



DATE: June 11, 2015

TO: Washington County Solid Waste Advisory Committee

FROM: Kathy Folsom, Management Analyst

RE: Solid Waste and Recycling Collection Rate Review Report for 2015

- General Rate Review Results
- Distance Charge Proposal

Background and Summary

This staff report covers two separate subjects; both of which require action by the Solid Waste Advisory Committee. First, the report provides the results of the 2015 general rate review analysis. Upon review of the annual financial reports from the certificated haulers it has been determined that no changes to current collection rates are warranted. However, committee action is necessary for a proposed change to the general rate review methodology.

Second, the report presents proposed changes to a limited category of residential can/cart collection rates referred to as distance charge collection rates. The proposal for distance charge methodology changes and associated new distance charge rates for both urban and rural residential collection services requires action by the committee. Specifics regarding the proposed distance charge methodology and rate changes and the annual rate review results are included below.

The Solid Waste Advisory Committee will review the general rate review results and the proposed distance charge rates and should be prepared to discuss them. Following your committee's recommendation regarding the proposed change to the general rate review methodology and the proposed distance charge rates; the next step in the process will be to present the recommendations to the Washington County Board of Commissioners for consideration.

1. General Rate Review

Washington County issues sanitary service certificates to 11 private haulers that provide solid waste and recycling collection service to approximately 60,000 total customers within the unincorporated area of the County. The County issued certificates in lieu of entering into individual service contracts or using a competitive procurement process to select vendors to provide the service. Accordingly, the County maintains a specific responsibility to set rates related to those services delivered under the certificates. Further, the process of determining fair, just and reasonable rates includes the review of costs and revenues associated with the provision of solid waste collection service in Washington County.

Rate Setting System

Section 8.04.330C of the Washington County Code provides that in considering rate increases or decreases, the board must find that the rates will be just, fair, reasonable, and sufficient to provide proper service to the public.

The Washington County Board of Commissioners has broad discretion in setting rates so long as rates provide for prudently incurred operating expenses and capital costs. In establishing fair and reasonable rates, the role of the County is to balance the interests of the certificated haulers to earn a reasonable return on revenue with the rate payers' interest in being protected from unreasonable charges.

Washington County employs a cost-based system to set collection rates. Adjustments to rates are considered after conducting an annual review of the costs associated with the collection of solid waste and recycling. This review is conducted by staff with the assistance of a consultant CPA firm, Merina & Company, LLP. This process begins by requiring certificated haulers to submit, for review, financial and programmatic information specific to their companies.

Collection Rates Paid by Customers

Collection rates are uniform across the County with all like customers paying the same rate for the same level of service. For example, all urban residential customers that subscribe to 32-gallon garbage and recycling collection service pay the same rate of \$22.96, regardless of which certificated collection company provides the service. The rates provide revenue that covers allowable collection costs plus a profit margin for the certificated collection companies.

Rate Review Process and Methodology

For the rate review in 2015, Staff followed the same cost of service model that was utilized last year. The use of a return on revenue methodology remains the most accurate approach for establishing acceptable profitability in a regulated system. It captures increases and decreases in costs and revenues. Actual costs and revenues are reviewed in order to determine whether rate adjustments are needed. Under this approach, rate payers pay for costs actually incurred for the collection of their garbage/recycling and for a reasonable profit to the haulers.

Summary of Methodology:

- Cost of Service Model
 - Use Return on Revenue (ROR) Based Methodology.
 - Conduct a financial review of a limited number of haulers – the top five by revenue.
 - Over time, raise the ROR target from the previous 8 percent to 10 percent.
- Approach to Rate Adjustments and Rate Setting
 - Establish a cycle of Full-Scale Review Years every three years. The first Full-Scale Review Year started with 2011 (year-end reported financial results), which was then followed by Interim Review Years.
 - Conduct a limited and modest review for Interim Years.
 - Discontinue using estimates or forecasts for the purpose of adjusting rates, except in extraordinary circumstances where future costs are expected to be far outside historical norms.
 - For the purposes of the annual rate review analysis, only the Rate Review Group's year-end financial results will be reviewed. However, once new rates are approved all 11 haulers would charge the new Board-approved rates.

- The dollar amount of any needed revenue increase or decrease is spread across all customer classes as warranted (residential, commercial, & drop box) in order to determine the actual rate increases.

2014 Full-Scale Review

The hauler rate review group (top 5 by revenue) received an in-depth review of its costs and revenues for the 2014 calendar year. The review included the consideration of each hauler's Detailed Cost Report, including checking the reported data for errors, irregularities or anomalies. The review included on-site visits of the reviewed group, and resulted in adjustments that are typically made during in-depth review years.

Summary and Findings - General Rate Review

Based on the findings for the 2014 rate review, which are detailed below, there are no rate changes proposed for collection services. For this year's review a return on revenue (ROR) target was set at 10.0 percent for residential, commercial, and drop box/compactor collection service. Last year the target ROR was set at 9.50 percent.

Findings - General Rate Review

The results of the annual rate review analysis, as adjusted, are presented below.

2014 Rate Review Group – 5 Haulers with the Highest Revenue Generated:

	Summary
Revenue	\$26,002,686
Income	\$ 2,997,539
ROR	11.53%

The Rate Review group analysis indicated that the top 5 haulers combined generated a net certificate income of \$2,997,539 resulting in an 11.53 percent ROR, as adjusted. Each line of service also generated an ROR, as adjusted, above the 10.0 percent target ROR as shown below.

	Return on Revenue, as adjusted
Residential	11.08%
Commercial	10.87%
Drop Box	14.37%
TOTAL ROR	11.53%

Adjusting the top 5 ROR to the 10.0 percent target ROR indicates that the Rate Review Group earned approximately \$441,000 in excess revenue (from ratepayers) in 2014. Based on these financial results, staff considered a possible across the board rate decrease. However, in order to prevent the potential of decreasing rates one year and then increasing rates the next year (wild swings in rates) and due to the volatility of drop box collection and recyclable materials markets, staff is proposing that a multi-year rate review process be used in lieu of decreasing rates. Under this approach, this year's rate review revenue and expenses would be added to next year's financial results and then compared to the target ROR. This methodology would result in a rate increase next year only if the combined two years of financial results achieved an ROR less than the target ROR.

Staff Recommendation – General Rate Review Methodology Proposal

Based on the findings outlined above, staff recommends the following:

That the Solid Waste Advisory Committee favorably recommends to the Washington County Board of Commissioners that this year's rate review revenue and expenses be added to next year's financial results and that the combined results will then be compared to the target ROR.

2. Distance Charge Rate Changes – Residential Collection Service

Currently, collection haulers provide non-curbside (urban) or non-roadside (rural) residential collection service, upon request by the customer, for an extra fee (distance charge). Of the approximately 60,000 can/cart customers in unincorporated Washington County, only 726 customers incur a distance charge ~ 1.2 percent. The current rate mechanism for assessing a distance charge requires that a formula be calculated, and adjusted as needed on a per foot basis, for each distance charge customer. The current distance charge methodology and rates, as reflected in the Board-established rate schedule, is as follows:

Current Distance Charge – Residential Collection Service	Urban	Rural
Distance Charge: Fee charged to residential can/cart customers when receptacles are placed more than 5 feet from curb/roadside. The per-foot charge is applied after the first 50 feet to a maximum Distance Charge of \$20.00. <i>See Administrative Rules Section 14M(a)5 and 14M(b)3.</i>	\$6.44 + 5 cents per foot	\$4.83 + 5 cents per foot
When two or more customers are located down a common flag lot or private road distance charges shall be shared equally by all such customers, not to exceed the County established cap.		

Staff engaged in discussions with the Washington County Hauler Association regarding potential changes to the distance charge formula and the addition of a rules provision for non-curbside or non-roadside collection service to be provided to disabled customers at no additional charge. As a result of those discussions, staff proposes a simplified rate structure that is easy to administer (one rate based on total distance).

The proposed revised distance charge methodology and rates is as follows:

Proposed Distance Charge	urban	rural
5 to 150 feet	\$13.00	\$10.00
151 feet or over	\$20.00	\$17.00
Haulers shall provide non-curbside or non-roadside, residential collection service at no extra charge to disabled residential customers. <i>See Administrative Rules Section 14N(b)(6)(e) and 14N(c)(5)(e).</i>		

This proposal eliminates the need to charge fluctuating amounts based on the number of houses served, reflects the differential in urban collection stops and rural collection stops, and is easily updated as residential rates change over time. Further, the proposal provides customers with the continued choice to avoid (by placing the can/cart at curbside or roadside) or accept the distance charge fees and allows for the disabled customer to receive non-curbside or non-roadside collection service at no

additional charge as provided in the Solid Waste & Recycling Program Administrative Rules. This is the same general approach used by other jurisdictions, including the City of Beaverton.

The start date of the proposed distance charge changes is no sooner than September 1, 2015. This will allow time for notice to existing urban and rural residential collection customers that currently place their carts either non-roadside or non-curbside.

Staff Recommendation – Distance Charge Proposal

Based on the findings outlined above, staff recommends the following:

That the Solid Waste Advisory Committee favorably recommends to the Washington County Board of Commissioners the adoption of the revised urban and rural residential distance charge collection rate methodology, as outlined in the staff report, and associated rate changes to become effective no earlier than September 1, 2015.