

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL *BB*
DATE: SEPT. 7, 2007



REDUCE SOLID WASTE FRANCHISE FEE TO OFFSET FEE INCREASE

ITEM

Authorize reduction in solid waste franchise fee to offset proposed South County Sanitary Fee Increase [RECOMMEND ADOPTION].

BACKGROUND

NCSD's franchise agreement with South County Sanitary (SCA, also known as Nipomo Garbage), anticipates that South County Sanitary will increase the fee it charges to its customers inside NCSD's boundary on July 1 of each year based on the increase in the Consumer Price Index. Attached is SCS's April 3, 2007 letter to increase its fee by 3.0%. Also attached is an e-mail from Tom Martin of SCS indicating that instead of allowing SCS to increase its fee by 3%, NCSD could opt to reduce its franchise payment from 10% to 7.3%. Both concepts were discussed by the FAPAC at its April 18, 2007 meeting and the Committee recommended that the Board reduce its franchise payment instead of increasing SCS's Fee (see attached minutes). NCSD's adopted Budget is predicated on receiving 7.3%.

Also attached is a draft resolution ordering the reduction of NCSD franchise payment from 10% to 7.3% and a detailed third party review of SCS's revenue requirements.

RECOMMENDATION

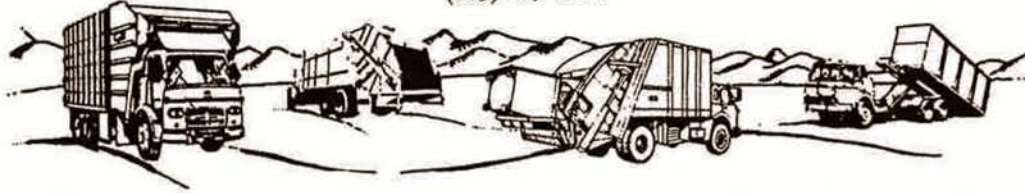
Staff believes that reducing the franchise fee benefits NCSD's customers and still leaves NCSD with sufficient revenues to implement our recycling programs. Staff recommends that your Honorable Board adopt the attached Resolution and authorize staff to coordinate with SCS to implement.

ATTACHMENTS

- SCS Request to raise fees
- SCS e-mail documenting alternative franchise payment reduction
- Minutes from 4/18/07 FAPAC Meeting
- Draft resolution
- Third Party Review of SCS Revenue Requirements

T:\BOARD MATTERS\BOARD MEETINGS\BOARD LETTER\BOARD LETTER 2007\SCS Franchise Fee.DOC

South County Sanitary Service Inc.
(805) 489-4246



Tri-City Disposal Service
(805) 489-3534

874 Grand Avenue
Grover Beach, California 93433

Nipomo Garbage Company
(805) 489-3534

Nipomo Community Services District
Bruce Buel, Gen Mgr
148 South Wilson
Nipomo, CA 93444

April 3, 2007

Dear Bruce,

Enclosed please find the 2007 Base Year Review. We are asking for a 3.0% increase. The Bureau of Labor 2006 all cities inflation factor is 3.2%. There appears to be no relief in sight on diesel fuel prices. We have projected 2007 fuel prices to be the same as 2006.

Labor retention remains a struggle. We continued to lose drivers due to the high cost of living in our area. Depreciation expenses for new trucks that comply with the California Air Resources Board diesel engine compliance continue to increase. In 2007, we are purchasing 4 of a planned 12 CNG powered garbage trucks. After an extensive review of Oxnard's and Santa Monica's 100% natural gas powered garbage and recycling collection operations, we have concluded that natural gas power has advanced beyond its problematic early history. This move will dramatically lessen air pollution and reliance on constantly increasing diesel fuel. It will also help you comply with the emissions reduction protocol that APCD is enacting.

The good news is that a robust south county economy and customer growth have dampened the effect of all the previous bad news.

Please call if you have questions. I can make myself available whenever your schedule permits. Your last increase was 12-01-05.

Tom Martin, General Manager

RECEIVED
APR 11 2007
NIPOMO COMMUNITY
SERVICES DISTRICT

2007 Base Year Rate Adjustment Application

Summary

NIPOMO COMMUNITY SERVICE DISTRICT

Requested Increase

1. Rate Increase Requested

3.00%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate | Cost Per Gallon |
|-----------------------------------|--------------|----------------|----------------|----------|-----------------|
| Single Family Residential | | | | | |
| 2. Economy Service (1 - can curb) | \$15.00 | \$15.45 | | \$15.45 | \$0.48 |
| 4. Standard Service (2- can curb) | \$21.49 | \$22.13 | | \$22.13 | \$0.35 |
| 5. Premium Service (3 - can curb) | \$28.16 | \$29.00 | | \$29.00 | \$0.30 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

3.00%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Tom Martin

Title: Controller

Signature:

Date: 03/20/07

BASE YEAR RATE ADJUSTMENT APPLICATION

Financial Information

| Historical | | Current | Projected | |
|------------|------|---------|-------------------|------|
| 2004 | 2005 | 2006 | Base Year 2007 | 2008 |

(from Pg. 4)

Section I - Allowable Costs

| | | | | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 6. Direct Labor | \$2,018,523 | \$2,134,383 | \$2,413,062 | \$2,784,237 | \$2,812,079 |
| 7. Corporate Overhead | \$248,537 | \$255,993 | \$264,185 | \$274,224 | \$276,966 |
| 8. Office Salaries | \$467,751 | \$458,699 | \$519,320 | \$607,859 | \$613,937 |
| 9. Other General and Admin Costs | \$2,684,622 | \$3,075,794 | \$3,237,391 | \$3,448,306 | \$3,520,720 |
| 10. Total Allowable Costs | \$5,419,433 | \$5,924,869 | \$6,433,958 | \$7,114,625 | \$7,223,703 |

Section II - Allowable Operating Profit

| | | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| 11. Operating Ratio | 91.7% | 87.8% | 88.9% | 92.0% | 92.0% |
| 12. Allowable Operating Profit | \$493,137 | \$824,621 | \$804,995 | \$618,663 | \$628,148 |

Section III - Pass Through Costs

| | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| 13. Tipping Fees | \$1,605,897 | \$1,630,306 | \$1,653,728 | \$1,700,276 | \$1,717,279 |
| 14. Franchise Fees | \$785,453 | \$856,965 | \$894,320 | \$921,600 | \$940,032 |
| 15. AB939 Fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| 16. Lease Pmts to Affiliated Companies | \$0 | \$0 | \$0 | \$0 | \$0 |
| 17. Total Pass Through Costs | \$2,391,350 | \$2,487,271 | \$2,548,048 | \$2,621,876 | \$2,657,311 |

| | | | | | |
|-------------------------|-------------|-------------|-------------|--------------|--------------|
| 18. Revenue Requirement | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,355,164 | \$10,509,162 |
|-------------------------|-------------|-------------|-------------|--------------|--------------|

| | | | | | |
|---------------------------|-------------|-------------|-------------|--------------|--------------|
| 19. Total Revenue Offsets | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,085,909 | \$10,243,196 |
|---------------------------|-------------|-------------|-------------|--------------|--------------|

(from Page 3)

Section V - Net Shortfall (Surplus)

| | |
|-----------------------------|-----------|
| 20. Net Shortfall (Surplus) | \$269,255 |
|-----------------------------|-----------|

| | | |
|--|--------------|--------------|
| 21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76) | \$10,007,881 | \$10,007,881 |
| 22. Percent Change in Residential and Non-residential Revenue Requirement | 2.7% | 2.7% |
| 23. Franchise Fee Adjustment Factor (1 - 6 percent) | 90.000% | 94.000% |
| 24. Percent Change in Existing Rates | 3.0% | 2.9% |

Base Year Rate Adjustment Application

Revenue Offset Summary

Section VII - Revenue Offsets

| Historical | | Current | Projected | |
|------------|------|---------|-------------------|------|
| 2004 | 2005 | 2006 | Base Year 2007 | 2008 |

Residential Revenue (without increase in Base Yr.)

| | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| 28. Single Family Residential | \$4,399,979 | \$4,901,651 | \$5,606,779 | \$5,606,778 | \$5,718,914 |
| Multiunit Residential Dumpster | | | | | |
| 29. Number of Accounts | | | | | |
| 30. Revenues | | | | | |
| 31. Less Allowance for Uncollectible Resid Accounts | | | | \$0 | |
| 32. Total Residential Revenue | \$4,399,979 | \$4,901,651 | \$5,606,779 | \$5,606,778 | \$5,718,914 |

Non-residential Revenue (without increase in Base Yr.)

Account Type

Non-residential Can

| | | | | | |
|------------------------|--|--|--|----------|----------|
| 33. Number of Accounts | | | | 48 | 50 |
| 34. Revenues | | | | \$14,422 | \$14,566 |

Non-residential Wastewheeler

| | | | | | |
|------------------------|--|--|--|-----------|-----------|
| 35. Number of Accounts | | | | 157 | 165 |
| 36. Revenues | | | | \$146,178 | \$147,640 |

Non-residential Dumpster

| | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| 37. Number of Accounts | | | | 1952 | 1972 |
| 38. Revenues | \$3,903,941 | \$4,303,704 | \$4,140,596 | \$4,282,531 | \$4,325,356 |
| 39. Less: Allowance for Uncollectible Non-resid | | | | \$0 | \$0 |
| 40. Total Non-residential Revenue | \$3,903,941 | \$4,303,704 | \$4,140,596 | \$4,443,131 | \$4,487,562 |

| | | | | | |
|----------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| 45. Interest on Investments | | \$31,406 | \$39,626 | \$36,000 | \$36,720 |
| 46. Other Income | | | | \$0 | \$0 |
| 47. Total Revenue Offsets | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,085,909 | \$10,243,196 |

Base Year Rate Adjustment Application

Cost Summary for Base Year

| Description of Cost | Section VIII Base Year Cost Allocation | | | |
|--|--|--------------------|--------------------|--------------------|
| | 2004 | 2005 | 2006 | BASE YEAR 2007 |
| Labor | \$1,857,876 | \$1,966,245 | \$2,223,339 | \$2,565,076 |
| Payroll Taxes | \$160,647 | \$168,138 | \$189,723 | \$219,161 |
| 48. Total Direct Labor | \$2,018,523 | \$2,134,383 | \$2,413,062 | \$2,784,237 |
| 49. Corporate Overhead | \$338,998 | \$266,829 | \$283,551 | \$295,648 |
| Less limitation (enter as negative) | (\$90,461) | (\$10,836) | (\$19,366) | (\$21,424) |
| Total Corporate Overhead | \$248,537 | \$255,993 | \$264,185 | \$274,224 |
| Office Salary | \$438,045 | \$428,578 | \$485,070 | \$569,499 |
| Payroll Taxes | \$29,706 | \$30,121 | \$34,250 | \$38,360 |
| 50. Total Office Salaries | \$467,751 | \$458,699 | \$519,320 | \$607,859 |
| Allocated expenses | \$0 | \$0 | \$0 | |
| Bad Debt | \$16,188 | \$45,329 | \$68,988 | \$42,000 |
| Bond expense | \$27,854 | \$47,511 | \$39,653 | \$42,034 |
| Computer services | \$2,183 | \$19 | | |
| Depreciation on Bldg and Equip | | | | |
| Depreciation on Trucks/Containers | \$792,644 | \$890,729 | \$849,938 | \$1,071,718 |
| Dues and Subscriptions | \$7,965 | \$9,314 | \$11,857 | \$12,307 |
| Gas and oil | \$342,042 | \$411,090 | \$615,196 | \$620,572 |
| Interest Expense | \$21,322 | | \$0 | \$0 |
| Laundry | \$17,841 | \$27,349 | \$22,366 | \$22,800 |
| Legal and Accounting | \$28,827 | \$20,323 | \$9,353 | \$9,708 |
| Miscellaneous and Other | (\$34,968) | (\$37,489) | (\$34,193) | (\$33,621) |
| Office Expense | \$113,688 | \$144,096 | \$140,942 | \$141,395 |
| Operating Supplies | \$12,616 | \$34,497 | \$32,349 | \$36,123 |
| Other insurance | \$393,104 | \$444,836 | \$441,491 | \$440,794 |
| Other Insurance-medical | \$347,896 | \$360,210 | \$402,558 | \$476,643 |
| Other Taxes | \$21,612 | \$33,869 | \$24,815 | \$25,588 |
| Outside Services | \$142,212 | \$162,793 | \$112,347 | \$28,640 |
| Postage | \$5,408 | \$9,205 | \$9,261 | \$9,613 |
| Public Relations and Promotion | \$8,692 | \$9,637 | \$6,213 | \$6,449 |
| Permits | | | \$10,267 | \$10,296 |
| Rent | \$45,644 | \$46,854 | \$46,836 | \$48,032 |
| Telephone | | | \$33,471 | \$19,025 |
| Tires (included in repairs) | \$97,898 | \$93,913 | \$96,120 | \$99,600 |
| Travel | \$3,541 | \$4,885 | \$2,299 | \$2,386 |
| Truck repairs-interco | \$5,383 | \$2,073 | \$3,319 | \$3,445 |
| Truck License | \$70,515 | \$80,505 | \$64,452 | \$84,948 |
| Truck Repairs | \$151,312 | \$183,756 | \$215,435 | \$214,251 |
| Utilities | \$43,203 | \$50,490 | \$12,058 | \$13,560 |
| 51. Total Other Gen/Admin Costs | \$2,684,622 | \$3,075,794 | \$3,237,391 | \$3,448,306 |
| 52. Total Tipping Fees | \$1,605,897 | \$1,630,306 | \$1,653,728 | \$1,700,276 |
| 53. Total Franchise Fee | \$785,453 | \$856,965 | \$894,320 | \$921,600 |
| 54. Total AB 939/Regulatory Fees | | | | |
| 55. Total Lease Pmt to Affil Co.'s | | | | |
| 56. Total Cost | \$7,810,783 | \$8,412,140 | \$8,982,006 | \$9,736,501 |

Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

| Section VII Revenue Offsets | | | | | | | |
|--|---------------------|---------------------|--------------------|--------------------|------------------|--------------------|-----------------|
| Description of Revenue | Overall Total | Franchise Total | Refuse Collection | | | Non-franchise | |
| | | | Arroyo | Pismo | Grover | Unincorporated | Total |
| <i>Residential Revenue (without increase in Base Year)</i> | | | | | | | |
| 57. Single Family Residential | \$5,606,778 | \$5,606,778 | \$1,243,583 | \$838,774 | \$795,602 | \$2,728,819 | |
| <i>Multiunit Residential Dumpster</i> | | | | | | | |
| 58. Number of Accounts | 0 | 0 | | | | | |
| 59. Revenues | \$0 | \$0 | | | | | |
| 60. Less Allowance for Uncollectable | \$0 | \$0 | | | | | |
| 61. Total Residential Revenue | \$5,606,778 | \$5,606,778 | \$1,243,583 | \$838,774 | | \$2,728,819 | \$0 |
| <i>Non-residential Revenue (without increase in Base Year)</i> | | | | | | | |
| Account Type | | | | | | | |
| <i>Non-residential Can</i> | | | | | | | |
| 62. Number of Accounts | 48 | 48 | 26 | 12 | 10 | | |
| 63. Revenues | \$14,422 | \$14,422 | \$7,440 | \$4,766 | \$2,216 | | |
| <i>Non-residential Wastewheeler</i> | | | | | | | |
| 64. Number of Accounts | 157 | 157 | 58 | 55 | 44 | | |
| 65. Revenues | \$146,178 | \$146,178 | \$38,530 | \$86,026 | \$21,621 | | |
| <i>Non-residential Dumpster</i> | | | | | | | |
| 66. Number of Accounts | 1952 | 1949 | 401 | 289 | 389 | 870 | 3 |
| 67. Revenues | \$4,282,531 | \$4,240,503 | \$981,687 | \$847,083 | \$746,356 | \$1,665,377 | \$42,028 |
| 68. Less: Allowance for Uncollectible Non-residential Accounts | \$0 | \$0 | | | | | |
| 69. Total Non-residential Revenue | \$4,443,131 | \$4,401,103 | \$1,027,658 | \$937,875 | \$770,193 | \$1,665,377 | \$42,028 |
| 74. Interest on Investments | \$36,000 | | | | | | \$36,000 |
| 75. Other Income | \$0 | | \$0 | | | | |
| 76. Total Revenue Offsets | \$10,085,909 | \$10,007,881 | \$2,271,241 | \$1,776,649 | \$770,193 | \$4,394,196 | \$78,028 |

Base Year Rate Adjustment Application

Operating Information

| Historical | | | | Current | | Projected | | |
|------------|----------------|------|----------------|---------|----------------|----------------|----------------|------|
| 2004 | Percent Change | 2005 | Percent Change | 2006 | Percent Change | Base Year 2007 | Percent Change | 2008 |

Section IX-Operating Data

Residential Accounts

| | | | | | | | | | | |
|-----|--------------------|--------|------|--------|-------|--------|-------|--------|------|--------|
| 77. | Arroyo Grande | 5,275 | 2.1% | 5,385 | 2.5% | 5,522 | 0.1% | 5,530 | 0.2% | 5,540 |
| | Grover Beach | 3,575 | 1.2% | 3,617 | 8.8% | 3,934 | 0.3% | 3,946 | 0.4% | 3,961 |
| | Pismo Beach | 3,337 | 0.7% | 3,360 | 5.2% | 3,536 | 0.2% | 3,544 | 0.3% | 3,554 |
| | Oceano CSD | 1,399 | 3.0% | 1,441 | 9.6% | 1,580 | 0.5% | 1,588 | 1.1% | 1,606 |
| | Nipomo CSD | 3,095 | 6.1% | 3,285 | 9.2% | 3,587 | 0.1% | 3,592 | 0.1% | 3,597 |
| | County | 4,627 | 7.3% | 4,964 | 4.0% | 5,162 | 0.1% | 5,165 | 0.1% | 5,170 |
| | | 21,308 | 3.5% | 22,052 | 5.8% | 23,321 | 0.2% | 23,365 | 0.3% | 23,428 |
| 78. | Routes-Garbage | 9 | 0.0% | 9 | 11.1% | 10 | 0.0% | 10 | 0.0% | 10 |
| 79. | Routes-Recycling | 5 | 0.0% | 5 | 0.0% | 5 | 20.0% | 6 | 0.0% | 6 |
| 80. | Direct Labor Hours | 43,680 | 0.0% | 43,680 | 4.8% | 45,760 | 4.5% | 47,840 | 0.0% | 47,840 |

Non-residential Garbage Accounts

| | | | | | | | | | | |
|-----|--------------------|--------|-------|--------|--------|--------|-------|--------|------|--------|
| 80. | Arroyo Grande | 546 | 0.2% | 547 | -11.0% | 487 | -0.4% | 485 | 0.4% | 487 |
| | Grover Beach | 660 | -0.8% | 655 | -31.8% | 447 | -0.9% | 443 | 0.9% | 447 |
| | Pismo Beach | 439 | 0.2% | 440 | -18.2% | 360 | -1.1% | 356 | 1.1% | 360 |
| | Oceano CSD | 251 | 1.2% | 254 | -29.1% | 180 | 3.3% | 186 | 3.2% | 192 |
| | Nipomo CSD | 207 | 5.3% | 218 | -8.7% | 199 | -1.0% | 197 | 1.0% | 199 |
| | County | 595 | -2.5% | 580 | -16.0% | 487 | 0.0% | 487 | 0.0% | 487 |
| | | 2,698 | -0.1% | 2,694 | -19.8% | 2,160 | -0.3% | 2,154 | 0.8% | 2,172 |
| 81. | Routes-garbage | 6 | 0.0% | 6 | 0.0% | 6 | 0.0% | 6 | 0.0% | 6 |
| | Routes-recycling | 2 | 0.0% | 2 | 0.0% | 2 | 0.0% | 2 | 0.0% | 2 |
| 82. | Direct Labor Hours | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 |

Recyclable Materials - All areas-Commingled Recycling (in tons)

Accounts

| | | | | | | | | | | |
|-----|-------------------|--------|-------|--------|------|--------|-------|--------|------|--------|
| 83. | Tri-Cities | 6,972 | 2.0% | 7,113 | 3.2% | 7,341 | 2.0% | 7,488 | 0.0% | 7,488 |
| | Nipomo/Oceano CSD | 2,523 | 13.9% | 2,873 | 7.5% | 3,088 | 2.0% | 3,150 | 0.0% | 3,150 |
| 84. | County | 788 | 29.1% | 1,017 | 1.0% | 1,027 | 32.6% | 1,362 | 0.0% | 1,362 |
| | | 10,283 | 7.0% | 11,003 | 4.1% | 11,456 | 4.7% | 12,000 | 0.0% | 12,000 |

Recyclable Materials - All areas-Greenwaste Recycling

| | | | | | | | | | |
|--------------------|--------|--------|--------|------|--------|-------|--------|------|--------|
| Routes | 4 | -25.0% | 3 | 0.0% | 3 | 33.3% | 4 | 0.0% | 4 |
| Tons Collected | 8,400 | 18.4% | 9,942 | 8.9% | 10,828 | 4.8% | 11,350 | 2.0% | 11,577 |
| Direct Labor Hours | 10,400 | 0.0% | 10,400 | 0.0% | 10,400 | 20.0% | 12,480 | 0.0% | 12,480 |

| | | | | | | | | | |
|------------------------|--------|-------|--------|-------|--------|-------|--------|------|--------|
| Garbage Tons Collected | 49,079 | -0.7% | 48,724 | -0.6% | 48,417 | -0.2% | 48,317 | 0.0% | 48,317 |
|------------------------|--------|-------|--------|-------|--------|-------|--------|------|--------|



U.S. Department of Labor Bureau of Labor Statistics

Bureau of Labor Statistics Data

www.bls.gov

[Advanced Search](#) | [A-Z Index](#)

[BLS Home](#) | [Programs & Surveys](#) | [Get Detailed Statistics](#) | [Glossary](#) | [What's New](#) | [Find It! In DOL](#)

Change
Output
Options:

From: To:

include graphs **NEW!** [More Formatting Options](#)

Data extracted on: March 12, 2007 (1:21:55 PM)

Consumer Price Index - All Urban Consumers

| | |
|---------------------------------|-------------------|
| 12 Months Percent Change | |
| Series Id: | CUUR0000SA0 |
| Not Seasonally Adjusted | |
| Area: | U.S. city average |
| Item: | All items |
| Base Period: | 1982-84=100 |

| Year | Annual |
|------|--------|
| 1997 | 2.3 |
| 1998 | 1.6 |
| 1999 | 2.2 |
| 2000 | 3.4 |
| 2001 | 2.8 |
| 2002 | 1.6 |
| 2003 | 2.3 |
| 2004 | 2.7 |
| 2005 | 3.4 |
| 2006 | 3.2 |

[Frequently Asked Questions](#) | [Freedom of Information Act](#) | [Customer Survey](#)
[Privacy & Security Statement](#) | [Linking to Our Site](#) | [Accessibility](#)

U.S. Bureau of Labor Statistics
Postal Square Building
2 Massachusetts Ave., NE
Washington, DC 20212-0001

Phone: (202) 691-5200
Fax-on-demand: (202) 691-6325
Do you have a **Data question?**
Do you have a **Technical (web) question?**
Do you have **Other comments?**

Bruce Buel

From: Tom Martin [TomM@WasteConnections.com]
Sent: Friday, April 06, 2007 2:36 PM
To: Bruce Buel
Subject: franchise fee
Attachments: NCSD franchise change scenario 4-6-07.xls

NCSD

| | | | |
|------------------------|-----|----|----------------------------|
| RESIDENTIAL | | \$ | 883,967.22 |
| COMMERCIAL | | \$ | 323,754.24 |
| | | \$ | <u>1,207,721.46</u> |
| INCREASE | 3% | \$ | 36,231.64 |
| | | \$ | <u>1,243,953.10</u> |
| FRANCHISE FEE | 10% | \$ | <u>(124,395.31)</u> |
| NET TO GARBAGE COMPANY | | \$ | <u><u>1,119,557.79</u></u> |

WHAT IF NO INCREASE-CHANGE FRANCHISE FEE

| | | | |
|------------------------|-------|----|----------------------------|
| RESIDENTIAL | | \$ | 883,967.22 |
| COMMERCIAL | | \$ | 323,754.24 |
| | | \$ | <u>1,207,721.46</u> |
| INCREASE | 0% | \$ | - |
| | | \$ | <u>1,207,721.46</u> |
| FRANCHISE FEE | 7.30% | \$ | <u>(88,163.67)</u> |
| NET TO GARBAGE COMPANY | | \$ | <u><u>1,119,557.79</u></u> |

| | | | |
|------------------------------|--|----|-------------------------|
| with a 3% increase | | | |
| NCSD would get approximately | | \$ | 124,395.31 |
| lower franchise fee to 7.3% | | | |
| NCSD would get approximately | | \$ | (88,163.67) |
| foregone \$'s | | \$ | <u><u>36,231.64</u></u> |

**MINUTES OF THE 4/18/07 MEETING OF THE
FINANCE, AUDIT AND PERSONNEL COMMITTEE**

**4. DRAFT BUDGET FOR FISCAL YEAR 2007-2008 AND RECRUITMENT BASED ON
RECOMMENDATIONS FROM CLASSIFICATION STUDY (continued)**

- ✓ A footnote will be added to Pages 32-35 regarding the potential merger of the Town Water and Black Lake Water systems and the potential for modifications to the budget based on the merger plan during the fiscal year.
- ✓ A footnote will be added to Pages 32-35 regarding the potential merger of the Town Water and Black Lake Water systems and the potential for modifications to the budget based on the approved merger plan.
- ✓ Fund #150 – Black Lake Sewer will need to borrow funds at some point in the fiscal year until new rates are in effect. The Committee is recommending Fund #150 initiate a loan from Fund #130 – Town Sewer. This item will be presented to the Board of Directors for consideration when the time comes. The budget will be modified to reflect interest expense in Fund #150 and interest income in Fund #130.
- ✓ Fund #300 – Solid Waste-Staff recommended and the Committee concurred that the budgeted Franchise Fee Revenue be reduced to \$88,000 to reflect a potential reduction in the Franchise Fee from 10% to 7.3%.
- ✓ Fund #820 – Funded Replacement Black Lake Water budget is projected to be lowered from \$903,000 to \$200,000 to reflect the potential merger of the two water systems.
- ✓ Fund #830 – Funded Replacement Black Lake Sewer will need to borrow funds to fund the pond liner replacement. The Committee is recommending Fund #830 initiate a loan from Fund #810 – Funded Replacement Town Sewer until the new rates are in effect. This item will be presented to the Board of Directors for consideration when the time comes. The budget will be modified to reflect interest expense in Fund #830 and interest income in Fund #810.
- ✓ Staff recommended adding \$50,000 to the Supplemental Water Project costs to hire a lobbyist.
- ✓ The Committee asked for minor cosmetic changes to the budget.

Mr. Bill Nelson of Black Lake commented throughout the discussions.

The Committee unanimously agreed on the above recommendations and asked Staff to make the changes to the draft budget.

The Committee reviewed the revisions to the Personnel Policies and Procedures Manual as Agenda Item #2. As part of the budgeting process, the Committee was asked to review the proposed organizational structure and determine which positions will be funded and at what point in the fiscal year the positions will be filled.

The following is a summary of changes and comments made by the Committee:

- ✓ The Committee recommends recruiting for a Utility Superintendent at Salary Range #47.
- ✓ The Committee recommends recruiting for an Inspector/Maintenance Supervisor at Salary Range #42.
- ✓ The Committee recommends recruiting for a part-time Secretary/Clerk to report to duty three months after the Utility Superintendent reports to work.
- ✓ The Committee recommends the postponement of hiring of one additional Utility Worker and one additional Maintenance/Customer Service Worker until July 1, 2008 (next fiscal Year).

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2007-10XX**

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE NIPOMO COMMUNITY SERVICES DISTRICT
REDUCING THE FRANCHISE FEE PAYMENT TO SOUTH
COUNTY SANITARY FROM 10% to 7.3%**

WHEREAS, South County Sanitary operates its solid waste operations inside of NCSD as a Franchisee of NCSD and said operation is governed by a Franchise Agreement between NCSD and South County Sanitary; and

WHEREAS, NCSD wishes to reduce the Franchise Fee Payment set forth in said agreement from 10% to 7.3% so as to avoid a 3.0% increase in South County Sanitary Fees to its customers within NCSD; and

WHEREAS, South County Sanitary agrees that the revenue that would be generated by reducing NCSD's Franchise Fee from 10% to 7.3% is equivalent to the revenue that would be generated by a Customer Fee Increase of 3%; and

WHEREAS, the District Board considered this item at a regularly scheduled public Board Meeting.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES DISTRICT AS FOLLOWS:

1. The Franchise Fee Payment set forth in the Agreement is reduced from 10% to 7.3% effective July 1, 2007; and
2. South County Sanitary will not increase its fee by 3% to its customers residing within NCSD.

On the motion by Director _____, seconded by Director _____, and on the following roll call vote, to wit:

AYES:
NOES:
ABSENT:
ABSTAIN:

The foregoing resolution is hereby adopted this 12th day of September, 2007.

Michael Winn, President
Nipomo Community Services District

ATTEST:

APPROVED AS TO FORM:

Donna K. Johnson
Secretary to the Board

Jon S. Seitz
General Counsel

Bruce Buel

From: Tom Martin [TomM@WasteConnections.com]
Sent: Wednesday, August 15, 2007 7:34 AM
To: Bruce Buel
Subject: FW: Final Report: South County Sanitary Service Rate Request
Attachments: 2007 South County Sanitary Service Final Report.pdf

let me know what date you'll take this action & i will be there
 tsm

-----Original Message-----

From: Statler, Bill [mailto:bstatler@slocity.org]
Sent: Tuesday, August 14, 2007 10:29 PM
To: bperrault@grover.org; krice@pismo beach.org; arnie@oceanocsd.org; sadams@arroyogrande.org
Cc: gchapman@grover.org; gedes@pismo beach.org; akraetsch@arroyogrande.org; Tom Martin
Subject: Final Report: South County Sanitary Service Rate Request

Attached for your information and use is my final report on South County Sanitary Service's (SCSS) rate request (which I've reviewed in draft form with Tom Martin). As discussed in the report, I have evaluated the rate request in accordance with the financial criteria set forth in your respective franchise agreements with SCSS.

The Short Story: SCSS has complied with your franchise requirements, and based on my review of their application and financial results, I recommend that your agencies approve their rate request increase of 3.0% in Arroyo Grande, Grover Beach and Oceano; and 2.9% in Pismo Beach (slightly less due to their franchise fee of 6% versus 10% in the other three agencies).

Next Steps

1. You will need to schedule agenda items for your governing bodies to consider the rate requests (and since I've recommended approval, hopefully adopt them!). While you will need to get the specific rate schedules from Tom for each of your communities (which includes non-residential rates), I will follow-up this email with resolutions each you can use in your agenda items.
2. I will be happy to make a short presentation (or a long one, if you insist!) at the Council meeting, if you would like me to. Just let me know when. If you would like a short briefing on the results (either over the phone or face-to-face), I'd be delighted to do that, too.
3. Lastly, I'll be touching base with the city managers/general manager via phone just to make sure you received this email, and to answer any quick questions you may have.

One final comment: as highlighted in the report, the franchise agreements in Arroyo Grande, Grover Beach and Pismo Beach will be expiring in the next several months (November/December 2007; Oceano's agreement runs through 2009). So, something to think about (along with everything else on your plate!).

- Bill

South County Sanitary Service
INTEGRATED SOLID WASTE RATE REVIEW

For the Communities of

**Arroyo Grande
Grover Beach
Oceano
Pismo Beach**

Prepared by William C. Statler
August 2007

South County Sanitary Service
Integrated Solid Waste Rate Review
August 2007

TABLE OF CONTENTS

| | |
|--|----|
| Report Purpose | 1 |
| Overview of Findings | 1 |
| Rate Recommendations | |
| Rate Summary for Residential Customers | |
| Background | 2 |
| Rate Review Workslope | 2 |
| Revenue and Rate-Setting Objectives | 3 |
| Franchise Agreement Summary | 3 |
| Cost Accounting Issues | 4 |
| Financial and Operational Overview | 6 |
| Costs by Type | 7 |
| Revenues by Source | 7 |
| Service Fees by Area | 7 |
| Service Accounts by Type | 8 |
| Rate-Setting Process and Recent Rate History | 8 |
| Are the Costs Reasonable? | 9 |
| Detailed Cost Review | 9 |
| Trends in External Cost Drivers | 10 |
| Rates in Comparable Communities | 10 |
| What Is a Reasonable Return on These Costs? | 11 |
| Methodology | 12 |
| Preparing the Rate Request Application | 12 |
| Implementation | 12 |
| Coordination with Other Agencies | 13 |
| Summary | 13 |

APPENDIX

Base Year Rate Request Application from South County Sanitary Service

South County Sanitary Service

INTEGRATED SOLID WASTE RATE REVIEW

Arroyo Grande, Grover Beach, Oceano and Pismo Beach

REPORT PURPOSE

The purpose of this report is to review the rate increases requested by South County Sanitary Service (SCSS) for the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District, and to make rate recommendations to these four agencies as appropriate. SCSS provides similar services to each of these agencies under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases. Because the financial information for SCSS is closely related for these four agencies, this report jointly reviews rate requests and recommendations for each of them.

OVERVIEW OF FINDINGS

- SCSS has fully provided the supporting documentation required for rate requests under franchise agreements in Arroyo Grande, Pismo Beach and Oceano (and recommended in Grover Beach). SCSS's complete rate adjustment application is provided in the Appendix.
- SCSS provides a broad level of high-quality service to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services—at very competitive rates compared with many other communities. In fact, even with the proposed rate increase, rates in these four agencies will be among the lowest of those surveyed.
- SCSS has done a good job of managing costs and revenues. Given increased cost pressures in key areas such as labor, insurance, fuel and fleet replacement costs, the proposed rate increases compare favorably with an increase of 4.3% for 2006 in the Los Angeles-Riverside-Orange County consumer price index (all urban consumers).

Rate Recommendation. It is recommended that the governing bodies of these four agencies adopt SCSS's requested “base year” rates for 2007. As supported by their rate request documentation and the adopted rate-setting methodology, this results in a 3.0% across-the-board rate increase for the communities of Arroyo Grande, Grover Beach and Oceano; and 2.9% in Pismo Beach. (The minor difference in rate adjustments is due to the 6% franchise rate in Pismo Beach compared with 10% in the other three communities).

Rate Summary for Residential Customers. Table 1 summarizes the current and proposed rates for single-family residential (SFR) customers. As reflected in this summary, the increases will be very modest. For example, for collection of a

Table 1. Single Family Residential Rates

| | Container Size (Gallons) | | |
|-----------------|--------------------------|---------|---------|
| | 32 | 64 | 96 |
| Proposed | | | |
| Arroyo Grande | \$14.71 | \$19.13 | \$23.55 |
| Grover Beach | 13.33 | 18.03 | 22.71 |
| Oceano | 11.93 | 17.16 | 33.57 |
| Pismo Beach | 12.63 | 25.26 | 37.89 |
| Current | | | |
| Arroyo Grande | 14.28 | 18.57 | 22.86 |
| Grover Beach | 12.94 | 17.50 | 22.05 |
| Oceano | 11.58 | 16.66 | 32.59 |
| Pismo Beach | 12.27 | 24.54 | 36.81 |
| Increase | | | |
| Arroyo Grande | 0.43 | 0.56 | 0.69 |
| Grover Beach | 0.39 | 0.53 | 0.66 |
| Oceano | 0.35 | 0.50 | 0.98 |
| Pismo Beach | 0.36 | 0.72 | 1.08 |

Integrated Solid Waste Rate Review

32-gallon garbage container (the most common SFR service level) as well as separate waste wheelers for recycling and green waste, the proposed monthly rate will increase by 38 cents on average for the four agencies.

BACKGROUND

In March 2007, SCSS submitted a “base year” rate request for 2007. Their rate request was prepared in accordance with the rate review process and methodology formally set forth in its franchise agreements with Arroyo Grande, Oceano and Pismo Beach (and recommended in Grover Beach’s). In establishing a rate-setting process and methodology, each of these franchise agreements specifically references the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994, and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Arroyo Grande, Grover Beach, Oceano and Pismo Beach is closely related. For this reason, these four agencies jointly contracted with Bill Statler (who also serves as Director of Finance & Information Technology for the City of San Luis Obispo) as an independent consultant in May 2007 to evaluate SCSS’s application for a rate increase.

This is the third “base year” analysis performed under this rate-setting methodology. The first was prepared in September 2001 and the second in August 2004. As discussed below, two sets of “interim year” rate increases have been prepared and approved since then as well.

RATE REVIEW WORKSCOPE

This report addresses four basic questions:

- Should SCSS be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

Document Review and Analysis. The following documents were closely reviewed in answering these questions:

- Franchise agreements and amendments for each agency.
- Audited financial statements for SCSS.
- City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual).
- SCSS rate increase application and supporting documentation.
- Interviews and briefings with agency and SCSS staff.
- Rate surveys of Central Coast communities.

REVENUE AND RATE SETTING OBJECTIVES

In considering SCSS's rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the franchise agreements via the *Rate Manual*.

Revenues. These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

Rate Structure. Almost any rate structure can meet the revenue principles outlined above, and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

FRANCHISE AGREEMENT SUMMARY

Historically, each agency has had its own approach to determining service levels and adopted differing franchise agreements accordingly. However, as summarized in the chart below, these four agencies currently have a similar scope of services in their franchise agreements with SCSS (although this occurred at different times, and with different coverage terms).

Each agency contracts with SCSS for garbage, green waste and recycling; and SCSS provides the container (waste wheelers) for each service. The key differences are in the franchise rates, which are 10% in Arroyo Grande, Grover Beach and

Franchise Agreement Summary

| | Solid Waste | Greenwaste | Recycling |
|----------------------|-------------|-------------------------------|---------------|
| Arroyo Grande | | | |
| Effective Date | 11/97 | 11/98 | 10/99 |
| Term | 10 Years | 5 Years * | 7 Years * |
| Franchise Fee | 10% | 10% | 10% |
| Grover Beach | | | |
| Effective Date | 11/97 | 11/97 | 11/97 |
| Term | 10 Years | 5 Years * | 5 Years * |
| Franchise Fee | 10% | 10% | 10% |
| Pismo Beach | | | |
| Effective Date | 12/97 | 11/98 | 10/99 |
| Term | 10 Years | 5 Years * | 7 Years * |
| Franchise Fee | 6% | 6% | \$1,500/Month |
| Oceano | | | |
| Effective Date | 5/99 | No Separate Agreements | |
| Term | 10 Years | (Included with Solid Waste) | |
| Franchise Fee | 10% | Rate increases limited to 10% | |

* Subsequently extended to expire with solid waste agreements.

Integrated Solid Waste Rate Review

Oceano; and 6% in Pismo Beach. Additionally, while not applicable in this case, Oceano's franchise agreement limits rate increases to 10% per fiscal year.

As reflected above, all of the "solid waste" agreements continue to be in place; and amendments have been made to the agreements in Arroyo Grande, Grover Beach and Pismo Beach for green waste and recycling services for these contracts to end concurrently with the solid waste agreements. Based on these amendments, the franchise agreements in these three cities will expire this year in November (Arroyo Grande and Grover Beach) and December (Pismo Beach).

COST ACCOUNTING ISSUES

Or: Who's Paying What?

As noted above, SCSS's financial operations for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are closely related. Keeping costs and revenues segregated is further complicated by the fact that SCSS, as a subsidiary of Waste Connections Incorporated (which acquired the parent company in April 2002), shares ownership with the following local companies:

- San Luis Garbage Company
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill

Additionally, within the south county, SCSS's service area includes:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District
- Other unincorporated areas in the South County such as Rural Arroyo Grande and Avila Beach

Cost Accounting System

Between Companies. Separate "source" accounting systems are maintained for each company. Moreover, audited financial statements are prepared for each company by an independent certified public accountant; and SCSS's auditors have consistently issued a "clean opinions" on its financial operations. In short, good systems are in place to ensure that the financial results reported for SCSS do not include costs and revenues related to other companies. Additionally, virtually all of the financial operations of SCSS and its affiliated companies are regulated by elected governing bodies such as cities, special districts and the County.

Integrated Solid Waste Rate Review

Within the SCSS Service Area. Within the SCSS service area, a combination of direct and allocation methodologies are used in accounting for costs and revenues between communities. In general, revenues are directly accounted for each franchising agency, while costs are allocated using accepted accounting principles.

Cost Accounting Findings. The accounting and financial reporting system used by SCSS is reasonable and consistent with generally accepted accounting principles and practices. It treats similar costs similarly (such as collection and disposal, where there are no significant differences in service levels and unit costs between the four agencies), while recognizing community differences (such as different franchise fee rates). Because the financial operations of SCSS are closely related for all of the communities it serves, there are significant advantages to performing concurrent reviews.

Area of Possible Concern. While the service characteristics and resulting per unit costs are the same for Arroyo Grande, Grover Beach, Oceano and Pismo Beach, this is unlikely to be true for the other areas in South County serviced by SCSS. Because of their lower densities, collection costs are probably higher in these areas, but these are not accounted for separately by SCSS.

On the other hand, there are three mitigating factors that reduce this concern:

- **Higher Rates.** Depending on service type, rates are up to 30% higher in these areas, recognizing the higher collection costs for similar services. As an example, Table 2 shows the percentage difference between the current rates in the Nipomo area and those in Arroyo Grande, Grover Beach, Oceano and Pismo Beach. For a 32-gallon service, rates in the Nipomo are 30% higher than in Oceano and 22% higher than in Pismo Beach. In short, these rate differentials significantly mitigate “equity” and cost accounting concerns.

Table 2. Nipomo Area Rate Differentials

| | Container Size (Gallons) | | |
|---------------|--------------------------|-------|--------|
| | 30-40 | 60-70 | 90-101 |
| Arroyo Grande | 5% | 16% | 23% |
| Grover Beach | 16% | 23% | 28% |
| Oceano | 30% | 29% | -14% |
| Pismo Beach | 22% | -12% | -23% |
| Average | 18% | 14% | 3% |

- **Smaller Percentage of Accounts.** As noted below, the four agencies covered by this report account for about two-thirds of the accounts serviced by SCSS. Accordingly, while there may be “cost per account” differences, they account for a smaller portion of SCSS operations.
- **About 50% of Revenues from Non-Residential Accounts.** As noted below, about half (46%) of SCSS revenues come from non-residential accounts, which have the same rate structure and similar service-versus-cost characteristics throughout the SCSS service area.

If costs for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are so similar, why are the residential rates so different?

The short answer is: history and different approaches to rate structure philosophies.

History

Until 1999, service levels under the franchise agreements with SCSS between these four agencies were significantly different. The most recent example of this is in Grover Beach, which only moved in 2001 to providing “blue” waste wheelers to its customers for recyclables instead of “orange bins,” whereas this service (and cost) were included from the beginning in the recycling franchise agreements with the other agencies. Further, until 1999, Oceano did not have mandatory service. In implementing this, Oceano negotiated rate *decreases* of 2% to 4% for residential customers. And as noted above, the franchise rates between agencies are also different; and this fact alone would result in different rates between communities.

Rate Structure Principles

Most significantly, each agency has adopted different rate structure principles to recover similar costs.

For example, Pismo Beach has adopted a rate structure for its residential customers that more closely reflects a “pay-as-you-throw” philosophy under which the “per gallon” costs for 32, 64 and 96 gallon containers are the same (for example, a 64-gallon container costs twice as much as a 32-gallon one.) This results in lower monthly costs for 32-gallon customers and relatively higher rates for 64 and 96-gallon customers.

On the other hand, Arroyo Grande has adopted rates that do not have as much difference between container sizes (but still offer an incentive for smaller containers over larger ones), recognizing collection economies of scale for larger versus smaller containers. In this case, 32-gallon containers in Arroyo Grande are more expensive than in Pismo Beach, but 64-gallon containers are less.

Both rate structures have their strong points: in the case of Pismo Beach, rates are more reflective of disposal costs, whereas in Arroyo Grande they are more reflective of collection costs. But the important point is that the revenue generating capability is the same even though the rates are different.

Lastly, non-residential rates (which account for almost 50% of SCSS revenues) are similar in all four agencies: it is only in *residential* rates that there are significant differences between communities.

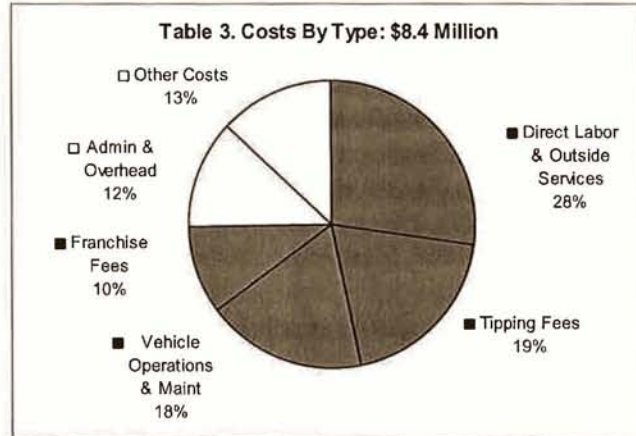
FINANCIAL AND OPERATIONAL OVERVIEW

While detailed financial and service information is provided in SCSS rate request application (Appendix), the following summaries their actual costs, revenues and account information for 2005 (the last fiscal year for which there are audited financial statements at this time) for all areas serviced by them.

Integrated Solid Waste Rate Review

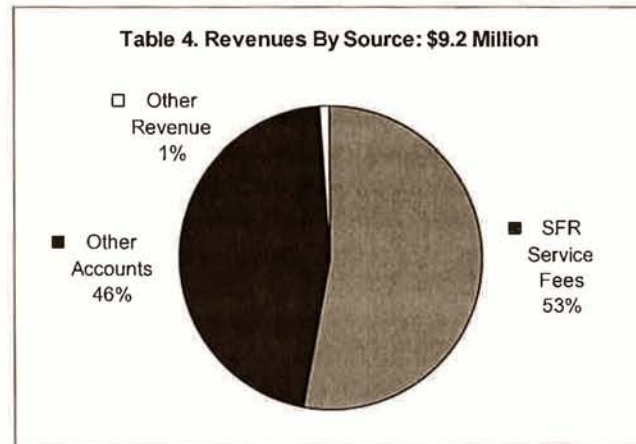
Costs By Type. Total expenses for 2005 (after deducting for non-allowable and limited costs as discussed later in this report) were \$8.4 million. As reflected in Table 3, just four cost areas accounted for 75% of their total costs:

- Direct labor and outside services for collection services
- Vehicle operations and maintenance (including insurance and depreciation)
- Tipping fees (landfill, recycling and composting costs)
- Franchise fees



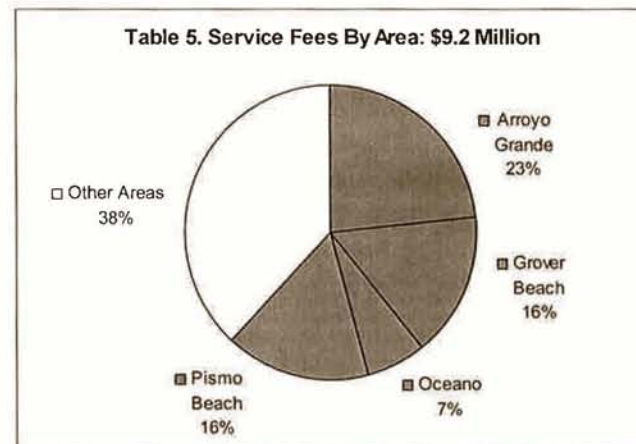
Revenues By Source. Total revenues in 2005 were \$9.2 million—about \$800,000 more than expenses. This resulted in an “operating ratio” of 88% compared with the target ratio of 92% as set forth in the *Rate Manual*.

As reflected in Table 4, only about 50% of SCSS’s revenues come from single-family residential accounts. Services to multi-family residential and non-residential customers account for 46% of their revenues, with a very small part (1%) from other revenues such as interest earnings.



Service Fees By Area. As shown in Table 5, of the \$9.2 million in revenues from customer accounts in 2005 (99% of total revenues), about two-thirds (62%) comes from the four agencies covered in this report:

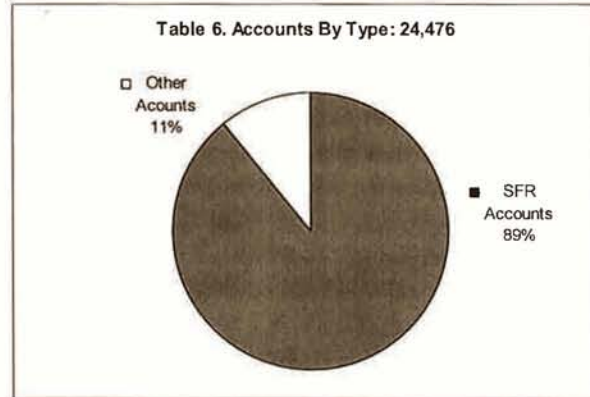
- Arroyo Grande (23%)
- Grover Beach (16%)
- Oceano (7%)
- Pismo Beach (16%)



The other areas served by SCSS (such as Nipomo and Avila Beach) account for a little over one-third (38%) of its revenues.

Integrated Solid Waste Rate Review

Service Accounts By Type. While single-family residences (SFR) account for only about 50% of revenues, they represent 89% of total accounts (Table 6). This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



RATE-SETTING PROCESS

Under the *Rate Manual*, the rate-setting process follows a three-year cycle:

- **Base Year.** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the Franchise Agreement in determining fair and reasonable rates. As noted above, the last “base year” analysis for SCSS under this approach was prepared in August 2004.
- **Interim Years.** In both the second and third years, SCSS is eligible for *Interim Year* rate adjustments that address two key change factors: changes in the consumer price index for “controllable” operating costs; and changes in “pass-through costs” (primarily tipping fees), which SCSS does not control (they are set by the County Board of Supervisors).

These adjustment factors are “weighted” by the proportionate share that these costs represent of total costs. For example, in the current *Base Year* analysis for 2007, controllable costs account for 73% of total costs, with pass through costs (tipping and franchise fees) accounting for 27%. The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

Rate Increase History. The following summarizes the “interim rate” increases approved by these four agencies since the last “base year” review in 2004:

Table 7. Recent Rate Increase History

| Agency | Base Review | Interim Rate Increases | |
|---------------|-------------|------------------------|-------|
| | 2004 | 2005 | 2006 |
| Arroyo Grande | 5.60% | 3.09% | 3.76% |
| Grover Beach | 5.60% | 3.09% | 3.76% |
| Oceano | 5.60% | 3.09% | 3.76% |
| Pismo Beach | 5.30% | 2.95% | 3.60% |

As noted above, rate increases in Pismo Beach are slightly less than the other three agencies due to differences in franchise rates.

Placed in the context of the modest rate increases for the past three years, the proposed rate increase of 3.0% for three of the agencies (and 2.9% in Pismo Beach) reflects a high level of rate stability and price containment for SCSS customers.

ARE THE COSTS REASONABLE?

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

- Detailed review of costs and service responsibilities over time.
- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).
- Comparisons of rates with other communities.

Each of these was considered in preparing this report, and the following summarizes the results.

Detailed Cost Review

In their rate submittal, SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2004 and 2005).
- Results for the last year (2006, which have not yet been audited).
- Projected costs for the Base Year (2007).
- Estimated costs for the following year (2008).

This allows for a detailed analysis of changes in key cost components such as labor, repairs, fuel, insurance and tipping fees. In this case, while there are deviations in various categories (for which SCSS has provided supplemental documentation), their submittal shows that overall they have done a good job of containing costs.

The following highlights significant cost areas.

Direct Labor. Including contracted labor costs (classified as “outside services”), direct staffing costs for collection accounts for 30% of total costs. These increased by 10% in 2006 and are projected to increase by 11% in 2007. While some of this cost increased is due to customer growth, most of it is attributable to increases in compensation. SCSS believes that these increases are necessary to retain and attract qualified workers in continuing to provide a high level of service. Given cost pressures in the regional labor market – and the modest rate increases requested by SCSS in supporting these increased costs – this appears reasonable.

Medical Insurance. Accounting for 5% of total costs, this increased by 12% in 2006 and is projected to increase by another 18% in 2007. This reasonably reflects current trends in health insurance costs.

Gas and Oil. This key element of fleet operations accounts for 6% of total costs. While this cost increased sharply in 2006, rising by 49%, it is projected to level-out in 2007.

Depreciation on Trucks and Containers. Accounting for 11% of total costs, depreciation declined slightly in 2006. However, the replacement of thirteen trucks in 2006 and 2007 – at an

Integrated Solid Waste Rate Review

average cost of \$250,000 each – results in an increase of \$221,000 (26%) in projected depreciation costs in 2007.

Additional Account Break-Outs in 2006 and 2007. In several cases, costs have been broken-out further in 2006 and 2007 compared with prior years. For example, the County's solid waste permit is broken-out separately under "permits" in 2006 and 2007 from truck licenses in 2004 and 2005; and telephone costs are broken-out separately from other utilities. In each of these cases, there are no significant cost changes when comparing "apples and apples" between years.

Amortization of Air Pollution Control District (APCD) Grant. The credit cost shown under "other costs" (\$33,621) reflects the amortization of a \$220,000 grant from the APCD for the purchase of a compressed natural gas truck.

Overall, costs are estimated to increase by 6.8% in 2006 and 8.4% in 2007. Given increased cost pressures in key areas such labor, insurance, fuel and fleet replacement costs, these cost increases appear reasonable.

Trends in External Cost Drivers

The most common external "benchmark" for evaluating cost trends is the consumer price index (CPI). As noted above, the CPI for all urban consumers in the Los Angeles-Riverside-Orange County region increased by 4.3% in 2006. While SCSS sees several key areas where costs will increase by more than this for 2007, the proposed rate increase of 3.0% for three of the agencies (and 2.9% in Pismo Beach) compares favorably with this CPI benchmark.

Rates in Comparable Communities

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between "comparable" communities need to be carefully weighed, because every community is different. For example, even in the South County where service levels and costs are very similar, there are rate differences. In short, making true "apples-to-apples" comparisons is easier said than done.

Nonetheless, surveys are useful assessment tools—but they are not perfect and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges.
- Landfill costs (tipping fees).
- Service levels (frequency, quality).
- Labor market.
- Operator efficiency and effectiveness.
- Voluntary versus mandatory service.
- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks.

Integrated Solid Waste Rate Review

- Percentage of non-residential customers, and how costs and rates are allocated between customer types.
- Revenue collection procedures: Does the hauler or the city bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb).
- Different rates structures.
- Land use and density (lower densities will typically result in higher service costs).

With these caveats, the following summarizes single-family residential rates for other cities in the Central Coast area, and compares them with the proposed rates for SCSS. As reflected below, even with the proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have the lowest rates among the agencies surveyed.

Table 8. Single-Family Residential Rate Survey: August 2007

| | Container Size (Gallons) | | |
|---|--------------------------|---------|---------|
| | 30-40 | 60-70 | 90-101 |
| Atascadero | \$18.65 | \$33.00 | \$42.70 |
| Paso Robles | 25.35 | 33.25 | 36.70 |
| San Luis Obispo | 11.36 | 22.72 | 34.08 |
| San Miguel (Rates for 1 container and 2-4 containers) | 25.20 | n/a | 39.70 |
| Santa Margarita | 27.30 | 39.90 | 52.50 |
| Santa Maria | 22.21 | 25.40 | 28.54 |
| Templeton | 22.26 | 34.67 | 43.96 |
| Proposed: South County Sanitation Service Area | | | |
| Arroyo Grande | 14.71 | 19.13 | 23.55 |
| Grover Beach | 13.33 | 18.03 | 22.71 |
| Oceano | 11.93 | 17.16 | 33.57 |
| Pismo Beach | 12.63 | 25.26 | 37.89 |

Summary: Are the Costs Reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor review and rate comparisons—SCSS’s costs are reasonable.

WHAT IS A REASONABLE RETURN ON THESE COSTS?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Arroyo Grande, Oceano and Pismo Beach in their franchise agreements with SCSS includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

Allowable Costs (Operations and Maintenance)

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

Excluded and Limited Costs

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on officer compensation

Pass-Through Costs

- Tipping fees
- Franchise and “AB 939” fees (recycling, source reduction, household hazardous waste programs)
- Payments to affiliated companies (such as leases, trucking charges and AB 939 fees)

Methodology

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is a 92% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates, but no profit is allowed on these costs.
- No revenues are allowed for any excluded costs.

In the case of SCSS, about 73% of their costs are “allowable costs” subject to the 92% operating profit ratio (or 8% of total allowable “rate base” revenues); and 27% are pass-through costs upon which no profit is allowed. No recovery is allowed for excluded costs.

Preparing the Rate Request Application

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the *Rate Manual*. SCSS has prepared their rate increase application in accordance with these requirements (Appendix); and the financial information provided in the application ties to their audited financial statements.

Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

Integrated Solid Waste Rate Review

- The “92% operating profit ratio” is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 90% to 94%. In the case of this *Base Year* application, it clearly does.
- There is no provision for retroactivity: requested rate increases are “prospective” for the year to come; there is no provision for looking back. This means that any passed shortfalls from the target operating profit cannot be recaptured.
- On the other hand, if past ratios have been stronger than this target (as they were in 2005 and 2006), then the revenue base is re-set in the “base year” review.
- As discussed above, detailed “base year” reviews are prepared every three years; “interim reviews” to account for focused changes in the consumer price and tipping fees are prepared in the two “in-between” years.
- Special rate increases for extraordinary circumstances *may* be considered. This has never occurred in any of the agencies that use this rate-setting methodology.

Table 9. Operating Ratios

| | Operating Profit | Operating Ratio |
|-----------------|------------------|-----------------|
| 2004 | \$493,137 | 91.7% |
| 2005 | 824,621 | 87.8% |
| 2006 | 804,995 | 88.9% |
| 2007 (Proposed) | 618,663 | 92.0% |

COORDINATION WITH OTHER AGENCIES

SCSS has submitted similar rate requests to the two other agencies that regulate rates and services in the other South County areas that they serve: the County of San Luis Obispo and the Nipomo Community Services District. The requested rate increase to the County was approved on July 24, 2007.

SUMMARY

Based on the rate-setting policies and procedures formally adopted by Arroyo Grande, Oceano and Pismo Beach in their franchise agreements (and conceptually approved by Grover Beach), this report concludes that:

- SCSS’s costs are reasonable.
- And their proposed rate increases meet the “reasonable return” criteria set forth in its franchise agreements with these four agencies.

Accordingly, this report recommends adoption of the rate increases requested by SCSS.

ATTACHMENT

Appendix: Base Year Rate Request Application from South County Sanitary Service

Appendix

BASE YEAR RATE REQUEST APPLICATION

Base Year Application Summary

- 1a. Arroyo Grande
- 1b. Grover Beach
- 1c. Oceano
- 1d. Pismo Beach

Supporting Schedules

- 2. Financial Information: Cost and Revenue Requirements Summary
- 3. Revenue Offset Summary
- 4. Cost Summary for Base Year
- 5. Base Year Revenue Offset Summary
- 6. Operating Information

2007 Base Year Rate Adjustment Application

Summary

CITY OF ARROYO GRANDE

Requested Increase

1. Rate Increase Requested

3.0%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate | Cost Per Gallon |
|-----------------------------------|--------------|----------------|----------------|----------|-----------------|
| Single Family Residential | | | | | |
| 2. Economy Service (1 - can curb) | \$14.28 | \$14.71 | | \$14.71 | \$0.46 |
| 4. Standard Service (2- can curb) | \$18.57 | \$19.13 | | \$19.13 | \$0.30 |
| 5. Premium Service (3 - can curb) | \$22.86 | \$23.55 | | \$23.55 | \$0.25 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

3.0%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Tom Martin

Title: Controller

Signature:

Date: 03/20/07

2007 Base Year Rate Adjustment Application

Summary

CITY OF GROVER BEACH

Requested Increase

1. Rate Increase Requested

3.0%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate | Cost Per Gallon |
|-----------------------------------|--------------|----------------|----------------|----------|-----------------|
| Single Family Residential | | | | | |
| 2. Economy Service (1 - can curb) | \$12.94 | \$13.33 | | \$13.33 | \$0.42 |
| 4. Standard Service (2- can curb) | \$17.50 | \$18.03 | | \$18.03 | \$0.28 |
| 5. Premium Service (3 - can curb) | \$22.05 | \$22.71 | | \$22.71 | \$0.24 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

3.0%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Tom Martin

Title: Controller

Signature:

Date: 03/20/07

2007 Base Year Rate Adjustment Application

Summary

OCEANO COMMUNITY SERVICE DISTRICT

Requested Increase

1. Rate Increase Requested

3.0%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate |
|-----------------------------------|--------------|----------------|----------------|----------|
| Single Family Residential | | | | |
| 2. Economy Service (1 - can curb) | \$11.58 | \$11.93 | | \$11.93 |
| 4. Standard Service (2- can curb) | \$16.66 | \$17.16 | | \$17.16 |
| 5. Premium Service (3 - can curb) | \$32.59 | \$33.57 | | \$33.57 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

3.0%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Tom Martin

Title: Controller

Signature:

Date: 03/20/07

2007 Base Year Rate Adjustment Application

Summary

CITY OF PISMO BEACH

Requested Increase

1. Rate Increase Requested

2.9%

Rate Schedule

| Rate Schedule | Current Rate | Increased Rate | Adjustment (a) | New Rate | Cost Per Gallon |
|---------------|--------------|----------------|----------------|----------|-----------------|
|---------------|--------------|----------------|----------------|----------|-----------------|

Single Family Residential

| | | | | | |
|-----------------------------------|---------|---------|--------|---------|--------|
| 2. Economy Service (1 - can curb) | \$12.27 | \$12.63 | | \$12.63 | \$0.39 |
| 4. Standard Service (2- can curb) | \$24.54 | \$25.25 | \$0.01 | \$25.26 | \$0.39 |
| 5. Premium Service (3 - can curb) | \$36.81 | \$37.88 | \$0.01 | \$37.89 | \$0.39 |

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

2.9%

will be applied to all rates in each structure
with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Tom Martin

Title: Controller

Signature:

Date: 03/20/07

BASE YEAR RATE ADJUSTMENT APPLICATION

Financial Information

| Historical | | Current | Projected | |
|------------|------|---------|-------------------|------|
| 2004 | 2005 | 2006 | Base Year 2007 | 2008 |

(from Pg. 4)

Section I- Allowable Costs

| | | | | | |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| 6. Direct Labor | \$2,018,523 | \$2,134,383 | \$2,413,062 | \$2,784,237 | \$2,812,079 |
| 7. Corporate Overhead | \$248,537 | \$255,993 | \$264,185 | \$274,224 | \$276,966 |
| 8. Office Salaries | \$467,751 | \$458,699 | \$519,320 | \$607,859 | \$613,937 |
| 9. Other General and Admin Costs | \$2,684,622 | \$3,075,794 | \$3,237,391 | \$3,448,306 | \$3,520,720 |
| 10. Total Allowable Costs | \$5,419,433 | \$5,924,869 | \$6,433,958 | \$7,114,625 | \$7,223,703 |

Section II- Allowable Operating Profit

| | | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|
| 11. Operating Ratio | 91.7% | 87.8% | 88.9% | 92.0% | 92.0% |
| 12. Allowable Operating Profit | \$493,137 | \$824,621 | \$804,995 | \$618,663 | \$628,148 |

Section III- Pass Through Costs

| | | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| 13. Tipping Fees | \$1,605,897 | \$1,630,306 | \$1,653,728 | \$1,700,276 | \$1,717,279 |
| 14. Franchise Fees | \$785,453 | \$856,965 | \$894,320 | \$921,600 | \$940,032 |
| 15. AB939 Fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| 16. Lease Pmts to Affiliated Company | \$0 | \$0 | \$0 | \$0 | \$0 |
| 17. Total Pass Through Costs | \$2,391,350 | \$2,487,271 | \$2,548,048 | \$2,621,876 | \$2,657,311 |

| | | | | | |
|-------------------------|-------------|-------------|-------------|--------------|--------------|
| 18. Revenue Requirement | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,355,164 | \$10,509,162 |
|-------------------------|-------------|-------------|-------------|--------------|--------------|

| | | | | | |
|---------------------------|-------------|-------------|-------------|--------------|--------------|
| 19. Total Revenue Offsets | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,085,909 | \$10,243,196 |
|---------------------------|-------------|-------------|-------------|--------------|--------------|

(from Page 3)

Section V- Net Shortfall (Surplus)

| | |
|-----------------------------|-----------|
| 20. Net Shortfall (Surplus) | \$269,255 |
|-----------------------------|-----------|

21. Total Residential and Non-residential Revenue without increase
in Base Year (pg.5, line 76)

| | |
|--------------|--------------|
| \$10,007,881 | \$10,007,881 |
|--------------|--------------|

22. Percent Change in Residential and Non-residential Revenue Requirement

| | |
|------|------|
| 2.7% | 2.7% |
|------|------|

23. Franchise Fee Adjustment Factor (1 - 6 percent)

| | |
|---------|---------|
| 90.000% | 94.000% |
|---------|---------|

24. Percent Change in Existing Rates

| | |
|------|------|
| 3.0% | 2.9% |
|------|------|

Base Year Rate Adjustment Application

Revenue Offset Summary

Section VII - Revenue Offsets

| Historical | | Current | Projected | |
|------------|------|---------|-------------------|------|
| 2004 | 2005 | 2006 | Base Year 2007 | 2008 |

Residential Revenue (without increase in Base Yr.)

| | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| 28. Single Family Residential | \$4,399,979 | \$4,901,651 | \$5,606,779 | \$5,606,778 | \$5,718,914 |
| Multiunit Residential Dumpster | | | | | |
| 29. Number of Accounts | | | | | |
| 30. Revenues | | | | | |
| 31. Less Allowance for Uncollectible Resid Accounts | | | | \$0 | |
| 32. Total Residential Revenue | \$4,399,979 | \$4,901,651 | \$5,606,779 | \$5,606,778 | \$5,718,914 |

Non-residential Revenue (without increase in Base Yr.)

Account Type

Non-residential Can

| | | | | | |
|------------------------|--|--|--|----------|----------|
| 33. Number of Accounts | | | | 48 | 50 |
| 34. Revenues | | | | \$14,422 | \$14,566 |

Non-residential Wastewheeler

| | | | | | |
|------------------------|--|--|--|-----------|-----------|
| 35. Number of Accounts | | | | 157 | 165 |
| 36. Revenues | | | | \$146,178 | \$147,640 |

Non-residential Dumpster

| | | | | | |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| 37. Number of Accounts | | | | 1952 | 1972 |
| 38. Revenues | \$3,903,941 | \$4,303,704 | \$4,140,596 | \$4,282,531 | \$4,325,356 |

| | | | | | |
|---|--|--|--|-----|-----|
| 39. Less: Allowance for Uncollectible Non-resid | | | | \$0 | \$0 |
|---|--|--|--|-----|-----|

| | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| 40. Total Non-residential Revenue | \$3,903,941 | \$4,303,704 | \$4,140,596 | \$4,443,131 | \$4,487,562 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|

| | | | | | |
|-----------------------------|--|----------|----------|----------|----------|
| 45. Interest on Investments | | \$31,406 | \$39,626 | \$36,000 | \$36,720 |
|-----------------------------|--|----------|----------|----------|----------|

| | | | | | |
|------------------|--|--|--|-----|-----|
| 46. Other Income | | | | \$0 | \$0 |
|------------------|--|--|--|-----|-----|

| | | | | | |
|----------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| 47. Total Revenue Offsets | \$8,303,920 | \$9,236,761 | \$9,787,001 | \$10,085,909 | \$10,243,196 |
|----------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|

Base Year Rate Adjustment Application

Cost Summary for Base Year

| Description of Cost | Section VIII Base Year Cost Allocation | | | |
|-------------------------------------|--|-------------|-------------|-------------------|
| | 2004 | 2005 | 2006 | BASE YEAR 2007 |
| Labor | \$1,857,876 | \$1,966,245 | \$2,223,339 | \$2,565,076 |
| Payroll Taxes | \$160,647 | \$168,138 | \$189,723 | \$219,161 |
| 48. Total Direct Labor | \$2,018,523 | \$2,134,383 | \$2,413,062 | \$2,784,237 |
| 49. Corporate Overhead | \$338,998 | \$266,829 | \$283,551 | \$295,648 |
| Less limitation (enter as negative) | (\$90,461) | (\$10,836) | (\$19,366) | (\$21,424) |
| Total Corporate Overhead | \$248,537 | \$255,993 | \$264,185 | \$274,224 |
| Office Salary | \$438,045 | \$428,578 | \$485,070 | \$569,499 |
| Payroll Taxes | \$29,706 | \$30,121 | \$34,250 | \$38,360 |
| 50. Total Office Salaries | \$467,751 | \$458,699 | \$519,320 | \$607,859 |
| Allocated expenses | \$0 | \$0 | \$0 | |
| Bad Debt | \$16,188 | \$45,329 | \$68,988 | \$42,000 |
| Bond expense | \$27,854 | \$47,511 | \$39,653 | \$42,034 |
| Computer services | \$2,183 | \$19 | | |
| Depreciation on Bldg and Equip | | | | |
| Depreciation on Trucks/Containers | \$792,644 | \$890,729 | \$849,938 | \$1,071,718 |
| Dues and Subscriptions | \$7,965 | \$9,314 | \$11,857 | \$12,307 |
| Gas and oil | \$342,042 | \$411,090 | \$615,196 | \$620,572 |
| Interest Expense | \$21,322 | | \$0 | \$0 |
| Laundry | \$17,841 | \$27,349 | \$22,366 | \$22,800 |
| Legal and Accounting | \$28,827 | \$20,323 | \$9,353 | \$9,708 |
| Miscellaneous and Other | (\$34,968) | (\$37,489) | (\$34,193) | (\$33,621) |
| Office Expense | \$113,688 | \$144,096 | \$140,942 | \$141,395 |
| Operating Supplies | \$12,616 | \$34,497 | \$32,349 | \$36,123 |
| Other insurance | \$393,104 | \$444,836 | \$441,491 | \$440,794 |
| Other Insurance-medical | \$347,896 | \$360,210 | \$402,558 | \$476,643 |
| Other Taxes | \$21,612 | \$33,869 | \$24,815 | \$25,588 |
| Outside Services | \$142,212 | \$162,793 | \$112,347 | \$28,640 |
| Postage | \$5,408 | \$9,205 | \$9,261 | \$9,613 |
| Public Relations and Promotion | \$8,692 | \$9,637 | \$6,213 | \$6,449 |
| Permits | | | \$10,267 | \$10,296 |
| Rent | \$45,644 | \$46,854 | \$46,836 | \$48,032 |
| Telephone | | | \$33,471 | \$19,025 |
| Tires (included in repairs) | \$97,898 | \$93,913 | \$96,120 | \$99,600 |
| Travel | \$3,541 | \$4,885 | \$2,299 | \$2,386 |
| Truck repairs-interco | \$5,383 | \$2,073 | \$3,319 | \$3,445 |
| Truck License | \$70,515 | \$80,505 | \$64,452 | \$84,948 |
| Truck Repairs | \$151,312 | \$183,756 | \$215,435 | \$214,251 |
| Utilities | \$43,203 | \$50,490 | \$12,058 | \$13,560 |
| 51. Total Other Gen/Admin Costs | \$2,684,622 | \$3,075,794 | \$3,237,391 | \$3,448,306 |
| 52. Total Tipping Fees | \$1,605,897 | \$1,630,306 | \$1,653,728 | \$1,700,276 |
| 53. Total Franchise Fee | \$785,453 | \$856,965 | \$894,320 | \$921,600 |
| 54. Total AB 939/Regulatory Fees | | | | |
| 55. Total Lease Pmt to Affil Co.'s | | | | |
| 56. Total Cost | \$7,810,783 | \$8,412,140 | \$8,982,006 | \$9,736,501 |

Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

| Description of Revenue | Section VII Revenue Offsets | | | | | | |
|--|-----------------------------|-----------------|-------------------|-------------|-----------|----------------|---------------------|
| | Overall Total | Franchise Total | Refuse Collection | | | | Non-franchise Total |
| | | | Arroyo | Pismo | Grover | Unincorporated | |
| <i>Residential Revenue (without increase in Base Year)</i> | | | | | | | |
| 57. Single Family Residential | \$5,606,778 | \$5,606,778 | \$1,243,583 | \$838,774 | \$795,602 | \$2,728,819 | |
| <i>Multiunit Residential Dumpster</i> | | | | | | | |
| 58. Number of Accounts | 0 | 0 | | | | | |
| 59. Revenues | \$0 | \$0 | | | | | |
| 60. Less Allowance for Uncollectable | \$0 | \$0 | | | | | |
| 61. Total Residential Revenue | \$5,606,778 | \$5,606,778 | \$1,243,583 | \$838,774 | | \$2,728,819 | \$0 |
| <i>Non-residential Revenue (without increase in Base Year)</i> | | | | | | | |
| <i>Account Type</i> | | | | | | | |
| <i>Non-residential Can</i> | | | | | | | |
| 62. Number of Accounts | 48 | 48 | 26 | 12 | 10 | | |
| 63. Revenues | \$14,422 | \$14,422 | \$7,440 | \$4,766 | \$2,216 | | |
| <i>Non-residential Wastewheeler</i> | | | | | | | |
| 64. Number of Accounts | 157 | 157 | 58 | 55 | 44 | | |
| 65. Revenues | \$146,178 | \$146,178 | \$38,530 | \$86,026 | \$21,621 | | |
| <i>Non-residential Dumpster</i> | | | | | | | |
| 66. Number of Accounts | 1952 | 1949 | 401 | 289 | 389 | 870 | 3 |
| 67. Revenues | \$4,282,531 | \$4,240,503 | \$981,687 | \$847,083 | \$746,356 | \$1,665,377 | \$42,028 |
| 68. Less: Allowance for Uncollectable Non-residential Accounts | \$0 | \$0 | | | | | |
| 69. Total Non-residential Revenue | \$4,443,131 | \$4,401,103 | \$1,027,658 | \$937,875 | \$770,193 | \$1,665,377 | \$42,028 |
| 74. Interest on Investments | \$36,000 | | | | | | \$36,000 |
| 75. Other Income | \$0 | | \$0 | | | | |
| 76. Total Revenue Offsets | \$10,085,909 | \$10,007,881 | \$2,271,241 | \$1,776,649 | \$770,193 | \$4,394,196 | \$78,028 |

Fiscal Year: 1-1-2007 to 12-31-2007

Base Year Rate Adjustment Application

Operating Information

| Historical | | | | Current | | Projected | | |
|------------|----------------|------|----------------|---------|----------------|----------------|----------------|------|
| 2004 | Percent Change | 2005 | Percent Change | 2006 | Percent Change | Base Year 2007 | Percent Change | 2008 |

Section IX: Operating Data

Residential

Accounts

| | | | | | | | | | |
|------------------------|--------|------|--------|-------|--------|-------|--------|------|--------|
| 77. Arroyo Grande | 5,275 | 2.1% | 5,385 | 2.5% | 5,522 | 0.1% | 5,530 | 0.2% | 5,540 |
| Grover Beach | 3,575 | 1.2% | 3,617 | 8.8% | 3,934 | 0.3% | 3,946 | 0.4% | 3,961 |
| Pismo Beach | 3,337 | 0.7% | 3,360 | 5.2% | 3,536 | 0.2% | 3,544 | 0.3% | 3,554 |
| Oceano CSD | 1,399 | 3.0% | 1,441 | 9.6% | 1,580 | 0.5% | 1,588 | 1.1% | 1,606 |
| Nipomo CSD | 3,095 | 6.1% | 3,285 | 9.2% | 3,587 | 0.1% | 3,592 | 0.1% | 3,597 |
| County | 4,627 | 7.3% | 4,964 | 4.0% | 5,162 | 0.1% | 5,165 | 0.1% | 5,170 |
| | 21,308 | 3.5% | 22,052 | 5.8% | 23,321 | 0.2% | 23,365 | 0.3% | 23,428 |
| 78. Routes-Garbage | 9 | 0.0% | 9 | 11.1% | 10 | 0.0% | 10 | 0.0% | 10 |
| 79. Routes-Recycling | 5 | 0.0% | 5 | 0.0% | 5 | 20.0% | 6 | 0.0% | 6 |
| 80. Direct Labor Hours | 43,680 | 0.0% | 43,680 | 4.8% | 45,760 | 4.5% | 47,840 | 0.0% | 47,840 |

Non-residential Garbage

Accounts

| | | | | | | | | | |
|------------------------|--------|-------|--------|--------|--------|-------|--------|------|--------|
| 80. Arroyo Grande | 546 | 0.2% | 547 | -11.0% | 487 | -0.4% | 485 | 0.4% | 487 |
| Grover Beach | 660 | -0.8% | 655 | -31.8% | 447 | -0.9% | 443 | 0.9% | 447 |
| Pismo Beach | 439 | 0.2% | 440 | -18.2% | 360 | -1.1% | 356 | 1.1% | 360 |
| Oceano CSD | 251 | 1.2% | 254 | -29.1% | 180 | 3.3% | 186 | 3.2% | 192 |
| Nipomo CSD | 207 | 5.3% | 218 | -8.7% | 199 | -1.0% | 197 | 1.0% | 199 |
| County | 595 | -2.5% | 580 | -16.0% | 487 | 0.0% | 487 | 0.0% | 487 |
| | 2,698 | -0.1% | 2,694 | -19.8% | 2,160 | -0.3% | 2,154 | 0.8% | 2,172 |
| 81. Routes-garbage | 6 | 0.0% | 6 | 0.0% | 6 | 0.0% | 6 | 0.0% | 6 |
| Routes-recycling | 2 | 0.0% | 2 | 0.0% | 2 | 0.0% | 2 | 0.0% | 2 |
| 82. Direct Labor Hours | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 | 0.0% | 16,640 |

Recyclable Materials - All areas-Commingled Recycling (in tons)

Accounts

| | | | | | | | | | |
|-------------------|--------|-------|--------|------|--------|-------|--------|------|--------|
| 83. Tri-Cities | 6,972 | 2.0% | 7,113 | 3.2% | 7,341 | 2.0% | 7,488 | 0.0% | 7,488 |
| Nipomo/Oceano CSD | 2,523 | 13.9% | 2,873 | 7.5% | 3,088 | 2.0% | 3,150 | 0.0% | 3,150 |
| 84. County | 788 | 29.1% | 1,017 | 1.0% | 1,027 | 32.6% | 1,362 | 0.0% | 1,362 |
| | 10,283 | 7.0% | 11,003 | 4.1% | 11,456 | 4.7% | 12,000 | 0.0% | 12,000 |

Recyclable Materials - All areas-Greenwaste Recycling

| | | | | | | | | | |
|--------------------|--------|--------|--------|------|--------|-------|--------|------|--------|
| Routes | 4 | -25.0% | 3 | 0.0% | 3 | 33.3% | 4 | 0.0% | 4 |
| Tons Collected | 8,400 | 18.4% | 9,942 | 8.9% | 10,828 | 4.8% | 11,350 | 2.0% | 11,577 |
| Direct Labor Hours | 10,400 | 0.0% | 10,400 | 0.0% | 10,400 | 20.0% | 12,480 | 0.0% | 12,480 |

| | | | | | | | | | |
|------------------------|--------|-------|--------|-------|--------|-------|--------|------|--------|
| Garbage Tons Collected | 49,079 | -0.7% | 48,724 | -0.6% | 48,417 | -0.2% | 48,317 | 0.0% | 48,317 |
|------------------------|--------|-------|--------|-------|--------|-------|--------|------|--------|