

**METRO**  
**Regional Environmental Management**

***Solid Waste Hauling Contract:  
Metro's Consideration of Risks and Rewards  
of Change Order 24***

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**March 2002**  
A Report by the Office of the Auditor



**METRO**

PEOPLE PLACES  
OPEN SPACES

**Alexis Dow, CPA**  
**Metro Auditor**

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**METRO**

## Office of the Auditor

March 8, 2002

To the Metro Council and Executive Officer:

During 2000 and 2001, Portland-area news media published a number of stories about Metro's solid waste hauler's financial difficulties and potential inability to fulfill contract requirements. Given the degree of attention that has surrounded these issues, we chose to review the decision-making process that led to Change Order 24, the contract modification in which Metro agreed to advance the contractor nearly \$6.6 million in exchange for reduced fees and other considerations over the ten and one-half years remaining on the contract. We also report on what has happened in almost three years since the decision was made.

Overall, we found that Metro officials made a fully informed decision to agree to Change Order 24 in May 1999. In the nearly three years that have passed since Change Order 24 was signed, the contract has been carried out in all material aspects and financial savings have been accruing to Metro.

We appreciate the cooperation and assistance provided by Metro management and staff during this review.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alexis Dow". The signature is fluid and cursive, written over a large, faint circular watermark of the METRO logo.

Alexis Dow, CPA  
Metro Auditor

Auditor: Joe Gibbons

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## Executive Summary

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Each year, a private firm operating under contract with Metro makes about 22,000 trips transporting about 657,000 tons of solid waste from Metro's two waste transfer stations to the Columbia Ridge Landfill near Arlington, Oregon. During 2000 and 2001, Portland-area news media published a number of stories about the contractor's financial difficulties and potential inability to fulfill contract requirements. The issues reported were potentially damaging to Metro, not only because they raised the specter of garbage not being delivered in a timely manner to the Arlington landfill, but because Metro took significant risks when it modified the contract in May 1999. At that time, and before services were performed, Metro agreed to advance the contractor nearly \$6.6 million in exchange for reduced fees and other considerations over the ten and one-half years remaining on the contract. The contract modification is known as Change Order 24.

Given the degree of attention that has surrounded these issues, we chose to review the decision-making process that led to Change Order 24, as well as to report on what has happened in the more than two years since the decision was made. We found the following with regard to the decision and its consequences:

- Metro officials made a fully informed and apparently reasonable decision to agree to Change Order 24 in May 1999.
  - ✦ Metro managers and the Council were fully aware that if the contractor defaulted or demonstrated other operational problems, Metro would face considerable added expense. For example, in the event of contractor default or related problems, Metro would likely: 1 – experience significant legal and arbitration obligations, 2 – be forced to hire a temporary hauler, and 3 – expend additional effort and funds to award another contract, in which case hauling costs might not be as favorable as with Change Order 24.
  - ✦ Metro took appropriate steps to mitigate risks by requiring that the contractor provide financial and operational protections in the event of default.
  - ✦ Metro negotiated contract savings in return for prepaying some contract expenses and turning over a retainage account early.
- Almost three years have passed since Change Order 24 was signed, and the contract has been carried out in all material aspects.
  - ✦ The potential risks considered in 1999 have not come to pass, even though some uncertainty about financial stability continued into 2001. Metro's subsequent Change Orders led to even more financial safeguards in case of default.
  - ✦ The ongoing financial savings foreseen in 1999 have been accruing to Metro, and non-monetary benefits, such as fewer traffic backups and improved safety, have been realized as well.
  - ✦ Solid waste has continued to move to Arlington without interruption.

# Introduction and Background

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## Why the Auditor's Office Reviewed Issues Related to Change Order 24

- During 2000 and 2001 Portland media raised concerns regarding how well Metro:
  - + managed its waste hauling contractor
  - + protected the interests of the public in dealing with the contractor
  - + considered potential problems in agreeing to Change Order 24.
- The public may have a continuing perception that certain issues remain problematic (for example, contract problems may cause rates to rise or may mean that trash will not be hauled).
- Unlike Metro managers and policy makers, who have first-hand knowledge about these issues, the public may be less informed, including knowing about the updated status of the contract.
- The Auditor reports to public.

## Audit Objectives

- Determine if Metro officials made an informed decision in May 1999 to enter into Change Order 24 and to accept a certain level of risk in exchange for certain benefits in revising the waste-hauling contract.
- Report to the public on the current status of the contract and other issues of public interest.

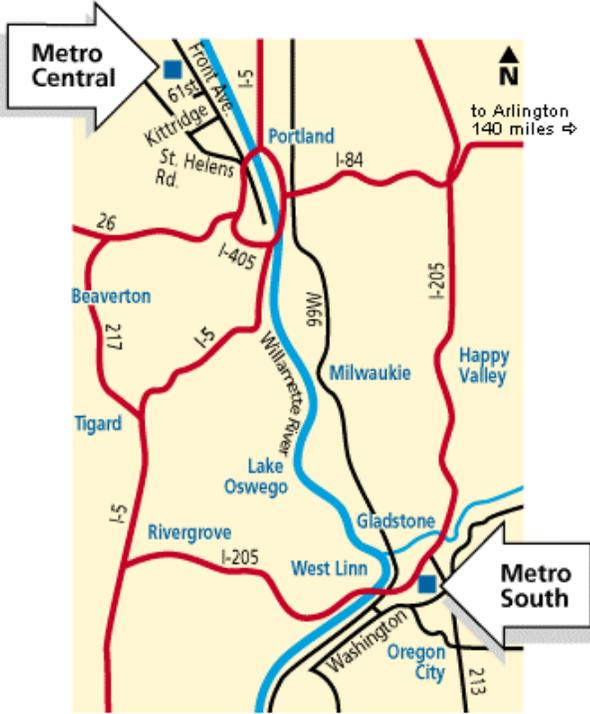
## Audit Scope and Methodology

To address objectives, we:

- developed a questionnaire for key Metro Regional Environmental Management (REM) and Office of General Counsel (OGC) officials regarding waste hauling contract issues, emphasizing Change Order 24 issues and subsequent events
- gathered, reviewed and discussed relevant REM and OGC documentation
- discussed documentation and reconciled certain matters with REM managers, OGC and a manager at Mellon Bank, the bank that issued a letter of credit as a contract condition that would help Metro mitigate expenses in the event of contractor default
- analyzed other evidence to determine if Metro officials made an informed decision to accept risk in exchange for benefits
- inspected Metro South Station with REM management to discuss and observe differences in operations since Change Order 24
- attempted to discuss issues with the Metro consultant who analyzed the contractor's financial condition, but phone calls were not returned
- evaluated current status of waste hauling contract
- evaluated evidence to determine if additional audit work would be needed
- performed work in accordance with generally accepted government audit standards.

**Background – Metro’s Solid Waste Hauling Contract**

- In 1989 Metro entered into a 20-year trash-hauling contract for transporting regional solid waste from Metro’s two transfer stations (South and Central) 140 miles to the Columbia Ridge Landfill near Arlington, Oregon. Appendix A summarizes the contract’s chronology of important events.
- The contract has many detailed provisions and conditions, essentially requiring that:
  - ✦ the contractor’s personnel and equipment conform with specific requirements
  - ✦ Metro have certain rights and remedies for contractor performance and defaults
  - ✦ Metro retain up to \$2.5 million of contract payments as one assurance of performance
  - ✦ Metro approve any change of ownership.
- Contractor ownership has changed several times during the life of the contract:
  - ✦ March 1989 – Jack Gray Transport, Inc. was awarded the original contract.
  - ✦ January 1998 – Specialty Transportation Services (STS) acquired Jack Gray Transport. Asche Transportation Services became STS parent company.
  - ✦ January 2001 – Churchill Environmental and Industrial Equity Partners, LP became parent company of STS, soon after Asche filed for bankruptcy.
  - ✦ May 2001 – CSU Transport, Inc., also a subsidiary of Churchill, was assigned contract responsibility from STS.
- From January 1990 through December 2001, Metro’s waste hauling contractors:
  - ✦ shipped a total of 7.9 million tons from Metro’s transfer stations to the Columbia Ridge Landfill
  - ✦ transported as much as 72,754 tons per month, averaging 54,784 tons per month
  - ✦ transported as many as 2,510 loads per month, averaging 1,862 loads per month and 29.4 tons per load.
- CSU uses 38 trucks and 198 trailers and employs 71 drivers, 14 shuttle operators and 18 administrative personnel.



# Issues Associated with Developing and Approving Change Order 24

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## Key Contract Provisions Prior to Change Order 24

- Payments to STS consisted of three elements:
  - ✦ fixed monthly payments of \$69,117 through December 2009 for contractor equipment expenses
  - ✦ per-load payments of \$361.47, as of January 1999, to be adjusted for future inflation
  - ✦ miscellaneous payments for trailer shuttling, weighing and managing staging area for transport and shuttling of trailers at Metro South. Metro paid STS \$7,765 per month for shuttle operations and provided staging area, to be adjusted for future inflation.
- Metro held \$2.5 million retainage in interest-bearing account, available in event of default. Interest earned goes to contractor.

## Reasons for Entering into Discussions About Amending the Contract

- Contractor's objective: STS, the contractor in 1999, wanted cash infusion to remedy financial problems, primarily high-interest, long-term debt.
- Metro's objectives:
  - ✦ reduce contract costs – per load unit costs would be reduced, Metro's monthly equipment and shuttle operations costs would be eliminated
  - ✦ address traffic problems, provide space for improved facilities, and provide better and safer service to commercial and other Metro customers at Metro South Station
  - ✦ keep future transportation options open.

## What Change Order 24 Did

- In overview, the change order was designed to provide the following benefits to the two parties:
  - ✦ STS would receive an up-front payment that would replace and reduce some Metro monthly payments for the remainder of the contract and receive the \$2.5 million retained payments held by Metro. This infusion of cash would place STS in a more financially sound position.
  - ✦ Metro would:
    - make lower per-load payments, lowering its monthly trash-hauling costs
    - benefit from operational changes the contractor agreed to make at Metro South Station
    - receive certain guarantees of contractor performance.

- What Metro **gave** under Change Order 24:
  - ✦ Metro pre-paid STS \$6,555,375 in May 1999 for monthly costs through 2009 associated with contractor equipment.<sup>1</sup>
  - ✦ Metro returned the \$2.5 million retainage to the contractor.
  
- What Metro **received** under Change Order 24:
  - ✦ A contractor in stronger financial position that can better fulfill material aspects of the contract through 2009.
  - ✦ Relief from fixed monthly payments of \$69,117 that Metro was obligated to pay for contractor equipment costs through December 2009 – this was the prepayment of \$6.6 million, discounted at 6 percent.
  - ✦ Reduced per load charge by \$30 (to \$331.47 in 1999) per load, an amount that would be adjusted annually for inflation. Metro’s cost for the loads was about \$741,000 per month. This reduction saves Metro about \$600,000 annually.
  - ✦ Elimination of payment to STS for shuttling trailers to and from compactors at Metro South Station. Metro’s cost for these operations was about \$7,800 per month, to be adjusted annually for inflation. Elimination of this cost saves Metro about \$108,000 annually.



STS shuttle trucks near compactor at Metro South Station – 1998

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<sup>1</sup> If the \$6.6 million pre-payment were viewed as an investment, the three decreases (equipment costs, per load charges, shuttle payments) noted above that Metro has realized since May 1999 in effect free Metro from about \$1.2 million in annual payments. This investment will be repaid in nominal terms in August 2003, or in discounted terms in April 2004. See Appendix B for this payback analysis.

- ✦ Other savings result from the removal of all but 10 STS trailers from the staging area at Metro South Station, where STS previously stored up to about 150 trailers. The newly opened space allows for improved waste recovery processes and reduced hauling costs for commercial customers. Also, because STS removed most trailers from Metro property, Metro was able to avoid paying for the alternative trailer staging area that was required by the contract. This equates to an avoided cost, or in effect a one-time Metro savings, of about \$1 million.



Metro South August 2001

- ✦ Indirect system savings – wait time and traffic back-ups were reduced and safety increased for public and commercial haulers.
- ✦ No extension to the contract. The contract will expire in 2009, at which time the Metro Council will have choices regarding future transportation modes.



Metro South 1997

- ✦ Protections in case of default:
  - The contractor provided Metro with a \$4.1 million letter of credit, which declined by \$100,000 per month, as savings have been realized, to \$1.3 million. This amount is to be maintained for the remainder of the contract.
  - The parent company guarantees to Metro payment for all actual damages in the event of default, including attorneys' fees, incurred as a result of the default.
  - Metro usually withholds about \$1 million of contractor accounts payable that can be withheld in the event of default.
  - Metro has access to contractor equipment for 180 days, valued at about \$600,000. Contractor equipment includes over-the-road and shuttle trucks, trailers and tipper at Arlington.



STS Tipper at Columbia Ridge Landfill – 1998

## **How Metro Evaluated and Disclosed Risk**

- Risks were understood by Metro. Benefits were to be gained over 10 years.
- In April and May 1999, the Metro Council and Metro Executive Officer held discussions with STS.
- On May 5, 1999, REM staff issued a report itemizing the issues associated with Change Order 24, in which the known risks and potential rewards were fully disclosed (see Appendix B).
- As explained above, Change Order 24 included protections to mitigate risk, including the letter of credit, corporate guarantees and access to contractor equipment.
- On May 27, 1999, after evaluating the issues, the Council agreed with and the Executive Officer signed Change Order 24.

## Events Since Change Order 24

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### Risks of Poor Contractor Performance Continued into 2001

- STS was plagued by financial problems, and its parent company (Asche) went bankrupt in December 2000.
- 2000 and 2001 *Oregonian* and other media articles and a Metro consultant reported alleged financial and operational problems.
  - ✦ In November 2000 Metro's consultant, John Wiencken, warned of problems in continuing STS contract. The consultant stated that STS:
    - consistently lost money
    - was insolvent
    - failed to provide required financial assurance to Metro
    - was unable to update equipment
    - refused to provide financial data to Metro
    - was not fully honest with Metro.
- Metro threatened twice to default contractor:
  - ✦ February 2001 – Metro took action to place STS in default for various issues, such as poor equipment maintenance, failure to pay vendors, failure to provide financial information and failure to name Metro on equipment leases.
  - ✦ September 2001 – Metro took action to place CSU (the current contractor) in default because CSU had not complied with the requirement to keep in force a \$1.3 million letter of credit.
  - ✦ STS and CSU eventually cured problems on both occasions.
- Two additional change orders approved in 2001 have alleviated some financial concerns:
  - ✦ Change Order 25 in January approved a change of control of STS to a new parent company, Churchill Environmental and Industrial Equity Partners, LP, which appeared to have relatively strong financial standing. Churchill agreed to provide further financial guarantees and Metro had the right to use STS equipment for one year in the event of default.
  - ✦ Change Order 26 in May approved a change of control of contract obligations to CSU Transport, Inc. This changed trash-hauling operational requirements and ownership from STS to CSU. Churchill Environmental remained the parent company, agreed to Metro conditions and provided corporate guarantees of performance.

### Metro Incurred Costs in Dealing with Continuing Contractor Issues

- Problems with contractor compliance issues led to extensive Metro effort and cost. For example, Metro paid:
  - ✦ \$60,000 to the Larkin Group for assistance in locating a stand-by contractor
  - ✦ \$50,000 to Blue Line Transportation for stand-by equipment and transportation of wastes
  - ✦ \$34,600 to John Wiencken for business/bankruptcy advice
  - ✦ \$8,200 to Perkins and Company for financial analysis/accounting

- ✦ \$2,000 to Fruehauf Corporation for trailer inspections
- ✦ undetermined but substantial amounts of REM and OGC staff time for work relating to contractor compliance and potential default issues.
- Costs were not directly related to or caused by Change Order 24. Instead, they were primarily related to ensuring that Metro could continue trash-hauling services.
- According to REM managers, actual costs incurred to work through STS issues were likely much less than potential costs incurred with a contract termination. These costs would have included:
  - ✦ advertising for and procurement of new contractor, who may be able to demand higher trash-hauling rates
  - ✦ binding arbitration (that Metro might lose) and other legal costs.

### **Thus Far, Savings Have Materialized and Risks Have Been Managed**

- To date, Metro has realized about \$2 million in reduced contract costs since it entered into Change Order 24.
- Additional savings (about \$1 million) have been realized at Metro South Station because Metro did not have to construct a new trailer staging area.
- Indirect savings through system enhancements have been significant at Metro South Station:
  - ✦ Construction was completed on a new public unloading area in August 2001, formerly the contractor's staging area, that greatly enhanced public safety.
  - ✦ Long waiting lines and traffic backups on public streets caused by commercial access limitations have been greatly reduced or eliminated.
  - ✦ Material recovery has increased and further increases are expected.



Inside New Public Area at Metro South Station – November 2001

## Conclusions

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- Metro's May 1999 decision to advance \$6.6 million to its trash-hauling contractor in exchange for future Metro benefits included substantial risk. With ongoing attention on Metro's part, these risks have so far been managed, and the decision has resulted in the savings that Metro officials anticipated.
- Metro's decision to accept a certain level of risk in exchange for certain benefits when it revised its waste-hauling contract was an informed decision. In preparing for this decision, Metro managers identified potential risks and rewards, Metro's Council evaluated detailed information, and managers and Council both acted to mitigate risks by requiring protections in the Change Order.
- Metro could have encountered expensive problems if the contractor defaulted. Metro would have had to incur expenses such as finding a new contractor through a cumbersome bidding process, becoming mired in legal and arbitration matters and, as a worst case, solid wastes not getting hauled. Such matters threatened to emerge, but thus far have been kept at bay, in part, because of additional actions taken by Metro.
- If the contractor continues to perform in accordance with the terms of the contract, savings will continue to accrue until the contract expires in December 2009.
- The region's solid waste has continued to flow to the Columbia Ridge Landfill in Eastern Oregon without interruption.

## **Appendix A**

Chronology of Events – Metro’s Waste Hauling Contract

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# Chronology of Events – Metro’s Waste Hauling Contract

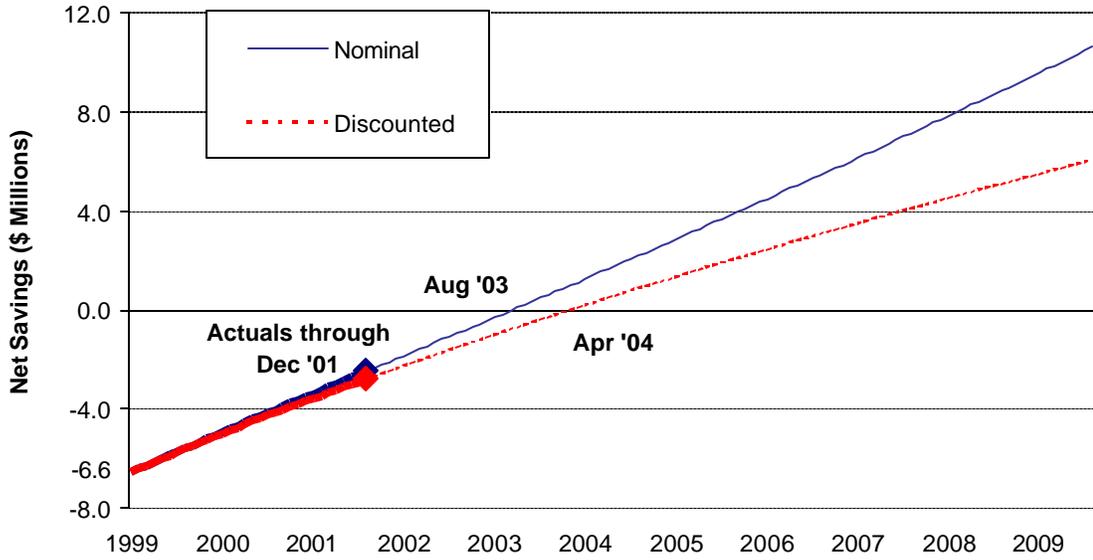
<b>March 1989</b>	Metro signs original waste hauling contract with Jack Gray Transport for transportation of solid waste from Metro transfer stations to Arlington, OR
<b>January 1998</b>	Change Order 23 approves change of ownership to Specialty Transportation Services (STS), a subsidiary of Asche Transportation Services
<b>May 1999</b>	REM staff report itemizes potential risks and rewards of advancing \$6.6 million to STS, based on STS request to Metro
<b>May 1999</b>	Change Order 24 approves STS request – \$6.6 million prepaid to STS in exchange for reduced contract expenses, corporate guarantees, letter of credit and other conditions
<b>June 1999</b>	Mellon Bank issues \$4.1 million letter of credit as part of STS performance guarantee, declining at \$100,000 per month to a minimum of \$1.3 million as Metro savings are realized
<b>November 2000</b>	Metro Consultant (Wiencken) summarizes STS problems: financial trouble, insolvent, failure to provide assurances to Metro, outdated equipment, etc.
<b>December 2000</b>	Asche files bankruptcy
<b>January 2001</b>	Change Order 25 recognizes change in STS ownership from Asche to Churchill Environmental and Industrial Equity Partners, LP and obtains additional conditions/protections for Metro
<b>January 2001</b>	Metro contracts with Blue Line Transportation Co. Inc, as a “standby” contractor in case of STS default
<b>February 2001</b>	Metro inspects STS trailers – majority fail
<b>February 2001</b>	Metro Executive Officer finds STS in default of contract; gives intent to withhold payment and 30 days to cure defaults
<b>March 2001</b>	Metro Executive Officer notifies Council that STS is curing some defaults, working on others; promises to monitor and report as needed
<b>May 2001</b>	Change Order 26 changes transportation responsibilities from STS to CSU Transport, another Churchill subsidiary; reaffirms existing conditions and establishes new ones
<b>September 2001</b>	CSU does not continue letter of credit as required; Metro Executive Officer issues “Notice of Default” to CSU and withholds \$670,000 August 2001 payment and future payments until letter of credit is received
<b>September 2001</b>	Metro receives CSU letter of credit and default actions cease
<b>August 2003</b>	Metro’s estimated financial break-even point (net cash flow dollars, not discounted) on benefits gained for the May 1999 \$6.6 million advance to contractor
<b>April 2004</b>	Auditor’s estimated financial break-even point (1999 dollars discounted at 6%) on net cash flow benefits gained for the May 1999 \$6.6 million advance to contractor
<b>December 2009</b>	Contract to end

## **Appendix B**

Nominal and discounted cumulative savings of \$6.6 million viewed as an investment

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**Nominal and discounted cumulative savings  
of \$6.6 million viewed as an investment  
(STS Change Order 24)**



Source: REM

## **Appendix C**

REM Staff Report – Change Order 24

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## STAFF REPORT

### IN CONSIDERATION OF RESOLUTION NO. 99-2786 FOR THE PURPOSE OF APPROVING CHANGE ORDER NO. 24 TO THE WASTE TRANSPORT SERVICES CONTRACT

Date: May 5, 1999

Presented by: Terry Petersen

## PROPOSED ACTION

Adopt Resolution No. 99-2786 for the purpose of authorizing Change Order No. 24 to the contract with Specialty Transportation Services, Inc. for waste transport services.

## SUMMARY

Metro Council approval of Change Order No. 24 to the Specialty Transportation Services, Inc. (STS) Contract would result in several benefits to Metro and the Region's ratepayers. Most importantly, there would be net savings of approximately \$9 million over the remainder of the contract.

Key elements of the proposed change order are as follows:

1. Metro would prepay future fixed costs of \$8.85 million (128 payments of \$69,117) discounted at 6.0%, resulting in a one-time payment of approximately \$6.6 million.
2. STS would provide Metro with an irrevocable letter of credit in the initial amount of \$4.1 million to protect Metro in the event that STS defaults or the contract is terminated. The letter of credit would decline monthly to a final value of \$1.3 million. The \$1.3 million letter of credit would be maintained for the remainder of the contract in lieu of retainage. STS would also provide Metro with a corporate guarantee from Aasche Transportation Services, Inc., the parent company of STS.
3. The per-load payment would be reduced by \$30, resulting in a price of \$331.47 per load at the time the change order is executed. The savings from this price reduction would be approximately \$7.8 million over the duration of the Contract.
4. STS would move most of their transport trailers off Metro property at Metro South Station and the \$93,142 annual shuttle cost would be eliminated. This change would allow Metro to proceed with facility improvements at Metro South that would increase waste recovery and reduce the hauling costs of commercial customers. Metro would obtain savings of about \$1.0 million in reduced contract payments. Metro would also be able to avoid approximately \$1 million in costs associated with replacing the trailer parking lot at Metro South. In addition, there would be indirect system savings as wait times would be reduced for commercial haulers if a new public dumping area is constructed in the space to be vacated by STS under the Change Order.

5. The estimated combined savings from the reduction in the per-load charge and the elimination of the annual shuttle cost total \$8.89 million over the remaining life of the Contract.

## FACTUAL BACKGROUND

Metro has a contract with Specialty Transportation Services, Inc. (STS) for transporting waste to the Columbia Ridge Landfill from the Metro South and Central transfer stations. The 20-year contract will expire on December 31, 2009. During FY97-98, STS transported 723,950 tons in 24,757 loads to the landfill. The total of all payments to STS during FY97-98 was \$9,858,853.

There are several key provisions of the existing contract that are relevant to this change order. The payments to STS consist of three components, which follow: (1) fixed monthly payments in the amount of \$69,117 for the duration of the contract; (2) per-load payments, currently in the amount of \$361.47; and (3) miscellaneous payments for trailer shuttling, trailer weighing, and managing overloaded trailers. The per-load and miscellaneous payments are adjusted annually based on the consumer price index.

Metro currently holds \$2.5 million in retainage, as specified in Article 13 of the contract. Metro retained 5% of all STS payments until the retainage equaled \$2.5 million. The retainage is in an interest-bearing account managed by Metro with the interest accruing to STS. The \$2.5 million retainage is available for use by Metro in the event that STS defaults and is unable to perform according to the contract specifications.

A third condition of the Contract that is relevant to this change order relates to the staging area used for transport trailers as well as the shuttling of trailers to and from the compactors at Metro South Station. When the original contract was executed, it was intended that the transfer station operator, not the transport contractor, would provide on-site shuttling services. This provision was revised in subsequent contract changes such that STS now provides shuttling service at both Metro South and Central Transfer Stations. In return for this shuttling service at Metro South, Metro pays STS \$7,765 per month and also provides STS with a staging area on Metro property.

## KEY ISSUES AND CONSIDERATIONS

*Risk Associated With Contractor Default.* Prepaying the fixed payments under the Contract increases Metro's risk, since \$6.6 million would be paid prior to STS providing the services associated with the payment. A number of factors reduce Metro's level of risk. First, Metro has obtained a declining letter of credit in the amount of \$4.1 million. The letter of credit would decline, along with Metro's risk, at the rate of \$100,000 per month. Secondly, since Metro pays for services after they have been performed, Metro normally has obtained about \$1.0 million of services from STS that have not yet been paid for. In the event of a default, Metro has the right under the Contract to withhold these payments. The Contract also specifies that Metro shall have access to STS equipment in the event of default for 180 days after contract termination (worth about \$600,000). By eliminating the requirement that Metro provide a large parking area for STS trailers, Metro could save avoided costs of \$1.0 million for providing a new staging area.

STS would also be required to provide Metro with a corporate guarantee from Aasche Transportation Services, Inc. This is a financial and performance guarantee.

*Retainage.* After Metro releases the currently held retainage to STS, the collection of the retainage will be suspended unless a contractual breach is committed. Additional security will also be provided by the letter of credit provided by STS and the corporate guarantee of Aasche.

*Alternative Transport Modes.* There continues to be interest among elected officials and others in examining alternatives to trucking waste through the Columbia Gorge. The changes to the Disposal Contract with Waste Management, Inc. (approved by the Council as Change Order No. 8 in Resolution No. 99-2766) included a provision that Metro's Disposal Contractor may propose an alternative transportation method to Metro, as long as the transport price does not increase. Since the alternative transportation mode provisions in Change Order 8 anticipated that the Disposal Contractor would "buy-out" the Transportation Contract, the changes to the STS Contract in Change Order 24 should not materially change the likelihood of a change in mode. Any changes to the value of the Transportation Contract would obviously be reflected in the price paid to "buy-out" the Contract.

*Waste Reduction and System Costs.* The REM Facility Master Plan calls for the construction of a new dumping area for public self-haul customers at Metro South Station in an area now used by STS for trailer storage. It is necessary for STS to reduce the number of trailers stored at Metro South before this public dumping area can be constructed. As a condition of this change order, Metro would be obligated to provide STS with storage space for only 10 trailers. This would free up sufficient space for construction of the new public area.

Once the public self-haul customers are moved to the new area, the existing transfer station building would be reserved for commercial haulers. There would be sufficient space inside the existing building to allow for substantially more waste recovery activities. The space restriction at Metro South has been a long-standing obstacle to waste recovery. Increased waste recovery at Metro South would help the Region to move toward its waste reduction goals.

By separating public and commercial customers, the new public dumping area would also reduce traffic queuing at Metro South Station. With the increase in tipping space for commercial trucks inside the transfer station building and the separation of public and commercial vehicles, there should be a substantial improvement in on-site queuing time for commercial haulers. As a result, hauling costs and total system costs in the Region (collection through disposal) would be reduced.

## FINANCIAL ANALYSIS

The following paragraphs summarize the financial analyses that have been conducted by financial staff of the REM and Administrative Services Departments and Metro's financial advisor, Clancy, Gardiner, & Pierce.

*Discounted Fixed Costs.* Over the remainder of the Contract, Metro would pay STS \$829,404 annually, or \$8.85 million in total fixed payments. The lump sum payment called for in this change order is the present value of these payments at a discount rate of 6 percent.

*Unit Price Reduction.* Based on the conservative assumption that the tonnage from Metro's transfer stations would be 600,000 tons in 1999 and increase 2 percent annually, the \$30 per load reduction in the unit price represents cash savings of \$7.8 million (assuming 30 tons per load) over the remainder of the contract. These calculations also assume an inflation rate of 2.6 percent per year.

*Metro South Shuttle and Trailer Staging Area.* The Change Order specifies that Metro would no longer be required to make payments to STS for shuttling trailers to and from the compactors at Metro South Station. This change reduces Metro's costs by \$93,142 annually, or a total savings of \$1.0 million for the remainder of the Contract. Because the Change Order also specifies that STS would move most of their transport trailers off of the property at Metro South Station, Metro would also avoid any costs associated with constructing and leasing an alternative trailer staging area, which would be necessary to implement the REM Facility Master Plan. For the purposes of estimating the value of these changes related to the transfer trailers, it is assumed that the present value of the avoided costs associated with the alternative trailer staging area is \$1.0 million. Therefore, the total savings related to STS moving trailers off of the Metro South Station property and eliminating the shuttle payment could be about \$2.0 million.

*Total and Net Savings.* This change order would result in the payment of remaining fixed cost payments to STS during the remainder of the Contract (to December 31, 2009), based on their present value. This reduction in future payments would be offset by the initial lump sum payment of fixed costs and the lost interest. The net cash flow savings are estimated to be about \$9 million.

## BUDGET IMPACT

Funds in the amount of \$6.6 million would be needed to prepay the fixed costs upon approval of the Change Order. Metro Council approval of a budget amendment transferring \$6.6 million from Contingency to the Operating Account of the Solid Waste Revenue Fund would be necessary to make this expenditure (see Ordinance No. 99-798). After the prepayment of the fixed costs to STS, the estimated undesignated ending Fund Balance for FY98-99, based upon March 1999 tonnage forecasts, would be about \$700,000 (\$7.3 million - \$6.6 million).

## EXECUTIVE OFFICER RECOMMENDATION

The Executive Officer recommends approval of Resolution No. 99-2786.

TP:clk  
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# Metro Auditor Report Evaluation Form

**Fax... Write... Call...  
Help Us Serve Metro Better**

Our mission at the Office of the Metro Auditor is to assist and advise Metro in achieving honest, efficient management and full accountability to the public. We strive to provide Metro with accurate information, unbiased analysis and objective recommendations on how best to use public resources in support of the region's well-being.

Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.



**Name of Audit Report:** Solid Waste Hauling Contract:  
Metro's Consideration of Risks and Rewards of Change Order 24

Please rate the following elements of this report by checking the appropriate box.

	<b>Too Little</b>	<b>Just Right</b>	<b>Too Much</b>
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Suggestions for our report format: \_\_\_\_\_  
\_\_\_\_\_

Suggestions for future studies: \_\_\_\_\_  
\_\_\_\_\_

Other comments, ideas, thoughts: \_\_\_\_\_  
\_\_\_\_\_

Name (optional): \_\_\_\_\_

**Thanks for taking the time to help us.**

Fax: 503.797.1831  
Mail: Metro Auditor, 600 NE Grand Avenue, Portland, OR 97232-2736  
Call: Alexis Dow, CPA, Metro Auditor, 503.797.1891  
Email: dowa@metro.dst.or.us  
**Suggestion Hotline:** 503.230.0600, MetroAuditor@metro.dst.or.us

You are welcome to keep this copy if it is useful to you.  
If you no longer need this copy, you are encouraged to return it to:

**Metro Auditor**

Metro Regional Center  
600 NE Grand Avenue  
Portland, OR 97232-2736

If you would like more information about the Office of the Auditor  
or copies of past reports, please call  
**Metro Auditor Alexis Dow, CPA**  
**(503) 797-1891**

**Metro Auditor Suggestion Hotline:**  
(503) 230-0600 ♦ [MetroAuditor@metro.dst.or.us](mailto:MetroAuditor@metro.dst.or.us)