

February 27, 2018

Metro  
600 NE Grand Avenue  
Portland, OR 97232-2736

**Subject: Review of FY 2018-19 Solid Waste Disposal Charges**

**Ms. Martha Bennett, Chief Operating Officer and Mr. Tim Collier, Finance and Regulatory Services,**

In February 2018, Metro engaged FCS GROUP to provide an independent technical review of the methodology for calculating proposed solid waste disposal charges for fiscal year 2018-19. This review is in accordance with *Metro Code – Title V Solid Waste Section 5.02.030, “Establishment of Disposal Fees and Charges,” subsection (f)(4) “Submit the provisional rates to at least one independent expert for review” and subsection (e) “Independent Review Process.”*

The review undertaken focused on the Solid Waste Rate Model for FY 2018 - 19 and supporting documents such as the Solid Waste Forecast FY18-19 and the 2015 Review of Reserve Funds Memo. The review did not validate the accuracy of source documents. Rather, the review focused on Metro’s current rate-setting methodology for compliance with industry standards and best practices in addition to confirming the approach is technically sound and supported by the cost information provided for our review.

The FY 2018-19 Solid Waste Disposal Charge findings are as follows:

- The proposed methodology and process utilized reflects a cost of service approach that is technically sound and consistent with that deemed acceptable by industry standards.
- The transaction and tonnage unit forecasts are critical to the development of unit costs. Our review revealed that there continues to be a rigorous analysis that is completed to develop these forecasts.
- Recommended disposal charges are projected to generate revenue that is slightly less than estimated revenue needs. The estimated shortfall can be absorbed by drawing on available fund balances.
- The use of reserves to advance the policy approach of maintaining stable commercial organics rates to increase program participation is within standard practice for the use of reserves.
- Total fund balances exceed target allowing for greater flexibility to manage the slower rate of tonnage growth anticipated, impacts of the new disposal contract and upcoming capital needs.

Based on our review and the experience and expertise we bring in the utility rate setting area, we offer the following observations:

- The review of reserve levels was last completed in 2015. It may be timely to recalibrate the target basis for the reserve funds. Updating to new targets will also help inform what level of reserves may be available to help offset future cost and disposal/processing charge impacts. A strategy for managing excess reserves and reserve replenishment should also be considered.
- Cost of service is not an exact science. It should be noted that if a function of solid waste service is within +/- 5 percent of the overall system average, they are generally considered to be paying their cost to serve. 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. As time goes on, waste patterns, waste composition and facility requirements change resulting in changes to unit costs. The flexibility to work within the range of reasonableness can minimize annual peaks and valleys and help to maintain stable charges from year to year.
- Although the review period is FY 2018/19, the five year outlook indicates a peak in capital spending during FY 2022 and FY 2023. Analyzing alternative funding approaches within the next fiscal year will assist in determining the optimal funding mix and inform Metro's future rate-making strategy allowing for a proactive approach to meeting future revenue needs.

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 report or if additional information is needed.

Sincerely  
FCS GROUP



Angie Sanchez Virnoche  
Vice President/Principal