

King County Solid Waste Division Brief Rate Restructure: Fixed Charge True Up Process

Introduction

The Fixed Annual Charge (FAC) option for restructuring the King County Solid Waste Division (SWD) rate structure meets the goals of the project as well or better than the Account Fee or Volume Fee options. The FAC is also the most popular option with SWD Advisory Group members, however, some cities have expressed concern about the “true up” process. While a final decision on which process will be used has not yet been made, this briefing paper explores the true up options under consideration.

Background

If it had been implemented in 2022,

The proposed restructure sets the amount of the FAC at \$19.7 Million, in 2023, and the tipping fee for commercially hauled waste at \$123.82 (down from \$154.02 to ensure revenue neutrality).¹ A share of the FAC is charged to each billing entity based on their share of total commercial tons (hereafter referred to as total tons), and each commercially hauled ton is billed at the new, lower, tipping fee. For example, the following table shows what a hypothetical “City A” would pay under this structure.

Col.	Description	Values	Formulas
A	Fixed Annual Charge Amount	\$ 19,737,266	
B	Total Commercial Tons	653,508	
C	City A Tons	35,500	
D	City A Share of Total Tons	5.43%	C/B
E	Fixed Annual Charge Share	\$ 1,072,172	A*D
F	Tipping Fee Charges (\$123.82/tons)	\$ 4,395,610	C*\$123.82
	Total Disposal Charges	\$ 5,467,782	E+F

Issue

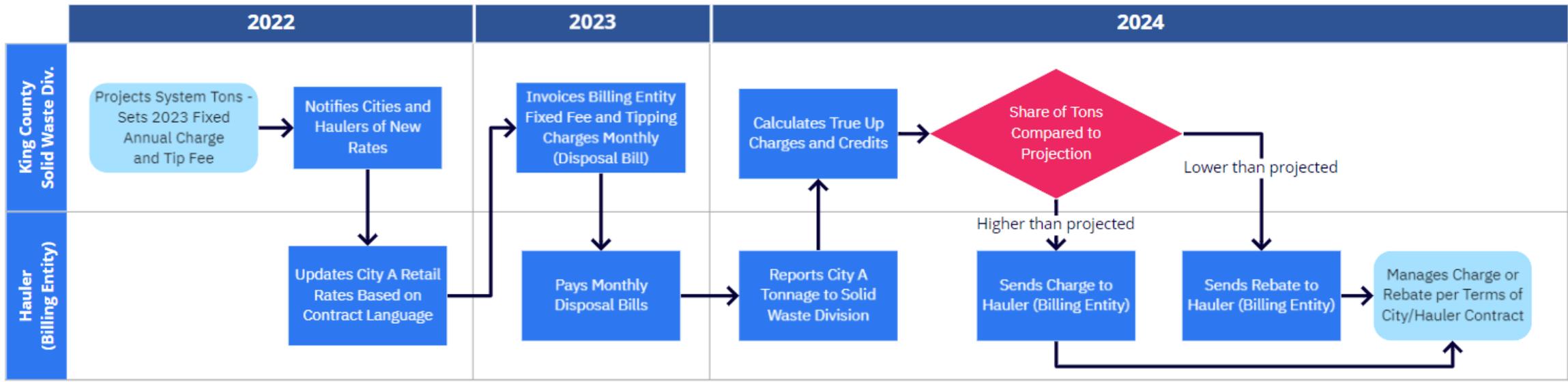
The primary concern of this brief is how to bill shares of the FAC in 2023 when the number of total tons for 2023 (and thus the individual shares from each service area) will not be fully known until early 2024.

Billing Options

Option 1: Projection Based with True-Up – Use the last available full year (2021 in this example²) of tonnage data to forecast the share of commercial tons for each service area. Use this as the monthly billing basis in 2023. In early 2024, true-up the billing by comparing the projected share of tons for each service area to the actual shares (based on 2023 actuals) and issue rebates or charges for the difference. The following shows how this process plays out over time.

¹ The current draft restructure proposal sets the revenue target for 2023 at the same level as SWD is projecting for 2022. SWD does anticipate the need for a rate increase for the 2023-2024 biennium due to growing capital expenditures. However, the restructure proposal keeps 2023 revenue flat compared to 2022 in order to avoid confusion between restructure and rate increase discussions.

² The 2023-2024 rate proposal is developed in early to mid-2022, so 2021 is the last full year at that point in time.



Under Option 1, if City A’s share of total tons (and FAC) were to be higher or lower than the projected/ billed amount then a true-up would be necessary in the next year. The following table shows a few possible scenarios for the financial impact of this true-up if the actual charge/rebate was five or ten percent higher or lower than the projected/billed amount. SWD ran hundreds of potential tonnage share scenarios on city-size groupings and found the overwhelming majority of them fell well within these parameters.

Share of Tons/FAC	% Change in FAC \$ Charge	FAC \$ Charge	Variance from Projection	Monthly Difference per Account ³
5.98%	10%	\$ 1,179,389	\$ 107,217	\$ 0.64
5.70%	5%	\$ 1,125,781	\$ 53,609	\$ 0.32
5.43% ⁴	0%	\$ 1,072,172	\$ 0	\$ 0
5.16%	-5%	\$ 1,018,563	\$ (53,609)	\$ (0.32)
4.89%	-10%	\$ 964,955	\$ (107,217)	\$ (0.64)

The contract terms between the cities and their haulers should determine if and how the true-up charges or rebates are passed through to curbside customers.

Option 2: Billing with Actuals – Keep the billing fee process for tipping fee charges the same as now through a monthly invoice and invoice separately each quarter for the FAC. Divide the total FAC into four quarterly amounts (\$19.7M/4 = \$4.9M each quarter). For this example, we will use the Q1 (Jan-Mar) 2023 FAC bill. In late April, SWD compares Q1 tonnage data from its billing system and Q1 data it receives from haulers which shows tons by service area. SWD uses this data to determine the share of the Q1 FAC that will be charged to each billing entity. Because the billing for both tons and FAC are based on actual tonnage from the billing year, there is no need for a true-up process between the County and the billing entity.

City/Hauler Contracts

Most contracts between cities and haulers have at least two components, a service charge⁵ and a disposal charge. The disposal charge is intended to be a pass through to the curbside customer of the disposal fees charged by SWD. However, many (if not most) contracts automatically escalate the disposal charge with a formula that increases when the SWD tipping fee (Basic Fee) increases. With the implementation of the FAC, the tipping fee will drop and the FAC will fill the revenue vacuum left by the lower tipping fee. To SWD’s knowledge, city and hauler contracts do not account for a scenario like this.

SWD encourages cities and haulers to consult with their own legal counsel on how to best implement these rate structure changes into their contracts. SWD’s rate consultant, FCS, did suggest the following as possible methodology for addressing the FAC when you work with your legal team to update your contracts.

³ Assumes 14,055 accounts (including residential and commercial) and spreads the true-up amount across all accounts and across 12 months.

⁴ This row shows the projected/billed scenario from the table in the Background section of this brief.

⁵ The FAC does not impact the service charge which is typically used to cover the non-disposal costs of hauler operations, admin fees, etc.

Current Contract Example – City B:

“X.X.X. Disposal Fee Adjustments – Disposal Fee adjustments shall be made to Contractor collection rates to reflect increases or decreases in King County disposal fees for solid waste. In the event of a change in disposal fees, the disposal fee component of rates charged to Customers shall be adjusted, based on container content weights specified in Attachment B of this contract.

Specific examples of rate modifications due to consumer price index and disposal fee changes are provided in attachment D.

Step 2: Disposal Component Adjustment

In the case of a disposal fee modification at County disposal facilities, the disposal component of each service level will be adjusted as follows:

Step 2a: $A = ODC * (NTF / OTF)$

Step 2b: $NDC = A + [(A - ODC) * CETR]$

Step 3: $\text{New Rate} = NCC + NDC$

- Where NCC = The new collection and Administrative Fee components, adjusted for excise tax on the Administrative Fee, of the customer rate for a particular service level; and
- NDC = The new disposal charge component of the customer rate for particular service levels; and
- NTF = The new disposal fee, dollars per ton; and
- ODC = The old disposal charge component of the customer rate for a particular service level;
- OTF = The old disposal fee, dollars per ton; and
- A = Pre-excise tax adjusted disposal component; and
- CETR = Current excise tax rate.

Potential Replacement Formula for Disposal Fee (NTF and OTF variables in formula) – City B:

Old Disposal Fee Calculation	
Tipping Fee (\$ per Ton):	\$140.82
Multiplied by: Disposal Tons:	<u>41,759</u>
Subtotal Variable Disposal Fees	\$5,880,502
Plus: Fixed Disposal Fee	<u>\$0</u>
Total Old Disposal Fees	\$5,880,502
New Disposal Fee Calculation	
Tipping Fee (\$ per Ton):	\$123.82
Multiplied by: Projected Disposal Tons:	<u>40,810</u>
Subtotal Variable Disposal Fees	\$5,053,094
Plus: Fixed Disposal Fee	<u>\$1,255,364</u>
Total New Disposal Fees	\$6,308,458
Percent Increase	7.28%

This alternative methodology would allow the hauler to increase the disposal charge component by a percent, similar to how it is currently done. Another alternative methodology would be to add the FAC as a new, separate component as a fixed amount and move away from the percentage increase.

Other Considerations – Below are some other things to consider as these contract negotiations occur:

- Is there an option for one-time adjustments already built into the contract? Depending on the size of the true-up and how that gets disbursed to curbside customers, it may make sense to have the option to reconcile the true-up in one bill versus over the whole year. For example, if it works out that a curbside customer will have to pay \$3 more for the year because of the true-up, rather than split this up between 12 months, it may make sense to just charge it one time. Same thing for if they are getting rebate. This could provide more cash flow flexibility.
- How does the 45-day public notice requirement of rate increases impact how the true-up can be applied ([RCW 35.21.157](#))? Based on timing, SWD won't know the full true-up for the prior year until February or March of the following year. If billing entities need to incorporate this into their rates, then they would need to do a mid-year adjustment to include it in their rates for the remainder of the year. Perhaps the one-time adjustment discussed above could avoid this need.
- There are several ways to utilize the true-up amount:
 - Equally distribute it to curbside customers based on account. E.g., if the true-up amount is \$10,000 and you have 10,000 accounts, then each account pays an extra \$1.
 - Distribute it to curbside customers based on some factor such as container size or volume. E.g. you could group customers into the same classes used by the Hazardous Waste Program (and as discussed with the Account Fee option) and split the true-up based on these classes.
 - Have the city be responsible for the true-up. If it's a charge, then they pay it out of their funds. If it's a rebate, they can determine how to spend it (e.g. put into fund balance, spend it on recycling education campaigns, etc.).

Conclusion

SWD hopes to develop one billing methodology that is as user friendly and transparent as possible for all partners and County accounting staff, ideally before the County Council takes up the matter in the first quarter of 2022. If you have any questions, comments, or recommendations on the billing/projection /true-up process, please contact Dorian Waller at dwaller@kingcounty.gov or (206) 263-1368.