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Solid Waste Commissioners
Clackamas County

Members of the Commission:

EXECUTIVE SUMMARY:

The Sustainability & Solid Waste Program of the Department of Transportation and Development (DTD) is responsible for managing the County's Integrated Solid Waste Collection System. This includes an annual review of the production records of the seven companies holding solid waste collection franchises in the County. The purpose of the review is to ensure that solid waste collection services are provided to residents and businesses safely, cost-effectively, efficiently, and in a manner that supports the benefits of recovering materials from the system. The review is used to establish the fees charged for the variety of services required by the County and ensure a fair return to the collectors. The review process is assisted by a contracted certified public accountant to review franchisee financial records, create summaries, and provide analysis.

When looking at the annual review results, it is helpful to understand the service zones established in the County. The County is divided into four fee zones:

- 1) Urban (within the Metro Urban Growth Boundary established prior to March 2003);
- 2) Rural;
- 3) Distant Rural, and;
- 4) Mountain.

Zones are differentiated by services offered (for example, curbside yard debris service is not included in the fee zones outside the Urban zone) and the distances traveled between customers and from disposal sites.

County Code allows the Solid Waste Commission and the Board to give due consideration to all the costs of collection, investment in trucks and equipment, and management and administrative costs when determining waste management fees for collection services. Further, the code allows "a reasonable return and operating margin for the owner(s) of the business".

Since uniform fees were established in the mid-eighties, the County has included a ten percent return on revenue in approved waste management fees. This ten percent return is intended:

- to pay for income taxes (three percent);
- to be allocated to reserves to run operations and pay for capital purchases (three percent); and
- provide a return to owners (four percent-also subject to tax).

The annual review of the franchisees' production records, from the previous calendar year, involves assembling all the individual reports into a composite "company" for a system-wide review by fee zone. The target return on the composite is ten percent with an acceptable range between eight and twelve percent.

Historically the County has recognized the administrative and strategic value of conducting this annual review, coupled with annual adjustments as necessary to keep fees and real costs aligned. The adjustments may come in the form of fee increases, additional collection services, or a combination of these options.

When the composite falls within the range of acceptable returns, an increase will be limited to "known and measurable" expenses. Typical "known and measurable" expenses include costs that are known to have increased, such as contracted labor and disposal costs. Some or all "known and measurable expenses" may be considered in the rate setting process. When the composite return falls below the acceptable range, in addition to "known and measurable" expenses, consideration is given to increasing fees to provide the revenue necessary to bring the return within the range. This review model prevents large and unexpected increases that can result from a less frequent review.

The Solid Waste Commission last recommended increasing fees in 2023. The increase was based on the known and measurable increase in disposal expenses and labor. The Clackamas County Board of Commissioners adopted the Solid Waste Commission's recommendation and made effective new fees on July 1, 2023.

Annual Fee Review

In keeping with the County practice of providing annual fee adjustments, as necessary, to keep fees and real costs aligned, this year's review indicates a fee increase is warranted due to increasing costs.

The review's composites separate drop box collection service from cart and container collection service. While the estimated cart and container composites fall within the targeted range, a further review of the cart costs/revenues was warranted to account for additional costs that will be incurred in 2024.

Based on the available information, the Urban and Combined Rural zones projected returns that include the proposed increase for 2024 will be within the target range when considering the known monthly and per yard increases to driver labor, recycling processing costs, disposal, and truck expenses. The disposal increase includes the transaction fee calculated on a per ton basis. These represent a 4-6% increase in cart and container collection depending on service level. (*Attachment 1*)

The Metro tip fee on disposed waste is effective July 1, 2024, and represents an 11.9% increase to disposal expense calculated in the collection fee. Tip fees at private transfer stations are not regulated and may increase. Some of the private stations have posted fees in excess of the Metro fee. The County calculates the disposal portion of the collection fee based on the publicly reviewed Metro disposal fee.

While the estimated 2024 returns for the composite remain within the acceptable range, it is important to realize there will be additional costs appearing in the 2024 review that cannot be reliably estimated at this time. We can anticipate another increase in disposal fees and labor in 2025.

The franchisees maintain fleet readiness by regular truck replacement; however, the problems with the supply chain for new trucks and replacement parts continued to delay expected deliveries in 2023. As a result, when the new collection trucks are put into service later this year or next, the depreciation expense will increase compared to the amounts reported in 2023. The proposed increase for truck expense is based on interviews with franchisees regarding deliveries that have occurred and those anticipated in the last two quarters of 2024.

Cart & Container Fees

Applying the known and measurable costs above with a July 1, 2024 effective date to the most common service level, the 35-gallon can/cart collected weekly, the fee would increase \$1.75, from \$37.10 to \$38.85 per month (a 4.7% increase) in the Urban fee zone.

Residential customers in the Rural, Distant Rural, and Mountain fee zones would see a similar increase. All other classes of service follow similar proposed increases, relative to the 35-gallon cart. Without a fee increase the composite is projected to fall below the range. (*Attachment 2*)

The following tables illustrate the proposed fees for each zone, along with a historical review of adjustments. The 35-gallon can/cart is the predominant residential service level.

Residential 35-gallon cart	Current	Proposed	\$ Change	% Change
Urban	\$ 37.10	\$ 38.85	\$ 1.75	4.7%
Rural	\$ 34.30	\$ 36.05	\$ 1.75	5.1%
Distant Rural	\$ 39.80	\$ 41.65	\$ 1.85	4.6%
Mountain Zone	\$ 41.05	\$ 42.90	\$ 1.85	4.5%

Recent History of Monthly 35-Gallon Cart/Can Fees							
Fee Zone	2017	2018	2019	2020	2021	2022	2023
Urban	\$30.05	\$32.55	\$33.15	\$33.70	\$35.05	\$35.60	\$37.10
Rural	\$26.35	\$29.35	\$30.20	\$30.75	\$32.25	\$32.80	\$34.30
Distant Rural	\$31.35	\$34.35	\$35.10	\$35.65	\$37.65	\$38.15	\$39.80
Mountain	\$32.60	\$35.60	\$36.35	\$36.90	\$38.85	\$39.40	\$41.05

The table below reflects the increase in the disposal, processing costs, truck expense, and labor portion of container service fees. The 4 cubic yard container serviced twice a week is a common commercial service level.

Fee Zone	Increase Per Cubic Yard	Current 4yd 2x/week	Proposed Fee	\$ Monthly Change	% Change
Urban	\$ 1.19	\$ 713.94	\$ 755.16	\$ 41.22	5.8%
Rural	\$ 1.19	\$ 876.43	\$ 917.65	\$ 41.22	4.7%
Distant Rural	\$ 1.19	\$ 941.75	\$ 982.97	\$ 41.22	4.4%
Mountain	\$ 1.19	\$1,094.17	\$1,135.39	\$ 41.22	3.8%

Drop Box Fees

The following table illustrates the proposed increase to the collection fees for drop box service for 2024. The increase is based on the rising labor and truck expenses. Without a fee increase the estimated returns for 2024 are slightly below the target range. The Drop Box Summary (*Attachment 3*) shows the estimated 2024 returns if a fee increase is not considered.

Open Box	Current	Proposed	\$ Change	% Change
10 and 20 cu.yd	\$170.50	\$ 177.50	\$ 7.00	4.1%
30 cu.yd	\$180.50	\$ 187.50	\$ 7.00	3.9%
40 cu.yd	\$190.50	\$ 197.50	\$ 7.00	3.7%

Compacted Box	Current	Proposed	\$ Change	% Change
Less than 25 cu.yd	\$170.50	\$ 202.50	\$ 32.00	18.8%
25 - 34 cu.yd	\$209.50	\$ 231.50	\$ 22.00	10.5%
35 cu.yd and greater	\$238.50	\$ 250.50	\$ 12.00	5.0%

NOTE: The fees adopted by the Board for drop box service do not include the cost of disposal at a landfill or transfer station. The franchisees pass that cost through to the customer separately.

FINANCIAL IMPLICATIONS:

Residential customers and businesses with container and cart service will experience an increase in their garbage and recycling collection bill. Customers using drop box service will also experience increases in collection fees. With the proposed changes, the County’s revenues, from franchise fees, will remain relatively flat.

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 residents and businesses receive timely service at a reasonable cost and the County’s franchisees are able to provide those services safely, efficiently, and with a reasonable return.

STAFF/FRANCHISEE PARTICIPATION:

Staff, Bell & Associates, Inc. and the franchisees have participated in the annual review.

OPTIONS:

1. Maintain fees at current levels until 2025. In this scenario, the 2024 estimated composite return will fall below the 8-12% acceptable range.
2. Increase fees for cart, container, and drop box, as proposed, effective July 1, 2024. In this scenario, the estimated 2024 Total County composite will be within the range, slightly below the 10% target.
3. Propose an alternative to Options 1 and 2.

RECOMMENDATION:

Staff respectively requests the Solid Waste Commission consider this report and propose a recommendation to the Board of County Commissioners for their consideration.

Fee Zone Composite *Cart and Container Only*
Return on Revenues
2023 Adjusted

	Urban		Combined Rural		Total County
Collection & Service Revenues	25,180,265		17,873,761		43,054,026
Direct Costs of Operations	19,337,688	% of revenue	13,520,517	% of revenue	32,858,205
Disposal Expense	7,876,556	31%	4,530,822	25%	12,407,378
Labor Expense	6,184,880	25%	4,623,525	26%	10,808,405
Truck Expense	2,954,527	12%	2,589,785	14%	5,544,312
Equipment Expense	903,375	4%	537,618	3%	1,440,993
Franchise Fees	1,104,274	4%	841,990	5%	1,946,264
Other Direct Expense	314,076	1%	396,777	2%	710,853
Indirect Costs of Operations	3,543,054		2,653,054		6,196,108
Management Expense	844,373	3%	590,864	3%	1,435,237
Administrative Expense	733,106	3%	831,405	5%	1,564,511
Other Overhead Expenses	1,965,575	8%	1,230,785	7%	3,196,360
Total Cost	22,880,742		16,173,571		39,054,313
Less Unallowable Costs	40,201		91,943		132,144
Allowable Costs	22,840,541		16,081,628		38,922,169
Franchise Income	2,339,724		1,792,133		4,131,857
Return on revenues	9.29%		10.03%		9.60%

2024 Projected Results

	Urban		Combined Rural		Total County
Collection & Service Revenues	25,820,797		18,229,130		44,049,927
Rate Increase	701,149		444,063		1,145,211
Direct Costs of Operations	20,425,886		14,224,283		34,650,169
Disposal Expense	8,608,027		4,983,777		13,591,804
Labor Expense	6,360,391		4,753,822		11,114,213
Truck Expense	3,103,717		2,689,592		5,793,309
Equipment Expense	903,375		537,618		1,440,993
Franchise Fees	1,136,300		862,697		1,998,997
Other Direct Expense	314,076		396,777		710,853
Indirect Costs of Operations	3,564,057		2,667,453		6,231,510
Management Expense	848,150		596,632		1,444,782
Administrative Expense	737,895		837,973		1,575,868
Other Overhead Expenses	1,978,012		1,232,848		3,210,860
Total Cost	23,989,943		16,891,736		40,881,679
Less Unallowable Costs	40,201		91,508		131,709
Allowable Costs	23,949,742		16,800,228		40,749,970
Franchise Income	2,572,204		1,872,965		4,445,168
Return on revenues	9.70%		10.03%		9.84%

Fee Zone Composite *Cart and Container Only*
Return on Revenues
2023 Adjusted

	Urban		Combined Rural		Total County
Collection & Service Revenues	25,180,265		17,873,761		43,054,026
Direct Costs of Operations	19,337,688	% of revenue	13,520,517	% of revenue	32,858,205
Disposal Expense	7,876,556	31%	4,530,822	25%	12,407,378
Labor Expense	6,184,880	25%	4,623,525	26%	10,808,405
Truck Expense	2,954,527	12%	2,589,785	14%	5,544,312
Equipment Expense	903,375	4%	537,618	3%	1,440,993
Franchise Fees	1,104,274	4%	841,990	5%	1,946,264
Other Direct Expense	314,076	1%	396,777	2%	710,853
Indirect Costs of Operations	3,543,054		2,653,054		6,196,108
Management Expense	844,373	3%	590,864	3%	1,435,237
Administrative Expense	733,106	3%	831,405	5%	1,564,511
Other Overhead Expenses	1,965,575	8%	1,230,785	7%	3,196,360
Total Cost	22,880,742		16,173,571		39,054,313
Less Unallowable Costs	40,201		91,943		132,144
Allowable Costs	22,840,541		16,081,628		38,922,169
Franchise Income	2,339,724		1,792,133		4,131,857
Return on revenues	9.29%		10.03%		9.60%

2024 Projected Results

	Urban		Combined Rural		Total County
Collection & Service Revenues	25,820,797		18,229,130		44,049,927
Rate Increase	0		0		0
Direct Costs of Operations	20,425,886		14,224,283		34,650,169
Disposal Expense	8,608,027		4,983,777		13,591,804
Labor Expense	6,360,391		4,753,822		11,114,213
Truck Expense	3,103,717		2,689,592		5,793,309
Equipment Expense	903,375		537,618		1,440,993
Franchise Fees	1,136,300		862,697		1,998,997
Other Direct Expense	314,076		396,777		710,853
Indirect Costs of Operations	3,564,057		2,667,453		6,231,510
Management Expense	848,150		596,632		1,444,782
Administrative Expense	737,895		837,973		1,575,868
Other Overhead Expenses	1,978,012		1,232,848		3,210,860
Total Cost	23,989,943		16,891,736		40,881,679
Less Unallowable Costs	40,201		91,508		131,709
Allowable Costs	23,949,742		16,800,228		40,749,970
Franchise Income	1,871,055		1,428,902		3,299,957
Return on revenues	7.25%		7.84%		7.49%

Drop Box: Total County-No Disposal

	Adjusted Drop Box (no disposal)	Proposed Increase Drop Box (no disposal)	No Increase Drop Box (no disposal)
Collection & Service Revenues	4,335,963	4,374,217	4,374,217
Rate Increase		65,674	
Direct Costs of Operations	3,426,125	3,549,602	3,549,602
Disposal Expense	0	0	0
Labor Expense	1,665,346	1,712,412	1,712,412
Truck Expense	960,183	998,668	998,668
Equipment Expense	186,073	186,073	186,073
Franchise Fees	429,176	467,102	467,102
Other Direct Expense	185,347	185,347	185,347
Indirect Costs of Operations	448,717	450,646	450,646
Management Expense	104,301	104,969	104,969
Administrative Expense	91,131	91,565	91,565
Other Overhead Expenses	253,285	254,112	254,112
Total Cost	3,874,842	4,000,248	4,000,248
Less Unallowable Costs	960	960	960
Allowable Costs	3,873,882	3,999,288	3,999,288
Franchise Income	462,081	440,603	374,929
Return on revenues	10.66%	9.92%	8.57%