



AMADOR COUNTY COMMUNITY DEVELOPMENT AGENCY
WASTE MANAGEMENT & RECYCLING

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COUNTY ADMINISTRATION CENTER • 810 COURT STREET • JACKSON, CA 95642-2132

MEMORANDUM

TO: Public Works Committee

FROM: Jim McHargue, APCO/Director of Solid Waste 

DATE: May 17, 2017

SUBJECT: ACES Waste Services Inc. Refuse Rate Adjustments

On March 15, 2017, the County received a refuse rate request from ACES Waste Services Inc. in compliance with the annual rate adjustment process known as the Rate Adjustment Methodology (RAM). This year, 2017, is rate year 10 of the RAM process and is an indexed adjustment year using the Refuse Rate Index (RRI). Next year, Rate Year 11, a detailed rate adjustment consisting of an outside independent audit and a thorough review of ACES expenses and revenues will occur.

ACES refuse rate adjustment request:

Franchise Area 1	Franchise Area 2	Franchise Area 3	Pine Grove Transfer Station	Buena Vista Transfer Station
3.36%	2.38%	4.12%	2.44%	10.32%

County recommended refuse rate adjustments:

Franchise Area 1	Franchise Area 2	Franchise Area 3	Pine Grove Transfer Station	Buena Vista Transfer Station
1.58%	0.71%	2.97%	2.96%	3.53%

The differences between ACES requested adjustments and the County approved adjustments were primarily due to improvements to the Buena Vista Transfer Station, which is a county-owned facility that ACES leases. These adjustments total \$96,545. Staff is recommending the formation of an ad hoc committee of the Board to specifically address the facility improvements and determine a priority for various projects.

Because the Proposition 218 process require a 45 day notice to affected customers, the rate adjustments will not become effective until September 1, 2017. Therefore, the final County adjustments will represent 10 months and are as follows:

Franchise Area 1	Franchise Area 2	Franchise Area 3	Pine Grove Transfer Station	Buena Vista Transfer Station
1.90%	0.85%	3.56%	3.55%	4.24%

RECOMMENDATION:

1. Approve final county refuse rate adjustments for referral to full Board of Supervisors;
2. Recommend the full Board of Supervisors form an ad hoc committee to consider prioritization of Buena Vista Transfer Station facility improvements.

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May 8, 2017

Mr. Jim McHargue, R.E.H.S.
Solid Waste Program Manager
County of Amador
810 Court Street
Jackson, CA 95642

Subject: Letter Report – Review of ACES Rate Year 10 Indexed Rate Adjustment

Dear Mr. McHargue:

R3 Consulting Group, Inc., (R3) was engaged by Amador County (County) to assist with a review of ACES Waste Services' (ACES) Rate Year (RY) 10 Rate Adjustment Request (Rate Application), effective July 1, 2017. This letter report presents the results of our review.

Objectives

To review and either confirm or revise ACES' RY 10 Rate Adjustment calculations for each of its three (3) County franchise areas, and two (2) transfer stations.

Background

In December 2008, the Amador County Board of Supervisors approved the use of the Rate Adjustment Methodology (RAM) for the analysis and calculation of annual refuse rate adjustments within the county's franchise waste hauler system. The RAM uses a hybrid model for rate adjustments based on a three-year cycle with a detailed analysis of the waste hauler's operating expenses and revenues in RY 1 (Detailed Rate Adjustment) followed by Indexed Rate Adjustments (Refuse Rate Index (RRI) in Rate Years 2 and 3). The Index consists of five separate indices: labor, diesel fuel, industrial vehicle replacement, industrial vehicle maintenance, and CPI (all urban consumers), as well as an indexed adjustment for landfill disposal costs based upon actual projections. The cycle then repeats with a Detailed Rate Adjustment in RY 4 and so on. By mutual agreement of the parties, the RRI can be used in place of the Detailed Rate Review in Year 4 or any other years, in which case the Detailed Rate Review is deferred to the following year.

As part of the RY 5 rate adjustment process, ACES projected the need to replace vehicles in 2012 and the projected cost of those vehicles was included in the RY 5 calculated rate adjustment. At that time, it was agreed that the RY 6 RRI rate adjustment calculation would account for any difference between the actual and projected cost for any vehicles that were replaced in 2012. It was also agreed that any interest and depreciation expense savings associated with fully depreciated vehicles would also be accounted for as part of future indexed rate adjustments.

At the time of the RY 5 rate adjustment, ACES also projected the need to replace additional vehicles in 2013, 2014 and 2015, with all of the vehicles proposed to be replaced older than ten years. The County and ACES agreed that the cost for those vehicles would be handled in a similar manner with the projected vehicle replacement costs included in the associated Rate Year rate adjustment calculation and a corresponding adjustment the following year to account for any difference between the actual and

projected vehicle cost. Finally, it was also agreed that starting in RY 6, the annual indexed rate adjustments would account for the actual interest expense on ACES loans for the purchase of Franchise Area 1 and the Buena Vista Transfer Station (WARF) to reflect the decreasing annual interest expense over the life of the loans.

Overview of Rate Adjustment Request

ACES submitted its RY 10 Rate Application to the County, which was provided to R3 for review. During the course of that review ACES made a number of changes to its Rate Application, including adding a number of capital expenses related to the WARF. ACES final Rate Application requested the following rate adjustments:¹

▪ Franchise Area 1	3.63%
▪ Franchise Area 2	2.38%
▪ Franchise Area 3	4.12%
▪ Pine Grove Transfer Station (PGTS)	2.44%
▪ Buena Vista Transfer Station (WARF)	10.32%

The calculated adjustments accounted for:

- The calculated changes to the five RRI index categories;
- Projected changes to the landfill Disposal expense;
- Changes in the 2017 vs. 2016 depreciation and interest expenses
- New equipment depreciation and interest expenses (including costs for two (2) new collection vehicles);
- Storm water related costs for both the PGTS and WARF;
- Engineering costs for various capital projects at the WARF;
- Costs of a WARF perimeter fence;
- The impact of the various adjustments on the County's franchise fees and ACES profit; and
- The calculated impact of the difference in the RY 9 estimated 2016 Landfill expense adjustment (1.00%) and the actual adjustment (1.45%), which impacts both the WARF and PGTS calculated rate adjustments.

Findings

We confirmed the mathematical accuracy of ACES Rate Application and the calculated rate adjustments for each of its three (3) franchise areas and two (2) transfer stations. At the County's request the following expenses were removed from the WARF expenses included in ACES Rate Application totaling \$96,545:

¹ A majority of the WARF requested rate increase is associated with estimated costs for facility improvements (truck wash, fuel containment, and office additions), and projected storm water mitigation costs. Similarly, much of the increase for the PGTS is associated with projected storm water mitigation costs.

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- Estimates Engineering Fees Truck Wash (\$27,745);
- Estimates Engineering Fees Fuel Containment; (\$15,300);
- Estimates Engineering Fees Office Addition (\$12,250); and
- WART Perimeter Fence (\$41,250).

Accounting for removal of the above expenses results in the following calculated rate adjustments:

- | | |
|---------------------------------------|-------|
| ▪ Franchise Area 1 | 1.45% |
| ▪ Franchise Area 2 | 0.64% |
| ▪ Franchise Area 3 | 2.90% |
| ▪ Pine Grove Transfer Station (PGTS) | 2.44% |
| ▪ Buena Vista Transfer Station (WARF) | 2.66% |

In addition, ACES did not implement the following RY9 approved rate adjustments:

- | | |
|---------------------------------------|-------|
| ▪ Pine Grove Transfer Station (PGTS) | 0.52% |
| ▪ Buena Vista Transfer Station (WARF) | 0.87% |

Accounting for these RY9 rate adjustments that were not implemented as part of the Rate Year 10 rate adjustment calculation results in the following calculated RY 10 rate adjustments:

- | | |
|---------------------------------------|-------|
| ▪ Franchise Area 1 | 1.70% |
| ▪ Franchise Area 2 | 0.84% |
| ▪ Franchise Area 3 | 3.10% |
| ▪ Pine Grove Transfer Station (PGTS) | 2.96% |
| ▪ Buena Vista Transfer Station (WARF) | 3.53% |

Finally, the County and ACES have agreed to made an adjustment to the residential franchise area rates to account for an agreed upon debris box/fuel overcharge repayment by ACES to the ratepayers of 3,272.45. Allocating that repayment to each of the three Franchise Areas in proportion to their associated operating expenses results in the in the following calculated RY 10 rate adjustments (Attachment 1).

- | | |
|---------------------------------------|-------|
| ▪ Franchise Area 1 | 1.58% |
| ▪ Franchise Area 2 | 0.71% |
| ▪ Franchise Area 3 | 2.97% |
| ▪ Pine Grove Transfer Station (PGTS) | 2.96% |
| ▪ Buena Vista Transfer Station (WARF) | 3.53% |

RY11 (2018) Required Adjustments

As with prior indexed adjustments, one-time expenses included the roll-off repayment amount of \$3,272.45, need to be removed as part of the RY 11 Indexed Rate Adjustment conducted in 2018. In addition, an adjustment needs to be made to account for the actual increase in the Kiefer Landfill tipping fee, as compared to the projected increase used for the RY 10 rate adjustment calculation (1.73%).

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Limitations

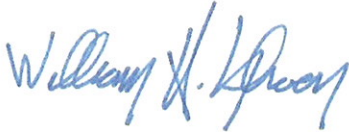
While our review included assessing the mathematical accuracy of ACES Rate Application, and obtained supporting documentation for various RY 10 expense items, we did not conduct any assessment of the reasonableness or appropriateness of various cost items and projections included in the Rate Application (e.g., engineering estimates for WARF facility improvements and reported storm water mitigation costs for the WARF and PGTS facilities). We have relied on the County to determine if the inclusion of the various RY 10 expense items in the Rate Application is appropriate.

* * * * *

We appreciate the opportunity to be of assistance to the County. Should you have any questions or comments regarding this submittal please do not hesitate to contact me by phone at (916) 782-7821, or by e-mail at wschoen@r3cgi.com.

Yours truly,

R3 CONSULTING GROUP, INC.



William Schoen
Principal

Attachments:

- 1 Rate Adjustment Calculations

WARF RRI Rate Submittal 2017

	B	C	D	E	F	G	H	I	J	K	L	M	N
	Warf			Allowable Expenses				Pass-Thru Expenses		Non-Allowable			
					Salaries	Fuel	R&M	Depreciation	Other	Fran. Fee	Disposal		
40					102.03%	60.56%	102.51%	100.79%	100.12%	0.00%			
41													
42													
321													
322													
323					445,245	24,526	87,249	102,104	229,225	-	556,454	-	1,444,803
324													
325					30.38%	1.67%	5.95%	6.97%	15.64%	0.00%	37.96%		98.57%
326													
327					102.13%	78.96%	101.18%	100.57%	101.26%	0.00%	102.18%		
328													
329					454,741	19,365	88,275	102,688	232,117	-	568,573	-	1,465,759
330													
331					31.02%	1.32%	6.02%	7.01%	15.84%	0.00%	38.79%		100.00%
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Costs removed by County

Lost Revenue Mattress Recycling	11,881
Estimates Engineering Fees Truck Wash	27,745
Estimates Engineering Fees Fuel Containment	15,300
Estimates Engineering Fees Office Addition	12,250
WARF Perimeter Fence	41,250
RY 10 Storm Water Mitigation	55,006
RY 9 Storm Water Mitigation	(9,602)
Storm Water Damage	2,363
2016 Depreciation	(164,570)
2017 Depreciation	131,436
2017 Depreciation New Eq	10,492
2016 Interest Expense	(29,471)
2017 Interest Expense	19,628
2017 Interest New Eq	0
Franchise fees on adjustments	962
Profit on adjustments	6,874
Adjusted Change in Expenses =	55,956
Rate Increase/(Decrease) =	3.82%
Reverse Delay 2015 Rate Adj July-August =	-1.15% = -(2/12)*0.0692
2017 Rate Adjustment =	2.66%
2016 WARF Rate Increase not Implemented =	0.87%
Adjusted 2017 Rate Adjustment =	3.53%

FY 2015 Base Expense = 1,444,803
 Rate Year 10 FY 2016 Base Expense = 1,465,759
 Change in Expense = 20,955
 Increase/(Decrease) Before Adjustments = 1.45%
 Change in Expense Before Adjustments = 20,955

Landfill Adjustment:
 Estimate in Detailed Rate Review (2016) 1.00%
 Actual (2016) Adjustment 1.45%
 Estimate (2017) 0.45%
 Estimate (2017) 1.73%
 2.18%

PGTS RRI Rate Submittal 2017

	B	C	D	E	F	G	H	I	J	K	L	M	N
	PGTS			Allowable Expenses				Pass-Thru Expenses			Non-Allowable		
					Salaries	Fuel	R&M	Depreciation	Other	Fran. Fee	Disposal		
40													
41													
42													
321					102.03%	60.56%	102.51%	100.79%	100.12%	0.00%	99.05%		
322					286,973	15,505	22,161	61,553	111,648	-	166,370	-	664,211
323					43.21%	2.33%	3.34%	9.27%	16.81%	0.00%	25.05%		100.00%
324													
325													
326					102.13%	78.96%	101.18%	100.57%	101.26%	0.00%	102.18%		
327					293,093	12,242	22,422	61,905	113,057	-	169,994	-	672,713
328					43.57%	1.82%	3.33%	9.20%	16.81%	0.00%	25.27%		100.00%
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FY 2015 Base Expense = 664,211
 Rate Year 10 FY 2016 Base Expense = 672,713
 Change in Expense = 8,502
 Increase/(Decrease) Before Adjustments = 1.28%
 Change in Expense Before Adjustments = 8,502

Lost Revenue Mattress Recycling 5,256
 RY 10 Storm Water Mitigation 15,500
 RY 9 Storm Water Mitigation (954)
 2016 Depreciation (83,521)
 2017 Depreciation 78,880
 2017 Depreciation New Eq 0
 2016 Interest Expense (7,532)
 2017 Interest Expense 4,632
 2017 Interest New Eq 0
 Franchise fees on adjustments 415
 Profit on adjustments 2,966
 Adjusted Change in Expenses = 24,143
 Rate Increase/(Decrease) = 3.59%
 Reverse Delay 2015 Rate Adj July-August = -1.15% = -(2/12)*0.0692
 2017 Rate Adjustment = 2.44%
 2016 PGTS Rate Increase not Implemented = 0.52%
 Adjusted 2017 Rate Adjustment = 2.96%

Landfill Adjustment:
 Estimate in Detailed Rate Review (2016) 1.00%
 Actual (2016) 1.45%
 Adjustment 0.45%
 Estimate (2017) 1.73%
 2.18%

AREA 1 RRI Rate Submittal 2017

B	C	D	E	F	G	H	I	J	K	L	M	N	
Area 1				Allowable Expenses				Pass-Thru Expenses			Non- Allowable		
				Salaries	Fuel	R&M	Depreciation	Other	Fran. Fee	Disposal			
321	Rate Year 9 (FY 2015) Change in RRI Index =	-		102.03%	60.56%	102.51%	100.79%	100.12%	0.00%	100.87%			
322	Rate Year 9 Base Expense =	-		302,439	38,198	37,219	59,052	100,361	-	184,558		721,827	
324	Percent of Total Base Expense =			41.90%	5.29%	5.16%	8.18%	13.90%	0.00%	25.57%		100.00%	
327	Rate Year 10 (FY 2016) Change in RRI Index =	-		102.13%	78.96%	101.18%	100.57%	101.26%	0.00%	103.53%			
329	Rate Year 10 Base Expense =	-		308,889	30,160	37,657	59,390	101,627	-	191,079		728,801	
331	Percent of Total Base Expense =			42.38%	4.14%	5.17%	8.15%	13.94%	0.00%	26.22%		100.00%	
333				FY 2015 Base Expense =								721,827	
335				Rate Year 10 FY 2016 Base Expense =								728,801	
336				Change in Expense =								6,974	
338				Increase/(Decrease) Before Adjustments =								0.97%	
340				Change in Expense Before Adjustments =								6,974	
341				Debris Box Profit Adjustment								(792)	
342				2017 CARB Retrofit								4,743	
343				2016 Depreciation								(92,506)	
344				2017 Depreciation								91,581	
345				2017 Depreciation New Eq								6,750	
346				2016 Interest Expense								(22,006)	
347				2017 Interest Expense								17,694	
348				2017 Interest New Eq								1,570	
349				Franchise fees on adjustments								280	
350				Profit on adjustments								2,001	
351				Adjusted Change in Expenses =								16,290	
352				Rate Increase/(Decrease) =								2.24%	
353				Reverse Delay 2015 Rate Adj July-August =								-0.66%	
354				2017 Rate Adjustment =								1.58%	
355													
356				Adjustment								Weighted	
357				PG								2.96%	0.00%
358				WARF								3.53%	3.53%
359												3.53%	
360													
361				2014 Amounts disposed at TS's:									
362												Tons	Weighted
363				PG								3.14	0.13%
364				WARF								2,359.71	99.87%
365												2,362.85	100.00%

AREA 2 RRI Rate Submittal 2017

	B	C	D	E	F	G	H	I	J	K	L	M	N
	Area 2			Allowable Expenses				Pass-Thru Expenses			Non-Allowable		
					Salaries	Fuel	R&M	Depreciation	Other	Fran. Fee	Disposal		
40													
41													
42													
321					102.03%	60.56%	102.51%	100.79%	100.12%	0.00%	100.87%		
322					211,375	23,882	22,044	22,076	58,708	-	85,333		423,418
323													
324													
325					49.92%	5.64%	5.21%	5.21%	13.87%	0.00%	20.15%		100.00%
326													
327					102.13%	78.96%	101.18%	100.57%	101.26%	0.00%	103.53%		
328													
329					215,883	18,856	22,303	22,202	59,449	-	88,349		427,042
330													
331					50.99%	4.45%	5.27%	5.24%	14.04%	0.00%	20.87%		100.86%
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	FY 2015 Base Expense =	423,418
	Rate Year 10 FY 2016 Base Expense =	427,042
	Change in Expense =	3,624
	Increase/(Decrease) Before Adjustments =	0.86%
	Change in Expense Before Adjustments =	3,624
	Debris Box Profit Adjustment	(464)
	2017 CARB Retrofit	2,108
	2016 Depreciation	(34,964)
	2017 Depreciation	32,894
	2017 Depreciation New Eq	3,000
	2016 Interest Expense	(6,802)
	2017 Interest Expense	4,946
	2017 Interest New Eq	698
	Franchise fees on adjustments	101
	Profit on adjustments	720
	Adjusted Change in Expenses =	5,861
	Rate Increase/(Decrease) =	1.37%
	Reverse Delay 2015 Rate Adj July-August =	-0.66%
	2017 Rate Adjustment =	0.71%

	Adjustment	Weighted
PG	2.96%	0.00%
WARF	3.53%	3.53%

	2014 Amounts disposed at TS's:	Tons	Weighted
PG	-	-	0.00%
WARF	1,150.81	100.00%	100.00%
	1,150.81	100.00%	100.00%

AREA 3 RRI Rate Submittal 2017

	B	C	D	E	F	G	H	I	J	K	L	M	N
40			Area 3										
41													
42													
321													
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Salaries	Fuel	R&M	Depreciation	Other	Frans. Fee	Disposal	Non-Allowable
102.03%	60.56%	102.51%	100.79%	100.12%	0.00%	100.73%	
814,132	75,208	79,783	121,419	300,395	-	442,758	-
44.40%	4.10%	4.35%	6.62%	16.38%	0.00%	24.15%	100.00%
102.13%	78.96%	101.18%	100.57%	101.26%	0.00%	103.30%	
831,496	59,381	80,721	122,113	304,184	-	457,377	-
44.82%	3.20%	4.35%	6.58%	16.40%	0.00%	24.65%	100.00%

FY 2015 Base Expense =	1,833,695
Rate Year 10 FY 2016 Base Expense =	1,855,272
Change in Expense =	21,577
Increase/(Decrease) Before Adjustments =	1.18%
Change in Expense Before Adjustments =	21,577
Debris Box Profit Adjustment	(2,016)
2017 CARB Retrofit	16,865
2016 Depreciation	(188,567)
2017 Depreciation	181,552
2017 Depreciation New Eq	24,000
2016 Interest Expense	(36,372)
2017 Interest Expense	35,272
2017 Interest New Eq	5,583
Franchise fees on adjustments	1,158
Profit on adjustments	8,271
Adjusted Change in Expenses =	67,323
Rate Increase/(Decrease) =	3.63%
Reverse Delay 2015 Rate Adj July-August =	-0.66%
2016 Rate Adjustment =	2.97%

Adjustment	Weighted
PG	1.19%
WARF	2.11%
	3.30%

2014 Amounts disposed at TS's:	Tons	Weighted
PG	2,092.34	40.18%
WARF	3,114.61	59.82%
	5,206.95	100.00%

RO Adjustment

FA	2017 RRI Expense	Percent of Total	Allocated Profit Reduction
Area 1	728,801	24%	\$ 792.05
Area 2	427,042	14%	\$ 464.11
Area 3	1,855,272	62%	\$ 2,016.29
Total	3,011,116	100%	\$ 3,272.45