

COUNCIL AGENDA REPORT

TO: Mayor and City Council

FROM: Director of Utilities Shad S. Springer, P.E., MPA

DATE: May 5, 2026

SUBJECT: Ordinance Approving Solid Waste Collection Rates Commencing each July 1 from 2026 through 2029

Description:

The City Council will introduce an ordinance updating solid waste collection rates commencing each July 1 from 2026 through 2029.

Environmental Notice: The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

RECOMMENDATION:

The City Council to:

1. Conduct a public hearing;
2. Receive a presentation regarding solid waste collection rates;
3. Determine whether a majority protest exists;
4. Waive first reading and introduce an Ordinance approving solid waste collection rates commencing each July 1 from 2026 through 2029; and
5. Set for adoption at the next regular City Council meeting.

SUMMARY:

The Utilities Department recommends adjusting solid waste collection rates to address increasing operating and capital costs. The proposed rates would take effect annually each July from 2026 through 2029. The most recent rate adjustment occurred in July 2025.

The rate-setting process followed established cost-of-service methodologies and all legal requirements of Proposition 218 (“Prop 218”). Under Prop 218, rate changes are subject to a written majority protest. For this proceeding, 10,293 written protests are required to constitute a majority protest.

Key drivers of the proposed rate adjustments include inflationary increases in labor, fuel, and materials; vehicle replacement needs; organics collection requirements under Senate Bill (SB) 1383; and ongoing regulatory compliance obligations.

BACKGROUND:

Cost of Service Study. The City initiated an update to its comprehensive cost of service study for the Solid Waste Collection Enterprise Fund. The study was conducted by HDR Consultants, Inc. (HDR). Spanning from July 2024 through December 2025, the study evaluated the City's short- and long-term financial needs, assessed revenue sufficiency, and identified equitable, cost-based rates for all solid waste customers. HDR's report, filed with the Utilities Department, provides the basis for the proposed rates.

Public Workshop. A Public Workshop was held on March 18, 2026, at Shepard Hall to present the rate-setting process, answer questions, and receive public input (Attachment B). The workshop was advertised in the Prop 218 Notification, through a City news release, and via a Santa Maria Times advertisement published February 25, 2026 (Attachment C). Two residents attended.

Public Hearing and Majority Protest. Proposed rates are subject to a written majority protest (50 percent plus one). If 10,292 of the City's 20,583 solid waste customers submit written protests before the close of the Public Hearing, the rates cannot be adopted. As of March 31, 2026, the City Clerk's Office received four written protests.

Legal Requirements. Article XIII D, Section 6(a) of the California Constitution (known as Prop 218) governs fees for property-related services, including refuse collection. Prop 218 requires that fees do not exceed the proportional cost of providing service to each parcel and that revenues be used solely for the service for which they are collected. Prop 218 also requires that notice be mailed to all affected customers at least 45 days before the Public Hearing. The notice must include the proposed rates, the basis for calculation, the reasons for the changes, and the date, time, and location of the Public Hearing.

The Utilities Department mailed bilingual (English and Spanish) notices as utility bill inserts during January and February 2026 (Attachment D).

Historical Rate Adjustments. Solid waste collection rates were not adjusted for ten years prior to 2011. The City adopted three-year rate schedules in 2011 (effective 2012–2014) and again in 2014 (effective 2015-2017). In 2021, the City adopted a four-year schedule effective January 1, 2022, and each July thereafter through July 1, 2025.

DISCUSSION

The Utilities Department provides mandatory solid waste collection services to all residents and businesses, including trash, recycling, and organics collection. Organics collection continues to expand in response to State mandates such as Assembly Bill (AB) 341, AB 1826, and SB 1383. The department is committed to delivering safe, efficient, and cost-effective services while maintaining the resources necessary to meet regulatory requirements and operational needs. Staff conducts ongoing financial analyses using a solid waste rate proforma grounded in industry-recognized rate-setting principles. The proforma evaluates current and projected costs to ensure long-term financial sustainability of the City's Solid Waste Collection Enterprise Fund.

The solid waste program incurs costs to:

- Comply with State and Federal regulatory mandates, including AB 341, AB 1826, and SB 1383, which expand recycling and organics collection requirements and increase reporting and contamination-monitoring obligations.
- Fund renewal and replacement of capital assets, particularly aging collection vehicles and equipment that require scheduled replacement to maintain service reliability.
- Cover operating and maintenance expenses, including rising costs for labor, fuel, vehicle maintenance, parts, carts, and other operational materials.
- Pay landfill tipping and processing fees, which increase due to recycling market conditions and regulatory requirements.
- Fund annual franchise fees to the City's General Fund, consistent with established City policy.

In addition to these general cost drivers, several significant cost increases are impacting the Solid Waste Collection Enterprise Fund, including:

- Future fleet electrification and charging infrastructure: approximately \$11.5 million
- Organics processing costs: approximately \$710,000
- Mixed recycling processing costs: approximately \$180,000
- Fleet operating and maintenance costs: approximately \$500,000 (16% above fiscal year 2025-26)
- General liability insurance: increase of approximately \$260,000 (70% above historical average)

These cost pressures contribute to the need to update rates to maintain service reliability, regulatory compliance, and long-term financial sustainability.

Alternatives

The City Council may:

- (1) Elect not to approve the recommended rates. This will result in insufficient funding for the Solid Waste Collection Enterprise Fund, requiring the City to identify another funding source, such as the General Fund. In addition to creating a funding shortfall, not approving the rates will likely result in deferred vehicle replacements, increased maintenance costs, and challenges in meeting State-mandated organics collection and reporting requirements.
- (2) Direct Staff to evaluate alternative rates and return to City Council for consideration. Any alternative must comply with cost-of-service principles and Prop 218 requirements. Developing alternatives will require additional time and expense, and because they will rely on the same underlying data, they will not materially differ from the proposed rates. Delaying adoption will result in higher future rates.

Staff recommends approving the rates as presented in the Prop 218 Notice. The proposed rates are cost-based, equitable, legally compliant, and necessary to maintain the financial stability of the Solid Waste Collection Enterprise Fund. Even with the proposed adjustments, the City's rates will remain substantially lower than those of surrounding jurisdictions (Attachment E).

Fiscal Considerations

The recommended rates are designed to recover the full cost of providing solid waste collection services and to proportionately allocate those costs among ratepayers. Adoption of the proposed rates will help ensure the solvency of the Solid Waste Collection Enterprise Fund, support ongoing operations and maintenance, and provide resources for equipment repair and replacement while maintaining a positive cash balance.

Impact on Community

State law prohibits the City from charging more than the cost of providing service. As a result, the City cannot subsidize solid waste rates unless external funding is secured to offset costs. Staff recognizes that any rate increase may impact household budgets; however, State law mandates the City may only recover the full cost of providing service, and the proposed rates reflect only those necessary costs.

ATTACHMENT(S)

- A. Ordinance
- B. Public Workshop Questions
- C. Public Notification
- D. Notice of Proposed Rates (PROP 218 Notification)
- E. Comparisons