



Staff Report

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Date: 8/22/2022

Item #: 4.a.

TO: Mayor and City Council
THROUGH: Kristin Retherford, Interim City Manager
FROM: Josh Eggleston, Chief Financial Officer

SUBJECT:

Resolution No. 2022-47 Establishing New Solid Waste Management Service Rates

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Good Governance; Natural Environment Stewardship; Safe Community; Safe, Reliable and Efficient Infrastructure; Strong and Diverse Economy; Welcoming and Livable Community.

SUMMARY:

Mid-Valley Garbage and Recycling Association (Mid-Valley), a body comprised of the six solid waste management Franchisees (haulers) serving the City of Salem is requesting the following rate increases effective January 1, 2023:

- Marion County - Increase of 8.48 percent for roll cart services, 1.83 percent for container services, and 7.85 percent for drop box services.
- Polk County - Increase of 10.54 percent for roll cart services, 1.68 percent for container services, and 15.61 percent for drop box services.
- Medical Waste - Increase of 5.6 percent for low-volume collection and 17.3 percent for high-volume collection.

20-gallon every-other-week service (EOW) is being added as a regular service option starting in January 2023.

- Marion County monthly rate will be \$22.10.
- Polk County monthly rate will be \$17.35.

To help offset increases in rates, haulers will be increasing the discount provided to senior and disabled low-income customers to 20 percent (up from 10 percent). The discount is offered to qualifying residential customers who:

- Are 60 years of age or older or disabled,
- Are the named customer on a single-family residence with an active account with one of Salem's garbage haulers, and

- Have household income at or below 60 percent of the State Median Income.

ISSUE:

Shall City Council adopt Resolution No. 2022-47 establishing solid waste management service rates effective January 1, 2023, and rescinding Resolution No. 2021-49?

RECOMMENDATION:

Adopt Resolution No. 2022-47 establishing solid waste management service rates effective January 1, 2023, and rescinding Resolution No. 2021-49.

FACTS AND FINDINGS:

PROPOSED RATES

In May 2022 Mid-Valley requested rate increases effective January 1, 2023, and provided applicable consolidated financial reports that include financials for all six haulers to support its request. The City engaged Merina+Co (Merina) to consult on the solid waste management services rate review and conduct rate analysis. The haulers adjusted their rate request as suggested by Merina and submitted a revised rate increase proposal consistent with Merina's rate analysis.

The haulers' 2023 combined pre-tax return on revenue is projected to be 4.5 percent which is below the targeted range of 8 to 12 percent. During last year's rate review, the projected return for 2023 was 8.1 percent. Now the 2023 projected return is much lower now due to significantly higher inflation factors experienced recently. Therefore, a rate increase is proposed (Table 1) to raise the projected 2023 pre-tax return on revenue up to 10 percent.

Table 1 - Proposed Rate Increases

2023		
Line of Service	Marion Co.	Polk Co.
Cart Service (mostly residential)	8.48%	10.54%
Container Service (commercial)	1.83%	1.68%
Drop Boxes	7.85%	15.61%
Combined	6.45%	9.18%

Medical Waste		2023
Heavy-Volume		17.30%
Low-Volume		5.60%
Hospital Collection		0.00%

CUSTOMER IMPACT

The proposed rate increase for 2023 affecting the greatest number of Salem customers is that associated with cart services. Most residential customers in Marion County will see an annual increase of approximately \$32.40 (\$2.70 x 12 months), and \$33.00 in Polk County (\$2.75 x 12 months). While most solid waste service rates are established by the City Council as monthly charges, subscribers are typically billed for two months of service at a time. A customer subscribed to 35-gallon cart service in Marion County would see an increase of \$5.40 on their bi-monthly bill in 2023, while similar customers in Polk County will see a \$5.50 increase on their bi-monthly bill. The full list of rates to be effective January 1, 2023, are provided in Resolution 2022-47 Exhibit A.

Table 2 below demonstrates, by county, increases for typical monthly rates for cart and container service. Drop box services are charged based on use.

Table 2 - Sample Monthly Rates Effective January 1, 2023

Sample Service	Marion County				Polk County			
	Current Rate	Proposed increase	Proposed Jan-2023	Increase Percent	Current Rate	Proposed increase	Proposed Jan-2023	Increase Percent
35-Gallon Cart	\$ 32.05	\$ 2.70	\$ 34.75	8.48%	\$ 26.30	\$ 2.75	\$ 29.05	10.54%
2-Yard Container	\$ 134.85	\$ 2.45	\$ 137.30	1.83%	\$ 114.55	\$ 1.90	\$ 116.45	1.68%
20-Yard Drop Box	\$ 467.50	\$ 36.70	\$ 504.20	7.85%	\$ 195.75	\$ 30.55	\$ 226.30	15.61%

20-GALLON EVERY-OTHER-WEEK RESIDENTIAL SERVICE

In response to requests from community members, starting in January 2023 haulers in Salem will add 20-gallon EOW service as a regular full-service option which will include commingled recycling and mixed organics (yard waste). Collection of the garbage cart will be the same week as the collection of recycling for the route. The proposed monthly rate is \$22.10 in Marion County and \$17.35 in Polk County, approximately a 30 percent discount from the 20-gallon weekly cart service. Subscribers of 20-gallon EOW service will be expected to adhere to recycling and recovery standards consistent with subscribers of other residential services, including changes that may occur during the implementation of Salem Climate Action Plan and Oregon's Recycling Modernization Act (SB 582).

SENIOR AND DISABLED LOW-INCOME DISCOUNT

Currently, the senior and disabled low-income discount program offers a 10 percent discount to qualifying residential customers. To help offset higher than normal rate increases due to recent inflation, the discount will increase to 20 percent. For a customer subscribed to 35-gallon residential service, the discount will be \$6.19 per month. To qualify, customers must:

- Be 60 years of age or older or disabled,
- Be the named customer on a single-family residence with an active account with one of Salem's garbage haulers, and
- Have household income at or below 60 percent of the State Median Income.

Customers who qualify for the City's Utility Rate Relief Program automatically qualify for the discount

on their garbage bill, so long as they have an active residential garbage account. To receive the discount, the customer will need to provide their hauler their current utility bill with the discount on it. Customers will need to requalify annually which can be done at the same time they requalify for the City's Utility Rate Relief Program through Mid-Willamette Valley Community Action Agency.

MEDICAL WASTE DISPOSAL RATES

Mid-Valley submitted a rate analysis and proposal to adjust two of the three medical waste collection services effective January 1, 2023. The current rates for commercial medical waste collection include a rate for the first box and another, lower rate for each additional box collected during the month. This model can be confusing for customers and does not account for the high fixed cost of collection. Mid Valley is proposing a rate structure that eliminates the price difference between the first and each additional box collected for low-volume and high-volume customers. No rate changes are proposed at this time for the hospital line of business.

As with all other solid waste management lines of business, medical waste collection rates are typically adjusted to target a pre-tax return of between 8 and 12 percent. For calendar year 2022, the projected return for medical waste collection is 5.4 percent; however, the high-volume line of business is projected to have a negative 4.3 percent return. In 2023, medical waste collection is projected to have a return of 1.9 percent with high-volume projected to be at negative 8.4 percent. This necessitates a larger increase for the high-volume line of business.

If approved, the rate for the 35-gallon box for low-volume customers (1-59 boxes per month) will be \$28.50 per box; the rate for high-volume customers (60+ boxes per month) will be \$20.00 per box. The current and proposed rates for 35-gallon boxes are demonstrated in the following table. Even though the proposed rate of the first box is reduced, the effective rate increase is 5.6 percent for low-volume customers and 17.3 percent for high-volume customers.

Low-Volume (1-59 boxes per month)			High-Volume (60+ boxes per month)		
	Current	2023		Current	2023
20 gallon box/bag	27.00	26.50	20 gallon box/bag	18.35	18.00
Each additional box/bag	21.20		Each additional box/bag	14.40	
35 gallon box/bag	30.40	28.50	35 gallon box/bag	20.60	20.00
Each additional box/bag	24.60		Each additional box/bag	16.65	

RATE REVIEW PROCESS

ORS 459.017 (b) gives local jurisdictions the primary responsibility for solid waste management. ORS 459A.085(3) provides legislative intent "that a city or county may displace competition with a system of regulated collection service by issuing franchises which may be exclusive if service areas are allocated." Further, SRC 47.099 (f)(5) notes that rates must be adjusted to yield a "reasonable operating margin" for the haulers. For decades Salem has targeted a pre-tax margin of 10 percent for Salem haulers.

SRC 47.099(d) requires the City Council to establish and adjust solid waste management service

rates by service or by zone. SRC 47.099(f) specifies the factors that shall be considered in establishing or adjusting rates:

- Current and projected revenues;
- Current and projected operating expenses;
- Acquisition and replacement of equipment;
- Professional and consultant services;
- Reasonable operating margin;
- Construction and maintenance costs;
- Research, training, and development;
- Special services;
- Composting, recycling, reuse, and resource recovery services, if such services are required by the City or any other governmental agency with jurisdiction over the activity or service; and
- Any other factor deemed relevant by the City Council.

Financial reports for the six haulers were compiled by Mid-Valley's certified public accountant into one consolidated report for Marion County and one consolidated report for Polk County. The City engaged Merina to assist with the solid waste management services rate review. Merina is an advisory and assurance firm that specializes in providing governments with independent auditing and assurance services. Engagement Partner for this project is Tonya Moffitt, who has over 19 years of experience in the solid waste industry performing financial analysis and rate reviews in Oregon.

As stated in the letter from Merina (Attachment 4), the analysis considered the factors set forth in SRC 47.099(f) and included, but was not limited to, the following procedures :

- Completed a predictive test of revenues compared to the reported customers in the City of Salem.
- Compared reported expenses for 2021 to prior years' costs reported results for comparability and reasonableness.
- Reviewed the inflation assumptions proposed by Mid-Valley for the calendar years 2022 and 2023 for reasonableness.
- Projected collection expenses for calendar years 2022 to 2023 that were utilized to calculate the proposed collection rate.

Adjustments and questions on the reports were discussed with the haulers' representatives and applicable adjustments were made. The adjusted consolidated report was used to calculate the system's return on revenue, which provides a measure of the adequacy of rates. The return on revenue percentage is derived from a simple calculation: total revenues minus total allowable expenses, divided by total revenues. The return on revenue target for rate setting is based on the consolidated financial report. When return on revenue is anticipated to fall below the target, rates are recalibrated to approximate a 10 percent pre-tax return on revenue.

While previous rate setting processes have attempted to target a 10 percent pre-tax return on revenue, the following table demonstrates that the actual margin for eight of the last nine years fell short of the target with 2021 reaching 12.3 percent. The return in 2022 is projected to be 8.1 percent with 2023 forecasted to be 4.5 percent without a rate increase.

Table 4 - Actual Pre-Tax Return on Revenue

Completed Years	2021	2020	2019	2018	2017	2016	2015	2014	2013
Combined Pre-Tax Return	12.3%	8.8%	7.2%	5.6%	8.0%	9.0%	8.7%	7.7%	9.0%

COST FACTORS IN PROJECTION

DISPOSAL COSTS:

The economics of processing recycled material continues to be an area of focus when reviewing the cost of service. The amount the haulers receive (revenue) or pay (expense) is the net of the cost to process (sort, clean, bundle, transport) the material and the value of the material on the commodities market. In 2017 the haulers received an average of \$0.33 (33 cents) per ton of mixed recycled material collected. At the end of 2017, China announced that it would no longer allow the importation of most post-consumer plastics and unsorted paper. The abruptness of China's announcement resulted in major disruptions in global recycling markets. In 2019, rather than receiving revenue, haulers paid over \$80 per ton to dispose of mixed recycled material and in 2020 paid as high as \$110 per ton. Fortunately, the market for mixed recycling turned around during 2021; haulers received as high as \$26.00 per ton and are now averaging around \$10-15 per ton. This reverse in the recycling market helped to offset other increased costs and keep rates flat during 2022.

No increases are anticipated for garbage disposal fees in Marion County (Covanta); however, Polk County (Coffin Butte) experienced a \$3.00 per ton increase in 2022 and anticipates a \$1.50 per ton or 3.9 percent increase in 2023. Additionally, disposal fees for mixed organics (yard debris and kitchen waste) increased \$5 per ton in 2022 and is projected to increase \$16.00 per ton in 2023 due to increased cost of processing.

OTHER FACTORS:

Table 5 displays other adjustment factors used for projecting the cost of service which include fuel, labor, medical insurance, vehicle depreciation, and general inflation. Fuel prices increased significantly during 2021 and the first half of 2022 but seem to have stabilized and are projected to reduce slightly during 2023. Labor and medical insurance costs reflect recent experience; however, difficulties in hiring CDL drivers could push costs higher. General inflation has seen record increases during 2021 and 2022 but is projected to normalize. The haulers are keeping close watch on delays in supply chain which impact the ability to order new carts, containers, and vehicles crucial to the operation of solid waste management. Similarly, recent increases in steel prices add further difficulty to obtaining equipment.

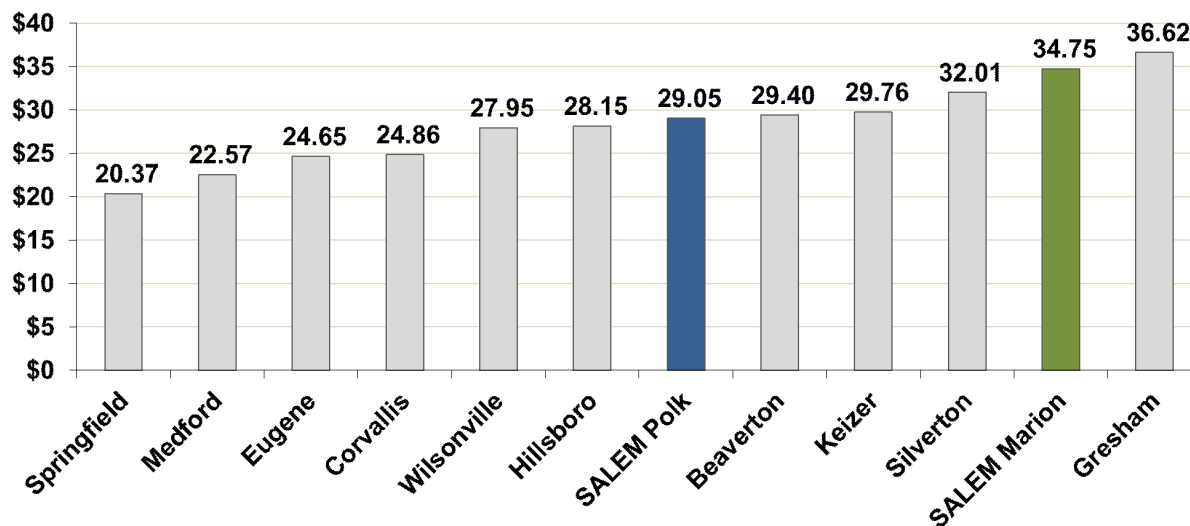
Table 5

Cost Factor	2022	2023
Fuel	47.7%	-1.8%
Labor	3.0%	5.0%
Medical Insurance	6.5%	6.5%
Vehicle Depreciation	8.8%	4.4%
General Inflation	8.8%	4.4%

RATE COMPARISONS

Salem's proposed monthly residential garbage rate for 35-gallon roll cart services falls in the upper half of the spectrum when compared to current rates in neighboring jurisdictions with comparable service levels. Salem's proposed rate increase would take effect January 1, 2023, and many of the identified cities will also be considering a rate proposal in the coming months. Salem-Marion rates continue to be higher than Salem-Polk rates due to the varying economics of solid waste management in each county. It is important to note that haulers in Salem provide several services not provided in many other communities, such as weekly mixed organics curbside collection and curbside recycling of motor oil, antifreeze, latex paint, cooking oil, and household batteries.

Rate Comparison - Residential 35-gallon roll cart service in 2023



BACKGROUND:

On November 12, 2019, City Council adopted Resolution No. 2019-82 approving solid waste management rates effective January 1, 2020 and January 1, 2021.

On December 13, 2021, City Council considered a rate proposal from Mid-Valley that proposed no increase in 2022 and only small increases to Salem-Marion rates in 2023. Fortunately, this proposal was not approved by City Council as inflation factors continued to rise to record levels and the proposed 2023 rates would not have been sufficient. Resolution 2022-47 includes rates that address the historic inflation seen in recent months.

The City regulates rates to simulate competition and avoid monopolistic pricing. For many solid waste management firms in Oregon, a pre-tax return on revenue of 8 to 12 percent is used to determine the need for rate adjustments. Some Oregon jurisdictions comparable to Salem specify a target for return on revenue in their municipal codes. For example, Beaverton has codified a target of 9 percent and Gresham's code targets 10 percent. The City follows an industry-wide practice of targeting 10 percent pre-tax return on revenue. City Council sets rates that seek to balance the cost of service to customers with a reasonable expectation for total revenue to sustain operations for the haulers.

Ryan Zink
Franchise Administrator

Attachments:

1. Resolution No. 2022-47
2. Resolution No. 2022-47, Exhibit A - Schedule of Monthly Solid Waste Management Service Rates Effective January 1, 2023
3. Letter from Merina+Co., Scope of Services
4. Comparison of Current Rates and Proposed Rates Effective January 1, 2023