



January 5, 2023

**TO:** LOCSD Board of Directors

**FROM:** Ron Munds, General Manager

**SUBJECT: Agenda Item 9H – 01/05/2023 Board Meeting**  
Adopt a resolution reaffirming the Board of Directors Support for the County of San Luis Obispo's Rate Setting Process and Proposed Solid Waste Rate Increase.

**President**  
Matthew D. Fourcroy

**Vice President**  
Charles L. Cesena

**Directors**  
Troy C. Gatchell  
Marshall E. Ochylski  
Christine M. Womack

**General Manager**  
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**District Accountant**  
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## **DESCRIPTION**

At the April 7, 2022 Board meeting, the Board adopted a resolution supporting the proposed rate increase and the County's rate setting process (Attachment 1) initiated back in October 2022. At the April 7<sup>th</sup> meeting, staff outlined the initial rate request from Mission Country Disposal (MCD) which was projected to be 45.93%. After a thorough analysis of the rate application, a revised rate increase of 41.87% is being recommended. Per the rate setting manual, delays in processing the MCD rate application require that the increase be retroactively applied back to July 1, 2022 which will temporarily increase the rates by an additional 41.17%. The temporary increase will be applied to bills until December 31, 2023 and be eliminated from bills moving forward. Additionally, MCD is allowed a Consumer Price Index (CPI) increase for 2023 as well. This report summarizes the actions taken since the April 7<sup>th</sup> Board meeting. It is important to note that even if the District was leading the rate evaluation process, the outcome would be the same based on the policies in the rate setting guidelines referenced in the District's Franchise Agreement with MCD.

## **STAFF RECOMMENDATION**

This item will be approved along with the Consent Calendar unless it is pulled by a Director for separate consideration. If so, Staff recommends that the Board adopt the following motion:

### ***Motion:***

***I move that the Board adopt Resolution Number 2023-02 reaffirming support of the County of San Luis Obispo's Rate Setting Process and the Proposed Solid Waste Rates.***

## **DISCUSSION**

### **Background**

Both the County and District Franchise Agreements allow for rates to be requested and reviewed under a three-year cycle. A Base Year rate application, submitted every three years, requires a detailed review of water hauler's submitted application and any additional requests for information. On October 20, 2021, MCD submitted an initial base year rate application for 2022 to the County requesting a 45.93% increase for all solid waste customers. At the April 7, 2022 Board meeting, the Board adopted a resolution supporting the proposed new rates structure and the County's rate setting process (Attachment 1). At the April 7<sup>th</sup> meeting, staff outlined the initial rate request from Mission Country Disposal and the factors driving the increase (Attachment 1).

Multiple information exchanges between County, District, MCD, and the rate review consultant, Mr. Bill Statler, hired by the County were needed due to the complexity of the application. Following several revisions of the application and responses to the County’s requests for clarifying information, MCD submitted a final application on October 18, 2022 for a base year rate increase of 41.87% for all solid waste customers.

**Rate Review Findings**

As stated, County Public Works requested an independent review of the base year rate adjustment application to evaluate conformance with the District Franchise Agreement and County Franchise Agreement. The consultant prepared a detailed rate review report (Attachment 2). The findings from his report are summarized below:

- MCD submitted a complete application and provided the supporting documentation required for rate request under the franchise agreements.
- MCD provides a broad level of high-quality services to the County residents at competitive rates compared with many other communities.
- The requested rate increase exceeds the cost-of-living threshold that “triggers” the option of terminating the franchise agreements within nine months after rate approval.
- An update to the guidelines used to prepare rate reviews should be considered to reflect the timing for the voter approval process (e.g., Prop 218) and other factors.
- Due to the complexity and resulting delays during the rate review process, a temporary delayed rate implementation increase should be applied to the requested base year rate, given that MCD continued to provide service during this extended review period to customers in the LOCSD.

Mr. Statler’s report concludes that the requested rate adjustment application is supportable and recommends (1) the requested base year rate increase of 41.87% and (2) a temporary rate increase through the end of 2023 due to the delayed rate implementation with a recovery start date of July 1, 2022.

**Key Cost Drivers for Rate Increase**

Mr. Statler’s report identified the following five key cost drivers in the rate application that together account for 94% of the cost increases since 2020. The key cost drivers are summarized below:

Key Cost Driver	% Of Total Cost Drivers	Rate Impact	Justification
Depreciation	25%	6.48%	MCD replaced a significant number of trucks to meet California Air Resources Board standards
Greenwaste	24%	6.13%	MCD impacted by increased pass-through costs for the HZI anaerobic digestion facility
Direct Labor	24%	6.17%	MCD impacted by labor market challenges to attract and retain qualified positions
Insurance	11%	2.74%	MCD impacted by significant increases for health care and liability insurance
Gas and Oil	10%	2.52%	MCD impacted by increased diesel and compressed natural gas costs
<b>TOTAL KEY COST DRIVERS</b>	<b>94%</b>	<b>24.04%</b>	

Key Cost Driver	% Of Total Cost Drivers	Rate Impact	Justification
Other Costs	6%	1.59%	MCD impacted by ongoing repairs, recycling facility costs, and landfill disposal costs
<b>TOTAL COST DRIVERS</b>	100%	25.63%	

In addition to the costs drivers, Mr. Statler’s report discusses the two other components to the requested rate:

- Deficit in revenue requirement
- Allowed profit margin

The County and the District’s Franchise Agreements allow for a 7% operating profit ratio. In 2020 and 2021, MCD’s operating profit ratios were negative 8.8% and negative 24.3%, respectively. An additional increase of 16.24% is required to recover the combined shortfall of the allowed operating profit from 2020 (a negative \$346,567) to 2020 (a positive \$388,918). This additional increase achieves the 7% allowed operating profit according to the franchise agreements. The rate adjustment factors are summarized below:

Rate Adjustment Factors	Rate Impact
Cost Drivers	25.63%
Deficit in Revenue Requirement	9.24%
Allowed Profit Margin	7.00%
<b>TOTAL PROPOSED RATE INCREASE</b>	<b>41.87%</b>

The rate application submitted by MCD considers the cost of service for north coast communities (e.g., San Simeon, Cambria, Cayucos, and Los Osos) as a whole. For reference, in September 2022 both Cambria Community Services District (CSD) and Cayucos Sanitary District approved similar base year rate increase requests<sup>1</sup> from MCD of 41.46% and 43.30%, respectively.

**Proposed Rates**

The proposed rates will apply to all residential and commercial customers within the LOCSO boundary. The proposed increase for single family residential customers are shown in the following table:

**Table 1**

Container Service Size*	Current Rate	Proposed Increase	Proposed Rate
<b>Los Osos CSD area</b>			
20 Gallons	\$ 17.80	\$ 7.28	\$ 25.08
32 Gallons	\$ 25.32	\$ 10.35	\$ 35.67
64 Gallons	\$ 38.86	\$ 15.90	\$ 54.76
96 Gallons	\$ 41.70	\$ 17.03	\$ 58.73

\*Low-income rates for residential customers were not included in the rate schedule.

<sup>1</sup> The approved base year rate increases by Cambria CSD and Cayucos Sanitary District varied based on differences of franchise fees, AB 939 fees, and other factors.

**Temporary Delayed Rate Implementation**

Mr. Statler’s report recommends applying a temporary short-term rate increase due to the lengthy time required to review the rate application, which was initially submitted in October 2021 and was finalized in October 2022. The retroactive rate increase is allowed under the rate setting guidelines in the District’s Franchise Agreement with MCD. The short-term increase consists of the nine (9) months from July 1, 2022 through March 31, 2023 applied over nine (9) months starting on April 1, 2023 (effective date) and expiring on December 31, 2023.

The proposed rates for single family residential customers with the short-term rate increase are shown in the following table:

**Table 2**

Container Service Size	Proposed Rate	Short-Term Increase*	Proposed Rate with Temporary Increase
<b>Los Osos CSD area</b>			
20 Gallons	\$ 25.08	\$ 7.28	\$ 32.36
32 Gallons	\$ 35.67	\$ 10.35	\$ 46.02
64 Gallons	\$ 54.76	\$ 15.89	\$ 70.65
96 Gallons	\$ 58.73	\$ 17.04	\$ 75.77

\*The proposed short-term increase due to the delayed rate implementation expires on December 31, 2023.

**Consumer Price Index (CPI) Increase**

Because of the timing (over a year) to complete the rate evaluation process, MCD is also allowed a CPI increase commencing January 2023. The District uses the average of the San Francisco-Oakland-Hayward and Los Angeles-Anaheim-Long Beach when calculating CPI for other purposes like for the Special Fire Tax. The average of the two indexes for June 2021 through June 2022 is 7.7%. This will be applied to the base year rates in Table 1. By adopting Resolution No. 2023-02 (Attachment 3), the Board is acknowledging the approval of the interim year CPI increase and the rate setting process as referenced in the Franchise Agreement.

**FINANCIAL IMPACT**

There is no direct financial impact to the District resulting from the recommended action. As stated previously, even if the District was leading the rate evaluation process, the outcome would be the same based on the policies in the rate setting guidelines referenced in the Franchise Agreement.

The County will be moving forward with the required noticing for the rate increase pursuant to Section 6 of Article XIII D of the California Constitution and Government Code Section 53755 (Proposition 218). The tentative schedule is for the Board of Supervisors to set a public hearing for March 21, 2023 to consider the rate increase at their January 24, 2023 meeting. Adoption of the rates will depend on the outcome of the number protest received by the hearing date on March 21<sup>st</sup>.

**Attachments**

- Attachment 1 - April 7, 2022 Solid Waste Rate Report/Resolution 2022-11
- Attachment 2 – Detailed Rate Review Report
- Attachment 3 – Resolution 2023-02



April 7, 2022

**TO:** LOCSD Board of Directors

**FROM:** Ron Munds, General Manager

**SUBJECT:** **Agenda Item 5B – 04/07/2022 Board Meeting**  
Adopt Resolution Number 2022-11 Supporting the County of San Luis Obispo's Rate Setting Process and Proposed Solid Waste Rate Increase.

**President**  
Matthew D. Fourcroy

**Vice President**  
Charles L. Cesena

**Directors**  
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## **DESCRIPTION**

At the February 3, 2022 Board meeting, the Board adopted a resolution to assign the Solid Waste Franchise agreement from the County of San Luis Obispo (County) to the District. At the meeting, the Board was informed that the County was in the process of reviewing a rate application submitted by Waste Connections. This report summarizes the actions taken since the February 3<sup>rd</sup> Board meeting.

## **STAFF RECOMMENDATION**

### ***Motion:***

***I move that the Board adopt Resolution Number 2022-11 supporting the County of San Luis Obispo's Rate Setting Process and the Proposed Solid Waste Rates.***

## **DISCUSSION**

At the February 3, 2022 Board meeting, the Board adopted a resolution to assign the Solid Waste Franchise agreement from the County of San Luis Obispo (County) to the District. At the meeting, the Board was informed that the County was in the process of reviewing a rate application submitted by Waste Connections. Under the requirements of the Franchise Agreement, the requested rate increase will need to be adopted by the Board of Supervisors which will occur after the transfer of the Franchise Agreement to the District. As part of the agreement, the District agreed to accept the rates once approved.

At the March 1, 2022 Board of Supervisors meeting, Supervisor Gibson requested, and the other members of the Board agreed, that the following condition be added and approved by the District before the assignment is finalized:

***Authorize the Director of Public Works to execute and deliver the Assignment of Franchise Agreement between the County of San Luis Obispo, Los Osos Community Services District, Waste Connections US Inc., and Mission Country Disposal only after the Los Osos Community Services District Board adopts a resolution supporting the proposed new rate structure and County's rate setting process.***

Working with County Public Works staff, the attached resolution satisfies the condition and is the recommended action.

## Overview of the Solid Waste Rate Setting Process and Rate Application

The solid waste rate setting process for all the Waste Connection service areas is guided by the City of San Luis Obispo's Solid Waste Rate Setting Manual. The rate setting procedures in the manual call for a three-year process where the first year (base year) requires comprehensive revenue and expense information which identifies the allowable profit and rate of return, pass through costs and other pertinent information that supports the requested rates. Years two and three typically only adjust rates based on the Consumer Price Index (CPI) and allowable pass-through costs like tipping fees at the landfill. Once the rates have been reviewed and agreed upon by the parties, the rates must follow the Proposition 218 procedures where rate payers and property owners are duly notified of the increase and have the ability to "protest" the rate increase in writing.

The Waste Connections rate application, currently under review by the County, proposes a 45.93% rate increase. The County is doing its due diligence to evaluate the revenue and expense information as previously explained before accepting the rates as proposed. Additionally, a consultant has been contracted with to review and verify the revenue and expense information, and provide a third party verification of the rates as well. The following is the breakdown for the increase provided to the County by Waste Connections.

<b>Factor</b>	<b>% Increase</b>
IWMA Expense	3.42%
Capital Investment (depreciation)	9.56%
HZI Digester Expense (green waste)	6.67%
Wage Adjustments to Market	4.91%
Recycle Processing Fee	1.88%
Franchise Fee	4.59%
Truck Repairs	3.2%
Insurance	1.8%
Other Outside Services	2.7%
Fuel	1.2%
Landfill Disposal	2.7%
CPI/Other	3.3%
<b>Total</b>	<b>45.93%</b>

The final report from the County's rate consultant is still pending and was not available at the time this report was written. Preliminary results of the review indicate the percent increase could come down slightly but will remain close to Waste Connections requested rates. Additionally, since there has been a delay in adopting the solid waste rates, the rate increase will be retroactive to a date to be determined; most likely February 1, 2020. Staff has been involved in the rate review process and supports the finding of the rate consultant once available.

## **FINANCIAL IMPACT**

There is no direct financial impact to the District resulting from the recommended action. The consequence of not taking action would result in the franchise agreement responsibilities and revenue from the franchise fee not being assigned to the District as proposed.

## **Attachments**

Resolution Number 2022-11

**RESOLUTION NO. 2022-11**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT SUPPORTING THE PROPOSED RATE SETTING PROCESS AND NEW RATES FOR THE SOLID WASTE COLLECTION FRANCHISE**

**WHEREAS**, on or about September 4, 2008, the Los Osos Community Services District (“District”) and Mission Country Disposal and Waste Connections US, Inc. (“Contractor”) entered into an Amended and Restated Solid Waste Collection Franchise Agreement (“Franchise Agreement”); and

**WHEREAS**, on or about December 10, 2013, the District assigned all of its rights and obligations to the County of San Luis Obispo (“County”) under the Franchise Agreement in exchange for the County’s contribution of \$2,800,000 to the settlement and resolution of the District’s bankruptcy filed in 2006; and

**WHEREAS**, the County desires to assign all of its rights and obligation under the Franchise Agreement, as amended, to the District in exchange for the District’s payment of \$1,195,614.55 over a 120-month period (“Assignment”); and

**WHEREAS**, prior to the effective date of the Assignment, the County received an application for rate analysis and adjustment from the Contractor; and

**WHEREAS**, the Contractor requests a 45.93% increase for the Base Year Rate Adjustment for Fiscal Year 2022, due to, among other things, increased costs related to labor, fuel, truck replacement, commingled recycling, anaerobic digester processing, and solid waste management fees; and

**WHEREAS**, most residences in Los Osos use the 32-gallon cart service and, if the Contractor’s requested rate as presented, is approved, the corresponding rate would increase by \$11.63 per month; and

**WHEREAS**, the proposed rate adjustment includes the increased solid waste management fees approved by the San Luis Obispo County Integrated Waste Management Authority (IWMA) Board on March 9, 2022 (i.e., 5.4% fee on all accounts); and

**WHEREAS**, at the District’s request and on its behalf, the County has agreed to review the application and complete all required processes to revise services rates in a manner consistent with the Franchise Agreement, as amended, and approve rates in an amount that will not exceed the Contractor’s requested Base Year adjustment; and

**WHEREAS**, the rate setting process shall comply with applicable law, including, but not limited to, Article XIII D of the California Constitution and the Proposition 218 Omnibus Implementation Act (commencing with Section 53750 of the California Government Code); and

**WHEREAS**, on March 1, 2022, the County Board of Supervisors authorized execution of the Assignment only in the event the District Board of Directors adopts a resolution supporting the proposed new rate structure and the County’s rate setting process; and

**WHEREAS**, if the County revises the service rates after the completion of these processes, the Assignment requires the District to adopt those rates; and

**WHEREAS**, the County has performed a rate review, including hiring a professional consultant, to deem appropriate those rates requested by the Contractor; and

**WHEREAS**, the County is prepared to conduct the necessary noticing and rate setting process on behalf of the District under the Assignment contingent upon the District's support for said process and the aforementioned proposed solid waste collection rates.

**NOW, THEREFORE, THE BOARD OF SUPERVISORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:**

1. The District supports the proposed increase in solid waste collection rates in an amount not to exceed 45.93%, and any temporary increase due to delayed rate implementation, for the District's service area based on the Contractor's application.
2. The District supports the County's rate setting process, including the Proposition 218 noticing and hearing requirements, for the proposed increase in solid waste collection rates for the District's service area.

On the motion of Director \_\_\_\_\_, seconded by Director \_\_\_\_\_ and on the following roll call vote, to wit:

AYES: \_\_\_\_\_  
NOES: \_\_\_\_\_  
ABSTAIN: \_\_\_\_\_  
ABSENT: \_\_\_\_\_

The foregoing resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District this 7th day of April 2022.

\_\_\_\_\_  
Matthew D. Fourcroy, President  
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Ron Munds  
General Manager and Secretary to the Board

\_\_\_\_\_  
Jeffrey A. Minnery  
District Legal Counsel



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## William C. Statler

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

# MEMORANDUM

December 29, 2022

TO: San Luis Obispo County, Department of Public Works

FROM: Bill Statler 

SUBJECT: MISSION COUNTRY DISPOSAL SOLID WASTE RATE REVIEW:  
 LOS OSOS COMMUNITY SERVICES DISTRICT AND NORTH  
 COASTAL UNINCORPORATED AREAS

### RECOMMENDATION

Approve the proposed rate increase from Mission Country Disposal (MCD) for solid waste services of 41.87% on the “allowed” rate base for the Los Osos Community Services District (CSD) and North Coastal unincorporated areas.

### DISCUSSION

#### Background

MCD submitted an initial rate application on October 20, 2021 requesting a 45.93% rate increase for all customers. 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 March 24, 2022 proposing a rate increase of 43.3%. A subsequent revision was submitted on July 19, 2022 reducing the “operating profit ratio” from 8% to 7% and proposing a rate increase of 42.13%. Several iterations of this application were subsequently reviewed, with the latest received on October 18, 2022 requesting a 41.87% increase.

The revised application submitted in October 2022 is the focus of this report in reviewing the MCD rate increase request in accordance with County guidelines regarding rate increase applications. While not required, it has been the County’s practice to use the “City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates, June 1994” (*Rate Manual*) as a guide in preparing rate reviews.

The MCD application supporting the proposed 41.87% increase is provided in Attachment 1; and provided in Attachment 2 is a comprehensive rate review prepared for the Cambria CSD and Cayucos Sanitary District, which provides the foundation for this report.

**Summary of Findings and Recommendations**

While there were other minor changes in conjunction with the various applications, there are four key differences between the initial and October 2022 revised applications:

- 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: in the case of the Los Osos CSD, these are approved by a separate agency and will be charged separately on customer bills; and the County is no longer a member of the IWMA.
- The “operating profit ratio” has been reduced from 8% to 7%.
- The rate base upon which the percentage rate increase is to be applied has been modified for two factors.
  1. Current rates for all areas except Los Osos CSD are 0.6% higher than the “allowed rate” presented in Attachment 1 due to an unapproved consumer price index (CPI) rate increase on January 1, 2021. Los Osos CSD’s current rates are 0.7% higher than the “allowed rate” presented in Attachment 1 due to the unapproved CPI rate increase on January 1, 2021 as well as the implemented rate increase on January 1, 2020 being 0.1% higher than the approved amount.
  2. In the rural Los Osos and rural Morro Bay areas, the approved rate increase in 2019 of 25.31% was never implemented. The “allowed rate” in Attachment 1 has been adjusted upward from current rates (along with the 0.6% downward adjustment above) to adjust for this omission.

**Key Cost Drivers.** The following summarizes five key cost drivers, which together account for over 90% of the cost increases since 2020 (last audited financial statements); all other costs account for less than 2% of the cost-driven rate impact.

**Table 1. 2022 Cost Increase from 2020 Rate Impact**

<b>2022 Cost Increase from 2020</b>			
	Amount	% of Total	Rate Impact*
Depreciation	389,631	25%	6.48%
Greenwaste	368,547	24%	6.13%
Direct Labor	370,550	24%	6.17%
Insurance	164,788	11%	2.74%
Gas and Oil	151,160	10%	2.52%
Total Key Drivers	1,444,676	94%	24.04%
Other Costs	95,506	6%	1.59%
Total	\$1,540,182	100%	25.63%

\* Based on Cayucos with 10% franchise fee

**Operating Profit Ratio.** In addition to these cost drivers, an additional increase of 16.24% is required to achieve the 7% operating profit ratio, which was a negative 8.8% in 2020 (and an estimated negative 24.3% in 2021). In short, the allowed operating profit for 2022 is \$388,918 compared with a negative \$346,567 in 2020. This results in an additional rate increase of 16.24% in recovering the combined shortfall of \$735,485 and arriving at the allowed operating profit of 7% in 2022.

The following summarizes these impacts:

**Table 2. Proposed Rate Increase Factors**

Cost Drivers	25.63%
Deficit in Revenue Requirement	9.24%
Allowed Profit Margin	7.00%
Total	41.87%

**Rate Request Review**

MCD, a subsidiary of Waste Connections, provides service to all north coastal communities in the County via formal Franchise Agreements, including the:

- Cambria CSD
- Cayucos Sanitary District
- Los Osos CSD
- County of San Luis Obispo for other unincorporated areas in the north coastal area, such as San Simeon, Harmony and rural Cambria, Cayucos, Los Osos and Morro Bay.

As noted above, Attachment 2 provides a comprehensive rate review prepared for the Cambria CSD and Cayucos Sanitary District, which provides the foundation for this report. As discussed in Attachment 2, joint agency review – with the County “piggybacking” on this review – makes sense because:

- MCD provides similar services to each of these agencies under formally approved Franchise Agreements.
- Each of the agencies use a common framework for regulating rates and establishing procedures for considering rate increases.
- Financial information for MCD is closely related for all these agencies.
- Except for the Cambria CSD (where the franchise fee rate is 6%), all agencies have adopted franchise fees of 10%.

In general, all of the findings set forth in Attachment 2 are applicable to the Los Osos CSD and the County, with four exceptions:

- The “operating profit ratio” is 7% for both agencies rather than 8%.

- As discussed above, there are adjustments to current rates to account for the unapproved CPI increase in 2021 and the omission of the 2019 rate increase in the rural Los Osos and rural Morro Bay areas. This results in a lower rate increase of 41.87% compared with 43.30% in Cayucos (which also has a 10% franchise fee).

The Los Osos CSD has two additional provisions:

- Under the franchise assignment agreement between the County and the Los Osos CSD approved in December 2013 (which includes Section I amending Paragraph B of Section 16 of the 2008 franchise agreement), there is a “trigger option” that 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, there is the option of terminating the agreement at any time within nine months following approval of the requested rate increase.
- Under Section 11.7 of the 2008 Los Osos CSD Franchise Agreement, MCD is required to provide “evidence” that the District is paying one percent (1%) less than what other agencies are paying for similar services.”

**Los Osos CSD and Other County Areas**

Until 2013, MCD services within the Los Osos CSD were governed by a 2008 Franchise Agreement directly managed by the District. However, in December 2013 the Los Osos CSD Franchise Agreement was assigned to the County. In April 2022, it was assigned back to the Los Osos CSD.

There are several differences between the Los Osos CSD franchise agreement with MCD and the one with the County for other north coastal areas.

For that reason, with a few modifications set forth in the assignment agreement, the differences remain. Accordingly, while much of the rate analysis is the same for both the Los Osos CSD and other County areas, this report discusses any material differences.

**Findings**

The key findings presented in the Attachment 2 also apply to the Los Osos CSD and County north coastal areas:

- **Complete Application.** With its October 2022 revised application, MCD has fully provided the supporting documentation required for rate requests under the Franchise Agreement.
- **High Level of Service at a Reasonable Cost.** MCD provides a broad level of high-quality services to the County residents – including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services – at competitive rates compared with many other communities. Even with the recommended rate increase, rates in the Los Osos CSD and other County areas will be in line with those surveyed.
- **“Trigger Option.”** As discussed in greater below, for the Los Osos CSD, 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.*** While not required, as a practice the County follows the rate-setting process described in the Rate Manual. In short, with very minor modifications, this methodology has been in place for almost 30 years. Because of several complex issues that have surfaced in the more recent rate requests, 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, depreciation amortization period, interim rate reviews, cost allocation methodologies, accounting for disposal costs, timeframe for submitting and reviewing applications, public notice and trigger option), I recommended updating the Rate Manual or otherwise develop a revised rate-setting process. before the next *Base Year* review.
- ***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.” (However, as discussed below, there were multiple problems with the applications submitted by MCD.) Given the initial October 20, 2021 submittal date, this would indicate rate approval by March 1, 2022. However, there are four factors that mitigate this 120-day period:
  1. When the 120-day period was set in the 1994 Rate Manual, Proposition 218 was not on the radar: it was not adopted by voters until November 1996. Moreover, it was the “conventional wisdom” for ten years afterwards that its notice and procedural requirements did not apply to most water, sewer and solid waste rate circumstances. This changed with the “Big Horn” decision ten years later in 2006. Even then, many agencies believed it did not apply to private companies like MCD, while other agencies believed it did (especially where service is mandatory). In short, the 45-day notice and protest requirements under Proposition 218 did not exist when the 1994 Rate Manual was prepared nor for many years thereafter. This alone conceptually adds 45 days to the review process. However, as a practical matter, given the time needed to schedule Board reviews and prepare notice and agenda reports, this results in added time needed for public notice and review of 75 to 120 days. Moreover, it is important to note the Rate Manual does not provide any special timeframes for public review other than the standard 10-day public hearing notice before the Board meeting that considers adoption of rates.
  2. Review was delayed pending consideration of rate increases by the IWMA and their possible impact on MCD 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 MCD on March 24, 2022). Lastly, of course, the County is no longer a member of the IWMA.
  3. While MCD 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. The Rate Manual sets forth nine steps in the review process, with target schedules for each step leading to the cumulative 120-day target. However, each step provides for extended days

based on the need for added agency review. So, the 120 day schedule is not an absolute target without regard for complexity and the need for subsequent revisions.

4. Lastly, several added revisions were required in correctly using the 7% operating profit margin; presenting the current and “allowed” rate base; and omitting the 2019 rate increases to rural Los Osos and Morro Bay. These issues were not present in the MCD rate reviews for Cambria CSD and Cayucos Sanitary District and resulted in significant delays compared with these two agencies.

In accounting for these factors, the County and Los Osos CSD staff recommend retroactivity to July 1, 2022. The short-term impact of this is discussed below and shown in Tables 4 and 5.

**Proposed Single Family Residential Rates**

The following presents proposed rate increases based on the application (Attachment 1) and detailed rate analysis (Attachment 2), before consideration of retroactivity.

**Table 3. Single Family Residential (SFR) Monthly Rates**

**Los Osos CSD**

Container Size	Current	Allowed	Proposed	Increase
20 Gallons	\$17.80	\$17.68	\$25.08	\$7.28
32 Gallons	25.32	25.14	35.67	10.35
64 Gallons	38.86	38.60	54.76	15.90
96 Gallons	41.70	41.40	58.73	17.03

**Rural Los Osos**

Container Size	Current	Allowed	Proposed	Increase
32 Gallons	\$22.44	\$27.97	\$39.68	\$17.24
64 Gallons	28.31	35.29	50.07	21.76
96 Gallons	34.16	42.59	60.42	26.26

**Rural Morro Bay**

Container Size	Current	Allowed	Proposed	Increase
32 Gallons	\$12.38	\$15.43	\$21.89	\$9.51
64 Gallons	13.99	17.44	24.74	10.75
96 Gallons	17.93	22.36	31.72	13.79

**Rural Cayucos**

Container Size	Current	Allowed	Proposed	Increase
32 Gallons	\$15.53	\$15.43	\$21.89	\$6.36
64 Gallons	17.55	17.44	24.74	7.19
96 Gallons	22.49	22.36	31.72	9.23

**Rural Cambria, San Simeon and Harmony**

Container Size	Current	Allowed	Proposed	Increase
32 Gallons	\$26.30	\$26.14	\$37.08	\$10.78
64 Gallons	43.42	43.16	61.23	17.81
96 Gallons	60.55	60.19	85.39	24.84

***Current Rates vs “Allowed” Rates***

The following discusses the differences between current and allowed rates. The 41.87% rate increase is applied against the “allowed” rates.

- **Unapproved CPI rate increase.** As noted above, current rates are higher than the “allowed rate” presented in Attachment 1 due to an unapproved CPI rate increase on January 1, 2021.
- **Omitted 2019 rate increase in rural Los Osos and Morro Bay areas.** In the rural Los Osos and rural Morro Bay areas, the approved rate increase in 2019 of 25.31% was never implemented. The “allowed rate” in Attachment 1 has been adjusted upward from current rates (along with the downward CPI adjustment above) to adjust for this omission. Because there are so few accounts affected (124: 79 in rural Los Osos and 45 in rural Morro Bay), the overall revenue impact on MCD and the rate increase calculation of this oversight is minor (about \$10,000 annually). However, adjusting for this has two impacts: the revenue base in calculating the rate increase has been adjusted upwards by this amount; and this reduces the rate increase that would otherwise be calculated.

This results in increases from current rates that are different than 41.87% as follows:

- **Los Osos CSD and rural Cayucos, Cambria, San Simeon and Harmony.** The increase from current rates is 40.9%. This is less than the 41.87% “allowed” rate increase due to the downward adjustment for the unapproved CPI increase in 2021.
- **Rural Los Osos and rural Morro Bay.** The increase from current rates is 76.9% due to catching-up on the omitted rate increase of 25.3% in 2019, partially offset by 0.7% downward adjustment for the unapproved CPI increase in 2021.

***Impact of Retroactivity***

As noted above, County and Los Osos CSD staff recommend retroactivity to July 1, 2022, implemented as follows:

**Table 4. SFR Retroactivity Implementation**

Agency	Rate/Retroactivity Adoption Date	Retroactivity End Date	Months of Retroactivity	Months of Retro Allocation
County	February 1, 2023	December 31, 2023	7	11
Los Osos CSD	April 1, 2023	December 31, 2023	9	9

Both the County and Los Osos CSD recommend allocating the impact of retroactivity through December 31, 2023. However, due to differences in scheduling and notice requirements, the County has scheduled rate and retroactivity effective dates for February 1, 2023 and the Los Osos CSD for April 1, 2023. This results in seven months of retroactivity spread over eleven months for the County; and nine months spread over 9 months for the Los Osos CSD. The longer retroactivity period and shorter allocation period result in a greater short-term impact for the Los Osos CSD.

**Solid Waste Rate Review**

At the end of the retroactive allocation period (December 31, 2023 for both agencies), rates will return to the “normal” rates, plus any approved interim CPI increases.

The following summarizes the short-term SFR rate impacts.

**Table 5. SFR Proposed “Normal” and Short-Term Retroactivity Rates**

**Los Osos CSD**

Container Size	Current Rate	Allowed Rate	Normal Proposed Rate	Short-Term Retroactive Increase		
				Percent	Amount	Short-Term Rate
20 Gallons	\$17.80	\$17.68	\$25.08	41.17%	\$7.28	\$32.36
32 Gallons	25.32	25.14	35.67	41.17%	10.35	46.02
64 Gallons	38.86	38.60	54.76	41.17%	15.89	70.65
96 Gallons	41.70	41.40	58.73	41.17%	17.04	75.78

**Rural Los Osos**

Container Size	Current Rate	Allowed Rate	Normal Proposed Rate	Short-Term Retroactive Increase		
				Percent	Amount	Short-Term Rate
32 Gallons	22.44	\$27.97	\$39.68	26.26%	\$7.34	\$47.03
64 Gallons	28.31	35.29	50.07	26.26%	9.27	59.33
96 Gallons	34.16	42.59	60.42	26.26%	11.18	71.61

**Rural Morro Bay**

Container Size	Current Rate	Allowed Rate	Normal Proposed Rate	Short-Term Retroactive Increase		
				Percent	Amount	Short-Term Rate
32 Gallons	\$12.38	\$15.43	\$21.89	26.26%	\$4.05	\$25.94
64 Gallons	13.99	17.44	24.74	26.26%	4.58	29.32
96 Gallons	17.93	22.36	31.72	26.26%	5.87	37.59

**Rural Cayucos**

Container Size	Current Rate	Allowed Rate	Normal Proposed Rate	Short-Term Retroactive Increase		
				Percent	Amount	Short-Term Rate
32 Gallons	\$15.53	\$15.43	\$21.89	26.26%	\$4.05	\$25.94
64 Gallons	17.55	17.44	24.74	26.26%	4.58	29.32
96 Gallons	22.49	22.36	31.72	26.26%	5.87	37.59

**Rural Cambria, San Simeon and Harmony**

Container Size	Current Rate	Allowed Rate	Normal Proposed Rate	Short-Term Retroactive Increase		
				Percent	Amount	Short-Term Rate
32 Gallons	\$26.30	\$26.14	\$37.08	26.26%	\$6.86	\$43.95
64 Gallons	43.42	43.16	61.23	26.26%	11.33	72.56
96 Gallons	60.55	60.19	85.39	26.26%	15.81	101.20



**Interim Year Increases**

Under the County’s Franchise Agreement (Section 8.31.1), rates may be reviewed under a three-year cycle. Under County practice and the Rate Manual, this is a detailed “base year” review for 2022; interim rate increases may be allowed for the next two years (2023 and 2024). MCD is proposing interim year increases based on changes in the CPI. I concur with this recommendation.

**Key Rate-Setting Factors**

As discussed in Attachment 2, reviewing rates is based on organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio.”

**Allowable Costs.** MCD is allowed a profit of 7% on “allowable” costs, such as:

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

**Pass-Through Costs.** MCD can recover “pass-through” costs but not earn a profit on them, such as:

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

**Excluded and Limited Costs.** Under the County’s practice, no revenues are allowed for excluded or limited costs, such as:

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

**Rate Request Summary**

The following summarizes the calculations that support the proposed rate increase. As reflected in this summary, it is the same methodology used in Attachment 2 for the Cayucos Sanitary District (which also has a 10% franchise fee) except:

- The operating profit ratio is 7% rather than 8%.
- The current revenue base has been adjusted upward to account for lost revenues of \$10,138 due to the omitted 2019 rate increase in the rural Los Osos and Morro Bay areas. (A higher revenue base brings revenues closer to costs, and accordingly, reduces the needed rate increase.)

## Solid Waste Rate Review

As presented in Table 6, these factors result in a lower rate increase of 41.87% compared with the increase of 43.30% for the Cayucos Sanitary District.

**Table 6. Allowable Rate Increase Calculation**

	Cayucos Sanitary Dist	County/Los Osos CSD
Allowable Costs	5,167,054	5,167,054
Allowable Profit (8%/7% Operating Ratio)	449,308	388,918
Pass-Through Costs		
Disposal		
Landfill	514,221	514,221
MRF (Recycling)	415,318	415,318
Greenwaste	721,229	721,229
Franchise Fees	493,114	493,114
Other Pass-Through Costs	237,896	237,896
Total Pass-Through Costs	2,381,778	2,381,778
Allowed Revenue Requirements	7,998,141	7,937,750
Revenue without Rate Increase	5,757,804	5,767,942
Revenue Requirement: Shortfall (Surplus)	2,240,337	2,169,808
Rate Base Revenue	5,748,477	5,758,615
Percent Change in Revenue Requirement	38.97%	37.68%
Allowed Revenue Increase *	43.30%	41.87%

\* Adjusted for 10% Franchise Fee

### Cost of Living “Trigger Option”

As noted above, the amended Los Osos CSD Franchise Agreement 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, there is the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase.

This provision does not directly limit rate increase requests by MCD to an amount that may be less than that allowed under the rate-setting methodology. However, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for MCD to do so, if possible. In a comparable rate review for the South County Sanitary Company (SCSS) in March 2022, the report found a significant difference between the rate request and the calculated difference:

**Table 7. Cumulative CPI versus Rates**

Cumulative CPI	34.9%
Cumulative Rate Increase *	61.8%
Difference	26.9%

\* Including proposed

While the calculation factors set forth in the respective Franchise Agreements are slightly different between SCSS and MCD, the results are going to be very similar; and in fact, using

similar assumptions but adjusting for the higher proposed rate increase for the Los Osos CSD (41.87% versus 24.65% in most south county agencies), the cumulative difference would be 44.4%.

**Evidence of Los Osos CSD Rates 1% Lower than Similar Agencies**

As discussed above, MCD is required to provide the County “with evidence that the District is paying one percent (1%) less than what other agencies are paying for similar services.”

As reflected in the summary of surveyed agencies from Attachment 2 as well as other communities served by MCD in the rate application, with the proposed rate increase, Los Osos CSD rates will be higher than most other agencies (although they will be lower than 1% in Cambria CSD and rural Los Osos, Cambria, San Simeon and Harmony).

MCD’s response to this: “We adopted the rate structure in conjunction with the agency’s direction many years ago and have applied the approved base year and CPI increases since that time. We are willing to entertain a rate design study at a later date.”

**SUMMARY**

Based on the rate-setting policies and procedures followed by the County, this report concludes that:

- MCD has submitted the required documentation required under the Franchise Agreement.
- This results in a recommended increase on the “allowed” rate base of 41.87%.
- Short-term rates will be higher than this due to retroactivity from July 1, 2022, allocated through December 31, 2023.

**ATTACHMENTS**

1. Rate Application for Los Osos Community Services District and County Areas



## Mission Country Disposal

# Base Year Rate Adjustment Application

## Summary

## LOS OSOS CSD

Requested Increase			
Digester Expense	6.67%	Market Rate Wage Adjustment	4.91%
Capital Purchases	9.56%	Truck Repairs	3.25%
Insurance	1.80%	Other Outside Services	2.67%
Fuel	1.25%	Landfill Disposal	0.19%
Commingle Processing Fee	1.79%	Franchise Fee Related to PI	4.19%
IWMA & Franchise Fees		CPI Increase/Other	5.59%

1. Rate Increase Requested

41.87%

## Rate Schedule

Rate Schedule	Current Rate	Allowed Rate	Increased Rate	New Rate
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**Single Family Residential**

2. Mini-Can Service (20 gallon can curb)	\$17.80	\$17.68	\$7.40	\$25.08
3. Economy Service (1 - can curb)	\$25.32	\$25.14	\$10.53	\$35.67
4. Standard Service (2- can curb)	\$38.86	\$38.60	\$16.16	\$54.76
5. Premium Service (3 - can curb)	\$41.70	\$41.40	\$17.33	\$58.73

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

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

Rate increases of

41.87%

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: 10/18/22

# Base Year Rate Adjustment Application

**Summary**

**COUNTY OF SLO-UNINCORPORATED NORTH COAST**

Requested Increase			
Digester Expense	6.67%	Market Rate Wage Adjustment	4.91%
Capital Purchases	9.56%	Truck Repairs	3.25%
Insurance	1.80%	Other Outside Services	2.67%
Fuel	1.25%	Landfill Disposal	0.19%
Commingle Processing Fee	1.79%	Franchise Fee Related to PI	4.19%
		CPI Increase/Other	5.59%

1. Rate Increase Requested **41.87%**

**Rate Schedule**

Rate Schedule	Current Rate	Allowed Rate	Increased Rate	New Rate
<b>Single Family Residential- Rural Cayucos</b>				
2 Economy Service (1 - can curb)	\$15.53	\$15.43	\$6.46	<b>\$21.89</b>
3 Standard Service (2- can curb)	\$17.55	\$17.44	\$7.30	<b>\$24.74</b>
4 Premium Service (3 - can curb)	\$22.49	\$22.36	\$9.36	<b>\$31.72</b>
<b>Single Family Residential- Rural Los Osos</b>				
5 Economy Service (1 - can curb)	\$22.44	\$27.97	\$11.71	<b>\$39.68</b>
6 Standard Service (2- can curb)	\$28.31	\$35.29	\$14.78	<b>\$50.07</b>
7 Premium Service (3 - can curb)	\$34.16	\$42.60	\$17.84	<b>\$60.44</b>
<b>Single Family Residential- Rural Cambria, San Simeon and Harmony</b>				
5 Economy Service (1 - can curb)	\$26.30	\$26.14	\$10.94	<b>\$37.08</b>
6 Standard Service (2- can curb)	\$43.42	\$43.16	\$18.07	<b>\$61.23</b>
7 Premium Service (3 - can curb)	\$60.55	\$60.19	\$25.20	<b>\$85.39</b>
<b>Single Family Residential- Morro Bay</b>				
8 Economy Service (1 - can curb)	\$12.38	\$15.43	\$6.46	<b>\$21.89</b>
9 Standard Service (2- can curb)	\$13.99	\$17.44	\$7.30	<b>\$24.74</b>
10 Premium Service (3 - can curb)	\$17.93	\$22.36	\$9.36	<b>\$31.72</b>

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

6. <b>Multiunit Residential and Non-residential</b>	Rate increases of	<b>41.87%</b>
	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: **10/18/22**

Financial Information

Historical		Attachment 1 Current	Projected	
			Base Year	
2019	2020	2021	2022	2023

(from Pg. 4)

Section I-Allowable Costs

6. Direct Labor	\$1,987,893	\$1,656,566	\$1,881,780	\$2,027,116	\$2,087,926
7. Corporate Overhead	\$90,171	\$91,704	\$92,437	\$97,336	\$100,256
8. Office Salaries	\$281,869	\$308,392	\$307,058	\$338,409	\$348,479
9. Other General and Admin Costs	\$2,263,225	\$2,249,422	\$2,758,424	\$2,704,193	\$2,915,906
10. <b>Total Allowable Costs</b>	<b>\$4,623,158</b>	<b>\$4,306,084</b>	<b>\$5,039,699</b>	<b>\$5,167,054</b>	<b>\$5,452,567</b>

Section II-Allowable Operating Profit

11. Operating Ratio	144.1%	108.8%	124.3%	93.0%	93.0%
12. <b>Allowable Operating Profit</b>	<b>(\$1,415,951)</b>	<b>(\$346,567)</b>	<b>(\$984,823)</b>	<b>\$388,918</b>	<b>\$410,408</b>

Section III-Pass Through Costs

13. Tipping Fees	\$921,271	\$929,010	\$956,880	\$1,650,768	\$1,660,064
14. Franchise Fees	\$453,112	\$554,664	\$557,265	\$493,114	\$507,907
15. AB939 Fees	\$6,152	\$7,565	\$7,621	\$11,122	\$11,455
16. Other Pass-through Costs	\$166,213	\$211,327	\$194,965	\$226,774	\$247,513
17. <b>Total Pass Through Costs</b>	<b>\$1,546,748</b>	<b>\$1,702,566</b>	<b>\$1,716,731</b>	<b>\$2,381,778</b>	<b>\$2,426,939</b>

Section IV - Revenue Requirement

18. Revenue Requirement				\$7,937,750	\$8,289,914
19. <b>Total Revenue Offsets</b> (from Page 3)	<b>\$4,753,955</b>	<b>\$5,662,083</b>	<b>\$5,771,608</b>	<b>\$5,767,942</b>	<b>\$5,815,561</b>

Section V - Net Shortfall (Surplus)

20. Net Shortfall (Surplus)				\$2,169,808	
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21. Total Residential and Non-residential Revenue without increase in Base Year (pg.3, lines 32+40)				<b>County &amp; Los Osos</b>	
				\$5,758,615	
22. Percent Change in Residential and Non-residential Revenue Requirement				37.68%	
23. Franchise Fee Adjustment Factor (1 - 6 percent)				90.00%	
24. Percent Change in Existing Rates				<b>41.87%</b>	

## Mission Country Disposal

## Base Year Rate Adjustment Application

## Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
	2019	2020	2021	Base Year 2022	2023
28. Single Family Residential Multiunit Residential Dumpster	\$3,239,590	\$3,971,479	\$4,043,364	\$4,044,206	\$4,084,648
29. Number of Accounts	0	0	0	0	0
30. Revenues	\$0	\$0	\$0	\$0	\$0
31. Less Allowance for Uncollectible Resid Accounts					
<b>32. Total Residential Revenue</b>	<b>\$3,239,590</b>	<b>\$3,971,479</b>	<b>\$4,043,364</b>	<b>\$4,044,206</b>	<b>\$4,084,648</b>
<b>Non-residential Revenue (without increase in Base Yr.)</b>					
Account Type					
Non-residential Can					
33. Number of Accounts			61	61	62
34. Revenues			\$13,648	\$13,785	\$13,922
Non-residential Wastewheeler					
35. Number of Accounts			239	242	244
36. Revenues			\$160,648	\$162,255	\$163,877
Non-residential Dumpster					
37. Number of Accounts			567	573	579
38. Revenues	\$1,512,372	\$1,690,251	\$1,545,078	\$1,528,231	\$1,543,514
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
<b>40. Total Non-residential Revenue</b>	<b>\$1,512,372</b>	<b>\$1,690,251</b>	<b>\$1,719,374</b>	<b>\$1,704,270</b>	<b>\$1,721,313</b>
45. Interest on Investments	\$0	\$0	\$0	\$0	\$0
46. Other Income	\$1,993	\$353	\$8,870	\$9,327	\$9,600
<b>47. Total Revenue Offsets</b>	<b>\$4,753,955</b>	<b>\$5,662,083</b>	<b>\$5,771,608</b>	<b>\$5,757,804</b>	<b>\$5,815,561</b>

Fiscal Year: 1-1-2022 to 12-31-2022

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## Mission Country Disposal

## Base Year Rate Adjustment Application

## Cost Summary for Base Year

Description of Cost	Section VIII-Base Year Cost Allocation				
	2019	2020	2021	Base Year 2022	2023
Labor	\$1,825,776	\$1,537,344	\$1,747,146	\$1,882,351	\$1,938,818
Payroll Taxes	\$162,117	\$119,222	\$134,633	\$144,765	\$149,108
48. <b>Total Direct Labor</b>	\$1,987,893	\$1,656,566	\$1,881,780	\$2,027,116	\$2,087,926
49. Corporate Overhead	\$119,957	\$152,448	\$173,276	\$182,460	\$187,934
Less limitation (enter as negative)	(\$29,786)	(\$60,744)	(\$80,839)	(\$85,124)	(\$87,677)
<b>Total Corporate Overhead</b>	\$90,171	\$91,704	\$92,437	\$97,336	\$100,256
Office Salaries	\$262,103	\$289,698	\$284,014	\$313,196	\$322,510
Payroll Taxes - Office	\$19,766	\$18,694	\$23,044	\$25,213	\$25,969
50. <b>Total Office Salaries</b>	\$281,869	\$308,392	\$307,058	\$338,409	\$348,479
Bad Debt	\$1,525	\$3,260	\$5,669	\$5,669	\$5,669
Allocated expenses	\$0	\$0	\$0	\$0	\$0
Bonds expense	\$4,522	\$3,931	\$3,807	\$4,009	\$4,129
Depreciation	\$284,167	\$376,319	\$555,020	\$765,950	\$922,792
Drive Cam fees	\$3,010	\$8,854	\$10,790	\$11,362	\$11,703
Dues and Subscriptions	\$10,727	\$2,361	\$8,088	\$8,517	\$8,772
Facilities	\$24,611	\$17,600	\$11,831	\$12,458	\$12,832
Gas and oil	\$401,106	\$358,629	\$506,154	\$509,789	\$524,706
Insurance	\$430,834	\$427,506	\$530,264	\$592,294	\$610,063
Laundry (Uniforms)	\$12,878	\$13,479	\$15,484	\$16,305	\$16,794
Legal and Accounting	\$36,525	\$18,862	\$20,777	\$21,821	\$22,444
Miscellaneous and Other	\$4,802	\$2,158	\$2,083	\$2,193	\$2,259
Office Expense	\$95,657	\$93,897	\$108,945	\$114,738	\$118,190
Operating Supplies	\$42,549	\$38,307	\$38,712	\$40,764	\$41,987
Other Taxes	\$12,577	\$13,598	\$20,213	\$21,235	\$21,844
Outside Services	\$453,199	\$501,740	\$499,646	\$134,283	\$136,172
Public Relations and Promotion	\$2,516	\$3,498	\$3,093	\$3,099	\$3,103
Permits	\$34,610	\$31,411	\$48,398	\$50,963	\$52,492
Postage	\$8,021	\$3,552	\$5,259	\$5,537	\$5,704
Relocation	\$4,633	\$12,510	\$8,947	\$8,947	\$8,947
Rent	\$5,278	\$5,278	\$7,019	\$7,575	\$7,621
Telephone	\$6,939	\$15,238	\$15,344	\$16,157	\$16,642
Tires	\$72,014	\$58,486	\$75,451	\$79,450	\$81,834
Travel	\$19,244	\$3,572	\$5,034	\$5,301	\$5,460
Truck Repairs	\$279,312	\$225,488	\$242,308	\$255,151	\$262,805
Utilities	\$11,969	\$9,888	\$10,091	\$10,626	\$10,944
51. <b>Total Other Gen/Admin Costs</b>	\$2,263,225	\$2,249,422	\$2,758,424	\$2,704,193	\$2,915,906
52. <b>Total Tipping Fees</b>	\$921,271	\$929,010	\$956,880	\$1,650,768	\$1,660,064
53. <b>Total Franchise Fee</b>	\$453,112	\$554,664	\$557,265	\$493,114	\$507,907
54. <b>Total AB 939/Regulatory Fees</b>	6,152	7,565	\$7,621	\$11,122	\$11,455
55. <b>Total Lease Pmt to Affil Co.'s</b>	\$92,796	\$110,915	\$112,578	\$118,545	\$122,102
55a. <b>Interest, related Party</b>	\$69,017	\$100,412	\$81,836	\$107,679	\$124,861
55b. <b>Total Transportation to Affil Co.'s</b>	\$4,400	\$0	\$550	\$550	\$550
56. <b>Total Cost</b>	\$6,169,906	\$6,008,650	\$6,756,430	\$7,548,832	\$7,879,506



## Mission Country Disposal

## 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
	Total	Total	LO CSD	Cayucos	Cambria	County	Franchised
<i>Residential Revenue</i>							
<i>(without increase in Base Year)</i>							
57. Single Family Residential	11,095	11,095	5,218	1,892	3,783	202	-
	\$4,044,206	4,044,206	1,894,586	638,164	1,446,755	64,700	-
<i>Multiunit Residential Dumpster</i>							
58. Number of Accounts	\$0	\$0	0	0	0	0	0
59. Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0
60. Less Allowance for Uncollectable	\$0	\$0	0	0	0	0	0
61. <b>Total Residential Revenue</b>	<b>\$4,044,206</b>	<b>\$4,044,206</b>	<b>\$1,894,586</b>	<b>\$638,164</b>	<b>\$1,446,755</b>	<b>\$64,700</b>	<b>\$0</b>
<i>Non-residential Revenue (without increase in Base Year)</i>							
Account Type							
Non-residential Can							
62. Number of Accounts	61	61	5	17	-	40	-
63. Revenues	\$13,785	\$13,785	2,103	2,528	-	9,154	-
Non-residential Wastewheeler							
64. Number of Accounts	242	242	71	37	97	37	-
65. Revenues	\$162,255	\$162,255	58,569	23,504	56,829	23,353	-
Non-residential Dumpster							
66. Number of Accounts	573	573	149	67	138	219	-
67. Revenues	\$1,528,231	\$1,528,231	485,153	181,324	369,510	492,244	-
68. Less: Allowance for Uncollectible							
Non-residential Accounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0
69. <b>Total Non-residential Revenue</b>	<b>\$1,704,270</b>	<b>\$1,704,270</b>	<b>\$545,824</b>	<b>\$207,356</b>	<b>\$426,339</b>	<b>\$524,751</b>	<b>\$0</b>
74. <b>Interest on Investments</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
75. <b>Other Income</b>	<b>\$9,327</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,327</b>
76. <b>Total Revenue Offsets</b>	<b>\$5,757,804</b>	<b>\$5,748,477</b>	<b>\$2,440,410</b>	<b>\$845,520</b>	<b>\$1,873,095</b>	<b>\$589,451</b>	<b>\$9,327</b>

Fiscal Year: 1-1-2022 to 12-31-2022

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## Mission Country Disposal

## 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 & Commercial Garbage*

77.	Los Osos Residential Accts	5,110	0.3%	5,124	0.8%	5,166	1.0%	5,218	1.0%	5,270
	Cayucos Residential Accts	1,856	0.4%	1,863	0.6%	1,873	1.0%	1,892	1.0%	1,911
	Cambria Residential Accts	3,735	0.1%	3,737	0.2%	3,746	1.0%	3,783	1.0%	3,821
	County Residential Accts	132	1.5%	134	49.3%	200	1.0%	202	1.0%	204
	Los Osos Commercial Accts	235	-0.9%	233	-4.4%	223	1.0%	225	1.0%	227
	Cayucos Commercial Accts	146	-5.5%	138	-13.5%	119	1.0%	121	1.0%	122
	Cambria Commercial Accts	267	-1.1%	264	-11.8%	233	1.0%	235	1.0%	238
	County Commercial Accts	317	-0.6%	315	-7.2%	292	1.0%	295	1.0%	298
78.	Routes	10	-13.3%	8	-8.3%	8	0.0%	8	0.0%	8
79.	Tons Collected	14,307	-17.4%	11,822	3.0%	12,177	3.0%	12,542	1.0%	12,667
80.	Direct Labor Hours	20,102	-13.3%	17,430	-8.3%	15,986	0.0%	15,986	0.0%	15,986

*Recyclable Materials - Curbside Recycling-Los Osos, Cambria, & Cayucos*

85.	Accounts	11,259	0.1%	11,272	0.0%	11,271	1.0%	11,384	1.0%	11,498
86.	Routes	7	-13.3%	6	-8.3%	5	0.0%	5	0.0%	5
	Tons Collected	4,485	3.2%	4,628	3.0%	4,767	3.0%	4,910	1.0%	4,959
87.	Direct Labor Hours	13,585	-13.3%	11,779	-8.3%	10,803	0.0%	10,803	0.0%	10,803

*Recyclable Materials - Greenwaste Collection-Los Osos, Cambria, & Cayucos*

88.	Accounts	10,701	0.2%	10,724	0.6%	10,785	1.0%	10,893	1.0%	11,002
89.	Routes	5	-13.3%	5	-8.3%	4	0.0%	4	0.0%	4
	Tons Collected	5,277	3.6%	5,469	3.0%	5,633	3.0%	5,802	1.0%	5,860
90.	Direct Labor Hours	11,020	-13.3%	9,555	-8.3%	8,763	0	8,763	0.0%	8,763

Date: January 5, 2023

Agenda Item No: 9H

 Approved Denied Continued to**RESOLUTION NO. 2023-02****A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT REAFFIRMING SUPPORT FOR THE PROPOSED RATE SETTING PROCESS AND NEW RATES FOR THE SOLID WASTE COLLECTION FRANCHISE**

**WHEREAS**, on or about September 4, 2008, the Los Osos Community Services District (“District”) and Mission Country Disposal and Waste Connections US, Inc. (“Contractor”) entered into an Amended and Restated Solid Waste Collection Franchise Agreement (“Franchise Agreement”); and

**WHEREAS**, on or about December 10, 2013, the District assigned all of its rights and obligations to the County of San Luis Obispo (“County”) under the Franchise Agreement in exchange for the County’s contribution of \$2,800,000 to the settlement and resolution of the District’s bankruptcy filed in 2006; and

**WHEREAS**, the County desired to assign all of its rights and obligation under the Franchise Agreement, as amended, to the District in exchange for the District’s payment of \$1,195,614.55 over a 120-month period (“Assignment”); and

**WHEREAS**, prior to the effective date of the Assignment, the County received an application for rate analysis and adjustment from the Contractor; and

**WHEREAS**, at the District’s request and on its behalf, the County has agreed to review the application and complete all required processes to revise services rates in a manner consistent with the Franchise Agreement, as amended, and approve rates in an amount that will not exceed the Contractor’s requested Base Year adjustment; and

**WHEREAS**, the Contractor requests a 41.87% increase for the Base Year Rate Adjustment for calendar year 2022, due to, among other things, increased costs related to labor, fuel, truck replacement, commingled recycling, anaerobic digester processing, and solid waste management fees; and

**WHEREAS**, most residences in Los Osos use the 32-gallon cart service and, if the Contractor’s requested rate as presented, is approved, the corresponding rate would increase by \$10.35 per month; and

**WHEREAS**, per the rate setting guidelines in the District’s Franchise Agreement with the Contractor, the Contractor is entitled to apply the Base Year Rate retroactively to July 1, 2022 when the rate application was deemed substantially complete; and

**WHEREAS**, because of the length of time to review the completed rate application, the Contractor is allowed a Consumer Price Index (CPI) increase for calendar year 2023; and

**WHEREAS**, the rate setting process shall comply with applicable law, including, but not limited to, Article XIII D of the California Constitution and the Proposition 218 Omnibus Implementation Act (commencing with Section 53750 of the California Government Code); and

**WHEREAS**, on March 1, 2022, the County Board of Supervisors authorized execution of the Assignment only in the event the District Board of Directors adopts a resolution supporting the proposed new rate structure and the County's rate setting process; and

**WHEREAS**, if the County revises the service rates after the completion of these processes, the Assignment requires the District to adopt those rates; and

**WHEREAS**, the County has performed a rate review, including hiring a professional consultant, to deem appropriate those rates requested by the Contractor; and

**WHEREAS**, on April 7, 2022 the Board of Directors adopted Resolution No. 2022-11 supporting the County's proposed rate setting process and new rates for solid waste collection; and

**WHEREAS**, the County is prepared to conduct the necessary noticing and rate setting process on behalf of the District under the Assignment contingent upon the District's continued support for said process and the aforementioned proposed solid waste collection rates.

**NOW, THEREFORE, THE BOARD OF SUPERVISORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:**

1. The District supports the proposed increase in solid waste collection rates in an amount not to exceed 41.87%, any temporary increase due to delayed rate implementation and a Consumer Price Index increase for calendar year 2023 for the District's service area based on the Contractor's application and San Luis Obispo County Board of Supervisor's approval.
2. The District supports the County's rate setting process, including the Proposition 218 noticing and hearing requirements, for the proposed increase in solid waste collection rates for the District's service area.

On the motion of Director \_\_\_\_\_, seconded by Director \_\_\_\_\_ and on the following roll call vote, to wit:

AYES: \_\_\_\_\_

NOES: \_\_\_\_\_

ABSTAIN: \_\_\_\_\_

ABSENT: \_\_\_\_\_

The foregoing resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District this 5th day of January 2023.

\_\_\_\_\_  
*Name, President*  
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Ron Munds  
General Manager and Secretary to the Board

\_\_\_\_\_  
Jeffrey A. Minnery  
District Legal Counsel