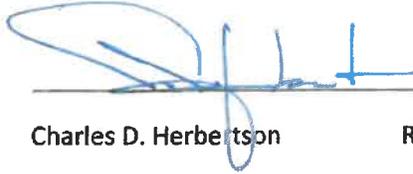


To: The Honorable Mayor and Members of the City Council

From: Charles D. Herbertson, Public Works Director and City Engineer

SECOND AMENDMENT TO CITY ENGINEER'S REPORT FOR REFUSE AND RECYCLING USER'S SERVICES CHARGES BEGINNING FISCAL YEAR 2020 - 2021



Charles D. Herbertson RCE 46658

Public Works Director and City Engineer



PURPOSE

The purpose of this transmittal is to summarize the utility's amended findings of the Refuse Rate Study that NBS performed for Culver City's Refuse Utility (City or Utility). NBS' findings focused on: (1) equitably allocating utility costs to the various customer classes and types of services, (2) adjusting various charges and rates in a manner that meets Prop 218 requirements, and (3) provides a plan that is financially sustainable.

Projected Utility revenue requirements and rate adjustments were adopted by City Council on July 24, 2017 for fiscal years 2017/ 2018 through 2019 /2020 . Upon review of the City's current rate structure, and the economic impacts due to the COVID – 19 pandemic, there are no recommended rate adjustments for FY 2020/2021.

OVERVIEW

A comprehensive refuse rate study typically includes the following three components based on general utility industry standard cost of service methodologies: (1) Financial Plan/Revenue Requirements, (2) Cost of Service Analysis, (3) Rate Design Analysis.

FINANCIAL PLAN AND REVENUE REQUIREMENTS ANALYSIS

Projected Revenue Requirements and Rates – In FY 2014 – 2015, NBS prepared a detailed five year financial plan indicating that the Utility would need at least a three percent rate increase in each of the next five years (2015/16 through 2019/20). However, this plan did not fully fund capital improvements at the transfer station, was developed prior to the enactment of AB 1826 and was developed prior to the increased PERS payment adjustments requirements for municipalities. A detailed Financial Plan was developed from FY 2017/2018 through FY 2019/20 indicating that the Utility would need at least a seven percent increase which was approved on July 24, 2017.

In FY 19/20, the City contracted with SCS Engineer Inc. to complete another comprehensive rate analysis for the Refuse Utility for FY 20/21 through FY 24/25. This rate analysis was to be presented in Spring of 2020. However, due to the COVID – 19 pandemic and its effect on the economy, the Utility Refuse rates will not be adjusted. Rates adopted for FY 19/20 are being proposed for FY 20/21.

Table 1: Summary of Net Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Adopted Budget
	FY 19/20	FY 20/21
<i>Sources of Refuse Utility Funds</i>		
Rate Revenue Under Prevailing Rates	\$15,881,966	\$14,960,561
Interest Earnings <i>(from Reserves)</i>	384,676	173,681
Other Non-Rate Revenues & Grants	867,088	760,679
Total Sources of Funds	\$ 17,133,730	\$ 15,894,921
<i>Uses of Refuse Utility Funds</i>		
Refuse Collection - Personnel Services	\$5,032,889	\$5,386,500
" " - Maint. & Oper	\$5,573,543	\$5,165,199
" " - Capital Outlay		
<i>Subtotal: Refuse Collection</i>	\$10,606,432	\$10,551,699
Transfer Station - Personnel Services	\$909,715	\$914,296
" " - Maint. & Oper	5,256,222	\$5,375,521
" "		
<i>Subtotal: Transfer Station</i>	\$6,165,937	\$6,289,817
<i>Total Uses of Refuse Disposal Funds</i>	\$16,772,369	\$16,841,486
Surplus (Deficiency)	361,361	(946,565)
<i>Additional Revenue from Rate Increases</i>		-
<i>Total Rate Revenue – Including Rate Increases</i>	-	-
Surplus (Deficiency)	\$ 361,361	(\$946,565)
<i>Projected Annual Rate Increase</i>	0.00%	0.00%

Cash Management and Target Reserve Fund Balances - In FY 2018/2019 and 2019/2020, several negative developments beyond the City's control caused a huge shift in the operations of the Refuse Fund. Some of the factors were due to changes in the recycling market such as requiring the City to pay \$86 per ton for recycling processing instead of getting paid \$ 25 per ton for it. Other elements included expiration of the hauling contract that caused a dramatic increase in rates under the new term, retirement costs and necessary enhancements. In FY 2020/2021 the Refuse Fund expenditures are estimated to exceed revenues by \$1.0 M. This will leave the fund balance at \$2.8M which is \$1.5M below the Fund Balance Reserve requirement of 25% (\$4.3M).

FY 2019/2020 was the final year of the 7% rate increase approved on July 24, 2017, and although future rate increases are subject to a protest vote pursuant to Proposition 218, another rate study is being proposed in Spring 2021 in order to find a solution that will enable the Fund to adequately cover ongoing operating cost, replacement of capital cost and to meet fund balance reserve requirements. Staff will also continue to monitor what impact COVID-19 will have on revenues received from business customers and cuts will be made to the expenditure budget at Mid-Year if necessary.

The Utility is projected to begin Fiscal Year 2020/2021 with a total cash balance of approximately \$3,800,000. Table 2 summarizes the cash balances for the operating and reserve funds.

Table 2 Summary of Projected Three Year Reserves

SUMMARY OF RESERVE FUNDS	Estimate		Projected	
	FY 19/20	FY 20/21	FY 21/22	
Total Beginning Cash (1)	\$3,342,290	\$3,784,933	\$ 2,838,368	
<i>Operating Reserve</i>				
Beginning Reserve Balance (2)	\$3,342,290	\$3,784,933	\$ 2,838,368	
Replacement Reserve	0	0		0

Cost of Service Analysis – The purpose of the cost of service analysis is to equitably allocate the refuse utility costs, or the net revenue required from refuse rates, to each customer class. This means that the City is obligated to fairly allocate refuse program costs to the three customer classes (refuse, commercial and drop-box services). The cost of service analysis includes two primary steps:

1. Classifying various expenditures to one of several types of costs:
 - Collection System related costs
 - Transfer Station related costs
 - Disposal Related Costs
2. Allocating Costs to customer classes based on specific allocation factors:
 - Collection costs are allocated based on a detailed analysis of staffing costs and by subdividing these costs into residential vs: commercial programs. (roll-off/drop box costs are treated as a separate collection program)

- Transfer station costs are allocated based on total tonnages of materials handled by customer class (residential, commercial, and roll-off/drop box)
- Disposal costs are allocated based on the tonnages of materials handled at the transfer station.

This analysis produced the cost allocations for each customer class for FY 20/21 as shown in Table 3. Table 3 indicates that \$ 16,841,518 million is necessary for FY 20/21 Refuse Utility operations.

Table 3: Revenue Requirements by Customer Class for FY 20/21

Summary of Cost Allocations to Customer Classes				
Cost Categories	Customer Classes			Total
	Residential	Commercial	Drop Box	
Collection Costs	\$ 3,271,027	\$ 5,592,401	\$ 1,688,272	\$ 10,551,700
Transfer Station	\$ 709,844	\$ 1,213,603	\$ 366,371	\$ 2,289,818
Disposal	\$ 1,240,000	\$ 2,120,000	\$ 640,000	\$ 4,000,000
Total Cost of Service	\$ 5,220,871	\$ 8,926,004	\$ 2,694,643	\$ 16,841,518
Percent of Total	31%	53%	16%	100%

RATE DESIGN AND PROPOSAL to NOT INCREASE RATES FY 2020/2021

The purpose of the rate design analysis is to determine how to collect rate revenue (as shown in Table 3) from the individual rates for specific services within each customer class. Accurately allocating these amounts of rate revenue improves the overall equity among customer classes. In FY 2019/2020, revenues were estimated at \$ 15,658,850 but ended the Fiscal Year with revenues totaling \$17,126,715. This is an additional revenue of \$1,467,865. Table 1 demonstrated that the Refuse Fund would experience a shortfall of approximately \$950,000 in FY 2020/2021. Revenues in FY 2020/2021 are uncertain as a result of COVID -19. The Refuse Utility Fund will be monitored closely to determine path of revenues received monthly. Expenditures in the refuse fund will be adjusted accordingly at mid-year.

Table 4 summarizes the rates in FY 2019/2020 and proposed FY 2020/2021 rates, which will remain the same. Table 5 summarizes the rates for drop box services.

These rates consider that additional expenditure cuts will need to be made if revenues cannot sustain operational costs. Based on the results of this amended report, staff recommends the City take the following actions:

- Adopt this rate analysis for the required FY 2020/2021 as the basis for no adjustments to the City's current refuse rate.
- Adopt and implement the proposed refuse rates shown below in Tables 4 and 5. .

Table 4: FY 19/20 AND PROPOSED FY 20/21 RESIDENTIAL AND COMMERCIAL REFUSE RATES

Customer Class & Level of Service	FY 2019/20 Refuse Rates (\$/mo. or lift)	Proposed FY 2020/2021 Refuse Rates (\$/mo. or lift)	%
Residential Service			
Residential Automated Collections	\$ 38.44/mo	\$ 38.44/mo	0%
Can Service – Commercial Extra	\$ 32.06/mo	\$ 32.06/mo	0%
Auto Can- Refuse	\$ 17.03/mo	\$ 17.03/mo	0%
Commercial (Bin) Service			
2-CY Scheduled Refuse (1x/week)	\$ 144.37/mo	\$ 144.37/mo	0%
3-CY Scheduled Refuse (1x/week)	\$ 177.87/mo	\$ 177.87/mo	0%
300g Schedule Refuse (1x/week)	\$ 177.87/mo	\$ 177.87/mo	0%
Unscheduled/One-Time/On-Call Commercial (Bin) Service			
2-CY Call/Extra Pickup-Refuse	\$ 35.15/lift	\$ 35.15/lift	0%
3-CY Call/Extra Pickup-Refuse	\$ 52.74/lift	\$ 52.74/lift	0%
2-CY Collection (On-call residential)	\$ 35.15/lift	\$ 35.15/lift	0%
3-CY Collection Trash (residential)	\$ 52.74/lift	\$ 52.74/lift	0%
Organics Commercial (Bin) Service			
2-CY Scheduled Organics	\$ 84.85/mo	\$ 84.85/mo	0%
3-CY Scheduled Organics	\$ 89.55/mo	\$ 89.55/mo	0%
2-Cy Call Organics	\$ 18.40/lift	\$ 18.40/lift	0%
3-CY Call Organics	\$ 20.89/lift	\$ 20.89/lift	0%
Recycling Commercial (Bin) Service			
Can Service - Recycle	\$ 15.39/lift	\$ 15.39/lift	0%
2-CY Scheduled Recycle	\$ 35.45/mo	\$ 35.45/mo	0%
3-CY Scheduled Recycle	\$ 37.57/mo	\$ 37.57/mo	0%
2-CY Call Recycle	\$ 8.10/lift	\$ 8.10/lift	0%
3-CY Call Recycle	\$ 8.78/lift	\$ 8.78/lift	0%
Waste -to- Energy Commercial (Bin) Service			
3-CY Scheduled Waste-to-Energy	\$ 189.88/mo	\$ 189.88/mo	0%
2-CY Call Waste-to-Energy	\$ 37.76/lift	\$ 37.76/lift	0%
3-CY Call Waste-to-Energy	\$ 56.66/lift	\$ 56.66/lift	0%
Miscellaneous Services			
Bin Rental - 2 & 3 CY Bins	\$ 58.80/mo	\$ 58.80/mo	0%
Bin Pull- out Scheduled	\$ 40.08/mo	\$ 40.08/mo	0%
Bin Pull-out On-Call	\$ 8.43/bin	\$ 8.43/bin	0%
Bulk Pick-up	\$ 51.89/bin	\$ 51.89/bin	0%
Bulk Pick-up Additional	\$ 25.95/bin	\$ 25.95/bin	0%
Bin Lock Set	\$ 12.14/mo	\$ 12.14/mo	0%
2-CY Temp Delivery/Removal	\$ 10.51/lift	\$ 10.51/lift	0%
3-CY Temp Delivery/Removal	\$ 10.51/lift	\$ 10.51/lift	0%

TABLE 5: FY 19/20 AND PROPOSED FY 20/21 DROP BOX REFUSE RATE

Drop Box Service Type	FY 2019/2020 Drop Box Rate	Proposed FY 2020/2021 Drop Box Rate	%
Drop Box Collection Only (Empties)			
DB 8-CY Empty	\$ 204.86/empty	\$ 204.86/empty	0%
DB 30-CY Empty	\$ 204.86/empty	\$ 204.86/empty	0%
DB 40-CY Empty	\$ 204.86/empty	\$ 204.86/empty	0%
DB 50 –CY Empty	\$ 204.86/empty	\$ 204.86/empty	0%
DB Compactor Empty	\$ 204.86/empty	\$ 204.86/empty	0%
Drop-Box Tonnage Only Refuse/MSW			
Tonnage Refuse	\$ 102.06/ton	\$ 102.06/ton	0%
Construction & Demolition Materials			
Tonnage Metal	\$ 27.16/ton	\$ 27.16/ton	0%
Tonnage Asphalt/Concrete	\$ 79.69	\$ 79.69	0%
Tonnage Wood	\$111.37/ton	\$111.37/ton	0%
Tonnage Other Inert	\$ 79.69	\$ 79.69	0%
Tonnage Mixed C&D	\$111.37/ton	\$111.37/ton	0%
Organic Materials			
Tonnage Organics	\$ 86.32/ton	\$ 86.32/ton	0%
Waste -to- Energy & Special Compactor			
Tonnage Waste-to-Energy	\$ 128.15/ton	\$ 128.15/ton	0%
Compactor Restaurants	\$ 185.50/mo	\$ 185.50/mo	0%
Miscellaneous Fee & Charges			
DB Monthly Rental	\$ 180.83/mo	\$ 180.83/mo	0%
DB Respot	\$ 45.93/empty	\$ 45.93/empty	0%
Compactor Non Restaurant	\$ 65.61/mo	\$ 65.61/mo	0%
Communal Compactor Housekeeping	\$ 113.56/mo	\$ 113.56/mo	0%
Compactor Administrative Fee	\$ 100.94/mo	\$ 100.94/mo	0%
Additional/Penalty Charges for tonnages exceeding 11 tons: includes base rate & penalty)			
Tonnage – Refuse +11T	\$ 153.09/ton	\$ 153.09/ton	0%
Tonnage – Metal +11T	\$ 40.73/ton	\$ 40.73/ton	0%
Tonnage – Asphalt +11T	\$ 119.54/ton	\$ 119.54/ton	0%
Tonnage – Wood +11T	\$ 167.05/ton	\$ 167.05/ton	0%
Tonnage – Inert +11T	\$ 199.54/ton	\$ 199.54/ton	0%
Tonnage – Mixed C&D +11T	\$ 167.05/ton	\$ 167.05/ton	0%
Tonnage – Organics +11T	\$ 129.47/ton	\$ 129.47/ton	0%
Tonnage – WTE +11T	\$ 192.22/ton	\$ 192.22/ton	0%