

# SIERRA DISPOSAL SERVICE

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541-6414 . 2140 Ruth Ave. . South Lake Tahoe, California 96150-4357

July 12, 2013

Gerri Silva, M.S., REHS  
Director of Environmental Management  
County of El Dorado  
2850 Fair Lane Ct., Building C  
Placerville, CA 95667

Dear Ms. Silva:

Thank you for your letter dated July 9, 2013. As stated in our June 21, 2013 draft letter, the purpose of the draft letter was only to initiate a discussion with your department prior to submitting the formal Sierra Disposal Service (SDS) rate request. We thought that our intent was clear by stamping the document "draft," not signing the letter and requesting a phone call to discuss how best to proceed with this rate request. Based on your letter, SDS will proceed with the formal rate request at this point and look forward to working with your department to process this request as quickly as possible.

Let me start by addressing the two points listed your letter.

**Section 15 – Records and Accounting A. Financial Report.**

Audited SDS financial statements were previously submitted to your office via email on October 17, 2012. Attached is a copy of the email for your reference. If an additional copy is needed, please let me know.

**Section 19 – Compensation B. Time For Rate Settings And Rate Setting Procedures**

Since the Board of Supervisors has used various forms for rate applications in the past, it is difficult to know which form will be required with each submittal. Option 1 below was used for the most recent rate increase in 2011.

**Option 1**

Below is a table of SDS's actual operating costs and loss for fiscal year ended June 30, 2012 and projected operating costs and loss for fiscal year ending June 30, 2013. We have also provided a calculation showing this calculated loss as a percentage of revenues. Additionally, we have provided a calculation of the required rate adjustment to restore SDS to a modest profit of approximately 2.5% of revenues. Based upon these calculations, SDS would request an 8.22% rate increase to become effective November 1, 2013. The last SDS increase was 5.6% effective May 1, 2011. As a comparison, since the last SDS rate increase, El Dorado Disposal has received three CPI increases totaling 5.8%.

Just as our business is struggling to recover from the recession, we understand that many of our customers are also facing financial difficulties, so SDS is proposing to implement the calculated

adjustment over a two year period with the first adjustment of 4.11% on November 1, 2013 followed by the remaining deferred adjustment of 4.11% on November 1, 2014.

	<u>Actual</u> 2012	<u>Projected</u> 2013	<u>Adjustment</u>
Operating costs	\$ 2,154,399	\$ 2,143,931	\$ 2,143,931
Loss	\$ (64,179)	\$ (112,800)	\$ (112,800)
Loss as a % of revenue	(3.07%)	(5.55%)	
Allowed profit (2.5%)			\$ 53,000
Required adjustment			8.22%

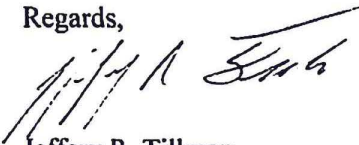
**Option 2**

Another form that has been used for rate applications is the rate application package that includes a two year projection supported by detailed general ledger account information. Attached to this letter are the schedules used for this type of rate application which includes projections for the years ending 6/30/14 and 6/30/15. The calculated rate increase under this methodology is 12.39%. In an effort to keep the rate increase as small as possible, SDS reduced the operating ratio from its historic level of 90.00, approximately 10% profit, to 97.00, which is approximately a 3% profit.

In the past, SDS's allowance for a reasonable profit under Section 19 (F) of its Franchise Agreement has been set using the industry standard formula which has been, and continues to be, a sum equal to 10% of revenue. This request is significantly lower than that in recognition of the financial challenges facing our customers, the County and SDS and should not be construed as establishing the formula for determining reasonable profits under Section 19 (f) of the Franchise Agreement.

A schedule of rates will be provided once the rate increase amount has been determined and a decision is made as to whether the increase will be implemented all at once or spread over several years. If you require any additional information to facilitate your review, please let me know.

Regards,



Jeffery R. Tillman  
President

Enclosures

**SIERRA DISPOSAL SERVICE**  
**(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

	Year Ending 6/30/2012 Actual	Year Ending 6/30/2013 Forecast	Year Ending 6/30/2014 Forecast	Year Ending 6/30/2015 Forecast
<b>REVENUE</b>				
Residential Collection	\$ 1,358,240	\$ 1,349,745	\$ 1,349,745	\$ 1,349,745
Commercial Collection	629,547	590,429	614,801	614,801
Governmental Contracts	87,540	79,321	79,321	79,321
Recycling	14,893	11,636	11,636	11,636
Other Income	500	(8,922)	-	-
<b>TOTAL REGULATED REVENUE</b>	<b>2,090,720</b>	<b>2,022,209</b>	<b>2,055,503</b>	<b>2,055,503</b>
<b>EXPENSES</b>				
Operating Expenses	1,786,144	1,784,198	1,793,127	1,792,212
Administrative Expenses	368,255	360,754	366,808	371,960
Interest Expense	2,431	1,642	1,494	852
Less: Pass-through Franchise Fees	(99,309)	(98,180)	(98,227)	(98,227)
Unallowable Costs:				
Charitable and Political Contributions	(200)	(587)	(587)	(587)
<b>TOTAL ALLOWED OPERATING EXPENSES</b>	<b>2,057,321</b>	<b>2,047,827</b>	<b>2,062,614</b>	<b>2,066,209</b>
<b>ALLOWED RETURN</b>				
Operating Ratio %	97.00	97.00	97.00	97.00
Provision for Profit	61,720	61,435	61,878	61,986
<b>ADDITIONAL EXPENSES (PASS-THROUGHS ALLOWED IN RATES )</b>				
Franchise Fees	99,309	98,180	98,227	98,227
<b>TOTAL ADDITIONAL EXPENSES</b>	<b>99,309</b>	<b>98,180</b>	<b>98,227</b>	<b>98,227</b>
<b>TOTAL REVENUE REQUIREMENT</b>	<b>2,218,350</b>	<b>2,207,442</b>	<b>2,222,720</b>	<b>2,226,423</b>
<b>REVENUE SURPLUS (DEFICIENCY)</b>	<b>\$ (127,630)</b>	<b>\$ (185,233)</b>	<b>\$ (167,217)</b>	<b>\$ (170,920)</b>
<b>REQUIRED RATE INCREASE (DECREASE)</b>	<b>9.40%</b>	<b>13.72%</b>	<b>12.39%</b>	<b>12.66%</b>



**SIERRA DISPOSAL SERVICE  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**STATEMENTS OF OPERATION**

**YEARS ENDED JUNE 30**

	FORECAST 2015	FORECAST 2014	FORECAST 2013	HISTORICAL 2012
OPERATING REVENUES	\$ 2,055,503	\$ 2,055,503	\$ 2,031,131	\$ 2,090,220
EXPENSES:				
Operating	1,792,212	1,793,127	1,784,198	1,786,144
Administrative	371,960	366,808	360,754	368,255
TOTAL EXPENSES	<u>2,164,172</u>	<u>2,159,935</u>	<u>2,144,952</u>	<u>2,154,399</u>
OPERATING LOSS	<u>(108,669)</u>	<u>(104,432)</u>	<u>(113,821)</u>	<u>(64,179)</u>
OTHER INCOME (EXPENSES):				
Gain (loss) on sale of assets	-	-	(8,922)	500
Interest income	-	-	-	-
Interest expense	(852)	(1,494)	(1,642)	(2,431)
Miscellaneous income	-	-	-	-
Other expense	-	-	-	-
TOTAL OTHER INCOME (EXPENSES)	<u>(852)</u>	<u>(1,494)</u>	<u>(10,564)</u>	<u>(1,931)</u>
NET LOSS	(109,521)	(105,926)	(124,385)	(66,110)
ACCUMULATED DEFICIT, BEGINNING OF PERIOD	<u>(756,961)</u>	<u>(651,035)</u>	<u>(526,650)</u>	<u>(460,540)</u>
ACCUMULATED DEFICIT, END OF PERIOD	<u>\$ (866,482)</u>	<u>\$ (756,961)</u>	<u>\$ (651,035)</u>	<u>\$ (526,650)</u>

MANAGEMENT USE ONLY

SDS  
Rate Increase Calculation

	FYE 2013 Projected	
Operating Costs	2,143,931	
Operating Loss	(112,800)	
Desired Profit	53,255	Profit allowed with 2011 rate increase
Additional Revenue Needed	166,055	A
Revenue		
Residential	1,349,745	
Commerical	590,429	
Federal & State	79,321	
	2,019,495	B
Rate Increase Required	8.22%	A / B