

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.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 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 15th, 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.

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%.

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.²

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.³

Findings

- IMD submitted the required financial information to the County prior to the March 15th 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%**.

* * * * *

² 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.

³ 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.

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.

| <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 Replacement Series ID: pcu336211336211 Motor vehicle body manufacturing |
| Vehicle Maintenance | Series ID: pcu333924333924 Industrial truck, trailer and stacker mfg. |
| 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.

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.

| | A | B | C | D | E | F | G | H | I | J | K | L |
|----|---------------------------|---------------------|---------------------------------------|---|---|-----------|---|--------------------------|------------------|---------------|---|-----------|
| 15 | Operating Expenses | | | | | | | Pass- | Non- | Base | | |
| 16 | | Labor | | | | | | Through | Allowable | 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 | | | Operating Income | | | 97,230 | | Operating Ratio = | | 93.38% | | |

Attachment 3

| | A | B | C | D | E | F | G | M | N | O | P | Q |
|----|--------------------|---------------------------------------|---|---|---|------------|---|---------------------|----------------|-----------------|-----------------|-------------------|
| 1 | | | | | | 2021 | | | | | | |
| 2 | | | | | | Amount | | RRI Calculation | | | | |
| 3 | Revenue | | | | | | | Category | Percent Change | Category Amount | Category Weight | Weighted % Change |
| 4 | | Commercial | | | | \$ 605,544 | | | | | | |
| 5 | | Residential | | | | 456,819 | | | | | | |
| 6 | | Transfer station | | | | 374,609 | | Labor | 5.45% | 761,250 | 41% | 2.23% |
| 7 | | Roll-off containers | | | | 270,979 | | Diesel Fuel | 23.30% | 117,852 | 6% | 1.47% |
| 8 | | Tipping fees | | | | 138,382 | | Vehicle Replacement | 5.37% | 195,075 | 10% | 0.56% |
| 9 | | Tipping fees - related party | | | | 143,127 | | Vehicle Maintenance | 7.39% | 73,972 | 4% | 0.29% |
| 10 | | Special service | | | | 26,976 | | All Other | 4.94% | 362,513 | 19% | 0.96% |
| 11 | | Recycling | | | | 23,942 | | Disposal | 4.74% | 351,512 | 19% | 0.89% |
| 12 | | | | | | | | TOTAL | | 1,862,174 | 100% | |
| 13 | | Total Revenue | | | | 2,040,378 | | | | | | |
| 14 | | | | | | | | | | | | |
| 15 | Operating Expenses | | | | | | | | | | RRI Adjustment | 6.41% |
| 16 | | Labor | | | | | | | | | | |
| 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 | | | | | | |
| 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 | | | | | | |
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| 46 | | Disposal | | | | | | | | | | |
| 47 | | Dump fees | | | | 247,446 | | | | | | |
| 48 | | Franchise fees | | | | 152,827 | | | | | | |
| 49 | | Hazardous waste | | | | 12,055 | | | | | | |
| 50 | | Transfer station rental | | | | 9,600 | | | | | | |
| 51 | | Commingled material fees | | | | 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 | | | | | | |
| 82 | | | | | | | | | | | | |
| 83 | | Operating Income | | | | 97,230 | | | | | | |
| 84 | | | | | | | | | | | | |

| Franchise Fee Adjustment | | |
|-----------------------------|----|----------|
| Total Disposal | \$ | 432,486 |
| FF 3rd Qtr | \$ | (46,345) |
| FF 4th Qtr | \$ | (34,629) |
| Adj. Disposal for RRI Calc. | \$ | 351,512 |