



**Legislative Department
Seattle City Council**

September 14, 2010

TO: Seattle Public Utilities and Neighborhoods (SPUN) Committee

FM: Meg Moorehead and John McCoy, Council Central Staff

RE: **Council Issues Regarding Proposed 2011-2012 Solid Waste Rates**

SEATTLE PUBLIC UTILITIES (SPU) PROPOSAL

SPU-proposed solid waste rates would increase most rates an average of 7.5% in 2011. In 2012, residential rates would increase 6.5% for garbage and 8% for food/yard waste. To allow rates to more closely reflect cost of service, no 2012 rate increase is proposed for self-haul and commercial customers.

Although no new services are proposed, the increased rates would cover revenue shortfalls due to the recession and lack of the Green Fee for disposable shopping bags, as well as increased costs for container replacement, organics processing contract renegotiation, Local Hazardous Waste Management Program fees, Central City costs, a bond issue for the capital program, and other activities. The increased costs are partially offset by utility-wide operational and staffing cuts of about 3%, which is a reduction of about \$4 million and up to 50 full-time-equivalent staff (FTEs), including some layoffs.

By the second year of the rate proposal, SPU would collect \$3.1 million more in solid waste rate revenue than was approved for 2010. The proposed increases would add \$2.45 to the typical single-family residential monthly bill in 2011 and another \$2.40 in 2012.

ISSUES

During its discussions of solid waste rates on July 13, July 27 and August 10, the SPUN Committee expressed interest in the following issues that could result in changes in SPU's proposed solid waste rates.

ISSUE 1. CHANGE FINANCIAL POLICY ASSUMPTIONS.

Should rate increases be moderated by changing the financial policy requiring the greatest revenue generation, or changing the dollar amount used to meet that policy?

Financial policies are intended to ensure that SPU has sufficient revenue in case actual expenditures are higher (or revenues lower) than projected in the rate study. In 2004, Resolution 30695 updated the solid waste financial policies and directed SPU to develop rate proposals that meet those policies. In this rate proposal, the net income policy is the financial policy that requires the greatest revenue generation (called the "binding constraint"). The policy states that net income should generally be positive (>\$0). Although changing the policy to set a negative net income target could reduce 2011-2012 rates, such a change likely would

be viewed unfavorably by bond rating agencies. Instead the Committee might focus on expenditure reductions or increases in non-rate revenue, which are the main ways to lower revenue requirements when net income is the binding constraint. And, the Committee could consider reducing net income for 2011 and 2012.

Option A. Reduce net income in 2011 and 2012. Although the policy minimum is \$1, the rate study proposed \$400,000 in net income in 2011 and \$600,000 in 2012 to ensure the policy is met if revenue or expenditures don't match forecasts. Rate increases could be moderated by reducing assumed net income by one-half (see Attachment A).

Option B. Approve the rate study's approach to financial policy compliance. Do not change financial policies or reduce the proposed 2011 and 2012 net income levels. Consider expenditure reductions described under other issues in this memorandum.

ISSUE 2. REDUCE GREEN FEE-RELATED REVENUE RESTORATION.

Should bag fee implementation expenses be subtracted from the Green Fee revenue restoration?

The rate proposal includes \$3.4 million of added rate revenue to replace the Green Fee revenue that was assumed in the last rate study. Yet the 2010 budget and the current rate study do not include \$482,000 of expenses once associated with the Green Fee, including 2 Department of Executive Administration positions, part of an inspector position and public education efforts. Without those expenses, only \$2,918,000 is needed to replace Green Fee revenue.

As a revenue restoration, this action is different than the expenditure reductions shown under Issue 3. Each expenditure reduction is associated with a specific service that is funded by a rate increment. When the service and associated expenditure are cut, the rate increment is no longer needed. In this case, the Green Fee-related service and expenditure cuts already occurred in 2010 but SPU is requesting approval of the associated rate increment to support base solid waste services and financial policy compliance.

Option A. Leave the requested \$3.4 million in the rates and revisit revenue needs as part of Budget Committee approval of the 2011-2012 budget. The proposed 2011-2012 budget is expected to reduce SPU expenditures beyond the costs in the rate study. In order to use the final budget information, the SPUN Committee could ask the Budget Committee to make the final decision about whether to further trim rates to reflect lower budget expenditures.

Option B. Replace only \$2,918,000 of Green Fee revenue. This option matches the revenue collected to remaining Green Fee-related expenses. However without other revenue additions or expenditure reductions, this option may not collect enough revenue to reliably meet financial policies.

ISSUE 3. REDUCTIONS IN PROPOSED EXPENDITURES

A. Can replacement funding. *Has SPU overestimated the annual cost of new or replacement cans and dumpsters?*

The proposed 2011-2012 rates add \$3 million of yearly operations and maintenance (O&M) cost to purchase and replace solid waste containers. Prior to 2009, collection contractors owned the containers. The City owns and replaces the containers under new contracts that took effect in March 2009. In preparation for the new contracts, SPU purchased new containers and the existing stock of containers. In future years, SPU estimates that 10% or less of containers will need to be replaced every year due to normal service changes or wear. The proposed rates include the higher end of SPU's estimate of 40,000 to 50,000 replacement containers per year. If the lower end was used, O&M costs in the rates could be reduced by \$600,000 per year.

Option A. Include lower can replacement cost estimates in the rates. For rate setting purposes include the lower end of SPU's can replacement cost estimates. The lower-end estimate would reduce expenditures by \$600,000/year by assuming a can replacement rate of 8% per year.

Option B. Approve rates with can replacement costs proposed in the rate study.

B. 2011 bond terms. *Could the size, duration or timing of the bond sale be changed to reduce rates?*

The 2010 budget assumed that a 25-year bond would be issued in the first quarter 2011 to raise \$67.5 million for the capital improvement program (CIP). The rate proposal assumes that \$71.0 million will be raised through issuance of a 25-year bond in the third quarter of 2011. The later date in the rate proposal reflects a South Transfer Station construction schedule that is longer than originally planned. The net change in the size of the bond reflects both construction savings from a favorable bidding environment and increased costs for bond reserves. Unlike SPU's other Funds, capital expenditures in the Solid Waste Fund have a pattern of relatively low expenditures interrupted every few decades by a large investment in transfer stations. Given the CIP's episodic nature, use of debt with a term that more closely matches the transfer stations' useful lives could be considered as a way to reduce yearly costs and spread costs more equitably among current and future customers.

Option A. Issue longer term debt. Issue 30-year bonds, which would reduce annual debt service by \$330,000. This option would increase interest payments over the life of the bond by about \$14.6 million but would match the term of the debt more closely to the useful life of the transfer stations.

Option B. Approve debt issuance as proposed in the rate study. The Committee should be aware that the rate proposal does not incorporate 2009 State Auditor recommendations to reduce transaction costs by sizing bonds at a minimum of \$180 million per issue. SPU proposed a smaller bond because the solid waste CIP is not that large and doing a combined issuance with the Water Fund or Drainage/Wastewater

Fund could result in higher borrowing costs due to the Solid Waste Fund's lower bond rating.

C. Organics contract negotiation. *Is the proposed level of spending to renegotiate the organics processing contract needed?*

SPU has an organics processing contract with Cedar Grove, Inc. that runs through 2013 with two one-year extensions (at the City's option), which would extend the contract to 2015. At the time the rate study was prepared, SPU added funding to cover possible renegotiation of that contract. SPU has since determined that the added funding is not needed for the contract in this rate period.

Recommendation. Reduce proposed rates to reflect elimination of added contract payments of \$362,000 in 2011 and \$373,000 in 2012.

D. Recycling processing cost assumptions. *Do rate study assumptions accurately estimate payments for processing of recycled materials?*

Since April 2009, SPU's recycling processing costs have been based on a fee per ton, a market price share that reflects the resale price of various materials, and a fee for disposal of contaminated recyclables. Monthly processing costs have varied since that time, primarily due to changes in the market share price for resale of recyclables. Prices for recyclables were low in early 2009 but since mid-2009 have risen substantially so that since February 2010 SPU has *received* a payment from Rabanco (the processing contractor) instead of *making* a payment for recycling processing. If average monthly costs from January to June 2010 were projected through December, SPU would receive a 2010 total of \$300,000 from Rabanco. Despite these recent trends, the rate study included yearly recycling processing costs of \$2.9 million, assuming a net \$0 recycling market price share. SPU used that cost because it felt that cost trends are somewhat unpredictable, the City's recyclables are trending toward less marketable materials, and contamination of recyclables is increasing. However, if the different assumptions were made based on trends since April 2009, rates could be reduced by including lower recycling processing costs. For example, a yearly cost derived from the average of April 2009-June 2010 payments with the recycling market share excluded, would be about \$2.4 million.

Option A. Decrease assumed recycling processing costs. Assume a yearly recycling processing cost of \$2.4 million. This lower cost balances trends from recent months when SPU has received payments for the recyclables with SPU concerns about future cost increases.

Option B. Approve rates with SPU-proposed recycling processing cost assumptions.

E. Work Force Efficiency and Performance. *Could savings be achieved by addressing work force efficiency and performance issues such as span-of-control, use of overtime and out-of-class pay, multi-skill job classifications, and Call Center performance?*

A 2009 Washington State Auditor's performance audit of SPU operations identified potential cost savings from improved work force efficiency and performance. Excessive overtime use, narrow job classifications, a high supervisor-to-employee ratio (high "span

of control”), and Call Center performance were highlighted as areas for improvement, which could be addressed through:

- Near-Term Efficiencies. Some work force efficiencies can be addressed without labor contract changes. The rate proposal has already incorporated in each year a \$200,000 and 3 FTE Call Center reduction that responds to a 2010 Budget Guidance Statement (BUGS) request for \$400,000 of Call Center reductions in 2011. SPU also has begun an analysis that responds to a 2010 Statement of Legislative Intent (SLI) request that SPU and other departments review their “span-of-control” (ratio of supervisors to employees). And, SPU has started bargaining with unions to institute shifts covering weekends, early mornings and evenings as a way to reduce overtime costs.
- Efficiencies for 2012 and beyond. The City currently has a tentative agreement with many of the unions that represent SPU’s employees. If approved, this agreement would extend the existing labor contracts through 2013. The most significant financial change included in the extension is the elimination of the 2% “floor” on annual cost-of-living adjustments (COLAs). The new COLAs for those represented employees would save the Solid Waste Fund about \$189,000 in 2011 and \$191,000 in 2012. The rate impacts of these savings are being estimated and will be incorporated before any final rate ordinance is brought forward for Council action.

In terms of additional cost savings, the tentative agreements also have language that explicitly acknowledges the need to find workplace efficiencies, including:

”During these times of financial constraints to the City’s revenues, it is in the parties’ interest to continue to work collaboratively to identify workplace efficiencies. Towards that end, the Parties are committed to reviewing management and employee suggestions for workplace efficiencies that can achieve cost savings.”

This joint commitment could provide an opportunity to address issues such as establishing productivity benchmarks and developing job classifications with more flexible duties to reduce the out-of-class pay costs currently incurred when an employee in one job classification fills in for an absent employee in another job classification. If successful, the savings associated with these near-term and longer-term productivity gains could be significant.

Option A. Reduce proposed rates in anticipation of efficiency gains. The Committee could reduce requested overtime expenditures by \$50,000 in anticipation of near-term efficiencies such as implementation of new shifts covering weekend, early morning, or evening hours (could be undertaken together with Option B).

Option B. Address work force efficiency and performance in a 2011-2012 budget action. Savings from work force efficiencies are uncertain because the results of the span-of-control analysis and the joint work with the unions on identifying efficiencies are not complete. Instead of reducing rates to reflect uncertain savings, this option would pursue a 2011-2012 budget action that directs SPU to submit in early 2011 a detailed list of management-identified efficiencies that could be brought forward for further analysis. Those efficiencies could be evaluated along with efficiencies identified by employees.

Option C. Approve the labor cost and efficiency assumed in the rate study.

ISSUE 4. LOW-INCOME ASSISTANCE AND OUTREACH.

Does the rate proposal include the appropriate type and level of outreach to low-income customers?

The Council has a long-standing interest in maintaining affordable utility rates for low-income customers. That interest has resulted in 50% rate discounts for low-income customers, an emergency assistance program for low-income customers at risk of utility shut-off due to non-payment of bills, and lowering of the eligibility threshold for low-income rates twice in the last 10 years. Enrollment of customers for these programs is primarily done by the Human Services Department (HSD) using >\$458,000 per year of SPU funding, including >\$154,000 of solid waste funds. An additional \$54,000 (\$18,000 of solid waste funds) was added to SPU's budget in 2010 to increase outreach by updating websites, reprinting brochures, assessing barriers to enrollment, and partnering with community organizations to conduct targeted outreach. Despite these efforts to help customers through new thresholds and outreach, the rate study assumes that low-income enrollment will remain very low at about 8,810 customers, which is about 13% of eligible customers. Increasing enrollment through better outreach may be the most effective near-term approach to helping SPU's low-income customers.

Option A. Redirect some HSD effort or funding to alternative outreach. Redirect one HSD position to conduct proactive outreach in target communities. Alternatively, redirect utility funding in an amount equal to one position to conduct such outreach. The Solid Waste Fund's portion of that funding would be about \$33,000. This option would require separate actions to redirect the water and drainage/wastewater portions of the position funding. If low-income enrollment increases due to the proactive outreach, SPU will collect less revenue. However, due to enrollment uncertainties SPU does not recommend adding a rate increment to account for low-income-related revenue shortfalls. This option has no rate impact but may require a budget action.

Option B. Add funding to increase proactive outreach to low-income customers. Add \$100,000 to 2011-2012 rates to increase low-income outreach while maintaining the current level of payments to HSD. This option would have enrollment-related revenue reductions similar to those in Option A.

Option C. Approve low-income assistance and outreach as proposed in the rate study.

ISSUE 5. MULTI-FAMILY ORGANICS.

Should a mandatory organics service for multi-family customers be added to advance City zero-waste goals?

The 2009 recycling rate (including composting of organic waste) was 51.1%, which is short of the City's goal of 60% by 2012. Organic (food and yard) waste continues to be a significant part of landfilled waste, with multi-family customers contributing 19,000 tons/year. Organic waste pick-up already is available to multi-family customers on a

voluntary basis but only a portion of multi-family units have chosen that service. To help reach the City's recycling goal, the Committee has been interested in adopting a mandatory organic waste service for multi-family residents that could increase the City's recycling rate by 0.3%.

Option A. Add mandatory multi-family organics service. Amend the proposed solid waste rate ordinance to include mandatory organic waste service for multi-family customers starting in September 2011. Similar to the organics service for single-family customers, owners of multi-family buildings would be required to purchase some level of organics service but disposal of organic waste in the garbage would not be prohibited. This change requires no change in current collection contracts. Rates currently applied to voluntary multi-family organics service would be updated to cover mandatory service and \$250,000 of service start-up costs. Although rate impacts are relatively small (1% on multi-family garbage if entirely allocated to those customers), customers who currently do not have organics service will pay higher monthly bills. Impacts to monthly bills would vary based on the level of organics service selected and how costs are allocated among customer groups. Using the 2010 multi-family organics rates and cost allocation, the per-unit organics service bill in a 15-unit apartment building with weekly pick-up of a 32-gallon curb cart would be about 40 cents per month.

Option B. Approve the SPU-proposed rate ordinance without mandatory multi-family organics service.

ISSUE 6. EVERY-OTHER-WEEK GARBAGE PILOT.

Should a pilot project to test every-other-week garbage service be added to advance City zero-waste goals?

To further advance City recycling goals, the Committee has been interested in whether to exercise a collection contract option to collect single-family garbage every other week starting in 2013. With less frequent garbage pick-up, customers would be motivated to divert more organic waste (which has weekly pick-up) and recyclables from their garbage. The City also could ultimately save \$6 million a year by shifting to every-other-week pick-up. And if the 34,000 tons of organics and recyclables still being disposed in single-family garbage were instead recycled, the City's recycling rate could increase by 0.8%. Although other cities including Renton and Olympia provide every-other-week garbage service, many questions should be answered before Seattle could implement such a service. A 2011 pilot project is being considered to answer the questions, such as: What is the general acceptance and feasibility of the service? What is the right rate structure? How much would recycling increase? Are there differences in service performance between neighborhoods with different population characteristics?

Option A. Add an every-other-week garbage pilot project. Add \$350,000 (0.2% if allocated across all customer classes) to the SPU-proposed 2011-2012 rates for an every-other-week garbage pilot project. Conduct the pilot project in June 2011 through mid-January 2012 in two neighborhoods. To implement this option, temporary rates for the pilot project would need to be adopted in early 2011.

Option B. Approve SPU-proposed rates without an every-other-week garbage pilot project. Use other data (such as data from Renton and Olympia) to inform the Council's consideration in 2012 of whether to undertake every-other-week garbage service starting in 2013.

ISSUE 7. YELLOW PAGES OPT-OUT PROGRAM.

Should a program to help customers opt-out of yellow pages delivery be added to advance City zero-waste goals?

An estimated 1.4 million yellow pages telephone books are delivered each year in Seattle comprising 2,300 tons of paper that must be recycled through the City's solid waste system. Many people now find businesses through the internet and no longer want paper phone books. Although yellow pages publishers have lists of customers who have requested not to receive the books ("opt-out" lists), many customers are not aware of those lists and there is no single list covering all yellow pages publishers. With the private opt-out lists, yellow pages are sometimes mistakenly delivered to customers who have opted-out, requiring follow-up by each of those customers to ensure their opt-out request is honored. To advance City zero-waste goals, the Committee has been interested in legislation to create a single City-sponsored opt-out list, and establish a per-book recovery fee to pay City costs for an opt-out list and recycling of yellow pages books.

Option A. Approve yellow pages legislation. Adopt legislation that establishes a new business license for yellow pages publishers. To obtain or renew a license, a publisher must pay a \$100 license fee, agree to use a City-sponsored opt-out list, report how many books were delivered in Seattle, and pay a 40-cent recovery fee each book delivered. City enforcement and penalties would apply if the opt-out list is not honored. Fees would entirely cover program costs and would offset about \$340,000 of rate revenue allocated for recycling of yellow pages.

Option B. Do not approve yellow pages legislation and continue to use solid waste rates to pay for yellow pages recycling.

ISSUE 8. GRAFFITI CONTROL.

Should the City Auditor's recent graffiti control recommendations be reflected in the 2011 and 2012 rates and budget?

SPU graffiti control is part of its Clean City program, which also addresses illegal dumping, litter pick-up and community clean up. Clean City programs are funded by General Subfund revenue generated from solid waste tonnage taxes. A little over \$1 million and 8.55 FTEs are proposed for SPU graffiti control in 2011 and 2012. A recently completed report by the City Auditor identified several actions for improving graffiti efforts by SPU and other departments, including:

1. Enforcement.

- A. Clarify City graffiti policy and strengthen the code regarding violations and penalties.
- B. In the Seattle Police Department (SPD), assign 1 FTE in SPD for a graffiti detective pilot program and 0.5 FTE to maintain a graffiti data base. *[There has been some department feedback that a data base might be more efficiently operated by SPU in association with the graffiti hotline].*

2. **Eradication.** Redeploy 1 FTE from SPU graffiti programs to supplement the Seattle Department of Transportation's (SDOT's) 1.2 FTE graffiti clean-up crew, or enter into a memorandum of agreement that allows SPU staff to clean-up SDOT parking pay stations.
3. **Education.**
 - A. Have the SPU graffiti outreach coordinator: a) build a community coalition, and b) prepare an outreach plan that includes public education about graffiti costs and impacts. This likely would require another staff person to at least temporarily backfill the coordinator's other assignments.
 - B. Join American Beautiful (for outreach materials, grants, etc) for an \$8,000 one-time fee.
4. **Evaluate private efforts.** Leverage graffiti control with private efforts by:
 - A. Continuing SPU graffiti grants to Business Improvement Areas (BIAs). These grants have been about \$57,000/year.
 - B. Developing baseline and follow-up inventories of BIAs for comparison to similarly-sized control areas, so that the effectiveness of private graffiti control can be assessed.

Some recommendations affecting SPU could be accomplished at no additional cost while others would likely need new resources. Options include:

Option A. Move a graffiti FTE and associated funding from SPU to SDOT. This option would not add cost but might require a change in the ordinance that allocates tonnage taxes entirely to SPU. It could also require a green sheet in the 2011-2012 budget to transfer funding and either: 1) transfer the filled SPU position, or 2) abrogate the SPU position and create a new SDOT position. This likely would not reduce SPU's performance in responding to graffiti hotline complaints but would reduce SPU clean-up of graffiti that is identified outside of the complaint process.

Option B. Incorporate all of the Auditor's SPU-related graffiti recommendations. Several of the Auditor's recommendations would require SPU to reallocate or add resources, and the Auditor estimates for the costs for those resources seem low. More realistic SPU implementation costs might include a ½ time position for coalition-building and outreach planning (\$40,000/year), America Beautiful membership and continued information campaigns (\$8,000/year), and a ½ time data base technician (\$40,000/year) if data base functions are housed with the hotline instead of in SPD. Because SPU's graffiti work is funded by tonnage tax General Subfund revenue, new work must be funded by: 1) reallocation of Clean Cities dollars from illegal dumping, litter, or community clean-up, 2) allocation of General Subfund dollars from other sources, or 3) an increase in tonnage taxes. If tonnage tax increases are used, an additional \$88,000/year of graffiti effort would require a 19-cent increase in the \$8.50/ton tax. As the main user of transfer stations, SPU pays most of the City's tonnage taxes (private haulers pay the rest). However, a tax increase would likely have no rate impact if revenues continue to be deposited in the Solid Waste Fund where they can be used to meet financial policies.

Option C. Approve the Clean Cities program as proposed in the rate study.

2011-2012 RATES AND THE 2011-2012 BUDGET

Developed in the first half of 2010, the rate study estimated certain costs based on previous years' experience. Developed a few months later, the initial draft 2011-2012 budget used more detailed cost estimates that added \$550,000 of expenditures that were not included in the rate proposal. Expenditures have been reduced in the near-final version of the budget, however, so that no rate change is needed to align the rates and budget. In fact, the final budget may include further expenditure reductions that could be incorporated into rates before final Council approval, including potential savings from a tentative labor agreement regarding cost-of-living adjustments (COLAs) for 2011 and 2012.

It should be noted that due to work plan and funding constraints, the rate study did not include the accelerated apprentice program enrollment requested in BUGS 18-1-A-1. Such an accelerated program can be considered in the next rate period.

AFFORDABILITY AND GENERAL SUBFUND IMPACTS

If this memorandum's Options A are approved, the SPUN-revised revenue requirement would be about \$1 million higher than the revenue requirement approved in 2010 rates. The SPUN-revised revenue requirements would reduce General Subfund revenue from utility taxes by \$190,000 in 2011 and \$213,000 in 2012 compared to SPU's proposal. Impacts on 2011-2012 solid waste revenues and bills are:

	<i>2010 Adopted</i>	<i>2011 SPU- Proposed</i>	<i>2011 SPUN -Revised</i>	<i>2012 SPU- Proposed</i>	<i>2012 SPUN-Revised</i>
Revenue Requirement	\$162,100,000	\$159,100,000	\$156,836,000	\$165,100,000	\$162,747,000
Typical Monthly Bills					
Residential 1/	\$32.70	\$35.15	\$34.70	\$37.55	\$37.04
Convenience Store 2/	\$350.84	\$380.82	>\$375.03	\$362.07	>\$375.03

1/ 32 gallon garbage and 96 gallon compostable-waste 2/ 3 cubic yard dumpster collected once per week

A 2007 SPU Rate Affordability Report concluded that a bill for a single utility service (such as solid waste service) is affordable if it is less than 2% of median household income. The Council has not considered that threshold definitive because it was drawn from a federal program that uses it for different purposes and is not tailored to household costs in the Seattle area. If it were be used as a rough interim affordability measure, however, the SPUN-revised solid waste rates would be affordable at less than 1% of median household income.

NEXT STEPS AND RATE APPROVAL PROCESS

Direction from the September 14 SPUN Committee meeting will be incorporated and brought back to the Committee for a final rate recommendation on September 28. Based on earlier Committee direction, it is anticipated that the rate legislation would then be re-referred to the Budget Committee for adoption as part of 2011-2012 budget approval. The re-referral allows the Budget Committee to consider whether increases in utility taxes are needed to address General Subfund shortfalls.