A G E N D A

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METRO

MEETING: **RATE POLICY SUBCOMMITTEE**
(SWAC Subcommittee on Solid Waste Rate Policies)

DATE: **Thursday, February 23, 2006**

TIME: **12:15 p.m. – 1:45 p.m.**

Pizza lunch will be provided

PLACE: **Room 370, Metro Regional Center**

I. 5 min. Call to Order .... Rod Park

a. *Consideration of the January 5 and January 19* meeting minutes.*
b. *Communications and other business.*

II. 50 min. Finalizing the Subcommittee's Recommendations .... Rod Park

a. *Consideration of the subcommittee's draft* Report and Recommendations*.**
b. *Wrapping up the subcommittee's work/next steps.*

III. 30 min. Disposal System Planning .... Mike Hoglund

Options for subcommittee members to participate in the Disposal System Planning project.

IV. 5 min. Other Business & Adjourn .... Rod Park

*** Materials are enclosed. The January 5 minutes were distributed at the January 19 meeting.**

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

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METRO

600 NE Grand Ave.
Portland, OR 97232-2736

MEETING SUMMARY
Solid Waste Advisory Committee
<u>Rate Policy Subcommittee</u>
Metro Regional Center, Room 370
January 19, 2006

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

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.
Paul Ehinger, Engineering Section Manager
Chuck Geyer, Engineering & Environmental Services Div.
Tom Chaimov, Sr. Solid Waste Planner, SW&R
Kathryn Sofich, Metro Council Office
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. Hoglund 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 23rd 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:
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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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This draft is staff's summary of the subcommittee's work to date. At the February 23 meeting, members should be prepared to discuss and comment on this draft. The target is to finalize the report for presentation at the March 23, 2006 SWAC meeting.

Rate Policy Subcommittee of SWAC

DRAFT Final Report and Recommendations DRAFT

March 23, 2006

Introduction

Last year's Rate Review Committee identified four areas in which there are several "technically correct" options for rate-making. Therefore, public policies should guide the choice among options. The Rate Review Committee's issues were:

1. Who should pay for sustainable purchasing costs at Metro's transfer stations?
2. Who should pay for Metro's additional hours of operation designed to serve self-haulers?
3. Who should pay for Metro's costs of regulating private facilities?
4. Regional tip fee issues:
   - Fiscal impacts on Metro of tonnage shifts
   - Private facility economics
   - Local government rate-making

The Rate Review Committee recommended that these issues be reviewed by a broader group than the Rate Review Committee alone. In September 2005, the Rate Policy Subcommittee of SWAC was formed to perform that review. This is the subcommittee's report and recommendations.

The policy recommendations can help to guide the Rate Review Committee on mechanisms for cost recovery and appropriate rate structures; and can inform the Council in its discussion of solid waste rates for FY 2006-07 and beyond.

Executive Summary

1. Who should pay for sustainable purchasing costs at Metro's transfer stations?
   Recommendation: as sustainable purchasing provides a number of regional benefits, these costs should be allocated to the Regional System Fee and paid by all ratepayers.
2. Who should pay for Metro's additional hours of operation designed to serve self-haulers?
   Recommendation: the self-haul price should reflect the cost. An implementation vehicle is two transaction fees, reflecting the different cost of using the scalehouses vs. using the automated scales.
3. Who should pay for Metro's costs of regulating private facilities?
   Recommendation: Metro's regulatory system has multiple objectives that indicate a "beneficiary pays" principle should guide funding. Accordingly, costs should be allocated to the Regional System Fee and paid by all ratepayers.
4. Regional tip fee issues:
   Recommendation: address these issues within the Disposal System Planning project.

Issue 1

Sustainable Purchasing/Sustainability Leadership

The Issue. Metro's new operating contract includes certain "sustainability measures" that cost more than their conventional counterparts.[i] With these purchases, Metro helps to boost the economic development of sustainable alternatives to help make them more widely available.

The Question. Should Metro's customers alone bear the additional costs of policies with a positive benefit such as sustainable purchasing, or should these costs be borne by the broader set of regional beneficiaries?

Findings

- The following are all broad regional benefits provided by Metro's sustainable purchasing practices: reduction in the environmental impact of transfer station operation, environmental leadership, and economic boost to development of sustainable alternatives products.
- A "beneficiary pays" principle is appropriate for the recovery of the costs of such purchasing practices.

Recommendations

- The additional cost of sustainable products above conventional alternatives should be allocated to the Regional System Fee and borne by all ratepayers.
- This policy should be revisited if sustainable products become available at competitive prices, or if all solid waste facilities are required to adopt sustainable purchasing policies.

Issue 2

Self-Haul Access to Disposal Services

The Issue

Metro has made a policy choice to stay open long hours at the transfer stations to accommodate the public's disposal needs.[ii] These long hours are a major driver of the scalehouse and related costs. The operations contract also includes consideration for the higher cost of handling public loads. Metro's "always open" choice was made explicitly to ensure equitable and convenient access to disposal options.

The Questions

- Should Metro's customers alone bear the additional cost of operations and the extra hours held open for the public, or should this cost be shared?
- What is the regional policy toward meeting the demand for self-haul?
  After balancing pros & cons, is self-haul to be discouraged? Encouraged? Or is public policy neutral?
- What pricing strategies should Metro adopt to support the self-haul policy?

Findings

- Most self-hauled waste is:
  - Generated by a single event (e.g., cleaning out the basement, roofing tear-offs)
  - Not suitable for disposal in regular collection service (too much, too bulky).
  - Costly to dispose of, compared with self-hauling at current self-haul charges.
- Costs and Pricing
  - Self-haul is costly to handle on a per-ton and per-transaction basis.
  - Long hours and additional staffing is necessary to accommodate public self-haul.
  - Accommodating self-haul induces additional fixed capital costs at facilities.
  - Self-haul probably generates additional traffic.
  - Although Metro's price structure, with a transaction fee and minimum load charge, make the effective *per ton* rate high for small loads, most self-haulers are responding to the overall cost of disposal, which is still relatively low.
  - Metro's current pricing policy implicitly subsidizes self-haul.
    The subsidy is internal (that is, across Metro's customer classes) and works as follows. Different customers generate different costs. For example, users of the automated scales generate billing (accounts receivable) costs, but make little demand on scalehouse staffing. Cash customers make heavy demands on scalehouse staffing, but do not generate accounts receivable costs. In general, large commercial loads cost less to serve than self-hauled loads. By averaging all costs into one transaction fee, commercial customers implicitly subsidize the cost of serving self-haulers.

- Low pricing could encourage self-haul; high pricing could discourage it. A neutral policy implies that self-haul demand would be met at the true cost of service.

- Demand
  - A large segment of the population will continue to need or demand self-haul.
  - Self-haul provides a relatively low-cost disposal option for some generators.
  - The availability of self-haul options probably reduces illegal dumping.
  - If self-haul is too cheap/convenient, participation in curbside collection may be reduced.
- Service Delivery
  - There may be opportunities for licensed/franchised haulers to expand service.
  - However, it is very difficult for commercial haulers to price-compete with self-hauling at current disposal rates.
  - Higher prices at facilities would allow development of competitive options at the curb.

Recommendations

- Self-haul options should be part of the regional solid waste system.
- Public policy should be neutral toward self-haul, neither encouraging or discouraging it.
- Self-haul should be priced at the cost-of-service regardless of who provides the service.
- Additional Action Recommendations
  - Local governments and haulers should work together to raise awareness of hauler-provided services.
  - Metro should consider implementing a split transaction fee. This would allow better alignment between the costs of commercial and self-haul customers, and their prices.
  - Metro should examine options for reducing the cost of providing service to self-haulers.
    For example, could the current hours of operation be reduced without affecting accessibility?
  - Metro and local governments should track system responses to change, in order that future policy choices will be better-informed.
    For example, does illegal dumping increase when self-haul prices rise?

Issue 3

Who Pays for Metro's Regulatory Costs?

The Issue

Metro incurs certain costs (*e.g.,* licensing, inspections, audits) solely as a result of the existence of private facilities. Under a "cost-of-service" rate-making philosophy, the recovery of these costs should fall on the regulated community—the ratepayer class that causes these costs. At present, these costs are allocated to the Regional System Fee and paid by all ratepayers—including Metro transfer station customers who arguably have also seen their rates rise because waste has been diverted from Metro to private facilities. The Rate Review Committee noted that license or franchise fees would place the payment of such costs more squarely on the regulated community.

However, Metro regulates some classes of facilities to meet a widely-shared set of public interests. Two examples are yard debris facilities[iii] and out-of-district landfills.[iv] In both these cases, Metro's regulatory effort is designed to deliver broadly-shared benefits.

The Questions

- Should regulatory costs be borne directly by the regulated community, or more generally by all ratepayers? What is the policy basis for this decision?
- If these costs should be recovered directly from the regulated community:
  - What kinds of costs should be covered?
  - What classes of facilities (e.g., transfer stations vs. MRFs vs. composters, etc.) should be subject to the fee(s)? Should fees vary by class?
  - What should the fee structure be? Flat, per-ton, etc.

Findings

- Generally, the recovery of regulatory costs through a "3rd Fee"—a license/franchise fee or similar charge levied on the regulated community alone—is consistent with a "cost-of-service" approach to rate-making. A key principle of cost-of-service pricing is that persons who cause a cost should pay for that cost. Under this principle, private facilities that generate public regulatory costs should pay for those costs.
- However, Metro's regulatory program has multiple objectives and performs many functions, not all of which are amenable to a cost-of-service approach to financing. The original decision to recover regulatory costs from the Regional System Fee was based explicitly on:
  - A finding that Metro's regulatory system is designed to serve multiple regional policy interests and provide broadly-shared public benefits.
  - Concerns about equity if some facilities had to pay, others didn't.
  - A practical matter: the ability to pay varies by facility type, which could threaten the viability of some emerging recovery industries.

- General concerns about any industry funding its own regulation.

  The Rate Policy Subcommittee reaffirms these findings and policies.

- Of the following classes of facilities covered by Metro's regulatory program (with regulatory functions in parentheses), only the first is amendable in principle to self-funding.
  - Regulated facilities. (Licensing and franchising of new facilities. Renewals. Monitoring and enforcing license & franchise provisions.)
  - Exempt facilities. (Monitoring compliance with conditions of exemption.)
  - Unauthorized facilities and other violators (Enforcing Metro Code.)

  The equity issue arises if the regulated facilities alone bear the cost. Among the regulated facilities, a separate equity issue arises from the uneven distribution of the ability to pay.

- As a practical consideration, the relatively small cost of the regulatory system raises a question about the costs vs. benefits of establishing and administering a separate fee system.

Policy Recommendations

- Metro's current regulatory costs should be funded by all ratepayers through the Regional System Fee. The policy bases of this recommendation are:
  - Metro's regulatory activities as a whole primarily benefit the general region, and the solid waste industry only secondarily.
  - General funding eliminates potential concerns about industry's ability to influence its regulator or the regulator needing to "follow the money."
  - Regulation in the form practiced by Metro is a service area where "beneficiary pays" is the appropriate funding approach.
- Additional Action Recommendations
  - Increase application fees to recover more of the cost of licensing and franchising.
  - Consider increasing annual license and franchise fees—not to the cost-of-service level, but to increase the visibility of the cost of regulation to solid waste facilities.

Issue 4

Regional Tip Fee Issues

The Issues

Two years ago, the Rate Review Committee recommended that Metro transition to a rate model based more closely to a “cost-of-service” model that had common elements with public utility pricing and private-sector price-setting. As a matter of practicality, the basic change would entail a re-allocation of certain fixed costs from the Regional System Fee to the Tonnage Charge—a component of the Metro tip fee that is paid by Metro customers only.

There are three consequences of this transition for which last year’s Rate Review Committee sought broader policy input:

Fiscal Impact of Tonnage Shifts. The sensitivity of the Metro tip fee to tonnage shifts is directly related to the allocation of costs between the Regional System Fee and Tonnage Charge. The recommended cost-of-service model would render Metro at higher fiscal risk as a result of tonnage shifts. The resulting fiscal impact may weigh directly into decisions on increasing tonnage authorizations at existing private facilities, and approving new transfer and/or material recovery facilities.

Private Facility Economics. The allocation of costs among Metro fees directly affects the economics of private facilities. These economics improve with rise in the tip fee and/or a drop in the Regional System Fee, even in the absence of any other change in cost or service to the private facility. (The reverse is also true: if the tip fee falls and the system fee rises, private facility economics erode, all else equal.) The Rate Review Committee believes it may be a matter of public concern that private facilities can be so affected in a manner that is unrelated to changes in cost, competition, or level of service.

Local Government Rate-Making. In current practice, local governments allow solid waste haulers to recover disposal costs up to the Metro tip fee regardless of which disposal facility is used. With this practice, local government regulators are concerned about allowing revenue for private facilities that may not be directly related to costs or service.

Finding and Recommendation

The importance of these issues is related to the structure of the regional disposal system as a whole, and for this reason, the subcommittee recommends that the Disposal System Planning project, currently underway with a charge to analyze various public-private configurations for the disposal system, address the question of appropriate model of system finance.

ENDNOTES

[i] Renewable energy, clean exhaust, environmentally-preferred cleaning products and paints, re-refined oils an d hydraulic fluids, energy and water conservation, in-house recycling and reuse, additional material recovery initiatives, and recycling content procurement.

[ii] Metro South is open 7-7 and Metro Central is open 8-7 every day; a total of 161 hours per week. Both stations are open 363 days a year. Shorter weekday hours and Sunday closure are sufficient to accommodate commercial traffic (open 42 to 66 hours, representing 26 to 41 percent of the current hours). This means Metro is open 100 or more additional hours per week to accommodate the public. A number of capital investments were also incurred to accommodate the public: the public unloading building at South, and at least one bay at Central is dedicated to public customers.

[iii] Metro establishes and enforces regulatory standards on yard debris facilities to ensure that stable and successful markets exist for curbside residential yard debris and commercially-generated organic material.

[iv] Metro allows out-of-district facilities to accept waste generated within the region without invoking flow control authority, to provide a broad range of disposal options for in-region generators. In return, these out-of-district facilities collect and remit Metro fees and taxes on in-district waste, providing a highly efficient and cost-effective fiscal mechanism . Metro inspects and audits these facilities to maintain the integrity of the system to the benefit of regional ratepayers.

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