

EL DORADO
COUNTY



ENVIRONMENTAL
MANAGEMENT
DEPARTMENT

**Gerri Silva
M.S., REHS**

Director

*Environmental
Health*

*Air Quality
Management
District*

*Solid Waste &
Hazardous
Materials*

*Water Quality
& Protection*

*Tahoe Office/
Vector Control*



**PLACERVILLE
OFFICE**

2850 Fairlane Ct.
Building 'C'
Placerville, CA 95667

Ph. 530.621.5300
Fax. 530.642.1531
Fax. 530.626.7130

**SOUTH LAKE
TAHOE OFFICE**

3368 Lake Tahoe Blvd.
Ste. 303
South Lake Tahoe, CA
96150

Ph. 530.573.3450
Fax. 530.542.3364

December 12, 2008

El Dorado County Board of Supervisors
330 Fair Lane
Placerville, CA 95667

SUBJECT: Hearing to consider adoption of Resolution to approve a general rate increase of 15% within the Amador Disposal Service Franchise area effective January 1, 2009.

Honorable Board Members:

Background:

In accordance with the Franchise Collection Agreement between El Dorado County and Amador Disposal Service Inc., Section 19 - Compensation, the Board of Supervisors shall set the rates to be charged by the Grantee. The Agreement provides that the Board shall set the Contractor's rates at least every two years to compensate the Grantee for its reasonable costs of providing services plus a reasonable profit to be determined by the Board in its discretion.

Franchise Agreement

The Franchise Agreement entered into between El Dorado County and Amador Disposal entered into on June 25, 2002 provides in Section 19B that "The Board of Supervisors shall set the rates to be charged by Grantee at such times as the Board deems appropriate, but no less often than every two (2) years, unless a longer period is agreed on by the County and Grantee."

That same section goes on to provide that rates "will be set with the intent to reimburse Grantee for its allowed operating and pass through costs and allowed profit. The parties recognize that the Board of Supervisors shall use its best judgment and discretion in evaluating Grantee's projections and may make adjustments, with a reasonable factual basis, in Grantee's projections of its operating costs and pass-through costs and in setting rates."

Section 19F of the Agreement provides that "The grantee shall be entitled to a reasonable profit."

The rate setting provisions of the Franchise Agreement also provide a method by which the Franchisee can, within the two year period identified in Section 19B, come forward with a rate increase based upon increased disposal costs. Section 19B provides that "Grantee shall also be entitled to a rate increase whenever Grantee's landfill disposal costs increase due to a rate increase at the landfill used by Grantee, but only for the purpose of passing through said disposal cost increase in Grantee's collection rates."

These sections read together provide the Board of Supervisors with discretion to determine the rate to be set with the intent to provide Grantee with reimbursement for its allowed operating and pass-through costs and a "reasonable" profit.

Reasons for Recommendation:

General Rate Increase:

The 2007 Schedule of Revenue and Expenses provided by ADS calculates a revenue shortfall for the El Dorado County franchise area in the amount of \$61,249, therefore supporting the request 15% general rate increase. The last rate increase for ADS was granted in 2006 and effective on July, 1, 2006. The Environmental Management Department has reviewed the rate request and associated financial statements and verified that the rate adjustment is appropriate.

Per the ADS Franchise agreement the EMD staff reviewed the rate request in conjunction with the required projected components for compensation included but not limited to; operating costs (58.2%), pass – through costs (38%), and allowed profit (3.8%). Landfill disposal costs are a component of the pass-through costs.

Per the ADS Franchise agreement Section 19F –Allowed Profit "The Grantee shall be entitled to a reasonable profit on its operating costs established in the sole discretion of the Board Supervisors." Market research (S&P) shows the five year average profit margin for the waste management services industry was 8.15% and the average current profit margin for this industry is 8.33%. Within the County of El Dorado, profit margins of the franchise haulers excluding ADS fluctuate with a maximum of 13%.

A historic review of the Amador Disposal financial statements show that in 2006 ADS was operating at a loss of 3.97%, in 2007 ADS was operating at a loss of 0.43% and projections for 2008 show ADS operating loss of approximately 3.02%. Even with the granting of the requested 15% collection rate increase, the projected profit of ADS for 2009 will be only 3.8%.

Residential – Rates with 15% General Increase

Current Base Rate		Base Rate with 15% General Rate Increase	
1 32g Can	\$13.69	1 32g Can	\$15.74
2 32g Can	\$20.24	2 32g Can	\$23.28
1 96g Cart	\$24.88	1 96g Cart	\$28.61

The Environmental Management Department recommends the Board approve the rate adjustment per Section 19 – Compensation of the Franchise Agreement.

Fiscal Impact:

None.

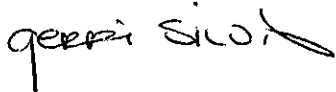
Net County Cost:

None.

Action to be Taken Following Approval:

Forward executed resolution to Environmental Management Department for implementation.

Respectfully,



Gerri Silva, M.S., REHS
Environmental Management Director