

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Study Session Worksheet

Presentation Date: 6/17/2014 **Approx Start Time:** 10:30 **Approx Length:** 30 minutes

Presentation Title: Clackamas County Solid Waste Collection Fee Adjustments

Department: DTD Office of Sustainability

Presenters: Rick Winterhalter

Other Invitees: Eben Polk, Scott Caufield

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

Accept the annual review of the County's solid waste collection franchisees and continue current fees.

EXECUTIVE SUMMARY:

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 13 franchised solid waste collection companies currently holding the County's 23 franchises. The purpose of the review is to ensure the solid waste collection services requested by the citizens of the County are being provided as safely and as efficiently as possible. The review is used to establish the fees charged for the variety of services required by the County and ensure a fair return on revenues to the collectors.

The County is currently divided into four fee zones: 1) Urban; 2) Rural; 3) Distant Rural and 4) Mountain. The Urban zone is within the Metro Urban Growth Boundary established prior to March 2003. Zones are differentiated by services offered (e.g. no Yard Debris outside Urban zone) and the distances traveled between houses and from disposal sites.

There is no fee adjustment proposed for this year. Annual analysis was conducted on a range of factors impacting the cost of providing service, including labor and fuel costs, and a slight decrease in disposal fees at Metro transfer stations. This process is assisted by a certified public accountant to review franchisee financial records.

The Metro Council adopted a \$1.00 per ton decrease in the cost of garbage disposal effective July 1, 2014. (Metro staff report attached.) The disposal expense is approximately 30% of the direct operational expenses.

The slight decrease in disposal and fuel costs combined with anticipated low inflation numbers for labor, truck, equipment and other expenses have been factored into the review. The current review reveals each of the fee zones are within the targeted operating margin range and the absence of large increases in expenses since the last review allow the opportunity to maintain the existing fee schedule.

The last year without an increase in fees was 2003. In general, the administrative strategy of an annual review, coupled with annual adjustments as necessary, has prevented large and unexpected increases on a less frequent schedule.

FINANCIAL IMPLICATIONS:

Businesses and residents will experience no change in their garbage and recycling collection bill. The County's revenues will remain 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 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 met on June 5, 2014 to receive and discuss the annual review and make a recommendation on fees to the Board of Commissioners.

OPTIONS:

Maintain fees at current levels.

Pro: Avoid increases in costs for garbage and recycling customers in unincorporated Clackamas County.

Direct staff to identify a slight increase in fees.

Pro: A slight increase would preempt or reduce the size of future increases.

RECOMMENDATION:

On June 5, 2014 the Solid Waste Commission met. The Commission recommended the results of this year's annual financial review of the integrated solid waste management program be presented to the Board of County Commissioners. It was unanimously recommended that the Waste Management Fees approved by the Board last year on August 1, 2013, remain in effect.

Note that regardless of the option chosen here, staff emphasizes the administrative strategy of an annual review, coupled with annual adjustments *as necessary* to keep fees and real costs aligned. This governance model prevents large and unexpected increases on a less frequent schedule.

ATTACHMENTS:

History of Fee Adjustments, including details of this year's review.

SUBMITTED BY:

Division Director/Head Approval

Department Director/Head Approval

County Administrator Approval

Scott D. Campbell
A. D. Campbell 6-11-14

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

Solid Waste Collection Supporting Documents

June 5, 2014

Solid Waste Collection Fee Adjustment

- ORS 459A.085(3) allows the Counties and Cities to “...*displace competition with a system of regulated [integrated solid waste] collection service by issuing franchises which may be exclusive if service areas are allocated.*”
- The State also provides to Cities and Counties the authority to assess fees that are adequate to provide necessary collection service and allow the recovery of the costs necessary to provide the opportunity to recycle.
- Community Environment Division of the Department of Transportation and Development (DTD) is responsible for managing the County’s Integrated Solid Waste Collection System.
- One condition of maintaining a County franchise in good standing is:
On an annual basis submit production, sale and purchase records, which include income and expense statements, labor hours, truck hours, customer and receptacle counts, tonnage reports, and which may include, at the County’s option, financial statements and tax returns, for 12 month periods, beginning January 1 and ending December 31 of the previous year, for purposes of Solid Waste Management Fee review...(Clackamas County Solid Waste and Recycling Collection Services Administrative Regulations for Franchisee & Customer; Adopted 10/10/1994, Last amended 11/5/2009)
- The County currently manages 23 franchises. These franchises are held by 13 companies a mix of locally owned Subchapter C corporations and publicly traded corporations. Some of the franchises consolidate their annual reports, resulting in fewer reports than franchisees.
- The County has a contract with Bell & Associates, Inc. a consulting firm specializing in solid waste financial analysis, to perform an analysis of the data submitted.
- The information submitted by the individual franchises is consolidated to create a composite ‘franchisee.’ Costs are adjusted to eliminate those allowed for tax purposes but not allowed for determining collection fees. This composite is used to analyze the financial health of the entire system.
- The County determines the systems’ health based on return on revenues. The county’s policy is to measure the health of the solid waste collection system within a range of 8-12% return on revenues. When the system falls within this range typically neither an increase nor decrease in fees is deemed necessary. Special circumstances, such as the addition of new programs or anticipated increases in expenses outside the control of the companies, may cause exceptions.
- Metro Council has approved a decrease in the disposal fee by \$1.00 per ton on July 1, 2014; lowering the tip fee to \$93.33. The ‘transaction fee’ of \$3.00 for customers with accounts (franchisees) is to remain the same. For analytical purposes when calculating disposal it is assumed each transaction is a five (5) ton load; therefore an additional \$0.60

(to account for the transaction fee at the transfer station) is added to the disposal fee to arrive at an effective disposal fee of \$93.93 beginning July 1, 2014. This increase has been factored into the projections calculated in the financial review.

- A 25% increase in the cost of disposing yard debris has been factored into the projections.
- Other notable expenses are rising, but at a lower percentage in the recent past. Driver wages are increasing by 1.24% and health insurance for all employees was held flat this year.
- Last year fuel was projected to decrease by 1.21%. This year the projected adjustment is set at -1.76%.
- General inflation is anticipated to be 2.12%.
- After reviewing the production records submitted by the franchisees, and making agreed upon adjustments and applying projected increases, it has been determined that collection fee adjustments will need to be made in each of the collection zones for the coming year.

History of Fee Adjustments (copied from previous reports)

September 1, 2013

- Metro Council has approved an increase in the disposal fee by \$0.49 per ton on September 1, 2013; raising the tip fee to \$94.33. The 'transaction fee' of \$3.00 for customers with accounts (franchisees) is to remain the same. For analytical purposes when calculating disposal it is assumed each transaction is a five (5) ton load; therefore an additional \$0.60 (to account for the transaction fee at the transfer station) is added to the disposal fee to arrive at an effective disposal fee of \$94.93 beginning September 1, 2013. This increase has been factored into the projections calculated in the financial review.
- A 0% increase in the cost of disposing yard debris has been factored into the projections.
- Other notable expenses are rising, but at a lower percentage in the recent past. Driver wages are increasing by 2.0% and health insurance for all employees was held flat this year.
- Last year fuel was projected to increase by 4.99%. This year the projected adjustment is set at -1.21%.
- Other costs have not been projected to increase.
- The following tables illustrate staff's current proposed fee adjustments necessary in each zone to continue the provision of solid waste collection services the public has come to expect. The 32-35 gallon can/cart is the predominant service level. (See attachments for proposed changes to other service levels.)

32/35 gallon can/ cart	Current	Proposed	Change
Urban	\$28.65	\$28.90	\$0.25

Rural	\$25.30	\$25.60	<i>\$0.30</i>
Distant Rural	\$30.35	\$30.60	<i>\$0.25</i>
Mountain Zone	\$31.60	\$31.85	<i>\$0.25</i>

- Staff is proposing an increase for container service based on cubic yard serviced. This reflects the adjustments to fuel, labor and disposal costs as mentioned above.

Fee Zone	Adjustment Per Cubic Yard
Urban	\$0.95
Rural	\$1.04
Distant Rural/Mountain	\$1.04

- In addition to the adjustment presented above, an additional adjustment to commercial carts is recommended. A historical differential has existed between the carts collected from residential and commercial customers, with commercial customers having a lower fee, except in the Rural zone. In the Urban area this differential can be attributed to the collection of yard debris from residential customers. However, in the rural, distant rural and mountain zones yard service is not offered in these zones. Staff is proposing this differential be equalized over the next three years.

32/35 gallon can/ cart	Current	Proposed	Change
Rural	\$25.35	\$25.60	<i>\$0.25</i>
Distant Rural	\$28.90	\$29.65	<i>\$0.75</i>
Mountain Zone	\$30.15	\$30.90	<i>\$0.75</i>
60 gallon cart	Current	Proposed	Change
Rural	\$35.80	\$36.30	<i>\$0.50</i>
Distant Rural	\$38.05	\$39.30	<i>\$1.25</i>
Mountain Zone	\$39.30	\$40.25	<i>\$1.05</i>

90 gallon cart	Current	Proposed	Change
Rural	\$38.40	\$38.90	\$0.50
Distant Rural	\$40.65	\$41.70	\$1.05
Mountain Zone	\$41.90	\$42.95	\$1.05

- Staff is recommending a slight adjustment in the hauling fees associated with open drop box service and for small compactors. Currently the composite earnings for the drop box falls below the acceptable range and has for several years. The system has seen an increase in use of lidded boxes as businesses attempt to avoid illegal dumping in their open drop boxes and adhere to storm water best management practices. The cost of new equipment along with the associated increases in labor expenses warrants this slight adjustment. The last increase on the haul portion of drop box fees was done in 2011.

Open Drop Box-All Zones	Current	Proposed	Change
10/20 Cubic Yards	\$113.00	\$119.00	\$6.00
30 Cubic Yards	\$130.00	\$136.00	\$6.00
40 Cubic Yards	\$147.00	\$153.00	\$6.00

Compactors-All Zones	Current	Proposed	Change
Less than 25 Cubic Yards	\$128.00	\$135.00	\$7.00

August 1, 2012

- Metro Council has approved an increase in the disposal fee by \$4.31 per ton on August 1, 2012; raising the tip fee to \$93.84. The 'transaction fee' of \$3.00 for account customers is to remain the same. For analytical purposes when calculating disposal it is assumed each transaction is a five (5) ton load; therefore an additional \$0.60 (to account for the transaction fee at the transfer station) is added to the disposal fee to arrive at an effective disposal fee of \$94.44 beginning August 1, 2011. A 4.5% increase has been factored into the projections calculated in the financial review.
- A 0% increase in the cost of disposing yard debris has been factored into the projections.
- Other notable expenses are rising, but at a lower percentage in the recent past. Driver wages are increasing by 2.0% and health insurance for all employees was held flat this year.
- Fuel was projected to increase by 4.99%.
- Other costs have not been projected to increase.
- After reviewing the production records submitted by the franchisees, and making agreed upon adjustments and applying projected increases, it has been determined that collection fee adjustments will need to be made in each of the collection zones for the coming year.

- A monthly rent was applied to all customers with a permanent box on site. Past practice had been to apply rental based on frequency of service for both temporary (occasional) and permanent customers.

In August 2012 fees were adjusted upwards in all zones for all service types.

32/35 gallon can/ cart	Current	Proposed	Change
Urban	\$28.20	\$28.65	\$0.45
Rural	\$24.85	\$25.30	\$0.45
Distant Rural	\$29.80	\$30.35	\$0.55
Mountain Zone	\$31.05	\$31.60	\$0.55

An increase for container service based on cubic yard serviced was approved. This reflects the adjustments to fuel, labor and disposal costs as mentioned above.

Fee Zone	Adjustment Per Cubic Yard
Urban	\$2.62
Rural	\$2.82
Distant Rural/Mountain	2.77

August 1, 2011

- Metro Council approved an increase in the disposal fee by \$3.68 per ton on August 1, 2011; raising the tip fee to \$89.53. The 'transaction fee' of \$3.00 for account customers is to remain the same. For analytical purposes when calculating disposal it is assumed each transaction is a five (5) ton load; therefore an additional \$0.60 (to account for the transaction fee at the transfer station) is added to the disposal fee to arrive at an effective disposal fee of \$90.13 beginning August 1, 2011. This 4.3% increase has been factored into the projections calculated in the financial review.
- A 0% increase in the cost of disposing yard debris has been factored into the projections.
- Other notable expenses are rising, but at a lower percentage in the recent past.. Driver wages are increasing by 3.17% and health insurance for all employees is increasing by 12.86%.
- Last year fuel was projected as a negative 12.73%. This year a projected increase is at 30.86%.
- Other identified costs have been projected to increase at 3.17%.

- After reviewing the production records submitted by the franchisees, and making agreed upon adjustments and applying projected increases, it has been determined that collection fee adjustments will need to be made in each of the collection zones for the coming year.

32/35 gallon can/ cart	Current	Proposed	Change
Urban	\$27.45	\$28.20	\$0.75
Rural	\$24.20	\$24.85	\$0.65
Distant Rural	\$29.10	\$29.80	\$0.70
Mountain Zone	\$30.35	\$31.05	\$0.70

- Staff is proposing an increase for container service based on cubic yard serviced. This reflects the effects as mentioned above.

Fee Zone	Adjustment Per Cubic Yard
Urban	\$2.51
Rural	\$2.90
Distant Rural/Mountain	\$2.99

- Staff is also proposing a small increase to drop box service fees and an increase in the Urban Zone delivery fee to more accurately capture the costs associated with this service.

Urban Zone	Current	Proposed	Change
Delivery Fee	\$25.00	\$40.00	\$15.00

- The basic service charges for collecting and tipping a drop box/compactor have not changed since 2009. The following are the proposed changes to Open Drop Box and Compactor service in all zones.

Open Drop Box-All Zones	Current	Proposed	Change
10/20 Cubic Yards	\$110.00	\$113.00	\$3.00
30 Cubic Yards	\$127.00	\$130.00	\$3.00
40 Cubic Yards	\$144.00	\$147.00	\$3.00

Compactors-All Zones	Current	Proposed	Change
Less than 25 Cubic Yards	\$125.00	\$128.00	\$3.00
25-34 Cubic Yards	\$165.00	\$169.00	\$4.00
Greater than 35 Cubic Yards	\$191.00	\$196.00	\$5.00

August 1, 2010

- A 0% increase in the cost of disposing yard debris has been factored into the projections.
- Other notable expenses are rising, but at a lower percentage in the recent past.. Driver wages are increasing by 3.23% and health insurance for all employees is increasing by 9.83%.
- Last year fuel was projected as a negative 21.01%. This year a projected increase is at 12.73%, considerably lower than the 60% increase experienced 2 years ago.
- Other identified costs have been projected to increase at 3.04%.
- This year an unusual 30% increase in the PUC fees was experienced and expressed in the projections.
- Metro Council has approved an increase in the disposal fee by \$5.10 per ton on August 1, 2010; raising the tip fee to \$85.85. The 'transaction fee' of \$3.00 for account customers is to remain the same. For analytical purposes when calculating disposal it is assumed each transaction is a five (5) ton load; therefore an additional \$0.60 (to account for the transaction fee at the transfer station) is added to the disposal fee to arrive at an effective disposal fee of \$86.45 beginning August 1, 2010. This 6.32% increase has been factored into the projections calculated in the financial review.

32/35 gallon can/ cart	Current	Proposed	Change
Urban	\$26.35	\$27.45	\$1.10
Rural	\$23.30	\$24.20	\$0.90
Distant Rural	\$28.20	\$29.10	\$0.90
Mountain Zone	\$29.45	\$30.35	\$0.90

Staff is proposing an increase for container service based on cubic yard serviced. The adjustment takes into consideration effects on costs as mentioned above.

Fee Zone	Proposed per Yard Adjustment
All Zones	\$1.62

The distances traveled to deliver and collect a box in this area of the County and the infrequency of service continues to have a tremendous impact on the cost of delivering service to the outlying portions of the County. Staff believes the best way to address this concern is to increase the mileage fee. The proposed changes is:

Drop Box Mileage Fee	Current	Proposed	Change
Over 18 miles round trip	\$2.70	\$4.70	\$2.00

August 1, 2009

35 gallon cart: Urban fees were increased by \$1.35; Rural by \$0.50; Distant Rural & Mountain by \$2.25. *(The 32/35 gallon service is the predominant service in the customer mix. Other fees were adjusted proportionally based on the 32-gallon fee.)*

Container Urban/Rural fees increased by \$1.59 and Distant Rural/Mountain fees increased by \$3.21 per cubic yard served.

Drop Box:

	Current	Proposed	Change
Outside the Urban Zone			
Delivery Fee	\$45.00	\$50.00	\$5.00
Mileage Fee	\$2.30	\$2.70	\$0.40

The basic service charges for collecting and tipping a drop box/compactor have not changed since 1993. The following were the changes made in 2009 to Open Drop Box service in all zones.

Open Drop Box-All Zones	Current	Proposed	Change
10/20 Cubic Yards	\$80.55	\$110.00	\$29.45
30 Cubic Yards	\$98.10	\$127.00	\$28.90
40 Cubic Yards	\$113.35	\$144.00	\$30.65

The compactor fees as developed in 1993 were priced on a per yard basis within particular size ranges. This practice seemed to be dated per review of the standard throughout the region which revealed a fixed price within a size range. After surveying the size of compactors in service the proposed size ranges were created. The fees are based on those assessed by the City of Milwaukie.

Compactors-All Zones	Current Low-High	Proposed	Change Low-High
Less than 25 Cubic Yards	\$91.95-135.60	\$125.00	\$33.05-(10.60)
25-34 Cubic Yards	\$141.25-171.70	\$165.00	\$23.75-(6.70)
Greater than 35 Cubic Yards	\$176.75-178.00	\$191.00	\$14.25-13.00

- ◆ September 1, 2008
35 gallon cart: Urban fees were increased by \$1.00; Rural by \$1.45; Distant Rural & Mountain by \$1.65.
Container fees increased by \$1.47 per cubic yard served.
Drop Box: Mileage increased to \$2.30.; Delivery charges -Urban increased from \$20 to \$25; All rural delivery from \$40 to \$45. Several incidental fees charged by most drop box companies were codified on the fee schedule, these include but are not limited to: wash out fee; dead head fee; clarified hourly increments.
- ◆ September 1, 2007
Urban fees were increased by \$1.05. All other fee zones remained static.
Yard Debris exemption program was eliminated. Those currently enrolled, "grandfathered" until leave County system regardless of address.
- ◆ July 1, 2006 Changes to Drop Box fees occurred for the first time since 1993.

Rural Distant Rural	Current	Proposed & Adopted
Delivery Fee	\$20	\$40
Mileage Fee	\$1.70	\$2.00

- ◆ July 1, 2006 added the Mountain Zone to address increased services and collection challenges associated with this part of the County. Primarily the Mt. Hood area east of Rhondendron.
- ◆ There were no fee adjustments in 2005, although Metro did increase fees for disposal in September by 0.62% and other costs increased.

- ◆ On October 1, 2004 the following increases were made to residential and commercial services in each of the collection zones. *(The 32/35 gallon service is the predominant service in the customer mix. Other fees were adjusted proportionally based on the 32-gallon fee.):*

32/35 gallon can/ cart	Current	Adopted 2004	Change
Urban	\$21.10	\$21.55	\$0.45
Rural	\$19.50	\$19.90	\$0.40
Distant Rural	\$22.75	\$23.55	\$0.80

The changes in commercial container service were made on a per-yard basis. The following table shows the increase per yard in each of the fee zones.

Fee Zone	Adopted per Yard Increase 2004
Urban	\$1.75
Rural	\$1.75
Distant Rural	\$3.50

- ◆ In 2003 Metro increased the disposal fee but the County did not adopt a fee adjustment.
- ◆ In July 2002 the Board approved the following increases for 32-gallon can/cart service *(The 32-gallon service is the predominant service in the customer mix. Other fees were adjusted proportionally based on the 32-gallon fee.):*

32/35 gallon can/cart	2002
Urban	\$1.20
Rural	\$1.20
Distant Rural	\$2.70

- ◆ In 2001, residential and commercial fees were adjusted in the Urban zone only. Commercial containers fees were **decreased** 5-20%. The residential 32-gallon fee was increased by 11% (\$2.20) and residential customers were provided a large roller cart for yard debris collection service.

**Distant Rural Zone Composite
Return on Revenues
2013 Adjusted**

	Can / Cart Service		Container Service		Drop Box Service		Distant Rural Total	
Collection & Service Revenues	2,653,469		829,797		423,309		3,906,575	
Direct Costs of Operations	1,914,870	% of revenue	586,679	% of revenue	403,157	% of revenue	2,904,705	% of revenue
Disposal Expense	402,018	15%	165,446	20%	184,641	44%	752,105	19%
Labor Expense	813,660	31%	218,237	26%	109,590	26%	1,141,487	29%
Truck Expense	426,316	16%	107,572	13%	60,615	14%	594,503	15%
Equipment Expense	72,618	3%	13,257	2%	14,828	4%	100,703	3%
Franchise Fees	130,376	5%	35,687	4%	18,584	4%	184,647	5%
Other Direct Expense	69,882	3%	46,480	6%	14,899	4%	131,261	3%
Indirect Costs of Operations	545,957		117,092		26,133		689,182	
Management Expense	150,813	6%	20,013	2%	5,097	1%	175,923	5%
Administrative Expense	211,454	8%	54,604	7%	7,257	2%	273,315	7%
Other Overhead Expenses	183,690	7%	42,475	5%	13,779	3%	239,944	6%
Total Cost	2,460,827		703,771		429,290		3,593,888	
Less Unallowable Costs	36,424		5,050		1,897		43,371	
Allowable Costs	2,424,403		698,721		427,393		3,550,517	
Franchise Income	229,066		131,076		-4,084		356,058	
Return on revenues	8.63%		15.80%		-0.96%		9.11%	
Customer Count / Drop Box Pulls	6,982		212		905			

**Rural Zone Composite
Return on Revenues
2013 Adjusted Results**

	Can / Cart Service	Container Service	Drop Box Service	Rural Total
Collection & Service Revenues	5,934,859	1,254,417	580,171	7,769,447
Direct Costs of Operations	4,086,148 % of revenue	934,595 % of revenue	541,475 % of revenue	5,562,218 % of revenue
Disposal Expense	1,156,830 19%	356,329 28%	308,757 53%	1,821,916 23%
Labor Expense	1,473,525 25%	278,705 22%	123,520 21%	1,875,750 24%
Truck Expense	954,349 16%	183,505 15%	71,671 12%	1,209,525 16%
Equipment Expense	151,638 3%	32,810 3%	6,220 1%	190,668 2%
Franchise Fees	238,500 4%	48,605 4%	23,941 4%	311,046 4%
Other Direct Expense	111,306 2%	34,641 3%	7,366 1%	153,313 2%
Indirect Costs of Operations	1,145,713	200,897	27,144	1,373,755
Management Expense	224,234 4%	30,343 2%	4,612 1%	259,189 3%
Administrative Expense	485,485 8%	88,275 7%	11,766 2%	585,526 8%
Other Overhead Expenses	435,995 7%	82,279 7%	10,766 2%	529,040 7%
Total Cost	5,231,861	1,135,493	568,619	6,935,972
Less Unallowable Costs	67,543	6,134	1,297	74,974
Allowable Costs	5,164,318	1,129,359	567,322	6,860,998
Franchise Income	770,541	125,058	12,849	908,449
Return on revenues	12.98%	9.97%	2.21%	11.69%
Customer Count / Drop Box Pulls	17,157	445	1,211	

**Urban Zone Composite
Return on Revenues
2013 Adjusted**

	Can / Cart Service	Container Service	Drop Box Service	Urban Total
Collection & Service Revenues	9,136,766	5,051,312	5,855,744	20,043,822
Direct Costs of Operations	6,600,937 % of revenue	3,456,320 % of revenue	5,303,056 % of revenue	15,360,314 % of revenue
Disposal Expense	1,884,274 21%	1,602,884 32%	3,216,320 55%	6,703,478 33%
Labor Expense	2,513,997 28%	949,934 19%	897,977 15%	4,361,908 22%
Truck Expense	1,421,989 16%	529,176 10%	719,229 12%	2,670,393 13%
Equipment Expense	283,737 3%	158,857 3%	78,372 1%	520,966 3%
Franchise Fees	369,757 4%	172,832 3%	208,860 4%	751,449 4%
Other Direct Expense	127,184 1%	42,637 1%	182,299 3%	352,119 2%
Indirect Costs of Operations	1,661,621	958,807	308,609	2,929,037
Management Expense	521,104 6%	271,307 5%	44,704 1%	837,115 4%
Administrative Expense	514,551 6%	226,252 4%	60,968 1%	801,771 4%
Other Overhead Expenses	625,966 7%	461,248 9%	202,937 3%	1,290,151 6%
Total Cost	8,262,557	4,415,128	5,611,665	18,289,350
Less Unallowable Costs	27,410	17,861	69	45,340
Allowable Costs	8,235,147	4,397,267	5,611,596	18,244,010
Franchise Income	901,619	654,045	244,148	1,799,812
Return on revenues	9.87%	12.95%	4.17%	8.98%
Customer Count / Drop Box Pulls	28,409	1,427	13,906	

STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 14-1324 FOR THE PURPOSE OF ADOPTING SOLID WASTE CHARGES AND USER FEES FOR FY 2014-15.

Date: March 20, 2014

Presented by: Brian Kennedy, FRS (Ext. 1908)

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.

- This legislation is the first to adopt the new solid waste rates via the rate schedule authorized by Ordinance 14-1323 and makes the rates effective July 1, 2014.
- Metro's tip fee for garbage is proposed to be \$93.33 in FY 2014-15. This is down one dollar (1 percent) from the current rate. It will result in a small decrease every month to ratepayers. The decrease in the tip fee includes a reduction of 35 cents in the regional system fee from \$18.56 to \$18.21 per ton. (More information on the Regional System Fee is provided on the next page.)
- Tip fee increases are proposed for two of the three organic waste streams accepted at Metro regional transfer stations –residential organics and commercial organics. These increases stem from increases in Metro's per-ton contract cost. The tip fee for clean wood and yard debris is decreasing by 89 cents per ton.
- Even with these changes, the organics rates remain \$30 to \$41 per ton below the price of disposal, and remain a powerful economic incentive for recovery.

Adoption of Ordinance No. 14-1324 would authorize the following charges at Metro regional transfer stations, effective July 1, 2014.

Table 1. Proposed Solid Waste Charges at Metro Regional Transfer Stations
Rates Effective July 1, 2014

Rates	Current	Proposed	Change
Fees per transaction			
Users of staffed scales	\$12.00	\$12.00	- 0 -
Users of automated scales	3.00	3.00	- 0 -
Fees per ton (Tip Fees)			
Mixed solid waste ("refuse")	\$94.33	\$93.33	(\$1.00)
Clean wood/yard debris	\$53.02	\$52.13	(\$0.89)
Residential organics	56.67	58.78	2.11
Commercial organics	60.88	64.17	3.29

Adoption of this ordinance would also leave the following rate unchanged from current levels:

- Minimum load charge. This is the main rate paid by household self-haulers at the Metro stations. It would remain unchanged at \$28 for loads of 340 pounds and under.

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 Burner, 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 \$18.21 and \$2.50 per ton, respectively. System fees raise about \$20 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 \$2.8 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 \$31 million per year, and pay for the costs of station operations, recovery, transport, processing, disposal, capital, and management.

Of the add-on components, both the Regional System Fee and the excise tax are set to fall. The Regional System Fee is decreasing by 35 cents and the excise tax by 53 cents. These changes, combined with a decrease in the tonnage charge of 12 cents results in the Metro tip fee decreasing by 1 dollar to \$93.33 per ton from \$94.33 per ton.

Table 2. Components of Proposed Metro Tip Fees by Waste Stream
Rates Effective July 1, 2014

Rate Component	Mixed Solid Waste	Organic Waste		
		Clean Wood or Yard Debris	Residential Organics	Commercial Organics
Tonnage Charge <i>Covers costs of transfer, transport, recovery, disposal.</i>	\$61.62	\$51.63	\$58.28	\$63.67
Pass-Throughs <i>Government fees and taxes levied at disposal sites.</i>				
Regional System Fee	\$18.21	-.*	-.*	-.*
Metro excise tax	11.76	-.*	-.*	-.*
DEQ fees	1.24	-.*	-.*	-.*
Enhancement Fee	0.50	0.50	0.50	0.50
Total = Tip Fee	\$93.33	\$52.13	\$58.78	\$64.17

* 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 2013-14 Rates

There are three main reasons for the changes – and in some cases, the lack of change – in the proposed FY 2013-14 rates.

1. **Tonnage.** After five years of decline, tonnage has stabilized at Metro stations. Staff expects this trend to continue through FY 2014-15 – although staff does not expect any significant *increases* at Metro stations.
2. **Setting organics charges at the cost of service.** In FY 2013-14, organics rates were set to a level that covers their costs for the first time. That practice is continued for FY 2014-15. This is not only a best practice in itself, but it also reduces the size of increase in the mixed waste tip fee tip fee – mainly by providing a larger tonnage base over which to spread fixed contract and capital costs.

The rate increase for residential and commercial organics is driven by underlying costs and tonnage. However, the larger tonnage base for fixed costs continues to remove upward pressure on the mixed waste rate.

3. **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 2014-15, the excise tax rate will fall 53 cents to \$11.76 per ton.

Information/Analysis

1. **Known Opposition.** There is no known opposition. The majority of ratepayers will enjoy a small decrease in Metro's tip fee.
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 2014-15 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 decrease the tip fee for solid waste at Metro transfer stations by 47 cents per ton. It would also increase the tip fees for organic wastes by the amounts set forth in Table 1.
4. **Budget Impacts.** The rates established by this ordinance are designed to raise \$52 million in enterprise revenue during FY 2014-15. This revenue would cover the cash requirements of the proposed FY 2014-15 solid waste budget.

RECOMMENDATION

The Chief Operating Officer recommends adoption of Ordinance No. 14-1324.