

The Value of Solid Waste Rate Analysis

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Why should we conduct a rate analysis for our solid waste system? What value does it bring to our agency? SCS Engineers' consultants are often asked these questions by clients and prospective clients.

Getting a firm handle on your solid waste agency's operations is a tremendous challenge for any public works director, particularly in this era of "lean and mean" local government. Doing more with less is the watchword for most city or county commissions in Florida still reeling from the financial impacts of the Great Recession. In our opinion, what most agencies sorely lack is a firm financial roadmap to direct their operations into the future.

Why is financial planning important?

The spotlight of public attention is often focused on solid waste agencies because of the perceived high costs of providing collection, recycling, and disposal services. The demand by public decision-makers to keep local government operations' costs low has often meant that agencies have not

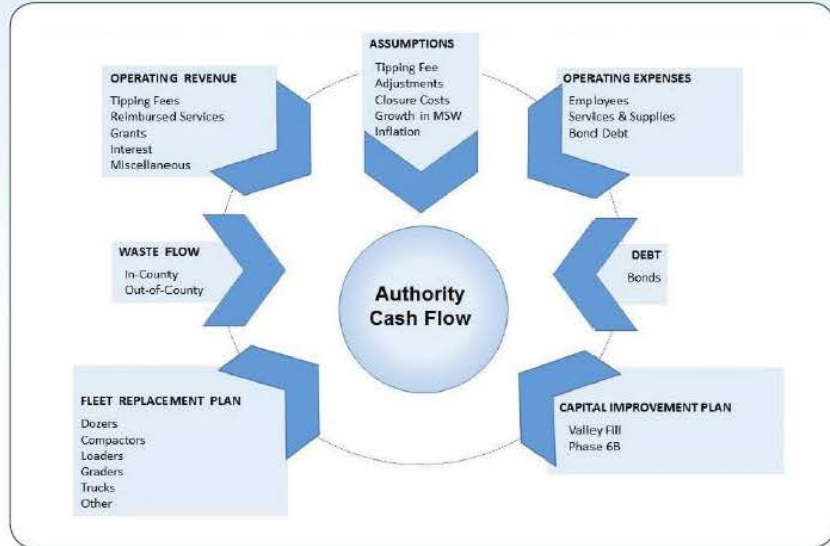


Exhibit 1. Example of a Pro Forma Rate Model

raised their solid waste rates even while costs for critical items such as labor, benefits, fuel, maintenance, and vehicles have increased dramatically in recent years. On top of these public pressures, many agencies still spend a portion of their revenues on unrelated activities or "free" services, which makes full cost accounting difficult and adds to agency overhead. A rapidly changing market and menu of solid waste management technologies also allows for added operations efficiencies, additional revenues, and capital risk, all of which should be considered as the field evolves. In addition to these pressures in the public arena, competition from private sector vendors intensifies the threat of privatization and is used as a hammer by politicians seeking ways to keep rates and taxes low during their terms in office.

For these reasons, strategic financial planning has become an essential task for public works managers looking to keep operations financially sustainable while also meeting the needs of the public stakeholders. SCS Engineers recommends that agencies

proactively engineer, design, and manage a strategic, sustainable, and detailed approach to long-term financial planning. A detailed approach that uses a Pro Forma Rate Model (Exhibit 1) provides the flexibility to establish fair, equitable, and effective solid waste system rates, while enabling decision-makers to compare and contrast potential alternative strategies that address the following key issues:

- Revenue Sufficiency
- Fair and Equitable Cost Recovery
- Cost of Service
- Cost Allocation
- Level of Service Standards
- Capital Project Needs
- Customer Classification
- Recycling Incentives

If conducted properly, a rate study can help an agency create a long-range financial business plan. Each rate study requires a task plan and a project concept to achieve the following:

- Development of a tailored rate model
- Identification of a capital investment plan and fleet replacement schedule, including consideration of closure and long-term care



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“A solid waste rate analysis will provide your agency with a deeper understanding of how to establish rates and appropriately allocate costs to the various functions of your operation.”

- Independent evaluation of personnel, materials and supplies, and indirect expenses
- Development of a revenue/rate plan and alternative rate structures
- Identification of industry standard rates for comparable solid waste systems
- Recommendation of increased efficiencies to reduce operations expenses
- Review and recommendations on the operation of a solid waste system

In short, a solid waste rate analysis will provide your agency with a deeper understanding of how to establish rates and appropriately allocate costs to the various functions of your operation. This financial analysis can also be used to estimate and plan for various contingencies year-by-year. For example, if your agency would like to buy new collection vehicles or expand your landfill or recycling center, a rate study will allow you to assess how the purchase would impact your current budget. You can then determine if you will have adequate surpluses during the fiscal year to procure these items or if a rate adjustment might be necessary at some point. Importantly, if the final recommendation of the rate study is a rate increase, you will be armed with information that will strengthen your case when requesting a fee increase.

SCS Engineers has nearly five decades of experience in solid waste planning and management. We assist our solid waste clients with waste collection studies, facility feasibility assessments, facility site selection, property acquisition, environmental permitting, operation plan development, solid waste facility benchmarking, ordinance development, solid waste plans, financial assessments, rate studies/audits, development of construction procurement documents, bid and RFP evaluation, contract negotiation, bond financings, and other long-term financial planning. These services we offer here at SCS provide you with the foundations

necessary to successfully carry your solid waste operation decades into the future.

Marc Rogoff is SCS Engineers' National Expert on Solid Waste Rate Studies and serves as Chair of the Florida

APWA's Solid Waste Committee.

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