

**MEMORANDUM**

**TO:** Max Royle, City Manager

**FROM:** William Tredik, P.E. Public Works Director

**DATE:** April 6, 2020

**SUBJECT:** Non-Ad Valorem Assessment to Pay costs top Collect Household Waste, Recyclables and Yard Trash

**BACKGROUND**

The City of St. Augustine Beach currently levies a yearly non-ad valorem assessment to pay a portion of the cost to dispose of household waste and yard trash. The existing assessment was first levied in 2012 at a rate of \$74 per household and has not changed since inception. The current non-ad valorem assessment pays a portion of disposal costs but does not pay for collection costs for household waste, yard trash or recyclables. For disposal, the city makes up the difference from General Fund Revenues. For collection and disposal of recyclables from residences, the City pays \$9,100 from the General Fund per month to a private company, Advanced Disposal.

On September 10, 2019 the City Commission discussed the option of expanding the non-ad valorem assessment to fund a portion of the collection costs for residential solid waste services, thus reducing the dependency upon the General Fund. Specific required steps were identified to proceed with implementing the non-ad valorem assessment, including:

1. Prior to January 1, 2020, the City Commission adopts a resolution at a public hearing. The resolution is to state the uniform method of collecting such an assessment.
2. Four consecutive weeks prior to the hearing, the City must publish in a newspaper of general circulation the notice of the City's intent to use the uniform method of collecting the assessment. The resolution must state the need for the assessment and must include a legal description of the boundaries of the real property that will be subject to the assessment.
3. If the Commission adopts the resolution, then a copy of it must be sent by January 10th to the Tax Collector, the Property Appraiser, and the Florida Department of Revenue.

4. Between January 1, 2020, and September 15, 2020, the City must adopt another resolution at a public hearing. This resolution will adopt a non-ad valorem assessment roll of the properties that will be charged the assessment.
5. At least 20 days before the public hearing, the City must notify every property owner who will be affected by the special assessment of the assessment's purpose, the amount of the assessment, the total revenue the City expects to collect, and other information concerning the specific assessment. A notice must be published in a newspaper of general circulation in the County about the public hearing. The notice must also contain specific information about the proposed assessment.
6. If the resolution is adopted, the City then must have an interlocal agreement with the Tax Collector for his office to collect the assessment and remit it, minus an administrative charge of 2%, to the City.

After discussion, the City Commission voted to move forward to expand the non-ad valorem assessment to include residential solid waste collection and directed staff to move forward with the process. At the October 7, 2019 City commission meeting, staff requested guidance from the City Commission regarding proceeding with expansion of the non-ad valorem assessment. It was the consensus of the City Commission to continue with the process.

For four consecutive weeks prior to the December 2, 2019 City commission meeting, the City published, in a newspaper of general circulation, a notice of the City's intent to use the uniform method of collecting the assessment. On December 2, 2019 the City Commission passed Resolution 19-13, expressing intent to levy a non-ad valorem assessment for the collection and disposal of solid waste and recyclables. The resolution stated the need for the assessment and a legal description of the boundaries of the property subject to the assessment. Copies of the adopted resolution 19-13 were mailed to the Tax collector, the Property Appraiser and the Florida Department of Revenue in December 2019.

## **DISCUSSION**

The City is now at the point where it is necessary to set ranges of the assessment for the three primary services; collection; disposal and recycling. In order to select appropriate ranges for these services a detailed analysis of the actual costs of solid waste collection and disposal is necessary. Analyses in early 2019 had placed this cost at approximately \$460 per household. The City Commission directed staff to reevaluate how this estimate was determined and verify its accuracy, as other jurisdictions have reported lower costs per household.

In order to accurately determine the cost of residential collection and disposal, commercial collection and disposal costs are deducted from the total costs. Figure 1 shows a spreadsheet used to calculate the annual cost per residence for solid waste collection. These calculations are based upon actual FY 2019 expenses.

Total Customers	3,090
Commercial Customers	178
Residential Customers	2,912
Percent of Commercial Custs.	5.76%

Collection Percent of Work	75.56%
Disposal Percent of Work	24.44%

Public Works Truck Mileage	
Calculated Collection Percent	42%
Calculated Disposal Percent	58%

Type of Indirect Cost	Total Cost	Percent Solid Waste 9.5%
Legislative Total Costs	\$72,940.55	\$6,929.35
Executive Total Costs	\$172,584.20	\$16,395.50
Finance/Admin Total Costs	\$736,065.05	\$69,926.18

Public Works Solid Waste Staff Allocation %	
Calculated Collection Percentage	86%
Calculated Disposal Percentage	14%

### FY19 Solid Waste

Cost Type	Total Cost Actual Expended	Commercial Costs	Residential Total Cost	Residential Disposal Costs	Residential Collection Costs	Residential Recycle Costs
Wages/Benefits	\$371,004.17	\$21,371.76	\$349,632.41	\$48,948.54	\$300,683.87	
Temp Labor	\$6,970.53	\$401.54	\$6,568.99	\$919.66	\$5,649.33	
Disposal (yard trash)	\$14,941.56	\$860.71	\$14,080.85	\$14,080.85		
Disposal (other)	\$149,678.20	\$8,622.24	\$141,055.96	\$141,055.96		
Equipment Loan	\$45,815.32	\$2,639.20	\$43,176.12	\$25,042.15	\$18,133.97	
Other Operating	\$85,188.06	\$4,907.27	\$80,280.79	\$46,562.86	\$33,717.93	
Department Total	\$673,597.84	\$38,802.72	\$634,795.12	\$276,610.01	\$358,185.11	\$0.00
Depreciation	\$118,515.16	\$6,827.09	\$111,688.07	\$64,779.08	\$46,908.99	
Total Including Depreciation	\$932,499.78	\$53,716.82	\$878,782.96	\$341,389.09	\$405,094.09	\$0.00
Recycling Costs	\$140,386.78	\$30,297.24	\$110,089.54			\$110,089.54
Indirect Costs-Based on # EE						
Legislative	\$6,929.35	\$399.17	\$6,530.19	\$1,595.90	\$4,934.28	
Executive	\$16,395.50	\$944.47	\$15,451.03	\$3,776.06	\$11,674.97	
Finance/Administration	\$69,926.18	\$4,028.11	\$65,898.07	\$16,104.75	\$49,793.32	
Grand Total	\$1,025,750.81	\$59,088.56	\$966,662.25	\$362,865.80	\$471,496.67	\$110,089.54
				Average Annual Cost Per Residence		
				\$124.61	\$161.92	\$43.20

**Total \$329.73**

Figure 1 – Solid Waste Cost Analysis Based Upon FY 2019 Expenditures

Looking from left to right; the Cost Type is Identified in Column 1. Costs include labor, disposal, equipment and depreciation costs, as well as indirect costs from legislative, executive and finance/administration. The allocation of indirect costs for these functions is estimated to be 9.5% of their total cost to the City (shown top right). Actual FY 2019 expenditures are shown in Column 2 (gray).

Commercial costs are estimated to be 5.76% of the overall solid waste costs and are calculated by the ratio of commercial services premises to total service premises (i.e. 178 divided by 3,090). This percentage is used to estimate the cost of commercial solid waste

collection (shown in Column 3). Total residential cost (Column 4) is then calculated by subtracting the estimated commercial costs from the total costs.

Public Works staff allocation is based upon the number of hours per year dedicated to collection versus disposal. Collection staff time is determined by the number of man-hours from the beginning of work to the completion of the pickup route. Disposal staff time is determined by the number of man-hours from the end of collection time to the return of the vehicle from the disposal site (less ½ hour for lunch). Based upon this tabulation, the percentages of solid waste staff time dedicated to collection and disposal are 86% and 14% respectively. These percentages are used to determine the total wages and temporary labor costs for collection and disposal (shown in blue).

Equipment, Other Operating and Depreciation costs for collection and disposal are determined by calculating the percentage of miles vehicles are used for collection (42%) versus disposal (58%) and multiplying these percentages by the total residential costs for each item. These items are shown in dark yellow for clarification.

Recycling costs are tabulated from invoices paid to the recycling contractor and are currently \$43.20 per residential service premises. Indirect costs for recycling are not considered in this analysis, and are likely 1% or less of the legislative, executive, and finance/admin total costs.

Based upon this analysis, the FY 2019 estimated City cost (rounded to the nearest dollar) for providing residential solid waste services is as follows:

• Residential Collection	\$125 per residence per year
• Residential Disposal	\$162 per residence per year <sup>2912</sup>
• <u>Recycling</u>	<u>\$ 43 per residence per year</u>
TOTAL	\$330 per residence per year

Assuming a 9% increase over 3 years for residential collection and disposal, and a 22.1% increase over 3 years for residential recycling services, the anticipated City costs for **FY 2022** would be:

• Residential Collection	\$136 per residence per year
• Residential Disposal	\$177 per residence per year
• <u>Recycling</u>	<u>\$ 53 per residence per year</u>
TOTAL	\$366 per residence per year

The higher recycling percentage increase is due to a projected cost adjustment after the expiration of the current contract with Advanced Disposal. Removal of legislative costs from consideration would reduce the cost by a minimal amount (e.g. \$3.70 in FY 2022).

For the purposes of calculating the ranges, it is therefore appropriate to use the estimated FY 2022 costs, as this is the first year in which revenues will be available for inclusion in the City Budget.

Proposed Ranges:

Bottoms of Range – Multiple factors should be considered when selecting the bottoms of range for the three primary services. It has been suggested that the City may opt to phase in the non-ad valorem expansion, thus mitigating the impact of the expansion. This option requires the bottoms of the ranges to be set to allow the final chosen assessment to fall within the selected range. The following are suggestions for the bottoms of range for the three solid waste services:

- **Residential Collection** – Residential collection is currently fully paid from the general fund. As a new addition to the non-ad valorem assessment, the commission may wish to explore phasing this implementation over multiple years to mitigate the financial impact to customers. With this consideration, staff recommends that the bottom of the residential collection range be set at **\$68** per residence per year (one half of the calculated residential collection cost).
- **Residential Disposal** – Residences currently pay a \$74 non-ad valorem assessment per year for disposal services. This current assessment covers less than 50% of the estimated cost for disposal. Staff recommends that the bottom of the residential disposal range be set at **\$89** per residence per year (one half of the calculated residential disposal cost).
- **Recycling** – As with residential collection, residential recycling services are currently fully paid from the general fund. Recycling is unique from garbage collection and disposal, however, as costs are heavily driven by market demand for recyclable material. Unfortunately, the current market for recyclable materials has decreased, and recycling costs are thus increasing. This trend of increasing recycling costs is anticipated to continue, and the City will need to re-evaluate recycling options moving forward. These options may include entering a new contract with a private hauler for recycling, bringing recycling operations in-house, reducing the types of materials recycled, or discontinuing the recycling program (if costs are excessive and material is not being recycled due to lack of demand). Due to this uncertainty, staff recommends setting the bottom of the range for recycling at **\$0.00** per residence per year to provide the flexibility to allow all options when the current contract with Advanced Disposal expires in 2022.

Tops of Range – When considering the selection of the tops of range for solid waste services, it is necessary to consider the option to fully implement the fee within five (5) years, while

considering the potential that costs for residential collection and disposal continue to increase at an estimated 3% annually. The following are suggestions for the tops of range for the three solid waste services:

**Residential Collection** – With the consideration of full implementation within 5 years, and accounting for potential annual cost increases, staff recommends that the top of range for residential collection services be set at **\$153** per residence per year. This top of range is approximately 12.5% above the anticipated cost of \$136 in FY 2022.

**Residential Disposal** – As with residential collection, considering the potential for full implementing within 5 years and considering potential annual cost increases, staff recommends that the top of range for residential disposal services be set at **\$199** per residence per year. This top of range is approximately 12.5% above the anticipated cost of \$177 in FY 2022.

**Recycling** – Unlike collection and disposal, recycling costs are linked to market demand, and are thus more volatile, making forecasting less reliable. Due to this uncertainty, Staff recommends that the top of range for recycling be set to 25% above the FY22 costs to account for market variability. The top of range for recycling services is thus recommended to be set at **\$66**

Table 1 summarizes the above discussion:

<b>Solid Waste Service</b>	<b>Bottom of Range (\$ per residential service premises per year)</b>	<b>Top of Range (\$ per residential service premises per year)</b>
Residential Collection	\$68	\$153
Residential Disposal	\$89	\$199
Residential Recycling	\$0	\$66
<b>TOTAL</b>	<b>\$157</b>	<b>\$418</b>

*Table 2 – Recommended Solid Waste Service Fee Ranges*

Though the ranges specified above are broad, the actual fees will be determined annually by the City Commission. The high tops of range do not represent staff's recommendation as to the actual fee set and are instead designed to give the Commission maximum flexibility in selecting appropriate fees based upon market conditions and budgetary needs. Table 2 represents a potential implementation schedule, showing a phased-in non-ad valorem assessment – to 100% of costs including inflation – over a five-year period, beginning with 50% funding of the actual costs. Note that the costs in Table 2 increase significantly year to year due to potential increased cost of providing service through 2026. The actual assessment increases during this time period would likely be less and would be limited by the actual cost increases to the City.



<b>Solid Waste Service</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>
Residential Collection	\$ 68	\$83	\$102	\$125	\$153
Residential Disposal	\$ 89	\$109	\$133	\$163	\$199
Residential Recycling	\$ 28	\$35	\$43	\$53	\$66
<b>TOTAL</b>	<b>\$185</b>	<b>\$227</b>	<b>\$278</b>	<b>\$341</b>	<b>\$418</b>

*Table 2 – Example1 - Phased Implementation Beginning with 50% of Costs and Increasing to Full Funding after 5 years*

An alternative implementation would be to instead only fund a portion of the solid waste costs through non-ad valorem assessment. For comparison, St. Johns County's FY2020 assessment is \$222 per household per year. Assuming the County opts to increase their assessment 2% annually, it would rise to \$250 by FY2026. Table 3 shows a potential phased implementation of the City non-ad valorem assessment, beginning at 50% of costs, and increasing annually to an amount similar to that anticipated to be charged by St. Johns County in FY 2026.

<b>Solid Waste Service</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>
Residential Collection	\$ 68	\$73	\$79	\$85	\$92
Residential Disposal	\$ 89	\$96	\$103	\$111	\$120
Residential Recycling	\$ 28	\$30	\$33	\$35	\$38
<b>TOTAL</b>	<b>\$185</b>	<b>\$199</b>	<b>\$215</b>	<b>\$232</b>	<b>\$250</b>

*Table 3 – Example2 - Phased Implementation Beginning with 50% of Costs and Increasing to Anticipated FY26 County Fees*

The phased approach in Example 2 would increase the proposed assessment from funding 50% of actual costs to 60% actual costs over a five-year period. General funds revenues would continue to pay the remainder of the costs. Many alternative scenarios are possible, with the total fees based upon the year 1 assessment and the annual multiplier. As discussed earlier, the Commission will decide annually on the actual assessment rate. Setting large ranges gives the City Commission maximum flexibility in determining the actual non-ad valorem rate each year.

## **ACTION REQUESTED**

Authorize staff to continue to pursue implementation of a non-ad valorem assessment for solid waste collection, disposal and recycling fees; set the range of fees for each service as specified; and set a public hearing in mid-May 2020 to formally begin the establishment of rates for the solid waste non-ad valorem assessment.