

March 24, 2023

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

Subject: Letter Report: 2023 Refuse Rate Index Adjustment - Feather River Disposal

Dear Ms. Graham:

R3 Consulting Group, Inc. (R3) was engaged by Plumas County (County) to assist it with calculating the 2023 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 FRD. The results of our RRI calculation for IMD 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."*

Both FRD and IMD take solid waste to the Lockwood Regional Landfill in Nevada which is owned by Waste Management. For purposes of establishing the change in the Disposal component of the RRI we used the change in the per ton tip fee that Waste Management charges to IMD to set the Disposal component percentage adjustment for both FRD and IMD. That annual increase is tied to the percentage change in the Consumer Price Index-U.S. City Average-Garbage and Trash Collection Series IDCUUR0000SEHG02.

Project Objectives

To determine if:

- FRD is eligible for an RRI adjustment effective July 1, 2023; and if so

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%.

- The amount of the RRI adjustment.

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.

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.²

Findings

- FRD submitted the required financial information to the County prior to the March 15th deadline, as required.
- FRD reported a net loss on the County's contract for 2022 (**Attachment 2**). As such, FRD would be due a July 1, 2023 RRI rate adjustment per the profit guidelines in the Agreement.
- The calculated July 1, 2023 RRI rate increase is **9.08%** (**Attachment 3**).

The **9.08%** calculated rate increase is somewhat higher than the corresponding annual change in the CPI of 8.15%, and is largely driven by the significant increase in the Diesel Fuel index between 2001 and 2002, which increased more than 40%. Vehicle Replacement and Vehicle Maintenance index increases also exceeded the annual CPI increase.

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² Section 10.05(A)(5) is an incorrect reference. Non-allowable costs are listed in Section 10.5(B)(16).

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March 24, 2023
Page 3 of 3

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 FRD Profit Calculation
- 3 FRD RRI Calculation

<https://r3cgi.sharepoint.com/Shared%20Documents/R3%20Shared/+/Projects/PLUMAS%20COUNTY/Plumas%20County%202023%20RRI/FRD/2023%20Report/Plumas%20County%20-%20FRD%20-%202023%20RRI%20Letter%20Report%20-%20032423.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 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.

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.

FEATHER RIVER DISPOSAL
 (A Division of USA Waste of California, Inc., a Delaware Corporation)

DEPARTMENTAL STATEMENT OF OPERATIONS
 For the Year Ended December 31, 2022

	Plumas County Contract	Quincy Community Services District	Chester Public Utility District	Total
Revenue:				
Residential	\$ 961,794	\$ 177,944	\$ 275,760	\$ 1,415,498
Commercial	1,211,714	398,846	344,114	1,954,674
Transfer site	734,691	-	-	734,691
Recycling and other	124,085	1,533	890	126,508
 Total revenue	 3,032,284	 578,323	 620,764	 4,231,371
 Costs and expenses:				
Payroll	1,073,770	174,621	187,435	1,435,826
Employee benefits	311,627	48,961	52,554	413,142
Accounting	14,198	-	-	14,198
Administrative fees	25,864	4,452	4,078	34,394
Advertising and promotion	5,948	1,135	1,218	8,301
Bad debt	(12,842)	(6,248)	888	(18,202)
Bank charges	15,439	2,945	3,161	21,545
Contributions	7,142	4,664	1,284	13,090
Corporate overhead	201,009	35,856	38,797	275,662
Depreciation	39,214	6,695	7,187	53,096
Equipment maintenance	65,387	11,210	12,033	88,630
Equipment rental	19,845	3,623	3,889	27,357
Franchise fee	1,434	273	293	2,000
Gas and oil	214,125	40,602	43,581	298,308
Insurance	72,432	12,436	13,349	98,217
Miscellaneous	10,866	2,074	2,226	15,166
Office supplies	14,118	1,754	1,849	17,721
Operating supplies	3,464	661	709	4,834
Property taxes	12,022	1,206	1,295	14,523
Recycling purchases	84,619	-	-	84,619
Solid waste disposal	368,415	75,579	67,084	511,078
Subcontractor costs	608,813	2,844	3,053	614,710
Tax and licenses	20,927	3,999	4,292	29,218
Tires	19,285	3,678	3,948	26,911
Travel	71,286	11,719	12,579	95,584
Uniforms	7,621	1,454	1,560	10,635
Utilities and telephone	38,221	7,290	7,825	53,336
 Total costs and expenses	 3,314,249	 453,483	 476,167	 4,243,899
 Income (loss) before provision for income taxes	 \$ (281,965)	 \$ 124,840	 \$ 144,597	 \$ (12,528)

	2023 Total FRD Amount
Revenue	
Residential	\$1,415,498
Commercial	\$1,954,674
Transfer Site	\$734,691
Recycling material and other revenue	<u>\$126,508</u>
Total Revenue	<u>\$4,231,371</u>
Cost and Expenses	
Payroll	\$ 1,435,826
Employee Benefits	\$ 413,142
Accounting	14198
Administrative Fees	\$ 34,394
Advertising and Promotion	\$ 8,301
Bad Debt	\$ (18,202)
Bank Charges	\$ 21,545
Contractor Labor	\$ -
Contributions	\$ 13,090
Corporate Overhead	\$ 275,662
Depreciation	\$ 53,096
Equipment Maintenance	\$ 88,630
Equipment Rental	\$ 27,357
Franchise Fee	\$ 2,000
Gas and Oil	\$ 298,308
Insurance	\$ 98,217
Miscellaneous	\$ 15,166
Office Supplies	\$ 17,721
Operating Supplies	\$ 4,834
Property Taxes	\$ 14,523
Recycling Purchases	\$ 84,619
Solid Waste Disposal	\$ 511,078
Subcontractor Costs	\$ 614,710
Tax and Licenses	\$ 29,218
Tires	\$ 26,911
Travel	\$ 95,584
Uniforms	\$ 10,635
Utilities and Telephone	\$ 53,336
Total Costs	<u>\$4,243,899</u>
Income before provisions for Income Taxes	\$ (12,528)

		% of Total	Change in Index	Weighted Average
Labor	\$1,848,968	43.57%	4.67%	2.04%
Diesel Fuel	\$298,308	7.03%	44.76%	3.15%
Vehicle Replacement	\$80,453	1.90%	14.51%	0.28%
Vehicle Maintenance	\$115,541	2.72%	12.03%	0.33%
All Other	\$1,389,551	32.74%	8.15%	2.67%
Disposal	\$511,078	12.04%	5.17%	0.62%
Total	\$4,243,899	100.00%		

RRI Adjustment = 9.08%