

Dry Cleaning Advisory Committee

Meeting Minutes

Wednesday, April 15, 2015
Northwest Region - Portland
2020 SW Fourth Avenue, Conference Room A/B
Portland, OR 97201



State of Oregon
Department of
Environmental
Quality

List of Attendees

Committee Members Present:

- Gary Campbell, Oregon Dry Cleaners Association
- Guy Tanz, PNG Environmental
- James Gengler, City of Salem
- Kathey Butters, Oregon Dry Cleaners Association
- Steve Young, Oregon Dry Cleaners Association
- Tae Kim, Korean American Dry Cleaners Association

Committee Members Not Present:

- Jim Kincaid, Chair, Cable Huston Benedict & Haagensen
- Allan Wright, Oregon Dry Cleaners Association
- Brad Berggren, PNG Environmental
- Earl Eckstrom, Fabricare Equipment, Inc.
- Paul McBeth, PNG Environmental
- Peter Yoo, Korean American Dry Cleaners Association
- Said Amali, Amali Consulting LLC
- Sam Kim, Korean American Dry Cleaners Association

DEQ Staff:

- Bruce Gilles, Manager, Cleanup and Emergency Response
- Joe Westersund, Dry Cleaner Program Coordinator
- Ed Patnode, Dry Cleaner Program Staff
- Abby Boudouris, Senior Legislative Analyst

Others Present:

- Jay Bleich, Bee Tailors and Cleaners
- Jaiwhan Woo, Walnut Park Cleaners

List of Handouts and Presentation Notes

- No handouts were provided.

1:30pm Start of meeting

PROGRAM STATUS UPDATE

Joe Westersund made a presentation on the current status of the DEQ dry cleaner program (DCP). Key points include:

Dry Cleaner Program

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DEQ is a leader in restoring, maintaining and enhancing the quality of Oregon's air, land and water.

By: Joe Westersund

Dry Cleaner Program revenue update

The DCP's revenue for year-to-date 2015 is about \$340,000. An additional \$30,000 in solvent supplier payments will likely come in by the end of 2015. Program revenue is from fees paid by dry cleaners, dry stores and solvent suppliers, and has been decreasing by about \$40,000 each year since 2004.

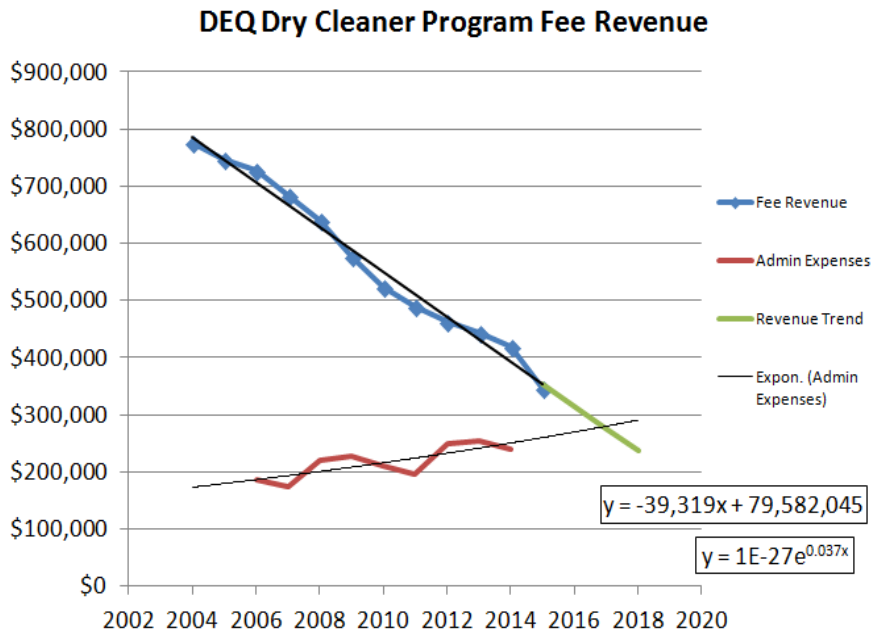


Figure 1: Dry Cleaner Program fee revenue and the cost of administering the program.

Fee Audits

About 50% of DCP fee revenue comes from the 1% fee dry cleaners and dry stores are required to pay on their gross revenue from dry cleaning services. Some dry cleaners are reporting that a very small percentage of their total revenue is coming from dry cleaning, and they may be underreporting and underpaying. Committee members requested that DCP perform fee audits to check compliance with the fees. Most dry cleaners do not directly track whether a given transaction is for dry cleaning or non-dry cleaning services such as wet cleaning, so it is not clear whether it is possible to objectively audit and prove a violation. However, the DCP will do audits and attempt to ensure compliance with the law.

Administrative Expenses

The DCP's administrative expenses (those not related to cleanups at specific sites) were \$238,924 in fiscal year 2014. Data is not yet available for fiscal year 2015. The administrative cost for running the dry cleaner program has increased by about 3.7% per year over the period shown in Figure 1.

That cost is affected by how many hours DEQ staff spend administering the program (or on other projects within the agency), staff pay rates, and DEQ overhead rates. Some committee members

expressed frustration with the administrative costs and felt that costs should be decreasing because Oregon has fewer dry cleaning facilities than before.

The DCP is looking for cost savings through IT upgrades and getting DCP staff involved in other projects as appropriate. However, the DCP is also working harder in several areas, including a goal to inspect all dry cleaning facilities within a 5 year cycle, and investing staff time in attempting to recover cleanup costs through pursuing settlements with insurance companies. Fee audits will also require staff time.

Springvilla Insurance Settlement

DEQ concluded an insurance settlement related to Springvilla Cleaners, a former dry cleaner in Springfield, Oregon. Starting in 2009, DEQ worked with the former property owner to negotiate the settlement with insurers who had issued policies for the site. DEQ recovered \$800,000 in past costs at the site, out of \$1.3 million spent. The former property owner recovered \$125,000 out of a total of \$330,000 they had spent at the site. Next steps in the cleanup at the site will be funded by the insurance companies, under DEQ oversight through the Voluntary Cleanup Program. It's possible that the DCP may someday have to fund work at the site again if the insurance policy limits are reached. DEQ's portion of the \$800k settlement has been deposited into the DCP environmental response account, and is available to fund cleanup at other sites.

One way the settlement funds could be used over time is shown in Figure 2.

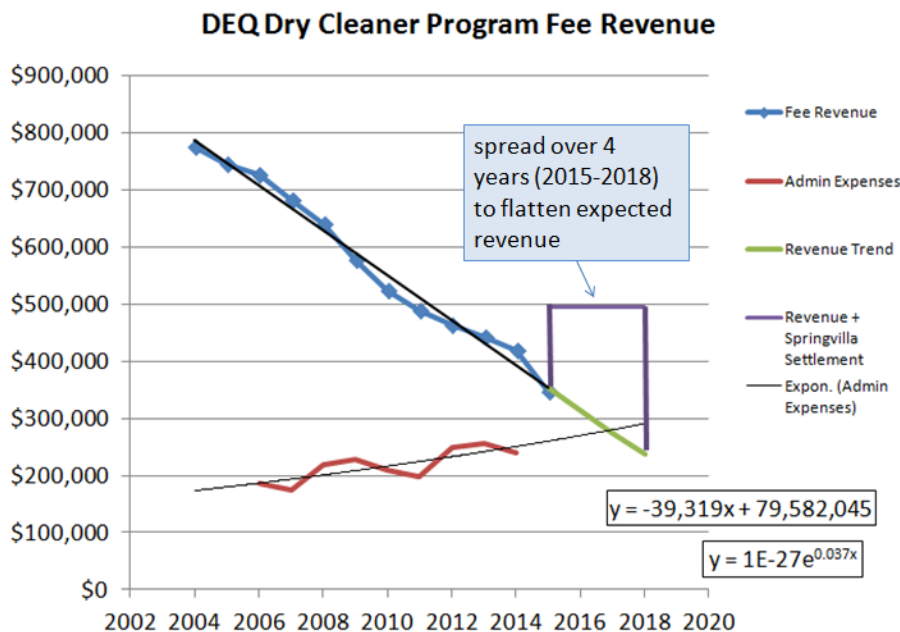


Figure 2: One way to use Springvilla settlement funds, to extend the ability of the Dry Cleaner Program to do cleanups until 2018.

The DCP also received \$180k in funds available for other sites from a 2014 settlement for McAyeal's Cleaners. These settlements were a significant success for the dry cleaner program, and will help fund DCP cleanups in the next few years. However, these were years-long negotiations, and the amounts recovered are a portion of what DCP had spent to clean up these sites. No new settlements are on the horizon.

Even with the settlement funds, at current trends the DCP will be unable to fund cleanups and begin to be unable to fund its own operations in about 2018.

There are these options available:

- **Take no action.** This would leave the dry cleaner program in place, with responsibility for cleanups but without money to do cleanups.
- **Let program sunset.** Stop collecting fees and revert cleanup liability back to property owners or operators.
- **Decrease expenses.** DEQ is working on this. However, it appears this won't be enough on its own if fee trends continue.
- **Increase revenues.** It's possible that fee audits may succeed in increasing fee revenue under the existing fee structure. Several alternative fee structures were also explored at the meeting and are described below.

FEE SCENARIOS

Several advisory committee members have approached DEQ with fee scenarios they favor. These were discussed in concept during the meeting:

1. Flat fee
2. % of total revenue fee
3. Sliding scale % of total revenue fee

These concepts are further described below.

Fee Scenario: Flat Fee

Concept: payment of fees based on revenue from dry cleaning is difficult to enforce, because dry cleaners may not have computerized records, and it is difficult to track which garments are washed in water (not subject to the fee) and which are ultimately dry cleaned.

Advantages:

- Eliminates fees based on hard-to-verify dry cleaning revenue
- Would encourage retirement of rarely-used perc machines
- Cost of potential cleanup depends on past practices and is not necessarily correlated with size of current business

Disadvantages:

- Businesses with low revenue may struggle to pay

Fee Scenario: % of Total Revenue Fee

Concept: total revenue of a business may be easier to verify than dry cleaning revenue. Dry cleaners could provide a copy of their IRS income tax forms, and/or a copy of the annual income report they get from their credit card processing company. Basing more of the fee on revenue may make it easier for those operations to pass the cost along to their customers, perhaps as a percentage on their bill.

Advantages:

- Smaller change from existing fee structure
- Easier to verify than current fee on revenue from dry cleaning services only
- Dry cleaners may find the fee easier to pay by adding a percentage customers' bills

Disadvantages:

- Fee would include activities such as wet cleaning, alterations and coin laundry, which make up a large percentage of revenue for some businesses. These businesses may quit dry cleaning rather than pay the increased fee.
- Depending on the statute language, there may be a loophole if business owners can reduce their fees by putting non-dry cleaning operations into a separate business entity.

Fee Scenario: Sliding Scale % of Total Revenue Fee

Concept: Same as the “% of Total Revenue Fee” scenario, except that the percentage of total revenue a dry cleaner needs to pay would decrease with higher revenue. In terms of who pays how much, this could be a compromise between the flat fee and total revenue fee proposals.

Advantages:

- Compromise between the flat fee and total revenue fee proposals

Disadvantages:

- More complicated to explain than other proposals

Moving Forward

DEQ is proposing a goal to get relative agreement within the committee on whether and how the fee structure should be changed, and document that in written form by the end of 2015. That would be on track for that concept to go into DEQ's legislative process for the 2017 legislature.

Next meeting scheduled: Because time for reaching consensus about fee changes is limited, the committee will likely meet more often during the remainder of 2015. The committee requested that the next meeting be scheduled in late May 2015.