

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle Public Utilities	Hans Van Dusen/4-4657	Karl Stickel/4-8085

Legislation Title:

AN ORDINANCE authorizing the Director of Seattle Public Utilities to enter into contracts with Lenz Enterprises, Inc. and PacifiClean, LLC to provide organics processing services for the City of Seattle; and ratifying and confirming certain prior acts.

Summary of the Legislation:

This legislation allows Seattle Public Utilities (SPU) to enter into service agreements with Lenz Enterprises, Inc. and PacifiClean, LLC to process organic wastes from the City of Seattle. These agreements will replace SPU's current processing agreement which is targeted to end in March 2014.

Background:

SPU contracts with Cedar Grove Composting, Inc. to process organic wastes under a service agreement that will at the City's discretion end on either March 31, 2014 or March 31, 2015. SPU completed a competitive Request for Proposal process in 2012 and selected Lenz Enterprises, Inc. and PacifiClean, LLC as finalists. The best combination of providers was 40% of organics processing going to Lenz and 60% to PacifiClean. SPU negotiated contracts with the two vendors to process organic waste for the period April 2014 through March 2020, with City options to extend to 2024. The new contracts expand the types of materials composted and incorporate long distance hauling services.

SPU stations currently transfer and haul approximately 50% of the total organic waste collected from its customers to Cedar Grove. SPU contracts with a private station to transfer and haul the remaining 50% of organic waste, also to Cedar Grove. Under the new contracts, SPU will begin *transferring all* of collected organics waste at City stations, while the new organics processors will handle *all* the *hauling* to their new, more distant facilities. As described in this Fiscal Note, the operational change will result in the sale of SPU hauling equipment no longer needed (organic waste trailers and trucks) and transition of SPU hauling staff to other work.

The projected annual cost of organics transfer, hauling, and processing under the proposed contract is approximately equal to the amounts assumed in the 2013-2016 Solid Waste Fund rate study beginning in 2015. Therefore, adopted rates are sufficient to fund projected organics expense for those years.

The rate study assumes a transition to the new contract in 2015 rather than 2014. The earlier transition to the new contracts adds about \$0.2M in operating expense (see appropriations notes for details) not anticipated in 2014 adopted rates. As part of the earlier transition, SPU expects

to sell hauling equipment that is no longer needed for approximately \$0.6M in 2013, a transaction that was also not anticipated in the rate study. This increase in cash revenue is sufficient to fund the increased 2014 expense without any changes to adopted rate levels.

With the earlier contract transition and assuming adopted rate levels, the Solid Waste Fund is projected to still meet all financial policy targets under the rate study, albeit with lower net income in 2013 and 2014 due to the following factors:

- A projected loss on sale of the hauling equipment, due to the anticipated sales revenue being less than the accounting value, would be projected to reduce net income by \$0.9M in 2013; and
- A combination of increased operating expense due to the new contract cost, offset by decreased depreciation related to the sale of the equipment, would reduce net income by \$0.1M in 2014.

In 2015 and 2016, O&M and financial performance under the new contracts is projected to be in line with rate study assumptions.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

Appropriations:

Appropriations Notes:

This legislation does not require additional appropriations in 2013 as services under this contract do not begin until April 2014. The 2013 budget appropriation is sufficient for payment of the current contract costs.

In 2014, Solid Waste operating and maintenance costs are expected to be about \$210,000 greater than what was assumed in the 2014 Endorsed Budget. The Other Operating Expense BCL (N400B-SW) is projected to be under budget by \$522,000 due to reductions in SPU hauling expense. However, the General Expense BCL (N000B-SW) is projected to be over budget by \$732,000, on net, due to higher contract expense (+\$984,000) offset by lower tax expense (-\$252,000) because processing expense is deductible from the taxable revenue base.

SPU will determine whether they can manage this increase within overall BCL spending in 2014. If not, additional appropriations to accommodate this increased contract cost for the General Expense BCL may be requested via a quarterly budget supplemental in 2014.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
Solid Waste Fund 43000	SPU	Non-Operating Revenue (Equipment Sales)	\$590,000	\$0
TOTAL			\$590,000	\$0

Revenue/Reimbursement Notes:

The transition to the new services in 2014 will generate a one-time cash benefit in 2013 due to the sale of surplus City hauling trucks and trailers. This cash revenue will be reported as a loss on the income statement to reflect the difference between the sales value and the net book value of the equipment.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Notes:

There are no direct FTE impacts resulting from this legislation. There will be a reduction in organic waste hauling performed by SPU staff. Impacted staff will be reassigned to garbage hauling, which will be increasing, and some retiring positions will not be filled.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 The sale of hauling equipment will generate additional cash but reduce net income in the year of sale to reflect any loss on sale.
- b) **What is the financial cost of not implementing the legislation?**
 Without these new contracts, SPU would not have future processing capacity and would need to dispose of organics as garbage.
- c) **Does this legislation affect any departments besides the originating department?**
 No.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
 The current contract could be extended to April 2015.
- e) **Is a public hearing required for this legislation?**
 No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

g) Does this legislation affect a piece of property?

No.

h) Other Issues:

None.

List attachments to the fiscal note below: