



Interoffice Memorandum

To: Auburn City Council

From: Jamie Thomas, Finance Director
Joan Nelson, Utility Billing Services Manager

CC: Nancy Backus, Mayor

Date: May 24, 2021

Re: Solid Waste Rate Study

BACKGROUND

The City of Auburn's solid waste contract with Waste Management and franchise agreement with Republic Services both expire September 30, 2021. The City of Auburn completed a request for proposal process in 2020, and selected Waste Management as the City's solid waste service provider for the next ten years. The City wanted to conduct a competitive process to ensure the best rate and service package for City of Auburn residents and businesses.

The new contract with Waste Management brings enhanced services, but it also comes with increased costs since labor and equipment expenses have increased since the City last negotiated a contract with Waste Management in 2011. In addition, the City will be transferring the customer service and billing for solid waste to Waste Management.

The City's last solid waste rate increase was on January 1, 2014. Since that time, the City's solid waste fund has absorbed over 16% in Consumer Price Index (CPI) increases from Waste Management and approximately 17% in King County Tipping Fee increases. City staff monitor the solid waste fund, and an increase has not been needed due to the strong fund balance. Now, with the substantial contract rate increase and a King County Tipping Fee increase coming, rate increases are needed to maintain the minimum working capital in the City's solid waste fund.

RATE STUDY

The City hired Sound Resource Management to conduct a solid waste rate study using their rate model. Sound Resource Management has worked with the City for many years and they also work with other cities in the area.

The model provides a multi-year rate increase to smooth the rate increases needed to cover the increasing costs since the City can initially cover some of the increase with the solid waste fund balance.

The rate model includes the following assumptions:

- Average 25% service fee increase from new Waste Management contract effective October 1, 2021
- 3% utility tax increase effective January 1, 2021
- Adding approximately 4,000 residential customers effective October 1, 2021
- Projected 9% annual increase in King County Tipping Fees
- Projected 3% CPI increase, annually

RATE PROPOSAL

The proposed rate strategy spreads the total increase over three separate rate increases over a 27-month period of time, as follows:

1. The first proposed rate increase of 13.6% would become effective October 1, 2021;
2. The second proposed rate increase of 14.2% would become effective January 1, 2022; and
3. The final proposed rate increase of 13.6% would become effective January 1, 2023.

In 2021 and 2022, the City is using the existing fund balance to subsidize the increasing contractor rates and tipping fees. In 2023, the City rates will cover the costs and result in 60 days of fund balance by the end of the year.

RECOMMENDATION

The proposed retail rates are necessary to cover the increase in Waste Management service fees, the increase in the City Utility Tax to 10%, the changes in service levels due to the addition of approximately 4,000 residential customers, the projected King County Tipping Fee increases, and the projected CPI increases. The goal beyond 2023, is to set smaller, more frequent rate increases to build more predictability and stability for solid waste customers. City staff recommends City Council adopt Ordinance 6816 so that the City can continue to maintain a healthy fund balance while providing dependable solid waste services for residents and businesses.