

Meeting minutes



Metro

600 NE Grand Ave.
Portland, OR 97232-2736

Meeting: WPES Q&A on fees at transfer stations – email questions from the audience
Date/time: Monday, November 16, 2020
Place: Zoom

What traffic change will be made to handle the excess trucks, pickups, and garbage trucks on the roads heading to the transfer station?

Roy Brower:

There are no changes expected at Metro central, which is in Northwest Portland at our Oregon city facility, we have staffed up our way finding flagging traffic control onsite to help move trucks through the facility more quickly and also check loads for asbestos and other types of materials. We think we're about fully staffed there so we don't anticipate adding additional staff despite the increase in customers, especially cell phone customers. We seem to be moving traffic through there better than we were about a year ago. I hope that gets to your question.

The bonds that Metro is proposing to fund new facilities, are they paid for through the regional system fee or the transfer charge?

Brian Kennedy:

Right now, we don't have any debt financing any bonds included either in the current year adopted budget or in the, the potential rate. Current year adopted budget or in the potential rate increase. Any decisions about financing those capital projects have yet to be made, particularly since those projects require further action by council. So as we move forward on those, we'll make decisions about how we finance them. But right now, we're not anticipating any debt financing in the immediate near future.

When the Metro excise tax was made a part of the charter many years ago, it was limited to \$12.5 million plus an annual CPI modifier. At the time, that much money was a significant part of the overall Metro budget and the concept that garbage pays for the zoo may have been valid. However, today the excise tax contribution to Metro's general fund is about 2.2%, the \$382 million budget, hardly consequential. The failure of the excise tax is that it was not set up to account for the almost threefold population increase that has occurred since its inception. Has staff recommended to council that the charter be amended to correct this error?

Brian Kennedy:

I can start with that. The short answer is no. There's been no staff recommendation to change the charter relating to the excise tax.

In reviewing the past 20 years of Metro disposal charges, this proposed increase is significantly higher than in the past. Why such a large increase?

Brian Kennedy:

The first thing I would notice... I haven't gone back and looked at percentage change in Metro tip fee increases. Over the almost 30 years, Metro has been in the solid waste business. I'm not sure if this is... It's certainly larger than any in recent history, but we did have... As I pointed out from fiscal year 2009 through fiscal year 2011, three years of rate increases, they were all over 6%. So it is definitely large, it's not, I guess, in my view kind of significantly out of proportion with recent increases except... And the main reason for that, again, is we have costs that are increasing. Some of them based on investments that the Metro Council has chosen to make in the solid waste system, in our facilities. Some of them driven by economic factors, combined with a rapid decrease in tonnage and the way those come together are driving increases in Metro rates. And I think that is the best explanation increasing costs plus decreasing tonnage.

Marissa Madrigal:

Brian, can you also talk about how the use of the rate stabilization reserve and the budget cuts decreased the proposed increase, that the steps and actions that we took both in the spring and now actually made that number smaller?

Brian Kennedy:

Exactly. As I noted in the presentation, if we hadn't used the roughly seven and a half million dollars in rate stabilization, we would have been looking at a ton of charge increase in the \$84 a ton range rather than the \$71 a ton range that we're currently looking at. And our regional system fee increase would have been \$4 a ton more. And that's based on using our seven and a half million of rate stabilization. We've also reduced roughly twice that from our budget. So \$15 million budget reductions between April and November of this year. So those rates would have been significantly higher if we were trying to recapture that \$15 million in the rate as well.

There was mention of slowing things down. Do you have a new anticipated rate increase date? And are you still on track for January 4, 2021?

Marissa Madrigal:

I can speak to that. So our original date for our council to consider this rate increase was December 3rd. We've pushed that out two weeks to allow for conversation and exploration of other alternatives to this. We could push it up potentially further. If we feel like we're making progress and getting close to a solution that works better for us and works better for you. So no new date has been established, but I think the message that I hope everybody takes away from this is that we understand that weight increases are tough on a good day and they're even harder on a bad day. And so if there are things that we can do to respond to the concerns that you have, we would like to explore those and see if we can come up with something that works for everyone. And that may take a little time.

Can you talk about making this a temporary increase? Or what portion of this can be temporary as we move through COVID and normalize? There is concern that these become permanent rates.

Brian Kennedy:

Thanks Kendall. So what I think is really important to note is that... So there's a provision in the Metro charter that requires that we cannot charge more than the cost of service. So as part of our rate setting process every year, we look at what our actual costs are, and the tonnage forecast and set rates to recover those costs. So as you saw in one of the charts I showed earlier, our rates have gone down in the past. So to the extent that tonnage increases or our costs decrease, we would adjust our rates to that cost of service, which could mean decreases in future years, like it has in the past. Or it could mean if we enter another period of sustained modest growth in tonnage, we would expect to see corresponding modest increases or stability in our rate.

Where does the money from these charges go? Does it all stay with the solid waste recycling programs, or does this money go to other Metro programs and services, for example, convention center or zoo?

Brian Kennedy:

The charges we're discussing today, stay entirely in the solid waste system. They are covering our costs for operating the Metro transfer stations; Metro Central, Metro South, and then the regional system fee charges cover our regional system fee programs like the household hazardous waste collection, RID Patrol, education, our various programs that we operate in partnership with local governments, promoting recycling, food waste composting, those sorts of things. So none of these charges are for Metro general government purposes.

Roy Brower:

And maybe I can add to that. About half of our budget goes to pay private contractors who perform various services for Metro; from operating transfer stations to transferring, transporting waste out to the landfill in [Arlington 00:09:02], disposal costs that we pay to a waste management for disposal, compost costs for organics that are collected and fuel, which is about a half million dollar charge per year. So about half of what we pay out that is collected through these various charges, go to private sector companies that help us to manage and operate the regional waste system.

Are these charges being raised to build new transfer station facilities in Cornelius in South County?

Brian Kennedy:

No.

What is the source of funding for the following reserve funding? Transfer charge, regional system fee, capital reserves, operating reserves and then rate stabilization reserves.

Brian Kennedy:

Our reserves are funded by a combination of all of our operating revenues. So we don't specify that the reasonable system fee is funding a particular reserve dollar for dollar. In practice, the biggest portion of our revenue in the solid waste system comes from our tonnage charge at Metro facilities. And so it would follow that our operating reserve for the Metro facilities as well as our capital reserves for the Metro facilities are predominantly funded by revenues from our tonnage charges as well.

Is self-haul pricing proposed at set at a cost of service?

Brian Kennedy:

Yes.

Are there solid waste services that we can reduce at Metro to weather us through this storm? Reduce the hours of operation at Metro facilities or other services, what cost saving efforts have been considered?

Brian Kennedy:

That's a good question. Complicated question. I'll take the first part. And then I think I'll let Roy talk in a little more detail about some of the cost savings measures. What's important to note is particularly when it comes to the tonnage charge, a significant portion of our fees are fixed costs. Meaning, we pay them no matter how many tons come through the Metro station. So obviously, we wouldn't get just one ton, but we pay the same amount, whether tons are stable or whether they increase or decrease, say 10%. And so that makes one challenge being you're reducing operating hours, say your operating days, doesn't necessarily result in significant cost savings because we still have to cover those fixed costs. And it also potentially turns away tons that we could apply those fixed costs to.

Brian Kennedy:

So there's not a lot of cost savings in reducing our hours, reducing our open days. I think the waste prevention and environmental services department has done a good job going through their budget and identifying areas where they were able to save costs. So at this point, over \$15 million in budget reductions, 11 million have been implemented. Another four million require action by council, as well as mandatory furloughs for staff. Again, that's not furloughing critical safety staff at the transfer stations, but staff in other parts of the department to generate cost savings. So, I mean, I think we have made some significant reductions in order to lower costs and lower the pressure on the rate.

Roy Brower:

Thank you, Brian. I would add to that. We're looking at some of our discreet lines of businesses to see if we can do things more efficiently and at a lesser cost. Specifically, we're looking at our HHW collection at our facilities, which has been in operation for over twenty-five years. And we really haven't had much of a chance to go in and relook at that and retool that at all. So we're

going to look at that. We're also looking at our HHW collection events that we do out in the neighborhoods. And you may have seen these come to a local school or a local church or an Intel parking lot, or something like that. We have disbanded those during the age of COVID because we had not figured out a way to do a COVID-safe collection event. We're now looking at that again.

Roy Brower:

So we may come back with some proposals to our council next year, to look at HHW collection events, especially in underserved neighborhoods that have not had these events in the past. So these could be a combination of smaller events, more targeted events, but we're looking at that. As you many of you know, we also operate a paint recycling facility on Swan Island. We're taking a closer look at that operation. One of the bright points of the COVID, everybody's staying at home is home projects have gone through the roof and the need, and the demand for paint has gone up considerably. So we are looking at how we can produce more paint more efficiently.

Roy Brower:

And we're also looking at the pricing structure of paint. The other area is our recycling information center, which we have actually cut back hours. We no longer run the RIC on weekends or on holidays like we have for many years. So it's basically a five day a week operation now, but we're also looking at whether there's some streamlining we can do. Every time we go through sort of reviewing a line of business like this, many times it requires negotiation with either labor unions or with our contractors. It isn't one of those things that you can just turn off and turn on real quickly. But we do have several initiatives looking at some of those specific Metro lines of businesses, hopefully to get some good cost savings.

Can you provide the detailed report that your consultants created in recommending these rate increases? So far only the cover letter summary has been provided.

Brian Kennedy:

Thanks Kendall. I think there's been a lot of confusion about that. But that cover letter summary, that is the report from the consultants. And to be clear, the consultants don't recommend rate increases. Staff makes the recommendation and the Metro code requires that we contract for an independent review of our rate setting process every year. So the consultant's role is to review our rate model, review the assumptions and the calculations in the model to make sure that they are correct and provide findings and a conclusion to us. So they are not recommending the increase, they're merely reviewing or providing an independent review of the process. And we can make sure everyone has copy of that, but the letter that many of you have received is what is provided by the consultant.

I heard there is no debt financing now, but how will Metro West property purchase be funded? I understand that the decision may be coming to council in mid-December. How will RWAC and CORE be involved in this rate increase issue?

Brian Kennedy:

So going to the first question. Right now, our plan is to fund any potential property purchase, which again has not been approved by the Metro council. So if it is approved and does move forward, we would fund it with capital reserves that we have set aside for this purpose. At some

point in the future, when we move forward, if we move forward with construction, we may end up reimbursing some of those reserves with potential future debt financing. But that would be a decision that is made at the time, and part of a larger scale long-term capital facility plan, which we don't have in place.

Roy Brower:

We have briefed our Regional Waste Advisory Committee about rates, that and... I don't believe we have the CORE, the Committee on Racial Equity. Our focus there has been less on the financial aspects and more on the services that we deliver or services that we may consider reducing because of budget shortfalls. Those we still plan to take to both the Regional Waste Advisory Committee, and periodically CORE. Again, I'll go back to a previous comment. For instance, when we start to do household hazardous waste collection events, again, out in the region where we come out to a neighborhood or a location, we're going to be looking at ways that we can deliver those services more equitably across the region. And we'll be consulting with both ORRA and the waste advisory committee on those kinds of issues.

Can you clarify whether the recycling surcharge will continue? We understood this to be temporary and having that extra \$2.50 charge on customer bills removed could potentially offset the proposed increased fees as experienced by residential and commercial customers.

Brian Kennedy:

That fee is not imposed by Metro. So I'm going to turn that over to Roy. He may know a little bit more about it.

Roy Brower:

No, that was going to be my answer. That is not a fee or a requirement imposed by Metro. I believe that is basically done at the local government level and that's an independent individual decision that is made there.

How much money is Metro planning on getting from this increase in the six months all-cycle increase? Why don't you just buy down on the reserves that were quoted as being 50 million in total?

Brian Kennedy:

That's a good question. So one thing that's important to note is our reserves while large... You know, we started the fiscal year at around 49 million. Not all of those reserves are really unrestricted and able to be used for anything in solid waste system. A significant portion of those reserves, around 12 million are legally required to be set aside for landfill closure and pollution remediation. We have another significant portion of the reserves that are set aside by the council for investments in capital at our Metro facilities, transfer stations, HHW facilities, potential land purchases. The remaining balance in the reserve fund is our operating reserve as well as our rate stabilization reserve. So our goal every year is to fully fund that operating reserve that provides 45 days worth of operations. We believe that's critical in the event of unanticipated occurrences. Things like a pandemic that are shocks to the system. We want to be able to manage through those without having to make drastic changes. So we'd...

Through those without having to make drastic changes. So we would not recommend reducing our operating reserve. And then our current proposal is reducing the rate stabilization fund by 50%. from almost 15 million to around seven and a half million. So at this point, that is around the most significant decrease in the rate stabilization fund that we would recommend at this point. We want to make sure that we have a healthy fund to be able to manage future changes. And that future could be as early as next fiscal year. Again, we don't know exactly what's going to happen, but we want to ensure that we have that flexibility.

During the presentation, it was mentioned that the residential organics rate was not under consideration for an increase. The last Metro correspondence showed a significant increase. Can we clarify if there is, or is not, a proposed change?

Brian Kennedy:

There is not a proposed change to the residential organics fee.

Roy Brower:

But Carl is correct. It did go out. The original rate table did go out, showing a considerable increase for the residential organics rate. And as Ryan just indicated, that rate will not happen, it'll be a zero increase.

Roy mentioned several contractor costs that Metro pays, transportation, fuel disposal, et cetera. Which of these are paid by the regional system fee or excise tax?

Brian Kennedy:

So contractor costs at the Metro transfer station are not paid by the regional system fee or the excise tax. Those costs are covered by the tonnage charge that is charged only to customers at Metro Central and Metro South transfer stations.

Roy Brower:

The exception to that is the household hazardous waste collection, which Ryan had mentioned this earlier. While that's being done at a transfer station, that is a service that is funded across all tons. So the collection and disposal, or recycling of hazardous waste, is a regional system fee-funded activity.

It feels good on the surface that the rate increase is lessened by utilization of the rate stabilization fund. However, does not that money have to be replaced in the future by increasing the regional system fee? Therefore, except for timing, is it not a zero sum game, and effectively the lessening of the rate increase is rather a postponed increase?

Brian Kennedy:

Our goal is definitely to replenish our reserves. Right now, we're in the middle of a process of reviewing all of our reserves across all of our funds to determine what the appropriate level is. And to the extent we need to refill the rate stabilization reserve, we will come up with a plan to do that. That isn't something that we would expect to happen in one fiscal year, or even two or three fiscal years necessarily. And that's, again, part of the reason that we don't recommend a larger usage of the rate stabilization reserve, as we want to have it available to use as we

manage through this pandemic, and through the economic recovery. So that we have time to come up with a plan to replenish that reserve, maintain our operating reserves, maintain our capital reserves at an appropriate level without putting excessive pressure on the rate.

When you mentioned an \$11 million reduction, what is that in terms of percent to overall budget?

Brian Kennedy:

I will be honest. I don't have that number right on the top of my head. The cumulative effect of the budget reductions we're looking at is around 15%, assuming the next round of around \$4 million is approved by the Metro council. So 15% reduction overall.

Roy Brower:

It's about 10 or 11% of the overall budget.

In the middle of a pandemic and challenging economic conditions for individuals and businesses, should we be raising these fees so significantly?

Brian Kennedy:

I think it's important to note that we all understand that these fee increases will have an impact on all of our customers. And there's never a good time to raise rates. At the same time, the service we provide at the Metro facilities, in particular in the regional system fee activities, are essential services. And, for people who are stuck at home sheltering in place, they're essential. And maybe more essential than they ever have been. And so our ability to continue to provide those essential services is critical. It would not serve the region for us to fail to provide those services by not charging appropriately to cover our costs.

Roy Brower:

And I'll just add to that a little bit. I mean, we are making adjustments to the services that we provide. And we have made adjustments for interest. For example, in the area of education, we, of course, are not doing in-person education events at schools like we have done in past years. Because very few, if any, of the schools are meeting together in the classroom. So we've really redirected some of those resources into producing videos, and holding Zoom meetings with classes, and with adults. And that comes at less of a cost.

Roy Brower:

Another good example is the RID Patrol Program, which cleans up illegal dump sites in the region. We have been more limited in our ability to clean up illegal dump sites because we are taking another look at our use of incarcerated inmate crews to do that work. That comes with a cost. If we can't use inmate crews from Multnomah County, then we've got to develop our own crews with Metro staff and/or Metro community partners who are interested in using that as a workforce development opportunity. So we're looking into that.

Roy Brower:

Anybody who's driven around the region at all, I think you'll know even outside of the houseless community, you've probably seen a rise in illegal dumping. I live in Washington County. I've seen more of that happening out in this part of the region. So it's one of those things, we're trying to

keep up with the service level that we are used to, and that people are used to getting. But as we deal with these challenges, certainly, services are going to become less in some areas, and we'll make adjustments accordingly.

Did you know that most haulers would not be able to get in front of their local council to propose an increase to rates until normal rate review? So this will be an added cost to haulers until rates can be adjusted. And that's the question, but then his comment is that he doesn't think it's right.

Roy Brower:

I think we have definitely heard that concern. And that's one of the reasons that we have been working closely with our local government partners, and are taking some more time before moving ahead with this increase, to make sure that that concern can be addressed.

Does replenishment of the rate stabilization fund that has been compromised by approximately 50% this year come from increasing those regional system fees?

Brian Kennedy:

That's a good question. I think the answer is not necessarily. Part of the way that we have built up our reserves in the past is we have unexpected budgetary savings. We have costs that we plan for that are not incurred. Or we have increases in tonnage above our forecast. Both of those things can result in the solid waste fund generating larger than planned surpluses, that we then use to fund our reserves. So, there is a circumstance where if those savings were not being generated, we may need to plan rate increases in order to replenish reserves. But, I don't believe that would be a dollar for dollar trade off. That a use of one rate stabilization dollar now doesn't necessarily increase to that \$1 needing to be recovered by the rate later on. That's part of our financial management practices, is close monitoring of the budget, and making sure that we're able to cover our costs, and fund our reserves adequately. And we use a variety of strategies to make that happen.

I've heard the comments about potential delay in timing of an increase. Can you please clarify what that means? Does that mean you may take a proposal to council for a January, 2021 increase later in December than planned? Does that mean you may delay the implementation from the proposed January, 2021 effective date?

Marissa Madrigal:

I can take that one. So there's sort of two potential delays that we're talking about. The first is, when do we bring this information to our council with a final recommendation, and ask them to approve it? And we have essentially made the decision to push that back two weeks. So they may consider the initial proposal. They may consider some alternative proposal that we bring forward, based on your feedback and conversation with you. But that date has been pushed two weeks.

The other date that we're talking about is the implementation date. This original proposal that we've been talking about had an implementation date of January, at the beginning of January. And then we would follow up with our normal quote, normal, increase in July. Part of the

conversation that we would like to have, and the feedback we'd like to get, is on that implementation date. So we're hearing that January, it's going to be tough for many of you. So if that's the case, is a March? April any better? Is July the only time that really works? /this proposal has two increases, one now, one in July. If we trade two increases for one, there's probably going to be a trade off that it may be a little bit higher. We're crunching those numbers.

I'm also hearing that the amount of the increase is a concern. So in the conversation with you, we'd like to figure out how we balance the need to cover our costs, and also a sensitivity to the amount of the rate increase that happens all at once. Going back, tying it back to the conversation about the rate stabilization reserve, this reserve that we have is exactly for a moment like this. It is to be used to smooth increases to the community. So I think we're committed to doing that, but obviously there's only so much in there. So I think there's options on the table, and the most important thing right now is really understanding what do you prefer? And what are the trade offs of those different options?

Since the rates are set by the costs, and your costs include capital costs, I'm just wondering how we prevent any revenue gains from getting chewed up by additional capital costs? Which would not provide relief to the ratepayers down the road.

Brian Kennedy:

That's a good question. I think the best answer is that we don't just throw capital costs at the budget, say, because we have excess revenue. We have a five-year capital plan that is reviewed ahead of the budget. So that is proposed by Roy's staff, and goes through a variety of review processes. So we try to let that long-term capital plan drive our capital spending, rather than making decisions in any given year based on what revenue is available. So we try to be kind of very careful about planning for those expenses, and making sure that revenue is set appropriate to them, and not changing on a year to year basis based on what's happening with the economy. Except to the extent we obviously, in a year like this, where our tonnage is plummeting, revenue is falling. We're not going to move ahead with those capital projects. But I guess my point is just that we do have that capital plan that drives our spending.

Based on the rate study model, the Excel document that's been shared, can we safely say that there is no budget intention for 2021 to utilize any regional system fee money, or solid waste reserve funds for any services accepting commercial and residential organics?

Brian Kennedy:

Kendall, I'm going to suggest that that answer that is included in a written response. Terrell's question is very long and detailed, and I don't want to speak off the fly and make a mistake. Because he's asking some pretty detailed questions about the functioning of our rate model. And I want to make sure that I get the answer right, and that we include that in our written response.

Updated response Thursday, December 17:

Referring to the tab "Functional Allocations" line 288 and leaving Regional System Fee out of the discussion, are all relevant costs related to Scalehouse-Staffed, Scalehouse-Auto, MSW, Wood, and Yard Debris budgeted to be completely covered in 2021, leaving neither surplus/profit nor shortfall/loss. Also, it is my impression that Commercial Organics are scheduled to have a shortfall/loss of approximately \$400,000 and that there will be some undisclosed amount of loss on Residential Organics.

Therefore, there is not any budget intention for 2021 to utilize any Regional System Fee money or Solid Waste Reserve funds for any of these services excepting Commercial and Residential Organics.

In short, the rates proposed in this version of the model are all set at some point lower than the actual cost of service. This version of the model called for using reserves to cover a portion of the cost of service in order to mitigate the rate increase.