



## CITY OF MARTINEZ

## CITY COUNCIL AGENDA November 17, 2010

**TO:** Mayor and City Council

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

**SUBJECT:** Submission of 2011 Interim Year Rate Review Report

**DATE:** November 10, 2010

### **RECOMMENDATIONS:**

Accept the 2011 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 3.11 percent rate increase for residential and commercial collection as recommended by the Report.

### **BACKGROUND:**

The City of Martinez and Pleasant Hill Bayshore Disposal (now known as Allied Waste Services) 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 and reasonable profit for Allied Waste Services.

The Methodology uses a "Base Year" rate review every four years to perform a comprehensive review of rates. During the Base Year review, a detailed review of financial records is conducted by an outside consultant. The Methodology prohibits a rate increase during the Base Year (unless new services are introduced) and provides an "Operating Ratio" which determines what percentage of the Consumer Price Index (CPI) can be applied when calculating rate adjustments in the following 3 years, called "Interim Years." 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.

Interim Year reviews are triggered by an application of the hauler. The City received Allied Waste's application on August 30, 2010. The Interim Year reviews follow 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 2009 to August 2010. 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 Services's request for a 4.31% inflationary increase in uncontrollable costs/tipping fees to be too high, but did recommend approval of a 1.31% increase in tipping fees based upon a regulatory fee increase supported by documentation associated with new road work at the Keller Canyon Landfill.

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 2001-2003, 2005-2007, and 2009-10. Rate adjustments since 2000 include:

- 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)
- 2009: + 4.0% (interim year)
- 2010: + 0.0% (interim year, -1.26% deferred to 2011 rate year)

The attached report submitted by the City's rate review consultant, NewPoint Group, recommends a 3.11% adjustment to franchise rates. The Methodology requires the adopted adjustment be added to refuse rates on January 1, 2011. The new rate structure is shown in the following table:

Refuse Service Level	Current Rate	2011 Interim Rate	Change from Current Rate
20 Gallon (Senior)	\$ 16.50	\$ 17.00	\$ 0.50
20 Gallon	\$ 19.15	\$ 19.75	\$ 0.60
32 Gallon (Senior)	\$ 20.60	\$ 21.25	\$ 0.65
32 Gallon	\$ 27.45	\$ 28.30	\$ 0.85
64 Gallon (Senior)	\$ 23.70	\$ 24.45	\$ 0.75
64 Gallon	\$ 30.60	\$ 31.55	\$ 0.95
96 Gallon	\$ 64.30	\$ 66.30	\$ 2.00

**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 Services to the City will also increase.

**ACTION:**

Resolution amending the Pleasant Hill Bayshore Disposal (now known as Allied Waste Services) franchise agreement for a 3.11 percent rate increase for residential and commercial collection as recommended by the Report; and accept the 2011 Interim Year Rate Review Report.

Attachments: Resolution, NewPoint Group Report

A handwritten signature in black ink, appearing to read "Phil Vucic". The signature is written in a cursive style with a large initial "P".

**APPROVED BY:** City Manager

RESOLUTION NO. -10

APPROVING AN AMENDMENT TO THE PLEASANT HILL BAYSHORE DISPOSAL  
FRANCHISE AGREEMENT TO REFLECT THE 2011 INTERIM YEAR RATE CHANGE  
FOR RESIDENTIAL AND COMMERCIAL COLLECTION

**WHEREAS**, on February 9, 2000, the City of Martinez entered into a franchise agreement with Pleasant Hill Bayshore Disposal (PHBD) for residential garbage and recycling services within the City of Martinez; and

**WHEREAS**, PHBD 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. PHBD is granted a 3.11 percent rate increase specified by the Interim Year Rate Change Worksheet, to be effective January 1, 2011; and
2. The Franchise Agreements entered into with PHBD 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 17<sup>th</sup> day of November, 2010, by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK  
CITY OF MARTINEZ

November 1, 2010

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

Subject: ***Final Report - 2011 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) 2011 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. 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 3.11 percent to take effect on January 1, 2011. 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** (page 7 of this report). This recommended rate increase also is applicable for the commercial and industrial customer rates.

## **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

Mr. Michael Chandler  
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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. Changes in uncontrolled costs in an interim year are adjusted based on the projected change in the tipping fee per ton.

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, 2007, and 2009. 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)
- 2009: + 4.0 percent (interim year)
- 2010: - 1.26 percent (recommended), 0.00 percent (implemented) (interim year).<sup>4</sup>

The City received Allied's Application on August 30, 2010. A copy of the Application is included as **Attachment 2** (pages 10 and 11 of this report).

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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.

<sup>4</sup> The City left rates unchanged in 2010. The City directed us to use this 1.26 percent reduction credit as an offset to the interim year rate for 2011.

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### 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 3.11 percent, as shown on page 1 of the Worksheet. The total rate change corresponds to:

- 20-gallon: + \$0.60 per customer, per month
- 32-gallon: + \$0.85 per customer, per month
- 64-gallon: + \$0.95 per customer, per month
- 96-gallon: + \$2.00 per customer, per month
- 20-gallon (senior): + \$0.50 per customer, per month
- 32-gallon (senior): + \$0.65 per customer, per month.

The Application was submitted on August 30, 2010. We used the most recent available CPI at the time of this writing, or the August 2009 to August 2010 change in the CPI. Between August 2009 and August 2010, the CPI increased from 225.801 to 227.954, or by 0.95 percent (see **Attachment 3**, page 13 of this report).

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**, page 15 of this report), Allied is entitled to an adjustment to its controlled costs equal to 100 percent of the change in CPI for the 2011 interim year following the 2010 interim year, or equivalently 0.95 percent (line 9, page 2 of the Worksheet).

Rate setting is prospective. Rates are set in advance of the year they are ultimately charged. The adjusted projected change in the CPI for 2010 (in the prior interim year review, see page 2, line 11 of the worksheet) was – 3.09 percent, compared with 90 percent of the actual change in the CPI of + 0.95 percent, or 0.86 percent (0.95 percent x 90 percent). In accordance with the Manual requirement for interim years, the projected CPI increase for this year has been adjusted by the adjustment factor of + 3.95 percent (0.86 percent – (– 3.09 percent)) to account for this difference.<sup>5</sup> Thus, we used a 4.90 percent increase in the CPI (0.95 percent plus the 3.95 percent adjustment factor).

Historical trends for the annual change in CPI are shown in **Table 1**, on the following page. For the eleven-year period, since the Manual's implementation (i.e., 2000 to 2010), the change in the August CPI ranged from 0.2 to 5.1 percent, and increased by an average annual compound rate of 2.5 percent.

During this same eleven-year period, actual implemented City rates increased by an average annual compound rate of 2.9 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

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<sup>5</sup> Source: Interim Year Rate Setting Process, Section 4 of Step 2b (page III-8 of the Manual).

Mr. Michael Chandler  
November 1, 2010

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program adjusted basis, the rate over the eleven-year period has increased at a rate below the change in the CPI.

**Table 1**  
**Change in Consumer Price Index**  
**San Francisco-Oakland-San Jose (All Items, CPI-U)**  
**2000 to 2010<sup>6</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
2009	0.2
2010	1.0
Average annual compound rate of change – 11 years	<b>2.5</b>

In its August 30, 2010 Application, Allied requested a tipping fee increase of 4.31 percent<sup>7</sup> from \$76.264 to \$79.550 per ton. Of the total \$3.286 per ton requested increase (\$79.550 – \$76.264 per ton), the requested regulatory fee increase is \$1.00 per ton, and the requested tipping fee increase is \$2.286 per ton.

We allowed the \$1.00 per ton regulatory fee increase, which was supported by documentation associated with new road work at the Keller Canyon Landfill. We did not allow the additional \$2.286 per ton tipping fee increase. Our primary rationale for disallowing this increase is that effective April 1, 2010, the self-haul tipping fee rate at the Contra Costa Transfer and Recovery Station is only \$72.00 per ton. Our recommended tipping fee increase of \$1.00 per ton (from \$76.264 to \$77.264 per ton) represents a 1.31 percent increase in tipping fees.

<sup>6</sup> CPI source data is provided in Attachment 3.

<sup>7</sup> The tipping fee percentage increase of 4.30 percent, indicated by Allied in the Application, is an incorrect calculation.

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November 1, 2010

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Following three interim years (2009, 2010, and 2011), under the current rate setting schedule, 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 decreased 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 3.11 percent to take effect on January 1, 2011. New residential rates, for typical City residential services, under our recommendation would be as follows:

- 20-gallon: \$19.75 per customer, per month
- 32-gallon: \$28.30 per customer, per month
- 64-gallon: \$31.55 per customer, per month
- 96-gallon: \$66.30 per customer, per month
- 20-gallon (senior): \$17.00 per customer, per month
- 32-gallon (senior): \$21.25 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<sup>®</sup>, Inc.



Erik Nylund  
Principal

*Attachment 1*

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**Interim Year Rate Change Worksheet**

Mr. Michael Chandler  
October 28, 2010

City of Martinez

## Interim Year Rate Change Worksheet

### Summary

1. Percent Change in Rates

3.11%

Rate Schedule <sup>a)</sup>	Current 2010 Rate	Increased Rate	Adjustment	New 2011 Rate
2. 1 - 20 Gallon Cart Service	\$ 19.15	\$ 19.75	\$ -	\$ 19.75
3. 1 - 32 Gallon Cart Service	\$ 27.45	\$ 28.30	\$ -	\$ 28.30
4. 1 - 64 Gallon Cart Service	\$ 30.60	\$ 31.55	\$ -	\$ 31.55
5. 1 - 96 Gallon Cart Service	\$ 64.30	\$ 66.30	\$ -	\$ 66.30
6. 1 - 20 Gallon Cart Service - Senior	\$ 16.50	\$ 17.01	\$ (0.01)	\$ 17.00
7. 1 - 32 Gallon Cart Service - Senior	\$ 20.60	\$ 21.24	\$ 0.01	\$ 21.25

<sup>a)</sup> 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 <sup>a)</sup>

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 <sup>a)</sup>

5.		Tipping Fees (Profit Allowed)		
6.	Plus:	Tipping Fees (Pass Through)		
7.	Equal:	Total Uncontrolled Costs		26.96%
8.		<b>Base Year Revenue Requirement (Less Franchise Fee)</b>		<b>100.00%</b>

#### Section II--Changes in Costs

##### Change in Controlled Costs

9.		100 Percent of Projected Change in Consumer Price Index (0.95% x 1.00)		0.95%
10.		Adjustment Factor from Prior Interim Year		3.95%
11.		Adjusted Projected Change in Consumer Price Index		4.90%

##### Change in Uncontrolled Costs

12.		Prior Year Tipping Fees Per Ton	\$	76.264
13.	Plus:	Prior Year Regulatory Fees Per Ton	\$	-
14.	Equals:	Total Prior Year Uncontrolled Costs Per Ton	\$	76.264
15.		Projected Interim Year Tipping Fees Per Ton	\$	76.264
16.	Plus:	Projected Interim Year Regulatory Fees Per Ton	\$	1.000
17.	Equals:	Total Projected Interim Year Uncontrolled Costs Per Ton	\$	77.264
18.		Projected Change In Uncontrolled Costs		1.31%

#### 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		4.90%
21.	Equals:	Weighted Change in Controlled Costs		3.58%

##### Weighted Change in Uncontrolled Costs

22.		Uncontrolled Costs as % of Base Yr. Revenue Requirement		26.96%
23.	Multiplied by:	Projected Change in Uncontrolled Costs		1.31%
24.	Equals:	Weighted Change in Uncontrolled Costs		0.35%

##### Total Change

25.		Total Percent Change in Costs		3.93%
26.	Divided by:	Adjustment for Franchise Fee (1 - 10.00%)		90.00%
27.	Plus:	Prior Rate Year Rate Change		-1.26% <sup>b)</sup>
28.	Equals:	<b>Percent Change in Existing Rates</b>		<b>3.11%</b>

Year: 2011

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<sup>a)</sup> Actual numbers are not shown to protect the hauler's confidentiality.

<sup>b)</sup> Represents a credit to the City of Martinez ratepayers. The City and Allied Waste Services (Allied) agreed not to implement the 2010 interim year rate decrease of 1.26 percent, but rather to leave rates unchanged in 2010, and apply the 1.26 percent credit against the rate change for 2011.

*Attachment 2*

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**Interim Year Rate Change Application**

Mr. Michael Chandler  
October 28, 2010

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August 30, 2010

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

Dear Mr. Chandler,

Attached, please find the Interim Rate Change Application for 2011. We are meeting with the NewPoint Group on Wednesday, September 1, 2010 to discuss our application, the recently completed customer survey and enhanced services for the City of Martinez.

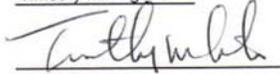
If you have any questions, feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Timothy M. Argenti', written over a horizontal line.

Timothy M. Argenti  
General Manager

Mr. Michael Chandler  
 October 28, 2010

City of Martinez		INTERIM YEAR RATE CHANGE APPLICATION	
<b>SECTION 1. CHANGES IN UNCONTROLLED COSTS</b>			
Change in Uncontrolled Costs			
1		Prior Year Tipping Fee per ton	76.264
2	Plus	Prior Year Regulatory Fees per ton	
3	Equals:	Total Prior Year Uncontrolled Costs per ton	76.264
4	Plus:	Projected Interim Year Tipping fees per ton	78.55
		Projected interim year regulatory fees per ton	1.00
			79.55
Projected Change in Uncontrolled Costs			4.30%
<b>Section II - EXPLANATION OF CHANGE IN UNCONTROLLED COSTS</b>			
Increases in operating costs that exceeded inflationary factors. Allocated cost of cell development and permit requirements			
Contra Costa County imposition of a Maintenance Disposal Surcharge and a surcharge to overlay Bailey Rd. See attached Board item			
<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>8/25/2010</u>
Year:	Rate Year 2011	Page 1 of 1	

*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 28, 2010

<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		225.820		218.528	222.767	221.730	223.804
2009		222.166		223.854		225.692		225.801		226.051		224.239	224.395	223.305	225.484
2010		226.145		227.697		228.110		227.954						226.994	

*Attachment 4*

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**City of Martinez**

**Incentive/Risk-Based Operating Ratio Methodology**

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										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 o C P I</b>					<b>N o C P I</b>					
99															
98															
97															
96															
95															
94															
93															
92															
91															
90	Set At 90%					@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 =>	60% 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-					Rate decrease so OR = 87%					Rate decrease so OR = 87%					

**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 eleven (11) of the Incentive/Risk-Based Operating Ratio Methodology. The year eleven (11) is not listed in the schedule above. In accordance with the Incentive/Risk-Based Operating Ratio Methodology, and based on the projected 2008 base year operating ratio of 88 percent, Allied is entitled to an adjustment to its controlled costs equal to 100 percent of the change in CPI for the 2011 interim year following the 2010 interim year (as the four (4) year cycle repeats, the equivalent year 11 schedule is shown in interim year 7).