



April 29, 2026

Metro
600 NE Grand Avenue
Portland, OR 97232-2736

Subject: Review of Fiscal Year 2026-2027 Solid Waste Disposal Fees

Dear Ms. Madrigal, Chief Operating Officer,

Metro engaged FCS, a Bowman company (FCS) to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2026-2027. In response to this request, we have reviewed Metro's updated Excel Fee Model (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 2026-2027. The review did not validate the accuracy of source documents, formulae or structure utilized in the Model.

The FY 2026-2027 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 consolidated the Model and the Regional System Fee Model (RSF Model) utilized during the prior year's rate setting process. The consolidated model continues to track regional system fee related revenues and expenditures independently from all other solid waste related components. Consolidating the two models into one allows for greater consistency for tracking transfers between the RSF Model and Model for shared expenses (e.g., organics support, disaster debris, administrative and system facilities plan). By combining the models yet keeping the RSF expenditures isolated, the RSF fee development process maintains its simplicity and transparency. Fees are calculated by dividing the projected annual cost forecast by the projected annual tonnage. No additional allocation is required for the RSF fee development.
 - » The operating and maintenance (O&M) expense projection for the RSF portion of the model does include a budget realization factor of approximately 6.5 percent on personnel services and material and services. The budget realization factor reduces the overall budget for the associated

expenses down to 93.5 percent of the budget 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 RSF related operating budget by approximately \$2.1 million for the FY 2026-2027 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 portion of the Model, the recommended overall fee strategy (step 1, revenue requirement) for FY 2026-2027 projects revenues after increase to be sufficient to cover annual obligations and generate a positive cash flow. The cash flow is utilized to meet existing reserve policy targets and continue funding projected capital expenditures. 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 analysis 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 occur.
 - » As discussed in the RSF portion of the Model review above, RSF related expenditures are removed from this year's non RSF fee development. While the costs removed were directly attributable to the RSF, shared expenses were left in the non RSF portion of the Model. To account for the RSF's portion of shared expenses, the non RSF portion of the Model includes a non-rate revenue transfer from RSF based on the RSF's proportional share of costs. The allocation used to establish the RSF transfer was consistent with the prior combined model approach.
 - » Similar to the RSF related expenses, the Model assumes a budget realization factor for non RSF O&M expenses related to personnel services and material and services of 6.5 percent. The budget realization factor reduces the overall budget for the associated expenses down to 93.5 percent of the budgeted total. The budget realization factor reduces the overall non RSF operating budget by approximately \$4.9 million for the FY 2026-2027 test year. Metro should continue closely monitoring actual annual expenditures and compare them to the figures in the current rate strategy and adjust the overall strategy if necessary.
 - » With the proposed fee adjustments, FY 2026-2027 combined ending cash balances are projected to meet or exceed minimum target levels.
- The Model's cost allocation (step 2, cost of service) utilized in developing non RSF 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 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 non RSF 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 3.0 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 at 80.8 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 3.8 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 for FY 2026-2027 and FY 2027-2028. The deficiency ranges from \$383,000 in FY 2026-2027 decreasing to \$118,000 in FY 2027-2028. While Metro’s existing fund balances are projected to be sufficient to cover the deficiencies, they may decrease below the minimum target levels in FY 2026-2027 and FY 2027-2028, before recovering in FY 2028-2029. 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 complete this independent review for Metro. Please do not hesitate to contact me if you have any questions regarding this letter or if additional information is needed.

Sincerely,

FCS



Sergey Tarasov

Principal

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