



METRO

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DATE: July 29, 1999
TO: File
FROM: Sarah Adams Lien
RE: Rate Review Committee Materials Distribution List

Mike Burton, Metro Executive Officer
Bruce Warner, Chief Operating Officer
Terry Petersen, Acting Director, REM
Leann Linson, Business & Regulatory Affairs Manager, REM
Jim Watkins, Engineering & Analysis / Environmental Services Manager, REM
Doug Anderson, Waste Reduction, Planning & Outreach Manager, REM
Dennis Strachota, Strategic Policy Analyst, REM
Maria Roberts, Budget & Finance Supervisor, REM
Karen Green, Records Analyst, REM
Jennifer Sims, Director, Administrative Services Department
Dan Cooper, General Counsel
Marv Fjordbeck, Senior Assistant Counsel
Casey Short, Acting Financial Planning Division Manager
Tom Indieke, Assoc. Admin. Services Analyst
Peter Sandrock, Executive Analyst
Cherie Yasami, Assoc. Admin. Services Analyst
John Houser, Senior Council Analyst
Leo Kenyon, Senior Auditor
Ed Washington, Metro Councilor, Chair, Rate Review Committee/Solid Waste Advisory Committee



METRO

MEETING: RATE REVIEW COMMITTEE
DATE: August 4, 1999
DAY: Wednesday
TIME: 5:30 PM
PLACE: Metro Headquarters, Room 370 A

APR. TIME		PRESENTER
5:30 PM	CALL TO ORDER AND ROLL CALL	Washington
5:30 PM (5 min.)	1. Approval of Minutes from November 5, 1998 Meeting	Washington
5:35 PM (5 min.)	2. Introduction: Why we are meeting off-cycle	Washington/Petersen
5:40 PM (40 min.)	3. Background <i>Where we were.</i> <i>What's changed.</i> <i>Where we are now.</i>	Linson/Staff
6:20 PM (30 min.)	4. Presentation and Discussion of Rate <i>Action Requested: Recommendation on Rate Components</i>	Petersen
6:50 PM (10 min.)	5. Other Issues	

ADJOURN

1999-00 (2nd session) COMMITTEE MEMBERS: Councilor Ed Washington (Chair),
Barry Bennett, Shirley Coffin, Monica Hardy, Dean Kampfer, Paul Matthews, Steve Schwab

Change Order No. 8

To The Waste Disposal Services Contract

Summary from Staff Report

Resolution 99-2766 (Change Order No. 8) amended the disposal services contract between Metro and Waste Management Inc.

BACKGROUND

- ◆ In 1989 Metro entered into a 20 year contract with Waste Management for disposal of the region's waste at Columbia Ridge Landfill in Arlington, Oregon
- ◆ Since then market rates for disposal services in the Pacific Northwest have fallen while Metro's disposal costs remained high
- ◆ In July 1998 Waste Management merged with USA Waste, Inc.
- ◆ The merger triggered a default of the Waste Management/Metro contract, resulting in negotiations between Waste Management and Metro
- ◆ At the time of the negotiations, Metro was disposing of approximately 750,000 tons of solid waste per year through the disposal contract at an average per-ton rate of \$23.94
- ◆ The newly merged Waste Management is the largest solid waste company in North America

OBJECTIVES

- ◆ To obtain a disposal rate at or near the market rate in the Northwest (*the lowest rate in the Northwest at the time of the negotiations was Snohomish County at \$17.38/ton; others ranged from \$18 to \$21/ton*)
- ◆ To eliminate the possibility of an increase in Metro's disposal rate due to diversion of waste by firms owned or operated by Waste Management
- ◆ Introduce the possibility of more competition than under the previous contractual terms

KEY ELEMENTS OF THE NEW CONTRACT

- ◆ Reduces the average disposal cost to \$17.37 per ton
- ◆ Reduces the inflation adjustment through July 1, 2009
- ◆ Establishes a mechanism for maintaining Metro's rate at the market rate
- ◆ Extends the term of the contract five years to December 31, 2014
- ◆ Includes terms that permit up to 10% of the region's putrescible (wet) waste to go to landfills owned by firms other than Waste Management
- ◆ Includes terms that open the door to transportation alternatives

FINANCIAL IMPACTS

- ◆ Change Order No. 8 resulted in substantial gross cost reduction of approximately \$60 million over the term of the original contract (December 31, 2009)
- ◆ Net savings (cost reduction) due to this change order are projected to be approximately \$2.4 million in FY 1999-00 and approximately twice that in subsequent years.

Change Order No. 24

To transport contract with Specialty Transportation Services, Inc. (STS)

Resolution 99-2786 (Change Order No. 24) amended the contract between Metro and STS for transport services.

BACKGROUND

- ◆ Contract began January 1, 1990
- ◆ Expires December 31, 2009
- ◆ 24,800 loads per year
- ◆ \$9.9 million annual payment
- ◆ Two price components:
 - ✓ \$69,000 fixed monthly payment
 - ✓ \$361 per load payment

OBJECTIVES

- ◆ Reduce transportation costs
- ◆ Improve waste reduction and reduce traffic problems at Metro South
- ◆ Maintain future transportation options

KEY ELEMENTS

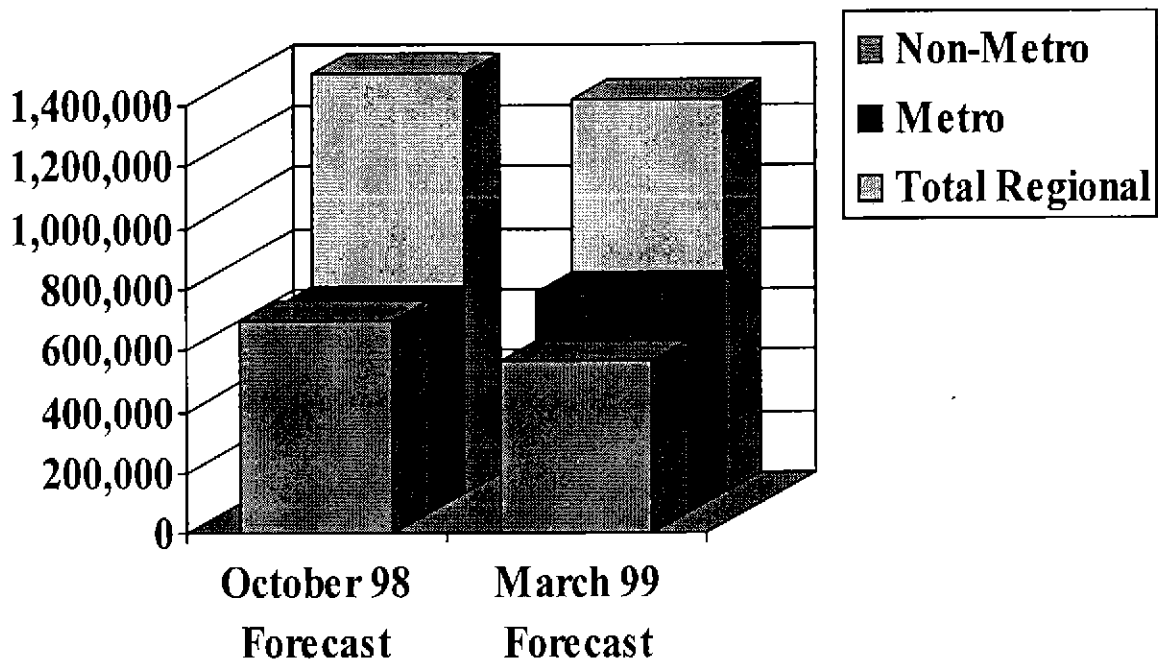
- ◆ Metro
 - ✓ Prepaid \$6.6 million in fixed cost
 - ✓ Released \$2.5 million retainage
- ◆ STS
 - ✓ Reduced per-load price from \$361 to \$331 (\$1/ton)
 - ✓ Eliminate shuttle cost at Metro South (\$96,000/year)
 - ✓ Reduce trailer storage at Metro South

FINANCIAL IMPACTS *(for duration of contract to December 31, 2009)*

Future payment reductions	\$18 million
Prepayment and lost interest	(\$9 million)
Net Savings	\$9 million

Tonnage Forecast

Fiscal Year 1999-2000



Comments on Changes

- ◆ March 99 Forecast is in line with reports of slow down in building permits
- ◆ A wet winter has slowed construction activity
- ◆ Growth in tonnage during FY 95-96 and FY 96-97 (6.2 and 9.7%) was extraordinary and affected subsequent estimates
- ◆ Similar trends have been observed in Clark County

Historical Overview of Contingency and Reserves

	FY 96-97 Actuals	FY 97-98 Actuals	FY 98-99 Estimate *
Operating Contingency	\$3.7	\$2.7	\$3.0
Landfill Closure	\$7.5	\$7.5	\$6.6
Renewal & Replacement	\$6.1	\$7.0	\$6.1
Debt Service (Central) + Reserve Acct	\$4.2	\$4.2	\$4.2
Rate Stabilization	\$3.2	\$2.6 ²	\$2.4
Working Capital	\$6.7	\$6.5	\$6.7
Business Assistance Acct	-	-	\$0.5 ³
Capital Reserve-Designated	\$2.6 ¹	\$6.0	\$5.3
Undesignated	\$10.9	\$12.0	\$1.6 ⁴
Total Unappropriated Balance	\$44.9	\$48.5	\$36.5

* Final closure of FY 1998-99 not yet available.

1. In FY 1996-1997, REM began to set aside funds needed for new capital assets. Since this year, contributions are based on requirements to fund the 5-year Capital Improvement Plan.
2. The Rate Stabilization account was restructured to specifically provide funding to cover (combined with Operating Contingency) a net 5% loss of revenue for a two-year period.
3. Established by Council in FY 1999-2000 budget. Funds set aside in FY 1998-1999 for accounting purposes.
4. The Undesignated Fund Balance decreased from \$12 million in FY 1997-1998 to an estimated \$1.6 million in FY 1998-99:

STS payment (Change Order No. 24)	\$6.6 million
Initial contribution to the Business Assistance Account	\$0.5 million
Net effect (revenue minus expenses) for the entire FY98-99, mainly due to a 6.2% decrease (from budget projections) in regional tonnage	\$3.3 million
TOTAL	\$10.4 million

Definition of Contingency and Reserve Accounts

Operating Contingency

- ◆ Use designated for unanticipated expenses due largely to tonnage fluctuations
- ◆ Amount varies depending on budget
- ◆ Calculated to cover 10% increase in tonnage & 5% in materials & services
- ◆ Funded from unrestricted fund balance

Landfill Closure

- ◆ Use restricted to St. Johns Landfill closure activities and post-closure liabilities
- ◆ When permitted by DEQ, REM will ask Council to dedicate remaining funds for long-term maintenance & monitoring
- ◆ No current contributions from rates

Renewal & Replacement

- ◆ Use restricted to renewal & replacement of existing capital assets
- ◆ Amount determined by independent engineering firm every 3 years
- ◆ Annual contributions funded from rates

Debt Service (Central)

- ◆ Ensures adequate funds for debt service
- ◆ Restricted to payment of first six months of debt service in subsequent fiscal year
- ◆ Fixed annual amount over life of bonds
- ◆ No annual contribution from rates required

Reserve Acct (Central)

- ◆ Use restricted to payment of debt service for Metro Central transfer station
- ◆ Amount depends on debt service payment amount for next fiscal year
- ◆ Rate funds vary with annual payments

Rate Stabilization

- ◆ Use restricted to minimizing solid waste rate increases
- ◆ Funded from unrestricted balance

Working Capital

- ◆ Ensures adequate cash flow to meet obligations
- ◆ Use designated for specific purposes
- ◆ Varies depending on operating budget
- ◆ Funded from unrestricted fund balance

Business Assistance Acct

- ◆ Use designated for business recycling grants and loans
- ◆ Provides flexible multi-year funding source for expenses which could vary from year to year
- ◆ Established with \$500,000 from Undesignated Fund Balance
- ◆ Annual contributions from rates may be required in future

Capital Reserve

- ◆ Ensures adequate funds for planned capital improvements at Metro's solid waste facilities
- ◆ Amount based on requirements to finance 5-year capital improvement plan
- ◆ Funded from unrestricted fund balance

Undesignated Fund Balance

- ◆ Expected to be spent down within 3 years
- ◆ Funds are not restricted but have been used to buy down solid waste rates and fund other reserve accounts

**SOLID WASTE REVENUE FUND
FINANCIAL FORECAST**

DESCRIPTION	1998-99 (Budget + Estimated*)	1999-00 (Projected) Rate change from Jan. 1, 2000	2000-01 (Projected)
RESOURCES			
<i>Beginning Fund Balance</i>	\$48,459,407	\$36,519,999	\$34,728,222
St. Johns Landfill	7,452,404	6,616,345	6,343,702
Renewal & Replacement	7,027,294	6,100,235	5,235,080
Reserve Account (Bond) + Debt Service	4,232,664	4,236,459	4,234,961
Rate Stabilization	2,589,492	2,447,372	2,959,821
Business Assistance Account	0	500,000	271,000
Unrestricted (Capital, Working Capital, unused Operating Contingency, Undesignated)	27,157,553	16,619,588	15,683,658
<i>Revenues</i>	\$55,856,684	\$53,736,496	\$51,219,390
Grants	0	0	0
Enterprise Revenues	53,103,222	51,273,300	48,701,892
Interest, Other Miscellaneous	2,753,462	2,463,197	2,517,497
Total Resources:	\$104,316,091	\$90,256,495	\$85,947,612
EXPENDITURES			
<i>Personal Services</i>	\$6,200,009	\$6,535,584	\$6,705,509 ⁽¹⁾
<i>Materials & Services</i>	\$42,169,277	\$38,421,371 ⁽²⁾	\$36,948,704 ⁽³⁾
Materials & Services-Ton Related	34,725,145	30,825,604	29,277,426
Materials & Services-Other	7,444,132	7,595,767	7,671,278
<i>Capital Outlay</i>	\$6,201,536	\$3,764,761	\$4,564,034
Debt Service	3,021,058	3,020,895	2,028,041
Interfund Transfers	3,648,837	3,785,662	3,860,362
Total Expenditures:	\$61,240,717	\$55,528,273	\$54,106,650
UNAPPROPRIATED FUND BALANCE			
<i>Restricted Accounts</i>			
Renewal & Replacement	6,100,235	5,235,080	4,423,751
St. Johns Landfill	6,616,345	6,343,702	6,334,246
Rate Stabilization	2,447,372	2,959,821	2,731,657 ⁽⁴⁾
Debt Service Reserve Account	2,829,008	2,829,008	2,829,008
Debt Service	1,407,451	1,405,953	2,397,088
Total Restricted:	\$19,400,411	\$18,773,564	\$18,715,750
<i>Unrestricted Accounts</i>			
Working Capital- Designated	6,730,678	5,864,379	5,862,878 ⁽⁵⁾
Operating Contingency - Designated	2,986,308	2,101,930	2,072,241 ⁽⁶⁾
Business Assistance Account	500,000	271,000	185,905
Capital Reserve - Designated	5,315,850	4,452,650	2,472,150
Undesignated	1,586,752.00	3,244,699.00 ⁽⁷⁾	2,532,038.00
Total Unrestricted:	\$17,119,588	\$15,954,658	\$13,125,213
Total Unappropriated Balance:	\$36,519,999	\$34,728,222	\$31,840,962
STS Payment	6,555,375		
Total Expenditures & Unappr. Balance:	\$104,316,091	\$90,256,495	\$85,947,613
Base Rate (Net of Excise Tax)	\$57.74	\$51.21	\$51.21
Excise Tax	\$4.76	?	?
Solid Waste Rate	\$62.50	?	?
Regional User Fee	\$14.00	\$12.90	\$12.90

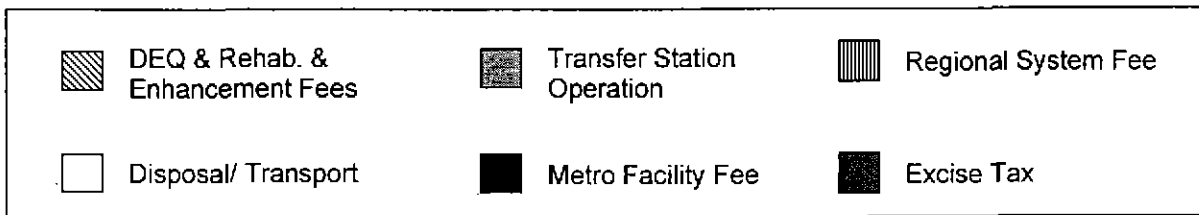
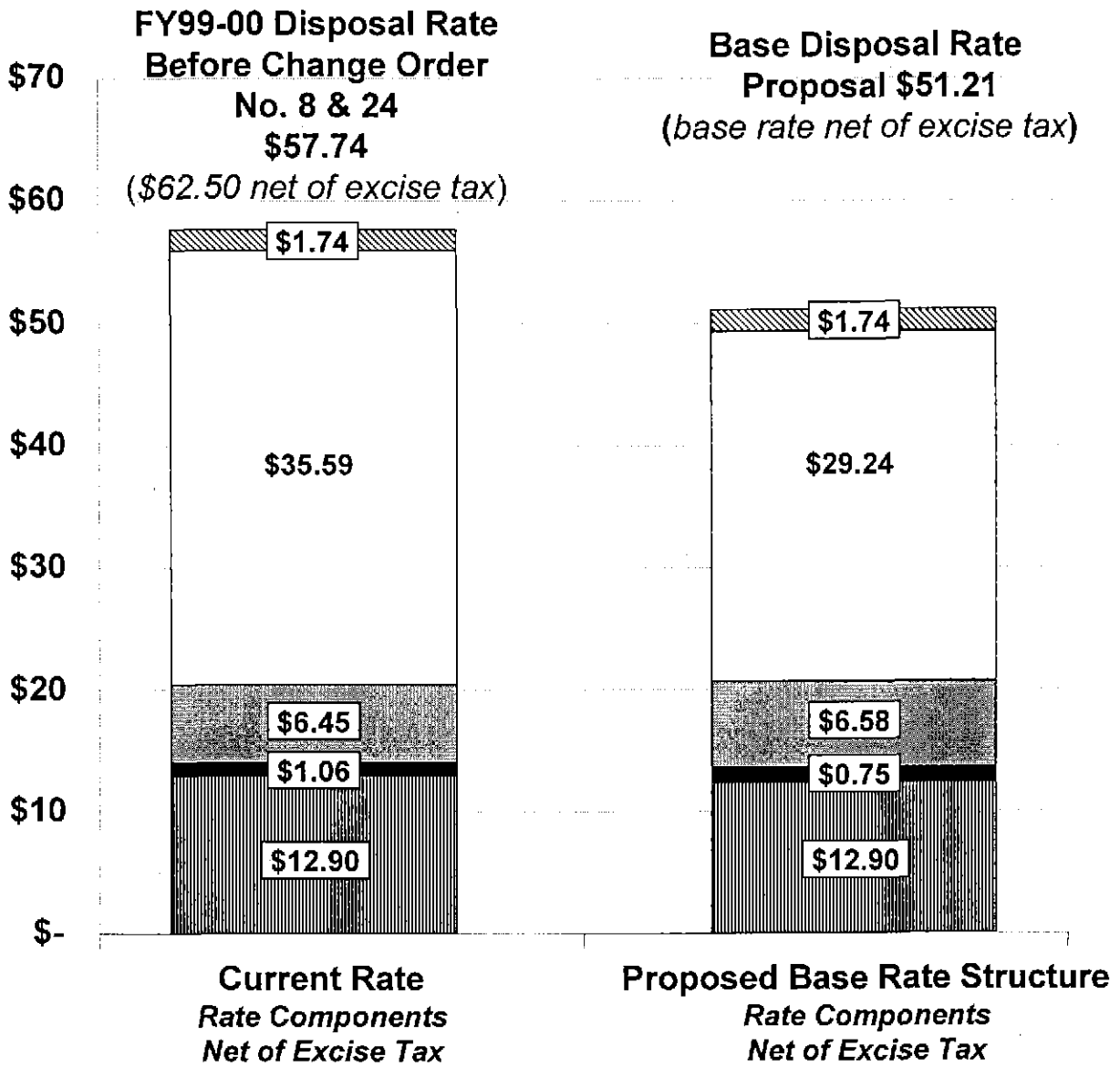
* Final closure of FY98-99 not yet available.

SOLID WASTE REVENUE FUND FINANCIAL FORECAST

NOTES

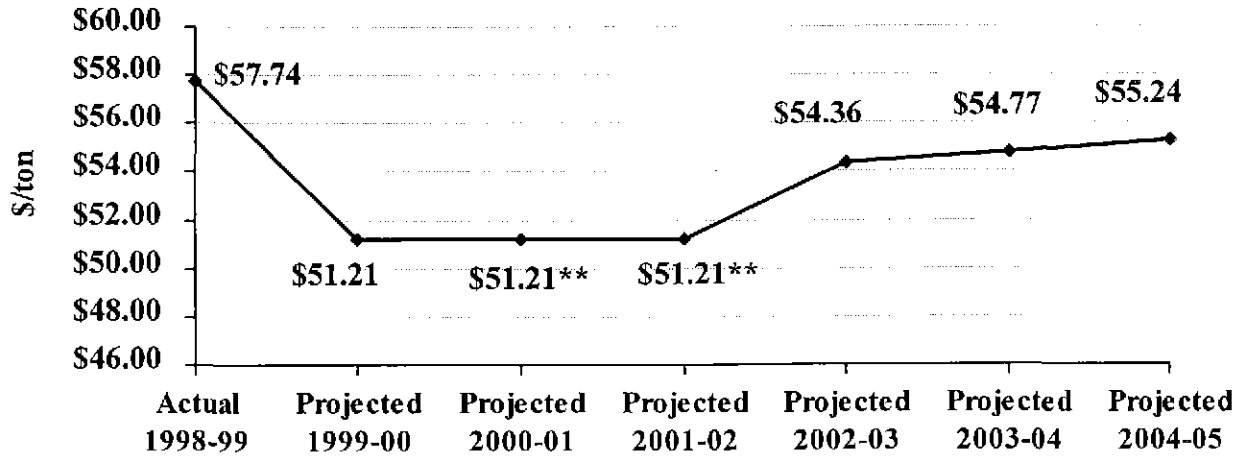
- (1) Budget for FY 2000-2001 assumes a 2.6% CPI for Personal Services and Materials and Services
- (2) Budget for FY 2000-2001 assumes no staff increases
- (3) FY 1999-2000 Current Programs and contract savings (cost reduction):
 - ◆ Full year for Transportation Contract (Change Order No. 24)
 - ◆ ½ year for Disposal Contract (Change Order No. 8)
- (4) FY 2000-2001 Current Programs and full year contract savings for both transport and disposal contracts
- (5) Varies according to changes in Revenue and Operating Contingency
- (6) Less Working Capital required due to reduction in Operating Expenses
- (7) Less Contingency required due to reduction in costs
- (8) Increase due to collecting \$62.50/ton for first half of fiscal year, resulting in over-collecting for STS expenses that were reduced by Change Order No. 24

Comparison of Current Rate Net of Excise Tax and Proposed Base Rate



Effect of Spending Down Undesignated Fund Balance

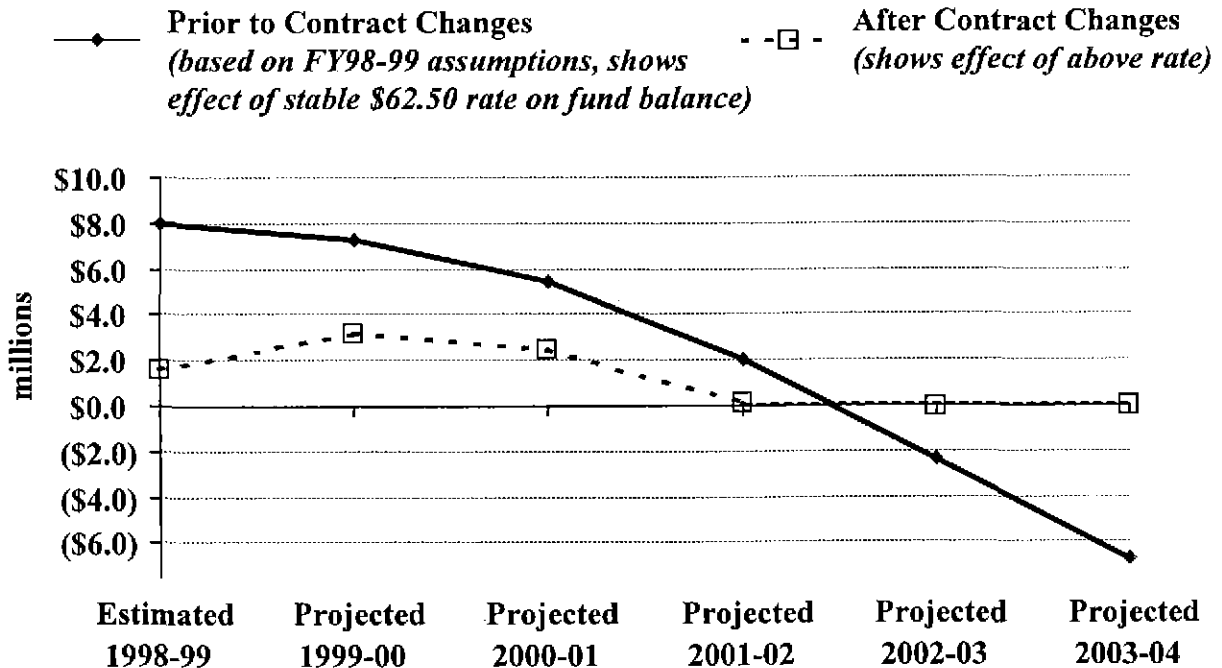
Required Tip Fee Base Net of Excise Tax, and Including DEQ, Rehab & Enhancement Fees*



* Assumes no new solid waste programs.

** Use of \$1 million from Undesignated Fund Balance to maintain rate.

Undesignated Fund Balance



Proposed Base Rate Components

Rate Components	Current Rate	Proposed Base Rate	Difference
	<i>Net of Excise Tax</i>		
Disposal/Transport	\$35.59	\$29.24	(\$6.35)
Regional System Fee	\$12.90	\$12.90	-
DEQ & Rehabilitation & Enhancement Fees	\$1.74	\$1.74	-
Transfer Station Operation	\$6.45	\$6.58	\$0.13
Metro Facility Fee	\$1.06	\$0.75	(\$0.31)
Total Base Rate	\$57.74	\$51.21	(\$6.53)
Transaction Charge	\$5.00	\$5.00	-

Key Elements

- ◆ The proposed rate reflects a new rate structure that is **net of excise tax** on each component.
- ◆ Metro Council decision about Excise Tax structure pending.
- ◆ Proposed base rate based on FY 2000-2001 requirements, assuming no new solid waste programs.
- ◆ Effective January 1, 2000 through FY 2000-2001.
- ◆ The reduction in the Disposal/Transport component reflects savings in these areas.
- ◆ Regional System Fee maintained at \$12.90 using \$1 million from Undesignated Fund Balance (about a \$1 impact on fee)
- ◆ All other tiers are equal to the revenue requirements for that tier net of excise tax.
- ◆ No changes have been made to the allocation of costs among rate tiers.

Rate Review Meeting
November 5, 1999

MEMBERS PRESENT

Garry Penning
Steve Schwab
Shirley Coffin
Barry Bennett
Paul Matthews

METRO PRESENT:

Leann Linson
Maria Roberts
Bruce Warner
Sarah Adams Lein
Dennis Strachota

GUESTS PRESENT:

Tom Imdieke, Metro
Marv Fjordbeck, Metro
David White, Haulers Association
Leo Kenyon, Metro
John Houser, Metro
Easton Cross, Consultant

Chair Morissette welcomed everyone back

Bruce Warner, Regional Environmental Management's (REM) director, introduced each of the committee members.

Mr. Warner said that he would be presenting Agenda Items 2,3,4. He outlined the expectations of the Committee for this funding cycle. Mr. Warner said he will be asking the committee to concur with staff's recommendation of holding the tipping fee to its current level for 1999-2000. He said the staff recommendation is based on the assumption that nothing else will change in the solid waste industry. Metro's disposal rates have been reduced for two consecutive years. The impact on the solid waste industry from the rate reductions are now being grappled with. Mr. Warner said it was the preference of the Budget Advisory Committee to continue holding the tipping fee at its current level for the coming fiscal year.

Mr. Warner would like the members of the Rate Review Committee to reconvene perhaps as early as next March to reassess two pending issues: (1) current negotiations with the new Waste Management over the disposal contract, and (2) the cost of service issue (how by customer Metro allocates transfer station costs).

Mr. Warner used overhead slides to illustrate the rate development process. He said over the past few years, we have underestimated the tonnage generated throughout the

region and consequently a generous reserve account has resulted. Mr. Warner said the first step towards an analysis of the tipping fee is to make adjustments in the tonnage forecast due to what we believe will be direct haul to Columbia Ridge Landfill. Metro Council will listen to testimony from Waste Recovery Inc., Pride Recycling in Sherwood, and Waste Management in Troutdale. If the Council agrees to allow direct haul this may result in a significant reduction in tonnage.

Chair Morrisette told the committee that he would not be a Metro Council person after the first of the year and that he sincerely hoped that the new REM Chair has a participatory role in developing REM scenarios regarding the proposed tipping fee.

Mr. Warner continued, saying the second step in the rate development process is the preparation of cost estimates for the FY 1999-00 REM Budget. He said the third step is the allocation of those costs to establish rate components. Staff then allocate revenues from disposal charges other than the tip fee and non-tonnage related revenues to rate components.

Mr. Warner said net revenue is actually down \$2.3 million due to less tonnage going through Metro's Transfer Stations. He said staff is initiating efficiencies that will lower costs even further. He said the revenue forecast was slightly down last year, and we are forecasting that tonnage will be only slightly more next year. The forecast assumes approximately 112,000 tons will be diverted from Metro transfer stations due to direct haul activities.

Mr. Warner said we are continuing to draw down the undesignated fund balance.

Mr. Penning pointed out that Metro will receive some revenues from the 112,000 (direct haul) tonnage, which is new revenue.

Mr. Warner said the largest solid waste costs are attributed to landfilling the region's waste, then long-haul transport costs, followed by compensation and benefits and finally transfer station operations. He said that REM's draft budget revenue requirement is \$51.4 million. This is a draft budget which will be submitted along with the recommended rates to Metro Council.

Mr. Warner reminded the committee that the direction from previous years was: if at all possible, achieve rate stability (one reason for reserves) and use the fund balance to buy down the rates. Using the fund balance to maintain our tipping fee at \$62.50 with the \$5 Transaction Fee, the fund balance goes to zero in the year 2002.

Mr. Warner said because Metro continues to subsidize the rate, the Rate Review Committee needs to discuss at what point we make minor adjustments so that in the year 2002 the region will not realize at least a \$5/ton leap in the tipping fee.

Mr. Schwab asked what portion of the fee direct haulers paid. Mr. Warner replied they are paying a blended rate of the disposal fee, \$24.50.

There followed a discussion of the components which make up the disposal fee.

Ms. Coffin asked if contributions are still being made to the Rate Stabilization Account. Mr. Strachota replied the account is growing by way of interest.

Chair Morissette acknowledged there has been an ongoing discussion on the rate stabilization and undesignated fund balances. He said the issues have been many: lower tipping fee for lower garbage rates; don't lower the rates because it hurts recycling, etc. He said we will probably not know the outcome of our new Waste Management Contract and the impact on the rate for some time, and he said that is specifically why staff is suggesting a status quo approach to the rates.

Mr. Schwab noted that in reviewing the REM budget, the Rate Review Committee three years ago requested the figures to be set out in a certain format, and now as he reviews the budget he finds it is in a completely different format. Mr. Schwab requested the budget figures be shown in the format they originally requested three years ago which illustrated previous history as compared to current and future budget figures.

Mr. Penning said he would like to see a year by year comparison of the budget also.

Mr. Warner replied they have not modified the structure of the budget.

Mr. Warner asked the committee to consider, if they agree with staff's analysis to maintain stability, a recommendation for the FY 1999-2000 Solid Waste Disposal Rate of \$62.50 and a Transaction Charge of \$5.00. The Disposal Rate of \$62.50 shall consist of the following components: \$14.00 Regional System Fee, \$1.15 Metro Facility Fee, \$7.00 Transfer Station Operation, \$38.61 Disposal and Transport, \$1.24 DEQ fees, and \$0.50 Rehabilitation and Enhancement Fee.

Mr. Schwab moved to accept the recommendation stated by Mr. Warner and to accept the status quo on the disposal rate. Mrs. Coffin seconded the motion. There were none opposed.

Due to the possibility of a change to Metro's waste disposal contract, Mr. Warner asked the committee if they would be willing and able to attend a Rate Review Committee meeting in February or March of 1999. The Committee said they could attend.

The meeting was adjourned.

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