

TOWN COUNCIL STAFF REPORT

Title: Resolution authorizing the use of Solid Waste Franchise Fees to offset increased disposal costs and discussion of potential future rate increase due to extraordinary circumstances.

Meeting Date: September 7, 2022

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RECOMMENDATION:

Approve the resolution authorizing the use of Solid Waste Franchise Fees and Parcel Fees to offset increased disposal costs due to higher gate fees at the Benton Crossing Landfill and provide direction on options to address increased solid waste costs.

BACKGROUND:

On July 19, 2022, Mono County increased the gate fee (tipping fee) at the Benton Crossing Landfill for solid waste disposal and processing. The increase for municipal solid waste as well as Construction and Debris (C&D) materials was \$26 per ton, a change from \$74 to \$100. The increase was effective August 1, 2022. There was no formal notification to the Town and/or Mammoth Disposal prior to this fee increase being approved by the Mono County Board of Supervisors. The fee increase was implemented to partially offset deficits in the Mono County Solid Waste Fund. Rates were held at \$74 per ton for the past several years subject to a flow agreement between the Town and County, which expired December 2021. The Town, through Mammoth Disposal, is continuing to use the Benton Crossing, which is scheduled to close at the end of 2022.

Mammoth Disposal is constructing a new transfer station at their current location in the Town. The new facility will allow for the long-haul of solid waste to a disposal facility in Nevada. The increase in tipping fees is because the County program is running a deficit in its solid waste enterprise fund, and the County is continuing to work with Calrecycle on Benton Crossing Landfill closure financial assurances and requirements. The County is continuing to work through its own solid waste management program following the closure of the Landfill. The Town's transfer station is capable of handling all the county's waste, but it is unlikely that much of the county waste will be processed through the transfer station. The County is expected to continue the use of the Pumice Valley Landfill, which is operated as a class 3 facility. It is currently used mostly for clean C&D materials, green waste, and as a small transfer station.

Additionally, Mammoth Disposal is experiencing increased operating costs in areas such as labor, fuel, maintenance, mandates, and other operations. However, they are not in a position to reduce operations to trim costs (i.e., reduce services), and they are not able to increase revenues (rates) without Town approval. The additional costs may be addressed

through an adjustment to the rates set in the Franchise Agreement (Agreement) over time or by requesting the Town to consider one-time rate increases for extraordinary circumstances, which is capped at 10% per year. The current rate structure includes a 5.6% increase each year through 2026. All rate increases are subject to the Prop 218 hearing process and new rates are effective each January. Mammoth Disposal has requested an adjustment to its rates to address the issues described above.

ANALYSIS:

Tipping Fee Increase

The \$26 per ton increase in tipping fees at the Benton Crossing Landfill may be addressed in two ways. First, the Town may offset these fees through a direct payment to Mammoth Disposal. Second, a retroactive solid waste rate increase estimated at 6.3% may be implemented. The retroactive rate would be in addition to the currently planned rate increase of 5.6% on January 1. The increase would need to go through the Prop 218 hearing process and retroactive back to August 1.

The use of a direct payment by the Town would offset the increase to Mammoth Disposal's operating costs and eliminate the need to pass this cost to residents and businesses. Staff is recommending this option. It is simpler, as Mammoth Disposal's cost of disposal will again change with the completion of the Transfer Station and closure of the landfill. This will also be the least impactful on residents and businesses. It allows Mammoth Disposal to recover disposal costs as provided for in the Agreement, does not require the Prop. 218 process and addresses the near-term cost increases put into place as of August 1, 2022, at Benton Crossing Landfill. The construction of the new transfer station is anticipated to be completed late November or early December. The disposal costs using the new transfer station will be reviewed as well as any impacts of higher fuel costs and a marginal increase in anticipated tipping fees due to inflationary pressures. These costs are projected to be higher than what was incorporated in the current rate design.

The \$26 per ton increase is expected to cost \$127,500 over the period of August through November. This is based on actuals for August and a conservative estimate of solid waste tonnage increasing by 4% each month when compared to the same month last year. The increase is based on the average increase in solid waste flow May through July. August was not included, which saw a 23.2% increase in tonnage. No charges are included for any use of Benton Crossing during the month of December, which may occur given the start date of the transfer station and transition to long hauling the waste.

Solid Waste Related Increased Operating Costs

Mammoth Disposal has discussed with staff preliminary information regarding increased operational costs over and above what was projected with the adoption of the Franchise Agreement and associated rate schedule. The planned annual rate increases were set at a fixed rate of 5.6% through end of calendar year 2026, with increases effective each January starting in 2021. The rates were based on estimated operating costs, recovery of capital expenses, recycling mandates, and disposal/processing costs. The current rates were based on reviewing the previous 10 years of Consumer Price Index (CPI) increases and were

intended to cover both basic operational expenses and capital expenditures, replacement, and operating costs. Beginning in 2027 the rates are set to be increased based on a CPI index with a minimum of 1% and a maximum of 4%. The rate is based on annual CPI-U from August to August using the Los Angeles-Long Beach-Anaheim index. A review of the index shows it increased by an average of 2.97% from 2018 to 2020, which was only slightly more than the initial expectations. The increase for 2021 was 4%. The July 2022 rate was substantially higher, at 7.7%.

(https://www.bls.gov/regions/west/news-release/consumerpriceindex_west.htm).

The current CPI rate is substantially higher than anticipated for the first two years of the new rate structure. The CPI rate is currently at 11.7%, or 6.7% higher than projected. This does not include the increased cost of disposal discussed above.

Mammoth Disposal has reached out to staff regarding increased costs and discussed options to consider allowing a change to the Agreement and/or the use of the extraordinary circumstances provision to offset cost increases. Preliminary discussions with Mammoth Disposal indicate an operating cost increase in the 10%+/- range, excluding the disposal cost increase noted above. Under the extraordinary circumstances provision of the Franchise Agreement, a rate request not to exceed 10% per year may be requested for Town consideration. It is anticipated that costs over the next year or longer will continue to exceed the original CPI cost projections. To address current inflationary impacts and to build in stability in rates going forward, staff anticipates proposing a change to the Franchise Agreement regarding rate increases later this year.

The proposed changes would be designed to address current and potential cost increases over the next few years above the original projection. The proposal would be to implement the CPI increase scheduled to take effect in January 2027 in January 2023. This increase would be in addition to the current base increase of 5.6%. The existing Agreement allows for a minimum of 1% and maximum of 4% increase to fees based on the CPI index starting in 2027. This proposed approach would allow four years for Mammoth Disposal to recover current costs and to better meet foreseeable costs in the coming year. The maximum cap continues a conservative approach but allows Mammoth Disposal to recover current costs incurred over time and better addresses the impact of what appears to be at least a short-term higher inflationary period. The process provides more stability in rates, eliminates the need to conduct annual hearings to consider extraordinary circumstances and caps rate increases. It is anticipated that the rate at the end of 2026 would re-set the ongoing base for the planned CPI based increases.

Mammoth Disposal is preparing detailed financial information for staff to review regarding increased operating costs and projections. Pending that review, a formal proposal and Prop 218 hearing process will be required to adjust the rates and amend the Franchise Agreement. Staff anticipates bringing this item before Council for consideration in the next several months.

Under the Franchise Agreement Mammoth Disposal has the right to request a fee increase (or decrease) to reflect the cost of disposal or processing rates. Any rate increase will need

to go through the Prop. 218 hearing process, and assuming there is not a majority protest, a rate increase may then be implemented.

Today, staff is requesting discussion and direction from Council on the process described above for addressing unanticipated operating cost increases to the solid waste and recycling program.

FINANCIAL CONSIDERATIONS:

The proposal includes using a portion of the Franchise Fees collected by the Town (\$77,500) and the use of previous fees allocated to the Town from the County Solid Waste Parcel Fee (\$50,000) for a total of \$127,500. These fees would be refunded back to Mammoth Disposal to cover the increased tipping fees at Benton Crossing Landfill. This is a permitted use of these two funds, which are used to offset costs associated with managing solid waste and recycling disposal, processing and community programs, staff time, use and impact on town infrastructure, provision of other related solid waste and recycling services, and implementation of mandated requirements. The transfer of the funds would be contingent upon the execution by the Town and Mammoth Disposal of an agreement specifying what the funds are to be used for.

OPTIONS ANALYSIS

Option 1: Approve the resolution authorizing the use of Solid Waste Franchise Fees and Parcel Fees to offset increased disposal costs due to higher gate fees at the Benton Crossing Landfill.

Option 1 would provide a direct benefit to residents and businesses in the Town. The process is simpler than the alternative and allows time to address other costs associated with solid waste management.

Option 2: Do not approve the resolution authorizing the use of Solid Waste Franchise Fees and Parcel Fees to offset increased disposal costs due to higher gate fees at the Benton Crossing Landfill

Town Council does not have to approve this expenditure. Alternatively, Mammoth Disposal could absorb the increase in operating costs and/or come forward with a future fee increase proposal to pass these costs on to its customers.