



# SB 263 Materials Management Rulemaking

## Fiscal Impact Statement

Oregon Department of Environmental Quality  
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### **Fiscal and Economic Impact**

#### **Purpose**

Senate Bill 263 makes fundamental changes to Oregon's Recycling Opportunity Act. The Act, as amended by SB 263, offers lists of elements for local governments to choose from in creating their recycling or waste prevention and reuse programs. Whether and to what extent those programs are required of a local government depend on the jurisdiction's population and location.

The proposed rules would implement much of SB 263. This document explains the significance of the fiscal impacts of the proposed rules on: the Oregon Department of Environmental Quality; state and federal agencies; local governments; the public; and large and small businesses.

Before adopting the proposed rules, DEQ must provide the public an advance notice that includes a fiscal impact statement. The FIS must identify any fiscal impacts on the groups previously listed. The FIS must also estimate any significant economic impacts on businesses and compliance costs for affected small businesses. Lastly, the FIS must ascertain whether the proposed rules would affect the development cost of a 6,000-square-foot parcel and construction of a 1,200-square-foot detached, single-family dwelling on that parcel.

DEQ has appointed an advisory committee to review this FIS. As ORS 183.333 requires, DEQ has asked for the advisory committee's recommendations on:

1. Whether the proposed rules would have a fiscal impact;
2. What the extent of that impact would be;
3. Whether the rule will have a significant adverse impact on small businesses; and
4. Whether, if there is a significant adverse impact on small businesses, how DEQ can mitigate that impact.

This FIS contains estimations based on available information. DEQ, although not required to perform original research for this FIS, has gathered information from local governments and other stakeholders. DEQ has used that information in models that show whether the proposed rules would have a significant adverse impact on stakeholders, including Oregon's small businesses.

To emphasize: the figures and estimates in this FIS are neither regulatory mandates nor expectations of recycling and recovery program investments from local governments or other stakeholders. The projections made in this FIS have been made for the purpose of evaluating potential fiscal impacts. This FIS is not designed to predict or influence rate setting or other decision-making by local governments, which is their responsibility, not DEQ's.

### **Brief Summary**

The proposed rules' fiscal impacts most directly relate to local governments' and DEQ's expenses. Local governments have discretion about whether or how to respond to those direct fiscal impacts. For this FIS, DEQ recognizes that the proposed rules could affect waste collection service rates for local governments that are directly affected by the proposed rules.

The proposed rules would have, at most, minor fiscal impacts, whether direct or indirect, on the aforementioned categories and on housing development and construction. Fiscal impacts on small businesses should also be relatively low.

That said, DEQ recognizes that the fiscal impacts of the proposed rules could be experienced differently across Oregon depending, in particular, on local economic circumstances. Fiscal impacts could vary for each local government depending on its funding for collection services as opposed to its other government services.

### **Proposed Rules**

DEQ proposes new rules to conform existing recycling and waste prevention and reduction rules to revised requirements under SB 263. The proposed rules would:

- Revise each watershed's recovery goal, which is no longer mandatory and subject to DEQ enforcement, as well as Oregon's statewide food waste, plastic, and carpet recovery goals.
- Amend the expanded education and promotion element – which educates collection service customers on materials management priorities – to include a contamination reduction education plan. The plan would require participating local governments to determine contamination levels in recyclables and take action to reduce contamination.
- Add four new recycling program elements, increasing to thirteen the options available to local governments. The new program elements are:
  - A commercial recycling program, which would require commercial generators of solid waste that generate large amounts of recyclable materials to source-separate recyclable materials;
  - A program for monthly or more frequent on-route collection and composting for food and other compostable waste from residential collection service customers;

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- A recovery program for construction and demolition debris; and
- A food waste collection program that would require nonresidential generators that generate large amounts of food waste to source separate that waste for recovery.
- Revise minimum numbers of recycling program elements required for certain cities. For each city that has a minimum number of recycling program elements, the county administered area between the city's limits and urban growth boundary, or, within Metro, the area outside the city's limits but within Metro, would also need a recycling program with the city's minimum number of elements.

In short, the proposed rules would revise the recycling program element minimums in these categories:

- Cities within the Metro Urban Growth Boundary would increase by three elements to a minimum of either seven or eight;
- Cities with over 50,000 population and within 150 miles of Portland would increase by two elements to a minimum of six or seven;
- Cities with over 10,000 people but not more than 50,000 and within 150 miles of Portland would increase by one element to a minimum of either five or six; and
- Cities with over 4,000 people but not more than 10,000 and within 120 miles of Portland would increase by one element to a minimum of four.
- Add seven new waste prevention education and reuse program elements and require minimums ranging from three to five elements for:
  - Each city within Metro or with a population of more than 50,000 people, each county responsible for the area between the city limits and urban growth boundary of a city with a population above 50,000, and each county responsible for an area outside of city limits within Metro's urban growth boundary;
  - Each city with a population of more than 10,000 people but no more than 50,000 within a county of more than 100,000; and
  - Each county of more than 100,000 people that is responsible for the area between city limits and the urban growth boundary of a city with a population of more than 10,000 but no more than 50,000.
- Remove references to the discontinued Two Percent Recovery Rate Credit programs ("Two Percent Credit Programs").

- Revise rules on alternative programs for meeting local governments' minimum recycling requirements and, where applicable, waste prevention and reuse program requirements. The proposed rules would allow a local government using a DEQ-approved alternative program the flexibility of meeting either the lesser of its statutory recovery goal or recovery levels comparable to similar communities.

### **Statement of Cost of Compliance**

The total one-year statewide fiscal impact of these proposed rules on all local governments statewide would be approximately \$640,000 (in 2016 dollars). That total is the average marginal cost annualized over the first five years of implementation.

- Wasteshed Recovery Goals – Estimated Annualized Cost (statewide): \$0.
- Contamination Reduction Education Plan Component of Expanded Education and Promotion – Estimated Annualized Cost (statewide): approximately \$370,000/year.
- Recycling Program Elements and Increased Numbers of Required Minimum Elements – Estimated Annualized Cost (statewide): approximately \$170,000/year.
- Waste Prevention and Reuse Program Elements – Estimated Annualized Cost (statewide): approximately \$100,000/year.

The proposed rules' impacts on small businesses would be indirect – through potential increases in collection service rates billed to small business customers – and low, particularly when considered as a percentage of small businesses' operating costs. Small collection service companies could experience a relatively small direct impact. Large businesses' direct and indirect impacts would also range from negligible to minimal. Similarly, DEQ concludes that the fiscal impacts of the proposed rules on local governments and their licensed and franchised collection service providers would be low. Lastly, DEQ's estimated fiscal impacts on DEQ, other state and federal agencies, and the public would range from negligible to minimal.

DEQ understands that the fiscal impacts of the proposed rules could be experienced differently across Oregon depending, in particular, on local economic differences. The fiscal impact could vary for each local government depending on a local government's spending on collection services as opposed to other government services.

### **Methodology**

The proposed rules update existing rules and add new recycling and waste prevention program requirements for certain local governments. For this FIS, DEQ made a model of existing local government programs and the program changes local governments would need to implement to comply with the proposed rules. The model evaluates only the costs incurred to implement changes in local programs required by the proposed rules – the

marginal costs, not local programs' total costs. Costs would be directly incurred by the local governments subject to the Recycling Opportunity Act or, in many cases, the collection service companies franchised to provide services.

DEQ's model then predicts potential collection service rate impacts. The model does not distinguish between direct fiscal impacts on local governments and indirect fiscal impacts on the collection service companies contracted to handle recycling. Thus, for the purpose of this FIS, fiscal impacts on collection service companies are deemed direct fiscal impacts. Most local governments can recover increased costs through changes in franchise fees, while collection service companies could recover increased costs through rate increases. So although collection service companies could incur fiscal impacts, the companies' net costs (after potential rate changes) could be as low as \$0.

These costs, whether incurred by local governments or collection service companies, could be subsequently passed on to waste generators through higher collection service prices. Thus, those costs could indirectly impact waste generators, including large and small businesses and the public. DEQ has estimated marginal costs to waste generators considering the proposed rules' potential effects on existing collection service rates – i.e., how the rules' fiscal impact would most measurably affect Oregon's businesses and households.

DEQ hired a contractor, Bell and Associates, to assist with this analysis. Bell and Associates is experienced in waste collection system financial analysis in Oregon communities and provided estimates of the potential impact on collection service rates.

#### Modeling Marginal Costs, Not Total Costs

Under the proposed rules, some local governments are expected to experience relatively small fiscal impacts. Although SB 263 increases the minimum numbers of required recycling program elements for many local governments, most already exceed SB 263's higher minimums. These local governments would not need to add more program elements and should incur only minor costs to comply with this portion of the proposed rules. The governments would only incur an increased reporting cost with more program elements to report on but no new implementation. DEQ presumes that the costs of these local governments' existing recycling programs would already be reflected in the governments' existing collection service rates. So the impact on collection service rates in these jurisdictions should be low. In contrast, local governments subject to additional recycling program elements and which do not satisfy new requirements with current services will incur higher costs: both for reporting and, more significantly, for actual delivery of new services.

The waste prevention and reuse program elements are new, and a minority of Oregon local governments are required to implement them. But in most of these jurisdictions, the waste prevention and reuse requirements are already met, in part, through existing services and programs. Thus, this FIS only covers the marginal costs of local

governments meeting the proposed rules' waste prevention and reuse program requirements.

DEQ makes an exception to its marginal cost approach regarding the revised expanded education and promotion recycling program element. The proposed rules amend the expanded education and promotion element to also require action to assess contamination in collected recyclables and use education to reduce that contamination. Although many Oregon communities already have programs to evaluate or reduce contamination, DEQ chose not to seek information on current contamination-related efforts for all local governments. Rather, DEQ estimates the proposed rules' new contamination education as a total, zero-baseline cost. By not using its marginal cost approach in this instance, DEQ likely overestimates local governments' new costs of implementing contamination reduction education programs.

#### Cost Model Covering Local Governments in Oregon

DEQ's cost model estimates fiscal impacts at the local level. The model covers the 87 Oregon cities subject to the proposed rules and their counties. DEQ anticipates that the proposed rules would necessitate program changes in only some of those 87 cities. DEQ has reviewed local governments' existing compliance with recycling program element minimums. For local governments subject to the waste prevention and reuse program proposed rules, DEQ has also analyzed wastesheds' prior Two Percent Credit Programs.

DEQ's evaluation includes whether local governments' existing programs would already satisfy the proposed rules. Where existing programs would not fully satisfy the proposed rules, DEQ identifies compliance gaps. DEQ then estimates the costs of bridging those gaps. If a city has a potential compliance gap, then DEQ assumes the same gap applies to the unincorporated areas within that city's urban growth boundary. In those unincorporated areas, the county would be responsible for complying with the proposed rules.

#### Direct and Indirect Costs

The costs of these proposed rules could be paid for directly or indirectly:

- Directly using local government resources or the resources of licensed or franchised collection service companies delegated duties by their local governments; or
- Indirectly through taxpayers or ratepayers potentially paying for these additional services.

Some costs would be paid for directly and indirectly but would not actually be incurred twice. A local government or licensed collection service could incur a direct cost and could receive reimbursement of the cost by passing it through to ratepayers, who would pay it indirectly.

Jurisdictions with franchised waste hauling agreements almost always require that the collection service pay a “franchise fee” for the exclusive right to collect waste within a service area. This fee amount varies in Oregon, but it is typically three to five percent of gross receipts.

Local governments could pass on their costs of complying with the proposed rules to ratepayers through franchise fees. Franchisees could pass on any higher costs they incur to ratepayers. Higher rates could create more revenue, which, because franchise fees are typically percentages of gross receipts, would result in higher franchise fee payments to local governments. Such payments could partly offset the proposed rules’ fiscal impacts on local governments.

### Cost Estimates

Sources included cost estimates provided by a sample of counties, cities, and franchised waste haulers, as well as estimates modeled or generated by DEQ or its contractor, Bell and Associates. Such estimates were based on information from programs already being implemented elsewhere.

### Collection Service Rate Modeling

The rate model used for this analysis includes an operating margin for implementing required programs, assuming collection service franchisees would perform much of the implementation. DEQ modeled costs associated with contamination reduction education programs as being solely passed through into residential single family rates. In contrast, DEQ modeled costs associated with multi-family recycling programs as being solely passed through into commercial service rates. Other costs, such as general reporting and waste prevention and reuse implementation were modeled as system wide costs, allocated into all three collection service lines: residential single-family, commercial (i.e., dumpster), and drop-box collection.

### **Estimated Impacts on DEQ, State and Federal Agencies, Local Government, and the Public**

Based on DEQ’s estimates for itself, other state agencies and federal agencies, the local Oregon governments subject to the proposed rules, and the public, the direct and indirect impacts of the proposed rules would be relatively low.

#### **DEQ**

##### Direct Impacts

DEQ’s materials management program, which would implement the proposed rules, should not experience fiscal impacts beyond revenues received through solid waste fees. Revenue to fund DEQ expenses directly related to the proposed rules was

anticipated during the development of Senate Bill 245, which allowed for increases in tipping fees. The legislature passed SB 245 in 2015 along with SB 263.

Updating the state's overall recovery goal and adding voluntary recovery goals for three specific materials would have a minimal to negligible fiscal impact on DEQ. The metrics and materials involved are already tracked by DEQ's materials management program.

#### Indirect Impacts

Potential pass-through increases in collection service fees could increase DEQ's waste collection service expenses by a relatively small amount. In this way, DEQ is similar to any other large business that either pays for collection service or leases space from a landlord who pays for collection service. See "Impacts on Large and Small Businesses" for a discussion of these impacts.

#### **State and Federal Agencies**

##### Direct Impacts

Besides DEQ, there would be no direct fiscal impact on state or federal agencies as a result of these proposed rules, which would regulate local governments.

##### Indirect Impacts

As with DEQ, potential pass-through increases in collection service fees could increase waste collection service expenses for other state and federal agencies. Any such increase would be relatively small and similar to any other large business that either pays for collection service or leases space from a landlord who pays for collection service. See "Impacts on Large and Small Businesses" for a discussion of these impacts.

#### **Local Governments**

Nearly all fiscal impacts of the proposed rules would be direct impacts on local governments. They are the parties that would be regulated under the proposed rules. All fiscal impacts on local governments should be considered direct impacts unless otherwise noted.

DEQ estimates that annualized marginal costs associated with implementing this proposed rule would be approximately \$640,000 per year for all local governments statewide (in 2016 dollars). This figure represents a cost estimate over the first five years of implementation averaged on a per year basis. The figure includes all costs that could be incurred by local government franchised or permitted collection service companies acting as their agents.

Costs are estimated and described below for each of four areas of this rule: wasteshed recovery goals; contamination reduction; increased numbers of required recycling program elements; and new waste prevention and reuse elements.

For each of these four areas, DEQ has: (1) identified the local governments that may need to modify their recycling or waste prevention and reuse programs to comply with the proposed rules; and (2) estimated those costs of compliance. Estimates are discussed in the same order as this FIS's prior summary of the proposed rules.

*Wasteshed Recovery Goals*

Revising DEQ's rules to reflect the now voluntary wasteshed recovery goals in SB 263 would have no fiscal impact. In fact, local governments could experience financial savings, as DEQ would remove the administrative compliance burdens for local governments that fall short of their wastesheds' recovery goals. But any such potential financial savings have not been estimated.

Estimated Annualized Cost (statewide): \$0.

*Contamination Reduction Education Plan Component of Expanded Education and Promotion*

DEQ's proposed rules amend the requirements of the expanded education and promotion element to include contamination reduction and education plans. DEQ's evaluation of local governments shows that 79 cities and their associated counties use the current rules' expanded education and promotion element in their recycling programs. One more jurisdiction, Junction City, plans to add the expanded education and promotion element to meet its newly increased minimum of required recycling elements under SB 263 (and, thus, the proposed rules). Most of these local governments use the expanded education program element in its entirety. A few, such as Newport and Hermiston, currently have DEQ-approved alternative recycling programs that include some expanded education and promotion.

All local governments using the expanded education and promotion element, whether in whole or part, would be subject to the proposed new requirements for assessing contamination and taking action to reduce it. Local governments that find contamination reduction education plans to not be cost effective could stop using the expanded education and promotion recycling program element and choose another element instead.

DEQ generally assumes most local governments would, as the proposed rules allow, choose the least expensive option when considering which recycling program elements to add or replace to meet the new minimums. But DEQ does not presume which cities would opt to retain the expanded education and promotion element, which requires a new contamination reduction education plan, or use a replacement recycling program element. Those decisions would be made at the discretion of local

governments. Indeed, SB 263 was designed so communities could flexibly implement their recycling programs from the expanded thirteen available program element options or through an alternative program.

For this FIS, DEQ has evaluated the cost of complying with its proposed rules on contamination using a DEQ-developed sample contamination reduction education plan. That plan is merely an example. DEQ neither presumes nor would require that any local government use that particular sample contamination reduction plan.

In contrast to DEQ's marginal cost approach to new recycling program elements, DEQ has estimated costs of implementing contamination education reduction plans from a "zero baseline" perspective. For the purpose of this FIS, DEQ assumes, despite knowing otherwise, that no Oregon local governments are currently evaluating contamination or acting to reduce contamination with education.

DEQ's assumption creates an artificially high estimate of the contamination component's fiscal impacts. But DEQ's approach is much simpler than surveying over 70 cities to evaluate the current contamination management expenditures in each.

Cost estimates for this sample implementation plan stem from discussions with local governments. Estimates have been simplified and include costs of labor, vehicles, route maps, printed cart tags, and safety equipment. Also included is an estimate of the labor required to report contamination education reduction plans to DEQ.

Not included are the potential positive fiscal impacts. These are estimated cost reductions in solid waste system costs, which DEQ expects will result from less contamination in cities' waste streams.

Estimated Annualized Cost (statewide): approximately \$370,000/year.

#### *Recycling Program Elements and Increased Numbers of Required Minimum Elements*

DEQ's analysis suggests that these cities (and their associated counties) would need to add or modify programs to meet the increased number of recycling program elements required by SB 263: Eugene; Springfield; Junction City; Woodburn; McMinnville; and Newberg.

Each city would need to add a recycling program element. Although King City might also need to increase its number of recycling program elements, it is expected to apply for and receive alternative program approval. This list is based on DEQ's current information and may be modified based on new information.

For each city, DEQ has evaluated the number of elements currently satisfied and the number of elements required. DEQ has made some assumptions, sometimes based on

information from cities' staff, about which additional elements each city might draw from to meet its minimum. DEQ generally assumes cities would satisfy their minimum requirements by choosing less costly and easier to implement recycling program elements.

DEQ's assumptions are made for the sole purpose of estimating fiscal impacts. They are not DEQ's predictions, recommendations, or mandates.

DEQ assumes:

- Eugene would require mandatory multi-family recycling – element OAR 340-090-0040(3)(d) – or would implement a voluntary residential food waste collection program – element OAR 340-090-0040(3)(k).<sup>1</sup> The multi-family recycling program element is used for the estimate in this FIS, because that is the less costly of the two.
- Springfield would implement solid waste residential collection rates that encourage waste reduction, reuse and recycling through reduced rates for smaller containers – element OAR 340-090-0040(3)(h).
- Junction City would make some changes to its education and promotion materials – element OAR 340-090-0040(3)(c).
- McMinnville and Newberg would mandate multi-family recycling – element OAR 340-090-0040(3)(d) – each by adding an enforcement mechanism, such as amending their franchise agreements.
- Woodburn would do the same as McMinnville or Newberg or would implement a voluntary residential food waste collection program, satisfying element OAR 340-090-0040(3)(k).

DEQ derived cost estimates for these programs from several sources, including affected city staff or their franchisees and from DEQ's contractor, Bell and Associates.

DEQ assumes that implementing the mandatory multi-family recycling element, OAR 340-090-0040(3)(d), would pose a smaller direct cost to cities such as Eugene, where multi-family recycling is already widespread but not mandated. Eugene could make its multi-family recycling mandatory by adding an enforcement mechanism.

Because ORS 90.318 requires landlords in cities that have implemented multi-family recycling service to notify and educate their tenants, DEQ assumes that notifying and

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<sup>1</sup> "Mandatory" refers to requirements that landlords be provided with recycling service, and that landlords extend such service to their tenants. Oregon has no state mandate that tenants participate in recycling opportunities provided to them.

educating multi-family residents would only pose a small additional direct cost to cities implementing multi-family recycling element, OAR 340-090-0040(3)(d).

Additional costs associated with implementing the multi-family recycling element include collection service, containers, and transport and processing of recyclable materials, but only in those communities where multifamily recycling service is not already widespread.

Cost estimates for waste collection rate changes (Springfield) include a can weight study of different classes of garbage collection service. The study would be conducted once every five years. Costs include labor for four seasons of field sampling, data entry, analysis, supervision and management, and travel and equipment.

Cost estimates for Junction City's education and promotion changes were provided by the City of Junction City.

Cost estimates for voluntary residential food waste collection include food pails, administration, advertising, tip fee, avoided disposal tip fee, and transportation.

Separately, all local governments with increased minimum numbers of required recovery elements, including local governments already implementing a sufficient number of programs, would be subject to a more time intensive reporting obligation. DEQ assumes that the time required of local governments to annually report to DEQ would increase as their minimum numbers of recycling program elements increase, even if all other marginal costs are zero. This FIS estimates the cost associated with reporting obligations mainly from a 2016 survey of local governments and franchisees and a similar 2005 survey.

Estimated Annualized Cost (statewide): approximately \$170,000/year.

#### *Waste Prevention and Reuse Program Elements*

SB 263 subjects all cities within the Metro region and 18 cities, and their associated counties, outside of Metro to new waste prevention and reuse elements. Under the proposed rules, all of those cities, or their counties or Metro acting on their behalf, would be subject to new planning and reporting requirements. Most would need to modify existing education and outreach materials to satisfy these new requirements. A few cities would also need to expand current services and add or resume programs.

Oregon statute allows for counties and Metro to satisfy these requirements on behalf of their cities. Historically, wastesheds often claimed county- or region-wide use of the Two Percent Credit Programs and sometimes funded or performed these programs using county staff. For those counties that are subject to this proposed rule, DEQ assumes counties would continue to provide such services, as the counties

remain subject to the same requirements as the cities. Such service delivery would satisfy compliance requirements for those cities.

DEQ has reviewed recent documentation of Two Percent Credit Programs. DEQ determined that many communities would use existing programs to satisfy some or all of the first four waste prevention and reuse program element: area-wide education and promotion; residential campaigns; commercial campaigns, and education in schools.

Because draft rules for those first four elements require development and a plan submittal to DEQ, DEQ has included a monetized estimate of staff time for planning and reporting. The net marginal cost of this administration should, at least for counties, be relatively small. Preparation of the plan will streamline subsequent reporting to demonstrate compliance, and counties were already spending some time reporting outcomes under Two Percent Credit Programs.

Further, for those first four waste prevention and reuse program elements, many communities could need to make some adjustments to outreach content or delivery mechanisms. Estimates of these changes are also included in this FIS. DEQ will also provide local governments with plan templates for area-wide education and promotion and residential and commercial campaigns, which would help those governments reduce implementation costs.

For this FIS, DEQ has not included any estimate of the positive fiscal impact of cost savings associated with elimination of the Two Percent Credit Programs, either for reporting or implementation. DEQ has also not estimated any financial savings or other community benefits resulting from enhanced waste prevention or reuse.

For a few cities, implementing the proposed changes discussed previously in this “Waste Prevention and Reuse Program Elements” section might not fully satisfy the proposed waste prevention and reuse program rules:

- DEQ assumes that the Jackson County Recycling Partnership would reinstate and maintain its reuse guide for Jackson County (the “Re-Directory”) to satisfy the waste prevention and reuse technical assistance element. Because the county only recently discontinued its contract to maintain that service, DEQ considers the marginal costs of restarting the service to be zero. Even after re-instating the reuse guide, Medford might satisfy only four waste prevention and reuse elements (five are required). DEQ assumes that Jackson County and Medford would choose edible food rescue as their fifth element, and they would use a combination of current food rescue funding and either local ordinance review or public outreach.
- Albany should satisfy four elements with only small changes to existing programs. DEQ’s assumed fifth element for Albany, education programs in schools, is already partially satisfied. Increasing the number of students

contacted would satisfy the required fifth element. Albany's franchised collection service company has provided DEQ with an estimate of the cost required to conduct this additional outreach.

Cost estimates were derived primarily from a survey of local governments and waste collection companies. Survey questions focused primarily on start-up costs; DEQ supplemented these estimates with assumptions about maintenance costs in subsequent years, consistent with the standards proposed in the draft rules. Responses for each responding community were used to estimate costs for that community. Where communities did not respond or were not surveyed, DEQ used averages drawn from survey responses.

As with recovery elements, this FIS also includes an estimate of the costs associated with annual reporting to DEQ for the purpose of demonstrating compliance.

Estimated Annualized Cost (statewide): approximately \$100,000/year.

## **Public**

### Direct Impacts

These proposed rules, which regulate local governments, would have no direct fiscal impact on the public.

### Indirect Impacts

DEQ assumes that costs incurred by local governments or their implementing collection service businesses would be reflected in customers' collection service rates, either as an allowable operating cost or through an increase in franchise fees. This may artificially inflate estimates of indirect impacts, as some labor costs could simply be absorbed by existing local government staff.

Estimated rate impacts on households would vary depending on the particular community, its size, and the extent of its new obligations under the proposed rules (if any). Rate impacts can be simplified into four categories based on how local governments would be affected:

1. Among local governments that only need to implement a contamination reduction program to satisfy the proposed rules' minimum requirements, the estimated rate impact for households with collection service averages \$0.04/month. Examples of cities in this category include: Coos Bay; Grants Pass; Klamath Falls; Prineville; and Pendleton.
2. A second category of local governments would incur only one more fiscal impact: more reporting associated with a higher number of required recycling program elements. Examples of cities in this category include: Astoria; St.

Helens; Hood River; The Dalles; Independence; Madras; and Tillamook. The total estimated rate impact (contamination + reporting additional elements) for households with collection service in these communities averages \$0.05/month.

3. A third category of local governments would incur another fiscal impact that could be allocated, at least in part, to single family collection rates: complying with the new waste prevention and reuse elements. Local governments in this county include, as examples: Medford and Jackson County; Corvallis and Benton County; Eugene and Lane County; Bend and Deschutes County; and the cities and counties within Metro. The estimated rate impact for households in these communities is \$0.08/month.

That said, this average is inflated because of four outliers: the small east Multnomah County cities of Maywood Park, Wood Village, Fairview and Troutdale. Unlike smaller cities elsewhere in the Metro region, such as Gladstone or Durham, the Multnomah County cities are not currently satisfying requirements of the waste prevention and reuse programs through their county government's activities. Thus, the cost model treats each of these small cities as requiring separate and independent program development, implementation, and reporting to DEQ. Because their populations are small, these fixed costs result in higher per-household rates.

Once implementation is actually required, DEQ assumes those cities will likely partner with each other or other local governments, such as Gresham, Portland, Multnomah County, or Metro, to deliver at least some of the types of services required by the waste prevention and reuse program elements. So the estimates for these cities contained in DEQ's cost and rate model may be unrealistically high. By removing these four outlier cities from the data set, the estimated rate impact for households in this group of communities falls to \$0.05/month (average), with a maximum value of \$0.07/month.

4. Last is the category of cities that would be required to implement another recycling program element and choose an element that has costs wholly or partially allocated to household rates. These cities include: Junction City; Springfield; and, potentially, Woodburn. Modeled rate impacts for households are \$0.29/month in Junction City, \$0.06/month in Springfield, and \$0.23/month in Woodburn if Woodburn implements residential food waste collection. Woodburn could decide to implement multi-family recycling instead, in which case the impact on single-family household garbage rates would be less.

It should be noted these are all average household rate impacts. Rate impacts in Springfield will be more variable as a consequence of adopting collection rates set on a per-pound basis; customers with larger containers could see their

rates increase more, while customers with smaller containers could see their rates decrease.

## **Impacts on Large and Small Businesses**

DEQ concludes that the proposed rules would not directly impact large or small businesses (save for a relatively small impact on collection service companies). But there could be relatively low indirect impacts on large and small businesses due to potential rate increases for business customers of collection service companies. As discussed in this section, however, those impacts would constitute a small amount of either a large or small business's operating costs.

### **Large businesses – businesses with more than 50 employees**

#### Direct Impacts

DEQ's proposed rules, which regulate local governments, would have no direct fiscal impact on large businesses besides, potentially, large businesses in the collection service industry.

As previously described under "Methodology," DEQ's model predicts collection service rate impacts but does not distinguish between direct fiscal impacts on local governments and indirect fiscal impacts on the collection service companies contracted to handle waste and recycling. So for the purpose of this FIS, fiscal impacts on collection service companies are considered direct fiscal impacts.

Of course, collection service companies have the ability to recover increased costs through rate increases. So the net cost to those companies over time is expected to be close to zero. In fact, because many franchise agreements provide for an operating margin (which includes profit) as a percentage of allowable costs (including regulatory compliance) many franchised waste companies could realize a small net financial benefit from these proposed rules.

DEQ concludes that the proposed rules would not directly impact large business generally but could have a relatively small impact on large collection service companies.

#### Indirect Impacts

Every business, regardless of size, that uses waste collection services could experience some indirect fiscal impact as a result of these proposed rules. But that fiscal impact on businesses' overall operating costs would be relatively small at most.

As noted previously, DEQ assumes that the collection service industry's implementation costs would eventually be passed on to customers through rate review. Implementation costs incurred by local governments would also be passed on

to ratepayers through higher franchise fees. Businesses that are customers of these franchised collection service companies could be billed at higher rates.

To evaluate the extent of possible rate impacts, DEQ analyzed program costs and collection service rates. Cost projections have been entered into rate models for a cross-section of Oregon jurisdictions to generate a range of likely rate impacts. As discussed previously under “Collection Service Rate Modeling,” the only costs DEQ assumes would be allocated, at least in part, to commercial (i.e., dumpster) rates would be: (1) multi-family recycling costs; and (2) system-wide costs, such as reporting or waste prevention and reuse elements.

As with households, estimated rate impacts on businesses would vary depending on the particular community, its size, and the extent of its new obligations under the proposed rules, if any. Among communities where the only commercial rate impact would be from increased reporting requirements, estimated rate impacts for commercial collection service would average a 0.09 percent increase, with a range across communities from 0.03 to 0.23 percent. These communities include, as examples, Clatsop, Jefferson, Polk, and Wasco Counties.

Among communities that would also incur costs associated with waste prevention and reuse program elements (but not multi-family), estimated rate impacts for commercial collection service would average a 0.15 percent increase. That increase would range across communities from 0.02 to 0.35 percent. These communities include, as examples, Marion County, Portland, and Jackson County. Excluded are outlier results from DEQ’s rate model for small east Multnomah County cities, for reasons discussed previously under “Public.”

DEQ assumes that Eugene, McMinnville, Newberg, and potentially Woodburn would meet minimum recycling program elements by adding multi-family service. Estimated impacts of commercial collection service rates in these communities would average a 0.55 percent increase and range from 0.10 to 0.99 percent.

Junction City has estimated commercial rate impacts of roughly 5.7 percent. This estimate is a result of city-wide implementation costs, primarily expanded education and promotion, allocated across a relatively small rate base.

Even with potential increases in collection service rates, DEQ can assume that impacts on businesses’ overall operating costs from proposed rules would be relatively low. According to the IMPLAN economic modeling system (a widely used software package for modeling economic impacts), across 439 economic sectors in Oregon, “waste management and remediation” costs represent on average 0.19% of business operating costs (for 2010). This estimate includes both primary indirect impacts for Oregon businesses that pay to have their waste removed, as well as secondary (i.e., supply chain) indirect impacts for Oregon businesses that purchase goods or services from other Oregon businesses that pay for waste removal service.

These costs also include costs other than solid waste disposal, such as hazardous waste, spill control, and remediation.

In a worst case scenario, assuming the average Oregon business would spend 0.19% of its operating costs only on commercial garbage collection and disposal service, Table 1 in this section shows the projected net impact on total operating costs for such businesses located in each of the four classes of cities listed in this “Large businesses” section.

**Table 1.  
Projected Increase in Operating Costs for Businesses with Dumpster-Based Waste Collection Service**

<b>Class of Cities</b>	<b>Examples</b>	<b>Impacts</b>
Increased reporting only	Clatsop, Jefferson, Polk and Wasco Counties	Min: 0.00006% Mean: 0.0002% Max: 0.0004%
Increased Reporting + Waste Prevention and Reuse	Marion and Jackson Counties, Portland	Min: 0.00004% Mean: 0.0003% Max: 0.0006%
Increased Reporting + Waste Prevention and Reuse + Multi-family Recycling	Eugene, McMinnville, Newberg, possibly Woodburn	Min: 0.0002% Mean: 0.001% Max: 0.002%
Increased Reporting + Expanded Education and Promotion	Junction City	0.01%

**Small businesses – businesses with 50 or fewer employees**

Direct Impacts

DEQ’s proposed rules would have no direct fiscal impact on small businesses besides, potentially, small businesses in the collection service industry. For the same reasons previously discussed in the “Large businesses” section, DEQ concludes that the proposed rules would not directly impact small business except for a potential relatively minor impact on small collection service companies.

Indirect Impacts

For the same reasons described previously for potential fiscal impacts on large businesses, DEQ’s proposed rules would have a relatively low impact on small businesses. Although collection service rates billed to small businesses could increase, DEQ concludes that impacts on those small businesses’ overall operating costs from proposed rules would be relatively low.

**A. Estimated number of small businesses and types of businesses and industries with small businesses subject to proposed rule.**

The proposed rules would only directly impact local governments, not small businesses. For this FIS, DEQ's model predicts collection service rate impacts but does not distinguish between direct fiscal impacts on local governments and indirect fiscal impacts on the collection service companies contracted to handle waste and recycling. So fiscal impacts on collection service companies are considered direct fiscal impacts.

Oregon Employment Data for 2015 reports that the state's solid waste collection industry had 124 entities that employed 50 or fewer people. Collection service companies have the ability to recover increased costs through rate increases. So although collection service companies could incur direct fiscal impacts, the companies' actual costs, after rate adjustments, would be relatively small and potentially as low as zero over the long term.

Every small business in Oregon that uses collection services could also experience some indirect fiscal impact as a result of these proposed rules. But that fiscal impact on businesses' overall operating costs would be relatively low.

**B. Projected reporting, recordkeeping and other administrative activities, including costs of professional services, required for small businesses to comply with the proposed rule.**

DEQ expects that the proposed rules would result in little or no additional costs for reporting, recordkeeping, and other administrative activities, including the costs of professional services. To the extent the proposed rules could result in any such minor costs for small collection service companies, those collection service companies would have the ability to recover increased costs through rate increases. So although collection service companies could incur fiscal impacts, the companies' net costs, after rate adjustments, could be as low as zero over the long term.

**C. Projected equipment, supplies, labor and increased administration required for small businesses to comply with the proposed rule.**

DEQ expects that the proposed rules would generally result in no additional costs for equipment, supplies, labor, or administration for most small businesses, other than potential garbage rate increases as discussed previously. In addition, small businesses that own or manage multifamily properties may incur a cost associated with notifying tenants of recycling services.

Again, to the extent the proposed rules could result in any costs for small collection service companies, those collection service companies would have the ability to recover increased costs through rate changes. So although collection

service companies could incur fiscal impacts, the companies' net costs, after rate adjustments, should be close to zero over the long term.

**D. Describe how DEQ involved small businesses in developing this proposed rule.**

DEQ included a representative of the Oregon Refuse and Recycling Association (ORRA), whose membership includes small businesses, on its SB 263 Rulemaking Advisory Committee that advised DEQ on the cost of compliance for small businesses. DEQ also provided rulemaking notice to the public and opened meetings to the public.

**Advisory Committee** *[To be completed following the final Advisory Committee meeting.]*

DEQ has appointed an advisory committee to review this FIS.

As ORS 183.33 requires, DEQ asked for the committee's recommendations on:

- Whether the proposed rules would have a fiscal impact,
- The extent of the impact, and
- Whether the proposed rules would have a significant impact on small businesses and whether DEQ has complied with ORS 183.540 by seeking ways to mitigate that impact.

The committee reviewed the draft FIS and economic impact statement and *[its findings are stated in the (document) dated (date)].*

The committee *[specifics about the committee's fiscal impact review]*. The committee determined the proposed rules *[would / would not]* have a significant adverse impact on small businesses in Oregon.

*[If the committee determines the proposed rules would create a significant adverse impact on small business, include the following and explain that outcome of the review: As ORS 183.333 and 183.540 require, the committee considered how DEQ could reduce the rules' fiscal impact on small business by:*

- Establishing differing compliance or reporting requirements or time tables for small business;
- Clarifying, consolidating or simplifying the compliance and reporting requirements under the rule for small business;
- Utilizing objective criteria for standards;
- Exempting small businesses from any or all requirements of the rule; or
- Otherwise establishing less intrusive or less costly alternatives applicable to small business.]

## Housing Cost

As ORS 183.534 requires, DEQ has evaluated whether the proposed rules would have an effect on the development cost of a 6,000-square-foot parcel and construction of a 1,200-square-foot detached, single-family dwelling on that parcel.

The possible impact of the proposed rules would be relatively low. The proposed rules would add four new recycling program elements available to local governments, including a recovery program for construction and demolition debris. That new element, where implemented by a local government, could affect building costs for a new home.

That said, this construction and demolition debris recovery element is one of thirteen recycling program elements a local government may choose from. Although the proposed rules would increase the minimum number of recycling program elements certain local governments must implement, DEQ does not anticipate that any local government needing to implement a new element would choose the construction and demolition debris recycling element.

The proposed rules could also affect development and construction costs through increases in collection service fees, which could increase developers' and construction entities' collection service rates. Land development and construction may be served by drop box collection service. Per EPA estimates, in EPA's Characterization of Building-Related Construction and Demolition Debris in the United States, building a newly constructed 1,200-square-foot dwelling produces less than two tons of solid waste. That amount would fall below the weight capacity of a typical 20-yard drop box.

DEQ's evaluation shows the potential rate impacts on drop box services from the proposed rules would be relatively small for a cross-section of affected cities and counties. The estimated impacts on drop box rates would be, on average, a 0.05 percent rate increase across affected communities. The estimated rate increases range from 0.01 to 0.17 percent. For reasons previously explained in the "Public" section, these numbers exclude the outlier results from DEQ's rate model for small east Multnomah County cities.

DEQ has not estimated how much of a housing development and construction budget is spent on drop box service. But waste disposal is typically a small portion of total development costs, which include land, labor, materials and permits. As such, the estimated cost of the proposed rules on the example housing development and construction would cause even less of a percentage increase.

Thus, DEQ concludes that the proposed rules' effect on the development cost of a 6,000-square-foot parcel and construction of a 1,200-square-foot detached, single-family dwelling on that parcel would be relatively low.

**Documents relied on for fiscal and economic impact**

Document title	Document location
Annual Employment Under 51; 2015 Accessed: August 18, 2016	Oregon Employment Department 875 Union Street NE Salem OR 97311 <a href="http://QualityInfo.org">QualityInfo.org</a>
Oregon Department of Environmental Quality Notice of Proposed Rulemaking Solid Waste Fee and Grants Oct. 15, 2015	<a href="#">DEQ Rulemaking Notice Solid Waste Fee</a>
U.S. EPA Characterization of Building-Related Construction And Demolition Debris in the United States	<a href="#">EPA characterization of construction debris</a>