
Solid Waste Rate Setting Policies and Procedures Manual

*Solid Waste Collection, Recycling, and Transfer Station/MRF Operations
El Dorado County, California*



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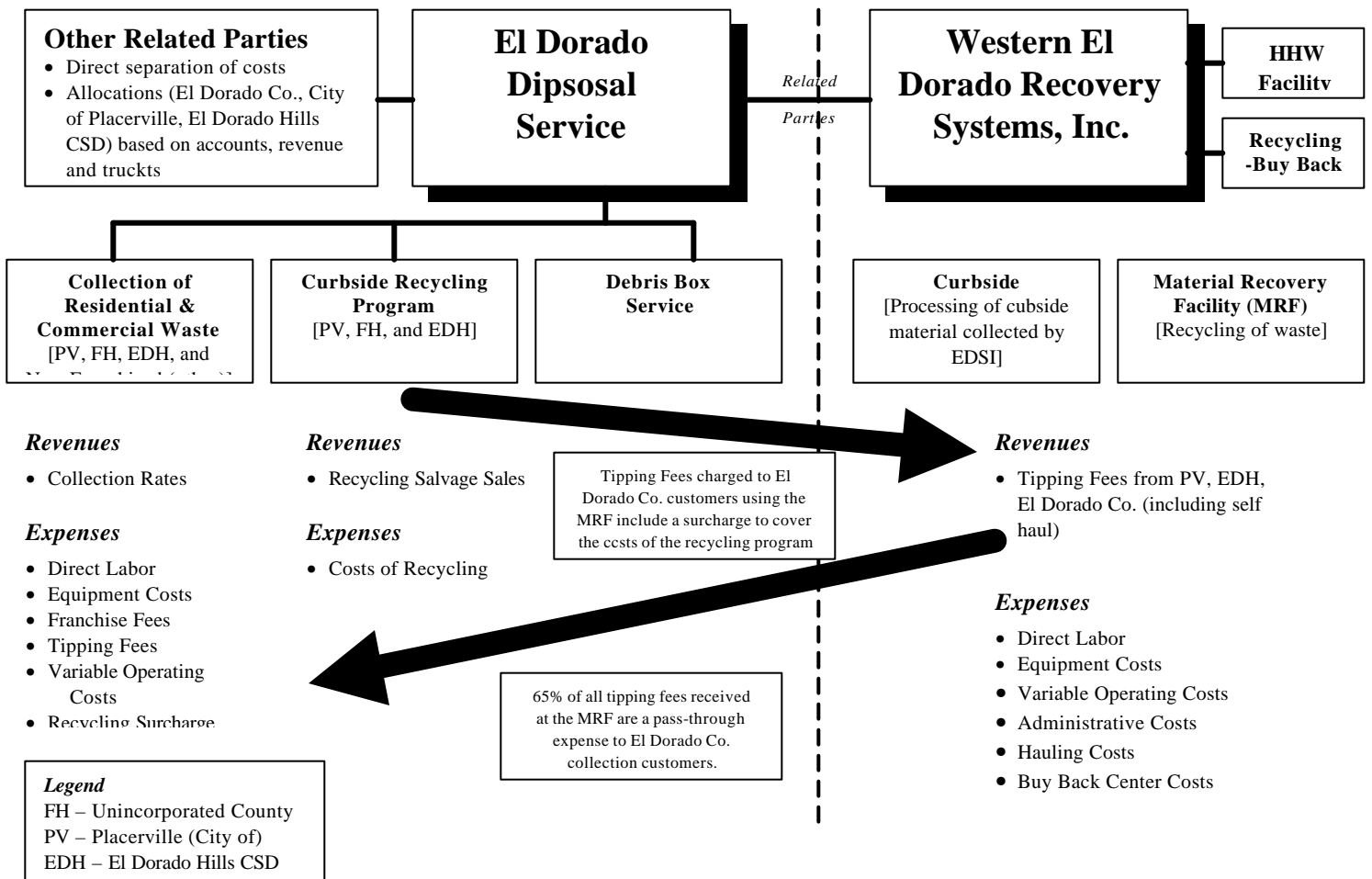
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EXECUTIVE SUMMARY

This Solid Waste Rate Setting Policies and Procedures Manual (Rate Setting Manual) was developed for three political jurisdictions which have granted franchises to El Dorado Disposal Services, Inc. (EDSI). These jurisdictions include El Dorado County, the City of Placerville, and El Dorado Hills Community Services District(EDHCSD). The Rate Setting Manual is intended to provide guidance in regulating solid waste collections, transfer, and recycling services and rates to local customers. Included are policies for the rate setting process, and detailed procedures for the jurisdictional staff, the franchise recipient(s), and the governing body to follow. Specific guidelines are also given for Annual Summary Reports and Rate Applications.

The current franchise recipients, EDSI, provides solid waste collection and recycling services, while Western El Dorado Recovery Systems (WRSI), a company with common ownership to EDSI, provides transfer station/MRF operations for various customers in the western slope of El Dorado County. **Figure 1** shows the relationship between EDSI and WRSI collections, recycling, and transfer station/MRF operations, revenues, and expenses in El Dorado County.

**Figure 1
Solid Waste Services
Provided by EDSI and WRSI**



I. OBJECTIVES & INTRODUCTION

A comprehensive description of the jurisdictions rate setting policies and procedures is provided in this document. The jurisdictions reserve the right to modify these policies and procedures, as necessary, and any portion of these policies upon mutual agreement of all parties.

This manual was created to provide a clear and consistent set of operating policies and procedures whereby future issues relating to solid waste collection, recycling, and transfer station/MRF operations in El Dorado County can be resolved efficiently and equitably for all affected parties. Other specific objectives include:

- Ensure high quality refuse collection, recycling, and transfer station/MRF operations to eligible 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/MRF operations that will ensure stability, consistency, and fairness in service rates
- Present a rate structure that will allow EDSI and WERS 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 productivity and cost-cutting by EDSI and WERS, 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 will also be useful as internal management tool for El Dorado County, the City of Placerville, EDHCSD, EDSI and WERS.
- Minimize the administrative effort required by El Dorado County, City of Placerville, EDHCSD, EDSI and WERS to meet the above objectives.

These objectives are fundamental elements of an efficient and successful solid waste collection, recycling, and transfer station/MRF rate setting process in El Dorado County, and address needs and concerns of all effected stakeholders (i.e., citizens of El Dorado County, EDSI, WERS, and jurisdictional representatives).

Introduction

Tipping fees at the transfer station/MRF are charged back to collection customers. Collection rates are directly dependent upon tipping fees. Because of this coupling between operations, rate applications require examination of all rates, and changes in tipping fees or recycling surcharges may require changes in collection rates. It is within this framework that the policies and procedures for rate review and regulation are based. Collection and recycling will be considered together in rate setting, separate from operation of the transfer station. Each of the three services will be examined, however, as a stand alone operation in the reporting and rate application process. Changes in rates will be considered only when either collections and recycling together or the transfer station/MRF are not sufficiently covering allowable expenses (defined later in Section II).

Major 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 high level report will document the financial results for the two most recent fiscal years, and provide projections for the coming fiscal year (see **Appendix C**).
- ♦ For collection operations, the initial target OR is set at 90%.
- ♦ Profit mechanisms for the transfer station/MRF operations have been established in the franchise agreement as a sliding-scale regulated margin (percentage of operating costs), ranging from 0% to 20% (equal to an OR range of 80-100%), depending upon recycling recovery results.

Operation	Target OR
Collection & Recycling	90%
Transfer Station/MRF	80% to 100% depending on recycling recovery

- ♦ Collection/recycling and transfer station/MRF operations will be analyzed separately in the rate-setting process, and the above OR ranges, on a combined basis only, will trigger a requirement for the submission of a rate application. If the above rate structure is significantly contrary in either operation, the franchise company may submit a formal rate application to increase rates. 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**).
- ♦ El Dorado County and/or the City of Placerville, and or EDHCSD reserve 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 EDSI.
- ♦ El Dorado County reserves the right to request a rate review and possible adjustment in rates at anytime in order to preserve fairness to customers and reasonableness in return to WERS
- ♦ 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 on or around January 1.

II. SOLID WASTE RATE SETTING POLICIES

The following policies will provide a basis for current and future rate-setting-of solid waste collection, recycling, and transfer station/MRF operations in El Dorado County, California. The County reserves the right to modify, as necessary, any portion of these policies upon mutual agreement of all parties.

1. Annual Reporting

EDSI will prepare and submit (by August 20) to El Dorado County, the City of Placerville, and the EDHCSD and WERS will prepare and submit (by August 20) to El Dorado County an Annual Summary Report which includes:

- Text summary of recent performance and significant issues
- Drafts audited financial statements followed by final audited financial statements when complete
- 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.

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 for collections and recycling operation are defined as:

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

$$\text{Projected OR} = \text{projected} \left[\frac{\text{Actual allowed expenses}}{\text{Actual allowed expenses} + \text{profit}} \right] + \text{for the next year.}$$

Operating ratios for the transfer station/MRF are defined as:

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

where the profit allowance varies according to the percentage of waste recovered for recycling.

2.2 Operating performance targets will be defined as follows:

Operation	Target OR
Collection & Recycling	90%
Transfer Station/MRF	80% to 100% depending on recycling recovery

This target is consistent with industry averages for regulated solid waste collection, recycling, and transfer station/MRF operations taking into consideration level of investment, risk and regional factors. The process that was followed in developing this mechanism is given in **Appendix B**.

2.3 Collection, recycling, and transfer station/MRF operations each will be examined separately in profit allowances, however for purposes of rate applications, collections and recycling will be combined together into one OR. Service rates for each operation will be set to meet the target operating ratios defined in 2.2.

2.4 El Dorado County, the City of Placerville and EDHCSD reserve 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 EDSI and WERS.

2.5 EDSI and WERS will be eligible to submit a rate application if the projected OR exceed their corresponding limits. Rate applications will include the information and format as described in the Rate Application Section of this report and in **Appendix D**.

2.6 Extraordinary circumstances may 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.

2.7 Service rates for collection, recycling, and transfer station/MRF operations will be calculated based on total revenue requirements (from Policies 3, 4, & 5 below), historical service rates, varying services classes, and any rate increases that are imposed [i.e., $\text{new rate} = (\text{old rate}) \times (\text{rate increase})$]. A Balancing Account will be created to reconcile the difference between projected and actual revenues and expenses.

2.8 Adjustments to recycling and transfer station/MRF rates may cause collection rates to increase as well because rates are interdependent between the three operations.

3. Collection and Recycling Operations

3.1 Allowable Collection Expenses:

- Direct labor costs
- Hauling costs to the transfer station
- Depreciation of equipment
- Operating costs (e.g., fuel, parts, maintenance and repairs etc.)
- Special project costs (allowed by the jurisdictions)
- Direct administrative costs
- Other direct costs
- Intra-company costs¹
- Indirect administrative costs²

3.2 Non-Allowable Expenses:

- a) income tax
- b) payments to affiliates of EDSI or WERS other than reasonable compensation for goods or services rendered
- c) entertainment expenses
- d) fines and penalties
- e) cost of repairs due to operator negligence
- f) charitable and political donations
- g) expenses not associated with Solid Waste operations franchised under this Agreement
- h) unreasonable expenses in kind or amount
- i) the principal portion of any loan repayments, and
- j) any other costs disallowed under the terms of the franchise Agreement

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

- Franchise fees or surcharges
- Union mine landfill surcharge
- Interest expense
- For bin and container rental, rent or lease payments paid to an affiliated entity.

¹ 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.

² Allocation of indirect administrative costs also should 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.

3.4 Collection and Recycling Revenues:

Collection revenues come

- a) from billing of collection customers and
- b) salvage and re-market revenue

$$\frac{\text{Revenue Requirements to Meet Target Collections}}{=} \left[\frac{\text{Allowable collection and recycling expenses}}{\text{Target collection OR} = 0.9} \right] + \text{Allowable pass through expenses}$$

4. Transfer Station/MRF Operations

4.1 The transfer station/MRF will establish a rate schedule for all haulers.

4.2 Principal and interest payments for the financing of the transfer station/MRF will be collected through tipping fees and charged as a pass-through expense.

4.3 Allowable Transfer station/MRF Expenses include:

- ♦ Direct labor costs
- ♦ Equipment costs
- ♦ Variable operating costs (fuel, parts, maintenance and repairs, etc.)
- ♦ Special project costs (of profit allowed by County)
- ♦ Direct administrative costs
- ♦ Hauling costs
- ♦ Buy-back costs
- ♦ Other direct costs
- ♦ Intra-company costs⁵
- ♦ Indirect administrative costs⁶

4.4 Transfer station/MRF pass-through expenses allowed in rates without profit include:

- Franchise fees or surcharges
- Disposal fees

4.5 Transfer station/MRF Depreciation:

Depreciation of the transfer station/MRF over the lesser of its life or the term of the franchise agreement, plus 5% return on unamortized cost (see El Dorado County franchise agreement).

⁵ 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.

⁶ Allocation of indirect administrative costs also should 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.

4.6 Transfer station/MRF Revenues:

Transfer station/MRF revenues come from tipping fees paid by franchised haulers and self-haul customers.

$$\text{Revenue Requirements to meet target OR} = \left[\frac{\text{Allowable transfer station/MRF expenses less sales of recycling}}{\text{Target transfer station/MRF OR} = 0.9} \right] + \text{Allowable pass through expenses from 4.4.}$$

5. Franchise Agreement

EDSI, WERS and the jurisdictions, agree to follow all terms and conditions set forth in the respective jurisdiction's franchise agreement(s).

6. Capital Assets

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

6.2 For purposes of the Annual Summary Report and Rate Applications, depreciation of trucks should be straight line over 5 to 7 years.

7. Independent Audit

El Dorado County, the City of Placerville and the EDHCS reserve the right to request an independent audit of EDSI's financial statements at any time, however, an audit will not be required as a regular part of the rate setting process. The jurisdictions may request a rate comparison study of surrounding jurisdictions. Said jurisdictions also reserve the right to request and perform independent operational efficiency and productivity studies of the Company in order to identify cost savings opportunities. The jurisdictions also reserves the right to request an independent audit of WERS's financial statements at any time, however, an audit will not be required as a regular part of the rate setting process.

8. Customer Service

Customer service data should be collected from an annual survey by EDSI and presented in summary in the Annual Summary Report and in Rate Applications. This data will be used to help assess the overall performance of EDSI, in collection and recycling and of WERS in transfer station/MRF operations. WRSI does not have any specific customer service data requirements.

9. Unreasonable Delays

Unreasonable delays in schedule due to the Company may result in delays in rate changes in which case retroactive rate increases will not be considered as a normal part of the rate setting process in El Dorado County.

10. Proposed Changes in Policies

Proposed changes in policies, if necessary, should be made through a formal process, mutually agreed upon by both parties, separate from Annual Summary Reports and Rate Applications.

11. Bin Rental

Bin rental will not be considered a part of the regulated activities by the jurisdictions, however, related party bin rental charges shall be demonstrated to be at market value.

III. SOLID WASTE INTRA-COMPANY TRANSACTIONS

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 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 regulatory jurisdiction's discretion.

1. Reporting

- 1.1 Costs should be tracked and reported separately so that the economics of refuse collections, recycling, and transfer station/MRF operations can be understood in their entirety.
- 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
 - Variable operating costs
 - Administrative expenses
 - Hauling costs (transfer station/MRF only)
 - Buy-back costs (transfer station/MRF only)
 - Cost allowances resulting from special projects directed by the jurisdictions.
- 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 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, including, but not limited to:
- Management fees
 - Loans to/from officers (where interest is allowed)
 - Overhead costs
 - Loans from/to affiliates (where interest is allowed)
 - Others
- 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, the 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, if requested by the jurisdictions, 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 change and anticipated impact.

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

Cost	EDSI and WERS Allocation Methodologies
Disposal dump fees	Actual tonnage costs.
Franchise fees	Actual collections multiplied by applicable franchise fee percentages.
Curbside recycling	Curbside recycling program revenues and expenses.
Billings	Number of bills processed.
General administrative expenses, other income, and interest expense	Direct labor hours, or other allocation method approved in advance by the jurisdictions.
Equipment	Equipment utilization.
<ul style="list-style-type: none"> ♦ Rental and lease ♦ Parts, supplies and lubricants ♦ Fuel ♦ Tire purchase and repairs ♦ Repairs and maintenance ♦ License, permits and taxes 	

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 as 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 for the transactions and the fairness to the rate payers of the terms
- The jurisdictions (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 expected to be required to provide, upon the jurisdiction's 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.

- The table on the following pages presents certain hypothetical examples of such aspects of a related party relationship, and potential impact on allowability of the related costs.

Aspect of Relationship	Situation	Implications for Rate Review
Nature, extent and magnitude of the relationship	• Extensive, with large dollar volumes	Additional data and analysis may be requested to ensure fairness of the terms of related transactions
	• Minor	No further consideration warranted
Terms of related party transactions	• Inadequate support for fairness	Disallowance of excess amounts above fair market rate
	• Adequate support for the business purpose of the leasing activity and the rate as being equivalent to market rate	Lease costs allowed
History of property leased from related party	• Office building was owned by the Company's affiliate at franchise inception, with the intent of its use in the franchise and no alternative use was feasible	Lease costs disallowed, as the property is considered to have been assumed to be contributed by the Company on entering the franchise agreement
	• The understanding was, on entering the franchise agreement, the Company would rent the property from its affiliate	Lease costs may be allowed

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 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.
- 4.3 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 that serves an Officer function in several 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,

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

	Compensation	% Time Spent at Company A	% Time Spent at Company B	Compensation at Company A	Compensation at Company 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 In El Dorado County, officer 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 two 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 should 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.
- Property and leasing arrangements entered into prior to the adoption of these policies, actual lease costs should be allowed on the basis that the Company entered into related transactions prior to the adoption of such policies and would be unfairly harmed 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 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 its 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 exist and be made available, if necessary, for determining 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 for all professional services for the projected year.

Services to Multiple Jurisdictions

7.1 For refuse collection and recycling operations, each franchise's El Dorado County rates should only include those costs (and revenues) which are associated with the specific El Dorado County franchise.

IV. SOLID WASTE RATE SETTING PROCEDURES AND SCHEDULE

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/MRF operation in El Dorado County. Dates should be viewed as milestones to meet throughout the process. Actual dates may vary year-to-year. For rate adjustments to be made by January 1, the actual schedule should not extend significantly beyond what is established here. Tasks 1 and 2 will occur annually, whereas tasks 3 through 11 will only occur if a rate application is submitted. An overall schedule for annual reporting and rate setting is shown in **Figure 2**.

Figure 2

Solid Waste Collection, Recycling, and Transfer Station Annual Reporting and Rate Setting Schedule

Task	Responsibility	Estimated Completion Date
1. Annual Report Submittal	Company	August 20
2. Review of Annual Summary Report	County	September 5
3. Prepare and Submit Rate Application	Company	September 20
4. Review Rate Application and Prepare Response	County	October 5
5. Interactive Question and Answer Period	County, Company	October 31
6. Draft County Rate Recommendations	County	November 15
7. Response to Draft County Recommendations	Company	November 20
8. Interactive Issue Resolution, and Finalize Recommendations	County, Company	November 25
9. Publicly Notice Proposed Rate Adjustments	County, Company	November 26
10. Presentation to the County Board	County	November 30
11. Impose New Rates	Company	January 1

1) **Annual Summary Report Submittal:** EDSI and WERS are required to submit an Annual Summary Report to the jurisdictions describing the Companies' two most recent years' financial and operational performance, projections for next year, as well as three year average OR and projected OR calculations. The Annual Summary Report should provide the information necessary for the jurisdictions to assess EDSI's and WERS's financial and operational performance, evaluate the reasonableness of the forecasted budget (including any capital expenditures), and determine if profit allowances are within the limits. The Annual Summary Report also should 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 EDSI and WERS 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 jurisdictions will coordinate a review of the Annual Summary Report. The jurisdiction staff will be responsible for identifying and attempting to resolve any questions or issues, and present a response to the respective governing body, EDSI and WERS.

If a rate application is not submitted, and if the jurisdiction 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 from EDSI and/or WERS at any time by the jurisdiction, or one may be submitted by EDSI and/or WERS when the OR mechanism is exceeded. If the OR mechanism is exceeded, the Company is eligible to submit a Rate Application to adjust rates back to the OR targets. Rate Applications should include information from the Annual Summary Report, as well 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 jurisdiction(s) will complete a thorough review of rate applications and prepare an initial response for the Company and the governing body. 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 EDSI, WERS, the jurisdiction, and the governing body through the rate review process. The rate review and initial response should be completed by October 5. The jurisdictions and EDSI/WERS 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 serves to clarify any questions or discrepancies regarding Rate Applications. EDSI and WERS should work with the jurisdictional staff 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 County Recommendations:** After clarification of all questions and issues between the jurisdictional staff and EDS1, the jurisdictional staff will prepare draft recommendations for the governing body. Recommendations will address justification for EDS1's and WERS's rate application, any existing questions or discrepancies, and provide guidance to the governing body for action. EDS1 and WERS should be prepared to respond to any outstanding issues with the governing body at this time. Draft recommendations should be submitted by the jurisdictional staff to the governing body and EDS1 by November 15.
- 7) **Response to Draft County Recommendations:** EDS1 and WERS may prepare a formal response for the governing body addressing staff's recommendations. This response should address outstanding issues or questions, if any exist. The companies should be prepared to work with the governing body and staff to resolve these issues and questions. EDS1's and WERS'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 and concerns regarding the rate application. All participants should be proactive in communicating concerns, questions, and proposals to expedite the process. Staff will prepare and submit final recommendations for action by the governing body by November 25.
- 9) **Publicly Notice Proposed Rate Adjustments:** EDS1 and WERS 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.
- 10) **Presentation to the Governing Body:** The governing body will include a review and approval/disapproval decision on the agenda of a normal public hearing. Prior notice will be given to citizens about the hearing, and debate of any issues may take place if necessary. Discussion topics at the hearing will include the staff's recommendations, EDS1 and WERS 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.
- 11) **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)

This section describes guidelines to be followed by EDSI and WERS when submitting an Annual Summary Report.

The Annual Summary Report will be prepared by EDSI and WERS and submitted to the jurisdictional staff 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 governing body 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/MRF 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 jurisdiction or at the discretion of EDSI and WERS. The following is a detailed description of the required documentation in the Annual Summary Report.

- 1) **Executive Summary:** A written summary of the major events that occurred during the year, the most recent year's financial performance (e.g., revenues, profit, OR), projections for next year's performance, and calculation of the three year and 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 the Transfer Station/MRF:** Two fiscal years of historical data, including the most recent fiscal year's performance (through June 30), and one year of projections for collections, recycling, and transfer station/MRF operation. Revenue and expense data should be segmented into groupings identified in Policies 2 & 3, and formatted as shown in **Appendix C**. OR calculations should be included for each year and for the three year average. 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) **Un-audited Financial Statements:** Included in the Annual Summary Report should be EDSI's and WERS's fiscal year-end (June 30) un-audited financial statements.
- 4) **Customer Service Survey Results:** Customer service and satisfaction data should be collected annually by EDSI through a survey of customers from the three operations (i.e., collections, recycling, and transfer station). The survey should be systematically administered to obtain accurate and comprehensive information regarding overall satisfaction.

After submittal, EDSI and MERS should be prepared to work with the jurisdictional staff and the governing body to resolve any questions or issues that may arise.

VI. ANNUAL SUMMARY REPORT GUIDELINES (Jurisdiction)

The Jurisdictional staff should follow the process below for reviewing EDSI's and WERS's Annual Summary Reports.

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

- 1) Verify all required documentation is present in the reporting format consistent with **Appendix C**.
- 2) Verify financial statements, projections, and OR calculations for compliance with this policy and the franchise agreement, accuracy, and consistency (i.e. spreadsheet figures tie together, 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 EDSI and WERS.
- 6) Prepare a response for the governing body (by October 5).
- 7) Coordinate with EDSI and WERS any additional requests by the governing body for information or clarification.

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

VII. RATE APPLICATION SUBMISSION GUIDELINES

This section describes guidelines to be followed by EDSI and WERS when submitting a rate application.

A rate application may be requested at any time by the jurisdictions, or one may be submitted by EDS1 when the OR mechanism is exceeded. A rate application may be submitted only when the combined collections and recycling, or the transfer station/MRF operation exceeds their corresponding OR brackets given below:

Operation	Target OR
Collection & Recycling	90%
Transfer Station	80% to 100% depending on recycling recovery

All rate applications should include financial and operating information for all three operations because of the coupling effect of rates between operations. This coupling exists due to the fact that collection rates include transfer station/MRF tipping fees and recycling surcharges on these tipping fees. These costs are treated as pass-through expenses in collections, however, if tipping fees increase, or if the recycling surcharge increases, collection rates may need to be increased as well.

Rate Applications are due to the jurisdiction 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 jurisdiction or at the discretion of EDS1. 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, OR); projections for next year's performance; and a calculation of three-year and projected OR values. The Executive Summary should describe any significant trends that have developed (e.g., cost increases, new customers, recycling, etc.), and provide 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.

- 1) **Summary Schedules:** Similar to the four financial statements in the Annual Summary Report, these schedules should summarize the financial performance of collection, recycling, 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 explanations 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 given in the summary schedules. Supporting schedules should include actual and projected tonnage data, allocation of revenues into collections, recycling, and transfer station/MRF by 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 jurisdictions request and 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 for collections, recycling, and the transfer station/MRF. Revenue and expense data should be segmented into groupings as given in Policies 3 and 4 (Section II), and formatted as shown in **Appendix D**. Deviations from the guidelines may be requested by the jurisdiction. OR calculations should be provided for each year presented. Calculation of required revenue should be provided as described in Policies 3 and 4 and used to determine the required rate adjustments.

- 5) **Customer Service Survey Results:** Customer service and satisfaction data should be collected annually by EDSI through a survey of customers from the three operations (i.e., collections, recycling, and the transfer station/MRF). The survey should be systematically administered to obtain accurate and comprehensive information regarding overall satisfaction.
- 6) **Un-Audited Financial Statements:** EDSI and WERS should include their fiscal year-end (June 30) un-audited Financial Report in the Annual Summary Report.
- 7) **Appendices:** Supporting documentation which is not essential to the information provided above, but important to the overall rate review, should be included in appendices.

VIII. RATE APPLICATION REVIEW PROCESS

This section describes the step-by-step process to be followed by the Jurisdictional Staff in assessing rate applications and developing recommendations.

The jurisdictional staff will be responsible to lead the reporting and rate application process. Responsibilities of the staff include reviewing rate applications, working with EDSI to clarify questions or issues that might come up, and presenting recommendations to the governing body for action. Depending on the complexity of the issues, the magnitude of the proposed rate increase, and the availability of jurisdiction(s) staff to review rate applications, the jurisdiction may elect to hire an outside consultant to assist during the review process. A rate application may be requested at any time by the jurisdiction, or one may be submitted by EDSI and WERS when the projected OR limits are exceeded. The rate application process should proceed through the following sequence of tasks to be initiated by the jurisdictional staff.

Task	Completion Date
A) Requests by EDSI and WERS to the jurisdiction for data, or special information requests by the jurisdiction to EDSI and WERS for other information required in the Rate Application.	August 20
B) Receipt of Rate Application from EDSI and WERS	September 20
C) Review Rate Application and Submit Initial Response to EDSI and WERS (Rate Review)	October 5
D) Interactive Question and Answer Period	October 31
E) Draft recommendation for the governing body, EDSI and WERS	November 15
F) Interactive period with EDSI, WERS, and governing body, and finalize Recommendations	November 20
G) Publicly Notice Proposed Rate Adjustments	November 26
H) Present Final Recommendations to the governing body	November 30

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.

Rate Review

The analysis that should be performed by the jurisdictional staff or their representatives 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 policies (Section II herein), accuracy, and consistency (i.e., spreadsheet 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 governing body.
- 6) Prepare response for EDSI and WERS (by October 5) and initiate interactive dialog to resolve outstanding issues and questions.
- 7) Work with EDSI and WERS to clarify and resolve outstanding questions and issues and develop consensus for recommended action by the governing body.

Rate reviews should be completed within three weeks of rate application submittal (by October 5), ending with an initial response to EDSI and WERS including questions and any issues which are identified. The next three weeks are designed 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 governing body, EDSI and WERS by staff (Task E, by November 15) based on the rate review and clarification of questions and issues with EDSI and WERS during Task D. Outstanding issues that still exist after the clarification period should be clearly documented and presented to the governing body. Resolution of these issues will be made during the interactive period following submittal of the draft recommendations. Staff should coordinate presentation of final recommendations to the governing body by November 25.

IX. CONCLUSION

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 El Dorado County 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 and provide for a fair and equitable return to EDS1 and WERS. The overall schedule and documentation requirements should satisfy most situations, however, deviations may occur due to extenuating circumstances.

APPENDIX

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

APPENDIX A: DEFINITIONS

<i>Allowed Expenses:</i>	Expenses which are included in OR calculations, and the Company is allowed to receive profit on.
<i>Annual Summary Report:</i>	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).
<i>Collections & Recycling:</i>	All activities relating to collections and recycling treated together in the rate setting process in El Dorado County.
<i>Companies:</i>	El Dorado Disposal, Inc. (EDSI) and Western El Dorado Recovery Systems, Inc. (WERS)
<i>County Administrator:</i>	El Dorado County representative (or designee) responsible for managing the reporting, and rate application process for collection, recycling, and transfer station/MRF operations.
<i>County Board:</i>	El Dorado County Board of Supervisors
<i>County:</i>	El Dorado County, California
<i>EBIT:</i>	Earnings before interest and taxes
<i>Fiscal Year:</i>	July 1 through June 30
<i>Franchise Agreement:</i>	Individual contracts between El Dorado County, City of Placerville and the El Dorado Hills Community Services District and EDSI defining terms and conditions of refuse collection and recycling operations, and contract between El Dorado County and WERS defining terms of transfer station/MRF operations.
<i>Franchise Companies:</i>	EDSI, WERS
<i>Intra-Company Expenses:</i>	Expenses charged within a company between operations.
<i>Jurisdictions:</i>	El Dorado County, City of Placerville, and El Dorado Hills Community Services District (EDHCSD).
<i>Operating Ratio (OR):</i>	Profit measurement used to regulate Company's return $\text{OR} = \left[\frac{\text{Allowable expenses}}{\text{Allowable expenses} + \text{profit}} \right]$
<i>Pass-Through Expenses:</i>	Expenses are recoverable through rates, but the Company is not allowed to receive profit on (i.e., franchise fees).

<i>Policies:</i>	Top level operating requirements set by the jurisdictions for regulating solid waste collections, recycling, and transfer station/MRF operations.
<i>Procedures:</i>	Specific instructions and scheduling for the refuse collection, recycling and disposal rate setting process County including reporting, data format, submittal dates, and other requirements.
<i>Projected OR Limit:</i>	Circuit breaker limit on projected OR, which if violated, also gives just cause to submit a rate application.
<i>Rate Application:</i>	Detailed report prepared by the Company and submitted to the jurisdiction documenting justification for an adjustment in collection, recycling, or 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.
<i>Rate Setting Manual:</i>	This Solid Waste Rate Setting Policies and Procedures Manual.
<i>Rate Year:</i>	January 1 through December 31
<i>Recycling Surcharge:</i>	Additional fee paid on top of the tipping fee at the transfer station/MRF for dumping of solid waste. This is the source of revenues to cover the recycling program.
<i>Revenue Requirement:</i>	$\left[\frac{\text{Allowable expenses}}{\text{target OR}} \right] + \text{pass-through expenses}$
<i>Schedule:</i>	Target dates for preparation, submittal, review and approval of summary reports and rate applications
<i>Tipping Fees:</i>	Fees paid at the transfer station/MRF for dumping of solid waste.
<i>Transfer station/ MRF Operations:</i>	All activities relating to operation of the transfer station/MRF considered in the rate setting process.

APPENDIX B: PROFIT DETERMINATION METHOD

The profit mechanism developed here (operating ratio) was determined to be the most effective way to meet the objectives of the County. 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 versus financial risk
- ♦ Degree of stability of revenues (regulated versus unregulated)
- ♦ Competition in area
- ♦ Customer satisfaction data
- ♦ Degree of difficulty in providing service
- ♦ Range of services provided
- ♦ Ownership history of assets
- ♦ Franchise agreements

Although the jurisdictions 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 jurisdictions 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.

EDSI/WERS

1996 Annual Summary Report

Solid Waste Collection, Recycling, and Transfer Station/MRF Operations

El Dorado County, California



September 20, 1996

580 Truck St.
Diamond Springs, CA

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

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

**Exhibit 1
Expense Summary for Refuse Collection and Recycling Operations**

PROPOSED EXPENSE SUMMARY FOR REFUSE COLLECTION AND RECYCLING OPERATIONS
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Cost Category	Allowed <u>1995/96</u>	Actual <u>1995/96</u>	Projected <u>1996/97</u>	Refuse <u>Collection</u>	Recycling <u>Expenses</u>
Direct Labor					
Number of FTEs					
Wages					
Overtime					
Other Benefits					
Total Direct Labor					
					\$XXXIXXX = \$YY,YYY + \$ZZ,ZZZ
Equipment Costs					
Equipment Depreciation					
Equipment Leases					
Equipment Insurance					
Other Equipment Expenses					
Total Equipment					
					\$XXXXXXX = \$YY,YYY + \$ZZ,ZZZ
Variable Operating Costs					
Repairs & Maintenance					
Other Variable Costs					
Total Variable Operating Costs					
					\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ
Administrative Costs					
Officer Salaries & Benefits					
Office Staff Salaries & Benefits					
Professional Fees					
Bad Debt Provision					
General Insurance					
Interest Expense					
Building/Office Rent					
Franchise Fees & Permits					
Other Administrative Costs					
Total Administrative Expenses					
					\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ
TOTAL OPERATING EXPENSES					\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

**Exhibit 2
Expense Summary for Transfer Station/MRF Operations**

PROPOSED EXPENSE SUMMARY FOR TRANSFER STATION/MRF
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Cost Category	Allowed <u>1995/96</u>	Actual <u>1995/96</u>	Projected <u>1996/97</u>
Principal & Interest Payments			\$XXX,XXX
Direct Labor			
Number of FTEs			
Wages			
Overtime			
Other Benefits			\$XXX,XXX
Total Direct Labor			
Equipment Costs			
Depreciation			
Equipment Leases			
Equipment Insurance			
Other Equipment Expenses			
Total Equipment			\$XXX,XXX
Variable Operating Costs			
Repairs & Maintenance			
Other Variable Costs			
Total Variable Costs			\$XXX,XXX
Administrative Costs			
Officer Salaries & Benefits			
Office Staff Salaries & Benefits			
Professional Fees			
Bad Debt Provision			
General Insurance			
Interest Expense			
Building/Office Rent			
Franchise Fees & Permits			
Other Administrative Costs			
Total Administrative Expenses			<u>\$XXX,XXX</u>
TOTAL OPERATING EXPENSES			<u>\$XXX,XXX</u>

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

Exhibit 3 Annual Summary Report Collection Operations

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR REFUSE COLLECTION, 199X

	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
<u>REVENUE</u>		
Projected Collection Revenue (with no rate change)	<u>\$1,600,000</u>	Rate payers X current rate
TOTAL REGULATED REVENUE	\$1,600,000	
<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
<u>ALLOWED RETURN</u>		
Operating Ratio		90% Year 1
Provision for Profit	\$120,000	
<u>ADDITIONAL EXPENSES (PASS-THROUGHS ALLOWED IN RATES)</u>		
Special Projects or Planning	\$10,000	
Tipping Fees	\$250,000	El Dorado County's fees only
Franchise Fees	<u>\$128,000</u>	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$1,610,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$10,000)</u>	Total revenue - requirement
REQUIRED RATE INCREASE (DECREASE)	0.6%	

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

**Exhibit 4
Annual Summary Report
Transfer station/MRF Operations**

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR TRANSFER STATION, 199X

	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
<u>REVENUE</u>		
Projected Tipping Fees (with no rate change)	<u>\$750,000</u>	Tipping fee X # of tons
TOTAL REGULATED REVENUE	<u>\$750,000</u>	- All counties and haulers - Self-haulers
<u>EXPENSES</u>		
Direct Labor	\$100,000	
Equipment Costs	300,000	
Variable Operating Costs	40,000	
Administrative Expenses	<u>5,000</u>	
TOTAL ALLOWED OPERATING EXPENSES	<u>\$445,000</u>	Total allowed expenses
<u>ALLOWED RETURN</u>		
Operating Ratio	90%	Year I
Provision for Profit	\$49,000	
<u>ADDITIONAL EXPENSES ALLOWED IN RATES</u>		
Principal and Interest Payments	\$210,000	
Franchise Fees	60,000	
Depreciation of Transfer station/MRF plus 5% return	<u>50,000</u>	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$814,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$64,000)</u>	Total revenue – requirement
REQUIRED RATE INCREASE (DECREASE)	<u>8.5%</u>	

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

Exhibit 5 Annual Summary Report Recycling Operations

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR RECYCLING PROGRAM, 199X

	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
<u>REVENUE</u>		
Current Surcharge	\$0	Assume no surcharge currently
Salvage Revenue	<u>30,000</u>	Sale of recyclables
TOTAL REVENUES	\$30,000	
<u>EXPENSES</u>		
Direct Labor	\$20,000	
Equipment Costs	10,000	
Variable Operating Costs	10,000	
Administrative Expenses	<u>5,000</u>	
TOTAL ALLOWED OPERATING EXPENSES	\$45,000	Total allowed expenses
<u>ALLOWED RETURN</u>		
Operating Ratio	90%	Year 1
Provision for Profit	\$5,000	
<u>ADDITIONAL EXPENSES ALLOWED IN RATES</u>		
Special Projects or Planning	\$0	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$50,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$20,000)</u>	Total revenue - requirement
ADDITIONAL RECYCLING SURCHARGE REQUIRED	\$20,000	Year 1; applied to self-haul tonnage only

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

**Exhibit 6
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

- El Dorado County will thus understand how and where financial statement line items fit into the Rate Application.

APPENDIX C: SAMPLE ANNUAL SUMMARY REPORT

**Exhibit 7
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/MRF 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 (Credit) to Rate payers
	<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 (Credit) to Rate payers
	<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/MRF would be calculated on a straight-line basis of the agreed-upon total valuation over the life of the transfer station/MRF 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.

EDSI/WERS

1996 Rate Application

Solid Waste Collection, Recycling, and Transfer Station/MRF Operations

El Dorado County, California



September 20, 1996

580 Truck St.
Diamond Springs, CA

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**

	1996 Projections	
	Collections & Recycling	Transfer Station/MRF
Expenses \$566	\$1,682	
Projected Revenues	\$1,820	\$600
Operations Ratio		
Projected	92.4%	94.3%
Target	90.0%	92.0%
3 Year Operating Ratio		
Projected	94.0%	95.0%
Pass Through Expenses	\$97	\$77
Franchise Fees		
Without Rate Increase	\$146	\$48
With Rate Increase	\$155	\$56
Revenue Required at Target OR	\$1,933	\$699
Required Rate Increase at Target OR	6.23%	16.45%

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 Refuse Collection and Recycling Operations**

PROPOSED EXPENSE SUMMARY FOR REFUSE COLLECTION AND RECYCLING OPERATIONS
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Cost Category	<u>Allowed</u> <u>1995/96</u>	<u>Actual</u> <u>1995/96</u>	<u>Projected</u> <u>1996/97</u>	<u>Refuse</u> <u>Collection</u>	<u>Recycling</u> <u>Expenses</u>
Direct Labor					
Number of FTEs					
Wages					
Overtime					
Other Benefits					
Total Direct Labor			\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ		
Equipment Costs					
Equipment Depreciation					
Equipment Leases					
Equipment Insurance					
Other Equipment Expenses					
Total Equipment			\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ		
Variable Operating Costs					
Repairs & Maintenance					
Other Variable Costs					
Total Variable Operating Costs			\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ		
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>\$XXXXXXX = \$YY,YYY + \$ZZ,ZZZ</u>		
TOTAL OPERATING EXPENSES			\$XXX,XXX = \$YY,YYY + \$ZZ,ZZZ		

APPENDIX D: SAMPLE RATE APPLICATION

Exhibit 3 Expense Summary for Transfer Station/MRF Operations

PROPOSED EXPENSE SUMMARY FOR TRANSFER STATION/MRF			
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Cost Category	Allowed <u>1995/96</u>	Actual <u>1995/96</u>	Projected <u>1996/97</u>
Principal & Interest Payments			\$XXX,XXX
Direct Labor			
Number of FTEs			
Wages			
Overtime			
Other Benefits			
Total Direct Labor			\$XXX,XXX
Equipment Costs			
Depreciation			
Equipment Leases			
Equipment Insurance			
Other Equipment Expenses			
Total Equipment			\$XXX,XXX
Variable Operating Costs			
Repairs & Maintenance			
Other Variable Costs			
Total Variable 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>
TOTAL OPERATING EXPENSES			\$XXX,XXX

APPENDIX D: SAMPLE RATE APPLICATION

Exhibit 4 Annual Summary Report Collection Operations

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR REFUSE COLLECTION, 199X

	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
<u>REVENUE</u>		
Projected Collection Revenue (with no rate change)	<u>\$1,600,000</u>	Rate payers X current rate
TOTAL REGULATED REVENUE	\$1,600,000	
<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
<u>ALLOWED RETURN</u>		
Operating Ratio	90%	Year 1
Provision for Profit	\$120,000	
<u>ADDITIONAL EXPENSES (PASS-THROUGHs ALLOWED IN RATES)</u>		
Special Projects or Planning	\$10,000	
Tipping Fees	\$250,000	El Dorado County's fees only
Franchise Fees	<u>\$128,000</u>	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$1,610,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$10,000)</u>	Total revenue - requirement
REQUIRED RATE INCREASE (DECREASE)	0.6%	

APPENDIX D: SAMPLE RATE APPLICATION

**Exhibit 5
Annual Summary Report
Transfer station/MRF Operations**

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR TRANSFER STATION, 199X

<u>REVENUE</u>	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
Projected Tipping Fees (with no rate change)	<u>\$750,000</u>	Tipping fee X # of tons
TOTAL REGULATED REVENUE	\$750,000	- All counties and haulers - Self-haulers
 <u>EXPENSES</u>		
Direct Labor	\$100,000	
Equipment Costs	300,000	
Variable Operating Costs	40,000	
Administrative Expenses	<u>5,000</u>	
TOTAL ALLOWED OPERATING EXPENSES	\$445,000	Total allowed expenses
 <u>ALLOWED RETURN</u>		
Operating Ratio	90%	Year 1
Provision for Profit	\$49,000	
 <u>ADDITIONAL EXPENSES ALLOWED IN RATES</u>		
Principal and Interest Payments	\$210,000	
Franchise Fees	60,000	
Depreciation of Transfer station/MRF plus 5% return	<u>50,000</u>	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$814,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$64,000)</u>	Total revenue – requirement
REQUIRED RATE INCREASE (DECREASE)	8.5%	

APPENDIX D: SAMPLE RATE APPLICATION

Exhibit 6 Annual Summary Report Recycling Operations

SUMMARY REVENUE REQUIREMENT SCHEDULE FOR RECYCLING PROGRAM, 199X

	<u>NEXT YEAR PROJECTION</u>	<u>NOTES</u>
<u>REVENUE</u>		
Recycling Fee		
Salvage Revenue	<u>30,000</u>	Sale of recyclables
TOTAL REVENUES	\$30,000	
<u>EXPENSES</u>		
Direct Labor	\$20,000	
Equipment Costs	10,000	
Variable Operating Costs	10,000	
Administrative Expenses	<u>5,000</u>	
TOTAL ALLOWED OPERATING EXPENSES	\$45,000	Total allowed expenses
<u>ALLOWED RETURN</u>		
Operating Ratio	90%	Year 1
Provision for Profit	\$5,000	
<u>ADDITIONAL EXPENSES ALLOWED IN RATES</u>		
Special Projects or Planning	<u>\$0</u>	
TOTAL REVENUE REQUIREMENT additional expenses	<u>\$50,000</u>	Sum of expenses, OR and
REVENUE SURPLUS (DEFICIENCY)	<u>(\$20,000)</u>	Total revenue - requirement
ADDITIONAL RECYCLING SURCHARGE REQUIRED	\$20,000	Year 1; applied to self-haul tonnage only

APPENDIX D: SAMPLE RATE APPLICATION

**Exhibit 7
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 El Dorado County will thus understand how/where financial statement line items fit into the Rate Application.

APPENDIX D: SAMPLE RATE APPLICATION

Exhibit 8
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/MRF 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 (Credit) to Rate payers
	<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 (Credit) to Rate payers
	<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/MRF would be calculated on a straight-line basis of the agreed-upon total valuation over the life of the transfer station/MRF 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

**Exhibit 9
Supporting Schedule**

EDSI						
Expense Area	1995	Actual	1996	Projected	1997	Change
X						
X						
X						
X						
X						
X						
Total						

APPENDIX D: SAMPLE RATE APPLICATION

Exhibit 10 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.