



Interoffice Memorandum

BCC Mtg. Date: Jun. 28, 2016

June 13, 2016

TO: Mayor Teresa Jacobs
and Board of County Commissioners

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

**SUBJECT: BCC AGENDA ITEM - Discussion Agenda
June 28, 2016 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 15 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 three components: Hauler Compensation, Disposal Costs, and Program Administration Costs.

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. The compensation to the franchisees for calendar year 2017 will be as follows:

ZONE 1	\$119.37	PER RESIDENTIAL UNIT,
ZONE 2	\$152.13	PER RESIDENTIAL UNIT,
ZONE 3	\$130.09	PER RESIDENTIAL UNIT,
ZONE 4	\$109.79	PER RESIDENTIAL UNIT,
ZONE 5	\$111.94	PER RESIDENTIAL UNIT.

The system average for the 2017 hauler compensation component is \$124.73 and is recommended by staff. This is a \$0.63 or 0.5% decrease from the 2016 hauler collection component of \$125.36 per household.

Disposal Costs

The disposal component of the MSBU represents the cost for disposing of the residential solid waste material. The disposal component of the MSBU is calculated at \$44.47 per household for 2017. This represents \$0.78 or 1.8% increase from the 2016 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 2017 Program Administration costs increased 52.7%, from \$8.63 to \$13.18, for an increase of \$4.55 per household.

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

MSBU Rate Recommendation

The total cost of the program for 2017 is \$191.21 per household. While the program cost is projected to increase, staff recommends the projected cost of the program for 2017 remain unchanged at \$200 per household.

ACTION REQUESTED:

Approval to establish the haulers compensation rates as listed and set the MSBU at \$200 for Program Year 2017 and authorization to include the Tentative Mandatory Refuse Collection Rate of \$200 on the 2016 Notice of Proposed Taxes.

All Districts.



Interoffice Memorandum

May 10, 2016

To: James Becker, Manager
Solid Waste Division

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

Subject: **Calendar Year 2017 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 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 2017 and our MSBU rate recommendation for calendar year 2017.

Analysis – Calendar Year 2017

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.

Utilizing the Consumer Price Index methodology established in the contract, a decrease of 0.73% has been calculated for calendar year 2017 as compared to the calendar year 2016 collection compensation. After applying this decrease to each of the 5 zones and projecting customer growth for 2017, the average system cost for collection decreases to \$124.73 per household. This represents a \$0.63, or 0.5%, decrease from the 2016 hauler collection compensation component of \$125.36.

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



2017 MSBU Rate Recommendation

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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 2017 based on actual experience for the tonnage per household received over the past seven years.

Using this method, the 2017 average waste generation rate for Class I garbage is 1.09 tons per household and 0.27 tons per household for yardwaste. Using the current Class I disposal rate of \$33.60 per ton and the current yardwaste rate of \$29.00 per ton, the disposal component is calculated to be \$44.47 for 2017. This represents a \$0.78 or 1.8% increase from the 2016 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 2017, the program administration component calculates at \$13.18 per household, which is a \$4.55 or 52.7% increase from the 2016 administration component of \$8.63.

This increase is the result of two factors. First, the amount of rejected loads of recyclables has increased. As you know, automated collection is new to our customers, and as part of the transition there have been issues as to what types of items are to be placed in the recycling carts. A greater than normal number of residential loads coming to the recycling facilities have been rejected as they contain more household garbage than standards allow. The transfer of these rejected loads to the proper disposal area is an additional cost to the Program's administration. Second, the contract for the operation of the County's recycling facility will expire in June 2017. As the terms and costs of a replacement contract to process the Program's recyclables is uncertain, contingency funding has been budgeted to cover the likely increased costs the Program will bear beginning in July 2017.

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.

Cost Component Total

The 2016 Program cost on a per-household basis was \$186.51. Due to the increases in the disposal and administration components, which are partially offset by a decrease in the collection component, the projected cost of the program for 2017 is \$191.21 per household. The following table compares the Program cost for 2016 to the projected Program cost for 2017:



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	Current 2016	Projected 2017	2016 to 2017 Variance
Collection	\$125.36	\$124.73	\$(0.63)
Disposal	43.69	44.47	0.78
Administration	8.63	13.18	4.55
Cart	8.83	8.83	0.00
Program Cost Per Customer	\$186.51	\$191.21	\$4.70

Recommendation

While the Program cost is projected to increase, we are recommending that the MSBU rate for the second year of the 10-year contract period remain at \$200.00 per household. This will continue to provide a reduced rate stabilization component to the MSBU rate as follows:

	Current 2016	Projected 2017	2016 to 2017 Variance
Collection	\$125.36	\$124.73	\$(0.63)
Disposal	43.69	44.47	0.78
Administration	8.63	13.18	4.55
Cart	8.83	8.83	0.00
<i>Rate Stabilization</i>	<i>13.49</i>	<i>8.79</i>	<i>(4.70)</i>
MSBU Cost per Customer	\$200.00	\$200.00	\$0.00

In evaluating the existing and projected cash reserves of the program, we have determined that the revenue generated by holding the MSBU rate at this amount will be sufficient to maintain the program's financial viability. The rate stabilization component will provide approximately \$1.9M additional funding in 2017, 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.

- c: Raymond E. Hanson, P.E., Director, Utilities Department
- Teresa Remudo-Fries, P.E., Deputy Director, Utilities Department
- Todd Swingle, P.E., Deputy Director, Utilities Department
- Tim Armstrong, Assistant Director, Utilities Department
- Helaine Zarek, Financial Administrator, Fiscal & Operational Support Division
- Marchelle Allen, Utilities Section Manager, Solid Waste Division
- Michelle Driscoll-Begy, Sr. Financial Analyst, Fiscal & Operational Support Division