RATE REVIEW COMMITTEE MEETING
11/20/97

Members Present:
Chair Don Morissette, Metro Councilor
Andy Thaler
Barry Bennett
Shirley Coffin
Steve Schwab

Members Absent:
Monica Hardy

Metro Staff

Bruce Warner	Roosevelt Carter	Leo Kenyon
Jim Watkins	Dennis Strachota	Jan O'Dell
Doug Anderson	Maria Roberts	Sarah Adams
Jeff Stone		

Guests

Ray Phelps	David White	Dean Kampfer
Jonathan Angin	Bruce Broussard	

Chair Morissette called the meeting to order.

REM Director, Bruce Warner gave a quick overview of what staff would deliver to the group this evening. He said Mr. Carter would recap the motions approved from last weeks meeting. Mr. Warner said the group asked staff to outline different scenarios so they could better look at the consequences of different rate options, a new look at tonnage forecasts, a transaction fee, etc. And lastly, staff will propose a new rate for the deliberations of the Rate Review Committee.

Mr. Carter said the Rate Review Committee came to a decision on three things:
1. Reallocate Health and Safety Costs from Tier II (Metro User Fee) to Tier I
2. Reallocate Transfer Station Management Costs from Tier I (regional user fee) to Tier II.
3. Reallocate Avoided Costs (amount paid to transfer station operator for pulling recoverables from the wastestream) from the regional user fee to Transport and Disposal Fee.

Mr. Carter said these reallocations are included in the scenarios presented in the agenda packet as described by Mr. Warner. Mr. Carter said that lastly the RRC asked staff to revisit the tonnage projections and Mr. Watkins was asked to talk about that.

Mr. Watkins distributed some colored graphs depicting different tonnage scenarios. He said the top graph shows four tonnage projections: the bottom line shows the tonnage forecast that REM's budget is actually based on this fiscal year. The next line (red) shows the budget estimate that staff presented to the group last week. The third curve is a revised projection reflecting the 2% growth the region has been experiencing as shnown by the actual tonnage data from the first quarter, and the fourth (black) line shows the curve if we didn't have any new MRFs or if Recycle America was not completing their ramp-up.

Mr. Watkins said the last actual number for tonnage REM has for fiscal year 1996-97 is 765,629 tons coming through Metro's transfer station. Mr. Watkins gave the RRC some background on how the staff made their tonnage projections.

He said that when staff projected their tonnage forecast for the 1997-98 fiscal year, it was proposed that four new MRFs would be coming on line: Recycle America, a Washington County MRF, KB Recycling and ORS. Therefore staff assumed 7% growth and factored in 100,000 tons going to MRF's which resulted in a 40,000 ton drop down to 725,000. Staff was later to learn that KB Recycling would not come on-line until October 1998, the Washington County MRF was put "on hold," ORS was put on hold and Recycle America would not ramp up as fast as predicted. Staff came back with a new tonnage projection of 767,00 through Metro's transfer stations. Since that time staff have received 4 months of actual tonnage data which led them to the conclusion that the region was experiencing an additional 2% growth either due to a continued economic boom, or the fact that Metro reduced the tipping fee from $75/ton to $70/ton.

Mr. Watkins said that on top of the 2% regional growth factored into the tonnage figure, staff went back to the MRFs to get an update on their situation: Recycle America said they would not be ramped up until the next fiscal year. So the "black" curve shows a 9% factor for this fiscal year and an additional 6% for next fiscal year and 4% for the remainder of staff's projections. Mr. Watkins said that KB Recycling has stated they will be coming on-line and will take approximately 21,000 regional tons and Recycle America will scale up taking additional region tons. Staff have recomputed the tonnage figure for the Metro transfer stations accordingly.

Mr. Watkins said the region has experienced large increases in "special wastes" in the past but this is not projected to continue in the coming years. We are now predicting (6% increase) in revenue tons to 1,339,000 tons for next fiscal year (1998-99).

Mr. Warner said to recap, the Tier II or transfer station weights for FY 1998-99 are predicted to be 804,372 tons, for the total regional tonnage 1.339 million, which is up considerably from what was presented the previous week. Mr. Warner called for questions.

Mr. Cross (from the gallery) asked if any of the tonnage projections assumed direct haul, and Mr. Watkins said there was no direct haul assumed. Mr. Watkins commented that direct haul would not change the forecast, however, because direct haul would figure into regional tons.

Mr. Carter then explained the scenarios prepared for the committee. He said staff used the new tonnage projections that Mr. Watkins just explained and using a $63/per ton rate and a $60/per ton rate. He said staff assumed the following in preparing the scenarios:

- New tonnage forecast
- $5/transaction fee
- No direct hauling of waste by reload facilities
- Reallocation of the costs outlined above to the categories approved by RRC last week
- Took into account the 5-year rolling capital reserve (using fund balance as opposed to adding to rate)

- Used only undesignated funds to buy the rate down per the direction of the committee
- Adjusted future expenses for inflation

Mr. Penning, returning to the first page, (c) on the bonds. Mr. Penning asked if the $9 million of the undesignated fund balance was being used for future capital.

Mr. Carter responded that in every scenario, staff established a "base case." This assumed no buy-down and, no defeasance. Then on the $63/rate, the group asked for a buy-down of the rates, a MRF incentive, and a defeasance. He said staff walked through the recycling incentive on the $63/rate and on the $60/rate. Mr. Carter said that staff concluded that a defeasance of the bonds was not feasible because after a buy-down of the rate to $60/ton or $63/ton for one year, we would then be in the red.

Mr. Thaler wanted to clarify that the undesignated fund balance did not include the Rate Stabilization Fund. Mr. Warner said he was correct, it did not include the Rate Stabilization Fund.

Mr. Carter continued with the findings. He said that a $63/rate could be held through 2002 when the undesignated fund balance would go to zero. He said a $60/rate could be held through 2000. He said that with a $63/rate, the Metro tip fee decreases by 10% and the regional user fee decreases by 21%.

Mr. Schwab asked if that made the regional user fee $11.88. Mr. Carter said it did.

Mr. Carter continued with the findings. At $60/ton, Metro's tip fee decreases by 14% and 21% over the current regional user fee. He said that allowing the rates to rise with the CPI, the option suggested by the Budget Advisory Committee, would allow rates to be held longer than the absolute constant rates of $63/ton and $60/ton. Mr. Carter said the effective rate with the $5/transaction fee moves the $63/ton figure to $64/ton and the $60/ton to $61/ton.

Mr. Carter said that either of the rate scenarios would satisfy the bond covenants that require net revenues in excess of 110% of annual debt service. Mr. Fjordbeck said that he had conferred with bond counsel and neither of these scenarios appear to negatively impact Metro's bond covenants.

Conclusions:

- For either a $60/ton rate or the $63/ton rate scenario, bond defeasence is not feasible.
- An $11.88 regional user fee is inconsistent with objectives 3 and 4 which state that encourage recycling and recovery; and balance the regional user fee and the total disposal fee.

Therefore staff recommended examining the following options:

- That the recycling incentive curve be self-subsidizing and not brought down with undesignated funds.
- That undesignated funds be targeted at other portions of the rate.
- That we reallocate some additional costs.

Mr. Warner commented that after staff completed these scenarios further work was done and a further recommendation actually contradicts some of the former conclusions.

Mr. Carter continued saying the Budget Advisory Committee concluded it was in the best interest of the region's ratepayers to keep the rate constant but that slight fluctuations reflecting the CPI over time was acceptable.

Mr. Schwab asked where would the rate fall without a buy-down and with the base case, along with the new tonnage numbers? He stated that did not understand that if for every $1 million dollars of the fund balance used, we buy the rate down $1.40/ton, why would we run out of money so fast?

Mr. Carter said that with the base case we are allowing the rate fall where it may. And no, we are not running out of fund balance just using the base case. However, to buy the rate down to $63/ton, do the MRF incentive and any bond defeasence or other activity of buying the rates down, then we do run out of money.

Mr. Warner said if you look at the $63/ton scenario, and you look at the first one which says scenario buy down which would just buy down the rate to $63/ton, that is what happens to the fund balance.

Mr. Bennett said that what he thought Mr. Schwab was getting at was that at $1.40 per million, it should take 10 years to go to zero and this shows going to zero in five years.

Mr. Warner said that question begs not allowing for expenses which are ramping up.

Mr. Strachota added that Metro would also be losing interest earned on the fund balance.

Mr. Schwab reminded staff that you still have quite a bit of money in designated funds that are continuing to collect interest so you are only talking about one-third of the moneys unable to collect interest.

Mr. Warner said he believes the numbers are correct. The assumptions are that every year the costs are going up, and the balances are being bought down and therefore there is less money to gain interest, and in later years you are taking more of that balance to receive the equivalent rate reduction. And that is why it tapers out more quickly in later years.

Chair Morissette commented that Mr. Schwab could probably argue his point but the question remains: How many risks do we want to take with the system?

Mr. Warner said if there were no other questions he would like to have Mr. Anderson give the group a review of the deliberations of the SWAC meeting yesterday and what impacts some of their suggested changes would mean.

Mr. Schwab said that in staff's conclusion it states that the incentive curve be self-supporting. Mr. Warner replied that in the first scenario which was buying down the rates, staff assumed there was no subsidy, but in the second scenario, staff assumed buying down the rates and $700,000/per year on the incentive program.

Mr. Anderson said that last week the group approved three different reallocations, and SWAC has asked them to look at two more.

- Moving Debt Service and Jack Gray Fixed Costs from Tier II to Tier I
    - These costs are: debt service, which makes the physical plant itself available and Jack Gray Fixed Costs, which ensures availability of rolling stock. Fixed costs that remain in Tier II are: transfer station management costs and renewal and replacement contributions.
    - Scalehouse costs are related in hours of operation and remain in Tier II, but will be recouped through the transaction fee and not the tip fee itself.

Mr. Anderson said that SWAC has determined that Metro's role in providing back-up disposal capacity for the region as the "disposal of last resort" is important to the region and that the region should share in that cost. He said the concern is that this capacity could be threatened if investments in transfer station capacity become "stranded" when reloads direct haul and no longer pay a portion of these costs. Mr. Anderson said staff supports this reallocation.

Mr. Carter continued the discussion showing the group the effect of the changes on the rate as recommended by SWAC. He said that going back to the base case, we will compare these against the base case that was presented earlier. He said initially in the original base case, we had a regional user fee of $11.88/ton for FY 1998-99, and in this case, the regional user fee goes to $14.47/ton, the disposal fee goes from $64.52 in the original base case to $62.84 under the new scenario. Mr. Carter said that by allowing some growth in the rate, the rate goes to $65.19 by the year 2003 and $14.28 for the regional user fee. The effect on the undesignated fund balance is that it is virtually unchanged at $10 million at the end of this period. Mr. Carter stressed this is not buying down the rate nor is it taking advantage of any MRF incentive but simply a comparison of the base case.

Mr. Warner, in recapping, said that by comparing the base case which was in the packets to this new scenario reflects the reallocations suggested by SWAC.

Mr. Penning asked if the transaction fee was included in this fee? Mr. Carter said it was. Mr. Bennett asked if it was actually $1 less? Mr. Strachota replied that it was $62.00 plus $5.00.

Mr. Carter said that reflecting on the discussion with SWAC, and with other discussions staff have had, he believes this is a fair rate except that this rate does not address the fund balance issue.

Performance Based Curve

Mr. Anderson said discussions have continued for incentives and support for recycling and recovery facilities that is based on their recovery rate. He said SWAC has been grappling with the shape of the curve. He said the new one starts at 20% whereas the old one started at 30% or 35%. It falls off more quickly and bottoms out a little bit farther down. Mr. Anderson said that when you look at the current rate of recovery and the $14.00 user fee, the subsidy still remains at the $700,000 figure that was originally looked at. He said that if you apply this rate to the existing MRFs -- if they do not change their current behavior in that they take in the same amount of tons, recover the same, and dispose the same amount of residual, this curve would result in a loss of revenue of $700,000.

Mr. Anderson said that if MRFs do a better job of recovery, and a couple of the MRFs he has been talking to have mentioned that this curve will actually give them an incentive to do that, then Mr. Phelps asked where on the curve does he begin going down? Mr. Anderson said the "fifth dot" is at a 20% recovery rate and basically only a 2-1/2% discount or $13.65.

Chair Morissette said that discussion at SWAC where some of the MRF operators had some concerns, this curve has the ability to get into the discount faster. Mr. Morissette asked if Mr. Anderson had any discussions with operators to see if it would work for them?

Mr. Anderson said he had a conversation with one of the operators who has worked through the numbers and he is excited because not only does this curve coupled with the implementation of the reallocation take away the penalty but actually gives him an incentive to do better.

Mr. Penning commented that this would work a little bit better for a MRF than it would a reload. In other words you would pay a little more of the regional user fee if you were strictly a reload. He said if you were a MRF and you had the capability of becoming a reload down the road, this actually helps you keep your recycling efforts going. Mr. Penning said he believed this curve would work for him.

Mr. Anderson said that for those persons who did not have the advantage of hearing previous comments, this scenario was very well received by SWAC. Mr. Anderson said the primary purpose of the curve was that when Metro begins lowering the tip fee, that is taking revenue straight out of the front door of the MRFs because basically their revenues are set by competing against the Metro tip fee. So if we don't do something on their expense side, which is the regional user fee, we will close their doors. This is an attempt to support that capacity out there but to do it in a way that creates an incentive to do the thing that we want it to do. He said there were two possible reactions to this, because currently we operate with a required recovery rate, with associated penalties if the recovery rate is not attained. It is felt that this curve has enough incentive in the slope itself that Metro can relax that. He said one advantage with this curve is there may be some MRFs that would actually have the ability to have more throughput of the more marginal loads, so the recovery rate itself may actually slip, but this in turn would be keeping more materials from the landfill.

Mr. Penning asked if there would still be some minimum recovery rates for MRFs. Mr. Anderson said staff is comfortable without a minimum recovery rate but that Council has yet to give their stamp of approval.

Mr. Carter said that as promised, staff does have a recommendation. He reviewed the objectives that the process was predicated at the beginning of this rate review process:

1. Rate stability
2. Predictability in rates
3. Encouraging recycling and recovery
4. Balancing the regional user fee against the disposal rate
5. Move more towards the cost of service.

Mr. Carter said is that the staff's proposal is a $62.50 ton disposal rate with a $14/ton regional user fee. This compares favorably against the base case disposal rate of $62.84/ton and a regional user fee of $14.47/ton. This takes into account a recycling incentive of $700,000 per year, and a further buy-down of the rates in the first year of $900,000. The effect this would have on the undesignated fund balance is that it would be bought down to $11.3 million dollars in FY 98-99. We could continue to buy it down until about FY2001 - 2002 where the fund balance goes flat.

Mr. Penning asked if there was any CPI in that. Mr. Warner said there was not so you could extend it beyond that time.

Mr. Warner said staff has really worked on this and obviously if you wanted to you could buy the rate down further and if you wanted to increase the rates on an annual basis, you could make that undesignated fund balance go to zero in three years. Mr. Warner said staff is very concerned about rate shock as was the Budget Advisory Committee and SWAC. Mr. Warner said staff supports the financial incentive on the curve that Mr. Anderson earlier described. He said that our hope would be that we could see the subsidy have to go up and that we are actually recovering more material. Staff believes this is a reasonable and prudent recommendation.

Mr. Bennett said that one of staff's conclusions said that the curve should be self-supporting, so are you basically deferring to what SWAC has recommended?

Mr. Anderson said staff did not press the question to SWAC. They were more interested in the shape of the curve.

Mr. Bennett asked to review a previous slide. He said staff shows the undesignated fund balance going to zero, but in footnote no. 2, it states it supports rate shock by allowing for rate adjustment. He does not see where that time is. He said he sees the undesignated fund balance going to zero and the rate being held steady to that point.

Mr. Carter replied that before the curve flattens out at the end, staff will have time to make adjustments.

Mr. Bennett said so that means the rate would not actually hold out until 2002?

Chair Morissette said it was his guess that with a new chair for this committee he believes Metro will again be looking at a large fund balance with the rates going up, and this will have to be revisited again and again.

Mr. Penning said the way the rate is being proposed now, the committee will not have to vote on CPI they will have a whole year to see how well this works. Mr. Penning said he believes this is the year to validate the assumptions that have been made.

Mr. Warner said this years Rate Review Committee is to recommend next years rates, and not the year beyond. Next year as we learn where this curve takes us, we will know whether or not we have to adjust for CPI.

Mr. Schwab commented that contingency is a line item out of the rate? You didn't fund it out of the undesignated fund balance? Mr. Carter said staff has funded contingency out of the fund balance each year. Mr. Schwab asked if this included any funds from the rate stabilization account. Mr. Carter said it did not. Mr. Schwab said there is $5.6 million that has not been discussed plus $13 million, and so Metro has actually only used a third of the funds in figuring this rate. He said he doesn't believe we will run out of money in 2002.

Mr. Thaler said contingency is a budgeted line item and it can be used without going out and rewriting the budget if there is an emergency. He said that a government agency needs these contingency funds, he would not even consider using those funds.

Mr. Penning made a recommendation to the Executive Officer and the Metro Council that the Rate Review Committee concurs with staff's revised tonnage projections for FY 98-99; that they agree with staff's earlier recommendations and allocations of costs along with the further reallocation of the Jack Gray Trucking fixed costs and debt service; they support an incentive program to encourage and maintain material recovery facilities through a performance based curve; they support a $5/transaction fee to pay for scalehouse operations and they want to utilize the fund balance to subsidize the curve and buy-down the curve to $62.50/per ton overall with a $14/ton regional user fee. Mr. Thaler seconded Mr. Penning's motion.

Chair Morissette asked for any discussion. There was none. The Chair called for a vote. The committee concurred with the motion, with the only dissenting vote coming from Mr. Schwab.

Chair Morissette thanked the committee for their time and efforts.

Mr. Warner thanked the committee as well, and commented that staff learned a lot from this process.

Respectfully submitted:

Connie L. Kininey, Clerk

RATE SETTING CRITERIA

1. Recover anticipated costs
2. Undesignated fund balance returns to ratepayers
3. Encourage recycling and recovery
4. Predictability / stability
5. Ensure regional stability
6. Avoid "rate shock"
7. Metro rates for source-separated recoverables should:
   a. Not compete with private sector
   b. Reflect only program-specific direct and indirect costs
8. Regional programs with regional benefits are broadly funded
9. Rates based upon best tonnage projections
10. Uniform regional transfer station tipping fee

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DATE: February 21, 1997

TO: Councilor Ruth McFarland, REMCom
Councilor McLain, REMCom

FROM: Councilor Don Morissette, Rate Review Committee Chair
Andy Thaler, Rate Review Committee Member
Steve Schwab, Rate Review Committee Member
Jim Cozzetto, Jr., Rate Review Committee Member
Shirley Coffin, Rate Review Committee Member
Monica Hardy, Rate Review Committee Member
Barry Bennett, Rate Review Committee Member

RE: Solid Waste Disposal Rate Report

The Rate Review Committee is required to make an annual recommendation of the Solid Waste Disposal Rate to the Metro Council Regional Environmental Management Committee.

The Rate Review Committee accepted the latest draft tonnage forecast, presented at the Rate Review Committee meeting of February 19, 1997, for their consideration and recommendation of the rate. The discussion leading to the rate recommendation also assumed a Regional User Fee of $16 per ton. Attachment A shows the new tonnage forecast and the previously accepted forecast of October 18, 1996.

The Rate Review Committee moved that staff pursue the option of a Special Regional User Fee. Staff will address comments from the Solid Waste Advisory Committee and the Rate Review Committee. Staff will further analyze the cost allocation methodology, clarify the special user criteria, and further investigate the possible impacts of adopting a Special Regional User Fee.

The Rate Review Committee recommends the following rate for FY 97-98:

> A maximum total charge of $70 per ton for the solid waste disposal rate including DEQ and Rehabilitation & Enhancement fees.

MR:clk
cc: Mike Burton, Executive Officer
Bruce Warner, REM Director
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Attachment A:

Presented on
February 19, 1997

Comparison of Revenue Tonnage Forecasts
Forecasts Prepared for FY 1997-98 Budget

FY 1997-98 Forecast Prepared	Revenue Tonnage		
	Metro Transfer Stations	Non-Metro Facilities	Regional Facilities
Oct. 18,1996	676,163	427,826	1,103,989
Feb. 12, 1997	**725,578**	**450,736**	**1,176,314**
Increase	49,415	22,910	72,325
% Increase	7.3%	5.4%	6.6%

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