



DATE: June 15, 2021
TO: Steve Lederer, Agency Director
FROM: Doug Dove, Principal Consultant
Erik Helgeson, Senior Project Manager
SUBJECT: Review of Upper Valley Disposal Service 2021 Rate Application

Background

Upper Valley Waste Management Agency (Agency) renegotiated its agreement (Agreement) with Upper Valley Disposal Service (UVDS) to provide collection and disposal services in 2020. The Agreement provides mechanisms to determine allowable annual rate increases which are explained in Attachment E. The Agreement provides for UVDS to submit a rate application every three years. Bartle Wells Associates (BWA) was engaged by the Agency to review the rate application submitted by Upper Valley Disposal Service to ensure that it is reasonable, accurate, and in compliance with the Agreement.

Application Review

This application is for the three year term referred to in the Agreement as the “Phase-In Period”. The Phase-In Period is the first Rate Period governed by the Agreement, consisting of Rate Years One through Three. During the Phase-In Period the rate increases for each year will be set in advance to allow items in the Agreement to phase in over a three year period. Rate applications in the future will only be for the first year of the rate period. Rates in the following two years of the rate period will be adjusted based on the change in the consumer price index.

Phase-In Period Items

BWA verified that the UVDS rate application did indeed reflect the following items which the Agreement stated would be phased in.

	Rate Year 1	Rate Year 2	Rate Year 3
Agreement Phase-In Items	2021	2022	2023
Operating Ratio	87.5%	86.5%	85.0%
Franchise Fees	2.5%	6.0%	10.0%
Clover Flat Refuse Price per Ton	\$99.61	\$109.54	\$119.46
Clover Flat Green Waste Price per Ton	\$72.92	\$78.94	\$84.97

UVDS Projected Expenses

BWA reviewed the projected expenses in the UVDS application. All expense projections were based on detailed, actual, prior-year expenses. BWA feels this is a positive enhancement to the rate application process because it will be easy to identify exactly what line items are driving expense changes in future applications.

BWA reviewed the projected expenses to verify that costs which should be excluded according to the Agreement were not included in the projected expenses. BWA found no excluded costs in the expense projections.

BWA felt the proposed expenses were reasonable but requested additional explanations from UVDS to support the following:

- Changes in individual expense categories,
- Inflation assumptions for rate years 2 and 3, and
- New equipment.

BWA received the explanations, reviewed them with Agency staff and felt the expense projections were reasonable.

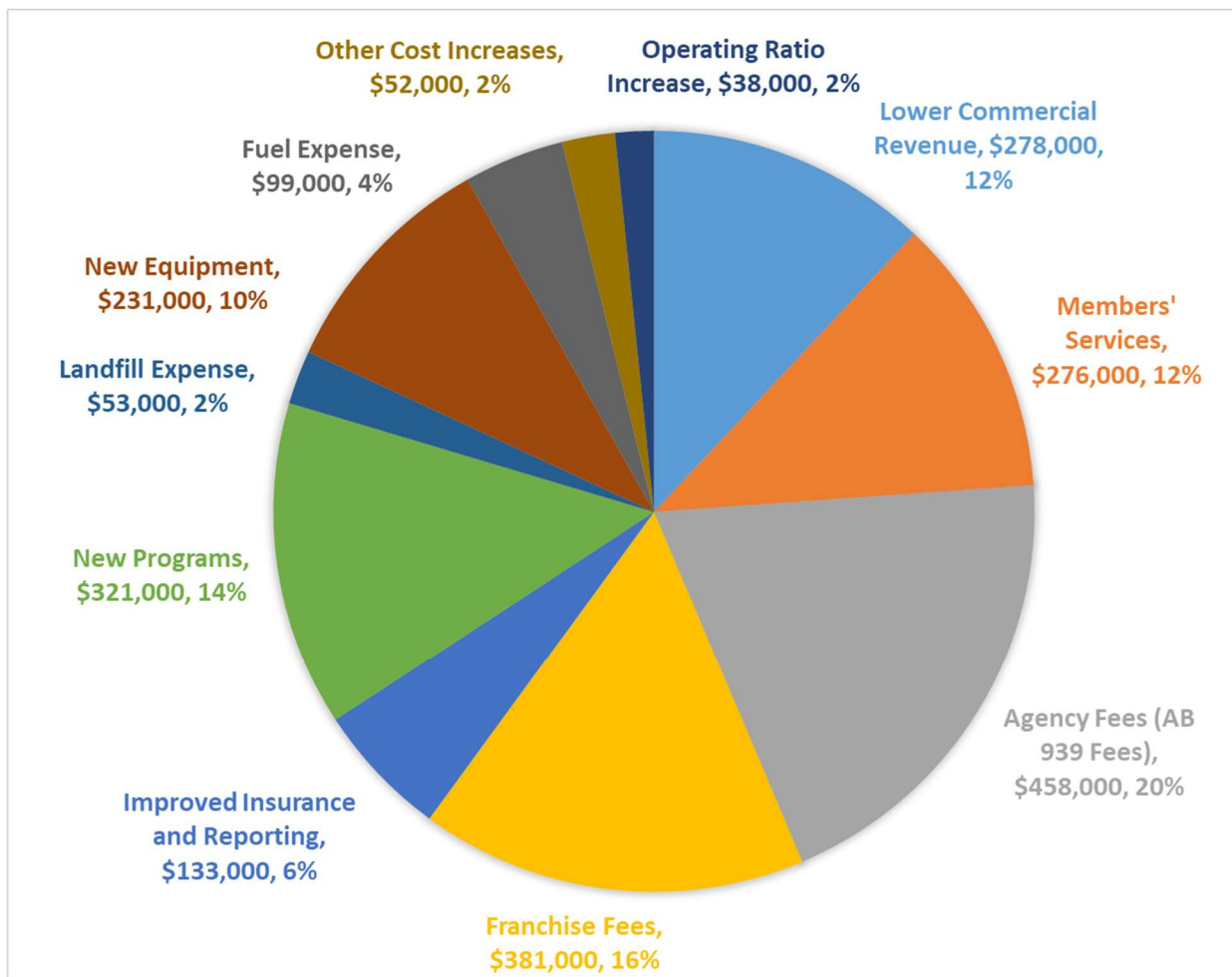
UVDS Projected Revenue from Rates

BWA reviewed the projected revenue in the UVDS application. When the Agreement was renegotiated in 2020 all parties acknowledged that commercial revenue in 2021 would be reduced due to damage from the recent fires and reduced patronage caused by the COVID-19 pandemic. Based on recent revenue data UVDS increased the revenue forecast for 2021. However, UVDS did not include further commercial revenue recovery adjustments in 2022 and 2023. UVDS was alerted to this issue and included commercial revenue recovery, adjusted for the corresponding increase in disposal cost, in the follow-up letter to the rate application. The changes to forecasted revenue at existing rates and the corresponding rate increase (rate adjustment factor) are shown in the table below:

Rate Revenue Projections	Rate Year 1 2021	Rate Year 2 2022	Rate Year 3 2023
Collection Revenue at Existing Rates	\$12,933,415	\$15,254,963	\$17,152,680
Collection Revenue at Existing Rates (Revised)	\$12,933,415	\$15,458,883	\$17,325,871
Rate Adjustment Factor	17.95%	12.44%	11.42%
Rate Adjustment Factor (Revised)	17.95%	10.95%	10.30%

2021 Rate Increase Drivers

There are a number of drivers for the 2021 rate increase of 17.95% or \$2,320,000. About 70% of the rate increase is due to the renegotiated Agreement which included additional services as well as fee collection to offset member costs. About 18% of the rate increase is from expenses increase from factors such as inflation and recovery from the recent fires. Finally, 12% of the rate increase is due to declining commercial revenues caused by damage from the recent fires and reduced patronage caused by the COVID-19 pandemic.



Conclusion

With the follow-up rate application letter and additional supporting documentation submitted by Upper Valley Disposal Service, Bartle Wells Associates believes that the rate application submitted by UVDS is reasonable, accurate, and in compliance with the Agreement.