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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 of eight – 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 measurables" 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 2021. The increase was based on the known and measurable increases in labor and disposal expenses, estimated fuel increases and a revenue adjustment to the distant rural fee/mountain fee zones. The Clackamas County Board of Commissioners adopted and made effective new fees on July 1, 2021.

## **Annual Fee Review**

When reviewing calendar year 2021 reports, the adjusted returns to revenue in the Urban fee zone exceed the high end of the range at just over 13%. The Combined Rural zones (rural & distant rural) fall within the acceptable range at 11%.

Based on the available information, the Urban zone estimated returns for 2022 will be slightly above the target range when considering the known increases to driver labor (2.2%), health expense for administrative workers (5%), disposal (11.9%) and estimated fuel increases (58%) and applying the proposed fee increase to cover the disposal increase. The Combined Rural zone's 2022 estimated returns will stay within the range with the proposed increase for disposal and the known and measurable cost increases. For additional context, a three-year review of the total county composite is provided. (*Attachment 1*).

Attachment 2 shows the estimated 2022 returns if the proposed increase is not considered. While the estimated 2022 returns for the composite remain within the acceptable range, it is important to realize there will be additional costs appearing on the 2022 review that cannot be reliably estimated at this time. The costs associated with the implementation of the food waste collection program will put downward pressure

on the Urban composite returns in the second half of 2022. Additionally, we are aware the processing costs for recyclables decreased below the 2021 estimate, bolstering the returns. These processing costs appear to be on the rise in the first quarter of 2022. There will be a 7-8% increase in disposal fees in 2023.

According to the US Bureau of Labor and Statistics Western Consumer Price Index<sup>1</sup>, inflation increased by 8.7% from April 2021 to March 2022. When food and fuel were excluded from the calculation, the adjusted inflation was 6.8%. A general inflation assumption was **NOT** included in the 2022 estimate.

The franchisees maintain fleet readiness by regular truck replacement; however, the problems with the supply chain for new trucks and replacement parts delayed deliveries expected in 2021. As a result, when the new collection trucks are put into service later this year, the depreciation expense will increase compared to the amounts reported in 2021. While not quantifiable, it is known each of these additional costs will have an effect on the 2022 review.

In keeping with the County practice of providing annual adjustments, as necessary, to keep fees and real costs aligned, County staff has proposed adjustments based only on the known and measurable disposal expense. The Metro tip fee on disposed waste is effective July 1, 2022, and represents a 7.1% increase to disposal expense calculated in the rate. Tip fees at private transfer stations are not regulated and may also 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.

### **Cart & Container Fees**

Applying the known and measurable costs above with a July 1, 2022 effective date to the most common service level, the 35-gallon can/cart collected weekly, the fee would increase from \$35.05 to \$35.60 per month (a 1.6% 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. (*Attachment 3*)

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<sup>1</sup> [https://www.bls.gov/regions/west/news-release/ConsumerPriceIndex\\_West.htm](https://www.bls.gov/regions/west/news-release/ConsumerPriceIndex_West.htm)

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.

<b><i>Residential 35-gallon cart</i></b>	<b>Current</b>	<b>Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Urban</b>	\$35.05	\$35.60	\$0.55	1.6%
<b>Rural</b>	\$32.25	\$32.80	\$0.55	1.7%
<b>Distant Rural</b>	\$37.65	\$38.15	\$0.55	1.5%
<b>Mountain Zone</b>	\$38.85	\$39.40	\$0.55	1.4%

<b>Recent History of Monthly 35-Gallon Cart / Can Fees</b>							
<b>Fee Zone</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Urban</b>	\$29.95	\$30.05	\$30.05	\$32.55	\$33.15	\$33.70	\$35.05
<b>Rural</b>	26.25	26.35	26.35	29.35	30.20	30.75	32.25
<b>Distant Rural</b>	31.25	31.35	31.35	34.35	35.10	35.65	37.65
<b>Mountain</b>	32.50	32.60	32.60	35.60	36.35	36.90	38.85

The table below reflects the increase to the disposal portion of container service fees. The 4 cubic yard container serviced twice a week is a common commercial service level.

<b>Fee Zone</b>	<b>Increase Per Cubic Yard</b>	<b>Current 4 yd 2x/week</b>	<b>Proposed Fee</b>	<b>\$ Change</b>	<b>% Change</b>
Urban	\$0.55	\$651.24	\$670.29	\$19.05	2.9%
Rural	\$0.55	\$808.19	\$827.24	\$19.05	2.4%
Distant Rural /Mountain	\$0.55	\$873.51	\$892.56	\$19.05	2.2%

### **Drop Box Rental Fees**

The following table illustrates the proposed increase to the monthly rental fee for permanent open and lidded drop boxes for 2022. The cost of purchasing drop boxes has increased considerably in the past several years. This increase in monthly and daily rent recognizes those increased costs. A corresponding increase in the daily rental fee is proposed for the occasional drop box customer. The daily rental is charged after 48 hours and can only be charged for 10 days. This permanent monthly rental fee was introduced in 2012 and has not been changed in the ensuing 10 years.

	<b>Current</b>	<b>Proposed</b>	<b>\$Change</b>	<b>% Change</b>
Open Drop Box	\$50.00	<b>\$70.00</b>	\$20.00	40.0%
Lidded Drop Box	\$70.00	<b>\$90.00</b>	\$20.00	28.6%
Daily rent 10 days maximum	\$6.30	<b>\$7.00</b>	\$0.70	11.1%

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 experience increases in daily and monthly rental. 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 2023. In this scenario, the 2022 estimated composite return would be 10.68%, within the 8-12% acceptable range.
2. Based on the existing known and measurable costs, increase fees for cart, container, and drop box rental, as proposed, to be effective July 1, 2021. In this scenario, the 2022 estimated composite would be 11.41%.
3. Propose an alternative to Options 1 and 2.

### **RECOMMENDATION:**

Staff respectfully requests the Solid Waste Commission to consider this report and recommend Option 2, the proposed fee increases, to the Board of County Commissioners for their consideration.

## Clackamas County

## Solid Waste Recycling Annual Rate Review

**Fee Zone Composite****2021 Adjusted Results**

	Urban		Combined Rural		Total County
<b>Collection &amp; Service Revenues</b>	<b>27,844,875</b>		<b>18,886,535</b>		<b>46,731,410</b>
<b>Direct Costs of Operations</b>	<b>20,356,058</b>	<b>% of revenue</b>	<b>14,054,713</b>	<b>% of revenue</b>	<b>34,410,771</b>
Disposal Expense	9,623,217	35%	5,012,088	27%	14,635,305
Labor Expense	5,620,316	20%	4,792,221	25%	10,412,537
Truck Expense	2,855,411	10%	2,351,235	12%	5,206,646
Equipment Expense	632,179	2%	594,638	3%	1,226,817
Franchise Fees	1,239,358	4%	935,246	5%	2,174,604
Other Direct Expense	385,577	1%	369,285	2%	754,862
<b>Indirect Costs of Operations</b>	<b>3,903,540</b>		<b>2,814,770</b>		<b>6,718,310</b>
Management Expense	1,215,539	4%	661,897	4%	1,877,436
Administrative Expense	740,581	3%	879,139	5%	1,619,720
Other Overhead Expenses	1,947,420	7%	1,273,734	7%	3,221,154
<b>Total Cost</b>	<b>24,259,598</b>		<b>16,869,483</b>		<b>41,129,081</b>
<b>Less Unallowable Costs</b>	<b>64,521</b>		<b>89,205</b>		<b>153,726</b>
<b>Allowable Costs</b>	<b>24,195,077</b>		<b>16,780,278</b>		<b>40,975,355</b>
<b>Franchise Income</b>	<b>3,649,798</b>		<b>2,106,257</b>		<b>5,756,055</b>
<b>Return on revenues</b>	<b>13.11%</b>		<b>11.15%</b>		<b>12.32%</b>

**2022 Estimated Results**

	Urban		Combined Rural		Total County
<b>Collection &amp; Service Revenues</b>	<b>28,856,038</b>		<b>19,478,779</b>		<b>48,334,816</b>
<b>Rate Increase</b>	<b>247,031</b>		<b>152,066</b>		<b>399,097</b>
<b>Direct Costs of Operations</b>	<b>21,726,876</b>	<b>% ▲ from prior year</b>	<b>14,889,188</b>	<b>% ▲ from prior year</b>	<b>36,616,064</b>
Disposal Expense	10,615,036	10.3%	5,575,549	11.2%	16,190,585
Labor Expense	5,718,652	1.7%	4,879,405	1.8%	10,598,057
Truck Expense	3,066,775	7.4%	2,513,906	6.9%	5,580,681
Equipment Expense	632,179	0.0%	594,638	0.0%	1,226,817
Franchise Fees	1,308,657	5.6%	956,405	2.3%	2,265,062
Other Direct Expense	385,577	0.0%	369,285	0.0%	754,862
<b>Indirect Costs of Operations</b>	<b>3,913,483</b>		<b>2,823,697</b>		<b>6,737,180</b>
Management Expense	1,221,059	0.5%	664,565	0.4%	1,885,624
Administrative Expense	745,004	0.6%	885,398	0.7%	1,630,402
Other Overhead Expenses	1,947,420	0.0%	1,273,734	0.0%	3,221,154
<b>Total Cost</b>	<b>25,640,359</b>		<b>17,712,886</b>		<b>43,353,245</b>
<b>Less Unallowable Costs</b>	<b>90,063</b>		<b>89,205</b>		<b>179,268</b>
<b>Allowable Costs</b>	<b>25,550,296</b>		<b>17,623,681</b>		<b>43,173,977</b>
<b>Franchise Income</b>	<b>3,552,772</b>		<b>2,007,164</b>		<b>5,559,936</b>
<b>Return on revenues</b>	<b>12.21%</b>		<b>10.22%</b>		<b>11.41%</b>

<b>Total County Composite</b>	<b>2019*</b>	<b>2020</b>	<b>2021</b>	<b>3 yr Total County Composite</b>
Revenues	39,180,619	42,577,096	46,731,410	\$ 128,489,125
Direct Costs	31,129,206	32,791,660	34,410,771	\$ 98,331,637
Indirect Costs	5,289,328	5,960,516	6,718,310	\$ 17,968,154
Total Cost	36,418,534	38,752,176	41,129,081	\$ 116,299,791
Less Unallowable Costs	33,099	51,063	153,726	\$ 237,888
Allowable Costs	36,385,435	38,701,113	40,975,355	\$ 116,061,903
Franchise Income	2,795,183	3,875,984	5,756,055	\$ 12,427,222
Return on revenues	<b>7.10%</b>	<b>9.10%</b>	<b>12.32%</b>	<b>9.70%</b>

\* 2019 Review was based on Reported only, early effective date: Covid

**Fee Zone Composite****2021 Adjusted Results**

	Urban		Combined Rural		Total County
<b>Collection &amp; Service Revenues</b>	<b>27,844,875</b>		<b>18,886,535</b>		<b>46,731,410</b>
<b>Direct Costs of Operations</b>	<b>20,356,058</b>	<b>% of revenue</b>	<b>14,054,713</b>	<b>% of revenue</b>	<b>34,410,771</b>
Disposal Expense	9,623,217	35%	5,012,088	27%	14,635,305
Labor Expense	5,620,316	20%	4,792,221	25%	10,412,537
Truck Expense	2,855,411	10%	2,351,235	12%	5,206,646
Equipment Expense	632,179	2%	594,638	3%	1,226,817
Franchise Fees	1,239,358	4%	935,246	5%	2,174,604
Other Direct Expense	385,577	1%	369,285	2%	754,862
<b>Indirect Costs of Operations</b>	<b>3,903,540</b>		<b>2,814,770</b>		<b>6,718,310</b>
Management Expense	1,215,539	4%	661,897	4%	1,877,436
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<b>Total Cost</b>	<b>24,259,598</b>		<b>16,869,483</b>		<b>41,129,081</b>
<b>Less Unallowable Costs</b>	<b>64,521</b>		<b>89,205</b>		<b>153,726</b>
<b>Allowable Costs</b>	<b>24,195,077</b>		<b>16,780,278</b>		<b>40,975,355</b>
<b>Franchise Income</b>	<b>3,649,798</b>		<b>2,106,257</b>		<b>5,756,055</b>
<b>Return on revenues</b>	<b>13.11%</b>		<b>11.15%</b>		<b>12.32%</b>

**2022 Estimated Results without an Increase**

	Urban		Combined Rural		Total County
<b>Collection &amp; Service Revenues</b>	<b>28,856,038</b>		<b>19,478,779</b>		<b>48,334,816</b>
<b>Rate Increase</b>					<b>0</b>
<b>Direct Costs of Operations</b>	<b>21,726,876</b>	<b>% ▲ from prior year</b>	<b>14,889,188</b>	<b>% ▲ from prior year</b>	<b>36,616,064</b>
Disposal Expense	10,615,036	10.3%	5,575,549	11.2%	16,190,585
Labor Expense	5,718,652	1.7%	4,879,405	1.8%	10,598,057
Truck Expense	3,066,775	7.4%	2,513,906	6.9%	5,580,681
Equipment Expense	632,179	0.0%	594,638	0.0%	1,226,817
Franchise Fees	1,308,657	5.6%	956,405	2.3%	2,265,062
Other Direct Expense	385,577	0.0%	369,285	0.0%	754,862
<b>Indirect Costs of Operations</b>	<b>3,913,483</b>		<b>2,823,697</b>		<b>6,737,180</b>
Management Expense	1,221,059	0.5%	664,565	0.4%	1,885,624
Administrative Expense	745,004	0.6%	885,398	0.7%	1,630,402
Other Overhead Expenses	1,947,420	0.0%	1,273,734	0.0%	3,221,154
<b>Total Cost</b>	<b>25,640,359</b>		<b>17,712,886</b>		<b>43,353,245</b>
<b>Less Unallowable Costs</b>	<b>90,063</b>		<b>89,205</b>		<b>179,268</b>
<b>Allowable Costs</b>	<b>25,550,296</b>		<b>17,623,681</b>		<b>43,173,977</b>
<b>Franchise Income</b>	<b>3,305,742</b>		<b>1,855,098</b>		<b>5,160,840</b>
<b>Return on revenues</b>	<b>11.46%</b>		<b>9.52%</b>		<b>10.68%</b>



## Proposed Fee Changes 2022

Urban		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 30.60	20 gal Singlefamily	\$ 30.90	0.30	1.0%
\$ 35.05	32 gal	\$ 35.60	0.55	1.6%
\$ 45.55	60 gal	\$ 46.45	0.90	2.0%
\$ 53.50	90 gal	\$ 54.85	1.35	2.5%
\$ 16.30	On Call	\$ 16.55	0.25	1.5%
\$ 17.05	Monthly	\$ 17.30	0.25	1.5%
\$ 26.10	20 gal Multifamily	\$ 26.40	0.30	1.1%
\$ 30.55	32 gal	\$ 31.10	0.55	1.8%
\$ 31.10	35 gal Commercial	\$ 31.65	0.55	1.8%
\$ 43.50	60 gal	\$ 44.40	0.90	2.1%
\$ 47.35	90 gal	\$ 48.70	1.35	2.9%
\$ 7.45	Recycling Only	\$ 7.45		0.0%
\$ 6.05	YD Subscription	\$ 6.05		0.0%
\$ 4.50	YD 2nd Cart	\$ 4.50		0.0%
Urban		Adjustment		
Current Fee	Service Level	Proposed	Adjustment	%
\$ 110.24	1 yard weekly	\$ 112.62	2.38	2.2%
\$ 187.85	2 yard weekly	\$ 192.61	4.76	2.5%
\$ 367.96	2 yard 2x weekly	\$ 377.49	9.53	2.6%
\$ 651.24	4 yard 2x weekly	\$ 670.29	19.05	2.9%

Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 27.80	20 gal Singlefamily	\$ 28.10	0.30	1.1%
\$ 32.25	32 gal	\$ 32.80	0.55	1.7%
\$ 44.80	60 gal	\$ 45.70	0.90	2.0%
\$ 51.55	90 gal	\$ 52.90	1.35	2.6%
\$ 16.85	On Call	\$ 17.10	0.25	1.5%
\$ 17.65	Monthly	\$ 17.90	0.25	1.4%
\$ 26.20	20 gal Multifamily	\$ 26.50	0.30	1.1%
\$ 30.65	32 gal	\$ 31.20	0.55	1.8%
\$ 32.25	35 gal Commercial	\$ 32.80	0.55	1.7%
\$ 44.80	60 gal	\$ 45.70	0.90	2.0%
\$ 51.55	90 gal	\$ 52.90	1.35	2.6%
\$ 10.30	Recycling Only	\$ 10.30	-	0.0%
Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 127.07	1 yard weekly	\$ 129.45	2.38	1.9%
\$ 224.15	2 yard weekly	\$ 228.91	4.76	2.1%
\$ 435.45	2 yard 2x weekly	\$ 444.98	9.53	2.2%
\$ 808.19	4 yard 2x weekly	\$ 827.24	19.05	2.4%

Distant Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 32.85	20 gal Singlefamily	\$ 33.15	0.30	0.9%
\$ 37.60	32 gal	\$ 38.15	0.55	1.5%
\$ 48.95	60 gal	\$ 49.85	0.90	1.8%
\$ 55.70	90 gal	\$ 57.05	1.35	2.4%
\$ 17.40	On Call	\$ 17.65	0.25	1.4%
\$ 19.50	Monthly	\$ 19.75	0.25	1.3%
\$ 31.25	20 gal Multifamily	\$ 31.55	0.30	1.0%
\$ 36.00	32 gal	\$ 36.55	0.55	1.5%
\$ 37.60	35 gal Commercial	\$ 38.15	0.55	1.5%
\$ 48.95	60 gal	\$ 49.85	0.90	1.8%
\$ 55.70	90 gal	\$ 57.05	1.35	2.4%
\$ 10.40	Recycling Only	\$ 10.40	-	0.0%
Distant Rural		Adjustment		
Current Fee	Service Level	Proposed	\$	%
\$ 142.45	1 yard weekly	\$ 144.83	2.38	1.7%
\$ 246.67	2 yard weekly	\$ 251.43	4.76	1.9%
\$ 472.23	2 yard 2x weekly	\$ 481.76	9.53	2.0%
\$ 873.51	4 yard 2x weekly	\$ 892.56	19.05	2.2%

Mountain		Adjustment		
Current Rate	Service Level	Proposed	\$	%
\$ 34.10	20 gal Singlefamily	\$ 34.40	0.30	0.9%
\$ 38.85	32 gal	\$ 39.40	0.55	1.4%
\$ 17.70	On Call	\$ 17.95	0.25	1.4%
\$ 19.80	Monthly	\$ 20.05	0.25	1.3%
\$ 32.50	20 gal Multifamily	\$ 32.80	0.30	0.9%
\$ 37.25	32 gal	\$ 37.80	0.55	1.5%
\$ 38.85	35 gal Commercial	\$ 39.40	0.55	1.4%
\$ 10.40	Recycling Only	\$ 10.40	-	0.0%
Mountain		Adjustment		
Current Rate	Service Level	Proposed	\$	%
\$ 161.50	1 yard weekly	\$ 163.88	2.38	1.5%
\$ 284.77	2 yard weekly	\$ 289.53	4.76	1.7%
\$ 548.44	2 yard 2x weekly	\$ 557.97	9.53	1.7%
\$ 1,025.93	4 yard 2x weekly	\$ 1,044.98	19.05	1.9%