

DATE ISSUED: June 12, 2002

REPORT NO. 02-141

ATTENTION: Honorable Mayor and City Council
Docket of June 17, 2002

SUBJECT: Solid Waste System Financing

SUMMARY

Issues – What actions should the City Council take regarding solid waste system financing for Fiscal Year 2003?

Manager's Recommendations –

1. Increase the Non-Exclusive Solid Waste Collector Franchise Fee by \$1.00 per ton to \$10.00 per ton for Class I and \$11.00 per ton for Class II franchised haulers.
2. Ratify the Fiscal Year 2003 Disposal Fee Schedule for the Miramar Landfill which includes a \$1.00 increase in the Standard Disposal Fee for waste generated in the City to \$27.00 per ton, establishes a Standard Disposal Fee for non-City waste of \$31 per ton, and revises flat rate fees for smaller, non-franchised vehicles hauling waste which originated outside of the City.
3. Authorize the City Manager to adjust disposal fees for non-City waste to match posted rates for other landfills in the San Diego region.

Other Recommendations - None.

Fiscal Impact – Increasing the Franchise Fee by \$1.00 per ton will increase General Fund revenue by approximately \$600,000 in FY 2003 and \$800,000 in subsequent years since Franchise Fees are paid quarterly in arrears. The \$1.00 per ton increase in the Standard Disposal Fee for City waste, the \$5.00 per ton

increase in Standard Disposal Fee for non-City waste and the increase in the flat rate fee for pickup trucks and sedans hauling non-City waste will increase Disposal Enterprise Fund revenues by approximately \$250,000 to \$400,000 per year depending on the tonnages of non-City waste diverted to other disposal facilities. There will be no increased cost to the General Fund by these actions.

BACKGROUND

The City of San Diego's solid waste system manages over almost one and one-half million tons of wastes and recyclables per year and contributes to San Diego's quality of life and environment by ensuring the environmentally sound disposal of wastes generated in the City. The system is funded primarily from disposal fees collected at the Miramar Landfill, AB 939 fees to support recycling and waste diversion and General Fund monies for residential refuse collection and other support functions.

The Solid Waste Collector Franchise Fee of \$10.00 per ton has not been increased since it was established in October 1996. Under Municipal Code Section 66.0118, and each individual franchise agreement, the amount and manner of payment of the Franchise Fee may be modified at any time by a resolution of the City Council. Under Municipal Code Section 66.01, the City Manager shall periodically establish a schedule of disposal fees which shall be ratified by a resolution of the City Council. The current disposal fee schedule for the Miramar Landfill became effective in August 1998.

Franchise Fee and Refuse Collector Business Tax revenue, currently \$9.7 million per year, is unrestricted revenue for the General Fund with no monies earmarked for waste management projects or programs.

DISCUSSION

Since the passage of the People's Ordinance in May 1919, the City has provided or managed the collection, transportation, transfer, recycling and/or disposal of solid wastes generated in the City of San Diego to protect and enhance the health, safety, general welfare and quality of life of San Diego's residents. The cost of providing this integrated and comprehensive waste management system is supported from a combination of funding sources including the General Fund (38%), Refuse Disposal Fund (36%) and the Recycling Fund (26%). These funds in turn receive revenues from fees and charges designed to recover the full and complete costs associated with providing, operating and administering the City's waste management facilities and systems.

In 1996, the City established a non-exclusive solid waste collection franchise system to regulate private companies providing residential and commercial solid waste collection, transportation and transfer services in the City. In September 2000, the franchise system was modified to provide two classes of solid waste collection franchises. Class I franchises are for smaller companies that collect less than 75,000 tons of waste per year. There are eleven Class I franchisees. Class II franchises are for large companies and affiliates that collectively handle more than 75,000 tons of waste per year. There are

three Class II franchisees, Allied Waste Industries, EDCO Disposal Corporation and Waste Management that collect 90% of the city's multi-family and commercial waste tonnages. Because of the difference in value between the two classes of franchises, Class I franchisees pay a Franchise Fee of \$9.00 per ton and Class II franchisees pay a Franchise Fee of \$10.00 per ton.

In establishing fees and charges to support the operation and administration of its waste management facilities and systems, the City has set a high priority on maintaining the stability and predictability of those fees and charges on a multi-year basis. Since July 1994, the total cost of all applicable fees and charges (disposal fee, recycling fee, franchise fee and Refuse Collector Business Tax) to dispose of a ton of waste in the Miramar Landfill has remained at \$43.00 per ton or less. In the eight years since that rate was established, individual fees have been adjusted several times and the total cost per ton for disposal at the Miramar Landfill has been reduced to \$41.00 per ton or less. The flat rate fee for pickup trucks and passenger vehicles at the Miramar Landfill has remained at the same rate of \$10.00 for pickup trucks and \$4.00 for passenger vehicles since July 1991.

Current Fee Schedule

The current solid waste and recycling fees charged by the City are:

Standard Disposal Fee	\$26.00 per ton
Government/Franchised Hauler Disposal Fee	\$24.00 per ton
Flat Rate Fee for Pickup Trucks	\$10.00 per load
Flat Rate Fee for Passenger Vehicles	\$ 4.00 per load
Class I Solid Waste Collector Franchise Fee	\$ 9.00 per ton
Class II Solid Waste Collector Franchise Fee	\$10.00 per ton
Refuse Collector Business Tax	\$ 8.00 per ton
AB 939 (Recycling) Fee	\$ 7.00 per ton

Each load of waste collected in the City of San Diego is assessed some combination of the fees listed above; however, no combination of fees and charges exceeds a total of \$41.00 per ton. In addition, some loads are charged administrative fees or special handling fees which are added to the standard disposal fees and charges. Many loads are charged at a total rate of less than \$41.00 per ton because of exemptions or discounts that have been adopted such as charitable organization exemptions or disposal fee discounts for long-term put-or-pay waste delivery agreements with guaranteed tonnages.

By comparison, Allied Waste Industries, doing business as San Diego Landfill Systems, has established the following fee schedule for disposal at the Sycamore Canyon Landfill and the Otay Landfill:

Standard Disposal Fee	\$46.00 per ton
Transfer Trailer Loads	\$26.00 per ton
Flat Rate Fee for Pickup Trucks	\$25.00 per load

Flat Rate Fee for Modified Pickup Trucks	\$45.00 per load
Flat Rate Fee for Passenger Vehicles	\$15.00 per load

San Diego Landfill Systems also assesses special handling fees or administrative fees in addition to the standard disposal fees and provides discounts from those fees for long-term waste delivery agreements.

Current Issues

The City has traditionally provided subsidized or discounted disposal fees for self-haul loads of waste generated in the City as a means to reduce illegal dumping. While the flat rate fee charged for pickup trucks and passenger vehicles does not cover the full cost of disposal; the Refuse Disposal Enterprise Fund, which pays for the clean up of illegal dumps, benefits from the discounted fees because it is more cost effective to manage self haul loads at the landfill rather than having to clean up illegal dumps with City crews and then haul the materials to the landfill for disposal. Additionally, by encouraging residents and small businesses, eligible to receive City refuse collection services, to self haul wastes to the Miramar Landfill rather than having the waste picked up by a City collection crew, the General Fund “saves” \$84 for each ton of waste self hauled to the Miramar Landfill.

However, the City does not receive the same benefit from self haul loads generated outside the City and taken to the Miramar Landfill for disposal. With the significantly lower disposal fees for pickup trucks and passenger vehicles at the Miramar Landfill, compared to the fees charged at the private Sycamore Canyon Landfill, the number of non-City self haul vehicles using Miramar Landfill has increased dramatically. This has created two problems. First, these vehicles receive a discounted disposal fee without providing the City with an offsetting benefit. Secondly, self haul vehicles take significantly longer to process at the fee booth, three to four minutes each, compared to 30 seconds for City and franchise hauler collection vehicles with bar coding and ticket less processing. As a result of the increased number of non-city self haul vehicles using the Miramar Landfill, waiting times for City and franchise hauler collection vehicles has increased and productivity has been reduced.

The primary purpose of the Miramar Landfill is to provide environmentally sound disposal for waste generated by City of San Diego residents and businesses as envisioned by the People’s Ordinance of 1919. No other city in San Diego County hosts a waste disposal facility to manage the waste generated in its jurisdiction. Currently, two of the three landfill disposal facilities serving the region are located within the City and manage 76% of the region’s waste disposal tonnage.

The significant influx of non-City self-haul waste is impacting the ability of the Miramar Landfill to perform its primary mission. Therefore, it is recommended that non-City waste pay the full and complete cost of disposal and be charged “market” rates to reduce the movement of such wastes to Miramar Landfill simply to pay a lower disposal fee. It is also recommended that the City Manager be authorized to adjust the disposal fees for

non-City waste during the year to match any changes in posted disposal fees at the Sycamore Canyon Landfill and the Otay Landfill so that it will not be economically advantageous for non-City self haul waste to be taken to the Miramar Landfill for disposal.

Proposed FY 2003 Franchise Fee Rates and Disposal Fee Schedule

1. Franchise Fees. Both the Municipal Code and the individual franchise agreements authorize Franchise Fees to be modified in the amount and method of payment during the term of the agreements by a resolution of the City Council. Under most franchise agreements, franchise fees are established as a percentage of the hauler's gross revenues. Using this method, revenue to the agency granting the franchise is increased automatically as the business grows and/or as rates to the customers are increased. Based on negotiations between the City and the private haulers, San Diego's Franchise Fee was established as a specific number of dollars per ton and does not increase as a result of increased rates charged to customers. Therefore, it is appropriate for the City to periodically adjust the flat rate Franchise Fee. The Franchise Agreements for the City's three Class II franchised haulers are scheduled to be considered for renewal this summer, so the timing is appropriate to adjust the per ton Franchise Fee due to the City.

It is recommended that the Franchise Fee be increased by \$1.00 to \$10.00 per ton for Class I franchisees and to \$11.00 per ton for Class II franchisees. That will increase Franchise Fee revenue to the General Fund by \$800,000 per year. However, since Franchise Fees are paid quarterly in arrears, the General Fund will receive only \$600,000 in additional revenue in FY 2003 and the full \$800,000 per year in subsequent fiscal years.

2. Disposal Fee Schedule. It is recommended that the FY 2003 Disposal Fee Schedule for the Miramar Landfill, Attachment 1, be ratified with the new fees effective thirty days after ratification or July 15, 2002, whichever is earlier. Changes to the fee schedule are limited to the Standard Disposal Fee and Flat Rate Fees for self haul vehicles. The Standard Disposal Fee for non-franchised haulers of waste generated in the City is set at a rate \$2.00 per ton higher than the Disposal Fee for franchised haulers so the total cost per ton, disposal fee plus franchise fee or Refuse Collector Business Tax plus the AB 939 (Recycling) fee, is the same amount. Therefore, it is recommended that the Standard Disposal Fee also be increased by \$1.00 to \$27.00 per ton to maintain the same total fee for franchised and non-franchised haulers.

In order to address the problems caused by increased numbers of non-City self haul vehicles using the Miramar Landfill and to have City self haul loads pay a fair share of the actual disposal costs, it is recommended that a Standard Disposal Fee of \$31.00 per ton be established and that the Flat Rate Disposal Fee Schedule be amended as follows:

PROPOSED FY 2003 FLAT RATE DISPOSAL FEE SCHEDULE

Fee Description	Current Fee	Proposed Fee
CITY		
Pickup Truck	\$10.00 each	\$10.00 each
Trailer 8'Lx5'Wx3'H	\$10.00 each	\$10.00 each
Modified Pickup Truck	Weighed	\$30.00 each*
Passenger Vehicle	\$4.00 each	\$4.00 each
NON-CITY		
Pickup Truck	\$10.00 each	\$25.00 each
Trailer 8'Lx5'Wx3'H	\$10.00 each	\$25.00 each
Modified Pickup Truck	Weighed	\$45.00 each
Passenger Vehicle	\$4.00 each	\$15.00 each

Note: * Modified pickup trucks with a tare weight registered will be charged by weight.

No changes to the regulations for the use of City of San Diego waste disposal facilities or to the Special Handling Fees or Administrative Fees are being recommended.

ALTERNATIVES

1. Increase Franchise Fees only for Class II franchises which manage 90% of the multifamily residential and commercial wastes in the City. If the Franchise Fee was increased by \$1.00, General Fund revenue would be increased by approximately \$550,000 in FY 2003 and \$736,000 per year in subsequent years. If the Franchise Fee were increased by \$2.00, General Fund revenue would be increased by approximately \$1,100,000 in FY 2003 and \$1,500,000 in subsequent years. In order to maintain the same total cost of disposal for both franchised haulers and non-franchised haulers, the Standard Disposal Fee would need to be increased in the same amount as the Franchise Fee is increased.
2. Increase Franchise Fees for both Class I and Class II franchises by \$2.00 per ton. This would generate \$1,200,000 of additional General Revenue in FY 2003 and \$1,600,000 per year in subsequent years. The Standard Disposal Fee would also need to be raised by \$2.00 per ton to \$28.00.
3. Establish a two tier discount structure for self haul waste generated in the City of San Diego to provide incentives to shift self haul loads from week days to week ends. In the two tier system, week day rates would be: pickup trucks \$15.00 each, trailers \$15.00 each, modified pickup trucks \$30.00 each and passenger vehicles \$10.00 each and week end rates would be: pickup trucks \$10.00 each, trailers \$10.00 each, modified pickup trucks \$20.00 each and passenger vehicles \$4.00 each.
4. Retain Franchise Fees and/or Disposal Fees at current levels.

5. Do not accept non-City wastes at the Miramar Landfill except under existing contractual agreements. This is not recommended for FY 2003, but should be considered if the proposed measures are not successful in managing non-City tonnages.

Respectfully submitted,

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Assistant Environmental Services Director

Richard L. Hays
Environmental Services Director

Approved: George I. Loveland
Senior Deputy City Manager

LOVELAND/HAYS/EPLER

Attachment: [1. FY 2003 Disposal Fee Schedule – Miramar Landfill](#)