



10295 Southwest Ridder Road Wilsonville, OR 97070
o 503.570.0626 f 503.582.9307 republicservices.com

December 18, 2015

Honorable Tim Knapp, Mayor and
Members of City Council
City of Wilsonville
29799 SW Town Center Loop East
Wilsonville, OR 97070

Dear Mayor Knapp and Councilors:

RE: Rate Increase

Republic Services, Inc. is requesting a composite rate increase of 4.4-percent effective March 1, 2016 to continue providing the quality services specified in our franchise agreement with the City. The purpose of this request is to offset the negative impact of 6.5-percent inflation on our operating expenses since our last price increase and to recover the negative expense incurred to deliver recyclables to markets. Republic estimates its net income as a percent of revenue in 2016 would be 6.6-percent without this increase.

Republic's last price increase of 4.0-percent was approved two and one-half years ago. The effective date of this increase was August 1, 2013.

The location of Republic's transfer station on the northern boundary of the city provides a financial benefit of avoided costs for all of Republic's Wilsonville customers. We estimate the collection rates of our Wilsonville customers in 2015 were \$494,000 less in total than the rates would have been had Republic continued transporting waste collected in Wilsonville to Metro's transfer station in Oregon City.

Ordinance No. 204, Section 13, provides the six (6) criteria the Council shall consider to determine the appropriate rate to be charged by Republic Services, Inc. for solid waste services.

"1. The cost of performing the service provided by the franchisee."

Republic Services, Inc.'s criteria for determining collection rates is cost of service, i.e., allocation of expenses in human assets and equipment to effectively collect solid waste generated by our customers.

Costs for each type of collection service desired by the City are analyzed to establish the rate to accomplish the service desired by the City. This analysis involves the allocation of costs by customer type – residential, commercial and industrial. Costs incurred are summarized in eight (8) categories: disposal, labor, fuel and vehicle operations, administrative, insurance, depreciation, facility and franchise fees. These costs are allocated for each type of service based on the following criteria:

- Weight of material collected – average residential pounds/lift, average commercial pounds/yard and average industrial tons/haul;
- Labor hours required for each type of service;



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- Type of waste disposal equipment used by customer:
 - o Residential customers use 20, 35 and 60 gallon roll carts;
 - o Commercial customers use 35, 65 and 90 gallon roll carts, plus six (6) different sized drop boxes – 1 yard to 8 yards;
 - o Industrial customers use four different sized drop boxes and compactors – 10 yard to 40 yard.

Republic's most significant category of operating costs is disposal expense. This cost alone represents 44-percent of Republic's operating costs. Cost of disposal has increased 8.0-percent since the City last approved a rate adjustment for our company.

The current cost for disposal of solid waste is \$96.98/ton. This cost is comprised of four (4) categories: (1) transfer, transport, landfill disposal and waste recovery, (2) Metro's Regional System Fee and Excise Tax, (3) DEQ fee and (4) City of Wilsonville's Host Fee

- Transfer, transport and landfill disposal cost is currently \$64.87/ton, representing 67-percent of the total tip fee. These costs are incurred by Republic at its transfer station to receive and process garbage and recyclables, cost to transport garbage to the landfill and recyclables to markets, and the cost for disposal of garbage in a landfill.
- Metro's Regional System Fee and Excise Tax costs are currently \$29.87/ton: Regional System Fee is \$18.39/ton and the Excise Tax is \$11.48/ton, representing 31-percent of the total fee charged at Republic's transfer station.

The Regional System Fee funds various regional solid waste programs; waste reduction, education and outreach, regulatory affairs, illegal dumping, hazardous waste reduction, latex paint recovery, landfill stewardship, facility and asset management.

The Excise Tax funds a part of Metro's expenses for general government, planning, regional parks, convention center and outdoor school.

- DEQ's Fee is currently \$1.24/ton and represents 1.0-percent of the total tip fee. As in the case of Metro, DEQ requires all transfer station operators receiving solid waste generated in the metro region to collect and pay this fee to DEQ.

This fee is expected to increase in 2016 to \$1.37/ton and increase again in 2017 for as yet an unspecified amount per ton.

- Metro added a new fee of \$1.00/ton payable to the City of Wilsonville on all putrescible (wet) waste delivered to Republic's transfer station on Ridder Road. This fee represents 1.0-percent of the total tip fee.

Vehicle operating costs declined each year following our 2013 rate adjustment. Furthermore, costs for this category are expected to decline significantly in 2016. This reduction is the result of lower prices for diesel fuel; replacement of fully retired vehicles with newer and better performing vehicles; and, first time use of four (4) new collection vehicles fueled with Compressed Natural Gas (CNG). We expect to start next March using vehicles fueled with CNG.



Depreciation costs increased 21-percent since our rate adjustment in 2013. This increase was due to the addition of a new maintenance facility on the property operated by Willamette Resources, Inc., the purchase of new vehicles, installation of CNG fueling stations for the new vehicles, plus new roll carts and containers. The amount of reduction in vehicle operating costs should offset approximately 75-percent of the cost of depreciation.

“2. The anticipated increase in the cost of providing service.”

Republic’s collection rates are designed to accomplish two purposes: first, recover actual costs incurred for customer collection services since the last rate increase (August 1, 2013); and, second, collection of costs scheduled to occur in the immediate future for significant expenses Republic will be making to maintain in the most effective and efficient manner possible the quality of services specified in our franchise with the city.

Our request for this composite price increase of 4.4-percent includes the fuel savings that will result from the changeover now underway from a fleet of collection vehicles using diesel fuel to a fleet of vehicles fueled with Compressed Natural Gas (CNG) that has substantially reduced (26-percent) vehicle operating costs; and, added depreciation costs for new collection vehicles fueled with CNG along with the new property tax expense for our recently completed maintenance shop.

In summary, the methodology we used to base our price increase request reflects both recovery of expenditures incurred since the last price increase, plus immediate known future expenses, such as the negative expense to deliver recyclables to markets. We believe this is a much better method for basing our price increase request rather than base such a request on the “accepted, reasonable rate of return in the solid waste industry in the range of 8-to-12 percent, with a target rate of return of 10-percent.”

Lastly, there are a number of activities now in process in the metro region, notably Metro’s Roadmap Project, which could change the cost of solid waste collection services. It is not possible at this time to predict with any accuracy an expense from an outcome of this effort. We are alerting you of this situation should a change in disposal methods cause a significant change in the cost to dispose of municipal solid waste generated in the metro region.

“3. The need for equipment replacement and the need for additional equipment to meet service needs; compliance with federal, state and local law, ordinances and regulations; or technological change.”

The financial information submitted with this request for a rate increase includes depreciation costs for new collection vehicles.

As you know, our company added a vehicle maintenance facility at our Ridder Road location. This building has been operational this past year which has enabled our company to be much more efficient in maintaining our collection vehicles.

Furthermore, our company is in the process of adding fueling stations to fuel our new collection vehicles with Compressed Natural Gas (CNG). At completion, there will be 58-fueling stations



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at our Ridder Road facility. For your information, we have let your folks operating SMART know that our facility may be able to serve as a back-up for CNG refueling of SMART's vehicles.

Republic Services, Inc. has 11-collection vehicles serving its Wilsonville customers. We anticipate replacing four (4) of these vehicles in March 2016 with vehicles fueled with CNG. This will start the replacement of all of Republic's 58-diesel fueled vehicle fleet operating in the metro area.

Republic Services is in full compliance with all federal, state, regional, county and city laws, ordinances and regulations.

Republic Services has a long tradition of implementing sustainable technological programs.

- Republic Services, Inc. is the first hauling company in the metro region to use B20 biodiesel fuel in its collection vehicles.
- Our collection vehicles are fully automated which enables us to serve more customers daily.
- Republic Services expects to use in the City of Wilsonville starting March 2016, four (4) collection vehicles powered by CNG.
- Republic Services' Pacific Region Composts facility (PRC) near Corvallis is the first DEQ permitted food waste composting facility in Oregon. PRC has composted material at this facility for the past 20-years.
- Republic Services captures methane gas generated at its landfill near Corvallis in a quantity sufficient to generate enough energy to fuel 5,000 home.
- Republic looking to partner with another company (SORT Bioenergy) to build and operate an anaerobic digester at its Wilsonville site. The ultimate goal for this facility is to divert food scraps from landfills and convert these scraps into energy-rich biogas which, in turn, is then converted into renewal energy.

"4. The investment of the franchisee and the value of its business and necessity that the franchise shall have a reasonable rate of return."

This criterion authorizes a reasonable rate of return based on the investment of the franchisee and the value of the franchisee's business. The City of Wilsonville and Republic Services, Inc. have always established solid waste collection rates to provide Republic Services, Inc. a reasonable rate of return based on an annualized 12-month rate of return on revenue.

We are targeting an 8.8-percent rate of return based on an annualized 12-month revenue.

The location of Republic's transfer station on the northern boundary of the city provides a financial benefit of avoided costs for all of Republic's Wilsonville customers. We estimate the collection rates of our Wilsonville customers in 2015 were \$494,000 less in total than the rates would have been had Republic continued transporting waste collected in Wilsonville to Metro's transfer station in Oregon City.

A simple example will illustrate this financial benefit. One-way travel distance from Wilsonville City Hall to Metro's transfer station in Oregon City is 15-miles. Until 1999, Republic had to use Metro's transfer station to empty its collection vehicles of garbage. Residential collection vehicles need to tip waste two-times in one day. Two roundtrips to Oregon City each day



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required 2½ hours travel time for a total of 60-miles roundtrip plus the time it took at the transfer station to tip the solid waste.

In 1999, Republic started taking all solid waste collected in Wilsonville to its transfer station on Ridder Road. This waste was reloaded in large trailer containers and transported to a landfill. The one-way travel distance from Wilsonville City Hall to Republic's transfer station is 4-miles. Again, the collection vehicle needs to be emptied twice each day. The roundtrip time to empty the collection vehicle the first time is 30-minutes. The time required the second time to empty the collection vehicle is only 15-minutes due to the vehicle parking at the transfer station after tipping the second load at the end of shift. This financial benefit is the difference in the cost of the 45-minutes needed to travel off-route to Republic's transfer station on Ridder Road as compared to the 2½ hours it used to take off-route to tip waste in Oregon City.

In summary, Republic's ability to dispose in Wilsonville the waste collected in Wilsonville rather than transporting the waste to Oregon City for disposal is a significant financial benefit to Wilsonville's residents and businesses. This capability enables Republic to avoid the costs that would be required to purchase, operate and maintain additional collection vehicles to compensate for the time lost from the collection routes, additional personnel, fuel and other operating costs to travel to Oregon City.

“5. The rates in other cities for similar services.”

Republic Services, Inc. bases its rates on cost of service. Over the years we have found comparing the rates of one jurisdiction with the rates of another jurisdiction for the “same” service is not an “apple to apple” comparison. Rate comparisons are, however, useful for comparing the reasonableness of rates for similar service.

Republic Services' cost of service approach to rate setting provides for the recovery of costs incurred to serve a class of customer – residential, commercial and industrial. There are many reasons waste collection rates for the “same” collection service are not necessarily the “same.”

- Number of customers – residential, commercial and industrial – for each class of service. The 10-year population growth measured by the 2010 decennial census indicates Wilsonville's population grew 39.8-percent, while population growth measured for the City of Tualatin in 2010 was 14.3-percent and the growth in population for the same time period for the City of Lake Oswego was 3.8-percent.
- Solid waste tonnage generated by customers in each class of service may be different.
- Types of service within each class of service – collection of garbage, recycling and yard debris.
- Frequency of collection within each class of service – weekly, every-other-week, monthly, on call, weekly collection of garbage, but every-other-week collection of recyclables for same customers within a class of service, interrupting service for vacation.
- Route density and miles travelled between customers.



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- Distance from collection route to the transfer station.
- Age of collection rates at the time of comparison with rates reflecting a proposed price increase.
- Rate Policy goals of jurisdiction reflected in rates for collection; i.e., rate for a 20-gallon roll cart is substantially lower for a jurisdiction desiring to move citizens into smaller disposal carts in order to increase recycling.
- Difference in the amount of franchise fee.

We are presenting the following rate information in summary form. There is a great deal of detailed information upon which the summary information is derived that is proprietary to our company. While our company cannot subject our proprietary information to public records disclosure, we have thoroughly examined the methodology to provide the City with the important comparative numbers. Republic warrants to the City Council that the rates we are proposing are competitive and equitable with other service providers and with other Portland metro area cities receiving comparable levels of service.

Residential Customer Comparison				
City	Residential Customers	% with 20 gallon cart	Ave Rate per Customer	Ave. Container Size (Gallons)
Wilsonville (proposed)	4,048	14%	\$ 27.52	40.32
Lake Oswego (approved)	11,225	12%	\$ 28.88	40.30
Tualatin (current)	5,646	9%	\$ 26.29	42.98

This chart shows the average rate per customer for comparable residential services. The information enables us to evaluate the comparability of the cost of service for these customers. On the basis of average cost per month, Wilsonville customers will pay less than customers in the other two cities. This is primarily the result of a greater proportion of Wilsonville customers using the smallest 20-gallon cart.

Industrial Customer Comparison						
City	Hauls	# of Compactors	%	Ave Haul Rate	Ave Weight (Tons)	Ave Container Size (Yards)
Wilsonville (proposed)	4,023	918	23%	\$ 143.93	3.68	27.29
Lake Oswego (approved)	2,096	403	19%	\$ 136.94	3.88	25.19
Tualatin (current)	5,395	1,270	24%	\$ 130.03	3.77	27.79

This chart shows the average of our total haul rates for comparable industrial service. The information enables us to evaluate the comparability of the cost of service for these customers. The haul rate is based on the customer's choice of container/drop box or compactor size.



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A roundtrip from a customer's site to the disposal site, generally a transfer station, and return to the customer's site is required to empty one compactor. Alternatively, a one-way trip from the customer's site to the disposal site is all that is needed to dispose of waste in containers/drop boxes. Simply, we deliver an empty container/drop box at the same time we haul waste away from the customer's site to the disposal site. Once the waste in the container/drop box is disposed, our employee does not need to return to the customer's site.

Compactors are owned by the customer, not Republic Services, Inc. Industrial customers purchase compactors to avoid the number of time each week the customer's waste is hauled to a disposal site. The fewer trips we make to dispose of waste accumulated in a compactor typically results in these customers receiving lower total monthly invoicing for collection services as compared to customers requiring more frequent collection service each week due to the customer's use of containers/drop boxes.

COMMERCIAL CUSTOMER COMPARISON							
<i>City</i>	<i>Monthly Yards</i>	<i>Monthly Lifts</i>	<i>Ave Cont. Size</i>	<i>Rev. per Yard</i>	<i>Rev. per lift</i>	<i>Recycle Yards per Customer</i>	<i>Customer Count</i>
Wilsonville (proposed)	18,356	9,665	1.90	\$ 8.58	\$16.29	15.83	618
Lake Oswego (approved)	18,991	16,032	1.18	\$10.82	\$12.82	10.24	848
Tualatin (current)	30,557	15,456	1.98	\$ 6.61	\$13.07	14.71	1,152

This chart shows the average monthly lifts by container size. We have established revenue per lift for comparable service for these customers. The information enables us to evaluate the comparability of the cost of service for commercial customers. This data is a summary of expenses incurred by Republic for the time it takes to serve these customers plus cost of disposal.

The size of a container is based on customer's service needs and fitting the space available for storing and lifting containers at the customer's site.

“6. The public interest by assuring reasonable rates to enable the franchisee to provide efficient and beneficial service to the residents and other users of the service.”

In 2015, Republic Services, Inc. collected 28,000 tons of material from Wilsonville residents, businesses and industrial customers for recovery and proper disposal. Of the material Republic Services collected, the community benefited from Republic diverting from the landfill 52% of this material for recycling and recovered 13,000 tons and composted 1,500 tons. An additional 15-19-percent of waste recovery resulted from other services offered in Wilsonville, including individual self-haul of recyclables and construction material to Republic's transfer station.

Another benefit provided by Republic Services, Inc. is our donation of services and the financial contributions to the residents and businesses in Wilsonville. In 2015, our company donated \$39,000 in services and cash contributions to organizations in the Wilsonville community

Attachment A



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- Weekly trash collection for the city's maintenance shop and trash disposal for three locations in Memorial park.
- Fun-in-the-Park, Art Festival, leaf pick-up and collection of bulky waste.
- Financial donations to Boy Scouts, Relay for Life, Wilsonville's Chamber and Rotary.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason Jordan", written over a horizontal line.

Jason Jordan
General Manager

Attachment

cc: City of Wilsonville: Bryan Cosgrove, Barbara Jacobsen and Mark Ottenad
Republic Services, Inc.: Frank Lonergan, Eric Anderson and Brian May