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June 16, 2020

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 Nineteen Contractor's Compensation Application – Final

Reference Number: S3995

Dear Mr. Garland:

HF&H Consultants, LLC (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 Nineteen (RP19) Contractor's Compensation Application (Application), which was submitted to the City on April 16, 2020. 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 ACI's franchise agreement (Agreement) with the City.

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I. SUMMARY AND RECOMMENDATIONS

A. Review of ACI's RP19 Rate Application (for rates effective 7/1/20)

ACI's Application calculated a total revenue requirement of \$23,405,371 to provide current franchised services for RP19 (see Table 1).

Table 1 ACI's RP19 Rate Application	
Rate Period 19 Revenue Requirement	
Operating Exp. Eligible for Profit	
Labor-Related Costs	\$5,595,289
Vehicle-Related Costs	795,470
Organic Processing Costs	1,328,166
Incremental MRF Labor	1,442,943
Other Costs	1,016,866
Depreciation	894,061
General and Administrative Costs	1,348,794
Vehicle Maintenance Costs	807,279
Container Maintenance Costs	250,708
Billing Costs	252,597
Total Operating Exp. Eligible for Profit	\$13,732,172
Profit (90% Operating Ratio)	\$1,525,797
Pass-Through Costs	
Disposal	\$2,652,397
Container Reimbursement	300,646
Franchise Fees	2,340,537
City Fees	1,590,536
Interest	80,212
Total Pass-Through Costs	\$6,964,328
MRF Recycling Processing	\$1,183,075
Rate Stabilization	\$0
Balancing Account Applied	\$0
Total Revenue Requirement	\$23,405,371
Projected Revenue	\$21,963,996
Projected Revenue Surplus/(Shortfall)	(\$1,441,375)
Rate Increase/(Decrease)	6.56%

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Note: Numbers may not sum exactly due to rounding.

Based on our recommended adjustments to the Application, we have determined that a total revenue requirement of \$23,352,121 and a decrease of \$460,706 to ACI's projected revenue is appropriate and consistent with the rate setting methodology described in the Agreement. These adjustments result in an 8.60% 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 8.60% rate increase to provide current franchised services is due to the following:

- **3.84%** rate impact increase due to ACI's increased operating costs to collect, process, and dispose of solid waste, recyclable material, and organic materials, including a deferral of rate increase from the prior year attributing to 0.88% of the 3.84% rate impact to operating costs; this rate increase was calculated in accordance with the Agreement between the City and ACI for solid waste, recyclable material, and organic material services;
- **0.86%** rate impact increase due to increases in City fees (e.g., AB 939 Fee, Doolittle Landfill Maintenance Fee, Infrastructure Impact Fee, etc.);
- **1.76%** rate impact increase due to the discontinued use of Rate Stabilization and Balancing Account funds to offset a portion of the required rate increase; and,
- **2.14%** rate impact increase due to lower projected revenues in the forthcoming rate year, attributed to the decrease in commercial customers as a result of California's Shelter in Place Order in response to COVID-19.

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

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Table 2
Components of Rate Impact

	Rate Period 18 Adjusted	HF&H Adjusted Rate Period 19	\$ Change	YOY % Change	Rate Impact Component
Labor-Related Costs (Driver Wages/Benefits)	\$5,433,667	\$5,540,434	\$106,768	1.96%	0.50%
Route Vehicle-Related Costs (Fuel/Tires/Parts)	769,161	796,101	26,940	3.50%	0.13%
Container Capital Costs	300,646	300,646	-	0.00%	0.00%
Recyclable/Organic Material Processing	3,659,401	3,953,873	294,472	8.05%	1.37%
Solid Waste Disposal	2,557,892	2,630,280	72,388	2.83%	0.34%
Admin Costs (Rent/Insurance/Customer Service)	5,051,602	5,223,733	172,130	3.41%	0.80%
Vehicle Capital Costs/Interest (CNG vehicles)	1,009,922	974,272	(35,650)	-3.53%	-0.17%
Operating Expense Reduction by ACI	(189,050)	-	189,050	-100%	0.88%
Subtotal Operating Costs	\$18,593,241	\$19,419,339	\$826,098	4.44%	3.84%
Balancing Account and Rate Stabilization Funds	(378,100)	-	378,100	-100%	1.76%
Other City Fees	1,552,455	1,597,569	45,114	2.91%	0.21%
Franchise Fees	2,196,400	2,335,212	138,812	6.32%	0.65%
Total Revenue Requirement	\$21,963,996	\$23,352,121	\$1,388,124	6.32%	6.46%
Revenue at Current Rates	\$21,963,996	\$21,503,290	(\$460,706)	-2.10%	2.14%
Projected Revenue Surplus/(Shortfall) RP19		(\$1,848,830)			8.60%

Note: Numbers may not sum exactly due to rounding.

The City and ACI have agreed to use funds from the Balancing Account (\$348,000) and Rate Stabilization Fund (\$348,000) to reduce the 8.60% rate increase to ratepayers. The following table summarizes the revised proposed 5.00% rate increase after funds from the Balancing Account and Rate Stabilization Fund have been applied.

Table 3
Proposed Rate Impact after Balancing Account and Rate Stabilization Fund Contributions

	HF&H Adjusted Rate Period 19	HF&H Adjusted Rate Period 19 with Fund Adjustments
Subtotal Operating Costs	\$19,419,339	\$19,419,339
Balancing Account	-	(348,000)
Rate Stabilization Fund	-	(348,000)
Other City Fees	1,597,569	1,597,569
Franchise Fees	2,335,212	2,257,879
Total Revenue Requirement	\$23,352,121	\$22,578,787
Revenue at Current Rates	\$21,503,290	\$21,503,290
Projected Revenue Surplus/(Shortfall) RP19	(\$1,848,830)	(\$1,075,497)
Rate Impact	8.60%	5.00%

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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.

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.

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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 RP19, the three components of the Balancing Account were reviewed resulting in the following increases and decreases to the Balancing Account.

- 1) The revenue surplus for RP17 was calculated resulting in an increase of \$68,982.
- 2) The City's RP17 share of commodity revenues resulted in an increase of \$109,913.
- 3) An adjustment for RP17 from the reconciliation of interest paid by ACI vs. interest projected, for the financing of the alternative fuel vehicles resulted in a decrease of \$55,276.

The balance in the Balancing Account, through RP17, is \$2,320,863 due from ACI as shown in the following table.

Table 4a	
(Due to) / Due from ACI through RP17	
"Balancing Account" Summary	
"Balancing Account" through RP 16	\$2,197,243
<u>RP 17 Activity</u>	
Add: Revenue - (Shortfall) Surplus	68,982
Add: Commodity Revenue Share	109,913
Add: Interest Expense - (Shortfall) Surplus	(55,276)
"Balancing Account" through RP 17	\$2,320,863

The City has obligated the use of additional funds from the Balancing Account as shown in the following table.

Table 4b	
(Due to) / Due from ACI	
Additional "Balancing Account" Activity	
<u>Additional "Balancing Account" Activity</u>	
Approximate Program Expenditure per City	(300,000)
Use of Balancing Account to Offset RP18 Increase	(189,050)
Additional "Balancing Account" Activity	(\$489,050)

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Based on the preliminary review of RP18 financial data and discussions with ACI, the RP18 Balancing Account balance may be impacted by:

- The City's projected share of the commodity revenues indicate a drop of 30% due to fluctuations in recycling markets and reduced commercial recycling tonnage from the impact of COVID-19;
- There may be a shortfall of revenue due to a decrease in commercial revenues from the impact of COVID-19;
- The interest rate for loans from the California Pollution Control Financing Authority (CPCFA) fluctuates based on the market, but ACI anticipates the interest rates to be higher than the 4% used for projection;
- \$189,050 will be paid to ACI to offset a portion of the RP 18 rate increase;
- \$300,000 will be used to pay for diversion programs to be in compliance with SB1383; and,
- Any amount that is used to mitigate part of the RP19 rate adjustment.

Therefore, it is anticipated the balance in the Balancing Account may be decreased as part of the RP20 rate setting process.

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.

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Table 5
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 RP18 approved expenses to RP19; 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 RP19 compensation was correctly calculated;
- We met via teleconference 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 Accounting 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 RP19 Rate Application (July 1, 2020 – June 30, 2021)

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 16, 2020. 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 RP19 costs.

HF&H noted cell reference errors that led to errors in calculations, notably in the calculation of allocated labor expense and the incremental MRF labor. 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 18 cost components approved last year (Labor-related costs, Vehicle-related costs, fuel, etc.) as

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the starting point for calculating their RP19 allowable compensation with the exception of allocated labor expense (see Table 2 Components of Rate Impact).

Step 3: Adjust Each Cost Component

Cost components were adjusted to reflect changes in CPI and other corrections and are summarized in Table 6.

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 the Application, ACI used 2.91% the February year-over-year change in the CPI-U to escalate RP18 labor related costs, with the exception of pension and health and welfare premiums. HF&H recalculated labor related costs using 2.04%, the percentage change in the per hour driver rate of \$39.44, which was used to project RP18 labor costs and the projected RP19 per hour driver rate of \$40.24 (the actual current rate of \$39.10 adjusted by 2.91%). This lower percentage change resulted in a decrease of \$29,521 to labor-related expenses. Additionally, current actual health and welfare premiums did not increase as projected in RP18, but rather remained flat, therefore, HF&H removed any additional increase for the projection of RP19 expense. This change resulted in a decrease of \$25,334 to health and welfare premium amount.

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 an increase to vehicle-related costs of \$632.

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, 2019 through December 31, 2019 multiplied by the allowable per-ton processing fee.

ACI understated tonnage during the period January 1, 2019 through December 31, 2019 and projected per ton organic materials processing rates using the February year-over-year change in the CPI. Additionally, ACI did not project the per ton organic materials processing rates as set forth in ACI's

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processing agreement with BFI Newby. HF&H recalculated the processing rates using the February, not the December, change in the index, recalculated the processing rates according to the BFI Newby Agreement, and recalculated the total processing cost using the corrected tonnage. HF&H recommends a net increase of \$15,056 in organic material processing costs.

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. 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 \$1,442,943 for RP19 costs and noted cell reference errors that led to errors in the calculation. HF&H corrected the reference errors and recommends a decrease of \$20,598 in incremental MRF labor costs.

Other Costs

In accordance with Section 8.4.5.A.5 of the Agreement, we adjusted ACI's calculation using 2.45% to reflect the February CPI and applied the change in the CPI-U of 2.91% to all other operating costs for a \$4,496 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 \$9,343. Due to spreadsheet cell reference errors, ACI did not correctly include allocated costs for City Facilities. HF&H recalculated the allocated costs and recommends an increase of \$13,459. Additionally, as mentioned in the Labor-Related Costs section above, HF&H adjusted CBA-related per hour driver rates, resulting in a decrease of \$930, and health and welfare costs, resulting in a decrease of \$869. The combined increase of \$21,003 is recommended to ACI's total projected allocated cost.

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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 \$3,807 decrease 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, 2019 through December 31, 2019 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 \$2,652,397 using projected per-ton disposal fees multiplied by the tons collected in 2019. HF&H reviewed the tonnages for the allowed period January 1, 2019 through December 31, 2019 and recommends no adjustment to tons. However, ACI did not project the per ton disposal rate as set forth in the City's agreement with WMI. HF&H recalculated the per ton disposal fee in accordance with the Agreement. The per ton rate decreased from the projected \$97.41 per ton to \$96.60 per ton, resulting in a decrease to the annual RP19 disposal cost of \$22,117.

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 \$80,212 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 RP17 Interest reconciliation.

Container Reimbursement

ACI included \$300,646 for container replacement costs in RP19. 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 RP17; therefore, there were no savings to net against the RP19 allowable cap of \$300,646. No adjustment recommended.

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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 (2.45%). Therefore, HF&H calculated an increase of \$7,033 to City Fees using the February change in index (2.91%).

Rate Stabilization Fund: In RP12, the City established a rate stabilization fund to reduce future rate volatility. The Rate Stabilization Fund was being funded at \$110,000 per year. Per the City's request to minimize the RP19 rate increase, ACI did not include the continued funding in its Application. However, the City has elected to use \$348,000 from the Rate Stabilization Fund to minimize the rate impact to its ratepayers. See Table 3 for the final proposed rate adjustment.

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 \$5,325 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 2.91%, resulting in an increase to costs of \$5,231.

Balancing Account Applied

ACI included \$0 from the Balancing Account in its RP19 Application to provide a one-time reduction to its Revenue Requirement. However, the City and ACI have agreed to use \$348,000 from the Balancing Account to minimize the rate impact to its ratepayers. See Table 3 for the final proposed rate 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 6.56% increase on assumed current year's revenue of \$21,963,996. 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

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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 10 months of actual revenue (July 2019 through April 2020), provided by ACI, and projecting the remaining 2 months of the year were projected using actual April 2020 revenue (\$21,503,290). The recommended 8.6% increase is based on the likelihood that revenue for RP19 will achieve, at a minimum, an amount that will cover the Contractor's Compensation.

Section 8.7.B. of the Agreement states there is no revenue reconciliation for the second to last and last rate periods within the Agreement's term (RP 19 and RP 20). Should revenues exceed or fall short of the RP 18 approved Contractor Compensation requirement, a reconciliation process will take place during the RP 20 rate setting process. We understand the City may extend its current Agreement while it considers its procurement process options for the next agreement. If an extension is granted, the revenue reconciliation process will be addressed as part of the extension.

Step 5: Adjusted Revenue Requirement

The following tables summarize: 1) ACI's requested revenue requirement of \$23,405,371 to provide current franchised services for RP19 (see Table 1); and, 2) HF&H's adjusted Application (see Table 6). Based on our recommended adjustments to the Application described in Section III of this report, we have determined that a total revenue requirement of \$23,352,121 (a decrease of \$53,251 from ACI's Application) is appropriate and a recommended 8.6% increase is consistent with the rate-setting methodology described in the Agreement. The City has elected to use \$348,000 from its Rate Stabilization Fund and the City and ACI have agreed to use \$348,000 from the Balancing Account to reduce the revenue requirement resulting in a proposed 5% increase to the City's ratepayers effective July 1, 2020. (Table 3).

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Table 6
HF&H Adjusted Rate Application

	ACI Rate Application	HF&H Adjustments	HF&H Adjusted Rate Application
Rate Period 19 Revenue Requirement			
Operating Exp. Eligible for Profit			
Labor-Related Costs	\$5,595,289	(\$54,855)	\$5,540,434
Vehicle-Related Costs	795,470	632	796,101
Organic Processing Costs	1,328,166	15,056	1,343,222
Incremental MRF Labor	1,442,943	(20,598)	1,422,345
Other Costs	1,016,866	4,496	1,021,363
Depreciation	894,061	-	894,061
General and Administrative Costs	1,348,794	12,092	1,360,886
Vehicle Maintenance Costs	807,279	6,946	814,224
Container Maintenance Costs	250,708	(309)	250,399
Billing Costs	252,597	2,274	254,871
Total Operating Exp. Eligible for Profit	\$13,732,172	(\$34,266)	\$13,697,906
Profit (90% Operating Ratio)	\$1,525,797	(\$3,807)	\$1,521,990
Pass-Through Costs			
Disposal	\$2,652,397	(\$22,117)	\$2,630,280
Container Reimbursement	300,646	-	300,646
Franchise Fees	2,340,537	(5,325)	2,335,212
City Fees	1,590,536	7,033	1,597,569
Interest	80,212	-	80,212
Total Pass-Through Costs	\$6,964,328	(\$20,409)	\$6,943,919
MRF Recycling Processing	\$1,183,075	\$5,231	\$1,188,306
Rate Stabilization Fund	\$0	\$0	\$0
Balancing Account Applied	\$0	\$0	\$0
Total Revenue Requirement	\$23,405,371	(\$53,251)	\$23,352,121
Projected Revenue at Current Rates	\$21,963,996	(\$460,706)	\$21,503,290
Projected Revenue Surplus/(Shortfall)	(\$1,441,375)		(\$1,848,830)
Recommended Rate Increase/(Decrease)	6.56%		8.60%

Note: Numbers may not sum exactly due to rounding.

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SECTION IV. RATE SURVEY AND REVENUE TRENDS

Attachment A 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, 2020 or January 1, 2021, but they are unknown at this time.

Residential rates for a 30-35 gallon container range from \$19.50/month (Emeryville) to \$87.57/month (Piedmont), while ACI's proposed rate is \$45.57/month. Commercial rates for a 1-yard bin serviced one time per week range from \$109.70/month (Fremont) to \$244.02/month (Oakland), while ACI's proposed rate is \$172.52/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/processing costs;
- Rate structures (as illustrated in the rate survey where four jurisdictions have higher 32-gallon rates than Alameda's proposed 32-gallon rate; however, five 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.).

Attachment B shows the proposed annual rate increases and the revenue generated from the rate increases. During the 2008-2011 recession the City experienced significant rate adjustments due to the decline in commercial revenue. In RP12, the City and HF&H restructured the rates and implemented a 10% rate increase in order to mitigate future significant fluctuations in the rates. As shown in the graph during the economic growth period, the City's ratepayers benefited from the increase in revenue. However, as noted in the 19-20 projections, the percentage of revenue generated is less than the rate increase. This is due to the decline in the commercial subscription volumes from the Shelter in Place Order from COVID-19.

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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



Dave L. Hilton
Project Manager

Attachments:

- A. Alameda County Rate Survey
- B. Rates Versus Revenue

ATTACHMENT A: ALAMEDA COUNTY RATE SURVEY

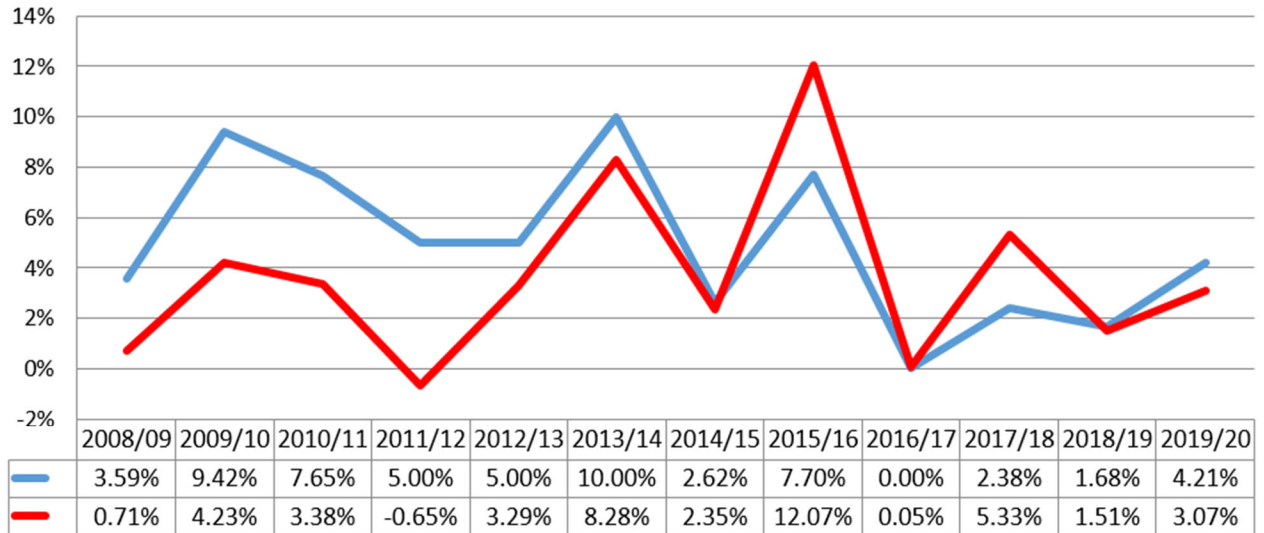
(RATES IN EFFECT AS OF JUNE 2020)

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>	\$33.25	\$41.97	\$68.95	\$96.30	\$158.86	\$489.15	\$479.57	\$1,467.45
City of Alameda - Total <u>Proposed at 5.0%</u>	\$34.91	\$44.07	\$72.40	\$101.12	\$166.80	\$513.61	\$503.55	\$1,540.82
City of Albany	\$40.05	\$44.84	\$77.51	\$110.15	\$178.67	\$536.01	\$536.01	\$1,608.03
City of Berkeley	\$27.30	\$43.66	\$87.28	\$130.87	\$173.77	\$489.63	\$480.92	\$1,428.48
City of Dublin	N/A	\$28.82	\$52.95	\$77.07	\$139.86	\$418.58	\$419.58	\$1,139.31
City of Emeryville	\$11.78	\$19.50	\$39.00	\$58.49	\$116.13	\$348.39	\$348.39	\$1,045.17
City of Fremont	\$38.94	\$39.72	\$43.33	\$62.64	\$109.70	\$313.31	\$246.39	\$721.04
City of Hayward	\$24.37	\$35.62	\$63.52	\$91.39	\$151.50	\$410.70	\$390.30	\$1,077.20
City of Livermore	\$29.35	\$38.85	\$58.18	\$91.42	\$116.72	\$364.16	\$350.16	\$1,115.62
City of Newark	\$31.21	\$34.68	\$61.43	\$88.16	\$140.54	\$438.50	\$371.83	\$1,014.01
City of Oakland	\$43.93	\$49.88	\$88.05	\$132.34	\$244.02	\$731.96	\$581.09	\$1,743.21
City of Piedmont	\$82.63	\$87.57	\$120.62	\$135.09	\$223.77	\$671.30	N/A	N/A
City of Pleasanton	N/A	\$26.87	N/A	\$46.89	\$120.34	\$382.02	\$361.01	\$1,125.01
City of San Leandro	\$25.90	\$32.27	\$53.72	\$75.14	\$141.50	\$427.81	\$427.81	\$1,283.43
City of Union City	\$43.81	\$51.42	\$89.44	\$127.41	\$157.77	\$435.75	\$413.43	\$1,126.73
Castro Valley Sanitary District	\$30.79	\$47.74	\$82.91	\$118.07	\$202.97	\$609.05	\$493.63	\$1,302.34

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ATTACHMENT B: RATES VERSUS REVENUE

Rates versus Revenue



— Rate Increase — Change in Revenue

Revenue change % for 2019/20 is based on projected revenue.