

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AUTHORIZING THE ) RESOLUTION NO. 05-3607  
CHIEF OPERATING OFFICER TO AWARD )  
ADDITIONAL REGIONAL SYSTEM FEE ) Introduced by: Councilor Rod Park  
CREDITS IN FY 2004-05 AND FY 2005-06 )

WHEREAS, In June 1998, the Metro Council implemented a temporary program of credits against Regional System Fees designed to preserve regional material recovery capacity during a period of decline in solid waste tip fees; and,

WHEREAS, On October 25, 2001, the Metro Council adopted Ordinance No. 01-919B which amended the credit program by (a) eliminating the annual sunset provision; (b) limiting total annual credits to the amount in the adopted budget, and (c) changing its objectives to: improving material recovery and boosting the regional recovery rate; and,

WHEREAS, On March 2, 2004, the Metro Council heard recommendations from a task force that: (a) Metro should replace Regional System Fee credits with an alternative dry waste recovery program that is more cost-effective and/or better matches the state's and Metro's recovery goals, but that (b) Metro should synchronize any phase-out of the credit program with the phase-in of the alternative recovery program; and,

WHEREAS, On May 27, 2004, the Metro Council adopted Resolution No. 04-3455, formally acknowledging certain new waste reduction initiatives (including dry waste recovery programs); and,

WHEREAS, The Metro Council has adopted budgets of \$600,000 for the current and previous fiscal years, which represents a \$300,000 reduction from previous budgets; and,

WHEREAS, On December 1, 2004, based on new concerns raised by the outreach and analysis performed pursuant to Resolution No. 04-3455, the Solid Waste & Recycling Department and the Council Liaisons suspended discussion of the new initiatives, which effectively delayed their implementation to a date uncertain; and,

WHEREAS, Alternative dry waste recovery programs continue to be under design, and have not yet been implemented; and,

WHEREAS, The Metro Council finds that the economic effect of delaying implementation of dry waste recovery programs is approximately \$329,550 annually in foregone gate revenue; and,

WHEREAS, the Metro Council finds that material recovery has declined coincidentally with the reduction in credits; and,

WHEREAS, the Metro Council found in Resolution No. 04-3441 that "it is the policy of...Metro...to provide credits...in order to help meet the adopted recovery goals of the region"; and,

WHEREAS, Metro Code section 5.02.047(e) states that the aggregate amount of credits granted against the Regional System Fee for material recovery efforts shall not exceed the dollar amount budgeted without the prior review and approval of the Metro Council; and,

WHEREAS, there is sufficient appropriation authority in the FY 2004-05 and FY 2005-06 Adopted Budgets to pay for additional credits during both fiscal years; now therefore,

THE METRO COUNCIL RESOLVES AS FOLLOWS:

1. The Chief Operating Officer is authorized to:
  - a) Issue Regional System Fee credits up to \$329,550 for FY 2004-05 to facilities that qualified for credits during FY 2004-05 and were still actively engaged in material recovery as of June 30, 2005, subject to administrative procedures that were in place during FY 2004-05.
  - b) Approve up to \$329,550 in credits during FY 2005-06 in addition to credits granted pursuant to the \$600,000 budget, based on valid applications from qualifying operators.
2. The Chief Operating Officer shall analyze the schedule of credits for consistency with the recommendations of the Recycling Credits Evaluation Task Force, and shall make adjustments as needed, consistent with Metro Code sections 5.02.047(a)-(b).
3. The Chief Operating Officer shall proceed with all due expediency to implement a dry waste recovery program that eliminates the need for Regional System Fee credits.

ADOPTED by the Metro Council this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

~~WITHDRAWN~~  
\_\_\_\_\_  
David Bragdon, Council President

Approved as to Form:

\_\_\_\_\_  
Daniel B. Cooper, Metro Attorney

## STAFF REPORT

### IN CONSIDERATION OF RESOLUTION NO. 05-3607 FOR THE PURPOSE OF AUTHORIZING THE CHIEF OPERATING OFFICER TO AWARD ADDITIONAL REGIONAL SYSTEM FEE CREDITS IN FY 2004-05 AND FY 2005-06

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Date: July 11, 2005

Prepared for: Councilor Rod Park

## BACKGROUND

### *Overview*

Since 1998, Metro has granted credits against Regional System Fees. The policy is to provide economic support for the recovery of materials from solid waste after it has been discarded by the generator (“post-collection recovery”). Until FY 2003-04, Metro budgeted \$900,000 annually for credits and disbursed between \$1.0 to \$1.1 million per year.

Post-collection recovery results in 60,000 to 70,000 tons of material diverted to markets from landfills per year—over 2½ points toward the regional recovery rate.<sup>1</sup> A task force convened by Council President Bragdon in 2003 found that approximately half—35,000 tons—of these materials was recovered mainly due to the credits.

In June 2003, the Metro Council reduced the FY 2003-04 credit authorization to \$750,000—one element in a series of cost savings that the Council adopted within the FY 2003-04 budget. The President’s task force (“Recycling Credits Evaluation Task Force”) was convened in response to stakeholder questions about the policy basis and consequences of the reduction in credits. The Task Force reported its findings and recommendations to the Council in March 2004:

- a) The credit program supports Metro’s state-mandated material recovery requirements.
- b) However, credits are high-cost and economically inefficient; and therefore,
- c) Metro should develop alternative programs for the waste streams targeted by the credits.
- d) However, the credits should remain in place until the alternative programs are implemented.

As a result of the Task Force’s recommendations, the Metro Council increased the FY 2003-04 budget in April 2003. Shortly after that, the Council adopted a resolution (04-3455) acknowledging new waste reduction initiatives that target the same waste streams as the credit program. In expectation that an alternative recovery program would be implemented, the Metro Council began phasing-out the credits by reducing the FY 2004-05 authorization to \$600,000.

However, a number of factors subsequently delayed implementation of a recovery program that would replace credits. So, the reduction of the credit budget has not been accompanied by a phase-in of an alternative program. The decline in credit disbursements has been followed by a significant decline in post-collection recovery. Graphical evidence of the decline is provided in this staff report below.

The purpose of this resolution is to reverse the declining trend in recovery by restoring credits to their historical budget level, and to keep faith with a policy commitment to synchronize any reduction of credits with implementation of an acceptable alternative.

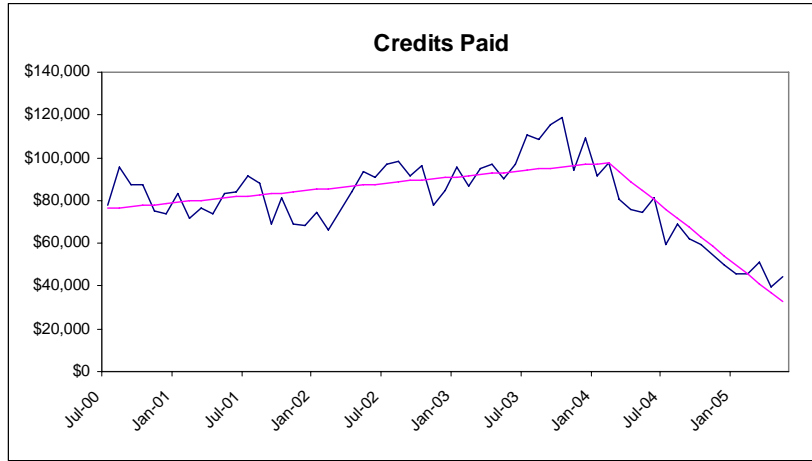
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<sup>1</sup> In addition, 15,000 to 20,000 tons per year of inert materials are recovered from high-graded waste.

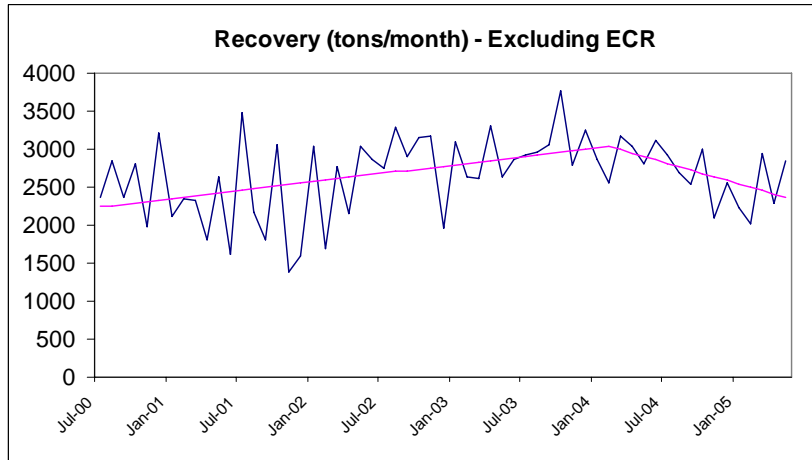
*Analysis—Recovery Trends*

In early 2004, the FY 2003-04, credit disbursements were on a \$1.3+ million track for the year, against a budget of \$1.175 million.<sup>2</sup> Operating under the Council’s instruction to “make the money last,”<sup>3</sup> Metro reduced the schedule of credit payouts beginning with the March 2004 authorizations. In July 2004, the credit payouts were again reduced to reflect the new \$600,000 budget for FY 2004-05.

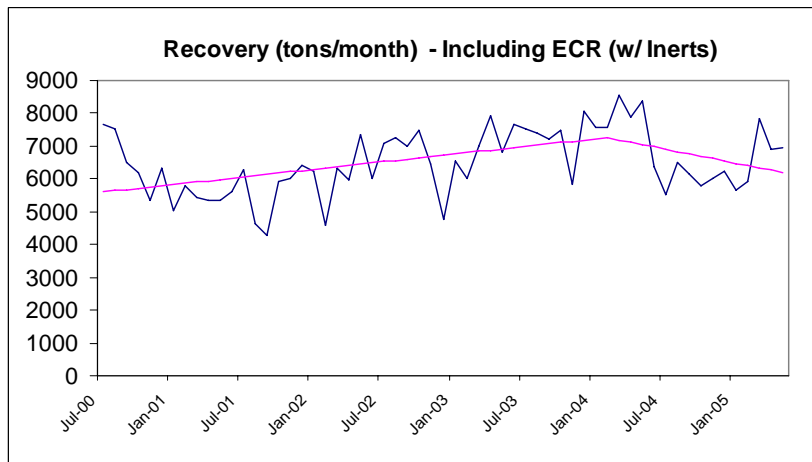
The historical disbursements are shown in the graph to the right, together with the trendlines before and after March 2004.



Shortly after the reduction in credit disbursements, there was a noticeable decline in the recovery of materials (graphs right).<sup>4</sup> The top graph excludes East County Recycling (ECR), a large facility representing about half the total materials recovered. It is excluded to show the recovery trends for all other material recovery facilities in the market.



The second graph shows total private post-collection recovery, including ECR (and the inert materials that ECR processes on site into gravel substitutes).



The trend is clearly the same in both pictures. Graphs of the facilities’ recovery rates show similar trends.

<sup>2</sup> That is, the \$750,000 adopted budget plus \$425,000 authorized by Resolution No. 04-3441.

<sup>3</sup> A direction at the public hearing on Resolution No. 04-3441.

<sup>4</sup> A small facility (Rivergate Reclamation) closed about this time, but this does not materially affect the trends.

## *Analysis—Synchronizing the Phase-Out of Credits with the Phase-In of an Alternative Program*

The following points explain how alternative post-collection recovery programs<sup>5</sup> can replace credits:

- ❑ Credits are intended to subsidize MRF operating costs by providing disposal cost relief.
- ❑ Under mandatory MRFing and other options, private facilities could push their gate rates (tip fees) because they would no longer have to compete directly with low-cost landfills.
- ❑ As revenue at the gate rises, the need for cost relief declines, and credits can be ramped-down. This is the basis of the Task Force’s “phase-in/phase-out” policy recommendation.
- ❑ Under a “phase-in/phase-out” policy it can be argued that:
  - Credits would not have been reduced until mandatory MRFing (or similar) was in place;
  - Credits would remain available until MRFs realized the additional gate revenue.

Revenue Estimate. Solid Waste & Recycling Department staff estimates that \$329,550 in additional revenue would be forthcoming to Material Recovery Facilities on current incoming tonnage (160,000 tons per year) under mandatory MRFing (or a similar program).<sup>6</sup> Until such an alternative program is in place, a synchronized phase-in/phase-out policy implies that \$329,550 should be provided in additional credits to support current recovery levels.

### *Summary*

- ❑ Policy (*recommendations of President Bragdon’s Recycling Credits Evaluation Task Force*):
  - Replace the credit program with an alternative that better matches the state’s and Metro’s policy objectives, and/or achieves objectives at lower cost.
  - The credit program results in real recovery; therefore, any phase-out of the credit program should be synchronized with a phase-in of the new program.

- ❑ Issues

The Solid Waste & Recycling Department has been examining additional and expanded options for waste reduction programs. However, none of these alternatives is yet in place. Credit budgets have dropped for fiscal reasons, not synchronized with phasing an alternative. Material recovery has declined coincidentally with the reduction in credits

- ❑ Solution

This resolution provides \$329,550 in addition to the \$600,000 credit budgets in FY 2004-05 and FY 2005-06. This resolution restores credits to approximately their historical levels (although still below historical disbursements).

*By supplementing last year’s budget,* Metro provides partial remuneration for operational costs incurred by private facilities who continued to fund their post-collection recovery efforts in expectation that Metro would implement an alternative recovery program pursuant to Resolution No. 04-3455.

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<sup>5</sup> A commonly-cited alternative recovery program is for Metro to adopt a requirement that all non-putrescible waste be processed for recyclable materials before landfilling. This approach is conventionally termed, “mandatory MRFing,” where “MRF” stands for *Material Recovery Facility*.

<sup>6</sup> The range of potential new revenue is broad, and sensitive to assumptions.

*By supplementing next year's budget, Metro hopes to reverse the downward trend in material recovery.*

*By supplementing both years, Metro reconfirms the commitment set forth in Resolution No. 04-3441 that "It is the policy of...Metro...to provide credits...in order to help meet the adopted recovery goals of the region" and to signal that Metro intends to stand by its commitments until an alternative recovery program is in place, or Metro adopts a change in post-collection recovery policy.*

## INFORMATION/ANALYSIS

- 1. Known Opposition.** None known.
- 2. Legal Antecedents.** Metro added to the credit budgets in FY 2002-03 and FY 2003-04.
- 3. Anticipated Effects:** This resolution is expected to stop the downward trend in post-collection recovery and maintain tonnage at its historical level of 60,000 to 70,000 tons per year.
- 4. Budget Impacts.** Approval of this resolution would result in \$329,550 of additional net operating expenses in FYs 2004-05 and 2005-06. The FY 2004-05 funds would come from revenue collected in excess of expectations (i.e., more regional tonnage than forecast for the budget). If projections are met in FY 2005-06, funds would be drawn from reserves within the Solid Waste Fund balance. As this fund balance is projected to be mildly above requirements, there is little risk of additional financial exposure from the use of reserves in FY 2005-06.

The \$329,550 in additional expenses would reduce net operating revenue in both years, as defined for the solid waste bond covenants. However, adoption of this resolution would not change the fact that Metro met its FY 2004-05 coverage requirement. By itself, this reduction would not drop the FY 2005-06 coverage below its requirement, because the additional expense is within the Department's planning margin for meeting the coverage ratio.

## RECOMMENDATION

Councilor Rod Park recommends approval of Resolution No. 05-3607.

Appendix  
Staff Report to Resolution No. 05-3607  
Regional System Fee Credits: A Brief Policy History

In June 1998, the Metro Council implemented a temporary program of credits against Regional System Fees designed to preserve regional material recovery capacity during a period of decline in solid waste tip fees. On October 25, 2001, the Metro Council adopted Ordinance No. 01-919B which amended the credit program by (a) eliminating the annual sunset provision; (b) limiting total annual credits to the amount in the adopted budget, and (c) changing its objectives to: improving material recovery and boosting the regional recovery rate. Budgets for credits ran \$900,000 and disbursements generally ran \$1.0 to \$1.1 million per year.

In June 2003, the Metro Council adopted a budget of \$750,000 for FY 2003-04 Regional System Fee credits, which was a \$150,000 reduction from previous budgets and a \$357,000 reduction from disbursements in the previous year. In response to stakeholder questions on the policy basis for the budget reduction, the Council President convened a Recycling Credits Evaluation Task Force on June 30, 2003, and charged it with making recommendations to the Metro Council on fee and tax credits for material recovery.

On March 2, 2004, the Task Force reported its findings and recommendations to the Metro Council at its public Work Session. The principal recommendations were: (a) the credit program supports Metro's state-mandated material recovery requirements; however, (b) credits are high-cost and economically inefficient; and therefore, (c) Metro should develop alternative programs for the waste streams targeted by the credits; and furthermore, (d) should synchronize a phase-out of the credit program with the phase-in of the substitute program(s).

On April 15, 2004, in response to the Task Force's recommendations, the Council adopted Resolution No. 04-3441 authorizing release of an additional \$425,000 in credits during FY 2003-04, for a total budget of \$1.175 million that year. All but \$17,600 of that budget was spent toward material recovery credits.

A number of actions followed:

- On May 20, 2004, the Council adopted Ordinance No. 04-1042A establishing a new structure for Metro's FY 2004-05 solid waste rates. The new rate structure was known, as a secondary consequence, to have a positive effect on the economics of privately-owned solid waste facilities.
- On May 27, 2004, the Council adopted Resolution No. 04-3455, formally acknowledging certain new waste reduction initiatives (including post collection recovery programs) and directing the Solid Waste and Recycling Department staff to conduct additional outreach and analysis. Under the post collection recovery options, facilities would be able to boost gate revenue, and thereby reducing or eliminating the need for credits.
- In June 2004, the Metro Council adopted a budget of \$600,000 for FY 2004-05 Regional System Fee credits; which, in conjunction with the effects of Resolution No. 04-3455 and the FY 2004-05 rates, provided the economic equivalent of the historical disbursement for credits.
- On December 1, 2004, based on new concerns raised by the outreach and analysis performed pursuant to Resolution No. 04-3455, the Solid Waste & Recycling Department and the Council Liaisons suspended discussion of the new initiatives, which effectively delayed their implementation to a date uncertain. Since that time, the Department has been working with the Council Liaisons and key stakeholders to refine the alternatives, but as of July 2005, none has been chosen or implemented.

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