

DATE ISSUED: September 14, 2005

REPORT NO. 05-191

ATTENTION: Natural Resources and Culture Committee
Agenda of September 21, 2005

SUBJECT: Automated Refuse and Recycling Container Costs

SUMMARY

Issue - As an interim measure, to address the funding shortfall created by the elimination of the annual General Fund allocation and additionally requested funding in the FY 2006 Final Budget, should the City Council authorize the City Manager to do the following:

- 1) Establish and impose a short-term, automated refuse container, cost recovery fee schedule, effective December 1, 2005 and remaining in effect until a long-term replacement plan for the over 500,000 automated containers in use is developed and implemented, for (a) new service requests, (b) replacement of non-serviceable containers no longer under warranty, (c) replacement of lost/stolen containers, and (d) non-warranty container repairs, pending a comprehensive review of the automated container program, with all fee revenue to be deposited in the Container Replacement Fund;
- 2) Establish and impose a cost recovery fee for all automated container delivery services;
- 3) Direct the City Manager to issue a Waste Management Regulation revising the automated container program to provide for these fees; and
- 4) Authorize the City Manager or his designee to review rates in conjunction with price fluctuations and make adjustments as needed in accordance with Council Policy 100-05?

Manager's Recommendations - As an interim measure;

- 1) Establish and impose a short-term, automated refuse container, cost recovery fee schedule, effective December 1, 2005 and remaining in effect until a long-term replacement plan for the over 500,000 automated containers in use is developed and implemented, for (a) new service requests, (b) replacement of non-serviceable containers no longer under warranty, (c) replacement of lost/stolen containers, and (d) non-warranty container repairs, pending a comprehensive review of the automated container program, with all fee revenue to be deposited in the Container Replacement Fund;

- 2) Establish and impose a cost recovery fee for container delivery services;
- 3) Direct the City Manager to issue a Waste Management Regulation revising the automated container program to provide for these fees; and
- 4) Authorize the City Manager or his designee to review rates in conjunction with price fluctuations and make adjustments as needed in accordance with Council Policy 100-05.

Other Recommendations - None

Fiscal Impact - It is anticipated that this approach will generate approximately 50% (due to mid-year implementation) of the originally requested \$220,000 FY 2006 General Fund allocation related to automated refuse containers; thereby allowing the City to continue to provide this service to residents until other options are evaluated and implemented. In addition, this approach allows the City to bridge short-term automated refuse container replacement issue with the longer-term need for city wide replacement of over 500,000 10-year-old automated refuse and recyclables containers reaching end of life. Ten-year lease purchase cost estimates for city wide replacement of all automated refuse and recyclables containers total \$25 to \$30 million. Recent crude oil price increases may impact resin costs and automated container prices would increase as well.

BACKGROUND

The People's Ordinance of 1919, codified as Section 66.0127 of the San Diego Municipal Code, provides that "Residential Refuse shall be collected, transported and disposed of by the City at least once each week and there shall be no City fee imposed or charged for this service by City forces." Certain small businesses also receive City refuse collection services. In order to be eligible for City collection services, residential and small business refuse must be placed at the curb line of a public street or alleyway on the designated collection day before 7 a.m. in an approved container.

Historically, from 1919 through 1994, it was the responsibility of residents and small businesses receiving City collection services to provide, maintain, repair and replace the containers used for storage and collection of refuse. Additionally, Municipal Code Section 66.0126 requires the person responsible for a residential unit or business location to provide adequate containers to contain the amount of refuse generated during the intervals between collection services.

In 1995, to ease the transition to automated refuse and recycling collection from manual collection, the City chose to provide uniform automated collection containers to residences and small businesses without a charge. This choice was made to ensure all containers would be fully compatible with the new automated and semi-automated collection systems and able to withstand the heavy industrial use.

The Environmental Services Department currently provides automated refuse collection services to approximately 320,000 residential and small business customers, and automated recyclables collection services to about 276,000 customers citywide.

Automated refuse container costs presently are paid by the General Fund; automated recyclables container costs are funded by the Recycling (Enterprise) Fund. To date, one automated refuse collection container and one automated recyclables container have been furnished at no cost to each City-serviced customer by the City. The cost of providing the initial automated refuse collection container to residential and small business customers was funded by a combination of operational cost savings achieved with the conversion from manual to automated refuse collection in FY 1994 and through a multi-year lease purchase program. Additional automated refuse collection containers have been provided to customers upon request for a \$50.00 non-refundable user fee per additional container. To encourage recycling, the initial and additional recyclables containers have been provided at no charge and are funded by the Recycling (Enterprise) Fund. Automated recyclables collection containers provided to customers were partially funded by a grant from the California Department of Conservation with the remainder of the cost funded by the City's Recycling Fund through a multi-year lease purchase plan. Cost of delivery of refuse containers was included in the initial \$50 user fee and has never been adjusted; the delivery charge for recycling containers has been \$25.00.

Because of the dynamic nature of the system, with customers and containers constantly being added or removed, the number of containers in service can only be broadly estimated. Latest data indicates that there are approximately 310,000 automated refuse cans, 237,000 automated recycling containers and 2,700 automated greenery cans in the field.

DISCUSSION

The significant portion of the City's automated collection container inventory is now approaching the end of its expected life span and some containers have been in use beyond the 10-year manufacturer's warranty period. Additionally, as the collection fleet and the automated containers have aged, the number of containers damaged or destroyed annually during the collection process has increased significantly. In FY 2005, about 2% of refuse container replacements were for carts out of warranty. It is anticipated that this number may rise to 60% in FY 2006, for automated refuse containers alone, and will increase rapidly thereafter as containers reach their end of life estimates. As a result, a significant increase in automated refuse container costs is expected to begin this fiscal year.

Previous to the FY 2006 Proposed Budget, in addition to the annual lease purchase payments, additional and replacement automated refuse collection containers have been purchased as a regularly budgeted General Fund expense item with an annual budget allocation of \$120,000. However, it is important to note that this annual allocation has not met the total funding need; therefore, it has also been necessary to purchase additional containers over budget, as an unfunded expense, to provide containers to new customers and to replace lost, stolen, damaged and destroyed containers. Further exacerbating the situation is the need to keep up with population growth without corresponding increases in annual funding. These over budget requirements have been met through a combination of revenue brought in by container sales and by diverting monies from other General Fund operational areas where possible.

In an attempt to keep up with growing demand and the anticipated increase in container failure rates, \$220,000 was requested but not funded in the FY 2006 General Fund budget. Given this action and the fact that San Diego's General Fund is not able to continue providing automated refuse containers at no charge, it is necessary to develop an alternate funding vehicle.

Therefore, it is recommended that beginning on December 1, 2005 a cost-recovery fee of approximately \$50.00 per **refuse** container be put in place for all new service requests and non-warranty replacements, and that a cost-recovery fee schedule be developed and implemented for non-warranty repairs on all automated refuse containers. In order to support waste diversion efforts, automated recycling containers, as well as repairs to automated recycling containers, would continue to be provided at no charge. However, random checks would be made of accounts showing unlikely combinations of refuse and recycling containers. For example, a residence with one 32-gallon refuse container and three 96-gallon recycling containers might be subjected to a random inspection.

At this time, it is also necessary for customers to continue to obtain their containers through the City to ensure the durability guaranteed by the City's vendor specifications. (Automated containers differ from manual collection containers because they are constructed of a heavy duty, durable material specifically designed to withstand the rigors of automated collection. The normal life expectancy of these containers is 10 to 12 years. Containers purchased by the City carry a limited 10-year manufacturer's warranty. In comparison, the majority of manual collection containers are light to medium duty plastic containers with a one to three year expected life span).

In addition, it is recommended that a cost recovery delivery fee of approximately \$30.00 for **all** automated cans be put into place. Customers would still be able to pick up containers at the Miramar Place Operations Center at 8353 Miramar Place and avoid the \$30.00 delivery fee.

This approach will provide at least a temporary alternate funding source to replace the eliminated FY 2006 General Fund portion of this program.

Longer-Term Funding Issue

In the next year, the City must determine how best to fund the replacement of automated refuse and recyclables containers city wide as the over 500,000 containers currently in the field reach the end of their anticipated lives and warranty coverage expires.

To provide a sense of the potential upcoming financial obligation, the following chart summarizes the \$23 million lease purchase plan utilized for the initial wave of automated containers beginning in FY 1996 for automated refuse containers and FY 2003 for automated recyclables containers. As noted above, it was also necessary to budget additional monies (not reflected on the chart) to provide containers to new customers and to replace lost, stolen, damaged and destroyed containers, as well as to repair containers not covered by warranty and provide container delivery services.

DEBT SERVICE SUMMARY

FISCAL YEAR	REFUSE CONTAINERS (General Fund)	RECYCLING CONTAINERS (Recycling Fund)
96	\$177,155	NA
97	\$628,157	NA
98	\$1,016,781	NA
99	\$1,335,361	NA
00	\$2,047,428	NA
01	\$2,173,354	NA
02	\$2,173,354	NA
03	\$1,734,000	\$1,381,400
04	\$1,544,800	\$1,591,100
05	\$1,156,200	1,591,100
06	\$828,100	\$1,574,500
07	\$308,400	\$1,114,700
08	0	\$871,200
09	0	\$156,900
Totals	\$15,123,090	\$8,280,900

An internal work group is being formed to consider this issue and develop recommendations of how best to meet this larger funding challenge; the process will include input from impacted City residents. It is anticipated that the work group's recommendations will be brought forward to the City Council in the first part of calendar year 2006.

CONCLUSION

Although a seemingly small, incidental part of the solid waste collection system, the comprehensive costs associated with providing over 500,000 automated refuse and recyclables collection containers to the City's customers are significant. The City's General Fund is no longer able to fund the estimated replacement cost of \$15 to \$20 million for automated refuse containers. Additionally, the Recycling (Enterprise) Fund is not currently positioned to fund the estimated replacement cost of \$10 to \$15 million for automated recyclables containers.

A short-term pay-as-you-go approach for costs associated with automated refuse containers and delivery of all automated containers will help the City bridge the time required to develop a longer-term solution through an inclusive work group process.

ALTERNATIVE

1. Continue to provide containers through City funds (General and Recycling) anticipating an FY 2006 fourth-quarter adjustment to meet container funding needs.

Respectfully submitted,

Elmer L. Heap, Jr.
Environmental Services Director

Approved: Richard Mendes
Deputy City Manager

HEAP/LB