METRO

A G E N D A

MEETING: **REGIONAL SOLID WASTE ADVISORY COMMITTEE**

PLEASE NOTE THERE ARE TWO MEETINGS OF SWAC THIS WEEK

DATES:	Monday, August 20, 2001	Thursday, August 23, 2001
TIMES:	3:00 p.m. – 5:00 p.m.	10:00 a.m. – noon
PLACE:	Room 370, Metro Regional Center, 600 NE Grand Avenue, Portland	

Agenda for Meeting 1

Monday August 20 **3:00 p.m. – 5:00 p.m.**

10 min. I. Call to Order and Announcements **Susan McLain**
- ***Announcements***
- ***Metro Green Ribbon Committee***
- ***Approval of the May 21, June 18, and July 16 minutes***
- ***Responses to Issues from the July 16 Meeting***

5 min. II. REM Director's Update **Terry Petersen**

10 min. *III. REM Legislative Package **Terry Petersen**

This October, the Metro Council will take action on ordinances affecting:
- *Metro's solid waste fees*
- *Local transfer stations*
- *Regional System Fee credits*
- *Flow control*

A report on actions by the Rate Review Committee on Metro solid waste fees (tip fee and Regional System Fee) will be provided as a part of this agenda item.

The purpose of the SWAC meetings this week is to discuss two elements of this legislative package: local transfer stations (Agenda Item IV) and Regional System Fee credits (Agenda Item V).

85 min. *IV. Local Transfer Stations **Susan McLain**

The Council Solid Waste & Recycling Committee has instructed REM to explore the following options for revising regulatory policies toward local transfer stations:
- *Raise the disposal limit ("cap")*
- *Require serving local haulers*
- *Size the caps to local need*
- *Count wet only toward the cap*

In addition to these policy questions, SWAC will explore the meaning of "local need."

10 min. *V.a. Regional System Fee Credits (Introduction) **Susan McLain**

Introduction to the main topic of the Thursday August 23 meeting.

Agenda for Meeting 2

Thursday August 23 **10:00 a.m. – noon**

Agenda continued from Monday August 20 ***Susan McLain***

Concluding discussions, if needed, on:

a) Metro's solid waste rates (tip fee and Regional System Fee)
b) Local transfer station regulatory policy changes
c) Questions on the Regional System Fee Credit program

115 min.*V.b. Regional System Fee Credits (continued) **Susan McLain**

Credits against the Regional System Fee were implemented in 1998 to provide MRFs with an adjustment period after Metro reduced its tip fee and Regional System Fee.

The Council Solid Waste & Recycling Committee has instructed REM to explore if the original objectives of the program have been met, and whether there are any new policies that the program should encompass. In particular, the Council is seeking guidance on the following options:

- *Maintain the program (with perhaps minor revisions)*
- *Keep the program, but with a re-focus and major revisions*
- *Terminate the program, with recommendations on: (i) the conditions for elimination, (ii) expected consequences if eliminated, and (iii)alternative use(s) of the resources (currently approximately $900,000 and ¼ of a full-time equivalent employee).*

5 min. VI. Other Business and Adjourn **Susan McLain**

* *Attachments are included with this agenda package.*

All times listed on this agenda are approximate. Items may not be considered in the exact order listed.

Chair: Councilor Susan McLain (797-1553) Alternate Chair: Councilor Bill Atherton (797-1887)
Staff: Meg Lynch (797-1671) Committee Clerk: Connie Kinney (797-1643)

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Agenda Item No. IV
Local Transfer Stations
Options for revising regulatory policies toward local transfer stations
Solid Waste Advisory Committee
Monday, August 20, & Thursday, August 23, 2001

Agenda Item No. IV
SWAC
August 20, 2001

Local Transfer Station Regulatory Changes

Desired Outcomes of this Agenda Item

Metro seeks comments and advice from SWAC on the following local transfer station policy recommendations:

- Raise the disposal cap
  to eliminate operational and access barriers.
- Size the cap to "local need"
  to balance the provision of service with low local impact.
- Raise or eliminate the cap on dry waste
  to support material recovery.
- Require that facilities serve local haulers
  to ensure access, and to reduce vehicle-miles traveled and transport costs.

Furthermore, Metro seeks comments on a recommendation that the cap be set at 65,000 tons of putrescible waste per year, which is REM's estimate of current local need, based on demand for disposal services by franchised haulers that are closest to local transfer stations.

Next Steps

- Metro will draft legislation based on SWAC's comments and advice.
- This legislation will be available for review during the first week of September.
- The legislation returns to SWAC on September 17.
- Council will take action on the following schedule:*
  - *Filing ..... September 19*
  - *1st reading (remanded to committee) ..... September 27*
  - *Committee discussion and public hearing ..... October 3*
  - *2nd reading (final Council action) ..... October 11 or 18*

*The ordinance can also be amended, in process, between September 27 and October 11.

REM White Paper
August 20, 2001

Local Transfer Station Regulatory Changes

Summary

Metro seeks comment on the following changes for local transfer stations:

- Raise the disposal cap
- Size the cap to local need
- Raise or eliminate the cap on dry waste
- Require that facilities serve local haulers

This paper provides background and explains the policies underlying these changes.

This paper also recommends that the cap on putrescible waste be set at 65,000 tons per year, which is REM's estimate of current local need.

Contents

Section		Page
I.	Background and Problem Statement	2
II.	Raise the Caps & Size them to Local Need	4
III.	A Cap on Dry Waste?	6
IV.	Obligation to Serve Local Haulers	7
V.	Conclusion	8
Appendix:	Establishing the Size of the Caps.	9

Section I
Background and Problem Statement

Original Policy Objectives of Local Transfer Stations. In the 1998 revision of Metro Code, "Local Transfer Stations" were created as limited solid waste facilities that were intended to serve the disposal needs of the local area in which they are sited. The Code defined Local Transfer Stations as wet-dry facilities with a "cap" on disposal of 50,000 tons or less per year[1], and a limited set of franchise obligations. The "cap" was designed to maintain a low impact on the area in which the facilities were sited, and the limit on obligations (for example, Local Transfer Stations are not required to accept public customers) was intended to minimize operational costs. There was an expectation that the relatively low impact and low cost of Local Transfer Stations would allow more facilities to be sited, thereby: (a) reducing the system cost of off-route transport by improving access to disposal and material recovery services, and (b) generating a competitive market in disposal services, obviating the need for Metro to regulate tip fees at private transfer stations.

In summary, the full set of objectives that Local Transfer Stations were originally meant to address were to:

- Improve access and reduce system costs
- Minimize impacts on the host communities
- Reduce vehicle-miles traveled.
- Increase the opportunity for material recovery
- Serve under-served areas
- Foster competition, in order to minimize need for economic regulation

Unrealized Public Objectives. Three Local Transfer Stations were franchised after the 1998 Code revision. In the ensuing years, the 50,000 ton "cap" was successful in reducing system costs; but experience has also demonstrated:

- There is not enough room under the cap to accommodate all of the nearby haulers who want to use the facilities, and therefore, some of the potential savings in transport costs went unrealized;
- The cap was too small to allow operational efficiencies to be achieved in some cases;

[1] There is no regulatory limit on the amount of solid waste that a local transfer station may accept. The disposal limit is defined on the amount of putrescible waste plus dry waste processing residual that is sent to a landfill. The limit was placed on disposal to provide an incentive for material recovery. For example, a facility may accept 100,000 tons with a 50% recovery rate, but only 75,000 tons with a 33% recovery rate.

- The size of the cap created competition for floor space between wet waste transfer and dry waste recovery, and tended to crowd-out dry waste recovery capacity.

New Issues and Concerns. In June 2000, the Regional Solid Waste Management Plan and Metro Code were revised again to address these issues. The 2000 revisions relaxed barriers-to-entry for Regional Transfer Stations, a type of solid waste transfer facility without disposal caps. In the application process after the 2000 Code revision, Metro became concerned over consequences of approving new Regional Transfer Stations:

- Given the market power of vertically-integrated operations and a system of regional transfer stations, how could Metro foster a competitive environment to ensure that the public would be a primary beneficiary of cost savings;
- The lack of a policy incentive to reduce vehicle-miles-traveled if vertically-integrated operations choose to "feed" their facilities from across the region, given that there would be no disposal cap to constrain capacity or throughput;
- The impact on other solid waste facilities (especially material recovery facilities), given the improved access to disposal sites.

The Motivation for Changes to Local Transfer Station Policy. The original concept of Local Transfer Stations is sound; they play an important role in the regional solid waste system. However, adjustments may be needed in order to meet the original policy objectives, and to address the new issues that have surfaced since local transfer Station regulations were created.

Specifically, the following issues and questions need to be addressed:

1. How to serve disposal needs while minimizing the impact on host communities:
   - What should the size of the cap be?
   - What waste should be counted?
2. How to assure local haulers can access the facility
3. How to reduce the vehicle-miles traveled.
4. How to foster competition.
5. How to encourage material recovery.

Recommendations that address these issues are provided in the balance of this paper.

Section II
Raise the Disposal Cap & Size it to Local Need

Summary

Set the size of the cap to the amount of putrescible waste within a local service area—approximately 65,000 tons per year.

Because the caps are sized to local need, no local hauler should have to be turned away and drive to a more-distant facility. If the caps are no larger than needed to serve the local area, the impact on the host community should be minimized.

An additional obligation—requiring service to local haulers—is also necessary to achieve all policy objectives.

Background and Discusssion

While the 50,000 ton disposal cap has contributed to system benefits, experience has shown that the cap has resulted in other consequences:

Result of Cap	Policy Consequences
Crowds-out access for nearby haulers	Longer distances traveled; costs and road-miles traveled are not minimized
Wet & dry waste compete for floor space and "room" under the cap	Negatively affects material recovery
50,000 tons is "too small"	Low scale efficiencies; costs not minimized

However, simply raising the caps may generate new unintended consequences. ***Too small a cap***, and local haulers and material recovery may still be crowded-out. ***Too large***, and there is scope for cross-region haul, which could increase vehicle-miles traveled, and still crowd out local haulers and material recovery if significant amounts of cross-regional tonnage is delivered relative to the size of the cap. Furthermore, there may be unacceptable impacts on host communities. And if too much of the market is granted away, Metro should consider the effect on competition.

A basis for the setting the size of the cap is the *local need* for disposal services. By sizing the cap to local need, no local hauler should have to be turned away and drive to a more-distant facility. As is shown in the Appendix to this paper, a cap of approximately 65,000 tons of putrescible waste per year is sufficient to serve local needs and still achieve other policy objectives, such as fostering competition and minimizing the impact on host communities. This estimate is based on the demand for disposal services by franchised

haulers within a "local service area" around the transfer stations. Empirical foundations for this recommendation may found in the Appendix.

Accordingly, this analysis leads to the following recommendation.

Recommendation

Set the size of the cap to the demand for putrescible waste disposal within a local service area—approximately 65,000 tons per year.

Analysis and Further Discussion

- Capping wet waste at 65,000 tons per year can minimize vehicle-miles traveled by franchised haulers, reduce system cost, and foster competition.
  - *Because the caps are sized to local need, no local hauler should have to be turned away and drive to a more-distant facility.*
  - *If the caps are no larger than needed to serve the local area, the impact on the host community should be minimized.*
  - *As is shown in the Appendix, the 65,000-ton cap is "natural" for west-side facilities, in that it is equal to demand in the local service areas, with 2 facilities (plus the regional transfer stations) providing a sufficient number of choices to foster a competitive market.*
  - *For east-side facilities, there are about 130,000 tons of wet waste in play. Capping the one facility at 65,000 tons leaves room in the market for another local transfer station (which will foster competition), or a regional transfer station. However, in the short run until another facility is built, system transport costs will not be fully minimized.*
- Potential Unintended Consequence

  With no further conditions on users of the facility, waste can still be hauled from outside the local area, thereby potentially continuing to crowd-out local haulers and material recovery. This issue is addressed in Section IV, Ensuring Local Hauler Access.

Section III

A Cap on Dry Waste?

Summary

Raise or Eliminate the Cap on Dry Waste

Removes cap-induced barriers to material recovery. Also, frees-up facilities to compete with landfills for recoverable waste. There will be a policy trade-off with material recovery and other policies such as reducing vehicle-miles traveled. In a policy trade-off, the recommendation should favor material recovery.

Background and Discussion

As indicated in the previous section, another consequence of the 50,000 ton disposal limit is to erect a regulatory barrier on dry waste that could negatively affect material recovery when wet and dry waste have to compete for floor space and "room" under the cap.

Setting a separate cap on dry waste—or eliminating it entirely—would remove the regulatory barrier that may impede material recovery[2]. However, there are policy trade-offs in the choice of the cap:

- If the cap is eliminated entirely, then all cap-induced barriers to material recovery are removed. This also frees-up facilities to compete with landfills for recoverable waste, and allows generators and haulers of dry waste to seek out the best recovery option.

- However, by freeing-up the market in favor of material recovery, the number of vehicle-miles traveled might not be fully minimized. Furthermore, the impact on host communities might not be fully minimized (although typically there are fewer impacts with dry waste than with putrescible waste).

- If a dry waste cap were set, separate from the wet waste cap, then some of the policy issues above could be mitigated. However, it is difficult to estimate the "local need" for dry waste, as it fluctuates significantly with business construction cycles. If the estimate is too low, then material recovery could be crowded out. If the estimate is too high, then the cap has no real meaning as a disposal constraint.

Recommendation

The cap on dry waste should be separate from the wet-waste cap, and should be sufficient to avoid any constraint on material recovery. Metro seeks SWAC's advice on the size of a dry waste cap, or whether the cap on dry waste should be eliminated entirely.

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[2] The reader should note that removal of a constraint is no guarantee that material recovery will increase. However, increase or removal of the cap is consistent with Metro's policy to support—or at least, not impede—material recovery.

Section IV

Ensuring Local Hauler Access

Summary

Obligate local transfer stations to accept deliveries from nearby haulers.

If local haulers utilize the nearest facility, there should be little or no room under the cap to accommodate cross-region hauls. Without cross-regional hauling, there should be no crowding-out of local haulers, and vehicle-miles traveled and impacts on the host community can be minimized.

Background and Discussion

As indicated in Section II, simply raising the caps is no guarantee that all policy objectives will be met. In particular, local haulers and material recovery may still be crowded out if enough waste is delivered from outside the local service area. This means that vehicle-miles traveled, system costs, and impacts on host communities may not be minimized; and material recovery may not be significantly improved.

However, if each local transfer station is obligated to serve all haulers within the local service area, ***and if*** these local haulers exhibit cost-minimizing behavior and utilize the nearest facility, then there should be little or no room under the cap to accommodate cross-region hauls. And without the cross-region hauls, there should be no crowding-out issues.

Accordingly, this analysis leads to the following recommendation.

Recommendation

In order to ensure local access, each local transfer station would be obligated to serve any hauler that owns a franchise within its local service area.

Further Discussion: How this Obligation Could be Implemented

Metro Code Chapter 5.01.125(c) would be amended to include this recommendation among the obligations of local transfer stations. The obligation would be implemented in each Metro franchise for a local transfer station.

Here is a picture of how this might work:

- Each local transfer station would be given a unique code designation under the Metro franchise. For example, Pride Recycling = red station, Recycle America = white station, WRI = blue station.

- Haulers who fall within the service area of a local transfer station would be offered an access card coded to the local facility. For example, Gresham Sanitary would be offered a "white card" because it falls within the service area for Recycle America (see maps in the Appendix). Similarly, Don's would receive a red card for access to Pride Recycling, and Rossman's would have a blue card for access to WRI.[3]
- Haulers would still be free to choose among facilities. However, if they choose to use the nearest local transfer station, that facility must accommodate them. For example, if Gresham Sanitary arrives at Recycle America with acceptable waste and shows its "white card," Recycle America would be obligated to accept delivery of that waste.

Furthermore, local governments who set collection rates would have access to the service area information, and would better understand whether their regulated haulers are choosing the least-cost facility for their ratepayers.

Section V
Conclusion

In order to meet the original policy objectives for local transfer stations, and to address new issues that have surfaced since local transfer stations were approved, adjustments to local transfer station regulatory policy appear to be needed.

The recommended changes are:

- Set the size of the cap to the amount of putrescible waste within a local service area—approximately 65,000 tons per year.
- Raise or eliminate the cap on dry waste.
- Obligate local transfer stations to accept deliveries from nearby haulers.

Metro seeks comments and advice from SWAC on these recommendations before moving forward with changes to Metro Code or local transfer station franchises.

[3] Some haulers within the local area may be vertically integrated with the local transfer station and would use the facility as a matter of course. But this does not affect the concept.

APPENDIX

Establishing the Size of the Disposal Limits and Relation to Policy Objectives

Summary

A cap of 65,000 tons on putrescible waste would serve local demand and support the other policy objectives for local transfer stations.

Local service areas are defined. A distinction is drawn between waste that is generated ("on the ground") within a local service area and the demand for disposal services (waste "in play"). The size of the recommended cap is based on the demand for disposal services.

Transfer Station Service Areas: An Introduction to the Concept

The purpose of this section of the appendix is to introduce the concept of transfer station service areas, and how they relate to Metro's transfer station policy objectives.

For purposes of this memo, a "service area" is defined as a geographic area around a solid waste facility.

The Attached Maps

Maps 1 and 2 represent two different methods of defining a service area:

Service Area Defined by Travel Time. The heavy lines represent the points between two facilities at which the *travel time* is the same to each facility. If all haulers within each service area use the facility within the service area, then the off-route travel time—or "vehicle time traveled" (VTT)—would be minimized[4].

Service Area Defined by Distance. The heavy lines represent the "halfway" points between two facilities, at which the *distance* is the same to each facility. If all haulers within each service area used the facility within the service area, then the off-route distance—or "vehicle miles traveled" (VMT) —would be minimized[2].

***The reader will note** that there is variable shading on these maps. These shadings represent 5-minute travel time increments from each facility.*

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[4] These statements are true if we count only the time and the distances from the end-of-the-route to the transfer facility. There are two other components of off-route transport: (1) from the truck barn to the beginning of the route at the start of the shift, and (2) from the disposal facility to the truck barn at the end of the shift. The total time and distance of all off-route transport may or may not be minimized, depending on the location of the truck barn.

For each map, Table 1 shows REM's estimate of the wet waste tonnage that is generated within each service area during a calendar year[5]. This number represents the need for transfer station capacity within each service area.

Table 1
Wet Waste Generated Annually within Facility Service Areas

	Tons in Service Area Defined by	
Facility	Distance	Travel Time
Metro Central	388,685	306,371
Metro South	136,812	147,232
Forest Grove	37,804	54,965
Pride	107,821	110,290
R.America	125,065	132,175
WRI	16,910	62,065
Total	813,097	813,097

Tonnage generated within the Metro boundary only.

Relation to Transfer Station Policies

If, as a matter of policy, Metro were to encourage the minimization of either VTT (which translates directly into travel cost), or VMT (a key environmental impact indicator), then the "service area" concept can be employed to help inform the necessary regulations.

As mentioned above, if all haulers within each service area utilized the facility that lies within the service area, then VMT would be minimized (if service areas are defined by distance), and VTT would be minimized (if service areas are defined by time)[2]. Together with the estimate of tonnage within each service area, these facts can be used to construct the following changes to disposal caps and obligations of transfer stations:

- Set the size of wet waste caps to the amount of wet waste within each service area.
- Each transfer station would be obligated to serve any hauler that operates within its service area. (Haulers would still be free to choose their own facility for disposal.)

These changes would help meet the policy objective as follows:

- Because the caps are sized to local need, no local hauler should have to be turned away and drive to a more-distant facility.

[5] The interested reader may obtain tables from REM showing, in addition to the tonnage within service areas, the following statistics: the total amount of off-route time and mileage it would take to haul all of the wet waste within each service area to the transfer station that is located within the service area; the average off-route speed traveled within each service area by haulers, the average time it takes to haul each ton in the service area to the facility within the service area, and the average distance a ton has to travel to get to the facility within the service area.

- If all haulers exhibit cost-minimizing behavior and utilize the nearest facility, there should be little or no room under the cap to accommodate cross-region hauls by vertically integrated operations.

Furthermore, local governments who set collection rates would have access to the service area information, and would better understand whether their regulated haulers are choosing the least-cost facility for their ratepayers.

Setting the Cap Size: Policy and Practical Considerations

Waste "On the Ground"

Table 2 summarizes the information in Table 1. As indicated in the table, between 125,000 and 170,000 tons of wet waste is generated within the combined service area of the two west-side local transfer stations (Pride Recycling and WRI) depending on how the service areas are defined. This fact would suggest that a cap of between 65,000 and 85,000 tons *per facility* per year would serve the local need for disposal services. Also, with two facilities (together with the regional transfer stations) there would be a competitive market for transfer services.

Table 2
Putrescible Waste Generated Annually within Service Areas

	Tons in Service Area Defined by	
Facility	Distance	Travel Time
Regional Transfer Stations		
Metro	525,500	453,600
Forest Grove	37,800	55,000
Local Transfer Stations		
West Side	124,700	172,400
East Side	125,100	132,200
Total	**813,100**	**813,200**

These numbers are summaries of the information in Table 1.

On the east side, between 125,000 and 130,000 tons of wet waste are generated, depending on how the service area is defined. However, with only one facility there would not be a fully competitive market for transfer services. Thus, there is a policy trade-off between setting the cap at a level that would not serve all of the local need and leaving enough room in the market for another competitive entrant.

Demand for Disposal Services: Waste "In Play"

However, the amount of waste that is "on the ground" within each local service area is not necessarily all "in play" due to existing patterns of collection franchise ownership. For example, Waste Management controls franchise tonnage within the combined west-side local area. If, as a matter of practicality, these patterns of ownership mean that some haulers will not use the local facility, then the actual amount of disposal service that will be *demanded* is less than the amount of waste "on the ground" (that is, generated) within the service area.

These estimates of demand are provided in tables 3 and 4.[6] The column "Controlled" indicates the amount of waste that is franchised to haulers that are vertically integrated with a facility *other than* the local transfer station. For example, Waste Management owns franchises within the combined west-side service area. Waste Management controls about 22,000 tons of waste within the service area defined by distance (Table 3), and 39,000 tons within the service area defined by travel time (Table 4).[7] Maps 3 and 4 display the pattern of franchises that are owned by vertically-integrated haulers throughout the region.

The column "In Play" is the difference between the waste on the ground and the waste controlled by other operators, and is an estimate of the actual demand for disposal services that will be realized by the local transfer stations.

This argument suggests that the size of the caps should be based on *expected demand*, at least in the medium term (that is, for the 5-year franchise horizon) until ownership and/or delivery patterns adjust. From tables 3 and 4, between 102,000 and 133,000 tons appear to be "in play" within the combined service area of the two west-side local transfer stations, Pride and WRI[8]. This number suggests a disposal cap of 50,000 to 65,000 tons per facility. On the east side, the waste in play is between 121,000 and 129,000 tons. With only one facility, a cap of 60,000 to 65,000 tons would split demand between the existing local transfer station—Recycle America—and also leaves enough of a market to allow a new, competitive entrant.

Conclusion and Recommendation

For these reasons, a wet waste disposal cap of between 60,000 and 65,000 tons per year is indicated. A cap of 65,000 tons is recommended, to allow a margin for growth during the franchise term of the local transfer stations.

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[6] In Table 3, service areas are based on distance; in Table 4, on travel time. The columns "On Ground" correspond to Table 2.

[7] For purposes of estimation, the "controlled" tonnage is the amount of residential putrescible waste within City of Portland franchises, and the total amount of putrescible waste in franchises outside Portland.

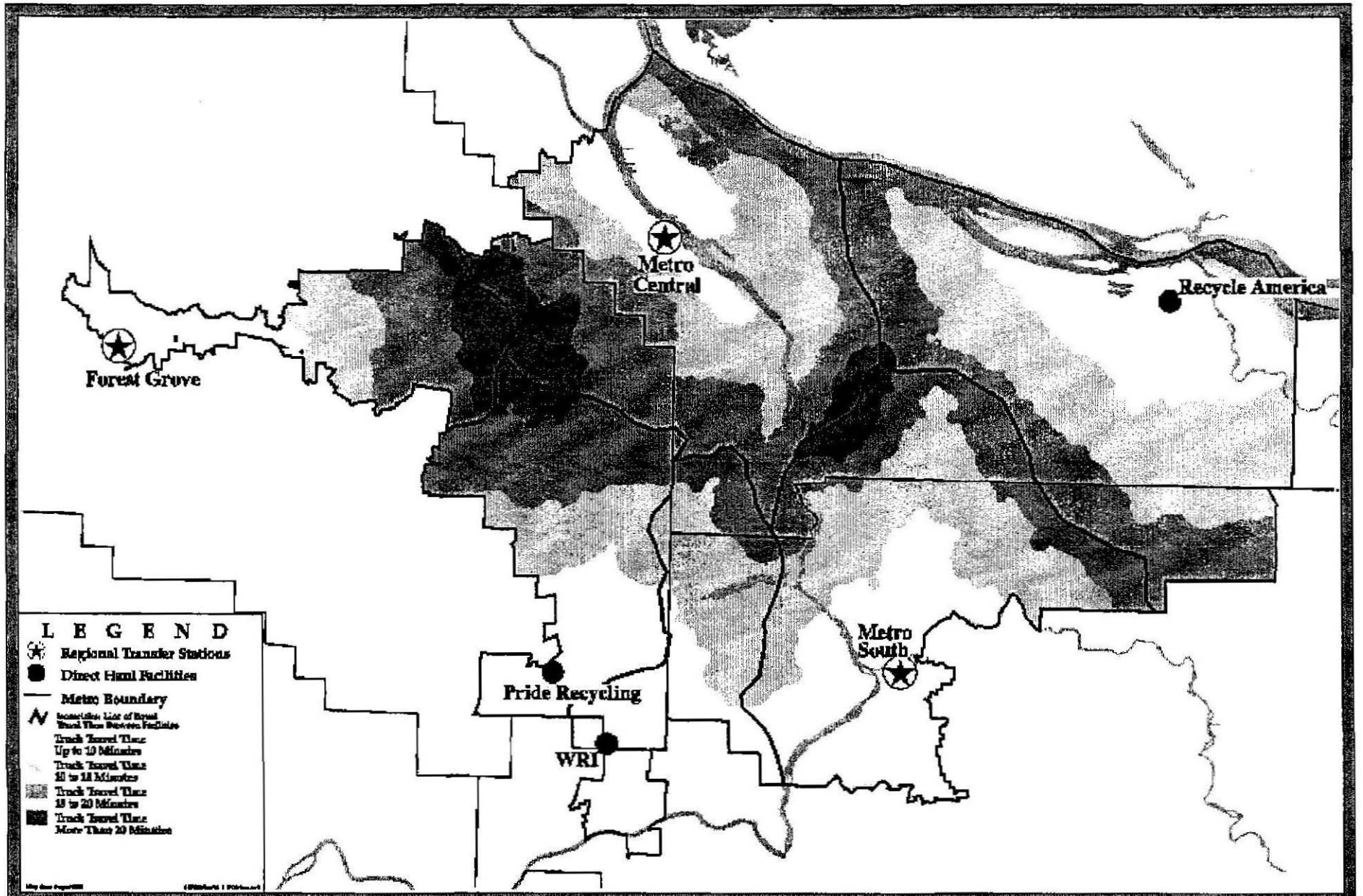
[8] It is difficult to determine the exact number because some of the service areas fall in the City of Portland, where collection franchises cover residential waste only. Haulers guard information on the amount of non-residential waste that is controlled by the residential franchisee and other, competing, haulers within the Portland franchise areas.

Table 3
Demand for Putrescible Waste Disposal in Service Areas Defined by Distance

Regional Transfer Stations	On Ground	Controlled	In Play
Metro	525,500	76,500	449,000
F.Grove	37,800	0	37,800
Local Transfer Stations			
	On Ground	Controlled	In Play
West Side	124,700	21,800	102,900
East Side	125,100	3,700	121,400
Regional Total	**813,100**	**102,000**	**711,100**

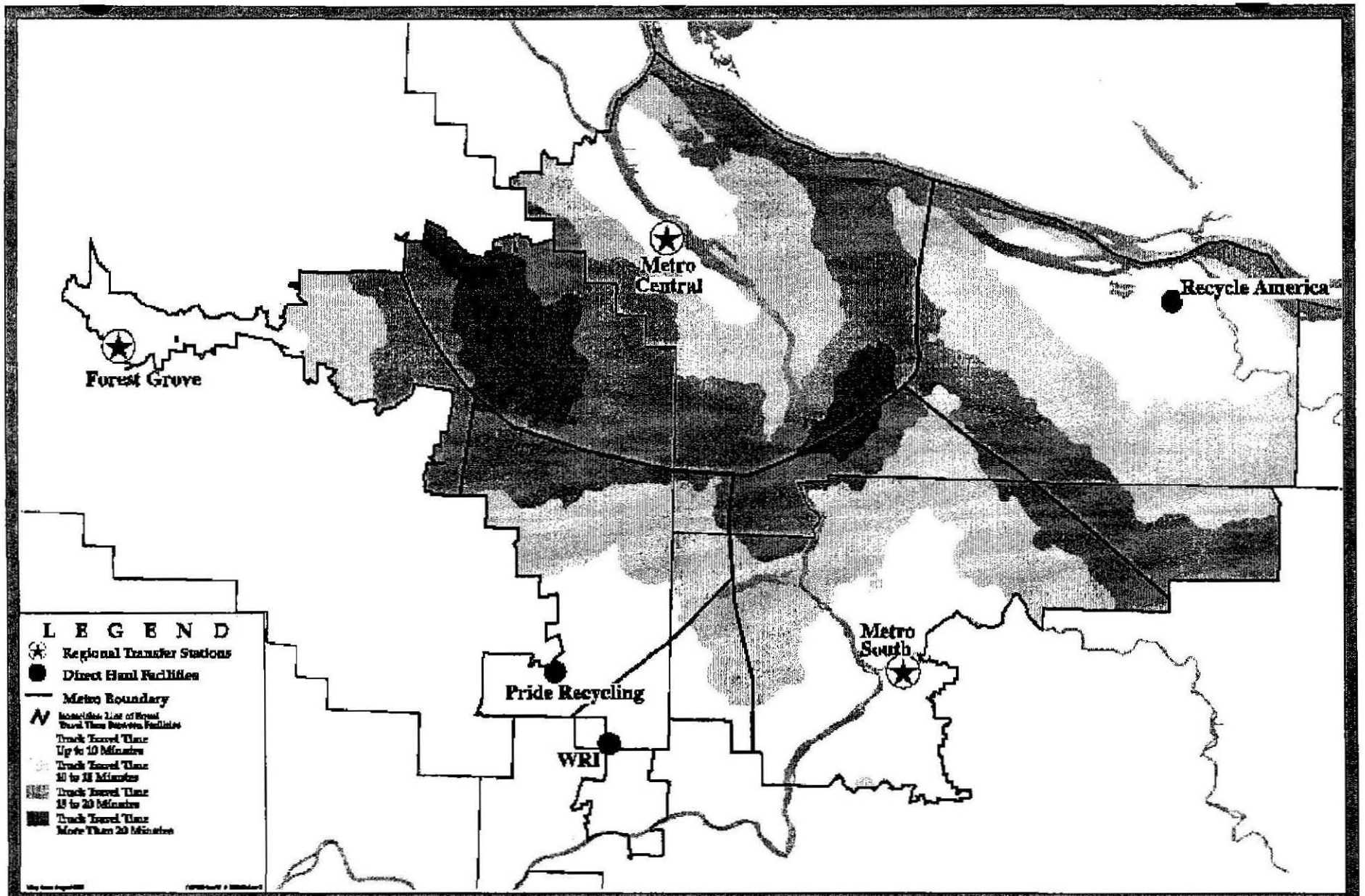
Table 4
Demand for Putrescible Waste Disposal in Service Areas Defined by Travel Time

Regional Transfer Stations	On Ground	Controlled	In Play
Metro	453,600	50,400	403,200
F.Grove	55,000	0	55,000
Local Transfer Stations			
	On Ground	Controlled	In Play
West Side	172,400	39,100	133,300
East Side	132,200	3,700	128,500
Regional Total	**813,200**	**93,200**	**720,000**



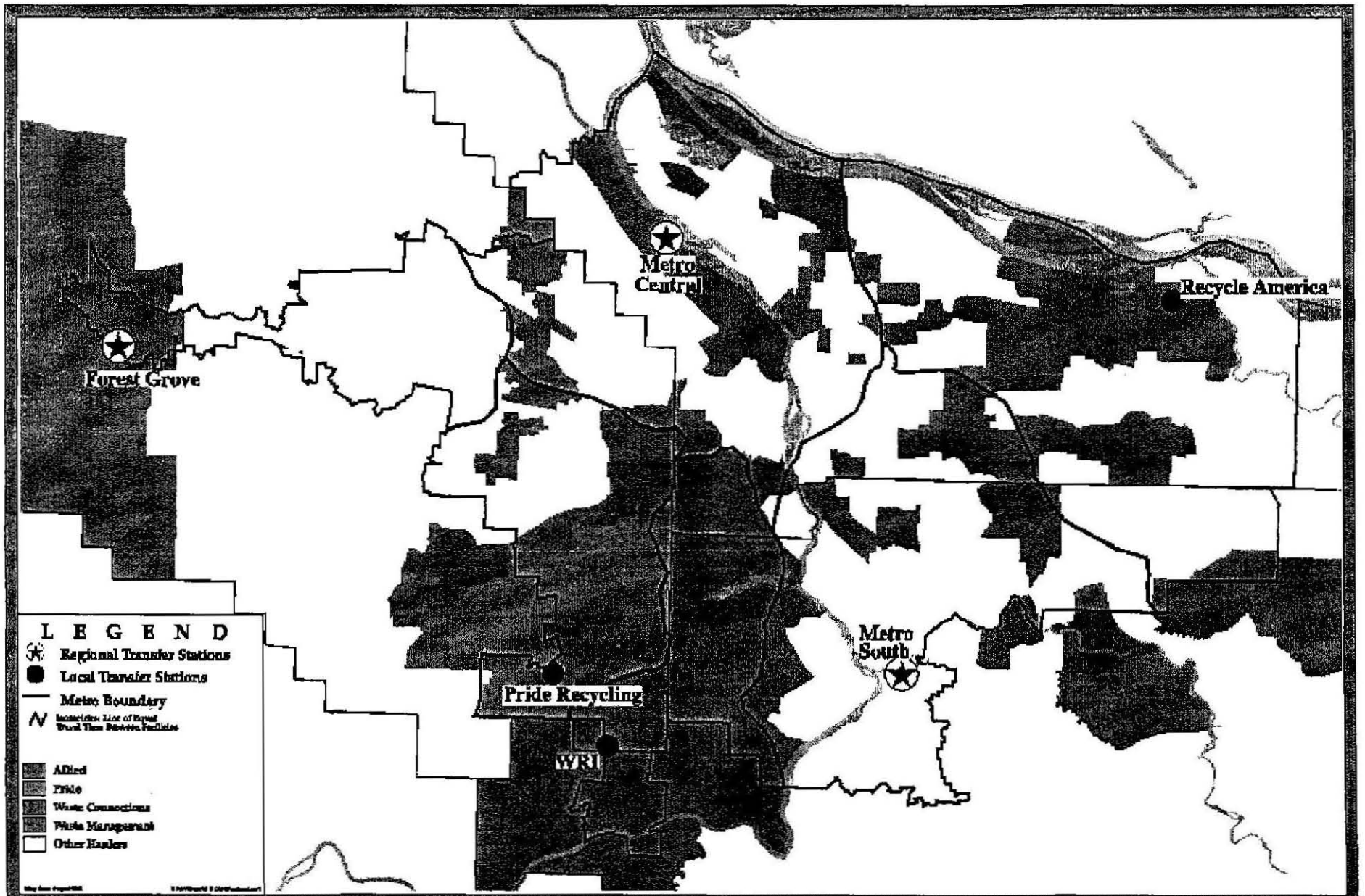
Service Areas -- Regional and Local Transfer Stations

Service Area Defined by Travel Time



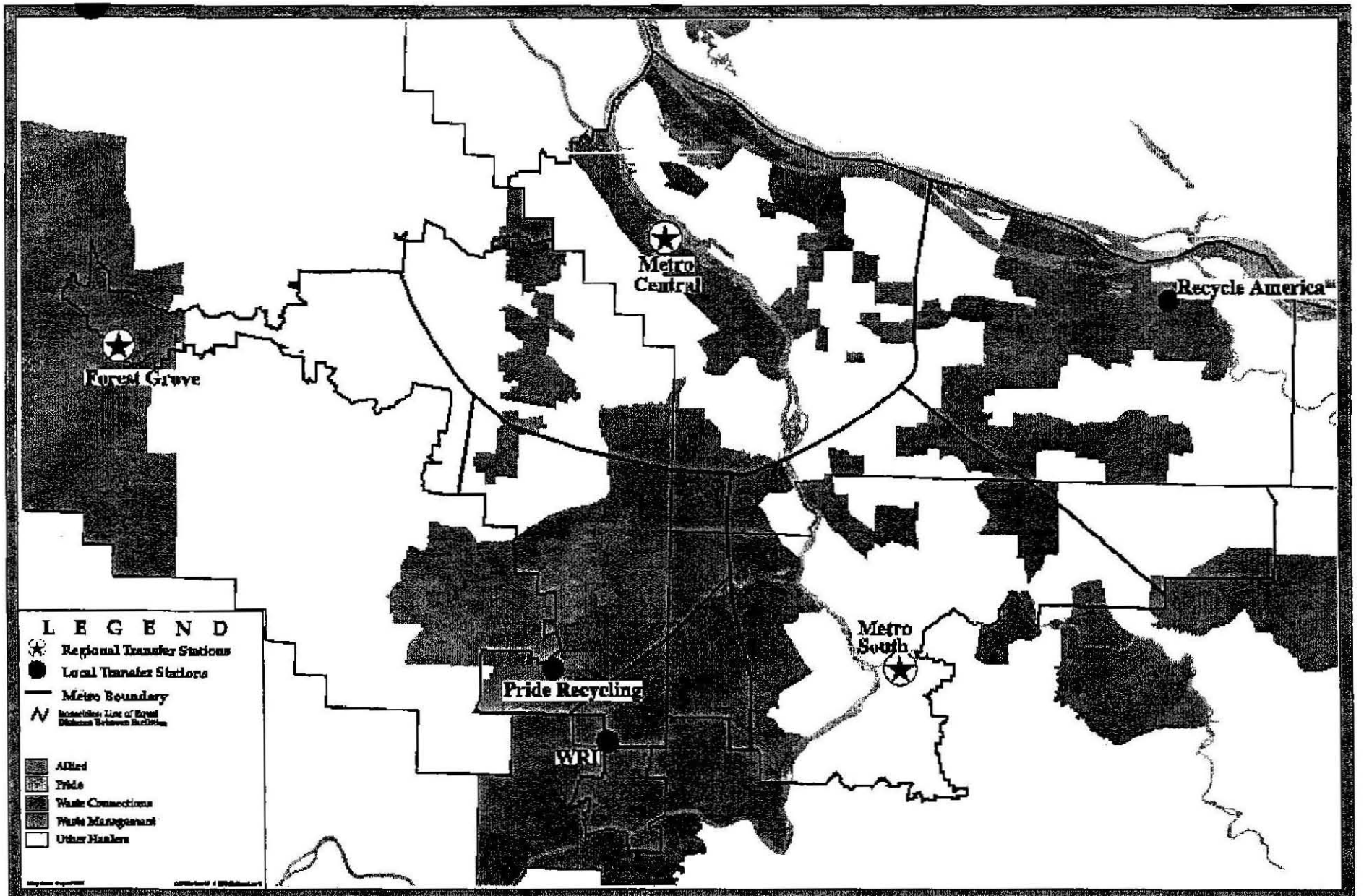
Service Areas -- Regional and Local Transfer Stations

Service Area Defined by Distance



Service Areas - Regional and Local Transfer Stations with Vertically Integrated Haulers

Service Area Defined by Travel Time



Service Areas - Regional and Local Transfer Stations with Vertically Integrated Haulers

Service Area Defined by Distance

Agenda Item No. V.a.
Regional System Fee Credits (Introduction)
Monday: Introduction to the main topic of Thursday's meeting
Solid Waste Advisory Committee
Monday, August 20, & Thursday, August 23, 2001

Agenda Item No. V.a

Regional System Fee Credit Program

Overview

This overview is provided for readers who need a summary of the main elements and background of the Regional System Fee credit program.

History and Policy Background

Three years ago, when Metro Council reduced the tip fee, they also implemented a variable rate schedule for the Regional System Fee (RSF). Solid waste facility operators within the Metro District are eligible for reduced Regional System Fees on processing residual, and the fee itself depends on the facility recovery rate.

Specifically, the variable fee was established after Metro cut its tip fee and Regional System Fee from $75 and $17.50, to $62.50 and $14, respectively, within a 2-year period (Table 1). These changes threatened the financial viability of solid waste recovery facilities ("MRFs") in the following way: Metro's tip fee sets a practical limit on the amount of revenue that a solid waste operator can charge per ton. The Regional System Fee, on the other hand, is a cost to the facility, as it is charged on residual that is landfilled. The reductions in Metro's fees took $12.50 per ton off revenues, but only $3.50 per ton off costs.

Table 1
Recent History of Metro Solid Waste Fees

Year	Tip Fee	RSF*	
1996/97	$75.00	$17.50	
1997/98	$70.00	$15.00	← First major fee reduction, effective 7/10/97.
1998/99	$62.50	$14.00	← Second major fee reduction, effective 6/1/98. Transaction fee implemented ($5) at Metro & other facilities. RSF credits begin 6/1/98.
1999/00	$62.50	$14.00	← Excise tax removed from RSF which drops to $12.90 (2/1/00)
2000/01	$62.50	$12.90	← Excise tax converted to per-ton tax 12/1/00.
2001/02	$62.50	$12.90	

* *The RSF includes Metro excise tax at 8.5% (effectively $1.10 per ton) until February 1, 2000.*

In response, Metro implemented a variable Regional System Fee to restore the per-ton operating margin between the tip fee and RSF, to the level that prevailed when investment decisions on MRFs were made. The purpose of this policy was to protect regional recovery capacity by maintaining the main economic assumptions on which the MRF operation was founded.

It is important to re-emphasize that the purpose of the program was to ensure continuation of post collection recovery capacity, and ***not*** a direct subsidy of recycling efforts. For information on the amount of credits granted as of June 2001, please see Attachment A. For information on the amount of tons recovered by facility, please see Attachment B.

It is also important to note that the Council included an annual sunset provision on the variable fee. Council's intent was to provide a temporary subsidy that allowed MRFs some time to adjust to the new economics of the solid waste system.

The amount of the RSF is a function of the facility recovery rate. The fee schedule itself is designed to:

- Restore operating margins in a manner that also encourages material recovery.
- "Make whole" only in a targeted range of recovery (approximately 35—40%).
- Encourage additional recovery by making "more than whole" in the 45—50% range.

Implementation

Examples of differential Regional System Fees that depend on recovery performance are:

Recovery	Regional System Fee
0%	$12.90
30%	9.90
40%	4.90

Note: for administrative purposes, the differential rate is implemented by collecting the full RSF then crediting back a portion of the fee. Hence, the *Regional System Fee Credit Program* (RSFCP). For a RSF of $12.90, the credits that produce the schedule above are:

Recovery Rate	RSF Credit	Effective Regional System Fee
0%	$0.00	$12.90
30%	$3.00	9.90
40%	$8.00	4.90

As shown by the examples above, the RSF credits depend on the facility recovery rate. In particular, this rate is defined as follows:

$$\text{facility recovery rate}^{*} = \frac{\text{recovery from mixed dry waste}}{\text{recovery from mixed dry waste} + \text{residual}}$$

* The formula as administered contains several additional components, but these are primarily to correct measurement issues, and are eliminated here to avoid notational clutter.

What Counts Toward "Recovery" in the RSF Credit Recovery Rate Formula?

As the program is currently administered, the following define "recovery" in the formula above:

- Recovery from mixed dry waste (such as construction & demolition materials) and industrial process wastes are counted toward recovery. Inert materials such as bricks may also count toward recovery if they are delivered to markets; and concrete may count toward recovery only if it is processed from mixed waste and delivered to markets.
- Source-separated recyclable materials do not count toward recovery for purposes of RSF credit calculations. (However, an allowance for residual from processing of source-separated materials is provided in the calculation of the rate.)
- Materials used for beneficial purposes at a landfill, such as for alternative daily cover or temporary roadbeds do not count toward the facility recovery rate. (However, the RSF is not imposed on beneficial-use materials that are accepted by a landfill at no charge.)

What is the Impact on Post-collection Material Recovery?

Table C, "Post-Collection Recovery & System Events", illustrates the relationship of various solid waste system events to post-collection recovery at private MRFs over time.

An examination of Table C reveals the following:

- The recovery rate started a decline[1] in mid-1998 and lasted through 1999 and then rebounded in early 2000, at about the same time as the required 25% recovery rate was implemented.
- Post-collection recovery now appears to be stabilizing at the previous peak of about 35% - 40%.
- A higher rate of recovery is being accomplished from a smaller dry waste stream.
- The Regional System Fee credit program (RSFCP) and the required 25% recovery rate appear correlated with turning points in recovery levels.

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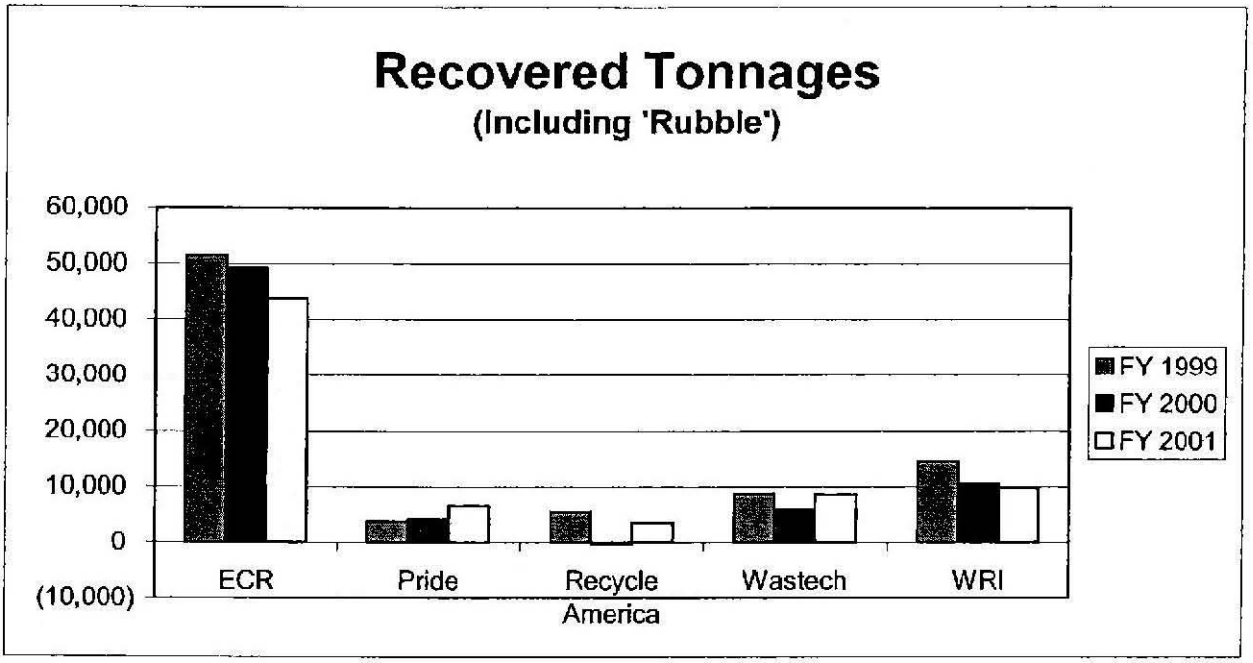
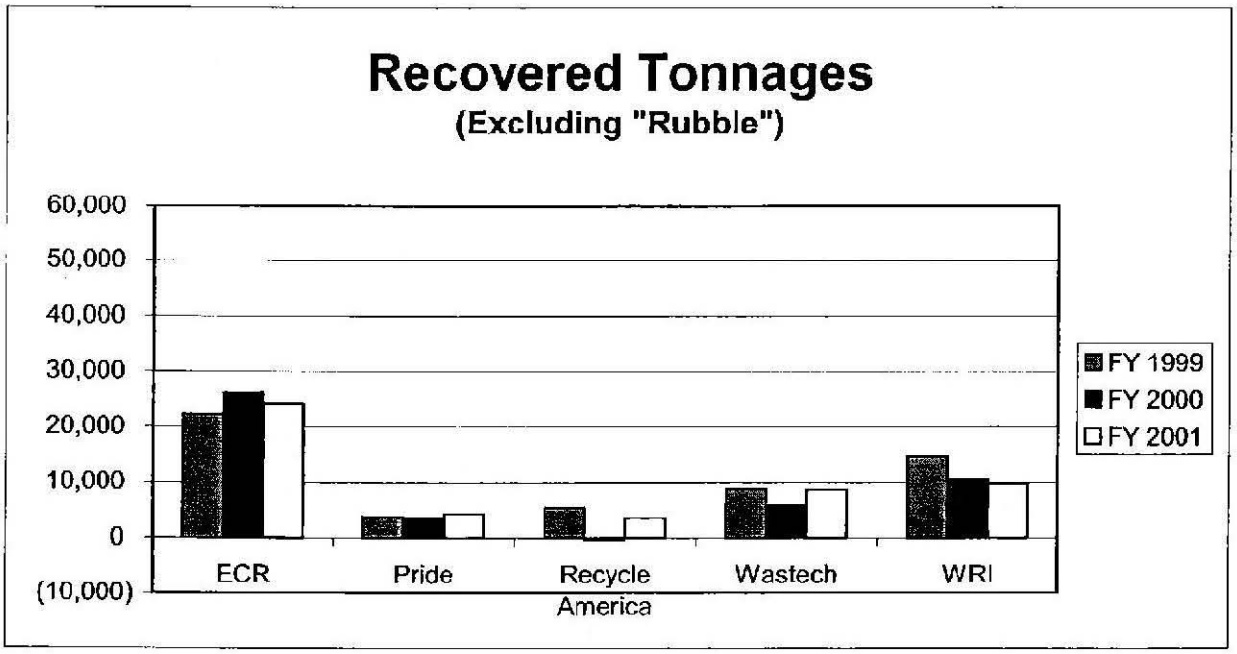
[1] The decline in the overall recovery rate can be attributed to a drop in actual material recovery at Recycle America and Wastech, while recovery remained relatively stable at ECR, Pride Recycling and WRI (refer to the 1999 RSFCP Program Evaluation).

ATTACHMENT B - SUMMARY OF TONS RECOVERED



	FY 1999	FY 2000	FY 2001
ECR	51,431.44	49,326.78	43,758.88
Pride	3,715.00	4,143.00	6,444.00
Recycle America	5,400.00	(464.00)	3,512.00
Wastech	8,752.00	5,779.00	8,647.00
WRI	14,584.00	10,470.00	9,787.00
Total	83,882.44	69,254.78	72,148.88



	FY 1999	FY 2000	FY 2001
ECR	22,266.08	26,040.68	24,105.20
Pride	3,715.00	3,368.00	4,329.00
Recycle America	5,400.00	(464.00)	3,512.00
Wastech	8,752.00	5,779.00	8,647.00
WRI	14,584.00	10,470.00	9,787.00
Total	54,717.08	45,193.68	50,380.20

Amount of Excluded "Rubble"

	FY 1999	FY 2000	FY 2001
ECR	29,165.36	23,286.10	19,653.68
Pride	-	775.00	2,115.00
Total	29,165.36	24,061.10	21,768.68

ATTACHMENT A

Summary of Regional System Fee Credits Granted as of June 2001

Applications	June 1998 thru May 2001	June 2001	Total Program Credits To Date	FY 2000 Credits	FY 2001 Credits to Date
RSF Credits Granted	$2,411,782	$83,777	$2,495,559	$675,841	$969,391
Pending Applications	0	0	0	0	0
Total	**$2,411,782**	**$83,777**	**$2,495,559**	**$675,841**	**$969,391**

By Facility	June 1998 thru May 2001	June 2001	Total Program Credits To Date	FY 2000 Credits	FY 2001 Credits to Date	Facility Recovery Rate for Last 6 Months
East County Recycling	$1,394,225	$45,948	$1,440,173	$ 472,704	$ 519,679	50.0%
Pride Recycling	153,871	9,848	163,719	$ 32,367	$ 108,638	40.9%
Recycle America	116,461	2,374	118,834	$ 6,378	$ 70,471	28.8%
Wastech	132,362	11,415	143,778	$ 4,587	$ 121,751	45.1%
Willamette Resources	489,263	14,192	503,455	$ 158,341	$ 148,851	37.8%
Citistics [1]	6,801	0	6,801	$ -	$ -	n/a
Energy Reclamation [2]	115,882	0	115,882	$ -	$ -	n/a
TVWR [1]	2,918	0	2,918	$ 1,464	$ -	n/a
Total	**$2,411,782**	**$83,777**	**$2,495,559**	**$675,841**	**$969,391**	

1 - Closed 8/99
2 - Closed

Average Recovery Rate All Facilities (excluding closed facilities) **40.5%**

Notes

Reporting Issues

- Analysis of credits granted to East County Recycling (ECR) for the 12 months ended June 30, 2001 indicate that $224,890 has been returned for recovery of brick, concrete, ceramic, and glass (BCG)—23.2% of total credits to all facilities for the 12 months ended June 30, 2001. Recovery rate for the past 12 months without counting BCG would drop from 50.1% to 35.6% and the amount of credit received over the past 12 months would decrease by $224,890 from $519,679 to $294,789.

Expenditure Analysis

- The RSFC program was implemented June 1998. As of June 2001, the program has been in place for three years and one month.
- The RSF Credit Program was budgeted at $900,000 for FY 1999 and FY 2000. Program expenditures were $793,428 and $675,841 respectively.
- The RSF Credit Program was budgeted at $900,000 for FY 2001. Program expenditures for FY 2001 were $969,391, 107.7% of the budgeted amount.

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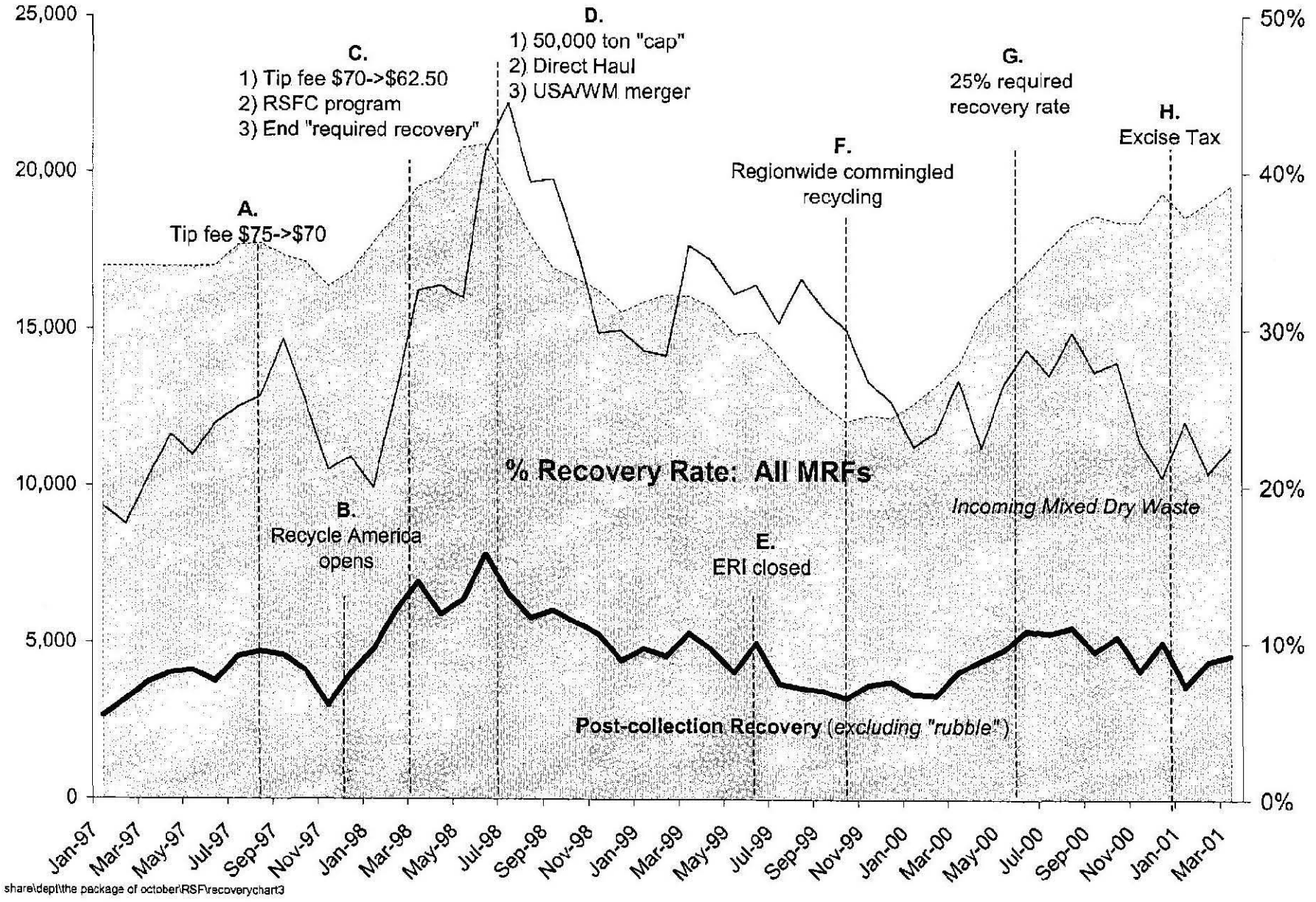
ATTACHMENT C - Post-Collection Recovery & "System Events"

Note: The graph lines for both "Incoming Mixed Dry Waste" and "Post Collection Recovery" relate to the tonnage numbers at the left of the chart. The light shaded area represents "% Recovery Rate: All MRFs" and is expressed as a percentage on the right side of the chart.



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Agenda Item No. V.b.
Regional System Fee Credits (Introduction)
Thursday: Continued discussion of options on the program
Solid Waste Advisory Committee
Thursday, August 23, 2001

Agenda Item No. V.b
SWAC
August 20, 2001

Regional System Fee Credit Program
Stay the Course, Revise, or Eliminate?
August 23, 2001

The Regional System Fee Credit Program had been in place for 3 years as of July 1, 2001. The program requires annual positive action by the Council to continue. On extending the program this year, the Council asked REM to return in October 2001 with a discussion of options for the program: stay the course, revise the program, or eliminate it.

This paper is intended to initiate the discussion.

Additional materials will be distributed
at the SWAC meeting on August 20, 2001

Summary

The basic recommendation of this paper is that REM should work with its advisory committees during the next 2 months to determine if the program has met its original objectives, and to determine whether the program should be continued (with or without revisions) or whether it should be phased out.

Background

Original Purpose of the Regional System Fee Credit Program. Regional System Fee credits were originally established after Metro cut its tip fee and Regional System Fee from $75 and $17.50, to $62.50 and $14, respectively, within a 2-year period. These changes in solid waste prices threatened the financial viability of solid waste recovery facilities ("MRFs") that otherwise help reach regional recycling goals. Accordingly, Metro implemented the Regional System Fee Credit Program on a temporary basis to provide MRFs with a "soft landing" as they adjusted to the new economics of the solid waste system. By providing MRFs with time to adjust, Metro hoped to preserve material recovery capacity within the region.

Design of the Regional System Fee Credit Program. The Regional System Fee Credit Program was designed to restore the per-ton operating margin between the two solid waste prices that Metro controls (the Metro tip fee and the Regional System Fee) to the level that prevailed when capital investment decisions on MRFs were made; and to:

- Accomplish this in a manner that also encourages material recovery
- "Make whole"* only in a targeted range of recovery (approximately 35—40%).
- Encourage additional recovery by making "more than whole" in the 45—50% range

For further information on the RSF credit program, see the Overview distributed under Agenda Item No. V.a.

Have the Objectives Been Met?

Capacity Preservation. As noted above, the main original purpose of the Regional System Fee Credit Program was to preserve regional MRF capacity by providing a "soft landing" to facilities that were affected by changes in Metro's tip fee and Regional System Fee. This objective has largely been met, as there has been little change in regional recovery capacity since the program was put in place.

New Recovery. A secondary purpose of the program was to encourage more recovery, and/or the recovery of new materials. The record here is somewhat mixed. Experience has shown that new materials have been targeted by at least two facilities. However, these materials are almost exclusively inert materials (brick, concrete, etc.) that is converted into gravel substitutes and fill material. An examination of the record of the Solid Waste Advisory Committee (SWAC) indicates that the SWAC had in mind that more conventional materials would be targeted. Comments at SWAC indicated that the program should target materials that the state counts toward the regional recovery rate (inerts do not count); major new materials (tires and organics being the conventional examples); and toxic or environmentally dangerous materials.

Thus, it remains an open policy question whether the program has provided incentives that encourage the highest and best waste to be reduced.

Has Enough Time Elapsed for the "Soft Landing"? To signal that the program is temporary, the Council included an annual sunset provision in the RSF credit ordinance. After 3 years, casual observation of the activities at the affected facilities indicates:

- Two former MRFs have become local transfer stations, adding putrescible waste transfer to the activities performed at the facility.

* That is, restore the margin to the level that prevailed when the tip fee was $70 and the RSF was $15.

- One former MRF has significantly expanded its recovery and processing of inert materials.
- One former MRF has responded to the shift to commingled recycling by concentrating on processing of source-separated commingled recyclable materials.
- One former reload has become a local transfer station that accepts 3rd-party haulers; and has recently begun to perform rock crushing operations on-site.

Thus, it remains an open question whether the private sector has adjusted to changing economics by adjusting the mix of activities performed at the facilities.

Conclusion and Recommendation

The basic recommendation is that REM should work with its advisory committees during the next 2 months on the following issues:

- Has the Regional System Fee Credit Program succeeded in its original policy objectives?

- If the original objectives have been met:
  - Should the program be terminated or phased out?
  - What are the conditions for termination or phasing it out?
  - If the program ends, how should the program resources be re-deployed?

- If the original objectives have not been met:
  - What changes (if any) are necessary to achieve them?

- Are the resources currently expended on this program the "best" use of these resources?
  - Are there other wastes that have a higher value if recycled?
  - Should other factors (e.g. toxics) be targeted?