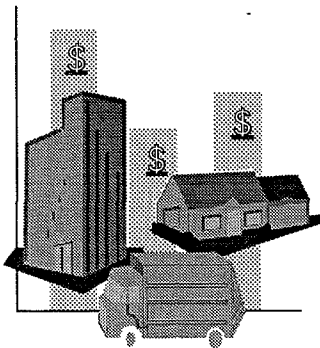


city of san luis obispo

*Rate Setting Process
and Methodology
Manual for Integrated
Solid Waste
Management Rates*



June 1994



***Rate Setting Process and
Methodology Manual for
Integrated Solid Waste Management Rates***

Prepared for

**City of San Luis Obispo
San Luis Garbage Company**

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Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates

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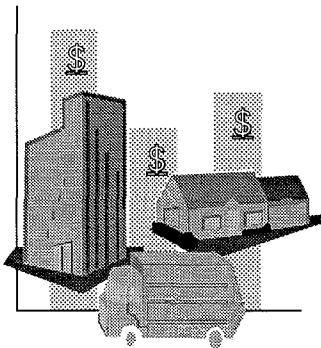
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Section I

Rate Setting Overview





I. Rate Setting Overview

This section of the manual provides an overview of the rate setting process. This section is organized as follows:

- A. Introduction**
- B. Rate Setting Objectives**
- C. Rate Structure Objectives**
- D. Other Key Objectives**
- E. Rate Adjustment Application Process**
- F. Allowable and Pass Through Costs**
- G. Using the Manual**

A. Introduction

This manual provides a step-by-step guide for the City of San Luis Obispo (City) and its franchise hauler to prepare and approve adjustments to integrated solid waste management rates. The manual establishes rate adjustment policies, provides application forms, specifies reporting formats, identifies required supporting documentation, and describes procedures to be followed in requesting, reviewing, and adopting rate adjustments. Cost and revenue information is required for all services provided by the franchise hauler.

This manual provides a formal structure for establishing integrated solid waste management rates and has been developed with input and direction from both the City and current franchise hauler. It incorporates current ordinances and existing operating conditions in the City. As both the City and franchise hauler gain experience using the rate setting methodology described in the manual, the process should be updated, revised, and improved.

This manual is organized into four sections:

Section I: Rate Setting Overview:

This section provides an introduction to the manual and discusses the objectives followed in establishing the rate setting processes.

Section II: Rate Setting Process:

A detailed discussion of the rate setting process is presented in this section. This discussion focuses on responsibilities of participants in the process, activities to be performed, and the timing of these activities.

Section III: Base Year Rate Setting Methodology:

This section provides detailed instructions on how to complete the forms used to establish new rates for each base year.

Section IV: Interim Year Rate Setting Methodology:

In this section, detailed instructions are provided for completing forms used to establish new rates for each interim year.

B. Rate Setting Objectives

The primary goal of the rate setting process and methodology is to determine integrated solid waste management rates which are fair to San Luis Obispo residents and which provide adequate revenue to the hauler. Four rate setting objectives were considered in developing the rate setting approach:

- ☐ Rates requested by the franchise hauler must be **justifiable and supportable**. A formal request to adjust rates submitted by the franchise hauler should be based on formally adopted guidelines for expenses and profit, and provide the basis for all rate adjustments. The requested rates

should include only allowable and pass through costs, and provide accountability for all expenditures.

- ❑ The process should **ensure revenue adequacy to fully meet reasonable costs of service**. Estimated costs of service and resulting integrated solid waste management rates should be reasonable. Granting a franchise for solid waste collection recognizes the private sector's ability to provide quality service at a reasonable cost. Further, the City acknowledges that maintenance of good service is related to providing adequate compensation and financial incentives for continued good performance. Revenues generated should be adequate to fully meet reasonable costs of service. The resulting monthly rates for solid waste service should be comparable to those charged in other cities for providing similar services.
- ❑ The rate setting process should **provide for ongoing review and rate stability**. A formal and thorough City review of financial and operating data will set an expectation for both City staff and hauler, ultimately to protect the rate payer. The process should be designed to prevent large, unexpected fluctuations in rates anticipated from funding a broadening scope of integrated waste management services.
- ❑ The process should be **easy to administer**, while ensuring that any rate request is justifiable and reasonable. The process should be easy to explain and not place an undue cost on either the City or the franchise hauler to implement.

C. Rate Structure Objectives

The primary goal of the rate structure is to provide San Luis Obispo residents with fair rates that are understandable and consistent with solid waste reduction and

recycling objectives. Four objectives were utilized in developing the City's rate structure:

- ❑ **Promote source reduction, maximum diversion, and recycling.** Reducing the volume of landfilled waste was established as a City priority in 1990 with the adoption of volume-based residential rates. The California Integrated Waste Management Act, Assembly Bill 939 (AB 939, Chapter 1095, 1989) prioritized diversion of solid waste through source reduction, reuse, and recycling. Rate structure design should be consistent with AB 939 goals and provide residents incentives to reduce solid waste generation while maximizing recycling. In response to AB 939, the City's Source Reduction and Recycling Element (SRRE) establishes policies to promote source reduction, maximum diversion, and recycling. Rate structures and collection systems should work together to meet SRRE objectives. Rate structures that encourage maximum diversion generally are uniform or have increasing rates for increasing volumes of waste generated. In combination with volume-based rates, collection systems with a flexible "increment" of service create incentives to reduce and recycle.
- ❑ **Provide equity and fairness within classes of customers.** The rate structure should be constructed so no customer class is given preferential rates, either between classes or within the same class of customers. However, low income residents may be provided a discount on their rates. Determination of equity includes the relative demand (i.e., tonnage of solid waste generated) which customers place on the solid waste system.
- ❑ **Be environmentally sound.** Environmental concerns associated with collection systems include the added amount of waste created by use of orange bags and air quality impacts

from transportation of waste, recyclable materials, and yard debris. Working towards environmental soundness means phasing out the use of disposable containers (orange bags). Air quality impacts can be addressed through financial incentives to reduce frequency of pickups and to increase efficiencies of collection to allow for a large number of accounts per route.

- ❑ **Be easy to understand.** Both residential and non-residential customers should be able to understand the rate structure.

D. Other Key Objectives

The following are other key objectives considered in developing the processes and detailed methodologies described in this manual:

- ❑ **Regulation of residential and non-residential integrated solid waste management rates.** Both residential and non-residential integrated solid waste management rates are regulated by the City, and will represent recovery of allowable costs incurred by the franchise hauler. These allowable costs include collection/disposal of residential and non-residential garbage, curbside collection of residential recyclable materials, and collection of non-residential recyclables. Costs incurred by the franchise hauler must be adequately documented in a formal request for a rate adjustment, and the rate request must be supported by company financial statements. The first formal request for a rate adjustment (which may be submitted during 1994) will not require audited financial statements, but all future base year rate requests will.
- ❑ **Profit.** A profit to the hauler is allowed in the rate base, and is based on a targeted operating ratio of 92 percent on allowable costs, with a range of between 90 and 94 percent. In the base year, if

rates would remain unchanged at an operating ratio within the range of 90 to 94 percent, and the company actually realized an operating ratio within this range, then that same operating ratio resulting in no rate change will be used, and no rate change will occur.

Otherwise, a 92 percent operating ratio will be used for the base year calculation.

The operating ratio effectively determines the profit allowed to the franchise hauler on allowable costs. Total revenue requirements then are determined as the sum of: (1) allowable costs, (2) allowable profit, and (3) pass through costs (for which the franchise hauler gets no profit).

In the first base year, the operating ratio will be 92 percent. In each succeeding base year (once every three years), the operating ratio would range from 90 to 94 percent, which will help stabilize rate adjustments and afford the company an incentive to reduce costs. In any succeeding base year, if the company earned an operating ratio outside this range, then 92 percent would be reestablished.

- ❑ **Retroactive rate increase.** There will be no allowance for a retroactive increase in rates.
- ❑ **Performance audits.** While rates for residential and non-residential services are evaluated in detail during each base year (every three years), the rate review focuses on actual costs and does not address opportunities for the franchise hauler to improve general operational efficiency. If actions can be taken to improve the franchise hauler's efficiency, this could result in lower total costs, and correspondingly, lower rates for customers.

In order to address this issue, performance audits of the franchise hauler could be conducted at regular intervals, such as once every three years. The timing of these audits could

be independent of the rate adjustment process described in this manual.

A two-phase approach may be appropriate for these audits. An overall diagnostic review would be conducted in Phase I, and more detailed and focused work in selected areas would be conducted in Phase II, based on the Phase I findings.

- ❑ **Cost savings programs.** The franchise hauler will be allowed to share in cost savings due to improvements implemented by the hauler. This savings program provides an incentive to the franchise hauler to reduce costs. Under the rate setting process described in this manual, if the franchise hauler is able to reduce costs, the benefits of these cost reduction efforts are passed on to the rate payers in the next base year. There may be no direct incentive for the franchise hauler to identify and implement cost savings activities. The purpose of a formal program is to allow the franchise hauler to receive some of these benefits while also lowering the rates for customers.

The amount of cost savings would be identified initially during development of a proposed new program and then would be monitored during implementation of the new program. Savings would be shared by the franchise hauler and the rate payers, based on pre-determined splits. For example, during the first year of a new program, the franchise hauler may receive 75 percent of the savings and the rate payers would receive 25 percent. In year two, the franchise hauler would receive 50 percent of the benefit and the rate payer would received 50 percent. In year three, the franchise hauler would receive 25

percent of the cost savings. In the fourth year, all savings would be passed through to City customers.

Examples of cost savings programs include investing in new equipment, redesigning collection routes, automating administrative functions, or streamlining administrative processes. These opportunities for cost savings might be identified by the franchise hauler or through performance audits reviewed by the City.

Monitoring actual savings achieved is the most difficult task in developing a cost savings program. Cost, and in some cases, operating data must be identified and carefully reviewed. Without careful monitoring, the program may be abused.

Adjusting rates to reflect the savings also is difficult because rate adjustments for each interim year are determined by a change in the consumer price index instead of by an examination of base year costs. The hauler may, in fact, lower costs of operation through a cost savings program, though the rates would not automatically be lowered. Cost savings can not be included simply by reflecting the savings as a reduction in total cost.

New policies and procedures would have to be established to allow for cost savings adjustments under the methodology presented in this manual. These policies must address a number of issues including: the time period for sharing costs, the split of the savings, the form in which cost reduction proposals must be prepared, the process for monitoring actual cost savings, and incorporation of the concept in the current methodology.

E. Rate Adjustment Application Process

A *Base Year Rate Adjustment Application* from the franchise hauler is required once every three years. This process requires detailed financial and operating information which is carefully reviewed and analyzed by the City. These detailed reviews are referred to as "base" years in the methodology.

With the *Base Year Rate Adjustment Application*, the hauler submits annual audited financial statements (except for the initial base year application after this manual is adopted). These statements will serve as the base document of the application. Financial forms contained in the application should be reconciled to the audited financial statements to provide assurance that all of the company's activities are accounted for.

At the time a *Base Year Rate Adjustment Application* is submitted, the franchise hauler also shall provide the City with a survey of rates and services provided in at least six other municipalities of comparable size and service. The format for this survey is contained in Appendix A of this manual.

In each of the "interim" two years, rate adjustments will be based on the annual percentage change in a composite index of the following three items:

- ☐ Annual change in the most recent actual, not forecasted, U.S. Consumer Price Index published by the Bureau of Labor Statistics in their *Monthly Labor Review*, applied to specified costs of the franchise hauler (such as wages, salaries, payroll taxes, rent, and general and administration costs)
- ☐ Change in costs for tipping fees, and AB 939 and regulatory fees estimated to occur in the next interim year
- ☐ An adjustment for the franchise fee, which is based on a percentage of total revenues generated from residential and non-residential integrated solid waste collection service.

The franchise hauler will be required to submit an *Interim Year Rate Adjustment Application* for a rate increase between base years. The scope of each interim year application would be more limited than a base year request. Although a formal application would be required each year, the company would have the option to not increase rates, though an interim year adjustment might allow it to do so.

The City or franchise hauler may request an extraordinary or consequential adjustment outside of the base year and interim year adjustment schedules. The franchise hauler requesting an extraordinary or consequential cost increase should demonstrate, to the satisfaction of the City Administrative Officer, that it has incurred extraordinary and consequential cost increases. To be extraordinary or consequential, cost changes must be significant enough to require a greater than five percent (5%) decrease or increase in monthly rates.

F. Allowable and Pass Through Costs

For purposes of computing required revenue to be obtained from rate payers, it is necessary to determine which of the franchise hauler's costs are allowable, non-allowable, and pass through. Profit is allowed to the franchise hauler for allowable costs. Non-allowable costs cannot be recovered through the rate base. Pass through costs do not earn a profit, but can be recovered through the rate base.

Allowable Costs

The hauler is allowed to earn a profit on certain costs. These allowable costs include direct labor, corporate overhead, office salaries, and other general and administrative costs. These allowable costs are defined in **Table 1**, on the following page.

Table 1
Allowable Costs

Cost	Description
Direct Labor	All costs associated with solid waste and recyclable materials collection, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits.
Corporate Overhead	Salaries paid to the franchise hauler's corporate officers. The amount of this item cannot exceed \$120,000 per year (in 1994 dollars).
Office Salaries	Wages and related benefits paid to office and administrative staff, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits.
Other General and Administrative Costs	All general and administrative costs with the exception of corporate overhead and office salaries. This item includes the following costs: <ul style="list-style-type: none"> Collection fees Computer equipment and services Depreciation Dues and subscriptions Insurance Janitorial Laundry and uniform Interest expense Licenses Medical expenses Office rent Office supplies Postage Professional fees Promotion Office repair and maintenance Telephone Travel Trucking Utilities

A few costs of providing collection service need to be clarified because of special treatment for purposes of rate setting. These are discussed below.

- ☐ **Interest Expense.** Interest expense is included as an allowable cost on which profit is allowed.¹
- ☐ **Lease Payments.** Lease payments to non-affiliated companies are an allowable expense. These payments may implicitly contain interest.

¹ Interest expense is allowed in the operating profit calculation, which differs from the practice in some municipalities. Interest expense is a relatively small portion of the current franchise hauler's total costs. If interest becomes a significant factor in the franchise hauler's cost structure, the City may wish to reconsider the treatment of this cost component.

Lease payments to affiliated companies are a pass through cost.

- ☐ **Depreciation.** The following depreciation methods and useful lives are to be used for amortizing capital costs for rate setting purposes:

Table 2
Depreciation Methods

Capital Item	Type ^(a)	Years
Office Equipment	SL	5 years
Vehicles and Equipment	SL	7 years
Buildings and Leasehold Improvements	SL	25 years

(a) SL = straight line depreciation

- ☐ **Recycling.** Costs of providing residential curbside recycling and non-residential recycling services provided to the City by the franchise hauler will be an allowable cost. Therefore, the integrated solid waste management rates charged to customers would include recovery of allowable costs of providing recycling services, and a profit is allowed on these costs.

Non-Allowable Costs

The following costs are not allowable and as a result will not be passed on to the rate payers:

- ☐ Charitable and political contributions
- ☐ Entertainment
- ☐ Income taxes
- ☐ Profit sharing payments not related to an IRS approved pension program.

Pass Through Costs

The following pass through costs do not earn a profit, but are included in determining total revenue requirements to establish integrated solid waste management rates:

- ☐ **Tipping Fees.** If the franchise hauler utilizes a disposal facility which is owned by an affiliated company, the tipping fee charged by the disposal facility to the franchise hauler must be the same as the rate charged to other non-affiliated haulers for the same service. Tipping fees are defined to include both transfer station, transformation facility, and landfill charges.

In each interim year, tipping fees are not automatically adjusted by the CPI, as is proposed for all

controllable costs. Rather, a projection is made of what tipping fees would be in the new interim year. Then, a comparison is made with tipping fees in the previous year. The resulting percent change in tipping fees would be weighted by their share of total base year revenue requirements, in determining the composite index used in each interim year.

- ☐ **Franchise fee.** The franchise fee is 6.0 percent of the hauler's gross residential and non-residential revenues, excluding revenues from the sale of recyclable materials and California refund value (CRV). This fee is a pass through cost (no profit is allowed).
- ☐ **Costs to implement State mandated source reduction and household hazardous waste programs.** The City plans to adopt the *Source Reduction and Recycling Element (SRRE)* and *Household Hazardous Waste Element (HHWE)* as required by AB 939. These elements contain a number of recommended programs whose costs are projected to be funded in part by integrated solid waste management rates. If the City implements a surcharge on the monthly charge for waste management services, this surcharge will be considered pass through cost for the purposes of rate setting. The franchise hauler will not be allowed a profit on these AB 939 surcharges.
- ☐ **Trucking Charges.** Trucking charges from companies affiliated with the franchise hauler are a pass through cost, and no profit is allowed to the franchise hauler. This is based on the assumption that profits already are included in the trucking charges paid by the franchise hauler.

G. Using the Manual

Each section of the manual has been divided into a number of subsections. A subsection begins with a discussion related to a major topic. Many subsections of this manual include a series of "steps" which must be completed during the rate setting process. Each step begins at the top of a page and is prominently marked for easy reference. The organization of each step is worksheets and forms which are used to complete selected steps of the process:

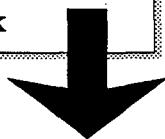
- ☐ Base year rate adjustment application
- ☐ Interim year rate adjustment application
- ☐ Interim year rate adjustment worksheet
- ☐ Solid waste fee survey.

Appendix B is a copy of a "standardized" chart of accounts which contains a proposed basis for allocating indirect costs of the hauler.

Organization of Each Step

– Manual Organization –

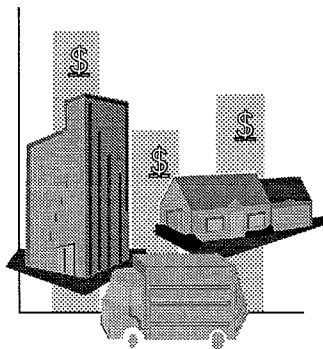
- I. Section
A. Subsection
1. Step
a. Task



Process or Activity Where This Step Occurs	Section Number and Name		Party Responsible for Completing the Step
Step Number	Section II: Rate Setting Process		When the Step Should Be Completed
Step Title	<div data-bbox="258 695 548 835" style="background-color: black; color: white; padding: 5px; text-align: center;"> Base Year Step 1 </div> <div data-bbox="258 835 548 1171" style="background-color: #cccccc; padding: 5px;"> Preparation and Submission of Rate Adjustment Application </div>	<div data-bbox="570 716 748 743">Responsibility:</div> <div data-bbox="570 758 662 785">Timing:</div> <div data-bbox="570 856 646 884">Tasks:</div> <div data-bbox="797 716 1240 1142"> <div data-bbox="797 716 1240 814" style="border: 1px solid black; padding: 2px;"> Franchise Hauler Completed 120 days prior to the date rates become effective </div> <div data-bbox="797 856 1240 1142" style="border: 1px solid black; padding: 2px;"> a. Prepare Cost Information b. Prepare Revenue Information c. Prepare Operating Information d. Survey Residential and Non-residential Solid Waste Rates and Charges in Similar Service Areas e. Prepare and Submit Rate Adjustment Application and Supporting Documents </div> </div>	<div data-bbox="1305 821 1468 947">Tasks Required to Complete the Step</div> <div data-bbox="1305 1058 1468 1247">Detailed Descriptions of the Actions Required in Each Task</div>
Overview			
<p>During this step, the franchise hauler prepares the <i>Base Year Rate Adjustment Application</i>. Included with the completed application are required forms, related supporting documents, and a survey of other cities. Instructions for preparing application forms are available in Section III of this manual. Blank forms are provided in Appendix A of this manual.</p> <p>Information provided by the franchise hauler is for five years:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Calendar year two years prior to current year (year one) <input type="checkbox"/> Lastest completed calendar year prior to current year (year two) <input type="checkbox"/> Current calendar year (year three) <input type="checkbox"/> Projected base calendar year (year four) 			
a. Prepare Cost Information			
<p>Cost information from the franchise hauler is provided in the <i>Base Year Rate Adjustment Application</i>. Cost information is reported for two historical years, the current year, the two projected years (the base year, and year after the base year). Information reported in each line item is the total cost for solid waste and recyclable materials collection for residential and non-residential customers. A segregation of costs by residential, non-residential, and recycling is not required.</p>			
<p>Integrated solid waste management rates are to be based on costs of providing collection and transportation of solid waste and recyclables, and costs of disposing of solid wastes. Revenues from the processing facility will be treated as a revenue offset for purposes of setting rates. Revenues from the processing facility are determined by adding scrap payments received from all materials sold, California Refund Value</p>			

Section II

Rate Setting Process





Section II. Rate Setting Process

The City of San Luis Obispo rate setting process follows a three year cycle. In the first year of the cycle, the franchise hauler is required to submit a *Base Year Rate Adjustment Application*. In both the second and third years, the franchise hauler is allowed to submit an *Interim Year Rate Adjustment Application*. The cycle repeats itself in year four. This section describes the detailed processes and steps involved from the franchise hauler completing a base year or interim year application through to the City's approval of new rates. This section is organized into four subsections:

- A. Base Year Rate Setting Process**
- B. Timing of Base Year Rate Setting Process**
- C. Interim Year Rate Setting Process**
- D. Timing of Interim Year Rate Setting Process.**

Topics covered in this section of the manual include:

- ☐ **Who** is responsible for the various steps in each process
- ☐ **What** tasks must be completed within each step
- ☐ **When** each step should be performed.

Information about **how** to complete worksheets and forms for *Base Year Rate Adjustment Application* and *Interim Year Rate Adjustment Application* are provided in Sections III and IV of this manual, respectively.

A. Base Year Rate Setting Process

The base year rate setting process requires the franchise hauler to submit to

the City a *Base Year Rate Adjustment Application* every three years, beginning in 1994. In this application, the franchise hauler completes a number of forms, provides supporting financial and operational information, and includes results of a survey of rates in other cities.

After reviewing the application, the City evaluates whether proposed rate adjustments will be fair to both residents of the City and the franchise hauler. Fairness is demonstrated through an analysis of the franchise hauler's actual and projected revenues and expenses included in the *Base Year Rate Adjustment Application*.

Information required in the rate setting process which is considered confidential by the franchise hauler will not be disclosed at any public meetings (i.e., City Council meetings). This would include employee compensation information.

The existing franchise agreement requires *Base Year Rate Adjustment Applications* be submitted by the franchise hauler at least 120 days in advance of when the proposed base year rate adjustment would take place. The City has up to 15 days to verify the application is complete. After the City verifies that the hauler's application is complete, the process is scheduled to take 105 days until rates are implemented. New rates are to become effective on October 1 of each year.

Exhibit II-1, following this page, provides an overview of the base year rate setting process. **Exhibit II-2**, following Exhibit II-1, is a diagram showing participants involved and documents provided during the base year process. Following this exhibit is a description of each step in the process. The timing of the base year rate setting process is described in Section II-B of this manual.

Base Year Rate Setting Process

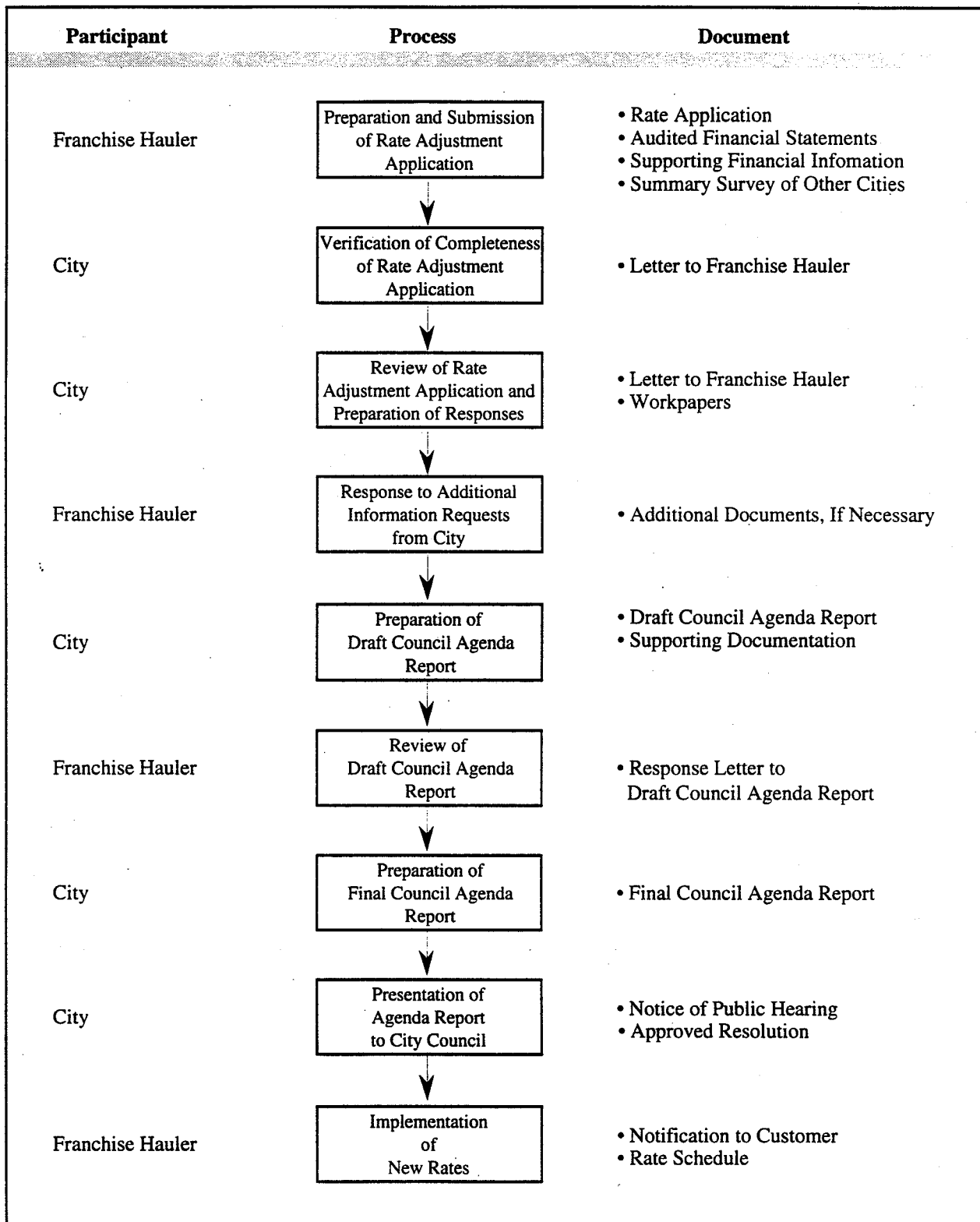
<i>Step/Task</i>	<i>Responsibility</i>
1. Preparation and Submission of Rate Adjustment Application	Franchise Hauler
a. Prepare Cost Information	
b. Prepare Revenue Information	
c. Prepare Operating Information	
d. Survey Residential and Commercial Solid Waste Rates and Charges in Similar Service Areas	
e. Prepare and Submit Rate Adjustment Application and Supporting Documents	
2. Verification of Completeness of Rate Adjustment Application	City
a. Verify Financial Data and Format	
b. Verify Supporting Documents and Schedules	
c. Notify Franchise Hauler	
3. Review of Rate Adjustment Application and Preparation of Responses	City
a. Review Actual and Projected Revenue Requirements	
b. Review Actual and Projected Revenues	
c. Review and Verify Operating Ratio	
d. Determine Components of Requested Adjustment in Rates	
e. Review Performance Data	
f. Verify Survey of Rates in Similar Service Areas	
g. Request Additional Data and Clarification, If Necessary	
h. Document Staff Review and Prepare Written Response	
4. Response to Additional Information Requests from City	Franchise Hauler
a. Provide Additional Information, If Requested	
b. Prepare and Submit Response	

Base Year Rate Setting Process

(continued)

<i>Step/Task</i>	<i>Responsibility</i>
5. Preparation of Draft Council Agenda Report	City
a. Prepare Draft Council Agenda Report	
6. Review of Draft Council Agenda Report	Franchise Hauler
a. Review Draft Council Agenda Report with City Staff	
b. Resolve Any Remaining Issues	
c. Prepare Response to Draft Council Agenda Report	
7. Preparation of Final Council Agenda Report	City
a. Incorporate Franchise Hauler's Changes in Final Report	
b. Prepare Final Report and Recommendations	
8. Presentation of Agenda Report to City Council	City
a. Distribute Report and Resolution to Council Members	
b. Post Notice of Public Hearing	
c. Conduct Public Hearing	
d. Obtain Council Approval	
9. Implementation of New Rates	Franchise Hauler
a. Prepare Notification of Rate Adjustment	
b. Implement Rate Adjustment	

Base Year Rate Setting Process Diagram



Base Year Step 1

Preparation and Submission of Rate Adjustment Application

Responsibility:	Franchise Hauler
Timing:	Completed 120 days prior to the date rates become effective
Tasks:	<ol style="list-style-type: none"> Prepare Cost Information Prepare Revenue Information Prepare Operating Information Survey Residential and Non-residential Solid Waste Rates and Charges in Similar Service Areas Prepare and Submit Rate Adjustment Application and Supporting Documents

Description of Tasks

Overview

During this step, the franchise hauler prepares the *Base Year Rate Adjustment Application*. Included with the completed application are required forms, related supporting documents, and a survey of other cities. Instructions for preparing application forms are available in Section III of this manual. Blank forms are provided in **Appendix A** of this manual.

Information is provided by the franchise hauler for five years:

- ☐ Calendar year two years prior to current year (year one)
- ☐ Latest completed calendar year prior to current year (year two)
- ☐ Current calendar year (year three)
- ☐ Projected base calendar year (year four)
- ☐ Projected calendar year after base year (year five).

a. Prepare Cost Information

Cost information from the franchise hauler is provided in the *Base Year Rate Adjustment Application*. Cost information is reported for two historical years, the current year, and two projected years (the base year, and year after the base year). Information reported in each line item is the total cost for solid waste and recyclable materials collection for residential and non-residential customers. A segregation of costs by residential, non-residential, and recycling is not required.

Integrated solid waste management rates are to be based on costs of providing collection and transportation of solid waste and recyclables, costs of disposing of solid waste, and costs of the processing facility. Revenues from the processing facility will be treated as a revenue offset for purposes of setting rates. Costs from the processing facility will be treated as a revenue offset for purposes of setting rates. Revenues from the processing facility are determined by adding scrap payments received from all materials sold, California Refund Value (CRV) and beverage container recycling processing fees, and fees from other cities.

In addition, for information purposes only, the franchise hauler is requested to segregate company total costs of providing service to: (1) customers within City limits, (2) customers in adjacent unincorporated areas, and (3) California State University, San Luis Obispo (Cal Poly). Suggested allocation bases for any shared costs are presented in a "standardized" Chart of Accounts (discussed in task e of this section). Appendix A to manual includes a form for the franchise hauler to report these allocations.

In the application, costs are further grouped into the following major cost categories:

☐ **Allowable Costs**

- Direct Labor
- Corporate Overhead
- Office Salaries
- Other General and Administrative Costs

☐ **Pass Through Costs**

- Tipping Fees
- Franchise Fees
- AB 939 and Regulatory Fees
- Lease Payments to Affiliated Companies.

If one of the major cost categories in the application changes at an unusual rate, then the hauler should provide an explanation for the change. An unusual change in cost is any increase which is greater than the change in the U.S. Consumer Price Index (CPI) published by the Bureau of Labor Statistics in their *Monthly Labor Review*.

Cost information for the current year and projected years must account for any increases or decreases in number of customers served, or tons of solid waste and recyclable materials collected. Actual increases in cost also must be included. For example, if labor costs are expected to increase in the base year due to current labor agreements, this additional cost must be included. If these costs are not

included, the rate increase will not be sufficient to compensate the franchise hauler for actual costs and will result in a reduction of the franchise hauler's actual profits.

Cost information provided in the application is used to calculate the franchise hauler's revenue requirement. This amount is compared to anticipated revenues at existing rates to calculate the rate adjustment.

b. Prepare Revenue Information

Similar to cost information, revenues are reported for two historical years, current calendar year, and two projected years (the base year, and year after the base year). Revenue is reported in five separate categories:

- ☐ Residential
- ☐ Non-residential
- ☐ Revenue from the processing facility
- ☐ Interest on investments
- ☐ Other income.

Actual revenue for each category is reported for the two historical years, estimated revenue is reported in the current year, and projected revenue is reported for both base year and year after.

Residential and non-residential revenues in the base year are projected *without* any increases in rates. Residential and non-residential revenue projections are prepared based on existing rates and number of customers which the franchise hauler anticipates serving in the base year.

Allowances for uncollectible residential and non-residential accounts are identified in the application. This provides for a more accurate determination of the franchise hauler's revenue in the base year, as a small number of customers do not pay the franchise hauler for service rendered.

Revenues from the processing facility are reported as the sum of (1) scrap payments for materials sold, (2) California refund value

and processing fees, and (3) fees received from other cities.

Interest earned on investments, and other income, must be identified separately in the application. Supporting documentation should be provided which indicates sources of interest and other income.

Once all revenues have been reported in the application, total revenue is calculated. This total revenue is termed a "revenue offset," because it is subtracted from the revenue requirement calculated earlier in task a to determine the franchise hauler's net surplus/shortfall.

A net shortfall determines the amount of a rate increase to be applied to residential and non-residential rates. If there is a net surplus, the franchise hauler should determine if the operating ratio can be reduced to eliminate the surplus (i.e., the franchise hauler retains the surplus as additional profit). If the operating ratio is calculated at 90 percent, which provides the franchise hauler with the maximum amount of profit allowable under current policy, and a surplus still exists, the City must determine if rates will be lowered, and over what period of time.

In addition, for information purposes only, the franchise hauler is requested to segregate company total revenue. Like cost information, revenue should be segregated into: (1) customers within City limits, (2) customers in adjacent unincorporated areas, and (3) California State University, San Luis Obispo (Cal Poly).

c. Prepare Operating Information

During this task, non-financial operating information is compiled by the franchise hauler. Information to be provided for both residential and non-residential customers includes:

- ☐ Accounts served
- ☐ Routes

- ☐ Tons collected
- ☐ Direct labor hours.

This information allows both the City and franchise hauler to monitor changes in the service characteristics, to estimate total revenues at existing rates, and compare these to changes in total cost and revenues. Operating information is provided on a form in the *Base Year Rate Adjustment Application*.

d. Survey Residential and Non-Residential Solid Waste Rates and Charges in Similar Service Areas

The hauler conducts and reports results of a survey of residential and non-residential solid waste rates in communities similar in size and location to the City of San Luis Obispo. The purpose of the survey is to benchmark rates proposed by the franchise hauler against other cities to determine if the rates are reasonable. The City and the franchise hauler will agree on which cities will be surveyed.

The survey includes over 25 questions covering general information, residential service, non-residential service, and tipping fees. The purpose is to determine the characteristics of each jurisdiction with which to fairly compare rates. Sample survey forms and instructions are provided in Section III of this manual. The franchise hauler shall prepare a summary report of the survey, to be contained as part of the application.

e. Prepare and Submit Rate Adjustment Application and Supporting Documents

The completed *Base Year Rate Adjustment Application* is submitted by the franchise hauler to the City. The application should include the following items:

- ☐ **Management Representation Letter**
The management representation letter transmits the application to the City, and

should provide a listing of included documents. The letter should identify the requested adjustment in rates and include a discussion of specific issues which impact new rates (e.g., significant increases in tipping fees). The letter should state that:

- Management reviewed and accepts responsibility for the rate application
- The application is based upon management's judgment of the most likely set of conditions and course of action
- All significant relevant information are made available
- Assumptions are reasonable and are accurate.

☐ **Base Year Rate Adjustment Application**

The franchise hauler should provide a *Base Year Rate Adjustment Application* including completed application forms and supporting documentation. Supporting documentation includes the current rate schedules for residential and non-residential customers.

☐ **Supplemental Audited Financial Information**

For applications received after 1994, the most current audited financial statements for the franchise hauler should be included, as well as other documentation which support operating and financial data provided in the application. Because audited financial statements serve as base documents for the application, statements of revenues and expenses and other reports contained in the application shall be reconciled to the audited financial statements to provide assurance that all activities are accounted for.

☐ **Chart of Accounts**

Although not required, it is requested that the franchise hauler submit a "standardized" chart of accounts for

information purposes only. This chart of accounts structures a framework for cost accounting, provides a basis for determining reasonableness, and enhances year-to-year comparability. The chart of accounts allows for separate accounting of franchised and non-franchised activities, and of direct and indirect costs associated with the franchise hauler's operations.

Appendix B to this manual contains a sample chart of accounts, including: account title, account type (asset, liability, revenue, expense), type of cost (direct or indirect), and suggested allocation basis for indirect costs (e.g., tons collected, number of accounts). The franchise hauler may find other miscellaneous accounts may be required. To maintain comparability, the franchise hauler should indicate any major changes to the chart of accounts.

The hauler submits a completed *Base Year Rate Adjustment Application* to the City. The City then is allowed fifteen (15) days to review the application for completeness. The penalty to the franchise hauler for an incomplete application would be a loss of any additional revenue which would have been generated through a timely and approved rate adjustment application. Similarly, for missing any other deadlines specified in the rate setting process (i.e., responding to City requests for additional information or reviewing the City's draft agenda report) the franchise hauler would lose revenue due to later implementation of rates. If the City fails to meet established time frames for its responsibilities (i.e., steps 2, 3, 5, 7, and 8), at no fault of the franchise hauler, the City will include the value of revenue lost due to the delay, as part of the pending *Base Year Rate Adjustment Application* or pending *Interim Year Rate Adjustment Application*.

<p><i>Base Year</i> Step 2</p>	<p>Responsibility: City</p> <p>Timing: Completed within fifteen (15) days after the hauler submits the <i>Base Year Rate Adjustment Application</i></p>
<p>Verification of Completeness of Rate Adjustment Application</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Verify Financial Data and Format b. Verify Supporting Documents and Schedules c. Notify Franchise Hauler

Description of Tasks

Overview

During this step, the City ensures that the application has been fully completed by the franchise hauler and that the data provided are consistent. During the 15-day period, the City will obtain from the franchise hauler any information necessary to complete the application.

a. Verify Financial Data and Format

City staff reviews the application to determine if it is complete and ready for analysis. Detailed analysis of the application's contents occurs during step 3.

The City reviewer should determine the following:

- ☐ Has the applicant included all required forms?
- ☐ Are all forms complete?
- ☐ Are all financial calculations mathematically correct?
- ☐ Has the applicant completed the survey of other cities and provided a survey summary?

b. Verify Supporting Documents and Schedules

Various documents may be included in the application to support the rate adjustment. The purpose of these supporting documents should be clearly identified by the franchise hauler.

c. Notify Franchise Hauler

If the application is complete the City will notify the franchise hauler that it will begin the process of evaluating and analyzing the proposed rate adjustment. If incomplete the City will attempt to obtain from the franchise hauler additional required information within the 15-day verification period.

A revision of rates shall not be authorized until the 1st day of the first calendar month following a 105 day period from the date that an application is verified to be complete. As an example, if the franchise hauler's application is deemed complete on June 25th due to the fault of the hauler (a 10 day delay), rates would be effective November 1st instead of on October 1st. The franchise hauler would lose the incremental revenues that would have been received from applying the new rates during October.

<p><i>Base Year</i> Step 3</p>	<p>Responsibility: City</p> <p>Timing: Completed within fifteen (15) days after determining that the application package is complete</p>
<p>Review of Rate Adjustment Application and Preparation of Responses</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Review Actual and Projected Revenue Requirements b. Review Actual and Projected Revenues c. Review and Verify Operating Ratio d. Determine Components of Requested Adjustment in Rates e. Review Performance Data f. Verify Survey of Rates in Similar Service Areas g. Request Additional Data and Clarification, If Necessary h. Document Staff Review and Prepare Written Response

Description of Tasks

Overview

During this step, City staff evaluates the entire rate adjustment application. This review includes examining significant changes in costs or operating performance and evaluating explanations of these changes provided by the franchise hauler.

a. Review Actual and Projected Revenue Requirements

In this task, costs and operating profit of the application are reviewed and analyzed for reasonableness. Reconciliations of costs to audited financial statements shall be checked for consistency. Explanations are sought for items significantly different than would otherwise normally be expected.

Absolute and percentage changes in costs for the five years identified on the application should be calculated and reviewed. Projections prepared from previous years in prior *Base Year Rate Adjustment Applications*

are compared with actual results. Costs are correlated with operating collection efficiency statistics provided by the hauler.

Any unusual trends or variances should be explained by the franchise hauler. An unusual increase would be a change in cost which is greater than the change in the U.S. Consumer Price Index, published by the Bureau of Labor Statistics in their *Monthly Labor Review*, and which can not be attributed to changes in the number of customers serviced or tons of waste or recyclable materials collected. If these unusual changes are not adequately explained in the application, the City should request additional clarification from the franchise hauler.

b. Review Actual and Projected Revenues

Actual and projected revenues should be reviewed in this task. Current residential and non-residential rates provided in the

application are verified. Any changes in the number of customers serviced should be identified and explained by the franchise hauler.

The application requires the franchise hauler to report five years of non-residential and residential revenues: (1) calendar year two years ago (2) most recent calendar year, (3) current year, (4) projected "base" year, and (5) projected year after the "base" year. For applications received after 1994, the City should reconcile the first two years revenues with audited financial statements. Revenues for the current year are compared with unaudited financial statements and documentation supplied by the hauler. Projected revenues for the fourth, or "base" year, and fifth year are evaluated by the City for reasonableness. All assumptions made by the hauler in preparing these projections are reviewed.

Residential and non-residential revenues reported by the hauler should *not* include any rate increases in the base year (year 4) or year after (year 5). Rate schedules submitted by the franchise hauler should be consulted to determine average rate increases. Account information included in the application is reviewed to determine changes in the number of accounts served.

Allowances for residential and non-residential uncollectible accounts also are reviewed. These figures should be deducted from total residential and non-residential revenue projections. These allowances may be based on a fixed percentage of total revenues or on actual experience. Assumptions related to allowances for residential and non-residential accounts should be provided by the franchise hauler.

Revenues from the franchise hauler's processing facility are provided in the application. Revenues are equal to total scrap sales, plus CRV and beverage container processing fees received plus fees received from other cities. Amounts identified in the first and second years of the five years

provided should reconcile with the two most recent financial audits. Amounts identified in the current (third) year, the base (fourth) year, and final year (year 5) should be documented by the franchise hauler. The City will review these projections to ensure they are consistent with trends in recycling collection costs, scrap values, processing costs, as well as estimated diversion rates and tonnage.

Revenue from interest on investments, and other income, is also reviewed by the City. The City will verify that interest on investments, and other income, is received from investments and income related to the franchise hauler's operation.

c. Review and Verify Operating Ratio

The operating ratio must be between 90 percent and 94 percent, and is set at 92 percent in the initial base year. City staff verifies that the operating ratio used in the application is within this range. The allowable operating profit also is recalculated utilizing the operating ratio stated in the application. If the operating ratio does not fall within the range stated above, or if there are any errors in calculating allowable operating profit, these deficiencies are noted.

d. Determine Components of Requested Adjustment in Rates

The City evaluates all costs, revenues, and operating profits provided in the application to determine the components of the requested adjustment in rates. This would include determining the proportion of the requested adjustment in rates which is due to changes in each of the following:

- ☐ Costs
- ☐ Non-residential revenues
- ☐ Residential revenues

- ☐ Revenues from the processing facility
- ☐ Interest on investments
- ☐ Operating profit (or loss).

e. Review Performance Data

City staff reviews and analyzes performance data which are included in the application (number of accounts, routes, tons collected, direct labor hours).

Operating statistics are reviewed to explain past historical trends and justify future expenses. Both actual and percentage increases are examined and any unusual changes in performance are investigated to determine their cause and effect on future cost performance. An unusual change in operating statistics is any increase or decrease of more than the Consumer Price Index (CPI) published by the Bureau of Labor Statistics in their *Monthly Labor Review*. As noted above, changes in accounts served, number of routes, tons collected, or direct labor hours generally should correspond to changes in cost and revenue.

f. Verify Survey of Rates in Similar Service Areas

City staff shall review the survey of rates in similar service areas to determine if the surveys were completed according to the

survey format. This includes careful evaluation of why rates might be different. For example, tipping fees may be significantly different, or non-residential accounts may provide a large subsidy to residential accounts.

Survey results should be benchmarked against rates proposed by the franchise hauler to determine if proposed rates are reasonable. Survey results which are significantly different from information included in the franchise hauler's rate adjustment application should be noted.

g. Request Additional Data and Clarification, If Necessary

Throughout the analysis of the application, City staff may request clarification and/or additional data from the franchise hauler to explain any unusual changes in costs or operating performance. This information is requested in a letter from the City to the franchise hauler.

h. Document Staff Review and Prepare Written Response

During this task, City staff documents the review process. A memorandum is prepared which lists the activities completed during the review process and highlights any of the key findings of the review.

Base Year Step 4	Responsibility: Franchise Hauler Timing: Completed during the second week of step 3.
Response to Additional Information Requests from City	Tasks: <ul style="list-style-type: none">a. Provide Additional Information, If Requestedb. Prepare and Submit Response

Description of Tasks

Overview

During this step the franchise hauler responds to requests for additional information from the City.

a. Provide Additional Information, If Requested

During the prior step 3, City staff reviewed the application and may have identified missing information, or changes in the financial or operating data between the

five fiscal years which require clarification or further explanation. The franchise hauler should respond to the City's request for additional information. Responses will vary depending on the specific requirements of the City.

b. Prepare and Submit Response

The franchise hauler prepares written responses to the City's request for additional information. These responses are forwarded to the City during this step.

<p><i>Base Year</i> Step 5</p> <p>Preparation of Draft Council Agenda Report</p>	<p>Responsibility: City</p> <p>Timing: Completed fifteen (15) days after the review of rate adjustment application and preparation of responses (step 3) is complete</p> <p>Tasks: a. Prepare Draft Council Agenda Report</p>
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Description of Tasks

Overview

A draft Council Agenda Report with recommendations is prepared by City staff and submitted to the franchise hauler for review. The report will be reviewed by the franchise hauler in step 6. Residents of the City will be able to comment on the rate adjustment process through a public hearing (step 8).

a. Prepare Draft Council Agenda Report

In this step, City staff prepares a draft Council Agenda Report including recommendations for a rate adjustment. The draft report includes the following sections:

- ☐ Chief Administrative Officer Recommendation
- ☐ Discussion of Rate Application and Review
- ☐ Effect of Rate Adjustment on Customers
- ☐ Potential Future Rate Adjustments
- ☐ Concurrences
- ☐ Attachments.

Each of these report topics is discussed below:

☐ Chief Administrative Officer Recommendation

This is one or two paragraphs recommending the new integrated

solid waste management rates. This may include a chart showing current and proposed rates, and the recommended rate adjustment.

☐ Discussion of Rate Application and Review

This section of the report provides a brief overview of the rate adjustment process and discussion of significant historical issues. This includes a review of analysis work completed by City staff. This section may include the following sub-sections:

Review of Rate Adjustments, including a discussion of rate adjustments during each year since the last base year, and an analysis of the significant components of the adjustment in rates (e.g., increased tipping fees, changes in operating profit).

Analysis of Projected Costs, including a discussion of any unusual increases in costs which were discovered during the review process.

Discussion of Service Issues, including changes in frequency or type of service. If significant service issues are not involved with a rate adjustment, this section would be omitted.

☐ Effect of Rate Adjustment on Customers

City staff would prepare an analysis of how the monthly bills for customer

classifications will change. This would also include a comparison of existing and recommended new rates.

☐ **Potential Future Rate Adjustments**

A discussion would be presented on possible future rate adjustments, given City staff analysis of the recommended rate adjustment and potential additional costs which may need to be recovered through the rate payers. This may include a comparison of what future rate increases may need to be if an alternative rate adjustment is adopted by City Council.

☐ **Concurrences**

This is a paragraph stating concurrences by the Finance and Utilities Departments for the recommended rate adjustment.

☐ **Attachments**

Attachments to the report could include:

- City Council Resolution which formally adopts new rates
- Revised rate schedule
- Historical rate adjustments
- Estimated tipping fees
- Estimated costs and revenues
- Alternative rate adjustments
- Other relevant supporting materials provided by the franchise hauler or prepared by City staff
- Comparison of residential and non-residential rates with other cities.

After the draft report is complete, copies are provided to the franchise hauler.

<p><i>Base Year</i> Step 6</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Completed within seven (7) days after the City's completion of the draft council agenda report (step 5)</p>
<p>Review of Draft Council Agenda Report</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Review Draft Council Agenda Report with City Staff b. Resolve Any Remaining Issues c. Prepare Response to Draft Council Agenda Report

Description of Tasks

Overview

The franchise hauler reviews the City's draft of the Council Agenda Report. The franchise hauler also may provide additional information related to any issues identified by the City.

a. Review Draft Council Agenda Report with City Staff

Each section of the draft report should be reviewed by the hauler to ensure the following:

- ☐ Correct data are included
- ☐ City staff analysis is accurate and fair
- ☐ Rate adjustments are acceptable.

b. Resolve Any Remaining Issues

If any issues are identified during this step, the franchise hauler works with City staff to fully explore and resolve these outstanding issues.

c. Prepare Response to Draft Council Agenda Report

A written response to the draft report is prepared, if the hauler deems it necessary. The response may cover one or more of the following topics:

- ☐ If data discrepancies exist in any of the areas noted in the prior task, the City should be notified of these discrepancies
- ☐ If the analysis conducted by City staff can be clarified or considered differently, this information should be provided to the City staff
- ☐ If the report is acceptable and no clarification or comments can be offered, this should be relayed to City staff.

<p><i>Base Year</i> Step 7</p>	<p>Responsibility: City</p> <p>Timing: Completed eight (8) days after receiving hauler's comments on the draft agenda report (step 6)</p>
<p>Preparation of Final Council Agenda Report</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Incorporate Franchise Hauler's Changes in Final Report b. Prepare Final Council Agenda Report

Description of Tasks

Overview

The City prepares the Final Council Agenda Report, incorporating relevant comments from the franchise hauler during this step.

a. Incorporate Franchise Hauler's Changes in Final Report

Any comments or issues raised during the franchise hauler's review of the draft report are addressed during this task. If necessary, meetings are conducted with representatives from the City and the

franchise hauler. Final solutions to outstanding issues are included in the Council Agenda Report.

b. Prepare Final Report and Recommendations

After final comments from the franchise hauler have been considered, the Final Council Agenda Report package is prepared. This includes the Council resolution to be signed by appropriate City officials to adopt new rates. A copy of the final report is submitted to the franchise hauler.

Base Year Step 8 Presentation of Agenda Report to City Council	Responsibility:	City
	Timing:	Completed thirty (30) days after Final Report and Recommendations are complete
	Tasks:	<ul style="list-style-type: none">a. Distribute Report and Resolution to Council Membersb. Post Notice of Public Hearingc. Conduct Public Hearingd. Obtain Council Approval

Description of Tasks

Overview

During this step, the final recommendations are presented to the City Council for review, comment, and approval.

a. Distribute Report and Resolution to Council Members

The Council Agenda Report is provided to members of the City Council. The report is included as an agenda item for Council consideration at a regular Council meeting.

b. Post Notice of Public Hearing

City staff will prepare for a public hearing on the proposed rate adjustment at the formal Council meeting.

c. Conduct Public Hearing

Comments from City residents are made during the Council meeting considering the rate adjustment. Copies of the Council Agenda Report should be made available at the meeting.

d. Obtain Council Approval

Council members consider the public comments, and review the agenda report and proposed rate adjustments. If Council agrees with the recommendations of the City staff, the report and rates are approved and a resolution is adopted to implement these rates. If Council does not agree with the recommendations, the report is returned to City staff for additional analysis.

<p><i>Base Year</i> Step 9</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Completed thirty (30) days after Council approves application and resolution</p>
<p>Implementation of New Rates</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Prepare Notification of Rate Adjustment b. Implement Rate Adjustment

Description of Tasks

Overview

During this final step, the franchise hauler implements new rates. Rates are implemented on October 1 of each year, unless no rate adjustment is requested or the rate application is delayed.

a. Prepare Notification of Rate Adjustment

After a formal resolution is adopted by the Council approving the new rates, the hauler notifies all customers of the rate adjustment. This notification may be

included with a regular billing or mailed separately.

b. Implement Rate Adjustment

During this final task, new rates are entered into the franchise hauler's billing system and included in the billing cycle. If the franchise hauler prepares billings once every two or three months, and a rate adjustment occurs during the middle of a billing cycle, unbilled amounts in current billing cycle due to the rate adjustment are calculated and included in the next billing cycle.

***B. Timing of Base Year
Rate Setting Process***

A base year rate adjustment is implemented on October 1 if no delays in the process occur. The *Base Year Rate Adjustment Application* must be submitted

to the City by June 1 in order to meet the October 1 implementation date.

Exhibit II-3 on the next page shows the timeline for completion of the rate adjustment process. Key milestones are noted in the exhibit by circled letters.

Timing of Base Year Rate Adjustment Process

Process Activity	Month -2	Month -1	Month 1	Month 2	Month 3	Month 4
	Franchise Hauler Preparation	15 Day Review	Formal City Review		Implement	
1. Preparation and Submission of Rate Adjustment Application	Step 1	(A)				
2. Verification of the Completeness of Rate Adjustment Application		Step 2	(B)			
3. Review of Rate Adjustment Application and Preparation of Responses			Step 3			
4. Response to Additional Information Requests from City			Step 4			
5. Preparation of Draft Council Agenda Report				Step 5	(C)	
6. Review of Draft Council Agenda Report				Step 6		
7. Preparation of Final Council Agenda Report				Step 7	(D)	
8. Presentation of Agenda Report to City Council					Step 8	(E) (F)
9. Implementation of the New Rates						Step 9 (G)

Milestones

- | | |
|--------------------------------|----------------------------------|
| A. Rate Adjustment Application | E. Public Hearing |
| B. Acceptance/Return Letter | F. Resolution Adopting New Rates |
| C. Draft Council Agenda Report | G. New Rates Effective |
| D. Final Council Agenda Report | |

C. Interim Year Rate Setting Process

Interim year rate adjustment requests are accepted in the two years between base years. The interim year process requires less information and preparation time, while still allowing fair and reasonable rate adjustments.

During the two interim years, rates can be adjusted annually through application of a composite index. The index consists of:

- ☐ Historical changes in the U.S. National Consumer Price Index (CPI) published by the Bureau of Labor Statistics in their *Monthly Labor Review*
- ☐ Projected changes in tipping fees
- ☐ Projected changes in AB 939 and regulatory fees
- ☐ Adjustment for the franchise fees which change if revenues change.

In each interim year, the franchise hauler is responsible for determining the actual annual change in the CPI for the most recent 12-month period. The franchise hauler also will be responsible for estimating and documenting projected changes in tipping

fees, and AB 939 and regulatory fees in the interim year for which a rate adjustment is requested.

Even if the interim-year adjustment would justify an increase in rates, the franchise hauler is not required to apply for the increase. This will help stabilize rate adjustments even when small increases might be warranted.

Special mid-year rate adjustments are allowed outside of the annual schedules of the base year and interim year adjustments. These adjustments are for extraordinary and consequential cost increases which would require across-the-board rate increases of greater than five percent (5%). Both the City and franchise hauler may initiate the special mid-year rate adjustment process by contacting the City Administrative Officer (CAO). For special mid-year rate adjustments, the franchise hauler will provide necessary information and documentation so the CAO can make a judgment as to the reasonableness of such a rate adjustment. With CAO approval, a mid-year rate adjustment can be made by the franchise hauler.

Exhibit II-4, following this page, provides an overview of the interim year rate adjustment process. Following this exhibit is a description of each step in the process.

Interim Year Rate Adjustment Process

Step/Task	Responsibility
1. Preparation and Submission of Rate Adjustment Application a. Prepare an Interim Year Rate Adjustment Application b. Submit Application to City Staff	Franchise Hauler
2. Preparation of Draft Council Agenda Report a. Request Additional Data, and Clarification, If Necessary b. Prepare Draft Council Agenda Report	City
3. Review and Response to Draft Council Agenda Report a. Review Draft Council Agenda Report with City Staff b. Prepare and Submit Response	Franchise Hauler
4. Preparation of Final Council Agenda Report a. Incorporate the Franchise Hauler's Comments in Final Report b. Prepare Final Council Agenda Report	City
5. Presentation of Agenda Report to City Council a. Distribute Report to Council Members b. Post Notice of Public Hearing c. Conduct Public Hearing d. Obtain Council Approval	City
6. Implementation of New Rates a. Notify Customers b. Implement Rate Adjustment	Franchise Hauler

<p><i>Interim Year</i> Step 1</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Completed 120 days prior to the date new rates become effective</p>
<p>Preparation and Submission of Rate Adjustment Application</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Prepare an Interim Year Rate Adjustment Application b. Submit Application and Worksheet to City Staff

Description of Tasks

Overview

During this first step, the franchise hauler prepares the *Interim Year Rate Adjustment Application*.

a. Prepare an Interim Year Rate Adjustment Application

The *Interim Year Rate Adjustment Application* requires information from the most recent *Base Year Rate Adjustment Application*. The application is used to calculate proposed new rates. Detailed instructions on how to complete this application are provided in Section IV of this manual.

The application requires the franchise hauler determine the annual change in the U.S. National Consumer Price Index, as published by the Bureau of Labor Statistics in

their *Monthly Labor Review*. The actual annual change in this index during the twelve months prior to the date the *Interim Year Rate Adjustment Application* is used to adjust controllable costs allowed in the prior base year rate adjustment.

In the application, the franchise hauler is also responsible for projecting changes in two pass through costs:

- ☐ Tipping fees
- ☐ AB 939 and regulatory fees.

These projections are made for the interim year for which new rates are being requested.

b. Submit Application to City Staff

The application is signed by an appropriate representative of the franchise hauler and sent to the City for review.

<p><i>Interim Year</i> Step 2</p>	<p>Responsibility: City</p> <p>Timing: Completed fifteen (15) days after the <i>Interim Year Rate Adjustment Application</i> is submitted</p>
<p>Preparation of Draft Council Agenda Report</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Request Additional Data, and Clarification, If Necessary b. Prepare Draft Council Agenda Report

Description of Tasks

Overview

A draft Council Agenda Report with recommendations is prepared by City staff and submitted to the franchise hauler for review. The report will be reviewed by the franchise hauler in step 3. Residents of the City will be able to comment on the rate adjustment process through a public hearing (step 5).

a. Request Additional Data, and Clarification, If Necessary

If necessary, City staff requests clarification and/or additional data from the franchise hauler. The request is to clarify the hauler's assumptions for projected changes in tipping fees or regulatory costs, and to indicate the expected adjustment in rates.

b. Prepare Draft Council Agenda Report

City staff prepares a draft Council Agenda Report with recommendations of new rates for City Council consideration. This report should be brief and include the following sections:

☐ Chief Administrative Officer Recommendation

This is one paragraph which recommends the required rate adjustment.

☐ Discussion of Application and Review

This is a summary of the review process and includes the information for the proposed rates, and the recommended rate adjustment. The report might include a discussion of any significant increases in pass through costs and an identification of the change in CPI. This section also may include a discussion of any significant historical issues.

☐ Effects of Rate Adjustment on Customers

This section includes an analysis of the impact on monthly bills due to the rate adjustment.

☐ Attachments

Attachments to the report would include:

- City Council Resolution which formally adopts new rates
- Revised rate schedule
- Rate adjustment worksheet.

After the draft agenda report has been prepared, the document should be submitted to the franchise hauler for comment and review.

*Interim Year
Step 3*

*Review of
Draft Council
Agenda Report*

Responsibility:

Franchise Hauler

Timing:

Completed twenty (20) days after preparation of rate adjustment indices

Tasks:

- a. Review Draft Council Agenda Report with City Staff
- b. Prepare and Submit Response

Description of Tasks

Overview

The franchise hauler reviews the draft report to ensure that any analysis completed by City staff are fair, reasonable, and justified.

a. Review Draft Council Agenda Report with City Staff

The franchise hauler reviews the draft report to ensure the following:

- ☐ Correct data are included
- ☐ City staff analysis is accurate and fair.

b. Prepare and Submit Response

A written response to the draft report is prepared. The response may cover one or more of the following topics:

- ☐ Data discrepancies in any of the areas noted in the prior task
- ☐ Clarification for the City or alternative analysis of the application
- ☐ Responses to the City's request for additional information.

Interim Year Step 4	Responsibility: City Timing: Completed twenty-five (25) days after review and response to City analysis and calculations
Preparation of Final Council Agenda Report	Tasks: <ul style="list-style-type: none">a. Incorporate the Franchise Hauler's Comments in Final Reportb. Prepare Final Council Agenda Report

Description of Tasks

Overview

The City prepares the final Council Agenda Report incorporating comments from the franchise hauler, as appropriate.

with representatives from the City and the franchise hauler. Final solutions to outstanding issues should be included in the report.

a. Incorporate the Franchise Hauler's Comments in Final Report

Any comments or issues raised during the franchise hauler's review of the draft report are addressed during this task. If necessary, meetings should be conducted

b. Prepare Final Council Agenda Report

After final comments from the franchise hauler have been considered, the final Council Agenda Report is prepared. A copy of the final report should be submitted to the franchise hauler.

<p><i>Base Year</i> Step 5</p>	<p>Responsibility: City</p> <p>Timing: Completed thirty (30) days after preparation of final agenda report</p>
<p>Presentation of Agenda Report to City Council</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Distribute Report to Council Members b. Post Notice of Public Hearing c. Conduct Public Hearing d. Obtain Council Approval

Description of Tasks

Overview

The final Council Agenda Report is submitted to City Council for review, comment, and approval, during this step.

a. Distribute Report to Council Members

The Council Agenda Report is provided to members of the City Council. The report is included as an agenda item for Council consideration at a regular Council meeting.

b. Post Notice of Public Hearing

City staff will prepare for a public hearing on the proposed rate adjustment at the formal Council meeting.

c. Conduct Public Hearing

Comments from City residents are made during the Council meeting considering the rate adjustment. Copies of the Council Agenda Report should be made available at the meeting.

d. Obtain Council Approval

Council members will review the report and proposed rate adjustments. If Council agrees with the recommendations of City staff, the resolution attached to the report should be approved. If Council does not agree with the recommendations, the report is returned to City staff for additional analysis.

Interim Year Step 6	Responsibility:	Franchise Hauler
	Timing:	Completed thirty (30) days after the Council approves the application and resolution
Implementation of New Rates	Tasks:	a. Notify Customers
		b. Implement Rate Adjustment

Description of Tasks

Overview

After new rates have been approved by City Council, the final step in the process is to implement the new rates.

a. Notify Customers

After a formal resolution is adopted by Council, a notification of a rate adjustment should be made to all customers. This notification may be included with a regular billing or mailed separately.

b. Implement Rate Adjustment

During this final task, the franchise hauler enters new rates into their billing system and includes the new rates on the next appropriate customer invoice. If the billing cycle is two months or more, and if a rate adjustment occurs during the middle of the billing cycle, unbilled amounts are calculated and included in the next billing cycle.

***D. Timing of Interim Year
Rate Setting Process***

The application from the hauler for a interim year rate adjustment should be submitted to the City on June 1st, four months prior to the implementation of the rates. Interim year rate adjustments are implemented October 1.

Exhibit II-5, on the following page, shows the timeline for completion of the interim year rate adjustment process. Key milestones are noted in the exhibit by circled letters.

Timing of Interim Year Rate Adjustment Process

Process Activity	Month -1	Month 1	Month 2	Month 3	Month 4
	<i>Franchise Hauler Preparation</i>	<i>Formal City Review</i>			<i>Implement</i>
1. Preparation and Submission of Rate Adjustment Application	<i>Step 1</i>	(A)			
2. Preparation of Draft Council Agenda Report		<i>Step 2</i>			
3. Review and Response to Draft Council Agenda Report			<i>Step 3</i>		
4. Preparation of Final Report and Recommendations			<i>Step 4</i>	(B)	
5. Presentation of Final Report and Recommendations to City Council				<i>Step 5</i>	(C) (D)
6. Implementation of the New Rates					<i>Step 6</i> (E)

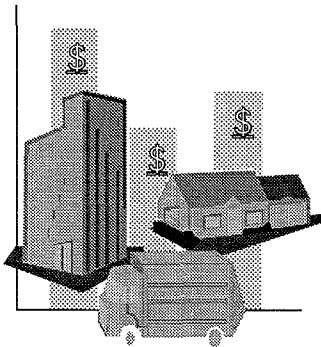
Milestones

- A. Application Submitted to City
- B. Final Report and Recommendation
- C. Public Hearing
- D. Resolution Adopting New Rates
- E. New Rates Effective

Section III

Base Year Rate Setting

Methodology





III. Base Year Rate Setting Methodology

This section provides detailed instructions on **how** to complete the *Base Year Rate Adjustment Application*. The application will be prepared by the franchise hauler and reviewed by the City once every three years.

The application includes detailed financial and operating information and is used to determine base year costs and revenues of the franchise hauler. As part of the application, the franchise hauler also conducts and summarizes results of a survey of collection rates in similar cities.

Exhibit III-1, following this page, provides an overview of the steps and related tasks which must be completed to prepare the application form. **Exhibit III-2**, following Exhibit III-1, is a sample application form as it might be completed by the franchise hauler. Following this exhibit are detailed descriptions of each step and related tasks. *Please note that data included in these exhibits are provided for illustrative purposes only and are not intended to reflect actual operating or financial conditions of the franchise hauler.*

Information for five years is required from the hauler. The information is intended to show the relationship between the most recently completed years (years 1 and 2), the

current year (year 3), and projections for the new base year (year 4) and year after (year 5). On the application, these five years are organized as five columns:

- ☐ **Historical (columns 1 and 2) –**
includes audited financial information for the franchise hauler's prior two years.
- ☐ **Current (column 3) –**
includes estimated financial information for the full year in which the application is submitted. Data in this year includes year-to-date performance plus estimated performance during the remaining months of the current year.
- ☐ **Projected (columns 4 and 5) –**
provides estimated operations during the base year (for which new rates will be established), and projected performance during the year after the base year.

The relationship between these five columns for any given line item should be consistent. Any substantial difference between each of the five years should be explained by the franchise hauler and considered by the City during the review process.

Preparation of the Base Year Rate Adjustment Application

Step/Task**1. Entry of Operating Costs**

- a. Enter Prior Two Years Audited Information
- b. Enter Current Year Estimated Information
- c. Enter Base Year Projected Information
- d. Enter Future Year Projected Information
- e. Enter Operating Information

2. Determination of Revenues Without Increase

- a. Determine Residential Revenue
- b. Determine Non-Residential Revenue
- c. Determine Allowance for Uncollectible Accounts
- d. Determine Revenues from Processing Facility
- e. Calculate Total Revenue Offsets

3. Calculation of Allowable Operating Profit and Revenue Requirement

- a. Calculate Allowable Operating Profit
- b. Determine Franchise Fee
- c. Calculate Revenue Requirement

4. Calculation of Percent Change In Rates

- a. Calculate Net Shortfall/Surplus
- b. Calculate Percent Change In Rates

5. Preparation of Summary Form

- a. Calculate New Rates
- b. Sign and Submit the Application

6. Survey of Rates in Similar Areas

- a. Complete Solid Waste Fee Survey
- b. Summary of Survey

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Summary

Requested Increase

1. Rate Increase Requested

10.0%

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment	New Rate
Single Family Residential				
2. Economy Service (collection)	\$ 2.00	\$ 2.20	\$0.00	\$ 2.20
Economy Service (orange bags)	\$ 1.00	\$ 1.10	\$0.00	\$ 1.10
3. Standard Service	13.40	14.74	0.01	14.75
4. Premium Service	18.25	20.08	0.02	20.10

(a) Calculated rates are rounded up to the nearest \$0.05.

5. Multiunit Residential and Non-residential

Rate increases of 10.0% will be applied to all rates in each structure with each rate rounded up to the nearest \$1.00.

5

STEP

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the City of San Luis Obispo.

Name: John Brown

Title: Controller

Signature: John Brown

Date: May 1, 19xx

Fiscal Year:

Pg. 1 of 6

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Financial Information

Historical		Current	Projected	
1992	1993	1994	Base Year 1995	1996
(from Pg. 4)				

Section I—Allowable Costs

6. Direct Labor	\$1,000,000	\$1,050,000	\$1,100,000	\$1,248,600	\$1,260,000
7. Corporate Overhead	108,000	114,000	120,000	126,000	132,000
8. Office Salaries	245,000	255,000	260,000	268,200	275,000
9. Other General and Administrative Costs	1,680,000	1,690,000	1,740,000	1,820,200	1,825,000
10. Total Allowable Costs	\$3,033,000	\$3,109,000	\$3,220,000	\$3,463,000	\$3,492,000

Section II—Allowable Operating Profit

11. Operating Ratio	96.3%	95.4%	96.4%	92.0%	93.3%
12. Allowable Operating Profit	\$115,000	\$150,000	\$120,000	\$301,130	\$250,000

Section III—Pass Through Costs

13. Tipping Fees	\$750,000	\$770,000	\$800,000	\$840,000	\$850,000
14. Franchise Fees	170,000	180,000	190,000	200,000	210,000
15. AB 939 and Regulatory Fees	0	0	50,000	100,000	100,000
16. Lease Payments to Affiliated Companies	25,000	25,000	25,000	25,000	25,000
17. Total Pass Through Costs	\$945,000	\$975,000	\$1,065,000	\$1,165,000	\$1,185,000

Section IV—Revenue Requirement

18. Revenue Requirement	\$4,093,000	\$4,234,000	\$4,405,000	\$4,929,130	\$4,927,000
19. Total Revenue Offsets (from Pg. 3)	\$4,093,000	\$4,234,000	\$4,405,000	\$4,535,760	\$4,736,100

Section V—Net Shortfall (Surplus)

20. Net Shortfall (Surplus)	\$393,370
-----------------------------	-----------

Section VI—Percent Change in Rates

21. Total Residential and Non-residential Revenue without increase in Base Year (from Pg. 3, lines 32 + 40)	\$4,175,760
22. Percent Change in Residential and Non-residential Revenue Requirement	9.4%
23. Franchise Fee Adjustment Factor (1 - 6.0 percent)	94.0%
24. Percent Change in Existing Rates	10.0%

Fiscal Year:

Page 2 of 6

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Revenue Offset Summary

Section VII--Revenue Offsets

Historical		Current	Projected	
1992	1993	1994	Base Year 1995	1996

Residential Revenue (without Increase in Base Yr.)

Account Type	Current Rate/Month	Months	Projected Accounts	Price per Package	No. of Packages	Total
25. Economy Service	\$2.00	12	2,980	\$10	14,304	\$214,560
26. Standard Service	13.40	12	6,200			\$996,960
27. Premium Service	18.25	12	660			\$144,540
28. Single Family Residential						\$1,100,000 \$1,175,000 \$1,300,000 \$1,358,060 \$1,450,000
Multiunit Residential Dumpster						
29. Number of Accounts						490 500 510 520 535
30. Revenues						\$640,000 \$650,000 \$660,000 \$670,000 \$700,000
31. Less Allowance for Uncollectible Residential Accounts						\$31,400 \$34,500 \$41,200 \$40,600 \$43,000
32. Total Residential Revenue						\$1,708,600 \$1,790,500 \$1,918,800 \$1,985,460 \$2,107,000

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

Account Type					
Non-residential Can					
33. Number of Accounts					
34. Revenues					
Non-residential Waste Wheeler					
35. Number of Accounts					
36. Revenues					
Non-residential Dumpster					
37. Number of Accounts					
38. Revenues					
39. Less: Allowance for Uncollectible Non-residential Accounts:					
40. Total Non-residential Revenue					

Processing Facility Revenues

41. Scrap Payments for all Materials Sold	\$105,000	\$110,000	\$115,000	\$120,000	\$125,000
42. California Redemption Value (CRV) and Processing Fees	\$110,000	\$120,000	\$130,000	\$140,000	\$150,000
43. Fees from Other Cities	\$30,000	\$40,000	\$45,000	\$50,000	\$55,000
44. Revenues from Processing Facility	\$245,000	\$270,000	\$290,000	\$310,000	\$330,000

45. Interest on Investments	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
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46. Other Income	\$0	\$0	\$0	\$0	\$0
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47. Total Revenue Offsets	\$4,093,000	\$4,234,000	\$4,405,000	\$4,535,760	\$4,736,100
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Fiscal Year:

Page 3 of 6

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Cost Summary for Base Year

For Information Purposes Only

Section VIII—Base Year Cost Allocation

Description of Cost	Total	City	CSU SLO	Adjacent Unincorporated	Processing Facility
Labor	\$1,148,500	\$717,950	\$86,500	\$60,550	\$283,500
Payroll Taxes	100,100	62,250	7,500	5,250	25,100
48. Total Direct Labor	\$1,248,600	\$780,200	\$94,000	\$65,800	\$308,600
49. Total Corporate Overhead	\$126,000	\$104,580	\$12,600	\$8,820	\$0
Office Salary	\$219,000	\$138,195	\$16,650	\$11,655	\$52,500
Payroll Taxes	49,200	36,105	4,350	3,045	5,700
50. Total Office Salaries	\$268,200	\$174,300	\$21,000	\$14,700	\$58,200
Computer Services	\$ 30,000	\$ 23,572	\$ 2,840	\$ 1,988	\$ 1,600
Depreciation on Building and Equipment	60,000	36,727	4,425	3,098	15,750
Depreciation on Truck and Containers	60,000	36,727	4,425	3,098	15,750
Dues and Subscriptions	5,000	3,984	480	336	200
Equipment Rental	10,000	8,300	1,000	700	0
Fines	1,000	830	100	70	0
Gas and Oil	329,600	271,410	32,700	22,890	2,600
Hauling	10,000	8,300	1,000	700	0
Interest Expense	35,000	29,050	3,500	2,450	0
Laundry	10,000	7,138	860	602	1,400
Legal and Accounting	15,000	12,450	1,500	1,050	0
Miscellaneous and Other	9,800	2,905	350	245	6,300
Non-Deductable	5,000	4,150	500	350	0
Office Expense	40,300	32,370	3,900	2,730	1,300
Operating Supplies	330,000	224,930	27,100	18,970	59,000
Other Insurance	530,000	439,900	53,000	37,100	0
Other Taxes	34,000	28,220	3,400	2,380	0
Outside Services	24,000	19,920	2,400	1,680	0
Parts	5,000	4,150	500	350	0
Public Relations and Promotion	99,900	54,697	6,590	4,613	34,000
Recycling	25,000	20,750	2,500	1,750	0
Rent	18,000	8,300	1,000	700	8,000
Telephone	40,000	32,785	3,950	2,765	500
Tires	3,000	2,490	300	210	0
Travel	4,600	1,495	180	125	2,800
Truck Insurance	45,000	34,860	4,200	2,940	3,000
Truck Repairs	11,000	3,320	400	280	7,000
Utilities	30,000	15,770	1,900	1,330	11,000
51. Total Other General and Administrative Costs	\$1,820,200	\$1,369,500	\$165,000	\$115,500	\$170,200
52. Total Tipping Fees	\$840,000	\$697,200	\$84,000	\$58,800	\$0
53. Total Franchise Fee	\$200,000	\$200,000	\$0	\$0	\$0
54. Total AB 939 and Regulatory Fees	\$100,000	\$83,000	\$10,000	\$7,000	\$0
55. Total Lease Payments to Affiliated Companies	\$25,000	\$20,750	\$2,500	\$1,750	\$0
56. Total Cost	\$4,628,000	\$3,429,530	\$389,100	\$272,370	\$537,000

Fiscal Year:

Page 4 of 6

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

Section VII—Revenue Offsets

	Total	City	CSU SLO	Adjacent Unincorporated	Processing Facility
Residential Revenue (without Increase in Base Yr.)					
57. Single Family Residential	\$1,356,060	\$1,152,651	\$122,045	\$81,364	\$0
Multiunit Residential Dumpster					
58. Number of Accounts	520	380	20	120	0
59. Revenues	\$670,000	\$569,500	\$60,300	\$40,200	\$0
60. Less Allowance for Uncollectible Residential Accounts	\$40,600	\$34,510	\$3,654	\$2,436	\$0
61. Total Residential Revenue	\$1,985,460	\$1,687,641	\$178,691	\$119,128	\$0
Non-residential Revenue (without Increase in Base Yr.)					
Account Type					
Non-residential Can					
62. Number of Accounts	520	442	47	31	0
63. Revenues	\$135,000	\$114,750	\$12,150	\$8,100	\$0
Non-residential Waste Wheeler					
64. Number of Accounts	260	221	23	16	0
65. Revenues	\$190,000	\$161,500	\$17,100	\$11,400	\$0
Non-residential Dumpster					
66. Number of Accounts	1,175	999	106	71	0
67. Revenues	\$1,910,000	\$1,623,500	\$171,900	\$114,600	\$0
68. Less: Allowance for Uncollectible Non-residential Accounts:	\$44,700	\$37,995	\$4,023	\$2,682	\$0
69. Total Non-residential Revenue	\$2,190,300	\$1,861,755	\$197,127	\$131,418	\$0
Processing Facility Revenues					
70. Scrap Payments for all Materials Sold	\$120,000	\$0	\$0	\$0	\$120,000
71. California Redemption Value (CRV) and Processing Fees	\$140,000	\$0	\$0	\$0	\$140,000
72. Fees from Other Cities	\$50,000	\$0	\$0	\$0	\$50,000
73. Revenues from Processing Facility	\$310,000	\$0	\$0	\$0	\$310,000
74. Interest on Investments	\$50,000	\$50,000	\$50,000	\$50,000	\$0
75. Other Income	\$0	\$0	\$0	\$0	\$0
76. Total Revenue Offsets	\$4,535,760	\$3,599,396	\$425,818	\$300,546	\$310,000

Fiscal Year:

Page 5 of 6

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Base Year Rate Adjustment Application

Operating Information

Historical				Current		Projected		
1992	Percent Change	1993	Percent Change	1994	Percent Change	Base Year 1995	Percent Change	1996

Section IX - Operating Data

Residential

77. Accounts	9,250	2.2%	9,450	2.1%	9,650	2.0%	9,840	1.6%	10,000
78. Routes	4	0.0%	4	0.0%	4	0.0%	4	0.0%	4
79. Tons Collected	11,350	1.8%	11,550	1.7%	11,750	2.1%	12,000	1.7%	12,200
80. Direct Labor Hours	15,700	0.6%	15,800	0.6%	15,900	0.6%	16,000	0.6%	16,100

Non-residential

81. Accounts	1,835	2.2%	1,875	2.1%	1,915	2.1%	1,955	2.0%	1,995
82. Routes	4	0.0%	4	0.0%	4	0.0%	4	0.0%	4
83. Tons Collected	18,700	2.1%	19,100	2.1%	19,500	1.5%	19,800	2.0%	20,200
84. Direct Labor Hours	9,700	1.0%	9,800	1.0%	9,900	1.0%	10,000	1.0%	10,100

Recyclable Materials

85. Fees from Other Cities	\$30,000	33.3%	\$40,000	12.5%	\$45,000	11.1%	\$50,000	10.0%	\$55,000
86. Tons from Other Cities	750	20.0%	900	5.6%	950	5.3%	1,000	5.0%	1,050
87. Cost per Ton	40	10.0%	44	6.8%	47	6.4%	50	4.0%	52

1
STEP

Fiscal Year:

Pg. 6 of 6

Base Year Step 1

Entry of Operating Costs

Responsibility:	Franchise Hauler
Timing:	Prepared during step 1 of the base year rate adjustment process (refer to Section II-A)
Tasks:	<ul style="list-style-type: none"> a. Enter Prior Two Years Audited Information b. Enter Current Year Estimated Information c. Enter Base Year Projected Information d. Enter Future Year Projected Information e. Enter Operating Information

Description of Tasks

a. Enter Prior Two Years Audited Information

Financial information from audited financial statements is consolidated into specific categories identified on page 2 of the application. These categories include:

<i>Line 6</i>	Direct Labor
<i>Line 7</i>	Corporate Overhead
<i>Line 8</i>	Office Salaries
<i>Line 9</i>	Other General and Administrative Costs
<i>Line 13</i>	Tipping Fees
<i>Line 14</i>	Franchise Fees
<i>Line 15</i>	AB 939 and Regulatory Fees
<i>Line 16</i>	Lease Payments to Affiliated Companies.

The specific components of these cost categories are described in **Exhibit III-3**, on the following page. Supplemental documentation should be prepared by the hauler which reconciles the franchise hauler's financial audit to information provided in the application. This documentation, along with a copy of each audit, should be included in the application package.

Total cost information for residential, non-residential, and recycling services should be reported in this initial task, and in tasks b, c, and d below. Segregation of costs for residential, non-residential, and recycling is not required.

For informational purposes only, the franchise hauler should further segregate total costs into four areas:

- ☐ San Luis Obispo (within city limits)
- ☐ California State University at San Luis Obispo (CSU SLO)
- ☐ Adjacent unincorporated areas
- ☐ Materials processing facility.

This segregation also is provided on page 4 of the application. Suggestions of factors to allocate any indirect costs are summarized in the "standardized" chart of accounts in Appendix B of this manual.

b. Enter Current Year Estimated Information

Current year costs are determined from actual costs to-date and estimated costs that will be incurred during the remainder of the current year. Total costs for the current year

*Definition of Financial Terms from
Base Year Rate Adjustment Application*

<i>Line Number/Item</i>	<i>Definition</i>
6. Direct Labor	All costs associated with solid waste and recyclable materials collection, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits
7. Corporate Overhead	Salaries paid to the franchise hauler's corporate officers. The amount of this item cannot exceed \$120,000 per year in 1994 dollars (the \$120,000 will be adjusted annually by the Consumer Price Index as published by the Bureau of Labor Statistics in their <i>Monthly Labor Review</i>).
8. Office Salaries	Wages and related benefits paid to office and administrative staff, including wages, overtime, payroll taxes, health and welfare benefits, workers compensation, and pension benefits
9. Other General and Administrative Costs	<p>All general and administrative costs with the exception of corporate overhead and office salaries. This item includes the following costs:</p> <ul style="list-style-type: none"> • Collection fees • Computer equipment and services • Depreciation • Dues and subscriptions • Insurance • Janitorial • Laundry and uniform • Interest expense • Licenses • Medical expenses • Office rent • Office supplies • Postage • Professional fees • Promotion • Office repair and maintenance • Telephone • Travel • Trucking • Utilities
10. Total Allowable Costs	Sum of direct labor, corporate overhead, office salaries, and other general and administrative costs
11. Operating Ratio	Determines allowable operating profit, and is the ratio of total allowable costs to total allowable revenue. The operating ratio must be between 90 and 94 percent. If the franchise hauler's actual operating ratio is outside this range, the operating ratio is to be set at 92 percent.
12. Allowable Operating Profit	Established by the allowable operating ratio
13. Tipping Fees	Costs to dispose of solid waste at transfer stations, transformation facilities, or landfills
14. Franchise Fees	Payments to the City of 6.0 percent of gross revenues (revenues from residential and commercial billings only; excludes recyclable material sales)
15. AB 939 and Regulatory Fees	Payments to the City of San Luis Obispo to meet AB 939 programs
16. Lease Payments to Affiliated Companies	Lease payments for trucks, office space, and other operating facilities made to affiliated companies

should be similar to the prior audited year, after taking into account increases due to inflation and changes in the number of residential, non-residential, and recycling customers served. Any significant changes should be explained and documented. A significant change includes any increase in cost which is greater than the Consumer Price Index as reported by the Bureau of Labor in their *Monthly Labor Review*, or any decrease in a cost item.

c. Enter Base Year Projected Information

Base year costs are projected by the franchise hauler. These projected costs then are used to calculate the net surplus/shortfall in revenues and, subsequently, the percent adjustment in rates. These projected costs should be based on anticipated service levels during the base year, and expenses which will be incurred to provide these services. Each cost element in the application should be reviewed and any anticipated increase in specific line items should be included in the base year projection. For example, if negotiated labor rates or workers compensation are expected to change, or if tipping fees are expected to change, these changes should be included in cost projections for the base year.

The franchise fee for the base year (year four of the application) is not estimated in this task, but is estimated in step 3. Because franchise fees are based on gross revenues from residential and non-residential services, the projected franchise fee in the base year is calculated using revenue projections developed in step 2.

d. Enter Future Year Projected Information

Costs are projected for the year after the base year. Although these costs will not be used for any rate adjustments made by the City, the projection provides the City

information to use for evaluating future rates. Projected costs should be based on anticipated service levels and significant changes in operating costs.

e. Enter Operating Information

Operating information requested in the application provides an important indicator of the franchise hauler's performance. If costs are changing at an unusual rate, operating data may provide some explanation of these changes. For example, cost increases could be attributed to the increased level of service provided (i.e., accounts served). Five operating characteristics are required in the application for both residential and non-residential customers:

- ☐ Accounts served
- ☐ Routes
- ☐ Tons of solid waste collected
- ☐ Direct labor hours
- ☐ Tons of recyclable materials received at processing facility, and the fees charged to process these materials.

Five years of operating data are required in the application. Prior year data are based on actual annual operating results. Current year performance is based on performance to-date plus estimated performance for the remaining months of the current year. Projected operating results are the franchise hauler's best estimate of service levels during the new base year and the year after that.

Year-to-year percentage changes then are determined for each of the four operating characteristics above. Any significant changes should be documented and explained by the franchise hauler. A significant change in an operating characteristic is an increase or decrease of more than two percent.

Section III. Base Year Rate Setting Methodology

Note that page 5 of the application contains the total number of residential and non-residential accounts serviced by the franchise hauler in the new base year.

These totals should agree with the account information used to calculate residential and non-residential revenue (page 3 of the application).

Base Year Step 2

Determination of Revenues Without Rate Increase

Responsibility:	Franchise Hauler
Timing:	Prepared during step 1 of the base year rate adjustment process (refer to section II-A)
Tasks:	<ul style="list-style-type: none"> a. Determine Residential Revenue b. Determine Non-residential Revenue c. Determine Allowance for Uncollectible Accounts d. Determine Revenues from Processing Facility e. Calculate Total Revenue Offsets

Description of Tasks

a. Determine Residential Revenue

Single family residential revenues are provided for all five years. For the base year only, the hauler also provides revenues, by service type, at existing rates.

The calculation of base year single family residential revenues under the City's current rate structure is documented on page 3 of the application. The hauler provides the projected number of accounts by service type, and the existing monthly rate for each service type. Total revenue for each service type then is calculated as follows:

	Rate per month
Multiplied by	Twelve months
Equals *	Rate per year
Multiplied by	Projected average number of single family residential accounts during year
Equals	Revenue by service type

For economy service an additional amount is added for bag package purchases as follows:

	Rate per package of bags
Multiplied by	Number of packages purchased
Equals	Revenue for packages purchased

Revenue by service type then is entered under the base year (fourth column of cells). These values then are summed and entered on line 28.

The number of accounts in each service category may change throughout the year (e.g., new customers, or customers which switch to a different service). The *average* number of accounts by service type is to be used in these calculations. In addition, the number of accounts identified for these calculations must agree with operating data provided on page 5 of the application.

The number of multiunit residential customers and estimated revenues for each of the five years are also provided by the hauler on page 3. Finally, the franchise hauler should provide sufficient information to support any figures included in this portion of the form.

b. Determine Non-residential Revenue

Non-residential revenue information is entered on page 3 of the application. For each service type (e.g., can, waste wheeler, or dumpster) both the number of accounts and annual revenues are reported. Information for the first two years should tie to supporting audited financial information. Non-residential revenues for the current year are based on actual revenue to-date plus an estimate of the revenue that will be received through the end of the year. Non-residential revenue in the current year should be comparable to revenue in the prior two years, after taking into account increases in rates and service levels.

Projected non-residential revenue information for the base year and year after also are provided on page 3. The non-residential rate structure and account summary assumed for each of these years (by service type and frequency of pick-up) should be documented separately by the franchise hauler, and provided to the City. Operating data provided on page 5 of the application should correspond to the numbers of accounts provided on page 3.

c. Determine Allowance for Uncollectible Accounts

The franchise hauler will likely not be paid by all customers served. While this amount is expected to be relatively small, it must be accounted for in the calculation of base year net revenues. These amounts are reported on page 3 of the application (allowance for uncollectible residential accounts and allowance for uncollectible non-residential accounts).

These amounts can be calculated based on a formula, such as a percentage of anticipated revenues, or based on actual experience. All assumptions related to the

projection of uncollectible accounts must be documented and included as a supplement to the application.

d. Determine Revenues from Processing Facility

If the franchise hauler owns and operates a processing facility used to process recyclable materials collected from City residences and businesses, the revenues from operating the processing facility shall be an offset to the hauler's revenue requirements for purposes of establishing City residential and non-residential rates.

On page 3 of the application, the hauler is to provide annual scrap payments received for all materials sold, annual California Redemption Value (CRV) and processing fees received for beverage containers, and fees from other cities. The result is added to total revenue offsets on page 3.

e. Calculate Total Revenue Offsets

Total revenue offsets are determined as follows:

	<i>Line 32</i>	Total residential revenue
Plus		
	<i>Line 40</i>	Total non-residential revenue
Plus		
	<i>Line 44</i>	Revenues from processing facility
Plus		
	<i>Line 45</i>	Interest on investments
Plus		
	<i>Line 46</i>	Other income
Equals		Total revenue offsets

Total revenue offsets are entered on page 3, line 47, and on page 2, line 19 of the application.

*Base Year
Step 3*

***Calculation of
Allowable
Operating
Profit and
Revenue
Requirement***

- Responsibility:** Franchise Hauler
- Timing:** Prepared during step 1 of the base year rate adjustment process (refer to Section II-A)
- Tasks:**
- Calculate Allowable Operating Profit
 - Determine Franchise Fee
 - Calculate Revenue Requirement

Description of Tasks

a. Calculate Allowable Operating Profit

The operating ratio method is used to establish allowable operating profit. The operating ratio establishes revenue requirements based on allowable costs. The equation for the operating ratio is:

	Allowable costs
Divided by	Total operating revenues
Equals	Operating ratio.

The operating ratio effectively determines the profit allowed to the franchise hauler on its allowable costs.

In the first base year, the operating ratio will be 92 percent. In each succeeding base year, the operating ratio will range from 90 to 94 percent, which will help stabilize rate adjustments and afford the franchise hauler an incentive to reduce costs. In any succeeding base year, if the franchise hauler earned an operating ratio outside this range, then 92 percent would be reestablished.

The following operating costs are included as operating costs in the allowable operating profit calculation:

- ☐ Direct labor
- ☐ Corporate overhead
- ☐ Office salaries
- ☐ Other general and administrative costs.

A definition of the components of these cost categories is provided earlier in **Exhibit III-3**.

The actual or projected operating ratio and operating profit received by the franchise hauler is entered on line 11 for each of the five years. To calculate actual or projected operating ratio, the hauler first determines allowable revenues as total revenues minus all pass through costs. Then, the hauler divides allowable costs by allowable revenues to determine the operating ratio.

To calculate the allowable operating profit each year, the following equation is utilized:

	Allowable costs
Divided by	Operating ratio
Equals	Allowable revenues
Minus	Allowable costs
Equals	Allowable operating profit.

b. Determine Franchise Fee

The franchise fee is six percent (6%) of gross residential and non-residential solid waste collection revenue collected. Any services which are provided by the franchise hauler but which fall outside the City's jurisdiction are not subject to the franchise fee payment. An adjustment for these services should be included in the franchise fee calculation. Historical and projected franchise fees should be entered on line 14 of the application.

Note that the franchise fee attributed to any requested adjustment in rates will be accounted for separately in the franchise fee adjustment factor. This adjustment factor is computed in step 4. Therefore, annual payments of franchise fees in the base year are estimated based on revenues received at existing monthly rates.

After total franchise fees are determined, total annual costs can be calculated. Lines 13 through 16 should be added and the

result entered on line 17, total pass through costs. Any significant changes in total pass through costs for the base year should be explained and documented.

c. Calculate Revenue Requirement

The revenue requirement establishes the level of revenue needed to meet all allowable costs, operating profit, and pass through costs. This includes solid waste and recyclable material collection costs, and assumes a reasonable profit margin based on the operating ratio calculation.

Total revenue requirements are determined as the sum of:

- ☐ Allowable costs
- ☐ Allowable operating profit
- ☐ Pass through costs.

The revenue requirement is entered on line 18 of the application.

<p><i>Base Year</i> Step 4</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Prepared during step 1 of the base year rate adjustment process (refer to Section II-A)</p>
<p>Calculation of Percent Change In Rates</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Calculate Net Surplus/Shortfall b. Calculate Percent Change In Rates

Description of Tasks

a. Calculate Net Shortfall/Surplus

The net shortfall/surplus is determined based on the following calculation:

	<i>Line 18</i>	Revenue requirement
Less	<i>Line 19</i>	Total revenue offsets
Equals		Net shortfall/surplus.

The net shortfall/surplus is entered on line 20. This number is used to calculate the required percent change in existing rates.

b. Calculate Percent Change in Rates

The percent change in rates is the amount that residential and non-residential rates must be adjusted in order to generate revenues sufficient to meet total revenue requirements.

The percent change in existing rates is calculated as follows:

	<i>Line 20</i>	Net shortfall/surplus
Divided by		
	<i>Line 21</i>	Total residential and non-residential revenues without increase (line 32 + line 40)

Equals	Percent change in rates without franchise fee adjustment.
--------	---

The percent change in rates is entered on line 22 of the application.

In order to account for additional franchise fees which must be paid on the additional (or lower) revenue that will be collected, an adjustment is made to the rate increase. The franchise fee adjustment is based on the following equation:

	<i>Line 22</i>	Percent change in rates without franchise fee adjustment
Divided by		
	<i>Line 23</i>	Franchise fee adjustment factor (1 – franchise fee)
Equals		Percent change in existing rates.

The percent change in existing rates is entered on line 24 of the application.

<p><i>Base Year</i> Step 5</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Prepared during step 1 of the base year rate adjustment process (refer to Section II-A)</p>
<p>Preparation of Summary Form</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Calculate New Rates b. Sign and Submit the Application

Description of Tasks

a. Calculate New Rates

The rate adjustment identified on page 2, line 24 should be entered on page 1, line 1 of the *Base Year Rate Adjustment Application*. Current monthly single family residential rates for solid waste collection should be entered in the first column of lines 2-4. Adjusted rates then are calculated by multiplying the current rate by one plus the rate adjustment identified in line 1. These adjusted rates are entered in the second column of lines 2-4. In column three of lines 2-4, the adjusted rates are rounded up to the nearest five cent increment. This simplifies record keeping for the franchise hauler and should not make a material difference to customers. The adjustment required to reach the nearest five cent increment should be calculated and entered in the third column of lines 2-4.

To determine new single family residential rates, column two on lines 2-4

should be added to column three and the result should be entered in column four. This column provides the new single family residential rate schedule.

Line 5 of page 1 identifies the rate increase to be applied to multiunit residential and non-residential rates. Multiunit residential and non-residential rates should be rounded up to the nearest \$1.00. The franchise hauler should provide supporting documentation for the requested multiunit residential and non-residential rates for the base year.

b. Sign and Submit the Application

An authorized representative from the franchise hauler should sign and date the application. This signature provides a certification of the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in this manual.

<p><i>Base Year</i> Step 6</p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Prepared during step 1 of the base year rate adjustment process (refer to Section II-A)</p>
<p>Survey of Rates in Similar Areas</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Complete Solid Waste Fee Survey b. Summary of Survey

Description of Tasks

a. Complete Solid Waste Fee Survey

As a check of the reasonableness of existing and new integrated solid waste management rates, a survey of residential and non-residential rates in similar communities should be conducted during each base year (once every three years). This survey covers questions concerning both residential and non-residential service.

Exhibit III-4, following this page, is a sample survey form. The survey should be conducted by telephone instead of by mail in order to ensure complete responses to each question. A minimum of six cities should be contacted. The City and the franchisee hauler will agree on which cities will be surveyed.

While all questions in the survey provide valuable comparative information, there are several key questions including:

- ☐ Monthly rates for all residential service types
- ☐ Monthly rate for standard non-residential services (i.e., one to six cubic yard bins picked up once per week)
- ☐ Tipping fees charged the hauler
- ☐ Responsibility for billing customers.

b. Summary of Survey

After the survey has been conducted, the results are summarized for comparison with the franchise hauler's rate application. This summary is included as an attachment to the *Base Year Rate Adjustment Application*, as described in Section II-A, step 3. This information also is used in the evaluation of the franchise hauler's application.

Sample Solid Waste Fee Survey

City of San Luis Obispo

Solid Waste Fee Survey

Section I -- Introduction

1. Name of City/County			
2. Contact Person			
3. Title of Contact Person			
4. Telephone Number			
5. Date Contacted			

Section II -- General Information

6. Are residential curbside collection and disposal services provided by the municipality or private contractor?			
7. Is a franchise for refuse collection granted to the hauler?			
8. Is a franchise for recyclable material collection granted to the hauler?			
9. Is there a franchise fee? If so, how much is it?			
10. What is the franchise hauler's disposal cost per ton?			
11. Who bills customers?			

Section III -- Residential Service

12. Are residential rates regulated?			
13. What is the monthly charge for residential service?			
14. How many cans are picked up at this charge?			
15. What is the charge for additional cans?			

Fiscal Year:

Page 1 of 2

Sample Solid Waste Fee Survey

City of San Luis Obispo

Solid Waste Fee Survey

Section III -- Residential Service (continued)

16. Is there a separate charge for yard waste collection?
17. Are there any City-wide clean-up days provided at no additional charge by the hauler?
18. Does your community have a curbside recycling program?
19. Is there an additional charge to residents for this program, or is it included in the monthly charge for solid waste collection?
20. If separate, what is the charge per month?

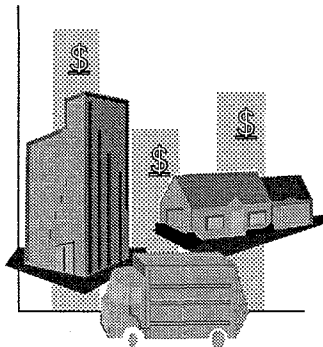
Section V -- Non-residential Service

21. Are non-residential rates regulated?
22. Provide the monthly fee for the following services, assuming pick-up is one time per week:
23. 1 cubic yard
24. 1 1/2 cubic yards
25. 2 cubic yards
26. 3 cubic yards
27. 6 cubic yards
28. Effective period of rates quoted:

Fiscal Year:

Page 2 of 2

Section IV
Interim Year Rate
Setting Methodology





IV. Interim Year Rate Setting Methodology

The Interim Year Rate Adjustment Application is completed by the franchise hauler and is used to calculate the adjustments in rates effective for the interim year. The application documents changes in tipping fees, and AB 939, and regulatory charges.

The *Interim Year Rate Adjustment Application* is used to calculate new interim year rates. This document is prepared by the franchise hauler. Interim year rate adjustments are based on a weighted average change in controllable and pass through costs. Inflators for this process include changes in the U.S. National Consumer Price Index and changes in pass through costs.

The application is a two-page form. Page 1 provides summary information about the rate adjustment and the resulting new rates. Page 2 includes detailed

calculations required to determine the rate adjustment. Steps 1 through 3 of the methodology describe how to complete page 2 of the application. Steps 4 and 5 describe how to complete page 1 of the application.

Exhibit IV-1, following this page, provides an overview of the steps and related tasks which must be completed to prepare the application form and calculate new rates. **Exhibit IV-2**, following Exhibit IV-1, is a sample of the two page application as it might be prepared by the franchise hauler. This exhibit includes references to various steps which must be completed to prepare the application. Following Exhibit IV-2 is a detailed description of each step and related tasks. *Please note that the data included in this sample exhibit are provided for illustrative purposes only and are not intended to reflect actual operating or financial conditions.*

Preparation of the Interim Year Rate Adjustment Application

Step/Task

- 1. Determination of Base Year Costs and Weighting**
 - a. Identify Prior Base Year Controllable Costs
 - b. Identify Prior Base Year Pass Through Costs
 - c. Calculate Weightings
- 2. Calculation of Percent Changes in Controllable and Pass Through Costs**
 - a. Enter Controllable and Pass Through Cost Information
 - b. Review Mathematical Accuracy
- 3. Calculation of Weighted Change in Rates**
 - a. Calculate Weighted Change in Controllable Costs
 - b. Calculate Weighted Change in Pass Through Costs
 - c. Calculate Total Percent Change in Cost
 - d. Calculate Franchise Fee Adjustment
 - e. Calculate Percent Adjustment in Existing Rates
- 4. Preparation of the Summary Form**
 - a. Enter Rate Adjustment
 - b. Calculate New Rates
- 5. Survey of Rates in Similar Areas**
 - a. Complete Solid Waste Fee Survey
 - b. Summary of Survey
- 6. Application Certification**
 - a. Sign Application
 - b. Submit Application to City

Sample Base Year Rate Adjustment Application

City of San Luis Obispo

Interim Year Rate Adjustment Application

Summary

Requested Increase

1. Rate Increase Requested

4.9%

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment	New Rate
Single Family Residential				
2. Economy Service (collection)	\$ 2.00	\$ 2.10	\$0.00	\$ 2.10
Economy Service (orange bags)	\$ 1.00	\$ 1.05	\$0.00	\$ 1.05
3. Standard Service	13.40	14.06	0.04	14.10
4. Premium Service	18.25	19.14	0.01	19.15

(a) Calculated rates are rounded up to the nearest \$0.05.

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

Rate increases of **4.9%** will be applied to all rates in each structure with each rate rounded up to the nearest \$1.00.

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the City of San Luis Obispo.

Name: John Brown

Title: Controller

Signature: *John Brown*

Date: May 1, 19xx

Fiscal Year:

Pg. 1 of 2

Sample Interim Year Rate Adjustment Application

City of San Luis Obispo

Interim Year Rate Adjustment Application

Financial Information

Section I—Base Year Costs

Base Year Controllable Costs

6.		Total Allowable Costs	\$2,926,000	
7.	Plus	Allowable Operating Profit	254,435	
8.	Plus	Lease Payments to Affiliated Companies	25,000	
9.	Equals	Total Controllable Costs	\$3,205,435	77.3%

Base Year Pass Through Costs

10.		Tipping Fees	\$840,000	
11.	Plus	AB 939 and Regulatory Fees	100,000	
12.	Equals	Total Pass Through Costs	\$940,000	22.7%

13.		Base Year Revenue Requirements (Less Franchise Fee)	\$4,145,435	100.00%
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Section II—Changes in Cost

Change in Controllable Cost

14.		Historical Percentage Change in Consumer Price Index	4.0%
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Change in Pass Through Cost

15.		Prior Year Tipping Fees	\$840,000	
16.	Plus:	Prior Year AB 939 and Regulatory Fees	100,000	
17.	Equals:	Total Prior Year Pass Through Costs	\$940,000	

18.		Projected Interim Year Tipping Fees	\$880,000
19.	Plus:	Projected interim Year AB 939 and Regulatory Fees	120,000
20.	Equals:	Total Projected Interim Year Pass Through Costs	\$1,000,000
21.		Projected Percentage Change in Pass Through Costs	6.4%

Section III—Calculation of Percent Change in Rates

Weighted Change in Controllable Costs

22.		Controllable Costs as a Percent of Base Year Revenue Requirements	77.3%	
23.	Multiplied by	Percent change in CPI	4.0%	
24.	Equals	Weighted Percent Change in Controllable Costs	3.1%	

Weighted Change in Pass Through Costs

25.		Pass Through Costs as a Percent of Base Yr. Revenue Requirements	22.7%	
26.	Multiplied by	Percent Change in Pass Through Costs	6.4%	
27.	Equals	Weighted Percent Change in Pass Through Costs	1.5%	

Total Change

28.		Total Percent Change in Cost	4.6%	
29.	Divided by	Adjustment for Franchise Fee (1 - 6.0 percent)	94.0%	
30.	Equals	Percent Change in Existing Rates	4.9%	

Fiscal Year:

Page 2 of 2

Step 1

Application

Determination of Base Year Costs and Weighting

- Responsibility:** Franchise Hauler
- Timing:** Prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)
- Tasks:**
- Identify Prior Base Year Controllable Costs
 - Identify Prior Base Year Pass Through Costs
 - Calculate Weightings

Description of Tasks

a. Identify Prior Base Year Controllable Costs

Controllable costs are those items which can be reasonably managed by the franchise hauler in order to minimize future rate increases. Increases in these costs are adjusted by the annual change in the U.S. National Consumer Price Index (CPI), as published by the Bureau of Labor Statistics in their *Monthly Labor Review*.

In order to streamline the interim year process, controllable costs are changed based on an annual change in the CPI, rather than projected changes in each cost item. This eliminates the need to conduct a detailed review of the franchise hauler's financial and operating statements.

The following table identifies the line items in the base year application which must be entered on the controllable cost portion of the interim year application. The name of each line item is the same in both applications.

Base Year Application Line Number	Interim Year Application Line Number	Name of Line Item
10.	6.	Total Allowable Cost
12.	7.	Allowable Operating Profit
16.	8.	Lease Payments to Affiliated Companies

The total of lines 6, 7, and 8 is entered on line 9 of the application and is used to calculate the weighted change in controllable costs.

b. Identify Prior Base Year Pass Through Costs

Pass through costs are those expenses which the franchise hauler is allowed to recover through rates but for which no profit is allowed. These include tipping fees, and AB 939 and regulatory charges. Changes in these cost categories do not necessarily match changes in CPI. Therefore, changes in pass through costs during an interim year are based on the franchise hauler's projection of total annual costs, not projected changes in the CPI. Total costs in the prior base year must be identified in order to determine the weighting of controllable costs and pass through costs to total costs.

The following table identifies line items from the prior base year application which must be entered on the interim year application. The name of each line item is the same in both forms.

Section IV. Interim Year Rate Setting Methodology

Base Year Application Line Number	Interim Year Application Line Number	Name of Line Item
13.	10.	Tipping Fees
15.	11.	AB 939 and Regulatory Fees

The amounts in lines 10 and 11 are added and the total entered on line 12.

c. Calculate Weightings

Total controllable costs (line 9) plus total pass through costs (line 12) equals total base year costs (excluding franchise fees). This total is entered on line 13 of the application (base year revenue requirement less franchise fee).

A weighting for both controllable costs and pass through costs is calculated as follows:

Controllable Costs Weighting

Line 9 Total controllable costs

Divided by

Line 13 Base year revenue requirement

Equals

Controllable costs as a percentage of base year revenue requirements.

This percentage figure is entered on line 9, column 2, and line 22.

Pass Through Costs Weighting

Line 12 Total pass through costs

Divided by

Line 13 Base year revenue requirement

Equals

Pass through costs as a percentage of base year revenue requirements.

This percentage figure is entered on line 12, column 2, and line 25.

Step 2

Application

Calculation of Percent Changes in Controllable and Pass Through Costs

- Responsibility:** Franchise Hauler
- Timing:** Prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)
- Tasks:**
- Enter Controllable and Pass Through Cost Information
 - Review Mathematical Accuracy

Description of Tasks

a. Enter Controllable and Pass Through Cost Information

The historical Consumer Price Index (CPI) percentage change in line 8 of the application is entered on lines 14 and 23 of the application. This percentage change in historical CPI (the previous 12 months) is used to determine the weighted average change in controllable costs.

Figures on lines 1 through 6 of the application (actual and projected pass through costs) are entered on lines 15 through 20, respectively, of the application. Any significant changes in these costs are documented by the franchise hauler. A significant change would be any increase greater than the annual change in the CPI, or a decrease of any amount. If a significant

change has not been adequately explained, additional information is requested from the franchise hauler.

b. Review Mathematical Accuracy

The mathematical accuracy of the franchise hauler's calculations of total prior year pass through costs (line 17), and total projected interim year pass through cost (line 20) are checked during this task. The percent change in pass through costs should be calculated as follows:

$$\frac{\text{line 20} - \text{line 17}}{\text{line 17}}$$

line 17

After the percentage change in pass through costs has been verified, this figure is entered on line 21 of the application.

<p>Step 3 <i>Application</i></p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: To be prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)</p>
<p>Calculation of Weighted Change in Rates</p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Calculate Weighted Change in Controllable Costs b. Calculate Weighted Change in Pass Through Costs c. Calculate Total Percent Change in Cost d. Calculate Franchise Fee Adjustment e. Calculate Percent Adjustment in Existing Rates

Description of Tasks

a. Calculate Weighted Change in Controllable Costs

Figures should have been entered on line 22 of the application (controllable costs as a percent of base year revenue requirements), and line 23 of the application (change in CPI, based on calculations completed in previous tasks). To obtain the weighted increase in controllable costs, line 22 is multiplied by line 23 and the result entered on line 24.

(weighted percent change in pass through costs), and the result entered on line 28 (total percent change in costs).

b. Calculate Weighted Change in Pass Through Costs

Line 25 (pass through costs as a percent of base year revenue requirements) and line 26 (percent change in pass through costs) should now have an entry based on calculations completed in previous tasks. To obtain the weighted change in pass through costs, line 25 is multiplied by line 26 and the result entered on line 27.

d. Calculate Franchise Fee Adjustment

In order to account for changes in the franchise fee resulting from a change in rates, an adjustment is made to the percentage change in total costs which was entered on line 28. The adjustment factor is equal to one minus the franchise fee ($1.00 - 0.06 = 0.94$). This value should be entered on line 29.

c. Calculate Total Percent Change in Cost

To calculate total percentage change in costs, line 24 (weighted percent change in controllable costs) is added to line 27

e. Calculate Percent Adjustment in Existing Rates

The final task in this step is to calculate the percent adjustment in existing rates. To determine this adjustment, line 28 (total percent change in costs) is divided by line 29 (adjustment for franchise fee), and the result entered on line 30. The value on line 30 should be greater than the value on line 28. The difference accounts for the increase in franchise fees.

<p>Step 4 <i>Application</i></p>	<p>Responsibility: Franchise Hauler</p> <p>Timing: Prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)</p>
<p><i>Preparation of the Summary Form</i></p>	<p>Tasks:</p> <ul style="list-style-type: none"> a. Enter Rate Adjustment b. Calculate New Rates

Description of Tasks

a. Enter Rate Adjustment

The rate adjustment identified on line 30 should be entered on page 1, lines 1 and 5 of the application.

The adjusted rates then are rounded up to the nearest five cent increment. The adjustment amount required to reach the nearest five cent increment is calculated and entered on the third column of lines 2 through 4.

b. Calculate New Rates

Current rates for single family residences are entered in the first column of lines 2 through 4 on page 1, by service type. The adjusted rates then are calculated by multiplying the current rate by one plus the rate increase identified on line 1. The adjusted rates are entered on the second column of lines 2 through 4.

To determine new rates, column two, lines 2 through 4, is added to column three and the result is entered on column four. This column provides the new schedule of single family integrated solid waste management residential rates.

To determine multiunit and non-residential rate adjustments, the rate adjustment in line 5 is applied uniformly to all rates in each rate structure. Rates are rounded up to the nearest \$0.05.

Step 5 Application

Survey of Rates in Similar Areas

Responsibility:	Franchise Hauler
Timing:	Prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)
Tasks:	<ul style="list-style-type: none"> a. Complete Solid Waste Fee Survey b. Summary of Survey

Description of Tasks

a. Complete Solid Waste Fee Survey

As a check of the reasonableness of existing and new integrated solid waste management rates, a survey of residential and non-residential rates in similar communities should be conducted during the interim year. This survey covers questions concerning both residential and non-residential service.

Exhibit III-4, on page III-20, is a sample survey form. The survey should be conducted by telephone instead of by mail in order to ensure complete responses to each question. A minimum of six cities should be contacted. The City and the franchisee hauler will agree on which cities will be surveyed.

While all questions in the survey provide valuable comparative information, there are several key questions including:

- ☐ Monthly rates for all residential service types
- ☐ Monthly rate for standard non-residential services (i.e., one to six cubic yard bins picked up once per week)
- ☐ Tipping fees charged the hauler
- ☐ Responsibility for billing customers.

b. Summary of Survey

After the survey has been conducted, the results are summarized for comparison with the franchise hauler's rate application. This summary is included as an attachment to the *Interim Year Rate Adjustment Application*. This information also is used in the evaluation of the franchise hauler's application.

Step 6 <i>Application</i>	Responsibility: Franchise Hauler Timing: Prepared during step 2 of the interim year rate adjustment process (refer to Section II-C)
Application Certification	Tasks: <ul style="list-style-type: none">a. Sign Applicationb. Submit Application to City

Description of Tasks

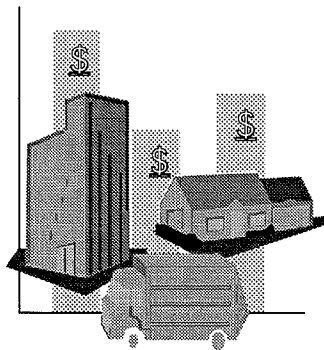
a. Sign Application

An authorized representative from the franchise hauler should sign and date the application. This signature provides certification by the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in this manual.

b. Submit Application to City

At this point the application should be submitted, together with the Survey of Rates in Similar Areas, to the City for review of the rate adjustment.

Appendix A Blank Forms and Worksheets





Base Year Rate Adjustment Application

Summary

Requested Increase

1. Rate Increase Requested

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (collection)				
Economy Service (orange bags)				
3. Standard Service				
4. Premium Service				

(a) Calculated rates are rounded up to the nearest \$0.05.

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

Rate increases of will be applied to all rates in each structure with each rate rounded up to the nearest \$1.00.

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the City of San Luis Obispo.

Name: John Brown

Title: Controller

Signature: John Brown

Date: May 1, 19XX

Fiscal Year:

Pg. 1 of 6

Base Year Rate Adjustment Application

Financial Information

Historical		Current	Projected	
			Base Year	

(from Pg. 4)

Section I--Allowable Costs

6. Direct Labor
7. Corporate Overhead
8. Office Salaries
9. Other General and Administrative Costs
10. Total Allowable Costs

Section II-- Allowable Operating Profit

11. Operating Ratio
12. Allowable Operating Profit

Section III--Pass Through Costs

13. Tipping Fees
14. Franchise Fees
15. AB 939 and Regulatory Fees
16. Lease Payments to Affiliated Companies
17. Total Pass Through Costs

Section IV--Revenue Requirement

18. Revenue Requirement

--	--	--	--	--

19. Total Revenue Offsets (from Pg. 3)

--	--	--	--	--

Section V--Net Shortfall (Surplus)

20. Net Shortfall (Surplus)

--

Section VI--Percent Change in Rates

21. Total Residential and Non-residential Revenue without increase in Base Year (Pg. 3, lines 32+40)
22. Percent Change in Residential and Non-residential Revenue Requirement
23. Franchise Fee Adjustment Factor (1 - 6.0 percent)
24. Percent Change in Existing Rates

Base Year Rate Adjustment Application

Revenue Offset Summary

Section VII--Revenue Offsets

Historical	Current	Projected
		Base Year

Residential Revenue (without Increase in Base Yr.)

Account Type	Current Rate/Month	Months	Projected Accounts	Price per Package	No. of Packages	Total
25. Economy Service		12				
26. Standard Service		12				
27. Premium Service		12				

28. Single Family Residential

Multiunit Residential Dumpster

29. Number of Accounts

30. Revenues

31. Less Allowance for Uncollectible Residential Accounts

32. Total Residential Revenue

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

Account Type

Non-residential Can

33. Number of Accounts

34. Revenues

Non-residential Waste Wheeler

35. Number of Accounts

36. Revenues

Non-residential Dumpster

37. Number of Accounts

38. Revenues

39. Less: Allowance for Uncollectible
Non-residential Accounts:

40. Total Non-residential Revenue

Processing Facility Revenues

41. Scrap Payments for all Materials Sold

42. California Redemption Value (CRV) and Processing Fees

43. Fees from Other Cities

44. Revenues from Processing Facility

45. Interest on Investments

46. Other Income

47. Total Revenue Offsets

Fiscal Year:

Base Year Rate Adjustment Application

Cost and Revenue Summary for Base Year

For Information Purposes Only

Section VIII--Base Year Cost Allocation

Description of Cost	Total	City	CSU SLO	Adjacent Unincorporated	Processing Facility
Labor					
Payroll Taxes					
48. Total Direct Labor					
49. Total Corporate Overhead					
Office Salary					
Payroll Taxes					
50. Total Office Salaries					
Computer Services					
Depreciation on Building and Equipment					
Depreciation on Truck and Containers					
Dues and Subscriptions					
Equipment Rental					
Fines					
Gas and Oil					
Hauling					
Interest Expense					
Laundry					
Legal and Accounting					
Miscellaneous and Other					
Non-Deductable					
Office Expense					
Operating Supplies					
Other Insurance					
Other Taxes					
Outside Services					
Parts					
Public Relations and Promotion					
Recycling					
Rent					
Telephone					
Tires					
Travel					
Truck Insurance					
Truck Repairs					
Utilities					
51. Total Other General and Administrative Costs					
52. Total Tipping Fees					
53. Total Franchise Fee					
54. Total AB 939 and Regulatory Fees					
55. Total Lease Payments to Affiliated Companies					
56. Total Cost					

Fiscal Year:

1252

1253

1254

1255

1256

1257

1258

1259

Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

Section VII--Revenue Offsets

	Total	City	CSU SLO	Adjacent Unincorporated	Processing Facility
Residential Revenue (without Increase in Base Yr.)					
57. Single Family Residential					
Multiunit Residential Dumpster					
58. Number of Accounts					
59. Revenues					
60. Less Allowance for Uncollectible Residential Accounts					
61. Total Residential Revenue					
Non-residential Revenue (without Increase in Base Yr.)					
Account Type					
Non-residential Can					
62. Number of Accounts					
63. Revenues					
Non-residential Waste Wheeler					
64. Number of Accounts					
65. Revenues					
Non-residential Dumpster					
66. Number of Accounts					
67. Revenues					
68. Less: Allowance for Uncollectible Non-residential Accounts:					
69. Total Non-residential Revenue					
Processing Facility Revenues					
70. Scrap Payments for all Materials Sold					
71. California Redemption Value (CRV) and Processing Fees					
72. Fees from Other Cities					
73. Revenues from Processing Facility					
74. Interest on Investments					
75. Other Income					
76. Total Revenue Offsets					

Base Year Rate Adjustment Application

Operating Information

Historical				Current		Projected		
	Percent Change		Percent Change		Percent Change	Base Year	Percent Change	

Section IX - Operating Data

Residential

- 77. Accounts
- 78. Routes
- 79. Tons Collected
- 80. Direct Labor Hours

Non-residential

- 81. Accounts
- 82. Routes
- 83. Tons Collected
- 84. Direct Labor Hours

Recyclable Materials

- 85. Fees from Other Cities
- 86. Tons from Other Cities
- 87. Cost per Ton

Interim Year Rate Adjustment Application

Summary

Requested Increase

1. Rate Increase Requested

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (collection)				
Economy Service (orange bags)				
3. Standard Service				
4. Premium Service				

(a) Calculated rates are rounded up to the nearest \$0.05.

5. Multiunit Residential and Non-residential

Rate increases of will be applied
to all rates in each structure with each rate rounded up to
the nearest \$1.00.

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the City of San Luis Obispo.

Name: John Brown

Title: Controller

Signature: John Brown

Date: May 1, 19XX

Fiscal Year:

Pg. 1 of 2

Interim Year Rate Adjustment Application

Financial Information

Section I—Base Year Costs

Base Year Controllable Costs

6.		Total Allowable Costs	
7.	Plus	Allowable Operating Profit	
8.	Plus	Lease Payments to Affiliated Companies	
9.	Equals	Total Controllable Costs	

Base Year Pass Through Costs

10.		Tipping Fees	
11.	Plus	AB 939 and Regulatory Fees	
12.	Equals	Total Pass Through Costs	

13.		Base Year Revenue Requirements (Less Franchise Fee)	
-----	--	---	--

Section II—Changes in Cost

Change in Controllable Cost

14.		Historical Percentage Change in Consumer Price Index	
-----	--	--	--

Change in Pass Through Cost

15.		Prior Year Tipping Fees	
16.	Plus:	Prior Year AB 939 and Regulatory Fees	
17.	Equals:	Total Prior Year Pass Through Costs	
18.		Projected Interim Year Tipping Fees	
19.	Plus:	Projected Interim Year AB 939 and Regulatory Fees	
20.	Equals:	Total Projected Interim Year Pass Through Costs	
21.		Projected Percentage Change in Pass Through Costs	

Section III—Calculation of Percent Change in Rates

Weighted Change in Controllable Costs

22.		Controllable Costs as a Percent of Base Year Revenue Requirements	
23.	Multiplied by	Percent change in CPI	
24.	Equals	Weighted Percent Change in Controllable Costs	

Weighted Change in Pass Through Costs

25.		Pass Through Costs as a Percent of Base Yr. Revenue Requirements	
26.	Multiplied by	Percent Change in Pass Through Costs	
27.	Equals	Weighted Percent Change in Pass Through Costs	

Total Change

28.		Total Percent Change in Cost	
29.	Divided by	Adjustment for Franchise Fee (1 - 6.0 percent)	
30.	Equals	Percent Change in Existing Rates	

Solid Waste Fee Survey

Section I -- Introduction

1. Name of City/County
2. Contact Person
3. Title of Contact Person
4. Telephone Number
5. Date Contacted

Section II -- General Information

6. Are residential curbside collection and disposal services provided by the municipality or private contractor?
7. Is a franchise for refuse collection granted to the hauler?
8. Is a franchise for recyclable material collection granted to the hauler?
9. Is there a franchise fee? If so, how much is it?
10. What is the franchise hauler's disposal cost per ton?
11. Who bills customers?

Section III -- Residential Service

12. Are residential rates regulated?
13. What is the monthly charge for residential service?
14. How many cans are picked up at this charge?
15. What is the charge for additional cans?

Solid Waste Fee Survey

Section III -- Residential Service (continued)

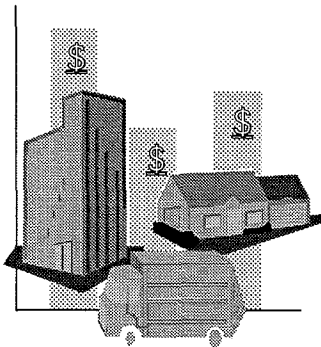
16. Is there a separate charge for yard waste collection?
17. Are there any City-wide clean-up days provided at no additional charge by the hauler?
18. Does your community have a curbside recycling program?
19. Is there an additional charge to residents for this program, or is it included in the monthly charge for solid waste collection?
20. If separate, what is the charge per month?

Section V -- Non-residential Service

21. Are non-residential rates regulated?
22. Provide the monthly fee for the following services, assuming pick-up is one time per week:
23. 1 cubic yard
24. 1 1/2 cubic yards
25. 2 cubic yards
26. 3 cubic yards
27. 6 cubic yards
28. Effective period of rates quoted:

Appendix B

Chart of Accounts





Appendix B. Sample Chart of Accounts

A chart of accounts is provided in **Exhibit A**, following this page. This chart of accounts provides a suggested framework for the hauler to record financial transactions, provides a basis for comparing annual rate adjustment requests, and presents a suggested basis for allocating indirect costs and revenues of operation to different service areas (e.g., customers within city limits, adjacent unincorporated areas, Cal Poly, and the recyclable materials processing facility).

The chart identifies account name, account type (asset, liability, revenue, or expense), type of revenue or cost (direct or indirect), and a suggested basis for allocating indirect revenues and costs (e.g., tons collected, number of accounts). The franchise hauler may find other miscellaneous accounts may be required. To maintain comparability from year to year, the franchise hauler should indicate any major changes to the chart of accounts.

Sample Chart of Accounts

<i>Title</i>	<i>Type</i>	<i>Method</i>	<i>Allocation Basis</i>
Accounts Receivable	A		
Accumulated Depreciation	A		
Buildings	A		
Certificate of Deposit	A		
Checking Account	A		
Containers	A		
Furniture, Fixtures and Equipment	A		
Income Tax Receivable	A		
Investments	A		
Land	A		
Money Market	A		
Notes Receivable	A		
Petty Cash	A		
Prepaid Expenses	A		
Prepaid Life Insurance	A		
Savings Account	A		
Stockholders-Advance	A		
Tax Refund Receivable	A		
Trucks and Automobiles	A		
Accounts Payable	L		
Accrued Liabilities	L		
Capital Stock	L		
Deferred Interest	L		
Equipment Loans	L		
Retained Earnings	L		

A = Asset

L = Liability

R = Revenue

E = Expense

D = Direct revenue or cost

I = Indirect revenue or cost

Sample Chart of Accounts
(continued)

<i>Title</i>	<i>Type</i>	<i>Method</i>	<i>Allocation Basis</i>
Dividend Income	R	D/I	Direct where possible, otherwise number of accounts
Garbage Service	R	D	None
Interest Income	R	D/I	Direct where possible, otherwise number of accounts
Other Income	R	D/I	Direct where possible, otherwise number of accounts
Recycling Materials Sales	R	D	None
Sorting Line Revenue	R	D	None
Computer	E	I	Number of accounts
Depreciation	E	D/I	Direct where possible, otherwise number of accounts
Dues	E	I	Number of accounts
Equipment Rental	E	D/I	
Federal Income Taxes	E	I	Number of accounts
Fines	E	D	None
Franchise Tax	E	D	None
Fuel	E	D	None
Interest Expense	E	I	Number of accounts
Labor	E	D	None
Landfill	E	D	None
Laundry	E	I	Number of accounts
Legal & Accounting	E	D/I	Direct where possible, otherwise number of accounts
Meals and Entertainment	E	D	None
Miscellaneous and Other	E	I	Number of accounts
Office Expenses	E	I	Number of accounts

A = Asset
L = Liability
R = Revenue
E = Expense

D = Direct revenue or cost
I = Indirect revenue or cost

Sample Chart of Accounts

(continued)

<i>Title</i>	<i>Type</i>	<i>Method</i>	<i>Allocation Basis</i>
Office Salary	E	D/I	Direct where possible, otherwise number of accounts
Officers Salary	E	I	Percent of operating wages
Operating Supplies	E	I	Number of accounts
Other Insurance	E	D/I	Direct where possible, otherwise number of accounts
Outside Services	E	I	Number of accounts
Payroll Taxes	E	D/I	Direct where possible, otherwise number of accounts
Payroll Taxes	E	I	Direct where possible, otherwise number of accounts
Pr & Promotion	E	I	Number of accounts
Profit Sharing	E	D	None
Recycling Expense	E	D	None
Rent	E	I	Trucks
Repairs	E	D/I	Direct where possible, otherwise factored truck hours
State Income Taxes	E	I	Number of accounts
Taxes & Licenses	E	D/I	Direct where possible, otherwise factored truck hours
Telephone	E	I	Number of accounts
Travel	E	D/I	Direct where possible, otherwise number of accounts
Truck Insurance	E	D/I	Direct where possible, otherwise factored truck hours
Truck Licenses	E	D	None
Utilities	E	I	Number of accounts

A = Asset

L = Liability

R = Revenue

E = Expense

D = Direct revenue or cost

I = Indirect revenue or cost