



Resource Recovery Special Charge

Finance Committee | April 11, 2022

Note: Updated to correct total on slide 18; correction is noted with an asterisk

Agenda

- 2022 Budget & Resource Recovery Special Charge
- Background on the City's Recycling Service
- Cost of Recycling
- Implementation of the Ordinance

The 2022 Budget & Resource Recovery Special Charge

Adopted Operating Budget = \$360,321,028

General and Library Fund Expenses

- \$9.1 million (3.1%) increase from 2021 Adopted Budget
- Includes \$13.1 million in American Rescue Plan Act (ARPA) funds to balance the budget
- Includes \$1.5 million from new Resource Recovery Special Charge (referred to in the Budget as the “Sorting Special Charge)
- Includes investments in i) Town of Madison, ii) Violence Prevention and Public Safety, iii) Affordable Housing, and iv) Diversifying the City Workforce
- Slightly more than 1% increase in levy – small growth in net new construction and debt service
- Significant ERP room due to low increase in levy/spending and large CPI increase (3%)

CPI = Consumer Price Index

ERP = Expenditure Restraint Program

2022 Budget

- 2022 Budget assumed adoption of a Resource Recovery Special Charge* in the [Streets Operating Budget](#) to transition costs of Recycling services off of the General Fund
- Revenue from charge was included in the budget adopted by Common Council
 - In addition to budget document, charge was referenced in [Executive Summary](#) and [10/25/21 Budget Overview presentation](#)

Streets Division

Agency Overview

Agency Mission

The mission of the Streets Division is to provide a clean, safe, welcoming atmosphere for the City of Madison residents, businesses, and guests by providing high quality, cost-effective, and essential public works services.

Agency Overview

The Agency is responsible for the City's recycling program, roadside clean up, snow and ice control, solid waste management, and street maintenance. The Agency's goal is to effectively provide these services for the City of Madison with an emphasis on customer service and reduced environmental impact.

2022 Budget Highlights

The 2022 Adopted Budget:

- Decreases the Streets Division salary savings target by \$368,000 to reflect anticipated turnover trends (Ongoing increase: \$368,000). The salary savings target appears inflated because it includes the general fund recycling-related salary costs that would be transitioned to the Sorting Special Charge once it is implemented.
- Provides funding for two Streets Division Trainee positions to increase readiness and diversity of Street Machine Operators. This increase is partially offset by a \$40,000 reduction in hourly wages (Ongoing net increase: \$49,000).
- Includes reductions of \$73,800 (or 0.3%) from the Streets Division's cost-to-continue to Adopted Budget. Changes include:
 - Reducing funding for seasonal and hourly staffing for solid waste collection, including refuse collection, large item pickup, and transfer station scale hours (Ongoing reduction: \$36,700).
 - Reducing funding for hourly positions for drop-off sites (Ongoing reduction: \$7,000). This reduction was partially restored through Finance Committee Amendment #15-Amended and Common Council Amendment #9.
 - Reducing funding for seasonal and hourly workers to support leaf collection (Ongoing reduction: \$11,700).
- Savings to the General Fund (GF) associated with moving remaining eligible position allocations to the Urban Forestry Special Charge (UFSC). This decrease to the GF appears as an increase to the UFSC. (Ongoing reduction to GF/increase to UFSC: \$552,500).
- A 4.8% increase to the UFSC. This increase translates to an increase of \$0.28 per month for a residential household. The UFSC was increased 9.9% in 2021.
- Recommends a Sorting Special Charge to support the costs of the City's recycling service. The City continues to experience cost increases in its recycling contracts. The 2022 Adopted Budget includes a net increase of \$344,100 to support these increased costs. The Sorting Special Charge would be charged to customers that receive the City's recycling service, and would support costs associated with the City's recycling contracts and staff time for recycling collection. The Adopted Budget recommends that the Sorting Special Charge would be implemented in July 2022 to allow time for implementation, such that it would be fully phased in by 2023 (Revenue increase of \$1.5m in 2022; Ongoing revenue increase of \$3.0m per year beginning in 2023). The Sorting Special Charge would need to be adopted as an ordinance change by the Common Council to be implemented.

*Referred to as the "Sorting Special Charge" in the 2022 Budget

Resource Recovery Charge was one of multiple actions to balance the 2022 budget

2022 Budget Actions to close a \$18.0m operating budget shortfall:

Expenditure Reductions (\$1.4 million)

- \$975k personnel reductions
- \$376k non-personnel
- Includes one-time items (e.g. delay filling vacant positions) and ongoing reductions (e.g. reallocating time to capital)

Revenue Adjustments (\$1.7 million)

- \$187k Fire Dept. Elevator Inspections
- \$1.5m Sorting Special Charge to cover a portion of increased recycling costs; Anticipated cost for average household is \$3/month

One-Time Funds (\$13.1 million)

- Utilize American Rescue Plan Act (ARPA) allocation for government services/ revenue replacement to fill remaining gap

Note: Adjustments due to position allocations, changes in benefits rates, lower than anticipated debt service, and other technical changes also contribute to closing the budget gap. These adjustments are not reflected in the above actions.

Use of One-Time Funds

- **2021: \$8.0 million in Fund Balance**
 - City is restoring a portion of fund balance in 2021 with proceeds from TID 25; remainder to be restored in 2023
- **2022: \$13.1 million in American Rescue Plan Act (ARPA) funds**
 - \$24.4 million in ARPA for government services and revenue replacement
 - \$6.9 million to be utilized in 2021; budget proposes splitting the remainder across 2022 and 2023
- **2023: Anticipating a budget gap of \$18 million to \$20 million**
 - Utilized remaining ARPA funds and TID 25 proceeds to close gap
 - Evaluate service levels and develop long range plan for structural deficit

Rationale for Implementing the Resource Recovery Special Charge

- The majority of City's general fund budget is funded through property taxes. The State Legislature controls the growth of local property taxes through a "levy limit". As a result, revenues do not keep pace with the cost of services to the public.
- State law places strict limits on other revenue options. A special charge for recycling is one of the few options available to the City to cover the direct costs of a service.
- The special charge creates an independent funding source to maintain a robust recycling program despite rising costs. This alleviates pressure on the general fund, allowing the City to fund key priorities and services that cannot be covered through direct charges.
- Raises \$1.5 million in 2022 (half-year) and \$3.0 million in 2023 (full year) to help cover cost of recycling that would otherwise have to be supported by the property tax. The 2022 budget used almost the entire amount of property tax allowed under the state-mandated property tax (levy) limits
- If the ordinance is not adopted, the City would have to identify other strategies to cover the \$1.5 million in budgeted revenues from the special charge (e.g. budget reductions)

Prior Budget Balancing Strategies

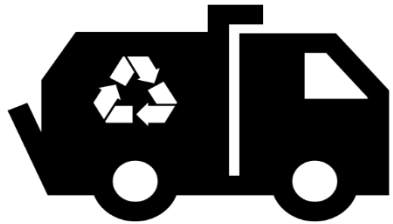
Allowable levy increases do not keep pace with cost growth

2012	2013	2014	2015	2016	2017
<ul style="list-style-type: none"> • Debt premium • Police and fire pension contributions • Premium stabilization surplus 	<ul style="list-style-type: none"> • Room tax growth • Ambulance fee 	<ul style="list-style-type: none"> • Room tax – shift from MT projects • Building Permit revenue • Urban forestry special charge 	<ul style="list-style-type: none"> • Room tax • Building permits • Urban forestry special charge 	<ul style="list-style-type: none"> • Room tax – Overture shift • Urban forestry special charge • Health Insurance Plan Design 	<ul style="list-style-type: none"> • Room tax • Ambulance fee • Transit fund surplus • Snow and ice removal budget • Urban forestry special charge
2018	2019	2020	2021	2022	2023
<ul style="list-style-type: none"> • Increased Room Tax rate • Cost Allocation • Increased investment revenue 	<ul style="list-style-type: none"> • TID 32 Closure • Increased interest revenue • Shift Library Collection to capital 	<ul style="list-style-type: none"> • Vehicle Reg Fee • Shift Parking Enforcement to Parking Enterprise • Increased Forestry staff time to Urban Forestry • Debt premium 	<ul style="list-style-type: none"> • \$8 million from fund balance • \$6 million in cuts / Workshare / service efficiencies / “furloughs” • \$2 million in fee increases / TOM fire/EMS contract 	<ul style="list-style-type: none"> • \$13.1m in one-time ARPA funding • Anticipating \$1.5m revenue from Sorting Special Charge • \$1.4m in cuts 	<ul style="list-style-type: none"> • \$3m Sorting Special Charge • \$5m-\$10m remaining ARPA funds and TID 25 proceeds • Explore other revenue options

Prior to 2012, levy limits had a 3% floor for annual increases rather than 0%; 3% minimum was applied to prior year maximum allowable levy rather than actual levy.

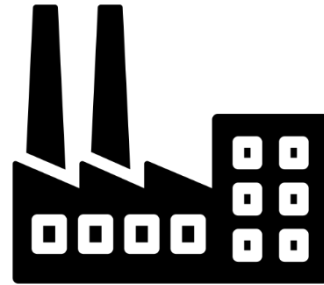
The City's Recycling Service

Recycling Service Delivery Model



Recycling is required by the State and City; the City provides residents with recycling carts and Streets employees empty recycling carts bi-weekly

Main expenses are personnel, fleet, and supplies (~\$2.3 million)



Streets employees drop contents off at Material Recovery Facility (MRF)

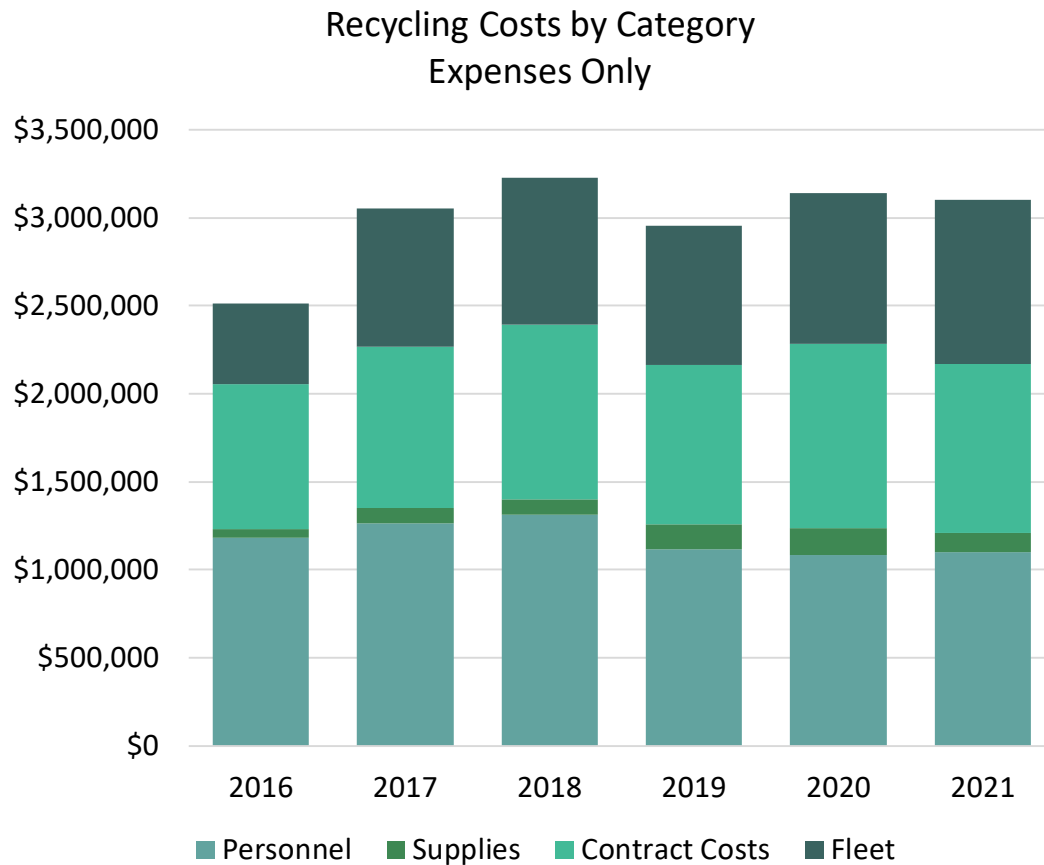
MRF sorts single stream recycling and removes comingled trash and materials otherwise recyclable but ruined (e.g. wet cardboard, uncleaned containers)



City pays MRF to sort and recycle materials

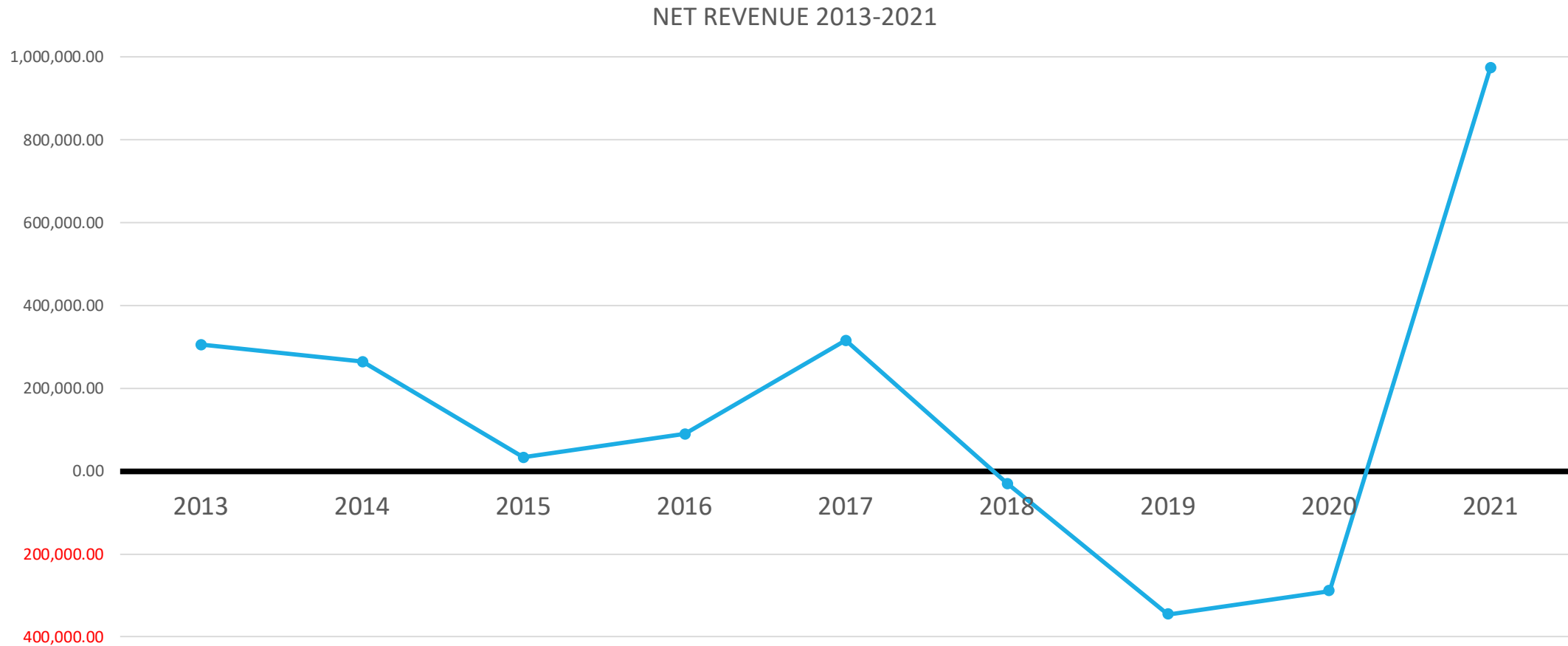
Approximately 18,000 tons of recycling @ \$50/ton + residual costs = ~\$1million in MRF costs/ year

Recycling Costs Prior to 2022



- Recycling costs ~\$3 million/ year
 - Personnel, supplies, fleet, and MRF contract costs (Pellitteri)
- Significant increase in costs since 2016
 - 24% increase in cost between 2016 and 2021
- Change in Pellitteri contract will stabilize costs, but eliminates revenue that off-set costs when markets are favorable
- The City will continue to experience increases to cost, especially personnel and Fleet costs, as the number of households served grows

Recycling Commodity Markets are Volatile



Change in MRF Agreement to Stabilize Costs

- City entered new agreement with MRF (Pellitteri) effective 1/1/2022 ([Legistar 64004](#))
- New agreement stabilizes costs, which allows for predictable budgeting and rate setting
- Annual tipping fees will be lower – City will save approximately \$424k/year on contract costs; However, the agreement removes the revenue sharing model, which will increase the **net annual cost** (net = expense – revenue) by approximately \$201k/year.

	2021 Budget (Prior Contract)	2022 Projected (New Contract)
Expenses: Cost per Ton	2021: \$50/ton * 18,000 tons = \$900,000 <ul style="list-style-type: none"> • Note, there are residual costs that bring the total expenses to approx. \$1m/year 	2022: \$32/ton * 18,000 tons = \$576,000 <ul style="list-style-type: none"> • New rate = base rate + contamination charge + Market adjustment based on value of City's recycling • Current rate is due to favorable market; rates can go up to \$65/ton
Revenue	2021: \$625,000 <ul style="list-style-type: none"> • 80% of the revenue from the City's recycling paid back Note: 2021 actual revenue were higher than budget due to favorable market 	2022: \$0 <ul style="list-style-type: none"> • Tradeoff for stability is removing revenue sharing
Estimated Net Annual Costs	\$375,000	\$576,000

Estimated Resource Recovery Costs for 2022

Recycling:

- \$2.3 million to gather recycling from the curb
- \$630k - \$1.2m in recycling tipping fees – MRF costs (variable due to market conditions)
- \$100k for non reimbursed Recycling cart costs

Other considerations for resource recovery:

- Yard waste collection and compost costs not covered by Stormwater
- Partial costs of public drop-off locations
- Partial costs for brush collection & reduction
- Note: These expenses would **not** be included in 2022, but represent the scope of services offered by Streets that could be considered in the future

Ordinance & Implementation

- The ordinance ([Legistar 70344](#)) would establish Special Charge, allowing the City to recovery some or all of the costs associated with the service.
- A resolution outlining specific policies for implementation would be introduced after the Ordinance is adopted.

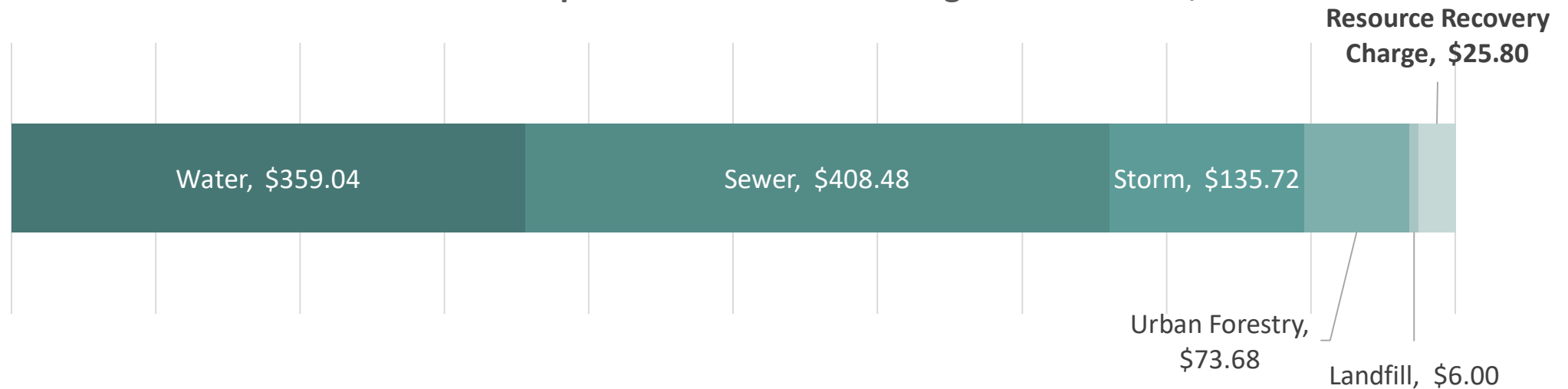
Implementation & Key Assumptions

- Revenues from the special charge would not exceed total cost of service. In 2022, the budgeted revenue was \$1.5 million. Annualized, this would be \$3 million/ year starting in 2023.
- Policy will propose charging a flat rate. For residential units, this would be charged per dwelling unit. For commercial, this would be charged per cart. This is designed as a flat rate so it does not disincentivize recycling.
 - The special charge will only apply to residences and business that receive City services (most residential properties with 8 or fewer units and some smaller commercial properties) .
 - The special charge **will not** be applied to properties that use private recycling services (larger residential parcels with more than 8 units, most commercial properties, all industrial properties).
- Streets has reviewed their customer list and identified approximately 63,000 customers. This would be a charge of approximately \$4.10/month per customer.

Impact on an Average Household

- Estimated charges per household or business cart is \$4.10 - \$4.30 per month
- If the special charge is adopted and effective beginning July 1, 2022, the cost for an average household would be \$24.60 - \$25.80 for the year. Annualized, this would be ~ \$50/year.
- The total represents a 2.6% increase to the average municipal services bill.

Estimated 2022 Municipal Services Bill for Average Customer: \$1,008

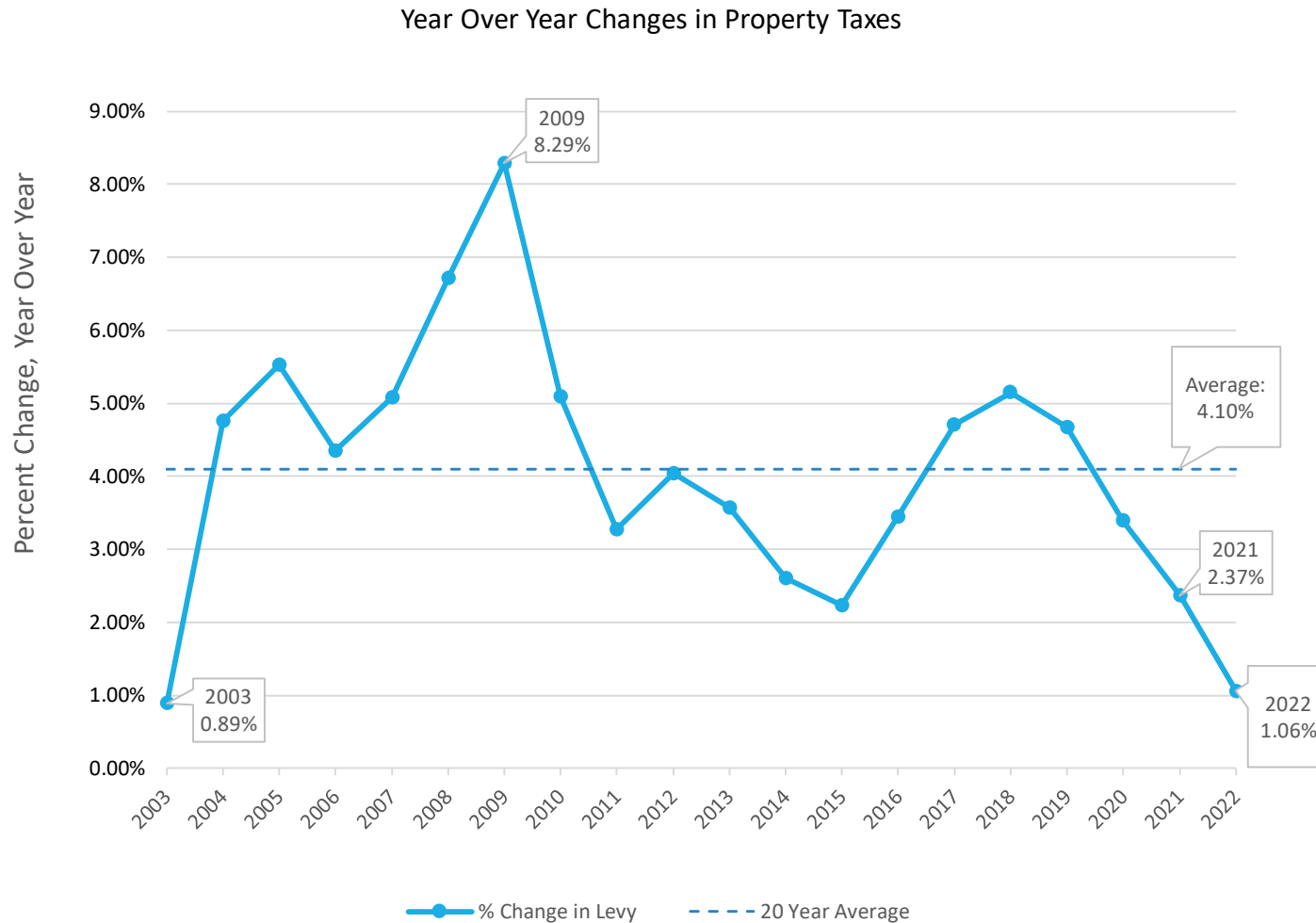


Comparing the 2021 and 2022 Municipal Services Bill

	2021 Adopted	2022 Adopted	% Change
Taxes on average value home	\$ 2,736.06	\$ 2,788.33	1.9%
Vehicle Registration Fee	\$ 40.00	\$ 40.00	0.0%
Municipal Services Bill			
Water	\$ 359.04	\$ 359.04	0.0%
Sewer	\$ 385.21	\$ 408.48	6.0%
Storm	\$ 132.24	\$ 135.72	2.6%
Urban Forestry	\$ 70.44	\$ 73.68	4.6%
Landfill	\$ 6.00	\$ 6.00	0.0%
Resource Recovery Special Charge	--	\$ 25.80	n/a
Total Annual Cost	\$ 3,728.99	\$ 3,837.05*	2.9%*

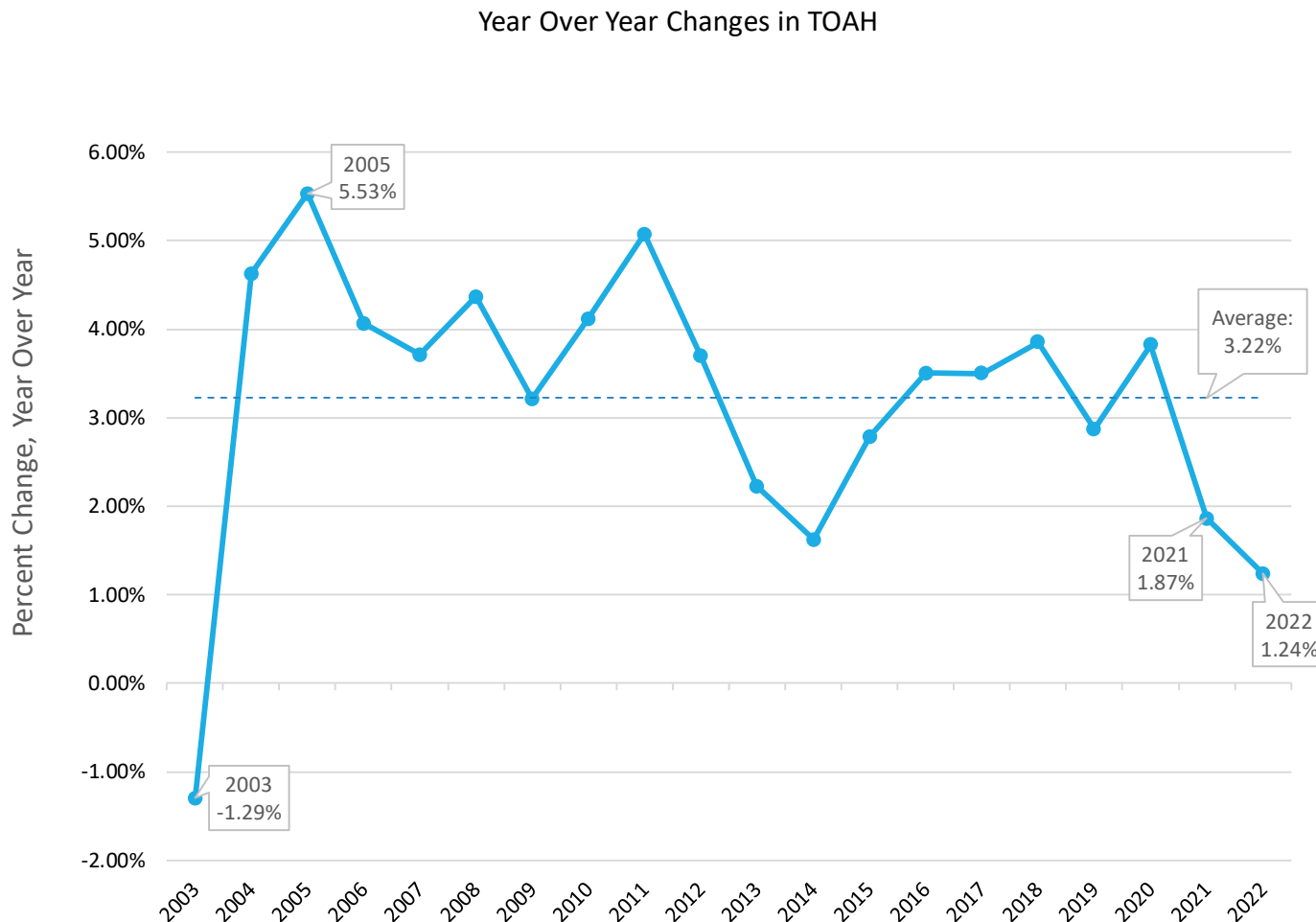
*total and percent change updated

1.06% Increase in Property Taxes: Lowest increase in 20 years



- 2022 is the lowest increase in property taxes since 2003
- Increase of 1.06% is well below the 20-year average increase of 4.1%

1.24% Increase in Taxes on the Average Value Home (TOAH): Lowest increase in 20 years



- Average value home is assessed at \$335,200
- Increase of \$10,000 from 2021, reflecting continued trend in strong valuations
- Taxes on the average value home will increase 1.24%, or \$33.90.