



DEPARTMENT OF PUBLIC WORKS
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Informational item

DATE: October 11, 2016

TO: Honorable Mayor, Members of the City Council, City Manager

FROM: Scott Schafer, Director of Public Works
Loretta Zammarchi, Solid Waste and Recycling Manager

SUBJECT: *Follow Up Memorandum Regarding City of Yakima Refuse Rates, Recycling and Bundling of Refuse Services and the Privatization of the Refuse Collection*

This memorandum is in response to comments made at the September 27, 2016 Study Session following discussions on a Refuse Rate increase. City Council members wanted more information pertaining to recycling and bundling of Refuse services. In addition, evaluating the possibility of privatizing the services of the City of Yakima Refuse Division.

Proposed Refuse Rate Increase

In order for the City Refuse Division to provide residential services that are fair and equitable to all residents, refuse rates need to be established based upon cost of service to ensure:

- Reliable and sustainable services
- Operating Reserve Fund to equal or exceed 12% or 45 days
- Capital Replacement Reserve Fund sufficient to replace equipment to avoid service disruption.
- Cost of service adjustments to incorporate inflation and increased operational costs
- Adhere to City financial policies

The original Strategic Initiative for Refuse was a proposal for a 7.0% rate increase for 2017 for expenses relating to anticipated increases in Yakima County landfill tipping fees and other operational costs effective January 1, 2017. The proposal also included a 2.5 % rate increase in 2018 and 2019. Attached is **Exhibit A** – City of Yakima Refuse Division's proposed Strategic Initiative for a *Pass-Through Rate Increase associated with Yakima County Tipping fees*.

Yakima County Public Services Solid Waste Division has advised the City that they have completed a rate study for their current and future needs of their landfill. The proposed solid waste disposal rates for 2017 will increase approximately 13% over the 2016 rates. Attached is **Exhibit B** – Yakima County Solid Waste Division's proposed landfill rate increase effective January 1, 2017.

Per the directive at the September 27, 2016 Study Session, the Refuse Division is also evaluating other options such as a 3.7% rate increase in 2017, 3.1% in 2018 and 3.0% in 2019. Implementing a rate increase less than the 7.0% will however defer the purchasing of needed equipment and building of the required operating reserves.

Deferment of adequate rate increases will only serve to significantly increase the financial needs and immediate costs of the City's collection assets; while placing the entire infrastructure in immediate jeopardy. Having an appropriate rate structure and available funding to support the maintenance, repair, and replacement of the infrastructure is crucial in protecting public health and promoting economic development.

Attached is **Exhibit C** – Refuse rate comparison of local municipalities as of April 2015.

Recycling & Bundling of Services

The City must overcome many challenges in order to implement a City-wide curbside recycling program. The rate structure must support covering the cost of service by addressing rising inflation costs, collective bargaining agreement obligations, and the restoration of the Refuse Operating Reserve Fund to a proper funding level. Current market conditions are not favorable for recyclable materials at this time. The global market has changed with a majority of the recyclable materials no longer a source for revenue in offsetting a portion of operational costs. In addition, a Request for Proposals (RFP) will need to be conducted to identify and secure a vendor that is willing to take the City's recyclable materials at a cost to be determined. Most importantly, upfront capital required of the Solid Waste Division to fund the carts, trucks, and additional staff to implement the recycling program and expansion of the yard waste service is not an option under its current financial status. We know that approximately \$1 million in carts will need to be invested towards this program. In addition, the roll-out for City-wide curbside recycling will need to be planned accordingly and will require to be phased in over a couple of years once funding for the recycling program has been secured prior to implementing the program. However, the first priority is for the City's Solid Waste and Recycling Division to recover once a proper rate structure is adopted, by eliminating budget deficits, improving its fleet and allowed to become financially sound to ensure current and future success. Attached is **Exhibit D** – October 20, 2015 memo – Summary of the Refuse Study Session Follow Up Memorandum and *2015 Refuse Rates* and **Exhibit E** – July 28, 2015 memo – *Rate Study for Solid Waste and Recycling Program*

Having a strong utility such as Refuse is key to economic development for the City of Yakima. According to a recent economic study, the City rated poorly in the area of sustainability largely due to the fact that the City of Yakima is not offering curbside garbage recycling; only the recycling of yard waste. However, curbside garbage recycling is available by subscription with Yakima Waste, a private company. Less than 10% of the refuse customers within the City limits currently utilize this service.

The Refuse Division conducted a very successful 3-month curbside garbage recycling pilot program in 2014; proving that the City can implement a City-wide curbside recycling program for its residents. Once the City has a recycling infrastructure in place (carts, trucks, staff), a contract with a vendor to accept the recyclables, and a 12% operating reserves to ensure financial stability, we could proceed in exploring an Every-Other-Week (EOW) garbage/recycling collection service. Ultimately, it is our goal to offer both

curbside recycling and yard waste with garbage at a bundled rate structure; reducing overall costs to our customers.

Recycling from an economic perspective is vital in attracting new businesses to Yakima. Many companies operate their business model under a mandate to operate only in ecological and environmental conscience areas where recycling is occurring as a major determining factor when selecting a new site in which to locate.

Privatization of Refuse Services

Refuse is an Enterprise Fund that provides an essential service to the community of Yakima generating nearly \$1.9 million per year to the City's General Fund as indicated in the table below:

Refuse 2016 Budget

• Interfund – In Lieu of Tax (15% of Refuse revenue transferred to General Fund)	\$ 934,200.00*
• Interfund Chgs – City Svcs (amount paid for legal, Admin, purchasing, etc.)	\$ 318,625.00
• EQR Repair – Labor (amount paid to City Shop for repairs)	\$ 282,000.00
• Interfund Chgs – Customer Serv (amount paid towards Utility Billings)	\$ 238,100.00
• Interfund – P/W Admin (amount paid towards Public Works for Admin)	\$ 73,021.00
• Interfund Chgs – Ga/Plant (amount paid towards Public Works utilities, repairs)	\$ 43,956.00
Total	\$ 1,889,902.00

** The In Lieu of Tax of approximately \$ 934,200 would need to be assessed on the private provider of the services to continue to fund the City's General Fund.*

The Interfund Charges of approximately \$ 673,702 would suddenly become an expenditure to the City's General Fund to avoid layoffs of essential City Hall positions. In addition, the Equipment Rental Repair Charges of approximately \$282,000 would no longer be applicable; leading to the need to layoff at least two mechanic positions within Equipment Rental.

Attached is **Exhibit F** - February 1, 2016 memo – *Follow Up Memorandum Regarding Questions Raised on Privatization of the City Refuse Collection*

If the City seeks to privatize the services of the Refuse Division, it would also need to include the physical removal of "illegal dumps." The City would need to fund the indirect costs associated with how the City will administer the contract. As part of the administration of the contract, a City employee would need to collect and enter illegal dump complaints into the City's system for reporting, tracking, and disseminating the

sites to the contractor. The City would also have to monitor the contractor to ensure that work is completed with the proper reports filed; resolving the issue. In 2015, the City responded to and cleaned 245 illegal dumps at no additional cost to the City's refuse rate payers. It was entirely funded by existing refuse rates.

Attached is **Exhibit G** – August 3, 2015 memo – *Study Session Follow-Up Questions* pertaining to the cost to contract out illegal dumps. The memo also looks at what would it cost to implement a program that looks like Olympia's model (every other week collection of garage, recycling and organics) and what would it cost to reduce the 32-gal cost from \$5.76 to \$2.50 or \$1.04.

Privatization of Refuse would not save any money for the City or to its residents. It would actually decrease the amount of available funds within the General Fund. It would require the City to contract out services to respond to all illegal dumping activities and to provide community clean up events. The financial impact to the City residents as refuse customers, would be significant. In the case of residents on fixed-incomes, it could be devastating to continue with the required refuse service and without the City Council's ability to assist. The new provider would need to incorporate the City's In Lieu Tax in addition to providing a profit margin for the "for-profit" company. In addition, the build out of the infrastructure required for the company to provide this service would need to be ramped up at the expense of its customer base. This would include additional staff, trucks, carts and bins. Future rate increases would be implemented by the private company without the approval from City Council.