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June 15, 2017

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

**Subject: Feather River Disposal Waste Collection Cost of Service Rate Study**

Dear Mr. Perreault:

R3 Consulting Group, Inc. (R3) was engaged by Plumas County (County) to conduct a Cost of Service Rate Study of Intermountain Disposal Inc. (IMD) and Feather River Disposal Inc. (FRD). This letter report presents the results of our Cost of Service Rate Study for FRD. The results of our Cost of Service Rate Study for IMD have been provided to the County in a separate report.

## Project Background

It is County Counsel's position that the rates charged for residential collection are considered to be property-related fees, and are therefore subject to the limitations of Proposition 218. This being the case, the FRD's and IMD's rate structures must be justified by a cost of service study (nexus study) that evaluates the costs that go into the rates for residential collection, and the fee schedules proposed for each of the two new franchise agreements must reflect the rates set in that study.

## Project Objectives

- To determine the relative cost of FRD's franchised residential, commercial, and roll-off services, and transfer station operations (lines of business);
- Compare those costs to the associated revenues, and
- Determine what, if any, overall adjustments need to be made to the rates for each of those services so that they cover the costs without any associated subsidy or shortfall.

## Project Approach

Cost of service analysis is a key aspect of compliance with Proposition 218 requirements. Cost of service analysis can be conducted on two levels:

- Line of Business Cost of Service Analysis – The analysis of revenues and expenses among lines of business (e.g., residential, commercial, industrial) with the intent of balancing revenues and expenses to eliminate any subsidies that may exist across lines of business (e.g., commercial rates subsidizing residential rates); and
- Individual Rate Cost of Service Analysis – The analysis of rates and the relationships between rates within a given rate structure to determine the extent to which an individual rate reflects the cost of the associated service level (e.g., the cost to service a 4-yard container one time per week compared to the cost to service a 1-yard container four times per week).

For this project, the review was limited to a line of business, cost of service analysis. The cost of service study for FRD was based on its revenues and expenses as reported in its FY 2015 financial statement, which also formed the basis for the review of FRD's recent rate adjustment request. Those revenues and expenses were then allocated among the following FRD operations:

- Residential services;
- Commercial container services;
- Roll-off services; and
- Transfer station operations.

Revenues were directly assigned to each of the above operations. The following factors were used to allocate FRD's associated expenses:

- **Routes**<sup>1</sup> (payroll, accounting, contract labor, depreciation, equipment maintenance, equipment rental, gas and oil, insurance, tires, uniforms);
- **Percentage of payroll** (employee benefits);
- **Revenues** (administration fees, advertising and promotion, corporate overhead, miscellaneous, office supplies, operating supplies, property taxes, taxes and licenses, travel, utilities and telephone);
- **Write-offs** (bad debt);
- **Customers** (bank charges);
- **Disposal loads** (solid waste disposal); and
- **Direct assignment** (contributions, franchise fees, subcontractor costs).

For purposes of determining cost of service rate adjustments, commercial container services and roll-off services were considered on a combined basis as a single "commercial" rate category. This was done to account for the significant annual variability in costs and revenues that can occur within roll-off services, which are highly sensitive to economic factors (e.g., housing construction). For purposes of determining the cost of service of FRD's transfer station operations, it was assumed that the transfer station revenues fully cover the cost of the use of those facilities by self-haulers. The additional expenses associated with the operation of the transfer stations, above and beyond the associated revenues (i.e., the transfer station shortfall), was allocated among FRD's residential, commercial and roll-off operations, which also use those facilities.

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<sup>1</sup> Or based primarily on routes.

Determining the FRD's rate adjustments involved a two (2) step process:

1. Calculating cost of service rate adjustments to each line of business, which does not change the amount of revenues (i.e., is revenue neutral) but reallocates them on a cost of service basis; and
2. Applying FRD's agreed-upon 4.87% overall rate increase across the board (i.e., to all lines of business), and adding the two (2) adjustments together to get the total rate increase by line of business.

## Findings

- The following table provides the resulting calculated cost of service rate adjustments, FRD's recommended 4.87% rate adjustment, and the overall (net) rate adjustment for each of line of business:

Rate Adjustment Component	Line of Business		
	Residential	Commercial	Transfer Station
Cost of Service Rate Adjustment	4.09%	-3.06%	0.00%
Recommended Rate Adjustment	4.87%	4.87%	4.87%
<b>Overall (Net) Rate Adjustment</b>	<b>8.96%</b>	<b>1.81%</b>	<b>4.87%</b>

As shown, on a cost of service basis, residential rates need to be increased by 4.09% and commercial rates decreased by 3.06%, to address the calculated shortfall in residential revenues and surplus in commercial revenues (i.e., commercial rates are currently subsidizing the residential rates). Overall, residential rates need to be increased by 8.96%, commercial rates increased by 1.81% and transfer station rates increased by 4.87%.

- Having established the above cost of service rates, future rate adjustments would be applied to all rates (i.e., across the board) to maintain cost of service rates.

## Limitations

Any number of allocation factors may be considered reasonable for purpose of allocating costs, and use of one such factor versus another can have a material impact on the resulting cost of service results. In addition, changes in the economy, account migration, differences in the relative growth of the residential vs. commercial sectors, and other factors can also have a material impact on the cost of service over time. With that said, we believe that the factors and assumptions used to develop the above cost of service rate adjustments are reasonable.

Mr. Robert Perreault

June 15, 2017

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We appreciate the opportunity to be of assistance to the County. Should you have any questions regarding this submittal, please do not hesitate to contact me by phone at (916) 782-7821 or by email at [wschoen@r3cgi.com](mailto:wschoen@r3cgi.com).

Sincerely,

**R3 CONSULTING GROUP**

A handwritten signature in blue ink that reads "William H. Schoen".

William Schoen | Principal

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