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Metro | *Memo*

Discussion Draft

Date: Wednesday, April 20, 2016
To: Metro Council
From: Tim Collier, Director Finance and Regulatory Affairs
Subject: Transfer System Configuration Recommendations

Executive Summary

This document provides staff recommendations to Council about governance and operation of the Metro region transfer system. It is the culmination of a lengthy study of issues facing the transfer system by Metro staff and key stakeholders such as the Transfer System Task Force (consisting of representatives from each transfer station in the region), the Solid Waste Alternatives Advisory Committee, local government solid waste directors, and others. More specifically, it responds to questions and comments from Council members at a Work Session held on March 1, 2016.

The intent of the recommendations seek to ensure that the transfer system provides maximum Public Benefits (as defined by the Metro Council) today and in the future. The key recommendations for the transfer system are as follows:

A. **Percentage Tonnage Allocation**: Allocations would be made on a pre-established *percentage* basis. Individual facility tonnage allocations would then be set on this percentage. That way tonnage allocations for each year will increase (or decrease) according to the change in total tons available.

   - A tonnage "floor" is recommended to ensure that public stations continue to provide the high quality service for which they are known. Staff proposes that a minimum of 40% of the region's wet waste be delivered to Metro transfer stations leaving up to 60% available for allocation to private transfer stations.
   - Percentage allocations to private facilities would recognize private investment and provide greater certainty for future business planning.
   - Flexibility would be built in to respond to system changes, such as to accommodate new facilities, lower than anticipated deliveries, and shifting tons from one station to another.

B. **Small Business Opportunities.** To enable small, local business to thrive, Metro should limit to 40% the amount of wet waste that any single company can transfer.

C. **Rate Transparency**. Three options have been identified for Council consideration that would improve the transparency of tip fees at private wet waste transfer stations and to assist local government collection rate review.

Metro Council Direction

The RSWMP and Resolution 06-3729 (adopting the Transfer Station Ownership study, aka Disposal System Planning "DSP1") state that Metro should continue to operate two public stations, but that policy direction did not elaborate to what degree, in what role, with what footprint. At a work session on March 1, 2016, Metro Council confirmed that the transfer system should be managed to provide the following public benefits:

1. Protect people's health
2. Protect the environment
3. Maintain our commitment to the solid waste hierarchy as set forth in state law
4. Maintain a system that is flexible and adaptable to changing needs and circumstances
5. Ensure adequate and reliable services are available to all customers
6. Recognize prior and future public and private investment
7. Ensure sustainable finance
8. Minimize long-term life cycle cost of providing transfer services

The Metro Council also confirmed the role of the public stations as follows:

> Metro should continue its public transfer station operations to achieve multiple objectives:
>
> - Provide a rate benchmark for local government regulators of collection;
> - Provide enhanced services, such as household hazardous waste collection,, long operating hours and days, enhanced employee benefits, etc.;
> - Provide a public disposal option for any and all haulers (keeps level playing field for small businesses and the public, facilities open to all); and
> - Provide flexibility to pursue new services or technologies, consistent with the waste management hierarchy.

At the work session, staff presented the following findings about the transfer system:

- Metro's public/private system works well: its basic functions, geographic locations of facilities and service responsibilities should be retained.
- There is adequate access to self-haul disposal, no need for substantial new service.
- For household hazardous waste, if additional service is desired (beyond what is being provided at MCS and MSS), additional round-ups are the preferred delivery method.
- The public/private wet waste tonnage split is currently about right to balance the following competing goals:
  - Minimizing off-route collection cost and related traffic and emissions impacts.
  - Ensuring adequate private station throughput and tip fees to allow for continued operations at current service levels.
  - Ensuring adequate public station throughput to allow the provision of enhanced public services at reasonable cost, and to provide the opportunity to pursue new, innovative solutions.

In their comments, Councilors expressed general support for the existing system but were interested in finding ways to accomplish or enhance various public benefits, including:

1. **Tonnage Allocation based on Percentage**. Allocating tons on a percentage basis with a minimum percentage reserved for the public facilities will ensure that rising regional

tonnage will increase all allocations proportionally. Conversely, if, for example, food waste collection or economic recession reduces wet waste regionally, then flow to **all** transfer stations will be reduced proportionally, and not just reduce flow to the public stations.

2. **Tonnage Allocation Process**. Emphasize predictability and transparency so that all operators can plan accordingly. Minimize ongoing tonnage allocation "negotiations" and try to prevent continually re-adjusting allocations. However, the collection and transfer system is dynamic, and it may be unreasonable to keep allocations fixed indefinitely. At a minimum, staff should seek to develop a consistent process and framework for adjusting allocations that could be adopted by Council as a matter of policy and the details implemented by the COO.
3. **Flexibility to Pursue Additional or New Services, or Technology.** Ensure that any changes to the transfer system can accommodate future decisions related to important new services with public benefits, such as organics recovery, or pursuing new technology, such as advanced materials recovery (AMR), or waste-to-energy.
4. **Small Business Opportunities**. Support smaller locally-based businesses remaining in the collection system and other small businesses that use the system.
5. **Promote Efficient Off-Route Travel**. For reduction of greenhouse gas and other public benefits, encourage haulers to minimize off-route travel (i.e., trip between collection route and transfer station or base yard).
6. **Improve Transparency about the Cost of Services Provided at the Public Stations**. Provide a separate accounting of the cost of various discrete public services provided at the public stations i.e., separate out the cost of services such as wet waste consolidation and transfer, dry waste recovery, self-haul, and organics consolidation and transfer to provide a more detailed and direct comparison of the cost of services offered at private stations.
7. **Rate Transparency at Private Stations**. Propose options to make the transfer station rate process more transparent. This is an issue mentioned by local governments that have stated they would benefit from additional transfer station rate transparency in their collection franchise rate review processes.

Guiding Principles for Transfer System Management Options

When considering management options for the transfer system, the following principles will shape how those options are developed:

1. Metro has the broad legal authority to require all waste to be delivered to its public transfer stations and may choose to allocate waste tonnage to private facilities to achieve desired regional outcomes and public benefits.
2. Metro will continue to move all solid waste to higher and better forms of management, as guided by the state waste management hierarchy, while also considering technical and economic feasibility.
3. During the 2017-2019 interim period, franchises should be viewed as transitional prior to full-term franchises (5 year) taking effect in 2020.
4. Metro will continue to utilize franchises to authorize in-region transfer stations, and non-system licenses to authorize haulers seeking to deliver solid waste to out-of-region non-system facilities.

Management Approach

This section presents responses to the seven enhancements suggested by Council at the March 1, 2016 work session, plus some "other enhancements" for consideration.

1. Tonnage Allocation Method

The proposed approach builds on the "percentage method" suggested by Council, and provides added flexibility to provide public benefits. Metro will establish a Base Allocation Method, as follows: each private station's allocation for a new year will remain the same as it was in 2015, on a percentage basis, and the tonnage allocation for each year will increase (or decrease) by the forecast change in tons from the prior year. Examples of how this would work are shown in Table 1. As shown, the private station allocations in tons would be rounded to the nearest hundred tons.

Exceptions and limitations to the Base Tonnage Method are as follows:

A. Under normal conditions (i.e., if System Tons for Allocation show positive year-over-year growth), a private facility will retain its percentage allocation each year with the following exceptions:

   - In 2015, the actual tons received at private transfer stations was 62,000 tons less than allocated. Going forward, if a facility receives less than 95% of its allocation during two consecutive years, its percentage allocation may be adjusted downward. 2017 would be the earliest year in which a facility's percentage allocation could be adjusted downward under this provision.
   - If Metro authorizes another wet waste transfer station, the allocation to any existing transfer station may decline in response to this authorization, but generally not by more than 15 percent. (Metro will consider any franchise application for new wet waste transfer stations on a case-by-case basis: new applications will be recommended for approval to Metro Council if public benefits clearly exceed system costs.)
   - If a private station owner believes that there is a basis for an increase in its percentage allocation, it may apply for an additional allocation (using Metro's defined annual allocation process, as described in Attachment A). Any such application should be accompanied by a letter of support from any local government whose franchised collection firm or firms may be affected by that revised allocation.

B. Annual System Tons for Allocation to the two public stations shall not decline to less than 40 percent of total System Tons for Allocation.

C. Metro recognizes that the waste industry and transfer system are dynamic, and that circumstances may require a modification to this allocation method at some point in the future.

D. Per Ordinance 15-1356, under certain conditions tonnage allocations may be adjusted up to an additional 5% in 2016.

Table 1
Base Allocation Method Examples*

	2015 Allocation		2016 if 0% Growth		2016 if 5% Growth	
	Tons	Percent of Total	Tons	Percent of Total	Tons	Percent of Total
Total System Tons for Allocation			**687,139**	**100.0%**	**721,496**	**100.0%**
Private Stations						
Forest Grove TS	125,000	18.2%	125,000	18.2%	131,300	18.2%
Pride Recycling	73,500	10.7%	73,500	10.7%	77,200	10.7%
Troutdale TS	73,500	10.7%	73,500	10.7%	77,200	10.7%
Willamette Resources	73,500	10.7%	73,500	10.7%	77,200	10.7%
Canby Transfer Station	14,000	2.0%	14,000	2.0%	14,700	2.0%
West Van/Van Central Stations	25,000	3.6%	25,000	3.6%	26,300	3.6%
Subtotal	384,500	56.0%	384,500	56.0%	403,900	56.0%
Public Stations	302,369	44.0%	302,369	44.0%	317,596	44.0%
Sum of Public and Private	687,139		687,139		721,496	

Note: Totals may not add because of rounding.

- Per Ordinance 15-1356, under certain conditions tonnage allocations may be adjusted up to an additional 5% in 2016.

2. Tonnage Allocation Process

A detailed proposed process for establishing private station wet waste tonnage allocations is provided in Attachment A.

3. Flexibility to Address New Technologies, Organics Recovery, AMR, and Long-term Management

The current proposal reinforces the existing system. However, Metro Council reserves the ability to address and support future management options that improve recovery and recycling. For example:

- The proposed tonnage allocation method and process help ensure that tonnage allocations would exclude source-separated organics and any materials that may eventually go through AMR or new technology demonstration projects.
- For AMR, waste-to-energy, and other management techniques, Metro has the authority to require that all waste or portions thereof must go through said process prior to landfill.
- The proposal to direct at least 40 percent of the region's wet waste through the public stations facilitates the option to pursue waste-to-energy for that portion of the region's wet waste.
- For food waste, Metro has the legal authority to manage flows in a number of ways such as:
  - Directing all food waste to the public stations.
  - Allowing source separated food waste to be delivered to private facilities.

4. Small and Local-based Business Opportunities

Preserving Metro ownership of two stations helps ensure that small collection companies always have a place to deliver material at reasonable cost.

Metro Council has expressed the goal to keep multiple companies participating in the transfer system. To encourage competition and local business growth, Metro will adopt a limit on the amount of wet waste that can be transferred by a single company. Similar to the City of Portland's 40 percent limit on residential hauling franchises, *No single company (including divisions of a single*

holding company) shall transfer more than 40 percent of Metro region Total System Tons for Allocation.

5. Minimize Off-Route Travel Time

The tonnage allocation method and process ensure that regional growth is accommodated by allowing private and public station allocations to increase proportional to that growth. Further, the tonnage allocation method provides a process for increasing a station's percentage allocation or establishing new wet waste transfer stations if sub-regional growth, traffic congestion or other circumstances suggest that there would be net public benefits to changing existing percentage tonnage allocations.

6. Improve Transparency for Services Provided at the Public Stations

Recently, Metro commissioned Bell & Associates to estimate the cost (and revenue received) for wet waste, self-haul, dry waste processing, and organics. Estimated costs in 2015 are shown in Table 2.

Table 2
Estimated Transfer Station Component Costs at Metro South and Central

	Wet Waste	Self-Haul	Dry Waste (with processing)	YD / Organic	Total
Transfer Station Component Costs					
Transfer (including scalehouse)	$12.00	$44.62	$79.28	$17.79	$26.35
Transport to Landfill / Processing	$22.64	$22.64	$21.24	$22.00	$22.39
Landfill / Processing	$23.13	$23.13	$0.00	$32.92	$21.95
Total Cost	**$57.77**	**$90.39**	**$100.52**	**$72.70**	**$70.69**
Fees & Taxes	$32.11	$32.11	$32.11	$0.00	$27.44
Total Estimated Break-Even Tip Fee	**$89.88**	**$122.50**	**$132.63**	**$72.70**	**$98.13**
2015 Actual Tip Fee					$94.98

Source: Bell & Associates, 2015.

This breakdown of costs should be considered approximate because a number of complex assumptions were required to split out Metro's costs in that manner. While Metro may be able to further isolate costs such as higher wages and benefits to workers and longer station operating hours, but there is substantial judgment required in preparing such estimates.

7. Rate Transparency

Three options have been identified for Council consideration that would improve the transparency of tip fees at private wet waste transfer stations. In these options, Metro would estimate transfer station operating costs and make them available to local government regulators, and, if necessary, engage in rate regulation.

- Option 1: Metro would estimate the costs of various services at the public stations and prepare a table similar to Table 2, annually.
- Option 2: Metro would conduct a biennial assessment of private wet waste transfer station costs (transfer, transport, disposal) to estimate a "reasonable rate" that includes direct and indirect costs and a reasonable operating margin for each station. To estimate this rate, Metro would make site visits to observe typical operating practices and interview key operations staff, but would not require access to financial records.
- Option 3: Metro would conduct a rate review process at private waste transfer stations that would include a review of station financial records.

After implementing one or more options to improve transparency, if private tip fees appear to be substantially higher than costs, Metro will develop guidelines to implement rate regulation.

With Options 2 and 3, Metro may consider exempting lower throughput facilities from the rate transparency process regardless of tip fee differential.

8. Other Methods of Providing Public Benefits

One other related option for achieving public benefits is provided to Council for consideration.

To encourage GHG reduction/efficiency: No loads may be delivered directly from a collection vehicle to a landfill or waste-to-energy facility located more than 40 one-way miles from the boundary of the Metro region.

Attachment A

Draft Tonnage Allocation Process

1. Requests for additional tonnage beyond the Base Allocation may be made annually during a time window established by Metro. Awards of additional tonnage would be made by Metro on the basis of the following:
    A. Anticipated and demonstrable need clearly documented by the private station owner.
    B. Letter of support by local government solid waste regulator (facility host community and collection franchiser) of clear and unambiguous benefit to ratepayers.
    C. Metro flow model estimates of tons to each facility based on off-route windshield cost (travel cost and tip fee minimization).
    D. Total wet waste tonnage forecasted for coming year.
2. Tonnage is available for allocation to all authorized private transfer stations and haulers seeking to deliver tonnage outside, but proximate to the region and that are in compliance with local and state requirements.
3. Tonnage included in allocation includes
    A. Wet waste tons delivered for disposal at landfills.
    B. Wet waste tons delivered for disposal, incineration or energy recovery at a waste-to-energy facility.
4. Tonnage not included in the allocation includes (other restrictions or limitations may independently apply):
    A. Wet waste tons that are recovered, e.g., through advanced recovery
    B. Out-of-region wet waste tons that do not otherwise limit a transfer station's capacity to accept in-region tons
    C. Commercial or residential food waste
    D. Dry waste/residual
    E. Inerts
    F. Recyclables (source separated or comingled)
    G. Electronics waste
    H. Yard debris
    I. Wood waste/biomass
    J. Special waste
    K. Cleanup waste