



OFFICE OF THE CITY MANAGER

May 6, 2002

TO: City Council

FROM: City Manager

RE: Proposal to Modify Commercial & Residential Refuse Rates and Refuse Franchise Fee for Fiscal Year 2003

Staff initially presented to the Municipal Services Committee a proposal to increase residential and commercial refuse rates and the refuse franchise fee to reduce the current negative cash flow deficit by fiscal year 2007. The committee requested that staff develop a proposal that would eliminate the current cash flow deficit by the year 2005 instead.

The revised proposal will accomplish this through an increase in residential and commercial refuse rates by 5.3% and a franchise fee increase of 3%.

The Committee approved the revised recommendation as follows:

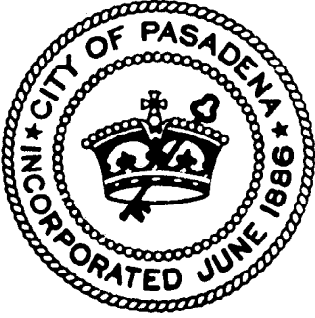
1. Increase refuse rates for both residential and commercial collection services by 5.3% effective July 1, 2002, and;
2. Modify the billing cycle so that residents will pay refuse fees 30 days in arrears rather than the current 60 days in arrears. This will result in one-half of the bi-monthly bill being paid in arrears and will reduce the accounts receivables from approximately \$1.3 million to \$672,000.
3. Adopt a Resolution increasing the franchise fee charged to commercial refuse and recycling haulers from the current 11% to 14% with 100% of the revenue generated as a result of this 3% increase going to the Refuse Fund to cover the increased cost of providing services, as outlined in the City's integrated waste management plan.

4. Authorize the waiver of any interest charges that would otherwise accrue against the Refuse Fund's negative cash balance and instead have the General Fund cover this cost.

The Committee did not endorse adding these fees to the General Fee Schedule but instead requested that staff review these rates periodically in light of current and projected costs of services.

A handwritten signature in black ink, appearing to read "Cynthia J. Kurtz". The signature is fluid and cursive, with a large, stylized "K" at the end.

CYNTHIA J. KURTZ
City Manager



Agenda Report

TO: CITY COUNCIL

April 8, 2002

THROUGH: MUNICIPAL SERVICES COMMITTEE (April 3, 2002)

FROM: CITY MANAGER

SUBJECT: PROPOSAL TO MODIFY COMMERCIAL & RESIDENTIAL REFUSE RATES AND REFUSE FRANCHISE FEE FOR FISCAL YEAR 2003

RECOMMENDATION

It is recommended that City Council:

1. Increase refuse rates for both residential and commercial collection services by 3.0% effective July 1, 2002, and amend the General Fee Schedule so that in the future these rates will be reviewed for annual Consumer Price Index (CPI) increases;
2. Modify the billing cycle so that residents will pay refuse fees 30 days in arrears rather than the current 60 days in arrears. This will result in one-half of the bi-monthly bill being paid in arrears and will reduce the accounts receivables from approximately \$1.3 million to \$672,000.
3. Adopt a Resolution increasing the franchise fee charged to commercial refuse and recycling haulers from the current 11% to 12% with the revenue generated as a result of that 1% increase going to the Refuse Fund to cover the increased cost of providing services, as outlined in the City's integrated waste management plan
4. Authorize the waiver of any interest charges that would otherwise accrue against the Refuse Fund's negative cash balance and instead have the General Fund cover this cost.

EXECUTIVE SUMMARY

In 1998, the City retained an outside consultant, (Hilton, Farnkopf, & Hobson) to assist staff in studying the overall operation of the City's solid waste collection program; to make recommendations to assist the City in meeting AB 939 mandates; and to propose solutions to achieve long-term financial stability for the Refuse Fund.

As a result of this study, the City implemented a six-month pilot program called "Pay-As-You-Throw" (PAYT). This was a new concept in California and completely new for the City of Pasadena. Many assumptions were made in 1998 and 1999 in terms of program implementation and results. For example, the City estimated that in 1998 the number of customers who would downsize from one size container to another would be approximately 15%, while the actual number in 2000 was closer to 13%. Based on the estimates in 1998 and 1999, the City implemented a rate structure to generate sufficient revenues to cover the expenses of a new integrated waste management program.

In December 2001, with one complete year of the fully implemented PAYT program, staff began the process of evaluating actual program data against projections used to set the refuse rates in 1999. This analysis was necessary because the Refuse Fund ended FY 2001 with a negative cash balance of \$2.5 million. Therefore, it was necessary to establish which of the assumptions and projections made in 1999 were still accurate for today and determine if there was a need to modify the rates. The analysis identified two primary issues that warrant a re-evaluation of the refuse rates. First, in 1998 staff estimated a savings in landfill costs of \$700,000 resulting from a reduction in the tonnage of refuse which would be diverted from the waste stream and consequently result in the landfill savings. The actual landfill savings in 2001 were only \$341,900. Secondly, in 1999 the City entered into an agreement with a recycling company that would pick up recyclables throughout the City and pay the City a fee. Problems arose for the contractor and the City was required to contract out the hauling of recyclables at a cost of \$483,000 annually. Based on this data, as well as Refuse Fund projections for revenues and expenses over the next five years, staff now recommends that City Council approve the recommendations stated at the beginning of this report to ensure the long-term stability of the Refuse Fund.

BACKGROUND

In 1998, the "Pay-As-You-Throw" (PAYT) program was started as a six-month pilot program with the goal of changing waste disposal habits for Pasadena's residential customers. PAYT provided:

- 1) ease of participation (rolling out a larger blue-lid container rather than carrying out a heavy blue box);
- 2) availability (providing each household with an automated 100-gallon container for yard waste recycling); and
- 3) financial incentives (educating residents that it is possible to downsize refuse containers by increasing the quantity of materials disposed in the

yard waste recycling and curbside recycling containers which previously would have all been disposed of in the refuse containers).

In May 1999, with City Council approval, PAYT was implemented for all residential customers. This included educational programs and outreach efforts by City recycling staff. As a result, recycling increased dramatically, and over a two-year period Pasadena's AB 939 diversion rate increased from 37% to 43%. As of October 2000, the program has been fully implemented, customers have selected the level of service and size of refuse container most closely matching the needs of their household, and revenues reflect the container selections that were made.

Results of Implementation of Pay-As-You-Throw

In May 1999, City Council approved implementation of Pasadena's Citywide PAYT refuse and recycling program. The PAYT program provided every resident with a larger recycling container, a yard waste container, and the opportunity to choose between a 32-gallon, 60-gallon, or 100-gallon mixed waste container for refuse. Residents who proactively increased their recycling and reduced the quantity of materials disposed at the landfill were able to downsize to smaller refuse containers, and rates for these residents were reduced accordingly. Residents who continued to utilize the larger refuse containers, saw their refuse rates increase accordingly.

	Rates Prior to PAYT	PAYT Rates
32-gallon refuse container	N/A	\$9.14
60-gallon refuse container	\$9.63	\$15.15
100-gallon refuse container	\$15.62	\$23.73

The PAYT program increased the ease of curbside recycling for single-family residents (and multi-family dwellings with four or fewer units) serviced by the City. Each residence now has a 60-gallon container for regular recyclables (paper, cardboard, plastic, etc.) and a 100-gallon container for yard waste recycling. Over 50,000 variable size (32, 60, and 100-gallon) refuse and recycling containers were ordered and delivered in five phases, each lasting approximately three months, with the PAYT program fully implemented in October 2000.

During the pilot recycling program and prior to full implementation of PAYT citywide, curbside recycling increased by 133% and yard waste recycling increased by 47% for those participating customers. Since the PAYT program began, recycling and yard waste have increased by approximately 45% and the amount of residential refuse going to the landfill has been reduced by approximately 22%. The City's diversion rate for AB 939 increased from 37% in 1998 to 43% in 2000. Continued education and outreach to residential customers combined with Pasadena's higher requirements for commercial haulers will

enable the City to reach California's 50% recycling mandate within the next three years, as required by AB 1066.

The PAYT program has proven successful in providing both convenience (larger automated recycling containers that can be wheeled to the curb) and a financial incentive (recycle more and pay less or recycle less and pay more) for residents to change their waste disposal habits.

Impact to the Refuse Fund as a Result of PAYT Program

The Refuse Fund began FY 2002 with a negative cash balance of \$2,574,757, which included no reserves, and no annual inflationary increases in revenue other than the pass through cost of any landfill charge increases. Although the Refuse Fund projects a net income of \$91,839 for FY 2002 which will reduce the beginning negative cash balance available for appropriation in FY 2003, this amount is still a negative \$2,482,918. In the absence of increased revenues, this Fund will continue to accumulate a greater negative cash balance for FYs 2004 through 2007 (Attachment F reflects the Refuse Fund with existing rates and service). Initial revenue projections in 1999 were overly optimistic and have been revised to reflect actual rates and container selections made by customers.

In December 2001, staff began a financial and programmatic analysis of the PAYT program to identify which assumptions made in 1999 were still valid today and identify what had caused the Refuse Fund to go into a negative cash balance. Based on staff's five-year forecast for the Refuse Fund, if the City continues with current rates, then the Fund will go further into negative cash balance in future years, as reflected in Attachment F.

Significant Findings of the Refuse Rate Analysis:

There were two major findings that negatively impacted the Refuse Fund. They are described as follows:

A. Lower Than Anticipated Landfill Savings

Landfill savings in 1999 were projected to be approximately \$700,000 per year. Actual landfill savings were significantly less at only \$341,900 per year. There are two reasons for this shortfall. First, even with increased recycling opportunities, many residents continue to dispose just as much trash into smaller containers by packing it in even more densely. For example, if the trash previously disposed of in a 100-gallon refuse container is now disposed of in a 60-gallon container but just packed in tighter, the resident pays a lower refuse fee for the smaller container but the City's disposal fees based on weight at the landfill remain the same (see Attachments D1, D2, and D3).

The popularity and success of Pasadena's scheduled bulky item collection program, as well as increased staffing devoted to quick collection of materials abandoned at the curb, have also resulted in increased landfill disposal (1,600 tons annually in past years during annual Neighborhood Cleanups compared to over 3,000 tons

annually collecting these materials throughout the year). This has resulted in an increased landfill cost of \$40,376.

The second reason for lowered landfill savings is that once every residence was issued a yard waste container as part of PAYT, the opportunity for contamination increased significantly. Just one container of yard waste contaminated with refuse or other non-yard waste materials can result in the entire truckload of yard waste being disposed of as refuse at the landfill at an increased cost of over \$150 per incident. In the last three months, staff sent out over 500 "contaminated" yard waste warning letters, primarily to first time offenders. Recycling staff continues to work closely with residents to discourage overfilling refuse containers and to prevent both the accidental and the deliberate contamination of yard waste containers.

B. Recycling Collection Expense

In 1997 the City contracted with a company that offered to provide curbside recycling at no fee to the City, with the vendor instead offering to pay the City \$84,000/year in recycling revenues. The vendor was unable to meet the contractual obligation, and the contract was re-bid. As a result, the City's cost for recycling service increased to \$482,700 annually. This was not a projected cost in the original assumptions.

Recommendation to the Refuse Fund:

A. Increase Refuse Rates:

Staff recommends a one-time increase in refuse rates of 3.0 % effective July 1, 2002, as a means of reducing the current cash deficit in the Refuse Fund. Currently, the Refuse Fund has a negative cash balance of \$2.5 million. A 3% increase in rates will result in an increase of \$0.28 per month to a single-family household serviced with a 32-gallon refuse container, \$0.46 per month to a single-family household serviced with a 60-gallon container, and \$0.73 per month to a single-family household serviced with a 100-gallon container. (See Attachment G for price comparisons with other cities.)

	Monthly Rate with Landfill Cost Pass Through as of July 2001	Proposed Rate Increase of 3.0% as of July 2002
32-gallon refuse container	\$9.34	\$9.62
60-gallon refuse container	\$15.48	\$15.94
100-gallon refuse container	\$24.25	\$24.98

Staff recommends that this increase be applied to both residential and commercial refuse rates. There are more than 25 different rates for different combinations of number of dumpsters and the number of times per week that they are emptied. For example, a business with one dumpster emptied once per week would see a rate increase from \$82.79 per month to \$85.27 per month.

Staff is also recommending that the refuse rates be added to the General Fee Schedule so that the rates can be reviewed annually and increased by CPI if warranted. This would allow for revenue to off set the natural increases in labor and materials and supplies and thereby mitigating any future negative ending balances.

B. Modify the Billing Cycle:

The City of Pasadena currently bills its refuse customers 60 days in arrears. In other words, a municipal customer does not receive a bill until they have already received 60 days worth of service. In other service industries, such as cable television, cell phone service, and many commercial trash haulers, the service is billed in advance in order to reduce the negative impact that outstanding accounts receivables have on a company's cash flow. As an example, refuse service is billed three months in advance in Los Angeles County. Outstanding accounts receivables are not bad debt; rather they are an outstanding bill for services already rendered.

A modification to the billing cycle for refuse services will result in a *one-time* increase of \$9.62, \$15.94, or \$24.98 (depending on service level) during one billing cycle for residential accounts. Commercial customers would also see a one-time increase of \$85.27 (or more depending on service level). This will result in the City collecting refuse rates only 30 days in arrears rather than 60 days. This one time adjustment would reduce the accounts receivables from \$1.3 million to a more manageable \$672,000.

C. Increase Commercial Hauler's Fee

Commercial haulers in the City (including the City's own commercial refuse and municipal bin services) presently pay an 11% franchise fee to the City. Staff recommends increasing the franchise fee from 11% to 12% of gross monthly receipts, with 100% of the revenue generated as a result of that 1% increase going to the Refuse Fund toward the increased cost of providing programs and services to meet the AB 939 mandated fifty percent (50%) diversion, as outlined in the City's integrated waste management plan. Staff also recommends capping the revenue deposited to the General Fund at a maximum of \$420,000 annually.

Each monthly franchise fee payment would then be calculated as 12% of the gross monthly receipts received in the preceding calendar month. Revenue from the franchise fee would be divided as follows: 5.5% of the gross monthly receipts shall be paid to the City's General Fund (to a maximum of \$420,000 annually) and 6.5% of the gross monthly receipts shall be placed in a special fund account to be used only for costs stated in Public Revenue Code Section 41901 or any successor

provision for preparing, adopting, and implementing an integrated Solid Waste Management Plan.

Increasing the franchise fee to twelve percent (12%), would generate an additional \$60,000 annually. This increase in revenue would help offset the cost of the City's recycling contract, as well as more aggressive efforts to increase recycling in the commercial sector, including franchisee recycling and construction and demolition (C & D) recycling. Attachment E compares the City's franchise fee with those of surrounding cities.

D. Eliminate Negative Interest Charges

Eliminating interest charges will positively impact the Refuse Fund's negative cash balance and will impact the General Fund by an estimated \$124,000 in FY 2003.

FISCAL IMPACT

In the first year, it is projected that the negative cash balance will be reduced to approximately \$1.9 million and fully eliminated by fiscal year 2008.


A 3% increase in rates will result in an increase of \$0.28 per month to a single-family household serviced with a 32-gallon refuse container; \$0.46 per month to a single-family household serviced with a 60-gallon container, and \$0.73 per month to a single-family household serviced with a 100-gallon container.

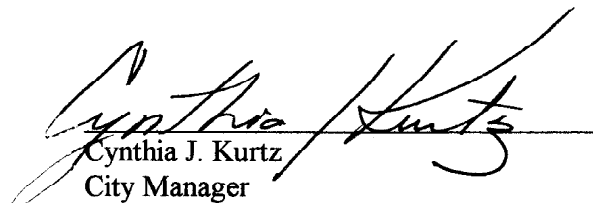
A business with one dumpster emptied once per week would see a rate increase from \$82.79 per month to \$85.27 per month.

Eliminating negative interest charges will impact the General Fund by an estimated \$124,000 in fiscal year 2003. Given the declining negative cash balance for the Refuse Fund, the cumulative impact of this waiver over the next five years is estimated to be \$300,000 to the General Fund.

Respectfully submitted,

Prepared by:


Richard A. Urban
Management Analyst

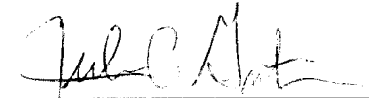

Cynthia J. Kurtz
City Manager

Reviewed by:



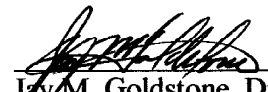
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