
AGENDA ITEM SUMMARY**FLORENCE EMAC**

Meeting Date: May 1, 2018

Department: Planning

ITEM TITLE: Solid Waste Rate Review—Base Year 2018

DISCUSSION/ISSUE:

Background: In 2016 Bell & Associates performed a scheduled rate review for the 2015 reporting year (September 1, 2014-August 30, 2015). Chris Bell’s recommendations included increasing the profit margin from 9% to 10%, increasing solid waste rates 1%, changing from an axle licensing system to a percentage of gross revenues and reducing annual Consumer Price Index (CPI) increases from 100% of CPI to 80.6% of CPI-U. Additionally, the haulers were required to paint all their collection trucks by December 2018 and sign them for public reporting on leaks and spillage. These rate and licensing recommendations from Mr. Bell, staff and the Environmental Management Advisory Committee (EMAC) were approved by Council Resolution 6, Series 2016. The new rates took effect July 1st and included a scheduled Consumer Price Index (CPI) increase the following year in 2017. Any disposal fee increases charged by Lane County were to be passed through in the rates. The county increased their tipping fees July 1, 2017 and the rate schedule was adjusted to pass this operational increase through to the garbage customers. The 2016 resolution identified a full rate review to be started in 2018 for 2017 reporting year. Hauler financials were due November 1st and Bell & Associates began reviewing the hauler submittals in December 2017 and provided an initial draft report on February 28th.

Process: Title 2 Chapter 7 establishes EMAC’ responsibilities to make recommendations related to rate amounts, creating additional service types and levels, updating licensing or code policy or establishing acceptable business practice standards or allowable costs. Title 9 Chapter 4 Sections 5-2-C-5 & 6 set the rate review process to include public hearings by both the Environmental Management Advisory Committee (EMAC) and City Council. EMAC is to make a recommendation to the City Council. Once EMAC makes their recommendation to Council, Council will then hold their public hearing (tentatively scheduled for May 21st) and consider the Bell report, EMAC and staff recommendations and make any adjustments to the rates, licensing or code policy. Rates are to be in effect by July 1st with a 30-day advance notice to customers.

EMAC met on March 6th and April 3rd to review and discuss the financial and summary reports prepared by Bell & Associates. EMAC set their public hearing for April 17th. Following the April 3rd meeting Mr. Bell was asked to breakout the projected summary results for each hauler and adjust calculations to exclude services with no revenue base and adjust expenses down to incorporate Lane County’s finalized transfer site disposal increase (effective July 1st). During this time Central Coast Disposal submitted expense projections to Mr. Bell. In reviewing Mr. Bell’s revised reporting after making these adjustments an error was found in the reported recycling tonnage submitted by County Transfer & Recycling. Mr. Bell adjusted the reporting again (Ver. 2.2, dated 4/16/18). These changes created by the haulers reporting affected the original recommendation provided to EMAC in April. EMAC opened their public hearing on April 17th to consider public input, the revised Bell reporting (less than 24 hours old) and staff recommendations. Due to these untimely and significant changes and the

lack of time to review the updates the EMAC continued the public hearing to May 1st.

Bell Analyses: For the 2017-18 rate review Bell & Associates reviewed the haulers' 2016-2017 financial records for reasonableness within the market and company performance. He performed analyses within the Model spreadsheets and then drafted his Solid Waste Report. Bell and Associates most recent findings and recommendations include the following:

Findings:

- 2016-2017 composite expenses include 84.1%--Direct Collection Costs & 15.8%--Indirect Management, Admin and Overhead costs (Table 2, page 2)
- There is a disparity in the hauler profit margins for can/cart services and roll-off services. Commercial bin services profitability is fairly even. (Spreadsheets)
- The city license fee will increase .5% from 3.5% to 4%.
- The cost of recycling disposal is expected to increase 69% with a net impact of \$56,695. (Earlier report was 146% and \$90,555)
- Lane County will be increasing their disposal fees 2.6% or \$2.08 a ton. (Prediction was 3.2%)
- Both haulers propose purchase of equipment and/or employee benefit increases this year
- Both haulers report a negative rate of return on roll-off/drop box service.

Composite profitability (average of both haulers including roll-off service) from Sept. 2016 to Aug. 2017 was 12.10% (Table 1, page 2). If no changes are made to the rates the projected operating margin is predicted to be 3.89% from Sept. 2017 to Aug. 2018 after excluding the roll-off rate of return and 2.21% including the roll-off rate of return.

Recommendations:

- Increase drop box rates an average of 30% and add a mileage rate of \$4 per mile for disposal outside of 15 miles of service location. Add a \$70 delivery fee.
- Add a \$.75 surcharge per residential and commercial cart customer and .65 per yard for commercial container customers. (March report was \$1.50 and .85 respectively)
- Increase all rates 4.4% (excludes roll-offs). (March report was 2.4%)

Staff Recommendations:

- Approve EMAC Recommendation with staff's recommendations as annotated within and

bulleted below:

- Exclude non-regulated services with no customer-based revenue from allowable expenses (yard debris, sharps, oil, antifreeze, electronics, etc.)
- Recycling Surcharge to be temporary and reviewed again in a year.
- Multiple customer accounts to pay full price on first container.
- Review vacancy counts in multiple customer developments and revise as necessary on rate schedule during recycle surcharge review.
- Reduce residential recycling pick-up from weekly to every other week or monthly. (Weekly Recycling Pick-up is one of four “Opportunity to Recycle” programs Florence meets. We need only three.) Adjust and reduce project recycling expenses and rate increases accordingly. Consultant anticipated adjustment if monthly is roughly a 25% savings in operational costs.
- Continue annual CPI adjustments.
- Pass costs on to the haulers for revising the financial summaries analysis and reporting and continuing/delaying meetings related to late financial submittals and reporting error.
- Contract with Bell & Associates to provide an updated financial reporting template.

FISCAL IMPACT: There would be a cost associated with recalculating rates based on a recycling service reduction.

ALTERNATIVES:

1. Approve EMAC Recommendation.
2. Amend the proposed rate increase or other recommendations and direct staff to modify the recommendation accordingly.
3. Continue the hearing to a date certain in order to obtain additional information.
4. Do not make any amendments to the rate schedule.

AIS PREPARED BY: Wendy FarleyCampbell, Planning Director

ITEM'S ATTACHED: Recommendation
Exhibit A: Solid Waste Rate Report, Bell & Associates, v. 2.3
