



## South Lake Tahoe Basin Waste Management Authority

### Solid Waste Rate Setting Policies and Procedures Manual

December 8, 2010



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# 1. Rate Setting Goals and Objectives

This section of the manual provides an overview of the rate setting process. The section includes five subsections:

- A. *Introduction*
- B. *Rate Setting Goals*
- C. *Rate Setting Policies*
- D. *Rate Application Process*
- E. *Allowable and Non-Allowable Costs.*

## A. Introduction

This manual is a step-by-step guide for the South Lake Tahoe Basin Waste Management Authority (JPA), and its franchise hauler, to prepare and approve changes in solid waste collection rates. The manual establishes rate change policies, provides application forms, specifies reporting formats, identifies required supporting documentation, and describes the procedure for requesting, reviewing, and adopting rate changes. The following three (3) jurisdictions make up the JPA:

- City of South Lake Tahoe, California
- El Dorado County, California
- Douglas County, Nevada.

In 1996, the JPA developed a “*Solid Waste Collection, Recycling, and Transfer Station Operations Rate Setting Policies and Procedures Manual*” (1996 Manual) as a tool to use to regulate solid waste rates. This version (version 2.0) represents the first update to the 1996 Manual since that time.

The franchise hauler for the three (3) jurisdictions is South Tahoe Refuse Company, Inc. (STR). Each jurisdiction has a franchise agreement with STR for collection and disposal of refuse as follows:

- *Collection Franchise Agreement between El Dorado County and South Tahoe Refuse Company, Inc., dated February 13, 1995*
- *Solid Waste Services Agreement between City of South Lake Tahoe and South Tahoe Refuse Company, Inc., dated August 21, 2007*
- *Solid Waste Services Agreement between Douglas County and South Tahoe Refuse Company, Inc., dated October 2006.*<sup>1</sup>

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<sup>1</sup> The franchise agreement has been amended three times. On March 15, 2007, the franchise was amended to reflect the correct franchise fee (First Amendment). On October 15, 2009, the franchise was amended to update indices used in the cost-of-living adjustment (COLA, Second Amendment). The most recent amendment was signed on December 21, 2009, again revising the COLA, to account for negative rate changes (Third Amendment).

**Table 1-1**  
**South Tahoe Refuse Company, Inc.**  
**Business Divisions**

Divisions	Service Areas	Covered by Manual
1. South Tahoe Refuse Company	<ul style="list-style-type: none"> <li>■ City of South Lake Tahoe</li> <li>■ Unincorporated El Dorado County</li> <li>■ Douglas County, Nevada</li> </ul>	Yes
2. American River Disposal	<ul style="list-style-type: none"> <li>■ Unincorporated El Dorado County</li> </ul>	No
3. Sierra Disposal Service	<ul style="list-style-type: none"> <li>■ Unincorporated El Dorado County</li> </ul>	No

Each franchise agreement currently has slightly different terms and conditions for how rates are set. The intent of this manual update is to replace these varied rate setting terms and conditions with common rate setting terms and conditions that the JPA, and the three (3) jurisdictions, can agree to, and apply. The intent of this manual update is for each jurisdiction to incorporate this updated version 2.0 of the manual, by reference, into their respective franchise agreements with STR.

This manual is meant as a tool for setting rates for the three (3) jurisdictions, combined. The JPA will be responsible for reviewing rate applications submitted by the franchised hauler. The JPA will recommend a percentage rate change to apply to the three (3) jurisdictions. Each jurisdiction, however, will have the ultimate authority to approve the JPA’s rate change recommendation (i.e., at the city council or board of supervisor level).<sup>2</sup>

The franchised hauler, South Tahoe Refuse Company, Inc., has three (3) divisions as shown

<sup>2</sup> Interim year rate setting for the City of South Lake Tahoe and Douglas County is procedural and does not require a rate hearing. Interim year rate setting for El Dorado County does require a rate hearing.

in **Table 1-1**, left. The South Tahoe Refuse Company represents the division covered by this manual.

The JPA intends for this manual to be revised over time, as needed, to reflect changes in objectives or modifications to the franchise agreements.<sup>3</sup>

## B. Rate Setting Goals

The primary goal of the rate setting process and methodology is to determine solid waste collection rates which are fair to customers and which provide a fair return to the franchise hauler. A total of six (6) rate setting process goals were considered in developing this rate setting methodology:

1. The JPA and franchised hauler should start with a **strong and committed partnership**. The JPA and franchised hauler should view this franchise as a business partnership where both parties commit to use the formal rate setting methodology, and plan continuous communication on rate setting throughout the franchise term.
2. Rates requested by the franchise hauler must be **justifiable and supportable**. A formal request to change rates, submitted by the franchise hauler, should provide the basis for all rate changes, include only allowable and necessary costs, and provide accountability for expenditures. In determining rates, the JPA shall consider both the need for fairness to the ratepayer and the need to compensate the franchise hauler fairly and consistently with the methodology.
3. The estimated costs of service, and resulting solid waste rates, should be **reasonable**. The JPA acknowledges that maintenance of quality service is related

<sup>3</sup> Should the JPA dissolve at any time in the future, the three jurisdictions have indicated a preference to continue to use this manual on a jurisdictional basis. Jurisdiction-specific rate setting would require some modifications to the methodology in that STR would have to allocate its revenues and costs to each jurisdiction.

to providing adequate compensation, and financial incentives, for continued good performance. Revenues generated should be adequate to fully meet reasonable costs-of-service. The resulting monthly fees for solid waste collection service should be comparable to those charged in other jurisdictions for providing similar services.

4. The process should be kept as **simple** as possible, while ensuring that any rate request is justifiable and reasonable. The process should be easy to explain and not place an undue cost on either the JPA, the jurisdictions, or the franchise hauler to implement. The process also should minimize administrative efforts of the JPA, and its jurisdictions.
5. The rate setting process should **provide mechanisms for ongoing rate review and rate stability**. A periodic, formal, and thorough JPA review (every three years) of financial and operating data will set an expectation for the hauler and ultimately will protect the ratepayer. These reviews should be conducted consistently and in accordance with set schedules in the manual. The process should prevent large, unexpected fluctuations in rates due to changes in costs or from the need to fund a broadening scope of waste management services. This formal process also serves to meet the fiduciary responsibility of the JPA, and individual jurisdictions, to its ratepayers.
6. The JPA and franchised hauler should strive to **maximize opportunities to improve performance and service quality** while maintaining cost competitiveness in the marketplace. In a “cost-plus-profit” contract such as exists between the jurisdictions and franchised hauler, there can be less incentive for the hauler to decrease costs because increases in allowable costs actually result in increases in allowable operating profit levels. Ideally, the JPA, and the hauler, should set rates in a base year, and the hauler should attempt to reduce its costs in subsequent years.

## C. Rate Setting Policies

The JPA will use the following eight (8) policies when setting rates:

1. **Use the Operating Ratio Method to Determine Profit** – The JPA will use the operating ratio (OR) method to establish revenue requirements for setting rates. The operating ratio establishes revenue requirements based on allowable expenses and is defined as follows:
$$\text{Operating ratio} = \frac{\text{Allowable expenses}}{\text{Allowable expenses} + \text{Profit}}$$
The operating ratio effectively determines the profit allowed to the franchise hauler on operating costs. Total revenue requirements then are determined as the sum of:  
(1) allowable operating costs, (2) allowable profit, and (3) pass-through costs (for which the franchise hauler receives no profit). Specific operating ratios are provided in Exhibit 1-1 on page 1-10.
2. **Do Not Allow Retroactive Rate Increases** – There will be no allowance for a retroactive increase in rates, except by special agreement, or by party default. Retroactive reimbursements can move rates out of alignment with the actual costs of providing service. This process and methodology codifies strict rate review timelines and responsibilities. If the JPA, jurisdictions, and hauler adhere to these timelines for submission and rate change approval, and no party defaults on these timelines, all future rates should be established such that there is no need for retroactive rate increases.
3. **Do Not Allow Balancing Accounts** – This rate setting process is based on projecting results during base years. Thus, actual base year results likely will differ from base year projections. In some regulatory environments, these differences are “balanced” in subsequent years by using a balancing account.

Balancing accounts are occasionally used in the waste industry as an accounting-based approach to true up a previous year’s

projections to actual financial results. A balancing account can then be used to address differences between actual and projected results. A balancing account requires substantial administration, reporting, and control measures which determine how funds in the account are invested and managed.

When a balancing account is established, terms and conditions related to these accounts are clearly documented as part of a rate setting process and methodology manual. Also, terms and conditions are specifically incorporated by reference into contractual agreements between the respective parties.

The problem with balancing accounts is that by funding surpluses and deficits using rate revenues, rates charged to customers ultimately do not reflect the true cost of providing service to customers because they include retroactive components. Over time, current ratepayers can end up ultimately subsidizing, or benefiting from, prior generations of ratepayers. For example, if rates are raised to pay off a balancing account, then current ratepayers bear the responsibility of what previous ratepayers should have paid for initially.

Municipal finance principles generally require a strong nexus between (1) cost-of-service and benefits and (2) cost-of-service and rates. Use of a balancing account generally breaks down this nexus and results in rate inequalities.

A balancing account also frequently is less useful when a long-term franchise exists. With a long-term business partnership, there is less need to recover variances between actual and projected results on a year-to-year basis. These variances can often be absorbed over the course of a long term franchise, such as is the case between the jurisdictions and franchise hauler.

Balancing accounts are not designed to account for differences between “rates asked for” and “rates received.” They also are not designed for accounting for differences between “rates received” and “a fair rate of

return.” Balancing accounts, by their very nature, result in retroactive rates, which do not reflect cost-of-service based rates.

4. **Do Not Allow Fuel Surcharges** – There will be no separate “fuel surcharges” added to rates to account for increases in fuel costs. Fuel surcharges create accounting problems (e.g., which fuel index to use, over what time period to use the index, and determining what portion of the rate that fuel costs represent). Fuel surcharges require separate accounting from allowable rate changes which may already reflect compensation to the franchise hauler for changes in fuel costs (e.g., as part of a CPI-based rate change during interim years). Fuel surcharges lag actual changes in fuel prices (by as much as one year), so changes in the fuel surcharge are disconnected from current changes in fuel prices. Fuel costs typically represent a relatively small portion of the overall rate charged (less than ten (10) percent), minimizing the impact of fluctuating fuel prices on overall rates. Finally, once established, fuel surcharges can linger within rates during periods when fuel prices are stable and when a fuel surcharge is not necessary.

5. **Analyze Related Party Transactions** – The company has certain related-party transactions with affiliates. The company must disclose all related party transactions as part of the rate setting process.

The JPA will allow only those transactions with these related parties which are “market based.” The JPA will assess whether related party transactions are conducted on an “arms length” basis, equivalent to terms as with an unrelated party in the conditions of a competitive, free market, environment. STR related parties are identified in **Table 1-2**, on the next page.

During its review, the JPA may request that STR provide the following information in support of related party transactions:

- Allocation methods used, if applicable



**Table 1-2**  
STR Related Parties and Transactions

Related Company	Relationship/Transaction
<b>Douglas Disposal, Inc. (DDI)</b>	<ul style="list-style-type: none"> <li>■ Owned by same ownership group as STR</li> <li>■ STR leases facility space to DDI</li> <li>■ STR leases office space to DDI</li> <li>■ STR leases computers to DDI</li> <li>■ STR loans money to DDI</li> </ul>
<b>Tahoe Basin Container Service (TBC)</b>	<ul style="list-style-type: none"> <li>■ Owned by same ownership group as STR</li> <li>■ STR leases facility space and equipment to TBC</li> <li>■ STR leases office space to TBC</li> <li>■ STR rents computers to TBC</li> <li>■ STR loans money to TBC</li> </ul>
<b>ABC&amp;J<sup>a</sup></b>	<ul style="list-style-type: none"> <li>■ Owned by same ownership group as STR</li> </ul>
<b>American River Disposal (ARD)</b>	<ul style="list-style-type: none"> <li>■ Owned by same ownership group as STR</li> <li>■ STR leases office space to ARD</li> <li>■ STR leases computers to ARD</li> <li>■ STR provides office contract labor to ARD</li> </ul>
<b>Sierra Disposal Service (SDS)</b>	<ul style="list-style-type: none"> <li>■ Owned by same ownership group as STR</li> <li>■ STR leases office space to SDS</li> <li>■ STR leases computers to SDS</li> </ul>

<sup>a</sup> A partnership with the same ownership group as STR. Historically, STR financial statements show that a small amount of ABC&J expenses are reimbursed by STR.

- Nature, extent, and magnitude of the relationship
- Terms of the related party transaction (e.g., timing of payments, term length)
- Historical information (e.g., ownership)
- Date of acquisition (if applicable)
- Purchase price of item (if applicable)
- Financing terms for item (if applicable).

The JPA may require STR to provide up to three (3) comparable lease rates for leases of facilities and equipment. For related party company leases, the JPA may require STR

to identify financing charges, or profit components, within these lease rates. STR should be prepared to support the business purpose for each related party transaction.

The JPA will examine how related party transactions are treated for rate setting purposes in the *Base Year Rate Application*. The JPA will assess whether related party transactions already have a profit component on them, and if so, treat these related party transactions as pass-through costs (without a profit component) to avoid a “double counting” of profit.

The JPA will consider all of the above factors in determining whether the related party transaction is an allowable cost and is charged at a reasonable amount.

**6. Account for Prior Resource Recovery Facility (RRF) Rate Funding** – For each of the three consecutive years of 2005, 2006, and 2007, each of the three jurisdictions approved a nine (9) percent rate increase for STR. The first of these three nine (9) percent rate increases, implemented in 2005, was provided to fund general STR cost increases. For the second nine (9) percent rate increase implemented in 2006, a total of six (6) percent of this nine (9) percent rate increase was provided to fund operating and capital costs of the Resource Recovery Facility (RRF) project. For the third nine (9) percent rate increase, implemented in 2007, a total of six (6) percent of this rate increase also was provided to fund operating and capital costs of the Resource Recovery Facility (RRF) Project.

For 2006, and 2007, El Dorado County and Douglas County required that STR pay the six (6) percent rate increase, which was provided to cover the RRF, to the JPA. The JPA then released these amounts back to STR upon completion of certain RRF project milestones.

For 2006, and 2007, the City of South Lake Tahoe required that STR pay the six (6) percent rate increase, which was

provided to cover the RRF, to the City of South Lake Tahoe. The City of South Lake Tahoe then released these amounts back to STR upon completion of certain RRF project milestones.

STR received these RRF-related funds and has built up a reserve (called “restricted project revenues”) totaling \$3,745,578 as of June 30, 2009. The RRF project, as of 2010, is completed, and therefore a material RRF restricted project revenue fund balance exists.

Beginning at the next base year (2012), STR will include a credit to JPA jurisdiction ratepayers of \$288,121 (plus interest, calculated on an after tax basis) each year through 2024. This amount was determined by dividing the credit of \$3,745,578 by the 13 years remaining on the RRF bond principal repayment schedule. The credit amount of \$288,121 (plus interest, calculated after tax interest) will be applied to each base year rate through 2024. This means that in each base year, the \$288,121 amount will be reset as a credit line item in the base year rate application.

7. **Use Recycling Materials Sales Revenue Sharing** – There will be a recycling revenue bonus which is tied to STR diversion levels. In addition to the calculation of allowed profit, STR is allowed the recycling revenue bonuses shown in **Table 1-3**, below. For years 2019 and beyond, the JPA will reassess whether the recycling diversion rates, which trigger revenue sharing, remain sufficient to meet State of California diversion requirements. For 2019 and beyond, the JPA may adjust the diversion rates, which trigger revenue sharing, upward by up to three (3) percent per year to achieve greater State of California diversion requirements.
8. **Eliminate Annual Summary Report** – Beginning in 2010, STR will no longer be required to submit an Annual Summary Report as had been the required practice dating back to the original 1996 Manual version.

**Table 1-3**  
**Recycling Revenue Bonus Amounts**  
**For Extraordinary Diversion**  
**(2012 to 2018)**

Years	Minimum Diversion Rate To Achieve 25% of Recycling Revenue Share	Minimum Diversion Rate To Achieve 50% of Recycling Revenue Share
2012 to 2014	38	44
2015 to 2016	40	47
2017 to 2018	43	50

## D. Rate Application Process

### 1. Base Year Process

The JPA requires that the franchise hauler submit a detailed *Base Year Rate Application* once every three (3) years. With the *Base Year Rate Application*, the franchise hauler provides detailed financial and operating information which is carefully reviewed and analyzed by the JPA. These detailed reviews are referred to as “base year reviews” in the methodology.

With the *Base Year Rate Application*, the franchise hauler submits audited financial statements for the previously completed fiscal year. These statements serve as the base documents for the application. The franchised hauler should reconcile financial information contained in the *Base Year Rate Application* with the audited financial statements to provide assurance that all of the company’s activities are accounted for.

The timing of the base year process is shown in **Figure 1-1**, on the next page. The schedule is expected to start with submission of the *Base Year Rate Application* on June 30th of the year proceeding each base year. The process targets an implementation date of January 1<sup>st</sup> of the base year.<sup>4</sup>

<sup>4</sup> For Douglas County, the maximum rate increase is 9.9 percent before the County must take the increase to the County citizens for a vote of approval.

**Figure 1-1**  
Timing of Base Year Process

Step	Description	Preparation		30-Day Review	Review Process					
		April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1	Prepare and Submit Rate Application									
2	Verify Completeness of Rate Application									
3	Review Rate Application and Prepare Response									
4	Survey Comparative Rates									
5	Prepare Draft Report and Final Report									
6	Present Final Report to JPA Board									
7	Receive Approval from City Council and County Boards									
8	Notify Customers and Implement New Rates									

**Table 1-4**  
Base Year Financial Statement Requirements  
(Fiscal Year Ending June 30)

Base Year	Prior Year (Audited)	Current Year (Estimated)	Base Year (Projected)
2011 <sup>5</sup>	2009	2010	2011
2014	2012	2103	2014
2017	2015	2016	2017
2020	2018	2019	2020
...	...	...	...
...	...	...	...

The *Base Year Rate Application* requires three (3) years of data, including a year of actual data (based on audited information), a year of estimated data (based on year-to-date information available at the time the application is submitted), and the projection, or base year. The required years, and types, of data for upcoming base year

<sup>5</sup> Represents the fiscal year ending June 30, 2011.

reviews are displayed in **Table 1-4**, left. For example, for the 2011 base year, STR would prepare the *Base Year Rate Application* using audited 2009 data, estimated year-to-date 2010 data, and entirely projected 2011 data.

STR operates on a fiscal year ending June 30. Thus, for the current year, STR should have available the first three quarters of compiled, not audited, fiscal year data to use for its current year estimate (i.e., data through March of the current year).

## 2. Interim Year Process

In each of the “interim” two (2) years between “base” years, should the franchised hauler want to increase rates, the JPA requires that the franchise hauler submit an *Interim Year Rate Application* for an interim year rate change. The scope and content of the *Interim Year Rate Application* is much more limited than a base year request. The franchised hauler is not obligated to request an increase in rates and can instead request to leave rates unchanged.

**Figure 1-2**  
Timing of Interim Year Process

Step	Description	Preparation	Review Process			
		Aug.	Sep.	Oct.	Nov.	Dec.
1	Prepare and Submit Rate Application					
2	Prepare Draft Report and Final Report					
3	Receive Approval from City Council and County Boards					
4	Notify Customers and Implement New Rates					

Interim year rate changes are based on a simple formula as follows:

- (1) eighty-five (85) percent of the annual percentage change in the most recent actual, not forecasted, change in the Consumer Price Index, All Urban Consumers, U.S. City Average - Garbage and Trash Collection (December 1983=100, series CUUR0000SEHG02) (“CPI”) applied to costs other than landfill disposal costs, plus
- (2) projected changes in landfill disposal costs.<sup>6</sup>

For the first part of the calculation (noted as (1) above), the JPA and franchised hauler will use the percentage change in the CPI for the prior June to June twelve-month period. This June to June CPI data will be available at the time the franchised hauler submits the *Interim Year Application* in August.

Interim year rate adjustments are subject to a “floor” and a “cap.” During interim years, rates shall not be greater than six (6) percent nor less than one (1) percent, regardless of the rate change calculated by the interim year formula.

The timing of the interim year process is shown in **Figure 1-2**, above. The schedule is expected to start with submission of the *Interim Year Rate Application* on August 31<sup>st</sup> of the year

proceeding the interim year. The process targets an implementation date of January 1<sup>st</sup> of the interim year.

## E. Allowable and Non-Allowable Costs

Rates are established for each base year based on the hauler’s projected revenue requirement. The revenue requirement is defined as the sum of the following:

- Allowable costs
- Allowable operating profits
- Pass through costs.

For purposes of computing the revenue requirement, it is necessary to determine which of the franchise hauler’s costs are (1) allowable costs, (2) pass through costs, and (3) non-allowable costs.

### 1. Allowable Costs

When a cost is said to be “allowable,” that cost, plus a profit component associated with that cost, is included in rates charged to the ratepayers. Allowable costs are often those costs that are integral to the hauler’s operation and/or are associated with actual activity performed by the hauler.

<sup>6</sup> These landfill disposal costs are currently set by a non-related party to STR, under a long-term disposal agreement.

**Table 1-5**  
**Allowable Depreciation Methods and Useful Lives**  
**for STR Assets Purchased After January 1, 2010**

Category	Method	Useful Life (Years)
Carts	SL <sup>7</sup>	5
Office Equipment	SL	5
Vehicles and Equipment	SL	8
Buildings and Leasehold Improvements	SL	20

The hauler is allowed to earn a profit on certain costs. The majority of allowable costs are direct labor, equipment costs and facility costs, landfill disposal costs, office salaries, and general and administrative costs. These allowable costs are defined in **Exhibit 1-1**, on the following page. **Exhibit 1-2**, following Exhibit 1-1, includes a chart of expense accounts (based on current STR financial statements) for allowable costs, which serves to further clarify categories of allowable costs.

The following costs are clarified because of their special treatment for rate setting:

- **Depreciation**—**Table 1-5**, above, shows depreciation methods and useful lives, by asset type, recommended for rate setting purposes. Current methods used to depreciate capital items, which were in use prior to this version 2.0 of the manual, are allowed to continue. Useful lives in Table 1-54 are for new capital purchases (i.e., those made during and after 2010).
- **Officer’s Salaries** – Reasonable officer’s salaries are considered an allowable cost. Officers are employees fully performing management functions identified in the franchise agreement. Officer’s salaries include base compensation plus bonuses and do not include profit distributions to owners. The JPA shall set the total combined officer’s salaries for the franchise

<sup>7</sup> Represents straight-line depreciation.

hauler, at a reasonable level, during each base year. For purposes of establishing base year rates, the amount of officer’s salaries cannot exceed six (6) percent of gross revenues.

In cases where an officer spends time on non-JPA franchised business, the JPA shall determine the portion of that officer’s time spent only on JPA franchised business, and only allow that portion of the officer’s salary in rates. In these cases, the franchise hauler will be required to substantiate the allocation of the officer’s time between multiple businesses using a time-based allocation method.

- **Materials Recovery Facility and Resource Recovery Facility Capital Costs** – The rate treatment of equipment and building costs associated with the STR Materials Recovery Facility (MRF) and Resource Recovery Facility (RRF) is summarized in **Table 1-6**, on page 1-13. These rate treatment provisions are based on the agreed upon terms and conditions at the time the MRF and RRF were constructed.
- **Blue and Green Bag Program Costs** – STR currently provides blue bag curbside recycling services to JPA customers. STR collects these blue bags within the refuse container and sorts the materials at its Materials Recovery Facility (MRF). Blue bags are, however, currently paid for by the jurisdictions themselves and not STR. For the blue bag program, the costs for blue bags are not included in current rates charged to JPA customers.

STR plans to roll out a “green bag” yardwaste program, with the green bags also collected within the refuse container. Materials from the green bags will be sorted at STR’s Resource Recovery Facility (RRF). For the green bag program, the costs for green bags are not included in current rates charged to JPA customers.

During the next rate review, blue bag and green bag program revenues and costs will be fully reflected in the rates charged to

## 1. Rate Setting Goals and Objectives

### Exhibit 1-1

#### Definition of Financial Terms

Page 1 of 2

Application Line Number/Item	Definition
<b>Allowable Operating Costs</b>	
<b>1. Direct Labor</b>	Wages, and related benefits, paid to refuse collection staff, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits.
<b>2. Equipment Costs and Facility Costs</b>	Includes cost of equipment depreciation, equipment leases, equipment insurance, equipment repair and maintenance, fuel, and other miscellaneous equipment expenses. Facilities expenses consist of building rent, building depreciation, and building repair /and maintenance.
<b>3. Landfill Disposal Costs</b>	Costs to dispose of solid waste at landfills.
<b>4. Office Salaries</b>	Wages, and related benefits, paid to office and administrative staff, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits.
<b>5. General and Administration Costs</b>	General and administrative costs including: <ul style="list-style-type: none"> <li>■ Advertising</li> <li>■ Collection fees</li> <li>■ Contract labor</li> <li>■ Dues and subscriptions</li> <li>■ Employee education</li> <li>■ General insurance</li> <li>■ Office repair and maintenance</li> <li>■ Officer salaries and benefits (less than or equal to 5 percent of gross revenues)</li> <li>■ Professional fees</li> <li>■ Property taxes</li> <li>■ Office expense</li> <li>■ Licenses</li> <li>■ Supplies</li> <li>■ Travel</li> <li>■ Utilities.</li> </ul>

Application Line Number/Item	Definition																												
<b>Allowable Operating Profit</b>																													
<b>Operating Ratio (OR)</b>	<p>For the City of South Lake Tahoe and Douglas County, a profit is allowed based on a sliding scale which varies with STR’s recovery percentage as follows:</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Operating Ratio</th> <th style="text-align: left;">Recovery Percentage</th> </tr> </thead> <tbody> <tr><td>94.34</td><td>0-15%</td></tr> <tr><td>93.90</td><td>16</td></tr> <tr><td>93.46</td><td>17</td></tr> <tr><td>93.02</td><td>18</td></tr> <tr><td>92.59</td><td>19</td></tr> <tr><td>92.17</td><td>20</td></tr> <tr><td>91.74</td><td>21</td></tr> <tr><td>91.32</td><td>22</td></tr> <tr><td>90.90</td><td>23</td></tr> <tr><td>90.50</td><td>24</td></tr> <tr><td>89</td><td>25-28</td></tr> <tr><td>88</td><td>29-32</td></tr> <tr><td>87</td><td>33-100</td></tr> </tbody> </table> <p>For El Dorado County, a profit is allowed, based on a targeted operating ratio ranging between 87 and 91 percent. For El Dorado County, in the base year, if rates remain unchanged at an operating ratio within the range of 87 to 91 percent, and the franchise hauler actually realized an operating ratio within this range, then that same operating ratio resulting in no rate change is used, and no rate change occurs. Otherwise, an 89 percent operating ratio is used for the base year calculation. For El Dorado County, the operating ratio for the first base year (2012) will be set at 89 percent.</p>	Operating Ratio	Recovery Percentage	94.34	0-15%	93.90	16	93.46	17	93.02	18	92.59	19	92.17	20	91.74	21	91.32	22	90.90	23	90.50	24	89	25-28	88	29-32	87	33-100
Operating Ratio	Recovery Percentage																												
94.34	0-15%																												
93.90	16																												
93.46	17																												
93.02	18																												
92.59	19																												
92.17	20																												
91.74	21																												
91.32	22																												
90.90	23																												
90.50	24																												
89	25-28																												
88	29-32																												
87	33-100																												
<b>Allowable Operating Profit</b>	Established by the allowable operating ratio and equal to total allowable costs divided by the allowable OR, less total allowable costs.																												
<b>Pass Through Costs</b>																													
<b>MRF Principal Payments</b>	Principal payments on debt used to finance the Materials Recovery Facility (MRF)																												
<b>RRF Principal Payments</b>	For the City of South Lake Tahoe and Douglas County, principal payments on debt used to finance the Resource Recovery Facility (RRF). For El Dorado County, principal payments on the debt used to finance the RRF will be allowed with profit.																												
<b>Interest Expense</b>	For the City of South Lake Tahoe and Douglas County, interest on debt used to finance all STR operations. For El Dorado County, interest on the debt used to finance the RRF will be allowed with profit.																												
<b>Franchise Fees</b>	Equal to five (5) percent of gross residential, commercial, and recycling revenues for the City of South Lake Tahoe and El Dorado County, and three (3) percent of gross residential, commercial, and recycling revenues for the Douglas County. <sup>8</sup>																												
<b>Resource Recovery Facility Fund Credit</b>	Rates will be reduced by an amount of \$288,121 (plus after tax interest) for each year between 2012 and 2024																												

<sup>8</sup> This franchise fee amount is subject to change by any of the three (3) JPA jurisdictions.

## 1. Rate Setting Goals and Objectives

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### Exhibit 1-2

#### Chart of Accounts for Allowable Operating Costs

Category	Description
<b>Direct Labor</b>	<ul style="list-style-type: none"> <li>■ Direct Labor</li> <li>■ Direct Labor Benefits</li> <li>■ Direct Labor Insurance</li> <li>■ Direct Labor Workers Compensation</li> <li>■ Direct Labor Pension</li> <li>■ Direct Labor Payroll Taxes</li> </ul>
<b>Equipment Costs and Facility Costs</b>	<ul style="list-style-type: none"> <li>■ Equipment and Facility Depreciation</li> <li>■ Property Rent</li> <li>■ Equipment Rent</li> <li>■ Fuel</li> <li>■ Repairs and Maintenance</li> </ul>
<b>Landfill Disposal Costs</b>	<ul style="list-style-type: none"> <li>■ Dump Fees</li> </ul>
<b>Office Salaries</b>	<ul style="list-style-type: none"> <li>■ Office Staff Salaries</li> <li>■ Office Staff Benefits</li> <li>■ Office Staff Insurance</li> <li>■ Office Staff Workers Compensation</li> <li>■ Office Staff Pension</li> <li>■ Office Staff Payroll Taxes</li> </ul>
<b>General and Administrative Costs</b>	<ul style="list-style-type: none"> <li>■ Advertising</li> <li>■ Contract Labor</li> <li>■ Dues and Subscriptions</li> <li>■ Employee Education</li> <li>■ General Insurance</li> <li>■ Office Expense</li> <li>■ Officer Salaries</li> <li>■ Other Administrative Costs</li> <li>■ Licenses and Fees</li> <li>■ Property Taxes</li> <li>■ Supplies</li> <li>■ Travel</li> <li>■ Utilities</li> </ul>



**Table 1-6**  
**Materials Recovery Facility and Resource Recovery Facility**  
**Capital and Operating Cost Treatment**

Description	Rate Setting Treatment
<b>Materials Recovery Facility and Resource Recovery Facility Depreciation</b>	
Equipment Depreciation <sup>9</sup>	Allowable with Profit
Building Depreciation	Non-Allowable Cost
<b>Materials Recovery Facility and Resource Recovery Facility Building Financing<sup>10</sup></b>	
Interest	Pass-Through Expense
Principal	Pass-Through Expense
<b>Materials Recovery Facility and Resource Recovery Facility Equipment Financing</b>	
Interest	Pass-Through Expense
Principal	Non-Allowable Cost

<sup>9</sup> Includes reasonable depreciation on equipment used in the Materials Recovery Facility and Resource Recovery Facility.

<sup>10</sup> Includes debt financing on loans provided by the South Lake Tahoe Basin Waste Management Authority. For El Dorado County's portion of the debt financing, these RRF financing amounts will be treated as an allowed cost.

## 1. Rate Setting Goals and Objectives

JPA customers. The full costs of the blue bag and green bag programs will be considered an allowable cost (with profit) for rate setting purposes. STR will then thereafter purchase and provide the blue and/or green bags to its JPA customers. The individual jurisdictions will no longer be required to purchase and provide blue and/or green bags to their customers.

### 2. Pass Through Costs

Pass through costs are costs included in rates charged to customers, however these costs do not have an associated profit component. Pass through costs are generally transactional in nature and often are thought of as costs not associated with any significant effort performed by the hauler. The following pass through costs do not earn a profit, but are included in determining total revenue requirements to establish solid waste rates:

- MRF principal payments
- RRF principal payments (City of South Lake Tahoe and Douglas County)
- Interest expense<sup>11</sup>
- Franchise fees.

### 3. Non-Allowable Costs

Non-allowable costs are not allowed in rates charged to ratepayers. These costs are disallowed because (1) they may not be associated with the core business, (2) they may be included implicitly in the profit level allowed by the JPA, or (3) they may unnecessarily complicate rate regulation (e.g., income taxes). Costs shown in **Exhibit 1-3**, on the next page, are not allowable for rate setting, and as a result will not be passed onto ratepayers.

**Table 1-7**  
Recommended STR Allocation Methods For Costs Shared with Other Non-JPA Serviced Jurisdictions

Cost Category	Allocation Method
Billing costs	Number of bills processed
Disposal costs	Actual tonnage
Equipment costs (e.g., rental, leases, parts, fuel, supplies, tires, repair and maintenance, licenses, permits)	Truck usage (over representative period)
Franchise fees	Revenues multiplied by fee percentage
General and administrative costs, management fees	Direct labor hours
Loans	Revenues

### 4. Cost Allocations and Methodologies

The franchised hauler should provide supporting documentation and rationale for the allocation of expenses between the franchised areas covered by this manual and non-JPA areas serviced by South Tahoe Refuse Company. Examples of the types of expenses which may require justification for allocations may include:

- Billing costs
- Disposal costs
- Equipment costs
- General and administrative costs
- Loans to or from affiliates
- Loans to or from officers
- Management fees.

The franchised hauler should be prepared to provide a reasonable and supportable methodology for these cost allocations. **Table 1-7**, above, provides recommended allocation methods for various costs which may be shared between JPA and non-JPA jurisdictions.

<sup>11</sup> For El Dorado County, interest on the RRF financing is an allowable cost.

**Exhibit 1-3****Non-Allowable Costs**

Category	Description
<b>Amortization of Franchise Purchases</b>	Consistent with the waste management industry, the JPA disallows amortization of franchise purchases because the operating ratio is designed to provide a return to the company sufficient to compensate for the company's investment in the business.
<b>Charitable and Political Donations</b>	<ul style="list-style-type: none"> <li>■ Costs associated with attempting to influence the outcome of any federal, state, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activities.</li> <li>■ Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purposes of influencing the outcomes of elections.</li> </ul>
<b>Entertainment Expenses</b>	Costs incurred in hosting social events for clients or suppliers. Examples include costs of tickets, concerts, athletic events, or other performances; room rentals; cruises; entertaining guests at athletic, social, or sporting clubs and on vacation or other similar trips.
<b>Fines and Penalties</b>	Costs associated with violations of, or failure of, the hauler to comply with federal, state, local, or foreign laws and regulations. This category of non-allowable costs can also include costs in connection with alteration or destruction of records, or other false or improper charging or recording of costs.
<b>Income Taxes</b>	The operating ratio is provided on a pre-tax basis. To allow income tax expense would unnecessarily add complexity to the rate review process.
<b>Cost of Repairs Due to Operator Negligence</b>	Costs of negligence on the part of the hauler which could include accidents or property damage.
<b>Costs Incurred to Serve Other Jurisdictions (i.e., for non-JPA areas served by STR (e.g., Forest Service areas))</b>	The franchised hauler will be compensated for only those costs that can be directly attributable to operations within the franchised boundaries. The franchised hauler should have a clear basis for allocating shared costs to the franchise areas covered by this manual, and those franchised areas not covered by this manual.

The JPA will assess reasonableness of the revenue and cost projections provided by the franchised hauler in its *Base Year Rate Application*. Examples of types of factors the JPA will consider when assessing reasonableness of projected revenues and costs are shown in **Table 1-8**, on the next page.

## 1. Rate Setting Goals and Objectives

**Table 1-8**

**Base Year Rate Review  
Revenue and Cost Projection Factors**

Description	Factors to Consider in Developing Revenue and Cost Projections
<b>Revenues</b>	
<b>Residential and commercial revenues</b>	<ul style="list-style-type: none"> <li>■ Projected account growth based on historical account trends, or population trends</li> <li>■ Historical changes in tonnage (particularly for the industrial sector)</li> </ul>
<b>Recycled materials sales revenues</b>	<ul style="list-style-type: none"> <li>■ Historical changes in recycled materials volumes</li> <li>■ Recycled commodity pricing trends (may be highly volatile)</li> </ul>
<b>Costs</b>	
<b>Direct labor</b>	<ul style="list-style-type: none"> <li>■ Projected increases in wage rates</li> <li>■ Planned changes in insurance rates</li> <li>■ Planned changes in benefit rates</li> </ul>
<b>Equipment costs and facility costs</b>	<ul style="list-style-type: none"> <li>■ Historical average trends in costs (last three years)</li> <li>■ Inflation rates</li> <li>■ Fuel price history</li> <li>■ Depreciation schedules</li> <li>■ Equipment replacement plans</li> </ul>
<b>Landfill disposal fees</b>	<ul style="list-style-type: none"> <li>■ Historical changes in refuse tonnage</li> <li>■ Tipping fee rate increases, per contract</li> </ul>
<b>Office salaries</b>	<ul style="list-style-type: none"> <li>■ Projected increases in wage rates</li> <li>■ Planned changes in insurance rates</li> <li>■ Planned changes in benefit rates</li> </ul>
<b>General and administrative costs</b>	<ul style="list-style-type: none"> <li>■ Historical average trends in costs (last three years)</li> <li>■ Inflation rates</li> </ul>
<b>MRF principal payments</b>	<ul style="list-style-type: none"> <li>■ Loan documents</li> </ul>
<b>Interest expense</b>	<ul style="list-style-type: none"> <li>■ Borrowing rates</li> <li>■ Loan documents</li> </ul>
<b>Franchise fees</b>	<ul style="list-style-type: none"> <li>■ Projected changes in revenues multiplied by the fee amount</li> </ul>



## 2. Base Year Rate Setting Process

This section describes each of the eight (8) steps of the base year rate setting process. Each step includes an overview of the step and a detailed description of the tasks required to complete the step. The section includes eight (8) subsections:

- A. *Step 1 – Prepare and Submit Rate Application*
- B. *Step 2 – Verify Completeness of Rate Application*
- C. *Step 3 – Review Rate Application and Prepare Response*
- D. *Step 4 – Survey Comparative Rates*
- E. *Step 5 – Prepare Draft Report and Final Report*
- F. *Step 6 – Present Final Report to JPA Board*
- G. *Step 7 – Receive Approval from City Council and County Boards*
- H. *Step 8 – Notify Customers and Implement New Rates.*

### A. Step 1 – Prepare and Submit Rate Application

**Responsibility:** Franchise hauler

**Timing:** Completed seven (7) months prior to the date new rates become effective

- Tasks:**
- a. Prepare Cost Information
  - b. Prepare Revenue Information
  - c. Prepare Operating Information
  - d. Calculate Allowable Operating Profit
  - e. Determine Franchise Fee
  - f. Calculate Revenue Requirement
  - g. Calculate Net Surplus/Shortfall and Percent Change in Rates
  - h. Calculate New Percentage Rate Change and Rates
  - i. Prepare and Submit Rate Application.

#### Overview

During this step, the franchise hauler prepares the *Base Year Rate Application*. This three-page form includes detailed financial and operating information and is used to determine the actual costs and revenues of the franchise hauler. Blank copies of the *Base Year Rate Application* are provided in **Appendix A (Exhibit A-1)**.

Several lines in the application contain three columns. These columns are intended to show the relationship between the most recently completed year, the current year, and projections for the new "base" year. These columns are organized as follows:

- **Column one** includes actual audited information for the franchise hauler's prior fiscal year. This is the most recent year that financial information is available and that actual costs and revenues can be verified.
- **Column two** is for estimating performance during the current fiscal year. The “current year” is the franchise hauler's fiscal year prior to the new base year. The *Base Year Rate Application* is prepared during the course of the current year. Data in this column should include year-to-date performance plus estimated performance during the remaining months of the current fiscal year.
- **Column three** is used to report projected performance during the new base year. This information is entirely a projection and is utilized to determine any rate changes. Projected information should be developed by estimating anticipated service levels during the base year, and determining the revenues and expenses which will be incurred to provide these services. Each cost element in the application should be reviewed and any anticipated change in specific line items should be included in the base year projection. For example, if labor rates are scheduled to change, or if landfill disposal costs are expected to change, these changes should be included in projections for the base year.

The relationship between these three (3) columns for any given line item should be consistent. Any substantial difference between each of the three (3) years should be explained by the franchise hauler and considered by the JPA during the review process.

The franchise hauler should provide a copy of audited financial statements for the prior fiscal year. Financial information from the audit is consolidated into specific categories identified in the application. All financial information shall be in accordance with generally accepted accounting

principles. The franchise hauler should prepare supplemental documentation which reconciles the financial audit for the most recently completed fiscal year to information provided in the application. This documentation should be included in the application package.

### a. Prepare Cost Information

Cost information from the franchise hauler is provided in the *Base Year Rate Application*. Cost information is reported for the most recently completed fiscal year, the current fiscal year, and the new base year. Information reported in each line item represents the total combined costs for residential, curbside recycling, yardwaste, commercial, and transfer station services. Segregation of costs by residential, curbside recycling, yardwaste, commercial, and transfer station services is not required.

Cost information includes:

#### ■ Allowable Costs

- Direct Labor (Line 5)
- Equipment Costs and Facility Costs (Line 6)
- Landfill Disposal Costs (Line 7)
- Office Salaries (Line 8)
- General and Administration Costs (Line 9)

#### ■ Pass Through Costs

- MRF Principal Payments (Line 13)
- RRF Principal Payments (Line 14)
- Interest Expense (Line 15)
- Franchise Fees (Line 16)
- RRF Fund Credit (Line 17).

Definitions and specific components of these cost categories are described in Exhibits 1-1 and 1-2, in Section 1.

By aggregating costs into these line items, the JPA, and franchised hauler, can focus on major

changes without becoming distracted by large changes in insignificant cost components. For example, if licenses and fees doubled from \$10,000 in the current year to \$20,000 in the base year (i.e., a 100 percent increase), this might only cause General and Administrative Costs to increase by one percent, resulting in little impact on the overall rate. Minor components of General and Administrative Costs may decrease between the current year and the base year, while others may increase.

If one of the major cost line items in the application changes at an unusual rate, then the franchise hauler should be able to explain the change. An unusual change in cost is any change which is greater than the change in the U.S. City Average Garbage and Trash Collection CPI. The CPI used in the analysis should be based on the most current actual information for the U.S. City Average Garbage and Trash Collection CPI. This information is available from the United States Department of Labor, Bureau of Labor Statistics.

Cost information for the current year, and base year, must account for any increases or decreases in the number of customers served, or tons of waste and recyclable material collected. Actual increases in costs also must be included. For example, if health benefit costs will increase in the base year as a result of increases in premiums, this additional cost should be included.

Cost information provided in the application is used with operating profit to calculate the franchise hauler's revenue requirement. The revenue requirement is equal to the sum of the following three categories:

- Total allowable operating costs
- Allowable operating profit
- Total pass through costs.

This revenue requirement is compared to anticipated revenues. The JPA uses the operating

ratio (OR) method to establish revenue requirements for setting rates.

## b. Prepare Revenue Information

Revenue information is provided in this task. Similar to cost information, revenues are reported for the most recently completed fiscal year, the current fiscal year, and the projected base fiscal year. Revenues are reported in four (4) separate categories:

- Residential
- Commercial
- Transfer station and RRF revenues
- Recycled material sales.

Revenues in the base year are projected without any changes in rates. Revenue projections are prepared based on existing rates and the number of customers which the franchise hauler anticipates serving in the base year.

### 1. Determine Residential Revenues.

To calculate projected residential revenues for the base year, enter the current monthly rates by service type in the first column of cells in lines 20 to 28, on page 2 of 3. Then enter the projected number of accounts by service type in the second column of cells in lines 20 to 28, on page 2 of 3. Total revenues for each service type are calculated based on the following:

$$\begin{array}{r} \text{Current rate per month} \\ \text{Multiplied by} \quad \text{Twelve months} \\ \hline \text{Equals} \quad \text{Rate per year} \\ \\ \text{Multiplied by} \quad \text{Projected residential accounts} \\ \hline \text{Equals} \quad \text{Revenues by service type.} \end{array}$$

Revenues by service type then are entered in the third column of cells in lines 20 to 28, on page 2 of 3. These values then are added together, entered, and totaled in line 29. Residential revenues should reflect all revenues generated for providing curbside collection services of refuse, recyclables, and yardwaste.

The number of accounts in each service category may change throughout the year. For example, some customers may request one can service part of the year and an additional can during the remainder of the year. The average number of accounts by service type should be used in these calculations. In addition, the number of accounts identified for these calculations must agree with operating data provided in Section VIII (page 3) of the application.

Multi-family can, cart, and bin services, and mobile home park can, cart, and bin services, should be included in residential revenues.

### 2. Determine Commercial Revenues.

Commercial revenue information is entered in line 34 of page 2 of 3 of the application. In the first column of this line, actual revenues generated by commercial accounts during the prior year are reported. This year amount must reconcile with the financial audit for that same year. Commercial revenues for the current year are based on actual revenue to-date plus an estimate of the revenues that will be received through the end of the fiscal year. Commercial revenues in the current year should be comparable to revenues in the prior year, after taking into changes in accounts and service levels.

Projected commercial revenues for the new base year are entered in the third column. This amount, net of any projected uncollectible accounts, is based on the estimated annual revenues received during the current fiscal year plus any additional revenues generated from additional accounts. Operating data provided in Section VIII (page 3) of the application should support any service level changes.

In order to analyze changes in commercial rates, rate information must be provided for specific commercial services. These services are:

#### Bin Service (Compacted and Uncompacted)

- 2 Yard Bin—once per week

- 3 Yard Bin – once per week
- 4 Yard Bin – once per week
- 5 Yard Bin – once per week
- 6 Yard Bin – once per week.

In the columns of lines 52 through 56, the franchise hauler enters the rate for these services for the prior year, the current year, and the base year, respectively. Percentage changes then are entered in columns 3 and 5. This information substantiates previously approved changes in commercial rates.

Multi-family and mobile home park bin services should be included in commercial revenues.

- ### 3. Determine Allowance for Uncollectible Accounts.
- The franchise hauler likely will not be paid by all customers served. While this amount is expected to be relatively small, it must be accounted for in the calculation of base year net revenues. These amounts are reported in two places for each service type: on line 30 for the allowance for uncollectible residential accounts, and line 33 for the allowance for uncollectible commercial accounts.

These amounts can be calculated based on a formula, such as one percent of anticipated revenues, or based on actual experience. Assumptions related to the projection of uncollectible accounts must be documented and included as a supplement to the application.

- ### 4. Determine Transfer Station and RRF Revenues.
- Transfer station and RRF revenues are included in the total revenue calculation. In the first column of line 35, actual revenues received during the most recently completed fiscal year are reported. In the second column of line 35, estimated revenues for the current year are reported. For the base year, transfer station and RRF revenues are determined by the best estimate of transfer station and RRF operations during the new base year. The projected revenues are reported in the third column of line 35 of the application.



**5. Determine Revenues from Recycled Material Sales.** In addition to revenues generated through residential and commercial services, and from the transfer station, additional revenues are generated by selling recyclable materials collected through the curbside recycling program. The amount of recycling revenues generated through the sale of these materials is dependent upon the quantity of material collected and the market price for these materials. Both of these factors are outside direct control of the franchise hauler. Therefore, revenues generated by recycled material sales are not subject to an across-the-board rate changes. Revenues generated from charging residential customers for curbside recycling services should not be included here, but should be included as part of residential revenues (#1 above).

In the first column of line 36, actual revenues received during the most recently completed fiscal year are reported. In the second column of line 36, estimated revenues for the current year are reported. For the base year, revenues from recycled material sales are determined by projecting scrap prices for recycled materials and the anticipated quantity of materials sold. The projected scrap prices are multiplied by the projected volume of materials to be sold to determine projected recycled materials sales revenues. These projected revenues are reported in the third column of line 36 of the application.

**6. Calculate Total Revenues.** The calculation of total revenue is as follows:

Total residential revenues (Line 31)	
<i>Plus</i> Total commercial revenues (Line 34)	
<i>Plus</i> Transfer station and RRF revenues (Line 35)	
<i>Plus</i> <u>Recycled material sales (Line 36)</u>	
<i>Equals</i>	Total revenues.

Total revenues are entered on line 37.

**c. Prepare Operating Information**

During this task, non-financial operating information is compiled by the franchise hauler. Operating information, requested in the application, provides an important indicator of the franchise hauler's performance. If costs are changing at an unusual rate, operating data may provide some explanation of these changes. For example, cost increases could be attributed to the increased level of service provided (i.e., accounts served). The franchise hauler should provide the following information:

- Number of accounts
- Quantity of refuse tonnage collected
- Quantity of recycling tonnage collected
- Quantity of yard waste tonnage collected
- JPA bins provided.

Similar to cost data, the first year is “historical,” the second year is the “current” year, and the third year is the “base” year. Historical data are based on actual annual operating statistics during the most recently complete fiscal year and reflect the same year used in the financial sections of the application. Current year performance is based on performance to-date plus estimated performance for the remaining months of the current year. Projected base year data represents the franchise hauler's best projection of service levels during the new base year.

Year-to-year percentage changes then are determined for each set of operating metrics. The franchise hauler should be able to explain any significant changes. A significant change in an operating characteristic is an increase or decrease of more than two (2) percent.

This information allows both the JPA, and the franchise hauler, to monitor changes in the service characteristics, estimate total revenues at existing rates, and compare these to changes in total costs. The franchise hauler should identify to the JPA

any operating information submitted as part of the application that it considers confidential.

**d. Calculate Allowable Operating Profit**

For the historical year of actual data, the franchise hauler will calculate the actual operating ratio based on the formula below:

$$\frac{\text{Total allowable costs}}{\text{Total allowable costs plus Operating profit}} = \text{Operating ratio.}$$

These actual operating ratios on allowable costs will reveal how well past base year projections corresponded to actual results. Similarly, the formula estimated above is used to calculate the operating ratio for the current year (column 2). The actual operating profit received by the franchise hauler in the most recently completed fiscal year is entered on line 12, column 1. The estimated operating profit for the current fiscal year also is entered on line 12, column 2.

To calculate the allowable operating profit in the base year, the equation below is utilized:

$$\frac{\text{Allowable operating costs}}{\text{Allowable operating revenues}} = \text{Operating ratio}$$

$$\text{Allowable operating revenues} - \text{Allowable operating costs} = \text{Allowable operating profit.}$$

The allowable operating profit is entered on line 12, column 3 of the application.

In each base year, the operating ratio will range as shown in Exhibit 1-1, which will help stabilize rate changes and afford the franchise hauler an incentive to reduce costs.

**e. Determine Franchise Fee**

The calculation of the franchise fee is not a straightforward exercise because as revenue is

increased (e.g., via a rate change), so does the amount of franchise fees increase because franchise fees are based on a percent of gross revenues. To calculate the franchise fee for the base year requires the hauler to calculate the franchise fee to be paid to each jurisdiction based on the revenues after a rate change is applied. Projected franchise fees should be entered on line 16, column 3 of the application.

**f. Calculate Revenue Requirement**

The revenue requirement establishes the level of revenues needed to meet all allowable costs and operating profit. This includes residential and commercial waste and recycling costs, and assumes a reasonable profit margin based on the operating ratio calculation.

Total revenue requirement is determined as the sum of:

- Allowable operating costs (Line 10)
- Allowable operating profit (Line 12)
- Pass through costs (Line 18).

The revenue requirement is entered on line 19 of the application.

**g. Calculate Net Surplus/Shortfall and Percent Change in Rates**

The net surplus/shortfall is determined based on the following calculation:

$$\text{Revenue requirement (Line 19)} - \text{Total revenues (Line 37)} = \text{Net surplus/shortfall (Line 38).}$$

The projected amount of revenue generated during the base year from the sale of recycled materials was calculated in Step 1, #5 of subsection b.; therefore, any increase or decrease in revenues required must come from an increase or decrease in rates.

If applicable, the percent change in existing rates is calculated as follows:

$$\begin{array}{r} \text{Net surplus/shortfall (Line 38)} \\ \text{Divided by} \quad \text{Total revenues without change} \\ \hline \text{(Line 39)} \\ \text{Equals} \quad \text{Percent change in rates (Line 40).} \end{array}$$

The percent change in rates is entered on line 40 of the application.

#### **h. Calculate New Percentage Rate Change and Rates**

If applicable, the percentage rate change identified on page 2 of 3, line 40 should be entered on page 1 of 3, line 1 of the *Base Year Rate Application*. Current residential rates for solid waste collection should be entered on page 1 of 3. The adjusted rates for each jurisdiction then are calculated by multiplying the current rate by one plus the rate change identified in line 1.

To determine new residential rates on page 1 of 3, column one should be added to column two and the result should be entered in column three. This column provides the new rate schedule. Complete current and revised commercial rate schedules should be provided by the hauler as an attachment to the application.

#### **i. Prepare and Submit Rate Application**

The franchise hauler submits the completed *Base Year Rate Application* to the JPA. The application should include the following items:

- **Management Representation Letter.** The management representation letter transmits the application to the JPA, and should provide a listing of included documents. The letter should identify the requested adjustment in rates and include a discussion of specific issues which impact new rates (e.g., significant increases in labor costs). The letter should state that:

- Management reviewed and accepts responsibility for the rate application
- The application is based upon management's judgment of the most likely set of conditions and course of action
- All significant relevant information are made available
- Assumptions are reasonable and are accurate.

An authorized representative from the franchise hauler should sign and date the application. This signature provides a certification of the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in this manual.

- **Base Year Rate Application.** The franchise hauler should provide a *Base Year Rate Application*, including completed application forms and supporting documentation. Supporting documentation includes the current and proposed rate schedules for residential and commercial customers.
- **Supplemental Audited Financial Information.** For applications received after 2009, audited financial statements for the most recently completed fiscal year should be included, as well as other documentation which support operating and financial data provided in the application. Because audited financial statements serve as base documents for the application, statements of revenues, expenses, and other reports contained in the application shall be reconciled to the audited financial statements to provide assurance that all activities are accounted for.

Once the application materials have been prepared, the franchise hauler submits three (3) reproducible hard copies and one disk copy formatted to the JPA's specifications. They are submitted to the JPA. The thirty (30) day review for completeness will begin upon receipt of the application.

## B. Step 2 – Verify Completeness of Rate Application

**Responsibility:** JPA

**Timing:** Completed within thirty (30) days after the rate application is submitted

- Tasks:**
- Verify Financial Data and Format
  - Verify Supporting Documents and Schedules
  - Notify Franchise Hauler.

### Overview

During this step, the JPA ensures that the application has been fully completed by the franchise hauler and that the data provided are consistent. During the 30-day period, the JPA will obtain from the franchise hauler any information necessary to complete the application.

#### a. Verify Financial Data and Format

The JPA staff reviews the application package to determine if it is complete and ready for analysis. Detailed analysis of the contents of the application occurs during Step 3.

The JPA reviewer should determine the following:

- Has the applicant included all required forms?
- Are all forms complete?
- Are audited financial statements included?
- Are all financial calculations mathematically correct?

#### b. Verify Supporting Documents and Schedules

Various documents may be included in the application package to support the rate change. The purpose of these supporting documents should be clearly identified by the franchise hauler.

#### c. Notify Franchise Hauler

If the application is complete, the JPA will notify the franchise hauler that it will begin the process of evaluating the application. If incomplete, the JPA will attempt to obtain from the hauler additional required information within the 30-day verification period. A revision of rates shall not be authorized until the 1<sup>st</sup> day of the first calendar month following a five (5) month period from the date that an application is verified to be complete.

## C. Step 3 – Review Rate Application and Prepare Response

**Responsibility:** JPA

**Timing:** Completed within one and one half (1½) months after determining that the application package is complete

- Tasks:**
- Review Actual and Projected Revenue Requirements
  - Review Actual and Projected Revenues
  - Review and Verify Operating Ratio
  - Determine Components of Requested Change in Rates
  - Review Performance Data
  - Request Additional Data and Clarification, if Necessary
  - Document Staff Review.

### Overview

During this step, JPA staff evaluates the entire rate application. This review includes examining significant changes in costs or operating performance and evaluating explanations of these changes provided by the franchise hauler.

#### a. Review Actual and Projected Revenue Requirements

In this task, costs and operating profits are reviewed and analyzed for reasonableness. Reconciliations of costs to audited financial

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statements are checked for consistency. Explanations are sought from the franchise hauler for items significantly different than would otherwise normally be expected.

Percentage changes in costs for the three years identified on the application should be calculated and reviewed. Projections prepared from previous years in prior *Base Year Rate Applications* are compared with actual results. Costs are correlated with operating collection efficiency statistics provided by the franchise hauler.

Any unusual trends or variances in aggregate areas should be explained by the franchise hauler. An unusual increase would be a change in cost which is greater than the change in the Trash and Garbage Collection CPI, published by the Bureau of Labor Statistics, and which cannot be attributed to changes in the number of customers serviced or tons of waste or recyclable materials collected. If these unusual changes are not adequately explained in the application, the JPA should request additional clarification from the franchise hauler.

The JPA should review the allocation methodology used by the franchise hauler to allocate costs between (1) franchise areas that are the subject of this manual, and (2) non-JPA areas serviced by STR. At a minimum, the JPA should check that allocations used to assign costs to franchise area customers are reasonably consistent with other operating metrics such as average number of accounts and tons collected.

#### **b. Review Actual and Projected Revenues**

The JPA should review actual and projected revenues in this task. Current rates provided in the application are verified. Any changes in the number of customers serviced should be identified and explained by the franchise hauler.

The application requires the franchise hauler to report three years of revenues: (1) actual prior

year, (2) estimated current year, and (3) projected "base" year. For applications received after 2010, the JPA should reconcile the most recent year revenues with audited financial statements.

Revenues for the current year are compared with year-to-date un-audited financial statements and documentation supplied by the franchise hauler. Projected revenues for the third, or "base" year, are evaluated by the JPA for reasonableness. Assumptions made by the hauler in preparing these projections are reviewed. Revenues reported by the franchise hauler should not include any rate changes in the base year (year 3). Account information included in the application is reviewed to determine changes in the number of accounts served.

Allowances for uncollectible accounts also are reviewed. These figures should be deducted from total revenue projections. These allowances may be based on a fixed percentage of total revenues or on actual experience. Assumptions related to allowances for uncollectible accounts should be reviewed with the franchise hauler.

Revenues from recyclable material sales are provided in the application. Amounts identified in the prior (first) year provided should reconcile with the financial audit. Amounts identified in the current (second) year, the base (third) year should be documented by the franchise hauler. The JPA will review these projections to ensure they are consistent with trends in recycling collection costs, scrap values, processing costs, as well as estimated diversion rates and tonnage.

#### **c. Review and Verify Operating Ratio**

The operating profit must be determined for the base year. The JPA should calculate the projected operating profit for the base year using the first formula provided in Exhibit 1-1. For El Dorado County, if the operating ratio is outside the 87 to 91 percent range, then the operating

ratio should be reset to 89 percent. If there are any errors by the hauler in calculating the operating ratio, or allowable operating profits, these deficiencies are noted.

### d. Determine Components of Requested Change in Rates

The JPA evaluates all costs, revenues, and operating profits provided in the application to determine components of the requested adjustment in rates. This would include determining the proportion of the requested adjustment in rates which is due to changes in each of the following:

- Costs
- Residential revenues
- Commercial revenues
- Transfer station and RRF revenues
- Recyclable material sales revenues
- Operating profit (or loss).

### e. Review Performance Data

The JPA reviews and analyzes performance data, which are included in the application (the number of accounts and tons collected). Operating statistics are reviewed to explain past historical trends and justify future expenses. Both actual and percentage increases are examined and any unusual changes in performance are investigated to determine their cause and effect on future cost performance. Changes in accounts served, the number of routes, tons collected, or direct labor hours generally should correspond to changes in costs and revenues.

### f. Request Additional Data and Clarification, if Necessary

Throughout the analysis of the application, The JPA may request clarification and/or

additional data from the franchise hauler to explain any unusual changes in costs or operating performance. The JPA may have identified missing information, or changes in the financial or operating data between the three years which require clarification or further explanation. The franchise hauler should respond to the JPA's request for additional information within two weeks. Responses will vary depending on the specific requirements of the JPA.

### g. Document Staff Review

During this task, the JPA prepares workpaper documentation of the review of the *Base Year Rate Application*.

## D. Step 4 – Survey Comparative Rates

**Responsibility:** JPA

**Timing:** Conducted concurrently with the application review (Step 3)

- Tasks:**
- a. Survey Residential and Commercial Rates in Similar Service Areas
  - b. Summarize Survey Results
  - c. Prepare Survey Summary Report.

### Overview

The JPA conducts a survey of solid waste rates in communities similar in size and location to the JPA franchise areas. The purpose of this survey is for comparison purposes to benchmark the rates proposed by the franchise hauler to determine if the rates are reasonable. The survey should cover the following topics:

- Residential services
- Commercial services.

The survey is not meant to be used as a basis for determining new rates.

### a. Survey Residential and Commercial Rates in Similar Service Areas

In this task, the survey of rates in other areas, which are similar to the JPA franchise areas, is conducted. In order to avoid mailing and response delays, the survey is conducted by telephone. A minimum of six (6) other jurisdictions should be surveyed. Jurisdictions selected should be located in Northern California and have operating environments, which are similar to, the JPA franchise areas. **Exhibit A-2** in **Appendix A** provides an example of template for the rate survey.

### b. Summarize Survey Results

After the survey has been conducted, the results are tabulated and compared. Rates proposed in the rate application should be compared to rates in other jurisdictions. If the rates proposed in the application are significantly higher than in other jurisdictions, then JPA staff should request the franchise hauler's assistance in explaining the differences.

### c. Prepare Survey Summary Report

The JPA then prepares a summary report, which makes conclusions about how rates and services provided by the current franchise hauler compare with those in other jurisdictions. The summary report should document residential refuse, curbside recycling, yardwaste, and commercial refuse collection services and rates. It should include the following information:

- Number of agencies surveyed
- Average and median monthly charges for comparable residential can services
- Average and median charges for comparable commercial services.

The report should compare the proposed JPA rates with averages and median results from the

survey. The report should summarize in a matrix format all results of the survey listed by the jurisdiction surveyed.

The JPA may require an explanation and/or clarification from the franchise hauler about how the proposed rates compare to rates in the survey. This summary is included as an attachment to the Final Report. This information also is used in the evaluation of the franchise hauler's application.

## E. Step 5 – Prepare Draft Report and Final Report

**Responsibility:** JPA

**Timing:** Completed approximately three (3) months after determining the application package is complete

- Tasks:**
- a. Prepare Draft Report
  - b. Provide Franchise Hauler with Copy of Draft Report and Receive Comments
  - c. Prepare Final Report.

### Overview

A draft report with recommendations from JPA staff is prepared and submitted to the franchise hauler for review. The franchise hauler will review the draft report. The franchise hauler will have an opportunity to provide written comments regarding the draft report. The JPA will address these comments and prepare a Final Report.

### a. Prepare Draft Report

In this step, the JPA prepares a Draft Report including recommendations for a rate change. The draft report includes the following sections:

- **Executive Summary.** This is a one or two-page summary of the review process and may include a chart showing current and proposed rates, and the recommended rate change.

- **Introduction and Background.** The section identifies any proposed changes in services provided by the franchise hauler. The section also identifies the review goals, objectives, scope, and other relevant background information. This section of the report may provide a brief overview of the rate change process and a discussion of significant historical rate issues. If applicable, this report will document the rate change proposed by the JPA.
- **Analysis and Discussion of Rate Application.** This section of the report will include a review of the analysis work completed by JPA staff. This section might include the following subsections:
  - *Review of Rate Changes*, including a discussion of interim year rate changes since the last base year, the relationship of these changes to changes in the Garbage and Trash Collection CPI, and an analysis of the significant components of the change in rates (e.g., changes in labor costs.)
  - *Analysis of Projected Costs*, including a discussion of any unusual changes in costs which were discovered and unresolved during the review process.
  - *Discussion of Service Issues*, including changes in frequency or type of curbside service. If significant service issues are not involved with a rate change, this subsection would be omitted.
- **Recommendations.** JPA staff would present its recommendations regarding specific changes in rates in this section of the document.
- **Appendices.** Appendices to the report would include:
  - Rate application
  - Revised rate schedule
  - Audited financial statements of the franchise hauler
  - Other relevant supporting materials provided by the franchise hauler
  - Results of the rate survey.

### b. Provide Franchise Hauler with Copy of Draft Report and Receive Comments

During this task, the franchise hauler will review the draft report. Each section of the report should be reviewed to ensure that correct data are included, the JPA's analysis is consistent with the methodology, and if applicable the proposed rate change is determined accurately.

If any issues are identified during this step, the franchise hauler works with JPA staff to fully explore and resolve these outstanding issues. The franchise hauler then will prepare a written response to the draft report. The response may cover one or more of the following topics:

- If data discrepancies exist in any of the areas noted in the prior task, the JPA should be notified of these discrepancies.
- If the analysis conducted by the JPA can be clarified or considered differently, this information should be provided to the JPA.
- If the report is acceptable and no clarification or comments can be offered, this should be relayed to the JPA.

If no written response is received by the JPA within two weeks of delivering the JPA's Draft Report, then the JPA will assume that the franchise hauler has no issues with the report.

### c. Prepare Final Report

Any additional or outstanding comments or issues raised during the franchise hauler's review of the draft report are addressed. If necessary, meetings are conducted with representatives from the JPA and the franchise hauler. Final solutions to outstanding issues are included in the report. After final comments from the franchise hauler have been considered, the Final Report package is prepared. A copy of the Final Report is submitted to the franchise hauler.



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## F. Step 6 – Present Final Report to JPA Board

**Responsibility:** JPA

**Timing:** Completed two (2) months prior to the expected implementation of new rates

- Tasks:** a. Distribute Final Report and Summary to JPA Board  
b. Obtain JPA Board Recommendation.

### Overview

During this step, the Final Report is presented to the JPA Board for review, comment, and for a recommendation to the three jurisdictions.

#### a. Distribute Final Report and Summary to JPA Board

In this task, the Final Report is provided to members of the JPA Board. The report is included as an agenda item for JPA Board consideration at a regular JPA Board meeting. The rate change may be placed on either the regular or consent calendar. The JPA Board Clerk should be notified four (4) weeks prior to the meeting at which the rate change will be considered and reports should be provided two (2) weeks prior to the meeting.

The JPA Board Clerk should follow applicable public noticing requirements, so affected customers can participate at the Board meeting.

#### b. Obtain JPA Board Recommendation

The JPA Board members review the report and proposed rate changes. If the JPA Board agrees with the recommendations of JPA staff, the JPA Board recommends the rate change and rates to the three jurisdictions. If the JPA Board does not agree with staff recommendations, the report is returned to JPA staff for additional analysis. If the JPA Board does not recommend the report and rates, the JPA Board should specifically identify deficiencies.

## G. Step 7 – Receive Approval from City Council and County Boards

**Responsibility:** City and Counties

**Timing:** Completed one (1) month prior to expected implementation of new rates

- Tasks:** a. Distribute Final Report to City and Counties  
b. Obtain City and County Approvals.

### Overview

During this step, the respective cities and counties within the JPA present the Final Report for review and approval by their respective city council and county boards.

#### a. Distribute Final Report to City and Counties

In this task, the Final Report is provided to the City of South Lake Tahoe, El Dorado County, and Douglas County for review and approval. The report is included as an agenda item for consideration at a regular public meeting. The clerk of each respective jurisdiction should follow applicable public noticing requirements.

#### b. Obtain City and County Approvals

The City of South Lake Tahoe City Council, the El Dorado County Board of Supervisors, and the Douglas County Board of Commissioners review the report and recommended rate changes. If the rate changes are approved, they are implemented.

## H. Step 8 – Notify Customers and Implement New Rates

**Responsibility:** Franchise hauler

**Timing:** Conducted following City Council and County Board approval of the new rates

**Tasks:** a. Prepare Notification of Rate Change  
b. Implement Rate Change.

### Overview

During this final step, the franchise hauler implements new rates, if applicable.

#### a. Prepare Notification of Rate Change

Once the report is approved, a notification of a rate change is mailed by the franchise hauler

to all customers. This notification may be included with a regular billing or may be mailed separately. The notification must be performed at least 30 days prior to the effective date of the rate change. The franchise hauler should provide a copy or facsimile of the notice to the JPA at the time of customer notification.

#### b. Implement Rate Change

During this final task, the new rates are entered into the franchise hauler's billing system and included in the billing cycle. If a rate change occurs during the middle of a billing cycle, unbilled or overbilled amounts are calculated and included in the next billing cycle.



# 3. Interim Year Rate Setting Process

This section describes each of the five (5) steps of the interim year rate setting process. Each step includes an overview of the step and a detailed description of the tasks required to complete the step. The section includes five (5) subsections:

- A. Step 1 – Prepare and Submit Rate Application
- B. Step 2 – Prepare Draft Report and Final Report
- C. Step 3 – Receive Approval from City Council and County Boards
- D. Step 4 – Notify Customers and Implement New Rates.

## A. Step 1 – Prepare and Submit Rate Application

**Responsibility:** Franchise hauler

**Timing:** Completed four (4) months prior to the implementation of the new rates

**Tasks:** a. Prepare an Interim Year Rate Application  
b. Submit Application to JPA.

### Overview

During this first step, the franchise hauler prepares the *Interim Year Rate Application*. Blank application forms are provided in **Appendix A (Exhibit A-3)**. Similar to the base year forms, these forms identify all areas to be completed with double outlined boxes. If data are to be entered in the form, the box has no shading. If a calculation is required, the box has light shading.

#### a. Prepare an Interim Year Rate Application

1. **Report Changes in Landfill Disposal Costs.** The first task is to provide prior year landfill disposal costs. Prior year landfill tipping fees per ton should be entered on line 1. Prior year landfill tonnage should be entered on line 2. The values entered on lines 1 and 2 should then be multiplied together and entered on line 3.

The franchise hauler estimates what landfill tipping fees and landfill tonnage will be for the next interim year. Projected interim year landfill tipping fees, per ton, are entered on line 4, and projected interim year landfill tonnage is entered on line 5. The values entered on lines 4 and 5 then are multiplied together and entered on line 6.

The percent change in landfill disposal costs is determined as follows:

$$\frac{\text{line 6} - \text{line 3}}{\text{line 3}}$$

The result of this equation, rounded to the nearest one decimal place, is entered on line 7.

2. **Explain Changes in Landfill Disposal Costs.** Any changes in either landfill tipping fees or tonnage should be fully explained in this task. For example, if a landfill closes and the franchise hauler begins using a new landfill with higher tipping fees, this information should be disclosed.

Documents which support or further explain any change in costs are provided, as appropriate. This might include formal announcements of tipping fee increases provided by the landfill operator, which will be paid directly by the franchise hauler.

3. **Certify Application.** An authorized representative from the franchise hauler should sign and date the application. This signature provides certification by the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in this manual.

At this point, the application should be complete. The application is submitted to the JPA for review and calculation of the rate change, as described in the following subsection.

#### b. Submit Application to JPA

The completed application is sent to the JPA for review and calculation of new rates. The franchise hauler's application does not include any new rates; these are determined by the JPA during Step 2.

## B. Step 2 – Prepare Draft Report and Final Report

**Responsibility:** JPA

**Timing:** Completed within two (2) months of receiving a completed Interim Year Rate Application

- Tasks:**
- Identify Consumer Price Index
  - Complete Interim Year Rate Change Worksheet and Determine New Rates
  - Request Additional Data and Clarification, if Necessary
  - Prepare Draft Report
  - Receive Comments from Franchise Hauler
  - Prepare Final Report.

### Overview

The *Interim Year Rate Change Worksheet* is used to calculate new interim year rates. This document is prepared by the JPA after the franchise hauler has submitted an *Interim Year Rate Application*. Interim year rate changes are based on a weighted increase in operating and landfill disposal costs. Inflation for this process include changes in the Consumer Price Index (Garbage and Trash Collection CPI) and changes in landfill disposal costs (documented by the franchise hauler in the *Interim Year Rate Application*). **Exhibit A-4 in Appendix A** includes a sample of the two-page worksheet to be completed by JPA staff.

#### a. Identify Consumer Price Index

The annual change in the U.S. City Average, Garbage and Trash Collection, Consumer Price Index (CPI) provides the single largest factor for determining new rates during interim years. Eighty-five (85) percent of the actual change in this index during the twelve months prior to the date the *Interim Year Rate Application* is submitted to the JPA is used for the actual change in the methodology. Because a projected change in the CPI is not produced, eighty five (85) percent of the actual change in CPI for the prior twelve months is used as the CPI for the interim year. The period used by the JPA and franchise hauler will be June to June. This information is available from the United States Department of Labor, Bureau of Labor Statistics..

#### b. Complete Interim Year Rate Change Worksheet and Determine New Rates

JPA staff prepares the *Interim Year Rate Change Worksheet* and calculates new rates during this task. This worksheet requires information from the most recent *Base Year Rate Application* and the current *Interim Year Rate Application*. This worksheet also requires the U.S. City Average

Garbage and Trash Collection CPI information collected in task a. The worksheet is used to calculate the new rate change.

- 1. Identify Prior Base Year Operating Costs (Other Than Landfill Disposal).** Operating costs, excluding landfill disposal costs, are those items which can be reasonably managed by the franchise hauler in order to minimize future rate increases. Changes in these costs should approximate the change in the U.S. City Average Garbage and Trash Collection CPI.

In order to streamline the interim year process, operating costs are adjusted based on an annual change in the CPI instead of projected changes in each cost item. This eliminates the need to conduct a detailed review of the franchise hauler's audited financial statements.

Landfill disposal costs are included in total allowable costs (line 1). Because of this, landfill disposal costs must be deducted to determine total operating costs (other than landfill disposal) in the base year (line 1 plus line 2 plus line 3 minus line 4). This total then is entered on line 5 of the worksheet and is used to calculate the weighted change in operating costs (other than landfill disposal).

- 2. Identify Prior Base Year Landfill Disposal Costs.** Landfill disposal costs are those items over which the franchise hauler has little or no control. Adjustments to landfill disposal costs during an interim year are based on the franchise hauler's projections, not projected changes in the CPI. Total landfill disposal costs in the prior base year must be calculated to determine the weighting of operating costs to landfill disposal costs. Landfill disposal costs from the base year are entered in line 6.
- 3. Calculate Weightings.** Total operating costs (other than landfill disposal) (line 5) plus total landfill disposal costs (line 6) equals the total base year revenue requirement. This total is entered on line 7 of the worksheet.

A weighting for both operating costs (other than landfill disposal) and landfill disposal costs is calculated as follows:

#### Operating Costs (Other Than Landfill Disposal):

$$\begin{array}{r} \text{Total operating costs (Line 5)} \\ \text{Divided by} \quad \text{Base year revenue} \\ \quad \quad \quad \text{requirement (Line 7)} \\ \hline \end{array}$$

*Equals* Operating costs (other than landfill disposal), as a percentage of base year revenue requirement.

This percentage figure is entered on line 5, column 2, and line 17.

#### Landfill Disposal Costs:

$$\begin{array}{r} \text{Total landfill disposal costs (Line 6)} \\ \text{Divided by} \quad \text{Base year revenue} \\ \quad \quad \quad \text{requirement (Line 7)} \\ \hline \end{array}$$

*Equals* Landfill disposal costs, as a percentage of base year revenue requirement.

This percentage figure is entered on line 6, column 2, and line 20.

- 4. Calculate Projected Change in Consumer Price Index.** The percent change in the prior year June to June U.S. City Average Garbage and Trash Collection, CPI is entered on line 8. This change in CPI then is adjusted by multiplying the figure on line 8 by 80 percent and the result entered on line 9. This adjusted projection of the change in CPI also is entered on line 18 of the worksheet.
- 5. Enter Landfill Disposal Cost Information from Application.** The figures on lines 1 through 7 of the application (actual and projected landfill disposal costs) are entered in lines 10 through 16, respectively, of the worksheet. Any significant changes in these costs are documented by the franchise hauler. A significant change would be any increase greater than the change in the CPI, or a decrease of any amount. If a significant change has not been adequately explained, additional information is requested from the franchise hauler.

6. **Review Mathematical Accuracy.** The mathematical accuracy of the franchise hauler's totals for Total Prior Year Landfill Disposal Costs (line 12), and Total Projected Interim Year Landfill Disposal Costs (line 15) are checked during this task. The percent change in landfill disposal costs should be calculated as follows:

$$\frac{\text{line 15} - \text{line 12}}{\text{line 12}}$$

After the percentage change in landfill disposal costs has been verified, this figure is entered in lines 16 and 21 of the worksheet.

7. **Calculate Weighted Change in Operating Costs (Other Than Landfill Disposal).** Figures should have been entered on line 17, operating costs (other than landfill disposal) as a percent of base year revenue requirements, and line 18, the adjusted projected change in CPI, based on calculations completed in previous tasks. To obtain the weighted change in operating costs (other than landfill disposal), line 17 is multiplied by line 18 and the result entered on line 19.
8. **Calculate Weighted Change in Landfill Disposal Costs.** Line 20, landfill disposal costs, as a percent of base year revenue requirements, and line 21, projected change in landfill disposal costs, should now have an entry based on calculations completed in previous tasks. To obtain the weighted change in landfill disposal costs, line 20 is multiplied by line 21 and the result entered on line 22.
9. **Calculate Total Change in Cost.** To calculate the total percentage change in costs, line 19, the weighted change in operating costs (other than landfill disposal), is added to line 22, the weighted change in landfill disposal costs, and the result entered on line 23, total percent change in costs.
10. **Calculate Franchise Fee Adjustment.** In order to account for changes in the franchise fee resulting from a change in rates, an adjustment is made to the percentage change in total costs which was entered on line 23.

The adjustment factor is equal to one minus the franchise fee ( $1.00 - \underline{\quad} = \underline{\quad}$ ). This value should be entered on line 24.

11. **Calculate Percent Change in Existing Rates.** The final task in this step is to calculate the percent change in existing rates. To determine this change, line 23 (total percent change in costs) is divided by line 24 (franchise fee adjustment), and the result is entered on line 25. The value on line 25 should be greater than the value on line 23. The difference accounts for the change in franchise fees.
12. **Enter Rate Change.** The rate change identified in line 25 should be entered on Page 1, line 1 of the worksheet.
13. **Calculate New Residential Rates.** Current jurisdiction-specific rates for residential solid waste collection are entered in column one on page 1. The new rates (in column three) then are calculated by multiplying the current rate by one plus the percentage rate change identified on line 1. The rate adjustment (or the difference between the rate in column one and the rate in column three) is entered in column two.

To verify new rates, column one, lines 2 through 4, should be added to column two and the result should equal the rate in column three. This third column provides the new schedule of residential rates.

The JPA should separately calculate new commercial rates using the percentage change in rates.

#### c. Request Additional Data, and Clarification, if Necessary

If necessary, JPA staff requests clarification and/or additional data from the franchise hauler. The request is to clarify the franchise hauler's assumptions for projected changes in landfill disposal costs and to indicate the expected change in rates.

#### d. Prepare Draft Report

The JPA staff prepares a high level draft report with recommendations of new rates for JPA Board consideration. This report should be brief and include the following sections:

- **Executive Summary.** This is a summary of the review process and includes a chart showing current and proposed rates, and the recommended rate change.
- **Background.** This section of the report provides a brief overview of the rate change process and discussion of any significant historical issues.
- **Analysis and Discussion of Issues.** This section includes a review of the analysis work completed by JPA staff. This section also includes a discussion of any significant changes in landfill disposal costs and an identification of the change in CPI assumed by the JPA.
- **Recommendation.** The JPA staff presents its recommendation regarding any change in rates in this section.
- **Attachments.** Attachments to the report would include:
  - Rate application
  - Revised rate schedule(s)
  - *Interim Year Rate Change Worksheet.*

After the draft report and recommendations have been prepared, the document should be submitted to the franchise hauler for comment and review.

#### e. Receive Comments from Franchise Hauler

The franchise hauler reviews the draft report to ensure that any calculations and analyses completed by JPA staff are fair, reasonable, and justified. The franchise hauler reviews the draft report to ensure the following:

- Correct data are included

- JPA staff analysis is accurate and fair
- Rate changes are reasonable and acceptable.

If any issues are identified during this step, the franchise hauler works with JPA staff to fully explore and resolve these outstanding issues. A written response to the draft report is then prepared. The response may cover one or more of the following topics:

- Data discrepancies in any of the areas noted in the prior task
- Clarification for the JPA or alternative analysis of the application
- Responses to the JPA's request for additional information.

#### f. Prepare Final Report

The JPA prepares the Final Report incorporating comments from the franchise hauler, as appropriate. Any comments or issues raised during the franchise hauler's review of the draft report are addressed. If necessary, representatives from the JPA and the franchise hauler should meet to resolve issues. The report should reflect final solutions to outstanding issues.

After final comments from the franchise hauler have been considered, the JPA prepares the Final Report. The JPA should submit a copy of the Final Report to the franchise hauler.

### C. Step 3 – Receive Approval from City Council and County Boards

**Responsibility:** City and Counties

**Timing:** Completed one month prior to expected implementation of new rates

- Tasks:**
- a. Distribute Final Report to City and Counties
  - b. Obtain City and County Approvals.

#### Overview

During this step, the respective cities and counties within the JPA present the Final Report for review and approval by their respective city council and boards.

#### a. Distribute Final Report to City and Counties

In this task, the Final Report is provided to the City of South Lake Tahoe, El Dorado County, and Douglas County for review and approval. The report is included as an agenda item for consideration at a regular public meeting. The clerk for each applicable jurisdiction should follow applicable public noticing requirements so affected customers can participate at the public meetings.

#### b. Obtain City and County Approvals

The City of South Lake Tahoe City Council, the El Dorado County Board of Supervisors, and the Douglas County Board of Commissioners review the report and recommended rate changes. If the rate changes are approved, they are implemented. If the rate changes are not, deficiencies are noted, and the report is returned to the JPA. Step 3 is then repeated.

## D. Step 4 – Notify Customers and Implement New Rates

**Responsibility:** Franchise hauler

**Timing:** Conducted following the approval of the new rates by the City Council or County Board

**Tasks:** a. Notify Customers  
b. Implement Rate Change.

#### Overview

After new rates have been approved by City Council and County Boards, the final step in the process is to implement the new rates.

#### a. Notify Customers

After the report is approved, a notification of a rate change should be mailed to all customers.

#### b. Implement Rate Change

During this final task, the franchise hauler enters the new rates into their billing system and includes the new rates on the next appropriate customer invoice. If a rate change occurs during the middle of a billing cycle, unbilled or overbilled amounts are calculated and included in the next billing cycle.





# Appendix A

## Blank Forms and Worksheets

**Exhibits A-1 through A-4**, on the following pages, include blank base year rate application forms, solid waste fee survey forms, interim year rate application forms, and interim year rate change worksheets. This appendix is organized as follows:

- **Exhibit A-1** – *Base Year Rate Application*
- **Exhibit A-2** – *Solid Waste Rate Survey*
- **Exhibit A-3** – *Interim Year Rate Application*
- **Exhibit A-4** – *Interim Year Rate Change Worksheet.*



**Exhibit A-1**  
**Sample Base Year Rate Application**

## Base Year Rate Application

**Summary**

**Rate Change**

1. Percent Rate Change Requested %

**Residential Rate Schedule**

	Rate Schedule (per customer, per month)	Current Rate	Rate Adjustment	New Rate
2.	City of South Lake Tahoe	\$	\$	\$
	2.1. Unlimited service			
	2.2. Mandated pickup per 32-gallon can/bag			
	2.3. Mandated pickup per cubic yard			
	2.4. Qualified senior rate			
	2.5. House service - 1 can			
	2.6. House service - 2 cans			
	2.7. House service - 3 cans			
3.	Douglas County	\$	\$	\$
	3.1. 1, 32-gallon can			
	3.2. 2, 32-gallon cans			
	3.3. 3, 32-gallon cans			
	3.4. 4, 32-gallon cans			
	3.5. One extra 32-gallon can (also the seasonal service rate)			
	3.6. On-call 32-gallon can billed monthly/arrears			
	3.7. Per cubic yard			
	3.8. 1, 45-gallon can			
	3.9. 2, 45-gallon cans			
	3.10. 3, 45-gallon cans			
	3.11. One extra 45-gallon can (also the seasonal service rate)			
	3.12. On-call 45-gallon can billed monthly/arrears			
4.	El Dorado County	\$	\$	\$
	4.1. Unlimited service			
	4.2. Mandated pickup per 32-gallon can/bag			
	4.3. Mandated pickup per cubic yard			
	4.4. Qualified senior rate			
	4.5. House service per can			

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the South Lake Tahoe Basin Waste Management Authority.

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**Fiscal Year:** \_\_\_\_\_

# Base Year Rate Application

## **Financial Information**

Actual Audited      Estimated      Projected  
Prior Year      Current Year      Base Year

### Section I--Allowable Operating Costs

5.	Direct Labor	\$	\$	\$
6.	Equipment Costs and Facility Costs			
7.	Landfill Disposal Costs			
8.	Office Salaries			
9.	General and Administrative Costs			
10.	<b>Total Allowable Operating Costs</b>	\$	\$	\$

### Section II--Allowable Operating Profit

11.	Operating Ratio	%	%	%
12.	Allowable Operating Profit	\$	\$	\$

### Section III--Pass Through Costs

13.	MRF Principal Payments	\$	\$	\$
14.	RRF Principal Payments			
15.	Interest Expense			
16.	Franchise Fees			
17.	RRF Fund Credit			
18.	<b>Total Pass Through Costs</b>	\$	\$	\$

### Section IV--Revenue Requirement

19.	Total Allowable Operating Costs (Line 10) plus Allowable Operating Profit (Line 12) plus Total Pass Through Costs (Line 18)	\$	\$	\$
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### Section V--Revenues without Rate Change in Base Year

		Current Rate/Month	Months	Projected Accounts	Total
20.	Residential - 1, 32-gallon can	\$	12		\$
21.	Residential - 2, 32-gallon cans		12		
22.	Residential - 3, 32-gallon cans		12		
23.	Residential - 1, 45-gallon can		12		
24.	Residential - 2, 45-gallon cans		12		
25.	Residential - 3, 45-gallon cans		12		
26.	Residential - Unlimited service		12		
27.	Residential - Qualified senior		12		
28.	Residential - All other services		12		
29.	Residential Revenues Subtotal				\$
30.	Less: Allowance for Uncollectible Residential Accounts				\$
31.	<b>Total Residential Revenues (without Rate Change in Base Year)</b>	\$		\$	\$
32.	Commercial Revenues				\$
33.	Less: Allowance for Uncollectible Commercial Accounts				\$
34.	<b>Total Commercial Revenues (without Rate Change in Base Year)</b>	\$		\$	\$
35.	Transfer Station and RRF Revenues				\$
36.	Recycled Material Sales				\$
37.	<b>Total Revenues (Lines 31 + 34 + 35 + 36)</b>	\$		\$	\$

### Section VI--Net Shortfall (Surplus)

38.	Net Shortfall (Surplus)	\$
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### Section VII--Percent Change in Rates

39.	Total Residential, Commercial, and Transfer Station Revenues Prior to Rate Change (Line 31 + 34 + 35)	\$
40.	Percent Change in Existing Residential/Commercial Rates (Line 38 + 39)	%

**Fiscal Year:**

Exhibit A-1

Sample Base Year Rate Application (continued)

## Base Year Rate Application

### Operating Information

	Prior Year Audited Information	Current Year Estimated Information	Percent Change	Base Year Projected Information	Percent Change
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#### Section VIII--Operating Data

41. Residential Accounts			%		%
42. Multi-family Accounts			%		%
43. Commercial Accounts			%		%
44. Total Accounts			%		%
45. Residential Refuse Tons			%		%
46. Residential Recycling Tons			%		%
47. Residential Yard Waste Tons			%		%
48. Commercial Refuse Tons			%		%
49. Commercial Recycling Tons			%		%
50. "Free" Drop Boxes Provided (Monthly)			%		%
51. "Free" Bins Provided			%		%

#### Section IX--Change in Commercial Rates

52. 2 Yard Bin--Once per Week			%		%
53. 3 Yard Bin--Once per Week			%		%
54. 4 Yard Bin--Once per Week			%		%
55. 5 Yard Bin--Once per Week			%		%
56. 6 Yard Bin--Once per Week			%		%

**Fiscal Year:**

**Page 3 of 3**

## Solid Waste Rate Survey

**Residential Refuse, Recycling, and Yard Waste Collection Rates of Comparable Jurisdictions to the Areas Served by South Tahoe Refuse.<sup>a</sup>**

	1, 20-gallon can	1, 32-gallon can	1, 32-gallon cart	1, 64-gallon can	1, 64-gallon cart	1, 96-gallon can	1, 96-gallon cart
Amador County	\$	\$	\$	\$	\$	\$	\$
Calaveras County							
El Dorado County (West Slope)							
Nevada County							
Placer County (Franchise Area 2)							
Sutter County							
Yuba County							
Town of Truckee							
Incline Village							
Comparative Average							
Proposed City of South Lake Tahoe							
% Difference from Average	%	%	%	%	%	%	%
Proposed Douglas County							
% Difference from Average	%	%	%	%	%	%	%
Proposed El Dorado County							
% Difference from Average	%	%	%	%	%	%	%

<sup>a</sup> For monthly service.

**Fiscal Year:**

**Page 1 of 2**

Exhibit A-2

Sample Solid Waste Rate Survey (continued)

## Solid Waste Rate Survey

**Commercial Refuse Collection Rates of Comparable Jurisdictions to the Areas Served by South Tahoe Refuse.<sup>a</sup>**

	<b>1 pickup per week</b>			<b>2 pickups per week</b>			<b>Per pull-loose</b>	
	2 cu. yds.	3 cu. yds.	4 cu. yds.	2 cu. yds.	3 cu. yds.	4 cu. yds.	20-yard debris box	30-yard debris box
Amador County	\$	\$	\$	\$	\$	\$	\$	\$
Calaveras County								
El Dorado County (West Slope)								
Nevada County								
Placer County (Franchise Area 2)								
Sutter County								
Yuba County								
Town of Truckee								
Incline Village								
Comparative Average								
Proposed City of South Lake Tahoe								
% Difference from Average	%	%	%	%	%	%	%	%
Proposed Douglas County								
% Difference from Average	%	%	%	%	%	%	%	%
Proposed El Dorado County								
% Difference from Average	%	%	%	%	%	%	%	%

<sup>a</sup> For monthly service.

**Fiscal Year:**

**Exhibit A-3**  
**Sample Interim Year Rate Application**

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## Interim Year Rate Application

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**Change in Landfill Disposal Costs**

1.		Prior Year Landfill Tipping Fees Per Ton	\$
2.	<i>Multiplied by:</i>	Prior Year Landfill Tons	
3.	<i>Equals:</i>	Total Prior Year Landfill Disposal Costs	\$
4.		Projected Interim Year Landfill Tipping Fees Per Ton	\$
5.	<i>Multiplied by:</i>	Projected Interim Year Landfill Tons	
6.	<i>Equals:</i>	Total Projected Interim Year Landfill Disposal Costs	\$
7.		Projected Change in Landfill Disposal Costs	%

---

Provide an explanation of any changes in landfill disposal costs (i.e., landfill tipping fees paid by the franchise hauler, landfill tonnage). Attach supporting documentation to this application as appropriate.

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**Section III--Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the South Lake Tahoe Basin Waste Management Authority.

Name:

Title:

Signature:

Date:

---

**Year:**

**Page 1 of 1**

**Exhibit A-4**  
**Sample Interim Year Rate Change Worksheet**

## Interim Year Rate Change Worksheet

**Summary**

1. Percent Rate Change Requested %

Rate Schedule (per customer, per month)	Current Rate	Rate Adjustment	New Rate
<b>2. City of South Lake Tahoe</b>			
2.1. Unlimited service	\$	\$	\$
2.2. Mandated pickup per 32-gallon can/bag			
2.3. Mandated pickup per cubic yard			
2.4. Qualified senior rate			
2.5. House service - 1 can			
2.6. House service - 2 cans			
2.7. House service - 3 cans			
<b>3. Douglas County</b>			
3.1. 1, 32-gallon can	\$	\$	\$
3.2. 2, 32-gallon cans			
3.3. 3, 32-gallon cans			
3.4. 4, 32-gallon cans			
3.5. One extra 32-gallon can (also the seasonal service rate)			
3.6. On-call 32-gallon can billed monthly/arrears			
3.7. Per cubic yard			
3.8. 1, 45-gallon can			
3.9. 2, 45-gallon cans			
3.10. 3, 45-gallon cans			
3.11. One extra 45-gallon can (also the seasonal service rate)			
3.12. On-call 45-gallon can billed monthly/arrears			
<b>4. El Dorado County</b>			
4.1. Unlimited service	\$	\$	\$
4.2. Mandated pickup per 32-gallon can/bag			
4.3. Mandated pickup per cubic yard			
4.4. Qualified senior rate			
4.5. House service per can			

Year: \_\_\_\_\_



## Interim Year Rate Change Worksheet

### Financial Information

#### Section I--Base Year Costs

##### Base Year Operating Costs (Other Than Landfill Disposal)

1.		Total Allowable Operating Costs		
2.	Plus:	Allowable Operating Profit		
3.	Plus:	Total Pass Through Costs		
4.	Minus:	Landfill Disposal Costs		
5.	Equals:	Total Operating Costs (Other Than Landfill Disposal)		%

##### Base Year Landfill Disposal Costs

6.		Total Landfill Disposal Costs		
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7.		Base Year Revenue Requirement		
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#### Section II--Changes in Costs

##### Change in Operating Costs (Other Than Landfill Disposal)

8.		Projected Change in Consumer Price Index		
9.		Projected 85 Percent Change in Consumer Price Index		%

##### Change in Landfill Disposal Costs

10.		Prior Year Landfill Tipping Fees Per Ton		
11.	Multiplied by:	Prior Year Landfill Tons		
12.	Equals:	Total Prior Year Landfill Disposal Costs		\$

13.		Projected Interim Year Landfill Tipping Fees Per Ton		
14.	Multiplied by:	Projected Interim Year Landfill Tons		
15.	Equals:	Total Projected Interim Year Landfill Disposal Costs		\$

16.		Projected Change In Landfill Disposal Costs		
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#### Section III--Calculation of Percent Change in Rates

##### Weighted Change in Operating Costs (Other Than Landfill Disposal)

17.		Operating Costs as % of Base Yr. Revenue Requirement		
18.	Multiplied by:	Projected 85 Percent Change in Consumer Price Index		%
19.	Equals:	Weighted Change in Operating Costs		%

##### Weighted Change in Landfill Disposal Costs

20.		Landfill Disposal Costs as % of Base Yr. Revenue Requirement		
21.	Multiplied by:	Projected Change in Landfill Disposal Costs		%
22.	Equals:	Weighted Change in Landfill Disposal Costs		%

##### Total Change

23.		Total Percent Change in Costs		
24.	Divided by:	Adjustment for Franchise Fee (1 - ____%)		%

25.		Equals:		
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#### Percent Change in Existing Rates

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Year:

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