

# SIERRA DISPOSAL SERVICE

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530-621-4746 • 2140 Ruth Avenue • South Lake Tahoe, California 96150-4357

November 8, 2013

Ms. Gerri Silva, Director of Environmental Management  
El Dorado County  
2850 Fairlane Ct.  
Placerville, CA 95667

RE: Sierra Disposal Service (SDS) Rate Adjustment request

Dear Ms. Silva:

Thank you for your letter dated November 1, 2013 supporting a 6.6% rate increase. SDS appreciates the efforts of you and your staff and accepts this recommended increase. Attached is a schedule of current and proposed rates based on a 6.6% increase effective January 1, 2014.

As part of this rate request, SDS will be eliminating one-time per month dumpster/bin service starting January 1, 2014. In order to protect the public health and safety, the franchise agreement calls for the collection of solid waste at least once per week. As an accommodation that started many years ago, approximately 100 customers have been receiving one-time-per-month bin service instead of weekly service. Since the cost of providing this service significantly exceeds the revenue charged for this service, it is necessary for SDS to make this change which will help reduce the company's operating loss. A letter will be mailed to each affected customer notifying them of this change and asking them to call the office to select a weekly service that would best fit their needs. This change to weekly service includes recycling options with all services that are not currently offered with the one-time per month dumpster/bin service.

Below are our comments in response to the findings listed in your November 1, 2013 letter. Since it has been over 2 and ½ years since the last rate increase, while we do not agree with most of the adjustments made to the rate request, we are accepting the recommended rate increase so the implementation of the rate increase will not be further delayed. We want to be sure that our acceptance of this increase is not interpreted to mean that we endorse the various techniques used when making adjustments to the rate application and that this will not set a precedence that these techniques have our approval to be used in future applications. We believe it would be more productive to discuss these details as part of the rate setting methodology meetings during the upcoming franchise agreement negotiations.

## **Recycling Revenue**

Based on staff's recommendation to re-examine the free commercial recycle program in light of the declining market price of recyclables, SDS calculated the difference between the cost of providing the service and the revenue received from selling the recycling material collected on

the route. The annual cost of the program totals \$19,170 and consists of labor, fuel, insurance, registration and maintenance. The annual revenue generated by selling the material collected on the route is \$10,586. So the net cost of the route is \$8,584. There are 93 containers on the route so dividing the \$8,584 net cost by 93 containers equals an annual cost per container of \$92.30. Dividing the annual cost by 52 weeks results in a weekly cost of \$1.78 per container. SDS will consider adjusting commercial rates to incorporate the cost of recycling programs as part of a future rate adjustment.

### **Insurance Costs**

We concur with the analysis of health insurance costs and while there is nothing in the franchise agreement that requires that health insurance costs be disallowed if they exceed a certain amount, we are willing to accept this adjustment understanding that this benefit may be higher than the industry average.

We disagree with the findings for workers compensation insurance.

First, there is nothing in the franchise agreement that states that workers compensation insurance costs should be disallowed based on an increase in the company's experience mod. In a business that is as physically demanding as ours, injuries will happen despite the best safety efforts and precautions taken by our employees and the company. Please note that the experience modification factor for SDS was 0.93 for FYE 2012 and 0.96 For FYE 2013 (the year being used to calculate the rate increase), indicating that SDS's experience was 7% and 4% better than the industry average of 1.00. This indicates that SDS is operating at a safer level than the industry average so to suggest that some of the workers compensation insurance cost should be disallowed does not seem reasonable.

Our second concern is the methodology used to evaluate the overall reasonableness of the cost of workers compensation insurance. Over the past few years, California has experienced a significant increase in the base workers compensation rates due to the fact that past insurers were not charging adequate premiums. When losses exceed the premiums being charged, rates had to be increased in order to rectify this problem. It is important to understand that the base rates are calculated and governed by the California Workers Compensation Insurance Rating Bureau (WCIRB). The bureau regulates and determines the classifications and rates used by insurers offering workers compensation insurance coverage within the state of California. The SDS experience modification factor has no bearing on the base rates set by the WCIRB. While SDS can control its experience modification factor, it has no control over the rates being used to determine its premium.

This is evidenced by SDS's experience modification factor decreasing from 1.22 in 2012 to 0.93 in 2013, a 23.8% reduction so assuming no change in the base rates, one would expect to see the premium cost drop accordingly. What actually happened was the workers compensation premium increased by 0.8% due to higher rates. For fiscal 2014, when the experience modification factor increased slightly from 0.93 to 0.96, a 3.2% increase, the overall premium

increased by more than four times that amount to 13.7% as a result of higher rates. For the 2014 fiscal year, we can determine that approximately 23% of the increase in premium (3.2% / 13.7%) was due to an increase in experience modification factor while 77% of the increase (100% - 23%) can be attributed to higher rates.

So unlike health insurance which is currently a discretionary benefit with a wide range of benefits varying significantly from one company to another, workers compensation insurance is a mandated employer insurance governed by the laws of the State of California. Rates are set and regulated by the WCIRB and are out of the control of SDS, with the exception of its experience modification factor. Given the above information, evaluating the reasonableness of SDS workers compensation insurance based on a national US BLS average is not appropriate.

We recommend that any concerns over the cost of workers compensation insurance be addressed during upcoming discussions regarding the new franchise agreement and rate setting methodology.

#### **Equipment Repairs and Maintenance Expense**

The basis for the analysis of this account was comparing the fiscal 2011 repairs and maintenance cost of \$49,795 to the two subsequent years. While the cost for repairs and maintenance has been increasing, as would be expected from an aging fleet of trucks, the average annual cost for this account over the last seven years has been around \$73,500 so the increase is not quite as large when considering the historical cost for this expense. Below is the listing of the last seven years expense for this account (G/L account number 58403010):

FYE 2007	74,697
FYE 2008	89,910
FYE 2009	62,646
FYE 2010	68,687
<b>FYE 2011</b>	<b>49,795</b>
FYE 2012	89,000
FYE 2013	79,881
<i>Average</i>	<i>73,517</i>

As an illustration, if SDS were to replace its entire fleet with new trucks, using the original purchase price of the trucks to be conservative, the depreciation expense (using an 8-year life) would be about \$134,000 per year, which is significantly more than the \$80,000 spent in 2013 for repairs and maintenance. While repair costs would drop as a result of having all new trucks, there would still be maintenance costs to service the new trucks on top of the \$134,000 depreciation expense.

While noting that repairs and maintenance cost has been increasing, it should also be noted that due to the age of the SDS fleet, all but two trucks are fully depreciated so there is no depreciation expense charged to rate payers for the older trucks. The higher cost of depreciation expense has

been replaced by repairs and maintenance expense, essentially replacing one type of expense with another.

As far as providing “solid supporting information,” we provided a full general ledger account transaction report that lists every expense item in the account for each year requested: 2011, 2012 and 2013. This is the same report used by our external auditors as part of the annual Sierra Disposal Service audit that is required under the terms of the franchise agreement. This report has also been used and accepted during audits of South Tahoe Refuse by the JPA’s solid waste rate consultant. The report included a transaction date, a posting date, journal number, batch number, posting comment, vendor code, debit amount, credit amount, ending account balance and net change. While records had been requested based on an individual vehicle basis, detail cost records are not kept on an individual truck basis. The individual vehicle service records maintained by the shop include information such as the date and description of the service or repair that was performed on the vehicle, but they do not include the cost for the parts and fluids used in performing the service. All the cost information is included in the General Ledger Transaction Reports which were provided.

We agree with not including the loss on disposal of \$8,922 for Equipment S-8 as an allowable cost for the rate analysis. The truck was fully depreciated other than a CARB emission control unit which, under California law, is not permitted to be sold or installed on a vehicle other than the original vehicle on which it had been installed. The truck itself is sitting at the SDS shop and is used for spare parts for the other trucks.

We recommend that any concerns over the cost of repairs and maintenance expense be addressed during upcoming discussions regarding the new franchise agreement and rate setting methodology.

### **Bad Debt**

Please see our comments included previously as part of our September 2013 letter that detailed the billing and collection policy for SDS. To clarify when the “bad debt” expense is actually recorded, when the account is transferred to the collection agency, SDS will debit “bad debt” expense and credit the customer’s accounts receivable balance by the same amount. If the collection agency is successful in recovering some or all of the debt, the recovered amount will be recorded by debiting cash and crediting the appropriate revenue account. Prior to 2012, when an uncollectible balance was transferred to the collection agency, revenue would be debited (instead of bad debt expense) and the customer’s account receivable balance would be credited. We disagree that bad debt expense is not an allowable expense for the rate analysis. We do not see any reference in the franchise agreement listing bad debt as an excludable expense. This is a normal and customary cost of doing business and should be included.

We recommend that any concerns over the cost of bad debt expense be addressed during upcoming discussions regarding the new franchise agreement and rate setting methodology.

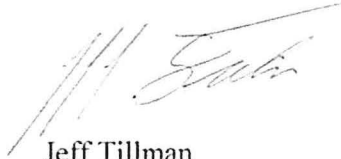
### **“Big Picture” Comments**

Because SDS is not a separate legal entity and is part of South Tahoe Refuse Co. (STR), it must use the same pension contribution percentages as STR. As part of the last STR rate review, El Dorado County authorized South Tahoe Refuse to increase its pension contribution to 4.5% starting in 2012 so that same contribution must be made for SDS.

The 1.6% COLA wage increase was a discretionary increase granted to the employees at both STR and SDS.

Thank you for your consideration of our comments, which we feel can be adequately addressed in future franchise agreement and rate setting methodology negotiations. It is our understanding that the SDS rate increase is scheduled for the December 10, 2013 Board meeting and are preparing customers notices accordingly. If there are any changes to the schedule, please let us know as soon as possible.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Jeff Tillman".

Jeff Tillman  
South Tahoe Refuse Co., dba Sierra Disposal Services

**SIERRA DISPOSAL SERVICE**  
**Rate Increase Effective January 1, 2014**

Note: qualifications for residential senior rate is age 65 or older  
 Rate increase %

6.60%

<b>RESIDENTIAL</b>		<b>Current Rate</b>	<b>Current Rate Senior</b>	<b>New Rate</b>	<b>Monthly Increase</b>	<b>Quarterly Increase</b>	<b>New Rate Senior</b>	<b>Monthly Increase Senior</b>	<b>Quarterly Increase Senior</b>
<b>Road Service</b>									
1 (32-gallon) can	Monthly	20.09	19.02	21.42	1.33	3.99	20.28	1.26	3.78
2 (32-gallon) cans	Monthly	28.70	27.18	30.59	1.89	5.67	28.97	1.79	5.37
3 (32-gallon) cans	Monthly	32.61	30.88	34.76	2.15	6.45	32.92	2.04	6.12
4 (32-gallon) cans	Monthly	38.33	36.30	40.86	2.53	7.59	38.70	2.40	7.20
5 (32-gallon) cans	Monthly	43.98	41.65	46.88	2.90	8.70	44.40	2.75	8.25
6 (32-gallon) cans	Monthly	49.63	47.00	52.91	3.28	9.84	50.10	3.10	9.30
7 (32-gallon) cans	Monthly	55.38	52.44	59.04	3.66	10.98	55.90	3.46	10.38
8 (32-gallon) cans	Monthly	59.21	56.07	63.12	3.91	11.73	59.77	3.70	11.10
1 (45-gallon) can	Monthly	24.36	23.07	25.97	1.61	4.83	24.59	1.52	4.56
2 (45-gallon) cans	Monthly	30.70	29.07	32.73	2.03	6.09	30.99	1.92	5.76
3 (45-gallon) cans	Monthly	36.97	35.01	39.41	2.44	7.32	37.32	2.31	6.93
4 (45-gallon) cans	Monthly	43.23	40.94	46.08	2.85	8.55	43.64	2.70	8.10
<b>House Service</b>									
1 (32-gallon) can	Monthly	27.34	25.89	29.14	1.80	5.40	27.60	1.71	5.13
2 (32-gallon) cans	Monthly	36.52	34.58	38.93	2.41	7.23	36.86	2.28	6.84
3 (32-gallon) cans	Monthly	39.95	37.83	42.59	2.64	7.92	40.33	2.50	7.50
4 (32-gallon) cans	Monthly	45.66	43.24	48.67	3.01	9.03	46.09	2.85	8.55
1 (45-gallon) can	Monthly	31.84	30.15	33.94	2.10	6.30	32.14	1.99	5.97
2 (45-gallon) cans	Monthly	38.17	36.15	40.69	2.52	7.56	38.54	2.39	7.17
3 (45-gallon) cans	Monthly	44.54	42.18	47.48	2.94	8.82	44.96	2.78	8.34
<b>Other Services</b>									
Extra can (32 or 45-gallon)	Per pickup	5.65		6.02	0.37				
Voucher (32 or 45-gallon)	Per voucher	5.65		6.02	0.37				
<b>COMMERCIAL</b>									
<b>Cans</b>									
32-gallon can/bag	Per pickup	6.35		6.77	0.42				
Extra 32-gallon can/bag	Per pickup	6.35		6.77	0.42				
45-gallon can	Per pickup	8.08		8.61	0.53				
Extra 45-gallon can	Per pickup	8.08		8.61	0.53				
<b>Per Cubic Yd</b>									
1-yard	Per pickup	22.05		23.51	1.46				
Extra yard	Per pickup	22.05		23.51	1.46				
Compacted rate per yard	Per pickup	54.20		57.78	3.58				
<b>Drop Boxes</b>									
6-yard area 1	Per pickup	241.77		257.73	15.96				
6-yard area 2	Per pickup	211.19		225.13	13.94				
6-yard area 3	Per pickup	184.79		196.99	12.20				
10-yard	Per pickup	313.73		334.44	20.71				
20-yard	Per pickup	466.86		497.67	30.81				
20-yard stump box	Per pickup	596.39		635.75	39.36				
30-yard	Per pickup	696.12		742.06	45.94				
30-yard Swansboro area	Per pickup	746.12		795.36	49.24				
30-yard stump box	Per pickup	876.40		934.24	57.84				