

February 24, 2019

Metro
600 NE Grand Avenue
Portland, OR 97232-2736

Subject: Review of FY 2019-20 Solid Waste Disposal Charges

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

FCS GROUP is pleased to submit this independent technical review of the methodology for calculating proposed solid waste disposal charges for fiscal year 2019-20. The review of solid waste disposal charges is intended to test the proposed rates for accuracy, adequacy, reasonableness and compliance with industry standards and Metro Solid Waste Rate Setting Criteria. 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 focused on the internally updated Solid Waste Rate Model for FY 2019-20 and supporting documents including: new Landfill Disposal Agreement, new Solid Waste Transport Services Agreement, major contracts cost analysis, tonnage update and current disposal and processing charges. Our FY 2019-20 Solid Waste Disposal Charge review resulted in the following observations:

- Costs captured for new disposal, transport and station operations contracts effective January 1, 2020.
- Municipal solid waste tonnage is anticipated to be higher than last year.
- Wood waste tonnage is lower than anticipated increasing unit costs for this service.
- Yard waste costs have increased without a corresponding increase in tonnage resulting in increased unit costs.
- Funding included for investment and innovation program.
- Anticipated capital funding of \$7.1 million inclusive of land acquisition costs.
- Total fund balances exceed targets allowing for flexibility to manage new contract costs in addition to current and future capital needs.

The following findings result from the review of the solid waste rate update and draft proposed rates:

- The cost of service methodology utilized continues to adhere to industry standards and is technically sound.
- The recommended charges support the cost information provided and generate revenue to fund the total cost of the solid waste system.
- Cost allocations are consistent and equitably represent costs incurred.

- Proposed wood, yard and residential organics charges are set to the cost of services received, thereby advancing equity goals.
- Commercial organics continues to be set below the cost of service to support programmatic goals for this waste area.
- Other charges are maintained at existing levels or applied an inflationary level increase for consistency and predictability.
- Reserve levels are maintained above target to weather new contract cost uncertainty and anticipated future capital needs

We recommend staff continue to use the rate-setting toolset for proactive annual financial planning, identifying upcoming operating and capital needs and informing decision making through alternatives analyses. Special emphasis should be on monitoring fund balances to optimize funding of upcoming capital costs and sheltering against unanticipated changes in tonnage and/or new contract costs. This active management approach will allow staff to continue to maintain reliable, consistent and predictable solid waste disposal charges.

We appreciate the opportunity to work with Metro on this review. Please do not hesitate to contact me if you have any questions regarding this letter report or if additional information is needed.

Regards,



Angie Sanchez Virnoche
Project Principal/Vice President

cc: Councilors Chase, Craddick, Dirksen, Gonzalez, Lewis, Peterson and Stacey