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**TO:** The Honorable City Council

**FROM:** David Whitaker, Director   
Legislative Policy Division Staff

**DATE:** January 29, 2024

**RE:** Report on Potential Opportunity Cost Associated with the Proposed Enhanced Trash Hauling Contracts

During the Public, Health & Safety (PH&S) Standing Committee meeting on Monday, January 22, 2024, there was a robust discussion on the two proposed enhanced trash hauling contracts with Priority Waste, LLC and Waste Management of Michigan, Inc. that, if approved by the City Council, would increase the cost of trash hauling services by \$12 million, from a \$28 million annual cost to a \$40 million annual cost in year one, and an increase in the cost by \$15 million annually through year five of the proposed contracts.<sup>1</sup>

The Administration has proposed using the City's general fund dollars to the tune of \$8 million to \$22 million over the course of these five-year contracts without an increase to the current \$240 solid waste fee to pay for the enhanced trash hauling services.<sup>2</sup> The Administration feels there will be sufficient future revenue growth in the general fund primarily from projected income tax revenue growth to cover this general fund subsidy for the enhanced trash hauling services. LPD, on the other hand, feels there should be at least a modest increase in the solid waste fee to mitigate the increased burden on the general fund while providing these enhanced services, especially given the potential future budgetary pressures on the general fund primarily from 25 labor contracts that will expire and be renegotiated within the next three and a half fiscal years ending June 30, 2027.

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<sup>1</sup> The Legislative Policy Division's (LPD) report entitled "Impact of Garbage Fee Increases on the City of Detroit's Budget and General Fund", dated December 8, 2023, provides more detail of the proposed enhanced trash hauling contracts, the increased cost in trash hauling services that would be incurred if the Council approves these contracts, and the extra cost to the City's general fund with or without an increase to the current \$240 solid waste fee, if these contracts are approved by the Council. This report can be found under the link "Legislative Policy Division Reports" using the City of Detroit's website search bar.

<sup>2</sup> Ibid

Based on a request from the Chair of the PH&S Committee, Council Member Gabriela Santiago-Romero, the Administration conducted a survey to obtain feedback from Detroit citizens on the funding of these contracts. Surprisingly, 44% of the 7,000 respondents to the survey agreed to a modest increase in the solid waste fee to receive enhanced trash hauling services. Since there seems to be a willingness amongst the citizens to pay a modestly higher solid waste fee for the enhanced services, several Council Members are considering supporting a resolution from the Administration that would increase the solid waste fee by \$10 each year over a three-year period resulting in the solid waste fee going from the current \$240 to \$270 by Fiscal Year 2027, or in year three of the proposed five-year contracts. If this proposed modest fee increase is approved by the Council, then the burden to the general fund drops from \$22 million by year five to \$16 million, with the solid waste fee revenue increasing by a projected \$6 million generated from the modest fee increase by year three. Under this scenario, the City's general fund would pay 72% of the increased cost of \$22 million from these contracts and the modest increase in the fee would cover 28% of the increased cost of these contracts in year five.

Recognizing that even with a modest increase in the solid waste fee, a general fund subsidy of \$16 million in year five would still represent a significant burden to the City's general fund budget in year five of these contracts, Council Member Scott Benson, Vice-Chair of the PH&S Committee, requested that the Legislative Policy Division (LPD) provide a report on the potential opportunity cost<sup>3</sup> associated with the enhanced trash hauling services. In other words, Council Member Benson desires to hear from LPD what City services may need to be cut or what savings or efficiencies can be identified to accommodate the increased burden on the general fund from these enhanced services.

This report herein provides LPD's response to CM Benson's request with the following comments (note: these comments assume that Council approves the proposed enhanced trash hauling services along with the approval of a modest increase in the solid waste fee as discussed above):

1. During the budget processes for FY 2025 through FY 2029, which will be in March of 2028, the Administration should apprise the Council of any additional cost savings or service delivery efficiencies that could reduce the cost of the enhanced trash hauling services.
2. During the budget processes for FY 2026 through FY 2029, the Administration and the Council should have a much clearer understanding of the impact of the increased budget pressures on the general fund from the 25 labor contracts that would have been renegotiated by the end of June 30, 2027, along with the impact of the increased revenue generated by a modest increase in the solid waste fee, if approved by the Council ideally before the upcoming FY 2025 budget process. If general fund revenue growth has not materialized as projected during these fiscal years, the Administration may have to present a proposed budget to Council during these budget processes that recommends service delivery cuts and/or service delivery efficiencies to mitigate the burden of the enhanced trash hauling services to the general fund. Based on the Council's deliberations of these proposed budgets, your Honorable Body may agree with the Mayor's recommendations, or develop your own.<sup>4</sup>
3. During upcoming budget deliberations through FY 2029, Council could focus on which departments have vacant positions, and whether there could be any savings generated from those vacant positions

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<sup>3</sup> Opportunity cost refers to what you have to give up to buy what you want in terms of other goods or services.

<sup>4</sup> It is important to remind the Council that your Honorable Body reviews and approves the budget at the appropriation or program level. However, it is the Administration, with the aid of the Office of Budget, that generally has a much more detailed understanding of the nuts and bolts of the budget at the cost center and object code levels, which are beneath the appropriation level. As a result, the Administration would first be in the best position to identify recommended service cuts or service delivery efficiencies in the more detailed areas of the budget to mitigate the general fund burden caused by the enhanced trash hauling services.

that could be used to mitigate the burden of the cost of the enhanced trash hauling services to the general fund.

4. During upcoming budget deliberations through FY 2029, Council should request an analysis from the Administration of unspent professional and contractual services to determine if savings can be generated to reduce the cost of enhanced trash hauling services.
5. During upcoming budget deliberations through FY 2029, Council may identify programs in the budget that are not efficiently and/or effectively meeting the needs of the citizens, which could lead to savings or service cuts to help reduce the cost-burden of the enhanced trash hauling services on the general fund.
6. During upcoming budget deliberations through FY 2029, the Council may reprogram the use of any general fund surplus to provide an one-time reduction to the cost of providing enhanced trash hauling services.
7. As a reminder, the entire \$827 million in American Rescue Plan Act (ARPA) dollars must be spent by December 31, 2026. During upcoming budget deliberations through FY 2027, the Council should inquire whether any ARPA dollars can be used to free up general fund dollars to reduce the cost of providing enhance trash hauling services. However, any freed up general fund dollars from the use of ARPA dollars would be used for one-time measures.

Please let us know if we can be of any more assistance.