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January 26, 2021

Mr. Brooks Stayer  
Executive Director  
San Luis Obispo County Integrated Waste Management Authority  
870 Osos Street  
San Luis Obispo, CA 93401

**Subject: San Luis Obispo County Integrated Waste Management Authority Fee Revenue Review Recommendations**

Dear Mr. Stayer:

R3 Consulting Group, Inc. (R3) was engaged to review monthly San Luis Obispo County Integrated Waste Management Authority (IWMA) fees paid by the permitted haulers and landfills over the period 2016-2018. Over the course of those reviews, we gathered information from the review subjects' reporting and fee payment capabilities, determined the accuracy of fee payments over the period of 2016-2018, and discovered common problems encountered by haulers and landfills in calculating and paying the current IWMA fees.

## **Background**

### Haulers

The current IWMA fee structure was established by Resolution No. 07-03 (c) in 2007, which provides for fees to be paid by any company in the County holding a contract with a governmental entity for collection of solid waste (inclusive of garbage, recycling, and green waste) as follows:

1. 2% of gross revenue collected from commercial customers;
2. \$0.30 per month for residential accounts charged less than \$50 per month; and
3. 2% of gross revenue collected from residential accounts charged more than \$50 per month.

The resolution also states that the gross revenue collected from each hauler should be calculated on the same basis as franchise fees paid as per that hauler's franchise agreement. Additionally, any company that is permitted by San Luis Obispo County for hauling in the County must also pay 2% of gross revenue.

Gross revenue includes all fees charged to customers, including delivery, rental, hauling, disposal/recycling of removed material, and governmental fees including franchise fee and the IWMA fee.

### Landfills

Landfills are required to pay a tipping fee surcharge of \$3.00 per ton as defined as in the Memorandum of Agreement Among the County of San Luis Obispo and the Cities of Arroyo Grande, Atascadero, Grover City, El Paso de Robles, Morro Bay, Pismo Beach, and San Luis Obispo dated May 1994.

## Review Findings

Over the course of R3's reviews of the haulers and landfills, R3 observed the following:

- With some exceptions, most haulers paid the IWMA fee on the basis of the total amounts charged to customers *before the 2% fee*. Such calculations of fee payment are based on *revenue net of fees*, which is not the same as gross revenue as stated in the Resolution. However, in one case, the hauler's franchise agreement defines gross revenue as net of franchise fee and IWMA fees; in that case, R3 found that the hauler did pay in accordance with the Resolution.
- With some exceptions, permitted haulers paid on the basis of gross revenue *billed* and not *collected*.
- With some exceptions, haulers determined whether residential accounts are subject to the \$0.30 fee or the 2% fee based upon the *base service charge*, and not additional fees that may be added to an account on a month-by-month basis (or accounts subscribed to two containers with a total charge that exceeds \$50 per month). For haulers with residential monthly base charges that exceeded \$50 per month, those haulers generally paid the fee on those residential accounts that exceeded the \$50 per month charge correctly. Some haulers paid the 2% fee for all customers subscribed to bin service, and the \$0.30 fee on all customers subscribed to cart service.
- The landfills generally calculated and paid the \$3.00 per ton fee correctly.

## **Survey of Other Similar Joint Powers Authority (JPA) Fees**

Based upon an informal survey of similar organizations and R3's experience, the IWMA fee structure is unusual because it includes a fee based upon gross revenue and not tonnage. For example:

- Zero Waste Marin, a JPA that includes all Towns and Cities as well as the County of Marin, is funded via a surcharge on landfilled tons assessed on haulers, the transfer station, and the landfill.
- Zero Waste Sonoma, a JPA that includes all Towns and Cities as well as the County of Sonoma, is funded via a per-ton fee on all tons disposed at the landfill, and all organics diverted to composting.
- StopWaste, a JPA that includes all Towns and Cities, some Sanitary Districts, as well as the County of Alameda, is funded via a ballot measure that established a per-ton fee on all tons disposed at landfills in the County as well as a residential fee on property taxes for HHW services.
- RecycleMore, a JPA that includes the cities in West Contra Costa as well as the County of Contra Costa, is funded via a per-ton fee on all tons disposed under the JPA and one City's disposal agreement (all franchised tons).
- RecycleSmart, a JPA that includes some of the cities in Central Contra Costa as well as the County of Contra Costa, is funded via a combination of franchise fees and the revenue recovered from recycling, which is shared by the recycler via contract.
- Los Angeles County has assessed a Solid Waste Management Fee that is paid on per-ton basis for material disposed by all landfills located within the County, as well as any haulers that haul material to out-of-County landfills for disposal.
- Salinas Valley Solid Waste Authority is funded through per ton disposal tip fee; an AB 939 Fee charged to jurisdictions based on SVSWA's AB 939 Support budget allocated by percentage of disposal tons; and a per ton transfer fee charged to the City of Salinas franchised tonnage.

While many comparative JPAs do assess fees on landfilled tonnages, the fee structure IWMA has adopted (using a % of gross revenue) is more resilient to changes in tonnages over time and automatically moves with CPI.

## Analysis

R3 found that the complexity of the current system for IWMA fee assessments produced some challenges for haulers in correctly paying fees. Specifically:

- A residential fee with a \$50 threshold, rather than based upon the container type (i.e. cart and bin service) or the service sector (i.e. commercial or residential), means that the analysis to be completed on a monthly basis is sometimes quite complex, with some minor outliers often appearing in one month and disappearing the next. Furthermore, some haulers were not able to calculate the difference in residential accounts above or below \$50 utilizing existing software and calculated the amounts by hand, which could lead to inconsistencies and mistakes in calculations. While the haulers' approach to paying this fee was generally reasonable, sensible compromises in interpretation were needed in order to make payment of these fees practical for haulers.
- The fee payment basis of gross rather than net revenue means that when haulers wish to separately itemize the IWMA fee payment in customer invoices, the mathematical calculation is not intuitive. Customers would expect a 2% fee to be based upon the base charge, when in fact it would be based upon the total customer charge, inclusive of the fee. While the relative magnitude of these errors is small, it is not desirable to have inconsistency in the use of gross or net revenues from hauler to hauler.
- The fee payment basis on revenue collected rather than revenue billed means that, particularly for haulers that need to separate out customers subject to specific fees, and/or customers located in SLO, calculating the fees to be paid is challenging and impractical. Those haulers have been paying on the basis of gross billings rather than gross receipts. Generally, R3 found that the difference between gross billings and gross receipts (which is generally less than gross billings due to unpaid bills) is minimal. Calculating fees on gross receipts also poses a challenge for after-the-fact reviews – general ledger account of gross receipts can change after fees are paid due to internal accounting adjustment, while gross billings is generally a more static figure.
- The clause that allows for fees to be calculated on the basis of the hauler's franchise agreement rather than the fee mechanism described in the Resolution results in inconsistency in calculation (and thus treatment) with some haulers paying on revenue net of fees due to specific language in franchise agreements. Inconsistency between fee payors for the basis of fees to be paid is not desirable.

Generally, other similar fee structures target tons disposed at landfills and not all solid waste material flows. Because it is based upon gross revenue and not garbage tonnages, the IWMA's fee structure is more resilient in the face of possible decreases in landfilled tonnages. However, charging a fee based on revenue also results in a more complex review process that includes financial review, rather than a tonnage review which is less complex.

The current fee structure does mean that for landfilled garbage, an IWMA fee is assessed on the revenue and also on the disposed tons. Based upon R3's knowledge of other similar fees, this is unusual but not unique. Moreover, we understand that some haulers have observed non-permitted roll-off activity in the County. If roll-off companies are not permitted, they do not pay the 2% fee; however, if fees are paid at

the receiving facilities on the basis of inbound tons, haulers operating without a permit are still subject to the same fee.

### **Recommendations**

R3 recommends that the IWMA:

- Adjust fee payment structure such that all residential customers are subject to the same 2% fee, thus eliminating the two-tiered payment structure.
- Assess the fee on revenue net of fees rather than gross collected revenue.
- Assess the fee on billed revenue and not collected revenue.
- Keep the \$3.00 per ton fee on landfilled tons intact.
- Adopt the new fee structure by resolution and include the landfill fee in the same resolution.
- Conduct a periodic fee revenue review to confirm accuracy of hauler fee payments. Not all years need to be reviewed, but a periodic review of hauler fee payments is beneficial in confirming that the basis of fee payments has been corrected for those haulers that were paying incorrectly. A fee revenue review conducted shortly after adjustment of the fee basis will help ensure a smooth transition to the new payment methodology.
- If the IWMA seeks to bring in additional revenue, R3 recommends that the IWMA increase the 2% fee rather than adjusting the landfill tonnage fees.

The IWMA should be aware that adjusting these hauler fees may result in some haulers requesting special rate adjustments so that the fees are passed on through the customer rates. The only meaningful impact of the above changes would be on residential customers below \$50 in monthly fees, who would then be assessed a 2% fee. For a customer paying \$49 per month as an example, the fee would change from \$0.30 to \$1.00.

### **Revenue Impact of Recommended Fee Adjustment**

Based upon the results of R3's review of haulers, R3 estimates that all other things being equal, if the IWMA begins charging all residential customers at the 2% rate, the annual IWMA fee revenue would change from approximately \$1.8 million to approximately \$2.16 million.

Sincerely,



Rose Radford



Claire Wilson



Garth Schultz

**R3 CONSULTING GROUP**