MINUTES OF THE METRO COUNCIL WORK SESSION MEETING

Tuesday, January 24, 2006
Metro Council Chamber

Councilors Present: David Bragdon (Council President), Carl Hosticka, Rod Park, Robert Liberty, Rex Burkholder, Brian Newman, Susan McLain

Councilors Absent:

Council President Bragdon convened the Metro Council Work Session Meeting at 2:03 p.m.

1. DISCUSSION OF AGENDA FOR COUNCIL REGULAR MEETING, JANUARY 26, 2006/ADMINISTRATIVE/CHIEF OPERATING OFFICER AND CITIZEN COMMUNICATIONS

Councilor Liberty explained his intent in sponsoring Agenda Item 7.2. He said that the Council was being asked to delete certain criteria in the code. He wanted to formally request an executive order to record the Council's decision.

Councilor Burkholder asked about the financial statement audit; Chief Executive Officer Michael Jordan said there was good news – we received no management directive this year from the auditor's office.

2. METRO NATURAL AREAS BOND MEASURE

Chris Carlson and Jim Desmond, Parks Department, presented the work done to date on preparing the bond measure. Councilor Newman discussed the timeline and the public perception about the specificity of the proposed sites. Councilor McLain asked staff to provide some materials that laid it out more clearly. Councilor Park wanted to confirm that they were talking about the large general piece. Mr. Desmond agreed; with the local share, we would have to be more specific. He described the progress that has been made on the implementation of the bond measure process. We haven not yet really talked about the signature projects. One idea would be to use some of the capital money out of the bond, to build out the four parks – Cooper, Talbert, Graham Oaks, and Willamette Cove – and free up excise tax money for the future operating costs for the lands that we would acquire. Constituents and jurisdictions are always concerned about budgeting for maintenance. This would also demonstrate to our local partners that it is not just about what Metro owns; it is a regional system that we all have ownership of. The Blue Ribbon Committee (BRC) did ultimately recommend up to $16 million for these kinds of projects, such as the Forest Park trailhead or a pedestrian bridge between Milwaukie and Lake Oswego.

Mr. Desmond stated that any suggested projects would have to have some degree of feasibility. He discussed pros and cons of some of the suggested projects. One potential financial projection estimates that maintenance could be provided for about 10 years.

Councilor Liberty asked about using excise tax for maintenance on a permanent basis. Jeff Tucker, Parks, said that it would take a large amount of principal to generate this amount, but that there was really no legal impediment. Councilor Liberty asked how much maintenance could be obtained; Mr. Tucker responded that a few hundred thousand dollars doesn't really go very far.

Councilor Newman asked about the Zoo. Previous excise tax money was used to support the four parks. If we could use bond measure money to support the four parks, that would free up excise tax money to be used for something else. There are significant deferred maintenance and capital improvement needs at the Zoo. The hospital and quarantine facility needs to be replaced, at a cost of around $10 million, or the Zoo will lose its accreditation. He wondered if there was a way to shuffle some funds around in order to support the hospital and quarantine facility, or any other suggestions that anyone had.

Councilor McLain said that her (limited) feedback in speaking to constituents has been mixed. People were pretty clear about some parts of the measure, but they didn't understand how the grants and capital improvement portions would work. They didn't seem very excited about it. She thought more specifics and a better description of the idea as a system would help. She is having a hard time selling it. Mr. Desmond responded that was partly intentional – if we are too specific, and it doesn't work out, people will be disappointed. More specifics will be forthcoming as the process moves along.

Councilor Burkholder thought we ought to keep as focused as possible. If any maintenance is to be done, it should be only for properties we already own. This bond measure cannot be all things to all people. We don't want to be the go-to agency for everybody to give their wish list to. There is always the grant portion for jurisdictions to do these projects on their own.

Councilor Park had some questions about the cash flow analysis. Mr. Tucker said he had used conservative figures. There was more discussion of the $1.50 excise addition and whether that money would be available for anything else. Mr. Desmond said the management costs would increase as the sites were fully built out. Councilor Liberty didn't like the idea of creating 10 years of maintenance funding and then dropping it. He would prefer a small amount that could be used permanently, to a larger amount that would have be finite.

Council President Bragdon looked at it in terms of continuity with the 1995 measure. He thought there was plenty of support, in the local share, for jurisdictions to make improvements, without Metro earmarking any specific projects. He thought the most important thing, in terms of selling the bond measure, was how we were going to maintain what we were buying. Keeping things simple would be very important. Ten years might not be forever, but it was a significant commitment and better than zero years. He asked Council about their willingness to support the four parks; there was consensus agreement. Mr. Desmond said more drafts were being prepared and would be distributed.

Councilor Park asked about the distribution of the projects. Mr. Desmond said the eligible projects for Nature in Neighborhoods grants would focus on urban areas. Councilor Liberty asked if there was a way to tell people "these are the kinds of things" – more specific, without promising any particular project.

Mr. Desmond distributed a spreadsheet showing some figures on acreage and cost of potential target areas (a copy is included in the meeting record). Councilor Liberty asked about the difference between using the local share contribution as a percentage (20%) versus a dollar figure ($44 million). Mr. Desmond said he had been using the dollar amounts more than percentages.

Councilor Newman asked how the greenway acquisition (trails) got separated out from the target areas. Mr. Desmond said we were trying to work toward an acreage goal. The trails were so small, acreage-wise, that they did not really help move toward the acreage. He discussed the specifics of some of the proposed areas, and some of the reactions that he had received.

Jim Morgan, Parks, described some of the meetings that had taken place, and the feedback from Council, that went into the selection of the proposed target areas. He thought the process had been fairly dynamic. There were still trade-offs that would be possible to make, but at some point the final decision had to be made. Councilor McLain wanted a more clear understanding – was there anything that could help provide Washington County with a hard edge? Councilor Hosticka said there was some potential there. Councilor McLain wanted more confirmation from staff. She went back to the hard edge concept; she wanted clarity for the public on what Council's thinking was. Council President Bragdon said that he thought that was still being worked out. Mr. Desmond agreed – he and his staff are trying to provide options.

Councilor Liberty replied to Councilor McLain that, given the modest amount that we can buy with regional share, this was not the best tool to be used for hard edge planning. Also, the question was raised about how the values of these properties would be changing as Metro decisions about acquisition were taking place. He then talked about some of the specific sites, such as Wapato Lake. Mr. Morgan said that the Wapato Lake Improvement District, of about 13 landowners, was very active. Most of the landowners were interested in being willing sellers, especially if it was to be a refuge. Agricultural activity in this area has diminished almost to the vanishing point.

Council and staff discussed some of the advantages and disadvantages of the various proposed target areas, such as Rock Creek, Mount Talbert, and Scouter Mountain. Consensus seemed to be that Mt. Talbert might be a better value, both financially and environmentally. Councilor Park expressed some uneasiness about the zoning that might take place in various areas, and whether we would be buying into an area where development was inevitable.

Councilor Liberty commented on the value of various restoration projects, such as the Columbia Slough area. Staff discussed the relative ecological value of the Slough. The target areas list tried to provide geographical balance. Some of the most ecologically valuable sites might all be in the same area. Council President Bragdon summarized that the process was still in a concept phase. Nothing has been set in stone yet.

Councilor Newman wanted to keep Scouter Mountain on the list. People that he has talked to were interested in areas close to their homes that were threatened by development. This program needs to be a balance of preserving pristine areas and giving neighborhoods something to latch onto. Mr. Desmond said there were two more work session presentations scheduled, unless Council needed more, and staff was also available in other ways. Councilor Burkholder said, if we're voting on March 9th on referring this to the ballot, that does not give a lot of time to go through the final language.

Councilor Park commented he was nervous about Wapato Lake because of its current state of active farming. It's not under threat of development currently, it is actively being farmed. If the definition of "protection" was to stop it being farmed, he's concerned about that. Councilor McLain balanced that statement by saying she had heard from sellers who are willing to sell under the 1995 bond measure.

3. BREAK

4. DISPOSAL SYSTEM ECONOMICS

Mike Hoglund, Solid Waste, introduced Barbara Stevens of Ecodata and Daniel Pitzler of CH2MHill. Ms. Stevens displayed a graphic presentation (a printed copy is included in the meeting record), with the key issues of disposal system economics: solid waste industry economic principles, economic elements of the Metro system, how does Metro's system compare, where does the private sector make its profits, and is there competition in the Metro system? 81% of Metro's solid waste monthly collection bill goes to collection; total size is $325 million per year, with 66% of that in commercial. Ms. Stevens described characteristics of a competitive industry versus monopolies and vertically integrated industries. Summarizing the Metro solid waste system – it is a complex, regulated system; it has significant recent consolidation; cost-plus regulation; competitive contracts; and Metro is a regulator and price leader. It is a fairly unusual system, but it does have elements of similar systems in other cities.

She described the key economic features of residential and non-residential collection in Metro's system. Residential collections are usually regulated or provided by local governments. Contract services are also common, and usually less expensive. Other types are subscription and franchise. Something unusual about our system is that we have container-based rates. We have put in an incentive to recycle. In other areas, there is just a flat fee.

Non-residential collection is usually not rate regulated or provided by local government. The most common model is subscription, then contract, franchise, and municipal. Usually there is strong competition. In the Metro area, the rates are set by local governments (except the City of Portland). The market is becoming more concentrated. In 1995 there were 104 franchised haulers; in 2004, only 60. In 1995, 6% market share was by national firms; in 2004, this was up to 39%.

She then described the transfer side. This has many characteristics of a monopoly. Rates are typically not regulated. Costs per ton go down with increases in scale; they go up with increases in the number of transactions, the hours of operation, and the processing for diversion. Transfer station operators want to have big stations, large volume, short hours, and less processing. Metro is delivering a suite of services that is friendlier to the small customer and consequently more expensive. Metro is providing transfer station services at a lower cost per ton than the private transfer stations. There are limits on the economies of scale. The maximum economies of scale are at around 200,000 tons per year. The annual tons per station range from 55,000 to 307,000, with an average of 166,000.

A unique requirement of Metro's system is the 25% dry waste recovery. This increases the transfer cost. It is extra effort to process and doesn't provide an economic incentive, but it does reflect community values. Ecodata's regression equation predicted Metro transfer station costs at $12.84 per ton, and the private stations as $11.99 per ton. This difference is statistically insignificant. Metro pays slightly higher costs per ton to transfer and in total. The predicted cost for Metro would be $50 per ton total. This is largely because Metro is going a longer distance to the landfill (150 miles to Columbia Ridge). The privates only go about half of that. Councilor Hosticka observed that Metro provided a much difference service, and that explained the difference in costs. Councilor Burkholder was concerned that there was a cost differential without a price differential.

Ms. Stevens said that Metro is unusual in that it contracts separately for transportation and disposal. Since trucking is such a competitive industry, this lowers the prices for hauling; our prices are very low here.

In the disposal system, there are significant economies of scale, which are reached at about 750 tons per day. Costs here are at about $20 per ton. The cost at 6000 tons per day would be under $10 per ton. In the disposal market, entry is difficult, there are capital barriers, and it is regulated. There are long-term contracts that come up infrequently. In our area, there is a lot of vertical integration. The price is $17-$30 per ton. There are just a few participants.

In summary, there is not significant competition in collection. The franchising system is not typical. We are known nationally for high diversion. National firms are increasing market share. The greatest potential for cost savings is in the collection. In addition, there are significant economies of scale in transfer. Opening new transfer stations might increase the costs per ton. Metro transports waste greater distances than privates (on average); are there ways to capitalize on this? In letting future contracts, we have an opportunity to re-set these contracts. Environmentally friendly sites are more acceptable these days.

Ms. Stevens said that, in our area, due to vertical integration, haulers come clear across the area from collection sites to transfer stations. Councilor Burkholder asked about breakdowns on the costs – labor, capital, fuel – what strategies could be used to target cost reductions? In collection, where were our costs the highest? Ms. Stevens said that the contract system could frequently be the best option. She explained the reasons. Councilor Burkholder clarified that the franchise system had less incentive to reduce costs.

Councilor Liberty asked, in terms of Metro's goals, which include lower costs for consumers, which was the best option? Ms. Stevens explained her viewpoint. Councilor Liberty asked for examples of other systems that we could learn from. She said that our diversion was exemplary. We might want to emphasize diversion from large loads of waste versus station wagon loads. She said there were very few communities of our size that divert 50%. We're #1! Mr. Pitzler added that the real potential for cost savings is in collection. Diversion models at this point are primarily outside the US.

Councilor Newman asked what would happen if we had privately owned transfer stations with no rate regulation. Ms. Stevens said this was not a model that anybody had tried. Councilor Newman asked about a hybrid system where you regulated rates but let the market determine where the flow goes. Ms. Stevens was not aware of any models like that. Local governments are relying on competition between firms.

Councilor Hosticka asked if our costs were pretty well in the ballpark. Ms. Stevens said we were pretty average. We've made policy decisions to deliver a suite of services, and maybe we are willing to pay a little bit more to have a higher diversion. Councilor Hosticka asked about what Seattle did compared to the surrounding area. Ms. Stevens said that King County had a lot of publicly owned transfer stations. Many of the incorporated areas have let contracts. Mr. Pitzler said it was a real mix.

Councilor Park asked about the recycling rate. Ours is very high. If it were reduced, would it save money? Ms. Stevens said that she had looked at the City of Portland's data; the average cost of recycling has gone down to the point where it is now lower than the cost of disposal. This is due to the economies of scale obtained by our high recycling rate. The same thing has happened in Seattle.

Councilor Liberty asked how we could encourage more recycling. Ms. Stevens said if we could encourage local governments to include more materials in the recycling program. Food waste would be a possibility. Council and the guests discussed some ways to encourage recycling.

Councilor Park commented about the location and ownership of transfer stations, and the routes that were taken to get there by the collector. Ms. Stevens gave some examples of how things were done in other regions. Usually the private sector does not do all the transfer.

Councilor Liberty asked if she was aware of any places, anywhere in the world, with differentiation between residential and commercial recyclables. Ms. Stevens stated that sometimes the collection and the recycling were separate contracts. It would potentially be an option to let separate contracts for recycling. Some areas prohibit government handling disposal of things with economic value (such as recyclables).

Council President Bragdon asked what Council wanted to talk about in the future, for follow-up issues. Councilor Park said his concern was about Metro authority, the division of authority and contracts. Ms. Stevens said contracting separately had its merits. But Metro setting prices (through its own operations, not through regulation) was a problem. This led to low competition on prices.

Council President Bragdon was interested in the transfer station capacity – there are regulatory barriers to entry, but there’s no regulatory price-setting. This creates a mis-match, in setting price levels that other places can’t match. Councilor Park asked Mr. Pitzler if he had any questions for Council, that hadn’t come up yet, to help his group. Mr. Pitzler said not really, the next step was to flesh out the three different options – public, private, or a hybrid system.

Councilor Liberty was afraid that some of the Council input might be lost. He wanted to make sure that staff were attentive to Council comments. Mr. Hoglund said that staff had been taking notes and would be sure to incorporate the points raised during the discussion. Councilor Newman wanted to know if they would be receiving similar information on all three options. Mr. Pitzler said the options would be much less detailed. At this point, it becomes more of a policy analysis.

Councilor Park asked if Metro had to be in the system to make it go. Does Metro actually have to control the ownership of the two transfer stations in order to have a hybrid system? We don’t operate it. We just set the price. Ms. Stevens said we could have influence through setting hours and such. If Metro were to get out of the system entirely and shed rate setting and ownership and get out of competitively procuring long-haul transport and disposal, there was a good chance prices would go up.

Councilor Liberty added that these are theoretical, “pure” systems – in reality, each system was mostly a hybrid, and then hybrids within hybrids, so it’s not a choice between one type of system, but which elements would be most applicable to each segment, and how could they be most efficiently combined.

5. COUNCIL BRIEFINGS/COMMUNICATION

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5. COUNCIL BRIEFINGS/COMMUNICATION

Councilor Liberty talked about the breakfast and luncheon events with Michael Gallis. There was an unusual group of attendees, but they all seemed to get value from it. There were some fun reactions. But overall it was worthwhile. Council President Bragdon thought that getting people together, keeping the dialog going, were worthwhile objectives, but that Mr. Gallis had not inspired him. His set presentation was good, with terrific graphics and some relevant bullet points, but there was no depth behind it.

There being no further business to come before the Metro Council, Council President Bragdon adjourned the meeting at 4:41 p.m.

Prepared by,

DCHotz

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ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF JANUARY 24, 2006

Item	Topic	Doc Date	Document Description	Doc. Number
1	Agenda	1/26/06	Metro Council Agenda for January 26, 2006	012406c-01
2	Bond measure	1/24/06	TO: Metro Council FROM: Parks Department RE: Regional Capital Improvement Projects, Sample Descriptions	012406c-02
2	Bond measure	1/24/06	TO: Metro Council FROM: Parks Department RE: Conceptual Framework	012406c-03
4	Disposal system economics	1/24/06	TO: Metro Council FROM: Barbara Stevens, Daniel Pitzler RE: Metro Disposal System Economics	012406c-04