

STUDY SESSION
Solid Waste Rate Study
VIA VIDEOCONFERENCE
August 10, 2020
5:30 p.m.

AGENDA

Requested by the City Manager

1. MEETING CALLED TO ORDER

At the Study Session of the City Council of University City held via videoconference, on Monday, August 10, 2020, Mayor Terry Crow called the meeting to order at 5:30 p.m.

In addition to the Mayor, the following members of Council were present:

Councilmember Stacy Clay
Councilmember Aleta Klein
Councilmember Steven McMahon
Councilmember Jeffrey Hales
Councilmember Tim Cusick
Councilmember Bwayne Smotherson

Also, in attendance were City Manager, Gregory Rose; City Attorney, John F. Mulligan, Jr.; Director of Public Works, Sinan Alpaslan; John Cubertson, and Cynthia Mormile of MSW Consultants.

2. SOLID WASTE RATE STUDY

Mr. Rose stated in 2019 the City asked MSW to conduct a rate analysis for its Solid Waste Operation to make sure they were consistent with the services provided. Tonight, John and Cynthia of MSW will highlight the findings and recommendations they achieved from that analysis.

Mr. Alpaslan stated since the analysis was completed almost one year ago, MSW has agreed to update any information that may be outdated.

John Cubertson of MSW Consultants stated despite those unforeseen delays, the input, and collaboration provided by City staff make him feel good about where they are today.

MSW Overview

MSW is a non-engineering management consulting company that helps local governments and private businesses customize their waste management programs to fit their specific needs. However, because U City already had a very rational rate structure the initial assessments needed to determine whether the rates aligned with services, was a pretty simple endeavor.

- Cost-of-Service and Rate Studies
- Collection Optimization
- Solid Waste Management Plans
- Waste Composition Studies
- Collection, Disposal, and Recycling Procurement Services
- Recycling & Composting Program Development Assistance

Project History

At the time of this engagement, U City had never performed a formal rate study. However, because there were some global macro-economic issues; even prior to COVID-19, that significantly impacted the recycling markets by putting downward pressure on revenues, this was a good time to undertake a formal process.

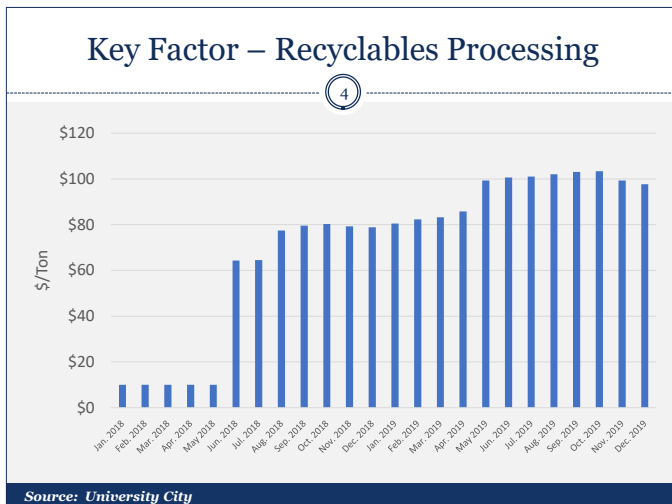
- City had never conducted a formal solid waste cost-of-service and rate study.
- Changes in global recycling market challenges impacted regional processing dynamics resulting in much higher processing charges.
- City retained MSW Consultants to conduct a comprehensive 10-year cost-of-service and rate study.

Key Factor - Recyclables Processing

Up until about 2016 recyclables made money. But the global export market dried up between 2017 and 2018, and the U.S. recycling industry has been struggling to recover ever since. This graph demonstrates the timeline and financial impact.

- Landfill tipping fees also increased. So essentially the disposal and processing market started to creep up, regardless of the outcome of the material.

Solid Waste & Recycling is a critical service that should be provided. So for U City to continue serving its customers, it is appropriate for that system to have sufficient revenue that ensures long-term sustainability.



Methodology

MSW's philosophy is not only to invest enough time to compile the financial and operating data to build a solid model but to invest additional time in visiting the site to observe how the operation works and what the residents' expectations are.

- Data Request and Review
- Kick-off Meeting and Interviews
- Operations Field Observations/Asset Assessment
- Cost-of-Service Bottom-Up Modeling
- Revenue Sufficiency Analysis
- Designed Rate Options
- Report Written

Task & Recycling System Cost Centers

This is MSW's breakdown of the functions performed for residents and commercial businesses, as well as the type of collection being conducted.

Collection Services:

- Curbside Trash
- Curbside Recycling
- Curbside Yard Waste
- Bulky Collection
- Commercial Container Trash

Facility Operations:

- Transfer Station
- Recycling Drop-off at (T.S.)

Commercial Container Recycling
 Recycling Drop-Off
 Bi-Annual Leaf Collection

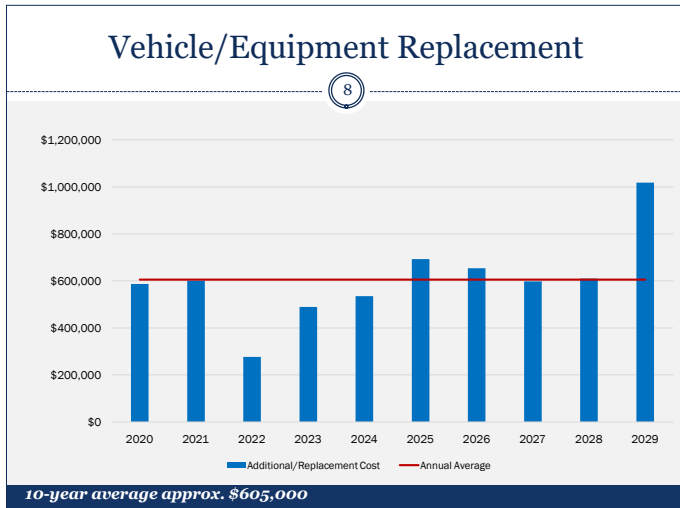
Management & Administration
 (Includes cost of billing)

- The Transfer Station is closed to commercial traffic due to access issues.
- Management and administration are looked at separately and then dove-tailed into the full cost.

Capital Improvement Program Needs

If you're in the collection business you're also in the truck purchasing business. And in order to run a successful business, it is important to replace your vehicles over a seven to ten year period in accordance with their useful life. This graph depicts the City's upcoming capital needs.

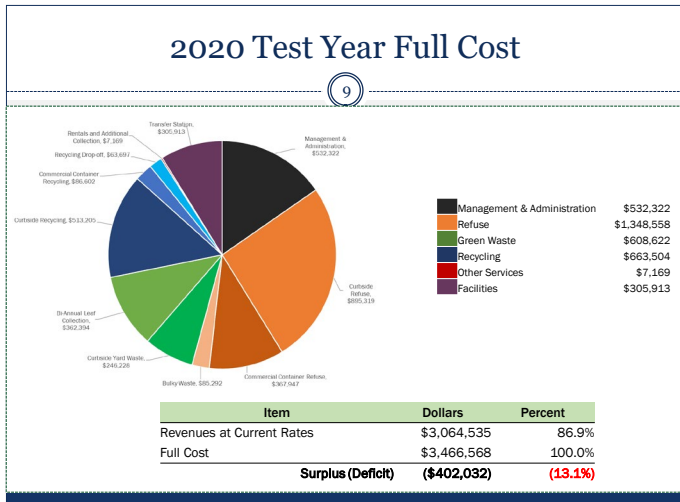
- The red line suggests that if you levelize those capital investments it will cost about \$600,000 a year to replace vehicles and make capital improvements at this facility.



2020 Test Year Full Cost

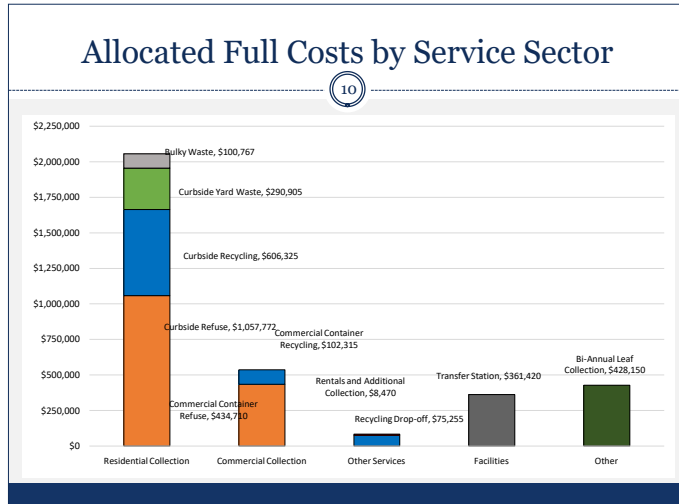
MSW's full cost method involves developing a test year; a forward-looking view of projected direct operating expenses, as well as annualized expected capital expenditures. At the time MSW completed this graph they were looking ahead to 2020.

- The full cost or rate revenue needed to keep the system at the breakeven point is between 3.4 and 3.5 million dollars
- After accounting for the upward price pressures on recyclable processing and tip fees, the City's rate revenue was slightly over 3 million dollars
- On a system-wide basis, there is a 13.1 percent deficit of rate revenues to fund the entire system



The **Allocated Full Costs by Service Sector** graph gives you a sense of what the relative expense is to run the different lines of this operation.

- The tall bar on the left represents what it costs to run U City's residential sector; both single and multi-family
- There is a much smaller footprint on the commercial collection side of the operation, which consists of container refuse collection, recycling, and minor services, like container rental and recycling
- Although the Transfer Station is still in flux, it is viewed as an asset. Cities with the potential to manage their waste logistics have an advantage going forward
- Leaf collection is a critical service that residents have come to expect on a seasonal basis



Transfer Station

- Transfer Station closed past few years for scale replacement and access road improvements
- Planned to reopen in 2020
- Resource to serve neighboring Cities and small haulers for trash and recycling transfer

Residential Rate Considerations

- **Single-Family**
 - Curbside Service at a slight surplus
 - Yard Waste Sticker program and Senior Discount at a deficit
 - Drop-off Recycling at the Transfer Station is recovered under the residential rate
 - Proposed Rate Path
 - ✦ 6.5% increase in year 1
 - ✦ CPI escalation in subsequent years
- **Multi-family**
 - Deficit: 30%
 - Proposed Rate Path
 - ✦ Significant rate increases for 2 years
 - ✦ CPI escalation in subsequent years

Recommended Rate Paths

Residential Rate Considerations

Residential is the sector that local governments are typically responsible for. Therefore, it is the most important segment of this operation because it carries the largest amount of revenue.

- Curbside service rates for single-family residents looks pretty good
- The Yard Waste Sticker Program is at a deficit, so adjustments are needed
- Some drop off recycling at the Transfer Station is recovered under the residential rate

MSW tried to balance out the data in its recommendations, and as a result, the key number is the 6.5 percent increase in year one. However, rather than performing rate studies and implementing rate changes in a formal setting every year, many communities establish sort of an autopilot ability to increase rates based on published CPI (Consumer Price Index) escalation factors. Because the expenses of running curbside collection programs, maintaining facilities, and paying employees will continue to increase, MSW is in favor of utilizing this type of program which builds in a reasonable amount of system maintenance cost increases over time.

There are three reasons why MSW found Multi-family more remarkable than Single-family:

1. The range of services it performs, i.e., dumpsters, carts, and alleys;
2. The distinct variation in terms of how vehicles must make these collections, and
3. Multi-family locations requiring bi-weekly collections are more expensive to maintain

On a per-unit basis, the cost for both of these sectors is fairly comparable, however, there was a much larger deficit on the Multi-family side; 30 percent. So to get to where MSW thinks the City wants to be, the recommendation is to take a fairly good bite out of the Single-family amount in year one, and then quickly transition to the CPI concept which has been plugged in at 2 percent. Bigger increases were taken on the Multi-Family side for the first couple of years before transitioning into the CPI increase. And while a rate increase over 10 percent is not taken lightly, MSW believes that if the Multi-Family sector receives the level of service it requires, then it would seem reasonable to increase those rates. MSW also does not think there is any inequality in these recommendations because, in essence, the City will be coming closer to equilibrating their residential rates by making these changes. Ultimately, Council will make the final decisions on whether to accept or modify any of these recommendations, but the role of an advisor is to try and come up with a reasonable path forward that is responsible and constitutes a good starting point for discussion.

Recommended Residential Rate Path										
14										
Sector	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Single Family	6.5%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Multi-Family	15.0%	12.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Note: Annual CPI escalations requires an ordinance change

Commercial Rate Considerations

Some interesting things emerged in the Commercial sector, which has a much smaller customer base.

Five or six years ago; when the economics were more favorable, cities that provided commercial refuse collection service realized that they could put recycling containers out and encourage the business community to recycle for free. However, MSW believes that it is very difficult to offer a free commercial recycling service with a small commercial customer base. And with only 47 commercial accounts, moving away from that free service is probably the way to go if U City remains in the business of serving its commercial customers.

One way to establish recycling rates and make the commercial service sustainable could be to continue service and increase rates in the manner listed below. Another option would be to suspend the City's commercial sanitation collection.

- 47 commercial accounts
 - Refuse rates are sufficient
 - Recycling service cannot be provided for free
 - Options
 - Continue service and increase rates
 - ✦ 10% increase in commercial trash rates
 - ✦ Set commercial recycling rates at 35% of the trash rate
 - Suspend commercial sanitation collection

Other Recommendations

- Reopen Transfer Station to third parties/neighboring cities to increase revenues
- Offer competitive roll-off service for better utilization of equipment
(*Currently, the City has a roll-off truck that could be used to generate incremental revenue over and above the cost of servicing third-party construction, renovation, or demolition needs.*)
- Revise ordinance to authorize routine CPI increases, as needed
- Review financial rate analysis and performance annually
- Update full waste study every 5 years

Councilmember Cusick asked how would reopening the Transfer Station impact the City's revenue stream? Mr. Cubertson stated it's something the City would grow into. The cost to transport and dispose is a fixed rate per ton, so whether you make one trip or ten trips your fee needs to cover that transportation component. Therefore, the opportunity lies in recognizing that it's easier for commercial haulers with collection trucks that are very expensive to operate and only hold 10 to 12 tons, to simply pay a tip fee at your Transfer Station and transfer that material into a trailer with a tractor. The goal would be to capitalize on the City's ability to offer a more efficient, and cost-effective means of transportation to commercial haulers who operate within a specific geographic location.

Mr. Cubertson stated they looked at what that capitalization might be, and while his recollection is in the \$60.00 per ton range, he would ask Ms. Mormile if she could chime in on this topic.

Ms. Mormile stated that based on the actual rental rate when MSW reviewed this project, their model recommended that a \$68.00 per ton range would help. So any increased tonnage that could be managed at this facility; which has the potential to be quite a bit, would benefit the overall revenue of this utility.

Mr. Cubertson stated there are some market dynamics in the waste industry that would go into this model longer-term that was outside of their scope and ability to look at, and don't necessarily follow a perfect microeconomic theory. For instance, you could have a large hauler that under some circumstances might have a better economic picture by going to your facility that decides to "*internalize the waste*". So they will never come to your facility because they would rather run it through their facility and keep it on the books, even if it means charging their customers a little more. Consequently, the objective would be to set your tip fee at a level where you know you are not going to lose anything, but you also have the potential to increase your revenue. At that point, you can measure the demand and adjust your tip fee up or down depending on the number of deliveries you receive. Mr. Cubertson stated he believes that the City won't get hurt by establishing a \$62.50-ton range and that the likelihood of deriving some incremental revenue is a real potential.

Mr. Rose stated the reason there were no recommendations for a rate increase in this fiscal year's budget was to provide staff with ample time to ensure that the City was maximizing its revenues. So, the intent is to come back to Council with options once they are comfortable with those results.

He stated the Transfer Station was identified by staff as needing further review. So, he has asked Mr. Alpaslan to conduct an examination to determine whether the City's contracts with outside agencies are being fully executed and if there is a potential to tap into other markets.

Mr. Rose stated the recycling costs that the City started to incur roughly eighteen months ago, was a surprise.

And while his recommendation in last year's budget, as well as the current budget, was for the Solid Waste Fund to absorb these costs, it is not something that can be maintained long-term since it is starting to impact the Department's ability to replace its equipment in a timely fashion.

Councilmember Hales stated he has performed a lot of rehab in U City, but it was not until fairly recently that he found out the City actually provided a roll-off service for third parties. So, he thinks this is an incredible opportunity that should be marketed.

Mr. Cubertson stated he is glad for Councilmember Hales' astute observation because it provided him with an opportunity to illuminate a story about one of their clients who acquired roll-off equipment for their City's operations. Recognizing that they already had the trucks, containers, and operators needed to provide this service, and after conducting a financial analysis to determine the appropriate rate, they decided to advertise the service on their web page. There were nine haulers in this market and after six months this client was elevated to the top four spots.

So, MSW's philosophy is if you can make money providing these critical services, beautify your city in the process, and you're not subsidizing your rate, then this is definitely an area, cities should look at.

Mayor Crow announced that the feed for Councilmember Hales had been lost. He noted that the City was experiencing a storm and that Council would do their best to continue as the storm allows.

Councilmember Clay asked what costs are included under management and administration?

Mr. Cubertson stated unfortunately, he does not have all of the details on recall, but basically, it would include fractional times for customer service employees within Public Works and City employees who are not directly involved in running these facilities. And while you can debate what the right percentage of management and administrative costs should be, U City is probably within the range MSW would expect of a local government providing these services.

Ms. Mormile stated management and administration include auditing, accounting, collection fees, professional services, insurance, and things of that nature.

Mr. Cubertson stated these allocated expenses often come from other departments within the City who essentially need to charge Public Works or the Waste Department for providing IT, risk management, and other functions, that are not controlled by the actual operating group. And Cynthia can correct him if he's wrong, but there should be a very detailed model that drills down on the individual line items and the basis of these cost work-ups.

Councilmember Clay stated he's glad to hear that from a management perspective U City is not out of line because if you are contemplating raising rates at some point, the questions everyone will be asking is, what is the City doing as an administration to hold down costs? And, if there are any other ways the administration could be working more efficiently to reduce costs?

Councilmember Clay stated his understanding is that a few years ago, Evelyn Shields prepared a report looking at several ways to generate revenue at the Transfer Station, so this conversation has been prevalent for some time. Therefore, he hopes that this will finally come to fruition and the City can begin to see a benefit from this asset.

Councilmember Smotherson stated in certain areas people are utilizing dumpsters without paying a fee. So, his question is how efficient are dumpsters versus individual carts? Mr. Cubertson stated strictly on a per unit basis, and with everything else being equal; i.e., once a week collections, a dumpster collection service is more efficient. The challenge with the multi-family sector is that there is some point of service differences outside of those dumpsters, like recycling, bulky materials, and alley collections. He stated MSW's philosophy when looking at single and multi-family is to take those differences into account and from a level of reasonableness, come up with rates that cover each sector even if they are not precisely at cost.

Councilmember Smotherson stated another challenge is the use of alley dumpsters by the single-family sector. Mr. Cubertson stated this comes back to MSW's notion of looking at the residential sector more like a full system, because the reality is, trash collection is messy, and there will always be a few exceptions. So, unless the City wants to get into the business of putting fancy tracking devices on dumpsters; which is a huge customer service investment, or supplying enough containers so that residents; whether single or multi-family can dispose of their waste on the curb, there is always going to be some gray areas.

Councilmember Klein asked Mr. Cubertson what he thought the best option would be to recover the cost for commercial recycling that the City is not getting reimbursed for? Mr. Cubertson stated with regards to the commercial trash and recycling collection the most significant cost component for that service is the trucks used to make those pickups. He stated you used to be able to make a little money off of any recyclables you collected, but starting in 2018, not only did companies have to incur all of the collection costs; they are probably paying more per ton to the recycling facility to get rid of their loads. So as a practical matter, subsidizing the commercial recycling collection entirely is no longer feasible. Therefore, his recommendations were for the City to increase its commercial dumpster rates and establish a commercial recycling rate so that it covers the full revenue needed to provide those combined services; or to discontinue its commercial recycling, or to relinquish it to the private sector. However, if customers are happy with paying your rates, the City is meeting its environmental goals, and it's making revenue, he honestly thinks it would be an easy service to keep providing.

Mr. Mulligan stated his comments are in response to the questions raised by Councilmembers Clay and Cusick. In 2005, he, along with Frank Ollendorff and members of staff, engaged in extensive negotiations with Fred Weber. Mr. Weber appeared before Council on October 10, 2005 and informed them that the City would net \$300,000 in revenue and receive a new Transfer Station if they entered into a public/private partnership with his company.

Evelyn Shields, the previous Public Works Director was also involved in these negotiations. Council decided to forego this agreement and Mr. Ollendorff retired shortly thereafter.

Mr. Mulligan stated he has a very thick file on these negotiations that he would be happy to share with the City Manager and staff.

Mayor Crow posed the following questions:

Q. When is the Transfer Station scheduled to be up and running again?

A. Mr. Alpaslan stated currently, the Transfer Station only serves the City's internal needs because an access road that would allow outside parties to gain entry to the new truck scale is needed. That project is scheduled to be completed by the end of the calendar year, December 2020.

Q. When did the City execute its last increase for single-family curbside service?

A. Mr. Alpaslan stated the last increase was executed at the rate of 12 percent in 2016.

Q. If I am a multi-family user that is about to get hit with this significant increase, do I have the option to refuse and go with a private company?

A. Mr. Cubertson stated his recollection is that U City; like most other cities has a cut-off that establishes the level in which the City will make collections for the multi-family sector based on the number of dwellings per building. And his belief is that number is between 6 to 8 units.

A. Mr. Alpaslan stated to be classified as a residential collection the building must be five units or less. Six units and above are classified as commercial collections.

Mr. Rose stated he would like to make sure that the City's Code contains this restriction, so they don't get hit with this elasticity issue.

Mr. Cubertson stated based on his recollection, multi-family units that fall within the category previously outlined would be a captive customer.

Councilmember Hales stated he believes there would be a captive audience for roll-off services in the development community if these services were marketed to make people aware of their existence. So, his first thought was whether this rental service could be tied into the permit process? The second thought was whether there would be any opportunities for revenue if the City was able to capture larger multi-family units and properties owned by Wash U? Mr. Cubertson stated since the City already provides dumpster collection to smaller multi-family units it does have the potential to expand its customer base.

And to some degree, the same economic thought process holds true. The biggest difference, however, is that the single and multi-family services the City currently provides are to captive customers.

But if you expand on the frontload side; number one, you will be in a competitive market with the need to win market-share; and number two, it's very likely that you will need to purchase new trucks which could be an investment that may or may not pay off. Essentially, you will be taking on some risks. Mr. Cubertson said he would differentiate that from the roll-off service where the City already has the trucks and people to take on more service without the need for new employees or trucks.

So, while there is more opportunity to generate incremental revenue on the roll-off side, it's also possible to expand your frontloads. However, you would have to go about it a little more cautiously with proper planning, an economic analysis, and a business plan.

3. NAMING OF STREETS AND PARKS

Mayor Crow questioned whether it would be appropriate to move this item to Council's Regular Agenda under Council Business? Mr. Mulligan stated that it was a permitted action.

Councilmember Smotherson moved to approve the move Item Number 3 to Council's Regular Session under Council Business, it was seconded by Councilmember Hales and the motion carried unanimously.

4. ADJOURNMENT

Mayor Crow thanked John and Cynthia for their presentation and adjourned the meeting at 6:26 p.m.

LaRette Reese
City Clerk

