

## Developing a road map of your cost of solid waste services

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Getting a firm handle on the costs for your agency to provide solid waste services should be a key focus of any professional solid waste manager. Oftentimes, the spotlight of public attention is focused on agencies by political decision makers because of perceived high labor costs to provide collection and disposal services. Further, the current paucity of reliable data available to benchmark many facets of solid waste management operations handicaps timely comparisons among solid waste systems. For example, some cities have unionized collectors with higher than typical wages and benefits, while other locales experience high solid waste disposal costs, and still others have a complex and arcane rate structure that often makes it difficult to reference against your own city's customer base. We'll have more to say about the benchmarking dilemma a little later in this article.

Suffice it to say that the scenario outlined above is all too typical for most solid waste agencies who are finding themselves increasingly at a financial crossroads. Pressure from ratepayers is causing most public agencies to more closely watch their costs of providing essential public services like waste collection and landfill operations. Demands from the public to keep local government "lean and mean" has oftentimes meant that municipalities have not raised solid waste collection or disposal rates even when their costs for critical items such as fuel, maintenance, and medical insurance have increased dramatically in recent years. Further, there are still many solid waste agencies across the country where a portion of their revenues is spent in unrelated activities for other municipal operations making full cost accounting difficult and adding to agency "overhead." At the same time, competition from private sector vendors remains intense and the threat of privatization is often made by politicians seeking ways to keep taxes and service costs low. How can you as a manager stay ahead of this financial tsunami?



The City of Dunedin operates a solid waste collection system using automated and semi-automated vehicles. A cost of service/rate study was completed in 2005 to help evaluate long-term vehicle replacement funding needs. (Photo: Donald Ross)

### Cost of service and rate study

Given the current business climate in the public sector, a "cost of service" or "rate study" is an essential tool to help focus on the critical financial and management issues facing your agency or department. Most importantly, a well-planned and detailed rate analysis can be used to measure the revenues you will need to provide the desired levels of service, while at the same time helping establish fair, equitable, stable, and defensible solid waste user rates. A thorough analysis of existing operations at the same time will also enable your department or agency to question whether the existing levels of service, collection technology, maintenance practices, fleet replacement strategy and financing, or work rules may need to be re-examined. Further, a well-done cost of service or rate study can often provide useful guidance on how your agency's operations can be benchmarked against similar operations, either nationwide or regional.

### Look for cost savings and revenue enhancements

Evaluations of possible budget cost savings and revenue enhancements are key ingredients in the performance of a cost of

service or rate study. Our experience suggests that rather than reducing operating budgets by a flat across-the-board cut, a better strategy is to look for real economies by asking your decision makers to relax outdated civil service rules or policies which increase your agency's overall cost of operations. For example, many agencies across the country are creatively looking for ways to reduce their fleet maintenance costs, either through requesting price concessions from their municipal fleet managers or directly outsourcing these services to private vendors on a bid basis. Next to disposal and labor costs, fleet service costs are the highest expense category in a solid waste operation. Fleet managers are challenged to be creative to reduce their variable costs of operation. Fleet equipment standardization, tire management programs, and warranty recovery are just a few methods being

employed by fleet service managers across the country to reduce fleet service operating expenses. Further, through elimination of antiquated personnel rules, some cities and counties are redefining work policies to enable gainsharing and pay-for-performance bonuses for work above a set annual goal being achieved.

Many municipalities continue to rely on a task or incentive pay program in their solid waste collection programs, which allow collectors to go home early once their routes are completed. Presumably, this provides the municipalities the ability to service the collection routes regardless of the waste volume, while at the same time provide some benefits to their employees who have been historically the lowest paid in public works. The specter of payments to public employees being made for "undertime" and "overtime" under the task-based pay system have often raised the hackles of the public and politicians alike as an excess of public operations.

Performing a rate study will allow agencies to examine exactly where their operating costs have escalated, and help identify a potential revenue enhancement source. Many times the rate study will identify higher operating expenses in the cost of additional or special services; those services provided in addition to standard solid waste services, historically at no charge. Rather than across-the-board user fee increases to cover increased operating costs, solid waste managers can implement special service-based fees, or a la carte charges that are more equitable. Typically, these specialized services are unique to a smaller group of customers, and rather than across-the-board user fee increases, fees can be directly charged to the customers utilizing the specific service. Some examples of these special services include appliance collection (including CFC management), cleanup services, and E-waste (electronics) collection and disposal.

### **How the rate study can be designed**

A solid waste system rate study typically starts off with the following major work elements:

- Working with the agency to clearly define its goals and objectives for the cost of service and rate study;
- Evaluation of the agency's operating budget through detailed examination of each budget line item and assumptions of future operating conditions and costs;
- Completion of a revenue sufficiency analysis which identifies the sizing, timing, and financing source for required capital investments noted in the agency's long-term capital improvements plan; and
- Analysis of the current customer rate structures and development of alternative recommendations on rate modifications.

With powerful financial spreadsheet programs, which are available today for the desktop computer, various "what if" scenarios can then be constructed to quickly determine the overall impact of alternative customer rates on the long-term, financial outlook of the solid waste system. Some of the more useful rate models oftentimes deployed can enable seamless integration of agency staff into the rate modeling process and allow powerful graphical representations of key financial indicators for decision-making.

### **Benchmarking data needs**

While there are several solid waste benchmarking programs currently in place nationally, the most extensive program for solid waste collection is currently being implemented by the Applied Research Foundation of the Solid Waste Association of North America (SWANA). Their industry-wide benchmarking study is focused on developing financial performance indicators, with uniform guidelines on how to collect data, for a more accurate benchmarking survey on costs. This effort got off the ground in 2005. Once completed this information and data will provide invaluable support to all agencies, as well as set uniform standards, so that the industry can make credible comparisons among different solid waste resource public and private companies.

### **Your course as a manager**

Changes in levels of service and customer rates are traditionally subjects that politicians do not eagerly discuss, particularly in election years. All of the recent national surveys of public works suggest that solid waste continues to be historically underfunded. However, you as a professional manager, while recognizing political realities in your community, have a responsibility to the public to manage solid waste services in the most efficient and equitable manner considering long-term funding needs for facility closure and post-closure care and fleet replacements. The cost of a service and rate study should be viewed as an essential tool to help evaluate agency costs, funding needs, and alternative rate structures. As such, it should also be viewed as a method to communicate to the public the business case for rate increases and the means to get a handle on costs and revenues.

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