

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Solid Waste Collection Fee Adjustment
DATE: August 1, 2006

Needs: For the City Council to adopt a resolution approving revised solid waste collection fees for Paso Robles Waste Disposal (PRWD) and the City.

Facts:

1. The purchase of 53 acres adjacent to the municipal landfill (northwest corner of Hwy 46E and the landfill access road) in the amount of \$1,952,600 was undertaken via a combination of cash down payment and long-term financing.
2. The financed portion, \$1.5 million representing an annual debt service cost of \$138,600, was to be paid from a solid waste collection surcharge on all PRWD in-city customers.
3. It was coincidental that as discussions were initiated with PRWD regarding the surcharge, PRWD requested a rate adjustment for their own operational needs.
4. The franchise agreement with PRWD provides for an operating ratio of 90 to 92%.
5. At their meeting of December 6, 2005, the Council appointed Councilmen Jim Heggarty and Gary Nemeth to an ad hoc committee to assist in the rate setting evaluation.
6. The ad hoc committee is recommending Council approve the rate adjustment as negotiated with PRWD (Councilman Fred Strong substituting for Councilman Jim Heggarty at the last ad hoc committee meeting when the recommendation was formulated).

Analysis &
Conclusion:

A. Property Acquisition Component

Developing an appropriate rate adjustment for the landfill property acquisition was somewhat complicated by the delay in determining the what, if any, rate increase would be given to PRWD and its' effective date. It was originally contemplated that the rate surcharge would be in place prior to the first semi-annual debt service payment. However, the first payment was made 6/30/2006. Assuming the Council approves the collection surcharge, it will not go into effect until 9/1/2006.

Due to the recommended structuring of rate adjustments for PRWD for their operational needs, the method for calculating the City surcharge was to impose the surcharge in two phases. The calculation for the initial phase starting September 1st takes the first five semi-annual debt payments (6/30/06 – 12/31/06 – 6/30/07 – 12/31/07 – 6/30/08) totaling \$346,500 and divides the

amount proportionally between residential and commercial PRWD customers based upon percent of total PRWD customers. Then these amounts are divided by 22 months representing the number of months between 9/1/06 and 6/30/08 and then by the number of customers in each category to arrive at the monthly rate for each customer.

For residential customers, the City surcharge would be \$1.10 per month or \$13.15 per year and for commercial customers the monthly rate is \$2.34 or \$28.11 annually. The reasoning for the larger increase for commercial versus residential customers is that there are many more residential customers than commercial customers over which to spread their proportional share.

The second phase provides for the conversion of the surcharge to an annual cycle. At 7/1/08, the surcharge based solely upon current customer configuration would become \$0.80 per month for residential and \$1.72 for commercial. These amounts will likely be lower as there will be more customers in each category when the calculation is updated. Also, the decrease in City surcharge will be netted with the CPI adjustment for PRWD scheduled for 7/1/08 should the Council approve it.

B. Paso Robles Waste Disposal Operational Component

As noted above, the exclusive franchise agreement with PRWD provides for an operating ratio of 90% to 92%. The financial statements for PRWD for the year ending 12/31/05 indicated an operating ratio of 94.5% which, at face value, would be justification for a rate adjustment.

However, upon review and analysis of PRWD's operating statement, there were clearly "anomalies" in many administrative expense categories. These anomalies represented one time expenses that are unlikely to reoccur. Additionally, the franchise agreement gives the City the authority to review increases in gross expenses to determine "reasonableness".

PRWD was very cooperative and agreed to adjust their operating statement results for the period ending 12/31/06 by removing the anomalies and certain expense categories entirely from the operating ratio calculation. The resulting operating ratio calculation indicates a ratio of 92.3% which is nearly within acceptable parameters of the franchise agreement.

Accordingly, PRWD has agreed to no immediate rate adjustment for the year ended 12/31/05. Instead, it is proposed that they receive a rate increase, effective 1/1/07, based upon the percent increase in consumer price index for the twelve month period ending 10/31/06. This would be followed by two additional rate adjustments; one eighteen months later on 7/1/08 and a second on 7/1/09. Both would be based upon the consumer price index for the twelve month period ending the preceding April.

It should be noted that PRWD's last rate adjustment was 2.5% on 1/1/05. Subject to Council approval, the rate adjustment on 1/1/07 will provide PRWD its' first rate adjustment in two years and it will be eighteen months from 1/1/07 before the next rate adjustment. By way of illustration, the increase in the CPI for the twelve month period ending April 2006 was 2.8% and June 2006 was 3.9%.

Fiscal
Impact:

The City needs to impose a surcharge that generates an annual amount equal to \$346,500 representing the annual debt service expense for the landfill property acquisition. Because of this situation wherein the City will have made nearly two semi-annual debt payments before collecting any surcharge, it is best to calculate the initial surcharge fee on five semi—annual payments over a twenty-two month time period. At 7/1/08, the surcharge would be reduced to reflect an annual collection time period. The surcharge rates are identified as follows:

	<u>Residential</u>	<u>Commercial</u>
Initial Rate	\$1.10	\$2.34
7/1/08 Rate	\$0.80	\$1.72

Note: 7/1/08 rates are illustrative only. They will be lower given the increase in additional customers over the next 22 months.

The impact of the initial surcharge fee upon selected PRWD residential customer rates is illustrated as follows:

	<u>Surcharge</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
40 Gallon	\$1.10	\$23.82	\$24.92
60 Gallon	\$1.10	\$31.58	\$32.68
90 Gallon	\$1.10	\$34.97	\$36.07

While the exact amount of the proposed CPI adjustment for PRWD is unknown, using 4% as an estimate, PRWD’s rates would be impacted as follow:

	<u>Surcharge</u>	<u>PRWD 1/1/07</u>	<u>Current Rate</u>	<u>Total Rate</u>
40 Gallon	\$1.10	\$0.96	\$23.82	\$25.88
60 Gallon	\$1.10	\$1.27	\$31.58	\$33.95
90 Gallon	\$1.10	\$1.40	\$34.97	\$37.47

Options:

- a. That the Council adopt Resolution No. 06-XXX approving modifications to solid waste collection rates; or
- b. Amend, modify, or reject the above option.

RESOLUTION NO. 06-

A RESOLUTION OF THE CITY OF EL PASO DE ROBLES
APPROVING MODIFICATIONS TO SOLID WASTE
COLLECTION RATES FOR PASO ROBLES WASTE DISPOSAL

WHEREAS, the City Council approved the purchase of real property adjacent to the municipal landfill; and

WHEREAS, the purchase of said property called for the debt service financing to be paid from a user fee increase on all solid waste collection customers within the City; and

WHEREAS, Paso Robles Waste Disposal has agreed to assess, collect and remit said solid waste collection fee increase to the City; and

WHEREAS, Paso Robles Waste Disposal has requested a fee adjustment for their own franchise solid waste collection operations; and

WHEREAS, the City has negotiated a fair and reasonable fee adjustment base upon analysis of their financial statements for the period ending December 31, 2005.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles as follows:

- Section 1. All residential solid waste customer rates shall be increased by \$1.10 per month effective September 1, 2006; and
- Section 2. All commercial solid waste customer rates shall be increased by \$2.34 per month effective September 1, 2006; and
- Section 3. Said increase for both residential and commercial shall not be subject to any City franchise fee; and
- Section 4. Said fee increase shall be assessed, collect and remitted to the City by Paso Robles Waste Disposal within thirty (30) days after the last day of each month.

BE IT FURTHER RESOLVED by the City Council of the City of El Paso de Robles that Paso Robles Waste Disposal solid waste collection rates, subject to City franchise fee, shall be adjusted as follows:

January 1, 2007 based upon the percent increase in Consumer Price Index as published by the Bureau of Labor Statistics for "All Urban Wage Earners and Clerical Workers" SF-Oak-SJ Region for the twelve month period ending 10/31/06; and

July 1, 2008 based upon the percent increase in Consumer Price Index as published by the Bureau of Labor Statistics for "All Urban Wage Earners and Clerical Workers" SF-Oak-SJ Region for the twelve month period ending 4/30/08; and

July 1, 2008 based upon the percent increase in Consumer Price Index as published by the Bureau of Labor Statistics for "All Urban Wage Earners and Clerical Workers" SF-Oak-SJ Region for the twelve month period ending 4/30/09; and

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 1st day of August 2006 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Deborah Robinson, Deputy City Clerk