

June 15, 2022

King County Solid Waste Division
201 S Jackson Street
Seattle, WA 98104

Subject: Review of 2023-24 Solid Waste Fee Proposal

Dear Mr. Halverson, Strategic Planning Manager

The King County Solid Waste Division engaged FCS GROUP to provide an independent review of the Excel-based solid waste rate model used to develop the 2023-2024 solid waste fee proposal. In response to this request, we have reviewed the rate model and associated fees for accuracy, adequacy, reasonableness, and alignment to the recommendations from the Solid Waste Rate Restructure study completed by FCS GROUP in 2021.

This review focused on the overall methodology and resulting rates for compliance with industry practices. The review did not validate the accuracy of source documents and assumptions used in the rate model.

The 2023-2024 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) rate 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*: proportionally distributes costs to groups or classes of customers based on the relative demand and use of the system.
 3. *Fee design*: includes the development of fees that generate sufficient revenue to support the revenue requirement and address the County's policy goals and objectives.
- The fee proposal includes annual revenue adjustments of 9.6 percent in 2023 and 2024. These fee revenue adjustments are sufficient to cover operating expenses, existing and new debt service, and maintain financial reserves at existing levels.
 - » Consistent with industry best practices, the fee proposal also includes a forecast of revenue requirements beyond the 2023-2024 time period. The benefit of projecting revenue requirements beyond the immediate fee-setting period is the ability to level out impacts over time, if necessary. Annual revenue adjustments of 9.6 percent are also projected from 2025 to 2028. These adjustments along with the one-time use of approximately \$23 million in

- available financial reserves are expected to cover forecasted operating expenses, existing and new debt service, and maintain financial reserves above minimum target levels.¹
- » The Division's tonnage forecast is key to the revenue requirement analysis. It sets the basis for over 90 percent of revenues as well as some operating expenses. The Division anticipates major shifts in tonnage from 2023 to 2028 due to waste reduction efforts with its city partners and statewide organics diversion requirements. The timing and degree of these shifts in waste tonnage are not certain and can drastically alter the rate model results. We recommend that the Division continue to actively monitor solid waste disposal tonnage over the next several years and calibrate the tonnage forecast as needed.
 - » Based on our review of the rate model, debt service on bond proceeds for the construction of transfer stations and landfill cell development is the most pressing cost pressure over the 2023 to 2028 time period. Annual debt service is based on a variety of factors including assumed financing terms, capital project scheduling, and anticipated cost inflation. Given the existing inflation for the cost of goods and materials, we recommend that the Division actively monitor capital project cost estimates and project execution rates making adjustments to the relevant assumptions in the rate model as needed.
 - The cost allocation (step 2, cost-of-service) utilized in developing cost shares to the Division's customer classes is technically sound and consistent with the principles referenced in the 2021 Solid Waste Rate Restructure Study.² Costs appear to be allocated with cost causation principles, mimicking the nature of how they are incurred. Costs are allocated to functions or activities and subsequently allocated to the customer classes based on tons or transaction volume.
 - » The results of the cost-of-service analysis for the 2023 test year are generally consistent with the results from the 2021 Solid Waste Rate Restructure Study. We identified notable shifts in the cost-of-service for recycling services (e.g., self-haul minimum and appliances). Given that approximately \$0.8 million in new expenditures in 2023 to support recycling services, the shift in the cost-of-service results is rational and accurate.
 - » The cost-of-service analysis is a key step for determining the cost basis for the commercial fixed annual charge (FAC). The cost basis for the FAC is the allocated share to commercial solid waste haulers of non-disposal services provided by the Division. The computation for the FAC is accurate and consistent with the principles outlined in the 2021 Solid Waste Rate Restructure Study.³
 - » We recommend that the Division update and evaluate the cost-of-service analysis every three to five years or as major shifts in programs/services occur.
 - The fees (step 3, fee design) outlined in the 2023-2024 fee proposal are consistent with the rate model results. Based on the economic and financial assumptions outlined within the rate model,
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¹ See King County Proposed Solid Waste Disposal Fees for 2023-2024 Appendix A (page 12)

² See the FCS GROUP Solid Waste Cost of Service and Rate Restructure Study, pp 25-30.

³ See the FCS GROUP Solid Waste Cost of Service and Rate Restructure Study, pp 58.

the fees would generate sufficient revenue to meet financial obligations during the rate setting period.

- » The computation of the commercial tipping fee referenced in Attachment A is accurate and consistent with the principles outlined in the 2021 Solid Waste Rate Restructure Study. When combined with the fixed annual charge, revenue from the commercial tipping fee is projected to generate the same amount of revenue as the basic fee methodology historically used by the Division.⁴
- » The computation for other Division fees (e.g., self-haul, regional direct, special waste, yard waste) are accurate and consistent with annual revenue targets for each customer class.

We appreciate the opportunity to work with the King County Solid Waste Division 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,



Matt Hobson
Project Manager
FCS GROUP

⁴ For additional information, refer to King County Proposed Solid Waste Disposal Fees for 2023-2024 Appendix A (page 15-16)