

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ADOPTING SOLID	)	RESOLUTION NO. 22-5260
WASTE FEES AT THE METRO TRANSFER	)	
STATIONS AND THE REGIONAL SYSTEM	)	Introduced by Chief Operating Officer
FEE FOR FY 2022-23	)	Marissa Madrigal with the concurrence of
	)	Council President Lynn Peterson

WHEREAS, Metro Code Chapter 5.02 establishes the regional system fee, which recovers the costs for all associated regional solid waste activities related to managing, planning, and administering the entire recycling, processing, and disposal system for the Metro region; and

WHEREAS, Metro Code Chapter 5.03 establishes the fees for solid waste at Metro Central and Metro South transfer stations; and

WHEREAS, Metro Code Chapters 5.01 and 5.02 establishes that all solid waste generated from inside the Metro jurisdictional boundary is subject to a regional system fee at the time the waste is delivered to a Metro transfer station or otherwise disposed; and

WHEREAS, Metro Code Section 5.06.030 establishes a community enhancement fee in an amount not to exceed \$1.00 on each ton of putrescible waste delivered to eligible solid waste facilities in the Metro region; and

WHEREAS, Metro Council finds that it is in the public interest for Metro to collect a community enhancement fee of \$1.00 per ton on all solid waste received at Metro’s transfer stations; and

WHEREAS, Metro’s costs for solid waste services and programs have changed; and

WHEREAS, the proposed fees comply with Metro Charter Section 15 (“Limitations on Amount of User Charges”); now therefore,

THE METRO COUNCIL RESOLVES AS FOLLOWS:

- Section 1. Solid Waste Fees and Charges. The schedule of solid waste fees and charges attached hereto as Exhibit “A” is approved and shall be implemented on the Effective Date of this resolution.
- Section 2. Effective Date. This resolution shall become effective on July 1, 2022.
- Section 3. Interim Fees. The Chief Operating Office may establish an interim fee for an additional service or waste material at Metro’s transfer stations as provided in Administrative Rules No. 5.03-1000 through 1070.

ADOPTED by the Metro Council this 21st day of April 2022.



APPROVED AS TO FORM:

Christine Lewis, Deputy Council President

*Carrie MacLaren*

Carrie MacLaren, Metro Attorney

**Exhibit “A” to Resolution No. 22-5260**

**SCHEDULE OF SOLID WASTE FEES**

Effective July 1, 2022

Fees at Metro Central Station and Metro South Station

Tonnage Fees by waste class

In accordance with Metro Code Chapter 5.03, Metro will charge the following fee for each ton of solid waste received at a Metro transfer station

- (1) Mixed solid waste .....\$ 78.39
- (2) Clean Wood .....66.31
- (3) Yard Debris.....55.00
- (4) Residentially generated organic waste.....82.38
- (5) Commercially generated organic waste .....69.80

Transaction Fees by transaction class

In accordance with Metro Code Chapter 5.03, Metro will charge the following fee for each transaction at a Metro transfer station.

- (1) For users of staffed scales.....\$ 18.00
- (2) For users of automated scales .....4.25

Minimum Charges

In accordance with Metro Code Chapter 5.03. Metro will charge a minimum tonnage fee of \$35.00 on up to 300 pounds for all classes of solid waste.

Fees on Disposal of Solid Waste

Regional System Fees by waste class

In accordance with Metro Code Chapter 5.02, Metro will assess the following regional system fee on solid waste.

- (1) Cleanup material .....\$ 2.50
- (2) All other solid wastes.....29.37

Community Enhancement Fee

In accordance with Metro Code Chapter 5.06, Metro will collect the following community enhancement fee on solid waste at all eligible solid waste facilities and at Metro transfer stations.

- (1) Putrescible solid waste .....\$ 1.00
- (2) Non-putrescible solid waste (as authorized by Metro Chief Operating Officer) .....1.00

## **STAFF REPORT**

### **IN CONSIDERATION OF RESOLUTION NO. 22-5260 FOR THE PURPOSE OF ADOPTING SOLID WASTE FEES AT THE METRO TRANSFER STATIONS AND THE REGIONAL SYSTEM FEE FOR FY 2022-23.**

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Date: April 5, 2022  
Department: FRS  
Meeting Date: April 21, 2022

Prepared by: Cinnamon Williams  
Presenters: Brian Kennedy and Cinnamon Williams  
Length: 10 Minutes

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#### **ISSUE STATEMENT**

This resolution will authorize increases to Solid Waste fees at the Metro transfer stations and regional system fee to take effect on July 1, 2022.

#### **ACTION REQUESTED**

Council adoption of resolution 22-5260

#### **IDENTIFIED POLICY OUTCOMES**

Council adoption of this resolution will:

1. Increase the Solid Waste fees at the Metro transfer stations and regional system fee to be effective as of July 1, 2022;
2. Provide Council with the annual report of the amount of solid waste that was subject to reduced fees and taxes or exempted during FY 2020-21.

#### **POLICY QUESTION**

Should Council increase the Solid Waste fees at the Metro transfer stations (including the total disposal fee, transactions fees, materials charges, and minimum load size fees) and the regional system fee to cover the costs of service of Metro station operations and the regional waste system?

#### **POLICY OPTIONS FOR COUNCIL TO CONSIDER**

1. Adoption of the resolution to increase Solid Waste fees at the Metro transfer stations and regional system fee to fund current Department expenses.
2. Reject the resolution and Solid Waste fees at the Metro transfer stations and regional system fee will be unchanged. This action will result in future operational budget shortfalls. This will require Metro to significantly reduce public services and make additional changes to programs and capital plans to keep spending in line with expected revenue collected.

#### **STAFF RECOMMENDATIONS**

The Chief Operating Officer recommends adoption of Resolution 22-5260

## **STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION**

March 31, 2022, the Chief Operating Officer and the Chief Financial Officer presented to the Metro Council with three approaches to adopting fees over the next five years. In that meeting, Council provided direction to smooth fees over the next five years to mitigate volatility and increase predictability. This comes after a long process over the review of Metro fee development.

The Metro Council previously directed staff to convene a series of strategy conversations and budget engagement with local partners before setting fees for FY 2022-23. In December 2021, Waste Prevention and Environmental Services (WPES) and Financial Regulatory Services (FRS) presented an expert panel that discussed Best Practices in Public Utilities with an independent consultant as a moderator. This allowed Council to ask questions, engage in discussion and provided an opportunity for listening stakeholders to hear about other utilities and rate development.

Staff subsequently presented a Solid Waste Fee Setting Approach and Policy Discussion that reviewed the Metro fee setting structure, WPES budget, the Metro tonnage forecast, and four, five-year scenarios on how to approach the FY 2022-23 fee adoption. At that session, the Council directed staff to return with three updated scenarios.

Staff presented the Council with three scenarios: Status quo, Smoothing, and Existing Facility Investment. While all three have their pros/cons and cover the needs of the WPES department and the Region's solid waste system, Council requested that staff move forward with the Smoothing approach, where the net Metro Tip Fee over the next five years will increase between 7-8% each year. An additional request was to leave that minimum load charge at Metro facilities remained at \$35 per load for FY 2022-23.

As required by Metro Code Chapter 5.03.070, staff has had the Solid Waste Fees reviewed by an independent reviewer. Their letter is provided as **Attachment E** to this staff report.

In summary, the overall tip fee increase is 7.21%. This is slightly different than the forecasted fee presented on March 31, 2022. The only changes were updating the model for the WPES proposed budget. This change was an additional 0.16 cents on the ton. To keep the minimum load fee unchanged for the next year, Metro reduced the pounds to qualify for a minimum load from 360 to 300 pounds. This is still much higher than the average minimum load, which is usually around 205 pounds.

**Known Opposition:** A solid waste industry representative has previously indicated opposition to the single disposal fee that Metro charges for solid waste received at its transfer stations. Additionally, some local government partners have also expressed concerns about increasing disposal fees.

**Legal Antecedent:** The process for setting Metro's solid waste fees and taxes are set forth in Metro Code Chapters 5.02, 5.03, 5.06 and 7.01. Metro reviews its solid waste fees annually. The proposed FY 2022-23 fees comply with the restriction set forth in Chapter III, Section 15 of the Metro Charter limiting user charges to the amount needed to recover the costs of providing goods and services.

**Anticipated Effects:** Fee changes are anticipated as displayed in the table below:

Proposed Fee Schedule				
	Existing	Proposed	Difference	
	2022	2023	\$	%
<b>Transaction Fees</b>				
Staffed Scalehouse	\$14.50	\$18.00	\$3.50	24.1%
Automated Scalehouse	\$2.75	\$4.25	\$1.50	54.5%
<b>Tipping Fees</b>				
Mixed Solid Waste (refuse)	\$72.81	\$78.39	\$5.58	7.7%
Clean Wood	\$64.23	\$66.31	\$2.08	3.2%
Yard Debris	\$55.00	\$55.00	\$0.00	0.0%
Residential Organics	\$76.99	\$82.38	\$5.39	7.0%
Commercial Organics	\$65.23	\$69.80	\$4.57	7.0%
<b>Fees and Taxes</b>				
Enhancement Fee	\$1.00	\$1.00	\$0.00	0.0%
Regional System Fee (MSW only)	\$25.65	\$29.37	\$3.72	14.5%
Metro Excise Tax (MSW Only)	\$13.80	\$12.80	-\$1.00	-7.2%
DEQ Fees (MSW Only)	\$1.89	\$1.89	\$0.00	0.0%
Environmental Cleanup Fee	\$2.50	\$2.50	\$0.00	0.0%
MSW Tipping Fee (including taxes)	\$115.15	\$123.45	\$8.30	7.2%
Minimum Fee (MSW)	\$35.00	\$35.00	\$0.00	0.0%

**Budget Impacts:** The fees established by this resolution are designed to raise \$103.1 million in enterprise revenue for FY 2022-23. WPES budget Operating and Materials (O&M) expenses are \$106.1 million for FY 2022-23. The department will cover the \$3 million in operating deficit and any capital outlay with fund balance reserves.

**Clean-up Material and Special Exemptions:** Metro Code Section 5.02.070(b) states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste recycled or disposed under special exemption permits and the total regional system revenue that was not collected during the fiscal year because of those special exemptions. A summary showing the total amount of Metro area waste that was subject to Metro's reduced rate or exempt from fees and taxes during FY 2020-21 is provided in **Attachment B**.

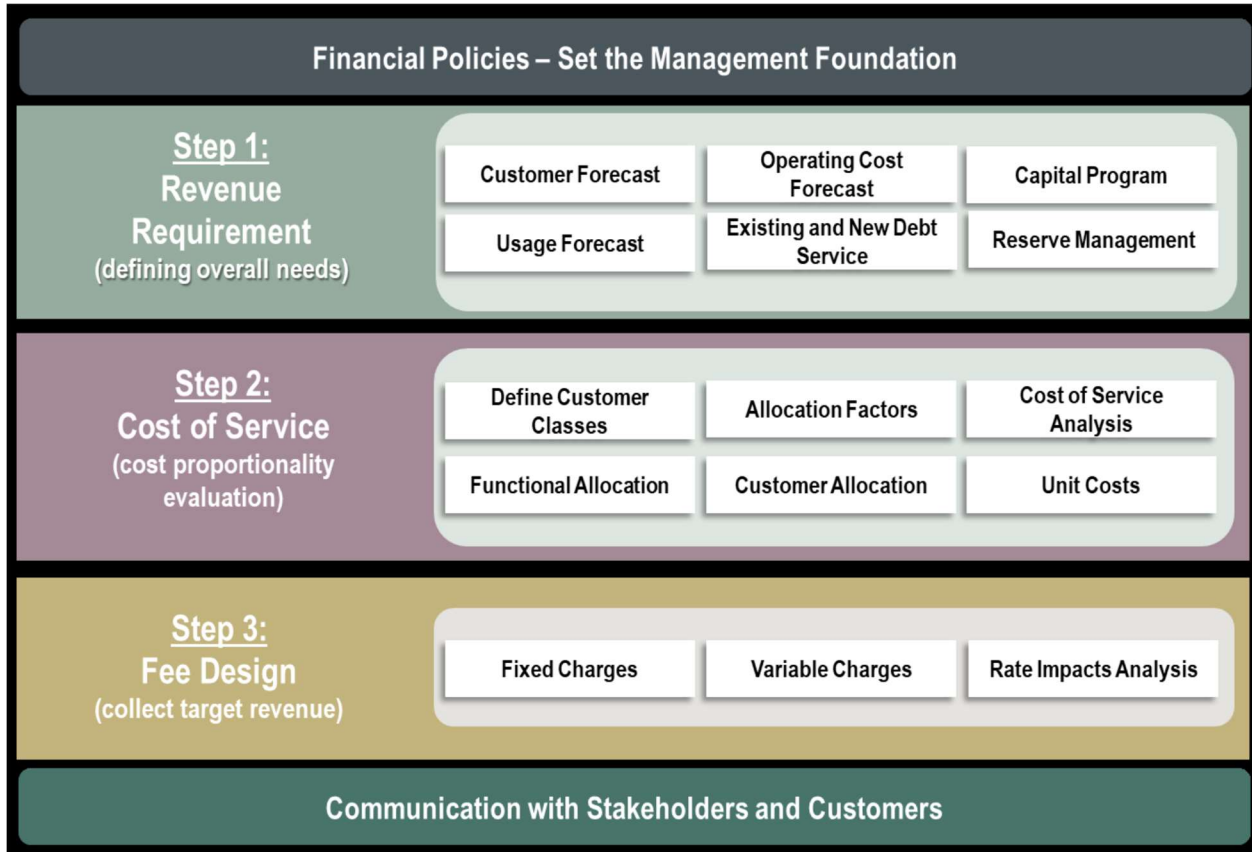
**Independent Solid Waste Fee Review and Staff response:** Each year Metro employs a consultant to do an independent review of provisional solid waste fees. The consultant FCS Group has a three-year contract and reviews the Solid Waste Rate Model and provisional fees. This review includes a letter with their findings and recommendations during this review. The current review letter is provided as **Attachment E** and staff's response is **Attachment F**.

## BACKGROUND

Metro establishes the Solid Waste fees based on principles that are generally accepted and widely followed throughout the utility industry. Three key analyses are done: 1) revenue requirement - which identifies the total revenue to fully fund the department on a standalone basis; 2) cost of

service – which establishes how to distribute the costs to the end user of the service (or customer class); and 3) fee design – which develops a fee structure that generates sufficient revenue to meet the system’s revenue requirement and Solid Waste Fee pricing objectives.

In December 2020, the following generally accepted and widely followed financial policies were presented at the Utility Panel discussion:



Metro’s fee development follows these guidelines but makes them *four* steps instead of three, to establish clear roles and responsibilities of the work performed by staff.

**Metro Fee Development:**

**Step 1. Identify the revenue requirement** – This step identifies the total annual financial obligations of the system. This information comes from the WPES FY 2022-23 *proposed* budget that includes the department’s full operations and maintenance (O&M) costs, capital improvements and replacements and adheres to Metro fiscal policy compliance.

Most of the revenue requirement is driven by the following two areas:

Metro Disposal Service Costs: Metro owns two transfer stations that provide disposal services to commercial haulers, businesses, and the public. Metro transfer stations cover operating costs, such as wages, equipment, improvements, green fuel, and practices that protect the safety of our workers and our customers. Fees also cover the costs of recycling, transport and disposal of the garbage brought to the facilities. Most of these costs are driven

from the operation of the stations, transport and disposal are all performed by private operators under long-term contracts with Metro.

Regional Programs: Metro provides or participates in solid waste services and programs with region-wide impact. These services include Metro’s RID program, which cleans up hundreds of tons of garbage dumped on public property every year; education and technical assistance programs to improve recycling and reduce the use of toxic products at homes and businesses; and oversight of private garbage and recycling facilities to ensure they manage waste in a way that minimizes impacts on local communities. The programs are explicitly included in the budget as:

- Clean-up
- Compliance and Regulation
- Grants and Services
- Local Government Funding
- Paint Recycling and Production
- Policy and Planning
- Waste Prevention Education and Leadership

Establishing the Revenue Requirement: Revenue requirements are driven by the WPES budget for the disposal service, regional program needs and the administrative costs that allow these activities to happen.

Per the FY 2022-23 Proposed Budget (found [here](#) on the Metro Website), the current O&M costs are as follows:

<b>Solid Waste Revenue Fund</b>	
<i>page E-106</i> in the FY 2022-23 Proposed Budget	
Personnel Services	\$ 26,250,204
Materials and Services	69,952,333
Interfund Transfers ( <i>central service support</i> )	10,875,126
<b>Proposed Budget Current Expenditures (excluding capital outlay)</b>	<b><u>\$ 107,077,663</u></b>
Reconciling Item	
FY 2022-23 model updates on major contract costs	<u>(1,022,234)</u>
<b>Operating &amp; Maintenance costs for revenue requirement</b>	<b><u>\$ 106,055,429</u></b>

Per Council direction, staff implemented a smoothing method to fee development that should provide a bit more predictability to the fees and keep them from being volatile each year. This approach reduces the revenue generated and will requires that the difference be funded with fund balance reserves.

Total amount of revenue to be recovered by the Metro fees, are as follows:

Revenue by Fee Type	FY 2022-23
Staffed Transactions	
South Station	\$ 4,834,822
Central Station	2,450,533
Automated Transactions	491,205
Mixed Solid Waste Tip Fee	45,083,690
Clean Wood Tip Fee	157,265
Yard Waste Tip Fee	1,107,058
Residential Organics Tip Fee	2,872,281
Commercial Organics Tip Fee	713,294
Regional System Fee Tip Fee	45,424,559
<b>TOTAL</b>	<b>\$ 103,134,707</b>

This calculates a \$3 million deficit from the budgeted O&M costs and what the fees will recover based on forecasts. This also does not include reserve spending on capital outlay and keeping the minimum load charge unchanged for the next year. Staff believes this is a reasonable approach that maintains the overall financial stability of the Solid Waste Fund and adheres to Metro's financial policies.

**Step 2. Allocate costs** – This step calculates (in the fee model) the functional cost allocation to different customer classes based on their unique demands for each service. This provides fee fairness through cost causation.

The fee process uses a cost-of-service approach that distributes costs based on a proportionate share of costs required to provide service. The methodology used identifies how expenses are allocated to the solid waste system functional areas including disposal and recovery, regional programs, sustainability, clean-up, and compliance and general and administrative. Allocations are based on staff time, tickets processed, floor area and tonnage. The allocation factor is designed to be an equitable expression of the how and why the cost is incurred.

The cost-of-service details cost allocation for an additional layer of service by waste type: mixed solid waste, wood waste, yard debris, residential organics, and commercial organics. Costs associated with processing each waste type were reviewed and discussed with Metro staff and leadership. The cost-of-service process reviewed existing cost allocation approaches and identified changes and additional allocation factors used in the process. A sensitivity analysis indicating the fee impacts of alternative general and administrative cost allocations was included in the review.

**Step 3. Forecast activity** – This step estimates the waste unit activity in the region to forecast the solid waste activity anticipated for the upcoming fiscal year. Metro staff prepares a Solid Waste Forecast for waste unit activity in the region and projected anticipated levels of tonnage and transactions by material type at Metro transfer stations and private facilities. This information is provided quarterly and for the FY 2022-23 fee development, staff used the Winter 2022 forecast for unit information.

Summary of the 2022 Winter Tonnage Forecast, compared to the 2020 Fall Tonnage Forecast (prior year fee development):



	Station Transactions	Mixed Solid Waste	Wood	Yard	Residential Organics	Commercial Organics	Regional System Fee
Units for FY23	520,320	575,120	2,372	20,128	34,867	10,220	1,546,631
Units for FY22	448,728	542,351	2,958	17,402	48,469	19,487	1,418,083
Increase (decrease)	71,592	32,770	(586)	2,726	(13,602)	(9,267)	128,548

**Step 4, Fee development and design** – This step achieves required revenue levels by establishing fees and charges that accurately reflect the cost to provide a particular service. Unit costs were developed for each fee charged and were analyzed to identify any warranted shifts in cost burden that could improve equity between the fees and charges. The result of the cost-of-service process is a calculated fee for providing solid waste services. This process has a great deal of influence from Metro leadership and compliance to financial policies.

The following are the fees and charges for FY 2022-23:

	Mixed Solid Waste	Clean Wood	Yard Debris	Residential Organics	Commercial Organics
<b>Transactions</b>					
Staffed Scalehouse	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00
Automated Scalehouse	4.25	4.25	4.25	4.25	4.25
<b>Tip Fee</b>					
Tonnage Charge	78.39	66.31	55.00	82.38	69.80
Regional System Fee	29.37	-	-	-	-
Excise Tax	12.80	-	-	-	-
DEQ Fees	1.89	-	-	-	-
Community Enhancement Fee	1.00	1.00	1.00	1.00	1.00
<b>Total Tip Fee</b>	<b>\$ 123.45</b>	<b>\$ 67.31</b>	<b>\$ 56.00</b>	<b>\$ 83.38</b>	<b>\$ 70.80</b>
<b>Minimum Load</b>	<b>\$ 35.00</b>	<b>\$ 26.00</b>	<b>\$ 25.00</b>	<b>\$ 29.00</b>	<b>\$ 26.00</b>

#### Fee Setting Criteria:

Per Metro Code 5.03.060, each year the Chief Operating Officer will propose fees to Council that will consider any solid waste fee setting criteria and fee setting policies adopted by Council.

**Attachment C** is the last adopted fee setting criteria by Council. Fees have been developed using the 2018 Fee Setting Criteria.

During discussions about fee development, staff updated the last adopted fee criteria to reflect Council's priorities. Staff have included them for preliminary review as **Attachment D**. Staff will return to Council for full adoption of the criteria before starting the FY 2023-24 fee development.

#### Other Fee Considerations:

Metro assesses the regional system fee and excise tax on waste at the time of disposal. The amount of the fee and tax rate is calculated annually in accordance with Metro Code Chapters 5.02 and 7.01.

In general, Metro has a three-tiered fee and tax rate structure for waste that is transported directly to disposal sites.

- Full Rate. The full fee and tax rate, which is included as a component of Metro’s transfer station charges, is assessed on most of the region’s waste at the time of its disposal (such as household garbage, construction and demolition debris, etc.).
- Reduced Rate. The reduced fee and tax rate is generally assessed on contaminated “cleanup material” at the time of its disposal (such as contaminated soils, catch basin pumping, street sweepings, etc.).
- Exempt. There is a fee and tax exemption for any material that is recovered, recycled, or diverted away from disposal sites. Under certain circumstances, Metro may also waive fees and taxes for certain types of waste that are sent to disposal sites (such as under special exemption permits, tire processing residual, and “useful material” which includes alternative daily cover and road base used at a landfill).

Metro Code Section 5.02.070 states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste disposed under special exemption permits and the total lost revenue arising from the exemption permits granted during the fiscal year. A summary showing the total amount of Metro area waste that was subject to Metro’s reduced rate or exempt from fees and taxes during FY 2020- 21 is provide in **Attachment B**.

#### **ATTACHMENTS**

- A – Resolution 22-5260
- B – Annual Credit and Exemptions Report for FY 2020-21
- C – 2018 Fee Setting Criteria
- D – Proposed (updated) Fee Setting Criteria
- E – Independent Review Letter
- F – Staff’s Response to Independent Review Letter

## ATTACHMENT B

## Tons of Metro area waste subject to Metro's reduced rate or exempt from fees and taxes at a disposal site

July 1, 2020 - June 30, 2021

### Fiscal Year 2021

<b>Reduced rate waste (cleanup material)</b>		<b>Tons</b>
<b>Type:</b>		
Petroleum Contaminated Soil		215,320
Other		13,746
	total	<u><u>229,067</u></u>

<b>Exempt waste</b>		<b>Tons</b>
<b>Generator:</b>		
Columbia Steel Casting Co Inc		6,544
Evrz NA		744
Greenway Recycling		17,102
Metro Paint		732
Metro South		18
RA Roth / NW Shingle		0
RB Recycling		12,780
Rivergate Scrap Metals		26,866
Schnitzer Steel		100,429
Siltronics Corp		339
Synagro Technologies		579
Tire Disposal and Recycling		1,405
Tualatin Valley Waste Recovery		9,199
Willamette Resources Inc		663
	total	<u><u>177,400</u></u>

<b>Special Exemption Permits</b>		<b>Tons</b>
<b>Generator:</b>		
Oregon Department of Agriculture		2,514
(yard debris from beetle quarantined area - Wash Co) *	total	<u><u>2,514</u></u>

\* No lost revenue as material would have normally been composted

Metro  
Solid Waste Rate Setting Criteria  
Updated February 8, 2018

In developing the rates, staff relies on Metro's legal authority as determined by the Metro Code and Oregon Revised Statute, as well as policies adopted by the Metro Council and other informal guidance used by staff. In addition, the solid waste rate setting process is guided by core set of criteria used to ensure effective management of the regional solid waste system.

This criteria includes the following principles:

- A. Consistency: Solid waste rate setting should be consistent with Metro's agency-wide planning policies and objectives, including but not limited to the Solid Waste Management Plan.
- B. Revenue Adequacy: Rates should be sufficient to generate revenues that fund the costs of the solid waste system.
- C. Equity: Charges to users of the waste disposal system should be directly related to disposal services received. Charges to residents of the Metro service district who may not be direct users of the disposal system should be related to other benefits received.
- D. Economic Impact and Affordability. Rate setting should consider the economic effects on the various types of rate payers, including the cost of living on residential waste generators and the cost of doing business on non-residential generators, as well as the economic effect on others in the region.
- E. Waste Reduction: The rate structure should encourage waste reduction, reuse, and recycling.
- F. Implementation and Administration: Rate setting should balance the relative cost and effort of implementing and administering the rates with financial and policy goals. Rates should be readily enforceable.
- G. Credit Rating Impacts: The rate structure should not negatively impact Metro's credit rating.
- H. Authority to Implement: Metro should ensure that it has the legal ability to implement the rate structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority.
- I. Reliability. Anticipated revenues used in the rate setting process should be considered stable and unlikely to deviate from financial plan expectations.
- J. Predictability: Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.

## **Proposed Revisions to Fee Setting Criteria**

**Draft: 03/14/2022**

**Rationale:** Solid waste fee and rate setting guidance recommends that fee and rate setting policy be periodically reviewed every three years. The fee setting principles were last updated in 2018. Given both the timing and recent adoption of the 2030 Regional Waste Plan, it is timely to conduct a review of the criteria. Based on input provided at the December Council work session, staff proposed the following changes to the criteria and principles.

### **Fiscal Responsibility**

- A. Credit Rating Impacts: The fee structure should not negatively impact Metro's credit rating.
- B. Authority to Implement: Metro should ensure that it has the legal ability to implement the fee structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority. And, fees should be readily enforceable.
- C. Revenue Adequacy: Fees should be sufficient to generate revenues that fund the costs of the solid waste system, including reserves.

### **Accountability**

- A. Reliability. Anticipated revenues used in the fee setting process should be considered stable and unlikely to deviate from financial plan expectations.
- B. Predictability: Metro fee adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.
- C. Transparency: Metro fee should be a reflect policy decisions in the fee setting process and structure and have the visibility into the decision-making process (how decisions are being made).

### **Public Benefit**

- A. Administration: Fee setting should evaluate the relative cost and benefits of administering the fees with financial and policy goals.
- B. Service Provision: Charges to users of the waste disposal system should be directly related to disposal services received. Fee impacts to residents of the Metro service district who may not be direct users of the disposal system should be related to other benefits received.

- C. **Affordability.** Fee setting should consider the economic effects and distribution of benefits on the various types of users in the Solid Waste System, including the cost of living on residential waste generators and the cost of doing business on non-residential generators, as well as the economic effect on others in the region.
- D. **Consistency:** Solid waste fee setting should be consistent with Metro's agency-wide planning policies and objectives, including but not limited to the Regional Waste Plan.
- E. **Waste Reduction:** The rate structure should encourage waste reduction, reuse, and recycling.

## **Attachment A:**

### **Solid Waste Rate Setting Criteria**

Updated February 8, 2018

In developing the rates, staff relies on Metro's legal authority as determined by the Metro Code and Oregon Revised Statute, as well as policies adopted by the Metro Council and other informal guidance used by staff. In addition, the solid waste rate setting process is guided by core set of criteria used to ensure effective management of the regional solid waste system.

This criteria includes the following principles:

- A. **Consistency:** Solid waste rate setting should be consistent with Metro's agency-wide planning policies and objectives, including but not limited to the Solid Waste Management Plan.
- B. **Revenue Adequacy:** Rates should be sufficient to generate revenues that fund the costs of the solid waste system.
- C. **Equity:** Charges to users of the waste disposal system should be directly related to disposal services received. Charges to residents of the Metro service district who may not be direct users of the disposal system should be related to other benefits received.
- D. **Economic Impact and Affordability.** Rate setting should consider the economic effects on the various types of rate payers, including the cost of living on residential waste generators and the cost of doing business on non-residential generators, as well as the economic effect on others in the region.
- E. **Waste Reduction:** The rate structure should encourage waste reduction, reuse, and recycling.
- F. **Implementation and Administration:** Rate setting should balance the relative cost and effort of implementing and administering the rates with financial and policy goals. Rates should be readily enforceable.
- G. **Credit Rating Impacts:** The rate structure should not negatively impact Metro's credit rating.

- H. Authority to Implement: Metro should ensure that it has the legal ability to implement the rate structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority.
  
- I. Reliability. Anticipated revenues used in the rate setting process should be considered stable and unlikely to deviate from financial plan expectations.
  
- J. Predictability: Metro rate adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.





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

April 2022

Metro

Review of FY 2022-2023 Solid Waste Disposal Fees

FCS GROUP Memorandum

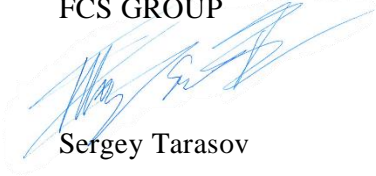
- monitor expense projections closely as more information becomes available on the ongoing impacts of COVID-19 on expenses and Metro's financial performance.
- » In addition to expense projections, Metro's tonnage forecast is key to the analysis and effect both revenues and contract expenses. With the 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 within 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.

April 2022  
Metro  
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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



**Resolution 22-5260, Attachment F**  
**FY 2022-23 Solid Waste Disposal and Regional System Fees**  
**Staff Response to Independent Review by FCS Group**

## **Attachment E, Review of FY 2022-23 Solid Waste Disposal Fees**

Metro engaged FCS Group to provide an independent review of the methodology for calculating proposed solid waste fees for the fiscal year FY 2022-23. This letter has four bullets. The first bullet outlines the best practices of the industry and the structure to utilize the Rate Model. This structure is three different fee setting components: revenue requirement, cost of service, and rate/fee design. The following three bullets describe those steps, and the next bullet down is the review note. Staff will quote each review note and provide a response.

### **FCS Group – Comment on the Revenue Requirement:**

» 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.

#### **Staff Response:**

Staff agrees with both comments. Staff reviews financial performance and tonnage activity daily, weekly, monthly, and quarterly. In addition, staff produces quarterly reports that include financial forecasts. The WPES Analytics team also produces quarterly tonnage forecast that continues to improve analysis and projections.

### **FCS Group – Comment on the Cost of Service:**

» 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 within 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.

**Staff Response:**

Staff agrees with this comment. Staff continues to review allocation methods and apply these methods consistently.

**FCS Group – Comment on Rate/Fee Development:**

» 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.

**Staff Response:**

Staff agrees with this comment. Staff acknowledges that fees do not cover all budgeted spending and will continue to monitor reserves. Each year, additional analysis will be done to ensure that fund balance reserve policies and best practices are appropriately complied with.