



**CITY OF MARTINEZ**

**CITY COUNCIL AGENDA  
November 19, 2008**

**TO:** Mayor and City Council

**FROM:** Michael Chandler, Senior Management Analyst

**SUBJECT:** Submission of 2009 Interim Year Rate Review Report for Allied Waste Services

**DATE:** November 4, 2008

**RECOMMENDATIONS:**

Accept the 2009 Interim Year Rate Review Report for Allied Waste Services and conduct a public hearing to approve a resolution amending the Pleasant Hill Bayshore Disposal franchise agreement for a 4.01 percent rate increase for residential and commercial collection services as recommended by the Report.

Staff met with the Solid Waste Ad Hoc Subcommittee on October 31, 2008, and the Subcommittee recommended forwarding to Council for consideration.

**BACKGROUND:**

The City of Martinez and Allied Waste Industries, Inc., doing business as Pleasant Hill Bayshore Disposal, jointly adopted the *“Rate Setting Process and Methodology Manual for Solid Waste Charges”* in January 2000. The Methodology establishes a formal procedure to review and adjust refuse rates. The objective of the Methodology is to maintain “fair and equitable” refuse/recycling collection charges for residents in Martinez while meeting cost of service requirements and providing a reasonable profit to Allied Waste.

The Methodology requires a “Base Year” rate review every four years. During the Base Year review, an outside consultant conducts a detailed review of a rate application, and supporting financial documents. The hauler’s profitability level is calculated using the “Operating Ratio” (OR) method. The Methodology specifies that Base Year rates generally remain unchanged (unless there is a service or program change).

During the three “Interim Years” following the Base Year, rates are set using a formula largely based on the percentage change in the Consumer Price Index (CPI). The percentage change in CPI used for each of the three Interim Years (e.g., 90 percent of the CPI) is tied to the OR calculated in the prior Base Year. The higher the profit level in the Base Year, the lower the percentage CPI used in Interim Years.

The Methodology is referred to as a “Risk/Return” methodology, whereby the hauler has an incentive to operate efficiently during the three Interim Years between Base Years. Because rates generally remain unchanged in Base Years, the hauler has an incentive (through potentially increased profits) to operate more efficiently than the CPI-based formula provides during Interim Years. However, the contrary is also true, whereby if the hauler is less efficient than the CPI-based formula provides during Interim Years, there also is no Base Year rate change (and profits decrease).

The last Base Year rate review was adopted by Council on December 5, 2007, for the 2008 rate year. The next Base Year rate review is scheduled for the 2012 rate year.

An Interim Year review is triggered by an application submitted by the hauler. The City received Allied Waste’s Interim Year application on August 28, 2008. The Interim Year review follows a more streamlined process that distinguishes between controlled and uncontrolled costs and calculates rate adjustments based on changes to these costs. Controlled costs include everything other than new regulatory fees and “tipping fees” (defined as the rate per ton the hauler pays to dispose of the waste). Controlled costs for this Interim Year were adjusted by a percentage of the change in the San Francisco – Oakland – San Jose CPI from August 2007 to August 2008. Controlled costs are considered “non-discretionary” by the Methodology. Although changes to uncontrolled costs are considered discretionary, the City Attorney has advised that the City must adopt these changes unless a reason (s) for denial can be established based on criteria specified in the Methodology. NewPoint Group has determined Allied Waste’s request for a 4.20 inflationary increase in uncontrollable costs/tipping fees to be reasonable.

Since the Methodology’s adoption in 2000, the City has conducted Base Year Rate Reviews in 2000, 2004, and 2008, and Interim Year Rate Reviews in 2001, 2002, and 2005-2007. Rate adjustments since 2000 were as follows:

- 2000: + 5.0% (base year, addition of yardwaste and mixed paper recycling programs)
- 2001: + 3.3% (interim year)
- 2002: + 7.1% (interim year)
- 2003: + 0.0% (interim year, Allied did not apply for rate adjustment)
- 2004: + 3.8% (base year, addition of single stream recycling program)
- 2005: + 1.9% (interim year)
- 2006: + 3.2% (interim year)
- 2007: + 3.7% (interim year)
- 2008: + 0.0% (base year)

The attached report submitted by the City’s consultant, NewPoint Group, recommends a 4.01 percent rate increase. The Methodology requires an adopted adjustment be added to refuse rates on January 1, 2009.

The new rate structure is shown in the following table:

| Refuse Service Level | Current Rate | 2009 Interim Rate | Change from Current Rate |
|----------------------|--------------|-------------------|--------------------------|
| 20 Gallon (Senior)   | \$ 15.86     | \$ 16.50          | \$ 0.64                  |
| 20 Gallon            | \$ 18.41     | \$ 19.15          | \$ 0.74                  |
| 32 Gallon (Senior)   | \$ 19.82     | \$ 20.60          | \$ 0.78                  |
| 32 Gallon            | \$ 26.38     | \$ 27.45          | \$ 1.07                  |
| 64 Gallon (Senior)   | \$ 22.83     | \$ 23.75          | \$ 0.92                  |
| 64 Gallon            | \$ 29.43     | \$ 30.60          | \$ 1.17                  |
| 96 Gallon            | \$ 61.81     | \$ 64.30          | \$ 2.49                  |

Allied Waste also requested an additional “extraordinary” rate increase to pay for increased fuel costs. The Methodology allows requests for “special extraordinary adjustments” but also establishes a “test” to determine the reasonableness of such requests. Extraordinary rate increases are only allowed when the hauler can demonstrate that a change in one of the line item cost categories identified in the Base Year rate application (e.g., Trucking and Equipment) exceeds two times the most recent change in applicable CPI.

For this 2009 Interim Year, the estimated increase in Allied’s fuel costs from 2007 to 2008 does not increase a line item cost category (e.g., Trucking and Equipment) by more two times the most recent change in applicable CPI. Furthermore, a certain portion of fuel costs are covered by the CPI increase included as part of the recommended 4.01 percent increase and fuel costs have been rapidly declining in recent months. For these reasons, NewPoint Group recommends no special extraordinary rate adjustment for fuel cost increases.

**FISCAL IMPACT:**

City franchise fees are set at 10.0 percent of gross revenues. When the City approves an increase in refuse collection rates, franchise fees paid by Allied Waste to the City will also increase.

**ACTION:**

Accept the 2009 Interim Year Rate Review Report and approve a resolution amending the Allied Waste franchise agreement for a 4.01 percent rate increase for residential and commercial collection services as recommended by the Report.

Attachments: Resolution & NewPoint Group Report

**APPROVED BY:**   
City Manager

**APPROVED BY:**   
Assistant City Manager  
Administrative Services Director

RESOLUTION NO. -08

APPROVING AN AMENDMENT TO THE PLEASANT HILL BAYSHORE DISPOSAL  
FRANCHISE AGREEMENT TO REFLECT THE 2009 INTERIM YEAR RATE CHANGE  
FOR RESIDENTIAL AND COMMERCIAL COLLECTION

**WHEREAS**, on February 9, 2000, the City of Martinez entered into a franchise agreement with Allied Waste Industries, Inc., d.b.a. Pleasant Hill Bayshore Disposal and hereinafter referred to as "Allied Waste," for residential garbage and recycling services within the City of Martinez; and

**WHEREAS**, Allied Waste has requested an interim year CPI rate review in accordance with the City of Martinez Rate Setting Process and Methodology Manual for Solid Waste Charges, and City staff has completed an Interim Year Rate Change Worksheet; and

**WHEREAS**, the Interim Year Rate Change Worksheet calculation allows a rate increase; and

**WHEREAS**, Exhibit B of said Franchise Agreement provides rates for Residential Solid Waste and Recycling Services; and

**WHEREAS**, Exhibit C of said Franchise Agreement provides rates for Commercial Solid Waste and Recycling Services.

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the City of Martinez as follows:

1. Allied Waste is granted a 4.01 percent rate increase specified by the Interim Year Rate Change Worksheet, to be effective January 1, 2009.
2. The Franchise Agreements entered into with Allied Waste are hereby amended to reflect the increase in rates.

\* \* \* \* \*

**I HEREBY CERTIFY** that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the 19<sup>th</sup> day of November, 2008, by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK  
CITY OF MARTINEZ

October 9, 2008

Mr. Michael Chandler  
Senior Management Analyst  
City of Martinez  
525 Henrietta Street  
Martinez, California 94553

Subject: ***Draft Report - 2009 Interim Year Rate Review of Allied Waste Services***

Dear Mr. Chandler:

This letter report represents results of NewPoint Group's evaluation of Allied Waste Services' (Allied) 2009 Interim Year Rate Change Application (Application). In accordance with the City's 2000 *Rate Setting Process and Methodology Manual for Solid Waste Charges* (Manual), Allied recently submitted its Application to initiate the interim year review process. The Application also requested an extraordinary fuel cost adjustment. To complete our review, we principally followed Step 2 in Section III of the Manual.

This letter report is organized into four (4) sections as follows:

- A. *Summary*
- B. *Background*
- C. *Analysis of Interim Year Application*
- D. *Recommendations.*

There also are four (4) attachments to this letter.

#### **A. Summary**

Based on our analysis of the Application, we recommend a rate increase of 4.01 percent to take effect on January 1, 2009. Changes to the most common residential rates in the City rate structure are shown on page 1 of the *Interim Year Rate Change Worksheet* (Worksheet) included as **Attachment 1**. This recommended rate increase also is applicable for the commercial and industrial customer rates.

Mr. Michael Chandler  
October 9, 2008

Page 2

## B. Background

In 2000, the City adopted the Manual. The Manual reflects the City and Allied's desire to use the Incentive/Risk-Based Operating Ratio Methodology for establishing allowable profit levels in base years. The Manual identifies guidelines for allowable, pass-through, and non-allowable costs. Every four years, during base years, the hauler submits financial statements and a Base Year Rate Application. These documents are reviewed to determine whether a rate change is necessary.

Interim years follow a more streamlined process. Interim years occur during each of the three years between base years, and are triggered if the hauler submits an *Interim Year Rate Change Application*. The interim year process distinguishes between controlled costs and uncontrolled costs. Controlled costs include all costs other than tipping fees (both tipping fees with profit allowed and tipping fees treated as a pass through cost). In interim years, controlled costs are adjusted based on a percentage of the change in the San Francisco-Oakland-San Jose Consumer Price Index (CPI), All Items, for All Urban Consumers<sup>1</sup>. The CPI is published by the U.S. Department of Labor, Bureau of Labor Statistics. In contrast, the hauler projects expected changes to its uncontrolled costs in the *Interim Year Rate Change Application*.

Since that Manual's adoption, the City has conducted three base year rate reviews (in 2000, 2004, and 2008), and rates were adjusted during interim years 2001, 2002, 2005, 2006, and 2007. Rate changes since 2000 (including five program changes) were as follows:

- 2000: + 5.0 percent (base year, addition of yardwaste and mixed paper recycling programs)
- 2001: + 3.3 percent (interim year)
- 2002: + 7.1 percent (interim year)
- 2003: + 0.0 percent<sup>2</sup>
- 2004: + 3.8 percent (base year, addition of single stream recycling program)<sup>3</sup>
- 2005: + 1.9 percent (interim year)
- 2006: + 3.2 percent (interim year)
- 2007: + 3.7 percent (interim year)
- 2008: + 0.0 percent (base year, addition of expanded multi-family recycling, and on-call residential bulky recyclables and yardwaste collection programs).

The City received Allied's Application on August 28, 2008. A copy of the Application is included as **Attachment 2**. In the Application, in addition to the CPI-based rate increase, Allied also requested that the City consider an extraordinary rate adjustment to account for increases in fuel costs.

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<sup>1</sup> Between 50 percent and 100 percent of the CPI, depending on the Base Year operating ratio.

<sup>2</sup> Allied did not submit an interim year application in this year.

<sup>3</sup> The base year component of this rate change was 0.0 percent.

Mr. Michael Chandler  
October 9, 2008

Page 3

### C. Analysis of Interim Year Application

As part of the interim year process, the City is required to complete the Worksheet (Attachment 1). The rate increase, based on completion of the Worksheet, is 4.01 percent, as shown on page 1 of the Worksheet. This rate increase corresponds to a \$0.74 per customer, per month, increase for the 20-gallon service, a \$1.07 per customer, per month increase for the 32-gallon service, a \$1.17 per customer, per month, increase for the 64-gallon service, and a \$2.49 per customer, per month, increase for the 96-gallon service. For senior customers, this corresponds to a \$0.64 per customer, per month, increase for the 20-gallon service, and a \$0.78 per customer, per month, increase for the 32-gallon service.

The City allowed a \$70.24 per ton tipping fee in 2008. Therefore, with the 4.20 percent inflationary tipping fee increase, the projected 2009 tipping fee is \$73.19 per ton.<sup>4</sup> This tipping fee escalation is reasonable.

The Application was submitted on August 28, 2008. We used the most recent available CPI at the time of this writing, or the August 2007 to August 2008 change in the CPI. Between August 2007 and August 2008, the CPI increased from 216.240 to 225.411, or by 4.24 percent (see **Attachment 3**).

During the previous base year rate review, we projected an operating ratio for 2008 of 88 percent. As a result, based on the Incentive/Risk Based Operating Ratio Methodology in the Manual (Figure 1-1, page 1-14 of the Manual, see **Attachment 4**), Allied is entitled to an adjustment to its controlled cost equal to 80 percent of the change in CPI for the 2009 interim year following the 2008 base year, or equivalently 3.39 percent (line 9, page 2 of the Worksheet).

Historical trends for the annual change in CPI are shown in **Table 1**. The change in the CPI for the last nine years has been relatively modest, but recently has been increasing. For the nine-year period, since the Manual's implementation (i.e., 2000 to 2008), the change in the August CPI ranged from 1.2 to 5.1 percent, and increased by an average annual compound rate of 3.0 percent.

During this same nine-year period, actual implemented City rates increased by an average annual compound rate of 3.1 percent, however during this time, on several occasions, the City approved the addition of new programs (i.e., the yardwaste, mixed paper recycling, single stream recycling, expanded multi-family recycling, and on-call residential bulky recyclables and yardwaste collection programs) which added new costs for recovery by the rate base. On a program adjusted basis, the rate over the nine-year period has increased at a rate below the change in the CPI.

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<sup>4</sup> In the Application, Allied projected tipping fees to increase by 4.20 percent from \$57.08 to \$59.48 per ton. The \$57.08 per ton tipping fee for 2008 indicated by Allied in the Application is incorrect.

**Table 1**  
**Change in Consumer Price Index**  
**San Francisco-Oakland-San Jose (All Items, CPI-U)**  
**2000 to 2008<sup>5</sup>**  
(August-to-August Period)

| Year   | Percent Change in Index |
|--|-------------------------|
| 2000   | 4.7                     |
| 2001   | 5.1                     |
| 2002   | 1.3                     |
| 2003   | 1.5                     |
| 2004   | 1.2                     |
| 2005   | 2.2                     |
| 2006   | 3.8                     |
| 2007   | 2.6                     |
| 2008   | 4.2                     |
| Average annual compound rate of change – 9 years | <b>3.0</b>              |

*Request for Extraordinary Adjustment for Fuel Costs*

The Manual has a provision that allows special extraordinary adjustments to be considered outside of the annual schedules of the base and interim year adjustments (page III-1 of the Manual). Based on our analysis of Allied’s request for an extraordinary adjustment (described in its Application cover letter, see Attachment 2) we recommend that the City not grant a special extraordinary adjustment for fuel cost increases, at this time, based on the following factors:

- The extraordinary adjustment is allowed in the case where the hauler can demonstrate that a change in one of the cost line items specified in the Application will exceed two (2) times the most recent change in the applicable CPI. For this 2009 interim year application, the estimated increase in fuel costs from year 2007 to 2008 does not result in an increase in the applicable cost line item (i.e., Trucking and Equipment) of more than two (2) times the CPI.<sup>6</sup>
- A certain portion of fuel cost increases are covered in the CPI already provided for in the recommended 4.01 percent increase.
- Fuel costs have stabilized and have been declining in recent months.

<sup>5</sup> CPI source data is provided in Attachment 3.

<sup>6</sup> Based on fuel cost data provided by Allied for year 2007 and partial year to date 2008.

Mr. Michael Chandler  
October 9, 2008

Page 5

Following three interim years (2009, 2010, and 2011), the City will conduct a base year rate review in mid-2011 for rates to be set for January 1, 2012, in accordance with the Manual requirements. Allied is required to submit the Base Year Application to the City by June 30, 2011. In a “base year” rate review, the City will, among other analyses, assess whether the hauler’s costs have escalated at a rate faster or slower than the CPI, which may provide a rationale for why rates would be decrease or increased at that time. Thus, if in interim years, use of the CPI has materially overstated the hauler’s actual change in costs, rates could in turn be decreased during that base year (based on a measurement of the operating ratio level).

#### **D. Recommendations**

Based on our evaluation of the Application, we recommend a rate increase of 4.01 percent to take effect on January 1, 2009. New residential rates, for typical City services, under our recommendation would be as follows:

- 20-gallon - \$19.15 per customer, per month
- 32-gallon - \$27.45 per customer, per month
- 64-gallon - \$30.60 per customer, per month
- 96-gallon - \$64.30 per customer, per month
- 20-gallon (senior) - \$16.50 per customer, per month
- 32-gallon (senior) - \$20.60 per customer, per month.

Rates are rounded to the nearest \$0.05 increment in accordance with the Manual requirement.

\* \* \* \* \*

If you have any questions regarding the interim year process, or any of the contents of this letter, please do not hesitate to contact me at (916) 442-2456.

Sincerely yours,

NewPoint Group®, Inc.



Erik Nylund  
Principal

Mr. Michael Chandler  
October 9, 2008

Page 6

*Attachment 1*  

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**Interim Year Rate Change Worksheet**

Mr. Michael Chandler  
October 9, 2008

City of Martinez

## Interim Year Rate Change Worksheet

**Summary**

**Rate Change**

1. Percent Change in Rates 4.01%

**Residential Rate Schedule**

| Rate Schedule a)                       | Current Rate | Increased Rate | Adjustment | New Rate |
|--|--------------|----------------|------------|----------|
| 2. 1 - 20 Gallon Cart Service          | \$ 18.41     | \$ 19.15       | \$ -       | \$ 19.15 |
| 3. 1 - 32 Gallon Cart Service          | \$ 26.38     | \$ 27.44       | \$ 0.01    | \$ 27.45 |
| 4. 1 - 64 Gallon Cart Service          | \$ 29.43     | \$ 30.61       | \$ (0.01)  | \$ 30.60 |
| 5. 1 - 96 Gallon Cart Service          | \$ 61.81     | \$ 64.29       | \$ 0.01    | \$ 64.30 |
| 6. 1 - 20 Gallon Cart Service - Senior | \$ 15.86     | \$ 16.50       | \$ -       | \$ 16.50 |
| 7. 1 - 32 Gallon Cart Service - Senior | \$ 19.82     | \$ 20.61       | \$ (0.01)  | \$ 20.60 |

a) Does not include all of the rates in the rate structure.

City of Martinez

## Interim Year Rate Change Worksheet

### Financial Information

#### Section I--Base Year Costs

##### Base Year Controlled Costs b)

|    |         |                               |  |        |
|----|---------|-------------------------------|--|--------|
| 1. |         | Total Allowable Costs         |  |        |
| 2. | Plus:   | Allowable Operating Profit    |  |        |
| 3. | Minus:  | Tipping Fees (Profit Allowed) |  |        |
| 4. | Equals: | Total Controlled Costs        |  | 73.04% |

##### Base Year Uncontrolled Costs b)

|    |        |                               |  |        |
|----|--------|-------------------------------|--|--------|
| 5. |        | Tipping Fees (Profit Allowed) |  |        |
| 6. | Plus:  | Tipping Fees (Pass Through)   |  |        |
| 7. | Equal: | Total Uncontrolled Costs      |  | 26.96% |

|    |  |  |  |         |
|----|--|--|--|---------|
| 8. |  | Base Year Revenue Requirement (Less Franchise Fee) |  | 100.00% |
|----|--|--|--|---------|

#### Section II--Changes in Costs

##### Change in Controlled Costs

|     |  |   |  |       |
|-----|--|---|--|-------|
| 9.  |  | 80 Percent of Projected Change in Consumer Price Index (4.24% x 0.80) |  | 3.39% |
| 10. |  | Adjustment Factor from Prior Interim Year                             |  | 0.00% |
| 11. |  | Adjusted Projected Change in Consumer Price Index                     |  | 3.39% |

##### Change in Uncontrolled Costs

|     |         |   |    |       |
|-----|---------|---|----|-------|
| 12. |         | Prior Year Tipping Fees Per Ton c)          | \$ | 70.24 |
| 13. | Plus:   | Prior Year Regulatory Fees Per Ton          | \$ | -     |
| 14. | Equals: | Total Prior Year Uncontrolled Costs Per Ton | \$ | 70.24 |

|     |         |   |    |       |
|-----|---------|---|----|-------|
| 15. |         | Projected Interim Year Tipping Fees Per Ton c)          | \$ | 73.19 |
| 16. | Plus:   | Projected Interim Year Regulatory Fees Per Ton          | \$ | -     |
| 17. | Equals: | Total Projected Interim Year Uncontrolled Costs Per Ton | \$ | 73.19 |

|     |  |  |  |       |
|-----|--|--|--|-------|
| 18. |  | Projected Change In Uncontrolled Costs |  | 4.20% |
|-----|--|--|--|-------|

#### Section III--Calculation of Percent Change in Rates

##### Weighted Change in Controlled Costs

|     |                |   |  |        |
|-----|----------------|---|--|--------|
| 19. |                | Controlled Costs as % of Base Yr. Revenue Requirement |  | 73.04% |
| 20. | Multiplied by: | Adjusted Projected Change in Consumer Price Index     |  | 3.39%  |
| 21. | Equals:        | Weighted Change in Controlled Costs                   |  | 2.48%  |

##### Weighted Change in Uncontrolled Costs

|     |                |   |  |        |
|-----|----------------|---|--|--------|
| 22. |                | Uncontrolled Costs as % of Base Yr. Revenue Requirement |  | 26.96% |
| 23. | Multiplied by: | Projected Change in Uncontrolled Costs                  |  | 4.20%  |
| 24. | Equals:        | Weighted Change in Uncontrolled Costs                   |  | 1.13%  |

##### Total Change

|     |             |   |  |        |
|-----|-------------|---|--|--------|
| 25. |             | Total Percent Change in Costs             |  | 3.61%  |
| 26. | Divided by: | Adjustment for Franchise Fee (1 - 10.00%) |  | 90.00% |
| 27. | Equals:     | Percent Change in Existing Rates          |  | 4.01%  |

Year: 2009

Page 2 of 2

b) Actual numbers are not shown to protect the hauler's confidentiality.

c) The tipping fees are different from these incorrectly presented in the Application and are based on tipping fees allowed in the Base Year. We applied the 4.20 percent requested change in tipping fees consistent with the Company's request in the Application.

Mr. Michael Chandler  
October 9, 2008

Page 9

*Attachment 2*  

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**Interim Year Rate Change Application**

Mr. Michael Chandler  
October 9, 2008

Page 10



August 21, 2008

Mr. Michael Chandler  
Senior Management Analyst  
City of Martinez  
525 Henrietta St.  
Martinez, Ca 94553

RE: Interim Year Rate Application for Solid Waste and Recycling Services  
Notice of Intent to Request an Extraordinary Adjustment

Dear Mr. Chandler,

Allied Waste Services of Contra Costa County is pleased to provide the Interim Rate Change Application for 2009.

In addition, the rate setting process allows for special, extraordinary adjustments outside the annual schedules if certain conditions are met. Extraordinary adjustments are allowed in the case where the hauler (Allied Waste) can demonstrate that a change in one of the cost line items specified in the Base Year Rate Change Application will exceed two (2) times the most recent annual change in the Consumer Price Index for San Francisco-Oakland-San Jose published by the Department of Labor Statistics, which is 4.2%.

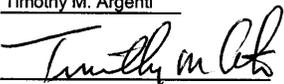
In the Base Year Rate Change application, we projected that 2008 costs in the Trucking and Equipment Category would increase 15.9% from the prior year. One of the components that drives this increase is fuel. Fuel is forecasted to be \$117,636 higher than the same time last year. I believe we will be able to demonstrate to the City that Trucking and Equipment has increased at least twice the CPI.

We look forward to meeting with you to discuss our application and request for an extraordinary increase. Please feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Timothy M. Argenti'.

Timothy M. Argenti  
General Manager

|  |   |  |                        |
|--|---|--|------------------------|
| City of Martinez   |   |  |                        |
| <b>INTERIM YEAR RATE CHANGE APPLICATION</b>  |   |  |                        |
| <b>SECTION I. CHANGES IN UNCONTROLLED COSTS</b>  |   |  |                        |
| Change in Uncontrolled Costs   |   |  |                        |
| 1  |   | Prior Year Tipping Fee per ton                 | 57.08                  |
| 2  | Plus  | Prior Year Regulatory Fees per ton             |                        |
| 3  | Equals:   | Total Prior Year Uncontrolled Costs per ton    | 57.08                  |
|  |   |  |                        |
| 4  |   | Projected Interim Year Tipping fees per ton    | 59.48                  |
|  | Plus:   | Projected interim year regulatory fees per ton | 59.48                  |
|  |   |  |                        |
|  |   | Projected Change in Uncontrolled Costs         | 4.20%                  |
| <b>Section II. EXPLANATION OF CHANGE IN UNCONTROLLED COSTS</b>   |   |  |                        |
| Most Recent Consumer Price Index for most recent period is 4.2%  |   |  |                        |
| <b>Section III. Certification</b>  |   |  |                        |
| To the best of my knowledge the data information in this application is complete, accurate, and consistent with the instructions provided by the City of Martinez. |   |  |                        |
| Name:  | <u>Timothy M. Argenti</u>   | Title:   | <u>General Manager</u> |
| Signature:   |  | Date:  | <u>8/22/2008</u>       |
| Year:  | Rate Year 2008  | Page 1 of 1                                    |                        |

Mr. Michael Chandler  
October 9, 2008

Page 12

*Attachment 3*

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**U.S. Bureau of Labor Statistics  
Consumer Price Index, All Items (CPI-U)  
San Francisco-Oakland-San Jose Area**

Mr. Michael Chandler  
October 9, 2008

| <b>Series Id:</b> CUURA422SA0                   |     |         |     |         |     |         |     |         |     |         |     |         |         |         |         |
|---|-----|---------|-----|---------|-----|---------|-----|---------|-----|---------|-----|---------|---------|---------|---------|
| Not Seasonally Adjusted                         |     |         |     |         |     |         |     |         |     |         |     |         |         |         |         |
| <b>Area:</b> San Francisco-Oakland-San Jose. CA |     |         |     |         |     |         |     |         |     |         |     |         |         |         |         |
| <b>Item:</b> All items                          |     |         |     |         |     |         |     |         |     |         |     |         |         |         |         |
| <b>Base Period:</b> 1982-84=100                 |     |         |     |         |     |         |     |         |     |         |     |         |         |         |         |
| Year  | Jan | Feb     | Mar | Apr     | May | Jun     | Jul | Aug     | Sep | Oct     | Nov | Dec     | Annual  | HALF1   | HALF2   |
| 1998  |     | 163.2   |     | 164.6   |     | 165.5   |     | 166.6   |     | 167.2   |     | 167.4   | 165.5   | 164.2   | 166.9   |
| 1999  |     | 169.4   |     | 172.2   |     | 171.8   |     | 173.5   |     | 175.2   |     | 174.5   | 172.5   | 170.8   | 174.2   |
| 2000  |     | 176.5   |     | 178.7   |     | 179.1   |     | 181.7   |     | 183.4   |     | 184.1   | 180.2   | 177.7   | 182.6   |
| 2001  |     | 187.9   |     | 189.1   |     | 190.9   |     | 191.0   |     | 191.7   |     | 190.6   | 189.9   | 188.7   | 191.1   |
| 2002  |     | 191.3   |     | 193.0   |     | 193.2   |     | 193.5   |     | 194.3   |     | 193.2   | 193.0   | 192.3   | 193.7   |
| 2003  |     | 197.7   |     | 197.3   |     | 196.3   |     | 196.3   |     | 196.3   |     | 195.3   | 196.4   | 196.8   | 196.1   |
| 2004  |     | 198.1   |     | 198.3   |     | 199.0   |     | 198.7   |     | 200.3   |     | 199.5   | 198.8   | 198.2   | 199.5   |
| 2005  |     | 201.2   |     | 202.5   |     | 201.2   |     | 203.0   |     | 205.9   |     | 203.4   | 202.7   | 201.5   | 203.9   |
| 2006  |     | 207.1   |     | 208.9   |     | 209.1   |     | 210.7   |     | 211.0   |     | 210.4   | 209.2   | 207.9   | 210.6   |
| 2007  |     | 213.688 |     | 215.842 |     | 216.123 |     | 216.240 |     | 217.949 |     | 218.485 | 216.048 | 214.736 | 217.361 |
| 2008  |     | 219.612 |     | 222.074 |     | 225.181 |     | 225.411 |     |         |     |         |         | 221.730 |         |

Mr. Michael Chandler  
October 9, 2008

Page 14

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*Attachment 4*  
**City of Martinez**  
**Incentive/Risk-Based Operating Ratio Methodology**

| City of Martinez<br>Incentive/Risk-Based Operating Ratio Methodology<br>Percent of CPI Applied to Allied Controllable Costs During Each Year of 10 Year Franchise |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
|---|-------------------|-----------|-----------|-----------|----------------------------------|-------------------|-------------|-------------|-------------|----------------------------------|----------------------------------|-------------|-------------|--|--|
| OR (%)  | Year              |           |           |           |                                  |                   |             |             |             |                                  | Result of Base Year Rate Review  | 9 Interim   | 10 Interim  |  |  |
|   | 0 Base            | 1 Interim | 2 Interim | 3 Interim | 4 Base                           | 5 Interim         | 6 Interim   | 7 Interim   | 8 Base      |                                  |                                  |             |             |  |  |
| 100+  |                   |           |           |           | <b>N<br/>o<br/>C<br/>P<br/>I</b> |                   |             |             |             | <b>N<br/>o<br/>C<br/>P<br/>I</b> |                                  |             |             |  |  |
| 99  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 98  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 97  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 96  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 95  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 94  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 93  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 92  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 91  |                   |           |           |           |                                  |                   |             |             |             |                                  |                                  |             |             |  |  |
| 90  | <b>Set At 90%</b> |           |           |           |                                  | @90% in Year 4 => | 100% of CPI | 100% of CPI | 100% of CPI |                                  | @90% in Year 8 =>                | 100% of CPI | 100% of CPI |  |  |
| 89  |                   |           |           |           |                                  | @89% in Year 4 => | 90% of CPI  | 95% of CPI  | 100% of CPI |                                  | @89% in Year 8 =>                | 90% of CPI  | 95% of CPI  |  |  |
| 88  |                   |           |           |           |                                  | @88% in Year 4 => | 80% of CPI  | 90% of CPI  | 100% of CPI |                                  | @88% in Year 8 =>                | 80% of CPI  | 90% of CPI  |  |  |
| 87  |                   |           |           |           |                                  | @87% in Year 4 => | 70% of CPI  | 85% of CPI  | 100% of CPI |                                  | @87% in Year 8 =>                | 70% of CPI  | 85% of CPI  |  |  |
| 86  |                   |           |           |           |                                  | @86% in Year 4 => | 80% of CPI  | 80% of CPI  | 100% of CPI |                                  | @86% in Year 8 =>                | 60% of CPI  | 80% of CPI  |  |  |
| 85  |                   |           |           |           |                                  | @85% in Year 4 => | 50% of CPI  | 75% of CPI  | 100% of CPI |                                  | @85% in Year 8 =>                | 50% of CPI  | 75% of CPI  |  |  |
| 84-   |                   |           |           |           | <b>Rate decrease so OR = 87%</b> |                   |             |             |             |                                  | <b>Rate decrease so OR = 87%</b> |             |             |  |  |

**Notes:**

- The target Operating Ratio (OR) is set at 90 percent in year zero.
- The OR is allowed to decrease to 85 percent in base years should PHBD be efficient.
- If the OR is equal to or above 85 percent in a base year, then no rate change would occur during the base year.
- 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.
- The risk to PHBD is that the OR could increase far above 90 percent (e.g., its costs increase faster than allowed CPI).
- 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.
- For 2 of the 10 years, PHBD will not be allowed a CPI because these are base years.
- In the 3 interim years following the year 0 base year, PHBD would be allowed 100 percent of the CPI on controllable costs.
- 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).
- 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.
- In all cases the CPI refers to the CPI on controllable costs (i.e., all costs other than tipping fees and regulatory fees).
- In all 8 interim years, PHBD would be allowed increases in "non-controllable costs" (i.e., tipping fees and regulatory fees).
- In January 1, 2001, there would be the first full CPI increase on controllable costs.

The City is in year nine (9) of the Incentive/Risk-Based Operating Ratio Methodology.