

Are your rates correct?

Collection and disposal rate studies are a valuable tool

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At last week's city commission meeting, the mayor and several River City commissioners grilled you on the city's rising costs of providing solid waste collection service. Why wasn't the city able to track its costs more closely? Were costs in line with similar cities providing the same service? Both you and the solid waste director did your best to deflect these pointed questions, but the truth was that Mary in River City's public works accounting division had a difficult time gathering specific answers to these questions when the city manager and the finance director asked them during last year's budget process.

At your request, Mary had queried other cities to gather rate information and posted a request on the public works and solid waste association's online bulletin boards. What benchmarking information she downloaded was limited at best and even looked misleading to you. Some cities had unionized collectors, others had high solid waste disposal costs, while still others had complex rate structures that wouldn't make sense for your city's customer base.

Getting solutions to a solid waste system's financial woes was a task well beyond River City's level of experience. Your decision: Hire an outside expert who could make sense of current solid waste operations and existing rates and also help develop a long-term financial model that could address replacement of an aging collection fleet.

This scenario is all too typical for solid waste agencies across the nation. Many are finding themselves increasingly at a financial crossroads. Pressure from ratepayers has caused public agencies to scrutinize their costs of providing essential public services like waste collection and landfill operations. Demands from the public to keep local government "lean and mean" often prevents municipalities like the hypothetical River City from raising solid waste rates even in the face of skyrocketing costs for critical items such as fuel, maintenance, and medical insurance. At the same time, intense competition from private sector vendors continues in many areas. Consequently, there is always a threat by political decision-makers to consider privatization as a means of lowering the cost of municipal solid waste services.

What a Study Will Accomplish

Given the current business climate in the public sector, a "cost of service" or "rate study" will help focus on the critical financial and management issues facing a public works or solid waste agency. Most importantly, a well-planned and detailed rate analysis can be used to measure the



Photo: Marc Rogoff

The city of Dunedin, Fla., operates a solid waste collection system using automated and semi-automated vehicles. A rate study was completed in 2005 to evaluate long-term vehicle replacement funding needs.

revenues needed to provide the desired levels of service, while also helping establish fair, equitable, stable, and defensible solid waste user rates.

A thorough analysis of existing operations also will enable your department or agency to determine whether to re-examine existing service levels, collection technology, maintenance practices, fleet replacement strategy and financing, or work rules. Further, an experienced rate analyst can provide useful guidance on how to benchmark an agency's operations against similar operations, either nationally or regionally.



Photo: SCS Engineers

Many municipal solid waste programs now incorporate some form of residential recycling. The type of curbside collection system, the processing equipment used to separate the recyclables, and the market purchase prices received affect ratepayers and must be reflected in the cost of service study.

Evaluation of possible budget cost savings and revenue enhancements is a key function of a cost of service or rate study. Political decision-makers are increasingly asking public sector agencies to do more with less. Rather than reduce operating budgets by a flat across-the-board cut, a better strategy is to look for real economies by relaxing outdated civil service rules or policies that increase an agency's overall cost of operations.

For example, many agencies are looking for creative ways to reduce fleet maintenance costs, such as requesting price concessions from their municipal fleet managers or directly outsourcing these services to private vendors on a bid basis. Another area to look for cost savings is in recyclables collection. Many communities are finding single-stream recycling collection more economical than traditional curb-sort programs. Further, some municipalities are eliminating outdated personnel rules and redefining work policies to enable gain-sharing and pay-for-performance bonuses for work exceeding a set annual goal.

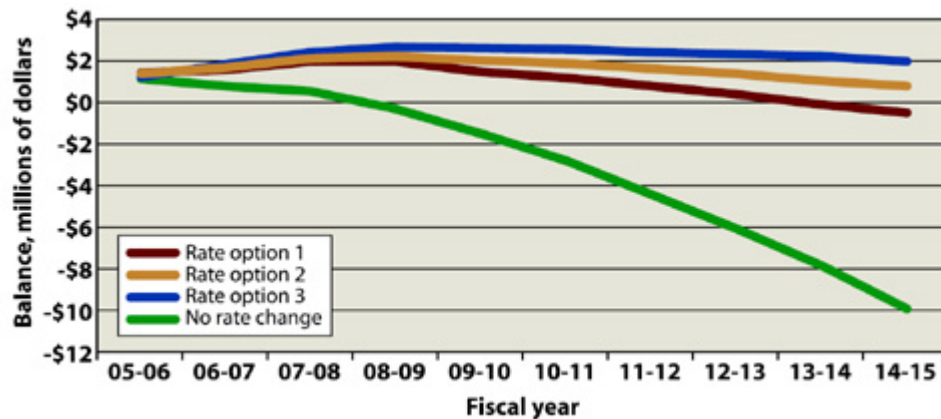
On the revenue side, some agencies are being empowered by their political decision-makers to function like private businesses, looking for ways to expand their level of service and increase their revenue base. Some strategies include providing collection services to neighboring jurisdictions at rates above those charged to agency customers; developing a commercial roll-off business; and soliciting advertising to be placed on solid waste collection vehicles.

Designing a Rate Study

A solid waste system rate study typically starts with the following major work elements:

- Clearly defined goals and objectives for the cost of service and rate study
- Evaluation of the agency's operating budget through examination of each budget line item and assumptions of future operating conditions and costs
- Completion of a revenue sufficiency analysis that identifies the amount, timing, and financing source for required capital investments noted in the agency's long-term capital improvements plan
- Analysis of the current customer rate structures and development of alternative recommendations on rate modifications.

With powerful financial spreadsheet programs, which are available today for the PC, various “what if” scenarios can then be constructed to quickly determine the overall impact of alternative customer rates on the long-term financial outlook of the solid waste system. Some rate models can seamlessly integrate agency staff factors into the rate modeling process and allow powerful graphical representations of key financial indicators for decision-making.



Source: Marc Rogoff

Graphical representations of user rate impacts are useful to communicate trends to the decision-makers and the public. Rate studies have become a valuable tool in evaluating an agency's long-term infrastructure funding needs and getting a handle on budget costs and required revenues from customers.

Changes in levels of service and customer rates are traditionally subjects that politicians are not eager to discuss, particularly in election years. All of the recent national surveys of public works suggest that these facilities have been historically underfunded. However, you as a professional manager, while recognizing political realities in your community, have a responsibility to the public to manage solid waste services in the most efficient and equitable manner, considering long-term funding needs for facility closure and post closure care and fleet replacements.

Consequently, a cost of service and rate study should be considered an essential tool to help evaluate agency costs, long-term funding needs, and alternative rate structures. As such, it also should be viewed as a method to effectively communicate to political decision-makers and the public reasons for possible rate increases and to identify a strategy for managing the agency's costs and revenues.

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Top 10 key rate study issues

1. Should free service for governmental units and special events be continued, and at what level?
2. How should vehicle replacement be funded? Loans? Bond anticipation notes?
3. Should there be a rate differential for in-city and outside-city service?
4. Should rates provide for senior citizen or disabled customer discounts?
5. Should apartments be charged a per-unit or dumpster rate?
6. Should your agency assess a surcharge for varying levels of service for roll-off collection?
7. How should landfill post closure care be funded?
8. Should you assess private haulers a franchise fee?

9. Should your rate structure include some form of per-unit rate for size of container (“pay-as-you-throw” rates)?

10. Should you establish levels of service and extra fees for bulky and yard waste collection?