



TOWN OF FAIRFAX STAFF REPORT July 15, 2015

TO: Mayor and Town Council

FROM: Garrett Toy, Town Manager *GT*

SUBJECT: Approving rate increase schedule for Marin Sanitary Service for the provision of solid waste (garbage) and recycling services to the Town

RECOMMENDATION

- 1) Conduct 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.

DISCUSSION

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 has submitted a 2015 rate review application requesting a 14.62% increase to its solid waste rates for the Town effective January 1, 2015. As matter a practice, staff works with the Councilmembers (Vice-Mayor Goddard, Councilmember Lacques) assigned to 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.

While the HF&H report indicates a rate increase of 12.36% can be supported, staff, with direction from Vice-Mayor Goddard and Councilmember Lacques, negotiated a rate increase of 10.63% effective March 1, 2015. The last rate increase was in January 2012. The 10.63% is an average of approximately 3.5% per year. Attached as reference is the HF&H report analyzing the MSS rate application, Exhibit B to the current agreement with MSS containing the rate setting methodology, and a table comparing the proposed Fairfax increases to the other communities in Marin County. While the new Town rates compare favorably against those surveyed, we would like to caution that this survey is presented as an indication of the reasonableness of the resulting rates. It should be noted that rate comparisons are intrinsically difficult and can often be misleading. This difficulty results from differences in issues such as services provided, the terrain in which the service is performed, disposal costs, rate structures, and governmental fees (e.g., franchise fees, vehicle impact fees). The rate schedule also includes clarification as to the current rates MSS charges for bulky items (e.g., sofas). HF&H will be making a brief presentation on its report at the Council meeting.

FISCAL IMPACT

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

ATTACHMENTS

1. Resolution
2. HF&H Report reviewing MSS's Services 2015 Rate application
3. Exhibit B to the current agreement with MSS
4. Rate comparison table

RESOLUTION NO. 15-_____

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 to commence on March 1st, 2015, in order to cover increased solid waste recycling and collection costs; and

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

WHEREAS, the Town scheduled a public hearing on July 15, 2015, 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 July 15, 2015, 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 increase on August 5th, 2015, 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 A, 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 A, with such new rates becoming effective on March 1st, 2015.

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 15th day of July 2015 by the following vote, to wit:

AYES:
NOES:
ABSENT:
ABSTAIN:

Barbara Coler, Mayor

Attest:

Michele Gardner, Town Clerk

EXHIBIT A

Town of Fairfax Refuse Collection Rates Effective 3/1/2015

Effective 3/1/2015 - 10.63% Rate Increase

Cart Service <u>Weekly Service</u>	FLAT				HILL				
	Current 2012 Rate		New 3/01/2015 Rate		Current 2012 Rate		New 3/01/2015 Rate		Hill Quarterly Rate
	Monthly	Monthly	Monthly	Amt of Inc	Monthly	Monthly	Monthly	Amt of Inc	
20 gallon	\$24.26	\$26.84	\$2.58	\$28.32	\$31.33	\$3.01	\$80.52	\$93.99	
32 gallon	\$29.09	\$32.18	\$3.09	\$33.98	\$37.59	\$3.61	\$96.54	\$112.77	
64 gallon	\$58.18	\$64.36	\$6.18	\$67.96	\$75.18	\$7.22	\$193.08	\$225.54	
96 gallon	\$87.27	\$96.54	\$9.27	\$101.94	\$112.77	\$10.83	\$289.62	\$338.31	
Low income - 20 gal*	\$21.09	\$23.33	\$2.24	\$24.64	\$27.26	\$2.62	\$89.99	\$91.78	
Low income - 32 gal*	\$25.31	\$28.00	\$2.69	\$29.56	\$32.70	\$3.14	\$94.00	\$98.10	
Low income - 64 gal*	\$50.64	\$56.02	\$5.38	\$59.12	\$65.40	\$6.28	\$168.06	\$196.20	
Low income - 96 gal*	\$75.95	\$84.02	\$8.07	\$88.68	\$98.11	\$9.43	\$252.06	\$294.33	
Add'l yard waste cart	\$1.70	\$1.88	\$0.18	\$1.70	\$1.88	\$0.18	\$5.64	\$5.64	
Add'l dual sort recycling cart	\$1.70	\$1.88	\$0.18	\$1.70	\$1.88	\$0.18	\$5.64	\$5.64	

*Must meet PG&E CARE program eligibility requirements

Cart Service <u>Cart Size</u>	Current 2012 Rate		New 3/01/2015 Rate	
	Monthly	Monthly	Monthly	Amt of Inc
	Monthly	Monthly	Monthly	Amt of Inc
20 gallon*	\$24.26	\$26.84	\$2.58	
32 gallon	\$29.09	\$32.18	\$3.09	
64 gallon	\$58.18	\$64.36	\$6.18	
96 gallon	\$87.27	\$96.55	\$9.28	

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

Bin Service	Collections per Week						per single collection
	1	2	3	4	5	6	
<u>Current 2012 Rate</u>							
1 yard	\$171.00	\$288.10	\$405.05	\$522.25	\$639.30	\$756.35	\$29.25
2 yard	\$285.90	\$506.60	\$727.25	\$947.90	\$1,168.65	\$1,389.25	\$55.10
3 yard	\$400.95	\$725.25	\$1,049.45	\$1,373.75	\$1,697.90	\$1,963.35	\$81.15
4 yard	\$572.10	\$1,055.80	\$1,494.75	\$2,130.85	\$2,663.55	\$3,196.25	\$110.35
6 yard	\$719.55	\$1,303.25	\$2,470.90	\$3,054.95	\$3,638.90	\$4,222.85	\$162.15

New 3/1/2015	Collections per Week						per single collection
	1	2	3	4	5	6	
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	\$1,876.40	\$2,172.05	\$89.80
4 yard	\$632.90	\$1,168.05	\$1,653.65	\$2,357.35	\$2,946.70	\$3,536.00	\$122.10
6 yard	\$796.05	\$1,441.80	\$2,733.55	\$3,379.70	\$4,025.70	\$4,671.75	\$179.40

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						per single collection
	1	2	3	4	5	6	
Current 2012 Rate							
32 gallon	\$34.30	\$68.60	\$102.90	\$137.20	\$171.50	\$205.80	\$29.25
64 gallon	\$68.60	\$137.20	\$205.80	\$274.40	\$343.00	\$411.60	\$55.10
96 gallon	\$102.90	\$205.80	\$308.70	\$411.60	\$514.50	\$617.40	\$81.15
New 3/1/2015							
32 gallon	\$37.95	\$75.90	\$113.85	\$151.80	\$189.75	\$227.70	\$29.25
64 gallon	\$75.90	\$151.80	\$227.70	\$303.60	\$379.50	\$455.40	\$55.10
96 gallon	\$113.85	\$227.70	\$341.55	\$455.40	\$569.25	\$683.10	\$81.15
Bin Service							
Current 2012 Rate							
1 yard	\$171.00	\$288.10	\$405.05	\$522.25	\$639.30	\$756.35	\$122.10
2 yard	\$285.90	\$506.60	\$727.25	\$947.90	\$1,168.65	\$1,389.25	\$227.70
3 yard	\$400.95	\$725.25	\$1,049.45	\$1,373.75	\$1,697.90	\$1,963.35	\$319.55
4 yard	\$572.10	\$1,055.80	\$1,494.75	\$2,130.85	\$2,669.55	\$3,196.25	\$514.35
6 yard	\$719.55	\$1,303.25	\$2,470.90	\$3,054.95	\$3,638.90	\$4,222.85	\$687.15
New 3/1/2015							
1 yard	\$189.20	\$318.75	\$448.10	\$577.75	\$707.25	\$836.75	\$122.10
2 yard	\$316.30	\$560.45	\$804.55	\$1,048.65	\$1,292.90	\$1,536.95	\$227.70
3 yard	\$443.55	\$802.35	\$1,161.00	\$1,519.80	\$1,878.40	\$2,172.05	\$319.55
4 yard	\$632.90	\$1,168.05	\$1,653.65	\$2,357.35	\$2,946.70	\$3,536.00	\$514.35
6 yard	\$796.05	\$1,441.80	\$2,733.55	\$3,379.70	\$4,025.70	\$4,671.75	\$756.35
Commercial Organics (F2E/Compost) - Cart							
Current 2012 Rate							
32 gallon	\$14.79	\$29.58	\$44.37	\$59.16	\$73.95	\$88.74	\$11.74
64 gallon	\$29.58	\$59.16	\$88.74	\$118.32	\$147.90	\$177.48	\$23.48
New 3/1/2015							
32 gallon	\$103.55	\$207.10	\$310.60	\$414.15	\$517.70	\$621.25	\$77.70
64 gallon	\$207.10	\$414.15	\$621.25	\$828.30	\$1,035.40	\$1,242.45	\$155.40
96 gallon	\$310.60	\$621.25	\$931.85	\$1,242.45	\$1,553.10	\$1,863.70	\$233.10

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

	Current 2012 Rate	New 3/1/2015
Lock Charges - (each lock, each week)	\$18.65	\$20.65
MSS Company Lock	\$17.60	\$19.45
Steam clean - cart	\$12.90	\$14.25
Steam clean - bin	\$88.05	\$97.40
Steam clean - compactor (rate varies by size, max rate)	\$185.79	\$205.55
Compactor hauling charge per empty	\$145.76	\$161.25
Compactor Tipping fee per ton	\$114.08	\$126.20
Compactor special handling per empty	\$75.00	\$82.95
Compacted refuse:stationary FL per empty	\$73.78	\$81.60

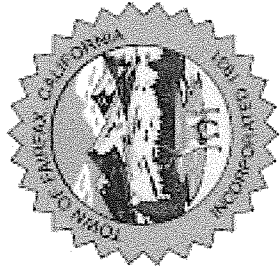
	Current 2012 Rate	New 3/1/2015
Distance Charges		
Distance 5'-50'	\$4.35	\$4.80
Distance over 50' (per 50' each cart)	\$8.65	\$9.55

	Current 2012 Rate	New 3/1/2015
Return fee cart (Same-day)	\$7.23	\$8.00
Return fee cart (Off- day)	\$14.46	\$16.00
Return fee bin (Same-day)	\$100.11	\$110.75
Return fee bin (Off-day)	\$200.22	\$221.50
Resume service fee		\$35.00

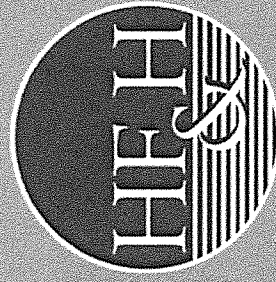
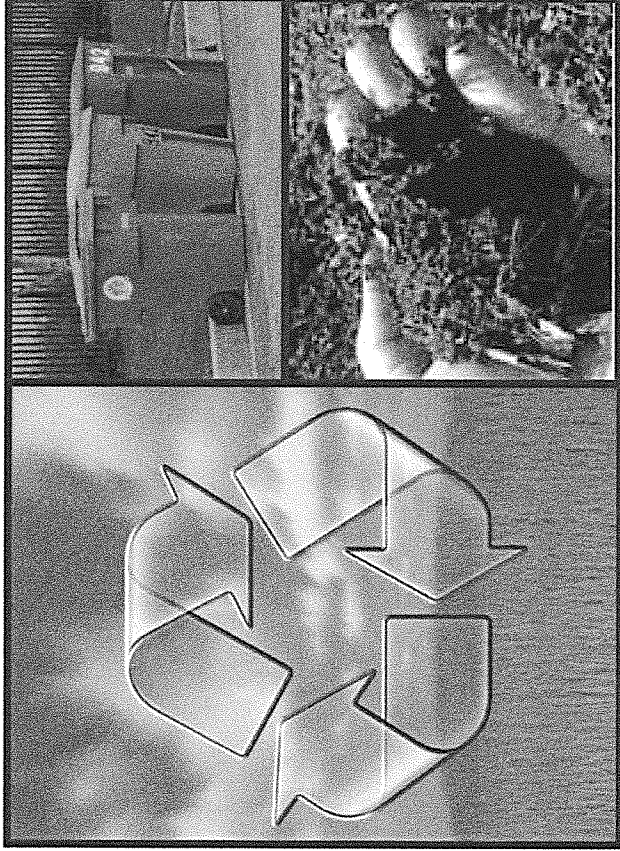
Town of Fairfax
Bulky Item Collection Rates
Effective 3/1/2015

Household Bulky Items		
Item	Detail	Rate
Mattresses & Box Springs	Twin	\$15.00
	Full	\$20.00
	Queen/King	\$20.00
Toilets and Sinks	If part of larger load	\$5.00
	If single item	\$10.00
Stove/oven	Small	\$15.00
	Large	\$25.00
Couch/Sofa	Under 6ft	\$25.00
	Over 6ft	\$30.00
	Hide-a-bed or recliner chairs	\$35.00
Other Furniture	Dining chairs	\$7.50
	Recliners	\$15.00
	Dresser	\$15.00
	Desk	\$15.00
	Table	\$15.00
	Shelves under 5ft	\$15.00
	Table + up to 4 chairs	\$25.00
Patio set (wood, plastic or metal)	*charge for each additional chair	\$7.50
	Umbrella stand (umbrella alone is free)	\$5.00
Tires	Auto (with or without rims)	\$10.00
	Truck (with or without rims <41 inches)	\$15.00
Miscellaneous	BBQ < 3 ft. in diameter (no propane)	\$10.00
	BBQ > 3 ft. in diameter (no propane)	\$20.00
	Printers/small copy machines	\$15.00
	Printers/large copy machines	\$25.00
	Pallets	\$5.00
	Carpets under 9 sq. ft (3x3)	\$10.00
	Carpets over 9 sq. ft (3x3)	\$20.00
	Toilets and sinks	\$5.00
	Steam cleaning cans	\$11.00

Materials Requiring Special Handling (MRSH fee included in price)		
Large Appliances	Clothes or Dish Washer	\$25.00
	Dryer	\$25.00
	Air conditioner	\$25.00
	Furnace	\$25.00
	Microwave AND toaster ovens	\$15.00
	Water Heater	\$25.00
	Refrigerator/Freezer with Freon already removed	\$25.00
	Refrigerator/Freezer with Freon NOT removed	\$35.00
Electronic Waste (e-waste)		
Televisions	Up to 25"	\$25.00
Computers	Consoles	\$35.00
	Monitors & CPUs	\$25.00
* Fairfax residents may include e-waste as part of their annual curbside collection of Universal Household Hazardous Waste.		
Additional Fees and Collection Details		
There may be special handling fees if items are in a difficult location or require two persons to carry due to the weight and/or size. These will be assessed at time of collection not to exceed \$82.56.		
There is a Collection Fee of \$25 per pick-up in addition to per item cost listed above.		



Town of Fairfax Review of Marin Sanitary Service's 2015 Rate Application



HF&H Consultants, LLC

July 8, 2015

ATTACHMENT 2

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July 8, 2015

Sent via email

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

Reference Number: S3879

Subject: Review of Marin Sanitary Service's 2015 Rate Application

Dear Mr. Toy:

On March 10, 2015, Marin Sanitary Service (MSS) submitted its application for a 14.62% increase to its solid waste rates for the Town of Fairfax (Town) to be retroactively effective January 1, 2015. 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 12.36% prospective increase 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	\$24.26	\$27.26	\$3.00
32 Gallon	\$29.09	\$32.69	\$3.60
64 Gallon	\$58.18	\$65.37	\$7.19
96 Gallon	\$87.27	\$98.06	\$10.79

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.

Town of Fairfax
 July 8, 2015
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This is the second consecutive year that HF&H has completed a rate application review for the Town. Recommendations from the prior review were not implemented at the conclusion of the review. As a result, our analysis and explanations in this section are compared to the period covered since the last review for rates effective in 2012.

Based on our review, we determined that a net rate increase of 12.36% 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 a reasonableness of the rate adjustment based on isolated events affecting the rates:

**Table 2: Reasonableness of Rate Adjustment
 2015 Component Percentages**

MSS Projected Revenue Shortfall ⁽¹⁾	2.24%
General Cost Increases ⁽²⁾	9.69%
Operations Efficiency Plan	0.47%
F2E Program	1.07%
Recommended Increase not Implemented ⁽³⁾	1.73%
Disposal Expense	<u>-2.84%</u>
Total Rate Adjustment	12.36%

⁽¹⁾ Downsize effect on prior rate increases.

⁽²⁾ Approximates Cumulative CPI since last review in 2011-All Urban Consumers, Annual.

⁽³⁾ HFH recommended increase to 2011 rates was 25.96% vs. 24.23% actually approved by the Town.

Our review examined the application's revenue and expenses by line item in order to arrive at the recommended net increase of 12.36%. We then checked our findings against economic indicators such as the Consumer Price Index (CPI) and known contractual and operational changes since the last application submitted to the Town. The lower-than-applied-for adjustment is based on several adjustments to MSS's rate calculation (agreed upon by MSS management) as described in Section IV of the report and reflected in Table 3.

Summary of Significant Changes for 2015

We reviewed the 2014 MSS application and recommended a rate increase of 12.78%; however, the increase was not adopted by the Town. In order to verify the reasonableness of the 2015 rate increase, we used 2011 as a reliable point of reference to provide assurance that MSS's current application is in line with expected economic indicators and industry trends.



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Breakdown of 2015 Rate Adjustment (12.36%)

Revenue Trend – 2.24%

MSS annual rate revenues have declined by approximately \$30,000 since the last adjustment in 2012. This decline is attributed by MSS to customers downsizing in response to rate increases as well as the increase in recycling diversion efforts. This change in rate revenue contributes approximately 2.24% of the recommended increase.

General Cost Increases – 9.69%

As shown in Table 2, general cost increases are the highest component contributing approximately 9.69% of the recommended 12.36% overall increase. The last rate adjustment was based on the 2010 projected costs, resulting in a five year cost escalation without a corresponding rate increase. We compared this to the five year average change in the San Francisco Bay Area – All Urban Consumers Index and find this to be a reasonable increase to cover the period since the last increase.

New Program Costs – 1.54%

Operations Improvement Plan

In 2012, MSS contracted with R. J. Proto Consulting Group, Inc. (Proto) to assess MSS's collection operation and inform management of improvements and changes necessary for the company's success. MSS management reviewed the results of the report and has begun filling the seven personnel additions recommended by Proto. The personnel additions include:

- Two Dispatchers;
- Two Route Supervisors;
- One Route Audit/ Routing Manager;
- One Franchise Contract Manager; and,
- One Accounting Manager

The personnel additions are expected to allow collection operations and general management to operate more effectively, resulting in planned route reductions over the next few years. MSS management has estimated a total of five routes will be eliminated. The plan is being phased in over a three-year period with the total implementation costs to be averaged over that time. The Town's portion is approximately \$5,700 per year.

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Food to Energy Program

During the prior detailed MSS cost review of the Marin Franchisor's Group, it was determined that the program costs for the commercial food waste collection program in conjunction with Central Marin Sanitation Agency (CMSA) will differ significantly over the next three years due to the projected rate of customers utilizing the new program and subsequent rate applications will be adjusted largely using indices and not a detailed review of the net costs of the program. Therefore, it was agreed to average the costs equally over a 3-year period, beginning in 2013. The Town's portion of the program costs is approximately \$12,800 per year.

The new programs described above were implemented by MSS in collaboration with the Marin Franchisor's Group. The Town adopted resolution 09-53 on July 1, 2009 supporting the FTE program.

The actual F2E program costs were adjusted to actual during the Marin Franchisor's Group review of the 2015 rate application and is reflected in the Town's 2015 adjusted application.

Recommended Increases not Implemented – 1.73%

MSS requested a 24.23% increase in their 2011 rate application, which was increased to a recommended 25.96% increase after review by HF&H. The town implemented the 24.23% increase over the course of 2 rate years, 10% effective May 1, 2011 and 14.23% effective January 1, 2012. The 14.23% increase was included in the December 7, 2011 Town Staff Report as a component of the overall 17.41% rate increase that went into effect. The remaining 1.73%, (25.96% recommended less the 24.23% implemented) is included in the current 12.36% recommended increase.

Disposal Expense – (2.84%)

In 2012, MSS renegotiated the disposal agreement with Redwood Sanitary Landfill (Redwood) at lower rates (by approximately 5%) compared to the rates in effect at the time of the last review. In addition, commercial loads identified as low in recycling content are now going through the transfer station instead of being processed at the Marin Resource Recovery Center (MRRRC). In 2014, MSS started the F2E program to process commercial organic volumes diverted from the commercial waste stream to further reduce disposal cost. The overall reduction of these factors contributed a favorable 2.84% since the last review.



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Phase-In of Rate Adjustment

The Town requested additional analysis to phase-in the rate increase over the period of either two or three years instead of a single increase. For our analysis, we assumed 3% annual inflation and calculated the annual adjustment required to fully absorb the recommended 12.36% as follows:

- 1 – year 12.36%
 - 2 - Years 8.70% per year
 - 3 – Years 7.18% per year
- * * *

We would like to express our appreciation to MSS's management and staff for their assistance. In addition, we express our appreciation to each of you for assistance and guidance during the course of the review. Should you have any questions, please contact me directly at 925-977-6961 or mseehan@hfh-consultants.com.

Sincerely,

HF&H CONSULTANTS, LLC

Marva M. Sheehan, CPA
Vice President

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), the Marin Resource Recovery Center (MRRRC), and Northern Recycling Compost – Zamora (Zamora)) provide solid waste, recyclable materials, and yard waste collection and processing services to the residents and businesses of San Anselmo, and the north area of the Ross Valley Sanitary District (RVSD). 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 MRRRC where recyclable materials are extracted from the waste stream, processed and marketed. The MRRRC delivers residual waste (the materials remaining after the recyclable materials are extracted) to the MSS transfer station. This residual waste is transferred to Redwood. Through a third party, MSS delivers yard waste to Zamora, located in Yolo County, for composting.

As part of the new agreement, residents were able to include food scraps in their yard waste cart. The material is transferred at MRRRC and delivered to Zamora for processing into compost.

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 2014, there were 5 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 February 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 January 9, 2015. These procedures included the following activities:

- Reviewing MSS management's projection of collection revenues for the 12-month period ending December 31, 2014.
- Reviewing the appropriateness of MSS management's classification of expenses into the various expense categories.
- Reviewing MSS management's calculation of rate year 2015 indexed expenses and comparing them to the calculated 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's insurance carrier.
 - Disposal Expense for residential and solid waste tons transferred at MSS's transfer station, which was reviewed by evaluating MSS's projection for 2015 disposal expense adjustments for the 2014 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's processing facility, which was reviewed by evaluating MSS's projection for 2014 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's projection for 2014 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's transfer station was reviewed by evaluating MSS's

tonnage projection for 2014. 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's 2014 projection. We reviewed MSS's 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's 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's 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 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 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.
- Preparing an alternate two and three year phase-in of the recommended rate adjustment for the Town's consideration.

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's 2013 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's 2015 projections at rates that have been discussed and allowed by the Marin Franchisor's Group in their Rate Methodology Amendment and for their 2015 rate-setting process.

Our conclusions are based, in part, on the review of MSS's projections of its financial results of operations. Actual results of operations will usually differ from projections because events and circumstances frequently do not occur as expected, and the difference may be significant.

Since third-party rate application reviews have not consistently been performed in setting rates, and the 2014 rate application review resulted in recommendations that were not implemented, we were not able to perform a year-to-year expense/revenue variance analysis. For this, as with the 2014 review, we relied on the reasonableness of the recommended 2015 adjusted application as compared to the last review performed in 2011.

SECTION III. MSS'S PROJECTION METHODOLOGY (INDEX YEAR)

Current Operations

In projecting 2015 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 2015 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 2014 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 2013 and 2014.
- Basing benefits expense, excluding Workers' Compensation expense, on the projected 2013 benefits expense increased by the percentage change in the annual average Employment Cost Index – Benefits (Private Industry Workers; 1982-1984=100) for June 2013 and 2014.
- Calculating Worker's Compensation expense by multiplying the 2014 wage projection (Base Year Revenue Requirement) by the applicable premium rates from the Contractor's insurance carrier for 2015.
- Forecasting projected 2015 disposal expense using projected tons multiplied by the applicable disposal/processing rate for 2015, plus Transfer/Transport charges for Transferring the Town's disposal tonnage to Redwood Landfill.
- Forecasting projected 2015 fuel and oil expense using the gallons established in the most recent detail year of the Marin Franchisor's Group (2013) at the average price per gallon based on actual year-to-date purchases.
- Forecasting projected 2015 equipment and vehicle maintenance expense was based on the projected maintenance expense for 2014 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 2013 and 2014.
- Forecasting projected 2015 depreciation and lease expense based on MSS's actual depreciation expense, plus projected depreciation on anticipated purchases in the Rate Year (allocation of depreciation of trucks to the Town and other operations was based on truck usage).
- Forecasting projected 2015 JPA Fees based on tons collected for the Town by MSS for the period determined and rate established by the JPA.

- Forecasting projected 2015 other operating/general and administrative expense based on projected 2014 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 2013 and 2014.
- Forecasting projected 2015 interest expense based on MSS's actual interest from its loan amortization schedules for actual and projected capital, adjusting 2015 for any projected asset purchases from the prior rate year that were not purchased during the projected time period.

Route Revenues

MSS used the revenue projection methodology, included in the 2012 revised allocation methodology approved by the Marin Franchisor's Group, to project the revenue generated from the Town's customers. This included the Town's actual revenue received through June 2014 and projections for the remainder of the year and multiplied by the average percentage surplus or shortfall rate revenue for the three most-recently-completed rate years for the Marin Franchisor's Group. MSS calculated the achievement percentage of 99.69% on Franchisor Group revenue and applied the same percentage to the Towns projected revenue.

Operations Improvement Plan

In 2012, MSS contracted with R. J. Proto Consulting Group, Inc. (Proto) to assess MSS's collection operation and inform management of improvements and changes necessary for the company's success. MSS management reviewed the results of the report and has begun filling the seven personnel additions recommended by Proto. The personnel additions include:

- Two Dispatchers;
- Two Route Supervisors;
- One Route Audit/Routing Manager;
- One Franchise Contract Manager; and,
- One Accounting Manager.

The personnel additions are expected to allow collection operations and general management to operate more effectively, resulting in planned route reductions over the next few years. MSS management has estimated a total of five routes will be eliminated. During the prior detailed cost review for the Marin Franchisor's Group, it was determined that the net costs of the operations improvement plan over the next 3-year period amounted to roughly \$1.2 million, ranging from \$800,000 in 2013 to \$25,000 in 2015. The costs differ significantly over the three-year period; therefore, it was agreed that the costs would be averaged and distributed evenly among the following three years.

The Town's portion of the operation improvement plan included in the rate application is \$5,664 per year through 2015.

Commercial Food to Energy (F2E) Program

During the prior detailed cost review, it was determined that the program costs for the commercial food waste collection program in conjunction with Central Marin Sanitation Agency (CMSA) will differ significantly over the next three years due to the projected rate of customers utilizing the new program. Also, subsequent rate applications will be adjusted largely using indices and not a detailed review of the nets costs of the program. Therefore, it was agreed to average the costs equally over a 3-year period, beginning in 2013.

The Town's portion of the operation improvement plan included in the rate application is \$12,795 per year through 2015.

Profit

MSS calculated its 2015 profit by applying the agreed-upon 90.5% pre-tax operating ratio to its 2015 total projected expenses that are eligible for profit.

MSS's Calculated Rate Adjustment

MSS calculated the 2015 Rate Adjustment to be 14.62%. 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's operations are shown in Table 3 below and our recommended adjustments to MSS's projections are discussed in more detail following the table.

Table 3: Summary of Adjustments

	Expenses: Current MSS Operations	MSS Application	Recommended Adjustments	HF&H Adjusted Application
1	Wages	\$ 425,807	\$ 15,094	\$ 440,901
2	Benefits	250,952	242	251,194
3	Disposal Fees	262,368	(26,377)	235,991
4	Fuel & Oil	101,322	(11,400)	89,922
5	Maintenance Expense	100,486	-	100,486
6	Depreciation/Leases	133,865	(419)	133,446
7	Other Operating/G&A	83,288	(261)	83,027
8	Total Operating Expenses	1,358,088	(23,121)	1,334,967
9	Operating Profit	142,562	(2,427)	140,135
10	Interest Expense	14,754	483	15,237
11	Total Expenses for Current Operations	1,515,404	(25,065)	1,490,339
12	Revenue Requirement for Current Services	\$ 1,515,404	\$ (25,065)	\$ 1,490,339
	Projected Revenue (at current rates)			
13	Route Revenues	1,536,827	4,753	1,541,580
14	Less: Franchise Fees	(153,683)	(475)	(154,158)
15	Less: Consultant Fee	(3,000)	-	(3,000)
16	Less: Brush Clearing/Fuel Reduction Fee	(10,000)	-	(10,000)
17	Less: Vehicle / Road Impact Fee	(48,000)	-	(48,000)
18	Add: Non-Regulated Revenues	-	-	-
19	Net Revenues (at current rates)	1,322,144	4,278	1,326,422
20	Total Surplus/ (Deficit) (Line 19 - Line 12)	\$ (193,260)	29,343	(163,917)
21	Rate Impact (-Line 20 ÷ Line 19)	14.62%		12.36%

Adjustments to 2015 Projected Expenses for Current Operations**Wages**

HF&H recommends an increase to wages by a net of \$15,094 (Table 3, Line 1) due to the following:

- A decrease of \$2,180 due to MSS using the 2014 rate application index (2.7%) instead of the 2015 rate application index (2.2%). Adjustment applies to indexed wage expenses included in 2015 rate application.
- An increase of \$18,160 due to MSS applying a proportionate adjustment based on the total 2015 Franchisor's Group adjustment for Ops Improvement costs that were not

incurred during first 2 years of program. These costs were for an Administration position that was not filled. This portion of the plan was not initially allocated to the Town and should not have received a reduction in the 2015 rate application.

- A decrease of \$886 due to MSS applying a proportionate adjustment based on the total 2015 Franchisor's Group adjustment for F2E costs that were not incurred during first 2 years of program. HF&H applied this adjustment in direct proportion to the original program costs approved by the Town resulting in this additional adjustment.

Benefits

HF&H recommends an increase to benefits by a net of \$242 (Table 3, Line 2) due to MSS proportionately applying the overall workers compensation adjustment (\$194K) from the Marin Franchisor's Group 2015 application review to the Town. The actual Town adjustment, using the approved rate setting methodology, results in an adjustment that should be \$242 more than included in the MSS 2015 projections.

Disposal Fees

HF&H recommends a decrease to MSS's projected disposal fees by \$26,377 (Table 3, Line 3) due to the following:

- A decrease of \$6,523 due to MSS including adjustments 2013 and 2014 disposal based on a proportionate share of the amount included in the Marin Franchisor's Group 2015 application. Additionally, MSS applied a proportionate adjustment to the Town for HF&H adjustment to the 2013/2014 disposal included in MSS's 2015 final approved application to the Marin Franchisor's Group. These adjustments do not apply to the Town.
- A decrease of \$15,633 due to a true-up of projected 2014 expense included in the 2014 rate application and updated to include a reduction in both tonnage and disposal rates compared to initial projections.
- A decrease of \$4,221 due to MSS's application excluding the reduced cost of transportation and disposal for processing the Towns portion of F2E volumes in 2014 and projected for 2015.

Fuel & Oil

HF&H recommends a decrease to MSS's projected Fuel & Oil costs by \$11,400 (Table 3, Line 4) due to the following:

- An increase of \$84 due to an updated projection of 2014 forecasted fuel expenses in the 2015 rate application vs. the projected expense included in the 2014 rate application.
- A decrease of \$11,484 due to MSS calculating the fuel expense by using the Marin Franchisor's Group increase between the 2014 approved application and the 2015 application and applying it to the Town's projection included in the 2014 rate application. The Marin Franchisor's Group adjustment included a \$150K prior year adjustment and

had the effect of projecting expenses at 20% higher than projecting based on the approved methodology.

Maintenance Expense

HF&H reviewed and does not recommend an adjustments to MSS's projected 2015 Maintenance Expense (Table 3, Line 5).

Depreciation/Leases

HF&H reviewed and recommends a decrease to depreciation by \$419 due to MSS including a proportionate adjustment for the Marin Franchisor's Group adjustment. This adjustment is for assets that were never allocated to the Town (Anderson Drive Building and Rolloff Boxes) and should not have been included in the Towns projected 2015 Depreciation/Leases expense (Table 3, Line 6).

Other Operating/G&A

HF&H reviewed and recommends a decrease of \$261 to MSS's projected 2015 Other Operating/G&A expense due to MSS calculating the 2015 rate application at the 2014 index (2.7%) instead of the 2015 index (2.2%). (Table 3, Line 7).

Operating Profit

HF&H recommends a decrease to MSS's projected operating profit by \$2,427 (Table 3, Line 9), resulting from the decreases in operating costs described above.

Interest Expense

HF&H recommends an increase to MSS's projected 2015 interest expense by \$483 (Table 3, Line 10) due to MSS including a proportionate interest expense reduction on adjustments that only applied to the MFG 2015 application.

Adjustments to Projected Revenue at Current Rates

HF&H recommends an increase to MSS projected route revenues by \$4,753 (\$4,278 net of 10% Franchise Fee) due to MSS using the 3-year average achievement that had the effect of reducing projected revenue to 99.69% of the combined 6 month actual through June 2014 and 6 month projected through December 2014 (Table 3, Lines 13 and 14).

MSS historically has used the full 100% for the Town's rate application and the forecast achievement method has not been adopted as an agreed-upon method. As a result, HF&H recommends projecting revenue at the full 100% as in prior rate applications.

SECTION V. RATE ADJUSTMENT

Rate Adjustment

Table 4: Reasonableness of Rate Adjustment

2015 Component Percentages	
MSS Projected Revenue Shortfall ⁽¹⁾	2.24%
General Cost Increases ⁽²⁾	9.69%
Operations Efficiency Plan	0.47%
F2E Program	1.07%
Recommended Increase not Implemented ⁽³⁾	1.73%
Disposal Expense	-2.84%
Total Rate Adjustment	12.36%

⁽¹⁾ Downsize effect on prior rate increases.

⁽²⁾ Approximates Cumulative CPI since last review in 2011-All Urban Consumers, Annual.

⁽³⁾ HFH recommended increase to 2011 rates was 25.96% vs. 24.23% actually approved by the Town.

2015 Rate Adjustment (12.36%)

Revenue Trend – 2.24%

MSS rate revenues have declined by approximately \$30,000 on an annual basis after the last increase in 2012. MSS attributes this decline to customers downsizing in response to rate increases and reduced disposal demand as recycling diversion efforts increase. This change in rate revenue contributes approximately 2.24% of the recommended increase.

General Cost Increases – 9.69%

As shown in Table 2, general cost increases are the highest component contributing approximately 9.69% of the recommended 12.36% overall increase. The last rate adjustment was based on the 2010 projected costs, resulting in a 5-year cost escalation without a corresponding rate increase. We compared this to the 5-year average change in the San Francisco Bay Area – All Urban Consumers Index and find this to be a reasonable increase to cover the period since the last increase.

New Program Costs – 1.54%

Operations Improvement Plan

In 2012, MSS contracted with R. J. Proto Consulting Group, Inc. (Proto) to assess MSS's collection operation and inform management of improvements and changes necessary for the company's

success. MSS management reviewed the results of the report and has begun filling the seven personnel additions recommended by Proto. The personnel additions include:

- Two Dispatchers;
- Two Route Supervisors;
- One Route Audit/Routing Manager;
- One Franchise Contract Manager; and,
- One Accounting Manager

The personnel additions are expected to allow collection operations and general management to operate more effectively, resulting in planned route reductions over the next few years. MSS management has estimated a total of five routes will be eliminated. The plan is being phased in over a 3 year period with the total implementation costs to be averaged over that time. The Town's portion is approximately \$5,700 per year.

Food to Energy Program

During the prior detailed MSS cost review of the Marin Franchisor's Group, it was determined that the program costs for the commercial food waste collection program in conjunction with Central Marin Sanitation Agency (CMSA) will differ significantly over the next three years due to the projected rate of customers utilizing the new program and subsequent rate applications will be adjusted largely using indices and not a detailed review of the net costs of the program. Therefore, it was agreed to average the costs equally over a 3-year period, beginning in 2013. The Town's portion of the program costs is approximately \$12,800 per year.

The new programs described above were implemented by MSS in collaboration with the Marin Franchisor's Group. The Town adopted resolution 09-53 on July 1, 2009 supporting the F2E program.

The actual F2E program costs were trued up to actual during the Marin Franchisor's Group review of the 2015 rate application and is reflected in the Town's 2015 adjusted application.

Recommended Increases not Implemented – 1.73%

MSS requested a 24.23% increase in their 2011 rate application, which was increased to a recommended 25.96% increase after review by HF&H. The town implemented the 24.23% increase over the course of 2 rate years; 10% effective May 1, 2011 and 14.23% effective January 1, 2012. The 14.23% increase was included in the December 7, 2011 Town Staff Report as a component of the overall 17.41% rate increase that went into effect. The remaining 1.73%, (25.96% recommended less the 24.23% implemented) is included in the 12.36% recommended increase.

Disposal Expense -- (2.84%)

In 2012, MSS renegotiated the disposal agreement with Redwood at lower rates (by approximately 5%) compared to the rates in effect at the time of the last review. In addition, commercial loads identified as low in recycling content are now going through the transfer station instead of being processed at the MRRC. In 2014, MSS started the F2E program to process commercial organic volumes diverted from the commercial waste stream to further reduce disposal cost. The overall reduction of these factors contributed a favorable 2.84% since the last review.

SECTION VI. PHASE-IN OF RATE ADJUSTMENT

This section provides an analysis to phase the recommended rate adjustment of 12.36% over a 2 or 3 year period as an alternative option for the Town rather than a single adjustment to customer rates.

The analysis includes the following assumptions:

- Three percent annual cost escalator to provide for inflation and expected increases under the approved rate setting methodology;
- The initial adjustment is implemented with a January 1, 2015 effective date;
- Annual revenue surplus or shortfall is carried forward to the next rate year(s) and fully absorbed in the rates by the end of the phase-in period.

2-Year Phase-In

Table 5 is an illustration of how a 12.36% adjustment could translate over a 2-year phase-in period. Allowing for an inflation rate of 3% and rolling forward the shortfall, the annual increase would need to be 8.70% to fully absorb the recommended adjustment over 2 years.

Table 5: 2-Year Phase-In of 2015 Adjusted Rate Application

Town of Fairfax 2 Year Phase-in of Rates	Annual % Change	2015	2016
Revenue Requirement	3.00%	\$ 1,490,339	\$ 1,535,049
Route Revenues		1,541,580	1,675,671
Annual Rate Adjustment	8.70%	134,091	145,755
Total Route Revenues		1,675,671	1,821,427
Franchise and Contract Fees		(228,567)	(243,143)
Net Revenues		1,447,104	1,578,284
Surplus/(Shortfall) - Starting		-	(43,235)
Surplus/(Shortfall) - Ending		(43,235)	(0)

3-Year Phase-In

Table 6 is an illustration of how a 12.36% adjustment could translate over a 3-year phase-in period. Allowing for an inflation rate of 3% and rolling forward the shortfall, the annual increase would need to be 7.18% per year to fully absorb the recommended adjustment over 3 years.

Table 6: 3-Year Phase-In of 2015 Adjusted Rate Application

Town of Fairfax 3 Year Phase-In of Rates	Annual % Change	2015	2016	2017
Revenue Requirement	3.00%	\$ 1,490,339	\$ 1,535,049	\$ 1,581,101
Route Revenues		1,541,580	1,652,333	1,771,042
Annual Rate Adjustment	7.18%	110,753	118,709	127,238
Total Route Revenues		1,652,333	1,771,042	1,898,280
Franchise and Contract Fees		(226,233)	(238,104)	(250,828)
Net Revenues		1,426,099	1,532,938	1,647,452
Surplus/(Shortfall) - Starting		-	(64,240)	(66,351)
Surplus/(Shortfall) - Ending		(64,240)	(66,351)	0

This phase-in analysis is partly based on assumptions for inflationary factors as well as the timing of adjustments likely to change when the underlying assumptions become known and actual. For example, if actual inflation is 2%, the annual increase would be lower than provided in the analysis.

EXHIBIT B

CONTRACTOR'S COMPENSATION AND RATE ADJUSTMENT

I. CONTRACTOR'S APPLICATION

By October 15, 2012, and by each subsequent anniversary thereof, Contractor shall submit a rate application to the Town requesting the amount of Contractor's compensation and calculating the necessary adjustment to rate revenue for the next Rate Period commencing January 1 of the following year. The Town Council shall conduct a public hearing to consider Contractor's application for a rate adjustment at the earliest possible date.

Allocation Method

The rate application will allocate the Town's costs based on the overall costs incurred by the Contractor in utilizing the Marin Franchise Group ("MFG") rate methodology (as described below), which may be used by the Town's consultant to calculate the Contractor's costs attributable to Fairfax based on specific criteria such as wages, benefits, disposal fees, fuel, maintenance, depreciation and other general and administrative ("G&A") expenses that reflect the proportion of the cost of serving Fairfax compared to that of the MFG service area and other jurisdictions participating in the cost allocation. Contractor agrees that the Town shall have full access to the MFG audit to review the rate application submitted by the Contractor for rate adjustment.

The Contractor and the Town agree that on or about January 1, 2015, this method of allocating cost will be reviewed to determine if it is equitable. If the Contractor or the Town reasonably determines that it is not equitable, then the Contractor or the Town shall have the option to require use of the MFG percentage increase each year under this contract without calculating the amount attributable to Fairfax.

Rate Methodology

Once every three years, commencing with the application to be prepared for the year ending December 31, 2012, Contractor shall submit a rate application to the Town containing the following information: the Contractor's actual financial results of operations for the preceding rate year ending December 31; year-to-date financial results of operations for the current rate year; audited financial statements for the preceding year ending December 31; and Contractor's forecasted costs for the next year. This rate application shall be referred to herein as the "Base Year Revenue Requirement." The Base Year Revenue Requirement procedures will continue to be used one out of every three years, specifically, the years ending December 31, 2013, December 31, 2016, etc., throughout the term and any extension of the contract.

In the intervening years, when the Base Year Revenue Requirement procedures are not utilized hereunder, the rate applications requesting the amount of Contractor's compensation shall be based on the data contained in the Base Year Revenue Requirement adjusted as described below. These rate applications shall be referred to herein as the "Indexed Revenue Requirement." The Indexed Revenue Requirement procedures will continue to be used two out of every three years, specifically, the rate years ending December 31, 2014 and December 31, 2015, the rate years

ending December 31, 2017 and December 31, 2018, etc., throughout the term and any extension of the contract.

In either case, the application shall be submitted in the format described in Attachment 1. Contractor shall assemble and provide such information that is necessary to support the assumptions made by Contractor and that underlie the forecasted Contractor's compensation for the projected Rate Period.

II. DETERMINATION OF CONTRACTOR'S BASE YEAR REVENUE REQUIREMENT

The Town or its representative will review Contractor's application for compliance with this Agreement, accuracy, and reasonableness. The application shall clearly document Contractor's calculation of Contractor's compensation and rate adjustment based on the methodology described in this Attachment.

Contractor's compensation shall equal the sum of the forecasted annual cost of operations, profit, forecasted interest expense and franchise fees, each of which shall be calculated in accordance with procedures set forth below.

A. Forecasted Annual Cost of Operations. The forecasted annual cost of operations consists of the sum of forecasted:

1. Wages and salaries expense
2. Benefits expense
3. Disposal expense
4. Fuel and oil expense
5. Maintenance expense
6. Depreciation/lease expense
7. Other operating expense

B. Methodology for Forecasting Annual Cost of Operations.

1. **Determine Actual Costs.** Contractor's audited financial statements shall be reviewed to determine Contractor's actual costs necessary to perform all the services in the manner required by this Agreement. The Contractor's auditor shall determine that costs have actually been incurred and have been assigned to the appropriate cost category.
2. **Calculate Adjusted Costs.** Contractor shall adjust actual costs to ensure that non-allowable costs are not included in actual costs. Non-allowable costs include the following:
 - a. Costs of any category or type which are not required to provide services under this Agreement, or are not actually incurred, or which are not necessary for the provision of services under this Agreement or which are unreasonable in amount.

- b. Payments to directors and/or owners of Contractor, unless paid as reasonable compensation for services actually rendered.
 - c. Fines or penalties of any nature.
 - d. Federal or state income taxes.
 - e. Charitable or political donations.
 - f. Depreciation or interest expense for collection vehicles, containers, other equipment, offices and other facilities if such items are leased from a related party at more than their actual cost.
 - g. Attorneys' fees and/or other expenses incurred by Contractor in any court proceeding in which the Town and Contractor are adverse parties, unless Contractor is the prevailing party in such proceeding.
 - h. Attorneys' fees and other expenses incurred by Contractor arising from any act or omission in violation of this Agreement.
 - i. Attorneys' fees and other expense incurred by Contractor in any court proceeding in which Contractor's own negligence, violation of law or regulation, or wrongdoing are at issue and determined, in a final adjudication, by a Court to have been proven.
 - j. Payments to Related-Party Entities for products or services, in excess of the cost to the Related-Party Entities for those products or services.
 - k. Goodwill.
 - l. Processing costs (net of revenues) for curbside Recyclable Materials in excess of \$8.00/ton unless supported by an analysis of the financial results of operations of the related party performing the services and an application submitted in a form consistent with those described herein.
 - m. Disposal costs (including transfer and transport costs) for solid waste whose rate/ton exceeds comparable charges by other companies in the San Francisco Bay Area.
3. **Summarize Allowed Costs.** The adjusted costs for the forecasted rate year shall be considered "Allowed Costs" for the purposes of forecasting costs following procedures described herein and shall be presented in the cost categories described below.

- a. Wages and salaries expense

- b. Benefits expense
- c. Disposal expense
- d. Fuel and oil expense
- e. Maintenance expense
- f. Depreciation/lease expense
- g. Other operating expense

4. **Forecast Annual Cost of Operations.** Forecasted annual cost of operations for the forecasted rate year shall include allowed costs of operations determined in Step 3 above adjusted to reflect the impact of changes in costs and changes in operations. The forecasts shall be performed in the following manner:

- a. Forecasted wage and salaries expense shall be based on negotiated labor agreements, wage and salary adjustments for non-represented employees, as well as changes in customer demand.
- b. Forecasted benefit expense shall be based on negotiated labor agreements, adjustments for non-represented employees, and changes in insurance premiums net of any refunds.
- c. Forecasted disposal expense shall be based on the transfer, transport, disposal, and processing expense fees at the transfer station (which is comprised of the transfer and transport cost as well as the disposal fee at the landfill), recyclable material processing facility and yard waste processing facility and multiplied by the total tons of solid waste transferred for disposal.
- d. Forecasted fuel and oil expense shall be based on anticipated changes in the consumption and price of these commodities.
- e. Forecasted maintenance expense shall be based on changes in the number of equipment and vehicles to be maintained and the cost of such maintenance.
- f. Forecasted depreciation and lease expense shall be based on the Contractor's asset and depreciation records, which shall reflect the retirement and addition of assets.
- g. Forecasted other operating expense shall be based on Contractor's plans.

5. **Calculate profit.** Contractor shall be entitled to profit on forecasted annual costs of operations. Contractor shall calculate profit by dividing the forecasted annual cost of operations, which shall be determined in accordance with these procedures, by 0.905 and subtracting the forecasted annual costs of operations from the dividend.

6. **Interest Expense.** Forecasted interest expense shall be based on the Contractor's actual, necessary and reasonable interest expense incurred for services provided in accordance with this Agreement.
7. **Franchise Fees Expense.** Forecasted franchise fee expense shall be based on the appropriate methodology using the forecasted values and shall include any other required payments to the Town.
8. **Determine Contractor's Compensation for Base Year Rate Period.** Contractor's compensation necessary to perform all the services in the manner required by this Agreement for the rate year shall be equal to the sum of the following:
 - a. Forecasted annual cost of operations (determined in accordance with Step 4 above)
 - b. Profit (determined in accordance with Step 5 above)
 - c. Forecasted interest and franchise fee expense

III. DETERMINATION OF CONTRACTOR'S INDEXED REVENUE REQUIREMENT

The Town or its representative will review Contractor's application for compliance with this Agreement, accuracy, and reasonableness. The application shall clearly document Contractor's calculation of Contractor's compensation and rate adjustment based on the methodology described in this Attachment.

Contractor's compensation shall equal the sum of the forecasted annual cost of operations, profit, forecasted interest expense and franchise fees, each of which shall be calculated in accordance with procedures set forth below.

- A. **Forecasted Annual Cost of Operations.** The forecasted annual cost of operations consists of the sum of forecasted categories of expense as described below:
 1. Wages and salaries expense
 2. Benefits expense
 3. Disposal expense
 4. Fuel and oil expense
 5. Maintenance expense
 6. Depreciation/lease expense
 7. Other operating expense
- B. **Methodology for Forecasting Annual Cost of Operations.** The forecasted annual cost of operations for the Indexed Revenue Requirement shall be based on Contractor's most recent Base Year Revenue Requirement adjusted as described below:

1. Wages and salaries expense shall be calculated by multiplying the wages and salaries expense contained in the Base Year Revenue Requirement by one (1) plus the percentage change in the "San Francisco-Oakland-San Jose Metropolitan Area Consumer Price Index (Urban Wage Earners; 1982-84=100)" between the June monthly index of the current year and the corresponding monthly index published twelve (12) months earlier, in the first year following the Base Year Revenue Requirement. This step will be repeated in the second year following the Base Year Revenue Requirement.
2. Benefits expense shall be calculated by multiplying the benefits expense contained in the most recent Base Year Revenue Requirement by one (1) plus the percentage change in the Employment Cost Index – Benefits (Private Industry Workers) between the June monthly index of the current year and the corresponding monthly index published twelve (12) months earlier, in the first year following the Base Year Revenue Requirement. This step will be repeated in the second year following the Base Year Revenue Requirement.
3. Forecasted disposal expense shall be based on the transfer, transport, disposal, and processing expense fees at the transfer station (which is comprised of the transfer and transport cost as well as the disposal fee at the landfill), recyclable material processing facility and yard waste processing facility and multiplied by the total tons of solid waste transferred for disposal or recycling.
4. Fuel and oil expense shall be calculated by multiplying the fuel and oil expense contained in the Base Year Revenue Requirement by one (1) plus the percentage change in the "U.S. City Average Consumer Price Index (All Urban Consumers; Motor Fuel Item (1982-84=100))" between the June monthly index of the current year and the corresponding monthly index published twelve (12) months earlier, in the first year following the Base Year Revenue Requirement. This step will be repeated in the second year following the Base Year Revenue Requirement.
5. Maintenance expense shall be calculated by multiplying the maintenance expense contained in the most recent Base Year Revenue Requirement by one (1) plus the percentage change in the "Motor Vehicle Maintenance and Repair Index (All Urban Consumers, U.S. City Average 1982-1984=100)" between the June monthly index and the corresponding monthly index published twelve (12) months earlier, in the first year following the Base Year Revenue Requirement. This step will be repeated in the second year following the Base Year Revenue Requirement.
6. Depreciation expense shall be based on the Contractor's asset and depreciation records that shall reflect the retirement and addition of assets.
7. Other operating expense shall be calculated by multiplying the other operating expense contained in the most recent Base Year Revenue Requirement by one (1) plus the percentage change in the "San Francisco-Oakland-San Jose Metropolitan Area Consumer Price Index (All Urban Consumers; 1982-84=100)" between the

June monthly index of the current year and the corresponding monthly index published twelve (12) months earlier, in the first year following the Base Year Revenue Requirement. This step will be repeated in the second year following the Base Year Revenue Requirement.

8. Forecasted annual cost of operations for the Indexed Revenue Requirement shall equal the sum of the preceding expenses.
- C. **Calculate Profit.** The Contractor shall calculate profit by dividing the forecasted annual costs of operations by 0.905 and subtracting the forecasted annual costs of the operations from the dividend.
- D. **Interest Expense.** Forecasted interest expense shall be based on the Contractor's actual, necessary and reasonable interest expense incurred for services provided in accordance with this Agreement.
- E. **Franchise Fees Expense.** Forecasted franchise fee expense shall be based on the appropriate methodology using the forecasted values and shall include any other payments to the Town.
- F. **Determine Contractor's Compensation for Indexed Rate Period.** Contractor's Compensation for Rate Period shall be equal to the sum of the following:
 1. Forecasted annual cost of operations (determined in accordance with Step B above)
 2. Profit (determined in accordance with Step C above)
 3. Forecasted interest expense (determined in accordance with Step D above)
 4. Franchise fee expense (determined in accordance with Step E above)

IV. CALCULATION OF RATE ADJUSTMENT

In both the Base Year Revenue Requirement Application and Indexed Revenue Requirement Application, the Contractor shall calculate the rate adjustment in accordance with the following formula:

Revenue Requirement – Revenues from All Sources (including rate revenues at current rates and projected subscription levels)/Rate Revenues at Current Rates and Projected Subscription Levels.

Bay Area Rate Survey
March 13, 2014

TABLE A: COMPARISON OF RATES

Jurisdiction	County	Res. Single-Family			Commercial			Service Info				
		20 Gallon	30-35Gal.	60-64Gal. 90-96Gal.	1YD Bin	1YD Bin	3YD Bin	Sort	Rec. Freq.	YW Freq.		
Town of Fairfax - Current Rates	Marin	\$ 24.26	\$ 29.09	\$ 58.18	\$ 87.27	\$ 171.00	\$ 405.05	\$ 400.95	Weekly	Weekly	Dual stream	05/05/12
Town of Fairfax - Town Adjusted 10.63%	Marin	\$ 26.84	\$ 32.18	\$ 64.36	\$ 96.54	\$ 189.20	\$ 448.10	\$ 443.55	Weekly	Weekly	Dual stream	N/A
RVSD-N (Oak Manor)	Marin	\$ 22.53	\$ 36.22	\$ 73.19	\$ 110.80	\$ 196.39	\$ 589.27	\$ 589.27	Weekly	Weekly	Dual stream	01/01/15
RVSD-N (Sleepy Hollow)	Marin	\$ 23.26	\$ 37.40	\$ 75.55	\$ 114.38	\$ 196.39	\$ 589.27	\$ 589.27	Weekly	Weekly	Dual stream	01/01/15
Town of San Anselmo ¹	Marin	\$ 26.51	\$ 34.64	\$ 69.34	\$ 104.01	N/A	N/A	\$ 568.55	Weekly	Weekly	Dual stream	01/01/15
City of Belvedere ²	Marin	\$ 34.64	\$ 39.94	\$ 63.23	\$ 100.77	\$ 197.64	\$ 545.96	N/A	Weekly	Weekly	Single	07/01/14
City of Novato ³	Marin	\$ 11.93	\$ 19.08	\$ 38.13	\$ 57.22	N/A	N/A	\$ 248.56	Weekly	Weekly	Single	01/01/15
City of Sausalito ^{2,4}	Marin	N/A	\$ 36.90	\$ 73.80	\$ 110.74	\$ 145.95	\$ 437.84	N/A	Weekly	Bi-weekly	Single	09/01/12
Town of Tiburon ^{2,4}	Marin	\$ 33.55	\$ 37.85	\$ 68.92	\$ 99.46	\$ 180.10	\$ 491.56	N/A	Weekly	Weekly	Single	07/01/14
Town of Corte Madera ^{2,4}	Marin	\$ 27.15	\$ 31.93	\$ 64.02	\$ 96.12	\$ 149.33	\$ 402.94	N/A	Weekly	Weekly	Single	07/01/14
City of Mill Valley ^{2,4}	Marin	\$ 36.00	\$ 39.70	\$ 66.29	\$ 92.83	\$ 175.86	\$ 473.25	N/A	Weekly	Weekly	Single	07/01/14
City of San Rafael	Marin	\$ 27.24	\$ 32.05	\$ 64.11	\$ 96.16	N/A	N/A	\$ 395.95	Weekly	Weekly	Dual stream	01/01/15
Las Gallinas Valley San Dist- County	Marin	\$ 23.81	\$ 28.02	\$ 56.03	\$ 84.05	\$ 200.58	\$ 602.30	\$ 405.87	Weekly	Weekly	Dual stream	01/01/15
City of Larkspur ⁵	Marin	\$ 29.99	\$ 35.21	\$ 70.42	\$ 105.63	\$ 223.54	\$ 670.44	\$ 448.95	Weekly	Weekly	Dual stream	01/01/15
Town of Ross	Marin	\$ 26.05	\$ 30.65	\$ 61.29	\$ 91.94	N/A	N/A	\$ 393.59	Weekly	Weekly	Dual stream	01/01/15
County (RVSD-S)	Marin	\$ 20.68	\$ 34.24	\$ 71.23	\$ 111.10	\$ 286.30	\$ 725.85	\$ 442.77	Weekly	Weekly	Dual stream	01/01/15
County - Marin Franchisors' Group	Marin	\$ 20.39	\$ 33.76	\$ 70.26	\$ 109.57	N/A	N/A	\$ 446.88	Weekly	Weekly	Dual stream	01/01/15
Town of Fairfax - Town Adjusted 10.63%		\$ 26.84	\$ 32.18	\$ 64.36	\$ 96.54	\$ 189.20	\$ 448.10	\$ 443.55				\$ 1,161.00
All City Average		\$ 26.03	\$ 33.74	\$ 65.64	\$ 98.83	\$ 194.66	\$ 543.34	\$ 452.11				\$ 1,269.39

Note: This table is intended to gauge the reasonableness of the Town fees compared with other communities. However, rate comparisons are intrinsically difficult because rates are based on services provided, topography, government fees, disposal fees, and rate structures.

¹ San Anselmo offers a very low rate for "Intensive Recycling (20 gallon cart EOW) rate.
² Largest commercial bin is 2 yards.
³ Smallest Commercial Bin is 2 yd.
⁴ Rate for 1, 2, & 3 30 gallon cans in lieu of 60 and 90 gallon cans.
⁵ One cubic yard bin no longer offered to new customers.