



AGENDA BILL 2014-05-12-07

Subject: Industrial Solid Waste Collection and Recycling Drop Box Rate Increase

For Council: May 12, 2014

Land Use Case Number: N/A

Public Hearing

Required:

Optional:

City Manager's Initials: *CJ*

Attachments:

1. Staff Memo
2. Submittals from Republic Services of Clackamas and Washington Counties
 - Letter dated April 9, 2014
 - 2014 Rate Proposal
 - City of West Linn Annual Report
3. Resolution and Exhibit A

Initiated by:

- Keller Drop Box (dba Republic Services/Allied Waste of Clackamas and Washington Counties)

Budget Impact:

- Franchise fee revenue would increase by 9% which equates to approximately \$236 annually

Sustainability Considerations:

- None

Policy Question(s) for Council Consideration:

- Is this rate increase reasonable and consistent with previously established policy?

Summary:

- Franchisee is requesting a rate increase of 9% on industrial solid waste and recycling drop box services (i.e. 10-40 yd. drop boxes and compactors)
- Rates for these services have not changed for four years
- Metro disposal fees have increased 9.9% and the Portland-Salem Consumer Price Index (CPI-U) has risen 9% since Republic Services' last rate increase in 2012
- The rate increase request meets the approval criteria of Article 7 of the franchise agreement

Recommended Motion:

- Move to adopt Resolution 2014-05 establishing new industrial solid waste collection and recycling drop box rates

Memorandum

Date: April 25, 2014

To: Chris Jordan, City Manager

From: Lance Calvert, Public Works Director/City Engineer

Subject: Industrial Solid Waste Collection and Recycling Drop Box Rate Increase

Purpose

To receive Council authorization for an adjustment to industrial solid waste and recycling drop box rates.

Background

Keller Drop Box (dba Republic Services/Allied Waste of Clackamas and Washington Counties) has provided industrial solid waste and recycling drop box service to West Linn since June 1, 1955. The City operates with this firm under a franchise agreement approved by Council on May 12, 2012 (Ordinance 1609).

On April 9, 2014, Republic Services submitted a letter and a rate adjustment application prior to the April 15 deadline established in Section 7.3.3 of the franchise. The 2014 Rate Proposal and City of West Linn Annual Report provided by Republic Services meet the requirements for a rate application set forth in Article 7 of the Republic Services' franchise Agreement. In addition, at a meeting between the City and representative of Republic Services on April 9, 2014, the representatives requested that the City consider amending the rates to allow for annual rate adjustments based on the U.S. Department of Labor/Bureau of Labor Statistics West – Size Class A Consumer Price Index. The City Council has broad authority under Section 7.3.1 of the franchise to “revise the rates by resolution or ordinance, as determined in the good faith exercise of its legislative discretion.”

Discussion and Analysis

- Rates for West Linn industrial drop box services have remained unchanged for the last four years while Metro disposal rates have increased 9.9% and the Portland-Salem Consumer Price Index (CPI-U) has risen 9% in the same time period.
- The proposed 9% increase for the rate year beginning June 1, 2014, and ending May 31, 2015, is reasonable, and it will allow the franchisee to achieve an industry standard rate of return and remain viable given rising disposal costs and inflation.
- Drop box customers typically include larger businesses, apartment complexes, and construction contractors generating sizeable amounts of solid waste. Drop box units range in size from ten to forty cubic yards.
- Adopting a rate structure that allows for an annual rate adjustment based on the Consumer Price Index will allow the Franchisee to remain nimble and competitive, but the restrictions proposed in the resolution will allow the Council to limit rate increases to a maximum of 3% per year and to reassess this methodology after it has been in effect for five years.
- Staff believes the rate increase request addresses and meets the adjustment criteria outlined in the Franchise Agreement.

Recommendation

Staff recommends the City Council approve Resolution 2014-05 instituting updated industrial solid waste collection and recycling drop box rates and allowing an annual rate change based on the Portland-Salem Consumer Price Index (CPI-U).



April 9, 2014

Honorable John Kovash, Mayor
Members of the City Council
City of West Linn
22500 Salamo Road
West Linn, Oregon 97068

RE: Request for Price Increase for Drop Box – Industrial
Solid Waste Collection and Recycling Services

Dear Mayor Kovash and Councilors:

As you may know, it has been more than 4-years since our last price increase. We have avoided raising prices since 2010 by establishing and maintaining tight cost controls over the operation of our hauling division. We did this to help our customers deal with the difficult financial times all of us have been dealing with since 2008.

Not raising prices during the past 4-years does not mean our operating costs stopped increasing. We reported to you in our annual report that our rate of return at the **end of 2013 was only 1.9%** resulting from continued increases in labor, fuel, insurance, disposal and other operating costs.

It has been a longstanding standard in the solid waste collection industry that a reasonable rate of return for a solid waste collection operation is **8% to 12%**. Our company wants to continue serving the people of West Linn at the highest industry standards. To do so, it has become necessary to increase the rates the city authorizes our company to charge.

We are requesting a price increase that averages **\$0.43/yd** per haul, **\$0.08/yd** per delivery, and **\$0.20/yd** per month rent. A complete table of current and proposed rates is provided on page 5 of this document. For your information, this price increase will enable Republic Services to earn a reasonable rate of return and at the same time create a much better alignment of our rate structure with the other structures in use in the metro region.

The following documents are provided to illustrate for you the current outlook, the proposed rate changes, the impact this will have on each pricing level, as well as an exciting program Republic Services has implemented to improve our customer experience.

We appreciate your consideration of this request and look forward to the opportunity to discuss further this proposal.

Sincerely,

Derek Ruckman

General Manager

10295 SW Ridder Road
Wilsonville, OR 97070
503-570-0626 • Fax 503-570-0523
republicservices.com



**Republic Services of Clackamas & Washington Counties
City of West Linn**

2014 Rate Proposal

Presented by

**Derek Ruckman – General Manager
Eric Anderson – Division Controller
Ray Phelps – Regulatory Affairs Manager
Frank Lonergan – Operations Manager**



Fig 1 below shows the 2013 results along with our expected 2014 results. As you can see, without a rate increase we are expected to fall to a 1% ROI and with the rate increase we will achieve a reasonable margin of 8.9%. We have used very conservative assumptions in order to calculate our 2014 expenses as well as the historical methodology to calculate the returns. However, this methodology does not take into account the real impact of income taxes as shown in Fig 2

Fig 1

| | 2013 | 2014 Projected No P.I. | % Change | 2014 Projected with 9% P.I. | % Change |
|--------------------------------------|--------------|---------------------------------------|---------------------|--|---------------------|
| Revenue | 264,812 | 264,812 | 0.0% | 288,645 | 9.0% |
| Cost of Operations | 246,771 | 248,965 | 0.9% | 249,696 | 1.2% |
| Gross Profit | 18,041 | 15,847 | -12.2% | 38,949 | 115.9% |
| Salaries, General and Administrative | 13,067 | 13,247 | 1.4% | 13,247 | 1.4% |
| Operating Income | 4,974 | 2,599 | -47.7% | 25,702 | 416.7% |
| Income as a Percentage of Revenue | 1.9% | 1.0% | | 8.9% | |

Fig 2

| | 2013 | 2014 Projected No P.I. | % Change | 2014 Projected with 9% P.I. | % Change |
|--------------------------------------|--------------|---------------------------------------|---------------------|--|---------------------|
| Revenue | 264,812 | 264,812 | 0.0% | 288,645 | 9.0% |
| Cost of Operations | 246,771 | 248,965 | 0.9% | 249,696 | 1.2% |
| Gross Profit | 18,041 | 15,847 | -12.2% | 38,949 | 115.9% |
| Salaries, General and Administrative | 13,067 | 13,247 | 1.4% | 13,247 | 1.4% |
| Operating Income | 4,974 | 2,599 | -47.7% | 25,702 | 416.7% |
| Provision for Income Taxes | 1,990 | 1,040 | | 10,281 | |
| Income | 2,985 | 1,560 | | 15,421 | |
| Income as a Percentage of Revenue | 1.1% | 0.6% | | 5.3% | |



Fig 3 below illustrates the breakdown of expenses by category with disposal contributing about 64% of the cost structure. We have included the Metro Tip Fee history for reference (Fig 4)

Fig 3

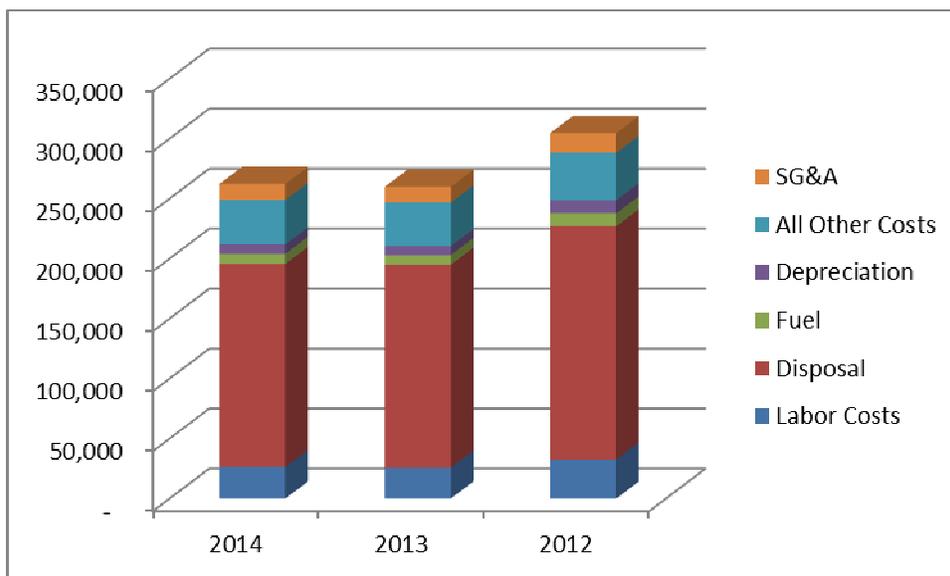
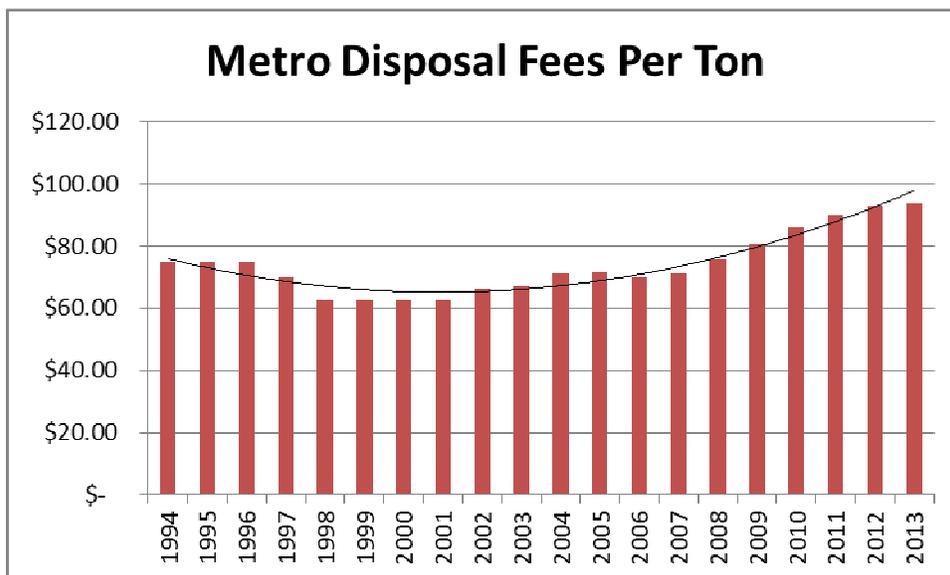


Fig 4





Current rates vs. Proposed rates

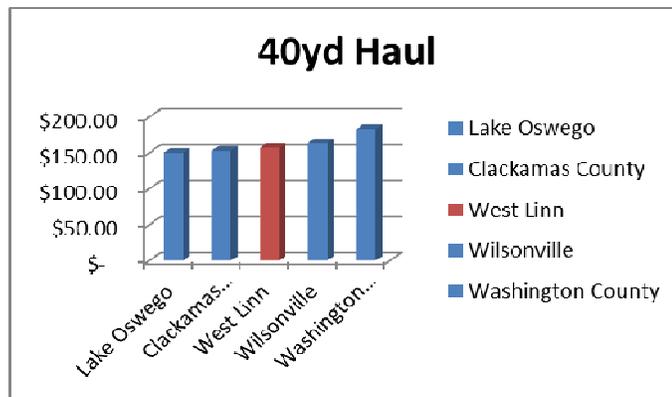
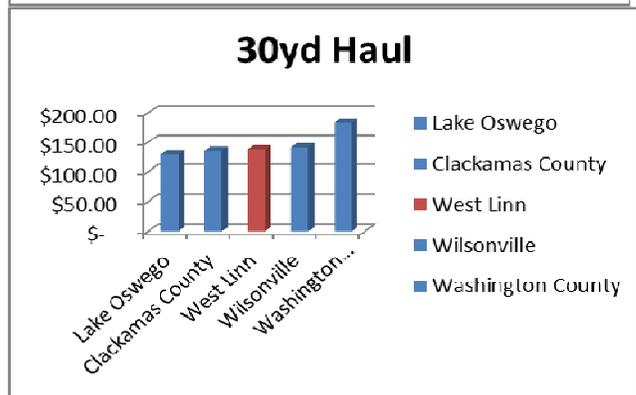
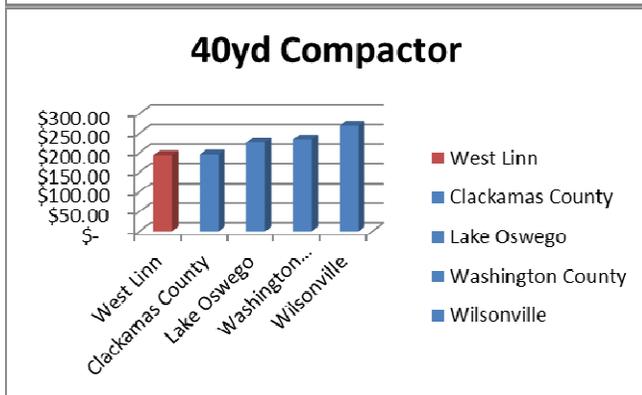
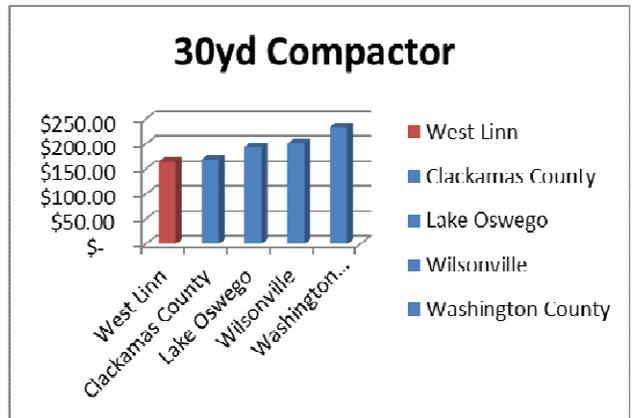
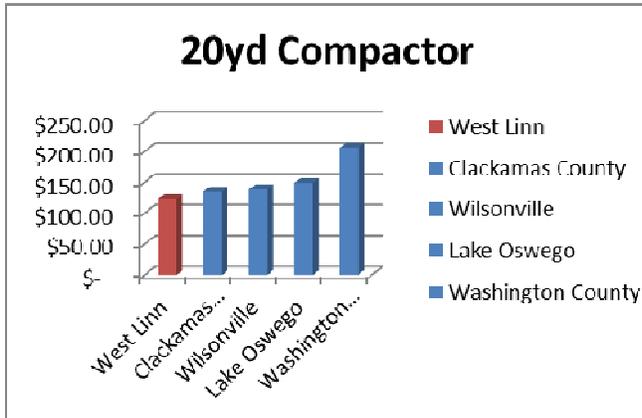
| INDUSTRIAL RATES PROPOSED | | | | | | | | | |
|----------------------------|---------------------|----------|------|-----------------|----------|------|------------------------------|----------|------|
| Drop Box / Compactor Rates | | | | | | | | | |
| | Delivery Current | Proposed | | Haul Current | Proposed | | Rent per Month Current | Proposed | |
| 10/20 yard | \$25.00 | \$27.00 | 8.0% | \$110.00 | \$120.00 | 9.1% | \$63.00 | \$69.00 | 9.5% |
| 30 yard | \$25.00 | \$27.00 | 8.0% | \$127.00 | \$138.00 | 8.7% | \$63.00 | \$69.00 | 9.5% |
| 40 yard | \$25.00 | \$27.00 | 8.0% | \$144.00 | \$157.00 | 9.0% | \$63.00 | \$69.00 | 9.5% |
| 19 yard compactor | | | | \$91.95 | \$100.00 | 8.8% | N/A | | |
| 20 yard compactor | | | | \$113.00 | \$123.00 | 8.8% | N/A | | |
| 30 yard compactor | | | | \$151.00 | \$165.00 | 9.3% | N/A | | |
| 40 yard compactor | | | | \$178.00 | \$194.00 | 9.0% | N/A | | |

RENT:

\$6.90 per day / \$69.00 max per month / any size box

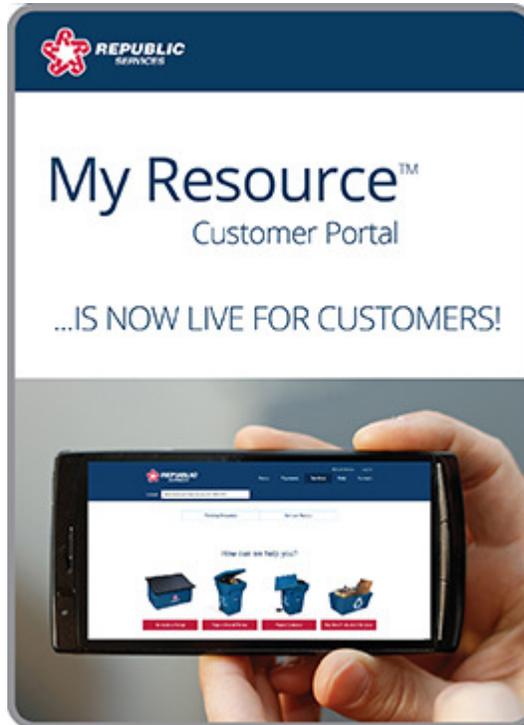


Proposed West Linn Rates compared to surrounding areas





New Program



My Resource FAQ | NW Area

Republic Services is focused on delivering the very best customer experience possible. Our new customer online portal, **My Resource**, is an exciting new tool that helps customers:

- Access/Manage their account 24/7
- View account on any computer, tablet or smartphone
- Request service, report misses, etc.
- Pay bill online, view payment history and MORE!

My Resource gives our customers direct, convenient access to Republic Services – wherever they are, 365 days a year.

**For questions have customers contact:
Customer Service at (503) 987-1278 or visit:
www.RepublicServices.com**



REPUBLIC SERVICES

*Republic Services of Clackamas & Washington Counties
City of West Linn Annual Report*





*Republic Services of Clackamas & Washington Counties
City of West Linn
Statement of Income
For the twelve months ended December 31, 2013*

| | <u>2013</u> |
|---|---------------|
| <i>Revenue</i> | 264,812 |
| <i>Cost of Operations</i> | 246,771 |
| <i>Gross Profit</i> | <u>18,042</u> |
| <i>Salaries, General and Administrative</i> | 13,067 |
| <i>Operating Income</i> | <u>4,975</u> |
| <i>Income as a Percentage of Revenue</i> | 1.9% |
| 2012 Statistics | |
| <i>Annual Hauls</i> | 637 |
| <i>Tons Collected</i> | 2,120 |
| <i>Hours of Service</i> | 738 |



Republic Services of Clackamas & Washington Counties
 City of West Linn
 Schedule of Direct Expenses
 For the twelve months ended December 31, 2013

| | 2013 |
|------------------------------|----------------|
| DIRECT EXPENSES | |
| Wages | 23,272 |
| Payroll Tax Expense | 2,296 |
| Medical Insurance | 5,107 |
| Pension Plan Expense | 2,582 |
| Other Benefits | 94 |
| Training & Worker Safety | 154 |
| Fuel | 8,035 |
| Repairs & Maint-Vehicles | 8,139 |
| - Containers & Carts | 1,125 |
| - Yard/Buildings | 246 |
| Depreciation-Vehicles | 5,646 |
| - Containers & Carts | 1,829 |
| - Other Equipment | 32 |
| Disposal Fees | 169,327 |
| Rent-Yard | 3,754 |
| Insurance | 2,592 |
| PUC/Licenses/Fees | 735 |
| Franchise & Comm. Fees | 8,118 |
| Other Operational * | 3,687 |
| | 246,771 |
| TOTAL DIRECT EXPENSES | |

* - Includes truck radio expenses, facility supplies, shop supplies



Republic Services of Clackamas & Washington Counties
 City of West Linn
 Schedule of Direct Expenses
 For the twelve months ended December 31, 2013

| | 2013 |
|--------------------------------|---------------|
| INDIRECT EXPENSES | |
| Management - Salaries | 1,304 |
| - Payroll Tax Expense | 97 |
| - Medical Insurance | 171 |
| - Pension Plan Expense | 26 |
| Administrative - Salaries | 1,451 |
| - Payroll Tax Expense | 135 |
| - Medical Insurance | 322 |
| - Pension Plan Expense | 19 |
| Office Rent | 490 |
| Advertising & Public Ed | 86 |
| Professional Fees | 42 |
| Telephone | 249 |
| Property Taxes/Licenses/Fees | 650 |
| Dues & Subscriptions | 135 |
| Depreciation - Office Bldg | 95 |
| Repairs & Maint. - Office | 19 |
| Equipment Rental | 19 |
| Office Supplies | 56 |
| Postage & Freight | 10 |
| Misc. Expense | 1,150 |
| Travel/Meals/Lodging | 95 |
| Prof. Meetings&Seminars | 38 |
| Bad Debts | 517 |
| Corp. Overhead * | 5,890 |
| TOTAL INDIRECT EXPENSES | 13,067 |

* - Corporate support costs: Human Resources, Payroll, Safety, Procurement, etc.

RESOLUTION NO. 2014-05

**A RESOLUTION ADJUSTING RATES FOR SOLID WASTE COLLECTION
AND RECYCLING DROP BOX SERVICES**

WHEREAS, the City is entering the third rate year of the Franchise Agreement between the City of West Linn and Keller Drop Box (doing business as Republic Services/Allied Waste of Clackamas and Washington Counties), which was approved by Council through Ordinance 1609;

WHEREAS, the current Solid Waste and Recycling Drop Box Franchise Agreement allows for rates to be established by resolution of the Council in accordance with Section 7.3.1;

WHEREAS, Keller Drop Box submitted its application addressing five of the applicable criteria listed in 7.3.2 and requesting a rate adjustment in accordance with Section 7.3.3;

WHEREAS, Keller Drop Box has not increased rates since 2010;

WHEREAS, the consumer price index has risen significantly during this time period;

WHEREAS, Metro has increased disposal fees within the region; and

WHEREAS, the City finds it appropriate to adjust rates annually in accordance with CPI as opposed to requiring Keller Drop Box to submit an application annually to adjust rates.

NOW, THEREFORE, THE CITY OF WEST LINN RESOLVES AS FOLLOWS:

SECTION 1. Proposed Rate Adjustment. Rates for solid waste collection and recycling drop box services shall increase in accordance with Exhibit A, West Linn Rate Sheet. These rates shall be effective June 1, 2014, through May 31, 2015.

SECTION 2. Future Rate Adjustment Methodology. The five rate years, beginning with rate year 2015-2016, and ending with rate year 2019-2020, shall have annual rate adjustments, not to exceed three percent (3%) based upon the annual average for the most recently concluded calendar year of the Portland-Salem Consumer Price Index (CPI-U) for all items. If the CPI-U is negative, the rates shall not be decreased. At the conclusion of the 2019-2020 rate year, franchisee shall request subsequent rate increases in accordance with Section 7.3 of the franchise.

This resolution was PASSED and ADOPTED this 12th day of May 2014, and takes effect upon passage.

JOHN KOVASH, MAYOR

APPROVED AS TO FORM:

ATTEST:

CITY ATTORNEY

KATHY MOLLUSKY, CITY RECORDER

EXHIBIT A



West Linn Rate Sheet

Effective June 1, 2014

| INDUSTRIAL RATES | | |
|-----------------------------------|----------|----------|
| | | |
| <u>Drop Box / Compactor Rates</u> | | |
| | Delivery | Haul |
| 10/20 yard | \$27.00 | \$120.00 |
| 30 yard | \$27.00 | \$138.00 |
| 40 yard | \$27.00 | \$157.00 |
| 19 yard compactor | | \$100.00 |
| 20 yard compactor | | \$123.00 |
| 30 yard compactor | | \$165.00 |
| 40 yard compactor | | \$194.00 |

RENT:

\$6.90 per day / \$69.00 max per month / any size box

ANNUAL RATE INCREASES:

Rates shall be adjusted annually for rate years 2015-2016 through 2019-2020 based upon the Portland-Salem Price Index (CPI-U) for all items with a maximum increase of 3% annually; however, if the CPI-U is negative, the rates shall not be decreased.