TO: CITY COUNCIL
ATTN: FINANCE COMMITTEE
FROM: CITY MANAGER
DEPARTMENT: PUBLIC WORKS
DATE: MAY 18, 2004
CMR:238:04

SUBJECT: REFUSE RATE INCREASE AND PROPOSED REVISIONS TO THE
UTILITY REFUSE RATE SCHEDULES AND REQUEST FOR
ADOPTION OF A RESOLUTION TO AMEND UTILITY RATE
SCHEDULES R-1, “DOMESTIC REFUSE COLLECTION”, R-2,
“COMMERCIAL REFUSE COLLECTION”, AND R-3,
“COMMERCIAL REFUSE COLLECTION”

RECOMMENDATIONS
Staff requests the Finance Committee recommends that Council approve:

1) Attached resolution amending Utility Rate Schedules R-1, “Domestic Refuse
Collection,” that include the following changes:

   a) A 10 percent increase in refuse rates for FY 2004-05 to maintain the Refuse
      Fund Rate Stabilization Reserve (RSR) at the Council-adopted level.
   b) Establishment of a rate structure for can services that promotes collection
      efficiencies.
   c) Addition of the following new rates: cart exchange rate; rental and purchase
      rates for wheeled carts; construction & demolition debris box service rates and
      the collection of wood pallets.
   d) Re-organization of Rate Schedules to simplify and clarify charges.

2) Modification of the existing “smoothing” method of paying landfill rent payments
   from the Refuse Fund to the General Fund over a new nine-year period.

BACKGROUND
The last rate increase applied across the Refuse Fund Utility Rate Schedule (R series) was
in May 1996 (CMR: 275:96). At that time Council approved an increase to Refuse Fund
revenue of 9 percent, or $1.5 million annually. A rate increase was necessary to meet
increased financial obligations of the Refuse Fund and to maintain a Refuse Fund reserve
consistent with the Council adopted reserve policy.
BACKGROUND
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Since May 1996, there have been minimal specific rate changes, done only to improve efficiencies, consistency, and cost recovery, not to increase revenue. In June 2002, Council approved modifications to the refuse rates (CMR:258:02) as a result of recommendations by Brown Vence & Associates in its Refuse Cost of Service Study. Commercial bin service rates were changed to differentiate between the size of containers and the collection frequency to encourage collection efficiencies. A two-part rate schedule was created for debris boxes to separate the cost of renting and hauling. The collection rates of bulky items were changed to reflect the residential and commercial rates charged for bulky items at the Palo Alto landfill. The R-1-FA schedule was eliminated and language was changed to simplify existing rate schedules. On May 20, 2003, Council approved modifications to the refuse rates (CMR: 263:03) that were estimated to have an annual impact of less than $500 to the Refuse Fund for a rate increase of the miscellaneous one-person and two-person service listed in rate schedule R-1 “Domestic Refuse Collection,” R-2 “Commercial Refuse Collection” and R-3 “Commercial Refuse Collection.”

DISCUSSION
Staff is proposing a 10 percent rate increase that would net $1.9 million in additional revenue annually. If a rate increase does not occur in FY 2004-05, the Refuse Fund RSR will fall $1.2 million short of the Council-adopted minimum level of $1,880,467. By FY 2005-06 the Refuse Fund will operate at a deficit of over $3.4 million with no Refuse Fund RSR. In FY 2006-07 the Refuse Fund will operate at a deficit of $6.5 million, with no Refuse Fund RSR.

The FY 2004-05 adopted-in-concept budget included a 10 percent rate increase for the Refuse Fund to maintain the RSR level set for the Refuse Fund and to fund the proposed new solid waste and recycling programs. Approximately four percent will be required to cover the cost of the proposed new programs (+3.66 percent for implementation of the single stream program, +1.02 percent for changing the yard trimmings program to cart service, -1.16 percent for supplying optional curbside cart service for garbage and +.48 percent for conversion to compressed natural gas for the collector’s recycling collection vehicles.).

A six percent refuse rate increase is required to maintain the RSR as a result of recent demands from the Refuse Fund that included payments to the General Fund for additional landfill back rent and interest payments that totaled over $5 million. In addition,
expenses have increased for contracts that require Consumer Price Index (CPI) adjustments for services (SMaRT Station, Kirby Canyon Landfill and PASCO). Finally, revenues from refuse sales for the commercial bin and debris box services have declined. This is due to the downturn in the economy and the increased waste prevention activities occurring within the community.

The proposed monthly rate would increase from $18.00 to $19.80 for residential customers with one 32-gallon can service. The table below shows the current rate for single-family residents and the proposed rate increase (see Utility Rate Schedule R-1 in Attachment B).

<table>
<thead>
<tr>
<th>Service Level</th>
<th>Current Rate</th>
<th>Proposed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mini-Can (20-gallons)</td>
<td>$14.20</td>
<td>$15.62</td>
</tr>
<tr>
<td>One Standard Can (32-gallons)</td>
<td>$18.00</td>
<td>$19.80</td>
</tr>
<tr>
<td>Two Standard Cans (32-gallons each)</td>
<td>$37.05</td>
<td>$40.75</td>
</tr>
<tr>
<td>Three Standard Cans (32-gallons each)</td>
<td>$56.15</td>
<td>$61.70</td>
</tr>
<tr>
<td>Four Standard Cans (32-gallons each)</td>
<td>$75.20</td>
<td>$82.65</td>
</tr>
</tbody>
</table>

Staff surveyed surrounding jurisdictions to determine how Palo Alto’s proposed single-family rates compare to other communities. Palo Alto provides more services from the Refuse Fund than other jurisdictions, making it difficult to equally compare the service levels. Palo Alto’s premium services include backyard garbage collection, weekly street sweeping, monthly hazardous waste collection, extensive recycling collection and waste diversion services, and landfill and composting operations. The survey and the table below show that even with the higher service levels, Palo Alto’s current rates are competitive in comparison to other jurisdictions.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Current rate for one 32-gallon can refuse service</th>
<th>Proposed refuse rate for FY 04/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palo Alto</td>
<td>$18.00</td>
<td>$19.80</td>
</tr>
<tr>
<td>Cupertino</td>
<td>$17.66</td>
<td>August 1, 2004-N/A</td>
</tr>
<tr>
<td>Los Altos</td>
<td>$22.07</td>
<td>September 2004-$23.07</td>
</tr>
<tr>
<td>Los Altos Hills</td>
<td>$24.89</td>
<td>N/A</td>
</tr>
<tr>
<td>Mountain View</td>
<td>$13.75</td>
<td>May 2004, less than 5%</td>
</tr>
<tr>
<td>San Jose</td>
<td>$16.80</td>
<td>$18.30</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>$10.20</td>
<td>$12.60</td>
</tr>
<tr>
<td>Sunnyvale</td>
<td>$18.75</td>
<td>March 2004, N/A</td>
</tr>
<tr>
<td>Average rate</td>
<td>$18.72</td>
<td></td>
</tr>
</tbody>
</table>
Rate Structure for Can Services

Existing can rates do not differentiate between the number and frequency of cans collected each week. For example: two cans collected three times per week costs the same as six cans collected once per week. Staff is recommending a rate increase to those who request more than one collection per week to reflect the increased expenses in making return trips outside of routine pickup schedules.

The proposed rate structure adds $10 for each additional collection requested each week. For example: A customer with two cans requesting pick-up three times in one week, will pay $145 per month versus a customer with six cans picked up once a week who will pay $125 per month.

The proposed rate structure will make PASCO collections more efficient and ultimately save the City money. It also creates an incentive for customers to save money by recycling more material, ultimately reducing the amount of garbage landfilled.

Proposed New Rate Items

Staff is recommending adding new rates to the Refuse Fund Utility Rate Schedules for cart exchange, rental and purchase rates of wheeled carts, construction & demolition debris box service and wood pallet collection.

Rental and Purchase Rates for Wheeled Carts

The proposed new services for FY 2005-06 will involve issuing customers new wheeled carts for recycling, yard trimmings and refuse. Wheeled carts for recycling, yard trimmings, and garbage will be provided to all residential customers at no cost. Residents regularly generating more yard trimmings or garbage and needing more than one cart (at full capacity of 96 gallons) will have the option of renting or purchasing additional carts. The rental rates for wheeled carts are currently different between residential and commercial customers depending on whether the cart is used for refuse, recycling, or yard trimmings. Staff proposes to standardize all carts by manufacturer, color, size, rental and purchase rates. This will lead to the commercial rental rate for garbage carts being reduced from $3.15 to $2.00 per cart.

Currently, the utility rate schedules do not allow customers to purchase carts; therefore, staff proposes to make the purchase of carts available to all customers. The proposed purchase rate is based on the cost to the City to purchase the carts, depending on size.

Cart Exchange Rate

Residents will be able to pre-order from a variety of cart sizes including 32, 64, and 96 gallon cart sizes for all three services. The pre-order of the carts will allow residents to order a cart size that will accommodate needed service and property space. Residents would not be able to exchange carts for six months to provide time for the initial delivery of carts to the entire city. After the six-month waiting period, residents would be able to exchange carts for a smaller or larger size one time per each calendar year at no cost.
Staff proposes that any additional cart exchanges be charged $15 per exchange. The fee for the additional cart exchanges would cover the costs for the extra labor and transportation involved in delivering the new cart, picking up the old cart and returning it to inventory. The cart exchange fee will also reduce the misuse of cart exchanges experienced during the recent pilot recycling program. The cart exchange fee is common in other municipalities offering similar services.

Construction & Demolition Debris Box Service Rates
A new construction and demolition (C&D) recycling collection service will begin in FY 2004-05, in conjunction with the C&D recycling ordinance (CMR 166:04). The new C&D collection service will enable Palo Alto residents and businesses to rent debris boxes from PASCO specifically for recycling C&D materials. PASCO will transport the C&D debris boxes to a City-approved processing facility.

Staff proposes that the C&D debris box service initially cost $125 more than the current debris box services for refuse. However, the $125 fee will only be assessed if the C&D debris box loads are contaminated with too much refuse and are rejected by the processing facility. If the debris box materials do not exceed 10 percent contamination, as determined by the processing facility, the customer will receive the $125 as a credit/refund. For the loads rejected by the C&D processing facility, the $125 fee will be used to cover the extra transportation costs and for processing at the SMaRT Station.

In addition, a larger, 40 cubic yard debris box will be offered for C&D projects by PASCO. These debris boxes will allow more material to be collected from each project, and will lead to fewer trips to the processing facilities. The 40 cubic yard debris boxes will be made available for large construction and demolition projects with enough private property space available for the safe handling and maneuvering of the debris box during service. The 40 cubic yard debris box rate will be located in the Utility Rate Schedule R-3, under the “On-Call Service” section and will cost $86.90 for delivery and $609.40 for service, totaling $696.30.

New Wood Pallet Collection Program
PASCO will begin offering a new program for recycling collection of wood pallets within the commercial sector starting in fiscal year 2004-05. The goals of the pallet collection service are to collect and recycle the wood pallets and to clean up the public areas and alleys where pallets are normally stored by businesses.

Pallets are currently stored on public property such as alleys until a private recycler collects the pallets. The timing of the private collection is unreliable and sometimes dependent on the number of pallets each business has, as well as the market value for each pallet. The new PASCO pallet service will collect individual wooden pallets from businesses for $5 per pallet. Additional transportation charges will depend on the quantity of the pallets and whether they can be placed in the customer’s standard refuse bin serviced by PASCO. If the number of pallets exceeds the capacity of the customer’s
refuse bin, PASCO will be able to dispatch a flat bed truck at an additional cost to collect all the pallets and transport them to the City’s designated recycling facilities. The additional transportation charge will depend on the quantity of the pallets and whether they are transported to the City’s composting site, to the SMaRT Station in Sunnyvale or to the City’s chosen C&D recycling processing facility.

Re-organization of rates to simplify and clarify charges
There are specific items within the Refuse Fund Utility Rate Schedules (R-1, R-2 and R-3), that were re-organized, simplified and clarified, with no added rate impacts from these changes.

Landfill Rent
Landfill rent to the City General Fund is based on the amount that could be earned by renting or leasing the landfill at its “highest and best use,” as Research and Development.

In 1994, an appraisal was performed by Appraisal Research Corporation that recommended that the landfill rent applied to the Refuse Fund and paid to the General Fund be increased by $2 million. In the 1995-96 Budget process, a landfill rent payment was established which required a steady stream ("smoothing") of payments that would collect the same overall rent amount over a ten-year period, thereby avoiding a “ramping up” and “ramping down” impact to the rate payers. This also provided a benefit to the General Fund by extending rent payments past the projected landfill closure in 2011.

The Refuse Fund is in the last year of a ten-year schedule in which the annual payment has been $4,288,747 to the General Fund. In FY 2001-02 a re-appraisal was conducted that increased the value of the landfill rent to $4,700,821 annually. The Refuse Fund is also required to pay back rent and interest on the money owed. Staff is recommending that outstanding back rent owed by the Refuse Fund be paid on a new nine-year “smoothing” schedule starting in FY 2005-06.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>No Change</th>
<th>Modified Smoothing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rent Payment</td>
<td>Rent Payment</td>
</tr>
<tr>
<td>FY 2004-05</td>
<td>$4,288,747</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2005-06</td>
<td>$4,700,821</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2006-07</td>
<td>$4,700,821</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2007-08</td>
<td>$4,700,821</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2008-09</td>
<td>$4,700,821</td>
<td>$4,288,747</td>
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<tr>
<td>FY 2009-10</td>
<td>$4,700,821</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2010-11</td>
<td>Landfill closed</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2011-12</td>
<td>Pay back rent</td>
<td>$4,288,747</td>
</tr>
<tr>
<td>FY 2012-13</td>
<td>Pay back rent</td>
<td>$2,094,332</td>
</tr>
<tr>
<td>FY 2013-14</td>
<td></td>
<td>Pay back rent</td>
</tr>
</tbody>
</table>
The proposed nine-year “smoothing” schedule would extend the landfill rent payment and minimize the impact to the General Fund when payments start to decline and eventually end.

**RESOURCE IMPACT**
The proposed 10 percent increase to refuse rates is estimated to generate $1.9 million for FY 2004-05 to the Refuse Fund.

Staff annually reviews and updates the Refuse Fund Ten Year Financial Forecast to determine the rate increase percentage, which may be required in subsequent years. The projections assume that the expenses will increase by CPI at approximately three percent per year.

**ENVIRONMENTAL IMPACT**
This project is not under the California Environmental Quality Act (CEQA) and no further environmental review is necessary.

**ATTACHMENTS**
Attachment A: Resolution
Attachment B: Utility Rate Schedules R-1, R-2, and R-3

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