

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO 20-5142 FOR THE PURPOSE OF ADOPTING SOLID WASTE FEES AT THE METRO TRANSFER STATIONS AND THE REGIONAL SYSTEM FEE FOR FY 2021-22.

Date: December 9, 2020

Department: FRS

Meeting Date: December 17, 2020

Prepared by: Cinnamon Williams, FRS

Presenter(s): Brian Kennedy & Cinnamon Williams

Length: 10 Min

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, 2021.

ACTION REQUESTED

Council adoption of Resolution 20-5142

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, 2021;
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 2018-19.

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?

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 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 in order to keep spending in line with expected revenue collected.

STAFF RECOMMENDATIONS

The Chief Operating Officer recommends adoption of Resolution 20-5142.

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

Solid Waste fees are generally evaluated every spring in concert with the budget development process and adopted to be effective on July 1. This evaluation uses an annual tonnage forecast of the number of tons of garbage expected to flow through the facilities and calculations of expected costs. When tonnage growth keeps pace with cost increases, per-ton costs will generally remain relatively constant. When tonnage increases faster than costs, per-ton costs decrease and fund balances grow. Slow tonnage growth or declines can put pressure on per-ton costs and force spending the fund at a faster rate.

This year, the COVID-19 pandemic produced so much new and profound uncertainty during the standard fee-setting process, Metro made the unprecedented decision to delay rate changes until staff could further evaluate the economic impacts on tonnage and more thoroughly evaluate any needed budget reductions. Eventually the decision was made to defer the Fiscal Year 2021 fee and charges increase and to fully fund operational losses with fund balance reserves.

Garbage follows the economy. Over the last decade, as the economy grew, Metro was able to keep fee increases minimal. But since the COVID recession hit, tons have declined. In addition to fewer tons of garbage being generated across the region, tonnage has largely shifted from the business sector to the residential sector as more people work from home. Residential tonnage brings in less revenue overall. It appears that tonnage is stabilizing, but there is significant uncertainty around tonnage forecasts given the state of the economy and the ongoing COVID pandemic.

At the same time, fixed and new costs to operate the facilities have increased. Metro has been working to get the long overstretched and outdated Metro South transfer station up to acceptable service standards to accommodate a significant increase in customers in the last several years. Metro has invested in less-polluting equipment and recently transitioned to using R99 fuel in its transportation to the landfill – a greener but more expensive option. These are just some of the important improvements Metro has made in recent years in the garbage and recycling system that serves greater Portland.

Known Opposition: A solid waste industry representative opposes the single disposal fee that Metro charges for solid waste received at its transfer stations. Some local government partners have also expressed concerns about increasing disposal fees during this economic downturn.

Legal Antecedent: ORS 294.471(h) allows for the governing body to reduce appropriations when there is a reduction in available resources.

The process for setting Metro's solid waste fees and taxes are set forth in Metro Code Chapters 5.02, 5.03, and 7.01. Metro reviews its solid waste fees annually. The proposed FY 2021-22 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.

Anticipated Effects: Fee changes are anticipated as displayed in the table below:

Projected Fee Schedule				
	Existing 2021	Projected 2022	Difference	
			\$	%
Transaction Fees				
Staffed Scalehouse - South	\$10.00	\$14.75	\$4.75	47.50%
Automated Scalehouse	\$2.00	\$2.75	\$0.75	37.50%
Tipping Fees				
Mixed Solid Waste (refuse)	\$64.41	\$72.81	\$8.40	13.04%
Clean Wood	\$64.23	\$64.23	\$0.00	0.00%
Yard Debris	\$55.00	\$55.00	\$0.00	0.00%
Residential Organics	\$76.99	\$76.99	\$0.00	0.00%
Commercial Organics	\$65.23	\$65.23	\$0.00	0.00%
Fees and Taxes				
Enhancement Fee	\$1.00	\$1.00	\$0.00	0.00%
Regional System Fee (MSW only)	\$18.58	\$25.65	\$7.07	38.05%
Metro Excise Tax (MSW Only)	\$12.47	\$12.47	\$0.00	0.00%
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)	\$98.35	\$113.82	\$15.47	15.73%
Minimum Fee (MSW)	\$28.00	\$35.00	\$7.00	25.00%

Budget Impacts: The fees established by this resolution are designed to raise \$87.2 million in enterprise revenue for FY 2021-22. This revenue would cover the cash requirements of the upcoming proposed FY 2021-22 Solid Waste Fund's budget.

Other Fee Considerations: Metro assesses the regional system fee and excise tax on waste at the time of disposal and generally assesses those fees and taxes under a three-tiered structure of full rate, reduced rate (often assessed on cleanup material), and exempt (often for recovered, recycled and/or diverted materials).

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 2018-19 is provided in **Attachment A**.

Independent Solid Waste Fee Review and Staff response: Each year Metro employs a consultant to do an independent review of provisional solid waste fees. The consultant FCS Group has a three-year contract and reviews the Solid Waste Rate Model and provisional fees. This review includes a letter with their findings and recommendations during this review. The current letter provided the following recommendation in their report dated December 9, 2020 and the full letter is provided as **Attachment B**.

Findings in the letter are as follows:

Finding 1:

Metro's tonnage forecast is key to the analysis and affects revenue and expense levels. Due to COVID-19, the FY 2021-2022 tonnage forecast assumes a drop off from prior year levels, but recovers in the subsequent years. Future year growth is lower in comparison to the prior year's rate setting assumptions. With the change to the tonnage forecast the operating budget no longer assumes a cost reduction as was anticipated in the prior fee update. It will be important to monitor tonnage and expense projections closely as more information becomes available on the actual impacts of COVID-19 on tonnage and Metro's financial performance.

Staff Response: Staff agrees and has implemented a quarterly tonnage forecast process to continue to monitor and right size the current economic situation. In addition, the Department (along with the rest of the Agency) is doing monthly forecasting to mitigate the financial risks from the pandemic.

Finding 2:

The results of the cost of service analysis indicate that cost differences are present between existing fees and cost-based allocation. It should be noted that, typically, if the results of each individual service is within plus (+) or minus (-) 5.00 percent of the overall system average, they are generally considered to be within cost of service. This range of reasonableness is given since although there is an industry accepted methodology, the specific classification and allocation of expenses reflect cost and waste characteristics at a given point in time. With time, waste patterns, composition and facility requirements change resulting in changes to cost of service. The flexibility to work within the range of reasonableness can minimize annual peaks and valleys and help maintain stable charges from year to year.

Staff Response: Staff agrees and will use a new Solid Waste Rate Toolkit in long-term planning that will allow future costs to spread out over years. In addition, it is the focus of the Department upon financial stability in the region to build a more robust rate stabilization reserve to do predictable incremental increases to sustain the peaks and valleys of tonnage in the region when economic conditions shift.

BACKGROUND

Garbage and recycling collection is a basic service, similar to utilities like electricity, sewer and water. The system of garbage collection was created as a "sanitation" system to keep communities clean and people healthy. Metro operates two transfer stations – one in Oregon City and one in Northwest Portland – that play a fundamental role in this system. There are also six private transfer stations of various sizes around greater Portland. Collectively, the transfer stations handle all the garbage generated in greater Portland.

People and businesses around greater Portland rely on Metro to get their trash to the right place. About 40% of all the garbage haulers collect from homes and businesses around greater Portland ends up at a Metro transfer station before it's transported to a landfill for disposal. Metro transfer stations also provide the most comprehensive and least expensive drop-off services in greater Portland, taking old appliances, remodeling leftovers and more from hundreds of thousands of customers each year. Metro recycles as much of the materials as possible, and Metro South recently started taking Styrofoam to help fill this regional recycling need. Metro also operates the only two facilities in greater Portland that take hazardous products like paint and pesticides, with some 55,000 visits last year.

The fees that customers pay at 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.

The regional system fee, which this resolution would increase, is collected on garbage at all disposal facilities in greater Portland and pays for regional services that people and businesses rely on. These services include Metro's RID program, 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.

ATTACHMENTS

A - Annual Credit & Exemptions Report

B - Independent Review Letter

C – Disposal and Processing Charges at Metro Transfer Stations