



City of Peoria

SOLID WASTE UTILITY RATE UPDATE FINAL REPORT

April 2023

Washington

7525 166th Avenue NE, Ste. D215
Redmond, WA 98052
425.867.1802

Oregon

4000 Kruse Way Pl., Bldg. 1, Ste 220
Lake Oswego, OR 97035
503.841.6543

Colorado

1320 Pearl St, Ste 120
Boulder, CO 80302
719.284.9168

www.fcsgroup.com

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FCS GROUP
Solutions-Oriented Consulting

April 5, 2023

Ben Beutler, Budget Coordinator
City of Peoria, AZ
8401 W. Monroe St.
Peoria, AZ 85345

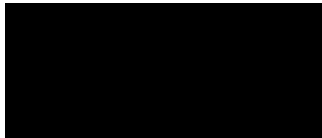
Subject: Final Report for Solid Waste Utility Rate Update

Dear Ben,

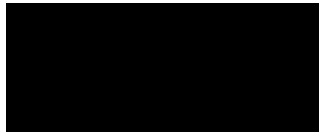
FCS GROUP is pleased to submit this final report of the Solid Waste Utility Rate Update. The report summarizes the methodology, findings, and recommendations for each of the core elements of the update process.

It has been a pleasure working with you and other City of Peoria staff on this effort. Please let me know if you have any questions or need additional information about this report. I can be reached at (425) 615-6056.

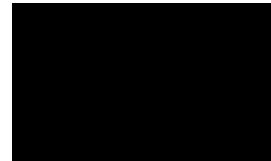
Sincerely,



Jason Mumm
Principal



Matt Hobson
Project Manager



Caleb Hansen
Analyst

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Section I. EXECUTIVE SUMMARY

I.A. STUDY OBJECTIVES

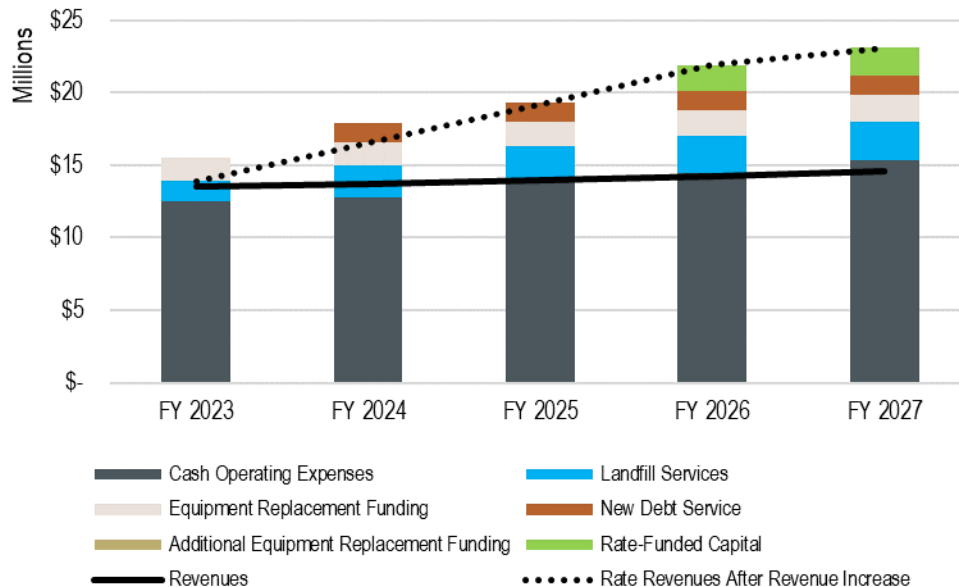
The City contracted with FCS GROUP to complete a rate analysis and update for the residential and commercial solid waste utilities. The purpose of the update was to assess the sufficiency of the rate recommendations from the FY 2019 utility rate study for the four-year rate setting period of FY 2024 to FY 2027. Inflationary pressures from wages, benefits, and other operating costs have outpaced original projections, and, as a result, City staff requested that FCS GROUP evaluate if additional rate adjustments are needed to support the utilities. The results of this study establish a blueprint for achieving strong financial performance in the future while delivering efficient and effective services to the customers. The scope of the project included the following key elements:

- Assess revenue needs for a four-year rate-setting period (FY 2024 to FY 2027) that includes adequate funding for operations and maintenance, debt service, and other program activities.
- Forecast long-term capital needs and incorporate these needs into a long-term funding forecast.
- Develop and recommend rate structures that generate sufficient revenue to meet the utility's financial obligations on a standalone basis.

I.B. RESIDENTIAL SOLID WASTE STUDY RESULTS

Collection, disposal, and capital expenditures are anticipated to outpace revenue at existing rates as well as projected rate adjustments recommended from the FY 2019 rate study. The proposed rate revenue adjustments for the FY 2024 to FY 2027 rate-setting period are 15 percent in FY 2024, 14 percent in FY 2025, 12 percent in FY 2026, and 3 percent in FY 2027. Annual rate adjustments are assumed to be implemented at the beginning of each fiscal year (July). Combined with available financial reserves, these adjustments would generate adequate funding to meet the utility's ongoing expenditures. Financial reserves are projected to decrease below the minimum target (equivalent to 20 percent of annual operating expenses) from FY 2024 to FY 2026. Operating reserves return above the minimum target in FY 2027 and comply with reserve funding policies established by the City's Principles of Sound Financial Management.

Exhibit 1.1
Revenue Requirement Analysis for Residential Solid Waste



The proposed rates for residential solid waste service over the rate-setting period are summarized in **Exhibit 1.2**. The monthly rate for standard residential service (weekly collection for one garbage barrel and one recycling barrel) is projected to increase in FY 2024 from \$17.96 to \$20.65 – a difference of \$2.69 per month.

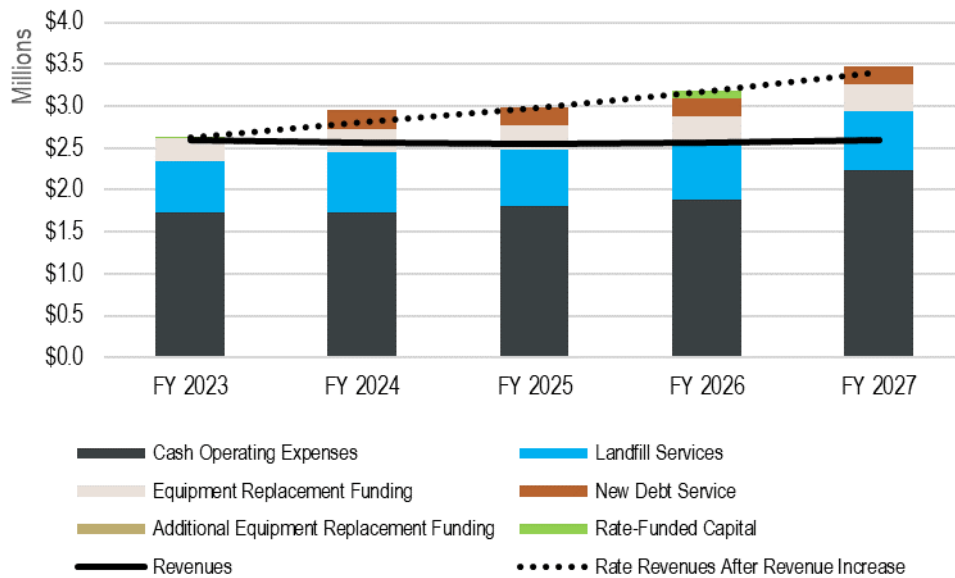
Exhibit 1.2
Proposed Residential Solid Waste Rates

	FY 2023 (Existing)	FY 2024	FY 2025	FY 2026	FY 2027
Standard Service	\$17.96	\$20.65	\$23.55	\$26.36	\$27.15
Change from Prior Year		\$2.69	\$2.90	\$2.81	\$0.79
Percent Change from Prior Year		15%	14%	12%	3%
Additional Refuse Service	\$14.71	\$16.92	\$19.29	\$21.60	\$22.25
Change from Prior Year		\$2.21	\$2.37	\$2.31	\$0.65
Percent Change from Prior Year		15%	14%	12%	3%

I.C. COMMERCIAL SOLID WASTE STUDY RESULTS

Similar to the residential solid waste utility, collection, disposal, and capital expenditures are anticipated to outpace revenue at existing rates as well as projected rate adjustments recommended from the FY 2019 rate study. The proposed revenue adjustments include 7 percent in FY 2024 and FY 2025, followed by 6 percent in FY 2026 and FY 2027. Annual rate adjustments are assumed to be implemented at the beginning of each fiscal year (July). These adjustments would generate adequate funding to meet the utility’s ongoing expenditures and maintain compliance with reserve funding policies established by the City’s Principles of Sound Financial Management (minimum reserve equivalent to 20 percent of annual operating expenditures).

Exhibit 1.3
Revenue Requirement Analysis for Commercial Solid Waste



The proposed rates for commercial solid waste services over the rate-setting period are based on the overall revenue requirements as well as the cost-of-service findings from the FY 2019 rate study. Front-load refuse collection service rates are projected to increase at the level of the overall revenue requirement. Recycling collection service rates are projected to increase at a higher rate than the overall revenue requirement over the next several years to align with the cost to provide service. Annual rate adjustments for this service vary by collection frequency and container size and range from approximately 5 percent to 25 percent. Roll-off service rates are projected to increase by 7 percent in FY 2024 and FY 2025, followed by 6 percent in FY 2026 and FY 2027. A detailed rate schedule for commercial solid waste services is listed in **Exhibit 4.4**.

Section II. RATE SETTING PRINCIPLES AND METHODOLOGY

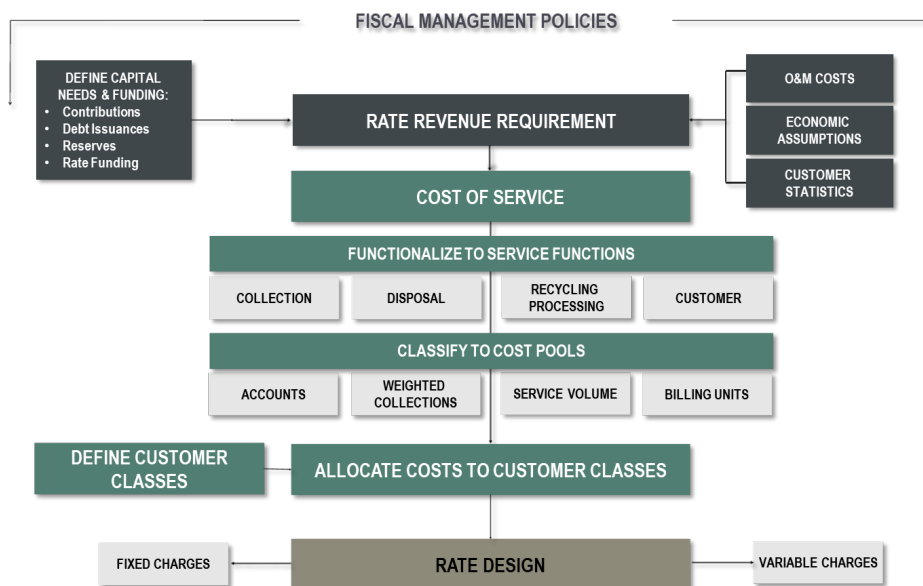
II.A. OVERVIEW

The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that equitably recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to collect those revenues.

The three key analyses typically completed as part of the rate study process are listed below:

- **Revenue Requirement.** This analysis identifies the total revenue requirement to fully fund the residential and commercial solid waste utilities on a standalone basis, considering operating and maintenance expenditures, capital funding needs, and fiscal policy objectives.
- **Cost of Service.** This analysis equitably distributes costs to customer classes based on their proportional demand and use of the system. FCS GROUP did not update the cost-of-service analysis from the FY 2019 rate study as part of this rate update.
- **Rate Design.** This analysis includes the development of rate structures that generate sufficient revenue to meet each system’s revenue requirement forecast and to address the City’s pricing objectives. No new rate design work was completed as part of this update. Results from the revenue requirement analysis were applied “across-the-board” to the FY 2024 to FY 2027 rate schedules. **Exhibit 2.1** illustrates the entire rate study process.

Exhibit 2.1 Overview of the Rate Study Process



II.B. FISCAL POLICIES

The basic framework for evaluating utility revenue needs is founded on a set of fiscal policies. These policies, which can address a variety of topics, including cash management, capital funding strategy, financial performance, and rate equity, are intended to promote long-term financial viability for the City's solid waste utilities. The City's fiscal policies are formalized in its Principles of Sound Financial Management. Topics addressed in the fiscal policy resolution include financial reserves, capital improvement plan management, debt management, revenue sufficiency, and rate equity.

II.B.1. Utility Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. The rate study included the following financial reserves:

- **Operating Reserve** – Operating reserves are designed to provide a liquidity cushion to ensure that adequate cash will be maintained to deal with significant cash balance fluctuations such as seasonal fluctuations in billings and receipts, unanticipated cash expenses, or lower-than-expected revenue collections. The industry standard is to maintain a minimum balance in the operating reserve equal to 30 to 60 days of operations and maintenance (O&M) expenses for a municipal solid waste utility. These, of course, are guidelines, and actual levels should be established based on each jurisdiction's unique needs and tolerance for risk. The current operating reserve target for the solid waste enterprise funds is 20 percent of O&M expenses (equivalent to about 70 days). It is assumed that any operating funds above this target are available for capital projects.
- **Equipment Replacement Reserve** – An equipment replacement reserve is a best practice in municipal fleet management. The reserve is a funding mechanism for future fleet replacement costs. Each solid waste utility is assessed an annual charge that is transferred to an equipment replacement reserve fund. The City accumulates a reserve over the lifecycle of a solid waste vehicle so that funding is available to replace that vehicle at the end of its useful life. The annual transfer from each utility to the Equipment Replacement Reserve is based on the planned lifecycle (in years) of each vehicle, anticipated salvage revenues, and an assumed rate of inflation for the vehicle's replacement. The annual charge for the residential and commercial solid waste funds is \$1.5M and \$0.3M, respectively, in FY 2023. Future contributions to the reserve fund are based on current funding levels adjusted by an assumed rate of cost inflation.

Reserves should fluctuate above and below targets, and such experience does not reflect on the quality of budgeting or management. In fact, if a reserve remains static for extended periods of time without use, this may indicate that it is not set appropriately or is unnecessary. Utility reserves are intended to absorb fluctuation in revenues or expenditures without abrupt rate impacts. As reserve levels vary, a policy structure can define the mechanisms for regulating those levels and returning them to intended targets.

II.B.2. Debt Management

Debt issuance is a valuable tool for the City to use to finance certain costs, as it allows the City to spread a relatively large capital project cost over several years. Debt repayment structures can be quite flexible (e.g., deferred principal repayment), allowing the City to "shape" its cost structure and facilitate a stable progression of moderate rate adjustments. When developing its capital funding

strategy, the City must weigh the pros and cons of issuing debt to pay for a project. Too much debt issuance may limit the City's ability to manage its rates. However, excessive aversion to issuing debt can also create problems, shifting the burden of funding capital investment to existing customers. It is prudent to consider policies related to debt management as part of a broader utility financial policy structure. Common debt management policies may include the level of acceptable outstanding debt, debt repayment terms, bond coverage, and total debt coverage targets.

II.C. REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for the residential and commercial solid waste funds. It also enables the City to set utility rate structures which fully recover the total cost of operating each utility: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable not only sound financial performance for the City's solid waste funds but also establishes a clear and reasonable relationship between the rates imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis establishes the total annual financial obligations of the utility by bringing together the following core elements:

- **Fiscal Policy Analysis.** Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, rate-funded capital, and debt service coverage.
- **Capital Funding Plan.** Defines a strategy for funding each utility's capital improvement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).
- **Operating Forecast.** Identifies future annual non-capital costs associated with the operation, maintenance, and administration of the system.
- **Sufficiency Testing.** Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.
- **Strategy Development.** Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the planning period.

Section III. RESIDENTIAL SOLID WASTE

III.A. INTRODUCTION

The City of Peoria owns and operates the solid waste utility that is responsible for residential and commercial solid waste collection and disposal. The residential solid waste program provides refuse, recycling, bulk trash, and household hazardous waste collection services to approximately 60,000 residential customers within the City's service area. Through its residential solid waste program, the City offers a once-per-week refuse pickup service that collected nearly 69,000 tons of municipal solid waste (MSW) in FY 2022. Weekly recycling collection is also provided to residential customers – City crews collected approximately 16,600 tons of material from the recycling program in FY 2022.

The City operates and maintains a collection fleet of approximately 60 solid waste vehicles. Through multiple intergovernmental agreements and service contracts, the City disposes of waste at the Glendale Landfill, the Waste Management Deer Valley Transfer Station, and the Waste Management Northwest Regional Landfill. Material collected from the recycling program is transported to the City of Phoenix Municipal Recycling Facility (MRF) for sorting, baling, and marketing.

III.B. REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the solid waste utility.

III.B.1. Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the residential solid waste program. The FY 2022 actuals, FY 2023 estimates, and FY 2024 proposed budget formed the baseline for this forecast. A long-term operating forecast was developed for the FY 2025 through FY 2037 time period with the rate study focused on establishing residential solid waste rates for the FY 2024 to FY 2027 rate-setting period. The following list highlights some of the key assumptions used in the development of the residential solid waste program operating forecast.

III.B.1.a Operating Revenue

- **Retail Rate Revenue** was based on actual rate revenue from the City's financial management system for FY 2022. Rate revenue was adjusted by an assumed rate of customer account growth over the forecast period. Growth rates were based on discussions with City staff and aligned with internal building permit forecasting and customer growth assumptions for the water and wastewater utility rate updates. The assumed customer account growth was:
 - » 1.00 percent in FY 2023
 - » 1.15 percent in FY 2024
 - » 2.25 percent in FY 2025 and later

- **Non-Rate Revenue** consists of late fees, new service fees, special haul fees, interest earnings, and other miscellaneous service revenues. Representing only two percent of total utility revenues, these revenues are not expected to see significant changes in the future and were therefore forecast with minimal to no increase. Interest earnings are projected forward based on a 1.50 investment earnings rate and available fund balances for each year.

III.B.1.b O&M Expenses

- **General Cost Inflation** was set at 3.1 percent in FY 2024, 2.4 percent in FY 2025, and then 2.3 percent for the remainder of the forecast based on feedback from City staff and in alignment with internal forecasting practices.
- **Construction Cost Inflation (CCI)** was already included in the construction costs provided by the City; no additional escalation was included.
- **Labor Cost Inflation** was set at 7.0 percent in FY 2024 to FY 2025, then 5.0 percent for the remainder of the study period based on feedback from the City.
- **Benefit Cost Inflation** was set at 5.0 percent for all years in the study period based on feedback from the City.
- **Fuel Cost Inflation** was assumed to remain at current, heightened levels in FY 2025, then increasing by 4.6 percent for the remainder of years in the study period based on the 25-year annualized growth rate of west coast diesel fuel price as reported by the U.S. Energy Information Administration.
- **Equipment Acquisition Inflation** was assumed at 5.0 percent in FY 2024 and FY 2025, then 3.9 percent for the remaining years in the study period.
- **General Fund Service Charge Inflation** was assumed to be 5.0 percent for all years in the study period based on recent experience and internal forecasting practices at the City.
- **Tonnage Growth** was set at 1.10 percent in FY 2024, then increasing to 2.25 percent annually for the remainder of the study, in-line with customer growth forecasts, for all years in the study period.
- **Material Disposal and Processing Cost Inflation:** Cost increases are based on contract terms from existing disposal and recycling processing contracts as well as feedback from City staff.
 - » **City of Glendale Landfill:** Based on the tipping fee schedule in the Intergovernmental Agreement with the City of Glendale. The tipping fee per ton is expected to increase from \$30.00 to \$32.00 per ton in FY 2024, followed by an additional \$2.00 per ton increase in FY 2025. FY 2026 and FY 2027 tipping fee adjustments are based on the assumed rate of general cost inflation.
 - » **Waste Management Transfer & Disposal:** Based on the City's current contract with Waste Management.
 - » The tipping fee at the transfer station is projected to increase from \$35.25 per ton to \$36.66 per ton in FY 2024. The forecast of tipping fees at the transfer station are estimated at \$38.49, \$39.38, and \$40.28 per ton for FY 2025, FY 2026, and FY 2027, respectively.
 - » The tipping fee at the landfill is projected to increase from \$25.25 per ton to \$26.26 per ton in FY 2024. The forecast of tipping fees at the transfer station are estimated at \$27.57, \$28.21, and \$28.86 per ton for FY 2025, FY 2026, and FY 2027, respectively.

- » **City of Phoenix Recycling Processing Fee:** The processing fee per ton is forecasted to increase from \$98.21 to \$116.00 in FY 2024. No additional adjustments are projected to the processing fee through FY 2027.
- » **Average Quarterly Outbound Blended Rate (AQOBR):** Processing fees are offset each month by revenue generated from the sale of recyclable commodities. The value of these commodities is calculated based on the average quarterly outbound blended rate or AQOBR. The AQOBR is defined as the average sales price per ton for all material sorted and sold at the North Gateway MRF during a quarter. The City's processing fee is discounted by the AQOBR each month. For example, the FY 2023 MRF processing fee was \$98.21 per ton, and the AQOBR was \$91.64 per ton, so the City's net processing fee to the City of Phoenix was \$6.57 per ton. If the AQOBR exceeds the processing fee, the City receives 75.00 percent of the AQOBR above the processing fee. The AQOBR is assumed at \$63.00 per ton from FY 2024 to FY 2027.
- **Additional O&M Expenses** - The operating forecast includes new FTEs, non-labor expenses, and collection vehicles to respond to customer account growth. Estimates for new positions and equipment were determined based on new customer accounts over the forecast and existing collection route sizes for garbage and recycling service. Cost estimates detailed below are in current dollars and are adjusted by inflation for each year of the forecast.
 - » One new equipment operator position in FY 2025 and FY 2027 (two total); \$84,500 per position inclusive of salaries and benefits.
 - » One new automated sideload truck in FY 2025 and FY 2027 (two total); \$480,000 per truck.
 - » One garbage and one recycling container for all new customer accounts; \$60 per container.
 - » Maintenance, repair, replacement, and fuel expenses for new collection trucks
 - » Maintenance and Repair: \$30,000 per collection truck annually
 - » Replacement Charge: \$68,571 per collection truck annually
 - » Fuel: \$25,000 per collection truck annually

III.B.1.c Debt Service

- **Existing Debt Service:**
 - » The residential solid waste program does not carry any existing debt.
- **New Debt Service:**
 - » The forecast includes \$15.8 million in new debt issued in FY 2024 to support the replacement of the City's fleet maintenance shop. Debt service is based on a 20-year term at a 5.0 percent annual interest rate. Annual debt service is estimated at \$1.3 million from FY 2024 to FY 2043.

III.B.2. Capital Funding Plan

The residential solid waste program is anticipating \$17.5 million in capital costs from FY 2024 through FY 2027. The majority of the capital funding plan (99 percent) supports the replacement of the City's fleet shop (\$16.0 million) and the purchase of new collection trucks and barrels (\$1.6 million).

Funding for the capital plan comes from the following sources:

- **Cash balances (including interest) and rate-funded capital:** Cash balances and rate-funded capital include the beginning capital fund balance and available cash flow after meeting the Principles of Sound Financial Management (PSFM) reserve target. Rate-funded capital is forecast to fund 10 percent of the capital plan from FY 2024 to FY 2027, or \$1.7 million.
- **Proceeds from Debt:** Proceeds from City general obligation bonds total \$15.8 million to support the residential solid waste fund’s contribution for the replacement of the fleet maintenance shop. Proceeds from new debt are forecast to fund 90 percent of the FY 2024 to FY 2027 capital plan.

Exhibit 3.1 provides a summary of the funding sources for the capital expenditures. A detailed capital plan can be found in the excel model provided to the City.

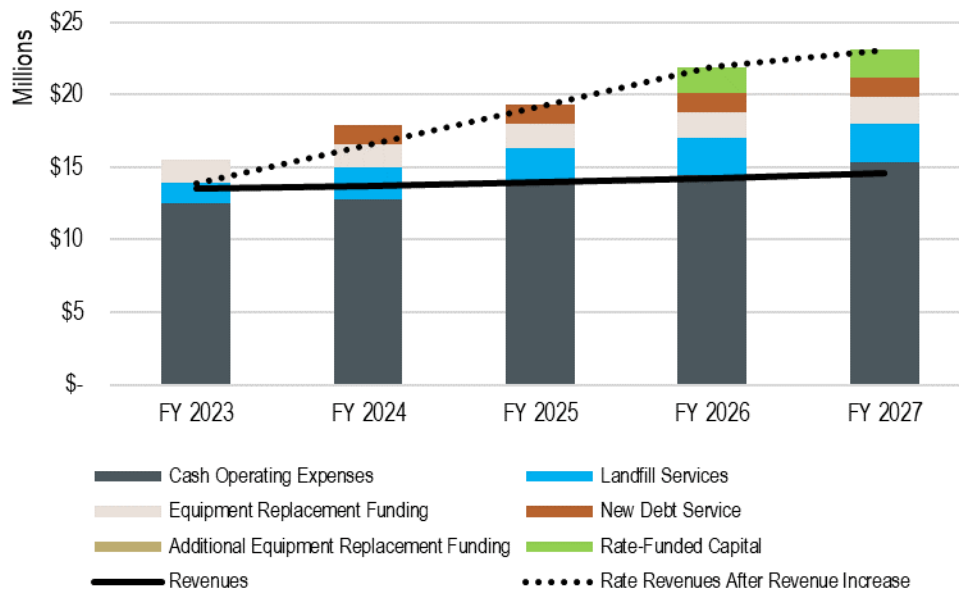
**Exhibit 3.1
Residential Solid Waste Capital Funding Summary**

	FY 2024	FY 2025	FY 2026	FY 2027
Total Capital Costs	\$ 15,969,937	\$ 678,344	\$ 225,199	\$ 659,141
Funding Sources				
Cash Balances and Rate-Funded Capital	\$ 165,837	\$ 678,344	\$ 225,199	\$ 659,141
New Debt Proceeds	15,804,100	-	-	-
Total Funding Sources	\$ 15,969,937	\$ 678,344	\$ 225,199	\$ 659,141

III.B.3. Summary of Revenue Requirement

The operating forecast components for O&M expenses, debt service, and rate-funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the residential solid waste program to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 3.2** provides a summary of the residential solid waste revenue requirement findings.

**Exhibit 3.2
Residential Solid Waste Program Revenue Requirement Summary**

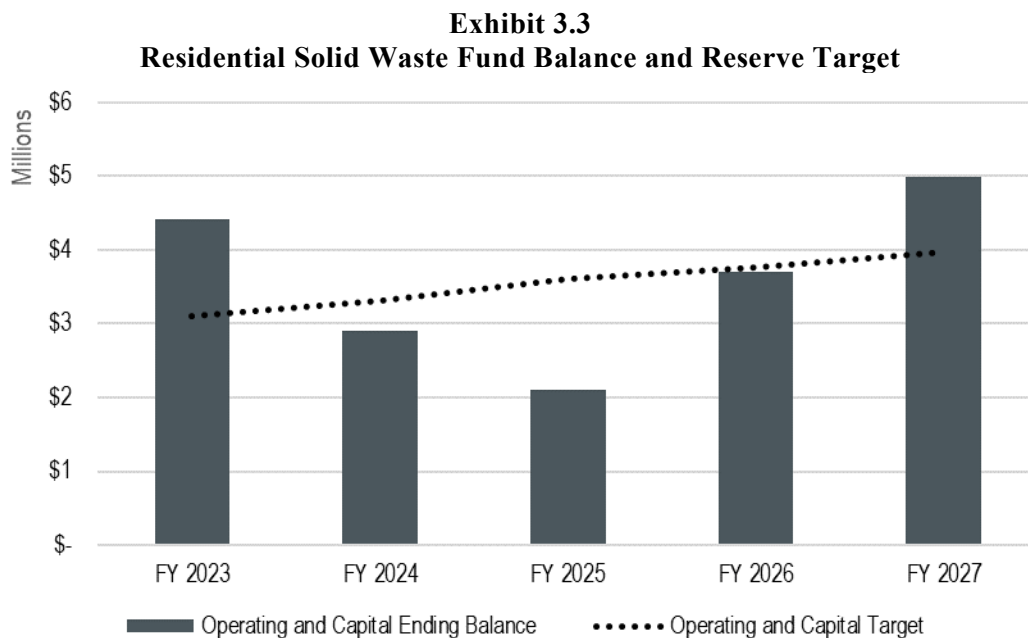


A summary of residential solid waste revenue requirement is listed below:

- Revenues at current rate levels are projected to generate \$13.7 million in FY 2024 compared to \$17.9 million in expenditures – resulting in a cash deficit of \$4.2 million.
- Annual operating expenses are projected to continue to outpace revenues over the rate-setting period. By FY 2027, the annual cash deficit is projected to be \$6.5 million.
 - » Landfill disposal expenses are forecast to increase from \$1.5 million in FY 2023 to \$2.7 million in FY 2027.
 - » All other cash operating expenses are forecast to increase from \$14.0 million in FY 2023 to \$17.2 million in FY 2027.
 - » Annual debt service for the fleet maintenance shop replacement is forecast at \$1.3 million beginning in FY 2024.
- To meet the projected financial obligations of the residential solid waste program, rate increases are proposed at 15 percent in FY 2024, 14 percent in FY 2025, 12 percent in FY 2026, and 3 percent in FY 2027. Annual rate adjustments are assumed to be implemented at the beginning of each fiscal year (July).

Fund Balance and Financial Reserves

The City’s Principles of Sound Financial Management establish a minimum financial reserve for the Residential Solid Waste Fund equivalent to 20 percent of annual expenditures. **Exhibit 3.3** shows a summary of the projected ending fund balance through FY 2027 with the proposed rate revenue adjustments. The fund balance is projected to decrease below the financial reserve target in FY 2024, FY 2025, and FY 2026. Financial reserves are expected to decrease to \$2.1 million in FY 2025, which is equivalent to 12 percent of annual operating expenses. Financial reserve levels are projected to return above the minimum target by FY 2027.



III.B.4. Residential Solid Waste Rate Schedule

The existing residential solid waste rate structure is composed of a fixed monthly charge of \$17.96. Customers can subscribe for an additional weekly refuse collection service for an additional \$14.71 per month. The proposed rate revenue adjustments described in Section III.B.3 would be assessed to all charge components. The proposed rates for residential solid waste service over the rate-setting period are summarized in **Exhibit 3.4**.

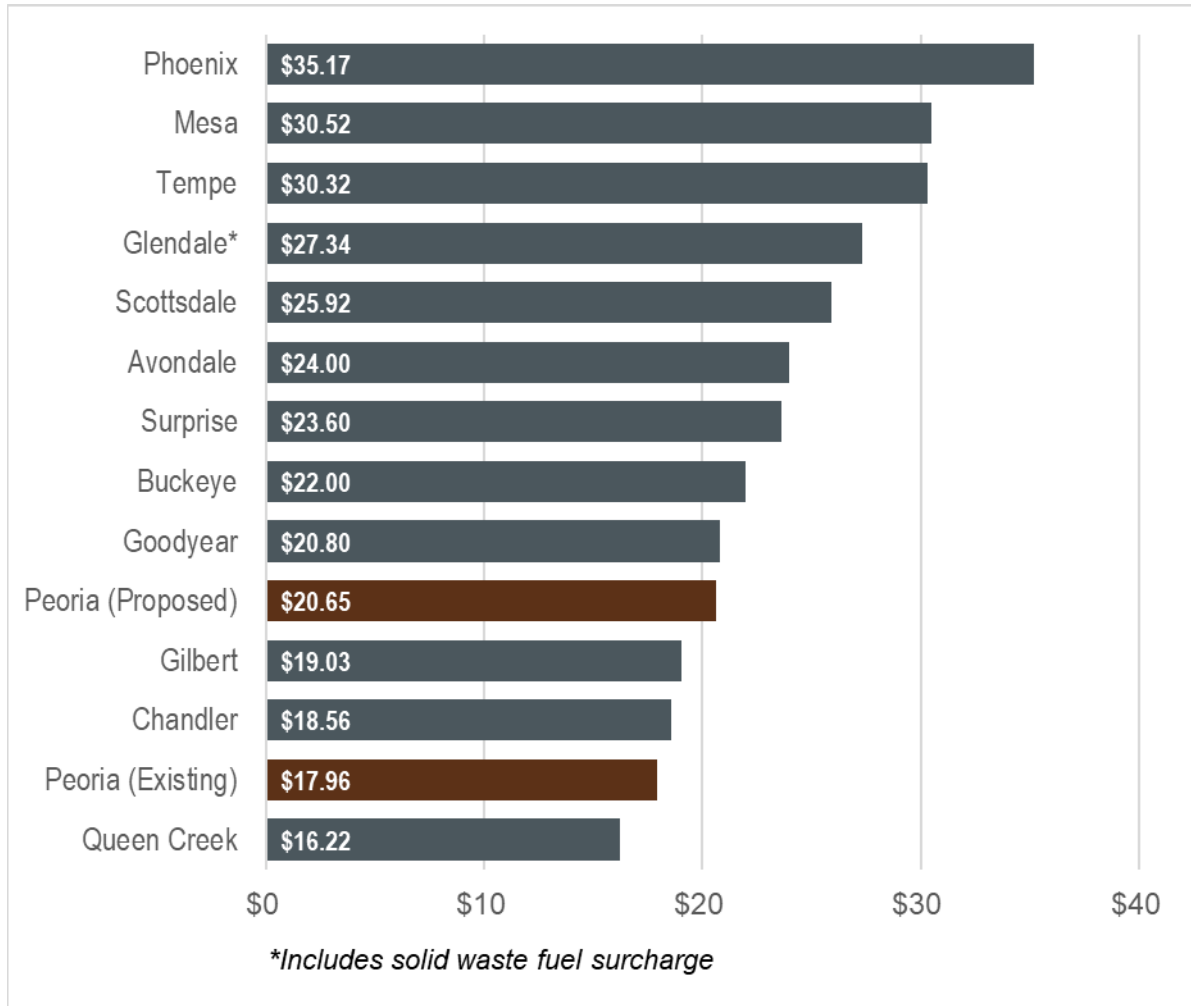
**Exhibit 3.4
Proposed Residential Solid Waste Rates**

RESIDENTIAL SOLID WASTE RATE SUMMARY SCHEDULE						
Residential Customers	Existing		Proposed			
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	
Regular Service (One Trash and One Recycle Barrel)	\$ 17.96	\$ 20.65	\$ 23.55	\$ 26.36	\$ 27.15	
Each additional trash barrel	\$ 14.71	\$ 16.92	\$ 19.29	\$ 21.60	\$ 22.25	
Replacement Barrel	\$ 74.44	Cost to City, plus 20% to cover overhead				
<u>Special Haul Service</u>						
Costs for first 30 min of on-site staff time	\$ 50.00	\$ 57.50	\$ 65.55	\$ 73.42	\$ 75.62	
Extra Equipment Charge - pick-ups requiring the use of a tractor or roll-off-bin	\$ 50.00	\$ 57.50	\$ 65.55	\$ 73.42	\$ 75.62	
<u>Miscellaneous Fees</u>						
Late Fee		1.5% of balance with min. of \$2.00				
Non-owner Occupied Utility Service Deposit (Non-Water)	\$ 80.00	\$ 92.00	\$ 104.90	\$ 117.50	\$ 121.00	

III.B.5. Rate Survey

Exhibit 3.5 compares the City’s monthly rate for 90/95-gallon weekly service with the 2023 rates of other jurisdictions. Weekly recycling service is “embedded” in the monthly solid waste rate for all cities – no additional charge is assessed to customers for recycling service.

Exhibit 3.5
Residential Monthly Solid Waste Rate Survey



Section IV. COMMERCIAL SOLID WASTE

IV.A. INTRODUCTION

The City's commercial solid waste program provides front load trash & recycling, front load compactor, and roll off solid waste collection services to approximately 2,000 commercial accounts. In FY 2022, the City's commercial solid waste program collected 18,000 tons of municipal solid waste (MSW) and nearly 800 tons of recycling. Peoria offers a flexible level of service for its commercial customers, providing front-load trash services from one to seven days per week with various container sizes to meet customer needs. The commercial program operates a fleet of 9 vehicles that are owned and maintained by the City. Similar to the residential solid waste program, the City's commercial solid waste program relies on intergovernmental agreements and service contracts with the City of Glendale, the City of Phoenix, and Waste Management to dispose of and process MSW.

IV.B. REVENUE REQUIREMENT

A revenue requirement was completed for the commercial solid waste program and forms the basis for the long-range financial plan and multi-year financial management strategy.

IV.B.1. Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the commercial solid waste program. The FY 2022 actuals, FY 2023 estimates, and FY 2024 proposed budget formed the baseline for this forecast. A long-term operating forecast was developed for the FY 2025 through FY 2037 time period with the rate study focused on establishing commercial solid waste rates for the FY 2024 to FY 2027 rate-setting period. The following list highlights some of the key assumptions used in the development of the commercial solid waste program operating forecast.

IV.B.1.a Operating Revenue

- **Retail Rate Revenue** was based on actual rate revenue from the City's financial management system for FY 2022. Rate revenue was adjusted by an assumed rate of customer account growth over the forecast period. Growth rates were based on discussions with City staff. The assumed customer account growth was:
 - » 1.00 percent in FY 2023
 - » -1.00 percent in FY 2024 and FY 2025
 - » 1.00 percent in FY 2026 and later
- **Non-Rate Revenue** consists of other operating revenues and interest earnings. Representing only one percent of total utility revenues, these revenues are not expected to see significant changes in the future and were therefore forecast with minimal to no increase. Interest earnings are projected forward based on a 1.50 investment earnings rate and available fund balances for each year.

IV.B.1.b O&M Expenses

- **General Cost Inflation** was set at 3.1 percent in FY 2024, 2.4 percent in FY 2025, and then 2.3 percent for the remainder of the forecast based on feedback from City staff and in alignment with internal forecasting practices.
- **Construction Cost Inflation (CCI)** was already included in the construction costs provided by the City; no additional escalation was included.
- **Labor Cost Inflation** was set at 7.0 percent in FY 2024 to FY 2025, then 5.0 percent for the remainder of the study period based on feedback from the City.
- **Benefit Cost Inflation** was set at 5.0 percent for all years in the study period based on feedback from the City.
- **Fuel Cost Inflation** was assumed to remain at current, heightened levels in FY 2025, then increasing by 4.6 percent for the remainder of years in the study period based on the 25-year annualized growth rate of west coast diesel fuel price as reported by the U.S. Energy Information Administration.
- **Equipment Acquisition Inflation** was assumed at 5.0 percent in FY 2024 and FY 2025, then 3.9 percent for the remaining years in the study period.
- **General Fund Service Charge Inflation** was assumed to be 5.0 percent for all years in the study period based on recent experience and internal forecasting practices at the City.
- **Tonnage Growth** was assumed at 1.0 percent annually over the rate-setting period.
- **Material Disposal and Processing Cost Inflation:** Cost increases are based on contract terms from existing disposal and recycling processing contracts as well as feedback from City staff.
 - » **City of Glendale Landfill:** Based on the tipping fee schedule in the Intergovernmental Agreement with the City of Glendale. The tipping fee per ton is expected to increase from \$30.00 to \$32.00 per ton in FY 2024, followed by an additional \$2.00 per ton increase in FY 2025. FY 2026 and FY 2027 tipping fee adjustments are based on the assumed rate of general cost inflation.
 - » **Waste Management Transfer & Disposal:** Based on the City's current contract with Waste Management.
 - » The tipping fee at the transfer station is projected to increase from \$35.25 per ton to \$36.66 per ton in FY 2024. The forecast of tipping fees at the transfer station are estimated at \$38.49, \$39.38, and \$40.28 per ton for FY 2025, FY 2026, and FY 2027, respectively.
 - » The tipping fee at the landfill is projected to increase from \$25.25 per ton to \$26.26 per ton in FY 2024. The forecast of tipping fees at the transfer station is estimated at \$27.57, \$28.21, and \$28.86 per ton for FY 2025, FY 2026, and FY 2027, respectively.
 - » **City of Phoenix Recycling Processing Fee:** The processing fee per ton is forecasted to increase from \$98.21 to \$116.00 in FY 2024. No additional adjustments are projected to the processing fee through FY 2027.
 - » **Average Quarterly Outbound Blended Rate (AQOBR):** Processing fees are offset each month by revenue generated from the sale of recyclable commodities. The value of these commodities is calculated based on the average quarterly outbound blended rate or AQOBR. The AQOBR is defined as the average sales price per ton for all material sorted and sold at the North Gateway MRF during a quarter. The City's processing fee is discounted by the AQOBR each month. For example, the FY 2023 MRF processing fee

was \$98.21 per ton, and the AQOBR was \$91.64 per ton, so the City's net processing fee to the City of Phoenix was \$6.57 per ton. If the AQOBR exceeds the processing fee, the City receives 75.00 percent of the AQOBR above the processing fee. The AQOBR is assumed at \$63.00 per ton from FY 2024 to FY 2027.

- **Additional O&M Expenses** - The operating forecast includes new FTEs, non-labor expenses, and collection vehicles to respond to customer account growth. Cost estimates detailed below are in current dollars and are adjusted by inflation for each year of the forecast.
 - » One new equipment operator position in FY 2027; \$84,500 inclusive of salaries and benefits.
 - » One new forklift in FY 2024; \$51,700.
 - » One new front load collection truck in FY 2027; \$350,000.
 - » Maintenance, repair, replacement, and fuel expenses for the new collection truck
 - » Maintenance and Repair: \$30,000 per collection truck annually
 - » Replacement Charge: \$70,000 per collection truck annually
 - » Fuel: \$25,000 per collection truck annually

IV.B.1.c Debt Service

- **Existing Debt Service:**
 - » The commercial solid waste program does not carry any existing debt.
- **New Debt Service:**
 - » The commercial solid waste forecast assumes \$2.7 million in new debt to be issued in FY 2024 to support the replacement of the City's fleet shop. Debt service is based on a 20-year term at a 5.0 percent annual interest rate. The annual debt service is estimated at \$0.2 million from FY 2024 to FY 2043.

IV.B.2. Capital Funding Plan

The commercial solid waste program is anticipating \$3.2 million in capital costs from FY 2024 through FY 2027 (including escalation). The majority of the capital funding plan (98 percent) supports the replacement of the City's fleet shop (\$2.7 million) and the purchase of a new forklift and front-load collection trucks (\$0.4 million).

Funding for the capital plan comes from the following sources:

- **Cash balances (including interest) and rate-funded capital:** Cash balances and rate-funded capital include the beginning capital fund balance and available cash flow after meeting the Principles of Sound Financial Management (PSFM) reserve target. Rate-funded capital is forecast to fund 14 percent of the capital plan from FY 2024 to FY 2027, or \$0.5 million.
- **Proceeds from Debt:** Proceeds from City general obligation bonds total \$2.7 million to support the commercial solid waste fund's contribution for the replacement of the fleet maintenance shop. Proceeds from new debt are forecast to fund 86 percent of the FY 2024 to FY 2027 capital plan.

Exhibit 4.1 provides a summary of the funding sources for the capital expenditures. A detailed capital plan can be found in the Excel model provided to the City.

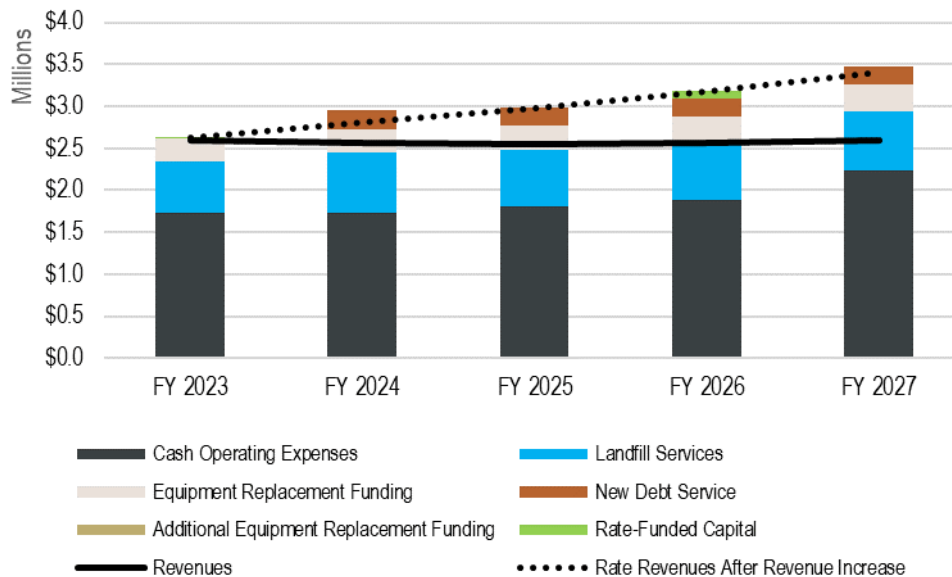
**Exhibit 4.1
Commercial Solid Waste Capital Funding Summary**

	FY 2024	FY 2025	FY 2026	FY 2027
Total Capital Costs	\$ 2,761,293	\$ 13,000	\$ 25,000	\$ 350,000
Funding Sources				
Cash Balances and Rate-Funded Capital	\$ 61,293	\$ 13,000	\$ 25,000	\$ 350,000
New Debt Proceeds	2,700,000	-	-	-
Total Funding Sources	\$ 2,761,293	\$ 13,000	\$ 25,000	\$ 350,000

IV.B.3. Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service, and rate-funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the commercial solid waste program to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 4.2** provides a summary of the commercial solid waste revenue requirement findings.

**Exhibit 4.2
Commercial Solid Waste Program Revenue Requirement Summary**



The results of the commercial solid waste program revenue requirement are summarized below:

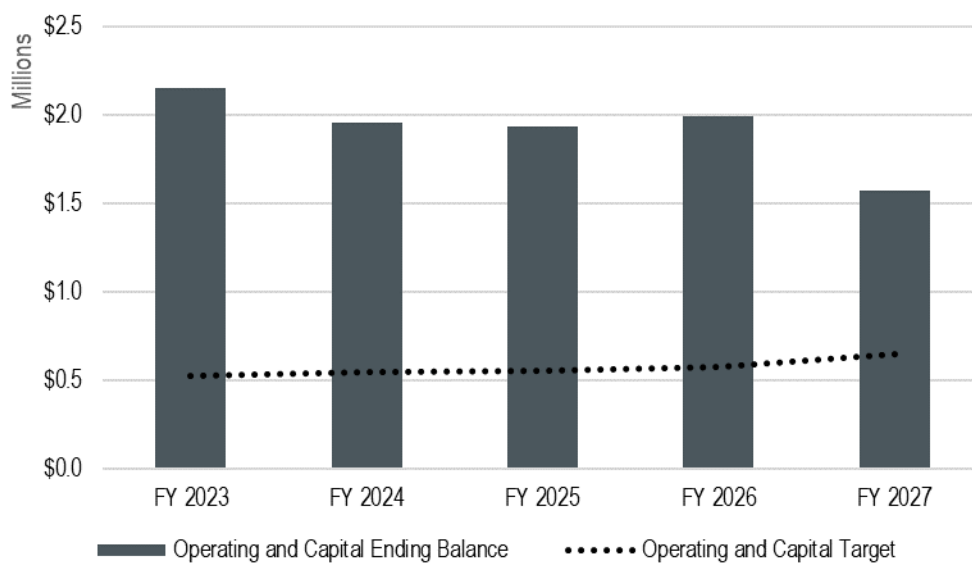
- Revenues at current rate levels are projected to be outpaced by annual operating expenses over the rate-setting period, resulting in a projected annual cash deficit of \$0.4 million in FY 2024.
 - » Disposal and processing expenses are forecast to increase from \$0.6 million in FY 2023 to \$0.7 million in FY 2027.
 - » All other cash operating expenses are forecast to increase from \$2.0 million in FY 2023 to \$2.5 million in FY 2027.
- To meet the projected financial obligations of the commercial solid waste program, rate increases are proposed at 7 percent for FY 2024 and FY 2025, followed by 6 percent for FY 2026 and FY 2027.

2027. Annual rate adjustments are assumed to be implemented at the beginning of each fiscal year (July).

IV.B.4. Fund Balance and Financial Reserves

The City’s Principles of Sound Financial Management establish a financial reserve target for the Commercial Solid Waste Fund equivalent to 20 percent of annual expenditures. **Exhibit 4.3** shows a summary of the projected ending fund balance through FY 2027 with the proposed rate revenue adjustments. The fund balance is projected to remain above the financial reserve target for each year of the forecast. The projected fund balance in FY 2027 is \$1.6 million – equivalent to 48 percent of annual expenditures.

Exhibit 4.3
Projected Operating Fund Balance



IV.B.5. Commercial Solid Waste Rate Schedule

The overall revenue requirement results for the FY 2024 to FY 2027 rate-setting period were applied to the utility’s four customer classes based on the cost-of-service analysis completed as part of the FY 2019 rate study. Notable class-specific adjustments include:

- Front-load refuse collection service rates are projected to increase at the level of the overall revenue requirement.
- Recycling collection service rates are projected to increase at a higher rate than the overall revenue requirement over the next several years to align with the cost to provide service. Annual rate adjustments for this service vary by collection frequency and container size and range from approximately 5 percent to 25 percent.
- Roll-off service rates are projected to increase by 7 percent in FY 2024 and FY 2025, followed by 6 percent in FY 2026 and FY 2027.

Exhibit 4.4 to **Exhibit 4.8** detail the forecasted annual rate schedule for commercial solid waste services.

**Exhibit 4.4
Commercial Front-Load Refuse Rate Schedule**

FRONT LOAD - COMMERCIAL SOLID WASTE RATE SCHEDULE						
Container Size	Collections per Week	Existing		Proposed		
		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
2 Cubic Yard Container	1 time per week	\$ 75.28	\$ 80.79	\$ 86.57	\$ 91.69	\$ 96.94
	2 times per week	\$ 117.32	\$ 125.91	\$ 134.92	\$ 142.90	\$ 151.08
	3 times per week	\$ 172.65	\$ 185.29	\$ 198.54	\$ 210.28	\$ 222.32
	4 times per week	\$ 227.99	\$ 244.68	\$ 262.18	\$ 277.69	\$ 293.59
	5 times per week	\$ 283.31	\$ 304.05	\$ 325.80	\$ 345.07	\$ 364.83
	6 times per week	\$ 338.66	\$ 363.45	\$ 389.44	\$ 412.48	\$ 436.10
	7 times per week	\$ 407.83	\$ 437.69	\$ 468.99	\$ 496.73	\$ 525.18
3 Cubic Yard Container	1 time per week	\$ 80.06	\$ 85.91	\$ 92.05	\$ 97.50	\$ 103.08
	2 times per week	\$ 128.68	\$ 138.10	\$ 147.98	\$ 156.73	\$ 165.71
	3 times per week	\$ 189.65	\$ 203.54	\$ 218.10	\$ 231.00	\$ 244.23
	4 times per week	\$ 250.58	\$ 268.93	\$ 288.16	\$ 305.21	\$ 322.69
	5 times per week	\$ 311.56	\$ 334.37	\$ 358.28	\$ 379.47	\$ 401.20
	6 times per week	\$ 372.53	\$ 399.79	\$ 428.38	\$ 453.72	\$ 479.70
	7 times per week	\$ 448.74	\$ 481.59	\$ 516.03	\$ 546.56	\$ 577.86
4 Cubic Yard Container	1 time per week	\$ 84.92	\$ 91.13	\$ 97.65	\$ 103.43	\$ 109.35
	2 times per week	\$ 140.13	\$ 150.39	\$ 161.15	\$ 170.68	\$ 180.45
	3 times per week	\$ 206.71	\$ 221.85	\$ 237.72	\$ 251.78	\$ 266.20
	4 times per week	\$ 273.30	\$ 293.31	\$ 314.29	\$ 332.88	\$ 351.94
	5 times per week	\$ 339.88	\$ 364.76	\$ 390.85	\$ 413.97	\$ 437.68
	6 times per week	\$ 406.48	\$ 436.24	\$ 467.44	\$ 495.09	\$ 523.44
	7 times per week	\$ 489.71	\$ 525.55	\$ 563.14	\$ 596.45	\$ 630.61
6 Cubic Yard Container	1 time per week	\$ 94.54	\$ 101.45	\$ 108.71	\$ 115.14	\$ 121.73
	2 times per week	\$ 162.93	\$ 174.86	\$ 187.37	\$ 198.45	\$ 209.81
	3 times per week	\$ 240.78	\$ 258.41	\$ 276.89	\$ 293.27	\$ 310.06
	4 times per week	\$ 318.62	\$ 341.94	\$ 366.40	\$ 388.07	\$ 410.29
	5 times per week	\$ 396.45	\$ 425.46	\$ 455.89	\$ 482.86	\$ 510.51
	6 times per week	\$ 474.31	\$ 509.03	\$ 545.44	\$ 577.71	\$ 610.79
	7 times per week	\$ 571.63	\$ 613.48	\$ 657.36	\$ 696.25	\$ 736.12
8 Cubic Yard Container	1 time per week	\$ 104.15	\$ 111.78	\$ 119.77	\$ 126.85	\$ 134.11
	2 times per week	\$ 185.64	\$ 199.23	\$ 213.48	\$ 226.11	\$ 239.06
	3 times per week	\$ 274.76	\$ 294.87	\$ 315.96	\$ 334.65	\$ 353.81
	4 times per week	\$ 363.84	\$ 390.48	\$ 418.41	\$ 443.16	\$ 468.54
	5 times per week	\$ 452.92	\$ 486.09	\$ 520.86	\$ 551.67	\$ 583.26
	6 times per week	\$ 542.04	\$ 581.72	\$ 623.33	\$ 660.20	\$ 698.01
	7 times per week	\$ 653.43	\$ 701.27	\$ 751.43	\$ 795.88	\$ 841.46
High Density Premium	per cubic yard	\$ 2.67	\$ 2.78	\$ 2.98	\$ 3.16	\$ 3.34

Exhibit 4.5
Commercial Compactor and Side-Load Solid Waste Rate Schedule

COMPACTOR - COMMERCIAL SOLID WASTE RATE SCHEDULE						
Container Size	Collections per Week	Existing		Proposed		
		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
4 Cubic Yard Container	1 time per week	\$ 182.36	\$ 195.13	\$ 208.79	\$ 221.32	\$ 234.60
	2 times per week	\$ 350.70	\$ 375.25	\$ 401.52	\$ 425.61	\$ 451.15
	3 times per week	\$ 519.03	\$ 555.36	\$ 594.24	\$ 629.89	\$ 667.68
	4 times per week	\$ 687.38	\$ 735.50	\$ 786.99	\$ 834.21	\$ 884.26
	5 times per week	\$ 855.72	\$ 915.62	\$ 979.71	\$ 1,038.49	\$ 1,100.80
	6 times per week	\$ 1,024.07	\$ 1,095.75	\$ 1,172.45	\$ 1,242.80	\$ 1,317.37
	7 times per week	\$ 1,234.50	\$ 1,320.92	\$ 1,413.38	\$ 1,498.18	\$ 1,588.07
6 Cubic Yard Container	1 time per week	\$ 206.72	\$ 221.19	\$ 236.67	\$ 250.87	\$ 265.92
	2 times per week	\$ 397.26	\$ 425.07	\$ 454.82	\$ 482.11	\$ 511.04
	3 times per week	\$ 587.57	\$ 628.70	\$ 672.71	\$ 713.07	\$ 755.85
	4 times per week	\$ 777.89	\$ 832.34	\$ 890.60	\$ 944.04	\$ 1,000.68
	5 times per week	\$ 968.18	\$ 1,035.95	\$ 1,108.47	\$ 1,174.98	\$ 1,245.48
	6 times per week	\$ 1,158.52	\$ 1,239.62	\$ 1,326.39	\$ 1,405.97	\$ 1,490.33
	7 times per week	\$ 1,396.42	\$ 1,494.17	\$ 1,598.76	\$ 1,694.69	\$ 1,796.37
8 Cubic Yard Container	1 time per week	\$ 230.68	\$ 246.83	\$ 264.11	\$ 279.96	\$ 296.76
	2 times per week	\$ 442.95	\$ 473.96	\$ 507.14	\$ 537.57	\$ 569.82
	3 times per week	\$ 655.23	\$ 701.10	\$ 750.18	\$ 795.19	\$ 842.90
	4 times per week	\$ 867.52	\$ 928.25	\$ 993.23	\$ 1,052.82	\$ 1,115.99
	5 times per week	\$ 1,079.80	\$ 1,155.39	\$ 1,236.27	\$ 1,310.45	\$ 1,389.08

Side-Load - COMMERCIAL SOLID WASTE RATE SCHEDULE						
Container Size	Collections per Week	Existing		Proposed		
		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
90 Gallon Barrel	1 time per week	\$ 18.05	\$ 20.76	\$ 23.67	\$ 26.51	\$ 27.31
	2 times per week	\$ 36.10	\$ 41.52	\$ 47.34	\$ 53.02	\$ 54.62
	3 times per week	\$ 54.15	\$ 62.28	\$ 71.01	\$ 79.53	\$ 81.93
	4 times per week	\$ 72.20	\$ 83.04	\$ 94.68	\$ 106.04	\$ 109.24
	5 times per week	\$ 90.25	\$ 103.80	\$ 118.35	\$ 132.55	\$ 136.55

**Exhibit 4.6
Commercial Recycling Solid Waste Rate Schedule**

RECYCLING - COMMERCIAL SOLID WASTE RATE SCHEDULE						
Container Size	Collections per Week	Existing		Proposed		
		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
90 Gallon Barrel	1 time per week	\$ 28.00	\$ 33.18	\$ 37.60	\$ 42.57	\$ 48.16
	Each additional collection per	\$ 27.00	\$ 28.30	\$ 28.84	\$ 30.36	\$ 31.82
300 Gallon Barrel	1 time per week	\$ 30.00	\$ 34.70	\$ 39.91	\$ 45.87	\$ 52.67
	Each additional collection per	\$ 27.00	\$ 29.34	\$ 31.80	\$ 34.36	\$ 37.01
2 Cubic Yard Container	1 time per week	\$ 31.00	\$ 35.49	\$ 41.13	\$ 47.63	\$ 55.10
	Each additional collection per	\$ 27.00	\$ 30.16	\$ 33.00	\$ 35.99	\$ 39.16
3 Cubic Yard Container	1 time per week	\$ 31.00	\$ 36.76	\$ 43.11	\$ 50.50	\$ 59.11
	Each additional collection per	\$ 29.00	\$ 31.83	\$ 35.48	\$ 39.46	\$ 43.79
4 Cubic Yard Container	1 time per week	\$ 32.00	\$ 38.10	\$ 45.20	\$ 53.59	\$ 63.48
	Each additional collection per	\$ 29.00	\$ 33.40	\$ 37.87	\$ 42.83	\$ 48.34
6 Cubic Yard Container	1 time per week	\$ 33.00	\$ 40.59	\$ 49.19	\$ 59.56	\$ 72.06
	Each additional collection per	\$ 31.00	\$ 36.07	\$ 41.96	\$ 48.72	\$ 56.47
8 Cubic Yard Container	1 time per week	\$ 36.00	\$ 44.37	\$ 55.40	\$ 69.10	\$ 86.12
	Each additional collection per	\$ 33.00	\$ 40.60	\$ 49.16	\$ 59.45	\$ 71.79

**Exhibit 4.7
Commercial Roll-Off Solid Waste Rate Schedule**

ROLL-OFF - COMMERCIAL SOLID WASTE RATE SCHEDULE					
Containers	Existing		Proposed		
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<u>Monthly Rental Fees</u>					
All Containers	\$ 50.00	\$ 52.00	\$ 54.08	\$ 56.24	\$ 58.49
No Pull Charge	\$ 75.00	\$ 78.00	\$ 81.12	\$ 84.36	\$ 87.74
Fee per Container Pull (all sizes)	\$ 215.00	\$ 223.60	\$ 232.54	\$ 241.84	\$ 251.52
Delivery Service Charge	\$ 32.00	\$ 33.28	\$ 34.61	\$ 35.99	\$ 37.43
Disposal Fee per Ton (or portion thereof)	\$ 33.00	\$ 34.32	\$ 35.69	\$ 37.12	\$ 38.60

**Exhibit 4.8
Miscellaneous Solid Waste Charges**

MISCELLANEOUS COMMERCIAL SOLID WASTE CHARGES					
Description	Existing		Proposed		
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Container Relocation (Front-Load & Roll-Off)	\$ 35.00	\$ 37.50	\$ 40.10	\$ 42.50	\$ 45.10
Container Steam Cleaning	\$ 55.00	\$ 58.90	\$ 63.00	\$ 66.80	\$ 70.80
Container Painting	\$ 70.00	\$ 74.90	\$ 80.10	\$ 84.90	\$ 90.00
Handling Gates and Pullouts of Containers	\$ 3.00	\$ 3.20	\$ 3.40	\$ 3.60	\$ 3.80
Locking Devices	\$ 5.00	\$ 5.40	\$ 5.80	\$ 6.10	\$ 6.50
Casters	\$ 6.00	\$ 6.40	\$ 6.80	\$ 7.20	\$ 7.60
Roll-Off Dry Runs (container is not ready)	\$ 35.00	\$ 37.50	\$ 40.10	\$ 42.50	\$ 45.10
Roll-Off Unloads (overloaded containers)	\$ 35.00	\$ 37.50	\$ 40.10	\$ 42.50	\$ 45.10
Commercial Solid Waste Service Deposit	\$ 225.00	\$ 240.80	\$ 257.70	\$ 273.20	\$ 289.60
Late Fee		1.5% of balance with min. of \$2.00			
<u>Special Haul</u>					
Costs for first 30 min of on-site staff time	\$ 100.00	\$ 107.00	\$ 114.50	\$ 121.40	\$ 128.70
Extra Equipment Charge - pick-ups requiring the use of a tractor or roll-off-bin	\$ 50.00	\$ 53.50	\$ 57.20	\$ 60.60	\$ 64.20