

**MEMORANDUM**

Finance and Administrative Services
and Public Works Departments

DATE: April 28, 2015

TO: City Council

FROM: Lori Topley, Solid Waste Program Manager
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Director
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VIA: Daniel H. Rich, City Manager

SUBJECT: Solid Waste Cost of Service Study Analysis

INTRODUCTION AND BACKGROUND

The City of Mountain View provides solid waste (trash and recycling) services to approximately 17,000 residents and businesses in the City. Trash and recycling generated in the City is transported to the SMaRT® Station (of which the City is one of three partners) for removal of recyclables with the remaining trash transported for final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Recology) for the collection of trash and recyclables. Solid waste services are funded primarily through the trash and recycling rates. The City bills and collects all revenues for solid waste services. Other services supported by the solid waste rates include street sweeping, closed landfill maintenance, utility billing, and Solid Waste & Recycling Program administration.

Service Provider Descriptions

Fiscal Year 2013-14 was the first full year of a new collection services agreement with Recology approved by Council in September 2012. This agreement expanded diversion services, primarily to bin customers, increased convenience for cart customers through additional curbside collections, and expanded drop-off services at the Mountain View Recycling Center.

Recology transports all trash and recycling collected, with the exception of commercial food waste, to the SMaRT Station. At the SMaRT Station, recyclables collected from the curbside and commercial programs are sorted and prepared to ship to market. Yard trimmings are processed and sent to a composting facility. All trash is processed by mechanical and human sorters to remove recyclable materials that were not source-separated by residents and businesses. These materials, including a large amount of organics that are composted (food waste and small yard trimmings) are sent to market with the other recyclables. Construction and demolition (C&D) materials are sorted to remove any materials that can be recycled. The SMaRT Station currently recovers 25 percent of all trash and C&D materials, contributing greatly to the City's overall 76 percent diversion rate.

Rates

Customers served by trash and recycling services are billed on a monthly or bimonthly basis. Rates are set annually with recommended rate changes included in the Narrative Budget Report in late April, a rate hearing in June, and ultimately approved by City Council with the adoption of the annual budget in June. The City's current solid waste rates can be found in Attachment 1 to the Narrative Budget Report.

The City's solid waste rates are based on type of container (cart, bin, debris box, or compactor), frequency of collection, and size of container. All costs (collection, processing, disposal, street sweeping, closed landfill maintenance, and program administration) for the handling of all commodities (trash, recycling, and organics) are recovered through the rate charged for the customer's trash container. Although a portion of these costs are incurred by the City based on weight (primarily processing and disposal costs), the only currently practical method of assessing the charges to customers is by volume.

ANALYSIS

Solid Waste Cost of Service Study

The City periodically reviews the utility rate structures to verify that rates are aligned correctly and are set to produce sufficient revenue to cover all costs within each utility fund. The City's solid waste rate structure was last reviewed in 1998.

The current Cost of Service Study (Study) was undertaken to provide an updated review of the rates and an opportunity to discuss possible changes with the City Council. The Study began in late 2011 in an attempt to review and set rates before the new collection agreement with Recology was in place. However, staff determined it would be more appropriate to wait until the agreement was in place and a full year of service complete in order to incorporate the service changes included in the new collection agreement into the rates.

As part of the Study, the following guiding principles were identified by staff:

1. Be fair and equitable to all customer types.
2. Comply with the legal requirements of Proposition (Prop.) 218, Prop. 26, and other California laws.
3. Recover the costs of providing service.

The analysis is retrospective in nature and provides a snapshot of the Solid Waste Fund for Fiscal Year 2013-14. A model was developed that reflects detailed assignment or allocation of every cost and revenue to each line of business (i.e., the type of container serviced—cart, bin, debris box, or compactor) and to each program type within the line of business (e.g., trash, recycling, organics). The model relies on two methods of distributing revenues and expenses to the lines of business: (1) direct assignment when possible; and (2) allocation—using one or more methods agreed to by the consultant and staff that best reflects logical and equitable distributions and are commonly utilized in such models. For example, collection costs were directly assigned, while processing and disposal costs were allocated, sometimes based on capacity (volume) and sometimes on weight (tonnage). It is important to note one of the purposes of a cost of service study is to ensure the customer is not paying more than the cost to provide the service and one type of service is not subsidizing another, as required under Prop. 218.

Recommended Changes from the Study

The analysis shows revenues received for Cart services are not sufficient to fund the cost of providing that service, revenues received for Bin and Compactor services are slightly more than needed to fund the cost of providing those services, and revenues received from Debris Box services are significantly more than needed to fund the cost of providing that service. This analysis has been adjusted to incorporate the solid waste rate changes adopted in Fiscal Year 2014-15. A summary table is provided as follows (dollars in thousands):

	Carts	Bins	Debris Boxes	Compactors
Estimated Revenue, FY 2014-15	\$5,295	\$15,568	\$2,655	\$1,969
Cost of Providing Service	\$6,755	\$14,985	\$2,116	\$1,896
Variance	(\$1,459)	\$583	\$539	\$73
Percent Difference	(27.6%)	3.7%	20.3%	3.7%

Based on the model, staff is recommending the following rate adjustments. However, because of imprecision inherent in the model, recommended rate changes are rounded for ease of implementation. Because of the significance of the Cart rate change, staff is recommending it be phased in over a three-year period.

1. **Increase Cart rates 10.0 percent per year for three years.**
2. **Reduce Bin rates 3.5 percent in Fiscal Year 2015-16.**
3. **Reduce Debris Box rates 20.0 percent in Fiscal Year 2015-16.**
4. **Reduce Compactor rates 3.5 percent in Fiscal Year 2015-16.**

Estimated Customer Impacts for Fiscal Year 2015-16

The monthly cost for a 32-gallon cart (the most commonly used cart size) will increase from \$23.30 per month to \$25.65 per month (rates are rounded to the nearest nickel). If the rate were to include the full rate increases as shown in the Study, the cost for a 32-gallon cart would increase to \$30.29 per month. These rates do not reflect recommended rate changes for Fiscal Year 2015-16 that would otherwise be recommended based on increases for Recology, SMaRT Station, and City costs. This rate change is discussed in the Narrative Budget Report.

Exhibit A shows the current rates for a 32-gallon can for cities in Santa Clara County. As can be seen, Mountain View's current rate is in the lower-middle range compared to other cities in Santa Clara County and rises to the upper third with the full increase. However, the rate with the full increase would still be lower than the other two City partners of the SMaRT Station, Sunnyvale and Palo Alto. This is mainly due to the frequency of recycling collection; both other cities have weekly recycling collection, whereas Mountain View has biweekly collection of recyclables.

FISCAL IMPACT

There will be no overall fiscal impact to the City for the recommended solid waste rate changes once the recommended phase-in of Cart rates is complete. However, because all rate changes, except Carts, are being implemented at once, there will be a negative financial impact to the Solid Waste Fund the first two years of the phase-in. It is anticipated the recommended phase-in will reduce the available balance in the fund by approximately \$1.5 million over two years. By the third year, it is projected that rates will provide sufficient revenues in the Solid Waste Fund to support the services provided by the City. The recommended rate changes will have the most significant

impact to Cart and Debris Box customers, but the changes will better align rates to more equitably charge for the type of service used.

RECOMMENDATION

Direct staff to incorporate the Cost of Service Study results into the recommended rates and fee schedule for Fiscal Year 2015-16 as follows:

5. **Increase Cart rates 27.6 percent, recommended to be phased 10.0 percent per year for three years.**
6. **Reduce Bin rates 3.5 percent in Fiscal Year 2015-16.**
7. **Reduce Debris Box rates 20.0 percent in Fiscal Year 2015-16.**
8. **Reduce Compactor rates 3.5 percent in Fiscal Year 2015-16.**

The recommendation and results of the Study will be adjusted, taking into consideration the annual rate recommendations that are separate from the Study and are presented in the Narrative Budget Report.

ALTERNATIVES

1. Direct staff not to include one or more of the recommended changes in the recommended rate and fee schedule for Fiscal Year 2015-16.
2. Direct staff to implement the full impact to cart rates in the recommended rate and fee schedule for Fiscal Year 2015-16.
3. Direct staff to modify one or more of the recommended changes in the recommended rate and fee schedule for Fiscal Year 2015-16.

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Exhibit: A. Comparison of 32-Gallon Cart Rate to Cities in Santa Clara County

Santa Clara County Rate Comparisons – As of July 1, 2014

Residential: 32 Gallon Trash Cart

City	Monthly Rate	Weekly Recycling	Weekly Yard Trimmings	Cleanup Program	Bulky Collection	Food Waste
Los Gatos	\$23.29	*	*	*		
Mountain View	\$23.30			*	*	
Cupertino	\$23.40	*	*	*	*	*
Campbell	\$23.97	*	*	*		
Morgan Hill	\$26.27		*	*		*
Santa Clara	\$28.40	*	*	*	*	
Gilroy	\$28.66	*	*	*		*
Mountain View(1)	\$30.30			*	*	
Los Altos	\$30.62	*	*	*	*	*
San Jose	\$30.84	*	*			
Milpitas	\$31.30	*	*	*	*	
Mountain View(2)	\$32.00	*	*	*	*	
Sunnyvale	\$34.88	*	*	*	*	
Los Altos Hills	\$37.96	*	*	*	*	
Palo Alto	\$40.14	*	*	*	*	

(1) Mountain View rate with 30.0 percent increase per COS = \$30.30

(2) Mountain View rate with 30.0 percent increase per COS
and if weekly recycling and yard trimmings services
were added = \$32.00 (apprx)