



COMMUNITY DEVELOPMENT AGENCY

ENVIRONMENTAL MANAGEMENT DIVISION

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November 1, 2013

Jeff Tillman
South Tahoe Refuse, dba Sierra Disposal Services
2140 Ruth Avenue
South Lake Tahoe CA 95150-4534

Subject: Sierra Disposal Service (SDS) Rate Adjustment Request

Dear Mr. Tillman,

Thank you for providing the documentation we requested. In accordance with the terms of the franchise agreement, we have reviewed the financial statements and projections for Sierra Disposal Services (SDS) and Parent company South Tahoe Refuse, the additional documentation supplied September 20, 2013, and the audited financial statements received yesterday. We have considered all of the information and present the following findings to support a recommended rate increase of 6.6%.

Recycling Revenue

In accordance with your previous letter, the decrease in recycling revenue is due in part to an industry wide decline in the price paid for recycling materials. In addition, SDS stated that they experienced a decline in commercial recycling revenue due to poaching from drop boxes and the free comingled recyclables. The losses from poaching are unfortunate however, we do not believe it is appropriate to pass that loss on to the rate payer. Rather than have SDS duplicate efforts by separating the losses from commercial comingled recycle program from those from poaching, we will allow the loss in revenue. We also recommend SDS re-examine the free recycle program in light of the decreased price of recyclables, and a decline in revenues.

Insurance Costs

Health insurance costs under operating expenses account for approximately 29% of total compensation to employees in 2012 and approximately 27% of total compensation in 2013. This relationship is consistent in projections into 2015. SDS indicated in the September 20, 2013 response "(t)he savings realized from utilizing a self-funded plan make it work riding out the cost spikes in order to realize the benefit of lower overall

costs of over the long term.” Therefore we do not believe it is appropriate to consider these “spiked” costs in the basis for a rate increase.

The United States Bureau of Labor Statistics (US BLS) released reports on September 11, 2013 and October 17, 2013 related to employer costs for employee compensation and employer premiums for family medical care benefits. These reports reflect industry standards of around 8.7% of total compensation for employee health care premiums. The average monthly contribution per employee for an establishment with one to 49 workers is reported as \$1,127.80. Over the last two years, the average premium paid per employee by SDS was \$1,460.71. To be more in line with industry standard, we have determined the appropriate amount to allow as basis for a rate increase is 9.7% of labor compensation under the Operating Costs.

Workers compensation insurance increased in part due to the increase in the experience mod and in part due to inflation. Increase to the experience mod is due to the loss or claims history of the company, and a factor that the company can influence directly. We do not believe it is appropriate to consider the increased workers compensation insurance expense due to the increase in experience mod as a basis for a rate increase. Currently, workers compensation insurance contribution for SDS is approximately 7% of total compensation. To be more in line with the industry standards reported by the US BLS, we have determined the appropriate amount to allow as basis for a rate increase is 2% of the labor compensation under the Operating Costs.

Equipment Repairs and Maintenance Expense

There was an overall net increase of 25% in equipment repairs from 2011 to 2013. Costs are projected to remain at this higher level. Between the 2012 and 2013, years, the amount spent on maintenance and repairs totals \$168,880 which approximately equals the purchase price of the new equipment. Unless SDS can demonstrate with solid supporting information the basis for this increased cost, we are not allowing the increased total for our analysis. We are instead using the equipment maintenance costs reported for 2011.

The Depreciation Expense Report as of June 30, 2013 shows that the \$8,922 loss on equipment was from Equipment S-8, which was scrapped. Unless SDS can demonstrate with solid supporting documents efforts made to sell or salvage the vehicle and its components, the \$8,922 loss on disposal of equipment reported for equipment number S-8 is not an allowable expense for the rate analysis.

Bad Debt

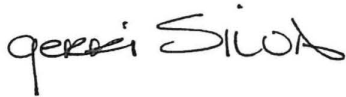
2012 was the first year SDS reported bad debt. According to SDS, this is due to a change in the account system. No information was provided to support the SDS billing and collection policy for clarification of when an amount is determined to be bad debt for write off. Bad debt is not an allowable expense for the rate analysis.

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The "big picture" for SDS between 2011 and 2013 shows an overall 15% decrease in revenue and 2% increase in expenses from 2011 to 2013, with most of the increase to Operating Expenses. Considering this situation, it is difficult to support an annual 1.6% wage increase and 4.5% employer paid pension (which is slightly higher than the 3.8% industry standard). As the economy slowly recovers, we anticipate SDA will realize better fee collections and find opportunities to increase revenues. We also recommend SDS search for additional opportunities to decrease expenses.

We hope to be able to take our recommendation to the Board of Supervisors on December 10, 2013. I look forward to your response regarding the recommended 6.6% rate increase.

Thank you.

A handwritten signature in black ink that reads "Gerri Silva". The signature is written in a cursive, slightly slanted style.

Gerri Silva, M.S., REHS, Director
Community Development Agency
Environmental Management Division

C: Terry Trease
John Tillman

El Dorado County - CDA Administration & Finance Div
 Review of Sierra Disposal Services Financial Statements
 Income Statements for the Fiscal Year Ended June 30,

	Audited 2011	% Rev	Audited 2012	% Rev	% Chg	(Unaudited) 2013	% Rev	% Chg	From Rate Application (Unaudited) 2014	3 %	\$	% Chg	From Rate Application w COLA 2014	4 %	\$	% Chg	From Rate Application (Unaudited) No COLA	6.60 %	\$	% Chg	
Revenues:																					
Operating Revenue																					
CA - Sierra Disposal Service residential	1,257,365	62.9%	1,358,240	65.0%	8.0%	1,357,961	65.9%	0.0%	1,398,700				1,412,279				1,447,586				
CA - Sierra Disposal Service commercial	624,427	31.3%	629,547	30.1%	0.8%	613,802	29.8%	-2.5%	641,270				638,354				654,313				
CA - Miscellaneous	-	0.0%	-	0.0%		-	0.0%		-				-				-				
Total California	1,881,792	94.2%	1,987,787	95.1%	5.6%	1,971,763	95.7%	-0.8%	2,039,970	95.9%	68,207	3.5%	2,050,633	95.9%	10,663	0.5%	2,101,899	1	2,101,898	#	
Other Operating Revenue:																					
Forestry, Federal and State contracts	109,373	5.5%	87,540	4.2%	-20.0%	77,138	3.7%	-11.9%	77,138		-	0.0%	77,138		-	#	77,138		77,138	##	
Recycling sales	6,929	0.3%	14,893	0.7%	114.9%	10,586	0.5%	-28.9%	10,586		-	0.0%	10,532		-		10,586		10,586	##	
Total Other Operating Revenues:	116,302	5.8%	102,433	4.9%	-11.9%	87,724	4.3%	-14.4%	87,724		-	0.0%	87,724		-		87,724		87,724	##	
Total Operating Revenues	1,998,094	100.0%	2,090,220	100.0%	4.6%	2,059,487	100.0%	-1.5%	2,127,694		68,207	3.3%	2,138,357		10,663	0.5%	2,189,623		2,189,623	##	
Operating Expenses:																					
Contract labor	-	0.0%	-	0.0%		-	0.0%		-	0.0%	-		-	0.0%	-	#DIV/0!	-		-		
Depreciation and amortization	58,173	2.9%	61,041	2.9%	-4.9%	88,925	4.3%	45.7%	92,396	4.3%	3,471	3.9%	92,396	4.3%	-	0.0%	92,396	0	92,396	#	
Dump fees	464,701	23.3%	440,901	21.1%	-5.1%	446,703	21.7%	1.3%	450,768	21.2%	4,065	0.9%	450,768	21.1%	-	0.0%	450,768	0	450,768	#	
Franchise fees	106,302	5.3%	99,309	4.8%	-6.6%	98,196	4.8%	-1.1%	101,065	4.7%	2,869	2.9%	102,532	4.8%	1,467	1.5%	105,095	0	105,095	#	
Fuel	128,792	6.4%	146,667	7.0%	13.9%	152,455	7.4%	3.9%	152,445	7.2%	(10)	0.0%	152,445	7.1%	-	0.0%	152,445	0	152,445	#	
Hazardous waste	-	0.0%	80	0.0%		-	0.0%		-	0.0%	-		-	0.0%	-		-		-		
Insurance	171,619	8.6%	261,057	12.5%	52.1%	248,195	12.1%	-4.9%	46,893	2.2%	(201,302)	-81.1%	47,643	2.2%	750	1.6%	46,893	0	46,893	#	
Labor	450,283	22.5%	467,149	22.3%	3.7%	475,817	23.1%	1.9%	483,430	22.7%	7,613	1.6%	491,165	23.0%	7,735	1.6%	483,430	0	483,430	#	
Miscellaneous	201	0.0%	768	0.0%	282.1%	955	0.0%	24.3%	955	0.0%	-	0.0%	995	0.0%	40	4.2%	955	0	955	#	
Other taxes & licenses	13,368	0.7%	13,600	0.7%	1.7%	13,442	0.7%	-1.2%	13,442	0.6%	-	0.0%	13,442	0.6%	-	0.0%	13,442	0	13,442	#	
Payroll taxes	46,635	2.3%	39,311	1.9%	-15.7%	40,107	1.9%	2.0%	40,749	1.9%	642	1.6%	40,749	1.9%	-	0.0%	40,749	0	40,749	#	
Pension benefits	9,814	0.5%	21,273	1.0%	116.8%	24,900	1.2%	17.0%	25,298	1.2%	398	1.6%	25,298	1.2%	-	0.0%	25,298	0	25,298	#	
Rent	106,941	5.4%	108,738	5.2%	1.7%	108,743	5.3%	0.0%	108,743	5.1%	-	0.0%	108,743	5.1%	-	0.0%	108,743	0	108,743	#	
Repairs	50,950	2.5%	91,375	4.4%	79.3%	80,294	3.9%	-12.1%	50,950	2.4%	(29,344)	-36.5%	50,950	2.4%	-	0.0%	50,950	0	50,950	#	
Supplies	39,262	2.0%	30,226	1.4%	-23.0%	38,641	1.9%	27.8%	39,240	1.8%	599	1.6%	39,848	1.9%	608	1.5%	39,240	0	39,240	#	
Utilities	4,751	0.2%	4,729	0.2%	-0.5%	5,363	0.3%	13.4%	5,446	0.3%	83	1.6%	5,531	0.3%	84	1.5%	5,446	0	5,446	#	
Total Operating Expenses:	1,651,792	82.7%	1,786,224	85.5%	8.1%	1,822,736	88.5%	2.0%	1,611,820	75.8%	(210,916)	-11.6%	1,622,505	75.9%	10,684	0.7%	1,615,850	1	1,615,849	#	
Administrative Expenses:																					
Advertising	-	0.0%	108	0.0%	#DIV/0!	30	0.0%	-72.2%	30	0.0%	-	0.0%	30	0.0%	-	0.0%	30	0	30	#	
Bad Debt	-	0.0%	-	0.0%	#DIV/0!	-	0.0%	#DIV/0!	-	0.0%	#DIV/0!	0.0%	-	0.0%	#DIV/0!	0.0%	-		#DIV/0!		
Contract labor	37,026	1.9%	-	0.0%	-100.0%	-	0.0%	0	-	0.0%	-	0.0%	-	0.0%	-		-		-		
Depreciation	755	0.0%	-	0.0%	-100.0%	-	0.0%	0.0%	-	0.0%	-	#DIV/0!	-	0.0%	-	#DIV/0!	-		-	##	
Donations	200	0.0%	200	0.0%	0.0%	440	0.0%	120.0%	440	0.0%	-	0.0%	440	0.0%	-	0.0%	440	0	440	#	
Dues & Subscriptions	144	0.0%	109	0.0%	-24.3%	110	0.0%	0.9%	110	0.0%	-	0.0%	110	0.0%	-	0.0%	110	0	110	#	
Employee benefits	2,103	0.1%	2,262	0.1%	7.6%	1,927	0.1%	-14.8%	1,927	0.1%	-	0.0%	1,927	0.1%	-	0.0%	1,927	0	1,927	#	
Insurance	21,336	1.1%	13,319	0.6%	-37.6%	16,516	0.8%	24.0%	17,505	0.8%	989	6.0%	17,505	0.8%	-	0.0%	17,505	0	17,505	#	
Miscellaneous	703	0.0%	358	0.0%	-49.1%	359	0.0%	0.3%	359	0.0%	-	0.0%	359	0.0%	-	0.0%	359	0	359	#	
Office	27,679	1.4%	25,682	1.2%	-7.2%	24,583	1.2%	-4.3%	24,927	1.2%	344	1.4%	25,183	1.2%	256	1.0%	24,927	0	24,927	#	
Officers' salaries	173,555	8.7%	167,881	8.0%	-3.3%	166,283	8.1%	-1.0%	166,238	8.1%	(45)	0.0%	166,238	8.1%	-	0.0%	166,238	0	166,238	#	
Other salaries	113,972	5.7%	101,612	4.9%	-10.8%	105,187	5.1%	3.5%	105,187	4.9%	-	0.0%	105,187	4.9%	-	0.0%	105,187	0	105,187	#	
Other taxes & licenses	82	0.0%	57	0.0%	-30.5%	209	0.0%	266.7%	209	0.0%	-	0.0%	209	0.0%	-	0.0%	209	0	209	#	
Payroll taxes	16,601	0.8%	15,886	0.8%	-4.3%	16,330	0.8%	2.8%	16,330	0.8%	-	0.0%	16,330	0.8%	-	0.0%	16,330	0	16,330	#	
Pension benefits	7,789	0.4%	5,477	0.3%	-29.7%	6,226	0.3%	13.7%	6,226	0.3%	-	0.0%	6,226	0.3%	-	0.0%	6,226	0	6,226	#	
Professional fees	4,051	0.2%	2,772	0.1%	-31.6%	258	0.0%	-90.7%	258	0.0%	-	0.0%	258	0.0%	-	0.0%	258	0	258	#	
Rent	14,942	0.7%	14,832	0.7%	-0.7%	14,832	0.7%	0.0%	14,832	0.7%	-	0.0%	14,832	0.7%	-	0.0%	14,832	0	14,832	#	
Repairs	-	0.0%	-	0.0%	#DIV/0!	160	0.0%	#DIV/0!	160	0.0%	-	0.0%	160	0.0%	-	0.0%	160	0	160	#	

El Dorado County - CDA Administration & Finance Div
 Review of Sierra Disposal Services Financial Statements
 Income Statements for the Fiscal Year Ended June 30,

	Audited 2011			Audited 2012			(Unaudited) 2013			From Rate Application (Unaudited) 2014				From Rate Application w COLA 2014				From Rate Application (Unaudited) No COLA													
	Rev	%		Rev	%	% Chg	Rev	%	% Chg	Rev	%	\$	%	Change	chg	Rev	%	\$	%	Change	chg	Rev	%	\$	%	Change	chg				
Travel & Entertainment	85	0.0%		151	0.0%	77.6%	121	0.0%	-19.9%	121	0.0%	-	0.0%	-	0.0%	121	0.0%	-	0.0%	-	0.0%	121	0.0%	-	0.0%	-	0.0%	121	0.0%	-	0.0%
Utilities	7,417	0.4%		(27)	0.0%	-100.4%	2,492	0.1%	-9329.6%	2,531	0.1%	39	1.6%			2,570	0.1%	39	1.5%			2,531	0.0%	-	0.0%	0	0.0%	2,531	0.0%	121	#
Total Administrative Expenses:	428,441	21.4%		350,679	16.8%	-18.1%	356,063	17.3%	1.5%	357,390	16.8%	1,327	0.4%			357,685	16.7%	295	0.1%			357,390	0.0%	-	0.0%	0	0.0%	357,390	0.0%	357,390	#
Total Expenses	2,080,233	104.1%		2,136,903	102.2%	2.7%	2,178,799	105.8%	2.0%	1,969,210	92.6%	(209,589)	-9.6%			1,980,190	92.6%	10,979	0.6%			1,973,240	1.0%	1,973,240	1.0%	1,973,240	1.0%	1,973,239	#		
Total Operating Income (Loss)	(82,139)	-4.1%		(46,683)	-2.2%	-43.2%	(119,312)	-5.8%	155.6%	158,484	7.4%	277,796	-232.8%			158,167	7.4%	(316)	-0.2%			216,383	0.0%	216,383	0.0%	216,383	0.0%	216,383	#		
Other Income (Expenses)																															
Interest income	-	0.0%		-	0.0%		-	0.0%		-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%		
Interest expense	(2,079)	-0.1%		(2,431)	-0.1%	16.9%	(1,508)	-0.1%	-38.0%	(1,494)	-0.1%	14	-0.9%			(852)	0.0%	642	-43.0%			(1,494)	0.0%	(1,494)	0.0%	(1,494)	0.0%	(1,494)	#		
Miscellaneous income, net	-	0.0%		-	0.0%		-	0.0%	#DIV/0!	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%		
Total Other Income (Expenses)	(2,079)	-0.1%		(2,431)	-0.1%	16.9%	(1,508)	-0.1%	-38.0%	(1,494)	-0.1%	14	-0.9%			(852)	0.0%	642	-43.0%			(1,494)	0.0%	(1,494)	0.0%	(1,494)	0.0%	(1,494)	#		
Income (Loss) Before State Income Taxes	(84,218)	-4.2%		(49,114)	-2.3%	-41.7%	(120,820)	-5.9%	148.0%	156,990	7.4%	277,810	-229.9%			157,315	7.4%	326	0.2%			214,889	0.0%	214,889	0.0%	214,889	0.0%	214,889	#		
Provision for State Income taxes	-	0.0%		-	0.0%		-	0.0%		-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%		
Net Income (Loss)	(84,218)	-4.2%		(49,114)	-2.3%	-41.7%	(120,820)	-5.9%	148.0%	156,990	7.4%	277,810	-229.9%			157,315	7.4%	326	0.2%			214,889	0.0%	214,889	0.0%	214,889	0.0%	214,889	#		
Accumulated Deficit, Beginning of Period	(207,540)			(291,758)			(340,872)																								
Accumulated Deficit, End of Period	(291,758)			(340,872)			(461,692)																								
Total Expenses			Sum				2,180,307			1,970,704				Sum	1,981,042				Sum	1,974,734									Sum		
Add back for OR profit calc:																															
pass-through interest							1,508			1,494						1,494						1,494									
pass-through franchise fee							98,196			101,065						102,532						105,095									
unallowed charitable contrib.							440			440						440						440									
Total Allowed Operating Expenses							2,080,163			1,867,705						1,876,576						1,867,705									
Operating Ratio							97.00%			97.00%						97.00%						97.00%									
Provision for Profit (Calculated)							64,335			57,764						58,038						57,764									
Provision for Profit (Per App)							213,658			213,658						216,374						213,658									
Pass Throughs allowed in Rate:																															
pass-through interest							1,508			1,494						1,494						1,494									
pass-through franchise fee							98,196			101,065						102,532						105,095									
Total Additional Expenses							99,704			102,559						104,026						106,589									
Revenue Requirement							2,393,525			2,183,922						2,196,976						2,187,952									
Surplus / Deficiency							(334,038)			(56,228)						(58,619)						1,671									

El Dorado County - CDA Administration & Finance Div
 Review of Sierra Disposal Services Financial Statements
 Income Statements for the Fiscal Year Ended June 30,

Audited 2011	% Rev	Audited 2012	% Rev	% Chg	(Unaudited) 2013	% Rev	% Chg	From Rate Application (Unaudited) 2014	% Rev	\$ Change	% Chg	From Rate Application w COLA 2014	% Rev	\$ Change	% Chg	From Rate Application (Unaudited) No COLA	6.60 %	\$ Change	% Chg