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BY THE CITY COUNCIL
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DEPARTMENT OF
PUBLIC WORKS
SOLID WASTE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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April 28, 1997

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: 1997-98 SOLID WASTE FUND BUDGET

LOCATION and COUNCIL DISTRICT: City

RECOMMENDATION:

This report is an information report on the 1997-98 Solid Waste Fund budget.

CONTACT PERSON: Reina J. Schwartz, Manager, Solid Waste, 264-7043

FOR COUNCIL MEETING OF: May 13, 1997

SUMMARY:

This report presents information on the 1997-98 Solid Waste Fund budget. Any changes to the 1997-98 budget will be adopted with the overall City budget document.

COMMITTEE/COMMISSION ACTION:

None required.

BACKGROUND INFORMATION:

The Solid Waste Fund is an enterprise fund, which is financially responsible for the activities of waste reduction, and recycling, collecting and disposing of solid waste and garden refuse, sweeping streets and abating litter throughout the City. There are a number of issues currently facing the Solid Waste Fund, including:

- ❖ A pending decision on awarding a contract to a private contractor to fulfill some or all of the City's needs for transfer and disposal of waste following an RFP process. It is expected that choosing any of the top-ranked proposers will result in annual savings of at least \$1 million compared to projections of our current costs.
- ❖ Ongoing closure activities at the City's landfill including final capping and flare installation. These activities are scheduled to be completed in 1997.
- ❖ The need to set aside funds for the relocation of vehicle dispatch and maintenance functions for Solid Waste to make way for future development of Sutter's Landing Park at the 28th Street site by the year 2001.
- ❖ A comprehensive re-route of all solid waste-related functions to improve efficiencies and service delivery. It is expected that the re-route will be complete by the fall of 1997.
- ❖ The fund has faced significant revenue losses in the last year. These are the result of two decisions. The first was to reduce solid waste rates in 1996-97 by \$1.75 per household per month. Although the loss of revenue was anticipated from the drop in rates, it has not yet been matched with sufficient operating expense cuts, contributing to a budget imbalance in the fund. The second was the decision to open up commercial garbage collection to competition from private firms. Anticipated revenue losses from commercial garbage collection losses were estimated to be \$2 to \$3 million at the time the 1996-97 budget was adopted. Actual losses have been in excess of \$4 million.

FINANCIAL CONSIDERATIONS:

For 1997-98, no rate increases are proposed for the Solid Waste fund. Revenues for all functions except commercial garbage collection are expected to remain stable. Commercial collection revenues are anticipated to drop by another \$500,000 due to further account loss.

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On the expenditure side, the Solid Waste fund has achieved savings of \$1.5 million compared to the budget in 1996-97. For 1997-98, these savings will be reflected by reducing budgeted expenditures by \$1.5 million. The reduced expenditures include:

- ❖ Elimination of three vacant General Helper positions no longer needed due to reductions in the number of commercial accounts serviced by the City. These reductions result in savings of approximately \$75,000.
- ❖ Reduction of \$500,000 in the division's overtime budget due to re-routing efficiencies and operational changes. In 1995-96, the division spent in excess of \$1.2 million on overtime. Operational improvements can significantly reduce that amount.
- ❖ Services and supplies reductions of \$500,000 below actual prior-year expenditures, due primarily to reduced fleet costs and reduced expenditures on consultant contracts.
- ❖ Elimination of the need for debt service payments of \$450,000 on prior purchases of recycling and collection equipment funded through certificates of participation. In 1997-98, the solid waste fund's outstanding debt service commitments will be finished.

Additional reductions will be phased in during 1998-99 to ensure that the solid waste fund budget remains healthy over the next several years. These will include reductions in the number of routes due to re-routing, elimination of supervisory positions where possible and further reductions in division overtime.

A summary of the 1997-98 budget is shown below.

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SOLID WASTE Enterprise Fund 415 (in thousands)	1996-97 Year-End Estimate	1997-98 Proposed	Variance Fav/(Unfav)
Beginning Fund Balance	9,470	5,253	(4,217)
Annual Operating Revenues			
Interest	775	775	0
Charges for Current Services	28,070	27,521	(549)
Miscellaneous	609	609	0
Total Annual Revenues	29,454	28,905	(549)
Transfers In	60	60	0
Annual Operating Expenditures			
Employee Services	10,463	9,892	571
Services and Supplies	20,991	20,510	481
Equipment	192	150	42
Debt Service	453	0	453
Labor/Supply Offset	0	0	0
Transfers Out	334	334	0
Total Operating Expenditures	32,432	30,886	1,546
Capital Improvements	2,511	100	2,411
Annual Surplus/(Deficit)	(5,429)	(2,021)	3,408
Other Sources/(Uses)	1,212	0	(1,212)
Ending Fund Balance	5,253	3,232	(2,021)

The assumptions used in the five-year projections are as follows:

- ❖ Regular increases in landfill disposal costs. It is anticipated that regardless of whether the City uses a private firm for transfer and disposal of City garbage or continues to haul to the County's landfill, disposal costs will continue to rise, although use of a private provider will result in lower costs overall.
- ❖ No additional funds have been set aside this year to deal with the need to move the Solid Waste division out of the 28th Street yard by 2001. The \$2 million put in a capital project for this purpose last year, however, remains intact for this purpose.

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- ❖ Labor costs include regular cost-of-living increases consistent with the provisions in the current labor contracts.

The five-year projection shows that with no rate increases and significant expenditure reductions, the Solid Waste Fund will have a healthy balance through 1998-99. Without any rate increases, however, cost increases will outpace revenue growth by the year 2000. Given the relatively healthy fund balance, the overall fund is projected to be financially healthy through 2001. After that time, moderate rate increases would be needed. The full five-year forecast is shown below.

SOLID WASTE FUND -- 5-YEAR FUND BALANCE PROJECTION WITH NO RATE INCREASES (dollars in thousands)						
	1996-97 Year-End Estimate	1997-98 Proposed	1998-99	1999- 2000	2000-01	2001- 2002
Rate increase projected need		none	none	none	none	2% -3%
BEGINNING FUND BALANCE	9,470	5,253	3,232	3,232	2,852	2,082
REVENUES/OTHER SOURCES						
Revenue	29,454	28,905	28,830	28,830	28,830	28,830
Transfers in	60	60	60	60	60	60
Subtotal, revenues	29,514	28,965	28,890	28,890	28,890	28,890
EXPENDITURES						
Operating Budget*	30,767	30,886	28,790	29,171	29,560	29,959
Debt Service	453	0	0	0	0	0
CIP	2,511	100	100	100	100	100
Subtotal, expenditures	33,731	30,986	28,890	29,271	29,660	30,059
ENDING FUND BALANCE	5,253	3,232	3,232	2,852	2,082	913
*Net of other sources						

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ENVIRONMENTAL CONSIDERATIONS:

There are no new environmental impacts associated with the continuing solid waste fund budget.

POLICY CONSIDERATIONS:

While the solid waste fund balance will be healthy for the next year or two with no rate increases, significant operational efficiencies and/or reductions or moderate rate increases will be required over the latter portion of the five-year projection period in order to keep the fund solvent. Solid Waste staff will be working to increase efficiencies and reduce expenses to keep rate increases to a minimum.

Further, in the next few months the City Council will be asked to give policy direction regarding a long-term collection and recycling strategy. The report that will come to the City Council will explore the feasibility of several systems which represent a significant departure from current collection practices. For example, a system where customers can choose the size of their can will be compared to the implementation of a co-collection system (collecting garbage and recyclables in a single split container). The economic impact of the chosen collection and recycling strategy is not yet known. However, it is not anticipated that such policy direction would have a significant impact on overall solid waste rates, but may affect certain components and customers.

It is also anticipated that costs to City rate payers may grow more slowly as a result of the current process the City is going through to select a private provider for solid waste transfer, processing and disposal services. It is anticipated that the contract for those services will reduce costs to City rate payers by at least \$1 million annually compared to projections of our current costs to direct-haul to the County's Kiefer Landfill.

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MBE/WBE:

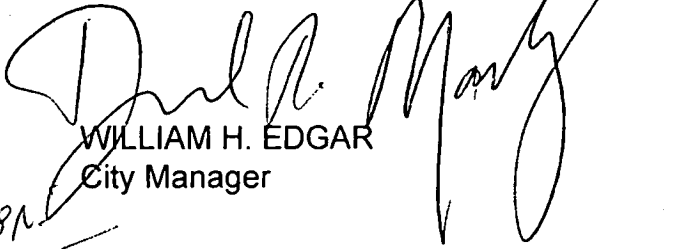
Not applicable since no goods or services are being requested as part of this report.

Respectfully submitted,



Reina J. Schwartz
Manager, Solid Waste

RECOMMENDATION APPROVED:



WILLIAM H. EDGAR
City Manager

Approved:



Michael Kashiwagi
Director of Public Works