

Migration

Solid Waste Collection Migration – a Growing Concern

In this month's issue, Armanino McKenna is pleased to share its thoughts on solid waste collection migration. Armanino McKenna is a leading provider of accounting and consulting services to the Solid Waste Industry and an Associate Member of the CRRC.

Migration continues to be a growing concern and an issue the solid waste industry has been discussing for several years. By now, every company in the solid waste industry has felt the effects of residential migration. Migration arose after AB 939 was introduced. Rates were structured to introduce and help encourage the idea of recycling through diversion.

As the success of recycling grew, new programs such as green waste cans and eventually mixed waste or composting came into play, which reduced the amount of normal waste.

Unfortunately, with success there can be heartache. In order to promote the programs' success, companies and cities structured rates in a way that would eventually lead to migration. Migration to smaller can sizes occurred by companies artificially decreasing the costs of can sizes because customers were encouraged to decrease their waste needs in order to save money each month. The problem occurs because rate revenue is typically determined at the beginning of the year, and the migration to a smaller can size inadvertently caused a decrease in company revenue. At first the change was small and companies handled it, but over time the effects have gotten worse, especially as the cost of small cans are still typically artificially low. To exasperate the situation in the past few years, we moved into a recession causing more migration to smaller cans with customers looking to save more money.

With costs remaining relatively flat and revenue going down, companies are forced to increase rates. As we all know, cities and customers do not like price increases and rates can only increase so much before there is public outcry. To avoid this, education has become a major tool, and cities are beginning to see the rate structure is inherently flawed and needs to change. We hope it's not too little too late, since commercial migration is here as well.

In the past, we all thought can migration was a

residential customer problem and that commercial customers were insulated from it. It seemed that when commercial customers had a decrease in service there was a corresponding decrease in costs, and since commercial recycling was voluntary, the migration issue was avoided. With the passage of AB 341, migration has now come to the commercial side of the industry. As commercial customers recycle more, their need for service will decrease. Instead of having a large can being serviced multiple times a week, they will now be able to decrease size and service times. However, the overall volume of trash will not decrease. Actually the opposite will happen, as revenue decreases from a decreased can, expenses will increase from the additional service being provided. As discussed, rate revenue requirements are typically predicted on known customer counts before the service is provided; changes in this cause migration.

Continuing to operate like this will result in a never-ending cycle of the need to increase rates to combat the lost revenue, and doing it in arrears will encourage the migration practice in perpetuity. Fortunately, all is not lost, as recently we have begun to work with cities introducing new ideas that will mitigate or eliminate migration. Balancing accounts and one time percent increases can be used as immediate remedies that will mitigate past losses. However, the best bet to combat migration seems to be throwing out the old rate structures all together. Solutions like creating a base service rate, an individual cost per can or a rate based on cost per gallon eliminates migration, since costs are covered even when diversion causes people to change service levels. Armanino McKenna has been working closely with all of our clients to combat the migration scourge and would be happy to assist in combating it with you.

David Button and Jim Johnson of Armanino McKenna have been involved in the rate setting process with solid waste haulers, consultants and the cities. For more information on how solid waste haulers and other companies are dealing with migration and handling it in their rate negotiations with each jurisdiction, contact Jim Johnson at Jim.Johnson@amllp.com or David Button at David.Button@amllp.com.

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