

To: Danny Kermode, Assistant Director for Water and Transportation
From: Benjamin Sharbono, Regulatory Analysis
Date: January 7, 2020
Subject: Financial Review - TG-190653, Westside Waste, LLC

Summary

Staff found no financial reason preventing the issuance of the company requested certificate of convenience and necessity (CC&N). Staff concludes the company is financially able and fit and can provide the applied for solid waste service for at least 12 months.¹

Discussion

On August 8, 2019, Westside Waste LLC (Westside or company) filed with the Utilities and Transportation Commission (commission) an application to obtain a CC&N to provide solid waste service in Snohomish County.

Company Structure

Westside formed a limited liability company in Washington on June 6, 2017, according to the Washington Secretary of State's Corporations Division website registering with the Department of Revenue on June 22, 2018. The company's application, along with other supporting state registrations, show Gary Van Laar as sole owner of Westside.

Although it lacked authority, the company admits that it has provided solid-waste drop box service to customers for compensation for approximately 2 years.² The company is now applying because of a commission investigation finding the company was operating as a solid waste hauling company without the required CC&N.

Balance Sheet Review:

- Assets: \$299,642
- Liabilities: \$71,917
- Equity: \$227,724

Westside's application notes \$49,000 cash-on-hand, with \$200,000 in equipment assets for providing service, including a roll-off truck and fourteen 25-yard and 40-yard drop-boxes. The application also shows the company's primary liability of \$61,355 as a note payable for a

¹ Although there is no statutory requirement for solid waste applications to be reviewed for 12-months feasibility, staff believes a financial feasibility review to be best practice for any application, even when it is not specifically required by statute.

² TG-190653 – Application for a Solid Waste Collection Company Certificate, page 6.

vehicle. In its current form, the company has assets necessary to cover the liabilities completely without harming customers.

Pro forma Income Statement:

- Revenue, \$416,224
- Expenses, \$347,709
- Net Income, \$68,527

In the submitted income statement for the year ending January 2019, Westside reported annual revenues of \$416,224, and expenses of \$347,709. Per its application, the company provided services to five regular customers as an on-call drop box service in evenings and weekends. The owner reports moving approximately 461 loads. At this time, staff believes the load count is reasonable, corresponding to the load counts derived in audit tests included in staff's analysis.³

The expenses listed are appropriate for the business. While some expense items will fluctuate outside of the company's control, e.g., fuel and maintenance costs, the majority of expenses are tied to providing services or are fixed, e.g., disposal fees and truck payments. The company owner informed staff that he does not currently take wages, applying revenues toward debt. Staff believes he can draw wages if desired based on reported net income of \$68,527. The owner currently pays himself from another non-regulated operation.

The financial review is based the actual performance data of the company; thus, staff believes the analysis of the financial statements to be accurate. Staff ran a break-even analysis of the company based on the rates proposed in the filed tariff along with the financial information in the application. In its calculations, staff assumes no change in expenses; however, as noted above, some are variable expenses that fluctuate directly to the amount of services provided.

After review and analysis of the information provided, staff can conclude the company could cover all expenses while experiencing a reduction in demand of almost 10 percent compared to the previous year, without using the approximately \$49,000 of cash-on-hand. If the company utilizes the cash available, the company could survive a nearly 25 percent reduction in business over the 12-month period analyzed.

Tariff

Staff reviewed the company proposed tariff pages. Staff noted the company included a "Fuel Surcharge" on Item 260, for 5% of the delivery and pickup rates. In general, surcharges are used to deal with specific, temporary conditions dealing with fluctuations in markets or the acquisition of equipment customers pay in a shorter term and require commission review. The inclusion of a surcharge based on rates is not bound to abnormal conditions; it should either be removed or combined into the rates for delivery or pickup.

³ See tests one and two of Staff Financial Analysis of Docket TG-190653

Conclusion

Staff, having reviewed and tested the financial information submitted in Docket TG-190653 by Westside Waste, LLC, along with having various discussions regarding the company's operations with the owner through email, concludes the company is financially able and fit and can provide the applied for solid waste service for at least 12 months.