

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AMENDING) ORDINANCE NO. 03-1000A
METRO CODE CHAPTER 5.02 TO)
AMEND DISPOSAL CHARGES AND) Introduced by: Mark Williams, Interim Chief
SYSTEM FEES) Operating Officer, with the concurrence of
) David Bragdon, Council President

WHEREAS, Metro Code Chapter 5.02 establishes solid waste charges for disposal at Metro South and Metro Central transfer stations; and,

WHEREAS, Metro Code Chapter 5.02 establishes fees assessed on solid and hazardous waste generated within the District or delivered to solid waste facilities regulated by or contracting with Metro; and,

WHEREAS, Metro's costs for solid waste programs have increased; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS:

Section 1. Metro Code Section 5.02.025 is amended to read:

5.02.025 Disposal Charges at Metro South & Metro Central Station

(a) The fee for disposal of solid waste at the Metro South Station and at the Metro Central Station shall consist of:

(1) ~~The following charges~~A Tonnage Charge as provided in subsection (b) for each ton of solid waste delivered for disposal;

~~(A) A tonnage charge of \$42.55 per ton.~~

~~(B) The Regional System Fee as provided in section 5.02.045.~~

~~(C) An enhancement fee of \$.50 per ton, and~~

~~(D) DEQ fees totaling \$1.24 per ton;~~

(2) All applicable solid waste taxes as established in Metro Code Chapter 7.01, which excise taxes shall be stated separately; and

(3) A Transaction Charge of \$6.00 for each Solid Waste Disposal Transaction.

~~(b) The Tonnage Charge specified in subsection (a) of this section shall consist of:~~

~~(1) A disposal charge of \$33.02 per ton;~~

~~(2) A regional transfer charge of \$7.53 per ton;~~

~~(3) The fees specified in section 5.02.045;~~

~~(4) An enhancement fee of \$.50 per ton; and~~

~~(5) DEQ fees totaling \$1.24 per ton.~~

(be) Notwithstanding subsection (a) of this section, there shall be a minimum solid waste disposal charge at the Metro South Station and at the Metro Central Station for loads of solid waste weighing 340 pounds or less of \$17, which shall consist of a minimum Tonnage Charge of \$11.00 plus a Transaction Charge of \$6.00 per Transaction.

(cd) Total fees assessed in cash at the Metro South Station and at the Metro Central Station shall be rounded to the nearest whole dollar amount, with any \$0.50 charge rounded down.

(de) The Director of the Regional Environmental Management Department may waive disposal fees created in this section for Non-commercial Customers of the Metro Central Station and of the Metro South Station under extraordinary, emergency conditions or circumstances.

Section 2. Metro Code Section 5.02.045 is amended to read:

5.02.045 System Fees

(a) Regional System Fee: Solid waste system facility operators shall collect and pay to Metro a Regional System Fee of ~~\$16.57~~\$24.00 per ton for the disposal of solid waste generated, originating, collected, or disposed of within Metro boundaries, in accordance with Metro Code section 5.01.150.

(b) Metro Facility Fee: Metro shall collect a Metro Facility Fee of ~~\$1.09~~\$2.55 per ton for all solid waste delivered to Metro Central Station or Metro South Station.

(c) System fees described in paragraph (a) shall not apply to exemptions listed in section 5.01.150(b) of this Code.

Section 3. Metro Code Section 5.02.047 is amended to read:

5.02.047 Regional System Fee Credits

(a) A solid waste facility which is certified, licensed or franchised by Metro pursuant to Metro Code Chapter 5.01 or a Designated Facility regulated by Metro under the terms of an intergovernmental agreement shall be allowed a credit against the Regional System Fee otherwise due each month under Section 5.02.045 for disposal of Processing Residuals from the facility. The Facility Recovery Rate shall be calculated for each six-month period before the month in which the credit is claimed. The amount of such credit shall be in accordance with and no greater than as provided on the following table:

System Fee Credit Schedule

Facility Recovery Rate		
From Above	Up To & Including	System Fee Credit of no more than
0%	30%	0.00
30%	35%	9.92
35%	40%	11.46
40%	45%	13.28
45%	100%	14.00

(b) The Chief Operating Officer:

- (1) Shall establish administrative procedures to implement subsections (b) and (c) of Metro Code Section 5.02.046; and,
- (2) May establish additional administrative procedures regarding the Regional System Fee Credits, including, but not limited to establishing eligibility requirements for such credits and establishing incremental System Fee Credits associated with Recovery Rates which fall between the ranges set forth in paragraph (a) of this section.

~~(c) The following users of Metro solid waste system facilities shall be allowed a credit in the amount of \$9 per ton against the Regional System Fee otherwise due under Section 5.02.045(a):~~

~~(1) Users of Metro Central and Metro South Transfer Stations;~~

~~(2) Any Person delivering authorized waste:~~

~~(A) to any landfill or other solid waste facility that is authorized to receive such waste through a Metro license, certificate, franchise or Designated Facility Agreement; or~~

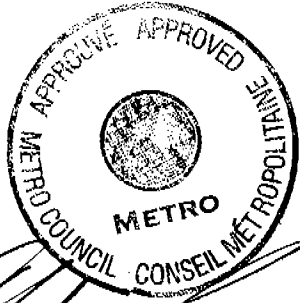
~~(B) under the authority of a Metro Non-System License.~~

(cd) Any person delivering Cleanup Material Contaminated By Hazardous Substances that is derived from an environmental cleanup of a nonrecurring event, and delivered to any Solid Waste System Facility authorized to accept such substances shall be allowed a credit in the amount of ~~\$12.50~~\$14.07 against the Regional System Fee otherwise due under Section 5.02.045(a) of this Chapter.

(de) During any Fiscal Year, the total aggregate amount of credits granted under the Regional System Fee credit program shall not exceed the dollar amount budget without the prior review and authorization of the Metro Council.

(ef) The Director of the Regional Environmental Management Department shall make a semi-annual report to the Council on the status of the credit program. The report shall include that aggregate amount of all credits paid during the preceding six months and the amount paid to each facility eligible for the credit program. The report shall also project whether the appropriation for the credit program will be sufficient to meet anticipated credit payment requests and maintain existing contingency funding.

ADOPTED by the Metro Council this 3rd day of April, 2003.



A handwritten signature in black ink, appearing to read 'David Bragdon', written over a horizontal line.

David Bragdon, Council President

ATTEST:

A large, stylized handwritten signature in black ink, written over a horizontal line.

Recording Secretary

Approved as to Form:

A handwritten signature in black ink, appearing to read 'Daniel B. Cooper', written over a horizontal line.

Daniel B. Cooper, General Counsel

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(b) **Metro Facility Fee:** Metro shall collect a Metro Facility Fee of ~~\$1.09~~\$2.55 per ton for all solid waste delivered to Metro Central Station or Metro South Station.

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Section 4. Effective Date

The provisions of this ordinance shall become effective on July 1, 2003.

ADOPTED by the Metro Council this _____ day of _____, 2003.

David Bragdon, Council President

ATTEST:

Approved as to Form:

Recording Secretary

Daniel B. Cooper, General Counsel

STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 03-1000 FOR THE PURPOSE OF AMENDING METRO CODE CHAPTER 5.02 TO AMEND DISPOSAL CHARGES AND SYSTEM FEES

Date: March 20, 2003

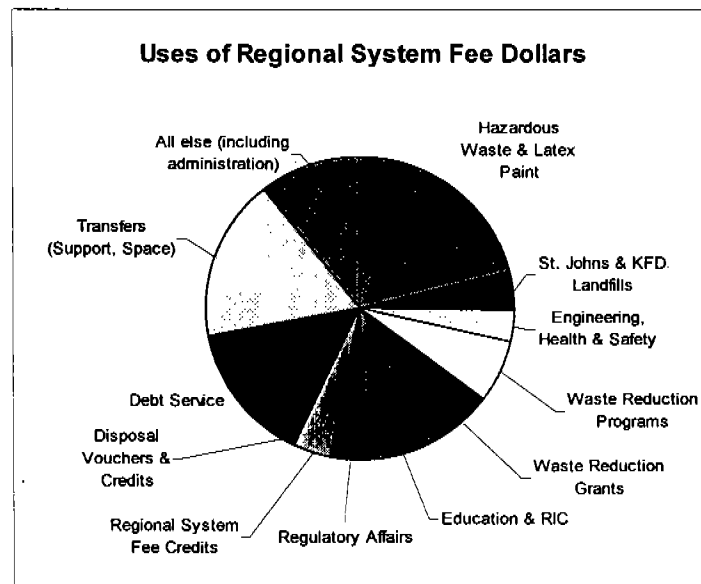
Prepared by: Douglas Anderson

BACKGROUND

This Ordinance would increase the Regional System Fee by \$1.57 per ton and the Metro tip fee by \$1, from \$66.25 to \$67.25 in Fiscal Year 2003-04. These changes are projected to raise an additional \$1.56 million for the Solid Waste Revenue Fund in FY 2003-04. They would increase the residential garbage customer's bill by an average of about 6¢ per month.

Although the Department had proposed to draw deeper into reserves for FY 2003-04 and had not included a rate increase in its requested budget of November 15, 2002, the continuing slump in tonnage-related revenue points toward the need for a mild rate increase to avoid drawing-down reserves below their target levels. This ordinance would reduce the amount of the draw-down.

The Regional System Fee is a user charge that Metro levies on disposal of solid waste generated or disposed in the District. The Regional System Fee ("RSF") is currently \$15 per ton, and is included in the tipping fees of all landfills and regional transfer stations (including the Metro stations) that accept waste from the region. The RSF currently raises about \$18 million per year that is used to fund regional solid waste programs and the Department's debt service. The RSF is established in Metro Code Chapter 5.02, and has been an element of the regional solid waste revenue system since the late 1980s. The uses of Regional System Fee revenue are depicted in the following graph. Revenue from the RSF does not pay for disposal operations at the Metro transfer stations, for which there are separate user charges.*



* However, the user charges for disposal generate a bit more revenue than required, and this "overcollection" has historically been used to offset the RSF. Some councilors have expressed concern that transfer station customers effectively pay a greater share of the RSF than users of non-Metro facilities. This issue is addressed further below.

In recent years, the Department has implemented a planned draw-down of reserves by paying for a portion of these programs from the fund balance. As a consequence, for some time now the RSF has been suppressed below the price that would fully recover costs. As reserves began to approach their target levels, the Department had planned a gradual transition to a full-cost rate from FY 2002-03 to 2004-05. An increase of \$2.10 (from \$12.90 to the current \$15) was implemented last July. However, the Department's requested FY 2003-04 budget* did not include any rate changes, on the assumption that the Department could suspend rate increases for a year and dig further into reserves until the current economic climate changed. In the first draft of the budget, the shortfall between the cost of regional programs and RSF revenue required a draw of \$3.18 million from the fund balance. (The total difference of \$3.9 million between budget requirements of \$22.33 million and RSF revenues of \$18.43 million is partially offset by \$720,000 of "overcollection" at the Metro transfer stations.) These figures are shown in the "Requested" column of the table below.

**Comparison of Sources & Uses of Funds
FY 2003-04 Regional Solid Waste Programs
Based on the Department's Requested Budget**

<u>Source/Use of Funds</u>	<u>Amount (million\$)</u>	
	<u>Requested</u>	<u>Updated</u>
Regional program budget (uses)	\$22.33	\$22.27
Resources		
Transfer station revenue in excess of costs	\$ 0.72	\$ 0.47
Draw required from fund balance	\$ 3.18	\$ 3.83
RSF revenue at \$15 per ton‡	\$18.43	\$17.97
Total resources	\$22.33	\$22.27

The "Regional Program" budget includes hazardous waste, waste reduction, latex paint, RIC, inspections, etc.—net of dedicated revenue such as paint sales. It also includes debt service and transfer payments within Metro, but excludes the cost of transfer station disposal operations.

‡ The Regional System Fee would have to be \$18.59 per ton to recover the \$22.3 million in program costs, based on 1.2 million regional tons.

However, tonnage-related revenue has continued to slump since the preparation of the proposed budget, with implications for next year's financing strategy. The Department has updated its assumptions about the revenue generated during FY 2003-04 to account for this trend (see "Updated" column). Specifically:

- Next year's RSF revenue is now expected to be about \$460,000 less than the projection in the requested budget (see "RSF revenue" line in table above).
- Collections from disposal operations are projected down about a quarter million dollars (from \$720,000 to \$470,000) next year (see "Transfer station revenue" in table).

All told, the draw required from the fund balance next year is now projected to be \$3.83 million, up \$650,000 from the requested budget (see "Draw from fund balance" in table above). Adding the \$470,000 available from revenue in excess of costs at the transfer stations, the total subsidy on regional services from all sources would be \$4.3 million, or 20 percent of the program budget.

* References to the Department's proposed budget mean the FY 2003-04 budget submitted to Finance on November 15, 2002. Throughout this report, fixed expenditures are as submitted in that draft; but variable costs, revenues and reserves have been adjusted to account for changes since last November.

This situation gives rise to two concerns of fiscal management: (1) in order to meet the shortfall in revenue, the reserves will have to be drawn below the fiscally-prudent targets recommended last year by an independent consultant; *and* (2), the Department will require a steeper rate increase in FY 2004-05 or a longer transition period to realize cost-of-service rates. A minimum prudent fiscal course is to implement a mild increase in the Regional System Fee, barring reductions in the proposed budget. Increasing the RSF will raise additional revenue in FY 2003-04 and simultaneously begin the transition to cost-of-service rates.

Metro's Rate Review Committee (RRC) has been reviewing these conditions and issues, and on March 5, recommended that the Regional System Fee be increased \$1.50 per ton, to \$16.50, for FY 2003-04. The RRC further recommended that this increase be passed-on at Metro transfer stations, for a tip fee of \$66.75, up from \$66.25. In addition, the RRC recommended that the Council examine the Department's budget carefully to determine if cost savings and efficiencies could be found to further reduce the potential draw-down of reserves.

The Council President has considered the RRC's recommendation, and further has taken into account the issue of overcollection at the Metro transfer stations. The Council President proposes an increase in the Regional System Fee of \$1.57 (within 7¢ of that recommended by the RRC), but further proposes charging the unit cost of disposal at Metro transfer stations—a reduction of 57¢ in this component of the rate, to \$42.55 per ton. This proposal will help meet the Department's original objective of having fees equal to unit cost by FY 2004-05, but will also hold the line on increases to the Metro tip during the current economic conditions. This rate package is projected to raise an additional \$1.56* million for regional programs, reduce the subsidy of non-Metro facilities, and reduce the draw on the fund balance from \$3.83 million to \$2.27 million, which will maintain reserves closer to their target levels.

The specific changes to Metro's tip fee and the RSF are shown in the following table.

Components of the Metro Tip Fee, FY 2002-03—03-04
(dollars per ton)

Rate Component	Current Rate (FY 2002-03)	FY 2003-04 Recommendations	
		Rate Review Committee	Council President
Disposal Operations*	\$ 43.12	\$ 43.12	\$ 42.55
Regional System Fee	\$ 15.00	\$ 16.50	\$ 16.57
Excise Tax	\$ 6.39	\$ 6.39**	\$ 6.39**
DEQ Fees	\$ 1.24	\$ 1.24	\$ 1.24
Host Fee	\$ 0.50	\$ 0.50	\$ 0.50
Tip Fee	\$ 66.25	\$ 67.75	\$ 67.25

* Includes station operation, transport, fuel, disposal and miscellaneous contracts.

** FY 2002-03 excise tax rate. Actual FY 2003-04 rate may differ slightly.

A comparison of costs and draw-downs on reserves is shown in the table on the following page. Metro's costs and revenue bases are depicted in the left-most columns. The degree of over- and under-collection by each of the rates is shown in the columns to the right. The table shows the \$3.83 million draw from

* The \$1.57 increase in the RSF raises \$1.88 million, and the \$0.57 reduction in disposal charges reduces collections at the transfer stations by \$0.324 million, for a net increase of \$1.56 million for the whole rate package.

reserves if the current rates are held into next year. The table also shows that the rate package proposed by this ordinance would reduce this draw by \$1.56 million (to \$2.27 million) while holding the tip fee to only a \$1 increase.

This table is also set up to simplify analysis during the budget deliberations. Specifically, *any reductions from the Department's requested FY 2003-04 program budget may be deducted directly from the draw on reserves*. For example, if \$600,000 were cut from the budget, the draw on reserves would be further reduced by exactly this amount (\$2.27 million - \$0.60 million = \$1.67 million revised draw on reserves).

Comparison of Rate Package with Department's Requested Budget
Analysis of Tip Fees and Under- & Over-Collection by Rate Bases
(FY 2003-04)

Operating Budget Components		Costs		Current		This Ordinance	
		Total (\$million)	Per Unit ¹	Rates ¹	Over(Under) Collection ²	Rates ¹	Over(Under) Collection ²
Scalehouse*	342,133 trans.	\$1.910	\$5.58*	\$6.00*	\$0.144	\$6.00*	\$0.144
Disposal ³	569,015 tons	\$24.210	\$42.55	\$43.12	\$0.324	\$42.55	\$0.000
Programs	1,198,101 tons	\$22.270	<u>\$18.59</u>	<u>\$15.00</u>	<u>(\$4.301)</u>	<u>\$16.57</u>	<u>(\$2.420)</u>
	Total per-ton costs		\$61.14	\$58.12		\$59.12	
	Plus: add-ons ⁴		<u>\$8.13</u>	<u>\$8.13</u>		<u>\$8.13</u>	
	Equals: tip fee		\$69.27	\$66.25		\$67.25	
Draw needed from fund balance					(\$3.833)		(\$2.276)

- 1 Figures in these columns are per-ton costs except for the scalehouse, which is the cost per transaction.
- 2 The amount that the indicated rate over- or under-collects, relative to the total cost.
- 3 Includes station operation, transport, fuel, disposal and miscellaneous contracts.
- 4 Metro excise tax at \$6.39 + DEQ fees at \$1.24 + enhancement fee of \$0.50 per ton.
- * These costs are recovered through the Transaction Fee, currently \$6.00 per visit to the transfer station.

INFORMATION/ANALYSIS

1. Known Opposition.

Although no specific opposition has been voiced as of this writing, there is precedent for opposition to solid waste rate increases. The following are historical reactions from various user groups:

Haulers. Haulers' reactions to rate increases have been mixed. But generally, haulers tend to dislike rate increases because these costs are passed on to their customers, and the haulers are typically the first in line to field the resulting complaints and potential loss of business. In some local jurisdictions that regulate haulers' service charges, the allowed rate-of-return is based on the cost-of-sales; and in some of these cases, haulers may profit mildly from a rate increase because it increases the base on which their rate of return is calculated. However, historically, the majority of haulers have testified that negative customer relations issues outweigh any other advantages to rate increases, and therefore haulers have generally opposed such increases.

Private Facility Operators. Private solid waste facility operators have historically supported increases in Metro's tip fee because their own private tip fees can follow the public lead. However, the RSF is a cost to these same operators. Because this ordinance raises the system fee by more than the tip fee, facility operators' relative costs will go up, and they are very likely to be opposed. This opinion was expressed at the RRC. Operators that receive RSF credits are likely to argue that the credit schedule should be adjusted upward to keep their operating margins whole.

Private Disposal Site Operators. Landfills and private transfer stations will simply pass the increase in the RSF on to their customers through an increase in their tip fees. Private operators have typically opposed increases in the system fee because they have to field customers' negative responses to rate increases.

Ratepayers. Ratepayers costs will go up (see also "Anticipated Effects" below). Ratepayers typically oppose rate increases, although increases of only \$1 per ton have historically not motivated significant opposition. However, the current economic climate may magnify the effect of any rate increase. Some non-residential ratepayers that use non-Metro disposal facilities will experience increases in the full amount of the RSF.

Not all interests are necessarily opposed, however:

Recycling Interests. Because the RSF is levied on disposal only, it makes recycling relatively more attractive. For this reason, recycling interests have historically supported increases in the RSF.

2. **Legal Antecedents.** Metro's solid waste rates are set in Metro Code Chapter 5.02. Any change in these rates requires an ordinance amending Chapter 5.02. Metro reviews solid waste rates annually, and has amended Chapter 5.02 when changes are warranted.
3. **Anticipated Effects:** This ordinance will increase the cost of disposal throughout the region by \$1.00 to \$1.57 per ton—meaning, tip fees are likely to rise by up to \$1.57 per ton. The increase in the Metro tip fee is based on the assumption that there will be no change in the Metro excise tax rate. The effect of the \$1 tip fee increase on an average residential garbage customer would be a bump of about 6¢ per month in the garbage bill. See also Budget Impacts, below.

As discussed earlier in this staff report, the deep subsidy of the RSF from reserves and revenue from Metro transfer stations, have led some policy observers to considered the Department's past financing strategy an implicit subsidy of non-Metro facilities by Metro facilities. By moving the RSF closer to its cost-recovery level of \$18.59 per ton, this implicit subsidy is significantly reduced.

4. **Budget Impacts.** The rate package described in this ordinance is projected to raise an additional \$1.56 million in operating revenue for the Solid Waste Revenue Fund in FY 2003-04, and a similar amount in subsequent years. This revenue estimate is based on the Department's tonnage projections.

RECOMMENDATION

The Chief Operating Officer recommends approval of Ordinance No. 03-1000.