

RESOLUTION NO. 2022-74

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA AMENDING THE
RATE ADJUSTMENT CALCULATION OF THE FRANCHISE AGREEMENT WITH
GREEN WASTE RECOVERY UTILIZING A SECTOR SPECIFIC UNIFORM
PERCENTAGE ADJUSTMENT AND APPROVING MAXIMUM RATES TO BE CHARGED
BY GREENWASTE RECOVERY EFFECTIVE JULY 1, 2022, FOR COLLECTION OF
FRANCHISED SOLID WASTE, RECYCLING, AND ORGANICS.

WHEREAS, the City of Marina entered into a franchise agreement with GreenWaste Recovery (GWR) on August 19, 2014 for solid waste, recycling, and organics collection services for the period of August 1, 2015 through July 31, 2030, and;

WHEREAS, Section 8.2 of the Franchise Agreement describes the process for an automatic annual adjustment to maximum customer rates on July 1 of each year, based on agreed upon cost indices, changes in tipping fees as the Monterey Regional Waste Management District, and the actual tonnage for materials collected by GWR, and;

WHEREAS, on November 2, 2021, the City Council adopted Resolution No. 2021-114, approving an amendment to the Franchise Agreement with Green Waste Recovery (GRW) to incorporate changes required by Senate Bill 1383 (SB 1383) to divert organic waste from landfills. The amended Agreement retained provisions for automatic annual rate adjustments for GWR's services calculated following either a multi-index rate adjustment methodology or a cost-based rate adjustment methodology, and;

WHEREAS, a cost-based rate adjustment was performed for rate period 5 in 2019. Adjustments to the GreenWaste compensation resulted in rate-payer surpluses of \$540,298 in rate period 5, \$258,203 in rate period 6, and \$175,891 in rate period 7. As a result of the surpluses, rates for marina customers have been fixed at the rates set in 2018.

WHEREAS, City staff and third party consultant, HF&H, have reviewed GWR's calculation of the rate adjustments for FY 2022/2023 and finds the calculations to be accurate and consistent with the methodology and requirements of the franchise agreement, and;

WHEREAS, given the increases due to SB 1383, staff is recommending that the rate period 7 surplus be used to offset rate increases over the next two years. Applying \$89,227 of the surplus reduces the rate period 8 rate increase from 5.82% to 3.10%.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Marina hereby resolves to approve the rates in **Exhibit B** that incorporate a 3.1% increase to all single family residential maximum rates authorized to be charged by GWR under the Franchise Agreement, effective July 1, 2022.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 7th day of June 2022, by the following vote:

AYES: COUNCIL MEMBERS: Burnett, Berkley, Biala, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: Medina Dirksen

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk



590 Ygnacio Valley Road, Suite 105
Walnut Creek, California 94596
Telephone: 925/977-6950
Fax: 925/977-6955
www.hfh-consultants.com

Robert D. Hilton, Emeritus
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC
Marva M. Sheehan, CPA
Robert C. Hilton

May 12, 2022

Mr. Brian McMinn
Public Works Director
City of Marina

Sent via E-mail

Subject: Review of GreenWaste Recovery's 2022/23 Rate Request – Final Report

Reference Number: S5065

Dear Mr. McMinn:

HF&H Consultants, LLC (HF&H) was retained by the Monterey Regional Waste Management District (District) to assist with a review of GreenWaste Recovery's (GWR) request for an adjustment to customer rates, effective July 1, 2022, submitted to the City of Marina (City) on April 1, 2022. This report presents our findings and recommendations.

EXECUTIVE SUMMARY

HF&H's review of GWR's Rate Period 8 (RP8) rate request to the City and subsequent negotiations with GWR resulted in the following outcomes:

1. A 5.82% increase (the result of a \$224,827 shortfall) to rates as calculated for RP8. City Staff has recommended using half of the RP7 surplus to smooth rates from a 5.82% increase to a 3.10%. Refer to **Figure 1** for the impact to sample residential rates.

Figure 1 – Example Rate Impact of Adjustment

Marina Rate Adjustment		
	Current Rates (RP7)	RP8
Adjustment	N/A	3.10%
Residential 32- gallon rate	\$ 16.54	\$ 17.05
Residential 64- gallon rate	\$ 20.74	\$ 21.38

BACKGROUND

In 2012, the City, participating with other members of the District, issued a competitive request for proposals for collection services and entered into the new Agreement with GWR effective July 1, 2015. The Agreement provides for the following, related to the adjustment of rates:

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- Rates are annually adjusted throughout the term of the Agreement, using various inflationary indices, actual tonnage, and changes in the tipping fees at the District, unless either the City or GWR request a Cost Based Rate Adjustment (CBRA).
- The City and GWR may mutually agree upon alternative approaches to structuring rates without amendment to the Agreement (Section 8.2.D).
- During the CBRA review in RP5, a number of issues surrounding the process for setting rates and the resulting rate relationships amongst sectors and materials was identified. As such the City and GWR have negotiated an amendment to the prescribed methodology for the CBRA and index adjustments so as to not alter rate relationships between service sectors and material types.
- Through negotiations of the amendment and as a result of the desire to maintain current rate relationships between sectors and service levels, the City and GWR have prescribed a uniform rate adjustment to be applied to all sectors.

RATE CALCULATION REVIEW

HF&H Scope of Work

HF&H performed this review of the rate request in accordance with Exhibit E1 (for the index based rate adjustment). These procedures included:

1. Review of the rate request for completeness and compliance with the procedures contained in Exhibit E1 of the Agreement.
2. Review for mathematical accuracy and logical consistency to determine that the rate request is mathematically correct, that the rows and columns of numbers add down and across as intended, and that the stated assumptions were, in fact, used. Also, to determine that the rate request is internally consistent and that any summary schedules agree to the supporting schedules and worksheets.
3. Verification of the inclusion of the franchise fee calculation in the adjustment.
4. Verification of contract compliance with regard to:
 - A. The indices used in the adjustment.
 - B. The tip fees reported for the disposal/processing components of the rates.
 - C. The use of quarterly-reported tonnage data and allocations among agencies. A detailed audit of tonnage and allocations of tonnage reported by GWR was not a part of this scope of work. HF&H discussed GWR's allocation methodology with them and the methodology appears reasonable and consistent with standard practices within the industry.
 - D. Any changes in governmental fees on the fee component of the rates; and, the accurate application of the resultant percentage changes in the various rate components to the rate schedule approved by the City through the Agreement.
 - E. The addition of anticipated costs related to identified program changes resulting from SB 1383.

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Review of Rate Request

Rate Period 8 Application

HF&H reviewed the rate application for RP8. The results of the calculation of RP8 per methodology of Exhibit E1 of the amendment can be seen in **Figure 1** below.

Figure 1 – City of Marina Application of Index Based Adjustments to RP8

	Rate Period Seven	SB 1383 Costs	Revised Rate Period Seven	Adjustment Factor	Rate Period Eight
Annual Cost of Operations					
Labor-Related Costs	\$ 456,715	\$ 105,562	\$ 562,277	1.032	\$ 580,270
Vehicle-Related Costs	\$ 119,695	\$ 3,475	\$ 123,170	1.034	\$ 127,358
Fuel Costs	\$ 92,126	\$ 13,032	\$ 105,158	1.00	\$ 105,158
Other Costs	\$ 325,694	\$ 15,164	\$ 340,858	1.034	\$ 352,447
Direct Depreciation	\$ 193,751	\$ 27,851	\$ 221,602	N.A.	\$ 221,602
Total Allocated Costs - Labor, Vehicle, Fuel & Other	\$ 669,720	\$ -	\$ 669,720	1.034	\$ 692,490
Total Allocated Costs - Depreciation & Start-Up	\$ 48,832	\$ -	\$ 48,832	N.A.	\$ 48,832
Total Annual Cost of Operations	\$ 1,906,531	\$ 165,084	\$ 2,071,615		\$ 2,128,156
Profit	\$ 228,442	\$ 19,781	\$ 248,223	OR=89.3	\$ 254,997
Pass-Through Costs					
Disposal Costs	\$ 646,035	\$ -	\$ 646,035	Tons*Tip Fee	\$ 692,258
Curbside Supplemental	\$ (6,198)	\$ -	\$ (6,198)	1.00	\$ (6,198)
Recycling Processing Costs	\$ 106,968	\$ -	\$ 106,968	Tons*Tip Fee	\$ 114,363
Residue Processing Costs	\$ 30,419	\$ -	\$ 30,419	Tons*Tip Fee	\$ 37,234
Yard Trimmings Processing Costs	\$ 63,067	\$ -	\$ 63,067	Tons*Tip Fee	\$ 56,111
Food Waste Processing Costs	\$ 11,080	\$ -	\$ 11,080	Tons*Tip Fee	\$ 16,512
C&D Processing Costs	\$ -	\$ -	\$ -	Tons*Tip Fee	\$ 742
Interest Expense	\$ 61,322	\$ 4,190	\$ 65,512	N.A.	\$ 65,512
Direct Lease Costs	\$ -	\$ -	\$ -	N.A.	\$ -
Total Allocated Costs - Lease	\$ 50,221	\$ -	\$ 50,221	N.A.	\$ 50,221
Total Pass-Through Costs	\$ 962,914	\$ 4,190	\$ 967,104	N.A.	\$ 1,026,756
Total Costs before Agency Fees	\$ 3,097,888	\$ 189,055	\$ 3,286,942	N.A.	\$ 3,409,909
Agency Fees/Payments					
Franchise Fee	\$ 368,285	\$ 22,242	\$ 390,527	10.00%	\$ 395,125
AB 939 Fee	\$ -	\$ -	\$ -	N.A.	\$ -
Vehicle Impact Fee	\$ 184,142	\$ 11,121	\$ 195,263	5.00%	\$ 197,562
Rate Application Review Costs	\$ 33,343	\$ -	\$ 33,343	Actual	\$ 37,880
Other Adjustments (as needed from time to time)					
Use of Reserves				N.A.	\$ (89,227)
Surplus Credit Review				N.A.	\$ 29,910
Adjustment from MRWMD Tip Fee Estimates	\$ (808)				
Total Calculated Costs	\$ 3,682,850	\$ 222,417	\$ 3,905,267		\$ 3,981,158
Prior Year Revenue					\$ 3,861,304
Surplus/(Shortfall)					\$ (119,854)
Increase/Decrease					3.10%

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Review of GWR Costs

There are four major components to GWR's rate application: 1) calculation and application of the inflationary indexes as prescribed in the Agreement; 2) the disposal and/or processing component; 3) the Agency Fees; and, 4) other one-time adjustments.

There are three indexes used in the index adjustment; CPI, fuel index, and labor index. The annual percent change in each of the indices is used to calculate the coming years projected cost for the line items to which these indexes are applied.

HF&H has reviewed and GWR has confirmed the accuracy of each of these indexes, and notes that the fuel index remains unchanged, as reported by management staff at the District.

Review of Disposal/Processing Component

Calendar Year 2021 collected tons were used for the RP8 review in accordance with the amendment. The disposal and processing components also consider the tipping fees charged by the District in order to project anticipated disposal and processing costs at the District. The following table describes the changes in the City's disposal and processing costs for each material type based on the tip fees at the District which have been incorporated into our RP8 review.

Figure 2 - Impact of District Tip Fee Changes

Material	2021 Tons	Current Per Ton Tip Fee	Rate Period 8 Costs
	A	B	A x B
Solid Waste	9,889	\$ 70.00	\$ 692,258
Recycling	2,660	\$ 43.00	\$ 114,363
Yard Trimmings	1,247	\$ 45.00	\$ 56,111
Food Waste	271	\$ 61.00	\$ 16,512
C&D*	11	\$ 70.00	\$ 742

**The C&D per ton tip fee reflects an average weighted cost for multiple types of C&D materials.*

Review of Fee Component

HF&H ensured that the fee component of each rate matches the contractual percentage of 10% for franchise fees, and 5% for vehicle impact fees, remitted to the City by GWR.

Additionally, rate application review costs and other identified District costs totaling \$37,880 were added as a one-time adjustment to cover the rate review, franchise management, and other identified District costs such as staff time and public education and outreach.

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Review of Other One-Time Adjustments

There was no change in actual tip fee from RP6 to RP7. Therefore, no reconciliation of actual tip fee amounts is required in RP8.

City staff is in the process of reviewing a potential refund of its customers from the surplus revenue generated in RP5 and RP6. To perform this analysis, the City has contracted HF&H to review customer subscription data from GWR to calculate the appropriate credit to customers. The cost of this review, \$29,910 will be funded through the rates and is included in RP8 rate setting.

Rate Changes

Rate Smoothing

Upon completion of the review of the index-based rate adjustment, HF&H identified the surplus from prior years could be used to offset or smooth rates. As such HF&H discussed with City staff how best to use the funds in RP8. Ultimately it was recommended to use half of the RP7 surplus of \$178,454 to smooth rates in RP8. With this direction, \$89,227 of reserves was used to reduce the RP8 rate increase of 5.82% to 3.10%.

Senior Discount Rates

In prior years, City Council has requested that analysis be performed to determine what the impact of rates may be should the "Senior Rate" class be expanded. This year, at the direction of City staff, HF&H estimated the impact of a discounted rate for all senior citizens, age 65 and older. Per previous discussions with GWR, the discounted rate would only be provided for 32-gallon container service. Our analysis modeled the effects of the discount at either a 20% rate reduction, aligning with the CARE program, or a 50% rate reduction. To provide the discounted rate, the other classes would have an additional rate increase above the index rate adjustment to subsidize the loss of revenue from the migration to discounted service.

HF&H pulled population data from the United States Census Bureau for the City of Marina to estimate the percentage of the population eligible for the senior discount (+65 years old) of 13.8%. Using the City's quarterly reports provided by GWR, HF&H applied the senior population percentage across the residential cart subscription levels to estimate the maximum number of customers that could migrate from standard to discounted service. By calculating the difference from the standard to the discounted rates, multiplied by the number of eligible customers, HF&H was able to estimate the additional revenue required for the subsidy of these discounted rates.

For a 20% senior discount, an additional \$52,311 (a 1.35% additional rate increase) would need to be subsidized by the other rate classes. For a 50% senior discount, an additional \$92,145 (a 2.39% additional rate increase) would be subsidized by the other rate classes. Refer to Figure 3 below for a comparison of both methodologies for consideration by City staff.

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Figure 3 – Estimated Impact of Senior Discount Rates

Rate Class	Customer Migration Count*	Current Rate	Proposed Discounted Rate CARE - 20% of 32 Gallon	Revenue Shortfall	Proposed Discounted Rate 50% of 32 Gallon	Revenue Shortfall
32 Gallon	249	\$ 16.54	\$ 13.23	\$ (9,884)	\$ 8.27	\$ (24,711)
65 Gallon	284	\$ 20.74	\$ 13.23	\$ (25,587)	\$ 8.27	\$ (42,498)
95 Gallon	136	\$ 23.55	\$ 13.23	\$ (16,839)	\$ 8.27	\$ (24,937)
				\$ (52,311)		\$ (92,145)
Prior Year Revenue				\$ 3,861,304		\$ 3,861,304
Rate Increase Required Above Index Increase (5.82%)				1.35%		2.39%

*Based on United State Census Bureau estimate of +65 years old population in City of Marina of 13.8% multiplied by current subscription levels per the City of Marina's quarterly report.

* * * * *

We would like to express our appreciation to GWR staff for their assistance and cooperation in this process. Should you have any questions, please call me at 925/977-6959 or rchilton@hfh-consultants.com.

Very truly yours,
HF&H CONSULTANTS, LLC



Rob Hilton
President

Attachment B
City of Marina Rates Effective July 2022

Residential Solid Waste Collection Rates			
Service Level	Solid Waste	Recycling	Organics
Curbside 32 Gallon	\$17.05	Included	Included
Curbside 64 Gallon	\$21.38	Included	Included
Curbside 96 Gallon	\$24.29	Included	Included
Low Income	\$14.62	Included	Included
Senior	\$8.61	Included	Included
Notes:			
See Exhibit B1 for specific service availability			

Commercial/Multi-Family Solid Waste Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
32-Gallon Cart	\$18.39	\$37.51	\$56.28	\$75.03	\$93.79	\$112.54
64-Gallon Cart	\$35.27	\$71.94	\$107.91	\$143.88	\$179.86	\$215.82
96-Gallon Cart	\$45.46	\$92.73	\$139.09	\$185.45	\$231.82	\$278.18
1-Cubic Yard Bin	\$98.58	\$201.11	\$301.67	\$402.22	\$502.78	\$603.32
2-Cubic Yard Bin	\$196.14	\$400.12	\$600.18	\$807.61	\$1,000.31	\$1,200.37
3-Cubic Yard Bin	\$294.62	\$601.02	\$901.54	\$1,202.04	\$1,502.56	\$1,803.07
4-Cubic Yard Bin	\$392.72	\$801.16	\$1,201.75	\$1,602.33	\$2,002.91	\$2,403.49
6-Cubic Yard Bin	\$463.95	\$946.46	\$1,419.69	\$1,892.92	\$2,366.15	\$2,839.37
8-Cubic Yard Bin	\$618.62	\$1,261.99	\$1,892.99	\$2,524.00	\$3,155.00	\$3,785.99
2-Cubic Yard Compactor	\$239.17	\$486.17	\$729.26	n/a	n/a	n/a
3-Cubic Yard Compactor	\$359.15	\$730.10	\$1,095.15	n/a	n/a	n/a
4-Cubic Yard Compactor	\$478.78	\$973.27	\$1,459.89	n/a	n/a	n/a

Commercial/Multi-Family Recycling Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$5.29	\$6.82	\$13.91	\$20.87	\$27.81	\$32.37
96-Gallon Cart	\$6.82	\$13.91	\$20.87	\$27.81	\$34.77	\$41.72
1-Cubic Yard Bin	\$14.78	\$30.16	\$45.25	\$60.34	\$75.41	\$90.50
2-Cubic Yard Bin	\$29.42	\$60.02	\$90.03	\$121.14	\$150.04	\$180.05
3-Cubic Yard Bin	\$44.19	\$90.15	\$135.24	\$180.31	\$225.38	\$270.46
4-Cubic Yard Bin	\$58.91	\$120.17	\$180.26	\$240.35	\$300.43	\$360.53
6-Cubic Yard Bin	\$69.60	\$141.97	\$212.95	\$283.94	\$354.92	\$425.91
8-Cubic Yard Bin	\$92.79	\$189.30	\$283.95	\$378.60	\$473.25	\$567.90
2-Cubic Yard Compactor	\$23.81	\$48.81	\$73.21	n/a	n/a	n/a
3-Cubic Yard Compactor	\$35.78	\$73.33	\$110.00	n/a	n/a	n/a
4-Cubic Yard Compactor	\$47.69	\$97.74	\$146.62	n/a	n/a	n/a

Commercial/Multi-Family Food Waste Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$26.45	\$53.95	\$80.94	\$107.91	\$134.89	\$161.86
96-Gallon Cart	\$34.09	\$69.55	\$104.32	\$139.09	\$173.87	\$208.63
1-Cubic Yard Bin	\$73.93	\$150.83	\$226.25	\$301.67	\$377.08	\$452.49
2-Cubic Yard Bin	\$147.10	\$300.10	\$450.14	\$605.70	\$750.23	\$900.28

Attachment B
City of Marina Rates Effective July 2022

Commercial/Multi-Family Yard Trimmings Collection Rates						
	Frequency					
Service Level	1x/week	2x/week	3x/week	4x/week	5x/week	6x/week
64-Gallon Cart	\$26.45	\$53.95	\$80.94	\$107.91	\$134.89	\$161.86
96-Gallon Cart	\$34.09	\$69.55	\$104.32	\$139.09	\$173.87	\$208.63
1-Cubic Yard Bin	\$73.93	\$150.83	\$226.25	\$301.67	\$377.08	\$452.49
2-Cubic Yard Bin	\$147.10	\$300.10	\$450.14	\$605.70	\$750.23	\$900.28
3-Cubic Yard Bin	\$220.96	\$450.77	\$676.15	\$901.53	\$1,126.92	\$1,352.31
4-Cubic Yard Bin	\$294.54	\$600.87	\$901.31	\$1,201.75	\$1,502.19	\$1,802.62
6-Cubic Yard Bin	\$347.96	\$709.85	\$1,064.77	\$1,419.69	\$1,774.61	\$2,129.53
8-Cubic Yard Bin	\$463.97	\$946.50	\$1,419.74	\$1,893.00	\$2,366.25	\$2,839.50

Roll-Off Collection Rates (Per Pull)					
	Material				
Service Level	MSW	REC	FW	YT	C&D
10 YD	\$295.86	\$221.61	\$221.61	\$221.61	\$295.86
20 YD	\$426.29	\$221.61	\$221.61	\$221.61	\$426.29
30 YD	\$556.73	\$221.61	\$221.61	\$221.61	\$556.73
40 YD	\$687.17	\$221.61	\$221.61	\$221.61	\$687.17
Per Ton	\$77.78	\$47.78	\$67.78	\$50.00	\$77.78

Additional Service Rates		
Service	Sector	Charge Per Event
Cart Rental - All Sizes	RES	\$3.38
Cart Replacement	RES	\$67.53
Re-Delivery or Re-Start	RES	\$28.14
Cart Cleaning	RES	\$28.14
Non-Scheduled Collection	RES	\$21.39
Difficult to Service Cart	COM	\$1.13
Difficult to Service Bin	COM	\$3.38
Locking Bin	COM	\$56.28
Cart Replacement	COM	\$67.53
Cart Cleaning	COM	\$28.14
Bin Swap- Cleaning or Repainting	COM	\$84.42
Bulky - Recyclable	RES/COM	\$22.51
Bulky - Non Recyclable	RES/COM	\$28.14
Bulky - Event	RES/MFD	\$33.77
Covered Box	RO	\$84.42
Driver Time per Hour	RO	\$123.81
Dry Run or Relocation	RO	\$84.42
Extra Days	RO	\$28.14

*Note: All rates charged monthly unless stated otherwise

May 12, 2022

Item No. **11a**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of June 7, 2022

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2022-
AMENDING THE RATE ADJUSTMENT CALCULATION OF THE
FRANCHISE AGREEMENT WITH GREEN WASTE RECOVERY
UTILIZING A SECTOR SPECIFIC UNIFORM PERCENTAGE
ADJUSTMENT AND APPROVING MAXIMUM RATES TO BE
CHARGED BY GREENWASTE RECOVERY EFFECTIVE JULY 1, 2022
FOR COLLECTION OF FRANCHISED SOLID WASTE, RECYCLING,
AND ORGANICS.**

REQUEST:

It is requested that the City Council consider:

1. Adopting Resolution No. 2022- amending the rate adjustment calculation of the franchise agreement with Green Waste Recovery utilizing a sector specific uniform percentage adjustment and approving maximum rates to be charged by Green Waste Recovery effective July 1, 2022 for collection of franchised solid waste, recycling, and organics.

BACKGROUND:

On August 19, 2014, the City Council adopted Resolution No. 2014-98, and entered into a new exclusive 15-year Franchise Agreement with Green Waste Recovery (GRW) to provide solid waste, recycling, and organics collection services for the City of Marina. The Agreement provides for automatic annual rate adjustments for GWR's services calculated following either a multi-index rate adjustment methodology or a cost-based rate adjustment methodology.

On November 2, 2021, the City Council adopted Resolution No. 2021-114, approving an amendment to the Franchise Agreement with Green Waste Recovery (GRW) to incorporate changes required by Senate Bill 1383 (SB 1383) to divert organic waste from landfills. The amended Agreement retained provisions for automatic annual rate adjustments for GWR's services calculated following either a multi-index rate adjustment methodology or a cost-based rate adjustment methodology.

Cost-based Rate Adjustment Methodology

The cost-based adjustment involves an extensive and detailed review of GWR's actual cost of operations, changes in inflation, the number of customers, and the service level provided and comparing this to actual gross receipts collected to determine GWR's compensation for the current rate period and to forecast the future rates. The cost to perform this review is estimated at \$50,000 - \$100,000 (which cost would be passed onto the rate payer). A cost-based rate adjustment was performed for rate period 5 in 2019. Adjustments to the GreenWaste compensation resulted in rate-payer surpluses of \$540,298 in rate period 5, \$258,203 in rate period 6, and \$175,891 in rate period 7. As a result of the surpluses, rates for marina customers have been fixed at the rates set in 2018.

Multi-index Rate Adjustment Methodology

Each service level rate in the Franchise Agreement rate schedule is comprised of an operating component, disposal/processing component and a fee component. The annual rate adjustment consists of adjusting each of the rate components as follows:

Operating Component Factor:

- Labor Component: Labor costs from the prior year are adjusted by the annual percentage change in the Employment Cost Index (ECI)
- Fuel Component: Fuel costs from the prior year are adjusted by the actual volume of fuel purchased in the prior year and the annual percentage change in the Fuel Index
- Other Component: Non labor/fuel related costs from the prior year are adjusted by the annual percentage change of the Consumer Price Index (CPI)

Disposal/Processing Component: This component is automatically adjusted as a direct pass-through based on MRWMD fees and the City's prior year's tonnages by material type. The disposal and processing component(s) are based on the difference between the City's actual tonnage by material type and what was proposed by GWR in their initial proposal to the City. The disposal and processing components also consider the tipping fee charged by the Monterey Regional Waste Management District (MRWMD). At their meeting on May 18th, 2018, the MRWMD Board of Directors considered a 7% increase on tipping fees. The public hearing on rate increases is likely to be held at the June 17th, 2022 MRWMD Board of Directors meeting. The proposed tipping fee increase has been factored into the proposed fee increase for GWR customers. MRWMD rationale for the increased tipping fees is to cover the increased cost due to SB 1383, supply chain and labor cost increases over the past 2 years.

Fee Component: This component is a direct pass through of Franchise fees, calculated as a percent of the total rate by service level.

The rate adjustment for the 2022/2023 fiscal year was conducted using a variation of the multi-index methodology which was distributed across sectors by weighted averages in accordance with the methodology agreed upon in 2016. The changes implemented in 2016 allow for a uniform percentage increase for services.

The Franchise Agreement stipulates that the City of Marina shall make a good faith effort to approve the accuracy of the calculated rates by June 1 of each year, and such rates shall be effective on each subsequent July 1. This allows noticing all customers of rate increases. If rates are not effective by July 1 due to a delay caused solely by the City of Marina, GWR may retroactively bill customers for the amount of the rate increase.

ANALYSIS:

GWR provided the City, by way of HF&H Consultants (who represents the City), with the annual rate adjustment calculation ("**EXHIBIT B**"). "**EXHIBIT A**" is an executive summary from HF&H reporting the finding that the application for the annual rate adjustment by GWR is consistent with the methodology approved in the prior year.

At the September 15th, 2020 meeting, City Council asked staff to analyze an equitable method of returning the surplus from rate periods 5 and 6 to the rate-payers that paid into the surplus. Staff requested a proposal from HF&H to analyze historical customer data which has been provided by GWR. Approval of an agreement with HF&H to perform this work is an item on tonight's City Council agenda. If approved, the analysis will be performed over the next few weeks and staff will return with recommendations. This process is not tied to the rate increase deadline of July 1st.

Subsequently, a surplus of \$175,891 was generated in rate period 7. Given the increases due to SB 1383, staff is recommending that the rate period 7 surplus be used to offset rate increases over the next two years. Applying \$89,227 of the surplus reduces the rate period 8 rate increase from 5.82% to 3.10%.

Staff is recommending the sector-based adjustment be used for calculating rates for 2022/2023 in keeping with the methodology approved in 2016.

At the November 2nd, 2021 meeting, City Council expressed an interest in a senior rate structure that is not income qualified. City staff requested that HF&H estimate the impact of creating a discounted rate for senior citizens with 32-gallon waste container service. HF&H modeled the effects of the discount at either a 20% rate reduction, aligning with the CARE program, or a 50% rate reduction. To provide the discounted rate, the other classes would have an additional rate increase above the index rate adjustment to subsidize the loss of revenue from the migration to discounted service.

HF&H pulled population data from the United States Census Bureau for the City of Marina to estimate the percentage of the population eligible for the senior discount (+65 years old) of 13.8%. Using the City's quarterly reports, HF&H applied the senior population percentage across the residential cart subscription levels to estimate the maximum number of customers that could migrate from standard to discounted service. By calculating the difference from the standard to the discounted rates, multiplied by the number of eligible customers, HF&H was able to estimate the additional revenue required for the subsidy of these discounted rates.

For a 20% senior discount, an additional \$52,311 (a 1.35% additional rate increase) would need to be subsidized by the other rate classes. For a 50% senior discount, an additional \$92,145 (a 2.39% additional rate increase) would be subsidized by the other rate classes.

FISCAL IMPACT:

The FY2022/2023 proposed rate adjustment would have no effect on City expenses, as this is a cost to the rate payers. The Franchise Agreement has a 15% franchise fee of gross receipts. Any rate increase provides a corresponding increase in franchise fee revenue to the City.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Brian McMinn, P.E., P.L.S.
Public Works Director/City Engineer
City of Marina

REVIEWED/CONCUR:

Layne Long
City Manager
City of Marina