

Upper Valley Disposal Service Proposed Rate Methodology Changes

- I. Primary advantage - simplification
 - A Would simplify the process by eliminating the following:
 - 1 Duplicative accounting systems
 - 2 3 year operating cycle
 - 3 Deficit / surplus adjustments
 - 4 Majority of allowable, vs recoverable vs non-allowable expense classifications
 - B Expense verification would be handled through spreadsheet analysis, not a second set of books
- II. Keep the current franchise agreement (including Exhibit A) intact, and change the rate methodology in Exhibit B
- III. Implement a hybrid rate methodology (new Exhibit B)
 - A Retain a cost / plus methodology for a limited number of large expense items
 - 1 Landfill fees
 - 2 Salaries & wages including pay related (taxes, insurance & retirement plan)
 - 3 Depreciation
 - 4 Debt service (principal & interest), including the Retained Earnings loan
 - 5 Capital additions
 - 6 New programs
 - B All remaining expenses would be covered by CPI rate increases
- IV. Rates would be evaluated annually, including an annual CPI increase
- V. Implementation
 - A Establish a base year (i.e. either 2004 or 2005)
 - 1 Calculate relative ratios of "cost plus" and "CPI" expenses to total expenses
 - 2 Allocate actual revenues according to "cost plus" and "CPI" expense ratios
 - 3 The "CPI Revenue" would become the base amount to apply future years' CPI increases
 - B Each year "Cost Plus Expenses" plus Operator's Margin would be compared to "Cost Plus Revenues" to determine the appropriate rate increase attributable to the "Cost Plus Expenses"
 - C The total annual rate increase would be the sum of the "Cost Plus" rate increase and the "CPI" rate increase.

Allowable Exp
Allowable Exp
Allowable Exp
Recoverable Exp
Recoverable Exp
Recoverable Exp

Keep Band

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VI. Special Rate Review

- A** Could be initiated by either party at any time
- B** Based on a significant identifiable change(s) i.e.
 - 1** Change in government regulations
 - 2** Operational changes, i .e different method of waste disposal
 - 3** Business & economic changes
 - a** Significant changes in revenues (tonnage)
 - b** Significant changes (greater than CPI) in a "CPI" expense(s)
- C** Would only review items that had significant changes (i.e. not a general audit) i.e.
 - 1** Fuel
 - 2** Insurance

VII. Other

- A** Would need to review Exhibit A and correct any resulting inconsistencies
- B** Would need bank approval vis-à-vis covenants

Upper Valley Disposal Service
Rate Model Analysis

Example

	Per Rate Model	Hybrid Model	
		Rate Model Component	CPI Component Combined
Allowable Expenses			
Wages & Related Benefits	3,413,398	3,413,398	
Landfill Expenses	1,510,638	2,123,284	
Depreciation	529,341	529,341	
Remaining Allowable Expenses	492,813		492,813
Total Allowable Expenses	5,946,190	6,066,023	
Minimum Net Revenue Allowance	588,085	599,936	
			91%
Recoverable expenses			
Principal & interest on debt service	366,203	366,203	
Development expenses / new programs	25,000	25,000	
Landfill Expenses	612,646		
Remaining recoverable expenses	120,072		120,072
Total Recoverable Expenses	1,123,921	391,203	120,072
Non Allowable Expenses	109,456	109,456	
Total Expenses	7,179,567	6,457,226	722,341
			10.1%
Actual Revenue Collected			
Collections (Trash + Curbside)	6,868,387	6,177,354	691,033
Recycling Receipts	798,685	718,329	80,356
Total Revenues	7,667,072	6,895,683	771,389
Actual Net Revenue	487,505	438,457	49,048
			10.1%

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Rate Model Analysis

Example

	<u>Per Rate Model</u>	<u>Rate Model Component</u>	<u>Hybrid Model</u>	<u>CPI Component</u>	<u>Combined</u>
<u>Actual Revenue Collected</u>					
Collections (Trash + Curbside)	6,868,387	6,177,354	691,033	6,868,387	
Recycling Receipts	798,685	718,329	80,356	798,685	
Total Revenues	7,667,072	6,895,683	771,389	7,667,072	
Actual Net Revenue	487,505	438,457	49,048	487,505	

Minimum / Maximum Net Revenue Calculation

Minimum Net Revenue Allowance	91%	588,085	599,936
Maximum Net Revenue Allowance	86%	967,984	987,492
Difference; (deficiency)/surplus		(100,580)	(161,480)
Required Rate Model increase	1.5%		2.6%

	<u>CPI Increase</u>
Collections revenue	\$ 691,033
CPI increase	1.2%
	<u>75%</u>
Overall CPI rate increase	0.9%
	6,219

Total Rate Increase	\$ 100,580	\$ 161,480	\$ 6,219	\$ 167,699
	1.5%			2.4%