Tahoe Truckee Sierra Disposal

Tahoe Truckee Sierra Disposal • P.O. Box 6479 • Tahoe City, CA 96145-6479 • Ph.: (530) 583-0148 • (530) 389-2367 • Fax: (530) 583-0804

April 28, 2009

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

Dear Gerri,

It was nice to speak with you on Tuesday. I write now to review some of the concerns expressed during our conversation and to respond to your April 10, 2009 letter, in which you seek our input regarding a proposed baseline audit with an estimated cost to us of $4,166.

As you know, the area in El Dorado County that we serve represents a small, and at current rates unprofitable, portion of our overall business. In a non-mandatory area consisting of a largely seasonal customer base (1,609 registered, but 728 average active), a study costing $4K would represent a cost of over $5.72 per active customer. We are not prepared to fund this, as doing so would only add to our current losses servicing the area.

Additionally, this is the second time within a year that the county has requested our participation in a rate study. Last July 1st, we agreed in good faith to postpone a contractually guaranteed rate increase while the county conducted its county-wide rate study via the services of Newpoint Group. Despite Newpoint's findings supporting a higher rate for the area we serve, we have yet to see the July 1st, 2008 rate adjustment. While we understand and fully appreciate the need for a more consistent rate-setting methodology (we are, after all, the ones suffering under the current situation), and would like to do what we can to support the effort in the long-term, our more immediate concern is to stop operating at a loss in the West Shore area of El Dorado County District 5 that we serve.

Per our conversation, we are including a request for rate increases, this time effective July 1st, 2009, for the Board's consideration at the June 30th, 2009 meeting. We also wish to make it clear in writing that we do not waive our right to the contractually guaranteed rate increase of July 1st, 2008, and further seek to recover any lost revenue for the period since July 1st, 2008, to aid in offsetting our losses incurred while serving the area.

Also, as we discussed, the California Air Resource Board (CARB) has mandated certain phased-in clean air emissions requirements for garbage company fleets and equipment by 2011. Pursuant to State instructions that expenses for emissions compliance be passed on to the jurisdictions served, we have also included within the rate increase, recovery of the expenses applicable to the portion of El Dorado County we serve. When allocated on a per-customer basis, as is becoming the industry standard method and has been agreed upon by our other served jurisdictions, the total dollar amount equates to approximately $33K for the portion of El Dorado County we serve. Most of the other jurisdictions we serve have built the cost into the rates, although Placer County has indicated an initial preference to make a direct lump sum payment out of environmental reserves in order to keep it out of the rates.

Unfortunately, the combined impact of not having an approved rate adjustment for three years, along with the impact of CARB, results in a more significant increase than would have occurred if we had achieved more measured increases as provisioned under the contract. Our experience has shown that the public generally prefers small, regular adjustments over deferred, larger increases. We have participated in good faith in the public approval process yet - despite our participation in and the recommendations of the Newpoint study - we have not had the same success in El Dorado County that we have realized in our other served jurisdictions. The overwhelming majority of our served jurisdictions have been very careful to facilitate and garner public support for regular, gradual increases in order to avoid a situation like that which we now face in El Dorado County during a contract expiration year.

Attached is a comparison showing how our proposed rates compare to rates in the surrounding areas. El Dorado County's West Shore is significantly lower than surrounding areas and is financially unsustainable.

Consistent with the neighboring areas under El Dorado's jurisdictions, we are requesting a rate structure equivalent to the portion of El Dorado County adjacent and immediately south of the area we serve, where exists a flat rate of **$26.27** for unlimited mandatory service. We believe, of all the other haulers serving El Dorado (as documented in the Newpoint study), our operating environment and cost structure most closely resembles South Tahoe Refuse. Both TTSD and STR have similar contracts with Lockwood, both have sought financing to build a state approved material recovery facility, and both must contend with the unique challenges of serving the Lake Tahoe environment - snow, mountain terrain, seasonality, bear boxes, the requirement of using specialized fork-lift equipped pick-up trucks, etc.

While Placer County has performed diligent research in approving rates pertinent to our operating environment and cost structure, we appreciate El Dorado's preference to conduct its own diligence. Given our strong operational alignment with STR's cost structure, and almost identical areas served, we believe the most relevant comparison which has undergone the El Dorado diligence process would be the unincorporated area of El Dorado immediately adjacent to the area we serve.

Alternatively, we would be willing to entertain a rate aligned with the neighboring Placer County area that we serve, adjusted for items not comprehended within the Placer rate, including CARB, the additional cost of servicing an area with non-mandatory service, and make-up for the one year of loss Revenue. The resultant rate is a base rate of **$21.47** for non-mandatory service, or **$19.32** should service become mandatory. We would offer this rate through the current contract term.

We offer this rate with one caveat. Our company is currently falling below break-even, and we are at risk of missing the covenant requirements of our loan backing the public bond initially issued to finance construction of our material recovery facility in Placer County. In efforts to maintain covenant compliance, our company has taken significant cost-cutting actions over the past six months, including a 25% reduction in force, changes to employee benefits and pension plans, postponement of capital expenditures, etc. We are working with our bank and our other jurisdictions to insure that we remain financially viable and thus able to continue providing service to the public. As a condition of our loan restrictions, the recently approved Placer rates required approval from our bank. Similarly, we will need our bank to review and agree to the El Dorado County proposed rate structure by the end of the contract term.

We look forward to working with you to achieve public approval for agreed upon rates before the contract expires at the end of the year. To your point, in efforts to establish and adhere to an eventual consistent rate-setting process, our company would be willing to extend the term of the contract with the intent of making it coterminous with the other contracts in El Dorado County, should it be a contract that allows our company to make a reasonable profit. Any contract we would be willing to sign, however, would require reinforced provisions defining regular rate reviews and approvals, with an additional guarantee from El Dorado County to cover any financial losses incurred due to delayed approval of minimum guaranteed rate increases. Before signing any contract extension, we will need to gain final approval for the rate structure and terms of rate adjustments from our lender. Moreover, we have agreed to advise Placer County of the rate structure we are agreeing to, as it affects our ability to pay back the material recovery facility loan through an equitable distribution of cost across the total population using the publicly-financed facility.

As discussed, I think a pre-meeting to explain the situation in detail to a board member is a good idea. Please let me know what the next step is. I look forward to speaking with you soon and working together to fulfill an equitable, workable solution.

Sincerely,

Ray Labadie
Chief Financial Officer
Tahoe Truckee Sierra Disposal

cc: Kerri Williams
enclosure: proposed rate schedule

	Proposed Rate, compared to Placer 3 base rate			
	7/1/06 thru 6/30/2007	7/1/07 thru 6/30/2008	7/1/08 thru 6/30/2009	7/1/09 thru 6/30/2010
Neighboring Placer County franchise area 3 base rate				$ **18.19**
Recapture of 7-1-08 thru 7-1-09, over 5 years				$ 0.35
CARB adder, over 5 years				$ 0.78
Sub-total: rate for mandatory service				**$ 19.32**
Adjustment for cost of providing non-mandatory service				**$ 2.15**
El Dorado TTSD West Shore Rates	**$ 15.95**	**$ 15.95**	***$ 15.95***	**$ 21.47** *

rate adjustment guaranteed under contract no later than July 1st, 2008
*** proposed rate effective through current contract term**

Neighboring Placer County franchise area 3 (Mandatory service) (CARB being paid by County separately to keep out of rate)	**$ 16.86** **$ 0.91**	**$ 17.16** **$ 1.21**	**$ 17.72** **$ 1.77**	**$ 18.19**

	Before 1/1/2009	After 1/1/2009
Neighboring unincorporated El Dorado County (Mandatory unlimited)	**$ 24.32**	**$ 26.27**
City of SLT - Mandatory Unlimited (Mandatory unlimited)	**$ 22.66**	**$ 24.19**