



May 7, 2025

Metro  
600 NE Grand Avenue  
Portland, OR 97232-2736

**Subject:           Review of Fiscal Year 2025-2026 Solid Waste Disposal Fees**

Dear Ms. Madrigal, Chief Operating Officer,

Metro engaged FCS to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2025-2026. In response to this request, we have reviewed Metro's updated Excel Fee Model (Model), as well as the newly developed Regional System Fee Model (RSF Model), and associated fees for accuracy, adequacy, reasonableness and compliance with industry practices. This review is in accordance with Metro Code – Title V Solid Waste Section 5.03.070 "Independent Review of Fee Setting Process; Written Report".

This review focused on the overall methodology and resulting fees for compliance with industry practices for FY 2025-2026. The review did not validate the accuracy of source documents, formulae or structure utilized in the Model or RSF Model.

The FY 2025-2026 findings and comments are summarized below:

- The methodology utilized in the fee setting process follows best practices in the industry. The overall analysis is structured around three (3) fee setting components, or steps:
  1. *Revenue requirement*: evaluates the overall revenue needs of the utility on a self-supporting basis, considering operating and maintenance expenditures, capital/equipment funding needs, debt requirements and fiscal policies.
  2. *Cost-of-service*: equitably distributes costs to services based on their proportional demand and use of the system.
  3. *Rate / fee design*: includes the development of fees that generate sufficient revenue to support the revenue requirement and address Metro's policy goals and objectives.
- For this year's fee development process Metro separated the Regional System Fee into an independent RSF Model. This process was done by isolating RSF specific expenditures from all other solid waste related costs. While the majority of the expenditures are direct costs attributable to the RSF, the operating forecast does include a transfer to the Model for shared expenses (e.g., organics support, disaster debris, administrative and system facilities plan). The methodology used to allocate RSF's portion of shared expenses was consistent with the prior combined model approach. It should be noted that since there are two models being tracked for the RSF and all other fee development, caution should be taken to ensure consistent inputs are being used in both toolsets. By isolating the RSF expenditures into an independent model, the fee development process is simplified. Fees are calculated by dividing the projected annual cost forecast by the projected annual tonnage. No additional allocation is required within the RSF Model.

- » The operating and maintenance (O&M) expense projection for the RSF model does include a budget realization factor of approximately 90 percent on personnel services, material and services and system facilities plan expenditures. The budget realization factor reduces the overall budget for the associated expenses down to 90 percent of the total. This practice is common in the rate setting industry and is often utilized if a utility has historically expensed less than budgeted or if the utility anticipates the test year to be below budget due to factors identified after the budget has been adopted. The budget realization factor reduces the overall operating budget by approximately \$4.2 million for the FY 2025-2026 test year. Metro should continue to closely monitor actual annual expenditures and compare them to the figures used in the current rate strategy and adjust the overall strategy if necessary.
- For the non RSF fee development Model, the recommended overall fee strategy (step 1, revenue requirement) for FY 2025-2026 projects revenues after increase to be below annual operating obligations, requiring the use of \$1.7 million in reserves in FY 2025-2026 and another \$0.4 million in FY 2026-2027. When evaluating reserve levels, it is important to recognize that the value of reserve lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuations of reserve levels may indicate that the system is working, while lack of variation over many years may suggest that the reserves are, in fact, unnecessary. The benefit of projecting revenue requirements beyond the immediate test year period is the ability to level out impacts over time, if necessary. The Model does project that revenues after increase for subsequent years meet the estimated revenue needs, assuming the proposed fees are implemented.
  - » This year's model includes an updated tonnage forecast, reflecting the latest economic conditions and actual utilization of Metro's transfer stations. The tonnage forecast is key to the analysis and affects both revenues and expenses. It will be important to continue monitoring tonnage and its impact on both revenues and expenses and modify the projections as necessary if significant deviation in the forecast occurs.
  - » As discussed on the RSF Model review above, RSF related expenditures were removed from this year's fee development. While the costs removed were directly attributable to the RSF, shared expenses were left in the non RSF Model. To account for the RSF's portion of shared expenses, the Model includes a non-rate revenue transfer from RSF based on the RSF's proportional share. The allocation used to establish the RSF transfer was consistent with the prior combined model approach. As noted above, since there are two models being tracked for the RSF and non RSF Model fee development process, caution should be taken to ensure consistent inputs are being used in both toolsets.
  - » While the RSF model assumed a budget realization factor for O&M expenses related to personnel services, material and service and system facilities plan expenditures, the Model does not include a similar adjustment. Based on discussion with Metro staff, the adjustment for the Model was not incorporated because the majority of costs in the Model are tied to contract related costs. Metro should continue monitoring budgeted versus actual expenditures and, if warranted, incorporate similar budget realization factor in future updates in the Model.
- The Model's cost allocation (step 2, cost of service) utilized in developing service level charges appears technically sound and consistent with that deemed acceptable by industry practices. Costs

appear to be allocated with cost causation principles, mimicking the nature of how they are incurred. Primary allocation occurs based on actual time spent by employees within each service level, contractual costs associated with each service level or a direct assignment of costs to a specific service level.

- » The major update for this year's fee development process was associated with the removal of RSF related expenses. The allocation of non RSF expenses remained consistent with prior updates. The shared expenses, including the non-rate revenue transfer from the RSF for its portion of shared expenses, followed consistent logic and allocation as was performed in the combined modeling approach from prior updates.
- » The results of the cost-of-service analysis indicate that cost differences are present between existing fees and the cost-based allocation. It should be noted that, typically, if the result of each individual service is within plus (+) or minus (–) 5.0 to 10.0 percent of the overall system average, they are generally considered to be within cost-of-service. This range of reasonableness is given since although there is an industry accepted methodology, the specific classification and allocation of expenses reflect cost and waste characteristics at a given point in time. With time, waste patterns, composition and facility requirements change resulting in changes to cost-of-service. The flexibility to work within the range of reasonableness can minimize annual peaks and valleys and help maintain stable fees from year to year.
- The Model's proposed fees (step 3, rate / fee design) phase-in cost-of-service results over a 5-year period. Staffed and automated fee, mixed solid waste, residential organics and commercial organics are phased-in to within 5.0 percent of their cost-of-service level, with the majority projected to be within 1.0 percent. By the end of the 5-year period, clean wood fees are projected to be within 50.6 percent of their cost-of-service, which is outside the 10.0 percent range of reasonableness. The updated contract for the Central Transfer Station increased the cost of wood processing impacting the results of the cost-of-service analysis compared to the Model results with prior contract costs. The yard waste fee is projected to be held constant to allow it to phase-in towards cost-of-service, which is projected to end the 5-year period within 15.0 percent of cost.
  - » The proposed rate design, when reconciled with projected billing units, does project a lower revenue generation in comparison to the total revenue requirement targets identified in step 1, revenue requirement. The deficiency ranges from \$1.8 million in FY 2025-2026 down to \$0.3 million in FY 2029-2030. While Metro's existing fund balances are projected to be sufficient to cover the additional deficiency, they may decrease below the minimum target levels in FY 2026-2027 through FY 2028-2029, before recovering in FY 2029-2030. In addition, the overall system wide rate increase in FY 2025-2026 would be lower than identified in step 1. Metro should continue monitoring annual cash flow and revisit the rate strategy if reserves decrease below minimum target levels in future years.



We appreciate the opportunity to work with Metro on this project. Please do not hesitate to contact me if you have any questions regarding this letter or if additional information is needed.

Sincerely,  
FCS

A handwritten signature in blue ink, appearing to read "Sergey Tarasov", enclosed within a light blue, irregular, cloud-like outline.

Sergey Tarasov  
Principal

cc: Financial Planning Director Cinnamon Williams, Chief Financial Officer Brian Kennedy, WPES Director Marta McGuire and Councilors Peterson, Simpson, Lewis, Rosenthal, Gonzalez, Nolan and Hwang