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DEPARTMENT OF
PUBLIC WORKS

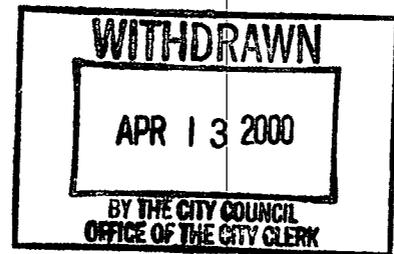
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TECHNICAL SERVICES
DIVISION

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March 28, 2000



City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: SOLID WASTE RATES WORKSHOP

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION:

This report recommends that the Council direct staff to return to the Council with a rate structure that incorporates the findings and recommendations of the 1999 cost of service study for adoption at a public hearing (tentatively scheduled for August) and prepare and mail Prop 218 notices to all customers at least 45-days prior to the public hearing informing them of the proposed adjustments.

CONTACT PERSON: Chris Orozco, Administrative Services Officer, 264-5525

FOR COUNCIL MEETING OF: April 13, 2000

SUMMARY:

- In December of 1998, the City contracted with Skumatz Economic Research Associates (SERA) to complete a cost of service study.

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- The findings and recommendations that SERA presented to staff in late 1999 involve making adjustments to almost all solid waste collection rates including residential garbage collection, yard waste, recycling, and street sweeping.
- The basis for the rate adjustments recommended by SERA is to ensure that solid waste collection rates reflect the cost of providing the service to the customer. The adjustments result in shifting current revenue to off-set current expenses of each of the various services provided.
- If rates are adjusted according to the SERA recommendation, the majority of customers (approximately 95%), those residential customers subscribing to 90-gallon automated service will experience a minute increase of less than half of 1%.
- Those that do not subscribe to garbage service, potentially the commercial and multi-family customers, will experience a net increase. The increase will vary depending on the combination of street sweeping, recycling, and yard waste services they receive.
- If the Council agrees that rates should be adjusted to reflect cost of service, staff will return with the recommended rates for adoption at a public hearing.
- The rates that will be introduced at the hearing will include these adjustments and an expected 5% rate increase, as was discussed at the Midyear Budget Review.

COMMITTEE/COMMISSION ACTION:

None.

BACKGROUND INFORMATION:

In late 1998, the City began a comprehensive study of solid waste costs and rates structure. Such a comprehensive study had not been done for many years in the solid waste area. It was critical to undergo a comprehensive study due to changes taking place in the industry, changes in our core services, such as providing mechanized service, and role changes. The goals of the study were to ensure the continuation of rates that generate revenue sufficient to recover costs, provide equity between and within different customer classes, and provide incentives to reduce waste and to increase recycling.

In the fall of 1999, SERA presented staff with key findings and recommendations. These conclusions were based on their analysis of current operations, historical financial data, current operating expenditure

- Rate adjustments are needed in most rates in order for our fees to accurately reflect the cost of providing the service;
- Adjustments are needed to improve the funds performance in respect to the goals of the cost of service study;

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- A greater rate differential, among different can sizes, is supported by current costs; and
- It is imperative to find opportunities to increase our current commercial customer base and/or reduce costs.

Based on these findings, SERA recommended that several actions be taken. Their recommendations include adjusting rates and commencing to charge current multi-family recycling pilot program customers for recycling services. After careful review of the SERA findings and recommendation, staff fully support their findings and recommendations. In addition, staff also feel it is necessary to refrain from making cost of service adjustments to commercial and multi-family rates at this time. During the next year, staff will pursue both increasing the commercial customer base, which is currently approximately 10% of total commercial businesses, and experimenting with operational changes that can potentially amount to reduced costs. Staff anticipate returning to the Council with cost of service adjustments for these rates in the Spring of 2001.

Although the SERA recommendations result in many changes to existing rates, the adjustments are not intended to raise additional revenue. Implementing these recommended changes to the existing rate structure will result in an overall minute increase of .025% to the total monthly bill of the majority (approximately 95%) of residential customers. The remaining residential customers will see net reductions averaging approximately 3-5%.

The impact to the typical residential customer, this scenario fits 95% of residential customers, is:

	CURRENT	PROPOSED	\$ AMOUNT of CHANGE
RESIDENTIAL-AUTOMATED (90-Gallon)	\$13.90	\$13.21	Decrease of \$0.69
YARD WASTE	\$5.49	\$4.95	Decrease of \$0.54
STREET SWEEPING	\$0.55	\$1.25	Increase of \$0.70
RECYCLING	\$0.77	\$1.36	Increase of \$0.59
TOTAL MONTHLY BILL:	\$20.71	\$20.77	Net Increase of \$0.06

Below is a summary of the other recommended rate adjustments:

GARBAGE	CURRENT	PROPOSED	\$ AMOUNT of CHANGE	PERCENT CHANGE
RESIDENTIAL- MANUAL	Various	Various	Various	Average of -5%
RESIDENTIAL- AUTOMATED (32-Gallon)	\$11.34	\$10.32	Decrease of \$1.02	-9%
RESIDENTIAL- AUTOMATED (60-Gallon)	\$12.60	\$11.77	Decrease of \$0.83	-6.6%
MULTI-FAMILY	Various	Various	No Change	No Change
COMMERCIAL	Various	Various	No Change	No Change

FINANCIAL CONSIDERATIONS:

The SERA recommendations result in changes to almost all of the existing solid waste collection rates. Overall, the adjustments are revenue neutral in respect to the total revenue that is currently being generated through user fees.

It is important to note that when staff returns to the Council for the adoption of these adjusted rates it is anticipated that the recommended rates will include these adjustments plus the addition of an overall 5% increase to all rates. The 5% increase has been factored into the 5-Year Fund Balance Projections discussed at the FY99/00 Midyear Review and at the adoption of the FY99/00 Budget in June of 1999.

ENVIRONMENTAL CONSIDERATIONS:

The proposed fee adjustments are exempt from the California Environmental Quality Act.

POLICY CONSIDERATIONS:

This action is consistent with the goals that were established by staff and reviewed by the Council in prior discussions regarding the cost of service study. The goals are as follows:

- Ensure the continuation of rates that generate revenue sufficient to recover costs,
- Provide equity between and within different customer classes; and
- Provide incentives to reduce waste and to increase recycling (as required per AB939).

These goals are consistent with the Council's past direction and practices regarding the solid waste fund and solid waste rates.

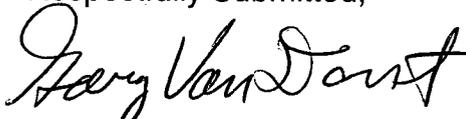
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Overall, these adjustments will shift the burden of who pays the cost of providing services to those that benefit from the service. Most customers will realize a very small net increase of \$0.07 per month; other customers, a very small percentage, will experience a higher net cost. However, these adjustments better align cost with service as is required through the recent passage of Proposition 218. Section 6 of Proposition 218 requires that "the fee or charge...shall not exceed the proportional cost of the service..."

ESBD CONSIDERATIONS:

No goods or services, within the context of ESBD requirements, are being provided through this report.

Respectfully Submitted,



Gary Van Dorst
Solid Waste Planning Superintendent

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

Approved:



Michael Kashiwagi
Director of Public Works