A G E N D A

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METRO

MEETING: **RATE REVIEW COMMITTEE**

DATE: August 1, 2001

DAY: Wednesday

TIME: 6:00 - 7:30 p.m.

PLACE: Metro Regional Center
Room 501

AGENDA

1. Call to Order and Approval of July 11, 2001 minutes (10 min)..... *Councilor Atherton*

2. Tonnage Forecast (10 min)..... *Paul Ehinger*
   - *Report on tonnage trends and expectations. No action requested.*

3. Metro Council Solid Waste & Recycling Committee
   Direction on Cost Allocation (10 min)..... *Councilor Atherton*
   - *Report on Solid Waste & Recycling Committee policy directive for cost allocations. No action requested.*

4. Rate Model Assumptions and Resultant Unit Costs and Fees (30 min)..... *Tom Chaimov*
   - ***Action Requested**: Discuss assumptions and provide feedback.*

5. FY 2002-2003 Tip Fee Recommendation (20 min)..... *Atherton/Petersen*
   - ***Action Requested**: Recommend a FY 2002-03 Metro Tip Fee and Regional System Fee.*

6. Next Meeting ..... *Councilor Atherton*
   - ***August 15, 2001** (if needed).*

Please call Tom Chaimov at Metro with any questions at 503-797-1681.

Distribution (with attachments)
Councilor Bill Atherton
Jim Strathman
Jerry Powell
Bernie Deazley
Dean Kampfer
Paul Matthews
Mike Leichner

TC:gbc
Attachments
cc (w/o attachments): Interested Parties
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Enclosure 2

MEETING SUMMARY
RATE REVIEW COMMITTEE
Metro Regional Center – Room 270
July 11, 2001

Present:

Members	Metro	Guests
Councilor Bill Atherton, Chair	Councilor Susan McLain	Chris Bell, Merina, McCoy & Co.
Mike Leichner	Terry Petersen, Director, REM	Ray Phelps, WRI
Jerry Powell	Maria Roberts, Budget & Finance	Eric Merrill, Waste Connections
Paul Matthews	Tom Chaimov, Budget & Finance	Lynne Storz, Washington Cty.
Jim Strathman	John Houser, Council Office	Dan Schooler, Waste Connections
	Janet Matthews, Office of the Director	Tim Raphael, Celilo Group
	Jim Watkins, Environmental Svcs Mgr.	Easton Cross, BFI
	Gina Cubbon, Admin. Secretary	Dave White, Tri-County Haulers

Members Absent:
Bernie Deazley
Dean Kampfer

Councilor Atherton called the meeting to order.

The Councilor asked one question from the minutes of the last meeting, regarding the term "indirect costs." Paul Matthews explained that indirect costs, sometimes called overhead, or support services "are allocated in proportion to the directly allocated costs." With no objections and no further questions, the minutes were adopted. Councilor Atherton remarked that Gina Cubbon did an excellent job on them.

Terry Petersen mentioned there are a number of solid waste-related issues going before the Council, such as whether to keep or raise tonnage caps for local transfer stations, and a franchise application from Waste Management. These are just two of the issues that may affect the rates at Metro's transfer stations. Tonight's allocation discussion will be summarized and brought to the Council Solid Waste Committee's meeting on Wednesday, July 18. The next meeting will be August 1st and will look into other factors, such as tonnage forecasts and suggestions from the Council that will help determine a rate for FY 2002-03.

Mr. Petersen reminded the group that at the last meeting they had gone over several budget line items, some of which had names that hadn't matched up with the accompanying descriptions. That has been rectified; the revised version was included in the agenda packet. Also in the packet was further clarification of the policies involved in allocation to rate components.

At the June 27 meeting, Mr. Matthews had requested staff calculate the cost allocations on a strictly user-based structure. "Which facilities cause the cost, and then allocate costs accordingly," as Mr. Petersen explained it. He thanked Mr. Matthews for the request, saying it turned out to be a very interesting exercise. Currently, rates are *not* strictly based on a "user pay" system, but this exercise shows what would happen if Metro did. Tom Chaimov had some interesting results to show the Committee, Mr. Petersen continued, and afterwards, he'd like a general discussion about whether or not that's the way the group thinks allocations should be handled, or if there are reasons to stick with current policies.

Mr. Chaimov explained how staff went about calculating the user-based scenario, as explained in the packet. Three "customer classes" were used to work out where costs were caused: Metro, Private Facilities, and Regional. He said that certainly, percentages here and there can be moved, some educated estimates were used about FTE allocation, but it worked very well as a "first-pass exercise."

In answer to Jim Strathman's question about why the total fee is higher under the "user pays" graph column than the "Current Allocation" column, Mr. Chaimov said that as a result of reallocations, more costs (such as the Regulatory Affairs and Regional System Fee Credit programs) have been allocated only to private facilities. This drives up total facility costs and, hence, their per-ton revenue requirements. In addition, within this exercise, private facilities are held responsible for the cost of their front-door exemption. Other costs, such as debt service, have been assigned to Metro transfer station customers only, maintaining roughly the same per-ton revenue requirements at Metro's facilities.

Facilities that recover waste are exempt from collecting fees on every ton that comes in the door. "They need only collect fees on those tons they're going to throw away," he explained. So facilities such as Recycle America and WRI currently are liable for paying Metro the Regional System Fee and Excise Tax only on landfilled tons. This exemption is an incentive for facilities to recover more waste from the solid wastestream. However, there is a cost. It's a foregone revenue, an opportunity cost. Under the current system, that cost is built into the Regional System Fee; under this exercise, the cost is allocated just to the private facilities that *cause* that cost.

There was discussion of how this would affect recycling. By running expenses up higher for private facilities, the effectiveness of the incentive-based additional recycling would be impacted. If facilities have higher costs, they'll have to raise their rates, which would put them higher than Metro's, because Metro's not likely to raise their fees, Mike Leichner added. That's an assumption that may be premature, said Mr. Chaimov.

There was some further discussion of the cost of recycling for private facilities, including comments from the interested parties present. Mr. Petersen reminded the group that the figures being discussed are not a proposal, but are simply an exercise to find the difference between current allocation policy and a strictly "user pays" system. In effect, said Ray Phelps, this scenario taxes recycling. Mr. Petersen replied that that's correct, and the point of this exercise is that if an allocation system is based on a "user pays" system, higher costs may be one of the results. The question is: Is that good policy?

Mr. Chaimov explained that the high-level policy issue that this exercise highlights is beneficiary vs. cost causation. In other words, while only certain parties might cause a cost, the entire region may benefit from it. For example, the primary reason Metro has a Regulatory Affairs section is because of private facilities, not because of Metros two transfer stations. Therefore, private facilities cause the cost. Should these facilities, however, hear the entire responsibility for paying the cost of regulation, or does the entire region bear some responsibility because the entire region benefits from having regulated private facilities?

Jerry Powell asked for information about the policy implications of this approach to taxing recycling. Mr. Chaimov committed to developing a response to Mr. Powell.

Mr. Chaimov thanked Mr. Matthews for all the time he put in working with this model. There were many variations to what has been presented, but these are reasonable base-case numbers. No matter what reasonable assumptions are made about this type of allocation, private facilities end up paying more. Currently, the entire region helps pay for things that, under a "user pays" scenario, become the liability of private facilities.

"Recycling costs money," Councilor Atherton said succinctly. The more costs that can be spread across the region, the more recovery and recycling can be encouraged.

Mr. Leichner said he needs to see the proof that Metro's costs are justified, some hard data. Mr. Matthews responded that there had been much discussion of that nature, probably in the Budget Committee, but minimal discussion of how that could impact the tipping fee. Mr. Leichner feels that they should be looked at again. "Metro always said 'If we're very successful at recycling, we're going to be putting ourselves out of business, 'cause there won't be any tonnage left to collect fees on.' So maybe we need to start looking at some of these programs that are maybe running on their own merits and don't need Metro money to keep going."

Councilor Atherton said that's something to look at a little later, but the task now is simply the allocation process. The two topics need to be kept separate at this point.

Mr. Petersen again emphasized that this scenario was an exercise in response to questions that came up at the June 27th meeting. It is an option; if the Committee wants to recommend strictly a "user pay" system, this would be a path that could be taken. In the agenda packet, he continued, is an explanation of why, historically, Metro moved away from that type of system.

There was a question concerning whether or not some things, such as Metro's regulatory arm, should actually be allocated as a regional benefit. Mr. Petersen said that private landfills who are outside the Metro region also help pay for some of the regulatory costs of the private facilities that are inside the Metro boundary. "Right now, we take our regulatory costs and spread them across all tonnage...Those costs, just like some of the waste reduction incentives, are spread across equally, because the policy in the past has been that those were the kind of programs that benefit everyone in the region, not just the users of a particular facility."

The current system is "quite simple," he continued. "We've basically said that Metro's costs that are caused by private facilities are truly a regional benefit, and therefore, they ought to be included in the Regional System Fee. At the same time, for the most part, we've said that Metro's costs associated with the two Metro facilities are also of a regional benefit, and we put a lot of those costs over into the Regional System Fee, like the Debt Service on the bonds. For the most part, we've said all those costs are of regional benefit, whether it's caused by the private facilities or it's caused by a public facility, and therefore, the costs should be spread across the tri-county, Metro region equally." He said that's the big picture, but there are refinements to that. He reviewed "Policies Underlying the Cost Allocations," as included in the agenda packet. In order to keep the Regional System Fee at its current level, some changes were made in allocations, as mentioned at the last meeting. These may need to be revisited at some point.

Councilor McLain joined the meeting.

The group discussed what the transaction fee pays for. Mr. Phelps mentioned that perhaps the some Renewal & Replacement costs should be spread into the transaction fee at Metro facilities, for instance, compactor-related costs.. Mr. Matthews countered that it's the same $5 fee regardless of load size, and it would be unfair for a small, self-haul load to share the same burden of Renewal and Replacement as a hauler bringing in several tons, which surely taxes the compactors more.

Mr. Petersen went over the list of what type of service costs are allocated to the Regional System Fee for consensus. He mentioned that some variable costs, such as the cost of transfer operation, are "a function of the public customers we serve at Metro facilities. We have a higher transfer cost because we have more

traffic control," for instance. That reflects in higher costs at Metro facilities because they serve the public. A reasonable question, therefore, would be: Should some of those costs be pulled out of the variable costs and put either in the transaction or Regional System Fee?

Councilor Atherton said that one cogent comment from the last meeting was "We've provided this system, but we're, in effect, subsidizing self-haul." Councilor McLain countered, however, that private facilities have more choice about who they serve. Commercial haulers are much less expensive to deal with. Mr. Matthews added, "But you subsidize self-haul, probably to keep illegal dumping under control." The Councilors agreed. Currently, Mr. Petersen interjected, that cost is borne largely by Metro facilities, which do get the bulk of public customers.

Continuing, there was no argument regarding the third bullet, "Costs associated with investments that guarantee the provision of disposal infrastructure, and made on behalf of the general public." Regarding the next point, Debt Service, Mr. Petersen said that just as there are regional benefits from private facilities, such as recovery that the region pays for, there is regional benefit from having the publicly-owned facilities. Therefore, the Debt Service is included in the Regional System Fee to spread that cost region-wide.

Mr. Matthews said that he feels Debt Service should track with the customers using the facility. "If Metro becomes the disposer of last resort", he added, "the region will equal Metro, and it will all be a wash at that point. But I would think the Debt Service ought to go with the users of the system."

Mr. Powell countered he feels strongly that because Metro was the only solid waste disposal option for the region when the debt was incurred, that debt must still be paid regionally, regardless of how the system has grown since that time. It was an obligation taken on by the region in a time of need, and has to be honored.

The second facility (Metro Central), Mr. Phelps added, was built because of a conscious decision by Metro to have facilities located to balance availability to customers.

Bullet five: *Administration, space rental, legal, accounting, and other overhead.* In FY 1997-98, the decision was made to put all these costs under the Regional System Fee, because the percentage difference between the regional and Metro benefits of such services was negligible. In 1999, however, some of those costs were moved back out of the RSF in order to keep that rate down.

Dr. Strathman asked if that decision was the reason $1.067 million was moved to the Metro Facility Fee. Yes, answered Mr. Petersen. Beginning in 1999, of the total of $2 million of the $3 million in support service costs were covered through the Regional System Fee. About $1 million dollars annually have been recovered at the Metro facilities. Using the contract savings, he continued, Metro was able to keep the tip fee at $62.50, and the additional revenue was used to pay for those overhead costs. Mr. Petersen recommends those costs be put back into the RSF to be consistent with the policy set in FY 1997-98.

Dave White would like to know why, after the contract savings, there were increases in waste reduction and hazardous waste services costs. He was under the impression those were covered in large part by the contract savings, so why is there a shortfall? Mr. Petersen said it will be addressed, but it's important the group not leave the meeting thinking that the projected revenue shortfall next fiscal year is simply because programs were expanded. Inflationary costs in the existing programs have played a huge part. He said not only will this committee want further explanation, the Metro Council will, so yes, staff will be prepared to address Mr. White's question.

Councilor McLain wanted the Committee to know that their input is valued and appreciated. The system changes have been a very hard transition, and Metro wants to be sure they have valid and varied sources, resources, and services for the public. It's a matter of what's fair, what's reasonable, and how can this Committee and the public trust Metro's rate and the services provided. Metro wants to be sure it's doing things right, and with good business sense.

Councilor Atherton added that this Committee is "the lynchpin for a lot of solid waste decisions." He asked that the group stays the course; both tonight's meeting and the previous meeting have been very helpful.

The meeting adjourned at 7:45 p.m. The next meeting is scheduled for August 1, 2001 in Room 501.

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Revenue Tonnage Forecasting At Metro

A forecast of expected revenue tonnage is prepared twice a year, in April and October, by Metro staff. The primary use of these estimates of future tonnage is for budgeting and other financial matters. The October forecast is the estimate normally used for preparing the budget for the fiscal year beginning in the following July. These semi-annual forecasts are short-term forecasts that are primarily intended to give estimates of tonnage over the remainder of the current fiscal year and the following three to four fiscal years. Projections are made for periods beyond this assuming no changes to the status quo and that tonnage growth will continue at historic rates that approximate expected population growth. The following discussion provides an overview of the methodology used to prepare these estimates and the key assumptions used in the estimate prepared in April of 2001.

Methodology

The forecasting of Metro's solid waste revenue tonnage involves estimating three separate waste streams. These are:

1. **Core Tonnage** is defined as solid waste, except for special waste and petroleum contaminated soils.
2. **Special Waste** is generally a variety of industrial waste products requiring a Department of Environmental Quality permit for disposal.
3. **Petroleum Contaminated Soil** (PCS) is soil contaminated with petroleum products; a by-product of environmental clean-ups.

Core tonnage is by far the most significant waste stream and accounts for more than 90 percent of the solid waste delivered to the facilities serving the region. Long-term trends in core tonnage tend to be correlated to population growth and regional employment growth. While core tonnage has exhibited a relatively consistent long term growth, over short periods of one to three years its growth rate has departed significantly from the long term trend. The methodology discussed below relates primarily to core tonnage, but similar procedures are used for the other types of waste also.

Special waste appears to be significantly affected by the business cycle, but Metro has not identified any specific factors that relate to its generation rate. Petroleum contaminated soil appears to be generated at a relatively constant rate except when influenced by regulatory deadlines.

Step One

The initial step in estimating the solid waste revenue tonnage is to estimate the tonnage expected to be delivered to the region's facilities. Delivery tonnage is greater than revenue tonnage since it includes material exempt from Metro fees such as recovered materials and waste generated outside Metro's boundaries. The semi-annual tonnage forecast is prepared based on projecting recent trends in solid waste deliveries to facilities in the region's solid waste management system, and identifying factors that have caused a departure from the long term trends.

Factors identified as causing a variation from the long term trend in tonnage growth, such as increases or decreases in economic activity, are evaluated using available information to estimate the duration and magnitude of their impact on tonnage. Any new programs or trends that will impact tonnage are also identified and their impact assessed. The projection of current tonnage trends is then modified to reflect

the changes attributable to the items noted above. The result of this analysis is an estimate of tonnage generated and delivered to all of the facilities serving the region.

Step Two

The second major step in estimating revenue tonnage involves allocating the waste to specific solid waste facilities and non-system license holders. Metro currently estimates waste deliveries to 17 different facilities or non-system license holders. In addition to the two Metro transfer stations, they include five landfills with designated facility agreements, four non-system license holders and six privately owned solid waste facilities licensed or franchised by Metro.

An initial model allocation of waste is made based on the assumption that each facility will receive the same proportion of tonnage as it received during the last year or other period that most nearly represents the current operating characteristics of the regional solid waste system. Regulatory and operating characteristics of each facility are reviewed to determine whether each facility can operate within the terms of its license or franchise with the proposed allocation. If the proposed allocation would result in any violation of a facility's regulatory requirements, the tonnage is reallocated to comply with those standards. If a new facility is expected to come on line during the forecast period, the new facility is allocated waste based on estimates of the tonnage that will be attracted from other facilities.

Step Three

The revenue tonnage for each facility is then calculated based on the operating history of the facility. Metro fees are not charged on materials that are recovered at the various licensed and franchised facilities in the region. Each facility's delivery tonnage is reduced by the expected recovery at each facility to compute the revenue tonnage.

A number of facilities that serve the region accept waste from outside the Metro boundaries that is exempt from Metro fees. Adjustments are made based on the historic amount of out of district waste delivered to each facility. These adjustments have not changed materially over the last five years.

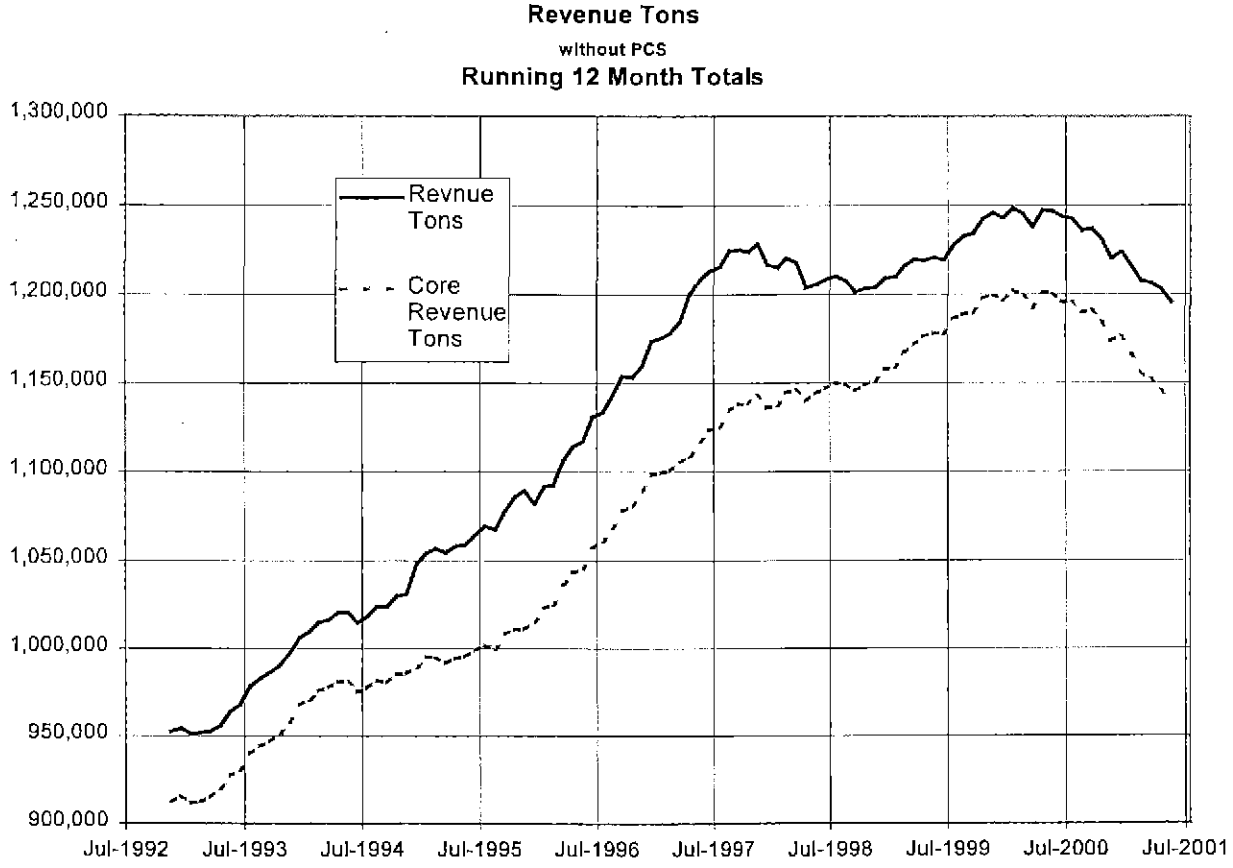
Step Four

Total revenue tonnage is then computed by totaling the estimated revenue tonnage expected from each facility or license holder.

Revenue Tonnage Trends

The following chart shows revenue tonnage since 1993. The running 12-month total is plotted to show the annual generation rate without the impact of seasonal variations. This graph is based on actual delivery tonnage through June 2001. Revenue tonnage is estimated based on delivery tonnage and may vary slightly from the amount shown. The striking aspect of this graph is the rapid and significant drop in revenue tonnage for FY 2000-01 of approximately 4% over the preceding fiscal year. This is the first extended period that core revenue tonnage has dropped in the last ten years. This drop of almost five percent is unprecedented during the time that we have kept detailed records.

Enclosure 3



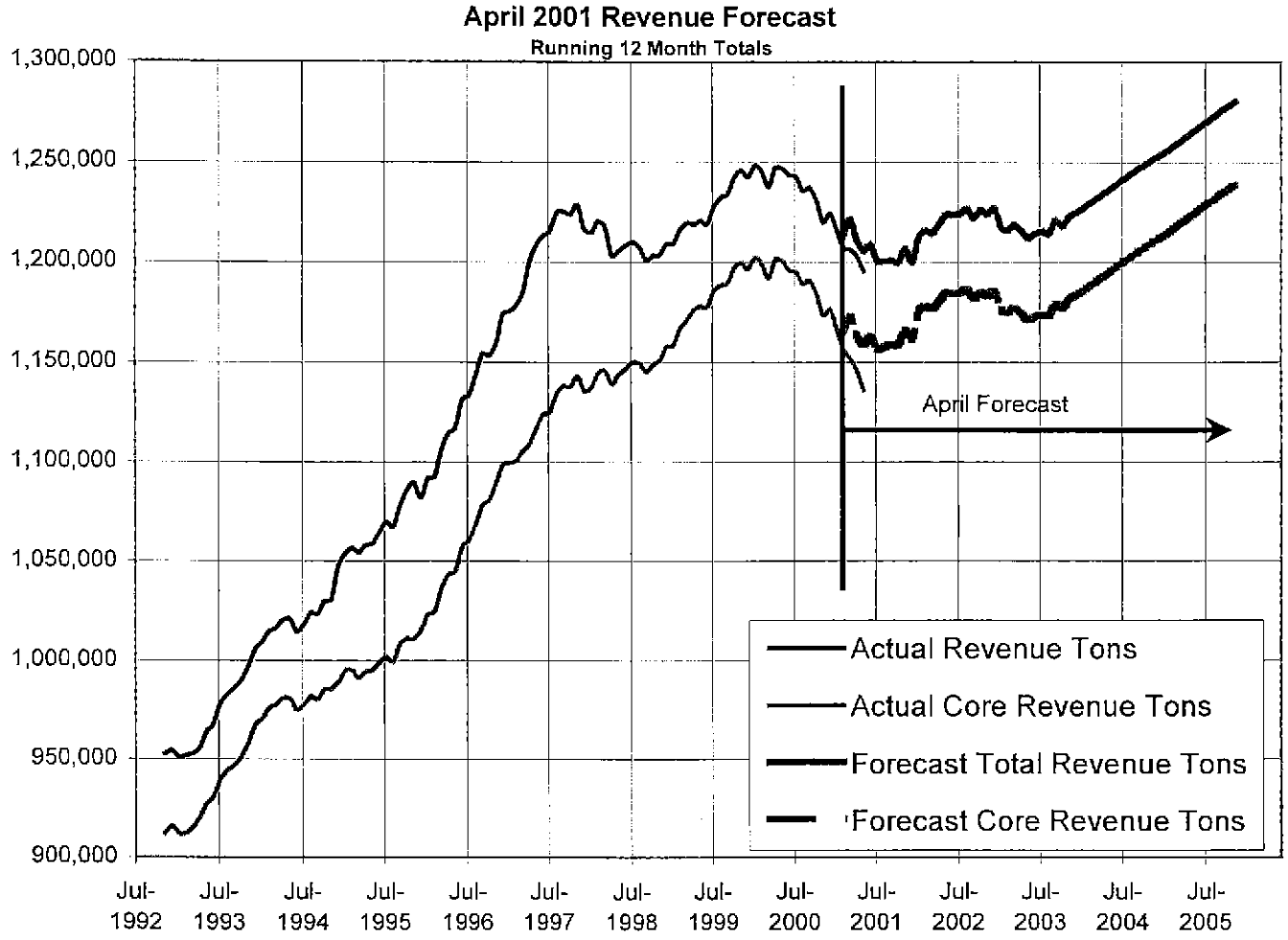
April 2001 Forecast

The following is a discussion of Metro's most recent revenue tonnage forecast prepared in April 2001. The specific assumptions used in the forecast are noted in the discussion

Revenue Tonnage Forecast
April 2001
(Excluding environmental clean-up waste)

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Metro Facilities	656,471	659,114	660,582	665,940
Non-Metro Facilities	547,675	554,179	563,181	570,899
Total Revenue Tons	**1,204,146**	**1,213,293**	**1,223,763**	**1,236,839**

This forecast was prepared in early April and included actual data through February of 2001. The forecast includes a significant reduction in deliveries of waste to the region's facilities for the current fiscal year through the first half of FY 2001-02. Based on the trends observed during the first seven months of the current fiscal year, we are estimating that tonnage delivered to the region's facilities will decline by 1.5% during 2001. This forecast is consistent with the March 2000 Oregon Economic and Revenue Forecast prepared by the State Office of Economic Analysis, in that it forecasts slow economic improvements in calendar year 2002. Increases in delivery tonnage during the 2002 calendar year over 2001 are expected to be approximately 1.15% or half the long-term growth rate of about 2.3% observed during the last decade. Growth in delivery tonnage is forecast to return to the long-term average in 2003 and beyond.



An actual decline in core revenue tonnage is something that has not happened in the region since the 1980s. Revenue tonnage is declining more rapidly than the amount of tonnage delivered to the region's facilities as a result of increased material recovery at those facilities. The FY 2000-01 forecast of 1,204,000 tons represented a reduction in revenue tonnage of about 40,000 tons compared to the previous year. We estimated that between 20,000 and 25,000 tons of this decrease is the result of additional recovery in the region. Approximately two-thirds of this increase in material recovery is due to the conversion to commingled collection of curbside recyclables. Decreased economic activity accounts for the remainder of the decline in revenue tonnage. Actual revenue tonnage for FY 2000-01 was 1,195,700 tons or about 8,000 tons less than estimated.

Key Assumptions

The April 2001 Forecast is based on the assumption that there will be no new facilities added to the system. We have also assumed that all facilities will comply with the terms of their licenses or franchises and stay within their current 50,000 ton caps. No increase in the tonnage cap at local transfer stations is anticipated in this forecast.

The forecast includes the impact of one new material recovery program. The City of Portland intends to begin operation of an organics recovery program in midyear 2002. This forecast estimates that this new program will reduce revenue tonnage by 15,000 tons during FY 2002-03 and by 30,000 tons per year thereafter. No other significant changes in recovery are anticipated.

The revenue tonnage shown in this forecast includes both "core tonnage" and special waste tonnage. The discussion above relates primarily to the "core tonnage," or mixed municipal solid waste. Special

Enclosure 3

waste includes a variety of waste requiring a special waste permit for disposal. During 2000, about 41,000 tons of special waste from the region was sent to disposal. This tonnage is expected to remain stable at this level throughout the forecast period.

In previous forecasts, petroleum contaminated soils were also included as revenue tons. Last year, the Metro Council established a new, reduced regional system fee and excise tax rate for environmental cleanup materials. Approximately 51,000 tons of this material was delivered to facilities serving the region in 2000. This tonnage is expected to remain stable during the forecast period. All of this will be revenue tonnage, though at much lower per-ton rates than before. Previously, about half of these waste products were used beneficially at landfills and were therefore exempt from fees.

Summary and Conclusions

Revenue tonnage is expected to drop during the current fiscal year compared to last year and then slowly increase over the next five years. The current drop in tonnage is due to both additional recovery and a slowdown in regional economic activity. While future growth in waste generation is expected to return to "normal" levels, growth in revenue tonnage is expected to lag due to successful material recovery efforts, particularly with organics.

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PROPOSED ACTION

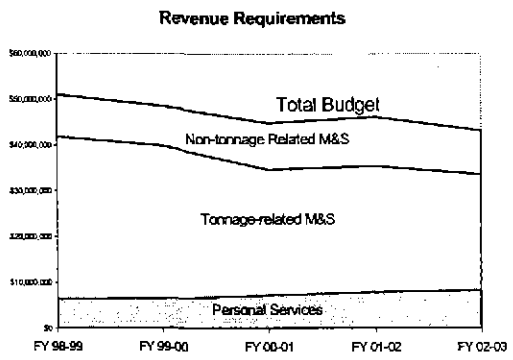
Adopt a $14.60 Regional System Fee and a $65.00 Metro tipping fee, to become effective July 1, 2002. In addition, to reflect a higher tip fee, adopt a new minimum tip fee of $17, including a $6 Transaction Fee.

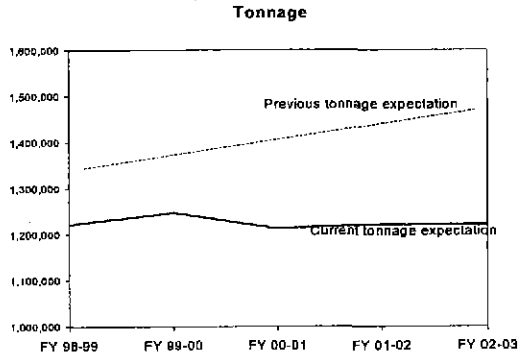
EXISTING LAW

Metro Code Chapter 5.02 sets the disposal charges at Metro Central and Metro South transfer stations at $62.50 per ton of mixed waste plus a $5 fee per load transaction fee. The minimum tip fee, based on a 320 pound load, is currently $15, including the $5 Transaction Fee.

SUMMARY

In October 1999, the Metro tip fee was projected to be $62.50 per ton through FY02-03, with a Regional System Fee of $12.90. A key assumption of this forecast was that the steady tonnage growth of the 1990s would continue into the next decade.





Since then, REM's actual costs of doing business have decreased over 10%. But at the same time, the tonnage from which Metro recovers its costs ("revenue tonnage") has fallen almost 17% below previous expectations. In addition, the proportion of revenue tonnage delivered to Metro's transfer stations might drop from 60% to about 45% or less. With fewer tons from which to recover costs, Metro's cost per ton has increased. Now, with the current tonnage forecast, a Metro tip fee of $68 per ton in FY02-03, including a $17 per ton Regional System Fee, would recover Metro's anticipated costs.

Metro can take actions to mitigate the impact of passing on such increased costs to the ratepayer, namely:

1. **Use the Rate Stabilization reserve funds** to reduce the FY02-03 rate. $2.1 million from the Rate Stabilization fund would reduce the Regional System Fee by $1.71 and would leave $2.5 million remaining in that account.
2. **Reduce budgeted expenditures**. Cutting the Regional System Fee Credit program in half in FY02-03 would trim $0.37 off the Regional System Fee. Also, given that some FY01-02 waste reduction expenditures were one-time

only expenditures and should not be included in future forecasts reduces the Regional System Fee by another $0.66, for a net reduction of $1.03.

3. **Follow the cost allocation policy** of recovering from the broadest rate base all the costs of programs that have a regional benefit. Under such a policy, all overhead costs are allocated to the Regional System Fee. Implementing this policy would increase the Regional Sytem Fee by $0.91, but would simultaneously reduce the cost per ton of disposal by $1.96, for a net reduction in the total tip fee of $1.05.
4. **Raise the per load Transaction Fee** at Metro transfer stations to $6 from the current $5 due to the declining number of transactions. This would reduce the revenue needed from the per-ton disposal fee by $0.60.

These combined actions would reduce the Regional System Fee requirements by $2.47 per ton and reduce the cost per ton of disposal by an additional $2.56, producing a FY02-03 Regional System Fee and Metro tip fee of $14.60 and $65.00, respectively. The minimum disposal fee would increase to $11 from $10, and with a $1 increase in the Transaction Fee, the total minimum tip fee would increase to $17 from the current $15.

RATE POLICIES

The following rate policies form the foundation for the FY02-03 rate projections in this report. These policies were reviewed by the Metro Solid Waste and Recycling Committee on July 18, 2001.

1. Fixed costs directly associated with providing disposal services at Metro transfer stations should be recovered only from users of Metro disposal services (e.g., through the Transaction Fee).
2. Variable costs of Metro disposal services should be recovered only from users of Metro disposal services (e.g., through the Metro tip fee).
3. Costs of Metro regional services should be recovered from the beneficiaries of those programs (e.g., through the Regional System Fee).
4. Costs associated with investments that guarantee the provision of disposal infrastructure, and made on behalf of the general public, should be recovered from the general public (e.g., through the Regional System Fee).
5. Administration, space rent in Metro Regional Center, legal, human services, and other overhead support is of benefit to the region as a whole. Costs for these services should be recovered from the general public (e.g., through the Regional System Fee).

ANALYSIS OF RECENT COST CHANGES

Both internal and external factors have led to the increased cost per ton. External factors include changes in the economic environment and solid waste system. Internal factors include programmatic, regulatory, and budgetary choices that Metro has made. Two attached bar graphs (Figures 1 and 2) depict the following detailed explanation graphically.

External Changes

- **Slowing Economy & Improved Recovery:** In 1999, a reasonable assumption was that solid waste revenue tons in the Metro region would continue to grow at a steady rate of about 2%, as it had during most of the 1990s. But with a slowing regional economy and improved waste reduction, the expectation for tonnage growth has been revised downward. Tonnage growth is expected to remain flat for the next two years--as it has for the past three, then resume a 2% growth rate after FY02-03. Uncontrollable reduced tonnage expectations add approximately $.47 to the Regional System Fee and $0.57 to the cost per ton of disposal, for a total of $1.04.
- **Inflation:** Metro's three major contracts for transfer, transport, and disposal of waste all incorporate an automatic annual increase based on inflation. In addition, Metro provides annual cost of living increases for personnel. Higher than expected inflation has added approximately $0.76 to the Regional System Fee and $0.65 to per ton disposal costs.

FY02-03 Model Cost Inflators

Previous rate models have employed a constant 2.6% price inflator for those costs that can be expected to increase regularly each year. The current model employs a more sophisticated approach to price inflation, based on the type of cost. Overall, the added sophistication increases expected inflationary increases.

- The Wharton Economic Forecasting Associates (WEFA) national CPI forecast (2.65%, the same inflator used by Metro's Data Resource Center) is used to inflate general Materials & Services (M&S) costs. This inflator is applied to 52% of M&S costs; the remaining 48% of M&S costs are forecast as constant due to contract terms or other constraints.
- REM's three major contracts (transfer, transport, disposal) include the West-A All Urban price index inflator. This index is approximately 0.5% higher each year than the WEFA forecast used for M&S and is integrated into forecasted contract cost behavior.
- A higher cost inflator (5%) is used for Personal Services due to contractual increases (COLA and merit increases) and increases in health care benefit costs.
- Internal transfers, primarily influenced by non-REM Personal Services costs, are modeled at a 4% annual rate of increase.

- **Fuel:** Related to inflation, fuel costs have been much higher than expected, adding an additional $0.36 to the cost per ton of disposal.

Internal Choices

In the past several years, through regulatory changes, expanded programs, and budgetary adjustments, Metro has made decisions to improve the solid waste system for the citizens of the region.

- **Regulatory Changes:** While much of the regional tonnage decline discussed earlier can be attributed to a slowing economy and improved waste reduction, the following policy decisions also contribute to the further reduction in the regional revenue tonnage forecast and in diversion of tonnage away from Metro's transfer stations:

  - Granting Non System Licenses since FY98-99 has diverted about 60,000 tons of waste away from Metro's two transfer stations, increasing Metro's cost per ton. Granting these licenses has added $0.84 to the cost per ton of Metro's disposal services. No change in the current Non System License tonnage is forecast.
  - Lifting local transfer station caps or granting a new transfer station franchise (policy decision to be determined) is incorporated into the current rate model. To model this, beginning with the April 2001 tonnage forecast, about 100,000 tons are assumed to be diverted away from Metro transfer stations and redirected to private facilities. This regulatory system change is forecast to increase the cost per ton of Metro's disposal services by $1.17.
  - Exempting cleanup materials contaminated by hazardous substances from paying the entire system fee and excise tax, effective October 2000, effectively reduced regional revenue tonnage by about 50,000 tons and added $0.62 to the cost per ton for regional programs. The tonnage impact of this decision is already incorporated into REM's April 2001 tonnage forecast and into the adjusted forecast used to calculate the rate.

  In total, Metro policy decisions and potential future decisions that affect revenue tonnage are projected to increase the cost per ton $2.63.

- **Programmatic Changes:** Since 1999, Metro has expanded its waste reduction (organics & market development), hazardous waste, education and outreach, audit and regulatory programs as well as its legal services. Increased non-CIP capital expenditures have also been authorized. In total, these controllable operating expenses add about $0.73 to the Regional System Fee.

The following table shows how REM's budgeted costs have changed from FY97-98 projected through FY02-03. Expanded services are reflected in Personal Services and Non-tonnage Materials and Services:

SOLID WASTE REVENUE FUND - FY 97-98 thru FY02-03
(excludes Material & Services for Closure Account & Recycling Business Account)

		Materials & Services				Annual Percentage Change		
	Personal Services	Total	Tonnage Related[1]	Non-Tonnage Related	Total Budget	Personal Services	Tonnage Related	Non-Tonnage Related
FY 97-98	$6,157,814	$42,270,348	$33,105,978	$9,164,370	$48,428,162	NA	NA	NA
FY 98-99	$6,400,009	$44,612,964	$35,462,285	$9,150,679	$51,012,973	3.9%	7.1%	-0.1%
FY 99-00	$6,471,208	$42,075,262	$33,412,348	$8,662,914	$48,546,470	1.1%	-5.8%	-5.3%
FY 00-01	$7,235,906	$37,649,437	$27,488,043	$10,161,394	$44,885,343	11.8%	-17.7%	17.3%
FY 01-02	$7,954,207	$38,294,462	$27,547,178	$10,747,284	$46,248,669	9.9%	0.2%	5.8%
FY 02-03	$8,351,916	$34,900,241	$25,319,567	$9,580,674	$43,252,157	5.0%	-8.1%	-10.9%

[1] Contract costs for waste transfer, transport (including fuel), and disposal.

- **Enhanced services:** The new public unloading area at Metro South transfer station will add approximately $0.45 per ton to disposal operations.
- **Budget assumptions:** Since 1999, Metro's capital reserves have been adequate to fund most capital projects. Beginning in FY02-03, Metro must recover over $800,000 annually to maintain the desired minimum balance of $3 million in REM's capital reserve. This revenue requirement adds an additional $1.40 to the cost per ton of disposal, recovered through the Metro Facility Fee.
- **Internal transfers:** Slightly higher than expected internal transfers have added about $0.10 to the Regional System Fee.

Taken together, all the above external and internal factors result in a FY02-03 per ton revenue requirement of $17.34 to pay for Metro's regional programs and a $68.38 per ton requirement (including all fees and estimated taxes) to process waste delivered to Metro's transfer stations.

FY02-03 CALCULATED RATE

If all of the above increases were passed on to the ratepayer, each ton of disposed waste would be assessed a $17.34 Regional System Fee, and the Metro tip fee would be $68.38. Metro has the opportunity to mediate the fee increase that is passed on to the ratepayer. The following list explains the effect of several actions that Metro can take to minimize the impact on ratepayers:

- **Cost allocations:**
  - Support Services: As directed by Metro Council, allocating to the Regional System Fee all costs that provide a regional benefit result in the allocation of

100% of support services transfer costs to the Regional System Fee. This action has reduced the above calculated rate by a net $1.05 per ton.

- Transaction Fee: The transaction fee is designed to recover scalehouse costs and a portion of transfer station maintenance costs, i.e., those costs that are more a function of transactions than throughput. Since the Transaction Fee was introduced in FY98-99, the tonnage delivered to Metro transfer stations has declined about 150,000 tons (21%). The number of transactions has also declined--but at a much slower rate--from about 350,000 in FY98-99 to about 335,000 forecast for FY02-03 (a 4% drop). Because some transaction-dependent costs are currently recovered on a per-ton basis, Transaction Fee revenues are not currently covering all associated costs. To more equitably recover transaction-dependent costs, staff recommends adding the cost of some transfer station improvements to the Transaction Fee allocation. This would include the costs of minor improvements (< $50,000) that are a result of normal wear and tear at the facilities or that improve operations, but are not a part of major capital improvements. Examples are new signage, scalehouse computers, and painting the transfer station buildings. A $1 increase in the Transaction Fee, to $6 per load, would reduce Metro's tip fee by $0.60. (See Table 2 in Appendix A, which shows detailed data and projections for the rationale behind an increased Transaction Fee.)

- **Programmatic changes:** Certain waste reduction program expenditures in FY01-02 are one-time expenditures. Additionally, the calculated tip fee assumes a 50% reduction in the Regional System Fee Credit program in FY02-03. Removing such costs from future years would reduce the forecast cost by $1.03 per ton.
- **Reserves:** Whereas the Undesignated Fund balance will be almost exhausted by maintaining a $62.50 tip fee through FY01-02, the use of $2.1 million from the Rate Stabilization reserve account could be used to lower the Regional System Fee by $1.71 in FY02-03. $2.5 million would remain in the Rate Stabilization account.

Minimum Tip Fee

The minimum tip fee, now $15, should be adjusted in accordance with the increased per-ton tip fee. With a $1.00 increase in the Transaction Fee and an equal increase in the disposal charge, the total minimum tip fee would increase $2, from $15 to $17. In conjunction with this increase, staff proposes a slightly higher minimum load weight of 340 pounds (versus the current 320 pounds). This would allow an estimated 5700 more loads annually to be classified as "minimum."

BUDGET IMPACT

There is no impact anticipated on the current FY01-02 budget. Future budgets (FY02-03 and beyond) will incorporate the changes effected by the new fees.

OUTSTANDING QUESTIONS AND POLICY ISSUES

- **Impact on Recovery:** Adoption of this tip fee and Regional System Fee is expected to have minimal impact on recovery. Whereas higher costs for disposal encourage waste reduction and recycling, this calculated tip fee increase would not be large enough to have a measurable impact on the behavior of most waste generators.
- **Illegal Dumping:** A tip fee increase of the calculated magnitude is expected to have no impact on the amount of illegal dumping.
- **Future Fee Increases:** If the reduced FY02-03 budget assumptions are realized, tip fee and Regional System Fee increases should be expected in FY03-04 and beyond because after FY02-03 reserve funds available for subsidizing the rate will have reached their minimum recommended balance; any further draw down of reserves would adversely impact Metro's financial flexibility.

The following policy decisions have yet to be made. Such policy decisions will materially impact the calculated Metro tip fee and Regional System Fee.

- **Regional System Fee Credit Program**: Maintaining, reducing, or eliminating this program will have a material effect on the calculated Regional System Fee.

- **Regional Transfer Stations and Local Transfer Station tonnage caps**: The outcome of this issue will have a significant impact on the calculated rate.

APPENDIX A

List of Tables

1. **Calculated Tip Fee:** Components that make up the calculated tip fee.

2. **Transaction Fee Analysis:** Costs allocated to the Transaction Fee in FY98-99 when it was established at $5 per load compared to FY02-03 proposed allocations, which indicate a $6 per load Transaction Fee.

Calculated Tip Fee

	Current Fee	Calculated Fee		Change	% Change
Regional System Fee	$12.90		**$14.60**	$1.70	13%
Disposal	42.82		**43.60**	$0.78	2%
DEQ & Rehab & Enhancement	1.74		**1.74**	-	-
Excise Tax	5.04	**(estimated)**	**5.10**	$.06	1%
Total Tip Fee	$62.50	**(rounded)**	**$65.00**	$2.50	4%

Table 1.

Transaction Fee Analysis

Description	FY98-99	FY02-03	Change
Environmental & Engineering Management Services (50%)	$168,106	$160,646	($7,460)
Scalehouse Services	1,020,581	1,082,633	62,052
Scalehouse Maintenance (PS & M&S)	376,010	496,625	120,615
Non-CIP Transfer Station Improvements	-	309,400	309,400
Total	1,564,697	2,049,304	484,607
Loads	348,614	334,430	(14,184)
Total Cost per Load	**$4.48**	**$6.13**	**$1.65**

Table 2.

APPENDIX B

List of Figures

1. FY02-03 Regional System Fee bar graph showing the impact of the various factors that have led to higher costs per ton. Figure also shows the cost reduction that could be achieved through lower M&S and the further reduction in the Regional System Fee that the Rate Stabilization reserve account could provide.

2. FY02-03 Disposal Services bar graph showing the impact of the various factors that have led to higher costs per ton. Figure also shows the tip fee reduction that could be achieved through reallocation of Support Services costs and through an increase the Transaction Fee.

3. Comparison of Revenue Requirements and Calculation of the Regional System Fee compares FY01-02 revenue requirements with those of FY02-03, including revenue offsets.

4. Comparison of Revenue Requirements and Calculation of the Metro Tip Fee compares FY01-02 revenue requirements with those of FY02-03, including revenue offsets. Components of calculated tip fee are shown.

5. Assumptions made in calculating the calculated solid waste fees.

Figure 1

FY02-03
Regional System Fee
Per-ton Cost Increases Since October 1999

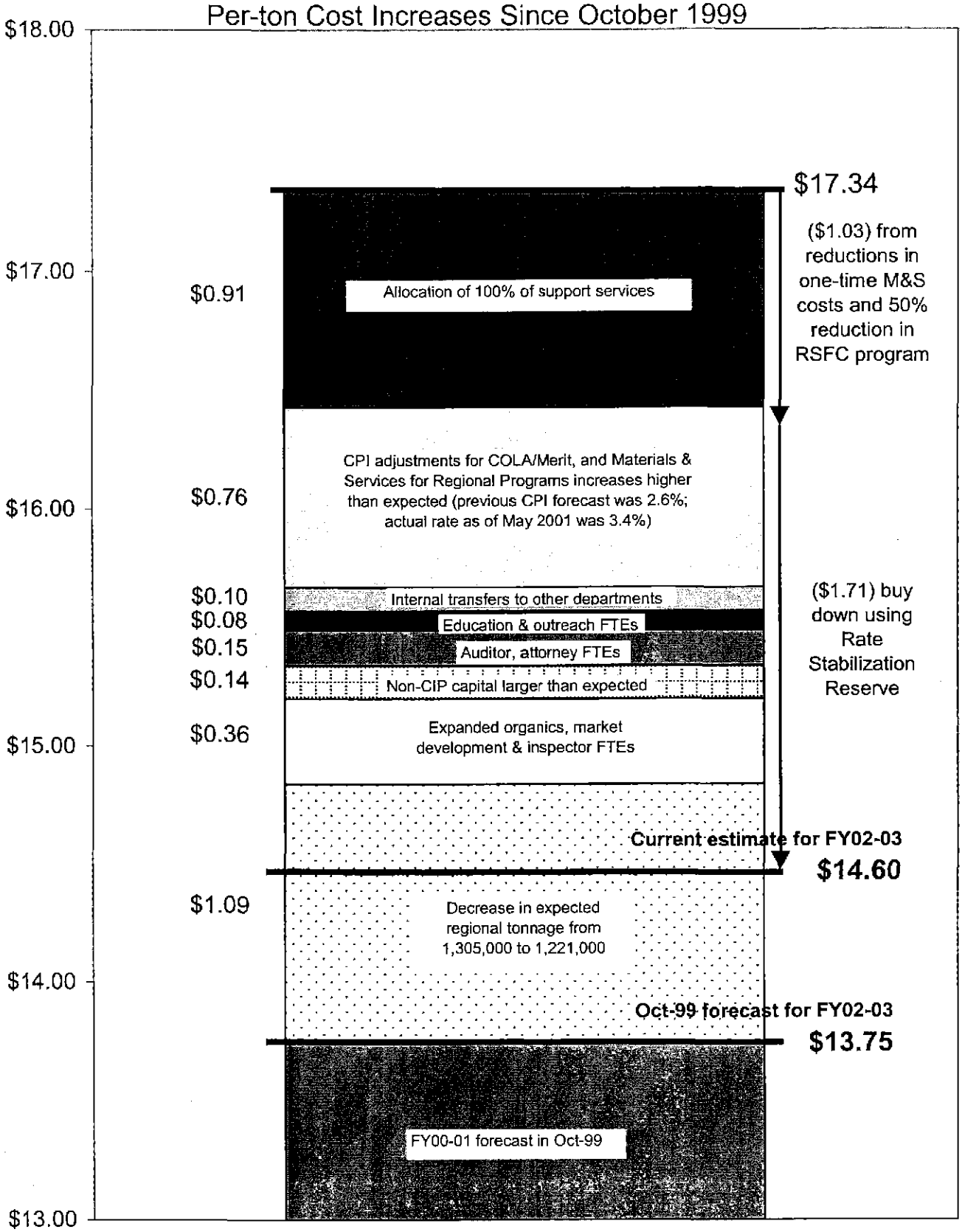


Figure 2

FY02-03
Disposal Services
Per-ton Cost Increases Since October 1999

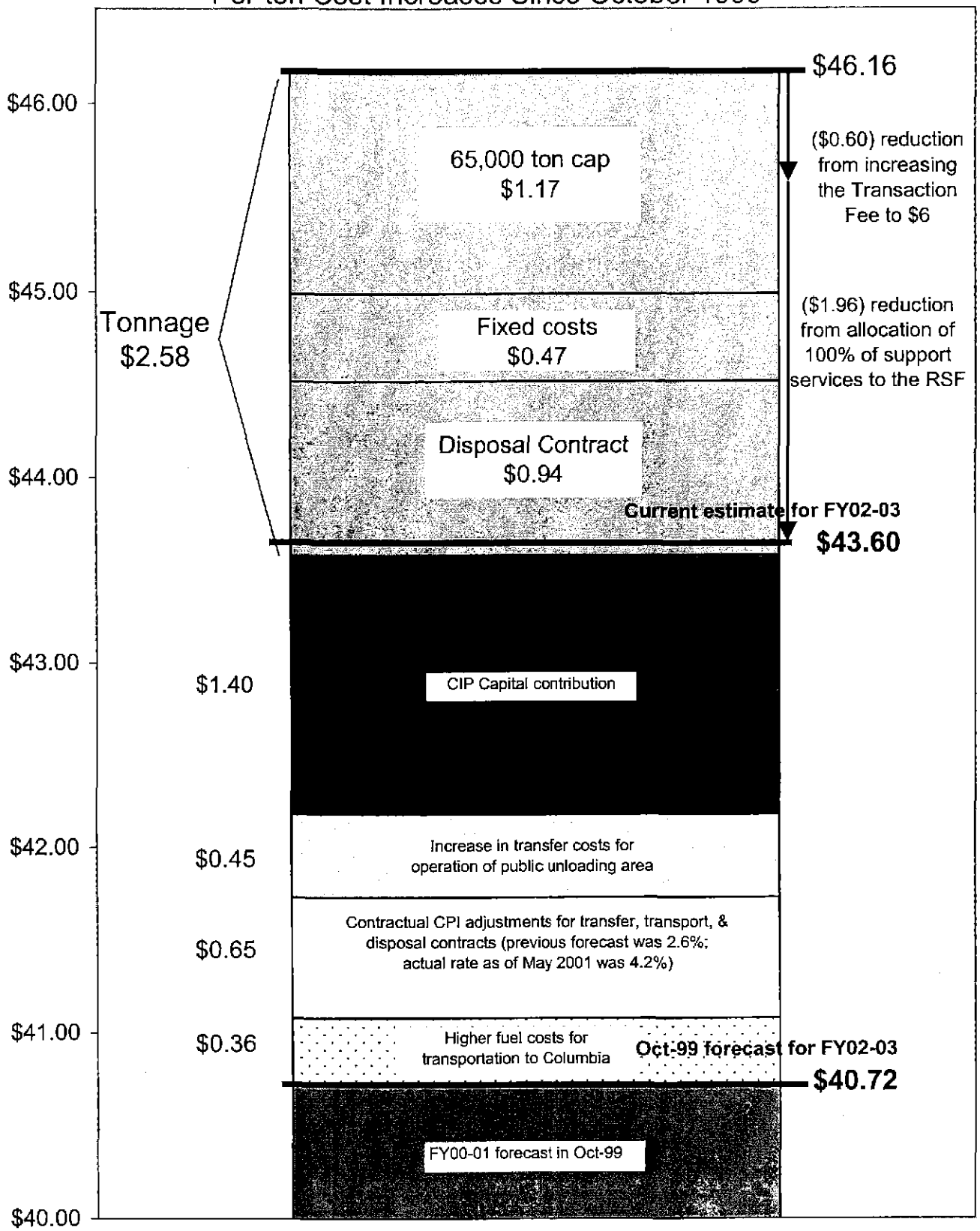


Figure 3

Comparison of Revenue Requirements
and
Calculation of the Regional System Fee
(FY 2001-02 and FY 2002-03)

Description	Expenses ($000s) FY 2001-02	FY 2002-03	Change
Regional Services & Programs			
Administration			
Office of the Director	529	549	20
Regulatory Affairs	346	358	12
Enforcement	445	461	16
Finance /REM Support Services	1,694	1,754	60
Internal Transfers for Support & Space	2,032	3,224	1,192
Internal Transfers for Recycling Information Center Support and Direct Services to REM	598	622	24
Hazardous Waste Management & Disposal	4,236	4,366	130
Engineering & Analysis	779	809	30
Landfill & Environmental Management	911	945	34
Regional System Fee Credit Program	900	450	(450)
Thrift Credit Program	353	358	5
Waste Reduction & Regional Planning	2,154	1,967	(187)
Waste Reduction Grants	2,150	1,650	(500)
Public Outreach & Education	1,650	1,673	23
Debt Service	2,732	2,664	(68)
Subtotal Regional Services & Programs	**$21,509**	**$21,850**	341
Revenue offsets			
Miscellaneous	*591*	*599*	8
Interest	*772*	*535*	(237)
Fund Balance+Carryovers	*305*	*2,892*	*2,587*
Total Revenue Offsets	*1,668*	*4,026*	*2,358*
Total Required from Rate	***$19,841***	***$17,824***	***-$2,017***
(Requirements less Revenue offsets)			
Tonnage Base	*1,221,000*	*1,221,000*	*0*
Regional System Fee Per-ton Unit Cost (Net of Excise Tax)	$16.25	$14.60	-$1.65
Regional System Fee (adopted rate rounded)	***$12.90***	***$14.60***	

The Regional User Fee is levied on all waste that is generated in the Metro area and disposed of for a fee at a transfer station or landfill.

Figure 4

Comparison of Revenue Requirements
and
Calculation of the Metro Tip Fee
(FY 2001-02 and FY 2002-03)

Description	Expenses ($000s) FY 2001-02	FY 2002-03	Change
Metro costs that do not vary with tonnage			
Misc. Transfer Station Maintenance/Management Services	279	153	(126)
CIP (Capital Improvement Plan) Capital	-	809	809
Internal Transfers for Support & Space	1,067	-	(1,067)
Renewal & Replacement Contribution	730	725	(5)
Subtotal	***$2,076***	***$1,687***	***-$389***
Metro costs that vary with tonnage			
Transfer Station Operation (BFI)	4,917	4,418	(499)
Recovery Incentive (BFI)	1,398	1,232	(166)
Transport to Columbia Ridge (CSU)	8,009	6,872	(1,137)
Disposal at Columbia Ridge (WMI)	12,153	11,522	(631)
Fuel	1,070	1,279	209
Miscellaneous Transport & Disposal	-	-	-
Subtotal	***$27,547***	***$25,323***	***-$2,224***
Revenue Requirements	**$29,623**	**$27,010**	**-$2,613**
Less: revenue offsets			
Disposal Fees from Direct-Haul/Reload Facilities	*623*	*1,562*	939
Interest	*636*	*382*	(254)
Miscellaneous	*381*	*345*	(36)
Total Revenue Offsets	*1,640*	*2,289*	*649*
Total Required from Rate	***$27,983***	***$24,721***	***-$3,262***
(Requirements less Revenue offsets)			

Note: **Scalehouse Operations, Transfer Station Maintenance and a portion of Transfer Station Management Services funded by the Transaction Fee**

Calculation of Rate

Tonnage Base		673,772	567,000	(106,772)
Per-ton Unit Cost (Net of Excise Tax)		$41.53	$43.60	$2.07
Plus:	Regional System Fee (adopted, rounded)	$16.25	$14.60	($1.65)
Plus:	Rehabilitation & Enhancemet/DEQ Fees	1.74	1.74	$0.00
Calculated Base "Rate"		$59.52	$59.94	$0.42
Excise Tax/ton		$5.04	$5.10	
Total Calculated Metro Tip Fee		***$64.56***	***$65.04***	
Transaction Fee		***$5.00***	***$6.00***	***per trans.***
Transactions		366,849	339,371	
Revenue		$1,834,245	$2,036,226	

FY2002-03 Tip Fee Assumptions

Policy Decisions (Council direction received)

1. Current $62.50 tip fee and $12.90 Regional System Fee are maintained through FY 2001-02.

2. All support services transfers are allocated to the Regional System Fee.

3. Undesignated funds almost depleted by year end FY 2001-02. $2.1 million Rate Stabilization used to buy down Regional System Fee in FY 2002-03, leaving approximately $2.5 million remaining in the Rate Stabilization reserve account.

Policy Decisions (Council decision to be determined)

4. Tonnage forecast = April 2001. Forecast is adjusted by diverting about 100,000 tons away from Metro transfer stations to private facilities due to possible regulatory changes.

5. Regional System Fee Credit program reduced by half in FY02-03 (lowers FY 2002-03 projected budget by $450,000).

6. Transaction Fee = $6.

Technical Decisions

7. Cost Inflators

   - The Wharton Economic Forecasting Associates (WEFA) national CPI forecast (2.65%, the same inflator used by the DRC) is used to inflate general Materials & Services costs. This inflator is applied to 52% of M&S costs; the remaining 48% of M&S costs are forecast as constant due to contract terms or other constraints.
   - REM's three major contracts (transfer, transport, disposal) include the West-A All Urban price index inflator. This index is approximately 0.5% higher each year than the WEFA forecast used for M&S and is integrated into forecasted contract cost behavior.
   - A higher cost inflator (5%) is used for Personal Services due to contractual increases (COLA and merit increases) and increases in health care benefit costs.
   - Internal transfers, primarily influenced by non-REM Personal Services costs, are modeled at a 4% annual rate of increase.

8. Capital requirements reduced $500,000 for FY02-03.

9. One-time expenses from FY00-01 do not continue into FY01-02 and beyond.