



Bureau of Planning and Sustainability

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2017-18 SOLID WASTE & RECYCLING RESIDENTIAL RATEMAKING UPDATE

Residential garbage, recycling, and yard debris/food scraps collection service, also called curbside service, includes single-family homes and smallplexes (duplexes, triplexes and fourplexes). Portland's curbside service is provided by 14 private companies that have been awarded franchises to operate in assigned territories. The City establishes rates, service standards and the services offered to curbside residential customers.

The commercial sector, including multifamily properties with 5 or more units, is not franchised. The City sets general standards for collection and issues permits to haulers. Commercial customers can arrange their service level and rates with any permitted hauler.

This ratemaking update lays out the rate review process and an initial look at key drivers that may influence proposed residential rates for 2017-18. As these and additional rate factors are analyzed, draft rates will be developed and presented to PSC for discussion at the April 25th meeting. Proposed final rates will be presented to PSC at the May 9th meeting and considered by City Council on May 18th. Adopted 2017-18 rates will take effect July 1, 2017.

RATE REVIEW PROCESS

Ongoing Monitoring

Throughout the year, haulers file a variety of reports with BPS detailing customer counts, quarterly revenues, and recycling and solid waste tonnage, among other information.

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 150,000 residential customers. A CPA firm under contract to BPS reviews the sample haulers' 2016 detail cost reports. This year, six haulers were selected that provide service to 80% 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.



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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. By far the most common service level is the 35 gallon roll cart collected every other week.

Service level	Current Rate	Customers Subscribed
32/35 gallons every four weeks	\$21.60	7%
20 gallon service	\$24.50	8%
32 gallon can	\$28.50	11%
35 gallon cart	\$29.15	44%
60 gallon cart	\$35.00	22%
90 gallon cart	\$41.50	4%

KEY COST FACTORS

All previous year expenses reported by the sample haulers are reviewed by the independent CPA firm hired by BPS. Allowable expenses incurred in CY 2016 form the basis for rates for the upcoming rate year. Inflation adjustments are added looking forward for the 18-month period of January 2017 through June 2018. 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 in the upcoming rate year is forecast to be higher than in previous years.

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.

Clean Fleet refers to Portland haulers' use of newer, cleaner trucks that reduce air emissions. BPS developed requirements for hauler fleet purchases that have been phased in over the past seven years. Beginning this year, haulers are required to use trucks that are less than 12 years old for all residential collections. Newer diesel engines are much cleaner than older trucks, and some haulers have switched to trucks using compressed natural gas, which further reduces emissions. Truck purchase and interest expenses are included in establishing hauler operating costs.

Fuel costs are anticipated to increase significantly in the upcoming rate year, according to forecasts from the United States Energy Information Administration.

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 operated by Metro (so called "tip fees").



Solid waste 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.

Tip fees charged by Metro at its two transfer stations will decrease by \$1.30 per ton to \$94.95 per ton on July 1, 2017.

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 yard debris/food scraps tip fee will increase by \$2.06 per ton to \$66.67 per ton.

Recyclable Materials

In prior years the revenues earned by haulers from the sale of recyclable materials partially offset the cost of providing service and therefore served to reduce the rates paid by customers. However, it is likely that poor market conditions will result in no revenue offset for the upcoming year. The effect of this loss of revenue is calculated by averaging a projection based on analysis of market prices with the actual recyclable material sales revenue collected by haulers for the prior two years. This methodology was developed several years ago to dampen the year-to-year volatility of this rate component.

RATEMAKING POLICY

The annual rate review process analyzes hauler financial records and determines the cost of providing service for the different garbage container sizes used by customers. Once costs are determined, rates are established that apply an incentive discount to smaller garbage cans and a disincentive premium to larger garbage carts in order to encourage waste reduction. Proposed incentives and disincentives will be presented at the May 9th PSC meeting.

COMMERCIAL TONNAGE FEE

As noted above, for the commercial sector, the City does not set rates; however, it does collect a \$9.60 per ton fee on garbage collected by commercial haulers in Portland. These revenues fund the City's commercial solid waste programs, including work to reduce waste and increase recycling and composting in the commercial sector. For 2017-18, BPS is not proposing a change to the commercial tonnage fee.

