



## **CITY OF KIRKLAND**

### **Department of Public Works**

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## **MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Deputy Director, Finance & Administration  
John MacGillivray, Solid Waste Coordinator  
Tracey Dunlap, Director of Finance & Administration  
Ray Steiger, P.E., Interim Public Works Director

**Date:** November 4, 2010

**Subject:** Solid Waste Billing and Customer Service

### RECOMMENDATION:

It is recommended that the City continue its existing customer service and billing role for solid waste services.

### BACKGROUND DISCUSSION:

Staff is seeking City Council direction on whether the City should continue its existing customer service and billing roles for solid waste services or to transfer this function to Waste Management, Inc. (WMI) as a part of the current contract negotiations.

Contract negotiations are currently under way with WMI with the goal of having a new contract in place by July 1, 2011. The new contract will incorporate providing service to the entirety of post-annexation Kirkland. The effective date of the new contract has been selected to coincide with the effective date of the customer transition from Allied Waste Services to WMI which will occur one month after the effective date of annexation per the terms of the 4-Way Agreement governing transfer of service after annexation.

The decision regarding customer service and billing has implications on a wide range of contract provisions and thus needs to be made before proceeding further with drafting an initial contract for use in negotiations. In the course of negotiations, WMI has not indicated a preference to either maintain the status quo or to provide billing services in the new solid waste contract and is amenable to either scenario. On October 26, 2010, the Finance Subcommittee discussed the advantages and disadvantages of retaining customer service and billing responsibilities, and requested that staff present the options to the Council as a whole.

Under the City's current solid waste collection contract with WMI, billing and customer service responsibilities are divided as follows:

- The City bills and collects funds from all customers, including both commercial and residential sectors. The City bills customers as part of the bi-monthly utility bill that includes solid waste, water and sewer (for those customers that have all three utilities).
- The City provides very limited customer service (account establishment, etc.) for all single-family customers. Customer service related to all other service aspects is provided by WMI.
- Waste Management provides customer service for all commercial and multifamily customers, and electronically reports service changes to the City to keep the City's billing data current.

Nearly all cities in King County have contractor billing arrangements instead of having solid waste handled as part of municipal utility billing. Under a contractor billing scenario, the City sets initial contract rates for all services, which are then modified over time by either a straight Consumer Price Index (CPI) adjustment or a composite index that reflects CPI, labor costs and fuel costs. Annual rate modifications are automatic over the life of the contract, which is quite different than the utility rate model currently used by the City that allows the City to defer rate increases when the solid waste utility fund balance is sufficient or make other decisions on how to raise and expend utility funds. Under contractor billing, most cities set an administrative/franchise fee paid monthly from the contractor to the city that is used to fund related municipal solid waste administration and operational expenses. If the City were to use contractor billing, this administrative fee method would be used to fund the City's solid waste contract management, recycling programs and outreach.

Contractor billing offers the advantage of unifying all customer service and billing functions into a "one stop" system for customers and, in the City's case, could transfer the transition costs and staff impacts of incorporating annexation areas into the City's billing system. Conversely, City solid waste billing allows the City to dynamically adjust rates and change rate policy, as well as allowing the City to have greater control over the quality of customer service and mandatory collection enforcement. In terms of the estimated annual cost, staff estimates that the City could provide billing and customer service at approximately \$43,000 less than the current WMI estimate (Attachment A). A comparison of the City's costs for solid waste billing and WMI's estimate regarding costs for billing and customer service is shown in Attachment A.

**A factor for bad debt is shown as a component of both estimates.** In most of the existing City, utility customers are billed for water, sewer and garbage. If a bill is not paid, the City can turn off water service which typically results in payment. Some current Kirkland customers are served by the Northshore Utility District for water and sewer. For these customers, water shut off is not available and, instead, a lien must be filed for continued non-payment. We do have a higher incidence of non-payment in this area than in the rest of Kirkland. Since curbside garbage pick-up is mandatory, garbage service is not discontinued. All customers in the annexation area are served by either Northshore Utility District or the Woodinville Water District so we anticipate a potentially higher incidence of liens for non-payment in the new areas. The bad debt estimate is based on the existing customer rate of non-payment applied to the annexation area. The actual incidence of non-payment may be higher or lower.

Following the Finance Committee meeting, staff requested that WMI consider reducing their cost proposal. WMI indicated that they could not reduce their quote for this service and, in fact, had not factored in a profit margin which could increase the cost by as much as \$30,000 if a ten percent profit margin were applied (City staff estimate).

An additional consideration of contracting out billing is that, the City would need to engage in impact bargaining with the AFSCME bargaining unit and one filled FTE would be eliminated.

The decision to continue City billing or contracting of solid waste billing will affect the complexity of the utility billing software upgrade scheduled for March 2011, since customizations to the software package are required in order to continue billing solid waste. City staff will need adequate time to prepare for the additional billing of solid waste accounts (over 10,000) in the annexation area if the City chooses to continue billing solid waste.

Factors to consider in the City Council's decision include:

- Which option is the most cost effective?
- Which option provides the best customer service and least confusion to the customer?
- Will WMI be able to satisfactorily enforce the mandatory garbage service?
- How much solid waste rate setting and rate policy control should the City retain?

Staff recommends that the City retain the solid waste billing function. Even with the potential issue of non-payment, this option is more cost effective, provides greater control over the rate structure and greater control over customer service standards and compliance with mandatory curbside services.

