

A G E N D A

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METRO

Agenda

MEETING: METRO COUNCIL WORK SESSION MEETING – revised 4/2/04
DATE: April 6, 2004
DAY: Tuesday
TIME: 1:00 PM
PLACE: Metro Council Chamber

CALL TO ORDER AND ROLL CALL

- | | | | |
|----------------|-----------|--|------------------------------|
| 1:00 PM | 1. | REGIONAL SYSTEM FEE CREDIT FOLLOW-UP | Hoglund/
Anderson |
| 1:45 PM | 2. | RATES FOLLOW-UP | Hoglund/
Anderson |
| 2:30 PM | 3. | CITIZEN COMMUNICATION | |
| 2:40 PM | 4. | CHIEF OPERATING OFFICER COMMUNICATION | |
| 2:50 PM | 5. | COUNCILOR COMMUNICATION | |

ADJOURN

Agenda Item Number 1.0

REGIONAL SYSTEM FEE CREDIT FOLLOW-UP

Metro Council Work Session
Tuesday, April 6, 2004
Metro Council Chamber

METRO COUNCIL

Work Session Worksheet

Presentation Date: April 6 Time: 1:00 PM Length: 45 min.
Presentation Title: The budget for Regional System Fee Credits, this year and next.
Department: Solid Waste & Recycling
Presenter: Michael Hoglund, Douglas Anderson

ISSUE & BACKGROUND

At this Work Session we want to cover two issues regarding the budget for Regional System Fee credits for the remainder of this year (February—June 2004); and the proposed budget for FY 2004-05.

Budget for February—June 2004

When Solid Waste and Recycling Staff last came before the Council at the March 7 Work Session, we explained that the credits are on a \$1.25 million expenditure track, against a \$750,000 budget. We were instructed to draft a resolution authorizing an additional \$425,000 to carry the program through June. The requested resolution, No. 04-3441, has been filed and is scheduled for consideration by Council on April 15. This resolution simply increases the budget for this year's program and leaves all other rules of the program the same.

At the last Work Session on credits we were also instructed to return to explain more fully why expenditures are tracking over budget, and to discuss options for adjusting program payouts. As we indicated on March 6, the current credit schedule in the code is not lined-up with the definition of the recovery rate. At this work session, we will quantify the difference that has made in expenditures, and describe some options that the Council may wish to consider for amending Resolution No. 04-3441 at the public hearing on April 15.

Budget for FY 2004-05

There is \$450,000 in the Solid Waste & Recycling proposed FY 2004-05 budget for RSF credits. This is down \$300,000 from the current budget, and half of the \$900,000 historically budgeted for this program.

This number is based on a number of other budget assumptions. If these assumptions change, the FY 2004-05 budget for the credits might have to change. The Department's objective for this Work Session is to (1) explain these assumptions and how the Department arrived at the \$450,000 figure; and (2) obtain feedback from the Council on next year's budget.

In summary, the reduction in the budget for credits is based on the fact that the need for credits is reduced next year. This is a result of the rates recommended by the Rate Review Committee, coupled with the Council President's proposed budget. The reason is this: the Metro tip fee is proposed to go up, and the Regional System Fee is proposed to go down. This situation provides MRFs with the ability to increase their own tip fees (increase revenue), while at the same time realizing a cost reduction (in the Regional System Fee). The proposed budget contains a reduced level of credits that nonetheless leaves MRF economics unchanged.

The interested reader may find a more detailed explanation in the following points

1. Reduction of the Regional System Fee reduces the level of credit needed.

Under the Council President’s proposed budget and the recommendation of the Rate Review Committee, the Regional System Fee would drop by \$2.89 per ton, from \$16.57 this year, to about \$13.68 next year. This \$2.89 reduction constitutes a kind of “blanket” credit that reduces the need for credits.

2. The increase in the tip fee enhances private sector’s ability to generate revenue

Under the Council President’s proposed budget and the recommendation of the Rate Review Committee, Metro’s tip fee could rise by at least \$2.30 per ton (and this effect is also amplified by the corresponding increase in the transaction fee). Because the public tip fee tends to pace the market, this \$2.30 increase suggests that private facilities may be able to push their own tip fees. Any privately owned material recovery facility that is able to match Metro’s rate increase will realize additional revenue *plus* the additional revenue afforded by the increase in the transaction fee.

3. Excise tax changes.

The excise tax rate is scheduled to go from \$6.32 this year to \$6.61 next year. This is a 29 cent increase in private facility costs that counteracts the effect of the reduction in the system fee. However, the effect of any “additional tax” that Council may approve (\$2 per ton in the President’s proposed budget) would not negatively affect the facility’s economics, as long as the Council authorizes a direct pass-through provision on the tax when it is adopted.

4. The total “turn”

This combination of revenue enhancement and cost reeducation results in a “turn” of *at least* \$4.90 per incoming ton (\$2.30 + \$2.89 - \$0.29) that can be realized by private facilities due to changes in Metro’s solid waste rates. As mentioned previously, an increase in Metro’s transaction fee would also help to increase private revenue. All of these changes are summarized in the following table.

Change in Rates as They Affect Private Facility Economics

Effect on Private Facility’s:	Rate Components per Ton		
	This Year	Next Year	Change
Revenue (effective tip fees including the transaction fee)			
at 6.0 tons/load	\$68.18	\$70.58	\$2.40
at 2.5 tons/load	69.58	72.80	\$3.22
Costs			
RSF	\$16.57	\$13.68	(\$2.89)
Excise Tax	6.32	6.61	0.29
Total costs	\$22.89	\$20.29	(\$2.60)
Total “turn” (revenue minus cost reductions)			\$5.00 to \$5.82

NOTES (top of next page)

Next year's rates are based on the requested budget and the rate ordinances (1042 & 1043).

he rate ordinances do not reflect the RRC's final recommendation, which will be introduced during hearings on the rate ordinances. The RRC's final recommendation is consistent with the general direction in the table above.

What does this mean for the credit budget?

The Department estimated the FY 2004-05 need for credits based on the following assumptions:

- About 115,000 tons/year of MRF residual is subject to credits.
- Rates as reflected the table above
- Additional increase in the excise tax could be passed-through and be fiscally neutral to MRFs.
- Historical credit totals and averages are as follows:
 - \$900,000 has been budgeted \$7.85 average credit per ton
 - \$1.1 million actually expended. \$9.50 average credit per ton
 - *This year:* \$750,000 budget. \$6.50 average credit/ ton
 - \$1.25 million track. \$10.90 average credit/ton
- MRFs will not be able to realize 100% of the rate increase at their own facilities.

In the following table, these assumptions are employed to establish the department's FY 2004-05 budget for credits. The department examined a range of scenarios on the MRFs' ability to raise revenue. For the budget, the department assumed that MRFs would be able to realize only 1/2 to 2/3 of Metro's tip fee increase as revenue. This is Scenario Two.

Effect of Rates on Funding Level for Regional System Fee Credits

	<u>Scenarios*</u>		
	One	Two	Three
Revenue*	\$ 0	\$1.80	\$2.80
Cost	2.20	2.20	2.20
Total turn	\$2.20	\$4.00	\$5.00
New average credit**	\$5.65	\$3.85	\$2.85
Implied Budget	\$650,000	\$450,000	\$330,000

* Scenarios

1. Cannot push revenue
2. Push 1/2 to 2/3 the increase
3. Push the average increase

Note: if the whole turn can be realized, the average credit goes to \$2.45 and budget to \$280,000

** Historical average credit of \$7.85 minus the "turn."

Based on historical actuals of \$1.1 million, the average credit is \$9.50, and the table becomes:

Average credit	\$7.30	\$5.50	\$4.50
Credit Budget	\$840,000	\$630,000	\$520,000

Notes & Conclusions:

1. Rates provide a potential revenue increase for MRFs
2. Net reduction in costs primarily due to the drop in the Regional System Fee
3. A total "turn" of up to \$5.40 per ton.
4. This \$5.40 is, in effect, a blanket "credit" given through the rates.
5. With these changes in rates, credits can be reduced without harming current MRF economics

OPTIONS AVAILABLE

Budget for February—June 2004


- Accept the resolution as-is, adding \$425,000 to this year's credit budget
- Adopt a lower number, based on the higher-than-normal payments received year-to-date
- Adopt a different payout schedule for either option above.

Budget for FY 2004-05

- Accept the proposed budget.
- Provide feedback on rate policies that will allow the department to recalculate next year's budget
- Other options are likely to emerge from the discussion.

LEGISLATION WOULD BE REQUIRED FOR COUNCIL ACTION? *Yes*

DRAFT IS ATTACHED Yes No

Department Director/Head Approval  _____
Chief Operating Officer Approval _____

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AUTHORIZING THE
CHIEF OPERATING OFFICER TO AWARD
ADDITIONAL REGIONAL SYSTEM FEE AND
EXCISE TAX CREDITS IN FY 2003-04

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RESOLUTION NO. 04-3441

Introduced by: Michael Jordan,
Chief Operating Office, with the
concurrence of David Bragdon,
Council President.

WHEREAS, Metro Code section 5.02.047(e) states that the aggregate amount of credits granted against the Regional System Fee for material recovery efforts shall not exceed the dollar amount budgeted without the prior review and approval of the Metro Council; and,

WHEREAS, Metro Code section 7.01.020(g)(2) contains similar language for credits against the Metro excise tax; and,

WHEREAS, the amount budgeted for Regional System Fee credits in the FY 2003-04 Adopted Budget was reached in February 2004 and excise tax credits are tracking ahead of projections; and,

WHEREAS, in order to help meet the adopted recovery goals of the region, it is the policy of the Metro Council to provide credits for each month in which facility operators are eligible to receive, and qualify for, credits; and,

WHEREAS, there is sufficient appropriation authority in the FY 2003-04 Adopted Budget to pay for all such credits through the end of this fiscal year; now therefore,

THE METRO COUNCIL RESOLVES AS FOLLOWS:

1. The Chief Operating Officer shall issue Regional System Fee and excise tax credits through June 2004: (a) based on valid applications from qualifying operators; and (b) pursuant to the credit schedules in Metro Code sections 5.02.047(a) and 7.01.020(g)(1). The Chief Operating Officer shall also issue credits for any back-differences between the dollar amount of credits paid and credits due under a valid application submitted by a qualifying operator after January 2004.
2. Total additional expenditure for Regional System Fee credits during February 2004 through June 2004 shall not exceed \$425,000 without the prior review and authorization of the Metro Council.

ADOPTED by the Metro Council this _____ day of _____, 2004.

David Bragdon, Council President

Approved as to Form:

Daniel B. Cooper, Metro Attorney

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 04-3441 FOR THE PURPOSE OF AUTHORIZING THE CHIEF OPERATING OFFICER TO AWARD ADDITIONAL REGIONAL SYSTEM FEE AND EXCISE TAX CREDITS IN FY 2003-04

Date: April 15, 2004

Prepared by: Douglas Anderson

BACKGROUND

When the Metro Council approved the FY 2003-04 budget, the Council was aware that the total amount of Regional System Fee and excise tax credits might exceed the budget. In his monthly memoranda to the Council President on the Regional System Fee Credit Program, the Solid Waste and Recycling Director has confirmed that credits have tracked above the budget throughout the year. The director's most recent report indicated that the budget for credits would be exhausted during February 2004.

The Solid Waste and Recycling Department has met with the Council in several public work sessions to discuss Metro's policy toward post-collection material recovery in general; and Regional System Fee credits in particular. During these work sessions, the Council has reiterated its support of the regional recovery goals set forth in state law and in the Regional Solid Waste Management Plan. The Council learned that post-collection recovery contributes about 2.7 points toward the 62% regional recovery goal. The Council also heard testimony* that post-collection recovery would be cut by about half without some form of intervention from Metro.

The Council's policy on program funding is expressed in Metro code:

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[sic] without the prior review and authorization of the Metro Council. [§ 5.02.047(e)]

During any Fiscal Year, the total aggregate amount of excise tax credits granted under the provisions of this subsection shall not exceed the dollar amount budgeted for such purpose without the prior review and authorization of the Metro Council. [§ 7.01.020(g)(2)]

Consideration and approval of this resolution constitutes the "prior review and authorization" required for expenditure of additional funds. This resolution authorizes the Chief Operating Officer to continue granting Regional System Fee credits for the period February 2004 through June 2004, under the following conditions:

- Eligibility for financial support is based on receipt of valid applications from qualifying operators pursuant to Metro Code sections 5.02.047 and 7.01.020.
- Additional expenditure on RSF credits during February through June 2004 is limited to \$425,000.

INFORMATION/ANALYSIS

1. **Known Opposition.** None known.
2. **Legal Antecedents.** Metro made similar grants when the FY 2002-03 credit budget was exhausted.

* From Ted Kyle, Chair of the Council President's Recycling Credits Evaluation Task Force.

3. **Anticipated Effects:** This resolution is expected to maintain the recovery of 6,800 to 15,900 tons that might be landfilled without additional financial resources. If the full \$425,000 is expended, the cost translates to \$62.50 per ton of recovered material under the 6,800-ton scenario; and \$26.73 per ton under the 15,900 ton scenario.
4. **Budget Impacts.** Approval of this resolution would result in \$425,000 of additional net operating expenses and about \$60,000 in foregone excise tax revenue above budget this fiscal year. The solid waste funds would be drawn from the fund balance. The excise tax revenues would be reflected as a reduction in contributions to the Recovery Rate Reserve.

The short-run fiscal impact is a mild increase in the risk of financial exposure because the reserves will be drawn below targets. The longer-term impact is the opportunity cost, which at a minimum can be measured as the foregone interest earnings had the funds remained in reserve.

Because grants are operating expenses, the \$425,000 expenditure would reduce net operating revenue as defined for the solid waste bond covenants. However, adoption of this resolution would have no material effect on Metro's ability to meet its FY 2003-04 coverage requirement because of the significant reduction of FY 2003-04 debt service that resulted from the Council's action to defease solid waste revenue bonds in February 2003.

RECOMMENDATION

Councilor Rod Monroe recommends approval of Resolution No. 04-3441.

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* This range is calculated as follows. Based on trend, 73,000 tons of mixed waste is expected to be accepted for processing by private material recovery facilities during February to June 2004. Of this waste, 25,000 tons is expected to be recovered, and the remaining 48,000 tons of processing residual landfilled. The low loss-of-recovery estimate is based on recovering 25% (the regulatory minimum) of the 73,000 tons, or 18,200 tons—6,800 fewer tons than expected under the status quo. The higher loss-of-recovery estimate is based on the assumption that facilities would cut deliveries in the door by half and recover 25% of the 36,500 tons accepted, or 9,100 tons—15,900 fewer tons than expected under the status quo.

Agenda Item Number 2.0

RATES FOLLOW-UP

Metro Council Work Session
Tuesday, April 6, 2004
Metro Council Chamber

METRO COUNCIL
Work Session Worksheet

Presentation Date: April 6 Time: 1:00 PM Length: 45 min.
 Presentation Title: FY 2004-05 Rates
 Department: Solid Waste & Recycling
 Presenter: Douglas Anderson

ISSUE & BACKGROUND

The Solid Waste & Recycling Department's objectives in this work session are to obtain Council feedback on FY 2004-05 solid waste rates, considering:

- The Council President's proposed budget and its effect on rates
- The final recommendation of the Rate Review Committee

The Council has also indicated an interest in understanding the relationship between solid waste rates and changes in the excise tax, which staff will be prepared to discuss at the Work Session.

The current status of solid waste rates is summarized in following tables. The first table shows the rates that Metro charges at private facilities, and the second table shows rates at Metro transfer stations. Both tables show the rates with and without the proposed additional excise tax of \$2 per ton.

Components of Metro Charges on Privately-Owned, Metro-Regulated Facilities
Rates and Changes, FY 2003-04 to 2004-05
Shown for 2 Different Rate Models and 2 Excise Tax Scenarios
 (all figures in dollars per ton)

	Current Rates (FY 2003-04)	FY 2004-05 Rates based on Proposed Budget			
		Based on Current Rate Model		Alternative Allocations	
Private Facility Charges		Rates	Change	Rates	Change
Regional System Fee	\$ 16.57 ¹	\$ 16.30	(\$0.27)	\$ 13.68	(\$2.89)
Excise Tax	\$ 6.32	\$ 6.61 ²	\$0.29	\$ 6.61 ²	\$0.29
License/Franchise Fee ³	-	-	-	\$ 0.00 ³	\$0.00
Total charges	\$ 22.89	\$ 22.91	\$0.02	\$20.29	(\$2.60)
<i>With new excise tax⁴</i>	<i>\$22.89</i>	<i>\$24.88</i>	<i>\$1.99</i>	<i>\$22.26</i>	<i>(\$0.63)</i>

- 1 This rate is subsidized ("bought down") by the fund balance. Unit cost rate is ~\$1 higher at \$17.56. All other rates in this table are unsubsidized rates. The excise tax is calculated by a separate formula set forth in Metro Code Chapter 7.01.
- 2 Assumes extension or elimination of the sunset on the tax for Parks. The resulting total rate of \$6.61 is: base excise tax rate of \$5.58, plus \$1.03 for Parks.
- 3 The Rate Review Committee has recommended new License/Franchise Fees, but also recommends a 1-year delay in implementing these fees, to FY 2005-06.
- 4 Assumes \$8.58 total rate = base excise tax rate of \$5.58 + \$3.00 additional tax.

Components of the Metro Tip Fee & Change, FY 2003-04 to 2004-05
Shown for 2 Different Rate Models and 2 Excise Tax Scenarios
 (all figures in dollars per ton)

Rate Component	Current Rates (FY 2003-04)	FY 2004-05 Rates based on Proposed Budget			
		Based on Current Rate Model		Alternative Allocations	
		Rates	Change	Rates	Change
Transaction Fee	\$6.00	\$6.00	-	\$9.50	\$3.50
Disposal Operations	\$42.55	\$43.79	\$1.24	\$47.45	\$4.90
Regional System Fee	\$16.57 ¹	\$16.30	(\$0.27) ¹	\$13.68	(\$2.89) ¹
Excise Tax	\$6.32	\$6.61 ²	\$0.29	\$6.61 ²	\$0.29
DEQ Fees	\$1.24	\$1.24	-	\$1.24	-
Host Fee	\$0.50	\$0.50	-	\$0.50	-
Tip Fee	\$67.18¹	\$68.44	\$1.26	\$69.48	\$2.30
<i>With new excise tax³</i>	<i>\$67.18</i>	<i>\$70.41</i>	<i>\$3.23</i>	<i>\$71.45</i>	<i>\$4.27</i>

- 1 The FY 03-04 rate is subsidized ("bought down") by the fund balance. The unit cost is about \$1 higher at \$17.56, making the unsubsidized tip fee \$68.18/ton. For better comparability, \$1 should be subtracted from the changes. (For example, the 2004-05 tip fee under the current rate model would become an increase of only 26¢ rather than \$1.26.)
- 2 Assumes extension or elimination of the sunset on the tax for Parks. The resulting total rate of \$6.61 is: base excise tax rate of \$5.58, plus \$1.03 for Parks.
- 3 Assumes \$8.58 total rate = base excise tax rate of \$5.58 + \$3.00 additional tax.

At the Work Session, staff will identify the implications of these rates on Metro's fiscal position, tonnage flow, and private facility economics. Staff will be prepared to respond to Councilors' questions on the relationship of these rates to new excise tax proposals. Staff will also be prepared to discuss the implications of "middle ground" rate proposals between the current rate model and the recommendation of the Rate Review Committee.

OPTIONS AVAILABLE

- Adopt the Rate Review Committee's recommendation outright
- Adopt a portion of the RRC's recommendations; with or without phasing-in the balance.
- Stand pat with the current rate model.

All of these options would require amending Ordinances No. 04-1042 and 1043.

LEGISLATION WOULD BE REQUIRED FOR COUNCIL ACTION? *Depends on action*
DRAFT IS ATTACHED ___ Yes X No: Ordinances have been published & second-read

Department Director/Head Approval DA
 Chief Operating Officer Approval _____

Metro Council Work Session
April 6, 2004

Regional System Fee Credits
FY Solid Waste Rates

Discussion Outline

I. Regional System Fee Credits—Part 1
Funding the Balance of this Year

Discussion/decision points:

- Amount
- Consideration of Task Force recommendations

II. FY 2004-05 Solid Waste Rates

Implications of the Rate Review Committee's final recommendation

- Description
- Effect on rates
- Sensitivity to allocations
- Effect on private facility economics

Next steps

- Ordinance amendments
- Additional direction

III. Regional System Fee Credits—Part 2
FY 2004-05 Budget Amount

Effect of FY 2004-05 rates on the RSF credit budget

**Metro Council Work Session
April 6, 2004**

**Regional System Fee Credits
Part 1: Funding the Balance of this Year**

**Metro Council Work Session
April 6, 2004**

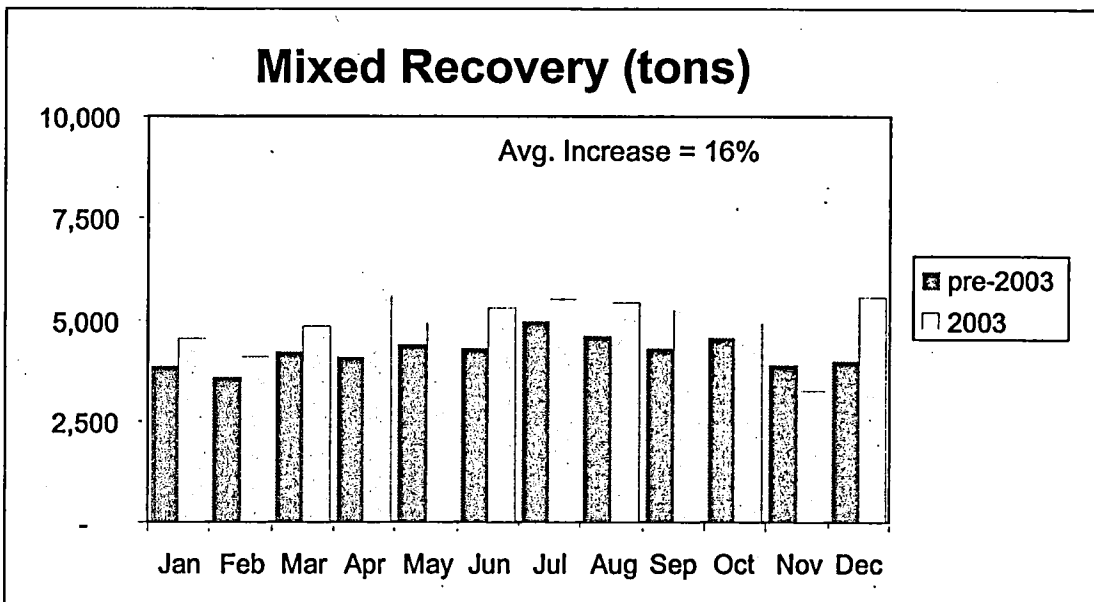
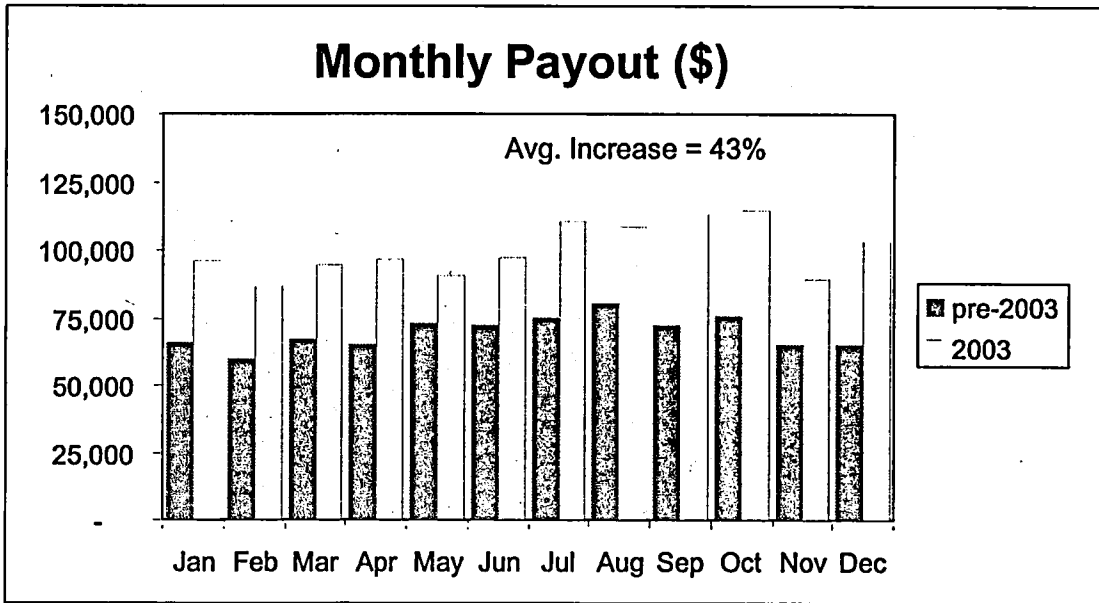
**Regional System Fee Credits
Part 1: Funding the Balance of this Year**

Next Steps — Actions Needed

- Amend Resolution No. 04-3441 to reflect today's direction
- This can be done on April 15, when it is up for action

RSF Credits

Payout and Performance



Metro Council Work Session
April 6, 2004
FY 2004-05 Solid Waste Rates

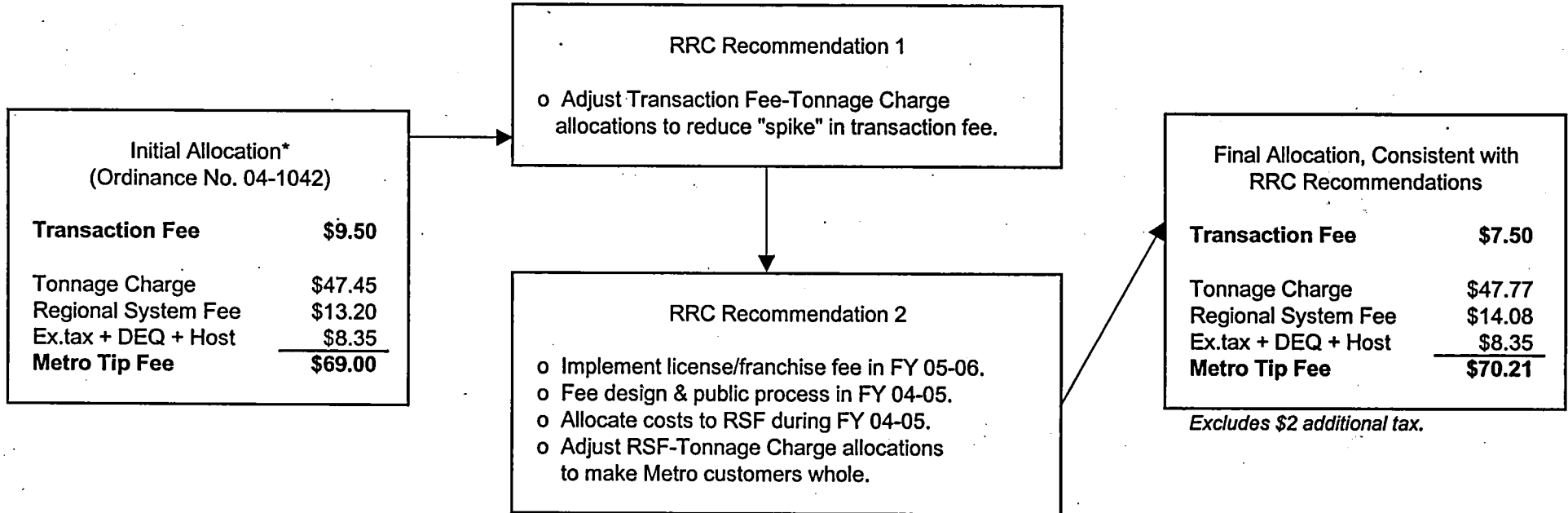
**Metro Council Work Session
April 6, 2004
FY 2004-05 Solid Waste Rates**

Next Steps — Actions Needed

1. Amend Ordinance No. 04-1042
 - Reflect revised rates
 - Should be done by April 22 to stay on track with budget schedule.

2. Table Ordinance No. 04-1043 license/franchise fees
 - This suspends action on the license/franchise fees for now
 - Alternative: adopt legislation directing staff to develop license/franchise fees
 - Can be done at any time.

Implementing the Final Recommendations of the Rate Review Committee
Effect on Rates and Rate Components



* A companion ordinance, No. 04-1043 also establishes a license/franchise fee that averages \$0.88 per ton at non-Metro facilities.

FY 2004-05 DRAFT Solid Waste Rate Changes

	Current (FY 03-04) Rates	<u>Final FY 04-05 Rate Recommendation</u>		
		Rate Component	<u>Change from FY 03-04</u> Amount	Percent
Transaction Fee	\$6.00	\$7.50	\$1.50	25.0%
Components of Tip Fee				
Tonnage Charge	\$42.55	\$47.77	\$5.22	12.3%
Regional System Fee	\$16.57	\$14.08	(\$2.49)	-15.0%
Excise Tax	6.32	\$6.61	\$0.29	4.6%
DEQ & Host	1.74	\$1.74	---	---
Metro Tip Fee	\$67.18	\$70.21	\$3.03	4.5%
Additional Excise Tax (increase)	---	\$1.97		
Metro Tip Fee with additional excise tax	\$67.18	\$72.18	<i>plus transaction fee; see table below.</i>	

Analysis of DRAFT FY 2004-05 Solid Waste Rate Changes

Effect on Private Facility Economics (accounting for the effect of the rates that Metro controls)

	Based on Current Rates	Based on FY 04-05 Recommendation		
		Component	Change from FY 03-04 Amount	Percent
Revenue per ton				
Based on 5.0 tons/load*	\$68.38	\$71.71	\$3.33	4.9%
Additional excise tax**	---	\$1.97		
Total Revenue	\$68.38	\$73.68		
Costs per ton				
Regional System Fee	(\$16.57)	(\$14.08)	(\$2.49)	-15.0%
Excise tax (base rate)	(\$6.32)	(\$6.61)	\$0.29	4.6%
Additional excise tax**	---	(\$1.97)		
Total Costs	(\$22.89)	(\$22.66)		
Private facility margin/ton	\$45.49	\$51.01	\$5.52	12.1%

* Assumes private facilities can match the effective per-ton rate at Metro.

** This analysis is based on passing-through the entire increase in Additional Excise Tax.

**Metro Council Work Session
April 6, 2004**

**Regional System Fee Credits
Part 2: The FY 2004-05 Budget**

**Metro Council Work Session
April 6, 2004
Regional System Fee Credits
Part 2: The FY 2004-05 Budget**

Next Steps — Actions Needed

Provide direction to the department

- Department budget amendments due this Friday, April 9**
- Councilor budget amendments due next Friday, April 16**