

Staff Report

DATE: October 31, 2008

TO: County Council: Meeting as the Board of the Solid Waste Disposal District.

THRU: Pete Rose, County Administrator

FROM: Jon Shannon

FOR MEETING OF: December 2, 2008

ISSUE: Shall solid waste tipping fees be increased to compensate for annual escalation clauses in service contracts and capital expenses necessary to provide the current level of solid waste services.

STAFF RECOMMENDATION: Increase solid waste fees by 5.66%

POLICY DECISIONS: This action involves the following policy decisions:

- 1) As escalation clauses in existing long term contracts increase costs, should the increase be offset by similar annual increases in rates or should rate increases occur less frequently but at a higher rate?
- 2) Should the solid waste program continue planning for replacement of capital facilities through rate increases over the life of the assets or should other revenue sources for replacement and capacity improvement be implemented?
- 3) San Juan County has organized itself as a solid waste disposal district, with the governing body (County Council) sitting as the District Board (RCW 36.58.100). Solid waste rates are set by the Board of the Solid Waste Disposal District.

EXECUTIVE SUMMARY

Operation of the solid waste program depends upon service contracts for disposal, transportation, and recycling. The cost of these services are determined by long term contracts that are linked to a percentage of the consumer price index. These rates have already increased and additional increases are likely again in the 2009 fiscal year.

Solid waste operations also depend upon capital facilities to receive and load materials. As directed by the Council the solid waste program is currently

evaluating the environmental impacts of potential transfer station sites on San Juan Island through the State Environmental Policy Act (SEPA). \$200,000 was budgeted for this activity in 2008 and as of this writing the costs have exceeded \$211,000. The 2009 budget includes \$300,000 to complete the environmental review and begin the design and permitting processes.

Increased expenses that have occurred in 2008 or are anticipated in 2009 include:

- 4.2% increase in Waste Management contract for ground transportation, solid waste disposal and recyclable materials processing.
- 5.6% increase in San Juan Sanitation rates for inter-island and on-site transportation of waste and recyclables.
- Additional funding for capital facilities of \$100,000 above last years budget.

The most recent increase in tipping fees was a 7.3% increase in April 2008. Staff recommends a fee increase of 5.66% beginning in April 2009. This is consistent with the increase in the consumer price index during the past year. The following table compares the proposed 2009 rate to existing rates:

SOLID WASTE FEE SCHEDULE			
Type of Service	Units	Proposed Fee	2008 Fee
Self Haul by weight	Ton	\$294.00	\$278.00
Self Haul per can	Each	\$8.00	\$7.50
Town of Friday Harbor	Ton	\$197.00	\$187.00
San Juan Sanitation	Ton	\$197.00	\$187.00
Garbage by Volume	Cubic yard	\$39.50	\$37.50
Appliances	Each	\$19.00	\$18.00
Refrigeration Unit (Residential)	Each	\$49.00	\$47.00
Oil (over 5 gallons)	Gallon	\$0.13	\$0.12
Household Hazardous Waste	Pound	\$0.05	\$0.05
Household Hazardous Waste	Minimum	\$8.00	\$7.50
CESQG **Waste	5 Gallons	\$22.00	\$21.00
CESQG** Waste	55 gallons	\$237.00	\$225.00
Steel for Recycling	Ton	\$146.00	\$139.00
Minimum Garbage Fee	Trip	\$8.00	\$7.50

BACKGROUND

The Solid Waste Management Division operates as an enterprise fund. All solid waste expenses are met with revenue generated by solid waste services. The County General Fund is not used to support either operations or development of capital facilities to serve solid waste needs. Ninety-five percent of program revenue is generated by tipping fees. The remaining five percent is generated through grants and recycle materials sales. Periodic rate increases are necessary to keep pace with increased costs related to automatic escalators contained in contracts for labor, disposal, transportation and processing of recyclables, garbage and hazardous waste.

The tipping fees support not only garbage service but they support commingled materials recycling, separated commodities recycling, household hazardous waste collection, oil recycling, anti-freeze recycling, litter clean-up, beach clean-up, noxious weed disposal, home composting education and program administration.

Contracts for solid waste services commonly include annual increases that are related to the consumer price index. This is beneficial to both parties because it allows for long term contracts that create a more stable financial environment and reduce risks associated with capital investments that are necessary for transportation, processing and disposal of solid waste.

The solid waste capital fund is supported by the Disposal District Excise Tax which is 10% of the disposal fee. This revenue source provides only enough income to pay for existing debt and a portion of the monitoring cost for the Orcas landfill. Therefore, when replacement or expansion of capital facilities is anticipated the planning, design, and construction is funded through tipping fees transferred to the capital fund.

The solid waste program is in the development phase of replacing the facility on San Juan Island as directed by the Council. There is not enough revenue in the capital fund to pay for this expense. As in past years funds will be transferred from operations to capital in order to cover this cost. The 2009 budget includes \$300,000 for transfer station development. This is an increase of \$100,000 over last years budget. Once a specific site is chosen the Public Facilities grant of \$123,000 will cover a portion of the cost. The remainder will be transferred from the operations fund.

FACTS & FINDINGS

In April of 2002 the County entered into a contract with Waste Management Inc. for transportation, disposal and processing of both solid waste and commingled recyclables. This is the programs single largest expense accounting for 76% of the overall budget and includes an automatic escalation of 75% of the consumer price index for all urban centers. This increase occurs each July and in 2008 it was 4.2%. The current rate is \$73.96 per ton for garbage services and \$33.41 per ton for recycling services.

San Juan Sanitation provides inter-island transportation of waste and recyclables under a contract initiated in October 2004. This contract also includes an annual increase based on the consumer price index for Seattle. This rate increase occurs in October of each year. At this writing the increase is expected to be approximately 5.6%.

Labor expenses for the solid waste program are set through the County contract with the Local 1849. Union negotiations for a 2009 contract have not been concluded.

Ferry fees increased in 2006 and 2007 but there was no ferry fee increase in 2008. In looking ahead to 2009 it seems reasonable to expect an increase, however, no specifics are available that could be used to make a reliable estimate at this time.

The primary source of revenue for the capital fund is the 10% excise tax that is charged by the disposal district. This tax generated \$274,000 in 2007. Bond payments in 2007 were \$261,000 and regulatory monitoring costs for the Orcas landfill monitoring were an additional \$80,900. This creates a shortfall of \$67,900 for just these fixed costs. Similar costs are anticipated in both 2008 and 2009. This shortfall will be addressed as it has in the past by shifting revenue from the operations fund to the capital fund.

The capital improvement issue was discussed in a cost of service analysis conducted in October 2005 by HDR Consultants. Their analysis identified an unfunded capital and depreciation cost of \$167,000 per year. No action has been taken to address this need. In the meantime facilities continue to depreciate, further increasing the liability to the program.

ANALYSIS

The solid waste program is funded primarily through tipping fees for garbage disposal. As costs increase due to increases in the consumer price index, tipping fees need to increase or adjustments in the rate structure or services need to be considered.

Increases in the solid waste budget do not affect the general fund. A portion of the 2009 budget includes support of some staff previously provided through the general fund.

The recommended increase in tipping fees related to contract escalation clauses is part of providing stable reliable services. Increased costs related to depreciation are a part of full cost accounting that is necessary for an enterprise fund with significant assets that need replacement or improved capacity.

Annual increases related to the CPI help to avoid less frequent but larger increases in tipping fees. A long term capital replacement program based on the total assets of the solid waste program can eventually eliminate the need to adjust rates in response to capital needs.

The lack of adequate funding for capital projects has been an issue of concern for the Council, SWAC and staff for some years and was well documented in the cost of service analysis conducted in 2005. The capital fund collects enough revenue to pay obligations on long term debt and a portion of landfill monitoring costs. Revenue from the operations fund has been used to supplement the capital fund. This creates an additional burden on the operations fund that has been met through regular increases in tipping fees.

ALTERNATIVES

The most immediate alternative to an increase in tipping fees is a reduction in the type and/or availability of services.

A longer term option is the development of other funding sources which have been identified in previous reports to the Council. These included: per parcel fee, increased excise tax, ad valorem tax, an administrative fee (gate fee), recycling services fee, annual facility use fee.

Staff can develop these options in more detail at the direction of the County Administrator.

RECOMMENDED MOTION

I MOVE THAT PUBLIC WORKS STAFF DRAFT AN ORDINANCE, FOR THE COUNCIL'S CONSIDERATION, INCREASING TIPPING FEES BY 5.66%.

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