach | 3,816 | 0.1% | 3,819 | 0.2% | 3,828 | 1.0% | 3,866 | 1.0% | 3,905 |
| | Oceano CSD | 1,863 | 0.4% | 1,870 | 1.6% | 1,899 | 1.0% | 1,918 | 1.0% | 1,937 |
| | Nipomo CSD | 4,066 | 0.8% | 4,097 | 0.9% | 4,135 | 1.0% | 4,176 | 1.0% | 4,218 |
| | County | 6,881 | 2.2% | 7,034 | 1.4% | 7,130 | 1.0% | 7,201 | 1.0% | 7,273 |
| | | 26,669 | 1.0% | 26,943 | 0.8% | 27,165 | 1.0% | 27,437 | 1.0% | 27,711 |
| 78. | Routes-Garbage | 7 | 26.5% | 9 | -13.9% | 8 | 0.0% | 8 | 0.0% | 8 |
| 79. | Routes-Recycling | 6 | 26.5% | 8 | -13.9% | 7 | 0.0% | 7 | 0.0% | 7 |
| 80. | Direct Labor Hours | 28,522 | 26.5% | 36,082 | -13.9% | 31,059 | 0.0% | 31,059 | 0.0% | 31,059 |

Non-residential Garbage

Accounts

| | | | | | | | | | | |
|-----|--------------------|--------|-------|--------|--------|--------|------|--------|------|--------|
| 80. | Arroyo Grande | 490 | 0.2% | 491 | 0.6% | 494 | 1.0% | 499 | 1.0% | 504 |
| | Grover Beach | 438 | 0.7% | 441 | 0.5% | 443 | 1.0% | 447 | 1.0% | 452 |
| | Pismo Beach | 386 | 1.8% | 393 | -0.5% | 391 | 1.0% | 395 | 1.0% | 399 |
| | Oceano CSD | 190 | 0.5% | 191 | 0.5% | 192 | 1.0% | 194 | 1.0% | 196 |
| | Nipomo CSD | 214 | -2.3% | 209 | 0.0% | 209 | 1.0% | 211 | 1.0% | 213 |
| | County | 508 | -5.9% | 478 | 2.5% | 490 | 1.0% | 495 | 1.0% | 500 |
| | | 2,226 | -1.0% | 2,203 | 0.7% | 2,219 | 1.0% | 2,241 | 1.0% | 2,264 |
| 81. | Routes-garbage | 8 | 26.5% | 10 | -13.9% | 8 | 0.0% | 8 | 0.0% | 8 |
| | Routes-recycling | 3 | 26.5% | 4 | -13.9% | 4 | 0.0% | 4 | 0.0% | 4 |
| 82. | Direct Labor Hours | 22,871 | 26.5% | 28,933 | -13.9% | 24,905 | 0.0% | 24,905 | 0.0% | 24,905 |

Recyclable Materials - All areas-Commingled Recycling (in tons)

Accounts

| | | | | | | | | | | |
|-----|----------------|--------|-------|--------|------|--------|------|--------|------|--------|
| 83. | Tons Collected | 13,275 | -4.0% | 12,740 | 3.0% | 13,123 | 3.0% | 13,516 | 1.0% | 13,651 |
|-----|----------------|--------|-------|--------|------|--------|------|--------|------|--------|

Recyclable Materials - All areas-Greenwaste Recycling

| | | | | | | | | | | |
|--|--------------------|--------|-------|--------|--------|--------|------|--------|------|--------|
| | Routes | 5 | 26.5% | 7 | -13.9% | 6 | 0.0% | 6 | 0.0% | 6 |
| | Tons Collected | 13,631 | -0.9% | 13,511 | 3.0% | 13,916 | 3.0% | 14,334 | 1.0% | 14,477 |
| | Direct Labor Hours | 10,934 | 26.5% | 13,833 | -13.9% | 11,907 | 0.0% | 11,907 | 0.0% | 11,907 |

| | | | | | | | | | | |
|--|------------------------|--------|-------|--------|------|--------|------|--------|------|--------|
| | Garbage Tons Collected | 43,020 | -3.5% | 41,507 | 3.0% | 42,752 | 3.0% | 44,034 | 1.0% | 44,475 |
|--|------------------------|--------|-------|--------|------|--------|------|--------|------|--------|

Rate Comparisons for Garbage Service

| Service Size | Pismo Beach ¹ | South County Urban ¹ | Arroyo Grande ¹ | Atascadero | Templeton | San Miguel | Paso Robles ² | City of Santa Maria ^{3,4} | Santa Barbara County (Northern) ⁴ | City of Santa Barbara |
|----------------|--------------------------|---------------------------------|----------------------------|------------|-----------|------------|--------------------------|------------------------------------|--|-----------------------|
| 20 Gallon | | | | | | | | | | |
| 35 Gallon | \$ 17.31 | \$ 25.60 | \$ 19.46 | \$ 28.55 | \$ 31.40 | \$ 28.33 | \$ 30.90 | | \$ 25.84 | \$ 45.30 |
| 65 Gallon | \$ 34.63 | \$ 34.04 | \$ 25.29 | \$ 44.50 | \$ 45.01 | \$ 44.48 | \$ 51.12 | 30.69 | \$ 27.89 | \$ 56.15 |
| 95 Gallon | \$ 51.94 | \$ 47.46 | \$ 31.13 | \$ 55.77 | \$ 45.95 | \$ 61.06 | \$ 57.25 | 34.81 | \$ 29.86 | \$ 67.00 |
| 2 yard (1X WK) | \$ 120.91 | \$ 129.25 | \$ 122.10 | \$ 146.79 | \$ 129.54 | \$ 103.98 | \$ 168.68 | 166.72 | \$ 167.72 | \$ 248.79 |

Notes:

¹ Scheduled increases in 1/1/2022

² Paso Robles does 40 gallon cart pricing

³ 65 gallon Scheduled to increase to \$32.70 in 1/1/22 and \$34.71 in 7/1/22, and 95 gallon Scheduled to increase to \$38.07 in 1/1/22 and \$41.34 in 7/1/22

⁴ Weekly Trash pick-up but every other week recycling and green waste pick-up.

HZI Cost Increase Summary

Appendix B

| Cost Category | Original Plan | 2021 | 2022 | Variance | | Comment |
|----------------------------------|---------------|------------|------------|----------|------|---|
| | | | | Amount | % | |
| Staffing and Administrative Cost | \$ 1,090 | \$ 1,592 | \$ 1,706 | \$ 616 | 57% | Staff operation requirements increased from 3 to 6 team members due to feedstock profile, increased maintenance, equipment change out and operational demands. Additionally salary increases have been necessary to meet CA labor market demands. Administratively pollution insurance was added and audit and legal fees were increased to meet reporting requirements. |
| O&M Expense | \$ 495 | \$ 1,747 | \$ 1,439 | \$ 944 | 191% | Increased cost due to CHP maintenance increases related to gas cycling, dosing feeder erosion, screw feeder premature erosion, shredder blade erosion and damage due to contamination, digestate pump rebuild frequency due to sand, premature wear and replacement of the decanter, and continued vacuum truck clean out of the sand build-up. Added +250K/year for management of backend products and front end peak loading; |
| Capital Expense | \$ 1,487 | \$ 1,945 | \$ 1,946 | \$ 459 | 31% | Added Capital cost includes Feed Bunker Wall extension, Speed Screen, Fat, Oils, and Grease system, and redundant pumps related to decreased food waste and sand issues in the CA environment |
| Total Cost | \$ 3,072 | \$ 5,284 | \$ 5,091 | \$ 2,019 | | - |
| Total Service Fee | \$ 1,749 | \$ 1,779 | \$ 3,861 | \$ 2,082 | 119% | Increase requested equates closely to cost increase seen since original plan of monthly service fees |
| Change | \$ (1,323) | \$ (3,505) | \$ (1,230) | \$ 63 | | |

18 Year Historical South County Sanitary Services Rate Changes

| Date | Increase | Comments |
|----------|----------|--|
| 7/1/2004 | 5.30% | |
| 6/1/2005 | 2.95% | |
| 5/1/2006 | 3.60% | |
| 2007 | 0.00% | |
| 1/1/2008 | 2.90% | |
| 2009 | 0.00% | |
| 2010 | 0.00% | |
| 9/1/2011 | 9.05% | City increases Franchise Fee from 6% to 10%. Approved rate is additional 3.9% beyond the 5.15% rate request. |
| 2012 | 0.00% | |
| 2/1/2013 | 3.20% | |
| 7/1/2014 | 2.05% | |
| 1/1/2016 | 3.25% | Includes additional 1.1% for Organics program, Franchise Agreement amendment : extending the contract by 20 years, with the new Kompogas organics processing facility and exclude tipping fee increases, approved by the County Board of Supervisors in 2014 for landfill improvements, in calculation of SCS rates |
| 1/1/2017 | 1.10% | |
| 1/1/2018 | 1.60% | |
| 7/1/2019 | 10.06% | Proposed 10.06% increase includes 1) 4.4% for increased vehicle costs, 2) (-3.92%) savings on net result of improvements in the cost of operation, 3) 3.1% Organics Program implemented by the State and 4) 6.48% cost to process recyclable materials |
| 1/1/2020 | 1.7% | |
| 1/1/2021 | .70% | |
| 6/15/22 | 22.19% | Proposed 22.19% increase includes 1) 8.05% for truck depreciation, 2) 7.71% for food and green waste recycling to comply with SB 1383, 3) 2.41% for health and liability insurance costs, 4) 1.06% for gas and oil, 5) 2.96% for all other cost increases including labor, ongoing maintenance, disposal costs at the landfill, and other pass-through costs |