TECHNICAL MEMORANDUM

Review of FY 2016/17 Solid Waste Rates

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In February 2016, Metro engaged CH2M HILL Engineers, Inc., to conduct an independent review (in accordance with Metro Code 5.02.020) of Metro's FY 2016-17 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, 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 2016-17), the model does have the functionality to prepare longer term projections.
- Current cost allocation methods appear to be sound and fair, given the available information that the analysts had available to them. Allocations are generally consistent with the FY 2016 model with one exception: Station Management. This allocation was changed as a result of a third party analysis that developed cost of service estimates for transfer operations based on incoming waste streams and operational costs.
- Recommended rates are generating revenues that are slightly less than the estimated revenue requirements. However, the estimated shortfall can be absorbed by the working capital fund balance.
- The proposed rates for Scale house Staff and Scale House Auto are lower than current rates. Proposed rate for Wood is set at the same rate as Yard Waste and is

less than the calculated unit cost. All other recommended rates are slightly higher than the current rates.

- Metro operating and capital fund targets are being met in FY 2016/17. Based on tonnage growth and the current CIP in the model, the ending Capital Fund balance is projected to grow well above the target balance of $1.2 million. While it is recognized that actual future spending may differ from the planned CIP spending presented in the model, it appears the Capital Fund balance may attain a surplus that exceeds the recommendations in the FCS Group memo.
- Metro is required by state and federal laws and regulations to provide financial assurance for the coverage of post-closure care estimated costs. Metro is currently providing this financial assurance through an Alternative Financial Assurance Mechanism which has been approved by the Oregon Department of Environmental Quality (DEQ) and consists of its Solid Waste Fund, a post-closure funding guarantee of future revenues to cover these costs and a Landfill Post-Closure Account. Metro is required to submit annual re-certifications of this mechanism. According to the CAFR for FY ending June 30, 2015, DEQ approved the March 13, 2015 annual recertification.
- The Landfill Closure Reserve is expected to transfer approximately $600,000 in FY 2016 and $258,000 in FY 2017 to the Capital Fund to pay for CIP projects related to Landfill post closure care activities.
- The Rate Stabilization fund balance is forecast at approximately $8.1 million in FY 2017. The fund balance exceeds the recommended target of 10 percent of rate revenues, or $6.5 million, as defined in the FCS Group project memo dated August 28, 2015.
- A number of O&M expense line items fluctuated more than expected from FY 2015 to FY 2017. Many of the changes reflect the organizational change undertaken by Metro that split Parks and Environmental Services into two new departments: Property and Environmental Services (includes Solid Waste) and Parks and Nature.

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) Include historical data for previous three years for Revenues and Expenses to assist reviewers in identifying trends. Additional columns may be added to the "O&M" worksheet to input the data.
3) 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. This is a consistent with the recommendation from the FCS Group Review of Reserve Funds.

4) 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.

5) Based on the current balances in the utility's reserve funds, Metro may want to consider drawing down some of the reserves in its operating and rate stabilization funds to offset the need for rate increases in the current or future years. Similarly, additional contributions to the Capital Fund may not be warranted given the existing and projected capital improvement plan. Thus, funds that may have been accumulating in the Capital Fund could be used to offset rate increases in the current or future years.