



## SALT LAKE COUNTY AUDITOR'S OFFICE

SEAN THOMAS  
*Auditor*

November 3, 2005

To: Salt Lake Valley Solid Waste Management Council  
6030 West California Avenue  
Salt Lake City, Utah 84104

Re: Waste swapping arrangement with Allied Waste

Dear Council Members:

This office has been asked to analyze how, if at all, the Salt Lake Valley Solid Waste Management Facility ("Facility") would benefit by entering a waste swapping arrangement with Allied Waste Company ("Allied"). We conclude the Facility would receive a substantial benefit if Allied delivered to the Facility Landfill ("SL Landfill") the same amount of waste that it transports from the Facility's Transfer Station ("SLTS"), and if the spread between fees charged by the SL Landfill and Allied remains constant.

### **Background Facts**

The Facility is co-owned in equal shares by Salt Lake County and Salt Lake City and operates the SL Landfill and the SLTS. During the 1990s, the SL Landfill began accepting increasing amounts of waste, which reduced the anticipated remaining life of the landfill. To extend the life of the SL Landfill, the Facility built the SLTS to collect and transport to some other landfill a large amount of waste that would otherwise have gone to the SL Landfill.

In 1998, the Facility issued a request for proposal to contract for hauling waste from the SLTS to a landfill other than the SL Landfill. The contract was awarded to Allied, which agreed to transfer and dispose of waste<sup>1</sup> from the SLTS for \$22.95 per ton, which rate has increased to the current rate of \$23.85 per ton due to periodic fee adjustments contemplated by the 1998 Contract. Until late 2005, Allied transferred the waste to the ECDC landfill in Carbon County, Utah, about 140 miles from SLTS, primarily with rail cars. Recently, Allied began transferring the waste to the Wasatch Regional Landfill in Tooele County ("Allied Landfill"), about 60 miles from SLTS, primarily with trucks. The SLTS collects an average of 165,500 tons of waste per year, virtually all of which is transported by Allied pursuant to the 1998 Contract.<sup>2</sup>

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<sup>1</sup> The SLTS collects about 165,000 tons of waste per year, at a rate of \$22.90 per ton, from Salt Lake County, Salt Lake City, and South Salt Lake City. In addition, SLTS collects about 15,000-20,000 tons of waste per year, at a rate of \$30.95 per ton, from commercial carriers. The 1998 Contract only applies to waste collected from the three government entities. Waste collected from commercial carriers has been transferred by the Facility to the SL Landfill. As used in this letter, the term "waste," unless otherwise indicated, refers only to the waste collected from Salt Lake County, Salt Lake City, and South Salt Lake City.

<sup>2</sup> In 2004, Allied only transferred about 154,000 tons of waste from SLTS to ECDC because of problems with rail service. Absent such problems, it is anticipated Allied would have transferred more than 165,000 tons of waste pursuant to the 1998 Contract.

In addition to transferring waste from the SLTS, Allied operates the largest private waste collection operation in Salt Lake County and delivers a substantial portion of that waste to the SL Landfill at a rate of \$22.00 per ton. Allied is under no obligation to deliver any of that waste to the SL Landfill. In fact, Allied is currently building a transfer station in Salt Lake City ("Allied TS"), which is expected to open in February 2006. Once the Allied TS becomes operational, Allied will likely deliver its waste there and transport it to the Allied Landfill, thereby eliminating the need for Allied to deliver its waste to the SL Landfill.

### **Key Assumptions**

For this analysis, we used the following assumptions: (1) the SL Landfill benefits by maximizing the amount of waste it receives at any rate above \$19.50; (2) business and operating cost information provided by the Facility and Allied is accurate; (3) after the Allied TS is operating, Allied will deliver waste it collects to the Allied TS instead of to the SL Landfill; (4) the Facility charges optimal prices at the SLTS and the SL Landfill to satisfy the Facility's purposes; and (5) SLTS will continue to be the main facility where the Facility's collection trucks deposit their waste.

Perhaps the most important assumption is the first, that the SL Landfill would benefit by maximizing the amount of waste it receives. Clearly, this is a recent development because the driving purpose behind the SLTS was to limit the flow of waste to the SL Landfill in order to extend its life. But that situation has changed. The Facility and Salt Lake County's Public Works Department have stated that increasing competition from private waste companies has reduced the amount of waste delivered to the SL Landfill by approximately 40% in just one year. Thus, the life of the SL Landfill is no longer a serious concern. In fact, the Facility would benefit if it could receive all waste that Allied currently delivers to the SL Landfill, as well as all waste collected at the SLTS.

### **Variables**

**Variables.** Analyzing the economic benefit of a swapping arrangement to the Facility requires knowing only a few key variables, including:

- 1- SL Landfill Fee (A).** The fee SL Landfill charges to the public, including Allied, to dispose of waste. Currently, \$22 per ton.
- 2- SLTS Transfer Fee (B).** The Facility's cost to transfer waste from SLTS to the SL Landfill. Cost is estimated by the Facility to be \$4.21 per ton.
- 3- Allied Transfer Fee (C).** The fee Allied charges to transfer waste from SLTS and dispose of it. Currently, \$23.85 per ton.

Determining the most economically feasible terms for such an arrangement requires knowing the following additional variables:

- 4- **Allied Distance Savings (D).** The amount Allied anticipates it would save by delivering waste to the Allied TS instead of to the SL Landfill. Benefit estimated by Allied is \$2.00 per ton.
- 5- **Allied TS Processing Cost (E).** The amount Allied anticipates it would cost to process waste at the Allied TS to prepare it for transportation to a landfill. Cost estimated by Allied is \$3.00 per ton.
- 6- **Allied Transfer Cost-SLTS (F).** The amount it costs Allied to transfer waste from the SLTS to the Allied Landfill. Cost estimated by Allied is \$7.85 per ton.
- 7- **Allied Transfer Cost-Allied TS (G).** The amount it would cost Allied to transfer waste from the Allied TS to the Allied Landfill. Because the Allied TS is closer than the SLTS to the Allied Landfill, this number is less than the Allied Transfer Cost-SLTS (F). Cost estimated by Allied is \$7.15 per ton.

### Analysis

**Current situation.** Based on the assumption that the Facility would benefit by increasing the amount of waste it receives at the SL Landfill, we believe that absent a better proposal, it would have been in the best interest of the Facility to terminate the 1998 Contract as soon as it became apparent that changing market forces had substantially extended the anticipated life of the SL Landfill. By canceling the 1998 contract, the Facility could haul waste from the SLTS to the SL Landfill for about \$4.21 per ton, which would still allow the Facility to process the waste at the SL Landfill more economically than paying Allied to transfer and process the waste at another landfill. By canceling the 1998 Contract, the Facility could have generated revenue of \$19.64 per ton (\$23.85 minus \$4.21) not transferred pursuant to the 1998 Contract. In 2004, this would have resulted in increased revenues for the Facility of about \$3,025,000 (\$19.64 times 154,000 tons, see footnote 2).

Currently, Allied delivers about 164,000 tons of waste to the SL Landfill each year. It appears that before the Allied TS becomes operational in early 2006, Allied will have no economically feasible alternative to delivering waste to the SL Landfill. Thus, until the Allied TS becomes operational, SL Landfill should continue receiving this waste stream.

**Anticipated situation.** When the Allied TS becomes operational in early 2006, we anticipate it will become economically feasible for Allied to deliver the waste it collects to its own transfer station instead of delivering it to the SL Landfill. According to Allied, the economic benefit would result from: (1) shorter distances its trucks would need to travel to deliver waste, allowing each truck to handle more collection routes; (2) reduced wear on trucks by avoiding the dirt roads at the SL Landfill; and (3) ability to have trucks deliver their waste at the same location where they are stored overnight. As such, after the Allied TS becomes operational, the SL Landfill will likely lose about 164,000 tons of waste it annually collects, representing revenue of about \$3,608,000 (\$22.00 times 164,000).

**Waste swapping.** Assuming the Facility and Allied will act in their economic best interests by terminating the 1998 Contract and delivering waste to the Allied TS, respectively,

various efforts have been explored to determine if some waste swapping arrangement might provide greater economic benefit to both parties. The two most prominent efforts were a proposed contract amendment in December 2004 and a proposed Memorandum of Understanding (“MOU”) in August 2005. The County District Attorney’s office opined that both attempts would constitute a material alteration to the 1998 Contract, and thus be inappropriate without going through a competitive bidding process.

This office has been asked to analyze whether a waste swapping arrangement would provide more benefit to the Facility than simply terminating the 1998 Contract. We do not analyze the specific terms of the December 2004 or August 2005 efforts to alter the 1998 Contract because the District Attorney has opined those changes cannot be effected. Instead, we make a recommendation based on the concept of waste swapping, and encourage the parties to work together to find an appropriate way to achieve it.

**The recommendation**

It appears that significant efficiencies can be realized by having the Facility swap waste with Allied, provided waste is swapped on a ton-for-ton basis and the spread between the SL Landfill Fee (A) and the Allied Transfer Fee (C) remains constant. We strongly caution that any deviation from the ton-for-ton ratio or static spread arrangement may eliminate some or all of the economic benefit for one of the parties.

Under a ton-for-ton swap arrangement using the current spread, the Facility would benefit by about \$2.36 per ton. Assuming 165,000 of waste is swapped annually, it would provide a benefit of \$389,400 (\$3,630,000 compared to \$3,240,600) to the Facility, as follows:

<b>Facility Revenues Without Swap Arrangement (after Allied TS opens)</b>			
<b>SLTS Waste to SL Landfill</b>		<b>Allied Waste to SL Landfill</b>	
\$23.85	Allied Transfer Fee (C) savings	\$22.00	SL Landfill Fee (A)
\$4.21	SLTS Transfer Fee (B)	\$0.00	Transfer fee
\$19.64	SL Landfill revenue per ton	\$22.00	SL Landfill revenue per ton
165,000	Annual tonnage	0	Annual tonnage
<b>\$3,240,600</b>	<b>SL Landfill revenue</b>	<b>\$0.00</b>	<b>SL Landfill revenue</b>
<b>Facility Revenues With Swap Arrangement (after Allied TS opens)</b>			
<b>SLTS Waste to SL Landfill</b>		<b>Allied Waste to SL Landfill</b>	
\$23.85	Allied Transfer Fee (C)	\$22.00	SL Landfill Fee (A)
\$0.00	SLTS Transfer Fee (B)	\$0.00	Transfer fee
\$0.00	SL Landfill revenue per ton	\$22.00	SL Landfill revenue per ton
0	Annual tonnage	165,000	Annual tonnage
<b>\$0.00</b>	<b>SL Landfill revenue</b>	<b>\$3,630,000</b>	<b>SL Landfill revenue</b>

It could be argued that the Facility should accept any revenue benefit, whether it be \$389,000 or only \$50,000. However, the benefits to the Facility and Allied are a zero-sum equation; therefore, it is important to find a level of benefit to each party that is both fair, and

justifiable to Allied’s competitors. To determine the optimal terms for all parties, it is important to estimate Allied’s economic benefit from a swapping arrangement.

Under a ton-for-ton swap arrangement using the current spread, we anticipate Allied would benefit by about \$2.15 per ton. Assuming 165,000 of waste is swapped annually, it would provide a benefit of \$354,750 (\$2,640,000 compared to \$2,285,250) to Allied, as follows:

<b>Allied Estimated Revenues <u>With</u> Swap Arrangement (after Allied TS opens)</b>			
<b>SLTS Waste to Allied Landfill</b>		<b>Allied Waste to Allied Landfill</b>	
\$23.85	Allied Transfer Fee (C)	\$22.00	SL Landfill Fee (A) savings
\$7.85	Allied Transfer Cost-SLTS (F)	\$2.00	Allied Distance Savings (D)
\$16.00	Allied Landfill revenue per ton	\$24.00	Allied TS revenue
165,000	Annual tonnage	\$3.00	Allied TS Processing Cost (E)
<b>\$2,640,000</b>	<b>Allied Landfill revenue</b>	\$7.15	Allied TS Cost-Allied TS (G)
		\$13.85	Allied Landfill revenue per ton
		0	Annual tonnage
		\$0.00	Allied Landfill revenue
<b>Allied Estimated Revenues <u>Without</u> Swap Arrangement (after Allied TS opens)</b>			
<b>SLTS Waste to Allied Landfill</b>		<b>Allied Waste to Allied Landfill</b>	
\$23.85	Allied Transfer Fee (C)	\$22.00	SL Landfill Fee (A) savings
\$7.85	Allied Transfer Cost-SLTS (F)	\$2.00	Allied Distance Savings (D)
\$16.00	Allied Landfill revenue per ton	\$24.00	Allied TS revenue
0	Annual tonnage	\$3.00	Allied TS Processing Cost (E)
\$0.00	Allied Landfill revenue	\$7.15	Allied TS Cost-Allied TS (G)
		\$13.85	Allied Landfill revenue per ton
		165,000	Annual tonnage
		<b>\$2,285,250</b>	<b>Allied Landfill revenue</b>

In addition to the economic benefit to Allied of swapping waste, it has been suggested that Allied is under some obligation to deliver a certain volume of “municipal solid waste” to the Allied Landfill. By swapping waste with the Facility, Allied may be able to swap its commercial waste, which will be delivered to the SL Landfill, for municipal solid waste from the SLTS, which it could use to satisfy obligations to provide such waste.

**Raised concerns**

Multiple groups have raised concerns with the prospect of the Facility entering a waste swapping arrangement with Allied. The concern raised most often is that Allied would be charging the Facility more to transfer waste from the SLTS than it charges to other government-operated transfer stations that are more distant from the Allied Landfill. For instance, Allied currently transports waste from transfer stations in Utah and Weber Counties to the Allied Landfill at rates between \$19.00 to \$23.00 per ton. It is questioned why the Facility would agree to pay Allied \$23.85 per ton when the SLTS is close to the Allied Landfill. We believe this concern is irrelevant to our analysis and ignores the key aspect of the arrangement. Even if the Facility could receive a substantially lower bid from Allied to transfer waste, the Facility would not benefit

unless the swap arrangement was also in place. Thus, while comparing Allied's per tonnage transfer rates shows the Facility might have been able to receive a better rate in the past, it is not a meaningful comparison for the present analysis which depends on the swapping term to be viable. We are aware of no comparison where Allied is involved in a swapping arrangement similar to the one proposed here.

Another concern raised by multiple sources is that the swapping arrangement would unfairly subsidize Allied. We do not believe the arrangement would be a subsidy; instead, it would be an arms-length market arrangement that provides a substantial benefit to the Facility that could not be otherwise realized. In principle, the Facility should be willing to enter a waste swapping arrangement with any party that can provide terms more favorable than Allied. In reality, Allied is likely the only entity that could enter such an arrangement with the Facility because it appears to be the only company that could swap the volume of waste needed to make the program operate. This office would support a swapping arrangement with any other company that could provide similar or better terms.

Others have expressed the concern that if the Facility enters the swapping arrangement, Allied could terminate the arrangement at any time after the Allied TS opens and leave the Facility without any means to transfer SLTS waste to the SL Landfill for several months until the Facility can acquire trucks to transport the waste. However, the mutual economic benefit provided by the swapping arrangement to both parties should ensure that neither party has an incentive to terminate it. That said, this office strongly supports providing the Facility an option to terminate the arrangement upon thirty days notice, as provided in the 1998 Contract. Should a similar exit option be provided to Allied, and should Allied exercise it, we believe the Facility could easily contract for temporary hauling services while it obtained the necessary equipment to haul the waste itself.

Finally, some have argued that if the Facility enters the swapping arrangement, Allied's competitors will cease delivering waste to any of the Facility's operations in order to avoid providing potential benefit to Allied, or simply in protest. We believe these concerns are unfounded. First, the waste swapped by SLTS to Allied would continue to be only that waste delivered to the SLTS by Salt Lake County, Salt Lake City, and South Salt Lake City. Other commercial waste collected at SLTS would continue to be transported by the Facility to the SL Landfill, thereby providing no benefit to Allied. Second, we believe private companies are motivated by economic prosperity and not by some desire to protest. If the Facility can provide a competitive service, we believe it will be utilized. The goal of the swapping arrangement would not be to benefit Allied, but to provide a benefit to the Facility that it could not otherwise obtain.

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If you have any questions, comments, or requests for additional information, please contact Victor Sipos of the Salt Lake County Auditor's office at (801) 468-3206.

Warmest regards,

/S/

Sean Thomas  
Salt Lake County Auditor

CC: Mayor Peter Corroon, Salt Lake County  
Mayor Ross C. "Rocky" Anderson, Salt Lake City  
Chairman Michael Jensen, Salt Lake County Council  
Darrin Casper, Salt Lake County Council Budget Director  
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