

MEMORANDUM

To: Jason Smisko and Jill Fosselman, City of Santa Clarita
From: Laith Ezzet and Lisa Keating, Hilton Farnkopf & Hobson
Regarding: Volume Based Rate Strategy and Other Billing Options
Date: October 17, 2002

The following memo describes:

- Three alternative residential rate structures
- Advantages and disadvantages of volume based rate structures
- Background information from the "Unit Pricing Study for the City of Santa Clarita," prepared by Skumatz Economic Research Associates, Inc. in 1997.
- A recommended billing method and timing considerations

CURRENT RATE STRUCTURE

The current residential rate structure is as follows:

<u>Service Level</u>	<u>Monthly Charge</u>
1. One 90-gallon cart for refuse, one 34-gallon recycling container, one 64-gallon cart for yard waste	\$22.13
2. Level 1, plus one additional 90-gallon refuse cart	\$32.25
3. Level 1, plus two additional 90-gallon refuse cart	\$41.96
4. Level 1, plus three additional 90-gallon refuse cart	\$52.07
Additional green waste carts	\$ 1.50
10% discount for seniors	

RATE STRUCTURE ALTERNATIVES

The following are three residential rate structure alternatives that the City may consider. The specific rates are used for example purposes only, and the actual rates proposed may be significantly different.

1. Flat Monthly Rate

A flat monthly rate may be charged to all residents, regardless of the size or number of refuse containers used. For example, all residents may be charged \$26 per month for unlimited refuse, recycling and green waste collection.

2. Base Rate Plus Incremental Charge for Additional Refuse Carts

Residents may be charged a fixed monthly rate for a basic service level, such as one 90-gallon refuse cart plus unlimited recyclables and green waste collection. An incremental charge may be added to this base rate for each additional refuse cart. For example, residents may pay \$22 per month for one refuse cart and an additional \$10 per month for each additional refuse cart. This billing method is similar to the current billing method.

3. Volume Based Rates

Residents may be charged different rates based on both the number and the size of their refuse carts. Recyclables and green waste carts would be provided at no charge. For example, customers may pay \$24 for each 90-gallon refuse cart, \$20 for each 64-gallon refuse cart, or \$16 for each 35-gallon refuse cart.

ADVANTAGES AND DISADVANTAGES OF VOLUME BASED RATE STRUCTURES

Advantages of Volume Based Rates

1. Encourages Recycling

Residents have an incentive to fully utilize their recycling and green waste carts to avoid paying for a larger, or an additional, refuse cart. Diversion rates may therefore increase.

2. Improved Public Perception

Customers that generate very little waste may view the volume based system as more "fair."

Disadvantages of Volume Based Rates

1. Cart Inventory Costs

Multiple cart sizes increase container inventory costs, as a number of each size cart will need to be maintained. Cart sizes may be exchanged more frequently for different sizes.

2. Rate Increases for Many Customers

Proposers may assume that the majority of customers will downsize their container size and set rates accordingly, leading to higher proposed rates. As estimated in the Skumatz study (see below), customers with 60- or 90-gallon carts could see their rates increase.

3. Proposer Uncertainty

Because the number of customers that will select each cart size cannot be precisely estimated in advance, it makes it difficult for proposers to accurately determine their costs, and may result in higher rates.

SKUMATZ UNIT PRICING STUDY

In 1997, the City commissioned a study called the “Unit Pricing Study for the City of Santa Clarita,” prepared by Skumatz Economic Research Associates, Inc. to examine whether a volume based residential rate system is feasible for the City. For the purpose of the Skumatz study, volume based rates were assumed to be: one 30-gallon cart at \$14.75; one 60-gallon cart at \$23.55; or, one 90-gallon cart at 32.40. The study estimated that 65% of the residential customers would pay higher rates, including 25% of the residents paying 40% higher rates.

The study also indicated that the majority of the customers filled their containers less than three-quarters full; many residents could use smaller carts without increasing their recycling. Though residents may be satisfied to pay only slightly more for the smaller cart, a goal of volume based rates is to change recycling behavior and increase diversion.

Based on the rate span above, the study assumed that the volume based rates would increase recycling by five to six percentage points, increase green waste diversion by three to five percentage points, and lead to source reduction of three to six percentage points. The total reduction in landfilled tonnage anticipated from implementing the volume based rate structure was 11% to 17%. At the time of this study, curbside recyclables collection was once every two weeks. This collection is now every week. Additional recyclables collections, combined with a larger recyclables container and unlimited green waste collection, may capture much of this diversion increase without volume based rates.

The study concluded that the volume-based program may add 3% to overall residential collection costs. In the context of the programs in place in 1997, this strategy was a low cost method of achieving additional diversion.

RECOMMENDATIONS

Rate Structure

The recommended rate structure and billing method includes the following components.

1. Basic Service Rate

Residents would pay a fixed rate for a basic service level that includes one 90-gallon refuse cart and as many recyclables and green waste carts as the resident would regularly use.

2. Incremental Extra Refuse Cart Rate

Residents would pay an extra \$10 per cart for each additional refuse cart.

3. Discount Rate

Senior citizens and low-income residents (as determined by Lifeline phone service) may receive a 15% discount from the Basic Service Rate.

This rate structure is similar to the current one, in which customers pay approximately \$10 per month for additional refuse carts. The customers are currently provided one green waste cart at no charge. Additional green waste carts are charged at \$1.50 per month. Under the new agreement additional green waste carts would be provided at no charge. Additionally, under the new agreement, larger, wheeled recycling carts will be provided. We recommend using 90-gallon carts as the default size for refuse, recycling and green waste collection for uniformity and to accommodate generators with large quantities of recyclables.

Timing Considerations

We recommend that the City reserve in its residential franchise agreement the right to transition to a volume based rate structure in the future. Two reasons for waiting until the new contract is in place before implementation are listed below:

Change in Recyclables Tonnage

Larger, wheeled recycling containers, improved public education and unlimited green waste collection will be provided under the new residential contract. Implementing a volume based rate structure, trying to estimate cart distribution and corresponding rates, based on data collected before the new programs go into effect would be difficult and possibly increase costs. After the new recycling programs have been implemented, the City and the residential hauler will have accurate data regarding how much material is being recycled versus disposed, and be better able to estimate cart distributions and actual collection costs.

Pilot Program

The City may arrange with the new residential collector to conduct a pilot volume based rate program. Volume based rates would be implemented in a

portion of the City, and cart distribution, tonnage data and public opinion would be carefully tracked and recorded. This would enable the City to determine if City residents will recycle significantly more under the volume based system, and what residents' cart size preferences tend to be. The program's affect on collection costs and the diversion rate can be measured to assess the financial or environmental benefit prior to program implementation.

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