

March 24, 2023

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

Subject: Letter Report: 2023 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 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 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 (Waste Management Inc.) 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 Contactor shall be deemed to have waived the RRI adjustment for that year."*

Both IMD and FRD take solid waste to a Waste Management owned landfill in Nevada. 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 RRI 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.

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:

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

- IMD submitted the required financial information to the County prior to the March 15th deadline, as required.
- IMD’s 2022 profit level was a **92.14%** 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, 2023 RRI rate adjustment.
- The calculated July 1, 2023 RRI rate increase is **10.37%** (**Attachment 3**).

The **10.37%** 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.

* * * * *

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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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 IMD Profit Calculation
- 3 IMD 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.

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.

	2022			
	Amount			
Revenue				
Total Revenue	<u>2,243,606</u>			
Operating Expenses				
Labor		Pass-Through	Non-Allowable	Base Profit
Payroll - route	326,206			
Payroll - office	97,867			
Payroll - company executive officer	95,295			
Payroll - transfer station	78,488			
Payroll - taxes	49,645			
Retirement plan contribution	126,994			
Workers' compensation insurance	25,756			
Employee benefits	27,631			
Casual labor	-			
Total Labor	<u>827,882</u>			70,437
Diesel Fuel				
Diesel fuel	<u>187,569</u>			
Total Diesel Fuel	<u>187,569</u>			
Vehicle Replacement				
Depreciation - vehicles	207,284			
Equipment rent	<u>30,944</u>			
Total Vehicle Replacement	<u>238,228</u>			
Vehicle Maintenance				
Vehicle maintenance	56,797			
Tires	<u>21,557</u>			
Total Vehicle Maintenance	<u>78,354</u>			
Disposal				
Dump fees	269,760	269,760		
Franchise fees	94,974	94,974		
Hazardous waste	230	230		
Transfer station rental	9,600	9,600		
Commingled material fees	<u>1,551</u>	1,551		
Total Disposal	<u>376,115</u>			
All Other				
Building rent - related party	69,102			
Accounting	76,834			
Insurance	83,016			
Business taxes, licenses and fees	34,887			
Operating and office supplies	36,585			
Depreciation - equipment	21,217			
Telephone and internet	13,909			
Utilities	15,704			
Equipment maintenance	584			
Equipment rental - related party	10,157			
Consulting fees	-			
Other rent	8,795			
Fuel, oil and lubricants	11,109			
Depreciation - leasehold improvements	3,135			
General maintenance	10,576			
Association dues	140			
Bad debts	2,667			
Entertainment	3,037			
Advertising and promotion	86			
Depreciation - office	414			
Legal	1,788			
Charitable contributions	<u>700</u>			
Total All Other	<u>404,442</u>			
Total Operating Expenses	<u>2,112,590</u>	<u>376,115</u>	<u>70,437</u>	<u>1,666,038</u>
Operating Income	<u>131,016</u>		Operating Ratio =	92.14%

Operating Expenses

Labor

Payroll - route	
Payroll - office	
Payroll - company executive officer	
Payroll - transfer station	
Payroll - taxes	
Retirement plan contribution	
Worker's compensation insurance	
Employee benefits	
Total Labor	\$827,882

Diesel Fuel

Diesel Fuel	
Total Diesel Fuel	\$187,569

Vehicle Replacement

Depreciation - vehicles	
Equipment rent	
Total Vehicle Replacement	\$238,228

Vehicle Maintenance

Vehicle Maintenance	
Tires	
Total Vehicle Maintenance	\$78,354

Disposal

Dump fees	
Franchise fees	
Hazardous waste	
Transfer station rental	
Total Disposal	\$376,115

All Other

Building rent - related party	
Business taxes, licenses and fees	
Accounting	
Insurance	
Depreciation - equipment	
Operating and office supplies	
General maintenance	
Telephone and internet	
Utilities	
Equipment rental - related part	
Other rent	
Fuel, oil and lubricants	
Equipment maintenance	
Bad debts	
Depreciation - leasehold improvements	
Advertising and promotion	
Association dues	
Entertainment	
Charitable contributions	
Depreciation - office	
Legal	
Total All Other	\$404,442

Total Operating Expenses	\$2,112,590
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	% of Total	Change in index	Weighted Average
Labor	\$827,882	39.19%	4.67%
Diesel Fuel	\$187,569	8.88%	44.76%
Vehicle Replacement	\$238,228	11.28%	14.51%
Vehicle Maintenance	\$78,354	3.71%	12.03%
All Other	\$404,442	19.14%	8.15%
Disposal	\$376,115	17.80%	5.17%
Total	\$2,112,590	100.00%	0.92%

RRI Adjustment = **10.37%**