

March 27, 2012

Authority Staff
South Lake Tahoe Basin Waste Management Authority
1901 Airport Road
South Lake Tahoe, California 96150

Subject: **Review of South Tahoe Refuse Company
Base Year 2012 Rate Application**

Dear Authority Staff:

This letter report represents results of NewPoint Group's review of the Base Year 2012 Rate Application (Application) submitted by South Tahoe Refuse Company (STR) to the South Lake Tahoe Basin Waste Management Authority (JPA). This letter report is organized into four (4) sections as follows:

- A. *Summary*
- B. *Background of Rate Review*
- C. *Rate Review Findings*
- D. *Recommended Rates.*

A copy of the Application is provided in Attachment A to this report.

1. Summary

In its Base Year 2012 Application, dated May 31, 2011, STR requested a rate increase of 10.58 percent for the City of South Lake Tahoe and Douglas County, and 9.81 percent for El Dorado County, effective January 1, 2012. Based on our review, we recommend a rate increase of 4.97 percent for the City of South Lake Tahoe and Douglas County, and a rate increase of 4.48 percent for El Dorado County, effective May 1, 2012.¹

For the most common residential service levels, a 4.97 percent rate increase corresponds to an increase of \$1.15 per customer, per month, for the City of South Lake Tahoe, and an increase of \$0.77 per customer, per month, for Douglas County; and a 4.48 percent rate increase corresponds to an increase of \$1.20 per customer, per month, for El Dorado County. Recommended residential rate increases, for the most common residential service levels, are shown in **Table 1**, on the following page.

¹ These rate increases reflect a 4 month catch-up adjustment to account for a May 1, 2012, implementation date, rather than a January 1, 2012, implementation date.

Table 1
Residential Rates with 4.97 Percent Rate Increase for the City of South Lake Tahoe and Douglas County and 4.48 Percent Rate Increase for El Dorado County (Base Year 2012)

Service Level	Current Rate (Per Customer, Per Month)	Recommended Rate (Per Customer, Per Month, with the Recommended Increase)	Rate Increase (Per Customer, Per Month)
<i>City of South Lake Tahoe</i>			
Unlimited service	\$ 23.18	\$ 24.33	\$ 1.15
<i>Douglas County</i>			
1, 32-gallon can	\$ 15.56	\$ 16.33	\$ 0.77
<i>El Dorado County</i>			
Unlimited service	\$ 26.77	\$ 27.97	\$ 1.20

B. Background of Rate Review

NewPoint Group was selected by the JPA to review and evaluate the Base Year 2012 STR Rate Application. The JPA is a joint powers authority comprised of the City of South Lake Tahoe, California; Douglas County, Nevada; and El Dorado County, California (Member Agencies). The JPA is responsible for overseeing regional cooperation regarding solid waste, and coordinating solid waste program planning and reporting for these Member Agencies.

The franchise hauler for the three (3) jurisdictions is South Tahoe Refuse Company (STR). Each Member Agency has an exclusive franchise agreement with STR for collection and disposal of refuse. STR provides exclusive refuse collection, recycling, and transfer station operations to Member Agencies in accordance with separate franchise agreements.

The JPA rate setting is guided by the JPA's 2011 *Solid Waste Rate Setting Policies and Procedures Manual* (Manual). The Manual allows STR to submit a base year rate application for the rate year 2012. Our review was conducted consistent with Steps 2, 3, 4, and 5 in Section 2 of the Manual.

This report documents results of our rate review. In this background section, we describe the Application, project scope and methodology. We also provide a variance analysis, showing the percentage difference, between Rate Year 2012 projections and Rate Year 2010 actual results. The remainder of this background section is organized as follows:

1. *Rate Application*
2. *Scope and Methodology*
3. *Variance Analysis.*

1. Rate Application

On May 31, 2011, STR submitted its Base Year Rate Adjustment Application to the JPA, for Rate Year 2012. The JPA requires that the franchise hauler submit a Base Year Rate Application once every three (3) years. In accordance with the Manual, Rate Year 2012 is a Base Year.

STR's Application projected a Rate Year 2012 net revenue shortfall of \$1,276,220 combined for the three Member Agencies. The requested rate increase, for the City of South Lake Tahoe and Douglas County, is 10.58 percent (a \$1,045,445 projected total revenue shortfall). The requested rate increase, for El Dorado County, is 9.81 percent (a \$230,775 projected total revenue shortfall).

We relied on STR audited financial statements, internally prepared financial information, and operational data for our review. STR provided audited financial statements for Rate Year 2010 (covering completed Rate Years 2009 and 2010). STR also provided internally prepared financial information and operational data for Rate Years 2011 (estimated) and 2012 (projected).

2. Scope and Methodology

NewPoint Group verified the completeness of the Application, and requested that STR provide further information and documentation to support the Application. Our review of the Application confirmed that STR complied with Manual requirements and the Application was substantially complete.

NewPoint Group submitted a formal written data request to STR on February 14, 2012, and also made numerous subsequent follow-up data requests by email. NewPoint Group received responses to these data requests between February 17, 2012, and March 26, 2012.

For purpose of this review, we followed the Manual. To complete our review, we principally followed Section 2 of the Manual. The purpose of the Manual is to: (1) provide long-term rate predictability to Member Agency ratepayers, (2) provide fair and adequate compensation to STR, and (3) adjust for necessary and agreed-upon changes to compensation over time. The Manual provides a framework for STR rate adjustments based on actual financial results of current operations and anticipated results of future operations.

For this rate review and evaluation, we performed the following tasks:

- Assessed if the Application was mathematically accurate and logically consistent
- Verified that the Application complied with the terms and conditions of the Manual
- Reconciled the Application to STR's Rate Year 2010 audited financial statements
- Reviewed STR financial information, operational data, and projections for reasonableness
- Assessed supporting data, worksheets, and documentation

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- Reviewed historical actual, estimated, and projected revenues and expenses
- Reviewed cost allocation methods for reasonableness
- Reviewed the assignment of revenues and expenses to each Member Agency
- Obtained and reviewed support for the assumptions used to project Rate Year 2011 and 2012 revenues and expenses
- Confirmed the use of the allowed operating ratio
- Confirmed the franchise fee calculation
- Confirmed the accuracy of STR's calculated revenue requirement and associated rate adjustment.

The scope of work for this review included the following eight (8) tasks:

1. Verify the completeness of STR's Base Year 2012 Application
2. Review the Base Year 2012 Application and prepare responses
3. Develop detailed rate adjustments, by line item, and rate adjustment tables
4. Review proposed adjustments with JPA and STR representatives, and clarify outstanding issues
5. Recommend the revenue requirement and the associated rate adjustments
6. Prepare a draft report
7. Prepare a final report
8. Participate in JPA meetings.

3. Variance Analysis

Table 2, on the following page, provides a comparison of STR's Base Year 2012 projections with Rate Year 2010 actual results.

Comparison of Base Year 2012 and Rate Year 2010 Expenses

STR projected Base Year 2012 allowable operating expenses to be approximately \$141,174 (1.19 percent) less than Rate Year 2010. This projected decrease reflects both increases and decreases in allowable operating expense categories. The most significant projected allowable operating expense changes are:

- A projected direct labor expense increase of approximately \$158,508 (3.30 percent). STR indicated that the increase in direct labor expense was due to anticipated wage and benefit increases for employees in Rate Years 2011 and 2012

Table 2
Rate Year 2012 STR Projections Compared to Rate Year 2010 Actual Results

	FY 2010	FY 2012	Impact on Rates	
	Prior Year	Base Year	Amount of Rate	
	Actuals	Projection	Increase / (Decrease)	
	All Member	All Member	All Member	
	Agencies	Agencies	Agencies	
Allowable Operating Expenses				
Direct Labor	\$ 4,799,899	\$ 4,958,407	\$ 158,508	3.30%
Equipment Costs and Facility Costs	983,749	854,161	(129,588)	-13.17%
Landfill Disposal Costs	1,082,625	1,006,180	(76,445)	-7.06%
Office Salaries	1,270,630	1,026,580	(244,050)	-19.21%
General and Administrative Costs	3,509,494	3,530,486	20,992	0.60%
MRF Principal and Interest Payments (El Dorado County)	21,434	19,900	(1,534)	-7.16%
RRF Principal and Interest Payments (El Dorado County)	149,536	278,511	128,975	86.25%
Other Interest Expenses	9,816	11,784	1,968	20.05%
Total Operating Expenses	\$ 11,827,183	\$ 11,686,009	\$ (141,174)	-1.19%
Allowable Operating Profit				
Operating Ratio	92%			
Allowable Operating Profit	\$ 967,621	\$ 1,681,727	\$ 714,106	73.80%
Pass-Through Costs without Franchise Fees				
MRF Principal Payments (City and Douglas)	\$ 61,926	\$ 61,926	\$ -	0.00%
RRF Principal Payments (City and Douglas)	379,713	908,888	529,175	139.36%
MRF and RRF Interest Expenses (City and Douglas)	277,397	284,189	6,792	2.45%
Other Interest Expenses	41,283	49,560	8,277	20.05%
RRF Fund Credit	-	(312,131)	(312,131)	
Recycling Revenue Bonus	512,971	444,431	(68,540)	-13.36%
Total Pass-through Expenses	\$ 1,273,290	\$ 1,436,863	\$ 163,573	12.85%
Revenue Requirement without Franchise Fees	\$ 14,068,094	\$ 14,804,599	\$ 736,505	5.24%
Revenues				
Total Residential Revenues (without Rate Change in Base Year)	\$ 6,170,466	\$ 6,118,000	\$ (52,466)	-0.85%
Total Commercial Revenues (without Rate Change in Base Year)	4,901,202	4,969,190	67,988	1.39%
Transfer Station and RRF Revenues (AND FORESTRY, FED, STATE CONTRACTS)	1,387,602	1,144,616	(242,986)	-17.51%
Recycled Material Sales	2,137,894	1,846,117	(291,777)	-13.65%
Total Revenues	\$ 14,597,164	\$ 14,077,923	\$ (519,241)	-3.56%
Net Shortfall (Surplus) without Franchise Fees	\$ (529,070)	\$ 726,676	\$ 1,255,746	-237.35%
Residential and Commercial Franchise Fees	\$ 529,070	\$ 549,545	\$ 20,475	3.87%
Base Year Shortfall (Surplus)			\$ 1,276,221	10.43%

- A projected equipment cost and facility cost decrease of \$129,588 (13.17 percent), largely attributed to projected decreases in depreciation costs for Rate Years 2011 and 2012
- A projected landfill disposal cost decrease of \$76,445 (7.06 percent), largely attributed to projected landfill disposal tonnage decreases for Rate Years 2011 and 2012
- A projected office salaries decrease of \$244,050 (19.21 percent), largely due to the combined result of eliminating of the Information Technology (IT) department and anticipated wage and benefit increases in Rate Years 2011 and 2012
- A projected RRF financing cost (El Dorado County) increase of \$128,975 (86.25 percent), reflecting a full-year of Resource Recovering Facility (RRF) financing costs for Base Year 2012.

STR projected pass-through expenses to increase by approximately \$163,573 (12.85 percent). This projected increase is largely the combined result of: (1) a projected RRF financing cost (City and Douglas County) increase of \$529,175, capturing a full-year of RRF financing costs (City and Douglas County) in Base Year 2012 versus a partial year of RRF financing costs in Rate Year 2010; and (2) a RRF fund credit of \$312,131 in Base Year 2012. STR also projected the recycling revenue bonus to decrease by approximately \$68,540 (13.36 percent) as a result of projected decreases in recycled material sales revenues for Base Year 2012.

Comparison of Base Year 2012 and Rate Year 2010 Revenues

STR projected residential collection revenues to decline by approximately \$52,466 (0.85 percent) between 2010 and 2012. This projection accounts for both the Rate Year 2011 rate increase and the negative impact of estimated business losses in Rate Year 2011.

STR projected commercial collection revenues to increase by approximately \$67,988 (1.39 percent) between 2010 and 2012. This projection reflects a continuation of commercial revenue trends from prior rate years and year-to-date 2011.

Based on prior rate year and year-to-date 2011 trends, STR projected revenues from transfer station and RRF operations to decrease by approximately \$242,986 (17.51 percent), and revenues from the sale of recyclable materials to decrease by approximately \$291,777 (13.65 percent). Overall, in the Application, STR projected a net decrease in revenues of approximately \$519,241 (3.56 percent) between Rate Year 2010 and Base Year 2012.

Comparison of Base Year 2012 and Rate Year 2010 Operating Ratios and Operating Profits

In Rate Year 2010, STR operated at an operating ratio of 92 percent (profits of \$967,621). Based on the allowable operating ratios of 87 percent for the City of South Lake Tahoe and

Douglas County, and 89 percent for El Dorado County, STR projected 2012 operating profits of \$1,681,727. This projection represents an operating profit increase of \$714,106 between 2010 and 2012.

C. Rate Review Findings

Table 3, on the following page, provides a summary of recommended adjustments to the STR Base Year 2012 Application. Total adjustments result in a projected 2012 revenue shortfall of \$537,698 combined for the three (3) JPA Member Agencies. This revenue shortfall includes a Base Year 2012 revenue shortfall of \$442,738 for the City of South Lake Tahoe and Douglas County combined, equal to an increase in service rates of 4.42 percent for each of these two Member Agencies; and a projected Base Year 2012 revenue shortfall of \$94,951 for El Dorado County, equal to an increase in service rates of 3.98 percent. Below, we discuss rate adjustment findings. The impact of the adjustment on the revenue requirement is noted in bold, following each finding.

Revenues

1. Residential Collection Revenues

STR estimated residential collection revenues to decrease by \$159,540, or 2.59 percent, between 2010 and 2011. This decrease reflects the combined impact of (1) 2011 rate increases and (2) projected business losses based on year-to-date 2011² trends. This 2011 decrease includes residential collection revenue decreases of \$47,624, \$45,011, and \$66,905, respectively, for the City of South Lake Tahoe, Douglas County, and El Dorado County. STR projected no further changes in residential collection revenues for Base Year 2012. We found this revenue collection revenue projection reasonable.

STR projected residential uncollectible revenues of \$21,981 for Base Year 2012. This projected residential uncollectible revenue amount represents 0.36 percent of projected Base Year 2012 residential revenues. We found this “bad debt” percentage reasonable.

Adjustment – No adjustment.

2. Commercial Collection Revenues

STR estimated commercial collection revenues to increase by approximately \$30,831, or 0.63 percent, between 2010 and 2011. This increase reflects the combined impact of (1) 2011 rate increases and (2) projected business changes based on year-to-date 2011 trends. This estimated 2011 increase includes commercial collection revenue increases of \$5,147, \$7,011, and

² In the Application, STR estimated Rate Year 2011 revenues and costs based on year-to-date 2011 data, through March 31, 2011.

Table 3
Recommended Adjustments to Base Year 2012 Rate Application

	FY 2012 Base Year Projection			NPG Adjustments			Adjusted Amount		
	City of SLT and Douglas County	El Dorado County	All Member Agencies	City of SLT and Douglas County	El Dorado County	All Member Agencies	City of SLT and Douglas County	El Dorado County	All Member Agencies
Allowable Operating Expenses									
Direct Labor	\$ 4,005,897	\$ 952,510	\$ 4,958,407	\$ (44,578)	\$ (10,800)	\$ (55,178)	\$ 3,961,319	\$ 941,910	\$ 4,903,229
Equipment Costs and Facility Costs	890,077	164,084	854,161	(22,453)	(5,338)	(27,791)	867,624	158,746	826,370
Landfill Disposal Costs	812,883	193,287	1,006,180	(14,511)	(3,450)	(17,961)	798,382	189,837	988,219
Office Salaries	829,374	197,206	1,026,580	(5,121)	(1,218)	(6,339)	824,253	195,988	1,020,241
General and Administrative Costs	2,852,280	678,206	3,530,486	104,398	(2,247)	102,151	2,956,678	675,959	3,632,637
MRF Principal and Interest Payments (El Dorado County)	-	19,900	19,900	-	-	-	-	19,900	19,900
RRF Principal and Interest Payments (El Dorado County)	-	278,511	278,511	-	-	-	-	278,511	278,511
Other Interest Expenses	-	11,784	11,784	-	(994)	(994)	-	10,790	10,790
Total Operating Expenses	\$ 9,190,521	\$ 2,495,488	\$ 11,686,009	\$ 17,735	\$ (23,847)	\$ (6,112)	\$ 9,208,256	\$ 2,471,641	\$ 11,679,897
Allowable Operating Profit									
Operating Ratio	87%	89%		0%	0%		87%	89%	
Allowable Operating Profit	\$ 1,373,296	\$ 308,431	\$ 1,681,727	\$ 2,660	\$ (2,947)	\$ (297)	\$ 1,375,946	\$ 305,484	\$ 1,681,430
Pass-Through Costs without Franchise Fee:									
MRF Principal Payments (City and Douglas)	\$ 61,926	\$ -	\$ 61,926	\$ -	\$ -	\$ -	\$ 61,926	\$ -	\$ 61,926
RRF Principal Payments (City and Douglas)	908,888	-	908,888	-	-	-	908,888	-	908,888
MRF and RRF Interest Expenses (City and Douglas)	284,189	-	284,189	-	-	-	284,189	-	284,189
Other Interest Expenses	49,560	-	49,560	(4,181)	-	(4,181)	45,379	-	45,379
RRF Fund Credit	(252,171)	(59,980)	(312,131)	(383,885)	(91,232)	(474,917)	(635,856)	(151,192)	(787,048)
Recycling Revenue Bonus	363,349	81,082	444,431	49,523	(1,226)	48,297	412,972	79,856	492,728
Total Pass-through Expenses	\$ 1,415,741	\$ 21,122	\$ 1,436,863	\$ (338,343)	\$ (92,458)	\$ (430,801)	\$ 1,077,398	\$ (71,336)	\$ 1,006,062
Revenue Requirement without Franchise Fee	\$ 11,979,558	\$ 2,825,041	\$ 14,804,599	\$ (317,958)	\$ (119,252)	\$ (437,210)	\$ 11,661,600	\$ 2,705,769	\$ 14,367,389
Revenues									
Residential Revenues Subtotal	\$ 4,217,667	\$ 1,922,314	\$ 6,139,981	\$ -	\$ -	\$ -	\$ 4,217,667	\$ 1,922,314	\$ 6,139,981
Less: Allowance for Uncollectible Residential Accounts	(16,781)	(5,200)	(21,981)	-	-	-	(16,781)	(5,200)	(21,981)
Total Residential Revenues (without Rate Change in Base Year)	\$ 4,200,886	\$ 1,917,114	\$ 6,118,000	\$ -	\$ -	\$ -	\$ 4,200,886	\$ 1,917,114	\$ 6,118,000
Commercial Revenues	\$ 4,766,087	\$ 219,103	\$ 4,985,190	\$ -	\$ -	\$ -	\$ 4,766,087	\$ 219,103	\$ 4,985,190
Less: Allowance for Uncollectible Commercial Accounts	(12,933)	(3,067)	(16,000)	-	-	-	(12,933)	(3,067)	(16,000)
Total Commercial Revenues (without Rate Change in Base Year)	\$ 4,753,154	\$ 216,036	\$ 4,969,190	\$ -	\$ -	\$ -	\$ 4,753,154	\$ 216,036	\$ 4,969,190
Transfer Station and RRF Revenues (AND FORESTRY, FED, STATE CONTRACTS)	\$ 924,696	\$ 219,920	\$ 1,144,616	\$ 131,075	\$ 31,175	\$ 162,250	\$ 1,055,771	\$ 251,095	\$ 1,306,866
Recycled Material Sales	1,600,064	346,053	1,846,117	161,789	(14,804)	147,185	1,861,863	331,449	1,993,302
Total Revenues	\$ 11,378,800	\$ 2,699,123	\$ 14,077,923	\$ 292,864	\$ 16,371	\$ 309,435	\$ 11,671,564	\$ 2,715,694	\$ 14,387,358
Net Shortfall (Surplus) without Franchise Fee:	\$ 600,758	\$ 125,918	\$ 726,676	\$ (610,822)	\$ (135,823)	\$ (746,645)	\$ (10,064)	\$ (9,905)	\$ (19,969)
Residential and Commercial Franchise Fees	\$ 444,689	\$ 104,856	\$ 549,545	\$ 8,113	\$ -	\$ 8,113	\$ 452,802	\$ 104,856	\$ 557,658
Net Shortfall (Surplus) with Franchise Fee	\$ 1,045,447	\$ 230,774	\$ 1,276,221	\$ (602,709)	\$ (135,823)	\$ (738,532)	\$ 442,738	\$ 94,951	\$ 537,689
Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change	\$ 9,978,736	\$ 2,353,070	\$ 12,231,806	\$ 131,075	\$ 31,175	\$ 162,250	\$ 10,009,811	\$ 2,384,245	\$ 12,394,056
Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates	10.58%	9.81%	10.43%	-6.16%	-6.83%	-6.09%	4.42%	3.98%	4.34%

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\$18,673, respectively, for the City of South Lake Tahoe, Douglas County, and El Dorado County. STR projected 2012 commercial revenues to increase at the same rate as 2011. The projected 2012 commercial revenue increases are 0.18 percent, 1.56 percent, and 8.97 percent, respectively, for the City of South Lake Tahoe, Douglas County, and El Dorado County. We found these commercial revenue projections reasonable.

STR projected commercial uncollectible revenues of \$16,000 for 2012. This projected commercial uncollectible revenue amount represents 0.32 percent of projected 2012 commercial revenues. We found this “bad debt” percentage reasonable.

Adjustment – No adjustment.

3. Non-Collection Revenue Allocation

For 2012, STR allocated non-collection revenues, including: (1) transfer station and RRF revenues, (2) forestry, federal, and state contracts revenues; and (3) recycled materials sales, between (1) the City and South Lake Tahoe and Douglas County, and (2) El Dorado County. The non-collection revenue allocation is based on 2010 residential and commercial collection revenues.

Revenue allocation percentages were 80.79 percent and 19.21 percent, respectively, for the City of South Lake Tahoe and Douglas County together, and El Dorado County. We verified that this allocation calculation was supportable and correct. We applied this allocation method to (1) transfer station and RRF revenues; and (2) forestry, federal, and state contracts revenues.

Recycled materials sale revenues are directly associated with recycling tonnage. Based on STR provided recycling tonnage data by Member Agency, we determined that recycling tonnage allocation percentages were 82.96 percent and 17.04 percent, respectively, for the City of South Lake Tahoe and Douglas County together, and El Dorado County. We applied this allocation method to recycled materials sales revenues.

Adjustment – Used recycling tonnage allocation percentages for recycled materials sales revenues.

4. Transfer Station and RRF Revenues

STR estimated transfer station and RRF revenues to decrease by \$152,304, or 12.43 percent, between 2010 and 2011. This decrease is based on the year-to-date 2011 trend. STR projected transfer station and RRF revenues to continue to decrease in 2012, by a rate of 12.43 percent.

Using STR-provided actual transfer station and RRF revenues for 2011, we estimated transfer station and RRF revenues to decrease by approximately \$63,351, or 5.17 percent, between 2010 and 2011. We projected transfer station and RRF revenues to continue to decrease

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in 2012, by a rate of 5.17 percent. This adjustment increased transfer station and RRF revenues by **\$162,250** for 2012.

Adjustment – Transfer Station and RRF revenue adjustment = \$162,250.

5. Forestry, Federal, and State Contracts

STR estimated forestry, federal, and State contract revenues to increase by approximately \$23,994, or 15.32 percent, between 2010 and 2011. This increase is based on the year-to-date 2011 trend. STR projected no further change in forestry, federal, and State contract revenues for Base Year 2012. We found this projection reasonable.

Adjustment – No adjustment.

6. Recycled Material Sales (Materials Recovery Facility (MRF) and Recycling Sales)

STR estimated revenues associated with the MRF sale of recyclables to increase by approximately \$36,684, or 6.90 percent, between 2010 and 2011. This estimated increase is based on the year-to-date 2011 trend. STR projected MRF recycled material sales revenues to decrease by approximately \$13,060, or 2.30 percent, between 2011 and 2012, based on prior rate year and year-to-date 2011 trends.

Using STR-provided actual MRF recycled material sales revenues for 2011, we estimated revenues associated with the MRF sale of recyclables to increase by approximately \$99,833, or 18.77 percent, between 2010 and 2011. We projected no further change in MRF recycled material sales revenues for 2012. This adjustment increased recycled material sales revenues by **\$76,208** for 2012.

STR estimated revenues associated with the recycling sales to decrease by approximately \$265,936, or 16.56 percent, between 2010 and 2011. This estimated increase is based on the year-to-date 2011 trend. STR projected recycling sales revenues to decrease by approximately \$49,465, or 3.69 percent, between 2011 and 2012, based on prior rate year and year-to-date 2011 trends.

Using STR-provided actual recycling sales revenues for 2011, we estimated revenues associated with recycling sales to decrease by approximately \$244,424, or 15.22 percent, between 2010 and 2011. We projected no further change in recycling sales revenues for 2012. This adjustment increased recycled material sales revenues by **\$70,977** for 2012.

Adjustment – Recycled material sales revenue adjustment = \$76,208 + \$70,977 = \$147,185.

Operating Expenses

1. Operating Expense Allocation

For 2012, STR allocated operating expenses between (1) the City and South Lake Tahoe and Douglas County, and (2) El Dorado County, based on Rate Year 2010 residential and commercial collection revenues. Revenue allocation percentages were 80.79 percent and 19.21 percent, respectively, for the City of South Lake Tahoe and Douglas County together, and El Dorado County. We verified that the allocation calculation was supportable and correct.

Consistent with the recycled materials sale revenue allocation, we allocated cost of goods sold based on recycling tonnage allocation percentages. Recycling tonnage allocation percentages were 82.96 percent and 17.04 percent, respectively, for the City of South Lake Tahoe and Douglas County together, and El Dorado County.

Adjustment – Used recycling tonnage allocation percentages for cost of goods sold.

2. Expense Escalation

STR escalated wages and salaries, payroll taxes, and employee benefits³, for 2012, using the change in the Consumer Price Index (CPI) – All Urban Consumers, San Francisco-Oakland-San Jose, California, All Items, Not Seasonally Adjusted, for April 2010 to April 2011. This CPI increase equaled 2.8 percent,

STR escalated certain general and administrative expenses for Base Year 2012, including advertising, utilities, and licenses and fees, using the average change in the CPI – All Urban Consumers, West – Size Class B/C, All Items, Not Seasonally Adjusted, for the 12-month period ending in March 2010 to 12-month period ending in March 2011. This CPI increase equaled 1.01 percent.

For purposes of escalating inflationary costs in the Application, including wages and salaries, payroll taxes, employee benefit, advertising, utilities, and licenses and fees, we used the average change in the CPI – All Urban Consumers, U.S. City Average, Garbage and Trash Collection, Not Seasonally Adjusted, for the 12-month period ending in March 2010 to 12-month period ending in March 2011. The annual CPI change equaled 2.09 percent.

Adjustment – Used an escalation factor of 2.09 percent for selected inflationary costs.⁴

³ The escalation factor does not apply to health insurance and workers' compensation. STR projected these expenses based on annual adjustments on premiums.

⁴ Adjustments related to our recommended change to the CPI adjustment factor are not specifically discussed and quantified in this line item. Adjustments related to the CPI factor are reflected in our adjustment for each of the applicable cost items described in our report. The impact is also reflected in our adjusted revenue requirement calculation (Table 3).

3. Direct Labor

STR estimated direct labor expenses to decrease by approximately \$196,373, or 4.09 percent, between 2010 and 2011. STR projected total direct labor expenses of \$4,958,407 for 2012, representing a 7.71 percent increase from 2011. This projected direct labor increase reflects various wage and benefit increases, including:

- The cost of three (3), 2-month, seasonal workers
- A cost of living adjustment (COLA) of 2.80 percent for wages and salaries, payroll taxes, and employee benefits (based on the STR CPI described above)
- A health insurance expense increase of 11.77 percent from 2011 to 2012⁵
- A workers' compensation expense increase of 20.34 percent since the last quarter of 2011⁴
- A pension expense increase, based on six (6) percent of labor costs for qualifying employees in 2012, compared with three (3) percent of labor costs for qualifying employees in 2011 (where qualifying employees must work at least 1,000 hours).

We escalated wages and salaries, payroll taxes, and employee benefits, by the annual CPI change of 2.09 percent, as described in Finding #2 above. This adjustment reduced projected 2012 direct labor expenses by **\$24,808**.

We allowed the pension expense, based on 4.5 percent of total labor costs, for 2012. This adjustment reduced projected 2012 direct labor expenses by **\$43,919**.

STR made a 2012 adjustment of -\$22,579, related to officer's salaries which exceeded the six (6) percent of gross revenues cap for officer's salaries as identified in the Manual. We re-calculated a 2012 adjustment of -\$9,030, based on the adjustments to revenues discussed above. This officer's salaries cap adjustment increased projected labor expenses by **\$13,549** for 2012.

Adjustment – Total direct labor adjustment = -\$24,808 - \$43,919 + \$13,549 = -\$55,178.

4. Equipment Costs and Facility Costs

STR estimated equipment costs and facility costs to decrease by approximately \$100,739, or 10.24 percent, between 2010 and 2011. STR projected equipment costs and facility costs of \$854,161 for 2012, representing a 3.27 percent decrease from 2011. This projected reduction accounts for the following:

- STR projected depreciation costs of approximately \$866,355 for 2012

⁵ Both of these projected increases were verified to written estimated increases submitted to STR by the third party vendors providing the service.

- STR included depreciation costs related to the addition of new depreciable equipment to be placed in service during 2011 and 2012
- STR projected 2012 rent costs based on Rate Year 2011 rent costs
- STR projected 2012 repair and maintenance costs based on the average of prior three rate years.

Based on our review, we made the following adjustments to depreciation costs:

- Based on STR's depreciation schedule for 2011, we projected depreciation costs of \$839,898 for 2012. This projected amount accounts for depreciated items expiring in 2011 and 2012. This adjustment reduced projected 2012 depreciation costs by **\$25,295**
- During 2011, STR placed additional equipment in service, including a refuse collection truck and MRF/RRF conveyor and fines screen system. STR provided invoices to support these additional equipment purchases. We made the following minor adjustments, based on actual invoice amounts:
 - Total depreciable basis of \$156,194.37 for the truck (versus \$156,000 used by STR)
 - Total depreciable basis of \$695,533.73 for the MRF/RRF conveyor and fines screen system (versus \$715,700 used by STR).

This adjustment reduced projected depreciation costs by **\$2,496** [= $(\$156,194.37 - \$156,000) / 8 + (\$695,533.73 - \$715,700) / 8$] for Base Year 2012

Adjustment – Total equipment cost and facility cost adjustment = -\$25,295 -\$2,496 = -\$27,791.

5. Landfill Disposal Costs

STR estimated landfill disposal costs to decrease by approximately \$53,578, or 4.95 percent, between 2010 and 2011. STR projected landfill disposal costs of \$1,006,180 for 2012, representing a 2.22 percent decrease from 2011. Landfill disposal costs include Lockwood landfill and Carson City landfill dump fees; disposal costs related to e-waste, tire, asphalt, and food waste recycling; and alternative daily cover (ADC) dump fees.

In projecting landfill dump fees, STR accounted for changes in both tonnage and tipping fees. STR provided documentation from landfills to support the tipping fees they used in their projections. We reduced landfill disposal costs by **\$17,961** to account for the fact that STR included the ADC dump fee twice in their projection.

Adjustment – Total landfill disposal cost adjustment = -\$17,961.

6. Office Salaries

STR estimated office salaries to decrease by approximately \$160,066, or 12.60 percent, between 2010 and 2011. STR projected office salary expenses of \$1,026,580 for 2012, representing a 7.56 percent decrease from 2011. This projected decrease accounts for projected wage and benefit changes as follows:

- Elimination of the IT department
- A COLA of 2.80 percent for wages and salaries, payroll taxes, and employee benefits
- A health insurance expense increase of 11.77 percent from 2011 to 2012
- A workers' compensation expense increase of 20.34 percent since the last quarter of 2011

A pension expense increase, based on six (6) percent of labor costs for qualifying employees in 2012, compared with three (3) percent of labor costs for qualifying employees in 2011 (where qualifying employees must work at least 1,000 hours). We escalated wages and salaries, payroll taxes, and employee benefits, by the annual CPI change of 2.09 percent, as described above. This adjustment reduced projected office salaries by \$5,112 for 2012.

We allowed the pension expense, based on 4.5 percent of total labor costs, for 2012. This adjustment reduced projected office salaries by \$12,324 for 2012.

STR made an adjustment of -\$18,493, related to officer's salaries in excess of 6 percent of gross revenues. We re-calculated this adjustment to equal -\$7,396, based on adjusted officer's salaries and adjusted revenues, as discussed above. This adjustment increase projected 2012 office salaries by \$11,097.

Adjustment – Total office salary adjustment = -\$5,112 - \$12,324 + \$11,097 = -\$6,339.

7. General and Administrative Costs

Cost of Goods Sold

STR estimated cost of goods sold to decrease by approximately \$118,020, or 10.61 percent, between 2010 and 2011. This estimated decrease is based on the year-to-date 2011 trend. STR projected cost of goods sold to decrease by approximately \$36,677, or 3.69 percent, between 2011 and 2012, based on a projected recycling sales revenue decrease of 3.69 percent for 2012.

Based on STR provided actual cost of goods sold for 2011, we estimated cost of goods sold to decrease by approximately \$104,105, or 9.36 percent, between 2010 and 2011. We projected no further change in cost of goods sold for 2012, based on our flat projection for 2012 recycling sales revenues. This adjustment had the impact of increasing general and administrative costs by \$50,592 for 2012.

Advertising, Utilities, and Licenses Fees

STR escalated advertising, utilities, and licenses and fees, for Base Year 2012, by the annual CPI change of 1.01 percent (based on the change in the West – Size Class B/C CPI, as described in Finding #2 above). We escalated advertising, utilities, and licenses fees by the annual CPI change of 2.09 percent, based on the change in the U.S. City Average, Garbage and Trash Collection CPI. This adjustment increased projected 2012 general and administrative costs by **\$4,823**.

Depreciation

STR projected depreciation costs of approximately \$866,355 for 2012. A portion of projected depreciation costs (\$38,032) is listed under general and administrative costs.

Based on our projected 2012 depreciation costs of \$839,898 for 2012, we projected the depreciation cost listed under general and administrative costs to be \$36,871. This adjustment reduced projected general and administrative costs by **\$1,161** for 2012.

Fuel

STR projected fuel costs of approximately \$598,675, and fuel usage of 144,971 gallons, for 2012. STR projected 2012 fuel costs to increase by 15 percent from 2011, and fuel usage to increase by 0.50 percent. STR's projected 2012 fuel costs correspond to an average fuel price of \$4.13 per gallon.

Given the current fuel prices, we recommend using an average fuel price per gallon of \$4.46 for the 2012 projection. This recommended fuel price is based on the current California retail diesel price per gallon for northern California, as of March 7, 2012.

We adjusted fuel costs for 2012, based on this recommended price per gallon of \$4.46, and STR's projected fuel usage of 144,971 gallons. This adjustment increased projected general and administrative costs by **\$47,897** for 2012.

Adjustment – Total general and administrative cost adjustment = \$50,592+ \$4,823 - \$1,161+ \$47,897 = \$102,151.

8. MRF Principal and Interest Costs (El Dorado County)

STR projected El Dorado County's portion of MRF principal and interest payments of \$19,900 for 2012. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is related to the MRF. STR allocated 38.3 percent of financing costs, to MRF principal and interest payments. STR then determined El Dorado County's portion of MRF principal and interest payments, based on the

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2010 collection revenue allocation percentage (19.21 percent). We found this approach to determining the MRF principal and interest cost for El Dorado County reasonable.

Adjustment – No adjustment.

9. RRF Principal and Interest Payments (El Dorado County)

STR projected El Dorado County's portion of 2012 RRF principal and interest payments to equal \$278,511. The RRF debt financing is through a California Pollution Control Financing Authority (CPCFA) 2008 Bond of \$16.615 million. STR determined El Dorado County's portion of RRF principal and interest payments, based on the 2010 total collection revenue allocation percentage (19.21 percent). We found this approach to determining the MRF principal and interest cost for El Dorado County reasonable.

Adjustment – No adjustment.

10. Other Interest Expenses

STR projected other interest expenses of \$61,344 for 2012. STR then determined El Dorado County's portion of other interest expenses, based on the 2010 total collection revenue allocation percentage (19.21 percent). STR included other interest expenses of \$11,784, for El Dorado County's portion, under allowable operating costs.

Other interest expenses include interest on debt used to finance STR operations, excluding the MRF/RRF building financing. STR's calculation includes El Dorado County's portion of MRF building interest payments (\$5,175).

After excluding the \$5,175 MRF interest payments, we projected other interest expenses of \$56,169 for 2012 (\$10,790 for El Dorado County's portion, and \$45,379 for the City of South Lake Tahoe and Douglas County's portion). This adjustment reduced projected allowable operating costs by **\$994** for 2012.

Adjustment – Total other interest expense adjustment = -\$994.

Operating Profit

In accordance with the Manual, 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; and for El Dorado County, the operating ratio for Base Year 2012 is set at 89 percent.

In the Application, STR used an 87 percent operating ratio for the City of South Lake Tahoe and Douglas County, and an 89 percent operating ratio for El Dorado County. STR provided Monthly Waste Facility Diversion Summary Reports, which included monthly tons diverted through four (4) operations: (1) MRF floor sort, (2) MRF line sort, (3) recycle center, and (4)

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direct export. Based on its diversion reports, STR's recovery rates were 43.2 percent, and 58.1 percent, respectively, for 2010 and 2011.

We reviewed Monthly Waste Facility Diversion Summary Reports and tonnage information provided by STR. We verified reported diversion rates, and determined that STR used correct operating ratios in the Application.

STR projected operating profits of \$1,681,727 for 2012. We projected operating profits of \$1,681,430. We reduced operating profits based on reductions in allowable operating costs (based on the findings above related to allowable operating costs). This adjustment reduced projected operating profits by \$297 for 2012.

Adjustment – Total operating profit adjustment = -\$297.

Pass-Through Costs

1. MRF Principal Payments (City and Douglas)

STR projected the City of South Lake Tahoe and Douglas County's portion of MRF principal payments of \$61,926 for 2012. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is related to the MRF. For the Union Bank term loan, STR projected principal payments based on loan balances. STR allocated 38.3 percent of financing costs, to MRF principal payments. STR then determined the City of South Lake Tahoe and Douglas County's portion of MRF principal payments, based on the 2010 collection revenue allocation percentage (80.79 percent).

Adjustment – No adjustment.

2. RRF Principal Payments (City and Douglas)

STR projected the City of South Lake Tahoe and Douglas County's portion of RRF principal payments of \$908,888 for 2012. The RRF debt financing is through a CPCFA 2008 Bond of \$16.615 million. For the bond financing, STR projected principal payments based on bond balances. STR allocated 100 percent of financing costs, to RRF principal payments. STR then determined the City of South Lake Tahoe and Douglas County's portion of RRF principal payments, based on the 2010 total collection revenue allocation percentage (80.79 percent).

Adjustment – No adjustment.

3. MRF and RRF Interest Expenses (City and Douglas)

STR projected the City of South Lake Tahoe and Douglas County's portion of MRF and RRF interest payments of \$284,189 for 2012. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is

related to the MRF. The RRF debt financing is through a CPCFA 2008 Bond of \$16.615 million.

For the MRF and RRF debt financing, STR projected principal payments based on debt balances, and interest payment based on general ledgers. STR then determined the City of South Lake Tahoe and Douglas County's portion of MRF and RRF interest payments, based on the 2010 collection revenue allocation percentage (80.79 percent).

Adjustment – No adjustment.

4. Other Interest Expenses

STR projected other interest expenses of \$61,344 for 2012. STR then determined the City of South Lake Tahoe and Douglas County's portion of other interest expenses, based on the 2010 total collection revenue allocation percentage (80.79 percent). STR included other interest expenses of \$49,560, for the City of South Lake Tahoe and Douglas County's portion, under pass-through costs.

Other interest expenses are interest on debt used to finance STR operations, excluding the MRF/RRF building financing. STR's calculation includes El Dorado County's portion of MRF building interest payments (\$5,175).

After excluding the \$5,175 MRF interest payments, we projected other interest expenses of \$56,169 for 2012 (\$10,790 for El Dorado County's portion, and \$45,379 for the City of South Lake Tahoe and Douglas County's portion). This adjustment reduced projected 2012 pass-through costs by **\$4,181**.

Adjustment – Total other interest expense adjustment = -\$4,181.

5. RRF Fund Credit

STR included a resource recycling facility (RRF) fund credit to JPA jurisdiction ratepayers, to account for excess rate revenues collected during the construction of the RRF. On March 2, 2012, the JPA approved a RRF fund credit of \$4,722,285, with a six (6) year payback period.

The Application included a total 2012 RRF fund credit of \$312,131, based on a RRF balance of \$3,745,578, and a twelve (12) year payback period. STR allocated 19.21 percent of this RRF fund credit to El Dorado County, and 80.79 percent to the City of South Lake Tahoe and Douglas County.

We calculated a total 2012 RRF fund credit of \$787,048, based on a total RRF revenue balance of \$4,722,285, and a six (6) year payback period. We used the same allocation

percentages as STR to allocate this credit between member agencies. This adjustment reduced projected pass-through costs by **\$474,917** for 2012.

Adjustment – Total RRF fund credit adjustment = -\$474,917.

6. Recycling Revenue Bonus

In accordance with the Manual, STR is allowed a recycling revenue bonus, which is tied to STR's diversion levels. For 2012 through 2014, STR is allowed a 25 percent recycling revenue share, by achieving a minimum diversion rate of 38 percent; and a 50 percent recycling revenue share, by achieving a minimum diversion rate of 44 percent.

Based on the Monthly Waste Facility Diversion Summary Report, STR's recovery rate was 58.1 percent in Rate Year 2011. Therefore, STR is allowed a 50 percent of recycling revenue share for 2012.

STR projected a recycling revenue bonus of \$444,431 for 2012. We projected the recycling revenue bonus of \$492,728. We increased the recycling revenue bonus based on increases in projected recycled material sales (based on the findings above related to revenues). This adjustment increased the projected pass-through costs by **\$48,297** for 2012.

Adjustment – Total recycling revenue bonus adjustment = \$48,297.

7. Franchise Fees

Franchise fees are charged at the rate of 5.0 percent of collection revenues and transfer fees for the City of South Lake Tahoe and El Dorado County, and 3.0 percent of collection revenues for Douglas County.

STR projected franchise fees of \$549,545 for 2012, including franchise fees of \$444,689 for the City of South Lake Tahoe and Douglas County, and franchise fees of \$104,856 for El Dorado County. STR calculated 2012 franchise fees using 2012 projected collection revenues and transfer fees, multiplied by franchise fee rates.

We projected franchise fees of \$557,658. We increased franchise fees based on the adjustment to transfer station and RRF revenues discussed above. This franchise fee adjustment increased projected franchise fees by **\$8,113** for 2012.

Adjustment – Total franchise fee adjustment = \$8,113.

D. Recommended Rates

As a result of the detailed review of the Application, and as shown in Table 3, we calculated a 4.42 percent rate increase for the City of South Lake Tahoe and Douglas County; and a 3.98

percent rate increase for El Dorado County, assuming an implementation date of January 1, 2012. A rate increase of 4.42 percent for Base Year 2012 would cover the revenue shortfall of \$442,738 for the City of South Lake Tahoe and Douglas County. A rate increase of 3.98 percent for Base Year 2012 would cover the revenue shortfall of \$94,951 for El Dorado County.

Rate Increase Applied on May 1, 2012, Rather Than on January 1, 2012

Assuming a rate implementation date of May 1, 2012,⁶ we calculated an equivalent rate increase, to make up for a four-month implementation delay, of a 4.97 percent for the City of South Lake Tahoe and Douglas County; and 4.48 percent for El Dorado County. **Table 4**, below, shows that over the period of time until the next base year in 2015, these equivalent rate increases, effective May 1, 2012, would generate the same total amount of revenues as the rate increases, effective January 1, 2012, for each of the Member Agencies.

Table 4
Rate Increases and Revenues Generated
With May 1, 2012 Rate Implementation
(Base Year 2012)

	City of SLT and Douglas County	El Dorado County	All Member Agencies
Annual Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change	\$ 10,009,811	\$ 2,384,245	\$ 12,394,056
Monthly Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change	\$ 834,151	\$ 198,687	\$ 1,032,838
Total Number of Months (January 1, 2012 Effective Date)	36	36	36
Rate Increase (January 1, 2012 Effective Date)	4.42%	3.98%	4.34%
Total Revenues Generated Through the Next Base Year (January 1, 2012 Effective Date to December 31, 2014)	\$ 1,327,301	\$ 284,679	\$ 1,613,706
Total Number of Months (May 1, 2012 Effective Date)	32	32	32
Equivalent Rate Increase (May 1, 2012 Effective Date) ⁷	4.97%	4.48%	4.88%
Total Revenues Generated Through the Next Base Year (May 1, 2012 Effective Date to December 31, 2014)	\$ 1,327,301	\$ 284,679	\$ 1,613,706

⁶ The Manual calls for a January 1, 2012 rate implementation date.

⁷ This analysis assumes that the revenues lost for the four months (i.e., January 1, 2012, through April 30, 2012) would be collected over the next 32 months, until the next base year rates are set on January 1, 2015.

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Table 5, on the following page, shows the resulting residential rates with a rate increase of 4.97 percent for the City of South Lake Tahoe and Douglas County, and a rate increase of 4.48 percent for El Dorado County. As shown, the residential rate increases range from a \$0.15 to \$2.99 per customer, per month, increase depending upon the service.

* * * * *

Should you have any questions regarding the rate review process, or any of the contents of this letter report, please do not hesitate to contact me at (916) 442-2456.

Sincerely yours,

NewPoint Group® Inc.



Erik Nylund
Principal

Table 5
Residential Rates with 4.97 Percent Rate Increase for the City of South Lake Tahoe and Douglas County and 4.48 Percent Rate Increase for El Dorado County (Base Year 2012)

Service	Current Rate (Per Customer, Per Month)	Recommended Rate (Per Customer, Per Month, with the Recommended Increase)	Rate Increase (Per Customer, Per Month)
<i>City of South Lake Tahoe</i>			
Unlimited service	\$ 23.18	\$ 24.33	\$ 1.15
Mandated pickup per 32-gallon can/bag	4.94	5.19	0.25
Mandated pickup per cubic yard	33.12	34.77	1.65
Qualified senior rate	19.69	20.67	0.98
House service - 1 can	26.54	27.86	1.32
House service - 2 cans	29.91	31.40	1.49
House service - 3 cans	33.28	34.93	1.65
<i>Douglas County</i>			
1, 32-gallon can	\$ 15.56	\$ 16.33	\$ 0.77
2, 32-gallon cans	29.97	31.46	1.49
3, 32-gallon cans	45.71	47.98	2.27
4, 32-gallon cans	60.10	63.09	2.99
One extra 32-gallon can (also the seasonal service rate)	3.92	4.11	0.19
On-call 32-gallon can billed monthly/arrears	5.19	5.45	0.26
Per cubic yard	25.15	26.40	1.25
1, 45-gallon can	18.88	19.82	0.94
2, 45-gallon cans	36.29	38.09	1.80
3, 45-gallon cans	55.31	58.06	2.75
One extra 45-gallon can (also the seasonal service rate)	4.75	4.99	0.24
On-call 45-gallon can billed monthly/arrears	6.28	6.59	0.31
<i>El Dorado County</i>			
Unlimited service	\$ 26.77	\$ 27.97	\$ 1.20
Mandated pickup per 32-gallon can/bag	5.61	5.86	0.25
Mandated pickup per cubic yard	32.10	33.54	1.44
Qualified senior rate	23.74	24.80	1.06
House service per can	3.39	3.54	0.15

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Attachment A
Base Year 2012 Rate Application

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SOUTH TAHOE REFUSE CO., INC.

May 31, 2011

Nancy McDermid, Chair
Norma Santiago, Board Member
Angela Swanson, Board Member
South Lake Tahoe Basin Waste Management Authority
1901 Airport Road
South Lake Tahoe CA 96150

VIA EMAIL (Hard Copy To Be Mailed or Delivered in Person)

Dear Board Members:

Enclosed herein is our management representation letter and 2012 base year rate application.

We have calculated rate adjustments to become effective January 1, 2012 of 10.58% for the City of South Lake Tahoe and Douglas County and a 9.81% increase for El Dorado County under the Solid Waste Rate Setting Policies and Procedures Manual using the company's actual and forecasted costs.

The company has continued its efforts to increase diversion despite the lingering challenge to the local economy. In the absence of increased revenues from a recovering economy, the company has focused on cost cutting to help fund diversion efforts. Specifically, as a result of the new RRF project, we have reduced our dump fees by approximately 5%. Additionally, we have reduced our administrative headcount by two FTEs which will result in a 20% reduction in administrative labor. However, these savings have been offset by other items outside of our control including a 30% increase in fuel costs and increased insurance costs.

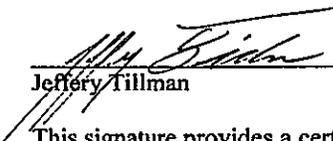
No attempt has been made to allocate actual costs to either a specific franchise area or different service types within a franchise area. This generally allows the rate increase for each jurisdiction to be roughly the same percentage increase. If such allocations were made they typically would result in greater rate increases in rural versus urban franchise areas as well as a greater increase in residential versus commercial customer types.

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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 has been made available. Assumptions are reasonable and accurate.

Sincerely yours,



Jeffery Tillman

This signature provides a certification of the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in the rate manual.

Enclosures:

- 2012 Base Year Rate Application, pages 1-3
- Proposed rate schedule for residential and commercial accounts (pages 1 and 3 of the 2012 Base Year Rate Application exclude city surcharges and infrequent services)
- June 30, 2010 Audited Financial Statements
- Support documentation (due to the volume of calculations, we have provided an electronic copy since hard copy would not be practical)
- Reconciliation of the rate application to the audited financial statements (included within the support documentation above)

cc: Hilary Hodges, Cathe Pool, Gerri Silva

Base Year Rate Application

Summary

Rate Change	
1. Percent Rate Change Requested (City of South Lake Tahoe and Douglas County)	10.58%
Percent Rate Change Requested (El Dorado County)	9.81%

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	(1) \$ 23.18	\$ 2.45	(1) \$ 25.63
2.2. Mandated pickup per 32-gallon can/bag	4.84	0.52	5.48
2.3. Mandated pickup per cubic yard	33.12	3.51	38.83
2.4. Qualified senior rate	19.89	2.08	21.77
2.5. House service - 1 can	26.54	2.81	29.35
2.6. House service - 2 cans	29.91	3.17	33.08
2.7. House service - 3 cans	33.28	3.52	36.80
2.8. Residential - All other services	-	-	-
3. Douglas County			
3.1. 1, 32-gallon can	\$ 15.56	\$ 1.65	\$ 17.21
3.2. 2, 32-gallon cans	29.97	3.17	33.14
3.3. 3, 32-gallon cans	45.71	4.84	50.55
3.4. 4, 32-gallon cans	60.10	6.36	66.46
3.5. One extra 32-gallon can (also the seasonal service rate)	3.92	0.41	4.33
3.6. On-call 32-gallon can billed monthly/arrears	5.19	0.55	5.74
3.7. Per cubic yard	25.15	2.66	27.81
3.8. 1, 45-gallon can	18.88	2.00	20.88
3.9. 2, 45-gallon cans	36.29	3.84	40.13
3.10. 3, 45-gallon cans	55.31	5.85	61.16
3.11. One extra 45-gallon can (also the seasonal service rate)	4.75	0.50	5.25
3.12. On-call 45-gallon can billed monthly/arrears	6.28	0.66	6.94
3.13. Residential - All other services	-	-	-
4. El Dorado County			
4.1. Unlimited service	\$ 26.77	\$ 2.63	\$ 29.40
4.2. Mandated pickup per 32-gallon can/bag	5.61	0.55	6.16
4.3. Mandated pickup per cubic yard	32.10	3.15	35.25
4.4. Qualified senior rate	23.74	2.33	26.07
4.5. House service per can	3.39	0.33	3.72
4.6. Residential - All other services	-	-	-

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: Jeffery R. Tillman

Title: President

Signature: 

Date: 5/31/11

(1) Rate does not include the street sweeping (\$0.25), the nuisance abatement (\$0.25), or the clean community surcharges (\$0.40).

Base Year Rate Application

Financial Information for All Three Jurisdictions

	Actual Audited Prior Year All Three Jurisdictions	Estimated Current Year All Three Jurisdictions	Projected Base Year City of SLT and Douglas County	El Dorado County
Section I - Allowable Operating Costs				
5. Direct Labor	\$ 4,799,899	\$ 4,603,526	\$ 4,005,897	\$ 952,510
6. Equipment Costs and Facility Costs	883,749	853,010	690,077	164,084
7. Landfill Disposal Costs	1,032,825	1,029,047	812,893	193,267
8. Office Salaries	1,270,630	1,110,584	126,374	187,208
9. General and Administrative Costs	3,509,494	3,509,809	2,852,280	678,208
10. MRF Principal and Interest Payments (El Dorado County)	21,434	20,019	0	19,600
11. RRF Principal and Interest Payments (El Dorado County)	149,539	267,424	0	278,511
Other Interest Expenses	9,818	13,331	0	11,784
12. Total Allowable Operating Costs	\$ 11,927,185	\$ 11,416,730	\$ 9,190,528	\$ 2,493,456
Section II - Allowable Operating Profit				
13. Operating Ratio	80.00%	80.00%	87.00%	89.00%
14. Allowable Operating Profit	\$ 1,767,260	\$ 1,768,787	\$ 1,379,398	\$ 500,431
Section III - Pass Through Costs without Franchise Fees				
15. MRF Principal Payments (City and Douglas)	\$81,926	\$81,926	\$81,926	\$0
16. RRF Principal Payments (City and Douglas)	379,713	908,868	903,885	0
17. MRF and RRF Interest Expenses (City and Douglas)	277,397	238,082	284,189	0
Other Interest Expenses	41,283	56,067	48,580	0
18. RRF Fund Credit	0	0	-252,171	-59,960
19. Recycling Revenue Bonus	512,972	457,356	353,349	81,682
20. Total Pass Through Costs	\$ 1,273,289	\$ 1,722,239	\$ 1,419,729	\$ 21,402
Section IV - Revenue Requirement without Franchise Fees				
21. Total Allowable Operating Costs (Line 12) plus Allowable Operating Profit (Line 14) plus Total Pass Through Costs (Line 20)	\$ 13,200,474	\$ 13,138,969	\$ 10,610,257	\$ 2,514,858
Section V - Revenues without Rate Change in Base Year				
	Current Rate/Month	Months	Projected Accounts	Total
Residential Revenues				
City of South Lake Tahoe				
22. Unlimited service	\$ 23.18	12	13,802	\$ 3,783,537
23. Mandated pickup per 32-gallon can/bag	4.94	12	0	0
24. Mandated pickup per cubic yard	33.12	12	0	0
25. Qualified senior rate	19.68	12	87	20,836
26. House service - 1 can	26.54	12	3	855
27. House service - 2 cans	29.81	12	4	1,456
28. House service - 3 cans	33.28	12	0	0
29. Residential - All other services		12		
Douglas County				
30. 1. 32-gallon can	\$ 15.58	12	892	\$ 160,554
31. 2. 32-gallon cans	29.97	12	318	114,288
32. 3. 32-gallon cans	45.71	12	18	9,871
33. 4. 32-gallon cans	60.10	12	7	5,048
34. One extra 32-gallon can (also the seasonal service rate)	3.02	12	0	0
35. On-call 32-gallon can billed monthly/annuus	5.18	12	418 # pickups	25,938
36. Per cubic yard	25.15	12	0	0
37. 1. 45-gallon can	18.89	12	252	87,093
38. 2. 45-gallon cans	36.28	12	52	22,045
39. 3. 45-gallon cans	55.31	12	4	2,052
40. One extra 45-gallon can (also the seasonal service rate)	4.75	12	0	0
41. On-call 45-gallon can billed monthly/annuus	6.28	12	60 # pickups	15,118
42. Residential - All other services	\$ 79.48	12	2	1,607
El Dorado County				
43. Unlimited service	\$ 28.77	12	5,862	\$ 1,815,233
44. Mandated pickup per 32-gallon can/bag	5.81	12	0	0
45. Mandated pickup per cubic yard	32.10	12	0	0
46. Qualified senior rate	23.74	12	24	6,877
47. House service per can	3.39	12	8	2,444
48. Residential - All other services		12		
49. Residential Revenues Subtotal				\$ 4,217,687
50. Less: Allowance for Uncollectible Residential Accounts				(16,781)
51. Total Residential Revenues (without Rate Change in Base Year)				\$ 4,200,906
52. Commercial Revenues				\$ 4,768,087
53. Less: Allowance for Uncollectible Commercial Accounts				(12,933)
54. Total Commercial Revenues (without Rate Change in Base Year)				\$ 4,755,154
55. Transfer Station and RRF Revenues (AND FORESTRY, FED, STATE CONTRACTS)				\$ 1,387,802
56. Recycled Material Sales				\$ 2,137,094
57. Total Revenues (Lines 51 + 54 + 55 + 56)				\$ 14,697,164
Section VI - Net Shortfall (Surplus)				
58. Net Shortfall (Surplus) without Franchise Fees (Line 21 - Line 57)	\$ -770,889	\$ -737,227	\$ -600,756	\$ 125,610
59. Residential and Commercial Franchise Fees	\$ 600,070	\$ 654,756	\$ 444,669	\$ 104,650
60. Net Shortfall (Surplus) with Franchise Fees (Lines 58 + 59)	\$ -170,819	\$ -82,471	\$ -156,087	\$ 230,260
Section VII - Percent Change in Rates				
61. Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change (Line 51 + 54 + 55)			\$ 9,878,738	\$ 3,353,070
62. Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates (Line 60 + Line 61)			(10.88%)	(10.81%)

Base Year Rate Application

Operating Information

	Prior Year	Current Year	Percent Change	Base Year Projected Information		Percent Change
	Audited Information	Estimated Information		City of SLT and Douglas County	El Dorado County	
	All Three Jurisdictions	All Three Jurisdictions				
Section VIII--Operating Data						
(1)						
63. Residential Accounts	21,463	21,435	-0.13%	15,320	5,985	-0.61%
64. Multi-family Accounts	408	408	0.00%	401	7	0.00%
65. Commercial Accounts	378	375	-0.79%	352	20	-0.80%
Commercial Accounts - On Calls	374	377	0.80%	348	34	0.80%
66. Total Accounts	22,623	22,595	-0.12%	16,416	6,046	-0.68%
67. Residential Refuse Tons	26,404	22,704	-14.01%	18,607	3,624	-2.08%
68. Residential Recycling Tons	15,110	19,820	29.88%	16,215	3,218	-0.95%
69. Residential Yard Waste Tons	4,972	4,978	0.08%	4,768	888	13.22%
70. Commercial Refuse Tons	20,300	25,298	23.67%	20,732	4,037	-2.08%
71. Commercial Recycling Tons	22,285	27,404	22.97%	23,378	4,553	1.82%
72. "Free" Drop Boxes Provided (Monthly)	17	17	0.00%	17	0	0.00%
73. "Free" Bins Provided (Monthly)	2	2	0.00%	2	1	50.00%

Section IX--Change in Commercial Rates

74. 2 Yard Bin--Once per Week			1%			1%
75. 3 Yard Bin--Once per Week			5%			5%
76. 4 Yard Bin--Once per Week			1%			1%
77. 5 Yard Bin--Once per Week			1%			1%
78. 6 Yard Bin--Once per Week			1%			1%
City - per cubic yard	26.38	26.78	1.52%	29.61	0.00	10.58%
Douglas - per cubic yard	22.72	22.85	0.57%	25.27	0.00	10.58%
El Dorado - per cubic yard	31.50	32.10	1.90%	0.00	35.25	8.81%
City - compacted per cubic yard	37.02	37.58	1.51%	41.56	0.00	10.58%
Douglas - compacted per cubic yard	29.38	29.53	0.58%	32.66	0.00	10.58%
El Dorado - compacted per cubic yard	42.17	42.97	1.80%	0.00	47.18	8.81%
City - per 32 gal can/bag	3.63	3.69	1.65%	4.08	0.00	10.58%
Douglas - per 32 gal can/bag	3.57	3.59	0.56%	3.97	0.00	10.58%
El Dorado - per 32 gal can/bag	5.51	5.61	1.81%	0.00	6.16	8.81%

(1) Amounts are based on management's estimate.