South County Sanitary Service

SOLID WASTE RATE REVIEW

For the Communities of

Arroyo Grande
Grover Beach
Oceano
Pismo Beach

September 2015

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

South County Sanitary Service
Solid Waste Rate Review
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For the Communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach

REPORT PURPOSE

On July 30, 2015, South County Sanitary Service (SCSS) submitted a *Base Year* rate increase application to be effective January 1, 2016 to the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District.

The purpose of this report is to review this request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make to make rate recommendations to these four agencies as appropriate.

Unique Approach for 2017 and 2018. While generally consistent with the adopted rate-setting methodology, SCSS is requesting three-year rate approval in one action. The impact of implementing this approach, which means that *Interim Year* rate reviews by the governing bodies would no longer be needed, is evaluated as part of this *Base Year* rate review.

Joint Agency Review

SCSS provides similar services to each of these agencies under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases.

Because the financial information for SCSS is closely related for these four agencies, this report jointly reviews rate requests and provides recommendations for each of them.

OVERVIEW OF FINDINGS

- SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. As discussed below, the comprehensive application has been correctly prepared with one very minor classification error, which does not affect the requested rate increase of 3.25% in January 2016. The rate increase application is provided in the Appendix.

- SCSS provides a broad level of high-quality services to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided "waste wheeler" containers for all three services—at very competitive rates compared with many other communities. In fact, even with the proposed rate increase, rates in these four agencies will be among the lowest of those surveyed. In short, South County communities have the best of both worlds: high quality services at) a low cost (compared with other communities).

- SCSS has done a good job of managing costs and revenues, especially in light of cost pressures in key areas such labor, insurance, fuel, tipping fees and new organic waste diversion requirements.

As discussed in greater detail below, this report includes three separate, independent evaluations of the SCSS rate increase application:

- **Proposed rate increase of 3.25% for January 2016 compared with the approved rate-setting methodology.** The requested 3.25% rate increase is slightly below the allowed rate increase of 3.67%. Accordingly, it is recommended that the four agencies approve the requested rate increase of 3.25%.

- **Multi-year rate program proposed for 2017 and 2018**. While slightly different from the *Interim Year* rate review methodology, the proposed approach yields very similar results. In the interest of a more straightforward, streamlined process that is consistent with the *Interim Year* rate-setting concepts set forth in the Franchise Agreements (as well as in the Proposition 218 notice provided to SCSS customers), it is recommended that the four agencies approve the proposed rate increase approach for 2017 and 2018.

- **Calculation of the cost of living threshold that would "trigger" the *option* of terminating the Franchise Agreements within nine months after rate approval.** I have reached a different conclusion from SCSS on the "trigger" amount. Under their calculations, the 3.25% requested rate increase is under the "trigger" amount. However, based on my calculations, a rate increase greater than 1.5% would trigger the termination *option*. Given the reasonableness of the proposed rate increase, I recommend that the four agencies approve the requested rate increase and make findings that they will not pursue the "trigger" option.

Key Issues for the 2016 Rate Review. As outlined above, along with evaluating the requested rate increase for 2016 in accordance with the methodology set forth in the Franchise Agreements, there are two additional issues that complicate this rate review.

- SCSS has requested three-year rate approval in one action. This approach is generally consistent with the *Interim Year* rate review process in the Franchise Agreements; and SCSS's proposed methodology for doing so was appropriately included in the Proposition 218" rate notices. However, as discussed below, there are methodological concerns with the 2017 and 2018 proposed rate increase approach for these two years.

About Proposition 218 Notices

Proposition 218 notices set the maximum amount that rates can be increased at the public hearing: rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing.

- As further discussed below, the proposed rate increase for January 1, 2016 is within the allowable amount under the rate methodology set forth in the Franchise Agreements. However, there are methodological concerns with how SCSS calculated the "trigger" option.

That said, regardless of how these two issues are resolved, they do not directly affect SCSS's requested rate increase for January 1, 2016 of 3.25%.

Rate Recommendations

January 1, 2016

It is recommended that the governing bodies of each agency adopt SCSS's requested *Base Year* rate increase for 2016, which reflects a 3.25% across-the-board rate increase for all four agencies.

As discussed in greater detail below, this is slightly less than the amount that would otherwise be allowed under the adopted rate-setting methodology (by 0.42%: an increase of 3.67% would be allowed). This is due to SCSS's goal of remaining under the cost of living "trigger" option discussed below, under which the four agencies have the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase if it exceeds the cumulative increase in the consumer price index from June 2009. However, in making the "trigger" calculation, SCSS excluded increases in tipping fees of 0.96% in 2014 and the projected increase in tipping fees in 2016 of 0.81%.

In reviewing the Franchise Agreements and the rate increase analysis prepared in 2013 (for rate increases to be effective in 2014), these adjustments should probably not be made in calculating the "trigger" amount. The impact of this is discussed below. However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that SCCS may request under the methodology set forth in the Franchise Agreements.

January 1, 2017 and January 1, 2018

SCSS has proposed the following methodology for rate increases in January 2017 and January 2018:

- Increase, if any, in the Consumer Price Index for Bureau of Labor Statistics' Consumer Price Index for Urban Consumers (CPI-U) based on the All U.S. City Average, Bureau of Labor Statistics for the month of June 2016 for January 1, 2017 and June 2017 for January 1, 2018.

- Increase of 0.79% for 2017 and 0.77% for 2018 for increases in the cost of landfill disposal.

As discussed below, the Franchise Agreements provide for *Interim Year* adjustments (years 2 and 3 after the *Base Year* review) using a methodology similar to that proposed by SCSS but there are differences that would most likely result in a very minor difference (perhaps lower, depending on the circumstances) from the Franchise Agreement methodology.

The *Interim Year* methodology in the Franchise Agreements provides for three key adjustment factors: changes in the CPI-U for "controllable" operating costs; changes in "pass-through costs" (primarily tipping fees), which SCSS does not control (they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees. The first two adjustment factors are "weighted" by the proportionate share that these costs represent of total costs (excluding franchise fees). For example, in the current *Base Year* analysis for 2016 rates, controllable costs account for 84% of total costs, with tipping fees accounting for 16%.

Based on the *Interim Year* methodology, Table 1 provides an example of the allowable rate increase for January 2017 if the CPI-U increased from June 2015 to June 2016 by 2%.

In this example, the tipping fee adjustment is the same as that proposed by SCSS; but the overall increase is slightly less than the one that would result from SCSS's proposed approach:

Table 1. Interim Year Sample

Controllable Cost Factors	
CPI-U Increase	2.00%
Percent of Total Costs	84.00%
Allowable Adjustment	**1.68%**
Tipping Fees	
Tipping Cost Increase	4.95%
Percent of Total Costs	16.00%
Allowable Adjustment	**0.79%**
Total Before Franchise Fee Adjustment (10%)	2.47%
Total Allowed Increase	**2.75%**

- Interim Year Methodology: 2.75%
- SCSS Proposed Methodology: 2.79%

The impact on rates would be very minor: 0.04%. The difference in the monthly rate for the average South County single family residential (SFR) customer with either 32 or 64-gallon container service is one-cent.

In summary, while SCSS's proposed approach for years 2 and 3 is slightly different than the one set forth in the Franchise Agreements, the end result is likely to be very minor. Accordingly, in the interest of a more straightforward, streamlined process that is consistent with the *Interim Year* rate-setting concepts set forth in the Franchise Agreements (as well as the Proposition 218 notice provided to SCSS customers), it is recommended that the four agencies approve the proposed rate increase approach for 2017 and 2018. If a multi-year approach is adopted, subsequent *Interim Year* reviews for 2017 and 2018 will not be required.

That said, unless modified by the governing bodies, both the *Interim Year* and proposed methodologies would trigger the termination option in this example, since they would both exceed the remaining CPI-U threshold of 2.0%. For that reason, if the governing bodies approve the 2017 and 2018 rate-setting approach, it is recommended that they make findings that they will not pursue the "trigger" option.

Cost of Living "Trigger" Option

Along with establishing the rate review methodology, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase (assuming it was submitted in accordance with the rate-setting methodology).

It is important to note that this provision does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology. However, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for SCSS to do so.

As discussed below, based on SCSS's calculation of the cost of living increase threshold, the maximum rate increase to avoid triggering the *potential* for termination is 3.25%. This is its requested rate, which is slightly less than the allowable rate increase of 3.67% under the rate-setting methodology set forth in the Franchise Agreements.

However, as noted above, this is based on their excluding from the threshold increases in tipping fees of 0.96% in 2014 and the proposed increase for tipping fees in 2016 of 0.81%. In reviewing the Franchise Agreements and the rate increase analysis prepared in 2013 (for rate increases to be effective in 2014), these adjustments should probably not be made in calculating the "trigger" amount. Accordingly, if these are not excluded, the rate increase to avoid triggering the termination *option* would be limited to 1.5%. However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that SCCS may request under the methodology set forth in the Franchise Agreements. Accordingly, if the proposed rate increase of 3.25% is approved, it is recommended that the four agencies make findings that they will not pursue the "trigger" option.

Rate Summary for Single Family Residential Customers

Table 2 summarizes the current and proposed rates for SFR customers. As reflected in this summary, the increases will be very modest. For example, for collection of a 32-gallon garbage container (the most common SFR service level) as well as separate waste wheelers for recycling and green waste, the proposed monthly rate will increase by 48 cents on average for the four agencies.

Table 2. Single Family Residential Rates

	Container Size (Gallons)		
	32	64	96
Proposed			
Arroyo Grande	$16.83	$21.86	$26.92
Grover Beach	15.25	20.62	25.96
Oceano	13.64	19.62	38.39
Pismo Beach	14.97	29.94	44.91
Current			
Arroyo Grande	16.30	21.17	26.07
Grover Beach	14.77	19.97	25.14
Oceano	13.21	19.00	37.18
Pismo Beach	14.50	29.00	43.50
Increase			
Arroyo Grande	0.53	0.69	0.85
Grover Beach	0.48	0.65	0.82
Oceano	0.43	0.62	1.21
Pismo Beach	0.47	0.94	1.41

BACKGROUND

On July 30, 2015, SCSS submitted a *Base Year* rate increase to be effective January 1, 2016. Its rate request was prepared in accordance with the rate review process and methodology formally set forth in its Franchise Agreements with Arroyo Grande, Grover Beach, Oceano and Pismo Beach.

In establishing a rate-setting process and methodology, each of these Franchise Agreements specifically reference the City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994, and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Arroyo Grande, Grover Beach, Oceano and Pismo Beach is closely related. For this reason, these four agencies jointly contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology) in August 2015 to evaluate SCSS's rate increase application.

This is the fifth *Base Year* analysis performed under this rate-setting methodology. The first was prepared in September 2001; second in August 2004; the third in August 2007; and the last one in December 2012. As discussed below, several *Interim Year* rate reviews have prepared since then, most recently in 2013 (for rates effective in 2014).

Organic Waste Diversion. Along with its rate application, SCSS is also requesting a twenty-year extension of its Franchise Agreements. As described in their request (Appendix), this is to cover amortizing the costs of providing organic waste diversion as required under recent State legislation. While an in-depth review of this proposal is outside the scope of this report, extending the term of current Franchise Agreements in allowing an adequate timeframe to cover the long-term cost of this new requirement is reasonable.

Franchise Agreement Summary

Table 3. Franchise Agreement Effective Dates

Arroyo Grande	June 10, 2008
Grover Beach	July 7, 2008
Oceano	July 14, 2010
Pismo Beach	June 3, 2008

Historically, each agency has had its own approach to determining service levels and adopted differing Franchise Agreements accordingly. While these became similar beginning in 1999, in 2008 the Cities of Arroyo Grande, Grover Beach and Pismo Beach adopted renewed franchise agreements, followed by the Oceano Community Service District in Summer 2010, which are the same in all key provisions:

- Each agency contracts with SCSS for garbage, green waste and recycling; and SCSS provides the container (waste wheelers) for each service.
- Each agreement is for 15 years.
- As noted above, each agency has adopted the same rate-setting methodology, including the *option* of terminating the agreement within nine months following approval of the requested rate increase if it exceeds the cost of living threshold.
- All agencies have adopted franchise fees of 10%.

RATE REVIEW WORKSCOPE

This report addresses four basic questions:

- Should SCSS be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

The following documents were closely reviewed in answering these questions:

- Franchise Agreements and any Amendments for each agency
- Audited financial statements for SCSS for 2014 and 2013
- City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (*Rate Manual*)
- SCSS rate increase application and supporting documentation
- Follow-up interviews, correspondence and briefings with agency and SCSS staff
- Rate surveys of Central Coast communities

REVENUE AND RATE SETTING OBJECTIVES

In considering SCSS's rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the Franchise Agreements via the *Rate Manual*.

Revenues. These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

Rate Structure. Almost any rate structure can meet the revenue principles outlined above and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

COST ACCOUNTING ISSUES

Who's Paying What?

As noted above, SCSS's financial operations for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are closely related. Keeping costs and revenues segregated is further complicated by the fact that SCSS, as a subsidiary of Waste Connections Incorporated (which acquired the parent company in April 2002), shares ownership with the following local companies:

- San Luis Garbage Company
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill

Additionally, within the South County, SCSS's service area includes:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District
- Avila Beach Community Services District
- Other unincorporated areas in the South County such as Rural Arroyo Grande

Cost Accounting System

Between Companies. Separate "source" accounting systems are maintained for each company. Moreover, audited financial statements are prepared for each company by an independent certified public accountant; and SCSS's auditors have consistently issued "clean opinions" on its financial operations. In short, good systems are in place to ensure that the financial results reported for SCSS do not include costs and revenues related to other companies. Additionally, virtually all of the financial operations of SCSS and its affiliated companies are regulated by elected governing bodies such as cities, special districts and the County.

Within the SCSS Service Area. Within the SCSS service area, a combination of direct and allocation methodologies are used in accounting for costs and revenues between communities. In general, revenues are directly accounted for each franchising agency, while costs are allocated using generally accepted accounting principles.

Cost Accounting Findings. The accounting and financial reporting system used by SCSS is reasonable and consistent with generally accepted accounting principles and practices. It treats similar costs similarly (such as collection and disposal, where there are no significant differences in service levels and unit costs between the four agencies), while recognizing community differences (such as different franchise fee rates). Because the financial operations of SCSS are closely related for all of the communities it serves, there are significant advantages to performing concurrent reviews.

Area of Possible Concern. While the service characteristics and resulting per unit costs are very similar for Arroyo Grande, Grover Beach, Oceano and Pismo Beach, this is unlikely to be true for the other areas in South County serviced by SCSS. Because of their lower densities, collection costs are probably higher in these areas but these are not accounted for separately by SCSS.

On the other hand, there are three mitigating factors that reduce this concern:

- **Higher rates**. Depending on service type, rates are up to 30% higher in these areas, recognizing the higher collection costs for similar services. In short, these rate differentials significantly mitigate "equity" and cost accounting concerns.

- **Smaller percentage of accounts.** The four agencies covered by this report account for about two-thirds of the accounts serviced by SCSS. Accordingly, while there may be "cost per account" differences in these other areas, they account for a smaller portion of SCSS operations.

- **About 40% of revenues are from non-SFR accounts.** 41% of SCSS revenues come from multi-family and non-residential accounts, which have the same rate structure and similar service-versus-cost characteristics throughout the SCSS service area.

If costs for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are so similar, why are the residential rates so different?

The short answer is: history and different approaches to rate structure philosophies.

History

Until 1999, service levels under the Franchise Agreements with SCSS between these four agencies were significantly different. The rates in place at that time became the basis for subsequent rate reviews.

Rate Structure Principles

Most significantly, each agency has adopted different rate structure principles to recover similar costs. For example, Pismo Beach has adopted a rate structure for its residential customers that more closely reflects a "pay-as-you-throw" philosophy under which the "per gallon" costs for 32, 64 and 96 gallon containers are the same (for example, a 64-gallon container costs twice as much as a 32-gallon one.) This results in lower monthly costs for 32-gallon customers and relatively higher rates for 64 and 96-gallon customers.

On the other hand, Arroyo Grande has adopted rates that do not have as much difference between container sizes (but still offer an incentive for smaller containers over larger ones), recognizing collection economies of scale for larger versus smaller containers. In this case, 32-gallon containers in Arroyo Grande are more expensive than in Pismo Beach, but 64-gallon containers are less.

Both rate structures have their strong points: in the case of Pismo Beach, rates are more reflective of disposal costs, whereas in Arroyo Grande they are more reflective of collection costs. But the important point is that the revenue generating capability is the same even though the rates are different.

Multi-Family and Non-Residential Rates

Lastly, multi-family and non-residential rates (which account for 41% of SCSS revenues) are similar in all four agencies: it is only in *single family residential* rates that there are significant differences between communities.

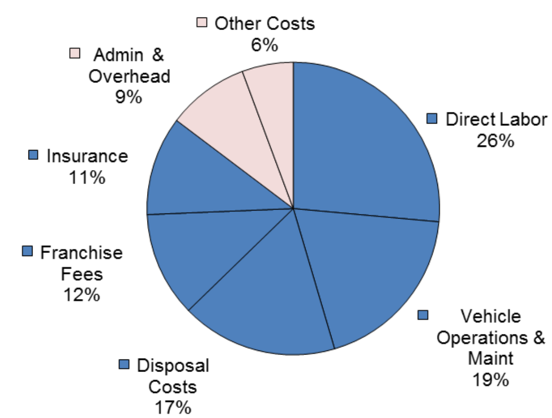
FINANCIAL OVERVIEW

While detailed financial and service information is provided in the SCSS rate request application (Appendix), the following summarizes their actual costs, revenues and account information for 2014 (the last completed fiscal year for which there are audited financial statements) for all areas serviced by them.

Costs by Type. Total expenses for 2014 (after deducting for non-allowable and limited costs as discussed later in this report) were $11.1 million. As reflected in Table 4, five cost areas accounted for 85% of total costs:

- Direct labor for collection: 26%
- Vehicle operations and maintenance (including depreciation): 19%
- Disposal (landfill, recycling and composting): 17%
- Franchise fees: 12%
- Insurance: 11%

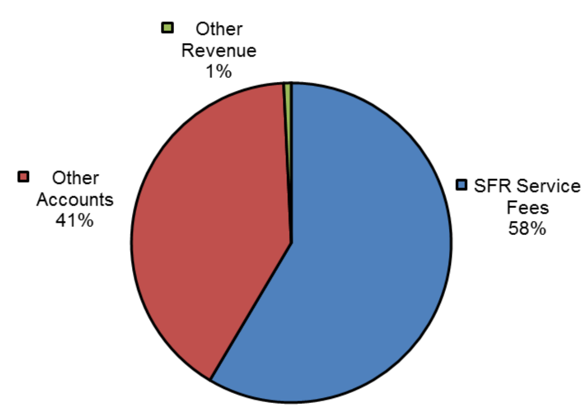
Table 4. Costs By Type: $11.1 Million



Revenues by Source. Total revenues in 2014 were $11.5 million. As reflected in Table 5, 58% of SCSS's revenues come from single-family residential (SFR) accounts.

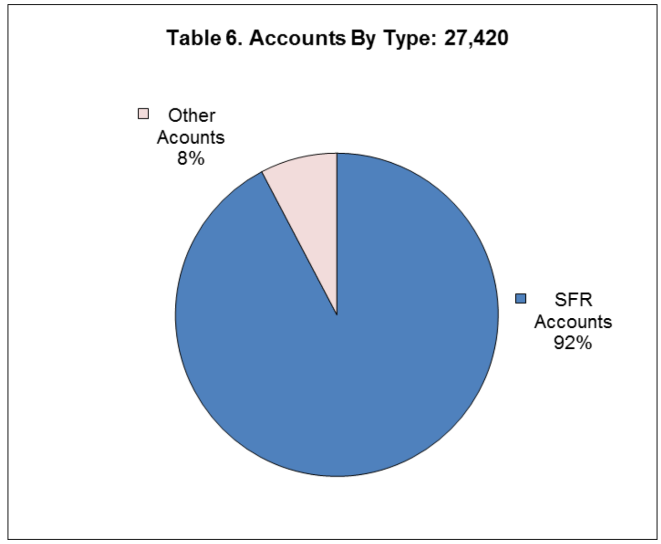
Services to multi-family residential and non-residential customers account for 41% of their revenues, with a very small part (1 %) from other revenues such as interest earnings.

Table 5. Revenues by Source: $11.5 Million



Service Accounts by Type. While single-family residences account for 58% of revenues, they represent 92% of total accounts (Table 6).

This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



RATE-SETTING PROCESS

Under the *Rate Manual*, the rate-setting process follows a three-year cycle:

- ***Base Year.*** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the franchise agreements in determining fair and reasonable rates. As noted above, the last *Base Year* analysis for SCSS under this approach was prepared in December 2012.

- ***Two Interim Years.*** In both the second and third years, SCSS is eligible for *Interim Year* rate adjustments that address three key change factors: changes in the consumer price index for “controllable” operating costs; changes in “pass-through costs” (primarily tipping fees), which SCSS does not control (they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees.

  The first two adjustment factors are “weighted” by the proportionate share that these costs represent of total costs (excluding franchise fees). For example, in the current *Base Year* analysis for 2016 rates, controllable costs account for 84% of total costs, with tipping fees accounting for 16%.

  The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

Rate Increase History

The following summarizes the SCSS rate review history since 2004 (last twelve years) based on the year of the application (rate increases took place the following year).

Table 7. Review History: 2004 to 2015 (Last 12 Years)

Year	Review Type	Arroyo Grande	Grover Beach	Oceano	Pismo Beach (1)
2004	Base Year	5.60%	5.60%	5.60%	5.30%
2005	Interim Year	3.09%	3.09%	3.09%	2.95%
2006	Interim Year	3.76%	3.76%	3.76%	3.60%
2007	Base Year	3.00%	3.00%	3.00%	2.90%
2008	Interim Year	0.00%	0.00%	0.00%	0.00%
2009	Interim Year	0.00%	0.00%	0.00%	0.00%
2010	Interim Year	0.00%	0.00%	0.00%	0.00%
2011	Interim Year (2)	5.15%	5.15%	5.15%	5.15%
2012	Base Year	3.20%	3.20%	3.20%	3.20%
2013	Interim Year	2.05%	2.05%	2.05%	2.05%
2014	Interim Year	0.00%	0.00%	0.00%	0.00%
2015	*Base Year (3)*	3.25%	3.25%	3.25%	3.25%

1. *From 2004 to 2011, the franchise fee rate in Pismo Beach was 6% compared with 10% in the other three agencies, and as such, its rate increase was slightly less. In July 2011, Pismo Beach adopted a 10% franchise fee, bringing it in alignment with the other three agencies (as well as most other agencies in San Luis Obispo County). In implementing the 10% rate in 2011, Pismo Beach adopted an added 3.9% increase beyond the interim year rate increase of 5.15% requested by SCSS.*

2. *SCSS did not request a rate increase in 2010 (which would have been the "normal" cycle to do so), and accordingly, did not submit a Base Year rate application. However, SCSS did submit a rate request in 2011 using an Interim Year methodology. The reasonableness of using the resulting "hybrid" approach was discussed in detail in the 2011 Interim Year report, which concluded that this approach was reasonable given the circumstances.*

3. *Proposed rate increase, to be effective January 1, 2016.*

Assuming the 2015 rate application is approved, this will result in an average annual rate increase of 2.4% over the last twelve years, which reflects a high level of rate stability and price containment for South County customers.

RATE SETTING METHODOLOGY

Are the Costs Reasonable?

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

- Detailed review of costs and service responsibilities over time.

- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).

- Comparisons of rates with other communities.

Each of these was considered in preparing this report, summarized as follows.

Detailed Cost Review

In its rate application, SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2013 and 2014).
- Estimated results for the current year (2015, which is still in progress).
- Projected costs for the Base Year (2016).
- Estimated costs for the following year (2017).

This allows for a detailed analysis of changes in key cost components such as labor, repairs, fuel, insurance and tipping fees. In this case, its submittal shows that overall SCSS has done a good job of containing costs. Excluding pass-through costs (like tipping fees and franchise fees, which SCSS does not control), very modest cost increases in "controllable" cost are projected:

Table 8. Cost Trend Summary

	Actual	Estimated	Projected	Percent Increase	
	2014	2015	2016	2015	2016
Direct Labor	2,939,714	2,997,051	3,118,768	2.0%	4.1%
Allowable Corporate Overhead	324,633	331,450	338,079	2.1%	2.0%
Office Salaries	680,438	642,308	655,155	-5.6%	2.0%
Depreciation	698,382	452,894	319,255	-35.2%	-29.5%
Truck Repairs & Tires	449,119	437,867	446,624	-2.5%	2.0%
Fuel & Oil	963,009	938,455	916,427	-2.5%	-2.3%
Insurance	1,216,855	1,263,114	1,288,377	3.8%	2.0%
Greenwaste/Organics Contract Services	378,581	365,352	606,775	-3.5%	66.1%
Other Costs	546,434	566,439	608,148	3.7%	7.4%
Total Controllable Costs	**8,197,165**	**7,994,930**	**8,297,608**	**-2.5%**	**3.8%**
Pass-Through Costs					
Tipping Fees	1,542,357	1,710,069	1,711,603	10.9%	0.1%
Franchise Fees	1,290,085	1,334,320	1,361,006	3.4%	2.0%
Other Pass-Through Costs	83,364	85,955	87,674	3.1%	2.0%
Total	**$11,112,971**	**$11,125,274**	**$11,457,891**	**0.1%**	**3.0%**

As reflected above, there are two key areas of change:

- **Decrease in depreciation.** This is due to an aging fleet: as vehicles begin to remain in service after their useful lives, they become fully-depreciated and no further annual expenses are recorded. This lower cost is a good thing initially. However, these vehicles will need to be replaced at some point and higher depreciation costs will then be incurred.

- **Increase in greenwaste recycling/organics diversion contract services**. This reflects the added cost of the new organics diversion program.

The key drivers behind the 3.25% rate increase request for 2016 can be summarized by three factors as follows:

- 0.81% for the $2.25 per ton increase in the cost of landfill disposal.
- 1.10% for implementation of the organics waste diversion program.
- 1.34% for all other cost increases such as vehicle fuel, ongoing maintenance and labor.

Trends in External Cost Drivers

The most common external "benchmark" for evaluating cost trends is the consumer price index. Over the past two years, the U.S. CPI-U increased by 2.2%. Controllable cost increases of 1.3% for 2015 and 2016 compare favorably with this CPI benchmark.

Rates in Comparable Communities

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between "comparable" communities need to be carefully weighed, because every community is different. For example, even in the South County where service levels and costs are very similar, there are rate differences. In short, making a true "apples-to-apples" comparison is easier said than done.

Nonetheless, surveys are useful assessment tools—but they are not perfect and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges
- Landfill costs (tipping fees)
- Service levels (frequency, quality)
- Labor market
- Operator efficiency and effectiveness
- Voluntary versus mandatory service
- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks
- Percentage of non-residential customers, and how costs and rates are allocated between customer types
- Revenue collection procedures: Does the hauler or the franchising agency bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb)
- Different rates structures
- Land use and density (lower densities will typically result in higher service costs)
- Mix of residential and non-residential accounts

With these caveats, the following summarizes single family residential rates for other cities in the Central Coast area compared with the proposed rates for SCSS. As reflected below, even with the proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have among the lowest rates among the agencies surveyed.

Table 9. Single-Family Residential Rate Survey

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero (1)	$20.63	$36.15	$46.70
Morro Bay (1)	16.09	31.87	47.66
Paso Robles (2)	28.79	37.71	41.60
San Luis Obispo (2)	14.12	28.25	42.37
Santa Maria (1)	n/a	28.94	32.82
San Miguel (1)	28.04	44.01	60.39
Templeton (1)	25.03	36.60	40.81
Proposed: South County Sanitation Service Area			
Arroyo Grande	16.83	21.86	26.92
Grover Beach	15.25	20.62	25.96
Oceano	13.64	19.62	38.39
Pismo Beach	14.97	29.94	44.91

1. As of September 2015

2. Approved for January 2016

Summary: Are the costs reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor review and rate comparisons—SCSS's costs are reasonable.

What Is a Reasonable Return on these Costs?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements with SCSS includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable "operating profit ratio:"

Controllable Costs (Operations and Maintenance)

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

Pass-Through Costs

- Tipping fees
- Franchise fees
- Payments to affiliated companies (such as leases and trucking charges)

Excluded and Limited Costs

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate officer compensation

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is a 92% operating profit ratio on “controllable costs.”
- Pass-through costs may be fully recovered through rates but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

In the case of SCSS, 72% of their costs are “controllable costs” subject to the 92% operating profit ratio (or 8% of total allowable “rate base” revenues); and 28% are pass-through costs that may be fully recovered from rates but no profit is allowed. No recovery is allowed for excluded costs.

Preparing the Rate Request Application

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the *Rate Manual*. SCSS has prepared their rate increase application in accordance with these requirements (Appendix); and the financial information provided in the application for 2013 and 2014 ties to its audited financial statements.

This comprehensive application has been correctly prepared with one very minor classification error, which does not affect the allowable rate increase of 3.67% (or the requested lower rate increase of 3.25%).

Under the *Rate Manual*, lease and trucking costs with related parties are eligible for “pass-through” recovery but are not eligible for operating profit recovery. The rate application classifies $49,059 for transportation costs paid to related parties in 2016 as eligible for the operating cost ratio. It should be classified as a pass-through cost (like lease payments to affiliated companies, which are correctly classified). This makes a very small difference in allowable profit ($4,266); and is so minor that it has no effect on the allowable rate increase of 3.67% or lower requested increase of 3.25%.

Rate Request Summary

The following summarizes the calculations that support an allowable rate increase of 3.67%:

Table 10. Rate Increase Summary

Allowable Costs (1)	8,248,549
Allowable Profit (92% Operating Ratio)	717,264
Pass-Through Costs	
Tipping Fees	1,711,603
Franchise Fees	1,361,006
Other Pass-Through Costs (1)	136,733
Allowed Revenue Requirements	12,175,155
Revenue without Rate Increase	11,789,890
Revenue Requirement: Shortfall (Surplus)	$385,265
Percent Change in Revenue Requirement	3.30%
Allowed Revenue Increase (2)	3.67%

1. Reflects Reclassification of Related Party Transportation Costs

2. Adjusted for 10 % Franchise Fee

Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

- The "92% operating profit ratio" is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 90% to 94%. For the last completed year (2014) the ratio was 96.0%; and for 2016, without the proposed rate increase, the operating ratio would be 95.5%. Both of these are outside the 90% to 94% range and as such, a rate increase is warranted under the rate-setting methodology.

- There is no provision for retroactivity: requested rate increases are "prospective" for the year to come; there is no provision for looking back. This means that any past shortfalls from the target operating profit cannot be recaptured.

- On the other hand, if past ratios have been stronger than this target, then the revenue base is re-set in the *Base Year* review.

- As discussed above, detailed *Base Year* reviews are prepared every three years; *Interim Year* reviews to account for focused changes in the consumer price and tipping fees are prepared in the two "in-between" years.

- Special rate increases for extraordinary circumstances *may* be considered. This has never occurred in any of the agencies that use this rate-setting methodology.

The result of this process is an allowed rate increase of 3.67%. However, SCSS has requested a lower rate increase of 3.25%.

COST OF LIVING "TRIGGER OPTION"

As noted above, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase (assuming it was submitted in accordance with the rate-setting methodology).

While this provision does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for SCSS to do so.

As discussed previously, based on SCSS's calculation of the cost of living increase threshold, the maximum rate increase to avoid triggering the potential for termination is 3.25%. This is its requested rate, which is slightly less than the allowable rate increase of 3.67% under the rate-setting methodology set forth in the Franchise Agreements.

However, this is based on their excluding from the threshold increases in tipping fees of 0.96% in 2014 and the proposed increase for tipping fees in 2016 of 0.81%. In reviewing the Franchise Agreements and the rate increase analysis prepared in 2013 (for rate increases to be effective in 2014), these adjustments should not be made in calculating the "trigger" amount.

Section 8.3 of the Franchise Agreements addresses these types of pass-through costs:

> *When calculating the change in the rate, costs resulting from Article 7, Payments to City, Section 4.5 City Request to Direct Changes, Section 5.10 Garbage and Recycling Service in Public Areas and new regulatory costs will not be included. However any increase resulting from an increase in the pass through costs associated with the processing and/or disposal of Garbage and Recyclable Material including greenwaste are included in the rate change calculation.*

Accordingly, if these are not excluded, the rate increase to avoid triggering the termination option would be limited to 1.5%.

Calculation of the CPI Threshold

As recommended in the 2013 *Interim Year* rate review for consistency and clarity, the CPI-U rate increases used in calculating *Interim Year* increases and the "trigger" threshold are based on changes from June to June (given application submittal targets, this was the most recent date that would consistently be available).

The following summarizes the different approaches in calculating the threshold:

Table 11. CPI-U Trigger Option

CPI-U Increase		SCSS Calculation			Alternative Calculation		
June to June	CPI-U Increase	Approved Increase	Adjustment	Subject to Threshold	Approved Increase	Adjustment	Subject to Threshold
2010	1.1%	0.00%		0.00%	0.00%		0.00%
2011	3.50%	5.15%	-1.70%	3.45%	5.15%	-1.70%	3.45%
2012	1.70%	0.00%		0.00%	0.00%		0.00%
2013	1.70%	3.20%		3.20%	3.20%		3.20%
2014	2.00%	2.05%	-0.96%	1.09%	2.05%		2.05%
2015	0.20%	0.00%		0.00%	0.00%		0.00%
2016		3.25%	-0.81%	2.44%	3.25%		3.25%
Total	10.20%	13.65%	-2.66%	10.18%	13.65%	-1.70%	11.95%

Note: Under either option, the adjustment of 1.7% for contact greenwaste in 2011 is appropriate, since the agencies formally agreed to this prior to the rate application process.

The following summarizes the variance from the "trigger" depending on the approach in calculating rate increases that are subject to the "trigger:"

Table 12. Variance from "Trigger Option:" Favorable (Unfavorable)

	CPI-U Calculation	Requested Rate Subject to Trigger	Variance
SCSS Proposed Calculation	10.20%	10.18%	0.02%
Alternative*	10.20%	11.95%	-1.75%

** Under the Alternative calculation, the requested rate increase would need to be 1.5% or less to avoid the "Trigger Option."*

As reflected in Table 12, the requested rate increase is slightly below the "trigger" amount based on SCSS's approach to calculating the rate increases that are subject to the "trigger." However, if the Alternate calculation is used, the requested rate increase would need to be reduced to 1.5% to remain under the "trigger."

There are several policy options in considering the "trigger" threshold:

- Agree with the exclusions made by SCSS in calculating rate increases subject to the "trigger." This would be conceptually similar to the 1.7% exclusion agreed to 2011.

- Use the "Alternative" calculation but make findings that the agencies will not pursue the "trigger" option if the requested rates are approved.

  This is the recommended approach: it allows approval of the current requested rates as reasonable but retains flexibility in future rate reviews by retaining the "Alternative" methodology as the basis for this and future rate increases.

- Use the "Alternative" methodology and approve the requested rate increase but retain the right to potentially pursue contract termination over the next nine months.

However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that SCCS may request under the methodology set forth in the Franchise Agreements. Accordingly, as noted above, if the proposed rate increase of 3.25% is approved, it is recommended that the four agencies make findings that they will not pursue the "trigger" option.

COORDINATION WITH OTHER AGENCIES

SCSS has submitted similar rate requests to the three other agencies that regulate rates and services in the other South County areas that they serve: the County of San Luis Obispo, Avila Beach Community Services District and the Nipomo Community Services District. These agencies are likely to act on the requested rate increases within the same time frame as the four agencies covered in this report.

SUMMARY

Based on the rate-setting policies and procedures formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements, this report concludes that:

- SCSS has submitted the required documentation required under its Franchise Agreements with the four agencies.

- SCSS's costs are reasonable.

- Its rate application supports an increase of 3.67% for 2016, which meets the "reasonable return" criteria set forth in the Franchise Agreements. Accordingly, this report recommends adoption of the 3.25% rate increase requested by SCSS, which is lower than this.

- The requested rate increase of 3.25% for 2016 is based on SCSS's calculations of the rate increase available in avoiding the "trigger" that would allow the four agencies the *option* of early termination of their Franchise Agreements. Based on my calculations, the actual threshold is lower than this.

- SCSS has requested rate increases for 2017 and 2018 based on concepts that are very similar to the *Interim Year* rate increase methodology set forth in the *Rate Manual*. Given the very similar results, this report recommends adoption of the proposed rates for 2017 and 2018. This will mean that *Interim Year* reviews for 2017 and 2018 will not be required.

- If the governing bodies approve the requested rate increases, it is recommended that they also make findings that they will not pursue the "trigger" option.

ATTACHMENT

Appendix: Base Year Rate Request Application from South County Sanitary Service

Appendix

BASE YEAR RATE REQUEST APPLICATION

1. **Request Letter from South County Sanitary Service**

2. **Base Year Application Summary**

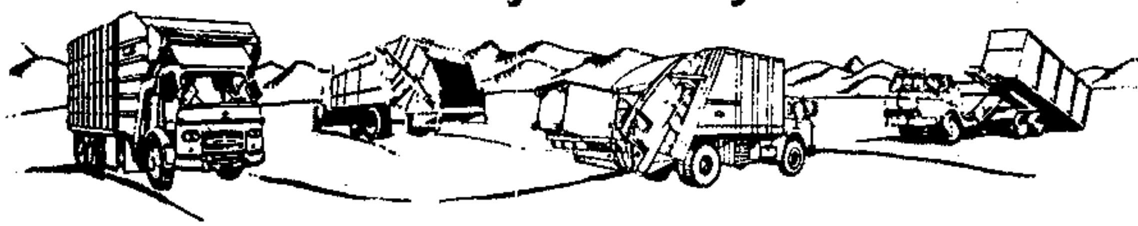
   - City of Pismo Beach
   - City of Arroyo Grande
   - City of Grover Beach
   - Oceano Community Services District

3. **Supporting Schedules**

   - Financial Information: Cost and Revenue Requirements Summary
   - Revenue Offset Summary
   - Cost Summary for Base Year
   - Base Year Revenue Offset Summary
   - Operating Information

Appendix 1

South County Sanitary Service



4388 Old Santa Fe Road, San Luis Obispo, CA, 93401
805-543-0875

September 17, 2015

City of Arroyo Grande
Avila Beach CSD
City of Grover Beach
Oceano CSD
City of Pismo Beach

Subject: South County Sanitary Service, 2016 Contract Amendments

Dear South County Customers:

Waste Connections your franchisee for integrated waste management services (operating as the South County Sanitary Service in the South County area), requests the following approvals from you to be effective on January 1, 2016

1. Approval to begin an expanded organics diversion program that includes food waste.
2. Approval to extend the term of the existing franchise agreements in order to support the expanded organics program.
3. Approval to increase the solid waste rates by 3.25% in order to cover these new and existing programs.
4. Approval a contract amendment modifying the existing franchise agreements to allow a 3-year rate application cycle (1 Base year plus 2 interim years) in place of an annual cycle.

Expanded Organics Diversion Program

With the closure of the green waste composting facility at Cold Canyon Landfill in late 2010, per its contract, South County Sanitary Service submitted two alternative methods for dealing with green waste processing to our customers. Our customers decided to send the green waste to Engel and Gray for composting. Since this decision was made there have been several new developments related to the management of organics.

- In 2014 AB 1826 and AB 1594 were enacted. AB 1826 established a mandatory organics management program which will require businesses to recycle all organics including food waste. This requirement phases in with the first deadline being April 2016 for businesses that generate 8 cubic yards or more per week of organics. AB 1594 eliminates the diversion credit for using green waste as alternative daily cover.
- Cal Recycle and the State Water Resources Control Board are developing new more stringent compost regulations.
- The Intergovernmental Panel on Climate Change now estimates that the greenhouse gas potential of methane is 34 times greater than CO_2.
- Governor Brown on April 29, 2015 set the goal of reducing greenhouse gas to 40% below 1990 levels by 2030.
- The Air Resources Board in a concept paper issued on May 7, 2015 set an initial goal of diverting 75 percent of organics from landfills by 2020 and diverting 90 percent of organics from landfills by 2025.

At the May 13, 2015 San Luis Obispo County Integrated Waste Management Authority Board Meeting, Waste Connections presented our plan for the long term management of all organic waste, including food waste. The plan incorporates the entire Waste Connections service area from San Simeon to Nipomo. The plan has two phases, an interim phase to about mid-2017 and a permanent phase that extends 20 years from the completion of the interim phase.

Beginning in January 2016, South County Sanitary Service would expand the existing residential green waste collection program to include food waste. Each home would be provided with a small kitchen pail to collect food waste. The food waste in the pail would then be dumped into the existing green waste collection container. At the same time, we would start expanding the organics collection program to commercial customers. First priority would be to start with businesses that are required to divert organics by April 2016.

The organic waste collected from residential and commercial customers would be taken the Engel and Gray composting facility in Santa Maria. This composting facility is permitted to compost both yard waste and food waste.

Phase II is planned to begin in about mid-2017. Our long-term management solution for organics includes an anaerobic digestion plant the will produce renewable energy. Anaerobic digestion is different than composting in that the process of decomposition occurs in an oxygen free environment. Unlike composting, this process produces energy in the form of biogas and minimizes the need for water. In addition all activities are inside a vessel and/or building, thus minimizing odors, storm water runoff and litter. The anaerobic digestion plant would be designed, built and operated by HZI/Kompogas (a world-wide leader in this technology), under contract to Waste Connections.

The Kompogas facility will be located at Waste Connection's existing yard on Old Santa Fe Road in San Luis Obispo. This industrial site is ideally located in that it is in the center of the service area, is the location where the garbage trucks start and end each day and has an existing building that can be used for the organics receiving area.

Extend the term of the Franchise Agreements

To implement the permanent phase of the organics management program, Waste Connections will enter into a long-term agreement with HZI, where HZI would design, finance, build, own and operate a Kompogas plant for a fixed fee, subject only to cost of living increases and adjustments for the sale price of electricity and/or compost/compost tea. In return Waste Connections will guarantee to deliver organics from its entire San Luis Obispo County service area for a 20 year period. This guarantee is necessary for HZI to obtain the financing to build a $12 million plus plant. Thus the existing franchise agreement needs to be extended to cover the 20 year operating period of the Kompogas plant. The franchise extension is conditioned on a Kompogas plant being built. Similarly, commitments would be needed from all the other cities in Waste Connection's service area. If the plant is not built, then the franchise agreements would not be extended and the Interim Phase of transporting organic waste to Santa Maria for processing would continue past mid-2017.

In order to fulfill that promise to supply the organics, South County Sanitary Service is asking for an extension of its franchise agreement with our South County customers to parallel the term of Waste Connections agreement with HZI. The franchise extension is clearly needed to supply the residential and commercial organics throughout the term of the HZI agreement. Collecting commercial organics will require new trucks and containers to handle this very hard to handle waste. In addition, it is possible that new organic fractions in the solid waste stream could be added to the definition of organics by future legislation; therefore extension of solid waste franchise is necessary.

South County Customers
September 17, 2015

Solid Waste Rate Increase

The proposed 3.25% increase in rates during this period breaks out as follows:

1. 1.34% of the proposed rate increase is based on increased costs for fuel, vehicles and increased labor costs.
2. 1.10% of the proposed rate increase is based on implementing the expanded organics diversion program developed to meet State mandates beginning in 2016.
3. 0.81% of the proposed rate increase is a pass through of a landfill disposal rate increase.

3-year rate application cycle

In addition to the 2016 Base Year Solid Waste Rate increase, commencing on January 1, 2017 and January 1 2018, all the rates shall be increased based on the following:

1. Increase, if any, in the Consumer Price Index (CPI) for Bureau of Labor Statistics' Consumer Price Index for Urban Consumers based on the All U.S. City Average, Bureau of Labor Statistics for the month of June 2016 for January 1, 2017 and June 2017 for January 1, 2018.
2. Increase of 0.79% for 2017 and 0.77% for 2018 for increase in the cost of landfill disposal.
3. Increase, if any, in the Consumer Price Index (CPI) for Bureau of Labor Statistics' Consumer Price Index for Urban Consumers based on the All U.S. City Average, Bureau of Labor Statistics for increase in AB939 fee cost.

Sincerely,

South County Sanitary Service

Patrick J. Fenton

General Manager
Waste Connections, Inc.

South County Sanitary Service

2016 Base Year Rate Adjustment Application

Summary CITY OF PISMO BEACH

Requested Increase

	PI	**1.34%**
	Landfill	**0.81%**
	Organics	**1.10%**
1. Rate Increase Requested		**3.25%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	$14.50	$0.47		$14.97
4. Standard Service (2- can curb)	$29.00	$0.94		$29.94
5. Premium Service (3 - can curb)	$43.50	$1.41		$44.91

(a) Calculated rates are rounded up to the nearest $0.01.

6. ***Multiunit Residential and Non-residential*** Rate increases of **3.25%** will be applied to all rates in each structure with each rate rounded to the nearest $0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Patrick Fenton Title: District Manager

Signature: Date: 07/30/15

2016 Base Year Rate Adjustment Application

Summary **CITY OF ARROYO GRANDE**

Requested Increase

	PI	**1.34%**
	Landfill	**0.81%**
	Organics	**1.10%**
1. Rate Increase Requested		**3.25%**

Rate Schedule

	Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
	Single Family Residential				
2.	Economy Service (1 - can curb)	$ 16.30	$0.53		$16.83
4.	Standard Service (2- can curb)	$ 21.17	$0.69		$21.86
5.	Premium Service (3 - can curb)	$ 26.07	$0.85		$26.92

(a) Calculated rates are rounded up to the nearest $0.01.

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

Rate increases of **3.25%** will be applied to all rates in each structure with each rate rounded to the nearest $0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Patrick Fenton Title: District Manager

Signature: Date: 07/30/15

2016 Base Year Rate Adjustment Application

Summary **CITY OF GROVER BEACH**

Requested Increase

	PI	**1.34%**
	Landfill	**0.81%**
	Organics	**1.10%**
1. Rate Increase Requested		**3.25%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	$ 14.77	$0.48		$15.25
4. Standard Service (2- can curb)	$ 19.97	$0.65		$20.62
5. Premium Service (3 - can curb)	$ 25.14	$0.82		$25.96

(a) Calculated rates are rounded up to the nearest $0.01.

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

Rate increases of **3.25%** will be applied to all rates in each structure with each rate rounded to the nearest $0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Patrick Fenton   Title: District Manager

Signature: Date: 07/30/15

South County Sanitary Service

2016 Base Year Rate Adjustment Application

Summary **OCEANO COMMUNITY SERVICE DISTRICT**

Requested Increase

PI	**1.34%**
Landfill	**0.81%**
Organics	**1.10%**

1. Rate Increase Requested **3.25%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	$ 13.21	$0.43		$13.64
4. Standard Service (2- can curb)	$ 19.00	$0.62		$19.62
5. Premium Service (3 - can curb)	$ 37.18	$1.21		$38.39

(a) Calculated rates are rounded up to the nearest $0.01.

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

Rate increases of **3.25%**
will be applied to all rates in each structure
with each rate rounded to the nearest $0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Patrick Fenton Title: District Manager

Signature: Date: 07/30/15

South County Sanitary Service

Base Year 2016 Rate Adjustment Application

Financial Information		Historical		Current	Projected	
					Base Year	
		2013	**2014**	**2015**	**2016**	**2017**
					(from Pg. 4)	
		Section I-Allowable Costs				
6.	Direct Labor	$2,804,158	$2,939,714	$2,997,051	$3,118,768	$3,181,144
7.	Corporate Overhead	$318,893	$324,633	$331,450	$338,079	$344,840
8.	Office Salaries	$514,066	$680,438	$642,308	$655,155	$668,258
9.	Other General and Admin Costs	$4,151,237	$4,252,380	$4,024,121	$4,185,606	$4,269,318
10	**Total Allowable Costs**	**$7,788,354**	**$8,197,164**	**$7,994,930**	**$8,297,608**	**$8,463,560**
		Section II-Allowable Operating Profit				
11.	Operating Ratio	93.2%	96.0%	94.3%	92.0%	92.0%
12.	**Allowable Operating Profit**	$568,380	$345,466	$484,959	$721,531	$735,962
		Section III-Pass Through Costs				
13.	Tipping Fees	$1,481,214	$1,542,357	$1,710,069	$1,711,603	$1,745,835
14.	Franchise Fees	$1,272,560	$1,290,085	$1,334,320	$1,361,006	$1,388,227
15.	AB939 Fees	$0	$0	$0	$0	$0
16.	Lease Pmts to Affiliated Companies	$50,575	$83,364	$85,955	$87,674	$89,427
17.	Total Pass Through Costs	**$2,804,349**	**$2,915,806**	**$3,130,344**	**$3,160,283**	**$3,223,489**
		Section III-Pass Through Costs				
18.	Revenue Requirement	$11,161,082	$11,458,437	$11,610,234	$12,179,422	$12,423,011
19.	Total Revenue Offsets (from Page 3)	**$11,161,082**	**$11,458,437**	**$11,610,234**	**$11,789,890**	**$12,290,960**
		Section III-Pass Through Costs				
20.	Net Shortfall (Surplus)				$389,533	

				Nipomo
21.	Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)	$11,789,890		$11,789,890
22.	Percent Change in Residential and Non-residential Revenue Requirement	3.30%		3.3%
23.	Franchise Fee Adjustment Factor (1 - 6 percent)	90.000%		91.870%
		3.67%		**3.60%**
	Limitation due to cumlative increases	-0.42%		-0.42%
24.	Percent Change in Existing Rates	**3.25%**		**3.18%**

South County Sanitary Service

Base Year 2016 Rate Adjustment Application

Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
				Base Year	
	2013	**2014**	**2015**	**2016**	**2017**
Residential Revenue (without increase in Base Yr.)					
28. Single Family Residential	$6,568,201	$6,754,381	$6,903,275	$6,972,308	$7,268,631
Multiunit Residential Dumpster					
29. Number of Accounts					
30. Revenues					
31. Less Allowance for Uncollectible Resi Accounts	$0	$0	$0	$0	$0
32. **Total Residential Revenue**	**$6,568,201**	**$6,754,381**	**$6,903,275**	**$6,972,308**	**$7,268,631**
Non-residential Revenue (without increase in Base Yr.)					
Account Type					
Non-residential Can					
33. Number of Accounts	10	10	8	8	$8
34. Revenues			$1,212	$1,237	$1,289
Non-residential Wastewheeler					
35. Number of Accounts	218	220	358	361	$376
36. Revenues			$193,471	$197,399	$205,788
Non-residential Dumpster					
37. Number of Accounts	1925	1912	1791	1812	$1,889
38. Revenues	$4,544,805	$4,666,742	$4,496,809	$4,607,749	$4,803,578
39. Less: Allowance for Uncollectible Non-resid	$0	$0	$0	$0	$0
40. **Total Non-residential Revenue**	$4,544,805	$4,666,742	$4,691,491	$4,806,384	$5,010,655
45. **Interest on Investments**	$29,288	$23,837	$99	($1,402)	($1,462)
46. **Other Income**	$18,788	$13,477	$15,368	$12,600	$13,136
47. **Total Revenue Offsets**	**$11,161,082**	**$11,458,437**	**$11,610,234**	**$11,789,890**	**$12,290,960**

South County Sanitary Service

Base Year 2016 Rate Adjustment Applicatio

Cost Summary for Base Year

Description of Cost					BASE YEAR
		2013	**2014**	**2015**	**2016**
	Labor	$2,601,180	$2,723,391	**$2,775,882**	$2,893,176
	Payroll Taxes	$202,978	$216,322	**$221,169**	$225,592
48.	**Total Direct Labor**	$2,804,158	$2,939,714	**$2,997,051**	$3,118,768
49.	Corporate Overhead	$503,012	$540,490	**$563,745**	$575,020
	Less limitation (enter as negative)	($184,119)	($215,857)	**($232,295)**	($236,941)
	Total Corporate Overhead	$318,893	$324,633	**$331,450**	$338,079
	Office Salary	$461,252	$630,822	**$595,085**	$606,986
	Payroll Taxes	$52,814	$49,617	**$47,224**	$48,168
50.	**Total Office Salaries**	$514,066	$680,438	**$642,308**	$655,155
	Allocated expenses	$0	$0	**$0**	$0
	Bad Debt	$16,395	($3,309)	($1,907)	($1,945)
	Bond expense	$7,524	$6,823	**$6,624**	$6,756
	Computer services				
	Depreciation on Bldg and Equip				
	Depreciation on Trucks/Containers	$871,346	$698,382	**$452,894**	$319,255
	Drive Cam fees	$27,694	$31,579	**$31,800**	$32,436
	Dues and Subscriptions	$4,688	$5,350	**$4,898**	$4,996
	Gas and oil	$955,955	$963,099	**$938,455**	$957,225
	Interest Expense				
	Laundry	$18,762	$21,374	**$20,010**	$20,410
	Legal and Accounting	$37,934	$28,537	**$33,371**	$34,038
	Miscellaneous and Other	$8,989	$18,638	**$18,789**	$19,165
	Moving expense	$2,681	$3,920	**$4,704**	$4,798
	Office Expense	$152,167	$171,740	**$174,814**	$178,310
	Operating Supplies	$23,106	$38,353	**$37,179**	$37,922
	Other insurance	$514,427	$526,663	**$537,186**	$547,930
	Other Insurance-medical	$587,834	$690,192	**$725,928**	$740,447
	Other Taxes	$40,605	$33,782	**$37,196**	$37,940
	Outside Services	$336,171	$378,581	**$365,352**	$606,775
	Postage	$17,089	$9,160	**$20,816**	$10,816
	Public Relations and Promotion	$1,712	$1,391	**$1,720**	$1,754
	Permits	$74,170	$67,898	**$66,350**	$67,677
	Rent	$6,500	$3,000	**$3,000**	$3,060
	Telephone	$21,603	$22,764	**$21,611**	$22,044
	Tires	$118,130	$127,741	**$114,668**	$116,961
	Transportation (related party)	$37,365	$48,634	**$48,097**	$49,059
	Travel	$20,010	$11,575	**$12,350**	$12,597
	Truck Repairs	$225,916	$321,378	**$323,199**	$329,663
	Utilities	$22,462	$25,136	**$25,016**	$25,517
51.	**Total Other Gen/Admin Costs**	$4,151,237	$4,252,380	**$4,024,121**	$4,185,606
52.	**Total Tipping Fees**	$1,481,214	$1,542,357	**$1,710,069**	$1,711,603
53.	**Total Franchise Fee**	$1,272,560	$1,290,085	**$1,334,320**	$1,361,006
54.	**Total AB 939/Regulatory Fees**	$0	$0	**$0**	$0
55.	**Total Lease Pmt to Affil Co.'s**	$50,575	$83,364	**$85,955**	$87,674
56.	**Total Cost**	$10,592,703	$11,112,970	**$11,125,274**	$11,457,891

Base Year 2016 Rate Adjustment Application

Appendix 3

Base Year Revenue Offset Summary **For Information Purposes Only**

	Description of Revenue	**Overall Total**	**Franchise Total**	**Arroyo**	**Pismo**	**Grover**	**Unincorporated**	**Non-franchise Total**
		Section VII-Revenue Offsets		Refuse Collection				
	Residential Revenue (without increase in Base Year)							
57.	Single Family Residential	$6,972,308	$6,972,308	$1,396,589	$901,993	$932,284	3,741,440.83	
	Multiunit Residential Dumpster							
58.	Number of Accounts	0	0					
59.	Revenues	$0	$0					
60.	Less Allowance for Uncollectable	$0	$0					
61.	**Total Residential Revenue**	**$6,972,308**	**$6,972,308**	**$1,396,589**	**$901,993**	**$932,284**	**$3,741,441**	**$0**
	Non-residential Revenue (without increase in Base Year)							
	Account Type							
	Non-residential Can							
62.	Number of Accounts	8	8	2	2	1	3	
63.	Revenues	$1,237	$1,237	$237	$457	$236	$307	
	Non-residential Wastewheeler							
64.	Number of Accounts	361	361	121	85	47	108	
65.	Revenues	$197,399	$197,399	$50,094	$84,630	$14,616	$48,058	
	Non-residential Dumpster							
66.	Number of Accounts	1,812	1809	363	285	396	765	3
67.	Revenues	$4,607,749	$4,539,771	$959,874	$585,780	$988,140	1,937,999	$67,978
68.	Less: Allowance for Uncollectible Non-residential Accounts	$0	$0					
69.	**Total Non-residential Revenue**	**$4,806,384**	**$4,738,406**	**$1,010,206**	**$670,867**	**$1,002,992**	**$1,986,364**	**$67,978**
74.	**Interest on Investments**	($1,402)	$0	$0	$0	$0	$0	($1,402)
75.	**Other Income**	$12,600	$0	$0	$0	$0	$0	$12,600
76.	**Total Revenue Offsets**	**$11,789,890**	**$11,710,714**	**$2,406,795**	**$1,572,860**	**$1,935,276**	**$5,727,805**	**$79,176**

	2016 Volume Growth	1.01	
32000	Hauling Revenue - Residential MSW	6,672,869	
32001	Hauling Revenue - Residential MSW Extras	112,470	
32002	Hauling Revenue - Residential MSW Adjust	117,936	
		6,903,275	
	CHECKER	69,033	2016 Volume Growth RI
		6,972,308	
33000	Hauling Revenue - Commercial FEL	4,496,000	
33001	Hauling Revenue - Commercial FEL Extras	189,355	
33002	Hauling Revenue - Commercial FEL Adjustm	6,136	
		4,691,491	
		4,738,406	
		46,915	2016 Volume Growth C(
		11,710,714	- CHECKER

South County Sanitary Service

Base Year 2016 Rate Adjustment Application

Operating Information

		Historical				Current		Projected		
			Percent		Percent		Percent	Base Year	Percent	
		2013	Change	2014	Change	2015	Change	2016	Change	2017
	Section IX-Operating Data									
	Residential									
	Accounts									
77.	Arroyo Grande	5,673	0.6%	5,706	0.2%	5,717	1.0%	5,774	1.0%	5,832
	Grover Beach	4,076	0.7%	4,106	0.8%	4,138	1.0%	4,179	1.0%	4,221
	Pismo Beach	3,598	0.8%	3,627	0.3%	3,638	1.0%	3,674	1.0%	3,711
	Oceano CSD	1,717	1.7%	1,747	0.8%	1,761	1.0%	1,779	1.0%	1,796
	Nipomo CSD	3,927	0.6%	3,951	0.1%	3,955	1.0%	3,995	1.0%	4,034
	County	5,992	3.0%	6,169	0.8%	6,217	1.0%	6,279	1.0%	6,342
		24,983	1.3%	25,306	0.5%	25,426	1.0%	25,680	1.0%	25,937
78.	Routes-Garbage	10	-20.0%	8	-25.0%	6	0.0%	6	0.0%	6
79.	Routes-Recycling	6	0.0%	6	0.0%	6	0.0%	6	0.0%	6
80.	Direct Labor Hours	33,280	-12.5%	29,120	-14.3%	24,960	0.0%	24,960	0.0%	24,960
	Non-residential Garbage									
	Accounts									
80.	Arroyo Grande	477	0.8%	481	-0.2%	480	1.0%	485	1.0%	490
	Grover Beach	427	2.3%	437	0.0%	437	1.0%	441	1.0%	446
	Pismo Beach	366	1.1%	370	-1.1%	366	1.0%	370	1.0%	373
	Oceano CSD	193	-5.2%	183	0.0%	183	1.0%	185	1.0%	187
	Nipomo CSD	212	0.5%	213	0.0%	213	1.0%	215	1.0%	217
	County	456	0.9%	460	1.3%	466	1.0%	471	1.0%	475
		2,131	0.6%	2,144	0.0%	2,145	1.0%	2,166	1.0%	2,188
81.	Routes-garbage	6	0.0%	6	-16.7%	5	0.0%	5	0.0%	5
	Routes-recycling	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
82.	Direct Labor Hours	16,640	0.0%	16,640	-12.5%	14,560	0.0%	14,560	0.0%	14,560
	Recyclable Materials - All areas-Commingled Recycling (in tons)									
	Accounts									
83.	Tri-Cities	8,046	10.8%	8,916	-1.1%	8,819	1.0%	8,907	1.0%	8,996
	Nipomo/Oceano CSD	2,958	10.8%	3,278	-1.1%	3,242	1.0%	3,275	1.0%	3,308
84.	County	947	10.8%	1,049	-1.1%	1,038	1.0%	1,048	1.0%	1,058
		11,950	10.8%	13,243	-1.1%	13,099	1.0%	13,230	1.0%	13,362
	Recyclable Materials - All areas-Greenwaste Recycling									
	Routes	4	0.0%	4	0.0%	4	0.0%	4	0.0%	4
	Tons Collected	12,114	-1.8%	11,902	-7.0%	11,071	1.0%	11,182	1.0%	11,294
	Direct Labor Hours	10,400	0.0%	10,400	0.0%	10,400	20.0%	12,480	0.0%	12,480
	Garbage Tons Collected	40,552	1.5%	41,142	1.2%	41,621	1.0%	42,037	1.0%	42,457