RATE REVIEW COMMITTEE MEETING
11/13/97 SUMMARY

Members Present
Chair Don Morissette, Metro Council
Andy Thaler
Steve Schwab
Shirley Coffin
Monica Hardy
Barry Bennett
Garry Penning

Metro staff

Bruce Warner	Maria Roberts	Leo Kenyon	Dennis Strachota
Jim Watkins	Roosevelt Carter	Maria Roberts	
Terry Petersen	Jenifer Sims	Craig Prosser	

Guests

David White	Easton Cross
Jon Angin	Ray Phelps
Dean Kampfer	Bruce Broussard

Chair Morissette welcomed everyone to the meeting.

Mr. Warner briefly discussed the agenda for this week's meeting. The minutes from the last meeting were distributed but not acted upon.

Mr. Carter reviewed last week's meeting and the action items agreed upon.

Performance Based Rates

Staff has concerns that as the rates are lowered, recovery rates may lower. An incentive built into the regional user fee in the form of a curve that rewards MRFs through the reduction of user fees even in the early stages of recovery and continuing that incentive through a longer curve. We are continuing discussions as to the exact shape of the curve.

Mr. Warner added the committee concurred that an incentive instead of penalties for lower recovery was the way to proceed, and the rate should be self-supporting and not subsidized.

Allocations of Costs

Mr. Carter reviewed the costs allocated to the four rate categories as captured in the summary of last week's meeting. Mr. Carter further explained how these costs are allocated to the REM budget. He said there have been a number of discussion as to where these costs should be allocated, and staff believes some costs should be more properly located in another rate category.

ACTION ITEM: Health and Safety
These costs are allocated to protect the workers in Metro's facilities and have been allocated to the regional user fee, Tier II. Staff believes the costs for health and safety should be reallocated from Tier II to Tier I because these costs are greatly associated with the Household Hazardous Waste facility, St. Johns Landfill, and Metro's Transfer Stations. This would render the benefit of those costs to the whole region and not just Metro's transfer station.

Mr. Schwab concurred that these costs should more probably be in Tier I but asked if there were any other costs that should be reallocated such as rent for the building, electricity as well as the site mortgage?

Mr. Carter explained the mortgage was part of the debt service, and the committee would discuss that further on.

Chair Morissette asked if a motion should be entertained?

Mr. Schwab moved that the costs for Health and Safety be moved from Tier II to Tier I. Mr. Thaler seconded the motion. The committee voted unanimously that the costs for health and safety be moved from Tier II to Tier I.

ACTION ITEM: Transfer Station Management Costs
Mr. Carter explained staff is also proposing the reallocation of "transfer station management" costs from Tier I to Tier II. All of the wastestream in the region is supporting the costs of transfer station management but those costs should be borne by those persons that are really using the Metro transfer stations. This moves the region towards the rates reflecting the cost of service.

Mr. Penning concurred that SWAC had discussed it and generally agreed.

Ms. Hardy asked why it had been allocated to Tier II in the first place. Mr. Schwab explained that most costs originally were allocated to Tier II.

Mr. Schwab moved that Transfer Station Management costs be reallocated from Tier I to Tier II. Mr. Penning seconded the Motion. The committee agreed unanimously.

ACTION ITEM: Avoided Costs
Mr. Carter explained that staff proposes moving "avoided" costs to the transport and disposal fee. We collect revenues and pay a fee for handling transport and disposal of waste at the landfill. We have an agreement with our transfer station operator that if they can pull recoverable materials from that waste, they can avoid the cost of transport and disposal. These avoided costs have been allocated to Tier I of the (regional user fee). We are recommending that the avoided costs be reallocated to transport and disposal.

Mr. Warner added that this is essentially the reason for the change from $66/ton to $67/ton. The costs are spread over a smaller base.

Mr. Penning asked if the avoided costs were items pulled out by the operator: wood, cardboard, dry waste?

Mr. Warner said this was discussed by the SWAC at some length. They felt very strongly that it should be associated with the transfer station operation rather than spread across the entire regional user fee.

Mr. Cross (from the gallery) stated that the avoided cost is a regional benefit.

Chair Morissette said he was not sure he agreed with this proposal but that the will of the group should prevail.

Mr. Bennett asked if part of the problem was that the operators of Metro's transfer station was getting something that the MRFs weren't?

Mr. Anderson explained that the concept is that money is collected at the door, in this case the $70/tip fee. The transfer station operator has the opportunity to pull recovered materials from the waste before sending it to the landfill. If they pull material, Metro pays the transport fee. Under the new contract it is a negotiated $30/ton.

Mr. Cross (from the gallery) said the issue at SWAC was that MRFs don't get that money, and Metro staff said yes they do. SWAC was under the impression that the transfer station operator was getting paid for tons disposed and the MRFs did not. But the MRFs are not paying for any recovered materials either, only the residual. Mr. Cross said the difference is that MRFs collect the fee at the gate and at the transfer station, Metro collects the fee. The MRFs never take it out of their pocket.

Mr. White said to clarify one of the points made, that the issue is that if the operator of the transfer station removes it, they get $30. If a MRF operator removes the material it is not automatically $30, and the argument the MRF operators have is that it depends on what their costs are for transportation, what is offset in terms of the sale of the materials. There are other factors involved that don't make it a "slam dunk." So their argument was that for the transfer station operator -- take it out and you get $30. There are other aspects or nuances of a MRF operator's costs and what their savings are, so it is not an automatic $30. But he said he does agree with Mr. Cross that there is an equivalent savings although it may not be dollar-for-dollar and it may take a little more work to achieve it.

Mr. Kampfer (MDC) who is a SWAC member said he believed the members were pretty clear on the issue they were voting on. He said the tons discussed are associated with the transfer stations which is why it is allocated in is manner.

Mr. Penning said this was debated at the SWAC at some length. It was their decision to move it. Mr. Penning moved that avoided costs be reallocated to transport and disposal. Ms. Hardy seconded the motion. The committee agreed with the exception of Chair Morissette who voted no.

Fund Balance Discussion
Mr. Carter went to the next item: the fund balance.

At the beginning of FY 97-98: $44.9 million. Of that, $17.9 million is in restricted accounts: St. Johns Closure Account, Renewal & Replacement Accounts, Debt Service Account. These three accounts are all restricted and required by the revenue bond covenant.

The Rate Stabilization Account was set up three years ago with the concurrence of the Rate Review Committee and Metro Council. It is not part of the revenue bond covenant and the Metro Council has the discretion of moving it around.

The Capital Reserve Account was set up for capital replacement costs and any new purchases within the Capital Improvement Plan and outside the renewal and replacement account.

The Renewal and Replacement Account is required by the Bond covenant. This account is set up to replace existing equipment such as the transfer station scales, Metro South and Central buildings, compactors, etc.

That leaves the unrestricted fund balance of $21.3 million. Looking at that $21.3 million and where we expect to be at the end of FY 1997-98; we expect it to increase by $4.3 mil (because of increased tonnage, and interest earnings), as well as savings from contracts of $1.5 million ,and some projects we will be unable to do this fiscal year will account for another $1.4 million. The undesignated fund balance will grow to $28.5 million.

Of that, we need money for working capital and we currently budget it as 45 days of operating expenses -- tonnage related and personal services which comes to $6-1/2 million. We have a contingency account set up amounting to $2.7 million. Contingency is based on 10% of tonnage related costs and 5% of all other costs not related to tonnage.

Mr. Thaler asked if that was assuming you are going to use all of the current contingency and Mr. Schwab replied none of it would be used.

Ms. Roberts explained there will always be a need for this money in this account.

Mr. Warner added that the savings on the capital of $1.4 million is due to our recommendation to not relocate the Hazardous Waste facility at Metro South. He said the facility had been reconstructed to withstand some of the weather that had partially destroyed the facility in the winter of 1996.

Mr. Carter said four options for using this money are included in the handout with tonight's agenda.

One of the items is to buy the rates down and to sustain the rates for a period of time

Mr. Warner added that for every million we use to buy down the rates it lowers the rate $1.40 off the current rate..

Chair Morissette added to this that REM's tonnage forecasting has continuously been conservative.

Mr. Warner said the rate review committee essentially said that in forecasting REM's tonnage they should not assume any reloads will come on-line nor any new MRFs. Therefore our tonnage revenues should be based on a more optimistic approach.

Chair Morissette said that he is trying to say that even with a flat rate, it is hard to fathom that we won't collect more tonnage by becoming more competitive with our pricing.

Mr. Warner said the intent was to get guidance from the committee on specific items -- where they are allocated, guidance in terms of the fund balance and to go back and calculate a new fee based on the these new developments.

Chair Morissette said that in his opinion one of the reasons we are over collecting in our unrestricted fund balance is that we are continually underestimating the region's tonnage figures. Chair Morissette said that even if we had decided to buy-down the rate further last year, due to our conservative tonnage forecast, we would never have had to use it.

Mr. Bennett said that the $67/ton tip fee was still an artificially high number because staff has still not changed the tonnage forecast, so the other side of that coin is that we are buying it down but we don't know what we are buying it down from.

Mr. Schwab said his question was, was the 767,000 tons a budgeted number or is that your actual gate at this point. Mr. Warner said that was the actual number plus staff's closest estimate for the remainder of this year -- July, 1998. We budgeted on the estimated tonnage of 725,000. He said we are showing a flat tonnage estimate -- no reduction for the next year.

Chair Morissette said he would like staff to address the question: Will our tonnage increase by becoming more competitive with our rates? And he believes it will.

Mr. Schwab asked where we were going to get this new tonnage. Mr. Cross replied through growth in the region. Mr. Schwab does not believe that more tons will be diverted through either reloads or MRFs, but neither does he believe there will be a tremendous amount of growth in the region.

Mr. Penning believes that even if tonnage increases, if Metro lowers there rate enough they will collect the residuals from the MRFs.

Chair Morissette said he believes the procedure to follow here rather than to try to get to any specific number is to discuss whether or not as a group they want to consider buying down the rate. He said he would just as soon not do the buy-down, not that he has switched on that -- but he would show the chart projected tonnage going up because Metro will have a more competitive rate.

Mr. Warner stated that if the group still felt that staff was being too conservative with their tonnage projection that he invites some guidance.

Mr. Penning said he felt Metro had the opportunity to be a little less conservative on their tonnage projections.

Mr. Carter continued going through the options that might be made to deal with the fund balance.
Defease bonds that are callable. We have about $9 million dollars of bonds that are callable now and could reduce our debt service payments by about $450,000. We can take $9 million dollars and place it in an escrow account to relieve some of the fund balance.

Mr. Warner said that actually takes off for the first year, $450,000 of money we would have to charge on the rates. A little over .50 cents a ton, but that ramps up towards the end.

Mr. Strachota said the bonds would then be paid by 2007 instead of 2011. He said you are also losing interest, however. He said you are lowering your costs, but at the same time, you are lowering your interest revenue. It almost becomes a wash, but the payoff is when you pay off your debt in 2007.

The discussion continued as to whether or not it was an advantage to defease the callable bonds. It was debated as to whether or not there was any advantage and whether or not it proved the financial strength of the system.

Mr. Carter said another option was to defease the non-callable bonds. This was discussed at some length with no opinion expressed for or against.

Mr. Strachota said there was one more option that had not been discussed and that was very important which was to fund the capital reserve account. He said we were actually doing that this year. the amount of $4.5 million is the amount that would fund the next five years. This is being proposed to Metro Council as a way of covering the next five years of capital improvements.

Ms. Hardy commented that according to projections we will have money next year anyway because we are being so conservative with regard to the tonnage. Ms. Hardy believes Mr. Strachota's option would be a good one.

Mr. Thaler agreed that might be a good idea, adding that we are still able to earn interest by doing this even though you can't touch it. Mr. Thaler said that regarding option 1 that the budget committee decided in general that prefunding criteria should be viewed on a case-by-case basis. Prefunding of capital outlay may be appropriate in the timeframe of five years. But that still doesn't buy the rate down.

Chair Morissette said that one of the things you have to remember about the rates going down, if we keep high rates, you encourage others so you kind of meet yourself coming back. If we don't get the rates as competitive as we possibly can then some of our assumptions about tonnage going up and other things are no longer valid. I think it is important that we get as competitive a rate as possible to retain the integrity of the system and that in conjunction with the lower rate we also should look at the tonnage being slightly higher. He said he wasn't sure if that doesn't exclude some of the other proposals.

Ms. Hardy said that no matter what other option the committee decides upon, she believes they should use some of the money to buy the rate down. Ms. Hardy asked if, in light of the discussion about Metro not competing with private enterprise at last week's meeting if indeed there might be a problem with lowering the rates and Metro becoming too competitive?

Mr. Warner asked the committee which of the options they preferred pursuing, or if they desired to look at two or three options or a combination of options?

Chair Morissette stated that if the committee was interested in buying down the rate, and doing one of the other options, we wanted to make sure we maintained some contingency.

Mr. Bennett asked what would be a safe minimum balance for the contingency account?

Ms. Hardy agreed knowing that would allow them to make a more informed judgment.

Chair Morissette asked how much the fund balance had increased during the previous year and the reply was $8 million. Chair Morissette said he didn't want to take anything away from the staff because of that, but that he was embarrassed holding that amount of money.

Ms. Hardy asked if $10 million would be a safe, undesignated fund balance? And if that were the case, the committee had $9 million with which to pick an option from the list presented.

Mr. Thaler said you must be careful if proposing to buy the rate down $9 million because you might end up with a spike.

Ms. Hardy said the only way they can make recommendations is to run different scenarios. She asked the staff to figure how much it would take to buy the rate down $5/ton and put money toward capital reserves.

Chair Morissette asked the staff to reforecast the tonnage being as honest as they can be about what you think the tonnage might be with more competitive rates, because it was important that you take into account what Steve just said "rates aren't everything." But there is going to be a potential for more tonnage if the tip fee goes down. He would like to see more optimism in the tonnage, and with some buy-down.

Mr. Schwab said he would like to look at a $60/ton rate with a $5/transaction fee and see what you have to do to get there. He said they may leave the tonnage flat -- where it is and do something else, let them come up with some options. Or look at a $62/ton rate with a $5/transaction fee.

Mr. Warner asked the committee if they wanted staff to come back with at $60, $62 and a $63/ton fee with a $5/transaction fee, and what are the options to get there? The committee said that was correct. However, Chair Morissette said you have to modify the tonnage to do this.

Mr. Warner said staff could do a sensitivity run that shows how it changes. He said that in order to get to the rate the committee is talking about, they would have to buy it down.

Mr. Schwab said some of things he would like to know is what is the difference in tonnage from 1995-96, 1996-97 -- the percentage change and then use that to get an idea.

Mr. White said he thought it was important to put on the record that the SWAC also said that the use of the contingency fund should not only have a positive impact on recycling, but it shouldn't create a negative impact. He said that Sue Keil from the City of Portland was one, as well as a number of others said it also. He said that was what the discussion about the curve was about in terms of is there one curve that fits all facilities. So when you are talking about buying the rate down, you still have to talk about what the impact is, and how you predict that, I don't know. But I think you have to put that into the discussion. If you have a $60 or $62 tipping fee, what is the impact on material recovery facilities and SWAC was very clear that that was a component of the discussion.

Chair Morissette said staff has been addressing that problem at some length through their efforts in talking individually with the facility operators.

Mr. Schwab said to look at what has happened just by moving the money at the beginning of the meeting. He said the regional user fee was brought down about $3.50.

Mr. Warner said not to prolong this discussion longer, is he correct in assuming the committee would like the rate to be self-subsidizing rather than have the rates buy this down. If the regional user fee turns out to be $11, in order to make this whole, you may have to pump this up $1 here in order to be able to pay for the lower end out here (referring to the recycling incentive curve).

Mr. Schwab replied, or start it down faster. Perhaps start it at 20%.

Chair Morissette said the committee has asked staff to return next week with two scenarios: One at $60 with a $5/transaction fee; one at $62 with a $5/transaction fee, and staff will reanalyze what the true tonnages will be with those kinds of scenarios. He asked if we could frame another one where we start the curve earlier and taper it later.

Mr. Warner said he believed most people agreed with the shape of the curve, but perhaps you want to use the fund balance to allow the curve to encompass more.

Mr. Schwab suggested starting it at 10% and head down maybe a little faster. And if you have to buy it, that comes out of the fund balance.

Ms. Coffin, said she does like the idea to do whatever has to be done here (in order to allow the MRFs to continue) and use the fund balance to lower the rate.

Mr. Kampfer said, rather than designing the curve, the group should identify an amount of money out of the contingency fund for the staff to use to design the curve. He said it was important that SWAC saw this as a pretty high priority. [*Note: The clerk to the SWAC committee has been unable to identify where the SWAC made this determination.*]

Chair Morissette asked that with this scenario would we also have a buy-down on the overall rate as a proposal, or would this be a stand-alone proposal (moving the curve)? He asked how much of the $20 million would this (curve) represent? The answer was $700,000. He asked Mr. Kampfer if that was what he was talking about? Mr. Kampfer said it was. Chair Morissette asked if $700,000 is a reasonable number for the committee to bring back a proposal?

Mr. Bennett asked if the curve represented $700,000 already? And Mr. Thaler replied that that curve was a push. Mr. Warner said you could adjust it to be a push, and staff thought that was what the guidance was. But now he hears the committee asking them to adjust the line.

Chair Morissette said that with that scenario, you still have an ever-increasing fund balance, so perhaps a $62 rate with a $5/transaction fee, with a $700,000 buy down?

Mr. Warner asked that the committee give staff the guidance as to where they want the curve to begin, and they will use the fee they want, they will come back to the committee with what is needed from the fund balance to make that happen.

Chair Morissette said then the committee could just couple it up with whatever other proposal they might want.

The final suggestion was to use $60 and $63, each using a $5/transaction fee.

Mr. Schwab suggested he would like to again see the line items and how they get to the budget for the next year as well as a five year projection.

Mr. Strachota addressed the committee saying he was still concerned that staff was not getting clear guidance on which of the four options the committee would like to set their priorities. As an example he said that if we don't set aside money for the capital reserve, the tip fee is going up and you will have a larger amount to buy down. So it would be useful, as staff looks at the options, and develop scenarios, which of the four options should get higher priority.

Ms. Hardy said it would interesting to see how much money it would take to fund the capital reserve and buy down the rate.

Mr. Schwab asked how much it was. Is it $4.3 million for one year? Mr. Strachota said it was $4.3 for the full five years.

Chair Morissette said he was not clear what kind of a response was being requested, obviously it is important to maintain our facilities. Mr. Schwab said that if you put it as a line item you are talking about $1/ton.

Mr. Strachota said the question here is that if you only have a certain amount of money to work with, where would you spend the money first; would it be to buy down the rate; defease the bonds, or on the capital improvements. He would like some guidance as to the priority of these options.

Chair Morissette again stressed his opinion that he thought it was extremely important for Metro's transfer stations to be as competitive as possible and maintain a strong system, and one way to do that without hurting recycling is to become competitive. He said somewhere down the line is new buildings -- we do have to maintain what we have, of course.

Mr. Strachota said that could be countered by stating that to remain competitive means that you have the facilities in place to be able to provide the services you need to meet the demands. For example, in order to automate the facilities, we had to put in a new scale, and that is a new capital improvement that would have come out of capital reserve. Those are items that keep us competitive.

Chair Morissette said that was a good point.

Mr. Schwab said that given the dynamics of the industry, do you even know what you will need five years down the road?

Mr. Strachota said that without extending the argument too much, the CIP plan (being presented to Metro Council next week), the purpose is to make it predictable in terms of where you will get the money for paying for those improvements. Part of the thing it does is to force us to try and even out those expenditures so we are not constantly carrying over extra fund balance each year because we didn't spend it. So it is a way of providing stability even though it may be small. Because we are not budgeting too high each year, we have a better idea each year on capital improvements.

Mr. Warner expressed his suggestion. He said he believes the group understands the concepts but until they see some numbers and understand what happens with the various scenarios, it is hard to come up with a recommendation. He hears the committee asking for:

1. \$60/tip fee, plus \$5/transaction fee.
2. \$63/tip fee, plus \$5/transaction fee.

In order to get there, staff can build two or three scenarios of how to get to that. We will use a combination of a straight buy-down, or \$5 million plus some buy down, plus an incentive. We will tell you what that does as well as telling you how that will play in a three to five year time period. Mr. Warner asked if staff could put those scenarios together by Tuesday in order that the committee could measure the scenarios and be prepared to discuss them at the Thursday meeting.

Chair Morissette said to not forget to include what a lower rate does to the region's tonnage forecast. Mr. Warner said that was part of the scenario.

Mr. Penning asked if staff could also show what would happen if we funded capital for 2, 3, and 5 years?

Mr. Thaler said he agreed with the capital reserve, the buy down, a number of options and scenarios to encourage recycling, but he does not agree with defeasing the bonds. It locks the money up and you can't pull it back out again. It does not make sense to buy down bonds unless you have an interest differential, which Metro does not have.

Ms. Hardy disagreed with Mr. Thaler. She believes defeasing bonds can be a good idea.

The next meeting will be held the following Thursday. The meeting was adjourned.