

Attachment K

Contractor Compensation and Rate Setting Process

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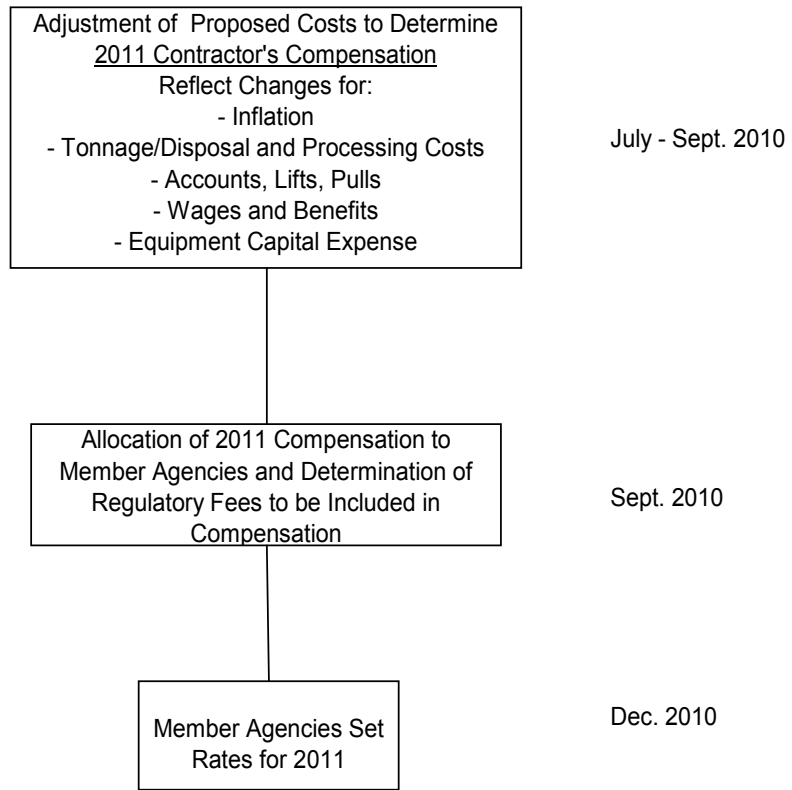
1. Role of SBWMA

SBWMA will assist Member Agencies in the determination of Contractor's compensation; however, the Member Agencies retain the right for final approval of Contractor's compensation and Member Agency rates. The role of SBWMA shall be to review Contractor's annual application for adjustment to its compensation; determine Contractor's compensation for each rate period; allocate Contractor's compensation to Member Agencies; and propose rate adjustments. Member Agencies shall review and approve or modify: SBWMA determination of the Contractor's annual compensation; SBWMA allocation of compensation to the Member Agency; and the proposed rate adjustments.

Figure K-1 on the following page presents a flow chart of the process for determining Contractor's compensation and rates for the first rate year (2011).

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Figure K-1 Determination of Contractor's Compensation for 2011



2. Contractor Accountability for Proposal Assumptions

The method of determining Contractor's compensation holds Contractor accountable for several projections specified in Attachment N, including: proposed technology, route productivity, single-family container location (curbside and backyard placement) assumptions; and single-family participation rates, as follows:

- Proposed Technology – No adjustments will be made to compensation if the technology proposed by Contractor does not achieve the Contractor's intended results or productivity. (If a change in law or regulations requires consideration of new or alternative technology or if the parties mutually agree to consider a change in technology, cost impacts related to the change in technology will be reviewed.)
- Route Productivity – The assumptions in Attachment N regarding route productivity are critical to all aspects of calculating compensation as these productivity assumptions directly impact costs related to labor, route hours, vehicles, fuel use, vehicle maintenance costs, etc. No adjustments to compensation will be made for differences between assumed and actual route productivity levels.
- Container Placement (Curbside or Backyard) Rates – Attachment N specifies Contractor's estimate of the number of single-family customers that will place (setout) containers curbside for collection or choose to pay additional fees for backyard collection. No adjustments to compensation will be made for differences between estimated and actual setout levels.
- Weekly Participation Levels – Attachment N specifies Contractor's estimate of the number of Single-Family Customers that will be provided weekly Recyclable Materials and Organic Materials Collection Service. No adjustments to the compensation will be made for differences between estimated and actual participation levels.

3. Adjustments to Contractor's Compensation

Throughout the Term, costs shall be adjusted using the costs shown in Attachment N as a basis. The adjustments shall be calculated separately for each line of business (e.g., single-family solid waste, single-family recycling, commercial solid waste, commercial recycling, etc.) and separately for each category of indirect costs (e.g., general and administration, container maintenance, vehicle maintenance, and contract implementation) and then totaled for calculation of Contractor's annual compensation.

Contractor's compensation has been separated into three components – annual cost of operations, profit, and pass-through costs. The process for adjusting these costs is summarized in Table 1. Table 1 describes the adjustment method at two (2) different stages: (i) adjustment to Attachment N in 2010 to establish 2011 compensation; and (ii) annual adjustments to determine Contractor's compensation for 2012 and each year thereafter.

With regard to changes in service levels (i.e., accounts, lifts, pulls), adjustments to Contractor's costs in 2010 will reflect actual changes in service levels from 2008 to 2010 and projected changes for 2011. In 2012, Contractor's compensation for the third rate year (i.e., 2013) will be determined; at such time, changes in service levels from 2011 assumptions to actual 2012 will be reflected in changes in costs. No adjustments to

costs to reflect changes in service levels shall be made after the change made in 2012, when setting compensation for 2013.

Table 1

| Cost | Adjustment to Proposed Costs in 2010 to Set 2011 Compensation | Annual Adjustment to Contractor's Compensation Conducted in July of Each Year Commencing in 2011 |
|---|---|---|
| ANNUAL COST OF OPERATIONS | | |
| Wages and benefits for route personnel and mechanics (represented through collective bargaining agreements) | <p>Two adjustments will be necessary:</p> <ul style="list-style-type: none"> • Revise proposed wages to reflect forecasted 2011 wage and benefits based on the then-current Allied-negotiated labor contracts (which will be negotiated in 2008 and 2009). Proposed wages and benefits will be based on hourly rates and benefits specified in the RFP and adjustments to proposed costs will be made to reflect the percentage change in the wage and benefits used for the proposal and those that will be in effect in 2011. The number of full-time equivalents in each labor category shown on Attachment O will be used in making the adjustment. • Revise to reflect changes in accounts, lifts, and pulls by increasing or decreasing wages and benefits by the percentage change in the accounts, lifts, and pulls. | <ul style="list-style-type: none"> • Annually adjust direct labor costs based on the then-current Allied-negotiated labor contracts until these labor agreements expire. • After expiration of the Allied-negotiated labor agreements, annually adjust labor and benefit costs for one-year change in the U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. ecs12102i). • In 2012 when determining compensation for 2013, adjust wages and benefits to reflect then-current account data (using average number of accounts for most recently completed four quarters); cost adjustments to be made as described for 2010. |
| Wages and benefits for all other personnel (which are not represented through collective bargaining agreements) | <p>Inflation adjustment of Attachment N costs to estimate 2011 cost. Adjust using the U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. ecs12102i). Change between (Month) 2008 and (Month) 2010.</p> | <p>Inflation adjustment to reflect one-year change in the U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. ecs12102i). Change between index for (Month) of both years.</p> |
| Payroll taxes | Adjustment equals the percentage change to regular wages | Same method as prior year |

Table 1

| Cost | Adjustment to Proposed Costs in 2010 to Set 2011 Compensation | Annual Adjustment to Contractor's Compensation Conducted in July of Each Year Commencing in 2011 |
|-------------------------|--|---|
| Workers compensation | <ul style="list-style-type: none"> • Inflation adjustment to estimate 2011 cost. Adjust using the U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Total All workers (not seasonally adjusted, total benefits, series no. CIU203000000000A). • Revise to reflect changes in accounts, lifts, and pulls by increasing or decreasing workers compensation by the percentage change in the accounts, lifts, and pulls. • Change between index for (Month) 2008 and (Month) 2010. | <ul style="list-style-type: none"> • Inflation adjustment to reflect one-year change in the U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Total All workers (not seasonally adjusted, total benefits, series no. CIU203000000000A). • In 2012 when determining compensation for 2013, adjust workers compensation to reflect then-current account data (using average number of accounts for most recently completed four quarters); cost adjustments to be made as described for 2010. • Change between index for (Month) of both years. |
| Fuel for route vehicles | <ul style="list-style-type: none"> • Inflation adjustment of fuel costs on Attachment N to estimate 2011 cost. Adjust using the U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index - Commodity Index for #2 diesel fuel (not seasonally adjusted, fuels and related products and power, series no. wpu057303). • Revise to reflect changes in accounts, lifts, and pulls by increasing or decreasing fuel costs by the percentage change in the accounts, lifts, and pulls. • Change between index for (Month) 2008 and (Month) 2010. | <ul style="list-style-type: none"> • Inflation adjustment to reflect one-year change in the U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index - Commodity Index for #2 diesel fuel (not seasonally adjusted, fuels and related products and power, series no. wpu057303). • In 2012 when determining compensation for 2013, adjust fuel costs to reflect then-current account data (using average number of accounts for most recently completed four quarters); cost adjustments to be made as described for 2010. • Change between index for (Month) of both years. |

Table 1

| Cost | Adjustment to Proposed Costs in 2010 to Set 2011 Compensation | Annual Adjustment to Contractor's Compensation Conducted in July of Each Year Commencing in 2011 |
|--------------------|---|---|
| Other direct costs | <ul style="list-style-type: none"> • Inflation adjustment of costs shown on Attachment N to estimate 2011 costs. Adjust using 75% of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sa). • Revise to reflect changes in accounts, lifts, and pulls by increasing or decreasing other direct costs by the percentage change in the accounts, lifts, and pulls. • Change between index for (Month) 2008 and (Month) 2010. | <ul style="list-style-type: none"> • Inflation adjustment to reflect 75% of one-year change in the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sa). • In 2012 when determining compensation for 2013, and the following years, adjust fuel costs to reflect then-current account data (using average number of accounts for most recently completed four quarters); cost adjustments to be made as described for 2010. • Change between index for (Month) of both years. |

Table 1

| Cost | Adjustment to Proposed Costs in 2010 to Set 2011 Compensation | Annual Adjustment to Contractor's Compensation Conducted in July of Each Year Commencing in 2011 |
|--|---|--|
| <p>Depreciation for collection vehicles and containers</p> | <ul style="list-style-type: none"> • Inflation adjustment of costs shown on Attachment N to estimate 2011 cost. Adjust using the U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index Industry Data for motor vehicle body manufacturing, truck, bus, car, and other vehicle bodies, for sale separately (not seasonally adjusted, base date: 8212, series no. pcu3362113362111). • If equipment capital costs increase more than the inflation adjustment, then contractor may request additional adjustment to depreciation in 2010; in such case; contractor must demonstrate that proposed costs and adjusted costs reflected market rates for equipment. • Revise to reflect changes in accounts, lifts, and pulls by increasing or decreasing depreciation by the percentage change in the accounts, lifts, and pulls. • Change between index for (Month), 2008 and (Month) 2010. | <ul style="list-style-type: none"> • No adjustments shall be made to depreciation over the term with the exception that in 2012 when determining compensation for 2013, adjust depreciation to reflect then-current account data (using average number of accounts for most recently completed four quarters); adjustments to be made as described for 2010. • Following the adjustment reflected in 2013 compensation, no other adjustments to depreciation shall be made. • Change between index for (Month) of both years. |
| <p>Allocated Depreciation Costs (related to facilities, vehicle and container maintenance equipment, shop equipment, office equipment)</p> | <p>Inflation adjustment of costs shown on Attachment N to estimate 2011 cost. Adjust using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sa).</p> <p>Change between index for (Month), 2008 and (Month) 2010.</p> | <p>No adjustments shall be made to depreciation over the term.</p> |

Table 1

| Cost | Adjustment to Proposed Costs in 2010 to Set 2011 Compensation | Annual Adjustment to Contractor's Compensation Conducted in July of Each Year Commencing in 2011 |
|---|--|---|
| Interest expense (both direct and allocated interest) | Same method as that described for depreciation. | Same method as that described for depreciation. |
| Total Annual Cost of Operations | Recalculated by summing the adjusted costs. | Same method as prior year |
| PROFIT | Recalculated profit using the proposed operating ratio and the adjusted total annual cost of operations. | Same method as prior year |
| | | |
| PASS-THROUGH COSTS | | |
| Shoreway Facility disposal and processing costs (Shoreway Facility Fees) | Adjust disposal and processing costs to reflect any changes to tonnage estimates based on projected 2011 tonnage that reflects the most-recently available tonnage data and expected impacts of the collection program. Calculate costs using projected 2011 Shoreway Facility Fees. | Same method as prior year (Note that an annual reconciliation process conducted after each rate period will make contractor whole for disposal and processing costs.) |
| Regulatory fees | To be calculated separately for each member agency based on member agency specific fees (e.g., franchise fees, vehicle impact fees, etc.). | Annual calculation to be conducted separately for each member agency based on member agency specific fees (e.g., franchise fees, vehicle impact fees, etc.). |
| Allocated lease costs, if any (e.g., lease costs for vehicle parking facilities, offices, maintenance yard) | No adjustments; lease costs shall be fixed over the term. | No adjustments; lease costs shall be fixed over the term. |
| Total Pass-Through Costs | Recalculated as the sum of the adjusted proposed costs. | Same method as prior year. |
| | | |
| TOTAL CONTRACTOR'S COMPENSATION | Recalculated by summing total annual operating costs, profit, and pass-through costs. | Same method as prior year. |

4. Contractor Compensation Adjustment Application

4.1 Preparation of Compensation Adjustment Application

Contractor is required to submit an Application annually by August 1 for determination of Contractor's Compensation for the following Rate Year. This Section describes the content of the Application.

A. Reporting of Operational Information

Operational information shall be prepared for each Line of Business, for each Member Agency, and for the entire Service District, and shall be submitted on the forms provided on pages _____ of this Attachment documenting operating statistics included in Attachment N. {The forms will be based on those provided in Attachment 10 of the RFP.} This data is required to allocate Contractor's compensation to each Member Agency based on operating statistics. Operational information to be provided includes, but is not limited to:

- Tonnage collected by Line of Business;
- Number of accounts by account type (i.e., Container size, Collection frequency, and material type) by Line of Business;
- Number of Containers in service by Line of Business;
- Set-out rates by Line of Business;
- Number of routes and annual route hours by Line of Business;
- Number and type of vehicles by Line of Business; and,
- Number of personnel and annual route hour labor by Line of Business.

B. Audited Financial Statements

Audited financial statements for the Service District operations for the immediately preceding year are required to be submitted with the application. The audited financial statements shall be prepared by a certified public accountant and shall include the auditor's opinion on the financial statements, management letter and expressed opinion on accounting controls, provide assurance that the financial records fairly present the results of Contractor's operation. Statements of revenues contained in the Application will be reconciled by the SBWMA to the audited financial statements.

C. Preparation of Management Representation Letter

The Application shall include a management representation letter, which states that:

- Management accepts responsibility for the Application;
- The Application is based upon the compensation adjustment procedures described in Article 11 and this Attachment K; and,
- All significant information and documents relevant to the compensation adjustment process are available for review by SBWMA.

D. Documentation of Calculation of Contractor's Compensation

Worksheets used to calculate Contractor's Compensation for the following Rate Year will be prepared in the format specified in Attachment N and shall be approved by SBWMA. Additional worksheets shall be prepared when service level adjustments

and reconciliations of revenues and Shoreway Facility Fees are performed and for other necessary calculations. Contractor shall complete and include the worksheets as part of the Application. The worksheets shall present expenses by Line of Business, whenever appropriate.

E. Preparation of Gross Revenue Billed Information

Gross Revenues Billed during the most-recently completed Rate Year shall be reported annually (in a format to be approved by SBWMA) commencing with the Application submitted in 2012 and shall include the following:

- Statement of Actual Gross Revenue Billed for the most-recently completed Rate Year for each Member Agency by Line of Business (including, but not limited to: Rate revenue for regular Collection service, extra service, bulky waste collection, lock and push-out fees).
- Description of differences between revenue billed and those projected for the most-recently completed Rate Year.

F. Preparation of Disposal and Processing Cost Information

Actual Shoreway Facility Fees incurred by the Contractor for the most-recently completed Rate Year shall be reported annually (in a format to be approved by SBWMA) commencing with the Application submitted in 2012 and shall include the following:

- Statement of Actual Shoreway Facility Fees for the most-recently completed Rate Year for each Member Agency by Line of Business (including, but not limited to: Disposal costs for Solid Waste and Processing costs for Recyclable Materials and Organic Materials).
- Description of differences between Tonnages and Shoreway Facility Fees and those projected for the most-recently completed Rate Year and explanation of the differences.

G. Preparation of Supporting Documentation

The Contractor shall provide supporting documentation for all calculations, assumptions, and data used in the calculation of the Contractor's Compensation for the following Rate Year. Supporting documents may include:

- General Ledger
- Revenue and Accounts Receivable Ledgers
- Audited Financial Statements for the most-recently-completed Calendar Year
- Collective Bargaining Agreements
- Solid Waste Transfer and Disposal Tickets (transfer, disposal, and processing) and Monthly Disposal Reports
- Shoreway Facility Fees (Recyclables Materials and Organic Materials Processing Costs)
- Copies of Index Data
- Other information requested by SBWMA based on unusual or unexpected changes in the Contractor's Compensation as calculated by Contractor.

5. Verification of the Completeness of Contractor's Application

SBWMA shall review Contractor's Application and supporting documentation to determine that it has been prepared in a manner consistent with this Attachment. SBWMA shall request, in writing, that Contractor provide any missing information necessary to complete the Application. Agency shall participate in meetings with SBWMA and the Contractor to discuss the Application, upon request of Agency or SBWMA.

A. Compliance Review

Within thirty (30) Business Days of receipt of the Application, SBWMA shall review the Application to determine if it is complete and ready for analysis.

1. Completeness of Application. SBWMA shall determine if:
 - a. The Contractor included all required forms and financial statements;
 - b. All forms are completed; and,
 - c. All calculations mathematically correct.
2. Verification of Operating Statistics. SBWMA may perform an on-site review of Contractor's operations to verify the then-current operating statistics in order to verify the cost allocations among Member Agencies for the coming Rate Year.
3. Verification of Supporting Documents and Schedules. Various documents will be included in the Application to support the compensation adjustment. The purpose of each supporting document shall be clearly identified by Contractor and any missing support information identified by SBWMA shall be provided by Contractor.
4. Contractor Notification. SBWMA shall notify Contractor when it has determined that the Application is complete. If the Application is incomplete, SBWMA shall request in writing, that Contractor provide the necessary additional information. Upon receipt and review of the necessary additional information, SBWMA will notify Contractor whether the Application is complete, and, if not, will request additional information.

B. Review of Compensation Adjustment Application

The compensation review process is intended to allow SBWMA to determine whether Application is consistent with the Agreement and this Attachment K and accurately calculates Contractor's Compensation for the coming Rate Year. SBWMA shall take the following steps during its review of the Application.

1. Review of Compensation Calculations. SBWMA shall review Contractor's Compensation adjustment calculations to verify that the calculations are performed in accordance with Article 11 and this Attachment K. SBWMA shall identify any errors or discrepancies in the calculation of compensation and recommend appropriate adjustments to the calculations.
2. Review of Revenues. SBWMA shall review the historical, actual and forecasted revenues and calculate current revenues based on then-current Customer counts and Rates. Any unusual trend will be identified and explanations obtained from the Contractor. Any adjustments to the revenue reconciliation calculation will be identified and documented.
3. Review of Shoreway Facility Fees. SBWMA shall review historical Shoreway Facility Fees. SBWMA may select a judgmental sample of transactions for testing each year.

The selected items will be tested to ensure that they are properly supported by invoices, gate house tickets, recyclable processing invoices, or other appropriate source documents.

SBWMA may review variances in Shoreway Facility Fees from year to year and obtain explanations for significant variances. Costs will be correlated with the revenues and operating statistics provided by the Contractor and explanations for unusual trends or variances may be sought.

4. Determine Revenue Surplus/Shortfall. SBWMA shall identify the surplus due to Agency, or the shortfall due to Contractor resulting from the difference between Gross Revenues Billed and Contractor's Compensation calculated for the most-recently completed Rate Year. SBWMA shall then determine the overall Percentage Change or decrease to Rates based on the then-current Rate structures and/or provide analysis for alternative means of reimbursement to Contractor or Agency as may be appropriate.

6. Member Agency Compensation Allocation Methodology

After determining the 2011 Contractor's Compensation for the Service District, Contractor's Compensation shall be allocated among the Member Agencies.

A cost allocation process will be used to attribute the Contractor's costs to the individual Member Agencies it services. The allocation process will rely on:

1. Sampling of customer data and operating statistics to provide a representative allocation;
2. Use of operating statistics to refine the allocation of costs;
3. Monitoring and allocating collection costs using monthly operating statistics;
4. The collection contractors' use of a database to improve the speed and timeliness of the allocation process;
5. Cost and operating data needed to calculate the allocation; and,
6. Calculation of each member agency's allocated portion of the annual collection contractors' compensation using the database.

The following methodology will be used in allocating Contractor's Compensation for the Service District to each of the Member Agencies when Contractor's Compensation for 2011 is determined.

1. Operating Statistics. The allocation of costs shall be performed based on projected 2011 operating statistics for each Member Agency. These operating statistics shall include route labor hours per year (for employees covered by a collective bargaining agreement), route hours per year, number of accounts, service stops, Bin lifts, Drop Box pulls, and number of containers and shall be specified separately for each Member Agency. Route labor hours and route hours shall include hours related to on and off route time, collection time, and hauling time to deliver materials to the Designated Transfer and Processing Facility. The projected 2011 operating statistics shall be based on historical statistics adjusted to anticipate changes, in the following Rate Year. Contractor shall prepare these operating statistics based on the best available information (which shall be provided by the Agency in 2010 and by the Contractor thereafter) and its knowledge of future trends.

2. Allocation of Line of Business Costs to Member Agencies. If expenses can be assigned to a specific Member Agency, such costs shall be attributed to that Member Agency. Otherwise, expenses shall be assigned to each Member Agency as follows:
- a. Wages for Collective Bargaining Agreement (CBA) Employees. Wages for CBA Employees shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route labor hours to perform Collections in the Service District. For example, if the number of annual route labor hours for Atherton is 10% of the total annual route labor hours for the Service District, 10% of the costs for Wages for CBA Employees shall be allocated to Atherton.
 - b. Benefits for CBA Employees. Benefit costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route labor hours for the Service District.
 - c. Payroll Taxes. Costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route labor hours for the Service District.
 - d. Workers Compensation Insurance. Costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route labor hours for the Service District.
 - e. Direct Fuel Costs. Costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route hours for the Service District.
 - f. Other Direct Costs. Costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route hours for the Service District.
 - g. Depreciation for Collection Equipment:
 - i. Route Vehicles - Costs shall be allocated to each Member Agency based on its proportional share of the projected 2011 annual route hours for the Service District.
 - ii. Collection Containers - Costs shall be allocated to each Member Agency based on its proportional share of projected number of Containers in service in 2011 in the Service District.
 - iii. Other - Costs shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route hours for the Service District.
 - h. Allocated Indirect Costs Excluding Depreciation and Interest:
 - i. General and Administration – Indirect General and Administration Costs (excluding depreciation and interest) shall be allocated to each Member Agency based on its proportional share of projected 2011 accounts serviced in the Service District.
 - ii. Vehicle Maintenance - Indirect Vehicle Maintenance Costs (excluding depreciation and interest) shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route hours for the Service District.
 - iii. Container Maintenance - Container Maintenance Costs (excluding depreciation and interest) shall be allocated to each Member Agency based on its proportional share of projected 2011 Containers in service in the Service District.

- iv. Implementation - Implementation Costs (excluding depreciation and interest) shall be allocated to each Member Agency based on its proportional share of projected 2011 annual route hours for the Service District.
- i. Allocated Indirect Depreciation. The Allocated Indirect Depreciation Expenses shall be allocated in the manner described in Section 2.h.
- j. Total Annual Cost of Operations. The Projected 2011 Total Annual Cost of Operations for each Member Agency shall equal the sum of the projected costs listed above in Sections 2.a through 2.i.
- k. Profit. Profit shall be calculated for each Member Agency by dividing the Total Annual Cost of Operations allocated to the Member Agency by _____. {Note to proposers: the selected Contractor's proposed operating ratio shall be inserted here} and subtracting the Total Annual Cost of Operations allocated to the Member Agency from the dividend.
- l. Shoreway Facility Disposal and Processing Costs. Disposal and Processing Costs shall be allocated based on the proportional share of projected 2011 Tonnage Collected for each Member Agency.
- m. Regulatory Fees. Regulatory Fees shall be allocated based on projected 2011 annual route hours. Agency fees required by Article 10 of the Agreement shall not be included in this calculation, as they will be calculated later in the process.
- n. Direct Interest Expense. The Direct Interest Expenses shall be allocated in the manner described in Section 2.g.
- o. Allocated Indirect Interest Expense. The Allocated Indirect Interest Expenses shall be allocated in the manner described in Section 2.h.
- p. Allocated Indirect Lease Costs. The Allocated Indirect Lease Costs shall be allocated in the manner described in Section 2.h.
- q. Total Pass-Through Costs. The 2011 Total Pass-Through Costs for each Member Agency shall equal the sum of the Agency's allocated 2011 Shoreway Facility Fees, Regulatory Fees, Interest Expense, Allocated Indirect Interest Expense, and Allocated Indirect Lease Costs.
- r. Total 2011 Costs. The 2011 Total Costs for each Member Agency shall equal the sum of the Agency's allocated 2011 Total Annual Cost of Operations, 2011 Profit, and 2011 Total Pass-Through Costs.

The allocation methodology set forth above shall be used in all subsequent years unless modified by SBWMA.

7. Annual Reconciliation of Revenues and Disposal and Processing Expenses

Annually, Contractor's billed revenues will be reconciled to the approved (e.g., calculated) annual Contractor's compensation. The difference will be added to or subtracted from Contractors' compensation for the following rate year.

The Contractor's actual annual Shoreway Facility Fees for materials delivered to the Shoreway Facility will be compared to the estimated Shoreway Facility Fees included in annual Contractor's compensation. The difference will be added to or subtracted from the approved annual Contractor's compensation for the following rate year. For example, if the reconciliation process conducted during 2014 concludes that the actual disposal cost for the most-recently completed rate year (i.e., 2013) was \$200,000 more than the estimated disposal cost included in the Contractor's compensation for that rate year, \$200,000 would be added to the approved Contractor's compensation for the following rate year (i.e., 2015).

The reconciliation process will not occur for the last year of the Term.

8. Preparation and Review of Reports

The Agency delegates authority to SBWMA for conducting the review of the Application. The results shall be presented to the SBWMA Board, which in turn shall make recommendations to the Agency and other Member Agencies.

SBWMA shall prepare a draft report and final report on its review of the Application as follows:

1. Draft Report. SBWMA staff shall summarize its review, findings, and recommendations in a draft report. The draft report shall include all of the following:
 - a. An Executive Summary;
 - b. A summary of the Application;
 - c. A description of and the basis for all recommended adjustments to the Contractor's Compensation contained in the Application;
 - d. Revenue surplus/shortfall;
 - e. Reconciliation adjustments for revenues and Disposal and Processing costs;
 - f. Calculation of the required adjustment to the then-current Contractor's Compensation for the SBWMA Service District and each Member Agency as well as the Member Agency's Rates based on then-current account totals (e.g., type, size and frequency); and,
 - g. A discussion of outstanding issues for SBWMA consideration.

During preparation of its draft report, SBWMA staff shall provide interim findings and recommendations to Contractor to verify the accuracy of calculations prepared by SBWMA. Thereafter, SBWMA staff shall provide its draft reports to the Contractor for review. Contractor shall provide any comments to SBWMA staff within a ____ (___) Business Days of receipt of the draft report.

2. Final Report. SBWMA staff shall incorporate comments from the Contractor as appropriate and prepare a final report to include on the agenda for the September or October SBWMA Board meeting. At that meeting, the SBWMA Board will receive public comments including those of Contractor, and may either approve the final report as submitted or direct SBWMA staff to make adjustments to its recommendations. The approved Final Report will then be forwarded to the Agency for its consideration when setting its Rates for the following rate year.

9. Performance Incentives and Disincentives for Contractor's Performance

Contractor performance will be monitored against established and quantifiable standards in the areas of Diversion, Collection Performance, and Customer Service. Incentives have been designed to reward Contractor for outstanding levels of performance with regard to Diversion, Number of Missed Pick-Up Initial Complaints, and Average Hold Time for customer service calls. Disincentives (in the form of reduced compensation to Contractor) may be assessed for substandard performance related to: diversion level attained (i.e., Single-Family and Commercial sectors), Contamination Level (i.e., Targeted Recyclable Materials, Residential and Commercial Organic Materials, and Commercial Plant Materials), Missed Pick-Up Initial Complaints, Missed Pick-Up Collection Events, Average Hold Time, and Calls Answered in Three (3) Minutes.

The Performance Incentives and Disincentives are detailed in Attachment I. These will be determined and factored into rates by each Member Agency individually.

10. Rate Setting

To facilitate the rate setting process, SBWMA shall annually review and adjust (as appropriate) the Contractor's proposed allocation of the Contractor's compensation to each Member Agency, and recommend each Member Agency's portion of Contractor's compensation for Member Agency approval.

Member Agencies shall review collection rates annually (or as frequently as they determine necessary) and adjust them to achieve revenues equal to: (i) their allocated portion of Contractor's annual compensation; and, (ii) an account adjustment to reflect (a) revenue and (b) disposal and processing cost shortfalls or surpluses for prior year.