CITY OF RAPID CITY

Financial and Rate Setting Policies for the Solid Waste Utility
The City of Rapid City’s solid waste and recycling financial planning and rate setting process is guided by financial and rate setting policies. These policies are arranged into the major policy categories of reserve funds, debt issuance and debt management, balanced operating budget, capital asset policies and procedures, and establishing rates and fees. Provided below are the details of the financial and rate setting policies for the solid waste utility.

1. **Reserve Funds**

Reserve funds shall be established for the utility to properly account for the City’s solid waste funds but to also provide adequate reserve levels to address the different types of funding requirements of the solid waste utility. The reserve fund will be a separate fund for the solid waste utility and will reflect the target minimum reserves for the following components:

1.1 **Operating Reserve** – The minimum operating reserve shall be established at 55 Days or 15% of annual O&M expenses for each utility.

1.2 **Capital Reserve** – The City shall strive to maintain a capital reserve balance equal to 1-year of annual depreciation expense.

1.3 **Rate Stabilization Reserve** – A rate stabilization reserve shall be established and maintained at a level equal to approximately 10% of the annual rate revenue derived from the utility. These funds are unrestricted, but their use shall be limited to mitigating large or unanticipated rate impacts, or emergency/catastrophe situations.

In addition to unrestricted reserves, the City may require other restricted reserve funds. These reserve funds are for specific purposes or a requirement imposed on the City. These funds are:

1.4 **Financial Assurance Reserve** – As a condition the Municipal Solid Waste Landfill permit, the Department of Agriculture and Natural Resources requires the City to maintain a separate and restricted financial assurance reserve for obligations or liabilities associated with landfill closure activities, post closure care activities, and any corrective action activities. The City shall maintain the minimum levels for the financial assurance reserve fund as required by the permit.

1.5 **Bond Reserve** – A bond reserve fund is a restricted reserve. A bond reserve fund shall be established, as required and in accordance with bond covenants. The minimum fund balance of the bond reserve shall be equal to bond reserve requirements set by bond covenants.

When a reserve fund falls below the designated policy minimum, the City’s solid waste management team shall inform the City Council. City staff will then work with the City Council to take appropriate action to address any shortfalls. A reserve fund which falls below the minimum reserve level, on its own, shall not trigger the need for a rate adjustment in the short-term (e.g., 1-2 consecutive years).
2. Debt Issuance and Debt Management

The City, during the course of normal operations, may issue long-term debt to fund certain solid waste utility capital projects. The establishment of City policies related to debt issuance and debt management are intended to minimize the overall long-term costs of the City and utilize long-term debt to the benefit of the City’s solid waste utility customers. Provided below are the City’s debt issuance and debt management policies for the solid waste utility.

2.1 Funding of Annual Renewal and Replacement Capital Projects – The City’s solid waste utility will provide adequate annual rate funding to prudently fund the solid waste utility annual renewal and replacement capital projects. Given adequate funding from rates, as a matter of policy, the City will not issue long-term debt to fund solid waste utility annual renewal and replacement capital projects. The minimum annual funding from rates shall be at least equal to or greater than the solid waste utility annual depreciation expense.

2.2 Long-Term Debt as a Funding Mechanism – The City will consider the use of long-term debt to fund significant non-reoccurring capital projects of the solid waste utility. The City’s policy objective in issuing long-term debt is to minimize the financial and rate impacts of significant non-reoccurring capital projects for the utility.

2.3 Types of Long-Term Debt – To minimize the overall costs of debt, the City shall strive, at all times, to utilize the lowest and best available cost option for issuing debt for the solid waste utility.

2.4 Bond Covenants – The City, at all times, shall adhere to and meet any bond covenants put forth by bonds issued by the City for the solid waste utility. Bond covenants are legal obligations placed upon the City. If the City is not in compliance with bond covenants, the City’s solid waste utility management team shall inform the City Council and appropriate action (e.g., rate adjustments) will be taken.

2.5 Debt Service Coverage Ratio – At all times, the City’s solid waste utility shall meet the minimum debt service coverage (DSC) requirements associated with their bond covenants. For financial planning and rate setting purposes, the City shall target a minimum DSC of 1.25 times annual debt service on all outstanding debt.

2.6 Accounting and Reporting Standards – The City’s solid waste utility will comply with all applicable accounting and reporting standards.
3. **Balanced Operating Budget**

3.1 **Self-Supporting** – The solid waste utility shall be self-supporting, where revenues fully fund normal operating and capital expenditures of the respective utility.

3.2 **Adequate Funding to Preserve System Assets** – The City’s solid waste assets shall be properly operated and maintained to provide for a long life. Annual operating expenditures will be budgeted and funded at a level that promotes the efficient operation of and preservation of assets through the asset’s useful life.

3.3 **Evaluation and Monitoring of Cost** – Costs will be monitored to ensure the solid waste utility is operated in a cost effective and economically prudent manner.

3.4 **Positive Annual Net Income** – The City’s solid waste utility shall plan for annual net income (total revenue less O&M, taxes, debt service and capital projects funded from rates) greater than or equal to zero (positive balance of funds).

3.5 **Strive for Rate Stability** – The City’s solid waste utility rates should be stable over time while generating sufficient revenue. As a part of the annual budgeting process, the City’s solid waste utility shall review the rates to confirm the adequacy of the current rates.

3.6 **Disposition of “One-Time” Revenue** – In instances of large one-time revenues (e.g., legal settlement), if not specifically earmarked, the funds will be transferred to an appropriate reserve(s) (operating, capital, or rate stabilization).

3.7 **Alternative Funding/Revenue Diversification** – To minimize overall rates, the City’s solid waste utility should continue utilizing and exploring alternative revenue sources such as grants and beneficial reuse and/or sale of material products and byproducts.
4. Capital Asset Policies and Procedures

4.1 Purpose – To provide guidelines to ensure adequate stewardship over City resources through control and accountability of capital assets, and to collect and maintain complete and accurate capital asset information for the solid waste utility.

4.2 Definitions – The City’s solid waste utility assets shall be properly operated and maintained to provide for the long-term. Annual operating expenditures will be budgeted and funded at a level that promotes the efficient operation of and preservation of assets through the asset’s useful life.

4.2.1 “Assets” - All land, buildings, improvements, and equipment purchased, donated, constructed, or acquired by the City solid waste utility.

4.2.2 “Capital Assets” – Land of any value; improvements to buildings valued at a minimum of $15,000, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tools, with a value of $5,000 or more and having a useful life exceeding one year from the date of acquisition.

4.2.3 “Control”- Being in charge of, and having the authority to manage the asset. Having the custodial responsibility of the asset that includes, but is not limited to the caring, keeping, safekeeping and protecting the asset.

4.2.4 “Inventory” – The process of physically confirming the existence and location of capital assets.

4.2.5 Capitalization Threshold – All land of any value, improvements to building valued at a minimum of $15,000, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tool assets with a cost of $5,000 or more will be capitalized and considered assets for purposes of marking and identification, record keeping and tracking.

4.2.6 Improvement/Repair/Maintenance Expenses – Routine repair and maintenance costs will be expensed as they are incurred and will not be capitalized. Major repairs will be capitalized if they result in betterments/improvements. To the extent that a project replaces the “old” part of a capital asset, outlays will not be capitalized, and to the extent that the project is betterment/improvement, outlays will be capitalized.

4.2.7 Additions – The City may acquire property by purchase, construction, donation, or lease.

4.2.8 Deletions – Asset deletion will be required for all assets as the result of sale of the asset, scrapping, lost or stolen items, or involuntary conversion (fire, flood, etc.).

4.2.9 Disposal – Disposal of capital assets may occur only after being declared surplus. This may include sale, disposal, conversion, or another means.
5. Establishing Rates and Fees

The solid waste utility shall establish rates utilizing industry recognized “generally accepted” rate setting methodologies. This will provide the City with consistency in their ratemaking process, while also establishing rates which are legally defendable. The City’s policies on establishing the solid waste rates and fees, and the general methodology to be utilized, are as follows:

5.1 Revenue Requirement Analysis

The revenue requirement analysis provides a projection of the City’s revenues and expenditures for a defined time period. The revenue requirement analysis shall provide the City’s City Council with the information and cost-basis to determine the size and timing of any proposed rate adjustments. The City’s revenue requirement analysis methodology shall consider the following:

5.1.1 The revenue requirement analysis will be developed for a projected five-year, or longer, time period.

5.1.2 Revenue requirements will be established using the “cash basis” methodology. The “cash basis” methodology includes O&M expenses, taxes/transfer payments, debt service (P+I) and capital improvements (renewal and replacement) funded from rates. The revenue requirements may include a component for change in working capital/rate stabilization funds to manage reserve balances and mitigate rate impacts.

5.1.3 Costs shared across utility shall be allocated to each utility based on an equitable allocation method. These may include, but not be limited to, labor ratios, number of customers, revenues, usage etc. The allocation method should be whichever method most equitably allocates the specific cost.

5.1.4 The City’s revenue requirement analysis shall fully incorporate the City’s reserve, debt, and budgeting policies.

5.2 Cost of Service Analysis

A cost of service analysis provides an equitable method to allocate the City’s solid waste utility revenue requirements to the customers utilizing the service. The City’s cost of service analysis for the solid waste utility shall use generally accepted cost of service methodologies as defined by the American Public Works Association (APWA). The City’s solid waste utility cost of service shall be developed to provide an equitable allocation of costs by taking into consideration a customer group’s (e.g., residential, landfill) billing units. The City’s specific cost of service policies are as follows:

5.2.1 The cost of service shall be developed for a projected five-year time period or the period over which rates will be set, utilizing the revenue requirements as developed in 5.1.

5.2.2 The cost of service analysis shall be designed and developed to consider the unique and specific circumstances of the City’s solid waste system.

5.2.3 The City shall allocate costs to customer classes of service based upon each customer class’s facility requirements and usage characteristics of the solid waste utility.

5.2.4 When necessary, the City may phase-in the cost of service results to transition to full cost-based rates.
5.3 Rate Design Analysis

The development of cost-based rate designs concludes the City’s rate-setting process. The development of rate designs utilizes the results from the revenue requirement and cost of service analysis to establish the target level of revenues for each customer class of service (rate schedule) of the solid waste utility. The City’s rate design analysis is primarily focused on the structure of the rates of the utility. The City’s rate design policies are as follows:

5.3.1 The City shall utilize the results of the revenue requirement analysis and cost of service analysis in the development of final proposed rate designs.

5.3.2 Rates shall be designed to collect the overall target level of revenues for each customer class of service.

5.3.3 Collection of billing data provides information for rate design analysis. The City should collect billing data to provide necessary information in the rate design process and to assure accurate revenue recovery. It is important for the City to track billed units and revenue by class, by month, and by year. The billing data collected should be formulated into the City’s current rate structure. Revenues at present rates should be easily calculated based on the billing data collected and the City’s current rate structure. The collection of billing data ensures the rate structure currently in place is collecting the appropriate amount of revenues.

1. Collection of Billing Data – Billing data is important for rate study purposes and to account for the current rate structure and revenues being collected.
2. The collection of billing data provides the ability to reconcile with solid waste utility production data and to track losses.
3. The collection of billing data provides the City the ability to track revenue billed against total budget revenues.
4. Billing data should be collected by rate structure and customer class
   - Number of residential customers by container size and rate
   - Amount of material brought to the solid waste facility, by type
   - Amount of material/products leaving the solid waste facility (i.e., sale of recyclables), by type
   - Miscellaneous fees and cost/revenue items, by type

5.3.4 The City’s rate designs shall be reflective of the City Council’s rate design goals and objectives, while also being reflective of the greater public purpose (e.g., revenue stability, conservation, etc.).

5.3.5 The City shall take into consideration both fixed and variable costs in the development of final proposed rates for the solid waste utility. The average unit costs calculated within the cost of service analysis provides the cost-information related to fixed and variable costs.

5.3.6 Bill comparisons shall be developed for all proposed rate designs to illustrate the general impacts to customers across the range of container sizes and/or material types for the solid waste utility.

5.3.7 In establishing the final solid waste utility rates, the City’s City Council may take into consideration neighboring utility rate comparisons, but not to the financial detriment of the City.
5.4 Miscellaneous Fees Analysis

Service fees and charges for special services for both the solid waste utility shall be updated periodically, to keep charges reasonably equal to the cost of such services (new account setup charges, special waste fees, etc.). To develop cost based miscellaneous fees, the City’s policies are as follow:

5.4.1 The miscellaneous fee shall consider the City’s specific solid waste special services and any unique situations in the calculation of the cost-based solid waste utility miscellaneous fees.

5.4.2 These miscellaneous fees shall be reviewed annually, and as appropriate, adjustments made to reflect inflation and avoid major periodic increases.

5.4.3 The City shall use generally accepted costing practices and methodologies for calculation of miscellaneous fees.

5.5 Other Rate Setting Considerations

Provided below are other policies related to the City’s rate setting process.

5.5.1 Annually, City staff, or retained consultant, will update the rate model to compare to prior projections for a review of each utility’s financial status.

5.5.2 Annually, City staff will present the financial status of each utility to the City Council.

5.5.3 At a minimum, the City shall conduct a comprehensive rate study for the solid waste utility once every five (5) years to update assumptions and determine financial sustainability.

5.5.4 If a rate study is not completed within the five-year period, rates may be adjusted by the Producer Price Index by Industry: Solid Waste Collection as developed by the Federal Reserve Bank of St. Louis to account for inflationary impacts to the cost of providing service.