METRO

600 NE Grand Ave.
Portland, OR 97232-2736

MEETING SUMMARY
Solid Waste Advisory Committee
Rate Policy Subcommittee
Metro Regional Center, Room 370B
November 10, 2005

Members Present:
Councilor Rod Park, Chair
Mike Hoglund, Director, Solid Waste & Recycling, Co-Chair
Dave Garten, Portland State University (PSU)
Ralph Gilbert, East County Recycling (ECR)
Dave White, Oregon Refuse & Recycling Association (ORRA)
Dean Kampfer, Waste Management
Glenn Zimmerman, Wood Waste Reclamation
Matt Korot, City of Gresham
Mark MacGregor, Clean It Up Mark
Mike Miller, Gresham Sanitary
Jeff Murray, Far West Fibers
Ray Phelps, Allied Waste
Michelle Poyourow, Public Power Council
Mike Leichner, Pride Recycling

Members Absent:
Ted Kyle, Clackamas County
Bruce Walker, City of Portland

Metro Staff:
Doug Anderson, SW&R, Financial Mgmt. & Analysis Div. Mgr.
Maria Roberts, Budget & Finance Administrator, SW&R
Paul Ehinger, SW&R Engineering Section Manager
Kathryn Schutte, Metro Council Office
Gina Cubbon, Administrative Secretary

Guests:
Mike Dewey, Legislative Advocates
Dan Pitzler, CH2M Hill

I. Call to Order .... Councilor Park

Councilor Park opened the meeting. Mike Hoglund noted that because the minutes of the last meeting were distributed just recently, the agenda states "Consideration of..." rather than "Approval." In order to ensure all the members have time to read the minutes, he said, approval would be postponed until the next meeting, "unless you're ready to move on them now." Allied Waste's Ray Phelps commented that he'd read the minutes, and "I have no problem with them, in fact they're pretty darned good." Mr. Anderson noted that Chuck Geyer had been erroneously listed as present at that meeting; approval was waived until the next meeting.

The Councilor gave a brief update of the Nature in Neighborhoods program that had been presented to the SWAC the previous week, mentioning that the program is partnering with some solid waste industry companies to work with area teens. Ralph Gilbert recounted that his company, East County Recycling (ECR) has helped sponsor a teen program headed by the Oregon Zoo.

II. Disposal System Planning .... Mike Hoglund

Mr. Hoglund began, "As you know, there's always some parallel activities going on that might relate to what you're working on. Metro is working on a project to look at its role in transfer station business." The project, he continued, is a sub-component of the Regional Solid Waste Management Plan (RSWMP) update. The RSWMP is "the overriding policy for solid waste management for the region, and affects everyone in the system. It's developed and maintained by Metro, but approved through SWAC and the Metro Council." The waste reduction component of the Plan is required by state law and approved by the Environmental Quality Commission through the Department of Environmental Quality. For the disposal component of the RSWMP, Mr. Hoglund continued, "...timing and issues have come up that are leading Metro and Metro Council to step back and take a look at our role in the system."

Metro's transfer station bonds will be paid off, and some private facility licenses, as well as Metro's transport contract with CSU all expire in 2009, Mr. Hoglund explained. A consultant has been hired (Dan Pitzler, of CH2M Hill) to develop three possible scenarios concerning those stations' place in the solid waste system: The status-quo mix of public and private facilities; an all publicly-owned system, and an all privately-owned system, likely regulated by Metro.

"We're looking at this," Mr. Hoglund said, "as a continuum of services and service providers, but in order to draw that line, we're going to start with these three models." The three models will undergo cost/benefit analyses and a recommendation will be made by the Chief Operating Officer; Council will make the final decision. There are a lot of nuances to each model – if it went all public, how would the current private facilities be absorbed? If it went to an all private system, would services such as self-haul and household hazardous waste services disappear? That would all need to be looked into. Plans are to have the models complete and recommendations made to Council in Spring 2006.

"How does that relate to what's going on here?" Mr. Hoglund asked rhetorically. Under the current and private models, one goal will be to ensure some rate stability, "Ensuring that costs are accounted for, benefits are accounted for, rates are held stable, and that there is some ability to provide stability in tip fees," he said. One way would be to regulate rates at transfer stations, Mr. Hoglund said frankly. "I'm just going to lay that on the table – it's going to have to be discussed." CH2M Hill and sub-consultant Eco Data will work with stakeholders to find the best options for rate-regulation. While this group is looking at the "public good" and "cost of service" models, some examination of rate regulation could occur, as well. The consultant may help this subcommittee as well as the DSP project.

Councilor Park thanked Mr. Hoglund for his update. Part of this subcommittee's work, he said, will be that if a different model is chosen (noting that in the current model, Metro sets its rates and that is followed by other transfer stations) – if Metro is no longer an active part in the system – "What factors would [local governments] or others need to have for us set the 'right rate?'"

The City of Gresham's Matt Korot asked, "So you say part of the mission of this group is setting policy that will relate to the system if it changes, or the system as it is now?" Councilor Park replied that it's more a matter of raising policy issues, "and concepts and ideas of how you would accomplish [rate regulation]," noting that the decision hasn't even been made yet to change the current system. Still, moving towards the cost-of-service model will make it easier to go down that path if necessary, he said.

"That being said," Mr. Phelps spoke up, "I think we have a deficiency among the membership." He pointed out that there are no members from Washington County, and area he referred to as "always being the step-child of the Metro system." Councilor Park assured him there are ongoing attempts to secure a member from that portion of the region; the County has undergone recent staff changes, but will be hiring a new Solid Waste Director. He agreed that representation from Washington County would be very, very beneficial to this process. Waste Management's Dean Kampfer suggested bringing in an elected official, since some of the policy issues are significant.

"If this group is going to be discussing the possibility of regulation," Michelle Poyourow suggested, "of moving to a Metro-regulated system one of local jurisdictional... we have plenty of people who might be on the receiving side of regulation, and I'm sure that your consultants are well-versed in different forms of regulation, but it occurs to me that someone from the OPUC (Oregon Public Utilities Commission) might also contribute something here." Councilor Park acknowledged that the entire discussion – and participation – will likely change as more information is gathered. "I don't want to make the leap to the Metro being out of the system," he said. The crucial issues for this group to discuss are those that the Rate Review Committee can use to set the next fiscal year's rates.

II.V Ms. Poyourow reported that she, Doug Anderson, and Dave Garten met with Mr. Phelps, Mr. Kampfer, and Gresham Sanitary's Mike Miller. "There were some new issues raised," she said, "but mostly it was just very, very educational." The issues, she elucidated, were:

- *Is solid waste the right collection mechanism for the excise tax?* Councilor Park responded that the Excise Tax is beyond this committee's purview.
- *Why is Metro held to a lower (16%) dry waste recovery rate than other facilities (25%)?* Councilor Park said this could certainly be talked about; staff will explain the details. Some of it, the Councilor continued, has to do with Metro's transfer stations contract with BFI, and that Metro stations "do not have the ability to turn anyone away, which the other local transfer stations do have."
- *Is setting Metro's Regional System Fee on a non-cost-of-service basis competitively unfair, given that they are competing with private transfer stations?* Mr. Korot commented that this question could tie in to the historical information Mr. Anderson was going to present in the next agenda item. It harkened back, he said, to a time when policy decisions regarding private facilities entering the system. "It depends on what the ground rules were, whether it was to be a 'competitive' system or not," he said. Mr. Phelps mentioned that the subject had come up because Mr. Garten and Ms. Poyourow had asked how Metro's place in the solid waste system affected private facilities.

Commenting on the meeting, Mr. Anderson said there were a lot of open questions about how private facilities set their rates, understanding their costs, and how that relates to Metro's rates. Mr. Garten and Ms. Poyourow said they were interested in understanding "where do you make your money, and how does Metro's rate-setting affect how you make your bottom line and how you operate your business." Mr. Anderson asked them to consider what other information they might need to help move the committee's work along. Councilor Park suggested the citizen members "get the full spectrum," perhaps a composting facility or a clean MRF. Mr. Gilbert readily offered a tour of his facility, to see "what is happening in the recycling world." It's a different type of operation; no haulers are associated with it.

III. Understanding & Approach to Issues..Doug Anderson, All

Councilor Park gave the floor to "Professor Doug" (Mr. Anderson), who referred to a map of facilities and a chart showing the history of Metro's rate policies, which he would be using as visual aids to his presentation. (As per a request from Councilor Park, the rate policy timeline is attached.) Mr. Anderson commented that, "Because we will be talking about change in this committee—potential change in self-haul policies, regulatory policies, tip fee changes—some of you wanted to know how did we get where we are?" So we'll start today with that history, he said.

To that end, Mr. Anderson introduced the attached handout, "1998 Disposal System Policy Package." The piece would help explain "the reasons, the issues, and the trade-offs" in the package, he said, as well as "what was left undone, and what's changed since '98 that may cause us to reassess that."

There were a lot of issues in 1997-98 that were dealt with by SWAC. One important factor was that off-route transport collection costs "were one of the biggest growing chunks of the curbside rate at the time," Mr. Anderson explained. There were at that time only three places to take wet waste in the region, and as congestion grew, the industry suggested that it would make sense to have closer options (reloads and transfer stations) to help bring down costs. At the same time, landfill costs were declining, which fed fears that recycling could be negatively impacted.

Ultimately, the Metro Council decided to allow additional private facilities to accept wet waste. Everyone understood the vast majority of diversion would come from Metro, and of course that spawned concerns about the financial viability of the stations and the potential for stranding public investment. The arrangement—the "ground rules" as Mr. Korot termed them a few minutes ago—was that Metro would open niches in the wet waste market in which new private facilities could operate. To signify the limited nature of the facilities serving these niches, a new type of facility termed "Local Transfer Station" was defined in Metro's regulatory code. The name was chosen to signify the limited nature of these facilities. One important characteristic of Local Transfer Stations was a cap on tonnage. Although not limited to the amount of waste that could be accepted, LTSs were limited to disposing of 50,000 tons of waste per year. Putting this limit on the back door was designed to encourage material recovery, but as a matter of practicality it also limited the amount of waste that could be accepted. Determining the size of the cap depended on a tradeoff between providing sufficient economic flow to the LTSs while limiting the impact of the tonnage diversion on Metro—financial, contractual and legal (the latter relating to bond covenants). The specific choice of 50,000 tons was based, Mr. Anderson said, on experience—this was approximately the amount of waste handled by Forest Grove TS in recent years.

At the same time, the Metro regulatory code was revised to recognize another type of wet waste facility—"Regional Transfer Stations"—generally unlimited in its activities and tonnage throughput, in distinction to Local Transfer Stations. The Metro stations and Forest Grove were defined as Regional Transfer Stations.

Another important "ground rule" was a change in the manner of financing the system. Major long-term fixed costs that had been incurred by Metro on behalf of the regional disposal system (primarily, debt service, fixed contractual payments and a portion of the solid waste department's administration) were re-allocated from Metro's "tonnage charge"—a component of the tip fee paid by Metro customers only—to the Regional System Fee, the charge paid by all ratepayers on all tonnage regardless of where it is disposed. By making this shift and having all the entire region share in the major fixed costs of the system, the risk of stranding public investment was significantly reduced. But perhaps as important, the Metro Council would be able base solid waste decisions on their merits as public policy, without undue concerns for the fiscal impact on Metro itself.

These public policy trade-offs—the "ground rules" in the term of the day—are shown with bullet-points on the attached handout, including elements of the policy package. Metro maintained a strong commitment to provide the region's citizens full services at its facilities (e.g., self-haul, household hazardous waste), Mr. Anderson said.

Worth noting, Mr. Anderson continued, is that "the regulatory costs of both yard debris and clean MRFs, as well as for-profit disposal facilities, were perceived to be for public benefit" and therefore all regulatory costs were put into the Regional System Fee.

"Other factors at this time, unrelated to the discussion of new wet waste facilities," Mr. Anderson added, "was that the solid waste reserve funds had been growing throughout the '90s and there was pressure to tap into these rather than raise new money through rates. Also, Metro was negotiating with its transport and disposal contractors which would later result in significant cost decreases for Metro."

Continuing, Mr. Anderson explained, "All of these financial changes—the reallocations, the cost reductions, the reserves; and also, increased tonnage due to regional growth—all had the effect of driving the tip fee down." After being at $75 for several years, it dropped by $12.50 fairly quickly. At the same time, the RSF only dropped by $3, which "squeezed" the economics of private facility operation. So, as part of the package of changes at this time, Metro implemented a temporary program of credits against the Regional System Fee, "to provide cost relief against disposal fees and help provide a 'soft landing' for the effect of the tip fee (revenue) reductions." The credits were envisioned to last just one year to allow facilities the time "to adjust to the new economic conditions." Council extended he credits for several years after, however, and a couple of years ago removed the annual sunset.

Mr. Gilbert pointed out, and Mr. Anderson agreed, that there were no new facilities built because of the 1998 policy; rather, existing dry waste facilities applied to become Local Transfer Stations. By September 1998 there were approved applications for three new LTS, Mr. Anderson added.

"In doing all of this," Mr. Anderson noted, "some of the operators at the time – on public record – indicated that while they were applying to be local transfer stations, they remained concerned about the size of the cap. Metro committed to revisit that issue within a year."

Further exploration of the "size of the cap" issue was diverted by a discussion of vertical integration. Councilor Park said, that "the cost profit center drivers changed, so disposal of the waste to the transfer station, or to the hauler changed (for some) from an expense to a financial profit center." He looks upon this as a critical factor between the 1998 policy and where the system is now, "perhaps it doesn't make as much sense as it did." That factor has major significance; "It's a milestone event, in my opinion," he said.

Mr. Anderson continued with things that have changed in the system over the last few years, as shown on the attachments. An important change was when the cap changed to 65,000 tons and dry waste was exempted from that capped amount.

Mr. Phelps commented regarding the 1998 disposal system that "the two transfer stations owned by Metro are the only component of the region's disposal system that have public investment." There is no public investment, he said, in collection, hauling, landfills, etc. After some banter, Councilor Park asked, "Ray, weren't you here at Metro at the time when those [Metro transfer stations] opened up?" "Yeah, I signed the contracts," Mr. Phelps admitted. They agreed that, at that time, there was no private entity willing to step up and take a chance. The public had to be involved to make the system work at that time, Mr. Anderson added.

"Councilor Park and I have agreed we're very open to a discussion about what's changed that would cause us to re-look at some of these issues," Mr. Anderson said. He turned to Mr. Korot for his take on the situation. Mr. Korot said, "There was a policy deal made in '98, and that involved opening up the system for private facilities, but recognizing that investment that Metro took the risk on, and having that paid by the region because it was a regional benefit. But then in 2004, the Rate Review Committee effectively said, 'Well, that deal wasn't so important. That component of having the region continue to pay in its entirety for the risk that Metro took. I need to understand what drove that policy change." He asked that it be addressed at a future meeting; Councilor Park agreed.

"This isn't about assessing blame," the Councilor said. It's just a matter of explaining the system, the series of policy changes and decisions, both by the Council and private industry, that brought the system to where it is today. The important thing is to use that knowledge to help decide where to go from here. "How do we make changes that are good public policy for the region? What gets us to the goals on the public and private side in a constructive fashion?" Councilor Park mused.

IV. Other Business and Adjourn .... Councilor Park

The agenda item regarding self-haul will be addressed at the next meeting, the Councilor announced. Additionally, more DSP may be added.

Mr. Miller asked for discussion of how Metro views the issue of flow control; Mr. Anderson agreed to do a white paper on the subject.

Mr. Gilbert made the historical observation that since the policy change in 1998, Metro has gone from a 13-member council to seven elected councilors. While the Charter that brought this about made Metro an independent agency, it was given no tax base, so solid waste has had to be its financial base.

Amidst general conversation, the meeting adjourned.

Next meeting:
Thursday, November 17, 2005
Room 270 12:15 pm

gbc
Attachments
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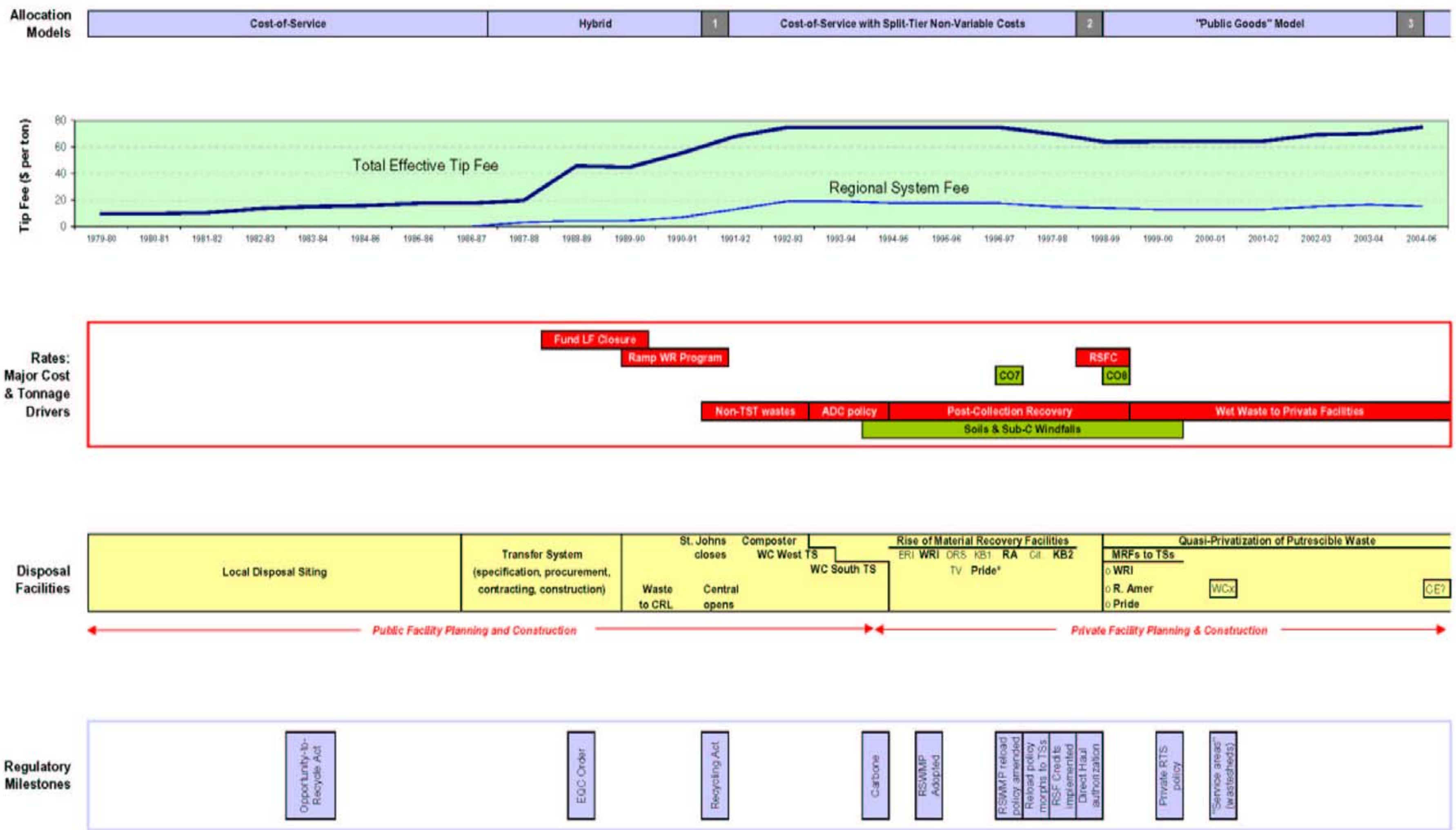
Timeline of Policies and other Factors Affecting Metro Rates



Attachment - Rate Policy Subcommittee
November 10, 2005

1998 Disposal System Policy Package

Issues

Immediate Impact

- Off-route transport cost
- Declining Sub-D disposal costs
- National flow control challenges

On Horizon

- Continuing vertical, horizontal integration
- Diminishing recoverable content in mixed waste

1998 Policy Responses

Facilities

Private Facilities

- Allow limited-scale “Local Transfer Stations”:
- May accept wet waste from any licensed/franchised hauler
- Obligation to perform material recovery on dry waste
- Free entry, exit
- “Direct haul” requirement for wet waste
- Price (tip fee) regulation repealed
- Authorized, not required, to accept public self-haul, host HW events
- No limit on amount of tonnage received, but limited to 50,000 tons/year disposal

Metro Transfer Stations

- Commitment to provision of full services, region shares in cost (see below)

Metro Finance

- Long-term fixed obligations re-allocated to Regional System Fee
  (also, avoided disposal payment re-allocated to tonnage charge).
- General administrative & overhead costs confirmed to remain in Regional System Fee.
- Regulatory costs (minimal at the time) confirmed to remain in Regional System Fee.
- Solid waste reserves tapped to subsidize rates.
- Regional System Fee credits implemented.

Outcomes

- All system conditions above were set September 1998.
- On the pubic record, operators asked to revisit the size of the cap within a year.
- First Local Transfer Station approvals, December 1998.

Local Facilities Accepting Mixed Waste, by Type
Before and After 1998 Disposal Policy Change

1997	Facility	1999
Transfer Stations	Metro Central	Regional Transfer Stations
Transfer Stations	Metro South	Regional Transfer Stations
Transfer Stations	F.Grove TS	Regional Transfer Stations
Reloads	Citistics	*closed*
Reloads	Pride Recycling	Local Transfer Stations *(wet & dry)*
MRFs *(dry only)*	Troutdale TS*	Local Transfer Stations *(wet & dry)*
MRFs *(dry only)*	WRI	Local Transfer Stations *(wet & dry)*
MRFs *(dry only)*	ECR	MRFs *(dry only)*
MRFs *(dry only)*	Wastech	MRFs *(dry only)*
MRFs *(dry only)*	ERI	*closed*
Landfills	Hillsboro	Landfills
Landfills	Lakeside	Landfills

What's Changed Since 1998?

Policy

- Recommendation to authorize new "no-cap" regional transfer stations (not adopted)
- "Wastesheds" adopted; in part, to set size of cap (adopted, not fully implemented)
- 65,000 caps on wet waste, cap removed on dry (adopted and implemented)
- 25% recovery rate franchise obligation; 30% recovery to qualify for RSF credits

System

- National mergers (Waste Management & USA Waste, Allied & BFI)
- Entry of Waste Connections into Portland market
- Continuing vertical and horizontal mergers locally
- Metro's flow control challenged in court

Metro Finance

- Contract fixed payments eliminated ($2.6 million savings; $2 on the RSF); and variable payments were restructured, reduced.
- Need for "Direct Haul" eliminated.
- Excise tax on solid waste converted to per-ton rate (with credits for recovery).
- $1 "Additional [excise] Tax" for 3 years.
- SW bond covenant breached (end of subsidy from reserves).
- SW debt service restructured, refinanced ($400,000 per year savings).
- RRC rate model/allocation study ("cost-of-service" recommendation).
- "Additional Tax" sunset removed; $2 increase ($3 total "Additional Tax").
- Half of RRC "cost-of-service" recommendation implemented.

The Self-Haul Issue

Facts and Issues

- Two basic kinds: public and business
- Public self-haul very fast-growing segment of the market.
- At Metro, self-haul accounts for 70% of transactions, 17% of tonnage
- Public self-haul also accepted at F.Grove TS, Hillsboro Landfill, East County Recycling
- Comparisons
  - Average self-haul load size 0.40 tons, vs. over 6 tons for commercial loads.
  - Typical time-on-site ranges 15 to 45 minutes, vs. 7 to 12 for commercial.
  - Average overall load size at Metro now only 1.6 tons per load.
- In 1998, Metro committed to staying open long hours to accommodate self-haul.
- Public self-haul expensive to handle on a per-ton, per-load basis.
- Metro's current rate structure does not fully recover the cost of public self-haul.
- Main stated reason for public self-haul: curbside service not convenient, too expensive.
- Pricing issues:
  - Price too low encourages disposal and exit from curbside collection system
  - Price too high, illegal dumping concerns
  - Not much known about price elasticity

Policy Questions

- Subsidize self-haul? Who should pay the subsidy?
- What is the appropriate rate structure (e.g., minimum load charges; size of transaction fee).
- Should the rate structure depend on whether costs are subsidized?