



METRO

MEETING: REM Rate Review Committee
DAY: Thursday
DATE: November 20, 1997
TIME: 5:30 p.m. to 8:00 p.m.
PLACE: Metro Headquarters, Room 270

1. Review last week's decisions:
 - Reallocate to the Regional User Fee:
 - ⇒ health & safety
 - Reallocate to the Metro User Fee:
 - ⇒ transfer station management
 - Reallocate to Transport and Disposal:
 - ⇒ avoided cost
2. Tonnage projections (see attachment)
3. Rate scenarios (see attachments)
 - I. Base Scenario -- set rate to recover costs exactly
 - II. Scenarios with \$63/ton tip fee
 - III. Scenarios with \$60/ton tip fee
4. REM recommendation

SA:clk

Attachments

cc: Mike Burton, Executive Officer
 Bruce Warner, Regional Environmental Management Director
 Jennifer Sims, ASD Director and CFO
 Craig Prosser, Financial Planning Manager
 Dennis Strachota, Principal Admin. Services Analyst
 Roosevelt Carter, Business & Regulatory Affairs Manager
 Maria Roberts, Principal Admin. Services Analyst
 Sarah Adams, Associate Management Analyst
 Ruth McFarland, Metro Councilor
 Don Morissette, RRC Chair, Metro Councilor

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Tim Raphael, Executive Analyst
 Kerry Toda, Director's Assistant
 John Houser, Senior Council Analyst
 Jon Kvistad, Chair of the Council
 Susan McLain, Councilor
 Chris Billington, Office Manager, Clerk of the Council
 Jeff Stone, Senior Management Analyst
 Jennifer Erickson, Associate Planner
 REM Managers



METRO

DATE: November 18, 1997

TO: Rate Review Committee

FROM: Bruce Warner, Director,
Regional Environmental Management Department

RE: Rate Scenarios

Per Rate Review Committee (RRC) recommendation, a revised tonnage forecast and \$63/ton and \$60/ton rate scenarios have been produced. Along with these, you will find a "base scenario" that plots the rate as it would be with no use of undesignated funds; and a summary stating the assumptions inherent in the scenarios, recapping our rate-setting objectives, and stating findings and conclusions.

The rate scenario variations are:

| | I. Base Scenario | II. \$63/ton Rate | III. \$60/ton Rate |
|-------------------------------|-------------------------|--|---|
| a) Buy Down | N/A | Use undesignated funds to buy rate to \$63 | Use undesignated funds to buy rate to \$60 |
| b) Recycling Incentive | N/A | II. a, plus use \$700,000 from undesignated funds to subsidize recycling incentive curve | III. a. plus use \$700,000 from undesignated funds to subsidize recycling incentive curve |
| c) Defeas Bonds | N/A | II. b, plus use about \$9 million of undesignated funds to defease callable bonds | III. b, plus use about \$9 million of undesignated funds to defease callable bonds |

All scenarios include the \$5 transaction fee, revised tonnage projections, allocations to tiers approved by RRC, standard CPI cost adjustments, current budget estimates, and the use of undesignated funds for Capital Reserves.

The RRC should note that the \$700,000 needed to subsidize the recycling incentive curve is a preliminary number, and may be revised depending on the recommendation from the Solid Waste Advisory Committee.

Staff are currently analyzing variations on the rate scenarios and implications of different uses of undesignated funds. A rate recommendation will be distributed to the committee prior to or at the meeting of November 20, 1997.

Attachment A: Rate Scenarios

Assumptions for All Scenarios

1. \$5 transaction fee
2. New tonnage forecast (November 17, 1997)
3. No direct-hauling reload facilities
4. New tier allocations, as approved by RRC:
 - health & safety to Regional User Fee (RUF)
 - transfer station management to Metro User Fee
 - avoided costs to Transport & Disposal
5. 5 year rolling Capital Reserve funded out of undesignated funds
6. Only undesignated funds used to “buy down” rate
7. Designated fund balances calculated consistent with current requirements
8. Budgeted expenses adjusted for inflation
9. Calculation of the RUF is: estimated FY 1998-99 Tier I revenue requirements divided by regional tonnage plus excise tax, or \$11.88 per ton. Thus in Scenarios I. and II., in FY 1998-99, all of the undesignated fund contribution was applied to buying down the transfer station rate. After FY 1998-99, the contribution was applied to Tier I costs only to maintain the RUF at \$11.88 with the remaining “buy down” contribution applied against transfer station costs.

Objectives

1. Rate stability
2. Predictability in rates
3. Encourage recycling and recovery
4. Balanced Regional User Fee and Total Disposal Rate
5. Moving toward cost of service

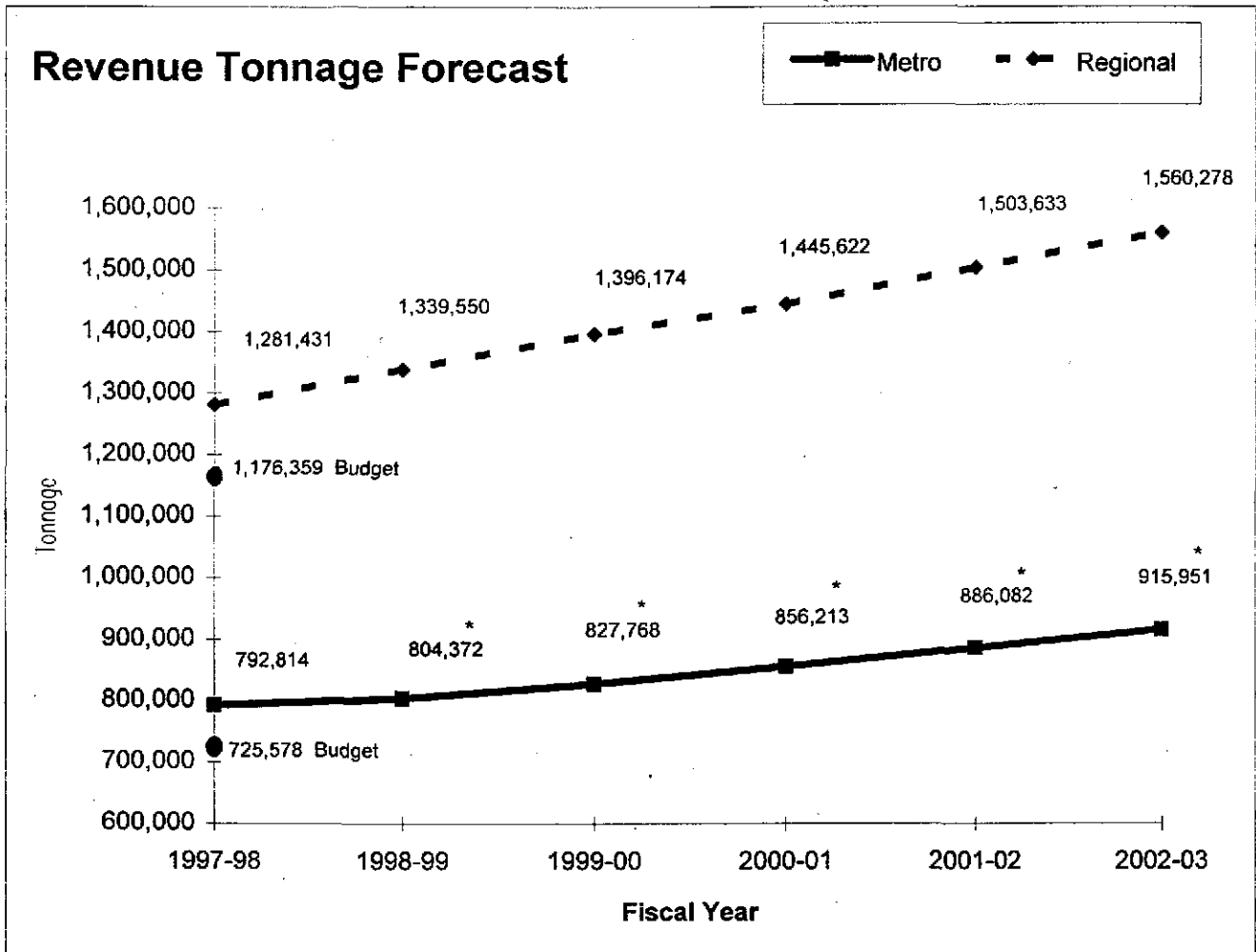
Findings

1. A \$63 Rate can be held through FY 2001-02, when the undesignated fund balance goes to zero.
2. A \$60 Rate can be held through FY 1999-00, when the undesignated fund balance goes to zero.

3. At \$63, the Metro Tip Fee decreases 10% and the Regional User Fee decreases 21% from the current fees of \$70 and \$15.
4. At \$60, the Metro Tip Fee decreases 14% and the Regional User Fee decreases 21% from the current fees of \$70 and \$15.
5. Allowing the rates to rise with CPI-adjusted costs, as recommended by the Budget Advisory Committee (BAC), would allow rates to be held longer than with the absolutely constant rates of \$63 and \$60.
6. Average effective rate (including the transaction fee) that will be reflected at the curb:
 - at the \$63 Rate = \$64
 - at the \$60 Rate = \$61
7. Neither of the “buy down” scenarios satisfy the bond covenants that require net revenues in excess of 110% of annual debt service. (REM staff are presently analyzing whether the bond covenants can be satisfied with the exception that allows fund balances to be used for this purpose.)

Conclusions

1. For the \$60 and \$63 rate scenarios, defeasing bonds is not feasible.
2. An \$11.88 RUF is inconsistent with Objectives 3 and 4. REM staff recommend examining the following options:
 - the recycling incentive curve being self-subsidizing, and not “bought down” with undesignated funds
 - targeting undesignated funds at other portions of the rate
 - reallocating costs
3. REM staff recommend annual adjustment of rates to reflect CPI, as per Budget Advisory Committee recommendations and Objectives 1 and 2.
4. REM staff are concerned that rates between \$60 and \$63/ton will cause dramatic rate shock if held firm until the undesignated fund balance reaches zero. REM staff recommend gradually decreasing dependency on undesignated funds as the balance nears zero by gradually increasing the rate to reflect actual costs (to “soften the landing”).



* assumes Recycle America and KB.

The revised forecast:

1. Assumes a slower ramp-up period for Recycle America than was assumed in the August 1997 forecast.
2. Incorporates actuals for all facilities through September 1997 and actuals for Metro facilities through October 1997

The revised 1997-98 tonnage projection differs from the 1997-98 budget projection by about 9%.

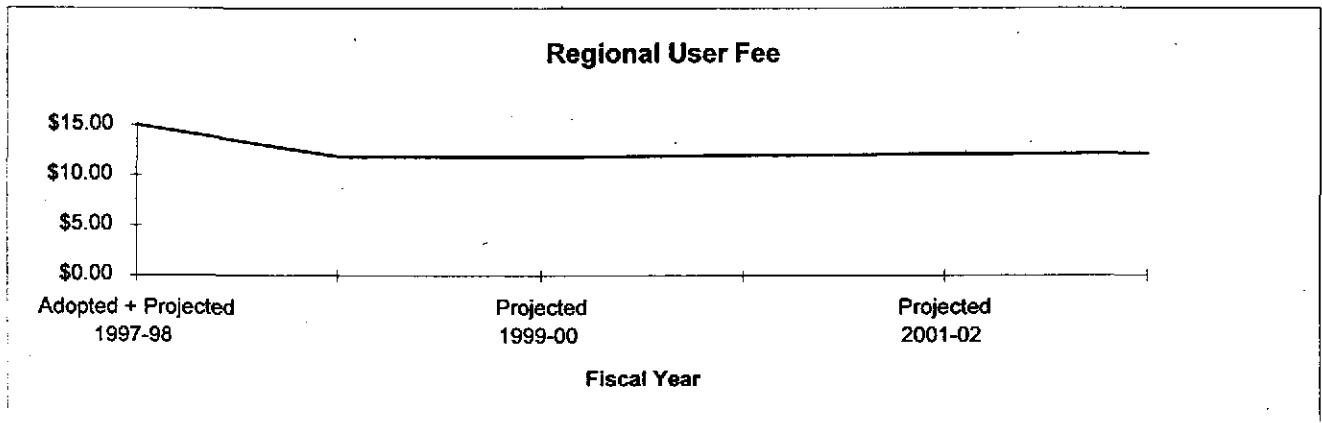
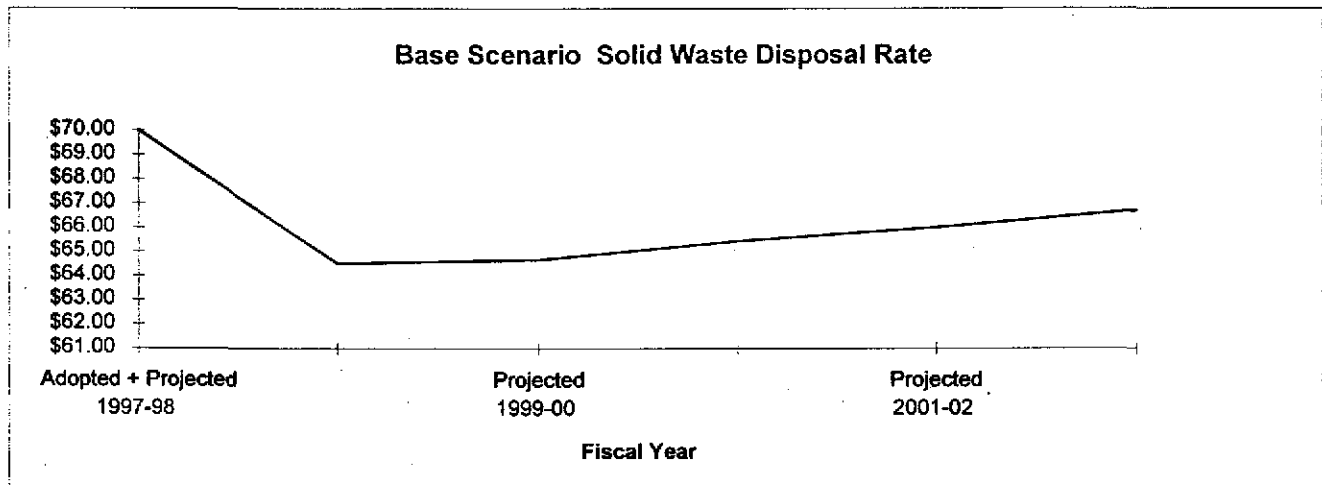
Base Scenario

Rate required to meet anticipated expenses without annual contributions from undesignated funds.

| | 1997-98 Adopted + Projected | 1998-99 Projected | 1999-00 Projected | 2000-01 Projected | 2001-02 Projected | 2002-03 Projected |
|--|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Solid Waste Disposal Rate | \$70.00 | \$64.52 | \$64.67 | \$65.44 | \$66.00 | \$66.71 |
| Regional User Fee | \$15.00 | \$11.88 | \$11.83 | \$11.99 | \$12.07 | \$12.17 |
| Undesignated Fund Balance (millions) * | \$12.9 | \$12.3 | \$11.8 | \$11.2 | \$10.6 | \$10.0 |

* changes in undesignated fund balance due to designated fund requirements (e.g.: working capital, operating contingency).

Disposal Rate Increases By \$2/ton Over 4 Years



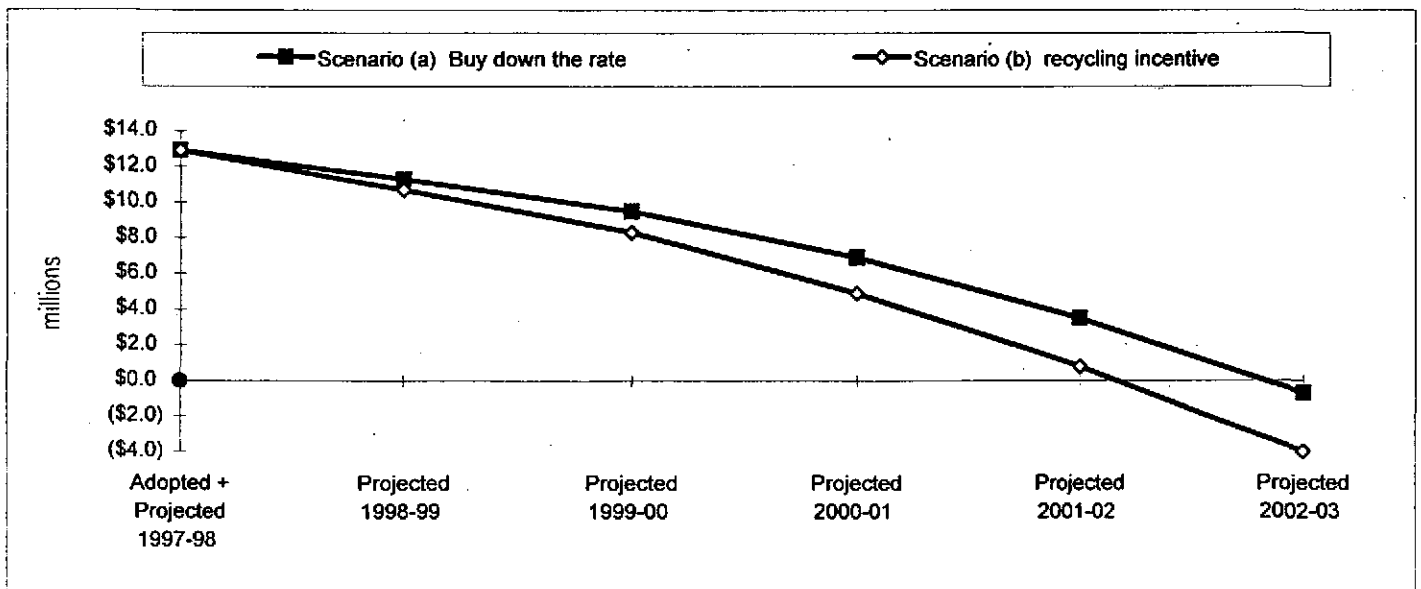
\$63/ton solid waste disposal rate

| | 1997-98 Adopted + Projected | 1998-99 Projected | 1999-00 Projected | 2000-01 Projected | 2001-02 Projected | 2002-03 Projected |
|---------------------------|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Solid Waste Disposal Rate | \$70.00 | \$63.00 | \$63.00 | \$63.00 | \$63.00 | \$63.00 |
| Regional User Fee | \$15.00 | \$11.88 | \$11.88 | \$11.88 | \$11.88 | \$11.88 |

Effect on Undesignated Fund Balance (in millions)

| | 1997-98 Adopted + Projected | 1998-99 Projected | 1999-00 Projected | 2000-01 Projected | 2001-02 Projected | 2002-03 Projected |
|------------------------------------|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Scenario (a) Buy down the rate | \$12.9 | \$11.3 | \$9.5 | \$6.9 | \$3.5 | (\$0.7) |
| Scenario (b) recycling incentive | \$12.9 | \$10.7 | \$8.3 | \$4.9 | \$0.8 | (\$4.0) |
| Scenario (c) Defeasable call bonds | Unfeasible: undesignated funds are depleted within one year; rate cannot be held without negative undesignated fund balance. | | | | | |

Undesignated Fund Balance Goes Negative in FY 2002-03



\$60/ton solid waste disposal rate

| | 1997-98 Adopted + Projected | 1998-99 Projected | 1999-00 Projected | 2000-01 Projected | 2001-02 Projected | 2002-03 Projected |
|---------------------------|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Solid Waste Disposal Rate | \$70.00 | \$60.00 | \$60.00 | \$60.00 | \$60.00 | \$60.00 |
| Regional User Fee | \$15.00 | \$11.88 | \$11.88 | \$11.88 | \$11.88 | \$11.88 |

Effect on Undesignated Fund Balance (in millions)

| | 1997-98 Adopted + Projected | 1998-99 Projected | 1999-00 Projected | 2000-01 Projected | 2001-02 Projected | 2002-03 Projected |
|--|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Scenario (a) Buy down the rate | \$12.9 | \$9.3 | \$5.1 | (\$0.1) | (\$6.3) | (\$13.7) |
| Scenario (b) recycling incentive | \$12.9 | \$8.7 | \$3.9 | (\$2.1) | (\$9.0) | (\$17.2) |
| Scenario (c) Defeasable callable bonds | Unfeasible: undesignated funds are depleted within one year; rate cannot be held without negative undesignated fund balance. | | | | | |

Undesignated Fund Balance Goes Negative in FY 2000-01

