R3 CONSULTING GROUP, INC.
RESOURCES · RESPECT · RESPONSIBILITY

April 18, 2025

Ms. Vicki Reid
Recycling and Organics Coordinator
City of Roseville
311 Vernon Street
Roseville, CA 95678
submitted via email: VReid@roseville.ca.us

SUBJECT: Non-Exclusive Franchise Hauler Fee Update – R3 Final Report

Dear Ms. Reid,

R3 Consulting Group, Inc (R3) is pleased to submit the attached Final Report for the solid waste Non-Exclusive Franchise (NEF) Hauler Fee update (Update) to the City of Roseville (City). This report presents our analytical methodology, results and findings, and recommendations regarding the NEF franchise fees to be paid by the City's NEF solid waste collection service providers (NEF Haulers).

When we perform a Fee Study, we typically attempt to comprehensively analyze and calculate:

- » City's Costs
- » Property Use Charges
- » Pavement Impacts

However, because of the limited operations performed by the NEF Haulers in the public right of way, the focus of the Update is primarily on the City's costs and minimal pavement impacts. Total annual NEF Hauler franchise fees are based on annual tonnage hauled and were calculated such that they are not more than necessary to cover the City's costs in managing and administering the NEF hauling operation, plus any Pavement Impacts.

Based on our analysis, the current NEF Fee can be increased from $6.88 per ton to a maximum of $12.43 (approximately $12.40) per ton but the City could also phase in the increase over time if it prefers.

Sincerely,

Jordan Muratsuchi | *Sr. Consultant*
R3 Consulting Group, Inc.
916.782.7821 | jmuratsuchi@r3cgi.com

Carrie Baxter | *Principal*
R3 Consulting Group, Inc.
916.878.7413 | cbaxter@r3cgi.com

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

Background

The City allows any private hauling company to perform debris box operations within the City so long as an annual application/renewal fee and a monthly franchise fee of $6.88 per ton collected is paid to the City. These debris box operations are irregular and non-scheduled, based on individual customer demand. Additionally, the debris box operations are exclusively for construction and demolition waste.

Per the NEF Haulers' permits, the NEF Haulers are to pay franchise fees to the City to cover the costs incurred by the City in managing, administering, enforcing, and supplementing the services provided in the NEF hauling operations, as well as the charge for the use of the public right-of-way for the special and lasting access to use it for set-out and collection of solid waste containers, and pavement impacts.

Purpose

The purpose of this Study is to identify the amounts that may be reasonably recovered through the Non-Exclusive Franchise Fees (Fees) paid by the NEF Haulers to the City as exempt from consideration as taxes. In terms of the applicable legal framework, this analysis seeks to quantify whether amounts that may be reasonably recovered through the Fees paid by the Contractors to the City fall within an exemption to the definition of a tax per Article XIII C, Section 1(e) of the California Constitution ("Proposition 26").

There are four primary exceptions to the Proposition 26 definition of tax that are relevant:

» **Exception 1:** "A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege."

» **Exception 2:** "A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product."

» **Exception 3:** "A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof."

» **Exception 4:** "A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property."

Franchise Fees are often made up of three components. The first component includes the City's proportionate costs (**City's Costs**) per Exceptions 1, 2 and 3. The second component includes the proportionate charges for the Contractors' use of the public right-of-way (**Property Use Charges**) per Exception 4. The third component includes the City's proportionate costs associated with pavement impacts (**Pavement Impacts**) per Exception 1. Our analysis primarily focuses on City Costs due to the limited nature of the NEF Haulers.

Methodology and Findings

To complete this Study, R3 reviewed and analyzed information provided by the City pertaining to the City's Costs and determined them to be reasonable. Using that information, we then calculated – as a subset of the total amounts in these categories – the proportionate amounts necessary to cover the City's costs, including staffing and other costs during the course of providing sanitation service. All calculated amounts in this Study are in current Fiscal Year (FY) 2024-25 dollars. Minor differences in dollar figures shown in the report are due to rounding.

City's Costs

The City's costs are comprised of annual costs for management and administration of the NEF Hauler Permits. Staffing costs are calculated based on estimated time allocations (based on historical tonnages hauled by the NEF haulers and the assessment of current City employees). The calculation results in **$141,472** in City's Costs.

Property Use Charges

Typically, the annual charge to haulers for use of government property in the public right-of-way is calculated as a function of estimates for the number of solid waste accounts setting out solid waste collection containers in the right-of-way, the set-out area used, the amount of time it is used, and the market value for the per square foot use of the public right-of-way.

The City's NEF Haulers exclusively provide on-call debris box services and do not perform regularly scheduled services. Further, debris boxes are often kept on private property. NEF Haulers are not junk hauling businesses. Junk hauling businesses are those specializing in the collection, hauling, and disposal of unwanted items on demand. Junk hauling businesses are prohibited from dropping debris boxes within the City, so the minimal waste collected by junk hauling businesses was not considered when developing the NEF Hauler Monthly Fee.

The Property Use Charges that would accordingly affect these debris box services, in which the containers are sometimes temporarily placed in the public right-of-way, is not included because the City has implemented an individual encroachment fee for temporary use of the public right-of-way. This encroachment fee acts as the property use charge and therefore, there are no property use charges that can be included in franchise fees paid by NEF Haulers.

Pavement Impacts

Typically, the annualized costs for pavement repair, maintenance, and rehabilitation are calculated based on the proportionate impact to pavement from solid waste collection vehicles compared to other sources of impacts. These are separate from Property Use Charges, in that Pavement Impacts are derived from damage caused to pavement by collection vehicles, while Property Use Charges are derived from the use of the public right-of-way for the set-out and collection of solid waste containers.

The debris box operation conducted by the NEF Haulers is irregular and based on individual customer demand. Therefore, the City's NEF Haulers do not operate vehicles on the same streets on a regular schedule (unlike the City's municipal operations). As such the impacts to pavement are inconsistent throughout the network of streets in the City and make up of a small portion of pavement impacted compared to solid waste vehicles that operate on a regular schedule over a full day.

Conclusions

Non-Exclusive Franchise Fee

The City's Costs calculated in this Study are $125,817 and Pavement Impacts calculated in this Study are $15,655. Therefore:

- The City may consider collecting a **maximum** of $141,472 Non-Exclusive Franchise Fee revenue from the combined NEF Haulers.
- **The City may consider Fees that are less than the amounts calculated by this Study**, which would result in Fees being below the calculated amounts necessary to cover the City's Costs. Given that the calculations in this Study are estimates and given unknown but possible changes in the legal framework affecting what may constitute allowable costs for Franchise Fee revenue recovery in the future, adoption of Fees below

the amounts calculated via this Study would be a conservative approach that would further bolster reasonableness.

» R3 estimates that the maximum $141,472 annual Fee revenue for the NEF Haulers would equal approximately **$12.40** per ton, applied to all NEF Haulers. This is an approximately 80% increase from the current fee of $6.88 per ton.
» The maximum Fee calculated of $141,742 is a 95% increase from the current amount of franchise fees collected of $72,399. Should the City wish to increase the fee to this amount, the City may want to consider incremental adjustments over 2-3 years.
» Should the City decide to increase the franchise fee to the maximum calculated amount, over a period of three (3) years, the franchise fee would increase by $1.80-$1.90 each of the three years.

Reasonableness of Estimates and Assumptions

In performing calculations, it was necessary to estimate certain values for which reasonable ranges exist. Where assumptions were necessary for completing calculations, our objective was to apply assumptions on the lower end of the reasonable range based on our professional experiences working on similar matters for other agencies. Had we used other higher assumptions, the results of this Study would have been higher calculated Franchise Fee amounts. Therefore, we conclude that the calculated fee amounts are not higher than necessary to cover the City's reasonable costs plus the reasonable value of the Contractors' use of the public right-of-way.

Limitations

This Study relies on information provided by the City which we have reviewed and analyzed for reasonableness and accuracy but did not independently audit or verify. This includes any calculations that were conducted by other consultants to the City outside of this Study.

As stated above, it was necessary to estimate certain values for which reasonable ranges are known to exist. Though changes to estimates and other underlying assumptions may materially change the calculations, we have elected to apply estimates on the low end of reasonable ranges, thus minimizing the potential that changes in calculations would result in different ultimate findings. We have reviewed estimates and assumptions with City staff and have mutual concurrence on applicability and reasonableness of all such values in this Study.

Finally, the methodology employed by this Study calculates the reasonable values for the Fee within the context of current laws, regulations, and court rulings. Changes in the legal framework may require revisions to the methodology and findings contained in this Study.

2. METHODOLOGY & CALCULATIONS

City's Costs

Methodology

R3 reviewed and analyzed information provided by the City pertaining to the General Fund and Solid Waste Fund costs incurred for management, administration, regulatory compliance and enforcement, solid waste collection and clean-up, and other obligations associated with the NEF Hauler system.

These costs include and may not be limited to:

» Staffing costs, including salaries and benefits.

» Supplies and materials.

Using the total annual salary, benefits, and other cost information provided by City staff for FY 2024-25, we estimated the proportion of costs associated with management and administration of the NEF Haulers. We then calculated the proportionate totals and categorized them by the functions listed in the sections below.

Variables, Estimates and Assumptions

Staffing Costs

Variables associated with salaries and benefits (staffing costs) include the allocation of time that positions are dedicated to management and administration of the NEF Haulers (including time supervising others with primary responsibility for these duties), the amount by which funding of salaries and benefits will be paid by the Solid Waste Fund. The estimated time allocation by position category provided by the City and used in this Study is shown in **Table 1**, below. City Manager and City Attorney positions that are include are indirectly associated with the management and administration of the NEF Hauler Permits, including oversight and general overhead (which is not otherwise included in this Study). Other positions are either directly or indirectly responsible for the management and administration of the NEF Hauler Permits.

Table 1: Allocations of Staffing Time by Position

Positions	Time Allocation
Senior Solid Waste Billing Technician	18.8%
Waste Services Field Enforcement Supervisor	11.3%
Management Analyst	12.5%
City Manager's Office	0.25%
City Attorney's Office	0.25%
Street Sweeping Personnel	2.0%

R3 verified with City staff that the salaries and benefits included in this Study will be paid by the Solid Waste Services Fund.

Analysis

Direct Management and Administration

This category includes City staffing for direct management and administration of the NEF Hauler Permits. Staffing costs include allocated costs for the City's Senior Solid Waste Billing Technician and Management Analyst, for a total annual calculated staffing cost in this category of $50,944. We have included an additional $5,600 annually to pay for the consulting costs to review the fee amounts. The total for the category is **$56,544.**

Indirect Management and Administration

This category includes City staffing costs for indirect management and administration, including supervision of those responsible for direct management and administration of the NEF Hauler Permits and associated responsibilities. Allocated costs for the City Manager's Office and City Attorney's Office are calculated for total annual costs in this category of **$10,830.**

Municipal Code Enforcement

This category includes City staffing costs for municipal code enforcement associated with the NEF Haulers. Allocated costs for the Waste Services Field Enforcement Inspector are calculated for total annual costs in this category of **$17,995.**

Street Sweeping

This category includes City staffing costs for street sweeping associated with the NEF hauling operation. Allocated costs for the Street Sweeper Operators are calculated for total annual costs in this category of **$40,448.**

Annual Total of City's Costs

Table 3, below, shows the total of the City's Costs for management and administration of the NEF Haulers as calculated in this Study, by category.

Table 3: City's Annual Costs by Category and in Total

Category	Staffing Costs
Direct Management and Administration	$56,544
Indirect Management and Administration	$10,830
Municipal Code Enforcement	$17,995
Street Sweeping	$40,448
Total Annual City's Costs	**$125,817**

Pavement Impacts

R3 reviewed and analyzed information provided by the City pertaining to the Pavement Impacts associated with solid waste vehicles on the City's streets. The City provided R3 with a report from a separate consultant dated July 8, 2024 with Subject "Phase 2 Study – Comprehensive Proposition 218 Fees and Charges Assessment and Related Cost-of-Service Studies" which calculated the total annual solid waste vehicle portion of Pavement Impact costs to be $782,763.

These costs include and may not be limited to:

- Pavement repair.
- Pavement Maintenance.
- Pavement replacement.

Based on the irregular nature of the NEF hauling operations, we assumed the Pavement Impacts from NEF hauling vehicles to be 2% of the total Pavement Impact costs attributed to solid waste vehicles from the City's provided report.

Table 4, below, shows the total of the City's Pavement Impact costs of the NEF Haulers.

Table 4: City's Pavement Impact Costs

Category	Amount
Total Solid Waste Truck Pavement Impact[1]	$782,763
Percent NEF Hauling Vehicle Impact	2%
NEF Hauler Cost Portion	**$15,655**

Fee Comparison

A comparison of similar fees charged by communities for debris box services is shown in **Table 5**, on the following page. As shown in the table, communities typically charge a fee based on a percentage of revenue as opposed to the City's method of charging a fixed fee per ton, however the City's approach may be more justifiable in meeting the cost of service.

[1] *From the City's Report "Final Phase 2 Report – Proposition 218 Fees and Charges Assessment and Related Cost-of-Service Studies" dated July 8, 2024.*

Table 5: Debris Box Fee Comparison

Community	Debris Box Hauler Fee
Sacramento County	10% Gross Receipts; $1,000 Application Fee
Sacramento City	10% Gross Receipts
Elk Grove	10%-20% Gross Receipts (based on diversion rate)
Fairfield	13% Gross Receipts
Lincoln	10% Gross Receipts
Glendale	20% Gross Receipts
Citrus Heights	10% Gross Receipts
Folsom	8% Gross Receipts

3. FINDINGS & CONCLUSIONS

Non-Exclusive Franchise Fee

» R3 calculated estimates of the City's Costs based on actual and estimated cost information provided by the City, and with reasonable and conservative assumptions for estimated values.

» The sum of annual maximum City's Costs calculated in this Study is $125,817.

» The annual maximum Pavement Impact calculated in this Study is $15,655.

» R3 estimates that the total maximum $141,472 annual Fee revenue for the NEF Haulers would equal approximately $12.40 per ton, applied to all NEF Haulers. This is an approximately 80% increase from the current fee of $6.88 per ton.

» The calculated amounts bear a reasonable relationship to the NEF Haulers' burdens on the City resulting from the management and administration of the NEF hauling operation. The City's Costs have been reviewed and confirmed by City staff as being representative of the actual time and costs incurred for these activities.

» The application fee adjustment methodology and estimates used to determine the appropriate amount of staff time appear reasonable based on our understanding of the requirements for administering a non-exclusive franchise system.

» The Fees calculated via this Study are maximum amounts, and the City may consider lesser amounts of Fees, especially given the unsettled legal landscape regarding cost categories that may be recovered via Franchise Fees.

4. RECOMMENDATIONS

Incremental Adjustment Approach

The maximum calculated franchise fee is approximately 80% greater than the current fee. Should the City decide to increase the franchise fee to the maximum calculated, the City may wish to implement the updated fee through incremental adjustments over a series of three years, as to prevent a single large increase in fees.

Adjusting the franchise fee to the maximum calculated of $141,472, or approximately $12.40 per ton, over a series of three (3) years would result in fee adjustments shown in **Table 6**, below.

Table 6: Three (3) Year Incremental Adjustment of Franchise Fee to Maximum Calculated

Category	FY 24-25 (Current)	FY 25-26	FY 26-27	FY 27-28
NEF Hauler Franchise Fee (per ton)	$6.88	$8.70	$10.60	$12.40

Periodic Recalculation

Over time, the City's Costs associated with the NEF hauling operation and the value of Property Use Charges for use of the public right-of-way may change in ways that vary from the annual change in the CPI. Additionally, changes in City policies, programs, procedures, organization, geopolitical boundaries, laws, regulations, court rulings, and/or other factors may also trigger a need for recalculating fees.

» R3 recommends the City consider updating this Study periodically (e.g., every five years) or more frequently if needed to recalculate fees in response to other factors.