



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 9, 2012

IBA Report Number: 12-46

City Council Docket Date: November 13, 2012

Item Number: 335

Environmental Service Department's Five-Year Financial Outlook

OVERVIEW

The Environmental Services Department is tasked with managing the City's solid waste system which includes multiple operations such as landfill operations, recycling programs, and refuse collection services. To dedicate specific revenues for certain operations, the City established two major enterprise funds: the Refuse Disposal Fund, which is primarily funded through tipping fees to support the City's disposal activities including the operation of the Miramar Landfill; and the Recycling Fund, which is funded through AB939 fees to support the City's Integrated Waste Management Plan. In 1989, the State passed Assembly Bill 939 to mandate solid waste diversion goals. Also the City's General Fund supports the City's refuse collection services to eligible residents.

On April 28, 2009, the City Council approved several rate increases to protect the financial solvency of the Refuse Disposal and Recycling Enterprise Funds. The approved rates became effective on July 1, 2009 and were the last approved rate increases for these enterprise funds. Since the approval of these rate increases, it has been a goal of ESD and a recommendation from the Office of the IBA (IBA Report 10-16) for ESD to develop and present a multi-year financial outlook for the Refuse Disposal and the Recycling Enterprise Funds.

On September 19, 2012, ESD presented their first Five-Year Financial Outlook (the "Outlook") for the Refuse Disposal and Recycling Enterprise Funds to the Natural Resources and Culture (NR&C) Committee (Report to the City Council No. 12-104, dated September 10, 2012). The Outlook covers a forecast period of FY 2014 through FY 2018.

The staff report outlining the Outlook briefly discusses each enterprise fund, provides information related to cost reduction efforts already implemented, and provides recommendations to further enhance the financial stability of each fund, including scenarios related to potential rates adjustments.

The recommendations presented in the Outlook include Council approval for increasing the standard Miramar Landfill disposal fee for weighted loads by \$3.00, effective July 1, 2014, as well as automatic annual rate adjustments based upon the Consumer Price Index (CPI). These fee increases would support the Refuse Disposal Fund. Additionally Council approval is recommended for automatic annual rate increases for the AB939 fee beginning July 1, 2015 (based on the CPI). These fee increases would support the Recycling Fund.

Other items recommended for Council approval that impact the Refuse Disposal Fund include the following:

- De-appropriating \$5 million in the Refusal Disposal CIP Fund in FY 2013, as a result of a re-evaluation of short-term capital needs;
- Establishing market rates fees for clean fill dirt and Construction and Demolition Inert residue effective July 1, 2013;
- Adjusting Greenery disposal fees to more fully and accurately recover Greenery processing costs effective July 1, 2013; and
- Eliminating fee exemptions for Non-Profits effective July 1, 2013.

Other items recommended for Council approval that impact the Recycling Fund include the following:

- Adjustment to the methodology for applying the AB939 Fee from tons collected to tons disposed effective July 1, 2013;
- Charging for replacement recycling containers effective July 1, 2013; and
- Eliminating fee exemptions for Non-Profits effective July 1, 2013.

On September 19, 2012, the NR&C Committee voted to forward this item to the full City Council without a recommendation and requested the IBA to review the financial information provided by staff. Additionally, departmental staff was requested to provide a financial analysis of adjusting the AB939 Fee methodology and implementing the clean fill disposal fee adjustment effective on January 1, 2013 as compared to the recommended July 1, 2013 effective date; to address the potential operational impact of the de-appropriation of \$5 million from the Refuse Disposal CIP Fund; to provide additional analysis on the elimination of the Non-Profit fee exemptions; and to provide a cost recovery analysis for the Automated Container Fee. The remainder of this report addresses these requests.

FISCAL/POLICY DISCUSSION

The Outlook was developed to assess the financial health of the Refuse Disposal and Recycling Funds. The IBA conducted an extensive review of the financial forecast and several key components of the Outlook.

In reviewing the assumptions used for future growth rates, ESD coordinated their inflation rates for specific items such as personnel, contracts, and energy expenditures to match those used by the Financial Management Department in the City's General Fund's Five-Year Outlook to ensure consistency within City projections. For certain revenue projections, the future inflation rates were based on an average of several indexes, including UCLA's Anderson Economic Report.

The IBA was provided projected Revenue and Expense Statements for FY 2014 through FY 2018 for the Refuse Disposal and Recycling Funds. These statements included projected beginning fund balances, revenues, expenditures, reserves and ending fund balances. Additionally, information from the City's SAP system was provided for additional support. Inquiries about the completeness and reasonableness about specific revenue and expenditures projections were satisfactorily addressed by ESD staff.

A \$3.00 fee increase to the standard Miramar Landfill disposal fee for weighted loads effective July 1, 2014 for the Refuse Disposal Fund has been recommended by ESD staff. Additionally ESD has recommended an automatic annual rate adjustments based upon the Consumer Price Index (CPI) for both the Refuse Disposal and Recycling Funds. This automatic adjustment would create consistency with the current rate structure for ESD's Flat Rate Tipping Fees and is consistent with annual adjustments within the waste hauler industry. Implementing the disposal fee increase and the automatic annual rate adjustments will provide rate certainty for the City's Franchised Refuse Haulers who have voiced support for these actions.

Based upon our review of the Refuse Disposal and Recycling Fund forecasts, the disposal fee increase and automatic annual rate adjustments for both funds appear reasonable. However, unfolding economic conditions and other factors may change the projections in the future.

As ESD staff is proposing to bring forward to City Council annually an updated Outlook for the Refuse Disposal and the Recycling Funds in conjunction with the City's General Fund Five-Year Outlook, the City Council will have an opportunity to annually review the projected fund balances and impact of the proposed rate adjustments. During this annual review and during the annual budget review, should the City Council consider the fund balances excessive or deficient to either of the Funds, the City Council does have the option of providing ESD staff direction to make appropriate adjustments.

Additional NR&C Requests

Advancing the effective date of certain recommended actions

At the request of waste haulers representatives, NR&C requested ESD staff to review the potential of advancing the effective date, from July 1, 2013 to January 1, 2013, of the

following adjustments: the adjustment to the methodology for applying the AB 939 Fee from tons collected to tons disposed; and establishing market rates fees for clean fill dirt and Construction and Demolition Inert residue. Staff provided their response to this additional analysis, including projected fund balances for the Refuse Disposal and Recycling Funds, in the memo “*Additional Financial Analysis Requested from 9/19/2012 NR&C Committee Meeting, Item #7*”, dated October 22, 2012. Staff does not oppose this action and anticipates the ability to accommodate this request should the City Council approve a change in the implementation date from July 1, 2013 to January 1, 2013.

De-appropriation of \$5 million from the Refuse Disposal CIP Fund

In response to an NR&C concern related to the de-appropriation of \$5 million from the Refuse Disposal CIP Fund in FY 2014, ESD has stated that due to a re-evaluation of their short-term CIP needs only \$10 million of the \$15 million in available CIP fund balance is needed in the near term. The near term needs include \$6 to \$7 million for the anticipated Resource Recovery Center that is addressed in the Long-Term Resource Management Options report (Item 336 on the November 13, 2012 City Council agenda), with the remainder for planning and design work for future projects. This de-appropriation has no negative impact on project delivery.

Eliminating landfill fee exemptions for non-profits

Currently, through Council approved exemptions, nine non-profit organizations receive fee waivers on trash collected within the City and disposed of at Miramar Landfill. Staff is proposing to eliminate these fee waivers. While these organizations contribute to recycling objectives and these exemptions provide an economic benefit to the non-profit organizations, these waivers result in lost revenue for ESD. The waived fees totaled approximately \$319,000 in FY 2010, \$325,000 in FY 2011, and \$256,000 in FY 2012.

Continuing to subsidize non-profit waste with enterprise fund revenues raises the issue of whether this is a proper use of funds. Allowing for free service to some customers is inconsistent with the operation of other enterprise funds such as Development Services and Public Utilities. If Council wishes to continue the non-profit waste exemption, the better practice would be to fund these exemptions from the General Fund. The General Fund could reimburse the Refuse Disposal Fund for the fees related to the non-profit waivers. An example of this type of reimbursement was the General Fund reimbursing the Development Services Enterprise Fund for Demolition and Building Permit Fees for those impacted by the 2003 wildfires.

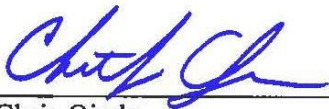
Charging for recycling containers

As the City does not currently charge for replacement of recycling or greenery containers, this would provide cost recovery for such containers. A cost breakdown was provided in the memo “*Additional Financial Analysis Requested from 9/19/2012 NR&C Committee Meeting, Item #7*”, dated October 22, 2012.

CONCLUSION

On September 19, 2012, ESD staff presented its Outlook for the Refuse Disposal and Recycling Funds to the NR&C Committee. As requested, the IBA conducted a review of the financial forecasts in ESD's Outlook. Based upon our review of the Refuse Disposal and Recycling Fund forecasts, the disposal fee increase, automatic annual rate adjustments and other recommended actions for both funds appear reasonable. However, unfolding economic conditions and other factors may change the projections in the future.


As ESD staff is proposing to bring forward to City Council annually an updated Outlook for the Refuse Disposal and the Recycling Funds in conjunction with the City's General Fund Five-Year Outlook, the City Council will have an opportunity to annually review the projected fund balances and impact of the proposed rate adjustments. During this annual review and during the annual budget review, should the City Council consider the fund balances excessive or deficient to either of the Funds, the City Council does have the option of providing ESD staff direction to make appropriate adjustments.



Chris Ojeda
Fiscal & Policy Analyst



Lisa Byrne
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin
Independent Budget Analyst