

A G E N D A

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METRO

MEETING: Rate Review Committee, MEETING 1
DATE: Thursday, February 28, 2008
TIME: 5:30 – 7:00 p.m.
PLACE: Metro Regional Center, Room 601 (elevators behind SW&R desk)

AGENDA

- I. Call to Order** (10 min).....*David Bragdon*
Welcome and introductions.
- II. Review, Status Report and New Issues** (45 min.)*Tom Chaimov/Doug Anderson*
- o *A review of last year's recommendations, status report, and a look ahead—tonnage forecasts and cost projections.**
 - o *Introduction to factors that will affect unit costs over the next several years.**
- Information and discussion only.**
- III. This Year's Work Plan** (30 min.).....*Michael Hoglund/David Bragdon*
- o *Identify the issues that the RRC will address this year. Members: bring your ideas.*
 - o *Confirm this year's meeting calendar.**
- Desired outcome: agreement on this year's objectives, work plan, and meeting schedule.**
- IV. Other Business and Adjourn** (5 min.).....*David Bragdon*
Next meeting: Tuesday, March 11, 5:30 p.m., Room 370A.

*** Starred (*) items are included with this agenda. Other materials will be distributed at the meeting. All times listed on this agenda are approximate. Items may not be considered in the exact order listed.**

Please contact Tom Chaimov at Metro with any questions at chaimovt@metro.dst.or.us or 503-797-1681.

Rate Review Committee Members, Affiliation (Representation)

Matt Korot, City of Gresham (Recycling Interests)	Sarah Adams, Hoffman Angeli (Rate Setting Expertise)
Mike Leichner, Pride Disposal (Haulers)	Mike Miller, Gresham Sanitary (Business Finance Experience)
Ray Phelps, Allied (Haulers)	Michelle Poyourow, Bicycle Transport. Alliance (Citizen Interests)

Council President David Bragdon, Chair

List of Attachments

Agenda Item II Review , Status Report and New Issues

- Attachment A. *Status Report on Last Year's Recommendations*
Attachment B. *Tonnage and Cost Trends*
Attachment C. *Factors Affecting Solid Waste Rates over the Next Several Years*

Agenda Item III This Year's Work Plan

- Attachment D. *Rate Review Committee 2008 Planning Calendar*
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Dinner Provided

Dinner for this evening will provided by Hoda's Middle Eastern Cuisine:

Hummus with pita bread
Falafel
Baba Ghanouj
Chicken Shawarma

Agenda Item II
Attachment A. Status Report on Last Year's Recommendations

Last year, with no major solid waste program additions or deletions, the Rate Review Committee recommended standing pat with status quo cost and revenue allocations. A number of policy discussions were postponed pending completion of Phase 2 of the Disposal System Planning study and implementation of EDWRP (aka "Mandatory MRFing"), both of which are still pending.

Topic	Recommendation	Status
FY 2007-08 Metro tip fee	\$71.14 per ton with a split (\$3.00/\$8.50) transaction fee.	Metro Council adopted rates as recommended.
Split transaction fee	Stand pat, but revisit after implementation of EDWRP, and after a full year of transaction counts is available.	EDWRP not yet implemented. A small proportion of staffed-scale users appear to be switching to automated scales (see transaction data included with Attachment B).
Hazardous waste disposal charge	Formalize the household hazardous waste fee suspension and eliminate it permanently at sites and at neighborhood roundup events. Encourage product stewardship funding for HazWaste disposal and education.	Metro Council adopted recommendation to eliminate HazWaste disposal charges. HazWaste disposal deliveries continue to increase, both in number and total weight. Progress on electronics and paint stewardship efforts.

Agenda Item II

Attachment A (continued). Status Report on Last Year's Recommendations

Rate Recommendation of the Rate Review Committee
 Adopted by the Metro Council through Ordinance 07-1146

**Solid Waste Disposal Charges
 Effective September 1, 2007 through August 31, 2008**

Rate Components	FY 2006-07	FY 2007-08	Change
Transaction Fees			
Scalehouse users	\$8.50	\$8.50	- 0 -
Automated scale users	\$3.00	\$3.00	- 0 -
Per-ton rates:			
Tonnage charge	\$46.20	\$47.09	\$0.89
Regional System Fee	\$13.57	\$14.08	\$0.51
Excise tax	\$8.35	\$8.23	(\$0.12)
DEQ & host fees	<u>\$1.74</u>	<u>\$1.74</u>	<u>- 0 -</u>
Metro Tip Fee	\$69.86	\$71.14	\$1.28
Minimum load charge*	\$17	\$17	\$0.00

*Minimum load charges are based on 240 pounds in a single load.

Agenda Item II
Attachment B. Tonnage and Cost Trends

Tonnage Trends and Forecast Performance

	Mixed Waste		
	Metro	Non-Metro	Region
Last Year's Tonnage	610,854	783,698	1,394,552
This Year's Tonnage	613,767	758,441	1,372,208
<i>Change (tons)</i>	2,913	-25,257	-22,344
<i>Change (percent)</i>	0.5%	-3.2%	-1.6%
This Year's Forecast	570,065	829,279	1,399,344
This Year's Tonnage	613,767	758,441	1,372,208
<i>Change (tons)</i>	43,702	-70,838	-27,136
<i>Change (percent)</i>	7.7%	-8.5%	-1.9%
This Year's Tonnage	613,767	758,441	1,372,208
Next-Year's Forecast	625,557	785,288	1,410,845
<i>Change (tons)</i>	11,790	26,847	38,637
<i>Change (percent)</i>	1.9%	3.5%	2.8%

Agenda Item II
Attachment B (continued). Tonnage and Cost Trends

This Year's Rates and Estimated FY 2008-09 Unit Costs

	Unit Costs			
	FY 07-08	<i>Preliminary*</i> FY 08-09	Change	%
Disposal Services	47.09	48.18	1.09	2.3%
Host Fee	0.50	0.50	-	0.0%
DEQ	1.24	1.24	-	0.0%
RSF	14.08	17.41 *	3.33	23.7%
Excise Tax	8.23	8.97	0.74	9.0%
	\$71.14	\$76.30	\$5.16	7.3%

* FY 2008-09 unit costs reflect an estimated allocation of general and administrative costs
The Regional System Fee includes a limited-duration \$1.67/ton for diesel retrofit;
without retrofit, the RSF would be up \$1.66 (11.8%).

Attachment C. Factors Affecting Solid Waste Rates over the Next Several Years

**Rate Review Committee
February 28, 2008**

For the last several years, Metro has been able to manage its solid waste rates within a relatively small range. This has resulted from the fact that solid waste budgets and tonnage have been on fairly smooth and parallel growth paths.

Beginning in late 2008, and continuing at least through 2011, several discrete factors will exert influence on Metro’s solid waste rates. Some are policy choices for the Metro Council; others are based on certain contractual milestones; some are management options. Some will drive fees upward, others may drive fees downward.

The purpose of this briefing paper is to lay out the known factors that may affect Metro’s solid waste rates over the next several years.

Overview of Factors Affecting Rates

<p>Policy Options Diesel Retrofit Conservation-Education Initiative Self-haul policies and pricing Waste Reduction program costs & enforcement</p>	<p>Time- and/or Dollar-Certain Cost Changes Retirement of the bonds New transport contract Disposal cost reduction (Change Order 9)</p>
<p>Management Options Depreciation allowance Set rates to expenditures, not budget Expanded use of reserves Rate allocation model</p>	<p>Risks St. Johns New operations contract Tonnage diversion Fuel costs</p>

Policy Options

Diesel retrofit funding options Sometime in 2008, Council will decide on the form of Metro's financial participation in the retrofitting of diesel filters on the region's waste collection fleet. Among the options is outright funding of the project, with current estimates adding about \$1.65 to the RSF for three years beginning in September 2008.

Conservation Education Initiative. Subject to Council's approval of the scope and funding source, ConsEd would add about \$1.00 to the Regional System Fee (and Metro tip fee) for each \$1.3—\$1.4 million expended per year. If the program were to begin in FY 2008-09, this would affect rates beginning in September 2008.

Self-haul policies and pricing. Over the last couple of years, the Solid Waste & Recycling Department and the Rate Policy Subcommittee of SWAC have identified a number of issues around self-hauling; and in particular, the growth of self-hauling over time. Issues include impacts on operations, pricing policies, effects on the collection franchise system, foregone material recovery, the geographic distribution of self-haul options, and system sustainability and equity. The Department is currently studying the dynamics of demand for self-hauling, and expects to begin identifying policy and program options in the Spring of 2008. It is highly likely that some of these options would affect Metro's budget and/or rate structure.

Waste reduction program costs and enforcement. The Council is working through a number of new waste reduction initiatives in conjunction with development of the new Regional Solid Waste Management Plan (RSWMP). Council has adopted some elements—for example, Enhanced Dry Waste Recovery—and is, or will soon be considering others, such as an expansion of Recycle at Work. At this time, the only known cost change involves elimination of Regional System Fee credits on July 1, 2009, which would mean a 43¢ reduction in the Regional System Fee. However, all of these activities have potentially expanded regulatory and enforcement options whose costs have been estimated, but not fully determined at present.

Time and/or Dollar-Certain Cost Changes

Retirement of the Bonds. Of the current tip fee, \$1.63 per ton goes toward debt service (\$1.00 from the Regional System Fee and 63¢ from Metro-specific user charges). The last payment is due July 1, 2009, which will be deposited with the trustee on January 1, 2009. Therefore, after December 2008, no rate revenue will go directly toward debt service on the current solid waste revenue bonds.

Transport contract. A new transport contractor will be in place by January 1, 2010. The new price depends on a variety of factors, but staff estimates the cost will be \$3 to \$4 higher than at present. As with disposal costs, transport costs are currently allocated to Metro-specific user charges only, so this increase would affect only the portion of the tip fee that recovers the cost of disposal services.

Change Order 9. Change Order 9 of the disposal contract provides for a 93¢ per ton reduction in Metro's disposal costs effective July 1, 2010. Disposal costs are currently allocated to Metro-specific user charges only, so absent a change in Metro's rate allocation policy, this reduction would affect only the portion of the tip fee that recovers the cost of disposal services.

Management Options

Depreciation allowance (annual contribution to the Renewal & Replacement Account).

Capital at the transfer stations is aging. Based on an independent engineer's most recent review and recommendation, SWR's contribution to its capital renewal and replacement account should be increased by about \$400,000 per year beginning in FY 2010-11. This would translate to about 80¢ per ton. The R&R contribution is currently allocated to Metro-specific user charges only. As strict adherence to the engineer's recommendation is a function of bond covenants which might no longer be in effect at the time, the amount and timing of this change becomes a management choice.

Fiscal management options. Assuming the Rate Covenant (of the bonds) need not be enforced after retirement of the bonds, at least two management options re-emerge for managing rates:

- o *Under-spend allowance.* Metro may choose to set its solid waste rates based on expected expenditures, not budgeted expenditures.
- o *Use of fund balance.* The fund balance becomes an optional source-of-funds for operating expenses. Prudent fiscal management would suggest that such uses be strictly limited, be guided by financial policies, and employ only undesignated fund balances.

Rate structure/cost allocations. Rates are more sensitive to the cost allocations than any other factor. For example, each re-allocation of \$1 million in fixed costs between the tonnage charge and the RSF results in about \$1 change in the tip fee, and a \$1.65/ton turn in margin (in the opposite direction) for the private facilities. Over \$6 million in annual fixed costs remain in play, excluding \$2.34 million in debt service.

Risks

St. Johns. SWR is currently working with the DEQ on a Record of Decision that will generate additional costs for remediation. Staff expects estimates to firm-up by 2010. Currently, the range is between \$3 to \$7 million, which would be expended over a three to four year period, commencing approximately FY 2011. There is considerable flexibility on the source of the funds to pay these costs, even with the bond covenants in place. The conventional options are: current undedicated fund balance, new monies from rates, or a combination of the two. The Regional System Fee would be the most likely candidate for a rate-based source.

Other cost factors and risks

- o Tonnage diversion (Columbia Environmental; waste reduction)
- o New operations contract (April 2010)
- o Fuel costs

Where do We Go with This Information?

Staff put the preceding information and the following observations before Metro Council on February 19:

- o Historically, the Rate Review Committee was established to examine factors that affect rates, and make recommendations to Council. (See below and next page.)
- o Solid Waste staff recommends that the longer-run rate path be *the main work focus* of the Rate Review Committee this year. The Committee is currently scheduled to begin meeting on February 28, and is available to meet into May.
- o Policy options should be decided by Council during the FY 2008-09 budget process and beyond, as necessary.
- o The Council may also wish to review the charge of the Rate Review Committee (below) and Rate-Setting Criteria (next page) for confirmation or revision.

In summary, the Council's response was:

- o Put management of the long-run rate path before the Rate Review Committee this year.
- o In applying the rate criteria of Resolution 93-1824A—and the “Consistency” criterion in particular—the Rate Review Committee should bear in mind that agency-wide policies and objectives, including the Regional Solid Waste Management Plan, put a much heavier weight on toxics reduction and sustainability principles than in the past. The Committee's rate recommendations should reflect that weighting.
- o The Rate Review Committee should consider how well their rate recommendations perform on “Council Values for the Solid Waste System” (see next page) in addition to the rate criteria of Resolution 93-1824A.

Appendices

(A) Charge of the Solid Waste Rate Review Committee

Metro Code section 2.19.170 establishes the Rate Review Committee:

- To enhance the credibility of solid waste disposal rates and the rate setting process.
- To provide a rational, consistent, stable and predictable process for establishing solid waste disposal rates.
- To make recommendations to the Metro Council regarding proposed solid waste disposal rates.

The Rate Review Committee is NOT:

- o *A budget review committee*
- o *A general policy advisory committee*

(B) Metro's Solid Waste Rate-Setting Criteria

Resolution No. 93-1824A sets forth criteria that guide the work and recommendations of the Rate Review Committee:

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.

Revenue Adequacy and Reliability. Rates should be sufficient to generate revenues that fund the costs of the solid waste system.

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.

Waste Reduction. The rate structure should encourage waste reduction, reuse, and recycling.

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.

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.

Credit Rating Impacts. The rate structure should not negatively impact Metro's credit rating.

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.

Predictability. Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.

(C) Council Values for the Solid Waste System

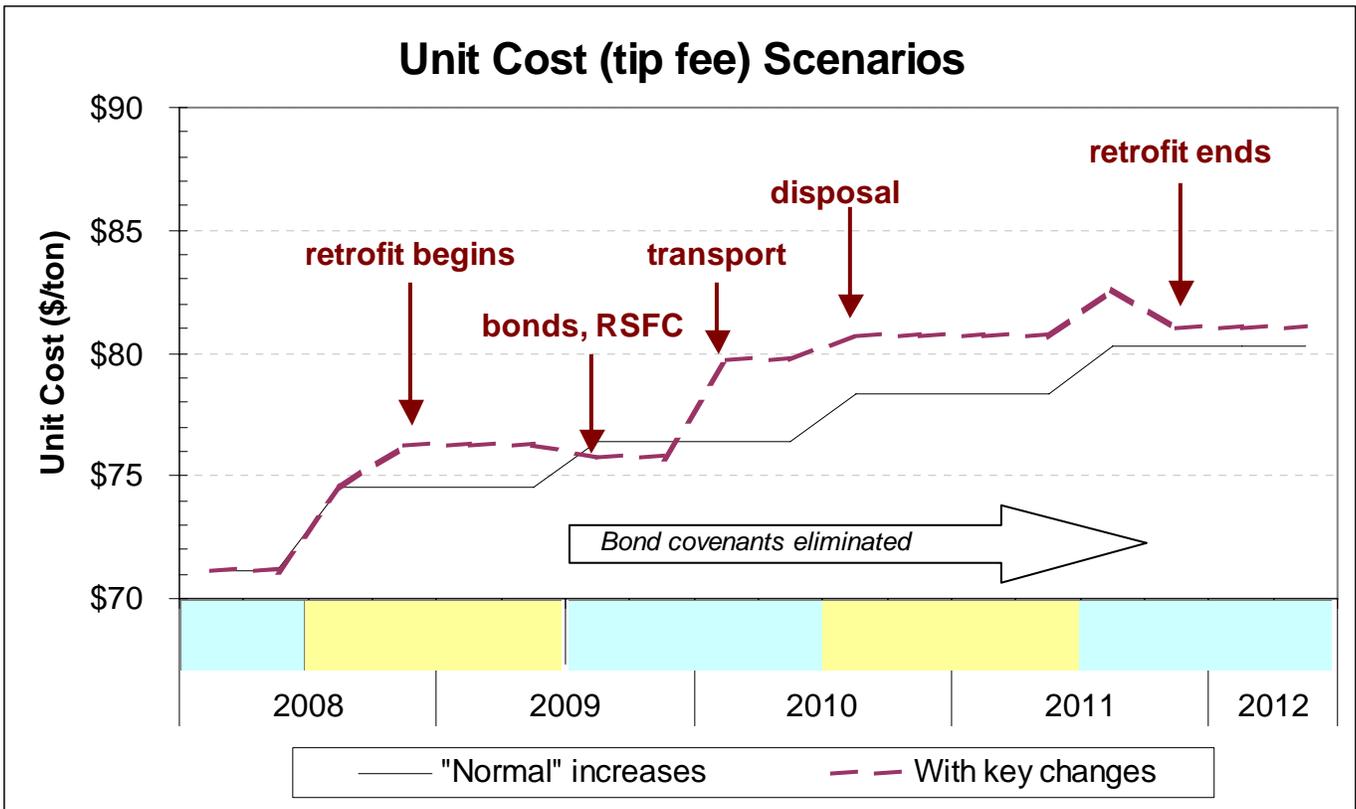
1. Protect public investment in solid waste system
2. "Pay to Play" - ensure participants pay fees/taxes
3. Environmental Sustainability – ensure the system performs in a sustainable manner
4. Preserve public access to disposal options (location/hours)
5. Ensure regional equity- equitable distribution of disposal options
6. Maintain funding source for Metro general government
7. Ensure reasonable/affordable rates

(D) Illustrative Scenario

The following graph depicts the Metro tip fee over the next four years if rates were adjusted to the key factors in real time (heavy dashed line). Under this scenario, the reader will note that the rate would jump significantly next year, followed by a mild decline (due to elimination of the debt service and Regional System Fee credits), followed by a major jump due to the expected cost of the new transport contract.

One proposed task for the Rate Review Committee this year is to recommend a plan for managing the rate path over the next 4 to 5 years, and beyond.

The scenario represented by the thin solid line on the graph assumes normal cost and tonnage increases, and no major changes during the next four years. This scenario is shown for reference purposes.



Attachment D. Rate Review Committee 2008 Planning Calendar

Date	Process	Description
2/28	Rate Review	Meeting 1
3/11	Rate Review	meeting option date
3/27	Rate Review	meeting option date
4/3	budget	Proposed budget released
4/8	budget	Councilor amendments due
4/8—4/29*	budget	Budget work sessions*
4/8	Rate Review	meeting option date
4/21	budget	Department amendments due
4/22 or 4/24	Rate Review	meeting option dates
5/1	budget	Approve transmittal of budget to TSCC
5/1	Rate Review	meeting option date
5/1 or 5/8	rates	File Rate Ordinance
5/29	rates	Drop-dead Rate Ordinance 2 nd reading
6/5**	budget	TSCC public hearing
6/19	budget	Budget adopted
9/1	rates	Rates effective

* Five Council work sessions on the budget are currently scheduled: 4/8, 4/9, 4/22, 4/23, 4/29.

** Budget amendments are possible, but strictly limited, after TSCC approval.

Potential Meeting Topics

February 28	Work plan for the year; status report; long-run factors affecting rates
March 11	FY 2008-09 tonnage forecast and unit costs; long-run rate management
March 27	Spring Break recess?
April 8	Formulate FY 2008-09 recommendation and long-run management options
April 22/24	Recommendations
May 1	(If needed) Wrap up loose ends, other business

Rate Review Committee
Meeting Agenda for Thursday, February 28, 2008

Sent to:

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Also Mike Hogle, Gina Cubbon, and Tom Chaimov