

services only, was in 2002. On December 17, 2002, City staff presented a report to City Council outlining the results of that independent study of the residential solid waste collection operation. That report identified two alternatives: 1) to remain in the residential collection business and implement efficiency measures; or 2) to turnover residential collection routes to the private sector. The City Council decided to retain the City's residential refuse collection routes, and address staffing and equipment issues in the Solid Waste division. Staff developed an operating efficiency plan with associated rates which was adopted by City Council in May of 2003.

The most recent rate plan was approved by City Council on December 18, 2018, with new rates effective through June 30, 2020. In conjunction with the rate hearing process, staff also recommended an independent review of the entire waste system.

On January 8, 2019, the City Council received a report on the Public Works Performance Audit, which included a high-level review of solid waste and street sweeping services. Those findings included a recommendation that the City explore City street sweeping and residential waste collection services and costs as compared to contract services with the assistance of a waste management consultant.

At the January 9, 2019 Finance Committee meeting, Chair Steve Adams requested an analysis outlining the financial impact between maintaining current services versus outsourcing the street sweeping and residential waste collection functions serviced by City crews.

In follow up to staff recommendations presented at the December 18, 2019 refuse rate hearing and consultant recommendations provided at the January 8, 2019 Public Works Performance Audit presentation, staff initiated a Request for Proposals seeking an experienced municipal solid waste consultant to conduct a complete assessment of refuse operations, contracts, regulatory requirements and finance including preparation of a 3-5 year rate plan with 10 year financial projection. Public Works anticipates bringing a contract for professional consulting services before the City Council for approval in spring of this year with findings presented in the summer of 2019.

DISCUSSION:

The intent of this discussion is to review the complex issues related to the potential fiscal impact of contracting for residential waste collection and street sweeping services. Staff's analysis includes a review of revenues, fund balances and operating costs (direct and indirect costs). A more in-depth analysis will be provided upon the completion of the consultant's assessment in summer 2019.

Revenues

The Refuse Fund (540) is an enterprise fund supported through grants and user rates based on cost of service. Revenues cover all contract costs, city operating costs, programs and services and street sweeping operations. There is currently no General Fund contribution to the program; however, as indicated during the last budget cycle and during the 2018 rate hearings, staff projected that without a sufficient revenue source, expenditures were projected to exceed revenues by the end of this fiscal year. While there is no formal reserve policy in place for the Refuse Fund, there are sufficient reserves to manage financial fluctuations for the short term without any General Fund contribution. However, there is a possibility for a General Fund contribution should expenditures ultimately outpace revenues and exhaust reserves, regardless of who is picking up the waste material. It should be noted that revenues are projected to be

lower than budgeted due to a sign replacement project in the street sweeping program, which is causing a temporary dip in parking fine revenues. Staff anticipates this will self-correct in the next budget cycle.

The rates approved on December 18, 2018 are in place through June 30, 2020 and have stabilized the Fund for the time being. Should the operation be transferred to a private contractor, the City General Fund may realize additional Franchise Fee revenue, but that may be a negotiated item.

Disposition of Assets

Any funds from the sale of refuse and/or sweeping trucks are not eligible for General Fund purposes since they were purchased with rate payer funds. Assuming that monies received for the contracting of services settled all liabilities, including the unfunded accrued liability, any residual funds would be returned to ratepayers.

Fiscal Impact of Contracting

The City has managed the fund and operation responsibly as illustrated in the Fiscal Impact section below. However, as outlined in the December 2018 rate hearings, external pressures are causing financial stress to the Fund with expenditures projected to outpace revenues. The private haulers are experiencing similar pressures. The recently adopted rate will generate sufficient revenue to balance the Fund in the short term.

Given a number of unknowns at this point, the following discussion will provide information on points for consideration for contracting as well as a snapshot of direct and indirect operating and program costs.

Direct Operating Costs

Staff compared direct operating costs (for collection only) for the City and private contractor. The contractor Base Rate, or contract payment is made to the contractor by the City for collection services. Disposal and processing, which are key operational components, are considered “pass-through” costs and are the same per ton whether paid by the City or a contract provider and therefore are **not** included in this analysis.

Based on a simplified comparison of the contract payment terms (which were bid in 2000) and the current city budget, the collection operating cost for the City was \$14.65 per household compared to \$8.67 per household for Burrtec. These amounts were based on personnel and non-personnel costs for the City compared primarily to the base rate cost charged by the private contractor. It is important to note there are additional program aspects provided by the City that further enhance the cost of service.

The complexity of this discussion stems from the additional program aspects provided by City staff and covered in the City budget such as CURE, closed landfill maintenance, street sweeping and trash mitigation clean up as discussed below.

City Programs and Support Services:

Like a private business, the City’s refuse operation requires administrative support such as the City’s 311 Call Center, human resources, marketing, financial, billing and legal services which is provided by other City departments. Some of these services also indirectly support the private operation.

Revenues generated by the refuse operation offset General Fund impacts for the portion of those City resources used. Should the operation be outsourced, the cost and personnel associated with multiple functions, including those listed in the table below, would need to be:

- a) Transferred to the General Fund;
- b) Eliminated in whole or in part;
- c) Renegotiated with the existing private residential waste hauler; or
- d) Included in a new bid request.

Either of the two latter scenarios is a change in scope and may result in a change in compensation. None of these scenarios preserve services **and** save the City money. Should services be reduced, the customer rate may be adjusted, but to what degree is not known.

City Budgeted Services (partial listing)	Est Annual Average Expenditure
CURE Programming	\$480,000
Homeless Clean Up Support	\$350,000
Festival of Lights Clean Up Support	\$8,000
Citywide Illegal Dumping Support	\$35,000
KRCB	\$120,000
311 Call Center Customer Support	\$1,600,000
Administrative Support (Finance, Billing, Marketing, HR)	\$1,300,000
TOTAL	\$3,893,000

Equipment Maintenance: The refuse operation also relies on the City’s General Services Department, Fleet Division for vehicle and equipment maintenance. If the operation was outsourced, a staffing reduction in Fleet may be needed to avoid an increase in their charges to other departments.

Unfunded PERS Liability (UAL): The future PERS obligation for Refuse and Street Sweeping employees is currently estimated at approximately \$14,000,000; however, an actuarial analysis would need to be conducted specific to the Refuse fund obligations to the total unfunded actuarial liability to determine the funds’ proportionate share of the UAL should the contracting of services enter negotiation with a service provider. The unfunded actuarial liability exists whether the City or a contractor provides services. On an annual basis the UAL is allocated to the Refuse Fund budget. Should the operation be outsourced, without a new revenue source, the City’s PERS obligation for prior and existing employees would either be absorbed in the General Fund or be included as part of a new contract. There are a number of ways this may affect City costs. The PERS obligations could become an unfunded City burden or recovered through a rate adjustment. Staff has included this consideration for the consultant’s review and recommendation.

A final consideration is the unknown impact that dependence on a contract provider for rate setting has on customer rates. While the City would remain responsible for the Prop 218 rate notification process, the costs associated with providing services would be determined by the private entity.

FISCAL IMPACT:

The estimated fiscal impact to contract refuse and street sweeping services is unknown until we have an understanding of contract obligations resulting from such a transfer of services and/or efficiency gains in our current operations. However, because the operation is currently fully

funded, there is no short term savings to the City by contracting services.

Table 1 below illustrates the Fund’s past performance and demonstrates the City’s responsible management of those funds. As discussed during the rate hearings last December, due to a variety of cost pressures, staff projected a negative fund balance due to expenditures outpacing revenues by the end of the current Fiscal Year.

Without the recent rate increase, the Fund was projected to be \$0.5 million in the red by June 2020. The last two columns in Table 1 reflect how the recently approved short term rates have stabilized the City’s Refuse Fund. The solid waste consultant will present a longer term financial and rate plan following their analysis.

Table 1.

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 Budget (No Rate Increase)	FY 2019 Projected¹ Budget (Rate Increase)	FY 2020 (Est 2% Rate Increase)
Revenues	\$21.8 M	\$22.2 M	\$23.1 M	\$24.2 M	\$23.0 M	\$23.1 M	\$25.3 M
Expenditures	\$20.0 M	\$21.7 M	\$22.3 M	\$24.6 M	\$25.2 M	\$25.5 M	\$26.3 M
Net (loss)	\$1.8 M	\$0.6 M	\$0.8 M	(\$0.3 M)	(\$2.2 M)	(\$2.4 M)	(\$1.0 M)
Ending Working Capital			\$5.2 M	\$4.8 M	\$2.7 M	\$2.4 M	\$1.4 M

¹ Quarter 2 – projection (includes updated revenue scenarios, including new rates, and revised expenditures).

Five-Year Projections for the Refuse Fund were included during the adoption of the FY 2018-2020 Operating Budget. A revised Five-year plan that incorporates the recent rate increase will be brought forth to the City Council in a quarterly financial update.

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