

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Policy Session Worksheet

Presentation Date: July 31, 2024 **Approx. Start Time:** 11 AM **Approx. Length:** 30 minutes

Presentation Title: Annual Review of Fees for Solid Waste Collection Services

Department: Transportation and Development

Presenters: Dan Johnson, DTD Director; Cheryl Bell, Assistant Director

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

Approval of the recommendation from the Solid Waste Commission to increase solid waste collection fees, with an effective date of August 1, 2024.

EXECUTIVE SUMMARY:

The Sustainability & Solid Waste Program in the Department of Transportation and Development (DTD) is responsible for managing the County's Integrated Solid Waste Collection System. This work includes an annual review of the production records of the seven parent companies holding Board-approved solid waste collection franchises. 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;
- Establish the fees charged for the variety of services we require our franchised collectors to offer, and
- Ensure a fair return to the collectors.

Historically, the County has recognized the value of an annual review, coupled with annual adjustments as necessary, to keep fees and real costs aligned. This practice prevents large and unexpected increases for customers that can result from less frequent reviews.

Services Provided

Through the franchise program, collectors offer similar services to residents throughout unincorporated Clackamas County, and the cities of Happy Valley and Barlow. All customers receive garbage service (with the option to choose the garbage cart size and collection frequency) and curbside recycling. State statute requires local governments to provide the opportunity to recycle for all garbage customers.

Annual Fee Review and Operation Margin

A contracted, certified public accountant assists in the annual review by studying franchisee financial records, creating summaries, and providing analysis. Questions are asked and site visits are conducted as needed to confirm the validity and accuracy of franchisee reported costs. Reported costs are adjusted or excluded as necessary to ensure those included in the review are appropriate.

The review and fee-setting process covers residential, commercial, and drop-box service in four fee zones:

- Urban (within the Metro Urban Growth Boundary established prior to March 2003)
- Rural
- Distant Rural
- Mountain

Zones are differentiated by services offered (for example, curbside yard debris service is only in the urban fee zone), and the distances traveled between customers and from disposal sites.

The review includes an assessment of the impact of known costs and potential fee increases on the operating margins of each service zone, and for the system as a whole. The County's practice, consistent with other Oregon communities, is to set fees at a level that targets a 10% operating margin, with an acceptable range of 8-12%. The margin is used by the franchised collectors to cover costs and taxes, set aside reserves for operations and capital purchases, and provide a return to ownership.

Our review of the allowable costs and revenues for calendar year 2023 showed:

- The margins for cart and container service in the Urban zone were within the range at 9.29% (*Attachment 1*)
- The margins for cart and container service in the Rural zones were within the acceptable range at 10.03% (*Attachment 1*)
- The margins for Drop Box services across all fee zones were within the target range at 10.66% (*Attachment 2, first column*).

The known and measurable cost increases of providing garbage and recycling services included in our calculations of an estimated margin for 2024 are:

1. Labor costs
2. Recycling processing costs
3. Truck expenses
4. Metro waste disposal fee, known as the tip fee, effective July 1, 2024, which represents an 11.9% increase to disposal expense calculated in the collection fee.

Metro Tip Fee -- The Metro solid waste disposal fee, or tip fee, is set annually by Metro as part of its budget process. The fee is charged to solid waste franchised collectors when they unload materials at Metro transfer stations. The cost for disposal makes up approximately 25% of the cost to provide garbage and recycling service to Clackamas County residents and businesses.

This year, as in past years, we strongly encouraged Metro to set a fair tip fee for our residents. In addition to staff contacts with Metro and partner agencies, staff supported discussions of the tip fee at Metro Policy Advisory Committee (MPAC) meetings.

Ultimately, after robust advocacy including Commissioner Shull's strong efforts in MPAC, on May 2, 2024, Metro Council approved the 11.9% tip fee recommended by Metro staff. That exceeds the fee predictability cap of 8% that was set after regional engagement in 2022.

FY 24/25 Fee Discussion

The 2024 estimated margins fall outside the acceptable range (*Attachment 3, upper table*) considering the known and measurable cost increases, and these additional factors:

- 1) Anticipated increases to disposal and processing fees, and to labor, beginning in 2024, and
- 2) Truck depreciation expenses for franchisees -- The franchisees maintain fleet readiness by regular truck replacement. However, supply chain problems related to new trucks and replacement parts continued to delay deliveries that were expected in 2023. As a result, when new trucks are put into service later this year or in early 2025, the depreciation expense will increase compared to the amounts reported in 2023.

Based upon all costs, a fee increase appears warranted to account for all the costs of collection, investment in trucks and equipment, management and administrative costs, and a reasonable return for the owner(s) of the collection companies.

A proposed fee increase (Attachment 4) represents a 3.35-6.8% increase in cart and container collection, depending on service level. If the proposed fee increase is approved, the estimated 2024 margin for carts and containers is 9.84% (Attachment 3, lower table), and the estimated margin for drop box service is 9.92% (Attachment 2, second column), placing both proposed fee increases within the acceptable range.

Without a fee increase, the estimated 2024 margin for carts and containers is 7.49% (Attachment 3, upper table), which falls below the acceptable range, and the drop box service margin is estimated to fall to the low end of the range at 8.57% (Attachment 2, third column).

Solid Waste Commission Recommendation

The Clackamas County Solid Waste Commission, our formal advisory body reflecting public participation in managing the solid waste system, met May 30, 2024, to consider the annual review and proposed fee increases. The Commission voted 5-0-1 (abstain) to accept the review and recommend the fee increases proposed by staff be forwarded to the Board for consideration.

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? **N/A** YES NO

What is the cost? \$ **N/A** What is the funding source? **N/A**

STRATEGIC PLAN ALIGNMENT:

- **How does this item align with your Department’s Strategic Business Plan goals?**
Our Departmental and Program mission includes providing franchise oversight of the solid waste system to ensure franchisees have the ability to provide, and customers continue to receive, safe, efficient and timely garbage and recycling services.
- **How does this item align with the County’s Performance Clackamas goals?**
Every county resident and business has access to safe, convenient garbage and recycling services to ensure a safe and healthy community. The annual review provides assurances customers are provided fair value for the services they receive.

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.

PUBLIC/GOVERNMENTAL PARTICIPATION:

The Solid Waste Commission, the County’s formal advisory body reflecting public participation in managing the solid waste system, convened to discuss the annual review and make recommendations to the Board. Staff, the consultants (Bell & Associates, Inc.) and the franchisees participated in the annual review.

OPTIONS:

1. Maintain fees at current levels until next year's annual fee review.
2. Approve fee increases as approved and recommended by the Solid Waste Commission, effective August 1, 2024.
3. Propose an alternative to the amount or timing of the proposed increase.

RECOMMENDATION:

Staff respectfully recommends Option 2; Approve fee increases as approved and recommended by the Solid Waste Commission, effective August 1, 2024.

ATTACHMENTS:

1. Composite and Rate of Return by Zone – Cart and Container
2. Drop Box Countywide Composite and Rate of Return
3. Composite and Rate of Return by Zone-Cart and Container; with and without fee increase
4. Proposed Fee Increase Tables

SUBMITTED BY:

Division Director/Head Approval *Cheryl Bell*

Department Director/Head Approval *Dan Johnson*

County Administrator Approval _____

For information on this issue or copies of attachments, please contact Kate Taylor at ktaylor1@clackamas.us or 503-742-4455

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%

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%

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

2024 Projected Results without a fee increase

	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%

2024 Projected Results with proposed fee increase

	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%

Proposed Fee Changes 2024

Attachment 4

Urban		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 32.00	20 gal Singlefamily	\$ 33.45	1.45	4.5%
\$ 37.10	32 gal	\$ 39.05	1.95	5.3%
\$ 48.55	60 gal	\$ 51.25	2.70	5.6%
\$ 57.60	90 gal	\$ 61.10	3.50	6.1%
\$ 17.60	On Call	\$ 18.45	0.85	4.8%
\$ 17.90	Monthly	\$ 18.60	0.70	3.9%
\$ 27.50	20 gal Multifamily	\$ 28.95	1.45	5.3%
\$ 32.60	32 gal	\$ 34.55	1.95	6.0%
\$ 33.15	32 gal Commercial	\$ 35.05	1.90	5.7%
\$ 46.50	60 gal	\$ 49.20	2.70	5.8%
\$ 51.45	90 gal	\$ 54.95	3.50	6.8%
\$ 7.70	Recycling Only	\$ 8.10	0.40	5.2%
\$ 6.30	YD Subscription	\$ 6.50	0.20	3.2%
\$ 4.75	YD 2nd Cart	\$ 4.95	0.20	4.2%
Urban		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 118.08	1 yard weekly	\$ 123.71	5.63	4.8%
\$ 203.52	2 yard weekly	\$ 214.78	11.26	5.5%
\$ 399.31	2 yard 2x weekly	\$ 421.83	22.52	5.6%
\$ 713.94	4 yard 2x weekly	\$ 758.97	45.03	6.3%

Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 29.20	20 gal Singlefamily	\$ 30.65	1.45	5.0%
\$ 34.30	32 gal	\$ 36.25	1.95	5.7%
\$ 47.80	60 gal	\$ 50.50	2.70	5.6%
\$ 55.65	90 gal	\$ 59.15	3.50	6.3%
\$ 18.15	On Call	\$ 19.00	0.85	4.7%
\$ 18.95	Monthly	\$ 19.70	0.75	4.0%
\$ 27.60	20 gal Multifamily	\$ 29.05	1.45	5.3%
\$ 32.70	32 gal	\$ 34.65	1.95	6.0%
\$ 34.30	32 gal Commercial	\$ 36.25	1.95	5.7%
\$ 47.80	60 gal	\$ 50.50	2.70	5.6%
\$ 55.65	90 gal	\$ 59.15	3.50	6.3%
\$ 10.75	Recycling Only	\$ 11.35	0.60	5.6%
Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 135.60	1 yard weekly	\$ 141.23	5.63	4.2%
\$ 241.21	2 yard weekly	\$ 252.47	11.26	4.7%
\$ 469.57	2 yard 2x weekly	\$ 492.09	22.52	4.8%
\$ 876.43	4 yard 2x weekly	\$ 921.46	45.03	5.1%

Proposed Fee Changes 2024

Attachment 4

Distant Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 34.40	20 gal Singlefamily	\$ 35.90	1.50	4.4%
\$ 39.80	32 gal	\$ 41.80	2.00	5.0%
\$ 52.10	60 gal	\$ 54.90	2.80	5.4%
\$ 59.95	90 gal	\$ 63.55	3.60	6.0%
\$ 18.50	On Call	\$ 19.35	0.85	4.6%
\$ 20.60	Monthly	\$ 21.40	0.80	3.9%
\$ 32.80	20 gal Multifamily	\$ 34.30	1.50	4.6%
\$ 38.20	32 gal	\$ 40.20	2.00	5.2%
\$ 39.80	32 gal Commercial	\$ 41.80	2.00	5.0%
\$ 52.10	60 gal	\$ 54.90	2.80	5.4%
\$ 59.95	90 gal	\$ 63.55	3.60	6.0%
\$ 10.90	Recycling Only	\$ 11.45	0.55	5.0%
Distant Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 150.98	1 yard weekly	\$ 156.61	5.63	3.7%
\$ 263.73	2 yard weekly	\$ 274.99	11.26	4.3%
\$ 506.35	2 yard 2x weekly	\$ 528.87	22.52	4.4%
\$ 941.75	4 yard 2x weekly	\$ 986.78	45.03	4.8%

Mountain		Adjustment		
Current Rate	Service Level	Proposed	\$	%
\$ 35.65	20 gal Singlefamily	\$ 37.15	1.50	4.2%
\$ 41.05	32 gal	\$ 43.05	2.00	4.9%
\$ 18.80	On Call	\$ 19.65	0.85	4.5%
\$ 20.90	Monthly	\$ 21.70	0.80	3.8%
\$ 34.05	20 gal Multifamily	\$ 35.55	1.50	4.4%
\$ 39.45	32 gal	\$ 41.45	2.00	5.1%
\$ 41.05	32 gal Commercial	\$ 43.05	2.00	4.9%
\$ 10.90	Recycling Only	\$ 11.45	0.55	5.0%
Mountain		Adjustment		
Current Rate	Service Level	Proposed	\$	%
\$ 170.03	1 yard weekly	\$ 175.66	5.63	3.3%
\$ 301.83	2 yard weekly	\$ 313.09	11.26	3.7%
\$ 582.56	2 yard 2x weekly	\$ 605.08	22.52	3.9%
\$ 1,094.17	4 yard 2x weekly	\$ 1,139.20	45.03	4.1%

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%