FCS GROUP
Solutions-Oriented Consulting

December 9, 2020

Metro
600 NE Grand Avenue
Portland, OR 97232-2736

Subject: Review of FY 2021-2022 Solid Waste Disposal Fees

Dear Ms. Madrigal, Chief Operating Officer

In December 2020, Metro engaged FCS GROUP to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2021-2022. In response to this request we have reviewed Metro's updated Excel Rate Model and associated fees for accuracy, adequacy, reasonableness and compliance with industry standards. This review is in accordance with *Metro Code – Title V Solid Waste Section 5.03.070 "Independent Review of Fee Setting Process; Written Report"*.

In light of the coronavirus disease of 2019 (COVID19), Metro's Council directed staff to defer any rate action planned for mid-year FY 2020-2021. The updated analysis incorporated changes to assumptions regarding tonnage, revenues and costs. This review focused on the overall methodology and resulting fees for compliance with industry standards and best practices for FY 2021-2022. The review did not validate the accuracy of source documents or formulae and structure utilized in the Excel Rate Model.

The FY 2021-2022 findings and comments are summarizing below:

- The methodology utilized in the fee setting process follows industry standards and best practices. 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 2021-2022 projects revenues after increase is slightly below the estimated revenue needs. The shortfall is met by drawing on available cash reserves which are sufficient to meet the shortfall and established reserve target balances. The benefit of projecting the revenue requirement beyond the immediate test year period is the ability to level out fee impacts over time. The Excel Rate Model does project the revenues after increase for subsequent years to meet the estimated revenue needs, assuming the proposed fees are implemented.
  - » Metro's tonnage forecast is key to the analysis and affects revenue and expense levels. Due to COVID-19, the FY 2021-2022 tonnage forecast assumes a drop off from prior year levels,

but recovers in the subsequent years. Future year growth is lower in comparison to the prior year's rate setting assumptions. With the change to the tonnage forecast the operating budget no longer assumes a cost reduction as was anticipated in the prior fee update. It will be important to monitor tonnage and expense projections closely as more information becomes available on the actual impacts of COVID-19 on tonnage and Metro's financial performance.

- 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 standards. 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 cost-based allocation. It should be noted that, typically, if the results of each individual service is within plus (+) or minus (–) 5.00 percent of the overall system average, they are generally considered to be withing 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 charges 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 fees are phased-in to within 11.00 percent of their cost of service level. Mixed solid waste tipping fees and residential organics are set to recover allocated costs over the phase-in period. Fees impacted by decreases in contracted changes, are held constant and "grow" towards their allocated cost-based levels. The commercial organics fee is held below allocated costs, to support programmatic goals for this waste area.

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
Senior Project Manager

cc: Financial Planning Director Cinnamon Williams, Chief Financial Officer Brian Kennedy, and Councilors Peterson, Craddick, Lewis, Dirksen, Gonzalez, Chase and Stacey