RATE REVIEW COMMITTEE MEETING
November 6, 1997

Members Present:
Chair, Metro Councilor Don Morissette
Barry Bennett
Shirley Coffin
Andrew Thaler
Garry Penning

Members Absent
Steve Schwab
Monica Hardy

Chair Morissette indicated to the committee that we have set forth a pretty aggressive schedule. The plan is currently to meet the first three Thursdays in November from 5:30 until 8:00 to try and draw a conclusion on Metro's tip fee.

Mr. Warner said Metro has an opportunity and a need to lower the tip fee to reflect our costs which are down from where they were the last time the committee convened. He said that the negotiation or amendment of the new contracts for disposal, and transportation, as well as operation of Metro's two transfer stations, have all resulted in considerable savings to the agency.

He said that lowering the tip fee creates the fear of an impact on recycling and recovery of materials. He said that the SWAC has been deliberating on some of these issues and hopefully has some helpful recommendations.

Mr. Warner said it is also important to balance the allocations and where the rate should be adjusted. He said it is very important to coordinate with our local government partners.

Mr. Warner said at this meeting we want to discuss the current rate structure, our operating budget, the tonnage forecasts and the allocation of costs under the current method. Also what will happen to the rate as a result of our operating contracts and tonnage increases that affect the rates dramatically.

Two other subjects we will discuss tonight:

1. Source-separated Recoverables (SSR) Fee
2. Transaction Fee

Mr. Warner said the group will hopefully be ready to make a recommendation to the Executive Officer and the Council by the November 20th meeting.

Chair Morissette told the committee that Metro was overcollecting on the tip fee at about $4/ton and then asked each of the committee members if the outline for the goals of the committee was agreeable with them.

Mr. Bennett said it sounded fine and this summarizes some of the objective we have talked about before

Ms. Coffin posed the question as to whether we were here to drop the rate during this fiscal year.

Chair Morissette said there had been some discussion about a mid-year rate adjustment but it has not been presented to the full Council.

Mr. Warner explained to the Committee some of the mandates of the Metro Charter.

1. Even if we came to closure on a new rate on November 20, 1997
2. Executive Officer would submit recommendations to Council in mid-December.
3. It is then referred to the REM Committee, back to the full Council.
4. Council could take action in late January or the first of February.
5. Because of Charter requirements the new rate cannot become effective for 90-days after the passage of the ordinance by Council. In this scenario, the earliest a new rate could become effective is May, 1998.

Chair Morissette said it would not be his direction to let that objective be the driving force; he wants the committee to find a fair rate.

Mr. Thaler said he agreed with Mr. Bennett and Ms. Coffin. He said these materials basically lay out what we have been discussing.

Mr. Penning said it was pretty unanimous from the group in SWAC and the Budget Committee group that the rate can be lower and that everyone in the region benefits from a lowering of the rate.

Mr. Carter went through the changes that were made last year, what is different as a result of some of the new contracts, and assuming the same allocation what impact it would make. He said the current rate structure has been in place since 1991. Mr. Carter said the rate structure has four different rate categories:

<u>Two Fixed Categories:</u>

Tier I of the regional user fee = administrative costs, overhead costs of operating Metro, costs of staff of REM and support activities in the rest of the agency

Tier II of the regional user fee = fixed costs at the scalehouse, health & safety, fixed costs to Jack Gray, debt service, etc.

Regional Transfer Charge = variable costs (per ton contractual costs) of operating the transfer stations.
Transport/Disposal Fees = variable costs (per ton contractual costs olf transporting and disposing of the region's waste at Columbia Ridge Landfill.

Mr. Carter went through the REM budget for 1997-98 and the differences the new contracts are making.

Mr. Warner commented he found it interesting that Metro's costs are up due to increased tonnage but that overall with the new change order 7, those are cheaper waste tons so the unit costs go down.

Mr. Carter said the solid waste industry is quite dynamic right now and staff is often asked how viable our tonnage forecasts are and whether they are understated or underestimated. Mr. Carter gave the committee a quick overview of how staff makes their forecasts. He said the forecasts of Metro tons and actuals is relatively close, the problem has been in estimating when some of the new facilities we have been talking about will come on-line which will ultimately take away some of the Metro tons.

Mr. Thaler asked what Metro should adjust tonnages down because of some of these activities.

Mr. Anderson replied that the facilities are only one of the factors, there are also changes in federal regulations regarding disposal of soils, as well as the clean-up of some industrial sites because it has become cost-effective. These issues have created wind-falls in our tonnage.

Mr. Carter defined reloads for the committee members as non-Metro facilities that consolidate waste from smaller trucks to larger trucks. They generally have their own facility and they have multiple trucks and as a means of consolidating their costs they transfer from one truck to another and take it to a disposal site whether that be a Metro transfer station or direct-haul to a landfill.

Ms. Coffin commented there was some speculation of MRFs going to reloads. Is that a possibility?

Mr. Carter said that MRFs are designed to pull material (dry waste) from the wastestream, and that Metro encouraged this. This was an attempt by some of the haulers trying to avoid disposal costs and to encourage recycling materials. Reload facilities are not required to recover materials although they could recover materials from the wastestream. So the question is without a penalty why wouldn't everyone want to become a reload.

Mr. Warner commented that staff has estimated that due to reloads expected to come on-line during the next fiscal year tons will leave the system. On the other hand others are commenting that since our tonnage estimates have always erred on the up side that we should be more conservative with our tonnage forecast.

Chair Morissette added that some of the facilities are successful due to the high tipping fee and because we are talking about lowering the rate we may realize less tonnage but he believes that is a worst case scenario.

Ms. Coffin commented that we still have the issue of not discouraging recycling.

Chair Morissette said that is a concern for all of us. We may create an extra benefit for those who meet their recycling rate and perhaps penalize those who don't.

Mr. Warner said that if you disregard that reloads may come on line, perhaps the projected tonnage should be higher. Staff is currently struggling with how much tonnage will be displaced by reloads.

Chair Morissette said it was important to note that as we move forward in this discussion, and whether tonnage moves through our facilities or not, there is still Tier I and Tier II, and the question is not just whether or not tonnage will be up or down, but also the overall picture is changing especially in view of lowering the tip fee.

Mr. Penning asked how much money are we talking about if 115,000 tons goes to reloads?

Mr. Thaler replied it only affects Tier II.

Mr. Anderson said that for a quick answer if you turn to the sheet (2nd sheet Metro tip fee), what would be avoided is about 115,000 -- 120,000 tons that we would not collect the fixed costs on. We wouldn't incur variable costs. With the current rate model that is about $8/ton so about $900,000.

Mr. Penning reminded everyone that Metro has been conservative in their tonnage forecasts in the past. Mr. Penning asked staff how much was in the reserve fund?

Mr. Roosevelt replied there was $2-1/2 million in the rate stabilization account. He said there was approximately $18 million in various accounts, however, part of those funds were allocated to different projects and responsibilities: working capital of $6.5 million, a capital account of $4 million, etc.

Mr. Warner said the underlying question is what is the risk if we underestimate tonnage into Metro's facility.

Mr. Bennett said he has no way of knowing about reloads. He said he assumes staff has determined why they underestimated in the past and has adjusted accordingly. So what's left is the question of what will happen with the reloads.

Mr. Penning said that when MRFs were in the design stage, the tip fee was $75/ton and the Metro regional user fee of $17.50/ton was avoided if you pulled material from the wastestream (tons out the back door headed for a landfill). The tip fee went down to $70/ton, the user fee to $15/ton, but the differential was not enough to carry the MRFs because you are still paying for the 45% to 50% of the wastestream you had to landfill. In other words, there was not a dollar-for-dollar offset. At the same time the tip fee went down, the recycling markets almost disappeared so we were not receiving anything for our recovered materials. Ultimately people are looking very hard at whether or not it is profitable to build a building and put in the equipment for a new MRF and those facilities that Metro thought were going on-line have not appeared. Metro's proposed reduction in the tipping fee without the proper checks and balances makes it even more precarious for MRFs and reloads alike. Some of the suggestions from SWAC include lowering the percentage required for recovery at MRFs (which ultimately would move more material through the facility), on the other hand it may allow more material to enter the wastestream. Another idea was relief on the disposal of the material coming out of the facility if they use Metro's transfer station which would also benefit the regional ratepayer because of Change Order No. 7 with Oregon Waste System.

Chair Morissette commented that there may not be as many persons looking at direct-haul reloads after finding that Gilliam County will set their own permit fee for those entities.

Mr. White said that the haulers interested in building reloads have all expressed the opinion that they will have to wait to see what the tipping fee and the regional user fee would be to see whether or not it would be profitable for such a venture. It is Mr. White's opinion that the tonnage Metro has projected will go to reloads will not happen.

Mr. Warner expressed agreement with Mr. Whites opinion that reloads would not be implemented in FY 98-99. He said that based on these comments, he will ask staff to reassess their tonnage predictions.

ACTION ITEM: SOURCE-SEPARATED RECOVERABLES (SSR) FEE
Mr. Petersen reminded the committee that this issue was first introduced to them during deliberations of the budget review committee and at that time they expressed the opinion that only direct and indirect costs associated with (SSR) should be included in the fee. Other costs such as hazardous waste and waste reduction should not be included.

This subject has to do with the fees Metro charges for source-separated materials such as wood and yard debris that comes to Metro's facilities. The rate is currently $54/ton which was last reviewed and set by Metro Council in 1992. That fee was less than the contract operating price for acceptance of the material but it was Council's view that the lower fee would encourage source-separation. Since that time our contract prices have become lower and Mr. Petersen believes the fee for these materials should be more in line with what the true costs are now. Metro does not encourage these materials to come to its facilities and there are places throughout the region where they are accepted for a lower fee, but for a variety of reasons, self-haulers find it more convenient to bring them to Metro.

The Budget Review Committee recommended Metro include its direct and indirect costs of handling the material and to exclude the cost of programs like the Household Hazardous Waste Program, or our Waste Reduction Program that are not directly or indirectly related to processing this source-separated material. It was recommended we charge the contract price plus the Tier II charge (fixed costs associated with the transfer station such as debt service) plus the indirect cost.

Perhaps the most difficult issue is the indirect costs. Indirect costs include those transfers that REM makes to other departments for support services (graphics, photocopying, personnel). Mr. Petersen presented one option is to spread those costs across all tons and create a per ton cost of about \$3/ton and use that for the indirect costs associated with these materials. It should be noted that this method would include some costs that are not relevant to (SSR), such as costs of billing credit customers since most SSR are cash customers.

The contract price we pay BFI for source-separated wood and yard debris is \$30/ton, plus \$3/ton indirect costs, plus \$8/ton Tier II user fee which totals \$41/ton.

Mr. Thaler asked if that fee was subject to the excise tax. Mr. Petersen said that some of the excise tax.

Chairman Morissette asked what the budget impact on this was. Mr. Petersen said if we continue to charge \$54/ton which in his mind is overcharging, we would collect \$75,000 more than if we charged \$41/ton. So we would have a loss of revenue of \$75,000. Mr. Petersen added that Metro is not at risk if the market for this material were to drop because BFI has contracted with Metro for a fee certain.

Chairman Morissette asked if there was a motion on this item?

Mr. Bennett moved to adopt the source-separated wood and yard debris tipping fee of \$41/ton as staff recommended. Mr. Penning seconded the motion. The committee voted unanimously for Mr. Bennett's motion.

Mr. Anderson cautioned the committee that the \$41/ton figure is based on Tier II and that has not yet been established. **The committee voted unanimously to recommend the formula that Mr. Petersen represented for SSR, but that in no event shall it go lower than \$35/ton.**

ACTION ITEM: TRANSACTION FEE
Mr. Warner said a transaction fee is one of the changes proposed to Metro's rate structure as a result of Metro looking at our operations and with the potential of reloads with

direct-hauls and the ways we should provide for an incentive for large loads into Metro's facilities.

Mr. Anderson said the transaction fee moves toward a rate structure that better reflects the cost of service. This fee collects the cost of running our scalehouses, currently about $1.3 million and next year a little more, by a flat fee per vehicle. In addition, Metro would change a tip fee based on the amount of tonnage through the door. No matter how many tons you brought in on a single load, however, there would only be one transaction fee per vehicle. This fee is in effect an incentive to larger loads because they pay only one transaction fee per load regardless of tonnage disposed of.

The transaction fee is designed to pull out the scalehouse costs based on the estimated number of transactions and charging a fee to cover that. If there are no reloads on the horizon, Metro can expect to receive 325,000 transactions which would equate out to $4.70/transaction fee including excise tax. In the reloads do come onboard and tonnage bypasses the Metro facility, we will have about 290,000 transactions which in turn would make the transaction fee go up. The middle scenario with reloads, but no direct-haul is about $5 per transaction fee.

Mr. Warner said Ms. Roy at the SWAC meeting argued Metro should not make it cheaper to dispose of waste. But in Mr. Warner's opinion the large haulers are subsidizing the self-haulers or public customers coming through the gate. Mr. Warner said this is one logical way to actually make the rate more a reflection of the cost of service. Further, consolidating loads takes traffic off the roads, an environmental benefit.

Mr. Bennett said most utility bills are based on this formula.

Mr. Anderson said that even with a transaction fee, our minimum load price, currently $17.00 doesn't change because we charge. We would $5/transaction fee even for a small pickup load but the drop in the per ton rate balances that out. If we do this next year, there will no change to the person coming in right now for a minimum load.

Mr. Anderson said something else for the committee's consideration is a reduction or no transaction fee for those haulers using Metro's automated system. Metro has recently placed tags on consenting licensed and franchised hauler's trucks which allows them to use our automated scales during hours that Metro is closed and there is no one at the gate. BFI to process trucks coming in during off hours. The constraint on that agreement is that if this program is very popular, BFI will not be able to render 24 hour service without additional payment from Metro. At this point it is still in the experimental mode.

The question for the committee, specifically is during this experimental period, and if it works, should there be yet another fee or another consideration for haulers that choose to use Metro's transfer station only during off-peak hours.

Mr. Petersen said that Central's automated system is up and running and that South should be ready in January.

Mr. Penning moved that the RRC adopt the $5/transaction fee at the Metro Regional Transfer Stations. Ms. Coffin seconded the motion. Chair Morissette asked for further discussion. There was none. A vote was taken and the motion passed unanimously.

Mr. Warner asked the committee if they wanted to entertain a lower fee or "reward" for those haulers using the automated system in the off-hours?

Mr. Penning thought it would be a good idea to give a break to those haulers using the automated system during off-hours because ultimately the region's citizens benefited because haulers waiting in lines results in more hours worked and higher personnel costs for the haulers. But he wonders how many haulers would actually be able to utilize the off-hours because of constraints with city noise ordinances, etc. But the concept is a good one. Mr. Penning also wanted to know what the dollar amount of the incentive was before he made a decision.

Ms. Coffin believed the incentive for the haulers to use this automated system was that they didn't have to wait in the long lines. She would rather see the system up and working for a year before making a decision to lower the fee.

Mr. Petersen commented that the haulers are already asking for a break because they realize Metro is not paying personnel costs during these hours. He said there is a perception here.

Mr. Anderson said that one issue to explore here is that Washington County representatives have said that one significant cost component that went up was the time the hauler spent in route to the transfer station -- sitting in traffic and then sitting in line.

Mr. Thaler agreed with Ms. Coffin that the benefit to the hauler was already being realized -- not waiting in traffic and not waiting in line.

Ms. Coffin asked if the haulers incurred any expense in the automated system. Mr. Petersen replied that the haulers paid for the system through the tipping fees, but they are not incurring any additional costs. He said it is costing Metro $30/per truck for the tags we are installing on the trucks.

Chair Morissette asked if the group had any interest in further looking into

a) Rate for automated vehicles
b) Experience w/24 hour access
c) Rate for off-peak/off hours

PERFORMANCE BASED REGIONAL USER FEE

Mr. Anderson explained that MRFs are currently competing with a \$46 - \$70/ton disposal rate. A hauler who may have dry waste with recoverable materials in it has a choice of taking it to a limited purpose landfill at \$47/ton to \$60/ton, or to a Metro transfer station at \$70/ton or it can be taken to a MRF at whatever the MRF decides to charge. Included in these fees is a \$15/regional user fee. Currently, that regional user fee is forgiven on waste delivered to a MRF but is charged on the waste residual coming out the "back door." The recovered materials from the MRF go to markets, and the residual is landfilled. Of the materials delivered to the front door of MRFs, 35% to 45% is required to be recovered from the loads or they incur a penalty imposed by Metro. That penalty is in addition to the regional user fee on the materials leaving the facility out the back door.

Mr. Anderson explained that MRFs are competing against disposal and becomes the basis for setting their price for their revenues. MRFs get a small amount for recovered materials but the savings is realized in not having to landfill as much.

He said that if the tipping fee goes down to \$62/ton, the prices the MRFs are competing with have dropped. None of the fixed costs nor expenses for MRFs have changed. At some point it is no longer financially viable for MRFs to stay in business under the guidelines they have operated in the past. Metro is attempting to achieve two goals: recognizing MRFs are an important part of the region's recovery system, (1) to try to affect the expense line to keep the capacity in place and (2) to keep the recycling incentive in place. Metro is trying to create a "curve" that will allow MRFs to realize a lower user fee based on the percent recovered as opposed to MRFs having to meet a fixed recovery percentage. The incentive would grow more slowly as the loads became rich with recyclables (the higher priority mandated is source-separation over post collection recovery). This scenario does not require any outside subsidy.

Mr. Anderson said staff have also discussed a similar concept at the transfer stations themselves. The curve remains the same, but the [example on overhead slide] is set with a tipping fee of \$65. If a MRF would bring their dry waste residual to a Metro transfer station, Metro would charge them a tip fee based on their percentage recovery. Metro is not proposing subsidizing or giving a break to any current wet waste people, only new dry waste residual from the MRFs.

Mr. Penning said this scenario was presented to SWAC in order to keep the MRFs viable because of the proposed drop in the tipping fee. SWAC has not determined the numbers or where the curve should begin and end. But SWAC was unanimous on consideration of the concept.

Ms. Coffin asked if there was a greater cost for Metro in keeping track of the measurement?

Mr. Anderson said the mechanism to do this is already in place, it is just a matter of posting it at the various landfills.

Mr. Thaler asked what was the rationale of both a "tip" fee and a "user" fee.

Mr. Anderson said that if you look at the middle graph, that curve does not exactly follow our marginal rate, it is a little above. But the idea is to give some incentive to bring that MRF residual waste to the Metro transfer station which helps the region as a whole because the region is then sending more regional waste to Columbia Ridge Landfill where we benefit due to Change Order 7. So the regional user fee has two purposes: trying to maintain MRF capacity in the region; and doing it in a way that supports recycling through an incentive-based rate. It has those incentives at the transfer station, and in addition it is attracting waste to the declining rate through Change Order 7.

The group concurred this was a concept they would like to explore further.

Chair Morissette said the next meeting would take place on November 13th at 5:30 in Room 270. The meeting was adjourned.