

STAFF REPORT

DATE: October 4, 2018

TO: Utility Rate Advisory Commission

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

SUBJECT: Draft 5-Year Solid Waste Rate Recommendations

Recommendation

- Approve staff recommendation to adopt Alternative #2 (two) of the three presented draft 5-year solid waste rate tables, to provide sufficient revenue for the utility, and an additional month of weekly loose in the street (LITS) pickup through mid-January 2019, while continuing to develop a recommendation for long-term solutions for solid waste services.
- Recommend the City Council direct staff to work with Utility Rate Advisory Commission (URAC) and Natural Resources Commission (NRC) to revisit the LITS program and develop recommendations for the program moving forward within the next 6 months.

Fiscal Impact

The cost of the solid waste rate study so far involves staff time already budgeted in addition to payments to R3 Consulting totaling \$65,142. 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 this is one component of solid waste handling which can be modified to raise or lower the overall cost of service, and mitigate the rate increases to customers. However, while any potential modifications to the LITS service will influence rates ranging from 10% decrease or up to a 2% increase, 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, as the deficit is ongoing.

In conversations with the URAC and the Natural Resources Commission at their meetings in September, each Commission expressed support for this approach, and interest in continuing the discussion around the LITS program. Given the wide community concern for LITS, and the need to fully consider LITS options as part of the long-term strategy for solid waste service delivery, the Commissions focus over the next six months, if recommended, would continue the community conversation around the LITS program and provide multiple opportunities for the public to be a part of the future discussion of the program.

Alternative 5-Year Solid Waste Rate Tables

Staff is presenting three alternatives for the next five years of solid waste rates, which will also be presented to the City Council. The alternative recommended by staff, discussed in further detail below using average customer costs, is Alternative #2, which would be to continue the current level of solid waste service, but add an additional month of collection to the weekly leaf drop season in January 2019 and possibly continuing through the 5 year rate cycle if that is the recommendation for long-term solutions for solid waste services.

Alternative #1: No Change to Solid Waste Service

One alternative under consideration is to continue with the current level of solid waste service with no changes. Essentially, this rate structure would accomplish the goals of ensuring the fund balance remains positive over the next five years, would begin to build the reserves of the solid waste utility, and would ensure the utility could meet its obligations to pay back the loan from the Wastewater fund. No programmatic change would occur. The table below shows the percentage and estimated dollar impact to an average single-family household account with a 65-gallon cart.

Rate Year	2018	2019	2020	2021	2022	2023
% Increase in Base Service Charges	N/A	13.5%	10.0%	8.0%	5.0%	5.0%
No Change to LITS (Current Program Offering)	\$34.32	\$38.95	\$42.85	\$46.28	\$48.59	\$51.02

Alternative #2: Add an Additional Month of Collection to the Leaf-drop Season, with No Other Changes

The second alternative is to continue the current level of solid waste service with one modification to the existing LITS collection, adding an additional month of collection to the current leaf-drop season, from mid-October to mid-December. Staff recommends the URAC consider this option for their formal recommendation, as the addition of one month of LITS during the leaf drop season through mid-January was a common response/request in the public survey conducted in April 2018. At the September Natural Resources Commission meeting, staff also presented the alternative with the inclusion of one additional month of LITS service to the commission. While the commission did not make formal motion at that time, the commission consensus supported staff moving forward with the Proposition 218 noticing process for rate setting, with the proviso that staff would begin work immediately with the NRC and the URAC on the LITS program offerings for 2019/20. The NRC were also open to the idea of the addition of a month of service.

Rate Year	2018	2019	2020	2021	2022	2023
% Increase in Base Service Charges	N/A	15.0%	10.0%	8.0%	5.0%	5.0%
Keep Current LITS Schedule and Extend Leaf Season	\$34.32*	\$39.47	\$43.41	\$46.89	\$49.23	\$51.69

*currently the extended leaf season is not offered. To demonstrate the increase from the current rate to the new rate associated with the additional month of LITS service, the current average of the 65 gallon single-family household is used for comparison only.

In addition to the responses from the city survey in April, staff also recommend the addition of the month as the impact to the rate increases already needed for the fund is minimal. The table below includes the increases to the rates necessary for the inclusion of the additional month, shown with the average single-family residential rate with 65-gallon cart.

Rate Year	2018	2019	2020	2021	2022	2023
Monthly Rate Impact Due to Extended Leaf Season	\$0.00	+\$0.51	+\$0.57	+\$0.61	+\$0.64	+\$0.67

The proposed rate adjustments in the attached tables (Attachment A) will provide sufficient revenue for the utility over the next five years to cover expenditures, and recover from the existing deficit, barring any unforeseen costs incurred in solid waste handling. The last alternative for consideration will achieve these goals as well, however may not maintain a positive fund balance, and could potentially result in additional (short term) loans.

Alternative #3: No Change to Solid Waste Service, with Increases Under 10%

The last alternative under consideration is the presentation of rate increases under 10% for each year. Recent internal discussions with staff have suggested the inclusion of this option as an alternative to keep the initial financial impact to customers as minimal as possible. With this option, the fund could potentially again dip into the negative and necessitate another loan. Moving forward the fund would see growth, however the time taken to bring the fund back to health would take more time than the other two options, and could leave the fund more vulnerable in the case of an unexpected cost associated with an emergency, increases in landfill fees, or other unpredictable changes. A table for Alternative #3 will be provided at the URAC meeting.

It should be highlighted that the action taken by Council, if recommended, would be to set the maximum amount for 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 6 months.

Next Steps

Staff, with the assistance of R3 Consulting, will tentatively introduce the 5-year solid waste rate plan to the City Council with a draft Proposition 218 mailer at the meeting being held on October 30. With Council’s approval, the public hearing will open at a scheduled meeting in November and conclude in December. New customer rates will be in effect beginning February 2019, with the possibility of extending the LITS program through mid-January 2019.

Date	Forum	Detail
October 30, 2018	City Council	Prop 218 introduction
November 2018	City Council	Open public hearing on proposed rate structure increases, begin 30 days comment period

November 2018	URAC / NRC	Joint meeting for staff to propose schedule and method of addressing LITS service in the next 6 months
January 2019	City Council	Close public hearing, adopt 5 year rates
February 1, 2019	Rate increases become effective to solid waste customers	

Attachments

- A. Q&A sheet for Commission Communications on Solid Waste Rate Study