

ATTACHMENT 15 – CONTRACTOR’S COMPENSATION AND RATE-SETTING PROCESS

The SBWMA has conducted, on the member agencies’ behalf, review of the contractor’s application for its annual adjustment to its compensation and determined the following year compensation; allocated contractor’s compensation to member agencies; and proposed rate adjustments. This attachment describes the process for setting contractor’s compensation and customer rates assuming the member agencies continue to delegate some rights to the SBWMA. In summary, the process is as follows:

- Solicit proposed costs for franchised collection services in 2008 dollars;
- Adjust proposed costs during contract negotiations in 2009 to adjust for any member agencies that opt out and for optional programs included in the scope;
- Adjust proposed costs during 2010 to determine 2011 compensation to reflect several changes related to inflation, number of accounts, bin lifts, drop box pulls, wage and benefits, etc.
- For 2012 compensation and later rate years (contract years), adjust 2011 calculated costs (which are based on proposed not actuals) annually primarily using indices; and,
- After each rate year, conduct a reconciliation of revenues and disposal and processing costs.

This compensation process eliminates detailed reviews so that contractor’s compensation will never be “trued up” to contractor’s actual costs (with the exception of an annual cost reconciliation related to actual tonnage collected and actual disposal and processing costs).

15.1 Role of SBWMA

The SBWMA will assist member agencies in the determination of contractor’s compensation, but the member agencies have final approval over the collection contractors’ compensation and member agency rates. SBWMA’s role will be to review the contractor’s annual applications for adjustment to its compensation; determine the contractor’s compensation for each rate year; allocate contractor’s compensation to member agencies; and propose rate adjustments. Member agencies will review and approve: the SBWMA’s determination of the annual collection contractors’ compensation; the SBWMA’s allocation of such compensation to the member agency; and the proposed rate adjustments.

The process of determining the contractor’s compensation has been dramatically simplified compared to the current method (which involves detailed annual review of all costs, reconciliation of actual costs to projected costs to make contractor whole for all allowable costs, and an annual revenue reconciliation process). The new process eliminates all detailed reviews and does not involve reconciliation of actual costs or projection of future costs based on actual costs. It relies on proposed costs throughout the term of the franchise agreement subject to adjustments described herein. The new process will substantially reduce the annual level of effort required by the contractor, SBWMA staff, and consultant(s) (if needed) to determine contractor’s compensation.

Costs initially proposed by the selected contractor(s) will be adjusted twice prior to the commencement of the agreement. The process for adjusting proposed costs will be as

formulaic as possible with the goal of holding the contractor accountable to its proposed costs and operating assumptions.

First, the proposed costs will be adjusted during the contract negotiations process in 2009 to reflect: (i) changes to costs if one or more member agency chooses not to participate; (ii) optional programs which will be included in the scope; (iii) any scope expansion to integrate programs for management of HHW, u-waste, or sharps; and (iv) any unique member agency contract terms. These “adjusted proposed costs” will be included in the executed Collection Agreements.

Second, the “adjusted proposed costs” shall be adjusted in 2010 to set contractor’s compensation for 2011 using the prescribed method presented in Exhibit K of the Collection Agreement. This adjustment is needed to reflect changes (from 2008 to 2011) for several factors:

- Inflation as proposed costs will be presented in 2008 dollars;
- Estimated tonnage collected and related disposal and processing costs;
- Service level conditions (i.e., number of accounts, lifts, pulls);
- Wage and benefits per the new collective bargaining agreements; and,
- Equipment capital expense if impacted by more than inflation.

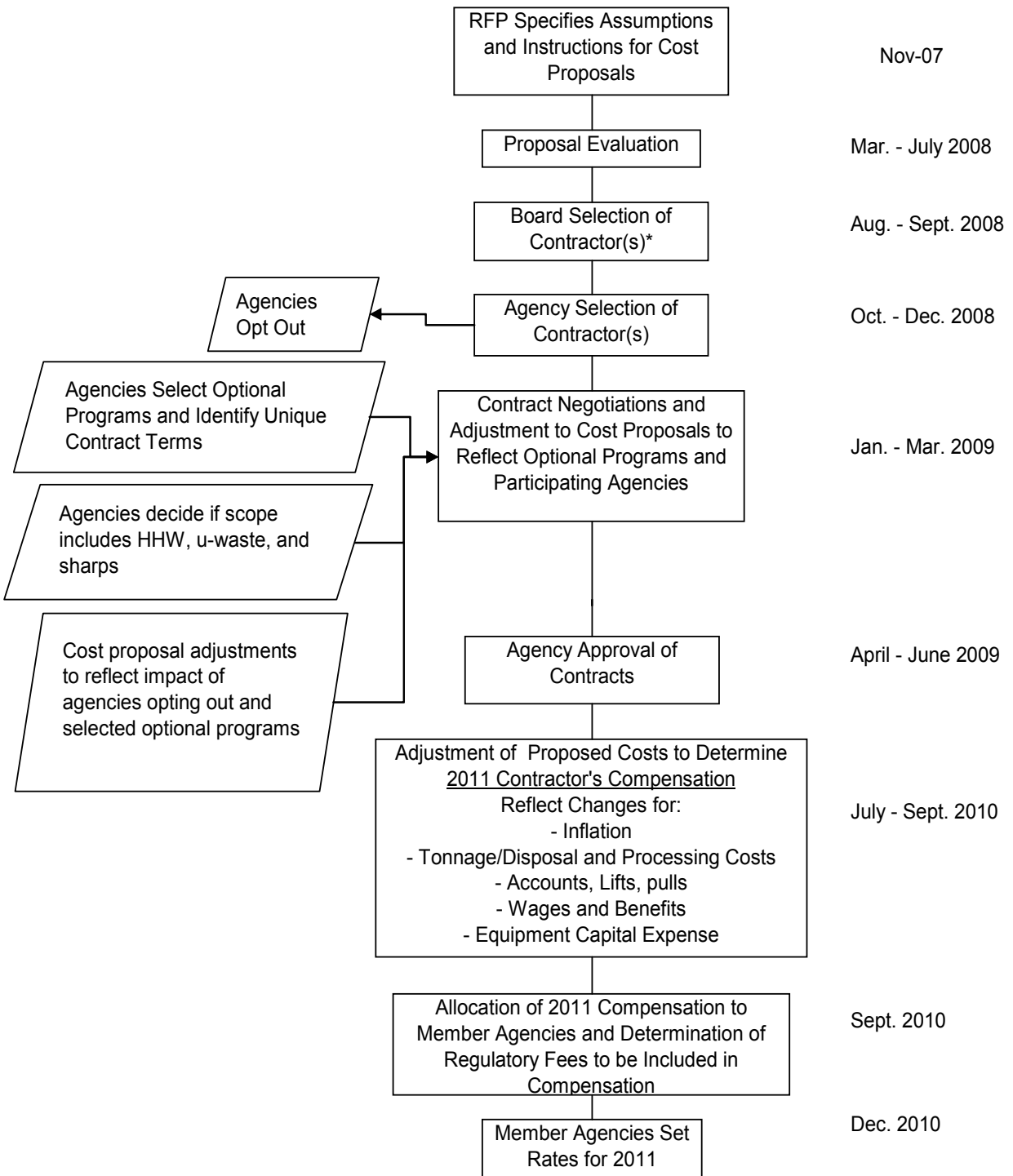
Annually thereafter, the contractor’s compensation shall be adjusted using various indices with the following exceptions: (1) wages for route labor and mechanics will be adjusted based on wage rates in the Allied-negotiated collective bargaining agreements until those agreements expire (thereafter wages shall be adjusted using a cost index) (2) costs will be adjusted in 2012 when determining 2013 compensation to reflect the then current data for accounts, bin lifts, and drop box pulls; and (3) disposal and processing costs will be adjusted annually to reflect estimated tonnage and projected Shoreway facility gate fees.

Following completion of each rate year, a reconciliation process shall be performed to “true-up” revenues and disposal and processing expenses only (with the exception that the reconciliation shall not occur for the final year of the agreement). Contractor will be compensated for any shortfalls in revenue collected in the following rate year; and, any surpluses will be used to offset future rates. If contractor’s actual costs for other expenses are more or less than the calculated annual contractor’s compensation, adjustments will not be made.

Figure 15-1 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 15-1 Determination of Contractor's Compensation for 2011



* One contractor may be selected for the entire SBWMA service area or one contractors may be selected for two separate Districts (i.e., North and South Districts).

15.2 Contractor Accountability for Proposal Assumptions

The method of determining contractor's compensation holds contractor accountable for several key aspects of its proposal: proposed technology, route productivity, single-family container location (curbside and backyard placement) assumptions; and single-family participation rates.

- Proposed Technology – No adjustments will be made to compensation if the technology proposed by the contractor does not achieve the contractor's intended results or route productivity. If a change in law or regulations require consideration of new or alternative technology or the parties mutually agree to consider a change in technology, cost impacts related to technology will be reviewed.
- Route Productivity – The assumptions proposers make regarding route productivity are critical to all aspects of their cost proposal 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. The contractor will be held to the proposed route productivity levels as these assumptions will serve as the basis for adjusting changes in service levels (i.e., number of accounts, lifts, pulls), and the number of routes or changes in costs associated with routes. It should be noted that if the contractor's actual route productivity is more efficient than proposed, the contractor will benefit from any savings associated with higher productivity.
- Container Placement (Curbside or Backyard) Rates – Proposers are required to estimate 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 the compensation will be made for differences in actual and proposed setout levels.
- Weekly Participation Levels – Proposers are required to estimate the number of single-family customers that will participate in the weekly recyclable materials and organic materials programs by placing their containers for collection. No adjustments to the compensation will be made for differences in actual and proposed participation levels because the contractor has sufficient experience to estimate customer participation.

The contractor will not be held accountable for proposed costs that will be impacted by changes in tonnage collected (i.e., disposal and processing costs), wage and benefit rates, and the number of accounts, lifts, and pulls. (However, contractor will be held accountable for proposed collection costs.) The SBWMA and member agencies are prepared to make adjustments to contractor's compensation for these variables. To obtain proposals from companies that can be fairly compared to one another and to obtain cost proposals which are "prepared" in advance to be adjusted in accordance with the compensation method described in this Attachment, the RFP requests that the cost proposals be presented in 2008 dollars and be based on SBWMA-specified conditions related to:

- Tonnage collected
- Wage and benefit assumptions by personnel classification
- Accounts, lifts, pulls

The assumptions for these conditions are included in the cost proposals forms presented in Attachment 10.

15.3 Adjustments to Contractor's Compensation

Throughout the term of the agreement, costs shall be adjusted using the proposed costs as a basis. The adjustments shall be conducted 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 the annual contractor's 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 the table at the end of this Attachment. Table ATT-15-1 at the end of this Attachment describes the adjustment method for three different stages: (1) first adjustment to proposed costs during negotiations in 2009; (2) second adjustment to the proposed costs in 2010 to set 2011 compensation; and (3) annual adjustments to determine contractor's compensation for 2012 and each year thereafter.

Note that when an index is applied to the prior year's calculated costs, the costs are based on proposed costs not actual costs.

With regard to changes in service levels (i.e., accounts, lifts, pulls), adjustments to the contractor's proposed 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; and, 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).

15.4 Annual Reconciliation of Revenues and Disposal and Processing Expenses

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

The contractor's actual annual disposal and processing expenses for materials collected and delivered to the Shoreway facility will be compared to the estimated disposal and processing expenses included in the approved annual contractor's compensation. The difference will be added to or subtracted from the approved annual contractors' compensation for the forthcoming rate year. For example, if the reconciliation process conducted during 2014 concluded 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 then-coming rate year (i.e., 2015).

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

15.5 Rate Setting

Member agencies will review collection rates charged to customers and adjust rates (as appropriate) with member agency Council or Board approval. To facilitate the rate setting process, the 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 the collection contractor's compensation for member agency approval. Annually, the SBWMA will review and adjust (as appropriate) gate rates for the Shoreway facility.

For collection rates charged to customers, the SBWMA shall annually review, adjust (as appropriate), and recommend the annual contractor's compensation for SBWMA services in the north and south districts.

SBWMA shall annually review, adjust (as appropriate), and recommend the allocation of the collection contractor's compensation to each member agency for member agency approval. Member agencies shall approve collection rates annually (or as frequently as they determine necessary) based on a revenue requirement that includes: (1) their allocated portion of the annual collection contractor's compensation; and, (2) an account adjustment to reflect revenue and disposal and processing cost shortfalls or surpluses for prior year(s).

A cost allocation process will be used to attribute the service-district-wide collection contractor's costs to the individual member agencies. 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.

15.6 Incentives 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 the contractor for extraordinary levels of performance with regard to diversion, number of missed pick-ups, and average hold time for customer service calls. Liquidated damages have been established with performance standards set at readily quantifiable thresholds to determine the enforcement of those liquidated damages. Sections 11.11 and 14.04 and Exhibits I and J of the Collection Agreement describes the performance standards, incentives, and liquidated damages.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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 may be necessary:</p> <ul style="list-style-type: none"> • If one or more member agencies opt out, reduce wages and benefits by the percentage change in the total annual route hours required for the service area. • If optional programs are added or the scope is expanded, wage and benefit costs to be increased to reflect the additional proposed wage and benefit costs for the optional or new program (unless contractor will be compensated for the optional or new program on a per-unit, per-fee or per-event basis). 	<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. Proposers will be required to specify the number of full-time equivalents in each labor category in their proposal to provide a basis for the 2010 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.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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
Wages and benefits for all other personnel (which are not represented through collective bargaining agreements)	<ul style="list-style-type: none"> • If one or more member agencies opt out, reduce wages and benefits for customer service agents by the percentage change in the total annual route hours required for the service area. Wage and benefits for other personnel will not be adjusted. • If optional programs are added or the scope is expanded, wages and benefits shall be adjusted to reflect the proposed wage and benefits for the optional/new program (unless contractor will be compensated for the optional program on a per-unit, per-fee, or per-event basis). 	Inflation adjustment of 2008 proposed 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).	Inflation adjustment to reflect the 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).
Payroll taxes	Adjustment equals the percentage change to regular wages	Same method as prior year	Same method as prior year

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Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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	Adjustment equals the percentage change to regular wages	<ul style="list-style-type: none"> • Inflation adjustment of 2008 proposed costs 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. CIU2030000000000A). • 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. 	<ul style="list-style-type: none"> • Inflation adjustment to reflect the 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. CIU2030000000000A). • 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.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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
Fuel for route vehicles	<ul style="list-style-type: none"> • If one or more member agencies opt out, reduce fuel costs by the percentage change in the total annual route hours required for the service area. • If optional programs are added or the scope is expanded, fuel costs to be increased to reflect the additional proposed wage and benefit costs for the optional or new program (unless contractor will be compensated for the optional or new program on a per-unit, per-fee or per-event basis). 	<ul style="list-style-type: none"> • Inflation adjustment of 2008 proposed costs 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. 	<ul style="list-style-type: none"> • Inflation adjustment to reflect the 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, flues 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.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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	Same method as that described for fuel except the change shall be based on the percentage change in the accounts, lifts, and pulls.	<ul style="list-style-type: none"> • Inflation adjustment of 2008 proposed costs 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 year: 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. 	<ul style="list-style-type: none"> • Inflation adjustment to reflect 75% of the 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 year: 1982-84=100, series no. cuur0000sa). • 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.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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"> • If one or more member agencies opt out, reduce depreciation by calculating the reduction in the number of vehicles and containers and the correlating depreciation expense based on proposed equipment costs and operating statistics. • If optional programs are added or the scope is expanded, depreciation to be increased to reflect the additional proposed depreciation for the optional or new program (unless contractor will be compensated for the optional or new program on a per-unit, per-fee or per-event basis). 	<ul style="list-style-type: none"> • Inflation adjustment of 2008 proposed costs 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 if the equipment costs have increased more than that reflected by the indices; 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. 	<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.

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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
Allocated Depreciation Costs (related to facilities, vehicle and container maintenance equipment, shop equipment, office equipment)	No adjustment	Inflation adjustment of 2008 proposed costs 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 year: 1982-84=100, series no. cuur0000sa).	No adjustments shall be made to depreciation over the term.
Interest expense (both direct and allocated interest)	Same method as that described for depreciation	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	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	Same method as prior year
PASS-THROUGH COSTS			

Table 15-1 Determination of Contractor's Compensation

Cost	First Adjustment to Proposed Costs in 2009 during Contract Negotiations	Second 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
Shoreway facility disposal and processing costs	Adjustments will be needed if one or more member agencies opt out and to reflect impact of any optional programs or expanded scope. Estimated tonnages to be adjusted by subtracting the tonnage allocated for each member agency that opts out and adding estimated tonnage for optional or new programs. Adjusted disposal and processing costs can then be calculated using the revised tonnage figures and the per-ton tipping fees for the Shoreway facility.	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 tipping fees. (Note that an annual reconciliation process conducted after each rate year will make contractor whole for disposal and processing costs.)	Same method as prior year (Note that an annual reconciliation process conducted after each rate year will make contractor whole for disposal and processing costs.)
Regulatory fees	To be determined in 2010 after costs are allocated to member agencies.	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.	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	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	Same method as prior year

Table 15-1 Determination of Contractor's Compensation