

PPC 9477.1986(10)

FINANCIAL TEST (UNION CARBIDE, 3/86)

OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE

JUN 25 1986

MEMORANDUM

SUBJECT: Union Carbide's March 1986 Financial Test

FROM: Bruce Weddle, Director
Permits and State Programs Division (WH-563)

TO: Conrad Simon, Director
Air & Waste Management Division (2AWM)

I am responding to your May 2 memorandum concerning the Union Carbide financial test. Your memo requests assistance in determining whether the adjustments Union Carbide made are consistent with the criteria of the Subpart H financial test. I recommend that you disallow Union Carbide's use of the financial test for five reasons.

First, the firm fails the financial test because the procedures used to compute the test ratio (sum of net income plus depreciation, depletion and amortization (NIDDA) to total liabilities) does not satisfy the procedures prescribed in the Subpart H regulations. Based on the information available to us, if Union Carbide had followed those procedures, the firm would not have passed.

Second, the 0.1 cut-off value for the ratio of NIDDA to total liabilities is premised on the RCRA definition of NIDDA; incorporating other cash flow measures (e.g., fixed assets write-offs) might invalidate the credibility of the cut-off value as a predictor of firm viability.

Third, the write-off of fixed assets is not equivalent to asset depreciation (or depletion or amortization) under generally accepted accounting principles.

Fourth, by adding back the value of fixed asset write-offs to NIDDA, Union Carbide allegedly "improves" the measure of cash flow by \$615 million. However, as a result of reductions in the provision for deferred taxes associated with the fixed asset write-off, the net effect of the fixed asset write-off was very likely a decrease in cash flow in 1985.

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Finally, data from Union Carbide's "Consolidated Statement of Changes in Financial Position" reveals that using any one of three measurements of its cash flow in the cash flow to total liabilities ratio of the financial test will not provide the firm with a passing value for the ratio.

Attached to this memorandum are copies of memos prepared by ICF, our consultants, which explain in greater detail the rationale behind these five reasons.

In addition, although not strictly relevant to the question of acceptability of Union Carbide's financial test, I am concerned about the amount of some of the cost estimates listed in the test. I suspect closure cost estimates that are listed as \$5,373 and \$4,804 may not be adequate. Some of the other estimates also appear unusually low. I would suggest that all plans and cost estimates be reviewed for adequacy, if that has not yet been done.

Because Union Carbide owns or operates so many facilities across the nation, I want to ensure that all Regions and States with Union Carbide facilities are aware of this issue. I am sending all Regional Division Directors a copy of your incoming memorandum, my response, and a list, developed from their test submission and from HWDMS data, of their facilities. I appreciate your bringing this matter to my attention. If you have any additional questions regarding this matter, please contact Carole Ansheles on FTS 382-4761.

Attachments

cc: Hazardous Waste Division Directors, Regions I, III-X

bcc: R I-X Sub H contacts
KF - Eleanor Blayney
Jackie Tenusak - OSPE
Joe Friedman - OGC

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