EXHIBIT E:
RATE ADJUSTMENT METHODOLOGY

EXHIBIT E
RATE ADJUSTMENT METHODOLOGY

1. General

Subject to the terms herein, the City shall adjust all Rates on an annual basis. Contractor shall submit its application for a Rate adjustment to the City Contract Manager on or before April 1 of each Rate Period where Rates shall be adjusted using the index-based methodology described in Exhibit E1. Contractor shall submit its application on or before February 1 for any Rate Period where Rates shall be adjusted using the cost-based methodology described in Exhibit E2. Contractor's Rate application shall document all calculations and include all supporting schedules, documentation of per-Ton charges for Approved Facilities, documentation of changes in governmental fees at Approved Facilities (if applicable), and any other documentation or evidence determined by the City Contract Manager to be reasonably necessary to ensure that the calculation of Rate adjustments has been performed in strict conformance to the requirements of this Exhibit E.

The City Contract Manager shall make a good faith effort to approve Rates by June 1 of each year, and such Rates shall be effective on each subsequent July 1. If Rates are not effective by July 1 due to a delay caused solely by City, City shall allow Contractor to retroactively bill Customers for the amount of the Rate increase for any period of said delay that is solely caused by City (subject to the City's approval of how the retroactive adjustment is billed) or the City may compensate the Contractor for lost Gross Rate Revenues. In the case of a delayed Rate adjustment, the Contractor may bill the Customer during the next billing cycle to recoup the deferred Rate increase. If Rates are not effective by July 1 as a result of Contractor's delay in submitting the Rate application in a complete and accurate form, then prior Rates remain in effect until such adjustment is made and Contractor shall not be entitled to a retroactive adjustment for lost Gross Rate Revenues.

2. Definitions

Certain terms which are specific to this Exhibit (including Exhibits E1 and E2) are defined below:

A. "**Annual Percentage Change**" means the annual percentage change in any of the indices defined above calculated as described in the following paragraph.

The Annual Percentage Change for a cost index shall be calculated as the Average Index Value for the most recently available 12-month period of the then-current Rate Period minus the Average Index Value for the corresponding 12-month period of the most-recently completed Rate Period and the result of which shall be divided by the Average Index Value for the same 12-month period of the most recently completed Rate Period.

For example, if the Contractor is calculating the Total Calculated Costs in January 2023 to be effective for Rate Period Three (July 2023 through June 2024), the Annual Percentage Change for the CPI-U would be calculated as follows:

[(Average CPI-U for January 2022 through December 2022) minus
(Average CPI-U for January 2021 through

December 2021)] divided by (Average CPI-U for January 2021 through December 2021)

The calculated Annual Percentage Change shall be carried to three places to the right of the decimal and rounded to the nearest thousandths.

B. "**Average Index Value**" means the sum of the monthly index values during the most recently available 12-month period divided by 12 (in the case of indices published monthly) or the sum of the bi-monthly index values divided by 6 (in the case of indices published bi-monthly).

C. "**CPI-U**" means the Consumer Price Index, All Urban Consumers, all items, not seasonally adjusted San Francisco-Oakland-San Jose Metropolitan Area compiled and published by the U.S. Department of Labor, Bureau of Labor Statistics.

D. "**Disposal Cost**" means the cost of Disposing of Solid Waste at the Designated Disposal Facility.

E. "**Fuel Index**" means the per-therm price for Core Natural Gas Service for Compression on customer's premises, Schedule G-NGV1, compiled and published by the Pacific Gas and Electric Company Analysis and Rate Department and reported monthly in its "*Gas RateFinder*" publication (http://www.pge.com/tariffs/GRF.SHTML). The January 2018 Fuel Index is $0.70874 per therm, which reflects the sum of the customer charge, procurement charge, transportation charge, and public purpose program (PPP) charge for natural gas service for compression on customer's premises as reported by Pacific Gas and Electric Company.

F. **"Gross Rate Revenues"** means total Customer billings by the Contractor for the provision of services pursuant to this Agreement, without any deductions.

G. "**Motor Vehicle Maintenance and Repair Index**" or **"MVI"** means the Consumer Price Index, All Urban Consumers, Motor Vehicle Maintenance and Repair, not seasonally adjusted U.S. city average, compiled and published by the U.S. Department of Labor, Bureau of Labor Statistics.

H. "**Total Calculated Costs**" means the total amount to be used as a basis for determining the Rate Adjustment Factor. The Total Calculated Costs do not reflect or in any way guarantee the Gross Rate Revenues that are to be generated by Rates or retained by the Contractor. Note that for determining Rates for Rate Period Two, the total Proposed costs for Rate Period One (July 1, 2021 to June 30, 2022) shall be used for the calculations.

Table 1 provides additional information about the four indices defined above.

TABLE 1*

	CPI-U	Fuel Index	Motor Vehicle Maintenance and Repair
Description	Consumer Price Index - All Urban Consumers	Core Natural Gas for Compression at Customer's Premises for Motor Vehicles	Consumer Price Index – All Urban Consumers, Motor Vehicle Maintenance and Repair
Series ID	CUURS49BSA0	G-NGV1	CUUR0000SETD
Adjusted	Not seasonally adjusted	N/A	Not seasonally adjusted
Area	San Francisco-Oakland-Hayward	N/A	U.S. City average
Item	All items	N/A	Motor vehicle maintenance and repair
Base Period	1982-84=100	N/A	1982-84=100
Periodicity	Bi-monthly	Monthly	Monthly

* All indices published by the U.S. Bureau of Labor Statistics with the exception of the Fuel Index, which is published by Pacific Gas and Electric Company Analysis and Rate Department.

3. Cost of Rate Adjustment process

The City may incur costs, including consulting and legal fees, when determining adjustments to the Rates in accordance with this Exhibit and may require the Contractor to pay for such costs within sixty (60) calendar days of receipt of the City's invoice for such costs. The Contractor may recover such costs through the Rates by treating the costs as an allowable cost of business, not subject to profit mark-up. Regardless of Contractor's payment of costs associated with said review, the City shall retain full and unimpeded discretion in selection of its agents to ensure, at a minimum, that no conflict of interest arises in the review of Contractor's request. The City retains the right to select its agents on the basis of their qualifications and experience and without regard to cost.

4. Profit

Table 2 summarizes the allowed operating ratio used to determine the Contractor's profit, as described in Exhibit E1, Section 2.B and Exhibit E2, Section 2.B.

EXHIBIT E
RATE ADJUSTMENT METHODOLOGY

TABLE 2

Rate Period	Operating Ratio
Rate Period 1	79.00%
Rate Period 2	78.50%
Rate Period 3	78.00%
Rate Period 4 and any subsequent Rate Periods under this Agreement	77.70%

EXHIBIT E1:
MULTI-INDEX RATE ADJUSTMENT METHODOLOGY

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

1. General

The purpose of this attachment is to describe and illustrate the method by which the City will calculate the annual adjustment to Rates to reflect changes in various cost indices and changes to Processing and Disposal Costs based on Tonnages of materials Collected and changes in tipping fees. This index-based adjustment process shall be used to determine Rates for Rate Periods Two, Three, Five, Six, Seven, Nine, Ten, and Eleven. If the Term is extended, subsequent Rate Periods shall be adjusted pursuant to Section 8.2.C.

The index-based adjustment involves application of indices to various costs that comprise the Total Proposed Annual Costs for Rate Period One (and to Total Calculated Costs for future Rate Periods) to determine the Total Calculated Costs for the coming Rate Period. In addition, Processing and Disposal costs shall be adjusted to reflect actual Tonnage Collected during the most-recently completed Rate Period.

The difference (measured as a percentage) between the Total Calculated Costs for the coming Rate Period and the Total Calculated Costs for the then-current Rate Period is the Rate Adjustment Factor. The Rate Adjustment Factor is applied to the current Rates to determine the Rates for the coming Rate Period.

The Rate Adjustment Factor calculated pursuant to this Exhibit E1 may not exceed five percent (5%). In the event that the calculation results in a calculated increase exceeding five percent (5%), the calculated dollar amount exceeding five percent (5%) shall be reflected as an "Other Adjustment" in the next scheduled Rate adjustment ("roll-over"). The City shall not be required to compensate Contractor for any cumulative "rolled-over" amounts remaining at the end of the Agreement Term.

In the event that the index-based adjustment as calculated by this Exhibit E1 results in a negative Rate Adjustment Factor, the City reserves the right to "roll-under" the Rate reduction, such that there is no Rate adjustment in the Rate Period for which the negative Rate Adjustment Factor was calculated, but the calculated Rate reduction may be deferred to the following Rate Period, as a credit against future Rate increases.

2. Adjustment of Total Calculated Costs

The cost categories of the main components of Total Calculated Costs are presented in detail in Exhibit G1. Adjustments to these components to calculate costs for the coming Rate Period shall be calculated as follows:

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

A. Total Annual Cost of Operations

1. **Labor-Related Costs.** The Labor-Related Costs component of the Total Calculated Costs shall be calculated, as described in this Section, to reflect the adjustment of wages and benefits under the collective bargaining agreement for represented employees of Contractor performing services under this Agreement.

   The collective bargaining agreement requires adjustment of three factors: 1) hourly wage rate; 2) pension hourly rate; and, 3) health and welfare monthly rate. The Annual Percentage Change shall be determined for each of those factors using the procedures described in the collective bargaining agreement, using the most recently-available twelve month Annual Percentage Change in the indices referenced in that bargaining agreement. The Parties acknowledge that the timing of available inflationary index data is such that this calculation will be based on a different calculation period than the actual changes in the bargaining agreement and agree that these differences are acceptable for the purposes of these calculations.

   The Labor-Related Costs presented in Contractor's Proposal include detailed cost sub-categories which are impacted by the three adjustment factors in the collective bargaining agreement. The table below defines which adjustment factor will be applied to each cost sub-category.

Cost Sub-Category	Adjustment Factor
Regular Wages	Hourly Wage Rate
Overtime Wages	Hourly Wage Rate
Holiday Wages	Hourly Wage Rate
Vacation Wages	Hourly Wage Rate
Sick Leave Wages	Hourly Wage Rate
Workers Compensation Insurance Premiums	Hourly Wage Rate
Workers Compensation Claims	Not Adjusted
Health & Welfare	Health & Welfare Monthly Rate
Pension / Retirement Benefits	Pension Hourly Rate
Payroll Taxes	Hourly Wage Rate
Other	Not Adjusted

   For each sub-category, the value for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the associated adjustment factor. The resultant dollar value of all sub-categories shall be added together to determine the calculated Labor-Related Costs, provided that the calculated Labor-Related Costs shall not be less than Minimum Allowable Labor-Related Costs, nor greater than the Maximum Allowable Labor-Related Costs.

   For purposes of this Section, the Minimum Allowable Labor-Related Costs shall be prepared by multiplying the Labor-Related Costs component of the Total Calculated Costs for the then-current Rate Period by one hundred two and seven tenths percent (102.7%). For purposes of this Section, the Maximum Allowable Labor-Related Costs shall be prepared by multiplying the

Labor-Related Costs component of the Total Calculated Costs for the then-current Rate Period by one hundred twelve percent (112.0%).

2. **Vehicle-Related Costs (excluding Fuel)**. The Vehicle-Related Costs component of Total Calculated Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the Motor Vehicle Maintenance and Repair Index.

3. **Fuel Costs**. The Fuel Cost component of Total Calculated Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the Fuel Index.

4. **Other Costs**. The Other Costs component of the Total Calculated Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.

5. **Direct Depreciation**. Direct Depreciation is $1,809,092 per year for Rate Periods Two through Twelve and is not annually adjusted. This adjusted depreciation amount shall remain fixed for Rate Periods Two through Twelve. If the Agreement is extended beyond Rate Period Twelve, direct depreciation shall be zero in any subsequent Rate Periods unless Parties mutually agree to a different amount.

6. **Allocated Costs (Labor, Vehicle, Fuel, and Other Costs)**. Except as provided in A.1. above, the Allocated Costs (Labor, Vehicle, Fuel, and Other Costs) component for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.

7. **Allocated Depreciation and Start-Up Costs**. The Allocated Depreciation and Start-Up Costs shall be $20,015 per year for Rate Period Two through Twelve, and are not annually adjusted. These costs shall be zero for all subsequent Rate Periods unless Parties mutually agree to a different amount.

8. **Total Annual Cost of Operations**. The Total Annual Cost of Operations for the coming Rate Period equals the sum of the costs calculated in subsections (1) through (7) above.

B. Profit

Profit for the coming Rate Period shall be calculated by dividing the Total Annual Cost of Operations for the coming Rate Period (the value calculated in Section 2.A.8 above) by the applicable operating ratio and subtracting from the result the Total Annual Cost of Operations for the coming year.

$$\text{Profit} = \frac{\text{Total Annual Cost of Operations for Coming Rate Period}}{\text{Operating Ratio}} - \text{Total Annual Cost of Operations for Coming Rate Period}$$

C. Costs Excluded from the Calculation of Profit

1. **Recyclable Materials Processing Costs.** The Recyclable Materials Processing Costs shall be calculated in the manner described in Exhibit E3.

2. **Organic Materials Processing Costs**. The Organic Materials Processing Costs shall be calculated as follows:

   Organic Materials Processing Costs = Per-Ton Organic Materials Processing fee at the Approved Organic Materials Processing Facility for the coming Rate Period x (Total Tons of Organic Materials Collected for the most-recently completed 12-month period).

3. **Reusable Materials Processing Costs.** The Reusable Materials Processing Cost shall be calculated as follows:

   Reusable Materials Processing Cost = [(Per-Ton Reusable Materials Processing Cost for the then-current Rate Period - All regulatory fees identified in Contractor's Proposal and included in the then-current per-Ton cost) x (1 + Annual Percentage Change in the CPI-U) + (Then-current per-Ton regulatory fees)] x (Total Tons of Reusable Materials Collected for the most-recently completed 12-month period).

4. **Disposal Costs**. The Disposal Costs shall be calculated as follows:

   Disposal Costs = Per-Ton Disposal fee at the Designated Disposal Facility (to be specified by the City) for the coming Rate Period x (Total Tons of Solid Waste Collected for the most-recently completed 12-month period).

5. **Interest Expense**. The Interest Expense amount is $381,504 in Rate Period Two through Twelve, is not annually adjusted, and shall be zero in any subsequent Rate Period unless Parties mutually agree to a different amount.

6. **Direct Lease Costs**. The Direct Lease Costs amount is $0 in Rate Period Two through Twelve, is not annually adjusted, and shall be zero in any subsequent Rate Period unless Parties mutually agree to a different amount.

7. **Allocated Lease Costs**. The Allocated Lease Costs amount is $0 for Rate Period Two through Twelve (including interest costs for Allocated General and Administrative of $0, Allocated Vehicle Maintenance costs of $0, and Allocated Container Maintenance of $0) is not annually adjusted and shall remain unadjusted in any subsequent Rate Period unless Parties mutually agree to a different amount.

8. **Total Costs Excluded from the Calculation of Profit**. Total Costs Excluded from the Calculation of Profit for the coming Rate Period are the sum of the amounts in subsections (1) through (7) above.

D. Total Calculated Costs before City Reimbursements

The Total Calculated Costs before City Reimbursements shall be the sum of the Total Annual Cost of Operations, Profit, and Costs Excluded from the Calculation of Profit for the coming Rate Period.

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

E. City Reimbursements

1. **Waste Management Recycling and Program Fee (AB 939/SB 1383).** The AB 939/SB 1383 payment for the coming Rate Period shall equal the total AB 939/SB 1383 Fee paid to the City in the most-recently completed 12-month period multiplied by 1 plus the Annual Percentage Change in the CPI-U, or as otherwise directed by the City.

2. **Infrastructure Impacts Mitigation Fee.** The Infrastructure Impacts Mitigation Fee for the coming Rate Period shall equal the total Infrastructure Impacts Mitigation Fee paid to the City in the most-recently completed 12-month period multiplied by 1 plus the Annual Percentage Change in the CPI-U, or as otherwise directed by the City.

3. **Doolittle Landfill Maintenance Fee.** The Doolittle Landfill Maintenance Fee for the coming Rate Period shall equal the total Doolittle Landfill Maintenance Fee paid to the City in the most-recently completed 12-month period multiplied by 1 plus the Annual Percentage Change in the CPI-U, or as otherwise directed by the City.

4. **City Parks Fee.** The City Parks Fee for the coming Rate Period shall equal the total City Parks Fee paid to the City in the most-recently completed 12-month period multiplied by 1 plus the Annual Percentage Change in the CPI-U, or as otherwise directed by the City.

5. **Rate Application Review Costs.** An amount determined by the City to reimburse the Contractor for payment of the City's costs, including consulting and legal fees associated with determination of Rates under this Exhibit. Such Rate application review costs may or may not be one-time costs and shall be included in subsequent Rate Periods if it is not a one-time cost.

6. **Total City Reimbursements.** The Total City Reimbursements for the coming Rate Period shall equal costs calculated in subsection (1) through (5) above; provided, however, that any adjustment in any such fee, whether pursuant to the relevant index or as the result of the decision of City, shall be an allowable cost of business, excluded from the calculation of profit, and reflected in the Total City Reimbursements.

F. Other Adjustments

From time to time during the Term of the Agreement, it may be necessary to make other adjustments to the compensation calculations. For example, if the City elects to roll-under a negative Rate adjustment to a future year, the dollar value of that negative adjustment shall be reflected as an adjustment. In such case, the adjustment would be a reduction to the Total Calculated Costs.

G. Total Calculated Costs

The Total Calculated Costs for the coming Rate Period shall equal the sum of the Total Annual Cost of Operations, Profit, Total Costs Excluded from the Calculation of Profit, Total City Reimbursements, and Other Adjustments (if applicable), for the coming Rate Period.

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

3. Rate Adjustment Factor

The Rate Adjustment Factor shall equal the Total Calculated Costs for the coming Rate Period divided by the Total Calculated Costs for the then-current Rate Period, which shall be rounded to the nearest thousandth. Note that when determining the Rate Adjustment Factor for Rate Period Two, the Rate Adjustment Factor shall equal the Total Calculated Costs for Rate Period Two divided by the Total Proposed Costs of $25,682,637 for Rate Period One.

4. Adjustment of Rates

Each then-current Rate shall be multiplied by the Rate Adjustment Factor to calculate the effective Rate for the coming Rate Period. The adjustment to each Rate shall be rounded to the nearest cent.

5. Examples

The following examples illustrates the index-based adjustment method for determining Rates for Rate Period Three. The dollar amounts shown are hypothetical amounts for Total Calculated Costs for Rate Period Two (July 1, 2022 through June 30, 2023) and the adjustment factors are based on assumed changes in the various indices between the Average Index Values for the twelve (12) months ending December 2021 and for the twelve (12) months ending December 2020. Example A depicts a standard index-based adjustment, wherein the calculated Total Annual Cost of Operations increased greater than zero percent (0%) and less than five percent (5%) over the prior Rate Period. Example B depicts an index-based adjustment wherein the calculated Total Annual Cost of Operations resulted in a decrease from the prior Rate Period.

A. EXAMPLE A

1. Assumptions for Example Adjustment to Contractor's Compensation:
    a. Most-Recently Completed Rate Period = Rate Period One (July 1, 2021 through June 30, 2022)
    b. Then-current Rate Period = Rate Period Two (July 1, 2022 through June 30, 2023)
    c. Coming Rate Period = Rate Period Three (July 1, 2023 through June 30, 2024)
    d. Recyclable Materials Processing Costs per Ton for the coming Rate Period, as calculated in Exhibit E3 = $135.00 per Ton
    e. Residential Organic Materials Processing Costs per Ton for the coming Rate Period = $136.50 per Ton
    f. Commercial Organic Materials Processing Costs per Ton for the coming Rate Period = $153.10 per Ton

g. Reusable Materials Processing Costs (including Regulatory Fees) per Ton for the then-current Rate Period = $162.00 per Ton

h. Reusable Materials Processing Regulatory Fees per ton for the then-current and coming Rate Period = $2.00 per Ton

i. Disposal cost for the coming Rate Period = $96.50 per Ton

j. Annual Percentage Change in the Hourly Wage Rate Adjustment Factor = 0.040

k. Hourly Wage Rate Adjustment Factor Floor = 0.027

l. Annual Percentage Change in the Health & Welfare Monthly Rate Adjustment Factor = 0.040

m. Annual Percentage Change in the Pension Hourly Rate Adjustment Factor* = 0.030

n. Pension Hourly Rate Adjustment Factor Floor = 0.034

o. Annual Percentage Change in the CPI-U = 0.040

p. Annual Percentage Change in the Motor Vehicle Maintenance and Repair Index = 0.031

q. Annual Percentage Change in the Fuel Index = 0.075

r. Tonnages for the most-recently completed 12-month period:

- Recyclable Materials – 11,400 Tons
- Residential Organic Materials – 9,700 Tons
- Commercial Organic Materials – 2,400 Tons
- Solid Waste – 27,000 Tons
- Bulky Items and Reusable Materials – 1,900 Tons

Note: All values presented in the following table are hypothetical and used for illustrative purposes only.

*The Annual Percentage Change in the Pension Hourly Rate Adjustment Factor is a different 12-month period than the Hourly Wage Rate and the Health &Welfare Monthly Rate Adjustment Factors.

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

TABLE 1: Example A Calculation of Total Calculated Costs for Rate Period Three

	Rate Period Two	Adjustment Index	Adjustment Factor	Rate Period Three
Processing Tip Fee Adjustment (per Ton)				
Recyclable Materials Processing Tip Fee	$ 132.00	CPI-U	Refer to Exhibit E3	$ 135.00
Residential Organic Materials Processing Tip Fee	$ 135.00	N/A	N/A	$ 136.50
Commercial Organic Material Processing Tip Fee	$ 152.00	N/A	N/A	$ 153.10
Reusable Materials Processing Tip Fee	$ 162.00	CPI-U	(1 + 0.040) + Reg Fees	$ 170.48
Solid Waste Disposal Tip Fee	$ 96.00	N/A	N/A	$ 96.50
Annual Cost of Operations				
Labor-related Costs	$ 7,250,000	Per CBA	Per CBA	$ 7,530,500
Vehicle-related Costs (excluding fuel)	$ 800,000	MVI	1 + 0.031	$ 824,800
Fuel Costs	$ 400,000	FUEL	1 + 0.075	$ 430,000
Other Costs	$ 815,000	CPI-U	1 + 0.040	$ 847,600
Direct Depreciation	$ 1,775,000	N.A.	N.A.	$ 1,775,000
Allowed Costs (Labor, Vehicle, Fuel, and Other Costs)*	$ 3,100,000	CPI-U	1 + 0.040	$ 3,224,000
Allocated Costs (Depreciation and Start-Up)	$ 22,000	N.A.	N.A.	$ 22,000
Total Annual Cost of Operations	**$ 14,162,000**			**$ 14,653,900**
Profit (assuming operating ratio of 0.77)	**$ 4,230,208**			**$ 4,377,139**
Pass Through Costs				
Recyclable Materials Processing Costs	$ 1,500,000	Tip Fee x Tons	11,400 x $139.28	$ 1,539,000
Residential Organic Materials Processing Costs	$ 1,300,000	Tip Fee x Tons	9,700 x $136.50	$ 1,324,050
Commercial Organic Materials Processing Costs	$ 360,000	Tip Fee x Tons	2,400 x $153.10	$ 367,440
Reusable Materials Processing Costs	$ 305,000	Tip Fee x Tons	1,900 x $170.48	$ 323,912
Solid Waste Disposal Costs	$ 2,500,000	Tip Fee x Tons	27,000 x $96.50	$ 2,605,500
Interest Expense	$ 380,000	N.A.	N.A.	$ 380,000
Direct Lease Costs	$ -	N.A.	N.A.	$ -
Allocated Lease Costs	$ -	N.A.	N.A.	$ -
Total Pass-Through Costs	**$ 6,345,000**			**$ 6,539,902**
Total Calculated Costs before City Fees	**$ 24,737,208**			**$ 25,570,941**
City Fees/Payments				
Waste Management Recycling and Program Fee	$ 474,596	CPI-U**	1 + 0.040	$ 493,580
Infrastructure Impacts Mitigation Fee	$ 910,931	CPI-U**	1 + 0.040	$ 947,368
Doolittle Landfill Maintenance Fee	$ 237,297	CPI-U**	1 + 0.040	$ 246,789
City Parks Fee	$ 71,879	CPI-U**	1 + 0.040	$ 74,754
Rate Application Review Costs	$ -	N.A.	N.A.	$ -
Total City Fees/Payments	**$ 1,694,702**			**$ 1,762,490**
Other Adjustments (as needed from time to time)	N.A	N.A.	N.A.	N.A
Total Calculated Costs	**$ 26,431,910**			**$ 27,333,431**

*Fuel costs included in allocated costs shall be adjusted using the CPI-U not Fuel Index.

** City Reimbursements shall either be increased by the Annual Percentage Change in the CPI-U, or as otherwise directed by the

2. Example Calculation of the Rate Adjustment Factor and Adjusted Rate for Rate Period Three

   a. Rate Adjustment Factor = $27,333,431/$26,431,910 = 1.034

   b. 20-gallon Single-Family Rate for Rate Period Three = $22.62 x 1.034 = $23.39, which shall be effective July 1, 2023.

B. EXAMPLE B

1. Assumptions for Example Adjustment to Contractor's Compensation:

   a. Most-Recently Completed Rate Period = Rate Period One (July 1, 2021 through June 30, 2022)

   b. Then-current Rate Period = Rate Period Two (July 1, 2022 through June 30, 2023)

   c. Coming Rate Period = Rate Period Three (July 1, 2023 through June 30, 2024)

   d. Recyclable Materials Processing Costs per Ton for the coming Rate Period, as calculated in Exhibit E3 = $130.00 per Ton

   e. Residential Organic Materials Processing Costs per Ton for the coming Rate Period = $135.40 per Ton

   f. Commercial Organic Materials Processing Costs per Ton for the coming Rate Period = $152.40 per Ton

   g. Reusable Materials Processing Costs (including Regulatory Fees) per Ton for the then-current Rate Period = $162.00 per Ton

   h. Reusable Materials Processing Regulatory Fees per ton for the then-current and coming Rate Period = $2.00 per Ton

   i. Disposal cost for the coming Rate Period = $96.00 per Ton

   j. Annual Percentage Change in the Hourly Wage Rate Adjustment Factor = -0.040

   k. Hourly Wage Rate Adjustment Factor Floor = 0.027

   l. Annual Percentage Change in the Health & Welfare Monthly Rate Adjustment Factor = -0.040

   m. Annual Percentage Change in the Pension Hourly Rate Adjustment Factor* = -0.015

   n. Pension Hourly Rate Adjustment Factor Floor = 0.034

   o. Annual Percentage Change in the CPI-U = -0.040

   p. Annual Percentage Change in the Motor Vehicle Maintenance and Repair Index = -0.031

   q. Annual Percentage Change in the Fuel Index = -0.075

   r. Tonnages for the most-recently completed 12-month period:

      - Recyclable Materials – 11,400 Tons
      - Residential Organic Materials – 9,700 Tons

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- Commercial Organic Materials – 2,400 Tons
- Solid Waste – 27,000 Tons
- Bulky Items and Reusable Materials – 1,900 Tons

Note: All values presented in the following table are hypothetical and used for illustrative purposes only.

*The Annual Percentage Change in the Pension Hourly Rate Adjustment Factor is a different 12-month period than the Hourly Wage Rate and the Health &Welfare Monthly Rate Adjustment Factors.

EXHIBIT E1
INDEX-BASED RATE ADJUSTMENT METHODOLOGY

TABLE 2
Example B Calculation of Total Calculated Costs for Rate Period Three

	Rate Period Two	Adjustment Index	Adjustment Factor	Rate Period Three
Processing Tip Fee Adjustment (per Ton)				
Recyclable Materials Processing Tip Fee	$ 132.00	CPI-U	Refer to Exhibit E3	$ 130.00
Residential Organic Materials Processing Tip Fee	$ 135.00	N/A	N/A	$ 135.40
Commercial Organic Material Processing Tip Fee	$ 152.00	N/A	N/A	$ 152.40
Reusable Materials Processing Tip Fee	$ 162.00	CPI-U	(1 + -0.040) + Reg Fees	$ 157.52
Solid Waste Disposal Tip Fee	$ 96.00	N/A	N/A	$ 96.00
Annual Cost of Operations				
Labor-related Costs	$ 7,250,000	Per CBA	Per CBA	$ 7,445,750
Vehicle-related Costs (excluding fuel)	$ 800,000	MVI	1 + -0.031	$ 775,200
Fuel Costs	$ 400,000	FUEL	1 + -0.075	$ 370,000
Other Costs	$ 815,000	CPI-U	1 + -0.040	$ 782,400
Direct Depreciation	$ 1,775,000	N.A.	N.A.	$ 1,775,000
Allowed Costs (Labor, Vehicle, Fuel, and Other Costs)*	$ 3,100,000	CPI-U	1 + -0.040	$ 2,976,000
Allocated Costs (Depreciation and Start-Up)	$ 22,000	N.A.	N.A.	$ 22,000
Total Annual Cost of Operations	**$ 14,162,000**			**$ 14,146,350**
Profit (assuming operating ratio of 0.77)	**$ 4,230,208**			**$ 4,225,533**
Pass Through Costs				
Recyclable Materials Processing Costs	$ 1,500,000	Tip Fee x Tons	11,400 x $130.00	$ 1,482,000
Residential Organic Materials Processing Costs	$ 1,300,000	Tip Fee x Tons	9,700 x $135.40	$ 1,313,380
Commercial Organic Materials Processing Costs	$ 360,000	Tip Fee x Tons	2,400 x $152.40	$ 365,760
Reusable Materials Processing Costs	$ 305,000	Tip Fee x Tons	1,900 x $157.52	$ 299,288
Solid Waste Disposal Costs	$ 2,500,000	Tip Fee x Tons	27,000 x $96.00	$ 2,592,000
Interest Expense	$ 380,000	N.A.	N.A.	$ 380,000
Direct Lease Costs	$ -	N.A.	N.A.	$ -
Allocated Lease Costs	$ -	N.A.	N.A.	$ -
Total Pass-Through Costs	**$ 6,345,000**			**$ 6,432,428**
Total Calculated Costs before City Fees	**$ 24,737,208**			**$ 24,804,311**
City Fees/Payments				
Waste Management Recycling and Program Fee	$ 474,596	CPI-U**	1 + -0.040	$ 455,612
Infrastructure Impacts Mitigation Fee	$ 910,931	CPI-U**	1 + -0.040	$ 874,494
Doolittle Landfill Maintenance Fee	$ 237,297	CPI-U**	1 + -0.040	$ 227,805
City Parks Fee	$ 71,879	CPI-U**	1 + -0.040	$ 69,003
Rate Application Review Costs	$ -	N.A.	N.A.	$ -
Total City Fees/Payments	**$ 1,694,702**			**$ 1,626,914**
Other Adjustments (as needed from time to time)	N.A	N.A.	N.A.	N.A
Total Calculated Costs	**$ 26,431,910**			**$ 26,431,225**

*Fuel costs included in allocated costs shall be adjusted using the CPI-U not Fuel Index.

** City Reimbursements shall either be increased by the Annual Percentage Change in the CPI-U, or as otherwise directed by the City.

2. Example Calculation of the Rate Adjustment Factor and Adjusted Rate for Rate Period Three

   a. Total Calculated Costs = $26,431,225 < $26,431,910; Adjusted Total Calculated Costs = $26,431,910 (Total Calculated Costs from prior Rate Period)

   b. Rate Adjustment Factor = $26,431,910/ $26,431,910= 1.00

   c. 20-gallon Single-Family Rate for Rate Period Three = $22.62 x 1.00= $22.62, which shall be effective July 1, 2023 (i.e., NO RATE ADJUSTMENT).

   d. Subsequent Rate Period Adjustment. $26,431,910- $26,431,225 = $685 cost savings to be applied as an "Other Adjustment" in the subsequent Rate Period adjustment calculations as an offset to Contractor's Total Calculated Costs.

6. Other

If an index described in Section 2 is discontinued, the successor index with which it is replaced shall be used for subsequent calculations. If no successor index is identified by the Bureau of Labor Statistics or Pacific Gas & Electric (if applicable), the index published by the organization which is most comparable shall be used.

EXHIBIT E2:
COST-BASED RATE ADJUSTMENT METHODOLOGY

EXHIBIT E2
COST-BASED RATE ADJUSTMENT METHODOLOGY

1. General

The City and Contractor shall use the cost-based Rate adjustment method described in this Exhibit to determine Rates for Rate Periods Four, Eight, and, Twelve. and if the Contractor requests an extraordinary Rate adjustment in accordance with Agreement Section 8.3. If the Term is extended, subsequent Rate Periods shall be adjusted pursuant to Section 8.2.C. The cost-based adjustment involves review of the Contractor's actual cost of operations and operational statistics (staffing levels, Routes, Route hours, Customers, and their Service Levels, etc.) to determine the Actual Allowable Total Annual Cost of Operations for the most-recently completed Rate Period and to forecast the Total Contractor's Compensation for the coming Rate Period. The difference (measured as a percentage) between the Total Contractor's Compensation for the coming Rate Period and the Projected Gross Rate Revenues (which is calculated based on most-recent Customer subscription levels at then-current Rates) is the "Rate Adjustment Factor". The Rate Adjustment Factor is applied to the then-current Rates to determine the Rates for the coming Rate Period.

The intent of performing the cost-based adjustment is to examine the actual impact of changes in inflation or deflation, the number of Customers, and the Service Level of Customers.

In the event that the cost-based adjustment calculated in accordance with this Exhibit E2 results in a negative Rate Adjustment Factor, the City reserves the right to "roll-under" the Rate reduction, such that there is no Rate adjustment in the Rate Period for which the negative Rate Adjustment Factor was calculated, but the calculated Rate reduction may be deferred to the following Rate Period, as a credit against future Rate increases.

A. Contractor's Rate Application

Contractor's Rate application for any Rate Period where Rates shall be adjusted using the cost-based methodology described in this Exhibit E2 shall include the information described in this Section 1.A. With the exception of the information identified in Subsections 1, and 2 below, all other items listed may be requested by the City Contract Manager at any time during the Term of the Agreement and Contractor shall comply with that request in a timely fashion.

1. **Financial Statements.** Within one hundred twenty (120) calendar days after the close of the Contractor's fiscal year (June 30), Contractor shall deliver to the City one (1) hard copy of the reviewed (or audited) consolidated financial statements of Contractor for the preceding fiscal year. Financial statements shall include a supplemental combining schedule showing Contractor's results of operations, including the specific revenues and expenses in connection with the operations provided for in this Agreement separate from others included in such financial statements. The financial statements and footnotes shall be prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied and fairly reflecting the results of operation and Contractor's financial condition. Annual financial statements shall be reviewed (or audited), in accordance with Generally Accepted Auditing Standards (GAAS) by a Certified Public Accountant (CPA) licensed (in good standing) to

practice public accounting in the State as determined by the State Department of Consumer Affairs Board of Accountancy, and that the CPA's opinion on Contractor's annual financial statements shall be unqualified, and shall contain the CPA's conclusions regarding the Contractor's accounting policies and procedures, internal controls, and operating policies. The CPA shall perform an evaluation and, if necessary, shall cite recommendations for improvement.

2. **Financial Statement Reconciliation.** Contractor shall provide a schedule which clearly and accurately ties the amounts shown in Contractor's Rate application to Contractor's financial statements. Such schedule shall include any and all allocation factors and methodologies used to report cost and operating information for services provided to the City under this Agreement separately from Contractor obligations related to other public or private entities. Such statement of reconciliation shall include:

   a. General explanation of the various allocation methodologies used for each Rate application line item.

   b. Specific examples of each type of allocation used showing how an entry is reported in the general ledger and ties to the Rate application.

   c. Statement indicating whether there have been any changes in allocation methods used since the last Rate application. If any allocation methods have changed clearly identify those changes.

3. **Operational Information.**

   a. Routes by Line of Business:

      i. Number of Routes per day.
      ii. Types of vehicles.
      iii. Crew size per Route.
      iv. Number of full time equivalent (FTE) Routes.
      v. Number of accounts and cubic yards scheduled per Route.
      vi. Total Route hours per Line of Business per year.
      vii. Average cost per Route.

   b. Personnel:

      i. Organizational chart.
      ii. Job classifications and number of employees (e.g., administrative, Customer service representatives, drivers, supervisors, educational staff).
      iii. Wages by job classification.
      iv. Number of FTE positions for each job classification.
      v. Number of hours per job classification per year.

   c. Productivity Statistics:

      i. Average Number of accounts per Route per day by Line of Business.
      ii. Average number of setouts per Route per day by Line of Business.
      iii. Average Tons per Route per day by vehicle type (i.e., side-loader, front-loader, roll-off).
      iv. Average cubic yards of Collection scheduled per Route.

d. Vehicles:

i. List of Collection vehicles including year purchased and mileage.
ii. Average age of mobile equipment with oldest and newest.

e. Operational Changes:

i. Number of Routes.
ii. Staffing.
iii. Supervision.
iv. Collection services.

4. Variance Analysis. Provide the following variance analysis for each Line of Business. For any variances greater than five percent (5%) annually, Contractor shall provide sufficient rationale to support variance:

a. Variance analysis comparing current Rate Period to each of the prior Rate Periods of Agreement.

b. Variance analysis comparing current Rate Period to each of the future projected Rate Periods.

5. Projections. Provide the following projection data:

a. Provide support for the basis for projected Gross Receipts and line item expenses, clearly indicate the supporting calculations and assumptions.

b. Provide support for the most-recent twelve (12) months of Tonnage data for Rate Period ending June. Clearly indicate the supporting calculations and assumptions.

2. Forecasting Total Contractor's Compensation

The Total Contractor's Compensation for the coming Rate Period shall be forecasted in the manner described in this Section.

A. Forecasting Total Annual Cost of Operations

1. Determine Actual Allowable Total Annual Cost of Operations. Contractor's financial statements, books, and records shall be reviewed to determine Contractor's "Actual Allowable Total Annual Cost of Operations" for the most-recently completed Rate Period to perform all the services in the manner required by this Agreement for each of the following cost categories:

a. Actual labor-related costs

b. Actual vehicle-related costs (excluding fuel and depreciation)

c. Actual fuel costs

d. Actual other costs (as defined on Form 6E of Exhibit G1)

e. Direct depreciation costs (in the amount specified in Exhibit E1)

f. Actual allocated costs (labor, vehicle, general and administrative, and other costs)

g. Actual allocated costs (depreciation and start-up) (in the amount stated in Exhibit E1)

2. Non-Allowable Costs. The following list of non-allowable costs shall be deducted from the Contractor's actual costs when determining the Actual Allowable Total Annual Cost of Operations.

a. Labor, equipment, fuel, and start-up costs for personnel, vehicles, and facilities that are not specified in the proposal forms contained in Exhibit G1 and/or which cannot be demonstrated to have been incurred as part of the performance of services under this Agreement, including, without limitation, as the result of growth in the number of customers and/or the levels and/or types of services provided.

b. Payments to directors and/or owners of Contractor unless the amount paid is reasonable compensation for services actually rendered. Reasonableness shall be determined based on available market pricing for similar services and shall be in the reasonable discretion of the City.

c. Travel expenses and entertainment (above five thousand dollars ($5,000) annually in total) expenses, unless authorized in advance by the City.

d. Payments to repair damage to public or private property for which Contractor is legally liable.

e. Fines or penalties of any nature.

f. Liquidated Damages assessed under this Agreement.

g. Federal or State income taxes.

h. Cash donations or value of in-kind services provided to charitable, political, youth, civic, or other community organizations unless such donation has been previously approved in writing as an allowable expense by the City Contract Manager.

i. Depreciation or interest expense for Collection vehicles, Containers, other equipment, offices and other facilities if such items are leased as specified in Exhibit G2.

j. Attorney's fees and other expenses incurred by Contractor in any court proceeding in which the City and Contractor are adverse Parties.

k. Attorney's fees and other expenses incurred by Contractor arising from any act or omission in violation of this Agreement.

l. Attorneys' fees and other expenses incurred by Contractor in any court proceeding in which Contractor's own negligence, violation of law or regulation, or wrong doing are in issue and occasion, in whole or in part, the attorneys' fees and expenses claimed; and attorneys' fees and expenses incurred by Contractor in a court proceeding in which the legal theory or statute providing a basis of liability against Contractor also provides for separate potential liability for the City derived from the action of its citizens or Rate payers (such as in a CERCLA lawsuit) unless the Contractor is found not liable in such claims and such claims arise from acts or occurrences within the Term of the Agreement.

m. Payments to Related-Party Entities for products or services, in excess of the market value for those products or services, provided that the City may use information available to it to verify market pricing for similar products and services.

n. Goodwill.

o. Unreasonable profit-sharing distributions.

p. Replacement costs for Containers that need to be replaced because the useful life of such Container was less than the Term.

q. Administrative costs greater than the administrative costs presented in Contractor's Proposal (Exhibit G) adjusted annually by one plus the Annual Percentage Change in the CPI-U.

r. Bad debt write-offs in excess of two percent (2%) of annual Rate revenues.

3. Forecast Total Annual Cost of Operations. Forecasted Total Annual Cost of Operations for the coming Rate Period shall be calculated based on Actual Allowed Total Cost of Operations for the most-recently completed Rate Period determined in accordance with Sections 2.A.1 and 2.A.2 above. The forecasts shall be performed in the following manner:

a. Forecasted labor-related costs shall be calculated in the manner described in Section 2.A.1 of Exhibit E1.

b. Forecasted vehicle-related costs (excluding fuel and depreciation costs) shall be calculated for the coming Rate Period by (i) multiplying the allowed vehicle-related costs, both direct and allocated, for the most-recently completed Rate Period by one plus the Annual Percentage Change in the Motor Vehicle Maintenance and Repair Index, and (ii) multiplying the result of step one once more by one plus the Annual Percentage Change in the Motor Vehicle Maintenance and Repair Index.

c. Forecasted fuel costs shall be calculated for the coming Rate Period by (i) multiplying the allowed fuel costs, both direct and allocated, for the most-recently completed Rate Period by one plus the Annual Percentage Change in the Fuel Index, and (ii) multiplying the result of step one once more by one plus the Annual Percentage Change in the Fuel Index.

d. Forecasted other costs shall be calculated for the coming Rate Period by (i) multiplying the allowed other-related costs, both direct and allocated, for the most-recently completed Rate Period by one plus the Annual Percentage Change in CPI-U, and (ii) multiplying the result of step one once more by one plus the Annual Percentage Change in the CPI-U.

e. Forecasted direct depreciation expense shall be the amount specified in in Section 2.A.5 of Exhibit E1. Direct depreciation expense is a fixed cost and is not subject to inflation.

f. Forecasted allocated labor-related, vehicle-related, general and administrative, and other costs shall be calculated for the coming Rate Period by (i) multiplying the allowed other-related costs for most-recently completed Rate Period by one plus the Annual Percentage Change in CPI-U, and (ii) multiplying the result of step one once more by one

plus the Annual Percentage Change in CPI-U (except in each case as provided in 3.a. above).

g. **Forecasted allocated depreciation and start-up expense** shall be the amount specified in Section 2.A.7 of Exhibit E1.

h. **Forecasted Total Annual Cost of Operations** for the coming Rate Period shall equal the sum of the following costs, which shall have been calculated in accordance with the procedures in this Exhibit E2:

i. Forecasted labor-related costs
ii. Forecasted vehicle-related costs (excluding fuel and depreciation costs)
iii. Forecasted fuel costs
iv. Forecasted other costs
v. Forecasted direct depreciation expense
vi. Forecasted allocated labor-related, vehicle-related, general and administrative, and other costs
vii. Forecasted allocated costs for depreciation and start-up

B. Forecast Profit

Contractor shall be entitled to Profit on Forecasted Total Annual Cost of Operations. Profit shall be calculated using an operating ratio as described in Exhibit E1, Section 4. Profit shall be calculated using the following formula:

Profit = (Forecasted Total Annual Cost of Operations / Operating Ratio) – Forecasted Total Annual Cost of Operations

For example:

1. Assuming an operating ratio of 92%
2. Assuming a Forecasted Total Annual Cost of Operations of $1,000,000
3. Profit = ($1,000,000 / 0.92) – $1,000,000 = $86,956.52

C. Forecast Costs Excluded from the Calculation of Profit

Costs Excluded from the Calculation of Profit for the coming Rate Period shall be forecasted in the following manner:

1. **Forecasted Recyclable Materials Processing Costs** shall be calculated in the manner described in Section 2.C.1 of Exhibit E1.

2. **Forecasted Organic Materials Processing Costs** shall be calculated in the manner described in Section 2.C.2 of Exhibit E1.

3. **Forecasted Reusable Materials Processing Costs** shall be calculated in the manner described in Section 2.C.3 of Exhibit E1.

4. **Forecasted Disposal Costs** shall be calculated in the manner described in Section 2.C.4 of Exhibit E1.

5. **Forecasted Interest Expense.** Interest Expense shall be calculated in the manner described in Section 2.C.5 of Exhibit E1.

6. **Forecasted Direct Lease Costs.** Direct Lease Costs shall be calculated in the manner described in Section 2.C.6 of Exhibit E1.

7. **Forecasted Allocated Lease Costs.** Allocated Lease Costs shall be calculated in the manner described in Section 2.C.7 of Exhibit E1.

D. Forecast City Reimbursements

City Reimbursements shall be calculated in the manner described in Section 2.E of Exhibit E1.

3. Projected Gross Rate Revenue

Projected Gross Rate Revenue at then-current Rates shall reflect projected annual Gross Rate Revenues from all Customers based on then-current Rates and then-current Customer Service Levels, inclusive of all Rates and special charges authorized under this Agreement. For the purposes of determining Customer Service Levels for on-call services (e.g., Drop-Box service provided less than weekly, Bin rentals, etc.) and special charges (e.g., Push Charges, lock/unlock charges), the prior twelve (12) months of billing activity for such services and special charges shall be used.

4. Rate Adjustment Factor

The Rate Adjustment Factor shall equal the Forecasted Total Calculated Costs for the coming Rate Period divided by the Projected Gross Rate Revenues calculated in accordance with Section 2 of this Exhibit E2. The Rate Adjustment Factor shall be rounded to the nearest thousandth.

5. Adjustment of Rates

Each then-current Rate shall be multiplied by the Rate Adjustment Factor to calculate the effective Rate for the coming Rate Period.

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EXHIBIT E3:
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

1. General

The purpose of this Exhibit E3 is to describe and illustrate the method by which the City will calculate the annual adjustment to Recyclable Materials Processing Costs under Exhibit E1, Section 2.C.1 and Exhibit E2, Section 2.C.1. The intent of the Parties is to limit the adjustment of Processing costs to inflationary indices, but allow adjustment of both the value of Recyclable commodities and Disposal based on the actual operating results of the Approved Recyclable Materials Processing Facility.

2. Adjustment of Recyclable Materials Processing Costs

The cost categories of the main components of Recyclable Materials Processing Costs are presented in detail in Section 3 below. Adjustments to these components to calculate costs for the coming Rate Period shall be calculated as follows:

A. Total Annual Cost of Operations

1. **Labor-Related Costs.** The Labor-Related Costs component of the Recyclable Materials Processing Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.
2. **Repairs and Maintenance.** The Repairs and Maintenance Costs component of the Recyclable Materials Processing Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.
3. **Transportation.** The Transportation Costs component of the Recyclable Materials Processing Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.
4. **General and Administrative.** The General and Administrative Costs component of the Recyclable Materials Processing Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.
5. **Other Operational.** The Other Operational Costs component of the Recyclable Materials Processing Costs for the then-current Rate Period is multiplied by one plus the Annual Percentage Change in the CPI-U.
6. **Depreciation.** The Depreciation Costs component of the Recyclable Materials Processing Costs is one million eight hundred and eighty-nine thousand nine hundred seventy-one dollars and sixty-three cents ($1,889,971.63) per year for all Rate Periods and is not adjusted.
7. **Interest.** The Interest Costs component of the Recyclable Materials Processing Costs is one hundred twenty-one thousand, one hundred and seventeen dollars and forty cents ($121,117.40) per year for all Rate Periods and is not adjusted.
8. **Total Annual Cost of Operations Before Profit.** The Total Annual Cost of Operations Before Profit equals the sum of the costs calculated in subsections (1) through (7) above.

9. **Profit.** Contractor's profit on Total Annual Cost of Operations Before Profit shall be calculated using an operating ratio of ninety-five percent (95%) on the Total Annual Cost of Operations Before Profit calculated in Section 2.A.8 above.

10. **Total Annual Cost of Operations.** The Total Annual Cost of Operations for the coming Rate Period equals the sum of Total Annual Cost of Operations Before Profit, plus profit.

11. **Base Tons Processed.** The Base Tons Processed shall be the proposed Recyclable Material Tons by Contractor in Rate Period 1, or the Base Tons Processed from the most recently completed cost-based Rate adjustment.

12. **Total Annual Cost of Operations Component**. The Total Annual Cost of Operations Component of the Recyclable Materials Processing Costs for the coming Rate Period equals the Total Annual Cost of Operations divided by the Base Tons Processed.

    If prior year actual Processed Tons at the Approved Recyclable Materials Processing Facility increase or decrease by at least ten percent (10%) compared to the prior Rate Period's Tons Processed, the Total Annual Cost of Operations shall be the sum of: 1) the actual costs for the component in Sections 2.A.1 through 2.A.5; and, 2) the fixed annual Depreciation and Interest in Sections 2.A.6 and 2.A.7, respectively, divided by the actual total Tons Processed for the recent twelve (2) months, from all sources. The actual total Tons Processed shall be the next Rate Period's Base Tons Processed.

B. Residue Disposal Cost.

1. **Residue Disposal Cost.** The Residue Disposal Costs shall equal the total actual cost of Disposal for any and all Residue which cannot be marketed by Contractor. The per-Ton cost of Disposal for the purposes of this Exhibit E3 may not exceed the Disposal tip fee at the Designated Disposal Facility. Contractor shall engage a third party to design and perform a Residue characterization of the Recyclable Materials Processed at the Approved Recyclable Materials Processing Facility a minimum of one time per calendar year. Contractor shall propose a study methodology that must include separately Processing at least thirty (30) Tons of Recyclable Materials, stratified across no fewer than three distinct days of service, from the City at the Approved Recyclable Materials Processing Facility under normal operating conditions for the facility (i.e., staffing levels, belt speed, burden depth, etc.). The methodology must be approved by the City Contract Manager in writing prior to Contractor conducting such a study. The results of that study shall be used to determine the allowable level of Residue Disposal credit allocated to the City for the upcoming Rate Period by multiplying the change in percentage of Residue found during the Residue characterization described above by the total recyclable materials Tons Collected and then multiplied by the per-Ton cost of Disposal. The City shall be notified at least thirty (30) days in advance of each annual study and Contractor shall invite the City Contract Manager to observe all aspects of the study.

2. **Net Residue Disposal Cost Component**. The Net Residue Disposal Cost Component of the Recyclable Materials Processing Costs for the coming Rate Period equals the per-Ton Residue Disposal Cost, less the per-Ton Residue Disposal Credit to the City.

C. Recyclable Commodity Value.

1. **Recyclable Commodity Value.** The Recyclable Commodity Value shall equal the net of total gross revenues for the sale of marketable materials less the cost paid to buyers for marketable materials by the Approved Recyclable Materials Processing Facility as a result of marketing Processed Recyclable Materials.

2. **Profit.** Contractor's profit on the Recyclable Commodity Value shall equal five percent (5%) of the total Recyclable Commodity Value.

3. **Recyclable Commodity Value Component.** The Recyclable Commodity Value Component of the Recyclable Materials Processing Costs for the coming Rate Period equals the Recyclable Commodity Value less profit, divided by the total Tons Processed, from all sources, at the Approved Recyclable Materials Processing Facility.

D. Net Per-Ton Recyclable Materials Processing Costs. The Per-Ton Recyclable Materials Processing Costs shall be the sum of the per-Ton Total Annual Cost of Operations Component (calculated in Section 2.A.12), the Net Per-Ton Residue Disposal Component (calculated in Section 2.B.2), and the per-Ton Recyclable Commodity Value Component (calculated in Section 2.C.3).

E. Recyclable Materials Processing Costs. The total Recyclable Materials Processing Costs to be used under Exhibit E1, Section 2.C. shall equal the Per-Ton Recyclable Materials Processing Costs (calculated in Section 2.D), multiplied by the Tons of Recyclable Materials Collected by Contractor during the most-recently completed twelve (12) month period in the City.

3. Components of Recyclable Materials Processing Costs

The table below presents Contractor's proposed Rate Period 1 cost components for the Approved Recyclable Materials Processing Facility. These values shall form the baseline for calculating all adjustments under this Exhibit E3.

Cost Component	Rate Period 1 Value
ANNUAL COST OF OPERATIONS	
Labor-Related	$6,277,569
Repairs and Maintenance	$761,084
Transportation	$1,256,849
General and Administrative	$1,830,869
Other Operational	$204,835
Depreciation	$1,889,971
Interest	$121,117
TOTAL ANNUAL COST OF OPERATIONS	$12,342,294
Net Residue Disposal Cost	$1,558,932
95% of Recyclable Commodity Value	($5,065,670)
Profit	$916,209
Recyclable Materials Processing Costs	$9,485,150

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

Base Tons Processed	72,264
Per Ton Recyclable Materials Processing Cost	$131.26

4. Examples

The following examples illustrate the index-based and cost-based adjustment method for determining Recyclable Materials Processing Costs for Rate Period Three. The dollar amounts shown are hypothetical amounts for Rate Period Two (July 1, 2022 through June 30, 2023) and the adjustment factors are based on assumed changes in the various indices between the Average Index Values for the twelve (12) months ending December 2021 and for the twelve (12) months ending December 2020. Example A depicts a standard index-based or cost-based adjustment, wherein the change in Tons is below the fifteen percent (15%) threshold. Example B depicts a cost-based adjustment wherein the change in Tons is above the fifteen percent (15%) threshold.

A. EXAMPLE A

1. Assumptions for Example Recyclable Materials Processing Cost Calculation:
    a. Then-current Rate Period = Rate Period Two (July 1, 2022 through June 30, 2023)
    b. Coming Rate Period = Rate Period Three (July 1, 2023 through June 30, 2024)
    c. Recyclable Materials Processing Costs per Ton for then-current Rate Period= $130.53 per Ton
    d. Net Residue Disposal Costs for the coming Rate Period = $1,582,316
    e. Annual Percentage Change in the CPI-U = 0.020
    f. Proposed Base Tons Processed = 72,317 tons
    g. Actual Recyclable Material Tonnage for January 1, 2021 through December 31, 2022 = 72,500 tons
    h. Recyclable Material Tonnage for the most-recently completed 12-month period= 73,950 tons
    i. Residue Study Results for City of Alameda = 7.8%
    j. Recyclable Commodity Value for the most recently completed 12-month period = $5,492,253.

Note: All values presented in the following table are hypothetical and used for illustrative purposes only.

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

TABLE 1

Example A Calculation of Recyclable Materials Processing Costs for Rate Period Three

Tonnage Change Under the 15% Threshold

	RY2 Effective July 1, 2022	Factor	RY3 Effective July 1, 2023
Labor-Related	$ 6,277,569	CPI-U	$ 6,403,120
Repairs & maintenance	$ 761,084	CPI-U	$ 776,306
Transportation	$ 1,256,849	CPI-U	$ 1,281,986
General & administrative	$ 1,830,869	CPI-U	$ 1,867,487
Other operation costs	$ 204,835	CPI-U	$ 208,931
Depreciation	$ 1,889,971	Fixed	$ 1,889,971
Interest	$ 121,117	Fixed	$ 121,117
Total Annual Cost of Operations Before Profit	$ 12,342,294		$ 12,548,918
Profit (95% Op Ratio)	$ 649,594	Calculated	$ 660,469
Total Annual Cost of Operations	$ 12,991,889		$ 13,209,388
Base Tons Processed	$ 72,317	Base	$ 72,317
Total Annual Cost of Operations Component	$ 179.65		$ 182.66
Net Residue Disposal Cost	$ 1,558,932	Actual SW Facility Disposal Costs	$ 1,582,316
Actual Tons Processed	72,500	Actual - most recent 12 months	$ 73,950
Residue Disposal per Ton	$ 21.50		$ 21.40
Per-Ton Residue Disposal Credit	$ (0.75)	Results of Residue Study	$ (0.80)
Net Residue Disposal Cost Component	$ 20.75		$ 20.60
Recyclable Commodity Value (MRF Total)			
Commodity Revenue	$ 5,332,285	Actual - most recent 12 months	$ 5,492,253
Less: Allowable Profit @5% of Gross Revenue	$ (266,614)	Calculated	$ (274,613)
Commodity Revenue net of Profit	$ 5,065,670		$ 5,217,640
Tons Processed	72,500	Actual - most recent 12 months	73,950
Recyclable Commodity Value Component	$ 69.87		$ 70.56
Total Annual Cost of Operations Component	$ 179.65		$ 182.66
Net Residue Disposal Cost Component	$ 20.75		$ 20.60
Less: Recyclable Commodity Value per Ton	$ (69.87)		$ (70.56)
Per Ton Recyclable Materials Processing Cost	$ 130.53		$ 132.70

RY3 example shown is for illustrative purposes only

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

TABLE 2
Example A Calculation of Recyclable Materials Processing Costs for Rate Period Three
Residue Disposal Credit Component Calculation

	RY 3	
MRF Residue avg.	23.4%	
Recyclables collected - projected	11399.5	tons
Residue projected	2667.48	tons
Residue composition results	22.9%	Residue Study
Recyclables collected - projected	11399.5	tons
Adjusted residue projected	2610.49	tons
Residue difference	-57.00	tons
Disposal and transportation Exhibit E3-3	$ 165.53	per ton
Processing cost adjustment	$ (9,434.54)	
Processing cost adjustment	$ (9,434.54)	
Recyclables collected - projected	11399.5	tons
Processing cost adjustment	$ (0.83)	per ton
MRF efficiency loss	7.8%	Residue Study
MRF efficiency loss applied	96.1%	@ 50% of Study
Net Processing cost residue adjustment w/efficiency	$ (0.80)	per ton

TABLE 3
Example A Calculation of Recyclable Materials Processing Costs for Rate Period Three
Residue Disposal Component Calculation

	RY3
Disposal	$ 1,582,316.08
Transportation	$ 1,281,986.20
	$ 2,864,302.28
Total All Recycling Tons Collected	73,950.00
Average MRF Residue	23.4%
All Residue tons	17,304.30
Disposal and Transportation per ton	$ 165.53

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

B. EXAMPLE B

1. Assumptions for Example Recyclable Materials Processing Cost Calculation:
    a. Then-current Rate Period = Rate Period Two (July 1, 2022 through June 30, 2023)
    b. Coming Rate Period = Rate Period Three (July 1, 2023 through June 30, 2024)
    c. Recyclable Materials Processing Costs per Ton for then-current Rate Period= $130.53 per Ton
    d. Net Residue Disposal Costs for the coming Rate Period = $1,839,540
    f. Proposed Base Tons Processed = 72,317 tons
    g. Actual Recyclable Material Tonnage for January 1, 2021 through December 31, 2022 = 72,500 tons
    h. Recyclable Material Tonnage for the most-recently completed 12-month period= 84,100 tons
    i. Residue Study Results for City of Alameda = 7.8%
    j. Recyclable Commodity Value for the most recently completed 12-month period = $6,398,742.

Note: All values presented in the following table are hypothetical and used for illustrative purposes only.

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

TABLE 4

Example A Calculation of Recyclable Materials Processing Costs for Rate Period Three

Tonnage Change Over the 15% Threshold

	RY2 Effective July 1, 2022	Factor	RY3 Effective July 1, 2023
Labor-Related	$ 6,277,569	Actual - most recent 12 months	$ 7,846,961
Repairs & maintenance	$ 761,084	Actual - most recent 12 months	$ 951,355
Transportation	$ 1,256,849	Actual - most recent 12 months	$ 1,571,062
General & administrative	$ 1,830,869	Actual - most recent 12 months	$ 2,288,587
Other operation costs	$ 204,835	Actual - most recent 12 months	$ 256,043
Depreciation	$ 1,889,971	Fixed	$ 1,889,971
Interest	$ 121,117	Fixed	$ 121,117
Total Annual Cost of Operations Before Profit	$ 12,342,294		$ 14,925,096
Profit (95% Op Ratio)	$ 649,594	Calculated	$ 785,531
Total Annual Cost of Operations	$ 12,991,889		$ 15,710,627
Base Tons Processed	$ 72,317	Actual	$ 84,100
Total Annual Cost of Operations Component	$ 179.65		$ 186.81
Net Residue Disposal Cost	$ 1,558,932	Actual SW Facility Disposal Costs	$ 1,839,540
Actual Tons Processed	72,500	Actual - most recent 12 months	$ 84,100
Residue Disposal per Ton	$ 21.50		$ 21.87
Per-Ton Residue Disposal Credit	$ (0.75)	Results of Residue Study	$ (0.83)
Net Residue Disposal Cost Component	$ 20.75		$ 21.04
Recyclable Commodity Value (MRF Total)			
Commodity Revenue	$ 5,332,285	Actual - most recent 12 months	$ 6,398,742
Less: Allowable Profit @5% of Gross Revenue	$ (266,614)	Calculated	$ (319,937)
Commodity Revenue net of Profit	$ 5,065,670		$ 6,078,804
Tons Processed	72,500	Actual - most recent 12 months	84,100
Recyclable Commodity Value Component	$ 69.87		$ 72.28
Total Annual Cost of Operations Component	$ 179.65		$ 186.81
Net Residue Disposal Cost Component	$ 20.75		$ 21.04
Less: Recyclable Commodity Value per Ton	$ (69.87)		$ (72.28)
Per Ton Recyclable Materials Processing Cost	$ 130.53		$ 135.57

RY3 example shown is for illustrative purposes only

TABLE 5

Example B Calculation of Recyclable Materials Processing Costs for Rate Period Three

Residue Disposal Component Calculation

EXHIBIT E3
RECYCLABLE PROCESSING COST ADJUSTMENT METHODOLOGY

	RY 3	
MRF Residue avg.	23.4%	
Recyclables collected - projected	11399.5	tons
Residue projected	2667.48	tons
Residue composition results	22.9%	Residue Study
Recyclables collected - projected	11399.5	tons
Adjusted residue projected	2610.49	tons
Residue difference	-57.00	tons
Disposal and transportation Exhibit E3-3	$ 173.31	per ton
Processing cost adjustment	$ (9,878.13)	
Processing cost adjustment	$ (9,878.13)	
Recyclables collected - projected	11399.5	tons
Processing cost adjustment	$ (0.87)	per ton
MRF efficiency loss	7.8%	Residue Study
MRF efficiency loss applied	96.1%	@ 50% of Study
Net Processing cost residue adjustment w/efficiency	$ (0.83)	per ton

TABLE 6

Example A Calculation of Recyclable Materials Processing Costs for Rate Period Three

Residue Disposal Component Calculation

	RY3
Disposal	$ 1,839,539.88
Transportation	$ 1,571,061.52
	$ 3,410,601.40
Total All Recycling Tons Collected	84,100.00
Average MRF Residue	23.4%
All Residue tons	19,679.40
Disposal and Transportation per ton	$ 173.31

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