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May 6, 2019

Mr. Robert Perreault
Director of Public Works
Plumas County
1824 East Main Street
Quincy, CA 95971-9795

Subject: 2019 Refuse Rate Index Adjustments

Dear Mr. Perreault:

R3 Consulting Group, Inc. (R3) was engaged by Plumas County (County) to assist with its review of the 2019 Refuse Rate Index (RRI) Rate Adjustment Applications for Intermountain Disposal Inc. (IMD) and Feather River Disposal Inc. (FRD) (collectively referred to as the "Contractors"). This letter report presents the results of that review.

Project Background

The County executed new franchise agreements (Agreements) with IMD and FRD effective April 1, 2017. Those Agreements terminate at midnight on March 31, 2027. Under the terms of the Agreements, beginning on July 1, 2018, and annually thereafter, the Contractors are to receive an annual adjustment to the rates through the RRI process as set forth in Attachment E of the Agreements (**Attachment 1**), unless a detailed rate review is conducted. **Attachment 2** is a copy of Section 12.04 of the Agreements (Refuse Rate Index), which provides information on the RRI process. As stated in Section 12.04, if the operating ratio (i.e., profit level) for the previous 12-month period falls within the range of values defined in Attachment A of the Agreements (i.e., an operating ratio of from 88.00% to 92.00%) no RRI adjustment will be made.¹

As specified in Section 12.04.C of the Agreement, on or before March 15, 2018 and annually thereafter the Contractors are to deliver to the County audited financial information per Section 10.05 of the Agreement for the preceding calendar year. Such information is to be in the format as set forth in Attachment E of the Agreements. If a Contractor fails to submit the financial information in the required format by March 15th, it is agreed that the Contractor shall be deemed to have waived the RRI adjustment for that year. Public Works received the 2018 financial statements electronically from FRD and IMD on March 15, 2019.

¹ As the operating ratio percentage increases the associated profit level decreases. An operating ratio of 92% equates to a profit level of 8.70%, while an operating ratio of 88% equates to a profit level of 13.64%.

Project Objectives

To determine if:

- The Contractors' are eligible for an RRI adjustment effective July 1, 2019; and if so
- The amount of the RRI adjustment.

Project Approach | Methodology

Per Section 12.04, if the operating ratio (i.e., profit level) for the previous 12-month period falls within the range of values defined in Attachment A (88% to 92%) no RRI adjustment will be made. The intent of that clause was to set the minimum profit level 92% that would trigger an RRI adjustment, but as drafted, unintentionally allows for an RRI adjustment for a profit level greater than 88%. Given our understanding that the County and Contractors' intent was to set 92% as the minimum profit level below which an RRI would apply, that is the standard upon which the determination of whether or not an RRI adjustment is to be made for this and all future RRI adjustments.

Intermountain Disposal

R3 calculated IMD's 2018 profit level at a 95.8% operating ratio, less than the 92% minimum profit level that triggers an RRI adjustment. As such, IMD is due a July 1, 2019 RRI rate adjustment.

The calculated July 1, 2019 RRI adjustment for IMD is 4.24% (**Attachment 3**). As noted, 1.86% of the overall rate increase is due to the increase in the Diesel Fuel index.

Feather River Disposal

FRD reported a net loss of \$84,076 for 2018. As such FRD due a July 1, 2019 RRI rate adjustment. It is noted, that FRD's 2017 financial statement reported as part of its 2018 financial statement, varies from its 2017 statement submitted in support of the 2018 RRI adjustment, with that original statement reporting a net profit of \$78,647 before income taxes and the revised statement reporting a net loss of \$98,556.

The calculated July 1, 2019 RRI adjustment for FRD is 4.76% (**Attachment 4**). As noted, 2.60% of the overall rate increase is due to the increase in the Diesel Fuel index.

Note: The differences in the calculated RRI rate adjustments for IMD and FRD are due to the differences in the percentage of each companies expenses associated with each RRI index.

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Mr. Robert Perreault

May 6, 2019

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We appreciate the opportunity to be of service to the County. Should you have any questions regarding this submittal, or need any additional information, please contact me by phone at (916) 947-4880 or by email at wschoen@r3cgi.com.

Sincerely,

R3 CONSULTING GROUP



William Schoen | Project Director

Attachments:

- 1 Franchise Agreement Attachment E - Refuse Rate Index
- 2 Franchise Agreement Section 12.04: Refuse Rate Index - Adjustments to the Rates
- 3 IMD 2019 RRI Calculation
- 4 FRD 2019 RRI Calculation

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ATTACHMENT E
REFUSE RATE INDEX

The Refuse Rate Index (RRI) adjustment shall be calculated in the following manner:

1. The expenses for the required franchised services for the designated fiscal period (January – December) shall be prepared in the format set forth in the “Operating Cost Statement” below.
2. The expenses for the required franchised services shall be broken down into the following six (6) cost categories: Labor; Diesel Fuel; Vehicle Replacement; Vehicle Maintenance, All Other, and Disposal. Each cost category is assigned a weighted percentage factor based on that cost category's proportionate share of the total of the costs shown for all cost categories.
3. The following five (5) indices published by the United States Department of Labor, Bureau of Labor Statistics (BLS), and the actual change in the disposal site tip fee are used to calculate the adjustment for each cost category. The change in each index and the tip fees is calculated on a twelve-month fiscal period in accordance with the terms of the agreement. In the event any index is discontinued, a successor index shall be selected by **County**. Successor indices shall be those indices that are most closely equivalent to the discontinued indices as recommended by the BLS.

<u>Cost Category</u>	<u>Index</u>
Labor	Series ID: ceu6056210008 Professional and business services – waste collection
Diesel Fuel	California No 2 Diesel Ultra Low Sulfur (0-15 ppm) http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp
Vehicle Maintenance	Vehicle Replacement Series ID: pcu336211336211 Motor vehicle body manufacturing
All Other	Series ID: cuusx400sa0 Consumer Price Index, All Urban Consumers, All Items; West – Size Class B/C
Disposal	The actual tip fee charged to Contractor by the disposal site.

The percentage weight for each cost category is multiplied by the change in each appropriate index to calculate a weighted percentage for each cost category. The weighted percentage changes for each of the six (6) cost categories are then added together to calculate the RRI.

Operating Cost Statement – Description

Labor: List all administrative, officer, operation and maintenance salary and benefit accounts.
List payroll tax accounts directly related to the above salary accounts.
List employee group medical and life accounts directly related to the above salary accounts.
List employee retirement or profit sharing contributions accounts directly related to the above salary accounts.
List Workers Compensation accounts directly related to the above salary accounts.
List contract labor accounts directly related to the above salary accounts.
List other employee costs (i.e. safety gear, boot allowance, etc.) directly related to the above salary accounts.

Diesel Fuel: List all diesel fuel accounts.

Attachment 1

Vehicle Replacement:

List all collection and collection-related vehicle depreciation accounts.

List all vehicle lease or rental accounts related to collection or collection-related vehicles.

Vehicle Maintenance:

List all collection or collection-related vehicle parts accounts.

All Other: List all other expense accounts related to the services provided under this agreement. This category includes all insurance including general liability, fire, truck damage, and extended coverage; rent on property, truck licenses and permits; real and personal property taxes; telephone and other utilities; employee uniforms; safety equipment; general yard repairs and maintenance; non-diesel fuel; office supplies; postage; trade association dues and subscription; advertising; and miscellaneous other expenses.

Disposal: List all disposal costs related to the provision of collection services.

Note: *The enactment, or application, of the Refuse Rate Index does not require the “targeted profit amount” to be addressed.*

An Example RRI Calculation:

In this example, the Refuse Rate Index is +2.54% (i.e., rates would be increased by 2.54%)

Item #	Category	Data Source	Percent Change ⁽¹⁾	Category Weight ⁽²⁾	Weighted Percentage Change ⁽³⁾
1	Labor	Series ID: ceu6056210008 Professional and business services – waste collection	2.19%	39.05%	+0.85%
2	Diesel Fuel	California No 2 Diesel Ultra Low Sulfur (0-15 ppm) http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp	4.74%	13.15%	+0.62%
3	Vehicle Replacement	Series ID: pcu336211336211 Motor vehicle body manufacturing	6.79%	2.57%	+0.17%
4	Vehicle Maintenance	Series ID: pcu333924333924 Industrial truck, trailer and stacker mfg.	0.16%	13.46%	-0.02%
5	All Other	Series ID: cuusx400sa0 Consumer Price Index, All Urban Consumers, All Items; West – Size Class B/C	1.70%	18.75%	+0.32%
6	Disposal	Average of Change in Disposal Facility Tip Fees	4.60%	13.02%	+0.60%
Example RRI				100%	+2.54%

⁽¹⁾ The percentage change in the indices from year to year.

⁽²⁾ Each category's percentage of the **Contractor's** total operating costs.

⁽³⁾ The product of percentage change x category weight.

Attachment 2

hundred and eighty (180) calendar days prior written notice by either Party. In the event of termination of this agreement, each Party shall be entitled to payment of amounts due to them through the date of termination, but shall otherwise have no further obligation to one another pursuant to this agreement after the date of termination

E. **County** shall have no obligation to pay **Contractor** for anticipated or actual revenues not collected by **Contractor** due to a successful challenge to the rates or in the event that a court or regulatory agency ruling overturns a rate or rate adjustment that was approved by **County**.

12.03: INITIAL RATES

The rates that are in place as of the Effective Date of this agreement are the initial rates that will be used as the base rates for year one. The initial rates are shown in the rate schedule shown as Attachment D, as determined by the Plumas County Board of Supervisors in Resolution No. 17-8228. Subsequent rate adjustments shall also be established by resolution of the Board of Supervisors, and shall appear as the rate schedule shown in Attachment D, as amended from time to time, replacing the prior rates.

12.04: REFUSE RATE INDEX - ADJUSTMENTS TO THE RATES

A. **Adjustments to the Rates Using the Refuse Rate Index (RRI).** Beginning on July 1, 2018, and annually thereafter, **Contractor** shall, subject to compliance with all provisions of this Article and the provisions of all pertinent legal requirements including, but not limited to Proposition 218, receive an annual adjustment in of the rates through the Refuse Rate Index process as set forth in Attachment E of this agreement. If the Operating Ratio for the previous 12 month period falls within the range of values defined in Attachment A, no RRI adjustment will be made. Beginning on July 1, 2018, and annually thereafter during the Term of this agreement, the rates then in effect shall be adjusted by the RRI adjustment set forth below. In any year that the calculation of the RRI results in a negative number, there shall be no adjustment in the rates, unless the negative RRI adjustment exceeds five percent (5.00%). Instead, the negative RRI number shall be added to the result of the subsequent years RRI calculation and the result shall be the RRI adjustment for that subsequent year.

B. **12-Month Annual Average.** The RRI adjustment shall be the sum of the weighted percentage change in the 12-month annual average of each RRI index number between the base year, which shall be the second preceding Calendar Year ending December 31st and the preceding Calendar Year ending December 31st as contained in the most recent release of the source documents listed in Attachment E, ("Refuse Rate Index") which is attached to and included in this agreement. Therefore, the first rate adjustment under this Section will be based on the percentage changes between the 12-month annual average of the RRI indices for the Calendar Year 2017 and the annual average of the RRI indices for the Calendar Year ending 2016. The RRI shall be calculated using the RRI methodology included in Attachment E.

C. **RRI Financial Information.** On or before March 15, 2018, and annually thereafter during the Term of this agreement, **Contractor** shall deliver to **County** audited financial information per Section 10.05 for the specific services performed under this agreement for the preceding Calendar Year. Such financial information shall be in the format as set forth in Attachment E, and shall be allocated between curbside collection services and all other collection and disposal services, or as may be further revised by agreement of the Parties. If **Contractor** fails to submit the financial information in the required format

Attachment 2

by March 15th, it is agreed that **Contractor** shall be deemed to have waived the RRI adjustment for that year. **Contractor's** failure to provide the financial information by March 15th shall not preclude **County** from applying the RRI using the prior year's financial data, or pro forma data if no prior year financial data is available, if that Application would result in a negative RRI.

1. Annual adjustments shall be made only in units of one cent (\$0.01). Fractions of less than one cent (\$0.01) shall not be considered in making adjustments. The indices shall be truncated at four (4) decimal places for the adjustment calculations.
2. If **Contractor's** failure to submit the required financial information by March 15th is the result of extraordinary or unusual circumstances as demonstrated by **Contractor** to the satisfaction of **County**, **County** at its sole discretion, may extend its review period to consider the request for the annual RRI rate adjustment.
3. As of June 15, 2018, and annually thereafter during the Term of this agreement, **County** shall notify **Contractor** of the RRI adjustment to the affected rates to take place on July 1st of that year. The administrator reserves the right to change the notification and implementation dates of the RRI adjustment if necessary, due to unforeseen delays in completing the rate adjustment process.

D. **Allocation of Rates within the Refuse Rate Index (RRI) Adjustment.** After determining the annual RRI adjustment for all services, **Contractor** and **County** may elect to adjust the rates applicable to particular or specific services or groups of services in order to ensure that the rates reflect the actual cost of providing those specific services. Various rates may be adjusted by more or less than the RRI, and shall be based upon the allocation of costs between curbside collection and all other collection and disposal services, so long as the total adjustment in the rates for all residential collection, commercial and transfer station services is less than or equal to the total adjustment in the RRI adjustment. **Contractor** and **County** shall cooperate in good faith to determine the exact amount and allocation of such adjustments.

12.05: COUNTY OR CONTRACTOR REQUESTED DETAILED RATE REVIEW

Notwithstanding the rate adjustment procedures described in Sections 12.02 and 12.04 above, **County** or **Contractor** may request a detailed rate review to be conducted following the procedures as set forth in Attachment F to this agreement. However, a detailed rate review shall not be conducted more than once every three (3) Calendar Years. A request for a detailed rate review shall be made in writing at least four (4) months prior to the beginning of the Fiscal Year in which the results for the detailed rate review are to be applied. **Contractor** shall pay all reasonable costs for each detailed rate review whether incurred by **Contractor** or **County**, and the cost of such a detailed rate review shall be an allowable Pass-Through Cost.

Attachment 3

	B	C	D	E	F
2	InterMountain Disposal				
3		2019			
4			% of Total	Change in Index	Weighted Average
5	Labor	\$590,904	35.06%	2.04%	0.71%
6	Diesel Fuel	\$119,169	7.07%	26.31%	1.86%
7	Vehicle Replacement	\$175,016	10.38%	2.65%	0.28%
8	Vehicle Maintenance	\$151,285	8.97%	3.35%	0.30%
9	All Other	\$333,083	19.76%	2.89%	0.57%
10	Disposal	\$316,188	18.76%	2.76%	0.52%
11	Total	\$1,685,645	100.00%		
12					
13			RRI Adjustment =	4.24%	

Attachment 4

	B	C	D	E	F
4	Feather River Disposal				
5		2019			
6			% of Total	Change in Index	Weighted Average
7	Labor	\$1,127,825	40.68%	2.04%	0.83%
8	Diesel Fuel	\$273,883	9.88%	26.31%	2.60%
9	Vehicle Replacement	\$66,745	2.41%	2.65%	0.06%
10	Vehicle Maintenance	\$88,898	3.21%	3.35%	0.11%
11	All Other	\$923,562	33.31%	2.89%	0.96%
12	Disposal	\$291,631	10.52%	1.95%	0.21%
13	Total	\$2,772,544	100.00%		
14					
15			RRI Adjustment =	4.76%	