



# TOWN OF FAIRFAX

## STAFF REPORT

### March 2, 2016

**TO:** Mayor and Town Council

**FROM:** Garrett Toy, Town Manager

**SUBJECT:** Adopt a resolution approving a rate decrease schedule for Marin Sanitary Service (MSS) for the provision of solid waste (garbage) and recycling services and amending the agreement with MSS to substitute the Free On-Call Household Hazardous Waste (HHW) Pick-up program with a Semi-Annual Curbside Clean-Up Service and an On-Call Bulky Item service. Exempt from CEQA

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#### RECOMMENDATION

- 1) Open/close public hearing
- 2) Adopt a resolution approving a rate schedule for Marin Sanitary Service (MSS) for the provision of solid waste (garbage) and recycling services and authorizing the Mayor to sign the amendment to the agreement with MSS.

#### DISCUSSION

In July 2015, the Town approved a negotiated a rate increase of 10.63% effective March 1, 2015 for MSS services. 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 for 2016 requesting a 4.27% decrease to its solid waste rates for the Town effective January 1, 2016. As a matter of practice, staff works with the Councilmembers (Mayor Goddard, Councilmember Lacques) assigned to the Zero Waste Committee for direction in negotiations. In addition, the Town contracts with HF&H Consultants to review 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 is required to conduct an independent review of the request. The HF&H report indicates a rate reduction of 2.77% is justified. There are two primary reasons for the reduction: fuel costs and depreciation.

Fuel expense is projected for the 2016 rate year based on the average fuel cost per gallon at the time the rate application is submitted to the Town. At the same time, the fuel expense for the two prior rate years is "trued-up" to reflect the change in the fuel price per gallon. Specifically, fuel prices are showing a downward trend that resulted in an overstated fuel expense in 2014 by \$4,332 and in 2015 by \$28,288 that was trued-up in the 2016 rate application. The 2016 rate application reflects this "credit" of \$32,620. Without this "credit," fuel expense would be \$63,020 for the 2016 rate year. We do not anticipate a "credit" in the 2017 rate setting process.

With regard to depreciation expense, the decrease is due to route trucks and residential carts used for servicing the Town's customers reaching full depreciation in 2016 resulting in a lower expense. Once the assets reach the end of their remaining service life, it is expected that MSS will need to purchase new equipment that may add approximately \$40,000 to the Town's annual depreciation expense.

It should be noted that this year, the cost for HF&H's rate analysis (approx. \$15,000) is being fully reimbursed by the MSS rates. The current MSS agreement only builds in \$3,000 to cover the cost of the rate review. The additional cost is \$12,000, but is offset by reductions in other expenses. Last year, the Town did not include the full reimbursement of HF&H fees in the rate adjustment in an effort to keep the rate increase to a more reasonable level.

This year represents an anomaly as rates are proposed to be reduced. Furthermore, the proposal recommended to the Council (2.77% reduction) is higher than the MSS request (4.27% reduction). This oddity reflects the situation that HF&H has a few months more of the actual revenues MSS has collected and expenses incurred. Due to the timing of the submittal, MSS has less actual data and must rely more on projections.

The Council subcommittee is also recommending that the Town substitute its Free On-Call Household Hazardous Waste (HHW) Pick-up program with a Semi-Annual Curbside Clean-Up Service and an On-Call Bulky Item service. The HHW program is costly to maintain and rarely used by residents (5 households in 2015). The two proposed programs are similar to the services that MSS offers the Franchisor's Group and can be offered at no additional cost to the Town.

For each Semi-Annual Clean-Up Collection event, each customer shall be permitted to place up to two (2) cubic yards (equivalent to fourteen (14) standard 32-gallon bags) of Solid Waste, Recyclable Materials and/or Compostable Materials for collection at no charge. With regard to the On-Call Bulky Item Service, each residential customer may call prior to their regular collection day and schedule two (2) collections of up to two bulky items each per calendar year. These services would start in the fall of 2016 with one scheduled curbside and one on-call bulky item collection. This would increase to two of each in 2017. Attached is information on the program. The Council subcommittee and MSS both believe these programs will be highly beneficial to the community.

In order to substitute the services, the Town is required to modify Exhibit A of the agreement with MSS. Exhibit A contains the description of services provided by MSS under the agreement.

The net effect of the reduction is that residents with 32-gallon carts will save \$0.89/month retroactive to January 1, 2016. Please note that this is an artificial reduction due to the "credit" for fuel expenses and decrease in depreciation expenses. If for no other reason, we anticipate that rates will increase next year to reflect the true costs of fuel. It should also be noted that the Franchisor's Group approved a 5.66% increase in MSS service rates for 2016.

### **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 16-\_\_ (includes proposed Amendment to Agreement)
2. HF&H Report reviewing MSS's 2016 Rate application
3. Original MSS agreement (2011)
4. General MSS Program information

RESOLUTION NO. 16-\_\_\_\_\_

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FAIRFAX APPROVING A GARBAGE AND RECYCLING SERVICE RATE DECREASE 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 decrease in service charges to commence on January 1, 2016; and

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

**WHEREAS**, the Town and MSS have mutually agreed to substitute the Free On-Call Household Hazardous Waste (HHW) Pick-up program with a Semi-Annual Curbside Clean-Up Service and an On-Call Bulky Item service; and

**WHEREAS**, the HHW program is costly to maintain by MSS and rarely used by residents and the Curbside Clean-Up and On-Call Bulky Item program can be offered at no additional cost to the Town; and

**WHEREAS**, the Town desires to amend the current Franchise Agreement with Marin Sanitary Service to modify Exhibit A 'Description of Services' to the Agreement in order to better serve the residents of Town; and

**WHEREAS**, the First Amendment to the current Franchise Agreement is attached hereto and incorporated herein as Exhibit 2; and

**WHEREAS**, the Town scheduled a public hearing on March 2, 2016, to consider Marin Sanitary Service's proposed new rates; 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 2, 2016, 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 to consider the requested decrease on March 2, 2016, 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 becoming effective on January 1, 2016.

**SECTION 4.** The Town Council hereby authorizes the Mayor to execute the First Amendment to the current Franchise Agreement set forth in Exhibit 2.

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 2nd day of March 2016 by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Renée Goddard, Mayor

Attest:

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Michele Gardner, Town Clerk

**EXHIBIT C**  
**Town of Fairfax**  
**Refuse Collection Rates**  
**Effective 1/1/2016**

Effective 1/1/2016 - 2.77% Rate Decrease

<b>Residential Service (Bundled service includes 1 cart for garbage, 1 cart for organics and 1 split cart for recycling)</b>								
Cart Service	FLAT			HILL			Flat Quarterly Rate	Hill Quarterly Rate
	Current 2015 Rate Monthly	New 1/01/2016 Rate		Current 2015 Rate Monthly	New 1/01/2016 Rate			
Weekly Service	Monthly	Monthly	Amt of Inc	Monthly	Monthly	Amt of Inc		
20 gallon	\$26.84	\$26.10	(\$0.74)	\$31.33	\$30.46	(\$0.87)	\$78.30	\$91.38
32 gallon	\$32.18	\$31.29	(\$0.89)	\$37.59	\$36.55	(\$1.04)	\$93.87	\$109.65
64 gallon	\$64.36	\$62.58	(\$1.78)	\$75.18	\$73.10	(\$2.08)	\$187.74	\$219.30
96 gallon	\$96.54	\$93.87	(\$2.67)	\$112.77	\$109.65	(\$3.12)	\$281.61	\$328.95
Low income - 20 gal*	\$23.33	\$22.68	(\$0.65)	\$27.26	\$26.50	(\$0.76)	\$68.04	\$79.50
Low income - 32 gal*	\$28.00	\$27.22	(\$0.78)	\$32.70	\$31.79	(\$0.91)	\$81.66	\$95.37
Low income - 64 gal*	\$56.02	\$54.47	(\$1.55)	\$65.40	\$63.59	(\$1.81)	\$163.41	\$190.77
Low income - 96 gal*	\$84.02	\$81.69	(\$2.33)	\$98.11	\$95.39	(\$2.72)	\$245.07	\$286.17
Compacted 32 gal	\$64.36	\$62.58	(\$1.78)	\$75.18	\$73.10	(\$2.08)	\$187.74	\$219.30
Compacted 64 gal	\$128.72	\$125.15	(\$3.57)	\$150.36	\$146.20	(\$4.16)	\$375.45	\$438.60

\*Must meet PG&E CARE program eligibility requirements

<b>Multi-Family Service (Bundled service includes garbage, recycling and organics services)</b>			
Cart Service	Current 2015 Rate	New 1/01/2016 Rate	
	Monthly	Monthly	Amt of Inc
20 gallon*	\$26.84	\$26.10	(\$0.74)
32 gallon	\$32.18	\$31.29	(\$0.89)
64 gallon	\$64.36	\$62.58	(\$1.78)
96 gallon	\$96.55	\$93.88	(\$2.67)

Note: \* Multi-Family service is equivalent to one 32 gallon cart per unit-minimum, decrease to 20 gallon per unit subject to company review.

Rates are per container, per # of pickups/wk

Bin Service	Collections per Week						Per Pick Up
	1	2	3	4	5	6	
<b>Current 2015 Rate</b>							
1 yard	\$189.20	\$318.75	\$448.10	\$577.75	\$707.25	\$836.75	\$32.35
2 yard	\$316.30	\$560.45	\$804.55	\$1,048.65	\$1,292.90	\$1,536.95	\$60.95
3 yard	\$443.55	\$802.35	\$1,161.00	\$1,519.80	\$1,878.40	\$2,172.05	\$89.80
4 yard	\$632.90	\$1,168.05	\$1,653.65	\$2,139.25	\$2,624.85	\$3,110.45	\$122.10
6 yard	\$796.05	\$1,441.80	\$2,087.80	\$2,733.80	\$3,379.80	\$4,025.80	\$179.40
<b>New 1/1/2016</b>							
1 yard	\$183.95	\$309.90	\$435.70	\$561.75	\$687.65	\$813.55	\$31.45
2 yard	\$307.55	\$544.95	\$782.25	\$1,019.60	\$1,257.10	\$1,494.40	\$59.25
3 yard	\$431.25	\$780.10	\$1,128.85	\$1,477.70	\$1,826.35	\$2,111.90	\$87.30
4 yard	\$615.35	\$1,135.70	\$1,607.85	\$2,080.00	\$2,552.15	\$3,024.30	\$118.70
6 yard	\$774.00	\$1,401.85	\$2,029.95	\$2,658.05	\$3,286.20	\$3,914.30	\$174.45

Note: Multi-Family service is equivalent to one 32 gallon cart per unit-minimum, decrease to 20 gallon per unit subject to company review.

**Commercial Service (includes garbage and recycling services)**

Cart Service	Collections per Week					
	1	2	3	4	5	6
<b>Current 2015 Rate</b>						
32 gallon	\$37.95	\$75.90	\$113.85	\$151.80	\$189.75	\$227.70
64 gallon	\$75.90	\$151.80	\$227.70	\$303.60	\$379.50	\$455.40
96 gallon	\$113.85	\$227.70	\$341.55	\$455.40	\$569.25	\$683.10
Commercial Organics (F2E) - 32 gallon	\$14.79	\$29.58	\$44.37	\$59.16	\$73.95	\$88.74
Commercial Organics (F2E) - 64 gallon	\$29.58	\$59.16	\$88.74	\$118.32	\$147.90	\$177.48
Commercial Organics/Compost - 32 gallon	\$14.79	\$29.58	\$44.37	\$59.16	\$73.95	\$88.74
Commercial Organics/Compost - 64 gallon	\$29.58	\$59.16	\$88.74	\$118.32	\$147.90	\$177.48

New 1/1/2016	Collections per Week					
	1	2	3	4	5	6
32 gallon	\$36.90	\$73.80	\$110.70	\$147.60	\$184.50	\$221.40
64 gallon	\$73.80	\$147.60	\$221.40	\$295.20	\$369.00	\$442.80
96 gallon	\$110.70	\$221.40	\$332.10	\$442.80	\$553.50	\$664.20
Commercial Organics (F2E) - 32 gallon	\$14.40	\$28.75	\$43.15	\$57.50	\$71.90	\$86.30
Commercial Organics (F2E) - 64 gallon	\$28.75	\$57.50	\$86.30	\$115.05	\$143.80	\$172.55
Commercial Organics/Compost - 32 gallon	\$14.40	\$28.75	\$43.15	\$57.50	\$71.90	\$86.30
Commercial Organics/Compost - 64 gallon	\$28.75	\$57.50	\$86.30	\$115.05	\$143.80	\$172.55

Bin Service	Collections per Week						Per Pick Up
	1	2	3	4	5	6	
<b>Current 2015 Rate</b>							
1 yard	\$189.20	\$318.75	\$448.10	\$577.75	\$707.25	\$836.75	\$32.35
2 yard	\$316.30	\$560.45	\$804.55	\$1,048.65	\$1,292.90	\$1,536.95	\$60.95
3 yard	\$443.55	\$802.35	\$1,161.00	\$1,519.80	\$1,878.40	\$2,172.05	\$89.80
4 yard	\$632.90	\$1,168.05	\$1,653.65	\$2,139.25	\$2,624.85	\$3,110.45	\$122.10
6 yard	\$796.05	\$1,441.80	\$2,087.80	\$2,733.80	\$3,379.80	\$4,025.80	\$179.40

New 1/1/2016	Collections per Week						Per Pick Up
	1	2	3	4	5	6	
1 yard	\$183.95	\$309.90	\$435.70	\$561.75	\$687.65	\$813.55	\$31.45
2 yard	\$307.55	\$544.95	\$782.25	\$1,019.60	\$1,257.10	\$1,494.40	\$59.25
3 yard	\$431.25	\$780.10	\$1,128.85	\$1,477.70	\$1,826.35	\$2,111.90	\$87.30
4 yard	\$615.35	\$1,135.70	\$1,607.85	\$2,080.00	\$2,552.15	\$3,024.30	\$118.70
6 yard	\$774.00	\$1,401.85	\$2,029.95	\$2,658.05	\$3,286.20	\$3,914.30	\$174.45

Commercial Organics (F2E/Compost) - Bin	Collections per Week					
	1	2	3	4	5	6
<b>Current 2015 Rate</b>						
1 yard	\$103.55	\$207.10	\$310.60	\$414.15	\$517.70	\$621.25
2 yard	\$207.10	\$414.15	\$621.25	\$828.30	\$1,035.40	\$1,242.45
3 yard	\$310.60	\$621.25	\$931.85	\$1,242.45	\$1,553.10	\$1,863.70

New 1/1/2016	Collections per Week					
	1	2	3	4	5	6
1 yard	\$100.70	\$201.35	\$302.00	\$402.70	\$503.35	\$604.05
2 yard	\$201.35	\$402.70	\$604.05	\$805.35	\$1,006.70	\$1,208.05
3 yard	\$302.00	\$604.05	\$906.05	\$1,208.05	\$1,510.10	\$1,812.10

Organics rate is based on 30% discount of the first collection of a 3 yard garbage bin

Additional Services: Fees and Collection Details			
Fees apply to all customer types (residential, commercial, multifamily) unless noted			
Item	Detail	Current 2015 Rate	New 2016 Rate
Extra Organics Cart Rental (Residential Only)	35 or 64 gallon cart	\$1.70	\$1.65
Extra Split Cart Rental (Residential Only)	64 or 96 gallon cart	\$1.70	\$1.65
Extra garbage (regular service day)	Up to 32 gallon bag/ customer owned can	\$10.00	\$9.72
Extra 20 Gal. garbage (off-day in MSS cart)	Additional single empty of cart (applies to contaminated carts as well).	\$6.19	\$6.02
Extra 32 Gal. garbage (off-day in MSS cart)	Additional single empty of cart (applies to contaminated carts as well).	\$7.43	\$7.22
Extra garbage 64 Gal. (off-day in MSS cart)	Additional single empty of cart (applies to contaminated carts as well).	\$14.85	\$14.44
Extra garbage 96 Gal. (off-day in MSS cart)	Additional single empty of cart (applies to contaminated carts as well).	\$22.28	\$21.66
		Current 2015 Rate	New 2016 Rate
Lock Charges (Customer owned)	Each lock, monthly	\$20.65	\$20.08
Lock Charges	Each lock, single extra unlock/relock fee	\$4.65	\$4.52
MSS Company Lock		\$19.45	\$18.91
Steam clean	Cart	\$14.25	\$13.86
Steam clean	Bin	\$97.40	\$94.70
Steam clean	Compactor (rate varies by size, max rate)	\$205.55	\$199.86
Bin rental	1 yard	\$59.68	\$58.03
Bin rental	2 yard	\$72.24	\$70.24
Bin rental	3 yard	\$84.96	\$82.61
Compactor	Hauling charge per empty	\$161.25	\$156.78
Compactor	Tipping fee per ton	\$126.20	\$122.70
Compactor	Special handling per empty	rates vary by job	
Compacted refuse	Stationary Front Loader per empty	\$81.60	\$79.34
		Current 2015 Rate	New 2016 Rate
Distance Charges	Per cart/bin, Each way		
Distance	5'-50'	\$4.80	\$4.67
Distance	Over 50'	\$9.55	\$9.29
		Current 2015 Rate	New 2016 Rate
Return fee cart	On service day	\$8.00	\$7.78
Return fee cart	Off-service day pick-up fee	\$16.00	\$15.56
Return fee Apartment	On or off service day return fee	\$17.50	\$17.02
Return fee bin	Off-service day	\$30.00	\$29.17
Resume service fee	To restart account after stop for non-payment	\$35.00	\$35.00
Household Bulky Items			
Item	Detail	Rate Range	
Special Collection Fee	One time fee applied to ALL bulky item collections for the use of a special collections vehicle and driver.	\$25.00	\$25.00
Special Handling Fee	When two drivers are needed to collect items due to the extra weight and/or size.	\$20.00	\$20.00
Mattresses & Box Springs	Twin, Full, Queen/King	\$15-20.00	\$15-20.00
Toilets and Sinks	If part of larger load	\$5.00	\$5.00
	If single item	\$10.00	\$10.00
Large Furniture	(<6ft, >6ft, recliners, sectionals)	\$25-35.00	\$25-35.00
Misc. Furniture	Chairs, BBQs, small desk, etc.	\$7.5-25.00	\$7.5-25.00
Tires	Auto and Truck	\$10-15.00	\$10-15.00
Materials Requiring Special Handling (MRSH fee included in price)			
Large Appliances	Clothes or Dish Washer	\$15-35.00	\$15-35.00
E-waste	TVs, computers, monitors, consoles	\$25-35.00	\$25-35.00

**FIRST AMENDMENT TO THE CONTRACT  
BETWEEN THE TOWN OF FAIRFAX AND  
MARIN SANITARY SERVICE**

This First Amendment to the Contract between the Town of Fairfax and Marin Sanitary Service (“Agreement”) is effective as of March 2, 2016.

**RECITALS**

- A. Whereas the Town of Fairfax (Town) and Marin Sanitary Service (MSS) desire to modify Exhibit A, Description of Services to the Agreement, in order to better serve the residents of Town; and
- B. Whereas, the Town and MSS have mutually agreed to substitute the Free On-Call Household Hazardous Waste (HHW) Pick-up program with a Semi-Annual Curbside Clean-Up Service and an On-Call Bulky Item service; and
- C. Whereas, the HHW program is costly to maintain by MSS and rarely used by residents and the Curbside Clean-Up and On-Call Bulky Item program can be offered at no additional cost to the Town; and
- D. Whereas, the Town believe these new programs will be highly beneficial to the community; and
- E. Whereas pursuant to Section 3(a)(3) of the Contract Between the Town of Fairfax and Marin Sanitary Service, the Town and MSS have mutually agreed to amend Exhibit A,

NOW THEREFORE, IT IS HEREBY AGREED by and between the parties that Exhibit A shall be amended by replacing it, in its entirety, with Exhibit A (modified). Exhibit A (modified) is attached hereto and expressly made a part of the Contract between the Town of Fairfax and Marin Sanitary Service through this First Amendment to the Agreement.

IN WITNESS WHEREOF, the parties have executed the foregoing First Amendment to the Agreement.

TOWN OF FAIRFAX,  
a municipal corporation

Marin Sanitary Service,  
a California corporation

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
President

ATTEST

\_\_\_\_\_  
Town Clerk



## EXHIBIT A

### Description of Services

#### **RESIDENTIAL (less than four units)**

##### **Solid Waste:**

MSS provides semi-automated “tipper” cans in 20-, 32-, 64- or 96-gallon capacities to be placed at the curb for one time per week collection. Cans must be placed at the curb, or other MSS designated collection location, the night before service. Cans not placed at the curb will incur additional charges as specified in Exhibit C, commonly referred to as “distance charges”.

##### **Recycling:**

MSS provides one (1) 64-gallon split compartment can (dual-sort can) for collection of Recyclable Materials. One compartment is for fiber (paper, junk mail, newspaper, cardboard, etc.). The other compartment is for containers (glass, plastic, cans, etc.). Cans must be placed at the curb for collection or the can will not be serviced. Customers are required to use the dual-sort can, recycling buckets will not be provided.

Additional quantities of Recyclable Materials that do not fit in the can may be placed beside the can. Cardboard must be broken down and tied into bundles no larger than 24” x 24” x 24”. Other fiber materials must be bundled, bagged, or otherwise contained, if not placed inside the can. Additional containers must be placed in bags, or otherwise contained, and placed next to the recycling can.

##### **Green Waste/Food Waste:**

MSS provides one (1) 64-gallon capacity green can to each customer for the collection of Green Waste/Food Waste one time per week. The can must be placed at the curb, or MSS designated collection location, the night before service. Up to five (5) additional 32-gallon cans (customer required to provide cans), or equivalent size bio-degradable bags (also required to be customer provided) of Green Waste may be placed at the curb for collection. Cans not placed at the curb for collection will not be serviced.

##### **Improved Notification of Improper Recycling/Green Waste/Food Waste Set Out**

Once initial stock of text notices is gone, MSS will institute bold graphical notices for notification of improper recycling/Green Waste/Food Waste set out. MSS shall implement the change no later than June30, 2012

##### **Free Semi-Annual Curbside Clean-Up Service and On-Call Bulky Item service.**

For each Semi-Annual Clean-Up Collection event, each customer shall be permitted to place up to two (2) cubic yards (equivalent to fourteen (14) standard 32-gallon bags) of Solid Waste, Recyclable Materials and/or Compostable Materials for collection at no charge. With regard to the On-Call Bulky Item Service, each residential customer may call prior to their regular collection day and schedule two (2) collections of up to two bulky items each per calendar year. These services would start in the fall of

2016 with one scheduled curbside and one on-call bulky item collection. This would increase to two of each in 2017.

**MULTI FAMILY COMPLEX (4 or more units)**

**Solid Waste:**

MSS provides tipper cans in 32-, 64-, or 96-gallon capacities or bins in larger sizes as specified in Exhibit C. Service may be provided from one (1) to six (6) times per week. At a minimum, the apartment complex must maintain, and will be charged for, the equivalent of one (1) 32-gallon can per unit picked up one time per week. Can must be placed at the curb, or MSS designated collection location, the night before service. Cans not placed at the curb will incur additional charges as specified in Exhibit C, commonly referred to as “distance charges”.

**Recycling:**

MSS provides unlimited recycling collection for bottles, cans, newspaper, office paper, and cardboard. Tipper cans or bins are provided as requested by the customer. Service may be provided from one (1) to six (6) times per week.

**Green Waste:**

MSS provides one (1) 64-gallon capacity green can to each customer for the collection of Green Waste one time per week. The can must be placed at the curb, or MSS designated collection location, the night before service. Up to five (5) additional 32-gallon cans(customer provided) of Green Waste may be placed at the curb for collection. Cans not placed at the curb for collection will not be serviced.

**Food Waste Pilot Program**

MSS shall develop a food waste pilot program at three (3) multifamily units to be designated by the Town. MSS will prepare a scope and schedule for the Pilot Program on or before January 1, 2012, for approval by the Town. On or about one (1) year from commencement of the program, MSS and the Town shall meet to confer about the merits of expanding the program to other parts of the Town.

**COMMERCIAL**

**Solid Waste:**

MSS provides tipper cans in 32-, 64-, or 96-gallon capacities or bins in larger sizes as specified in Exhibit C. Service may be provided from one (1) to six (6) times per week. At a minimum, commercial establishments must maintain, and will be charged for, one (1) 32-gallon can, picked up one time per week.

**Recycling:**

MSS provides unlimited commercial recycling collection for bottles, cans, newspaper, office paper, and cardboard. Tipper cans or bins are provided as requested by the customer. Service may be provided from one (1) to six (6) times per week.

**Green Waste:**

MSS provides one (1) 64-gallon capacity can to each customer for the collection of Green Waste one time per week. The can must be placed at the curb, or MSS designated collection location, the night before service. Up to five (5) additional 32-gallon cans (customer provided) of Green Waste may be placed at the curb for collection. Cans not placed at the curb for collection will not be serviced.

**MUNICIPAL**

MSS will provide weekly, and remove as needed, any and all Solid Waste and recycling containers from each and all of the Town government buildings and from the Town's receptacles in the downtown area, parks and other public areas of Fairfax.

MSS will empty, on a weekly basis, a 20 cubic yard debris box from the Town corporation yard, which box shall be used only for leaves, brush, grass, grass cuttings, tree or brush

**Collaboration on Zero Waste Events**

Once per year, during the Fairfax Festival, and one other major event designated by the Town, MSS will furnish, at no cost to the promoters, as needed up to ten (10), 3 cubic yard debris boxes (or the equivalent) for use by the Town at its corporation yard. These debris boxes are to be used solely for solid waste generated by the events. MSS shall also furnish Recycling and Food Waste collection, and portable toilet services. Beginning in January 1, 2014 and every three (3) years thereafter the Town and MSS shall review the Town's event requirements and agree to any adjustments regarding service and cost.

**Community Compost Availability**

MSS shall distribute 15 tons of compost three times per year, spring, summer, and fall at no cost to residents.

The Town shall provide a designated location and will provide a bunker. Compost delivery will commence in the fall of 2011.

**Annual Paper Shredding E-waste and Unused Medicine Collection Day.**

This will be an annual event to be scheduled by the Town. MSS shall provide paper shredding service at no cost to the resident.

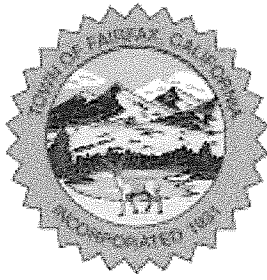
MSS will coordinate with local non-profits for the collection of e-waste. The Town and MSS shall coordinate with the Marin County Sheriff's Department for the collection of unused medications. Together these three items will be collected jointly at a location convenient for the Town at no cost to the resident.

MSS shall provide overall management for the event in cooperation with the Town and include the cost of the entire event in the rate.

## **ADDITIONAL SERVICES**

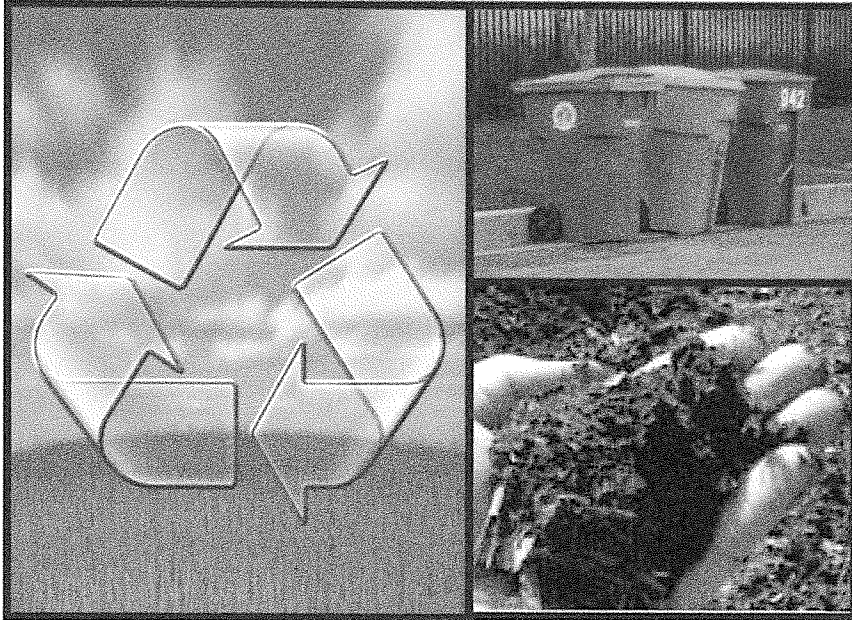
Extra garbage may be collected in cans or bags and placed next to the regular can on collection day. This will result in an additional charge to the customer.

Disabled and low-income residential customers (must be enrolled in PG&E CARE Program to qualify) are eligible to receive distance service (refuse collection not at the curb) at no additional charge, as listed in Exhibit C.



# Town of Fairfax

## Review of Marin Sanitary Service's 2016 Rate Application



February 17, 2016



HF&H Consultants, LLC

ATTACHMENT 2

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February 17, 2016

*Sent via email*

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

*Reference Number: S3902*

**Subject: Review of Marin Sanitary Service's 2016 Rate Application**

Dear Mr. Toy:

On October 10, 2015, Marin Sanitary Service (MSS) submitted its application for a 4.27% decrease to its solid waste rates for the Town of Fairfax (Town) to be effective January 1, 2016. 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 2.77% decrease is appropriate. 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	\$26.84	\$26.10	(\$0.74)
32 Gallon	\$32.18	\$31.29	(\$0.89)
64 Gallon	\$64.36	\$62.58	(\$1.78)
96 Gallon	\$96.54	\$93.87	(\$2.67)

### 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 accuracy and logical consistency of the rate application and supporting schedules.

Based on our review, we determined that a net rate decrease of 2.77% to current rates is appropriate to compensate MSS for projected expenses based upon its current operation and



Town of Fairfax  
February 17, 2016  
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agreed-upon procedures. The decrease results primarily from: 1) the decrease in fuel costs due to the volatility of prices when projecting expense, and 2) a decrease in depreciation expense caused by route collection vehicles and residential carts used in the Town reaching full depreciation in 2016. We have provided the following table summarizing the component of the Rate Adjustment Factor:

**Table 2: Rate Adjustment Factor Components**

2016 Component Percentages	
Wages	(1.16%)
Benefits (including workers comp)	1.05%
Fuel & Oil	(1.90%)
Disposal	1.64%
Depreciation and Interest	(1.54%)
Maintenance and Other Operating Costs <sup>(1)</sup>	(0.36%)
Subtotal Operations	(2.27%)
Revenue Shortfall net of Franchise Fees	(0.50%)
Rate Adjustment Factor	(2.77%)

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

Our review examined the application's revenue and expenses by line item in order to arrive at the recommended net decrease of 2.77%. The higher-than-applied-for adjustment is based on several adjustments to MSS' rate calculation (agreed upon by MSS management) as described in Section IV of the report and reflected in Table 3.

**Breakdown of 2016 Rate Adjustment - (2.77%)**

**Wages – (1.16%)**

As shown in Table 2, the wages expense component contributed (1.16%) to the overall 2.77% recommended decrease. Wages expense decreased primarily due the Operations Improvement and Food to Energy program startup costs being included as a wage line expense beginning in 2013 and having been increased by CPI through 2015. The actual costs, however, covered multiple expense lines and have now been fully absorbed in the applicable expense category.

**Benefits – 1.05%**

As shown in Table 2, the benefits expense component offset the overall recommended decrease of 2.77% by 1.05%. The increase is primarily a catch-up of actual benefits, which increased by



Town of Fairfax  
 February 17, 2016  
 Page 3 of 4

approximately 8.00% per year while rates were set with benefits limited to the average annual Employment Cost Index of approximately 2% during the past two index year adjustments. The adjustment resets the base benefit expenses for 2016 and the following two years. It does not include a retroactive adjustment for previous years.

**Fuel and Oil – (1.90%)**

As shown in Table 2, the fuel expense component contributed (1.90%) to the overall recommended 2.77% decrease. The decrease is attributable to a steady decline in fuel prices starting in 2014 and continuing in 2015. Fuel prices are extremely volatile causing significant fluctuations from year to year.

Fuel expense is projected for the 2016 rate year based on the average fuel cost per gallon at the time the rate application is submitted to the Town. At the same time, the fuel expense for the two prior rate years is trued-up to reflect the change in the fuel price per gallon.

For example, the 2016 rate year application was submitted in 2015 and included a fuel projection that trued-up 2014 to the actual cost, and re-projected the 2015 expense and projected the 2016 expense at the current average rate. As illustrated below, fuel prices are showing a downward trend that resulted in an overstated fuel expense in 2014 by \$4,332 and in 2015 by \$28,288 that was trued-up in the 2016 rate application. Without this true-up (“credit” of \$32,620), fuel expense would be \$63,020 for the 2016 rate year and it is within in this range for future rate years. We do not anticipate a “credit” in the 2017 rate setting process.

Rate Year Projected	2014	2015	2016
2014 Fuel Price \$	3.78	\$ 3.84	
2015 Fuel Price \$	3.59	\$ 2.63	\$ 2.63
Change in Price \$	(0.19)	\$ (1.21)	\$ 2.63
Fuel Gallons	23,394	23,394	23,956
Change in Expense \$	(4,332)	\$ (28,288)	\$ 63,020
	<b>A</b>	<b>B</b>	<b>C</b>
2016 Rate Application Adjusted Fuel Cost \$30,400 (A+B+C)			

**Disposal Expense – 1.64%**

As shown in Table 2, the disposal expense component offset the overall recommended decrease of 2.77% by 1.64%. This is primarily attributed to a favorable catch-up in the 2015 rate application of \$26,377 that did not repeat in the 2016 rate application.

Town of Fairfax  
February 17, 2016  
Page 4 of 4

**Depreciation and Interest – (1.54%)**

As shown in Table 2, the depreciation expense component contributed (1.54%) to the overall recommended 2.77% decrease. The decrease is due to route trucks and residential carts used for servicing the Town's customers reaching full depreciation in 2016 resulting in a lower expense. Once the assets reach the end of their remaining service life, it is expected that MSS will need to purchase new equipment that may add approximately \$40,000 to the Town's annual depreciation expense.

**Maintenance and Other Operating Expenses – (0.36%)**

As shown in Table 2, the other operating costs component contributed (0.36%) to the overall recommended 2.77% decrease. The decrease is primarily due to adjustments in the 2016 rate application that resulted in an overall reduction after eliminating costs for future capital projects, staff development, and other expenses not directly related to the Town that offset additional costs for an annual rate review.

**Revenue – (0.50%)**

As shown in Table 2, a revenue shortfall contributed (0.50%) of the overall recommended 2.77% decrease.

\* \* \* \*

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

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## **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. 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 (MRRRA), 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 MRRRA, 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) has historically been transferred to Zamora; however, in 2015, MSS started transferring Organics exclusively to Redwood for composting at favorable rates to the Town.

In early 2014, MSS began collection and processing for the Food-to-Energy program (F2E) previously approved by the Town. 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 2015, there were 10 Town customers participating in the program with additional customers expected to be added in future years.

## 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 December 2015 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 23, 2015. These procedures included the following activities:

- Reviewing MSS management's application for the Town to ensure it is complete and in compliance with the rate-setting methodology.
- Reviewing MSS management's projection of collection revenues for the 12-month period ending December 31, 2015.
- Reviewing the appropriateness of MSS management's classification of expenses into the various expense categories.
- Reviewing MSS management's calculation of rate year 2016 calculated expenses and comparing them to the actual expenses for 2014 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 and adjustments for rate years 2014 and 2015 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 and adjustments for rate years 2014 and 2015 based on historical trends and management's plans. 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 and adjustments for rate years 2014 and 2015 based on

historical trends and management's plans. 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 and adjustments for rate years 2014 and 2015 based on historical trends and management's plans. 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 and adjustments to rate years 2014 and 2015. 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 the previous year projections.
- JPA Fees expense was reviewed by analyzing documentation from the JPA and MSS projections.
- Reviewing 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.
- Reviewing the appropriateness of MSS management's allocation of revenues and expenses among the Town, the Marin Franchisor's Group and the other service areas, in accordance with the approved procedures.
- Meeting once with MSS management to review our adjustments to their calculated and projected revenues and expenses and their allocation among the Town, the Marin Franchisor's Group and the other service areas. 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' 2014 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' 2016 projections at rates that have been discussed and allowed by the Marin Franchisor's Group in their Rate Methodology Amendment and for their 2016 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**

### **Current Operations**

In projecting 2016 costs, MSS included the direct costs for the Town's garbage collection as applicable, while costs related to the 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 department's percentage of wages, respectively.

### **Expenses**

MSS projected its 2016 expenses (less non-allowable costs, such as donations, fines for penalties, certain attorney's fees, goodwill, etc.) for each expense category by:

- Basing wage, salary, and benefit expenses on negotiated labor agreements for represented employees as well as reasonable wage and salary adjustments for non-represented employees. Workers compensation expenses were projected using the wages established above times the applicable premium rates for 2016;
- Forecasting projected 2016 disposal expense using projected tons multiplied by the 2016 disposal rate per ton and including adjustments to: 1) 2014 actual disposal expenses, and; 2) updated 2015 disposal expenses;
- Forecasting projected 2016 fuel expense based on 2015 actual annualized costs to date and gallons of fuel and including adjustments to 2014 actual fuel expense and estimated 2015 fuel expense based on actual 2014 average price and year-to-date 2015 average price;
- Forecasting projected 2016 equipment and vehicle maintenance expense was based on historical costs adjusted for any changes in the number of equipment and vehicles to be maintained and the cost of such maintenance;
- Forecasting projected 2016 depreciation and lease expense based on MSS' actual depreciation expense and anticipated future capital purchases;
- Forecasting projected 2016 JPA fees based on the tons collected for the Town by MSS for the period determined and rate established by the JPA;
- Forecasting projected 2016 other operating/G&A based on historical costs; and,
- Forecasting projected 2016 interest expense based on MSS' actual interest from its loan amortization schedules for actual and projected asset purchases for the remainder of 2015 and 2016.

### **Route Revenues**

MSS projected revenue based on the Town's actual revenue received through June 2015 and forecasting the remainder of the year.

**Profit**

MSS calculated its 2016 profit by applying the agreed-upon 90.5% pre-tax operating ratio to its 2016 total projected expenses that are eligible for profit.

**MSS' Calculated Rate Adjustment**

MSS calculated the 2016 Rate Adjustment to be a 4.27% decrease. 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.

**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>Expenses: Current MSS Operations</b>			
1	Wages	\$ 404,548	\$ - \$ 404,548
2	Benefits	\$ 285,381	\$ (1,168) \$ 284,213
3	Disposal Fees	\$ 285,502	\$ 1,786 \$ 287,288
4	Fuel & Oil	\$ 34,022	\$ (3,622) \$ 30,400
5	Maintenance Expense	\$ 103,760	\$ - \$ 103,760
6	Depreciation/Leases	\$ 84,201	\$ 6,896 \$ 91,097
7	Other Operating/G&A	\$ 74,413	\$ 455 \$ 74,868
8	<b>Total Operating Expenses</b>	<b>\$ 1,271,827</b>	<b>\$ 4,347 \$ 1,276,174</b>
9	Operating Profit	\$ 133,507	\$ 456 \$ 133,963
10	Interest Expense	\$ 9,120	\$ - \$ 9,120
11	<b>Total Expenses for Current Operations</b>	<b>\$ 1,414,454</b>	<b>\$ 4,803 \$ 1,419,257</b>
12	<b>Revenue Requirement for Current Services</b>	<b>\$ 1,414,454</b>	<b>\$ 4,803 \$ 1,419,257</b>
<b>Projected Revenue (at current rates)</b>			
13	Route Revenues	\$ 1,709,468	\$ (19,775) \$ 1,689,693
14	Less: Franchise Fees	\$ (170,947)	\$ 1,977 \$ (168,970)
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>\$ 1,477,521</b>	<b>\$ (17,798) \$ 1,459,723</b>
20	<b>Total Surplus/ (Deficit) (Line 18 - Line 12)</b>	<b>\$ 63,067</b>	<b>\$ (22,601) \$ 40,466</b>
21	<b>Rate Impact (-Line 19 ÷ Line 18)</b>	<b>-4.27%</b>	<b>-2.77%</b>

**Adjustments to 2016 Projected Expenses for Current Operations****Wages**

HF&H reviewed and does not recommend an adjustments to MSS' projected 2016 Wages Expense (Table 3, Line 1).

**Benefits**

HF&H reviewed and recommends a decrease to benefits by a net of \$1,168 (Table 3, Line 2) due to a miscalculation of the premium rates included in the 2016 workers compensation insurance quote.

**Disposal Fees**

HF&H recommends an increase to MSS' projected disposal fees by \$1,786 (Table 3, Line 3) due to the following:

- An increase of \$15,668 due to MSS excluding adjustments to true-up solid waste disposal expense for rate years 2014 and 2015. MSS' application for disposal reflected only the 2016 portion of the projected expense.
- A decrease of \$11,660 due to MSS changing processing facilities for organic volumes. In the beginning of May 2015, MSS began transporting organics exclusively to Redwood rather than the previous destination at Zamora. The decrease in cost is attributed to lower transportation expenses, which resulted in an approximately \$8.50 per ton overall lower processing rate for 2015 and 2016 volumes delivered to Redwood.
- A decrease of \$2,222 to correct MSS' transport charge for Town volumes processed through the transfer station and delivered to Redwood for rate years 2015 and 2016.

**Fuel & Oil**

HF&H reviewed and recommends a decrease to MSS' projected Fuel & Oil costs by \$3,622 (Table 3, Line 4) due to an updated projected average per-gallon fuel price. MSS' application projected fuel cost based on the actual year-to-date average per-gallon rate for purchases through July 2015. An updated price trend based on actual invoices through September 2015 resulted in a decrease of \$0.15 per gallon for rate years 2016.

**Maintenance Expense**

HF&H reviewed and does not recommend an adjustments to MSS' projected 2016 Maintenance Expense (Table 3, Line 5).

**Depreciation/Leases**

HF&H reviewed and recommends an increase to depreciation by \$6,896 (Table 3, Line 6) due to MSS excluding the expense on depreciable truck repairs on assets utilized in the Town and multiple other jurisdictions that were not proportionately allocated.

**Other Operating/G&A**

HF&H reviewed and recommends an increase to other operating expense by \$455 (Table 3, Line 7) due to the following:

- A decrease of \$11,545 for expenditures related to future capital projects, staff development, and other expenses not directly related to the Town
- An increase of \$12,000 for professional fees to review the Towns solid waste rate application.

**Operating Profit**

HF&H reviewed and recommends a decrease to MSS' projected operating profit by \$456 (Table 3, Line 9), resulting from the decreases in operating costs described above.

**Interest Expense**

HF&H reviewed and does not recommend an adjustments to MSS' projected 2016 Interest Expense (Table 3, Line 10).

**Adjustments to Projected Revenue at Current Rates**

HF&H reviewed and recommends a decrease to MSS projected route revenues by \$19,775 or \$17,798 net of 10% Franchise Fees (Table 3, Lines 13 and 14).

MSS estimated revenue based on YTD revenues through June 2015. This was prior to 10.63% increase approved in July 2015 to be retroactive to March 2015. MSS included an estimate for the increase to calculate the 2016 projected revenue. HF&H reviewed the actual revenue through November 2015 which included the 10.63% increase and reduced the projected revenue from MSS initial projections.

## SECTION V. RATE ADJUSTMENT

### Rate Adjustment Factor

Based on a revenue requirement of \$1,419,257 (Table 3, Line 12) and projected revenues of \$1,459,723 (Table 3, Line 19) for the calendar year 2016, resulting from our recommended adjustments to MSS' application, a (2.77%) Rate Adjustment Factor has been calculated, effective January 1, 2016.

This rate decrease of 2.77%, results primarily from:

- An overall net decrease of 2.27% in operating costs for current services, primarily from:
  - A decrease in:
    - Fuel expense due to a steady decline in fuel prices.
    - Depreciation expense due to route collection vehicles and residential carts reaching full depreciation.
    - Wage expense due to absorption of Food to Energy and Operations Improvement Plan costs to the correct expense category. (All costs were originally included in the wages line).
- Partially offset by:
  - An increase in:
    - Benefits expense due a catch-up of actual costs that increased at a higher rate than was allowed during index year adjustments.
    - Disposal expense due to a favorable adjustment in the prior year not repeating in the 2016 rate application.

The following table shows the components of the rate decrease:

**Table 4: Rate Adjustment Factor Components**

2016 Component Percentages	
Wages	(1.16%)
Benefits (including workers comp)	1.05%
Fuel & Oil	(1.90%)
Disposal	1.64%
Depreciation and Interest	(1.54%)
Maintenance and Other Operating Costs <sup>(1)</sup>	(0.36%)
Subtotal Operations	(2.27%)
Revenue Shortfall net of Franchise Fees	(0.50%)
Rate Adjustment Factor	(2.77%)

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