



Interoffice Memorandum

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FOR MOTION
JUN 10 2014 NP/BS

May 23, 2014

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 10, 2014 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 15th 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 2015 will be as follows:

ZONE 1	\$189.22	PER RESIDENTIAL UNIT,
ZONE 2	\$182.23	PER RESIDENTIAL UNIT,
ZONE 3	\$189.22	PER RESIDENTIAL UNIT,
ZONE 4	\$181.17	PER RESIDENTIAL UNIT,
ZONE 5	\$186.71	PER RESIDENTIAL UNIT.

The system average for the 2015 hauler compensation component is \$185.76 and is recommended by staff. This is a \$0.98 or 0.53% increase from the 2014 hauler collection component of \$184.78 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 \$40.16 per household for 2015. This represents \$0.15 or 0.37% decrease from the 2014 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 2015 Program Administration costs decreased 4.08%, from \$8.33 to \$7.99, for a decrease of \$0.34 per household.

MSBU Rate Recommendation

The total cost of the program for 2015 is \$233.91 per household. Due to the annual increases in hauler compensation staff recommends the projected cost of the program for 2015 remain unchanged at \$235 per household.

ACTION REQUESTED: Approval to establish the haulers compensation rates as listed and set the MSBU at \$235 for Program Year 2015 and authorization to include the Tentative Mandatory Refuse Collection Rate of \$235 on the 2014 Notice of Proposed Taxes.

All Districts.



Interoffice Memorandum

April 29, 2014

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

James Becker, Manager
Solid Waste Division

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

Subject: **Calendar Year 2015 MSBU Rate Recommendation
Mandatory Refuse & Residential Recycling Program**

As you know, the Orange County Residential Solid Waste and Recyclable Collection Services Term Contract, Y8-139, 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, which funds the Mandatory Refuse & Residential Recycling 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 2015 and our MSBU rate recommendation for calendar year 2015.

Analysis – Calendar Year 2015

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, an increase of 0.54% has been calculated for calendar year 2015 above calendar year 2014 collection compensation. After applying this increase to each of the 5 zones and projecting customer growth for 2015, the average system cost for collection increases to \$185.76 per household. This represents a \$0.98, or 0.53%, increase from the 2014 hauler collection compensation component of \$184.78.



2015 MSBU Rate Recommendation

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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 the waste generation rates vary among the five zones, as determined by each contract for the respective zones. The contracts established waste generation rates for Class I and yardwaste tonnages each year of the 7-year term. However, there has been a decline in the amount of Class I garbage actually generated by each household since the economic downturn. In response to this trend, we have projected the Class I waste generation rate for 2015 based on actual experience for the average tonnage per household received over the past five years.

Using this method, the 2015 average waste generation rate per household for Class I garbage is 1.05 tons per household. Since there was not a corresponding decline in yardwaste tonnage per household, it was appropriate to continue using the yardwaste generation rates established in the contract for each zone. The 2015 average yardwaste generation rate is 0.20 tons per household. 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 \$40.16 for 2015. This represents a \$0.15 or 0.37% decrease from the 2014 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 2015, the program administration component calculates at \$7.99 per household, which is a \$0.34 or 4.08% decrease from the 2014 administration component of \$8.33

Cost Component Total

The 2014 MSBU rate is \$235.00 and has remained unchanged since 2010. Due to the increase in the collection component, which is partially offset by the reduction in the disposal and administration components, the projected cost of the program for 2015 is \$233.91 per household. The following table compares the MSBU cost for 2014 to the projected MSBU cost for 2015:

	Current 2014	Projected 2015	2014 to 2015 Variance
Collection	\$184.78	\$185.76	\$0.98
Disposal	40.31	40.16	(0.15)
Administration	8.33	7.99	(0.34)
MSBU Cost per Customer	\$233.42	\$233.91	\$0.49



2015 MSBU Rate Recommendation

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Recommendation

Because the program costs are projected to increase by only \$0.49 per household, we are recommending that the MSBU rate for the seventh year of the 7-year contract period remain at \$235.00 per household. This will continue to provide a small rate stabilization component to the MSBU rate as follows:

	Current 2014	Projected 2015	2014 to 2015 Variance
Collection	\$184.78	\$185.76	\$0.98
Disposal	40.31	40.16	(0.15)
Administration	8.33	7.99	(0.34)
<i>Rate Stabilization</i>	<i>1.58</i>	<i>1.09</i>	<i>(0.49)</i>
MSBU Cost per Customer	\$235.00	\$235.00	\$0.00

In evaluating the existing and projected cash reserves of the program, we have determined that the revenue generated by setting the MSBU rate at this amount will be sufficient to maintain the program's financial viability. The rate stabilization component will provide approximately \$222K additional funding in 2015, an increase of only 0.5%, and can be reserved to offset future rate increases.

Long Term MSBU Rate Plan

With 2015 being the last calendar year of the current contracts and no firm data regarding the new contracts, the long range forecast maintains the status quo of the current contracts. The recommended MSBU rate is sufficient to cover the projected expenses of the Mandatory Refuse & Recycling Program. It also keeps us in a healthy financial position to face the uncertainty of re-bidding the collection contracts and entering into new contracts by the end of calendar year 2015. However, we anticipate that the program costs associated with the new contracts will materially change and result in corresponding changes to our MSBU recommendation for 2016 and beyond.

If you have, any questions regarding this recommendation, please feel free to contact me.

c: Ron Nielsen, Deputy Director, Utilities Department
Marchelle Allen, Utilities Section Manager, Solid Waste Division
Helaine Zarek, Financial Administrator, Fiscal & Operational Support Division
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