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Washington Utilities
and Transportation
Commission

EXHIBIT ACD **9**

TO Danny Kermode, Assistant Director
FROM Benjamin Sharbono, Regulatory Analyst
DATE April 13, 2020
SUBJECT **Application for CC&N Financial Review**
TG-200250, ADE Dumpsters LLC

Summary

Staff finds the company is financially fit to provide the applied for solid waste service for at least 12 months.

Discussion

On March 24, 2020, ADE Dumpsters LLC (ADE or company) submitted to the Washington Utilities and Transportation Commission (commission) an application for a Certificate of Convenience and Necessity (CC&N) to provide solid waste service in King, Pierce, and Thurston Counties. Commission staff (staff) reviewed the application, including its financial statements, to determine whether the company has the financial resources to operate its proposed service. After reviewing the company's information, staff concludes the company does have the resources to operate the proposed service for at least a 12-month period.

Company:

According to the Secretary of State's Corporations Division website, ADE Dumpsters LLC registered for business March 5, 2020. ADE's registration with Department of Revenue became effective on March 12, 2020. According to the Secretary of State, the company is owned by Anthony Douglas, the applicant. Per the application submitted to the commission, the owner has operated a regulated transportation company in the past but has not worked in the solid waste industry.

The company proposes offering roll-off drop box service in King, Pierce, and Thurston Counties. ADE's target market is customers with small projects seeking recycling to lower refuse costs and/or requiring smaller equipment to fit tighter spaces or reduce collateral damage. ADE acquired a roll-off trailer and three 15-yard drop boxes to provide the proposed services.

This is new company seeking commission approval to operate. ADE states they have discussed offering services with companies who expressed interest in utilizing the services offered. ADE says it is awaiting licensing to enter negotiations.

Balance Sheet Review:

- Assets: \$27,500
- Liabilities: \$22,000
- Owners' Equity: \$ 5,500

Due to issues with the financial statements in the application, staff asked the company to complete a new Balance Sheet, which the company provided.

In addition to the trailer and three 15-yard drop boxes, the company's revised submission indicates it has \$500 cash on hand, and \$5,000 in investments.

To acquire the previously listed equipment, the company owner secured a \$22,000 note payable from Currency Bank with a four-year repayment period. Based on this, staff calculates the current liability, the portion due within one year, of the note payable as \$5,500.

Staff has concerns ADE may encounter financial issues from low liquidity. The company assures staff it has access to additional funding from the owner's "personal cash reserves and, as a last resort, additional credit."

Another concern is the company's proposed tariff lists service for 20-yard and 30-yard containers. ADE does not own 20-yard or 30-yard containers and would not be able to fulfill requests for the services. Addressing this concern, ADE states it plans to ally with other drop box container service providers to rent or subcontract additional containers.

Pro forma Income Statement:

- Revenue: \$116,000
- Expenses: \$106,200
- Net Income : \$ 9,800

Staff requested a revised pro forma Income Statement estimating the first year of operations, which the company provided.

The company estimates a total annual revenue of \$116,000. This is comprised of an estimated 144 service hauls, using the 15-yard boxes. With the company having three 15-Yard drop boxes, staff believes the estimate is achievable. At 144 operations, the company would be moving one drop box approximately every two and a half days. This estimate would allow customers to have the container onsite for approximately seven and a half days between pickups.¹

The company estimates they will incur \$106,200 in expenses, \$79,200 being pass-through disposal fees estimated at \$550 per load. Staff reviewed the annual reports of various solid waste companies of similar revenue to determine if the company's estimates were reasonable (see attached workbook). Staff finds the estimates are reasonable for this type of business. Some expense items have the potential to fluctuate outside of the company's control, for example fuel and maintenance costs; while others, like wages and debt costs, should remain relatively static. The company estimates a net income of \$9,800 after its first year of operations.

¹ See file TG-200250-Financial Review-Staff Workbook.xlsx

Staff's calculations in the attached workbook are based on the company estimates of gross revenue and expenses. There is risk that the company's estimated service level, revenues and expenses will vary significantly upon starting operations. However, fixed costs make up approximately 50 percent of the estimated non-pass through expenses. Breakeven testing using the lowest revenue service (see attached) shows the company will leave the \$500 cash on hand and \$5,000 of invested funds unutilized if providing 56.9 percent (82 operations) of the estimated services. If the company only provides 45.3 percent (65 operations) of estimated services, ADE will breakeven but consume all its liquid assets.

Staff does note the company does not list an employee wage expense. As the estimated expenses do not include a wage, staff believes the owner will pay himself through draws or dividends. The company does not have adequate cash on hand to pay additional employees for either help or to cover operations.

Conclusion

Staff has reviewed financial information submitted by, and collected from, ADE Dumpsters LLC in Docket TG-200250 and concludes the company has made reasonable efforts to estimate its finances under the proposed application. Based on the documents reviewed, staff concludes ADE Dumpsters LLC has adequate financial resources to operate the proposed service for at least 12 months.