

FINAL REPORT

City of Rialto

Review of Burrtec's 2023 Rate Adjustment Request

Submitted electronically: April 12, 2023



CONSULTING GROUP, INC

RESOURCES • RESPECT • RESPONSIBILITY

April 12, 2023

Mr. Tim Sullivan
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CITY OF RIALTO
Maintenance & Facilities
247 S. Willow Avenue, Rialto, CA 92376
submitted via email: tsullivan@rialtoca.gov

SUBJECT: Final Report – Review of Burrtec’s 2023 Rate Adjustment Request

Dear Mr. Sullivan,

R3 Consulting Group (R3) is pleased to submit this Draft Report on Review of Burrtec's 2023 Rate Adjustment Request to the City of Rialto (City). Burrtec's application was submitted in accordance with the Franchise Agreement between the City of Rialto and Burrtec Waste Industries, Inc. for Refuse Collection and Disposal (Agreement). Burrtec is requesting significant increases this year, based upon cost-of-living increases for which some costs were deferred over the past three years due to the global pandemic, as well as increased costs for compliance with the new state law, Senate Bill 1383 (SB 1383). As such, the City engaged R3 to complete a more detailed review of the basis of Burrtec's cost increase requests. This report presents the results of R3's review.

The primary objectives of the review were to confirm that, for Burrtec's rate application:

- » It is mathematically accurate;
- » Expense and revenue projections are reasonable in keeping with industry standards and address near-term market conditions;
- » Any applicable allocations between Burrtec franchise areas are appropriate;
- » It is consistent with applicable terms and conditions of the agreement; and
- » The correct market indices were used.

Burrtec submitted a rate adjustment application for a 11.07% rate increase to its solid waste rates for residential customers, and between -5.86% and 25.13% for commercial and multi-family customers, to be effective July 1, 2023. Based upon our review of the information provided by Burrtec, R3 finds the request to be reasonable.

We appreciate the opportunity to be of service to the City and would like to thank Burrtec's staff for their support during the review. Should you have any questions regarding this report or need any additional information, please do not hesitate to reach out directly.

jSincerely,



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1. INTRODUCTION

Background

The City has an exclusive franchise agreement with Burrtec to collect and remove for disposal and recycling, residential and commercial solid waste and recyclable materials.

In addition to the City, Burrtec also services accounts in neighboring communities, including 43 communities in San Bernardino County. Burrtec's financial information is kept relative to each hauling operating division of the company, with collections being divided by region served, and post-collection/processing services separately accounted for.

Per Section 3.2 of the Agreement, Burrtec is entitled to annual increases in their rates that are reflective of the cost of doing business and furthermore measured by the Consumer Price Index. The Agreement also allows for "other options" in calculating the regular annual increases. The Agreement also allows for a discretionary rate increase to account for larger than anticipated cost increases, which would also require Burrtec to provide financial records that justify such an increase. The language of the agreement is reproduced below:

3.2 Change in Cost of Doing Business

Rates in effect at the beginning of the term of this agreement shall be adjusted annually upward or downward at the discretion of the City which shall reflect changes in the cost of doing business, as measured by fluctuations in the Consumer Price Index (CPI), published by the U.S. Department of Labor, Bureau of Labor Statistics, for the Los Angeles, Long Beach, San Bernardino Standard Metropolitan Statistical Area,¹ in addition to other options. Rates shall be reviewed annually and increased or decreased as determined by the City Council.

SB 1383 – Short-Lived Climate Pollutants (SLCP)

SB 1383, or Short-Lived Climate Pollutants: Organic Waste Methane Emissions Reductions, establishes methane emissions reduction targets and grants CalRecycle the authority to pass regulations to achieve those targets. During the process of decomposition of organic materials, the chemical methane is released into the atmosphere. Methane has been identified as one of the most harmful Green House Gases (GHG) (and is 25 times more potent than carbon dioxide over a one-hundred-year period²), and methane from organic decomposition currently accounts for 21% of all methane emissions from the State of California annually.

The law is an unfunded State mandate which passes responsibility for achieving the targets to local agencies. This new State law has the immediate goal of reducing organic waste sent to landfill and the ultimate objective of reaching statewide methane emissions reduction targets. Specifically, it sets a Statewide goal for the reduction in organic waste to landfills – 50% by 2020 and 75% by 2025 – in addition to the recovery of 20% of edible food waste for human consumption.

SB 1383 requires local governments to provide organics collection to all generators, and all generators to subscribe. It also has specific mandates for container systems, education, and outreach programs, monitoring and contamination reporting, and enforcement of regulations. CalRecycle has the discretionary authority to begin enforcement actions on jurisdictions and other entities for lack of compliance with SB 1383 starting on January 1, 2022. Civil penalties may begin accruing as of January 1, 2023.

City Corrective Action Plan

¹ While the franchise agreement mentions a discontinued index, Burrtec used the Los Angeles - Long Beach – Anaheim CPI, which is correct.

² <https://www.epa.gov/ghgemissions/overview-greenhouse-gases#methane>

The City is on track to meet SB 1383 requirements in a timely manner; however, because of certain limitations, the City staff felt it prudent to request additional time for compliance via issuing a Notice of Intent to Comply (Notice) to CalRecycle. This Notice gives the City protection against the accrual of the civil penalties for failing to comply with the law's requirements, provided that the City meets the timelines required by CalRecycle for compliance. The Notice resulted in the issuance of a Corrective Action Plan from CalRecycle with specific due dates for compliance. The corrective actions broadly fall into the following categories:

1. Actions that are most suitable for the hauler to undertake, such as:
 - a. Universal roll-out of recycling and organics service by distributing organics collection containers to all eligible generators;
 - b. Food waste collection programs for commercial generators (program already in place) as well as residential, including single-family and multi-family generators (program is pending);
 - c. Container labeling meeting the updated labeling requirements from CalRecycle;
 - d. Container colors meeting the standard black or gray for garbage, blue for recycling, green for organics, and brown, if used, for source-separated food waste;
 - e. Route audits to measure contamination and provide notice to customers;
 - f. Development and distribution of educational materials meeting the State's specifications;
 - g. Direct customer education on the law's requirements, including phone calls and site visits;
 - h. Evaluation of requests for waiver from the requirement to participate in recycling and/or organics source-separation programs;
 - i. Compliance with the purchasing requirements for recovered organic materials such as compost and mulch;
 - j. Maintaining applicable records in a consolidated and accessible format (records required to be maintained include all outreach and education efforts, the results of route audits for contamination, and subscription data supporting compliance findings for generators);
 - k. Reporting to the City and CalRecycle on compliance actions as specified above; and
 - l. Guarantee of capacity for diversion of organic waste, including paper products.
2. Actions that cannot be delegated to the hauler for logistical or regulatory reasons, such as:
 - a. Municipal Code updates regulating residents and businesses, which are complete;
 - b. The edible food recovery program, including identification of covered generators, inspection of those generators, and support for edible food recovery organizations; planned to be designated via Memorandum of Understanding with the County;
 - c. Compliance with recycled content paper purchasing requirements;
 - d. Maintenance of implementation record;
 - e. Approval of recommended waivers for limited space or de minimus (low volume generators)
 - f. Reporting to the State; and
 - g. Administration of penalties if necessary.

While some of these compliance requirements are relatively cost-neutral, haulers throughout the State have been requesting sometimes large rate increases to cover their costs for the following additional activities (for which Burrtec has also requested compensation):

- » The increased cost of delivering food waste from the residential sector to either composting or anaerobic digestion, collected in either plastic bags or mixed into regular yard trimmings collection. In some recent cases (although not in Rialto), the increased costs for introducing food scraps into yard trimmings collection have nearly tripled the prior costs, which has a significant rate impact on the residential sector, as the proper handling of yard trimmings can in some cases be more expensive than disposal of garbage. The planned collection program is food waste in plastic bags, placed in the yard trimmings cart. The plastic bags are removed by hand such that the yard trimmings can be more cost-effectively composted, and the food waste will be delivered to various nearby facilities.
- » Increased outreach and education cost covering additional mailers, bill inserts, community meetings, presentations, videos, social media posts, etc.
- » Costs for completing route reviews for contamination, including identifying a random sampling of customer accounts, visiting those accounts, evaluating and recording contamination levels,

providing notice to customers exceeding set thresholds of contamination, and (in some cases) issuing penalties for excessive contamination.

- › Developing and distributing container labels that meet CalRecycle’s requirements.
- › Procuring compost on behalf of the City that qualifies as credit-eligible compost and providing that compost for City and resident use.
- › Evaluation of requests from customers for a waiver from program participation requirements, in accordance with CalRecycle requirements for waiver eligibility, and re-evaluation of eligibility every 5 years.
- › Assisting customers via direct outreach in participating in the source-separation program, including site assessments to determine appropriate collection container size and frequency in the multi-family and commercial sectors.

Burrtec has also offered to complete some compliance activities at no additional cost to the City or ratepayers, including:

- › Changes to collection routes, particularly in the commercial sector, including purchase of additional collection vehicles for increases in commercial participation in organics collection.
- › Guarantee of sufficient capacity for recycling, yard trimmings, and food waste collected within the City’s jurisdiction.
- › Ensuring that all collection containers meet the standard container colors, which will be statewide standard as of January 2036.
- › Reporting to the City and CalRecycle on compliance activities.

SB 1383 Amendment

The City, in collaboration with Burrtec and R3, has developed an agreement amendment that designates the responsibilities which are able to be designated to a hauler (enumerated above) to Burrtec. This amendment will need to be executed in substantial form as proposed in order to facilitate timely completion of the compliance tasks that were outlined in the City’s Notice of Intent to Comply with CalRecycle. The related cost impacts to Rialto’s rates, which Burrtec is owed as a part of the cost of doing business, are the subject of this report.

Historical Rate Increases

Because of the COVID-19 global pandemic, the City requested that Burrtec defer its annual increases which would otherwise have been scheduled for July 1 of 2020, 2021 and 2022. Burrtec deferred both rate adjustments in 2020 and 2022; in 2021, there was a partial residential rate adjustment and the full commercial rate increase, although there was no “catch-up” for the deferred 2020 rate increase. The deferred 2022 rate increase was included in this year’s 2023 rate increase, but Burrtec has removed the carry-forward for 2020 and does not intend to seek reimbursement.

Proposition 218

Proposition 218 requires that local governments meet certain criteria for fees charged that are considered “property-related,” including some cities’ garbage collection service. In Rialto, residents and businesses are required to subscribe to garbage collection service; and via the SB 1383 municipal code update, recycling and organics service (with some exceptions). Proposition 218 requires that such property-related fees are not:

- › Levied to pay for a general governmental service, such as police or fire service.
- › Imposed for a service not used by, or immediately available to, the property owner.
- › Used to finance programs unrelated to the property-related service.

Proposition 218 also requires that the fees are directly proportional to the benefits imparted, and local governments must mail a fee increase notice to residents. If more than 50% of residents protest the fee

increase, the local government is prohibited from enacting that rate increase. The City intends to issue a Proposition 218 notice for the maximum solid waste rate increase which covers a three-year schedule, through July 1, 2026. The City is not obligated to increase rates up to the noticed maximum ceiling; City Council is anticipated to approve rate increases for the three-year period that are significantly lower than the noticed increases.

City Fees

While the City had historically included fees for the maintenance of pavement, which has a nexus with solid waste collection service because of the weight of the trucks used to perform such collection, pavement maintenance fees were excluded from the 2023 rate increase to reduce the impact of those fees on ratepayers. The decision to place a moratorium on all pavement maintenance fees from the rate base was made by City Council on March 14, 2023, with an effective date of April 1, 2023, and significantly reduced the rate increase.

The City holds a Waste Disposal Agreement (WDA) with the County of San Bernardino which sets disposal rates according to the negotiated annual increase terms. The WDA included a separate per ton fee to fund a Comprehensive Disposal Site Diversion Program (CDSDP), which targets all roll-off loads that are delivered to County landfills and have some diversion potential. Burrtec has been assisting its customers in Rialto in complying with CALGreen construction and demolition debris recycling requirements by facilitating source-separation at construction job sites, and ensuring that any mixed debris loads are sorted at Burrtec's facility. As such, there is nominal diversion from trash roll-off loads that are being delivered; therefore, the City decided on December 13, 2022, to opt out of the CDSDP. The rates for roll-off customers were reduced by an equivalent amount effective in February 2023.

The City assesses two fees to support the City's costs in complying with regulatory requirements:

- » AB 939 Fee, which is assessed on each residential services subscriber at \$0.49 per month and on commercial customers at a variable rate; and
- » Household Hazardous Waste (HHW) Program Fee, which is assessed on each residential services subscriber at \$0.49 per month and on commercial customers at a variable rate.

A franchise fee is also assessed at a fixed dollar amount.

These City fees are deposited into dedicated waste management funds and used to fund programs supporting compliance with the State's requirements for the diversion of recyclable and compostable material source-separation programs and State-mandated HHW outreach and collection programs. Collected fees are used for activities such as quarterly Clean-up Day, where residents recycle electronic waste and bulky items, including household trash, shred personal documents for recycling, and donate various reusable goods. In addition, they are used to support the City's HHW program, composting activities and provide program information to residents at various community events throughout the year.

2. SCOPE OF REVIEW

R3 took an organized, systematic, and comprehensive approach to reviewing Burrtec's rate application. To ensure the necessary quality control and quality assurance a preliminary draft report outlining R3's findings was presented to Staff and Burrtec to provide each party the opportunity to provide their input prior to issuance of the final report.

Overall, R3 reviewed Burrtec's rate adjustment application for Rate Year 2023 to confirm that:

- › It is mathematically accurate.
- › Expense and revenue projections are reasonable in keeping with industry standards and address near-term market conditions.
- › Any applicable allocations between Burrtec franchise areas are appropriate.
- › It is consistent with the applicable terms and conditions of the agreement.
- › The correct market indices were used.

Costs for SB 1383 implementation include but are not limited to:

- › The inclusion of food waste collection in the residential and commercial sectors, including potential additional hauling costs to transport the mixed organic stream to a suitable facility, and increased tipping costs at the facility.
- › Expanding organics collection routes to facilitate universal compliance with the state mandate.
- › Route reviews.
- › Application of container labels, as applicable; as well as any cart lids that may not comply with color requirements.
- › Increased annual education.
- › Expansion of Burrtec staffing for recycling outreach, particularly in the commercial sector and to expand the SB 1383 waiver program.
- › Assistance in meeting SB 1383 procurement targets.

R3 evaluated the appropriateness of total cost related to SB 1383 implementation.

In projecting the 2023 costs of doing business, Burrtec included the direct costs for the City's garbage, organics and recycling collection, costs for transfer, processing and disposal of garbage, organics and recycling, and costs of administering diversion programs including outreach, education and technical assistance. Costs are allocated between agencies and hauling lines of business served by the same hauling division of Burrtec in the region.

R3 completed the following primary actions:

- › Verified that Burrtec correctly calculated and applied the changes in applicable market indexes, and the correct disposal and processing expense projections.
- › Verified that Burrtec correctly recalculated the maximum rates to reflect expense and revenue changes.

Limitations

Our conclusions are based in part on the review of Burrtec's projections of its actual costs of operation. Actual cost of operation will usually differ from projections because events and circumstances frequently do not occur as expected, and the difference may be significant. Moreover, SB 1383 introduces significant changes to regular solid waste collection practices, and the actual costs are not well-quantified at this time.

We did not have access to all requested information that relates to Burrtec's costs for SB 1383 compliance, including staff salaries, expected hours per year for specified compliance activities, and costs for printing and mailing. R3 was also not provided the basis for the Hauler Service Fee, which is

continued from prior rate applications and is comprised of collection vehicle cost, driver cost, and maintenance costs.

Findings below are based upon the procedures described above. Procedures are intended to meet the City's objectives at a minimum cost. However, they do not constitute an audit in accordance with auditing standards generally accepted in the United States of America. Furthermore, had we performed additional procedures, other matters might have come to our attention that would have been reported to you, and those matters may have been material.

This report is intended solely for the use of the City of Rialto, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

3. FINDINGS

Index Usage and Mathematical Accuracy

R3's review of Burrtec's application was limited to a mathematical review of its rate application and the confirmation of the proper use of the CPI Index for the Los Angeles – Long Beach, and Anaheim areas of Southern California.

Burrtec did apply the CPI index appropriately, which is computed at 7.45%. This rate is high, but consistent with the current inflationary conditions of California and the nation as a whole.

R3's conclusion is that the formulas used in the rate application are consistent and applicable to each section of the application. The application is comprised of sections for each line of business Burrtec services on behalf of The City of Rialto. Those lines of business include residential, commercial and multi-family dwellings.

The Pavement Maintenance Fee for all rates was removed at the City's request, resulting in significant cost savings for each rate.

Rate Components

Each residential rate (inclusive of the 40 gallon and 60-gallon rates) is comprised of the following components, which summed result in the total customer rate:

- » **Hauler Service Fee:** Cost associated with the collection of materials including driver and truck costs, which as presented was set during a prior rate period and is simply increased by the Consumer Price Index (CPI) in this year's rate application.
 - R3 found that the CPI applied was accurately calculated and applied to the prior years' rates. Notably, the CPI increase was 7.45%, which is much higher than prior year increases of 1-4%.
- » **Compliance Fee:** The compliance fee assessed by Burrtec is on the basis of the "fixed rate method," which assesses SB 1383 costs (described on page 10) at a fixed rate per residential household and on the basis of commercial yards per month, as opposed to assessing a rate equalized over each customer. For residential customers, this equates to a cost savings from the "equalized" rate of \$1.54 to \$0.90 per month.
- » **Landfill:** Disposal costs associated with taking municipal solid waste to the Mid-Valley Landfill per the terms of the City's negotiated WDA. This rate component is calculated by multiplying the disposal tip fee per ton by a Burrtec-generated estimate of the number of pounds of disposed garbage per month (as are the Green Waste/Mixed Organics and MRF Processing Costs, described below).
 - R3 found that the Burrtec correctly calculated the CPI-based increase in the landfill disposal/tip fee per the terms of the City's WDA.
 - Burrtec reduced their estimate of the number of pounds of garbage produced by the average residential customer for both the 40-gallon and 60-gallon cart sizes, resulting in cost savings on the residential rates for this rate component.
- » **Green Waste/Mixed Organic Processing Costs:** The cost of delivering Green Waste to Agua Mansa in 2022; and the future assumed cost of delivering Mixed Organics including Food Waste to Agua Mansa in 2023. Burrtec slightly increased the pounds per household, representing an expected diversion of food waste from the garbage carts to the mixed organics collection program. The rates also reflect an increase in the tipping fee charged to Burrtec.
 - The pounds per household and tipping fees were not validated, but appear to be reasonable.
- » **MRF Processing:** Costs associated with the diversion of recyclable materials, including sorting of recycling by marketable material category and the transport and marketing of those materials, accounting for revenue for sale. Burrtec reduced the pounds per household, which R3 has determined represents a reduction based upon actual residential tonnage in 2022.

- The pounds per household and tipping fees were not validated, but appear to be reasonable.
- » **Windy Day Costs:** During strong windy days events Mid-Valley is closed due to safety reasons. The trash must be delivered to a local transfer station that are open (Agua Mansa), resulting in higher costs for those days. Burrtec provided tonnages attributed to the residential sector and calculated the costs for disposal of this material during the prior rate period; as Mid-Valley was closed for fewer days in 2022 compared to 2021, this rate component's contribution to residential rates reduced, resulting in cost savings.
 - R3 did not verify the accuracy of the Agua Mansa rate or the Windy Days tons represented in Burrtec's application; however, the relative magnitude of the rate impact is very low, and the represented per-ton costs are reasonable.
- » **City Fees:** Pavement Maintenance fee was not applied to any rates after 2020 rates. Franchise Fees are applied at a variable rate, equaling 10.1% - 11.2% of the total customer rate, and the dollar value of the franchise fee has been held static since at least the July 1, 2020 rates. City AB 939 and HHW Fees are applied at a consistent rate of \$0.49 per customer per month.
- » **Stabilization Fee:** This cost represents the rate increase owed to Burrtec for deferring rate increases in 2020 and 2022. Burrtec partially recovered the deferred 2020 rate increase in 2021, forwent the 2021 CPI, and has requested to fully recover the balance of the rate increase in 2023 that would have gone into effect in 2022; but has not requested to recover the 2021 CPI and all foregone revenues for the respective time periods.

Commercial garbage rates are inclusive of 1.5-3 cubic yard container sizes serviced between 1 and 6 days per week and include bundled recycling service which does not have a separate charge. Food waste is provided at the same price as garbage service (more detail provided in the Food Waste Fee component description below). Commercial rates include the following components:

- » **Hauler Service Fee:** Cost associated with the collection of materials including driver and truck costs, which as presented was set during a prior rate period and is simply increased by the Consumer Price Index (CPI) in this year's rate application.
 - R3 found that the Consumer Price Index applied was accurately calculated and applied to the prior years' rates. Notably, the CPI increase was 7.45%, which is much higher than prior year increases of 1-4%.
- » **Compliance Fee:** The compliance fee assessed by Burrtec is on the basis of the "fixed rate method," which assesses SB 1383 costs (described on page 10) at a fixed rate per residential household and on the basis of commercial yards per month, as opposed to assessing a rate equalized over each customer. The commercial rate is \$0.38 per yard, which means that the fixed rate method is a cost savings for a few very low volume commercial customers, and a cost increase for the rest of the commercial base as compared to the equalized rate, which would have been \$1.54 per account.
- » **Landfill:** Disposal costs associated with taking municipal solid waste to the Mid-Valley Landfill per the terms of the City's negotiated WDA. This rate component is calculated by multiplying the disposal tip fee per ton by a Burrtec-generated estimate of the number of pounds of disposed garbage per month per yard, which has been static since 2020 at 120 pounds per yard.
 - R3 found that the Burrtec correctly calculated the CPI-based increase in the landfill disposal/tip fee per the terms of the City's WDA.
- » **Food Waste:** All commercial garbage rates include a fee per-yard that is designed to make food waste and garbage rates for the same container size and collection frequency equal. More detail is provided in the Food Waste Fee section, below.
 - In the 2023 rates, the Food Waste "equalization" component was reduced to account for lower participation in the food waste program than was anticipated in the prior rate period, representing cost savings to the commercial rates. It is anticipated that the "discount" applied in 2023 will be removed, resulting in future commercial rates increasing to cover the food waste program costs.

- » **Recycling:** Costs associated with the diversion of recyclable materials, including sorting of recycling by marketable material category and the transport and marketing of those materials, accounting for revenue for sale.
 - The cost per cubic yard and associated compensation for recycling service were not validated, but appear to be reasonable.
- » **Windy Day Costs:** During strong windy days events Mid-Valley is closed due to safety reasons. The trash must be delivered to a local transfer station that are open (Agua Mansa), resulting in higher costs for those days. Burrtec calculated the costs for disposal of this material during the prior rate period and has applied those costs as a per-yard factor to all commercial rates.
 - R3 did not verify the accuracy of the Agua Mansa rate or the Windy Days tons represented in Burrtec's application; however, the relative magnitude of the rate impact is very low, and the represented per-cubic yard costs are reasonable.
- » **City Fees:** Pavement Maintenance fee was not applied to any commercial rates effective April 1, 2023. Franchise Fees are applied at a variable rate per year, equaling 7% - 10% of the total customer rate in the commercial sector and the dollar value of the franchise fee has been held static since at least the July 1, 2020 rates. City AB 939 and HazMat Fees are applied at a set rate per container size and frequency, and were not adjusted since at least 2020.
- » **Stabilization Fee:** This cost represents the rate increase owed to Burrtec for deferring rate increases in 2020 and 2022. Burrtec did not recover the amounts deferred in 2020 in 2021, and has requested to fully recover the rate increase in 2023 that would have gone into effect in 2022; but has not requested to recover the 2020 rate increase and will waive that amount.

Commercial Food Waste Equalized Rates are inclusive of 35 and 65-gallon carts, as well as 2 cubic yard bins, all serviced between 1 and 6 days per week. The rates are identical to the garbage rates, with the following exception:

- » **Food Waste Fee:** Burrtec has included a fee that represents the differential between the cost to dispose garbage and the cost to divert food waste. Since food waste diversion is more expensive than garbage disposal, this rate is designed to balance the garbage and food waste rates such that customers are not financially incentivized not to participate in the program. The rate is based upon assumptions on the level of customer participation (not all customers are assumed to participate), as well as the pounds per yard and cost per ton for diversion. Because SB 1383 implementation was delayed in 2022, fewer customers participated in the food waste program than expected; Burrtec has introduced a rate element that effectively cancels out the Food Waste Fee per yard this year.
 - The Food Waste Fee also appears in the commercial garbage rates, such that the additional costs for food waste collection are split between garbage and food waste rates.
 - It is anticipated that the credit for overcollection on the Food Waste Fee will be removed in future rate years, resulting in increased costs in the future.

Multi-family rates are inclusive of 1.5 - 3 cubic yard bins, all serviced between 1 and 6 days per week. The rates are identical to the commercial garbage rates, with the following exception:

- » **Bulky Fee:** This fee was introduced when the multi-family bulky program started. This program provides unlimited multi-family bulky item collection and also covers illegal dumping of household items near multi-family dwellings and in public right of ways. Burrtec assess the fee on a per-yard basis to compensate the company for direct costs in implementing the program, and was slightly reduced in 2023 from the 2022 fee.

Roll-off rates include both temporary and permanent service, as well as compactors, and includes roll-off containers for source-separated cardboard and construction and demolition debris. The rate components are identical to the commercial garbage rates, with the following exceptions:

- » Temporary roll-off does not include recycling and food waste components, as these customers do not receive the benefit from such services.
- » **CDSDP:** The original application contained the County's CDSDP roll-off materials recovery program. The City stopped its participation in this program in February, resulting in the cost for roll-off disposal being reduced by \$12.00 per ton from \$52.75 to \$40.75 effective mid-February 2023. . The price increase from April 1, 2023, to the proposed increase on July 1, 2023, averages 10.86% for roll-off customers.
- » **Stabilization Fee:** A second finding was that the stabilization fee compensating Burrtec for the deferred 2022 rate increase for Roll-Off rates appeared not to be calculated correctly. Burrtec agreed with this finding and submitted corrected rate sheets.

Additional Fees are the fees charged by Burrtec to customers for services outside of collection service. It appears that no new additional fees are being introduced in 2023, and the previously-established fees have all been increased by CPI.

SB 1383 Costs (Compliance Fee)

In conjunction with the standard rate increase application, Burrtec and the City of Rialto agreed on additional costs in relation to the implementation of SB 1383. SB 1383 costs are divided into five distinct categories:

- » **Education and Outreach:** Programs designed to educate City Staff and the general public as to the goals of SB 1383 and its requirements. These costs include organizing community meetings, the creation of videos, and flyers to be mailed and distributed to Burrtec customers.
- » **Procurement:** The obtaining of organic materials, such as compost, to meet SB 1383 diversion goals.
- » **Compliance Monitoring:** Includes hardware, system support fees, and data collection for on-board truck systems to monitor and assist in the reduction of organic contamination.
- » **Equipment:** Cost associated with lid replacement, the hot stamping of In-Mold Labels, and container labels.
- » **Record Keeping:** Includes staff and software to track and report on SB 1383 activity.

The total cost per resident is \$.90 per month independent of cart size. Commercial and multi-family customers pay \$.38 per yard per month based on container size as a part of the fixed rate schedule. R3 understands that the costs provided for each line item are on the basis of cost allocations across many franchise agreements contained within Rialto's collection operations, and as such those costs were allocated on the basis of the proportion of total Burrtec customer accounts attributed to Rialto.

Compliance with Franchise Agreement

The Franchise Agreement does not include specific detail on the basis of rate increase requests. R3 finds that the rate application submitted by Burrtec is substantially in compliance with the requirement that Burrtec request an annual rate adjustment to compensate the company for the cost of doing business.

Financial Statement Review

Burrtec manages its financial statements on a consolidated basis, where one set of financial statements contain multiple franchises. The result is that an independent income statement for the Rialto Franchise does not exist. R3 reviewed the consolidated financial statements presented by Burrtec Management and determined that on a consolidated basis the operating profit is consistent with industry norms.

Rate Increase Requested

R3's review determined that Burrtec's rate request to be materially in line with other cities' cost for regulatory compliance with SB 1383, and we find that the rate application demonstrates that the company is requesting compensation for the costs of doing business including industry-standard profit for collections operations.