



Interoffice Memorandum

June 5, 2017

TO: Mayor Teresa Jacobs
and Board of County Commissioners

FROM: Raymond E. Hanson, P. E., Director
Utilities Department

A handwritten signature in black ink, appearing to be "R. Hanson", written over the "FROM" line.

SUBJECT: BCC AGENDA ITEM - Discussion Agenda
June 20, 2017 BCC Meeting
Tentative Mandatory Refuse Collection Program MSBU
Contact Person: James Becker, Manager
Solid Waste Division
407-254-9660

In order to include the Mandatory Refuse and Recycling Program MSBU on the Notice of Proposed Taxes, Section 32-183 of the Orange County Code requires that the Board set the tentative annual rate for the residential collection of solid waste and recyclables by July 15th of each year. The final approval of the MSBU will occur during the budget hearings in September.

The Mandatory Refuse and Recycling Program MSBU has five main components: Hauler Compensation, Disposal Costs, Program Administration Costs, Carts, and a Rate Stabilization Component.

Hauler Compensation

In accordance with Section 11, Special Terms and Conditions of the Residential Solid Waste and Recyclable Collection Services Term Contract, the contractors shall receive an annual adjustment in the compensation per household based on the Consumer Price Index methodology, explained in Attachment D of the contract. In addition, on April 11, 2017 the BCC approved amending the Residential Garbage and Recycling Collection contracts to include scheduled weekly collection of large items which increase the hauler compensation for 2018 service. The compensation to the franchisees for calendar year 2018 will be as follows:

ZONE 1	\$139.17	PER RESIDENTIAL UNIT,
ZONE 2	\$172.14	PER RESIDENTIAL UNIT,
ZONE 3	\$149.88	PER RESIDENTIAL UNIT,
ZONE 4	\$121.56	PER RESIDENTIAL UNIT,
ZONE 5	\$123.71	PER RESIDENTIAL UNIT.

The system average for the 2018 hauler compensation component which includes the annual increase and the new large item collection service is \$141.72 and is recommended by staff. This is a \$16.99 or 13.6% increase from the 2017 hauler collection component of \$124.73 per household.

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Disposal Costs

The disposal component of the MSBU represents the cost for disposing of the residential solid waste material. The annual disposal component adjustment for calendar year 2018 is projected at \$46.61 per household for 2018. This represents \$2.14 or 4.8% increase from the 2017 disposal component.

Program Administration Costs

The program administration cost component represents the cost per household for operation and administration of the Mandatory Refuse and Residential Recycling Programs. The 2018 Program Administration costs increased 13.5%, from \$13.18 to \$14.96, for an increase of \$1.78 per household. This increase is due to additional labor needed to meet customer service demands which should be reduced when customers experience scheduled weekly large item collection service.

Cart Component

The cart component cost represents the cost per household per year for the purchase of new and replacement carts over the term of the contract. This amount remains unchanged at \$8.83.

Rate Stabilization

The rate stabilization component provides funding for reserves that need to be replenished after the initial \$20 million dollar cart purchase in 2015. Over the next several years reserve funds will be rebuilt to provide funding to address future budgetary needs. The Rate Stabilization component is \$7.88 per household, a decrease of \$0.91, or 10.4% from the 2017 amount.

MSBU Rate Recommendation

The total cost of the program for 2018 is \$212.12 per household. Staff recommends setting the MSBU for 2018 at \$220 per household to ensure the program's financial viability while providing funding to replenish reserves that funded the \$20 million cost of the new roll carts.

Action Requested:

Approval to establish the haulers compensation rates as listed and set the MSBU at \$220 for Program Year 2018 and authorization to include the Tentative Mandatory Refuse Collection Rate of \$220 on the 2017 Notice of Proposed Taxes.

All Districts.



Interoffice Memorandum

May 10, 2017

To: James Becker, Manager
Solid Waste Division

From: Glenn Kramer, Manager 
Utilities Fiscal & Operational Support Division

Subject: **Calendar Year 2018 MSBU Rate Recommendation
Mandatory Refuse & Recycling Program**

The Orange County Residential Solid Waste and Recyclable Collection Services Term Contract, Y15-144, established a basis for adjusting the collection payment to the franchise haulers each subsequent year of the contract. This adjustment must be calculated during the budget process each year to ensure that the collection expense for the next fiscal year is properly budgeted.

The payment to the franchise haulers for collection services and the related disposal expense are the key components of the MSBU rate, which funds the Mandatory Refuse & Recycling Program (Program). As such, analysis must be performed to evaluate the impact of these components on the MSBU rate for the next calendar year (CY) and to determine whether an adjustment to the rate is warranted.

The purpose of this memorandum is to provide you with the revised collection, disposal, and program costs effective January 2018 and our MSBU rate recommendation for CY 2018.

Analysis – Calendar Year 2018

Hauler Collection Compensation

The hauler collection compensation component represents a system-wide average collection price per household for all zones in the program. Using a system average is necessary to evaluate the MSBU rate because the competitive bidding process established collection prices that varied among the 5 zones.

Due to the addition of once a week large item collection to the CY 2018 program, the CY 2018 hauler collection compensation component was calculated in two steps.

The first step utilizes the Consumer Price Index methodology established in the contract. This calculation resulted in a *decrease* of 0.10% for CY 2018 as compared to the CY 2017 collection compensation. This is attributable to the ongoing decreasing trend in natural gas pricing.

After applying this decrease to each of the 5 zones and projecting customer growth for 2018, the average system cost for collection increases to \$124.95 per household. This represents a \$0.22, or 0.2%, increase from the 2017 hauler collection compensation



2018 MSBU Rate Recommendation

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component of \$124.73. This system-wide rate is increasing due to higher growth rates in zones with greater collection costs per household.

The second step utilizes quotes received from each of the three contract haulers for each of their respective zones. After applying these amounts to the projected costumer growth for 2018, the average system cost for the new service calculated at \$16.77 per household.

When combined, the 2018 average system cost for collection becomes \$141.72. In subsequent years, the contract basis for adjusting the collection payment will be applied to this new combined rate.

Disposal Component

The disposal cost component of the MSBU rate represents the average disposal cost per household for all zones in the program. Using a system average is necessary because each of the contracts for the five zones establishes waste generation rates that vary among the zones. The contracts established a waste generation rate for each zone for both Class I and yardwaste tonnages. As these rates are an upper-limit, our analysis projects the Class I and yardwaste waste generation rates for 2018 based on actual experience for the tonnage per household received over the past eight years.

Using this method, the 2018 average waste generation rate for Class I garbage is 1.11 tons per household and 0.27 tons per household for yardwaste. As there has not been an increase in Solid Waste System tipping fees since FY 2011, the FY 2018 budget submission includes a proposal to index these fees by 3.5%. Therefore, using the proposed FY 2018 Class I disposal rate of \$34.80 per ton and the proposed FY 2018 yardwaste disposal rate of \$30.00 per ton, the disposal component is calculated to be \$46.61. This represents a \$2.14 or 4.8% increase from the 2017 disposal component.

Program Administration Component

The program administration cost component represents the cost per household for operation and administration of the program based on the budget for the corresponding fiscal year. For 2018, the program administration component calculates at \$14.96 per household, which is a \$1.78 or 13.5% increase from the 2017 administration component of \$13.18. This increase is being driven by the need for additional labor to meet the customer service needs of the program. As large item collection is implemented and program customers continue to improve recycling efforts, these additional costs needed in the early years of the new program should be reduced in subsequent years.

Cart Component

The cart component cost represents the cost per household per year for the purchase of new and replacement carts over the term of the contract. This amount remains unchanged at \$8.33.

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Cost Component Total

The 2017 Program cost on a per-household basis was \$191.21. Due to the amended contracts to include once per week large item collection and increases in the disposal and administration components, the projected cost of the program for 2018 is \$212.12 per household. The following table compares the Program cost for 2017 to the projected Program cost for 2018:

	Current 2017	Projected 2018	2017 to 2018 Variance
1-1-1 Collection	\$124.73	\$124.95	\$0.22
New Large Item Collection	0.00	16.77	16.77
Disposal	44.47	46.61	2.14
Administration	13.18	14.96	1.78
Cart	8.83	8.83	0.00
Program Cost Per Customer	\$191.21	\$212.12	\$20.91

Recommendation

With Program costs increasing, we are recommending that the MSBU rate for the third year of the 10-year contract period increase to \$220.00 per household. This will continue to provide a rate stabilization component to the MSBU rate as follows:

	Current 2017	Projected 2018	2017 to 2018 Variance
1-1-1 Collection	\$124.73	\$124.95	\$0.22
New Large Item Collection	0.00	16.77	16.77
Disposal	44.47	46.61	2.14
Administration	13.18	14.96	1.78
Cart	8.83	8.83	0.00
<i>Rate Stabilization</i>	<i>8.79</i>	<i>7.88</i>	<i>(0.91)</i>
MSBU Cost per Customer	\$200.00	\$220.00	\$20.00

In evaluating the existing and projected cash reserves of the program, we have determined that the revenue generated by increasing the MSBU rate to this amount will be sufficient to maintain the program's financial viability. The rate stabilization component will provide approximately \$1.7M additional funding in 2018, and it allows the Program to continue replenishing its reserves after the initial \$20M cart purchase in 2015, which was required for automated collection. Over the next several years, rebuilding reserves in this manner will be needed to achieve the target reserve level. By doing this, the Program will be in a healthier financial position to address future budgetary needs that may arise.

If you have, any questions regarding this recommendation, please feel free to contact me.



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- c: Raymond E. Hanson, P.E., Director, Utilities Department
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