



Bureau of Planning and Sustainability
Innovation. Collaboration. Practical Solutions.

Report on 2012 Franchise Review October 2012

Background

The City of Portland Bureau of Planning and Sustainability (BPS) is responsible for managing solid waste and recycling programs in Portland. BPS oversees a residential franchise system where private haulers provide residential garbage, recycling and yard debris collection services. On July 25, 2012, City Council directed BPS to begin a review of the residential solid waste and recycling franchise. As part of this review, BPS may propose changes to the existing (2008) Franchise Agreement between the City and the waste haulers who serve households living in single-family homes through four-unit complexes. The residential system was first franchised in 1992. The 10-year agreements have been renewed at five-year increments since then.

Some cities use exclusive contracts or municipal systems to manage solid waste and recycling programs. The City of Portland Franchise Agreement establishes geographic areas for residential hauling services and limits the number of haulers and trucks servicing a neighborhood. It is intended to enable affordable, efficient and effective collection service while implementing solid waste and recycling policies as directed by City Council.

The BPS Solid Waste and Recycling program is guided by the Portland Recycles! Plan. In 2006, City Council directed BPS to develop a new waste prevention and recycling plan. The Portland Recycles! Plan has four main goals: to increase the recycling rate to 75% by 2015, to reduce toxics and greenhouse gases, to have zero growth in the waste stream, and to make the system as a whole more sustainable. City Council unanimously adopted this plan in 2007, and BPS has subsequently implemented key residential provisions of the plan by working with haulers through the franchise agreement.

The City of Portland 2009 *Climate Action Plan* builds on the Portland Recycles! Plan and establishes policy objectives for 2030 for the City's solid waste and recycling program. The 2030 objectives outlined in the climate plan for solid waste and recycling are to:

- Reduce total solid waste generated by 25 percent;
- Recover 90 percent of all waste generated; and
- Reduce the greenhouse gas impacts of the waste collection system by 40 percent.

Finally, City Council adopted Guiding Principles for the franchise review process in July 2012. These principles are included as Appendix A.

Residential Ratemaking

Section 8.1(A) of the Franchise Agreement between the City of Portland and franchised residential haulers requires the City to perform an annual rate review to establish a rate



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schedule for all levels of residential solid waste, recycling and yard debris service. Rates are developed based on the following objectives:

- Having uniform solid waste, recycling and yard debris collection services citywide;
- Providing customers with a variety of service level options to meet individual needs;
- Identifying the true cost of individual services before considering incentives and disincentives to increase recycling and reduce solid waste generation; and
- Allowing service providers to recover allowable costs and earn a reasonable profit.

BPS conducts the annual rate review process, assisted by an independent economist. The economist analyzes various factors that affect rates and produces the actual rate calculation. BPS also contracts with an independent Certified Public Accountant (CPA) to review hauler financial records, with Portland State University (PSU) to sample the weight of the various sizes of solid waste containers set out for collection, and with a consulting firm that specializes in forecasting the market price of recyclable paper products.

The proposed rates are reviewed by the Portland Utility Review Board (PURB), a citizen panel with no hauling industry representation, and then forwarded to City Council for consideration and final adoption.

In June 2012, the Portland City Auditor released the results of an audit of the solid waste franchise and rate setting process administered by BPS. The Auditor found that BPS accurately determines the cost of collection service and that the process is consistent with those used by other jurisdictions in the region. The full report, *Residential Solid Waste: Customer rates accurate, but monitoring should continue* (Report #429), is available on the Auditor's website at www.portlandonline.com/auditor/index.cfm?a=402681&c=53869.

Public Involvement

Beginning in July 2012, BPS staff met regularly with members of the PURB committee on solid waste and recycling to discuss elements of the franchise agreement. PURB solid waste and recycling committee members and BPS staff briefed the full PURB at regular PURB meetings, and final PURB solid waste and recycling committee recommendations on the franchise agreement are attached.

On September 6, 2012 BPS opened a public comment period for the franchise review, including contacting all Portland neighborhood associations. The notice invited residents to attend the September 20, 2012 PURB meeting to discuss the franchise review. This notice solicited written comments and opened a public comment period until September 24, 2012. During the comment period, BPS received written comments primarily regarding solid waste policy, rates, and service options. Comments also included the request for cleaner burning trucks, route boundary review, and changes to administrative rules regarding cart handling and placement.

Recommendation

BPS recommends the continuation of the residential franchise system with the following changes:

- 1) Section 3.3: Remove business license fee as an allowable expense and 3.13 include business license fee as a pass-through expense.

This change was recommended by the City Auditor and removes the operating margin being applied to this City fee paid by franchisees.

- 2) Section 6.8 (B): Require earlier submittal of franchisee's annual financial report.

Earlier submittal of the detail cost reports, along with other internal BPS ratemaking modifications, will provide more timely review of proposed solid waste rates by PURB.

- 3) Section 6.10: Remove sustainable fleet section.

Sustainable fleet requirements for franchisees have been adopted by City Council into City Code; therefore this section is no longer necessary.

- 4) Section 7: Institute averaging of recycling revenue to smooth out volatility in ratemaking process.

Administrative Rules will be developed to establish a methodology for the recycling revenue offset that takes into consideration actual revenues over the two previous years as well as a revenue forecast.

The draft franchise agreement with language changes is attached for full PURB review. BPS anticipates bringing final franchise agreements to City Council for hearing and vote later this year.

Appendix A- Guiding Principles for Franchise Review

The City of Portland aims to provide reliable, cost-efficient, and environmentally and socially sustainable garbage, recycling and composting curbside collection. Portland's collection system values partnerships with franchisees and supports waste reduction and recovery policy goals. City Council establishes the service offerings and rates, endeavoring to meet the needs of a diverse customer base.

1. Advance recovery rates and waste reduction goals.

- Implement waste reduction, recycling and composting programs.
- Increase recovery of recyclable and compostable materials.

2. Ensure cost-effective and safe operations.

- Conduct an annual rate review in a public process, including timely participation by the Portland Utility Review Board.
- Set rates via process that promotes cost savings while meeting policy goals.
- Establish rates that provide the opportunity for franchisees to earn a reasonable operating margin. However, because costs and efficiencies vary among haulers, individual franchisees are not guaranteed a specific return.
- Develop programs and conduct operations to ensure public and worker safety.

3. Provide exemplary customer service.

- Respond promptly to customers
- Ensure effective and appropriate communication with customers.
- Utilize appropriate and effective technologies to improve customer service.

4. Implement environmental best practices.

- Ensure efficient use of fuel and reduced vehicle emissions
- Develop green purchasing policies
- Conduct energy efficient operations

5. Maintain a robust and flexible system

- Allow multiple franchisees including locally owned companies.
- Maintain the ability to adapt to emerging policy goals.

ITEMS FOR FRANCHISE REVIEW

- **System Review**
 - Performance of the franchise system for the collection of Solid Waste, Recycling and Composting;
 - System performance indicators, including volumes of solid waste disposal and recycling, and overall rates of participation in recycling;
 - Measurements of customer satisfaction, including but not limited to customer concerns, results of public surveys, and system compliance issues;
 - Comparative analysis of programs for Solid Waste, Recycling and Composting collection used in other cities, including but not limited to system features, program costs, funding mechanisms and overall rates of participation in recycling; and
 - Whether renewal of the franchise system is in the overall public interest.
- **Performance of Grantee**
 - Grantee's performance of its obligations and responsibilities under this franchise, including Grantee's technical and financial abilities to perform;
 - Grantee's responsiveness to customer communications with the City;
 - Grantee's ability to provide evidence of insurability; and
 - Whether renewal of Grantee's franchise is in the public interest.
- Additional items for consideration may include addressing expiration of Recycling District requirement, as well as future provisions for compostables collection and disaster response procedures.