

April 17, 2024

Metro
600 NE Grand Avenue
Portland, OR 97232-2736

Subject: Review of Fiscal Year 2024-2025 Solid Waste Disposal Fees

Dear Ms. Madrigal, Chief Operating Officer,

Metro engaged FCS GROUP to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2024-2025. 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 2024-2025. The review did not validate the accuracy of source documents or formulae and structure utilized in the Model.

The FY 2024-2025 findings and comments are summarizing 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.
- The recommended overall fee strategy (step 1, revenue requirement) for FY 2024-2025 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 the revenues after increase for subsequent years to 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. Based on the updated projections, the overall tons are forecasted to increase compared to the prior year's Model, which has a net positive impact on rate revenue projections. It will be important to continue monitoring

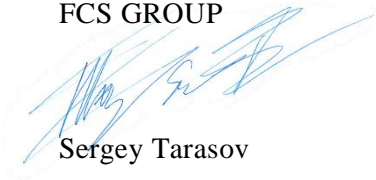
- tonnage and its impact on both revenues and expenses and modify the projections as necessary if significant deviation in the forecast occurs.
- » The operating and maintenance (O&M) expense projection for this year's Model update does include the most recent contract with Recology Oregon Recovery – Central Inc. (Recology) for the Metro Central Transfer Station operations. The contract reflects updated costs from Recology to operate the Central Transfer Station.
 - » With the proposed fee adjustments, FY 2024-2025 ending cash balances are projected to meet or exceed minimum target levels.
- The 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.
 - » Building onto the expanded O&M expense line-item budget detail that was added during the prior year's update, Metro has added additional detail to identify the capital related components of the budget (e.g., Operating Support & Planning, Engineering & Tech Support, etc.). The primary driver behind this cost separation was related to the fact that any capital-related expenses included in the O&M budget were not associated with the Regional System; therefore, cost should not be allocated to the Regional System Fee. Instead, the expenses were allocated to the municipal solid waste (MSW) cost pool.
 - » 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 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 37.0 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 prior year's Model. 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 12.0 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 \$2.0 million in FY 2024-2025 down to

\$713,000 in FY 2028-2029. Metro's existing fund balances are projected to be sufficient to cover the deficiency.

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 GROUP



Sergey Tarasov
Principal

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