



FINAL REPORT

SBWMA REPORT ON REVIEW OF THE 2011 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

October 1, 2010

October 1, 2010

Subject: Review of 2011 Recology San Mateo County Compensation Application

Dear SBWMA Board Members:

This Final Report documents the findings and Board approved recommendations that were made by the South Bayside Waste Management Authority (SBWMA) staff from review and analysis of the 2011 Recology San Mateo County (RSMC) Compensation Application for completeness, accuracy and consistency with the Member Agency Franchise Agreements (“Agreements”). Article 11.04 of the Agreements prescribes the process by which this application is reviewed and the company’s compensation approved. The SBWMA is required to submit to the Board the Draft Report on or before September 1 each year and this Report was submitted on September 1, 2010. The Board Members and Member Agencies were in turn required to submit questions, comments and concerns to the SBWMA in writing by September 11, 2010.

The attached Final Report has been revised based on comments from the Member Agencies, additional information obtained from RSMC since issuance of the Draft Report on September 1, and discussion at the September 23, 2010 Board meeting. This Final Report was included in the September 2010 Board packet issued to the Board on September 17, 2010 and subsequently approved at the September 23, 2010 Board meeting. The Board is charged with approving the Final Report which now becomes binding between each Member Agency and RSMC.

The Final Report provides the details of the approved RSMC compensation by Member Agency along with estimates of other pass-through costs (i.e., Member Agency franchise and other fees and charges billed by the SBWMA for processing and disposal of materials delivered by RSMC and Member Agencies to the Shoreway facility). Thus, the sum total of RSMC compensation and other pass-through costs will make up the total costs reflected in Member Agency solid waste rates. The one exception to this for 2011 is that Member Agencies will have either a balancing account surplus or deficit adjustment to include for Allied Waste/Republic Services in 2010; staff will provide estimates of these Allied adjustments in early October with final recommended rate adjustments included in the October Board packet released on October 21.

We look forward to receiving your comments and answering any questions you may have.

Sincerely,

Kevin McCarthy
Executive Director

Marshall Moran
Finance Manager

Cliff Feldman
Recycling Programs Manager

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EXECUTIVE SUMMARY

A. Background

In 2005, the SBWMA and its Member Agencies initiated a five and a half year collection services contractor selection process that resulted in Recology San Mateo County (RSMC) and the Member Agencies executing Franchise Agreements (“Agreements”) for Collection Services. Eleven of the twelve SBWMA Member Agency Agreements have the same methodology used to calculate the compensation paid to RSMC. One Member Agency (i.e., City of Belmont) used a different compensation methodology; however, use of this different methodology has no bearing on the costs or services provided to the other eleven Member Agencies. Inclusion of the City of Belmont in the cost calculations with the other eleven Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Agreements.

The compensation methodology provisions in the Member Agency Agreements are contained in Article 11, Attachment K and Attachment N. Article 11 provides an overview of the methodology and describes the process by which aspects of the compensation adjustment process shall be implemented. As described in Article 11 of the Agreements, RSMC’s compensation includes three components: Annual Cost of Operations, Profit and Contractor Pass-Through Costs. This report is primarily focused on the first two components of RSMC’s compensation, the Annual Cost of Operations and Profit.

B. Cost Adjustment Process

Attachment K, Table 1 of the Agreements prescribe a detailed process to adjust RSMC’s costs during the full ten year term of the Agreements from the costs in the company’s proposal submitted in March 2008 to a current cost for 2011, then annually thereafter. In addition to this cost adjustment process, there is one other type of cost adjustment that will be made to adjust costs for the 2011 and 2013 rate years only. This cost adjustment is to capture the service level changes in the number of residential accounts (i.e., single-family customers) and commercial (includes multi-family dwellings and Agency facilities) lifts (i.e., service events for bins and carts) and pulls (i.e., service events for drop-box and compactors). The second and final adjustment to costs related to changes in service levels will be derived from data obtained from RSMC in 2012 for inclusion in the compensation application for that year.

C. Review of Compensation Application and Issuance of SBWMA Report

The RSMC compensation application is due to the SBWMA on July 1 each year. The SBWMA is required to review and analyze the company’s compensation application and submit its Report to the Member Agencies on or before September 1. The Member Agencies are obligated to submit written comments on the Report within ten days after distribution of the Report. The final draft report will then be issued to the SBWMA Board of Directors one week prior to the September Board meeting for consideration at the September Board meeting. The schedule for this year is provided on the next page.

2010 Schedule

<u>Due Date</u>	<u>Milestone</u>
July 1, 2010	2011 RSMC Compensation Application Submitted to SBWMA
September 1, 2010	SBWMA Draft Report Issued to Member Agencies
September 11, 2010	Member Agencies Written Comments Due to SBWMA
September 17, 2010	SBWMA Releases Final Report to Board for Consideration
September 23, 2010	SBWMA Board Meeting: Approval of Final Draft Report
October 1, 2010	SBWMA Releases Final Report to Board and Recology San Mateo County

D. Summary of Report Findings

RSMC proposed modifying the number and type of collection and support vehicles primarily to operate more efficiently and reduce the impacts of their fleet on roads. This change is welcome and results in a savings to 2008 capital cost of \$529,130. The company is also delivering additional savings through a significantly reduced purchase price for residential carts. Thus, \$1,360,516 in 2008 capital cost savings will be passed on to the Member Agencies.

Other areas of cost savings provided by RSMC are related to the purchase of used commercial bins from Allied Waste/Republic Services (\$1,421,013) and a reduction in implementation costs of \$350,000 (i.e., reduced DVD production and Recycling Blitz savings from managing the Allied Waste/Republic Services commercial recycling outreach program commencing on July 1, 2010). The Board has previously approved these savings.

The 2011 RSMC Compensation Application was predicated on an additional request for capital totaling \$2,235,093. This additional capital is for vehicle related costs. The SBWMA recommended and the Board concurred that 30% or \$671,517 be denied and the remaining \$1,563,576 of the additional capital requested be approved.

E. Member Agency RSMC Cost Allocation Process

The Agreements prescribe the process to allocate RSMC's cost equitably across all Member Agencies. RSMC's costs are broken into nine cost categories and each is allocated based on four operational statistics specific to each Member Agency. These operational statistics include:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

The source to derive these statistics for the 2011 RSMC Compensation Application include the estimated route labor hours and route hours in the company's original proposal and data provided from Allied Waste/Republic Services for April 2010 containers in service and customer accounts. The cost allocation process is similar to current practice under the Allied Waste/Republic Services compensation methodology. The results of the cost allocation process are provided in **Table 10**.

F. Recommendation

Based on the net results of all the cost adjustments described above and the analysis of the 2011 RSMC Compensation Application, SBWMA recommended and the Board approved that each Member Agency's adjustment to RSMC's 2011 compensation will be as delineated in the below table: **Summary of Adjusted 2008 Costs to 2011 Costs**. This table provides a summary of the adjusted 2008 costs, the adjusted 2011 costs, the percentage each cost category contributes to the total cost and the overall change in costs and compensation.

Summary of Adjusted 2008 Costs to 2011 Costs

	Adjusted Costs - 2008	Costs - 2011	% of Total Cost	Change	% Change
Annual Cost of Operations					
Total Annual Cost of Operations	39,950,303	44,029,869	85.7%	4,079,566	10.2%
Profit	4,193,678	4,621,920	9.0%	428,242	10.2%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	44,143,981	48,651,789	94.7%	4,507,808	10.2%
Contractor Pass-Through Costs					
Regulatory Agency Fees	-	-	0.0%	-	
Interest Expense	2,887,036	3,010,779	5.9%	123,743	4.3%
Interest Expense on Implementation Cost	96,714	99,342	0.2%	2,628	2.7%
Contract Changes to Specific Agencies		(378,157)		(378,157)	
Total Contractor Pass-Through Costs	2,983,750	2,731,964	5.3%	(251,786)	-8.4%
TOTAL CONTRACTOR'S COMPENSATION	47,127,731	51,383,753	100.0%	4,256,022	9.0%
excludes Agency specific contract changes					

The adjustment to contractor's compensation delineated above does not take into account Member Agency specific changes such as use of old green waste carts (Town of Hillsborough) and prior purchase of kitchen pails (City of San Carlos). The Member Agency specific changes in cost are included after the overall costs are allocated to the Member Agencies.

SECTION 1 BACKGROUND

1.A Contractor Procurement Process

In 2005, the SBWMA and its Member Agencies initiated a five and a half year collection services contractor selection process that resulted in Recology San Mateo County (RSMC) and the Member Agencies executing Franchise Agreements (Agreements) for Collection Services. This process entailed formation of two committees comprised of Member Agency staff, convening numerous committee meetings to develop the scope of services and contract terms, developing and issuing a request for proposals, evaluation and analysis of four proposals, recommendation of RSMC, negotiation of contracts with RSMC, and approvals from the governing bodies of each Member Agency.

1.B Franchise Agreement Terms

Eleven of the twelve SBWMA Member Agency Agreements use the same methodology to calculate the compensation paid to RSMC. One Member Agency (i.e., City of Belmont) used a different compensation methodology; however, use of this different methodology has no bearing on the costs or services provided to the other eleven Member Agencies. Inclusion of the City of Belmont in the cost calculations with the other eleven Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Agreements.

The compensation methodology provisions in the Member Agency Agreements are contained in Article 11, Attachment K and Attachment N. Article 11 provides an overview of the methodology and describes the process by which aspects of the compensation adjustment process shall be implemented. Attachment K provides more detail on this process including the specific rules governing adjusting costs and how these costs will be allocated amongst the Member Agencies. Attachment N is an example of the process to implement the compensation adjustment procedures and structure to accomplish this as set forth in Attachment K.

1.C Description of Cost Categories

As described in Article 11 of the Agreements, RSMC's compensation includes three components: annual cost of operations, profit and contractor pass-through costs. This report is primarily focused on the first two components of RSMC's compensation, the annual cost of operations and profit. In addition, the cost categories that comprise the company's annual cost of operations are defined in the Agreements (i.e., Attachment K) as nine areas of costs, as follows:

1. Wages and benefits for all employees represented through collective bargaining agreements (CBA) – This category is all inclusive of the wages and benefits of the CBA employees.
2. Wages and benefits for employees not represented through CBAs – This category is all inclusive of the non-CBA employees.
3. Payroll taxes – This category includes the payroll taxes for all of the company's employees.
4. Worker's compensation– This category includes all worker's compensation premium expense for all of RSMC's employees.
5. Fuel for route and service vehicles – This category includes the fuel cost for all of the company's vehicles.
6. Other, excluding depreciation, wages and benefits – This category includes vehicle maintenance parts, insurance, general office equipment, and other miscellaneous expenses not included in the other major cost categories.

7. Depreciation for collection vehicles and containers – This category includes the depreciation expense for RSMC’s capital equipment consisting of its collection service and support vehicles and containers.
8. Allocated indirect depreciation costs for maintenance equipment, shop equipment, office equipment – This category includes the depreciation expense for miscellaneous assets not included in the vehicles and containers capital costs.
9. Implementation costs – This category includes all implementation costs such as container delivery, Recycling Blitz, public education, driver training, etc.

1.D Cost Adjustment Process

Attachment K, Table 1 of the Agreements prescribe a detailed process to adjust RSMC’s costs during the full ten year term of the Agreements from the costs in the company’s proposal submitted in March 2008 to a current cost for 2011, then annually thereafter. In addition to this cost adjustment process, there is one other type of cost adjustment that will be made to adjust costs for the 2011 and 2013 rate years only. This cost adjustment is to capture the service level changes in the number of residential accounts (i.e., single-family customers) and commercial (includes multi-family dwellings and Agency facilities) lifts (i.e., service events for bins and carts) and pulls (i.e., service events for drop-box and compactors). The second and final adjustment to costs related to changes in service levels will be derived from data obtained from RSMC in 2012 for inclusion in the compensation application for that year.

Lastly, another type of compensation related adjustment applies to rate years 2012 through 2020 and reconciles what RSMC is owed to what the company has been paid during the prior year. This compensation adjustment is the annual revenue reconciliation of gross revenue billed to approved contractor’s compensation for the prior year as prescribed in Article 11 and Attachment K. As stated in Attachment K, each year, the company’s gross revenues billed for the prior year will be reconciled to the compensation approved for the prior year. The difference between what is billed by RSMC and the approved contractor’s compensation (i.e., by the Board per this Report plus what the company is owed per the unscheduled costs delineated in Attachment Q {**Appendix B**} of the Agreements) will be added to or subtracted from the company’s compensation for the following rate year. The first revenue reconciliation report that RSMC must submit to the SBWMA is due on March 31, 2012. The SBWMA is responsible for analyzing this report and the findings will be incorporated in that year’s SBWMA Report on RSMC Compensation Application. The adjustment for rate year 2011 will be made in rate year 2013. This process will continue annually through the full ten year term of the Agreements.

1.E Review of Compensation Application and Issuance of SBWMA Report

Article 11 and Attachment K of the Member Agency Agreements stipulate that the SBWMA is responsible for conducting the annual review and analysis of RSMC’s compensation application. The SBWMA conducts a preliminary review to ensure the application is complete and a thorough review that is used to draft the analysis contained in this report. RSMC is obligated to promptly provide to the SBWMA any missing information and explanations upon request during the compensation application review process (i.e., July 1 – September 1).

The RSMC compensation application is due to the SBWMA on July 1 each year. This SBWMA Report is scheduled to be submitted to the Member Agencies on or before September 1 each year.

The Member Agencies are obligated to submit written comments on the Report within ten days after distribution of the Report. The final draft report will then be issued to the SBWMA Board of Directors one week prior to the September Board meeting for consideration at the September Board meeting. The schedule for this year is provided in **Table 1**.

Table 1 – 2010 Schedule

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SECTION 2 2011 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

2.A Description of Cost Adjustments

Three types of cost adjustments are used in the 2011 RSMC Compensation Application as required in the Agreements. These cost adjustments include:

1. Adjustments to Original 2008 Operating Costs (section 2.B below) – The first change entails adjusting the original 2008 costs contained in RSMC’s March 2008 proposal.
2. Service Level Adjustments (section 2.C below) – This step requires adjusting the revised 2008 costs to reflect changes in the number of residential accounts serviced and volume of commercial service provided from 2008 to 2010 (i.e., due to changes in the number of residential accounts and commercial lifts and pulls over that time period).
3. Adjustment of 2008 Costs to 2011 (section 2.D below) - The third and final adjustment to 2008 costs is to apply the changes in several indices and the wages and benefits schedule from the CBAs in order to reflect the costs that will be used for 2011.

2.B Adjustments to Original 2008 Operating Costs

The scope of adjustments to the original 2008 annual operating costs totaled a decrease of \$448,545 and consisted of the following.

1. Decrease in the annual cost of operations of \$295,453 plus associated profit of \$31,014:
 - a. Decrease in the annual cost of fuel of \$58,492 due to a change from the use of B-20 biodiesel to B-5.
 - b. Decrease in depreciation expense of vehicles of \$35,148 due to RSMC changing the quantity and type of vehicles.
 - c. Decrease in depreciation expense of containers totaling \$142,101 due to the purchase of used commercial bins from Allied Waste.
 - d. Decrease in indirect vehicle depreciation expense of \$24,711 (i.e., support vehicles).

- e. Decrease in annual implementation cost of \$35,000 due to a total reduction of \$350,000 (i.e., reduction in producing DVDs for the residential and Recycling Blitz related savings from managing the Allied Waste/Republic Services commercial recycling outreach program commencing on July 1, 2010).
2. Reduction in pass-through costs of totaling \$122,078:
- a. Decrease in interest expense of \$103,502.
 - b. Decrease in interest expense on implementation costs of \$18,576.

Table 2 provides the specific adjustments to the original 2008 costs resulting from the changes discussed above.

Table 2 – Adjustments to Original 2008 Costs

	Original 2008 Amounts	2008 Reductions	Revised 2008 Amounts
Components of Cost			
Annual Cost of Operations	\$40,245,755	(\$295,453)	\$39,950,302
Profit	\$4,224,692	(\$31,014)	\$4,193,678
Total operating costs (A)	\$44,470,447	(\$326,467)	\$44,143,981
Total Pass-Through Costs (B)	\$3,105,828	(\$122,078)	\$2,983,750
Total proposed costs (A + B)	\$47,576,275	(\$448,545)	\$47,127,731
Reductions to Original 2008 Cost of Operations			
Direct fuel costs		(\$58,492)	(\$58,492)
Collection vehicle depreciation		(\$35,148)	
Container depreciation		(\$142,101)	
Indirect vehicle depreciation		(\$24,711)	(\$201,960)
Annual implementation cost amortization		(\$35,000)	(\$35,000)
Total reduction in annual cost of operations (C)		(\$295,453)	(\$295,453)
Reductions to 2008 Pass-Through Costs			
Reduction in interest expense		(\$103,502)	
Reduction in interest expense on implementation cost		(\$18,576)	
Total reduction in annual pass-through costs (D)		(\$122,078)	
Total Reduction to 2008 Cost (C + D)		(\$417,531)	

2.C Service Level Adjustments

The service level adjustment to costs relates to changes in the total number of residential accounts (i.e., single-family), commercial lifts and pulls from 2008 to 2010 that will be serviced by RSMC. The changes in these three collection service related metrics from 2008 to 2010 are calculated and applied to costs in aggregate for the SBWMA service area. The following provides an explanation of these service level changes and how the changes are applied to costs.

Residential Accounts – The percentage increase or decrease of single-family residential accounts that occurred from 2008 to 2010 will be applied to the adjusted 2008 costs

Commercial Lifts – The percentage increase or decrease of commercial, multi-family dwelling and member agency cart and bin lifts that occurred between 2008 and 2010 will be applied to the adjusted 2008 costs.

Commercial Pulls – The percentage increase or decrease of commercial, multi-family dwelling and member agency drop-box and compactor pulls that occurred between 2008 and 2010 will be applied to the adjusted 2008 costs.

The 2011 RSMC Compensation Application shall be adjusted according to the following changes in service levels and corresponding costs denoted in **Table 3**.

Table 3 – Summary of Service Level Changes

Service Sector	Basis for Adjustment	Adjustment Percentage	Cost Adjustment
Single Family Residential	Change in Number of Accounts	0.86%	\$153,400
Commercial, Multi-Family and Agency Facility	Change in Number of Bin Lifts	-3.42%	(\$381,611)
Commercial and Multi-Family	Change in Number of Drop-Box and Compactor Pulls	-13.36%	(\$244,889)
Agency Facility	Change in Number of Lifts and Pulls	-13.36%	(\$61,500)
TOTAL COST ADJUSTMENT DUE TO SERVICE LEVEL CHANGES			(\$534,600)

The net result is a decrease of \$534,600 in RSMC’s compensation.

2.D Adjustment of 2008 Costs to 2011

As prescribed in Article 11, Attachment K and Attachment N of the Agreements, the process to adjust the original 2008 costs to 2011 costs involves making adjustments based on: 1) the current CBA’s, 2) applying the percentage change over the last three years in select indices to various cost categories, and 3) service level changes.

The following table on the next page (**Table 4**) provides the overall results from making all compensation adjustments from 2008 to 2011. More specifically, this table provides the details of the adjusted 2008 costs, the adjusted 2011 costs, the percentage each cost category contributes to the total cost and the overall change in costs.

The application of all adjustment factors to the costs contained in the company’s 2008 proposal results in an overall increase in RSMC’s 2011 cost of operations totaling \$4,507,808 (i.e., 10.2% increase over three years). With the inclusion of contractor's pass-through costs, the total result is an increase in total contractor’s compensation of \$4,256,022 (i.e., 9.0% increase over three years).

Table 4 – Results of Adjustments of 2008 Adjusted Costs to 2011 Costs

	Adjusted Costs - 2008	Costs - 2011	% of Total Cost	Change	% Change
Annual Cost of Operations					
Direct Labor-Related Costs					
Wages for CBAs	12,180,646	13,997,860	27.2%	1,817,213	14.9%
Benefits for CBAs	3,782,561	5,122,097	10.0%	1,339,536	35.4%
Payroll Taxes	1,012,978	1,164,622	2.3%	151,644	15.0%
Workers Compensation Insurance	1,218,046	1,259,325	2.5%	41,279	3.4%
Total Direct Labor Related-Costs	18,194,231	21,543,904	41.9%	3,349,673	18.4%
Direct Fuel Costs	3,303,143	2,613,085	5.1%	(690,058)	-20.9%
Other Direct Costs	1,959,869	1,981,052	3.9%	21,183	1.1%
Depreciation					
- Collection Vehicles	3,645,588	4,039,614	7.9%	394,026	10.8%
- Containers	2,018,601	1,882,549	3.7%	(136,051)	-6.7%
Total Depreciation	5,664,189	5,922,163	11.5%	257,974	4.6%
Allocated Indirect Costs excluding Depreciation					
General and Administrative	5,970,593	6,533,263	12.7%	562,670	9.4%
Operations	1,510,853	1,560,305	3.0%	49,452	3.3%
Vehicle Maintenance	2,236,261	2,624,720	5.1%	388,459	17.4%
Container Maintenance	787,633	898,038	1.7%	110,405	14.0%
Total Allocated Indirect Costs excluding Depreciation	10,505,341	11,616,326	22.6%	1,110,985	10.6%
Total Allocated Indirect Depreciation Costs	141,307	166,164	0.3%	24,857	17.6%
Annual Implementation Cost Amortization	182,225	187,175	0.4%	4,951	2.7%
Total Annual Cost of Operations	39,950,303	44,029,869	85.7%	4,079,566	10.2%
Profit	4,193,678	4,621,920	9.0%	428,242	10.2%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	44,143,981	48,651,789	94.7%	4,507,808	10.2%
Contractor Pass-Through Costs					
Regulatory Agency Fees	-	-		-	
Interest Expense	2,887,036	3,010,779	5.9%	123,743	4.3%
Interest Expense on Implementation Cost	96,714	99,342	0.2%	2,628	2.7%
Contract Changes to Specific Agencies		(378,157)		(378,157)	
Total Contractor Pass-Through Costs	2,983,750	2,731,964	5.3%	(251,786)	-8.4%
TOTAL CONTRACTOR'S COMPENSATION	47,127,731	51,383,753	100.0%	4,256,022	9.0%
Excludes Agency specific contract changes					

The specific adjustments based on indices and actual data (e.g., CBAs) are shown in **Tables 5 and 6** respectively. The index based cumulative adjustments for the three year period of 2008 to 2011 is summarized in **Table 5** on the next page.

Table 5 - Description of Index Based Cost Adjustments

<u>Cost Category</u>	<u>Index Based Adjustment Factor</u>	<u>Index Used</u>
Worker's Compensation	4.98%	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Private Industry (Not seasonally adjusted, total compensation, series no. CIU2030000000000A).
Wages and Benefits for Non-CBA Employees	5.49%	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. cis201s000000000i successor to Ecs12102i ended 2005).
Fuel	-18.1%	U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index - Commodity Index for #2 diesel fuel (not seasonally adjusted, fuels and related products and power, series no. wpu057303).
Other Costs	80% of 2.72%	U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sao).
Depreciation – Collection Equipment	5.4%	U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index Industry Data for motor vehicle body manufacturing, truck, bus, car, and other vehicle bodies, for sale separately (not seasonally adjusted, base date: 8212, series no. pcu336211336211).
Depreciation – Indirect Equipment Costs	5.57%	U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index Industry Data for motor vehicle body manufacturing, truck, bus, car, and other vehicle bodies, for sale separately (not seasonally adjusted, base date: 8212, series no. pcu336211336211).

Table 6 below denotes the cost categories and the cumulative results of two cost adjustments discussed above (index and service level) that were applied to the associated cost category for adjusting 2008 costs to 2011.

Table 6 – Results of Two Cost Adjustments (Index and Non-index)¹

<u>Cost Category</u>	<u>Adjustment Factor</u>	<u>Explanation</u>
Direct Labor:		
CBA Wages (Drivers)	14.9%	The CBA wage adjustment is based on the 2011 wage rates in the Teamsters Local 350 (drivers) CBA.
CBA Benefits (Drivers)	35.4%	The CBA benefit adjustment is based on estimated 2011 benefits rates in the Teamsters Local 350 (drivers) CBA.
Payroll Tax (Drivers)	14.9%	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2011; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance (Drivers)	3.4%	The workers compensation insurance adjustment is based on an index which increased 4.98% since 2008.
Depreciation – Collection Vehicles	10.8%	The depreciation on collection vehicles expense is based on total capital cost of collection vehicles divided by the appropriate number of years used to amortize these assets. <u>The capital cost is adjusted by using the lower of the actual cost paid or the result of using the index adjustment methodology.</u> (In addition, the company can request additional capital.) The index for trucks increased by 5.4% in 2010. RSMC's actual cost is higher than the indexed amount due to the company's request for additional capital.
Depreciation - Containers	-6.7%	The depreciation on containers expense is based on the total capital cost for containers divided by the appropriate number of years to amortize these assets. <u>The capital cost is adjusted by using the lower of the actual cost paid or the result of using the index adjustment methodology.</u> (In addition, the company can request additional capital.). RSMC's actual cost is 14% below their proposed 2008 cost primarily due to the cart vendor providing more favorable pricing than originally included in the company's capital costs. In addition, a reduction in capital of \$1.4 million is applied due to the purchase of used commercial containers from Allied Waste/Republic Services.

<u>Cost Category</u>	<u>Adjustment Factor</u>	<u>Explanation</u>
Indirect Costs	7.5%	The Indirect Costs increased by 8.7% before the service level reduction resulting in a net 7.5% increase. The Indirect Cost components are detailed below:
CBA Mechanics Wages and Benefits²	20.9%	The CBA wages increased by 12.5% based on the Mechanics CBA effective 1/1/10. The CBA benefits increased by 66.5% as compared to the benefit rates in the prior Machinists CBA.
CBA Clerical Wages and Benefits²	32.7%	Cost increase based on final CBA for the clerical worker. . The clerical employee's increase in wages and benefits of 32.7% is due to changing to a CBA from no CBA.
Non-CBA Labor	5.5%	The Indirect Non-CBA Labor costs, which is composed of management and supervisors, increased by 5.5% based on changes in the three indexes used for this expense category.
Fuel	-20.9%	The Fuel expense is adjusted by the change in a fuel index of -18.1%. Fuel expense was also reduced by \$59,000 to offset depreciation expense on approved additional capital for engines that result in better fuel efficiency.
Other Indirect	1.1%	The Other Indirect expense includes insurance, general office expense, safety, etc. Other Indirect expenses are adjusted by 80% of a CPI index. The cumulative adjustment is 2.7%.
Indirect Depreciation	17.6%	The Indirect Depreciation expense is adjusted by the actual cost of support trucks (pickups, delivery, shop, etc.) and by an index (5.57%) for the miscellaneous furniture and equipment.
Implementation Cost Amortization	2.7%	The Implementation cost amortization is adjusted by 80% of the change in a CPI index.
¹ Service level adjustments are incorporated into each of the adjustment factors shown.		
² Does not include adjustments for payroll tax and workers compensation insurance.		

While the service level adjustments are included in the calculations to derive the adjustment factors delineated in **Table 6**, these are summarized in **Table 3**.

2.E Contractor Pass-Through Costs

There are two contractor pass-through costs identified in the Agreement (Article 11.01) which are:

- Interest expense on allowed capital and implementation costs is paid to RSMC monthly at one twelfth of the annual interest expense denoted in Attachment N, Cost Form 11, which schedules out interest expense for the ten year life of the contract on

a sliding scale. Interest expense on capital is adjusted based on any change in approved capital at a fixed 5.5% interest rate.

- Regulatory Agency Fees paid by contractor.

In addition, to these pass-through costs, the Town of Hillsborough received an adjustment in operating costs totaling \$378,157 due to a reduction in customers with backyard service from the original assumed 40% to the current level of approximately 17%.

2.F General Description of Adjustments to Capital Costs

Article 11 and Attachment K of the Agreements prescribe the methodology used to make any adjustments to capital cost. Table 1 of Attachment K states that the lower of the actual cost or the index-adjusted cost would be used to establish the capital costs for 2011. However, the Agreement also provides RSMC the opportunity to increase its capital costs by requesting additional capital.

The Member Agencies are not obligated to provide additional capital that is discretionary in nature, although changes in law may require the Member Agencies to fund additional capital costs. In addition, approving a request for discretionary additional capital may be in the best interests of the Member Agencies if the rationale is sound, the supporting documentation is verifiable and complete, and the Member Agencies receive a benefit (e.g., lower operating cost, enhanced diversion or customer service, etc.).

2.G Modifications to Capital Costs

Several factors contributed to changing RSMC's capital costs in 2010 from the results of applying the index adjustment method, as follows (see **Appendix C** for capital cost detail):

1. Containers: Residential and Commercial Carts

RSMC has provided an unforeseen value added benefit to the Member Agencies in the form of negotiating a significantly reduced price for residential carts. The company's cost for residential carts was reduced by \$1,510,399 and these savings will be passed on to the Member Agencies through a reduction in the adjusted 2008 capital cost (i.e., 2010 capital cost). However, an increase in capital costs for commercial carts totaling \$149,833, due to the index adjustment process, reduces this savings to \$1,360,516.

2. Collection Service and Support Vehicles

RSMC unilaterally modified the number and type of both collection service and support vehicles from its original 2008 proposal, although the total number of proposed vehicles remained the same at 149. The company's rationale for changing the mix of collection service vehicles is primarily to operate more efficiently and reduce the impacts of these vehicles on roads (e.g., switching from a 4 axle collection truck to 3 axles). This approach is welcome, with one caveat, and will result in savings of \$529,130 from the original 2008 capital cost. The caveat is that due to changing the nature of providing service to many customers from bin to cart collection, the resulting increase in carts should not negatively impact the Member Agencies when making the final service level adjustment during 2012.

3. Request for Additional Capital for Collection and Support Vehicles

RSMC unilaterally modified the specifications for collection and support vehicles without advance consultation and approval from the SBWMA. While the vehicle related decisions made by the company in some cases resulted in cost savings, the overall result was a considerable increase in capital costs over the amount allowable under the indexed cost adjustment process prescribed in the Agreement. Thus, the company was required to present the need for additional capital in excess of the indexed amount as a request per the Agreement.

The initial compensation application submitted by RSMC did not include, as required, a request for additional vehicle related (or other) capital; RSMC assumed that capital figures in excess of what would be allowed using the index adjustment methodology would automatically be approved. Further, no rationale for the requested additional capital was initially provided with the compensation application. No purchase contracts or purchase orders have been provided to date and the analysis of proposed and actual purchase costs of vehicles was limited to reviewing vehicle related vendor quotations from January 2008 (prior to RSMC submitting its proposal in March 2008) and December 2009.

After several needed supporting documents were subsequently provided and revisions were made by RSMC to its request for additional capital, the final request for additional capital is now presented in the 2011 RSMC Compensation Application as Exhibit A – Request for Additional Capital. The conclusions and recommendations discussed below were developed by analyzing the request for additional capital and responses to inquiries posed during the review process. Generally, staff used the following rationale for recommending allowing or disallowing additional vehicle related capital:

- Additional capital required for operational changes or vehicle specification modifications that were made in response to regulatory driven changes were allowed if the proper documentation was provided.
- Deductions were made from the additional vehicle related capital requested for discretionary capital that would primarily result in operational benefits to RSMC, yet would not result in cost savings to the Member Agencies.
- Capital required for items that were omitted from the company's original cost proposal are recommended to be denied.

Modifications to Collection Vehicle Specifications

The company identified 15 types of specification changes made to the vehicles originally proposed. The rationale provided for these modifications is adequate for some of the modifications and inadequate for others. The following provides a brief discussion for each item:

2010 EPA Related Costs

The rationale for the additional capital costs associated with new 2010 Environmental Protection Agency (EPA) emissions standards are justifiable primarily since this was a change in law type situation. In addition, the company provided supporting documentation explaining the nature of the increase in capital costs which total \$1,284,676. Thus, an increase in capital costs for this item was recommended and subsequently approved by the Board.

Broom and Shovel Kit

Additional capital was requested for this item because it was not included in the original proposal. The requirements delineated in Franchise Agreement Section 8.02.I(2) to clean-up after spills on route was included in the original contract attached to the RFP and no exceptions to this contract were taken by the company in the RFP process. In addition, the use of a broom and shovel on the route trucks was included in the company's original proposal. Therefore, the rationale provided is unacceptable. A deduction of \$33,254 was recommended and subsequently approved by the Board.

Storage Box

The company points out that exclusion of this from the original proposal was an oversight, thus requesting additional capital for it now is not acceptable. A deduction of \$15,194 was recommended and subsequently approved by the Board.

Decal Installation

Additional capital is requested due to the approved design of the artwork that will be used to promote the program and services. The additional capital requested of \$17,436 for this purpose is justifiable and was approved by the Board.

Oil Jug Rack Redesign

The company points out that for safety and transportation reasons the final design of the used oil jug rack could not be determined. Even though the collection of used oil was included in the original proposal and associated costs were assumed to be included in the original 2008 costs, the rationale presented is justifiable and the cost nominal. Thus, the additional capital requested of \$43,007 for this purpose is reasonable and was approved by the Board.

Power Take-Off (PTO) Pump

The rationale for increased capital totaling \$29,576 for this item is justifiable primarily since it is due to a regulatory change and was approved by the Board.

Increased Fork Thickness for Front End Loaders

The rationale provided for this item is reasonable and the additional capital requested totals \$6,358 and approved by the Board.

Fork-Mounted Cart Tippers

The primary explanation for adding cost for fork mounted cart tippers on 30 front-end load collection service vehicles is to gain greater efficiency and flexibility with routing. While this is a value added benefit to the company's operations, the economic benefits of these greater operational efficiencies will not be passed back to the Member Agencies, thus the additional capital needed for purchase of these cart tippers is of little economic value to the Member Agencies. A deduction of \$293,292 was recommended and subsequently approved by the Board.

Body Side Backup Assist Lights

The additional capital requested for body side backup assist lights was to improve the safe operation of the collection vehicles. Since operating conditions have not changed from 2008, the company's cost omission is denied. A deduction of \$13,077 was recommended and subsequently approved by the Board.

LED Lights

Additional capital cost requested for LED lights was because the manufacturer changed the configuration of the vehicle cab which increased the cost of the vehicle. However, LED lights were included in the company's original proposal. While possibly necessary, the cost for this modification should not be paid through additional capital cost. A deduction of \$52,486 was recommended and subsequently approved by the Board.

In Body Oil Tank

This item provides a benefit since it will potentially mitigate problems caused from leaking hydraulic tanks. While the Franchise Agreement provides for liquidated damages for leaks of this nature, approval of additional capital totaling \$18,918 will potentially mitigate the problem in advance and this additional capital cost was approved by the Board.

Return Line Check Valve

The rationale provided for this item is reasonable and the additional capital cost of \$9,361 was recommended and subsequently approved by the Board.

Solid Front Head Screen

Additional capital for the solid front head screen is to provide more flexibility regarding lighting options on the vehicle, increase the life of light bulbs and reduce rust, thus primarily leading to operational cost savings. The cost for this modification should not be paid through additional capital cost. A deduction of \$15,535 was recommended and subsequently approved by the Board.

Air Conditioning

Additional capital for air conditioning for 30 collection service vehicles was requested because this item was excluded from the company's original proposal which is unacceptable. A deduction of \$49,556 was recommended and subsequently approved by the Board.

ISX 11.9 Liter Engine

Additional capital is requested for changing from 10.9 liter engines to 11.9 liter engines in 30 front end load collection vehicles to reduce emissions, optimize fuel economy and have a longer lasting engine. The emissions reductions rationale doesn't apply since the smaller engines would need to comply with the same emissions regulations as the larger ones, therefore the primary rationale included with the original compensation application is in reduced maintenance through greater durability and increased fuel economy, both of which translate to operational gains that will not be passed on to the Member Agencies. Thus, on this basis alone, the additional capital needed is not justifiable. However, since issuance of the SBWMA Draft Report, the company provided documentation stating that the 10.9 liter engines were discontinued in October 2009, prior to the signing of any Franchise Agreements. Therefore, the company was precluded from purchasing the small engines and was required to upgrade to the larger 11.9 engines. This new information, coupled with RSMC agreeing to offset the entire cost of this additional capital in the form of reduced fuel expense, led the SBWMA to recommend approving additional capital for these engines totaling \$370,226 and this recommendation and subsequently approved by the Board. Again, since the annual depreciation expense, profit and interest for this additional capital is being offset in its entirety in a reduction in fuel expense, there will be no net increase in costs due to approving this additional capital.

To summarize, SBWMA recommended and the Board approved additional capital totaling \$1,563,576 for collection vehicle related specification modifications above what is allowed by the indexed adjustment.

Modification to Mix of Support Vehicles

The rationale provided by RSMC for the purchase of all the support vehicles is not justifiable as the company included four additional half ton pick up trucks at a total cost of \$199,123. The company’s rationale for four additional pick up trucks is that the originally proposed quantity of six pick-ups was not adequate and that ten would be needed. Based on this rationale, the SBWMA recommended and the Board approved disallowing these additional four pick-ups trucks and reducing the requested additional capital by \$199,123.

Summary of Recommendations for the Request for Additional Capital.

The total amount of approved deductions to the request for additional capital is \$671,517. Thus, the total amount of approved additional capital is \$1,563,576. The unexplained variances in the information provided by RSMC will not impact the approved additional capital since the company requested \$215,982 less than was considered justifiable. The following table on the next page (**Table 7**) denotes the categories of additional capital requested by the RSMC and the SBWMA recommendations to approve or deny the request.

Table 7 – Summary of Request for Additional Capital

Category of Expense for Additional Capital Requested	Additional Capital Requested	Cost Per Category of Expense ¹	
		Recommended Amount Approved	Recommended Amount Denied
Broom and Shovel Kit	\$33,254	\$0	\$33,254
Storage Box	\$15,194	\$0	\$15,194
Decal Installation	\$17,436	\$17,436	\$0
Oil Jug Rack Redesign	\$43,007	\$43,007	\$0
PTO Pump	\$29,576	\$29,576	\$0
Increased Fork Thickness	\$6,358	\$6,358	\$0
Fork-Mounted Cart Tipplers	\$293,292	\$0	\$293,292
Body Side Backup Assist Lights	\$13,077	\$0	\$13,077
LED Lights	\$52,486	\$0	\$52,486
2010 EPA (Emissions) Related Costs	\$1,284,676	\$1,284,676	\$0
In Body Oil Tank	\$18,918	\$18,918	\$0
Return Line Check Valve	\$9,361	\$9,361	\$0
Solid Front Head Screen	\$15,535	\$0	\$15,535
Air Conditioning	\$49,556	\$0	\$49,556
ISX 11.9 Liter Engine	\$370,226	\$370,226	\$0
Hybrid Pick Up Trucks ²	\$132,330	(\$66,793)	\$199,123
Unexplained Variance ³	(\$149,189)	(\$149,190)	\$0
TOTAL	\$2,235,093	\$1,563,576	\$671,517

¹ Based on financial information submitted by RSMC (includes sales tax and FET where applicable).

² While RSMC requested \$132,330 in additional capital for the hybrid pick up trucks, the recommendation is to only approve funding 6 per the original proposal, thus the recommendation is to disallow purchase of the additional 4 requested.

³ There are unexplained variances in the financial information submitted by RSMC. The costs disclosed for the individual items do not tie to the costs included in the primary RSMC cost detail spreadsheets.

The annual cost impact to the Member Agencies for including the recommended \$1,563,576 of additional capital for vehicles will be approximately \$164,175 per year in depreciation expense across all Member Agencies. The annual rate impact is approximately 0.2% and is included in all 2011 costs shown in this report.

2.H Recommended Adjustment to RSMC's Compensation for 2011

Based on the net results of all the cost adjustments described above and the analysis of the 2011 RSMC Compensation Application, SBWMA recommended and the Board approved adjustments to RSMC's 2011 compensation as delineated in **Table 8 – Summary of Adjusted 2008 Costs**. This table provides a summary of the adjusted 2008 costs, the adjusted 2011 costs, the percentage each cost category contributes to the total cost and the overall change in costs and compensation.

Table 8 – Summary of Adjusted 2008 Costs to 2011 Costs¹

	Adjusted Costs - 2008	Costs - 2011	% of Total Cost	Change	% Change
Annual Cost of Operations					
Total Annual Cost of Operations	39,950,303	44,029,869	85.7%	4,079,566	10.2%
Profit	4,193,678	4,621,920	9.0%	428,242	10.2%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	44,143,981	48,651,789	94.7%	4,507,808	10.2%
Contractor Pass-Through Costs					
Regulatory Agency Fees	-	-	0.0%	-	
Interest Expense	2,887,036	3,010,779	5.9%	123,743	4.3%
Interest Expense on Implementation Cost	96,714	99,342	0.2%	2,628	2.7%
Contract Changes to Specific Agencies		(378,157)		(378,157)	
Total Contractor Pass-Through Costs	2,983,750	2,731,964	5.3%	(251,786)	-8.4%
TOTAL CONTRACTOR'S COMPENSATION	47,127,731	51,383,753	100.0%	4,256,022	9.0%
excludes Agency specific contract changes					

¹The costs presented in Table 8 reiterate the costs presented in Table 4.

The adjustment to contractor's compensation delineated in Table 8 does not take into account Member Agency specific changes such as use of old green waste carts (Town of Hillsborough) and prior purchase of kitchen pails (City of San Carlos). The Member Agency specific changes in cost are included after the overall costs are allocated to the Member Agencies, as discussed below.

SECTION 3 RSMC COST ALLOCATION TO MEMBER AGENCIES

3.A Member Agency RSMC Cost Allocation Process

Article 11 and Attachment K of the Agreements prescribe the process to allocate the company's cost equitably across the Member Agencies. Components of the nine cost categories described in Section 1.C of this report shall each be allocated by four operational statistics specific to each Member Agency. These operational statistics include:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

The source to derive these statistics for the 2011 RSMC Compensation Application include the estimated route labor hours and route hours in the company’s original proposal and data provided from Allied Waste/Republic Services for April 2010 containers in service and customer accounts.

The process to allocate costs across the Member Agencies is described in detail in Attachment K of the Agreements. After determining the total contractor’s compensation for a given rate year, this process will be used to calculate the costs attributable to each Member Agency. This method was employed in the 2011 RSMC Compensation Application.

Table 9 provides a description of the specific cost category and operational statistic used to allocate costs.

Table 9 – Operational Statistics Used for Allocation of Costs

General Cost Category	Specific Cost Category	Operational Statistic
Costs of Operation		
	Wages for Direct Labor	Annual Route Labor Hours
	Benefits for Direct Labor	Annual Route Labor Hours
	Payroll Taxes	Annual Route Labor Hours
	Worker’s Compensation Expense	Annual Route Labor Hours
	Direct Fuel Costs	Annual Route Hours
	Other Direct Costs	Annual Route Hours
	Route Vehicles	Annual Route Hours
	Collection Containers	Containers in Service
	Other	Annual Route Hours
Allocated Indirect Costs Excluding Depreciation and Interest		
	General and Administrative	Number of Customer Accounts
	Vehicle Maintenance	Annual Route Hours
	Container Maintenance	Number of Containers in Service
	Operations	Annual Route Hours
Implementation	Implementation	Annual Route Hours
Allocated Indirect Depreciation	Allocated Indirect Depreciation	Annual Route Hours

3.B Results of Cost Allocation

The results of allocating the cost for RSMC are provided in **Table 10** on the following page. This table provides the cost allocation by Member Agency for each cost category and total contractor’s compensation for all Member Agencies combined.

Table 10 – Member Agency Cost Allocation

TOTAL COLLECTION COSTS	2011 Costs													
	2011 Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$13,997,860	\$429,492	\$771,660	\$1,369,461	\$531,827	\$913,782	\$727,381	\$1,413,707	\$415,534	\$2,536,974	\$1,067,547	\$3,177,595	\$205,775	\$437,125
Benefits for CBAs	\$5,122,097	\$157,859	\$285,045	\$494,336	\$195,939	\$331,091	\$270,047	\$515,945	\$150,662	\$927,800	\$392,285	\$1,162,693	\$76,508	\$161,887
Payroll Taxes	\$1,164,622	\$35,734	\$64,202	\$113,939	\$44,248	\$76,027	\$60,518	\$117,620	\$34,572	\$211,076	\$88,820	\$264,376	\$17,121	\$36,369
Workers Compensation Insurance	\$1,259,325	\$38,640	\$69,423	\$123,204	\$47,846	\$82,209	\$65,439	\$127,185	\$37,384	\$228,240	\$96,042	\$285,874	\$18,513	\$39,326
Total Direct Labor Related-Costs	\$21,543,904	\$661,724	\$1,190,330	\$2,100,940	\$819,860	\$1,403,109	\$1,123,386	\$2,174,458	\$638,152	\$3,904,090	\$1,644,694	\$4,890,538	\$317,916	\$674,707
Direct Fuel Costs	\$2,613,085	\$88,747	\$152,363	\$238,554	\$106,137	\$178,163	\$151,844	\$260,589	\$82,816	\$452,987	\$211,319	\$557,589	\$39,728	\$92,249
Other Direct Costs	\$1,981,052	\$64,836	\$115,030	\$185,798	\$80,311	\$135,726	\$111,094	\$197,172	\$62,290	\$345,235	\$161,214	\$426,170	\$29,229	\$66,946
Depreciation														
- Collection Vehicles	\$4,039,614	\$142,601	\$235,340	\$361,446	\$174,306	\$271,406	\$242,409	\$403,595	\$130,986	\$690,409	\$325,172	\$859,984	\$60,753	\$141,207
- Containers	\$1,882,550	\$40,472	\$123,930	\$163,051	\$79,165	\$130,307	\$57,028	\$180,636	\$60,138	\$346,802	\$169,596	\$418,624	\$34,611	\$78,189
Total Depreciation	\$5,922,164	\$183,073	\$359,271	\$524,497	\$253,471	\$401,713	\$299,437	\$584,231	\$191,124	\$1,037,211	\$494,769	\$1,278,608	\$95,364	\$219,396
Allocated Indirect Costs excluding Depreciation														
General and Administrative	\$6,533,263	\$123,383	\$392,304	\$681,255	\$256,781	\$465,005	\$167,761	\$644,793	\$211,803	\$1,210,304	\$569,924	\$1,495,188	\$100,093	\$214,668
Operations	\$1,560,305	\$56,786	\$86,756	\$145,898	\$63,249	\$110,038	\$94,096	\$152,861	\$51,223	\$271,003	\$123,090	\$328,406	\$23,600	\$53,300
Vehicle Maintenance	\$2,624,720	\$95,524	\$145,939	\$245,427	\$106,396	\$185,104	\$158,287	\$257,141	\$86,167	\$455,876	\$207,060	\$552,439	\$39,699	\$89,661
Container Maintenance	\$898,038	\$16,960	\$53,925	\$93,643	\$35,296	\$63,918	\$23,060	\$88,631	\$29,114	\$166,364	\$78,340	\$205,523	\$13,758	\$29,508
Total Allocated Indirect Costs excluding Depreciation	\$11,616,326	\$292,652	\$678,923	\$1,166,223	\$461,721	\$824,064	\$443,204	\$1,143,426	\$378,307	\$2,103,547	\$978,414	\$2,581,555	\$177,151	\$387,137
Total Allocated Indirect Depreciation Costs	\$166,164	\$5,973	\$9,203	\$15,691	\$6,737	\$11,771	\$9,895	\$16,281	\$5,454	\$28,909	\$13,113	\$35,072	\$2,481	\$5,584
Annual Implementation Cost Amortization	\$187,175	\$6,917	\$11,284	\$16,555	\$8,435	\$12,889	\$12,238	\$17,043	\$5,312	\$31,985	\$14,586	\$39,669	\$3,001	\$7,261
Total Annual Cost of Operations ¹	\$44,029,869	1,303,922	2,516,403	4,248,258	1,736,672	2,967,435	2,151,098	4,393,199	1,363,457	7,903,963	3,518,110	9,809,201	664,871	1,453,280
Profit	\$4,621,920	\$136,876	\$264,153	\$445,950	\$182,303	\$311,499	\$225,806	\$461,165	\$143,125	\$829,698	\$369,304	\$1,029,695	\$69,793	\$152,554
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$48,651,789	\$1,440,798	\$2,780,556	\$4,694,208	\$1,918,974	\$3,278,934	\$2,376,904	\$4,854,364	\$1,506,582	\$8,733,661	\$3,887,414	\$10,838,896	\$734,664	\$1,605,834
Contractor Pass-Through Costs														
Interest Expense	\$3,010,779	\$85,964	\$178,450	\$279,232	\$124,444	\$205,950	\$137,274	\$308,998	\$100,543	\$530,099	\$252,217	\$659,633	\$45,553	\$102,424
Interest Expense on Implementation Cost	\$99,342	\$3,225	\$5,808	\$9,474	\$4,173	\$7,053	\$5,582	\$9,556	\$2,915	\$17,263	\$7,766	\$21,523	\$1,470	\$3,532
Contract Changes to Specific Agencies ¹	(\$378,157)							(\$378,157)						
Total Contractor Pass-Through Costs	\$2,731,964	\$89,189	\$184,258	\$288,706	\$128,617	\$213,003	(\$235,301)	\$318,554	\$103,458	\$547,362	\$259,983	\$681,156	\$47,023	\$105,956
TOTAL CONTRACTOR'S COMPENSATION	\$51,383,753	\$1,529,988	\$2,964,813	\$4,982,914	\$2,047,591	\$3,491,936	\$2,141,603	\$5,172,918	\$1,610,040	\$9,281,023	\$4,147,397	\$11,520,053	\$781,687	\$1,711,790

¹ The deduction for Hillsborough reflects an adjustment in costs due to the migration of customers from backyard service to curbside service.

SECTION 4 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS FOR 2011

4.A Components of Member Agency Rates Included in this Report

The compensation paid to RSMC for 2011 collection service is only one of several components that make up the costs reflected in the Member Agency's collection service customer rates. The costs contained in this Report used to arrive at the total revenue requirement (see **Table 11 –Member Agency Projected Rate Impacts** below), not only include RSMC compensation, but also other pass-through costs (discussed below).

4.B Other Pass-Through Costs

The other pass-through costs which are included in the total contractor's compensation include the following:

1. Shoreway disposal and processing fees – Disposal and processing fees are based on a calculation using estimated tip fees and projected tonnage delivered to Shoreway for 2011.
2. Franchise fee – Franchise and other Member Agency fees and programs (e.g., Curbside Inc. Door-to-Door HHW Collection Service).
3. Agency specific changes – Agency specific changes to the Agreements are captured and applied to each Member Agency. Examples of these changes include:
 - a. City of Menlo Park – RSMC will provide residential billing services at an additional cost of \$22,700 annually.
 - b. City of San Carlos – The City purchased kitchen pails in 2009, thus \$40,959 of capital cost (plus interest) will be deducted.
 - c. Town of Hillsborough – The Town chose to purchase the used Allied Waste/Republic Services green carts and therefore \$189,506 of capital cost (plus interest) will be deducted.

Table 11 – Member Agency Projected Rate Impacts

TOTAL COLLECTION RATE IMPACT	2011 Costs						
	2011 Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough
2011 Collection Revenue at 2010 Rates	\$78,184,957	\$1,917,424	\$4,883,159	\$7,809,550	\$3,653,618	\$4,256,874	\$2,404,790
Total Contractor's Compensation	\$51,383,753	\$1,529,988	\$2,964,813	\$4,982,914	\$2,047,591	\$3,491,936	\$2,141,603
Other Pass-Through Costs							
Disposal and Processing Fees	\$24,723,411	\$793,155	\$1,418,453	\$2,660,444	\$1,455,291	\$1,613,857	\$626,073
Agency Franchise Fees	\$10,481,511	\$208,473	\$1,041,473	\$1,023,623	\$721,904	\$285,934	\$294,046
Agency Contract Management	\$877,000	\$0	\$0	\$0	\$0	\$0	\$0
Agency Specific Contract Changes	(\$11,915)						(\$27,687)
Total Other Pass-Through Costs	\$36,070,007	\$1,001,628	\$2,459,926	\$3,684,067	\$2,177,195	\$1,899,791	\$892,432
TOTAL REVENUE REQUIREMENT	\$87,453,760	\$2,531,616	\$5,424,739	\$8,666,981	\$4,224,786	\$5,391,728	\$3,034,036
Current Year Surplus/(Shortfall)	(\$9,268,804)	(\$614,191)	(\$541,580)	(\$857,431)	(\$571,168)	(\$1,134,854)	(\$629,245)
Rate Adjustment Before 2010 Allied	11.9%	32.0%	11.1%	11.0%	15.6%	26.7%	26.2%
January 1, 2011 Estimated Allied Balancing Account							
Total Year Surplus/(Shortfall)	(\$9,268,803)	(\$614,191)	(\$541,580)	(\$857,431)	(\$571,168)	(\$1,134,853)	(\$629,245)
TOTAL COLLECTION RATE IMPACT	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
2011 Collection Revenue at 2010 Rates	\$9,464,794	\$2,480,079	\$14,488,100	\$6,381,755	\$17,091,039	\$890,774	\$2,463,000
Total Contractor's Compensation	\$5,172,918	\$1,610,040	\$9,281,023	\$4,147,397	\$11,520,053	\$781,687	\$1,711,790
Other Pass-Through Costs							
Disposal and Processing Fees	\$2,504,776	\$751,203	\$4,692,850	\$1,918,561	\$5,214,664	\$330,084	\$744,000
Agency Franchise Fees	\$1,213,606	\$118,095	\$1,977,626	\$830,203	\$2,595,822	\$53,401	\$117,305
Agency Contract Management	\$877,000	\$0	\$0	\$0	\$0	\$0	\$0
Agency Specific Contract Changes	\$22,700	\$0	\$0	(\$6,928)	\$0	\$0	\$0
Total Other Pass-Through Costs	\$4,618,082	\$869,298	\$6,670,476	\$2,741,836	\$7,810,486	\$383,485	\$861,305
TOTAL REVENUE REQUIREMENT	\$9,791,000	\$2,479,338	\$15,951,499	\$6,889,234	\$19,330,539	\$1,165,173	\$2,573,094
Current Year Surplus/(Shortfall)	(\$326,206)	\$742	(\$1,463,399)	(\$507,479)	(\$2,239,500)	(\$274,399)	(\$110,095)
Rate Adjustment Before 2010 Allied	3.4%	0.0%	10.1%	8.0%	13.1%	30.8%	4.5%
January 1, 2011 Estimated Allied Balancing Account							
Total Year Surplus/(Shortfall)	(\$326,206)	\$742	(\$1,463,399)	(\$507,479)	(\$2,239,500)	(\$274,399)	(\$110,095)
<p>Note: Revenue is based on 2010 average monthly revenue since the last rate increase in 2010. Revenue may be short of new revenue from new Agency fees such as backyard service. Revenue and Agency Franchise Fee expense includes Curbside Inc. Door-to-Door HHW Collection Service in 2011 for currently participating Agencies. This rate adjustment excludes any rate adjustment needed to address the can migration issue. Excludes January 1, 2011 Estimated Allied Balancing Account</p>							

4.C Explanation of Total Rate Adjustment

As shown in **Table 12**, the total average SBWMA Rate Adjustment of **11.9%** is broken down into the following components:

1. The 2011 projected revenue before 2011 rate increases is compared to last year's revenue requirement for 2010. This shows a shortfall of \$2,426,027 due to lower customer volume or agencies not raising rates enough to achieve the recommended revenue requirement. This has an overall **3.1%** impact on 2011 rates.
2. The new Agreements result in a cost increase over the estimated Allied Waste 2010 collection cost of \$3,055,711 with a rate impact in 2011 of **3.9%**. This cost increase includes the effect of several new CBA agreements that would have affected any contractor (Allied or Recology) the same.
3. Higher tip fees at Shoreway have an approximate 3.0% rate impact in 2011, offset by slightly lower volume for a net **2.7%** rate impact from disposal expense.
4. The San Mateo County fee increase at Ox Mountain landfill has a small effect on 2011 rates for the full year impact vs. a half year in 2010.
5. Member Agency fees increased by \$1,553,632 and have an overall rate impact of **2.0%**.

The specific explanation for each agency is contained in **Appendix F** and will vary for the specific circumstances at each agency.

Table 12 – Total Rate Adjustment Explanation

TOTAL COLLECTION RATE IMPACT	SBWMA				
	2010	2011	2010 to 2011 Variance	Percentage Variance	% Rate Impact
2010 Revenue Requirement / 2011 Collection Revenue @ 2010 Rates	\$80,611,127	\$78,185,100	(\$2,426,027)	-3.2%	3.1%
2010 Projected Collection Revenue	\$75,957,677				
Total Contractor's Compensation	\$48,316,128	\$51,371,839	\$3,055,711	6.3%	3.9%
Other Pass-Through Costs					
Disposal & Processing Fees	\$22,010,583	\$24,087,411	\$2,076,829	9.4%	2.7%
Disposal: County Fee Increase @ Ox Mtn	\$318,000	\$636,000	\$318,000	100.0%	0.4%
Agency Franchise Fees	\$8,927,879	\$10,481,511	\$1,553,632	17.4%	2.0%
Agency Contract Management	\$1,038,537	\$877,000	(\$161,537)	-15.6%	-0.2%
Total Other Pass-Through Costs	\$32,294,999	\$36,081,922	\$3,786,924	11.7%	4.8%
TOTAL REVENUE REQUIREMENT	\$80,611,127	\$87,453,761	\$6,842,634	8.5%	
Current Year Surplus/(Shortfall)	(\$4,653,450)	(\$9,268,661)			
2011 Rate Adjustment					11.9%

4.D Additional Components of Member Agency Rates

It is important to note that this Report does not include 2010 adjustments to Member Agency balancing accounts with Allied Waste/Republic Services and other final settlement issues with Allied. SBWMA will provide preliminary balancing account figures to the Board in early October.

The Allied Waste/Republic Services 2010 Rate Review Report prepared by Hilton, Farnkopf and Hobson will be issued to the Board on October 21, 2010 for consideration at the October 28, 2010 Board meeting. In addition to presenting the Allied Waste/Republic Services 2010 Rate Review

Report, SBWMA will prepare a staff report that provides a summary of all the cost components that will make up the Member Agency's total revenue requirement that will be the basis for setting solid waste rates in 2011.

SECTION 5 CONCLUSION

The analysis of the 2011 RSMC Compensation Application provided in this Report recommended and the Board approved an adjustment to RSMC's compensation for 2011 (i.e., Total Operating Costs) of \$4,507,808 (10.2% increase over proposed 2008 costs), as denoted in **Table 4**. With the inclusion of pass-through costs, the overall increase in 2011 total contractor's compensation for RSMC is \$4,256,022 (9.0% increase over proposed 2008 costs).

It is important to note that this Report is not establishing the final revenue requirement that will be used as the basis for setting 2011 rates. This Report only provides information on the RSMC component (and associated pass-through costs) of the total revenue requirement for 2011 for solid waste, recycling and organic materials collection and processing services.

Article 11 of the Agreements states the following:

- Each Member Agency is obligated to set rates as necessary to generate annual gross revenues billed by RSMC equal to the approved compensation amount plus all approved pass-through costs.
- If an Agency sets a rate that is below the approved recommendation contained in this Report, or if an Agency delays imposing a rate increase effective January 1, 2011, and net revenues billed by RSMC in 2011 are less than needed to cover the approved total contractor's compensation delineated in this Report, the Agency will be obligated to pay interest to RSMC on the difference.

However, RSMC has agreed in concept to provide the Member Agencies a two month grace period for setting rates for 2011. Thus, the company has agreed to delay the January 1, 2011 deadline to establish rates in accordance with the approved compensation to March 1, 2011. This gesture by the company will provide relief to those agencies that do not adopt new rates for 2011 by January 1, 2011 and are not interested in establishing retroactive rates after that date. Since this is a unilateral contractual change by the company, an administrative correspondence from RSMC shall suffice in lieu of pursuing a contract amendment. SBWMA will work with RSMC in the coming weeks to draft the appropriate language to confirm this conceptual agreement in writing.

At the October 28, 2010 Board meeting, all of the components that make up the 2011 total revenue requirement will be available and Member Agencies can then determine their respective 2011 rates.