



CITY OF PEORIA

Solid Waste Utility Rate Study DRAFT

Submitted by:

FCS, a Bowman company
7525 166th Ave NE
Ste D-215
Redmond, WA 98052
P: 425.867.1802

Submitted to:

City of Peoria
8401 W. Monroe St.
Peoria, AZ 85345
P: (623) 773-7000

April 2025

Contents

| | |
|---|----|
| Executive Summary | 1 |
| Study Objectives | 1 |
| Residential Solid Waste Study Results | 1 |
| Commercial Solid Waste Study Results | 3 |
| Rate Study Methodology..... | 4 |
| Overview..... | 4 |
| Fiscal Policies..... | 5 |
| Reserves..... | 5 |
| Debt Management..... | 5 |
| Revenue Requirement Analysis..... | 6 |
| Residential Solid Waste | 7 |
| Introduction | 7 |
| Revenue Requirement | 7 |
| Operating Forecast | 7 |
| Capital Funding Plan | 9 |
| Summary of Revenue Requirement | 10 |
| Fund Balance and Financial Reserves | 11 |
| Existing Rates | 12 |
| Rate Survey | 13 |
| Commercial Solid Waste..... | 15 |
| Introduction | 15 |
| Revenue Requirement | 15 |
| Operating Forecast | 15 |
| Capital Funding Plan | 17 |
| Summary of Revenue Requirement | 17 |
| Fund Balance and Financial Reserves | 18 |
| Commercial Solid Waste Rate Schedule..... | 18 |

Executive Summary

Study Objectives

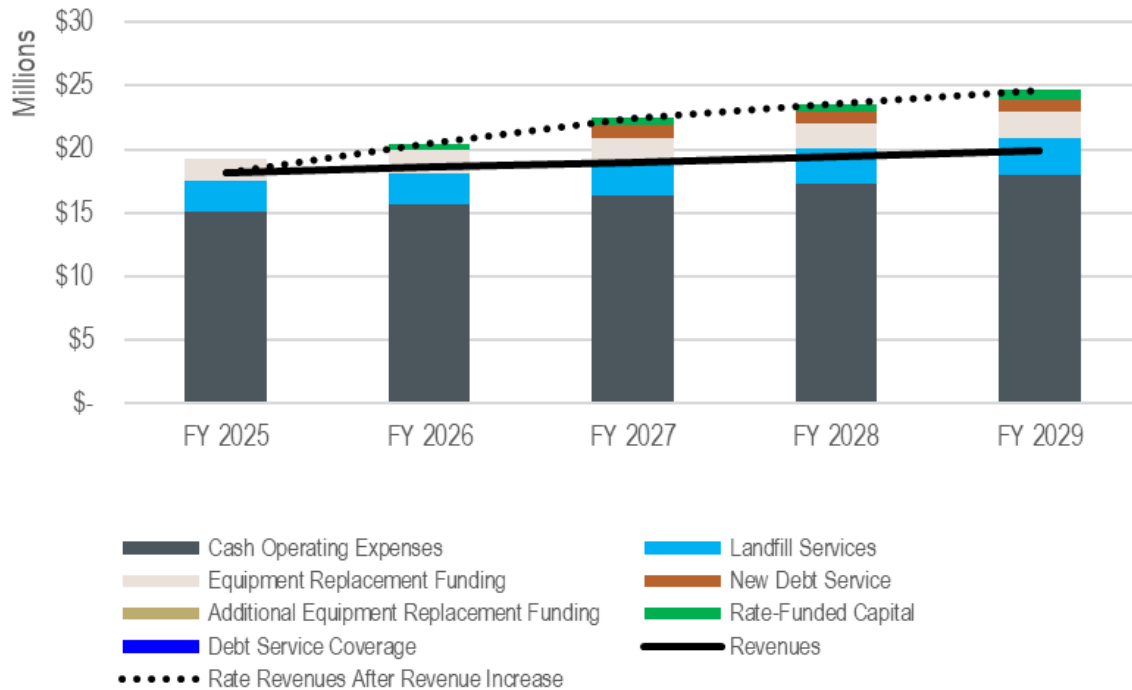
The City contracted with FCS to complete a rate analysis and update for the residential and commercial solid waste utilities. The purpose of the update was to assess the sufficiency of the rate recommendations from the FY 2022 utility rate study for the rate setting period of FY 2026 to FY 2029. Inflationary pressures from wages, benefits, and other operating costs have outpaced original projections, and, as a result, City staff requested that FCS 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 the FY 2026 to FY 2029 rate-setting period 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.

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 2022 rate study. The proposed rate revenue adjustments for the FY 2026 to FY 2029 rate-setting period are 10.0 percent in FY 2026, 8.0 percent in FY 2027, and 2.35 percent in FY 2028 and FY 2029. 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.

Exhibit 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 2**. The monthly rate for standard residential service (weekly collection for one garbage barrel and one recycling barrel) is projected to increase in FY 2026 from \$23.55 to \$25.91 – a difference of \$2.36 per month.

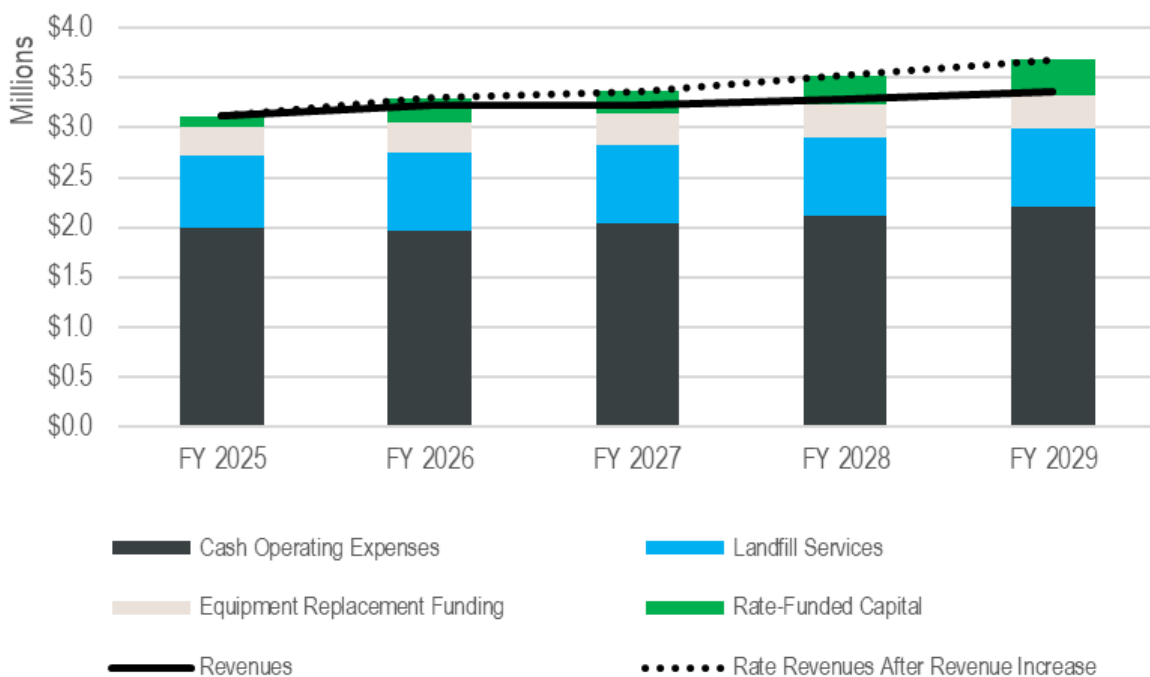
Exhibit 2.
Proposed Residential Solid Waste Rates

| | FY 2025 (Existing) | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|----------------------------------|-----------------------|----------------|----------------|----------------|----------------|
| Standard Service | \$23.55 | \$25.91 | \$27.98 | \$28.63 | \$29.31 |
| Change from Prior Year | | \$2.36 | \$2.07 | \$0.66 | \$0.67 |
| Percent Change from Prior Year | | 10.00% | 8.00% | 2.35% | 2.35% |
| Additional Refuse Service | \$19.29 | \$21.22 | \$22.92 | \$23.46 | \$24.01 |
| Change from Prior Year | | \$1.93 | \$1.70 | \$0.54 | \$0.55 |
| Percent Change from Prior Year | | 10.00% | 8.00% | 2.35% | 2.35% |

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. The proposed revenue adjustments include 2.40 percent in FY 2026, followed by 2.30 annually between FY 2027 and FY 2028, dropping to 2.20 percent in FY 2029. 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 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 2021 rate study. Front-load refuse collection service rates are projected to increase between 2.00 and 2.20 percent annually. 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 are projected at 5.75 percent from FY 2026 through FY 2028 before dropping to 2.20 percent annually. Roll-off and compactor service rates are projected to increase by the overall system average increase of between 2.20 and 2.40 percent depending on the year. A detailed rate schedule for commercial solid waste services is listed in Exhibit 11 to Exhibit 15.

Rate Study Methodology

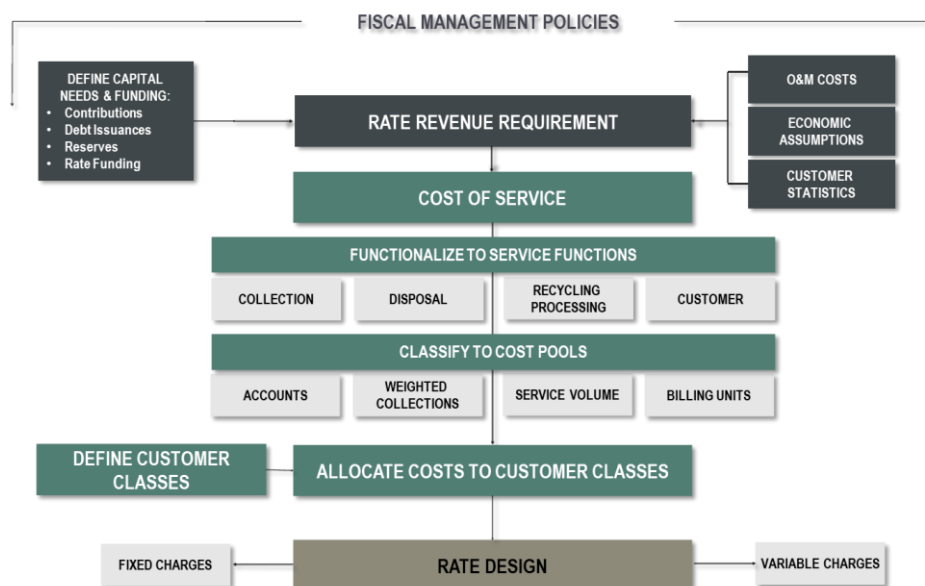
Overview

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 did not update the cost-of-service analysis from the FY 2021 rate study as part of this rate update. Phase in strategies were developed as a part of that analysis and those phase-in strategies were rebalanced and applied through this 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 based on the rebalanced cost of service phase-in to the FY 2026 to FY 2029 rate schedules. **Exhibit 4** illustrates the entire rate study process.

Exhibit 4.
Overview of the Rate Study Process



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.

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. 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 \$1.8M and \$0.3M, respectively, in FY 2025. 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

Debt Management

Debt financing is a viable tool for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – also referred to as “pay-as-you-use” because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget

flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. Debt service coverage is a metric used to evaluate the City's debt level.

Revenue Requirement Analysis

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each system: 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 sound financial performance for the City's utility enterprise funds, as well as a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility's financial obligations.

- **Fiscal Policy Analysis.** Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding, and debt service coverage.
- **Capital Funding Plan.** Defines a strategy for funding the City's capital improvement/equipment replacement 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 each 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 projections period.

Residential Solid Waste

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 63,000 residential customers within the City's service area.

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.

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.

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 2024 actuals and FY 2025 proposed budget formed the baseline for this forecast. A long-term operating forecast was developed for the FY 2025 through FY 2041 time period with the rate study focused on establishing residential solid waste rates for the FY 2026 to FY 2029 rate-setting period. The following list highlights some of the key assumptions used in the development of the residential solid waste program operating forecast.

Operating Revenue

- **Retail Rate Revenue** was based on actual rate revenue from the City's financial management system for FY 2024. 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:
 - » 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 1.4% 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 4.50 investment earnings rate and available fund balances for each year.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's FY 2025 budget. Each line item was adjusted annually by utilizing one of the following applicable factors:

- **General Cost Inflation** was set at 2.4 percent in FY 2026, 2.3 percent in FY 2027-2028, and then 2.2 percent for the remainder of the forecast based on feedback from City staff and in alignment with internal forecasting practices.
- **Construction Cost Inflation (CCI)** Begins FY 2025 at 4.5 percent, decreasing to 3.5 percent by FY 2029 based on internal forecasts from the City's engineering department.
- **Labor Cost Inflation** was set at 5.0 percent for all years in the study period based on feedback from the City.
- **Benefit Cost Inflation** was set at 4.0 percent for all years in the study period based on feedback from the City.
- **Fuel Cost Inflation** was assumed to remain at 5.09 percent for the study period based on the 10-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 3.86 percent for all years in the study period based on FY 2022 to FY 2041 annualized growth rate for Solid Waste Replacement Payment Schedule.
- **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 2.25 percent for the duration of the study which is in-line with customer growth forecasts.
- **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 \$2.33 from \$33.25 in FY 2025 to \$35.58 per ton in FY 2026, followed by an additional \$0.92 per ton increase in FY 2027. From FY 2028 onward 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 \$1.13 from \$37.76 per ton to \$38.89 per ton in FY 2026. The forecast of tipping fees at the transfer station are estimated at \$39.67, \$40.58, and \$41.48 per ton for FY 2027, FY 2028, and FY 2029, respectively.
 - » The tipping fee at the landfill is projected to increase \$0.81 from \$27.05 per ton to \$27.86 per ton in FY 2026. The forecast of tipping fees at the transfer station are estimated at \$28.42, \$29.07, and \$29.71 per ton for FY 2027, FY 2028, and FY 2029, respectively.
 - » **City of Phoenix Recycling Processing Fee:** The processing fee per ton is forecasted to increase \$9.88 from \$98.79 to \$108.67 in FY 2026, and \$12.00 from \$108.67 to 120.66 in FY 2027. From FY 2028 onward fee adjustments are 2 percent for the remainder of the study period.
 - » **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. 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 \$42.36 per ton for the study period.

- **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 2026, 2028 and 2030 (three total); \$90,000 per position inclusive of salaries and benefits.
 - » One new vehicle in FY 2028 and FY 2030 (two total); \$590,000 per vehicle.
 - » Residential container replacement investment is planned at \$90,000 annually.
 - » One garbage and one recycling container for all new customer accounts; \$60 per container and assuming an average of 1,500 new customer accounts annually.
 - » Additional landfill fees of \$148,500 beginning FY 2026.
 - » Additional fleet maintenance expenses of \$293,000 beginning FY 2026.

Debt Obligations

- **Existing Debt Service:**
 - » The residential solid waste program does not carry any existing debt.
- **New Debt Service:**
 - » The forecast includes \$11.0 million in new debt issued in FY 2026 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 \$970,000, beginning in FY 2027.

Capital Funding Plan

The residential solid waste program is anticipating \$15.2 million in capital costs from FY 2026 through FY 2029. The majority of the capital funding plan (88 percent) supports the replacement of the City's fleet shop (\$13.3 million) and the purchase of new collection trucks and barrels (\$1.9 million).

Funding for the capital plan comes from different 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 27 percent of the capital plan from FY 2026 to FY 2029, or \$4.2 million.
- **Proceeds from Debt:** Proceeds from revenue bonds total \$11.0 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 73 percent of the FY 2026 to FY 2029 capital plan.

Exhibit 5 provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

Exhibit 5.

Residential Solid Waste Capital Funding Summary

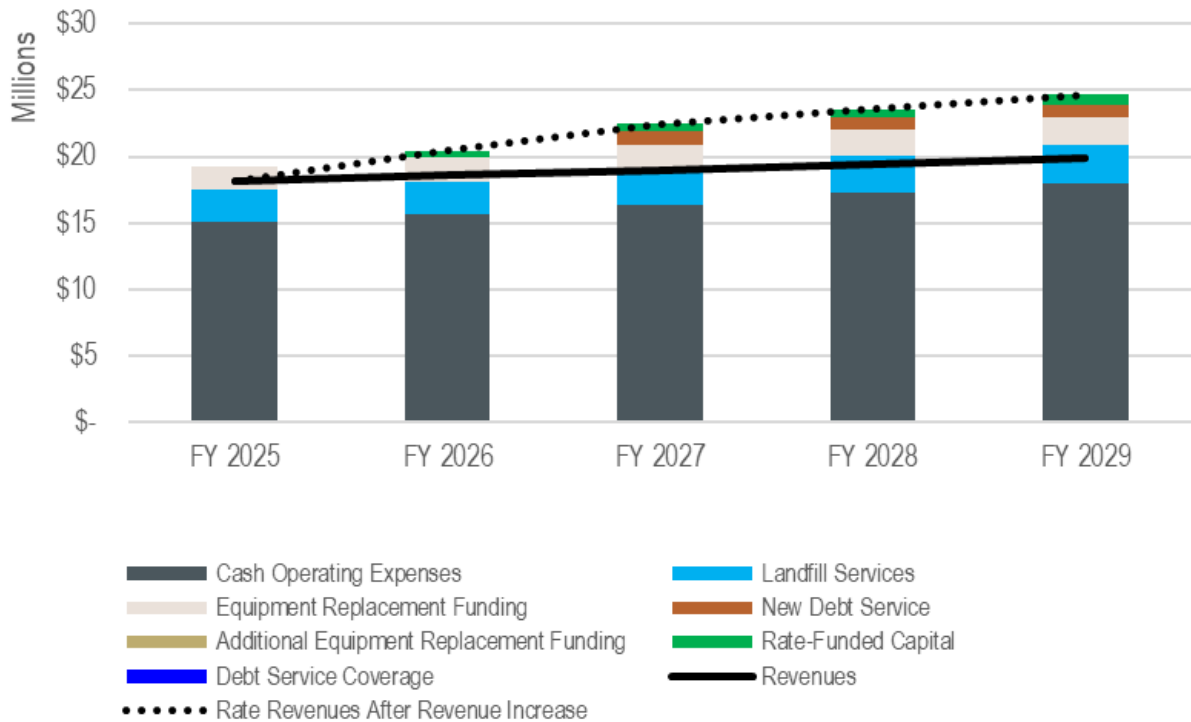
| | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|
| Total Capital Costs | \$13,543,574 | \$ 279,573 | \$ 1,024,415 | \$ 310,042 |
| Funding Sources | | | | |
| Cash Balances and Rate-Funded Capital | \$ 2,543,574 | \$ 279,573 | \$ 1,024,415 | \$ 310,042 |
| New Debt Proceeds | 11,000,000 | - | - | - |
| Total Funding Sources | \$13,543,574 | \$ 279,573 | \$ 1,024,415 | \$ 310,042 |

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 6 provides a summary of the residential solid waste revenue requirement findings.

Exhibit 6.
Residential Solid Waste Program Revenue Requirement Summary



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

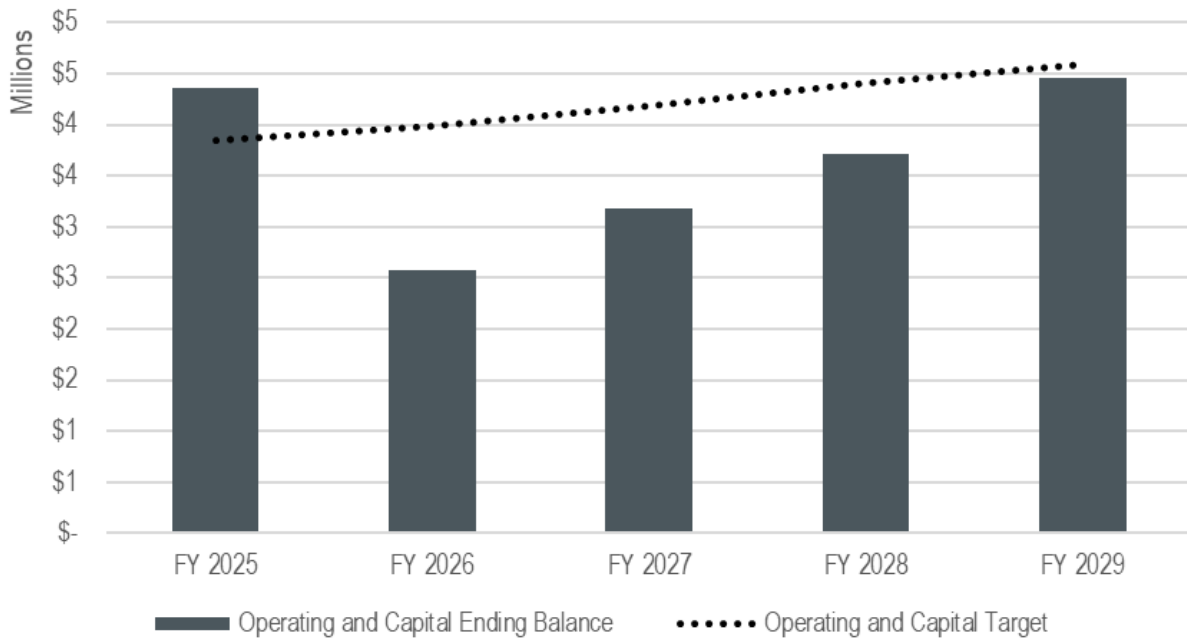
- Revenues at current rate levels are projected to generate \$18.6 million in FY 2026 compared to \$19.9 million in expenditures – resulting in a cash deficit of \$1.3 million.
- Annual operating expenses are projected to continue to outpace revenues over the rate-setting period. By FY 2029, the annual cash deficit is projected to be \$4.0 million.
 - » Landfill disposal expenses are forecast to increase from \$2.4 million in FY 2025 to \$2.8 million by FY 2029.
 - » All other cash operating expenses are forecast to increase from \$16.9 million in FY 2025 to \$20.1 million in FY 2029.
 - » Annual debt service for the fleet maintenance shop replacement is forecast at \$970,000 beginning in FY 2027.
- To meet the projected financial obligations of the residential solid waste program, rate increases are proposed at 10 percent in FY 2026 and 8 percent in FY 2027, followed by 2.35 percent in FY 2028 and onward. 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 7** shows a summary of the projected ending fund balance through FY 2029 with the proposed rate revenue adjustments. Financial reserve levels are

projected to temporarily dip below the target, to a low of 13 percent of annual expenditures in FY 2026, rebuilding to target by FY 2029.

Exhibit 7
Residential Solid Waste Fund Balance and Reserve Target



Existing Rates

The existing residential solid waste rate structure is composed of a fixed monthly charge of \$23.55. Customers can subscribe for an additional weekly refuse collection service for an additional \$19.29 per month. The proposed rate revenue adjustments would be assessed to all charge components. The proposed rates for residential solid waste service over the rate-setting period are summarized in **Exhibit 7**.

Exhibit 7.

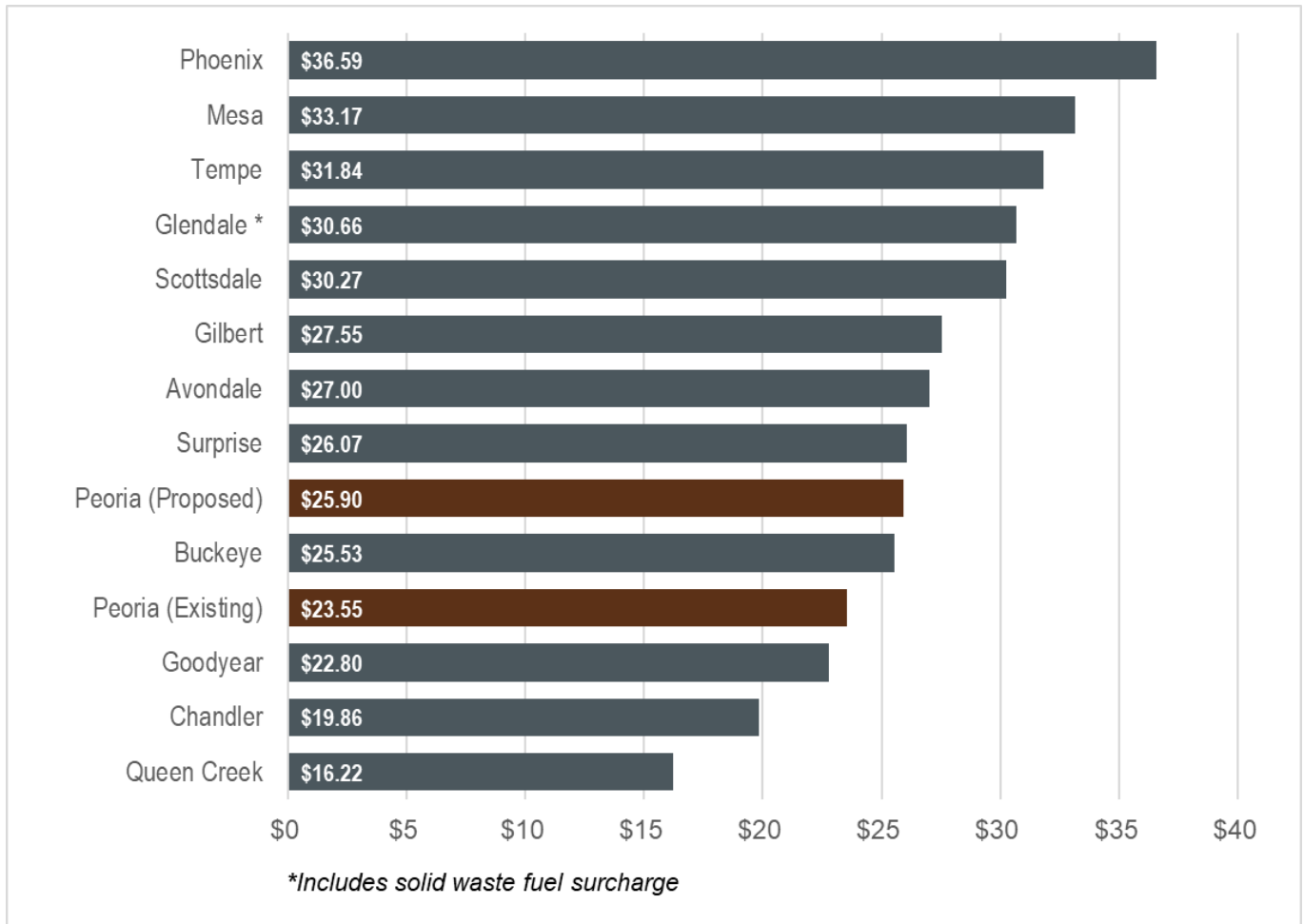
Proposed Residential Solid Waste Rates

| RESIDENTIAL SOLID WASTE RATE SUMMARY SCHEDULE | | | | | | |
|--|---------------------|--|-----------|---------------------|-----------|----------|
| Residential Customers | Existing FY 2025 | FY 2026 | FY 2027 | Proposed FY 2028 | FY 2029 | FY 2030 |
| Rate Increase | | 10.00% | 8.00% | 2.35% | 2.35% | 2.35% |
| Regular Service (One Trash and One Recycle Barrel) | \$ 23.55 | \$ 25.90 | \$ 28.00 | \$ 28.70 | \$ 29.40 | \$ 30.10 |
| Each additional trash barrel | \$ 19.29 | \$ 21.20 | \$ 22.90 | \$ 23.40 | \$ 23.90 | \$ 24.50 |
| Replacement Barrel | \$ 97.00 | Cost to City, plus 20% to cover overhead | | | | |
| <u>Special Haul Service</u> | | | | | | |
| Costs for first 30 min of on-site staff time | \$ 65.55 | \$ 72.10 | \$ 77.90 | \$ 79.70 | \$ 81.60 | \$ 83.50 |
| Extra Equipment Charge - pick-ups requiring the use of a tractor or roll-off-bin | \$ 65.55 | \$ 72.10 | \$ 77.90 | \$ 79.70 | \$ 81.60 | \$ 83.50 |
| <u>Miscellaneous Fees</u> | | | | | | |
| Late Fee | | 1.5% of balance with min. of \$2.00 | | | | |
| Non-owner Occupied Utility Service Deposit (Non-Water) | \$ 104.00 | \$ 114.40 | \$ 123.60 | \$ 126.50 | \$ 129.50 | \$132.50 |

[Rate Survey](#)

Exhibit 8 compares the City’s monthly rate for 90/95-gallon weekly service with the 2025 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 8.
Residential Monthly Solid Waste Rate Survey



Commercial Solid Waste

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 1,600 commercial accounts. 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. 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.

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.

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 2025 budget formed the baseline for this forecast. The operating forecast was developed through 2041 with the discussion below concentrating on the FY 2026 through FY 2029 study period. The following list highlights some of the key assumptions used in the development of the commercial solid waste program operating forecast.

Operating Revenue

- **Retail Rate Revenue** was based on actual rate revenue from the City's financial management system for FY 2024. 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:
 - » 2.00 percent throughout the forecast period
- **Non-Rate Revenue** consists of other operating revenues and interest earnings. Representing only three 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 4.50 investment earnings rate and available fund balances for each year.

O&M Expenses

- **General Cost Inflation** was set at 2.4 percent in FY 2026, 2.3 percent in FY 2027-2028 and then 2.2 percent for the remainder of the forecast based on feedback from City staff and in alignment with internal forecasting practices.
- **Construction Cost Inflation (CCI)** Begins FY 2025 at 4.5 percent, decreasing to 3.5 percent by FY 2029 based on internal forecasts from the City's engineering department.
- **Labor Cost Inflation** was set at 5.0 percent for all years in the study period based on feedback from the City.
- **Benefit Cost Inflation** was set at 4.0 percent for all years in the study period based on feedback from the City.

- **Fuel Cost Inflation** was assumed to remain at 5.09 percent for the study period based on the 10-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 3.86 percent for 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 2.25 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 \$2.33 from \$33.25 in FY 2025 to \$35.58 per ton in FY 2026, followed by an additional \$0.92 per ton increase in FY 2027. From FY 2028 onward 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 \$1.13 from \$37.76 per ton to \$38.89 per ton in FY 2026. The forecast of tipping fees at the transfer station are estimated at \$39.67, \$40.58, and \$41.48 per ton for FY 2027, FY 2028, and FY 2029, respectively.
 - » The tipping fee at the landfill is projected to increase \$0.81 from \$27.05 per ton to \$27.86 per ton in FY 2026. The forecast of tipping fees at the transfer station are estimated at \$28.42, \$29.07, and \$29.71 per ton for FY 2027, FY 2028, and FY 2029, respectively.
 - » **City of Phoenix Recycling Processing Fee:** The processing fee per ton is forecasted to increase \$1.98 from \$98.79 to \$100.77 in FY 2026 with 2 percent fee increases for the remainder of the study period.
 - » **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. 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 \$42.36 per ton for the study period.

Debt Obligations

- **Existing Debt Service:**
 - » The commercial solid waste program does not carry any existing debt.
- **Future Debt Service:**
 - » The commercial solid waste program does not anticipate adding any new debt to fund the capital program.

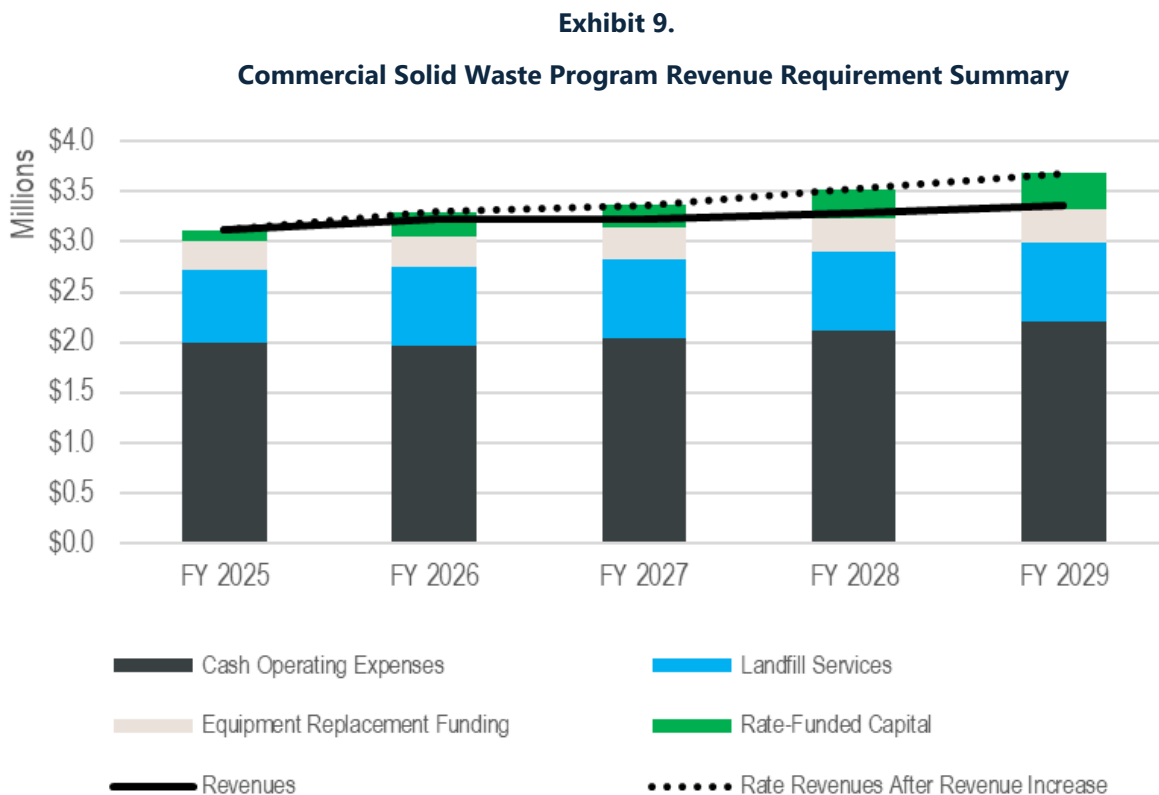
Capital Funding Plan

The commercial solid waste program is anticipating \$1.7 million in capital costs from FY 2026 through FY 2029 (including escalation). The entirety of the capital program is made up of the commercial solid waste utility's contribution to replacing the City's fleet shop.

Funding for the capital plan comes from accumulated cash balances and available rate funded capital. No additional debt is forecast to fund the capital program for the commercial solid waste utility.

Summary of Revenue Requirement

The operating forecast components of O&M expenses, 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 10** provides a summary of the commercial solid waste revenue requirement findings.



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

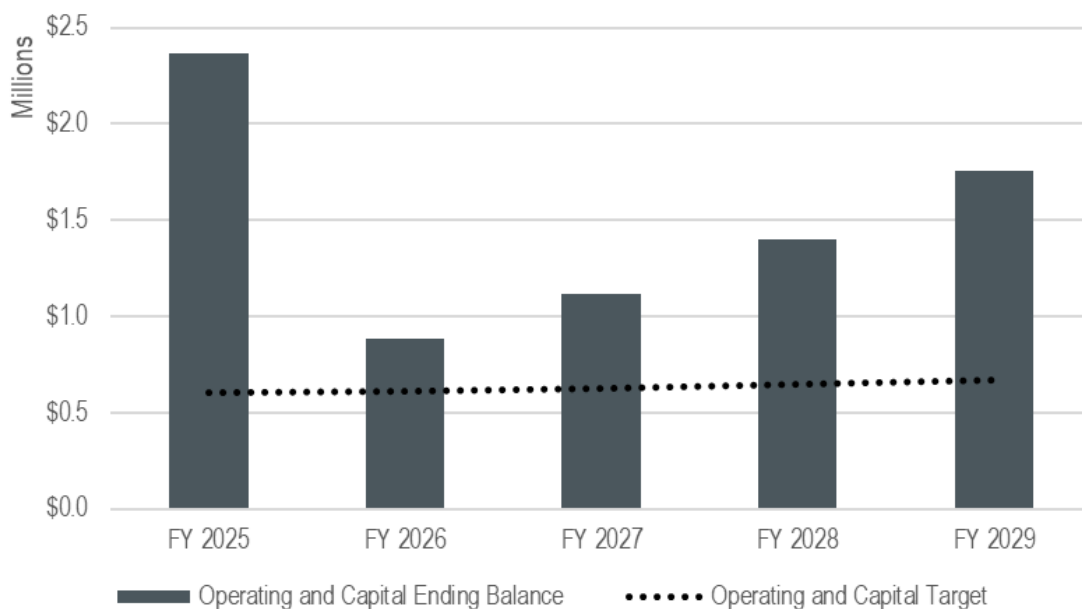
- Revenues at current rate levels are projected to be outpaced by annual operating expenses over the rate-setting period, resulting in cash flow decreasing from \$170,000 in FY 2026 to \$40,000 by FY 2029.
 - » Disposal and processing expenses are forecast to increase from \$0.7 million in FY 2025 to \$0.8 million by FY 2029.

- » All other cash operating expenses are forecast to increase from \$2.3 million in FY 2025 to \$2.5 million in FY 2029.
- To meet the projected financial obligations of the commercial solid waste program, rate increases are proposed at 2.4 percent in FY 2026, followed by 2.3 percent in FY 2027 and FY 2028, dropping to 2.2 percent annually in FY 2029. 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 financial reserve target for the Commercial Solid Waste Fund equivalent to 20 percent of annual expenditures. **Exhibit 10** shows a summary of the projected ending fund balance through FY 2029 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 2029 is \$1.8 million.

Exhibit 10.
Projected Operating Fund Balance



Commercial Solid Waste Rate Schedule

The overall revenue requirement results for the FY 2026 to FY 2029 rate-setting period were applied to the utility’s four customer classes based on the cost-of-service phase-in completed as part of the FY 2021 rate study. Notable class-specific adjustments include:

- Front-load refuse collection service rates are projected to increase between 2.00 and 2.20 percent from FY 2026 to FY 2029.

- 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 range from 2.20 percent to 5.75 percent from FY 2026 through FY 2029.
- Roll-off service rates are projected to increase by the system average increase throughout the study period.

Exhibit 11 to Exhibit 15 detail the forecasted annual rate schedule for commercial solid waste services.

Exhibit 11.
Commercial Front-Load Refuse Rate Schedule

| FRONT LOAD - COMMERCIAL SOLID WASTE RATE SCHEDULE | | | | | | |
|---|----------------------|-----------|-----------|-----------|-----------|-----------|
| Container Size | Collections per Week | Existing | | Proposed | | |
| | | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| 2 Cubic Yard Container | 1 time per week | \$ 86.57 | \$ 88.43 | \$ 90.22 | \$ 92.05 | \$ 94.07 |
| | 2 times per week | \$ 134.92 | \$ 137.82 | \$ 140.61 | \$ 143.45 | \$ 146.61 |
| | 3 times per week | \$ 198.54 | \$ 202.80 | \$ 206.92 | \$ 211.10 | \$ 215.74 |
| | 4 times per week | \$ 262.18 | \$ 267.81 | \$ 273.24 | \$ 278.76 | \$ 284.90 |
| | 5 times per week | \$ 325.80 | \$ 332.79 | \$ 339.55 | \$ 346.41 | \$ 354.03 |
| | 6 times per week | \$ 389.44 | \$ 397.80 | \$ 405.87 | \$ 414.07 | \$ 423.18 |
| | 7 times per week | \$ 468.99 | \$ 479.06 | \$ 488.78 | \$ 498.66 | \$ 509.63 |
| 3 Cubic Yard Container | 1 time per week | \$ 92.05 | \$ 94.03 | \$ 95.93 | \$ 97.87 | \$ 100.03 |
| | 2 times per week | \$ 147.98 | \$ 151.16 | \$ 154.22 | \$ 157.34 | \$ 160.80 |
| | 3 times per week | \$ 218.10 | \$ 222.78 | \$ 227.30 | \$ 231.90 | \$ 237.00 |
| | 4 times per week | \$ 288.16 | \$ 294.35 | \$ 300.32 | \$ 306.39 | \$ 313.13 |
| | 5 times per week | \$ 358.28 | \$ 365.97 | \$ 373.40 | \$ 380.94 | \$ 389.32 |
| | 6 times per week | \$ 428.38 | \$ 437.58 | \$ 446.46 | \$ 455.48 | \$ 465.50 |
| | 7 times per week | \$ 516.03 | \$ 527.11 | \$ 537.81 | \$ 548.67 | \$ 560.74 |
| 4 Cubic Yard Container | 1 time per week | \$ 97.65 | \$ 99.75 | \$ 101.77 | \$ 103.83 | \$ 106.11 |
| | 2 times per week | \$ 161.15 | \$ 164.61 | \$ 167.95 | \$ 171.34 | \$ 175.11 |
| | 3 times per week | \$ 237.72 | \$ 242.82 | \$ 247.75 | \$ 252.76 | \$ 258.32 |
| | 4 times per week | \$ 314.29 | \$ 321.04 | \$ 327.55 | \$ 334.17 | \$ 341.52 |
| | 5 times per week | \$ 390.85 | \$ 399.24 | \$ 407.34 | \$ 415.57 | \$ 424.72 |
| | 6 times per week | \$ 467.44 | \$ 477.47 | \$ 487.17 | \$ 497.01 | \$ 507.94 |
| | 7 times per week | \$ 563.14 | \$ 575.23 | \$ 586.90 | \$ 598.76 | \$ 611.93 |
| 6 Cubic Yard Container | 1 time per week | \$ 108.71 | \$ 111.04 | \$ 113.30 | \$ 115.59 | \$ 118.13 |
| | 2 times per week | \$ 187.37 | \$ 191.39 | \$ 195.28 | \$ 199.22 | \$ 203.60 |
| | 3 times per week | \$ 276.89 | \$ 282.83 | \$ 288.57 | \$ 294.40 | \$ 300.88 |
| | 4 times per week | \$ 366.40 | \$ 374.27 | \$ 381.86 | \$ 389.58 | \$ 398.15 |
| | 5 times per week | \$ 455.89 | \$ 465.68 | \$ 475.13 | \$ 484.73 | \$ 495.39 |
| | 6 times per week | \$ 545.44 | \$ 557.15 | \$ 568.46 | \$ 579.94 | \$ 592.70 |
| | 7 times per week | \$ 657.36 | \$ 671.47 | \$ 685.10 | \$ 698.94 | \$ 714.32 |
| 8 Cubic Yard Container | 1 time per week | \$ 119.77 | \$ 122.34 | \$ 124.82 | \$ 127.35 | \$ 130.15 |
| | 2 times per week | \$ 213.48 | \$ 218.06 | \$ 222.49 | \$ 226.98 | \$ 231.98 |
| | 3 times per week | \$ 315.96 | \$ 322.74 | \$ 329.29 | \$ 335.95 | \$ 343.34 |
| | 4 times per week | \$ 418.41 | \$ 427.39 | \$ 436.07 | \$ 444.88 | \$ 454.66 |
| | 5 times per week | \$ 520.86 | \$ 532.04 | \$ 542.84 | \$ 553.81 | \$ 565.99 |
| | 6 times per week | \$ 623.33 | \$ 636.71 | \$ 649.63 | \$ 662.76 | \$ 677.34 |
| | 7 times per week | \$ 751.43 | \$ 767.56 | \$ 783.14 | \$ 798.96 | \$ 816.54 |
| High Density Premium | per cubic yard | \$ 2.98 | \$ 3.04 | \$ 3.11 | \$ 3.17 | \$ 3.24 |

Exhibit 12.

Commercial Compactor and Side-Load Solid Waste Rate Schedule

| COMPACTOR - COMMERCIAL SOLID WASTE RATE SCHEDULE | | | | | | |
|--|----------------------|-------------|-------------|-------------|-------------|-------------|
| Container Size | Collections per Week | Existing | | Proposed | | |
| | | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| 4 Cubic Yard Container | 1 time per week | \$ 208.79 | \$ 213.80 | \$ 218.72 | \$ 223.75 | \$ 228.67 |
| | 2 times per week | \$ 401.52 | \$ 411.16 | \$ 420.61 | \$ 430.29 | \$ 439.75 |
| | 3 times per week | \$ 594.24 | \$ 608.50 | \$ 622.50 | \$ 636.81 | \$ 650.82 |
| | 4 times per week | \$ 786.99 | \$ 805.88 | \$ 824.41 | \$ 843.37 | \$ 861.93 |
| | 5 times per week | \$ 979.71 | \$ 1,003.22 | \$ 1,026.30 | \$ 1,049.90 | \$ 1,073.00 |
| | 6 times per week | \$ 1,172.45 | \$ 1,200.59 | \$ 1,228.20 | \$ 1,256.45 | \$ 1,284.09 |
| | 7 times per week | \$ 1,413.38 | \$ 1,447.30 | \$ 1,480.59 | \$ 1,514.64 | \$ 1,547.96 |
| 6 Cubic Yard Container | 1 time per week | \$ 236.67 | \$ 242.35 | \$ 247.92 | \$ 253.63 | \$ 259.21 |
| | 2 times per week | \$ 454.82 | \$ 465.74 | \$ 476.45 | \$ 487.41 | \$ 498.13 |
| | 3 times per week | \$ 672.71 | \$ 688.86 | \$ 704.70 | \$ 720.91 | \$ 736.77 |
| | 4 times per week | \$ 890.60 | \$ 911.97 | \$ 932.95 | \$ 954.41 | \$ 975.40 |
| | 5 times per week | \$ 1,108.47 | \$ 1,135.07 | \$ 1,161.18 | \$ 1,187.89 | \$ 1,214.02 |
| | 6 times per week | \$ 1,326.39 | \$ 1,358.22 | \$ 1,389.46 | \$ 1,421.42 | \$ 1,452.69 |
| | 7 times per week | \$ 1,598.76 | \$ 1,637.13 | \$ 1,674.78 | \$ 1,713.30 | \$ 1,751.00 |
| 8 Cubic Yard Container | 1 time per week | \$ 264.11 | \$ 270.45 | \$ 276.67 | \$ 283.03 | \$ 289.26 |
| | 2 times per week | \$ 507.14 | \$ 519.31 | \$ 531.26 | \$ 543.47 | \$ 555.43 |
| | 3 times per week | \$ 750.18 | \$ 768.18 | \$ 785.85 | \$ 803.93 | \$ 821.61 |
| | 4 times per week | \$ 993.23 | \$ 1,017.07 | \$ 1,040.46 | \$ 1,064.39 | \$ 1,087.81 |
| | 5 times per week | \$ 1,236.27 | \$ 1,265.94 | \$ 1,295.06 | \$ 1,324.84 | \$ 1,353.99 |

| Side-Load - COMMERCIAL SOLID WASTE RATE SCHEDULE | | | | | | |
|--|----------------------|-----------|-----------|-----------|-----------|-----------|
| Container Size | Collections per Week | Existing | | Proposed | | |
| | | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| 90 Gallon Barrel | 1 time per week | \$ 23.67 | \$ 26.04 | \$ 28.12 | \$ 28.78 | \$ 29.46 |
| | 2 times per week | \$ 47.34 | \$ 52.07 | \$ 56.24 | \$ 57.56 | \$ 58.91 |
| | 3 times per week | \$ 71.01 | \$ 78.11 | \$ 84.36 | \$ 86.34 | \$ 88.37 |
| | 4 times per week | \$ 94.68 | \$ 104.15 | \$ 112.48 | \$ 115.12 | \$ 117.83 |
| | 5 times per week | \$ 118.35 | \$ 130.19 | \$ 140.60 | \$ 143.90 | \$ 147.29 |

Exhibit 13.
Commercial Recycling Solid Waste Rate Schedule

| RECYCLING - COMMERCIAL SOLID WASTE RATE SCHEDULE | | | | | | |
|--|-------------------------------------|----------|----------|----------|----------|----------|
| Container Size | Collections per Week | Existing | | Proposed | | |
| | | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| 90 Gallon Barrel | 1 time per week | \$ 37.60 | \$ 39.76 | \$ 42.05 | \$ 44.47 | \$ 45.44 |
| | Each additional collection per week | \$ 28.84 | \$ 30.50 | \$ 32.25 | \$ 34.11 | \$ 34.86 |
| 300 Gallon Barrel | 1 time per week | \$ 39.91 | \$ 42.20 | \$ 44.63 | \$ 47.20 | \$ 48.24 |
| | Each additional collection per week | \$ 31.80 | \$ 33.63 | \$ 35.56 | \$ 37.61 | \$ 38.43 |
| 2 Cubic Yard Container | 1 time per week | \$ 41.13 | \$ 43.49 | \$ 46.00 | \$ 48.64 | \$ 49.71 |
| | Each additional collection per week | \$ 33.00 | \$ 34.90 | \$ 36.90 | \$ 39.03 | \$ 39.88 |
| 3 Cubic Yard Container | 1 time per week | \$ 43.11 | \$ 45.59 | \$ 48.21 | \$ 50.98 | \$ 52.10 |
| | Each additional collection per week | \$ 35.48 | \$ 37.52 | \$ 39.68 | \$ 41.96 | \$ 42.88 |
| 4 Cubic Yard Container | 1 time per week | \$ 45.20 | \$ 47.80 | \$ 50.55 | \$ 53.45 | \$ 54.63 |
| | Each additional collection per week | \$ 37.87 | \$ 40.05 | \$ 42.35 | \$ 44.79 | \$ 45.77 |
| 6 Cubic Yard Container | 1 time per week | \$ 49.19 | \$ 52.02 | \$ 55.01 | \$ 58.17 | \$ 59.45 |
| | Each additional collection per week | \$ 41.96 | \$ 44.37 | \$ 46.92 | \$ 49.62 | \$ 50.71 |
| 8 Cubic Yard Container | 1 time per week | \$ 55.40 | \$ 58.59 | \$ 61.95 | \$ 65.52 | \$ 66.96 |
| | Each additional collection per week | \$ 49.16 | \$ 51.99 | \$ 54.98 | \$ 58.14 | \$ 59.42 |

Exhibit 14.
Commercial Roll-Off Solid Waste Rate Schedule

| ROLL-OFF - COMMERCIAL SOLID WASTE RATE SCHEDULE | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Containers | Existing | | Proposed | | |
| | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| <u>Monthly Rental Fees</u> | | | | | |
| All Containers | \$ 54.08 | \$ 55.38 | \$ 56.65 | \$ 57.95 | \$ 59.23 |
| No Pull Charge | \$ 81.12 | \$ 83.07 | \$ 84.98 | \$ 86.93 | \$ 88.84 |
| Fee per Container Pull (all sizes) | \$ 232.54 | \$ 238.12 | \$ 243.60 | \$ 249.20 | \$ 254.68 |
| Delivery Service Charge | \$ 34.61 | \$ 35.44 | \$ 36.26 | \$ 37.09 | \$ 37.91 |
| Disposal Fee per Ton (or portion thereof) | \$ 35.69 | \$ 36.55 | \$ 37.39 | \$ 38.25 | \$ 39.09 |

Exhibit 15.
Miscellaneous Solid Waste Charges

| MISCELLANEOUS COMMERCIAL SOLID WASTE CHARGES | | | | | |
|--|-----------|-------------------------------------|-----------|-----------|-----------|
| Description | Existing | | Proposed | | |
| | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| Container Relocation (Front-Load & Roll-Off) | \$ 40.10 | \$ 41.06 | \$ 42.01 | \$ 42.97 | \$ 43.92 |
| Container Steam Cleaning | \$ 63.00 | \$ 64.51 | \$ 66.00 | \$ 67.51 | \$ 69.00 |
| Container Painting | \$ 80.10 | \$ 82.02 | \$ 83.91 | \$ 85.84 | \$ 87.73 |
| Handling Gates and Pullouts of Containers | \$ 3.40 | \$ 3.47 | \$ 3.54 | \$ 3.62 | \$ 3.69 |
| Locking Devices | \$ 5.80 | \$ 5.92 | \$ 6.04 | \$ 6.17 | \$ 6.30 |
| Casters | \$ 6.80 | \$ 6.95 | \$ 7.09 | \$ 7.23 | \$ 7.39 |
| Roll-Off Dry Runs (container is not ready) | \$ 40.10 | \$ 41.06 | \$ 42.01 | \$ 42.97 | \$ 43.92 |
| Roll-Off Unloads (overloaded containers) | \$ 40.10 | \$ 41.06 | \$ 42.01 | \$ 42.97 | \$ 43.92 |
| Commercial Solid Waste Service Deposit | \$ 257.70 | \$ 263.88 | \$ 269.95 | \$ 276.16 | \$ 282.24 |
| 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 | \$ 114.49 | \$ 117.24 | \$ 119.93 | \$ 122.69 | \$ 125.39 |
| Extra Equipment Charge - pick-ups requiring the use of a tractor or roll-off-bin | \$ 57.25 | \$ 58.62 | \$ 59.97 | \$ 61.35 | \$ 62.70 |