

CPA Review of Hauler Financial Reports

Residential franchisees file a Detail Cost Report documenting their revenues and expenses for the previous calendar year. Using a random selection process weighted by customer count, a set of sample haulers is chosen that represents at least 75 percent of the total 155,000 residential customers. A CPA firm under contract to BPS is reviewing the sample haulers' 2021 detail cost reports. This year, three haulers were selected that provide service to just over 75% of the customer base.

Calculation of Rates

The cost of providing curbside service (as reported by the sample of haulers) is used to calculate a per customer composite cost. Rates are designed to allow haulers the opportunity to recover the per customer composite cost of providing service plus a return equal to 9.5% of revenues. Rates also include a 5% franchise fee paid to the City.

Ratemaking Policy

Once cost-of-service rates are established, incentive discounts are applied to smaller garbage cans and disincentive premiums to larger garbage carts in order to encourage waste reduction.

CURRENT RATES

Below are the rates and the percent of customers subscribed for the most common service levels. All service levels include weekly recycling and compost collection. The most common service level is still the 35-gallon roll cart collected every other week. During calendar year 2020, we saw a continuation of the trend of customers right-sizing their service level and moving toward larger containers while they were home more due to the pandemic.

Service level	Current Rate	Customers Subscribed
every-four-weeks service	\$27.15	5%
20 gallon service	\$29.85	6%
35 gallon service	\$34.55	45%
60 gallon cart	\$39.05	33%
90 gallon cart	\$45.30	6%



KEY COST FACTORS

Inflation Adjustments

All previous year expenses reported by the sample haulers are reviewed by the independent CPA firm hired by BPS. Allowable expenses incurred in CY 2021 form the basis for rates for the upcoming rate year. Inflation adjustments are added looking forward for the 18-month period of January 2022 through June 2023. It is important to note that inflation adjustments are applied to the actual costs of providing service as reported by the sample haulers and not across the board to the existing rates. In this way, reduced operating costs can mitigate the effect of inflationary pressure.

Inflation is forecast to be around 7 percent on an annualized basis.

Labor hours are reported by haulers, reviewed by the CPA, and adjusted using a weighted average of union contract wage increases and the general cost-of-living increase. Adjustments for wages, health & welfare, and pension are projected at about five percent.

Clean Fleet refers to Portland haulers' use of newer, cleaner trucks that reduce air emissions. BPS required haulers to phase in fleet upgrades beginning in 2009. Given the depreciation cycle for collection vehicles, we are still seeing a decrease in vehicle costs as previous hauler investments are coming out of the rates.

Fuel costs are anticipated to increase in the upcoming rate year. Biodiesel is anticipated to increase by 29 percent and Compressed Natural Gas (CNG) by 1 percent.

Garbage Disposal Costs (Can Weights and Tip Fees)

Disposal costs incurred by haulers are a function of the amount of garbage collected from customers and the cost of disposing of it at transfer stations (so called "tip fees").

Garbage disposal weights are calculated using several data sources, including aggregate reported disposal tonnages and estimates of garbage container weights by container size. The latter information is obtained from residential "can weight" studies conducted by the Portland State University's Community Environmental Services.

Garbage Tip fees charged by Metro at its two transfer stations are proposed to increase 7 percent to \$123.29/ton.



Yard Debris/Food Scraps Tip Fees

Haulers pay a tip fee for depositing yard debris/food scraps at Metro's two transfer stations, where the material is reloaded for delivery to composting facilities. The tip fee at Metro transfer stations is proposed to increase 7 percent to \$82.38/ton.

Recyclable Materials

In the past haulers received payment for recyclable materials, helping to reduce rates. Global market conditions shifted in 2017 and now lower prices and higher sorting costs have resulted in charges to haulers for processing recycling. During CY 2021, we saw some improvement in the market for recycled materials, reducing charges paid by haulers.

NEXT STEPS

Proposed final rates will be presented to PSC at a hearing on May 10 and PSC will vote on whether to recommend the rates to City Council. The rates will be considered by City Council at the Utility Rates hearing on May 18. Adopted 2022-23 rates will take effect July 1, 2022.

