

# CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

## Policy Session Worksheet

**Presentation Date:** 3/20/2018 **Approx. Start Time:** 10:30 **Approx. Length:** 30 min.

**Presentation Title:** Addressing Increased Recycling Processing Costs Affecting Clackamas County Garbage and Recycling Collectors

**Department:** DTD – Resource Conservation & Solid Waste

**Presenters:** Rick Winterhalter (Sr. Analyst), Eben Polk (Supervisor)

**Other Invitees:** Scott Caufield (Division Manager), Dan Johnson (DTD Director)

### **WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?**

Direction on whether to prepare an accelerated garbage and recycling fee increase prior to the completion of a full annual review.

### **EXECUTIVE SUMMARY:**

The County's collection system (and others across the state) has been impacted by an increase in the cost to process recyclables. Costs to process recyclables have increased 3-500% above the cost reflected in our current fees, and are expected to remain at this level for the time being.

### **The Typical Fee Review Process**

The Resource Conservation & Solid Waste Program of the Department of Transportation and Development (DTD) is responsible for managing the County's Solid Waste Collection System. This includes an annual review of the financial and production records of the eight solid waste collection companies currently a part of Clackamas County's franchised system. The purpose of the review is to ensure that solid waste collection services are provided safely and cost-effectively while supporting the benefits of recovering materials. The review is used to establish the fees charged for the services required by the County and ensure a fair return to the collectors. The process is assisted by a certified public accountant to review and analyze franchisee financial records.

Historically the County has recognized the administrative and strategic value of an annual review, coupled with annual adjustments as necessary, to keep fees and real costs aligned. This governance model typically prevents large and unexpected increases that result from a less frequent review. Adjustments have taken the form of fee increases, additional collection services, or a combination.

The County franchise system is divided into four fee zones: 1) Urban; 2) Rural; 3) Distant Rural and 4) Mountain. Zones differ by services offered (curbside yard debris service is not offered outside the Urban zone) and the distances between customers and from disposal sites.

The current fees for residential and commercial services were adopted by the Board and made effective July 1, 2016. The current drop box fees were adopted July 1, 2017.

### **Recycling Markets' Impact on Processing Costs**

Over the last 20 years, China has become the world's largest importer of recycled paper and plastics – including from the West Coast. Historically, Chinese buyers have purchased materials with higher levels of contamination (undesired materials mixed in the commodity being sold) and at higher prices than U.S. domestic markets. In Oregon, curbside recycling has approximately

8-13 percent contamination, which recycling processors sort to a lower percentage, bale, and ship.

Though Chinese restrictions on recycling date to 2013, the government's recent "National Sword" initiative has severely restricted their import of recyclable materials. The Chinese government banned unsorted post-consumer plastics and paper in 2018, and established a strict limit of contaminants of 0.5 percent on sorted paper. China's stated reasons include the contaminants present; pollution from their older processing plants; their labor force's health and safety; and the desire to develop their own domestic recycling system.

China's ban has disrupted recycling worldwide and in Oregon. Reaching the new 0.5 percent contamination standard is nearly impossible with existing processing infrastructure.

In response, the material recovery facilities (MRFs) have incurred significant costs to improve the quality of their sorting and to find alternative markets for the material, costs which are passed on to collectors. MRFs are also seeking 'concurrence' from the DEQ to dispose of certain materials, much of which has never been accepted as recyclable, but which were previously considered acceptable contaminants.

### **Our Local Situation**

The immediate effect on the County's collection system has been an increase in processing costs beginning in September, reaching 500% above the cost reflected in our current fees. Costs are expected to remain at this level for the time being. Typically cost increases are gradual enough to absorb them in each review of the prior 12 months of costs. These recent costs are unanticipated and rose quickly. Although our collection companies have limited ability to 'shop' for the best processing price, MRFs have increased costs across the board or restricted access, to varying degrees. Thus, collectors face a large gap between their costs and existing revenue from fees.

The option to dispose of more recyclables is unattractive because disposal is equally expensive and does not offer the economic and environmental benefits derived from returning these materials to the stream of commerce.

Another option is to consider accelerating a potential fee increase to reflect known costs. The traditional date for approved increases to take effect is July 1.

While the full annual review is not complete, we have reviewed the impact of increased processing costs, and known contractual increases in labor and disposal for the coming year. The Metro Council had their first hearing on March 15<sup>th</sup> of a recommended 2.6% increase in the cost of disposal (\$2.50 per ton) effective July 1, 2018. (*Metro Fee draft report attached.*) Labor costs are expected to rise by 5%.

At this report's writing there are only estimates for the cost increase. Reflecting known costs would result in an estimated increase of approximately \$3.00 to the monthly fee for a residential 35 gallon cart in the urban fee zone (from \$30.05/month), and \$2.50 per yard for commercial customers with container service (see Container Service table below). All other fees would increase similarly.

The following tables are illustrative of the changes to fees if the estimates above are accepted. The 32-35 gallon can/cart is the predominant service level and the other fees will increase commensurately.

<b>Recent History of 32-Gallon Cart / Can Fees</b>								
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Estimated</b>
<b>Urban</b>	\$28.20	\$28.65	\$28.90	\$28.90	\$29.96	\$30.05	\$30.05	\$33.05
<b>Rural</b>	24.85	25.30	25.60	25.60	26.25	26.35	26.35	29.35
<b>Distant Rural</b>	29.80	30.35	30.60	30.60	31.20	31.35	31.35	34.35
<b>Mountain</b>	31.05	31.60	31.85	31.85	32.45	32.60	32.60	35.60

<b>Container Service</b>	<b>2 yard container 2 x per week</b>	<b>\$43 Estimated Increase</b>
<b>Fee Zone</b>	<b>2017</b>	<b>Proposed</b>
Urban	\$309.76	\$353.06
Rural	\$360.11	\$403.41
Distant Rural	\$392.39	\$435.69
Mountain	\$468.60	\$511.90

Staff is also working with the DEQ and local government partners to address these problems in the short and long term. At the local level, we are increasing efforts to educate our customers about materials that don't belong in recycling—this can help mitigate processing costs. For example, we are piloting a 'cart-tagging' project to provide individual household-level feedback reminding customers how to recycle well. State and regional level discussions have turned to long-term options to invest in better processing systems, identify policies that can support the market for recycled materials, and encourage more domestic processors for a more resilient system that supports more local jobs. This would help counteract the decline in domestic markets—for example as seen in the closure of paper mills—that has been observed in parallel with increased reliance on China.

**FINANCIAL IMPLICATIONS:**

Regardless of the timing, the County's normal review and fee adoption process would result in residential customers and businesses with container and cart service where recycling is included experiencing an increase in their garbage and recycling collection fees. Customers using drop box services would not experience an increase. The County's franchise fee revenue would increase slightly.

**STRATEGIC PLAN ALIGNMENT:**

This item aligns with our ongoing Departmental and Program level goals to ensure that our customers receive timely, cost-effective service.

**LEGAL/POLICY REQUIREMENTS:**

ORS 459 and 459A authorize the County to franchise solid waste collection services. County Code Chapter 10.03 requires a review of the solid waste collection system to ensure the public receives the services required and the County’s franchisees are able to provide those services safely, efficiently and with a reasonable return.

**PUBLIC/GOVERNMENTAL PARTICIPATION:**

The County’s Solid Waste Commission would hold a noticed meeting as a standard part of the review process, which would result in a recommendation on fees and their timing to the Board of Commissioners.

**OPTIONS:**

1. Direct staff to adopt an accelerated schedule, including Solid Waste Commission and Board review of container and cart fees, for an increase effective May 1, 2018.
2. Direct staff to complete the annual review on a traditional schedule, with fee increases effective July 1, 2018.

**RECOMMENDATION:**

Staff respectfully recommends that, based on the severity, suddenness and likely duration of these processing cost increases, the Board direct staff to adopt an accelerated schedule, including Solid Waste Commission and Board review of container and cart fees, for an emergency increase effective May 1, 2018.

**ATTACHMENTS:**

Metro Disposal Staff Report

**SUBMITTED BY:**

Division Director/Head Approval \_\_\_\_\_  
 Department Director/Head Approval \_\_\_\_\_  
 County Administrator Approval \_\_\_\_\_

For information on this issue or copies of attachments, please contact Rick Winterhalter @ 503-742-4466
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## STAFF REPORT

### IN CONSIDERATION OF ORDINANCE NO. 18-1417 FOR THE PURPOSE OF ADOPTING SOLID WASTE CHARGES AND USER FEES FOR FY 2018-19.

Date: March 15, 2018

Presented by: Tim Collier, FRS (Ext. 1913)

### Summary

Each year, the Chief Operating Officer proposes new solid waste rates as part of the budget process. The changes are needed to keep current with costs and tonnage flows.

Main points of this legislation.

- Metro's tip fee for garbage is proposed to be \$97.45 in FY 2018-19. This is an increase of \$2.50 (2.63%) from the current rate. It will result in a small increase every month to ratepayers. The change is driven by a \$1.21 increase in the tonnage charge for garbage along with \$1.60 on a per ton basis increase in the Metro Excise Tax. These increases are slightly offset by \$0.31 per ton decrease in the regional system fee. (More information on the Regional System Fee is provided on the next page.)
- Transaction fees will remain unchanged at \$10 for staffed loads (fees paid by self-haulers) and \$2 for automated loads.
- The minimum load size will be reduced 20 pounds to 360 pounds, while the minimum load charge is held constant at \$28
- Tip fee increases are proposed for residential organic waste accepted at Metro regional transfer stations. This increase stems from increases in Metro's per-ton contract cost. The rate model also suggests an increase of \$8.24 per ton for commercial organics, however, staff is proposing to keep the rate flat to support Metro's recovery work in this area. The impact of this rate buy-down is projected to be \$99,375 in FY 2018-19. This rate decision will be reviewed annually for appropriateness.
- Tip fees for clean wood will no longer be pegged to yard debris. In turn, the rate for clean wood will increase by \$8.15 per ton. Tip fees for yard debris will decrease by \$0.07 per ton.

Adoption of Ordinance No. 18-1417 would authorize the following charges at Metro regional transfer stations, effective July 1, 2018.

**Table 1. Proposed Solid Waste Charges at Metro Regional Transfer Stations**  
Rates Effective July 1, 2018

<b>Rates</b>	<b>Current</b>	<b>Proposed</b>	<b>Change</b>
<b>Fees per transaction</b>			
Users of staffed scales	\$10.00	<b>\$10.00</b>	<b>\$ - 0 -</b>
Users of automated scales	2.00	<b>2.00</b>	<b>- 0 -</b>
<b>Fees per ton (Tip Fees)</b>			
Mixed solid waste ("refuse")	\$ 94.95	<b>\$ 97.45</b>	<b>\$ 2.50</b>
Clean wood	49.69	<b>57.84</b>	<b>8.15</b>
Yard Debris	49.69	<b>49.62</b>	<b>(0.07)</b>
Residential organics	66.67	<b>67.08</b>	<b>0.41</b>
Commercial organics	66.23	<b>66.23</b>	<b>- 0 -</b>

## Background Part 1. Overview of Metro’s Solid Waste Rates

Metro maintains two classes of solid waste rates. One class, the Regional System Fee, is charged on all disposal. The second class is a suite of charges for services at Metro regional transfer stations only.

1. **Regional System Fee** is a universal charge on the disposal of garbage. It is levied at all landfills, the Marion County waste to energy facility, Forest Grove Transfer Station, and the Metro stations. There are two levels of system fee: one for mixed solid waste, and a reduced rate for environmental cleanup materials. The proposed rates are \$17.81 and \$2.50 per ton, respectively. System fees raise about \$25 million per year and pay for Metro’s regional solid waste programs and services: household hazardous waste, latex paint recovery, St. Johns Landfill management, facility regulation, illegal dumpsite cleanup, and resource conservation and recycling.
2. **Charges for services at the Metro stations** cover the costs of Metro’s transfer station operations, transport, processing and disposal. Each customer pays a two-part fee: a fixed charge for the transaction costs and a variable charge (“tip fee”) for each ton in the load.
  - **“Transaction Charges”** are the fixed fees for each load of waste accepted. There are two levels of transaction fee: one for users of the staffed scales (mainly self-haulers), and another for users of the automated scales (mainly commercial haulers). Together they raise about \$3.1 million dollars per year and pay for the cost of operating the scalehouses and related functions.
  - **“Tip Fees”** are different for each waste stream – garbage, residential organics, commercial organics, and wood/yard debris – and reflect the costs that are specific to each stream. The current and proposed rates are shown in Table 1.

Every tip fee is made up of a **Tonnage Charge** and various pass-throughs (Table 2). The tonnage charge pays for the costs of doing the work. In this region, the Regional System Fee, Metro excise tax, and DEQ fees are charged on all disposal. Together, Metro’s tonnage charges raise about \$37.7 million per year, and pay for the costs of station operations, recovery, transport, processing, disposal, capital and management.

Of the add-on components, the Regional System Fee will decrease, while the excise tax is set to increase. The Regional System Fee is decreasing by 31 cents and the excise tax is increasing \$1.60 cents. These changes, combined with an increase in the tonnage charge of \$1.21 results in the Metro tip fee increasing by \$2.50 – \$97.45 per ton from \$94.95 per ton. DEQ fees are set to increase by seven cents, but this will not occur until April 1, 2019.

**Table 2. Components of Proposed Metro Tip Fees by Waste Stream**

Rates Effective July 1, 2018

Rate Component	Mixed Solid Waste	Organic Waste			
		Yard Debris	Clean Wood	Residential Organics	Commercial Organics
Tonnage Charge <i>Covers costs of transfer, transport, recovery, disposal.</i>	\$64.41	\$48.62	\$56.84	\$66.08	65.23
<b>Pass-Throughs</b> <i>Government fees and taxes levied at disposal sites.</i>					
Regional System Fee	\$17.81	_*	_*	_*	_*
Metro excise tax	12.41	_*	_*	_*	_*
DEQ fees	1.82	_*	_*	_*	_*
Enhancement Fee	1.00	1.00	1.00	1.00	1.00
<b>Total = Tip Fee</b>	<b>\$97.45</b>	<b>\$49.62</b>	<b>\$57.84</b>	<b>\$67.08</b>	<b>\$66.23</b>

\* It is the policy of Metro and DEQ to support material recovery and recycling by levying solid waste surcharges and taxes on the waste that is ultimately disposed. For this reason, the Regional System Fee, Metro excise tax, and DEQ fees are not included in the tip fees for organic wastes.

## Background Part 2. Understanding the Proposed FY 2018-19 Rates

There are five main reasons for the changes in the proposed FY 2018-19 rates.

1. **Inflation.** Inflation has increased to its highest level in nine years. As a result, the cost of Metro's Operating Contracts have also increased, driving tonnage charges higher.
2. **Tonnage Increases.** Staff expects year-over-year mixed solid waste tonnage increases to continue through FY 2018-19, with private stations expected to realize the bulk of the increase. The added tonnage has put downward pressure on marginal costs, resulting in a decrease regional system fees and partially offsetting inflation-driven increases in tonnage charges for mixed solid waste.
3. **Changes in demand for wood.** In the fall of 2015, SP Recycling, which received 80% of Metro's wood waste from mixed recovery operations, closed operations. The result has been a significant contraction in the secondary market for wood waste, leading Metro to establish a higher standard for "clean" wood waste. The volume of wood Metro accepts under the new standard is considerably lower and warrants a higher cost per ton. In turn, the rate for wood will increase \$8.15 per ton.
4. **Changing organics environment.** The rates for residential organics continue to be set at a level that covers their costs. The rate increase for residential and commercial organics is driven by underlying costs and tonnage. However, Metro's work on commercial food waste recovery is behind the staff recommendation to keep commercial organics rate flat for FY 2018-19. The financial impact is small and this decision is important to help advance commercial food waste recovery efforts.
5. **The excise tax.** The tax rate is set automatically by a formula in the Code each year, and is never a formal part of the rate ordinance. However, it is related to the rate actions because it is part of the tip fee (Table 2). For FY 2018-19, the excise tax rate will increase \$1.60 to \$12.41 per ton.

### Information/Analysis

1. **Known Opposition.** There is no known opposition. The majority of ratepayers at Metro stations will experience an increase in Metro's tip fee for residential organic waste, wood and yard debris.
2. **Legal Antecedents.** The process for setting Metro's solid waste rates are set forth in Metro Code Chapter 5.02. Ordinance 14-1323 removed the specific Metro solid waste rates from Metro Code Chapter 5.02 and requires adoption of the rates via a separate ordinance and rate schedule. Metro reviews solid waste rates annually. The proposed FY 2018-19 rates comply with the restriction set forth in Chapter III, Section 15 of the Metro Charter limiting user charges to the amount needed to recover the costs of providing goods and services.

The excise tax rate is established automatically by a passive mechanism set forth in Metro Code sections 7.01.020 and 7.01.022 and does not require council action to take effect.

3. **Anticipated Effects:** If adopted, this ordinance would increase the tip fee for mixed solid waste at Metro transfer stations by \$1.21 per ton. It would also increase the tip fees for clean wood and residential organic wastes, while decreasing the tip fee for yard debris by the amounts set forth in Table 1.
4. **Budget Impacts.** The rates established by this ordinance are designed to raise \$65 million in enterprise revenue during FY 2018-19. This revenue would cover the cash requirements of the proposed FY 2018-19 solid waste budget.

**RECOMMENDATION**

The Chief Operating Officer recommends adoption of Ordinance No. 18-1417.