BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AMENDING METRO CODE CHAPTER 5.02 TO ESTABLISH METRO'S SOLID WASTE DISPOSAL CHARGES AND SYSTEM FEES FOR FISCAL YEAR 2005-06	)))))	ORDINANCE NO. 05-1080 Introduced by: Michael Jordan, Chief 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 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 services and programs have increased; and

WHEREAS, pursuant to its charge under Metro Code section 2.19.170, the Solid Waste Rate Review Committee has reviewed the Solid Waste & Recycling department's proposed FY 2005-06 budget, rate methodology and cost allocations; and

WHEREAS, Solid Waste Rate Review Committee recommends that the Metro Council adopt the rates set forth in this ordinance; 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 for each ton of solid waste delivered for disposal:

(A) A tonnage charge of $46.80 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 $7.50 for each Solid Waste Disposal Transaction.

(b) 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 260 pounds or less of $17, which shall consist of a minimum Tonnage Charge of $9.50 plus a Transaction Charge of $7.50 per Transaction.

(c) 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.

(d) The Director of the Solid Waste & Recycling 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 5.02.035 is amended to read:

5.02.035 Litter Control Surcharge

(a) A surcharge of $25 per ton, up to a maximum amount of $100, shall be levied against any customer who disposes of solid waste or a Recoverable Solid Waste at Metro Central Station or at Metro South Station if, when entering the facility, any portion of the customer's waste or Recoverable Solid Waste is unsecured and visible to Metro scalehouse personnel.

(b) No surcharge shall be levied under this section if the solid waste or Recoverable Solid Waste is only visible through a secure covering.

(c) Notwithstanding subsection (a) of this section, a surcharge of $3 per Solid Waste Disposal Transaction shall be levied against any customer who disposes of a single load of solid waste or recoverable solid waste that weighs 260 pounds or less and that is unsecured and visible to Metro scalehouse personnel.

(d) The surcharge provided for in this section shall be collected in the same manner as Metro collects all other disposal fees and charges at the facility.

Section 3. 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 $14.54 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 $1.10 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. Effective Date

The provisions of this ordinance shall become effective on September 1, 2005, or 90 days after adoption by Metro Council, whichever is later.

ADOPTED by the Metro Council this 2nd day of June, 2005.

David Bragdon, Council President

Dep Council President

ATTEST:

Christina Billington, Recording Secretary

Approved as to Form:

Daniel B. Cooper, Metro Attorney

STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 05-1080 FOR THE PURPOSE OF AMENDING METRO CODE CHAPTER 5.02 TO ESTABLISH METRO'S SOLID WASTE DISPOSAL CHARGES AND SYSTEM FEES FOR FISCAL YEAR 2005-06

Date: May 19, 2005 Prepared by: Douglas Anderson

The FY 2005-06 Solid Waste Rate Ordinance No. 05-1080 would implement the Metro tip fee and following rates (in boldface) on September 1, 2005:

Solid Waste Disposal Charges at Metro Transfer Stations
Effective September 1, 2005 through August 31, 2006

Rate Components	Current Rates	This Ordinance	Change
Transaction Fee	$7.50	**$7.50**	– 0 –
Per-ton rates:			
Tonnage charge	$45.55	**$46.80**	$1.25
Regional System Fee	$15.09	**$14.54**	($0.55)
Excise tax	$8.58	$8.33	($0.25)
DEQ & host fees	$1.74	$1.74	– 0 –
Metro Tip Fee	$70.96	$71.41	$0.45
Minimum load charge	$17	**$17**	– 0 –

Notes
- Boldface type indicates the rates that are amended by this ordinance.
- The minimum load charge is for 260 or fewer pounds delivered in a single load.

These rates fully recover the costs of the FY 2005-06 Requested Budget, assuming approval of Budget Amendments No. SWR 1—4 read before Council on April 25, 2005. On April 25, Council requested that Budget Amendment No. SWR-4 be heard in conjunction with this ordinance. That amendment and supporting material may be found in the Attachment 1 to this staff report.

BACKGROUND

Last year, the Rate Review Committee undertook a major analysis of the drivers of Metro's solid waste costs. As a result of that work, the Committee recommended three major changes for the current (FY 2004-05) solid waste rate structure:

- More administrative and overhead costs should be borne by customers of Metro transfer stations;
- The debt service should be allocated between Metro customers and regional ratepayers on the basis of capital usage and "stranded" investment; and
- Certain regulatory costs should be borne by the regulated community, not Metro customers.

Taken as a whole, these changes had major implications for solid waste rates. This fact, together with the increase in the solid waste excise tax last year, led the Council to adopt a portion of the Committee's recommendation, with the balance to be considered for implementation later.

This year, after experience with the modified rate structure, the Committee reviewed the results of its recommendation. The Committee noted that several policy issues and unintended consequences of the rates merit review by broader groups than the Rate Review Committee. Accordingly, the rates in this ordinance reflect the same cost allocation structure as this year's rates—that is, a "time out" on implementing the next phase of the recommendation from last year, pending review of the policy issues identified by the Committee. The issues fall into two headings, listed below and summarized in the balance of this staff report.

Policy Issues that Affect the Rate Structure
Rate Review Committee Recommends Review by Broader Groups

Cost Drivers for which Policy Input Needed

- Sustainable purchasing
- Hours of operation
- Regulatory costs

System Effects of Metro Rate Changes

- Metro fiscal impact
- Private facility economics
- Effect on local government rate-making

Cost Drivers for which Policy Input Needed

Any "cost of service" depends on the *level* of service provided. In the provision of public goods, the level-of-service is determined by demand, but also in part by policy choices. For example, Metro has a policy to ensure that public customers have convenient access to disposal services. This means that Metro stays open longer hours than would be the case if purely business motives were the primary determining factor. A case can be made that the extra hours provide a regional benefit; and therefore, the cost of these additional hours should be borne broadly.

The Rate Review Committee identified three policies in this area where broader policy input is warranted before the committee makes another recommendation on rates. The Department will work with the Committee chair to ensure that these issues are discussed in the appropriate forums.

Sustainable Purchasing/Sustainability Leadership. Metro's new operating contract includes certain "sustainability measures" that cost more than their conventional counterparts by about $115,000 per year. With these purchases, Metro helps to boost the economic development of sustainable alternatives to help make them more widely available—a regional benefit.

Question. Should Metro's customers alone bear the additional costs of policies such as sustainable purchasing, or should these costs be borne by the broader set of regional beneficiaries?

RRC Discussion. It is valid that these costs be paid by the broader group; however, this is but one policy among many. The policy *package* should be implemented, rather than individual policies.

Public Customer Access to Disposal Services. Metro has made a policy choice to stay open long hours at the transfer stations to ensure convenient access for the public. These long hours are a major driver of the scalehouse costs. The operation's contract also includes consideration for the higher cost of handling public loads. Metro's "always open" choice was made explicitly to benefit the region.

Question. Should Metro's customers alone bear the additional cost of operations and the extra hours held open for the public, or should this cost be shared?

RRC Discussion. Open discussion about the stated policy, vs. unknown elasticity effects of "user pay" principles. The Committee was unable to reach a decision until the broader policy questions about self haul are addressed.

Regulatory Costs. Last year, the Rate Review Committee agreed that Metro incurs certain costs solely as a result of private facilities, and that the recovery of these costs should fall on the regulated community. However, some classes of facilities are regulated specifically to meet a widely-shared public interest, and the cost of regulating these facility classes may therefore be allocated to the system fee. Two examples are yard debris facilities and out-of-district landfills. In both these cases, Metro regulates primarily to realize broad system benefits.

Question. Should private facilities alone bear the cost of licensing, inspections and audits, and regulatory enforcement, or should this cost be shared among the broader regional beneficiaries?

System Effects of Metro Rate Changes

One effect of implementing last year's recommendation is a shift of certain fixed costs from the Regional System Fee (a rate with a large regional tonnage base) to the Tonnage Charge at Metro transfer stations (a rate based on less than half the regional tonnage). This has the effect of boosting the Metro tip fee and reducing the Regional System Fee. The Committee noted three unintended consequences of these changes: amplification of the fiscal impact of tonnage shifts, and a change in the profitability of private transfer stations and in local government disposal prices—the latter two unrelated to any change in service. In its motion to stand pat with the current allocation model, the Committee noted that these effects should be better understood before further cost reallocations are implemented. The Department intends to work with the Committee chair to incorporate these issues in the Disposal System Planning Project, under way.

Fiscal Impact of Tonnage Shifts. The sensitivity of the tip fee to tonnage shifts is directly related to the increased proportion of fixed costs in the disposal charges at the transfer stations. The resulting fiscal impact may weigh into decisions on:

- Increasing tonnage authorizations at existing private facilities.
- Approving new transfer and/or material recovery facilities.

Private Facility Economics. The economics of private facilities in the Metro region are driven by the Metro tip fee as a benchmark for revenue in the front door; and the Regional System Fee (and excise tax) as a cost on waste out the back door. Any time the tip fee rises and/or the Regional System Fee drops, private facilities' economic condition improves without any other change in cost or service to the private facility. (The reverse is also true: if the tip fee falls and the system fee rises, private facility economics erode, all else equal.) The Committee believes it may be a matter of public concern that private facilities can be so affected in a manner that is unrelated to changes in cost, competition, or level of service.

Local Government Rate-Making. In current practice, local governments allow solid waste haulers to recover disposal costs up to the Metro tip fee regardless of which disposal facility is used. If the tip fee changes because costs are re-allocated among rates with different tonnage bases, then through their collection rate-making process, local governments are put in a position of granting revenue to private facilities that are unrelated to changes in cost or service. Local governments advised the Committee that they would like the time to address this issue before any more of Metro's costs are re-allocated.

INFORMATION/ANALYSIS

1. **Known Opposition.** There is no known opposition.
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 at Metro transfer stations by 45¢ per ton beginning September 1, 2005. Historically, most private facilities have mirrored the Metro rate, and local governments use the Metro tip fee to establish disposal costs in setting collection rates. The mild reduction in the Regional System Fee will improve operating margins at private facilities, all else equal. This factor also has implications for the level of Regional System Fee credits needed to support the recovery of recyclable materials from mixed waste.
4. **Budget Impacts.** These rates are designed to recover fully the department's budgeted costs above the twenty-five percent of debt service that is proposed to be covered from reserves. These rates are in full compliance with the rate covenant of the solid waste revenue bonds.

RECOMMENDATION

The Chief Operating Officer recommends adoption of Ordinance No. 05-1080.

M:\rem\od\projects\Legislation\2005\051080 ORD Rate Stfrpt.doc

Budget Amendment SWR 4
Rate Predictability: Managing the Impact of the Debt Service on Rates

Depending on where the $2.345 million annual debt service payment is allocated, its impact on the Metro tip fee ranges from $1.80 (all allocated to the system fee), to $4.15 per ton (all allocated to the disposal charge). The last bond payment is July 1, 2009. Therefore, beginning FY 2009-10, the debt service disappears as a revenue requirement on the rates. Under the current rate model, this would equate to a sudden drop of about $2.85 in the tip fee, all else equal.

Historically, the Rate Review Committee has advised that Metro manage predictable cost swings such as the end of debt service payments, in the interest of maintaining smooth rate paths over time. This advice is based on standard rate-making practice, and implements the Council's Rate Setting Criterion No. 9:

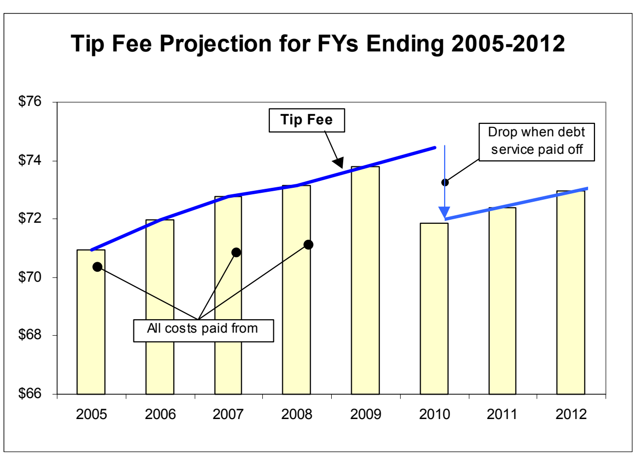
> Predictability: Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning. Resolution #93-1824A

The Department currently has over $3.6 million in reserves dedicated just to debt service. Of these reserves, only $1.2 million is needed to cover current bond requirements. The balance of debt service reserves will eventually be used to pay off debt. Other reserves in excess of their target amounts are also available for debt. The essence of the question is: begin to use those excess reserves now, in the interest of "managing" the debt to obtain smooth rate paths; or wait, and use the reserves all at once in the last year and a half of the debt service schedule?

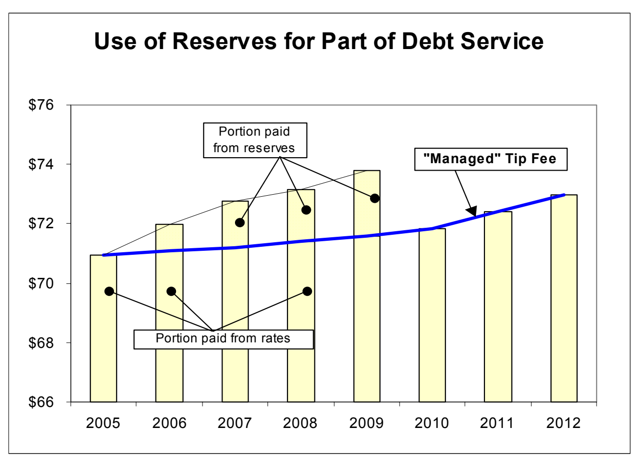
With adoption of Ordinance No. 05- 1080 and SWR Budget Amendment No. 4, Metro could begin phasing-in the use of solid waste reserves to pay the debt service, in lieu of using rate revenue. Approximately $590,000 in reserves could be used toward debt service next year, with the allocation from reserves increasing by a like amount each year until the entire debt service is paid from reserves in 2009. All else equal, this reduces the tip fee by about 58¢ per year. In the alternative—do nothing—the tip fee would drop by $2.85 when there is no longer a need to collect for the debt service.

The following graphs illustrate the two options.

"Do Nothing" Rate Path



"Managed" Rate Path



Department	#
SW&R	4

As Read Before Council April 25, 2005

AMENDMENT TO FY 2005-06 BUDGET

PRESENTER: Mike Hoglund, Director

DRAFTER: Maria Roberts, Budget & Finance Administrator

DATE: April 13, 2005

PROPOSED AMENDMENT:

Debt Service Management

Department(S)	Fund(s)	Line Items		
		Acct #	Account Title	Amount
Resources SW&R	Solid Waste Revenue Fund	4300	Disposal Fees	($586,216)
Requirements SW&R	Solid Waste Revenue Fund	5990	Fund Balance Rate Stabilization Account	($586,216)

PROGRAM/STAFFING IMPACTS

None.

ARGUMENTS IN FAVOR OF THE PROPOSED AMENDMENT

This amendment reflects a recommendation from the Rate Review Committee to begin managing the annual debt service to avoid an abrupt drop in the rates when the bonds are paid off in FY 2009-10. The recommendation is to begin tapping into reserves to pay debt service, rather than raising the entire amount from rates.

With this amendment, 25 percent of next year's debt service would be paid from reserves. A higher proportion can be phased-in in the future. This amendment utilizes only the excess reserves that are projected to be above their target levels by the end of FY 2004-05. All fund balances remain at or above their legal and prudent levels. The FY 2005-06 debt service coverage is projected to be 166%, above the required 110% with a comfortable planning cushion.

OPTIONS FOR FUNDING THIS AMENDMENT – What reductions, credits, changes, or adjustments in other budget/program areas will be necessary to accommodate this amendment?
None