



City Council Report

Date: February 8, 2016
To: City Council
Through: John Pombier, Assistant City Manager
From: Scott Bouchie, Environment Management and Sustainability
Department Director
Subject: Ordinance modifying Solid Waste Schedule R3.5 section of the
Schedule of Terms, Rates, Fees, and Charges for City-Owned Solid
Waste Utility Service
Citywide



Strategic Initiatives

Purpose and Recommendation

The purpose of this report is to discuss proposed changes to the Solid Waste Rate Schedule R3.5, Containerized Commercial Solid Waste Service – Bins, of the Schedule of Terms, Rates, Fees, and Charges for City-Owned Solid Waste Utilities. Staff recommends approval of discounted rates for Business and Commercial establishments who enter into a multi-year agreement with the City. On January 21, 2016, the Audit, Finance and Enterprise Committee recommended approval of Staff's recommendation (vote 3-0).

Background/Discussion

Senate Bill 1079

In 2015, Section 49-746 of the Arizona Revised Statutes; Relating to Regulation of Solid Waste was amended to allow a private enterprise to deliver solid waste management services to multifamily residential properties within a municipality (SB 1079). According to SB 1079, a multifamily residential property means any real property that has one or more structures and that contains five or more dwelling units for rent or lease that are subject to Title 33 Chapter 10. Title 33 Chapter 10 pertains to the Residential Landlord and Tenant Act which governs the rental of dwelling units

and the rights and obligations of landlord and tenant. SB 1079 becomes effective June 30, 2016.

Prior to the statutory change, private enterprises are preparing to compete with the City to service multifamily residential properties. In recent months, private enterprises have already increased their efforts to attract commercial customers located near these multifamily residential properties to make this service more advantageous by increasing the density of their customers in Mesa.

In December 2015, Council adopted an Ordinance which amended the City Code definition of Business or Commercial Establishment to include apartments of 5 units or more. This legislation was implemented with the joint efforts of staff from the Environmental Management and Sustainability Department (Department) and the following local municipal solid waste organizations; Casa Grande, Flagstaff, Gilbert, Tempe, and the Arizona League of Cities and Towns.

Ordinance --- Schedule of Terms, Rates, Fees, and Charges R3.5, Containerized Commercial Solid Waste Service – Bins, (“RATE”)

Staff is recommending that the City modify the RATE to allow a discount to be applied to the RATE. The allowable discount to the rate shall be up to two percent (2%) cumulative for each year of the contract, not to exceed a total of six percent (6%) should the Business or Commercial Establishment enter into a three (3) year contract (see Exhibit No. 1). The base rate of the charge can still be adjusted year to year. The discount will be taken from the base rate, whatever it is set at each year. The discount rate shall be applicable during the term of the contract, and a subsequent like term renewal, and shall also be available to Customer's entering a new contract on termination of existing discounted contracts.

In May 2015, the City Council amended the RATE to allow the City to be more competitive. Specifically, these amendments allowed the City to provide Blended Rates and Group Rates to Business and Commercial customers. Blended rates are when a customer has bins of different sizes or when all bins are not serviced on the same days. Blending may reduce a customer's monthly billing, by application of the multiple bin factor to any secondary service. In addition, the Assistant City Manager or designee is authorized to establish a Group rate when one customer (or agent) has multiple service locations. Group rates may reduce the customer's monthly billing as well.

The proposed discount for multiple-year agreements will also help the City to be more competitive. It will provide a more stable customer base for the City and allow for better planning ability by the staff. The discount will also help the City retain existing Business and Commercial Establishments accounts. Both these measures will maintain service route density and, in turn, allow the City to keep its costs per customer lower. Should a customer decide to break the contract before the end of the term, there will be a financial penalty imposed on the customer.

Alternatives/Fiscal Impact

The following is a discussion on the potential outcomes should Council approve or deny the proposed modification to the RATE (as outlined in the attached Ordinance).

Alternative No. 1 --- Adoption of the Ordinance

Should Council adopt the proposed modification to the RATE (as outlined in the attached Ordinance) it will provide the City the ability to offer multiple-year agreements with discounts, a tool that is utilized by the private sector. This tool will help efforts to retain existing and/or create new Business and Commercial Establishments accounts.

There is an estimated 250 existing apartment accounts that will be subject to SB 1079. These accounts currently bring in approximately \$1.5 million in revenue annually. Staff anticipates that the ability to offer this discount rate will also help the City retain these existing accounts.

The staff estimates a total annual revenue of about \$5.0 million which may be subject to multiple-year discounted contracts in the competitive market. This would equal an estimated total annual discount amount of up to \$250,000 to \$300,000.

Alternative No. 2 --- Denial of the Ordinance

Should Council deny the proposed modification to the RATE (as outlined in the attached Ordinance) staff estimates that the City may lose existing accounts. Between the losses of revenue for existing multifamily residential properties accounts and Business and Commercial Establishments accounts, this could eventually amount to a loss of as much as \$5.0 million of annual revenues.

The loss of revenue does not necessarily mean an equal reduction in costs. Staff estimates a reduction of approximately 75 to 85% in costs for every dollar loss in revenue. The remaining costs are primarily due to the loss in density of customers which increase the distance between customers. This will make servicing the accounts less efficient and more costly and may lead to increased service costs to the customers that stay with the City. Staff does not recommend this alternative.

Coordinated With

As noted earlier, staff from the Environmental Management and Sustainability Department have been working with staff from local municipal solid waste organizations; Casa Grande, Flagstaff, Gilbert, Tempe, and the Arizona League of Cities and Towns to coordinate the definition of impacted customers. Staff have also worked with the Office of Management and Budget and the City Attorney's

Office to evaluate the option for discounted multi-year contracts.