

# MEMORANDUM



**TO:** Mayor and Council

**THROUGH:** Rosa Inchausti, Interim Municipal Utility Director, x8999  
Ken Jones, Deputy City Manager - CFO, x8504

**FROM:** Tanya Chavez, Field Operations Interim Deputy Director, x2215  
Tony Miano, Solid Waste Services Manager, x8051  
Steve White, Planning and Research Analyst, x8847

**DATE:** September 19, 2019

**SUBJECT:** Solid Waste Rate Study Recommendations

---

## **PURPOSE:**

The purpose of this memo is to present Mayor and Council with the rate study process and rate adjustment options from the recently completed cost of service study for Solid Waste services.

## **RECOMMENDATION OR DIRECTION REQUESTED:**

Staff requests direction to proceed with proposed public outreach strategies and seeks Council feedback on the options outlined in the memo.

## **CITY COUNCIL STRATEGIC PRIORITY:**

Performance Measure 4.04: Achieve or exceed the Council adopted Solid Waste diversion rates of 40 percent residential and 25 percent commercial by the year 2020.

## **BACKGROUND INFORMATION:**

Municipal Utilities, with support from Internal Services and the Municipal Budget Office, has procured the services of Stantec Consulting to undertake a cost of service rate study for the city's Solid Waste division. This will ensure that rates are properly assigned to the different services offered, confirm the long-term financial viability of the fund, and that pricing and programs are aligned with Council priorities which reflect community values.

## **PROCESS:**

The solid waste rate study included the following four steps:

- **REVENUE REQUIREMENT ANALYSIS** includes a comparison of current revenues to operating and capital costs to determine the adequacy of existing rate revenues. In the event current revenues are insufficient to provide for the needs of the system, annual rate revenue adjustments are calculated to ensure the sustainability of the fund balance that meets industry best practices and the city adopted financial policies, cash flow needs, and access to credit markets.
- **CALCULATE COST OF SERVICE** involves analysis of system expenses by customer class (commercial and residential) to ensure a fair and equitable allocation of costs.
- **DEVELOPMENT OF RATE DESIGN** should reflect the values of the community and Council priorities. The rate structure should also be able to withstand changes in demand and ensure long term solvency.
- **ANALYSIS OF IMPACTS** is used to understand the impacts on key customers, as well as compare recommendations to local and national trends.

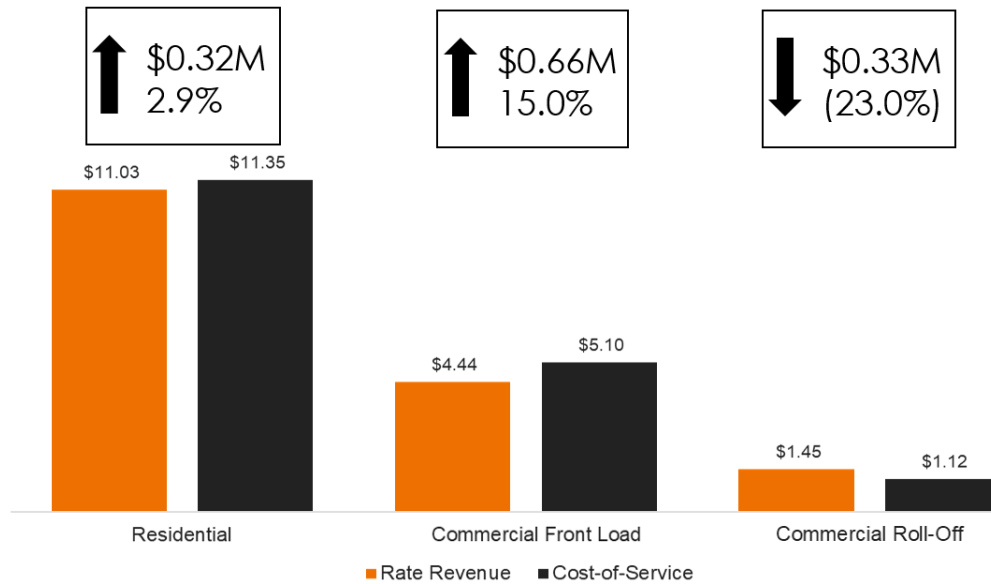
The process ensures that inflationary growth rates and other short-term budgetary factors are aligned with the city's financial assumptions. In addition, the study includes future anticipated new programs and expansion beyond the current adopted budget. The purpose for including this is to ensure that the rates incorporate long range planning to minimize potential future spikes in rates. This year, the process included a deeper investigative effort into customer billing, recycling programs, fleet replacement, and container replacement.

## **ELEMENTS OF THE RATE STUDY:**

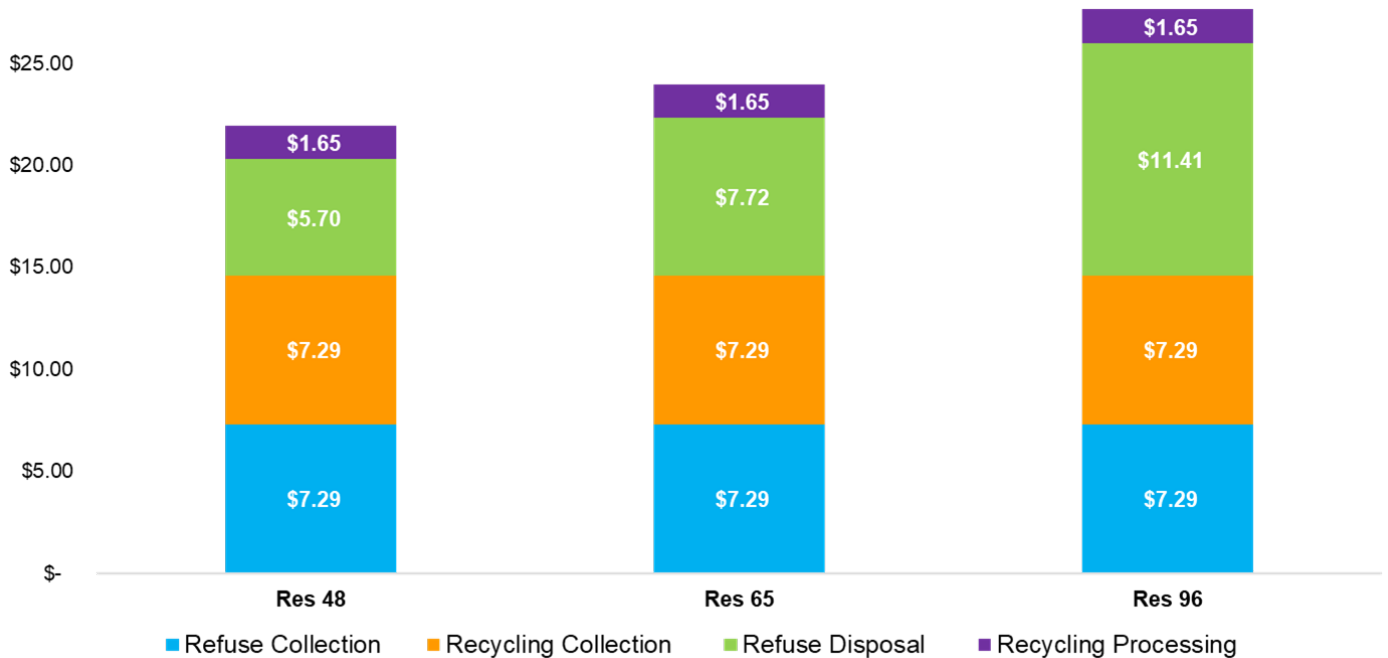
**REVENUE SUFFICIENCY-** The rate study projected the revenue requirements of the Solid Waste utility over a 10-year planning horizon. The analysis included the advancement of vehicle replacements to meet useful lives, staffing enhancements to avoid overtime and a sustainable plan of container replacements. Current revenues will not support the utility throughout the projection period. In order to provide a sustainable level of resources it is recommended that the city increase the level of revenues provided by rates.

**COST OF SERVICE-** A component of the rate study reviewed the FY 2020 budget in line item detail in order to determine the unique cost of service for Tempe's major Solid Waste service lines including residential, commercial front load, and commercial roll off. The cost of service was then contrasted against current revenue generation levels. The resulting gap reveals the divergence from cost of service. This year's

study suggests that residential service and commercial front load service are operating below cost-recovery. The graphic below displays the current rate revenues based on FY 2019 billing units vs the cost to serve in FY 2020.



The graphic below displays the residential service cost components by container size.



**RATE PRINCIPLES-**

- Rates must recover the revenue needs of the system
- Costs of service should form the basis for rate making
- Customer behavior is also a key consideration
- Solid Waste fees pay for Solid Waste services

**RATE DESIGN** -The final component of the rate study is the calculation of implementable rates that recover the necessary rate revenues, comport with cost of service, and advance the Council's objectives. To that end, the rate study recommends the adoption of updated residential rates to reflect the cost of service. The key drivers that contributed to rates are:

- Delayed rate adjustments
- Recycling market change
- Deferred Asset replacement

A new Green Organics fee has been established as part of the rate study to formalize the 3<sup>rd</sup> Container Green Organics program. The minimum cost to collect curbside in the limited identified areas is \$5.55 per container. If this program was to be expanded citywide, this cost would have to be reevaluated in a future rate study. The following table displays the proposed rates for residential service. The calculated rate represents the new rate proposed for FY2020.

Class	Container Size	JAN FY 2020			JAN FY 2021	
		Calculated Rate	Current Rates	\$ Change	Calculated Rate	\$ Change
Residential	48GAL	\$ 21.94	\$ 20.10	\$ 1.84	\$ 23.47	\$ 1.53
Residential	65GAL	\$ 23.96	\$ 22.05	\$ 1.91	\$ 25.63	\$ 1.67
Residential	96GAL	\$ 27.64	\$ 25.60	\$ 2.04	\$ 29.57	\$ 1.93
Residential - Addt'l Can	96GAL	\$ 17.08	\$ 17.08	\$ -	\$ 18.28	\$ 1.20
Residential Green Organics	96GAL	\$ 5.55	\$ -	\$ 5.55	\$ 5.93	\$ 0.38

Commercial Front Load is not covering the cost to provide service. The rate study recommends the adoption of updated commercial front load rates that modernize and simplify the rate structure while recovering the cost of service. Additional revenue of 15% is required in front load service to recover the cost of service in FY 2020. It is recommended that the structure and fee for roll off services be maintained as revenues have provided for the cost of service in the current fiscal year and for the preceding two fiscal years.

**PUBLIC OUTREACH:**

Staff is working with Neighborhood Services and Communication and Media Relations to build a robust outreach process to ensure broad community engagement. This includes a public comment period from Sept. 23 to Oct. 7, two public meetings (weekday and weekend), and marketing and digital outreach in both Easy English and Spanish through traditional print publications and social media. In addition, staff presented at the September meetings of the Neighborhood Advisory Commission and the Sustainability Commission. The Public Involvement Plan and Communication Plan are included as attachments.

**TRIPLE BOTTOM LINE:**

Solid Waste is a more complex business today than in years past. Environmental stewardship requires that we consider recycling and reuse goals, greenhouse gas emissions, and green organics in developing a business model that will have long-term sustainability. In order to achieve these objectives, we may consider changes to the pricing structure, service delivery, and other programmatic changes that, in the short-term, can feel disruptive and stressful to the customer.

**RECCOMENDATIONS:**

Staff requests direction to proceed with the recommendations outlined above and will return to Council and present the input received from the public. Public meetings will be held in October, followed by the actions listed below:

- Nov. 27-Publish Notice of Intent
- Dec. 12-Public Hearing and Council Adoption of Rates

This is a 2-year rate adoption with rate adjustments effective Jan. 1, 2020 and Jan. 1, 2021.

**ATTACHMENTS:**

- PowerPoint Presentation
- Public Involvement Plan
- Communication Plan