

STAFF REPORT

DATE: September 19, 2018

TO: Utility Rate Advisory Commission

FROM: Richard Tsai, Environmental Resources Manager
Stan Gryczko, Assistant Public Works Director

SUBJECT: Overview of Draft Letter Report on 10-Year Financial Plan and 5-Year Rate Study

Recommendation

Consider staff recommendation to adopt rates to provide sufficient revenue for solid waste utility while continuing to develop a recommendation for long-term solutions for solid waste services, including loose in the street pickup. Staff is not seeking a formal recommendation at this meeting.

Fiscal Impact

No fiscal impact as a result of the study; however the Solid Waste Fund continues to see expenditures exceed revenues on average of \$90,000 per month.

Council Goal(s)

This effort is consistent with the Council Goal to Ensure Fiscal Resilience.

Background and Analysis

Since late 2017, city staff, in conjunction with the Utility Rate Advisory Commission (URAC), has been reviewing cost components of the solid waste utility and service delivery options. The primary focus of discussions with the Commission have been focused on the Loose in the Street service (LITS), as one component of solid waste handling that has many potential options that can either raise or lower the overall cost of service. Extensive discussion of various LITS options, including an online community survey, to determine a ranking of priority options for review have occurred. To date, no clear formal recommendation has come from these discussions on what option to recommend for LITS, and consequently no recommended rate structure has gone to the City Council. In addition, other heretofore-unconsidered options for LITS service have been presented, and staff has not had appropriate time to consider the cost impact of these options. The need for rate adjustments outlined in the attached draft report are required regardless of the determination of LITS service levels. Modification of LITS service will influence rates to a degree, but the overall revenue shortfall cannot be addressed by just modifying LITS service. Staff believes the primary focus at this time should be correcting the revenue shortfall for solid waste services.

Given the continued LITS discussion, the wide community concern for LITS, the need to fully consider LITS options as part of the long-term strategy for solid waste service delivery, and the structural deficit currently existing in the solid waste fund, staff is requesting the URAC consider recommending Council adopt the rates proposed in the draft report.

Staff would also request that the URAC consider and discuss the possibility of recommending the inclusion of one additional month of LITS service during the leaf drop season. The addition of one month of LITS during the leaf drop season was a common response/request in the public survey.

The proposed rate adjustments in the attached report will provide sufficient revenue for the utility over the next five years to cover expenditures, and recover from the existing deficit. It should be highlighted that the action taken by Council, if recommended, would be to set maximum rate increases. Future changes to LITS service, or other service options, resulting in a lower cost of service would give Council the ability to adopt a rate increase that is lower than the maximum allowed under this proposition 218 process. Consideration of future changes in LITS and other aspects of the solid waste service will be a part of the long-term look at solid waste services to take place with the URAC and other city commissions over the next several months.

Draft Cost of Service Report

R3 Consulting (R3) has completed a 10-Year Financial Plan (10-Year Plan) including a 5-Year Rate Study (Rate Study) which reviewed historical, current, and projected future revenues and expenses in the City's Solid Waste Enterprise Fund (Solid Waste Fund). The report also documents the methodology, assumptions, and findings related to the financial model, including the primary drivers of the expense increases by year. The 10-Year Plan was necessary to ensure the ongoing sustainability of the Solid Waste Fund.

Additionally, via the Rate Study, R3 provided a review of the current rate structure of the City's solid waste services, an updated rate structure to recover service costs, and reviewed alternative service delivery options to assist the city in meeting financial and environmental goals.

Pursuant to their scope, R3 has completed the enterprise fund financial model which shows the following as "baseline" expenses for the utility:

- 1) Current and projected increases in the costs of solid waste and street sweeping programs provided by Recology Davis.
- 2) Debt repayment of \$3,000,000 of Solid Waste Fund (520) inter-fund loan from the Wastewater Fund (532) and projected debt service on other future capital needs;
- 3) Environmental mitigation costs at the City-owned closed landfill, and costs associated with road repair due to wear-and-tear from solid waste collection services;
- 4) New programs including street sweeping on bike paths and a new Artists in Residency program;
- 5) Achievement of a reserve balance in the Solid Waste Fund of 15% at the end of the 10-Year Plan horizon; and
- 6) Necessary service charge increases required to support the above expenses over the entire 10-year period, including recovery from a structural deficit.

The Draft Letter Report describes the major drivers of projected revenues and service charge increases, and draft service charges for the coming five years. R3's Draft Letter Report is provided as Attachment 1 to this staff report.

Attachments

1. Draft Letter Report on 10-Year Financial Plan and 5-Year Rate Study (with Attachments)
2. Review of Loose In the Street Yard Material Collection Options