Mission Country Disposal

SOLID WASTE RATE REVIEW

San Luis Obispo County

Los Osos Community Services District Area

January 2016

William C. Statler

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

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REPORT PURPOSE

In September 2015, Mission Country Disposal (MCD) submitted a *Base Year* rate application to the County to increase rates for the services it provides in the Los Osos Community Services District (LOCSD) and surrounding areas. As discussed in greater detail later in this report, MCD also requested rate increases at that time for other areas in the County.

While rate increases for these other areas were approved by the County Board of Supervisors on November 24, 2015 (with an effective date of January 1, 2016), the requested rate increase for services that MCD provides in the LOCSD and surrounding areas was deferred pending "Proposition 218" noticing requirements. Board consideration of MCD's rate increase for this area is scheduled for March 22, 2016, with an effective date of April 1, 2016 proposed for any approved rate increases.

The purpose of this report is to review MCD's request in the LOCSD area in accordance with applicable Franchise Agreement provisions regarding rate increase applications in this area and to make to make rate recommendations to the County as appropriate.

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

OVERVIEW OF FINDINGS

- MCD has fully provided the supporting documentation required for rate requests under the its Franchise Agreement with the County. 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 10.37%, effective April 1, 2016. The rate increase application is provided in the Appendix.

- MCD provides a broad level of high-quality services to the County in this area, which includes 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 other communities.

- MCD has done a good job of managing costs and revenues, especially in light of cost pressures in key areas such as 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 MCD rate increase application:

- **Proposed rate increase of 10.37% for April 2016 compared with the approved rate-setting methodology.** The requested 10.37% rate increase is based on the allowed rate increase as set forth in the County's Franchise Agreement. Accordingly, it is recommended that the County approve the requested rate increase of 10.37%.

- **Multi-year rate program proposed for 2017 and 2018**. While slightly different from the *Interim Year* rate review methodology set forth in the County's Franchise Agreement, 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 Agreement (as well as in the Proposition 218 notice that will be provided to MCD customers), it is recommended that the County 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 Agreement within nine months after rate approval.** Section 16(B) of the Franchise Agreement provides the County with an o*ption* to terminate the agreement within nine months of an approved rate increase that is greater than a cumulative increase in the cost of living. It is important to note that this "trigger" calculation does not limit the allowable rate increase that MCD may request – and the County may approve – under the methodology set forth in the Franchise Agreement.

  That said, I have reached a different conclusion from MCD on the "trigger" amount. Under its calculations, the 10.37% requested rate increase is under the "trigger" amount. However, based on my calculations as described later in this report, a rate increase greater than 5.0% would trigger the termination *option*. However, given the reasonableness of the proposed rate increase and its compliance with the approved rate-setting methodology, I recommend that the County approve the requested rate increase and make findings that it will not pursue the "trigger" option during the next three years covered by MCD's rate increase.

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 Agreement, there are two additional issues that complicate this rate review.

- MCD has requested three-year rate approval in one action. This approach is generally consistent with the *Interim Year* rate review process in the Franchise Agreement; and MCD's proposed methodology for doing so is 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.

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

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.

That said, regardless of how these two issues are resolved, they do not directly affect MCD's requested rate increase for April 1, 2016 of 10.37%.

Rate Recommendations

April 1, 2016

It is recommended that the County adopt MCD's requested *Base Year* rate increase for 2016, which reflects a 10.37% across-the-board rate increase for all account types. Table 1 summarizes the current and proposed rates for Single Family Residential (SFR) customers.

Table 1. Single Family Residential Rates

Container Size	Current	Proposed	Increase
20 Gallons	$12.25	$13.52	$1.27
32 Gallons	17.42	19.23	1.81
64 Gallons	26.74	29.51	2.77
96 Gallons	32.52	35.89	3.37

January 1, 2017 and January 1, 2018

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

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

- Increase of 0.59% for 2017 and 0.57% for 2018 for increases in the cost of landfill disposal.

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

The *Interim Year* methodology in the Franchise Agreement provides for three key adjustment factors:

- Changes in the CPI-U for "controllable" operating costs
- Changes in "pass-through costs" (primarily tipping fees), which MCD 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 89% of total costs, with tipping fees accounting for 11%.

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

Table 2. Interim Year Sample

Controllable Cost Factors	
CPI-U Increase	2.00%
Percent of Total Costs (Excluding Franchise/AB 939 Fees)	89.08%
Allowable Adjustment	**1.78%**
Tipping Fees	
Tipping Cost Increase	4.95%
Percent of Total Costs (Excluding Franchise/AB 939 Fees)	10.92%
Allowable Adjustment	**0.54%**
Total Before Franchise Fee Adjustment (10%)	2.32%
Total Allowed Increase	**2.58%**

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

- Interim Year Methodology: 2.58%
- MCD Proposed Methodology: 2.59% (2% CPI plus 0.59% for tipping fees)

The impact on rates would be very minor: 0.01%. This very small difference would have no impact on the resulting monthly rate for single family residential (SFR) customers.

In summary, while MCD's proposed approach for years 2 and 3 is slightly different than the one set forth in the Franchise Agreement, 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 Agreement (as well as the Proposition 218 notice provided to MCD customers), it is recommended that the County 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 County, 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 County approves the 2017 and 2018 rate-setting approach, it is recommended that it make findings that it will not pursue the "trigger" option during the next three years.

Cost of Living "Trigger" Option

Along with establishing the rate review methodology, the Franchise Agreement 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, the County 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 MCD (or subsequent County rate approval) 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 MCD to do so.

As discussed in greater detail later in this report, based on MCD's calculation of the cost of living increase threshold, the maximum rate increase to avoid triggering the *potential* for termination is 10.64%. The requested rate increase of 10.37% is slightly less than this amount.

However, this is based on excluding from the threshold increases in tipping fees of 1.03% in 2015 and proposed increases for tipping fees and organic waste diversion of 4.61% in 2016. In reviewing the Franchise Agreement, while it may be reasonable to do so, there is no provision for excluding these increases.

Accordingly, if these are not excluded, the rate increase to avoid triggering the termination *option* would be limited to 5.0%. However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that MCD may request under the methodology set forth in the Franchise Agreement, nor does it limit the County's ability to approve the requested rate increase. Accordingly, if the proposed rate increase of 10.37% is approved, it is recommended that the County make findings that it will not pursue the "trigger" option during the three year-year period covered by the request.

BACKGROUND

In September 2015, MCD submitted a *Base Year* rate increase to the County for the unincorporated areas it services in the North Coast area of the County (such as Los Osos, Cayucos, Cambria and San Simeon) where rates are not reviewed by the Cayucos and Cambria Sanitary Districts.

MCD's parent company (Waste Connections) also submitted rate applications at that time to the County for areas in the South County and San Luis Obispo where rates are not reviewed by the cities of Arroyo Grande, Grover Beach, Pismo Beach and San Luis Obispo or by the community services districts (CSD) in Avila Beach, Nipomo and Oceano.

Except for the Los Osos area, on November 24, 2015 the County Board of Supervisors approved requested rates for these areas, ranging from 3.25% to 10.37%. Since service in the LOCSD area is mandatory (which is not the case in the other areas) and in accordance with Section 11.3 of the Franchise Agreement, the County is following the procedures for establishing new or increased "property-related fees" for refuse collection services set forth in Proposition 218. Accordingly, the rate review for the LOCSD area was deferred for consideration as a separate item at a later date (rate review by the Board for this area is currently scheduled for March 22, 2016). The County is following the same procedure for areas outside of but surrounding the LOCSD.

Transfer of the LOCSD Franchise to the County. Until December 2013, the LOCSD was the franchising agency for services provided by MCD within its boundaries. Its Franchise Agreement with MCD was adopted in September 2008 and is effective for 15 years, ending in 2023. In December 2013, the LOCSD assigned its Franchise Agreement to the County. Accordingly, the County's franchise terms and conditions for this area, including rate reviews, are governed by the LOCSD Franchise Agreement.

This rate review covers the rate increase request for the LOCSD service area under the terms and conditions of its 2008 Franchise Agreement. It does not specifically address the rate increase requested for the areas of Los Osos that are outside the LOCSD boundaries. However, as noted above and as explained in the February 2, 2016 agenda report, the County is following the same Proposition 218 procedures for these areas and much of the analysis contained in this report is applicable to the rates within these areas as well.

There are several significant differences regarding rate reviews between the LOCSD Franchise Agreement and those the County has adopted in other areas (including areas in Los Osos that are outside of the LOCSD boundaries), including:

- The "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates" (Rate Manual) is specifically referenced as the basis for rate reviews in the LOCSD area.

- Rates are required to be at least 1% less than "what other agencies are paying for similar services" in the LOCSD area.

Rate Increase Application. In September 2015, MCD submitted a *Base Year* rate increase to be effective January 1, 2016 (as discussed above, based on deferral to address Proposition 218 noticing requirements, the current proposed effective date is April 1, 2016). MCD's rate request was prepared in accordance with the rate review process and methodology formally set forth in the County's Franchise Agreement with it.

As noted above, in establishing a rate-setting process and methodology, the Franchise Agreement specifically references 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 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.

Given the unique nature of the Franchise Agreement for this area, the County contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology) in November 2015 to evaluate MCD's rate increase application. While the consultant works for the County and at its direction, MCD is responsible for the cost of this review.

RATE REVIEW WORKSCOPE

This report addresses four basic questions:

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

REVENUE AND RATE SETTING OBJECTIVES

In considering MCD'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 Agreement 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?

MCD's financial operations for the LOCSD area are integrated with other North Coast areas. Keeping costs and revenues segregated is further complicated by the fact that MCD, 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
- South County Sanitary Service
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill

Additionally, within the North Coast, MCD's service area includes:

- Cambria
- Cayucos
- Harmony
- Los Osos
- San Simeon

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 MCD's auditors have issued "clean opinions" on its financial operations for 2014 and 2013. In short, systems are in place to ensure that the financial results reported for MCD do not include costs and revenues related to other companies. Additionally, virtually all of the financial operations of MCD and its affiliated companies are regulated by elected governing bodies such as cities, special districts and the County.

Within the MCD Service Area. Within the MCD 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 MCD is reasonable and consistent with generally accepted accounting principles and practices, and the methodology set forth in the *Rate Manual*. It treats similar costs similarly (such as collection and disposal, where there are no significant differences in service levels and unit costs between agencies), while recognizing community differences (such as different franchise fee rates).

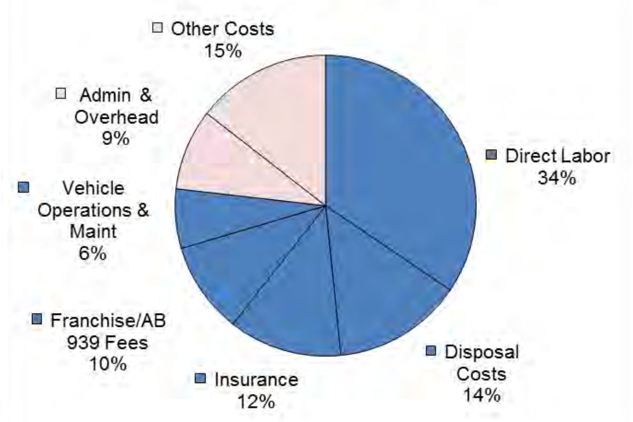
FINANCIAL OVERVIEW

While detailed financial and service information is provided in the MCD 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 $4.0 million. As reflected in Table 3, five cost areas accounted for over 75% of total costs:

- Direct labor for collection: 34%
- Disposal: 14%
- Insurance: 12%
- Franchise/AB 939 fees: 10%
- Vehicle operations and maintenance (including depreciation): 6%

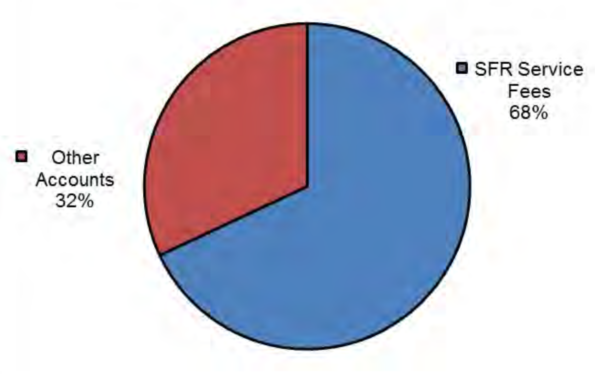
Table 3. Costs By Type: $4.0 Million



Revenues by Source. Total revenues in 2014 were $3.9 million. As reflected in Table 4, 68% of MCD's revenues come from single-family residential (SFR) accounts.

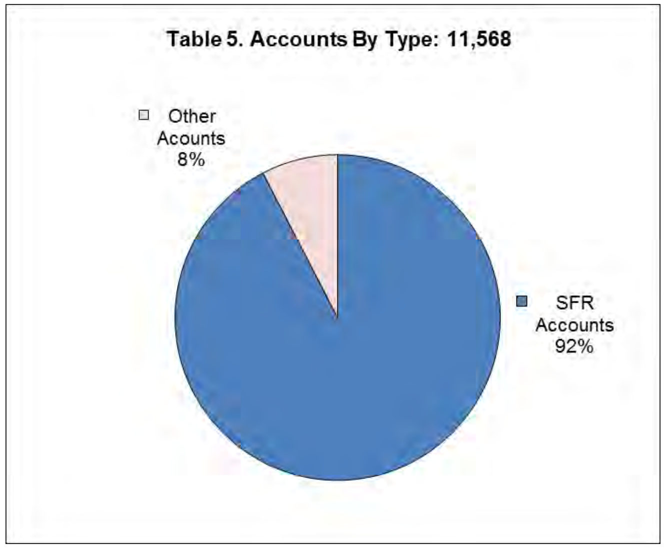
Services to multi-family residential and non-residential customers account for 32% of their revenues. (Less than 1% comes from other revenues such as interest earnings.)

Table 4. Revenues by Source: $3.9 Million



Service Accounts by Type. While single-family residences account for 68% 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).



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 Agreement in determining fair and reasonable rates. The review for 2016 is a *Base Year* analysis.

- ***Two Interim Years.*** In both the second and third years, MCD 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 MCD 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 89% of total costs, with tipping fees accounting for 11%.

  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

Table 6 below summarizes the MCD rate increase history since 2008, when the current Franchise Agreement went into effect.

Assuming the 2016 rate application is approved, this will result in an average annual rate increase of 2.0% over the last nine years, which reflects a high level of rate stability and price containment for LOCSD customers, especially given increased costs that are beyond MCD's control for landfill, greenwaste and organic waste diversion costs.

Table 6. Rate History

Year	Rate Increase
2008	2.67%
2009	0.00%
2010	0.00%
2011	0.00%
2012	0.00%
2013	3.20%
2014	0.00%
2015	2.00%
2016	*10.37%*

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 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, MCD 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 was still in progress when MCD submitted its rate application).
- 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, vehicle operations, repairs, insurance and tipping fees.

In this case, its submittal shows that overall MCD has done a good job of containing costs. Excluding pass-through costs (like tipping fees and franchise fees, which MCD does not control) and contract services for the proposed organics waste diversion program, very modest cost increases in "controllable" cost are projected for 2016.

Table 7 below summarizes key costs for 2014 (actual), 2015 (estimated) and 2016 (projected).

Table 7. Cost Trend Summary

	Actual	Estimated	Projected	Percent Increase	
	2014	2015	2016	2015	2016
Direct Labor	1,366,346	1,386,905	1,407,709	1.5%	1.5%
Allowable Corporate Overhead	83,553	85,308	86,588	2.1%	1.5%
Office Salaries	262,334	230,363	233,818	-12.2%	1.5%
Depreciation	112,134	143,281	151,873	27.8%	6.0%
Truck Repairs & Tires	122,228	124,379	126,246	1.8%	1.5%
Insurance	482,998	487,404	494,715	0.9%	1.5%
Greenwaste/Organic Waste Diversion			317,195		
Other Costs	573,885	522,340	530,175	-9.0%	1.5%
Total Controllable Costs	**3,003,478**	**2,979,980**	**3,348,319**	**-0.8%**	**12.4%**
Pass-Through Costs					
Tipping Fees	551,507	607,280	443,791	10.1%	-26.9%
Franchise Fees	325,186	333,052	339,713	2.4%	2.0%
AB 939 Fees	65,306	67,389	68,736		
Other Pass-Through Costs	18,324	18,874	19,251	3.0%	2.0%
Total	**$3,963,801**	**$4,006,575**	**$4,219,810**	**1.1%**	**5.3%**

As reflected above, there are two key areas of change for 2016:

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

- **Reduction in tipping fees.** This is related to the diversion of organic wastes.

The key drivers behind the 10.37% rate increase request for 2016 can be summarized by three factors as follows:

- 0.61% for the $2.25 per ton increase in the cost of landfill disposal.
- 4.00% for implementation of the organics waste diversion program.
- 5.76% for all other cost increases.

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 (excluding organic waste diversion) of 0.9% 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 North Coast area 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 agency 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 SFR rates for ten other communities in the Central Coast area compared with the proposed rates for the LOCSD area, sorted by 30 to 40-gallon service (typically 32-gallon), which is the most common service level in most of these communities.

Table 8. Single-Family Residential Rate Survey

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
San Luis Obispo (City)	14.12	28.25	42.37
Grover Beach	15.25	20.62	25.96
Morro Bay	16.49	32.98	49.47
Arroyo Grande	16.83	21.86	26.92
San Luis Obispo (Rural)	19.18	31.69	44.19
LOCSD Proposed	19.23	29.51	35.89
San Simeon	19.99	33.00	46.02
Atascadero	20.63	36.15	46.70
Templeton	25.03	36.60	40.81
San Miguel	28.04	44.01	60.39
Paso Robles	28.79	37.71	41.60

As reflected in Table 8, even with the proposed rate increase, the LOCSD area will be in mid-range of the communities surveyed. For other service levels:

- Only three agencies have lower rates for 64-gallon service: the cities of Grover Beach, Arroyo Grande and San Luis Obispo.

- And only two agencies have lower rates for 96-gallon service: the cities of Grover Beach and Arroyo Grande.

It should be noted that the LOCSD area offers 20-gallon service, with a proposed monthly rate of $13.52. Only two other of the surveyed communities offer this service: the cities of Morro Bay and San Luis Obispo. This offers LOCSD area customers even lower rates compared with other Central Coast communities.

Rates 1% Less Than "Other Agencies?"

Section 11.7 of the Franchise Agreement requires that MCD provide "evidence that the District is paying one percent (1%) less than what other agencies are paying for similar Services."

While "other agencies" is not defined, based on this survey of rates in ten Central Coast agencies, the average 32-gallon monthly rate for SFR customers is $20.44. The proposed rate of $19.23 is 5.9% less than this. The favorable difference is even higher for 64 and 96-gallon service. And of course, much greater for 20-gallon service, which is not offered by eight of these agencies.

Summary: Are the costs reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor review and rate comparisons—MCD'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 methodology set forth in the Franchise Agreement 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
- Administration
- Depreciation
- Billing and collection

Pass-Through Costs

- Tipping fees
- Franchise and AB 939 fees
- Payments to affiliated companies (such as leases and trucking charges)

Excluded 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 93% 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 costs.

In the case of MCD, 79% of their costs are “controllable costs” subject to the 93% operating profit ratio (or 7% of total allowable “rate base” revenues); and 21% 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*. MCD 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 10.37%.

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 $2,030 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 ($142); and is so minor that it has no effect on the allowable rate increase of 10.37%.

Rate Request Summary

The following summarizes the calculations that support an allowable rate increase of 10.37%:

Table 9. Rate Increase Summary

Allowable Costs	3,348,318
Allowable Profit (93% Operating Ratio)	252,023
Pass-Through Costs	
Tipping Fees	443,791
Franchise Fees	339,713
AB 939 Fees	68,736
Other Pass-Through Costs	19,251
Allowed Revenue Requirements	4,471,832
Revenue without Rate Increase	4,091,729
Revenue Requirement: Shortfall (Surplus)	$380,103
Percent Change in Revenue Requirement	9.33%
Allowed Revenue Increase *	10.37%

** Adjusted for 10 % Franchise Fee*

Implementation

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

- The "93% 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 91% to 95%. For the last completed year (2014) the ratio was 101.0% (an operating loss of $30,485); and for 2015, the estimated operating ratio is 98.1%. Both of these are outside the 91% to 95% 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 index and tipping fees are prepared in the two "in-between" years.

- Special rate increases for extraordinary circumstances *may* be considered. This has never occurred under the current Franchise Agreement.

The result of this process is an allowed rate increase of 10.37%.

COST OF LIVING "TRIGGER OPTION"

As noted above, Section 16(B) of the Franchise Agreement 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, the County 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 MCD 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 MCD to do so.

As discussed previously, based on MCD's calculation of the cost of living increase threshold, the maximum rate increase to avoid triggering the potential for termination is 10.64%. This is slightly less than the requested and allowable rate increase of 10.37%.

However, this is based on excluding from the threshold increases in tipping fees of 1.03% in 2015 and proposed increases for tipping fees and organic waste diversion of 4.61% in 2016. In reviewing the Franchise Agreement, while it may be reasonable to do so, there is no provision for excluding these increases.

Accordingly, if these are not excluded, the rate increase to avoid triggering the termination option would be limited to 5.0%. However, it is important to note that this "trigger" calculation does not limit the allowable rate increase that MCD may request under the methodology set forth in the Franchise Agreement, nor does it limit the County's ability to approve the requested rate increase. Accordingly, if the proposed rate increase of 10.37% is approved, it is recommended that the County make findings that it will not pursue the "trigger" option during the three year-year period covered by the request.

Calculation of the CPI Threshold

The following summarizes the different approaches in calculating the threshold, which is 9.93% under MCD's calculation and 15.57% under my "Alternative Calculation."

Table 10. CPI-U Trigger Option

CPI-U Increase		Approved	MCD Calculation		Alternative Calculation	
June to June	CPI-U Increase	Rate Increase	Adjustment	Subject to Threshold	Adjustment	Subject to Threshold
2010	1.1%	0.00%		0.00%		0.00%
2011	3.50%	0.00%		0.00%		0.00%
2012	1.70%	0.00%		0.00%		0.00%
2013	1.70%	3.20%		3.20%		3.20%
2014	2.00%	0.00%		0.00%		0.00%
2015	0.20%	2.00%	-1.03%	0.97%		2.00%
2016		10.37%	-4.61%	5.76%		10.37%
Total	10.20%	15.57%	-5.64%	9.93%	0.00%	15.57%

** Under the Alternative calculation, the requested rate increase would need to be 5.0% or less to avoid the "Trigger Option."*

In both cases, several key assumptions are the same:

- CPI-U cumulative “trigger” threshold: (10.20%)
- Approved and proposed rate increases (15.57%).

However, MCD has deducted 5.64% from the approved and proposed rate increases, resulting in an adjusted cumulative rate increase subject to the trigger of 9.93% (a favorable variance of 0.27%. compared with the 10.20% “trigger” threshold). As summarized in Table 11, if these exclusions are not made, then there is a negative variance of 5.37%.

Table 11. Variance from "Trigger Option:" Favorable (Unfavorable)

	CPI-U Calculation	Requested Rate Subject to Trigger	Variance
MCD Proposed Calculation	10.20%	9.93%	0.27%
Alternative*	10.20%	15.57%	-5.37%

** Under the Alternative calculation, the requested rate increase would need to be 5.0% or less to avoid the "Trigger Option."*

As reflected in Table 11, the requested rate increase is slightly below the “trigger” amount based on MCD’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 5.0% to remain under the “trigger.”

There are several policy options in considering the “trigger” threshold:

- Agree with the exclusions made by MCD in calculating rate increases subject to the “trigger.”

- 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.

SUMMARY

Based on the rate-setting policies and procedures formally in the County’s Franchise Agreements, this report concludes that:

- MCD has submitted the required documentation required under its Franchise Agreement with the County.

- MCD's costs are reasonable.

- MCD's rate application supports a rate increase of 10.37% for 2016, which meets the "reasonable return" criteria set forth in the Franchise Agreement. Accordingly, this report recommends MCD's requested rate increase.

- MCD's calculation of the rate increases subject to the "trigger option" is less than the requested rate increase by 0.27%. However, my calculations show that it is larger than the "trigger" by 5.37%.

- MCD 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 approach for setting rates for 2017 and 2018. This will mean that *Interim Year* reviews for 2017 and 2018 will not be required.

- If the County approves the requested rate increase, it is recommended that they also make findings that it will not pursue the "trigger" option for the three-year rate period.

ATTACHMENT

Appendix: Base Year Rate Request Application from Mission Country Disposal

Appendix

BASE YEAR RATE REQUEST APPLICATION

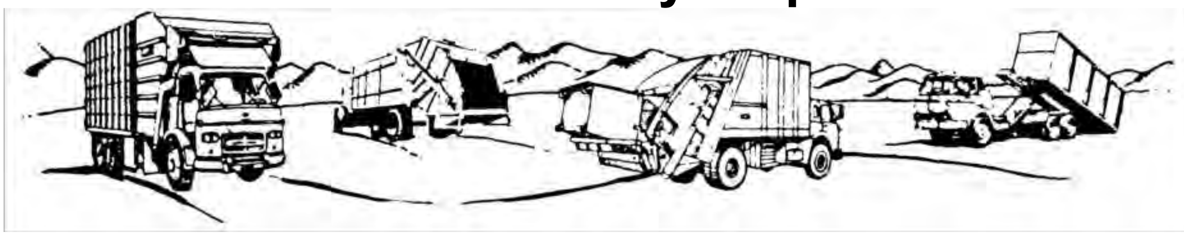
1. Request Letter from Mission Country Disposal

2. Base Year Application

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

Appendix 1

Mission Country Disposal



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

September 17, 2015

County of San Luis Obispo

Subject: SLO County, 2016 Contract Amendments

Dear San Luis Obispo County Customers in Los Osos:

Waste Connections your franchisee for integrated waste management services (operating as the Mission Country Disposal), requests the following approvals from you to be effective on April 1, 2016

1. Approval to begin an expanded organics diversion program that includes food waste and ends the use of untreated green waste as alternative daily cover at Cold Canyon Landfill
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 10.37% in order to cover these new and existing programs.
4. Approve 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, Mission Country Disposal's green waste has been used as an alternative daily cover at Cold Canyon Landfill. 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 April 2016, Mission Country Disposal 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, Mission Country Disposal is asking for an extension of its franchise agreement with our 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.

Mission Country Disposal Customers
September 17, 2015

Solid Waste Rate Increase

The proposed 10.37% increase in rates during this period breaks out as follows:

1. 5.76% of the proposed rate increase is based on increased costs for fuel, vehicles and increased labor costs.
2. 4.00% of the proposed rate increase is based on implementing the expanded organics diversion program developed to meet State mandates beginning in 2016.
3. 0.61% 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 0.59% for 2017 and 0.57% for 2018 for increase in the cost of landfill disposal.

Sincerely,

Mission Country Disposal

Patrick J. Fenton

General Manager
Waste Connections, Inc.

Mission Country Disposal

Base Year Rate Adjustment Application

Summary **LOS OSOS CSD**

Requested Increase

	PI	**5.76%**
	Landfill	**0.61%**
	Organics	**4.00%**
1. Rate Increase Requested		**10.37%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Mini-Can Service (20 gallon can curb)	$12.25	$1.27		**$13.52**
3. Economy Service (1 - can curb)	$17.42	$1.81		**$19.23**
4. Standard Service (2- can curb)	$26.74	$2.77		**$29.51**
5. Premium Service (3 - can curb)	$32.52	$3.37		**$35.89**

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

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

Rate increases of **10.37%**
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: 11/17/15

Mission Country Disposal

Base Year 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	$1,250,135	$1,366,346	$1,386,905	$1,407,709	$1,449,940
7.	Corporate Overhead	$82,076	$83,553	$85,308	$86,588	$89,185
8.	Office Salaries	$165,401	$262,334	$230,363	$233,818	$240,833
9.	Other General and Admin Costs	$1,191,366	$1,291,245	$1,277,404	$1,620,204	$1,668,810
10	**Total Allowable Costs**	**$2,688,979**	**$3,003,478**	**$2,979,980**	**$3,348,318**	**$3,448,768**
		Section II-Allowable Operating Profit				
11.	Operating Ratio	90.6%	101.0%	98.1%	93.0%	93.0%
12.	**Allowable Operating Profit**	$279,538	($30,485)	$57,503	$252,024	$259,585
		Section III-Pass Through Costs				
13.	Tipping Fees	$541,833	$551,507	$607,280	$443,791	$457,104
14.	Franchise Fees	$328,826	$325,186	$333,052	$339,713	$349,905
15.	AB939 Fees	$60,590	$65,306	$67,389	$68,736	$70,798
16.	Lease Pmts to Affiliated Companie	$6,560	$18,324	$18,874	$19,251	$19,829
17.	**Total Pass Through Costs**	**$937,809**	**$960,323**	**$1,026,595**	**$871,492**	**$897,636**
		Section IV - Revenue Requirement				
18.	Revenue Requirement				$4,471,834	$4,605,989
19.	**Total Revenue Offsets** (from Page 3)	**$3,906,326**	**$3,933,316**	**$4,064,078**	**$4,091,729**	**$4,161,541**
		Section V - Net Shortfall (Surplus)				
20.	Net Shortfall (Surplus)				$380,104	

21.	Total Residential and Non-residential Revenue without increase in Base Year (pg.3, lines 32+40)	$4,075,301	**Cambria**
22.	Percent Change in Residential and Non-residential Revenue Requirement	9.33%	9.33%
23.	Franchise Fee Adjustment Factor (1 - 6 percent)	90.00%	94.00%
24.	Percent Change in Existing Rates	**10.37%**	**9.93%**

Mission Country Disposal

Base Year Rate Adjustment Application

Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
				Base Year	
	2013	**2014**	**2015**	**2016**	**2017**
28. Single Family Residential	$2,661,588	$2,673,309	2,742,387.28	$2,769,811	$2,825,207
Multiunit Residential Dumpster					
29. Number of Accounts	0	0	0	0	0
30. Revenues	$0	$0	$0	$0	$0
31. Less Allowance for Uncollectible Resid Accounts					
32. **Total Residential Revenue**	**$2,661,588**	**$2,673,309**	**$2,742,387**	**$2,769,811**	**$2,825,207**
Non-residential Revenue (without increase in Base Yr.)					
Account Type					
Non-residential Can					
33. Number of Accounts	21	21	20	20	20
34. Revenues			$29,277	$29,569	$30,161
Non-residential Wastewheeler					
35. Number of Accounts	212	212	236	236	238
36. Revenues			$345,465	$348,919	$352,408
Non-residential Dumpster					
37. Number of Accounts	590	594	627	627	633
38. Revenues			$917,823	$927,002	$936,272
39. Less: Allowance for Uncollectible Non-resid	$0	$0	$0	$0	$0
40. **Total Non-residential Revenue**	**$1,233,966**	**$1,255,065**	**$1,292,565**	**$1,305,490**	**$1,318,841**
45. **Interest on Investments**	$8,975	$1,509	$24,530	$11,671	$12,570
46. **Other Income**	$1,797	$3,433	$4,596	$4,756	$4,923
47. **Total Revenue Offsets**	**$3,906,326**	**$3,933,316**	**$4,064,078**	**$4,091,729**	**$4,161,541**

Mission Country Disposal

Base Year Rate Adjustment Application

Cost Summary for Base Year

Description of Cost	Section VIII-Base Year Cost Allocation			
	2013	**2014**	**2015**	**Base Year 2016**
Labor	$1,166,291	$1,271,129	**$1,294,217**	$1,313,630
Payroll Taxes	$83,845	$95,216	**$92,688**	$94,079
48. **Total Direct Labor**	$1,250,135	$1,366,346	**$1,386,905**	$1,407,709
49. Corporate Overhead	$186,197	$196,062	**$206,047**	$209,138
Less limitation (enter as negative)	($104,121)	($112,509)	**($120,739)**	($122,550)
Total Corporate Overhead	$82,076	$83,553	**$85,308**	$86,588
Office Salary	$159,260	$255,911	**$223,483**	$226,835
Payroll Taxes	$6,141	$6,423	**$6,880**	$6,983
50. **Total Office Salaries**	$165,401	$262,334	**$230,363**	$233,818
Amortization/Allocation	$0	$0	**$0**	$0
Bond expense	$3,261	$5,826	**$5,076**	$5,152
Bad Debt	$2,856	$7,551	**$3,200**	$3,248
Computer Services				
Depreciation on Bldg and Equip				
Depreciation on Trucks/Containers	$153,039	$112,134	**$143,281**	$151,873
Dues and Subscriptions	$2,084	$2,323	**$1,950**	$1,979
Drive Cam fees	$10,253	$10,457	**$10,500**	$10,658
Gas and oil				
Interest Expense				
Legal and Accounting	$16,201	$18,247	**$17,307**	$17,567
Miscellaneous and Other	$3,766	$4,583	**$5,248**	$5,327
Office Expense	$54,499	$68,727	**$65,761**	$66,747
Operating Supplies	$8,551	$8,883	**$8,220**	$8,343
Other Insurance-Medical	$201,007	$250,513	**$252,828**	$256,620
Other Insurance	$226,599	$232,485	**$234,576**	$238,095
Other Taxes	$12,526	$9,209	**$9,312**	$9,452
Outside Services	$504	$676	**$0**	$317,195
Postage	$4,611	$5,766	**$6,029**	$6,119
Public Relations and Promotion	$880	$911	**$700**	$711
Permits	$27,316	$29,288	**$27,888**	$28,306
Rent	$8,482	$3,450	**$1,200**	$1,218
Telephone	$5,587	$6,050	**$6,285**	$6,379
Tires	$37,325	$39,972	**$40,673**	$41,284
Travel	$6,417	$880	**$600**	$609
Transportation-related parties	$1,725	$2,475	**$2,000**	$2,030
Truck Repairs	$73,696	$82,256	**$83,706**	$84,962
Uniforms	$5,153	$6,205	**$5,400**	$5,481
Utilities	$1,153	$7,908	**$9,305**	$9,444
51. **Total Other Gen/Admin Costs**	$1,191,366	$1,291,245	**$1,277,404**	$1,620,204
52. **Total Tipping Fees**	$541,833	$551,507	**$607,280**	$443,791
53. **Total Franchise Fee**	$328,826	$325,186	**$333,052**	$339,713
54. **Total AB 939/Regulatory Fees**	$60,590	$65,306	**$67,389**	$68,736
55. **Total Lease Pmt to Affil Co.'s**	$6,560	$18,324	**$18,874**	$19,251
56. **Total Cost**	$3,626,788	$3,963,801	**$4,006,575**	$4,219,810

Mission Country Disposal

Base Year Rate Adjustment Application

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

	Description of Revenue	Section VII-Revenue Offsets						
		Overall	**Franchise**	**Refuse Collection**				**Non**
		Total	**Total**	**LO CSD**	**Cayucos**	**Cambria**	**County**	**Franchised**
	Residential Revenue							
	(without increase in Base Year)	10,692	10,692	5,119	1,828	3,703	42	
57.	Single Family Residential	$2,769,811	2,769,811	$1,326,100	$473,552	$959,279	$10,880	$0
	Multiunit Residential Dumpster							
58.	Number of Accounts	$0	$0	0	0	0	0	0
59.	Revenues	$0	$0	$0	$0	$0	$0	$0
60.	Less Allowance for Uncollectable	$0	$0	0	0	0	0	0
61.	**Total Residential Revenue**	**$2,769,811**	**$2,769,811**	**$1,326,100**	**$473,552**	**$959,279**	**$10,880**	**$0**
	Non-residential Revenue (without increase in Base Year)							
	Account Type							
	Non-residential Can							
62.	Number of Accounts	20	20	0	0	0	20	0
63.	Revenues	$29,569	$29,569	$0	$0	$0	$29,569	$0
	Non-residential Wastewheeler							
64.	Number of Accounts	236					23	0
65.	Revenues	$348,919	$348,919	$100,536	$44,354	$170,024	$34,005	$0
	Non-residential Dumpster							
66.	Number of Accounts	627	627	181	134	181	131	0
67.	Revenues	$927,002	$927,002	$267,603	$198,115	$267,603	$193,680	$0
68.	Less: Allowance for Uncollectible							
	Non-residential Accounts	$0	$0	$0	$0	$0	$0	$0
69.	**Total Non-residential Revenue**	**$1,305,490**	**$1,305,490**	**$368,139**	**$242,469**	**$437,628**	**$257,254**	**$0**
74.	**Interest on Investments**	$11,671	$0	$0	$0	$0	$0	$11,671
75.	**Other Income**	$4,756	$0	$0	$0	$0	$0	$4,756
76.	**Total Revenue Offsets**	**$4,091,729**	**$4,075,301**	**$1,694,240**	**$716,021**	**$1,396,906**	**$268,134**	**$16,428**

Mission Country Disposal

Base Year 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 & Commercial Garbage

77. Los Osos Residential Accts	5,090	-0.8%	5,047	1.4%	5,119	1.0%	5,170	1.0%	5,222
Cayucos Residential Accts	1,806	0.3%	1,812	0.9%	1,828	1.0%	1,846	1.0%	1,865
Cambria Residential Accts	3,687	0.2%	3,696	0.2%	3,703	1.0%	3,740	1.0%	3,777
County Residential Accts	131	1.5%	133	-68.4%	42	1.0%	42	1.0%	43
Los Osos Commercial Accts	208	2.4%	213	16.0%	247	1.0%	249	1.0%	252
Cayucos Commercial Accts	106	3.8%	110	49.1%	164	1.0%	166	1.0%	167
Cambria Commercial Accts	230	8.7%	250	18.4%	296	1.0%	299	1.0%	302
County Commercial Accts	308	-0.3%	307	-43.3%	174	1.0%	176	1.0%	177
78. Routes	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
79. Tons Collected	11,422	-2.0%	11,191	-1.5%	11,027	1.0%	11,137	1.0%	11,248
80. Direct Labor Hours	14,560	0.0%	14,560	0.0%	14,560	0.0%	14,560	0.0%	14,560

Recyclable Materials - Curbside Recycling-Los Osos, Cambria, Cayucos, & San Simeon

85. Accounts	11,566	0.0%	11,568	0.0%	11,573	1.0%	11,689	1.0%	11,806
86. Routes	4	25.0%	5	0.0%	5	0.0%	5	0.0%	5
Tons Collected						1.0%	3,871	1.0%	3,910
87. Direct Labor Hours	8,320	25.0%	10,400	0.0%	10,400	0	10,400	0.0%	10,400

Recyclable Materials - Greenwaste Collection-Los Osos & Cambria

88. Accounts	10,714	-0.2%	10,688	0.0%	10,692	1.0%	10,799	1.0%	10,907
89. Routes	3	0.0%	3	0.0%	3	0.0%	3	0.0%	3
Tons Collected	4,025	-0.6%	3,999	8.1%	4,323	-3.5%	4,171	1.0%	4,213
90. Direct Labor Hours	6,240	0.0%	6,240	0.0%	6,240	0	6,240	0.0%	6,240