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# *Solid Waste Rate Setting Policies and Procedures Manual*

*Solid Waste Collection, Recycling, and Transfer Station Operations  
Tahoe Basin Solid Waste Joint Powers Authority (JPA)*



August 1996

# The Tahoe Basin Solid Waste Joint Powers Authority (JPA)

## Solid Waste Collection, Recycling, and Transfer Station Operations Rate Setting Policies and Procedures Manual



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## EXECUTIVE SUMMARY

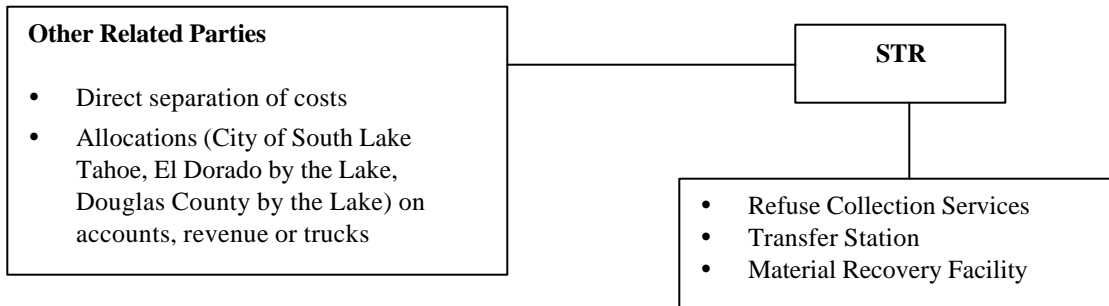
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This Solid Waste Rate Setting Policies and Procedures Manual (Rate Setting Manual) was developed for the Tahoe Basin Solid Waste Joint Powers Authority (JPA). The JPA represents the City of South Lake Tahoe, and the Tahoe basin portions of El Dorado and Douglas Counties. The manual is designed to help facilitate regulation of solid waste collection, recycling, and transfer station services and rates charged to local customers. Included are policies which will be imposed in the rate setting process and detailed procedures for the JPA Administrator, franchise recipient(s), and JPA Board. Specific guidelines also are provided for Annual Summary Reports and Rate Applications.

The JPA Administrator for Solid Waste Management (Administrator) is essential to the rate setting and review process. The Administrator will coordinate the reporting and rate review process and provide guidance to the JPA Board. The Administrator will ensure rate review schedules are met and communications flow as necessary to meet overall objectives of the rate setting and review process. The JPA intends to appoint this Administrator from JPA staff.

The current franchise holder, South Tahoe Refuse, Inc. (STR), provides solid waste collection, recycling, and transfer station operations for Various customers in the City of South Lake Tahoe, the eastern part of El Dorado County, and Douglas County by the Lake. **Figure 1** depicts current STR refuse collection and operations revenues and expenses.

**Figure 1**  
**STR Solid Waste Services**



### **Revenues** **Collection Rates**

- Tipping Fee X # of tons – (Self haul only)
  - City of South Lake Tahoe
  - Douglas County by the Lake
  - El Dorado by the Lake
- Recycling salvage sales
- Sales Buy back revenues

### **Expenses**

- Direct Labor
- Equipment Costs
- Variable Operating Costs
- Administrative Costs
- Buy-Back
- Hauling Costs
- Recycling Costs

## **I. OBJECTIVES & INTRODUCTION**

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This manual provides comprehensive descriptions of JPA rate setting policies and procedures. The JPA reserves the right to alter these policies and procedures as necessary to reflect changes in objectives or modifications to the franchise agreement.

This manual provides a clear and consistent set of operating policies and procedures whereby future issues relating to solid waste collection, recycling, and transfer station operations at the JPA can be resolved efficiently and equitably for all effected parties. Other objectives include:

- Ensure high quality refuse collection, recycling, and transfer station operations to eligible JPA residential, business, government, and other customers at a fair and reasonable cost
- Provide an efficient, standardized, and detailed system for monitoring and reporting refuse collection, recycling, and transfer station operations to ensure stability, consistency, and fairness in service rates
- Present a rate structure that will provide STR the opportunity to earn a reasonable rate of return to its stockholders considering the associated investment and level of risk
- Utilize industry accepted standards of reporting, rate setting, and performance measurement
- Establish an annual schedule for reporting, rate application submittal, review, and approval
- Employ a rate structure that encourages STR productivity and cost-cutting while providing multi-year rate stability to customers (i.e., minor changes in revenues, expenses, and volumes will not automatically effect rates)
- Create reporting requirements that also will be useful as an STR internal management tool
- Minimize the administrative effort required by the JPA and STR to meet the above objectives.

These objectives are fundamental elements of an efficient and successful solid waste collection, recycling, and transfer station rate setting process in the JPA. Objectives also address needs and concerns of affected stakeholders including citizens of the City of South Lake Tahoe, the eastern portion of El Dorado County, and Douglas County by the Lake; STR; and JPA governmental representatives.

## Introduction

This manual is intended to supplement the Franchise Agreements between the JPA member jurisdictions and the company; however, in the event of any conflict between said agreements and this manual, the Franchise Agreements shall prevail. The JPA reserves the right, in its sole discretion, to change this manual at any time. This manual shall not be deemed to confer or create any contractual rights in the company. Changes in rates will be considered only when collections, recycling, and transfer station operations together, are not sufficiently covering allowable expenses (defined later in Section II).

Major elements of the rate setting policies and procedures include the following:

- ♦ An Annual Summary Report will be submitted by August 20, of each year following completion of the franchise company's annual financial statements. This report will document the financial results for the two most recent fiscal years, and provide projections for the coming fiscal year (see **Appendix C**).
- ♦ The franchise agreement specifies a sliding-scale Operating Ratio (OR) of 87% to 94.3% depending upon recycling recovery results.

| Operation                                     | Sliding scale OR |
|---|------------------|
| Collection and Recycling,<br>Transfer Station | 87% - 94.3%      |

- ♦ Rate reviews should be conducted every two years, unless otherwise necessary as determined in the franchise agreement
- ♦ Each two years, a balancing account approach will be used whereby if STR earns an absolute profit level greater than the sliding scale OR allows, STR is required to remit excess collections to ratepayers and if profit levels are insufficient to cover STR's allowable profit, STR is entitled to a rate increase (subject to the terms and limitations in the Franchise Agreement in **Appendix E**).

- ♦ Rate applications should consist of information from the Annual Summary Report, as well as proposed changes to existing rates, and justification for the changes (see **Appendix D**),
- ♦ The JPA reserves the right to request a rate review and possible adjustment in rates at any time in order to preserve fairness to customers and reasonableness in return to STR.
- ♦ The JPA may obtain and review current industry profitability measurements to determine the continued appropriateness of the allowable profit level. Such measurements may include:
  - Operating ratio (local jurisdictions)
  - Return on assets
  - Return on rate base
  - Return on equity
  - Weighted average cost of capital
  - Rates allowed in neighboring jurisdictions
- Certain exceptional or catastrophic events may be allowed as justification for submission of an unscheduled rate application. This does not include Company negligence or inefficiencies.
- Adjustments in rates, when approved, will go into effect January 1.

## II. SOLID WASTE RATE SETTING POLICIES

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The following policies will provide a basis for current and future rate setting of solid waste collection, recycling, and transfer station operations at the JPA jurisdictions. The JPA reserves the right to modify, as necessary, any portion of these policies.

### 1. Annual Reporting

STR will prepare and submit (by August 20) to the JPA an Annual Summary Report which includes:

- Text summary of recent performance and significant issues
- Financial statements
- Summary of the two most recent fiscal years' financial and operational results, next year's projections, OR calculations for each year, and three-year average OR.
- Revenue by jurisdiction
- Self haul revenue
- Recyclable sales revenue
- Buy back revenues

This report is intended to be a short overview of the Company's recent and projected financial performance. Samples of schedules to be included in the Summary Report are shown in **Appendix C**.

### 2. Profit and Rate Setting Methodology

2.1 Operating ratios are defined as:

$$\text{Actual OR} = \left[ \frac{\text{actual allowed expenses}}{\text{actual allowed expenses} + \text{profit}} \right]$$

$$\text{Sliding Scale OR} = \text{Depending on \% recycling:} \left[ \frac{\text{allowable expenses}}{\text{actual allowed expenses} + \text{profit}} \right]$$

2.2 Operating performance targets and the sliding scale limits will be defined as follows:

| Operation                                     | Sliding scale OR |
|---|------------------|
| Collection and Recycling,<br>Transfer Station | 87% - 94.3%      |

(See Section 19F of the Franchise Agreements of the JPA member jurisdictions)



- 2.3 For STR-served jurisdictions, the franchise agreement specifies a sliding-scale OR methodology 87% to 94.3%, depending upon recycling recovery results. For example, a 24 percent recovery percentage would yield an operating ratio of 90.5 percent. (See **Appendix B** for profit determination factors)
- 2.4 This data is consistent with industry standards for regulated solid waste collection, recycling, and transfer station operations taking into consideration level of investment, risk and regional factors. (See **Appendix B** for profit determination factors)
- 2.5 For STR- served jurisdictions, principal and interest payments on the MRF loans are pass-through costs, without profit allowance, and depreciation of the MRF building is not an allowed cost. Reasonable depreciation of MRF equipment is allowable. See Section 19C of the Franchise Agreement.
- 2.6 A profit would be applied on other operating costs associated with the MRF, including:
- Direct labor
  - Equipment costs
  - Recycling
  - Administrative costs
  - Variable operating costs (i.e., costs that vary with the output of the business)
  - Hauling costs
  - Buy-back processing
- 2.7 The JPA reserves the right to request a rate review and possible adjustment in rates at any time to preserve fairness to customers and reasonableness in return to STR.
- 2.8 STR will be eligible to submit a rate application every two years. Rate applications will include the information and format as described in the Rate Application Section of this report and in **Appendix D**.
- 2.9 Extraordinary circumstances may at the discretion of the JPA Board, create a need for an unscheduled rate application. Extraordinary circumstances include, but are not limited to:
- a) Natural disasters
  - b) Unpredictable and sudden growth or decline in customer base
  - c) Extreme changes in interest rates
  - d) New laws or regulations
  - e) Others to be determined
- Other extraordinary circumstances may be allowed for unscheduled rate applications and will be considered on a case-by-case basis.
2. 10 Service rates for operations will be calculated based on total revenue requirements, historical service rates, varying services classes, and any rate increases that are imposed [i.e., new rate = (old rate) x (rate increase)].

### 3. Collections/Transfer Station/Material Recovery Facility Operations

#### 3.1 Allowable Expenses:

- Direct labor costs
- Hauling costs to the transfer station
- Costs of equipment
- Variable operating costs (e.g., fuel, parts, maintenance and repairs etc.)
- Special project costs (pre-approved by the JPA and/or jurisdictions)
- Direct administrative costs
- Other direct costs
- Intra-company costs<sup>1</sup>
- Indirect administrative costs<sup>2</sup>

#### 3.2 Non-Allowable Expenses:

(See Section 19C of the Franchise Agreement)

#### 3.3 Pass-Through Expenses allowed in rates without profit include:

- Franchise fees
- Recycling surcharge on tipping fees at the transfer station
- Some special projects, reporting, or planning costs
- Principal and interest payments for the financing of the transfer station

#### 3.4 Revenues:

Revenues come directly from billing of collection customers; a surcharge on tipping fees at the transfer station charged on the JPA refuse, and the JPA self-haul customers; and salvage and re-market revenue.

$$\text{Revenue Requirements to Meet OR} = \left[ \frac{\text{Allowable collection expenses from 3.1}}{\text{sliding scale, or [87-94.3\%]}} \right] + \text{Allowable pass through expenses from 3.3}$$

### 4. Franchise Agreement

See Appendix E attached hereto

### 5. Capital Assets

<sup>1</sup> Appropriate intra-company expenses and allocations may be allowed, however, they should be documented in detail. Refer to Section III herein for a detailed description of policies related to treatment of intra-company transactions.

<sup>2</sup> Allocation of indirect administrative costs should also be described in detail. These costs may include: executive compensation, overhead costs, management fees, office staff salary and benefits, other administrative costs, building and office rent, bad debt provisions, insurance, and professional fees.

5.1 Gain or loss from the sale or purchase of capital assets should be documented in the Annual Summary Report and in Rate Applications.

5.2 For purposes of the Annual Summary Report and Rate Applications, trucks should be depreciated using a methodology consistent with standard industry practices.

## **6. Independent Audit**

The JPA reserves the right to request an independent audit of STR's financial statements at any time. The JPA may request a rate comparison study of surrounding jurisdictions. The JPA also reserves the right to request and perform independent operational efficiency and productivity studies of the Company in order to identify cost savings opportunities.

## **7. Customer Service**

At the JPA's discretion and in accordance with the Franchise Agreement, customer service data may be collected from an annual survey by STR and presented in summary in the Annual Summary Report and in Rate Applications. This data may be used to help assess the overall performance of STR in collection, recycling, and transfer station operations.

## **8. Other Expenses**

Approval of specific allowances for expenses not associated with collection, recycling, or transfer station operations (e.g., amortization of goodwill, entertainment, public relations, political contributions, etc.) are subject to the terms and conditions of the Franchise Agreement.

## **9. Unreasonable Delays**

Unreasonable delays in schedule due to the Company may result in delays in rate changes. Retroactive rate increases will not be considered as a normal part of the rate setting process in the JPA.

## **10. Proposed Changes in Policies**

Proposed changes in policies, if necessary, should be made through a formal process separate from Annual Summary Reports and Rate Applications.

## **11. Other Affiliated Companies or Non-Franchised Companies**

Revenues and expenses from affiliated companies or non-franchised portions of the business shall be excluded from the rate application and are considered non-allowable for purposes of rate setting.

### **III. SOLID WASTE INTRA-COMPANY TRANSACTIONS**

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*The following policies should be applied to all transactions that originate from the date of policy adoption. Certain transactions which have occurred prior to the adoption of these policies may, in the JPA's discretion, require special treatment and consideration, where the retroactive application of such policies would create undue hardship or inherent unfairness in the rate-setting process.*

*In general, all costs must be reasonable, supported, documented, and justified. To the extent that costs are deemed otherwise, they are subject to partial or whole disallowance at the JPA's discretion.*

#### **1. Reporting**

- 1.1 Costs should be combined for refuse collection, recycling, and transfer station/MRF operations.
- 1.2 Detailed cost information reported in the Company's financial statements should be regrouped in the Rate Application to break out costs for the following categories:
  - Labor costs
  - Equipment costs
  - Administrative expenses
  - Hauling costs
  - Buy-back costs
  - Other variable operating costs (i.e., costs that vary with the output of the business)
  - Cost allowances resulting from special projects directed by the JPA
- 1.3 The total cost of providing services should be provided as well as the percentage allocated to a specific jurisdiction per each rate application.
- 1.4 A brief explanation of the cost items listed above and reasons for any significant changes in projected expenses should be submitted with the Rate Application in a summary letter transmitted to the regulating jurisdiction. Detailed support, documentation, and justification of large expenses and significant expense variances should be submitted with the Rate Application by line item on the Expense Summary (a proposed format of the Expense Summary follows this section).

## **2. Catastrophic Events**

2.1 If exceptional ("catastrophic") events occur, the Company would be able to submit a special application and supporting documentation. Catastrophic items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Both criteria below must be met:

- Unusual nature: the event or transaction possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to, the ordinary activities of the Company.
- Infrequency of occurrence: the event or transaction is of a type that would not reasonably be expected to reoccur in the foreseeable future.

2.2 As described in the franchise agreement, catastrophic items will at no time include events due to the Company's negligence.

## **3. Allocation Methodologies**

3.1 In addition to "routine costs" (e.g., labor, fuel, maintenance and repairs, etc.), the Company should provide documentation supporting the methodologies used to allocate expenses and intra-company payments for equipment and services.

3.2 Cost allocations for shared activities between companies (including affiliated entities) and franchises should be performed by some reasonable and supportable methodology that reflects economic reality. The outcome of the methodology is to allocate, as accurately as feasible, time and expenses of a particular project only to that project.

3.3 The Company shall determine the appropriate allocation basis and methodology and provide documented support for allocations.

3.4 Changes in allocation methodologies from one Rate Application to the next should be disclosed in the Rate Application, with adequate description of the rationale for the change and its anticipated impact.

3.5 Recommended cost allocation methodologies to use in the Rate Application process are as follows:

| <b>Costs</b>   | <b>Recommended STR Allocation Methodologies</b>                                 |
|--|---|
| Disposal dump fees   | Actual tonnage  |
| Franchise fees   | Actual collections multiplied by applicable franchise fee percentages           |
| Billings   | Number of bills processed   |
| General administrative expenses, other income, and interest expense  | Direct labor hours, or another allocation method approved in advance by the JPA |
| Equipment  | Truck usage for a representative period   |
| <ul style="list-style-type: none"> <li>♦ Rental and lease</li> <li>♦ Parts, supplies and lubricants</li> <li>♦ Fuel</li> <li>♦ Tire purchase and repairs</li> <li>♦ Repairs and maintenance</li> <li>♦ License, permits and taxes</li> </ul> |   |

3.6 In particular, transactions with the Company's affiliates are subject to special examination due to the inherent susceptibility to mistreatment. All related party transactions must be disclosed in the Rate Application itself. Confidentiality of the details of related party transactions may be arranged, if agreed upon by the Company and the regulating jurisdiction.

The following aspects of the relationship are to be disclosed:

- The nature, extent and magnitude of the relationship
- Related party transactions are to be conducted on an arms-length basis (i.e., on equivalent terms as with an unrelated party in the conditions of a competitive, free market environment)
- Documentation of the business imperative and fairness to the ratepayers of the terms
- The JPA (or its representatives) in the rate review process shall have the right to inspect the documented support for the transactions and their terms. Such documentation may include similar terms for market transactions, appraisals, economic and financial analyses, etc.
- Particularly for a first-year rate review, the Company may be required to provide, upon the JPA request, the information listed below. The requested information may include:
  - ♦ Historical information on property leased from affiliates
  - ♦ Date of acquisition
  - ♦ Purchase price
  - ♦ Financing
- In addition, data requested may include, as of the acquisition date, franchise agreement inception date and/or currently:
  - ♦ Understandings as to the intended use of the property
  - ♦ Potential alternative uses of the property
  - ♦ Fair value

Note that any item on this list may or may not be required to evaluate a specific transaction.

#### 4. Officer's Compensation

4.1 Officers' compensation for personal services is generally allowable. Compensation includes all remuneration, whether paid immediately or deferred, in whatever form, for services rendered by officers to the contractor during the contract period.

4.2 The JPA has previously agreed that \$500,000 will be accepted as reasonable for STR officers' compensation assuming participation by five officers for STR. (See attached report prepared by Deloitte & Touche on officers salaries dated August 11, 1995 in Appendix F.) The term "officers" means employees that are fully performing the management functions referred to in the franchise agreement.

4.3 Officers' compensation should be clearly stated as base compensation plus bonus, and not profit to owners. Such compensation should thus relate only to the functions performed as officers, and not include any form of profit distribution.

4.4 The compensation in total must be reasonable. The test for reasonable compensation for personal services is whether each of the allowable elements comprising the officer's compensation package is reasonable. Officer's Compensation reasonableness becomes increasingly significant and may be challenged in situations where one individual serves an Officer function in different companies and is allocating time among the companies. The appropriate allowable cost is not the full salary for each position the Officer holds, but the compensation that is reasonable in total for one person to fulfill all such functions for all such companies. The resulting compensation cost should be allocated to the respective companies based on some time-based allocation method. In such cases, the Company is required to document its analysis and support the allowable compensation level and allocation.

4.5 The following table demonstrates a hypothetical example of compensation cost allocation:

|           | <b>Compensation</b> | <b>% Time Spent</b> | <b>% Time Spent</b> | <b>Compensation</b> | <b>Compensation</b> |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|
|           |                     | <b>at Company A</b> | <b>at Company B</b> | <b>at Company A</b> | <b>at Company B</b> |
| Officer 1 | \$100,000           | 50%                 | 50%                 | \$50,000            | \$50,000            |
| Officer 2 | 85,000              | 75%                 | 25%                 | 63,750              | 21,250              |
| Officer 3 | 115,000             | 4%                  | 96%                 | 4,600               | 110,400             |
| Officer 4 | <u>100,000</u>      | 5%                  | 95%                 | <u>5,000</u>        | <u>95,000</u>       |
| TOTAL:    | \$400,000           |                     |                     | \$123,350           | \$276,650           |

4.5 At the JPA, officer's compensation will be determined through a similar process as described herein. This should reflect the actual number of Officers required to efficiently manage the company, where the total company portion for the management group is allocated based on the overall effort the group spends managing the company. Total base salary will be evaluated based on the company support in its first rate submittal established through the initial rate review process.

## **5. Leases**

5.1 Leasing of real or personal property is generally allowable, to the extent reasonable, and subject to the following conditions:

- Rental cost under a sale and leaseback arrangement is limited to amounts that would have been allowable if title to the property had been retained. For example, if the Company sells a property and leases it back, the allowed lease cost shall not exceed the ownership costs (typically primarily depreciation) that would have been reported had the sale and leaseback transaction not occurred.
- Rental costs under the leases between entities under common control are generally limited to normal ownership costs. For example, common control for two entities often is deemed to exist where over 50% of the ownership interests of one entity also owns over 50% of the other. In such circumstances, the allowed cost for the Company's rental of property from an affiliate under common control would be limited to the affiliate's depreciation and other ownership costs that would have been allowed had the Company owned the property.
- For property and leasing arrangements entered into prior to the adoption of these policies, actual lease costs may potentially be allowed on the basis that the Company entered into related transactions prior to the adoption of such policies and would be unfairly harmed as determined solely by the JPA by the current application of these policies to those historic transactions.
- Whenever entering into a lease agreement, the company should perform and document a business analysis to determine whether it is more economic to lease or buy a particular asset, regardless of the rate treatment of these transactions. The decision to lease or buy remains with the company, and will be allowed if proper documentation and business logic exists. Lease allowance may also occur if certain non-economic based factors drive the lease decisions such as:
  - Inability to purchase the asset
  - Uneconomic financing terms (not due to company fund mismanagement).
- Partial or full disallowance of lease costs may result if the Company does not provide adequate evidence to meet the above conditions.

5.2 Leases should be accounted for in accordance with generally accepted accounting principles.

## **6. Professional and Consulting Services**

6.1 Costs of professional and consulting services performed by persons who are members of a particular profession or possess a special skill, and are not officers or employees of the contractor, are generally allowable. Allowability is contingent upon examination of several factors and could include the nature and scope of services performed as compared to the service required; the Company's need to contract for the service based on the Company's capabilities; the past patterns of such costs; whether the service can be performed more economically by contracting or by in-house employees; the professional or consultant's qualifications; the customary fee charged on such contracts; and the completeness of the contractual agreement.

6.2 Adequate evidence (e.g., engagement letters, contracts, and budgets) must be made available, if necessary, for determining of allowability of professional and consulting services. This evidence would include a signed agreement detailing the scope of work and the deliverables. In addition, the Company should maintain documented evidence of adequate review and management of the services rendered. The Rate Application should include a description, justification, and cost of all professional services for the projected year.

## **7. Pass-Through Expenses**

7.1 Certain costs will be passed through, without allowance for profit, on the Rate Application:

- Franchise fees
- Debt service and interest on loans, subject to limitations in the Franchise Agreements, where such treatment is agreed upon by the regulating jurisdiction
- Special projects or reports as requested by the regulating jurisdiction (include interest carrying costs, as necessary).

7.2 The JPA retains the right to request additional support and approve specific allowance for expenses not associated with the collection, disposal or recycling of JPA solid waste (e.g., amortization of goodwill, entertainment, public relations, political contributions, etc.)

#### **IV. SOLID WASTE RATE SETTING PROCEDURES AND SCHEDULE**

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*This section describes the step-by-step procedures and schedule to be followed by all participants throughout the rate setting process.*

Described below is the sequence of events associated with annual reporting and the rate setting process for solid waste collection, recycling, and transfer station operations in the JPA. Dates should be viewed as milestones to meet throughout the process. Actual dates may vary year-to-year. For rate adjustments made by January 1, the actual schedule should not extend significantly beyond dates established here. Tasks 1 and 2 will occur annually, whereas tasks 3 through 11 will only occur if a rate application is submitted. A summary of the overall schedule for annual reporting and rate setting is given in **Figure 2**.

**Figure 2**

##### **Solid Waste Collection and Transfer Station/MRF Operations Annual Reporting and Rate Setting Schedule**

| <b>Task</b>  | <b>Responsibility</b>  | <b>Estimated Completion Date</b> |
|--|------------------------|----------------------------------|
| 1. Annual Summary Report Submittal                                   | Company                | August 20                        |
| 2. Review of Annual Summary Report                                   | JPA                    | September 5                      |
| 3. Prepare and Submit Rate Application                               | Company                | September 20                     |
| 4. Review Rate Application and Prepare Response                      | JPA                    | October 5                        |
| 5. Interactive Question and Answer Period                            | JPA, Company           | October 31                       |
| 6. Draft JPA Rate Recommendations                                    | JPA                    | November 15                      |
| 7. Response to Draft JPA Recommendations                             | Company                | November 20                      |
| 8. Interactive Issue Resolution Period, and Finalize Recommendations | JPA, Company           | November 25                      |
| 9. Presentation to the JPA Board                                     | JPA                    | November 30                      |
| 10. Local Jurisdictional Approval                                    | JPA/Local Jurisdiction | December 14                      |
| 11. Finalize and Announce Rate Adjustments                           | Company                | December 15                      |
| 12. Impose New Rates   | Company                | January 1                        |

- 1) **Annual Summary Report Submittal:** STR is required to submit an Annual Summary Report to the JPA describing the Company's two most recent years' financial and operational performance, projections for next year, as well as projected OR calculations. The Annual Summary Report should provide the information necessary for the JPA member jurisdictions to assess STR's financial and operational performance, evaluate the reasonableness of the forecasted budget, including any capital expenditures, and determine if profit allowances are within limits. The Annual Summary Report should also include general business plan information on significant issues affecting current or future operation. The Annual Summary Report is due by August 20 of each year, and should include actual results through the end of the most recent fiscal year, ending June 30. Guidelines for STR in preparation of the Annual Summary Report are given in the next section (Annual Summary Report Guidelines).
- 2) **Review of Annual Summary Report:** Within two weeks of submittal (by September 5), the JPA Administrator will coordinate a review of the Annual Summary Report. The JPA Administrator will be responsible for identifying and attempting to resolve any questions or issues, and present a response to the JPA Board and the STR.

If a rate application is not submitted, and if the JPA Board accepts results from the Annual Summary Report, the solid waste regulatory process is completed for the year.

- 3) **Prepare and Submit Rate Application:** A rate application may be requested at any time by the JPA, and one should be submitted by STR every two years. Rate Applications should include information from the Annual Summary Report and detailed supporting schedules documenting each line item revenue and expense, their changes, and proposed adjustments to the rate structure. The Rate Application format is described in detail in the Rate Application Submittal Guidelines and in Appendix D. Rate Applications should be submitted on or before September 20, to ensure rate adjustments by January 1.
- 4) **Review Rate Application and Prepare Response:** The JPA Administrator will complete a thorough review of rate applications and prepare an initial response for STR and the JPA Board. Rate review responses should include any outstanding questions or discrepancies which may exist, additional supporting documentation, and preliminary findings. This response will serve as a basis for discussion between STR, the JPA Administrator, and the JPA Board through the rate review process. The rate review and initial response should be completed by October 5. The JPA reserves the right to secure an outside consultant for assistance during this period, should the need arise.
- 5) **Interactive Question and Answer Period:** This three week period is provided to clarify any questions or discrepancies which may exist regarding Rate Applications. STR should work with the JPA Administrator and JPA Board (Rate Committee) to clarify any questions or discrepancies. Resolution of all outstanding issues may not be completed during this period, however clarification of initial questions and discrepancies should be made by October 31.

- 6) **Draft JPA Recommendations:** After clarification of all questions and issues between the JPA Administrator and STR, the JPA Administrator will prepare draft recommendations for the JPA Board. Recommendations will address justification for STR's rate application, any existing questions or discrepancies, and provide guidance to the JPA Board for action. STR should be prepared to respond to any outstanding issues with the JPA Board at this time. Draft recommendations should be submitted by the JPA Administrator to the JPA Board and STR by November 15.
- 7) **Response to Draft JPA Recommendations:** STR may prepare a formal response for the JPA Board addressing the JPA Administrator's draft recommendations. This response should address outstanding issues or questions, if any exist. STR should work with the JPA Board and the JPA Administrator to resolve these issues and questions. STR's response should be submitted by November 20.
- 8) **Interactive Issue Resolution Period, and Finalize Recommendations:** This period should be used to resolve all outstanding issues concerning a rate application. All participants should be proactive in communicating concerns, questions, and proposals to expedite the process. The JPA Administrator will prepare and submit final recommendations for action to the JPA Board by November 25.
- 9) **Presentation to the Board:** The JPA Board will include a review and approval/disapproval decision on the agenda of a normal JPA Board public hearing. Prior notice will be provided to citizens about the hearing, and debate of any issues may take place if necessary. Discussion topics at the hearing will include the JPA Administrator's recommendations, STR comments, Rate Committee comments (if necessary), and citizen input. The objective of the hearing will be to approve the agreed upon rate adjustments. This hearing should occur by November 30, to ensure timely implementation of new rates by January 1.
- 10) **Local Jurisdictional Approval:** After approval by the JPA Board, the JPA Administrator should confirm that each local jurisdiction within the JPA approves the rate adjustment.
- 11) **Finalize and Announce Rate Adjustments:** STR is required to publicly announce final rate adjustments, including new rates, and when they will take effect. This public notice should be made by December 15. STR is required to inform individual customers by mail of the approved rate adjustment.
- 12) **Impose New Rates:** Assuming the rate review process is on schedule, rate adjustments will take effect January 1. Any significant delays in the schedule may cause the effective date of new rates to be delayed.

## **V. ANNUAL SUMMARY REPORT GUIDELINES (Company)**

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*This section describes guidelines to be followed by STR when submitting an Annual Summary Report.*

The Annual Summary Report will be prepared by STR and submitted to the JPA Administrator by August 20 of each year. The purpose for submitting an Annual Summary Report is to document financial and operating results between rate adjustments so that the JPA Board is aware of performance by the Company, and there are no unexpected proposed rate increases. The Annual Summary Report will be instrumental in maintaining stability, consistency, and fairness in the solid waste rate setting process. The Annual Summary Report is intended to be a relatively concise document (less than 10 pages). It should include a summary of the two prior fiscal years' financial and operational results, as well as next year's projections for collections, recycling, and transfer station operations. A sample Annual Summary Report is given in **Appendix C**. Additional information or modifications to the data presentation may be required at the request of the JPA or at the discretion of STR. The following is a detailed description of the required documentation in the Annual Summary Report.

- 1) **Executive Summary:** A written summary should be given of the major events that occurred during the year, the most recent year's financial performance (e.g., revenues, profit, and OR), projections for next year's performance, and calculation of projected OR values. The Executive Summary should describe any significant trends that have developed (e.g., cost increases, new customers, recycling, etc.), and a discussion of major variances in performance from last year's projections.

The Executive Summary should also include any other pertinent "Business Plan" type information such as new regulations, new technologies, and other factors which may have an effect on rates in the future.

- 2) **Summary of Financial Information for Collections, Recycling, and Transfer Station:** This summary should cover two fiscal years of historical data, including the most recent fiscal year's performance (through June 30), and one year of projections for operations. Revenue and expense data should be segmented into groupings as given in Policy 3 (Section II), and formatted as shown in **Appendix C**. OR calculations should be included for each year. Supporting schedules for each line item on the summary schedules need not be provided in the Annual Summary Report, however, reconciliation with the Company's financial statements should be provided. Electronic copies of financial data also should be provided.
- 3) **Financial Statements:** Included in the Annual Summary Report should be STR's fiscal year-end (June 30) un-audited financial statements.
- 4) **Customer Service Survey Results:** Customer service and satisfaction data, may at the JPA's discretion, be collected annually through a survey of customers from the Company's operations (i.e., collections and transfer station/MRF). The survey should be systematically administered to obtain accurate and comprehensive information regarding overall satisfaction.

After submittal, STR should be prepared to work with the JPA Administrator and the JPA Board to resolve any questions or issues that may arise.

## **VI. ANNUAL SUMMARY REPORT GUIDELINES (Jurisdiction)**

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*The JPA Administrator should follow the process below for reviewing STR's Annual Summary Reports.*

Annual Summary Reports are due from STR by August 20 of each year. After receiving the report, the JPA Administrator should follow the process below for reviewing and reporting on STR's performance:

- 1) Verify all required documentation is present in the report consistent with **Appendix C**.
- 2) Verify financial statements, projections, and OR calculations for compliance with the JPA policies (Section II herein), accuracy, and consistency (i.e., spreadsheets figures tie, columns sum, and projections are consistent). Spot checking of various calculations should be performed until a satisfactory level of confidence is achieved in the integrity of the data presented.
- 3) Analyze the reasonableness of assumptions and projections.
- 4) Identify any significant trends or variances from previous years' projections and verify the justification for variances in actual results versus projections.
- 5) Identify any issues or questions and obtain clarification from STR.
- 6) Prepare response for the JPA Board (by October 5).
- 7) Coordinate with STR any additional requests by the JPA Board for information or clarification.

If a rate application is not submitted and if the JPA Board accepts results from the Annual Summary Report, the review process is completed for the year.

## VII. RATE APPLICATION SUBMISSION GUIDELINES

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*This section describes the guidelines to be followed by STR when submitting a rate application.*

A rate application may be requested at any time by the JPA, but one should be submitted by STR every two years. The return for combined collections and the transfer station/MRF operations falls within sliding scale OR of 87 to 94.3% depending on recycling levels.

| Operation                                     | Sliding scale OR |
|---|------------------|
| Collection and Recycling,<br>Transfer Station | 87% - 94.3%      |

Rate Applications are due to the JPA Administrator by September 20. A sample Rate Application is provided in **Appendix D**. Additional information or modifications to the data presentation may be required at the request of the JPA or at the discretion of STR. The major sections of the Rate Application should include:

- 1) **Executive Summary:** A written summary of the Rate Application including a description of: the proposed rate increases for each operation; any significant events that occurred during the year effecting operations; the most recent year's financial performance (i.e., revenues, expenses, profit, and OR); projections for next year's performance; and a calculation of projected OR values. The Executive Summary should describe any significant trends that have developed (e.g., cost increases, new customers, recycling, etc.), and a discussion of major variances in performance from the prior year's projections.

The Executive Summary also should include any other pertinent "Business Plan" type information such as new regulations, new technologies, and other factors which may have an effect on rates in the future.

- 2) **Summary Schedules:** Similar to the financial statements in the Annual Summary Report, these schedules should summarize the financial performance of collection, and transfer station/MRF operations. They should also include revenue requirements for the operations needing rate increases, as well as the proposed rate adjustments. Electronic copies of financial data also should be provided.
- 3) **Assumptions:** Detailed explanation of all assumptions should be provided in either a separate section or in footnotes in the appropriate locations in the application. Assumptions are particularly important to support financial projections.
- 4) **Supporting Schedules:** Detailed supporting schedules should be provided for each line item in the summary schedules. Supporting schedules should include actual and projected tonnage data; allocation of revenues into commercial, residential, and other sources; detailed schedules supporting all expense line items; reconciliation of the Rate Application to the most recent un-audited financial statement; gain or loss from asset purchases or sale; and any additional information which the JPA requests or STR believes is pertinent to the application. The two most recent fiscal years of historical data should be included (through June 30), along with one year of projections. Revenue and expense data should

be segmented into groupings as given in Policy 3 (Section II) and formatted as shown in **Appendix D**. Deviations from the guidelines may be requested by the JPA. OR calculations should be provided for each year presented.

- 5) **Customer Service Survey Results:** At the JPA's discretion and in accordance with the Franchise Agreement, customer service and satisfaction data may be collected annually through a survey of customers from STR operations (i.e., collections and the transfer station/MRF). The survey should be systematically administered to obtain accurate and comprehensive information regarding overall satisfaction.
- 6) **Audited Financial Statements:** STR should include its fiscal year-end (June 30) audited Financial Report in the Annual Summary.
- 7) **Appendices:** Supporting documentation which is not essential to the data above, but important to the overall rate review can be provided in appendices.

## VIII. RATE APPLICATION REVIEW PROCESS

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*This section describes the step-by-step process to be followed by the JPA Administrator in assessing rate applications and developing recommendations.*

The JPA Administrator will be responsible to lead the reporting and rate application process. Responsibilities of the JPA Administrator include reviewing rate applications, working with STR to clarify questions or issues that arise, and presenting recommendations to the JPA Board for action. Depending on the complexity of the issues, the magnitude of the proposed rate increase, and the availability of County staff to review rate applications, the County may elect to hire an outside consultant to assist during the review process. A rate application may be requested at any time by the JPA, or one may be submitted by STR. The rate application process should proceed through the following sequence of tasks to be initiated by the JPA Administrator:

| <b>Task</b>   | <b>Completion Date</b> |
|---|------------------------|
| A) Requests by STR from the JPA for data, or special information requests from the JPA for other required information in the Rate Application | August 20              |
| B) Receipt of Rate Application from STR   | September 20           |
| C) Review Rate Application and Submit Initial Response to STR (Rate Review)   | October 5              |
| D) Interactive Question and Answer Period   | October 31             |
| E) Draft Recommendation for JPA Board and STR   | November 15            |
| F) Interactive Period with STR and JPA Board, and Finalize Recommendations  | November 20            |
| G) Present Final Recommendations to JPA Board   | November 25            |

*Note: The schedule is consistent with the master schedule given in Figure 2.*

The rate review process, Task C above, should include the activities described on the next page. The JPA Administrator is responsible for coordinating with STR any additional requests by the JPA Board for information or clarification.

## **Rate Review**

The analysis that should be performed by the JPA Administrator during the rate review process (Task C) should include the following:

- 1) Verify all required documentation is present in the rate application consistent with **Appendix D**.
- 2) Verify financial statements, projections, and OR calculations for compliance with the JPA Policies (Section II and III herein), accuracy, and consistency (i.e., spreadsheets figures tie, columns sum, and projections are consistent). Spot checking of various calculations should be performed until a satisfactory level of confidence is achieved in the integrity of the data presented.
- 3) Analyze the reasonableness of assumptions, projections, and rate increase drivers.
- 4) Identify any significant trends or variances from previous years' projections, and verify the justification for variances between actual results and projections.
- 5) Identify any issues, or questions to resolve before final recommendations are presented to the JPA Board.
- 6) Prepare response for STR and JPA member jurisdictions staff (by October 5) and initiate interactive dialog to resolve outstanding issues and questions.
- 7) Work with STR and JPA member jurisdictions staff to clarify and resolve outstanding questions and issues and develop consensus for recommended action by the JPA Board.

Rate reviews should be completed within three weeks of rate application submittal (by October 5), ending with an initial response to STR including questions and any issues which are identified. The next three weeks are designated as an interactive question and answer period (Task D) where outstanding questions and issues should be clarified (by October 31).

Draft recommendations should be prepared and submitted to the JPA Board and STR by the JPA Administrator (Task E, by November 15) based on the rate review and clarification of questions and issues with STR during Task D. Outstanding issues that still exist after the clarification period should be clearly documented and presented to the JPA Board. Resolution of these issues will be made during the interactive period following submittal of the draft recommendations. The JPA Administrator should coordinate a presentation of final recommendations to the JPA Board.

## **IX. CONCLUSION**

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The overall objective of this document is to define a consistent set of operating policies and procedures whereby future rate setting issues relating to solid waste collection, recycling, and transfer station/MRF operations in the JPA, can be resolved. A clear and simple process is provided to minimize the amount of administrative effort required by all parties to maintain quality services in the JPA and at the same time provide for a fair and equitable return to STR. The overall rate review schedule and documentation requirements should suffice for most situations, however, deviations may occur due to extenuating circumstances. This manual is intended to be a working document which will evolve over time to meet the needs of the JPA, the franchise company(ies), and other effected stakeholders.

## APPENDICES

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- A. Definitions
- B. Profit Determination Method
- C. Sample Annual Summary Report
- D. Sample Rate Application
- E. Franchise Agreement

## APPENDIX A: DEFINITIONS

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|  |   |
|--|---|
| <b><i>Allowed Expenses:</i></b>            | Expenses which are included in OR calculations, and the Company is allowed to receive profit on.  |
| <b><i>Annual Summary Report:</i></b>       | Annual report prepared by the Company and submitted to the County describing the past two years' financial results, and next year's projections (including OR calculations).  |
| <b><i>Collections &amp; Recycling:</i></b> | All activities relating to collections and recycling treated together in the rate setting process in the JPA.   |
| <b><i>Company:</i></b>                     | South Tahoe Refuse, Inc. (STR)  |
| <b><i>JPA Administrator:</i></b>           | The JPA representative (or designee) responsible for managing the reporting, and rate application process for collection, recycling, and transfer station/MRF operations.   |
| <b><i>JPA Board:</i></b>                   | The JPA Board   |
| <b><i>County:</i></b>                      | The JPA jurisdictions: City of South Lake Tahoe, eastern portion of El Dorado County, and Douglas County by the Lake.   |
| <b><i>EBIT:</i></b>                        | Earnings before interest and taxes  |
| <b><i>Fiscal Year:</i></b>                 | July 1 through June 30  |
| <b><i>Franchise Agreement:</i></b>         | Contract between the JPA and STR defining terms and conditions of refuse collection, recycling, and transfer station operations in various portions of El Dorado County, Douglas County and City of South Lake Tahoe ( <b>Appendix E</b> ). |
| <b><i>Franchise Company:</i></b>           | STR   |
| <b><i>Intra-Company Expenses:</i></b>      | Expenses charged within a company between operations.   |
| <b><i>Operating Ratio (OR):</i></b>        | Profit measurement used to regulate Company's return.<br><br>$\text{OR} = \left[ \frac{\text{Allowable expense}}{\text{Allowable expenses} + \text{profit}} \right]$  |
| <b><i>Pass-Through Expenses:</i></b>       | Expenses are recoverable through rates, but the Company is not allowed to receive profit on (i.e., franchise fees).   |

- Policies:*** Top level operating requirements set by the JPA for regulating solid waste collections, recycling, and transfer station/MRF operations.
- Procedures:*** Specific instructions and scheduling for the refuse collection, recycling and transfer station/MRF rate setting process in the JPA including reporting, data format, submittal dates, and other requirements.
- Rate Application:*** Detailed report prepared by the Company and submitted to the County documenting justification for an adjustment in collection, recycling, and transfer station/MRF rates. Includes all Annual Summary Report information, detailed supporting documentation for summary schedules in Annual Summary Report, and justification for the rate adjustments proposed.
- Rate Setting Manual:*** This *Solid Waste Rate Setting Policies and Procedures Manual*
- Rate Year:*** January 1 through December 31
- Recycling Surcharge:*** Additional fee paid on top of the tipping fee at the transfer station for disposal of solid waste. This is the source of revenues to cover the recycling program.
- Revenue Requirement:*** 
$$\boxed{\frac{\text{Allowable expenses}}{\text{Sliding Scale OR}}} \boxed{\phantom{0000}} + \text{pass-through expenses}$$
- Schedule:*** Target dates for preparation, submittal, review and approval of summary reports and rate applications.
- Tipping Fees:*** Fees paid at the transfer station for dumping of solid waste.
- Transfer Station/MRF Operations:*** All activities relating to operation of the transfer station and Material Recovery Facility (MRF) considered in the rate setting process at the JPA.

## **APPENDIX B: PROFIT DETERMINATION METHOD**

---

The profit mechanism developed here (operating ratio) for the JPA was determined to be the most effective way to meet the objectives of the JPA Board (see Section I). The following profit mechanisms were considered throughout this process:

- ♦ Operating ratio
- ♦ Return on assets
- ♦ Return on equity
- ♦ Return on debt
- ♦ Percentage EBT, or EBIT of sales

When calculating these measurements, certain portions of expenses may be disallowed for profit considerations, or disallowed all together. For example, disallowed for profit, or pass-through expenses may include:

- ♦ Intracompany expenses
- ♦ Some interest expenses
- ♦ Franchise fees
- ♦ Disposal costs
- ♦ Pension costs
- ♦ Regulatory costs
- ♦ Advertising costs
- ♦ Outside consulting fees

Expenses which may be disallowed altogether may include:

- ♦ Entertainment and travel
- ♦ Management salaries above norm
- ♦ Deal fees
- ♦ Employee gifts
- ♦ Charitable contributions

To determine the appropriate profit mechanism, pass-through expenses, and disallowed expenses many factors must be considered. These include:

- ♦ Industry standards and averages
- ♦ Business risk vs. financial risk
- ♦ Degree of stability of revenues (regulated vs. unregulated)
- ♦ Competition in area
- ♦ Degree of difficulty in providing service
- ♦ Range of services provided
- ♦ Ownership history of assets
- ♦ Franchise agreements
- ♦ Customer satisfaction data

Although the JPA has selected OR and the current pass-through and disallowed expenses (in policies), future events such as changes in customer mix, service requirements, asset ownership, and other economic factors may lead to changes in these profit allocation mechanisms.

As the JPA obtains more experience and knowledge about the rate application process, including cost allocations and related party transactions, it may consider adopting a "bracketed OR" methodology, in which full rate reviews would only be conducted when the OR, or three-year average OR, falls outside of certain upper or lower limits. Such a methodology enhances multi-year rate stability by allowing for changes in revenues, costs and volumes without changing rates.

## **APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT**

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### **Executive Summary**

A written summary should be given of the major events that occurred during the year, the most recent year's financial performance (revenues, profit, OR), projections for next year's performance (revenues, profit, OR), and calculation of the three year and projected OR values. The Executive Summary should describe any significant trends that have developed (cost increases, new customers, recycling, etc.) and a discussion of major variances in performance from last year's projections.

The Executive Summary should also include other pertinent "Business Plan" type information such as new regulations, new technologies, and other factors which may have an effect on rates in the future.

**APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT**

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**Exhibit 1  
Expense Summary for STR Operations**

|  |
|--|
| <b>PROPOSED EXPENSE SUMMARY FOR STR OPERATIONS</b> |
|--|

| <b>Cost Category</b>             | <b>Allowed<br/><u>1995/96</u></b> | <b>Actual<br/><u>1995/96</u></b> | <b>Projected<br/><u>1996/97</u></b> |
|----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|
| Direct Labor                     |                                   |                                  |                                     |
| Number of FTEs                   |                                   |                                  |                                     |
| Wages                            |                                   |                                  |                                     |
| Overtime                         |                                   |                                  |                                     |
| Other Benefits                   |                                   |                                  |                                     |
| Total Direct Labor               |                                   |                                  | \$XXX,XXX                           |
| Equipment Costs                  |                                   |                                  |                                     |
| Equipment Depreciation           |                                   |                                  |                                     |
| Equipment Leases                 |                                   |                                  |                                     |
| Equipment Insurance              |                                   |                                  |                                     |
| Other Equipment Expenses         |                                   |                                  |                                     |
| Total Equipment                  |                                   |                                  | \$XXX,XXX                           |
| Variable Operating Costs         |                                   |                                  |                                     |
| Repairs & Maintenance            |                                   |                                  |                                     |
| Other Variable Costs             |                                   |                                  |                                     |
| Total Variable Operating Costs   |                                   |                                  | \$XXX,XXX                           |
| Administrative Costs             |                                   |                                  |                                     |
| Officer Salaries & Benefits      |                                   |                                  |                                     |
| Office Staff Salaries & Benefits |                                   |                                  |                                     |
| Professional Fees                |                                   |                                  |                                     |
| Bad Debt Provision               |                                   |                                  |                                     |
| General Insurance                |                                   |                                  |                                     |
| Building/Office Rent             |                                   |                                  |                                     |
| Franchise Fees & Permits         |                                   |                                  |                                     |
| Other Administrative Costs       |                                   |                                  |                                     |
| Total Administrative Expenses    |                                   |                                  | <u>\$XXXXXX</u>                     |
| <b>TOTAL OPERATING EXPENSES</b>  |                                   |                                  | <b>\$XXX,XXX</b>                    |

[Note: The foregoing categories are by way of illustration only. Additional categories may be required by the JPA member jurisdiction or proposed by the company to more accurately convey the appropriate financial data for rate review purposes.]

**APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT**

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**Exhibit 2  
Annual Summary Report  
STR Operations**

|   |
|---|
| <b>SUMMARY REVENUE REQUIREMENT SCHEDULE FOR STR, 199X</b> |
|---|

| <u>REVENUE</u>  | <u>NEXT YEAR<br/>PROJECTION</u> | <u>NOTES</u>                                    |
|---|---------------------------------|---|
| Projected Collection Revenue (with no rate change)              | <u>\$1,600,000</u>              | Ratepayers X current rate                       |
| TOTAL REGULATED REVENUE   | \$1,600,000                     |   |
| <br><u>EXPENSES</u>   |                                 |   |
| Direct Labor  | \$300,000                       |   |
| Equipment Costs   | 250,000                         |   |
| Variable Operating Costs  | 400,000                         |   |
| Administrative Expenses   | <u>150,000</u>                  |   |
| TOTAL ALLOWED OPERATING EXPENSES                                | \$1,100,000                     | Total allowed expenses                          |
| <br><u>ALLOWED RETURN</u>                                       |                                 |   |
| Operating Ratio   | 90%                             | Year 1  |
| Provision for Profit  | \$120,000                       |   |
| <br><u>ADDITIONAL EXPENSES (PASS-THROUGHs ALLOWED IN RATES)</u> |                                 |   |
| Special Projects or Planning                                    | \$10,000                        |   |
| Tipping Fees*   | \$250,000                       | The JPA's fees only                             |
| Franchise Fees  | <u>\$128,000</u>                |   |
| <br>TOTAL REVENUE REQUIREMENT                                   | <br><u>\$1,610,000</u>          | <br>Sum of expenses, OR and additional expenses |
| <br>REVENUE SURPLUS (DEFICIENCY)                                | <br><u>(\$10,000)</u>           | <br>Total revenue - requirement                 |
| <b>REQUIRED RATE INCREASE (DECREASE)</b>                        | <b>0.6%</b>                     |   |

*\*Including recycling costs*

## APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

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### Exhibit 3 Reconciliation with Financial Statements

#### FORMAT

| Financial Statement Line Items | Application Line Items |
|--------------------------------|------------------------|
|--------------------------------|------------------------|

Item #1 @ Amount + Item #2 @ Account = Item #1 @ Amount

A @ \$X + B @ \$Y = M @ \$Z

---

#### ILLUSTRATIONS

| Financial Statement Line Items | Application Line Items |
|--------------------------------|------------------------|
|--------------------------------|------------------------|

1. Advertising @ \$12,000 + Postage @ \$10,000 = "Other Administrative" @ \$22,000

2. Repair & Maintenance @ \$100,000 = "Repair and Maintenance" @ 100,000

□ The JPA will thus understand how and where financial statement line items fit into the Rate Application.

**APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT**

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**Exhibit 4  
Depreciation Reconciliation  
Gain or Loss from Asset Turnover**

Because of the importance of new asset purchases, a depreciation reconciliation account could be established for both the transfer station and collection operations to reconcile expected depreciation expenses for the coming year with actual expenditures.

*Illustrative Example*

*Example 1: Assets not purchased as expected, or lower price obtained:*

|         | Expected Depreciation | Actual Depreciation | Additional Expense<br>(Credit) to Ratepayers |
|---------|-----------------------|---------------------|--|
|         | <u>Year 1</u>         | <u>Year 1</u>       | <u>Year 2</u>                                |
| Asset 1 | \$10,000              | \$5,000             | (\$5,000)                                    |
| Asset 2 | XXX                   | XXX                 | XXX  |

*Example 2: Assets purchased as expected, but at higher prices*

|         | Expected Depreciation | Actual Depreciation | Additional Expense<br>(Credit) to Ratepayers |
|---------|-----------------------|---------------------|--|
|         | <u>Year 1</u>         | <u>Year 1</u>       | <u>Year 2</u>                                |
| Asset 1 | \$10,000              | \$15,000            | (\$5,000)                                    |
| Asset 2 | XXX                   | XXX                 | XXX  |

- Depreciation for the capitalized transfer station would be calculated on a straight-line basis of the agreed-upon total valuation over the life of the transfer station per the current loan agreement.
- The credit or expense would be added to expected depreciation for the coming rate year.
- In order to document any requested depreciation expense, the Company should include a depreciation schedule.

**STR**

1996 Rate Application

*Solid Waste Collection, Recycling, and Transfer Station Operations  
Tahoe Basin Solid Waste Joint Powers Authority*



**September 20, 1996**

2140 Ruth Avenue  
South Lake Tahoe, CA 96150  
(530) 541-1234

## **APPENDIX D: SAMPLE RATE APPLICATION**

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### **Executive Summary**

A written summary should be given of the major events that occurred during the year, the most recent year's financial performance (revenues, profit, OR), projections for next year's performance (revenues, profit, OR) and calculation of the three year and projected OR values. The Executive Summary should describe any significant trends that have developed (cost increases, new customers, recycling, etc.) and a discussion of major variances in performance from last year's projections.

The Executive Summary should also include any other pertinent "Business Plan" type information such as new regulations, new technologies, and other factors which may have an effect on rates in the future.

### **Assumptions**

1. Projections were based on . . .
  - ♦ Growth in population
  - ♦ Inflation
  - ♦ New services
  - ♦ Regulations
  - ♦ etc.
2. Indirect cost allocations were based on . . .
3. Intra-company cost allocations were based on . . .
4. Purchases of new assets . . .
5. New employees were added because of . . .
6. etc.

**APPENDIX D: SAMPLE RATE APPLICATION**

---

**Exhibit 1  
1995 Proposed Rate Increases**

|  |  | <b>1996 Projections</b>             |
|--|--|-------------------------------------|
|  |  | <b>Collections/Transfer Station</b> |
| <b>Expenses</b>                            |  | \$1,682                             |
| <b>Projected Revenues</b>                  |  | \$1,820                             |
| <b>Operations Ratio</b>                    |  |                                     |
| Projected                                  |  | 92.4%                               |
| Sliding Scale Range                        |  | 88% to 94.3%                        |
| <b>Recycling Level</b>                     |  |                                     |
| Based on recycling percentages             |  | 24.5%                               |
| Target OR                                  |  | 90.0%                               |
| <b>Pass Through Expenses</b>               |  | \$97                                |
| <b>Franchise Fees</b>                      |  |                                     |
| Without Rate Increase                      |  | \$146                               |
| With Rate Increase                         |  | \$155                               |
| <b>Revenue Required at Target OR</b>       |  | \$1,933                             |
| <b>Required Rate Increase at Target OR</b> |  | <b>6.23%</b>                        |

Note: Data presented for formatting purposes only. It in no way reflects actual results or projections.

**APPENDIX D: SAMPLE RATE APPLICATION**

---

**Exhibit 2  
Expense Summary for STR Operations**

|  |
|--|
| <b>PROPOSED EXPENSE SUMMARY FOR STR OPERATIONS</b> |
|--|

| <b>Cost Category</b>             | <b>Allowed<br/><u>1995/96</u></b> | <b>Actual<br/><u>1995/96</u></b> | <b>Projected<br/><u>1996/97</u></b> |
|----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|
| Direct Labor                     |                                   |                                  |                                     |
| Number of FTEs                   |                                   |                                  |                                     |
| Wages                            |                                   |                                  |                                     |
| Overtime                         |                                   |                                  |                                     |
| Other Benefits                   |                                   |                                  |                                     |
| Total Direct Labor               |                                   |                                  | \$XXX,XXX                           |
| Equipment Costs                  |                                   |                                  |                                     |
| Equipment Depreciation           |                                   |                                  |                                     |
| Equipment Leases                 |                                   |                                  |                                     |
| Equipment Insurance              |                                   |                                  |                                     |
| Other Equipment Expenses         |                                   |                                  |                                     |
| Total Equipment                  |                                   |                                  | \$XXXXXX                            |
| Variable Operating Costs         |                                   |                                  |                                     |
| Repairs & Maintenance            |                                   |                                  |                                     |
| Other Variable Costs             |                                   |                                  |                                     |
| Total Variable Operating Costs   |                                   |                                  | \$XXX,XXX                           |
| Administrative Costs             |                                   |                                  |                                     |
| Officer Salaries & Benefits      |                                   |                                  |                                     |
| Office Staff Salaries & Benefits |                                   |                                  |                                     |
| Professional Fees                |                                   |                                  |                                     |
| Bad Debt Provision               |                                   |                                  |                                     |
| General Insurance                |                                   |                                  |                                     |
| Building/Office Rent             |                                   |                                  |                                     |
| Franchise Fees & Permits         |                                   |                                  |                                     |
| Other Administrative Costs       |                                   |                                  |                                     |
| Total Administrative Expenses    |                                   |                                  | <u>\$XXX,XXX</u>                    |
| <b>TOTAL OPERATING EXPENSES</b>  |                                   |                                  | <b>\$XXX,XXX</b>                    |

## APPENDIX D: SAMPLE RATE APPLICATION

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### Exhibit 3 Annual Summary Report STR Operations

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| <b>SUMMARY REVENUE REQUIREMENT SCHEDULE FOR TRANSFER STATION, 199X</b> |
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|  | <b><u>NEXT YEAR<br/>PROJECTION</u></b> | <b><u>NOTES</u></b>                         |
|--|--|---|
| <b><u>REVENUE</u></b>                              |  |   |
| Projected Tipping Fees (with no rate change)       | \$750,000                              | Tipping fee X # of tons                     |
| Recycling Salvaje Sales                            | <u>20,000</u>                          |   |
| TOTAL REGULATED REVENUE                            | \$770,000                              |   |
| <b><u>EXPENSES</u></b>                             |  |   |
| Direct Labor                                       | \$100,000                              |   |
| Equipment Costs                                    | 300,000                                |   |
| Variable Operating Costs                           | 40,000                                 |   |
| Recycling Costs                                    | 15,000                                 |   |
| Administrative Expenses                            | <u>5,000</u>                           |   |
| TOTAL ALLOWED OPERATING EXPENSES                   | \$460,000                              | Total allowed expenses                      |
| <b><u>ALLOWED RETURN</u></b>                       |  |   |
| Operating Ratio                                    | 90%                                    | Year 1                                      |
| Provision for Profit                               | \$51,000                               | (Allow Expenses/OR)-Allow Expenses          |
| <b><u>ADDITIONAL EXPENSES ALLOWED IN RATES</u></b> |  |   |
| Principal and Interest Payments                    | \$210,000                              |   |
| Franchise Fees                                     | 60,000                                 |   |
| Depreciation of Transfer Station plus 5% return    | <u>50,000</u>                          |   |
| TOTAL REVENUE REQUIREMENT                          | <u>\$831,000</u>                       | Sum of expenses, OR and additional expenses |
| REVENUE SURPLUS (DEFICIENCY)                       | <u>(\$61,000)</u>                      | Total revenue – requirement                 |
| REQUIRED RATE INCREASE (DECREASE)                  | <b>7.9%</b>                            | Required revenue/Actual regulated revenue   |

## APPENDIX D: SAMPLE RATE APPLICATION

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### Exhibit 4 Reconciliation with Financial Statements

#### FORMAT

| Financial Statement Line Items       | Application Line Items |
|--------------------------------------|------------------------|
| Item #1 @ Amount + Item #2 @ Account | = Item #1 @ Amount     |
| A @ \$X + B @ \$Y                    | = M @ \$Z              |

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#### ILLUSTRATIONS

| Financial Statement Line Items                 | Application Line Items               |
|--|--------------------------------------|
| 1. Advertising @ \$12,000 + Postage @ \$10,000 | = "Other Administrative" @ \$22,000  |
| 2. Repair & Maintenance @ \$100,000            | = "Repair and Maintenance" @ 100,000 |

- The JPA will thus understand how/where financial statement line items fit into the Rate Application.

## APPENDIX D: SAMPLE RATE APPLICATION

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### Exhibit 5 Depreciation Reconciliation Gain or Loss from Asset Turnover

Because of the importance of new asset purchases, a depreciation reconciliation account could be established for both the transfer station and collection operations to reconcile expected depreciation expenses for the coming year with actual expenditures.

#### *Illustrative Example*

*Example 1: Assets not purchased as expected, or lower price obtained:*

|         | Expected Depreciation | Actual Depreciation | Additional Expense<br>(Credit) to Ratepayers |
|---------|-----------------------|---------------------|--|
|         | <u>Year 1</u>         | <u>Year 1</u>       | <u>Year 2</u>                                |
| Asset 1 | \$10,000              | \$5,000             | (\$5,000)                                    |
| Asset 2 | XXX                   | XXX                 | XXX  |

*Example 2: Assets purchased as expected, but at higher prices*

|         | Expected Depreciation | Actual Depreciation | Additional Expense<br>(Credit) to Ratepayers |
|---------|-----------------------|---------------------|--|
|         | <u>Year 1</u>         | <u>Year 1</u>       | <u>Year 2</u>                                |
| Asset 1 | \$10,000              | \$15,000            | (\$5,000)                                    |
| Asset 2 | XXX                   | XXX                 | XXX  |

- Depreciation for the capitalized transfer station would be calculated on a straight-line basis of the agreed-upon total valuation over the life of the transfer station per the current loan agreement.
- The credit or expense would be added to expected depreciation for the coming rate year.
- In order to document any requested depreciation expense, the Company should include a depreciation schedule.

**APPENDIX D: SAMPLE RATE APPLICATION**

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**Exhibit 6  
Supporting Schedule**

| <b>STR</b>          |             |               |             |                  |             |               |
|---------------------|-------------|---------------|-------------|------------------|-------------|---------------|
| <b>Expense Area</b> | <b>1995</b> | <b>Actual</b> | <b>1996</b> | <b>Projected</b> | <b>1997</b> | <b>Change</b> |
| X                   |             |               |             |                  |             |               |
| X                   |             |               |             |                  |             |               |
| X                   |             |               |             |                  |             |               |
| X                   |             |               |             |                  |             |               |
| X                   |             |               |             |                  |             |               |
| X                   |             |               |             |                  |             |               |
| <b>Total</b>        |             |               |             |                  |             |               |

## **APPENDIX D: SAMPLE RATE APPLICATION**

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### **Exhibit 7 Customer Service Report**

Customer service and satisfaction data should be collected annually through a survey of customers from the three operations (collection, recycling and transfer station). The survey should be systematically administered to obtain accurate and comprehensive information regarding overall satisfaction of customers with:

- ♦ Rates
- ♦ Service performance
- ♦ Convenience
- ♦ Range of services provided
- ♦ Customer/employee interaction
- ♦ Any other pertinent customer concerns

In addition, customer complaints should be tracked and recorded in number and in content.

**APPENDIX E: FRANCHISE AGREEMENT**

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To Be Added By JPA