

Rate Manual

City of Eugene



Solid Waste, Recycling and Yard Debris Collection

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Schedule 2
City of Eugene
Solid Waste, Recycling and Yard Debris Collection Rate Manual

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Chapter One

Background

City Regulatory System

The City of Eugene (City) issues licenses to private hauling companies (haulers) to collect solid waste, recycling and yard debris from City residents and businesses. These licensed haulers compete among themselves for accounts within the City's corporate limits. The City establishes the rates that licensed haulers may charge for their services. In addition, the City Manager establishes minimum standards for the provision of collection services by the licensed haulers.

Historical Rate Setting

Rates have been set by the City based on the criteria outlined in the City Administrative Rules. Historically, the City has set the rates to provide a reasonable rate of return above the average cost of service. During most of the 1990s, the City calculated rates on a cost-plus basis to provide a 6.5% after-tax return. However, since 1998, the City has calculated rates on a cost-plus basis to provide an 11% pre-tax return, consistent with most Oregon agencies.

In 1989, residential and commercial services were separated to calculate rates. The City has adjusted residential and commercial rates independently to recover the estimated cost of service for each customer base. This was followed by a 1991 cost-of-service study that calculated rates based on the cost of service for each container size.

The City established progressive rates in 1992 to encourage additional recycling. As customers have increased their source reduction and recycling activities, they have shifted from larger garbage containers (at higher rates) to smaller garbage containers (at lower rates). As a result, customers with smaller garbage containers are paying a greater share of the fixed costs of garbage collection service. Thus, residential rates have increased at a rate greater than inflation, in spite of the fact that the haulers' expenses have increased at a rate less than the inflation rate.

Rates Advisory Committee

In 1994, a Department Advisory Committee, known as the "Solid Waste and Recycling Committee," was formed to advise the City Manager regarding the City's rates and rate policies. This Committee was disbanded after the 1994 rate review. A new Department Advisory Committee, known as the "Rates Advisory Committee" or RAC, was formed for the 1998 rate review. The RAC was disbanded after the 1998 review.

Policy Development

In 2000, the City began a detailed review of its regulatory policies and systems. The review involved comparative surveys of other Oregon cities' regulatory systems and surveys of residents' and businesses' attitudes regarding the City's current system and proposed changes. The City staff researched and evaluated alternative regulatory models from the standpoint of collection efficiency, customer service and City administrative requirements. The City Council opted to continue the current regulatory system and directed staff to amend the City Code and Administrative Rules to address perceived weaknesses or problems with the system. The City Council approved revisions to the City Code on May 13, 2002. The City Manager issued revised Administrative Rules on June xx, 2002.

Chapter 2

Overview

An element of the revised Administrative Rules is this Rate Manual. The purpose of the Rate Manual is to document the policies and procedures followed by the licensed haulers and the City staff in determining solid waste collection rates.

Participant Roles and Responsibilities

There are several persons that have a role in the determination of the solid waste collection rates. Their roles and responsibilities are summarized below.

City Council

The City Council adopts the City Code sections that establish the regulatory framework for the City's solid waste collection system. The City Code establishes the requirement for a license to provide service, the term of the license, the limits of the City Manager's authority in setting rules regarding the City's solid waste licenses and rates, and the responsibilities of both the licensed haulers and their customers.

City Manager

The City Manager sets the rules regarding the City's solid waste licenses and rates within the limits of the City Code. These rules include, but are not limited to, criteria for obtaining and maintaining a license, the standards for licensed haulers to provide services to their customers, the standards for customers in preparing their discarded materials for collection, the policies and procedures followed in setting service rates, and the nature and amount of penalties for violation of the City rules.

City Staff

The City staff administers the City Code and Administrative Rules. Solid Waste and Recycling Program staff responds to inquiries and complaints regarding hauler service from residents, businesses, and licensed haulers, reviews licensed haulers' annual license renewals, calculates approved collection rates based on licensed haulers' financial data and City rate policies, etc.

Licensees

Licensed haulers provide solid waste, recycling, and yard debris collection services for their customers. They bill and collect for their services at rates approved by the City. They communicate with their customers regarding their services, collection schedules, and rates as necessary in accordance with City rules. The licensed haulers also report financial and operational data to the City in accordance with City rules.

Rate Setting Policies

The City Manager has established several policies that guide City staff in the determination of the City's collection rates. The most significant policies are described below.

Reported Revenues and Expenses

The City requires licensed haulers to report revenues and expenses for services provided inside the corporate boundaries of the City and revenues and expenses for services provided to all other customers outside the corporate boundaries of the City. This allows City staff to review the reasonableness of the licensed haulers' reported results of operations.

Disposal Tip Fees

The City excludes disposal tip fees from the licensed haulers' expenses when determining the allowed profit. This prevents significant fluctuations in the haulers' profits due solely to changes in the regulated tip fee.

Non-Allowable Expenses

The City considers income taxes, interest expense, amortization expense, and political and charitable expenses to be non-allowable expenses. The allowed profit is set on a pre-tax, pre-interest basis so that taxes and interest are paid from the allowed profit. Amortization expense and political and charitable expenses are paid from owner/shareholder profits.

Combined Residential and Commercial

The City determines allowed rates by combining residential and commercial financial results of operations. Rates may be increased if the combined profits are less than the City's target profit level or decreased if the combined profits exceed the City's target profit level.

Allowed Profit

The City sets rates to achieve a target pre-tax, pre-interest profit level of 11% of gross revenues. This profit level is comparable to the level allowed by other Oregon cities that regulate solid waste collection rates.

Process Overview

Each year, the licensed haulers prepare a report summarizing their financial and operational results of operations for their most recent fiscal year. The haulers use an Excel spreadsheet model provided by the City to accumulate their data in a format useful to the City. City staff reviews each hauler's data for completeness and reasonableness. In each even-numbered year, City staff uses the data from the hauler with the greatest number of accounts to calculate the required rate adjustment, if any. City staff calculates the minimum rates that are sufficient to allow the selected hauler to earn the target profit level through continued service to its existing customers. The City does not guarantee that the licensed haulers will earn the target profit, because events and circumstances do not occur as expected.

Licensed haulers are also allowed to submit at any time to the City Manager a written request for review of the monthly rate schedule.

Schedule

The licensed haulers submit their required financial and operational report by April 15 of each year. City staff reviews the haulers' reports in each even numbered year, and calculate the required rate adjustments in time to have the new rates effective January 1 of the next year. Licensed haulers are required to notify their customers of the new rates within 60 days of the City's action to adopt the new rates.

Preparation of Licensed Hauler Data

As noted above, the licensed haulers use an Excel spreadsheet model provided by the City to report their financial and operational data. This section summarizes the spreadsheet model.

Model Overview

The Excel spreadsheet model (Model) was created by City staff to allow the City's licensed haulers to report financial and operational data to the City in a standard format. City staff incorporates these data into the City's solid waste and recycling rate model. The Model contains multiple, linked worksheets for entry of hauler data, including:

- Hauler Expenses

- Customer Subscription Levels

- Routes

- Tons (Disposal and Recyclables Processing)

- Revenues and Rates

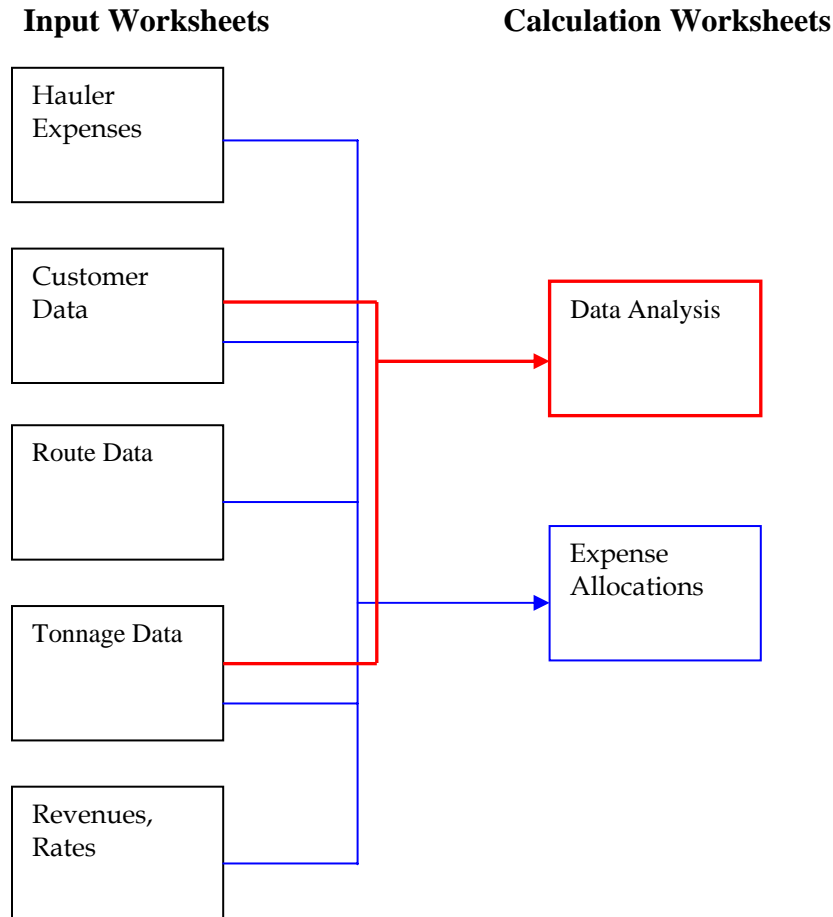
These data are manipulated and analyzed in two worksheets:

- Data Analysis (provides checks on data consistency and reasonableness)

- Expense Allocations (allocates hauler expenses between in-City and other hauler accounts and among residential refuse, residential recycling, residential yard debris, commercial refuse, commercial recycling and drop box activities)

City staff use the allocated expenses and projected revenue to determine hauler profit levels and the need for adjustments to the City's approved rates.

The relationships among the worksheets are shown graphically below.



Model Limitations

Static Model vs. Dynamic Business

Solid waste collection is a dynamic business. New programs and services are implemented, new equipment is employed, and customers start, stop and change their service regularly. Of necessity, the Model uses financial and operational data from a specific period or point in time. Over time, the Model will need to be updated and revised to reflect the changing nature of the solid waste collection business. This may best be done prior to the licensed haulers' preparation of their annual data submission. Because of the requirement for annual reporting to the City, normal changes in the licensed haulers' chart of accounts, routes, rates, customers, etc., will be captured in a reasonably timely fashion. However, major program or cost changes might require a mid-year submittal at the City's direction.

Customization Required

The Model must be customized to reflect each licensed hauler's chart of accounts. However, the Model allocates expenses in a consistent manner that will enhance the comparability and usability of the data by City staff.

Underlying Assumptions

The Model is built around several underlying assumptions that reflect City rate policies and affect the Model's calculations and allocations. The user should understand these assumptions to properly interpret the Model's end product.

Disposal and processing expenses are allocated between Eugene customers and All Other customers and among residential, commercial and drop box customers based on the volume of customers' subscribed service levels. The Model assumes that approximately six and one-third 32-gallon cans equal one cubic yard and that all containers of equal size weigh the same. To the extent that customers in a community consistently dispose of heavier or lighter trash, the allocation of disposal and processing expenses could be skewed.

Labor costs are allocated between Eugene customers and All Other customers and among residential, commercial and drop box customers based on the number of drivers that service the communities. Thus, the model assumes that each hauler's drivers are compensated at the same level, regardless of the community they serve. To the extent that there are significant differences in wages paid to, or benefits earned by, drivers in different communities, the allocation of labor costs could be skewed.

Vehicle costs are allocated between Eugene customers and All Other customers and among residential, commercial and drop box customers based on the number of routes in each community. Mixed routes (routes that service more than one community) are split based on the number of accounts on that route in each community. Thus, the Model assumes that the time to service each account on a mixed route is the same, regardless of other operational factors (e.g. traffic, housing density, distance to the disposal site, etc.). To the extent that the hauler has numerous mixed routes in very different service areas, the allocation of vehicle costs could be skewed.

General and administrative costs are allocated between Eugene customers and All Other customers and among residential, commercial and drop box customers based on the number of customers. Thus, the Model assumes that each account takes the same level of administrative effort to service and maintain. To the extent that the hauler spends significantly more administrative effort on a particular customer base, the allocation of general and administrative costs could be skewed.

Software Requirements

To use the Model, users must have Microsoft Excel 97/98 for Windows or Microsoft Office 98 Excel Version 8.0 for Macintosh.

Input Data Requirements

Financial Data

The Model requires the input of specific financial information from the licensed hauler's accounting systems. For the most efficient preparation of the Model, the user should first review the worksheets and then gather the required data in a form compatible with the Model worksheets. The required financial data include:

Total company expenses, including service within and outside the City of Eugene, by chart of accounts line item for the hauler's most recent fiscal year

Disposal and processing expenses by line of business (refuse, recycling and yard debris) for the hauler's most recent fiscal year

Disposal and processing per-ton or per-yard tip fees paid during the hauler's most recent fiscal year

Collection rates by size and type of container and frequency of service

Total company service revenues by line of business, both from within and outside the City of Eugene

Operational Data

The Model also requires the input of specific operational information from the licensed hauler's operating systems. The required operational data include:

Number of accounts for each line of business by size and type of container and frequency of service as of the most recent January 1

Number of stops per day and crew size by route for all routes as of the most recent January 1

Number of drop box vehicles, excluding spares, and drop box drivers as of the most recent January 1

Number of tons or yards disposed and processed by line of business

Licensed Haulers' Instructions

City staff has prepared a User's Manual containing detailed instructions for the licensed haulers in preparing the required financial and operational data.

City Review of Licensed Hauler Data

This section describes the procedures used by City staff in reviewing the licensed haulers' financial and operational data and determining approved collection rates.

Review of Licensed Hauler Data

City staff review the financial and operational data submitted by the licensed haulers for reasonableness. This review may consist of the following activities:

Reviewing key ratios and related data to ensure that the data is internally consistent (e.g., comparing the sum of the detail customer counts to the reported total customers, or comparing the calculated disposal cost per ton to the per-ton fee reported by the licensed hauler).

Reviewing the year-to-year variances in reported data for unusual trends or fluctuations.

Reviewing detailed supporting records for selected data to ensure that the cost was actually and reasonably incurred in connection with the licensed haulers' service to City accounts.

Performing other analytical tests as necessary.

Following up with the licensed haulers with questions and/or requests for additional information to substantiate the reported data.

Selection of Representative Hauler

As noted above, City staff selects the hauler with the greatest number of accounts to calculate the required rate adjustment, if any. This hauler is selected as having the greatest representation of the City's customer base.

Determination of Revenue Requirement

After reviewing the licensed haulers' data, City staff may adjust the reported data to correct any reporting errors, deduct all non-allowable expenses and adjust for expenses deemed unreasonable. City staff then calculates the revenue required from rates by adding allowed expenses and the target profit and deducting miscellaneous revenues.

Determination of Required Rate Adjustment

City staff calculates the projected revenue from current rates by multiplying the number of customers reported by the licensed haulers times the authorized rates for the services

provided. City staff compares the projected revenue to the revenue required and determines the difference. If the projected revenue is greater than the revenue required, City staff may recommend to the City Manager that rates be decreased or that other services be added. If the projected revenue is less than the revenue required, City staff may recommend to the City Manager that rates be increased to generate the required revenue.

Criteria

In determining whether to adjust rates as described above, City staff may consider the following:

Rates charged for collection services in other cities in Oregon

The most recent Consumer Price Index (CPI-W) for Portland, Oregon

Costs and revenues associated with providing curbside recycling service and the ability of a rate structure to encourage recycling

A minimum rate sufficient to provide a reasonable rate of return above the cost of the licensed hauler with the greatest number of accounts

The anticipated change in the cost of providing this service

The need for equipment replacement and the need for additional equipment to meet service needs and to be in compliance with federal, state and local law