

MEMORANDUM

TO: Mayor and Council
THROUGH: Ken Jones, Deputy City Manager, Chief Financial Officer
FROM: Terry Piekarz, Municipal Utilities Director *TP*
DATE: April 8, 2021
SUBJECT: 2021 Solid Waste Rate Study



BACKGROUND INFORMATION:

Every other year, the City procures a third-party financial consultant to assist staff in conducting a comprehensive study of the cost to provide solid waste services to the Tempe community. The purpose of the study is to evaluate the cost to provide services, determine the revenue requirements necessary to maintain the financial health of the solid waste utility and recommend adjustments to rates, fees and charges, where appropriate. The periodic review of rates, fees and charges is an important component of a well-managed and operated utility. Appropriate rates, fees and charges ensure that sufficient revenues are collected and that the collected revenues align with the organization's operational and strategic goals, promoting the long-term financial viability of the enterprise fund.

Sufficient financial resources are necessary to add, maintain and replace infrastructure and align costs with City Council's priorities and community values. As utility costs throughout the country continue to rise, Tempe's Solid Waste Utility is committed to managing costs and staying efficient, while upholding the City's commitment to a sustainable future. This year, Tempe's Municipal Utilities Department contracted with Stantec Consulting to assist staff in conducting the 2021 Solid Waste Rate Study (Study).

The City Council Strategic Priorities and Performance Measures that will guide the 2021 Solid Waste Rate Study (Study) are:



Safe & Secure
Communities

1.27 – City Infrastructure and Assets:

Achieve 100% compliance with industry standards related to the replacement or rehabilitation of infrastructure and assets.



Strong Community
Connections

2.02 – Customer Service Satisfaction:

Achieve satisfaction ratings of "Very Satisfied" or "Satisfied" with the "Quality of Customer Service" greater than or equal to the top 10% of the national benchmark cities as measured in the Community Survey.



Sustainable Growth
& Development

4.04 – Solid Waste Landfill Diversion:

Achieve or exceed Council-adopted solid waste landfill diversion rates by the Fiscal Year 2025/2026.

4.12 – Composting:

Achieve a cumulative composting usage across city parks, golf courses and rights-of-way of 2,000 yards per year.

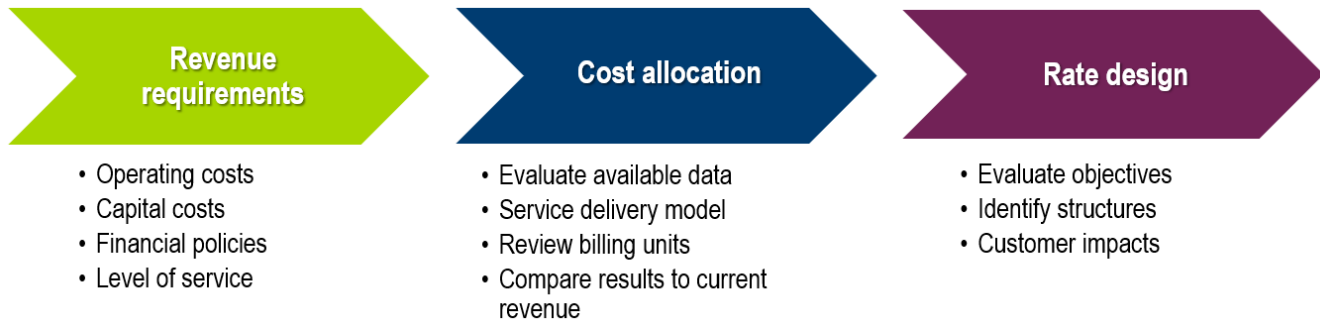


Financial Stability
& Vitality

5.01 – Quality of Business Services:

Achieve ratings of "Very Satisfied" or "Satisfied" with the "overall level and quality of business services provided by the City of Tempe" greater than or equal to the national benchmark cities as measured in the Business Survey.

The Study will utilize industry best practices in the United States. Following this standard, costs are allocated proportionally to each customer classification based on the true cost to provide each respective service to that classification. This process of developing rates, fees and charges is just and reasonable, per State law, and legally defensible. In conducting the Study, Stantec Consulting will follow a three-step process:



Step 1: Revenue requirements analysis. Quantify the current and forecasted total annual operations and maintenance expenses and capital-related costs incurred to provide solid waste services over a ten-year period.

Step 2: Proportional allocation of costs. Determine the costs to provide solid waste services to each of the defined customer classifications, including the functionalization and allocation of solid waste utility revenue requirements. Then, distribute costs proportionally, by customer classification, based on the specific costs for which each classification of service is responsible.

Step 3: Rate design. Develop a schedule of rates, fees and charges applicable to each classification, thereby recovering the proportionally-allocated revenue requirement.

During the Study, each of the City’s respective solid waste services will be evaluated.

RESIDENTIAL SOLID WASTE SERVICES

The City provides weekly garbage and commingled recycling, curbside or alley collection service, to residential customers (defined as four or fewer dwelling units). Each week, approximately 1,000 tons of residential garbage and recyclable material is collected and transported for disposal.

Volume-based pricing provides customers that don’t require a 96-gallon capacity garbage container the option to downsize to a 48-gallon or 65-gallon container, at a reduced cost. This option is not available for alley collection residential customers.

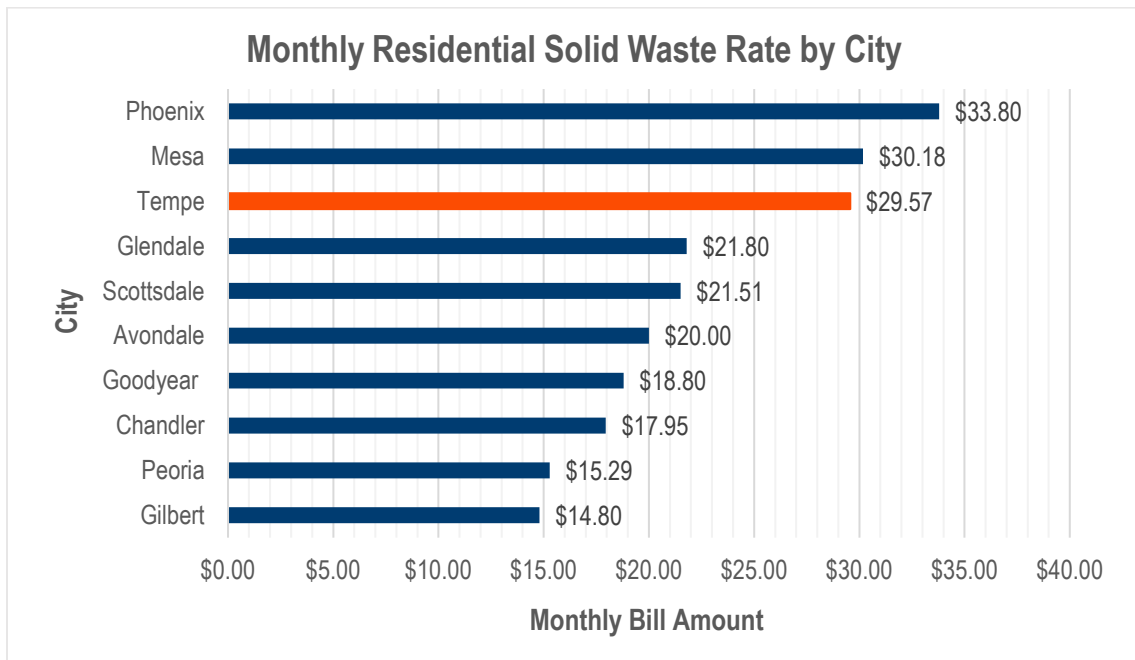
Tempe provides residents with several additional services not offered by all municipal solid waste utilities, to align with community and City Council priorities relative to sustainability and environmental stewardship. Amidst the challenges of the current worldwide recycling market, Tempe has one of the lowest recycling contamination rates in the Valley and has continued to offer a robust recycling program. Green organics curbside collection is offered in limited areas of the City at an additional charge. Uncontained or “bulk” curbside and alley collection is offered bi-monthly for garbage and green organics. Green organics collected through the curbside collection program and uncontained collection is composted and offered back to the community. Three types of compost are available for purchase by anyone in the community, with discounts provided to Tempe residents.

Residents can safely dispose of potentially-hazardous household wastes at the Household Products Collection Center and Zero Waste Days provide opportunities for residents to donate unwanted items, not accepted in the commingled recycling container, to local organizations for reuse, repurposing or proper disposal. Solid waste customers receiving curbside or alley

residential garbage and recycling collection service are eligible to dispose up to 1,000 pounds of waste, per month, at the Sky Harbor Regional Transfer Station, at no additional charge.

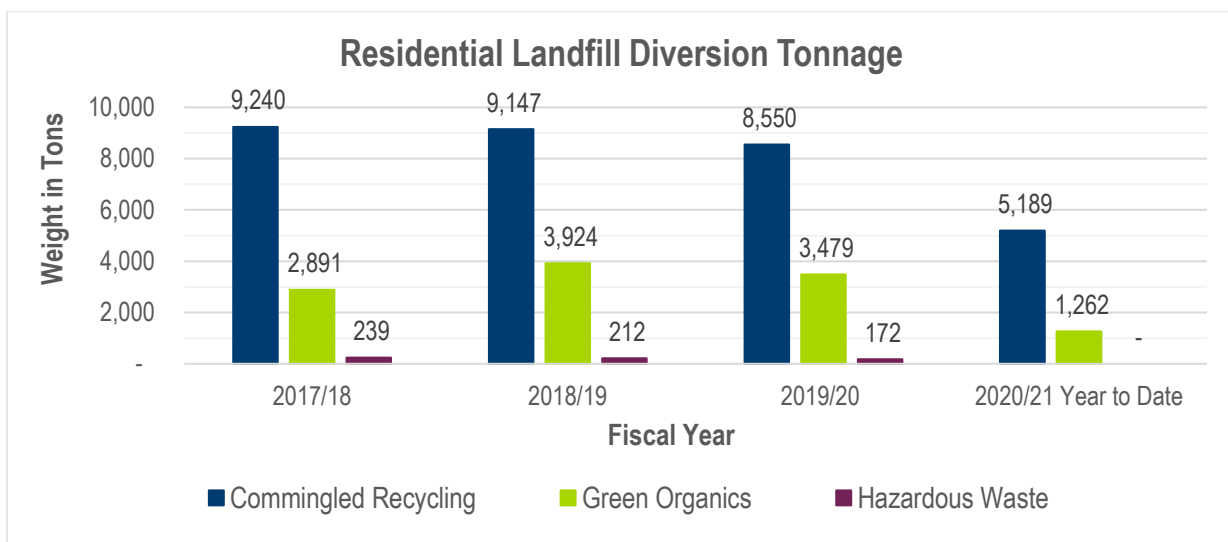
Benchmarking

While Tempe’s monthly residential solid waste rate is slightly higher than average when compared to other Valley cities, this variation is due to the additional services Tempe provides residents that many other local municipalities do not. These additional services are Council-approved programs or pilot programs that contribute to the City’s sustainability goals and are paid for, in part, by solid waste rates, fees and charges.



Residential landfill diversion tonnage

Performance measure 4.04, Solid Waste Landfill Diversion, sets a target of 40 percent landfill diversion for single family residential solid waste customers by the Fiscal Year 2025/2026. As of Fiscal Year 2019/2020, residential landfill diversion is 20.9 percent. The graph below shows tons diverted from the landfill over the last several years, by material type.



COMMERCIAL SOLID WASTE SERVICES

The City offers a full range of garbage and recycling collection services for businesses, contractors and multi-family residential developments in Tempe. Each week, approximately 1,000 tons of commercial garbage and recycling is collected and transported for disposal. Garbage collection services are customized to the particular needs of the commercial customer, including the size(s) of containers, the number of containers and the frequency of collection service. Recycling programs available to commercial customers include cardboard, office paper, newspaper or commingled. Fees vary based on the frequency of service.

Roll-off service is available for customers in need of large containers for disposing of construction debris or large, bulky items. Rates are based on delivery and collection of the container, plus tonnage. Typically, delivery or collection of a roll-off container is provided the next-day. Roll-off revenue has increased over the last two years as more customers have been utilizing this service. In the last year, this increase may partially be the result of Covid-19, with more people staying home, working from home and doing more home improvement projects.

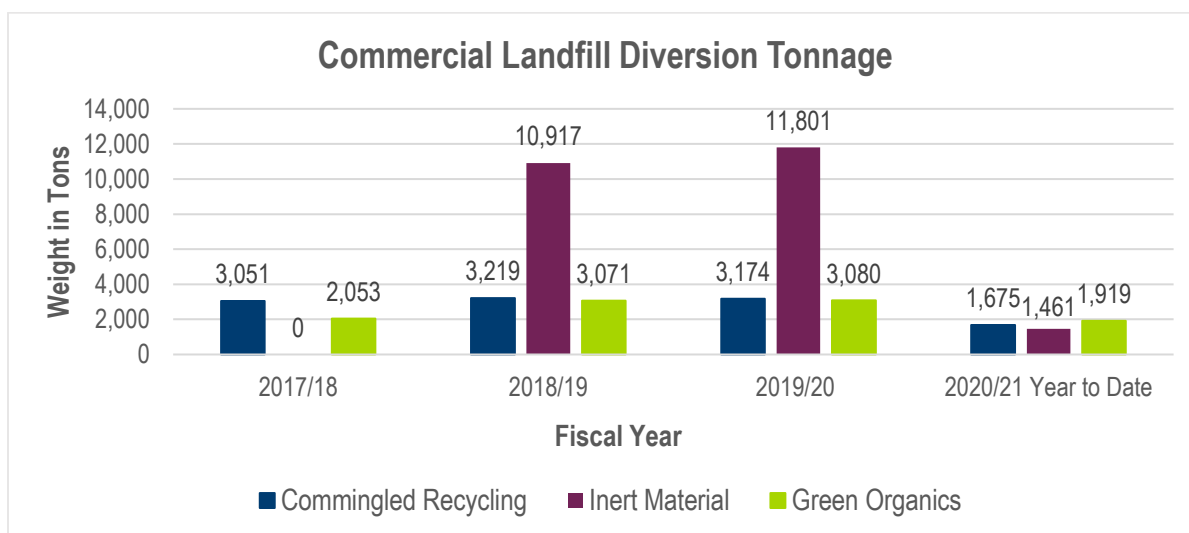
During the Covid-19 pandemic, the City expanded outreach and offered enhanced services to commercial customers. These enhancements included service delivery changes to aid businesses in rightsizing during the economic downturn. The City has and will continue to maintain the nimbleness and flexibility to address changing customer needs and provide excellent customer service, without hidden fees or charges to the customer.

Special events throughout the City are required to offer commercial garbage and recycling services to patrons of the event, and the event host can choose to use the City of Tempe’s Solid Waste Services or an outside vendor. Tempe’s fees are based on the container size, number of containers and the frequency of service. The City continues to explore new and innovative ways to encourage and support “zero waste” or “low-waste” events.

While revenue from commercial solid waste services has stabilized over the last two years, this function continues to operate within very narrow margins. During the Study, the team will evaluate and determine the appropriate rates, fees and charges for each commercial solid waste service.

Commercial landfill diversion tonnage

Performance measure 4.04 Solid Waste Landfill Diversion sets a target of 25 percent landfill diversion for commercial solid waste customers by the Fiscal Year 2025/2026. As of Fiscal Year 2019/2020, commercial landfill diversion is at 25.4 percent. The graph below shows tons diverted from the landfill over the last several years from commercial by material type.



COMPOST / INERT YARD (PILOT)

Tempe was the first Valley city to process its own green organics and return it to the community as compost, saving money on disposal costs, conserving landfill space and creating and distributing a valuable, usable commodity. The City's compost operation involves aerated or turned windrow composting, which is best suited for large volumes such as that generated by an entire community. This type of composting involves forming organic waste into rows of long piles called "windrows" and aerating them periodically by either manually or mechanically turning the piles. Piles are maintained to promote the generation of sufficient and maintainable temperatures, while allowing oxygen flow to the windrow's core.

Tempe collects inert material from large scale construction projects such as Tempe Streetcar and road repairs for the purpose of reusing of non-hazardous, non-putrescible material and increasing landfill diversion. Inert material consists of concrete, rock, asphalt and dirt which may be broken down and screened into useful products that the City reuses for dust suppression and resurfacing alleyways.

Data collected since January 2020 will be used during the Study to determine the revenue required to meet current and anticipated future operating costs of the Compost/Inert Yard at various service levels, including bagging compost and establishing a competitive price point. It is necessary to establish these costs, and set appropriate rates, to recover the cost of the operation. Once charges are identified, they will be evaluated for market competitiveness, which will help the City assess the long-term feasibility of continued Compost/Inert operations.

ALLEY MAINTENANCE

Tempe has 165 miles of alleyways. These civil assets are not only important for solid waste operations, but also for Police, Fire and other utility companies. The City's Alley Maintenance Program executes preventative and reactive maintenance activities to City alleys to ensure that public safety and utility service maintenance and repair vehicles and equipment have reliable and safe access to infrastructure located within, above or buried underneath the alley.

Responsibilities include maintenance and repair of the physical civil asset or alleyway and City Code enforcement and abatement activities associated with alley ingress and egress. Code enforcement and abatement are necessary to manage illegal dumping of refuse and to address City Code violations specific to the public utility easement and/or right-of-way. The goal of the program is to maintain 40 miles of alleyway per year.

In addition to the City's annual operations and maintenance budget approved by Council, a grant-funded alley stabilization project for four neighborhoods will begin in Fiscal Year 2022-2023, pending Council approval of the City's proposed Capital Improvement Program. The neighborhoods include Hudson Manor, University Heights, Clark Park and Mitchell, which were identified as areas that experience elevated dust generation and would benefit from alley stabilization and improvements from an air quality standpoint.

PUBLIC OUTREACH

Throughout any rate study process, communication is key to ensuring customer engagement and involvement and understanding of the rate study process and data, the potential need for adjustments, national trends and Council priorities. Encouraging and providing opportunities for stakeholder involvement is an effective way of engaging the community served, receiving input and ensuring transparency.

Municipal Utilities, Neighborhood Services, Communication and Media Relations, in consultation with Strategic Management and Diversity, developed a robust public involvement plan that incorporates the equity and inclusion objectives of the organization, which will be executed to ensure broad community engagement (see Attachment 2: 2021 Solid Waste Rate Study – Public Involvement Plan). This plan includes numerous outreach and engagement initiatives, a marketing campaign that includes traditional printed materials and a digital effort, Public Comment Surveys and formal presentations to the Tempe City Council, the Neighborhood Advisory and Sustainability Commissions and the Escalante Neighborhood Association.

Residents, business owners and other interested parties can visit <http://www.tempe.gov/utilityratestudy> for more information on the rate study process, a calendar of upcoming presentations and engagement opportunities and for ways to participate and provide input.

Rate Study and Public Outreach Timeline

Action Item	Date
Tempe City Council Work Study Session - Presentation to Introduce the Rate Study, WebEx	April 8, 2021, 4:00 p.m.
First Public Comment Survey Period Opens	April 8, 2021
Outreach at Escalante Community Center and Garden	April 9, 2021
Outreach at Kiwanis Community Center	April 12, 2021
Outreach at Tempe Public Library	April 12, 2021
Outreach in Partnership with Tempe Community Action Agency and Tempe Housing	April 13, 2021
Sustainability Commission Meeting, WebEx	April 19, 2021, 4:30 p.m.
First Public Meeting, WebEx	April 20, 2021, 12:00 p.m.
First Public Meeting, WebEx	April 20, 2021, 6:00 p.m.
Outreach at Habitat for Humanity	April 21, 2021
Outreach at North Tempe Multi-Generational Center	April 22, 2021
Outreach at Tempe Westside Multigenerational Center	April 23, 2021
Neighborhood Advisory Commission Meeting	May 5, 2021, 5:30 p.m.
First Public Comment Survey Period Closes	May 8, 2021
Presentation to Escalante Neighborhood Association	May 15, 2021
Final Rate Study Report Published	July 23, 2021
Tempe City Council Work Study Session – Presentation on the Recommendations of the Rate Study	August 12, 2021, 4:00 p.m.
Second Public Comment Survey Period Opens	August 12, 2021
Second Public Meeting	August 19, 2021, 12:00 p.m.
Tentative Second Public Meeting	August 19, 2021, 6:00 p.m.
Second Public Comment Survey Period Closes	September 12, 2021
Public Outreach Summary posted to website	September 14, 2021
Tempe City Council Regular Council Meeting to consider recommended rates	October 14, 2021
Implementation of new rates, if adopted	January 1, 2022

The presentation at the Tempe City Council Work Study Session on April 8, 2021, marks the beginning of staff’s community outreach and engagement efforts. Presentations and public meetings will occur throughout the spring and summer. Data collection has already commenced and numerous working meetings between the City and Stantec have already been scheduled. Over the next several months, these efforts will continue as we execute the Study. In August, staff will return to Council and provide the results and recommendations of the Study. Thereafter, public outreach will continue as we seek customer and community input on the Study results and communicate potential impacts. A comprehensive Public Input Summary, along with a copy of the Rate Study Report, will be provided to Council prior to the October 14, 2021, Regular Council Meeting. On October 14, 2021, Council will be asked to consider adoption of any proposed solid waste rate adjustments. If adopted by Council, new rates, fees and charges will become effective in January 2022.

ATTACHMENTS:

- Attachment 1:** 2021 Solid Waste Rate Study – Presentation
- Attachment 2:** 2021 Solid Waste Rate Study – Public Involvement Plan