FCS GROUP
Solutions-Oriented Consulting

April 18, 2022

Metro
600 NE Grand Avenue
Portland, OR 97232-2736

Subject: Review of FY 2022-2023 Solid Waste Disposal Fees

Dear Ms. Madrigal, Chief Operating Officer

Metro engaged FCS GROUP to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2022-2023. 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 practices. This review is in accordance with *Metro Code – Title V Solid Waste Section 5.03.070 "Independent Review of Fee Setting Process; Written Report"*.

This review focused on the overall methodology and resulting fees for compliance with industry practices for FY 2022-2023. The review did not validate the accuracy of source documents or formulae and structure utilized in the Excel Rate Model.

The FY 2022-2023 findings and comments are summarizing below:

- The methodology utilized in the fee setting process follows best practices in the industry. 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 2022-2023 projects revenues after increase to be sufficient to cover annual obligations and generate a positive cash flow. The cash flow is utilized to meet existing reserve policy targets and continue funding projected capital expenditures. The benefit of projecting revenue requirements beyond the immediate test year period is the ability to level out impacts over time, if necessary. 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.
    - » Due to COVID-19 the Pacific Northwest, along with the entire country, is experiencing unanticipated impacts on inflation and prices of materials and services. The higher than anticipated inflation is impacting general costs, labor costs, price of fuel and especially construction costs, all being compounded by supply chain constraints. It will be important to

monitor expense projections closely as more information becomes available on the ongoing impacts of COVID-19 on expenses and Metro's financial performance.

- » In addition to expense projections, Metro's tonnage forecast is key to the analysis and effect both revenues and contract expenses. With the ongoing pandemic, Metro should continue to closely monitor actual tonnage processed from deviation to the projected tonnage used in the current rate strategy.

- 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 practices. 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 to 10.00 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, mixed solid waste fees and clean wood fees are phased-in to within 1.00 percent of their cost-of-service level. The residential and commercial organics fee is held below allocated costs, to support programmatic goals for this waste area.
  - » The proposed rate design, when reconciled with projected billing units, does project a lower revenue generation in comparison to the total revenue requirement targets identified in step 1, revenue requirement. The deficiency ranges from $1.0 million in 2023 to $3.2 million in 2027. While the rate design does generate less revenues, effectively lowering the overall rate increases identified in step 1, Metro's existing fund balances are projected to be sufficient to cover the deficiency. In light of the uncertainty from COVID-19 impacts on prices of goods discussed in step 1, Metro should closely monitor annual financial performance and re-evaluate the strategy if significant changes occur.

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, Rosenthal, Gonzalez, Nolan and Hwang