



Solid Waste and Septage Rate Study for the Island County Solid Waste Program: 2010-2012

Draft Final Report

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Prepared for:

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Chapter 1 Summary

This document presents a study of solid waste program rates conducted for the Island County Public Works Department. The objective of the study is to develop recommended solid waste and septage disposal rates for the period 2010 through December 31, 2012. The new rates are expected to be implemented January 1, 2010.

1.1 Methodology

The analysis incorporates four key components. Each component is closely tied to the next, with key results “carrying over” and used in the next set of computations to derive the resulting rate recommendations. The computations (and model) are broken into four components:

- service demand module;
- revenue requirements study,
- cost allocation study and
- rate design module.

The service demand module projects the tons of municipal solid waste (MSW), recycling, yard waste, customers of moderate risk waste (MRW), and gallons of septage that the County will need to provide in each year. The revenue requirements study compares projected revenues and expenses to determine the overall adequacy of existing rates. The cost allocation study classifies the revenue requirements into program services and calculates unit costs for each service. The rate design component balances projected program costs with other rate design considerations to develop a rate structure and recommended rate levels for the 3-year period 2010-2012.

The major sources of information for this study were the 2007-09 rate study,¹ the 2008-2010 budgets, and detailed interviews with Island County Staff. The last detailed rate study was conducted in 2007.

The major tool used for the computations was the rate model developed by SERA as part of the 2007 rate efforts. The key features include:

- The model documents underlying assumptions, and it supports analysis of the impacts of variations in the assumptions and conditions and trace the resulting impacts on rate computations. This includes variations in rate structure design as well as demand drivers.
- All revenue and expense entries in the model were linked to the budget, and the budget codes were incorporated into each line for verification and checking purposes.

¹ Skumatz Economic Research Associates, “Rate Solid Waste and Septage Rate Study for the Island County Solid Waste Program: 2007-2009.” The previous rate study was used as a reference for the 2007 analysis, and its reference is: “Rate Study for the Island County Solid Waste Program”, Prepared by Paul S. Running and Associates, Seattle Washington, August 2003.

1.2 Findings

The revenue requirements study (Section 2) concluded that projected sources of funds do not currently meet the projected application of funds at current rates. Although costs were held down in the current budget cycle, the revenue requirements increase over the figures incorporated into the 2007 rate study because disposal tonnages have fallen. The following key changes have been incorporated into the 2010-2012 budget:

- Staffing: Negotiated rate increases may be larger than the inflation rate assumed for the rate period. Assumptions of 1% and 1.5% were incorporated for 2011 and 2012. Assumptions for rate negotiations embedded in the computations were higher – 2.6%.
- CIP: CIP figures are very conservative and considerably lower than the 2007 figures.
- Beginning balance and fund balances: The rate study assumes the beginning balance is \$0 and that the \$2 million in funds previously included for landfill closure will be reassigned.

The cost allocation study (Section 3) established unit costs for each program service. The projected unit costs net of projected non-rate revenues are summarized in Table 1-1, including a comparison to the unit costs from the 2007 rate study.

Table 1-1: Projected Unit Costs for Solid Waste Program Services After Adjustments for Non-Rate Revenues

COMPUTATION OF UNIT COSTS	Total 3 yr rate pd Allocated (thous)	Units - Selected	Number of Units (thous)	Calculated Unit cost (\$)- new	Unit Cost 2007-9 Rate Study	Increase in Unit Costs over 2007-9
MSW operations	\$15,769.1	MSW Tons	145.3 MSW	\$108.55	\$104.05	4.3%
Landfill Post Closure Ops	\$741.4		Not applicable			
Recycling Ops	\$1,488.3	MSW customers	331.3 RECY	\$4.49	\$7.54	-40.4%
Moderate Risk Waste Ops	\$405.3	MSW Tons (historically)	145.3 MRW	\$2.79	\$4.56	-38.8%
Septage Ops	\$953.3	Gallons	6,170.7 SEPT OTH	\$0.154	\$0.1450	6.5% 0.0%
TOTAL Allocated cost	\$19,357.5					-6.5%
		Net incr(+)/decr(-) in current rev req over expected revs from current rates & sources				5.9%

1.3 Recommended Solid Waste Program Rates

The recommended solid waste program rates reflect the cost of service as well as other rate design considerations including administrative simplicity, consistency with local policies and plans and ability to pay. The recommended solid waste rates are compared with current rates in Table 1-2; the septage comparisons are provided in Table 1-3.

Table 1-2: Comparison of Existing and Proposed Solid Waste Fees (Dollars per ton)

<i>Recycle Parks / Drop-Box Stations</i>	2007 Rate	New Recm
First Can or bundle, \$	\$10.00	\$11.00
Add'l cans or bundles, each \$	\$3.00	\$3.50
Minimum total	\$10.00	\$11.00
Segregated recyclable material	\$0.00	\$0.00
Household hazardous waste	\$0.00	\$0.00
Used motor oil	\$0.00	\$0.00
<i>Transfer Station, Recycle</i>	2007 Rate	New Recm
First Can or bundle, \$	\$10.00	\$11.00
Add'l cans or bundles, each \$	\$3.00	\$3.50
Minimum total	\$10.00	\$11.00
MSW, \$/ton	\$110.00	\$115.00
Compacted Franchised Rates (preferred)	\$104.25	\$109.00
Segregated yard debris, \$/ton	\$76.00	\$80.00
Segregated recyclable material	\$0.00	\$0.00
Household hazardous waste	\$0.00	\$0.00
Used motor oil	\$0.00	\$0.00
CDL	\$130.00	\$136.00
Base fee per customer	\$7.55	\$7.50
<i>Special Wastes</i>	2007 Rate	New Recm
Hard to handle waste, \$/ton	\$163.00	\$170.00
Appliances, \$/each	\$21.50	\$22.50
Tires, \$/each	\$7.50	\$7.50
Asbestos waste, \$/ton (\$20 min)	\$0.00	\$0.00
Shredding+MRW if not recyclable (per b	\$1.50	\$1.50

Table 1-3: Comparison of Existing and Proposed Septage Fees (Dollars per gallon)

Septage	2007 Rate	New Recm
Residential (Pumper trucks)	\$0.1450	\$0.1550
Town of Coupeville	\$0.0900	\$0.1000
Class B (with lab tests)	\$0.0750	\$0.0800
Large Institutions / Non-Class B	\$0.1200	\$0.1280

Chapter 2 Revenue Requirements

This section develops projections of revenues and expenses for a 3-year rate period beginning in 2010.² Projected revenues at current rates are compared with projected expenses to assess the adequacy of existing rate revenues.

² The study corresponds to the budget period from January 1, 2010 to December 31, 2012.

2.1 Basis for Projections

Actual 2009 and budgeted 2010 solid waste program revenues and expenses provide the basis for the projections in the revenue requirement study.

Tonnage Projections: The tonnage forecasts were computed using escalators appropriate to the waste stream, incorporating a significant decrease associated with the recent downturn in the economy. "Units" of service, as well as, to some degree, historical revenues and expenses, are adjusted using the service level expectations shown in Table 2-1. The tonnages and units by type are summarized in Table 2-2. Overall MSW was projected to decrease about 10% in 2009, with a slow increase expected over the period, with similar decreases in all residential and commercial components.

Table 2-1: Tonnage Forecasts for the Revenue Requirements Projections

A. DEMAND & SERVICES FORECASTS (20)		2009	2010	2011	2012	
A	Municipal Solid Waste tons - Residential	1	20,630.7	18,800.0	19,364.0	19,944.9
B	Yard waste tons - Residential		1,036.0	840.0	853.0	866.1
C	Recycling tons - Residential		2,903.9	2,747.1	2,789.5	2,832.5
D	Municipal Solid Waste Tons - Commerci	1	30,946.0	28,200.0	29,046.0	29,917.4
E	Construction & Demolition Waste-Tons	0	6,501.9	5,000.0	5,250.0	5,512.5
F	Recycling tons - Comm'l		696.7	619.4	644.2	670.0
G	Yard waste tons - Commercial		472.4	360.0	374.4	389.4
H	HHW (customers)		3,805.5	3,400.0	3,452.4	3,505.7
I	SQG (customers)		76.5	70.0	72.1	74.3
J						
K	Tires (units)		0.0	0.0	0.0	0.0
L	Appliances (units)		0.0	0.0	0.0	0.0
M	Oil (customers)		0.0	0.0	0.0	0.0
N	Customers		33,279.1	33,792.4	34,313.6	34,842.9
O	Septage (gallons) - Residential		2,045,305	2,051,085	2,056,881	2,062,693
P	Septage (gallons) - Coupeville		292,186.5	293,012.1	293,840.1	294,670.5
Q	Septage (gallons) - Class B		292,186.5	293,012.1	293,840.1	294,670.5
R	Septage (gallons) - Non-Class B Lg Instit		292,186.5	293,012.1	293,840.1	294,670.5

Table 2-2: Tonnage Forecasts for the Revenue Requirements Projections

TOTAL TONS BY STREAM (CHECK)	2009	2010	2011	2012
MSW	51,576.7	47,000.0	48,410.0	49,862.3
Yard Waste	1,508.4	1,200.0	1,227.4	1,255.5
Recycling	3,600.7	3,366.5	3,433.6	3,502.4
Constr&Demo	6,501.9	5,000.0	5,250.0	5,512.5
HHW	3,882.0	3,470.0	3,524.5	3,580.0
Septage (gal)	2,921,865	2,930,121	2,938,401	2,946,705

Expense Projections: With the exception of landfilled tons, all expenses were drawn from budget figures, using 2010 budget figures as the start, and applying assumed CPI increases

consistent with the increases for 2011 and 2012. The figure used for the majority of growth rates was 1.0% and 1.5%, except for labor, which was assumed to be negotiated at 2.6% for each year of the period. For individual categories, adjustments were made per discussions with County staff. For ease of comparison (this year and into future years), each element was specifically linked back to the budget and fund code used in Island County's budgeting system.

Revenue Projections: In each case, rate revenues were projected to increase with the number of relevant "units" – either tons, gallons, or customers. Non-rate revenue values were gathered from the 2010 budget. Again, discussion with staff were used to tailor these projections for later years (for example, we discussed grant years and phase outs). As with expenditures, the budget line items are associated with each entry, and in the associated model. In addition, the projections underlying the 2010-2012 rate computations is included in the appendix.

2.2 Method of Expressing Costs

The projected revenues and expenses are expressed on a cash basis rather than an accrual basis. A cash basis is used because the solid waste program is publicly owned and operated on a non-profit basis under the control of the Board of Island County Commissioners. The Board's financial controls are administered through an annual operating budget. The revenue required to operate the program is equal to the amount of money required to make cash outlays in a timely manner as they become due.

The revenue requirements for the rate study are summarized as follows:

+	Excess Working Capital
+	Operating Revenues at Current Rates
-	Operation and Maintenance Expense
-	Taxes and Operating Assessments
-	Debt Service
-	<u>Repair and Replacement of Existing Facilities and Equipment</u>
Σ	Revenue Requirements

2.3 Reconciliation of Septage Revenues and Expenses and Working Capital

The solid waste fund aggregates revenues and expenses for both the solid waste and septage programs. Septage costs increased over the period (compared to 2007-2009, leading to an increase in unit costs for septage. The budget noted no significant working capital balance. These figures are incorporated into the rate computations.

2.4 Sources of Funds

Sources of funds for the solid waste program include rate revenues from the municipal solid waste, moderate-risk waste, and septage operating programs together with investment income, miscellaneous income and grants. The projected sources of funds for the 3-year rate period are compared with actual 2009 and budgeted 2010 sources of funds in Table 2-3. Total sources of funds available for the 3-year rate period are projected at \$18.9 million.

Table 2-3: Sources of Funds at Current Rates (Thousands of Dollars)³

Sources of funds (at current rates)	2010	2011	2012	3-year total
Use of working capital (WC) - See Beginning Balance BB below				
Landfil closure from WC	\$0.0	\$0.0	\$0.0	\$0.0
Excess WC - Solid Waste	\$0.0	\$0.0	\$0.0	\$0.0
ExceSS WC - Septage	\$0.0	\$0.0	\$0.0	\$0.0
Solid waste rate revenues* NOTE TONS DOWN 10% REVS 20%	\$5,750.0	\$5,807.5	\$5,894.6	\$17,452.1
SQG waste rate revenues*	\$8.0	\$8.1	\$8.2	\$24.3
831 NASWIHHW Assessment	\$12.0	\$12.1	\$12.3	\$36.4
Investment interest	\$20.0	\$20.2	\$20.5	\$60.7
Septage rate revenue*	\$250.0	\$252.5	\$256.3	\$758.8
Sewage sludge fees*	\$0.0	\$0.0	\$0.0	\$0.0
Grant funding	\$0.0	\$0.0	\$0.0	\$0.0
Miscellaneous revenue	\$0.0	\$0.0	\$0.0	\$0.0
Use of BB	\$0.0	\$0.0	\$0.0	\$0.0
Water fees (fire flow)	\$0.8	\$0.8	\$0.8	\$2.4
Interest (finance charges) on A/R	\$1.0	\$1.0	\$1.0	\$3.0
Interfund loan interest	\$0.0	\$0.0	\$0.0	\$0.0
Bad debt / NSF	-\$6.0	-\$6.1	-\$6.2	-\$18.2
Other Misc, Shredding, WF	\$4.5	\$4.5	\$4.6	\$13.7
Interfund Loan repayment rec'd	\$0.0	\$0.0	\$0.0	\$0.0
Sales of Capital assets	\$2.0	\$2.0	\$2.1	\$6.1
Other	\$0.0	\$0.0	\$0.0	\$0.0
CPG 0405 OBJ S1500526 - Change to CPG07-09wo1015 - originally put in	\$126.5	\$127.8	\$129.7	\$383.9
Litter Grant July 03-June 05 OBJ S1500	\$27.2	\$27.5	\$27.9	\$82.6
Scrap Metal revenues	\$22.0	\$22.2	\$22.6	\$66.8
Other - Sales of fixed assets	\$2.0	\$2.0	\$2.1	\$6.1
TOTAL SOURCES OF FUNDS	\$6,220.0	\$6,282.2	\$6,376.4	\$18,878.6

2.5 Operation and Maintenance Expense

Operation and maintenance expense includes labor, payroll taxes and personal benefits, maintenance of facilities and equipment, transportation and disposal of waste materials, and other associated expenses such as supplies, insurance and County overhead costs. A summary of the projected operation and maintenance expense for the 3-year rate period is presented in Table 2-4. Total 3-year operation and maintenance costs are projected at \$18.3 million.

³ Asterisk denotes that the revenues are based on existing rate levels with figures computed from the budget.

Table 2-4 Summary of Projected Operation and Maintenance Expense (Thousands of Dollars)

O&M - Operations & Maintenance Costs	2010	2011	2012	3-yr total
Septage - Salaries / wages, unempl, medical, etc.	\$126.1	\$129.4	\$132.7	\$388.2
Office & operating supplies, repairs, PUSvcs, misc	\$117.4	\$118.6	\$120.4	\$356.3
Landfill Closure / post closure; sal & wages, etc. -added thru 1	\$187.5	\$189.4	\$192.2	\$569.1
Training - sal and wages, etc.	\$3.3	\$3.4	\$3.5	\$10.1
Training - equipment and travel	\$3.0	\$3.0	\$3.1	\$9.1
Contracted LEP Grant	\$27.2	\$27.5	\$27.9	\$82.6
Customer Service - sal & wages, etc.	\$233.9	\$240.0	\$246.3	\$720.2
Customer Service - equipment	\$419.1	\$423.3	\$429.6	\$1,272.0
Interfund professional services	\$71.0	\$71.7	\$72.8	\$215.5
GenSW Operations - Sal & Wages, etc.	\$1,052.2	\$1,079.5	\$1,107.6	\$3,239.3
GenSW Supplies, ad, PUSvc, Repairs, Misc	\$2,892.5	\$2,921.4	\$2,965.2	\$8,779.2
GenSW External taxes / assess	\$90.2	\$91.1	\$92.5	\$273.8
Interfund Prof Svc	\$67.0	\$67.7	\$68.7	\$203.4
Interfund insurance services	\$40.0	\$40.4	\$41.0	\$121.4
Litter control grant	\$0.0	\$0.0	\$0.0	\$0.0
Other expenditures - CPG/HHW Grant sal & wages, etc.	\$130.5	\$133.9	\$137.4	\$401.8
Other expenditures - CPG/HHW Grant supplies & misc+PROF	\$100.0	\$101.0	\$102.5	\$303.5
New Charge System - eqpt embedded in 53780	\$0.0	\$0.0	\$0.0	\$0.0
Rebuilding reserves for future capital (formerly Capitalized sep	\$0.0	\$0.0	\$0.0	\$0.0
Capitalized Solid Waste -	\$100.0	\$100.0	\$100.0	\$300.0
Capitalized CPG Grant -	\$0.0	\$0.0	\$0.0	\$0.0
Capitalized Env Svcs -	\$0.0	\$0.0	\$0.0	\$0.0
Transfer to Current expense	\$6.9	\$7.0	\$7.1	\$20.9
Transfer to Current expense	\$270.0	\$272.7	\$276.8	\$819.5
Transfer to Public works	\$70.0	\$70.7	\$71.8	\$212.5
Total	\$6,007.8	\$6,092.6	\$6,200.9	\$18,298.3

2.6 CIP Expense

The CIP budget includes new and replacement equipment, facility upgrades, and other expenses related to providing MSW, recycling, and other services. In the 2010-2012 period, Island County the most significant additions include a refurbished compactor, new containers, and other items listed below. A summary of the projected CIP element expenses for the 3-year rate period is presented in Table 2-5. The details of each element of the CIP expenses are included in the budget and the rate model. Total 3-year operation and maintenance costs are projected at \$656K, or less than half the figure for the 2007-2009 rate period.

Table 2-5 Summary of Projected Operation and Maintenance Expense (Thousands of Dollars)

<i>Municipal Solid Waste & Septage Operations - CIP</i>				
2010-12 Misc Upgrades, all sites, access, power, fence, lighting	\$55.0	\$0.0	\$0.0	\$55.0
Well/piping upgrade Coupeville	\$20.0	\$0.0	\$0.0	\$20.0
1 refurbished harris - amfab 150	\$230.0	\$0.0	\$0.0	\$230.0
1 nedland 30 cuyd stationary baler	\$23.5	\$23.5	\$23.5	\$70.5
upgrade 1992 capacity yard tractor	\$25.0	\$0.0	\$0.0	\$25.0
1 vehicle replacement - pu (existing pu 175k miles)	\$22.0	\$0.0	\$0.0	\$22.0
computer system upgrades	\$5.0	\$0.0	\$0.0	\$5.0
6 MRW totes at \$250	\$1.5	\$0.0	\$0.0	\$1.5
5x1.4 cu yd recycle boxes at \$800	\$4.0	\$0.0	\$0.0	\$4.0
2 poly overflow containment system	\$2.0	\$0.0	\$0.0	\$2.0
up to 4x40 cy steel open top boxes with covers at \$16.5K	\$66.0	\$0.0	\$0.0	\$66.0
Recycling Operations	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0
Outyears - backhoe coupeville (2012) camano (2013), fend lo	\$0.0	\$80.0	\$75.0	\$155.0
Total CIP	\$454.0	\$103.5	\$98.5	\$656.0

2.7 Taxes and Operating Assessments

Solid waste revenues are subject to a Washington State excise tax. The tax rate is 2.13 percent of gross taxable revenues. The Washington State Auditor also assesses fees for financial oversight of the solid waste program. Some solid waste fees are also subject to municipal business and occupation taxes. The projected taxes and operating assessments at current rates through the study period are summarized in Table 2-6. These taxes were embedded in the budget calculations, so no separate values are included under “taxes”. The total 3-year assessment is, therefore, zero.

Table 2-6: Summary of Projected Taxes and Operating Assessments

	2010	2011	2012	3 yr total
ateg				
TAXES - Taxes & Operating Assessments	\$0.0	\$0.0	\$0.0	\$0.0

2.8 Debt Service Expense

Historically, the solid waste program services held debt in the form of general obligation bonds issued by Island County for construction of the septage treatment facility. However, this debt was paid off during the previous rate period, and no additional debt has been undertaken. This is reflected in Table 2-7. Debt service expense is estimated at \$0 for the 3-year rate period.

Table 2-7: Summary of Projected Debt Service Expense (Thousands of Dollars)

	2010	2011	2012	3 yr total
DEBT Service				
Other				\$0.0
GO Bonds debt service - end in 2007	\$0.0	\$0.0	\$0.0	\$0.0
Interest on LT Ex, Debt issue costs - paid in 2007	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$0.0	\$0.0	\$0.0	\$0.0

2.9 Repair and Replacement of Existing Facilities and Equipment

With the exception of the septage treatment facility, the solid waste program has financed all capital improvements from rate revenue and grant income. Scheduled capital improvements are funded by working capital (presented in Table 2-3). Unscheduled improvements such as repair and replacement of facilities and equipment must also be anticipated.

A reasonable estimate of repair and replacement expenses is the annual depreciation expense. Depreciation expenses for buildings, septage facilities, other improvements and machinery and equipment are presented in Table 2-8. Repair and replacement expenses are projected at \$1.04 million for the 3-year rate period.

Table 2-8: Summary of Projected Repair and Replacement of Existing Facilities and Equipment (Thousands of Dollars)

DEPRECIATION - Repair & Replacement of Existing Facilities & Equipment	2010	2011	2012	3-year total
Buildings	\$65.4	\$66.0	\$67.0	\$198.4
Septage facilities	\$51.2	\$51.7	\$52.5	\$155.4
Machinery & equipment	\$150.8	\$152.3	\$154.6	\$457.6
Other improvements	\$75.5	\$76.3	\$77.4	\$229.2
Depreciation of new acquisitions	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL capital improvement from rates	\$342.8	\$346.3	\$351.5	\$1,040.6

2.10 Summary of Revenue Requirements

The summary of the revenue requirements is provided in Table 2-9. This table aggregates the projected annual sources of funds at existing rate levels against the projected annual application of funds for the 3-year rate period. Current rates will **fall more than \$700,000 short** in addressing budgeted expenditures.

Table 2-9: Summary of Projected Revenue Requirements (Thousands of Dollars)⁴

REVENUE REQUIREMENTS COMPUTATION -- SUMMARY (thous)	2010	2011	2012	Total units for
-1 CIP - Scheduled CIP Improvements in Rate Period	\$454.0	\$103.5	\$98.5	\$656.0
1 CAPITAL - Projected Solid Waste Program Working Capital B	\$0.0	\$0.0	\$0.0	\$0.0
1 REVENUES - Operating Revenues at Current Rates	\$6,220.0	\$6,282.2	\$6,376.4	\$18,878.6
-1 O&M - Operations & Maintenance Costs	\$6,007.8	\$6,092.6	\$6,200.9	\$18,298.3
-1 TAXES - Taxes & Operating Assessments	\$0.0	\$0.0	\$0.0	\$0.0
-1 DEBT Service	\$0.0	\$0.0	\$0.0	\$0.0
-1 DEPRECIATION - Repair & Replacement of Existing Facilities	\$342.8	\$346.3	\$351.5	\$1,040.6
0 OTHER	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL CALCULATED REVENUE REQUIREMENTS (thous)	-\$584.6	-\$260.2	-\$274.4	-\$1,116.2

⁴ Working capital differential is incorporated as a negative revenue in the 'revenues' line, following on to the treatment accorded in the 2007 budget.

Chapter 3 Cost Allocation

This section allocates the projected costs identified in the revenue requirements study to individual program serviced and calculates unit costs for the 2010-2012 rate period.

3.1 Classification of Program Costs

For the purposes of this rate study, the solid waste program is divided into 6 components: municipal solid waste operations, landfill post-closure maintenance operations, waste recycling operations, moderate-risk waste operations, septage treatment operations, and general and administrative operations. These services are described briefly below.

Municipal Solid Waste Operations

Municipal solid waste operations include collection of waste materials at 4 drop-off facilities (Oak Harbor, Coupeville, Bayview and Camano), local transportation to the central transfer station, processing the collected waste into shipping containers and transporting and disposing the materials at a landfill. Municipal solid waste operations also include educational and promotional activities associated with waste reduction and recycling.

Landfill Post-Closure Maintenance Operations

Landfill post-closure maintenance activities include surveillance, monitoring, and maintenance of the closed Coupeville landfill.

Waste Recycling Operations

The solid waste program operates secondary materials drop-off collection stations at the 4 waste receiving facilities. One additional drop-off collection site is operated in Freeland. Waste recycling operations include the collection, transportation, and processing of secondary materials.

Moderate-Risk Waste Operations

The solid waste program provides drop-off collection services for household hazardous waste and used motor oil at the 4 solid waste receiving stations. Collected household hazardous waste is transported to the moderate-risk waste processing facility for reuse, recycling or disposal. Small quantities of some commercially generated moderate-risk waste are also accepted at the moderate-risk waste management facility for recycling or disposal. Promotional and educational activities relating to recommended management practices for small quantities of hazardous waste are also provided to businesses and institutions.

Septage Treatment Operations

Septage treatment operations include receiving, treating, and disposing septic tank pumpings from all on-site wastewater treatment systems maintained on Whidbey Island. Septage treatment operations also include land applications of treatment by-products.

General and Administrative Operations

General and administrative operations are management-related services provided County departments including Public Works, the Treasurer's Office, Auditor, Central Services, Maintenance, Human Resources, Prosecuting Attorney, General Service and the Board of County Commissioners. The costs of insuring facilities and equipment are also considered a general and administrative expense.

3.2 Allocation of Operation and Maintenance Expense

Operation and maintenance expense has been allocated to the 6 components on the basis of actual 2009 and projected 2010 expenditures. A summary of the allocation is presented in Table 3-1.

Table 3-1: Summary Allocation of Operation and Maintenance Expense 2010-2012 – Percentages and Allocation Rationale

Allocation Rationale	Dollars assigned over rate period	MSW operations	Landfill Post Closure Ops	Recycling Ops	Moderate Risk Waste Ops	Septage Ops	ALLOCATION RATIONALE
O&M - Operations & Maintenance Costs							
Septage - Salaries / wages, unempl,	\$388.2	0%	0%	0%	0%	100%	Sept
Office & operating supplies, repairs,	\$356.3					100%	Sept
Landfill Closure / post closure; sal &	\$569.1		100%				LF
Training - sal and wages, etc.	\$10.1	65%	11%	14%	8%	3%	TR alloc per labor
Training - equipment and travel	\$9.1	65%	11%	14%	8%	3%	TR alloc per labor
Contracted LEP Grant	\$82.6	50%		50%		0%	50/50 per DB call
Customer Service - sal & wages, etc	\$720.2	50%		50%		0%	CS 50/50 per DB
Customer Service - equipment	\$1,272.0	50%		50%		0%	CS 50/50 per DB
Interfund professional services	\$215.5			100%			recy
GenSW Operations - Sal & Wages, i	\$3,239.3	100%					gsw
GenSW Supplies, ad, PUSvc, Repai	\$8,779.2	100%					gsw
GenSW External taxes / assess	\$273.8	100%					gsw
Interfund Prof Svc	\$203.4	100%					gsw
Interfund insurance services	\$121.4	100%					gsw
Litter control grant	\$0.0	100%					litter
Other expenditures - CPG/HHW Gra	\$401.8				100%		cpg
Other expenditures - CPG/HHW Gra	\$303.5				100%		cpg
New Charge System - eqpt embedd	\$0.0	50%		50%			gsw
Rebuilding reserves for future capita	\$0.0	100%				0%	msw
Capitalized Solid Waste -	\$300.0	100%					sw
Capitalized CPG Grant -	\$0.0				100%		cpg
Capitalized Env Svcs -	\$0.0			100%			recy
Transfer to Current expense	\$20.9	65%	11%	14%	8%	3%	Base on labor per DB
Transfer to Current expense	\$819.5	65%	11%	14%	8%	3%	Base on labor per DB
Transfer to Public works	\$212.5	65%	11%	14%	8%	3%	Base on labor per DB
Newly negotiated hauling rate incr fc	\$0.0	100%					N/A

3.3 Allocation of Taxes and Operating Assessments

Taxes and operating assessments are allocated to the municipal solid waste disposal operational and septage treatment operations on the basis of 2009 and 2010 budgeted expenses.

3.4 Allocation of Debt Service Expense

All debt service expense is allocated to the septage treatment operations.

3.5 Allocation of Repair and Replacement of Existing Facilities and Equipment

A summary of the allocation for repair and replacement of existing facilities and equipment is presented in Table 3-2.

Table 3-2: Summary Allocation of Repair and Replacement of Existing Facilities and Equipment – Percentages and Rationale

	MSW	Landfill Post	Recycling	Moderate Risk Waste		
DEPRECIATION - Repair & Replacement of Existing F	operations	Closure Ops	Ops	Ops	Septage Ops	
Buildings	\$198.4	84%	0%	5%	11%	0%
Septage facilities	\$155.4	0%	0%	0%	0%	100%
Machinery & equipment	\$457.6	81%	1%	14%	2%	3%
Other improvements	\$229.2	58%	24%	12%	3%	3%
Depreciation of new acquisitions	\$0.0	50%	39%	11%	0%	0%
Placeholder	\$0.0	67%	20%	10%	0%	3%

3.6 Summary of Allocated Costs

The results of the allocation study are summarized in Table 3-3. The line labeled *Subtotal Allocated Costs* provides the total expenses allocated to each service. The line labeled *Total Allocated Costs* includes adjustments for non-rate revenues and allocation of general and administrative costs. These figures are summarized in Table 3-4.

Overall, the distribution of the allocated costs by major service area is shown in Figure 3-1.

3.7 Unit Costs

The results of the cost allocation study were used to calculate unit costs for each program component. A summary of the calculated unit costs is presented in Table 3-5.

Table 3-3: Estimated Allocated Costs for Solid Waste Program Services – Detail for 2010-2012 Period

<i>COMPUTED DOLLAR ALLOCATIONS for rate period (in thousands)</i>	MSW	Landfill Post	Recycling	Moderate Risk	
	operations	Closure Ops	Ops	Waste Ops	Septage Ops
O&M - Operations & Maintenance Costs	\$14,653.4	\$683.8	\$1,398.1	\$786.3	\$776.7
TAXES - Taxes & Operating Assessments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DEBT Service	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DEPRECIATION - Repair & Replacement of Existing F	\$668.4	\$60.7	\$99.8	\$35.8	\$176.0
OTHER	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
CIP (prev G&A Expense Allocation / n/a)	\$559.6	\$4.4	\$80.4	\$8.9	\$2.7
NonRateRev(prev Less Non-rate revenues / n/a)	-\$112.3	-\$7.5	-\$89.9	-\$425.6	-\$2.1
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL ALLOC OPTION incl CIP in Allocation	\$15,769.1	\$741.4	\$1,488.3	\$405.3	\$953.3
Share of total allocated costs	81%	4%	8%	2%	5%

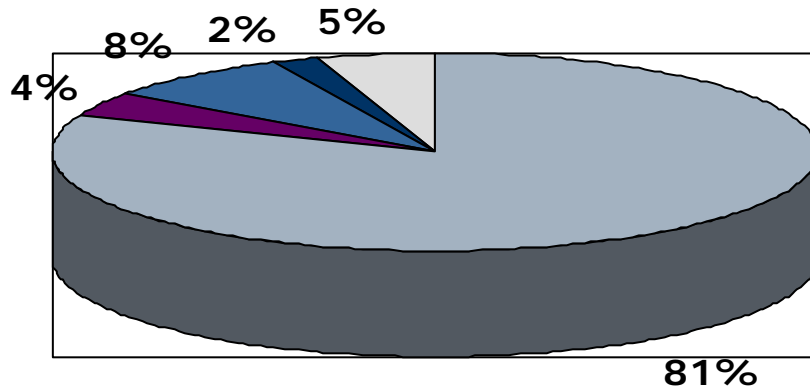
Table 3-4: Estimated Allocated Costs for Solid Waste Program Services - Summary

<i>COMPUTED DOLLAR ALLOCATIONS for rate period (in thousands)</i>	MSW	Landfill Post	Recycling	Moderate	Septage	Total
	operations	Closure Ops	Ops	Risk Waste Ops	Ops	
From '3Cost allocation' Sheet						
TOTAL ALLOC OPTION incl CIP in Alloc	\$15,769.1	\$741.4	\$1,488.3	\$405.3	\$953.3	\$19,357.5
Share of total allocated costs	81%	4%	8%	2%	5%	100%
Total Allocated costs 2007-9 rate period	\$16,256.8	\$489.2	\$2,354.7	\$712.1	\$885.4	\$20,698.2
Share of total allocated costs	79%	2%	11%	3%	4%	100%
Current alloc / 2007 alloc costs	-3%	52%	-37%	-43%	8%	-6.5%
Net incr(+)/decr(-) in current rev req over expected revs from current rates & sources						5.9%

Table 3-5: Estimated Unit Costs for Solid Waste Program Services

<i>COMPUTATION OF UNIT COSTS</i>	Total 3 yr rate pd Allocated (thous)	Units - Selected	Number of Units (thous)	Calculated Unit cost (\$) - new	Unit Cost 2007-9 Rate Study	Increase in Unit Costs over 2007-9
	MSW operations	\$15,769.1	MSW Tons	145.3 MSW	\$108.55	\$104.05
Landfill Post Closure Ops	\$741.4		Not applicable			
Recycling Ops	\$1,488.3	MSW customers	331.3 RECY	\$4.49	\$7.54	-40.4%
Moderate Risk Waste Ops	\$405.3	MSW Tons (historically)	145.3 MRW	\$2.79	\$4.56	-38.8%
Septage Ops	\$953.3	Gallons	6,170.7 SEPT OTH	\$0.154	\$0.1450	6.5%
TOTAL Allocated cost	\$19,357.5					-6.5%
						Net incr(+)/decr(-) in current rev req over expected revs from current rates & sources 5.9%

Figure 3-1 Distribution of Total Allocated Revenue Requirements by Type of Service (3-year revenue requirements of \$19.4 million, 2010-2012)



MSW Ops
 LF Post Clos
 Recy Ops
 MRW Ops
 Septage

The entries at the right of Table 3-5 shows the relative increases in allocated unit costs by service area, compared to the values computed in the 2007 rate study.

- Decreases were identified in recycling and moderate risk waste relative to other service areas; however, note that recycling is a relatively minor portion of total revenue requirements (Figure 3-1).
- On the other hand, MSW is by far the major cost element, and unit costs increased for this service.
- Septage service also shows an increase in unit costs.

The data on the unit costs are an important component of computation of rates and rate structure described in Chapter 4.

Chapter 4 Rate Design

This section identifies the considerations used for rate design and proposes new solid waste rates for the 2010-2012 rate period.

4.1 Rate Design Considerations

Rates should be fair and equitable and not discriminate against any class of customers. The rate structure should be easy to understand and simple to administer. Rates should be consistent with established policies and plans. In addition, because waste flows can cross jurisdictional lines, there should be some continuity with rates charged in neighboring jurisdictions. Finally, we address issues of incentives.

Ease of Administration

A simple rate structure with fewer rate categories is easier to administer than a more complex structure with numerous fee categories. Minimizing the number of fee categories and surcharges promotes understanding.

Customers must wait at the scale house to record vehicle weights and pay the disposal fees. Minimizing the number of coins needed for payment also minimizes exit delays.

Consistency with Local Policies and Plans

The *Island County Solid Waste and Moderate-Risk Waste Management Plan (Feb 2008, Green Solutions)* identifies a number of facility, program, and equipment plans, which have been generally incorporated into the budget.

Ability to Pay

County policy provides low-income individuals, non-profit charitable organizations and organizations conducting community cleanup programs with discounted disposal fees. Low-income individuals, as designated by a recognized social service agency such as the Washington Department of Social Services or Senior Services Center, are eligible to receive a 50 percent discount on the first 500 pounds of residential waste and a 25 percent discount on amounts greater than 500 pounds. Non-profit charitable organizations receive the same discounts as low income individuals. Disposal fees for community organizations conducting cleanup activities are waived.

Continuity with Adjacent Jurisdictions

Local governments in Washington State are assigned primary responsibility for solid waste management. While state regulations are applicable to all jurisdictions, such factors as land use regulations, policies for environmental protection and financing and economies of scale create differences in local rates. If the rate differential is substantial, waste tends to flow across jurisdictional boundaries to the lower-cost service provider. A discussion of comparisons to rates in surrounding jurisdictions is provided later in this chapter.

Additional Rate Design Considerations

There are several other considerations in designing the rate structure – criteria that in some ways compete, and require balancing in order to provide a well-designed set of rates.

Matching cost structures to cover revenue requirements: Forecasting tonnages and service use is just that – a projection, based on assumptions. The rates that are calculated are based on a variety of assumptions, and if those assumptions do not quite come true, then the per-unit costs that form the basis of many of the rates in this rate study, may not cover costs. The least risky strategy is to assure that all costs associated with particular services are embedded (or allocated) fully to those revenue elements. In that way, if quantities vary, they are assigned their full costs and are not subsidizing – and thus jeopardizing -- other parts of the system. However, the unit costs used as the basis for the rates are, in fact, average costs. Recognizing that there are always significant fixed costs to cover in solid waste systems, tonnage or unit shortfalls can mean revenue shortfalls that risk not covering fixed costs for the system. Designing rates that most closely match the structure of costs for specific services helps reduce this risk. This can be realized through minimum fees (that assure fixed costs for recycling, for example) provide additional assurance costs will be covered.

Providing incentives for preferred customers and behaviors: The system is set up to provide incentives for certain types of solid waste behaviors. Source separation of yard waste and wood waste is desirable, as it can be processed and addressed without bringing the material to landfills – and it provides a product with value. The material is also generally generated separately from solid waste, and is fairly easy for the generator to keep distinct from other disposal materials. For these reasons, rates for these materials are discounted from the MSW disposal rate to provide an incentive for generators to bring this resource material in separated loads. Construction, Demolition, and Land-clearing debris (CDL), as well as hard-to-handle wastes pay somewhat more than standard MSW. The County realizes somewhat lower costs from some large customers and for communities or actors that either provide their own recycling or do not use the County's recycling. For these reasons, various incentives and discounts are provided to franchise haulers, and septage discounts are provided to Coupeville, Class B, and large institutions. Recognizing that the remaining users must pay for any discounts, the rates for some of these subclasses will be lower than the unit fees, and others will be higher than the calculated unit fees used as the base for the rates.

4.2 Proposed Rate Structure

Solid Waste

The proposed rates for solid waste programs for the period 2010 through December 31, 2012 are presented in Table 4-4. The recommended rates are a one-time increase over 2007-2009 levels, with the new rates then constant over the 3-year rate period.

The recommended rates show the following changes:

- Relatively modest increases (4-6%, with a few at 10%) for many rate categories. These rate increases represent the outcome of reduced revenue requirements but also a reduction in tonnages or “units” (from the downturn in the economy) and a resulting increase in unit costs for Island County services.
- An increase in septage fees after constant rates for about a decade.

Rate structure: In the new rate study, the rates are “built up” by category – a significant change over the past rates studies that computed new rates by inflating most existing rate categories by the increase in revenue requirements or unit costs.

- We retained the basic structures and incentives embedded in the extensive rate design work conducted in 2007. There are discounts for yard debris, but CDL and hard-to-handle materials cost more than MSW.⁵
- We recommend rates that are rounded to the nearest 50 cents to simplify change and cash handling at facilities. In addition, staff has identified surrounding communities that round total per-ton transfer station bills to the next higher dollar to simplify cash handling, and this seems to be an acceptable practice at their facilities. This can represent an added efficiency at the sites.

Septage

The proposed disposal rate for septage treatment and disposal is \$0.155 per gallon, consistent with the unit costs required to recover costs of the system. The proposed rate represents an increase over the 2007-2009 rate period (\$0.145/gallon), with existing ratios between different cities and customers.

⁵ Yard debris is slightly cheaper than MSW to process and divert. However, CDL, because it is unwieldy and less dense, and “bridges” (causing voids in the load), is charged a premium. Similarly, hard to handle wastes are also charged a premium, as materials longer than 6 feet need to be broken up and are harder on the compacting equipment

Table 4-1: Comparison of Existing and Proposed Solid Waste and Septage Fees

<i>Transfer Station, Recycle Parks, Drop-Box</i>	2007 Rate	New Recm
First Can or bundle, \$	\$10.00	\$11.00
Add'l cans or bundles, each \$	\$3.00	\$3.50
Minimum total	\$10.00	\$11.00
MSW, \$/ton	\$110.00	\$115.00
Compacted Franchised Rates (preferred)	\$104.25	\$109.00
Segregated yard debris, \$/ton	\$76.00	\$80.00
Segregated recyclable material	\$0.00	\$0.00
Household hazardous waste	\$0.00	\$0.00
Used motor oil	\$0.00	\$0.00
CDL	\$130.00	\$136.00
Base fee per customer	\$7.55	\$7.50
<i>Special Wastes</i>	2007 Rate	New Recm
Hard to handle waste, \$/ton	\$163.00	\$170.00
Appliances, \$/each	\$21.50	\$22.50
Tires, \$/each	\$7.50	\$7.50
Asbestos waste, \$/ton (\$20 min)	\$0.00	\$0.00
Shredding+MRW if not recyclable (per b	\$1.50	\$1.50
<i>Septage</i>	2007 Rate	New Recm
Residential (Pumper trucks)	\$0.1450	\$0.1550
Town of Coupeville	\$0.0900	\$0.1000
Class B (with lab tests)	\$0.0750	\$0.0800
Large Institutions / Non-Class B	\$0.1200	\$0.1280

4.3 Discussion and Comparisons of Proposed Rates

Comparisons for a key rate – the per-ton MSW rate – are presented in Figure 4-1. The recommended rate for Island County is \$115/ton (\$109/ton for compacted preferred, franchised haulers including Oak Harbor, Waste Connections, and Island Disposal). The graph shows San Juan County shows very high rates associated with MSW, as might be expected given they must ferry wastes to the mainland. However, even off-island, the newly proposed rates fall near the middle of the sample of area MSW tonnage rates. Seattle, Jefferson County and Tacoma have rates over \$130; the lowest rates are in Skagit County, Burlington, and Snohomish County, whose facilities are near railheads.

Solid waste disposal fees in adjacent jurisdictions were surveyed in July and August 2009. The results of the solid waste portions of the surveys are presented in Table 4-1 and Table 4-2. The recommended minimum fee for Island County is \$11, with a \$3.50 fee for additional cans or bags. The comparisons show that the minimum fees at area sites range from a low of about \$5 to about \$20 in other communities and counties in the area. Septage disposal fees in surrounding jurisdictions were queried but no comparison figures were identified.

Figure 4-1 Comparison of Proposed Island County MSW Rate with a Sample of Area Jurisdictions

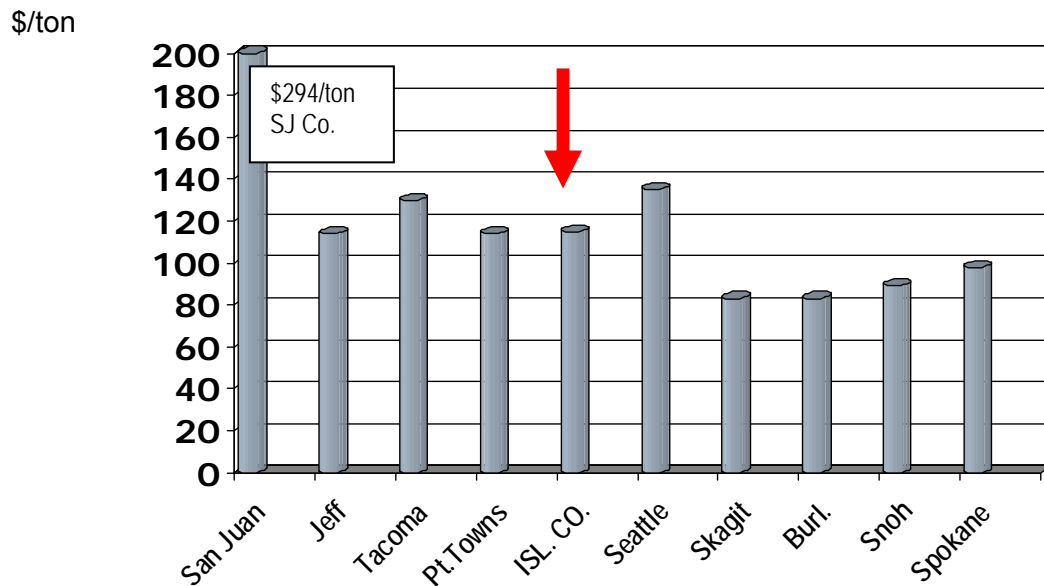


Table 4-1: Municipal Solid Waste Fees in Neighboring Counties in July 2009 (Dollars)

Facility and Waste Type	2010-2012		Jefferson Co. & Port Townsend	San Juan	Skagit: changing C	Snohomish	Bellingham	Burlington
	Recommended Rates, (MSW Tax embedded)	Existing						
Recycle Parks / Drop-Box Stations			Current					
First Can or bundle, \$	\$11.00	\$10.00	\$4.95 (32 gal)		\$12.00 (32 gal)	\$20 (min to 6 cans)	No Drop Off	
Add'l cans or bundles, each \$	\$3.50	\$3.00				\$20/cu yd<5cy		
Minimum total	\$11.00	\$10.00				\$20.00		
Segregated recyclable material	\$0.00	\$0.00			\$0.00	\$45/ton; \$11 min		
Household hazardous waste	\$0.00	\$0.00				\$0.00		
Used motor oil	\$0.00	\$0.00				\$0 for 10 gal max		
Other	\$0.00	\$0.00						
Other	\$0.00	\$0.00						
Transfer Station, Recycle Parks, Drop-Box Stations			Current					
First Can or bundle, \$	\$11.00	\$10.00	\$4.95 (32 gal) \$23.23/cuyd	\$8.00	\$12.00 (32 gal)	\$105/ton; \$20 min	\$10.30	
Add'l cans or bundles, each \$	\$3.50	\$3.00	\$9.45 (55 gal) \$13/addl cuyd	\$8.00		above		
Minimum total	\$11.00	\$10.00	\$4.95	\$8.00		\$20.00	\$5.50	
MSW, \$/ton	\$115.00	\$110.00	\$110 (was \$140)	\$294.00	\$83.00	\$105/ton; \$20 min	\$30.10/cu yd	\$83.00
Compacted Franchised Rates (p	\$109.00	\$104.25	\$0.00	\$197.00				
Segregated yard debris, \$/ton	\$80.00	\$76.00	\$48.00	(same as msw)	\$83.00	\$45/ton; \$11 min	\$3.50/60 gal	
Segregated recyclable material	\$0.00	\$0.00	\$0.00		\$0.00	\$0.00	\$0.05/lb	
Household hazardous waste	\$0.00	\$0.00	\$0.00	\$0.05/lb, \$8 min	\$0.00	\$0.00		\$0 up to 25 gal/mo
Used motor oil	\$0.00	\$0.00		\$0.13/gal, >5gal		\$0 for 10 gal max		\$0.00
CDL	\$136.00	\$130.00	(\$140 in 2007)	(same as msw)		\$45/ton; \$11 min	\$30.10/cu yd	not accepted
Base fee per customer	\$7.50	\$7.55		\$0.00		\$0.00	\$3 min	\$0.00
Special Wastes			Current					
Hard to handle waste, \$/ton	\$170.00	\$163.00	ewaste \$0.35/ton	\$22/5 gal \$237/55 gal (CESQG)				No
Appliances, \$/each	\$22.50	\$21.50	\$19.81/refrig.	\$19 each \$49/refrig	\$25/refrig;\$100/h	\$0 for >85% metal; no refrig, CFC, microwaves in trash	\$40/refrig	
Tires, \$/each	\$7.50	\$7.50	\$4.95 car, \$6.19 truck	\$10.00/\$5.00	\$83/ton	\$105/ton; \$20 <360lbs 5 tire max		\$83/ton; 4 tire max
Asbestos waste, \$/ton (\$20 min)	\$0.00	\$0.00	\$133.79 in 2007)	no		no	No	no
Shredding+MRW if not recyclab	\$1.50	\$1.50					No	
Other	\$0.00	\$0.00						
Septage			Current					
Residential (Pumper trucks)	\$0.1550	0.1450		not accepted		not accepted		
Town of Coupeville	\$0.1000	0.0900		at		at		
Class B (with lab tests)	\$0.0800	0.0750		transfer stn		transfer Stn		
Large Institutions / Non-Class B	\$0.1280	0.1200		Burlington drops off at the Skagit Stn too				

Table 4-2: Municipal Solid Waste Fees in Neighboring Counties in July 2009 (Dollars)

Facility and Waste Type	2010-2012 Recommen- ded Rates, (MSW Tax embedded)		Tacoma	Seattle	Spokane	University Place & Pierce County	Federal Way & King County	Yakima County
	Existing	Current						
Recycle Parks / Drop-Box Stations								
First Can or bundle, \$	\$11.00	\$10.00						
Add'l cans or bundles, each \$	\$3.50	\$3.00						
Minimum total	\$11.00	\$10.00						
Segregated recyclable material	\$0.00	\$0.00						
Household hazardous waste	\$0.00	\$0.00						
Used motor oil	\$0.00	\$0.00						
Other	\$0.00	\$0.00						
Other	\$0.00	\$0.00						
Transfer Station, Recycle Parks, Drop-Box Stations								
First Can or bundle, \$	\$11.00	\$10.00						
Add'l cans or bundles, each \$	\$3.50	\$3.00						
Minimum total	\$11.00	\$10.00	\$10.00	\$27.00	\$7.00	\$20.60	\$17.25	\$7.00
MSW, \$/ton	\$115.00	\$110.00	\$130.00	\$135.00	\$98.00	\$108.75	\$102.00	\$28.00
Compacted Franchised Rates (p	\$109.00	\$104.25						
Segregated yard debris, \$/ton	\$80.00	\$76.00		\$100.00	\$0.35/20 lbs	\$0.00	\$82.00	\$14.00
Segregated recyclable material	\$0.00	\$0.00	\$0.00				\$0.00	
Household hazardous waste	\$0.00	\$0.00	\$0.00				\$0.00	\$0.00
Used motor oil	\$0.00	\$0.00						
CDL	\$136.00	\$130.00						
Base fee per customer	\$7.50	\$7.55						
Special Wastes								
Hard to handle waste, \$/ton	\$170.00	\$163.00						
Appliances, \$/each	\$22.50	\$21.50	\$20+ton fee (CFC): \$11 first 4 non-CFC	\$30.00	at MSW rate	\$34.19 if CFC free others	\$24 with cfc: \$10 without	\$5 with CFC
Tires, \$/each	\$7.50	\$7.50						
Asbestos waste, \$/ton (\$20 min)	\$0.00	\$0.00						
Shredding+MRW if not recyclab	\$1.50	\$1.50						
Other	\$0.00	\$0.00						
Septage								
Residential (Pumper trucks)	\$0.1550	0.1450						
Town of Coupeville	\$0.1000	0.0900						
Class B (with lab tests)	\$0.0800	0.0750						
Large Institutions / Non-Class B	\$0.1280	0.1200						