

MINUTES OF THE METRO COUNCIL WORK SESSION MEETING

Tuesday, April 6, 2004
Metro Council Chamber

Councilors Present: David Bragdon (Council President), Susan McLain, Carl Hosticka, Rod Park, Rex Burkholder

Councilors Absent: Brian Newman (excused)

Council President Bragdon convened the Metro Council Work Session Meeting at 1:05 p.m.

1. REGIONAL SYSTEM FEE CREDIT FOLLOW-UP

Mike Hogle and Doug Anderson, Solid Waste and Recycling Department, said they would be looking at this year program first, then talk about rates for next year and then go back to the future of the System Fee Credit Program. They had given an overview on March 7th. Council had instructed staff to come back with a resolution to cover regional system fees over the rest of the year, resulting in a budget of \$1.7 million for this year. Mr. Hogle said the solid waste industry had recommended phasing out the program over time. Mr. Anderson walked through the logic of this year's program. He noted a packet, which was an outline of both the fee credit program and the rates (a copy of which is included in the meeting record). He said they would like feedback from the Council. They had filed a resolution, which was up for action on April 15th. Council had asked why we were tracking so far ahead of the budget. He talked about the history of the Regional System Fee Credit Program. In 2003, the credit figures had jumped up. Recovery had jumped up a little, but the fee credits had jumped up a lot. He spoke to why there was higher pay out this year. Councilor Monroe said they had tried to tie it to what was allowed by the Department of Environmental Quality (DEQ). Mr. Anderson said, when Council brought forward the resolution, the dollar schedule had been revised upward by staff. There was a recovery rate that was revised. They were on a track to do \$1.3 million pay out for this year's fee credit program. He said a choice that they would like to discuss with Council today was a put back. He spoke to other options to make up the balance of the year. Councilor Monroe raised issues that they were starting this revision 2/3rds into the year. Mr. Anderson said they had discussions with the Metro Attorney concerning budget. Councilor Burkholder asked about the history of the program. He expressed concern about the amount of payout. Mr. Anderson said historically, through about 1998, there was a tip fee of \$70 to \$75.00 and regional system fee of \$17.50 set. Metro then cut its tip fee to \$62.50. Most of our reductions were possible on the disposal side. In 1998, Metro's tip fee tended to benchmark the fees in the region. They were squeezing the revenue that the station could collect. The credit program came into place to give costs relief. He explained the graduated scale. Originally this program was put in place in 1998. The original purpose was to grant temporary cost relief. The Council put a sunset after the first year. This was a temporary period of time to adjust. The Council continued to extend the program. The sunset was then removed. Last year they re-looked at the budget and Council President Bragdon assigned a task force to look into the credit program.

Councilor McLain added that there were two things this Council could consider. In 2002, the Council asked were they getting what it was worth for the expense of the program. She wasn't comfortable with the amount of money we were putting through this program (\$35.00 a ton). This was a transitions program that became a permanent program. She was hopeful to increase the bar and figure how to get the companies to get to the hard to recover material. Councilor Hosticka

asked if we write them checks or did they receive a credit? Mr. Anderson said there were some of both. Councilor Park said this program continued to evolve. What had changed was vertical integration. He was bothered that the regional system fee was not figured in the costs per ton. We needed to be factoring that number in. He suspected it would be about half the amount. Mr. Anderson said the stuff that was not being recovered was paying a discounted rate. Councilor Park suggested comparing the cost of this program to the cost per ton. Councilor Monroe added that when the tip fee was cut, that was below our actual cost. This was done to eat up some of our reserves. When you do that you significantly reduce the margin for recyclers. This was the genesis of this regional system fee credit program. Since that time we had increased the tip fee less than the rate of inflation. If we eliminated the program, the folks that were in the program would be facing the same squeeze. Mr. Anderson talked about what industry had said. If this program went away, facilities would probably survive. The question was did we still want to achieve the recovery of waste? Councilor Monroe said they wanted to see the program reduced but continued successful recycling. He suggested a short-term solution. He said if they replaced the program with some controls, then that may be part of the answer. Mr. Anderson said the Task Force agreed, you didn't just drop the program but looked at other approaches such as mandatory MRFing. Councilor McLain said the program was 6 years old. When did we get to the point where we said that as a policy, recycling was part of doing the business of disposal? She agreed that you just didn't drop the program but after seven years, you could do it with greater controls.

Councilor Hosticka asked if you were advising a private company, were we under pricing ourselves? Mr. Hogle said yes we were. The other thing the Task Force told them was to phase out the program. Those businesses looked at the budget and anticipated what their share of the program would be and made capital investments based on this. Mr. Hogle said we were under pricing. Mr. Anderson said Councilor Monroe had put his finger on it. We had large reserves, which in the past Council had ordered reducing. Councilor Hosticka said it was time to start running government like a business. Mr. Hogle explained the rationale for bringing this to the table. Council President Bragdon spoke to the resolution coming forward next Thursday. Councilor Monroe suggested that if the recommendation had been to create a \$900,000 program a year ago, he would have supported this. He was concerned about doing this now. He felt this was too precipitous of a fall. The resolution was written at \$425,000. Council President Bragdon asked about interest in amending the resolution. Councilor McLain said she did not think we should be budgeting this program at this level next year. The industry would already have to make an adjustment. Council was making a comment that we weren't going to have the same program. Couldn't we tie higher requirements to the last five months of this year? Councilor Park said the one place they could go was by imposing a dry cap. That was one of the prior incentives. Mr. Anderson said one thing they saw when they had dry caps was waste that might have gone to the facility was sent to the landfill. He cautioned re-imposing caps on dry waste. Councilor Park said that was prior to mandatory MRFing. Mr. Anderson said about 90% of recovery was wood, metal and cardboard. The extra material was sheet rock and shingles. He asked Councilor McLain what she meant by high value. Councilor McLain said she was thinking added value, more effort to pull out the hard stuff to pull out. Mr. Anderson talked about next year's budget and bringing forward some of the Task Force's recommendations.

2. RATES FOLLOW-UP

Doug Anderson, Solid Waste and Recycling Department, said they had talked about next year's solid waste rates. There were two ordinances in the pipeline now. One ordinance may need to be amended and the other tabled. He summarized implementing the final recommendations of the Rate Review Committee. These rates were based on this year's budget. He said Rate Review Committee was concerned about the increase of the transaction fee to \$9.50. They recommended

that the fee should be implemented in 2005-06. He talked about the Rate Review Committee's (RRCs) recommendations, which resulted in the final allocation, consistent with RRC's recommendations. He said if Council supported this proposal, they would need to make an amendment by April 21st. Councilor McLain gave accolades to the Rate Review Committee and explained further what they had looked at and recommended. Councilor Hosticka asked about the phrase, "make Metro customers whole." Mr. Anderson responded to his question. Councilor McLain said their proposal was taking into consideration a transition year.

Councilor Burkholder asked how accurate the assumption was that the rate at our facilities drove the charges at other facilities. Do we know that we set the price? Mr. Anderson said it was a strong influence previously, that influence was weakened, as there were more private facilities. The answer was there was strong evidence that we still influenced those rates a lot. A lot of commerce happened through the vertical integration channel. They had some information but not enough to know for sure. Councilor Burkholder questioned whether we were setting the price for the market. As we have less of the market, we may be less influential.

Mr. Anderson then explained FY 2004-05 Draft Solid Waste Rate Changes Rate Review Committee's recommendation. He explained costs that they had recommended reallocating. They didn't expect a lot of tonnage shifting. They didn't see a lot of price induced shifting based on the costs. This made private facilities more profitable. It could have the effect of shifting tonnage away from Metro. Mr. Anderson said this helped increase recycling. He then explained the analysis of Draft FY 2004-05 Solid Waste Rate Changes effects on private facilities economics. He compared the current rate structure with the proposed changes. This was a key component as to what it did to private facility profitability. Councilor McLain said this was another reason to re-look at the Credit System Fee Program. If Metro was going to look at private and public costs, was there any way to look at flow control? Marv Fjordbeck, Metro Senior Attorney, stated that he understood the question and would make a note of it.

Mr. Anderson talked about next steps and referred to questions that Councilor Park asked earlier. Councilor Park said one of the realizations that we were coming to was there was an agreement around the table that Metro's revenues were needed to operate. He had asked Mr. Hogle to look at realistically what it took to operate. What were the right ratios so that it was balance and so we didn't make a radical change on either side? Mr. Anderson said he would send a memo to Council to answer Councilor Park's question. Councilor Park said there was one other factor as tonnage went out of Metro's stations, what was the value of selling our Metro stations and what were the trade offs? Mr. Anderson said if we were going to value the stations at present value, we needed to bring the tonnage with us. Councilor McLain concurred with Mr. Anderson, who would want to buy a transfer station if we have sold all of the tonnage off. She spoke to the different values. Mr. Anderson said the department did run a long-term financial model. We could make that model a more sophisticated tool.

Councilor Park talked about transferring the value of transfer stations into something else. Unless you knew the current worth, you didn't know how you could push it around. Mr. Anderson said his main purpose was to let them know current status. He thought that private operators would be testifying over the course of the next several weeks. He then returned to the discussion about the waste rates. He spoke to reduction in the system fee, which gave automatic credit. He explained further the components of the Metro tip fee and the change from FY 03-04 to 04-05. He had shown the two different rate models and 2 excise tax scenarios. Councilor Burkholder said this wouldn't be tied to results. If we wanted to have this change occur, it didn't encourage recycling. Mr. Anderson said the purpose was to explain where the budget number came from. The facilities were required to meet the 25% recovery. He explained further the 30% and additional incentives.

Mr. Høglund said it also kept the program intact until some of the other controls came into place. This could further reduce the credit program. Councilor McLain said there was no certainty to get the percentage of recycling we wanted. There was no guarantee that we got what we were shooting for. She thought this course correction was an appropriate next step. She felt we needed to get more effort or work for our dollar. Councilor Hosticka asked if our system fee credits were taxable income to private facilities. Mr. Phelps said yes.

Mr. Høglund asked if anyone wanted to work with the Chief Operating Officer (COO) on amendments to the resolution.

Councilors talked about tonnage flow as an asset to the system.

3. CITIZEN COMMUNICATION

There were none.

4. CHIEF OPERATING OFFICER COMMUNICATION

Michael Jordan, COO, talked about the Budget Work session tomorrow. Solid Waste and Planning would be returning tomorrow. He talked about the amendment process.

5. COUNCILOR COMMUNICATION

Councilor Hosticka asked about the industrial lands tours. It would make sense to spend concentrated time in three areas. Council President Bragdon suggested using April 21st as an alternative tour date.

There being no further business to come before the Metro Council, Council President Bragdon adjourned the meeting at 2:55 p.m.

Prepared by,

Chris Billington
Clerk of the Council

ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF APRIL 6, 2004

Item	Topic	Doc Date	Document Description	Doc. Number
1 & 2	Regional System Fee Credit Program and Waste Rates	4/6/04	To: Metro Council From: Doug Anderson, Solid Waste and Recycling Department Re: Regional System Fee Credits FY Solid Waste Rates Discussion Outline	040604c-01