

Written Testimony of David L. Manning Before the Guam Public Utilities Commission in Support of the June 2012 Rate Request of the Guam Solid Waste Authority

Q. What is your full name?

A. David L. Manning

Q. What is your position?

A. I am the Receiver Representative for Gershman, Brickner & Bratton, Inc. ("GBB"), in its capacity as Receiver for the Guam Solid Waste Authority (GSWA).

Q. What education, special qualifications, or expertise do you have that assisted you in making this written testimony?

A. I have a Bachelor of Arts and a Master's Degree in Public Administration from the University of Alabama, and over 30 years experience in finance and public administration, including executive level positions in state and local government, with the private sector, and as an independent consultant.

I served as Director of Finance for the Metropolitan Government of Nashville and Davidson County, Tennessee from 1999 to 2007 with responsibilities that included management and oversight for the annual budget with expenditures of \$1.9 billion (FY2007); financial reporting and accounting on assets of \$5.8 billion (FY2007); financial and performance auditing; treasury with daily responsibility for investment of pension funds and cash of the City averaging in excess of \$2.5 billion; purchasing and property management; and construction management of projects in excess of \$100 million annually. I also served as the principal official responsible for planning, development and oversight of the Mayor's initiative to create a new "clean, green, and lean" solid waste plan for Nashville. Under the plan, Nashville successfully implemented curbside recycling, revitalized its district energy system and significantly reduced the City's overall cost for solid waste management in excess of \$200 million over the 20-year life of the capital investment.

I also served as Commissioner of Finance and Administration, the Chief Administrative and Financial Officer of the State of Tennessee from 1987 to 1995. In that capacity I was responsible for coordinating the management of Executive Branch agencies; preparing, implementing and monitoring the state's \$12.5 billion budget; accounting for all state revenues and expenditures; managing state government's data processing and technology needs; planning and managing the construction, acquisition and maintenance of state property; managing the health and life insurance for over 200,000 public employees and their dependents; and managing the state's Grants Management and Contracting process.

Previous positions also include Senior Vice President of Columbia/HCA Healthcare Corporation; and Executive Assistant to the State Treasurer of the State of Tennessee.

Q. Did anyone assist you with this testimony and the rate proposal?

A. Yes. I was assisted by the following individuals:

- **Harvey W. Gershman – President of GBB.** Mr. Gershman holds a Bachelor of Science Degree in Mechanical Engineering from Northeastern University and has been active in the solid waste management field as an adviser to government and industry for over 35 years. He has managed market studies, cost and feasibility analyses, contract development and negotiations, contractor procurements, and project financing activities for a broad range of recycling and solid waste management technologies and services. He has been instrumental in designing and conducting training and technical assistance programs for such organizations as the National Center for Resource Recovery, U.S. Environmental Protection Agency (EPA), the U.S. Department of Energy, and the Solid Waste Association of North America (SWANA). Mr. Gershman is the lead author and instructor for SWANA’s training course entitled “Economics, Costs, and Full Cost Accounting for Integrated Solid Waste Management Systems.” Mr. Gershman has been a member of the International Board of SWANA, the Board of Directors for the National Recycling Coalition (NRC), and The Council for Textiles Recycling. He served as President of the Maryland Recyclers Coalition (MRC), 1995-1997. In 1993, Mr. Gershman was awarded SWANA’s Professional Achievement Award.

Mr. Gershman was previously vice president of Gordian Associates, Inc., managing energy and environmental consulting. He led one of three technical assistance teams designated by EPA’s Office of Solid Waste to provide a comprehensive range of technical, operational, financial, legal, and institutional services to municipalities in resource recovery and solid waste management. Prior to then, Mr. Gershman was a project director/technical assistance engineer at the National Center for Resource Recovery, Inc., where he provided technical assistance in the planning of resource recovery programs.

- **Timothy J. Bratton - Senior Vice President, GBB (Retired).** Mr. Bratton holds a Master of Business Administration Degree from the University of Pittsburg, a Bachelor of Science Degree from Indiana University of Pennsylvania and has over 37 years of experience and expertise in resource recovery and solid and hazardous waste management. This includes extensive experience in project planning, procurement, economic analysis, and financing. He has managed and directed numerous recycling, resource recovery, and landfill feasibility studies; comprehensive solid waste management plans, full cost accounting studies, privatization evaluations, and independent cost analyses; due diligence investigations and environmental site assessments for facility acquisition; served as a key adviser in the planning and procurement of several modern waste management facilities now in operation; trained many solid waste professionals; and authored and co-authored numerous papers, studies, guides, and a book.

Prior to co-founding GBB, Mr. Bratton was a managing director of Gordian Associates, Inc. There he served as program director for the RCRA Technical Assistance Panel’s work in EPA’s Region I (New England) and as director of the firm’s hazardous waste practice. Before joining Gordian, he was Chief of the Resource Recovery Section of the Pennsylvania Department of Environmental Resources (PaDER), planning and directing statewide waste reclamation and developing and supervising a \$25 million financial assistance program for resource recovery and recycling development agencies.

- **Chace Anderson - Vice President, GBB.** Mr. Anderson holds a Bachelors Degree from the University of Maryland and over 20 years of experience in the solid waste management field. Most recently, Mr. Anderson served as project manager on the development of the successful proposal for a confidential client to collect, process and market single stream recyclable materials on the west coast. Previously, he was hired by the Metropolitan Government of Nashville and Davidson County to restructure its waste

management system and also became the director of its Division of Heavy Equipment Maintenance. While in that position he was responsible for approximately 160 full time positions and a combined annual budget of \$33 plus million. He developed and implemented a new waste management system that included single stream recycling collection for 120,000 units, implemented automated trash collection for 120,000 units, increased brush collection from 12,000 to over 30,000 tons a year from 160,000 units, implemented a national award winning environmental education program, and implemented a household hazardous waste collection program.

Mr. Anderson brings senior management experience from Nashville as well as a hands-on perspective developed as the Solid Waste Administrator for the Rivanna Solid Waste Authority (Charlottesville, Virginia). Before joining the public sector he owned a recycling collection company which worked out of Virginia in the 1980s and '90s.

- **Christopher A. Lund, P.E. - Vice President, GBB.** Mr. Lund holds a Bachelor of Science in Civil and Environmental Engineering from the University of Wisconsin-Madison. His experience includes, 6 years as Chief Engineer at the Guam Environmental Protection Agency (GEPA), 11 years with Dames & Moore/URS, and most recently over a year with Bowman Consulting Group. His solid waste management experience includes the performance of portions of feasibility studies, siting studies, planning, design (civil, environmental, geotechnical), and construction management. Mr. Lund has worked in Guam, Texas, California, Nevada, Utah, Virginia, Texas and the CNMI on solid waste management projects.

While Chief Engineer at GEPA, he administered Territory/State programs and activities of GEPA's overall engineering functions; approved engineering drawings, designs, and specifications for construction projects; directed and monitored budget development and administration; maintained a liaison with other federal and local departments in conceiving, planning, and executing engineering projects or programs; developed and implemented engineering standards, technical data, and procedures to serve as a guide for public and private engineers; monitored progress of projects/programs; recommended or made modifications in schedule or scope of work to ensure fulfillment of statutory requirements and technical objectives. He holds a P.E. license in Guam, Nevada and Virginia.

Q. Since GSWA remains in Receivership under the oversight of the District Court of Guam, why is this petition being submitted by the Receiver?

A. In the Order placing the Guam Solid Waste Authority (GSWA) into Receivership and in subsequent Orders, the District Court of Guam stated that the formal rate review process of the Government of Guam should be followed to establish the rates required to sustain the Solid Waste System. In September 2010, pursuant to the Orders of the Court, the Receiver filed a rate request based on the best information available at the time. However, given that there were several areas in the September 2010 rate request that needed more information than was available at that time, it was agreed between the Receiver and the Public Utilities Commission (PUC) that the GSWA should continue to operate under the interim rates established by the Receiver with the approval of the Court until more complete information became available. While there remain a few gaps in the information needed for establishing rates, there are always uncertainties in rate setting. Therefore, we believe that it is now appropriate to resubmit the rate request to the PUC.

Q. Is the Receiver recommending a rate increase from the interim rates approved by the Court?

A. No. We project that the current rates are adequate to provide for the operations and reserves of GSWA through 2015. However, when the Government of Guam issued its 2009A Limited Obligation (Section 30) Bonds, it anticipated that it would recover the full cost of the debt service on that portion of those bonds that were

allocated for construction of the Layon Landfill and its associated projects. As is common for such bond issues, the Government capitalized debt service payments on these bonds during the construction period. In other words, the debt service was paid from the bonds themselves during this period. Debt service was fully paid this way in first year after the bonds were sold. In year two this method of paying the debt service began phasing out and Section 30 revenue of the Government was used to make up the difference. To ensure that the bond holders are always secure, the full amount of debt service is paid from the Government's Section 30 revenue. The Government also anticipated that fees collected from solid waste customers would be set to allow GSWA to reimburse the Government for the Section 30 money used to pay the debt service. In December of 2010, GSWA began reimbursing the Government \$374,758.08 per month in accord with this provision an amount included in the current rate structure. This amount must increase to \$998,374.50 per month in December 2012 and for the months thereafter if the Government is to continue to be reimbursed for the cost of the debt service anticipated by the Government. Accordingly, we have calculated what the rates would have to be to reimburse the government this higher amount for debt service.

The need for this increase is not related to the operations of GSWA, therefore we take no position on the matter but we will facilitate the decision of the Government of Guam in this matter. If the Government wishes to fully reimburse itself for the debt service, the rate increase shown in this petition must be approved. If it is not approved, GSWA will continue to reimburse the government at the current level of \$374,758.08 per month. It is important to remember that the time frame for a decision is December 2012 if the government is to be reimbursed at the higher level.

Q. Why is there a need for both a Full Government Reimbursement Rate Option (i.e. one landfill) and a Two Landfill Rate Option?

A. Guam continues to consider the application of a private company to construct another landfill on Guam. We have publically stated on several occasions the reasons we believe permitting a second landfill is a mistake. We have also presented comments and concerns to the Administrator of the Guam Environmental Protection Agency (GEPA) and the Office of the Attorney General regarding the landfill permit application now pending before GEPA. We understand, however, that this is ultimately a decision for the elected leaders of Guam. However, during the time we are charged by the Court with responsibility for the assets of the solid waste management system, it is our fiduciary duty to protect these assets, and in order to do that, we must set rates with the understanding that an additional landfill puts these assets at risk.

If Guam allows only the Layon Landfill, we will be able to sustain rates that allow for full cost recovery, which includes reimbursing the General Fund of the Government of Guam for the Section 30 revenue it devotes to paying the debt service on the bonds used to build the landfill and its associated projects. Should Guam actually approve a permit for a second landfill, the only reasonable course of action for the Receiver, to ensure that the assets we are charged with protecting are actually protected to the best of our ability, is to reduce cost and the rates designed to recover this cost.

Rates must cover operating cost but do not have to cover debt service since it is already covered by the Government's Section 30 Revenue. With a "one landfill" business model, we have the ability to set rates to recover the debt service and in turn, this enables the Government to be reimbursed for the Section 30 Revenue it uses to pay for the bonds.

In a “two landfills” business model, it is not possible to maintain the rates at the level necessary to reimburse the Government for debt service on the bonds.

Q. Do the rates included in this petition include the Host Community Benefit premium required by Public Law 30-165?

A. No. As we understand the law it is the responsibility of the PUC to establish the Community Benefit Premium.

Q Does GSWA have a recommendation about how the PUC should assess the Community Benefit premium?

A. GSWA believes that it should treat the Community Benefit premium as an additional fee added to the regular fees required for the operation of GSWA. It should be shown as such on the invoices to GSWA customers. The law states that the premium should be set to provide \$300,000 annually. To generate this amount annually the premium must be applied equally to all tonnage for which tipping fees are charged. Tipping fees are not charged for most of the waste disposed of by Mayors and for certain community cleanup activities conducted by community groups on Guam. The projection for tonnage upon which this rate analysis is based is 92,184 tons annually. Within the total tonnage 8,222 tons are not charged for the reasons stated above.

The following table illustrates how the fee might be assessed to generate the amounts required by the law.

Category of Customer	Tons	Amount Required	Fee	Basis of Assessment
Commercial	62,965	\$ 224,979.16	\$3.57	Per Ton
Residential	20,996	\$ 75,020.84	\$0.38	Per Month
Total	83,962	\$ 300,000.00		

Note: Excludes 8,222 projected tons that are not billed to Mayors and community clean-up activities.

It should be noted that while the rate model actually projects 17,510 residential customers on average, the above calculations use 95% of that number for calculating the fee since the actual number tends to fluctuate from month to month.

Q. What is the current status of the Layon Landfill and have there been any significant operational problems since it began operating?

A. The Layon Landfill has operated without any significant problems since operations began on September 1, 2011.

Q. Why did the Receiver hire a contract operator for the Layon Landfill instead of using its own employees to operate the facility?

A. The Layon Landfill is a much more sophisticated facility than was the case with the Ordod Dump. As such it requires the expertise of an experienced operator with the necessary resources to properly manage the facility in compliance with the regulatory requirements that govern operation of such facilities. Further, it is required by the Receiver’s fiduciary duty to preserve and protect this vital asset for Guam. Herzog Environmental operates landfills in the mainland U.S. and has the trained personnel and other resources needed to efficiently

operate the landfill in an environmentally compliant manner and protect the significant investment made by Guam in this vital facility.

Q. How was the Operator of the Layon Landfill selected?

A. The operator was selected through a competitive Request for Proposal (RFP) process. The RFP was widely advertised and two experienced firms submitted proposals. After a thorough evaluation of the proposals, Herzog Environmental was determined to be both the lowest cost and best overall evaluated proposal.

Q. What is a Hauler-only Transfer Station?

A. A Hauler-only Transfer Station is a facility where trucks that collect trash from residential and commercial customers bring their loads to be consolidated into larger trucks (approximately 20 tons per load) for transport to the Layon Landfill. The purpose of the Hauler-only Transfer Station is to reduce the cost of transport to the Layon Landfill and minimize the truck traffic on the route to the Layon Landfill.

Q. Why did the Receiver decide to contract for the Hauler-only Transfer Station instead of building a new one owned by GSWA?

A. As is the case with the landfill itself, a single well-run Hauler-only transfer station is sufficient to meet all of Guam’s needs. In this case, Guam already had such a transfer station that was fully approved by Guam EPA and operating. With certain enhancements, which the owners were willing to make, the facility was able to meet GSWA’s needs in a cost effective way.

Q. What are the rates currently being charged by the GSWA and under what authority were the rates approved?

A. The current rates charged by the GSWA are as follows:

GSWA Interim Tipping and Collection Fees		
Category	Rate	Basis
Landfill Tipping Fee*	\$ 171.60	Per Ton
Discounted Landfill Tipping Fee**	\$ 156.00	Per Ton
Residential Curbside Collection	\$ 30.00	Month
Residential Transfer Station	\$ 7.50	Under 3 CY
Residential Transfer Station	\$ 15.00	Over 3 CY

*Waste enters landfill through Hauler-only Transfer Station.
**To receive the discounted fee haulers must: (1) pay all tipping fees within 60 days; (2) pay electronically using ACH; and (3) refrain from using PL 25-93.

These rates were authorized by the District Court based upon recommendations made by the Receiver. The rates were recommended and approved as interim rates that will remain in effect until the PUC approves permanent rates.

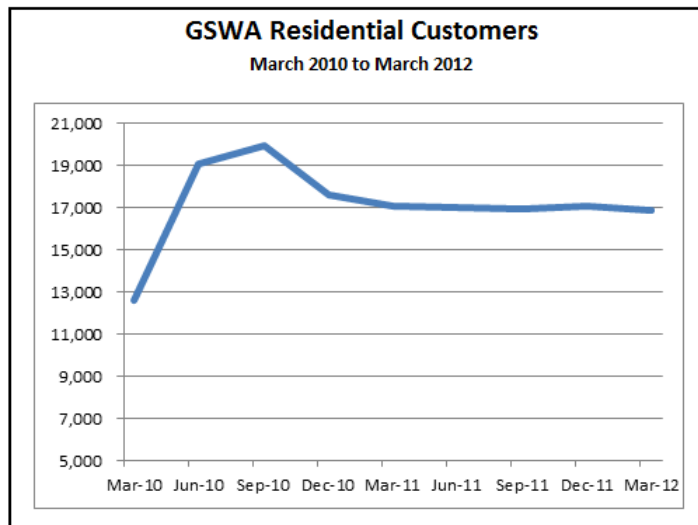
Q. What is the reason for the discount tipping fee?

A. The discount tipping fee was instituted to encourage commercial haulers to pay both efficiently and in a timely manner. It addresses three issues. The first issue relates to the method of payment. Prior to the discount rate, a growing number of payments from commercial haulers were made using credit cards through GuamPay, the Government of Guam's online payment system. The use of credit card payments for residential accounts is an efficient and effective way to pay for these services. However, when the large invoices of commercial haulers are paid in this way, the cost is excessive. While GuamPay is no longer in use by the Government, we believe it important to continue to encourage cost effective electronic payment. To receive the discount, commercial haulers must pay electronically via Automated Clearing House (ACH) transactions. ACH transactions are a very cost effective means of electronic payment. The second issue relates to timeliness of payment. Guam law allows 60 days for the payment of tipping fees but some commercial haulers were taking much longer. To receive the discounted rate, commercial haulers must pay on-time (i.e. within 60 days), thus providing an economic incentive for timely payment. The third issue relates to Guam Public Law 25-93 which allows commercial haulers to transfer the liability for the unpaid tipping fees of their customers to GSWA if they follow certain procedures set out in the law. Since GSWA has no business relationship with the customers of the commercial hauler, the law is cumbersome and difficult to manage from a business perspective. To receive the discount, commercial haulers must also agree not to invoke this law.

Q. Past audits, including the one performed by the Georgetown Group for the PUC, noted that the GSWA had poor control over its residential customer accounts and accounts receivable. How has this been addressed?

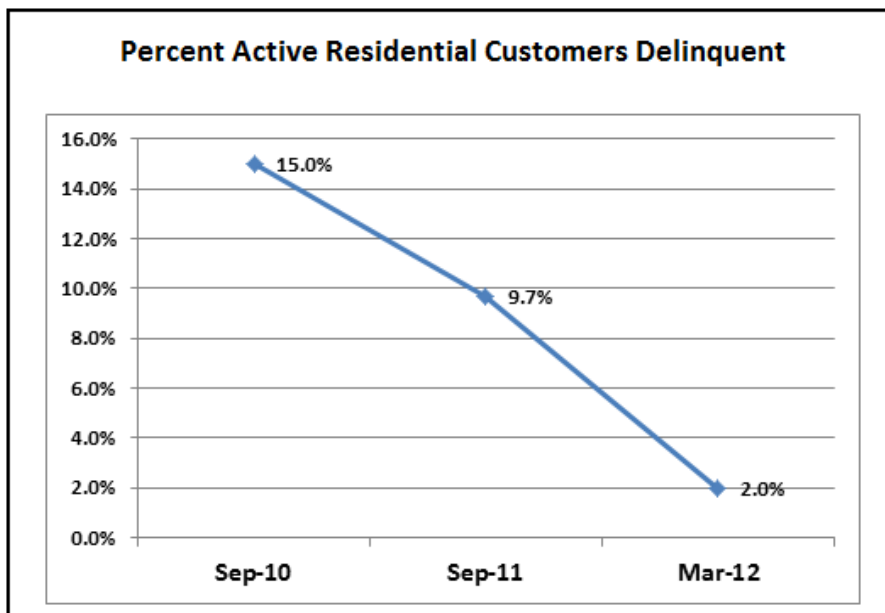
A. As noted in the previous request submitted to the PUC, the entire customer accounting and customer service system has been replaced with a system from Alpine Technology and an island-wide re-registration effort was undertaken to assure that the data problems in the old system were not transferred to the new system. Since the new system was implemented it has operated efficiently and has enabled GSWA to effectively manage its customer accounts for residential services and commercial haulers. Prior to the new system, GSWA served about 16,000 residential customers trash each month but only had about 12,500 customers registered in its data base. With the re-registration almost 20,000 customers originally registered for curbside trash collection. However, when enforcement of the payment of fees began, service to a number of customers was discontinued for non-payment. By early 2011 the customer base stabilized at about 17,000. The following figure graphically illustrates the change in the residential customer base.

Figure 1



GSWA has also made significant progress in addressing delinquent residential accounts. Figure 2 illustrates the progress made in this important matter.

Figure 2

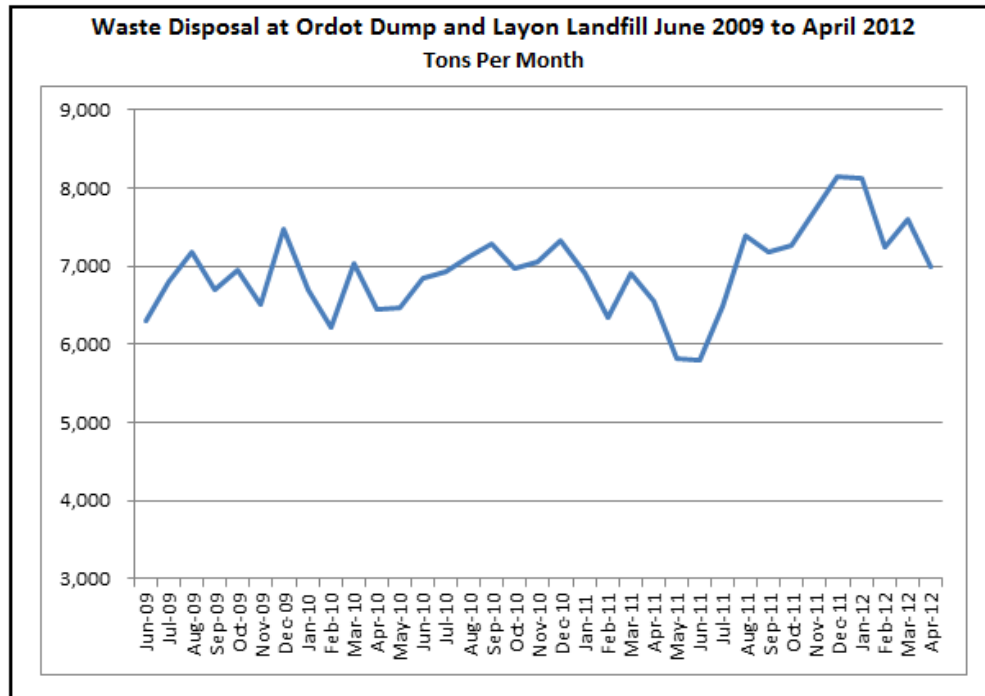


While delinquency rates will continue to fluctuate and it is unlikely that GSWA's residential delinquency rate will remain as low as it was in March 2012, significant progress has clearly been made in this area.

Q. As noted in the testimony accompanying the September 2010 rate filing and in audits prior to September 2010, GSWA has had a longstanding problem with the lack of a scale system to accurately weigh the waste entering the Ordot Dump. In the September 2010 testimony, significant progress was reported in this area. What is the current status of the scale system and how has the amount of waste changed since 2010?

A. The new scale system has continued to function well. The following Figure 3 graphically illustrates the changes, on a monthly basis, showing a relatively stable amount of waste. The dip during the April – May

Figure 3



time-frame in 2011 is both seasonal and affected by a brief outage of the scale system at the Ordot Dump. The significant increase shown in the fall of 2011 is primarily related to the use of the landfill by the Military on Guam. The NAVFAC contract for the use of the Layon Landfill began on October 1, 2011.

With the opening of the Layon Landfill, the scale system became more comprehensive than was the case with the Ordot Dump. GSWA now operates a scale system at the Hauler-only Transfer Station and a scale system at the Layon Landfill. The scale system at the Layon Landfill is has a full back-up to assure that all waste is weighed. The back-up of the scale system at the Layon Landfill is the system that was initially installed at the Ordot Dump. The scale was refurbished and relocated to the Layon Landfill after the Ordot Dump was closed.

Q. Has the policy of the GSWA changed since the 2010 rate request for determining when a residential customer account becomes delinquent?

A. GSWA continues to operate under the policy that was in effect at the time of the 2010 rate request. With the approval of permanent rates by the PUC, we recommend that the Commission also approve the policy for delinquent residential customers. The recommended policy is as follows:

Delinquent bills, discontinuance of service, service charges - After thirty (30) days from the billing date, any unpaid balance shall be considered late and shall result in a reminder call to the customer from the Customer Service Section of the GSWA. Any unpaid balance after sixty (60) days shall be considered delinquent and shall result in a letter notifying the customer that service will be discontinued unless the account is paid in full within thirty (30) days of the date on the letter. If the account is not paid in full within thirty (30) days of the date of the letter, service shall be terminated. The customer's trash cart(s) shall be recovered from the customer.

Restoration of service following collection of the account - Whenever any delinquent customer, whose service has been discontinued, pays the sum due plus pre-payment of an additional month of service and a fee of \$50 to defer the cost of restoring their service, service shall be restored.

Restoration of service following collection of the account by a collection agency - Whenever any delinquent customer, whose service has been discontinued and the account has been turned over to a collection agency, pays the total sum due plus service for an additional month and a fee of \$100 to defer the cost of restoring their service, service shall be restored.

Un-recovered or un-repairable carts – If for any reason the cart of a delinquent customer is not recoverable or is damaged beyond repair, the customer shall be responsible for the cost of a new cart before service may be restored. This cost shall be in addition to the fees outlined above.

Liability of the customer for payment of all unpaid bills and for any lost or damaged carts remains the responsibility of the customer even if service is not restored. Delinquent customers shall also be responsible for any reasonable collection costs incurred by the GSWA.

Q. In the 2010 Rate Request it was stated that the future capital costs of the Solid Waste System would be paid from reserves funded through the proposed rates. Please describe how that has changed and why it changed?

A. At the time of the 2010 Rate Request, we assumed that any savings in the bonds used to fund the construction of the Lanyon Landfill and its associated projects would be reallocated by the Government of Guam for other capital projects. This assumption was based on numerous conversations with government officials and the former Governor's work to obtain a loan from USDA for the expressed purpose of replacing the bonds to be used for the landfill so that the bonds could be reallocated to other priority projects of the Government of Guam. In the fall of 2010, however, we were informed by the Government that it had no interest in reallocation of the bonds and that GSWA would need to use all of the bond funds for solid waste purposes.

This change in the position of the Government of Guam required that funds from rates be redirected to debt service and that the bond funds that are remaining be allocated for the construction of future cells and the closure of cells when their capacity is reached. Accordingly, the reserves are now being funded with both cash from the rate structure and our current estimate of the bond savings from the construction of the Lanyon Landfill and associated projects. The rate structure presented with this Rate Request is based on this approach.

The current Governor has indicated some interest in reallocation the bonds to other priorities but has taken no concrete action. However, since all bond savings are being held as a contingency for the final closure and post

closure care of the Ordot Dump, any such reallocation will have to be deferred until we have final numbers as to the cost and post-closure cost of the Ordot Dump. In addition, since GSWA is currently paying the debt service on these bonds, the Government would have to take over payment of the debt service and, depending on the timing of such a change, any transfer of bonds would need to be discounted by the amount of debt service already paid by GSWA.

Q. What is the current status of the reserves of the GSWA?

A. The following table outlines the status of GSWA’s reserve accounts:

Reserves of the Guam Solid Waste Authority				
Jun-12				
Reserves	Bonds	Cash	Total	
Equipment Replacement Reserve	\$ -	\$ 454,476	\$	454,476
New Cell Development Reserve	\$ 22,500,000	\$ 33,399	\$	22,533,399
Cell Closure Reserve	\$ 7,500,000	\$ 33,399	\$	7,533,399
Post-Closure Care Reserve Layon Landfill	\$ -	\$ 66,898	\$	66,898
Post-Closure Care Reserve Ordot Dump	\$ -		\$	-
Total Reserves.....	\$ 30,000,000	\$ 588,172	\$	30,588,172

Note: The bonds allocated to these reserves are for future construction purposes and are subject to reallocation for the closure of the Ordot Dump and/or post-closure maintenance of the Ordot Dump if it becomes necessary. Cash held for these reserves is deposited in the respective reserve accounts at Citibank, Guam and the bonds are in the construction account for the 2009 Section 30 Bond issue at the Bank of Guam.

Q. Have the elements of the proposed rates changed since the 2010 Rate Filing?

A. No, the cost elements remain the same. These are:

- Operating cost for Layon Landfill
- Operating cost for Commercial Transfer Station
- Operating cost for Community Transfer Stations
- Residential Trash Collection
- Bulky and Metallic Waste collection
- Recycling
- Customer Service and Education
- Equipment Maintenance
- Household Hazardous Waste Program
- Administration
- Debt Service
- Reserve for Equipment Replacement
- Reserve for New Cell Development at the Layon Landfill
- Reserve for Closure of Cells at the Layon Landfill
- Reserve for Post Closure Care at the Layon Landfill

Q. What is the purpose of the equipment replacement reserve and assumptions upon which it is based?

A. The purpose of the equipment replacement reserve is to assure that the solid waste system has the financial resources needed to replace equipment as the need arises. Contributions to the reserve are based on the following assumptions:

- The average useful life of equipment is 7 years;
- Inflation is assumed to be 3 percent;
- Interest earnings are assumed to be 2 percent;
- The reserve will be managed by a third-party trustee; and
- Expenditures from the reserve are to be used exclusively for equipment.

Q. What is the purpose of the reserve for cell closure and assumptions upon which it is based?

A. The purpose of the reserve for cell closure is to assure that the solid waste system has the financial resources required by Guam and Federal Law to properly close cells when they reach capacity. Contributions to the reserve are based on the following assumptions:

- The average cell size is 11.7 acres;
- The average cost for closure is \$175,000 per acre (2010 dollars);
- The cost for the landfill gas management system is \$24,000 per acre(2010 dollars);
- Funds sufficient to pay for cell closure must be available as each cell reaches capacity;
- Inflation is assumed to be 3 percent;
- Interest earnings are assumed to be 2 percent;
- The reserve will be managed by a third-party trustee; and
- Expenditures from the reserve are to be used exclusively for cell closure.

Q. What is the purpose of the reserve for new cell development and assumptions upon which it is based?

A. The purpose of the reserve for new cell development is to assure that the solid waste system has the financial resources needed to properly construct cells 3-11 of the Layon Landfill in a timely manner.

Contributions to the reserve are based on the following assumptions:

- The average cell size is 11.4 acres;
- The average cost for new cells is \$900,000 per acre(2010 dollars);
- The average cell capacity is 1,680,180 cubic yards (CYs) for cells 3 through 11;
- The average annual cell consumption without the Military is 329,217 CYs;
- The average annual cell consumption with the Military is 438,167 CYs;
- Inflation is assumed to be 3 percent;
- Interest earnings are assumed to be 2 percent;
- The reserve will be managed by a third-party trustee; and
- Expenditures from the reserve are to be used exclusively for new cell construction.

Q. What is the purpose of the reserve for post closure care and assumptions upon which it is based?

A. The purpose of the reserve for post closure care is to assure that the solid waste system has the financial resources required by Guam and Federal Law to properly maintain the Landfill for 30 years after final closure of all cells. Contributions to the reserve are based on the following assumptions:

- Expenditures begin during first year after final closure of the Landfill;
- Expenditures continue for 30 years;

- Average cost of post-closure care is \$5,039 per acre, per year(2010 dollars);
- Reserve must be fully funded when the Landfill is closed;
- Inflation is assumed to be 3 percent;
- Interest earnings are assumed to be 4 percent;
- The reserve will be managed by a third-party trustee; and
- Expenditures from the reserve are to be used exclusively for post closure care.

Q. What are the results of the pilot curbside recycling program and what are the financial consequences of expanding the program to all residential customers?

A. The pilot program has been very successful allowing the Receiver to understand the recycling needs of residential customers and their level of interest and participation in the program. It has shown that such recycling programs will work in Guam in much the same way they work in mainland communities. The Receiver is presently evaluating the cost of expanding the program to all residential customers. If this can be accomplished within the current rate structure, with the Court’s approval, we will expand the program. If it cannot be accomplished within the current rate structure, we will need to consider with the Court and political leaders of Guam, the cost of the program to determine if the additional cost can be supported by increased rates or with other resources.

Q. How has the proposal for paying GWA for treatment of the leachate and for charging GWA for disposal of biosolids changed since the 2010 Rate Request?

A. In 2010 we anticipated an agreement between GSWA and GWA that would offset charges for disposal of biosolids by GWA with the cost incurred by GSWA for treatment of leachate from the Layon Landfill. Since 2010, several of the assumptions upon which such an agreement would have been based have been clarified. GSWA and GWA now have an agreement, approved by the PUC, to use GWA’s Commercial III class rate as the basis for GWA’s charge for leachate treatment. In addition, as operation of the Layon Landfill began and the treatment of leachate started, it became apparent that the cost of disposal of biosolids is significantly higher and that the cost of treating the leachate coming from the landfill. Average charges for treating leachate are expected to be about \$2,000 per month, while charges to GWA for disposal of biosolids are about \$20,000 per month. It is, therefore, very clear that the offsetting arrangement originally contemplated by GSWA and GWA will not work. As a result, the new agreement calls for each agency to pay its bills directly without the offsetting arrangement earlier contemplated. GWA’s current balance with GSWA for disposal is in excess of \$750,000. To address this balance and the ongoing charges for disposal of biosolids, GWA has indicated that it will request PUC approval to extend the “Navy Surcharge” beyond its scheduled termination date to pay these charges. It is expected that this will allow GWA to pay its outstanding balance in about one year and remain current thereafter. This is an acceptable approach to GSWA.

Q. How is the allowance for bad debt calculated?

A. The allowance for bad debt is estimated at 2 percent of tipping fee revenue and residential trash collection fees.

Q. Are the fees charged for use of the Transfer Stations (i.e. Agat, Dededo and Malojloj) sufficient to pay for their cost?

A. No. The interim rates approved by the Court and the rates now pending before the PUC increased the previous rates (pre-Receivership) for the Transfer Stations by approximately the same percentage as the increase for residential fees. By maintaining these rates at relatively low levels, an option is provided for customers needing a lower cost option for the proper disposal of waste, thereby discouraging illegal dumping.

Q. Will customers be charged for bringing Household Hazardous Waste (HHW) to the new HHW program for disposal?

A. No. The cost of this program is built into the overall rate structure. It is in the best interest of the GSWA and in keeping with environmental standards to promote policies and programs that keep these materials out of the Landfill. Accordingly, no customer or non-customer who brings such materials to the disposal site will be charged.

Q. What is the status of the HHW program?

A. GSWA is currently in the process of finalizing plans for a new residential transfer station at the GSWA Compound. This facility will replace the residential transfer station that closed when the Ordod Dump ceased operations. The facility will also include the HHW facility. We expect to finalize the construction schedule this summer. We will also issue an RFP for the operation of the HHW facility that will ensure that a qualified operator is under contract when construction is complete. .

Q. Is there a charge for recycling?

A. No. The cost for recycling is built into the overall rate structure. In order to encourage recycling and to preserve vital space in the Layon Landfill, there will be no charge for recycling.

Q. What factors that will have an effect of the rates of the system remain unsettled at this time? What is the time-frame for resolving these issues?

A. There are a number of factors that will have an effect on rates that are not final at this time. Among these are:

- Full implementation of the Guam Solid Waste Authority Act will require hiring of additional personnel with the associated benefit cost. This personnel will primarily be in the area of management and will be necessary to both replace Receiver personnel when the Receivership ends and meet all of the requirements of the new legislation;
- The cost of potentially implementing curbside recycling for all residential customers as discussed above;
- The actual cost of the Household Hazardous Waste program. While we have factored into our rates assumptions this cost we will not know the actual cost until the program is up and running;

- The buildup of Military personnel on Guam will have some effect but given the significant debate about this matter in Washington and Guam we are not in a position to estimate its impact on waste volumes; and
- A final decision on the private application for an additional landfill discussed above.

We appreciate the opportunity to present this information and look forward to working with the Commission to address any issues where we may be of assistance. We also encourage the Commission and other interested parties to review our quarterly reports to the District Court of Guam. All of these reports are available online at www.guamsolidwastereceiver.org.

I, the undersigned, declare that the foregoing written testimony is true of my own knowledge, except as to such matters as are stated to be upon information and belief, and as to those matters I believe them to be true.

RESPECTFULLY SUBMITTED this 18th day of June, 2012 by:



David L. Manning, Receiver Representative
Gershman, Brickner & Bratton, Inc.