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February 19, 2019

Ms. Sue VanDelinder  
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580 Truck Street  
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*Transmitted via email*

**Subject: El Dorado Disposal Service Commodity Revenues Analysis**

Crowe LLP (Crowe) has completed its analysis of El Dorado Disposal Service's (EDDS's) commodity revenues during rate years 2017, 2018, and 2019. EDDS contracted with Crowe to perform an analysis of its commodity revenues to determine impacts of unforeseen changes on recycled material sales revenues, and to identify potential adjustments to current rates, if warranted. This letter report documents the results of our analysis, and is organized as follows:

1. Purpose of Analysis
2. Summary of Analysis
3. Background of Analysis
4. Scope of Analysis
5. Rate Setting Adjustments
6. Results of Analysis.

## **1. Purpose of Analysis**

The purpose of this El Dorado Disposal Service Commodity Revenues Analysis (Analysis) is to determine the impact of changes in the recycling marketplace on EDDS's County rates. The results of our analysis are intended to assist the County determine whether a rate increase is warranted for EDDS at this time to account for the unforeseen circumstances in the recycling marketplace. We conducted this Analysis in accordance with the County's *Solid Waste Rate Setting Policies and Procedures Manual for Unincorporated Areas* (Manual). This Manual was developed and incorporated into the County's franchise agreement with EDDS in October 2014.

The information in this Analysis is based on estimates, assumptions, and other data developed by Crowe from information provided by EDDS, knowledge of and participation in other studies, and other sources deemed to be reliable. In the course of preparing this Analysis, we have not conducted an audit, review, or compilation of any financial or supplemental data used in the accompanying Analysis. We have made certain projections of commodity revenues, which may vary from actual results because events and circumstances frequently do not occur as expected and such variances may be material. We have no responsibility to update this Analysis for events or circumstances occurring after the date above.

Our procedures and work product are intended for the benefit and use of EDDS and the County. This engagement was not planned or conducted in contemplation of reliance by any other party or with respect to any specific transaction and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party.

## 2. Summary of Analysis

The analysis of EDDS's commodity revenues and supporting documentation indicates a rate increase of 2.86 percent for El Dorado County, effective at the County's discretion.

## 3. Background of Analysis

EDDS, under parent company Waste Connections of California, provides solid waste collection services to the County's West Slope customers in Area A, B, and C. In a letter to the County, dated December 20, 2018, EDDS requested to initiate an additional rate adjustment citing volatility in the recycling markets that have resulted in a 241% increase to net processing costs since January 2015. EDDS's request to initiate an additional rate adjustment was based on the "Unforeseen Circumstances," clause of the *Solid Waste Rate Setting Policies and Procedures Manual* (Rate Manual), which is incorporated into the EDDS Franchise Agreement with the County, which specifies the following:

*"The County should consider a proposed revision in a franchise hauler's rates whenever the franchise hauler can establish to the satisfaction of the County that Unforeseen Circumstances have arisen that have or will materially affect the franchise hauler's revenues of costs under this Manual."*

The County responded to EDDS's letter on January 2, 2019, stating that an independent financial body would need to evaluate whether an additional rate increase is warranted based on justifiable and supportable analysis. EDDS selected Crowe to perform an analysis of its commodity revenues to determine impacts of unforeseen changes on recycled material sales revenues, and to identify potential adjustments to current rates. The County will determine whether a rate increase is warranted based on the results our analysis.

The Rate Manual<sup>1</sup> guides County rate setting. Rate setting has generally followed an approximately three-year cycle with the prior base year rate analysis conducted for rate year 2018. The next base year rate analysis is anticipated to be conducted for rate year 2021. Recently approved rate changes are as follows:

- 2015 – 1.96 percent rate increase – base year
- 2016 – 1.75 percent rate increase – interim year
- 2017 – 1.51 percent rate increase – interim year
- 2018 – 5.02 percent rate increase – base year.

## 4. Scope of Analysis

Our scope of services include the following three (3) tasks:

1. Sample and Test Recycled Materials Revenue and Cost Data
2. Determine Impact of Changes in Recycling Market on County Rates
3. Prepare Draft and Final Letter Reports.

For this analysis, we performed the following tasks:

1. Analyze actual and projected County recycled materials tonnages, by material type
2. Analyze actual and projected revenues received for County recycled materials
3. Analyze actual and projected County recycled material processing costs (including transportation)
4. Determine impacts of unforeseen changes on actual and projected County recycled material sales revenues

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<sup>1</sup> The County allows for EDDS to submit an interim year rate application in each of the "interim" two (2) years between "base" years, should EDDS want to request an increase in rates. The scope and content of the *Interim Year Rate Application* is more limited than a base year request, and interim year rate adjustments are subject to a "floor" and a "cap" of one (1) and six (6) percent.

5. Determine impacts of unforeseen changes on actual and projected County revenue requirements
6. Identify potential adjustments to current County rates, if applicable
7. Determine the impact of the adjustments on the County rate structure, if applicable.

EDDS entered into contract with Crowe on January 15, 2019 to provide these services. We submitted a data request to EDDS on January 25, 2019.

## 5. Rate Setting Adjustment

In this section, we identify changes in EDDS's 2017 and 2018 actual and 2019 projected commodity revenues, which inform potential adjustments to County rates. **Attachment A** provides our adjustment calculation.

In response to our data request, EDDS provided the following items:

- Comingled recyclables tonnage for Rate Year 2017 and 2018 by month
- Ledger documentation of comingled recyclable commodity proceeds and revenues for Rate Year 2018 by month
- Comingled processing statement documentation with Cal-Waste Recovery Systems for Rate Year 2017 and Rate Year 2018 by month
- Transportation cost detail from sampled Tiger Lines, LLC invoices for Rate Year 2017 and Rate Year 2018 by month
- EDDS 2019 customer count.

We calculated an adjustment of \$381,714 to recycled material sales revenues based on this data. EDDS actual 2018 commodity revenues decreased by \$213,294, or 266.74 percent, between 2017 and 2018. EDDS projected commodity revenues to decrease by \$88,456 or 30.16 percent, between 2018 and 2019. The 2019 decrease reflects the 2018 year-to-date trend.

Decreases in commodity revenues between 2017 and 2018 (actual), and between 2018 and 2019 (projected) are largely due to lower commodity prices based on observed and projected marketplace volatility. We note that decreases in commodity revenues were due to a 17 percent increase in per ton processing fees, from \$114 per ton in June 2018 to \$133 per ton in December 2018.

Our updated calculation of the 2018 net shortfall with the additional reduction of \$381,714 to recycled material sales resulted in a calculated \$1,051,507 shortfall. This reflects a net loss in recycled materials sales of \$373,643<sup>2</sup> compared to the 2018 Base Year projection of recycled materials sales of \$8,071<sup>3</sup>.

## 6. Results of Analysis

Our Analysis, as shown in Attachment A, shows that an additional 2.86 percent rate increase at this time would be sufficient to cover the \$1,051,507 shortfall, assuming no other changes to EDDS's costs and revenues since the 2018 Base Year rate was set.

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<sup>2</sup> 8,332 tons multiplied by a net \$45.81 per ton rate required to transport and process the material.

<sup>3</sup> This equates to roughly a net \$0.95 per ton rate received for transporting and processing the material based on 2018 actual tonnage of approximately 7,632 tons.



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We appreciate the contribution of EDDS management and direction on this analysis. If you have any questions regarding this report, please call Erik Nylund at (415) 230-4963, or email [erik.nylund@crowe.com](mailto:erik.nylund@crowe.com).

Very truly yours,  
Crowe LLP

cc: Greg Stanton, Director, El Dorado County

**Attachment A  
Rate Adjustment Calculation**

	<b>FY 2018 Base Year Analysis Results</b>	<b>Crowe Adjustments</b>	<b>Crowe Adjusted Amount</b>
	El Dorado County	El Dorado County	El Dorado County
<b>Allowable Operating Expenses</b>			
Direct Labor	\$ 3,465,253		\$ 3,465,253
Equipment Costs and Facility Costs	2,824,989		2,824,989
Landfill Disposal Costs (Profit Allowed = TS Less LF Disposal)	2,814,863		2,814,863
Office Salaries	852,800		852,800
General and Administrative Costs	887,168		887,168
Total Operating Expenses	\$ 10,845,072		\$ 10,845,072
<b>Allowable Operating Profit</b>			
Operating Ratio	90%		90%
Allowable Operating Profit	\$ 1,205,008		\$ 1,205,008
<b>Pass-Through Costs without Franchise Fees</b>			
Disposal Costs (Pass Through = Landfill Disposal)	\$ 1,026,258		\$ 1,026,257.74
Tiger Incr Cost	\$ 247,772		\$ 247,772.43
Total Pass-through Expenses	\$ 1,274,030		\$ 1,274,030
<b>Revenue Requirement without Franchise Fees</b>	\$ 13,324,111		\$ 13,324,111
<b>Revenues</b>			
Residential Revenues Subtotal	\$ -		\$ -
Less: Allowance for Uncollectible Residential Accounts	-		-
Total Residential Revenues (without Rate Change in Base Year)	\$ 7,928,372		\$ 7,928,372
Commercial Revenues	\$ -		\$ -
Less: Allowance for Uncollectible Commercial Accounts	-		-
Total Commercial Revenues (without Rate Change in Base Year)	\$ 5,419,178		\$ 5,419,178
Recycled Material Sales	8,071	\$ (381,714)	\$ (373,643.34)
Total Revenues	\$ 13,355,621		\$ 12,973,907
<b>Net Shortfall (Surplus) without Franchise Fees</b>	\$ (31,511)		\$ 350,203
<b>Residential and Commercial Franchise Fees</b>	\$ 701,304		\$ 701,304
<b>Net Shortfall (Surplus) with Franchise Fees</b>	\$ 669,792	\$ 381,714	\$ 1,051,507
<b>Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change</b>	\$ 13,347,550		\$ 13,347,550
<b>Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates</b>	<b>5.02%</b>	<b>2.86%</b>	<b>7.88%</b>