



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
November 14, 2012**

TO: Mayor and City Council
FROM: Michael Chandler, Senior Management Analyst
SUBJECT: 2013 Base Year Rate Review Report of Allied Waste Systems, Inc. and Subsequent Franchise Amendments for Rate Adjustment and New Services
DATE: November 9, 2012

RECOMMENDATION:

Conduct a public hearing to receive and accept the NewPoint Group 2013 Base Year Rate Review of Allied Waste Systems, Inc., and consider a resolution to set new rates and to amend the franchise agreements between the City of Martinez and Allied Waste Systems, Inc., d.b.a. Pleasant Hill Bayshore Disposal, Inc., for Solid Waste and Recycling Services, reducing residential, commercial and industrial solid waste collection rates by 2.03% effective January 1, 2013 through December 31, 2014, as set forth in Exhibit C to the franchise agreements, and adding new services as set forth in Exhibit B to the franchise agreements.

Staff met with the Solid Waste Ad Hoc Subcommittee on November 2, 2012, to review the findings of the 2013 Base Year Rate Review and discuss options for rate stabilization. The Subcommittee recommended forwarding to Council for approval.

BACKGROUND

The City adopted its Rate Setting Process and Methodology Manual for Solid Waste Charges (“Rate Manual”) in January 2000. The Rate Manual was subsequently revised in March 2011 and approved by resolution of the City Council on May 4, 2011 (“2011 Rate Manual”). The 2011 Rate Manual specifies procedures for review and adjustment of collection rates. These procedures include “base year” rate reviews (typically 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 Allied Waste Systems, Inc. (“AWS”) projected revenues and costs, and examine the base year operating ratio. The City previously conducted base year reviews for rate years 2000, 2004 and 2008. This is the first base year rate review since adoption of the 2011 Rate Manual.

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 2011 Rate Manual identifies a base year operating ratio range of 88 to 92% for AWS, with a goal of 90%. A lower operating ratio is equal to a higher return; for example, a 90% operating ratio is equivalent to an 11.1% return on allowable expenses. In each succeeding base

year (once every four years), the operating ratio can range from 88 to 92% without a rate change, with rates to reflect a 90% operating ratio in the event the company earns an operating ratio outside this range. In this first base year since inception of the 2011 Rate Manual, the operating ratio is set at 90%.

AWS is required to submit a Base Year Rate Application (“Application”) as part of the base year rate review. This Application was received on August 1, 2012. In its Application, AWS recognized its successful cost control measures (such as routing efficiencies and employee overtime management), and requested a rate decrease of 2.03%. Based on the analysis provided in NewPoint Group’s attached 2013 Base Year Rate Review of Allied Waste Systems, Inc. (“Rate Review”), AWS is projected to have an operating ratio of approximately 85% for the projected 2013 base year. As a result, the Rate Review recommends a residential, commercial and industrial solid waste collection rate decrease of 5.19% to effectively rebase the AWS operating ratio to 90%.

Rate stabilization has long been an expressed goal of the City, and is among the primary reasons the City adopted the Rate Manual in 2000 and subsequently approved its revision in 2011. The following illustrates the success of keeping rates relatively stable by following the rate setting methodology:

- 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 a single stream recycling program)
- 2005: + 1.9% (interim year)
- 2006: + 3.2% (interim year)
- 2007: + 3.7% (interim year)
- 2008: + 0.0% (base year, addition of an expanded multi-family recycling service program and a new residential on-call bulky recyclables and yardwaste collection service program)
- 2009: + 4.0% (interim year)
- 2010: + 0.0% (interim year, -1.26% deferred to 2011 rate year)
- 2011: + 3.1% (interim year)
- 2012: + 0.0% residential and multifamily;
+10.7% commercial and industrial (implementation of Mandatory Commercial Recycling and one-rate system)

Staff and the Solid Waste Ad Hoc Subcommittee discussed options beyond reducing rates by 5.19% in 2013 as recommended by the Rate Review. As a means of ensuring rate stability for longer than just one year – and at the same time providing some consistency with the decrease identified in AWS’ Application – staff and the Subcommittee recommend a 2.03% decrease to collection rates in 2013, with the caveat that the reduced rates would continue through December 31, 2014, effectively making 2014 a “rate freeze” year. AWS would be allowed to submit to the City in 2013 a request for what rate increase it otherwise *would have been entitled to* for the 2014 rate year, but only for the purposes of accounting for any offset of the surplus accrued by not reducing rates by the full 5.19% in 2013. Under this scenario, AWS will not be entitled to submit an interim year rate application to the City that could change rates until 2014, for the 2015 rate year.

The following two tables illustrate differences between adopting a 5.19% rate reduction vs. a 2.03% rate reduction for residential solid waste collection services:

5.19% Rate Reduction

Container Size	Percent of Total Customers	Current Rate	Rate at 5.19% Reduction	Difference
20 gal	12	\$19.75	\$18.72	\$1.03
32 gal	47	\$28.30	\$26.83	\$1.47
64 gal	40	\$31.55	\$29.91	\$1.64
96 gal	1	\$66.30	\$62.86	\$3.44

2.03% Rate Reduction

Container Size	Percent of Total Customers	Current Rate	Rate at 2.03% Reduction	Difference
20 gal	12	\$19.75	\$19.35	\$0.40
32 gal	47	\$28.30	\$27.73	\$0.57
64 gal	40	\$31.55	\$30.91	\$0.64
96 gal	1	\$66.30	\$64.95	\$1.35

AWS has offered to provide an additional service to businesses and residents as part of the base year review, by coordinating an annual “Reuse Day” event, commonly referred to in other jurisdictions as the “Reuse Roundup.” AWS will partner with a non-profit organization to schedule the reuse day and coordinate the logistics of the event, during which businesses and residents can drop off reusable items at a pre-determined location in the City. The event details will be coordinated with and approved by the City. The City of Antioch in particular has had considerable success with this type of event, and recently provided a presentation for a number of public agencies in Contra Costa County to recommend others implement the program. The addition of this new service is contained within Exhibit B (Solid Waste and Recycling Services) to the franchise agreements.

FISCAL IMPACT:

The City’s franchise fees received from AWS were \$556,684 in FY 2011-12. Budgeted revenues for FY 2012-13 are \$555,000. A rate reduction effective January 1, 2013 would affect 6 months of FY 2012-13 revenues. Using the FY 2011-12 actuals as a guide, rate decreases of 5.19% and 2.03% would result in approximately \$14,500 and \$5,700 less in franchise fees, respectively.

ACTION:

Motion to receive and accept the NewPoint Group 2013 Base Year Rate Review of Allied Waste Systems, Inc., and adopt a resolution to set new rates and amending the franchise agreements between the City of Martinez and Allied Waste Systems, Inc., d.b.a. Pleasant Hill Bayshore Disposal, Inc., for Solid Waste and Recycling Services, reducing residential, commercial and industrial solid waste collection rates by 2.03% effective January 1, 2013 through December 31, 2014, as set forth in Exhibit C to the franchise agreements, and adding new services as set forth in Exhibit B to the franchise agreements.

Attachments: Resolution

Exhibit B Solid Waste and Recycling Services (revised to include Reuse Day)

Exhibit C Schedule of Rates (revised to reflect a 2.03% decrease)

NewPoint Group 2013 Base Year Rate Review of Allied Waste Systems, Inc.

APPROVED BY:


City Manager

RESOLUTION NO. -12

SETTING NEW SOLID WASTE COLLECTION RATES AND APPROVING AN AMENDMENT TO THE ALLIED WASTE SYSTEMS, INC., D.B.A. PLEASANT HILL BAYSHORE DISPOSAL, FRANCHISE AGREEMENTS FOR SOLID WASTE AND RECYCLING SERVICES REDUCING RESIDENTIAL, COMMERCIAL AND INDUSTRIAL SOLID WASTE COLLECTION RATES BY 2.03% EFFECTIVE JANUARY 1, 2013 THROUGH DECEMBER 31, 2014, AS SET FORTH IN EXHIBIT C TO THE FRANCHISE AGREEMENTS, AND ADDING NEW SERVICES AS SET FORTH IN EXHIBIT B TO THE FRANCHISE AGREEMENTS

WHEREAS, the City of Martinez ("City") established a rate setting process for solid waste collection by adopting the January 2000 Rate Setting Process and Methodology Manual for Solid Waste Charges ("January 2000 Rate Manual"); and

WHEREAS, as part of the 2011 amendments to the City's Solid Waste and Residential Recycling franchise agreements with Allied Waste Systems, Inc. ("AWS"), d.b.a Pleasant Hill Bayshore Disposal, Inc. ("PHBD"), NewPoint Group, Inc. ("NewPoint"), prepared an update to the January 2000 Rate Manual entitled the March 2011 Rate Setting Process and Methodology Manual for Solid Waste Charges ("March 2011 Rate Manual"); and

WHEREAS, the City enlisted the services of NewPoint in February 2012 to assist with developing a new commercial and industrial rate structure in accordance with the March 2011 Rate Manual to fund the cost of implementing the new mandatory commercial recycling program, and to establish rates that meet City goals related to commercial refuse and recycling collection; and

WHEREAS, at the City's request, NewPoint created a single combined refuse and recycling rate for commercial bin and cart service, similar to what was done for residential customers in 2000, which was adopted by the City Council on May 16, 2012; and

WHEREAS, as a requirement of the March 2011 Rate Manual, AWS is required to submit a Base Year Rate Application ("Application"), which was received by the City on August 1, 2012 and requested a 2.03% rate decrease; and

WHEREAS, at the City's request, NewPoint conducted a review of the Application; and

WHEREAS, NewPoint submitted a report of its findings and recommendations for the base year to the City on November 8, 2012, entitled the 2013 Base Year Rate Review of Allied Waste Systems, Inc. ("Rate Review"), a true and correct copy of which is attached to the staff report; and

WHEREAS, the Rate Review recommends a 5.19% decrease to collection rates as a means of rebasing AWS' operating ratio to 90% in accordance with the March 2011 Rate Manual; and

WHEREAS, the City has consistently identified as a goal of the rate review process the importance of maintaining rate stability; and

WHEREAS, as a means of ensuring rate stability for longer than just one year, and providing consistency with the rate decrease requested in the Application, the City recommends a 2.03% decrease to collection rates in 2013, with those rates maintained through December 31, 2014; and

WHEREAS, Exhibit C of the franchise agreements provides rates for residential, commercial, and industrial service, and must be amended in order to reflect the new rates, effective January 1, 2013; and

WHEREAS, AWS has offered to provide a new service to businesses and residents as part of the base year review, by coordinating an annual Reuse Day event, the details of which will be coordinated with and approved by the City; and

WHEREAS, Exhibit B of the franchise agreements provides a list of the Solid Waste and Recycling services to be provided by PHBD, and must be amended in order to reflect the new service, effective January 1, 2013; and

WHEREAS, the City held a duly noticed public hearing on November 14, 2012, to consider the rate adjustments and addition of the new service.

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

1. PHBD is granted a 2.03% rate decrease, to be effective January 1, 2013 to December 31, 2014.
2. The Franchise Agreements entered into with PHBD are hereby amended to reflect the decrease in rates, as set forth in Exhibit C, attached hereto.
3. The Franchise Agreements entered into with PHBD are hereby amended to reflect the addition of new services, as set forth in Exhibit B, attached hereto.

* * * * *

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 an Adjourned Regular Meeting of said Council held on the 14th day of November, 2012, by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK
CITY OF MARTINEZ

Exhibit B.

Residential Solid Waste, Residential Recycling, Commercial Solid Waste, Commercial Recycling, Industrial Solid Waste and Industrial Recycling Services

Residential Solid Waste Services– Single Family Units

1. PHBD shall provide each City resident with a 20, 32, 64, or 96-gallon cart for weekly solid waste service. PHBD shall have sufficient reserves of carts to allow for future changes in customer cart size preferences and carts that are stolen or lost. PHBD shall automate the City's residential refuse collection operations in areas where automation is determined feasible.
2. Effective July 1, 2011, and twice each calendar year, any single family residential unit customer may call PHBD to have the customer's solid waste collected at no charge with a three (3) cubic yard quantity limit and subject to materials and weight limitations. Such limitations are subject to prior approval from the City.
3. Effective July 1, 2011, PHBD shall provide at no charge to all single family residential customers two (2) separate on-call pickups at the curb each calendar year for large bulky items. A list of allowable items is included for reference. Additional items beyond the two (2) free items would be picked up for a fee not to exceed that shown on the price list below:

Bulky Item Maximum Fee List

<u>Description</u>	<u>Per Unit Fee</u>
1. Twin mattress	\$40.00
2. Twin box spring	\$40.00
3. Double mattress	\$40.00
4. Double box spring	\$40.00
5. Queen mattress	\$40.00
6. Queen box spring	\$40.00
7. King mattress	\$40.00
8. King box spring	\$40.00
9. Stove	\$40.00
10. Dryer	\$40.00
11. Washer	\$40.00
12. Dishwasher	\$40.00
13. Hot water heater	\$40.00
14. Couch/sofa	\$40.00
15. Hide a bed	\$40.00
16. Refrigerator (pick up and Freon removal)	\$100.00

17.	Freezer (pick up and Freon removal)	\$100.00
18.	Air conditioner (pick up and Freon removal)	\$100.00
19.	Swamp cooler	\$40.00
20.	Tires (less than or equal to 19")	\$6.00
21.	Tires with rim (less than or equal to 19")	\$8.00
22.	Tires (larger than 19")	\$9.00
23.	Tires with rim (larger than 19")	\$14.00
24.	TV (32" or smaller)	\$25.00
25.	TV (larger than 32")	\$40.00
26.	Computer monitors	\$25.00
27.	E-waste (up to 3 pieces)	\$5.00
28.	Extra 32-gallon bag	\$2.50

Residential Solid Waste Services– Multi Family Units

1. PHBD shall provide multi-family units with a 32, 64, or 96-gallon cart for weekly solid waste service, or;
2. PHBD shall provide multi-family complexes which are considered commercial accounts with one (1) to eight (8) cubic yard box service, collected not less often than once per week.
3. Effective July 1, 2011, PHBD shall provide Multi-Family complexes with two (2) on-call solid waste pickups each calendar year. The property manager or designated representative must call in advance to schedule a box, and PHBD will determine the appropriate box size based on the size of the complex. PHBD will provide the property manager/designee with information to distribute to the tenants regarding the acceptable material for the cleanups. PHBD will provide Bulky Item pick-up for a fee not to exceed that specified in the "Bulky Item Maximum Fee List" included with this Exhibit B.

Commercial Solid Waste Services

Service Description	Service Level Per Week
32, 64, 96 Gallon Commercial Cart Service	1 to 5 times
One (1) to Eight (8) cubic yard containers	1 to 5 times
Special Service	On-Call

Industrial Solid Waste Services

Service Description	Service Level Per Week
Roll-Off Debris Box Service	Scheduled or On-Call
20,30, 40 Cubic Yard Debris Boxes	Monday-Friday with some Saturday Service

Residential Recycling Services – Single Family Units

1. PHBD shall provide weekly curbside collection of commingled recyclables. Collection shall take place on the same day as refuse collection between the hours of 6 AM and 7 PM, using a fully automated collection system. PHBD shall collect recyclables from the curb of the roadway. An alternative collection location may be used if the resident is physically unable to move the collection container to the curb, at no cost to the resident.

PHBD shall provide each resident with one new 64 gallon, wheeled cart consisting of undivided holding capacity for collection of commingled recyclables, which includes, but is not limited to, mixed paper, glass, aluminum, cardboard, chipboard (i.e. cereal and shoe boxes), newsprint, plastic food and beverage containers #1-7, tin/bimetal containers, E-waste peripherals (such as keyboards, mouse, and speakers), hardcover books, rigid plastics (such as toys, buckets, trays, and crates), and scrap metal/aluminum (under ten pounds per item). Used motor oil, oil filters, and auto/truck batteries will be collected separately from the contents of the recycling cart. A 32 gallon wheeled cart will be provided as a smaller alternative to the 64 gallon wheeled cart, on a case by case basis. Recycling carts will incorporate distinctive color, symbols, and text that clearly identify their purpose. PHBD shall provide outreach through its website and its annual customer guide to identify a comprehensive list of materials that can be included in the recycling cart. Each time PHBD includes additional materials that can be included in the recycling cart (in this case, the addition of E-waste peripherals, hardcover books, rigid plastics, and scrap metal/aluminum), the additional materials will be collected at no extra cost to the ratepayer. PHBD will provide advance notification of additional materials which may be included in the recycling cart as an insert within the customer bill.

2. PHBD will conduct necessary public education to inform residents how to use commingled recycling collection and to respond to increased levels of refuse contamination. Promotional and educational materials explaining the commingled curbside recycling program shall be distributed by PHBD prior to distribution of new recycling carts. Duplicate or supplemental promotional and educational materials explaining the commingled curbside recycling program will also be distributed by PHBD to each customer when the recycling container is delivered. PHBD shall, at minimum, distribute promotional and educational materials to all its solid waste customers, pre-approved by the City, at least twice a year. This material shall, at a minimum, specify all recyclable items to be collected, and shall further provide any additional information as necessary in order to satisfy the requirements set forth in Section 5 – “Recycling Component”, and Section 8 – “Education and Public Information Component” of the City’s most current SRRE.
3. PHBD will provide customers with an additional recycling cart upon request at no extra charge, and promote the availability of this service in the same manner as described in #2 above.

Residential Recycling Services – Multi-Family Units

1. PHBD shall provide multi-family units with weekly, commingled recycling collection service free of charge. Collection shall take place on the same day as refuse collection between the hours of 6 AM and 7 PM, using a fully automated collection system. Carts will be shared by occupants of the multi-family units. Contractor will work with the property manager, owner, or HOA representative to determine the most efficient and easily accessible location for the recycle carts for the customer and PHBD.
2. Contractor shall provide new 96 gallon, wheeled carts consisting of undivided holding capacity in sufficient numbers to serve all units in the development for the collection of commingled recyclables. Collected recyclables will include, but are not limited to, mixed paper, glass, aluminum, cardboard, chipboard (i.e. cereal and shoe boxes), newsprint, plastic food and beverage containers #1-7, tin/bimetal containers, E-waste peripherals (such as keyboards, mouse, and speakers), hardcover books, rigid plastics (such as toys, buckets, trays, and crates), and scrap metal/aluminum (under ten pounds per item).

3. A 32 gallon wheeled cart will be provided as a smaller alternative to the 64 gallon wheeled cart, on a case by case basis. Recycling carts will incorporate distinctive color, symbols, and text that clearly identify their purpose.
4. PHBD will conduct necessary public education to inform multi-family unit residents how to use commingled recycling collection and to respond to increased levels of refuse contamination. Promotional and educational materials explaining the commingled curbside recycling program shall be distributed by PHBD prior to distribution of new recycling containers. After implementation and/or upon request, PHBD will furnish informational materials to property managers, owners, and HOA representatives for distribution during periods of increased refuse contamination. PHBD will advise management of outreach and educational activities that will help reduce levels of contamination.

Commercial and Industrial Recycling Services

Commercial recycling services are available and required of businesses and public entities, with a number of container options ranging from one to eight yard bins, 64, and 96-gallon containers, and for industrial recycling customers, 8, 10, 20, 30 and 40 cubic yard debris recycling boxes. Commercial recycling services include fiber, paper, plastics, glass, metal and cardboard recycling as well as a 96 gallon container for yard waste collection. Chapter 8.18.120 of the City's Municipal Code requires all non-residential establishments, including without limitation all commercial and industrial use classifications, to subscribe to an approved recycling collection program. Additionally, PHBD is required to provide various recycling services to City facilities including providing recycling containers at special events sponsored by the City.

Residential Recycling Services – Drop-Off Collection

PHBD will provide a drop-off location, for single stream recycling only, at 443 Buchanan Circle, Pacheco, California, from 8:00 a.m. to 4:30 p.m., Monday through Friday, which will be available at no cost for and promoted to Martinez residents and businesses. The location and drop-off center's viability will be evaluated should there be illegal dumping of any material, especially hazardous waste. The site can be closed immediately upon the determination of excessive illegal dumping and another location shall be explored.

Residential Recycling Services – Yard Waste Collection

PHBD will provide one 96 gallon cart to each single family unit receiving solid waste/curbside recycling service for collection of yard waste. PHBD will provide customers with an additional yard waste recycling cart upon request at no extra charge, and promote the availability of this service to customers through its website and its annual customer guide. A 64 or 32 gallon wheeled cart will be provided as alternatives to the 96 gallon cart, on a case by case basis. Yard waste carts will incorporate distinctive color, symbols, and text that clearly identify their purpose. PHBD will provide curbside collection of yard waste every other week (bi-weekly) on regular refuse/recycling collection days for single family and multi-family units. PHBD is required to publish and distribute a collection calendar identifying the weeks that each residence or multi-family unit will be served during the calendar year. Collection will take place between the hours of 6 AM and 7 PM, using a fully automated collection system. All collected yard waste must be diverted from landfilling. Acceptable diversion includes composting, use as biofuel, or alternative daily cover (ADC). At the time of the next base year (2013), should the City determine additional residential yardwaste services are necessary, the City may request that PHBD change the frequency of residential yard waste collection from bi-weekly to weekly.

Residential Recycling Services – Special Collection Services

On-Call Bulky Recycling and Yardwaste Pickups – Single Family Units: Effective July 1, 2011, PHBD shall provide four (4) free on-call bulky recycling and/or yard waste clean-up collections per calendar year for single family residents for recyclable items such as cardboard, yard waste, or wood waste, in addition to customers' regular recycling service. Household batteries, cellular phones, and compact fluorescent light bulbs shall also be collected with the on call pickups. The procedures for such collections shall be established by PHBD and included in their annual customer guides.

On-Call Bulky Recycling Pickups – Multi-Family Complexes: Effective July 1, 2011, PHBD shall provide one (1) free on-call bulky recycling clean-up collection per calendar year for multi-family complexes for recyclable items such as cardboard, yard waste, or wood waste, in addition to customers' regular recycling service. Household batteries, cellular phones, and compact fluorescent light bulbs shall also be collected with the on call pickups. The procedures for such collections shall be established by PHBD and included in their annual customer guides.

Electronic Waste – PHBD shall provide curbside collection and disposal services for Cathode Ray Tube (CRT) and other electronic waste items. Collection and disposal costs will be paid for by the resident using the collection service OR subsidized by the City when outside funding becomes available. PHBD will publish and promote collection rates for designated electronic waste items.

Holiday Tree Collection – PHBD will provide curbside collection and recycling of holiday trees from residential and multi-family customers during a one week period in January of each year of this agreement. This service will be provided at no cost to the resident. PHBD will coordinate scheduling of the collection week with City Staff and conduct necessary promotion. Holiday trees, cut to a specified size, shall also be accepted in the yard waste collection program.

Annual Pre-Scheduled Residential Clean Up Day

In addition to the various aforementioned on-call pickups, effective July 1, 2011, PHBD shall provide single family residential customers with one pre-scheduled curbside “clean up day” each calendar year. PHBD would agree to collect unlimited recycling and yardwaste, and refuse up to 3 cubic yards, during this pre-scheduled clean up day. The City and PHBD will mutually agree to the timing of this cleanup day each year. PHBD will provide this curbside service to residents during their regularly scheduled collection day, completing this service for all City customers over one service week.

Annual Reuse Day

PHBD will partner with a non-profit organization to schedule an annual reuse day (called the “Reuse Roundup”) during which businesses and residents can drop off reusable items at a pre-determined location in the City. The event details will be coordinated with and approved by the City.

Outreach/Promotion of Available Services

PHBD will provide outreach to customers to identify the availability of the services specified in this Exhibit B. This outreach will include identifying the service on PHBD's website, within an annual newsletter or customer guide, and within the bill as an insert.

Exhibit C

Schedule of Rates

(Effective January 1, 2013)

RESIDENTIAL RATES

Service Description	Monthly Rate
<u>BASIC RESIDENTIAL SERVICE</u> –	
One 20 Gallon Container /Weekly 64 gallon Curbside Recycling/Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$19.35
One 32 Gallon Container /Weekly 64 gallon Curbside Recycling/ Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$27.73
One 64 Gallon Container /Weekly 64 gallon Curbside Recycling/ Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$30.91
One 96 Gallon Container /Weekly 64 gallon Curbside Recycling/ Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$64.95
<u>SENIOR RESIDENTIAL SERVICE</u> (62+ Years) –	
One 20 Gallon Container /Weekly 64 gallon Curbside Recycling/Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$16.67
One 32 Gallon Container/Weekly 64 gallon Curbside Recycling/Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$20.81
One 64 Gallon Container /Weekly 64 gallon Curbside Recycling/ Bi-Weekly 96 Gallon Yard Waste Curbside Collection	\$23.95
<u>EXTRA RESIDENTIAL SERVICE</u> –	
Each Additional 32 gallon Garbage Container	\$21.87
Each Additional 64 gallon Garbage Container	\$25.05
Each Additional 96 gallon Garbage Container	\$59.10
<u>EXTRA RESIDENTIAL SERVICE</u> -Each 32 Gallon Bag Service	\$15.00

Delinquent Charges:

1.5% charge per month on all outstanding balances.

Martinez Commercial Rates 7/1/2013

Service level	Frequency	Trash & Recycling
1yd	1 x per wk	\$ 140.31
Extra		\$ 42.39
2yd	1 x per wk	\$ 248.38
2yd	2 x per wk	\$ 423.47
2yd	3 x per wk	\$ 496.44
2yd	4 x per wk	\$ 620.44
2yd	5 x per wk	\$ 736.84
Extra		\$ 46.52
3yd	1 x per wk	\$ 310.40
3yd	2 x per wk	\$ 496.44
3yd	3 x per wk	\$ 851.65
3yd	4 x per wk	\$ 884.21
3yd	5 x per wk	\$ 1,419.43
Extra		\$ 58.16
4yd	1 x per wk	\$ 372.41
4yd	2 x per wk	\$ 620.49
4yd	3 x per wk	\$ 884.21
4yd	4 x per wk	\$ 1,179.00
4yd	5 x per wk	\$ 1,473.73
Extra		\$ 75.60
5yd	1 x per wk	\$ 434.43
5yd	2 x per wk	\$ 736.84
5yd	3 x per wk	\$ 1,105.31

5yd	4 x per wk	\$ 1,473.73
5yd	5 x per wk	\$ 1,842.15
Extra		\$ 93.05
6yd	1 x per wk	\$ 496.44
6yd	2 x per wk	\$ 930.78
6yd	3 x per wk	\$ 1,326.37
6yd	4 x per wk	\$ 1,768.43
6yd	5 x per wk	\$ 2,210.58
Extra		\$ 110.49
8yd	1 x per wk	\$ 620.51
8yd	2 x per wk	\$ 1,179.00
8yd	3 x per wk	\$ 1,768.43
8yd	4 x per wk	\$ 2,357.92
8yd	5 x per wk	\$ 2,947.45
Extra		\$ 139.78
32 gal can	1 x per wk	\$ 28.89
32 gal can	2 x per wk	\$ 57.40
32 gal can	3 x per wk	\$ 86.83
32 gal can	4 x per wk	\$ 114.80
32 gal can	5 x per wk	\$ 144.23
Extra		\$ 11.63
64 gal cart	1 x per wk	\$ 41.54
64 gal cart	2 x per wk	\$ 95.64
64 gal cart	3 x per wk	\$ 149.80
64 gal cart	4 x per wk	\$ 203.96

64 gal cart	5 x per wk	\$ 258.19
Extra		\$ 22.37
96gal cart	1 x per wk	\$ 60.53
96gal cart	2 x per wk	\$ 134.93
96gal cart	3 x per wk	\$ 208.03
96gal cart	4 x per wk	\$ 281.11
96gal cart	5 x per wk	
Extra		\$ 34.89
96 gal yw	Cart	\$ -

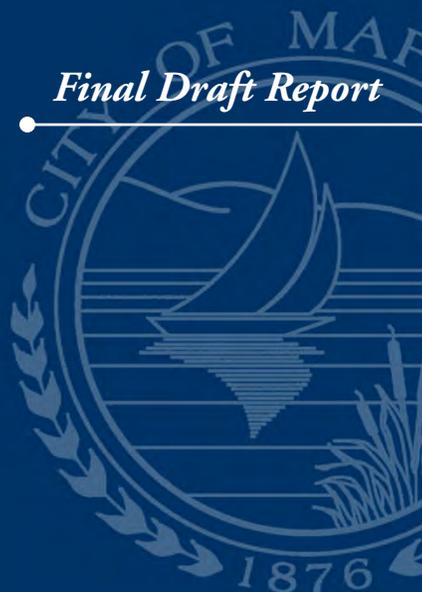
Compactor/Debris Box Rates Effective January 1, 2013

Compactor Rate	\$365.27
Minimum Monthly	\$441.31
Regular Debris Box	\$455.47
Excess Tonnage Rate	\$ 87.33
Specials	\$ 75.00
Box Liner	\$ 25.00
Dry Run	\$150.00

Martinez Multi-Family Rates - Effective 1/1/13

Recycling Rates are included in Commercial Rates

1 unit 1 cart 1x/week	1 x per week	\$ 25.53
Duplex 2 carts 1x/week	1 x per week	\$ 46.71
2 units 2 carts 1x/week	1 x per week	\$ 50.83
2 units 3 carts 1x/week	1 x per week	\$ 67.32
3 units 1 cart 1x/week	1 x per week	\$ 25.53
3 units 2 carts 1x/week	1 x per week	\$ 46.71
3 units 3 carts 1x/week	1 x per week	\$ 67.32
4 units 2 carts 1x/week	1 x per week	\$ 49.45
4 units 3 carts 1x/week	1 x per week	\$ 68.72
4 units 4 carts 1x/week	1 x per week	\$ 87.92
4 units 5 carts 1x/week	1 x per week	\$ 108.52
4 units 6 carts 1x/week	1 x per week	\$ 122.29
4 units 7 carts 1x/week	1 x per week	\$ 127.79
4 units 2 carts 2x/week	2 x per week	\$ 87.92
4 units 4 carts 2x/week	2 x per week	\$ 126.41
5 units 4 carts 1x/week	1 x per week	\$ 89.32
5 units 5 carts 1x/week	1 x per week	\$ 125.01
5 units 6 carts 1x/week	1 x per week	\$ 126.41
5 units 10 carts 1x/week	1 x per week	\$ 185.49
5 units 5 carts 2x/week	2 x per week	\$ 126.41
6 units 6 carts 1x/week	1 x per week	\$ 129.12
6 units 8 carts 1x/week	1 x per week	\$ 162.10



Review of Allied Waste Systems, Inc. 2013 Base Year Rate Application





**Review of Allied Waste Systems, Inc.
2013 Base Year Rate Application**

November 8, 2012

November 8, 2012

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

Regarding: **2013 Base Year Rate Review of Allied Waste Systems, Inc.**

Dear Mr. Chandler:

NewPoint Group is pleased to present to the City of Martinez (City) our report titled, "*Review of Allied Waste Systems, Inc. 2013 Base Year Rate Application.*" This report presents results of our review of Allied Waste Systems, Inc.'s (AWS') *2013 Base Year Rate Application* (Application). AWS is a Republic Services, Inc. company.

We conducted the review in accordance with guidelines and procedures specified in the City's 2011 *Rate Setting Process and Methodology Manual for Solid Waste Charges* (2011 Manual). This report represents results of the City's fourth base year rate review of AWS. The first review was completed in 2000, the second review occurred in 2004, and the third review occurred in 2008. This report also represents results of the City's first base year rate review of AWS since inception of the 2011 Manual.

For rate setting purposes, AWS and the City use the Base Case Operating Ratio Methodology, as identified in the City's 2011 Manual (page I-13). In this methodology, the company's operating ratio, in a base year, can range from 88 to 92 percent, with a target of 90 percent (on an earnings before interest and tax basis, or EBIT).¹ In this first base year since inception of the 2011 Manual, the operating ratio is set at 90 percent. In each succeeding base year (once every four years), the operating ratio can range from 88 to 92 percent without a rate change. In any succeeding base year, if the company earns an operating ratio outside this 88 to 92 percent range, then in that base year, rates are reset to reflect a 90 percent operating ratio.

In the Application, AWS requested a rate decrease of 2.03 percent. Based on our review, we recommend a rate decrease of 5.19 percent, effective January 1, 2013. For the 32-gallon residential service level, a 5.19 percent rate decrease corresponds to a decrease of \$1.47 per customer, per month. For the 64-gallon residential service level, a 5.19 percent rate decrease

¹ 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.

corresponds to a decrease of \$1.64 per customer, per month. Recommended residential rates, for the most common residential service levels, are shown in the table below:

City of Martinez
Recommended Monthly Residential Cart Rates with 5.19 Percent Rate Decrease²
2013 Base Year Rate Review

Service Level	Current Rate (Per Customer, Per Month)	Recommended Rate (Per Customer, Per Month)	Rate Decrease (Per Customer, Per Month)
20-gallon	\$19.75	\$18.72	\$1.03
32-gallon	\$28.30	\$26.83	\$1.47
64-gallon	\$31.55	\$29.91	\$1.64
96-gallon	\$66.30	\$62.86	\$3.44

The company also has agreed to implement the Refuse Roundup program in the City at no new additional cost to City ratepayers. This program provides a scheduled one-day reuse day where businesses and residents can drop off reusable items, which are redistributed to others in need (e.g., local charities). This program is described in more detail on page 2-14.

* * * * *

If you have any questions regarding this report, please contact me at (916) 442-2456.
Thank you for the opportunity to serve the City of Martinez.

Sincerely yours,
NewPoint Group®


Erik Nylund

² Rates shown are for the most common service types in the rate structure. These services/ rates are provided to over 81 percent of City customers.

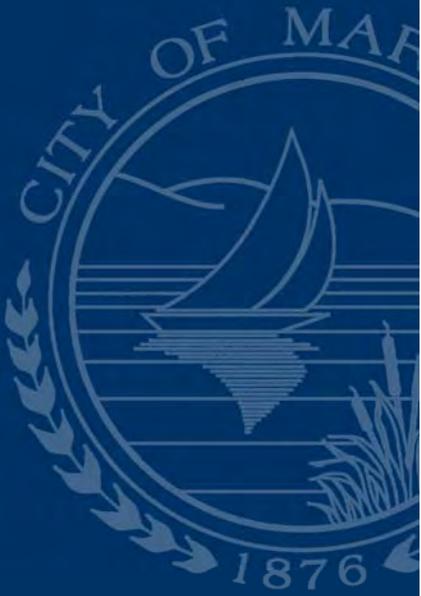


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Section I

Introduction and Background



1. Introduction and Background

The City of Martinez (City) contracted with NewPoint Group Inc. to conduct this 2013 rate review of its franchised refuse collection hauler, Allied Waste Systems, Inc. (AWS). AWS is a Republic Services, Inc. company.

This report represents results of the City's fourth base year rate review of AWS. The first review was completed in 2000, the second review occurred in 2004, and the third review occurred in 2008.

This review was performed consistent with guidelines provided in the City's 2011 *Rate Setting Process and Methodology Manual for Solid Waste Charges* (2011 Manual). This report represents results of the City's first base year rate review of AWS since inception of the 2011 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. *2013 Base Year Rate Application.*

A. Background of Review

AWS has an exclusive franchise from the City to collect and remove, for disposal and recycling, residential, commercial, and light industrial solid waste. The current refuse and recycling collection franchises between AWS and the City expire in approximately ten years, on January 5, 2023.

AWS offers City residential customers 20-gallon, 32-gallon, 64-gallon, and 96-gallon cart service options. Also, AWS offers senior citizen rates and multiple cart services (e.g., 2, 64-gallon refuse carts). These service types are identified in the City's residential rate structure (see Section X of Base Year Rate Change Application, included on page A-5 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 2012 residential monthly rates by cart size.

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

Cart Size	Rate
20-gallon	\$19.75
32-gallon	\$28.30
64-gallon	\$31.55
96-gallon	\$66.30

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

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 types²
 - California Refund Value (CRV) beverage containers
 - Food containers
 - Milk and water jugs.

AWS transports recyclables for processing at the Pacific Rim Recycling facility in Benicia, California. AWS collects yard waste, every other week, in a 96-gallon cart. AWS uses yardwaste

¹ Rates shown are for the most common service types in the rate structure. These services/ rates are provided to over 81 percent of City customers.

² Including types #1 to #7.

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 AWS. Fairness is demonstrated through a review of AWS’ actual revenues and expenses. Charges also must be justifiable and reasonable.

The City and AWS have no formal, or conceptual, balancing account whereby projected revenues and costs are “balanced” with actual revenues and costs. Once base year results are approved by the City Council, the City does not examine actual AWS financial results until the next base year, or four years later.

In a balancing account, differences between prior year projections are “trued up” against actual results. Balancing accounts create a number of problems in terms of defining their terms and accounting for them. By virtue of ongoing true ups between projected and actual results required for balancing accounts, rates charged can fall far out of alignment with the ongoing costs of service, which is in conflict with utility ratemaking theory. The City takes the approach that should there be cases where revenues and costs fall out of alignment during interim years, the City then rebases the results during the base year, without any balancing account.

The City uses the Operating Ratio (OR) method to project the profit level allowed to AWS 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 received by AWS in a base year, and in subsequent interim years, is not however,

guaranteed. In this first base year since inception of the 2011 Manual, the operating ratio was set at 90 percent.

C. Scope of Review

The scope of work for this project is based on requirements of the 2011 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 AWS' responsibility.

NewPoint Group 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 2011 financial information contained in the application to the financial audit provided by AWS
- Compared actual 2009, 2010, and 2011 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
- Determined the projected 2013 operating ratio
- Conducted a survey of rates in other neighboring communities
- Assessed franchise fee payments made by AWS to the City.

We also met with AWS management on September 20, 2012, October 24, 2012, and October 26, 2012, to review our data requests and provide AWS with an opportunity to discuss aspects of their application.

D. Rate History

Rate changes, since 2008, the last base year, 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)
<hr/>	
■ 2004	3.8% (base year, new program)
■ 2005	1.9% (interim year)
■ 2006	3.2% (interim year)
■ 2007	3.7% (interim year)
<hr/>	
■ 2008	0.0% (base year)
■ 2009	4.0% (interim year)
■ 2010	0.0% (interim year)
■ 2011	3.1% (interim year)
■ 2012	0.0% - residential and multifamily, 10.7% - commercial and industrial (interim year).

Over thirteen years since inception of the 2000 Manual, annual City rate increases averaged 2.7 percent for residential services, and 3.5 percent for commercial services, on a compound basis. However, for four of these years the City and AWS added new programs. In 2000, the City and AWS added automated collection, residential yardwaste, and a mixed paper recycling program. In 2004, the City and AWS added a residential single stream cart-based recycling program. In 2008, the City and AWS added an expanded multi-family recycling service program and a new residential on-call bulky recyclables and yardwaste collection service program. In 2012, the City and AWS implemented the State's mandatory commercial recycling program. During this same timeframe (2000 to 2012), the application CPI increased by 2.7 percent per year, on a compound basis.

For the four-year period since the last base year in 2008, City rate increases averaged 1.8 percent for residential services, and 4.4 percent for commercial services, on a compound basis.

This review represents the first time that the City has examined detailed revenues and costs of the company since the last base year in 2008. The basis for the 2008 base year review was actual 2006 financial data and the basis for this base year review is actual 2011 financial data, a span of five years in total.

E. 2013 Base Year Rate Application

The City received AWS' 2013 Base Year Rate Change Application (Application) on August 1, 2012. A copy of the Application is provided in **Appendix A**. AWS used year-to-date information (i.e., from January 1 through June 30, 2012) to estimate 2012 financial results. Year 2013 results are projected in the Application.

AWS requested a 2.03 percent rate decrease effective January 1, 2013. This request

corresponded to a \$0.57 per customer, per month, decrease on the 32 gallon cart rate, the most common City service level.

Our review did not represent a financial audit of AWS. Hood & Strong LLP conducted the 2011 financial audit of consolidated AWS operations in Contra Costa County. AWS provided a Supplemental Schedule of Operations for the City of Martinez, audited by Hood & Strong LLP, with its Application (**Appendix B**).

In the remainder of this report, we provide findings and recommendations from our 2013 base year review. There is one additional report section that follows:

- Section 2 - Review of Rate Change Application for 2013.

Also, there are four (4) appendices to this report, as follows:

1. *Allied Waste Systems Rate Application*
2. *Allied Waste Systems Audited Financial Statements*
3. *Adjusted Base Year Rate Model*
4. *Comparative Rate Survey.*



Section 2

Review of Rate Change Application for 2013



2. Review of Rate Change Application for 2013

This section details findings from our review of AWS' 2013 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 AWS 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, AWS requested a rate decrease of 2.03 percent.

In our review of AWS financial results, we compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from AWS for material changes. We examined actual results from 2011, estimated results for 2012, and projected results for 2013. Our adjusted rate model is provided in **Exhibit C-1**, of **Appendix C**.

The remainder of this section is organized as follows:

- A. *AWS Financial and Operating Results Since the 2008 Base Year*
- B. *Method for Allocating AWS Revenues and Costs to the City*
- C. *Review of Revenues, Costs, and Profits*
- D. *Components of Residential Rate*
- E. *Comparison of Current Rates to Other Neighboring Jurisdictions*
- F. *Addition of Refuse Roundup Program*
- G. *Summary of Recommended Rates.*

A. AWS Financial and Operating Results Since the 2008 Base Year

In **Table 2-1**, on the next page, we compare City approved rate changes with changes in residential revenues, accounts, and tonnage. Residential revenues increased 5.5 percent between 2009 and 2012. This increase was largely explained by rate increases approved by the City which, on a compounded basis, equaled 7.2 percent, between 2009 and 2012. Residential accounts remained stable during the period, however residential tonnage decreased 5.4 percent which may have caused some customers to decrease the size of their refuse container, generating less revenues.

Table 2-1
City of Martinez
Comparison of Residential Rate Increases with Changes
in Residential Accounts, Tonnage, and Revenues
(2009 to 2012)

Year	Rate Increase	Change in AWS Residential Accounts	Change in AWS Residential Tons	Change in AWS Residential Revenues
2009	4.0%	-0.5%	-3.7%	2.7%
2010	0.0%	0.4%	0.3%	0.0%
2011	3.1%	0.3%	2.1%	3.2%
2012 (est.)	0.0%	0.2%	-4.1%	-0.4%
Total - compounded (2009 to 2012)	7.2%	0.3%	-5.4%	5.5%

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 1.9 percent, between 2009 and 2012. This decrease was the result of the combined net impact of three factors: (1) the City approved rate increases (18.7 percent), (2) a reduction in commercial and multi-family accounts (5.3 percent), and (3) a reduction in commercial tonnage (which declined over 43 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 significantly, or by 16.9 percent. This decrease was the result of the net impact of the City approved rate increases (18.7 percent) and a reduction in industrial tonnage (which declined over 8 percent).

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

AWS directly assigned revenues to the City. AWS' billing system coded revenues by the

jurisdiction in which the customer lives. Typically customers were billed in advance of services provided. AWS recognized revenues in the month earned.

Table 2-4, on page 2-4, shows methods used by AWS to allocate consolidated AWS costs to the City. AWS allocated nearly all consolidated costs to the City based on the City's share of total tonnage disposed.

AWS determined tonnage for the City using a combination of actual truck weight tickets at the transfer station, and AWS' Route Master Distribution Report. Laborers performed their routes and drove their trucks to the transfer station to be weighed. AWS 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. AWS' 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 AWS costs to the City as the method is consistent with waste management industry practice.

Table 2-2
City of Martinez
Comparison of Commercial (Can and Bin) Rate Increases with Changes
in Commercial Accounts, Tonnage, and Revenues
(2009 to 2012)

Year	Rate Increase	Change in AWS Commercial Accounts	Change in AWS Commercial Tons	Change in AWS Commercial Revenues
2009	4.0%	-3.8%	-21.1%	-0.3%
2010	0.0%	-1.9%	-9.7%	-7.4%
2011	3.1%	-1.1%	-12.7%	2.2%
2012 (est.)	10.7%	1.4%	-8.9%	4.0%
Total - compounded (2009 to 2012)	18.7%	-5.3%	-43.3%	-1.9%

Table 2-3
City of Martinez
Comparison of Industrial (Debris Box) Rate Increases with Changes
in Industrial Accounts, Tonnage, and Revenues
(2009 to 2012)

Year	Rate Increase	Change in AWS Industrial Accounts	Change in AWS Industrial Tons	Change in AWS Industrial Revenues
2009	4.0%	12.0%	-6.4%	-3.8%
2010	0.0%	-3.6%	-2.3%	-21.6%
2011	3.1%	0.0%	-3.2%	5.1%
2012 (est.)	10.7%	3.7%	3.9%	4.8%
Total - compounded (2009 to 2012)	18.7%	12.0%	-8.1%	-16.9%

We examined City financial results against a basic operating metric of tonnage to determine reasonableness. As shown in **Table 2-5**, on the next page, for 2011 we determined that City tonnage as a percent of total AWS tonnage equaled 8.5 percent. City revenues and expenses, as a percent of total AWS revenues and expenses were slightly above and below the tonnage calculation at 9.0 percent and 8.4 percent of the total, respectively.

The 2011 AWS' lower overall allocation of expenses to the City (8.4 percent versus 8.5 percent) was explained by City direct labor cost allocations for the residential, commercial, and industrial sectors. For 2011, total City labor hours represent

7.4 percent of total AWS labor hours.¹ AWS labor allocations to the City for the residential, commercial, and industrial sectors fell below tonnage allocations, suggesting that it was more efficient for AWS to serve the City's residential, commercial, and industrial areas than it was for AWS to serve residential, commercial, and industrial areas in other AWS-served jurisdictions.

During the 2009 to 2012 period, AWS' operating ratio fell below the targeted 90 percent OR range. We determined that this period of higher profitability resulted from: (1) AWS cost-cutting measures (e.g., routing efficiencies),

¹ Based on AWS provided route hours from Routemater allocations.

Table 2-4
City of Martinez
AWS Methods Used to Allocate Consolidated
Costs to Each Jurisdiction

Cost	Allocation Method
<i>Direct Expenses</i>	
Amortization	Direct
Direct Labor	Direct ²
Disposal Fees	Direct
Franchise Fees	Direct
<i>Indirect Expenses</i>	
Corporate Overhead	Tonnage (by sector) ³
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 2-5
City of Martinez
Comparison of the City's Share of AWS
Revenues and Expenses with Tonnage
(December 31, 2011)

Description	City	Total AWS	Percent of Total
Tonnage	21,443	253,545	8.5%
Estimated Revenues ⁴	\$6,325,926	\$70,322,859	9.0%
Estimated Expenses ⁴	\$4,703,131	\$55,885,760	8.4%

(2) increased recycled materials sales, and (3) declines in overall expense allocations.

Since 2009, AWS reported refuse tonnage reductions for the commercial and industrial sectors. Residential refuse tonnage fluctuated, but has trended downward. City customers diverted

² Based on employee time spent on a route (from AWS' Route Master system).

³ Tonnage allocations are determined on a monthly basis, by sector (i.e., residential, commercial, and industrial).

⁴ Excluding revenues and expenses related to providing services to the City

more refuse, as recyclables tonnage for the residential and commercial sectors, combined, increased approximately 9 percent from 2008 to 2011.

Table 2-6
City of Martinez
Comparison of the City's Share of
AWS Total Expenses⁴
(2009, 2010, and 2011)

Description	City	Total AWS	Percent of Total
2009 Expenses	\$4,355,650	\$49,329,342	8.8%
2010 Expenses	\$4,638,108	\$53,470,025	8.7%
2011 Expenses	\$4,703,131	\$55,885,760	8.4%

Table 2-7
City of Martinez
Comparison of the City's Share of
AWS Total Revenues⁴
(2009, 2010, and 2011)

Description	City	Total AWS	Percent of Total
2009 Revenues	\$6,612,081	\$67,299,348	9.8%
2010 Revenues	\$6,192,895	\$69,555,557	8.9%
2011 Revenues	\$6,325,926	\$70,322,859	9.0%

In addition, the City's overall share of AWS' total expenses was below the City's overall share of AWS' total revenues, for each of the three years (2009 to 2011), as shown in **Tables 2-6** and **2-7**, above. These City's expense and revenue trends largely explained the higher profitability during the 2009 to 2012 period.

C. Review of Revenues, Costs, and Profits

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

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

AWS' requested revenue requirement, as submitted in the Application, was \$6,629,213. 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 2013 revenue requirement. Adjustments reduced the revenue requirement by \$183,757.

1. Revenues

Residential Revenues

AWS estimated residential revenues to decrease by \$15,002, or 0.4 percent, between 2011 and 2012. This decrease is based on year-to-date 2012 residential revenue trends.⁵ AWS projected a further decrease of \$15,986, or 0.5 percent, in residential revenues between 2012 and 2013, consistent with the recent reduction for 2012.

AWS received no residential rate change in 2012. Since 2009, residential disposal tonnage decreased by 1.8 percent on a total compounded basis, representing a 0.5 percent average compounded annual rate of decrease. Residential disposal tonnage decreased by 4.1 percent between 2011 and 2012. AWS expected 2013 residential accounts to remain at the 2012 levels for 2013.

We found AWS' 2013 residential revenue projection reasonable, based on the relatively stable number of residential accounts and the historical and recent residential refuse disposal tonnage declines, suggesting some service level downsizing.

⁵ In its Application, AWS estimated 2012 revenues based on year-to-date data, through June 30, 2012.

Residential Uncollectible Revenues

AWS projected residential uncollectible revenues of \$9,847 for 2013. Projected residential uncollectible revenues represent 0.3 percent of projected 2013 residential revenues. We found this "bad debt" percentage reasonable.

Commercial Revenues

AWS estimated commercial revenues to increase by \$78,107, or 4.0 percent, between 2011 and 2012. AWS projected a further increase of \$84,730, or 4.1 percent, in commercial revenues for 2013.

Projected increases were due to the impact of the 2012 commercial rate increase of 10.70 percent (effective July 1, 2012). Projected increases do not reflect business losses based on historical and year-to-date 2012 tonnage trends.

Since 2009, commercial disposal tonnage decreased by 28.2 percent on a total compounded basis, representing a 7.9 percent average compounded annual rate of decrease. Commercial disposal tonnage decreased 8.9 percent between 2011 and 2012.

AWS expected commercial tonnage to remain at 2012 levels for 2013. This 0.0 percent decrease rate was inconsistent with historical and recent tonnage declines in the commercial sector, suggesting that AWS believes the sector has reached the bottom of the historical declines.

Based on historical and recent continual declines in commercial revenues, we projected 2013 commercial revenues of \$2,091,319. Our projection also includes impacts of the 10.70 rate increase. Our projection decreased commercial revenues by \$37,767 for 2013 (\$2,091,319 - \$2,129,086).

Net Impact:

[Increase in 2013 revenue requirement of \$37,767]

2. Review of Rate Change Application for 2013

Exhibit 2-1 Schedule of Rate Review Findings

		Adjustments to 2013 Revenue Requirement	
Line in Application	Category	Revenue, Cost, or Profit	Report Page Reference
Revenues			
14	Residential Revenues	\$0	Page 2-5
17	Commercial / Light Industrial Revenues (Includes \$344,083 in Services Provided to City)	427,488	Page 2-5
20	Recycled Materials Sales	6,464	Page 2-7
Subtotal		\$433,952	
Allowable Costs			
1	Direct Labor	\$248,103	Page 2-8
2	Tipping Fees (Profit Allowed)	(383,701)	Page 2-10
3	Corporate and Local General and Administrative	41,549	Page 2-10
4	Trucking and Equipment	131,925	Page 2-11
5	Depreciation and Other Operating	47,974	Page 2-11
6	Services Provided to City	(344,083)	Page 2-11
Subtotal		(\$258,233)	
Allowable Operating Profits			
9	Allowable Profits (@ 90.00%)	(\$488,270)	Page 2-12
Subtotal		(\$488,270)	
Pass Through Costs without Franchise Fees			
10	Administrative Fee	\$25,000	Page 2-11
11	Tipping Fees (Pass Through)	165,565	Page 2-10
Subtotal		\$190,565	
Franchise Fees			
23	Residential/Commercial/Light Industrial Franchise Fees	(\$61,771)	Page 2-12
Subtotal		(\$61,771)	
Total Adjustments		(\$183,757)	

Light Industrial (Roll-off) Revenues

AWS estimated light industrial revenues to increase by \$38,513, or 4.8 percent, between 2011 and 2012. AWS projected a further increase of \$42,635, or 5.1 percent, in light industrial revenues for 2013.

Projected increases were due to the impact of the 2012 roll-off rate increase of 10.70 percent (effective July 1, 2012). Projected increases do not reflect business losses based on historical and year-to-date 2012 tonnage trends.

Since 2009, light industrial disposal tonnage decreased by 1.8 percent on a total compounded basis, representing a 0.5 percent average compounded annual rate of decrease.

AWS expected light industrial tonnage to remain at 2012 levels for 2013. This 0.0 percent decrease was inconsistent with historical tonnage declines in the light industrial sector, suggesting that AWS believes the sector has reached the bottom of the historical declines.

Based on historical and recent declines in light industrial revenues, we projected 2013 light industrial revenues of \$836,119. Our projection also includes impacts of the 10.70 rate increase. Our projection decreased light industrial revenues by \$46,809 for 2013 (\$836,119 - \$882,928).

Net Impact:

[Increase in 2013 revenue requirement of \$46,809]

Commercial and Light Industrial Uncollectible Revenues

AWS projected commercial and light industrial uncollectible revenues of \$8,404 for 2013. Projected residential uncollectible revenues represent 0.3 percent of projected 2013 commercial and light industrial revenues. We found this “bad debt” percentage reasonable.

We calculated commercial and light industrial uncollectible revenues of \$7,233, based on our commercial and light industrial revenue projections and the 0.3 bad debt percentage. This adjustment decreased commercial and light industrial uncollectible revenues by \$1,171 (\$7,233 - \$8,404)

Net Impact:

[Decrease in 2013 revenue requirement of \$1,171]

Recycling Revenues

AWS projected 2013 recycling revenues to remain at 2012 levels for 2013. Since 2009, recycling tonnage decreased by 3.9 percent on a total compounded basis, representing a 1.0 percent average compounded annual rate of decrease. Recycling tonnage decreased 9.0 percent between 2011 and 2012.

AWS expected recycling tonnage to remain at 2012 levels for 2013. This 0.0 percent decrease rate was inconsistent with historical and recent recycling tonnage declines, suggesting AWS believes recycling sales have reached the bottom of the recent declines.

Based on historical and recent declines in recycling revenues, we projected 2013 recycling revenues of \$232,057. Our projection decreased recycling revenues by \$6,464 for 2013 (\$232,057 - \$238,521).

Net Impact:

[Increase in 2013 revenue requirement of \$6,464]

2. Costs

Our discussion of costs below addresses changes in costs associated with the normal course of AWS business operations. Our discussion also addresses the impacts of the newly implemented mandatory commercial recycling program in response to Assembly Bill 341 (AB 341).

The new mandatory commercial recycling program is not without additional costs (e.g., new carts/containers and a truck). The City adopted a 10.70 percent rate increase, effective July 1, 2012, for commercial and industrial services, to cover the additional operating costs. In **Exhibit 2-2**, on the following page, we summarize the estimate of incremental costs associated with the mandatory commercial recycling program. Estimated costs for this program change were \$220,671.

The new mandatory commercial recycling program took effect on July 1, 2012. The incremental annual costs are spread over the second half year of 2012 and the first half year of 2013. In its detailed 2012 and 2013 projections, AWS included these incremental costs under one cost category (tipping fees, profit allowed). Instead, we included the incremental costs under each of the corresponding cost categories.

Escalation Factor

Because 2013 is a projection year, we assumed certain AWS 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 August 2011 to August 2012, or 2.8 percent $(241.170 - 234.608) / 234.608$.

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 2.8 percent escalation factor to project AWS inflationary expenses for 2013.

Direct Labor

AWS originally projected labor costs to increase 4.5 percent in 2013. In discussions with AWS management, and based on recent industry trends, we projected AWS labor costs to increase by 5.0 percent for 2013. We found this 2013 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 2013 impact of a 5.0 percent increase in labor, we increased the revenue requirement by \$11,807.

AWS projected an increase of \$47,880 in insurance costs for 2012, and an increase of \$91,349 in insurance costs for 2013. We allowed the increases. This adjustment increased 2013 revenue requirement by \$139,229.

For the mandatory commercial recycling program, we included the projected incremental change in AWS direct labor costs, spread over 2012 and 2013 (see Exhibit 2-2, item 1). This adjustment increased 2013 revenue requirement by \$97,067.

Net Impact:

[Increase in 2013 revenue requirement of \$248,103 ($\$11,807 + \$139,229 + \$97,067$)]

Tipping Fees (Profit Allowed, Pass Through)

Tipping 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 2012 gate rate charged to public self-haul customers for this facility was \$76.00 per ton.

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

Tipping fees in the Application for 2013 were \$1,482,440. Of this total, the Application specified all of these fees with profit, and none of these fees as a pass through expense.

AWS assumed a 0.0 percent change factor for each sector (i.e., residential, commercial, and

Exhibit 2-2
Incremental Change in AWS Costs for Mandatory Commercial Recycling Program
(Projected Annual Total, Calendar Year 2012)

Cost Area	Total
<i>1. Direct Labor</i>	
■ Increase in labor costs to serve new routes	\$92,443
Subtotal	\$92,443
<i>2. Tipping Fees</i>	
■ Reduction in disposal costs (with shift of material from refuse to recycling)	(\$26,717)
Subtotal	(\$26,717)
<i>3. Corporate and Local General and Administrative</i>	
■ New customer education/program promotion	\$6,000
■ Additional insurances	10,170
Subtotal	\$16,170
<i>4. Trucking and Equipment</i>	
■ Increased truck maintenance costs (one year of new truck)	\$94,612
■ Other truck fixed costs	1,182
■ Increased cart maintenance costs	11,366
Subtotal	\$107,160
<i>5. Depreciation and Other Operating</i>	
■ New truck	\$17,736
■ New carts	4,158
■ Cost of capital	9,721
Subtotal	\$31,615
Total	\$220,671

industrial). AWS projected tipping fees to increase 1.5 percent for 2012 and 2013.

We left residential, commercial, and industrial tonnage unchanged for 2013, as these sectors have shown declines in tonnage over the past four years. We used an inflationary adjustment of 2.8 percent for tipping fees.

For the mandatory commercial recycling program, AWS included all of the incremental costs under the tipping fee category. We included only the projected incremental change in AWS tipping fee costs under this category, spread over 2012 and 2013 (see Exhibit 2-2, item 2).

With the adjustments, we projected \$1,264,304 in tipping fees for 2013. We recommend the City allow \$1,264,304 in tipping fees for 2013. Further, we recommend that the City allow \$1,098,739 (21,443 x \$51.24 per ton) with profit, and the remaining \$165,565 as a pass-through expense.

The effect of this redistribution of tipping fees was a decrease in allowable expenses of \$383,701 and an increase in pass through expenses of \$165,565.

Net Impact:

[Decrease in 2013 revenue requirement of \$218,136 (-\$383,701 + \$165,565)]

Corporate and Local General and Administrative

AWS projected corporate and local general and administrative costs to increase 3.0 percent for 2012 and 2013. We used an inflationary adjustment of 2.8 percent rather than 3.0 percent requested by AWS. This adjustment reduced the revenue requirement by \$2,792.

AWS estimated corporate and local general and administrative costs to increase by \$11,246 for 2012. The increase was for the additional depreciation of CNG stations. We allowed this

additional new cost for the CNG stations, but reclassified this cost to the depreciation category. This adjustment reduced the revenue requirement by \$11,561.

AWS projected an increase of \$16,227 in legal costs for 2012, and an increase of \$22,597 in legal costs for 2013. We allowed the increases. This adjustment increased 2013 revenue requirement by \$39,279.

For the mandatory commercial recycling program, we included the projected incremental change in AWS corporate and local general and administrative costs, spread over 2012 and 2013 (see Exhibit 2-2, item 3). This adjustment increased 2013 revenue requirement by \$16,623.

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 the adjustments, corporate and local general and administrative costs were approximately 10.8 percent of the total revenue requirement, and within the cap guideline.

Net Impact:

[Decrease in 2013 revenue requirement of \$41,549 (-\$2,792 - \$11,561 + \$39,279 + \$16,623)]

Trucking and Equipment

AWS projected trucking and equipment costs to increase 1.5 percent for 2012 and 2013. We used an inflationary adjustment of 2.8 percent rather than 1.5 percent requested by AWS. This adjustment increased the revenue requirement by \$21,764.

For the mandatory commercial recycling program, we included the projected incremental change in AWS trucking and equipment costs, spread over 2012 and 2013 (see Exhibit 2-2, item

4). This adjustment increased 2013 revenue requirement by \$110,161.

Net Impact:

[Increase in 2013 revenue requirement of \$131,925 (\$21,764 + \$110,161)]

Depreciation and Other Operating Costs

We recommend no change to the estimated and projected depreciation cost escalations for 2012 and 2013. We included the re-classified depreciation cost of \$11,246 for 2012, related to the additional depreciation of CNG stations. This adjustment increased the revenue requirement by \$12,708.

For the mandatory commercial recycling program, we included the projected incremental change in AWS depreciation costs, spread over 2012 and 2013 (see Exhibit 2-2, item 5). This adjustment increased 2013 revenue requirement by \$35,726.

AWS projected other operating costs to increase 3.0 percent for 2012 and 2013. We used an inflationary adjustment of 2.8 percent rather than 3.0 percent requested by AWS. This adjustment reduced the revenue requirement by \$460.

Net Impact:

[Increase in 2013 revenue requirement of \$47,974 (\$12,708 + \$35,726 - \$460)]

Services Provided to City

In the Application, AWS shows both costs and revenues related to providing services to the City. AWS included these costs as allowable costs. Therefore, the model calculates allowable operating profits for these costs, based on the operating ratio.

Costs related to providing services to the City should not be covered through rates charged to the ratepayers. We included neither costs nor revenues related to providing services to the City, in the rate review model.

Net Impact:

[Decrease in 2013 revenue requirement is included in the net impact for profits, noted below]

Administrative Fee (Pass Through)

AWS projected a Climate Act Plan expense of \$25,000 for 2013. However, AWS did not include this expense in the Application. We allowed this expense as a pass-through cost. This adjustment increased 2013 revenue requirement by \$25,000.

Net Impact:

[Increase in 2013 revenue requirement of \$25,000]

Franchise Fees

A summary of franchise fee payments made by AWS to the City is provided in **Table 2-8**, on the next page. Amounts included in the Application, AWS 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 \$61,771. 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 2013 revenue requirement of \$61,771]

**Table 2-8
Comparison of Franchise Fees
(2009, 2010, and 2011)**

Year	AWS Application	AWS Reports	City Reports
2009	\$549,246	\$549,246	\$542,500
2010	549,951	549,951	545,294
2011	572,999	572,999	555,242
Total	\$1,672,196	\$1,672,196	\$1,643,036

3. Profits

For rate setting purposes, AWS and the City use the Base Case Operating Ratio Methodology, as identified in the City’s 2011 Manual (page I-13). In this methodology, the company’s operating ratio, in a base year, would range from 88 to 92 percent, with a target of 90 percent (on an earnings before interest and tax basis, or EBIT). In this first base year since inception of the 2011 Manual, the operating ratio is set at 90 percent.

With the adjustments identified in this section, total projected allowable costs for 2013 are \$4,697,810. As shown in Exhibit D-1, we projected that at the target of 90 percent operating ratio, the company would receive \$521,979 in profits for 2013 (line 9).

Net Impact:

[Decrease in 2013 requested revenue requirement of \$488,270 at a 90 percent operating ratio]

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 projected 2013 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) of the Application.

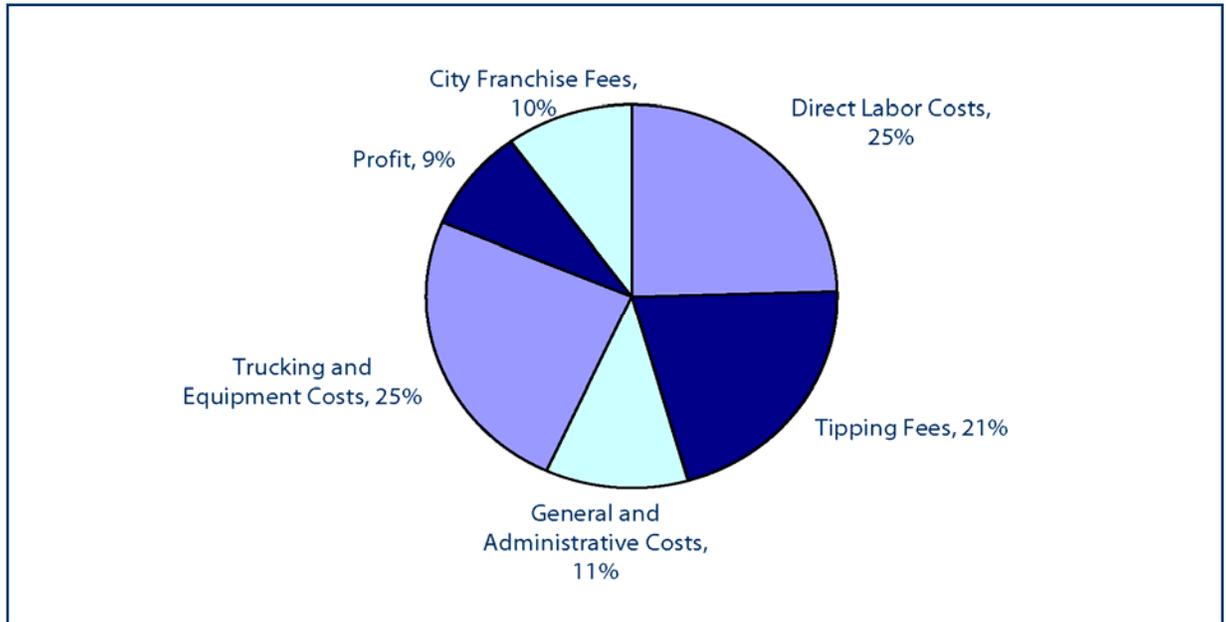
General and Administrative included such costs as accounting, corporate overhead/ management fees, insurance, legal services, office supplies, postage, telephone, and utilities. These costs included Corporate and Local General and Administrative Costs (Line 3), Services Provided to the City (Line 6), and Administrative Fee (Line 10) of the Application.

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 24 of the Application.

Exhibit 2-3
Components of the 2013 Residential 32-Gallon Rate
(Including Mandatory Commercial Recycling Program)



E. Comparison of Current Rates to Other Neighboring Jurisdictions

We compared current 2012 City rates with survey data from eleven (11) other jurisdictions. Results of the survey are summarized in **Appendix D**, at the end of this report. **Tables D-1** through **D-3** show how current 2012 City residential, commercial, and industrial rates compared to the average of the eleven areas surveyed.

For the eleven jurisdiction comparison, City residential rates were below the averages for the 20-gallon and 64-gallon service levels, and above the averages for the 32-gallon and 96-gallon service levels. The 32-gallon cart rate, for which nearly 35 percent of City customers subscribe to, was 16 percent above the average. In contrast, the 64-gallon cart rate, for which nearly 35 percent of City customers subscribe to, was 23 percent below the average.

Alternatively City commercial rates were at or below the averages. For three of the four service levels, rates were between 14 and 32 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 15 percent below the eleven jurisdiction average.

F. Addition of Refuse Roundup Program

AWS has agreed to partner with a non-profit organization to schedule an annual reuse day (called Reuse Roundup) where businesses and residents can drop off reusable items at a location with the City. The event details will be approved by the City.

AWS has had some success with the Reuse Roundup program in the City of Antioch. Items accepted are redistributed to others in need (e.g., local charities). Items accepted at the City of Antioch's event include:

- Art & craft materials: calendars, canvas paintings, pictures, art books, sculptures, frames, posters, blank paper, knitting and crocheting supplies
- Audio and video items including CDs, jewel cases, DVDs, audio and video tapes, records and record players
- Baby high chairs (all types), playpens, strollers
- Backpacks in good condition
- Books (all kinds), magazines, paper goods
- Camping equipment (tents, lanterns, tarps, etc.), fishing equipment (rods, reels, lures, hooks, weights, etc.), barbeques
- Clocks, watches
- Clothing and costumes, vintage accessories
- Duffel bags, small
- Furniture, 4 feet long or shorter: chairs, coffee tables, end tables, lamps.
- Games (small, electronic, handheld)
- Garden items: flower pots in good condition (ceramic, terra cotta only; no broken or chipped pots), planter boxes, watering cans, statuary and wrought iron furniture; lawn mowers
- Household items: ceramic, metal and glass kitchenware, vases and knickknacks, utensils, placemats, tablecloths, cutting boards (nothing plastic)
- Ladders (metal only)
- Leather and scrap leather
- Medical equipment in good condition (canes, wheelchairs, walkers, hand rails)
- Pet supplies & food: canned/dried food for cats, dogs, puppies, kitten and puppy replacement powder, toys (stuffed or hard and washable), small blankets, towels, twin sheets, pillow cases, shampoo, brushes, combs
- Sewing machines and supplies
- Small household electronics (radios, microwave ovens, blenders, toasters, mixers, blow dryers, etc.)
- Small rugs
- Shoes (paired only), purses and belts
- Sports equipment (shoes, gloves, bats, shin guards, helmets, etc.) and exercise machines
- Textiles, bed spreads, blankets, comforters, fabrics, sheets, sleeping bags, towels, decorations, notions, vintage items and unique handcrafted items.
- Tin and wood only animals and toys
- Tools: hand, power and electrical for home and garden
- Travel-size toiletries
- Vacuum cleaners
- Umbrellas: metal and garden umbrellas (including stands)
- Wheeled luggage, metal umbrellas, garden umbrellas (including stands).

G. Summary of Recommended Rates

Based on our review, we recommend a rate decrease of 5.19 percent, effective January 1, 2013. For the 32-gallon residential service level, a 5.19 percent rate decrease corresponds to a decrease of \$1.47 per customer, per month. For the 64-gallon residential service level, a 5.19 percent rate decrease corresponds to a decrease of \$1.64 per customer, per month. Recommended residential rates, for the most common residential service levels, are shown in **Table 2-9**, on the next page.

As a way to minimize future rate fluctuations, the City may want to consider using a portion of this 5.19 percent rate decrease to offset the potential need for rate increases in future interim years. For example, the City could consider approving a rate decrease of an amount less than 5.19 percent, and use the difference as a credit against future rate increases. This rate stabilization approach is relatively common practice in the waste management industry.

Table 2-9
 City of Martinez
 Recommended Monthly Residential Cart Rates with 5.19 percent Rate Decrease⁶
 2013 Base Year Rate Review

Service Level	Current Rate (Per Customer, Per Month)	Recommended Rate (Per Customer, Per Month)	Rate Decrease (Per Customer, Per Month)
20-gallon	\$19.75	\$18.72	\$1.03
32-gallon	\$28.30	\$26.83	\$1.47
64-gallon	\$31.55	\$29.91	\$1.64
96-gallon	\$66.30	\$62.86	\$3.44

⁶ Rates shown are for the most common service types in the rate structure. These services/ rates are provided to over 81 percent of City customers.

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Appendix A

Allied Waste Systems Rate Application



Appendix A

Allied Waste Systems

Rate Application

Appendix A includes the 2013 Base Year Rate Change Application (Application) submitted by Allied Waste Systems, Inc. (AWS) to the City on August 1, 2012. In the Application, AWS proposed to decrease City collection rates by 2.03 percent on January 1, 2013. The Application included the following forms:

- Financial information
- Cost summary for year 2011
- 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, 2009 to 2011 (including audited 2011 results)
- Current year estimated, 2012
- Base year projected, 2013.

**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
2009	2010	2011	2012	2013

Section I - Allowable Costs

1. Direct Labor	1,143,995	1,113,383	1,129,895	1,175,091	1,227,970
2. Tipping Fees (Profit Allowed)	1,187,131	1,256,752	1,222,360	1,351,432	1,482,440
3. Corporate and Local General and Administrative Costs	434,494	523,229	562,303	645,802	608,131
4. Trucking and Equipment	664,667	757,989	801,117	812,893	824,843
5. Depreciation and Other Operating Costs	377,755	434,627	385,886	424,865	468,576
6. Services Provided to City	257,864	271,708	310,825	327,454	344,083
7. Total Allowable Costs (Lines 1+2+3+4+5+6)	4,065,906	4,357,688	4,412,386	4,737,538	4,956,043

Section II - Allowable Operating Profit

8. Operating Ratio	66%	76%	75%	81%	83%
9. Allowable Operating Profit [(Line 7 / Line 8) - Line 7]	2,094,558	1,382,154	1,444,245	1,096,061	1,010,249

Section III - Pass Through Costs without Franchise Fees

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

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)	6,160,464	5,739,842	5,856,631	5,833,598	5,966,291
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Section V - Revenue without Rate Change in Base Year

14. Residential Revenue					3,529,450
15. Less Allowance for Uncollectible Residential Accounts					9,847
16. Total Residential Revenue (without Rate Change in Base Year)	3,448,871	3,448,756	3,560,438	3,545,436	3,519,603
17. Commercial and Light Industrial Revenue					3,012,015
18. Less Allowance for Uncollectible Commercial and Light Industrial Accounts					8,404
19. Total Commercial/Light Industrial Revenue (without Rate Change in Base Year)	2,890,952	2,687,372	2,767,929	2,884,649	3,003,611
20. Recycled Material Sales	272,258	328,475	308,284	238,521	238,521
21. Total Revenue (Lines 16+19+20)	6,612,081	6,464,603	6,636,651	6,668,605	6,761,734

Section VI - Net Shortfall (Surplus)

22. Net Shortfall (Surplus) without Franchise Fees (Line 13 - Line 21)					(795,443)
23. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	549,246	549,951	572,999	635,263	662,921
24. Net Shortfall (Surplus) with Franchise Fees (Line 22 + 23)					(132,522)

Section VII - Percent Change in Rates

25. Total Residential/Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16 + 19)					6,523,214
26. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 / Line 25)					-2.03%

Franchise Fee Calculation

Equation 1) Line 13 X 0.10 = X	596,629
Equation 2) Line 13 + X	6,562,921
X = (Line 13 x 0.10) / 0.90	662,921

Summary Revenue Requirement

27. Total Allowable Costs (Line 7)	4,956,043
28. Allowable Operating Profits (Line 9)	1,010,249
29. Total Pass Through Costs (with Franchise Fees) (Line 12+23)	662,921
30. 2013 Revenue Requirement (Lines 27+28+29)	6,629,213

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

Cost Summary for Year 2011

Section VIII - Base Year Cost Allocation

Description of Cost	Martinez	Non-CCCSWA and Non- Martinez	CCCSWA Areas	Audited AWSCCC Financial	Allocation Bases(s)
Labor - Regular (Includes Benefits & Taxes)	1,129,895	6,243,190	4,917,065	12,290,150	Labor Hours
Labor - Overtime (Includes Benefits & Taxes)					Labor Hours
Benefits					Labor Hours
Payroll Taxes					Labor Hours
31. Total Direct Labor	1,129,895	6,243,190	4,917,065	12,290,150	Labor Hours
32. Total Tipping Fees (Profit Allowed)	1,222,360	7,085,081	5,628,042	13,935,483	Tonnage
Accounting	562,302	3,426,021	2,848,500	6,790,881	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	562,302	3,426,021	2,848,500	6,790,881	Tonnage
Equipment Rental					Tonnage
Gas & Oil					Tonnage
Insurance					Tonnage
Parts					Tonnage
Repair and Maintenance					Tonnage
Tires					Tonnage
Other	801,117	5,037,299	3,399,566	9,489,849	Tonnage
34. Total Trucking and Equipment	801,117	5,037,299	3,399,566	9,489,849	Tonnage
Depreciation - Buildings					Tonnage
Depreciation - Vehicles (and amortization)	302,595	1,738,334	1,309,655	3,283,200	Tonnage
Depreciation - Containers					Tonnage
Other Operating Costs	111,862	703,948	567,365	1,383,175	Tonnage
35. Total Depreciation and Other Operating Costs	414,457	2,442,282	1,877,020	4,666,375	Tonnage
36. Total Services Provided to City	310,825	1,351,358	839,026		Direct
37. Total Allowable Costs (Lines 31+32+33+34+35+36)	4,440,956	25,585,231	19,509,219	47,172,738	N/A
38. Total City Administrative Fee					N/A
39. Total Tipping Fees (Pass Through)					Direct
40. Total Residential/Commercial/Light Industrial Franchise Fees	572,999	3,655,609	4,484,414	8,713,022	Direct
41. Total Pass Through Costs (Lines 38+39+40)	572,999	3,655,609	4,484,414	8,713,022	N/A
42. Total Costs (Lines 37 + 41)	5,013,955	29,240,840	23,993,633	55,885,760	N/A

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

Revenue Summary

Section IX - Revenue

	Actual			Estimated Current Year	Projected Base Year
	Historical Years				
	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013
Single Family Residential Service					
43. Single Family Residential Revenue (Base Year from Page 4 of 6)	3,448,871	3,448,756	3,560,438	3,545,436	3,529,450
Multiunit Residential Service					
44. Number of Accounts	152	151	145	148	148
45. Multiunit Residential Revenue	784,829	774,919	797,696	789,068	789,068
46. Residential Revenue (w/o Allowance for Uncollectible Accounts)(Line 43+45)	4,233,700	4,223,675	4,358,134	4,334,504	4,318,518
47. Allowance for Uncollectible Accounts	12,659	16,472	24,406	12,093	12,049
48. Total Residential Revenue (Line 46 + Line 47)	4,221,042	4,207,203	4,333,728	4,322,411	4,306,469
Commercial and Light Industrial Can Service					
49. Number of Accounts					-
50. Commercial and Light Industrial Can Revenues	173,583	152,543	157,245	156,416	156,416
Commercial and Light Industrial Bin Service					
51. Number of Accounts	430	420	420	425	425
52. Commercial and Light Industrial Bin Revenues	1,119,398	996,958	1,011,308	1,098,872	1,183,602
Commercial and Light Industrial Drop Box Service					
53. Number of Accounts	56	54	54	56	56
54. Commercial and Light Industrial Drop Box Service	972,720	762,952	801,780	840,293	882,928
55. Commercial and Light Industrial Revenue (w/o Allowance for Uncollectible Accounts) (Lines 50+52+54)	2,265,701	1,912,453	1,970,333	2,095,581	2,222,947
56. Allowance for Uncollectible Commercial and Light Industrial Accounts	6,774	7,459	11,034	5,847	6,202
57. Total Commercial and Light Industrial Revenue (Line 55 + Line 56)	2,258,926	1,904,994	1,959,299	2,089,734	2,216,745
Recycled Material Sales					
58. Recycled Material Sales	272,258	328,475	308,284	238,521	238,521
59. Total Revenue (Lines 48+ 57+58)	6,752,226	6,440,672	6,601,312	6,650,665	6,761,734

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

Single Family Residential Summary

Section X - Single Family Residential Revenue

			Projected Base Year 2013
Single Family Residential Revenue (without Rate Change in Base Year)			
	Current Rate/Month	Projected Accounts	Total
1-20 GAL CART SERVICE	19.75	942	223,254.00
1-20 GAL CART SERVICE - SENIOR RATE	17.01	296	60,419.52
1-20 GAL CART SERVICE / EXTRA YARDWASTE	19.75	40	9,480.00
		1,278	293,153.52
1-32 GAL CART SERVICE	28.30	3,726	1,265,349.60
1-32 GAL CART SERVICE - SENIOR RATE	21.24	1,050	267,624.00
1-32 GAL CART SERVICE / EXTRA YARDWASTE	28.30		-
1-32 GAL CART SERVICE / EXTRA RECYCLING	28.30	69	23,432.40
1-32 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	21.24	30	7,646.40
1-32 GAL CART SERVICE / 2 - EXTRA YARDWASTE	28.30	6	2,037.60
		4,881	1,566,090.00
1-64 GAL CART SERVICE	31.55	3,720	1,408,392.00
1-64 GAL CART SERVICE / YARDWASTE EXEMPT - SENIOR RATE	20.42	5	1,225.20
1-64 GAL CART SERVICE - SENIOR RATE	24.44	344	100,888.32
1-64 GAL CART SERVICE / EXTRA YARDWASTE	31.55	117	44,296.20
1-64 GAL CART SERVICE / EXTRA RECYCLING	31.55	22	8,329.20
1-64 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	24.44	4	1,173.12
1-64 GAL CART SERVICE - 2 - EXTRA YARDWASTE	31.55		-
		4,212	1,564,304.04
1-96 GAL CART SERVICE	66.30	117	93,085.20
1-96 GAL CART SERVICE / EXTRA YARDWASTE	66.30	2	1,591.20
1-96 GAL CART SERVICE / EXTRA RECYCLING	66.30	1	795.60
		120	95,472.00
2-64 GAL CART SERVICE / EXTRA YARDWASTE	57.12	13	8,910.72
2-64 GAL CART SERVICE / 2 EXTRA YARDWASTE	57.12	-	-
		13	8,910.72
3-64 GAL CART SERVICE	82.69	-	-
		-	-
2-96 GAL CART SERVICE	126.62	1	1,519.44
		1	1,519.44
60. Total Base Year Single Family Residential		10,505	3,529,449.72

**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
2009		2010		2011		2012		2013

Section XI - Operating Data

Accounts

Commercial Recycling				163		165			
Industrial Recycling				19		17			
61. Residential	10,415	0.4%	10,455	0.3%	10,484	0.2%	10,505	0.0%	10,505
62. Commercial	582	-1.9%	571	-1.1%	565	1.4%	573	0.0%	573
63. Light Industrial	56	-3.6%	54	0.0%	54	3.7%	56	0.0%	56
64. Total Accounts	11,053	0.2%	11,080	0.2%	11,103	0.3%	11,134	0.0%	11,134

Waste Tonnage

65. Residential	7,812.4	0.3%	7,835.3	2.1%	7,997.0	-4.1%	7,672.6	0.0%	7,672.6
66. Commercial	5,442.3	-9.7%	4,916.1	-12.7%	4,292.9	-8.9%	3,910.4	0.0%	3,910.4
67. Light Industrial	4,635.8	-2.3%	4,528.2	-3.2%	4,382.7	3.9%	4,553.5	0.0%	4,553.5
68. Total Tons	17,890.5	-3.4%	17,279.6	-3.5%	16,672.5	-3.2%	16,136.5	0.0%	16,136.5

Recyclable Tonnage

69. Residential	4,279.6	1.6%	4,346.3	-0.1%	4,343.5	-5.0%	4,126.8	0.0%	4,126.8
70. Commercial	467.3	-18.8%	379.4	-16.7%	315.9	31.9%	416.8	0.0%	416.8
71. Light Industrial	1,919.7	-7.5%	1,776.1	34.2%	2,383.9	-21.8%	1,864.2	0.0%	1,864.2
72. Total Tons	6,666.6	-2.5%	6,501.8	8.3%	7,043.3	-9.0%	6,407.9	0.0%	6,407.9

City Services

73. City Bins	32	0.0%	32	0.0%	32	6.3%	34	0.0%	34
74. City Drop Boxes	8	0.0%	8	0.0%	8	0.0%	8	0.0%	8

75. 3 Yd. Bin - 1X per week	380.97	0.0%	380.97	3.1%	392.82	-19.3%	316.83	0.0%	316.83
76. 2 Yd. Bin - 1X per week	222.11	0.0%	222.11	3.1%	229.02	10.7%	253.53	0.0%	253.53
77. 20 Yd. Box - per pick up	407.30	0.0%	407.30	3.1%	419.97	10.7%	464.91	0.0%	464.91

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

City of Martinez

Rate Change

78. Rate Change Requested -2.03%

Rate Schedule

Abbreviated Rate Schedule	Current Rate	Increased Rate	Adjustments	New Rate
1-20 GAL CART SERVICE	19.75	19.35		19.35
1-20 GAL CART SERVICE - SENIOR RATE	17.01	16.66		16.66
1-20 GAL CART SERVICE / EXTRA YARDWASTE	19.75	19.35		19.35
1-32 GAL CART SERVICE - SENIOR RATE	21.24	20.81		20.81
1-32 GAL CART SERVICE	28.30	27.73		27.73
1-32 GAL CART SERVICE / EXTRA YARDWASTE	28.30	27.73		27.73
1-32 GAL CART SERVICE / EXTRA RECYCLING	28.30	27.73		27.73
1-32 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	21.24	20.81		20.81
1-32 GAL CART SERVICE / 2 - EXTRA YARDWASTE	28.30	27.73		27.73
1-64 GAL CART SERVICE / EXTRA YARDWASTE	31.55	30.91		30.91
1-64 GAL CART SERVICE / EXTRA RECYCLING	31.55	30.91		30.91
1-64 GAL CART SERVICE	31.55	30.91		30.91
1-64 GAL CART SERVICE / YARDWASTE EXEMPT - SENIOR RATE	20.42	20.01		20.01
1-64 GAL CART SERVICE - SENIOR RATE	24.44	23.94		23.94
1-64 GAL CART SERVICE / EXTRA YARDWASTE - SENIOR RATE	24.44	23.94		23.94
1-96 GAL CART SERVICE	66.30	64.95		64.95
1-96 GAL CART SERVICE / EXTRA YARDWASTE	66.30	64.95		64.95
1-96 GAL CART SERVICE / EXTRA RECYCLING	66.30	64.95		64.95
2-64 GAL CART SERVICE	57.12	55.96		55.96
2-64 GAL CART SERVICE / EXTRA RECYCLING	57.12	55.96		55.96
3-64 GAL CART SERVICE	82.69	81.01		81.01
2-96 GAL CART SERVICE	126.62	124.05		124.05

79. Single Family Residential

Rate increases of -2.03% 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: **Tim Argenti**

Title: **General Manager**

Signature:

Date:

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Appendix B

Allied Waste Systems Audited Financial Statements



Appendix B

Allied Waste Systems

Audited Financial Statements

Appendix B includes the 2011 audited financial statements submitted by Allied Waste Systems, Inc. in its Application to the City dated August 1, 2012. 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 AWS revenues, costs, and profits, in the 2011 audit with total AWS revenues, costs, and profits shown on page 1 of 6 of the Application.

Audited total revenues and total costs tie exactly to the Application, after adjusting for rate review non-allowable costs. In the Application, AWS calculated operating profits for 2011 based on a 75 percent operating ratio applied to allowable costs (\$1,444,245), but this did not represent actual 2011 operating profits. AWS should have identified an additional \$207,121 in actual operating profits, for a total of \$1,651,366 in the Application, for the audited profit figure to tie to the Application. This profit difference did not affect our base year 2013 analysis.

Table B-1
Reconciliation of AWS Financial Audit to Application

Description	Audit	Application	Difference
<i>Revenues</i>			
Revenues	\$6,636,751	\$6,636,751 ¹	\$0
<i>Costs</i>			
Allowable Costs		\$4,412,386	
Franchise Fees		572,999	
Total	\$5,013,956	\$4,985,385	\$28,571
Less Non-allowable Costs	(\$28,571)	\$0	(\$28,571)
Total after Adjustments	\$4,985,385	\$4,985,385	\$0
<i>Profits</i>			
Profit	\$1,622,795	\$1,444,245 (Calculated @75% OR)	\$178,550
Profit (Not Included in Application)	\$0	\$207,121	(\$207,121)
Total	\$1,622,795	\$1,651,366	(\$28,571)
Total after Adjustments	\$1,651,366	\$1,651,366	\$0

¹ In the Application, AWS identified \$6,636,651 in revenues for 2011. In the detailed 2012 and 2013 projections, AWS identified \$6,636,751 in revenues for 2011. AWS' 2012 and 2013 projections are based on this \$6,636,751 figure.

**ALLIED WASTE SERVICES OF
CONTRA COSTA COUNTY**
(A DIVISION OF ALLIED WASTE INDUSTRIES, INC.,
A WHOLLY-OWNED SUBSIDIARY OF REPUBLIC SERVICES, INC.)

DECEMBER 31, 2011

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

ON

SUPPLEMENTAL INFORMATION



**Independent Accountants' Review Report
on Supplemental Information**

MANAGEMENT
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 Industries, Inc., a wholly-owned subsidiary of Republic Services, Inc.) as of and for the year ended December 31, 2011 and our report thereon, dated July 30, 2012, as follows:

We have reviewed the accompanying balance sheet of **ALLIED WASTE SERVICES OF CONTRA COSTA COUNTY (a division of Allied Waste Industries, Inc., a wholly-owned subsidiary of Republic Services, Inc.) (the Division)** as of December 31, 2011, and the related statements of income, retained earnings and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for the year ended December 31, 2011 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

10 Almaden Boulevard

Suite 250

San Jose

CA 95113

408.998.8400

fax 408.998.8485



Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information included in 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 inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information. The accompanying supplemental information should be read in conjunction with the basic financial statements and related notes.

Hood & Strong LLP

San Jose, California
July 30, 2012

Allied Waste Services of Contra Costa County
(A Division of Allied Waste Industries, Inc.,
A Wholly-Owned Subsidiary of Republic Services, Inc.)

Supplemental Schedule of Operations - City of Martinez
(See Independent Accountants' Review Report on Supplemental Information)

Year ended December 31, 2011

Revenues:	
Residential	\$ 3,868,722
Commercial	1,966,249
Roll-off	801,780
Total revenues	6,636,751
Operating Expenses:	
Disposal fees	1,222,360
Direct labor costs	1,129,895
Franchise fees	572,999
Trucking and equipment	801,117
Depreciation	302,595
Other operating expenses	111,862
General and administrative	562,303
Cost of free services provided to the area	310,825
Total operating expenses	5,013,956
Operating income	1,622,795
Interest Income from Affiliate	110,657
Income before income taxes	1,733,452
Allocation of Income Tax Expense	655,418
Net income	\$ 1,078,034

Note 1 - Note to Supplemental Schedule of Operations

Allied Waste Services of Contra Costa County (the "Division") 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 Division. 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 Division as a whole.

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Appendix C

Adjusted Base Year Rate Model



Appendix C

Adjusted Base Year Rate Model

Exhibit C-1 of this appendix provides the adjusted base year rate model based on adjustments discussed in Section 2. The model reflected the following general adjustments (including the program):

Revenues

- Commercial revenue decrease
- Light industrial revenue decrease
- Services provided to City revenue decrease

Allowable Costs/Profits

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

Pass Through Costs

- Minor decrease in franchise fees.

Exhibit C-1
Adjusted Base Year 2013 Rate Model

City of Martinez 2013 Base Year Rate Application
Financial Information
for Allied Waste Systems

AWS Application			New Program	
Audited 2011	Estimated 2012	Projected 2013	Adjustments	Adjusted 2013

Section I - Allowable Costs

1. Direct Labor	\$ 1,129,895	\$ 1,175,091	\$ 1,227,970	\$ 248,103	\$ 1,476,073
2. Tipping Fees (Profit Allowed)	1,222,360	1,351,432	1,482,440	(383,701)	1,098,739
3. Corporate and Local General and Administrative Costs	562,303	645,802	608,131	41,549	649,680
4. Trucking and Equipment	801,117	812,893	824,843	131,925	956,768
5. Depreciation and Other Operating Costs	385,886	424,865	468,576	47,974	516,550
6. Services Provided to City	310,825	327,454	344,083	(344,083)	-
7. Total Allowable Costs (Lines 1+2+3+4+5+6)	\$ 4,412,386	\$ 4,737,537	\$ 4,956,043	\$ (258,233)	\$ 4,697,810

Section II - Allowable Operating Profit

8. Operating Ratio	72.77%	78.52%	83.07%	6.93%	90.00%
9. Allowable Operating Profit [(Line 7 / .9) - Line 7]	\$ 1,651,266	\$ 1,295,806	\$ 1,010,249	\$ (488,270)	\$ 521,979

Section III - Pass Through Costs without Franchise Fees

10. Administrative Fee	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000
11. Tipping Fees (Pass Through)	-	-	-	165,565	165,565
12. Total Pass Through costs (without Franchise Fees) (Lines 10+11)	\$ -	\$ -	\$ -	\$ 190,565	\$ 190,565

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)	\$ 6,063,652	\$ 6,033,343	\$ 5,966,292	\$ (555,938)	\$ 5,410,354
--	--------------	--------------	--------------	--------------	--------------

Section V - Revenue without Rate Change in Base Year

14. Residential Revenue			\$ 3,529,450	\$ -	\$ 3,529,450
15. Less Allowance for Uncollectible Residential Accounts			9,847	-	9,847
16. Total Residential Revenue (without Rate Change in Base Year)	\$ 3,560,438	\$ 3,545,436	\$ 3,519,603	\$ -	\$ 3,519,603
17. Commercial and Light Industrial Revenue			\$ 2,667,932	\$ (84,576)	\$ 2,583,356
18. Services Provided to City			\$ 344,083	\$ (344,083)	\$ -
19. Less Allowance for Uncollectible Commercial and Light Industrial Accounts			8,404	(1,171)	7,233
20. Total Commercial/Light Industrial Revenue (without Rate Change in Base Year)	\$ 2,767,929	\$ 2,884,649	\$ 3,003,611	\$ (427,488)	\$ 2,576,123
21. Recycled Material Sales	\$ 308,284	\$ 238,521	\$ 238,521	\$ (6,464)	\$ 232,057
22. Total Revenue (Lines 16+20+21)	\$ 6,636,651	\$ 6,668,606	\$ 6,761,735	\$ (433,952)	\$ 6,327,783

Section VI - Net Shortfall (Surplus)

23. Net Shortfall (Surplus) without Franchise Fees (Line 13 - Line 22)			\$ (795,443)	\$ (121,985)	\$ (917,428)
24. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	\$ 572,999	\$ 635,263	\$ 662,921	\$ (61,771)	\$ 601,150
25. Net Shortfall (Surplus) with Franchise Fees (Line 23 + 24)			\$ (132,522)	\$ (183,756)	\$ (316,278)

Section VII - Percent Change in Rates

26. Total Residential/Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16 + 20)			\$ 6,523,214	\$ (427,488)	\$ 6,095,726
27. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 25 / Line 26)			-2.03%	-3.16%	-5.19%

Franchise Fee Calculation

Equation 1) (Line 13 + X) * 0.10 = X
 Equation 2) Line 13 + X
 X = (Line 13 * 0.10)/0.90 \$ 662,921

Summary Revenue Requirement

28. Total Allowable Costs (Line 7)	\$ 4,956,043	\$ (258,233)	\$ 4,697,810
29. Allowable Operating Profits (Line 9)	1,010,249	(488,270)	521,979
30. Total Pass Through Costs (with Franchise Fees) (Line 12+24)	662,921	128,794	791,715
31. 2002 Revenue Requirement (Lines 28+29+30)	\$ 6,629,213	\$ (617,709)	\$ 6,011,504



Appendix D

Comparative Rate Survey



Appendix D

Comparative Rate Survey

Appendix D includes results of a survey of comparative residential, commercial, and industrial rates (see **Tables D-1** through **D-3**). We provide comparisons between City rates and the following eleven (11) neighboring jurisdictions:

- Antioch
- Benicia
- Clayton
- Concord
- Pleasant Hill

CCCSWA Areas

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

For the eleven jurisdiction comparison, City residential rates were below the averages for the 20-gallon and 64-gallon service levels, and above the averages for the 32-gallon and 96-gallon service levels. The 32-gallon cart rate, for which nearly 35 percent of City customers subscribe to, was 16 percent above the average. In contrast, the 64-gallon cart rate, for which nearly 35 percent of City customers subscribe to, was 23 percent below the average.

Alternatively, City commercial rates were at or below the averages. For three of the four service levels, rates were between 14 and 32 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 15 percent below the eleven jurisdiction average.

Table D-1
Comparison of 2012 AWS City of Martinez
Residential Rates with 11 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	\$ 21.99	\$ 25.82	\$ 41.69	\$ 48.96	64	96 (B)
2	Benicia	21.59	25.50	31.88	43.96	64	96
3	Clayton	23.06	24.40	35.44	38.61	64	64
4	Concord	-	25.75	34.70	42.50	64	96
5	Danville	19.18	21.81	39.89	59.70	64	64
6	Lafayette	23.17	26.48	49.95	74.93	64	64
7	Moraga	20.64	23.84	47.67	71.51	64	64
8	Orinda	27.41	31.60	61.28	91.67	64	64
9	Pleasant Hill	20.19	23.36	31.88	47.81	64	64
10	Uninc. County (CCCSWA)	18.50	21.00	40.00	60.00	64	64
11	Walnut Creek	15.85	18.80	35.94	53.92	64	64
	Average	\$ 21.16	\$ 24.40	\$ 40.94	\$ 57.60		
	Current 2012 Martinez	\$ 19.75	\$ 28.30	\$ 31.55	\$ 66.30	64	96 (B)
	Percent Difference	-7%	16%	-23%	15%		

Table D-2
Comparison of 2012 AWS City of Martinez
Commercial Bin Rates with 11 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	\$ 235.29	\$ 470.58	\$ 354.02	\$ 708.04
2	Benicia	157.01	314.01	235.45	470.96
3	Clayton	214.20	428.33	289.28	578.55
4	Concord	293.00	586.00	392.00	784.00
5	Danville	259.86	519.75	389.80	779.60
6	Lafayette	323.33	646.65	477.74	955.49
7	Moraga	291.08	582.17	436.63	873.27
8	Orinda	371.42	742.85	557.14	1,114.27
9	Pleasant Hill	196.77	393.00	294.78	589.70
10	Uninc. County (CCCSWA)	252.62	505.23	378.92	757.85
11	Walnut Creek	184.94	369.85	277.40	554.79
	Average	\$ 252.68	\$ 505.31	\$ 371.20	\$ 742.41
	Current 2012 Martinez	\$ 253.53	\$ 432.24	\$ 316.83	\$ 506.73
	Percent Difference	0%	-14%	-15%	-32%

¹ B represents biweekly service.

Table D-3
Comparison of 2012 AWS City of Martinez
20 Cubic Yard Industrial Rates with 11 Neighboring Jurisdictions (Per Pull)

No.	Jurisdiction	20 cubic yard drop box
1	Antioch	\$ 514.02
2	Benicia	325.04
3	Clayton	430.22
4	Concord	436.00
5	Danville	615.23
6	Lafayette	646.32
7	Moraga	641.65
8	Orinda	719.47
9	Pleasant Hill	360.82
10	Uninc. County (CCCSWA)	688.21
11	Walnut Creek	604.35
	Average	\$ 543.76
	Current 2012 Martinez	\$ 464.91
	Percent Difference	-15%

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