

Folsom City Council Staff Report

MEETING DATE:	7/13/2021
AGENDA SECTION:	New Business
SUBJECT:	Presentation and Public Workshop Regarding Solid Waste Rate Studies and City Council Direction to Staff
FROM:	Public Works Department

RECOMMENDATION / CITY COUNCIL ACTION

City staff is requesting feedback and direction from the City Council on the rate structure as it relates to cost recovery for unfunded mandates. This includes recommendations for isolating a portion of costs associated with programs currently funded through the all-inclusive residential rates and the timing of any rate adjustments. Additionally, staff is requesting direction to proceed with the Proposition 218 noticing to begin the process of adjusting the Solid Waste rates.

BACKGROUND / ISSUE

In 2019 the Solid Waste Division (Division) conducted a comprehensive rate study including evaluation of operational and capital needs. R3 Consulting Group, Inc. (R3) along with City staff analyzed the revenue requirements and rate structures for each line of service.

The rate study incorporated costs associated with meeting current needs; however, it did not account for additional staffing or other operational costs required to meet pending regulatory requirements relating to California's Short-Lived Climate Pollutant Reduction Strategy (SB 1383). The regulations necessary for compliance with SB 1383 were still being developed so the costs were unknown.

At the time of the rate study, solid waste rates had not increased since 2003. Despite the impending unknown expenses associated with SB 1383, the financial position of the Division necessitated proceeding with a rate adjustment in advance of the regulations. Staff expressed to City Council that it would be necessary to return with additional increases once the costs of

SB 1383 could be predicted. The regulations were finalized in November of 2020 and the Division is now able to anticipate the cost of compliance.

The mandated programs required by SB 1383 will significantly increase costs. These include weekly collection of all organic material from all residents and businesses, community outreach and education, procurement of products made from recycled organic material, edible food recovery, and enforcement. The Division has been working with R3 over the past few months to incorporate the new program expenses into the City's existing rate model.

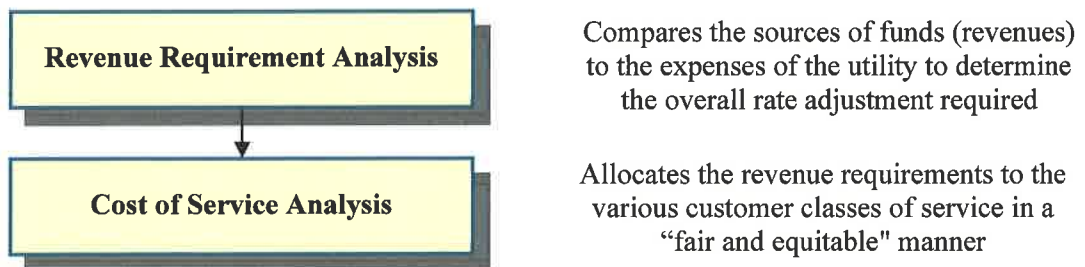
In addition, there are increases in two existing expenses included in the updated rate model. Since our last rate study Sacramento County has significantly increased the tipping fees (the cost to dispose of material) at Kiefer Landfill. Currently, the City of Folsom is contracted to take material to Kiefer at a reduced rate of \$33.65 per ton, which is based on the tipping fee when the contract was executed. This has kept Folsom far below the current gate rate of \$52.85 per ton. The agreement expires June 30, 2022, so staff reached out to County staff to inquire what we should anticipate paying in the future. Based on our tonnage, we will continue to qualify for a discount, but for planning purpose should anticipate about \$51.44 per ton. Folsom currently delivers about 41,300 tons of material each year so our initial year increase will be about \$735,000.

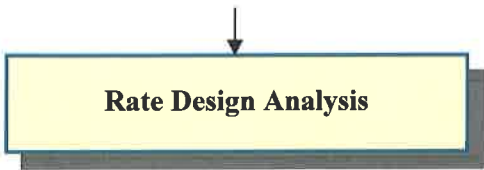
The other large expense not directly related to SB 1383 is the addition of two electric collection trucks to our fleet. In September of 2020 Governor Newsom issued Executive Order N-79-20 requiring all heavy-duty trucks to be zero emission by 2045. Since this technology has the potential to save costs in the long run, the Division is requesting funding to pilot two vehicles to evaluate their effectiveness in the operation. The Division has been awarded some grant funding; however, due to the high initial cost of converting to clean energy, there is still a significant investment required from the City.

ANALYSIS

User rates must be set at a level where a utility's operating and capital expenses match the revenues received from customers. To evaluate the adequacy of the existing rates, a comprehensive rate study is often performed. A comprehensive rate study consists of three interrelated analyses. Figure 1 provides an overview of these analyses. The City utilized this process when establishing the current Solid Waste rates.

Figure 1
Overview of the Comprehensive Rate Analyses





Considers both the level and structure of the rate design to collect the target level of revenues

As a practical matter, all utilities should consider setting rates around some generally accepted or global principles and guidelines. Utility rates should be:

- Cost-based and set at a level that meets the utility’s full revenue requirement.
- Equitably distributed across each customer class, meaning that the rate does not exceed the proportional cost of service attributed to that customer.
- Easy to understand and administer.
- Designed to conform with “generally accepted” rate setting techniques.
- Stable in their ability to provide adequate revenues for meeting the utility’s financial, operating, and regulatory requirements.
- Established at a level that is stable from year-to-year from a customer’s perspective.
- In compliance with State legal regulations.

These guiding principles were utilized within the comprehensive rate study to develop utility rates that are cost-based and proportional to the cost of service attributed to a specific customer class. Currently, the City uses the “cash basis” approach for establishing their revenue requirement and setting rates. This approach conforms to most public utility budgetary requirements and the calculation is easy to understand. A public utility totals its cash expenditures for a period of time to determine required revenues.

Under the “cash basis” approach, the sum of the total O&M expenses plus the total capital expenses equals the utility’s revenue requirement during any selected period of time (historical or projected). Table 1 may be helpful in providing an overview and summarizing the “cash basis” revenue requirement methodology.

Table 1
Overview of the “Cash Basis” Revenue Requirement Methodology

+ O&M Expense	
+ Taxes or Transfer Payments	
+ Capital Improvements Financed with Rate Revenues (≥ Depreciation Exp.)	
+ Debt Service (P+I)	
= Total Revenue Requirements	
– Miscellaneous Revenues (Excluding Connection Fees)	

= Balance Required from Rate Revenues

After the total revenue requirement is determined for each utility, it is then proportionally allocated to the users of the specific service. The allocation, usually analyzed through a cost of service analysis, reflects the cost relationships for collecting and disposing of solid waste. At the conclusion of the cost of service study, two key pieces of information are provided. First, the cost of service provides an understanding of the total revenues to be collected from each class of service. The other important piece of information provided by the cost of service analysis is the average unit costs.

To incorporate the new program costs into the City's comprehensive rate model each program was evaluated to determine which specific customers will be served by each program. The programs expenses were then added to the model and rates adjusted to recover the expenses for each service. Since the cost of providing each service is increasing, the Division also added options to the model to break down the all-inclusive residential rates to recover some cost from those who directly use the services. This includes adding charges for bulky waste and household hazardous waste collection and increasing the fees for extra recycle and green waste cans to represent actual cost. Currently a second green waste and recycle can are included in the standard rate. The model now includes only one green waste and recycle in the base rate for service.

Utility Commission & Public Outreach

The impacts of SB 1383 on rates were presented and discussed at Utility Commission (UC) on February 16, 2021, May 18, 2021, June 15, 2021, and in a special meeting on July 6, 2021.

Potential methods of addressing the increasing expenses included:

- Addition of rate increase on January 1, 2022 in addition to currently approved increases.
- Addition of two additional years of rate increases to the currently approved increases.
- Fees for direct users of currently included services such as extra cans, and bulky waste and household hazardous waste collection.
- Seeking a one-time, internal, low-interest loan.
- Adding a temporary SB 1383 surcharge to pay for initial capital expenses.

City staff and consultants will present initial findings of the updated rate study and update City Council with input and feedback received from the Utility Commission in the development of the rate adjustment recommendations.

Included in the discussion will be UC and staff recommendations of:

- Capital investment to meet regulatory requirements.
- Staffing needs to meet regulatory requirements.
- Operational cost increases to meet regulatory requirements.
- Potential pilot program of electric collection trucks.

- Increased cost of solid waste disposal.
- Projected monthly rate adjustment associated with unfunded mandates.
- New fees for extra services.
- Timing of proposed adjustments.
- An average monthly bill for each of the options discussed with the UC.

Submitted,

Dave Nugen, PUBLIC WORKS DIRECTOR

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