

MEETING: RATE REVIEW COMMITTEE

DATE: June 27, 2001

DAY: Wednesday

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

PLACE: Metro Regional Center
Room 370

AGENDA

1. Call to Order and Approval of January 31, 2001 minutes (10 min) *Councilor Atherton*
2. Review of Cost Allocation Issues (60 min) *Tom Chaimov*

The Rate Review Committee tip fee recommendation of 1/31/01 provides for reconvening the committee in order to assess cost allocations to ensure that Metro's fees properly reflect current Metro policy. Any allocation changes would affect the unit cost of regional services and disposal services at Metro's transfer stations.

- *Overview of cost allocations and opportunities for change.*
- *Reach consensus on cost allocations.*

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

Enclosures:

- A. January 31, 2001 meeting minutes w/attachments
- B. Overview of cost allocations
- C. 1. Historical & potential cost allocation changes
2. Cost Allocation Details
3. Comparison of Past & Current Allocations

REFERENCE MATERIALS:

- D. FY01-02 Budget: Program Funding Sources
- E. A Review of Metro's Solid Waste Rate Setting
- F. Metro Rate Setting Criteria

Distribution (with attachments)

Councilor Bill Atherton	Dean Kampfer
Jim Strathman	Paul Matthews
Jerry Powell	Dave White
Bernie Deazley	

TC:gbc

cc (w/o attachments): Interested Parties

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Enclosure A

Materials from January 31, 2001 Meeting:

- Minutes
- Staff presentation on Regional System Fee
- Approved Motion

MEETING SUMMARY
RATE REVIEW COMMITTEE
 Metro Regional Center – Room 370
 January 31, 2001

Present:Members

Councilor Bill Atherton, Chair
 Jerry Powell
 Paul Matthews
 James Strathman
 Steve Schwab
 Dean Kampfer

Metro

Terry Petersen, Director, REM
 Councilor Susan McLain
 Leann Linson, Business &
 Regulatory Affairs Mgr
 Doug Anderson, Waste Reduction,
 Planning, & Outreach Manager
 Jim Watkins, Environmental & Engineering
 Services Manager
 Maria Roberts, Budget & Finance
 Tom Chaimov, Budget & Finance
 Karen Feher, Financial Planning

Guests

Ray Phelps, WRI
 Eric Merrill, Waste Connections
 Lynne Storz, Washington Cty.
 Mike Leichner, Pride Disposal

Members Absent:

Bernie Deazley

Councilor Atherton called the meeting to order and began introductions.

Expectations and Goals of the Committee

Councilor Atherton handed-out copies of the Council Solid Waste and Recycling Committee Work Plan, and a draft of his own ideas about disposal rates he'd like the Committee to consider (attached). There was a brief discussion of the Chair's ideas, which he said are intended to help level the playing field for all involved. Councilor McLain suggested adding the topic to a future agenda.

Continuing the discussion, however, Mr. Kampfer stressed that the costs of recycling and other developing solid waste-related programs need to be contained in the Regional System Fee, as well as regional services such as hazardous waste. He felt that these costs didn't seem to be addressed in Councilor Atherton's draft. Councilor Atherton noted the point, but said he believes the rates can be simplified without subsidies. Mr. Powell said he'd like to see a study done to look at the effects the Councilor's ideas would have on the region's recycling rate in order to make sure that lowered rates don't inadvertently become a disincentive to recycling. He, too, is concerned about covering the costs of Metro recycling programs.

Councilor McLain commented that she appreciates Councilor Atherton's fresh perspective on the big picture and that there is the potential for some great discussion. She said that in order to answer the Committee members' questions about how the recycling rate and programs would be affected, staff should have time to look into it and be able to report back at the next meeting. Councilor Atherton agreed, saying that some very good questions did come up.

Fiscal Year 2001-02 Tip Fee Recommendation

Tom Chaimov said that October 25, 2000 Rate Review Committee meeting, arguments were made for and against both tip fee options presented at that time, and the meeting ended with a split-decision. Since that

time, REM has developed a motion for a recommendation, in the hopes of finding consensus among the group so that it may be sent to the Metro Council for consideration, perhaps with some changes or additions from the Committee.

Mr. Chaimov briefly reviewed the structure of solid waste fees. He focused upon two key indicators that need to be taken into consideration for rate-setting: The Regional System Fee, and the Undesignated Fund Balance. The Regional System Fee (RSF) has implications for sharing of costs, whether or not they are equitable. The Undesignated Fund Balance (UFB) is important because it has been used to offset any shortfalls in solid waste revenue.

If the RSF is raised, the cost of regional programs would be shared more equally. If the fee is held at its current level, the UFB would be paid down more quickly. If the tip fee stays at \$62.50, both things cannot be accomplished (share program costs equally and pay down the UFB). This is the dilemma.

The group discussed the problem, clarifying that the UFB is different than the Reserve Fund, and noting that it is good business sense to have funds available for emergencies (such as the 1996 flood, when Metro was key in helping collect debris from the public), and other unanticipated costs of a changing solid waste system.

A question arose about where solid waste reserves came from. During the last few years, more money was collected than anticipated because of additional tonnage from special waste and PCS. However, since the transport contract renegotiation, most of the surplus has come from the transfer stations. Mr. Matthews would like that quantified with a record of what the fees were, what the expenses were, and what the tonnage was. Ms. Roberts replied that accurate quantification is difficult; some of that money was put in Rate Stabilization, some has been used for Capital Reserves, etc. Councilor Atherton said that using the UFB to pay down debt would be another way to put money back into the system for all users.

Mr. Chaimov reviewed the two rate recommendation options presented at the last meeting. (See attached.)

Leaving the RSF @ \$12.90 would

- Delay cost increases at MRFs and fee increases at landfills
- Lower the risk of public backlash, since it's hard to justify raising a fee while there's still a fund balance
- Draw-down the UFB faster

Raising the RSF to \$14.50 would

- Bring the fee closer to actual costs, thereby spreading the cost of regional programs more evenly
- Hold the tip fee to \$62.50 an additional year
- Provide a better waste reduction incentive

Mr. Chaimov then presented the recommended motion, which would leave the RSF at \$12.90 for Fiscal Year 2001-02. He opened the floor for questions and discussion.

Dr. Strathman asked how certain staff is, on the disposal cost side, about their projections? There has been talk of holding the total cost constant for an additional year, he said, but that assumes knowledge of where disposal costs are going. Mr. Chaimov replied that there is a lot of uncertainty, but the best projection of regional tonnage available has been used, knowing that there is considerable uncertainty. In answer to another question, one major contract is coming up in the next year: Transfer Station Operations in 2002. Two others will be in force for several more years: Transport Contract until 2009, and Disposal until 2015.

Councilor Atherton pointed out that even if the motion is made, it can be changed as a greater understanding of some of the issues comes about. The Committee can meet as often as they like. Mr. Chaimov agreed, adding that revenue allocations and costs within the rate structure need to be fully reviewed before making any substantive changes.

He presented graphs showing how ramping-up the RSF over a couple of years will use up the UFB and affect total tip fee (attached). Councilor Atherton mentioned that some of the Council is looking into how to pay for Greenspaces and Metro's planning functions without using the excise tax. The goal is to have planning pay for itself.

Mr. Schwab asked at what point the RSF credits will "go away." Tom replied that the motion assumes continuance of the system. Mr. Schwab said to either ramp up with the subsidies, or get rid of them.

Will the public be adequately educated about how the Undesignated Fund Balance is being bought down and that the rates will have to rise at some point? Terry Petersen said yes.

Mr. Powell moved to accept the motion; Dr. Strathman seconded.

Further discussion ensued; Mr. Matthews commented that he'd like to see a third option. He'd like to see how the balances were accrued so that they can look at allocating that subsidy. Maybe something in the middle, maybe \$13.50. It would extend the fund balance somewhat, share the subsidies somewhat between both charges, and would be movement in the right direction rather than standing still. \$14.50 seems too high, but \$12.90 seems to be no action at all. Councilor Atherton replied that that's why he prepared the materials he presented at the meeting's start, shared some of the thinking that's going on. He's comfortable with accepting the motion at this time, and then looking at the big picture to help shape the strategic plan and move forward in that regard.

Mr. Schwab stressed that fees are still being over-collected. If the RSF is kept at \$12.90, he wants a motion to get rid of subsidies.

Councilor McLain asked if the RSF isn't currently covering costs, in what way is it being over-collected? Mr. Schwab answered that collecting \$12.90 per ton RSF doesn't raise enough revenue to pay for all REM's regional programs. The shortfall is either being collected only from Metro customers, or it's being paid for with undesignated reserves and Metro customers are paying to increase the Undesignated Fund Balance. Either way, Metro customers are being over-charged.

Mr. Kampfer feels strongly that the RSF credits should continue – it's a program that is well worth the cost. It could be better, but it's a good system, regardless.

Vote on the motion, as presented:

Steve Schwab	No	Jim Strathman	Yes	Dean Kampfer	Yes
Jerry Powell	Yes	Paul Matthews	No	Bill Atherton	Yes

The motion was passed, four votes to two.

Mr. Petersen said that, because of points that were raised tonight, he would like to work with staff and revisit the work plan. Councilor Atherton agreed, and listed issues that should be discussed further at future meetings:

- Recycling credits
- Equalizing the system fee
- Using the UFB to pay down debt
- Possibly having a fee in the region to pay for planning to help reduce solid waste excise tax

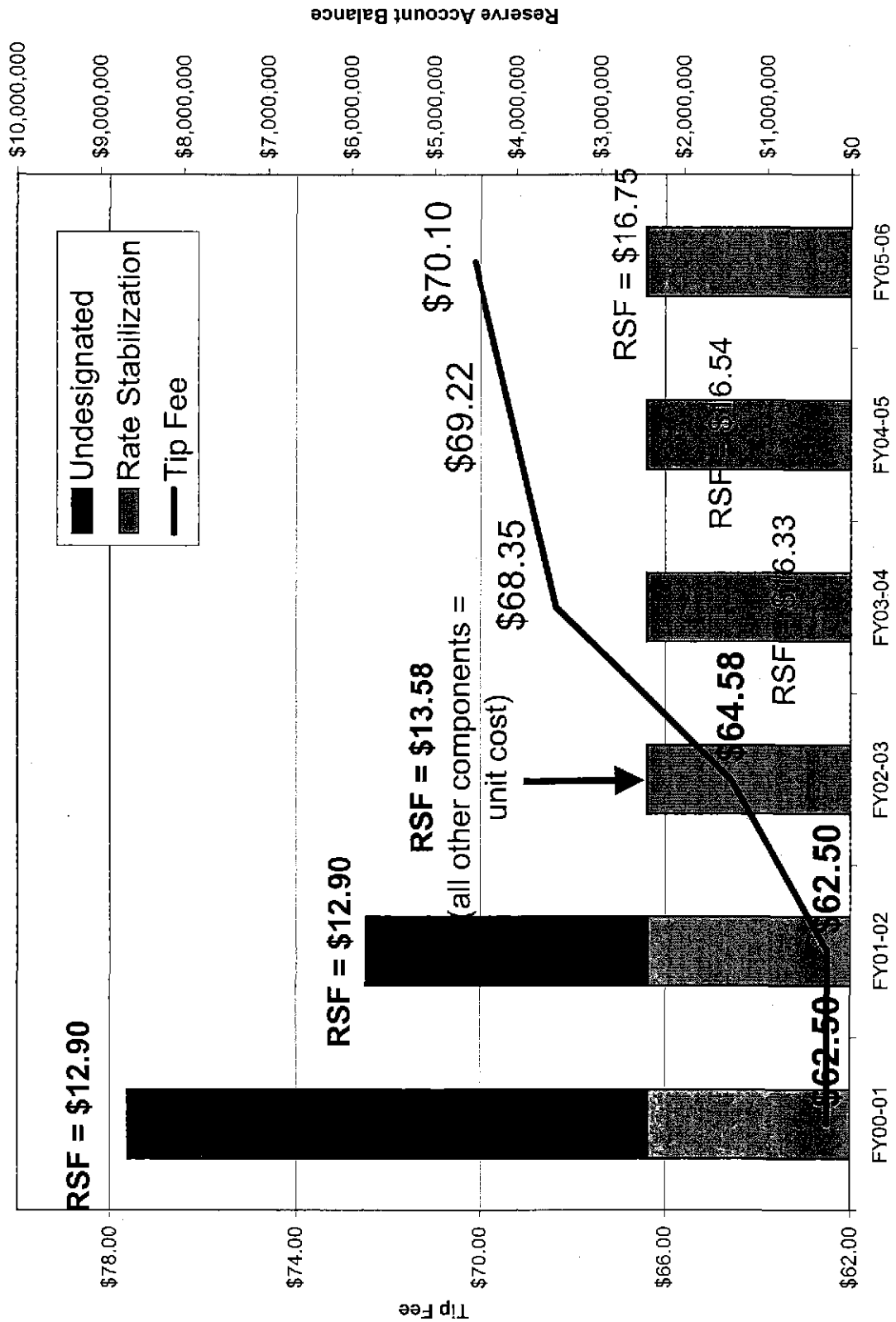
The meeting adjourned promptly at 7:30.

gbc

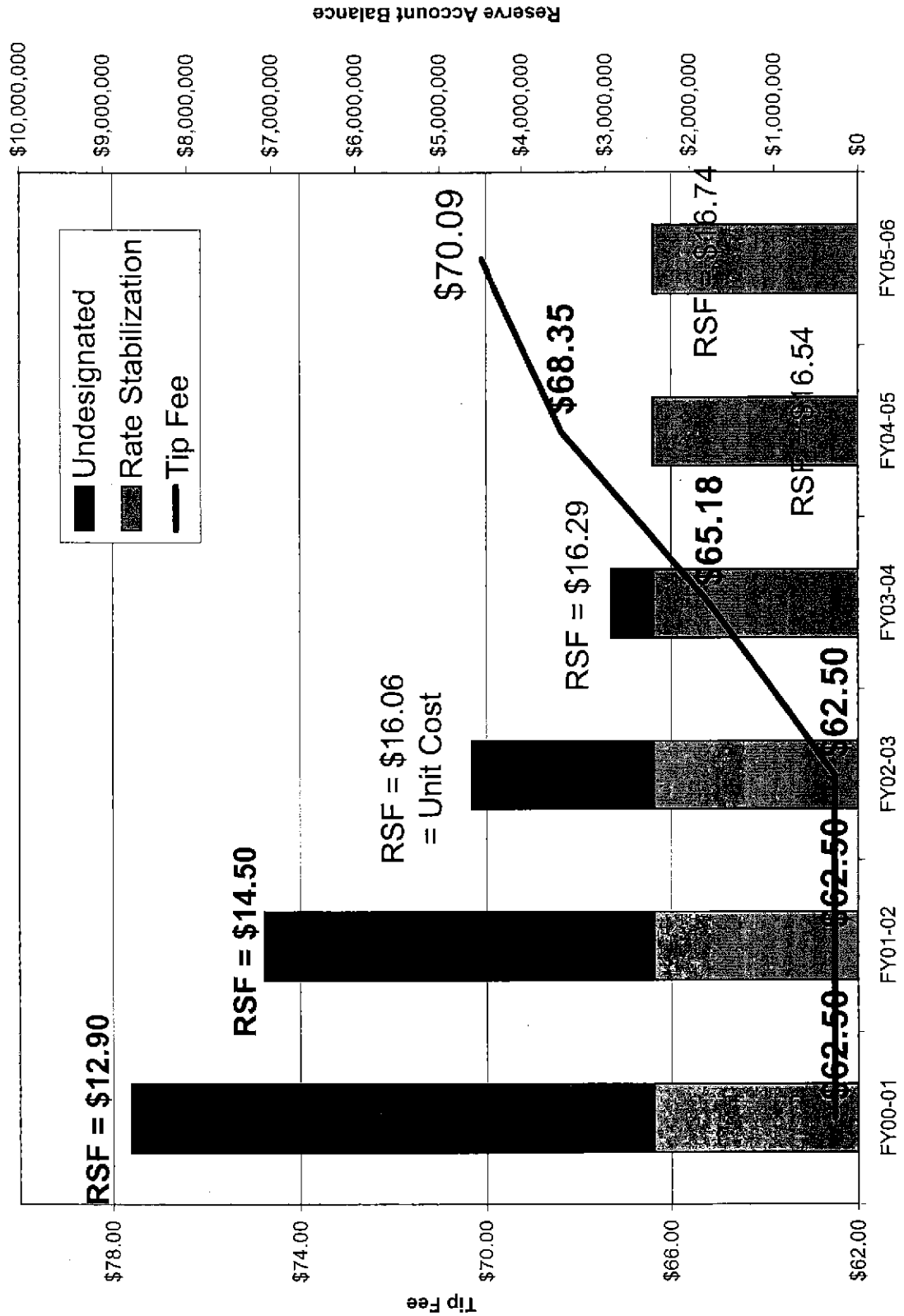
Attachments

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Status Quo: Keep Regional System Fee at \$12.90 in FY01-02



Scenario 1: Ramp up Regional System Fee over 2 years



Bold-type values are subsidized

MOTION:

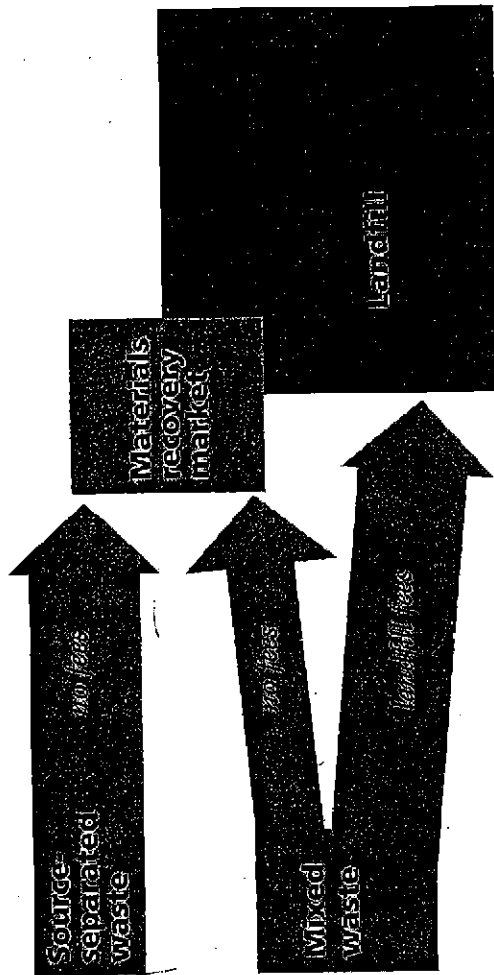
The Rate Review Committee Recommends that the Metro Council adopt a \$12.90 Regional System Fee and \$62.50 Metro Tip Fee for Fiscal Year 2001-02

- Returns the Undesignated Fund balance to the entire region by spending solid waste undesignated reserves to maintain the Regional System Fee below the per-ton cost of regional programs.
- Achieves the most rapid draw-down of the Undesignated Fund.
- Maintaining the \$12.90 and \$62.50 is inconsistent with the approved allocation methodology used in the past; hence, this is a recommendation for the short term only, i.e., for FY 2001-02.
- Later this year, the Rate Review Committee will review REM's cost and revenue allocation methodology to make it more consistent with past practices, likely leading to a different recommendation for the Regional System Fee and the Tip Fee.

Designing a solid waste strategic plan

Goals

1. Simplify fee structure
 - One fee or two?
 - Same system fee at all facilities?
 - Where do we levy excise tax?
2. Encourage compliance
 - Does a small system fee help?
3. Achieve recycling goals with minimum of government administration
 - Is a high landfill fee enough to encourage recycling?
 - If subsidies, where and how much?
4. Clarify Metro role as service provider and/or as regulator
 - What value tonnage caps?
 - Vertical integration issues?
 - Wet vs. dry facilities?
 - Can competition work for ratepayers?



System fee

1. Fixed costs for Metro transfer stations including debt service and renewal and replacement
 - ← ? →
2. Enforcement
3. Excise tax?
 - ← ? →
4. Hazardous waste reduction?
 - ← ? →
5. Allocated costs of general government
 - ← ? →
- 6.
- 7.

Landfill fee

1. Handling, transportation and disposal costs
 - Contract obligations
 - Renewal and replacement costs
 - Transfer station fixed costs
2. Enforcement
3. Excise tax?
4. Hazardous waste reduction?
5. Allocated costs of general government
 - Leveling the playing field with virgin material
- 7.

Existing conditions

1. 20 yr. Contract for landfill
2. Two Metro transfer stations
3. Two hazardous waste facilities
4. Recycling Goals
5. Landfill closure funds
6. Paint recycling facility
7. Two private local landfills
8. Local transfer stations
9. Local recycling stations
10. Local hauling franchises
11. Curbside recycling
12. Hosting fees/ Enhancement Comm
13. Recycling incentives
14. Metro Advisory Committees
 - Rate Review
 - SWAC
15. Market development
14. Enforcement teams
 - Illegal dumps
 - Facility inspection
16. Recycling education
 - Info hotline
 - Youth education
17. Self-haul opportunity
18. Flow control
19. Out-of-region landfills

Solid Waste Cost Allocations

Rate Review Committee June 27, 2001

Solid Waste Cost Allocations

	Regional System Fee	Disposal Services	
		Metro Facility Fee	Regional Transfer Charge Disposal Charge
Regional Programs (hazardous waste, waste reduction, debt)			
Fixed costs; transfer station capital			
Transfer station operations contract (BFI)			
Transportation, & disposal (CSU & Waste Mgt contracts)			



Why have allocations changed over the years?

- **To address equity issues**
 - Ensure that charges are directly related to benefit received
- **To reflect changes in priorities**
 - Protect Metro against losses from tonnage diversion
- **To implement policy directives**
 - Maintain a constant fee

Effect of Allocation Changes on Average Per-ton (unit) Costs

- Rule of thumb:
 - For every \$100,000 shifted between the Regional System Fee and Disposal Services, the impact is about \$.08 on the RSF and about \$.15 on Disposal.*
- Allocating more costs to the Regional System Fee...
 - makes Metro less vulnerable to tonnage losses.
 - reduces total unit cost.

*Note: effect is relative to unit cost, not current \$62.50 tip fee

Some Current Allocation Issues

	Regional System Fee	Disposal Services
Support Services	X ←	
BFI Recovery Incentive	? ←	
Contribution to Renewal & Replacement	? ←	
Intangibles	?	

Explanation
 X Current Allocation ? Possible allocation shift

Impact of Shifting Costs from Disposal Services to the RSF

	Regional System Fee	Disposal Services	Net Impact on Unit Cost
Support Services	+\$0.86		-\$0.69
BFI Recovery Incentive	+\$1.12		-\$0.91
Contribution to Renewal & Replacement	+\$0.59		-\$0.47
Remaining transfer station fixed costs	+\$0.09		-\$0.09
All of the above	\$2.66		-\$2.16

Note: Figures based on currently budgeted programs and services
 Stuart-Holmes SWP - Client Feedback ppt

Summary

- Strategy (policy) drives cost allocation choices
- Some opportunities exist to adjust current cost allocations, based on strategic direction
- Moving costs from Disposal Services to the Regional System Fee decreases total unit cost and helps insulate Metro from potential tonnage diversion

Enclosure C

Materials for June 27, 2001 Meeting:

1. History Recap of Rate Policy Changes
2. Cost Allocation Details
3. Comparison of Past & Current Allocations

Rate Policy Changes Approved by the Rate Review Committee
January 1992 - present (actions listed in chronological order)

Allocation

Cost Causation	From	To	Reasons
1 Contingency	All Fee Components	Regional System Fee	In region's best interest: "insurance" for Metro facility operations. Avoid a \$75 tip fee. (FY92-93)
2 St. Johns Landfill Operating	Metro Facility Fee	Regional System Fee	Entire region used St. Johns Landfill, and entire region benefits from proper closure. (FY92-93)
3 Recovery Incentive Paid to Contract Operator	Transport & Disposal Fee	Regional System Fee	Recovery programs benefit the entire region. (FY93-94)
4 Management Services	Metro Facility Fee	Regional System Fee	Provides general coordination and procurement svcs. for entire solid waste system (in effect, is an allocation of a portion of a general mgt. cost). (FY93-94)
5 Renewal & Replacement Contributions	Regional System Fee	Metro Facility Fee	Renewal & Replacement monies used only for Metro facilities. (FY94-95)
6 Transfer Station Capital	Regional System Fee	Metro Facility Fee	Capital used only for Metro facilities. (FY94-95)
7 Health & Safety ¹	Metro Facility Fee	Regional System Fee	Mainly hazardous waste-related, which benefits the entire region. (FY98-99)
8 Transfer Station Mgt. ¹	Regional System Fee	Metro Facility Fee	Part of the administration of Metro facility operation. (FY98-99)
9 Recovery Incentive Paid to Contract Operator ¹	Regional System Fee	Transport & Disposal Fee	Payment is integral to the Metro facilities operations contract. Pays "avoided" disposal cost for recovered waste. (FY98-99)
10 Debt Services ¹	Metro Facility Fee	Regional System Fee	Metro facilities provide "disposal of last resort," a regional benefit. As such, the interest payment on the solid waste system bonds is shared regionally. (FY98-99)
11 Transport Contract - Fixed ¹	Metro Facility Fee	Regional System Fee	N/A. Due to contract changes, this is no longer an expense. (FY98-99)
12 40% of Internal Support Services Transfers	Regional System Fee	Metro Facility Fee	A portion of general admin. and, hence, support services serves mainly Metro facilities. Without this reallocation, the RSF would have been higher than \$12.90. (FY99-00)

Enclosure C-1

¹ Reallocations performed simultaneously when Metro authorized Direct-Haul. Reallocations lessened the budget impact of waste diversion away from Metro facilities.

Opportunities for Future Allocation Changes

Reasons

To

From

Cost Causation

	Cost Causation	From	To	Reasons
13	40% of Internal Support Services Transfers	Metro Facility Fee	Regional System Fee	Support services provide administrative support to the entire solid waste system. All users benefit from having Metro solid waste disposal services available.
14	Recovery Incentive Paid to Contract Operator	Transport & Disposal Fee	Regional System Fee	Recovery programs benefit the entire region.
15	Renewal & Replacement Contribution	Metro Facility Fee	Regional System Fee	Renewal & Replacement monies used to maintain the region's disposal of last resort.
16	Remaining Transfer Station fixed costs	Metro Facility Fee	Regional System Fee	Mainly miscellaneous maintenance, these costs, like contribution to Renewal and Replacement, are used to maintain the region's disposal of last resort.

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Attachment C : Rate Components Detail

Regional System Fee (RSF)	Metro Facility Fee	Regional Transfer Charge	Transport/ Disposal	Total/ Rate
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(In \$000s)

Approved Budget 2001-02Calculated Tipping Fee**Revenue Requirements****Regional Services & Programs that do not Vary with Tonnage**

Administration

Office of the Director	\$529	\$0	\$0	\$0	
Enforcement & Regulatory Affairs	791	0	0	0	
Finance/Support Services	1,694	0	0	0	
Internal Transfers for Support & Space *	2,032	1,067	0	0	
Other Internal Service Fund Transfers	598	0	0	0	
Hazardous Waste Management & Disposal	4,236	0	0	0	
Facility Improvements & Repair	779	0	0	0	
Landfill & Environmental Management	911	0	0	0	
Regional System Fee & Thrift Credit Program	1,253	0	0	0	
Waste Reduction & Regional Planning	2,154	0	0	0	
Waste Reduction Grants	2,150	0	0	0	
Public Outreach & Education	1,650	0	0	0	
Debt Service	3,689	0	0	0	
Subtotal Regional Services & Programs	\$22,466	\$1,067	\$0	\$0	\$23,533

Disposal Services**Metro costs that do not Vary with Tonnage ****

Misc. Transfer Station Maintenance	0	162	0	117	
Renewal & Replacement Contribution	0	730	0	0	
Subtotal	\$0	\$892	\$0	\$117	\$1,009

Metro costs that Vary with Tonnage

Transfer Station Operation (BFI)	\$0	\$0	\$4,917	\$0	
Recovery Incentive (BFI)	0	0	0	1,398	
Transport to Columbia Ridge (STS)	0	0	0	8,009	
Disposal at Columbia Ridge (WMI) ***	0	0	0	12,153	
Fuel	0	0	0	1,070	
Miscellaneous Transport & Disposal	0	0	0	0	
Subtotal	\$0	\$0	\$4,917	\$22,630	\$27,547

Subtotal Disposal Services

\$0	\$892	\$4,917	\$22,747	\$28,556
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Revenue Requirements

\$22,466	\$1,959	\$4,917	\$22,747	\$52,089
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* Per Ordinance 99-823A -- Reallocation of administrative costs from the RSF Fee to Metro Facility Fee.

** Scalehouse operation costs are recovered by the \$5 transaction fee (FY01-02 = \$1,834,000).

*** Direct-haul disposal costs within this category are recovered by the direct-haul disposal fee and revenues are in the revenue offset.

Costs and revenues shown in boxes may offer an opportunity for reallocation

Attachment C : Rate Components Detail

Regional System Fee (RSF)	Metro Facility Fee	Regional Transfer Charge	Transport/ Disposal	Total/ Rate
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(In \$000s)

Approved Budget 2001-02

Calculated Tipping Fee

Revenue Requirements	\$22,466	\$1,959	\$4,917	\$22,747	
Less: Revenue offsets					
Miscellaneous	591	0	0	381	
Interest	472	77	99	460	
Transaction Fee	0	0	0	0	
Disposal Fee from Direct-Haul	0	0	0	623	
Fund Balance (contracts carryover)	305	0	0	0	
Fund Balance (Debt Service+Investment)	1,257	0	0	0	
Total Revenue Offsets	\$2,625	\$77	\$99	\$1,464	
Total Required from Rate (Requirements less Revenue Offsets)	\$19,841	\$1,882	\$4,818	\$21,283	\$47,824
Tonnage Base *	1,221,000	673,772	673,772	673,772	
Per-ton Unit Cost (Net of Excise Tax)	\$16.25	\$2.79	\$7.15	\$31.59	\$57.78
Rehab & Enhancement/DEQ Fees					\$1.74
Calculated Base "Rate"					\$59.52
Excise Tax/ton					\$5.04
Total Calculated Metro "Tip Fee"					\$64.56

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Ordinance Tipping Fee

Ordinance 99-823A (Effective Feb 1, 2000)					
Ordinance 99-825A (Effective Feb 1, 2000)					
Per-ton Rate (Net of Excise Tax) **	\$12.90	\$2.55	\$6.56	\$29.75	\$51.76
Rehab & Enhancement/DEQ Fees					\$1.74
Ordinance Base Rate					\$53.50
Solid Waste Programs					\$3.96
Excise Tax/ton					\$5.04
Ordinance Metro Tip Fee					\$62.50

* Regional Tonnage includes: 673,772 tons at Metro Facilities and 547,228 tons at Non-Metro Facilities.

** Ordinance 99-823A established a RSF of \$21.90/ton and for eligible users of the regional solid waste system a \$9.00/ton credit against the RSF. This results in an effective RSF of \$12.90/ton.

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Comparison of Revenue Requirements
and
Calculation of the Regional System Fee
(FY 1999-00 and FY 2000-01)

Enclosure C-3

Description	Expenses (\$000s)		
	FY 1999-00	FY 2000-01	Change
Regional Services & Programs			
Administration			
Office of the Director (OD)	443	481	38
Finance (B&RA)	460	714	254
Enforcement & Regulatory Affairs (B&RA)	607	686	79
Transfer Station Management (ES) **	453	353	(100)
Technical Support (E&A)	-	-	-
Support Services (B&RA)	723	1,046	323
Internal Transfers for Support & Space	2,731	1,994	(737)
Other Internal Service Fund Transfers	537	463	(74)
Hazardous Waste Management & Disposal (ES)	3,125	3,908	783
Facility Improvements & Repair (E&A)	1,040	751	(289)
Landfill & Environmental Management (E&A)	969	869	(100)
Regional System Fee Credit Program	900	900	(0)
Waste Reduction & Regional Planning(WRPO)	1,201	2,441	1,240
Waste Reduction Grants (WRPO)	939	1,249	310
Public Outreach & Education (WRPO)	1,517	1,486	(31)
Health & Safety	170	173	3
Fixed Payment to Jack Gray Transport	829	-	(829)
Debt Service Reserve	-	957	957
Debt Service	2,671	1,678	(993)
Revenue Requirements	\$19,315	\$20,148	833
Revenue offsets			
Miscellaneous	422	548	126
Interest	655	680	25
Fund Balance+Carryovers	900	2,323	1,423
Total Revenue Offsets	1,977	3,551	1,574
Totals Required from Rate (requirements less offsets)	\$17,338	\$16,598	-\$740
Divided by: Regional tonnage base (tons per year)	1,369,360	1,286,222	-83,138
Equals: Base rate	\$12.66	\$12.90	\$0.24
Plus: Metro excise tax*	\$1.08	\$0.00	NA
Equals: Regional System Fee Calculated	\$13.74	\$12.90	NA
 Regional System Fee (adopted rate rounded)	 \$14.00	 \$12.90	

* Excise tax rate

8.5%

** Transfer Station Management includes the Thrift Credit Program (\$353,000)

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.

Comparison of Revenue Requirements

Enclosure C-3

and Calculation of the Metro Tip Fee

(FY 1999-00 and FY 2000-01)

Description	Expenses (\$000s)		Change
	FY 1999-00	FY 2000-01	
Costs that do not Vary with Tonnage ("Tier 2")			
Transfer Station Management	186	277	91
Scalehouse Operations*	1,276	1,375	99
Internal Transfers for Support & Space	-	1,006	
Miscellaneous Transfer Station Maintenance	165	144	
Renewal & Replacement Contribution	723	725	2
Subtotal	\$2,350	\$3,526	\$1,176
Costs that Vary with Tonnage			
Transfer Station Operation (BFI)	4,445	4,726	281
Recovery Incentive (BFI)	857	1,218	361
Transport to Columbia Ridge (STS Transport)	8,473	7,910	(563)
Disposal at Columbia Ridge (OWS)	17,843	12,560	(5,283)
Fuel	849	1,036	187
Miscellaneous Transport & Disposal	116	38	(78)
Subtotal	\$32,583	\$27,488	-\$5,095
Revenue Requirements	\$34,933	\$31,014	-\$3,919
<i>Less: revenue offsets</i>			
Transaction Fee	1,341	1,456	115
Disposal Fees from Direct-Haul/Reload Facilities	2,638	1,060	(1,578)
Interest	1,193	662	(531)
Miscellaneous	358	382	24
Total Revenue Offsets	5,530	3,559	(1,971)
Totals Required from Rate (requirements less offsets)	\$29,403	\$27,455	-\$1,948

* Scalehouse costs are covered by the transaction fee and revenues are in the revenue offset.

Calculation of Rate

Divided by: tonnage base (tons per year)	678,143	717,132	38,989
Equals: Base rate	\$43.36	\$38.28	(\$5.07)
Plus: Metro excise tax*	3.69	-	
Plus: Regional System Fee (adopted, rounded)	14.00	12.90	
Plus: DEQ Fees	1.24	1.24	
Plus: Rehabilitation & Enhancement Fee	0.50	0.50	
Equals: Metro Tip Fee	\$62.78	\$52.93	
Metro Tip Fee (FY99-00 adopted rounded)	\$62.50	\$52.93	
Transaction Fee	\$5.00	\$5.00 per trans.	
Metro Tip Fee (Effective Feb 1, 2000)		\$62.50	
Recap			
Metro Tip Fee		\$54.52	
Excise tax due based on 8.5% and Tip fee of \$62.50		\$4.76	
		<u>\$59.28</u>	

Reference Materials

Enclosure D:

Descriptions of:

- Programs Funded by the Regional system Fee
- Programs Funded by Metro Tip Fee

Enclosure E:

Document -

"A Review of Metro's Solid Waste Rate Setting"

- Rate Objectives
- The Rate Model
- Incentives

Enclosure F:

Rate Setting Criteria; Revision Date: March 1, 2001

**Regional Environmental Management
FY 01-02 Budget
Regional Programs Funded by the Regional System Fee**

Hazardous Waste Management and Disposal. In 1989, the Oregon legislature mandated that Metro establish permanent depots for the collection of household hazardous waste. To comply, two facilities were opened on the site of Metro's transfer stations, one in 1992 and another in 1993. In addition to household hazardous waste, these facilities handle hazardous waste isolated from mixed waste delivered to Metro transfer stations; and, since 1993, have been providing service to "conditionally exempt" commercial generators of hazardous waste. During FY 2001-02, the Latex Paint Recycling Facility began operation and expects to collect \$245,000 in revenue from the sale of latex paint. The cost of this program, including disposal charges at a hazardous waste landfill, is approximately \$4.1 million per year.

Health & Safety Services. This program maintains and monitors facility compliance with all applicable health and safety regulations; provides safety and emergency training; performs risk assessments; and develops, audits, and evaluates programs and procedures designed to reduce injuries and illnesses to workers and the public at Metro solid waste, hazardous waste, and recycling facilities. Annual cost is approximately \$167,000.

Landfill & Environmental Monitoring Services. Currently, this program is in the post-closure stage of the landfill closure project. The audited Closure Account as of July 1, 2000 totals \$8.3 million. All major capital projects are funded from this account. Post-closure operating activities funded from the Regional System Fee include maintenance and monitoring of environmental improvements at the St. Johns Landfill, including water quality monitoring at the Landfill, Smith and Bybee Lakes and other Metro facilities. This program also ensures Metro's compliance with DEQ permit and reporting requirements. Post-closure costs funded from the Regional System Fee are projected at approximately \$911,000 per year.

Engineering & Technical Support. The purpose of this program is to design, plan, and manage capital improvement and replacement projects and conduct operational studies of Metro transfer stations, hazardous waste facilities and the St. Johns Landfill. It also develops and maintains a regional solid waste tonnage database; provides technical support to the Department and external stakeholders, including spatial, statistical, financial, engineering, and capital improvement planning assistance. Annual cost of this program is approximately \$779,000.

Regional System Fee Credit. Established in June 1998, the primary purpose of this program is to promote regional recovery by providing access to a reduced disposal surcharge (the Regional System Fee) for regional solid waste facilities based on their level of materials recovery. Annual cost of this program is \$900,000.

Waste Reduction & Planning. The primary purpose of this program is to develop, coordinate, and assist with implementation of the Regional Solid Waste Management Plan (RSWMP), waste reduction strategies, organics management strategies and programs, and provide technical assistance and market development assistance to local governments. This program also provides program planning, legislative research and policy analysis assistance to the Department. This program also develops policies and program strategies for the Regional Solid Waste Management Plan. Annual cost of the program is approximately \$2.1 million.

Public Outreach & Education. The objective of the this program is to provide information about disposal and recovery alternatives, and promote waste prevention and recycling practices to businesses, students, and the general public through educational programs. As part of the this program, the Recycling Information Center is the regional clearing house for waste reduction, recycling, and disposal information at Metro, providing customer service and public information. The service helps to meet recycling and recovery goals by providing a call-in service to answer questions from individuals and businesses about recycling and disposal options. Metro has operated the RIC for the past 20 years. Annual cost of the program is approximately \$1.7 million.

Waste Reduction Grants. The purpose of this program is to support existing local government residential and business waste reduction efforts through grants and technical support. Annual cost of this program is approximately \$1.9 million.

Disposal Vouchers & Thrifts, Community Grants. This purpose of this program is administer and distribute community grants throughout the region. This includes the Earth Day Celebration, Thrift disposal credits, and exempt disposal fees for neighborhood cleanup events. Annual costs of this program is \$690,000.

Enforcement & Regulatory Affairs. This program administers and enforces Metro's solid waste facility regulations, flow control, illegal dumping, and covered load ordinances. Annual costs of this program is approximately \$791,000 per year, most of which is expended on a contract for services with the Multnomah County Sheriffs office.

Administration. This category includes the Office of the REM Director, public affairs and outreach functions, administrative staff, budget and finance, contract administration, records administration, and materials and supplies. The budget is approximately \$2.1 million per year.

Internal Transfers. Interfund transfers for direct provision of materials and services by other departments in Metro are also included in this category. Included are legal, accounting, billing, printing, security, computer, and human resources services; building lease, utilities, and insurance. The total budget for Internal Transfers is approximately \$3.7 million of which \$2.6 million per year, or 71%, is funded by the Regional System Fee.

Debt Service. This category includes sufficient funds to meet the debt service principal and interest payments due for outstanding bonds issued on behalf of the REM Department. The cost is \$3.7 million per year.

Regional Environmental Management
FY 01-02 Budget
Metro Transfer Station Programs Funded by the Metro Tip Fee

Scalehouse Operations. This program provides Scalehouse services to public and commercial customers at Metro South and Central transfer stations. Annual cost for this program is \$2.0 million.

Transfer, Transport, and Disposal. This program manages and executes Metro Contracts for transfer station operations, waste recovery, long-haul transportation, and disposal of solid waste. This also includes the maintenance of the transfer stations. This program costs approximately \$27.6 million per year.

Renewal & Replacement Contribution. This purpose of this category is to budget for capital improvements characterized as renewals or replacements of existing systems within the Metro Disposal System. The budget is approximately \$730,000 per year.

Internal Transfer. Interfund transfers for direct provision of materials and services by other departments in Metro are also included in this category. Included are legal, accounting, billing, printing, security, computer, and human resources services; building lease, utilities, and insurance. The total budget for Internal Transfers is approximately \$3.7 million of which \$1.1 million per year, or 29%, is funded by the Metro Tip Fee.

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A REVIEW OF METRO'S SOLID WASTE RATE SETTING

February 26, 2001

Rate Objectives

The Regional Solid Waste Management Plan (RSWMP), adopted in 1988 and updated in 1995, provides the guiding principles for solid waste rate setting. Chapter 8 of the revised Plan states, in part, that Metro's rate policy is to "achieve equity, maintain fiscal stability and achieve policy goals such as waste reduction." The key elements of Chapter 8 are:

- Equity;
- Reasonableness;
- Incentives;
- Policy Objectives;
- Stability; and
- Revenue Adequacy.

To accomplish the objectives of Chapter 8, Metro's rate structure must incorporate a number of essential features. The rate structure must provide adequate, stable revenues. The revenues produced by the rates must be sufficient to meet all operating costs including debt service as well as any cash-financed capital additions. The rate structure must promote equity among customer categories. Each group of customers should be charged in proportion to the service received. The rate structure must be easy to implement and administer. The basis of the rates must be understandable to the public and should not place any undue administrative burden or cost on Metro. The rate structure should promote the Oregon solid waste hierarchy by providing appropriate incentives to reduce, reuse, and recycle. Finally, the rate structure must be consistent with Metro policies.

Selecting and implementing a rate structure requires the rate designer to evaluate the relative importance of each rate objective. The effect of implementing one objective may conflict with the intent of another objective. For example, the policy choice of maintaining a low Regional System Fee without lowering Metro's tip fee creates an inequity between customer types. Customers of Metro's transfer stations pay more than the cost of service for disposal, while non-Metro customers enjoy a subsidized Regional System Fee. The rate designer must weigh the relative importance of rate equity to that of achieving policy goals. The resulting rate structure may reflect a compromise between those two objectives as well as the other rate objectives.

The Rate Model

Metro typically reevaluates solid waste rates each year as part of the annual budget process. Preparation of the annual budget includes estimates of personnel costs, materials and supplies, contract services, capital outlays, debt service, and other cash requirements of the solid waste system. Concurrent with annual budget preparation, Metro develops a forecast of solid waste tonnages for the next fiscal year. The budget information and the tonnage forecast are the inputs to a rate model which is used to develop the actual rates. The critical element in the rate-setting process is the forecast of disposal tonnage, which drives both budget preparation and rate calculation. Allocations of forecasted revenues and expenses to the different components of the rate can have a secondary effect on the amount of each tip fee component.

Cost Allocation Procedures

One of the principal functions performed by Metro's solid waste rate model is the allocation of costs to the four rate components used in Metro's rate setting methodology: 1. Metro Facility Fee, 2. Regional Transfer Charge, 3. Disposal & Transportation, and 4. Regional System Fee. For simplicity, one can speak of only two rate components: the RSF, charged on all regional disposed waste, and the Metro tip fee, which recovers from Metro transfer station customers the actual operational cost of transfer and disposal (Metro customers incur the RSF in addition to the Metro tip fee.). Costs assigned to the Metro tip fee relate directly to the transfer and disposal services provided by Metro. The RSF includes costs of regional programs, i.e., those that benefit the entire region.

Metro Tip Fee

The Metro tip fee includes three rate components that are charged only at Metro's two transfer stations: the Metro Facility Fee, the Regional Transfer Charge, and Disposal & Transportation.

Metro Facility Fee (MFF)

The fixed costs associated with waste processing, transport, and disposal are assigned to the Metro Facility Fee (MFF) rate component. These costs include the personal services and material and services of scale house operations, the contribution to the Renewal and Replacement Account, and a portion of internal support services. Metro assigns the annual contributions to the Renewal and Replacement Account to the Metro tip fee. The contributions are made in accordance with Metro's master bond ordinance. The moneys deposited in the Renewal and Replacement Account are only available to maintain the building, equipment and other physical facilities located at the transfer stations.

Regional Transfer Charge (RTC), Disposal & Transportation

The variable cost portion of contract services agreements for the operation of Metro Central and Metro South transfer stations (e.g., the BFI contract) are assigned to the Regional Transfer Charge rate component. The variable portion of the contract services agreement for solid waste transport (STS contract) and disposal (Waste Management contract) are assigned to the Transport and Disposal rate component.

Regional System Fee

Metro transfer station customers and non-Metro customers alike incur the Regional System Fee.

Currently, the costs of all programs that have a regional benefit are assigned to the Regional System Fee (RSF). Debt service, general administrative costs, engineering, waste reduction, planning, and recycling information and education are examples of programs whose costs are assigned to the RSF.

Metro's rate methodology assigns the costs of the household hazardous waste facilities located at each transfer station to the RSF. The program costs include personal services, materials and services, and disposal. Although this service is provided on an ongoing basis only at Metro facilities, the program benefits are shared throughout the region, and hazardous waste round up events provide a tangible example of this regional benefit.

The costs of the St. Johns Landfill closure are allocated to the RSF. Over its operating life, St. Johns benefitted all disposers in the region. Because there is no site-specific tonnage associated with closure costs, it is reasonable to allocate those costs to all disposers in the region.

Most of the costs associated with interfund transfers are allocated to the RSF. These costs include Metro support services such as accounting and data processing, building fund, workers compensation insurance, transportation fund, Smith/Bybee Lakes fund, and environmental insurance. The majority of these costs are of an overhead nature and benefit all classes of service; however, the portion of Metro overhead that administers transfer station operations benefits Metro transfer station customers only; hence, 40% of interfund support services transfers are allocated to the Metro tip fee. The issues of rate equity and rate stability previously discussed in conjunction with general administrative costs also affect the allocation of interfund transfers. Any shifting of the cost responsibility for interfund transfers from the RSF to the tip fee may be at the expense of rate stability. (Note: up until 1998, 100% of support services costs had been allocated to the RSF.)

The final element in the allocation process is the allocation of revenue credits to rate components. Miscellaneous revenues are allocated to the RSF and Metro tip fee based on an analysis of the revenue source. The revenues received from tire hauling and disposal are allocated to the tip fee. The interest income earned on invested funds is allocated to the rate components based on the proportion of rate component costs to total gross costs. The income from funds related to the RSF is allocated to the RSF rate component and so forth.

Incentives

The contract services agreements for Metro's solid waste transfer and disposal operations include several incentive provisions. One provision intended to promote recycling pays Metro's facility operator the avoided cost of transport and disposal for all materials recovered from the waste stream. Integral to the transfer station operations contract, this cost is allocated to the tip fee. Another incentive provision allocated to the tip fee is intended to optimize the load of the transport trailers. Regional System Fee credits, an incentive intended to preserve regional recovery capacity by temporarily offsetting revenue losses at regional recovery facilities, provide a regional benefit, and so are allocated to the RSF.

RATE SETTING CRITERIA

March 1, 2001

Adapted from Resolution #93-1824A

1. Consistency: Solid waste rate setting should be consistent with Metro's agency-wide planning policies and objectives, including but not limited to the Solid Waste Management Plan.
2. Revenue Adequacy and Reliability: Rates should be sufficient to generate revenues that fund the costs of the solid waste system.
3. Equity: Charges to users of the waste management system should be directly related to services received. Charges to residents of the Metro service district who may not be direct users of the disposal system should be related to other benefits received.
4. Waste Reduction: The rate structure should encourage waste reduction, reuse, and recycling.
5. Affordability: Rate setting should consider the customers' ability to pay, e.g., the cost of living for residential customers and the cost of doing business for commercial customers.
6. Implementation and Administration: Rate setting should balance the relative cost and effort of implementing and administering the rates with financial and policy goals. Rates should be enforceable.
7. Credit Rating Impacts: The rate structure should not negatively impact Metro's credit rating.
8. Authority to Implement: Metro should ensure that it has the legal ability to implement the rate structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority.
9. Predictability: Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.