



AGENDA REPORT

Meeting Date: December 8, 2020

Item Number: F-3

To: Honorable Mayor & City Council

From: Shana Epstein, Director of Public Works
Gil Borboa, P.E., Assistant Director of Public Works/Utilities
Colonel J. Burnley, Solid Waste Manager
Melissa Gomez, Management Analyst

Subject: AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO INCREASE SOLID WASTE RATES BEGINNING JULY 1, 2021, AND EACH JULY 1 THEREAFTER THROUGH JULY 1, 2025

Attachments:

1. Ordinance
2. 11/17/2020 Solid Waste Rate Public Hearing Agenda Report

RECOMMENDATION

It is recommended that City Council move to waive the full reading of the ordinance and that the ordinance entitled "AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO INCREASE SOLID WASTE RATES BEGINNING JULY 1, 2021, AND EACH JULY 1 THEREAFTER THROUGH JULY 1, 2025," be introduced and read by title only.

FISCAL IMPACT

There are numerous rate scenarios discussed below which use different levels of reserve funds. Staff is recommending Option 2, which would delay rate implementation by six months to a rate effective date of January 1, 2022. This option will draw down reserves to \$13,726,000 by FY 2025/26, which represents a reserve ratio of 56%. The City has a

long-standing reserve policy to maintain 50% reserve ratio to annual operating budget. There is also a variation of subsidy programs discussed below which would use General Fund monies at different levels, if approved by City Council.

INTRODUCTION

At the November 17, 2020, City Council meeting, City Council discussed the proposed solid waste rate adjustments and requested that staff return with alternative rate scenarios reflecting the following:

1. Alternative rate scenario 1 would delay proposed rate increases by six months, for a January 1, 2022, rate implementation date. All other rate increases would occur on July 1 of each year beginning July 1, 2022, through July 1, 2025.
2. Alternative rate scenario 2 would decrease existing rates by 5% to all customer classes, followed by no rate increases for the next four years. Reserve fund balance would supplement the revenue requirement until reserve funds deplete, possibly augmented by an infusion of funds from the general fund.
3. Alternative rate scenario 3 would not increase rates for five years. Reserve fund balance would supplement the revenue requirement until reserve funds deplete.

Additionally, City Council requested that staff review the proposed Multi-Family Residential (MFR) rate structure for MFR customers with curbside collection.

DISCUSSION

Customer rates are reviewed regularly to ensure there are sufficient revenues to cover expenses and that customers pay the correct charges for the type of service they receive. The City's solid waste rates have remained the same since 2011, despite the addition of State mandated programs for organics processing and several escalations in the price of landfill disposal and recycling processing. The proposed rate adjustments will help address the increasing costs for solid waste operations. Examples of increases include a scheduled 61% rate increase from the City's hauler Athens, material processing costs, organic food waste and yard waste collection and increases to landfill dumping fees. The proposed rate increase will also help address the additional costs for recycling due to the shrinking markets for recyclable commodities. The rates presented at the November 17, 2020, public hearing provided a tempered rate increase schedule moderated by judicious use of reserve funds. It is important to note that the solid waste rate adjustment process began in the fall of 2019, with the goal of ensuring sufficient revenues were available for operations and to gradually adjust rates in an effort to minimize the impact of increasing costs and a looming 61% rate adjustment. Staff understands the impact of the pandemic on residential and commercial customers and has taken this into account as further rate scenarios were developed. This rate adjustment is meant to ensure fiscal responsibility in collecting the appropriate revenue and maintaining adequate reserves for the Solid Waste Enterprise so services can continue to be delivered at a high level.

Alternative Scenario Results

The alternative rate scenarios presented use reserve funds at different levels. Current reserves are \$18,199,000.

Alternative rate scenario 1 delays the implementation of a rate increase by six months from July 1, 2021, to January 1, 2022; the reserves will be approximately \$1 million less in FY 2025/26 compared to the proposed rates (\$13.7 million versus \$14.69 million in FY 2025/26). The reserve ratio will drop to 47% by FY 2024/25, and will recover to 56% by FY 2025/26, which is above the 50% requirement.

Alternative rate scenario 2 would fully deplete reserves sometime in FY 2023/24, and the fund would be (\$22,158,000) in the negative by FY 2025/26.

Alternative rate scenario 3 would fully deplete the reserves sometime in FY 2024/25, and will be (\$18,137,000) in the negative by FY 2025/26. Table 1 below demonstrates the reserve impacts under the proposed rates, alternative rate scenario 1, alternative rate scenario 2 and alternative rate scenario 3.

Table 1: Reserve End of Year Including Investment Earnings

Period	Option 1*		Option 2 Alternative Rate Scenario 1		Alternative Rate Scenario 2		Alternative Rate Scenario 3	
	Proposed Rates from 11/17/20 City Council Meeting with first rate increase on 7/1/21	Reserve Ratio	Delay first rate increase to 1/1/22, all other rate increases to occur on July 1 of each year	Reserve Ratio	Five Percent Decrease to Current Rate on 7/1/21, then no rate increases for four years	Reserve Ratio	No Rate Increases for Five Years	Reserve Ratio
FY 2020/21 Existing Rates	\$18,199,000	109%	\$18,199,000	109%	\$18,199,000	109%	\$18,199,000	109%
FY 2021/22 First Rate Adjustment	\$16,796,000	89%	\$15,898,000	84%	\$14,225,000	75%	\$14,998,000	80%
FY 2022/23 Second Rate Adjustment	\$13,699,000	61%	\$12,784,000	57%	\$6,480,000	29%	\$8,041,000	36%
FY 2023/24 Third Rate Adjustment	\$12,106,000	52%	\$11,173,000	48%	\$(2,138,000)	-9%	\$227,000	1%
FY 2024/25 Fourth Rate Adjustment	\$12,320,000	51%	\$11,370,000	47%	\$(11,670,000)	-49%	\$(8,485,000)	-35%
FY 2025/26 Fifth Rate Adjustment	\$14,693,000	59%	\$13,726,000	56%	\$(22,158,000)	-90%	\$(18,137,000)	-73%

*Option 1 is formerly referred to as Scenario 2 Option B in prior reports.

At the time that the proposed rates were developed, City Council was interested in calculating slightly higher rates in order to maintain reserves at the current City Council reserve ratio target of 50% and the five-year revenue requirement from reserves at \$8.3 million. If the first-rate adjustment were to occur on January 1, 2022, and every July 1 thereafter for four years, rates will need to increase compared to the proposed rates noticed to customers in order to keep reserves above the 50% ratio. City Council can also decide to dip below the 50% reserve ratio in order to avoid the rate increase. It is important to note that if City Council decides to delay rate increases by six months and decides not to use reserves to supplement the revenue shortfall, rates will be higher than the proposed rates. If City Council would like to consider higher rates than the proposed rates noticed to customers, it would require a new Prop 218 notification process, which at a minimum takes two to three months to develop, print and mail.

Multi-Family Residential Rates

City Council also discussed the MFR customer rate structure and the possibility of modifying the rate structure in order to find a different formula for charging MFR customers with curbside collection. It is industry practice to charge MFR customers either a dwelling unit rate or a per container rate based on container size and frequency of collection. In this case, many MFR customers with alley service share containers due to lack of space, which are serviced multiple times per week, therefore there is no reasonable way to charge those customers per container. In addition, the City has historically charged MFR customers a dwelling unit rate. However, MFR customers with curbside collection are the exception since they have individually assigned carts that are collected once per week, but these represent only 7% of the MFR dwelling units. Other methods of calculating solid waste rates include basing rates by square foot of the building floor and lot or by dwelling units square foot, although this is not a typical billing method for MFR accounts. MFR customers with curbside collection and single-family customers receive similar services where each property receives curbside refuse collection once a week. However, single-family rates are charged by square foot of lot size.

Under Option 3 and Option 4 discussed below, which are both derived from the proposed rates, single family, multi-family with alley service and commercial customers maintain the proposed rate structure, however the rate structure for MFR with curbside collection is applied differently. Instead of charging a rate per dwelling unit, rates are calculated by square foot of building floor and lot. Currently, there are approximately 110 MFR customers with curbside collection. Approximately 73 of those MFR customers have properties with three or more units and collectively contain 446 dwelling units, out of a total of 6,130 MFR dwelling units in the City. Applying the single-family regular rate per square foot to these 73 customers will result in rates lower than the proposed MFR dwelling unit rates. The average MFR rate would be approximately 44% lower than the MFR dwelling unit rate in FY 2021/22, and approximately 53% lower in FY 2025/26. If the rate structure is applied to charge MFR customers with curbside service by square foot of building and lot as oppose to by dwelling unit, it would result, on average, in a solid waste bill reduction

to 73 MFR customers, as shown in Table 2A. The estimated range of MFR rates for the first year – FY 2021/22 – is shown in Table 2B. The MFR properties serviced by curbside only receive service one time each week, much like the single-family residential properties. All other MFR properties are serviced two to three times a week. If City Council agrees with this administrative change to the bi-monthly refuse rate for approximately 73 customers, it would result in an estimated five-year total revenue shortfall of approximately \$371,000. This shortfall is included in the reserve amounts listed in Table 4 under Options 3 and 4.

Table 2A: Multi-Family Rate Analysis for Multi-Family Cart Customers with 3 units or more

Category	Bi-monthly Rate				
	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Proposed MF Dwelling Unit Rate	\$42.00	\$48.17	\$55.25	\$63.37	\$72.69
Average Multi-Family Rate at Single-Family Regular Rate per sq. ft. (per unit)	\$23.47	\$25.77	\$28.30	\$31.08	\$34.12
Difference Below Proposed MF Dwelling Unit Rate	(\$18.53)	(\$22.40)	(\$26.95)	(\$32.29)	(\$38.57)

**Table 2B: Multi-Family Rate Analysis for Multi-Family Cart Customers with 3 units or more
Range of Rates for FY 2021/22**

Row	MFR Customer	FY 2021/22 (First-Year Rate Adjustment)		
		Estimated Bi-monthly Rate Using Sq. Ft per Lot and Building Size	Proposed Bi-monthly MFR Rate per Dwelling Unit	Bi-monthly Difference per Unit
1	Low	\$ 8.14	\$ 42.00	\$ (33.86)
2	Average	\$ 23.47	\$ 42.00	\$ (18.53)
3	High	\$ 42.06	\$ 42.00	\$ 0.06

Currently, duplexes are charged individually at the MFR rate. There are a total of 37 duplexes (74 units) with curbside cart service. Using the single-family regular rate per square foot, lot size and building size rate calculation, duplexes would have higher rates than the MFR dwelling unit rate for all five years (FY 2021/22 through FY 2025/26). As shown in Table 3 below, the average duplex rate at the single-family regular rate per square foot would be approximately 35% higher than the MFR dwelling unit rate in FY 2021/22, and approximately 13% higher in FY 2025/26. Therefore, staff recommends duplexes continue to be charged at the MFR dwelling unit rate.

Table 3: Duplex Rate Analysis

Category	Duplex Bi-monthly Rate				
	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Proposed MF Dwelling Unit Rate	\$42.00	\$48.17	\$55.25	\$63.37	\$72.69
Average Duplex Rate at Single-Family Regular Rate per sq. ft. (per unit)	\$56.62	\$62.17	\$68.27	\$74.96	\$82.30
Difference Above Proposed MF Dwelling Unit Rate	\$14.62	\$14.00	\$13.02	\$11.59	\$9.61

Table 4 below demonstrates the reserve impacts under Options 3 and 4.

Table 4: Reserve Amounts at End of Year Including Investment Earnings Under Option 3 and Option 4

Period	Option 1		Option 3		Option 4	
	Proposed Rates from 11/17/20 City Council Meeting, First Rate increase on 7/1/21	Reserve Ratio	Proposed rates as noticed with first rate increase on 7/1/21, and administrative rate change for Multi-Family Cart Customers	Reserve Ratio	Delay first rate increase to 1/1/22, with administrative rate change for Multi-Family Cart Customers	Reserve Ratio
FY 2020/21 Existing Rates	\$18,199,000	109%	\$18,199,000	109%	\$18,199,000	109%
FY 2021/22 First Rate Adjustment	\$16,796,000	89%	\$16,746,000	89%	\$15,872,000	84%
FY 2022/23 Second Rate Adjustment	\$13,699,000	61%	\$13,587,000	60%	\$12,697,000	56%
FY 2023/24 Third Rate Adjustment	\$12,106,000	52%	\$11,919,000	51%	\$11,012,000	47%
FY 2024/25 Fourth Rate Adjustment	\$12,320,000	51%	\$12,042,000	50%	\$11,119,000	46%
FY 2025/26 Fifth Rate Adjustment	\$14,693,000	59%	\$14,306,000	58%	\$13,366,000	54%

Rate Subsidy Program

There are numerous ways to address the negative economic impacts of COVID-19. One way is by the implementation of a Pandemic Relief Fund using funds from the General Fund. This program will assist qualifying MFR customers by offering a subsidy for the rate increase on their refuse bill. This program would offer assistance for the difference between the current refuse bill and the increased refuse bill once adjusted rates take effect. As an example, current bi-monthly rate for MFR customers per dwelling unit is \$36.62 and the proposed first-year rate adjustment is \$42.00. The Pandemic Relief Fund would subsidize the difference, which amounts to \$5.38 every two months. The criteria used to evaluate a customer’s eligibility will be aligned with the current Rent Stabilization rent subsidy program. It is anticipated that a total of \$399,000 is needed from the General Fund to fund the Pandemic Relief Fund for a total of three years, if the rate effective date occurs on January 1, 2022. If the rate effective date occurs on July 1, 2021, \$431,000 will be needed from the General Fund to fund the assistance program. Please note the total funds needed for the program assumes that 15% of MFR customers (including alley maintenance service) would qualify for the subsidy. Any funds not utilized in the program will be returned to the General Fund. The duration of the program will be determined by the duration of the pandemic and its economic impacts on customers.

Public Works Liaison

At the December 2, 2020, Public Works Liaison (Liaison) meeting, Staff presented the alternative rate scenarios and their impacts on reserves, the proposed administrative change to rates for MFR customers with curbside collection and the Pandemic Relief Fund. The direction given by the Liaison were as follows:

1. Approve rate increase with a delayed implementation of the proposed rate adjustments to January 1, 2022. The benefits of this proposal is all customers are granted reprieve during these tumultuous times with no impact to the General Fund. In addition, if the City Council requests more analysis on the MFR rate structure, staff and consultants will have time to assess. (Correlates with Option 2 on Page 9 of this report.)
2. Implement proposed rate adjustments on July 1, 2021 and implement a bill subsidy program where the General Fund covers the difference between the existing rate and the proposed rate for all MFR and Commercial customers for the first year. (Correlates with Option 1b on Page 9 of this report.)

Establishing a one-year subsidy program for MFR and Commercial customers would require an estimated \$1,289,000 from the General Fund, as outlined in Table 5.

Table 5: Estimated Subsidy from General Fund for First-Year Rate Adjustment

Sector	Annual Revenue Requirement		
	FY 2020/21 (Under Existing Rates)	FY 2021/22 (First Rate Adjustment)	Difference (Subsidy from General Fund)
Multi-Family Residential	\$ 1,347,000	\$ 1,545,000	\$ 198,000
Commercial	\$ 7,730,000	\$ 8,549,000	\$ 819,000
Alley Maintenance	<u>\$ 1,218,000</u>	<u>\$ 1,490,000</u>	<u>\$ 272,000</u>
Subtotal (MFR, Commercial, and Alley Maintenance)	\$ 10,295,000	\$ 11,584,000	\$ 1,289,000

Both rate scenarios listed above are a form of subsidy to MFR and Commercial customers, however, the disadvantage with subsidizing the rate increase for the first year is that customers will feel the impact of rate increases following the second rate implementation, which they will be required to pay in full. For example, a MFR customer will go from paying a bi-monthly rate of \$36.62 to \$48.17 by the second rate implementation, as opposed to paying the first rate adjustment of \$42.00, as shown in Table 6 below. The tempered five-

year rate increase schedule was established to soften the impact of these rate adjustments.

Table 6: Estimated Customer Rate Adjustments

Period	Customer Rate				
	Residential Single-Family for 11,000 sq. ft. lot (Bi-monthly)	Residential Multi-Family per Dwelling Unit (Bi-monthly)	Residential Multi-family for 9-Unit Building (Bi-monthly)	Residential Alley Refuse Fee per Dwelling Unit (Bi-monthly)	Commercial 3 CY Bin 1x Week (Monthly)
Existing Rates	\$114.40	\$36.62	\$329.58	\$21.76	\$115.80
Rate Increase Effective 7/1/2021 (1)	\$125.62	\$42.00	\$378.00	\$26.61	\$128.07
Rate Increase Effective 7/1/2022	\$137.94	\$48.17	\$433.53	\$32.54	\$141.65
Difference between 7/1/2021 Rate Increase to Existing Rates	\$11.22	\$5.38	\$48.42	\$4.85	\$12.27
Difference between 7/1/2022 Rate Increase to Existing Rates	\$23.54	\$11.55	\$103.95	\$10.78	\$25.85

Analysis & Recommendation

After determining reserve balances for the alternative rate scenarios requested by City Council listed earlier in this report, staff determined that depleting reserve funds is not in the best interest of the City, therefore Alternative Scenario 2 and 3 are not proposed as options below. Staff proposes that City Council consider one of the following options in moving forward with the solid waste rate adoption:

Option 1: Approve proposed rates that were presented to City Council on November 17, 2020, which provides for rate increases beginning July 1, 2021, and annually thereafter through FY 2025/26.

Option 1b: Approve proposed rates that were presented to City Council on November 17, 2020, which provides for rate increases beginning July 1, 2021, and annually thereafter through FY 2025/26 and implement a bill subsidy program where the General Fund covers the difference between the existing rate and the proposed rate for MFR and Commercial customers for the first year.

Option 2: Approve delaying proposed rate increases by six months, for a January 1, 2022, rate implementation date. All other rate increases would occur July 1 of each year beginning July 1, 2022 through FY 2025/26.

Option 3: Approve the proposed rates as noticed and make an administrative change to approximately 73 MFR accounts with curbside collection service to be charged at the residential single-family refuse rate per square foot multiplied by the sum of the lot size and building size, with an effective date of July 1, 2021. All other rate increases would occur July 1 of each year through FY 2025/26.

Option 4: Approve the proposed rates as noticed and make an administrative change to approximately 73 MFR accounts with curbside collection service to be charged at the residential single-family refuse rate per square foot multiplied by the sum of the lot size and building size, with an effective date of January 1, 2022. All other rate increases would occur July 1 of each year beginning July 1, 2022 through FY 2025/26.

Staff recommends the following:

1. City Council adopt option 4, which would approve the proposed rates as noticed and make an administrative change to approximately 73 MFR accounts with curbside collection service to be charged at the residential single-family refuse rate per square foot multiplied by the sum of the lot size and building size, with an effective date of January 1, 2022. All other rate increases would occur July 1 of each year beginning July 1, 2022 through FY 2025/26.

Shana Epstein,
Director of Public Works

Approved By