



**METRO**

600 NE Grand Ave.  
Portland, OR 97232-2736

**MEETING SUMMARY**  
**Solid Waste Advisory Committee**  
**Rate Policy Subcommittee**  
Metro Regional Center, Room 370  
January 19, 2006

**Members Present:**

Councilor Rod Park, Chair	Mike Miller, Gresham Sanitary
Mike Hoglund, Director, Solid Waste & Recycling, Co-Chair	Jeff Murray, Far West Fibers
Mike Leichner, Pride Recycling	Ray Phelps, Allied Waste
Glenn Zimmerman, Wood Waste Reclamation	Matt Korot, City of Gresham
Ralph Gilbert, East County Recycling (by telephone)	Bruce Walker, City of Portland
Michelle Poyourow, Public Power Council	
Ted Kyle, Clackamas County	

**Members Absent:**

Dave White, Oregon Refuse & Recycling Association (ORRA)  
Mark MacGregor, Clean It Up Mark  
Dean Kampfer, Waste Management  
Dave Garten, Portland State University (PSU)

**Metro Staff:**

Doug Anderson, SW&R, Financial Mgmt. & Analysis Div. Mgr.	Tom Chaimov, Sr. Solid Waste Planner, SW&R
Paul Ehinger, Engineering Section Manager	Kathryn Sofich, Metro Council Office
Chuck Geyer, Engineering & Environmental Services Div.	Gina Cubbon, Administrative Secretary

**Guests:**

(None)

**I. Call to Order ..... Councilor Park**

Chair Rod Park opened the meeting, and asked for any changes to the November 10 minutes that were distributed at the January 5 meeting. Ray Phelps of Allied Waste moved to accept the minutes as written; the City of Gresham’s Matt Korot seconded the motion. The motion was passed unanimously. The January 5 minutes will be considered for approval when the subcommittee next meets.

The Chair drew attention to the agenda packet attachment entitled, “Policy Recommendations on Recovering Regulatory Costs,” and asked the group to verify that it is representative of what they agreed.

Mr. Phelps asked whether the piece stated that the funding would remain in the Regional System Fee. Doug Anderson noted that the opening line to the “Policy Recommendations” portion of the document states: “Metro’s current regulatory costs should be funded generally by all ratepayers...” He offered to clarify this: “...funded generally *through the Regional System Fee* by all rate-payers...”

Another suggestion was to change (under “Action Recommendation”), the phrase “Increase application fees” to “*Investigate increasing* application fees...” No further comments were made; the recommendations – with the above changes – were accepted by assent.

## **II. The Regional Rate Issue and its Relation to Disposal System Planning (DSP)....Hoglund/Anderson/All**

Chair Park announced that the subcommittee has now completed the [first three policy] questions posed by the Rate Review Committee—sustainability, hours of operation, and regulatory costs. The question for the next set of policy issues, generally grouped under the heading of “Regional Rate Issues,” is whether they are so broad or have such a deep relation with the system itself that they properly belong within the Disposal System Planning project. “What we’re headed for next,” he explained as an introduction to the next agenda item, is a decision on the role this group (or members of this group) plays in the DSP project. He thanked the group for their work thus far, and chuckled, “Your reward for finishing is that you [may] get more work.”

Solid Waste & Recycling staff have been doing a lot of work on the DSP project, Councilor Park continued. Paul Ehinger is the project manager; he and staff have been meeting with consultants. It’s a difficult and involved process: “Every time [staff] think they have an answer, two more questions pop up,” he said, adding that many of those questions will be discussed in this forum.

Mr. Anderson noted that discussion at the last subcommittee meeting “got into the whole Disposal System Planning project, [and] the relationship of these tip fee issues to the bigger policy package.” After that meeting, Mr. Hoglund had asked Mr. Anderson to write up the relationship of the rate issues to the larger, DSP project. Mr. Anderson handed out a piece entitled “The Scope of Work on System Tip Fee Issues” (attached).

The two main questions coming out of previous discussion, Mr. Anderson noted, were (1) whether the rate issues should be made part of DSP, and (2) what is this subcommittee’s role in that project. Mr. Hoglund would be leading that part of the discussion, Mr. Anderson said.

To a question posed by Michelle Poyourow about two bullet points on the piece (“Private facility economics,” and “Cost decisions in local government rate-making,” Mr. Anderson reviewed how each of these would be impacted depending on whether Metro follows a Public Good or Cost-of-Service rate model (or the current hybrid). When funds are reallocated from the Regional System Fee into the Metro Tip Fee (as would happen if we transitioned to the Rate Review Committee’s recommendation to implement a full cost-of-service approach), he said, “it makes private facility economics a little rosier.” Local governments have expressed concerns about this move, because disposal costs allowed in collection rate regulation can change without any change in actual services provided. It’s possible costs could be allowed by local governments without the level of due diligence normally aimed at other components of the collection rate. Both Matt Korot and Bruce Walker raised concerns that they want to at least make the decision in daylight instead of just having a Metro cost allocation change things, and [local governments] accept that as a disposal charge.

Continuing explanation of the hand-out, Mr. Anderson briefly compared the Public Good and Cost-of-Service (“cost causation”) models. Both have “a good, sound technical foundation,” he noted, and therefore the decision to go with one or the other is primarily a policy call.

“Last time, we noted that those policy discussions will be happening in a broader context in the Disposal System Planning project,” Mr. Anderson continued. It became clear to the group that DSP may be a better forum for discussing system finance. He and Mr. Hoglund designed the rest of today’s agenda to show the issues with which DSP is grappling, whether the regional rate issues should indeed be part of DSP, and to decide what kind of role this subcommittee can have in the process.

Mr. Hoglund introduced the DSP Project Narrative, in the agenda packet. The group took a few minutes to re-read and discuss its contents.

At length, Councilor Park mentioned the Council is considering a moratorium on approving any new MRFs. The idea behind this (as in the transfer station moratorium) he explained, is to allow staff to devote time and efforts to complete the DSP project. The Ordinance will be voted on soon, he reported.

Mr. Hoglund proceeded with some background to the DSP project. “We’re doing this study – in part – because there’s been a change in the system. There are now more players in the transfer, disposal, and processing parts of the system... [Additionally], in 2009-2010, the bonds are paid off on our transfer stations, which gives us some flexibility to operate those a little bit differently.” He mentioned, too, that the franchises under which private transfer stations currently operate will expire at around the same time, leaving room to review and adjust the tonnage caps. “The system no longer relies on Metro as a public operator to provide these services,” he added. These converging circumstances made this a logical time to consider changes to the system.

Continuing with his review of the Project Narrative, Mr. Hoglund described the two phases of the DSP project: Defining Metro’s role in the system, and evaluation of system aspects such as tonnage caps, operating standards, franchises, regulation, and others as listed in the narrative. “I want to emphasize,” Mr. Hoglund stated, “that we haven’t had the discussion yet with Council, but have heard their values in the past. It’s highly likely that cost, material recovery, delivery of services, and adaptability of the system to meet changing needs are going to be some key criteria they’re going to be looking at in making a decision as to which way they want to go... The cost piece [in particular] is where we’re heading today.”

Mr. Hoglund dove further into the narrative, suggesting possible scenarios and some of the implementation involved.

If a decision is made for Metro to exit the transfer station side of the system, asked Glenn Zimmerman of Wood Waste Reclamation, will that lead to regulation and rate-setting for all facility types? “Not yet,” replied Mr. Hoglund. “I think setting rates at all facilities... but with composting and wood waste and reload facilities, I’m not sure how deep we would get. It might just be the transfer of wet waste and processing of dry waste where we get involved, *if* we did. I think the question is, how do you best stabilize costs?” Mr. Hoglund said. Regulation is one idea, but there are likely others that the consultants will find, as well.

Mr. Hoglund spoke briefly about the last portion of text in the narrative, “Issues, Opportunities & Challenges.” Metro’s legal staff is currently looking into how the agency can continue to honor its disposal contract obligations if it exits the system. Additionally, “You can’t really get into this topic,” he said, “without looking at the fact that [the Department] does provide over 75% of [Metro’s excise tax funding]. We collect excise tax on all tonnage: Would there be any risk to our ability to collect that revenue if we were not directly controlling some of those tons?... We want to make sure we cover every angle there because it’s an important source of funding on behalf of the Council.”

Note: A typographical error on page 2 of the narrative states that the Department provides “75 percent of Metro’s General Fund resources,” but should read “over 75 percent of Metro’s annual excise tax revenue.”

Mr. Phelps contested the 75% figure. “I’d like to reserve the right to come back and question the 75%. I think that’s too low... I think it’s closer to 90%.” Mr. Hoglund commented that revenue from the Oregon Zoo, Convention Center, and other assets have now been included as “General Fund” sources, which may account for the difference. Mr. Anderson assured Mr. Phelps he would make inquiries into the subject.

In response to a question from Mr. Walker, Mr. Hoglund said the final recommendation regarding Phase I will be made by the COO, with the involvement of Council, as well. The consultants, he said, will not be making any formal recommendations, just supplying their findings. In fact, they’ll be making a presentation at a Council work session on Tuesday, February 28. “What we’ve told them to do,” Mr. Hoglund said, is to go over the three models. “What’s the best totally-public model you can see... What’s the best hybrid system?... and similarly for the best private system... Then they’re going to work with the Council at the same meeting, to go over a list of criteria that they’ve developed, taking Council’s values and other factors they think will be necessary in order to evaluate those three alternatives.” Afterwards, the consultants will construct a matrix to help with the decision.

Mr. Walker remarked that he hadn’t realized a wholly publicly-owned system was being considered. Councilor Park replied that Councilor Burkholder had recommended that, in order to study the full-range of

scenarios. Of course, Mr. Hoglund added, the COO may pick the popular “none of the above” and go with a combination of some sort, such as Metro having only one transfer station, or downsize the current ones. The possibilities are numerous.

“The value, to me and the Council,” Councilor Park said, “is going to be as an analysis of the current system. The pros, the cons. If you look at us as region, as you know, we have a pretty high-performing recycling system at a decent cost. It’s nothing outrageous, and it’s not the cheapest, but we also have a really high recycling rate. So the question from my own perspective is: Can you have a high-performing [solid waste] system, yet somehow downsize the maintenance part? I don’t know if you can get Lamborghini performance with a Toyota Camry maintenance schedule budget,” he mused. Hopefully the analysis will answer questions about how each scenario could affect the recycling rate. All kinds of trade-offs will have to be looked at. “It’ll be interesting how it all plays out,” the Councilor concluded.

Mr. Hoglund moved the group to the heart of today’s discussion, beginning with the role of this subcommittee in the DSP. Their input will be very valuable to the process. For the most part, he said, the public likely won’t see a lot of changes to their curbside service. Things like roll carts may become more common, there could be some differences in curbside recycling, but for most customers, the system will probably look substantially the same. Internally, however, the cost of going to a different system will be looked at in-depth. The discussion guide and table in the agenda packet, Mr. Hoglund said, was developed to help the group look at this aspect.

In order to make a cost comparison work, however, Mr. Hoglund ventured, “We need to present to our Council some numbers that we think would happen in the private sector.” The subcommittee’s private facility members could decide to just say, “See ya later,” Mr. Hoglund said, or could say ‘you’re on the right track’ and have Metro’s consultants fill in the blanks before bringing them back for the group’s consideration, or they could provide a range (high to low) for review.

Mr. Anderson explained further that while tip fees across the region are similar, the underlying cost components differ, especially between private facilities and public. Private facility owners have emphasized this point has been often: “...’we have costs and Metro has costs. They’re different costs, but they add up to about the same thing.’ This is an opportunity,” he said, “for the private sector to say what those different costs are when we get to that bottom line known as the tip fee.” Acknowledging the industry members’ obvious unease, Mr. Hoglund offered that if the information is too proprietary, they could suggest an alternative to help make the comparison.

The Metro Council will be getting pressure from local governments, Councilor Park said, about how to set rates if Metro leaves the transfer station business. A mechanism would need to be put in place, which is difficult to develop if different facilities charge different amounts for similar services, he pondered. Local governments are interested in finding out if there’s a way to have a consistent rate across the region, the Councilor continued, and embarked with some of the membership on system history.

After brief discussion with the local government representatives, Councilor Park summarized that there’s a level of information needed by local jurisdictions, “in order to make a reasonable decision that will stand public scrutiny.”

Prolonged discussion developed regarding the desired cost comparison. Mr. Phelps remarked that if Metro “were to properly price your cost of service to your [customers], which is higher than your gate rate because you’re subsidized through the Regional System Fee... if you compared [cost of service] to the costs that are being charged by the four or five private stations, I’ll be you’d find we’re all within a buck of one another.” Therefore, he continued, he didn’t understand the need to know the specifics from the private sector. Arguably,” Mr. Phelps continued, “it reflects our revenue need, which includes profit.” He reiterated that at a true cost-of-service, everyone is likely within a dollar of Metro’s tip fee. “And I feel pretty strongly about that, so I must know something.”

“If we just do a tip fee comparison,” Mr. Anderson elaborated, “that’s a snapshot. It wouldn’t tell us how costs would move in response to change. For example, if [Metro authorizes] more commercial tonnage at

private facilities, and keeps only the self-haul? How does through-put at your facilities affect your unit costs?... If we're looking at major system changes, what changes when significant things change? That's one of the things that DSP will be trying to get a handle on."

Mr. Phelps declared, "I don't mean to argue, but I guess I am..." stressing that if everyone's tip fee falls within about a dollar, that's all the information necessary. Councilor Park countered, however, that "you're not providing the same level of service." Mr. Phelps disagreed and the two continued to spar about wet waste, hazardous waste, and services. Mr. Hoglund made a note to include hazardous waste in the research. He reviewed what Mr. Phelps had been articulating about, and asked "Following up on that discussion, then would you have to increase your overall tip fee to handle self-haul?" Mr. Phelps replied that he doesn't know, but maintained that Metro has "a much more economical mix than we do... The real boogey-man in this deal is the dry waste costs, and whether you subsidize that with wet waste revenue, and if not, does it stand on its own? I don't know the answer to that.

From his phone connection in ("sunny and warm") Hawaii, Mr. Gilbert spoke up. He suggested that there was one unmentioned aspect in the discussion thus far, "and that is volume. Volume changes every one of these costs, up or down. That's something I don't think any of us could predict, and in doing these costs, we have to figure out what are the volumes and then make different exercises for volumes at different rates." Regarding the cost differences between wet and dry waste, Mr. Gilbert said that it is more expensive to handle dry waste because of recovery costs. "However, the big problem there is, do you call it all wet waste and then forget about the dry waste? How do you determine what is dry and what is wet? That's the other big question."

Councilor Park recognized Far West Fiber's Jeff Murray, who joined the fray. Mr. Murray apologized if his comments were going to take things off-track, but as a clean MRF, the discussion "isn't quite our personal battle. However, from being around this industry as long as I have, and understanding the concerns, I don't realistically see Metro [being given] this information [on facility costs]." Instead, he suggested finding a benchmark the group could agree on as "reasonable" and local governments could agree or disagree about using it.

As conversation continued, Mr. Korot took a step back towards the original question, "How do we provide Mike Jordan and the Council with comparative information on costs? It's not so much where we end up on costs, but how do we help them design a system, with cost being a major criterion for evaluating the system?" He reiterated Mr. Phelps' idea of starting with the current rate, and suggested adjusting for differences in volumes and services – such as the fact that in an all-private system, local governments would likely want every private facility to have a household hazardous waste collection. "Cost out what the tip fee is now, add some system costs, and say it's less predictable and have the consultant validate that to some extent," Mr. Korot concluded.

Ted Kyle understood industry's reluctance to reveal proprietary information, and wondered if it would help to look at numbers outside the Metro region. "Talk to your consultants, and talk to people outside the region about the general cost factors... I think what we're struggling with [is whether] the cost curve is extremely linear, or is it flat, and is there a fixed cost element in it, and if so, what percentage of it is fixed and what percentage of it is variable?" He pointed out that some factors on the curve could be supplied by Metro, but said the shape of the curve isn't known without some other data, and that he'd need to think further on a solution. Come up with different scenarios, he suggested.

"I'm just curious about how this is all going to work with the consultant, and how the consultant's going to then come up with this cost curve. Is the consultant going to be speaking directly with the private side – without Metro? asked Ms. Poyourow. Mr. Hoglund said that this exercise is somewhat preliminary to the consultant's been doing. "We wanted to utilize today's meeting to talk about this idea and see what people feel comfortable with, and what ideas they might have," he explained. That information can then be relayed to the consultant for their consideration, and they may or may not speak to private operators.

If facility operators say that they'd anticipate more volume and that more volume then helped them reduce costs, Mr. Walker noted, that would need to be factored into the discussion. While he's open to all the scenarios on the table, Mr. Walker—reasoning by analogy—said he's concerned that an initial low bid could be developed, “and then as the tram goes higher up the hill, so does the cost,” alluding to the City of Portland's current dilemma over the OHSU tram. Local governments are just trying to get an idea where any given scenario might lead, to avoid such a situation after a final decision is made and there's no going back. “It's a credit to Metro to be able to really throw this open and look at the range of options with the different private operators here. So if there's any way to provide better numbers so that we can get some evaluation done, that would be very helpful. Ultimately not just for us, but to Metro Council when they're making their decision,” he said.

Mr. Murray went on record as not actually advising that Metro set a rate, “more of a guiding number for local governments to be able to do their rate reviews with the haulers.” (Mr. Walker commented that he could see no way in which that would work for his jurisdiction's rate model.) It's important, Mr. Murray continued, addressing the parties that would be affected. If they don't accept the numbers, there would be a larger argument. Mr. Walker said that he can't see how “doing a pick-a-number type thing” would work in a real rate model year after year. He and Mr. Murray discussed their points further. Jumping in, Mr. Hoglund added that Metro would likely franchise all the private operators, and within that agreement, could establish a benchmark for the first year and discuss those items with changing costs (such as health benefits, expansions, etc.) each year after. “If [a franchisee's price] got out of whack,” Mr. Hoglund concluded, “we wouldn't renew the franchise.”

Mr. Phelps argued several points of such an idea. “If there's a deal in my contract that says you've got [an \$80 tip fee] this year, and it's gotta be \$81 next year, guess what my hauling companies are going to charge?” and added that if Metro were to regulate the tip fee, they'd have to guarantee tonnage amounts. Councilor Park assured that all those concerns would be addressed when and if needed after the Council's decision.

In answer to a question from Ms. Poyourow regarding how much the study's findings might be at risk if the numbers used are incorrect, Mr. Hoglund said that a margin of error and corresponding caveats would be laid out before the Council.

Conversation continued, and Councilor Park asked rhetorically what kind of rate structure could be put in place in an all-private scenario that could be proven fair to the public. “What system could you have in place to allow you – on an ongoing basis – to review that rate to see if it's still valid? [What system could allow] an elected official to turn back around to the general public and say, ‘We are watching out for you, we have a system in place and it's very transparent...’ That is going to be one of the keys... If you go to a fully-private system, how do you do that?”

Mr. Miller reiterated the problems Metro faces in going with an all-private system. In his opinion, the most equitable, workable system would be to franchise. “Under that scenario, it would just be a matter of regulating the hauling industry... Barring that, it's open market, and you're going to be stuck with what the market will bear. I don't see any other scenarios.”

Mr. Leichner agreed partially, saying that currently, the rate review process with local governments involves submitting “financial data, customer base, the whole bit. You look at those, allow the expenses that are justified, and set the rate based on that.” He took the thought further, saying that transfer stations could also allow local jurisdictions to look at their numbers, “because [the local governments would be] setting collection rates, and I'm comfortable that with [their] review, they're doing it already for collection rates. I'm not comfortable with the regional government coming in and looking...” He agreed that the public should not be gouged, adding that in order to review the transfer stations, it would be necessary to look at collection numbers, “and that's my big concern of using a region-wide government to look at that.”

Beginning to conclude the meeting, Councilor Park added that currently, there are approximately two facilities per waste shed. In a franchising system, Metro could set parameters for types of services facilities

should provide, and then have the two operators bid for various tonnage. The better bid could be given the higher level of tonnage. "I'm just throwing that out as a possibility," he said. "It gets Metro out of looking at anybody's books and puts it back into the bid system." Mr. Murray asked if Councilor Park was referring to "specific tons, or allowed tons in general? If it's specific [tons] then it gets to flow control..." The Councilor replied that it could help protect the public by helping direct waste to operators within the waste shed from which it was collected rather than perhaps traveling across town.

Mr. Hogle said he felt this discussion, and that of the subcommittee's role in DSP, shouldn't end with this meeting. He asked that members hold February 9 and 23 open for the next meeting (February 23<sup>rd</sup> would follow the full SWAC meeting). He said that staff will develop options from today's discussion, present them to the consultant, and come back to this group with one or two approach options.

"Let's get this on the record," Councilor Park added, "the fact that the committee finished its work before the deadline – two meetings early on the main portion that was asked of it. This is extra bonus points."

**III. Other Business & Adjourn ..... Councilor Park**

Mr. Korot noted that while the discussion centered on the role this subcommittee may play in the DSP project, the next Rate Review sessions are fast approaching. The recommended cost-of-service model was only partially implemented, as per Council, he recalled. He hopes that in the upcoming RRC meetings, "we decide – for the time period before all the disposal changes take place, are we sticking with the cost-of-service model, or not? I don't feel we've resolved that."

Mr. Anderson said that a recommendation on the rate model hasn't been made by this subcommittee so far. "We're half-way between the public goods and cost-of-service model. Do we continue going, do we stop, do we go back? That hasn't been decided," Mr. Anderson explained. Based on today's conversation, it remains an open question whether DSP should get into this area. Councilor Park added that the recommendations this subcommittee has made regarding the other policy issues will be forwarded to SWAC, Council, and ultimately the Rate Review Committee.

Councilor Park asked Mr. Gilbert for any further comments. Mr. Gilbert said it seems what the group is attempting is to develop a "performance statement" for Metro that fits both private and public operators. Regarding cost-of-service, "are we going to continue subsidizing [household] hazardous waste?" Yes, Councilor Park answered, it remains in the Regional System Fee. If certain things are going to be subsidized, Mr. Gilbert responded, "we're probably going to end up subsidizing more than just hazardous waste, so that's something to keep in mind."

Councilor Park thanked Mr. Gilbert for his participation, apologizing for the phone bill, "but it's cheaper than a flight," with which Mr. Gilbert readily agreed.

Councilor Park thanked the other attendees and adjourned the meeting at 2:05 pm.

**Next meeting:**  
TBA

**Rate Policy Subcommittee**  
**The Scope-of-Work on System Tip Fee Issues**  
**January 19, 2006**

Should the RRC's tip fee issues be folded into the larger policy discussion,  
the Disposal System Planning project?

What is this subcommittee's role in Disposal System Planning?

Last time, we reviewed the RRC's three issues on cost allocations and system tip fees:

- Fiscal impact of tonnage shifts on Metro;
- Private facility economics;
- Cost decisions in local government rate-making.

These issues are part of a larger debate:

*Which model of system finance should be used to guide Metro's rate-making?*

The Rate Review Committee has been debating two models of system finance:

- "Public Goods" (established in 1998 as part of the wet waste policy package)
  - Links prices with beneficiaries.
  - A standard model for funding public goods and services.
- "Cost-of-Service" (recommended by RRC in 2004)
  - Links prices with cost-causation.
  - Shares similarities with rate-making for public utilities and price-setting in the private sector.

Both models are a sound basis for system finance. The choice between the two is typically based on best alignment with policy.

However, the policy discussion is occurring within the Disposal System Planning project. Is this the appropriate forum for discussions of the system financing model?

The balance of this agenda item is designed to help this subcommittee answer this question.

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