

*FINAL REPORT*

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY**

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**REVIEW OF ALLIED-SAN MATEO'S REFUSE,  
RECYCLABLE, AND PLANT MATERIALS  
COLLECTION RATE APPLICATION FOR 2007**

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**HF&H CONSULTANTS, LLC**

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*January 17, 2007*





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January 17, 2007

Mr. Kevin McCarthy  
Executive Director  
South Bayside Waste Management Authority  
City of San Carlos  
600 Elm Street  
San Carlos, CA 94070

**Subject: Review of Allied-San Mateo's Refuse, Recyclable, and Plant Materials  
Collection Rate Application for 2007**

Reference Number: S3708

Dear Mr. McCarthy:

This report documents HF&H Consultants, LLC's (HF&H) findings and recommendations to the South Bayside Waste Management Authority (SBWMA) from our review of Allied Waste Industries' (Allied) Refuse, Recyclable, and Plant Materials Collection Rate Application for 2007 (Application).

### **Review of Application**

As shown on Exhibit 2, for the year 2007, Allied calculated a cumulative 16.6% rate increase for the SBWMA franchised operations. (This reflected a range from a 5.4% surplus to a 59.4% shortfall in specific Jurisdictions).

Based on HF&H's recommended adjustments to the Application, we calculate a 7.9% rate revenue shortfall for cumulative operations, ranging from a 22.1% surplus to a 40.5% shortfall in specific Jurisdictions (Refer to Exhibit 6). The 7.9% rate revenue shortfall for cumulative operations is mainly due to the following:

1. **Wages.** A 4.45% increase in hourly wages for union drivers, vehicle maintenance personnel, and container maintenance personnel, effective January 1, 2007, in accordance with the collective bargaining agreements (CBAs). Non-union employee wage rates projected to increase 3.0% in 2007;
2. **Group Health Benefits.** Projected group health benefits to increase 8.05% for union drivers and 8.83% for union vehicle and container maintenance personnel, in accordance with the CBAs. Non-union employee group health benefits were projected to increase 10% in 2007;



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3. **Union Pension Fund.** Projected union pension fund contributions to increase 8.06% and 12.50% for drivers and vehicle and container maintenance personnel, respectively, in accordance with the CBAs;
4. **Fuel Costs.** Projected fuel expense to increase 15.1% in 2007;
5. **California Air Resources Board (CARB) Compliance Expenses.** Expense related to complying with the State's CARB regulations are now being expensed rather than capitalized and amortized over a three year period;
6. **Commercial Organics Program.** Assumed continued increases in the number of commercial subscriptions to the Commercial Organics Collection Program resulting in increased route costs; and,
7. **New Yard Waste Collection Vehicles.** Allied purchased 12 new fully-automated yard waste collection vehicles in late 2005 and early 2006 in an effort to collect yard waste carts more efficiently. From statistics gathered from seven months prior to and seven months after the implementation of the fully-automated collection vehicles (and the re-route), Allied's residential yard waste overtime hours have decreased approximately 82.5%. However, other departments have seen an increase (i.e., residential recycling is up 40.7%). Total overtime hours have decreased 26.2% (approximately \$65,000 per month) for all lines-of-business from the seven months before and after the re-route and the implementation of the fully-automated yard waste collection vehicles. The new fully-automated vehicles have played a part in the decrease in overtime costs.

### **Prior-Year Negotiations**

At the November 17, 2005 Board meeting, Allied management took exception to several of HF&H's recommended adjustments. These exceptions were referred to a negotiating committee that, in turn, made recommendations that were adopted by the Board. These exceptions are listed below with a brief status report:

1. Allied took exception to HF&H's \$1,100,000 reduction to overtime costs due to: 1) Allied management not implementing its plan (or taking alternative steps) to achieve the expected 2.5% monthly (from September 2004 through December 2005) reduction in overtime costs; and, 2) Failing to notify the Board of Allied management's decision not to implement its plan and therefore precluding the Board from taking actions mid-year (e.g., adjust rates or implement a weekend service surcharge).

After negotiations in December 2005, Allied agreed to a maximum profit of \$1,291,896 on its 2006 driver and helper wages based on the projected expenses of \$13,068,285 included in its 2006 Collection Application (adjusted to reflect the delay in the re-route from November 2005 to February 2006). The current projected profit on driver and



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helper wages is \$1,468,809, based on projected labor expenses of \$14,851,295. Our recommended adjustments include a \$176,983 reduction (\$1,468,809 - \$1,291,896) in projected profit for 2006.

2. Allied management took exception to HF&H's \$703,000 reduction to General and Administrative (G&A) Costs. During the review of Allied's 2006 Rate Application, Allied management proposed to reduce the share of G&A costs allocated to Allied's non-SBWMA activities, but failed to provide any support for this reduction. After negotiations in December 2005, the Board approved HF&H, on behalf of the SBWMA, to perform an analysis of Allied's G&A expenses and Regional and Corporate Overhead for possible revisions to the allocation percentages to be used in the next rate application to be effective in 2007. Our review found the share of G&A costs allocated to Allied's non-SBWMA operations should be reduced from 10% to 7.4%, which increased G&A costs allocated to the SBWMA operations by an approximate net increase of \$100,000 per year (\$140,000 increase to the Transfer Station/Recycling Center operations; offset by a \$40,000 decrease in Collection operations).

#### **Allied's Comments Regarding HF&H Current-Year Adjustments**

At the November 30, 2006 Board meeting, HF&H presented the preliminary findings and recommendations from its review of Allied's Collection and Transfer Station Applications. HF&H recommended a number of adjustments to the Collection and Transfer Station Applications. Allied took exception to some of these adjustments. At the meeting, the Board appointed a subcommittee to resolve the following disputed items:

1. Revised G&A Allocation Percentages for 2005
2. Revised BDBS (Builders' Debris Box Service) hourly haul rate for 2006 and 2007
3. Unauthorized Increase in Headcount
4. Including Auto Allowance Under the Travel and Entertainment (T&E) Cap

#### **Background and Recommendations**

1. **Revised G&A Allocation Percentages for 2005 (Collection and Operations Application Adjustment).** During last year's review, Allied claimed that the amount of time the District G&A staff spend on work for its non-SBWMA divisions (i.e., BDBS, Ox Mountain, and Daly City Scavenger) had been reduced because they hired additional employees at Ox Mountain and Daly City Scavenger to handle duties that were once done by District personnel. The parties agreed to perform an analysis of G&A expenses for inclusion in the current rate application.



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HF&H and Allied staff determined the allocation percentages have changed since 1997. The following table presents the original percentages and the revised percentages:

<u>Division</u>	<u>Original %</u>	<u>Revised %</u>
San Mateo Scavenger (Collection Company)	84.5%	83.5%
Transfer Station/Recyclery	5.5%	9.1%
Non-SBWMA Operations <sup>1</sup>	<u>10%</u>	<u>7.4%</u>
	100%	100%

The recommended adjustments included this reduction in the allocation of G&A costs to non-SBWMA operations for 2006 and 2007. HF&H did not adjust the 2005 G&A allocation percentages because those percentages were agreed to when Allied submitted its 2005 rate application in August 2004. Allied did not agree with this approach. Cost to Allied is approximately \$78,000.

**Recommendation:** The parties agree to not revise the 2005 G&A allocation percentages.

2. **Revised BDBS Hourly Haul Rate for 2006 and 2007.** Since 2003, compactor and debris box collection services provided by Builders’ Debris Box Services (BDBS), an Allied company, would be charged a per-hour haul rate (\$99.37 per hour, adjusted annually for the change in the Consumer Price Index (All Urban Consumers)) and actual disposal and processing costs. Allied contends the CPI adjustment has not reflected the true increase in labor costs (as a result of the drivers forming a union in late 2004) or the increase in fuel costs over the past two years. During this year’s review, Allied presented an alternative method that separates the per-hour haul rate into three components: 1) labor costs; 2) fuel costs; and, 3) other costs. Allied proposed that each component be separately adjusted on an annual basis: labor costs would be adjusted based on actual increases in union wages and benefits; fuel costs would be adjusted based on a fuel index; and, all other costs would continue to be adjusted based on the CPI.

Because Allied did not present, and the SBWMA did not agree to such an alternative methodology when rates were being set for 2005 and 2006, the SBWMA did not have the opportunity to include the resulting costs in the rates at that time. Cost to Allied is approximately \$175,000.

<sup>1</sup> Builders’ Debris Box Services (BDBS), Ox Mountain Landfill, and Daly City Scavenger



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**Recommendation:** The parties agree to not revise the 2005 and 2006 BDBS hourly haul rate. The BDBS hourly haul rate setting methodology will be revised for 2007 and future years.

3. **Unauthorized Increase in Headcount.** Allied projected an increase to wages and benefits for 2006 and 2007, based on actual results through April 2006. HF&H recommended disallowing \$2.5 million in labor-related costs (\$2.2M for Collection, and \$0.3M for Transfer Station Operations) associated with the increase in headcount (between May 2005 and August 2006) because Allied did not receive prior Board approval. In addition, HF&H recommended reducing projected 2006 and 2007 labor-related costs (for Collection and Transfer Station Operations) by an additional \$0.9 million using actual results through August 2006. Allied's stance is that the increase in personnel was made to control overtime costs.

During the negotiations meeting on December 14, 2006, Allied presented an analysis that compared projected wage and benefit expenses for 2006 and 2007 (using actual results through November 2006) to the actual results for 2005 escalated by the 2006 and 2007 increases in hourly wages and benefits. The analysis compared: 1) the projected results for 2006 and 2007 had Allied not hired the additional personnel to 2) the projected results for 2006 and 2007 having hired the additional personnel.

HF&H reviewed and revised Allied's December 14 analysis and has concluded that:

- a. Allied continues to reduce its overtime expenses.
- b. The increase in route-related labor costs (including benefits) for the additional positions is projected to be offset by a decrease in overtime.
- c. Allied has projected additional savings due to replacing the recent departures of its Sales Manager, Customer Service Manager, and Recycling Sales Manager with half-time equivalents.
- d. 2006 and 2007 projected labor-related costs are projected to decrease an additional \$400,000 from what was reflected in HF&H's November 16 draft reports.

**Recommendation:** The parties agree to reduce HF&H's total recommended reduction of \$3.4 million (\$2.5 million for the unauthorized increase in headcount and \$0.9 million resulting from the re-projection of wages and benefits based on actual results through August 2006) to \$1.3 million. The following table summarizes the labor-related costs submitted with Allied's application, HF&H's recommended adjustments, and the revised adjustment based on subsequent negotiations.



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<b>Labor-Related Costs*</b>	<u>Per HF&amp;H Draft Report</u>	<u>Per Allied's Re-Projections</u>	<u>Difference</u>
<b><u>Collections</u></b>			
Allied's 8/1/06 Application	\$75,978,892	\$75,978,892	\$0
Labor Adj - Unauthorized Increase in Headcount	(\$2,193,077)	\$0	\$2,193,077
Labor Adj - Re-Projection Using Actual	<u>(\$1,323,654)</u>	<u>(\$1,730,564)</u>	<u>(\$406,910)</u>
	\$72,462,161	\$74,248,328	\$1,786,167
<b><u>Transfer Station</u></b>			
Allied's 8/1/06 Application	\$20,625,726	\$20,625,726	\$0
	(\$286,816)	0	\$286,816
Labor Adj - Unauthorized Increase in Headcount	<u>\$414,897</u>	<u>\$382,691</u>	<u>(\$32,206)</u>
Labor Adj - Re-Projection Using Actual	\$20,753,807	\$21,008,417	\$254,610
Net Adjs	(\$3,388,650)	(\$1,347,873)	\$2,040,777

\*Reflects projected labor-related costs for 2005, 2006, and 2007 combined

The Committee's recommendation to not adjust Allied's projected wages and benefits was because the increased headcount was offset by the reduction to overtime expenses. The parties agree that Allied will assume the risk of the projected overtime savings. Allied has agreed to not take profit on actual straight time, overtime, and scheduled time off expenses in excess of \$13,061,796 for 2006 (this was agreed to during last year's review) and for all collection personnel and transfer station/recycling center personnel, in excess of the total labor-related expenses projected for 2007 (which is \$27,652,885 for collection operations and \$7,456,992 for transfer station/recycling center operations).

4. **Including Auto Allowance Under the Travel and Entertainment (T&E) Cap.** The franchise agreements limit the amount of travel and entertainment (T&E) expenses reimbursed through the rates (for 2005, the maximum expenses are \$99,097). The maximum allowable T&E expenses are adjusted annually by the change in the Consumer Price Index. Our calculation of Allied's annual T&E expenses include auto allowances paid (approximately \$50,000 annually) to division personnel for the use of their vehicles for company purposes.

At the time the cap was set, San Mateo scavenger was owned and operated by BFI. BFI did not provide car allowances for its employees; rather employees received a per-mile reimbursement whenever they were required to use their vehicle for company business. The per-mile reimbursement for travel expenses, as opposed to local transportation, was included in the agreed-upon limit on T&E expenses; therefore, our adjustments reflect including auto allowances in our calculation of Allied's T&E expenses subject to the cap.



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Allied disagreed with our assessment that the auto allowances are T&E expenses subject to the cap. Cost to Allied is approximately \$150,000 (approximately \$50,000 per year).

**Recommendation:** The parties agree that auto allowance is not subject to the T&E cap and Allied will receive compensation for auto allowance expenses beginning in 2006.

**Rate Impact**

Compared to the SBWMA service area wide increase of 16.6% for collection services originally proposed by Allied and the 4.9% increase recommended by HF&H in its November 17, 2006 draft report, the recommended settlement results in a 7.9% increase.

\* \* \*

HF&H appreciates the assistance provided by Allied management and staff during our review and the direction received from the SBWMA. Should you have any questions, please call me at 925/977-6952.

Very truly yours,  
HF&H CONSULTANTS, LLC

Robert D. Hilton, CMC  
President

Richard J. Simonson  
Senior Associate

cc: Norm Christensen, Rich Lanser, and Jackie Hawley, Allied Waste Industries  
SBWMA Member Agencies  
Nadine Muller, HF&H



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**APPENDIX A: JURISDICITONAL SPECIFIC INFORMATION**

## SECTION I. EXECUTIVE SUMMARY

Allied-San Mateo (Allied) provides refuse, recyclable-material, and plant/organic-material collection services; plus transfer station, recyclable-material and plant-material processing, and landfill disposal services, to the South Bayside Waste Management Authority (SBWMA). This report presents the SBWMA with specific findings and recommendations from HF&H Consultants, LLC's (HF&H's) review of Allied's 2007 Refuse, Recyclable-Materials, and Plant-Materials Collection Application (Application).

### Allied's Rate Application

Allied calculated a cumulative rate revenue shortfall of 16.6%, comprised of a 7.7% shortfall for current operations and a 9.9% rate revenue shortfall for prior-year operations. (Refer to Exhibit 2).

### HF&H Adjustments to Allied's Rate Application

Based on its review of the Application, HF&H recommends the following adjustments, which are also described in Section V of this report:

- Increase Allied's projected rate revenues by \$100,000 for 2006, and \$210,000 for 2007; and,
- Decrease the actual 2005 revenue requirement by \$541,000; decrease the projected 2006 revenue requirement by \$1,276,000; and, decrease the projected 2007 revenue requirement by \$1,531,000.

These adjustments result in a rate revenue shortfall of 7.9%, versus the 16.6% shortfall calculated by Allied (see Exhibit 6).

The shortfall is the result of:

Prior Year Cumulative Revenue Shortfall (12/31/06)	(\$ 1,798,000)
Adjusted Revenues at Current Rates	61,820,000
Less Current Year Revenue Requirement	(64,847,000)
Less Interest on Revenue Requirement	<u>(63,000)</u>
Cumulative Revenue Shortfall (12/31/07)	(\$ 4,886,000)
2007 Projected Rate Revenue at Current Rates	<u>\$ 61,820,000</u>
Percentage	7.9%

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*Review of Allied's Refuse, Recyclable Material, and Plant Materials Collection Application*

HF&H calculated rate adjustments for each Member Agency (Jurisdiction), ranging from a 22.1% rate revenue surplus to a 40.5% rate revenue shortfall. (Refer to Exhibit 6.) Nine of the twelve Jurisdictions' projected revenues and revenue requirements resulted in increases; only Atherton, East Palo Alto, and Foster City do not require rate increases.

Exhibit 1 compares the current residential two-can rates and the current commercial two-yard bin rates to those calculated by HF&H, as the result of this review. Each Jurisdiction's calculated rate change results from five key factors:

1. Jurisdictional rate increases effective in 2005 or 2006;
2. 2005 expense increases (from those projected in 2005) of 0.8% and revenue decreases (from those projected in 2005) of 1.0% (Refer to Exhibit 7);
3. 2006 expense increases (from those projected in 2005) of 2.5% and revenue increases (from those projected in 2005) of 6.2% (Refer to Exhibit 8);
4. 2007 expense increases (from 2006) of 3.7% and revenue decreases (from 2006) of 0.1% (Refer to Exhibit 9); and,
5. Changes to routes, workforce, and tonnage (Refer to Exhibits 11, 12, and 13) resulting in expense allocation adjustments.

Generally, HF&H recommends that those Jurisdictions with a projected surplus should use caution in reducing rates, and those with projected shortfalls should implement the calculated increases (perhaps on a phased basis, if the increase is dramatic) in a timely manner.

With the following exceptions, the allocated revenue requirement for each Jurisdiction is primarily based on actual data for the four months ending April 30, 2006:

- HF&H reviewed actual revenue and disposal expense through July 31, 2006 and made adjustments based on that review.
- HF&H reviewed actual labor expenses through November 30, 2006 and made adjustments based on that review.
- HF&H reviewed actual insurance expenses through August 31, 2006 and made adjustments based on that review.
- HF&H also reviewed accounts (safety equipment, third-party vehicle maintenance, etc.) with large variances and in some cases determined that one-time expenses occurring in the four months ending April 30, 2006 were inadvertently projected for the entire year. HF&H made adjustments to exclude the one-time entries.

As with any projection, actual results may differ from those anticipated and the difference can be significant. In this case the major factors that could affect the projected results include:

- Changes in customer subscription levels or other factors affecting revenues;
- Differences between actual and projected expenses; and,
- Changes to operations that may affect the allocation of the revenue requirement among the Jurisdictions.

## Review of Allied's Refuse, Recyclable Material, and Plant Materials Collection Application

## Exhibit 1

## Current vs HF&amp;H Calculated Residential Two-Can Rates by Jurisdiction

<u>Jurisdiction</u>	<u>Current Rates</u>	<u>HF&amp;H Calculated</u>	<u>% Increase</u>
Burlingame <sup>(1)</sup>	\$ 25.84	\$ 26.82	3.8%
San Mateo <sup>(1)</sup>	\$ 24.36 <sup>(3)</sup>	\$ 27.13	11.4%
Hillsborough <sup>(1)</sup>	\$ 46.46	\$ 59.90	28.9%
Belmont <sup>(2)</sup>	\$ 41.58	\$ 45.08	8.4%
San Carlos <sup>(2)</sup>	\$ 32.07	\$ 35.05	9.3%
Redwood City <sup>(1)</sup>	\$ 33.90 <sup>(4)</sup>	\$ 38.45	13.4%
Atherton <sup>(1)</sup>	\$ 47.36	\$ 38.03	-19.7%
Menlo Park <sup>(2)</sup>	\$ 22.71	\$ 24.41	7.5%
West Bay	\$ 33.46	\$ 47.00	40.5%
East Palo Alto <sup>(1)</sup>	\$ 50.26 <sup>(5)</sup>	\$ 39.16	-22.1%
Foster City <sup>(1)</sup>	\$ 23.64	\$ 22.93	-3.0%
Fair Oaks <sup>(1)</sup>	\$ 36.10 <sup>(3)</sup>	\$ 43.10	19.4%

<sup>(1)</sup> Jurisdictions with uniform rates

<sup>(2)</sup> Jurisdictions with progressive rates

<sup>(3)</sup> Rates are for curbside service.

<sup>(4)</sup> Rates are for 2-40 gallon cans.

<sup>(5)</sup> East Palo Alto Residents pay for one 95 gallon container

## Current vs HF&amp;H Calculated Commercial Two-Yard Bin Rates by Jurisdiction

<u>Jurisdiction</u>	<u>Current Rates</u>	<u>HF&amp;H Calculated</u>	<u>% Increase</u>
Burlingame <sup>(1) (3)</sup>	\$ 163.08	\$ 169.22	3.8%
San Mateo <sup>(2) (3)</sup>	\$ 148.06	\$ 164.89	11.4%
Hillsborough <sup>(1)</sup>	\$ 146.43	\$ 188.88	28.9%
Belmont <sup>(2) (3)</sup>	\$ 193.38	\$ 209.64	8.4%
San Carlos <sup>(2) (3)</sup>	\$ 133.92	\$ 146.36	9.3%
Redwood City <sup>(1)</sup>	\$ 151.03	\$ 171.30	13.4%
Atherton <sup>(1)</sup>	\$ 198.00	\$ 158.94	-19.8%
Menlo Park <sup>(2) (3)</sup>	\$ 118.24	\$ 127.11	7.5%
West Bay	\$ 187.14	\$ 262.88	40.6%
East Palo Alto	\$ 292.58	\$ 227.96	-22.1%
Foster City <sup>(1)</sup>	\$ 120.98	\$ 117.37	-3.0%
Fair Oaks <sup>(1)</sup>	\$ 152.48	\$ 182.07	19.3%

<sup>(1)</sup> Jurisdictions with uniform rates

<sup>(2)</sup> Jurisdictions with progressive rates

<sup>(3)</sup> Jurisdictions with frequency surcharge

## SECTION II. BACKGROUND

### **Description of Allied's Current Operations**

Allied's collection operations, recyclable-material and plant-material processing, transfer and landfill disposal services are conducted, and rates established, in accordance with agreements with the following agencies:

- The collection operations - franchising agencies in San Mateo County (including those that are not Member Agencies of the SBWMA).
- The transfer station and recyclable-material and plant-material processing operations - South Bayside Waste Management Authority.
- The landfill disposal operations- South Bayside Waste Management Authority.

Allied's recycling operations have been divided between 1) collection, and 2) processing activities. This Application includes the collection activities; the Transfer Station/Recycling Center application includes the refuse, recyclable-material, and plant/organic-material processing activities.

### **Collection Rate Regulation Process**

The process for setting refuse collection rates is described in the various franchise agreements and, for the Jurisdictions, is based on a "utility approach". That is:

- Expenses and revenues are projected based on actual results, trends, and management plans; and
- Profit is established on a 91% pre-tax operating ratio applied to reasonable and necessary operating expenses, net of certain "pass-through" expenses (i.e., disposal expenses and franchise fees).

Procedurally, Allied submits a rate application to the SBWMA no later than August 1 of each year, which contracts with an independent consultant (HF&H) to review the application. The SBWMA bases its recommendations on the consultant's report and other information available to the Jurisdictions, and presents its recommendations to the Jurisdictions for consideration.

### **Jurisdiction-Based Rate Application**

Prior to 1995, the Jurisdictions increased rates uniformly each year based on the SBWMA's recommendations. In 1995, the Jurisdictions believed it would serve their best interests to revise the rate-setting process from an Authority-wide, to a Jurisdiction-based, revenue requirement. This revision allows each Jurisdiction to: 1) make decisions regarding service changes, rate structures (e.g., uniform or increasing rates), franchise fees, waste diversion programs. etc.; 2) realize any cost savings; and, 3) pay the costs of its new programs.

Effective March 1, 2000, the Jurisdictions entered into revised and restated franchise agreements with Allied. The new agreements continue the policies described above.

## SECTION III. ALLIED'S APPLICATION

### Allied's 2007 Rate Application

Allied calculated a 7.7% revenue shortfall for current operations for the SBWMA member agencies, and a 16.6% revenue shortfall for cumulative operations. Allied's calculation is summarized in Exhibit 2.

#### Exhibit 2

**South Bayside Waste Management Authority**  
**Allied's Calculated SBWMA Revenue Requirement**  
**(000's, Unless Otherwise Indicated)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>
	<u>Refuse and Plant Material Actual</u>	<u>Refuse and Plant Material Estimated</u>	<u>Refuse and Plant Material Projected</u>
<b>Revenues at Current Rates</b>	\$ 57,548	\$ 60,810	\$ 61,610
Operating Expenses Eligible for Profit	32,583	36,216	38,381
Profit @ 91% Operating Ratio	<u>3,223</u>	<u>3,582</u>	<u>3,796</u>
Operating Cost Plus Profit	\$ 35,806	\$ 39,798	\$ 42,177
<u>Pass-Through Expenses</u>	<u>\$ 24,074</u>	<u>\$ 24,016</u>	<u>\$ 24,202</u>
<b>Total Revenue Requirement</b>	<b>\$ 59,880</b>	<b>\$ 63,814</b>	<b>\$ 66,378</b>
<b>Balancing Account:</b>			
Current Year Surplus/(Shortfall)	\$ (2,332)	\$ (3,003)	\$ (4,768)
Beginning Balancing Account	82	(2,299)	(5,365)
Interest Expense	<u>(49)</u>	<u>(63)</u>	<u>(100)</u>
Ending Balancing Account	<u><u>\$ (2,299)</u></u>	<u><u>\$ (5,365)</u></u>	<u><u>\$ (10,233)</u></u>
Revenue Surplus (-)/Shortfall for Current Operations			7.7%
Revenue Surplus (-)/Shortfall with Balancing Account			16.6%

## **Allied's Projection Methodology**

To determine the rate adjustments, if any, for the twelve months ending December 31, 2007, Allied:

- Projected 2007 revenues to reflect Jurisdiction-approved rate changes that occurred during 2006 and the actual results for the four-month period ending April 30, 2006;
- Projected 2007 expenses by annualizing actual results for the four-month period ending April 30, 2006 increased by an assumed inflation rate of 3.4%, with the exception of certain costs, which are described below:
  - Driver wages (4.45% increase), health care premiums (8.05% increase), retirement security plan (2.02%), and pension plan (8.06% increase) expenses based on the San Mateo County Division of the International Brotherhood of Teamsters, Local 350 collective bargaining agreement that took effect October 24, 2004;
  - Mechanic and shop wages (4.45% increase), health care premiums (8.83% increase effective 8/1/06 and a 7.69% increase effective 8/1/07), and pension plan (12.5% increase) expenses based on the International Association of Machinists and Aerospace Workers, AFL-CIO District Lodge No. 190, Peninsula Auto Mechanics Local Lodge No. 1414 collective bargaining agreement that took effect January 1, 2005;
  - October 2006 non-union wage increase of 3% and October 2007 wage increase of 3% and benefit increases of 10% effective January 2007;
  - Projected fuel expense increase of 15.1% effective January 2007;
  - Insurance premium increase of 5.0% effective January 2007;
  - Revenue-related expenses (e.g., corporate and regional overhead, and franchise fees), which are adjusted by the change in the projected revenues;
  - Equipment additions; and,
  - Recent operational and financial trends.
- Calculated the Jurisdictional expense allocations, based on April 2006 operations data;
- Calculated the revenue requirement for 2006 and 2007 on an SBWMA-wide and Jurisdictional-basis;
- Calculated the resulting Jurisdictional balancing accounts on an SBWMA-wide and Jurisdictional basis;
- Calculated the rate adjustments on an SBWMA-wide and Jurisdictional basis considering the current revenue surplus or shortfall (2007) and the cumulative revenue surplus or shortfall (2005 through 2007).

## SECTION IV. SCOPE OF REVIEW

### Scope of Review

HF&H's review of the Application included:

- Assessing it for compliance with the franchise agreements.
- Examining its mathematical accuracy and logical consistency.
- Reconciling it to Allied's draft audited financial statements.
- Determining the reasonableness of the projected revenues and expenses, including:
  - a) Reviewing the support for the key assumptions including, but not limited to, account growth, equipment additions and deletions, personnel additions or reductions, projected landfill disposal fee increases and assumed inflation rates;
  - b) Reviewing operating statistics for consistency with expense and revenue assumptions, identifying trends and determining their impact on financial operations;
  - c) Reviewing the allocation of indirect expenses for reasonable, proper and consistent application;
  - d) Analyzing past results as compared to current projections; obtaining explanations for large or unusual variances;
  - e) Reviewing pass-through expenses for proper allocation; and
  - f) Calculating adjustments, if any, to Allied's projected expenses.
- Calculating Allied's profit based on a 91% operating ratio applied to non-pass through expenses.
- Reviewing the calculation of balancing accounts.
- Calculating the final revenue requirement.

### Limitations

Our review did not comprise an audit of Allied's financial statements to express an opinion regarding the financial statements taken as a whole. For 2005, Hood and Strong performed such an audit.

HF&H's review was based, in part, on Allied's projections of the financial results of operations for the 24-month period, ending December 31, 2007. The actual results of operations will usually differ from projections because events and circumstances frequently do not occur as expected, and the difference may be significant.

## SECTION V. FINDINGS AND RECOMMENDATIONS

HF&H's recommended projections for Collection operations are shown in Exhibit 3 (SBWMA-wide), Exhibit 4 (2005 Jurisdiction-based), Exhibit 5 (2006 Jurisdiction-based), and Exhibit 6 (2007 Jurisdiction-based). HF&H's findings are discussed following Exhibit 6.

Exhibit 3			
South Bayside Waste Management Authority Allied's Calculated Revenue Requirement (000's, Unless Otherwise Indicated)			
	<u>Actual</u> <u>2005</u>	<u>Estimated</u> <u>2006</u>	<u>Projected</u> <u>2007</u>
<b>1. Revenues at Current Rates Projected by Allied</b>	\$ 57,548	\$ 60,810	\$ 61,610
Adjustment to Revenues:			
2. Direct Payments to Balancing Accounts	-	973	
3. Route Revenue	-	100	210
<b>4. Adjusted Revenues</b>	<b>\$ 57,548</b>	<b>\$ 61,883</b>	<b>\$ 61,820</b>
<b>5. Operating Expenses Eligible for Profit Projected by Allied</b>	<b>\$ 32,583</b>	<b>\$ 36,216</b>	<b>\$ 38,381</b>
Adjustment to Operating Costs:			
6. Direct Labor	-	(324)	(27)
7. Direct Maintenance	(23)	(87)	(93)
8. Indirect Maintenance		(32)	(31)
9. Supervisory		(22)	(156)
10. Insurance	-	(82)	(405)
11. General & Administrative Expense	(419)	(816)	(949)
12. Overhead	(18)	37	(4)
13. Jurisdictional Allocation Adjustments	(10)	8	(214)
<b>14. Adjusted Operating Costs Eligible for Profit</b>	<b>\$ 32,113</b>	<b>\$ 34,897</b>	<b>\$ 36,502</b>
<b>15. Profit @ 91% Operating Ratio Projected By Allied</b>	<b>3,223</b>	<b>3,582</b>	<b>3,796</b>
16. Revised Profit due to Operating Expense Adjustments	(47)	(131)	(186)
17. Cap on Profit on Wages Expense	-	(156)	-
<b>18. Adjusted Profit</b>	<b>\$ 3,176</b>	<b>\$ 3,295</b>	<b>\$ 3,610</b>
<b>19. Operating Cost Plus Profit</b>	<b>\$ 35,289</b>	<b>\$ 38,192</b>	<b>\$ 40,112</b>
<b>20. Pass-Through Expenses Projected by Allied</b>	<b>\$ 24,074</b>	<b>\$ 24,016</b>	<b>\$ 24,202</b>
Adjustments to Pass-Through Expenses:			
21. Intercompany Disposal	(11)	401	273
22. BDDBS Haul and Disposal Expense	(33)	(49)	122
23. Jurisdictional Allocation Adjustments	36	-	-
24. Remove Double Counting of Permit Fees	(16)	(19)	(19)
25. Contract Management - Revised Projections	-	39	34
26. Franchise Fees	-	(43)	124
<b>27. Adjusted Pass-Through Expenses</b>	<b>\$ 24,051</b>	<b>\$ 24,346</b>	<b>\$ 24,735</b>
<b>28. Total Revenue Requirement</b>	<b>\$ 59,340</b>	<b>\$ 62,538</b>	<b>\$ 64,847</b>
<b>Balancing Account:</b>			
29. Current Year Surplus/(Shortfall)	\$ (1,792)	\$ (655)	\$ (3,026)
30. Beginning Surplus/(Shortfall)	700	(1,129)	(1,798)
31. Interest	(37)	(14)	(63)
<b>32. Ending Balancing Account</b>	<b>\$ (1,129)</b>	<b>\$ (1,798)</b>	<b>\$ (4,886)</b>
Revenue Surplus (-)/Shortfall for Current Operations			4.9%
Revenue Surplus (-)/Shortfall with Balancing Account			7.9%

Note: Numbers on the exhibit may not add exactly due to rounding

Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application

Exhibit 4

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
 REVENUE AND EXPENSE ADJUSTMENTS AND CALCULATION OF DECEMBER 31, 2005 BALANCING ACCOUNT  
 (\$000)

	Burl.	S. Mateo	Hillsb.	Bel.	S. Carlos	RWC	Ather	Menlo	West Bay	EPA	Foster	Fair Oaks	Total
1. 2005 Revenues Projected By Allied	6,442	13,465	1,743	3,474	4,562	11,004	1,624	5,682	715	3,038	3,942	1,858	57,548
Adjustment to Revenue													
2. Route Revenue Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Adjusted Revenue	6,442	13,465	1,743	3,474	4,562	11,004	1,624	5,682	715	3,038	3,942	1,858	57,548
4. Operating Costs Projected by Allied	3,299	7,593	1,225	2,047	2,822	6,321	883	3,336	509	1,437	1,980	1,132	32,583
Adjustments to Operating Costs:													
5. Labor - Unauthorized Increase in Headcount	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Direct Maint. - HENS Leasing Sales Tax Adjustment	(3)	(6)	(1)	(1)	(2)	(4)	(1)	(2)	(0)	(1)	(1)	(1)	(23)
7. G/A - Revised Allocation % and Remove Disallowed Costs	(46)	(96)	(9)	(26)	(45)	(81)	(7)	(44)	(6)	(15)	(22)	(17)	(415)
8. G/A - Remove "Restructuring Costs"	(0)	(1)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(4)
9. Overhead - CPI Adjustment	(2)	(4)	(1)	(1)	(1)	(3)	(1)	(2)	(0)	(1)	(1)	(1)	(18)
10. Allocations - Route, Workforce, and Bin Lift Correction	(1)	21	(7)	(13)	27	(64)	3	7	3	5	11	4	(3)
11. Allocations - Container Maintenance Correction	7	1	(5)	(1)	0	6	(3)	6	(2)	(6)	3	(0)	4
12. Allocations - Comm Organics Correction	20	(25)	(1)	3	6	15	(8)	(26)	1	(2)	(1)	5	(11)
13. Adjusted Operating Costs	3,273	7,483	1,200	2,008	2,807	6,189	867	3,274	503	1,417	1,968	1,123	32,113
14. Profit @91%	326	751	121	202	279	625	87	330	50	142	196	112	3,223
15. Adjustment for Expense Changes	(3)	(11)	(2)	(3)	(2)	(13)	(2)	(6)	0	(2)	(1)	(1)	(47)
16. Adjusted Profit	324	740	119	199	277	612	86	324	50	140	195	111	3,176
17. Pass Through Expenses Projected by Allied	2,774	6,074	614	1,426	1,524	4,965	634	2,426	227	1,279	1,495	634	24,074
Adjustments to Pass Through Costs:													
18. Disposal - Reduce JPA C&D Tip Fee at IS - Sept thru Dec	(2)	(0)	0	(1)	(2)	0	0	0	0	0	(1)	0	(7)
19. Disposal - Retro Tip Fee Adjustment - Shop Boxes	(0)	(1)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(4)
20. BDDBS Haul and Disposal - Retro Tipe fee Adjustment	(13)	(4)	0	(1)	(1)	(8)	(1)	(2)	0	(0)	(3)	0	(33)
21. Allocations - SW Tons Correction	0	(26)	(28)	41	56	(13)	0	1	0	0	4	0	37
22. Allocations - Organics Tons Correction	11	14	1	2	5	(11)	(6)	(28)	1	(1)	16	(3)	(1)
23. Remove Double Counting of Permit Fees	(1)	(5)	(1)	(1)	(1)	(4)	(0)	(1)	(0)	(1)	(1)	(0)	(16)
24. Adjusted Pass Through Costs	2,769	6,052	588	1,466	1,580	4,928	627	2,395	228	1,276	1,510	631	24,051
25. Current Year Revenue Requirement	6,366	14,275	1,906	3,672	4,664	11,729	1,580	5,992	781	2,834	3,673	1,865	59,340
26. Current Year Surplus/(Shortfall)	76	(810)	(164)	(199)	(102)	(725)	44	(310)	(66)	204	269	(7)	(1,792)
27. Interest Expense	2	(17)	(3)	(4)	(2)	(15)	1	(6)	(1)	4	6	(0)	(37)
28. January 1, 2005 Balancing Account	(160)	33	191	(297)	(202)	322	390	57	(11)	342	39	(6)	700
29. January 1, 2006 Balancing Account	(82)	(794)	23	(500)	(306)	(419)	435	(260)	(78)	551	313	(13)	(1,129)
Revenue Surplus (-)/Shortfall for Current Operations	1.3%	5.9%	-1.3%	14.4%	6.7%	3.8%	-26.8%	4.6%	10.9%	-18.1%	-8.0%	0.7%	3.1%

Note: Numbers on the exhibit may not add exactly due to rounding

Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application

Exhibit 5

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
 REVENUE AND EXPENSE ADJUSTMENTS AND CALCULATION OF DECEMBER 31, 2006 BALANCING ACCOUNT  
 (\$000)

	Burl.	S. Mateo	Hillsb.	Bel.	S. Carlos	RWC	Ather	Menlo	West Bay	EPA	Foster	Fair Oaks	Total
1. 2006 Revenues Projected By Allied	6,551	14,173	1,865	3,958	4,942	12,079	1,617	6,115	716	3,006	3,923	1,865	60,810
Adjustments to Revenues:													
2. Revise Route Revenue proj based on 7 mos actuals	2	(48)	0	2	1	43	0	95	2	1	6	(3)	100
3. Direct Payments to Balancing Accounts	0	692	0	0	0	205	43	0	33	0	0	0	973
4. Adjusted Revenues	6,552	14,818	1,865	3,959	4,943	12,327	1,660	6,210	751	3,007	3,929	1,862	61,883
5. Operating Costs Projected by Allied	3,452	8,441	1,330	2,294	3,123	6,977	1,019	3,728	592	1,650	2,337	1,273	36,216
Adjustments to Operating Costs:													
6. Direct Labor - Revised proj based on 11 mos actuals	(33)	(78)	(14)	(21)	(29)	(61)	(9)	(32)	(5)	(11)	(20)	(11)	(324)
7. Direct Maint. - HENS Leasing Sales Tax Adjustment	(2)	(3)	(0)	(1)	(1)	(3)	(0)	(2)	(0)	(1)	(1)	(0)	(14)
8. Direct Maint. Labor - Revised proj based on 11 mos actuals	(8)	(17)	(3)	(4)	(6)	(14)	(2)	(8)	(1)	(3)	(5)	(3)	(73)
9. Indirect Maint. Labor - Revised proj based on 11 mos actuals	(3)	(7)	(0)	(2)	(3)	(7)	(0)	(4)	(0)	(1)	(3)	(1)	(32)
10. Supervisory Labor - Revised proj based on 11 mos actuals	(2)	(5)	(1)	(1)	(2)	(4)	(1)	(2)	(0)	(1)	(1)	(1)	(22)
11. Insurance - Revised proj based on 7 mos actuals	(8)	(19)	(4)	(5)	(7)	(16)	(2)	(8)	(1)	(3)	(5)	(3)	(82)
12. G/A - Revised Allocation % and Remove Disallowed Costs	(90)	(190)	(18)	(51)	(89)	(160)	(13)	(86)	(12)	(30)	(43)	(33)	(816)
13. Overhead - CPI Adjustment	4	9	1	2	3	7	1	4	0	2	2	1	37
14. Allocations - Comm Organics Correction	33	(34)	(1)	2	6	7	(9)	(30)	2	(0)	(0)	10	(14)
15. Allocations - Route, Workforce, and Bin Lift Correction	(13)	(109)	9	(8)	30	20	1	27	(8)	7	(45)	38	(50)
16. Allocations - Container Maintenance Correction	15	8	(13)	(2)	(1)	15	(7)	16	(5)	(15)	4	(2)	12
17. Allocations - YW Route Correction	171	9	8	(17)	54	31	(34)	(63)	(4)	(60)	(21)	(13)	60
18. Adjusted Operating Costs	3,516	8,003	1,294	2,184	3,078	6,792	943	3,541	557	1,533	2,200	1,255	34,897
19. Profit @91%	341	835	132	227	309	690	101	369	59	163	231	126	3,582
20. Adjustment for Expense Changes	6	(43)	(4)	(11)	(4)	(18)	(8)	(19)	(3)	(12)	(14)	(2)	(131)
21. Cap on Profit on Wage Expense	(15)	(35)	(6)	(10)	(14)	(30)	(5)	(16)	(3)	(7)	(10)	(6)	(156)
22. Adjusted Profit	333	756	122	206	291	642	89	335	52	145	208	119	3,295
23. Pass Through Expenses Projected by Allied	2,657	6,014	709	1,414	1,509	5,035	614	2,396	211	1,408	1,426	622	24,016
Adjustments to Pass Through Costs													
24. Disposal - Revised proj based on 7 mos actuals	49	102	(2)	27	31	81	19	(13)	2	25	76	4	401
25. BDDBS - Revised proj based on 7 mos actuals	(13)	(167)	(2)	15	22	52	0	1	0	24	19	(0)	(49)
26. Remove Double Counting of Permit Fees	(1)	(5)	(1)	(1)	(1)	(5)	(1)	(2)	(0)	(2)	(1)	(0)	(19)
27. Contract Management - Revised Projections	0	0	39	0	0	0	0	0	0	0	0	0	39
28. Franchise Fee- Adj to reflect revenue change	(3)	(11)	0	162	(7)	13	11	2	0	(218)	9	(0)	(43)
29. Adjusted Pass Through Costs	2,689	5,933	744	1,617	1,554	5,176	643	2,384	213	1,237	1,530	626	24,346
30. Current Year Revenue Requirement	6,538	14,692	2,159	4,007	4,923	12,611	1,675	6,259	823	2,915	3,936	1,999	62,538
31. Current Year Surplus/(Shortfall)	14	126	(294)	(47)	20	(284)	(15)	(49)	(71)	92	(8)	(137)	(654)
32. Interest Expense	0	3	(6)	(1)	0	(6)	(0)	(1)	(1)	2	(0)	(3)	(14)
33. January 1, 2006 Balancing Account	(82)	(794)	23	(500)	(306)	(419)	435	(260)	(78)	551	313	(13)	(1,130)
34. January 1, 2007 Balancing Account	(68)	(666)	(278)	(548)	(286)	(709)	420	(310)	(151)	645	306	(153)	(1,798)
Revenue Surplus (-)/Shortfall for Current Operations	-0.2%	-0.9%	15.9%	1.2%	-0.4%	2.4%	0.9%	0.8%	10.1%	-3.1%	0.2%	7.4%	1.1%

Note: Numbers on the exhibit may not add exactly due to rounding

Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application

Exhibit 6

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**REVENUE AND EXPENSE ADJUSTMENTS AND CALCULATION OF DECEMBER 31, 2007 BALANCING ACCOUNT**  
(\$000)

	Burl.	S. Mateo	Hillsb.	Bel.	S. Carlos	RWC	Ather	Menlo	West Bay	EPA	Foster	Fair Oaks	Total
1. 2007 Revenues Projected By Allied	6,551	14,374	1,885	4,481	4,996	12,079	1,617	6,122	716	3,002	3,923	1,865	61,610
Adjustments to Revenues:													
2. Refuse Collection Adjustments	2	(55)	(1)	57	(20)	43	0	173	2	5	6	(3)	210
3. Adjusted Revenues	6,552	14,319	1,884	4,539	4,976	12,122	1,617	6,295	718	3,007	3,929	1,862	61,820
4. Operating Costs Projected by BFI	3,665	8,940	1,398	2,446	3,308	7,404	1,074	3,966	624	1,733	2,476	1,348	38,381
Adjustments to Operating Costs:													
5. Direct Labor - Revised proj based on 11 mos actuals	(3)	(7)	(1)	(2)	(2)	(5)	(1)	(3)	(0)	(1)	(2)	(1)	(27)
6. Direct Maint. - HENS Leasing Sales Tax Adjustment	(2)	(4)	(1)	(1)	(1)	(3)	(0)	(2)	(0)	(1)	(1)	(1)	(15)
7. Direct Maint. Labor - Revised proj based on 11 mos actuals	(8)	(18)	(3)	(5)	(7)	(15)	(2)	(8)	(1)	(4)	(5)	(3)	(78)
8. Indirect Maint. Labor - Revised proj based on 11 mos actuals	(3)	(7)	(0)	(2)	(3)	(7)	(0)	(4)	(0)	(1)	(3)	(1)	(31)
9. Insurance - Revised proj based on 7 mos actuals	(39)	(95)	(18)	(26)	(35)	(77)	(12)	(39)	(7)	(16)	(25)	(14)	(405)
10. Supervisory Labor - Revised proj based on 11 mos actuals	(17)	(38)	(6)	(10)	(14)	(30)	(4)	(16)	(2)	(5)	(9)	(5)	(156)
11. G/A - Revised Allocation % and Remove Disallowed Costs	(105)	(221)	(21)	(60)	(103)	(186)	(15)	(100)	(14)	(35)	(50)	(39)	(949)
12. Overhead - CPI Adjustment	(0)	(1)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(4)
13. Allocations - Comm Organics Correction	36	(35)	(1)	2	7	8	(10)	(34)	2	(0)	0	10	(16)
14. Allocations - Route, Workforce, and Bin Lift Correction	(12)	(108)	11	(11)	30	18	(0)	28	(10)	7	(46)	39	(55)
15. Allocations - Container Maintenance Correction	(12)	(44)	(11)	(13)	(18)	(37)	(7)	(14)	(6)	(22)	(14)	(10)	(207)
16. Allocations - YW Route Correction	181	10	9	(17)	57	33	(35)	(68)	(5)	(64)	(23)	(13)	64
17. Adjusted Operating Costs	3,682	8,373	1,355	2,300	3,218	7,102	986	3,706	580	1,591	2,298	1,310	36,501
18. Profit @91%	362	884	138	242	327	732	106	392	62	171	245	133	3,796
19. Adjustment for Expense Changes	2	(56)	(4)	(15)	(9)	(30)	(9)	(26)	(4)	(14)	(18)	(4)	(186)
20. Adjusted Profit	364	828	134	227	318	702	97	367	57	157	227	130	3,610
21. Pass Through Expenses Projected by Allied	2,619	6,101	630	1,474	1,559	5,061	633	2,426	214	1,426	1,431	627	24,202
Adjustments to Pass Through Costs:													
22. Revised Disposal Projection - Actuals thru July	38	82	(12)	24	25	65	2	(46)	(2)	18	82	(2)	273
23. BDDBS - Revised Projections	(12)	(168)	(2)	15	22	53	0	1	0	24	20	(0)	(47)
24. Increase BDDBS Hourly Haul Rate	42	49	4	3	9	29	2	9	0	4	16	1	169
25. Contract Management - Revised Projections	0	0	34	0	0	0	0	0	0	0	0	0	34
26. Remove Double Counting of Permit Fees	(1)	(6)	(1)	(2)	(1)	(5)	(1)	(2)	(0)	(2)	(1)	(0)	(19)
27. Franchise Fee- Adj to reflect revenue change	(4)	(5)	(0)	332	(4)	6	(1)	(10)	0	(229)	41	(0)	124
28. Adjusted Pass Through Costs	2,681	6,053	654	1,847	1,610	5,209	635	2,379	213	1,241	1,588	626	24,735
29. Current Year Revenue Requirement	6,727	15,254	2,142	4,374	5,146	13,014	1,718	6,452	851	2,990	4,114	2,065	64,846
30. Current Year Surplus/(Shortfall)	(175)	(935)	(258)	163	(170)	(892)	(101)	(156)	(133)	17	(185)	(203)	(3,026)
31. Interest Expense	(4)	(20)	(5)	3	(4)	(19)	(2)	(3)	(3)	0	(4)	(4)	(63)
32. January 1, 2007 Balancing Account	(68)	(666)	(278)	(548)	(286)	(709)	420	(310)	(151)	645	306	(153)	(1,798)
33. January 1, 2008 Balancing Account	(246)	(1,621)	(541)	(380)	(460)	(1,621)	317	(470)	(287)	663	116	(360)	(4,886)
Revenue Surplus (-)/Shortfall for Current Operations	2.7%	6.6%	13.8%	-3.7%	3.4%	7.4%	6.3%	2.5%	18.8%	-0.6%	4.7%	10.9%	4.9%
Revenue Surplus (-)/Shortfall with Balancing Account	3.8%	11.4%	29.0%	8.4%	9.3%	13.4%	-19.7%	7.5%	40.5%	-22.1%	-3.0%	19.4%	7.9%

Note: Numbers on the exhibit may not add exactly due to rounding

## **Adjustments to Allied Projected Revenues**

HF&H recommends that revenue be increased by \$1,073,000 for 2006 and \$210,000 for 2007. These recommended adjustments are a result of the following:

- HF&H recommends increasing revenue by \$973,000 in 2006 (Exhibit 3, Line 2) to reflect cash payments made by San Mateo, Redwood City, Atherton, and West Bay Sanitary District towards their respective balancing accounts.
- HF&H recommends increasing route revenue by \$100,000 in 2006 and \$210,000 in 2007 (Exhibit 3, Line 3) to correctly account for the effect of rate increases approved during 2006 and seven months of actual results.

Detailed explanations for the revenue changes can be found following Exhibits 7 and 8.

## **Adjustments to Allied Projected Expenses Eligible for Profit**

### **Summary of Adjustments**

HF&H recommends that:

- 2005 operating expenses eligible for profit be reduced by \$470,000;
- 2006 operating expenses eligible for profit be reduced by \$1,318,000; and,
- 2007 operating expenses eligible for profit be reduced by \$1,879,000.

### **Description of Adjustments**

#### **Direct Labor**

HF&H recommends reducing actual Direct Labor expenses by \$324,000 in 2006 and by \$27,000 in 2007 (Exhibit 3, Line 6), resulting from updated labor expense projections (using actual expenses through November 2006), which reflects a downward trend in overtime expenses.

#### **Direct Maintenance**

HF&H recommends reducing Direct Maintenance expense by \$23,000 in 2005; by \$87,000 in 2006; and, \$93,000 (Exhibit 3, Line 7). These adjustments are the result of the following:

- HF&H recommends reducing Direct Maintenance expense by \$23,000 in 2005 (Exhibit 4, Line 6); by \$14,000 (Exhibit 5, Line 7); and, by \$15,000 in 2007 (Exhibit 6, Line 6) to remove excess sales tax expense on leased vehicles; and,
- HF&H recommends reducing Direct Maintenance expense by \$73,000 (Exhibit 5, Line 8) and \$78,000 in 2007 (Exhibit 6, Line 7), based on updated vehicle maintenance labor expense projections (using actual expenses through November 2006), which reflects a downward trend in overtime expenses.

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*Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application***Indirect Maintenance**

HF&H recommends reducing actual Indirect Maintenance expenses by \$32,000 in 2006 and by \$31,000 in 2007 (Exhibit 3, Line 8), resulting from updated container maintenance labor expense projections (using actual expenses through November 2006).

**Supervisory**

HF&H recommends reducing actual Supervisory expenses by \$22,000 in 2006 and by \$156,000 in 2007 (Exhibit 3, Line 9), resulting from updated supervisory labor expense projections (using actual expenses through November 2006).

**Insurance**

HF&H recommends reducing Insurance expense by \$82,000 in 2006 and by \$405,000 in 2007 (Exhibit 3, line 10), based on: 1) updated insurance expense projections (using actual expenses through August 2006); and, 2) a decrease in the 2007 insurance premiums not known at the time the rate application was submitted.

**General and Administrative**

HF&H recommends reducing General and Administrative expense by \$419,000 in 2005; \$816,000 in 2006; and \$949,000 in 2007 (Exhibit 3, line 11). These adjustments are the result of the following:

- HF&H recommends reducing General and Administrative expense by \$415,000 in 2005 (Exhibit 4, Line 7); \$816,000 in 2006 (Exhibit 5, Line 12); and by \$949,000 in 2007 (Exhibit 6, Line 11) to: 1) reflect the agreed-to allocation of General and Administrative expenses to non-SBWMA operations conducted by Allied (i.e., Ox Mountain, Daly City, Timberline, etc.); 2) eliminate certain disallowed expenses per the franchise agreement (i.e., charitable contributions, excess travel and entertainment expenses, district and regional personnel expenses, etc.); and 3) correct a cell reference error in Allied's rate application, which overstated G&A expenses.
- HF&H recommends reducing General and Administrative expense by \$4,000 in 2005 (Exhibit 4, Line 4), to remove moving costs (incurred when the District Controller was moved to Allied's San Carlos offices. District-related expenses are a disallowed expense, in accordance with the franchise agreement.

**Overhead**

HF&H re-calculated Overhead expense based on adjustments to revenue and the Consumer Price Index of August 2006 (per the franchise agreement), which was not published at the time the rate application was submitted. The calculations resulted in a recommended decrease of \$18,000 in 2005; an increase of \$37,000 in 2006; and, a decrease of \$4,000 in 2007 (Exhibit 3, line 12).

### **Allocation-Related Adjustments – Operating Costs**

As part of the annual review, HF&H tests the data used to allocate route and maintenance costs among Allied's non-SBWMA service areas and the Jurisdictions. Several calculation errors were noted, resulting in a recommended decrease of costs allocated to the SBWMA Jurisdictions of \$10,000 in 2005; an increase of \$8,000 in 2006; and a decrease of \$214,000 in 2007 (Exhibit 3, line 13). The following adjustments were made:

- A calculation error misallocated some of the collection routes, workforce, and commercial bin lifts, resulting in a re-allocation of route-related expenses amongst Allied's franchised and non-franchised service areas, resulting in an overall decrease of route-related expenses for SBWMA Jurisdictions of \$3,000 in 2005 (Exhibit 4, Line 10); a decrease of \$50,000 in 2006 (Exhibit 5, Line 15); and, a decrease of \$55,000 in 2007 (Exhibit 6, line 14). Exhibit 4 provides the Jurisdiction-specific impacts of the re-allocation for 2005, which range from an increase of \$27,000 to a decrease of \$64,000. Exhibit 5 provides the Jurisdiction-specific impacts of the re-allocation for 2006, which range from an increase of \$38,000 to a decrease of \$109,000. Exhibit 6 provides the Jurisdiction-specific impacts of the re-allocation for 2007, which range from an increase of \$39,000 to a decrease of \$108,000.
- Properly allocating Commercial Organics Collection Program expense based on Jurisdictional information gathered in April of 2005 and April 2006 (i.e., equivalent route days, number of lifts, number of accounts) resulted in a decrease of \$11,000 in 2005 (Exhibit 4, Line 12); \$14,000 in 2006 (Exhibit 5, Line 14); and, \$16,000 in 2007 (Exhibit 6, line 13). Exhibit 4 provides the Jurisdiction-specific impacts of the re-allocation for 2005, which range from an increase of \$20,000 to a decrease of \$26,000. Exhibit 5 provides the Jurisdiction-specific impacts of the re-allocation for 2006, which range from an increase of \$33,000 to a decrease of \$34,000. Exhibit 6 provides the Jurisdiction-specific impacts of the re-allocation for 2007, which range from an increase of \$36,000 to a decrease of \$35,000.
- A calculation error misallocated container maintenance expenses resulting in a re-allocation of container-maintenance-related costs between Allied's franchised and non-franchised operations, which resulted in an overall increase of container maintenance costs for SBWMA Jurisdictions of \$4,000 in 2005 (Exhibit 4, Line 11); an increase of \$12,000 in 2006 (Exhibit 5, Line 16); and, a decrease of \$207,000 in 2007 (Exhibit 6, line 15). Exhibit 4 provides the Jurisdiction-specific impacts of the re-allocation for 2005, which range from an increase of \$7,000 to a decrease of \$6,000. Exhibit 5 provides the Jurisdiction-specific impacts of the re-allocation for 2006, which range from an increase of \$16,000 to a decrease of \$15,000. Exhibit 6 provides the Jurisdiction-specific impacts of the re-allocation for 2007, which range from a decrease of \$7,000 to a decrease of \$44,000.
- A calculation error misallocated residential yard waste route expenses resulting in a re-allocation of residential yard waste-related route costs between Allied's franchised and non-franchised operations, which resulted in an overall increase in residential yard waste route costs for SBWMA Jurisdictions of \$60,000 in 2006 (Exhibit 5, Line 17) and an increase of \$64,000 in 2007 (Exhibit 6, line 16). Exhibit 5 provides the Jurisdiction-specific impacts of the re-allocation for 2006, which range from an increase of \$171,000 to a

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decrease of \$63,000. Exhibit 6 provides the Jurisdiction-specific impacts of the re-allocation for 2007, which range from an increase of \$181,000 to a decrease of \$68,000.

## **Adjustments to Operating Profit**

### **Description of Adjustments**

HF&H recommends reducing the operating profit by \$47,000 in 2005; \$131,000 in 2006; and, \$186,000 in 2007 (Exhibit 3, Line 16) due to the net recommended reduction to Allied's Operating Expenses Eligible for Profit, described above. In addition, we recommend disallowing \$156,000 in profit for 2006 (Exhibit 3, Line 17), which is the calculated profit on the projected 2006 driver and helper wages in excess of the allowed amount negotiated during last year's review.

## **Adjustments to Allied Projected Pass-Through Expense**

### **Summary of Adjustments**

HF&H recommends adjustments to Pass-Through Expense that:

- Reduce expenses by \$24,000 in 2005;
- Increase expenses by \$329,000 in 2006; and,
- Increase expenses by \$534,000 in 2007.

### **Description of Adjustments**

Each HF&H adjustment to Allied-projected pass-through expense is described below and is shown on Exhibit 3, lines 21-26 and on a Jurisdictional basis in Exhibit 4, lines 18-23 (2005); Exhibit 5, lines 24-28 (2006); and Exhibit 6, lines 22-27 (2007).

## **Inter-company Disposal Expense**

HF&H recommends reducing inter-company disposal expense by \$11,000 in 2005; increasing expense by \$401,000 in 2006; and, increasing expense by \$273,000 in 2007 (Exhibit 3, line 21). The adjustments are a result of the following:

- HF&H recommends reducing inter-company disposal expense by \$7,000 in 2005 (Exhibit 4, Line 18) to reflect the reduced per-ton cost to process the member agencies C&D material at the Transfer Station. In August 2005, and effective retroactively to January 1, 2005, the Board authorized a reduction in the member agencies' solid waste and C&D material tip fee at the Transfer Station from \$67.50 per ton to \$59.00 per ton. Allied mistakenly charged \$67.50 per ton for approximately 793 C&D tons delivered to the Transfer Station between September and December 2005.
- HF&H recommends reducing inter-company disposal expense by \$4,000 in 2005 (Exhibit 4, Line 19) to reflect the reduced per-ton cost to process solid waste delivered by the

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vehicle and container maintenance departments. Allied mistakenly charged \$67.50 per ton (instead of \$59 per ton) for approximately 478 solid waste tons delivered to the Transfer Station between January and August 2005.

- HF&H recommends increasing inter-company disposal expense by \$401,000 in 2006 (Exhibit 5, Line 24) and by \$273,000 in 2007 (Exhibit 6, Line 22) based on updated tonnage volume projections (using actual tonnage collected through July 2006) offset by reduction in the assumed C&D tip fee from \$67.50 per ton to \$59.00 per ton.

**BDBS Subcontractor Expense (Debris Box Services)**

HF&H recommends reducing BDBS subcontractor expenses by \$33,000 in 2005; reducing expenses by \$49,000 in 2006; and, increasing expenses by \$122,000 in 2007 (Exhibit 3, line 22). The adjustments are a result of the following:

- HF&H recommends reducing BDBS Subcontractor expense by \$33,000 in 2005 (Exhibit 4, Line 20) to reflect the reduced per-ton cost to process solid waste at the Transfer Station, effective January 1, 2005. During 2005, Allied mistakenly charged \$67.50 per ton (instead of \$59 per ton) for approximately 1,053 solid waste tons delivered to the Transfer Station by BDBS and mistakenly charged \$67.50 per ton (instead of \$48.50 per ton) for approximately 1,250 green/food waste tons delivered to the Transfer Station by BDBS.
- HF&H recommends decreasing BDBS Subcontractor expense by \$49,000 in 2006 (Exhibit 5, Line 25) and \$47,000 in 2007 (Exhibit 6, Line 23) based on updated disposal expense and haul projections (using actual expenses through June 2006).
- HF&H recommends increasing BDBS Subcontractor expense by \$169,000 in 2007 (Exhibit 6, Line 24) based on a projected increase in the per-hour haul rate paid to BDBS due to significant increases in fuel and labor costs over the past few years.

**Allocation-Related Adjustments - Pass-through Costs**

As part of the annual review, HF&H tests the data used to allocate disposal and processing costs among the Jurisdictions (both SBWMA-related and non-SBWMA-related) served by Allied. Based on our review of Allied's allocations, HF&H recommends increasing disposal and processing costs allocated to the SBWMA Jurisdictions of \$36,000 in 2005 (Exhibit 3, line 23). The recommended adjustments are a result of the following:

- A \$37,000 increase in solid waste disposal expense for SBMWA member agencies (Exhibit 4, Line 21) resulting from a calculation error. Exhibit 4 provides the Jurisdiction-specific impacts of the re-allocation, which ranges from an increase of \$56,000 to a decrease of \$28,000.
- HF&H recommends re-allocating commercial organic tip fee expenses among the member agencies and the non-franchised service areas, which results in an overall decrease of \$1,000 to the SBWMA member agencies (Exhibit 4, Line 22). Exhibit 4 provides the Jurisdiction-specific impacts of the re-allocation, which ranges from an increase of \$16,000 to a decrease of \$28,000. Allied's rate application allocated commercial organic tip fee expenses for all of 2005 based on customer and route

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information gathered during one week in April 2005. The commercial organics program was started in late 2004 and many of the current customers were added after April 2005, therefore, statistics gathered in April 2005 do not necessarily reflect the customers served throughout all of 2005. Our re-allocation of processing expenses is based on the average customer subscription levels gathered during one week in April 2005 and one week in April 2006.

**Permit Fees**

HF&H recommends reducing permit fees by \$16,000 in 2005; by \$19,000 in 2006; and by \$19,000 in 2007 (Exhibit 3, Line 24) due to Allied mistakenly double counting a portion of annual permit fees.

**Contract Management**

HF&H recommends increasing contract management expenses by \$39,000 in 2006 and \$34,000 in 2007 (Exhibit 3, Line 25) to revise projected expenses for third-party consulting in Hillsborough.

**Franchise Fees**

HF&H recommends reducing Franchise Fees by \$43,000 in 2006 and increasing Franchise Fees by 124,000 in 2007 (Exhibit 3, line 26) due to: 1) revised revenue projections, 2) revisions in Jurisdictional fees subsequent to Allied submitting the rate application; and, 3) miscalculations by Allied.

## SECTION VI. VARIANCE ANALYSIS

### Original 2005 vs. Actual 2005 Variance Analysis

Summarized below is HF&H's variance analysis comparing 2005 actual results to the original projections made last year.

#### Exhibit 7

**South Bayside Waste Management Authority**  
**Collection Variance Analysis (2005 Projected vs. 2005 Actual)**  
 (\$000's Unless Otherwise Indicated)

	2005	2005	Variance	
	Projected Last year	Actual Current Year	\$	%
1. Revenues	\$ 58,123	\$ 57,548	\$ (575)	-1.0%
2. Operating Costs Eligible for Profit	31,248	32,113	866	2.8%
3. Profit @ 91% Operating Ratio	3,090	3,176	86	2.8%
4. Pass-Through Expenses	24,557	24,051	(506)	-2.1%
5. Annual Revenue Requirement	58,895	59,340	445	0.8%
6. Beginning Balancing Account (Due to)/Due from Allied	700	700	-	
7. Total Revenue Requirement	58,195	58,640	445	0.8%
8. Interest Income/(Expense)	(16)	(37)	(21)	
9. Cumulative Surplus/(Shortfall)	\$ (88)	\$ (1,129)	\$ (1,042)	

The variances shown in Exhibit 7 are the result of the following:

*Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application***1. Revenues**

Actual revenues were \$575,000 (-1.0%) less than projected last year, with the following variances by Jurisdiction:

<u>Jurisdiction</u>	<u>\$ Variance</u>	<u>% Variance</u>
Burlingame	(\$45,613)	-0.70%
San Mateo	(\$44,690)	-0.33%
Hillsborough	(\$8,121)	-0.46%
Belmont	(\$15,073)	-0.43%
San Carlos	(\$35,067)	-0.76%
Redwood City	(\$337,653)	-2.98%
Atherton	(\$1,150)	-0.07%
Menlo Park	\$2,219	0.04%
West Bay	(\$3,792)	-0.53%
East Palo Alto	(\$27,933)	-0.91%
Foster City	(\$50,306)	-1.26%
Fair Oaks	(\$8,505)	-0.46%
Total	\$ (575,684)	-0.99%

The variance from last year's projection (that was based on annualizing actual year-to-date revenue through July 2005) generally results from: 1) approximately \$180,000 less revenue received from the Department of Conservation's annual payment to curbside recyclers; 2) the gain or loss of accounts and/or changes in service levels; and, 3) the implementation of the Commercial Organics Collection at discounted rates. (In many Jurisdictions, the cost to the customer for commercial organic service is 50%-75% of a similar size bin of solid waste, thus resulting in lower revenue.) Redwood City's \$337,000 variance is mainly due to a change in Allied's accounting procedures, which had the effect of overstating revenue in July 2005, which resulted in an over projection of revenue for the months of August through December of 2005. In addition, Allied booked a portion of November and December revenue in January 2006.

**2. Operating Costs Eligible for Profit**

Allied's actual operating costs eligible for profit increased \$866,000 (2.8%) from last year's estimate. The major causes for the increase are as follows:

- Labor expense was \$784,000 (5.0%) greater than projected as a result of greater than anticipated increase in overtime wages. Overtime was projected to increase significantly in 2005 by approximately 22.4% due to the new labor agreement; however, the actual change in overtime expense from 2004 to 2005 was an increase of approximately 68%.
- Depreciation expense was \$33,000 (-1.8%) less than expected due to a delay in the purchase of some fixed assets.

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- Direct and Indirect Maintenance expense was \$662,000 (12.8%) greater than projected as a result of greater than anticipated increases in: 1) fuel and oil expense; 2) overtime expense; 3) parts expense; 4) an accounting change, which now books supervisory fuel expenses as Maintenance Costs instead of Supervisory costs (corresponding decrease was experienced in Supervisory costs, see below); and, 5) third-party repairs. The third-party repairs are up significantly due to a change in how Allied accounts for the CARB retrofit expenses related to complying with the States CARB regulations. All retrofit costs are now being expensed rather than capitalized and amortized over a three year period. This accounting change increased projected retrofit expenses for 2005 from approximately \$100,000 to \$300,000.
- Supervisory expense was \$150,000 (11.7%) less than projected, resulting from new accounting procedures that used to book the supervisory department's fuel expense to supervisory expense but is now booked to direct maintenance.
- Other expense was \$27,000 (40.5%) greater than projected due to: 1) a business tax of \$8,000 paid once annually in August, therefore not included in the projections, which was based on annualizing actual expenses through April 2005; and, 2) purchases of pack cans and pack can replacement parts late in 2005, therefore, not included in the projections.
- Operating Insurance was \$198,000 (-9.3%) less than projected due to premiums being approximately \$77,000 less than expected; injury claims being approximately \$112,000 less than expected; and, safety training, safety equipment, and personnel drug testing costs being approximately \$9,000 less than projected.
- General and Administrative expense was \$226,000 (-7.3%) less than projected mainly due to less than expected consulting fees, accounting fees, and computer supplies.

### 3. Profit

An increase in the operating profit of \$86,000 (2.8%) from that estimated last year, resulted from the net increase in operating costs described above.

### 4. Pass-Through Expenses

The reduced pass-through expense of \$506,000 (2.1%) is attributable to the following:

- Disposal expense decreased \$379,000 (-2.4%) as the result of a 5,541 ton decrease in projected solid waste and plant material tonnage. Commercial tons decreased 3,369 tons (-2.4%) and Residential tons decreased 2,171 tons (-1.6%);

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 Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application
 

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<b>Name</b>	<b>Change</b>	<b># of Tons</b>	<b>Percent</b>
Burlingame	Decrease	109	0.4%
San Mateo	Decrease	698	-1.2%
Hillsborough	Decrease	52	-0.7%
Belmont	Decrease	352	-2.4%
San Carlos	Decrease	2,323	-10.2%
Redwood City	Decrease	631	-1.2%
Atherton	Increase	83	+0.9%
Menlo Park	Decrease	708	-2.2%
West Bay	Decrease	75	-1.8%
East Palo Alto	Decrease	228	-1.5%
Foster City	Decrease	244	-1.4%
Fair Oaks	Decrease	204	-2.0%

The most significant variance was in San Carlos, due to a cell reference error in last year's rate application, which overstated commercial solid waste tons by approximately 2,100 tons.

- Compacted Trash expense, which includes all services provided by BDBS (compactors, JPA boxes, and large recycling boxes), were \$49,000 (1.9%) greater than projected as the result of more JPA boxes being collected in the 4<sup>th</sup> quarter of 2005 than projected, based on annualizing actual costs through June 2005;
- Franchise fees were \$173,000 (-2.8%) less than anticipated due to less than expected rate revenue; and,
- Contract Management Fees were \$3,000 (-14.9%) less than expected.

**Original 2006 vs. Revised 2006 Variance Analysis**

Summarized below is HF&H's variance analysis comparing 2006 updated projections (made this year) to the projections made last year.

**Exhibit 8**

<b>South Bayside Waste Management Authority</b>				
<b>Collection Variance Analysis (2006 Estimated Last Year vs. 2006 Current Estimate)</b>				
<b>(\$000's Unless Otherwise Indicated)</b>				
	2006	2006	Variance	
	Projected Last year	Projected This Year	\$	%
1. Revenues	\$ 58,244	\$ 61,883	\$ 3,639	6.2%
2. Operating Costs Eligible for Profit	33,077	34,897	1,820	5.5%
3. Profit @ 91% Operating Ratio	3,271	3,295	23	0.8%
4. Pass-Through Expenses	24,682	24,346	(336)	-1.4%
5. Annual Revenue Requirement	61,031	62,538	1,507	2.5%
6. Beginning Balancing Account (Due to)/Due from Allied	(88)	(1,130)	(1,042)	1190.4%
7. Total Revenue Requirement	61,118	63,667	2,549	4.2%
8. Interest Income/(Expense)	(58)	(14)	45	
9. Cumulative Surplus/(Shortfall)	\$ (2,932)	\$ (1,798)	\$ 1,135	

The variances shown in Exhibit 8 result from the following:

*Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application***1. Revenues**

An increase of \$3,639,000 (6.2%) from that estimated last year, resulting from: 1) rate increases in Burlingame (3.0%), San Mateo (5.5%), Hillsborough (6.2%), Belmont (25.65%), Redwood City (8.1%), and Menlo Park (6.0%); 2) changes in customer subscriptions; and, 3) balancing account payments made by San Mateo (\$692,000), Redwood City (\$205,000), Atherton (\$43,000), and West Bay Sanitary District (\$33,000), partially offset by less than projected commercial revenue.

<u>Jurisdiction</u>	<u>\$ Variance</u>	<u>% Variance</u>
Burlingame	\$64,245	0.99%
San Mateo	\$1,308,297	9.68%
Hillsborough	\$114,043	6.51%
Belmont	\$349,904	9.69%
San Carlos	\$346,056	7.53%
Redwood City	\$985,988	8.69%
Atherton	\$34,787	2.14%
Menlo Park	\$530,003	9.33%
West Bay	\$32,879	4.58%
East Palo Alto	(\$59,375)	-1.94%
Foster City	(\$63,419)	-1.59%
Fair Oaks	(\$4,088)	-0.22%
Total	\$ 3,639,319	6.2%

**2. Operating Costs Eligible for Profit**

Operating costs increased \$1,820,000 (5.5%) from that estimated last year primarily due to:

- Direct Labor Expense increased \$969,000 (5.7%), resulting from an increase in additional personnel and greater than expected overtime. Last year's review assumed a decrease in overtime costs when the residential re-route was completed in February 2006; however, the actual decreases in overtime expenses did not begin until late 2006;
- Depreciation Expense increased \$235,000 (8.6%), resulting from the purchase of six additional yard waste side-load vehicles than what was anticipated during last year's review. Allied purchased the vehicles to replace rear-end load vehicles that are less efficient for collecting wheeled carts. The replacement of the rear-end load vehicles with side load vehicles is intended to make the routes more efficient, therefore, decreasing labor expenses over time (most notably, overtime expenses). We've reviewed Allied's labor records through the second week of October 2006 and have noticed a significant decline in overtime hours on the yard waste routes;
- Maintenance Costs increased \$366,000 (3.7%), resulting from: 1) a greater than anticipated increase in parts expense; 2) an accounting change, which now classifies supervisory fuel expenses as Maintenance Costs instead of Supervisory costs (a

*Review of Allied's Refuse, Recyclable Material, and Plant Materials Collection Application*

corresponding decrease was experienced in Supervisory costs, see below); 3) greater than anticipated third-party expenses to paint older vehicles; and, 4) an accounting change that requires Allied to expense rather than capitalize the expense of retrofitting older vehicles to comply with the new CARB regulations. In last year's review, the retrofit expenses were projected to be capitalized and depreciated over a three year period;

- Supervisory expense decreased \$187,000 (-13.6%), resulting from new accounting procedures, which used to classify the supervisory department's fuel expense to supervisory expense but is now booked to direct maintenance;
- Other Expense increased \$21,000 (33.2%), resulting from a 10% increase in the performance bond premiums and unexpected electrical work conducted at the shop and administrative building;
- Operating Insurance increased \$398,000 (17.8%), resulting from: 1) greater than projected claims (most significantly, an injury sustained by an employee in the maintenance shop) and 2) greater than anticipated safety incentive program costs; offset, by a decrease in Allied's insurance premium allocation factor. Allied established a safety awards program in 2004 to encourage safe business practices;
- General and Administrative expense decreased \$14,000 (-0.4%), resulting from less than projected labor expenses offset by greater than expected outside contract labor. Allied has increased its use of temporary staffing agencies to prescreen potential employees (primarily customer service representatives), which require a substantial one-time payment upon hire. In addition, temporary staff was used in the call center to handle the increased call volume related to the re-route conducted in February 2006; and,
- Overhead expense increased \$32,000 (1.3%) resulting from a greater than expected increase in the Consumer Price Index (from 2.16% to 3.79%), by which allowable overhead expenses are calculated, and an increase in projected revenue due to rate increases during 2006.

### 3. Profit

An increase in projected operating profit of \$23,000 (0.8%), resulting from the increase in operating costs described above; partially offset by the disallowance of profit on greater than expected driver and helper wage expenses in excess of the allowed amount negotiated during last year's review.

### 4. Pass-Through Expenses

A decrease in projected pass-through expenses of \$336,000 (-1.4%), in 2006 from that estimated last year, resulting from the following:

- Disposal expense decrease of \$1,065,000 (-6.7%), resulting from a 7.0% decrease in total tons collected and delivered to the Transfer Station;
- BDDBS Subcontract expense increase of \$122,000 (4.9%), resulting from increased tonnage from compactor accounts and JPA "gratis" collections (i.e., collection of material from

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Jurisdictions without charge to the Jurisdiction but included in the revenue requirement attributed to the customers of the Jurisdictions) of solid waste, green waste, and recyclable materials;

- A Contract Management/Professional Fees cost increase of \$236,000 (1,270.0%), resulting from a one-time payment of past invoices for third-party contract management assistance to selected Jurisdictions incurred from 2003 to 2005, but paid in 2006; and,
- Franchise fees expense increased \$371,000 (5.9%), resulting from: 1) increased franchise fee rates; 2) increased "other" fees (i.e., AB939 fees, street sweeping fees, etc.); 3) increased revenue; and, 4) retroactive payments for franchise fees not paid during 2005.

## **2006 vs. 2007 Variance Analysis**

Summarized below is HF&H's variance analysis comparing updated 2006 projections (made this year) to the HF&H-adjusted 2007 projections (made this year). As presented in Exhibit 9, the 2007 projected revenue requirement is anticipated to increase by 4.3% over 2006.

### Exhibit 9

**South Bayside Waste Management Authority  
Collection Variance Analysis (2006 vs. 2007)  
(\$000's Unless Otherwise Indicated)**

	2006	2007	Variance	
			\$	%
Revenues	\$ 61,883	\$ 61,820	\$ (63)	-0.1%
Operating Costs Eligible for Profit	34,897	36,501	1,604	4.6%
Profit @ 91% Operating Ratio	3,295	3,610	315	9.6%
Pass-Through Expenses	24,346	24,735	389	1.6%
Total Revenue Requirement	62,538	64,846	2,308	3.7%
Current year Surplus/(Shortfall)	\$ (654)	\$ (3,025)	\$ (2,371)	

The variances shown in Exhibit 9 result from the following:

### **1. Revenues**

Revenues are expected to decrease by \$63,000 (0.1%) due to one-time balancing account payments made in 2006 and not projected for 2007, offset by the full-year affect of rate increases that took effect after January 1, 2006.

### **2. Operating Costs Eligible for Profit**

Operating Costs are projected to increase \$1,604,000 (4.6%) due to:

- Labor expense increase of \$1,005,000 (5.7%) resulting from: 1) average wage increases of 4.45%; 2) group health benefits increases of 8.5%; 3) union pension fund increases for drivers of 8.1%; and, 4) union "Retirement Security Plan" increases of 2.0%;

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*Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application*

- Depreciation expense increase of \$160,000 (7.5%), resulting mainly from the purchase of six new residential solid waste collection vehicles to replace six older collection vehicles, which were placed into service between 1984 and 1988, offset by assets becoming fully depreciated during 2007. In addition, Allied has projected the purchase of approximately 40,000 new residential and commercial collection containers (approximately 10%-12% of current inventory) for new customers or to replace broken or stolen containers;
- Maintenance expense increase of \$370,000 (6.3%) resulting from: 1) 4.45% wage increase; 2) 8.83% group benefit increase; 3) 12.5% union pension increase; and, 4) a 15.1% increase in fuel costs;
- Other expense increase of \$9,000 (10.1%) resulting from an estimated CPI increase of 3.4% and a decrease in the projected gains on the sale of fixed assets;
- Insurance expense decrease of \$78,000 (-3.0%) resulting from a decrease in premium costs and expected claims;
- General and Administrative expense increase of \$94,000 (2.9%) resulting from 1) wage and benefit changes; and, 2) insurance adjustments; and,
- Overhead expense increase of \$44,000 (2.3%) resulting from the annual CPI increase in the maximum allowable corporate and regional overhead expenses (which is the lesser of the maximum allowable or 3.5% of route revenue).

### 3. Profit

An increase in operating profit of \$315,000 (9.6%) resulting from increases in the operating expenses eligible for profit described above.

### 4. Pass-Through Expenses

An increase in pass-through expense of \$389,000 (1.6%) resulting from:

- Disposal expense increase of \$20,000 (0.1%) resulting from a projected 6.5% increase in commercial organic tons collected and processed, which is a 0.3% increase in total tons collected (i.e., solid waste, yard waste, and organic materials);
- BDDBS Subcontractor expense (compactor and "gratis" JPA debris box services) increase of \$194,000 (7.4%) due to an increase in the per-hour haul rate, resulting from increases in union wages and benefit costs (due to drivers forming a union) and fuel expenses;
- Contractor management expense decrease of \$187,000 (-73.7%) due to a one-time payment of past invoices for third-party contract management assistance incurred from 2003 to 2005, but paid in 2006, which will not be repeated in 2007; and,
- Franchise fees increase of \$362,000 (5.5%) resulting from: 1) additional revenue from rate increases that took effect in the second and third quarters of 2006 and 2) increases in other Jurisdictional fees.

## SECTION VII. JURISDICTION-BASED RATES

### Allied's Rate Application by Jurisdiction

Allied's Application presented a rate revenue surplus and shortfall (as appropriate) for each Jurisdiction, based on its cost of service. Allied calculated adjustments to current Jurisdictional rate revenues ranging from a surplus of 5.4% to a shortfall of 59.4%. After HF&H's recommendations, these adjustments ranged from a surplus of 22.1% to a shortfall of 40.5%.

### Expense Allocation Methodology

The SBWMA approved the expense allocation methodology in February 2000. The data used to allocate costs among the Jurisdictions is summarized in Exhibit 10. Generally, the following three factors have the greatest impact on cost of service:

#### **1. Number of Routes**

A Jurisdiction's productivity is affected by many factors: density; terrain; distance to the transfer station; backyard versus curbside service; etc. Route expenses account for approximately 47.4% of the 2007 revenue requirement.

Relative route days within each Jurisdiction are used to allocate collection truck costs. Relative work force (i.e., number of employees per route multiplied by the number of routes) is used to allocate direct (i.e., route) labor costs. Adjustments made because of same-day routing have changed the relative percentage used to allocate truck expenses (based on routes) and labor expenses (based on work force), as shown in Exhibits 11 and 12.

Jurisdictions should note that, due to shared routes with adjoining Jurisdictions, costs are further allocated based on the number of containers for each Jurisdiction. Costs may vary from year to year due to the relative number of containers assigned to each Jurisdiction, (i.e., if two Jurisdictions share a route and both have a reduction in the number of accounts on the route, one Jurisdiction may sustain a greater loss of accounts and still have a larger portion of the route due to the number of containers remaining).

Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application

Exhibit 10

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
 JURISDICTIONAL OPERATING STATISTICS

COMMERCIAL

Jurisdiction Code	Jurisdiction	Equivalent Route Days	%	Equivalent Workforce	%	Collection Tonnage	%	Accounts	%	Lifts	%
1	Burlingame	18.5	12.63%	30.651	13.32%	15,789	11.32%	1,435	14.27%	1,137	9.69%
3	San Mateo	35.9	24.50%	60.864	26.44%	32,236	23.12%	2,328	23.16%	2,537	21.62%
5	Hillsborough	0.5	0.33%	0.844	0.37%	674	0.48%	17	0.17%	43	0.37%
6	Belmont	7.4	5.04%	12.728	5.53%	6,691	4.80%	475	4.72%	597	5.09%
7	San Carlos	11.3	7.71%	17.869	7.76%	9,590	6.88%	1,158	11.52%	929	7.92%
9	RWC	27.1	18.50%	41.378	17.98%	31,267	22.43%	1,860	18.50%	2,474	21.08%
11	Atherton	0.6	0.40%	0.820	0.36%	1,414	1.01%	39	0.39%	75	0.64%
12	Menlo Park	17.1	11.68%	26.315	11.43%	18,476	13.25%	1,180	11.74%	1,403	11.95%
13	West Bay	0.7	0.45%	0.808	0.35%	671	0.48%	51	0.51%	65	0.55%
14	EPA	4.6	3.15%	6.957	3.02%	5,123	3.67%	239	2.38%	467	3.98%
18	Foster City	9.4	6.41%	11.733	5.10%	10,029	7.19%	272	2.71%	901	7.68%
19	Fair Oaks	5.0	3.44%	7.598	3.30%	5,200	3.73%	503	5.00%	478	4.07%
2,4,8,10	County	1.9	1.29%	2.780	1.21%	2,250	1.62%	111	1.10%	180	1.53%
15,16,17,20	Other (1)	6.6	4.47%	8.846	3.84%	5	0.00%	386	3.83%	451	3.84%
		146.6	100.00%	230.193	100.00%	139,414	100.00%	10,054	100.00%	11,737	100.00%

RESIDENTIAL

Jurisdiction Code	Jurisdiction	Equivalent Route Days	%	Equivalent Workforce	%	Collection Tonnage	%	Accounts	%	Cans/ Household	%
1	Burlingame	15.9	7.25%	24.626	6.98%	8,585	6.26%	6,325	6.72%	1.21	96.00%
3	San Mateo	40.9	18.57%	67.403	19.09%	27,337	19.95%	19,018	20.21%	1.36	107.00%
5	Hillsborough	15.5	7.03%	24.423	6.92%	6,478	4.73%	3,549	3.77%	1.37	108.00%
6	Belmont	13.3	6.02%	22.312	6.32%	7,826	5.71%	6,452	6.86%	1.13	89.00%
7	San Carlos	18.2	8.27%	29.309	8.30%	10,928	7.97%	8,342	8.87%	1.16	92.00%
9	RWC	34.9	15.86%	57.910	16.40%	22,879	16.69%	16,938	18.00%	1.14	90.00%
11	Atherton	10.5	4.76%	16.344	4.63%	8,181	5.97%	2,254	2.40%	1.56	123.00%
12	Menlo Park	16.4	7.44%	26.390	7.47%	12,376	9.03%	7,600	8.08%	1.36	107.00%
13	West Bay	5.2	2.34%	8.291	2.35%	3,355	2.45%	2,066	2.20%	1.29	102.00%
14	EPA	10.8	4.92%	11.255	3.19%	10,147	7.40%	4,104	4.36%	1.03	82.00%
18	Foster City	10.4	4.74%	17.584	4.98%	7,026	5.13%	6,409	6.81%	1.32	104.00%
19	Fair Oaks	5.5	2.51%	9.543	2.70%	4,945	3.61%	2,591	2.75%	1.98	156.00%
2,4,8,10	County	12.0	5.46%	19.378	5.49%	6,942	5.07%	4,813	5.12%	1.20	95.00%
15,16,17,20	Other (1)	10.6	4.81%	18.285	5.18%	45	0.03%	3,629	3.85%	1.23	97.00%
		220.1	100.00%	353.053	100.00%	137,051	100.00%	94,090	100.00%	1.27	100.00%

(1) Half Moon Bay, Pescadero, La Honda, Woodside

Review of Allied's Refuse, Recyclable Material, and Plant Materials Collection Application

COMBINED										Exhibit 10 Con't
Jurisdiction Code	Jurisdiction	Equivalent		Equivalent		Collection		Accounts		
		Route	Days	Workforce		Tonnage				
			%		%		%		%	
1	Burlingame	34	9.40%	55	9.48%	24,374	8.82%	7,760	7.45%	
3	San Mateo	77	20.95%	128	21.99%	59,572	21.55%	21,346	20.50%	
5	Hillsborough	16	4.35%	25	4.33%	7,152	2.59%	3,566	3.42%	
6	Belmont	21	5.63%	35	6.01%	14,517	5.25%	6,927	6.65%	
7	San Carlos	30	8.05%	47	8.09%	20,519	7.42%	9,500	9.12%	
9	RWC	62	16.91%	99	17.02%	54,146	19.59%	18,798	18.05%	
11	Atherton	11	3.02%	17	2.94%	9,595	3.47%	2,293	2.20%	
12	Menlo Park	34	9.14%	53	9.04%	30,851	11.16%	8,780	8.43%	
13	West Bay	6	1.59%	9	1.56%	4,025	1.46%	2,117	2.03%	
14	EPA	15	4.21%	18	3.12%	15,269	5.52%	4,343	4.17%	
18	Foster City	20	5.40%	29	5.03%	17,056	6.17%	6,681	6.42%	
19	Fair Oaks	11	2.88%	17	2.94%	10,145	3.67%	3,094	2.97%	
2,4,8,10	County	14	3.79%	22	3.82%	9,193	3.33%	4,924	4.74%	
15,16,17,20	Other (1)	17	4.68%	27	4.65%	51	0.02%	4,015	3.86%	
	Total	367	100.00%	583	100.00%	276,465	100.00%	104,144	100.00%	

  

Jurisdiction Code	Jurisdiction	Cans/ Household		Lifts	
			%		%
1	Burlingame	1.21	96.00%	1,137	9.69%
3	San Mateo	1.36	107.00%	2,537	21.62%
5	Hillsborough	1.37	108.00%	43	0.37%
6	Belmont	1.13	89.00%	597	5.09%
7	San Carlos	1.16	92.00%	929	7.92%
9	RWC	1.14	90.00%	2,474	21.08%
11	Atherton	1.56	123.00%	75	0.64%
12	Menlo Park	1.36	107.00%	1,403	11.95%
13	West Bay	1.29	102.00%	65	0.55%
14	EPA	1.03	82.00%	467	3.98%
18	Foster City	1.32	104.00%	901	7.68%
19	Fair Oaks	1.98	156.00%	478	4.07%
2,4,8,10	County	1.20	95.00%	180	1.53%
15,16,17,20	Other (1)	1	97.00%	451	3.84%
	Average	1.27	100.00%	11,737	100.00%

## Review of Allied's Refuse, Recyclable Material and Plant Materials Collection Application

**Exhibit 11****Comparison of Route Allocation  
(Used to Allocate Truck Expenses)**

<u>Jurisdiction</u>	<u>2005 Allocation</u>	<u>2006 &amp; 2007 Allocation</u>	<u>Change</u>
Burlingame	9.40%	7.79%	-1.61%
San Mateo	20.95%	19.30%	-1.65%
Hillsborough	4.35%	3.93%	-0.42%
Belmont	5.63%	5.91%	0.28%
San Carlos	8.05%	8.07%	0.02%
Redwood City	16.91%	17.46%	0.55%
Atherton	3.02%	3.64%	0.62%
Menlo Park	9.14%	10.00%	0.86%
West Bay	1.59%	2.17%	0.58%
East Palo Alto	4.21%	4.68%	0.47%
Foster City	5.40%	5.41%	0.01%
Fair Oaks	2.88%	3.18%	0.30%
Unincorporated County	3.79%	4.01%	0.22%
Other	<u>4.68%</u>	<u>4.44%</u>	-0.24%
	100.00%	100.00%	

**Exhibit 12****Comparison of Work Force Allocation  
(Used to Allocate Direct Labor Expenses)**

<u>Jurisdiction</u>	<u>2005 Allocation</u>	<u>2006 &amp; 2007 Allocation</u>	<u>Change</u>
Burlingame	9.48%	8.44%	-1.04%
San Mateo	21.99%	20.79%	-1.20%
Hillsborough	4.33%	4.01%	-0.32%
Belmont	6.01%	6.15%	0.14%
San Carlos	8.09%	8.16%	0.07%
Redwood City	17.02%	17.41%	0.39%
Atherton	2.94%	3.34%	0.40%
Menlo Park	9.04%	9.40%	0.36%
West Bay	1.56%	1.95%	0.39%
East Palo Alto	3.12%	3.45%	0.33%
Foster City	5.03%	5.25%	0.22%
Fair Oaks	2.94%	3.18%	0.24%
Unincorporated County	3.82%	3.97%	0.15%
Other	<u>4.65%</u>	<u>4.50%</u>	-0.15%
	100.00%	100.00%	

## 2. Disposal Volume

Disposal volume varies between Jurisdictions and between residential and commercial customers. Disposal volumes may be affected by diversion programs including rate structures (such as uniform or increasing can rates). Disposal expense is approximately 26.3% of the total 2007 revenue requirement.

The disposal allocation is based on seven months of actual data. Due to continued improvements in accounting for Jurisdictional disposal tonnage and changes in customer behavior, relative Jurisdictional disposal allocations have changed, as shown in Exhibit 13.

### Exhibit 13

#### Comparison of Collection Tonnage Allocation (Used to Allocate Collection Disposal Expenses)

<u>Jurisdiction</u>	<u>2005 Allocation</u>	<u>2006 &amp; 2007 Allocation</u>	<u>Change</u>
Burlingame	8.82%	8.92%	0.10%
San Mateo	21.55%	21.23%	-0.32%
Hillsborough	2.59%	2.62%	0.03%
Belmont	5.25%	5.32%	0.07%
San Carlos	7.42%	7.43%	0.00%
Redwood City	19.59%	19.60%	0.02%
Atherton	3.47%	3.25%	-0.22%
Menlo Park	11.16%	10.96%	-0.20%
West Bay	1.46%	1.40%	-0.05%
East Palo Alto	5.52%	5.46%	-0.06%
Foster City	6.17%	6.47%	0.30%
Fair Oaks	3.67%	3.70%	0.03%
Unincorporated County	3.33%	3.56%	0.24%
Other	<u>0.02%</u>	<u>0.07%</u>	0.06%
	100.00%	100.00%	

Changes in a Jurisdiction's allocation percentage can have significant impact on its revenue requirement. The impact of the change is determined based on the relative size of the Jurisdiction (i.e., larger cities are impacted less than smaller cities by an identical change in an allocation percentage) and by the relative size of the expense category that is being allocated.

## 3. Franchise Fees

Franchise fees within the SBWMA range from 0% to 15.5%. The franchise fee rate directly affects the cost of service in each Jurisdiction.

## **Rate Adjustments by Jurisdiction**

Exhibit 14 presents HF&H's calculated rate adjustments, ranging from a 22.1% reduction to a 40.5% increase. In summary, each Jurisdiction's calculated rate change results from five key factors, based on expense adjustments to Allied's Application, allocation changes, and other factors described above:

- Whether projected revenues were achieved in 2005 and 2006;
- Changes to the Jurisdictional allocation of expenses due to corrections of calculation errors;
- Average cost increase of 0.8% over the previous 2005 projections;
- Average cost decrease of 2.5% over the previous 2006 projections; and
- Average 2007 cost increases of 3.7%.

Appendix A summarizes key operational, financial, rate, and variance information for each Jurisdiction (in alphabetical order) that explains the calculation of the recommended rate adjustment. For each Jurisdiction, HF&H presents:

1. A summary of key operational, financial, and rate information; and
2. A variance analysis comparing 2006 projections to those made last year, and a comparison of 2006 projections to 2007 projections.

Exhibit 14 presents each Jurisdiction's rate revenue surplus or shortfall in two ways:

1. That required for current operations (Line 13); and
2. That required for current operations and to "pay-off" the balancing account in one year (Line 14).

The difference between the two calculations is the balancing account. (Exhibit 14, Line 13 excludes the balancing account, while Line 14 includes the balancing account.) HF&H has presented both numbers because some Jurisdictions that have large balancing account balances due Allied may want to amortize the payment of the balancing account over a two- or three-year period.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
2006 REVENUE REQUIREMENT AND RATE INCREASE/DECREASE CALCULATIONS**

	<u>Burl.</u>	<u>S. Mateo</u>	<u>Hillsb.</u>	<u>Bel.</u>	<u>S. Carlos</u>	<u>RWC</u>	<u>Ather</u>	<u>Menlo</u>	<u>West Bay</u>	<u>EPA</u>	<u>Foster</u>	<u>Fair Oaks</u>	<u>Total</u>
1. Adjusted Projected Rate Revenue	6,525	14,254	1,867	4,513	4,941	12,069	1,606	6,262	708	3,002	3,902	1,857	61,506
2. Adjusted Projected Other Revenue	27	65	17	26	35	53	12	33	10	5	26	6	315
<b>3. Total Projected Revenue</b>	<b>\$ 6,552</b>	<b>\$ 14,319</b>	<b>\$ 1,884</b>	<b>\$ 4,539</b>	<b>\$ 4,976</b>	<b>\$ 12,122</b>	<b>\$ 1,617</b>	<b>\$ 6,295</b>	<b>\$ 718</b>	<b>\$ 3,007</b>	<b>\$ 3,929</b>	<b>\$ 1,862</b>	<b>\$ 61,820</b>
4. Adjusted Projected Operating Costs	3,682	8,373	1,355	2,300	3,218	7,102	986	3,706	580	1,591	2,298	1,310	36,502
5. Profit @ 91% Operating Ratio	364	828	134	227	318	702	97	367	57	157	227	130	3,610
6. Adjusted Projected Pass-Through Costs	2,681	6,053	654	1,847	1,610	5,209	635	2,379	213	1,241	1,588	626	24,735
7. 2007 Revenue Requirement (4.+5.+6.)	6,727	15,254	2,143	4,374	5,146	13,013	1,718	6,452	850	2,990	4,114	2,066	64,847
8. Projected January 1, 2007 Balancing Account	(68)	(666)	(278)	(548)	(286)	(709)	420	(310)	(151)	645	306	(153)	(1,798)
<b>9. Total Revenue Requirements (7.-8.)</b>	<b>\$ 6,795</b>	<b>\$ 15,920</b>	<b>\$ 2,421</b>	<b>\$ 4,922</b>	<b>\$ 5,432</b>	<b>\$ 13,723</b>	<b>\$ 1,299</b>	<b>\$ 6,762</b>	<b>\$ 1,001</b>	<b>\$ 2,344</b>	<b>\$ 3,808</b>	<b>\$ 2,218</b>	<b>\$ 66,645</b>
10. Surplus/(Shortfall) - Current Year (3.-7.)	\$ (175)	\$ (935)	\$ (259)	\$ 164	\$ (170)	\$ (891)	\$ (101)	\$ (156)	\$ (132)	\$ 17	\$ (185)	\$ (203)	\$ (3,026)
11. Interest Expense @ 2.09%	\$ (4)	\$ (20)	\$ (5)	\$ 3	\$ (4)	\$ (19)	\$ (2)	\$ (3)	\$ (3)	\$ 0	\$ (4)	\$ (4)	\$ (63)
<b>12. Surplus/(Shortfall) - Cumulative (3.- 9.+ 11.)</b>	<b>\$ (247)</b>	<b>\$ (1,621)</b>	<b>\$ (542)</b>	<b>\$ (380)</b>	<b>\$ (459)</b>	<b>\$ (1,619)</b>	<b>\$ 316</b>	<b>\$ (470)</b>	<b>\$ (287)</b>	<b>\$ 663</b>	<b>\$ 117</b>	<b>\$ (360)</b>	<b>\$ (4,889)</b>
13. Rate Inc/Dec - Current Operations (-10./1.)	2.7%	6.6%	13.9%	-3.6%	3.4%	7.4%	6.3%	2.5%	18.6%	-0.6%	4.7%	10.9%	4.9%
14. Rate Inc/Dec - with Balancing Account (-12./1.)	3.8%	11.4%	28.9%	8.4%	9.3%	13.4%	-19.7%	7.5%	40.5%	-22.1%	-3.0%	19.4%	7.9%
15. Adjusted Calculated 1 Can Rate	\$ 13.41	\$ 12.33	\$ 29.95	\$ 21.87	\$ 16.47	\$ 19.22	\$ 19.02	\$ 9.86	\$ 21.39	N/A	\$ 12.23	\$ 21.55	
16. Adjusted Calculated 2 Can Rate	\$ 26.82	\$ 27.13	\$ 59.90	\$ 45.08	\$ 35.05	\$ 38.45	\$ 38.03	\$ 24.41	\$ 47.00	\$ 39.16	\$ 22.93	\$ 43.10	

## **APPENDIX A: JURISDICTIONAL SPECIFIC INFORMATION**



**TOWN OF ATHERTON**

OPERATIONS DATA				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	8,181	7,437	1,414	1,213
Route Days/Week	10.48	10.53	0.59	0.54
Accounts	2,258	2,254	42	39

INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)				
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Category	PROJECTED 2007			
Route Revenues		\$ 1,606,000		
Other Revenues		\$ <u>11,000</u>		
Total Revenue			\$ 1,617,000	
Expenses		\$ 1,621,000		
Profit		\$ <u>97,000</u>		
Subtotal		\$ 1,718,000		
Balancing Acct / Interest		\$ <u>(417,000)</u>		
Total Revenue Req't			<u>\$ 1,301,000</u>	
Surplus/(Shortfall)			<u>\$ 316,000</u>	
% Adjustment			-19.7%	

REPRESENTATIVE RATES					
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Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$23.68	\$19.02	1 YD. Bin X 1 Week	\$99.00	\$79.50
			2 YD. Bin X 1 Week	\$198.00	\$158.99
2 Can	\$47.36	\$38.03	3 YD. Bin X 1 Week	\$297.00	\$238.49
			1 YD. Bin X 2 Week	\$198.00	\$158.99
3 Can	\$70.30	\$56.45	2 YD. Bin X 2 Week	\$396.00	\$317.99
			3 YD. Bin X 2 Week	\$594.00	\$476.98

**TOWN OF ATHERTON**

<b>REVENUE VARIANCE</b>			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 1,625,000	\$ 1,660,000	\$ 1,617,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 35,000	- \$ 43,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to a one-time payment of \$42,532 towards the balancing account, offset by a small reduction of residential and commercial accounts, a decrease in commercial lifts per week, and less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.</li> <li>• 2007 decrease is due to the one-time payment, described above, of \$42,532 made in 2006 not projected to occur in 2007.</li> </ul>			

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 869,000	\$ 943,000	\$ 986,000
<b>Operating Profit</b>	86,000	89,000	97,000
<b>Pass-Through Cost</b>	<u>677,000</u>	<u>643,000</u>	<u>635,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 1,632,000</u>	<u>\$ 1,675,000</u>	<u>\$ 1,718,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 43,000	\$ 43,000

<b>Reasons for Variances:</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) a \$74,000 (8.5%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) a \$3,000 increase in profit due to changes in operating expense; partially offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$34,000 (5.0%) decrease in pass-through costs, resulting from a \$42,000 decrease in projected disposal expense; offset by an increase of \$8,000 for one-time payment of past invoices for third-party contract management assistance incurred in 2003, 2004, and 2005, but paid in 2006.</li> <li>• 2007 increase is due to: (1) a \$43,000 (4.6%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) an \$8,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that is not projected to occur in 2007; and, (3) an \$8,000 (1.2%) decrease in pass-through costs, due to the one-time payment in 2006 that will not occur in 2007.</li> </ul>			

**CITY OF BELMONT**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	7,826	7,446	6,691	6,699
Route Days/Week	13.26	13.12	7.40	7.56
Accounts	6,491	6,452	468	475

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 4,513,000	
Other Revenues	\$ 26,000	
<b>Total Revenue</b>		<b>\$ 4,539,000</b>
Expenses	\$ 4,146,000	
<b>Profit</b>	<b>\$ 227,000</b>	
<b>Subtotal</b>	<b>\$ 4,373,000</b>	
Balancing Acct / Interest	\$ 544,000	
<b>Revenue Req't</b>		<b>\$ 4,917,000</b>
<b>Surplus/(Shortfall)</b>		<b>\$ (378,000)</b>
<b>% Adjustment</b>		<b>8.4%</b>

**REPRESENTATIVE RATES**

Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$20.17	\$21.86	1 YD. Bin X 1 Week	\$96.69	\$104.81
			2 YD. Bin X 1 Week	\$193.38	\$209.62
2 Can	\$41.25	\$44.72	3 YD. Bin X 1 Week	\$290.06	\$314.43
			1 YD. Bin X 2 Week	\$196.24	\$212.72
3 Can	\$63.25	\$68.57	2 YD. Bin X 2 Week	\$392.48	\$425.45
			3 YD. Bin X 2 Week	\$593.02	\$642.83

## CITY OF BELMONT

REVENUE VARIANCE			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 3,610,000	\$ 3,959,000	\$ 4,539,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 349,000	\$ 580,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is the result of a 25.65% rate increase, effective September 1, 2006 (residential rates) and July 1, 2006 (commercial rates); offset by less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.</li> <li>• 2007 increase is due to the annualized impact of the July and September 2006 rate increases.</li> </ul>			

REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 2,082,000	\$ 2,184,000	\$ 2,299,000
<b>Operating Profit</b>	206,000	206,000	227,000
<b>Pass-Through Cost</b>	<u>1,450,000</u>	<u>1,617,000</u>	<u>1,847,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 3,738,000</u>	<u>\$ 4,007,000</u>	<u>\$ 4,373,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 269,000	\$ 366,000

<b>Reasons for Variances:</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) a \$102,000 (4.9%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims (2) no change in profit due to the increases in operating expense offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$167,000 (11.5%) increase in pass-through costs, resulting from a \$28,000 decrease in projected disposal expense; a \$5,000 decrease in contract management expenses; offset by a \$201,000 increase in franchise fees, resulting from the 25.65% rate increase (effective 7/1/06 for residents and 9/1/06 for businesses) an increase in the City's AB939 fee effective July 1, 2006.</li> <li>• 2007 increase is due to: (1) a \$115,000 (4.9%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$21,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that is not projected to occur in 2007; and, (3) a \$230,000 (14.2%) increase in pass-through costs, due to: a \$221,000 increase in franchise fees, resulting from an increase in revenue due to the rate increase and an increase in the City's AB939 fee; and, a \$9,000 increase in disposal expense resulting from a less than 1% increase in projected disposal tonnage and a 22.8% increase in Allied's per-hour haul rate (which have historically exceeded the change in CPI).</li> </ul>			

**CITY OF BURLINGAME**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	8,585	8,307	15,789	15,424
Route Days/Week	15.95	15.83	18.52	18.48
Accounts	6,333	6,325	1,472	1,435

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 6,525,000	
Other Revenues	\$ 27,000	
<b>Total Revenue</b>		\$ 6,552,000
Expenses	\$ 6,362,000	
<b>Profit</b>	\$ 364,000	
<b>Subtotal</b>	\$ 6,726,000	
Balancing Acct / Interest	\$ 72,000	
<b>Revenue Req't</b>		\$ 6,798,000
<b>Surplus/(Shortfall)</b>		\$ (246,000)
<b>% Adjustment</b>		3.8%

**REPRESENTATIVE RATES**

Category	Residential Cans		Commercial Bins		
	Current	Calculated	Category	Current	Calculated
1 Can	\$12.92	13.41	1 YD. Bin X 1 Week	\$81.54	\$84.64
			2 YD. Bin X 1 Week	\$163.08	\$169.28
2 Can	\$25.84	26.82	3 YD. Bin X 1 Week	\$244.62	\$253.92
			1 YD. Bin X 2 Week	\$166.34	\$172.66
3 Can	\$38.76	40.23	2 YD. Bin X 2 Week	\$332.68	\$345.32
			3 YD. Bin X 2 Week	\$499.02	\$517.98

**CITY OF BURLINGAME**

**REVENUE VARIANCE**

	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 6,488,000	\$ 6,552,000	\$ 6,552,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 64,000	\$ 0

**Reasons for Variances**

- 2006 increase is the result of a 3.0% rate increase effective January 1, 2006; offset by less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.
- 2007 revenues are estimated to be the same as 2006.

**REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)**

	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 3,381,000	\$ 3,516,000	\$ 3,681,000
<b>Operating Profit</b>	334,000	333,000	364,000
<b>Pass-Through Cost</b>	<u>2,768,000</u>	<u>2,689,000</u>	<u>2,681,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 6,483,000</u>	<u>\$ 6,538,000</u>	<u>\$ 6,726,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 55,000	\$ 188,000

**Reasons for Variances:**

- 2006 increase is due to: (1) a \$135,000 (4.0%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) a \$1,000 decrease in profit due to changes in operating expense; offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$79,000 (2.9%) decrease in pass-through costs, resulting from a \$150,000 decrease in projected disposal expense (less tonnage than projected and less compactor and JPA debris box pulls); offset by an increase of \$66,000 for one-time payment of past invoices for third-party contract management assistance incurred in 2003, 2004, and 2005, but paid in 2006 and a \$5,000 increase in franchise fees due to the rate increase.
- 2007 increase is due to: (1) a \$165,000 (4.7%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$31,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that is not projected to occur in 2007; and, (3) an \$8,000 (0.3%) decrease in pass-through costs, due to a \$48,000 increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI); offset by the \$56,000 one-time payment in 2006 that will not occur in 2007.

**CITY OF EAST PALO ALTO**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	10,147	9,430	5,123	0
Route Days/Week	10.84	10.58	4.62	4.73
Accounts	4,115	4,104	241	239

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 3,002,000	
Other Revenues	\$ 5,000	
<b>Total Revenue</b>		<b>\$ 3,007,000</b>
Expenses	\$ 2,832,000	
<b>Profit</b>	<b>\$ 157,000</b>	
<b>Subtotal</b>	<b>\$ 2,989,000</b>	
Balancing Acct / Interest	\$ (646,000)	
<b>Revenue Req't</b>		<b>\$ 2,343,000</b>
<b>Surplus/(Shortfall)</b>		<b>\$ 664,000</b>
<b>% Adjustment</b>		<b>-22.1%</b>

**REPRESENTATIVE RATES**

Category	Residential Cans		Commercial Bins		
	Current <sup>1</sup>	Calculated	Category	Current	Calculated
1 Can	\$ 25.13	\$19.58	1 YD. Bin X 1 Week	\$154.19	\$120.11
			2 YD. Bin X 1 Week	\$292.58	\$227.92
			3 YD. Bin X 1 Week	\$325.77	\$253.77
2 Can	\$50.26	\$39.15	1 YD. Bin X 2 Week	\$253.51	\$197.48
			2 YD. Bin X 2 Week	\$486.90	\$379.30
3 Can	\$77.10	\$60.06	3 YD. Bin X 2 Week	\$562.88	\$438.48

<sup>1</sup> East Palo Alto bills standard residential service (1 95 gallon container) through property taxes  
The rates shown are for additional service

**CITY OF EAST PALO ALTO**

<b>REVENUE VARIANCE</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Revenues at Current Rates</b>	<b>\$ 3,066,000</b>	<b>\$ 3,007,000</b>	<b>\$ 3,007,000</b>
<b>Greater/(Less) Than Projected Last Year</b>		<b>- \$ 59,000</b>	<b>\$ 0</b>
<u><b>Reasons for Variances</b></u>			
<ul style="list-style-type: none"> <li>• 2006 reduction (1.9%) is the result of: (1) a 3.6% reduction in commercial lifts; (2) less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation; and, (3) a 100% increase (5 accounts to 10 accounts) in commercial organic accounts which receive a 25% discount.</li> <li>• 2006 revenues are estimated to be the same as 2005.</li> </ul>			

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Operating Costs</b>	<b>\$ 1,421,000</b>	<b>\$ 1,533,000</b>	<b>\$ 1,591,000</b>
<b>Operating Profit</b>	<b>141,000</b>	<b>145,000</b>	<b>157,000</b>
<b>Pass-Through Cost</b>	<u><b>1,282,000</b></u>	<u><b>1,237,000</b></u>	<u><b>1,241,000</b></u>
<b>Total Revenue Requirement</b>	<u><u><b>\$ 2,844,000</b></u></u>	<u><u><b>\$ 2,915,000</b></u></u>	<u><u><b>\$ 2,989,000</b></u></u>
<b>Change from 2006 Revenue Requirement</b>		<b>\$ 71,000</b>	<b>\$ 74,000</b>

**Reasons for Variances:**

- 2006 increase is due to: (1) a \$112,000 (7.9%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) a \$4,000 increase in profit due to changes in operating expense; offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$45,000 (3.5%) decrease in pass-through costs, resulting from: (1) a \$34,000 decrease in projected disposal expense due to less than projected tons to dispose; (2) a \$4,000 decrease in projected third-party contract management assistance; and (3) a \$7,000 decrease in franchise fees due to less than anticipated rate revenue.
- 2007 increase is due to: (1) a \$58,000 (3.8%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$12,000 increase in profit due to operating cost changes and a one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$4,000 (0.3%) increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI).

**FAIR OAKS- Unincorporated**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	4,945	4,959	5,200	4,881
Route Days/Week	5.53	5.80	5.04	5.07
Accounts	2,597	2,591	506	503

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 1,857,000	
Other Revenues	\$ 5,000	
<b>Total Revenue</b>		\$ 1,862,000
Expenses	\$ 1,936,000	
<b>Profit</b>	\$ 130,000	
<b>Subtotal</b>	\$ 2,066,000	
Balancing Acct / Interest	\$ 157,000	
<b>Revenue Req't</b>		\$ 2,223,000
<b>Surplus/(Shortfall)</b>		\$ (361,000)
<b>% Adjustment</b>		19.4%

**REPRESENTATIVE RATES**

Category	Residential Cans		Commercial Bins		
	Current	Calculated	Category	Current	Calculated
1 Can - Curb	N/A	0.00	1 YD. Bin X 1 Week	\$76.24	\$91.03
Yard	\$ 18.05	\$21.56	2 YD. Bin X 1 Week	\$152.48	\$182.06
2 Can - Curb	\$18.05	\$21.56	3 YD. Bin X 1 Week	\$228.72	\$273.09
Yard	\$36.10	\$43.12	1 YD. Bin X 2 Week	\$152.48	\$182.06
3 Can - Curb	\$36.10	\$43.12	2 YD. Bin X 2 Week	\$304.97	\$364.13
Yard	\$54.15	\$64.68	3 YD. Bin X 2 Week	\$457.45	\$546.20

## FAIR OAKS- Unincorporated

REVENUE VARIANCE			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 1,866,000	\$ 1,862,000	\$ 1,862,000
<b>Greater/(Less) Than Projected Last Year</b>		- \$ 4,000	\$ 0

### Reasons for Variances

- 2006 increase is the result of a loss of 6 residential and 3 commercial accounts and less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.
- 2007 revenues are estimated to be the same as 2006.

REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 1,159,000	\$ 1,255,000	\$ 1,310,000
<b>Operating Profit</b>	115,000	119,000	130,000
<b>Pass-Through Cost</b>	<u>655,000</u>	<u>626,000</u>	<u>626,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 1,929,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,066,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 71,000	\$ 66,000

### Reasons for Variances:

- 2006 increase is due to: (1) a \$96,000 (8.3%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; a 2.8% increase in allocated route days; (2) a \$4,000 increase in profit due to changes in operating expense; offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$29,000 (4.4%) decrease in pass-through costs, resulting from: (1) a \$36,000 decrease in projected disposal expense due to less than projected tons to dispose; offset by a \$7,000 increase in compactor and JPA pulls.
- 2007 increase is due to: (1) a \$55,000 (8.3%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) an \$11,000 increase in profit due to operating cost changes and a one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) no change in pass-through costs resulting from a \$2,000 (17.7%) increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI) offset by a \$2,000 (0.3%) decrease in projected disposal expenses due to a slight decrease in projected tons collected.

**CITY OF FOSTER CITY**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	7,026	6,920	10,029	10,288
Route Days/Week	10.42	11.59	9.40	9.40
Accounts	6,494	6,409	283	272

<b>INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)</b>		
Category	PROJECTED 2007	
Route Revenues	\$ 3,902,000	
Other Revenues	\$ 26,000	
<b>Total Revenue</b>		<b>\$ 3,928,000</b>
Expenses	\$ 3,886,000	
Profit	\$ 227,000	
<b>Subtotal</b>	<b>\$ 4,113,000</b>	
Balancing Acct / Interest	\$ (302,000)	
<b>Revenue Req't</b>		<b>\$ 3,811,000</b>
<b>Surplus/(Shortfall)</b>		<b>\$ 117,000</b>
% Adjustment		-3.0%

<b>REPRESENTATIVE RATES</b>					
Category	Residential Cans		Commercial Bins		
	Current	Calculated	Category	Current	Calculated
1 Can	\$ 12.61	\$12.23	1 YD. Bin X 1 Week	\$60.49	\$58.68
			2 YD. Bin X 1 Week	\$120.98	\$117.35
2 Can	\$25.22	\$24.46	3 YD. Bin X 1 Week	\$181.47	\$176.03
			1 YD. Bin X 2 Week	\$120.98	\$117.35
3 Can	\$37.43	\$36.31	2 YD. Bin X 2 Week	\$241.96	\$234.70
			3 YD. Bin X 2 Week	\$362.94	\$352.05

**CITY OF FOSTER CITY**

<b>REVENUE VARIANCE</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Revenues at Current Rates</b>	\$ 3,992,000	\$ 3,929,000	\$ 3,929,000
<b>Greater/(Less) Than Projected Last Year</b>		- \$ 63,000	\$ 0
<u>Reasons for Variances</u>			
<ul style="list-style-type: none"> <li>• 2006 reduction (1.6%) is the result of: (1) a 3.2% reduction in commercial lifts; (2) less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation; and, (3) a 35% increase (20 accounts to 27 accounts) in commercial organic accounts which receive a 25% discount.</li> <li>• 2007 revenues are estimated to be the same as 2006.</li> </ul>			

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Operating Costs</b>	\$ 1,993,000	\$ 2,199,000	\$ 2,298,000
<b>Operating Profit</b>	197,000	208,000	227,000
<b>Pass-Through Cost</b>	<u>1,601,000</u>	<u>1,530,000</u>	<u>1,588,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 3,791,000</u>	<u>\$ 3,937,000</u>	<u>\$ 4,113,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 146,000	\$ 176,000

<b>Reasons for Variances:</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) a \$206,000 (10.3%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims and a 1.17 (11%) increase in allocated residential route days as a result of the re-route done in February 2006; (2) an \$11,000 increase in profit due to the increases in operating expense, offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$71,000 (4.4%) decrease in pass-through costs, resulting from a \$16,000 decrease in projected disposal expense; a \$6,000 increase in contract management expenses for one-time payment of past invoices for third-party contract management assistance incurred in 2003, 2004, and 2005, but paid in 2006; and, a \$61,000 decrease in franchise fees.</li> <li>• 2007 increase is due to: (1) a \$99,000 (4.5%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$19,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$58,000 (1.7%) increase in pass-through costs, due to a \$32,000 increase in disposal expenses, resulting from a 1.7% increase in tonnage and a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI); a \$33,000 increase in franchise fees due to the increase in the City's street sweeping expenses; partially offset by the \$6,000 one-time payment in 2006 that will not occur in 2007.</li> </ul>			

## TOWN OF HILLSBOROUGH

OPERATIONS DATA				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	6,478	6,309	674	664
Route Days/Week	15.47	15.20	0.48	0.40
Accounts	3,550	3,549	18	17

INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)				
Category	PROJECTED 2007			
Route Revenues		\$ 1,867,000		
Other Revenues		<u>\$ 17,000</u>		
Total Revenue			\$ 1,884,000	
Expenses		\$ 2,009,000		
Profit		<u>\$ 134,000</u>		
Subtotal		\$ 2,143,000		
Balancing Acct / Interest		<u>\$ 283,000</u>		
Revenue Req't			<u>\$ 2,426,000</u>	
Surplus/(Shortfall)			<u>\$ (542,000)</u>	
% Adjustment				29.0%

REPRESENTATIVE RATES					
Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$23.23	29.97	1 YD. Bin X 1 Week	\$73.22	\$94.45
			2 YD. Bin X 1 Week	\$146.43	\$188.89
2 Can	\$46.46	59.93	3 YD. Bin X 1 Week	\$219.65	\$283.35
			1 YD. Bin X 2 Week	\$146.43	\$188.89
3 Can	\$69.70	89.91	2 YD. Bin X 2 Week	\$292.86	\$377.79
			3 YD. Bin X 2 Week	\$439.30	\$566.70

## TOWN OF HILLSBOROUGH

REVENUE VARIANCE			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 1,751,000	\$ 1,865,000	\$ 1,884,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 114,000	\$ 19,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is the result of a 6.2% rate increase, effective March 1, 2006; offset by less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.</li> <li>• 2007 increase is due to the annualized impact of the March 2006 rate increase.</li> </ul>			

REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 1,221,000	\$ 1,294,000	\$ 1,355,000
<b>Operating Profit</b>	121,000	122,000	134,000
<b>Pass-Through Cost</b>	<u>589,000</u>	<u>744,000</u>	<u>654,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 1,931,000</u>	<u>\$ 2,160,000</u>	<u>\$ 2,143,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 229,000	-\$ 17,000

<b>Reasons for Variances:</b>	
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) a \$73,000 (6.0%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; offset by a slight decrease (2.2%) in allocated route days; (2) a \$1,000 increase in profit due to changes in operating expense; partially offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$155,000 (26.3%) increase in pass-through costs, resulting from an increase of \$143,000 in third-party contract management costs (which includes a \$95,000 one-time payment of past invoices for assistance in 2003, 2004, and 2005, but paid in 2006; a \$1,000 increase in projected disposal expense; and, an \$11,000 increase in franchise fees due to the rate increase effective March 1, 2006.</li> <li>• 2007 increase is due to: (1) a \$61,000 (4.7%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$12,000 increase in profit due to operating cost changes and a one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) an \$90,000 (12.1%) decrease in pass-through costs, due to a \$4,000 increase in disposal expenses, resulting from: a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI); a \$96,000 decrease in contract management costs due to the one-time payment in 2006 that will not occur in 2007; and, a \$2,000 increase in franchise fees due to the March 2006 rate increase.</li> </ul>	

**CITY OF MENLO PARK**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	12,376	11,954	18,476	17,212
Route Days/Week	16.38	16.83	17.13	17.55
Accounts	7,604	7,600	1,183	1,180

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 6,262,000	
Other Revenues	\$ 33,000	
<b>Total Revenue</b>		<b>\$ 6,295,000</b>
Expenses	\$ 6,086,000	
<b>Profit</b>	<b>\$ 367,000</b>	
<b>Subtotal</b>	<b>\$ 6,453,000</b>	
Balancing Acct/ Interest	\$ 313,000	
<b>Revenue Req't</b>		<b>\$ 6,766,000</b>
<b>Surplus/(Shortfall)</b>		<b>\$ (471,000)</b>
% Adjustment		7.5%

**REPRESENTATIVE RATES**

Residential Cans			Commercial Bins		
Category	Current <sup>1</sup>	Calculated	Category	Current	Calculated
1 Can	\$13.50	\$14.51	1 YD. Bin X 1 Week	\$59.12	\$63.55
			2 YD. Bin X 1 Week	\$118.24	\$127.11
2 Can	\$40.31	\$43.33	3 YD. Bin X 1 Week	\$177.36	\$190.66
			1 YD. Bin X 2 Week	\$120.60	\$129.65
3 Can	\$47.86	\$51.45	2 YD. Bin X 2 Week	\$241.21	\$259.30
			3 YD. Bin X 2 Week	\$377.89	\$406.23

<sup>1</sup> Menlo Park bills standard residential service through property taxes  
The rates shown are for additional service

## CITY OF MENLO PARK

REVENUE VARIANCE			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 5,680,000	\$ 6,210,000	\$ 6,295,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 530,000	\$ 85,000

### Reasons for Variances

- 2006 increase is the result of an increase in revenue payments from the City to Allied for City-billed accounts, resulting from the 6.0% commercial rate increase effective 1/1/06 and a 6.0% residential rate increase effective 7/1/06.
- 2007 increase is due to the annualized impact of the July 2006 rate increase.

REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 3,386,000	\$ 3,540,000	\$ 3,707,000
<b>Operating Profit</b>	335,000	335,000	367,000
<b>Pass-Through Cost</b>	<u>2,527,000</u>	<u>2,384,000</u>	<u>2,379,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 6,248,000</u>	<u>\$ 6,259,000</u>	<u>\$ 6,453,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 11,000	\$ 194,000

### Reasons for Variances:

- 2006 decrease is due to: (1) a \$154,000 (4.5%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) no change in profit due to changes in operating expense, offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$143,000 (5.7%) decrease in pass-through costs, resulting from a \$187,000 decrease in projected disposal expense (less tonnage than projected and less compactor and JPA debris box pulls); offset by a \$44,000 increase in franchise fees due to an increase in revenue resulting from the rate increase.
- 2007 increase is due to: (1) a \$167,000 (4.7%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$32,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$5,000 (0.2%) decrease in disposal costs, resulting from a reduction in tons disposed; offset by an increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI).

**CITY OF REDWOOD CITY**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	22,879	21,465	31,267	30,691
Route Days/Week	34.90	34.82	27.13	28.49
Accounts	16,984	16,938	1,856	1,860

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 12,069,000	
Other Revenues	\$ 53,000	
<b>Total Revenue</b>		<b>\$ 12,122,000</b>
Expenses	\$ 12,311,000	
Profit	\$ 702,000	
<b>Subtotal</b>	<b>\$ 13,013,000</b>	
Balancing Acct / Interest	\$ 728,000	
Revenue Req't		<u><b>\$ 13,741,000</b></u>
Surplus/(Shortfall)		<u><b>\$ (1,619,000)</b></u>
% Adjustment		13.4%

**REPRESENTATIVE RATES**

Category	Residential Cans		Commercial Bins		
	Current	Calculated	Category	Current	Calculated
1 Can	\$16.95	\$19.22	1 YD. Bin X 1 Week	\$75.52	\$85.64
			2 YD. Bin X 1 Week	\$151.04	\$171.28
2 Can	\$33.90	\$38.44	3 YD. Bin X 1 Week	\$226.56	\$256.92
			1 YD. Bin X 2 Week	\$151.04	\$171.28
3 Can	\$50.85	\$57.66	2 YD. Bin X 2 Week	\$302.07	\$342.55
			3 YD. Bin X 2 Week	\$453.11	\$513.83

**CITY OF REDWOOD CITY**

<b>REVENUE VARIANCE</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Revenues at Current Rates</b>	\$ 11,341,000	\$ 12,327,000	\$ 12,122,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 986,000	- \$ 205,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) an 8.1% rate increase effective 12/20/05; (2) a one-time payment of \$205,000 towards the balancing account; (3) assessment of residential cart rental fees of approximately \$31,000 and commercial push/pull charges of approximately \$8,000; and, (4) offset by a net loss of 42 residential and commercial accounts; an 86% increase (49 accounts to 91 accounts) in commercial organic accounts which receive a 25% discount; and, less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.</li> <li>• 2007 decrease is due to the one-time payment of \$205,000 made in 2006 not projected to occur in 2007</li> </ul>			

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Operating Costs</b>	\$ 6,423,000	\$ 6,794,000	\$ 7,102,000
<b>Operating Profit</b>	635,000	642,000	702,000
<b>Pass-Through Cost</b>	<u>5,201,000</u>	<u>5,176,000</u>	<u>5,209,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 12,259,000</u>	<u>\$ 12,612,000</u>	<u>\$ 13,013,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 353,000	\$ 401,000

<b>Reasons for Variances:</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) a \$371,000 (5.8%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims and a 1.36 (2.1%) increase in allocated commercial route days due an increase in commercial accounts while most jurisdictions saw a decrease; (2) a \$7,000 increase in profit due to the increases in operating expense, partially offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$25,000 (0.5%) decrease in pass-through costs, resulting from a \$131,000 decrease in projected disposal expense due to less than anticipated tonnage; offset by a \$106,000 increase in franchise fees due to the 12/20/05 rate increase.</li> <li>• 2007 increase is due to: (1) a \$308,000 (4.5%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$60,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$33,000 (0.6%) increase in disposal costs, resulting from an increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI).</li> </ul>			

**CITY OF SAN CARLOS**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	10,928	10,322	9,590	9,431
Route Days/Week	18.21	18.42	11.30	11.57
Accounts	8,374	8,342	1,152	1,158

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 4,941,000	
Other Revenues	\$ 35,000	
<b>Total Revenue</b>		<b>\$ 4,976,000</b>
Expenses	\$ 4,828,000	
<b>Profit</b>	<b>\$ 318,000</b>	
<b>Subtotal</b>	<b>\$ 5,146,000</b>	
Balancing Acct/ Interest	\$ 289,000	
Revenue Req't		<b>\$ 5,435,000</b>
Surplus/(Shortfall)		<b>\$ (459,000)</b>
% Adjustment		<b>9.2%</b>

**REPRESENTATIVE RATES**

Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$15.07	\$16.46	1 YD. Bin X 1 Week	\$66.96	\$73.12
			2 YD. Bin X 1 Week	\$133.92	\$146.24
2 Can	\$32.07	\$35.02	3 YD. Bin X 1 Week	\$200.88	\$219.36
			1 YD. Bin X 2 Week	\$136.60	\$149.17
3 Can	\$49.12	\$53.64	2 YD. Bin X 2 Week	\$273.20	\$298.33
			3 YD. Bin X 2 Week	\$409.80	\$447.50

**CITY OF SAN CARLOS**

<b>REVENUE VARIANCE</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Revenues at Current Rates</b>	\$ 4,597,000	\$ 4,943,000	\$ 4,976,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 346,000	\$ 33,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to a new Home Depot compactor account as of February 2006, offset by less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.</li> <li>• 2007 increase is due to one month's worth of the new home depot compactor account.</li> </ul>			

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Operating Costs</b>	\$ 2,859,000	\$ 3,079,000	\$ 3,218,000
<b>Operating Profit</b>	283,000	291,000	318,000
<b>Pass-Through Cost</b>	<u>1,670,000</u>	<u>1,554,000</u>	<u>1,610,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 4,812,000</u>	<u>\$ 4,924,000</u>	<u>\$ 5,146,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 112,000	\$ 222,000

**Reasons for Variances:**

- 2006 increase is due to: (1) a \$220,000 (7.7%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims and a 0.48 (1.6%) increase in allocated route days due an increase in commercial accounts while most jurisdictions saw a decrease; (2) an \$8,000 increase in profit due to changes in operating expense, partially offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$116,000 (6.9%) decrease in pass-through costs, resulting from: a \$167,000 decrease in non-compactor disposal expense and a \$30,000 decrease in franchise fees due to an overpayment in 2005; offset by a \$72,000 increase in compactor haul and disposal costs due to the new Home Depot account and a \$9,000 increase in contract management expenses for one-time payment of past invoices for third-party contract management assistance incurred in 2003, 2004, and 2005, but paid in 2006.
- 2007 increase is due to: (1) a \$139,000 (4.5%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$27,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$56,000 (3.6%) increase in disposal costs, resulting from an increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI).

**CITY OF SAN MATEO**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	27,337	25,702	32,236	30,776
Route Days/Week	40.88	40.30	35.93	36.17
Accounts	19,109	19,018	2,336	2,328

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 14,254,000	
Other Revenues	\$ 65,000	
<b>Total Revenue</b>		<b>\$ 14,319,000</b>
Expenses	\$ 14,427,000	
Profit	\$ 828,000	
<b>Subtotal</b>	<b>\$ 15,255,000</b>	
Balancing Acct / Interest	\$ 686,000	
<b>Revenue Req't</b>		<b>\$ 15,941,000</b>
<b>Surplus/(Shortfall)</b>		<b>\$ (1,622,000)</b>
<b>% Adjustment</b>		<b>11.4%</b>

**REPRESENTATIVE RATES**

Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$11.07	\$12.33	1 YD. Bin X 1 Week	\$74.03	\$82.47
2 Can	\$24.36	\$27.14	2 YD. Bin X 1 Week	\$148.06	\$164.94
			3 YD. Bin X 1 Week	\$222.09	\$247.41
3 Can	\$37.64	\$41.93	1 YD. Bin X 2 Week	\$150.23	\$167.36
			2 YD. Bin X 2 Week	\$300.46	\$334.71
			3 YD. Bin X 2 Week	\$450.70	\$502.08

**CITY OF SAN MATEO**

<b>REVENUE VARIANCE</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Revenues at Current Rates</b>	\$ 13,510,000	\$ 14,818,000	\$ 14,319,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 1,308,000	- \$ 499,000

Reasons for Variances

- 2006 increase is due to: (1) an 5.5% rate increase effective 4/1/06; (2) a one-time payment of \$692,390 towards the balancing account; and, (3) offset by a net loss of 99 residential and commercial accounts; an 67% increase (33 accounts to 55 accounts) in commercial organic accounts which receive a 25% discount; and, less than anticipated revenue from the curbside recycling supplemental program payments by the Department of Conservation.
- 2007 decrease is due to the one-time payment of \$692,390 made in 2006 not projected to occur in 2007 and the annualized impact of the April 2006 rate increase.

<b>REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)</b>			
	<b>2006 Projected Last Year</b>	<b>2006 Projected This Year</b>	<b>2007 Projections</b>
<b>Operating Costs</b>	\$ 7,782,000	\$ 8,003,000	\$ 8,374,000
<b>Operating Profit</b>	770,000	756,000	828,000
<b>Pass-Through Cost</b>	<u>6,029,000</u>	<u>5,933,000</u>	<u>6,053,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 14,581,000</u>	<u>\$ 14,692,000</u>	<u>\$ 15,255,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 111,000	\$ 563,000

Reasons for Variances:

- 2006 decrease is due to: (1) a \$221,000 (2.8%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) a \$14,000 decrease in profit due to changes in operating expense; offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$96,000 (1.6%) decrease in pass-through costs, resulting from: a \$240,000 decrease in non-compactor disposal expense; offset by a \$32,000 increase in compactor haul and disposal costs due to the new Home Depot account; a \$10,000 increase in contract management expenses for one-time payment of past invoices for third-party contract management assistance incurred in 2003, 2004, and 2005, but paid in 2006; and, a \$102,000 increase in franchise fees due to the rate increase.
- 2007 increase is due to: (1) a \$371,000 (4.6%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expense for new fully-automated yard waste collection vehicles; (2) a \$72,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) a \$120,000 (2.0%) increase in disposal costs, resulting from an increase in projected compactor and JPA hauling costs, resulting from a 22.8% increase in Allied's per-hour haul rate (due to significant increases in fuel and labor costs which have historically exceeded the change in CPI) and an increase in franchise fees due to the April 1, 2006 rate increase.

**WEST BAY SANITARY DISTRICT**

<b>OPERATIONS DATA</b>				
Category	Residential		Commercial	
	2005	2006	2005	2006
Tonnage/Year	3,355	3,072	671	661
Route Days/Week	5.16	5.19	0.66	0.65
Accounts	2,080	2,066	51	51

**INCOME STATEMENT (INCLUDING BALANCING ACCOUNT)**

Category	PROJECTED 2007	
Route Revenues	\$ 708,000	
Other Revenues	\$ 10,000	
Total Revenue		\$ 718,000
Expenses	\$ 794,000	
Profit	\$ 57,000	
Subtotal	\$ 851,000	
Balancing Acct / Interest	\$ 154,000	
Revenue Req't		\$ 1,005,000
Surplus/(Shortfall)		\$ (287,000)
% Adjustment		40.5%

**REPRESENTATIVE RATES**

Residential Cans			Commercial Bins		
Category	Current	Calculated	Category	Current	Calculated
1 Can	\$15.23	\$21.40	1 YD. Bin X 1 Week	\$98.61	\$138.55
			2 YD. Bin X 1 Week	\$187.14	\$262.93
2 Can	\$30.46	\$42.80	3 YD. Bin X 1 Week	\$208.39	\$292.79
			1 YD. Bin X 2 Week	\$162.14	\$227.81
3 Can	\$45.70	\$64.21	2 YD. Bin X 2 Week	\$311.42	\$437.55
			3 YD. Bin X 2 Week	\$360.04	\$505.86

## WEST BAY SANITARY DISTRICT

REVENUE VARIANCE			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Revenues at Current Rates</b>	\$ 718,000	\$ 751,000	\$ 718,000
<b>Greater/(Less) Than Projected Last Year</b>		\$ 33,000	- \$ 33,000
<b>Reasons for Variances</b>			
<ul style="list-style-type: none"> <li>• 2006 increase is due to a one-time payment of \$33,000 towards the balancing account.</li> <li>• 2007 decrease is due to the one-time payment of \$33,000 made in 2006 not projected to occur in 2007</li> </ul>			

REVENUE REQUIREMENT VARIANCE (Not Including Balancing Account)			
	2006 Projected Last Year	2006 Projected This Year	2007 Projections
<b>Operating Costs</b>	\$ 501,000	\$ 557,000	\$ 581,000
<b>Operating Profit</b>	50,000	52,000	57,000
<b>Pass-Through Cost</b>	<u>232,000</u>	<u>213,000</u>	<u>213,000</u>
<b>Total Revenue Requirement</b>	<u>\$ 783,000</u>	<u>\$ 822,000</u>	<u>\$ 851,000</u>
<b>Change from 2006 Revenue Requirement</b>		\$ 39,000	\$ 29,000

<b>Reasons for Variances:</b>
<ul style="list-style-type: none"> <li>• 2006 increase is due to: (1) an \$56,000 (11.2%) increase in operating expense, primarily due to increases in overtime, fuel, depreciation expense for new fully-automated yard waste collection vehicles, and insurance claims; (2) a \$2,000 increase in profit due to changes in operating expense, partially offset by the disallowance of profit on greater than expected overtime costs; and, (3) a \$19,000 (8.2%) decrease in pass-through costs, resulting from a decrease in projected disposal expense due to less than projected tons to dispose.</li> <li>• 2007 increase is due to: (1) a \$24,000 (4.3%) increase in operating costs, due to increases in hourly wage rates (union: 4.5%; non-union: 3.0%), group health premiums (drivers: 8.1%; maintenance personnel: 8.8% non-union 10%), union pension contributions (drivers: 8.1%; maintenance personnel: 12.5%), fuel expenses (15.1%), and depreciation expenses for new fully-automated yard waste collection vehicles; (2) a \$5,000 increase in profit due to operating cost changes and the one-time disallowance of profit on excess overtime costs in 2006 that will not occur in 2007; and, (3) no change in disposal costs.</li> </ul>