

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 24-5404 FOR THE PURPOSE OF ADOPTING SOLID WASTE FEES AT THE METRO TRANSFER STATIONS AND THE REGIONAL SYSTEM FEE FOR FY 2024-25.

Date: April 8, 2024
Department: FRS
Meeting Date: April 25, 2024

Prepared by: Kat Kelley, Economist
Presenters: Brian Kennedy, CFO
Length: 15 Minutes

ISSUE STATEMENT

This resolution will authorize increases to Solid Waste fees at the Metro transfer stations and regional system fee to take effect on July 1, 2024.

ACTION REQUESTED

Council adoption of Resolution 24-5404

IDENTIFIED POLICY OUTCOMES

Council adoption of this resolution will:

1. Increase the Solid Waste fees at the Metro transfer stations and regional system fee to be effective as of July 1, 2024;
2. Provide Council with the annual report of the amount of solid waste that was subject to reduced fees and taxes or exempted during FY 2022-23.

POLICY QUESTION

Should Council increase the Solid Waste fees at the Metro transfer stations (including the total disposal fee, transactions fees, materials charges, and minimum load size fees) and the regional system fee to cover the costs of service of Metro station operations and the regional waste system?

POLICY OPTIONS FOR COUNCIL TO CONSIDER

1. Adoption of the resolution to increase Solid Waste fees at the Metro transfer stations and regional system fee to fund current Department expenses.
2. Reject the resolution and Solid Waste fees at the Metro transfer stations and the regional system fee will be unchanged. This action will result in future operational budget shortfalls. This will require Metro to significantly reduce public services and make additional changes to programs and capital plans to keep spending in line with expected revenue collected.

STAFF RECOMMENDATIONS

The Chief Operating Officer recommends adoption of Resolution 24-5404

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

On March 29, 2024, Metro staff presented the recommendations of the Waste Fee Policy Task Force to the Metro Council. Their recommendations included updated fee setting criteria for solid waste fees. Specifically, the task force recommended improved engagement and collaboration on budget and fee development, improved public information about how Metro's fees are developed and used, continuing to maintain separate fund balance reserves for transfer station operations and Regional System Fee-funded activities, updates to Metro's financial policies, and prioritization of four criteria in solid waste fee setting. In that meeting Council directed staff to investigate fee options under two scenarios: Full Cost of Service (COS) in alignment with the recommended fee setting criteria and Fee Predictability (8% Ceiling).

The Full Cost of Service scenario generates enough revenue to break even over the next fiscal year. Under this scenario, the total tip fee increases to \$153.67 which, excluding the Metro excise tax, is 11% higher than the current fee. Under this scenario, WPES's ending fund balance for FY24-25 is estimated to be approximately \$34.6 million.

The Fee Predictability scenario keeps the increase of the overall tip fee within the 8% ceiling of year-over-year growth. This creates a mixed solid waste tip fee of \$149.69. This increase also includes the Metro excise tax increase of \$1.41, which is not a part of the fee development. If the excise tax were flat, the overall tip fee would be 8% increase from the prior year, which is within the ceiling guidance provided by Council. By capping these fees, WPES's ending fund balance for FY24-25 would be \$30.5 million, a decrease of \$4.5 million.

While both scenarios have their pros and cons and cover the needs of the WPES department and the Region's solid waste system, staff recommends moving forward with the Full Cost of Service Scenario to maintain WPES fund balance reserves. Both scenarios maintain separate reserve funds for transfer station operations and the regional system fee.

In summary, if Council adopts the recommended Full Cost of Service fee scenario, the overall tip fee increase is 11.92% and the minimum fee increase is \$5, from \$40 to \$45. The assumed weight per minimum charge stays flat at 240 pounds which is higher than the average minimum load (approximately 205 pounds).

Independent Solid Waste Fee Review: As required by Metro Code Chapter 5.03.070, staff has had the Solid Waste Fees reviewed by an independent reviewer. Metro employs consultant FCS Group who reviews the Solid Waste Rate Model and provisional fees. This review includes a letter with their findings and recommendations during this review. The current review letter is provided as **Attachment 3**.

Clean-up Material and Special Exemptions: Metro Code Section 5.02.070(b) states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste recycled or disposed under special exemption permits and the total regional system revenue that was not collected during the fiscal year because of those special exemptions. A summary showing the total amount of Metro area waste that was subject to Metro's reduced rate or exempt from fees and taxes during FY 2022-23 is provided in **Attachment 1**.

Known Opposition: A solid waste industry representative has previously indicated opposition to the single disposal fee that Metro charges for solid waste received at its transfer stations. Additionally, some local government partners have also expressed concerns about increasing disposal fees.

Legal Antecedent: The process for setting Metro's solid waste fees and taxes are set forth in Metro Code Chapters 5.02, 5.03, 5.06 and 7.01. Metro reviews its solid waste fees annually. The proposed FY 2024-25 fees 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.

Figure 1. Anticipated fee changes

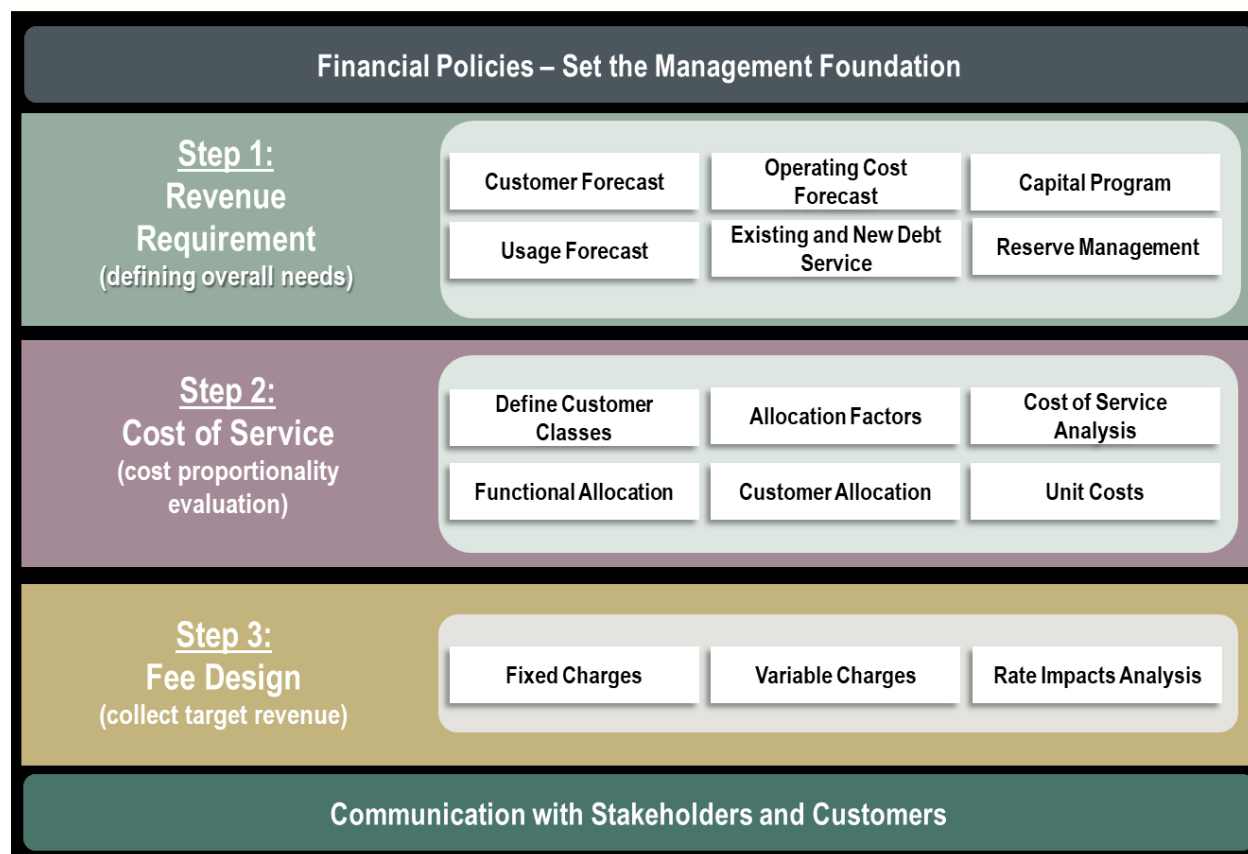
Projected Fee Schedule				
	Existing 2024	Adopted 2025	Difference	
			\$	%
Transaction Fees				
Staffed Scalehouse	\$24.00	\$27.00	\$3.00	12.50%
Automated Scalehouse	\$6.75	\$7.25	\$0.50	7.41%
Tipping Fees				
Mixed Solid Waste (refuse)	\$89.72	\$104.37	\$14.65	16.33%
Clean Wood	\$74.93	\$80.92	\$5.99	8.00%
Yard Debris	\$55.00	\$55.00	\$0.00	0.00%
Residential Organics	\$86.15	\$93.04	\$6.89	8.00%
Commercial Organics	\$75.38	\$81.41	\$6.03	8.00%
Fees and Taxes				
Enhancement Fee	\$1.00	\$1.00	\$0.00	0.00%
Regional System Fee (MSW only)	\$31.41	\$31.72	\$0.31	0.99%
Metro Excise Tax (MSW Only)	\$13.28	\$14.69	\$1.41	10.62%
DEQ Fees (MSW Only)	\$1.89	\$1.89	\$0.00	0.00%
Environmental Cleanup Fee	\$2.50	\$2.50	\$0.00	0.00%
MSW Tipping Fee (including taxes)	\$137.30	\$153.67	\$16.37	11.92%
Minimum Fee (MSW)	\$40.00	\$45.00	\$5.00	12.50%

Financial and budget Impacts: The fees established by this resolution are designed to raise \$127 million in enterprise revenue for FY 2024-25. WPES budget Operating and Materials (O&M) expenses are \$133 million for FY 2024-25.

BACKGROUND

Metro establishes the Solid Waste fees based on principles that are generally accepted and widely followed throughout the utility industry. Three key analyses are done: 1) revenue requirement - which identifies the total revenue to fully fund the department on a standalone basis; 2) cost of service - which establishes how to distribute the costs to the end user of the service (or customer class); and 3) fee design - which develops a fee structure that generates sufficient revenue to meet the system's revenue requirement and Solid Waste Fee pricing objectives.

Figure 2. Financial policies for fee setting



Metro's fee development follows these guidelines but makes them *four* steps instead of three, to establish clear roles and responsibilities of the work performed by staff.

Metro Fee Development:

Step 1. Identify the revenue requirement – This step identifies the total annual financial obligations of the system. This information comes from the WPES FY 2024-25 *proposed* budget that includes the department's full operations and maintenance (O&M) costs, capital improvements and replacements and adheres to Metro fiscal policy compliance.

Most of the revenue requirement is driven by the following two areas:

Metro Disposal Service Costs: Metro owns two transfer stations that provide disposal services to commercial haulers, businesses, and the public. Metro transfer stations cover operating costs, such as wages, equipment, improvements, green fuel, and practices that protect the safety of our workers and our customers. Fees also cover the costs of recycling, transport and disposal of the garbage brought to the facilities. Most of these costs are driven from the operation of the stations. Transport and disposal are all performed by private operators under long-term contracts with Metro.

Regional Programs: Metro provides or participates in solid waste services and programs with region-wide impact. These services include Metro's Community Stewardship program

(formally known as Regional Illegal Dumping), which cleans up hundreds of tons of garbage dumped on public property every year; education and technical assistance programs to improve recycling and reduce the use of toxic products at homes and businesses; and oversight of private garbage and recycling facilities to ensure they manage waste in a way that minimizes impacts on local communities. The programs are explicitly included in the budget as:

- Clean-up
- Compliance and Regulation
- Grants and Services
- Local Government Funding
- Paint Recycling and Production
- Policy and Planning
- Waste Prevention Education and Leadership

Figure 4. Revenue Requirement from proposed budget

Solid Waste Revenue Fund			
CURRENT FY 2024-25 Proposed Budget			
	Personnel Services	\$	32,477,361
	Materials & Services		78,711,214
	Direct Transfers for Capital Asset Management		365,100
	Indirect Transfers for internal cost allocation plan		20,296,890
Proposed Budget Current Expenditures (excluding Capital Outlay)		\$	131,850,565
	Total of reconciling items to match Fee Model		869,543
	Total Revenue Requirement	\$	132,720,108
	TOTAL OPERATING EXPENSES IN THE MODEL	\$	132,720,108

Revenue requirements are driven by the WPES budget for the disposal service, regional program needs and the administrative costs that allow these activities to happen.

Figure 5. Total amount of revenue to be recovered by the Metro fees

Revenue by Fee Type	2025
Staffed Transactions	\$ 9,209,459
Automated Transactions	924,732
Mixed Solid Waste Tip Fee	60,060,629
Clean Wood Tip Fee	77,236
Yard Waste Tip Fee	772,507
Residential Organics Tip Fee	4,127,245
Commercial Organics Tip Fee	1,828,814
Regional System Fee Tip Fee	49,977,185
<i>Cleanup Material</i>	499,527
Total	\$ 127,477,334

Step 2. Allocate costs – The fee process uses a cost-of-service approach that distributes costs based on the proportionate share of costs required to provide service. This step calculates (in the fee model) the functional cost allocation to different customer classes based on their unique demands for each service. This provides fee fairness through cost causation.

Indirect Costs: Administrative costs are identified in two different ways: the department's functional administrative costs and the Agency's cost to provide administrative central service support (internal cost allocation plan). These two administrative costs are allocated differently to reflect the different nature of which they are caused. Administrative costs from the department are allocated by how the staffing levels are applied to each program area. The Agency central service costs are allocated in a way that most directly reflect how the Agency allocates costs which is a blend of spending and staff allocations.

Direct Costs: The allocation methodology used identifies how expenses are allocated to the solid waste system functional areas including disposal and recovery, regional programs, sustainability, clean-up, and general policy and compliance. Allocations are based on staff time, tickets processed, floor area and tonnage. The allocation factor is designed to be an equitable expression of the how and why the cost is incurred. The cost-of-service details cost allocation for an additional layer of service by waste type: mixed solid waste, wood waste, yard debris, residential organics, and commercial organics. Costs associated with processing each waste type were reviewed and discussed with Metro staff and leadership.

This cost-of-service process is reviewed for the existing cost allocation approaches and identified changes and additional allocation factors used in the process. A sensitivity analysis indicating the fee impacts of alternative general and administrative cost allocations was included in the review.

Step 3. Forecast activity – This step estimates the waste unit activity in the region to forecast the solid waste activity anticipated for the upcoming fiscal year. Metro staff prepares a Solid Waste Forecast for waste unit activity in the region and projected anticipated levels of tonnage and transactions by material type at Metro transfer stations and private facilities. For the FY 2024-25 fee development, staff used the Fall 2023 forecast for unit information.

Step 4, Fee development and design – This step achieves required revenue levels by establishing fees and charges that accurately reflect the cost to provide a particular service. Unit costs were developed for each fee charged and were analyzed to identify any warranted shifts in cost burden that could improve equity between the fees and charges. The result of the cost-of-service process is a calculated fee for providing solid waste services. This process has a great deal of influence from Metro leadership and compliance to financial policies.

Figure 6. Recommended fees and charges for FY 2024-25

Description	Mixed Solid Waste	Clean Wood	Yard Debris	Residential Organics	Commercial Organics
Transaction Fee:					
Staffed Scalehouse	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00
Automated Scalehouse	\$7.25	\$7.25	\$7.25	\$7.25	\$7.25
Tip Fee:					
Tonnage Charge	\$104.37	\$80.92	\$55.00	\$93.04	\$81.41
Regional System Fee	\$31.72	-	-	-	-
Excise Tax	\$14.69	-	-	-	-
DEQ Fees	\$1.89	-	-	-	-
Community Enhancement Fee	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Total Tip Fee	\$153.67	\$81.92	\$56.00	\$94.04	\$82.41
Min Load Fee (240 lbs.)	\$45.00	\$37.00	\$34.00	\$38.00	\$37.00

Fee Setting Criteria:

Per Metro Code 5.03.060, each year the Chief Operating Officer will propose fees to Council that will consider any solid waste fee setting criteria and fee setting policies adopted by Council.

Attachment 2 is the current fee setting criteria that will be adopted by Council, through this resolution.

Other Fee Considerations:

Metro assesses the regional system fee and excise tax on waste at the time of disposal. The amount of the fee and tax rate is calculated annually in accordance with Metro Code Chapters 5.02 and 7.01.

In general, Metro has a three-tiered fee and tax rate structure for waste that is transported directly to disposal sites.

- **Full Rate:** The full fee and tax rate, which is included as a component of Metro's transfer station charges, is assessed on most of the region's waste at the time of its disposal (such as household garbage, construction and demolition debris, etc.).

- Reduced Rate: The reduced fee and tax rate is generally assessed on contaminated “cleanup material” at the time of its disposal (such as contaminated soils, catch basin pumping, street sweepings, etc.).
- Exempt: There is a fee and tax exemption for any material that is recovered, recycled, or diverted away from disposal sites. Under certain circumstances, Metro may also waive fees and taxes for certain types of waste that are sent to disposal sites (such as under special exemption permits, tire processing residual, and “useful material” which includes alternative daily cover and road base used at a landfill).

Metro Code Section 5.02.070 states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste disposed under special exemption permits and the total lost revenue arising from the exemption permits granted during the fiscal year. A summary showing the total amount of Metro area waste that was subject to Metro’s reduced rate or exempt from fees and taxes during FY 2022-23 is provide in **Attachment 1**.

ATTACHMENTS

- Resolution 24-5404
- Attachment 1 – Annual Credit and Exemptions Report for FY 2022-23
- Attachment 2 – 2024 Fee Setting Criteria
- Attachment 3 – Independent Review Letter