Metro

FY 2023-24 Solid Waste Disposal and Regional System Fees

Staff Response to Independent Review by FCS Group

Attachment 4, Review of FY 2023-24 Solid Waste Disposal Fees

Metro engaged FCS Group to provide an independent review of the methodology for calculating proposed solid waste fees for the fiscal year FY 2023-24. This letter has four bullets. The first bullet outlines the best practices of the industry and the structure to utilize the Rate Model. This structure is three different fee setting components: revenue requirement, cost of service, and rate/fee design. The following three bullets describe those steps, and the sub-bullet down is the review note. Staff will quote each review note and provide a response.

FCS Group – Comment on the Revenue Requirement:

» The operating and maintenance (O&M) expense projection for this year's Model update does include a budget realization factor of approximately 95 percent. The budget realization factor reduces the overall budget, not including cost allocation plan expenditures, down to 95.0 percent of the total. This practice is common in the rate setting industry and is often utilized if a utility has historically expended less than planned 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 $6.0 million for the FY 2023-2024 test year. Metro should continue to closely monitor actual annual expenditures compared to the figures used in the current rate strategy and adjust if necessary.

Staff Response:

Staff agrees with the comment. Staff reviews financial performance and tonnage activity daily, weekly, monthly, and quarterly. In addition, staff produces quarterly reports that include financial forecasts and will closely monitor WPES budget realization to ensure that projected underspending is on-track.

FCS Group – Comment on the Cost of Service:

» For this year's update, Metro has expanded the O&M expense line-item budget used in the Model. The greater detail allows Metro to hone in on individual expenses, which may have been grouped within larger summary level categories. The expanded approach may increase the granularity of cost allocation but may require additional time for tracking and future updates. Overall, this adjustment did not have a material impact on the cost allocation results.

» Another change that has occurred with this year's update is the allocation of the Operating and Personnel cost components of the Central and South Transfer Station contracts. In prior studies, these cost elements were allocated based on the working floor area for each transfer station and the associated service. The updated allocation distributes these costs based on FTEs assigned to each service within the transfer station. While this is a change from prior studies, this modification has been made to more closely align with the actual expenses incurred. The results of this change shifts cost recovery towards scalehouse operations and impacts the cost-based transaction fee.

» 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.

Staff Response:

Staff agrees with the three comments. Staff implemented an itemized O&M expense line approach to improve transparency of costs and acknowledges the additional time that it takes to implement appropriate accounting and review over the expenses. For comment two, staff continues to review allocation methods by how costs are incurred and apply these methods to reflect the operation activity of the department.

Comment three addresses the waste streams' volatility and ongoing increases in costs-of-service. Staff agrees with this comment and will close evaluate how to continue provide this service and level of service within the cost implications of the system.

FCS Group – Comment on Rate/Fee Development:

» 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 $2.0 million in FY 2023-2024 down to $113,000 in FY 2027-2028. While the rate design does generate less revenues, effectively lowering the overall rate increases identified in step 1, Metro's existing fund balances are projected to be sufficient to cover the deficiency.

Staff Response:

Staff agrees with this comment. Staff acknowledges that fees do not cover all budgeted spending and will continue to monitor reserves. Each year, additional analysis will be done to ensure that fund balance reserve policies and best practices are appropriately complied with.