



# TOWN OF FAIRFAX

## STAFF REPORT

### March 7, 2018

**TO:** Mayor and Town Council

**FROM:** Garrett Toy, Town Manager *GT*

**SUBJECT:** Adopt a resolution approving a 6.54% service rate increase for Marin Sanitary Service (MSS) for the provision of solid waste (garbage) and recycling services; exempt from the California Environmental Quality Act (CEQA) per 14 CCR 15061(b)(3), as it can be shown with certainty that the action will have no adverse significant effect on the environment

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#### **RECOMMENDATION**

- 1) Open/close public hearing
- 2) Adopt a Resolution Approving a Garbage and Recycling Service Rate Increase in the Town of Fairfax

#### **BACKGROUND**

In March 2017, the Council approved a rate increase of 2.06% (effective January 1, 2017) for MSS services primarily for a "food scrap" collection program in which all residential customers received a small "food scrap" container (i.e., pail) and outreach materials to encourage the composting of food waste. Previously, the Town approved a rate *decrease* of 2.77% in 2016 and rate increase of 10.63% in 2015. Prior to 2015, the Town last adopted a MSS rate increase in 2011 with the new service agreement.

Tables 4 and 5 in the attached report show that from 2005 to 2017 the Town's annual average increase was approximately 4.4%. Since 2012, the average annual increase was approximately 1.9%.

#### **DISCUSSION**

Per the service contract, MSS submitted a rate review application in December 2017 requesting a 7.58% increase to its solid waste rates for the Town effective January 1, 2018. As a matter of practice, staff works with Councilmember Goddard and Mayor Lacques, assigned to the Zero Waste Committee, for direction in negotiations. In addition, the Town contracts with R3 Consulting Group to conduct an independent review of the rate application in accordance with the rate setting methodology agreed to by the Town and MSS in the current agreement.

R3 Consulting Group is the same firm that conducts a similar review for the Franchisor's Group which also contracts with MSS for services. The Franchisor's Group includes San Rafael, Larkspur, Ross, County of Marin, and Los Gallinas Valley Sanitary District. The Town does save some costs because R3 Consulting conducts its review after it has completed its review for the Franchisor's Group.

R3 Consulting has completed its review and determined that a **6.54% rate increase is appropriate**. Mayor Lacques, Councilmember Goddard, and staff concur with the recommendation. Attached is the R3 report which details the expenditure and revenue adjustments to the MSS request by both percentage and amounts.

Table 3 in the report shows the net percentage increase of 6.54% consists of the following: 1) wages increased by .92%, 2) benefits increased by .52%, 3) disposal expenses increased by 2.31%, 3) fuel and oil up by 1.48%, 4) maintenance up by .14%, 5) depreciation up by .65%, 6) other operating expenses decreased by .73%, and 8) a revenue shortfall of .43%. All the categories, except operating expenses, experienced increases due to increases in applicable CPI indexes or "true-up" of actual costs. Operating expenses decreased due to a reduction in the consulting cost to conduct the rate review and the removal of MSS profit on this expense.

The net effect of the increase is that residents with 32-gallon carts will pay \$2.09 more per month (\$31.93 to \$34.02/mo.). The increase is retroactive to January 1, 2018. Even with the increase, Fairfax rates are among the lowest of the jurisdictions served by MSS.

#### **FISCAL IMPACT**

The Town's residents and businesses pay MSS directly for the services they use.

#### **CEQA**

Exempt from the California Environmental Quality Act per 14 CCR 15061(b)(3), as it can be shown with certainty that the action will have no adverse significant effect on the environment.

#### **ATTACHMENTS**

- A. Resolution 18-\_\_\_\_
- B. R3 Report reviewing MSS's 2018 Rate application

**RESOLUTION NO. 18-\_\_**

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FAIRFAX  
APPROVING A GARBAGE AND RECYCLING SERVICE RATE INCREASE  
IN THE TOWN OF FAIRFAX**

**WHEREAS**, Fairfax Town Code Section 8.08.110 provides that the Town may enter into an exclusive contract with any responsible individual, firm or corporation for the collection, removal and disposal of garbage collected and accumulated within the Town, under the terms and conditions as may be prescribed by the Town Council; and

**WHEREAS**, the Town of Fairfax has entered into such an agreement with Marin Sanitary Service for the provision of solid waste and recycling services (the "Franchise Agreement"); and

**WHEREAS**, in accordance with the Franchise Agreement, Marin Sanitary Service may submit an application to the Town for an increase in garbage and recycling service rates; and

**WHEREAS**, Marin Sanitary Service has submitted an application for rate review, requesting an increase in service charges retroactive to January 1, 2018; and

**WHEREAS**, the Town conducted an independent review of the rate application in accordance with the rate-setting methodology set forth in the Franchise Agreement; and

**WHEREAS**, the new rate schedule proposed by Marin Sanitary Service is attached hereto and incorporated herein as Exhibit 1; and

**WHEREAS**, in accordance with the requirements of the Franchise Agreement, as well as state law, the Town of Fairfax posted a notice of the March 7, 2018, public hearing in the three designated places and published a notice of public hearing in the Marin Independent Journal; and

**WHEREAS**, the Town Council of the Town of Fairfax held a public hearing on March 7, 2018, to consider the requested increase, at which time any person interested, including all persons owning property within the Town, was invited to appear and be heard on the matters set forth in the public hearing notice; and

**WHEREAS**, Fairfax Town Code Section 8.08.030 provides that garbage service charges will be set forth in a resolution of the Town Council,

**NOW, THEREFORE, BE IT RESOLVED** by the Town Council of the Town of Fairfax as follows:

**SECTION 1.** The recitals set forth above are adopted as further findings of the Town Council.

**ATTACHMENT A**

**SECTION 2.** The Town Council has reviewed the rate schedule requested by Marin Sanitary Service, as set forth in Exhibit 1 hereto, and finds that the proposed rates and charges are not discriminatory or excessive and will be sufficient under California Government Code Section 54515 and will comply with the provisions of Chapter 6 of Part 1 of Division 2 of Title 5 of the California Government Code and will be in compliance with law.

**SECTION 3.** The Town Council hereby adopts the rate schedule set forth in Exhibit 1, with such new rates effective as of the 1<sup>st</sup> day of January 2018.

The forgoing Resolution was duly passed and adopted at a special meeting of the Town Council of the Town of Fairfax held in said Town on the 7th day of March 2018 by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

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PETER LACQUES, Mayor

Attest:

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Michele Gardner, Town Clerk

Exhibit 1 attached

**Town of Fairfax**  
Refuse Collection Rates

Effective 1/01/2018: 6.54% Rate Increase

<i>Residential Service (Bundled service includes 1 cart for garbage, 1 cart for organics and 1 split cart for recycling)</i>			
Weekly Service Rates	2018 Flat Rate		2018 Hill Rate
	Monthly Rate (Billed Quarterly)		Monthly Rate (Billed Quarterly)
20 gallon cart	\$28.38		\$33.12
32 gallon cart	\$34.02		\$39.74
64 gallon cart	\$68.04		\$79.48
96 gallon cart	\$102.06		\$119.22
Low income - 20 gal* cart	\$24.66		\$28.82
Low income - 32 gal* cart	\$29.60		\$34.56
Low income - 64 gal* cart	\$59.20		\$69.12
Additional Organics Cart Rental (35 or 64 gallon cart)	\$1.79		\$1.79
Additional Split Cart Rental (64 or 96 gallon cart)	\$1.79		\$1.79

\*Must meet PG&E CARE program eligibility requirements

Distance Charges	Per cart, Each way
Distance 5' - 50'	\$5.08
Distance Over 50'	\$10.10

**Additional Residential Service Fees per Occurrence**

Cart Replacement Fee	Not to exceed	\$90.00
Return Fees - Off day		\$18.50
Return Fees - Same day		\$6.00
Resume service/late fee		\$35.00
Compaction fee (cart)		\$10.00
Contamination (cart)		\$10.00
Overload (cart)		\$10.00
Cart Exchange		\$15.00
Extra bag/can garbage		\$10.00
Extra bag/can yard waste		\$5.00
Steam Clean (cart)		\$15.00
Special Collection		\$25.00
Special handling		\$20.00
Bulky item fees per items	Enquire for prices	

# Town of Fairfax

Effective 1/01/2018: 6.54% Rate Increase

## COMMERCIAL CARTS, BINS, ROLL-OFFS, COMPACTORS

Garbage	Collections per Week						Additional one time empty
	1	2	3	4	5	6	
20 gallon	\$34.10	\$68.20	\$102.30	\$136.40	\$170.50	\$204.60	\$7.87
32 gallon	\$40.12	\$80.24	\$120.36	\$160.48	\$200.60	\$240.72	\$9.26
64 gallon	\$80.24	\$160.48	\$240.72	\$320.96	\$401.20	\$481.44	\$18.52
96 gallon	\$120.36	\$240.72	\$361.08	\$481.44	\$601.80	\$722.16	\$27.78
1 yard	\$200.02	\$336.97	\$473.76	\$610.82	\$747.71	\$884.61	\$34.20
2 yard	\$334.41	\$592.55	\$850.58	\$1,108.66	\$1,366.90	\$1,624.93	\$64.43
3 yard	\$468.92	\$848.24	\$1,227.45	\$1,606.77	\$1,985.88	\$2,296.37	\$94.93
4 yard	\$669.10	\$1,234.90	\$1,748.29	\$2,261.68	\$2,775.07	\$3,288.46	\$129.07
6 yard	\$841.61	\$1,524.30	\$2,207.26	\$2,890.22	\$3,573.24	\$4,256.20	\$189.69

\* Sizes may not be available at all locations depending on a variety of factors including safety, accessibility, and efficiency. Requests will be assessed and approved by Route Manager.

Garbage Compactors	Per Empty
Roll-off Compactor Tipping fee per ton	\$133.42
Roll-off Compactor Hauling charge	\$170.47
Roll-off Compactor Special handling	rates vary by job
Stationary Front Loader (Per compacted yard)	\$86.27

## Collections per Week

Organics( F2E or Compost)	1	2	3	4	5	6	Additional one time empty
32 gallon	\$15.66	\$31.32	\$46.98	\$62.64	\$78.30	\$93.96	\$3.61
64 gallon	\$31.32	\$62.64	\$93.96	\$125.28	\$156.60	\$187.92	\$7.23
1 yard	\$109.41	\$218.82	\$328.23	\$437.64	\$547.05	\$656.46	\$25.25
2 yard	\$218.82	\$437.64	\$656.46	\$875.28	\$1,094.10	\$1,312.92	\$50.50
3 yard	\$328.23	\$656.46	\$984.69	\$1,312.92	\$1,641.15	\$1,969.38	\$75.75

\* Roll-offs for organics available on request at 30% discount on above garbage rates

## Town of Fairfax

Effective 1/01/2018: 6.54% Rate Increase

### Additional Commercial Service Fees per Occurrence

Occurrence	Fee
Cart Replacement Fee	\$90.00
Bin Repair/Replacement Fee	Varies by size not to exceed current replacement value.
Return Fee - Cart -same day	\$6.00
Return Fee - Cart -off day	\$18.50
Return Fee - Bin	\$30.00
Resume service/late fee	\$35.00
Compaction fee (cart)	\$10.00
Compaction fee (bin)	\$37.00
Contamination (cart)	\$10.00
Contamination (bin)	\$37.00
Overload (cart)	\$10.00
Overload (bin)	\$37.00
Cart Exchange	\$15.00
Bin Exchange	\$93.00
Extra bag/can garbage	\$10.00
Extra bag/can yard waste	\$5.00
Steam Clean (cart)	\$15.00
Steam Clean (bin)	\$93.00
Steam Clean (compactor/roll-off)	\$200.00
Lock Set-up Admin Fee	\$20.00
Lock/Key pad Fee	\$5.00
Gate/Enclosure Fee	\$20.00
Special Service Fee	Not to exceed \$125.00 per service
Overweight Charge Per Ton (Comm'l boxes exceeding 300lbs/yard)	\$197.84
Box Rental Fee	Fee varies per size

Distance Charges	Per cart/bin, Each way
Distance 5' - 50'	\$5.08
Distance Over 50'	\$10.10

Town of Fairfax

Effective 1/01/2018: 6.54% Rate Increase

Multifamily Dwellings CARTS, BINS, ROLL-OFFS, COMPACTORS

Garbage	Collections per Week						
	1	2	3	4	5	6	Additional one time empty
20 gallon	\$28.91	\$57.82	\$86.73	\$115.64	\$144.55	\$173.46	\$6.67
32 gallon	\$34.02	\$68.04	\$102.06	\$136.08	\$170.10	\$204.12	\$7.85
64 gallon	\$68.04	\$136.08	\$204.12	\$272.16	\$340.20	\$408.24	\$15.70
96 gallon	\$102.06	\$204.12	\$306.18	\$408.24	\$510.30	\$612.36	\$23.55
1 yard	\$200.02	\$336.97	\$473.76	\$610.82	\$747.71	\$884.61	\$34.20
2 yard	\$334.41	\$592.55	\$850.58	\$1,108.66	\$1,366.90	\$1,624.93	\$64.43
3 yard	\$468.92	\$848.24	\$1,227.45	\$1,606.77	\$1,985.88	\$2,296.37	\$94.93
4 yard	\$669.10	\$1,234.90	\$1,748.29	\$2,261.68	\$2,775.07	\$3,288.46	\$129.07
6 yard	\$841.61	\$1,524.30	\$2,207.26	\$2,890.22	\$3,573.24	\$4,256.20	\$189.69

\*Sizes may not be available at all locations depending on a variety of factors including safety, accessibility, and efficiency. Requests will be assessed and approved by Route Manager.

Recycling and Organics carts provided at no additional charge.

Minimum service level is 32 gallons per unit or equivalent volume

Garbage Compactors	Per Empty
Roll-off Tipping fee per ton	\$133.42
Roll-off Special handling	Rates vary by job
Hauling charge	\$170.47
Stationary Front Loader (Per compacted yard)	\$86.27

**Town of Fairfax**  
**Effective 1/01/2018: 6.54% Rate Increase**

**Multifamily Dwellings CARTS, BINS, ROLL-OFFS, COMPACTORS**  
**Additional MFD Service Fees per**

**Fee**

<b>occurrence</b>		<b>Fee</b>
Cart Replacement Fee		\$90.00
Bin Repair/Replacement Fee	Varies by size not to exceed current replacement value.	
Return Fee - Cart -same day		\$6.00
Return Fee - Cart -off day		\$18.50
Return Fee - Bin		\$30.00
Resume service/late fee		\$35.00
Compaction fee (cart)		\$10.00
Compaction fee (bin)		\$37.00
Contamination (cart)		\$10.00
Contamination (bin)		\$37.00
Overload (cart)		\$10.00
Overload (bin)		\$37.00
Cart Exchange		\$15.00
Bin Exchange		\$93.00
Extra bag/can garbage		\$10.00
Extra bag/can yard waste		\$5.00
Extra bin empty	Varies depending on bin size. Based on monthly rate and single empty.	
Steam Clean (cart)		\$15.00
Steam Clean (bin)		\$93.00
Steam Clean (compactor/roll-off)		\$200.00
Lock Set-up Admin Fee		\$20.00
Lock/Key pad Fee		\$5.00
Gate/Enclosure Fee		\$20.00
Special Service Fee	Not to exceed \$125.00 per service	
Overweight Charge Per Ton (Comm'l boxes exceeding 300lbs/yard)		\$197.84
Box Rental Fee	Fee varies per size	

Distance Charges	Per cart/bin, Each way
Distance 5' - 50'	\$5.08
Distance Over 50'	\$10.10

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**FINAL REPORT**

**Review of Marin Sanitary Service's 2018  
Rate Application**



**SUBMITTED TO:**

**Town of Fairfax**

February 26, 2018

PDF SUBMITTAL

ATTACHMENT **B**

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R3

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Tel: 916-782-7821 | Fax: 916-782-7824

2600 Tenth Street, Suite 424, Berkeley, CA 94710  
Tel: 510-647-9674

627 S. Highland Avenue, Suite 300, Los Angeles, CA 90036  
Tel: 323-559-7470

February 26, 2018

Mr. Garrett Toy  
Town Manager, Town of Fairfax  
142 Bolinas Road  
Fairfax, CA 94930

**Subject: Review of Marin Sanitary Service's 2018 Rate Application, Final Report**

Dear Mr. Toy:

R3 Consulting Group, Inc. (R3) is pleased to submit the attached Final Report detailing the results of our review of Marin Sanitary Service's 2018 Rate Application for the Town of Fairfax. For consistency and comprehension, the form and content of this Report and associated Attachments mirror that of prior rate adjustment reports prepared for the Town by others in prior years.

In December, 2017, Marin Sanitary Service (MSS) submitted a rate adjustment application pursuant to the terms and conditions of the Franchise Agreement between the Town of Fairfax (Town) and MSS for an 7.58% increase to its solid waste rates, to be effective January 1, 2018. R3 was engaged to conduct a review of the application based on the rate methodology agreed to in the Franchise Agreement. Our review included a thorough assessment of all relevant documents for completeness and compliance with the procedures agreed upon by MSS and the Town, and verified the mathematical accuracy and logical consistency of the supporting schedules.

Based on our review of the application, we have determined that a rate increase of 6.54% is appropriate to compensate MSS for its projected 2018 expenses. We have reviewed our findings with MSS, and they are in agreement with the proposed adjustments to their rate application and the recommended 6.54% rate increase for 2018. Table 1, below, shows current (2017) rates and proposed (2018) rates for standard container sizes (flat rate).

**Table 1: Comparison of 2017 and Proposed 2018 Fairfax Flat Residential Rates**

Service	Current 2017 Rate (\$/mo.)	Proposed 2018 Rate (\$/mo.)	Monthly Difference (\$)
20 gallon cart	\$26.64	\$28.38	\$1.74
32 gallon cart	\$31.93	\$34.02	\$2.09
64 gallon cart	\$63.86	\$68.04	\$4.18
96 gallon cart	\$95.79	\$102.05	\$6.26

Table 2, on the following page, compares flat rates for the Town to other jurisdictions served by MSS. As shown in the table, Fairfax's rates are among the lowest of the jurisdictions served by MSS.

**Table 2: Comparison of 2017 and Proposed 2018 32-gallon Flat Residential Rates**

Jurisdiction	2017 Rate (\$/mo.)	2018 Rate (\$/mo.)	Monthly Difference (\$)
Las Gallinas Valley Sanitary District	\$31.31	\$33.05	\$1.74
Fairfax	\$31.93	\$34.02	\$2.09
Ross	\$34.22	\$36.13	\$1.91
San Rafael	\$35.81	\$37.80	\$1.99
County of Marin*	\$38.00	\$40.12	\$2.12
County of Marin - RVSD-S*	\$38.54	\$40.69	\$2.15
San Anselmo	\$38.71	\$40.87	\$2.16
County of Marin - RVSD-N* (Oak Manor)	\$40.28	\$42.52	\$2.24
County of Marin - RVSD-N* (Sleepy Hollow)	\$41.01	\$43.29	\$2.28
Larkspur	\$41.13	\$43.42	\$2.29

## 2018 Rate Adjustment Components

Table 3 shows the rate components based on the change in expenses and net revenue between the 2017 approved rate application and the 2018 recommended rate adjustment.

**Table 3: Comparison of 2017 Approved Expenses to 2018 Recommended Expenses**

Category	2017 Approved Rate Application	2018 Recommended Rate Application	Change	Component Percentage
Wages	\$423,561	\$436,691	13,130	0.92%
Benefits (including workers comp)	276,069	283,533	7,464	0.52%
Disposal Fees	239,182	272,289	33,107	2.31%
Fuel & Oil	45,291	66,465	21,174	1.48%
Maintenance Expense	105,420	107,423	2,003	0.14%
Depreciation	124,938	134,312	9,374	0.65%
Other Operating Costs <sup>(1)</sup>	72,612	62,121	(10,491)	-0.73%
<b>Total Operating Expenses</b>	<b>1,287,073</b>	<b>1,362,834</b>	<b>75,761</b>	<b>5.29%</b>
Operating Profit	135,107	143,060	7,953	0.55%
Interest Expense	23,342	21,270	(2,072)	-0.14%
Fee Adjustment	\$13,000	\$19,000	6,000	0.42%
<b>Total Expenses/Revenue Requirement</b>	<b>1,445,522</b>	<b>1,527,164</b>	<b>87,672</b>	<b>6.11%</b>
<b>\$6,104 in Projected Revenue Shortfall Net of Changes in Total Expenses</b>				<b>0.43%</b>
<b>Recommended 2018 Rate Adjustment Factor</b>				<b>6.54%</b>

<sup>(1)</sup> Includes general & administrative costs (e.g., public education, customer service, etc.).

R3 reviewed MSS's calculations for each of the categories summarized in Table 3 and is recommending specific adjustments to certain categories, which are discussed in more detail in Section 4 of this Report. The recommended 2018 rate adjustments by category (including R3's adjustments) are further described below, with more specifics included in Sections 3 and 4 of this Report.

#### **Wages (0.92%)**

The wages expense component contributes 0.92% to the overall recommended 6.54% rate adjustment. The increase in wages is due to applying the applicable CPI index (3.1%) to the 2017 approved wage base.

#### **Benefits (0.52%)**

The benefits expense component contributes 0.52% to the overall recommended 6.54% rate adjustment. The increase in benefits is the sum of two adjustments: an increase in workers compensation expense (6.49%) and, for other employee benefits (excluding workers compensation), an increase in the applicable CPI index (1.9%) as applied to the 2017 approved benefit base.

#### **Disposal (2.31%)**

The disposal expense contributes 2.31% to the overall recommended 6.54% rate adjustment. The increase is largely due to the difference in actual expenses for 2016 and 2017 vs. projected expenses for those years and is thus a "true-up" of those prior expenses. The projection for 2018 is slightly greater than the projection for 2017 (due to increasing per ton tipping fees) with about 1/3 of the increase being due to a true-up in the actual 2016 disposal cost compared to previously projected disposal expenses.

#### **Fuel and Oil (1.48%)**

The fuel expense component contributes 1.48% to the overall recommended 6.54% rate adjustment. The increase is mostly attributable to increases in the applicable CPI index (9.4%), yielding a higher amount of forecasted fuel expense in 2018 compared to 2017. The remaining portion of the increase is related to "true-ups" in forecasted vs. actual fuel and oil expenses in 2016 and 2017, as has been the rate adjustment practice in recent years.

#### **Maintenance (0.14%)**

The maintenance expense component contributes 0.14% to the overall recommended 6.54% rate adjustment. The increase is due to applying the applicable CPI index (1.9%) to the 2017 approved maintenance costs.

#### **Depreciation (0.65%)**

The depreciation expense component contributes 0.65% to the overall recommended 6.54% rate adjustment. The increase is due to added depreciation costs for replacement vehicles, equipment, and building repairs in 2016 and 2017, along with forecasted expenses for 2018. This amount reflects a recommended ten (10) year depreciation term for new solid waste collection vehicle assets purchased by MSS in 2018, which is increased from the current seven (7) year depreciation term for solid waste collection vehicles and is consistent with changes that MSS is making with other franchised jurisdictions.

#### **Other Operating / G&A (-0.73%)**

The "other operating costs" component contributes -0.31% to the overall recommended 6.54% rate adjustment. General and Administrative (G&A) costs other than Marin County JPA fees processing charges were increased by the change in CPI (3.1%). G&A includes costs such as public outreach, professional fees, and computer hardware/software. The Marin County JPA fees and other processing charges are adjusted

to reflect anticipated charges by the County, which are projected to increase by \$277 over 2017. R3 is also recommending a -\$12,000 adjustment to account for the fact that consulting costs related to this rate adjustment were previously included in this cost category (making them subject to MSS profit) but should be reflected in the fees section of the application. The net adjustment for this category is -\$10,491.

### **Profit (0.55%)**

MSS's profit component, which is an agreed upon "operating margin" of 90.5%, contributes 0.55% to the overall recommended 6.54% rate adjustment, which is entirely due to the overall increase in expenses noted above. This is calculated as a function of total operating expenses (recommended at \$1,362,834) divided by 90.5%, less total operating expenses, yielding \$143,060 in 2018.

### **Interest Expense (-0.14%)**

The interest expense component contributes -0.14% to the overall recommended 6.54% rate adjustment and is not an expense that is subject to the calculation of MSS' profit.

### **Fee Adjustment (0.42%)**

As noted above, \$12,000 in expenses for consultant costs for reviewing annual rate applications were previously included in the Other Operating / G&A expense line (and thus subject to MSS profit margin) which was the result of an adjustment to include consultant costs during the 2016 rate application review. This amount was in addition to a \$3,000 "consultant fee" listed in the rate application, for a total of \$15,000 in consultant fees paid by MSS. Because these costs are "pass through" costs to cover Town expenses for reviewing rate adjustments (and thus should not be subject to profit margin) R3 recommends removing the \$12,000 from G&A. Further, because R3 only anticipates \$9,000 in costs for this rate adjustment we recommend increasing the "consultant fee" by \$6,000 (from \$3,000 to \$9,000). In all, this is a \$6,000 net decrease in expenses (\$12,000 decrease to G&A and \$6,000 increase to consultant fees). In all this amounts to a 0.42% increase in the fees line item which is offset by the reduction in Other Operating / G&A expenses.

### **Projected Revenue Shortfall Net of Changes in Total Expenses (0.43%)**

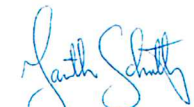
MSS' total expenses for services Fairfax – including operating expenses, profit, and interest – are projected to increase by \$87,672 from 2017 to 2018, after accounting for the adjustments included in this Report. The projected revenue shortfall at current rates, net of the total revenue requirement for 2018 is \$93,746; net of increased expenses, there is a revenue shortfall of \$6,104 projected for 2018, accounting for 0.43% of the overall recommended 6.54% rate adjustment. This revenue shortfall is the result of revenue shortfalls in 2017 that are expected to continue into 2018.

\* \* \* \* \*

We appreciate the opportunity to submit our Final Report to the Town. Should you have any questions regarding this Report or need any additional information, please contact me by phone at (510) 292-0853 or by email at [gschultz@r3cgi.com](mailto:gschultz@r3cgi.com).

Sincerely,

**R3 CONSULTING GROUP**



Garth Schultz | Principal

# Background

## Description of Current Services

Marin Sanitary Service (MSS) provides franchised refuse, recyclable materials, and organics collection and processing services to the residents and businesses in Fairfax. MSS and its non-franchised related entities – Marin Recycling and Resource Recovery Association (MRRRA) and the Marin Resource Recovery Center (MRRC) – also provide solid waste, recyclable-materials, and organics collection and processing services to the residents and businesses of the towns of other Marin County agencies including San Rafael, Larkspur, Ross, Las Gallinas Valley Sanitary District, and the County of Marin. MSS also provides non-franchised debris box, street sweeping, and document shredding services to residents and businesses throughout the County of Marin that contract for their services.

MSS delivers refuse collected from waste generators within the Town service area to the MSS transfer station and then transports it to the Redwood Sanitary Landfill, which is an unrelated party. MSS delivers recyclable materials to the non-franchised MRRRA where materials are processed and marketed. MSS delivers recyclable-rich loads of refuse (typically commercial) and separated organics loads (collected from residents) along with public self-haul loads to the non-franchised MRRC where recyclable materials are separated from the waste stream, processed, and marketed.

The MRRC delivers the residual waste to the MSS transfer station. This residual waste was transferred to Keller Canyon Landfill through June 2016. MSS signed a new agreement with Potrero Hills Landfill beginning July 2016 for disposal of the residual material. MSS delivers franchised organics to the MRRC for processing before transferring to Redwood for composting. MSS provides other programs to the Town, including a Food-to-Energy program, outreach and education to commercial and multi-family customers (to meet the obligations of State Laws AB 341 and AB 1826, which require commercial recycling and organics collection) and other related services.

## Current Rate Adjustment Methodology

The Rate Adjustment Methodology was developed in cooperation with MSS and approved by the Town via the Franchise Agreement. Section 3 of this Report describes the current methodology in more detail and includes findings from the application of the methodology to MSS' 2018 Rate Application.

## Rate Adjustments Over Time

MSS rate adjustments in the Town have not been consistent over the years, with no adjustments being made in many years, and large adjustments made in some years. Table 4 on the following page demonstrates the rate adjustments since 2005. As shown in the table, from 2005 through 2017, the cumulative rate increase is 82.71%, at an average annual increase of 4.40% which is generally consistent with R3's experience reviewing the actual costs of maintaining solid waste operations.

## Section 1

## Background

Table 4: Fairfax Rate Adjustments Over Time

Year	Rate Adjustment
2005	5.50%
2006	0.00%
2007	0.00%
2008	0.00%
2009	20.00%
2010	3.18%
2011	27.41%
2012	0.00%
2013	0.00%
2014	0.00%
2015	10.63%
2016	-2.77%
2017	2.06%
<b>Cumulative</b>	<b>82.71%</b>
<b>Annual Average</b>	<b>4.40%</b>

Table 5, below, shows the cumulative and annual average increases since the current Agreement took effect in 2012. The annual average increase since 2012 has been 1.88% per year, with a cumulative increase of 9.78% in five years.

Table 5: Fairfax Rate Adjustments Over Time Since 2012

Year	Rate Adjustment
2012	0.00%
2013	0.00%
2014	0.00%
2015	10.63%
2016	-2.77%
2017	2.06%
<b>Cumulative</b>	<b>9.78%</b>
<b>Annual Average</b>	<b>1.88%</b>

R3

# Rate Review Approach

## R3 Scope of Review

The Town engaged R3 to perform a review of the Application in accordance with the Rate Adjustment Methodology. These procedures included the following activities:

- Reviewing MSS management's actual achievement of, and projections for, revenues for the 12-month periods ending December 31, 2016, and 2017.
- Comparing the results to MSS's audited financial statements for rate year 2016 and year-to-date revenues for 2017, and requesting explanations for variances.
- Reviewing the appropriateness of MSS management's classification of expenses into the various expense categories.
- Reviewing MSS management's calculation of rate year 2018 indexed expenses and comparing them to the calculated expenses for 2017, and the calculated changes to the indices.
- Reviewing MSS management's projection of other expenses including:
  - Workers' Compensation, which has been reviewed by determining if the base wages, established as part of the prior year detail review, were properly multiplied by the applicable premium rates from MSS' insurance carrier.
  - Disposal Expense for solid waste tons transferred at MSS' transfer station, which has been reviewed by evaluating MSS' projection for 2018 disposal expense and MSS adjustments for the previous projections for Rate Years 2016 and 2017 based on historical trends, management's plans, and adjustment to the disposal rates.
- Preparing a written report that documents our findings and recommendations.

## Limitations

This 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. However, Chiao Smith McMullin + McGuire, An Accountancy Corporation, issued an unqualified opinion of MSS' 2016 financial statements. The unqualified opinion denotes that the financial statements of MSS were presented fairly in all material respects.

Our conclusions are based in part on the review of MSS' 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.

R3

## Section 2

### Rate Review Approach

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## MSS Projection Methodology (Index Year)

Projected costs for 2018 are based on costs developed during the last indexed review which occurred in 2016 setting rates for 2017. Some costs are allocated between MSS jurisdictions based on performance metrics. For example, maintenance and administrative costs are allocated among the agencies served by MSS using truck route hours and an average of projected revenue, annual customer counts, and department's percentage of wages, respectively. Depreciation and interest costs are allocated similarly. Management salaries are allocated to departments based upon actual time spent by management related to that department. R3 reviewed and recommended adjustments to allocation methodologies for depreciation and interest as part of this review, and found other allocations to be calculated accurately and appropriate for the purposes of the 2018 rate application.

### Expense Projections

MSS projected its 2018 expenses (less non-allowable costs such as: donations, fines for penalties, certain attorney's fees, goodwill, etc.) for each expense category by:

- Basing wage and salary expenses on 2017 expenses increased by the percentage change in the average annual San Francisco-Oakland-San Jose Metropolitan Area Consumer Price Index (Urban Wage Earners; 1982-1984=100) for June 2016 and 2017;
- Basing benefits expense, excluding Workers' Compensation expense, on the projected 2017 benefits expense increased by the percentage change in the annual average Employment Cost Index - Benefits (Private Industry Workers; 1982-1984=100) for June 2016 and 2017;
- Calculating Worker's Compensation expense by multiplying the 2017 wage projection by the applicable premium rates from the Contractor's insurance carrier for 2018;
- Forecasting projected 2018 disposal expense using projected tons multiplied by the applicable disposal/processing rate for 2018, plus adjustments for 2016 actual disposal expenses, and estimated 2017 disposal expenses calculated based on actual 2016 results and year-to-date 2017 results;<sup>1</sup>
- Forecasting projected 2018 fuel and oil expense as follows:<sup>1</sup>
  - Projected Year (2018) Fuel Expense - gallons established in the most recent detail year review (2016) at the average price per gallon based on actual year to date purchases; plus,
  - Current Year (2017) Expense Adjustment - gallons established in the most recent detail year review (2016) at the average price per gallon based on actual year to date purchases less the 2017 fuel expense established during the previous review; plus,

<sup>1</sup> Note that this methodology is consistent with prior review and the methodology used for other MSS franchise jurisdictions, including the Marin Franchisors' Group (San Rafael, Larkspur, Ross, County of Marin and Las Gallinas Valley Sanitary District).

## Section 3

MSS Projection  
Methodology  
(Index Year)

- Revised Prior Year (2016) Expense Adjustment - gallons established in the prior detail year review (2016) at the average price per gallon based on actual fuel purchases for 2016 less the 2016 fuel expense established during the previous review.
- Forecasting projected 2018 equipment and vehicle maintenance expense was based on the projected maintenance expense for 2017 increased by the percentage change in the annual average Motor Vehicle Related Index (All Urban Consumers, U.S. City Average; 1982-1984=100) for June 2016 and 2017;
- Forecasting projected 2018 depreciation and lease expense based on MSS's actual depreciation expense plus projected depreciation on anticipated purchases in the Rate Year (allocation of depreciation of trucks to the Town and other operations was based on truck usage metrics);
- Forecasting projected 2018 JPA Fees and processing charges based on tons collected for the Town by MSS for the period determined and rate established by the JPA;
- Forecasting projected 2018 other operating / general and administrative expense based on projected 2017 expense increased by the percentage change in the annual average San Francisco-Oakland-San Jose Metropolitan Area Consumer Price Index (All Urban Wage Earners; 1982-1984=100) for June 2016 and 2017; and
- Forecasting projected 2018 interest expense based on MSS's actual interest from its loan amortization schedules for actual and projected capital and adjusting 2017 expenses for any projected asset purchases from the prior rate year which were not purchased in the projected time period.

## Revenue Projections

MSS projects revenues at current rates to forecast revenues for the coming rate year, which, based on actual rate year 2017 data, is \$1,667,131 for 2018 (\$89 less than projected by MSS in its application). This amount is then adjusted by the various fees due to the City, including the 10% franchise fee (\$166,713), the Road Impact Fee (\$48,000) and fees for brush clearing (\$10,000) and consultant services (\$3,000 currently with recommended increase to \$9,000 for the purposes of this rate application). The projected revenues for 2018 net of fees is \$1,433,418 (\$93,746 less than the revenue requirement), which is the basis for the 6.54% recommended rate adjustment.

## Profit Projections

MSS calculated its 2018 profit by applying the agreed-upon 90.5% pre-tax operating ratio to its 2018 total projected expenses that are eligible for profit. This calculation automatically recalculated MSS profit after accounting for adjustments to expenses.

## Calculated Rate Adjustment Factor

The Rate Adjustment Factor equals the Total Contractor's Revenue Requirement for the coming Rate Year divided by the Gross Rate Revenues. Gross Rate Revenues mean the statements of charges for services rendered by Contractor, to owners or occupants of property, including residential and commercial premises, for the collection of materials pursuant to the Agreement. MSS calculated the 2018 Rate Adjustment to be a 7.58% increase.

## Section 4

Proposed  
Adjustments to  
MSS Rate  
Application

## Proposed Adjustments to MSS Rate Application

This section provides a summary of the R3 recommended adjustments to the MSS 2018 Rate Application, and the rationale for those adjustments. R3's recommended projections for MSS' operations are shown in Table 6 below and are discussed in more detail following the table.

**Table 6: Summary of Adjustments to 2018 Rate Application**

Expenses and Revenues for Current Operations		MSS Proposed 2018 Rate Application	R3 Recommended Adjustments	R3 Recommended 2018 Rate Application
<b>Expenses</b>				
1	Wages	\$ 436,691	\$ -	\$ 436,691
2	Benefits	282,111	1,422	283,533
3	Disposal Fees	277,779	(5,490)	272,289
4	Fuel & Oil	66,465		66,465
5	Maintenance Expense	107,423	-	107,423
6	Depreciation/Leases	137,718	(3,406)	134,312
7	Other Operating/G&A	74,121	(12,000)	62,121
8	<b>Total Operating Expenses</b>	<b>1,382,308</b>	<b>(19,474)</b>	<b>1,362,834</b>
9	Operating Profit	145,104	(2,044)	143,060
10	Interest Expense	21,270	-	21,270
11	<b>Revenue Requirement</b>	<b>1,548,682</b>	<b>(21,518)</b>	<b>1,527,164</b>
<b>Projected Revenues at Current Rates</b>				
12	Projected Route Revenues	1,667,220	(89)	1,667,131
13	Less: Franchise Fees	(166,722)	9	(166,713)
14	Less: Consultant Fee and Brush Clearing Fee	(13,000)	(6,000)	(19,000)
15	Less: Vehicle Impact Fee	(48,000)		(48,000)
16	<b>Net Revenues</b>	<b>1,439,498</b>		<b>1,433,418</b>
17	Revenue Surplus/(Shortfall) (Line 16 - Line 11)	(109,184)		(93,746)
18	<b>Calculated Rate Adjustment (Line 17 / Line 16)</b>	<b>7.58%</b>		<b>6.54%</b>

R3

## Section 4

### Proposed Adjustments to MSS Rate Application

## Adjustments to 2018 Projected Expenses for Current Operations

### Wages

R3 reviewed and does not recommend an adjustment to MSS' projected 2018 wages expense (Table 6, Line 1).

### Benefits

R3 reviewed and recommends increasing the benefits expense by a net of \$1,422 due to the following (Table 6, Line 2):

- Increase benefits, other than workers' compensation. MSS' application calculated these costs based on an annual average change in the Employment Cost Index (ECI) (yielding a 1.8% increase) instead of the year over year change as prescribed by the agreement (yielding a 1.9% increase); and
- Increase workers' compensation due to an updated (and final) insurance premium amount that was higher than MSS initially expected and included in their rate application.

### Disposal Fees

R3 reviewed and recommends reducing disposal fees by \$5,490 for the following (Table 6, Line 3) due to adjustments to the projected expenses in prior years which were incorrectly entered in MSS' original application.

### Fuel & Oil

R3 reviewed and does not recommend an adjustment to MSS' projected 2018 fuel expense (Table 6, Line 4).

### Maintenance Expense

R3 reviewed and does not recommend an adjustment to MSS' projected 2018 maintenance expense (Table 6, Line 5).

### Depreciation/Leases

R3 reviewed and recommends reducing depreciation by \$3,406 (Table 6, Line 6) as a result of extending the depreciation term for new vehicle assets purchased in 2018.

### Other Operating / G&A

R3 reviewed and recommends a \$12,000 reduction to MSS' projected 2018 Other Operating / G&A expense (Table 6, Line 7) due to moving expenses for consulting service related to review of the 2018 rate application to consultant fees (line 14) as this expense should not be subject to MSS profit.

R3

Section 4

Proposed  
Adjustments to  
MSS Rate  
Application

### Operating Profit

R3 reviewed and recommends reducing MSS' projected operating profit by \$1,414 (Table 6, Line 9) which is a result of net decreases in operating costs described above.

### Interest Expense

R3 reviewed and does not recommend adjustments to MSS' projected interest (Table 6, Line 10).

### Projected Route Revenues

R3 reviewed and recommends an \$89 reduction in projected route revenues (Table 6, Line 12) which is due to the difference between MSS' projected 2017 route revenues (as they were in December 2017) and the actual route revenues which were available during this review.

### Franchise and Other Fees

R3 reviewed and recommends an \$9 reduction in projected franchise fees (Table 6, Line 13) which is due to the adjustment to projected route revenues noted above. We also recommend an increase to projected consultant fees (Table 6, Line 14) of \$6,000, which is net of the \$12,000 reduction to Other Operating / G&A, for total projected consultant fees of \$9,000 (\$6,000 less than was previously in the rate application). This is demonstrated in Table 6 as a reduction in revenues available to meet MSS's revenue requirement.

## 2018 Recommended Adjustment

Based on a recommend revenue requirement of \$1,527,164 (Table 6, Line 11) and projected net revenues of \$1,433,418 (Table 6, Line 16) for the calendar year 2018 resulting from our recommended adjustments to MSS' application, a 6.54% Rate Adjustment Factor has been calculated, to be effective January 1, 2018.

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## Section 4

Proposed  
Adjustments to  
MSS Rate  
Application

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