TO: HONORABLE CITY COUNCIL  
ATTN: FINANCE COMMITTEE  
FROM: CITY MANAGER  
DEPARTMENT: PUBLIC WORKS

DATE: APRIL 17, 2007

SUBJECT: APPROVAL OF REFUSE RATE INCREASE; REQUEST FOR ADOPTION OF A RESOLUTION TO AMEND UTILITY RATE SCHEDULES R-1, R-2, AND R-3, AND UTILITIES RULE AND REGULATION 11

RECOMMENDATIONS
Staff requests that the Finance Committee recommend that the Council approve a thirteen percent refuse rate increase and adopt the attached resolution (Attachment A) changing the Utility Rate Schedules and Utility Rule and Regulation 11. Specifically:


2. Amend Utilities Rule and Regulation 11 “Billing, Adjustments, and Payments of Bills” to create consistency on the adjustment periods between Refuse utility and the other City Utilities.

BACKGROUND
The last rate increase applied across the Refuse Fund Utility Rate Schedule (R series) occurred in May 2005 (CMR:256:05). At that time, Council approved an increase to Refuse Fund rates of 8 percent or $1.6 million in revenue annually. A rate increase was necessary due to rising operating costs for the landfill and recycling programs.

Proposition 218 Notice
The City must give written notice to owners whose parcels will be subject to a new or increased water, sewer, or refuse utility rate before any such new or increased rate can be imposed. A public hearing on the new or increased rate must be held not less than 45 days after the mailing of notice to the affected owners. At the hearing, the Council must consider written protests against the imposition of any such new or increased rate. If a majority of the owners do object, the new or increased rate may not be imposed. Because property ownership is deemed to include tenancies in property where tenants are directly liable to pay for such utility service, the notice must be sent tenants. A pending bill (AB 1260) would clarify that notice should be sent only to customers (whether owners or tenants) who receive the utility services.
DISCUSSION
Staff is proposing a thirteen percent rate increase that would net $2,884,000 million in additional revenue annually. This increase is necessary to maintain a Refuse Fund reserve consistent with the Council-adopted reserve policy, and to meet the increased financial obligations of the Refuse Fund including the following:

- Palo Alto Sanitation Company (PASCO) compensation - $600,000. This adjustment is a result of Consumer Price Index increases and a shortfall in recycling revenues.

- SMaRT Station prevailing wage standard - $425,000. The Director of the California Department of Industrial Relations recently clarified that the prevailing wage standards applied to the various worker classifications at the station. This has caused an increase in labor costs to all three partner cities, for future budgets.

- SMaRT Station equipment upgrade project - $325,000. Several key pieces of the mechanical sorting system, referred to as the materials recovery system, have reached the end of their useful lives and are in need of replacement. This project will be financed through bonds. There will be one-time cost resulting from loss of diversion and revenues during construction in 2007-08; and ongoing bond repayment costs through 2021.

- Retiree Medical Liability - $243,000 – The retiree medical liability costs include the amount paid for current employees ($100,000), the amount for future retirees ($38,000), and the amount for payment of past liabilities ($104,000). The retiree medical cost allocations are part of the City’s effort to comply with government accounting standards (GASB 45) related to retiree medical and the allocations are applied to all funds in the City.

- CIP Project - Relocation of Landfill Facilities - $1,000,000 - This project will relocate the existing recycling drop-off center, toll booth, scale and administrative trailer at the landfill in order to begin landfill closure. Design and construction will occur in FY 2008-09. As indicated in the Baylands Master Plan, the landfill is scheduled to be closed during 2011. Relocating existing recycling drop-off center, landfill toll booth, scale and administrative trailer is necessary to complete filling and to begin closure activity in the area where they are currently located.

The proposed monthly rate would increase from $21.38 to $24.16 for residential customers with one 32-gallon can service. The table below shows the current rate for single-family residents, the proposed rate increase (see Utility Rate Schedule R-1 in Attachment B), and the proposed difference.

<table>
<thead>
<tr>
<th>Service Level</th>
<th>Current Rate (FY 2006-07)</th>
<th>Proposed Rate (FY 2007-08)</th>
<th>Proposed Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mini can (20 gallon)</td>
<td>$16.87</td>
<td>$19.06</td>
<td>$2.19</td>
</tr>
<tr>
<td>One standard can (32</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gallons)</td>
<td>$21.38</td>
<td>$24.16</td>
<td>$2.78</td>
</tr>
</tbody>
</table>
Two standard cans  
(32 gallons each) | 44.01 | 49.73 | 5.72  
Three standard cans  
(32 gallons each) | 66.64 | 75.30 | 8.66  
Four standard cans  
(32 gallons each) | 89.26 | 100.86 | 11.60

Staff surveyed surrounding jurisdictions to compare Palo Alto’s proposed single-family rates with other communities’ rates. However, Palo Alto provides more services by the Refuse Fund than do other jurisdictions, making it difficult to equally compare the service levels. Palo Alto’s premium services include backyard garbage collection, weekly street sweeping, monthly hazardous waste collection, extensive recycling collection and waste diversion services, and landfill and composting operations. The survey and the table below show that even with the higher service levels, Palo Alto’s proposed rates are competitive in comparison to other jurisdictions.

| Current Single Family Rates  
From Surrounding Jurisdictions |
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jurisdiction</td>
</tr>
<tr>
<td>Palo Alto proposed</td>
</tr>
<tr>
<td>Cupertino</td>
</tr>
<tr>
<td>Los Altos</td>
</tr>
<tr>
<td>Los Altos Hills</td>
</tr>
<tr>
<td>Mountain View</td>
</tr>
<tr>
<td>San Jose</td>
</tr>
<tr>
<td>Santa Clara</td>
</tr>
<tr>
<td>Sunnyvale</td>
</tr>
<tr>
<td><strong>Average rate (excluding Palo Alto)</strong></td>
</tr>
</tbody>
</table>

Changes to the Utilities Rule and Regulation 11 are necessary to create consistency on the adjustment periods between the Refuse utility and the other City Utilities. In 2006, the Utilities Department changed Rule and Regulation 11, including section 3A, “Applicable Adjustment Period for Meter Errors, Retroactive Billing, and Refunds”. The language was changed to reflect a period of not to exceed 6 months on residential customer bill disputes and a period not to exceed 12 months on commercial customer billing disputes. Consequently, section 6 on “Refuse Billing Disputes and Adjustments” was updated to reflect the same adjustment periods for refuse bill disputes (Attachment C).

**RESOURCE IMPACT**

Staff estimates that the proposed thirteen percent increase to the refuse rates will generate $2,884,005 million to the Refuse Fund in FY 2007-08. If a rate increase does not occur in FY 2007-08, the Refuse Fund reserve will fall $2,251,969 million short of the Council-adopted minimum level of $2,218,465 million. Staff annually reviews and updates the Refuse Fund Ten-
Year Financial Forecast to determine the rate increase percentage that may be required in subsequent years.

**ENVIRONMENTAL IMPACT**
An increase in rates to meet financial reserve needs is not subject to review pursuant to the California Environmental Quality Act (CEQA), California Public Resources Code section 21080, subdivision (b)(8) and Title 14 California Code of Regulation section 15273 (a)(3).

**ATTACHMENTS**
Attachment A: Resolution
Attachment B: Utility Rate Schedules R-1, R-2, and R-3
Attachment C: Utilities Rule and Regulation 11

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