# Review of Metro FY 2015/16 Solid Waste Rates


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| PREPARED FOR: | Martha Bennett/Metro<br>Brian Kennedy/Metro |
| PREPARED BY: | Kurt Playstead/CH2M HILL<br>Dave Green/CH2M HILL |
| COPIES: | Lyndsey Lopez/CH2M HILL |
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In February 2015, Metro engaged CH2M HILL Engineers, Inc., to conduct an independent review (in accordance with Metro Code 5.02.020) of Metro's FY 2015-16 Solid Waste rate model and the associated proposed rates. This technical memorandum presents the results of that review. The review includes a review of the model for accuracy, completeness, and fairness. The review is also intended to help ensure that Metro financial goals for targeted fund balances and other policies are met. Finally, the review presents findings and recommendations for Metro to consider.

This review did not attempt to verify any assumptions or information relating to system costs, waste volumes, floor area, staffing, etc. that were used in the rate model calculations. Assuming that this information and assumptions were valid for the purposes of this rate analysis, this review evaluated whether the model was fairly and equitably allocating the system costs to users in accordance with their cost causal responsibility.

The review of the model resulted in the following observations:

- The model is well designed and functions properly. While Metro is currently only using the model to calculate rates for a single year (FY 2015-16), the model does have the functionality to conduct a longer term projection.
- According to tonnage data in the model, MSW handled at Metro transfer stations is expected to grow by 5.1% in FY 2015/16. The higher than average growth rate is a result of the expected overall growth in regional tonnage due to the economic recovery and the fact that private facilities have limitations on the amount of tonnage received at their facilities. Metro transfer stations are projected to receive a larger share of the growth in tonnage projected in the region, resulting in a higher than average growth rate for 2015/16.
- Current cost allocation methods appear to be sound and fair, given the available information that the analysts had available to them.

- Recommended rates are adequately recovering system costs and meeting other financial commitments.

- The calculated rates for Scale house Staff are slightly higher than the recommended rates. The calculated rates for Scale house Auto are less than the recommended rates for this function. All other recommended rates are consistent with the rates calculated in the model.

- Metro operating and capital fund targets are being met in FY 2015/16. However, based on the current CIP in the model, the ending Capital Fund balance is projected to fall below the target balance of $1.2 million in FY 2018 and achieves a negative balance in FY 2019. While it is recognized that actual future spending may differ from the planned CIP spending presented in the model, it appears that additional sources of funding for future capital expenditures may be needed, or that Metro will need to draw down its balances in its other reserves (i.e. Rate Stabilization etc.) if capital expenditures of these magnitudes were needed in this time frame.

- Metro's current capital funding strategy can meet current needs with its available reserves and rate revenues. However, future capital funding needs may warrant consideration of a different capital funding strategy that would smooth out the rate impacts of future capital funding needs.

- Metro does not currently explicitly fund its Rate Stabilization Fund, but rather directs any surplus revenues that may be generated in a given fiscal year into this fund.

- Operational cost information was presented for both FY 2014-15 and FY 2015-16. The FY 2014-15 information was primarily provided for comparison purposes, and were not used in the FY 2015-16 rate calculations. It was observed that there was a significant increase in the operating costs for scale house personnel between FY 2014-15 and FY 2015-16, which did not seem reasonable, given that there were no changes in the number of personnel at the scale houses, and assumed adjustments in wage rates, etc. It was subsequently determined by Metro staff that the FY 2014-15 figures that had been entered into the model were not correct. The change in the operating costs for scale house personnel, with the adjusted FY 2014-15 costs, does appear reasonable.

Recommendations:

1) Implement a rate review process that looks at a longer horizon period (current period is 1 year). We recommend a 3-5 year planning period so potentially large rate impacts associated with unusually large capital replacements or other large one time expenditures can be spread out over a period of years rather than a single year. This strategy would levelize potential rate increases and avoid large spikes in rates.

2) Some costs may be better allocated using personnel hours spent on the handling of specific waste streams at the transfer stations. It is our understanding that the data to support this type of allocation is currently not available. Consider working with the private operators at each transfer station to see if personnel time is tracked based

on waste handling, and if so, whether they would be willing to share this information.

3) Update its capital asset reserve study to determine an appropriate level of capital reserves. Current target reserve balance of $1.2 million may, or may not provide sufficient level of funding for projected capital expenditures. As part of this study, Metro may want to consider options for redefining its capital funds to meet specific needs. For example, Metro could consider setting a target balance in its capital fund that is sufficient to meet its needs if a large component of its system were to fail prematurely. The balance of this fund could be maintained at this level unless these funds were needed for an unanticipated equipment replacement or similar need. This would provide assurance that the System could afford a major equipment failure, without the need to access debt markets etc. Similarly, the funding of the equipment replacement fund could also be adjusted to reflect an asset management approach that would forecast needs for equipment replacements over time and fund this account to provide a 10 or 20 year forecast of these needs.

4) Review current operating fund balance policy of 45 days of operating expenses and consider revising to 60 or 90 days to provide Metro with additional reserves to provide additional flexibility to respond to changes in operating or other expenses and system revenues.

5) By funding the rate stabilization fund from annual budget surpluses, the balance of this fund has been climbing. Metro may want to define a target balance for its Rate Stabilization Fund, or range within which this fund will be managed. Then, if the balance of this fund should become too high, then rate setting for subsequent periods could reflect an intent to stabilize or draw down this balance, or if it should fall below this range, plans for increasing this balance could be explicitly addressed, or could be allowed to build up through annual budget surpluses as it is now.

6) Modify allocation basis for “Solid Waste Compliance” to Other Salaries

7) Review costs to ensure all costs for Scale house Operations are being properly captured and allocated. Track activities under “Professional Services” and other costs to allow for direct allocations to cost functions.