



## Washington County Solid Waste & Recycling Solid Waste Collection Rate Review Process

### **Purpose of the Annual Rate Review**

Pursuant to Washington County Code (WCC) 8.04.330(A), the annual rate review process ensures that any garbage and recycling collection rate increases or decreases are just, fair, reasonable, and sufficient to provide proper service to the public – while also allowing for a reasonable return for certificate holders.

### **Cost of Service Model**

The return on revenue (ROR) methodology is a standard approach for establishing appropriate profit margins in regulated solid waste collection systems that do not require significant capital expenditures and investments. The ROR methodology evaluates increases and decreases in expenses and revenues to ensure operating costs are covered and the opportunity for a reasonable profit margin is maintained for service providers operating within the system. Each year actual total system expenses and revenues from the previous calendar year are reviewed to determine the overall system ROR. If the prior year's systemwide ROR is more or less than the target ROR (2021 target ROR is 10%) then the financial performance of each line of business (residential, commercial, and drop box) will be further evaluated to determine areas of under or over financial performance. If necessary, staff present rate adjustment recommendations to the Garbage and Recycling Advisory Committee (GRAC) and Board of County Commissioners (BCC) to bring each line of service back to the target ROR.

### **Return on Revenue (ROR) methodology**

Revenue – Expenses = Profit

Profit/Revenues = Return on Revenue

### **Financial Data Review**

Annually, Detailed Cost Reports (DCR) are provided to all haulers. Upon receipt of completed DCRs, County staff and an independent CPA firm reviews, analyzes and aggregates all certificate holder data, reconciles and/or corrects apparent anomalies in the data, and conducts site visits as necessary to ensure supporting records match reported information. This process includes:

- Reviewing certificate holder DCRs for completeness
- Reviewing certificate holder DCRs for prudence, errors, irregularities, or anomalies
- Making necessary adjustments that arose from the review
- Summarizing costs into various categories normal to the industry (e.g. labor costs, truck costs, disposal, overhead, administrative costs, etc.)
- Comparing each certificate holder's reported information to a database of information collected during the prior reviews

- Applying predictive analytics (e.g. comparing reported revenues and disposal fees to estimates based on known disposal fees and service rates)
- Calculating the aggregate ROR for each line of service and determining the amount of a rate increase or decrease needed to reach a target ROR

Any certificate holders that do not submit a complete DCR or that fail to work through the financial data review process may have their financial data excluded from the annual rate review composite.

### **Site Visits**

Annually, certificate holders with the largest percentage of total system revenue, totaling no less than 75% of total system revenue, will receive an expanded level of review through a virtual or in-person site visit to ensure accuracy and consistency of reported financial data. Also, additional certificate holders may receive a site visit based on potential inaccuracies, inconsistencies, or anomalies in reported DCR data discovered during the financial data review. Site visit reviews may also be requested for programmatic data needs, or other factors necessary to ensure the integrity of the annual rate review process and findings.

Site visits will include:

- Determining that supporting documentation (e.g. financial statements, invoices, payroll records, etc.) agree with data reported in the DCR
- Investigating identified anomalies or deviations and discussing the cause with certificate holders
- Making further adjustments as necessary and warranted
- Requesting additional supporting documentation as necessary to ensure the integrity of the rate structure and rate setting process

### **Exceptions for Extraordinary Costs and Revenues**

The normal rate review process only includes an examination of actual year-end (historical) incurred expenses and received revenue. However, the Washington County Haulers Association (WCHA) may request that the County consider using projections for what it believes are extraordinary future changes in expenses that are known and measurable. The County also reserves the right to consider extraordinary circumstances regarding future changes in revenues that are known and measurable. Exceptions will be handled on a case-by-case basis.

### **Calculating and Applying Rate Adjustments**

If necessary, proposed rate adjustments (increases or decreases) will be based on the complete and accurate financial data of all certificate holders (composite). This process includes:

1. Aggregation of year-end financial data, following all reviews and adjustments, to establish a final composite ROR
2. Comparison of final composite ROR against the target ROR (2021 target ROR is 10%)
3. Determination of a final ROR for each line of service (residential, commercial, and drop box) if the composite adjusted ROR more than marginally deviates from the target ROR

4. Determination of the amount of revenue increase or decrease needed to bring the ROR for each line of service (residential, commercial, and drop box) to the target ROR
5. Determination of proposed rate adjustments necessary to generate needed revenue increases or decreases for each line of service (residential, commercial, and drop box)
6. Review of proposed rate adjustments by GRAC and the BCC

#### **Timeline for Annual Rate Review**

- January – DCR templates provided to certificate holders
- March 15 – DCRs are due to the County
- Mid-March through early April – Financial data reviews and site visits are conducted
- April – CPA firm provides certificate holders with proposed adjustments
- Late April – Total composite and line of service ROR is finalized
- Early May – Meeting with WCHA to review composite analysis and discuss recommended adjustments
- Mid-May – Rate review analysis presented to GRAC and GRAC recommendation received by staff
- June – Rate adjustment recommendation presented to the BCC (work session and regular meeting) and final action taken
- July 1 – Notice of rate adjustments sent to rate payers
- August 1 – New rates become effective