



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow
Jennifer A. Maguire

**SUBJECT: INTEGRATED WASTE
MANAGEMENT FUND UPDATE**

DATE: May 25, 2017

Approved

Date

5/25/17

RECOMMENDATION

1. Approve the implementation of unlimited three-item junk pick-up collections for Single Family Dwellings beginning July 1, 2017.
2. Approve the following amendments to the 2017-2018 Proposed Operating Budget/Integrated Waste Management Fund Statement of Source and Use of Funds:
 - a) Decrease the estimated revenue for Recycle Plus Collection Charges by \$435,900;
 - b) Decrease the IDC Disposal Agreement budget by \$600,000;
 - c) Decrease the Operations and Maintenance Reserve by \$49,000; and
 - d) Increase the Unrestricted Ending Fund Balance by \$213,100.
3. Accept staff's updated analysis of costs related to the Integrated Waste Management Fund and associated impacts on single-family and multi-family dwelling Recycle Plus rates, which include decreasing the recommended 4.5 percent SFD rate increase assumed in the 2017-2018 Proposed Operating Budget to a 3.5 percent rate increase, and increasing the recommended 2.5 percent MFD rate increase assumed in the 2017-2018 Proposed Operating Budget to a 4.5 percent rate increase.

BACKGROUND

The 2017-2018 Proposed Operating Budget released on May 5, 2017 includes funding of \$450,000 to allow unlimited three-item junk pick-up collections (previously known as Large Item Collections) for SFDs (with ongoing funding thereafter at \$900,000), beginning January 1, 2018, following the elimination of the city-wide Neighborhood Clean-Up Program. Following the release of the Proposed Operating Budget, further analysis of the 2017-2018 proposed funding level and forecasted costs for junk pick-up collections has allowed staff to confirm the ability to implement an earlier timeline for the unlimited junk pick-up collection program.

The 2017-2018 Proposed Operating Budget also included the final phase of the sorting and processing of waste materials collected from single-family residences (commonly referred to as "backend processing"), expanding the program city-wide. With the implementation of the final phase of backend processing, the city-wide single-family waste diversion rate is expected to increase to approximately 84% by the end of 2017-2018, with backend processing greatly reducing the amount of materials sent to the landfill along with the corresponding disposal costs under the City's agreement with the International Disposal Corporation of California, Inc. (IDC).

To align revenues with waste disposal costs between the single-family dwelling (SFD) and the multi-family dwelling (MFD) programs, an annual analysis is conducted to review, among other things, the total tonnage of waste delivered to the landfill to determine the associated fees and the allocated costs between the two programs.

The 2017-2018 Proposed Operating Budget assumes a 4.5 percent rate increase for the SFD program and a 2.5 percent rate increase for the MFD program based on projected cost increases and service enhancements. However, these proposed rate increases did not completely factor the impact that full implementation of backend processing will have on the total disposal costs under the City's agreement with the IDC, nor did they reflect the updated distribution of disposal costs between the SFD and MFD programs. The impact of these factors on the SFD and MFD programs were not able to be fully recognized and assessed until after the release of the 2017-2018 Proposed Operating Budget, as additional staff time was necessary for the evaluation.

ANALYSIS

SFD Junk Pick-Up Program

Since 2016-2017 represents the first year of the limited three-item junk pick-up program, staff has been gathering data related to junk pick-up collections to more accurately assess anticipated future costs of the program. Recognizing that appointments for junk pick-ups can be seasonal and vary throughout the year, with the spring season anticipated to be a busy time period for junk pick-up requests, staff has been collecting data related to junk pick-up appointments since the beginning of the program to also assess seasonal trends and fluctuations. Based on the most recent junk pick-up collections data through the month of April, which was received following the release of the 2017-2018 Proposed Operating Budget, staff has determined that the Integrated Waste Management Fund can support beginning unlimited three-item junk pick up collections for SFDs on July 1, 2017, without the need for additional funding augmentations.

Integrated Waste Management Fund Statement of Source and Use of Funds

Subsequent to the release of the 2017-2018 Proposed Operating Budget, further analysis of data pertaining to actual disposal costs and tonnages demonstrated a further decrease in overall estimated disposal costs, as well as a significant change in the distribution of disposal costs between the SFD and MFD programs as a result of the full city-wide implementation of backend processing. Moreover, the analysis of the most recent waste disposal tonnage data revealed an

overall increase in disposal costs related to the MFD program and a decrease in costs for the SFD program when compared to the cost distribution that had been assumed in preparing the 2017-2018 Proposed Operating Budget.

Since fiscal year 2014-2015, the City has been implementing back-end processing in phases to a greater number of SFD customers in the City, with full city-wide implementation planned for fiscal year 2017-2018. While it is generally recognized that disposal costs are reduced for those areas that are covered under back-end processing, the exact correlation between disposal costs and back-end processing has been difficult to fully assess due to the gradual nature in which back-end processing has been implemented across the City. Although staff collects actual cost and disposed tonnage data on an ongoing basis, the additional analysis required to evaluate the impacts of back-end processing and to revise the overall estimated disposal costs and distribution between programs was not completed in time to be included in the 2017-2018 Proposed Operating Budget.

In order to align revenues with the revised estimated costs between the SFD and MFD programs, amendments to the Integrated Waste Management Fund Statement of Source and Use of Funds are recommended to reflect lower estimated waste disposal costs (due to the reduction in overall waste tonnage delivered to the landfill) and a shift in the allocation of disposal costs from the SFD program to the MFD program. This shift in disposal costs between the SFD and MFD programs reflects the anticipated impacts of full city-wide implementation of backend processing for the SFD program by the end of fiscal year 2017-2018. These adjustments result in a net decrease in estimated revenue from Recycle Plus Collection Charges (\$435,900), due to the proportionality between SFD and MFD Recycle Plus collection revenues, as well as a decrease to the IDC Disposal Agreement budget (\$600,000), due to the lower estimated waste disposal costs. Because the Operations and Maintenance Reserve is equivalent to one month of operating expenses, it is also recommended to decrease accordingly (\$49,000). The balance of the adjustments will be allocated to the Unrestricted Ending Fund Balance (a \$213,100 net increase). The recommended changes to the Integrated Waste Management Statement of Source and Use of Funds are detailed in the table below:

Integrated Waste Management Fund
 Statement of Source and Use of Funds

Line Items Recommended for Adjustment	2017-2018 Proposed Budget	Recommended Adjustment	Revised 2017-2018 Allocation
Sources			
Recycle Plus Collection Charges	\$123,364,250	(\$435,900)	\$122,928,350
Uses			
IDC Disposal Agreement	\$4,145,353	(\$600,000)	\$3,545,353
Operations and Maintenance Reserve	\$11,439,000	(\$49,000)	\$11,390,000
Unrestricted Ending Fund Balance	\$6,668,812	\$213,100	\$6,881,912

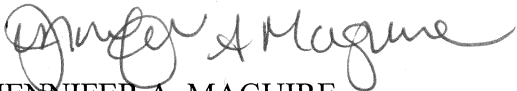
Recycle Plus Rates

The 2017-2018 Proposed Operating Budget includes estimated Recycle Plus rate adjustments of 4.5 percent for the SFD program and 2.5 percent for the MFD program. By adjusting the Integrated Waste Management Fund Statement of Source and Use of Funds to reflect a revised distribution of disposal costs between the SFD and MFD programs and reduction in estimated total disposal costs, the projected Recycle Plus SFD and MFD rate increases detailed in the 2017-2018 Proposed Operating Budget will also require adjustments. Based on the updated analysis, the revised Recycle Plus rate adjustment recommendations for 2017-2018 are a 3.5 percent increase for the SFD program and a 4.5 percent increase for the MFD program. Recycle Plus rate adjustments will be presented to the City Council for approval on June 6, 2017 and additional information will be provided at that time.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

/s/
KERRIE ROMANOW
Director, Environmental Services


JENNIFER A. MAGUIRE
Senior Deputy City Manager/
Budget Director

For questions, please contact Jo Zientek, Deputy Director, Environmental Service Department, at (408) 535-8557.