



"Providing Life's Essential Services"

Utility Advisory Committee Meeting Highlights – January 10, 2008

Committee Members present:

John McCubbin, Deena Monteiro, Michael Napoli, Sharon Schilling, Allan Schroeder, Arthur Reker

Committee Member absent:

Sarah Velasquez

Staff present:

Lon Martin, John Watkins, Cindy Williams, May Albiani, Sarah Rubin, Ric Hutchinson, Bill O'Brien, Pat Tierce, Robert Gedert, Robert Weakley, Mai Vang, Phillip Weathers

1. Recap of Action Items

- a. Lon Martin, Assistant Director, reviewed the Action Item list.
- b. Committee members questioned finding a similar size city in the nation that offers the same services to make a comparison; staff explained there are many variables that makes it difficult.
- c. It was the consensus of the Committee to move the February 13 meeting to February 20.

2. Solid Waste Rate Model Presentation – Rick Hutchinson, R3 Consulting Group

- a. Ric Hutchinson stated he has 30 years experience in the solid waste financial field; 5 years ago began specializing exclusively in Solid Waste government, public sector clients only. His other clients include Sacramento (county), Sacramento (city), San Jose, Citrus Heights, Dunnigan, Pleasanton, Crow Valley, Santa Rosa, and Piedmont.
- b. The presentation reviewed the existing rate model. This is not only done by looking at the year-by-year rate, but looking at an extended amount of time. (FY08 – FY12).
- c. When looking at setting the rates, you must balance three requirements:
 - 1) We make sure *bond coverage requirements* are met;
 - 2) We look at the *reserve balances*. The last UAC agreed the reserve balance should be 45 days; and
 - 3) The most critical piece and hardest to meet... is the balance between residential and commercial to meet the *Proposition 218 requirement*, along with continuing on with some consistent increases.
- d. Proposition 218 passed in 1996 determining cities can not raise fees for a certain service without going to the public, having a public hearing and, asking for a vote. Revenue collected for a utility can only be expended on services necessary to conduct that service.
- e. The Model looks at the residential revenues and expenditures independently of commercial revenues and expenditures plus the development of an equitable reserve; residential. Accounting-wise commercial and residential reserves are mixed but can be easily differentiated. On the commercial side, the City only had one prior rate increase because of the Prop 218 issue providing enough money and reserves.

- f. Capital program – The Fresno Sanitary Landfill, located next to the Sports Complex, was operational from the 1930s to 1987s. When it closed it was required to meet all EPA requirements and must be maintained forever. This is a liability that the Department will always have. There is an EPA project review each quarter. Projects include extraction wells, groundwater clean up, and monitoring of the methane gas. FY10 capital projects are planned for new phases depending on EPA direction. The continued phases occur as needed and may be postponed when we are meeting the EPA requirements as long as the community remains clean and safe. While this is a Federal government mandate, no funding comes from the Federal government.
- g. Ric Hutchinson advised the Biosolids/composting has been taken out of the Model.
- h. In response to Committee member John McCubbin, the short answer is no, you can not tie the waste stream to individual home owners and new development. Yes it is possible, but it is not feasible because there is no way to target specific households and fees associated with it. The City did recover some one-time funding tied to industrial users (paint companies) but this was before the Landfill Closure project.
- i. Deena Monterio asked as we grow as a community and in revenue, does the cost per resident go down or increase? Staff reported the City adds new drivers, routes, trucks and this has become more expensive than 5 years ago. Everyone gets to share in those higher costs. There are some economies of scale but not significantly impacting rate increases.
- j. Impact fees are used to fund costs such as trucks and bins for new development. The Solid Waste operation is labor intensive and not capital intensive so economies of scale are minimal. Every new neighborhood needs a new truck, bins, and drivers to go along with it.
- k. Model assumptions we are using now: a combination of historic costs, the current numbers and best estimates/projections; and our projections are conservative. Right now we are projecting revenue growth at 1.5% for residential, 2% for commercial and there will be adjustments as necessary. The projection is 3% for inflation each year. Debt service is going down. But on the Operations and Maintenance side, some things happened this year that we were not aware of last year – we got a LNG rebate from the EPA and is in the model which will off set a portion of the fuel surcharge.
- l. In response the Committee's inquiry, the surcharge contract was negotiated at the direction of the City Manager's Office. The Committee expressed concerns that a contract is a contract and that this renegotiation may set a precedence; allowing other vendors to come back.
- m. Action Item to provide the UAC members with a copy of the fuel surcharge amendment.
- n. Staff reported there has been a delay in implementation of Solid Waste impact fees used for the development for capital costs associated with new growth to cover the additional carts and trucks. The impact fees would be developer fees if Council passes the item. A method of funding that staff thinks is extremely fair. The City's philosophy is to have growth pay its way; last year the City started with impact fees for streets. DPU was set to move forward with the Solid Waste impact fees this summer, when asked to wait until after Public Works impact fees were addressed. We are now ready to engage in Council discussions regarding Solid Waste impact fees.
- o. Committee member Michael Napoli requested an action item to have the UAC receive a copy of the Solid Waste Impact Fee Council Report.
- p. Another issue is commercial and multi-family bin service. Historically multi-family and commercial service were separate. Awhile back that changed and the same trucks and crews service both; but there is a different rate structure. Now we are locked into approved rates which can not change until 2012. In 2012 we will combine rate structures.

- q. Lon Martin reported the increased service level plan for the median island/street tree maintenance part of the rate model was pulled out at the direction of the City Manager. Lon read a portion of the Council report addressing the issue. Lon reported the City Manager reconfirmed he is not going to change his direction.
- r. Solid Waste also provides funding to Community Sanitation for litter control.
- s. Graffiti removal is funded by the General Fund and it was moved from the Community Sanitation Division to the Police Department because it is considered a crime.
- t. A landscape assessment district is a tax for street tree maintenance; however, Fresno's intercity does not have districts and it would need to go before the voters.
- u. Bob Gedert, Solid Waste Chief of Operations, advised recycling services will be extended to all businesses and multi-families. This is a phase-in project.
- v. Organic collection of food waste and scraps is planned to begin in FY11; this requires capital investment, new routes. New permits for vendors to accept food waste will be needed as well.
- w. Tipping fees related to organics are uncertain and not completely incorporated into the rate model. A professional study with more detail will be done next year to address organic tipping fees and we can't project yet, because we are still doing the research.
- x. Committee member Deena Monterio asked does the City know which recyclables are going in the garbage. The City does have a program that is able to characterize what is going through each transfer station. Plus the transfer station does pull out some recyclables. Solid Waste uses grants to fund such programs. Code Enforcement is currently only looking in the blue recyclables cart. Solid Waste's school education program is being revised and due out soon.
- y. Jackie Grazier distributed Serviceline brochures and stated it is used as an informational tool that goes out in every utility bill. However, multi-families do not receive Serviceline because it goes to the property owners. Multi-families are educated through radio advertisements.
- z. Committee member McCubbin inquired how schools and bus stops recycle. Staff responded saying schools are handled by private haulers/contracts. Bus stops don't have recycle bins.
- A. Committee member Monterio questioned the reason for the spike in FY09 due to bond debt ratio.
- B. Committee members questioned the rationale to having reserves when other departments attempt to redirect the funding sources within the budget. Committee member Napoli questioned if running on the "ragged edge" would be a better way to strategize. Lon advised for an operation like the Parks Department or Street Maintenance Division, perhaps so; however, not for the Utilities Department because it's a matter of health and safety for the customers and community. He advised Rate Model Scenario 2 uses the industrial standard of having reserves provides stability ensuring public safety.
- C. The previous 2006 Utility Advisory Commission learned the City Manager's philosophy for using reserves was quite different from the recommended industry standard. Directing staff to draw down their reserves.
- D. Sharon Schilling reported staff's recommendations did not make it past the City Manager and that Councilmembers were not informed of the different scenarios.
- E. Lon advised keeping your Councilmember informed of the meeting discussions will be helpful in getting future recommendations accepted.
- F. Facilitator Sarah Rubin summarized the two rate increase scenarios and asked to hear where committee members were currently leaning towards.

**RECAP/SUMMARY OF RECOMMENDATION TO:
Increase solid waste rates and which rate model to be used:**

Scenario #1 – FY09 – 12%; FY10 – 4.5%; FY11 – 3.4%; FY12 – 6%
Scenario #2 – FY09 – 16.7%; FY10 – 4.4%; FY11 3.3%, FY12 – 3%

<i>Committee members:</i>	<i>Scenario:</i>	<i>Comments:</i>
Sharon Schilling	2	Favors a low reserve. Recommends the UAC go on record as not supporting using DPU funds for the homeless project as explained by Lon Martin.
John McCubbin	undecided	Learning toward Scenario 2 because more money is better but would like Scenario 2 with a 60 day reserve.
Arthur Reker	2	No comment.
Deena Monteiro	1	Stated both scenarios end results are the same; however, let us go a little softer. She is concerned about the sharp FY09 rate adjustment.
Michael Napoli	undecided	On the fence; leaning toward #1; would support rate adjustments that do not exceed an indexed rate.
Allan Schroeder	undecided	leaning toward #1; like Michael, interested in it being tied to Consumer Price Index/ Go, find, and make it acceptable.

G. Chair Schilling responded to the discussion saying the former 2006 UAC questioned the heavy usage of overtime in the Solid Waste Division as well; saying staff satisfactorily explained the usage. Committee member Deena Monteiro opined the cost of living, tied to wages and salaries are not adjusting at the same rate; this is a bad time for the economy and not a good time to be raising rates. Late payment penalty fees are managed by the Finance Department. Committee member John McCubbin inquired how much is the annual income from these collected fees.

3. Unfinished and New Business

What’s Next:

- a. Consensus of the Committee was to hold an additional meeting to look over Solid Waste expenses and learn about the reason for overtime being so high; along with the basis for the 45 day reserve.
- b. It was noted the rates in early years are being driven by bond debt ratio and building reserves. The debt is from the Landfill closure.
- c. In response to Committee member McCubbin’s inquiry about how the 45 day reserve was derived; staff advised the former 2006 UAC made a policy decision that they have the lowest reserve. Committee member McCubbin requested this be an action item to summarize how the reserve policy was derived. Staff stated that a prudent reserve pays

for the frequent unforeseen expenses allowing softer rate adjustments. It also allows the utility to act swiftly with new regulations avoiding fines and the impact to health and safety of the customers.

- d. It was reiterated the UAC wishes to review the contract issue regarding the fuel surcharge.
- e. Committee member Napoli requested copies of the fuel surcharge contract and amendment.
- f. Committee member Schroeder commented the \$277,000 surcharge for fuel is small in the scope of a \$50 million operation and expressed an interest in looking at other controllable expenses.
- g. Facilitator Rubin asked does the group want to come to consensus in support of impact fees? – which would mean 5 out of 7 Committee members would need to say they are comfortable in moving forward with a certain decision.
- h. Committee member Monterio reiterated she needs more justification and detail on what makes up the debt ratio spike in FY09.
- j. Robert Weakley, Chief of Solid Waste Operations, cautioned in regard to the fuel surcharge, going out again to bid could be opening up “Pandora’s Box” in order to absorb this hit in high fuel prices.
- k. Committee member John McCubbin asked how the Model accommodates climate change, examples Iran and gas prices. How do we look ahead to project fees, saying every year you will need to make an adjustment? Staff estimates a cost inflation rate of 3% annually.
- l. In response to the Committee, staff advised there is a Senior Citizen rate that customers may take advantage of. The recent rate increases and last year’s UAC recommendations have called attention to this. Lifeline discounts are more of a challenge due to Prop 218. It is an equity issue - reduced rates would mean reduced service. Studies have proven that lifeline rates are not equitable requiring no-utility revenue to implement. Therefore, the Lifeline discount does not meet the Prop 218 requirements. However, the City is looking at a holistic approach and is considering having the General Fund pay for the discount service.
- m. There was discussion and consensus that an additional meeting was necessary to cover the above next steps. The next meeting was scheduled for Wednesday, January 30, 6pm to finish the Solid Waste issues.

4. Public Comments

- a. Jackie Grazier, JSA, commented according to the Six-Month Report of Beverage Container Recycling & Significant Carbon Reductions, California’s beverage container recycling rate rose six percentage points, to 71 percent, from January-June 2007. By recycling billions of aluminum cans, glass and plastic bottles during that time, Californians decreased greenhouse gas emissions equivalent to removing 230,000 passenger cars from the roadways for a year.

Meeting adjourned.