

Commercial Stakeholder Proposal
Analysis and Results
February 2007

Stakeholder Proposal

The commercial stakeholder group has met six times. Key issues and objectives from these meetings fall into two general categories:

- 1) Hauling companies cite the difficulty in recovering the costs of providing required services and securing desired operating (profit) margins. The franchise solution they advocate would provide a regulated system and ratemaking structure that allows recovery of all costs and secures a target operating margin.
- 2) Business concerns, on the other hand, focus on maintaining the competitive rates they pay for services and preserving the right to choose among multiple providers. Regulated rates and services may be palatable but only if higher efficiencies in the new system provide downward pressure on rate increases.

At its last meeting, in an attempt to balance these interests, the group adopted a recommendation that calls for the following:

- Divide the City into geographic zones (perhaps 4-6);
- Assign multiple haulers to operate in each zone;
- City-set rates based on cost of service. Rate increases would be capped and roll-out of new programs or services would be limited by available funds;
- Temporary assignment of customers to specified hauler (1-3 years). At the end of this transitional period, customer would be free to choose among the haulers assigned to their zone;
- Haulers would compete for new customers within their assigned zone, presumably based on customer service and satisfaction; and,
- Phase in of small businesses located in residential areas into residential service provided by the designated franchised hauler.

In formulating this concept, it was assumed that the current system is inherently inefficient, given the large number of haulers traveling throughout the city to collect garbage and recycling. It was expected that limiting the number of haulers in a particular zone would capture some of the lost efficiencies and help to offset some of the upward pressure on the rates set by the City.

Analysis

A careful economic analysis indicates that efficiency gains for the overall garbage and recycling system under this proposal would be limited to a maximum of six percent and would likely be less given the complexities in implementing the concept. In addition, potential gains would be further eroded by:

- An increase in haulers' operating margin beyond the current level;
- The addition of franchise fees; and,
- Higher costs reported by haulers (costs in Portland may be under-represented in current system).

These findings run counter to both staff and the stakeholder group’s expectations. The analysis of the current commercial system indicates that higher efficiencies exist than previously assumed. Haulers have generally built compact routes to minimize the distance between customers and are not traversing the city trying to fill their trucks. The rates paid by Portland businesses confirm this. The rates are lower than surrounding jurisdictions in part because large operating inefficiencies do not exist.

Part of the reason the existing system is fairly efficient is that most of the hauling activity is concentrated in nine haulers, hauling 83 percent of the commercial tonnage. These haulers are capturing the efficiencies that come with full, compact routes. The table below gives a breakdown of the haulers and their relative shares of the commercial market.

Commercial Haulers: Relative Market Shares		
<i>Type of Hauler</i>	<i>Percentage of total tons of solid waste</i>	<i>Number of haulers</i>
Residential franchisee collecting less than 2% of total commercial tons	6.97%	26
Commercial customers only and collecting less than 2% of total tons	2.27%	12
Dropbox only	7.68%	15
Commercial customers only and collecting greater than 2% of total commercial tons	27.42%	3
Residential franchisee collecting greater than 2% of total commercial tons	55.66%	6
All Portland commercial haulers	100.00%	62

This breakdown indicates that:

- Residential haulers with small commercial tons (26 companies) are already pretty efficient – they are probably serving commercial customers contiguous with their residential district.
- Small commercial-only haulers (12 in total) account for two percent of the commercial tons. While this may be the most inefficient group (they may not be collecting from full routes) they have relatively little effect on total system costs.
- Drop box only haulers (15 companies) make trips for a single customer with the pull of each container. As a result, the location of their customers and the routing of their trucks don’t affect total system costs or potential efficiency gains.
- The remaining nine haulers pick up 83 percent of the tonnage. This group includes three commercial-only haulers and six residential haulers that also have commercial routes.

In thinking about where efficiency gains are possible, it should also be noted that the options are limited to what can be saved in operating and overhead costs. Efficiency is measured by savings in total system costs. Operating and overhead costs account for about half of the total system costs. The other half of total costs are in the form of disposal fees, which are a fixed amount not affected by the number of haulers or the organization of the system.

There is some room for improving the efficiency of the system, but not by a large degree. Some efficiency gains are possible by limiting the number of haulers serving any particular area or zone, as was proposed by the group. For the analysis, it was assumed that four haulers would be assigned to each zone. It was also assumed that customers would be temporarily assigned to each of the four haulers in a way that creates what would be exclusive territories within those zones. The resulting efficiency gain for the overall system would be roughly six percent if the smaller exclusive territories constitute full routes for any single hauler. If the customers are randomly assigned instead, and not concentrated in contiguous geographic areas within the zones, efficiency gains drop to zero.

The greatest possible gain could be achieved by having just one hauler per zone with fewer, larger zones and is estimated to be eight to ten percent. Assigning any number of haulers above one per zone will produce less efficiency.

In fact, there is some risk of efficiency loss from implementing the multi-zone approach described above. The process of defining zones and assigning customers to haulers in that zone, if done incorrectly, could actually increase system costs. The greater the number of haulers and zones involved in designing a new regulated system, the more complex the process and the higher the risk of unintended cost increases.

Next Steps

At the next meeting of the group, stakeholders will be asked to consider the implications of this analysis in moving forward with recommending changes to Portland's commercial solid waste and recycling collection system.