

April 13, 2022

Ms. Sean Graham  
Plumas County  
1824 East Main Street  
Quincy, CA 95971-9795

**Subject: Final Report - 2022 Refuse Rate Index Adjustment - Intermountain Disposal**

Dear Ms. Graham:

R3 Consulting Group, Inc. (R3) was engaged by Plumas County (County) to assist it with calculating the 2022 Refuse Rate Index (RRI) rate adjustment for Feather River Disposal Inc. (FRD) and Intermountain Disposal (IMD), collectively referred to as the "Contractors". This letter report presents the results of the RRI calculation for IMD. The results of our RRI calculation for FRD are provided in a separate report.

## 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 Refuse Rate Index (RRI) process as set forth in Attachment E of the Agreements (**Attachment 1**). As stated in Section 12.04 of the Agreement, 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 88.00% to 92.00%) no RRI adjustment will be made.<sup>1</sup>

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 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 County and the Contractors. Section 12.04.C also states that *"If Contractor fails to submit the financial information in the required format by March 15<sup>th</sup>, it is agreed that Contractor shall be deemed to have waived the RRI adjustment for that year."*

## Project Objectives

To determine if:

- IMD is eligible for an RRI adjustment effective July 1, 2022; and if so
- The amount of the RRI adjustment.

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<sup>1</sup> 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%.

## Minimum Profit Level

Per Section 12.04 of the Agreements, 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%. As first stated in our 2018 RRI report, our understanding that the County and Contractors' intent was to set 92% as the minimum profit level below which an RRI would apply, which is how that has been interpreted for all RRI reviews to date, and is the guideline for this review.<sup>2</sup>

As defined in the Agreements:

- “Operating Ratio” means the ratio, expressed as a percentage of the net operating costs actually incurred by Contractor, exclusive of Pass-Through Costs and Non-Allowable Costs, divided by the Contractor’s net income.
- “Pass-Through Costs” means a cost to which no element of overhead, administrative expense, or Profit is added, ...including, without limitation, tipping fees, assessments and other charges at any designated transfer facility or disposal site, franchise fees, or other fees payable by Contractor to County or any other governmental agency on services, including rent payment and property taxes paid for the use of County-owned facilities.
- “Non-Allowable Costs” means those contract-related costs deemed non-allowable in Section 10.05(A)(5) of this agreement.<sup>3</sup>

## Findings

- IMD submitted the required financial information to the County prior to the March 15<sup>th</sup> deadline, as required.
- IMD’s 2021 profit level was a **93.38%** operating ratio (**Attachment 2**). That profit level is less than the 92% minimum profit level that triggers an RRI. As such, IMD is due a July 1, 2022 RRI rate adjustment.
- The calculated July 1, 2022 RRI rate increase is **6.41%**.

\* \* \* \* \*

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<sup>2</sup> The RRI calculation has historically used lagging Disposal tip fees for the Disposal component adjustment, consistent with the use of lagging indices for each of the other RRI components.

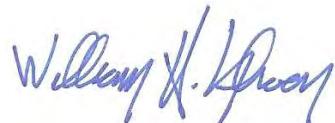
<sup>3</sup> Section 10.05(A)(5) is an incorrect reference. Non-allowable costs are listed in Section 10.5(B)(16).

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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) 782-7821 or by email at [wschoen@r3cgi.com](mailto:wschoen@r3cgi.com).

Sincerely,

**R3 CONSULTING GROUP**

A handwritten signature in blue ink, appearing to read "William H. Schoen".

William Schoen | Project Director

Attachments:

- 1 Franchise Agreement Attachment E - Refuse Rate Index
- 2 IMD Profit Calculation
- 3 IMD RRI Calculation

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Final Report - 041322.docx

## 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.

<b><u>Cost Category</u></b>	<b><u>Index</u></b>
Labor	Series ID: ceu6056210008 Professional and business services – waste collection
Diesel Fuel	California No 2 Diesel Ultra Low Sulfur (0-15 ppm) <a href="http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp">http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp</a>
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 <b>Contractor</b> 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.

**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 <sup>(1)</sup>	Category Weight <sup>(2)</sup>	Weighted Percentage Change <sup>(3)</sup>
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) <a href="http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp">http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp</a>	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%
<b>Example RRI</b>				100%	+2.54%

<sup>(1)</sup> The percentage change in the indices from year to year.

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

<sup>(3)</sup> The product of percentage change x category weight.

	A	B	C	D	E	F	G	H	I	J	K	L
15	<b>Operating Expenses</b>											
16	Labor							Pass-Through	Non-Allowable		Base Profit	
17	Payroll - route					322,599						
18	Payroll - office					91,438						
19	Payroll - company executive officer					88,374						
20	Payroll - transfer station					61,316						
21	Payroll - taxes					48,728						
22	Retirement plan contribution					98,913			41,163			
23	Workers' compensation insurance					25,136						
24	Employee benefits					24,428						
25	Casual labor					318						
26												
27	Total Labor					761,250						
28												
29	Diesel Fuel											
30	Diesel fuel					117,852						
31												
32	Total Diesel Fuel					117,852						
33												
34	Vehicle Replacement											
35	Depreciation - vehicles					166,929						
36	Equipment rent					28,146						
37												
38	Total Vehicle Replacement					195,075						
39												
40	Vehicle Maintenance											
41	Vehicle maintenance					36,820						
42	Tires					37,152						
43												
44	Total Vehicle Maintenance					73,972						
45												
46	Disposal											
47	Dump fees					247,446		247,446				
48	Franchise fees					152,827		152,827				
49	Hazardous waste					12,055		12,055				
50	Transfer station rental					9,600		9,600				
51	Commingled material fees					10,558		10,558				
52												
53	Total Disposal					432,486						
54												
55	All Other											
56	Building rent - related party					69,102						
57	Accounting					60,438						
58	Insurance					60,445						
59	Business taxes, licenses and fees					40,220						
60	Operating and office supplies					26,681						
61	Depreciation - equipment					15,435						
62	Telephone and internet					18,253						
63	Utilities					13,697						
64	Equipment maintenance					1,296						
65	Equipment rental - related party					9,719						
66	Consulting fees					409						
67	Other rent					6,388						
68	Fuel, oil and lubricants					6,294						
69	Depreciation - leasehold improvements					3,080						
70	General maintenance					13,237						
71	Association dues					3,038						
72	Bad debts					10,504						
73	Entertainment					1,601						
74	Advertising and promotion					-						
75	Depreciation - office					1,063						
76	Legal					113						
77	Charitable contributions					1,500						
78												
79	Total All Other					362,513						
80												
81	Total Operating Expenses					1,943,148		432,486	41,163		1,469,499	
82												
83	<b>Operating Income</b>					97,230		<b>Operating Ratio =</b>	<b>93.38%</b>			

	A	B	C	D	E	F	G	M	N	O	P	Q
						2021						
						Amount		RRI Calculation				
3	<b>Revenue</b>							Category	Percent Change	Category Amount	Category Weight	Weighted % Change
4	Commercial					\$ 605,544		Labor	5.45%	761,250	41%	2.23%
5	Residential					456,819		Diesel Fuel	23.30%	117,852	6%	1.47%
6	Transfer station					374,609		Vehicle Replacement	5.37%	195,075	10%	0.56%
7	Roll-off containers					270,979		Vehicle Maintenance	7.39%	73,972	4%	0.29%
8	Tipping fees					138,382		All Other	4.94%	362,513	19%	0.96%
9	Tipping fees - related party					143,127		Disposal	4.74%	351,512	19%	0.89%
10	Special service					26,976		TOTAL		1,862,174	100%	
11	Recycling					23,942						
12												
13	Total Revenue					2,040,378						
14												
15	<b>Operating Expenses</b>											
16	Labor											
17	Payroll - route					322,599						
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