RATE REVIEW COMMITTEE

July 14, 1982

MEMBERS (present)

George Hubel
Steven Aanderud
Edward Brunet

(Absent)
Robert Wynhausen
Mark Gardiner

STAFF

Terilyn Anderson
Dennis O'Neil
Doug Drennen
Doug Robertson
Norm Wietting

GUESTS

Gary Newbore, Killingsworth Fast Disposal

Dennis O'Neil began the staff discussion of the Killingsworth Fast Disposal Rate Study by stating that the staff had prepared the rate study to best serve the Committee by giving it something to respond to. The Utility Method was used in this particular study. He stated that staff needed a recommendation concerning the Killingsworth Fast Disposal rates tonight. Among Committee options would be to accept the conclusions and methodology of this study, to recommend modifications, or to base a rate recommendation upon some other type of methodology. He stated that the recommendations must give due consideration to items in Section 19(4)(a-e). These criteria are also listed in Article III of the By-Laws.

Doug Robertson summarized the major assumptions, calculations and conclusions of the staff study. Among the assumptions, was that all flow from the LaVelle Landfill would be diverted to Killingsworth Fast Disposal landfill when the LaVelle Landfill closes. He also pointed out and explained differences between the figures reported by the applicant and the staff figures. Among these are removal of both projected revenues and costs of any salvage. Conversions to weight assumed a 325 lbs./cu. yd. density for loose waste.

Doug Robertson also covered various criteria, methods and philosophies for determining allowable profit level. He stated that this staff report used a profit level criteria based on the Motor Carrier Division of the Oregon PUC. The staff report used a rate of return based on the Price Waterhouse Operating Ratio Method, compared to the PUC rate of return. These figures were compared to the rate of return yielded by the applicant's proposed rate structure. It was found that the present rate structure conforms to these criteria.

Some Committee members questioned whether the trucking industry would be subject to directly comparable risk to this landfill. George Hubel based his concern on the perpetual life of a trucking company compared to a limited life span for a landfill project. He favored an internal rate of return method. He believed that in evaluating risk, one could look at the level of expected future earnings and the certainty (stability) of earnings. He did not necessarily favor using the corporation's internal rate of return. Edward Brunet believed it was desirable to look at the parent company and choose an internal rate of return. To do this one would need to have a past history of the parent company in related enterprises. Mr. Aanderud commented that the methodology comes up with rates which are the same as the applicant's proposed rates now, but perhaps the present methodology could cause problems with future rate change requests if we accept this methodology at the present time. The Committee members then asked Mr. Newbore to make comments concerning the staff report.

Mr. Newbore stated that his company's rates were based primarily on competition rather than on a certain rate of return. The Killingsworth Fast Disposal operation must compete with the St. Johns Landfill for commercial waste. For the public, he increased the price somewhat over the LaVelle Landfill rates. At this time it was primarily the maximum that the traffic would bear. He pointed out that many of his numbers were estimates, especially those for the public. He did not expect all of LaVelle's flow once the LaVelle Landfill closed. He expected some undetermined amount of loss. He expected that this loss would be difficult to predict, but would be low, probably in the one or two percent area. He also pointed out that nearly all costs are fixed costs so that the flow rate makes a crucial difference in the rate of return. Reidel International Corp. would not consider a business venture if it only supplied a 15% pre-tax rate of return. For long-term construction projects, they usually require a 15% pre-tax profit, plus 10% contingency. There are many unknowns in the landfill operations and these are risks. He also pointed out that he expected to have to spend $1.1 million more on the pit or $200,000 over five years. This was not in the figures he submitted at the present time. He also believes that the State tax rate should be added to the federal tax rate. He also pointed out that for credit customers, the operator does not receive payment for an average of 45 days past the actual dump time. There is an interest cost in deferred receipts. He also stated that they had anticipated that the LaVelle Landfill would close nine months ago. He has estimated that they have lost approximately $300,000 in lost profit. He stated that he had no preference concerning the rate of return approach. In summary, he agreed with the rate but not with the methodology. A corporation at the present day cannot make any money using this methodology.

In response, staff pointed out that bad debts or cost of deferred receipts could have been included in the applicant's figures under Other and Direct Costs line in the application. Doug Robertson pointed out that the additional future capital costs were not reported by the applicant. Staff could only assume that these would be incorporated in the costs which were reported. Staff did assume only a federal tax rate; did not assume a State tax rate. He pointed out that past losses will reduce the federal tax rate by up to one-half since these losses can be carried forward into future taxing years. He also pointed out that the 15% rate of return is a post-tax rate of return not a pre-tax rate of return. He questioned whether users should bear the responsibility for past losses.

In response to Committee member questions, Mr. Newbore indicated that insurance costs were included in the line-item Other Office Expense. He stated that the indirect labor costs, such as vacations, insurance, Tri-Met tax, FICA, pension were approximately

25% of direct salary costs. He anticipated that the site life would be approximately seven years depending on waste flow. The site can accept a total volume of 1.5 million cubic yards. He stated that the loan for the pit itself was for approximately $1.7 million at 18% interest as the beginning interest rate. It was an equal payment loan with the interest rate going down. He thought that the term of the loan was seven years, but did not recollect exactly.

George Hubel requested information about the method for calculating the rate for stumps, cable, etc. Mr. Newbore said that the higher prices are based on a lack of compactibility and/or increased difficulty and landfilling the waste. Staff indicated that these particular rates had not been looked at in detail, first of all because staff agreed with Mr. Newbore's reasons, and second, because these particular wastes represent extremely low percentage of the total waste stream.

Mr. Aanderud stated that he was comfortable with the splitting of public and private waste flows on a 36% - 64% basis. Mr. Newbore said he had no particular problem with this either, although he did not use it in figuring out his rates. Mr. Aanderud wondered whether the Rate Review Committee should support this type of methodology now or look further into the concept of shadow pricing.

Mr. Wietting pointed out that it was important to decide the methodology now, since for the Killingsworth site we will soon be in a reduced competition situation when the LaVelle Landfill closes.

Mr. Hubel saw some problems with the Price Waterhouse Chart of Accounts. For example, it ignored taxes. He wondered whether rate of return should be pre-tax or post-tax.

Edward Brunet made the motion that the Rate Review Committee recommend to the Executive Officer that he approve the commercial and public rate structure as an interim rate without approving the methodology. The Committee approved this motion with three yes votes from the three members present.

Doug Drennen briefly discussed Metro's schedule and need for a decision concerning the uniform rate issue. Mr. Aanderud stated that he needed to see numbers for the various alternatives that have been given to the Committee. He also preferred to see a recommendation from the staff to react to. Finally, he would like to see projections of the effect four or five years in the future if this or that policy were adopted. Doug Drennen said that staff could supply the Committee with rough estimates of this information quite soon. He pointed out that it was highly important that the Council make a final decision by October. Therefore, the Rate Review Committee's comments and

Solid Waste Policy Alternatives Committee comments must go to the Council by the end of August.

George Hubel said that he would poll the Committee as to the best date for a next meeting of the Committee.

There being no further business, the meeting was adourned.

DO:bb

METROPOLITAN SERVICE DISTRICT
527 S.W. HALL ST., PORTLAND OR 97201, 503/221-1646

METRO

AGENDA

Date: July 22, 1982

Day: Thursday

Time: 6:30 p.m.

Place: Metro - Conference Room C

I. UNIFORM RATE - Discussion and Recommendation

II. GENERAL ESTABLISHMENT OF RATE METHODOLOGY - Decision

NOTE: Dinner will be provided.