



STAFF REPORT

City Council

Meeting Date: 2/24/2026

Staff Report Number: 26-024-CC

Informational Item: Update on City's Solid Waste Rate Study

Recommendation

This is an informational item that does not require City Council action. Staff recommend that the City Council receive a preview of the City's July 1, 2026 – June 30, 2031, Solid Waste Rate Study (Study) in preparation of an upcoming meeting on March 10 and setting the next five fiscal years of solid waste rates. The proposed rates would be in effect starting July 1.

Policy Issues

As a member of the South Bayside Waste Management Authority (SBWMA/RethinkWaste) and under the Franchise Agreement with Recology San Mateo County (Recology), the City is responsible for establishing solid waste rates charged to the City's customers for solid waste services inclusive of landfill, recycling, and organics collection, processing, and disposal services. Solid waste rates must recover the full cost of providing service in accordance with the requirements of Proposition 218 (Prop. 218).

Background

Solid waste rate revenues are the sole source of funding for the City's solid waste system and associated programs. The City has established solid waste rates on a multi-year basis to ensure that rate revenues are sufficient to fund collection and post-collection of landfill, recycling and organic waste; administration of City solid waste programs; and long-term maintenance of the closed landfill beneath Bedwell Bayfront Park. Recology conducts the billing and collection of solid waste revenues. On April 24, 2018, City Council adopted Resolution No. 6435 approving an amended and restated franchise agreement with Recology to commence Jan. 1, 2021, and end Dec. 31, 2035, for solid waste collection services (Attachment A).

The City is required to adhere to the requirements of Article XIII(D) of the California State Constitution, known as Prop. 218 in the development of solid waste rates. To comply with Prop. 218, rate studies are developed to ensure that proposed rates meet the following requirements:

- Revenue derived from rates must not exceed funds required to provide the service;
- Revenue derived from rates must not be used for any purpose other than for which it is imposed;
- The rates imposed must not exceed the proportional cost of the service provided;
- A Prop. 218 notice must be mailed to every property owner served to provide information about the proposed rates and allow an opportunity to submit written protests at least 45 days before a City Council public hearing to adopt new rates; and
- Rates cannot be adopted if more than 50% of property owners submit written protests.

Historically, the City has adopted solid waste rates through periodic multi-year rate studies. In 2017 and 2020, the City adopted multi-year rate adjustments developed by R3 Consulting Group, Inc. (R3) to correct prior revenue shortfalls, rebuild rate stabilization reserves, and move rates toward compliance with cost-of-service and proportionality requirements (Attachment B). Ultimately, for full compliance with Prop. 218, solid waste rates must demonstrate that they do not exceed the cost of providing service, and the amount per individual ratepayer must also not be more than necessary. Since 2018, and via periodic updates, solid waste rates have been based on Recology compensation and RethinkWaste cost information by solid waste sector and service type.

The current rate structure was developed to phase in adjustments over time to achieve proportionality of rates to the cost of service for each customer class and each waste stream (garbage, recycling, and organics), while also minimizing large or disruptive rate increases. As part of the rate setting process, City Council directed staff to explore a rate for qualifying low-income customers. On December 8, 2020, City Council approved a rate assistance pilot program to assist those suffering financial hardship. Qualified households may receive a 20% monthly discount on solid waste service from Recology San Mateo County and a monthly discount on the fixed meter charge on water service from Menlo Park Municipal Water. This program is funded by the General Fund and the City Council renews the program annually. For households who live in the California Water (Cal Water) service area, Cal Water provides their own financial assistance program for qualified households.

In May 2025, the City engaged R3 to forecast revenues and expenses and recommend adjustments to solid waste rates for the next five years (July 1, 2026 through June 30, 2031). Additionally, the City engaged R3 to assess whether current franchise fee revenues are generally consistent with the City's identified costs and property use considerations. As part of administering the franchise agreement with Recology, the City receives franchise fee revenues intended to offset costs associated with managing and overseeing the solid waste system and the contractor's use of the public right-of-way.

Analysis

Study principles

Consistent with the City's prior rate studies conducted in 2017 and 2020, R3 applied a set of "foundational principles" in developing the recommended rate adjustment, including:

- Rates should recover the full cost of providing service overall;
- Rates should phase in adjustments over time to cover the cost of service by each customer class (single family, multifamily dwelling, and commercial) and by waste stream, while minimizing large or disruptive increases; and
- Rates should support diversion through recycling and organics programs.

Franchise fee

The franchise fee assessment evaluated three primary components:

- The City's costs for management, administration, and oversight of the solid waste system;
- Property use considerations related to the contractor's use of the public right-of-way for container set-out and collection activities; and
- Pavement impacts associated with solid waste collection vehicles, which are evaluated for informational purposes and are not recommended for inclusion in the franchise fee at this time.

Analysis of the City’s franchise fee revenues show that fees are less than the City’s identified costs of providing solid waste-related services and the reasonable market value of the contractor’s use of public property.

Primary drivers for future cost increases

The Study evaluates three primary cost components that together comprise the City’s solid waste system:

- Recology collection services to collect and deliver materials to the Shoreway Environmental Center, a facility owned by RethinkWaste, but operated by a contractor (South Bayside Industries);
- RethinkWaste post-collection tipping (processing and disposal) fees at the Shoreway facility; and
- City administration fees and solid waste-related program costs.

R3’s analysis indicates that while projected solid waste rate revenues in 2026 are expected to cover costs for that year, the current 2025 rates will not be sufficient to meet projected expenses from 2027 through 2030. If no rate adjustments are made, annual revenue shortfalls are projected to increase from approximately \$0.6 million in 2027 to more than \$3.3 million by 2030. The primary drivers of the projected increases in cost are shown in Table 1.

Table 1: Drivers of projected cost increases	
Cost	Driver
Recology collection compensation	<ul style="list-style-type: none"> • Contractually indexed to inflation and capped at 5% annually. • Projected to increase to approximately \$7.97 million in calendar year 2026. • Conservative 5% annual escalations applied for 2027 through 2030.
RethinkWaste post-collection processing and disposal costs	<ul style="list-style-type: none"> • Projected to increase to approximately \$6.12 million in calendar year 2026. • Conservative 5% annual escalations applied thereafter to reflect contractual adjustments, tonnage changes, and market conditions.
City administration fees and solid waste-related program costs	<ul style="list-style-type: none"> • Projected to total approximately \$2.58 million in 2026. The proposed expenditure plan includes enhanced solid waste services by the City that will include the addition of one full-time maintenance worker • Funding comes from the Administrative/Contract Management Fee, Franchise Fee, and Landfill Closure Fee included in the Recology Agreement. • The Study finds that fund reserves should be used and that no adjustments to these City fees are necessary from 2026 through 2030.*

*If no adjustments are made to the Administrative/Contract Management Fee or Landfill Closure Fee by June 30, **2031**, R3 projects that these two fees will need to increase to approximately \$830,000 and \$1.8 million respectively beginning in **2036** to maintain adequate reserve balances and keep pace with escalating expenses.

Recommended rate adjustments

A summary of recommended annual rate adjustments is provided in Table 2.

- The recommended single-family residential rates reflect a 6% annual increase to better reflect the current service costs.
- The rate adjustments for commercial customers (including multi-family dwellings with five units or more) varies. For small commercial landfill services (1 cubic yard and less), all commercial recycling services, and all roll-off services, the proposed rates would increase up to 5%. For all commercial organics services, the rates may increase up to 6%. For large commercial landfill collection services (2

cubic yards and more), the rates will not increase. This is because the current large commercial services generate sufficient revenue to cover the estimated cost of providing service and are in proportion to the cost-of-service.

Solid waste services are designed to be fully funded by user rates charged by Recology, consistent with Prop. 218 and long-standing City policy. The City Council’s primary policy considerations might include:

- Rate stability vs. near-term affordability: The recommended rate adjustment provides long-term stability by preserving adequate reserves and advancing proportionality.
- Proportionate cost-of-service: The recommended rates advance the City’s long-standing objective of aligning single family and organics rates with the actual cost of service, consistent with Prop. 218.
- Risk of post-2030 rate shock: The proposed rates preserve higher reserves by June 30, 2031 and reduce the likelihood that the City would face unusually large rate adjustments beginning in the next five-year rate cycle.

Implementing the rate adjustments would allow the solid waste system to remain self-supporting, avoid General Fund subsidies, maintain adequate reserves, and continue to fund the City’s obligations for contract management and landfill post-closure maintenance through June 30, 2031. R3 recommends maintaining adequate reserve balances of a minimum of \$1M for contract management and rate stabilization and \$2M for landfill post-closure maintenance. Without rate adjustments, however, the City would be required to either draw down solid waste rate reserves or identify alternative funding sources to cover annual operating deficits, both of which would place pressure on City financial resources.

Table 2: Summary of recommended annual rate adjustments for July 1, 2026 – June 30, 2031		
Single-family customer class*	Commercial and roll-off customer class	Impacts
6%	<ul style="list-style-type: none"> • Small landfill: 0.04 - 4.72% • Large landfill: 0% • Recycling: 3.86 - 5.07% • Organics: 0 - 6% • Roll-off: 0 - 5% 	<ul style="list-style-type: none"> • Maintains reserves to keep rates from increasing. • Advances cost-of-service proportionality for single family and organics services. • Reduces the likelihood of larger adjustments in the next rate cycle.

*Single-family is defined as residential dwelling and includes each unit of a duplex, triplex, fourplex or townhouse condominium a which there are no more than four dwelling units.

Next steps

Table 3 provides the timeline to complete the solid waste rate study for the new rates to begin on July 1, 2026.

Table 3: Solid waste rate study timeline	
Tentative date	Description
March 10	City Council meeting to present the solid waste rate study and authorize initiation of a Prop. 218 notification process in preparation to adopt waste rate increases for the next five years
May 12	Conduct rate protest hearing and adopt a Resolution to increase solid waste rates for the next five years at a public hearing
July 1	New solid waste rates become effective, and then are adjusted annually on July 1 for the next four years

Impact on City Resources

There is no direct impact on City resources associated with this staff report. Implementing the rate adjustments would allow the solid waste system to remain self-supporting, avoid General Fund subsidies, maintain healthy reserves, and continue to fund the City’s obligations for contract management and landfill post-closure maintenance through June 30, 2031. Without rate adjustments, however, the City would be required to either draw down solid waste rate reserves or identify alternative funding sources to cover annual operating deficits, both of which would place pressure on the City’s financial resources.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

- A. Hyperlink – Amended and restated franchise agreement with Recology:
www.menlopark.gov/files/sharedassets/public/v/1/public-works/documents/miscellaneous-public-works/signed-agreement-recology-and-city-of-menlo-park.pdf
- B. Hyperlink – Dec. 8, 2020, Staff Report #20-265-CC:
www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2020-meetings/agendas/20201208-cc-agenda-packet.pdf#page=261

Report prepared by:
 Jordan Lane, R3 Consulting Group, Inc.
 Garth Schultz, R3 Consulting Group, Inc.

Staff Report #: 26-024-CC

Joanna Chen, Management Analyst
Eren Romero, Internal Services Manager

Report reviewed by:
Azalea Mitch, Public Works Director