



# 2020 Solid Waste Rate Review Report



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## I Introduction

In December of 2019, the Town of Florence (Town) retained the services of Circonomy Solutions, LLC (CS) to complete a rate design study of the Town's residential refuse collection operations (Study). The Town provides all solid waste services, including garbage, recycling and bulk collection, for residential customers through contracted private service providers

The CS team met with Town staff to initiate the study on December 13, 2019. The meeting served as a forum to confirm the scope and schedule and discuss additional data collection.

- Scope

The purpose of this Study was to determine the total cost of providing solid waste services and design rates to safeguard the financial integrity of the program. The total cost of providing services includes costs associated with operations and capital outlays.

This report provides a discussion of the methodology utilized to conduct the analysis, the cost of providing services and recommended rates to be adopted for solid waste services.

- Schedule

- Draft Report due January 17, 2020
- Final Report and Presentation due February 7, 2020
- Present to Council February 18, 2020

- Data Collection

The Town provided detailed historical data and background information on operations and practices. The information included the following:

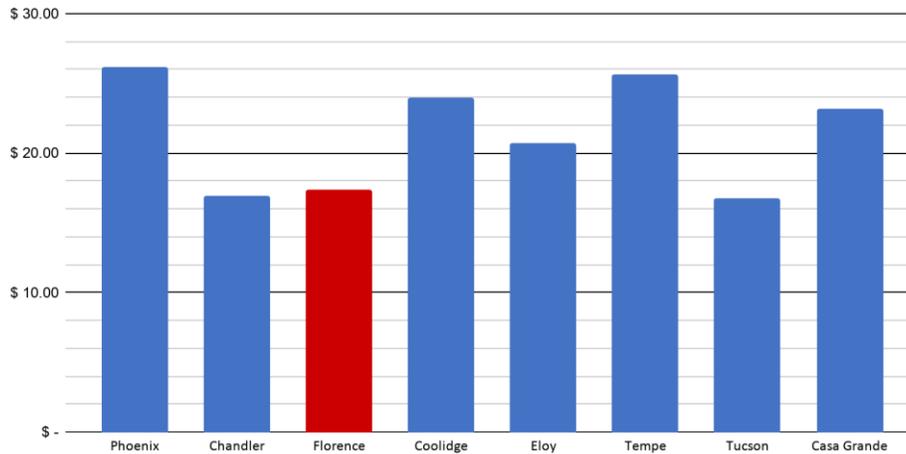
- Detailed financial reports and budgets
- Solid waste policies and ordinances
- Solid waste quantity reports
- Solid waste Contracts
- Operational and productivity data for the landfill, residential collections, and special collections

In evaluating solid waste rates, the Town's key concerns were: (1) eliminating the annual deficit, (2) ensuring that rates annually contribute enough to meet the minimum operations reserve balance, or at least meet this objective by the end of five years ending in FY 2025.

## II Program Attributes and Performance

The Town strives to promote high quality solid waste, recycling, bulk collection and other services. Figure 1 compares the Town rates to other cities.

Figure 1  
Solid Waste Fee Comparison



In comparing the rates with other cities, as shown in Figure 1, the Town is on the lower scale.

The solid waste rate of \$17.33 covers a variety of services to the residents of the Town of Florence. Those services include:

#### A. Garbage

Residential refuse services provided by Right Away Disposal (RAD) include once weekly residential garbage collection services via fully-automated collection vehicles with a combination of 96-gallon and 300-gallon carts. For FY20, RAD is projected to service approximately 3700-5000 units per week. The number of units varies with the influx of winter residents starting in November. The Town will remain the point of contact for its residents and will manage the billing responsibilities. Florence residents living in Anthem are serviced on Thursdays and all other residents are serviced on Mondays.

#### B. Recycling

The Town offers its residents once a week service through its contract with RAD, utilizing the same equipment as the garbage service. The number of units also fluctuate during the year. Recyclables are picked up once a week on the same day as the trash. For Florence residents living in Anthem, recycling containers are emptied every Thursday. For all other residents, recycling containers are emptied every Monday.

#### C. Bulk Trash

Bulk Trash is provided at no additional charge to the Town's residents. These are materials that don't otherwise fit in the containers provided. Residents must call ahead to schedule the pick-up of their bulk trash at least 24 hours in advance of the scheduled pick-up. Bulk trash is picked up on the same day every month. For Florence residents living in Anthem, bulk trash is picked up on the 2nd Wednesday of each month. For all other Town of Florence residents, bulk trash is picked up on the 1st Wednesday of each month.

## D. Transfer Station Services

Town residents with active trash accounts can now dispose of bulk waste at the local Ironwood Landfill (Transfer Station) free of charge. A copy of the most recent trash bill and a Driver's License is required to dump. Residents can dump up to 5 tons per month.

## E. Equipment Rental

Residents can also rent a truck from the Town of Florence for a \$95 fee. The truck is typically parked on a resident's property on Friday and collected on Monday. Residents can fill the back/container with material, and the Town would pay the dump fees associated with the truck.

## F. Current Solid Waste Rates

Table 1  
FY20 Rates

<b>Code</b>	<b>Type</b>	<b>FY20</b>
800	RAD Residential (1-week pick-up)	\$ 17.33
801	RAD 95 gallon (2-week pick-up)	\$ 17.33
803	RAD Residential (1-week pick-up) ADOC	\$ 13.17
805	RAD Additional Container -1 week pick up	\$ 5.00
810	RAD Institutional 2 Cubic Yard (1 week)	\$ 45.10
815	RAD Institutional 2 Cubic Yard (2 week)	\$ 71.50
820	RAD Institutional 3 Cubic Yard (1 week)	\$ 49.50
825	RAD Institutional 3 Cubic Yard (2 week)	\$ 93.50
830	RAD Institutional 4 Cubic Yard (1 week)	\$ 55.00
835	RAD Institutional 4 Cubic Yard (2 week)	\$ 104.50
840	RAD Institutional 6 Cubic Yard (1 week)	\$ 77.00
841	RAD RECYCLE 6 CY 1 X WEEK	\$ 33.00
842	RAD RECYCLE 4 CY 1 X WEEK	\$ 33.00
845	RAD Institutional 6 Cubic Yard (2 week)	\$ 143.00
850	RAD Institutional 8 Cubic Yard (1 week)	\$ 100.10
855	RAD Institutional 8 Cubic Yard (2 week)	\$ 191.50

## III. Rate Review Process

### A. Review of Hauler Contract Agreement

The Town entered into a 5-year contract with Right Away Disposal on July 01, 2013, with five one-year extensions for Solid Waste Services, Recycling Services and Bulk Trash Services.

The financial terms of the Town's Agreement appear to be standard to the industry. Section 13.7 of the Town's Agreement includes provisions for adjusting service charges according to changes in the CPI of two indices, 85% of which will be the Consumer Price Index - All Urban Consumers, CUUSA429SAO, CWUSA429SAO, Not Seasonally

Adjusted, Area: Phoenix-Mesa, Item: All items ("CPI") and 15 % of which will be the Diesel Fuel price index by the United States Department of Energy (the "DOE"). The Diesel Fuel adjustment shall be based on the most recent price as of July 1st of the then-current year as compared to the same price as calculated one year ago for Diesel Fuel (cents per Gallon), for the Phoenix-Mesa Metropolitan Area, which is a typical price adjustment measure in the solid waste industry.

## B. Development of the Test Year

The revenue requirement is defined as the amount of revenue required to recover all costs associated with O&M, debt service and cash financed capital outlays. In developing the revenue requirement for solid waste services, CS used the fiscal year (FY) 2021 Projected operating budget as the basis for the "Test Year". CS worked with Town staff to compare the previous year's budget and adjust to ensure that the "Test Year" would reflect expenses that occur on a regular basis.

The FY 2021 projected budget was compared to actuals from FY 2017 through FY 2020. Through this comparison, and with input from Town staff, CS adjusted to ensure that the "Test Year" would reflect expenses that occur on a regular basis.

Table 2  
FY21 Test Year

053-571-101	Salaries and Wages	\$21,310.00
053-571-103	Overtime	\$0.00
053-571-105	Holiday Pay	\$0.00
053-571-106	Stand By	\$0.00
053-571-110	Car Allowance	\$240.00
053-571-111	AZ Retirement Contributions	\$2,580.00
053-571-121	FICA - Employer's Portion	\$1,650.00
053-571-123	Worker's Compensation	\$220.00
053-571-124	Health, Accident & Life Insurance	\$10,250.00
053-571-201	Telephone	\$574.00
053-571-203	Reproduction/Printing	\$1,800.00
053-571-206	Liability Insurance	\$22,000.00
053-571-207	Service Contracts	\$180.00
053-571-209	Vehicle Repair & Maintenance	\$1,200.00
053-571-217	Professional Services	\$842,966.15
053-571-228	Admin Fee	\$30,200.00
053-571-230	Landfill Charges	\$50,887.00
053-571-301	Office Supplies	\$800.00
053-571-304	Uniform Allowance	\$750.00
053-571-306	Fuel - Oil	\$1,500.00
053-571-312	Safety Equipment	\$300.00

053-571-403	Training and Development	\$600.00
053-590-910	TO GENERAL FUND	\$82,000.00
	<b>Total Expenses</b>	<b>\$1,072,007.15</b>

### C. Capital Program

Since the Town outsourced the solid waste collection and disposal services, the Capital program is minimal. However, they have started the design of a \$300k Eco Station in FY20 and hope to start construction FY21. They are also setting aside funding for capital equipment of \$100k and \$500k funding for a transfer station in collaboration with other cities in the region.

### D. Determination of Billing Units

The determination of the billing units was provided by the Town staff. CS reviewed the information and adjusted based on the actuals for the first four months in FY20. Table 3 shows the adjusted forecast through FY30.

Table 3  
Billing Unit Forecast

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Total
<b>FY19</b>	3,530	3,561	3,640	3,958	4,322	4,417	4,494	4,556	4,608	4,553	4,054	3,813	<b>49,506</b>
<b>FY20</b>	3,739	3,767	3,917	4,166	4,539	4,650	4,763	4,843	4,888	4,765	4,229	4,015	<b>52,282</b>
<b>FY21</b>	3,832	3,867	3,979	4,374	4,766	4,883	5,001	5,085	5,132	5,004	4,441	4,215	<b>54,579</b>
<b>FY22</b>	4,023	4,061	4,177	4,593	5,004	5,127	5,251	5,340	5,389	5,254	4,663	4,426	<b>57,308</b>
<b>FY23</b>	4,224	4,264	4,386	4,822	5,255	5,383	5,514	5,607	5,658	5,516	4,896	4,647	<b>60,173</b>
<b>FY24</b>	4,436	4,477	4,606	5,064	5,517	5,652	5,789	5,887	5,941	5,792	5,141	4,880	<b>63,182</b>
<b>FY25</b>	4,657	4,701	4,836	5,317	5,793	5,935	6,079	6,181	6,238	6,082	5,398	5,124	<b>66,341</b>
<b>FY26</b>	4,890	4,936	5,078	5,583	6,083	6,232	6,383	6,491	6,550	6,386	5,668	5,380	<b>69,658</b>
<b>FY27</b>	5,135	5,183	5,332	5,862	6,387	6,543	6,702	6,815	6,878	6,705	5,951	5,649	<b>73,141</b>
<b>FY28</b>	5,391	5,442	5,598	6,155	6,706	6,871	7,037	7,156	7,221	7,041	6,249	5,931	<b>76,798</b>
<b>FY29</b>	5,661	5,714	5,878	6,463	7,042	7,214	7,389	7,514	7,583	7,393	6,561	6,228	<b>80,638</b>
<b>FY30</b>	5,944	6,000	6,172	6,786	7,394	7,575	7,758	7,889	7,962	7,762	6,889	6,539	<b>84,670</b>

### E. Application of Inflation Adjustments

The Town's residential solid waste, recycling and bulk trash rates are designed to be forward looking. This means that the rates need to be designed with the intention of providing the necessary revenue to cover the costs of the contractor providing the above services and administration and overhead costs. Also, the revenue should be enough for an ending fund balance equal to 2 months of expenses.

CS worked with staff to identify the inflationary adjustments that will be used to project the costs associated with the Solid Waste program.

Table 4  
Inflationary Adjustments

<b>Expense</b>	<b>Increase</b>
Salaries & Wages	4%
Pensions	4%
Health Insurance	6%
Liability Insurance	3%
Disposal	3%
Professional Fees	1.36%- 4%
Other Charges	3%
Admin Fee	4%
General Fund	4%

#### F. Development of the Projected Solid Waste Expenses

The projected annual operational expense was developed working with the Town to project the changes in costs due to new customers, inflation, salary changes, new equipment, capital and debt services. Table 5 projects the annual expenses that the Town can expect to incur.

Table 5  
Solid Waste Expenses

	FY20	FY21	FY22	FY23	FY24	FY25-FY30
Projected Expenses	\$1,394,874	\$1,222,007	\$1,299,106	\$1,542,176	\$1,344,284	\$10,587,440

#### G. Revenue Projections from Current Rates

CS developed projections concerning the annual amount of revenue that the Town would generate from current rates. These projections are based on the number of billing units in Table 3. Table 6 projects the total annual revenue the Town could expect to generate from current rates from the forecasted billing units shown in Table 3.

Table 6  
Projected Revenue

	FY20	FY21	FY22	FY23	FY24	FY25-30
Projected Revenue	\$992,289	\$1,050,207	\$1,093,395	\$1,136,920	\$1,186,898	\$8,366,562

## H. Ending Fund Balance

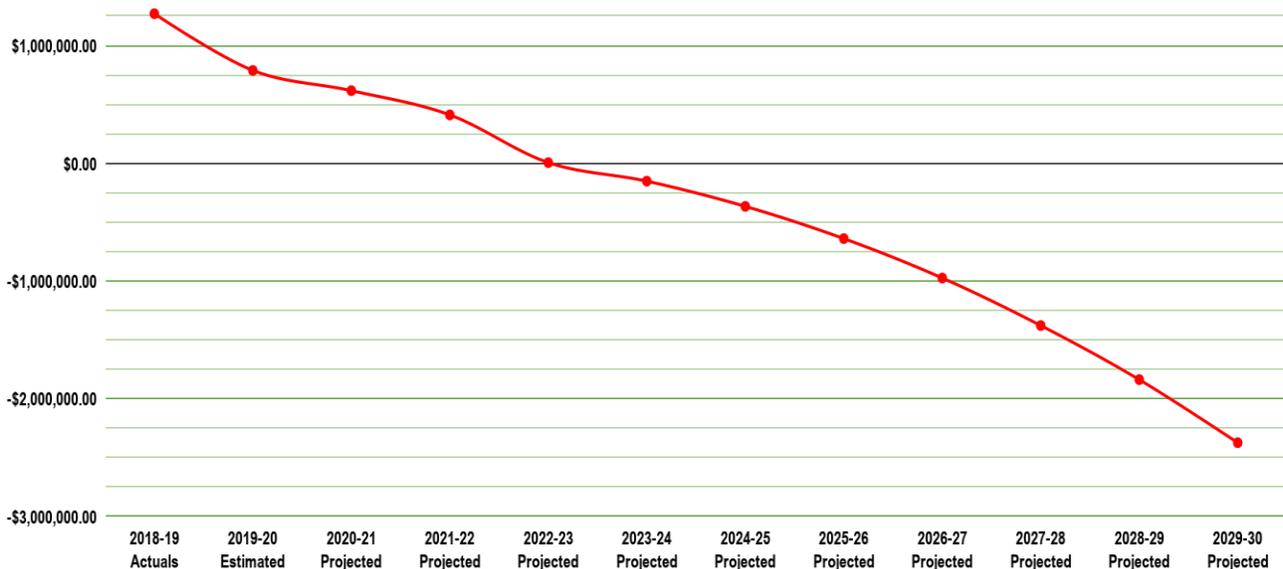
As shown in Table 7, the current fee will not be enough to recover the projected expenses and the minimum fund balance of two months' worth of operational expenses.

Table 7  
Ending Fund Balance

	FY20	FY21	FY22	FY23	FY24	FY25-FY30
Over/(Under)	\$788,373	\$616,573	\$410,862	\$5,607	(\$151,779)	(\$2,372,657)

As shown in Figure 2, the ending fund balance for the Solid Waste program will be depleted by FY23 if rates stay at the current \$17.33 per month

Figure 2  
Ending Fund Balance (no rate increase)



## IV. Proposed Solid Waste Rates

The Town's long-term financial needs were summarized in a 10-year financial plan that forecasts the amount of revenue needed to cover operating expenses, capital, reserves, and other obligations. This plan is based on the utility's current operating budget, customer statistics and related information.

The basic objectives of the financial plan were:

- Meeting Operations Costs: The solid waste utility must generate enough revenue to cover the expenses of solid waste operations, including RAD's contracted services. For FY20, the revenue requirement is approximately \$1.4 million.
- Maintaining Adequate Reserve Funds: The solid waste utility at the beginning of FY19 has a healthy reserve fund balance of about \$1.27 million. However, without rate

increases, this balance will fall to less than the recommended minimum reserve target of 2 months of operating expenses by the end of FY23.

The proposed rates provided in this section are based on three options;

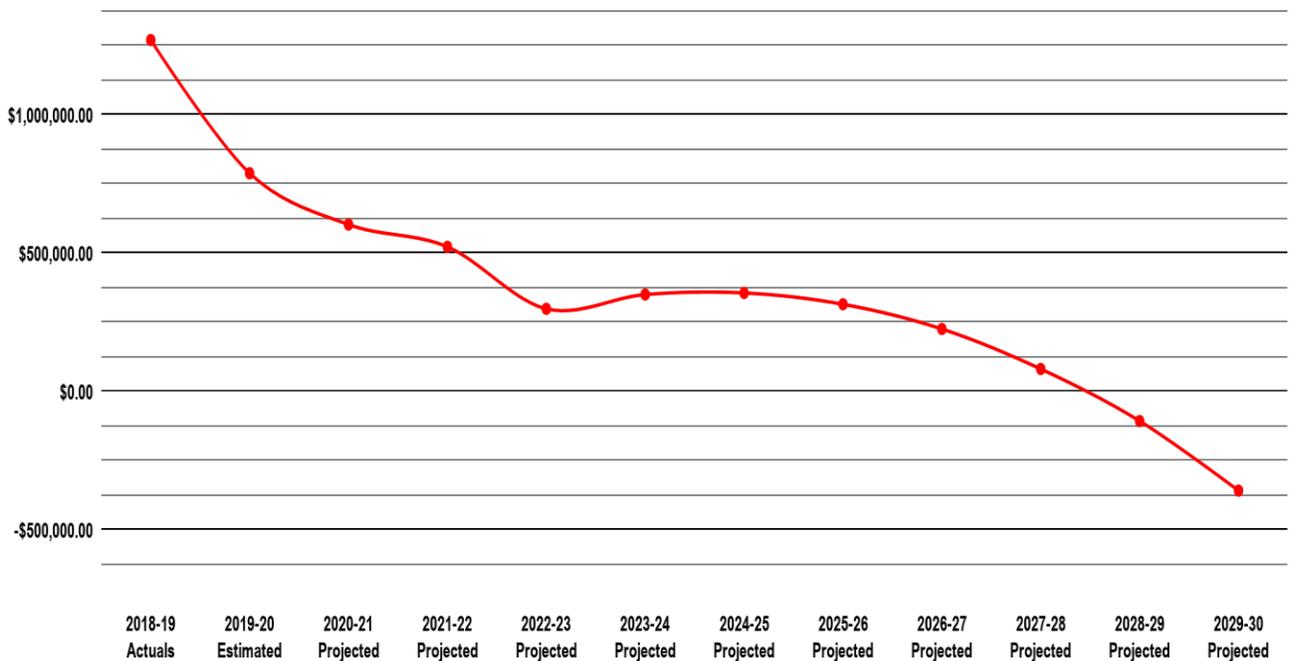
- Option 1 - The Town can continue to leave rates at the current rate of \$17.33. However, within three years the General-Purpose Fund will need to supplement the program every year. The Town will need to set aside approximately \$2.4 million over the ten-year period.
- Option 2 - Table 8 shows the proposed rates assuming the Town would continue to fund all services including all Capital Improvement Program and Capital Equipment with cash.

Table 8  
Proposed Rates

	FY20	FY21	FY22	FY23	FY24	FY25-FY30
Proposed Rates	\$18.08	\$19.08	\$20.00	\$20.5	\$20.5	\$20.5

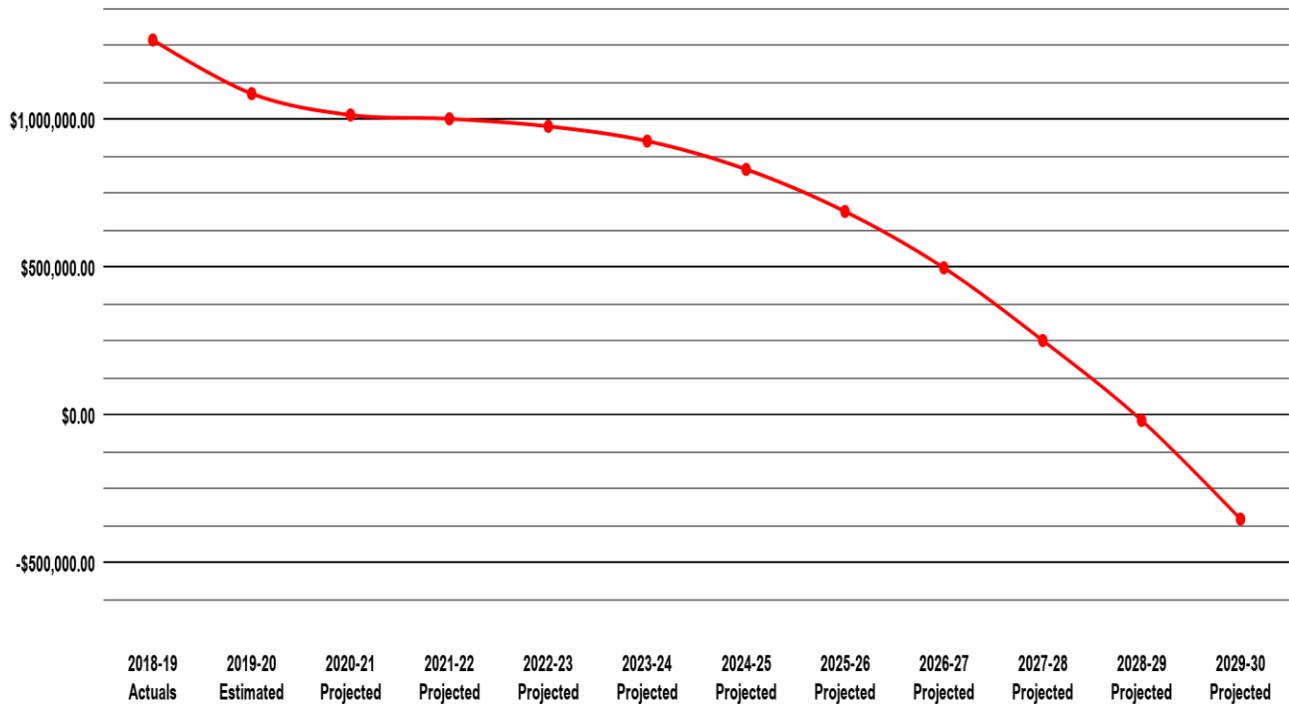
Based on the proposed rates for Option 2, Figure 3 shows the projected ending fund balance.

Figure 3  
Ending Fund Balance (Cash Fund)



- Option 3 - Using the same proposed rates as shown in Table 8 and assuming the Town would debt fund the capital improvement program and capital equipment, Figure 4 shows the projected ending fund balance.

Figure 4  
Ending Fund Balance (Debt Funding)



## V. Recommendations

- Increase Residential Fees to the following:
  - FY20 - \$18.08
  - FY21 - \$19.08
  - FY22 - \$20.00
  - FY23 - \$20.50
- Recommend the Town maintain an ending fund balance equal to two months of operational expense
- Increase Residential Fee for ADOC equal to Residential Fee
- Increase second container to half of Residential Fee
- Increase Commercial Fee 10% above RAD costs
- Review Fee Forecast yearly
- Recommend the Town consider debt funding Capital Equipment and CIP projects.
- The RAD contract will expire by 7/1/2023. Town will need to start procurement process by January '22 so the contractor will have time to procure equipment for a start date of July '23.