

## **SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET**

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ITEM NO: P-1

DATE: January 28, 2010

SUBJECT: Garbage Rate Study – FSC Group Presentation

CONTACT PERSON: Deborah Knight, City Administrator

### **ISSUE:**

The issue before the city council is to review the garbage rate study presentation materials presented by FSC Group (Attachment A). Agenda item D-1 provides an opportunity to discuss the policy questions raised during the presentation.

### **SUMMARY:**

The city council has been reviewing revenues and expenditures in each of the enterprise funds (water, sewer, garbage, stormwater and cemetery) since 2005. Rate studies are part of the city's goal to improve the city's financial health. The council approved a contract with FCS Group in September 2009 to ensure adequate financial resources to fund operations, maintenance and equipment replacement in the City's garbage utility.

The garbage rate study looks at "cost of service" - how much does it cost the city to collect garbage for each customer type.

The study examines the expenditures and revenues in the city's garbage utility - enterprise fund to determine if the current rates are adequate to meet the fund's needs over the next five years.

By state law, the city's garbage utility must pay for itself. This means the city's other revenue funds such as the general fund (property taxes) cannot be used to underwrite the garbage fund and the garbage fund revenues cannot be used to supplement the general fund to cover general government expenses.

### **STAFF RECOMMENDATION:**

Review the presentation materials; ask questions and direct staff to areas of concern.

### **ATTACHMENTS:**

A – Powerpoint Presentation Garbage Rate Study

# City of Sultan

## Garbage Cost of Service Study

City Council Meeting  
January 28, 2010

Presented by: Angie Sanchez, Senior Project Manager  
Sean Senescall, Senior Analyst



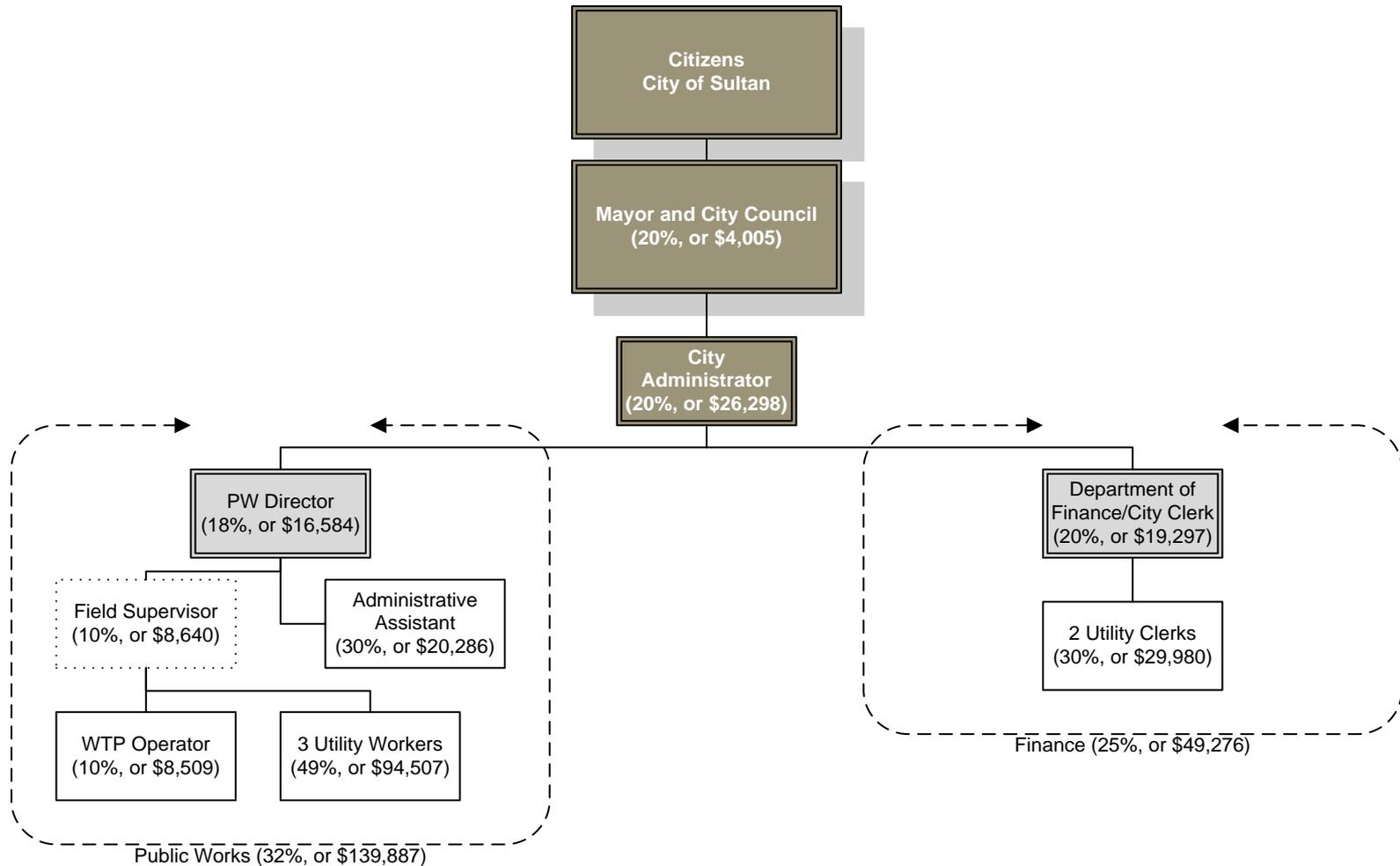
# Agenda

- Background
- Policy Considerations
- Overview of Rate Study Process
- Establishment of the Overall Revenue Requirement
- The Cost of Service Process and Findings
- Current vs. Cost of Service Rates
- Summary and Next Steps

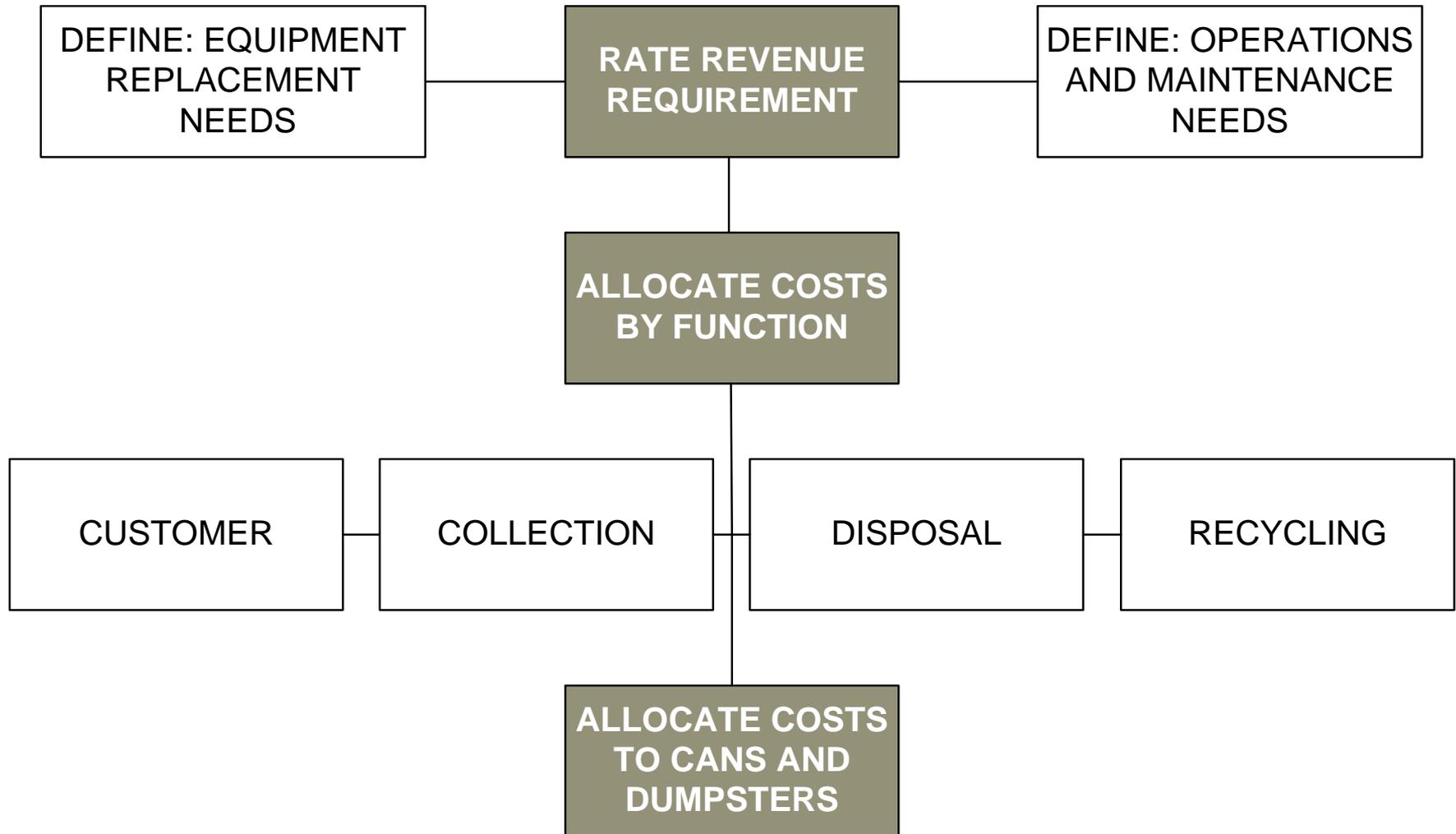
# Background

- SW Utility formed in 1964
- City provides residential and commercial solid waste collection to approximately 1,401 residential and 82 commercial accounts.
- City tips solid waste tonnage at local County drop box at a 2010 budgeted cost of \$186K. (~1,800 tons tipped in '09)
- City contracts with Allied Waste, Inc. for residential recycling collection at a 2010 budgeted cost of \$135K.
- Allied Waste, Inc. independently provides commercial recycling collection, as well as yard waste collection.
- Outsourcing garbage collection not effective due to limited staff resources.

# Solid Waste Organizational Chart (SW Allocation in Parentheses)



# Overview of Rate Study Process



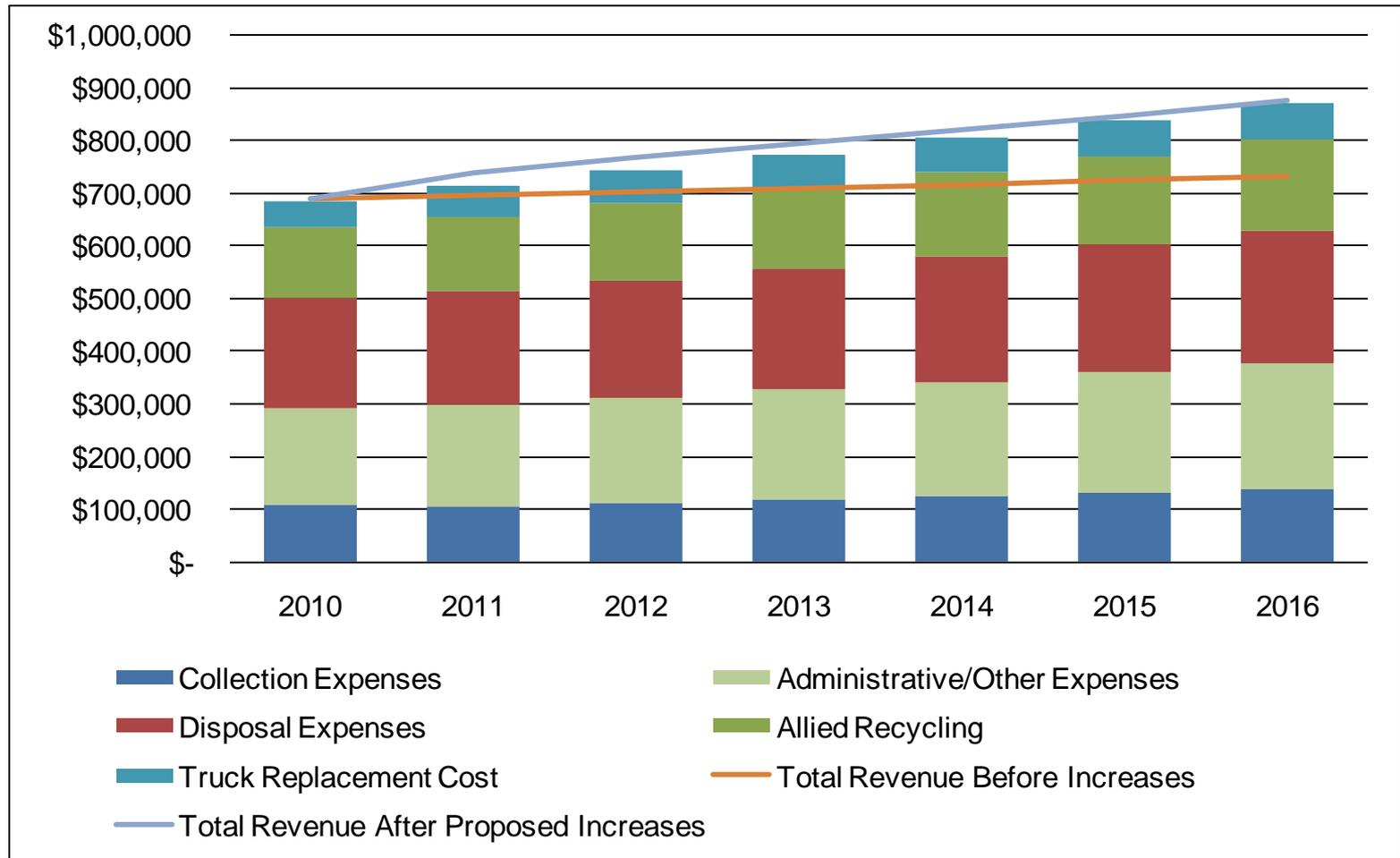
# Policy Considerations

- Reserve target = 30,45, or 60 days of O&M?
- Equipment replacement funding level?
- B&O taxes included on end of bill with other taxes?
- Continue low income senior rates?
- Rate for extra can and two (2) cans based on incentive pricing rather than cost of service?
- When should the rate increase take affect?
- Cost-of-Service (COS) implementation – full, partial, or not at all (Across-the-Board (ATB) increase)?
- Include cost of recycling in garbage rate?

# Key Expenditure Assumptions

- Major changes in operating and capital expenses:
  - ✓ Utility supervisor position in 2010 (garbage is responsible for 10% of this position's salary and benefits)
  - ✓ Recycling costs, recovered via a separate rate, are increasing by nearly 100% in 2010, after years of staying flat in spite of increased service levels
  - ✓ Disposal costs increased from \$89/ton to \$105/ton in February 2009
  - ✓ Utility targets a minimum fund balance of 60 days of operating and maintenance expenses to cover revenue and expense fluctuations
  - ✓ Rate assumes B&O tax will now be itemized at the bottom of utility bill, along with all other taxes
  - ✓ Truck replacement funding must be increased in order to pay for new garbage truck, totes, and existing truck refurbishment in 2015 (estimated cost of \$550K)

# Overall Revenue Requirement



■ Result is a 9% overall rate increase in 2011

✓ Additional 4% in 2012 and 3% thereafter

# Overall Revenue Requirement (cont.)

Revenue Requirements	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>							
Rate Revenues Under Existing Rates	\$ 491,144	\$ 496,055	\$ 501,016	\$ 506,026	\$ 511,086	\$ 516,197	\$ 521,359
Recycling	171,000	172,710	174,437	176,181	177,943	179,723	181,520
Non-Rate Revenues	29,110	27,158	27,512	27,872	28,238	28,611	28,989
<b>Total Revenues</b>	<b>\$ 691,254</b>	<b>\$ 695,923</b>	<b>\$ 702,965</b>	<b>\$ 710,079</b>	<b>\$ 717,268</b>	<b>\$ 724,530</b>	<b>\$ 731,868</b>
<b>Expenses</b>							
Collection Expenses	\$ 106,983	\$ 105,840	\$ 111,592	\$ 117,772	\$ 124,421	\$ 131,579	\$ 139,293
Disposal Expenses	211,300	217,639	224,168	230,893	237,820	244,955	252,303
Administrative Expenses	153,444	160,328	167,647	175,435	183,734	192,585	202,035
Allied Recycling	135,000	140,643	146,522	152,646	159,027	165,674	172,600
Other O&M	30,000	31,039	32,115	33,229	34,382	35,577	36,814
Truck Replacement Cost	49,870	60,510	62,326	64,196	66,121	68,105	70,148
<b>Total Expenses</b>	<b>\$ 686,597</b>	<b>\$ 716,001</b>	<b>\$ 744,371</b>	<b>\$ 774,175</b>	<b>\$ 805,509</b>	<b>\$ 838,480</b>	<b>\$ 873,200</b>
<b>Net Surplus (Deficiency)</b>	<b>\$ 4,657</b>	<b>\$ (20,077)</b>	<b>\$ (41,406)</b>	<b>\$ (64,095)</b>	<b>\$ (88,242)</b>	<b>\$ (113,949)</b>	<b>\$ (141,331)</b>
% of Rate Revenue	-0.95%	4.05%	8.26%	12.67%	17.27%	22.07%	27.11%
<i>Annual Rate Adjustment</i>	0.00%	9.00%	4.00%	3.00%	3.00%	3.00%	3.00%
<i>Cumulative Rate Adjustment</i>	0.00%	9.00%	13.36%	16.76%	20.26%	23.87%	27.59%
Rate Revenues After Rate Increase	\$ 491,144	\$ 540,700	\$ 567,951	\$ 590,840	\$ 614,651	\$ 639,421	\$ 665,190
Additional Taxes from Rate Increase	-	-	-	-	-	-	-
<b>Net Cash Flow After Rate Increase</b>	<b>\$ 4,657</b>	<b>\$ 24,569</b>	<b>\$ 25,532</b>	<b>\$ 20,722</b>	<b>\$ 15,327</b>	<b>\$ 9,280</b>	<b>\$ 2,506</b>

# Cost of Service

# Cost of Service: Four Functional Cost Pools

- 2011 Functional Allocation of Revenue Requirement (rate revenues after rate increase of \$541K)
- Each line item expense is categorized according to its function, in order to establish functional cost pools:
  - (1) Customer Costs - fixed costs that include City Council, Mayor, Utility Billing, and other overhead salaries and benefits
  - (2) Disposal Costs – mostly variable, include tipping fees, fuel costs, and truck repair and replacement costs
  - (3) Collection Costs – mostly fixed, include all expenses related to collection staff
  - (4) Recycling Costs – Contract with Allied Waste

# Cost of Service Findings: 2011 Monthly Rate Components

Monthly Rate Components					
Container Size	Customer	Disposal	Collection	Recycling	Total
R1 - Monthly 32-gallon	\$ 8.59	\$ 1.93	\$ 1.18	\$ (1.61)	\$ 10.10
R2 - Semimonthly 32-gallon	8.59	3.86	2.36	(1.61)	13.21
R4 - Weekly 32-gallon	8.59	8.37	5.10	(1.61)	20.46
R8 - Weekly - 2-32-gallon	8.59	16.73	10.21	(1.61)	33.93
CW - Weekly 32-gallon	8.59	8.37	5.10	(1.61)	20.46
C12 - Semimonthly 1-yard	8.59	24.37	15.38	-	48.35
C14 - Weekly 1-yard	8.59	52.81	33.32	-	94.72
C18 - Semiweekly 1-yard	8.59	105.62	66.63	-	180.85
C22 - Semimonthly 2-yard	8.59	48.75	15.38	-	72.72
C24 - Weekly 2-yard	8.59	105.62	33.32	-	147.53
C28 - Semiweekly 2-yard	8.59	211.25	66.63	-	286.48
C32 - Semimonthly 3-yard	8.59	73.12	15.38	-	97.09
C34 - Weekly 3-yard	8.59	158.44	33.32	-	200.35
C38 - Semiweekly 3-yard	8.59	316.87	66.63	-	392.10
Extra Garbage	8.59	1.93	1.18	-	11.70

# Cost of Service: 2011 Customer Allocation

- Each functional cost pool allocated to each container using various factors
  - ✓ Customer costs - \$168K allocated by account (\$8.68 monthly per each account)
  - ✓ Disposal costs - \$278K allocated to each unit of waste volume (\$0.06/gallon)
  - ✓ Collection costs - \$119K allocated to each hour of pickup time spent (\$93.01/hour)\*
  - ✓ Recycling costs – \$148K of costs, offset by \$173K of revenues, for a net ~\$25K that can be *credited* to the garbage rate attached to recycling accounts (\$1.61 *credit* monthly per recycling account)\*\*

***\*Collection route analysis indicates that it takes nearly 7 times as long to pick up a dumpster than it does to pick up a can, and all dumpsters are assumed to take the same amount of time to collect.***

***\*\* Until administration costs of the recycling program are studied, the approximate 20% overhead rate applied to the Allied contract and passed through to solid waste customers appears to create a rebate applicable to residential solid waste customers, to be credited according to the manner in which the costs are incurred.***

# Current vs. Cost of Service Monthly Rates

Total Monthly Rate					
Container Size	Current Rate	COS/Unit	ATB/Unit	\$ Increase (COS)	\$ Increase (Across-the-Board)
R1 - Monthly 32-gallon	\$ 6.66	\$ 10.10	\$ 7.26	\$ 3.44	\$ 0.60
R2 - Semimonthly 32-gallon	10.43	13.21	11.37	2.78	0.94
R4 - Weekly 32-gallon	17.95	20.46	19.57	2.51	1.62
R8 - Weekly - 2-32-gallon	40.54	33.93	44.19	(6.61)	3.65
CW - Weekly 32-gallon	17.95	20.46	19.57	2.51	1.62
C12 - Semimonthly 1-yard	33.30	48.35	36.30	15.05	3.00
C14 - Weekly 1-yard	66.60	94.72	72.59	28.12	5.99
C18 - Semiweekly 1-yard	131.76	180.85	143.62	49.09	11.86
C22 - Semimonthly 2-yard	66.60	72.72	72.59	6.12	5.99
C24 - Weekly 2-yard	131.76	147.53	143.62	15.77	11.86
C28 - Semiweekly 2-yard	264.96	286.48	288.81	21.52	23.85
C32 - Semimonthly 3-yard	99.90	97.09	108.89	(2.81)	8.99
C34 - Weekly 3-yard	198.36	200.35	216.21	1.99	17.85
C38 - Semiweekly 3-yard	398.17	392.10	434.01	(6.07)	35.84
Extra Garbage	10.14	11.70	11.05	1.56	0.91

# Cost of Service Findings: Total 2011 Revenue Requirement

Container Size	2011 Revenues Under Existing Rates	2011 Cost of Service	\$ 2011 Increase/ (Decrease) - COS	2011 Across-The-Board Increase	\$ 2011 Increase/ (Decrease) - ATB	2011 Accounts
R1 - Monthly 32-gallon	\$ 9,187	\$ 13,722	\$ 4,625	\$ 10,014	\$ 827	113
R2 - Semimonthly 32-gallon	12,092	15,083	3,111	13,180	1,088	95
R4 - Weekly 32-gallon	224,227	253,854	31,848	244,407	20,180	1,034
R8 - Weekly - 2-32-gallon	32,783	27,033	(5,425)	35,733	2,950	66
CW - Weekly 32-gallon	1,114	1,251	148	1,214	100	5
C12 - Semimonthly 1-yard	2,588	3,701	1,139	2,821	233	6
C14 - Weekly 1-yard	11,332	15,879	4,659	12,352	1,020	14
C18 - Semiweekly 1-yard	1,528	2,066	553	1,665	138	1
C22 - Semimonthly 2-yard	4,228	4,549	362	4,609	381	5
C24 - Weekly 2-yard	42,078	46,419	4,758	45,865	3,787	26
C28 - Semiweekly 2-yard	240	255	18	261	22	0
C32 - Semimonthly 3-yard	1,832	1,754	(60)	1,997	165	2
C34 - Weekly 3-yard	93,336	92,877	466	101,736	8,400	39
C38 - Semiweekly 3-yard	32,297	31,334	(643)	35,204	2,907	7
Extra Garbage	27,195	30,922	3,996	29,642	2,448	220
<b>Total</b>	<b>\$ 496,055</b>	<b>\$ 540,700</b>	<b>\$ 44,645</b>	<b>\$ 540,700</b>	<b>\$ 44,645</b>	
			<b>9.0%</b>		<b>9.0%</b>	

*R1= Residential can, 1 collection per month*

*C12= Commercial 1 Yard Container, 2 collections per month*

# Summary of Cost of Service

- Generally, costs shift towards residential cans and small commercial containers
  - ✓ Departure from simple volume multipliers currently used – some costs are the same regardless of garbage volume
  - ✓ For example, it does not take twice as long to pick up a 2 yard container as it does to pick up a 1 yard container
- Either increase all rates across the board or begin to make adjustments to each class according to COS findings
- Continue Senior Discount program - approximately 15 customers receive a total discount of ~\$1,600 per year as compared to weekly residential rate

# Policy Considerations

- Reserve target = 30,45, or 60 days of O&M?
- Equipment replacement funding level?
- B&O taxes included on end of bill with other taxes?
- Continue low income senior rates?
- Rate for extra can and two (2) cans based on incentive pricing rather than cost of service?
- When should the rate increase take affect?
- Cost-of-Service implementation – full, partial, or not at all (Across-the-Board increase)?
- Include cost of recycling in garbage rate?

# Policy Decision - Sensitivity

Policy Decision	Impact on 32-gallon weekly customer rate
Reserve Levels	
Reduce Operating Reserve to 45 Days (from 60)	(\$0.75)
Reduce Operating Reserve to 30 Days (from 60)	(1.50)
Equipment Replacement	
Delay Equipment Replacement 2 years	(0.75)
Issue Debt for Equipment Replacement	(1.50)
Implement Rate Increase Mid-2010 (from Dec.)	(0.50)

# Summary and Next Steps

- Implement 9% overall rate increase in 2011, followed by a 4% increase in 2012 and a 3% increase in 2013 and annually thereafter
- Cost of service adjustments are warranted:
  - ✓ consider full or partial cost of service implementation, or
  - ✓ across-the-board increases

Questions?