

Rate Model Peer Review and Rate Increase Justifications



PRESENTATION TO:

City of Redlands

March 6, 2017



Presentation Overview

- R3 Firm Overview
- Areas of Specialty
- Scope of Work
- Major Findings
- Questions and Answers



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Firm Overview



- ❑ Established in 2002
 - ❑ Staff of Engineers, Planners, Financial Analysts, and Solid Waste Operations Professionals
 - ❑ Principals have Both Private Sector and Municipal Solid Waste Operational Experience
 - ❑ Offices in Roseville, Berkeley, and Los Angeles, CA
 - ❑ Specialists in all Aspects of Municipal Solid Waste Management (operations, finances, and contracts)
 - ❑ Works Exclusively for Municipal Agencies
- R3 Does Not Have Any Private Sector Solid Waste Clients -**



Areas of Specialty *(Current Projects)*

❑ Municipal Operational and Financial Reviews

- ***Lane County, OR***
- ***City of Tulare, CA***
- Redlands, CA
- City of Tacoma, WA
- City of Olympia, WA
- City of Visalia, CA
- City of Sacramento, CA
- City of Santa Cruz, CA
- City of Wasco, CA
- City of Folsom, CA
- City of Lincoln, CA

❑ Enterprise Fund Financial Analyses and Rate Modeling

- ***City of Redlands, CA***
- ***City of Long Beach, CA***
- ***City of Tulare, CA***
- City of Folsom, CA
- City of Sacramento, CA
- City of Lincoln, CA
- City of Visalia, CA
- City of Berkeley, CA
- City of Santa Monica
- Tamalpais CSD
- California Valley CSD



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Scope of Work

- ❑ Determine if Rate Model is Mathematically Accurate and Logically Consistent
- ❑ Determine Reasonable Operating Reserves
- ❑ Assess Reasonableness of Proposed Rate Increase
- ❑ Provide Answers to Rate Related Questions:
 - Reasonableness of 60- and 90-gallon rates
 - Appropriateness of senior discounts
 - Suggested commercial organic rates
 - Rates for charges for commercial generators who do not participate in recycling program



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Why a Rate Increase is Needed

❑ Last Rate Adjustments

- 2013, 2014 & 2015 Paris related rate adjustment
- 2010 and 2011 last solid waste related adjustment
- Prior to that 1994 – Residential rate decrease of \$0.50 per month

❑ Projected to Incur Annual Deficits

- 7.2% annual deficit projected for FY 16/17 (\$1.0 million)
- Increasing to \$3.4 million annual by FY 2019/20
- Total fund deficit of \$6.7 million by FY 2019/20

❑ Operating and Capital Costs Have Increased

❑ Additional Landfill Cell Construction Requirements

❑ Mandatory MFD & Commercial Organics Collection (AB 1826)



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New Diversion Programs Since 1994

- ❑ 50% Diversion Requirement Mandated by State Law
- ❑ HHW, E-Waste, and U-Waste Collection
- ❑ Green Waste Collection
- ❑ Bulky Waste Collection
- ❑ C&D Diversion Program
- ❑ MFD & Commercial Recycling (AB 341)
- ❑ MFD & Commercial Organics Collection (AB 1826)

City has a Diversion Rate of 62% (2015)



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The City's Costs Have Increased

❑ Increased Operating Costs

- 87.2% increase in labor costs since 1992
- 135.5%+ increase in fuel costs since 1992
- 53.6% increase in CPI since 1992

❑ Increased Capital Costs

- 212.5% increase in vehicle costs since 1992
- 60.7% increase in container costs since 1992

Major Findings

- ❑ The Division's Rate Model is Effective
- ❑ The Division's Funding of Required Capital and Operating Reserves is Reasonable
- ❑ The Division is Requesting **Annual 12% Rate Increases** each of the Next Two Years and **5% in the third year**



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Major Findings

- ❑ Rate Model is Mathematically Accurate and Logically Consistent
 - Based on FY 16/17 Budget
 - Projects through FY 24/25
 - Labor Expenses Escalated at 2.5% Annually, all Other Operating Expenses Escalated at 3.0% Annually = Reasonable
 - Sinking Fund Balance for New Landfill Cell Construction
 - Vehicle replacement funding
 - Landfill closure funding
 - Landfill new cell construction funding
 - Targets an operating reserve of 20%
 - Provides required PARIS debt service coverage



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Division Proposed Rate Adjustments

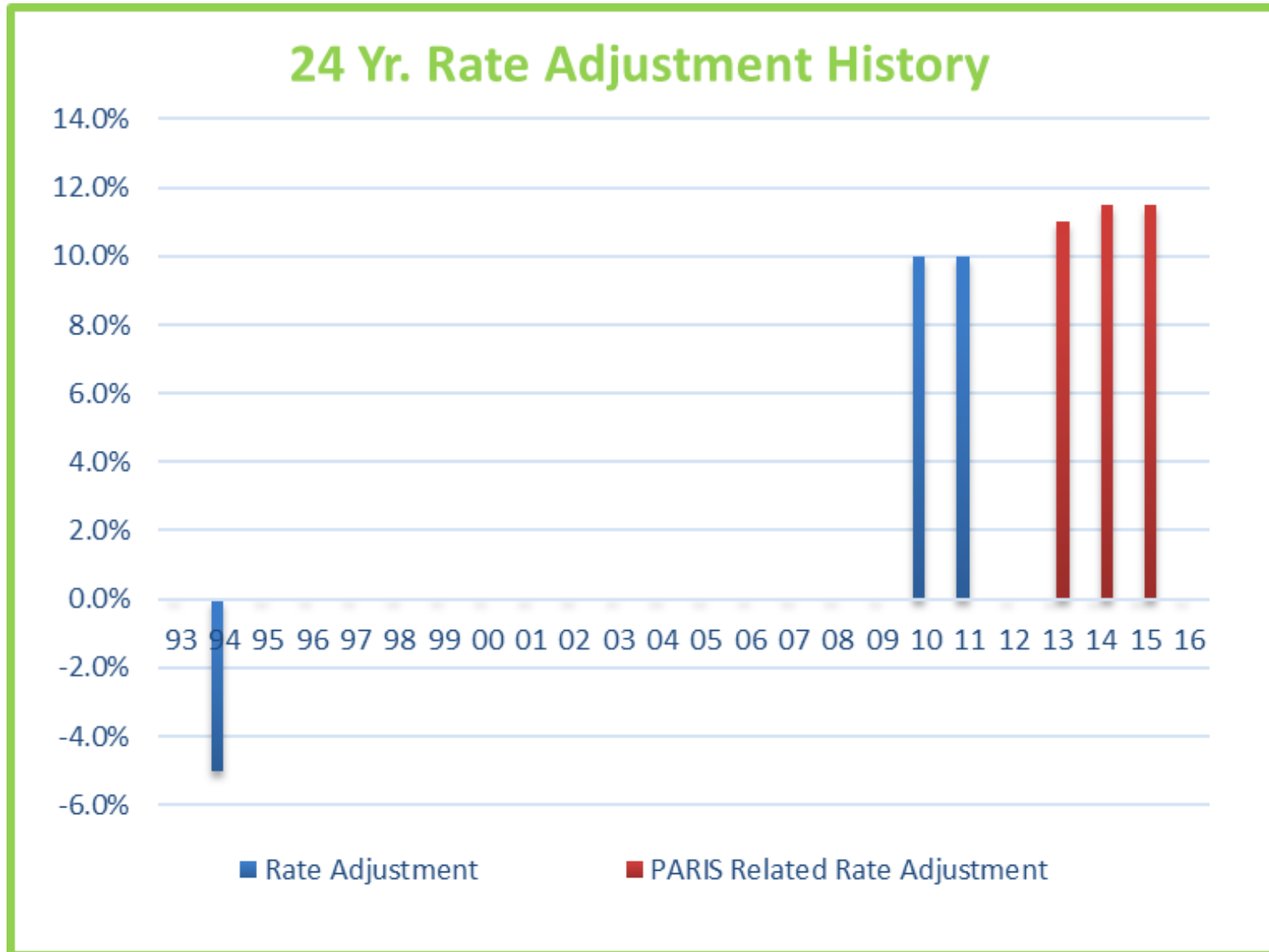
BLUE CELLS CAN BE EDITED ON DASHBOARD	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Effective Date of Rate Adjustment			August 2017	August 2018						
Revenue Adjustments		0.0%	12.0%	12.0%	5.0%	1.0%	1.0%	0.0%	0.0%	0.0%
Annual Shortfall		\$(752,421)	\$ (566,347)	\$(1,687,163)	\$703,692	\$709,607	\$642,327	\$300,853	\$ (56,744)	\$(428,735)
Annual Surpluss (Shortfall)		-5.8%	-4.0%	-10.5%	4.2%	4.1%	3.7%	1.7%	-0.3%	-2.5%

- ❑ The Division is Requesting **Annual 12% Rate Increases** each of the Next Two Years and **5% in the third year**
- ❑ Without a Rate Increase **17% Revenue Shortfall** Projected for FY 17/18
- ❑ Even with Proposed Rate Increase **4% Revenue Shortfall** Projected for FY17/18
- ❑ Proposed Rate Adjustments:
 - Targets a 20% operating reserve
 - Continues to fund landfill closure fund, required landfill cell construction, PARIS, and vehicle replacement fund
 - Provides required PARIS debt service coverage



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Historical Rate Adjustments



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Recommendations

- ❑ Increase Overall Division Revenue by Adopting
 - ✓ 12% rate increases for residential, commercial and roll-off customers in FY 2017/18 - from \$28.58 to \$32.00 (\$3.42/month increase); and
 - ✓ 12% rate increases for residential, commercial and roll-off customer in FY 2018/19 - from \$32.00 to \$35.85 (\$3.85/month increase).
 - ✓ 12% rate increases for residential, commercial and roll-off customer in FY 2019/20 - from \$35.85 to \$37.64 (\$1.79/month increase).
- ❑ Direct Staff to Begin Proposition 218 Rate Hearing Process

Questions and Answers

For additional questions, contact:

William Schoen | R3 Project Manager

(916) 782-7821

wschoen@r3cgi.com

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