




# TOWN OF FAIRFAX

## STAFF REPORT

### March 1, 2017

**TO:** Mayor and Town Council

**FROM:** Garrett Toy, Town Manager 

**SUBJECT:** Adopt a resolution approving a 2.06% service rate increase for Marin Sanitary Service (MSS) for the provision of solid waste (garbage) and recycling services; Exempt from CEQA

---

#### **RECOMMENDATION**

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

#### **DISCUSSION**

In March 2016, the Council approved a rate *decrease* of 2.77% (effective January 1, 2016) for MSS services primarily due to reductions in fuel costs and depreciation. Previously, the Town approved a rate increase of 10.63% effective March 1, 2015. Prior to that the Town last adopted a MSS rate increase with the approval of the new service contract in December 2011. The rates at that time took effect January 1, 2012.

Per the service contract, MSS submitted a rate review application in October 2016 requesting a 2.86% increase to its solid waste rates for the Town effective January 1, 2017. As a matter of practice, staff works with the Councilmember Goddard and Vice-Mayor Lacques assigned to the Zero Waste Committee for direction in negotiations. In addition, the Town contracts with HF&H Consultants 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.

HF&H is well-suited to the task as it also 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. HF&H conducts its review after it has completed its review for the Franchisor's Group. As a result, HF&H has more months of actual MSS expenditures and revenues to analyze. Due to the timing of the submittal, MSS has less actual data and must rely more on projections for its October submittal.

HF&H has completed its review and determined that a **2.06% rate increase is appropriate**. Vice-Mayor Lacques and Councilmember Goddard and staff concur with the HF&H recommendation. Attached is the HF&H report which details the expenditure and revenue adjustments to the MSS request by both percentage and amounts. Specifically, the net percentage increase of 2.06% consists of the following: 1) wages increased by 1.34%, 2) benefits decreased by .57%, 3) fuel and oil up by 1.05%, 4) disposal expense down by 3.40%,

AGENDA ITEM # 11

5) depreciation and interest up by 3.38%, 6) maintenance up by .12%, 7) other operating expenses down by .07%, and 8) a revenue shortfall of .21%.

The primary increase in expenditures is for a “food scrap” collection program in which all residential customers will receive a small “food scrap” container (i.e., pail) and outreach materials to encourage the composting of food waste. The total cost for program is \$10,578: \$3,624 for labor, \$4,132 for food scrap containers, and \$2,822 for outreach materials and supplies for the program. The containers are depreciated over a 3-year period.

The total program cost represents approximately 0.83% of the proposed 2.06% increase. Both Vice-Mayor Lacques and Councilmember Goddard recommended the creation of this food scrap container program in an attempt to make it more convenient for customers to compost their food waste, thereby reducing the amount of food waste going to the landfill, and thus increasing the Town’s diversion rate.

The net effect of the increase is that residents with 32-gallon carts will pay \$0.64 more per month (\$31.29 to \$31.93/mo.). The increase is retroactive to January 1, 2017. However, due to the rate decrease last year, customers are still paying less for garbage service in 2017 than they did in 2015 (\$32.18 for 32-gallon). In comparison, the Franchisor’s Group approved a 5.71% increase (e.g., \$38.71 for 32 gallon) in MSS service rates for 2017.

### **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**

1. Resolution 17-\_\_
2. HF&H Report reviewing MSS’s 2017 Rate application
3. Refuse Rate Comparison 2016 - 2017

**RESOLUTION NO. 17-\_\_**

**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, 2017; 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 1, 2017, 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 1, 2017, 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.

**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, 2017.

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 1st day of March 2017 by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

---

John Reed, Mayor

Attest:

---

Michele Gardner, Town Clerk

**Town of Fairfax**  
Refuse Collection Rates

Effective 1/01/2017: 2.06% Rate Increase

<b>Residential Service (Bundled service includes 1 cart for garbage, 1 cart for organics and 1 split cart for recycling)</b>		
Weekly Service Rates	2017 Flat Rate	
	Monthly Rate (Billed Quarterly)	Monthly Rate (Billed Quarterly)
20 gallon cart	\$26.64	\$31.09
32 gallon cart	\$31.93	\$37.30
64 gallon cart	\$63.86	\$74.60
96 gallon cart	\$95.79	\$111.90
Low income - 20 gal* cart	\$23.15	\$27.05
Low income - 32 gal* cart	\$27.78	\$32.44
Low income - 64 gal* cart	\$55.56	\$64.88
Additional Organics Cart Rental (35 or 64 gallon cart)	\$1.68	\$1.68
Additional Split Cart Rental (64 or 96 gallon cart)	\$1.68	\$1.68

\*Must meet PG&E CARE program eligibility requirements

Distance Charges	Per cart, Each way
Distance 5' - 50'	\$4.77
Distance Over 50'	\$9.48

**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 1/01/2017: 2.06% Rate Increase

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

Garbage	Collections per Week						Additional one time empty
	1	2	3	4	5	6	
32 gallon	\$37.66	\$75.32	\$112.98	\$150.64	\$188.30	\$225.96	\$8.69
64 gallon	\$75.32	\$150.64	\$225.96	\$301.28	\$376.60	\$451.92	\$17.38
96 gallon	\$112.98	\$225.96	\$338.94	\$451.92	\$564.90	\$677.88	\$26.07
1 yard	\$187.74	\$316.28	\$444.68	\$573.32	\$701.82	\$830.31	\$32.10
2 yard	\$313.89	\$556.18	\$798.36	\$1,040.60	\$1,283.00	\$1,525.18	\$60.47
3 yard	\$440.13	\$796.17	\$1,152.10	\$1,508.14	\$1,863.97	\$2,155.41	\$89.10
4 yard	\$628.03	\$1,159.10	\$1,640.97	\$2,122.85	\$2,604.72	\$3,086.60	\$121.15
6 yard	\$789.94	\$1,430.73	\$2,071.77	\$2,712.81	\$3,353.90	\$3,994.93	\$178.04

\*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	\$125.23
Roll-off Compactor Hauling charge	\$160.01
Roll-off Compactor Special handling	rates vary by job
Stationary Front Loader (Per compacted yard)	\$80.97

**Organics ( F2E or Compost)**

Organics ( F2E or Compost)	Collections per Week						Additional one time empty
	1	2	3	4	5	6	
32 gallon	\$14.70	\$29.40	\$44.10	\$58.80	\$73.50	\$88.20	\$3.39
64 gallon	\$29.40	\$58.80	\$88.20	\$117.60	\$147.00	\$176.40	\$6.78
1 yard	\$102.70	\$205.40	\$308.10	\$410.80	\$513.50	\$616.20	\$23.70
2 yard	\$205.40	\$410.80	\$616.20	\$821.60	\$1,027.00	\$1,232.40	\$47.40
3 yard	\$308.10	\$616.20	\$924.30	\$1,232.40	\$1,540.50	\$1,848.60	\$71.10

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

# Town of Fairfax

Effective 1/01/2017: 2.06% Rate Increase

## Additional Commercial Service Fees per 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)	\$185.70
Box Rental Fee	Fee varies per size
Distance Charges	Per cart/bin, Each way
Distance 5' - 50'	\$4.77
Distance Over 50'	\$9.48

Town of Fairfax  
 Effective 1/01/2017: 2.06% Rate Increase

Multifamily Dwellings CARTS, BINS, ROLL-OFFS, COMPACTORS

Garbage	Collections per Week						Additional one time empty
	1	2	3	4	5	6	
32 gallon	\$31.93	\$63.86	\$95.79	\$127.72	\$159.65	\$191.58	\$7.37
64 gallon	\$63.86	\$127.72	\$191.58	\$255.44	\$319.30	\$383.16	\$14.74
96 gallon	\$95.79	\$191.58	\$287.37	\$383.16	\$478.95	\$574.74	\$22.11
1 yard	\$187.74	\$316.28	\$444.68	\$573.32	\$701.82	\$830.31	\$32.10
2 yard	\$313.89	\$556.18	\$798.36	\$1,040.60	\$1,283.00	\$1,525.18	\$60.47
3 yard	\$440.13	\$796.17	\$1,152.10	\$1,508.14	\$1,863.97	\$2,155.41	\$89.10
4 yard	\$628.03	\$1,159.10	\$1,640.97	\$2,122.85	\$2,604.72	\$3,086.60	\$121.15
6 yard	\$789.94	\$1,430.73	\$2,071.77	\$2,712.81	\$3,353.90	\$3,994.93	\$178.04

\*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	\$125.23
Roll-off Special handling	Rates vary by job
Hauling charge	\$160.01
Stationary Front Loader (Per compacted yard)	\$80.97



Town of Fairfax  
 Effective 1/01/2017: 2.06% Rate Increase

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

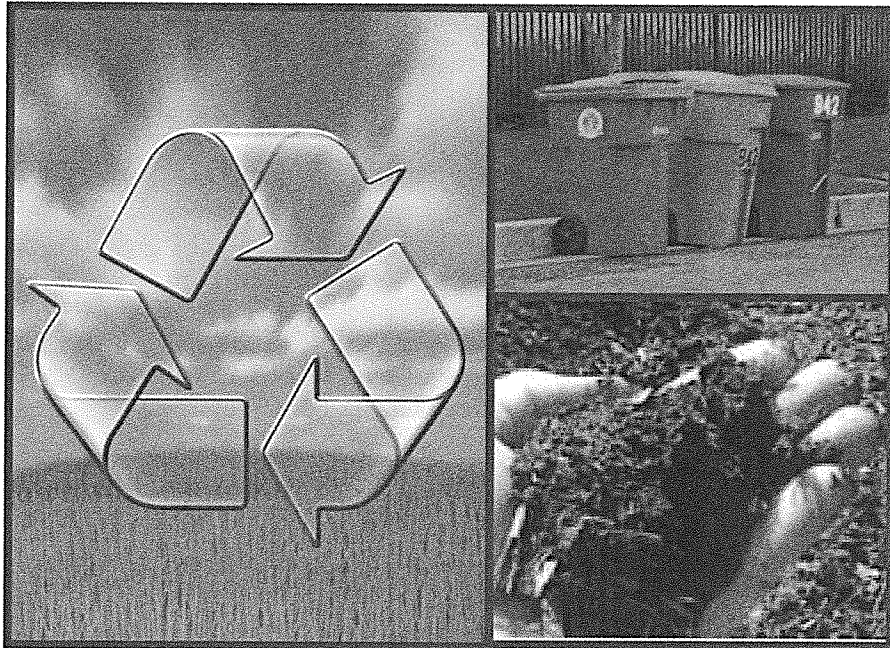
Fee

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
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)	\$185.70
Box Rental Fee	Fee varies per size
Distance Charges	Per cart/bin, Each way
Distance 5' - 50'	\$4.77
Distance Over 50'	\$9.48



# Town of Fairfax

## Review of Marin Sanitary Service's 2017 Rate Application



February 16, 2017

**ATTACHMENT 2**



HF&H Consultants, LLC

This page intentionally left blank



201 N. Civic Drive, Suite 230  
Walnut Creek, California 94596  
Telephone: 925/977-6950  
Fax: 925/977-6955  
www.hfh-consultants.com

Robert D. Hilton, CMC  
John W. Farnkopf, PE  
Laith B. Ezzet, CMC  
Richard J. Simonson, CMC  
Marva M. Sheehan, CPA  
Robert C. Hilton, CMC

February 16, 2017

*Sent via email*

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

*Reference Number: S3921*

**Subject: Review of Marin Sanitary Service's 2017 Rate Application**

Dear Mr. Toy:

On October 15, 2016, Marin Sanitary Service (MSS) submitted its application for a 2.86% increase to its solid waste rates for the Town of Fairfax (Town) to be effective January 1, 2017 (Application). HF&H was retained to conduct a review of the Application based on the current rate methodology agreed to between MSS and the Town. We find a 2.06% increase is appropriate. The increase includes 1.23% for basic operational costs and a 0.83% increase to add a new program to increase residential participation in the existing food scraps/yard waste (organics) program. The following table summarizes the current and proposed residential rates.

**Table 1: Residential Rate Summary**

Service	Current Rate (\$/mo.)	Proposed Rate (\$/mo.)	\$ Difference
20 Gallon	\$26.10	\$26.64	\$0.54
32 Gallon	\$31.29	\$31.93	\$0.64
64 Gallon	\$62.58	\$63.87	\$1.29
96 Gallon	\$93.87	\$95.80	\$1.93

**Findings and Recommendations**

Upon receipt of the Application, HF&H reviewed the documents for completeness and compliance with the procedures agreed upon by MSS and the Town, verifying the mathematical



February 16, 2017

Page 2 of 4

accuracy and logical consistency of the Application and supporting schedules.

Based on our review, we determined that a net rate increase of 2.06% to current rates is appropriate to compensate MSS for projected expenses based upon its current operation and agreed-upon procedures. We have provided the following table to provide the reasonableness of the rate adjustment based on isolated events affecting the rates:

**Table 2: Rate Adjustment Factor Components**

2017 Component Percentages	
Wages	1.34%
Benefits (including workers comp)	(0.57%)
Fuel & Oil	1.05%
Disposal	(3.40%)
Depreciation and Interest	3.38%
Maintenance	0.12%
Other Operating Costs <sup>(1)</sup>	(0.07%)
Subtotal Operations	1.85%
Revenue Shortfall net of Franchise Fees	0.21%
Rate Adjustment Factor	2.06%

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

**Breakdown of 2016 Rate Adjustment – 2.06%**

**Wages –1.34%**

As shown in Table 2, the wages expense component contributed 1.34% to the overall recommended 2.06% rate adjustment. The increase in wages is due to applying the applicable CPI index to the 2016 approved wage base plus the addition of an accounting position that was approved in 2013 as part of the operations improvement plan, but remained unfilled until 2016.

**Benefits – (0.57%)**

As shown in Table 2, the benefits expense component favorably contributed 0.57% to the overall recommended 2.06% rate adjustment. The decrease is attributable to a decrease in the 2017

February 16, 2017

Page 3 of 4

premiums for Workers Compensation insurance cost.

#### Fuel and Oil – 1.05%

As shown in Table 2, the fuel expense component contributed 1.05% to the overall recommended 2.06% rate adjustment. The increase is attributable to a favorable catch-up in the 2016 rate application that did not repeat, to the same extent, in the 2017 Application.

#### Disposal Expense – (3.40%)

As shown in Table 2, the disposal expense favorably contributed 3.40% to the overall recommended 2.06% rate adjustment. The decrease is a result of a reduction in actual 2015 volumes from the previous rate application and a reduction to projected 2016 volumes, offset by the annual change in disposal cost per ton (by the applicable CPI or contract price)..

After submitting the 2017 Rate Application, MSS renegotiated its agreement with Redwood and the new agreement will hold the 2017 rate for disposal of MSW to the same rate as 2016. This change has been incorporated in the 2017 rate review and the recommended 2.06% percent adjustment.

#### Depreciation and Interest – 3.38%

As shown in Table 2, the depreciation expense component contributed 3.38% to the overall recommended 2.06% rate adjustment. The increase is due to added depreciation and financing costs for replacement vehicles, equipment, food scrap containers, and building repairs allocated to the Town.

#### Maintenance – 0.12%

As shown in Table 2, the maintenance expense component contributed 0.12% to the overall recommended 2.06% rate adjustment. Maintenance costs had a slight increase year over year, primarily related to the change in CPI.

#### Other Operating Expenses – (0.07%)

As shown in Table 2, the “other operating costs” component favorably contributed 0.07% to the overall recommended 2.06% rate adjustment. General and administrative (G&A) costs, other than Marin County JPA fees, were increased by the change in CPI. The Marin County JPA fees were adjusted to the actual charge by the County which decreased from the prior year.

#### Revenue – 0.21%

As shown in Table 2, a revenue shortfall contributed 0.21% of the overall recommended 2.06% rate adjustment.



February 16, 2017

Page 4 of 4

\* \* \* \*

We would like to express our appreciation to MSS' management and staff for their assistance. In addition, we express our appreciation to you for your assistance and guidance during the course of the review. Should you have any questions, please call Marva Sheehan at (925) 977-6961; or Scott Holt at (925) 977-6967.

Sincerely,

HF&H CONSULTANTS, LLC

Marva M. Sheehan, CPA  
Vice President

Scott Holt  
Senior Associate

cc: Ms. Patricia Garbarino, Marin Sanitary Service  
Mr. Neil Roscoe, Marin Sanitary Service

## TABLE OF CONTENTS

**SECTION I. BACKGROUND ..... 1**  
Description of Current Services ..... 1

**SECTION II. RATE REVIEW APPROACH ..... 2**  
Rate Adjustment Methodology ..... 2  
HF&H Scope of Review ..... 2  
Limitations..... 3

**SECTION III. MSS’ PROJECTION METHODOLOGY (INDEX YEAR)..... 4**  
Current Operations ..... 4  
Profit ..... 5  
MSS’ Calculated Rate Adjustment..... 5

**SECTION IV. PROPOSED ADJUSTMENTS ..... 6**  
Adjustments to 2017 Projected Expenses for Current Operations ..... 6  
Adjustments to Projected Revenue at Current Rates..... 8

**SECTION V. RATE ADJUSTMENT ..... 9**  
Rate Adjustment Factor ..... 9



*This page intentionally left blank*

## SECTION I. BACKGROUND

### Description of Current Services

The Town entered into a franchise agreement with Marin Sanitary Service (MSS) to provide franchised refuse, recyclable materials, and yard waste collection and processing services to the residents and businesses of the Town, commencing December 1, 2011 (Agreement). In addition to providing service to the Town, MSS also serves the cities of San Rafael and Larkspur, the Town of Ross, the County of Marin, and the Las Gallinas Valley Sanitary District (LGVSD), collectively referred to as the "Marin Franchisor's Group". Additionally, MSS and its non-franchised related entities (Marin Resource and Recovery Association (MRRA), and the Marin Resource Recovery Center (MRRC)) provide solid waste, recyclable materials, and yard waste collection and processing services to the residents and businesses of San Anselmo. 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's service area to the MSS transfer station and then transports it to the Redwood Sanitary Landfill (Redwood), an unrelated party. MSS delivers recyclable materials to the non-franchised MRRA, where materials are processed and marketed. MSS delivers loads of refuse that have been identified as recyclable-rich (usually commercial), separated yard waste loads (collected from residents), and public self-haul loads to the non-franchised MRRC, where recyclable materials are extracted from the waste stream, processed and marketed. The MRRC delivers residual waste (the materials remaining after the recyclable materials are extracted) to the MSS transfer station. This residual waste is transferred to Redwood.

As part of the new Agreement, residents were able to include food scraps in their yard waste cart. This organic material (Organics) is transferred to Redwood for composting.

In early 2014, MSS began collection and processing for the Food-to-Energy program (F2E) previously approved by the Town and incorporated into the 2015 rate application. Food waste is collected using a specialized vehicle and processed on a dedicated sort line at MSS and delivered to the Central Marin Sanitary Agency (CMSA) for conversion to energy. In 2016, there were 13 Town customers participating in the program with an additional 5 customers expected to be added in 2017.

## SECTION II. RATE REVIEW APPROACH

### Rate Adjustment Methodology

The Rate Adjustment Methodology is prescribed in Exhibit A of the Agreement. The methodology is consistent with the methodology developed in cooperation with MSS and approved by the Marin Franchisor's Group in 2001. In 2012, the Marin Franchisor's Group negotiated a revised contractor's revenue requirement and rate adjustment methodology with MSS. The Town has not adopted the revised methodology and may want to consider it in the future.

### HF&H Scope of Review

The Town engaged HF&H, in November 2016, to perform a review of the Application in accordance with the rate adjustment methodology (i.e., agreed-upon procedures). The scope of this review is described in our engagement letter dated October 27, 2016. These procedures included the following activities:

- Reviewing MSS management's projection of collection revenues for the 12-month period ending December 31, 2016.
- Reviewing the appropriateness of MSS management's classification of expenses into the various expense categories.
- Reviewing MSS management's calculation of rate year 2017 indexed expenses and comparing them to the calculated expenses for 2016, and the calculated changes to the indices.
- Reviewing MSS management's projection of other expenses including:
  - Workers' Compensation, which was reviewed by determining if the base wages, established as part of the prior review, were properly multiplied by the applicable premium rates from MSS' insurance carrier.
  - Disposal Expense for residential and solid waste tons transferred at MSS' transfer station, which was reviewed by evaluating MSS' projection for 2016 disposal expense adjustments for the 2015 projection based on historical trends, management's plans and adjustments to the disposal rates.
  - Commercial Mixed Waste Processing Expense for commercial tons processed at MSS' processing facility, which was reviewed by evaluating MSS' projection for 2016 commercial mixed waste processing. We verified that the processing rate per ton was calculated in accordance with the rate-setting methodology.
  - Organics Processing Expense, which was reviewed by evaluating MSS' projection for 2016 organics processing. We verified that the processing rate per ton was calculated in accordance with the rate-setting methodology.
  - The Transfer/Transport Adjustment for the Town's tonnage transferred and transported through MSS' transfer station was reviewed by evaluating MSS' tonnage projection for 2016. We verified that the Transfer/Transport Fee per ton was calculated in accordance with the rate-setting methodology.

- Fuel Expense was reviewed by evaluating MSS' 2016 projection. We reviewed MSS' calculations of the average price per gallon for fuel and verified the use of the proper projected gallons.
- Depreciation/Lease Expense projections were reviewed by evaluating the reasonableness of MSS management's estimates for these expenses based on historical trends and records and MSS management's plans. We reviewed MSS' adjustments to previous year projections.
- JPA Fees expense was reviewed by analyzing documentation from the JPA and MSS projections.
- HF&H reviewed all proposed adjustments to MSS' application to the Marin Franchisor's Group to determine if the adjustments were applicable to the Town. If applicable, the appropriate adjustments were proposed.
- Reviewing MSS management's calculation of projected profit for compliance with the procedures and mathematical accuracy.
- Reviewing MSS management's allocation of revenues and expenses among the Town, the Marin Franchisor's Group, and other service areas, in accordance with procedures agreed to by the Town and the Marin Franchisor's Group.
- Meeting once with MSS management to review our adjustments to their calculated and projected revenues and expenses and their allocation among the Marin Franchisor's Group. We obtained management's comments, reviewed any additional material, and amended our adjustments.
- Preparing this written report documenting our findings and recommendations.

### Limitations

Our review was substantially different in scope than an examination in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. However, Chiao Smith McMullin + McGuire, An Accountancy Corporation, issued an unqualified opinion of MSS' 2015 financial statements. The unqualified opinion denotes that the financial statements of MSS were presented fairly in all material respects.

There are related-party transactions included in MSS' 2017 projections at rates that have been discussed and allowed by the Marin Franchisor's Group in their Rate Methodology Amendment and for their 2017 rate-setting process.

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.

## **SECTION III. MSS' PROJECTION METHODOLOGY (INDEX YEAR)**

### **Current Operations**

In projecting 2017 costs, MSS included the direct costs for the Town's garbage, recycling and organics collection as applicable, while costs related to overall MSS operations are allocated based on prior agreed-upon procedures. Shop costs 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 departments' percentage of wages, respectively.

### **Expenses**

MSS projected its 2017 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 2016 projected 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 2015 and 2016.
- Basing benefits expense, excluding Workers' Compensation expense, on the projected 2016 benefits expense, increased by the percentage change in the annual average Employment Cost Index – Benefits (Private Industry Workers; 1982-1984=100) for June 2015 and 2016.
- Calculating Worker's Compensation expense by multiplying the 2016 wage projection (Base Year Revenue Requirement) by the applicable premium rates from the Contractor's insurance carrier for 2017.
- Forecasting projected 2017 disposal expense using projected tons multiplied by the applicable disposal/processing rate for 2017, plus transfer/transport charges for transferring the Town's disposal tonnage to Redwood.
- Forecasting projected 2017 fuel and oil expense using the gallons established in the most recent detail year of the Marin Franchisor's Group (2016) at the average price per gallon based on actual year-to-date purchases.
- Forecasting projected 2017 equipment and vehicle maintenance expense based on the projected maintenance expense for 2016, 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 2015 and 2016.
- Forecasting projected 2017 depreciation and lease expense based on MSS' 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).
- Forecasting projected 2017 JPA Fees based on tons collected for the Town by MSS for the period determined and rate established by the JPA.

- Forecasting projected 2017 other operating/general and administrative expense based on projected 2016 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 2015 and 2016.
- Forecasting projected 2017 interest expense based on MSS' actual interest from its loan amortization schedules for actual and projected capital, adjusting 2017 for any projected asset purchases from the prior rate year that were not purchased during the projected time period.

### **Route Revenues**

MSS projected revenue based on the actual revenue received from servicing the Town through June 2016 and forecasting the remainder of the year.

### **Profit**

MSS calculated its 2017 profit by applying the agreed-upon 90.5% pre-tax operating ratio to its 2017 total projected expenses that are eligible for profit.

### **MSS' Calculated Rate Adjustment**

MSS calculated the 2017 Rate Adjustment to be 2.86%. 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, net of a reasonable allowance for uncollectible accounts, and adjusted for the calculated three-year revenue experience.

**SECTION IV. PROPOSED ADJUSTMENTS**

This section provides a summary of the HF&H recommended adjusted revenue requirement. HF&H's recommended projections for MSS' operations are shown in Table 3 below and our recommended adjustments to MSS' projections are discussed in more detail following the table.

**Table 3: Summary of Adjustments**

	MSS Application	Recommended Adjustments	HF&H Adjusted Application	
<b><u>Expenses: Current MSS Operations</u></b>				
1	Wages	\$ 420,879	\$ 2,682	\$ 423,561
2	Benefits	282,505	(6,436)	276,069
3	Disposal Fees	249,951	(10,769)	239,182
4	Fuel & Oil	45,291	-	45,291
5	Maintenance Expense	105,420	-	105,420
6	Depreciation/Leases	117,128	7,810	124,938
7	Other Operating/G&A	77,094	(4,482)	72,612
8	<b>Total Operating Expenses</b>	<b>1,298,268</b>	<b>(11,195)</b>	<b>1,287,073</b>
9	Operating Profit	136,282	(1,175)	135,107
10	Interest Expense	23,333	9	23,342
11	<b>Total Expenses for Current Operations</b>	<b>1,457,883</b>	<b>(12,361)</b>	<b>1,445,522</b>
12	<b>Revenue Requirement for Current Services</b>	<b>\$ 1,457,883</b>	<b>\$ (12,361)</b>	<b>\$ 1,445,522</b>
<b><u>Projected Revenue (at current rates)</u></b>				
13	Route Revenues	1,642,550	(1,026)	1,641,524
14	Less: Franchise Fees	(164,255)	103	(164,152)
15	Less: Consultant Fee	(3,000)		(3,000)
16	Less: Brush Clearing/Fuel Reduction Fee	(10,000)		(10,000)
17	Less: Refuse Vehicle Impact Fee	(48,000)	-	(48,000)
18	Add: Non-Regulated Revenues	-		-
19	<b>Net Revenues (at current rates)</b>	<b>\$ 1,417,295</b>	<b>\$ (923)</b>	<b>\$ 1,416,372</b>
20	<b>Total Surplus/ (Deficit) (Line 18 - Line 12)</b>	<b>\$ (40,588)</b>	<b>\$ 11,438</b>	<b>\$ (29,150)</b>
21	<b>Rate Impact (-Line 19 ÷ Line 18)</b>	<b>2.86%</b>		<b>2.06%</b>

**Adjustments to 2017 Projected Expenses for Current Operations****Wages**

HF&H recommends an increase to wages by a net of \$2,682 (Table 3, Line 1) due to the following:

- A decrease to wages expense by \$942 to limit the wages for the accounting position (that remained unfilled until 2016) to the amount approved as part of the Operations Improvement Plan.

The cost for the position was initially approved in 2012, but has been excluded from the rates since the position remained unfilled. When the position was filled, it was at a higher amount than approved and would have otherwise been in the rates had it not been excluded in past reviews. This proposed adjustment limits the expense to the amount originally approved.

- An Increase to wages of \$3,624 for additional labor costs for a food scraps collection program to be added in 2017.

### **Benefits**

HF&H recommends a decrease to benefits by a net of \$6,436 (Table 3, Line 2) due to the following:

- Reduce workers' compensation by \$5,692 due to an updated insurance quote that was lower than MSS initially expected; and,
- Reduce benefits, other than workers' compensation, by \$744 to limit the benefits for the accounting position to the amount that was initially approved as part of the Operations Improvement Plan.

### **Disposal Fees**

HF&H recommends a decrease to MSS' projected disposal fees by \$10,769 (Table 3, Line 3) due to the following:

- Reduce disposal by \$3,110 due to MSS renegotiating the disposal agreement at Redwood that will keep the 2017 rate the same as the 2016 rate.
- Reduce disposal by \$7,659 due to updated disposal projections resulting in a decrease in projected tonnage for rate years 2016 and 2017. The Application included projections through June 2016 that were annualized through the end of the year and carried forward to 2017. MSS revised the projections through September 2016, which resulted in a reduction to projected 2016 and 2017 tonnage.

### **Fuel & Oil**

HF&H reviewed and does not recommend an adjustment to MSS' projected 2017 fuel expense (Table 3, Line 4)

### **Maintenance Expense**

HF&H reviewed and does not recommend an adjustments to MSS' projected 2017 Maintenance Expense (Table 3, Line 5).

### **Depreciation/Leases**

HF&H reviewed and recommends an increase to depreciation by \$7,810 (Table 3, Line 6) due to the following:



- An increase to depreciation of \$3,678 due to MSS excluding the expense on depreciable truck repairs for assets utilized in the Town and multiple other jurisdictions that were not proportionately allocated.
- An increase to depreciation of \$4,132 to purchase containers for a food scraps collection program to be added in 2017.

### **Other Operating/G&A**

HF&H reviewed and recommends a decrease of \$4,482 to MSS' projected 2017 Other Operating/G&A expense (Table 3, Line 7) due to the following:

- A decrease of \$7,304 due to MSS including the MRR fee from 2016 in the indexed costs for 2017 before adding the 2017 MRR fee as an additional expense that resulted in an extra charge in the rate application.
- An increase of \$2,822 for outreach and supplies for a food scraps collection program to be added in 2017.

### **Operating Profit**

HF&H recommends a decrease to MSS' projected operating profit by \$1,175 (Table 3, Line 9), resulting from the decreases in operating costs described above.

### **Interest Expense**

HF&H recommends an increase to MSS' projected 2017 interest expense by \$9 (Table 3, Line 10).

### **Adjustments to Projected Revenue at Current Rates**

HF&H recommends a decrease to MSS' projected route revenues by \$1,026 (\$923 net of 10% Franchise Fee) due to MSS' use of updated projections to estimate the 2016 revenue. The Application included projections through June 2016 that were annualized through the end of the year and used to calculate the Rate Adjustment Factor for 2017. MSS revised the projections through October 2016, which resulted in a decrease in expected 2016 revenue compared to when the Application was originally submitted.

## SECTION V. RATE ADJUSTMENT

### Rate Adjustment Factor

Based on a revenue requirement of \$1,445,522 (Table 3, Line 12) and projected revenues of \$1,416,372 (Table 3, Line 19) for calendar year 2017, resulting from our recommended adjustments to MSS' Application, a 2.06% Rate Adjustment Factor has been calculated, effective January 1, 2017.

This rate increase of 2.06%, results primarily from:

- An increase in:
  - Wages due to the addition of the final position included in the Operation Improvement Plan that was previously unfilled. This was an approved expense in prior applications but was disallowed in the prior year since it remained unfilled at the time the application was finalized. MSS filled the position in 2016, resulting in an additional expense in the 2017 rate application.
  - Fuel due to a favorable adjustment of \$32,620 in the prior rate year that is not repeating in 2017.
  - Depreciation and interest due to additional depreciation and financing costs for replacement vehicles and building repairs allocated to the Town.
  - Maintenance due to the annual change in expense by the applicable Consumer Price Index.
  - A revenue shortfall due to a decrease in projected 2016 revenue from the prior year rate application.
  - The addition of kitchen pails for the collection a food scraps in 2017 for a cost of \$10,578 which includes all program costs (cost of kitchen pails, labels for pails, brochures and delivery of items to residential customers).
- A decrease in:
  - Benefits due to lower Worker's Compensation insurance premiums in 2017.
  - Disposal expense due to a favorable change in actual and projected volumes included in the Application.
  - In Other Operating Costs due County JPA fees being lower than what was included in the previous rate application.

The following table shows the components of the rate decrease:

**Table 4: Rate Adjustment Factor Components**

2017 Component Percentages	
Wages	1.34%
Benefits (including workers comp)	(0.57%)
Fuel & Oil	1.05%
Disposal	(3.40%)
Depreciation and Interest	3.38%
Maintenance	0.12%
Other Operating Costs <sup>(1)</sup>	(0.07%)
Subtotal Operations	1.85%
Revenue Shortfall net of Franchise Fees	0.21%
Rate Adjustment Factor	2.06%

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

**Town of Fairfax**  
**Refuse Collection Rates**

Effective 1/01/2017: 2.06% 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	2017 Flat Rate		Increase
	Monthly Rate (Billed Quarterly)	Monthly Rate (Billed Quarterly)	
20 gallon cart	\$26.64	\$26.10	\$0.54
32 gallon cart	\$31.93	\$31.29	\$0.64
64 gallon cart	\$63.86	\$62.58	\$1.28
96 gallon cart	\$95.79	\$93.87	\$1.92
Low income - 20 gal* cart	\$23.15	\$22.68	\$0.47
Low income - 32 gal* cart	\$27.78	\$27.22	\$0.56
Low income - 64 gal* cart	\$55.56	\$54.44	\$1.12
Additional-Organics Cart Rental (35 or 64 gallon cart)	\$1.68	\$1.65	\$0.03
Additional Split Cart Rental (64 or 96 gallon cart)	\$1.68	\$1.65	\$0.03

\*Must meet PG&E CARE program eligibility requirements

Distance Charges	Per cart, Each way	Increase
Distance 5' - 50'	\$4.77	\$0.10
Distance Over 50'	\$9.48	\$0.19

**Town of Fairfax**

Effective 1/01/2017: 2.06% Rate Increase

		2017	2016	Increase	Increase %
<b>COMMERCIAL CARTS, BINS, ROLL-OFFS, COMPACTORS</b>		Collections per Week			
<b>Garbage</b>	1	1	1		
20 gallon		\$32.01	\$31.37	\$0.65	2.06%
32 gallon		\$37.66	\$36.90	\$0.76	2.06%
64 gallon		\$75.32	\$73.80	\$1.52	2.06%
96 gallon		\$112.98	\$110.70	\$2.28	2.06%
1 yard		\$187.74	\$183.95	\$3.79	2.06%
2 yard		\$313.89	\$307.55	\$6.34	2.06%
3 yard		\$440.13	\$431.25	\$8.88	2.06%
4 yard		\$628.03	\$615.35	\$12.68	2.06%
6 yard		\$789.94	\$774.00	\$15.94	2.06%

\*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.

		2017	2016	Increase	Increase %
<b>Garbage Compactors</b>		Collections per Week			
Roll-off Compactor Tipping fee per ton		\$125.23	\$122.70	\$2.53	2.06%
Roll-off Compactor Hauling charge		\$160.01	\$156.78	\$3.23	2.06%
Roll-off Compactor Special handling	rates vary by job				
Stationary Front Loader (Per compacted yard)		\$80.97	\$79.34	\$1.63	2.06%
<b>Organics( F2E or Compost)</b>		Collections per Week			
	1	1	1	Increase	Increase %
32 gallon		\$14.70	\$14.40	\$0.30	2.08%
64 gallon		\$29.40	\$28.80	\$0.60	2.08%
1 yard		\$102.70	\$100.63	\$2.07	2.06%
2 yard		\$205.40	\$201.26	\$4.14	2.06%
3 yard		\$308.10	\$301.89	\$6.21	2.06%

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

Town of Fairfax  
 Effective 1/01/2017: 2.06% Rate Increase  
 Multifamily Dwellings CARTS, BINS, ROLL-OFFS, COMPACTORS

	2017	2016	Increase	Increase %
Collections per Week				
<b>Garbage</b>	1	1		
20 gallon	\$27.14	\$26.60	\$0.54	2.04%
32 gallon	\$31.93	\$31.29	\$0.64	2.05%
64 gallon	\$63.86	\$62.58	\$1.28	2.05%
96 gallon	\$95.79	\$93.87	\$1.92	2.05%
1 yard	\$187.74	\$183.95	\$3.79	2.06%
2 yard	\$313.89	\$307.55	\$6.34	2.06%
3 yard	\$440.13	\$431.25	\$8.88	2.06%
4 yard	\$628.03	\$615.35	\$12.68	2.06%
6 yard	\$789.94	\$774.00	\$15.94	2.06%

Recycling and Organics carts provided at no additional charge.  
 Minimum service level is 32 gallons per unit or equivalent volume

	2017	2016	Increase	Increase %
<b>Garbage Compactors</b>				
Roll-off Tipping fee per ton	\$125.23	\$122.70	\$2.53	2.06%
Roll-off Special handling	Rates vary by job			
Hauling charge	\$160.01	\$156.78	\$3.23	2.06%
Stationary Front Loader (Per compacted yard)	\$80.97	\$79.34	\$1.63	2.06%