

**SPECIAL REPORT ON THE
REGION 8 SOLID WASTE AUTHORITY**

**Region 8 Cannot Successfully Compete in an
Open Market;**

Region 8 Loses \$6,000 Monthly;

**Region 8 Owes \$251,600 to Tucker County
SWA;**

**Debt Consolidation Will Save \$7,000
Monthly;**

**PSC Indecision on Hauling Fee is
Having a Negative Impact on Region 8.**

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Antonio E. Jones, Ph.D.
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April 18, 2000

The Honorable Harold Michael
Chairman, House Finance Committee

Dear Chairman Michael:

This is to transmit a special report on the performance and financial stability of the Region 8 Solid Waste Authority per your recent request. The Performance Evaluation and Research Division sent two auditors on site for two days to review performance and financial data.

The major findings of this review are (1) The Region 8 Solid Waste Authority cannot successfully compete in an open market; (2) The Authority loses \$6000 monthly; (3) Debt consolidation for the Authority will save \$7000 monthly and (4) The PSC's indecision on hauling fees is having a negative impact on Region 8.

Please contact me if you need additional information.

Sincerely,

A handwritten signature in cursive script that reads "Aaron Allred".

Aaron Allred

AA/mm

Background of Region 8's Basis of Accounting

Region 8 maintains their books on a cash basis. This is not in compliance with *Generally Accepted Accounting Principles* established by the Governmental Accounting Standards Board for state and local governments. Cash basis accounting does not recognize an expense or revenue until there is an actual cash transaction. Accrual basis accounting recognizes the expense or revenue when it is incurred or earned respectively. Because of this, the accrual method gives a better measurement of an entity's periodic net income. This is due to the fact that the revenue is recognized when earned, and the expense which generated the revenue is also recorded when incurred. This creates a matching of expenses to the revenue it generated and a better representation of financial status. It also provides information regarding an entity's liabilities. If expenses are not recorded when incurred there could be more liabilities to creditors than actually shown from a cash basis system.

Region 8 is a proprietary fund type which is intended to be self-sufficient based on revenues earned by user fees. Operations should be accounted for on an accrual basis in the same manner as a private business.

The financial statements produced by Region 8's CPA firm for fiscal years 1997 and 1998 reflect accrual basis accounting. However, multiple years can pass before audited financial statements are produced. Financial information produced by Region 8 was not entirely accurate since all liabilities had not been recorded. As of July 1999, Region 8 began entering all bills in an attempt to state liabilities accurately. The billing revenues and accounts receivable are on an accrual basis. Region 8 should continue to establish their books on a full accrual basis. In order to maintain an accurate set of financial records at all times, rather than only when the audited financial statements are produced by an independent CPA firm.

Purpose of Inquiry

The purpose of this special report of the Region 8 Solid Waste Authority (SWA) is to determine the primary causes and extent of Region 8's financial problems. What would be required to enable Region 8 to balance its budget? How long did it take Region 8 to accrue the approximate \$250,000 deficit with the Tucker County SWA? What is the status of Region 8's debt refinancing and its impact on the Tucker County SWA? It should be noted that this report is to satisfy a specific information request and not a financial audit.

Primary Causes of Region 8's Financial Problems

The primary causes of Region 8's financial problems stem from a totally open competitive market; haulers are not required to use their two transfer stations. Transfer stations are facilities where garbage is dumped, transferred to tractor trailers and hauled to the Tucker County landfill. Public transfer stations and landfills operate in a competitive market. If haulers choose to go to another facility, they do so. Region 8 has not been able to generate the business to provide revenue to balance its budget. Compounding the problem of haulers not being required to utilize public transfer stations and landfills is the \$8.25 per ton state assessment fee. Some haulers, especially in border areas, use facilities located in border states where there is no state assessment fee charged. This assessment fee does help in keeping out-of-state garbage to a minimum and provide funding to agencies related to the disposal of solid waste but it also hurts public facilities that are located near state borders.

Since Region 8 sends its garbage to Tucker County SWA's landfill, it must incorporate Tucker County's tipping fee in their own. Currently, Tucker County's tipping fee is \$37 per ton, which is the lowest in the state, and Region 8's is \$62.50 at its Petersburg facility and \$67.85 at its Romney facility (see Table 1). Some garbage haulers believe that it is less costly to bypass the transfer stations and go directly to Tucker County. In some cases, haulers have elected not to use the transfer station nor the Tucker County landfill. Instead, they will go to a landfill in Frostburg, Maryland which has a tipping fee of \$42 and is owned by Waste Management Incorporated.

TABLE 1	
Tipping Fees Relevant to Region 8	
Facility	Tipping Fee Per Ton
Region 8 SWA, Petersburg Transfer Station	\$62.50
Region 8 SWA, Romney Transfer Station	\$67.85
Tucker County SWA	\$37.00
Mountainview Landfill, Frostburg, Maryland*	\$42.00

*Owned by Waste Management, Inc.

Extent of Region 8's Financial Problems

The Authority had net losses of \$8,879 in FY 1997 and \$85,525 (see Appendix A) in 1998. Audited financial statements have not been completed for FY 1999, but the enough data was obtained to produce **unaudited financial information** for FY 1999 and partial year 2000. The financial data obtained from Region 8 for FY 1999 and FY 2000 was adjusted to an accrual basis where possible to more accurately depict the Authorities financial situation. The fiscal information (see Appendix A) of Region 8 indicated a net loss of \$58,085 for fiscal year 1999 and \$41,012 as of January 31, 2000 in fiscal year 2000.

These figures were then adjusted to more accurately denote Region 8's revenue shortfalls. Due to the fact that an income statement entails nonmonetary expenses, i.e. depreciation expense, and fails to show reductions in cash for the principal portion of liability payments, further calculations were made. By removing depreciation and including the principal portion of various debts, a more accurate picture is formed of Region 8's revenue shortages. **Region 8 appears to be running an average monthly revenue deficit of approximately \$6,000 over the past three fiscal years.**

The Governmental Accounting Standards Board (GASB), through GASB Statement #18 requires that Region 8 record a liability for the estimated cost of landfill closure and postclosure costs. The current amount of the liability for their two landfills is \$5.7 million. The effect of this entry is a negative retained earnings balance of \$5.5 million. This liability is an estimate based on figures produced by various state and federal agencies of the costs to oversee and maintain the closed landfills for 30 years. It is very likely this number is exorbitant in regards to Region 8's portion of the liability. The Landfill Closure Assistance Program (LCAP) will likely absolve Region 8 of a material amount of this liability. However, this is still a public liability that must be reported to make public officials aware of future costs.

The Department of Environmental Protection is currently in the process of reevaluating prior estimates of publicly owned landfills. These new estimates will serve in providing more accurate cost estimates. This will not reduce the liability, but it will give a more current cost figure.

Amount Required to Balance Budget

This revenue deficit has forced Region 8 to go with bills unpaid, primarily to the Tucker County Solid Waste Authority. The effect of these actions has created an accounts payable balance of \$251,600 (See appendix B) to the Tucker County SWA. Based on information reviewed and interviews conducted, the Legislative Auditor can provide reasonable assurance that Region 8 is current with all other liabilities. Although it must be stressed that a financial audit of the authorities books was not performed.

Region 8 would require \$251,600 to balance their budget based on liabilities existing as of February 29, 2000. It must be noted that this amount would only alleviate the problem temporarily. Region 8 must substantially increase revenues and decrease expenses to stay

solvent and remain a going concern.

Tucker County Accounts Payable Balance

As of February 29, 2000, Tucker County Solid Waste Authority is owed \$251,600, which includes an interest charge of 10% annually. Tucker County has only recently implemented this finance charge on the payable balance. Region 8 began having trouble paying Tucker County beginning with the January invoice of 1997. This billing went approximately a month and 20 days before payment. Region 8's balance took approximately 3.5 years to accumulate. The evolution of the liability is scheduled in Appendix B.

Financial Impact of Debt Restructuring

Region 8 is currently coordinating a debt restructuring with Comvest Ltd. Inc. located in Clarksburg which specializes in financing for municipal and governmental agencies that are exempt from federal taxation. The debt restructuring will provide an overall cash flow increase of \$7,002 per month (see Table 2). This will enable Region 8 to pay approximately \$7,000 to Tucker County monthly. The property where the Romney transfer station is located on is not owned by Region 8. It is owned by an individual who is leasing the land to Region 8. Therefore, Region 8 is not receiving the benefit of being a governmental agency which would give it a county property tax exemption for this facility. The debt restructuring will allow them to buy the land and obtain this exemption which would save Region 8 \$4,400 annually in property taxes. Presently, Comvest's legal counsel is reviewing the proposed debt consolidation for any problems. If there are no problems with the plan, Region 8 anticipates concluding the debt consolidation by March 16, 2000.

Table 2 below shows the overall financial impact of the restructuring. Table 3 gives a rough estimate of the time necessary to pay off the Tucker County payable. Based on rough figures, if Region 8 is able to commit \$7,000 monthly to Tucker County, they will be able to pay off the payable balance with interest in approximately four years.

TABLE 2					
Financial Impact of Debt Restructure Per Month					
Transfer Station	Current Payment	Proposed Payment	Interest/Carrying Fee Costs (CF)	Remaining Term	Monthly Savings
Hampshire	\$8,413	**	9% + \$550 (CF)	#59	**
Grant	\$5,855	**	8%	^33	**
Proposed	**	\$7,266	5.55%	240	**
Total	\$14,268	\$7,266	**	**	\$7,002

#Region 8 will also need \$45,000 for purchase of land from Lessor at end of term.

^ This note also requires a \$585,067.85 balloon payment at end of term.

TABLE 3
Estimated Time for Payoff of Tucker County Payable from Proposed
Restructuring Savings

Fiscal Year	Beginning Payable Balance (03/01/00)	Interest 10%	Payments +	Remaining Balance
FY 2000@	251,600	8,369*	21,000	238,969
FY 2001	238,969	23,897	84,000	178,866
FY 2002	178,866	17,887	84,000	112,752
0FY 2003	112,752	11,275	84,000	40,028
FY 2004	40,028	4,003	44,031	0

@ Remaining FY from 4/00.

+ (7,000 * 12)

* (251,6008*.10) /12 *3 months - Simple interest method

Other Area of Mention: The Public Service Commission Has Not Made a Needed Decision on the Hauling Fee of One of the Secondary Haulers.

There is a case pending in the Public Service Commission (PSC) in which Region 8 petitioned the PSC for a new rate for its secondary hauler at its Romney facility. Region 8 believes that this hauler is making too high of a profit margin. The current fee is \$2.43 per mile. This hauler has a de facto monopoly as it is the only hauler that is certified by the PSC to haul solid waste in the Hampshire County area. Instead of setting a lower rate, the PSC has withheld any decision until June 30, 2000. Region 8 originally petitioned the PSC in this matter in October 1999. Also, compounding this problem is that the hauler in question has been subcontracting this secondary hauling to a hauler that uses his equipment to haul for Region 8 on a part-time basis. It is this secondary issue that the PSC has focused its attention on instead of establishing a new hauling rate.

Recommendations:

- 1) *Region 8 should be allowed to complete its debt restructuring.*
- 2) *The Public Service Commission should make its decision with regards to the hauling fee as soon as possible.*
- 3) *A form of flow control that is permitted by law needs to be established if Region 8 is to have a more solid financial standing in the future.*

Appendix A

Region 8 Solid Waste Authority

	Audited	Unaudited	
<u>Income</u>	<u>Fiscal</u> <u>Year Ending</u> <u>06/30/98</u>	<u>Fiscal</u> <u>Year Ending</u> <u>06/30/99</u>	<u>Partial</u> <u>Year Ending</u> <u>01/31/00</u>
<u>Transfer Station Usage Revenues</u>			
Hampshire County Station		1,108,745	674,231
Grant County Station		<u>576,916</u>	<u>353,115</u>
Total Usage Revenue	1,770,324	1,722,002	1,063,902
Finance Charge/Interest Income	10,948	7,718	3,852
Assessment fee Refund	<u>72,031</u>	<u>86,637</u>	<u>52,851</u>
	<u>82,979</u>	<u>94,355</u>	<u>56,703</u>
Total Revenue	1,853,303	1,816,357	1,120,605
<u>Expenses/Liability Cash Outflow</u>			
Salaries	142,028	157,621	89,475
Payroll Taxes and Fringe Benefits	52,139	0	0
FICA	0	12,059	6,845
State Unemployment Taxes	0	1,463	866
Bank Service Charges	0	12	0
Depreciation/Amortization	104,439	104,439	60,923
Fuel & Oil	2,824	1,774	1,287
Ground Water Monitoring	14,865	0	0
Insurance	10,432	44,470	27,433
Interest Expense	102,703	88,828	82,610
Landfill Disposal Fee	950,988	895,381	542,429
Miscellaneous Expense	20,944	(12,791)	20,632
Office Expense	0	2,657	2,278
Pension	0	9,090	5,895
Postage	0	934	670
Professional Fees	1,898	1,530	926
Remediation/DEP	219	0	0
Rent	6,000	6,000	3,500
Returned Check Expense	0	247	156
Repairs & Maintenance	0	14,671	5,682
Secondary Waste Trans.	509,794	519,427	305,256
Specified Land Development	0	314	589
Taxes - Other	0	0	0
Telephone	0	2,966	1,707
Travel	2,411	0	156
Transfer Station Hampshire	10,176	19,000	0
Utilities	6,968	4,350	2,038
Workers Compensation	<u>0</u>	<u>0</u>	<u>263</u>
Total Expenses	<u>1,938,828</u>	<u>1,874,442</u>	<u>1,161,616</u>
Net Income	(85,525)	(58,085)	(41,012)
Add: Non Monetary Expenses (Depreciation Expense)	104,439	104,439	60,923
Net Income W/O Dep./Amort.	18,914	46,354	19,911
Less: Debt Service and Lease Payments net of interest	(94,943)	(94,982)	(102,633)
Deficit of Revenues	(76,029)	(48,629)	(82,722)
Average Deficit Per Month	(6,336)	(4,052)	(6,893)

Appendix B

Tucker County Accounts Payable

Fiscal Year	Payment/ Invoice Month	Amount Billed	Amount Paid	Accounts Payable Balance
1997	01/31/97	48,644	0	48,644
	02/28/97	40,499	0	89,143
	03/31/97	42,586	48,644	83,085
	04/30/97	43,978	40,499	86,563
	05/31/97	47,272	42,586	91,250
	06/30/97	<u>49,271</u>	<u>43,978</u>	<u>96,543</u>
	FY Totals		272,250	175,707
1998	07/31/97	55,423	71,907	80,058
	08/31/97	55,021	80,058	55,021
	09/30/97	58,092	0	113,113
	10/31/97	55,468	55,021	113,560
	11/30/97	66,749	58,092	122,217
	12/31/97	75,962	55,844	142,334
	01/31/98	72,715	81,749	133,300
	02/28/98	60,402	61,157	132,545
	03/31/98	71,330	60,748	143,127
	04/30/98	86,969	72,403	157,693
	05/31/98	78,561	86,107	150,147
	06/30/98	<u>83,862</u>	<u>71,936</u>	<u>162,073</u>
FY Totals		820,554	755,023	65,530
Balance to date				<u>162,073</u>
1999	07/31/98	89,170	78,785	172,458
	08/31/98	80,097	83,854	168,701
	09/30/98	80,514	60,977	188,238
	10/31/98	78,720	90,138	176,821
	11/30/98	64,738	56,755	184,804
	12/31/98	75,792	56,445	204,151
	01/31/99	63,450	98,852	168,749
	02/28/99	62,299	40,000	191,048
	03/31/99	71,035	40,618	221,466
	04/30/99	84,304	68,585	237,185
	05/31/99	77,910	71,996	243,100
	06/30/99	<u>89,774</u>	<u>88,403</u>	<u>244,470</u>
FY Totals		917,804	835,407	82,397
Balance to date				<u>244,470</u>
2000	07/31/99	79,150	98,024	225,596
	08/31/99	83,168	77,983	230,781
	09/30/99	82,847	52,082	261,546
	10/31/99	77,580	95,536	243,590
	11/30/99	78,024	83,144	238,470
	12/31/99	69,217	43,881	263,807
	01/31/00	72,701	70,452	266,056
	02/29/00	<u>84,890</u>	<u>99,310</u>	<u>251,636</u>
FY Totals		627,577	620,411	7,166
Balance to date				<u>251,636</u>

