BEFORE THE BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

In the Matter of a Establishment of A Special Solid Waste Account; and Authorizing Placement of Excess Transfer Station Revenue Over Revenue Requirements In Said Account	)))))	ORDER NO. 93-01

WHEREAS, in April 2001, pursuant to Section 7(c) of the Columbia County Solid Waste Transfer Station Franchise Agreement with USA Waste of Oregon, Inc. (aka Waste Management of Oregon, Inc.), the County gave notice of its intent to initiate a review of Transfer Station rates; and

WHEREAS, a cost of service and rate evaluation study was performed by the County consistent with guidelines and procedures set out in the Columbia County Solid Waste Transfer Station Franchise Agreement and a report was prepared entitled "Review of St. Helens Transfer Station Rates" dated November 12, 2001, a copy of which report is attached hereto as Exhibit "A", which summarized the results of the study; and

WHEREAS, the study found that current rates are generating more revenue than is required to meet revenue requirements to operate the facility given an operating profit margin of 8.5% and proposed three options for disposition of the excess revenue including: 1) Maintain current rates; 2) Reduce rates; or 3) Establish a Solid Waste Account and place the excess revenue in it, said funds from the Solid Waste Account to be used for Solid Waste Program purposes as determined by the Board of Commissioners; and

WHEREAS, the Solid Waste Advisory Committee (the SWAC), comprised of regular and ex-officio members representing the Cities in Columbia County, made a recommendation to the Board of Commissioners concerning the rate review at their meeting on October 11, 2001, a copy of which minutes are attached hereto as Exhibit "B"; and

WHEREAS, a public hearing was held by the Board of Commissioners on November 21, 2001, at which time the Board heard a presentation of SWAC and staff recommendations and considered public testimony concerning the options before them. Based on the recommendations received and testimony at the hearing, the Board of Commissioners considered options for reasonable interest expense, interest rates, operating ratio and disposition of excess revenues over revenue requirements. The Board finds that a current year interest rate of 7.5%, rather than the recommended historic rate of 9.5%, is most appropriate for calculating allowable interest expenses used in the rate review;

NOW, THEREFORE, IT IS HEREBY ORDERED as follows:

1. The Board adopts the findings and recommendations contained in the report entitled "Review of St. Helens Transfer Station Rates" dated November 12, 2001, attached hereto as Exhibit "A", with the exception of the allowable interest rate and the resulting total amount of interest expense allowed and total revenue requirements as follows:

a. The Board approves an interest rate of 7.5%, rather than the 9.5% recommended in the report, resulting in a revised total revenue requirement of $1,608,558 or $69.60 per ton based on a volume of 23,111 tons. Changes in the revenue requirement resulting from the approved interest rate of 7.5% are contained in a revised Table 1, attached hereto as Exhibit "C".

b. A special Solid Waste Account is hereby created for placement of all Transfer Station Revenues in excess of the approved revenue requirement of $1,608,558 or $69.60 per ton as further detailed in a revised Table 1, attached hereto as Exhibit "C". Beginning with that portion of the fourth quarter of calendar year 2001 from November 15, 2001, through December 31, 2001, payment of the excess revenue shall be made quarterly together with regular quarterly franchisee fee payments and documentation of the amount of excess revenue payment due shall be indicated in the quarterly franchise fee payment report using the following formula:

Excess Quarterly Revenue Payment Due = $TFR - ($69.60 x TT) where:
$TFR = Total Quarterly Transfer Station Revenue;
$69.60 = Approved Revenue Requirement based on 23,111 Tons of Solid Waste; and
TT = Total Quarterly Tons of Solid Waste Processed Through the Transfer Station.

c. The Treasurer is hereby directed to place payment by the current Transfer Station Franchisee of such excess revenues into the Solid Waste Account.

d. Funds placed in the Solid Waste Account shall be used for Solid Waste Program expenditures as determined by the Board of Commissioners.

DATED at St. Helens, Oregon this 5th day of December, 2001.

BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

By: Rita M. Bernhard
Rita Bernhard, Chair

By: ______________________
Anthony Hyde, Commissioner

By: Joe Corsiglia
Joe Corsiglia, Commissioner

Approved as To Form:

By: John K. Knight
Office of County Counsel

EXHIBIT "A"
SOLID WASTE ADVISORY COMMITTEE MINUTES
OCTOBER11, 2001

MINUTES
Solid Waste Advisory Committee
October 11, 2001

Members: Mike Sheehan, Jason Hudson, Chris Carey, Daryl Boom, Jesse Lohrke
Staff: Todd Dugdale(LDS), Linda Todd(LDS), Doug Drennen (URS)
Others: Mike Jefferies(Waste Management)

Call To Order by Mike Sheehan.

MOTION - Daryl Boom moved to approve the minutes. Jesse Lohrke seconded. Motion carried none opposed.

OLD BUSINESS:
Transfer Station Rate Review - continued from last meeting. Doug Drennen prepared an addendum with additional information. There were no questions.

Todd Dugdale said that the first step is to determine the revenue requirements and then there are three options proposed for the consideration of the SWAC.

Doug Drennen said that in his report he was asked to comment on the interest rate. The Chair pointed out that the cost of money in today's dollars is less than reported in the statement. Next, the interest expenses and the interpretation of whether that money that is attributed to the site improvements is an allowable expense. There are differing opinions on this. Third, the depreciation schedule for two items the scales and the compactor equipment. The compactor equipment as agreed previously, has a 20% salvage value at the end of 5.5 years on the basis that the county will acquire that equipment for future benefit, as well as the scale.

There was discussion regarding efficiencies in transportation and the economics of compactors. There was also discussion on allowable expenses and how it is defined, it is not expressly defined in the agreement. Waste Management had many required costs.

MOTIONS:

Motion - Daryl Boom moved to get an opinion from County Counsel regarding interest expense, the suggestion that since they were excluded intentionally therefore they were meant to be excluded (the interest expense related to land and improvement).

Todd Dugdale made a suggestion, we have a recommendation taking the language of the agreement on its face value, send it up to the Board of Commissioners, the Board of Commissioners would get the opinion of County Counsel. This is a matter for the Board to interpret their own ordinance.

Motion Amended - Daryl Boom amends his motion to that affect. The motion restated, he wants to not include the interest from item #2 (the $24,691.00) taking the agreement at face value that since they were specifically not included, his recommendation that the Board make an interpretation with County Counsel sitting by their side.

The Complete Motion Restated - the motion is not to include the interest of the $24,000.00, to take the agreement at the face value to the Board of Commissioners and County Counsel who will then make the interpretation as to allowable interest. Jesse Lohrke seconded.

Discussion - the interest should be allowed because you are talking about two separate legal entities, one is loaning money the other is borrowing money from the other. This is perfectly legal.

Jesse Lohrke asked if all the records are going to show that they are getting charged 9.5%, this is an expense. The one you are paying the 9.5% is getting that money and claiming that as income.

That is an allowable expense for tax purposes.

Mike Jefferies said that based on their legal counsel's written opinion, it is two separate entities with a legal transaction of interest.

Doug Drennen said that there are two issues, it is a fact that this company Waste Management of Oregon (they operate the Transfer Station) spent $950,000.00. There is a fact that there is an interest expense to borrowing or using that money and it is at a reasonable commercial rate at 9.5%. If they were to get that 950K from other sources that would be a reasonable rate. Where they got that 950K in this case should not be an issue in this rate case. The issue is, is the rate in which you are paying for that a reasonable rate compared to their other opportunity costs. In his (Doug Drennen) assessment, it is.

There is a debate that the rate of return and the interest are combined. The way the franchise agreement separates that in the sense that the interest expense is part of the allowable expenses. Mike Sheehan is stating that it is not interest that it is an equity investment.

Daryl Boom tabled his motion.

MOTION - Jason Hudson moved that the Solid Waste Advisory Committee approve and recommend the $78,000.00 attributed to the Transfer Station, that interest be allowed. No second. Motion dies.

MOTION - Jesse Lohrke moved to allow the interest at 9.5% with the Board of Commissioners approval and to consider Daryl's first motion, whether the .... No second. Motion dies.

There was discussion on the operating ratio and interest expense.

MOTION - Mike Sheehan moved that they do not allow any expense. No second. Motion dies.

MOTION - Mike Sheehan moved that they allow in principal the interest as opposed to coming up with a number, that we allow interest on everything except the land and building improvements, without specifying a number. We allow it in principal leaving the number open, preserving the possibility of having an argument over the rate.

Mike Sheehan again stated his motion, that we allow the interest expense, without a number being specified, on everything except the land and the buildings. Daryl Boom seconded.

Discussion - the improvements that they made to that building were site specific to this one operation.

Call for the question, motion fails with Daryl Boom and Mike Sheehan in favor, Jason Hudson and Jesse Lohrke opposed with Chris Carey abstaining.

MOTION - Jesse Lohrke moved to allow the interest expenses that the County Counsel deems allowable. No second, motion dies.

MOTION - Jesse Lohrke moved to allow interest expenses on all but the land and the building. Daryl Boom seconded.

Mike Sheehan restated the motion, it is moved and seconded to allow interest on all but the land and the buildings with out specifying a particular interest rate.

Discussion - Waste Management stated that interest expense is an allowable expense and they cannot operate without them. The equipment, the land and the buildings function in the same regard to allow them to operate. There is language which says 'without limitation' it does not exclude it. This is open to interpretation, there is reasonable reading either way. The other thing that needs to be kept in mind is that the franchise agreement also speaks to the fact that there should be a 5% emergency fund set aside, that is not included in the rate case, this may now need to be included in the rate case. Five percent of the expenses should be set aside in an emergency fund, under allowable expenses. (Item Q of the allowable expense list).

Call for the question, motion carried Mike Sheehan, Jesse Lohrke and Daryl Boom in favor, Jason Hudson opposed and Chris Carey abstained.

MOTION - Mike Sheehan moved, on the amount of the interest that is allowed, that the rate should be Waste Management's lowest current borrowing rate. Daryl Boom seconded.

Discussion - this is determined by the opportunity cost of money today and they would refinance this if it was too high. There was discussion on how you would determine what the rate is without a statement from year end. Typically commercial loan rates are 2% higher than residential, this varies depending on the prospectus. There needs to be proof that the interest rate is reasonable.

Doug Drennen said that for the time frame that they borrowed the money that 9.5% is a reasonable rate. The comment is the rates are different today.

Call for the question, Mike Sheehan restated the motion, the motion is that the interest rate to be allowed should be determined at the current opportunity cost of the mother company, (lowest current borrowing rate Waste Management). Mike's intent on the motion is to recommend to the commissioners that the appropriate way to determine what this amount should be is that it is going to be the lowest current rate in the recent current period so we can see what their current opportunity cost of money is. The essence of the question is whether we are just going to accept the 9.5% in a less than arms length transaction and it is a two year old rate anyway whether that is good enough or whether it should be determined based on a current rate instead especially since it's a non-arms-length transaction, since we don't have the actual number.

Call for the question, motion carried three in favor Jesse Lohrke, Daryl Boom and Mike Sheehan; one opposed Jason Hudson. Chris Carey abstained.

MOTION - Jason Hudson moves that we allow the depreciation at the amount in Doug Drennen's report contingent upon the fact that there is an agreement at the County for first right of refusal to purchase those two assets at the agreed residual value. (The scale is 10% residual value and compactor is 20%). Daryl Boom seconded.

Discussion - the only discussion was about the confidentiality of the numbers.

Chair restated the motion, it was moved and seconded to allow the depreciation rates on the condition that the County's purchase agreement at the end be honored. Motion carried Jason Hudson, Daryl Boom and Jesse Lohrke in favor and Mike Sheehan opposed. Chris Carey abstained.

MOTION - Daryl Boom moved to recommend the adjusted allowable expense number based on the forgoing motions. Jesse Lohrke seconded.

Mike Sheehan said that the motion is to approve the adjusted recommended operating expenses with the adjustments that we have talked about in the previous motions. (The term revenue requirement is better wording.) Restated again, the motion is to approve the recommended revenue requirement with adjustments that we have already discussed.

Discussion - the numbers in the table are correct.

Call for the question, motion failed. Daryl Boom and Jesse Lohrke in favor and Jason Hudson and Mike Sheehan opposed. Chris Carey abstained.

MOTION - Mike Sheehan moved to recommend approval of an operating margin of 8%. Daryl Boom seconded.

Discussion - Todd Dugdale commented that putting the margin at the lower end of the range in view of this rather 'sharp pencil' approach to expenses will guarantee that these rates would not have much longevity and that we would be back here doing this all over again. The numbers that staff presented to the Solid Waste Advisory Committee were substantially reduced in at least four areas before it even got to the Solid Waste Advisory Committee, this was their actual expense statement for 2000.

Mike Sheehan suggested that in the last year that the interest rates have come down so the cost of capital has been dropping.

Todd Dugdale pointed out longevity.

Jason Hudson commented that it's very costly for the County to go through this process.

Call for the question, motion failed with Mike Sheehan voting in favor and voting in opposition were Jesse Lohrke, Jason Hudson, and Daryl Boom. Chris Carey abstained.

MOTION - Jason Hudson moved to make the operating ratio or rate of return 10% which is in between the 8% and the 12% range in the agreement. No second. Motion fails

MOTION - Jesse Lohrke moved to allow the operating ratio at 8.5%. Daryl Boom seconded.

No discussion. Call for the question, motion failed, Jesse Lohrke and Daryl Boom voted in favor and voting in opposition were Jason Hudson and Mike Sheehan. Chris Carey abstained.

MOTION - Jason Hudson moved if there is a rate reduction that the County establish a dedicated solid waste fund to be used for rate stabilization and possibly securing a possible transfer station site or buy the equipment. To use that money if they want to build a transfer station and maintain stable or lower rates for the long term. (County invest in the operation). Mike Sheehan seconded.

Discussion - according to the solid waste management plan the county is supposed to be looking at those options, use the money to secure a site or purchase the equipment. The money would be set into a dedicated fund to pay for solid waste programs and to fund a recycling coordinator at least part time. (The BOC has a hiring freeze in place right now, but there is a half-time coordinator in the budget). If we get the amendment to the tipping fees, allowing for the differential that money has been earmarked by the Board for hiring a solid waste coordinator and partially offset the cost of a code enforcement officer.

AMENDED MOTION - Jason Hudson amended his motion to include all of option three. Have the county keep that money and establish a ***dedicated*** solid waste fund to help implement and continue with the solid waste management plan and recycling goal. Daryl Boom seconded.

Call for the question, motion carried none opposed.

Jason Hudson asked what the status of contract with Waste Management, he believes that it has not been signed. Jason reviewed a letter with the Solid Waste Advisory Committee that he will be sending to his customers using 45 gallon garbage cans. The letter states that the 45 gallon cans will no longer be picked up for the following reasons; the County sets rates based upon 32 gallon can, they are not required by ordinance to collect material placed in residential containers designed for manual pick up that exceed 32 gallon cans in size, they are trying to make their work place as safe as possible for their drivers thereby reducing workers compensation claims and keeping their rates as low as possible, they want their rates to be equitable to all of their customers. He is trying to make the rate equal for all customers and reduce the back and shoulder injuries within his company. The larger cans are awkward to pick up. He has also informed all the stores that sell the larger cans that they will not pick up the larger cans.

There is no objection to the letter that Jason Hudson will send to his customers.

MOTION - move to adjourn.

EXHIBIT “B”
REVIEW OF TRANSFER STATION RATES
REVISED 11-12-2004

Review of St Helens
Transfer Station Rates

Prepared For
Columbia County

Prepared by
URS Corporation

REVISED
11-12-2004

REVISED

COLUMBIA COUNTY

Review of Transfer Station Rates

I. INTRODUCTION

1.1 Purpose

URS was retained by Columbia County to perform a cost of service and rate evaluation study for the St. Helens Transfer Station. The transfer station is operated by Waste Management of Oregon (WMO) under a franchise agreement with Columbia County. The cost of service study focuses on a review of expenditures incurred by WMO since assuming ownership in November of 1998. The cost of service study is consistent with the guidelines and procedures set out in the Franchise Agreement.

1.2 Background

Columbia County completed a cost of service study for operation of the St. Helens Transfer Station in September of 1998. The facility was operated by Columbia Transfer Company (CTC) and owned by Ambrose Calcagno. The cost of service study, based on the two most recent operating periods, used actual operating expenses provided by CTC. It was the first extensive review of the transfer station operations since 1991.

The 1998 study proposed several capital improvements including the purchase of a new compactor, a gatehouse and scale facility, fencing and other site upgrades. These improvements were necessary to maintain the current level of services. To determine the operating expenditures for the transfer station the County used estimated cost for the proposed improvements plus actual operating costs. The County approved an operating ratio of 91.5% (a profit margin of 8.5%) for the operation based on recommendations from the Solid Waste Advisory Committee (SWAC). Adding the operating expenditures and the profit margin the County was able to establish the revenue requirements.

Once the revenue requirements were established the County conducted a review of the current rate structure to determine if charges were equitable to all user classes. Users include the general public who elect to haul their own waste and commercial collection companies franchised by local jurisdictions. Rates were determined for each customer class using a cost allocation method. The revenue requirements approved as a result of the 1998 Rate Study are shown in Table 1.

Table 1
1998 Study Results

Operating Expenses	$ 767,957
Disposal Fees	512,914
Franchise Fees (5%)	74,498
Total Operating Expenses	**$ 1,355,369**
Operating Margin (8.5%)	125,012
Total Revenue Requirements	**$ 1,480,381**
Average Unit Operating Cost (20,010 Tons)	**$ 73.98/Ton**

CTC sold its entire collection and transfer station operations to Waste Management of Oregon (WMO) in November 1998. WMO proceeded immediately to implement the proposed improvements by installing a new compactor, upgrading the buildings and constructing a new scalehouse and scale system. One improvement that was not anticipated was construction of a new entrance. The entrance was required by the City of St. Helens to respond to the new Wal-Mart development.

WMO prepared a preliminary expenditure report and reviewed it with the County in March 1999, but requested the County hold off any rate adjustments until the improvements were complete and they had operated the station for at least one year. The request was granted and WMO has been operating under the new approved rates since they were in effect in December 1998.

1.3 Rate Methodology

The St. Helens Transfer Station rates are set based on two requirements; to generate sufficient revenue to meet operating expenditures to provide specific services; and, to provide the operator with a reasonable rate of return or profit margin. Since WMO operates under an exclusive franchise, it is necessary to regulate this utility service. One approach to establish profit levels for franchised operations, such as solid waste collection companies, is to determine a percentage of the gross operating margin or "operating ratio". Another approach is to set a rate of return on investment/rate base to calculate the profit margin. This method is often used by franchised monopolies such as cable or electric utilities that require large capital investments.

The operating ratio method was agreed to as part of the new Franchise Agreement that was executed in March 1999. It is a common approach also used by jurisdictions to regulate solid waste franchised companies throughout the State of Oregon.

The franchise agreement states that the operator be compensated for "allowable expenses" which are specified in the agreement. The franchise allows for a profit to calculated based on the operating ratio method of between 8 and 12%. A range is provided so the operator can respond to incremental increases in expenses without requesting a rate adjustment.

The County can consider changes to the annual operating expenditures by using the consumer price index (CPI) to adjust certain variable cost. In the period between July 2000 and July 2001 the Bureau of Labor Statistics reported a 2.68% adjustment for the Portland area.

II. REVIEW OF PROPOSED RATES

2.1 Review Process

The County notified WMO, in April 2001, they would proceed with a review of operating expenses as per the agreement. WMO with submitted financial data including operating expenses for the calendar year 2000. WMO requested that the County sign a confidentiality agreement to restrict publication of detailed information related to the operations. This agreement, executed in late June, does not prevent the County from reviewing all expense information related to setting the rates.

WMO provided the following financial information:

1. Transportation Cost
2. Transfer Station Operations
3. Administration and Overhead (G&A)
4. Disposal Fees
5. Franchise Fees

These categories correspond to those in the previous rate case submitted by CTC.

URS conducted a review of each expense item contained in the financial report. Some items were self-explanatory and evaluated based on the existing data. Other items required more detailed information. URS held three meetings with WMO's site manager and controller to review supporting information and conducted a site tour to review and inspect the capital improvements.

All information requested by URS and the County was provided by WMO.

2.2 Review of Operating Expenses

The review of operating expenses was conducted to establish the revenue requirements and determine if there is a need to adjust rates. WMO provided financial information for calendar year 2000. URS review the initial data and requested additional detailed financial information related to specific cost categories. This included information representing 27 expense categories corresponding to the level of detail provided in the previous rate study. URS also requested additional detail including a review of accounting entries and copies of invoices for certain expenses. WMO provided all information requested to satisfy the review. However, due to confidentiality agreement URS is prevented from disclosing specific expense items.

The following is a summary of the expenses for each part of the transfer station operation. It includes a comparison of the WMO expenses to those approved in the 1998 study.

2.3 Expense Categories

2.3.1 Transportation

This includes the cost to transport waste 75 miles from the transfer station to Riverbend Landfill in Yamhill County. WMO contracts with Averill Trucking to transport waste. They do not own trucks or trailers for this operation. The annual expenses for transporting 23,111 tons of waste was $184,486 in 2000. This equates to $7.98 per ton.

The approved rates assumed transportation cost to be $12.69 per ton. This included costs by CTC to purchase new trailers. WMO did not purchase new trailers. Removing the trailer expenses from the operating cost shows that the current rates anticipated a unit cost of $9.49 per ton.

WMO transportation costs are reasonable. This is partially attributed to the fact that the transportation service is subcontracted with Averill. Therefore, WMO does not bear overhead related to maintaining a trucking fleet and trailers. An important issue raised by WMO is that their contract with Averill will expire next April. They expect transportation cost to increase based primarily on the cost of fuel. As in the past, WMO intends to accept bids from trucking companies to perform these services.

Recommendation:
Transportation costs to deliver waste to the Riverbend Landfill are reasonable. The rates should account for potential increases in transportation cost. URS recommends transportation costs be increased by the CPI rate of 2.68%. Transportation expenses to be included in the operating expenditures are $189,430.

2.3.2 Transfer Station Operations

WMO reported expenses in twelve categories related to the direct operations of the transfer station including:

- Wages
- Benefits
- Contract wages
- Fuel
- Repairs and maintenance

- Equipment depreciation
- Depreciation other
- Rent equipment
- Property taxes
- Operating supplies; and,
- Utilities

URS reviewed expense information related to each item. Some items compared favorably with historic operations data and were consistent with typical transfer station operations. URS requested that WMO provide support information for operating supplies, property taxes, equipment rental as well as depreciation schedules for all equipment and site improvements. Upon review of the detailed cost information all items were found to be acceptable for inclusion in the operating expenditures.

Since WMO assumed ownership in late 1998 they have made a significant purchase to install a new SSI Compactor unit. WMO made other capital improvements needed to maintain an efficient operation. URS conducted additional review of invoices and supporting information related to these capital improvements. The following is a detailed discussion of these expenses.

Depreciation of Equipment

WMO provided details related to the purchase and depreciation of all equipment in the transfer and recycling operations including:

- Kumatsu Front loader (1997)
- Bobcat
- Forklift
- Truck scales
- Yardgoat
- Drop Boxes
- SSI Compactor

All equipment, except drop boxes, were depreciated over 5.5 years (the life of the franchise agreement). They were depreciated over 10 years. A salvage value of 10% was used for each item. This method is consistent with standard accounting practices, which typically depreciate equipment over 5-7 years.

A significant portion of this depreciation cost is associated with the new SSI Compactor. WMO claims the compactor was sized for this operation and suggested the equipment be dedicated to this facility. As a result the equipment has limited value at the end of the franchise term and they propose a salvage value is10% be used.

The County understands WMO made an investment in this equipment. The franchise agreement provide conditions whereby the County would compensate WMO should they move the transfer station prior to the expiration of the agreement. However, the County takes the position the compactor has a useful life of up to 10 years and therefore, places a higher residual value at the end of 5.5 years.

In discussions with WMO it was agreed that one possible scenario to consider is that the compactor could be purchased by the County and used at a new transfer station facility. Therefore, it was agreed a salvage value of 20% would be used for the compactor.

Recommendation:
The equipment depreciation expenses are $ 93,000 and should be used in the rate base. The County should continue to consider the option of purchasing the SSI Compactor at the end of the franchise agreement.

Revised Recommendation

The SSI Compactor and the truck scales were evaluated to determine what the useful life and salvage value should be during the term of this franchise agreement. Under the original analysis (refer to discussion above) the useful life was assumed to be 5.5 years with equipment having a salvage value of 10%. This was acceptable provided the County would have the opportunity to purchase the equipment at the end of the current franchise agreement. WMO management has since modified their position and will not make available the SSI Compactor and the truck scale equipment at the end of the franchise term.

Since useful life will be longer than the term of this franchise agreement a new depreciation schedule was needed for these items. The issue being that Columbia County rate payers should only pay for what they use. WMO is entitled to recover their fair share of the investment in this equipment. In discussions with WMO and the County it was determined the equipment would be depreciated over a 7 year period with a salvage value of 10%. The result of this analysis reduces the equipment depreciation expenses from $93,000 to $84,358 or a decrease of $8,642.

<u>Depreciation – Site Improvements</u>

WMO made several site improvements and upgrades to the transfer station buildings. These improvements include:

- Landscaping
- Fences and gates
- New scalehouse
- Added Sanitary sewer connection
- Site grading/paving
- Modified loading ramp
- Removed & replaced old leaking oil tank

- Retrofitted building
  - Installed new push walls
  - Added bracing for push walls
  - Re-inforced structural members
  - Replaced metal panels as required

The cost to complete each of the improvements was reviewed by URS transfer station design engineers to ensure cost were reasonable.

Certain improvements specific to the transfer station operation were depreciated over the life of the franchise (5.5 years). This primarily includes building retrofits. Other site improvements such as the sanitary sewer, landscaping and fencing add value to the land. These were depreciated over the useful life, which according to standard accounting practices is 15 years.

Recommendation:
Depreciation of site improvements included in the rate base are estimated to be $40,239.

2.3.3 Summary of Operating Expenses (Revised Depreciation)

A summary of the direct operating expenses indicates that WMO annual operating expenses are $362,359. This compares to $267,636 approved by the County in previous study. In comparing the two operating cost it is important to note that previous expenses were established using cost estimates for new equipment and for capital improvements. Another factor to consider when comparing the expenses of CTC to those of WMO is the fact that CTC's transportation cost were integrated with their direct operating expenses. Items such as fuel for on site operations, supplies and most significantly a portion of wages and benefits were reported as part of their operating expenses.

URS combined both the transportation and operating expenses to provide a more accurate comparison. WMO's combined operating expenses were $ 546,845. The approved rates were based on operating expenses of $529,182. The amount of waste in 2000 was 23,111 tons compared to 20,010 tons in 1998. WMO also constructed several improvements that were not anticipated when the previous rates were approved. These include modifications to the push walls and structural members in the transfer building. WMO replaced the oil recycling facility with a new customer friendly system.

WMO's operating expenses are reasonable and should be used in the rate base. URS recommends that the variable expenses be adjusted by the CPI rate of 2.68%. The recommended operating expenses are $368,514.

The County could consider alternatives to reduce labor cost at the transfer station. Currently, the facility is open from 8:00 AM to 5:00 PM, six days per week. These hours require WMO to pay overtime expenses. Reducing operating hours to prevent WMO from paying overtime to employees would reduce cost and still provide adequate times for the *public to use the facility.*

2.4 Administration and Overhead (G&A)

These items represent the cost to provide support services and overall management of the transfer station operation. They also include expenses related to operating the gatehouse and performing administrative functions. WMO allocates certain overhead items such as accounting and management time necessary for supporting the transfer station.

To support gatehouse operations and to provide overall administrative services the following expense categories were reported.

- Office supplies
- Dues /Subscriptions
- Travel/ Meals /entertainment
- Advertising
- Utilities
- Insurance
- License and Fees
- Repairs /maintenance
- Property Tax

For each of these categories URS reviewed expense information and supporting data. URS found all expenses to be associated with operating the transfer station and acceptable.

WMO relies on the support from their central offices to provide management and professional support for the operation. Administrative and accounting support services are allocated between several operations. The allocation method used includes:

<u>Salaries/Wages</u>

WMO provided a breakdown of administrative labor. It included an allocation of time that ranged from senior managers to customer service support. Management time included 12% of Division Manager and 60% from District Manager. The District Manager (Chris Carey) is the operations manager and primary contact at WMO and is involved with daily operations. The District Manager is also involved with other facilities. The level of involvement appears reasonable.

Administrative labor also includes a Site Manager (25%) and customers service representative (35%). Each individual has a role in management and executing services at the transfer station. Considering the allocation of the Site Manager and the District Manager the total cost is approximately $40,000. This is equivalent to 75 - 80% of a full time site manager. Based on the allocation of management labor the salaries and wages used is acceptable.

Accounting Charges

The charges used are a result of allocating the central accounting staff time between seven operations. This includes a billing clerk, accounts payable, pay administrator, controller and accounts receivable. WMO does not use an outside accounting firm. These expenses are less than what was approved in the previous rate base.

Professional and Management Fees

WMO uses a professional service and management fee based on 3% of operating expenses for each of its operations. They rely almost exclusively on in-kind support services for their facility operations. In-kind services include legal, real estate/property management, regulatory /permitting assistance, health and safety/ hazardous waste training and engineering and technical assistance. When considering all other administrative costs represent resources that are directly assigned and appropriately allocated to operations, 3% of expenses appears reasonable.

Interest Expense

The last item included in the administration and overhead is interest expense. The WMO Corporate office provides financing for all capital improvements. WMO spent $950,000 for improvements and new equipment. Corporate interest charges are made at 9.5%. The interest expenses are reasonable for this operation.

2.4.1 Summary of Administrative and Overhead

Upon reviewing the allocation methods used by WMO and the amount of expenses shown for administrative and overhead, URS found the cost to be reasonable and similar to the previous rate study. The County had approved $232,922 in annual G&A expenses. WMO's costs were reported to be $233,773. Applying a 2.68% adjustment to the variable cost results in $ 258,149.

2.5 Summary of Recycling Operations

Except for transportation costs operation of the recycling facility is included in the transfer station operation expenses. WMO spent $34,125 transporting recyclables to markets in 2000. Revenue from the sale of materials was reported to $36,896 for net revenue of $2,771. When the transportation cost is adjusted for CPI, the net revenue is $1,856. This does not recognize the potential for changes in the market place.

2.6 Summary of Revenue Requirements

In summary the total operating expenses to be used in rate base is $ 822,879. The unit operating cost is $35.61 per ton based on handling 23,111 tons of waste. Annual operating expenses approved by the County in the 1998 study were $767,957 or $38.38 per ton. These expenses were based on handling 20,010 tons of waste. One difference in the unit operating expenses were WMO's lower unit cost to transport waste to Riverbend using a third party. Also, there was more waste to pay for the fixed operating costs in 2000.

URS completed a thorough review of WMO's operating expenses. This included a review of supporting invoices, back up information provided by the WMO controller. We found the books to be in order and all cost reasonably assigned to the operation of the St. Helen's Transfer Station.

To establish the total revenue requirement it is necessary to assume an operating ratio for providing a profit margin to WMO. For purposes of this analysis URS has assumed the same operating margin approved in the past study of 8.5%.

A summary of revenue requirements are as follows;

Summary of Revenue Requirements (Revised Depreciation)

Transfer Station Operations	$ 814,237
Disposal Expenses	596,957
Franchise Fees	77,550
Operating Profit Margin (8.5%)	138,299
Total Revenue Requirements	**$ 1,627,043**

This represents an increase of $146,661 in operating expenses. However, the expenses are based on handling 23,111 tons versus 20,010 tons in 1998. On a unit operating cost basis the actual revenue requirements are $ 3.58 per ton less than the previous study. Table 2 presents a comparison of WMO's expenses to those approved in the previous study.

WMO has requested the County use an operating ratio of 90% or a profit margin of 10%. This would provide a greater contingency from having to conduct another rate next year or perhaps sooner. The franchise agreement allows for the County to set rates sufficient to provide a minimum of 8% profit margin to as much as 12%. For comparison Table 2 also includes this scenario.

3.0 IMPACTS ON RATES

As a result of the 1998 Rate Study the County was required to increase rates by an average of 12%. The increase paid for improvements needed to maintain services and improve operations. All of the proposed improvements have been made including some that were not anticipated. These include improvements to the entrance as well as modifications to existing buildings. The improvements are included in revenue requirements.

In establishing the new rates the County also performed a review of the cost of services for both customer classes (i.e. public and commercial haulers). By allocating the cost of service to each customer class the County established rates that more accurately reflect the actual cost to serve these customers. The resultant rate structure established a minimum rate of $12.00 for every vehicle entering the transfer station. Seniors still received a reduced rate of $ 3.00 per can with a 2 can minimum load. The new rates were more equitable and minimized the potential rate subsidies.

WMO reported annual revenue for 2000 to be $1,749,848. This included revenue from the public haulers to be $675,880 (38.6%) and $1,073,968 (61.4%) for commercial haulers. Most of the added revenue can be attributed to the increase in waste flows. WMO handled 3,101 tons more in 2000 or an increase of 15.5%. Some increase is a result of the new rate structure, which appropriately allocated a higher proportion of operating cost to self haulers.

Using an operating profit margin of 8.5% the new revenue requirements are $1,627,042. This suggests the rates are generating approximately $122,806 more than is required to operate the facility. The County has three options.

Option 1 – Maintain the current rates

This results in the operator receiving a higher operating margin. It would put off any rate adjustments indefinitely. The County would continue to receive annual financial statements.

Option 2 – Adjust rates to reflect the approved revenue requirements.

The current rates are generating more revenue than is required to operate the facility. Using the cost allocation formula used in the previous study would result in reducing commercial rates by about $0.20 per ton. Rates for self haulers would be reduced by about 16%. This could mean reducing the $12.00 minimum to $10.00. The adjustment would be in place until expenses exceed the approved revenue requirements.

Option 3 – Establish County Solid Waste Fund

Under this option the County would receive reimbursement for the difference in revenue from the approved expenditures. The monies would be set into a dedicated fund to pay for solid waste programs and to offset future rate increases. For instance, the County is evaluating options for collecting household hazardous waste (HHW). Funds will be needed to implement any recommendations resulting from this study. There has also been a need to fund a recycling coordinator, at least part time.

The County should also plan for the new transfer station. The current franchise expires in 2006 and the County wishes to consider a new location. There will be added costs to build a new facility. Also, the County may agree to purchase the compactor and scale equipment from the current operator should they not be selected as the franchised operator. The funds generated from the current rates could be set aside for these purposes.

The County may wish to consider any combination of the options presented. URS has no recommendation as to which option the County should choose. Based on our experience with other sold waste utilities it is desirable to set aside funds for future program expenses and to consider means for keeping rates stable over a period of time.

TABLE - 1
REVIEW OF EXPENSES / REVENUE REQUIREMENTS
St.Helens Transfer Station Rates

* Revised - Depreciation
SSI Compactor & Scales

CATEGORY		1998 Rate Study	OPERATING BASE COST	Proposed Rates 8.5%		Option - 10%	
Transportation Expenses							
Labor /3rd Party Transport	4	84,858	184,486	189,430		189,430	
Benefits		33,313					
Fuel	14	24,525					
Lubricants	15	985					
Tires	16	6,509					
Repairs & Main.	17	14,000					
Shop Supplies	18	15,155					
PUC Taxes/ License	19	12,364					
Rent Vehicles	21	2,000					
Depreciation Vehicles	23	66,247					
Other	24	1,590					
Subtotal - Trans. Exp.		$261,646	$184,486 *	$189,430		$189,430	
Transportation $/Ton		*$13.07*	*$7.98*	*$8.20*		*$8.20*	
Transfer Operations							
Labor	4	84,858	*				
Other Wages	5	15,360	*				
Benefits		33,313	*				
Fuel		na	*				
Repair/ Main.	27	17,447	*				
Depreciation/ Containers	28	1,644					
Depreciation Other	29	103,447					
Rent Equipment	30	6,600	*				
Property Tax : Equip.	32	767					
Bad Debt	33	0					
Operating Supplies/ Other	34	4,000	*				
Utilities	93	0	*				
Subtotal - Trans. Oper.		$267,636	$362,369	$368,614		$368,614	
Operations $/Ton		*$13.38*	*$15.68*	*$15.95*		*$15.95*	
Recycling Operations							
Recycling Revenue		-23,093	-36,896	-36,896		-36,896	
Labor	50						
Transportation - Other	71	28,946	34,125 *	35,040		35,040	
Subtotal Recycling		$5,853	-$2,771	-$1,856		-$1,856	
Recyling $/Ton		*$0.29*	*-$0.12*	*-$0.08*		*-$0.08*	
Admin. / Overhead							
Salary /Wages	76	33,084	*				
Contract Labor	77	782					
Payroll Taxes	78	1,874					
Workers Comp.	79	67					
Health Ins./Benefits	80	4,087	*				
Retirement	82	2,424					
ubtotal Admin. Labor	84	42,318	88,249	90,614		90,614	
Admin. Expenses							
Office Supplies	85	4,675	*				
Dues / Subscriptions	86	110					
Travel/Meals/Entertain.	87	6,807					
Accounting Charges			*				
Training & Education	88	1,648					
Professional Fees	89	27,000					
Advert.&P.R./ Bad Debt	90	3,478					
Document Delivery	91	0					
Telephone	92	4,956	*				
Utilities	93	10,328	*				
Insurance	94	15,616	*				
License / Fees	95	1,583	*				
Office Equip. Repair	97	81					
Repair/ Main. Bldg/Grds	98	0	*				
Rent Office	99	2,312					
Rent Build. & Improv.	100	16,000					
Property Tax Bldg Improv.	102	10,937					
Depreciation Office Equip.	103	1,700					
Depreciation Bldg/ Improv.	104	30,383					
Amortization	105	190					
	106	3,162					
Sutotal Admin. Expenses		$140,966	$88,563	$89,394		$89,394	
Interest Expense		$49,638	$78,141	$78,141		$78,141	
Admin. / Overhead		$232,922	$264,953	$258,149		$258,149	
Admin. / Overhead $/Ton		*$11.64*	*$11.03*	*$11.17*		*$11.17*	
Total Transfer Operations		$767,967	$799,027	$814,237		$814,237	
Transfer Station $/Ton		*$38.38*	*$34.57*	*$35.23*		*$35.23*	
Pass Through Expenses							
Disposal Fees	3	512,914	596,957	596,957		596,957	
Franchise Fees	31	74,498	75,000	77,550		77,550	
Total Solid Waste Oper.		$1,366,369	$1,470,984	$1,488,744		$1,488,744	
Solid Waste Oper. $/Ton		*$67.73*	*$63.65*	*$64.42*		*$64.42*	
Annual Waste Flow		20,010	23,111	23,111		23,111	
Total Revenue Requirements		$1,480,381	$1,607,633	$1,627,043		$1,654,160	
)perating Margin		$126,012	$136,649	$138,299		$165,416	
Jnit Operating Cost		$73.98	$69.56	$70.40	*($3.58)*	$71.57	*($2.41)*

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EXHIBIT “C”
REVISED TABLE 1
REVENUE REQUIREMENTS BASED ON 7.5% INTEREST RATE

CATEGORY		1998 Rate Study	2001 Rate Study	
ansportation Expenses				
abor /3rd Party Transport	4	84,858	189,430	
Benefits		33,313		
Fuel	14	24,525		
Lubricants	15	985		
Tires	16	6,509		
Repairs & Main.	17	14,000		
Shop Supplies	18	15,155		
PUC Taxes/ License	19	12,364		
Rent Vehicles	21	2,000		
Depreciation Vehicles	23	66,247		
Other	24	1,590		
Subtotal - Trans. Exp.		$ 261,646	$ 189,430	
Transportation $/Ton		$ 13.07	$ 8.20	$ 4.87
Transfer Operations				
Labor	4	84,858		
Other Wages	5	15,360		
Benefits		33,313		
Fuel		na		
Repair/ Main.	27	17,447		
Depreciation/ Equipment	28	1,644		
Depreciation Other	29	103,447		
Rent Equipment	30	6,800		
Property Tax : Equip.	32	767		
Bad Debt	33	0		
Operating Supplies/ Other	34	4,000		
Utilities	93	0		
Subtotal - Trans. Oper.		$ 267,636	$ 368,514	
Operations $/Ton		$ 13.38	$ 15.95	$ 2.57
Recycling Operations				
Recycling Revenue		-23,093	-36,896	
Labor	50			
Transportation - Other	71	28,946	35,040	
Subtotal Recycling		$5,853	-1,856	
Recycling $/Ton		$0.29	$ (0.08)	$ (0.37)
Admin. / Overhead				
Salary /Wages	76	33,084		
Contract Labor	77	782		
Payroll Taxes	78	1,874		
Workers Comp.	79	67		
Health Ins./Benefits	80	4,087		
Retirement	82	2,424		
Subtotal Admin. Labor	84	42,318	90,614	
Admin. Expenses				
Office Supplies	85	4,675		
Dues / Subscriptions	86	110		
Travel/Meals/Entertain.	87	6,807		
Accounting Charges				
Training & Education	88	1,648		
Professional Fees	89	27,000		
Advert.&P.R./ Bad Debt	90	3,478		
Document Delivery	91	0		
Telephone	92	4,956		
Utilities	93	10,328		
Insurance	94	15,616		
License / Fees	95	1,583		
Office Equip. Repair	97	81		
Repair/ Main. Bldg/Grds	98	0		
Rent Office	99	2,312		
Rent Build. & Improvements.	100	16,000		
Property Tax: Bldg Improv.	102	10,937		
Depreciation Office Equip.	103	1,700		
Depreciation Bldg/ Improvements.	104	30,383		
Amortization	105	190		
	106	3,162		
Subtotal Admin. Expenses		$ 140,966	$ 89,394	
Interest Expense		$ 49,638	$ 61,228	
Admin. / Overhead		$ 232,922	$ 241,236	
Admin. / Overhead $/Ton		$ 11.64	$ 10.44	$ (1.20)
Total Transfer Operations		$ 767,957	$ 797,324	
Transfer Station $/Ton		$ 38.38	$ 34.50	$ (3.88)
Pass Through Expenses				
Disposal Fees	3	512,914	596,957	
Franchise Fees	31	74,498	77,550	
Total Solid Waste Operations.		$ 1,355,369	$ 1,471,831	
Solid Waste Operations. $/Ton		$ 67.73	$ 63.69	$ (4.05)
Annual Waste Flow		20,010	23,111	
Total Revenue Requirements		$ 1,480,381	$ 1,608,558	8.66%
Operating Margin		$ 125,012	$ 136,727	
Unit Operating Cost		$ 73.98	$ 69.60	$ (4.38)

Note: The revenue requirements for operation of the St. Helens Transfer Station were approved by the Board of Commissioners on November 21, 2001. They are based on the "Revised Review of St. Helens Transfer Station Rates" prepared by URS Corporation dated September 6, 2001 and revised on October 18, 2001.