

Memo

Date: March 14, 2019
To: Metro Council
From: Cinnamon Williams, Finance Manager for Property and Environmental Services
Subject: Solid Waste Rate Report for Fiscal Year 2019-20

As required by Metro Code 5.02.030 (f) (1), this report provides the context for the solid waste rate making process and documents the methodologies, data, assumptions, adopted criteria and any other factors used by the Chief Operating Officer in calculating the proposed rates and the response to the recommendations of the independent review.

RATE DEVELOPMENT

Methodology

Four years ago, Metro engaged a consulting firm to review the solid waste rate setting process and provide recommendations for improving and simplifying development of those rates. In response to recommendations provided by the consultant, Metro implemented a new rate model based on a standard rate setting process:

- Step 1: Identify revenue requirements. This step identifies the total annual financial obligations of the system. This includes operations, capital improvements and replacements and fiscal policy compliance.
- Step 2: Allocate costs. This step establishes rate equity through cost causation or the cause and effect relationship between different costs and activities that cause those costs to be incurred.
- Step 3: Forecast activity. This step establishes a forecast for the solid waste activity anticipated for the coming fiscal year.
- Step 4: Establish Fees/Charges. This step achieves required revenue levels by establishing rates and charges that accurately reflect the cost to provide a particular service.

Step 1 – Identify Revenue Requirements

Revenue requirements are determined by projecting costs for the various solid waste functions that Metro performs. Those functions include:

Disposal Services. Metro owns two transfer stations that provide disposal services to commercial haulers, businesses and the public. Metro staffs the scalehouses, but the operation of the stations, transport and disposal are all performed by private operators under long-term contracts with Metro. Metro finances and manages this function as a municipal utility.

Regional Programs. Metro provides or participates in solid waste services and programs with region-wide impact. Some of these stem from state mandates. Others are driven by Metro's own goals and policies for the solid waste system. These programs and services are closer in form to public goods rather than utility functions. The programs are:

- Household hazardous waste reduction
- Latex paint recovery
- Resource conservation and recycling
- Landfill closure and stewardship

- Illegal dumpsite monitoring and clean-up

Regulation. Metro regulates privately-owned disposal facilities and manages its own flow control authority through a system of licensing, franchising, inspection and enforcement.

Revenue Requirement Summary

	Scalehouses	Mixed Solid Waste	Clean Wood	Yard Debris	Residential Organics	Commercial Organics	Regional System Fee
Revenue Requirement	\$2,973,910	\$35,349,037	\$118,415	\$736,362	\$2,807,649	\$1,309,971	\$26,754,661
Percentage of Total	4.25%	50.46%	0.17%	1.05%	4.01%	1.87%	38.19%

Step 2 – Allocate Costs

The rate process uses a cost of service approach that distributes costs based on a proportionate share of costs required to provide service. The methodology used identifies how expenses are allocated to the solid waste system functional areas including disposal and recovery, regional programs, sustainability, clean-up and compliance and general and administrative. 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/or engineers. The cost of service process reviewed existing cost allocation approaches and identified changes and additional allocation factors used in the process. A sensitivity analysis indicating the rate change/impact of alternative general and administrative cost allocations was included in the review.

Step 3 – Forecast Activity

Metro staff reviewed tonnage information from the current fiscal year and projected anticipated levels of tonnage and transactions by material type at Metro transfer stations and private facilities.

Summary of Tonnage Forecast

Facility	Material Class	Projected		% Change
		FY 2019	FY 2020	
Metro Central	Wet waste	171,487	180,592	5.31%
Metro Central	Dry waste	69,266	80,050	15.57%
Metro South	Wet waste	153,484	156,885	2.22%
Metro South	Dry waste	134,817	139,253	3.29%
Private	Wet waste	506,435	492,096	-2.83%
Private	Dry waste	469,157	474,942	1.23%

Summary of Transactions

Facility	Transaction Type	Projected		% Change
		FY 2019	FY 2020	
Metro Central	Staffed	92,753	102,284	10.28%
Metro Central	Automated	52,798	62,427	18.24%
Metro South	Staffed	200,782	202,643	0.93%
Metro South	Automated	44,752	47,453	6.03%

Step 4: Establish Fees/Charges

Unit costs were developed for each rate/fee charged. The unit costs were analyzed to identify any warranted shifts in cost burden that could improve equity between the fees/charges. The result of the cost of service process is a calculated rate/fee for providing solid waste services.

Summary of Fees and Charges for FY 2019-20

	Mixed Solid Waste	Clean Wood	Yard Debris	Residential Organics	Commercial Organics
Transaction Fee:					
Staffed Scalehouse	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Automated Scalehouse	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Tip Fee:					
Tonnage Charge	\$ 64.41	\$ 64.23	\$ 55.00	\$ 76.99	\$ 65.23
Regional System Fee	\$ 18.58				
Excise Tax	\$ 11.57				
DEQ Fees	\$ 1.89				
Community Enhancement Fees	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Total Tip Fee	\$ 97.45	\$ 65.23	\$ 56.00	\$ 77.99	\$ 66.23

Assumptions

See **Attachment A** for the full list of assumptions used in the rate model. Key points are summarized below:

- Costs for disposal charges driven by contract cost inflation
- Other expenses based on budget estimates used in the Chief Operating Officer's budget
- Overall inflation assumptions match those used in the FY 2019-20 budget process
- Tonnage forecast is based on the forecast developed for the FY 2019-20 budget process and five year forecast

Criteria

In developing the rates, staff relied on Metro's legal authority as determined by the Metro Code and Oregon Revised Statute, as well as policies adopted by the Metro Council and other informal guidance used by staff. Those factors and criteria are summarized below.

Authority. Metro's authority to charge fees for goods and services is derived from the Oregon Constitution, from the Metro Charter and from the provisions of Oregon law, including Oregon Revised Statutes Chapter 268. ORS 268 also enumerates Metro's authorities over solid waste.

Allowable expenditures are set in state law. Under state law, Metro is limited to using the revenue derived from disposal fees only on activities related to solid waste. Specifically:

[T]he metropolitan service district shall use moneys collected by the district as service or user fees for solid waste disposal for (1) activities of the metropolitan service district related to solid waste, including activities of regional concern that are directly related to reducing the environmental impact from the generation, collection, transportation, processing and disposal of solid waste; and (2) planning, administrative and overhead costs for activities of the district related to solid waste. *[Oregon Revised Statutes section 459.335]*

User charges limited to the cost of service. The Metro Charter restricts the types of costs that may be recovered from user charges:

... charges for the provision of goods or services by Metro may not exceed the costs of providing the goods or services. These costs include, but are not limited to, costs of personal services, materials, capital outlay, debt service, operating expenses, overhead expenses, and capital and operational reserves attributable to the good or service. *[Metro Charter, Chapter III. Finance, Section 15]*

Metro code section 5.01.300 and Chapter 5.02 govern solid waste rates. (Chapter 7.01 governs the Metro excise tax generally, and various subsections address the solid waste excise tax in particular.)

Adopted Policies. In 1993 Metro adopted policies (Resolution 93-1824A) to guide choices during rate making. These criteria are summarized below and included in **Attachment B** pursuant to Resolution 93-1824A that recommends periodic council review every three years:

- Financial Criteria
 - Revenue adequacy, reliability and predictability
 - Authority to implement
 - Implementation and administrative cost and effort
 - Impact on credit rating
- Economic Effects
 - Rate payer equity and affordability
 - Impacts on the costs of living and of doing business in the region
- Environmental and Management
 - Consistency with agency-wide planning policies and the Solid Waste Management Plan
 - The rate structure should encourage waste reduction, reuse, and recycling

Bond Covenants. Metro continues to employ a number of the business practices that implemented its bond covenants even though the bonds were retired in December 2008:

- Pay as you go: means that ongoing costs are to be paid with ongoing revenue.
- Coverage to ensure revenue adequacy. One of Metro's practices for meeting the debt service coverage was to base the revenue requirement on the budget rather than expected expenditures. Metro generally continues to follow this practice. Exceptions are explicitly noted.
- Operating surpluses. The priority for the use of operating surpluses is: restore contingencies, fund the new capital reserve, and hold any remaining surplus as undesignated fund balance.

OTHER FEE CONSIDERATIONS

Reduced fee and tax rate and exemptions. 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 5.02.160 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 fiscal year 2018 is provide in **Attachment C**.

INDEPENDENT REVIEW RESPONSE

FCS Group provided the following recommendation in their report dated February 26, 2019:

Staff should continue to use the rate-setting toolset for proactive annual financial planning, identifying upcoming operating and capital needs and informing decision making through alternatives analyses. Special emphasis should be on monitoring fund balances to optimize funding of upcoming capital costs and sheltering against unanticipated changes in tonnage and/or new contract costs. This active management approach will allow staff to continue to maintain reliable, consistent and predictable solid waste disposal charges.

Response: Metro concurs and will continue to use the rate-setting toolset for financial forecasting and to identify optimal funding strategies to help inform the next rate setting process and capital and infrastructure planning.

Solid Waste Rate Study

Assumptions

Economic & Financial Factors		FY 2019
General Cost Inflation		1.82%
Construction Cost Inflation		3.26%
Labor Cost Inflation		2.27%
Benefit Cost Inflation		10.00%
Weighted Labor and Benefits		4.63%
General Inflation plus Composite Growth		6.12%
Customer Growth		4.22%
No Escalation		0.00%
CPI Inflation - Central		3.15%
CPI Inflation - South		3.08%
CPI Inflation - CM. Organics		2.54%
CPI Inflation - Disposal		2.80%
CPI Inflation - Transport		2.72%
Fuel Cost Escalation		7.19%
Manual Input		
Investment Interest		2.50%
Labor and Benefits Split		
Salary Share		69.53%
Benefits Share		30.47%

Accounting Assumptions		FY 2019
FISCAL POLICY RESTRICTIONS		
Minimum Operating Fund Balance Target		
Select Minimum Operating Fund Balance Target	1	
1 - Defined as Days of O&M Expenses		
Min. Op. Fund Balance Target (days of O&M expense)		45
Max. Op. Fund Balance (days of O&M expense)		45
2 - Amount at Right ==>		
Min. Op. Fund Balance Target		\$ 4,000,000
Max. Op. Fund Balance		\$ 4,000,000
Minimum Capital Fund Balance Target		
Select Minimum Capital Fund Balance Target	2	
1 - Defined as % of Plant		
Plant-in-Service in FY 2014	\$	
Minimum Capital Fund Balance - % of plant assets		1.00%
2 - Amount at Right ==>		\$ 1,200,000
EQUIPMENT REPLACEMENT FUNDING		
Select Equipment Replacement Funding Strategy	4	
Depreciation in FY 2014	\$	
Amount of Annual Cash Funding from Rates		
1 - Equal to Annual Depreciation Expense		\$ 1,713,411
2 - Equal to Annual Depreciation less Annual Debt Principal Payments		\$ 1,713,411
3 - Equal to Amount at Right ==>		\$ -
4 - Do Not Fund Equipment Replacement		

Attachment B

Metro Solid Waste Rate Setting Criteria Updated February 8, 2018

In developing the rates, staff relies on Metro's legal authority as determined by the Metro Code and Oregon Revised Statute, as well as policies adopted by the Metro Council and other informal guidance used by staff. In addition, the solid waste rate setting process is guided by core set of criteria used to ensure effective management of the regional solid waste system.

This criteria includes the following principles:

- A. Consistency: Solid waste rate setting should be consistent with Metro's agency-wide planning policies and objectives, including but not limited to the Solid Waste Management Plan.
- B. Revenue Adequacy: Rates should be sufficient to generate revenues that fund the costs of the solid waste system.
- C. Equity: Charges to users of the waste disposal system should be directly related to disposal services received. Charges to residents of the Metro service district who may not be direct users of the disposal system should be related to other benefits received.
- D. Economic Impact and Affordability. Rate setting should consider the economic effects on the various types of rate payers, including the cost of living on residential waste generators and the cost of doing business on non-residential generators, as well as the economic effect on others in the region.
- E. Waste Reduction: The rate structure should encourage waste reduction, reuse, and recycling.
- F. Implementation and Administration: Rate setting should balance the relative cost and effort of implementing and administering the rates with financial and policy goals. Rates should be readily enforceable.
- G. Credit Rating Impacts: The rate structure should not negatively impact Metro's credit rating.
- H. Authority to Implement: Metro should ensure that it has the legal ability to implement the rate structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority.
- I. Reliability. Anticipated revenues used in the rate setting process should be considered stable and unlikely to deviate from financial plan expectations.
- J. Predictability: Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.

Tons of Metro area waste subject to Metro's reduced rate or exempt from fees and taxes at a disposal site

July 1, 2017 - June 30, 2018

Fiscal Year 2018

Reduced rate waste (cleanup material)		Tons
Type:		
Petroleum Contaminated Soil		258,387
Other		8,824
	total	<u>267,211</u>

Exempt waste		Tons
Generator:		
Environmentally Conscious Recycling		29
Evrz NA		1,100
Greenway Recycling		9,395
Hickey Marine		14,624
Kleen Industrial Services		1,829
RA Roth / NW Shingle		8,307
RB Recycling		5,220
Rivergate Scrap Metals		42,002
Schnitzer Steel		98,914
Siltronics Corp		331
Tire Disposal and Recycling		4,689
Tualatin Valley Waste Recovery		9,152
Willamette Resources Inc		4,217
	total	<u>199,809</u>

Special Exemption Permits		Tons
Generator:		
Oregon Department of Agriculture		4,089
(yard debris from beetle quarantined area - Wash Co) *	total	<u>4,089</u>

* No lost revenue as material would have normally been composted