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CITY COUNCIL MEETING

cc-22(b)

JUNE 2, 1982

DISPOSAL SERVICE
RATES QUESTIONED

City Clerk Reimche presented a letter which had been received from Bill Parson's Central Valley Disposal Service, asking that Council compare Central Valley Disposal Service rates to those of Sanitary City and stating that Central Valley Disposal Service believes that they are being dealt with unfarily in their competition with Sanitary City in the County. City Clerk Reimche was directed to forward a copy of this letter to Sanitary City Disposal Company for their review and comment.

CITY COUNCIL

FRED M REID, Mayor
ROBERT C MURPHY,
Mayor Pro Tempore
EVELYN M OLSON
JAMES W PINKERTON, Jr
JOHN R (Randy) SNIDER

CITY OF LODI

CITY HALL, 221 WEST PINE STREET
POST OFFICE BOX 320
LODI, CALIFORNIA 95241
(209) 334-5634

HENRY A GLAVES, Jr.
City Manager

ALICE M REIMCHE
City Clerk

RONALD M STEIN
City Attorney

June 4, 1982

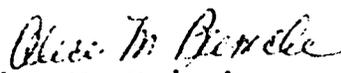
Mr. David Vaccarezza
Sanitary City Disposal, Inc.
1102 N. Cluff Avenue
Lodi, CA 95240

Dear Mr. Vaccarezza:

Attached herewith please find May 17, 1982 Central Valley Disposal Service letter addressed to the Mayor and City Council of the City of Lodi. This letter was presented to the Council at its regular meeting of June 2, 1982; and Council directed that I forward a copy to you for your review and comment.

Should you have any questions regarding this matter, please do not hesitate to call this office.

Very truly yours,


Alice M. Reimche
City Clerk

AR:dg

Enc.

Central Valley Disposal Service

P.O. BOX 218

VICTOR CALIFORNIA 95253

RECEIVED

1982 MAY 20 AM 9:07

ALICE H. REIMCHE
CITY CLERK
CITY OF LODI

May 17, 1982

City of Lodi
Mayor and City Council
City Hall
221 West Pine Street
Lodi, California 95240

Dear Mayor and Council Members:

I am aware that this is the month of the year when the city council reviews City Sanitary Disposal's need for a cost of living rate increase for its residential and commercial refuse collection customers. This year's rate increase review takes on a new dimension due to the arrival in the Lodi area of Central Valley Disposal Service as a competitor of City Sanitary in the unincorporated area surrounding the city.

Although Central Valley is not a competitive threat to Sanitary City for residential and commercial business within city limits because of the city's exclusive franchise arrangement we are butting heads with Sanitary City on commercial accounts in the unincorporated area.

I believe that it is important for you during your deliberations regarding rate hikes to be aware of the remarkably low commercial rates Sanitary City is charging in certain areas outside the city in an effort to meet the competitive challenge of Central Valley. In comparing Sanitary City's rates within city limits to those outside city limits, one must be aware that the city of Lodi retains a 15 percent franchise fee from Sanitary City's gross receipts. In return for this 15 percent fee Sanitary City is allowed to dump free of charge at the Harney Lane landfill and the city also provides free billing service. On the other hand Sanitary City must pay a 40 percent franchise fee to San Joaquin county on all of its commercial accounts in the unincorporated area. The 40 percent franchise fee allows Sanitary City to dump free of charge at the Harney Lane landfill but the county does not provide billing services. It is the margin of difference between the 15 percent and the 40 percent franchise fee which makes the disparity between Sanitary City's in-city rates and its out-of-city rates so dramatic.

By way of example, the drug store in Lockeford had been paying Sanitary City about \$50 a month for a two-yard container emptied once a week. We quoted the owner of the drug store our standard rate of \$34 for the same service.

In order to deny Central Valley this account Sanitary City dropped its rate to \$25 a month. Sanitary City's rate in Lodi for the same service is \$44.16. To properly compare the two rates (\$25 vs. \$44.16) one must first subtract the franchise fees from the base rates. After subtracting the county's 40 percent fee, the \$25 a month rate drops to \$15. After subtracting the city's 15 percent fee the \$44.16 rate becomes \$37.54. So, the true comparison is \$37.54 in the city and \$15 in Lockeford where the customers are fewer and farther from Sanitary City's transfer station. How do they do it? Are the high city rates subsidizing these low county rates?

Another example: The Texaco truck stop at the intersection of I-5 and Highway 12 was paying Sanitary City approximately \$130 a month for two four-yard containers emptied once a week. This price was consistent with the in-city rate for the same service. We offered the same service to the owner at \$100 a month. A bidding war ensued with the result that Sanitary City obtained the account with the added provision of twice a week service for a total price of \$60 a month. After subtracting the 40 percent county franchise fee the actual amount received by Sanitary City is \$36 a month. This \$36 amount contrasts markedly with the in-city rate of \$189.03 (\$222.39 minus the 15 percent franchise fee).

Still another example: The Tower Park Resort at Terminous on Highway 12 was having eight five-yard containers emptied once a week by Sanitary City at a cost of \$488 a month. Central Valley offered the same service to Tower Park for \$375 a month. Sanitary City responded with a rate of \$325 a month. After subtracting a 40 percent franchise fee, Sanitary City actually receives \$195 a month to provide service more than 20 miles from its transfer station. This \$195 figure contrasts sharply with the in-ci'y rate of \$500.29 (\$588.58 minus the 15 percent franchise fee).

It goes without saying that Sanitary City would not be able to offer such incredibly low rates if it weren't for the existence of its safe harbor in Lodi. The high commercial rates Sanitary City enjoys in Lodi provide profitability adequate to allow the company to quote rates that actually lose money in the county area.

The three examples I have provided above are extreme cases where Sanitary City reacted in an unbusiness like manner to our challenge. These were customers with which they had been unable to sign a contractual agreement. But there are as many as 30 to 40 commercial customers in the county area which have signed 18 month contracts with Sanitary City. In almost everyone of these contracts the rate is about the same as it is in the city. We can use as an example the rate for a two-yard container emptied once a week. The in-city rate is \$44.16 plus an additional \$8 a month rent billed directly by Sanitary City. (The City may or may not be aware of this additional rental fee for container service). The out-of-city rate for the same service is \$50.22 with no additional rental charge. After subtracting the 40 percent franchise fee, the effective rate in the county area works out to \$30.19. This is in contrast to the effective in-city rate of \$45.53 (\$44.16 - 15 percent + \$8 rental).

What this means is that there are hundreds of Sanitary City customers in Lodi who are paying 50 percent higher rates than customers in the rural areas of the county. These Lodi customers have every right to expect to be paying less than the more scattered rural customers - - not more.

It is much less expensive to pick up commercial containers in a densely populated area with a greater number of containers than in thinly populated areas. The economy is apparent to anyone who considers it.

The true purpose of this letter is to point out to you that we believe we are being dealt with unfairly in our competition with Sanitary City in the county. We believe that Sanitary City is not dealing fairly with its city customers because of the tactics the company has resorted to in the county area. Sanitary City has a powerful ulterior motive in attempting to fend off the competitive challenge of Central Valley Disposal because the owners fear that we will be competing for the city franchise when it goes out to bid again in 1989. Well, they are right. We will be around in 1989 to bid on the city franchise. By then, we will have established our local credentials in the refuse collection business and we will be prepared to provide a highly competitive bid.

Meanwhile, there is the problem of Sanitary City's dual rate structure: A high rate in the city and a low rate in the county. Sanitary City wants a cost of living increase in the city but has frozen the rates for 18 months for most of its county customers. It might be in the city's best interests to take a hard look at the existing contract to determine if there is a way to avoid granting Sanitary City's rate hike. It is difficult to understand the need for a rate increase when such low rates are offered on the other side of city limits.

Respectfully,


Bill Parsons

BP/bl