



Bureau of Planning and Sustainability
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2019-20 RESIDENTIAL CURBSIDE COLLECTION RATEMAKING Planning and Sustainability Commission Briefing April 9, 2019

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 11 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 2019-20. As these and additional rate factors are analyzed, draft rates will be developed and presented to PSC for discussion at the meeting on April 9.

Proposed final rates will be presented to PSC at a hearing on April 30 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 15. Adopted 2019-20 rates will take effect July 1, 2019.

RATE REVIEW PROCESS

Ongoing Monitoring

Throughout the year, haulers file a variety of reports with BPS detailing customer counts, quarterly revenues, and tons of recycling, yard debris/food scraps and garbage collected.

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 153,000 residential customers. A CPA firm under contract to BPS is reviewing the sample haulers' 2018 detail cost reports. This year, five haulers were selected that provide service to almost 90% 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



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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.

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	\$24.25	6%
20 gallon service	\$27.15	8%
32 gallon can	\$31.80	7%
35 gallon cart	\$31.80	44%
60 gallon cart	\$37.65	26%
90 gallon cart	\$44.15	5%

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 2018 form the basis for rates for the upcoming rate year. Inflation adjustments are added looking forward for the 18-month period of January 2019 through June 2020. 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 around 3.50 percent.

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. Inflation adjustments for wages, health & welfare, and pension are anticipated to range between 3.33 and 4.15 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 (five years for recycling trucks and seven years for garbage and yard debris/food scraps), we are now seeing a significant drop in vehicle costs as previous hauler investments are coming out of the rates.

Fuel costs are anticipated to decrease slightly 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").

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 will stay the same this year at \$97.45 per 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. Metro is experiencing declining tons at their transfer station due to competition from other facilities and will increase the tip fee by \$10.91 per ton to \$77.91 per ton. This is a significant change, resulting in upward pressure on rates.

Recyclable Materials

Last spring, we conducted an expedited rate review to account for an unprecedented drop in recycled materials prices and increased processing costs at recycling sorting facilities. The rates that took effect May 1, 2018 included an increase of \$1.91 per month to true up costs for managing recycled materials. The good news is that recycling market conditions have not worsened since last spring and preliminary analysis indicates that last year's rate adjustment appears to have substantially covered hauler costs for that rate component.

Portland Clean Energy Surcharge

In November, Portland voters approved the Portland Clean Energy Initiative, which will add a 1% revenue surcharge on retail corporations with over a billion in national sales and over \$500,000 in local sales. Funds will be directed to renewable energy, energy efficiency and green infrastructure projects.

The initiative included an exemption for utilities, and it is uncertain whether curbside residential waste collection will be included within the definition. The Revenue Bureau will make the determination in the next few weeks. Should the surcharge apply, it would increase rates for all customers by approximately \$0.20.

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 PSC hearing on April 30.

