



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
December 5, 2007**

TO: Mayor and City Council

FROM: Dave Scola, Public Works Director
Bart Carr, Solid Waste & Recycling Coordinator
Erik Nylund, Newpoint Group

SUBJECT: AWS 2008 Base Year Rate Review Report

DATE: November 27, 2007

RECOMMENDATION:

1. Accept the 2008 Base Year Rate Review Report for services provided by Allied Waste Services (AWS). The base year review has resulted in a proposed operating ratio (OR) of 88 percent for rate year 2008. The report also recommends no change to rates for year 2008.
2. Accept recommendation to expand AWS recycling services to include increased multi-family recycling services and implementing a new, bulky recycling collection for residential customers.

BACKGROUND:

A. Accept the 2008 Base Year Rate Review Report and Proposed Operating Ratio.

The City adopted its *Rate Setting Process and Methodology Manual* (Manual) in January, 2000. The Manual specifies procedures for review and adjustment of refuse/recycling collection rates. These procedures include “base year” rate reviews (every fourth year) and “interim year” rate reviews (in each of the three intervening years). In the base year, the City is required to perform a detailed review of AWS revenues and costs to establish a new operating ratio for use in the following interim year rate adjustments.

The City’s rate setting methodology is designed to provide customers with rate stability while providing AWS the opportunity to improve profitability through achieving operational efficiencies. The proposed OR of 88 percent reflects improved efficiencies, especially in residential collection that resulted, in part, after installation of the single stream recycling in 2005.

Current residential and commercial service rates will be unchanged by the base year rate review. The proposed 88% OR will control potential rate increases in future interim years. The Manual specifies that the following percentages will be applied to CPI cost increases during interim year reviews from 2009 through 2011:

- 2009 – 80% of CPI
- 2010 – 90% of CPI
- 2011 - 100% of CPI

B. Recycling Service Expansion

Allied waste Services has agreed to expand recycling services for residential and multi-family customers in Martinez. Expanded services include increasing the number of multi-family unit participants in the single stream recycling program and initiating an on-call, bulky recycling and yard waste collection for single family residential customers. The addition of these services will not require a rate increase in 2008. Details of the expanded programs include:

- Adding up to 150 multi-family units to the existing recycling collection program
- Allowing single family residents two on-call recycling clean ups per year for bulkier items such as cardboard, yard waste, or wood waste.

Expansion of the multi family recycling collection program will provide single-stream recycling to apartment house residents who currently don't have the service. Implementing the bulky recycling program will allow residents two on-call collections per year. This will help residents recycle larger quantities of bulkier recyclables that might result from moving into a new home, and garage or yard clean up.

Allied Waste Services estimates potential diversion resulting from these new programs to be:

- Expanded Multi-family - 1,580 new tons per year
- Bulky Recycling collection – 400 new tons per year

Additional diversion will assist Martinez in achieving diversion requirements established by AB 939.

FISCAL IMPACT:

No impact to the general fund.

ACTION:

Motion accepting the 2008 Base Year Rate Review Report for services provided by Allied Waste Services; and expand AWS recycling services.

Attachment: Report

APPROVED BY:



City Manager

APPROVED BY:



Public Works Director



Review of Allied Waste Services 2008 Base Year Rate Application



November 27, 2007

Mr. Dave Scola
Building Department Director
City of Martinez
525 Henrietta Street
Martinez, California 94553

Regarding: **Base Year Rate Review of Allied Waste Services**

Dear Mr. Scola:

NewPoint Group is pleased to present to the City of Martinez (City) our report titled, "*Review of Allied Waste Services 2008 Base Year Rate Application*." This report presents results of our review of Allied Waste Services of Contra Costa County's (AWSCCC) 2008 *Base Year Rate Application* (Application). We conducted the review in accordance with procedures specified in the City's Rate Setting Manual.

In the Application, AWSCCC also proposed to: (1) provide expanded multi-family recycling services to approximately 150 multi-family customers in the City (including new wheeled carts and/or new bins), and (2) provide residential customers with new on-call bulky recyclables and yardwaste collection services. In our report, we determined the base year 2008 operating ratio both with, and without, these new recycling service offerings.

In the Application, AWSCCC requested a rate increase of 1.11 percent. Based on our review, we recommend no rate increase for 2008. We recommend 2008 base year rates remain unchanged at 2007 levels, which are shown in the table below:

**2008 City of Martinez
Recommended Monthly Residential Cart Rates¹**

Cart Size	Rate
20-gallon	\$18.41
32-gallon	\$26.38
64-gallon	\$29.43
96-gallon	\$61.81

For rate setting purposes, AWSCCC and the City use the Incentive/Risk-Based Operating Ratio Methodology, as identified in the City's Rate Setting Manual. This methodology allows the company's operating ratio, in a base year, to range from 85 percent, to any operating ratio greater than 85 percent,

¹ Rates shown are for the most common service types in the rate structure. These services/ rates are provided to over 83 percent of City customers.

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without a rate change.² This methodology encourages the company to operate efficiently over time (i.e., and lower its operating ratio) and allows the company to retain the profitability benefit of these efficiencies by not rebasing the operating ratio to a higher percentage in the base year.

The table below shows our projected 2008 base year operating ratio with the two recycling program changes. With the addition of the two recycling programs, AWSCCC would operate at an 88 percent operating ratio for base year 2008. The City's Manual targets a 90 percent operating ratio. For this 2008 base year, even with the incremental costs associated with the recycling program changes, AWSCCC would benefit from an operating ratio below the targeted 90 percent.

**Allied Waste Services of Contra Costa County
2008 Projected Base Year Operating Ratio**

Description	Operating Ratio
With expanded multi-family recycling and on-call residential bulky recyclables and yardwaste collection	88%

The Manual ties interim year rate adjustments, in the three subsequent interim years following a base year, to the operating ratio determined from the base year rate review. The table below shows the projected allowable interim year rate adjustments based on an 88 percent operating ratio (with the two program changes).

**Allied Waste Services of Contra Costa County
Projected Allowed Interim Year Rate Adjustments (2009 to 2011)³**

Year	With Two Recycling Program Changes and 88% Operating Ratio
	Percent of CPI Applied to Controlled Costs
2009	80% of CPI
2010	90% of CPI
2011	100% of CPI

The proposed expanded multi-family recycling collection program would:

- Affect 150 multi-family customers
- Require 300 new wheeled carts and 30 new commercial bins

² A lower operating ratio is equal to a higher return. For example, a 90 percent operating ratio is equivalent to an 11.1 percent return on allowable expenses. An 88 percent OR is equal to a 13.6 percent return on allowable expenses.

³ Does not include the impact of projected changes to uncontrolled costs (i.e., tipping fees).

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- Add three route days, per week, on one new route (shared with the residential on-call bulky recyclables and yardwaste program)
- Require one new shared collection truck (60 percent of the time)
- Divert an estimated 1,580 new tons, per year, of recyclables.

The proposed new, on-call, residential bulky recyclables collection program would:

- Add two route days, per week, on one new route (shared with the expanded multi-family program)
- Require one new shared collection truck (40 percent of the time)
- Provide the equivalent of one day, per week, of on-call residential bulky recyclables collection
- Provide the equivalent of one day, per week, of on-call residential bulky yardwaste collection
- Divert an estimated 195 new tons, per year, of recyclables
- Divert an estimated 195 new tons, per year, of greenwaste.

With the two proposed recycling program changes, we recommend the City:

- Allow incremental cost increases totaling \$149,748 for these recycling program changes (including AWSCCC capital outlays of nearly \$225,000 for a new semi-automated truck, approximately 300 new carts, and approximately 30 new commercial bins)
- Specify that AWSCCC implement the recycling program changes by May 31, 2008, or earlier (i.e., complete new cart and container delivery and start providing the services with a new semi-automated truck).

* * * * *

If you have any questions concerning this report, please contact me at (916) 442-0189, or Erik Nylund at (510) 338-0104. Thank you for the opportunity to serve the City of Martinez.

Very truly yours,



James A. Gibson, Ph.D.
Director



Review of Allied Waste Services 2008 Base Year Rate Application

Final Report

November 27, 2007



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Section I

Introduction and Background



1. Introduction and Background

The City of Martinez (City) contracted with NewPoint Group Inc. to conduct this 2008 rate review of its franchised refuse collection haulers, Allied Waste Services of Contra Costa County (AWSCCC). AWSCCC is a division of Allied Waste Systems, Inc, a wholly owned subsidiary of Allied Waste Industries, Inc.

This report represents results of the County's third base year rate review of AWSCCC. The first review was completed in 2000, and the second review occurred in 2004.

This review was performed consistent with guidelines provided in the City's 2000 *Rate Setting Process and Methodology Manual for Solid Waste Charges* (Manual). The Manual principally establishes a process for submitting and reviewing rate change applications. The remainder of this section is organized as follows:

- A. Background of Review*
- B. Goals and Objectives of Review*
- C. Scope of Review*
- D. Rate History*
- E. 2008 Base Year Rate Application.*

A. Background of Review

Allied received an exclusive franchise from the City to collect and remove, for disposal and recycling, all residential, commercial, and light industrial solid waste. The current refuse and recycling collection franchises between Allied and the City expire in approximately four years, on January 5, 2013.

AWSCCC offers City residential customers 20-gallon, 32-gallon, 64-gallon, and 96-gallon cart service options. Also, AWSCCC offers senior citizen rates and multiple cart services (e.g., 2, 64-gallon carts). These service types are identified in the City's residential rate structure (see page 4 of Base Year Rate Change Application, included on page A-6 of Appendix A to this report). City residential customers also are provided weekly curbside recycling services and bi-weekly yard waste services. **Table 1-1**, on the next page, summarizes 2007 residential monthly rates by cart size.

Table 1-1
2007 City of Martinez
Monthly Residential Cart Rates¹

Cart Size	Rate
20-gallon	\$18.41
32-gallon	\$26.38
64-gallon	\$29.43
96-gallon	\$61.81

Table 1-2
City of Martinez
Diversion Rates²

Reporting Year	Diversion Rate (%)
1999	45
2000	51
2001	47
2002	Not available
2003	46
2004	52
2005	55
2006	Not published

Refuse is transferred to the Contra Costa Transfer and Recovery Station, operated by a related party to AWSCCC. Contra Costa Transfer and Recovery consolidates and transports refuse at Keller Canyon Landfill, also a related party to AWSCCC.

In 2004, the City switched to a single, 64-gallon commingled recycling cart in an effort to increase Assembly Bill 939 (AB 939) diversion rates. City AB 939 diversion rates are shown in **Table 1-2**, above.

¹ Rates shown are for the most common service types in the rate structure. These services/ rates are provided to over 83 percent of City customers.

² *Source:* California Integrated Waste Management Board, Countywide, Regionwide, and Statewide Jurisdiction Diversion Progress Report.

Materials collected through the curbside recycling program include:

- Paper Products
 - Cardboard
 - Junk Mail
 - Magazines
 - Newspapers
- Metal
 - Aluminum/steel/tin cans
 - Empty paint and aerosol cans
- Glass (all colors)
 - Bottles and jars
- All plastic types³
 - California Refund Value (CRV) beverage containers
 - Food containers
 - Milk and water jugs.

AWSCCC transports recyclables for processing at the Pacific Rim Recycling facility in Benicia, California. AWSCCC collects yard waste, every other week, in a 96-gallon cart. AWSCCC uses yardwaste for alternative daily cover at Keller Canyon Landfill.

B. Goals and Objectives of Review

The Manual specifies that the primary goal of the rate setting process and methodology is to determine fair and equitable residential refuse collection charges that provide a reasonable profit level to AWSCCC. We demonstrated fairness through a rigorous review of AWSCCC’s actual revenues and expenses. Charges also must be justifiable and reasonable.

The City and AWSCCC have no formal, or conceptual, balancing account whereby projected revenues and costs are “balanced” with actual

³ Including types #1 to #7.

revenues and costs. Once base year results are approved by the Board, the City does not examine actual AWSCCC financial results until the next base year, or four years later.

The City uses the operating ratio (OR) method to project the profit level allowed to AWSCCC in a base year. To set the base year OR, the City reviews trends in prior, current, and projected revenues, costs, and profits. The actual OR level received by AWSCCC in a base year, and in subsequent interim years, is not however, guaranteed.

C. Scope of Review

The scope of work for this project is based on requirements of the Manual's base year rate setting process. The base year process includes seven (7) steps, five (5) are the City's responsibility and two (2) are AWSCCC responsibility.

NewPoint Group assumed the role of the "City" in the rate review process. We completed the following activities in our review:

- Verified the application package was complete
- Assessed whether data presented in the application were mathematically correct and consistent
- Reconciled calendar year 2006 financial information contained in the application to the financial audit provided by AWSCCC
- Compared actual 2004, 2005, and 2006 financial results with year-to-year changes in inflation levels for that time period
- Analyzed significant historical fluctuations in major cost categories
- Examined relationships between financial and operating information
- Identified recently published publicly held and privately held waste management company profitability

- Determined the projected 2008 operating ratio, which is used as the basis for 2009 to 2011 interim year rate setting
- Conducted a survey of rates in other neighboring communities
- Assessed franchise fee payments made by AWSCCC to the City
- Evaluated AWSCCC proposal for expanded multi-family recycling and residential bulky recyclables collection.

We also met with AWSCCC management on August 30, 2007, September 6, 2007, and October 3, 2007 to review our data requests and provide AWSCCC with an opportunity to discuss aspects of their application.

D. Rate History

Rate changes, since the City adopted the Manual in 2000, have been as follows:

- 2000 5.0% (base year, new programs)
- 2001 3.3% (interim year)
- 2002 7.1% (interim year)
- 2003 0.0% (interim year)
- 2004 3.8% (base year, new program)
- 2005 1.9% (interim year)
- 2006 3.2% (interim year)
- 2007 3.7% (interim year)

Over eight years since inception of the Manual, annual City rate increases averaged 3.5 percent. However, for two of these years the City and AWSCCC added new programs. In 2000, the City and AWSCCC added automated collection, residential yardwaste, and a mixed paper recycling program. In 2004, the City and AWSCCC added a residential single stream cart-based recycling program. For the three-year period since the last base year in 2004, City rate increases averaged 2.9 percent.

E. 2008 Base Year Rate Application

The City received AWSCCC's Base Year Rate Change Application (Application) on July 6, 2007. A copy of the Application is provided in Appendix A. AWSCCC used year-to-date information (i.e., from January 1 through May 30, 2007) to estimate 2007 financial results. Year 2008 results are projected in the Application.

AWSCCC requested a 1.11 percent rate increase effective January 1, 2008. This request corresponded to a \$0.27 per customer, per month, increase on the 32 gallon cart rate, the most common City service level.

In its Application, AWSCCC also proposed two program changes for the City to consider, as follows:

- An expanded multi-family recycling program, including cart and bin service to over 150 multi-family dwellings
- An on-call residential bulky recyclables collection program (for bulky recyclables and bulky yardwaste items).

In this report, we provided the City with AWSCCC's base year operating ratio including these two program changes.

Our review did not represent a financial audit of AWSCCC. Hood & Strong LLP conducted the 2006 financial audit of consolidated AWSCCC operations in Contra Costa County. AWSCCC provided a Supplemental Schedule of Operations for the City of Martinez, audited by Hood & Strong LLP, with its Application (**Appendix B**).

In **Appendix C**, we summarize the base year rate setting methodology used for this review. The City and AWSCCC used the Incentive/Risk-Based Operating Ratio Methodology, Option B for this review, as described in the City's Rate Setting Manual.

In the remainder of this report, we provide findings and recommendations from our 2008 base year review. There is one additional report section that follows:

- Section 2 - Review of Rate Change Application for 2008.

Also, there are five (5) appendices to this report, as follows:

1. *Allied Waste Services Rate Application*
2. *Allied Waste Services Audited Financial Statements*
3. *Rate Setting Methodology*
4. *Adjusted Base Year Rate Model*
5. *Comparative Rate Survey.*



Section 2

Review of Rate Change Application for 2008



2. Review of Rate Change Application for 2008

This chapter details findings from NewPoint Group’s review of AWSCCC’s 2008 Base Year Rate Change Application (Application). We identify the impact of each finding in terms of a dollar value increase, or a decrease, in the “revenue requirement” identified in the Application. The revenue requirement is the amount of revenue that AWSCCC needs to collect, through rates charged to customers, to cover costs of providing the service plus a reasonable financial return. Increasing the revenue requirement results in an increase in rates, and decreasing the revenue requirement results in a decrease in rates.

A copy of the Application is provided in **Appendix A**. NewPoint Group reviewed the Application for consistency with the Manual, City policies, and with waste management industry practices. In the Application, AWSCCC requested a rate increase of 1.11 percent.

In our review of AWSCCC financial results, we compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from AWSCCC for material changes. We examined actual results from 2006, estimated results for 2007, and projected results for 2008. Our adjusted rate model is provided in **Exhibit D-1**, of **Appendix D**.

The remainder of this section is organized as follows:

- A. *AWSCCC Financial and Operating Results Since the 2004 Base Year*
- B. *Method for Allocating AWSCCC Revenues and Costs to the City*
- C. *Review of Revenues, Costs, and Profits*
- D. *Components of Residential Rate*
- E. *Comparison of Rates to Other Neighboring Jurisdictions*
- F. *Expanded Multi-Family and On-Call Residential Bulky Recycling Implementation Timeline.*

A. AWSCCC Financial and Operating Results Since the 2004 Base Year

In **Table 2-1**, on the following page, we compare City approved rate changes with changes in residential revenues, accounts, and tonnage. Residential revenues increased 21.4 percent between 2005 and 2007. This increase was partially explained by rate increases approved by the City which, on a compounded basis, equaled 9.1 percent between 2006 and 2007. Residential accounts remained stable during the period, however residential tonnage increased 5.6 percent which may have caused some customers to increase the size of their refuse container, generating more revenues.¹

¹ Some of the differences between revenues and operating metrics, described in this section, also relate to changes in how AWSCCC accounted for certain customers over time (e.g., multi-family customers as residential or commercial customers).

Table 2-1
City of Martinez
Comparison of Residential Rate Increases with Changes
in Residential Accounts, Tonnage, and Revenues
(2005 to 2007)

Year	Rate Increase	Change in AWSCCC Residential Accounts	Change in AWSCCC Residential Tons	Change in AWSCCC Residential Revenues
2005	1.9%	0.3%	6.2%	12.7%
2006	3.2%	-0.4%	2.8%	3.5%
2007	3.7%	0.3%	-3.3%	4.1%
Total - compounded (2005 to 2007)	9.1%	0.2%	5.6%	21.4%

Table 2-4
City of Martinez
AWSCCC Change in Revenues and Costs
(2004 to 2007)

Sector	Percentage Change
Revenues	+8.0%
Costs	-8.3%

In **Table 2-2**, on the next page, we compare City approved rate changes with changes in commercial (can and bin) revenues, accounts, and tonnage. Commercial revenues decreased 9.2 percent, between 2005 and 2007. This decrease was explained by the combined net impact of three factors: (1) the City approved rate increases (9.1 percent), (2) increasing multi-family business activity, and (3) the reduction in commercial tonnage (which declined over 26 percent).

In **Table 2-3**, on the next page, we compare City approved rate changes with changes in industrial (drop box) revenues, accounts, and tonnage. Industrial revenues decreased 5.2 percent. This decrease was explained by the net impact of the City approved rate increases (9.1 percent) and the reduction in industrial tonnage (which declined over 23 percent).

Between 2004 and 2007, City revenues and costs moved in the opposite direction, as shown in **Table 2-4**, above. AWSCCC reduced its costs by over eight percent while revenues increased by eight percent during the four year period, 2004 to 2007.

During this same 2004 to 2007 period, AWSCCC’s operating ratio ranged from 81.1 to 94.5 percent, and averaged 86.8.² We determined that this period of higher profitability resulted from AWSCCC cost-cutting measures and increased recycled materials sales.

Since 2005, AWSCCC reported refuse tonnage reductions for the commercial and industrial sectors. Residential refuse tonnage fluctuated, but is trending downward. City customers diverted more refuse, as recyclables tonnage for the residential and commercial sectors, combined, increased approximately 24 percent from 2004 to 2007.

B. Method for Allocating AWSCCC Revenues and Costs to the City

AWSCCC directly assigned revenues to the City. AWSCCC’s billing system coded revenue by the jurisdiction in which the customer lives. Typically

² The City’s target operating ratio during base years is 90 percent. A smaller operating ratio represents a larger return.

Table 2-2
City of Martinez
Comparison of Commercial Rate Increases with Changes in Commercial Accounts, Tonnage, and Revenues (2005 to 2007)

Year	Rate Increase	Change in AWSCCC Commercial Accounts	Change in AWSCCC Commercial Tons	Change in AWSCCC Commercial Revenues
2005	1.9%	-3.2%	-18.0%	-19.2%
2006	3.2%	0.0%	-9.6%	3.4%
2007	3.7%	0.0%	-0.6%	8.7%
Total - compounded (2005 to 2007)	9.1%	-3.2%	-26.3%	-9.2%

Table 2-3
City of Martinez
Comparison of Industrial Rate Increases with Changes in Industrial Accounts, Tonnage, and Revenues (2005 to 2007)

Year	Rate Increase	Change in AWSCCC Industrial Accounts	Change in AWSCCC Industrial Tons	Change in AWSCCC Industrial Revenues
2005	1.9%	-13.3%	-0.6%	-11.8%
2006	3.2%	3.8%	-6.1%	0.5%
2007	3.7%	-7.4%	-17.8%	7.0%
Total - compounded (2005 to 2007)	9.1%	-16.7%	-23.2%	-5.2%

customers were billed in advance of services provided. AWSCC recognized revenue in the month earned.

Table 2-5, on the next page, shows methods used by AWSCCC to allocate consolidated AWSCCC costs to the City. AWSCCC allocated nearly all consolidated costs to the City using tonnage.

AWSCCC determined tonnage for the City using a combination of actual truck weight tickets at the transfer station, and AWSCCC's Route Master Distribution Report. Laborers performed their routes and drove their trucks to the transfer station to be weighed. AWSCCC weighed trucks and recorded waste tonnages by individual routes. The Route Master Report included the percentage of time per route which is spent on a particular service area and service type. AWSCCC's internal accounting system multiplied Route Master Report

percentages by the tonnage by route results to determine tonnage by service area and service type.

The tonnage allocation method was acceptable to allocate AWSCCC costs to the City as the method is consistent with waste management industry practice. Pooled costs that AWSCCC allocated to each jurisdiction, using tonnage, also generally did not vary between jurisdictions.

We examined City financial results against a basic operating metric of tonnage to determine reasonableness. As shown in **Table 2-6**, on the next page, for 2006 we determined that City tonnage as a percent of total AWSCCC tonnage equaled 8.1 percent. City revenues and expenses, as a percent of total AWSCCC revenues and expenses were slightly above the tonnage calculation at 9.3 percent and 9.8 percent of the total, respectively.

Table 2-5³
City of Martinez
AWSCCC Methods Used to Allocate
Consolidated Costs to Each Jurisdiction

Cost	Allocation Method
<i>Direct Expenses</i>	
Amortization	Direct
Direct Labor	Direct ⁴
Disposal Fees	Direct
Franchise Fees	Direct
<i>Indirect Expenses</i>	
Corporate Overhead	Tonnage (by sector) ⁵
Depreciation	Tonnage (by sector)
General and Administrative	Tonnage (by sector)
Interest Expense	Tonnage (by sector)
Other Operating Expense	Tonnage (by sector)
Professional Fees	Tonnage (by sector)
Supervisory	Tonnage (by sector)

Table 2-6
City of Martinez
Comparison of the City's Share of AWSCCC
Revenues and Expenses with Tonnage
(December 31, 2006)

Description	City	Total AWSCCC	Percent of Total
Tonnage	21,197	263,378	8.1%
Estimated Revenues	\$6,216,939	\$67.0 Million	9.3%
Estimated Expenses	\$5,280,384	\$54.0 Million	9.8%

Table 2-7
Allied Waste Services of Contra Costa County
Related Party Transactions

Cost	Related Party
Transfer	Contra Costa Transfer and Recovery
Landfill disposal	Keller Canyon Landfill

³ Includes multi-family customers.

⁴ Based on employee time spent on a route (from AWSCCC's Route Master system).

⁵ Tonnage allocations are determined on a monthly basis, by sector (i.e., residential, commercial, and industrial).

AWSCCC's larger overall allocation of expenses to the City (9.8 percent versus 8.1 percent) was explained by City labor cost allocations for the residential and commercial sectors. AWSCCC labor allocations for the residential and commercial sectors exceeded tonnage allocations suggesting that, it was less efficient for AWSCCC to serve the City's residential and commercial areas than it was for AWSCCC to serve residential and commercial areas in its other jurisdictions. Alternatively, AWSCCC's labor allocations for the industrial sector fell below tonnage allocations suggesting that it was more efficient to serve the City's industrial customers than other industrial customers.

AWSCCC has transactions with related parties. These transactions required careful scrutiny and are identified in **Table 2-7**, left.

C. Review of Revenues, Costs, and Profits

This section describes NewPoint Group's review of each revenue, cost, and profit category. We identified adjustments to the Application. We expressed adjustments based on their impact to the AWSCCC revenue requirement. The revenue requirement is equal to the sum of:

- Total allowable costs
- Allowable operating profits
- Total pass through costs.

AWSCCC's requested revenue requirement, as submitted in the Application, was \$6,698,528. This figure is shown on line 30 of the Application in Appendix A.

We summarize the impact of our review findings in **Exhibit 2-1**, on the following page. We show findings as adjustments to the 2008 revenue requirement. NewPoint Group adjustments reduced the revenue requirement by \$70,863.

Exhibit 2-1
Schedule of NewPoint Group Rate Review Findings (includes Impacts
of Expanded Multi-family Recycling and New Bulky Recycling Collection)

		Adjustments to 2008 Revenue Requirement	
Line in Application	Category	Revenue, Cost, or Profit	Report Page Reference
Revenues			
14	Residential Revenues	(\$10,000)	Page 2-6
17	Commercial Revenues	30,941	Page 2-6
20	Recycled Materials Sales	(\$25,000)	Page 2-6
Subtotal		(\$4,059)	
Allowable Costs			
1	Direct Labor	\$16,450	Page 2-8
2	Tipping Fees (Profit Allowed)	(308,605)	Page 2-8
3	Corporate and Local General and Administrative	(25,150)	Page 2-9
4	Trucking and Equipment	(3,810)	Page 2-10
5	Depreciation and Other Operating	16,761	Page 2-10
6	Services Provided to City	0	
Subtotal		(\$304,354)	
Allowable Operating Profits			
9	Allowable Profits (@ 87.97%)	(\$100,795)	Page 2-11
Subtotal		(\$100,795)	
Pass Through Costs without Franchise Fees			
10	Administrative Fee	\$0	
11	Tipping Fees (Pass Through)	344,542	Page 2-8
Subtotal		\$344,542	
Franchise Fees			
23	Residential/Commercial/Light Industrial Franchise Fees	(\$6,197)	Page 2-11
Subtotal		(\$6,197)	
Total Adjustments		(\$70,863)	

1. Revenues

Residential Revenues

AWSCCC projected a minor \$10,000 reduction in residential revenues for 2008. Residential accounts fluctuated by just 40 accounts (of the approximately 10,400 accounts), over the past four years. AWSCCC expected 2008 residential accounts to remain at 2007 levels for 2008.

We recommend no change to residential revenues between 2007 and 2008, rather than a \$10,000 decrease, based on the relatively stable number of residential accounts and the fact that residential tonnage, on a net basis, really has not changed materially in the past two years (+2.8 percent for 2006, -3.3 percent for 2007).

Net Impact:

[Decrease in 2008 revenue requirement of \$10,000]

Commercial and Light Industrial Revenues

AWSCCC projected no change in commercial and light industrial revenues for 2008. AWSCCC expected 2008 commercial and light industrial accounts to remain at 2007 levels for 2008.

AWSCCC expected commercial and light industrial tonnage each to grow 3.0 percent in 2008. This 3.0 percent growth rate was inconsistent with a recent tonnage decline in both sectors, suggesting that AWSCCC believes these sectors have reached the bottom of their recent declines.

We recommend a one (1) percent reduction in commercial and light industrial revenues based on the recent and continual declines in both tonnage and revenues for these sectors. A one (1) percent decrease in commercial and light industrial revenues equaled \$30,941 ($\$3,094,078 \times 0.01$).

Net Impact:

[Increase in 2008 revenue requirement of \$30,941]

Recycling Revenues

AWSCCC projected a \$50,000 reduction in recycling revenues for 2008. Based on the strength of current commodity sales, which have continually been favorable throughout 2007, we recommend a \$25,000 reduction rather than \$50,000 reduction in recycling revenues for 2008.

Net Impact:

[Decrease in 2008 revenue requirement of \$25,000]

2. Costs

Our discussion of costs below addresses changes in costs associated with the normal course of AWSCCC business operations. Our discussion also addresses the impacts of the expanded multi-family recycling program and a new on-call residential bulky recycling and yardwaste collection program.

These programs are not without additional costs (e.g., new carts/containers and a truck). In **Exhibit 2-2**, on the following page, we summarize our estimate of the incremental costs associated with the expanded multi-family recycling program and the new on-call residential bulky recycling and yardwaste collection program. Estimated costs for these recycling program changes were \$149,748.

The expanded multi-family recycling collection program would:

- Affect 150 multi-family complexes
- Require 300 new wheeled carts and 30 new commercial bins
- Add three route days, per week, on one new route (shared with the new on-call bulky recyclables program)
- Require one new collection truck (for 60 percent of the time)
- Divert an estimated 1,580 new tons, per year, of recyclables.

Exhibit 2-2
Incremental Change in AWSCCC Costs for Expanded Multi-family Recycling and
On-call Residential Bulky Recyclables and Yardwaste Collection Programs (Projected 2008)

Cost Area	Total
<i>1. Direct Labor</i>	
■ Increase in labor costs to serve new combined route	\$67,502
Subtotal	\$67,502
<i>2. Tipping Fees</i>	
■ Reduction in disposal costs (with shift of material from refuse to recycling)	(\$53,233)
Subtotal	(\$53,233)
<i>3. Corporate and Local General and Administrative</i>	
■ New customer education/program promotion	\$10,000
■ Additional insurances	8,937
Subtotal	\$18,937
<i>4. Trucking and Equipment</i>	
■ Increased truck maintenance costs (one year of new truck)	\$55,857
■ Other truck fixed costs	5,000
■ Increased cart maintenance costs	2,000
Subtotal	\$62,857
<i>5. Depreciation and Other Operating</i>	
■ New truck ⁶	\$28,125
■ New carts ⁷	5,400
■ Cost of capital ⁸	20,160
Subtotal	\$53,685
Total	\$149,748

⁶ Assumes a \$225,000 semi-automated truck depreciated over 8 years, per Manual requirement.

⁷ Assumes a total of 300 carts at \$50 per cart and 30 commercial containers at \$400 per container, depreciated over 5 years per Manual requirement.

⁸ Assumes an 8 percent cost of capital over 8 years.

The new on-call residential bulky recyclables and yardwaste collection program would:

- Add two route days, per week, on one new route (shared with the expanded multi-family program)
- Require one new collection truck (for 40 percent of the time)
- Provide the equivalent of one day per week of on-call residential bulky recyclables collection
- Provide the equivalent of one day per week of on-call residential bulky yardwaste collection
- Divert an estimated 195 new tons, per year, of recyclables
- Divert an estimated 195 new tons, per year, of yardwaste.

Escalation Factor

Because 2008 is a projection year, we assumed certain AWSCCC costs would increase at a rate equal to the most recent change in the Consumer Price Index for the San Francisco-Oakland-San Jose area (all items, all urban consumers). We used the CPI change for April 2006 to April 2007, or 3.3 percent $(215.84 - 208.9)/208.9$.

Consistent with how we treat interim year rate adjustments (i.e., those between base years) in the Manual, we recommended that the City use this 3.3 percent escalation factor to project AWSCCC inflationary expenses for 2008.

Direct Labor

AWSCCC projected labor costs to increase 5.5 percent in 2008. We obtained and reviewed labor agreements between AWSCCC and the refuse and recycling collection drivers. In discussions with AWSCCC management, AWSCCC projected labor costs to increase 6.5 percent for 2008.

We found that direct labor wages alone are projected to increase approximately four (4)

percent as stated in the labor agreements. We found the 2008 projection consistent with agreed upon labor increases, including the impact of benefits, payroll tax, and other related labor costs (e.g., safety incentive program/training). For the 2008 impact of a 6.5 percent increase in labor, we increased the revenue requirement by 8,948.

AWSCCC projected an increase of \$60,000 in direct labor for expanded multi-family recycling and residential bulky recyclable requirements. Based on a more detailed cost estimate from AWSCCC we used \$67,502 (see Exhibit 2-2, item 1), an increase of \$7,502.

Net Impact:

[Increase in 2008 revenue requirement of \$16,450 ($\$8,948 + \$7,502$)]

Tippling Fees (Profit Allowed, Pass Through)

Tippling fees charged to City ratepayers reflected costs of operating the Contra Costa Transfer and Recovery Station (CCTR) and the costs of the Keller Canyon Landfill. The 2007 gate rate charged to public self-haul customers for this facility was \$68.00 per ton.

The Manual specifies a cap on tippling fees allowed with profit, at \$51.24 per ton. Tippling fees in excess of \$51.24 per ton are treated as a pass through expense.

Tippling fees in the Application for 2008 were \$1,573,226. Of this total, the Application specified \$1,538,549 of these fees with profit, and \$34,677 as a pass through expense.

AWSCCC estimated 19,816 waste tons collected for 2007, and assumed a 3.0 percent growth factor for each sector (i.e., residential, commercial, and industrial). We allowed a 1.8 percent increase in residential tonnage, consistent with the compounded rate of change in residential tonnage over the past three years. We

left commercial and industrial tonnage unchanged for 2008, as both sectors have shown declines in tonnage over the past three years.⁹

Our resulting tonnage projection for 2008 was 19,958.87 tons. At the projected 2008, \$70.24 per ton tipping fee, we projected \$1,401,911 in waste tipping fees for 2008 (assuming no change in waste tonnage).

We recommend the City allow \$1,401,911 in waste tipping fees for 2008. Further, we recommend that the City allow \$1,022,693 (19,958.87 x \$51.24 per ton) with profit, and the remaining \$379,218 as a pass-through expense.

We recommend the City also allow tipping fees for greenwaste of \$178,372 (4,350.53 tons, the year 2006 figure, multiplied by \$41 per ton, the averaged effective greenwaste tipping fee incurred by AWSCCC Non CCCSWA areas for 2006) and recyclable residuals of \$82,113 (year 2006 figure of \$76,950 escalated by 3.3 percent for 2007 and 2008). The effect of this redistribution of tipping fees was a decrease in allowable expenses of \$255,372 and an increase in pass through expenses of \$344,542.

With the expanded multi-family recycling program and the new on-call residential bulky recycling program, we expect an increase in recyclables tonnage of 1,775 tons. AWSCCC determined that this resulted in a decrease in refuse tipping fees, or an avoided disposal cost, of \$53,233 (see Exhibit 2-2, item 2) and we accepted this result. In total, the decrease in allowable tipping fees was \$308,605 (\$255,372 + \$53,233).

Net Impact:

[Increase in 2008 revenue requirement of \$35,937 (-\$255,372 + \$344,542 - \$53,233)]

Corporate and Local General and Administrative

AWSCCC estimated corporate and local general and administrative costs to increase over ten (10) percent between 2007 and 2008. Increases were for:

- Additional oversight of financial reporting/auditing/accounting associated with the Sarbanes-Oxley Act
- Implementation of operational initiatives to reduce costs, including:
- Benefits administration
- Dispatching
- Information systems enhancements
- Route auditing
- Route and maintenance standards
- Safety initiatives.

We allowed the additional new costs for these related corporate services, but included an inflationary adjustment of 3.3 percent rather than 5.5 percent requested by AWSCCC. This reduced the revenue requirement by \$14,087.

With the expanded multi-family recycling program and the new on-call residential bulky recycling and yardwaste program, AWSCCC requires additional insurance and customer outreach and education. We recommend the City allow \$18,937 (see Exhibit 2-2, item 3). This is an \$11,063 reduction from the \$30,000 in corporate and local general and administrative costs, requested by AWSCCC, for the recycling program changes.

The Manual (page 1-14) specifies a cap on corporate and local general and administrative costs equal to 12.5 percent of the total revenue requirement. With this decrease for 2008, corporate and local general and administrative costs were approximately 10.3 percent of the total revenue requirement, and within the cap guideline.

⁹ Also, for 2008, AWSCCC did not show any increases in expected commercial and industrial revenues, which are largely correlated with tonnage.

Table 2-8
Allied Waste Services of Contra Costa County
Estimated New Automation and Cart Service
Capital Investment

Description	Cost
New Refuse Truck	\$225,000
New Recycling Carts (300)	15,000
New Commercial Bins (30)	12,000
Total	\$252,000

Net Impact:

[Decrease in 2008 revenue requirement of \$25,150 (-\$14,087 - \$11,063)]

Trucking and Equipment

AWSCCC projected an increase in trucking and equipment costs of 5.5 percent for 2007 and 2008. We allowed the 5.5 percent increase for trucking and equipment costs in 2007 and 2008. This increase is reflective of a combination in mechanics/other labor cost increases (6.5 percent on a weighted basis) and the projected change in the CPI for 2008 (3.3 percent).

With the expanded multi-family recycling program and the new on-call residential bulky recycling program, we expected an increase in both truck and cart maintenance. We recommend \$62,857 in additional new truck and cart maintenance costs, based on assumptions provided by AWSCCC (see Exhibit 2-2, item 4). AWSCCC requested \$40,000, so this finding represented an increase of \$22,857.

AWSCCC also indicated a need for \$40,000 in cost to paint eight (8) trucks. We recommend that the City allow this painting cost over three years, or \$13,333 per year, a reduction in the 2008 projection by \$26,667.

Net Impact:

[Decrease in 2008 revenue requirement of \$3,810 (\$22,857 - \$26,667)]

Depreciation and Other Operating Costs

We recommend no change to the estimated and projected depreciation and other operating cost escalations for 2007 and 2008. For automation, we projected AWSCCC would make the \$252,000 in purchases shown in **Table 2-8**, above. We allowed depreciation on these new outlays over eight years consistent with the Manual requirements (page 1-12, table I-1).

For the expanded multi-family recycling program and the new on-call residential bulky recycling program, we allowed the following:

- One new semi-automated refuse collection truck (\$225,000, depreciated over eight years)
- Purchase of 300 new recycling carts, at \$50 per cart (\$15,000 depreciated over five years).
- Purchase of 30 new commercial bins for multi-family recycling, at \$400 per container (\$12,000 depreciated over five years)
- A cost of capital on the purchase of the truck, carts, and containers, equivalent to eight (8) percent for eight years.¹⁰

These allowances increased AWSCCC projected depreciation and other operating costs, from automation, by \$18,485, from \$35,200 to \$53,685 (see Exhibit 2-2, item 5). Offsetting this new programs related increase, we allow a 3.3 percent rather than a 5.5 percent increase in other operating costs, resulting in a \$1,724 reduction.

Net Impact:

[Increase in 2008 revenue requirement of \$16,761 (\$18,485 - \$1,724)]

¹⁰ Interest expense is allowed for rate setting purposes in cases where the hauler implements new programs related to AB 939 such as the expanded multi-family recycling and residential bulky recyclable collection programs.

Services Provided to City

We recommend no adjustments to the services provided to City figure.

Net Impact:

[No change in 2008 revenue requirement]

Franchise Fees

A summary of franchise fee payments made by AWSCCC to the City is provided in **Table 2-9**, right. Amounts included in the Application, AWSCCC reports, and in City records are very similar, and the differences are considered immaterial and likely due to timing differences.

Based on the other adjustments noted in this section, we decreased franchise fees by \$6,197. The franchise fee is calculated as a percentage of the revenue requirement. With decreases in the revenue requirement noted above, the franchise fee also decreases.

Net Impact:

[Decrease in 2008 revenue requirement of \$6,197]

3. Profits

With the adjustments identified in this section, total projected allowable costs for 2008 are \$4,916,501 and the 2008 revenue requirement is \$6,631,187 (see column labeled NPG Adjusted 2008). With no adjustments to rates, and with the full revenue and cost impact of the expanded multi-family recycling program and the new on-call residential bulky recycling and yardwaste program, AWSCCC would operate at an operating ratio of 87.97 percent, which we rounded to 88 percent.

As shown in Exhibit D-1, we projected that at the 88 percent operating ratio, the company would receive \$672,348 in profits for 2008 (line 9). In contrast, a 90 percent operating ratio, the

Table 2-9
Comparison of Franchise Fees (2005 and 2006)

Year	AWSCCC Application	AWSCCC Reports	City Reports
2005	\$528,275	\$525,511	\$522,332
2006	599,672	574,752	574,584
Total	\$1,127,947	\$1,100,263	\$1,096,916

Table 2-10
Allowed Interim Year Adjustments Following an 88 Percent Base Year Operating Ratio (2009 through 2011)¹¹

Year	Percent of CPI Applied to Controlled Costs
2009	80% of CPI
2010	90% of CPI
2011	100% of CPI

industry standard would result in operating profits of \$546,278, or \$126,070 lower than projected for 2008 under the incentive/risk-based operating ratio methodology. **Table 2-10**, above, shows the projected allowable interim year rate adjustments based on an 88 percent operating ratio.

Net Impact(s):

[Decrease in 2008 requested revenue requirement of \$100,796 at an 88 percent operating ratio, with proposed multi-family and bulky recycling/yardwaste collection]

D. Components of Residential Rate

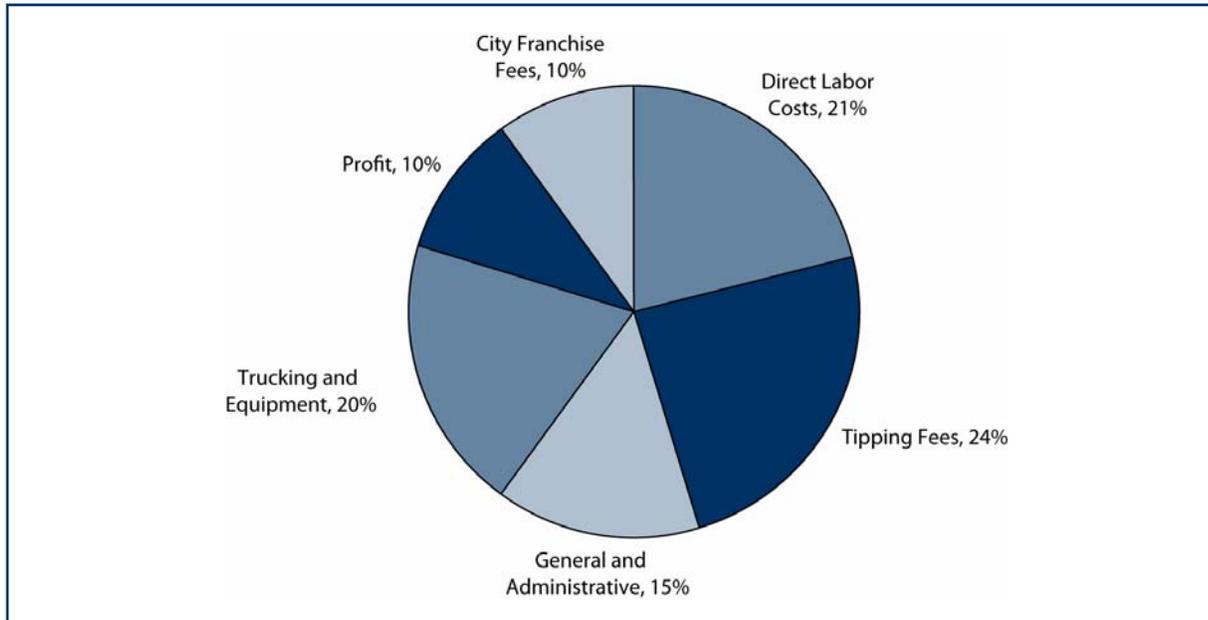
There are a number of cost components included in residential and commercial rates. Using the 32-gallon residential cart rate as an example, the pie chart in **Exhibit 2-3**, on the next page, shows the major components of the

¹¹ Under the current methodology, the company also is allowed projected increases in tipping fees, or uncontrolled costs.

Exhibit 2-3

Components of the 2008 Residential 32-Gallon Rate

(Including Expanded Multi-Family Recycling and On-Call Residential Bulky Recycling Collection)



projected 2008 rates, and the relative costs of each component. Line item references are made to the Application. We describe cost categories below:

Direct Labor included compensation of the waste removal staff, including regular time, overtime, payroll taxes, and associated benefits. This category corresponds to Direct Labor (Line 1) of the Application.

Tipping Fees included all charges for the disposal of solid waste at a landfill or transfer station and processing of recyclables. Included are Tipping Fees, Profit Allowed (Line 2) and Tipping Fees, Pass Through (Line 11).

General and Administrative included such costs as accounting, corporate overhead/ management fees, insurance, legal services, office supplies, postage, telephone, and utilities. These costs included Corporate and Local General and Administrative Costs (Line 3), and Services Provided to the City (Line 6).

Trucking and Equipment included leases of trucks and equipment, fuel and oil expense, licenses, parts, tires, and associated repair and maintenance expenses. These costs are identified as Trucking and Equipment (Line 4) and Depreciation and Other Operating Costs (Line 5) of the Application.

Profit was any revenue which exceeds expenses (total allowable costs plus total pass-through costs). The operating ratio method is used to determine allowable profit, as discussed in the profit analysis section of this report. Profit is shown in Line 9 of the Application.

The **City's Franchise Fee** is currently ten (10) percent of total residential/ curbside recycling, commercial, and light industrial revenues. The City uses these funds to help develop programs and comply with State waste reduction requirements. Franchise fees are shown in Line 23 of the Application.

E. Comparison of Rates to Other Neighboring Jurisdictions

We compared current 2007 City rates with survey data from ten (10) other jurisdictions. Results of the survey are summarized in **Appendix E**, at the end of this report. **Tables E-1** and **E-2** show how current 2007 City residential and commercial rates compared to the average of the twelve areas surveyed.

City residential rates were generally above the averages. For three of the four service levels, rates were between five and 40 percent higher than average, depending on the service level. Rates for the most common 32-gallon service level were 31 percent above the average. In contrast, the 64-gallon cart rate, for which nearly half of City customers subscribe to, was 11 percent below the average.

City commercial rates were generally below the averages. For three of the four service levels, rates were between 2 and 33 percent lower than average, depending on the service level. The City's 20 cubic yard drop box rate was 17 percent below the ten jurisdiction average.

F. Expanded Multi-Family and On-Call Residential Bulky Recycling Implementation Timeline

As a condition of approving the expanded multi-family recycling and on-call bulky recycling collection programs, and a base year operating ratio of 88 percent, the City should require that implementation of these recycling program changes occur over an approximately six-month period as shown in **Table 2-12**, below. This implementation period will allow time to order and distribute carts and procure and obtain a new truck.

Table 2-12
Allied Waste Services of Contra Costa County Recycling Program Changes Implementation Timeline

No.	Milestone	Expected Timing
1	City Council meeting to review report and consider/approve new programs	December 2007
2	AWSCCC and City conduct targeted outreach and education	December 2007 to April 2008
3	AWSCCC places order for new trucks, carts, and containers	January 1, 2008
4	AWSCCC receives new truck and trucks, carts, and containers	April 30, 2008
5	AWSCCC completes new cart and container delivery and collects old containers	May 31, 2008
6	AWSCCC begins to provide on-call residential bulky recyclables collection to City	June 1, 2008

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Appendix A

Allied Waste Services Rate Application



Appendix A Allied Waste Services Rate Application

Appendix A includes the 2008 Base Year Rate Change Application (Application) submitted by Allied Waste Services of Contra Costa County (AWSCCC) to the City July 6, 2007 and received by the City on July 6, 2007. In the Application, AWSCCC proposed to increase City collection rates by 1.11 percent on January 1, 2008. The Application included the following forms:

- Financial information
- Cost summary for year 2006
- Revenue summary
- Single family residential summary (including current rates and accounts)
- Operating information
- Rate change requested.

Information provided in the Application is for the following years:

- Actual prior years, 2004 to 2006 (including audited 2006 results)
- Current year estimated, 2007
- Base year projected, 2008.



July 6, 2007

Mr. Bart Carr
City of Martinez
525 Henrietta
Martinez, CA 94553

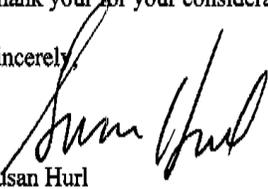
RE: Submittal of Base Year Rate Application

Dear Bart:

Allied Waste Services of Contra Costa County is pleased to provide our proposed Base Year Rate Application for solid waste, recycling and disposal services for the City of Martinez. Upon your review of the information we would welcome the opportunity to discuss our submittal and work with the Newpoint Group on finalizing the rates and service package to be implemented in 2008.

Thank you for your consideration in this matter.

Sincerely,



Susan Hurl
Municipal Business Manager

441 N. Buchanan Circle
Pacheco, CA 94553
925.685.4711 / FAX 925.685.4735
www.dlsposal.com

**City of Martinez
Base Year
Rate Change Application**

Financial Information

Actual Historical Years			Estimated Current Year	Projected Base Year
Year 1	Year 2	Year 3	Year 4	Year 5
2004	2005	2006	2007	2008

Section I - Allowable Costs

1. Direct Labor	1,298,922	1,012,109	1,164,129	1,249,052	1,383,995
2. Tipping Fees (Profit Allowed)	1,614,166	1,517,842	1,554,567	1,538,549	1,538,549
3. Corporate and Local General and Administrative Costs	704,202	678,895	604,499	640,317	705,534
4. Trucking and Equipment	906,716	840,677	730,846	767,288	889,489
5. Depreciation and Other Operating Costs	543,878	513,595	373,145	380,393	419,902
6. Services Provided to City	255,501	247,679	283,527	273,386	283,366
7. Total Allowable Costs (Lines 1+2+3+4+5+6)	5,324,385	4,810,797	4,880,712	4,848,984	5,220,854

Section II - Allowable Operating Profit

8. Operating Ratio	83%	86%	85%	81%	87%
9. Allowable Operating Profit ((Line 7 / Line 8) - Line 7)	427,788	602,551	630,194	1,133,796	773,144

Section III - Pass Through Costs (without Franchise Fees)

10. Administrative Fee	-	-	-	-	-
11. Tipping Fees (Pass Through)	-	-	-	-	34,677
12. Total Pass Through costs (without Franchise Fees) (Lines 10+11)	-	-	-	-	34,677

Section IV - Revenue Requirement (without Franchise Fees)

13. Total Allowable Costs (Line 7) plus Allowable Operating Profit (Line 9) plus Total Pass Through Costs (without Franchise Fees) (Line 12)	5,782,153	5,413,349	5,510,907	5,982,780	6,028,675
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Section V - Revenue (without Rate Change in Base Year)

14. Residential Revenue					3,359,519
15. Less Allowance for Uncollectible Residential Accounts					16,798
16. Total Residential Revenue (without Rate Change in Base Year)	2,798,016	3,152,485	3,282,893	3,396,520	3,342,721
17. Commercial and Light Industrial Revenue					3,064,078
18. Less Allowance for Uncollectible Commercial and Light Industrial Accounts					15,470
19. Total Commercial/Light Industrial Revenue (without Rate Change in Base Year)	3,349,307	2,784,633	2,852,005	3,064,078	3,078,608
20. Recycled Material Sales	95,985	70,673	102,041	255,801	208,801
21. Total Revenue (Lines 16+19+20)	6,243,308	6,007,791	6,216,939	6,738,400	6,627,130

Section VI - Net Shortfall (Surplus)

22. Net Shortfall (Surplus) without Franchise Fees (Line 13 - Line 21)					(598,465)
23. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	632,324	528,275	599,672	610,801	668,853
24. Net Shortfall (Surplus) with Franchise Fees (Line 22 + 23)					71,388

Section VII - Percent Change in Rates

25. Total Residential/Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16 +19)					6,421,329
26. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 / Line 25)					1.11%

Franchise Fee Calculation

Equation 1) Line 13 x .10 = X	602,868
Equation 2) Line 13 + X	6,831,543
X = (Line 13 x 0.10) / 0.90	668,853

Summary Revenue Requirement

27. Total Allowable Costs (Line 7)	5,220,854
28. Allowable Operating Profits (Line 9)	773,144
29. Total Pass Through Costs (with Franchise Fees) (Line 12+23)	704,530
30. 2008 Revenue Requirement (Lines 27+28+29)	6,698,528

**City of Martinez
Base Year
Rate Change Application**

Cost Summary for Year 2006

Section VIII - Base Year Cost Allocation

Description of Cost	Martinez	Non-CCCSWA and Non- Martinez	CCCSWA Areas	Audited AWSCC Financial	Allocation Bases(s)
	Labor - Regular (Includes Benefits & Taxes)	1,164,129	8,118,950	5,138,388	12,421,467
Labor - Overtime (Includes Benefits & Taxes)					Labor Hours
Benefits					Labor Hours
Payroll Taxes					Labor Hours
31. Total Direct Labor	1,164,129	8,118,950	5,138,388	12,421,467	Labor Hours
32. Total Tipping Fees (Profit Allowed)	1,854,667	8,944,260	5,898,557	15,597,374	Tonnage
Accounting	604,499	3,430,583	1,220,172	5,255,254	Tonnage
Computer Services					Tonnage
Dues and Subscriptions					Tonnage
Insurance					Tonnage
Laundry					Tonnage
Legal					Tonnage
Management Fees (Corporate/Region OH)					Tonnage
Miscellaneous and Other					Tonnage
Non-Deductible					Tonnage
Office Expense					Tonnage
Operating Supplies					Tonnage
Outside Services					Tonnage
Public Relations and Promotion					Tonnage
Taxes and Licenses					Tonnage
Telephone					Tonnage
Travel					Tonnage
Utilities					Tonnage
33. Total Corporate and Local G&A Costs	604,499	3,430,583	1,220,172	5,255,254	Tonnage
Equipment Rental					Tonnage
Gas & Oil					Tonnage
Insurance					Tonnage
Parts					Tonnage
Repair and Maintenance					Tonnage
Tires					Tonnage
Other	730,846	4,611,924	3,334,256	8,677,026	Tonnage
34. Total Trucking and Equipment	730,846	4,611,924	3,334,256	8,677,026	Tonnage
Depreciation - Buildings					Tonnage
Depreciation - Vehicles	305,062	1,575,584	507,020	2,387,667	Tonnage
Depreciation - Containers					Tonnage
Other Operating Costs	68,082	705,840	265,858	1,039,779	Tonnage
35. Total Depreciation and Other Operating Costs	373,145	2,281,424	772,878	3,427,446	Tonnage
36. Total Services Provided to City	253,527	1,433,426	791,794	2,478,747	Direct
37. Total Allowable Costs (Lines 31+32+33+34+35+36)	4,680,712	26,220,557	16,956,044	47,857,313	N/A
38. Total City Administrative Fee					N/A
39. Total Tipping Fees (Pass Through)					Direct
40. Total Residential/Commercial/Light Industrial Franchise Fees	599,672	2,518,512	3,312,733	6,430,917	Direct
41. Total Pass Through Costs (Lines 38+39+40)	599,672	2,518,512	3,312,733	6,430,917	N/A
42. Total Costs (Lines 37 + 41)	5,280,384	28,739,069	20,268,777	54,288,230	N/A

**City of Martinez
Base Year
Rate Change Application**

Revenue Summary

Section IX - Revenue

	Actual			Estimated	Projected
	Historical Years				
	Year 1 2004	Year 2 2005	Year 3 2006	Year 4 2007	Year 5 2008
Single Family Residential Service					
43. Single Family Residential Revenue (Base Year from Page 4 of 6)	2,796,016	3,152,465	3,262,893	3,396,520	3,359,519
Multifamily Residential Service					
44. Number of Accounts	187	187	182	179	179
45. Multifamily Residential Revenue	658,421	655,177	672,760	701,078	701,078
46. Residential Revenue (w/o Allowance for Uncollectible Accounts)(Line 43+45)	3,456,437	3,807,662	3,935,653	4,097,598	4,060,597
47. Allowance for Uncollectible Accounts	17,282	19,036	19,676	20,466	20,303
48. Total Residential Revenue (Line 46 + Line 47)	3,439,155	3,788,624	3,915,975	4,077,110	4,040,294
Commercial and Light Industrial Can Service					
49. Number of Accounts	180	182	180	181	181
50. Commercial and Light Industrial Can Revenues	165,646	155,788	246,889	248,261	248,261
Commercial and Light Industrial Bin Service					
51. Number of Accounts	248	236	243	245	245
52. Commercial and Light Industrial Bin Revenues	1,469,808	1,042,532	996,608	1,133,781	1,133,781
Commercial and Light Industrial Drop Box Service					
53. Number of Accounts	60	52	54	50	50
54. Commercial and Light Industrial Drop Box Service	1,056,432	931,155	935,748	1,000,959	1,010,959
55. Commercial and Light Industrial Revenue (w/o Allowance for Uncollectible Accounts) (Lines 50+52+54)	2,690,886	2,129,455	2,179,245	2,383,000	2,393,000
56. Allowance for Uncollectible Commercial and Light Industrial Accounts	13,454	10,647	10,896	11,915	11,965
57. Total Commercial and Light Industrial Revenue (Line 55 + Line 56)	2,677,431	2,118,808	2,168,349	2,371,085	2,381,035
58. Recycled Material Sales	95,985	70,673	102,041	266,801	206,801
59. Total Revenue (Lines 48+ 57+58)	6,212,571	5,978,105	6,186,365	6,703,997	6,627,130

**City of Martinez
Base Year
Rate Change Application**

Single Family Residential Summary

See also Single Family Residential Revenue

		Projected Base Year 2008
Single Family Residential Revenue (without Rate Change In Base Year)		
	Current Rate/Month	Projected Accounts
		Total
1-20 GAL CART SERVICE	18.41	671
1-20 GAL CART SERVICE - SENIOR RATE	15.86	198
1-20 GAL CART SERVICE / EXTRA YARDWASTE	22.87	5
		874
		148,237.32
		37,883.36
		1,372.20
		187,292.88
1-32 GAL CART SERVICE - SENIOR RATE	19.82	1,141
1-32 GAL CART SERVICE	26.38	3,838
1-32 GAL CART SERVICE / EXTRA YARDWASTE	29.43	19
1-32 GAL CART SERVICE / EXTRA RECYCLING	28.20	3
1-32 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	23.31	9
1-32 GAL CART SERVICE / 2 - EXTRA YARDWASTE	33.57	1
		5,011
		271,375.44
		1,214,967.28
		6,710.04
		1,015.20
		2,517.48
		402.64
		1,496,876.28
1-64 GAL CART SERVICE / EXTRA YARDWASTE	32.88	29
1-64 GAL CART SERVICE / EXTRA RECYCLING	33.88	2
1-64 GAL CART SERVICE	29.43	4,044
1-64 GAL CART SERVICE - SENIOR RATE	19.82	13
1-64 GAL CART SERVICE - SENIOR RATE	21.99	1
1-64 GAL CART SERVICE - SENIOR RATE	22.83	291
1-64 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	26.38	5
		4,385
		11,477.04
		808.32
		1,428,179.04
		3,091.92
		263.88
		79,722.36
		1,582.80
		1,525,125.36
1-96 GAL CART SERVICE	61.81	179
1-96 GAL CART SERVICE / EXTRA YARDWASTE	64.11	1
1-96 GAL CART SERVICE / EXTRA RECYCLING	63.62	2
		182
		132,767.88
		789.32
		1,526.88
		135,064.08
2-64 GAL CART SERVICE	57.67	14
2-64 GAL CART SERVICE / EXTRA RECYCLING	60.86	2
		16
		9,868.56
		1,456.32
		11,144.88
3-64 GAL CART SERVICE	86.02	1
		1
		1,032.24
		1,032.24
2-96 GAL CART SERVICE	120.04	2
		2
		2,880.96
		2,880.96
Subtotal		10,471
		3,359,516.68

60. Total Base Year Single Family Residential

**City of Martinez
Base Year
Rate Change Application**

Operating Information

Historical Unaudited Information	Percent Change	Historical Unaudited Information	Percent Change	Historical Audited Information	Percent Change	Current Year Estimated Information	Percent Change	Base Year Projected Information
Year 1	Yr 1 to 2	Year 2	Yr 2 to 3	Year 3	Yr 3 to 4	Year 4	Yr 4 to 5	Year 5
2004		2005		2006		2007		2008

Account Quantities Data

Accounts

61. Residential	10,448	0.3%	10,483	-0.4%	10,443	0.3%	10,471	0.0%	10,471
62. Commercial	625	-3.2%	605	0.0%	605	0.0%	605	0.0%	605
63. Light Industrial	60	-13.3%	52	3.8%	54	-7.4%	50	0.0%	50
64. Total Accounts	11,133	0.1%	11,140	-0.3%	11,102	0.2%	11,126	0.0%	11,126

Waste Tonnage

65. Residential	7,546.4	6.2%	8,012.3	2.8%	8,236.4	-3.3%	7,966.1	3.0%	8,204.1
66. Commercial	9,358.5	-18.0%	7,671.9	-9.6%	6,837.1	-0.6%	6,896.8	3.0%	7,103.7
67. Light Industrial	6,451.1	-0.6%	6,412.9	-6.1%	6,022.9	-17.8%	4,953.6	3.0%	5,102.2
68. Total Tons	23,355.0	-6.4%	22,097.1	-4.1%	21,196.5	-6.5%	19,815.5	3.0%	20,410.0

Recyclable Tonnage

69. Residential	3,067.1	55.1%	4,756.7	4.3%	4,859.7	-1.5%	4,886.3	0.0%	4,886.3
70. Commercial	2,168.3	-25.1%	1,623.8	19.6%	1,941.6	-18.7%	1,578.4	0.0%	1,578.4
71. Light Industrial									
72. Total Tons	6,235.4	21.9%	6,380.5	8.2%	6,801.3	-6.3%	6,463.6	0.0%	6,463.6

City Services

73. City Bins	46	0.0%	46	0.0%	46	0.0%	46	0.0%	46
74. City Drop Boxes	8	16.7%	7	0.0%	7	0.0%	7	0.0%	7

Account Bin Counts by Commercial Bin

75. 3 Yd. Bin - 1X per week	335.88	1.9%	342.26	3.2%	353.21	3.7%	366.28	0.0%	366.28
76. 2 Yd. Bin - 1X per week	195.82	1.9%	199.54	3.2%	205.93	3.7%	213.55	0.0%	213.55
77. 20 Yd. Box - per pick up	359.10	0.0%	359.10	5.2%	377.63	3.7%	391.60	0.0%	391.60

**City of Martinez
Base Year
Rate Change Application**

City of Martinez

Rate Change

78. Rate Change Requested 1.11%

Rate Schedule

Abbreviated Rate Schedule	Current Rate	Increased Rate	Adjustments	New Rate
1-20 GAL CART SERVICE	18.41	18.61	(0.01)	18.60
1-20 GAL CART SERVICE - SENIOR RATE	15.86	16.04	0.01	16.05
1-20 GAL CART SERVICE / EXTRA YARDWASTE	22.87	23.12	(0.02)	23.10
1-32 GAL CART SERVICE - SENIOR RATE	19.82	20.04	0.01	20.05
1-32 GAL CART SERVICE	26.38	26.67	(0.02)	26.65
1-32 GAL CART SERVICE / EXTRA YARDWASTE	29.43	29.76	(0.01)	29.75
1-32 GAL CART SERVICE / EXTRA RECYCLING	28.20	28.51	(0.01)	28.50
1-32 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	23.31	23.57	(0.02)	23.55
1-32 GAL CART SERVICE / 2 - EXTRA YARDWASTE	33.67	33.94	0.01	33.95
1-64 GAL CART SERVICE / EXTRA YARDWASTE	32.98	33.95		33.35
1-64 GAL CART SERVICE / EXTRA RECYCLING	33.68	34.05		34.05
1-64 GAL CART SERVICE	29.43	29.76	(0.01)	29.75
1-64 GAL CART SERVICE - SENIOR RATE	19.82	20.04	0.01	20.05
1-64 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	26.38	26.67	(0.02)	26.65
1-96 GAL CART SERVICE	61.81	62.50		62.50
1-96 GAL CART SERVICE / EXTRA YARDWASTE	64.11	64.82	(0.02)	64.80
1-96 GAL CART SERVICE / EXTRA RECYCLING	63.62	64.33	0.02	64.35
2-64 GAL CART SERVICE	57.67	58.31	(0.01)	58.30
2-64 GAL CART SERVICE / EXTRA RECYCLING	60.68	61.35		61.35
3-64 GAL CART SERVICE	86.02	86.98	0.02	87.00
2-96 GAL CART SERVICE	120.04	121.37	(0.02)	121.35

79. Multunit Residential

Rate increases of 1.11% will be applied to all rates in each structure with each rate rounded up to the nearest \$0.05.

Certificate

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by Contra Costa County.

Name: **Mike Caprio** Title: **District Manager**
 Signature: _____ Date: _____



Appendix B

Audited Financial Statements



Appendix B

Allied Waste Services

Audited Financial Statements

Appendix B includes the 2006 audited financial statements submitted by Allied Waste Services of Contra Costa County in its Application to the City dated July 2, 2007. Hood & Strong LLP, a certified public accountant, prepared the audited financial statements. The audit opinion was unqualified.

In **Table B-1**, below, we reconciled the difference in total AWSCCC revenues, costs, and profits, in the 2006 audit with total AWSCCC revenues, costs, and profits shown on page 1 of 6 of the Application.

Audited total revenues and total costs tie exactly to the Application. In the Application, AWSCCC calculated operating profits for 2006 based on an 85 percent operating ratio applied to allowable costs (\$830,194), but this did not represent actual 2006 operating profits. AWSCCC should have identified an additional \$106,361 in actual operating profits, for a total of \$936,555 in the Application, for the audited profit figure to tie to the Application. This profit difference did not affect our base year 2008 analysis.

Table B-1
Reconciliation of Allied Waste Services of Contra Costa
Financial Audit to Application

Description	Audit	Application	Difference
<i>Revenues</i>			
Revenues	\$6,216,939	\$6,216,939	\$0
<i>Costs</i>			
Allowable Costs		\$4,680,712	
Franchise Fees		599,672	
Total	\$5,380,384	\$5,280,384	\$0
<i>Profits</i>			
Profit	\$936,555	\$830,194 (Calculated @85% OR)	\$106,361
Profit (Not Included in Application)	\$0	\$106,361	(\$106,361)
Total	\$0	\$0	\$0



**Independent Auditors' Report
on Supplemental Information**

TO MANAGEMENT OF ALLIED WASTE SERVICES OF CONTRA COSTA COUNTY
Pacheco, California

We have submitted, under separate cover, the financial statements of *Allied Waste Services of Contra Costa County* (a division of Allied Waste Systems, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of and for the year ended December 31, 2006, and our report thereon, dated March 30, 2007, as follows:

We have audited the accompanying balance sheet of *Allied Waste Services of Contra Costa County* (a division of Allied Waste Systems, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of December 31, 2006, and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Waste Services of Contra Costa County (a division of Allied Waste Systems, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of December 31, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of operations – City of Martinez is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and should be read in conjunction with those financial statements and related notes.

Hood & Strong LLP

March 30, 2007

Consultants and

Business Advisors

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Menlo Park

CA 94025

650.854.8700

fax 650.854.7666

San Francisco

Menlo Park

Allied Waste Services of Contra Costa County

(a division of Allied Waste Systems, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Supplemental Schedule of Operations - City of Martinez

Year ended December 31, 2006

Revenues	
Residential	\$ 3,364,934
Commercial	1,916,257
Roll-off	935,748
Total revenues	6,216,939
Operating Expenses	
Disposal fees	1,554,567
Direct labor costs	1,164,129
Franchising fees	599,672
Trucking and equipment	730,846
Depreciation	305,062
Other operating expenses	68,082
General and administrative	604,499
Cost of free services provided to the area	253,527
Total operating expenses	5,280,384
Operating income	936,555
Interest Income from Affiliate	459,267
Income before income taxes	1,395,822
Allocation of Income Tax Expense	509,754
Net income	\$ 886,068

Note: Allied Waste Services of Contra Costa County (the "Company") maintains an agreement with the City of Martinez (the "City") that grants it the exclusive right to collect, transport and dispose of solid waste generated within agreed-upon areas of the City.

Revenues are derived from services provided to customers within the City limits. Expenses are either charged directly or indirectly to the City's service area. Direct expenses include direct labor costs, disposal fees and franchise fees. Interest income and all other operating expenses, other than recycling processing costs, are allocated based on the ratio of waste volume transported from the City's service area to the total waste volume transported. Recycling processing costs are allocated based on the ratio of recycling material volume transported from the City's service area to the total recycling volume processed by the Company. The allocation of income tax expense to the City is based upon the relationship of pre-tax income of the City to total pre-tax income of the Company as a whole.

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Appendix C

Rate Setting Methodology



Appendix C

Rate Setting Methodology

Exhibit C-1, on the next page, shows the Incentive/Risk-Based Operating Ratio Methodology. We followed this methodology for the 2008 base year rate review. This methodology was included as Figure 1 (page 1-14) of the City's Rate Setting Manual.¹

The operating ratio (OR) is a ratio typically used by the waste management industry to determine profitability. The OR is defined as:

$$\frac{\text{Operating Expenses}}{\text{Operating Expenses} + \text{Operating Profits}}$$

The lower the OR, the higher the profit level. An OR of 90 percent is equivalent to a return on operating expense of 11.1 percent.

The City's Incentive/Risk-Based Operating Ratio Methodology ties base year financial performance to future interim year rate setting. For example, if the City projected a 2008 OR of 88%, then 2009 through 2011 interim year rate increases equal 70 percent, 85 percent, and 100 percent of the change in CPI, applied to controllable costs, plus applicable tipping fee changes.²

The methodology allows AWSCCC to remain profitable down to an 85 percent OR in a base year, without a rate decrease.³ If the base year OR is below 85 percent, the City resets the OR to 87 percent via a rate decrease. Alternatively, should AWSCCC's OR increase above the industry standard (e.g., 90 percent), the methodology does not allow a base year rate increase.

Between base years, interim year rate changes follow a streamlined process. When requested by the hauler, interim year rate changes are based on the annual percentage change in a composite index of the following three items:

- The change in the San Francisco-Oakland-San Jose Metropolitan Consumer Price Index for the last 12 months, applied to controllable costs of the franchise hauler (e.g., wages, salaries, payroll taxes, rent, and general and administrative costs)
- Change in tipping fees and regulatory costs estimated to occur in the next interim year (called uncontrollable costs)
- An adjustment for franchise fees, which are based on a percentage of total revenues generated.

¹ In the City's first base year rate review, dated January 2000 (provided in Appendix A of the Rate Setting Manual), the City and AWSCCC agreed to use this methodology (third paragraph, page 15).

² Controllable costs include costs other than tipping fees and regulatory fees.

³ The methodology specifies that "if the OR is equal to or above 85 percent in the base year, then no rate change would occur during the base year" (note number 3, Exhibit II-2).

City of Martinez
Incentive/Risk-Based Operating Ratio Methodology
Percent of CPI Applied to Allied Controllable Costs During Each Year of 10 Year Franchise

OR (%)	Year														
	0 Base	1 Interim	2 Interim	3 Interim	4 Base	Result of Base Year Rate Review	5 Interim	6 Interim	7 Interim	8 Base	Result of Base Year Rate Review	9 Interim	10 Interim		
100+					N o C P I					N o C P I					
99															
98															
97															
96															
95															
94															
93															
92															
91															
90	Set At 90%					<i>@90% in Year 4 =></i>	100% of CPI	100% of CPI	100% of CPI		<i>@90% in Year 8 =></i>	100% of CPI	100% of CPI		
89						<i>@89% in Year 4 =></i>	90% of CPI	95% of CPI	100% of CPI		<i>@89% in Year 8 =></i>	90% of CPI	95% of CPI		
88						<i>@88% in Year 4 =></i>	80% of CPI	90% of CPI	100% of CPI		<i>@88% in Year 8 =></i>	80% of CPI	90% of CPI		
87						<i>@87% in Year 4 =></i>	70% of CPI	85% of CPI	100% of CPI		<i>@87% in Year 8 =></i>	70% of CPI	85% of CPI		
86						<i>@86% in Year 4 =></i>	60% of CPI	80% of CPI	100% of CPI		<i>@86% in Year 8 =></i>	60% of CPI	80% of CPI		
85						<i>@85% in Year 4 =></i>	50% of CPI	75% of CPI	100% of CPI		<i>@85% in Year 8 =></i>	50% of CPI	75% of CPI		
84-					Rate decrease so OR = 87%					Rate decrease so OR = 87%					

Notes:

- 1) The target Operating Ratio (OR) is set at 90 percent in year zero.
- 2) The OR is allowed to decrease to 85 percent in base years should PHBD be efficient.
- 3) If the OR is equal to or above 85 percent in a base year, then no rate change would occur during the base year.
- 4) If the OR is below 85 percent in a base year, it would be reset to 87 percent. This would require a rate decrease. Thus, a rate decrease would be the only type of rate change possible during a base year.
- 5) The risk to PHBD is that the OR could increase far above 90 percent (e.g., its costs increase faster than allowed CPI).
- 6) For 8 of the 10 years, PHBD may be allowed some form of the CPI on controllable costs. Note that if the OR is 85 percent in a base year, then the next interim year change would equal 50% of the CPI on controllable costs.
- 7) For 2 of the 10 years, PHBD will not be allowed a CPI because these are base years.
- 8) In the 3 interim years following the year 0 base year, PHBD would be allowed 100 percent of the CPI on controllable costs.
- 9) In the 5 interim years following the year 4 and 8 base years, if PHBD fell within an OR of between 85 and 89 during that base year, the CPI would vary depending upon the OR level (see above).
- 10) In the 5 interim years following the year 4 and 8 base years, if PHBD had an OR during that base year equal to or above 90, PHBD would be allowed 100 percent of the CPI on controllable costs.
- 11) In all cases the CPI refers to the CPI on controllable costs (i.e., all costs other than tipping fees and regulatory fees).
- 12) In all 8 interim years, PHBD would be allowed increases in "non-controllable costs" (i.e., tipping fees and regulatory fees).
- 13) In January 1, 2001, there would be the first full CPI increase on controllable costs.



Appendix D

Adjusted Base Year Rate Model



Appendix D

Adjusted Base Year Rate Model

Exhibit D-1 of this appendix provides the adjusted base year rate model based on NewPoint Group adjustments discussed in Section 2. The model reflected the following general adjustments (including the expanded multi-family recycling program and new residential bulky recyclables and yardwaste collection program):

Revenues

- Residential revenue increase
- Commercial revenue decrease

Allowable Costs/Profits

- Minor increase to direct labor
- Minor net increase to tipping fees (profit allowed and pass through)
- Minor decrease to corporate and local general and administrative costs
- Minor decrease to trucking and equipment costs
- Minor increase to depreciation and other operating costs
- Moderate decrease to operating profits

Pass Through Costs

- Minor decrease in franchise fees.

Exhibit D-1
 Base Year 2008 Rate Model
 With NewPoint Group Adjustments

**City of Martinez Base Year Rate Application
 Financial Information
 for Allied Waste Services**

AWSCCC Application			With New Programs	
Audited 2006	Estimated 2007	Projected 2008	NPG Adjustments	NPG Adjusted 2008

Section I - Allowable Costs

1. Direct Labor	\$ 1,164,129	\$ 1,249,052	\$ 1,383,995	\$ 16,450	\$ 1,400,445
2. Tipping Fees (Profit Allowed)	1,554,567	1,538,549	1,538,549	(308,605)	1,229,944
3. Corporate and Local General and Administrative Costs	604,449	640,317	705,534	(25,150)	680,384
4. Trucking and Equipment	730,846	767,288	889,489	(3,810)	885,679
5. Depreciation and Other Operating Costs	373,144	380,393	419,902	16,761	436,663
6. Services Provided to City	253,527	273,388	283,386	-	283,386
7. Total Allowable Costs (Lines 1+2+3+4+5+6)	\$ 4,680,662	\$ 4,848,987	\$ 5,220,855	\$ (304,354)	\$ 4,916,501

Section II - Allowable Operating Profit

8. Operating Ratio	85%	81%	87.1%		87.97%
9. Allowable Operating Profit [(Line 7 / .9) - Line 7]	\$ 830,194	\$ 1,133,796	\$ 773,144	\$ (100,796)	\$ 672,348

Section III - Pass Through Costs without Franchise Fees

10. Administrative Fee	\$ -	\$ -	\$ -	\$ -	\$ -
11. Tipping Fees (Pass Through)	-	-	34,677	344,542	379,219
12. Total Pass Through costs (without Franchise Fees) (Lines 10+11)	\$ -	\$ -	\$ 34,677	\$ 344,542	\$ 379,219

Section IV - Revenue Requirement without Franchise Fees

13. Total Allowable Costs (Line 7) plus Allowable Operating Profit (Line 9) plus Total Pass Through Costs (without Franchise Fees) (Line 12)	\$ 5,510,856	\$ 5,982,783	\$ 6,028,676	\$ (60,608)	\$ 5,968,068
----------------------------------------------------------------------------------------------------------------------------------------------	--------------	--------------	--------------	-------------	--------------

Section V - Revenue without Rate Change in Base Year

14. Residential Revenue			\$ 3,359,519	\$ 10,000	\$ 3,369,519
15. Less Allowance for Uncollectible Residential Accounts			16,798	-	16,798
16. Total Residential Revenue (without Rate Change in Base Year)	\$ 3,262,893	\$ 3,396,520	\$ 3,342,721	\$ 10,000	\$ 3,352,721
17. Commercial and Light Industrial Revenue			\$ 3,094,076	\$ (30,941)	\$ 3,063,135
18. Less Allowance for Uncollectible Commercial and Light Industrial Accounts			15,470	-	15,470
19. Total Commercial/Light Industrial Revenue (without Rate Change in Base Year)	\$ 2,852,005	\$ 3,084,078	\$ 3,078,606	\$ (30,941)	\$ 3,047,665
20. Recycled Material Sales	\$ 102,041	\$ 255,801	\$ 205,801	\$ 25,000	\$ 230,801
21. Total Revenue (Lines 16+19+20)	\$ 6,216,939	\$ 6,736,399	\$ 6,627,128	\$ 4,059	\$ 6,631,187

Section VI - Net Shortfall (Surplus)

22. Net Shortfall (Surplus) without Franchise Fees (Line 13 - Line 21)			\$ (598,452)	\$ (64,667)	\$ (663,119)
23. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	\$ 599,672	\$ 610,801	\$ 669,853	\$ (6,197)	\$ 663,119
24. Net Shortfall (Surplus) with Franchise Fees (Line 22 + 23)			\$ 71,401	\$ (71,401)	\$ (0)

Section VII - Percent Change in Rates

25. Total Residential/Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16 +19)			\$ 6,421,327	\$ (20,941)	\$ 6,400,386
26. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 / Line 25)			1.11%	-1.11%	0.00%

Franchise Fee Calculation

Equation 1) Line 13 X .10 = X
 Equation 2) Line 13 + X
 X = (Line 13 x 0.10)/0.90 \$ 663,656

Summary Revenue Requirement

27. Total Allowable Costs (Line 7)	\$ 5,220,855	\$ (304,354)	\$ 4,916,501
28. Allowable Operating Profits (Line 9)	773,144	(100,796)	672,348
29. Total Pass Through Costs (with Franchise Fees)	704,530	337,808	1,042,338
30. 2002 Revenue Requirement (Lines 27+28+29)	\$ 6,698,529	\$ (67,342)	\$ 6,631,187



Appendix E

Comparative Rate Survey



Appendix E

Comparative Rate Survey

Appendix E includes results of a survey of comparative residential, commercial, and industrial rates (see **Tables E-1** through **E-3**). We provide comparisons between City rates and the following ten (10) neighboring jurisdictions:

- Antioch
- Clayton
- Concord
- Pleasant Hill

CCCWSA Areas

- Danville
- Lafayette
- Moraga
- Orinda
- Unincorporated County (CCCWSA areas)
- Walnut Creek.

For the ten jurisdiction comparison, City residential rates were generally above the averages. For three of the four service levels, rates were between five and 40 percent higher than average, depending on the service level. The 64-gallon cart rate, for which nearly half of City customers subscribe to, was 11 percent below the average.

Alternatively City commercial rates were generally below the averages. For three of the four service levels, rates were between 2 and 33 percent lower than average, depending on the service level. For the industrial (drop box) sector, the City's 20 cubic yard drop box rate was 17 percent below the ten jurisdiction average.

Table E-1
Comparison of 2007 AWSCCC City of Martinez
Residential Rates with 10 Neighboring Jurisdictions (Per Customer, Per Month)

No.	Jurisdiction	20-gallon	32-gallon	64-gallon	96-gallon	Recycling cart size (gallons) ¹	Yardwaste cart size (gallons) ¹
1	Antioch	\$ 22.48	\$ 23.55	\$ 29.51	\$ 34.43	64 (B)	96 (B)
2	Clayton	19.70	20.86	30.31	33.04	64	64
3	Concord	16.95	24.50	N/A	27.50	N/A	N/A
4	Danville	14.17	16.35	32.70	49.05	64	64
5	Lafayette	16.99	19.59	39.17	58.76	64	64
6	Moraga	16.48	19.03	38.05	57.08	64	64
7	Orinda	19.07	22.00	44.00	66.00	64	64
8	Pleasant Hill	23.46	25.46	25.92	26.46	64 (B)	96
9	Uninc. County (CCCSWA)	14.17	16.35	32.70	49.05	64	64
10	Walnut Creek	11.16	13.37	26.74	40.11	64	64
	Average of Ten Jurisdictions	\$ 17.46	\$ 20.11	\$ 33.23	\$ 44.15		
	Current 2007 Martinez	\$ 18.41	\$ 26.38	\$ 29.43	\$ 61.81	64	96 (B)
	Percent Difference	5%	31%	-11%	40%		

Table E-2
Comparison of 2007 AWSCCC City of Martinez
Commercial Bin Rates with 10 Neighboring Jurisdictions (Per Customer, Per Month)

No.	Jurisdiction	2-yd/1 per week	2-yd/2 per week	3-yd/1 per week	3-yd/2 per week
1	Antioch	\$ 189.94	\$ 379.88	\$ 285.74	\$554.35
2	Clayton	180.21	360.35	243.36	486.74
3	Concord	231.40	421.40	315.05	588.70
4	Danville	225.44	450.88	338.16	676.32
5	Lafayette	250.96	501.92	376.44	752.88
6	Moraga	234.24	468.47	351.35	702.71
7	Orinda	258.63	517.26	387.95	775.89
8	Pleasant Hill	177.79	355.10	266.35	532.83
9	Uninc. County (CCCSWA)	208.50	417.00	312.75	625.50
10	Walnut Creek	136.20	272.40	204.30	408.60
	Average	\$ 209.33	\$ 414.47	\$ 308.15	\$ 610.45
	Current 2007 Martinez	\$ 205.93	\$ 351.09	\$ 353.21	\$ 411.59
	Percent Difference	-2%	-15%	15%	-33%

¹ B represents biweekly service.

Table E-3
 Comparison of 2007 AWSCCC City of Martinez
 20 Cubic Yard Industrial Rates with 10 Neighboring Jurisdictions (Per Pull)

No.	Jurisdiction	20 cubic yard drop box
1	Antioch	\$ 414.89
2	Clayton	361.95
3	Concord	380.00
4	Danville	506.87
5	Lafayette	506.87
6	Moraga	506.87
7	Orinda	506.87
8	Pleasant Hill	326.00
9	Uninc. County (CCCSWA)	506.87
10	Walnut Creek	506.87
	Average	\$ 452.41
	Current 2007 Martinez	\$ 377.63
	Percent Difference	-17%

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