South County Sanitary Service

SOLID WASTE RATE REVIEW

For the Communities of

Arroyo Grande
Grover Beach
Oceano
Pismo Beach

April 2019

William C. Statler

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

South County Sanitary Service

Solid Waste Rate Review

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REPORT PURPOSE

On September 25, 2018, South County Sanitary Service (SCSS) submitted a *Base Year* rate increase application to be effective January 1, 2019 to the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District (CSD). However, due to the complexity and concerns with the rate application, four supplemental applications were submitted, with the most recent one received on March 28, 2019.

The last application is the focus of this report in reviewing the SCSS rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make rate recommendations to these four agencies as appropriate.

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.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

In its latest application, SCSS is requesting a rate increase of 10.06%. This compares with its initial request of 13.36% in September 2018. As discussed in greater detail below, all of the concerns that surfaced in the iterations and further analysis that followed in addressing issues with proposed costs for 2019 have been resolved. However, the following highlights a key cost driver in this review:

Materials recovery facility (MRF) costs for "single stream" recycling (one container for all recyclables that must be sorted at a MRF) have increased from $7.80 in 2017 per ton to $67.50 per ton for 2019, an increase of 765%. This results in cost increases of $760,000 from 2017 and accounts for about half of the requested 10.06% rate increase.

It is clear from market realities (higher costs to produce higher-quality recyclables and lower prices for the resulting product from MRF operations) and the supporting data provided by SCSS, that cost increases in this area are warranted. While the increase is significant, it is acceptable given market conditions and the higher cost of other alternatives.

It should be noted that SCSS requested a rate restructuring in their initial application in order to send "better cues" to residential customers about correctly sizing trash containers, since many customers are placing trash in their recycling (blue containers). However, due to other complex cost issues associated with its rate application, SCSS has rescinded this request.

Findings

- ***Complete Application.*** With its latest application, SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. The revised application (Appendix A) has been correctly prepared and requests an across-the-board rate increase of 10.06%.

- ***High Level of Service at a Reasonable Cost.*** 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 recommended rate increase of 10.06%, 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).

- ***"Trigger Option."*** As discussed in greater detail below, the rate increase exceeds the cost of living threshold that "triggers" the option of terminating the Franchise Agreements within nine months after rate approval.

- ***Need for Updated Rate-Setting Methodology***. Several complex issues have surfaced in this review (most notably corporate overhead, greenwaste and MRF costs as well as rate structure concerns) that have not been encountered in the past in using the rate-setting methodology, which is based on the City of San Luis *Obispo's Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for 25 years. Accordingly, given the passage of time and the emergence of issues not envisioned in 1994, it is timely to update this methodology.

  Undertaking this work is supported by Waste Connections (the parent company of SCSS) as well as by the staff of all agencies serviced by SCSS (which includes the County, Avila CSD and Nipomo CSD as well as the City of San Luis Obispo). Waste Connections has conceptually agreed to fund half of this cost; if the remaining cost is shared by the central coast agencies serviced by Waste Connections, the consultant service cost for each agency should be very modest. There are several highly-respected consultant firms that could assist with this update, such as:

HF&H Consultants http://hfh-consultants.com	FCS Group http://fcsgroup.com
NBS https://www.nbsgov.com	MSW Consultants https://MSW-Consultants.com
R3 Consulting Group https://r3cgi.com	Bell & Associates Chris@bellassociatesinc.com

If the governing bodies are interested in pursuing an update, the next steps include developing a funding strategy; preparing and issuing a request for proposals (RFP); and selecting the vendor.

Rate Recommendations

It is recommended that the governing bodies of each agency adopt an across-the-board rate increase of 10.06%.

As discussed below, this rate increase exceeds the cost of living threshold that triggers the option of terminating the Franchise Agreements within nine months after rate approval. However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that SCSS may request under the methodology set forth in the Franchise Agreements.

About Proposition 218 Notices

Not all agencies prepare and issue "Proposition 218" notices for private sector solid waste rate increases. However, for those that do, the notice sets 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 such, it is recommended that the notices reflect the rates requested by SCSS.

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). This provision was subsequently amended in 2016 allowing for an added increase based on landfill rate increases ("weighted" for their proportion of total costs). It is important to note that other than a waiver for greenwaste cost increases in 2011, no other adjustments (including other pass-through costs) are allowed under the Franchise Agreements. As detailed later in this report, the calculated threshold limit for an increase that would avoid triggering this option is 3.32% (in short, the requested rate increase is 6.74% above the trigger).

It is important to note that the "trigger option" 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 an incentive for SCSS to do so if possible.

Rate Summary for Single Family Residential Customers

Table 1 summarizes the requested rates for single family residential (SFR) customers. As reflected in this summary, given the significant cost drivers facing SCSS, the increases will be modest under the proposed rate increase. 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 about $1.57 on average for the four agencies.

Table 1. Single Family Residential Rates

	Container Size (Gallons)		
	32	64	96
Current			
Arroyo Grande	$17.26	$22.44	$27.63
Grover Beach	15.65	21.16	26.64
Oceano	14.00	20.13	39.40
Pismo Beach	15.36	30.73	46.09
Requested			
Arroyo Grande	19.00	24.70	30.41
Grover Beach	17.22	23.29	29.32
Oceano	15.41	22.16	43.36
Pismo Beach	16.91	33.82	50.73
Increase: Requested Rates			
Arroyo Grande	1.74	2.26	2.78
Grover Beach	1.57	2.13	2.68
Oceano	1.41	2.03	3.96
Pismo Beach	1.55	3.09	4.64

BACKGROUND

On September 25, 2018, SCSS submitted a *Base Year* rate increase to be effective January 1, 2019. As noted above, due to the complexity and concerns with the rate application, four supplemental applications were submitted, with the most recent one received on March 28, 2019. This application 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) on October 31, 2019 to evaluate SCSS's rate increase application.

This is the sixth *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; the fourth in December 2012; and the last one in September 2015. As discussed below, several *Interim Year* rate reviews have prepared since then.

Franchise Agreement Summary

Table 2. Franchise Agreement Effective Dates

Agency	Agreement	Amendments
Arroyo Grande	June 10, 2008	March 22, 2016 July 26, 2016
Grover Beach	July 7, 2008	June 20, 2016
Oceano	July 14, 2010	July 29, 2016
Pismo Beach	June 3, 2008	August 3, 2016

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/food waste and recycling; and SCSS provides the container (waste wheelers) for each service.
- 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%.

Each of these agreements were similarly amended in 2016 to:

- Extend the term of the agreement for 20 years in recognizing the amortization of extensive investments in food and green waste processing.
- Revise the cost of living threshold “trigger” to include prorated landfill cost increases.

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 2016 and 2017
- 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
- Cold Canyon Processing Facility

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, appropriate systems appear to be 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 more rural areas in the 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.

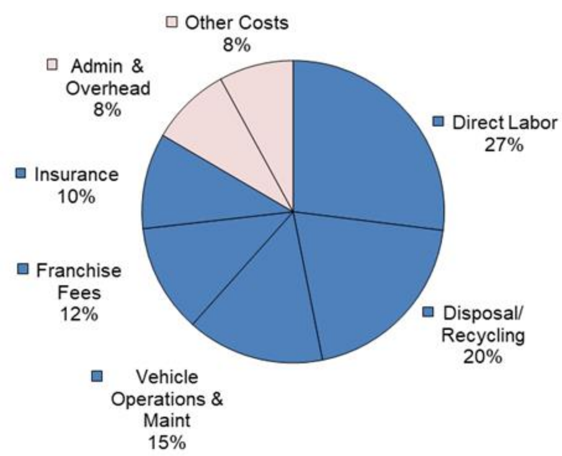
FINANCIAL OVERVIEW

While detailed financial and service information is provided in the SCSS rate request application (Appendix A), the following summarizes their actual costs, revenues and account information for 2017 (the last completed fiscal year for which there are audited financial statements) for all areas serviced by them.

Costs by Type. Total expenses for 2017 (after deducting for non-allowable and limited costs as discussed later in this report) were $11.7 million. As reflected in Table 3, five cost areas accounted for 84% of total costs:

- Direct labor for collection: 27%
- Disposal and recycling: 20%
- Vehicle operations and maintenance (including depreciation): 15%
- Franchise fees: 12%
- Insurance: 10%

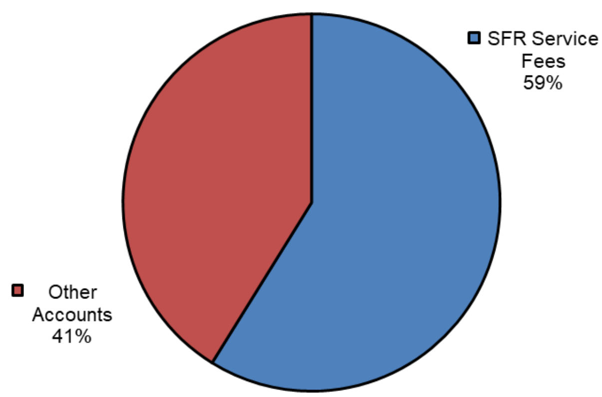
Table 3. Costs By Type: $11.7 Million



Revenues by Source. Total revenues in 2017 were $12.5 million. As reflected in Table 4, 59% 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 less than 1% from other revenues.

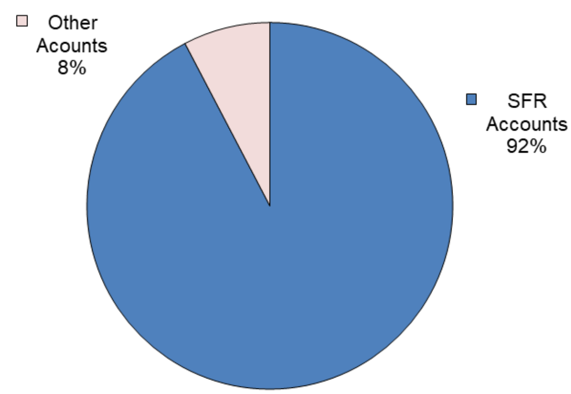
Table 4. Revenues by Source: $12.5 Million



Service Accounts by Type. While single-family residences account for 59% of revenues, they represent 92% of total accounts (Table 5).

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).

Table 5. Accounts By Type: 28,350



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 September 2015.

- ***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 landfill 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 recommended 2019 rates, controllable costs account for 84% of total costs, with landfill disposal costs 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 6. Review History: 2005 to 2019 (Last 15 Years)

Year	Review Type	Arroyo Grande	Grover Beach	Oceano	Pismo Beach (1)
2005	Base Year	5.60%	5.60%	5.60%	5.30%
2006	Interim Year	3.09%	3.09%	3.09%	2.95%
2007	Interim Year	3.76%	3.76%	3.76%	3.60%
2008	Base Year	3.00%	3.00%	3.00%	2.90%
2009	Interim Year	0.00%	0.00%	0.00%	0.00%
2010	Interim Year (2)	0.00%	0.00%	0.00%	0.00%
2011	Interim Year	0.00%	0.00%	0.00%	0.00%
2012	Interim Year (2)	5.15%	5.15%	5.15%	5.15%
2013	Base Year	3.20%	3.20%	3.20%	3.20%
2014	Interim Year	2.05%	2.05%	2.05%	2.05%
2015	Interim Year	0.00%	0.00%	0.00%	0.00%
2016	Base Year	3.25%	3.25%	3.25%	3.25%
2017	Interim Year	1.10%	1.10%	1.10%	1.10%
2018	Interim Year	1.60%	1.60%	1.60%	1.60%
2019	*Base Year (3)*	*10.06%*	*10.06%*	*10.06%*	*10.06%*

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.*

Assuming the proposed rate increase of 10.06% for 2019 is approved, this will result in an average annual rate increase of 2.75% over the last fifteen years, which reflects a high level of rate stability and price containment for SCSS 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 (Appendix A), SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2016 and 2017).
- Estimated results for the current year (2018, which is still in progress).
- Projected costs for the Base Year (2019).
- Estimated costs for the following year (2020).

Additionally, for virtually all line items, SCSS provided supplemental detail upon request to support cost increases from 2017 to 2019.

Table 7 below provides actual costs for 2017 (most recent audit results) compared with requested and recommended cost projections for 2019.

While there are significant cost increases in several categories, they are reasonable given the cost drivers facing SCSS; and in the case of MRF costs, this is an acceptable increase due to higher processing costs and lower revenues combined with the lack of other viable alternatives.

The Short Story. The key drivers behind the proposed 10.06% rate increase for 2019 can be summarized by three cost factors over the past two years:

- 4.5% for recycling via MRF operations.

- 2.2% for truck depreciation.

- 1.6% for investments in food and green waste recycling.

- 1.8% for all other cost increases including labor, vehicle fuel, ongoing maintenance, labor and other pass-through costs.

Table 7. Detailed Cost Review: 2017 vs 2019

	2017	2019 Requested	
	Actual	Amount	Change
Direct Labor	$3,150,539	$3,489,134	$338,595
Adminstrative Costs *	1,105,077	748,245	(356,832)
Other Expenses			
Depreciation: Bldgs & Equipment	16,598	27,275	10,677
Depreciation: Trucks & Containers	229,543	596,497	366,954
Gas and Oil	880,285	965,300	85,015
Insurance: Health Care	638,285	704,092	65,807
Insurance: Liability and Other	557,688	376,836	(180,852)
Outside Services: Food/Greenwaste	441,100	706,984	265,884
Outside Services: Truck Repairs	31,669	119,696	88,027
Truck Repairs	436,531	525,345	88,814
All Other Costs	744,216	754,773	10,557
Total Allowable Costs	8,231,531	9,014,177	782,646
Pass-Through Costs			
Tipping Fees: Landfill	1,794,208	1,821,241	27,033
Tipping Fees: MRF (Related Party)	92,054	852,390	760,336
Franchise Fees	1,357,533	1,385,290	27,757
Interest, Related Party	62,222	107,902	45,680
Transportation, Related Party	54,347	50,389	(3,958)
Facility Rent, Related Party	91,703	150,860	59,157
Total Pass-Through Costs	3,452,067	4,368,072	916,005
Total Costs	11,683,598	13,382,249	1,698,651

** Corporate overhead and office salaries*

The following describes the basis for each for the significant changes.

Allowable Costs

- **Direct Labor.** This reflects a two-year increase of 10.7%, or about 5.2% per year. SCSS says this increase is due to cost of living increases of about 2% per year plus an across the board increase of 5% for retention and attraction. Given the tight labor market, this increase is reasonable.

- **Administrative Costs.** This is a combination of corporate overhead (which is limited to increases in the consumer price index) and office salaries. SCSS's initial application and 2017 audit reassigned costs between corporate overhead and office salaries. While there may be merit in its revised approach, this is a change from its past practice that was not discussed with staff beforehand. In response to this concern, SCSS revised their application. As such, the best "apples to apples" comparison is to combine the two categories, which results in an overall <u>reduction</u> of $356,000 in administrative expenses from 2007. This virtually offsets all of the increases in direct labor.

- **Depreciation: Buildings and Equipment**. This increase results from the SCSS share (31%) of yard repaving costs of $482,000 in 2018, amortized over twenty-five years, offset by other reductions.

- **Depreciation: Trucks and Containers.** In the 2015 *Base Year* report, I noted there was a significant decrease in depreciation costs 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, I noted that these vehicles will need to be replaced at some point and higher depreciation costs will then be incurred.

  This is reflected in projected costs for 2019, which reflects the replacement of six trucks at a cost of about $432,000 per vehicle. In assessing the reasonableness of this cost, SCSS provided the invoice for its most recent purchase. Additionally, recent costs for similar vehicles by other agencies were also reviewed. Based on this review, the proposed cost base is reasonable. Amortized over seven years as set forth in the *Rate Manual*, this results in added depreciation costs of $370,000, which fully accounts for the increase from 2017 of $367,000.

  It should be noted that with these additions, the overall fleet age will decrease from 12.8 years to 11.2 years, a reduction of about 10% with these replacements, compared with the *Rate Manual* target of seven years. According, when these remaining vehicles that have exceed their useful lives are replaced, additional increases in depreciation costs in future *Base Year* rate applications are likely.

- **Gas and Oil.** These costs are projected to increase by about 4.5% annually. Given the volatility (both up and down) of diesel and CNG costs, this is a reasonable assumption for 2019 costs.

- **Insurance: Health Care.** These costs are projected to increase from 2017 by about 5% annually. Given increases in health care costs, this is a reasonable assumption for 2019 costs.

- **Insurance: Liability and Other.** Projected costs have decreased significantly from 2017, which reflects favorably on SCSS's risk management efforts.

- **Outside Services: Food and Greenwaste.** These cost increases are driven by the 20-year investment in new equipment (on-site Digester) for food and green waste. This increased cost was envisioned in the 2016 Franchise Agreement amendments, where the term was correspondingly extended for 20 years.

  The proposed rate is $51.44 per ton, an increase from $36.97 per ton in 2017. This increase is consistent with estimates discussed at the time. However, as reflected in Table 8, the key issue is allocating excess capacity. Currently about 25,000

Table 8. Food and Greenwaste: All Customers

Current Agency Use (Delivered Tons)	25,000
Reserve for Cold Canyon	3,000
Total	28,000
Capacity	34,000
Excess (Reserve) Capacity	
Tons	6,000
Percent	24.0%

tons are delivered to the Digester from all of Waste Connections' central coast customers; and another 3,000 tons have been reserved by Waste Connections for diversion from the landfill (plans to do so are in progress). However, the Digester is capable of processing 34,000 tons, an excess capacity of 6,000 tons (24%). It makes sense to reserve a reasonable capacity for the future: the question is: how much?

For rate-setting purposes, SCSS is proposing to share this capacity 67%/33%. This reserves about 18% growth for central coast agencies, allowing for about 1% growth over the 20-year franchise term. I concur that this is a reasonable basis for projecting this cost for 2019. This results in the following cost increase (roughly equal to the costs presented in Table 7):

Table 9. Increased Food and Greenwaste Costs

	2017	2019	Increase
Tonnage	11,931	13,727	1,796
Cost per ton	36.97	51.44	14.47
Annual Cost	$441,089	$706,097	265,008

It should be noted that an alternative of a "50/50" split of the excess capacity would reduce the cost allocated to SCSS by about $36,000, for a lower increase of 9.72% versus the requested increase of 10.06% (difference of 0.34%). This would have a very minor impact on single family residential rates (about 5 cents per month for 32-gallon customers). Accordingly, reserving a larger capacity for future growth makes sense. That said, addressing the allocation of the Digester capacity is another area that would benefit from an update to the *Rate Manual*.

- **Truck Repairs: Outside Services and In-House.** As summarized below, the rate application requests an increase of $353,682 (75.5%) in this cost category:

Table 10. Truck Repairs

	Actual	Requested	Increase	
	2017	2019	Amount	Percent
Outside Services	31,669	119,696	88,027	278.0%
In-House	436,531	525,345	88,814	20.3%
Total	$468,200	$645,041	$176,841	37.8%

While significant, the proposed costs reflect a decrease from their initial application of $821,882. Based on follow-up requests for more information and added review by SCSS of current trends, they have reduced the proposed amount by $176,841. On one hand, this is disconcerting, since the average age of the fleet is going down by 10%, and as such, a modest decrease might otherwise be expected. However, SCSS's explanation for this increase is that it reflects a more proactive approach to vehicle maintenance, which it believes is necessary in meeting safety concerns. Along with other efforts, this focus on safety appears to be working, as reflected by the significant reduction in insurance costs.

- **All Other Allowable Costs.** While there are ups and downs in individual line items, in total these reflect modest annual increases of less than 1%.

Pass-Through Costs

- **Tipping Fees: Landfill.** No rate increases are reflected in the rate application. The modest two-year increase of 1.5% reflects increased tonnage.

- **Tipping Fees: MRF (Related Party).** This cost category reflects a significant cost increase from 2017. As summarized below, this is driven by a rate increase from $7.80 per ton to $67.50 per ton by a separate company that is controlled by Waste Connections (Cold Canyon Processing Facility):

Table 11. Recycling: MRF Operations

	Actual 2017	Requested 2019	Increase Amount	Increase Percent
Tonnage	12,773	12,628	(145)	-1.1%
Cost per ton	7.80	67.50	59.70	765.4%
Annual Cost	$99,629	$852,390	$752,761	755.6%

Note: The net costs for 2017 in Table 7 reflect other offsetting costs of about $7,000.

Waste Connections believes that its MRF rates are not subject to regulatory review and that its basis for setting these rates is proprietary and not subject to disclosure under the Franchise Agreements. That said, SCSS offers the following explanation for this cost increase:

Competitive Rates. The following information was provided by SCSS is comparing their proposed rate with other communities:

Table 12. MRF Rates Survey

Facility	Location	Distance (Miles)	Per Ton Pricing: Processing	Reload (If SLO)	Transport from SLO	Revenue Sharing	All-In Cost
Cold Canyon Processing Facility	San Luis Obispo	0	$67.50	$0.00	$0.00	No	$67.50
Monterey Regional Waste Facility (1)	Monterey	144	50.00	10.00	45.00	No	105.00
Burrtec (2)	West Valley	215	57.50	10.00	45.00	No	112.50
Mid Valley Disposal	Fresno	140	67.50	10.00	40.00	No	117.50
Gold Coast Recycling	Ventura	162	77.44	10.00	40.00	No	127.44
Mid-State (3)	Templeton	23	78.00	10.00	25.00	No	113.00
Tajiguas Landfill	Santa Barbara	112	160.00	10.00	30.00	No	200.00
Recology	Pier 96 (Bay Area)	214	190.00	10.00	45.00	Unknown	245.00

1. Expected rate in 90 days.
2. Eliminated revenue share
3. Unable to handle SLO County volume

In short, SCSS believes its pricing is far lower than that otherwise available to South County communities; and even if loading and transportation costs are excluded, Waste Connections' MRF costs are very competitive.

In reviewing these costs, it is important to note that while SCSS is responsible under the Franchise Agreements for separately collecting co-mingled recyclables and delivering them to a recycling facility that will accept them for processing, it is not required to operate such a facility. As such, the $67.50 rate, while a significate increase, is more cost-effective for SCSS than other alternatives.

Given increased costs and lower market prices, the increased rate for 2019 reflects the same operating margin as 2017. Subject to several key caveats, this may be true.

1. It is clear that market realities have significantly impacted the net cost of recycling. As discussed by the President of the Boston Group in Appendix B, this is largely due to the collapse of markets in China, which affects both costs and revenues: the quality of the recycled product needs to be higher (resulting in higher costs); and the price of recycled products is significantly lower.

2. It reasonable for operating margins for recycling to be higher than they are for collection services like those provided under the Franchise Agreements. As discussed below under Rate-Setting Methodology, SCSS is allowed an operating profit margin of 8% for "non-pass through costs." In essence, this recognizes that while there are risks in effectively managing costs, there are minimal revenue risks, since rates are guaranteed and service is required. However, with recycling costs, revenues are highly volatile depending on the market. Thus, there is both cost and revenue risk.

   A complex econometric model developed the firm of Sound Resource Economics (located in Tacoma Washington: Neal Johnson, PhD, Principal) indicates that 16% is an appropriate operating profit margin for utilities where costs and revenues are at risk. Setting aside the math and assumptions behind this conclusion, it intuitively makes sense that operating margins should be higher where both costs and revenues are at risk, versus where just costs are. Placed in context for SCSS collection services, which have an 8% operating margin for cost risks, an added margin for revenue risks (especially in a volatile market) makes sense.

3. Based on a non-disclosure agreement, SCSS shared with me very high-level data showing that based on projected higher costs and lower revenues from 2017, that the operating margin between 2017 and 2019 remained the same.

4. While I was not provided with the underlying detail for the high-level cost and revenue data provided to me, I can conclude that based on market forces that are driving higher costs and lower revenues, and a reasonable operating margin in excess of 8%, that a significant increase in recycling costs is reasonable. The question is: how much?

Answering this question clearly is made difficult by the fact that the *Rate Manual* did not foresee this situation (in fact, it thought there would be net revenues offsetting rate requirements). More appropriately addressing this cost issue is key factor in my recommendation to update the *Rate Manual.*

That said, given the higher costs and lower revenues undoubtedly faced by the MRF combined with the lack of more cost-effective options, the proposed rate of $67.50 is acceptable.

Provided in Appendix C is addition information from Waste Connections about its MRF operations.

- **Franchise Fees**. This reflects a modest two-year increase of 2% based on customer growth.

- **Interest (Related Party).** Interest is an allowable cost under the *Rate Manual*. In this case, interest costs are assessed internally by Waste Connections based on a methodology that takes into account its corporate costs of borrowing and financed assets. Accordingly, this is treated as a “pass-through” cost. SCSS’s auditors have provided a written opinion on the reasonableness of the methodology; and I have reviewed the calculations underlying the projected costs in accordance with this methodology. Based on this, I believe the projected interest costs for 2019 are reasonable.

- **Transportation (Related Party).** These costs have decreased modestly.

- **Facility Rent (Related Party).** This increase is based on an updated assessment of the market value of SCSS’s share of the yard and office facilities. Based on reviewing a recent independent market value assessment and Waste Connections methodology for allocating SCSS’s share of these costs, I believe that the cost increase is reasonable.

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 4.4%. Excluding the cost drivers discussed above, all other costs increased by 1.4%.

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 recommended or proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have among the lowest rates of the agencies surveyed.

Table 13. Single-Family Residential Rate Survey

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero	$26.49	$41.56	$52.18
Morro Bay	17.91	35.81	53.72
Paso Robles	32.33	42.41	46.81
San Luis Obispo*	14.49	28.99	43.48
Santa Maria	na	30.69	34.81
San Miguel	28.23	44.48	61.06
Templeton	28.72	41.15	45.67
Requested: South County Sanitation Service Area			
Arroyo Grande	19.00	24.70	30.41
Grover Beach	17.22	23.29	29.32
Oceano	15.41	22.16	43.36
Pismo Beach	16.91	33.82	50.73

** Currently under review*

Summary: Are the costs reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor review and rate comparisons—the proposed cost assumptions for 2019 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:"

Allowable 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 facility rent, interest 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 overhead

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

- The target is an 8% operating profit ratio on "allowable 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, about 70% of their costs are subject to the 8% operating profit ratio; and 30% 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 A); and the financial information provided in the application for 2016 and 2017 ties to its audited financial statements.

Rate Request Summary

The following summarizes the calculations that support the requested and recommended rate increases:

Table 15. Rate Increase Summary

	Requested
Allowable Costs	9,014,178
Allowable Profit (8% Operating Ratio)	783,841
Pass-Through Costs	
Tipping Fees: Landfill	1,821,241
Tippping Fees: MRF	852,390
Franchise Fees	1,385,290
Related Party Costs	309,151
Total Pass-Through Costs	4,368,072
Allowed Revenue Requirements	14,166,091
Revenue without Rate Increase	12,991,486
Revenue Requirement: Shortfall (Surplus)	1,174,605
Rate Base Revenue	12,973,924
Percent Change in Revenue Requirement	9.05%
Allowed Revenue Increase *	10.06%

** Adjusted for 10% Franchise Fee*

Implementation

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

- The "8%" 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 10% to 6%.

- 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 a proposed rate increase of 10.06%.

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. 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, if possible.

Calculation of the Costs of Living 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).

Along with the adjustment for the "weighted" greenwaste rate increase in 2012 of 1.7% previously approved, the 2016 Franchise Agreement amendments provided for adjustments to the threshold "trigger" of landfill rate increases, weighted by the ratio of landfill costs to total costs (assumed at 16% based on long-term trends).

Table 16(a) provides the threshold calculation compared with actual rate increases and those recommended for 2019; and Table 16(b) provides landfill rates since 2008.

As reflected in Table 16(a), the cumulative changes in the cost of living (with adjustments for greenwaste and landfill cost increases) is 22.53%. This compares with cumulative rate increases, including those recommended of 10.06% for 2019, of 29.27%. This would result in exceeding the "trigger" by 6.74%. Correspondingly, the rate increase would be limited to 3.32% to remain under the "trigger."

Table 16(a). Trigger Threshold Calculation

US CPI-U Increase				Allowed Adjustments			Rate	Rate
June	Index	Amount	Percent	Greenwaste	Landfill (1)	Threshold	Year (2)	Increase *
2009	215.693							
2010	217.965	2.272	1.05%		2.74%	3.79%	2011	0.00%
2011	225.722	7.757	3.56%	1.70%	0.00%	5.26%	2012	5.15%
2012	229.478	3.756	1.66%		0.00%	1.66%	2013	3.20%
2013	233.504	4.026	1.75%		1.05%	2.81%	2014	2.05%
2014	238.343	4.839	2.07%		0.99%	3.06%	2015	0.00%
2015	238.638	0.295	0.12%		0.93%	1.05%	2016	3.25%
2016	241.018	2.380	1.00%		0.00%	1.00%	2017	1.10%
2017	244.955	3.937	1.61%		0.00%	1.61%	2018	1.61%
2018	251.989	7.034	2.79%		0.00%	2.79%	2019	10.06%
Cumulative Total		36.296	16.83%	1.70%	5.70%	22.53%		29.27%

1. Landfill rate increases prorated at 16% of total costs

2. Recommended rate for 2019

Above Trigger Threshold: Requested Rate Increase	6.74%
Available Rate Increase to Avoid Trigger	3.32%

Table 16(b). Landfill Rates Per Ton

Year	Actual	Increase Amount	Increase Percent	Prorated @ 16%
2008	29.25	-	0.00%	0.00%
2009	29.25	-	0.00%	0.00%
2010	29.25	-	0.00%	0.00%
2011	34.25	5.00	17.09%	2.74%
2012	34.25	-	0.00%	0.00%
2013	34.25	-	0.00%	0.00%
2014	36.50	2.25	6.57%	1.05%
2015	38.75	2.25	6.16%	0.99%
2016	41.00	2.25	5.81%	0.93%
2017	41.00	-	0.00%	0.00%
2018	41.00	-	0.00%	0.00%
2019	41.00	-	0.00%	0.00%

Note: Under long-term rate increases approved by the County, Cold Canyon Landfill was eligible for annual rate increases of $2.25 per ton in 2017, 2018 and 2019, with a resulting rate of $47.75 by 2019, However, it chose not to do so.

However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that may be requested under the methodology set forth in the Franchise Agreements.

Accordingly, the agencies may want to consider (as they did in as part of the 2016 *Base Year* review and *Interim Year* increases for 2017 and 2018), if the recommended or requested rate increases are approved, making 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 it serves: 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.

Waste Connections (as San Luis Garbage Company) has also submitted a rate increase application to the City of San Luis Obispo, which has also undergone several amendments. Based on similar rate increase drivers as those provided for SCSS, the most recent version requests an increase of 13.72%.

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.

- This results in a recommended rate increase of 10.06%.

ATTACHMENTS

Appendix A: Base Year Rate Request Application from South County Sanitary Service
Appendix B: Boston Group Outlook on Recycling Costs
Appendix C: Cold Canyon Processing Facility Background

Appendix A

BASE YEAR RATE REQUEST APPLICATION

1. **Base Year Application Summary**

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

2. **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 A.1

2019 Base Year Rate Adjustment Application-4th Amended

Summary CITY OF ARROYO GRANDE

Requested Increase

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	**-3.9%**

1. Rate Increase Requested **10.06%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	$ 17.26	$1.74		$19.00
4. Standard Service (2- can curb)	$ 22.44	$2.26		$24.70
5. Premium Service (3 - can curb)	$ 27.63	$2.78		$30.41

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

6. ***Multiunit Residential and Non-residential*** Rate increases of **10.06%** 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: Jeff Smith Title: District Manager

Signature: Date: 03/18/19

Fiscal Year: 1-1-2019 to 12-31-2019

Appendix A.1

2019 Base Year Rate Adjustment Application-4th Amended

Summary **CITY OF GROVER BEACH**

Requested Increase

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	**-3.9%**

1. Rate Increase Requested **10.06%**

Rate Schedule

	Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
	Single Family Residential				
2.	Economy Service (1 - can curb)	$ 15.65	$1.57		$17.22
4.	Standard Service (2- can curb)	$ 21.16	$2.13		$23.29
5.	Premium Service (3 - can curb)	$ 26.64	$2.68		$29.32

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

6. ***Multiunit Residential and Non-residential*** Rate increases of **10.06%** 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: Jeff Smith Title: District Manager

Signature: Date: 03/18/19

2019 Base Year Rate Adjustment Application-4th Amended

Summary OCEANO COMMUNITY SERVICE DISTRICT

Requested Increase

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	**-3.9%**
1. Rate Increase Requested			**10.06%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	$ 14.00	$1.41		$15.41
4. Standard Service (2- can curb)	$ 20.13	$2.03		$22.16
5. Premium Service (3 - can curb)	$ 39.40	$3.96		$43.36

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

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

Rate increases of **10.06%** 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: Jeff Smith

Title: District Manager

Signature:

Date: 03/18/19

2019 Base Year Rate Adjustment Application-4th Amended

Summary CITY OF PISMO BEACH

Requested Increase

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	**-3.9%**
1. Rate Increase Requested			**10.06%**

Rate Schedule

	Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
	Single Family Residential				
2.	Economy Service (1 - can curb)	$15.36	$1.55		$16.91
4.	Standard Service (2- can curb)	$30.73	$3.09		$33.82
5.	Premium Service (3 - can curb)	$46.09	$4.64		$50.73

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

6. ***Multiunit Residential and Non-residential*** Rate increases of **10.06%** 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: Jeff Smith Title: District Manager

Signature: Date: 03/18/19

Fiscal Year: 1-1-2019 to 12-31-2019

South County Sanitary Service

2019 Base Year Rate Adjustment Application

Financial Information	Historical		Current	Projected	
				Base Year	
	2016	2017	2018	2019	2020
				(from Pg. 4)	

Section I-Allowable Costs

6. Direct Labor	$3,083,345	$3,150,539	$3,385,970	$3,489,134	$3,593,808
7. Corporate Overhead	$332,113	$153,045	$340,461	$350,334	$363,647
8. Office Salaries	$478,072	$901,055	$386,322	$397,911	$409,849
9. Other General and Admin Costs	$3,820,842	$4,026,894	$4,098,450	$4,776,799	$4,958,317
10 **Total Allowable Costs**	**$7,714,372**	**$8,231,533**	**$8,211,202**	**$9,014,178**	**$9,325,620**

Section II-Allowable Operating Profit

11. Operating Ratio	87.3%	91.1%	96.1%	92.0%	92.0%
12. **Allowable Operating Profit**	$1,126,283	$803,795	$336,505	$783,841	$810,924

Section III-Pass Through Costs

13. Tipping Fees	$1,891,183	$1,886,262	$2,680,988	$2,673,630	$2,673,630
14. Franchise Fees	$1,318,502	$1,357,533	$1,368,864	$1,385,290	$1,401,894
15. AB939 Fees	$0	$0	$0	$0	$0
16. Payments to Affiliated Companies*	$137,595	$208,272	$243,980	$309,151	$320,899
17. Total Pass Through Costs	**$3,347,280**	**$3,452,067**	**$4,293,832**	**$4,368,072**	**$4,396,423**

* Affiliate Payments include interest, lease payments, and transportation

Section III-Pass Through Costs

18. Revenue Requirement	$12,187,936	$12,487,395	$12,841,539	$14,166,091	$14,532,967
19. Total Revenue Offsets (from Page 3)	**$12,187,936**	**$12,487,395**	**$12,841,539**	**$12,991,486**	**$13,147,193**

Section III-Pass Through Costs

20. Net Shortfall (Surplus)				$1,174,605	

			Nipomo
21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)	$12,973,924		$12,973,924
22. Percent Change in Residential and Non-residential Revenue Requirement	9.05%		8.2%
23. Franchise Fee Adjustment Factor (1 - 6 percent)	90.000%		92.700%
	10.06%		**8.89%**
Limitation due to cumlative increases			
24. Percent Change in Existing Rates	**10.06%**		**8.89%**

South County Sanitary Service

2019 Base Year Rate Adjustment Application

Revenue Offset Summary

		Section VII - Revenue Offsets				
		Historical		Current	Projected	
					Base Year	
		2016	**2017**	**2018**	**2019**	**2020**
	Residential Revenue (without increase in Base Yr.)					
28.	Single Family Residential	$7,163,810	$7,341,537	$7,541,246	$7,631,741	$7,723,322
	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**	**$7,163,810**	**$7,341,537**	**$7,541,246**	**$7,631,741**	**$7,723,322**
	Non-residential Revenue (without increase in Base Yr.)					
	Account Type					
	Non-residential Can					
33.	Number of Accounts	8	8	8	8	8
34.	Revenues			$4,535	$4,589	$4,644
	Non-residential Wastewheeler					
35.	Number of Accounts	392	425	460	466	471
36.	Revenues			$477,469	$483,199	$488,997
	Non-residential Dumpster					
37.	Number of Accounts	1,738	1,684	1,629	1,649	1,668
38.	Revenues	$5,004,136	$5,133,957	$4,796,508	$4,854,067	$4,912,315
39.	Less: Allowance for Uncollectible Non-resid	$0	$0	$0	$0	$0
40.	**Total Non-residential Revenue**	$5,004,136	$5,133,957	$5,278,512	$5,341,854	$5,405,956
45.	**Interest on Investments**	$6,104	$0	$0	$2,035	$2,059
46.	**Other Income**	$13,885	$11,901	$21,780	$15,856	$15,856
47.	**Total Revenue Offsets**	**$12,187,936**	**$12,487,395**	**$12,841,539**	**$12,991,486**	**$13,147,193**

South County Sanitary Service

2019 Base Year Rate Adjustment Application

Cost Summary for Base Year

	Description of Cost	2016	2017	2018	BASE YEAR 2019
	Labor	$2,849,547	$2,906,100	$3,127,283	$3,219,834
	Payroll Taxes	$233,798	$244,439	$258,686	$269,300
48.	**Total Direct Labor**	**$3,083,345**	**$3,150,539**	**$3,385,970**	**$3,489,134**
49.	Corporate Overhead	$332,113	$153,045	$436,899	$453,501
	Less limitation (enter as negative)			($96,438)	($103,167)
	Total Corporate Overhead	**$332,113**	**$153,045**	**$340,461**	**$350,334**
	Office Salary	$442,804	$864,061	$350,384	$360,895
	Payroll Taxes	$35,268	$36,995	$35,938	$37,016
50.	**Total Office Salaries**	**$478,072**	**$901,055**	**$386,322**	**$397,911**
	Bad Debt	$2,448	$4,271	$11,283	$4,300
	Allocated expenses	$0	$0	$0	$0
	Bond expense	$6,482	$5,325	$5,325	$5,527
	Depreciation on Bldg and Equip	$0	$16,598	$6,297	$27,275
	Depreciation on Trucks/Containers	$274,514	$229,543	$304,867	$596,497
	Drive Cam fees	$28,997	$28,680	$22,949	$23,821
	Dues and Subscriptions	$6,738	$8,196	$6,221	$6,457
	Facilities	$0	$50,977	$0	$0
	Gas and oil	$796,069	$880,285	$969,634	$965,300
	Laundry (Uniforms)	$21,452	$24,462	$26,679	$27,693
	Legal and Accounting	$29,459	$30,952	$31,145	$37,328
	Miscellaneous and Other	$16,522	$8,372	$8,433	$8,753
	Office Expense	$206,325	$242,249	$275,612	$286,086
	Operating Supplies	$39,671	$39,710	$40,674	$42,219
	Other insurance - Medical	$1,238,436	$1,195,973	$1,041,356	$1,080,928
	Other Taxes	$35,985	$35,080	$34,854	$36,179
	Outside Services	$431,794	$518,013	$541,595	$867,435
	Public Relations and Promotion	$1,578	$1,699	$1	$1
	Postage	$6,574	$2,005	$2,047	$4,125
	Permits	$63,007	$60,347	$60,101	$62,385
	Relocation	$22,576	$3,186	$9,302	$9,656
	Rent	$3,000	$3,000	$0	$0
	Telephone	$20,909	$20,182	$13,956	$14,486
	Tires	$146,896	$139,628	$87,488	$88,145
	Travel	$26,944	$13,991	$27,278	$28,315
	Truck Repairs	$365,282	$436,531	$543,855	$525,345
	Utilities	$29,184	$27,637	$27,497	$28,542
51.	**Total Other Gen/Admin Costs**	**$3,820,842**	**$4,026,894**	**$4,098,450**	**$4,776,799**
52.	**Total Tipping Fees**	$1,891,183	$1,886,262	$2,680,988	$2,673,630
53.	**Total Franchise Fee**	1,318,501.56	$1,357,533	1,368,863.98	1,385,290
54.	**Total AB 939/Regulatory Fees**	$0	$0	$0	$0
55.	**Total Lease Pmt to Affil Co.'s**	$89,051	$91,703	$145,337	$150,860
55a.	**Interest Expense (to affiliate)**	$0	$62,222	$50,099	$107,902
55b.	**Transportation costs (to affiliate)**	$48,544	$54,347	$48,545	$50,389
56.	**Total Cost**	$11,013,108	$11,567,031	**$12,406,390**	**$13,223,958**

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

	Description of Revenue	Section VII-Revenue Offsets						
		Overall	Franchise	Refuse Collection				Non-franchise
		Total	Total	Arroyo	Pismo	Grover	Unincorporated	Total
	Residential Revenue (without increase in Base Year)							
57.	Single Family Residential	$7,631,741	$7,631,741	$1,293,703	$852,859	$868,551	$4,616,628	
	Multiunit Residential Dumpster							
58.	Number of Accounts	0	0					
59.	Revenues	$0	$0					
60.	Less Allowance for Uncollectable	$0	$0					
61.	**Total Residential Revenue**	**$7,631,741**	**$7,631,741**	**$1,293,703**	**$852,859**	**$868,551**	**$4,616,628**	**$0**
	Non-residential Revenue (without increase in Base Year)							
	Account Type							
	Non-residential Can							
62.	Number of Accounts	8	8	2	4	0	2	
63.	Revenues	$4,589	$4,589	$503	$1,468	$0	$2,617	
	Non-residential Wastewheeler							
64.	Number of Accounts	466	466	131	132	95	108	
65.	Revenues	$483,199	$483,199	134,345.31	180,384.79	64,852.36	103,616.13	
	Non-residential Dumpster							
66.	Number of Accounts	1,649	1643	352	236	327	728	6
67.	Revenues	$4,854,067	$4,777,761	$1,059,880	$1,004,808	$688,810	$2,024,263	$76,305
68.	Less: Allowance for Uncollectible Non-residential Accounts	$0	$0					
69.	**Total Non-residential Revenue**	**$5,341,854**	**$5,265,549**	**$1,194,729**	**$1,186,661**	**$753,662**	**$2,130,497**	**$76,305**
74.	**Interest on Investments**	$0	$0	$0	$0	$0	$0	$0
75.	**Other Income**	$328	$0	$0	$0	$0	$0	$328
76.	**Total Revenue Offsets**	**$12,973,924**	**$12,897,290**	**$2,488,432**	**$2,039,520**	**$1,622,213**	**$6,747,125**	**$76,634**

South County Sanitary Service

2019 Base Year Rate Adjustment Application

Operating Information

Section IX-Operating Data

		Historical				Current		Projected		
			Percent		Percent		Percent	Base Year	Percent	
		2016	Change	2017	Change	2018	Change	2019	Change	2020
	Residential									
	Accounts									
77.	Arroyo Grande	5,742	0.5%	5,769	1.1%	5,833	1.0%	5,891	1.0%	5,950
	Grover Beach	4,198	0.3%	4,211	0.7%	4,239	1.0%	4,281	1.0%	4,324
	Pismo Beach	3,748	0.5%	3,768	-0.2%	3,762	1.0%	3,800	1.0%	3,838
	Oceano CSD	1,838	0.1%	1,840	-0.3%	1,834	1.0%	1,852	1.0%	1,871
	Nipomo CSD	4,001	0.8%	4,035	0.9%	4,070	1.0%	4,111	1.0%	4,152
	County	6,436	1.8%	6,551	1.4%	6,643	1.0%	6,709	1.0%	6,777
		25,963	0.8%	26,174	0.8%	26,381	1.0%	26,645	1.0%	26,911
78.	Routes-Garbage	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
79.	Routes-Recycling	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
80.	Direct Labor Hours	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722
	Non-residential Garbage									
	Accounts									
80.	Arroyo Grande	486	-1.0%	481	-0.4%	479	1.0%	484	1.0%	489
	Grover Beach	442	-2.0%	433	-3.7%	417	1.0%	421	1.0%	425
	Pismo Beach	380	-1.1%	376	-2.4%	367	1.0%	371	1.0%	374
	Oceano CSD	190	0.5%	191	-12.0%	168	1.0%	170	1.0%	171
	Nipomo CSD	211	-0.9%	209	-16.3%	175	1.0%	177	1.0%	179
	County	475	2.3%	486	6.8%	519	1.0%	524	1.0%	529
		2,184	-0.4%	2,176	-2.3%	2,125	1.0%	2,146	1.0%	2,168
81.	Routes-garbage	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
	Routes-recycling	3	0.0%	3	0.0%	3	0.0%	3	0.0%	3
82.	Direct Labor Hours	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334
	Recyclable Materials - All areas-Commingled Recycling (in tons)									
	Accounts									
83.	Tri-Cities	8,965	-3.1%	8,686	-1.1%	8,587	0.0%	8,587	0.0%	8,587
	Nipomo/Oceano CSD	3,296	-3.1%	3,193	-1.1%	3,157	0.0%	3,157	0.0%	3,157
84.	County	1,055	-3.1%	1,022	-1.1%	1,010	0.0%	1,010	0.0%	1,010
		13,316	-3.1%	12,901	-1.1%	12,754	0.0%	12,754	0.0%	12,754
	Recyclable Materials - All areas-Greenwaste Recycling									
	Routes	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
	Tons Collected	11,294	5.6%	11,931	5.3%	12,567	1.0%	12,693	1.0%	12,820
	Direct Labor Hours	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271
	Garbage Tons Collected	40,552	1.5%	41,142	1.2%	41,621	1.0%	42,037	1.0%	42,457

Appendix B

GLOBAL OUT LOOK

CHINA NOT IN THE FUTURE

It seems odd that in the middle of the Amazon craze we are looking at a decrease in the demand of waste paper from China. In fact, it's hard to understand why China is not on board with the recent growth of the packaging sector. International Paper, Georgia Pacific etc. are having record years.

This is a complex issue. First, we have to look at the government which is the polar opposite of the United States. I know this sounds simple but it really is not. We are a free capitalistic republic and China is, well a Communist country. We continue to say, this just does not make sense, and it truly does not. Communist Countries do not look for sense but control. This control is in the form of new regulations that come down from the leaders without understanding the economic impact to their own country. What is truly amazing is all the paper mills in China feel the same way but if they were to say anything against the Chinese Government they would literally be thrown in jail or removed from their position. China is really not about a "Team approach".

Here is a little history on how we all got to 2018 and the new laws and regulations currently being enforced by the Chinese Government. 20 years ago, China began building infrastructure, buildings and equipment to help propel them to an industrial power. Included in this was papermills, to be able to make packaging for all the products that were going to be produced in China. Previous to 2000, very little waste paper was consumed in China. Other countries such as European countries, Taiwan, Korea, Indonesia and Japan were the largest consumers. Interestingly enough the quality standards in these countries was very high. You either needed to make this quality or you would not be able to sell your product to these mills. This was also indeed the practice in the USA. Part of this was because the technology of cleaning equipment was very expensive and cost prohibitive. It was actually more cost effective to pay more for cleaner paper than to pay less for lesser quality paper.

In the 1990's sorting lines were being built to help separate office paper produced from large office buildings to help the growing demand of pulp substitutes. Sorted white ledger and sorted office paper arrived as a very good alternative to expensive pulp. The unfortunate remaining product of this process was mixed paper, such as groundwood grades, file folders, OCC and other unbleachables. Concurrently, China was building state of the art paper mills. They were looking for low cost fiber to make their products. That low cost contaminated mixed paper combined with OCC was a viable raw material for them and they started purchasing machines that could clean this fiber from contamination and make paper. Still USA mills were not going to entertain this because they new it was not sustainable with costs.

By 2000 China had begun its journey as the largest mixed paper consumer in the world. Growing Chinese mill groups were able to convince all of the major waste haulers in the United States that they could make paper out of this mixed paper. Even lowering the grade and consolidating it as single stream in their recycling programs. When the waste haulers figured out the money they could save by using one truck instead of multiple trucks, sorting lines started being purchased. These sorting technologies came from the basics of mining equipment to efficiently separate grades of paper, OCC, news and mixed paper. However, this material would be comingled with glass, plastic, tin, aluminum cans, plastic bags, dog poop, kitty litter and garbage. That's right garbage, if you're garbage can overflowed, toss it in the recycling bin who will say anything there is no quality control. (wishful recycling) In fact, the City of Los Angeles in the late 1990's had residual garbage at 40% from their single stream. However, China kept buying this material. You would see quality claims on a consistent basis but you knew this was part of the business and you paid the claim and moved on.

During this industrial boom China was recognizing that there was a cost to all of this growth to China's Environment. In 2012, President Jinping Xi was elected by the Communist party and started to enforce new reforms and initiatives including new Environmental policies. The first which was made very public was the computer recycling business in many documentaries.

In 2014, Green Fence policy was put into place after China realized that the wastepaper stream developed was a majorly flawed system. Mixed paper and curbside news were containing approximately 5 to 10 percent prohibitive and the yield from this grade is approximately 70 percent. Simple math tells us if China is importing 6 million tons of mixed paper they are also importing 1.8 million tons of material that will go to the landfill. Part of this however is the papermaking process, but with lower grades you get lower yield. As mentioned earlier, the US papermills were very aware this was going to happen this is why we don't buy much mixed paper domestically.

This new influx of landfill bound material caused China's government to have a knee jerk reaction. China decided to hold strict inspections and they started rejecting material and sending shipments back to their origin. Green fence policy was created to get control of the waste that was being shipped. Since 2014, China noticed that mills were still disposing the same amount of waste and instead of telling the government that this is part of the paper making process the mills kept quite as new regulations became stricter. Once again, in a communist country you don't have the freedom to find a reasonable solution, you just hit the brakes.

In 2017, China flat out made a decision to no longer accept recycled plastic in any form. Before this, they were the largest consumer of HDPE, PET, plastic bags and a grade called MRF film. Once again China developed this market by accepting low quality plastic that in some cases like MRF film was filled with terrible contamination. Previous to this there was no market for MRF grade. So instead of coming to a reasonable standard, the Chinese government just banned plastic all together and all the factories that were recycling plastic just went under.

Currently we are watching the same scenario play out with metals. It could be partially related to the trade talks but we are unsure. We do know that China has said it will ban importing metals by the end of 2018.

So where does this leave waste paper. Currently as of January 1st 2018 mixed paper is banned from China. That is 6 million tons of paper. Who will buy this, for now it is limited, India is a far second to China and everyone is running to shove 6 million tons into a market that will consume 1 million tons.

The next question is what has happened to our waste stream at our homes in just 10 years. There is a simple answer, look at your recycling bin at your house. You have lots of OCC, lots of junk mail with little to no newsprint. The newsprint market is limited and there are only a couple of mills in the world now that produce recycled newsprint. This leaves only a couple of answers for diversion from the landfill for mixed paper, use it for fuel for a waste to energy plant or anaerobic digesting. Both of these options are the same, they will cost landfill rates if not higher.

Under the current China Leadership, they want to move away from importing paper and have an initiative to be self sufficient by 2020. It is hard for us to believe this is possible with billions of dollars of investments in paper mills. If China follows what they are currently doing with computers, plastic and metal recycling then, they can do this with wastepaper as well. Our belief at the Boston Group is that the market for grades like OCC and office paper will continue to be in demand globally. Mixed paper by pure recycled stream at the house hold will continue to be an item that will be in to much supply for the demand. As mentioned earlier, it will have to be used in other manners that will divert it from the land fill but will be costly. It is also important to note that garbage at the curbside is not sorted but mixed paper that is destine for more expensive tip fees will be sorted.

The conclusion of our cost of recycling is no longer a shared profit but pure cost. Adding labor to sort mixed paper is at a minimum doubling you're costs. In California, my estimate at profitable recycling and diversion will be $75 per ton charge at the door of recycling facilities.

I am more than welcome to always talk about different markets and how they will change in the future. Always feel free to call me.

Regards,

Kevin Kodzis
President
The Boston Group Inc.

COLD CANYON PROCESSING FACILITY

A Waste Connections Company

March 19, 2019

Aaron Floyd
Deputy Public Works Director
City of San Luis Obispo
Public Utilities
879 Morro Street
San Luis Obispo, CA 93401

Subject: MRF Recycling Background

Dear Mr. Floyd,

It is my pleasure to continue with the partnership created many years ago between the City of San Luis Obispo, San Luis Garbage Company and the Cold Canyon Processing Facility.

As the local service provider, the Cold Canyon Processing Facility has always tried to stay a few steps ahead of the trends affecting the processing of recyclables. Global commodity markets are volatile. As of 2012, we stopped sending material to China as we began to see that with China, there was too much unpredictability in the market. We also started seeing price manipulation that was actually hurting the local market. We knew then that, as a local service provider, we needed to manage volatility and build stronger relationships within our own community. We started building those relationships with our local partners like George Kardashian at San Miguel Garbage and Faron Bento in Cayucos. We did this by securing reasonably priced transportation when and where we needed it for our local community, as we are approximately five hours from any port or mill. These moves allowed us to keep recycling costs as low as possible for our customers.

We also continued to build relationships along the West Coast with mills and manufacturers that use our recyclable materials. We moved materials within California as much as possible with an eye on cost predictability and control. Mixed paper is approximately 30% of our recycle stream, so we had to find a way to recycle this material type. While others in the County were disposing of mixed paper in landfills, we continued to maintain relationships in places such as Malaysia, Vietnam and South Korea, which allowed us to continue processing mixed paper, although often at a significant loss.

In late 2013 and early 2014, China rolled out a program called the "Green Fence," through which China began restricting the recycling materials the country was willing to accept. Luckily, our relationships with our other partners were well established by this point, minimizing the initial impact of this

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program. Then in 2017, China instituted what amounted to a ban on foreign recyclables. Called the "National Sword" campaign, this action created a new norm—going forward, China would only accept materials with no more than 0.5% of what the Chinese now deemed 'trash.' In 2018, China banned 24 materials from being imported at all.

These changes meant that a typical MRF in the U.S., like the Cold Canyon Processing Facility, had to alter its operations drastically. The first step was to slow the line down from processing 20 to 22 tons of materials per hour, to 12 to 14 tons per hour. This has greatly increased costs at our facility by requiring the doubling of our workforce and increasing overtime by over 100% in order to process the materials.

Since the inception of the "National Sword" campaign, commodity values have continued to drop. In the past three months, we have seen another 60% decrease in commodity values. Many markets have completely shut down and no longer accept recyclable materials. However, we have still been able to move all materials types to our end market processors because of our trusted relationships and ability to navigate challenging market conditions.

As the local service provider, we chose to do the right thing, at the right time, for the right reason. During the beginning of this crisis in 2017 and 2018, many other processors began disposing of recyclable materials in landfills because they couldn't sell them, didn't want to pay for acceptable disposal, or couldn't create a product that anyone could take even at cost. The Cold Canyon Processing Facility is one of the few MRFs in the region that chose to continue to process materials even if it cost us more money through additional processing costs, increased transportation fees, and final destination fees.

Between the additional headcount to process the materials correctly and produce a product that is marketable, coupled with a decrease in the overall average commodity price of 35% to 65% depending on the material type, we have no choice but to increase our per-ton processing fee. The per-ton processing fee increase allows us to continue operations as the lowest cost service provider to our customers, and it is our intent to continue to operate in a manner that will allow us to be the lowest cost service provider going forward.

You have our commitment that we will continue to work to find the best value for the materials generated. We will continue to focus on outreach and education to eliminate non-recyclable materials from our recycle stream. We will look for opportunities to update our equipment to meet future recycling needs as California marches on toward a 75% diversion goal.

For the reasons outlined above, and as we've discussed with you over the past several months, the purpose of this notice is to inform you that the Cold Canyon Processing Facility will be increasing its per-ton recyclable materials processing fee it charges San Luis Garbage Company for the City's recyclable materials from $7.80 to $67.50, effective June 1, 2019.

Appendix C

For your reference, I have included below links to a couple of articles that may further help the City understand how the recycling market has changed.

https://www.npr.org/sections/goatsandsoda/2019/03/13/702501726/where-will-your-plastic-trash-go-now-that-china-doesnt-want-it

https://www.theatlantic.com/technology/archive/2019/03/china-has-stopped-accepting-our-trash/584131/

We thank you for your long-term partnership and look forward to many more years of working together toward common goals with regard to recycling.

Sincerely,

John Ryan
District Manager
Cold Canyon Processing Facility
a Waste Connections company

cc: Mychal Boerman, Peter Cron, Ron Munds, Bill Statler, Jeff Smith, Sue VanDelinder