



DATE: May 13, 2021
TO: Garbage and Recycling Advisory Committee
FROM: Erin Stein, Operations Supervisor
RE: Solid Waste and Recycling Collection Rate Review Report for 2021

Background and summary

This report covers the 2021 rate review. Upon review of the 2020 annual detailed cost reports (DCR) from all certificated haulers it has been determined that the system's return on revenue (ROR) for 2020 was 7.10%, below the 10% target ROR. To achieve a 10% ROR a collection rate increase is proposed. Additionally, Metro has increased mixed solid waste tip fees by \$16.80 per ton effective July 1, 2021. The Metro tip fee increase will add considerable expense to the solid waste system and will likely result in additional rate increases region wide.

Historically, staff would have only considered the reported financial results through year-end 2020 and wouldn't have projected increased future expenses. However, since the Metro tip fee increase will have a significant effect on expenses and is known, and measurable, staff has agreed with the Washington County Haulers Association (WCHA) to evaluate its added financial implications in addition to year-end financial reports in the 2021 rate review. Taking into consideration the additional revenue needed to reach the system target 10% ROR and also providing sufficient revenue to cover the increased Metro tip fees, staff is recommending a 8.95% increase for residential rates, a 1.06% increase for commercial rates, and a 2.96% decrease for drop box/compactor rates in unincorporated Washington County.

General rate review

Washington County maintains sanitary service certificates with nine private haulers that provide solid waste and recycling collection service to approximately 65,000 customers within the unincorporated area of the County. The County issued certificates instead of entering individual service contracts or using a competitive procurement process to select vendors to provide the service. Accordingly, the County maintains the responsibility of setting rates related to the services delivered by the certificate holders. The process of determining fair, just and reasonable rates includes the review of costs and revenues associated with the provision of solid waste and recycling collection service in unincorporated Washington County.

Rate setting system

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 (Merina). This process begins by requiring certificated haulers to submit, for review, DCRs that contain financial and programmatic information specific to their collection service provision.

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. To achieve this, the Board 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. Staff continued the current practice of reviewing the collection system's revenues and expenses from the previous calendar year to determine whether rate changes are needed. A target ROR of 10% is then applied to the collection system results. If the overall system ROR is lower than 10%, staff will recommend rate increases, if the ROR is above 10%, staff will recommend rate decreases.

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, recycling and yard debris collection service pay the same rate of \$23.32 per month, regardless of which certificated collection company provides the service. The rates are set to provide revenue that covers allowable collection costs plus a reasonable return on revenue, currently set at 10%, for the certificated collection companies.

COVID-19

Throughout the COVID-19 pandemic, Washington County's solid waste and recycling collection service providers continued to provide solid waste collection service to our community. Garbage and recycling collection is an essential service to protect the public's health, safety, and welfare. It is imperative that Washington County residents, businesses, and institutions continue to have access to waste removal services.

Staff worked closely with the WCHA to monitor the financial health of the system throughout 2020. This included expanded reporting practices and regular discussions of service continuity for residential and commercial customers. Although the solid waste collection system was spared from many of the pandemic's most severe economic impacts, the 2021 rate review did show materials shifting between sectors and increased expenses outpacing revenue growth. In the residential sector, increased operating expenses outweighed strong revenues which reduced this line of service's ROR.

2020 Rate Review

The 2020 rate review was complicated by a variety of factors including the impacts of the COVID-19 pandemic and the Metro tip fee increase. Staff maintained the current practice of reviewing expenses and revenues from the previous calendar year and then proposing rate adjustments to reach the target ROR of 10%. Also, staff agreed to evaluate the future impacts from the Metro tip fee increase. The results from the 2020 DCR review and Metro tip fee increase impacts were

evaluated separately and then combined to result in a final rate adjustment recommendation. The supporting analyses and the combined results are included below.

Annual Rate Review

Overall staff found that the commercial and drop box/compactor lines of service performed well with RORs over the 10% target. However, the residential line of service experienced increased expenses that far outpaced revenue, resulting in a ROR below the 10% target. Analysis of the DCRs demonstrated that expenses increased due to additional disposal fees (more garbage/recycling/yard debris), increased driver hours, and increased truck hours in addition to annual increases in wages, insurance, and healthcare. These findings align with observations made regarding the impacts of more collection activity moving to the residential sector and away from the commercial sector because of the COVID-19 pandemic and corresponding public health restrictions. The results of the annual rate review analysis are presented in the tables below.

Summary	
Revenue	\$ 31,726,988
Income (Profit)	\$ 2,254,126
ROR	7.10%

Line of service	ROR
Residential	4.15%
Commercial	11.87%
Drop Box/Compactor	12.66%
TOTAL ROR	7.10%

Adjusting the overall 7.10% ROR to the target 10% ROR requires the following revenue adjustments by line of service.

Line of service	Revenue needed for 10% ROR	Rate change needed for 10% ROR	Cost to average customer
Residential	\$ 1,310,000	+6.50%	\$ 1.52/month, 32 gal
Commercial	\$ (125,000)	-2.07%	\$ (5.67)/month, 4 yds
Drop Box/Compactor	\$ (164,000)	-2.96%	\$ (3.98)/haul, 20 yd box

2021-22 Metro Fee Increase Analysis

Metro conducts an annual review of the solid waste fees charged for disposal at its regional transfer stations. Metro’s 2019-20 review resulted in proposed increases to mixed solid waste (MSW) tipping fees, the regional system fee, and the Metro excise tax. Metro Resolution No. 20-5142 increased the regional system fee and Metro transfer station fees for mixed solid waste (MSW) by \$15.47 and Metro excise taxes will be increasing an additional \$1.33 effective July 1, 2021. Total tip fee increases are \$16.80 per ton, or approximately 17% as outlined below.

Metro Fee Schedule as adjusted July 1, 2021			
Rate element	Current	Adjusted	Difference
Mixed Solid Waste (refuse) Tipping Fee	\$ 64.41	\$ 72.81	\$ 8.40
Regional System Fee (MSW Only)	\$ 18.58	\$ 25.65	\$ 7.07
Metro Excise Tax	\$ 12.47	\$ 13.80	\$ 1.33
DEQ Fees	\$ 1.89	\$ 1.89	---
Enhancement Fee	\$ 1.00	\$ 1.00	---
MSW Tipping Fee (including taxes)	\$ 98.35	\$ 115.15	\$ 16.80

Metro tip fee adjustments will increase collection system expenses for the second half of 2021 as certificated haulers begin paying higher rates for disposal of materials collected on both residential and commercial routes. The Metro tip fee increases will significantly impact the system and are known and measurable, and thus staff agreed to evaluate and consider the added financial implications of the tip fee increases in addition to year-end collection system financial reports.

To evaluate the increased expenses resulting from the Metro tip fee increase for the period July 1, 2021 to December 31, 2021, Merina and Co. calculated what the additional expense associated with the \$16.80 per ton (plus fees and profit margin) increase would have been for the six months of tonnage that was actually reported in the 2020 DCRs. Revenue needed to offset these estimated increases is outlined below.

Line of service	Additional expense for disposal	Rate change needed	Cost to average customer
Residential	\$ 494,000	+2.45%	\$ 0.57/month, 32 gal
Commercial	\$ 189,100	+3.10%	\$ 8.57/month, 4 yd
Drop Box/Compactor*	N/A	N/A	N/A

*Disposal costs are a pass-through charge to drop box customers, the Metro increase doesn't impact this line of service

Annual Rate Review and Metro Disposal Fee Increase Combined Results

The total proposed rate adjustments, accounting for both the annual rate review findings and the increased Metro fee increases, are presented in the table below.

Line of service	Annual rate review		+	Metro fee increase		=	Combined	
	Revenue needed	Rate change		Additional expense	Rate change		Revenue needed	Rate change
Residential	\$ 1,310,000	+6.50%		\$ 494,000	+2.45%		\$ 1,804,000	+8.95%
Commercial	\$ (125,000)	-2.07%		\$ 189,100	+3.10%		\$ 64,100	+1.06%
Drop box*	\$ (164,000)	-2.96%		N/A*	N/A*		\$ (164,000)	-2.96%

*Disposal costs are a pass-through charge to drop box customers, the Metro increase doesn't impact this line of service

Based on these findings the following rate changes are necessary to maintain a target ROR of 10% and offset increased disposal costs associated with Metro tip fee increases.

- 8.95% increase for residential rates, resulting in a \$2.09 per month (\$1.52 for annual review and \$0.57 for Metro tip fee) rate increase for an average residential customer with 32-gallon service.

- 1.06% increase for commercial rates, resulting in a \$2.90 per month (\$5.67 for annual review and \$8.95 for Metro tip fee) rate increase for a commercial customer with 4-yard container service.
- -2.96% decrease for drop box/compactor rates, resulting in a \$(3.98) rate decrease for drop box/compactor haul charges.

Additional rate adjustments

Commercial Food Scraps Collection Service

In February 2020, the Committee reviewed a proposal to bundle commercial food scraps collection with garbage and recycling collection to facilitate implementation of the Metro commercial food scraps collection mandate. At its February 13, 2020 meeting, the Committee favorably recommended the proposal to the Board. However, the COVID-19 pandemic delayed Board adoption of the bundled rate and implementation of the commercial food scraps collection mandate. The commercial food scraps collection mandate is now effective March 31, 2022 and in alignment with the committee's recommendation, staff proposes that the bundled service be effective March 31, 2022.

Additional yard debris cart:

The current rate for an additional yard debris cart is \$1.50 per month. This service does not include any subscription periods or service duration commitments. Certificated haulers have found community members requesting large quantities of additional carts and then quickly returning them to accommodate short term/periodic needs. The delivery and retrieval of these carts adds increased costs for the system that are not offset by the current fee. Staff reviewed the origination of the fee and found that the fee was reduced to \$1.50 per month in 2017 in lieu of a general rate decrease. This rate reduction resulted in a financial incentive for community members to request additional carts in place of setting out extra yard debris for periodic service needs. Staff proposes returning the fee to where it was before the 2017 reduction and then applying subsequent rate increases to reset the additional yard debris cart rate to \$4.15 per month. This rate adjustment will correct the rate relationship between yard debris only service, additional yard debris carts, and extra yard debris setouts without the need for further service standard adjustments.

Container Clean-out Fee

The Solid Waste & Recycling Administrative Rules include a requirement that commercial customers can receive one container clean-out or swap per year for commercial food scraps containers and carts. Staff and the WCHA have found that additional container clean-out or swap requests are being charged in a variety of manners, necessitating the development of a rate that can be charged consistently across the customer base. The WCHA has proposed a fee of \$16.00 per occurrence for clean-out or container swap, if requested by the customer. This fee was calculated based on the time associated with container retrieval and cleaning. The fee also aligns with the fee charged in nearby jurisdictions.

Staff Recommendation

Staff proposes the following rate adjustments, as shown in Attachment A, to become effective July 1, 2021. The adjustments are based on Merina & Company, LLP review of the 2020 DCRs for each collection service provider, estimated cost implications of the Metro tip fee increase, and review of

additional service fee adjustments. Incorporating the Metro tip fee increase into the rate setting model does represent a departure from the standard rate review practice, however staff recommends that additional revenue should be collected in the second half of 2021 to help offset large increases in disposal expenses. Staff believes that this approach will result in smaller, more incremental rate adjustments in the 2022 rate review period and beyond.

Based on the findings outlined above, staff recommends the following rate adjustments become effective July 1, 2021, upon approval by the Washington County Board of Commissioners:

- 8.95% increase for residential rates
- 1.06% increase for commercial rates
- 2.96% decrease for drop box/compactor rates
- Additional yard debris cart rate increases to \$4.15 per month
- Commercial container/cart clean-out rate of \$16.00 per occurrence

Additionally, staff recommends that urban commercial food scraps collection service be bundled with urban garbage and recycling collection service, effective March 31, 2022.

Attachment

Attachment A – Proposed Rates for Residential, Commercial Can/Carts, Container and Drop Box/Compactor Services