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May 18, 2018

Mr. Liam Garland
Public Works Director
City of Alameda
950 West Mall Square, First Floor
Alameda, CA 94501-7552

Subject: Report: Review of Alameda County Industries Rate Period Seventeen Contractor's Compensation Application

Reference Number: S3951

Dear Mr. Garland:

HF&H Consultants, LLC's (HF&H) is pleased to present our findings and recommendations to the City of Alameda (City) from our review of Alameda County Industries' (ACI) Rate Period Seventeen (RP17) Contractor's Compensation Application (Application), which was submitted to the City on April 4, 2018. This report presents our findings and recommendations and is organized into the following four sections:

- I. Summary and Recommendations
- II. Background
- III. HF&H Analyses
- IV. Survey of Comparable Rates

It should be noted that this report is based solely on our review of ACI's Application prepared in accordance with the methodology prescribed in its franchise agreement (Agreement) with the City.

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I. SUMMARY AND RECOMMENDATIONS

A. Review of ACI's RP17 Rate Application (for rates effective 7/1/18)

ACI's Application calculated a total revenue requirement of \$20,838,104 to provide current franchised services for RP17 (see Table 1).

| Table 1 ACI's RP17 Rate Application | |
|---|---------------------|
| Rate Period 17 Revenue Requirement | |
| Operating Exp. Eligible for Profit | |
| Labor-Related Costs | \$4,771,594 |
| Vehicle-Related Costs | 610,024 |
| Organic Processing Costs | 928,053 |
| Incremental MRF Labor | 1,198,604 |
| Other Costs | 898,895 |
| Depreciation | 894,061 |
| General and Administrative Costs | 1,262,633 |
| Vehicle Maintenance Costs | 720,954 |
| Container Maintenance Costs | 214,664 |
| Billing Costs | 249,063 |
| Total Operating Exp. Eligible for Profit | \$11,748,545 |
| Profit (90% Operating Ratio) | \$1,305,394 |
| Pass-Through Costs | |
| Disposal | \$2,559,669 |
| Container Reimbursement | 300,646 |
| Franchise Fees | 2,083,810 |
| City Fees | 1,478,665 |
| Interest | 151,511 |
| Total Pass-Through Costs | \$6,574,302 |
| MRF Recycling Processing | \$1,099,863 |
| Rate Stabilization | \$110,000 |
| Balancing Account Applied | \$0 |
| Total Revenue Requirement | \$20,838,104 |
| Projected Revenue | \$20,087,268 |
| Projected Revenue Surplus/(Shortfall) | (\$750,836) |
| Rate Increase/(Decrease) | 3.74% |

Note: Numbers may not sum exactly due to rounding.

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Based on our recommended adjustments to the Application, we have determined that a total revenue requirement of \$20,793,003 and an increase of \$486,368 to ACI's projected revenue is appropriate and consistent with the rate setting methodology described in the Agreement. These adjustments result in a 1.68% rate increase to provide the services currently required in the Agreement. HF&H's adjustments to ACI's Application are described in more detail in Section III.C below. We have reviewed our findings with ACI and they are in agreement with the proposed rate adjustment. The 1.68% rate increase to provide current franchised services is due to the following:

- **3.41%** rate impact increase due to ACI's increased operating costs to collect, process, and dispose of solid waste, recyclable material, and organic materials; this rate increase was calculated in accordance with the Agreement between the City and ACI for solid waste, recyclable material, and organic material services;
- **0.66%** rate impact increase due to increases in City fees (e.g., AB 939 Fee, Doolittle Landfill Maintenance Fee, Infrastructure Impact Fee, etc.); and,
- **(2.39%)** rate impact decrease due to higher projected revenues in the forthcoming rate year, attributed to the increase in commercial customers.

The following table summarizes the components of the projected rate increase (based on current rates).

Table 2
Components of Rate Impact

| | Rate Period 16 Adjusted Compensation | Rate Period 17 HF&H Adjusted Compensation | \$ Change | YOY % Change | Rate Impact |
|---|--|---|------------------|-----------------|----------------|
| Labor-Related Costs (Driver Wages/Benefits) | \$4,640,660 | \$4,775,098 | \$134,438 | 2.9% | 0.66% |
| Route Vehicle-Related Costs (Fuel/Tires/Parts) | 599,024 | 608,123 | 9,099 | 1.5% | 0.04% |
| Container Capital Costs | 300,646 | 300,646 | 0 | 0.0% | 0.00% |
| Recyclable/Organic Material Processing | 2,873,729 | 3,195,995 | 322,266 | 11.2% | 1.58% |
| Solid Waste Disposal | 2,518,264 | 2,493,950 | -24,315 | -1.0% | -0.12% |
| Admin Costs (Rent/Insurance/Customer Service) | 4,407,731 | 4,696,728 | 288,997 | 6.6% | 1.42% |
| Vehicle Capital Costs/Interest (CNG vehicles) | 1,081,221 | 1,045,572 | (35,650) | -3.3% | -0.17% |
| Subtotal Operating Costs | \$16,421,276 | \$17,116,112 | \$694,836 | 4.2% | 3.41% |
| Other City Fees | 1,546,392 | 1,597,591 | 51,200 | 3.3% | 0.25% |
| Franchise Fees | 1,996,408 | 2,079,300 | 82,893 | 4.2% | 0.41% |
| Total Contractor Compensation | \$19,964,075 | \$20,793,003 | \$828,929 | 4.2% | 4.07% |
| Revenue at Current Rates | \$19,964,075 | \$20,450,443 | \$486,368 | 2.4% | -2.39% |
| Projected Revenue Surplus/(Shortfall) RP17 | | (\$342,561) | | | 1.68% |

Note: Numbers may not sum exactly due to rounding.

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II. BACKGROUND

A. General

The City issued a request for proposals for solid waste collection and disposal services, recyclables and organic materials collection, and processing services in August 2001 for services that were scheduled to commence in October 2002. With, and subsequent to, the implementation of the new Agreement, several significant changes have been made to the City's solid waste collection system including:

- Eliminating backyard solid waste collection service at no additional charge;
- Replacing customer-provided solid waste containers with carts provided by the franchisee;
- Switching from biweekly to weekly residential recyclables collection and expanding the list of acceptable materials;
- Switching from biweekly to weekly residential yard waste service and incorporating food scraps;
- Expanding the commercial yard waste collection program and incorporating food scraps;
- Adding a 96-gallon commingled recyclables collection cart and 96-gallon organics collection cart for commercial customers at no additional charge with their solid waste collection service;
- Providing a local office in Alameda;
- Providing an education program/outreach to schools;
- Collecting abandoned waste;
- Gratis integrated waste collection services at 12 City-selected special events per year;
- Collection from 100 additional public litter containers;
- Household battery and latex paint collection at ACI's local Alameda office; and,
- Establishment of the Rate Stabilization Fund.

B. Recyclable Material Commodity Revenue Share

In 2009, the City negotiated with ACI to share in the revenue received from the sale of the recyclable materials collected from the City's residents and businesses. It was agreed that such revenue generated from the sale of recyclable material shall be split as follows: (a) the amount resulting from multiplying the City Tons by the first \$26 of the Average Price will belong to ACI; (b) the amount resulting from multiplying the City Tons by the amount by which the Average Price (up to \$80) exceeds \$26, if any, will be shared 75% by ACI and 25% by the City; and, (c) the amount resulting from multiplying the City Tons by the amount by which the Average Price exceeds \$80, if any, will be shared 25% by ACI and 75% by the City.

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C. Alternative Fuel Vehicles

In 2009, the City negotiated with ACI to transition the collection fleet to 100% alternative fuel vehicles. ACI successfully completed the transition to 100% alternative fuel collection vehicles in March 2013.

D. Due to / Due from ACI (Balancing Account)

In setting the rates for RP12, ACI and the City agreed to establish the Balancing Account rather than increase or decrease rates due to revenue surpluses or shortfalls and fluctuations in the Commodity Revenue Share. In RP13, the City and ACI agreed to include the difference between the projected interest for the alternative fuel vehicles calculated at 4% and the actual interest paid by ACI in the Balancing Account.

During the rate setting process for RP17, the three components of the Balancing Account were reviewed resulting in the following increases to the Balancing Account.

- 1) The revenue surplus for RP15 was calculated resulting in an increase of \$368,441.
- 2) The City's RP15 share of commodity revenues resulted in an increase of \$471,013.
- 3) An adjustment for RP15 from the reconciliation of interest paid by ACI vs. interest projected, for the financing of the alternative fuel vehicles resulted in an increase of \$151,329.

The balance in the Balancing Account, through RP15, is \$1,401,947 due from ACI.

Based on the preliminary review of RP16 financial data: it appears the City's projected share of the commodity revenues will drop by more than 30% due to mixed paper recycling markets; there may be a surplus of revenue due to an increase in commercial revenues; and, the interest rate for loans from the California Pollution Control Financing Authority (CPCFA) fluctuates based on the market, but it is anticipated to be lower than the 4% used for projection. Therefore, it is anticipated the balance in the Balancing Account may be further increased as part of the RP18 rate setting process. However, should the City elect to use some or all of the funds during RP17, the Balancing Account will reflect those changes as well. The table below summarizes the Balancing Account components through RP15:

Table 3
(Due to) / Due from ACI through RP15

| "Balancing Account" Summary | |
|---|--------------------|
| "Balancing Account" through RP 14 | \$411,164 |
| <u>RP 15 Activity</u> | |
| Add: Revenue - (Shortfall) Surplus | 368,441 |
| Add: Commodity Revenue Share | 471,013 |
| Add: Interest Expense - (Shortfall) Surplus | 151,329 |
| "Balancing Account" through RP 15 | \$1,401,947 |

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E. Rate-Setting Process

In accordance with Article 8 of the Agreement, ACI's compensation was fixed for RP1 and RP2 and shall be adjusted annually, with City Council approval, commencing in RP3 (July 1, 2004 – June 30, 2005), through the remaining term of the Agreement, including any extension periods. The adjustments to ACI's compensation shall be determined using one of two methodologies: (1) an index-based adjustment or, (2) a cost-based adjustment (detailed rate review). The following table summarizes the methodologies to be used during each Rate Period.

Table 4
Rate Setting Methodology Schedule

| Rate Year | Commencement Date | Adjustment Method |
|-----------|---------------------|--------------------|
| 1 | October 6, 2002 | Not Applicable |
| 2 | July 1, 2003 | Not Applicable |
| 3 | July 1, 2004 | Cost-Based |
| 4 | July 1, 2005 | Index-Based |
| 5 | July 1, 2006 | Index-Based |
| 6 | July 1, 2007 | Cost-Based |
| 7 | July 1, 2008 | Index-Based |
| 8 | July 1, 2009 | Index-Based |
| 9 | July 1, 2010 | Cost-Based |
| 10 | July 1, 2011 | Index-Based |
| 11 | July 1, 2012 | Index-Based |
| 12 | July 1, 2013 | Cost-Based |
| 13 | July 1, 2014 | Index-Based |
| 14 | July 1, 2015 | Index-Based |
| 15 | July 1, 2016 | Cost-Based |
| 16 | July 1, 2017 | Index-Based |
| 17 | July 1, 2018 | Index-Based |
| 18 | July 1, 2019 | Cost-Based |
| 19 | July 1, 2020 | Index-Based |
| 20 | July 1, 2021 | Index-Based |

The Term of the Franchise Agreement shall continue until midnight September 30, 2022, unless terminated in accordance with Section 11.2 of the Franchise Agreement.

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III. HF&H ANALYSES

A. Scope of Work

Our approach to this engagement was to work objectively to follow the compensation adjustment terms of the Agreement between ACI and the City. When performing the procedures described in the Agreement for the index-based adjustment, we relied on the Company's audited financial statements, current year-to-date financial results of operations data, copies of transactions, reports of operations, and other information provided by ACI, ACI's proposal to the City, and industry standards.

The results of our review and our findings were documented by the HF&H staff that performed the engagement and were consequently objectively reviewed by the Engagement Manager. This documentation and subsequent HF&H adjustments were made available to the City and ACI for review. While taking direction from the City, we worked cooperatively with ACI in an open and transparent manner to ensure that they understood our procedures and preliminary findings. In this capacity, the City and ACI had the opportunity to correct any misunderstandings, and understand the reasons for any adjustments to the Application that we recommended.

HF&H staff performed this review based upon: procedures agreed upon by the City and HF&H, as documented in our proposal; and, the agreement between the City and ACI. These procedures included the following activities:

- We reviewed the Application to ensure its completeness and compliance with the methodology described in the Agreement;
- We reviewed the Application for mathematical accuracy and internal consistency. We also checked that the summary schedules agreed to the supporting schedules and worksheets;
- We reviewed the Application by performing: a review of revenue; a variance analysis of RP15 actual expenses to RP17; a verification of solid waste tonnage and disposal expenses; a review of organic material tonnage and processing expenses; and, a review of recyclable commodity revenue;
- We tested projected revenues to ensure that they are consistent with past trends and anticipated conditions;
- We compared actual costs to projections;
- We verified that the RP17 compensation was correctly calculated;
- We met with the City and ACI management to review the recommended adjustments to the Application described herein; and,
- We prepared a written draft and final report to document our findings and recommendations to share at the council meeting.

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B. Limitations

Our review was substantially different in scope than an examination in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. Such a review was conducted and an opinion expressed by ACI's independent accountants V T Williams & Associates, LLP.

Our conclusions are based on the review of ACI's projections of its financial results of operations. Actual results of operations will usually differ from projections because events and circumstances frequently do not occur as expected, and the difference may be significant.

C. ACI's RP17 Rate Application (July 1, 2018 – June 30, 2019)

The City engaged HF&H to perform a review of ACI's Rate Application submitted in accordance with Section 8.4.5 of the Agreement. ACI submitted its application on April 4, 2018. HF&H's procedures included the following steps:

Step 1: Verification of the Mathematical Accuracy

HF&H reviewed ACI's application to determine completeness, mathematical accuracy, reasonableness, and logical consistency of the assumptions supporting the projected revenues and expenses. This included:

- Verification that all cost indices used to project expenses conformed to Section 8.4.5 of the Agreement;
- Verification of the mathematical accuracy of ACI's compensation adjustment calculations; and,
- Verification of the consistency and integrity of the spreadsheets housing calculations.

Findings

In an index-based cost rate adjustment year, Section 8.4.5.A of the Agreement requires the percentage change in the Consumer Price Indices (CPI) to be based on the most recent available month's indices. The February CPIs were available at the time the Application was submitted; however, ACI used the annual change in the December CPIs to estimate projected RP17 costs.

HF&H noted cell reference errors that led to errors in calculations, notably in the calculation of allocated labor expense and the RP15 Revenue Reconciliation. HF&H revised the Application and the net effect to each cost component is described below.

Step 2: Determine Current Cost Components

As required by Section 8.4.5 of the Agreement, we found that ACI correctly used the City-approved Rate Period 16 cost components approved last year (Labor-related costs, Vehicle-related costs, fuel, etc.) as

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the starting point for calculating their RP17 allowable compensation with the exception of allocated labor expense (see Table 2 Components of Rate Impact). We have included a summary of the major cost components of the 32-gallon single family service as Attachment 2.

Step 3: Adjust Each Cost Component

Cost components were adjusted to reflect changes in CPI and other corrections and are summarized in Table 5.

Labor-Related Costs

In accordance with Section 8.4.5.A.1b of the Agreement, CBA-related Labor Costs shall be calculated by adjusting costs in accordance with the procedures described in the then-current CBA.

The CBA specifies that the annual cost-of-living percentage increase be determined on the basis of the CPI for the San Francisco/Oakland/San Jose Metropolitan Area All Urban Consumers (CPI-U), but in no event shall such an annual percentage increase be less than 2.7% or more than 12%. Additionally, pension contributions are annually adjusted by 3.4%. In its Application, ACI used the December year-over-year change in the CPI-U to escalate labor related costs, with the exception of pension and health and welfare premiums. HF&H recalculated labor related costs using the change in the most recent month available (February year-over-year change) and reduced the estimated percentage change in projected health and welfare premiums from 6% to 3.81%. These changes resulted in an increase of \$21,656 to labor related expenses; partially offset by a decrease to health and welfare cost of \$17,428; and, a decrease of \$724 to payroll taxes due to a calculation error, for a net recommended increase of \$3,504.

Vehicle-Related Costs (excluding capital costs)

In Section 8.4.5.A.2, the Agreement states that projected vehicle-related costs for the coming rate year shall equal the allowable vehicle-related costs approved last year multiplied by one plus the percentage change in the Motor Vehicle Related Index, All Urban Consumers, and U.S. City Average. HF&H recalculated these percentages using the February, not the December, change in the index and recommends a decrease to vehicle-related costs of \$1,901.

Organic Materials Processing Costs

Section 8.4.5.A.4 of the Agreement describes the projected cost to process organic materials shall be calculated based on the total tons of organic materials processed during the period from January 1, 2017 through December 31, 2017 multiplied by the allowable per-ton processing fee.

Due to spreadsheet errors, ACI misstated tonnage for some of the months during the period January 1, 2017 through December 31, 2017. HF&H recalculated the processing cost using the corrected tonnage information and recommends a decrease of \$37,807, partially offset by an approximately \$642 increase

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adjustment for the February, not the December, change in the index and recommends a net decrease of \$37,165 in processing costs, for total projected costs of \$890,889.

Incremental Labor Materials Recovery Facility (MRF)

In 2015 ACI requested, and was granted, a special rate adjustment for the incremental costs of providing its MRF employees union wages and benefits. The incremental costs were allocated to the City based upon its portion of the recycling tons processed at the MRF. In setting the RP14 rates, it was anticipated the City would not receive franchise fees on the additional costs and ACI would not include the costs in the calculation of its profit. However, the City elected to receive its franchise fees on the additional costs in RP14. ACI requested, and the City agreed, to include the additional costs in its profit calculation commencing with RP17.

HF&H reviewed the incremental labor costs calculation of \$1,198,604 for RP17 costs and proposes no adjustment.

Other Costs

In accordance with Section 8.4.5.A.5 of the Agreement, we adjusted ACI's calculation using 2.94% to reflect the February CPI and applied the change in the CPI-U of 3.56% to all other operating costs (corporate overhead, billing costs, customer service labor costs, bad debt, etc.) for a \$5,426 increase to projected costs.

Depreciation

In accordance with Section 8.4.5.A.6 of the Agreement, the depreciation expense shall be the amount specified in Exhibit J, which was \$0 at the commencement of the Agreement because ACI leased its vehicles. However, having purchased vehicles with City approval, ACI's Application included a depreciation expense of \$894,061, the majority of which was for the purchase of new alternative fuel vehicles placed in service in the first quarter of 2013. No adjustment recommended.

Allocated Costs

General and Administrative, Vehicle Maintenance, Container Maintenance, and Billing Costs were all adjusted to correct for ACI's use of the December indices, resulting in an increase of \$5,216. Due to spreadsheet cell reference errors, ACI did not correctly apply the indices to the approved RP16 allocated labor costs as prescribed by the Agreement. HF&H recalculated the labor cost and recommends an increase of \$34,083, partially offset by a \$557 decrease adjustment for Health and Welfare cost for Container Maintenance personnel. The combined increase of \$38,742 is recommended to ACI's total projected allocated costs.

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Profit

We found that ACI correctly calculated its allowable profit by applying a 90% operating ratio (approximately a 10% profit) to its allowable operating costs; however, due to the calculated adjustments described above, we recommend a \$956 increase to ACI's profit.

Disposal

Section 8.4.5.C.1 of the Agreement states the projected cost to dispose of solid waste is calculated based on the total tons of solid waste collected during the period from January 1, 2017 through December 31, 2017 multiplied by the projected per-ton disposal fees at the City-designated disposal facility (Waste Management Inc.'s (WMI) Davis Street Transfer Station).

ACI calculated the annual disposal costs of \$2,559,669 using projected per-ton disposal fees multiplied by the tons collected in 2017. HF&H recalculated the per-ton disposal fee in accordance with the Agreement using the February, not the December, change in the index and recommends an increase of \$14,861 to disposal cost for RP 17.

HF&H also recalculated the disposal cost for the prior year (RP 16) using the rate established in the newly negotiated agreement with WMI Davis Street Transfer Station. The terms of the agreement were unknown when RP16's disposal cost was calculated and the final negotiated rate was significantly less than the projected rate assumed using the former methodology. The per ton rate decreased from the projected \$92.59 per ton, to \$89.51 per ton resulting in a decrease of \$80,581 in disposal cost projected for RP16.

The net adjustment to the annual disposal cost is a decrease of \$65,720.

Interest Expense

Section 8.4.5.C.2 of the Agreement states interest expense shall be zero. However, ACI's Application included an interest expense of \$151,511 to reflect a previously agreed-upon interest expense from the purchase of alternative fuel vehicles that were put in place the first quarter of 2013. For projection purposes, ACI has assumed an annual interest rate of 4%. ACI has financed the purchase of new alternative fuel vehicles using loans from the California Pollution Control Financing Authority (CPCFA). The CPCFA assists California businesses with the acquisition of qualified pollution-control equipment. The interest rate fluctuates based on the market. HF&H recalculated the interest expense using the 4% annual interest rate and recommends no adjustment to interest expense.

The City and ACI agreed to make an adjustment to ACI's future compensation based on the actual interest paid by ACI. The difference between the interest calculated at 4% and the actual interest paid is part of the annual revenue reconciliation. See Section II Subsection D (Due to / Due from ACI – Balancing Account) of this report for the results of RP15 Interest reconciliation.

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Container Reimbursement

ACI included \$300,646 for container replacement costs in RP17. The City and ACI agreed (during the RP11 rate negotiations) to limit (cap) the annual container purchases to \$300,646 (based on the average purchases during the previous three-year period). ACI is responsible for reporting actual container purchases to the City on a quarterly basis. It was further agreed that should ACI spend less than the cap, the amount would be netted against the cap in the current expense projection. ACI spent more than the cap amount in RP15; therefore, there were no savings to net against the RP17 allowable cap of \$300,646. No adjustment recommended.

Pass-Through Franchise Fees and Other City Fees

Other City Fees: Other City Fees (e.g., AB939 Fee, Infrastructure Impacts Mitigation Fee, Doolittle Landfill Maintenance Fee, and City Parks Fee) will increase by the change in CPI-U. ACI used the December change in CPI-U (2.94%). Therefore, HF&H calculated an increase of \$8,926 to City Fees using the February change in index (3.56%).

Rate Stabilization Fund: In RP12, the City established a rate stabilization fund to reduce future rate volatility. The Rate Stabilization Fund is currently being funded at \$110,000 per year. ACI included the continued funding in its Application. No adjustment recommended.

Franchise Fees: According to Article 7 of the Agreement, ACI is required to remit Franchise Fees and Other City Fees to the City. Franchise Fees have been calculated at 10% of gross revenues. HF&H recommends decreasing franchise fees by a net \$4,510 as a result of the recommended increases in Operating Expenses Eligible for Profit, Operating Profit, and the Pass-Through Costs.

Recyclable Materials Processing Costs

MRF Processing Costs: In Section 8.4.5.A.3 of the Agreement, projected recyclable material processing costs for the coming rate year shall equal the allowable recyclable material processing costs approved last year multiplied by one plus the percentage change in the CPI-W. We adjusted ACI's calculation to reflect the proper index increase using the February increase of 3.56%, resulting in an increase to costs of \$6,639.

Balancing Account Applied

In setting the rates for RP12, ACI agreed to establish the Balancing Account rather than increase or decrease rates due to revenue surpluses or shortfalls and fluctuations in the Commodity Revenue Share. In RP13 the City and ACI agreed to include the difference between the projected interest for the alternative fuel vehicles calculated at 4% and the actual interest paid by ACI in the Balancing Account (Section II Subsection D of this report). ACI included \$0 from the balancing account in its RP17 Application to provide a one-time reduction to its Revenue Requirement. Due to the uncertainties of the impact on revenues from the full implementation of AB1826 and SB1383, and the volatility of revenue from the sale of recyclable materials, the City has elected to maintain the Balancing Account at the

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current level and is in agreement with the \$0 included in the Application. Therefore HF&H proposes no adjustment.

Step 4: Determine Projected Revenue at Current Rates

As required by Section 8.6 of the Agreement, "the City shall use its best efforts to set rate ceilings so as to generate sufficient revenues to cover Contractor's Compensation, etc."

Current revenue is used to project future revenue, which is then used to calculate the necessary rate increase to cover the approved projected costs. ACI based its requested 3.74% increase on assumed current year's revenue of \$20,087,268. HF&H reviewed the reasonableness of ACI's method of calculating its increase.

Several methods of projection are used in the industry for projecting future revenue. One method is based upon subscription levels. The subscription method is representative of a point in time and does not capture fluctuations in service due to seasonality or economic conditions. Another method uses several months of current revenue annualized using the average for the remaining months of the year. This method will catch fluctuations depending on the number of months sampled.

HF&H is recommending using 9 months of actual revenue (July 2017 through March 2018), provided by ACI, and annualizing using the average of the 9 months for the remaining 3 months of the year (\$20,450,443). The recommended 1.68% increase is based on the likelihood that revenue for RP17 will achieve, at a minimum, an amount that will cover the Contractor's Compensation.

Should revenues exceed or fall short of the approved Contractor Compensation requirement, a reconciliation process will take place in the subsequent rate period.

Step 5: Adjusted Revenue Requirement

The following tables summarize: 1) ACI's requested revenue requirement of \$20,838,104 to provide current franchised services for RP17 (see Table 1); and, 2) HF&H's adjusted Application (see Table 5). Based on our recommended adjustments to the Application described in Section III of this report, we have determined that a total revenue requirement of \$20,793,003 (a decrease of \$45,100 from ACI's Application) is appropriate and a recommended 1.68% increase is consistent with the rate-setting methodology described in the Agreement.

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Table 5
HF&H Adjusted Rate Application

| | RP17 Rev. Req. Per Rate App. | HF&H Adjustments | HF&H Adj. Rate App. |
|---|---|---------------------------------|------------------------------------|
| Rate Period 17 Revenue Requirement | | | |
| Operating Exp. Eligible for Profit | | | |
| Labor-Related Costs | \$4,771,594 | \$3,504 | \$4,775,098 |
| Vehicle-Related Costs | 610,024 | (1,901) | 608,123 |
| Organic Processing Costs | 928,053 | (37,165) | 890,889 |
| Incremental MRF Labor | 1,198,604 | - | 1,198,604 |
| Other Costs | 898,895 | 5,426 | 904,322 |
| Depreciation | 894,061 | - | 894,061 |
| General and Administrative Costs | 1,262,633 | 10,561 | 1,273,194 |
| Vehicle Maintenance Costs | 720,954 | 25,758 | 746,712 |
| Container Maintenance Costs | 214,664 | 360 | 215,025 |
| Billing Costs | 249,063 | 2,063 | 251,126 |
| Total Operating Exp. Eligible for Profit | \$11,748,545 | \$8,608 | \$11,757,153 |
| Profit (90% Operating Ratio) | \$1,305,394 | \$956 | 1,306,350 |
| Pass-Through Costs | | | |
| Disposal | \$2,559,669 | (\$65,720) | \$2,493,950 |
| Container Reimbursement | 300,646 | - | 300,646 |
| Franchise Fees | 2,083,810 | (4,510) | 2,079,300 |
| City Fees | 1,478,665 | 8,926 | 1,487,591 |
| Interest | 151,511 | - | 151,511 |
| Total Pass-Through Costs | \$6,574,302 | (\$61,304) | \$6,512,998 |
| MRF Recycling Processing | \$1,099,863 | \$6,639 | \$1,106,502 |
| Rate Stabilization Fund | \$110,000 | \$0 | \$110,000 |
| Balancing Account Applied | \$0 | \$0 | \$0 |
| Total Revenue Requirement | \$20,838,104 | -\$45,100 | \$20,793,003 |
| Projected Revenue | \$20,087,268 | \$363,175 | \$20,450,443 |
| Projected Revenue Surplus/(Shortfall) | (\$750,836) | | (\$342,561) |
| Recommended Rate Increase/(Decrease) | 3.74% | | 1.68% |

Note: Numbers may not sum exactly due to rounding.

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SECTION IV. SURVEY OF COMPARABLE RATES

Attachment 1 shows the results of HF&H's survey of solid waste rates for jurisdictions located throughout Alameda County. We have applied the recommended rate increases specific to each service level for purposes of comparing ACI's rates to other jurisdictions. It should be noted that some of the comparable jurisdictions will be considering rate increases either July 1, 2018 or January 1, 2019, but they are unknown at this time.

Residential rates for a 30-35 gallon container range from \$18.92/month (Emeryville) to \$55.11/month (Piedmont), while ACI's proposed rate is \$40.27/month. Commercial rates for a 1-yard bin serviced one time per week range from \$100.71/month (Fremont) to \$285.93/month (Castro Valley Sanitary District), while ACI's proposed rate is \$153.40/month.

We caution the City that this survey is presented for information only. The City should not draw conclusions from this information because rate comparisons are intrinsically difficult and often misleading. This difficulty results from differences in items such as:

- Services provided by ACI that may not be provided (or only partially provided) to other jurisdictions;
- The terrain in which the service is performed;
- Disposal costs;
- Rate structures (as illustrated in the rate survey where five jurisdictions have higher 32-gallon rates than Alameda's proposed 32-gallon rate; however, six jurisdictions have a higher rate for commercial 1 cubic yard bin serviced once per week); and,
- Governmental fees (e.g., franchise fees, vehicle impact fees, etc.)

* * * * *

We would like to express our appreciation to ACI's management and staff for their assistance. In addition, we express our appreciation to you for your assistance and guidance during the course of the review. Should you have any questions, please contact Marva Sheehan directly at (925) 977-6961 or msheehan@hfh-consultants.com.

Very truly yours,
HF&H CONSULTANTS, LLC



Marva M. Sheehan, CPA
Vice President



Colleen A. Costine
Senior Associate

cc: HF&H Client Files

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ATTACHMENT 1

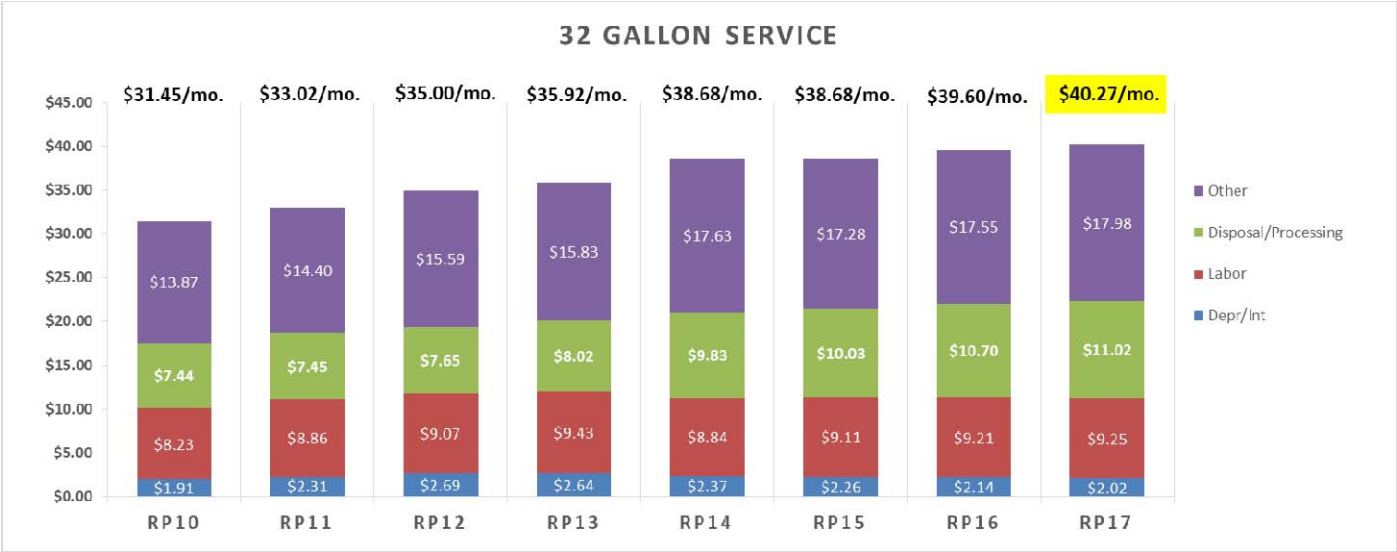
ALAMEDA COUNTY RATE SURVEY (RATES IN EFFECT AS OF MAY 2018)

| Jurisdiction | Residential Single - Family | | | | Commercial | | | |
|-----------------------------------|-----------------------------|----------------|----------------|----------------|---------------------|--------------------|---------------------|---------------------|
| | 20-Gal. | 30-35 Gal. | 60-64 Gal. | 90-96 Gal. | 1 YD Bin 1X/Week | 1YD Bin 3X/Week | 3 YD Bin 1X/Week | 3 YD Bin 3X/Week |
| City of Alameda - <u>Current</u> | \$31.38 | \$39.60 | \$65.07 | \$90.88 | \$150.87 | \$461.63 | \$452.60 | \$1,384.90 |
| City of Alameda - <u>Proposed</u> | \$31.91 | \$40.27 | \$66.16 | \$92.41 | \$153.40 | \$469.39 | \$460.20 | \$1,408.17 |
| City of Albany | \$38.09 | \$42.65 | \$73.72 | \$104.77 | \$169.95 | \$509.85 | \$509.85 | \$1,529.55 |
| City of Berkeley | \$26.53 | \$42.35 | \$84.66 | \$126.96 | \$161.89 | \$456.15 | \$448.02 | \$1,330.75 |
| City of Dublin | N/A | \$24.94 | \$45.82 | \$66.69 | \$121.02 | \$423.28 | \$363.06 | \$1,149.40 |
| City of Emeryville | \$11.43 | \$18.92 | \$37.84 | \$56.75 | \$112.67 | \$338.01 | \$338.01 | \$1,014.03 |
| City of Fremont | \$34.04 | \$34.77 | \$38.12 | \$55.93 | \$100.71 | \$289.69 | \$226.39 | \$666.69 |
| City of Hayward | \$21.64 | \$31.62 | \$56.39 | \$81.13 | \$134.48 | \$364.58 | \$346.47 | \$956.24 |
| City of Livermore | \$28.46 | \$37.67 | \$57.54 | \$90.41 | \$116.72 | \$364.16 | \$350.16 | \$1,115.62 |
| City of Newark | \$28.39 | \$31.55 | \$55.89 | \$80.20 | \$127.86 | \$398.93 | \$338.28 | \$922.51 |
| City of Oakland | \$39.41 | \$44.93 | \$80.08 | \$120.88 | \$224.80 | \$674.32 | \$535.32 | \$1,605.90 |
| City of Piedmont | \$52.39 | \$55.11 | \$65.02 | \$76.90 | \$173.04 | \$488.17 | N/A | N/A |
| City of Pleasanton | N/A | \$33.80 | N/A | \$45.48 | \$168.23 | \$440.28 | \$480.44 | \$1,296.58 |
| City of San Leandro | \$23.22 | \$28.92 | \$48.15 | \$67.35 | \$126.83 | \$383.45 | \$383.45 | \$1,150.35 |
| City of Union City | \$41.55 | \$48.69 | \$84.41 | \$120.08 | \$148.21 | \$409.36 | \$388.39 | \$1,058.49 |
| Castro Valley Sanitary District | \$25.94 | \$40.23 | \$69.86 | \$99.49 | \$285.93 | \$857.92 | \$760.73 | \$2,131.76 |

Note: Oro Loma Sanitary District is not included in the survey; Oro Loma customers receive bi-weekly recycling service, while all other jurisdictions represented above receive weekly service.

ATTACHMENT 2

RATE COMPONENTS OF 32 GALLON SF SERVICE



Rates versus Revenue

