

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT SOLID WASTE RATE STUDY – 2019

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TIMELINE

December 13, 2019: Presentation and Possible Board Approval of the Rate Study, Enabling Ordinance, and Notice of Public Hearing (to be held February 1st).

Notice to be mailed December 16, 2019 with minimum 45-day comment period to all existing Solid Waste customers.

February 1, 2020: Identify if majority protest exists. If not, Public Hearing proceeds. Board approves Ordinance 20-01 and revised Regulation 810.01.

March 1, 2020: New Rates take effect.

EXECUTIVE SUMMARY

The District currently contracts with ACES Waste (ACES) to facilitate solid waste removal and this contract will expire on December 31, 2019. Prior to this expiration, the Board solicited bids from the two possible solid waste providers that will service the Kirkwood area. ACES initially declined to provide a proposal, but one was received from South Tahoe Refuse (STR) which would have increased rates by more than 320%. Due to the significant potential increase, the District entered into negotiations with ACES to extend their contract by one year, thru December 31, 2020.

Currently, the District's Solid Waste program is voluntary. In 2001, the Resort elected to contract on its own for solid waste services. A condition of the negotiated Fifth Amendment to the ACES contract ('Fifth Amendment') is that the District consider changing the District's Solid Waste program from voluntary to mandatory, which would require all parcels in the District service area use the District's program. While this Rate Study does not contemplate a mandatory ordinance, this issue will be considered subsequently by the District in an effort to ensure the lowest rates possible for our customers.

Over the last four years, the Solid Waste department has not been self-sufficient, and relies on Property Tax revenue to operate without a deficit. Therefore, the Rate Study recommends increasing solid waste rates during the Fifth Amendment period to reflect 1) the Fifth Amendment rate proposed by ACES, 2) actual costs incurred by the District in terms of staffing and overhead, 3) to eliminate the deficit currently experienced in the Solid Waste department, and 4) revisit solid waste rates and rate structures in pending new solid waste proposals and approval of a mandatory solid waste ordinance.

To achieve these objectives, this Rate Study recommends:

1. That the Solid Waste Base Rate be increased by 50% (from \$18.31 to \$27.47) to reflect the Fifth ACES Contract Amendment and to make this department self-sufficient.

Following are details supporting this recommendation.

INTRODUCTION

The Kirkwood Meadows Public Utility District (District) was formed in 1985 by an act of LAFCO (Local Agency Formation Commission) to provide Water and Wastewater services to the community of Kirkwood, California.

Over the years, the District has taken on many other functions, both Enterprise departments (services for which fees are paid), and Governmental departments (services performed for the public good). Following is a list of the major departments of the District:

Enterprise Fund	Government
Water	Fire Department
Wastewater	Parks and Recreation
Solid Waste	Cable Administration
Electric	
Propane	
Snow Removal	

The District is governed by a five-member Board of Directors (Board) elected by registered voters in the District to serve staggered four-year terms. The Board Members are:

Geoff Smith, President
Eric Richert, Vice President
Standish O’Grady, Treasurer
Peter Dornbrook, Secretary
Bob Epstein, Assistant Secretary

The District is funded through charges for services provided, and through Property Taxes. The District receives 20% of the property taxes collected in Kirkwood by Alpine, Amador and El Dorado counties. The Board has broad discretion on the use of these property taxes, and utilizes the funds to:

1. Ensure the Electric Loan covenants are covered.
2. Cover any cash losses in departments.
3. Fund capital improvements.
4. Fund a cash reserve.

The Board adopts a budget annually for all departments, and the General Manager monitors procedures to assure that expenditures of the District do not exceed the appropriations by department and/or Enterprise of the major summary categories (salaries and benefits, operating services and supplies, capital outlay, and capital improvement projects) in conformance with the adopted policies set by the Board.

SOLID WASTE BASE RATE

The District has been providing Solid Waste services to customers since 1996.

The District currently contracts with ACES Waste (ACES) to facilitate solid waste removal and this contract will expire on December 31, 2019. Prior to this expiration, the Board solicited bids from the two possible solid waste providers that will service the Kirkwood area. ACES initially declined to provide a proposal, but one was received from South Tahoe Refuse (STR) which would be 323% more than the existing cost. Due to the significant potential increase, the District entered into negotiations with ACES to extend their contract and reached agreement to increase the existing costs by 207% and at a later date consider changing the District's Solid Waste program from voluntary to mandatory.

Currently, the District's Solid Waste program is voluntary. In 2001, the Resort elected to contract on its own for solid waste services. ACES indicated three primary reasons for the increase in cost: 1) The cost of fuel; 2) Prior to July 1, 2019 ACES received \$33.00 per ton for recyclables, however since July 1, 2019 ACES now pays \$147.00 per ton to process them; 3) The costs associated with having to send trucks via Highway 50 when the Carson Spur is closed. Another condition of the negotiated Fifth Amendment with ACES is that the District consider changing the District's Solid Waste program from voluntary to mandatory, which would require all parcels in the District service area to participate in the District's program. While this Rate Study does not contemplate a mandatory ordinance, this issue will be considered subsequently by the District in an effort to ensure the lowest rates possible for our customers. The table below summarizes the two proposals and the % increase over the current costs:

	Rate/CY
ACES 2014-2019	\$ 13.02
ACES 2020 Proposed	\$ 27.00
% Increase	207%
STR Proposed	\$ 42.09
% Increase	323%

For many years, the Solid Waste Department has been losing money. Following are the Net Income (Loss) results for this department over the last four years which illustrates this point:

	FY 2018-19	FY 2017-18	FY 2016-17	FY 2015-16
Total Revenues	\$ 146,824	\$ 135,145	\$ 129,046	\$ 129,086
Total Operating Expenses	\$ 153,011	\$ 160,445	\$ 138,046	\$ 144,679
Net Income (Loss)	\$ (6,187)	\$ (25,300)	\$ (9,000)	\$ (15,593)
Revenues in Excess of Expenses without Depreciation	\$ (6,187)	\$ (24,797)	\$ (7,994)	\$ (14,366)

Therefore, the District proposes to increase solid waste rates during this Fifth Amendment period to reflect 1) the Fifth Amendment rate proposed by ACES, 2) actual costs incurred by the District in terms of staffing and overhead, 3) to eliminate the deficit currently experienced in the

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Solid Waste department and 4) revisit solid waste rates and rate structures pending new solid waste proposals and approval of a mandatory solid waste ordinance.

The table below demonstrates that a 50% increase in the Monthly Base Rate for the Solid Waste is necessary to achieve revenue neutrality. If this increase is approved, the forecasted financial results for the Fifth Amendment period are below.

Forecast Solid Waste Budget Comparison

	ACES	STR
Total Revenues	\$ 226,628	\$ 282,529
Salaries & Wages	\$ 14,377	\$ 14,377
Payroll Taxes & EE Benefits	\$ 9,074	\$ 9,074
Solid Waste Collection Services	\$ 119,368	\$ 175,731
Depreciation	\$ -	\$ -
G&A Allocations	\$ 73,346	\$ 73,346
Internal Allocations	\$ 9,039	\$ 9,039
Total Operating Expenses	\$ 225,204	\$ 281,567
Net Income (Loss)	\$ 1,423	\$ 962

Solid Waste Base Rate Comparison

	FY 2019-20
Current Base Rate	\$ 18.31
Proposed Base Rate w/ACES (50% Increase)	\$ 27.47
Increase	\$ 9.16
Proposed Base Rate w/STR (87% Increase)	\$ 34.24
Increase	\$ 15.93

The Solid Waste base rate shall be increased as follows (including estimated 3% CPI increase):

	2019-20	2020-21	2021-22	2022-23	2023-24
Base Rate	\$ 27.47	\$ 28.29	\$ 29.14	\$ 30.02	\$ 30.92

Alternatives:

- The District could reduce services to the existing transfer station only. Currently nine condominium HOAs have solid waste services provided at their complexes, requiring additional staff labor to move dumpsters in preparation for collection. Providing services at the existing transfer station only would reduce District labor which makes up approximately 15% of the total Solid Waste Budget.
 - Recommendation: Since time is of the essence for this Rate Study and Fifth Amendment, this change should be considered in the subsequent Solid Waste Mandatory Ordinance and Rate Study.
- Adjust rates for the nine condominium HOAs to more accurately reflect the actual labor, which may reduce the increase for customers that only use the transfer station.

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- Recommendation: Since time is of the essence for this Rate Study and Fifth Amendment, this change should be considered in the subsequent Solid Waste Mandatory Ordinance and Rate Study.
- Accept STR proposal with a 5 year contract and continue with voluntary service.
 - Recommendation: Not recommended due to 87% increase.
- Cease to provide solid waste service. HOAs and residents would contract directly with ACES (Amador) or STR (Alpine/El Dorado) depending upon their County of residence.

GENERAL AND ADMINISTRATION ALLOCATIONS

General and Administration expenses are those that benefit and support all the departments. The District's General Manager, Administration staff, and the Board of Directors are primarily budgeted in the General and Administration (G&A) department. Their labor costs, payroll taxes and fringe benefits are part of the G&A department. Other common expenses incurred by the District that benefit the District as a whole are also budgeted in G&A. 100% of these monthly expenses are then allocated out to other departments. The allocations out of G&A are based on management's assessment of benefit. Funds or departments that are complex and require continuous oversight receive a larger allocation than those departments that are simple and self-sufficient. For example, the Cable Fund has little activity and receives a very small portion of the G&A allocation. Conversely, the Electric Fund is complex and receives a larger percentage of the G&A expenses.

District management has re-evaluated the allocations for each department based on their impact on Administration. Now that the District has several years of experience running the Electric and Propane departments, we can now determine the effort required.

The following table shows the current G&A Allocations:

Fund	Current
Fire	8.3%
Parks & Recreation	1%
Water	17.5%
Wastewater	17.5%
Electric	20.6%
Cable	.5%
Snow Removal	11.3%
Propane	19.1%
Solid Waste	4.2%
	100%