



Staff Report

File #: 23-412

Version: 1

Date: 11/13/2023

Item #: 4.c.

TO: Mayor and City Council

FROM: Salem City Council Solid Waste Committee

SUBJECT:

Resolution No. 2023-31 Establishing New Solid Waste Collection Rates and Charges.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

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

SUMMARY:

Solid Waste Committee

In June 2023 Mayor Hoy appointed members to the new Salem City Council Solid Waste Committee (Committee). This newly formed Salem City Council sub-committee is comprised of Councilors Stapleton (Chair), Gwyn, Nishioka, Varney, and Hoy as alternate. Starting in July, the Committee met monthly to learn about the integrated solid waste system Salem works within, participate in solid waste facility tours, and engage in discussion with city staff, the city consultant, Mid-Valley, and Marion County staff about the solid waste system and rate setting process. The rate increases described in this report were presented to the Committee on October 19, 2023. The Committee approved a motion to recommend to the Salem City Council staff's proposal of solid waste rates effective January 1, 2024 and January 1, 2025.

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, 2024:

- Marion County - Increase of 5.35 percent for roll cart services.
- Polk County - Increase of 5.61 percent for roll cart services, 8.19 percent for container services, and 7.98 percent for drop box services.
- Medical Waste - Increase of 21.5 percent for low-volume collection, 32.3 percent for high-volume collection, and 29.9 percent for hospital collection.

Mid-Valley also is requesting the following rate increases effective January 1, 2025:

- Marion County - Increase of 3.35 percent for roll cart services, 2.85 percent for container services, and 0.27 percent for drop box services.
- Polk County - Increase of 3.79 percent for roll cart services, 4.33 percent for container services, and 4.79 percent for drop box services.
- Medical Waste - Increase of 2.8 percent for low-volume collection, 6.5 percent for high-volume collection, and 14.3 percent for hospital collection.

ISSUE:

Shall City Council adopt Resolution No. 2023-31 establishing new solid waste collection rates effective January 1, 2024 and January 1, 2025, and rescinding Resolution No. 2022-47?

RECOMMENDATION:

Adopt Resolution No. 2023-31 establishing new solid waste collection rates effective January 1, 2024 and January 1, 2025, and rescinding Resolution No. 2022-47.

FACTS AND FINDINGS:

PROPOSED RATES - CURBSIDE SERVICE

In May 2023 Mid-Valley requested rate increases effective January 1, 2024 and January 1, 2025, and provided consolidated financial reports that include financials for all six haulers to support its request. The City engaged Bell and Associates (Bell) to consult on the solid waste management services rate review and conduct rate analysis. Based on recommendations by Bell and using the most recent Consumer Price Index figures at the time, the haulers adjusted their rate request and submitted a revised rate increase proposal.

City staff and the haulers are again proposing a biennial rate adoption process, adopting rates effective January 1, 2024 and January 1, 2025. City staff work with the haulers to maintain a pre-tax return on revenue between 8 and 12 percent, targeting 10 percent. Without the proposed rate increases, the return is projected to fall below this range, with the projected 2024 combined pre-tax return on revenue at 7.6 percent and 2025 at 5.3 percent. Therefore, rate increases are proposed for Salem-Marion (Table 1) and Salem-Polk (Table 2) to target a pre-tax return of 10 percent in both 2024 and 2025.

Table 1 - Salem-Marion Proposed Rate Increases

Salem – Marion	Jan-24	Jan-25
• Cart Service – mostly residential	5.35%	3.35%
• Container Service – commercial	-	2.85%
• Drop Boxes	-	0.27%
Combined Total	2.54%	2.49%

Table 2 - Salem-Polk Proposed Rate Increases

Salem - Polk	Jan-24	Jan-25
• Cart Service – mostly residential	5.61%	3.79%
• Container Service – commercial	8.19%	4.33%
• Drop Boxes	7.98%	4.79%
Combined Total	6.34%	4.00%

CUSTOMER IMPACT

The proposed rate increases affecting the greatest number of Salem customers are those associated with roll cart services. The tables below show the monthly increases for commonly subscribed services. In 2024 most residential customers in Marion County will see an annual increase of approximately \$22.20 (\$1.85 x 12 months), and \$19.80 in Polk County (\$1.65 x 12 months). In 2025 most residential customers in Marion County will see an additional annual increase of approximately \$15.00 (\$1.25 x 12 months), and \$13.80 in Polk County (\$1.15 x 12 months). While most solid waste service rates are established as monthly charges, residential customers are typically billed for two months of service at a time. The full list of proposed rates to be effective January 1, 2024, and January 1, 2025, are provided in Resolution 2023-31 Exhibit A and Exhibit B respectively.

Tables 3 and 4 below demonstrate, by county, increases for typical monthly rates for cart and container service. Drop box services are charged based on use. All rates are rounded to the nearest \$0.05.

Table 3 - Sample Monthly Rates for Salem - Marion

Salem-Marion	Current	2024			2025		
Sample Service	2023	Proposed Jan-2024	Proposed Increase	Increase Percent	Proposed Jan-2025	Proposed Increase	Increase Percent
35-Gallon Cart	\$ 34.75	\$ 36.60	\$ 1.85	5.35%	\$ 37.85	\$ 1.25	3.35%
2-Yard Container	\$ 137.30	\$ 137.30	\$ -	0.00%	\$ 141.20	\$ 3.90	2.85%
20-Yard Drop Box	\$ 483.80	\$ 483.80	\$ -	0.00%	\$ 485.10	\$ 1.30	0.27%

Table 4 - Sample Monthly Rates for Salem - Polk

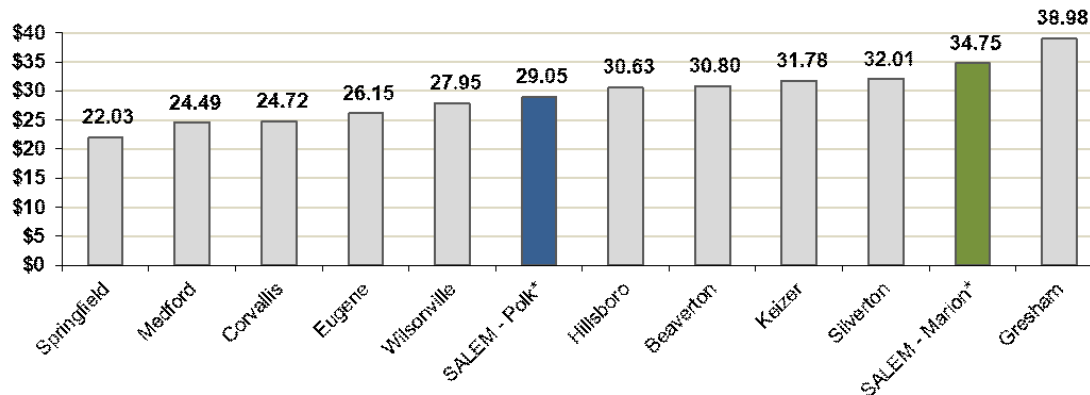
Salem-Polk	Current	2024			2025		
Sample Service	2023	Proposed Jan-2024	Proposed Increase	Increase Percent	Proposed Jan-2025	Proposed Increase	Increase Percent
35-Gallon Cart	\$ 29.05	\$ 30.70	\$ 1.65	5.61%	\$ 31.85	\$ 1.15	3.79%
2-Yard Container	\$ 116.45	\$ 126.00	\$ 9.55	8.19%	\$ 131.45	\$ 5.45	4.33%
20-Yard Drop Box*	\$ 226.30	\$ 244.35	\$ 18.05	7.98%	\$ 256.05	\$ 11.70	4.79%

*Cost of disposal is billed separately based on actual tonnage.

RATE COMPARISONS

As shown in the tables above, 35-gallon roll cart service is the most subscribed residential service. Salem's proposed monthly residential garbage rates for 35-gallon roll cart services fall in the middle and upper half of the spectrum when compared to current rates in other jurisdictions. Salem's proposed rate increase would take effect January 1, 2024; some of the identified cities will also be considering rate proposals in the coming months that are not reflected in this display. 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.

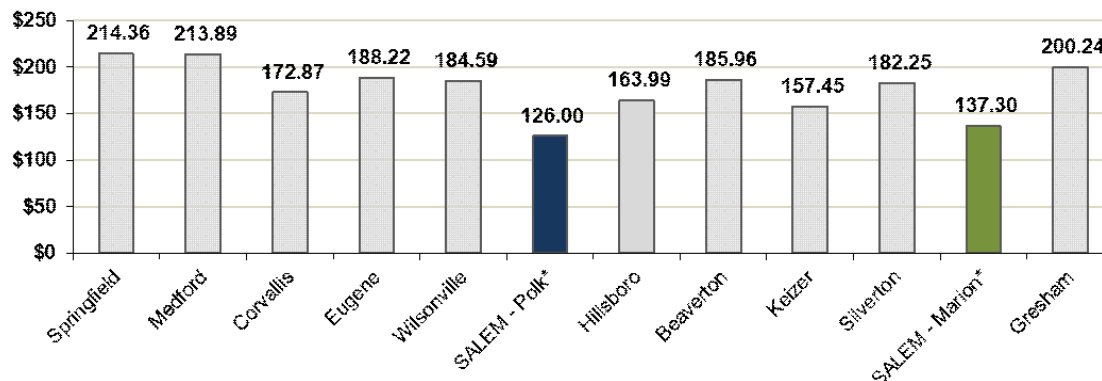
Residential Monthly Rate 35-gallon roll cart service



*Proposed rates effective January 1, 2024.

While Salem maintains a practice of calculating and applying the cost of service to each line of service equally (targeting a 10 percent return on revenue for each line of business), a review of the Comparative Rate Summary (Attachment 5), shows that other jurisdictions appear to allow certain lines of service to subsidize other lines of service. The most used commercial service is the 2-yard container. The graph below shows how Salem's 2-yard container service rates compare with other jurisdictions. Salem's commercial container rates are the lowest of all comparable cities.

Commercial Monthly Rate 2-yard Container Service



*Proposed rates effective January 1, 2024.

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, Salem Revised Code (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 return on revenue (or 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 Chief Financial Officer into one consolidated report for Marion County and one consolidated report for Polk County. The City engaged Bell to assist with the solid waste management services rate review. Bell has performed several rate reviews of the City's haulers and has accumulated knowledge of Salem's solid waste management system, the methodology used to readily assess the haulers' financial position, and the factors applicable to the requested rate increases. The analysis considered the factors set forth in SRC 47.099(f) and included, but was not limited to, the following procedures:

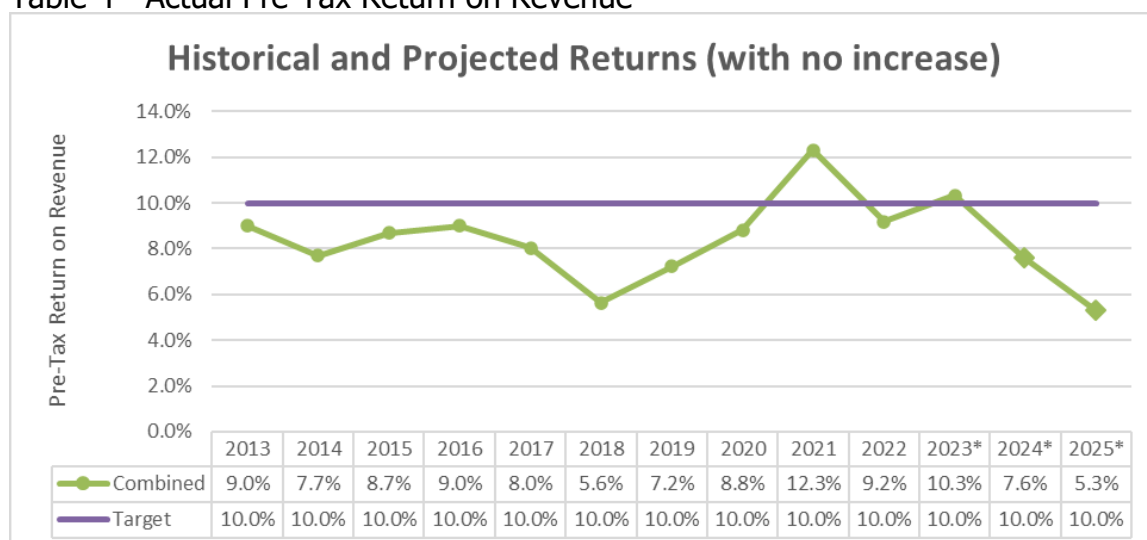
- Reviewed allocations of costs between the City of Salem and other jurisdictions.

- Completed a predictive test of revenues compared to the reported customers in the City of Salem.
- Completed a predictive test of solid waste disposal and yard debris processing expenses compared to the reported customer counts in the City of Salem.
- Compared reported expenses for 2022 to prior years' costs reported results for comparability and reasonableness.
- Reviewed the inflation assumptions proposed by Mid-Valley for the calendar years 2023 to 2025 for reasonableness.
- Projected collection expenses for calendar years 2023 to 2025 that were utilized to calculate the proposed collection rate increases submitted to the City Council for consideration.

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 combined margin Salem-Marion and Salem-Polk for nine of the last ten years fell short of the target with only 2021 being the only year to reach or exceed the target. The return in 2023 is projected to be just above the target at 10.3 percent, but without a rate increase, the rising cost of providing solid waste services is projected to reduce the pre-tax return for 2024 and 2025 to 7.6 percent and 5.3 percent, respectively.

Table 4 - Actual Pre-Tax Return on Revenue



* Projected 2023; Projected 2024 and 2025 with no rate increases.

A further breakdown of each line of business within Salem-Marion and Salem-Polk and the projected pre-tax return on revenue with no rate increases in 2024 or 2025 is displayed in the table below.

Table 5 - Projected Pre-Tax Returns by Line of Business

Projected Returns by Line of Business
(with no rate increase 2024 and 2025)

Line of Business	2023	2024	2025
-Cart (Residential)	8.5%	5.3%	2.7%
-Container (Commercial)	11.8%	9.6%	7.7%
-Drop Box	12.9%	11.1%	9.8%
Salem - Marion Total	10.5%	7.9%	5.8%
-Cart (Residential)	9.4%	5.3%	2.0%
-Container (Commercial)	7.6%	3.3%	-0.6%
-Drop Box	8.5%	3.4%	-0.9%
Salem - Polk Total	9.0%	4.7%	1.2%
Salem - Combined	10.3%	7.6%	5.3%

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. China announcement at the end of 2017 that it would no longer accept most post-consumer plastics and unsorted paper. As a result, from 2018 to 2020 haulers paid between \$80 and \$110 per ton to dispose of mixed recycled material. In 2021 the market improved allowing the haulers receive as high as \$26.00 per ton with an average of around \$10-15 per ton towards the end of 2021. Unfortunately, the improved market was relatively short-lived. In 2022, haulers paid an average of \$73 per ton and are now again paying over \$100 per ton for the disposal of comingled recycling material.

No increases are anticipated for garbage disposal fees in Marion County (Covanta), which currently remain at \$87.45 per ton. However, Polk County (Coffin Butte) experienced a \$1.50 per ton (3.9%) increase in 2023 and anticipates a \$3.00 per ton increase in both 2024 and 2025 (7.6 percent and 7.1 percent respectively). Additionally, disposal fees for mixed organics (yard debris and kitchen waste) increased \$16 per ton in 2023 to cover the increased cost of processing. Mixed organics disposal costs are expected to increase a more modest \$2.75 per ton in both 2024 and 2025 (3.2 percent and 3.1 percent, respectively) to cover anticipated inflationary costs.

Table 6 - Projected Disposal Costs

Disposal	2023	2024	2025
Combined Disposal Increase	5.9%	0.7%	0.8%
Covanta-Marion (Garbage)	-	-	-
Coffin Butte (Garbage)	3.9%	7.6%	7.1%
Yard Debris/Food Waste	23.2%	3.2%	3.1%
Commingle Recycling	60.3%	-	-

OTHER FACTORS:

Table 7 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 stabilized in the latter half of the year. As anticipated, fuel prices decreased in 2023 and is expected to end 10.1 percent lower than the previous year. Recent fuel projections show an increase again in 2024 (10.7 percent). Due to uncertainty in the fuel market, staff is projecting no change in fuel prices for 2025. Labor and medical insurance costs reflect collective bargaining agreements and recent experience. General inflation saw a records high in 2022 (8.2 percent) but has since started to come back down. General inflation is projected to decrease from 4.5 percent to 2.8 percent from 2023 to 2025. 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.

Table 7 - Other Inflation Factors

Cost Factors	2023	2024	2025
Fuel	-10.1%	10.7%	0.0%
Labor	5.0%	5.0%	5.0%
Medical Insurance	15.8%	6.5%	6.5%
General Inflation	4.5%	4.0%	2.8%

PROPOSED RATES - MEDICAL WASTE DISPOSAL

Salem haulers provide commercial medical waste collection through a joint company called Marion Environmental Services which collects medical waste from facilities throughout Salem. Like the process for curbside collection services, Mid-Valley submitted a rate analysis and proposal to adjust commercial medical waste collection services effective January 1, 2024 and January 1, 2025. As with all other solid waste management lines of business, medical waste collection rates are adjusted to target a pre-tax return on revenue of 10 percent. As shown in Table 8 below, the 2023 pre-tax return on revenue for all three lines of business is projected to be negative (-4.2% combined).

Table 8 Projected Pre-Tax Returns - Medical Waste

Pre-Tax Return on Revenue Service Level	Actual	Projected		
	2022	2023	2024	2025
Low-Volume (1-59 boxes/month)	8.2%	-0.6%	-14.8%	-31.6%
High-Volume (60+ boxes/month)	-12.6%	-8.5%	-16.8%	-24.5%
Hospital Collection	-2.1%	-2.4%	-7.8%	-10.9%
Combined	-2.1%	-4.2%	-13.9%	-23.7%

An unexpected decrease in box counts in 2022 coupled with higher-than-expected costs pushed the combined pre-tax return on revenue negative in 2022. While inflation continues to reduce the return in 2023 to negative 4.2%, the largest impact to future expenses is the increase in disposal fees approved by Marion County starting in 2024 as demonstrated below (Table 9).

Table 9

Medical Waste Disposal Fee	2023	2024	2025	2026
MC Adopted Rate \$/Ton	\$87.45	\$150.00	\$225.00	\$300.00
% Increase	0.0%	71.5%	50.0%	33.3%

In 2024, disposal fees for medical waste will increase \$62.55 per ton. In both years 2025 and 2026, the disposal fee will increase an additional \$75 per ton each year. To offset the current negative returns, anticipated inflation factors, and increased disposal costs, haulers are requesting the increases displayed below (Table 10) to the three lines of business effective January 1, 2024 and January 1, 2025.

Table 10

Proposed Rate Increase	Jan-2024	Jan-2025
• Low-Volume	21.5%	2.8%
• High-Volume	32.3%	6.5%
• Hospital Collection	29.9%	14.3%
Combined Total	28.8%	8.4%

If approved, the rate for the 35-gallon box for low-volume customers (1-59 boxes per month); the rate for high-volume customers (60+ boxes per month); and the hospital collection rate for the next two years is listed below (Table 11).

Table 11 - Per Box Charge for Collection

35-Gallon Box	Current	Proposed Jan-2024	Proposed Jan-2025
Low-Volume	\$ 28.50	\$ 34.65	\$ 35.60
High-Volume	\$ 20.00	\$ 26.45	\$ 28.15
Hospital Collection*	\$ 8.20	\$ 10.65	\$ 12.15

*Collection and disposal only

BACKGROUND:

On August 8, 2022, City Council adopted Resolution No. 2022-47 approving solid waste management rates effective January 1, 2023.

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. 2023-31
2. Resolution No. 2023-31, Exhibit A - Schedule of Monthly Solid Waste Collection Rates Effective January 1, 2024
3. Resolution No. 2023-31, Exhibit B - Schedule of Monthly Solid Waste Collection Rates Effective January 1, 2025
4. Comparison of Current Rates and Proposed Rates Effective January 1, 2024 and January 1, 2025
5. Comparative Rate Summary