

AMERICAN RIVER DISPOSAL SERVICE

(530) 544-1199 • 2140 Ruth Ave. • South Lake Tahoe, California 96150-4357

February 12, 2014

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

RE: American River Disposal Service franchise

Dear Ms. Silva:

During our July 2, 2013 meeting to discuss the new franchise agreements, we had mentioned the idea of combining the American River Disposal Service (ARD) franchise with the South Tahoe Refuse (STR) franchise. You recommended we provide a letter detailing the rationale of why that would be a good idea and beneficial to the rate payers. Following are the main reasons we believe merging these two franchises into one makes so much sense.

Combining the ARD franchise with the STR franchise will provide economies of scale for operations, reduce administrative costs for El Dorado County staff and STR/ARD staff, and consolidate annual reports, audits, rate increase requests and franchises negotiations, resulting in a cost savings to the approximately 310 ratepayers (250 residential and 60 commercial) of this small, rural community. ARD is, in fact, a functional part of the STR service and operational plan. ARD customers are serviced by STR equipment and STR employees and enjoy most of the same services and recycling programs as STR customers. All recyclable material and waste is processed at the STR MRF and transfer station in South Lake Tahoe, California. A straightforward consolidation would allow the American River community to fully participate in any future expansion of services with the advantage of spreading the cost over a broader customer base.

One of the rate setting goals in the new Solid Waste Rate Setting Policies and Procedures manual is to keep the process as simple as possible and equitable across all jurisdictions. Under the terms of the new rate setting guide, since ARD is serviced by STR employees and equipment, cost allocation methods would be required to be used for almost all ARD expense items including equipment costs (rental, parts, fuel, supplies, tires, repair and maintenance, licenses, permits), general and administrative costs and labor costs. This adds a level of record keeping and complicates a process that would be unnecessary if ARD were included as part of the STR operation.

Folding ARD into STR would eliminate the necessity of a separate rate review for ARD in accordance with the desire to have rate making uniformity across the County. The cost of a base year rate review would be exorbitant for such a small rate base.

Maintaining ARD as a separate franchise also results in additional annual costs being incurred, such as paying for a financial statement audit of this tiny franchise (see Schedule 1), resulting in a proportionally large rate burden per rate payer for the audit. Since STR is already required to have an annual audit, there would only be a nominal increase in cost to incorporate the ARD information as part of that audit. This would be far less costly compared to paying for a second audit to be performed on an operating unit as small as ARD. Spreading the audit cost over the larger customer base helps lessen the impact to rates.

The franchise fee is set at 5% for both STR and ARD so El Dorado County would receive the same franchise fees as it does today without having to administer a separate franchise. The County should realize some cost savings or, at a minimum, would allow those County resources that were previously required to maintain the ARD franchise to be redeployed to service more critical County needs.

We had first mentioned this merger idea in our letter to you dated November 14, 2012 which was written in response to your August 16, 2012 letter, where you asked ARD to provide a written proposal for future programs, services, rates and infrastructure for the service area. While developing that proposal, that was the first time that it occurred to us that a logical alternative to renewing the ARD franchise would be incorporating it with the existing South Tahoe Refuse (STR) franchise given that the two companies are so closely integrated. Following are some excerpts from that letter.

Blue Bag Recycling Program

South Tahoe Refuse (STR) has implemented a curbside Blue Bag Recycling program for the ARD west slope franchise area, maintaining a consistent means and message of recycling compatible with our STR operations. Blue bags are currently provided through the South Lake Tahoe Solid Waste JPA. It is anticipated that this operational cost will eventually be integrated into ARD customer rates.

Approximately 50% of the 250 ARD residential customers are year-round and 50% are seasonal from May to October. ARD operates under a curbside "per can" service (Pay as You Throw). However several of the seasonal tracts have opted for animal-resistant 4 to 6-yard dumpsters in lieu of curbside can service. Curbside residential customers are provided with blue bags at their homes weekly, in accordance with their "per can" service. Tract residents wishing to participate in the blue bag program can simply "blue bag" their recyclables and place them in their animal-resistant dumpsters.

The blue bag program was implemented in the ARD franchise area without a corresponding rate adjustment. There are no multi-family units in the ARD area. The STR Material Recovery Facility continues to recover recyclables from solid waste from

campgrounds, resorts and other commercial properties, in compliance with the state's mandatory commercial recycling requirements.

Green Waste Recycling Program

Because of the historically low rate structure, ARD has not initiated a residential curbside Green Waste Recycling Program for residential customers. However, as part of the proposed consolidation with the STR franchise and rate increase, ARD proposes to include a residential curbside Green Waste Recycling program to promote fuels reduction activities in the service area and reduce emissions from backyard burning. Our preferred option is to collect green waste on our regular collection routes, rather than by separate truck. ARD residential customers would receive educational information on how they can participate in Green Waste Recycling by using "green" bags and placing the bagged material next to their cans, one bag for each "per can" service a week, at no additional charge. We would like to discuss the option of using a specific type of compostable green bag that residents could purchase locally for this program, rather than just the usual black plastic trash bag. Green bags would be recovered in the STR MRF and transferred to the RRF for processing. Green waste recycling is scheduled to start each year once the "pine needle" season begins.

In addition, ARD provides residential areas with green waste boxes for fuels reduction projects through the El Dorado Fire Safe Council, American River Cabin Owners and Super Track representatives or other neighborhood collaboratives, at reduced drop box rates.

Mandatory Residential Collection

Because of the seasonal nature of residential customers in the ARD service area, it is not clear how the 85% collection trigger, discussed in the El Dorado County Solid Waste Management Plan as a near term Strategy 1.4, would be activated. ARD is the only California area franchise using the STR facilities that is not mandatory, unlimited collection. However, the Douglas County, Nevada customers of STR are serviced by a curbside "per can" service (Pay as You Throw), just like ARD. We believe the STR Douglas County rate structure would be appropriate to use as a basis for updating ARD rates since both areas do not have mandatory residential collection requirements.

Phase 3 Long Term Strategy 3.8

STR has developed both a Material Recovery Facility (MRF) and a Resource Recovery Facility (RRF) which can adequately process the waste generated in the ARD franchise area. Future infrastructure improvements may involve an upgrade of the MRF for single stream commingled recycling processing (El Dorado County Solid Waste Management Plan, Table 4).

Rates

The last rate increase for ARD was on July 1, 2006. While rate payers have enjoyed the benefit of low collection rates over the last eight years, an adjustment to rates is necessary to bring revenues in line with the current cost of providing collection services in 2014. Furthermore, there is an expectation by the rate payers that the rates across El Dorado County be somewhat in parity, which

they currently are not. Please see Schedule 2 that lists the ARD rates near the top as well as the current STR El Dorado County rates and STR Douglas County rates below.

As a starting point to calculate what ARD rates should be in 2014, we calculated the required rate increase using the proposed new rating setting methodology and a 90% operating ratio. Using this calculation methodology, a 43.2% rate increase would be required.

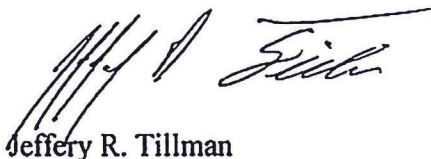
The next calculation we performed was to roll the 2006 ARD rates forward to 2014 based on the actual rate increases granted to STR from 2006 to 2014. You will note on Schedule 2 that STR El Dorado County residential rates increased by about 45.8% and STR Douglas County rates increased by about 45.3%.

The listing of STR rates provides a rate history going back to 2005 before the RRF project costs were incorporated into the rates. Starting with the 9% rate increase in 2006 and then again in 2007 (18% total increase), 6% of each increase went to fund the RRF project (12% total) and 3% went to cover ongoing operating costs (6% total). By applying the STR rate increase percentages each year since 2006 to the ARD rates, you can see what the ARD rates would be in 2014 if the STR rate increases had been applied each year. Rates for both El Dorado County and Douglas County are shown.

We suggest using a rate structure similar to the rate charged to our STR Douglas County residential customers, who also have "per can" or Pay as You Throw service. Due to the size of the required increase and to minimize the impact to rate payers, we recommend spreading this increase over a three-year period, like was done with the large STR rate increase to fund the RRF project.

We are proud of our customer friendly recycling programs, which are part of our long term commitment to providing the excellent level of service our ARD customers deserve and our mountain environment requires. We look forward to meeting with County staff to answer any questions and collaborate on opportunities to enhance our mutual goals.

Sincerely yours,



Jeffery R. Tillman

South Tahoe Refuse, dba American River Disposal Service

SCHEDULE 1

Financial Comparison
ARD vs SDS vs STR

Note: All amounts are taken from the audited 2013 Financial Statements

Revenues	<u>ARD</u>		<u>SDS</u>		<u>STR</u>	
Residential	23,523	8%	1,357,961	66%	6,697,744	43%
Commercial	146,625	49%	613,802	30%	5,005,089	32%
Transfer Station	-	0%	-	0%	1,422,259	9%
Miscellaneous	-	0%	-	0%	147,904	1%
State & Federal	124,596	42%	77,138	4%	168,366	1%
Recycling	1,575	1%	10,586	1%	1,962,572	13%
	<u>296,319</u>	<u>100%</u>	<u>2,059,487</u>	<u>100%</u>	<u>15,403,934</u>	<u>100%</u>
Total Assets	83,981		537,495		24,774,949	

SCHEDULE 2

ARD
Rate Comparison

Note: the last rate increase for ARD was on July 1, 2006. This schedule shows the current ARD rates compared to the current STR El Dorado and STR Douglas rates. This schedule also shows what ARD 2014 rates would be if the STR rate increases had been applied to ARD each year as well as if the new rate guide is used. We would propose spreading the increase over a 3-year period to lessen the impact to rate payers.

American River Disposal Service Rate as of 7/1/2006: this is the current rate	Residential	Residential	Commercial
	1-32 gal	2-32 gal	1-yd
	\$ 13.46	\$ 18.09	\$ 14.16

Rate Increase - new rate guide *	43.24%	43.24%	43.24%
2014 ARD Rate	\$ 19.28	\$ 25.91	\$ 20.28

* We did a preliminary calculation of the base year rate increase calculated using the new rate setting methodology and it was a 43.24% increase.

Rate Increase - El Dorado (2006 to 2014)	45.78%	45.78%	45.86%
2014 Rate	\$ 19.62	\$ 26.37	\$ 20.65

Rate Increase - Douglas (2006 to 2014)	45.24%	45.33%	45.30%
2014 ARD Rate	\$ 19.55	\$ 26.29	\$ 20.57

STR - El Dorado County						
		Increase #	Residential		Commercial	
			Mandatory		1-yd	
4/1/2005			20.03	A	24.01	
1/1/2006 (2nd 9%)	9.00%	1	21.83		26.17	
1/1/2007 (3rd 9%)	9.00%	2	23.79		28.53	
7/1/2008	2.23%	3	24.32		29.17	
1/1/2009	8.00%	4	26.27		31.50	
1/1/2010	0.00%		26.27		31.50	
1/1/2011	1.90%	5	26.77		32.10	
5/1/2012	4.48%	6	27.97		33.54	
1/1/2013	1.58%	7	28.41		34.07	
CURRENT 1/1/2014	2.78%	8	\$ 29.20	B	\$ 35.02	
Increase \$			9.17	B - A	11.01	
Increase %			45.78%	(B - A) / A	45.86%	

STR - Douglas County						
		Increase #	Residential	Residential	Commercial	
			1-32 gal	2-32 gal	1-yd	
4/1/2005			11.67	22.46	17.13	
1/1/2006 (2nd 9%)	9.00%	1	12.72	24.48	18.67	
1/1/2007 (3rd 9%)	9.00%	2	13.86	26.68	20.35	
7/1/2008	4.33%	3	14.46	27.84	21.23	
1/1/2009	7.01%	4	15.47	29.79	22.72	
1/1/2010	0.00%		15.47	29.79	22.72	
1/1/2011	0.59%	5	15.56	29.97	22.85	
5/1/2012	4.97%	6	16.33	31.46	23.99	
1/1/2013	1.53%	7	16.50	31.77	24.23	
CURRENT 1/1/2014	2.73%	8	\$ 16.95	\$ 32.64	\$ 24.89	
Increase \$			5.28	10.18	7.76	
Increase %			45.24%	45.33%	45.30%	