



Office of the City Manager

WORKSESSION
December 3, 2013

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Andrew Clough, Director, Public Works

Subject: Zero Waste Program Budget and Rates

SUMMARY

The purpose of this Worksession is to discuss new rates for Zero Waste operations. These proposed rates would impact both residential and commercial customers, and help move the City toward its goal of zero waste. Implementing the new rates is our next significant step in being able to increase diversion of waste from landfill.

The Refuse Fund is projected to end the current fiscal year in deficit. Absent a rate increase generating new revenue, the Zero Waste program will need to eliminate programs or find other ways to substantially reduce costs. Consideration of any rate increase must comply with Proposition 218.

Refuse rates were last increased in 2009. Since that time, many operational changes were implemented in Zero Waste operations, resulting in \$2.5 million in annual cost reductions. These changes included new or renegotiated disposal contracts with lower costs, implementation of RouteSmart software producing more efficient collection routes, and new single-operator side-loading automated collection trucks. However, even with all of the efficiencies introduced into the operation, the Refuse Fund is still operating with a deficit.

In July 2013 the City executed a contract with HF&H Consultants, LLC, for a sustainable refuse services rate study and Proposition 218 notices process. As noted in the report at that time:

The last rate study for the City's refuse services was conducted in 2007...While the model [from that study] was sufficient for its original purposes, a new sustainable rate structure model is required. The objective of this study is to establish a sustainable rate structure that will support delivery of the City's refuse services. The City Attorney has determined that the City must ensure that its rate structure is reasonable and meets the evolving standards of applicable law. Proposition 218 established a set of procedures and requirements that local government must follow to levy a property-based assessment or fee.

The Refuse Fund has a projected shortfall of almost \$3 million in FY 2015. After evaluating the revenues and costs for each element of business in the Zero Waste program, staff and the consultants concluded that rate increases of 24.7% for residential customers and 2.5% for commercial customers (most costs are already covered in the current commercial rate) are needed to balance the fund. The following tables reflect Refuse Fund forecasts without a rate increase, and then with the proposed rate increase.

Current Refuse Fund 5-Year Forecast

(all amounts in millions; amounts in parenthesis are negative)

	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected
Beginning Fund Balance	\$0.00	(\$2.98)	(\$5.65)	(\$8.62)	(\$11.00)
Total Revenues	33.70	34.26	34.84	35.43	36.04
Total Expenditures	36.67	36.93	37.82	37.81	38.65
Surplus/Shortfall	(2.98)	(2.67)	(2.97)	(2.38)	(2.61)
Ending Fund Balance	(\$2.98)	(\$5.65)	(\$8.62)	(\$11.00)	(\$13.61)

Note: FY 2015 Projected Beginning Fund Balance assumes a FY 2014 year-end interfund loan of \$1.05 million and 2% CPI increase. FY 2016 – FY 2019 assume a 2% CPI increase over the previous fiscal year.

Refuse Fund 5-Year Forecast With New Rates

(all amounts in millions)

	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected
Beginning Fund Balance	\$0.00	\$0.00	\$0.67	\$1.40	\$3.13
Total Revenues	36.67	37.60	38.56	39.54	40.55
Total Expenditures	36.67	36.93	37.82	37.81	38.65
Surplus/Shortfall	0.00	0.67	0.74	1.73	1.90
Ending Fund Balance	\$0.00	\$0.67	\$1.40	\$3.13	\$5.03

Note: FY 2015 Projected Beginning Fund Balance assumes an FY 2014 year-end interfund loan of \$1.05 million. FY 2016 – FY 2019 assume a 3% CPI increase over the previous fiscal year.

CURRENT SITUATION AND ITS EFFECTS

Since July 2013, HF&H consultants have worked closely with Zero Waste Division staff and other City staff to evaluate all relevant information that would support a sustainable and transparent rate structure for residential, commercial and roll-off collection services. A presentation was made to the Zero Waste Commission in November concerning the results of the analysis and the corresponding rate recommendations.

The City provides Zero Waste services that are all intended to support achieving its goal of Zero Waste by 2020. These services are:

1. Residential garbage collection
2. Commercial garbage collection
3. Bulky item pick-ups
4. Roll-off containers
5. Recyclables collection
6. Organics collection--residential and restaurant food, yard and other green waste
7. Transfer Station
8. Clean City Program

A Sustainable and Transparent Rate Structure

Assumptions of a Sustainable Rate Structure

1. CPI assumed as annual inflator of 3% beginning in FY 2016.
2. Customer container size reduction not to exceed 5% of customer base.
3. Recycling commodities remain stable at current market value.
4. Vendor contracts do not exceed annual CPI for increases.
5. Personnel expenses not to exceed CPI.
6. Includes planned capital expenditures in FY 2015 – FY 2017 and a \$500,000 annual reserve beginning in FY 2018.
7. Flexible model from consultants can be modified: changing the assumptions in the model will change the rates generated to meet the assumptions.

Transparent Rates

1. The rate study breaks down costs by line of business: Residential, Commercial, and Transfer Station.
2. This rate structure allows for more strategic thinking by staff and Council going forward.
3. To do: rates do not include a long range capital plan for rebuilding the transfer station; this will need to be revisited and incorporated in longer-term changes.

The Rate Model is Based on the Following Factors

1. Berkeley encourages recycling, and there is no customer charge for these services; rather, all costs are intended to be covered by a single fee.
2. Costs of recycling exceed revenue from sale of recyclables:
 - a. The market for paper and containers fluctuates
 - b. Operations costs exceed market value of recyclables
 - c. New requirements from StopWaste will add costs for recycling
3. Rates are based on garbage can/cart size
 - a. More recycling = reduced garbage, and thus smaller cans for the customer
 - b. Smaller cans = less revenue
 - c. Fixed costs for collection remain the same regardless of customers' can size

The City has taken many steps to prudently manage the Refuse Fund in the last few years, including renegotiating contracts with vendors, eliminating vacant positions, and implementing 1-person collection routes for many residential customers. While these balancing measures reduced the gap between revenues and expenditures, annual CPI rate increases have not kept pace with the increase in expenditures. Consequently, even with rate increase, the fund is projected to require a loan by the end of FY 2014 to cover the shortfall.

Rate Increase Factors: Overall Strategic Approach and Meeting Zero Waste Goal

1. Increase internal operational efficiencies (\$2.5M annual ongoing savings to date).
2. Establish a sustainable rate structure.
3. Conduct a franchise study and implement changes prior to September 2016.
4. Material Recovery Facility (MRF): rebuild or seek other options for recycling processing.
5. Phase 2 mandatory recycling program: increases diversion of waste from landfill; moves City toward zero waste goal; and implementation costs are built into rates.
6. Built-in price incentives for residential customers to reduce garbage container size, also for commercial customers.
7. Fixed operational inefficiencies and incorporated as an on-going internal effort.

As already noted, Zero Waste fee increases must comply with Proposition 218. HF&H was also retained to assist with developing a 218 process for the proposed increase. A Proposition 218 process is required because:

1. Zero Waste/refuse charges are “property related fees”
2. Rates must be proportional to the costs of the service
3. Rates are subject to majority protest

As part of the Proposition 218 review, HF&H reviewed the costs of providing residential, commercial and Clean City services. Once the costs were confirmed, HF&H studied the revenues resulting from the individual lines of service. HF&H noted several discrepancies in how costs and revenues have been assigned to lines of business. These were corrected for purposes of the proposed new rates.

1. \$4 million of revenue previously attributed to residential was reclassified to commercial as the accounts are small bin commercial customers.
2. Transfer, transport, disposal and processing costs for City hauled refuse were previously assigned to the Transfer Station revenues, however, they should more properly be assigned to the operations which generate them, i.e. residential and commercial collections.
3. Residential organics collection costs and Commercial organics collection costs were separated out and assigned to the relevant line of business.

The new rate structure provides for capital maintenance needed at the Transfer Station and closed landfill, which is included in the 5-year Capital Improvement Plan for FY 2015 through FY 2017, along with an annual set-aside of \$500,000 beginning in FY 2018 for other needed maintenance. In addition to ongoing regular maintenance, the new rates also enable the Fund to start developing a reserve for the long-needed replacement of the Transfer Station. Current rates provide no funding whatsoever for that element of Zero Waste operations.

Additionally, the franchise fee revenue received from franchise commercial haulers was allocated to specific Zero Waste program costs:

Franchise Fees

Use of Franchise Fees	Amount
Anticipated residential revenue shortfall from migration	\$348,000
Mechanical street sweeping for residential areas	\$363,000
Graffiti Abatement	\$130,000
Total Franchise Fees	\$841,000

New Rate Structure

The new rate structure encourages customers to reduce their garbage container size by offering a lower rate for smaller containers. With a smaller garbage container, recyclables that were once disposed in the garbage will be placed in either the customer's recyclables container or organics container.

The new rate structure in fact assumes that 5% of customers with larger cans will "migrate" to smaller cans after the new rates are imposed.

The new rates resulting from all of this analysis include a 24.7% increase for residential customers, and a 2.5% increase for commercial customers. For commercial services, most costs are already covered in the current rate. The proposed rates by service level are set forth below:

Proposed Rates: Residential

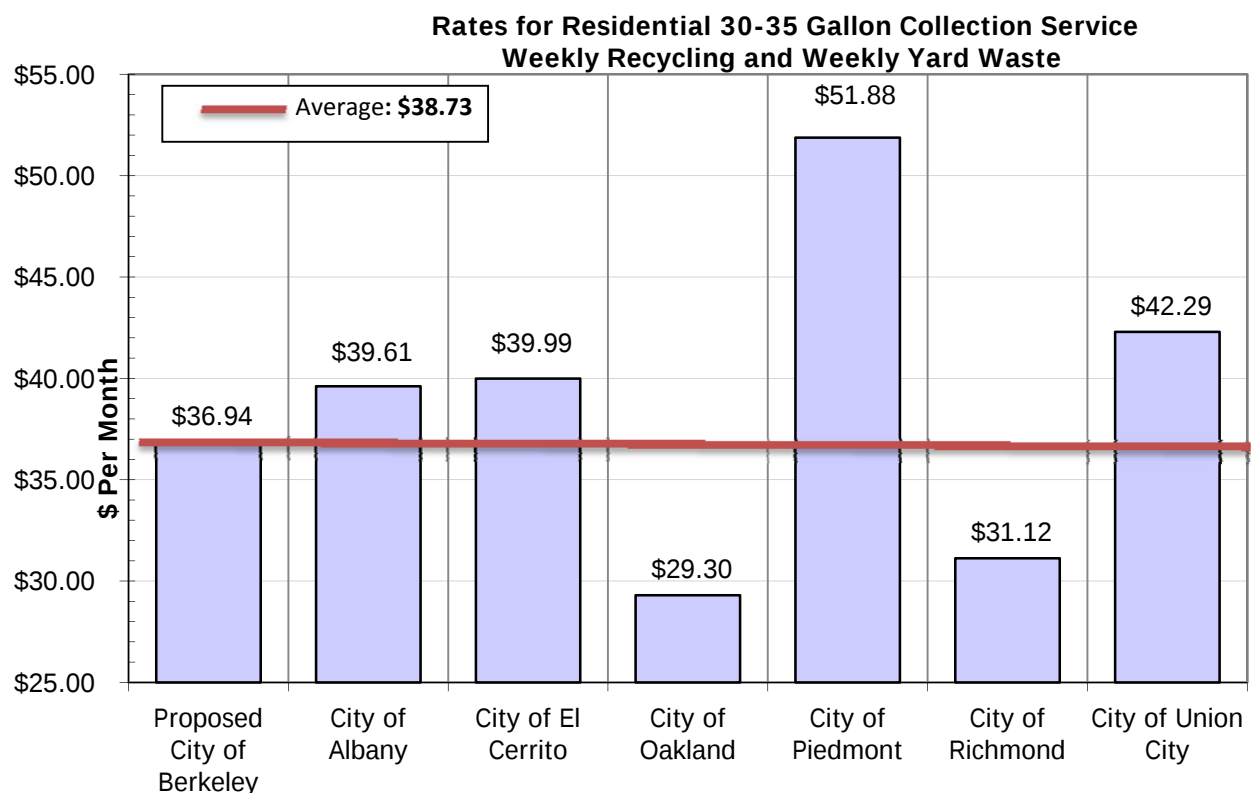
Service Levels: Serviced 1 time per Week			Current Rate	Proposed Rate
Refuse	Recycling	Organics		
10 Gal	64 Gal	64 Gal	\$ 9.28	\$11.57
20 Gal	64 Gal	64 Gal	\$18.52	\$23.10
32 Gal	64 Gal	64 Gal	\$29.62	\$36.94
64 Gal	64 Gal	64 Gal	\$59.21	\$73.84
96 Gal	64 Gal	64 Gal	\$88.78	\$110.71

Proposed Rates: Commercial

Service Levels*		Rates	
Container	Frequency	Current Rate	Proposed Rate
32 Gal Cart	1 X Wk	\$29.62	\$30.36
64 Gal Cart	1 X Wk	\$59.21	\$60.69
1 Cubic Yd	1 X Wk	\$143.42	\$147.01
2 Cubic Yd	1 X Wk	\$270.12	\$276.88
2 Cubic Yd	2 X Wk	\$536.85	\$550.28
4 Cubic Yd	1 X Wk	\$534.62	\$547.99

*Cubic Yard Containers include bin rental fee

The table below provides a comparison of the proposed new rates for Berkeley as against rates in surrounding communities.

Rate Comparison with Other Cities

At the November 12, 2013 Zero Waste Commission meeting where the rate study and new rates were discussed, the Commission passed the following motion: “The [proposed] rate structure maintains the status quo and does not adequately support the 2020 zero waste goal.” Although the rate structure does encourage recycling by offering

lower rates for smaller garbage containers and higher rates for larger garbage containers, the Commission felt that rates should be even higher for large containers. The Commission believes this will encourage more recycling. However a rate that contains artificially inflated fees above the cost of providing the service is likely subject to challenge under Proposition 218.

BACKGROUND

As a self-supporting enterprise fund, the Refuse Fund must generate revenue to meet its expenses. Zero Waste Division programs include: residential and commercial refuse collection and disposal; recycling collection and processing; organics collection and processing; recycling drop-off and buyback center; commercial food waste collection; Transfer Station operations; fire fuel removal program in the Fire Fuel District; and the Clean City Program.

In FY 2009, the City conducted a Proposition 218 process to adjust refuse collection fees in FY 2010. Despite the approved rate increase effective in FY 2010 and annual CPI adjustments, the Refuse Fund is still projecting a deficit.

PROPOSED FUTURE ACTION

Should the Council wish to move forward with a rate increase, the following schedule would allow a new rate to be in place by July 2014:

- January 21, 2014: Council considers proposed rate structure and Prop 218 process
- January 31, 2014: Mail notices to Berkeley property owners
- April 1, 2014: Public hearing on rate increases; protests tabulated; rates adopted if no majority protest
- July 1, 2014: New rates go into effect

FISCAL IMPACTS OF PROPOSED FUTURE ACTION

The cost for Clean City, refuse collection, and recycling services exceeds the revenue collected. The Refuse Fund has a projected shortfall of almost \$1.05 million in FY 2014, which will require a 1-time interfund loan from other City funds. With the additional costs for Phase 2 of the Alameda County Mandatory Recycling Ordinance, the need to fund Clean City, additional capital improvements at the closed landfill and the Transfer Station, and the repayment of the loan, the Refuse Fund has a projected shortfall in FY 2015 of about \$3 million. A rate increase is needed to continue to provide the current service level for refuse collection and recycling, as well as to cover the capital program, and Phase 2 mandated recycling costs, the next significant step to increase diversion of waste from landfill and moving City toward its zero waste goal.

Refuse Fund Balance Since FY 2009*(all amounts in millions)*

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Projected
Beginning Balance	\$3.85	\$0.31	\$0.42	\$0.72	\$0.12	\$(0.21)
Revenues	29.39	32.34	33.40	33.23	33.86	33.72
Expenditures	32.93	32.22	33.11	33.82	34.20	34.56
Surplus/Shortfall	(3.54)	0.12	0.29	(0.59)	(0.33)	(.84)
Interfund Loan						1.05
Ending Balance	\$0.31	\$0.42	\$0.71	\$0.13	\$(0.21)	\$0.00

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