

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ADOPTING THE REGIONAL SYSTEM FEE FOR FY 2025-26 ) RESOLUTION NO. 25-5488  
)  
) Introduced by Chief Operating Officer Marissa  
) Madrigal with the concurrence of Council  
) President Lynn Peterson

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

WHEREAS, any person who transports solid waste generated from inside the Metro jurisdictional boundary must pay the regional system fee to Metro at the time the waste is disposed; and

WHEREAS, the regional system fee funds regional waste reduction programs and services; and

WHEREAS, the regional system fee is distinct from Metro’s solid waste tonnage fees, which are governed by Metro Code Chapter 5.03, and which recover the costs of operating and managing Metro’s two solid waste transfer stations, Metro South and Metro Central; and

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

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

THE METRO COUNCIL RESOLVES AS FOLLOWS:


In accordance with Metro Code Chapter 5.02, Metro will assess the following regional system fees on solid waste, effective July 1, 2025:

<u>Regional System Fees by waste class</u>	
(1) Cleanup material .....	\$ 2.50
(2) All other solid wastes .....	\$32.60

ADOPTED by the Metro Council this 15<sup>th</sup> day of May 2025.

  
\_\_\_\_\_  
Lynn Peterson, Council President

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Carrie MacLaren, Metro Attorney

## **STAFF REPORT**

### **IN CONSIDERATION OF:**

**RESOLUTION NO. 25-5488 FOR THE PURPOSE OF ADOPTING THE REGIONAL SYSTEM FEE FOR FY 2025-26.**

**RESOLUTION NO. 25-5489 FOR THE PURPOSE OF ADOPTING SOLID WASTE FEES AT THE METRO TRANSFER STATIONS AND METRO'S COMMUNITY ENHANCEMENT FEE FOR FY 2025-26.**

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Date: May 8, 2025  
Department: Finance and Regulatory  
Services  
Meeting Date: May 15, 2025

Prepared by: Patrick Dennis, WPES  
Finance Manager  
Presenters: Cinnamon Williams, Financial  
Planning Director  
Length: 30 minutes

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### **ISSUE STATEMENT**

Resolution 25-5488 will authorize an increase to the regional system fee, effective July 1, 2025.  
Resolution 25-5489 will authorize an increase to the solid waste fees at the Metro transfer stations and authorize collection of a community enhancement fee effective July 1, 2025.

### **ACTION REQUESTED**

Council adoption of Resolution 25-5488 and Resolution 25-5489.

### **IDENTIFIED POLICY OUTCOMES**

Council adoption of these resolutions will:

1. Increase the solid waste fees at the Metro transfer stations, effective July 1, 2025;
2. Increase the regional system fee, effective July 1, 2025;
3. Authorize Metro to impose and collect a community enhancement fee on waste disposed under certain conditions, effective July 1, 2025;
4. Provide Council with the annual report of the amount of solid waste that was subject to reduced fees and taxes or exempted during FY 2023-24.

### **POLICY QUESTION**

Should Council increase the solid waste fees at the Metro transfer stations and the regional system fee to cover the costs of service of Metro transfer station operations and the regional waste system?

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

1. Adoption of the resolutions to increase solid waste fees at the Metro transfer stations and regional system fee to fund projected FY2025-26 department expenses.

2. Reject the resolution to increase the solid waste fees at the Metro transfer stations; and/or reject the resolution to increase the regional system fee. These actions will result in future operational budget shortfalls. This will require Metro to 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 25-5488 and Resolution 25-5489.

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

In March 2024, Metro staff presented the recommendations of the Waste Fee Policy Task Force to the Metro Council. Their recommendations included updated fee setting criteria for solid waste fees. Specifically, the task force recommended improved engagement and collaboration on budget and fee development, improved public information about how Metro's fees are developed and used, continuing to maintain separate fund balance reserves for transfer station operations and Regional System Fee-funded activities, updates to Metro's financial policies, and prioritization of four criteria in solid waste fee setting.

In response to the Waste Fee Policy Task Force's recommendations, Metro updated its financial policies with the adoption of Resolution 24-5406, clarifying that Metro's solid waste fees should be sufficient to fund the full cost of the solid waste system and that Metro will maintain separate fund balance reserves for transfer station operations and Regional System Fee-funded activities.

Metro convened the Regional Waste Advisory Committee (RWAC) with the intended purpose of improving engagement and collaboration on budget and fee development. RWAC held three meetings on February 27, 2025, March 27, 2025, and April 24, 2025, where they learned about the FY 2025-26 proposed budget and fee development processes, and engaged with staff to review and provide input on the Waste Prevention and Environmental Services (WPES) budget and fee development as it relates to the implementation of the 2030 Regional Waste Plan, as the committee's defined function is stated in Metro Code Section 2.19.130.

Additionally, Metro held a Local Government Budget Forum on April 16<sup>th</sup>, 2025, where attendees could ask questions of Metro staff about the WPES FY 2025-26 budget and fees. Metro also proactively e-mailed monthly updates to local governments about key information related to budget and fee development in February, March and April 2025.

On May 8, 2025, Council received the input from RWAC and the Local Government Budget Forum to consider different perspectives on the WPES budget and associated fees from public, private, nonprofit and community partners. At this meeting, Council received the finalized proposed fees after FCS Group, an independent third-party consultant, had reviewed the fee models for year-over-year consistency and industry best-practice conformity.

In alignment with the Waste Fee Policy Task force's recommendation and Metro Council direction, WPES has been diligent in keeping transfer station operations and Regional System Fee-funded activities separated. To forecast the rates for FY 2025-26, a transformation of the rate development model was required, resulting in two separate forecasting models, one to forecast solid waste fees and the other to forecast regional system fees.

*Independent Solid Waste Fee Review:* As required by Metro Code Chapter 5.03.070, staff has had the Solid Waste Fee model and the Regional System Fee model reviewed by an independent reviewer. Metro employs consultant FCS Group who reviews the models and provisional fees. This review includes a letter with their findings and recommendations during this review. The current review letter is provided as **Attachment 3**.

*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 2023-24 is provided in **Attachment 1**.

**Known Opposition:** Local government partners and RWAC members have expressed concerns about increasing any 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 2025-26 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.

Figure 1. Proposed fee schedule

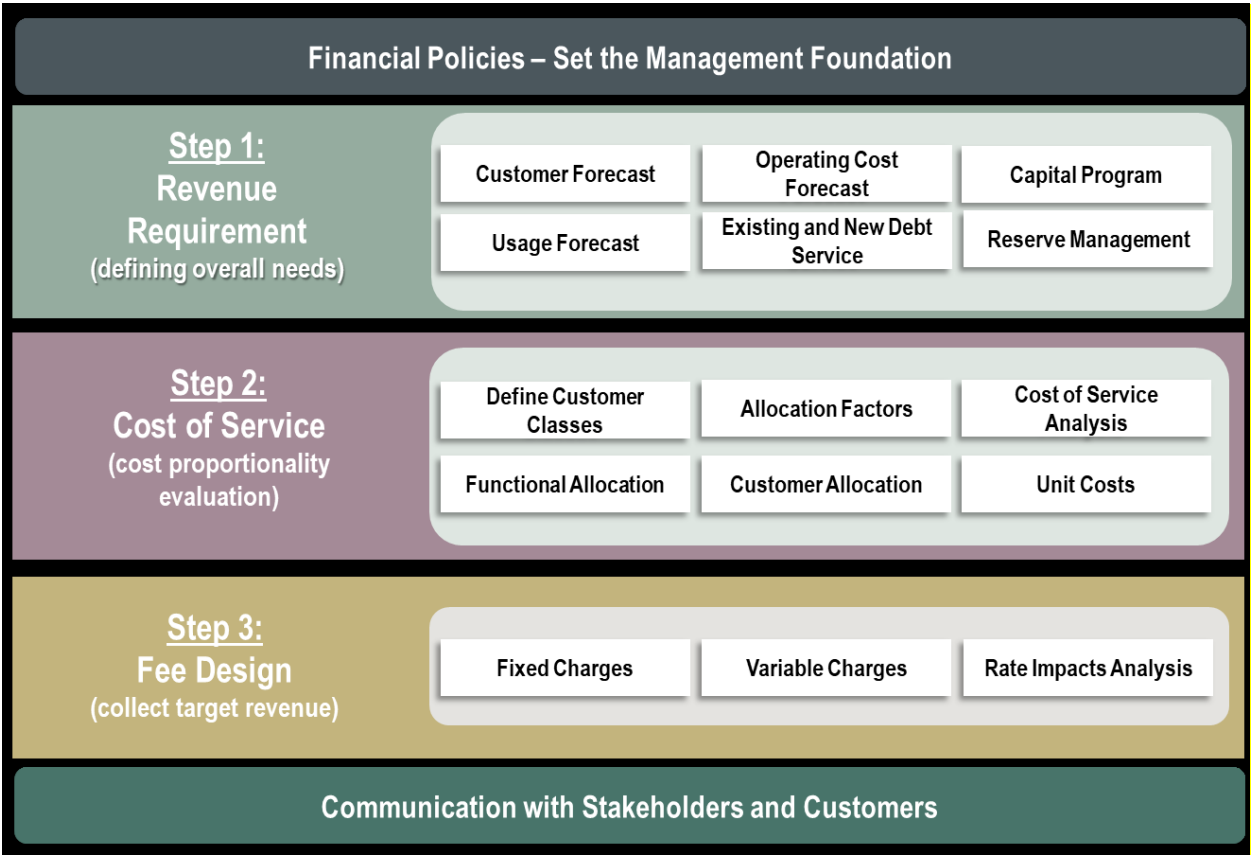
Proposed Fee Schedule				
	Existing 2025	Proposed 2026	Difference	
			\$	%
<b>Transaction Fee</b>				
Staffed Scalehouse	\$27.00	\$28.00	\$1.00	3.70%
Automated Scalehouse	\$7.25	\$7.85	\$0.60	8.28%
<b>Tonnage Charge</b>				
Solid Waste Fee (SWF)	\$104.37	\$112.19	\$7.82	7.49%
Clean Wood	\$80.92	\$87.39	\$6.47	8.00%
Yard Debris	\$55.00	\$55.00	\$0.00	0.00%
Residential Organics	\$93.04	\$100.48	\$7.44	8.00%
Commercial Organics	\$81.41	\$87.92	\$6.51	8.00%
<b>Fees and Taxes</b>				
Enhancement Fee	\$1.00	\$1.00	\$0.00	0.00%
Regional System Fee (SWF Only)	\$31.72	\$32.60	\$0.88	2.77%
Metro Excise Tax (SWF Only)	\$14.69	\$14.46	-\$0.23	-1.57%
DEQ Fees (SWF Only)	\$1.89	\$1.89	\$0.00	0.00%
Environmental Cleanup Fee	\$2.50	\$2.50	\$0.00	0.00%
SWF Tipping Fee (including taxes)	\$153.67	\$162.14	\$8.47	5.51%
Minimum Fee (SWF)	\$45.00	\$47.00	\$2.00	4.44%

**Financial and budget Impacts:** The fees established by this resolution are designed to raise \$79 million in Solid Waste Fee revenue and \$50 million in Regional System Fee revenue for FY 2025-26. WPES *budgeted* Operating and Materials (O&M) expenses for Solid Waste Fee programs at \$84 million and for Regional System Fee programs at \$58 million for FY 2025-26.

**BACKGROUND**

Metro establishes the Solid Waste fee and Regional System Fee 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 and Regional System Fee pricing objectives.

Figure 2. Financial policies for fee setting



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 2025-26 *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 the workers and 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 Community Stewardship 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 core service areas included in the budget are:

- Household Hazardous Waste
- Metro Paint
- Community Grants
- Dumped Garbage Clean Up
- Environmental Education Programs
- Youth Internship Program
- Direct Funding to Local Governments
- Policy & Planning
- Compliance

Figure 3. Revenue Requirement from proposed budget

Solid Waste Revenue Fund		
CURRENT FY 2025-26 Proposed Budget		
Personnel Services	\$	35,807,632
Materials & Services		84,160,111
Indirect Transfers for internal cost allocation plan		21,636,792
Proposed Budget Current Expenditures (excluding Capital Outlay)	\$	141,604,535
TOTAL OPERATING EXPENSES IN THE COMBINED MODELS	\$	141,604,535

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

Figure 4. Total amount of revenue to be recovered by the Metro fees

Revenue by Fee Type	2026
Staffed Transactions	\$ 8,793,255
Automated Transactions	961,637
Mixed Solid Waste Tip Fee	62,181,674
Clean Wood Tip Fee	69,418
Yard Waste Tip Fee	946,313
Residential Organics Tip Fee	4,590,014
Commercial Organics Tip Fee	1,438,995
Regional System Fee Tip Fee	49,663,860
<i>Cleanup Material</i>	554,253
<b>Total</b>	<b>\$ 129,199,419</b>

**Step 2. Allocate costs** – The fee process uses a cost-of-service approach that distributes costs based on the proportionate share of costs required to provide service. 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.

Indirect Costs: Administrative costs are identified in two different ways: the department's functional administrative costs and the Agency's cost to provide administrative central service support (internal cost allocation plan). These two administrative costs are allocated differently to reflect the different nature of which they are caused. Administrative costs from the department are allocated by how the staffing levels are applied to each program area. The Agency central service costs are allocated in a way that most directly reflect how the Agency allocates costs which is a blend of spending and staff allocations.

Direct Costs: The allocation methodology used identifies how expenses are allocated to the solid waste system functional areas including disposal and recovery, and regional programs. 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.

**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. For the FY 2025-26 fee development, staff used the Fall 2024 forecast for unit information.

**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.

Figure 5. Recommended fees and charges for FY 2025-26

Description	(Mixed) Solid Waste	Clean Wood	Yard Debris	Residential Organics	Commercial Organics
<b>Transaction Fee:</b>					
Staffed Scalehouse	\$28.00	\$28.00	\$28.00	\$28.00	\$28.00
Automated Scalehouse	\$7.85	\$7.85	\$7.85	\$7.85	\$7.85
<b>Tip Fee:</b>					
Tonnage Charge	\$112.19	\$87.39	\$55.00	\$100.48	\$87.92
Regional System Fee	\$32.60	-	-	-	-
Excise Tax	\$14.46	-	-	-	-
DEQ Fees	\$1.89	-	-	-	-
Community Enhancement Fee	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Total Tip Fee</b>	<b>\$162.14</b>	<b>\$88.39</b>	<b>\$56.00</b>	<b>\$101.48</b>	<b>\$88.92</b>
<b>Min Load Fee (240 lbs.)</b>	<b>\$47.00</b>	<b>\$39.00</b>	<b>\$35.00</b>	<b>\$40.00</b>	<b>\$39.00</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 2** is the current fee setting criteria that will be adopted by Council, through this resolution.

### 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 2023-24 is provide in **Attachment 1**.

## **ATTACHMENTS**

- Attachment 1 – Annual Credit and Exemptions Report for FY 2023-24
- Attachment 2 – Fee Setting Criteria
- Attachment 3 – Independent Review Letter

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

July 1, 2023 - June 30, 2024

### Fiscal Year 2024

Reduced rate waste (cleanup material)		Tons
<b>Type:</b>		
Petroleum Contaminated Soil		102,128
Other		94,354
	<b>total</b>	<b>196,482</b>

Exempt waste		Tons
<b>Generator:</b>		
Columbia Steel Casting Co Inc		0
Evrax NA		911
Greenway Recycling		20,874
Pride Recycling		610
Metro Paint		746
Metro South		16
RA Roth / NW Shingle		0
Rivergate Scrap Metals		7,804
Schnitzer Steel		83,457
Siltronics Corp		308
Synagro Technologies		4,327
Tire Disposal and Recycling		5,503
Tualatin Valley Waste Recovery		5,449
Willamette Resources Inc		2,709
	<b>total</b>	<b>132,713</b>

Special Exemption Permits		Tons
<b>Generator:</b>		
Oregon Department of Agriculture		0
(yard debris from beetle quarantined area - Wash Co) *	<b>total</b>	<b>0</b>

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

## Fee Setting Criteria May 2025

**Rationale:** During the process of fee development, staff relies on Metro’s legal authority as determined by Metro Code and Oregon Revised Statute, as well as policy adopted by the Metro Council and other informal guidance. In addition, the solid waste fee setting process is guided by core set of criteria used to ensure effective management of the regional solid waste system.

**Action:** Solid waste fee and rate setting guidance recommends that fee and rate setting policy be periodically reviewed. The fee setting principles below are based on recommendations from the Waste Fee Policy Task Force appointed by the Metro Council in FY 2023-24. The fee setting criteria were presented to both the Metro Council and the Regional Waste Advisory Committee in FY 2024-25. By adopting fees and the fee setting criteria, Council has reviewed the below fee setting criteria that are to be used during fee development.

### Prioritized criteria in fee development:

**Accessible and Equitable System:** Fee setting should encourage public, private, and nonprofit investment in services that provide regional benefit, emphasizing geographic equity, access to service and a reduction in local environmental and human health impacts.

**Healthy Environment:** The fee structure should encourage keeping valuable materials out of the landfill, reducing climate and environmental impacts through highest material use, and safe disposal of hazardous waste.

**Affordability:** Fee setting should consider the economic effects and distribution of benefits to 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 nonresidential generators, as well as the economic effect on others in the region.

**Public-Private System:** Fees should give fair weight to the operational and capital needs of all providers: publicly owned, privately owned, and nonprofit.

The following criteria are important considerations, but are not prioritize as those above:

- A. **Predictability:** Metro fee adjustments should be predictable and orderly to allow local governments, haulers, and rate payers to perform effective planning.
- B. **Resilient Economy for All:** Fee setting should consider the economic effects of short- and long-term fee changes.
- C. **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.
- 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.



May 7, 2025

Metro  
600 NE Grand Avenue  
Portland, OR 97232-2736

**Subject: Review of Fiscal Year 2025-2026 Solid Waste Disposal Fees**

Dear Ms. Madrigal, Chief Operating Officer,

Metro engaged FCS to provide an independent review of the methodology for calculating proposed solid waste disposal fees for Fiscal Year (FY) 2025-2026. In response to this request, we have reviewed Metro's updated Excel Fee Model (Model), as well as the newly developed Regional System Fee Model (RSF 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 2025-2026. The review did not validate the accuracy of source documents, formulae or structure utilized in the Model or RSF Model.

The FY 2025-2026 findings and comments are summarized 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.
- For this year's fee development process Metro separated the Regional System Fee into an independent RSF Model. This process was done by isolating RSF specific expenditures from all other solid waste related costs. While the majority of the expenditures are direct costs attributable to the RSF, the operating forecast does include a transfer to the Model for shared expenses (e.g., organics support, disaster debris, administrative and system facilities plan). The methodology used to allocate RSF's portion of shared expenses was consistent with the prior combined model approach. It should be noted that since there are two models being tracked for the RSF and all other fee development, caution should be taken to ensure consistent inputs are being used in both toolsets. By isolating the RSF expenditures into an independent model, the fee development process is simplified. Fees are calculated by dividing the projected annual cost forecast by the projected annual tonnage. No additional allocation is required within the RSF Model.



- » The operating and maintenance (O&M) expense projection for the RSF model does include a budget realization factor of approximately 90 percent on personnel services, material and services and system facilities plan expenditures. The budget realization factor reduces the overall budget for the associated expenses down to 90 percent of the total. This practice is common in the rate setting industry and is often utilized if a utility has historically expensed less than budgeted or if the utility anticipates the test year to be below budget due to factors identified after the budget has been adopted. The budget realization factor reduces the overall operating budget by approximately \$4.2 million for the FY 2025-2026 test year. Metro should continue to closely monitor actual annual expenditures and compare them to the figures used in the current rate strategy and adjust the overall strategy if necessary.
- For the non RSF fee development Model, the recommended overall fee strategy (step 1, revenue requirement) for FY 2025-2026 projects revenues after increase to be below annual operating obligations, requiring the use of \$1.7 million in reserves in FY 2025-2026 and another \$0.4 million in FY 2026-2027. When evaluating reserve levels, it is important to recognize that the value of reserve lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuations of reserve levels may indicate that the system is working, while lack of variation over many years may suggest that the reserves are, in fact, unnecessary. The benefit of projecting revenue requirements beyond the immediate test year period is the ability to level out impacts over time, if necessary. The Model does project that revenues after increase for subsequent years meet the estimated revenue needs, assuming the proposed fees are implemented.
  - » This year's model includes an updated tonnage forecast, reflecting the latest economic conditions and actual utilization of Metro's transfer stations. The tonnage forecast is key to the analysis and affects both revenues and expenses. It will be important to continue monitoring tonnage and its impact on both revenues and expenses and modify the projections as necessary if significant deviation in the forecast occurs.
  - » As discussed on the RSF Model review above, RSF related expenditures were removed from this year's fee development. While the costs removed were directly attributable to the RSF, shared expenses were left in the non RSF Model. To account for the RSF's portion of shared expenses, the Model includes a non-rate revenue transfer from RSF based on the RSF's proportional share. The allocation used to establish the RSF transfer was consistent with the prior combined model approach. As noted above, since there are two models being tracked for the RSF and non RSF Model fee development process, caution should be taken to ensure consistent inputs are being used in both toolsets.
  - » While the RSF model assumed a budget realization factor for O&M expenses related to personnel services, material and service and system facilities plan expenditures, the Model does not include a similar adjustment. Based on discussion with Metro staff, the adjustment for the Model was not incorporated because the majority of costs in the Model are tied to contract related costs. Metro should continue monitoring budgeted versus actual expenditures and, if warranted, incorporate similar budget realization factor in future updates in the Model.
- The Model's 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 major update for this year's fee development process was associated with the removal of RSF related expenses. The allocation of non RSF expenses remained consistent with prior updates. The shared expenses, including the non-rate revenue transfer from the RSF for its portion of shared expenses, followed consistent logic and allocation as was performed in the combined modeling approach from prior updates.
- » The results of the cost-of-service analysis indicate that cost differences are present between existing fees and the cost-based allocation. It should be noted that, typically, if the result of each individual service is within plus (+) or minus (–) 5.0 to 10.0 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 fees from year to year.
- The Model's proposed fees (step 3, rate / fee design) phase-in cost-of-service results over a 5-year period. Staffed and automated fee, mixed solid waste, residential organics and commercial organics are phased-in to within 5.0 percent of their cost-of-service level, with the majority projected to be within 1.0 percent. By the end of the 5-year period, clean wood fees are projected to be within 50.6 percent of their cost-of-service, which is outside the 10.0 percent range of reasonableness. The updated contract for the Central Transfer Station increased the cost of wood processing impacting the results of the cost-of-service analysis compared to the Model results with prior contract costs. The yard waste fee is projected to be held constant to allow it to phase-in towards cost-of-service, which is projected to end the 5-year period within 15.0 percent of cost.
  - » 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 \$1.8 million in FY 2025-2026 down to \$0.3 million in FY 2029-2030. While Metro's existing fund balances are projected to be sufficient to cover the additional deficiency, they may decrease below the minimum target levels in FY 2026-2027 through FY 2028-2029, before recovering in FY 2029-2030. In addition, the overall system wide rate increase in FY 2025-2026 would be lower than identified in step 1. Metro should continue monitoring annual cash flow and revisit the rate strategy if reserves decrease below minimum target levels in future years.



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

A handwritten signature in blue ink, appearing to read "Sergey Tarasov", enclosed within a light blue, irregular, cloud-like border.

Sergey Tarasov

Principal

cc: Financial Planning Director Cinnamon Williams, Chief Financial Officer Brian Kennedy, WPES Director Marta McGuire and Councilors Peterson, Simpson, Lewis, Rosenthal, Gonzalez, Nolan and Hwang