



Oregon Recycling Modernization Act Commingled Recycling Processing Facility Technical Workgroup

Meeting #3

April 24, 2023



Agenda

- Project updates –
 - Broker roundtable discussion
 - Transition period – in relation to CRPFs
- Crowe LLP – Study Design for Contamination Management and Processor Commodity Risk fees
- Discussion – Living wage and supportive benefits survey
- Public Input
- Adjourn

Introductions

- Introduction of new workgroup members

Project updates

- Broker roundtable discussion
- Transition period



Pic courtesy of Justin Gast



Smart decisions. Lasting value.™

CMF and PCRFB Study Designs

RMA Commingled Recycling Processing Facility Technical Workgroup

April 24, 2023

Crowe LLP and Boisson Consulting Team Members

CMF and PCRf Study Designs



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Agenda

- 1 Key Themes
- 2 Confidentiality, NDA, and Data Security
- 3 Survey Process Overview and Timeline
- 4 Site Visit Checklist
- 5 Methodology Overview
- 6 What to Expect: Financial Interview
- 7 What to Expect: Labor Interview
- 8 Rate of Financial Return
- 9 Average Commodity Value
- 10 Anticipated Costs and Future Adjustments
- 11 Post Site Visit Follow-up
- 12 Questions



Key Themes

Key Themes

Goal: Determine accurate costs of processing commingled recyclables for purposes of determining the Contamination Management Fee and Processor Commodity Risk Fee

Flexibility

- Crowe will work with each facility to utilize your existing financial and labor documentation – we'll meet you where you are
- This will be an iterative process; at the same time, we recognize that you have limited time to support this and we'll work to make it as “painless” as possible
- Reach out if you have questions

Accuracy

- This is not an audit. However, veracity of information is important to ensure fees accurately reflect costs of processing in Oregon – for facilities, PROs, and DEQ
- To that end, we will work with you to validate data to a source document (tax return, company financial statement) and/or to validate source documents (invoices, statements)
- We reconcile labor and financial data to ensure data is consistent. We will evaluate category-specific costs against our own data from previous engagements to identify potential outliers
- We ask a representative from each facility to sign an affidavit attesting to the accuracy of the information provided
- We will conduct a comprehensive quality control process to identify and address potential errors and outliers

Key Themes (continued)

Goal: Determine accurate costs of processing commingled recyclables for purposes of determining the Contamination Management Fee and Processor Commodity Risk Fee

Confidentiality

- Proprietary data provided to Crowe for this study may be designed as confidential by facilities
- Crowe has prepared a non-disclosure agreement for each facility to formalize confidentiality requirements
- Crowe also follows data security best practices
- **Facilities should mark all proprietary information provided to Crowe as “Confidential”**

Study Requirements are Defined in ORS 459A.920 and .923

- Crowe is implementing the Fee Study as required by law
- Our study results will inform DEQ and the Environmental Quality Commission as they implement the law

Confidentiality, NDA, and Data Security

RMA Confidentiality Language, NDA, and Data Security

ORS 459A.920 and ORS 459A.923 include the following:

“Any proprietary information provided to the department under subsection (1)/(2) of this section or to a person conducting a study under subsection (2)/(3) of this section may be designated confidential by a commingled processing recycling facility. Information designated confidential is not subject to disclosure under ORS 192.311 or 192.478, except that information may be disclosed as summarized or aggregated data if doing so does not directly or indirectly disclose the proprietary information of any specific facility.”

Non-Disclosure Agreements

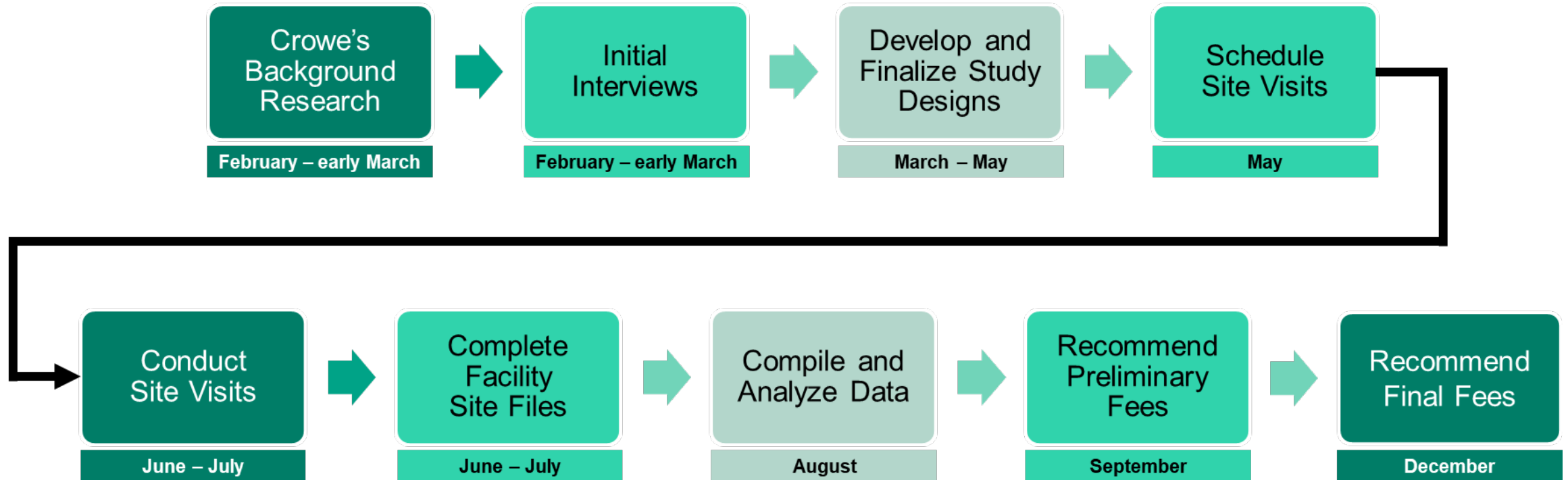
Crowe has prepared NDAs between ourselves and each MRF to further establish confidentiality requirements.

Data Security

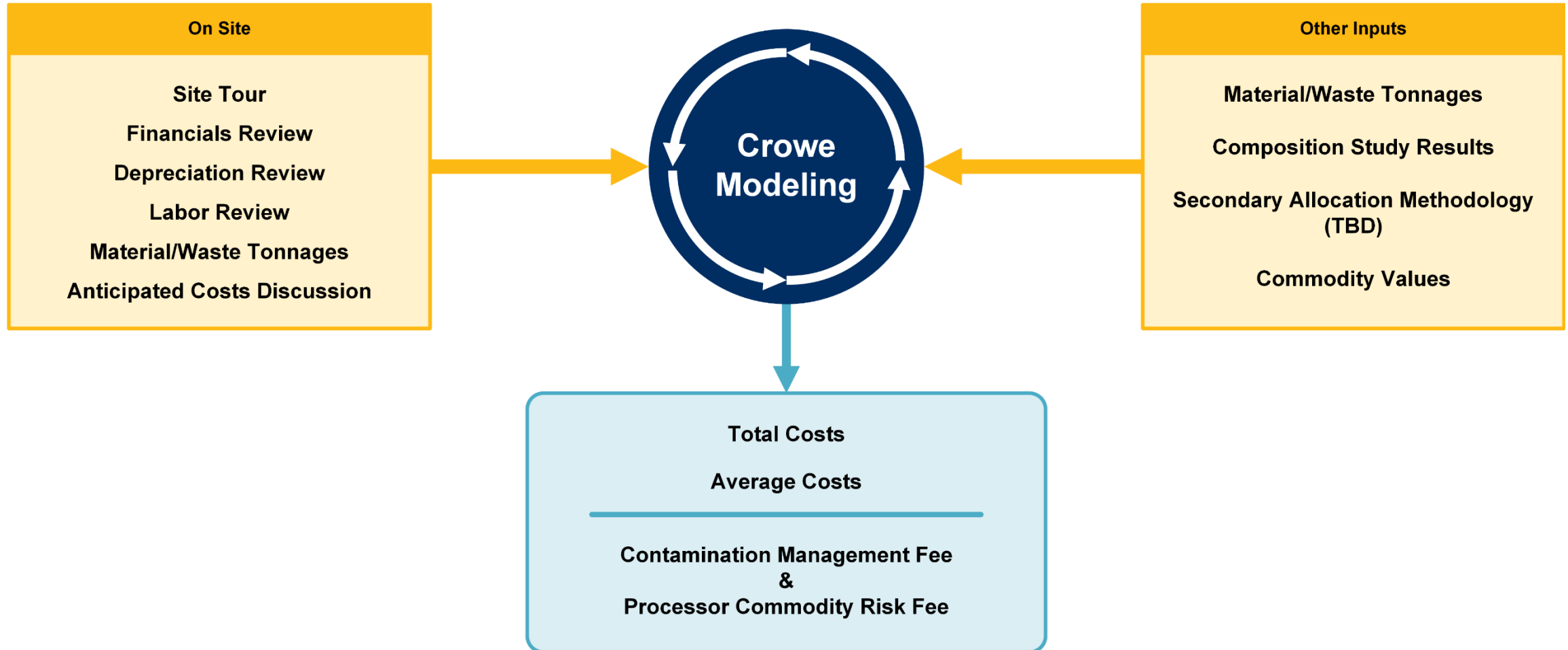
- Crowe’s ShareFile system
- Crowe’s security policies, encryption
- Crowe’s secure SharePoint site
- Data access only to project team

Cost Survey Process Overview and Timeline

Cost Survey Process Overview and Timeline



High Level Overview of Proposed Methodology



Site Visit Checklist

Site Visit Checklist

How to be ready for the site visit / what to expect:

- ✓ Provide as much data as possible ahead of time
- ✓ Have the right people available: finance officer, site manager, operations supervisor(s)
- ✓ Have documentation available (digital and/or hard copies)
- ✓ Plan for a full day (but not everyone is needed the whole time); it could be less than a full day
- ✓ 1st step will be a site tour to:
 - ✓ Walk through sort line processes and material flow
 - ✓ Obtain overview of operations
 - ✓ Identify equipment
- ✓ 2nd step will be office discussions to:
 - ✓ Review financials, line-by-line
 - ✓ Review labor documentation and activities by employee
 - ✓ Discuss anticipated costs
 - ✓ Discuss end-market prices
 - ✓ Wrap up and identify follow-up (if necessary)
- ✓ Affidavit. We will ask a site representative to sign an affidavit attesting to the accuracy of the information provided

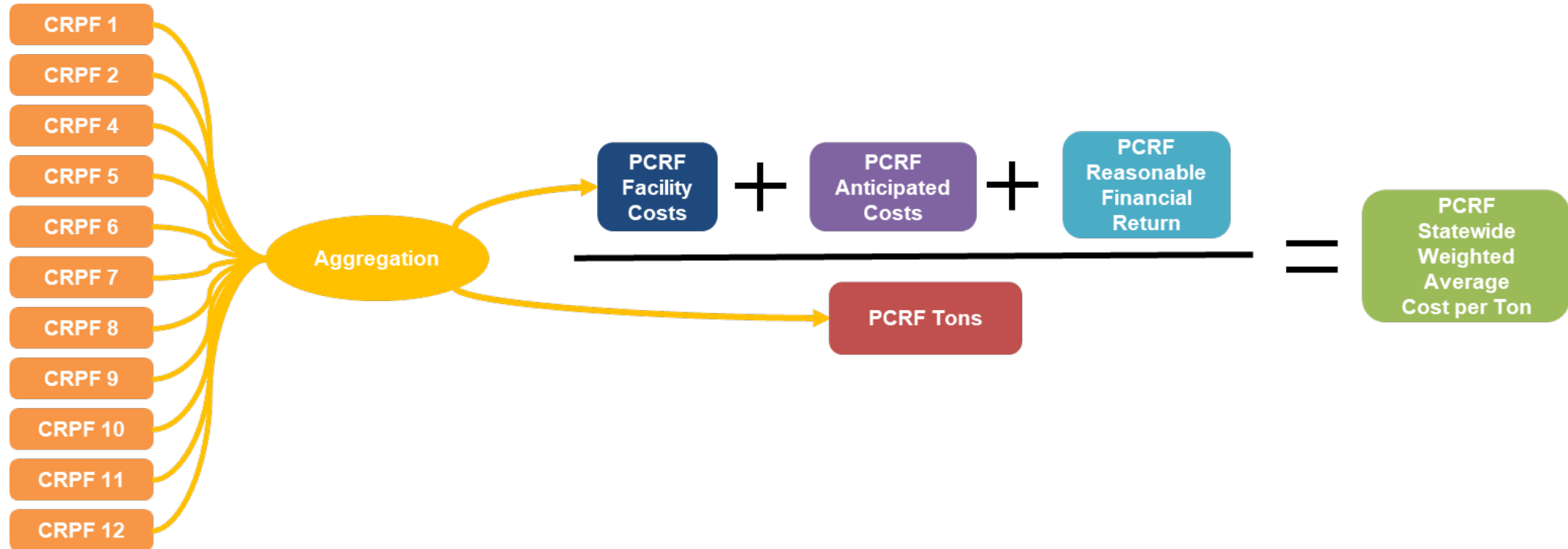
Site Tour

Purpose: Tie financial and operational information together and interview site management, accounting, and operations personnel at each facility to support data collection for the Contamination Management Fee (CMF) and Processor Commodity Risk Fee (PCRf) studies.

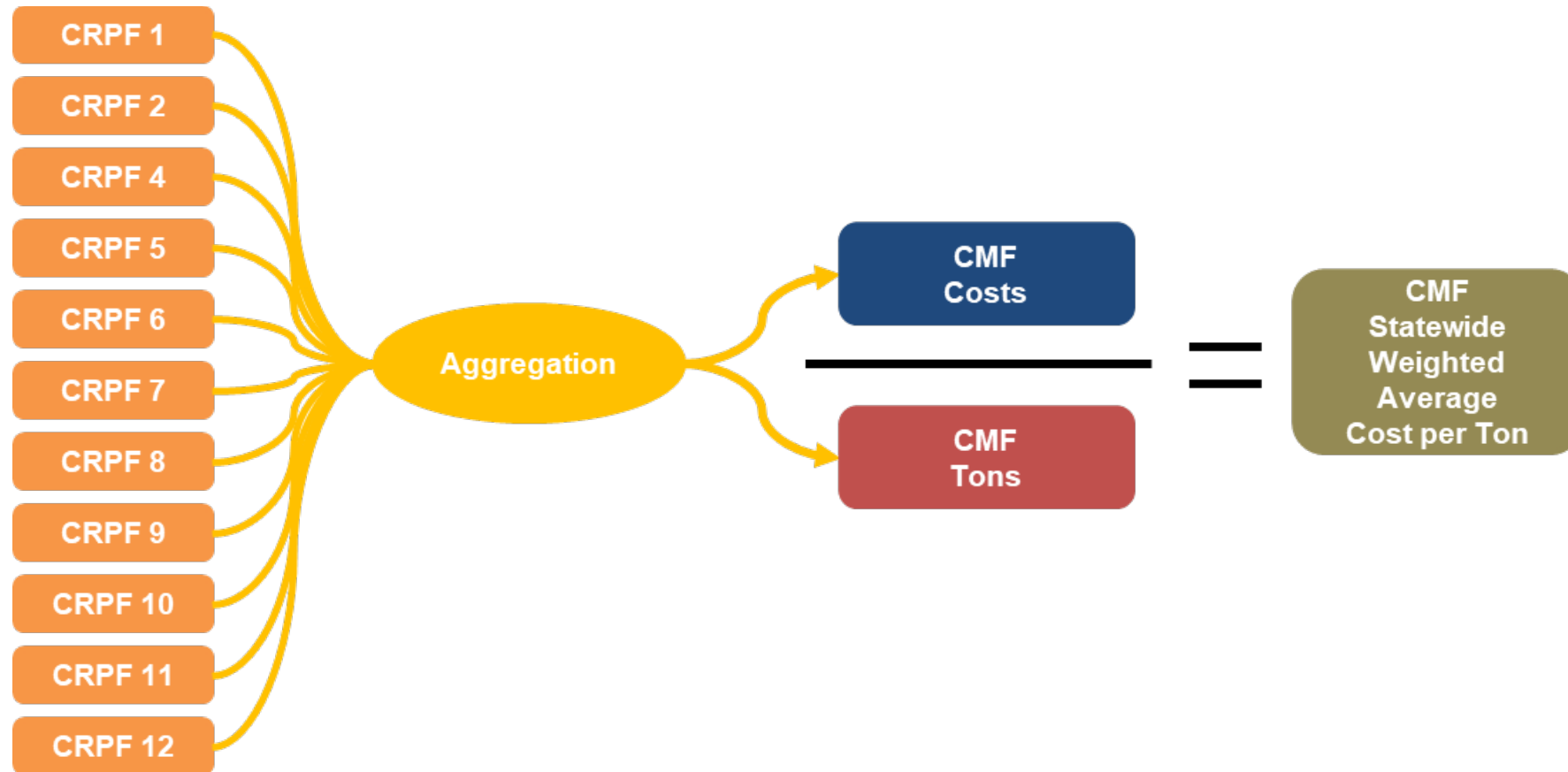
- Tour the site facilities and operations
- Interview site management
- Review financial information with site management/accounting personnel
- Review labor information with site management/operations personnel
- View sorting processes and materials separated
- Identify equipment present at the site
- View materials storage (e.g., bales, bunkers)
- Determine transportation methods
- Understand inbound and outbound material flows
- Discuss future facility upgrades and “anticipated program cost”

Methodology Overview

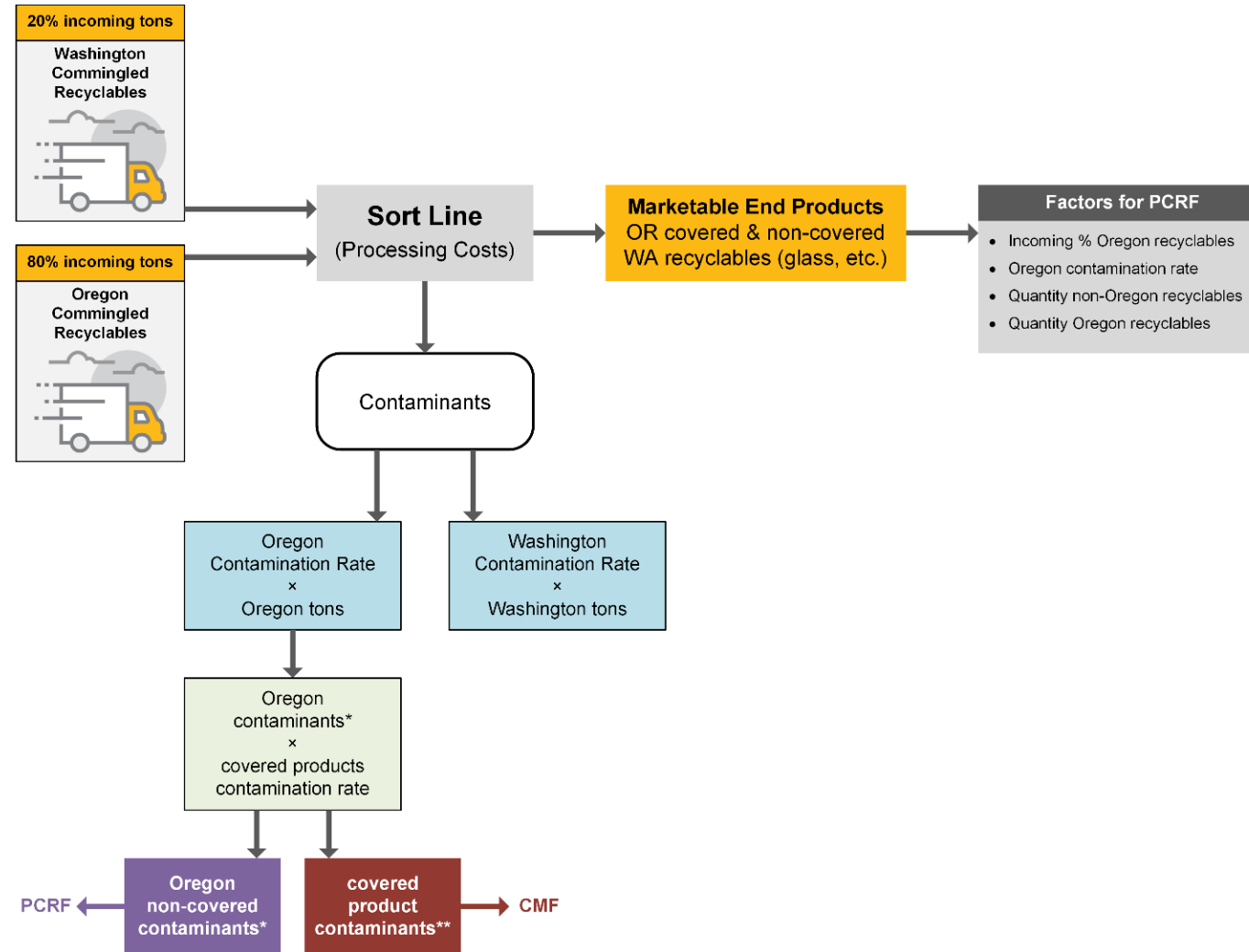
Processor Commodity Risk Fee



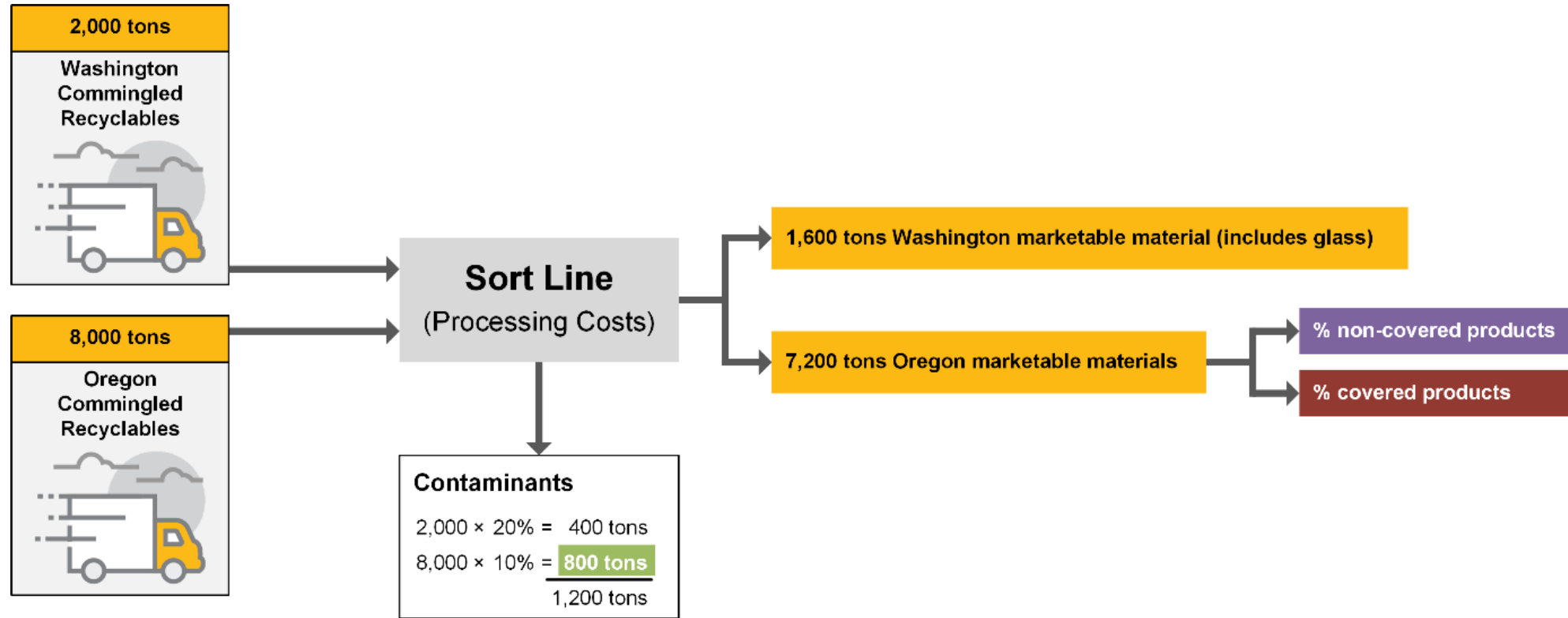
Contamination Management Fee



Example Material Flows and Allocations

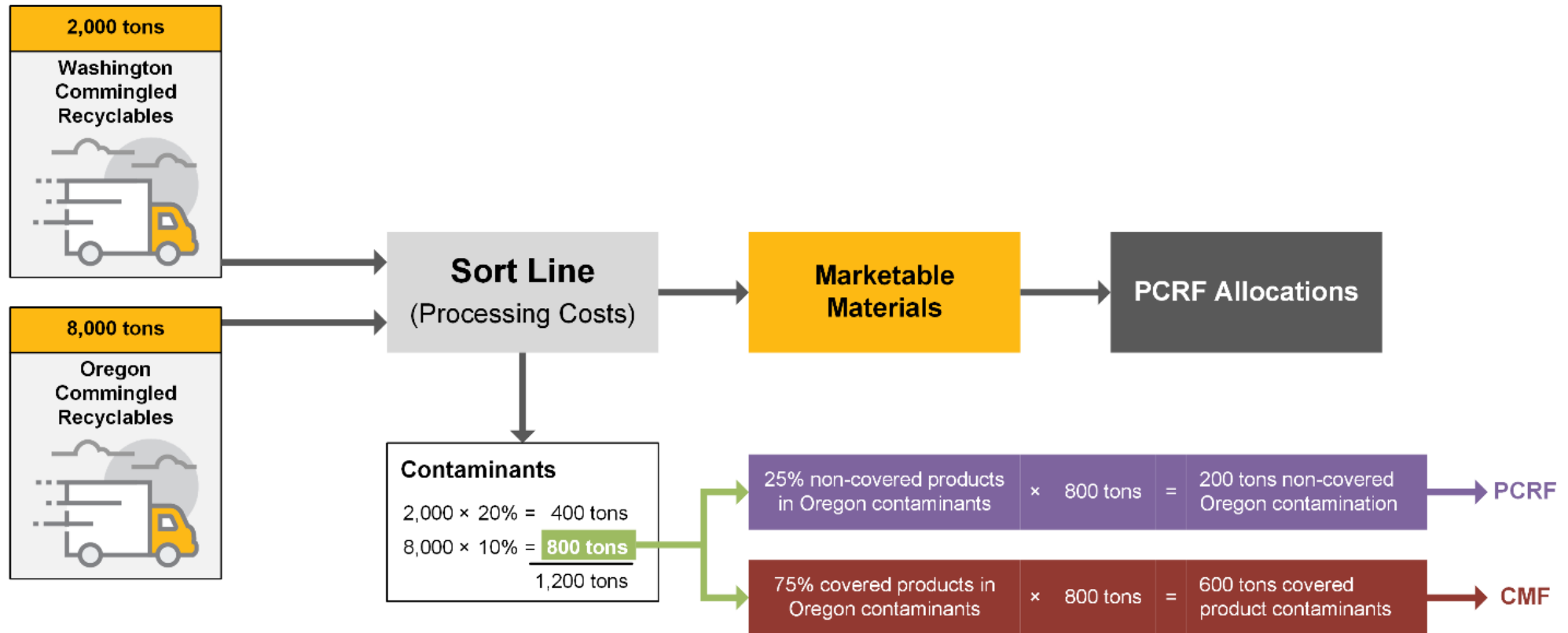


Example of Allocating Between States



Washington: 20% contamination rate
 Oregon: 10% contamination rate

Example of Splitting Costs of Contamination



Washington: 20% contamination rate
 Oregon: 10% contamination rate

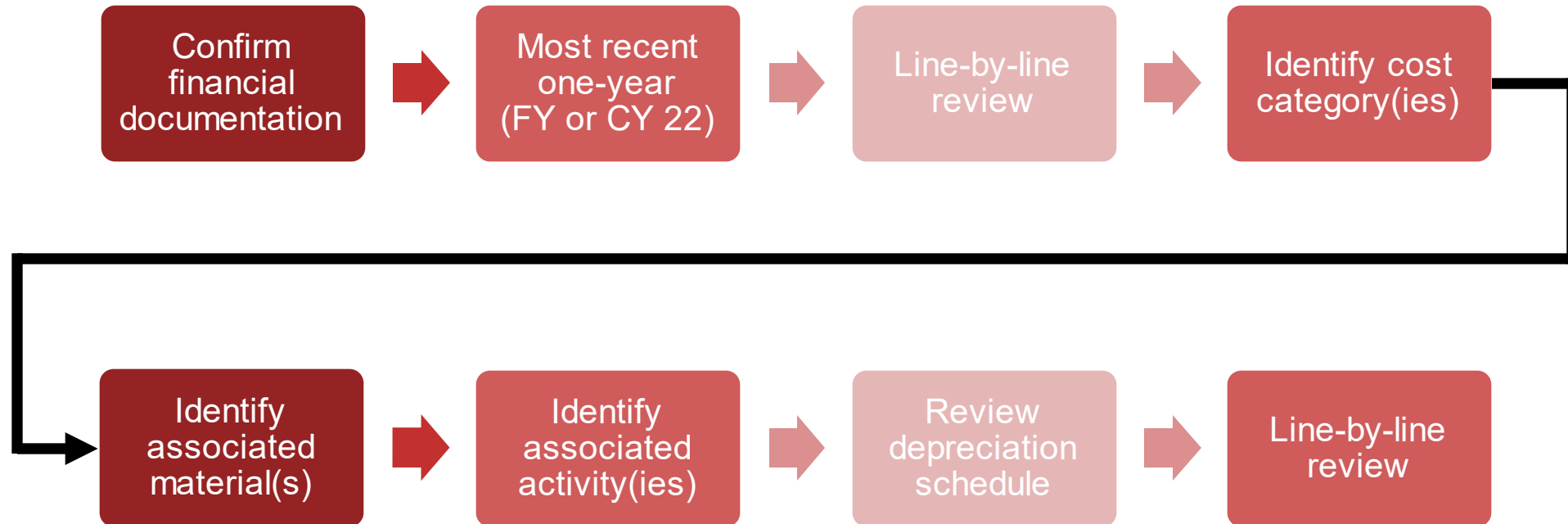
What to Expect: Financial Interview

What to Expect: Financial Interview

Purpose: evaluate all costs associated with the facility to identify allowable and non-allowable costs for purposes of determining the CMF and PCRf, to categorize costs, and to identify any costs that can be allocated to specific operations and/or materials.

- We will leverage your existing financial documentation – P&L Statement, accounting software reports, etc.
- The study time period is calendar year 2022 – we'll work with you if you have a different fiscal year
- Our questions will focus on what a particular line item is for:
 - Is the cost related to commingled recycling? To other business? To both?
 - Is the cost associated with specific materials – for example baler maintenance, baling wire, glass crusher...?
 - Can the cost be broken down any further? For example, is “Insurance” for health, auto, worker’s compensation, general liability, or some combination?
 - Is the cost related to contamination reduction?
- We will want to verify accuracy of costs; is there a tax return or other source we can tie to?
- For some large line items, we may ask for a sample of invoices to support the costs.

Financial Review Process



Financial Interview

2014	Federal Statements	Page 1
Statement 3		
Form 1120S, Line 19		
Other Deductions		
	Accounting.....	\$ 7,550.
What are the autos/trucks used for? Are there personal vehicles in here?	Auto and Truck Expense.....	28,828.
	Bank Charges.....	6,252.
	Cash <Over> Short.....	514.
	Computer Charges.....	15,111.
	Dues and Subscriptions.....	7,345.
	Employee Meals.....	8,760.
	Employee Welfare - Others.....	801.
	Environmental.....	2,782.
What are the fuel costs for? Equipment on the site or autos/trucks?	Fuel.....	67,840.
	Insurance.....	206,109.
	Landfill / Dump Fees.....	6,825.
What are these legal and professional fees for? Sometimes, these include accounting services, which is fine, but accounting is already listed above.	Legal and Professional.....	5,360.
	Loan Fees.....	195.
	Meals and Entertainment Expense.....	1,191.
	Office Expense.....	9,030.
	Office Supplies.....	14,648.
	Outside Services.....	18,280.
	Payroll Service Fees.....	6,350.
	Postage.....	2,084.
Please elaborate on this expense. Is it for advertising?	Promotion.....	4,717.
	Rent - Equipment.....	4,767.
	Security.....	4,757.
	Shop and Yard Expense.....	55,918.
	Telephone.....	11,430.
	Travel.....	46,279.
	Uniforms.....	20,038.
	Utilities.....	36,544.
	Total	\$ 600,305.

What type of insurance is this?

Does it include workers comp?

This is a large amount.

Please elaborate on this expense.

What are outside services?

Is this contract labor?

What costs are included in this line item?

This is a large amount (55,918).

Allowable Costs

Eligible Processing Cost

- All costs associated with owning and operating a commingled recycling processing facility
- Including but not limited to: sorting, handling, storing, disposal, marketing and shipping, administration, rent, fees, depreciation, fixed costs, profit, target price paid (as defined in section 2d, compensation per ton of delivered material), anticipated program costs
 - “all additional costs related to any new requirements of sections 1 to 43 of this 2021 Act that are anticipated prior to the next review of the processor commodity risk fee”
- Ensure no double-counting of material costs across multiple facilities
- Paid on basis of recyclable material received by OR sold from a commingled recycling processing facility
- Excludes costs associated with commingled materials from other states

Contamination Management Costs

- Costs of removing and disposing of covered products that are contaminants
- Costs of removing and disposing of ALL contaminants

Cost Categories

During the financial interview, the Crowe Team will go line-by-line through financial documentation to identify cost categories and direct costs

Cost categories include:

- Direct labor
- Other labor/overhead (benefits, payroll taxes, worker's compensation insurance)
- General business overhead (accounting, fees, printing, payroll processing, etc.)
- Transportation
- Rent/mortgage
- Depreciation
- Property taxes
- Utilities
- Disposal
- Supplies
- Fuel
- Insurance
- Interest
- Maintenance
- Cost of purchasing commingled recyclables

Direct Costing

Direct costs are specific line items or portions of line items that apply to one or more materials/activities/operations. Examples of direct costs include:

- Depreciation costs of a baler used only for corrugated
- Rent for a facility used only for “other business” (e.g., not associated with the CRPF)
- Baling wire used for corrugated, plastics, and aluminum
- Equipment used for processing scrap metals.

Crowe will identify and assign direct costs to the appropriate materials and/or activities.

Non-Allowable Costs

Costs excluded from CRPF Fees, including but not limited to:

- Other business costs
- Transportation to the facility
- Revenue from sales of recyclables
- Costs accounted for at another facility (no double-counting)
- Costs reimbursed by PRO, including contamination management fee
- Grant awards or other reimbursed costs
- Costs of materials originating outside of Oregon

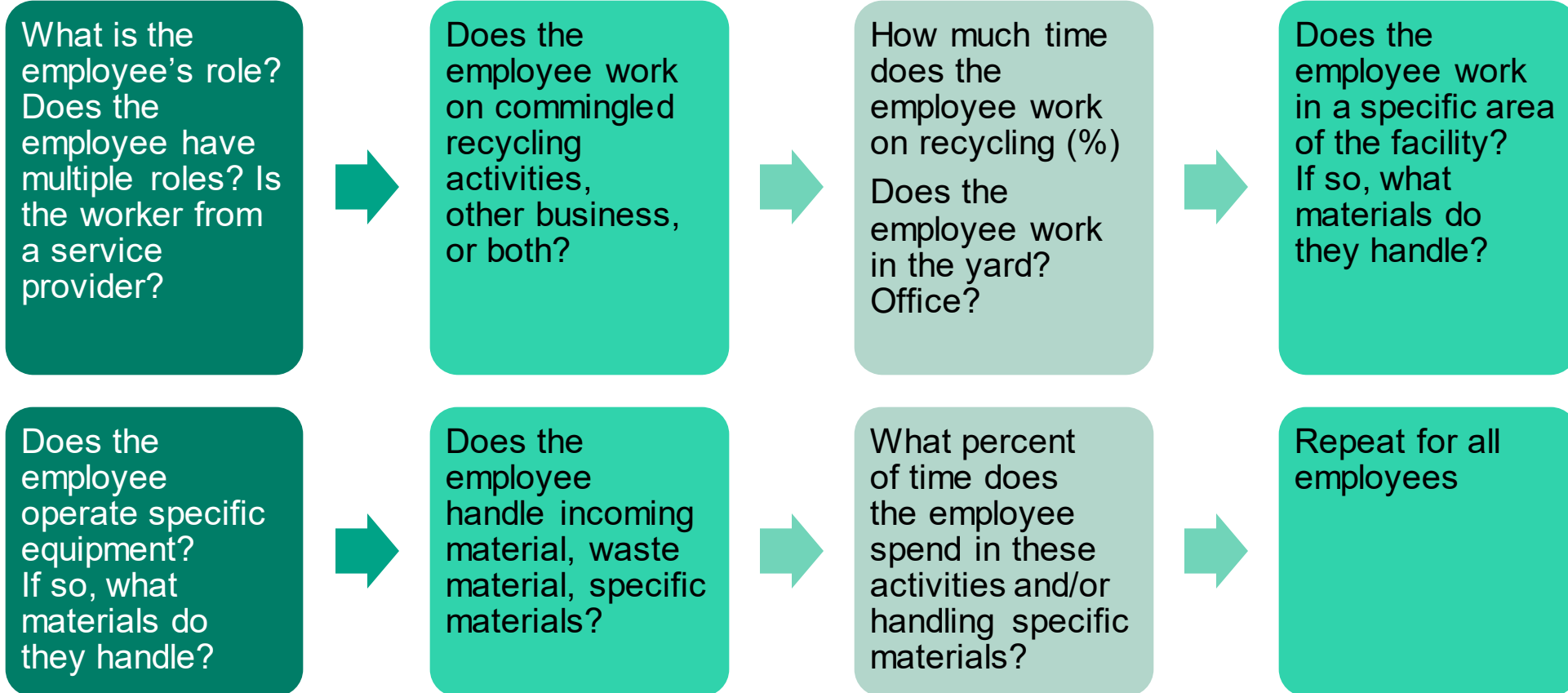
What to Expect: Labor Interview

What to Expect: Labor Interview

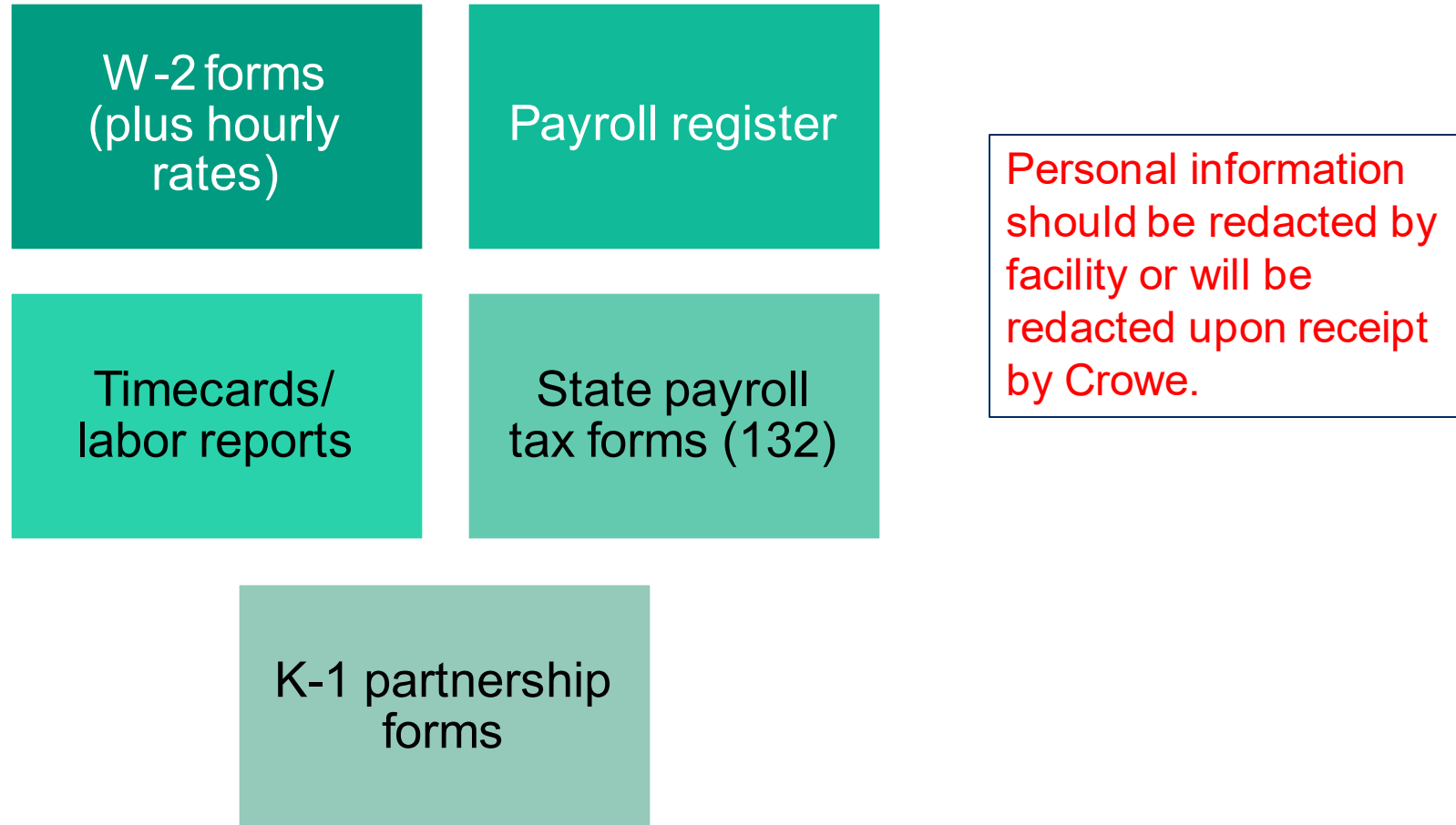
Purpose: identify activities of ALL employees at the facility in order to allocate indirect costs and support cost per ton calculations.

- Universe of employees to evaluate should match the financial documents, e.g., the P&L covers all operations at the site then the labor documents should cover all operations at the site.
- Include temporary labor, labor from service providers
- Labor records may be redacted to remove last names, SS#, addresses, etc.
- For purposes of determining labor activity, we can group together employees that do the same work, e.g., 100% work associated with activities other than processing commingled recyclables
- Labor allocation percentages can be your best estimate... in a given day or week, what percent of time (or how many hours) does Employee A spend on the presort line? On the sort line? What materials do they handle on the sort line?

General Line of Labor Interview Questioning



Example Sources for Employee Wages and Hours



Rate of Financial Return

Rate of Financial Return

ORS459A.923(1)(c)(A) of the RMA indicates that profit is an eligible processing cost. Crowe will work closely with DEQ on the determination of what constitutes a reasonable profit level. At a minimum, we will evaluate:

- Other states that provide a financial return for recycling programs
- Recent profit levels of publicly traded companies in the waste management/recycling industry
- Data sources such as Risk Management Association and Dunn & Bradstreet
- Regulated profit levels by State/local governments for services provided under a contractual or franchise agreement
- Considerations such as:
 - Extent of other business activities
 - Owner draws/salaries
 - Pre-tax vs. post-tax profit levels
 - Size and type of business
 - Status of current prices paid by end-markets

Average Commodity Value

Average Commodity Value

Crowe will develop a methodology to determine and periodically update the average commodity value per ton of commingled recyclables. As defined by ORS 459A.923(1)(b) the methods must include:

- The average composition of materials by percentage in each mix, multiplied by published market prices
- The sources of published market values used
- Any adjustments to published market values for each commodity to reflect conditions in Oregon

The methodology must provide a clearly defined algorithm for DEQ to calculate average commodity values, including updating commodity prices, determining the change in average commodity values, and calibrating the differences between published sources and Oregon market prices as reported by CRPFs (confirmed during site visits).

Anticipated Costs and Future Adjustments

Anticipated Costs

ORS 459A.923(1)(a) defines anticipated costs as “all additional costs related to any new requirements of sections 1 to 43 of this 2021 Act that are anticipated prior to the next review of the processor commodity risk fee.”

Examples of anticipated costs include:

- Administrative and reporting requirements necessary to comply with permits, including disposition reporting and responsible end market standards
- Operational changes necessary to add sorting capability for new materials
- Quality enhancements necessary to comply with permit requirements including costs associated with:
 - Re-running material through the sort line
 - Equipment
 - Capacity expansions
- Cost estimations for varying contamination percentages for bales, 1%, 2%, 3%, etc.

Anticipated Costs

To support anticipated costs, Crowe will request supporting documentation to substantiate anticipated costs. Examples of supporting documentation could include the following:

- Salary levels and duty descriptions of additional personnel
- Equipment proposals/quotes
- Standard operating procedures
- Documentation of current capacity and quality levels
- Generally accepted calculations

Future Adjustments

The RMA provides for the fees to be determined at least once every five years and no more than once every year. Fees may also be updated if a study demonstrates that eligible processing costs have changed by more than 10% since the last time fees were determined. Crowe will analyze methods to update costs between study years, including:

- Cost-of-Living Adjustment (COLA) (using Consumer Price Index, CPI)
- Category specific adjustment methodology

Illustration of Category-Specific Adjustment Methodology

Category	Average Percent of Costs	Example Adjustment Indicator (Annual Percentage Change)	Hypothetical Indicator	Adjusted Percentage
Direct labor	50%	Quarterly census of employment and wages (or livable wage requirements)	3%	$50\% \times (1 + 3\%) = 51.5\%$
Indirect labor	12%	Average cost of health insurance data	10%	$12\% \times (1 + 10\%) = 13.2\%$
Transportation	10%	Weekly West Coast No. 2 Diesel Retail Prices	15%	$10\% \times (1 + 15\%) = 11.5\%$
All other costs	28%	COLA	4%	$28\% \times (1 + 4\%) = 29.1\%$
Total	100%			105.3%

Post Site Visit Follow-up

Post Site Visit Follow-up

Following the site visit, we may call or email to ask questions or request additional documentation. Reasons for follow-up include:

- Need for clarification on selected financial statement line-items
- Confirmation of data
- Requests for additional documentation to support or verify costs
- Data that seems unusual or is inconsistent with information gathered during the on-site visit
- Clarification on material flows or operations
- Follow-up in the Fall of 2023 to obtain any updated information on anticipated program costs

Questions and Next Steps

Questions and Next Steps

Next Steps

- TWG members provide comments on Study Design to DEQ (**by close of business Friday, May 5th**)
- Crowe finalizes Study Design
- Facilities provide initially requested data (via Crowe ShareFile system, leveraging existing documentation)
- Crowe reviews data prior to facility site visits
- Crowe schedules facility site visits, tentatively planned for:
 - Week of June 5th in Greater Portland Area (potentially one day in Springfield/Eugene)
 - Week of June 26th in Greater Portland Area (potentially one day in Springfield/Eugene)
 - Dates TBD for Recology and REACH (late May or July)

In the remaining time, are there questions about Crowe's study design?



Thank You

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Short Break

The meeting will resume at approximately 12:10 p.m.





Discussion – Living Wage and Supportive Benefits Survey

Commingled Recycling Processing Facility Technical Workgroup
April 24, 2023



Living wage and supportive benefits

- Builds on [2020 Recycling Steering Committee work](#)
 - Scope #9: “...advancement of equity for workers...”
 - Desired outcome - Advancing Equity in the Recycling System: “...improvements in wages, benefits and opportunities for worker advancement for workers in the system, particularly sort line workers at material recovery facilities”
- Likely wage data source:
 - [MIT Living Wage Calculator](#)
- Recycling Modernization Act [Rulemaking #2](#)
 - June 2023 concept, 2024 proposal to EQC

Living wage and supportive benefits

- **April:** Survey sent to facility owners/operators through technical workgroup
- **May:** Data and baseline to inform rule concept
- **June – September 2023:** Rule concept refinement and consultations
 - Recycling Council
 - Rulemaking Advisory Committee
 - Technical workgroup
- **2024:** Proposal to EQC as part of rulemaking
- **Jan. 1, 2027:** Wage and benefit rules effective for commingled recycling processing facilities
- **Beyond 2027:** Recycling [equity study](#) every four years, including evaluation of worker conditions, wages and benefits



Public Input

Commingled Recycling Processing Facility Technical Workgroup
April 24, 2023

