August 13, 2019

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 12 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) 12 Rate Adjustment Request (Rate Application), effective July 1, 2019. This letter report presents the results of our review.

Objectives

To review and either confirm or revise ACES’ RY 12 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 in one year (Detailed Rate Adjustment) followed by Indexed Rate Adjustments (Refuse Rate Index (RRI)) during the following two years. 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. The RY 11 (2018) rate adjustment was based on a Detailed Rate Adjustment and this year’s rate adjustment is based on an Indexed Rate Adjustment.

The County is currently in negotiations with ACES to extend its collection franchises in the County. As part of those negotiations, a new collection franchise agreement is being drafted. The draft terms and conditions of the new collection franchise agreement incorporate the following of changes to the RAM’s RRI, including setting the Depreciation expense to the actual prior year expense, without adjustment, and replacing the US City Average Consumer Price Index (CPI) with the San Francisco-Oakland CPI.

In the past, the Depreciation expense was projected, and each year new projections were made along with adjustments to the prior year projections to reflect the actual expense. Setting of the Depreciation expense to actual will greatly simplify future RRI’s. The use of the SF-Oakland CPI could be expected to result in a somewhat higher annual increase than the use of the All City Average. With that said, the associated cost category to which that CPI is applied makes up less than 15% of ACES total costs, and a case can be made that the SF-Oakland CPI more accurately reflects the changes in the associated costs.
that ACES has experienced than the US City Average. As such, it would more accurately project actual costs.

**Overview of Rate Adjustment Request**

ACES submitted its RY 12 Rate Application to the County electronically on June 20, 2019, five days after the June 15th deadline. The County’s deadline for reviewing the Rate Application is August 15th, with the rate adjustment to become effective October 1st.

ACES requested RY 12 rate adjustments are provided in Table 1 below. The requested rate adjustments account for the normal RRI adjustment, as well as an adjustment to reflect the increased costs associated with processing and marketing recyclable materials collected in each of the three franchise areas, and those materials dropped off at the two transfer stations. A significant portion of the RRI adjustments for the three franchise areas are due to the indexed changes in fuel prices.

<table>
<thead>
<tr>
<th>Recycling Cost Adjustments:</th>
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<tbody>
<tr>
<td>Franchise Area 1: 4.96%</td>
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<tr>
<td>Franchise Area 2: 5.01%</td>
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<tr>
<td>Franchise Area 3: 4.16%</td>
</tr>
<tr>
<td>Pine Grove Transfer Station (PGTS): 1.17%</td>
</tr>
<tr>
<td>Buena Vista Transfer Station (WARF): 1.81%</td>
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</tbody>
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**Recycling Cost Adjustment**

California’s recyclable materials have historically largely been transferred to China for processing. As a result of Chinese National Sword, which placed strict limitations on the allowable contamination level associated with imported recyclables, recyclable material net processing costs have increased significantly. The processor ACES has been delivering its recyclables to, Cal-Waste, has quoted ACES a cost of $146.07 per ton for processing of its recyclables. As part of that quote, Cal-Waste will pay ACES 90% of the actual value of sales made for each commodity solid from the prior month, and for commodities with a negative value (where Cal-Waste has to pay to recycle them), ACES will pay Cal-Waste 110% of the actual rate per ton Cal-Waste pays to the processor or broker. Those costs have not yet been determined/provided to ACES.

The Recycling Cost adjustments in Table 1 are prorated for 7.5 months of impact, and do not account for any revenues or additional costs associated with the value of sales/costs for the commodities. As part of
next years RRI the additional 4.5 months of the Recycling Costs impact will need to be factored into the rates along with the impact associated with the value of sales/costs for the commodities.

**Rate Year 11 One-Time Expenses**

The RY 11 Detailed Rate Review included the following one-time expenses in ACES Rate Application, which along with associated profit and franchise fees, were to be accounted for as part of the RY 12 calculated rate adjustments (i.e., backed out).

1. Audit & Rate Review Fees: $25,000\(^1\)
2. Engineering Costs for WARF Water System: $30,000 (100% assigned to WARF)
3. Transfer Station Camera Systems: $18,920

With the exception of R3’s portion of the Audit & Rate Review Fees ($25,000) that are specifically identified as pass-through expenses in the RAM, profit and franchise fees have been applied to the above costs as part of the rate-adjustment calculation.

**Impact of Proposed RRI Changes**

In calculating the RRI adjustment, consideration was also given to the proposed changes in the RRI discussed above, which result in a net lower overall rate increase than would have occurred under the original RRI methodology. The associated recommended rate adjustments account for the new RRI methodology and one-time expenses, such that those recommended rate adjustments are the same as they would have been under the original RRI methodology accounting for the impact of the one-time expenses.

**Findings**

We confirmed the mathematical accuracy of ACES Rate Application and the calculated RRI rate adjustments for each of its three (3) franchise areas and two (2) transfer stations. We also confirmed the accuracy of the Recycling Cost adjustments, based on the supporting information provided by ACES. ACES calculated rate adjustments did not, however, account for the impact of the RY 11 one-time expenses that were to be backed out. Accounting for those one-time expenses, with consideration for the difference between the RRI calculation based on the original methodology versus the new draft methodology results in the calculated/recommended rate adjustments provided in Table 2. As shown, in all cases, with the exception of the Pine Grove Transfer Station, the recommended rate adjustments are less than those requested by ACES. The increase in the Pine Grove Transfer Station rate adjustment is due to the higher Depreciation expense that would have occurred under the prior RRI method that does not occur under the new RRI methodology.

**Table 2** also shows the calculated rate adjustment assuming it becomes effective November 1, 2019 rather than the planned date of October 1, 2019. As shown, a slightly higher rate increase is required to account for the delay in implementing the rate adjustment. The associated increase in the rates to account for the delay only applies to the current rate year and will need to be backed out of the calculated rate adjustment for next year.

\(^1\) R3 related costs only. ACES rate review related CPA costs set to zero to account for ongoing annual rate related CPA costs, including those associated with annual RRI adjustment.
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
Project Director

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