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October 26, 2009

Mr. Greg Harman
General Manager/Chief of Police
Kensington Police Protection and Community Services District
217 Arlington Avenue
Kensington, CA 94707

Reference Number: S3774

Subject: Review of Bay View Refuse & Recycling Services, Inc.'s 2010 Rate Application

Dear Mr. Harman:

This report documents HF&H Consultants, LLC's (HF&H) Final findings and recommendations from our review of Bay View Refuse & Recycling Services Inc.'s (Bay View) application for a 1.2% increase to its refuse and recycling rates, effective January 1, 2010 (Application), that was submitted to the Kensington Police Protection and Community Services District (District). It should be noted that this final report reflects discussions with and comments received from Bay View after their review of the Draft Report submitted on September 3, 2009.

Background

Bay View's compensation for providing refuse and recycling services to Kensington residents and business is described in the District's Franchise Agreement with Bay View dated September 11, 1997 (Franchise Agreement). Services for residential and commercial customers include weekly collection of solid waste and recyclable materials utilizing a split-body truck operating 5 days a week, Monday through Friday, for approximately 2,100 customers. The split-body truck allows Bay View to reduce the number of trips on the District's streets by collecting solid waste and recyclable materials simultaneously. Additionally, Bay View operates a green waste collection route 10 days per month, providing twice monthly service. In addition, Bay View provides collection services to District and County facilities at no charge. Currently, residents are required to place their recyclable material and green waste containers at the curbside for collection, while solid waste containers are collected from the customer's back or side yard.

In a letter dated May 20, 2009, Bay View President, Louis Figone, requests a 1.2% rate increase effective January 1, 2010 over the levels currently in place for 2009.

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The District engaged HF&H on July 9, 2009 to conduct the following analyses:

1. **Rate Adjustment Analysis.** Perform a comprehensive review of Bay View's Application to determine the necessary rate adjustment, in accordance with Section 9.4 of the Franchise Agreement;
2. **Analysis of Projected Savings from the Elimination of Backyard Collection Services.** Solicit and review for reasonableness Bay View's estimated annual savings if Bay View were to collect solid waste containers from the curbside rather than the customer's back or side yard; and,
3. **Analysis of Annual Costs to Provide Service to District and County Facilities.** Determine whether Bay View's costs incurred to provide services to District and County facilities (at no charge) are included in current customer rates. If such costs are included, HF&H shall determine the annual estimated costs and the current impact on rates.

Summary of Results

Rate Adjustment Analysis

As summarized in Table 1 on the following page, Bay View projected its 2010 revenue shortfall of \$52,281 requiring a rate increase of 1.2%. Based on our review, in accordance with the scope of work detailed below, HF&H recommends reducing Bay View's 2010 projected revenue shortfall by \$46,288. The HF&H adjusted Application requires a rate increase of 0.6%.

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**Table 1
 HF&H Adjusted Rate Application**

	BAY VIEW Rate Application	HF&H Recommended Adjustments	HF&H Adjusted Application
<u>Projected Operating Expenses:</u>			
Salaries and Benefits	\$ 390,000	\$ -	\$ 390,000
Dump Fees	100,000	1,460	101,460
Legal and Accounting	18,000	-	18,000
Debris Box Rental	24,000	-	24,000
Depreciation	40,000	-	40,000
Fuel	30,000	(2,723)	27,277
Truck Rental (Green Waste)	83,000	-	83,000
Insurance	27,000	(2,733)	24,267
Truck Licenses	5,000	(1,000)	4,000
General and Administrative	133,000	-	133,000
Parts and Tires	12,000	-	12,000
Rent - Office and Yard	48,000	-	48,000
Repairs and Maintenance	12,000	-	12,000
Total Operating Expenses	\$ 922,000	\$ (4,995)	\$ 917,005
Allowance for Profit @ 12.00%	\$ 110,640	\$ (599)	\$ 110,041
Total Contractor Compensation before Pass-through	\$ 1,032,640	\$ (5,595)	\$ 1,027,045
<u>Pass-through Expenses</u>			
County Franchise Fee @ 3.00%	\$ 30,843	\$ 1,556	\$ 32,399
District Franchise Fee @ 2.00%	20,559	1,040	21,599
County Hazardous Waste Fee	11,157	-	11,157
Audit Fees	15,000	-	15,000
Total Pass-through Expenses	\$ 77,559	\$ 2,596	\$ 80,155
Total Contractor Compensation	\$ 1,110,199	\$ (2,999)	\$ 1,107,200
Recycling and Other Income	\$ (82,128)	\$ 54,880	\$ (27,248)
Benchmark Level of Revenues (A) (to be raised from collection rates)	\$ 1,028,071	\$ 51,881	\$ 1,079,952
Actual 2008 Rate Revenue	\$ 975,790	\$ 54,880	\$ 1,030,670
Add: 2009 4.2% Rate Increase			43,288
Projected 2010 Rate Revenue at Current Rates (B)	\$ 975,790	\$ 54,880	\$ 1,073,958
Projected Revenue Surplus/(Shortfall) [B - A]	\$ (52,281)	\$ 46,288	\$ (5,993)
Benchmark level calculated for 2010 as a percentage of 2008		5.4%	
Less: 2009 rate increase		-4.2%	
Proposed 2010 Rate Increase/(Decrease)		1.2%	0.6%

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Analysis of Projected Savings from the Elimination of Backyard Collection Services

In accordance with Section 12 of the Franchise Agreement, “the place of pickup shall be backyard service for Solid Waste”. Backyard service is a convenience to customers but comes at a price. If materials are placed for collection at the curb, the collection route can be completed quicker resulting in reductions in labor and fuel costs. At the request of the District, Bay View provided an estimate of cost savings if customers were required to place their solid waste container at the curb, just like they do with their recycling and green waste containers. Bay View’s estimated cost savings appear reasonable and would result in an estimated annual savings of \$32,000 per year, which would reduce rates approximately 3.5%.

Analysis of Annual Costs to Provide Service to District and County Facilities

The District requested an analysis of the annual costs incurred by Bay View to provide solid waste collection services to District and County facilities at no charge and whether such expenses were being funded through current customer rates. Our review found that collection services provided to District and County facilities are in fact currently funded through the residential and commercial rates at a rate impact of 1%.

Scope of Work

HF&H determined, through review of: the Franchise Agreement; Bay View’s most recently audited financial statements; and, documents provided by Bay View, that Bay View’s revenues, expenses and rates were consistent with the benchmarks established in the Franchise Agreement.

To determine the reasonableness of Bay View’s expenses, we compared them to industry standards based on recent competitive proposals and our benchmark database that contains actual and proposed operational and financial data collected during our hundreds of rate reviews and contract procurement projects.

The specific items were determined based on an HF&H-prepared variance analysis of expense line items from Bay View’s financial statements. The detailed review of specific expense items included, but is not necessarily limited to, the following:

- Wages and Benefits
- Depreciation
- Expenses Paid to Related Parties
- Disposal / Processing Expenses
- General and Administrative Expenses

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The review of Bay View's rate revenue was based on then-current rates and current customer subscription level. We calculated the actual revenues that should have been generated within the District in 2008, compared these to the reported revenues, and obtained explanations for any significant variances. We verified the calculation of projected 2010 revenues based on actual customer accounts at the current rates. We also confirmed Bay View's reported recyclable material sales revenues for 2006, 2007, and 2008 with audited financial statements and calculated the projected recyclable material sales revenues for 2010. To determine the reasonableness of Bay View's commodity revenue, we recalculated the 2010 revenue in accordance with the Agreement.

Our review was substantially different in scope than an examination in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. However, Cowden Neale, LLP has issued an unqualified opinion of Bay View's 2008 Financial Statements.

Our conclusions are based on the review of Bay View's projections of its financial results of operations for the forthcoming rate year (i.e. January 1, 2010 - December 31, 2010). Actual results of operations will usually differ from projections, because events and circumstances frequently do not occur as expected, and the difference may be significant.

Summary of Analyses

Operating Expenses

We reviewed the expenses as listed in the audited financial statements for the years 2005-2008 for year over year variances. We also compared the financial information from the 2008 Financial Statements to the 2010 Application. Table 2, on the following page, summarizes the results of Bay View's actual 2008 operating expenses compared to their projected operations expenses for 2010.

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**Table 2
 Operating Expense Variance**

	Bay View	Bay View	Increase (Decrease)	
	Actual	Application	Variance	
<u>Operating Expenses:</u>	<u>2008</u>	<u>2010</u>	<u>\$\$</u>	<u>%</u>
Salaries and benefits	\$ 332,296	\$ 390,000	\$ 57,704	17.37%
Dump fees	95,993	100,000	4,007	4.17%
Franchise fees	52,232	51,402	(830)	-1.59%
Legal and Accounting ¹	29,700	33,000	3,300	11.11%
Debris Box Rental ²	17,861	24,000	6,139	34.37%
Depreciation	40,421	40,000	(421)	-1.04%
Fuel	36,916	30,000	(6,916)	-18.73%
Truck Rental (Green Waste) ²	75,712	83,000	7,288	9.63%
Hazardous Waste Fee ¹	10,461	11,157	696	6.65%
Insurance	22,872	27,000	4,128	18.05%
Truck licenses	3,964	5,000	1,036	26.14%
Management Fees (Executive Compensation) ²	110,184	117,000	6,816	6.19%
General and administrative	12,211	16,000	3,789	31.03%
Parts and Tires	8,146	12,000	3,854	47.31%
Rent - Office and Yard ²	45,600	48,000	2,400	5.26%
Repairs and Maintenance	3,296	12,000	8,704	264.08%
Total Operating Expenses	\$ 897,865	\$ 999,559	\$101,694	11.33%

- (1) Note: \$15,000 of Professional Fees and all Hazardous Waste Fees are included as pass through expenses on the Application
- (2) Accounts are classified as related-party transactions. See 'related-party transactions' section below

Salaries & Benefits

HF&H compared the detailed schedule provided by Bay View for labor rates, effective March 1, 2009 through February 28, 2010, to the rates in the Union Agreement. Upon review, HF&H found Bay View is paying its full-time solid waste/recyclable material driver approximately 5.4% higher than stipulated by the Union Agreement. Based on discussions with Bay View, the additional compensation is an incentive to the driver responsible for collection on the District's manual collection system and challenging route conditions. It is Bay View management's opinion that in order to retain good reliable employees they have found they need to offer wages higher than those provided for in the Union agreement. Bay View's enhanced compensation practice per HF&H's calculation has an overall rate impact of 0.4%. Section 9.4 of the Franchise Agreement states "Contractor will recover its reasonable costs for furnishing all labor...necessary to perform all the services required by this Agreement...". The 5.4% premium results in a fully-loaded rate of pay of \$46.44 per hour, which includes wages, vacation pay, holiday pay, sick leave, workers compensation expense, health and welfare expense, pension, uniforms, and equipment. Based on our review of recent competitive proposals and annual rate reviews for

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jurisdictions being provided similar services, the \$46.44 per hour is considered a reasonable and competitive rate within the Bay Area; therefore, we have not recommended an adjustment.

Dump Fees

HF&H reviewed the Agreement for Landfill Services (LF Agreement) entered into March 10, 2003, between Bay View, West Contra Costa Sanitary Landfill (WCCSL) and Potrero Hills Landfill, Inc. (PHL) and noted per Section 14 of the LF Agreement, tip fees are to be adjusted every March 1 by CPI, All Urban Consumers. We further noted per Section 23 of the LF Agreement, the term of the Agreement is 10 years from the date of execution (March 10, 2013) with an option to extend an additional 10 years.

HF&H reviewed the per-ton tip fees charged to Bay View for the disposal of solid waste at the WCCSL and the Golden Bear Transfer Station and agreed the rates to the July 1, 2009 invoices, a notification letter from Republic Services, Inc. and Bay View's LF Agreement without exception.

HF&H calculated the projected dump fees for Calendar Year 2010 (see Table 3), by multiplying the actual tons collected in 2008 for refuse and green waste multiplied by the current tip fees adjusted by 1.16% to reflect the projected per-ton tip fees for 2010. Our 1.16% projected increase in the 2010 tip fee is based on the average annual increase in the CPI for February 2009 over the previous year.

Table 3
Projected Dump Fees

	2009 Rate (eff 7/1/09 - 2/28/10)	* % CPI Increase	Projected 2010 Rate (eff 3/1/10 - 2/28/11)	2008 tons	Projected Disposal Cost 2010
Refuse					
Golden Bear (Transfer Station)	\$ 46.64	1.16%	\$ 47.18	1,538.68	\$ 72,459.52
Greenwaste					
West Contra Costa Sanitary L.F.	\$ 35.54	1.16%	\$ 35.95	799.17	\$ 28,677.76
ADC					
West Contra Costa Sanitary L.F.	\$ 7.50	1.16%	\$ 7.59	42.65	\$ 322.98
Total 2010 Projected Dump Fees					\$ 101,460.26

*Estimated March 1, 2010 CPI Increase based on the actual percentage change for the prior year (February 2008 over February 2009)

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Bay View's projected dump fees are \$100,000 versus our projection of \$101,460. Based on the calculation above **HF&H recommends an increase of \$1,460 to Bay View's projected dump fee expenses reflected in the Application.**

Legal and Accounting

Per Section 8 of the Franchise Agreement, Bay View is required to provide to the District annual financial statements compiled by an independent certified public accountant in accordance with Generally Accepted Accounting Principles. Per a discussion with the Audit firm of Cowden Neale, LLP Certified Public Accountants, currently providing this service to Bay View, approximately one half of their hours billed are for annual audit services. Annual audit services are treated as a pass-through expense in the Application (see Exhibit C of the Agreement). The remaining service is shown in the operation expenses section of the Application. Bay View is invoiced monthly for services provided for annual audits, quarterly reporting to District and ongoing monthly accounting services. The annual cost to Bay View for accounting was \$29,700 in 2008 per the Audited Financial Statement. Per Bay Views Application they are projecting \$15,000 in pass-through expenses and \$15,000 in operating expenses for a total of \$30,000. This is a \$300, or a 1% increase over 2008 and therefore appears reasonable.

Depreciation

Per Exhibit D of the Franchise Agreement, fixed assets are depreciated using straight line depreciation and a useful life of seven years. Bay View projected 2010 depreciation expenses of \$40,000. HF&H tied Bay View's projected depreciation expense to their independently audited Fixed Asset sub ledger without exception. HF&H noted all fixed assets with a remaining useful life were depreciated using straight-line and seven years as their useful life.

Fuel

Bay View projected 2010 fuel costs of \$30,000, a \$6,916, or 18.75% decrease from actual fuel expenses incurred in 2008. We calculated the average change in CPI for Motor Fuel from January-June 2008 to January-June 2009 and noted a percentage decrease of 37.23%, compared to Bay View's estimated decrease of 18.75%. Although HF&H believes Bay View's decrease in fuel costs resulting from an anticipated lower price per gallon is conservative, due to the current trends and volatility in prices in recent years, no adjustment to price is recommended. However, the 2008 actual fuel expense used by Bay View to project 2010 fuel costs was overstated by approximately 880 gallons or an estimated \$3,350 as a result of a four month period in 2008 where Bay View transferred Solid Waste tonnage to Potrero Hills Landfill in Solano County. As this will not occur in 2010, **HF&H recommends a decrease in the projected 2010 fuel costs of \$2,723** (\$3,350 decreased by 18.75% due to declining prices)

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Insurance

Bay View projected annual insurance costs of \$27,000. HF&H requested a copy of the annual invoice for the renewal policy effective 1/1/09 and noted the amount of the coverage was \$23,560. The 2010 Application cost requested by Bay View represents a \$3,440 increase or 14.6% from the 2009 policy. The increase from 2008 to 2009 was 3.0% with significant reductions the previous two years. Therefore, Bay Views projected insurance expense does not appear reasonable. Based on our analysis described above, **HF&H recommends a decrease in 2010 projected insurance cost of \$2,733.**

Truck Licenses

Bay View projected 2010 Truck License expense of \$5,000, a \$1,036 increase from 2008. HF&H obtained the most recent DMV Registration Renewal Notices from Bay View for the four vehicles indicated on the 2009 Fixed Asset Listing. Bay View's total 2009 renewal fees were approximately \$4,000; therefore, **HF&H recommends a decrease in projected truck licenses fees of \$1,000.**

General and Administrative (includes executive compensation)

Bay View projected 2010 general and administrative costs of \$133,000, including executive compensation in the amount of \$117,000. In accordance with Exhibit D of the Franchise Agreement, Bay View Refuse Inc. and Bay Cities Refuse Services, Inc., companies controlled by the sole stockholder, Louis Figone, provide executive management services to Bay View and charge a management fee in lieu of an executive salary at a rate of \$80,000 per year, commencing September 11, 1997, and adjusted annually be 3.0%. HF&H verified the accuracy of the \$117,000 calculation without exception, as shown in Table 4 below.

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**Table 4
 Executive Compensation**

Year	Base	CPI		New Rate
		Increase %	Increase \$	
1998	\$80,000	3%	\$2,400	\$82,400
1999	\$82,400	3%	\$2,472	\$84,872
2000	\$84,872	3%	\$2,546	\$87,418
2001	\$87,418	3%	\$2,623	\$90,041
2002	\$90,041	3%	\$2,701	\$92,742
2003	\$92,742	3%	\$2,782	\$95,524
2004	\$95,524	3%	\$2,866	\$98,390
2005	\$98,390	3%	\$2,952	\$101,342
2006	\$101,342	3%	\$3,040	\$104,382
2007	\$104,382	3%	\$3,131	\$107,513
2008	\$107,513	3%	\$3,225	\$110,739
2009	\$110,739	3%	\$3,322	\$114,061
2010	\$114,061	3%	\$3,422	\$117,483

To test the overall reasonableness of Bay View's total general and administrative costs (which includes, but is not limited to: billing expenses, allocated office/customer service staff, executive compensation, etc.), we compared Bay View's projected general and administrative expenses ratio of 12.9% of its total compensation to three recent proposals received for similar services in a competitive environment. HF&H found the competitively proposed general and administrative expenses ratios ranged from 9.2% to 17.2% with an average ratio of 13.4%; therefore, Bay's View's projected general and administrative costs appear reasonable and no adjustment is necessary.

Parts & Tires

Bay View projected parts & tires expense of \$12,000 in 2010, which is a \$3,854 increase from actual 2008 expenses. Based on discussions with Bay View, the increase in parts and tires expense is attributable to the purchase of new tires in 2010 to replace the tires that can no longer be re-capped; therefore, no adjustment is necessary.

Repairs & Maintenance

Bay View projected repairs & maintenance expenses of \$12,000 in 2010, which is an \$8,704 increase, compared to Bay View's actual expenses incurred in 2008. Per discussions with Bay View, the projected repairs & maintenance expenses for 2010 were based on an average of the

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previous three years and additional expenses related to the expiration of a five year factory warranty on hydraulic cylinders expiring at the end of 2009, installation of a back-up camera on the split-body vehicle, and the retrofitting of the vehicle with a Diesel Particulate Filter to comply with emissions standards. Based on our review and discussions with Bay View management, we find Bay View's projected expenses reasonable.

Related-Party Transactions

There are related-party transactions (amounts paid to affiliated entities to Bay View) included in Bay View's 2010 projections at rates that have been discussed and allowed by the District in previous reviews. HF&H notes the following accounts have been classified as related-party transactions because they are amounts that are paid to affiliated entities: Debris Box Rental, Truck Rental (Green Waste), and Rent (Office and Yard). In accordance with Exhibit D of the Franchise Agreement, and data from haulers with similar operations, we reviewed Bay View's related-party transactions projections for reasonableness. Presented below are the results of our analyses.

Debris Box Rental

Due to the relatively small size of the District's service area, Bay View's contracts with Bay City Refuse Services, Inc., Bay View's sister company, to provide the labor and vehicle (on a per pull basis) to collect debris boxes within the District's service area. By doing this, Bay View does not incur the entire cost of purchasing a debris box collection vehicle and employing a full-time driver to provide on average two debris box pulls per week. Bay View has projected 2010 debris box rental expense of \$24,000, based on 96 pulls (the average number of pulls for the last three years) at \$250 per pull, which equates to \$200 per hour (based on the average round-trip time of 1 hour and 15 minutes). To test the reasonableness of Bay View's \$200 per hour rate, HF&H compared the cost per hour to three recent proposals received for similar services in a competitive environment. HF&H found the competitively proposed per-hour rates ranged from \$198.42 per hour to \$216.99 per hour; therefore, Bay's View's projected debris box rental costs appear reasonable and no adjustment is necessary.

Truck Rental (Green Waste)

Similar to debris box rental, Bay City Refuse Services Inc., Bay View's sister company, provides the green waste collection vehicle that is used 960 hours per year to provide twice monthly green waste collection services. Through out the year Bay View has found it is necessary to utilize a second truck on certain days to accommodate the allowed unlimited green waste collection. HF&H looked at the most recent twelve-month period from September 2008 through August 2009 to determine the number of days an additional truck is needed. The green waste dump statements and tonnage was used to support the estimated twenty one days or 168 hours per year (21 days X 8 hours). Two trucks are needed for the Annual Clean-up which takes place over

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five days or 80 hours per year. (2 trucks X 5 days X 8 hours). Additionally a different truck is needed approximately 260 hours per year to collect the two yard bins through out the service area. In total Bay View is requesting \$83,000 compensation for an estimated 1,468 hours for truck rental for 2010. The rental expense of \$56.54 per hour (\$83,000 divided by 1,468 hours) covers depreciation, interest, repairs and maintenance, parts and tires, licenses, and insurance. HF&H compared this rate to the rate in Exhibit D of the Agreement escalated for the change in the consumer price index. The calculated rate per this method was \$52.02 per hour or approximately \$76,400 annually when multiplied by the 1,468 estimated truck hours. As this is only an estimate of hours and actual expenses may vary from CPI projections HF&H recommends no adjustment to the Application amount of \$83,000.

Rent - Office and Yard

HF&H notes the allowable monthly rent at the commencement of the Franchise Agreement in 1998, in accordance with Exhibit D, was \$2,823.56 (made up of \$1,462.55 per month for office and yard space plus \$1,361.01 per month for allocated mechanic salary and benefits expenses based on 8 hours per week). To test the reasonableness of Bay View's 2010 projections we compared their monthly rent expense projection of \$4,000 per month to the allowable expense in accordance with Exhibit D of the Franchise Agreement adjusted annually by the percentage change in the CPI. As shown in Table 5 below, increasing Bay View's agreed-upon rent expense in 1998 (the commencement date of the current Franchise Agreement) by the annual change in CPI results in a rent expense of \$3,982.84 in 2010; therefore, no adjustment is necessary.

**Table 5
 Rent - Office Yard**

Year	Monthly Rent in Current Year	CPI Increase %	CPI Increase \$	Monthly Rent for Following Year
1998	\$ 2,823.56	3.44%	\$ 97.06	\$ 2,920.62
1999	\$ 2,920.62	3.81%	\$ 111.18	\$ 3,031.79
2000	\$ 3,031.79	4.25%	\$ 128.82	\$ 3,160.62
2001	\$ 3,160.62	6.59%	\$ 208.24	\$ 3,368.85
2002	\$ 3,368.85	1.20%	\$ 40.59	\$ 3,409.44
2003	\$ 3,409.44	1.60%	\$ 54.71	\$ 3,464.15
2004	\$ 3,464.15	1.38%	\$ 47.65	\$ 3,511.80
2005	\$ 3,511.80	1.11%	\$ 38.82	\$ 3,550.62
2006	\$ 3,550.62	3.93%	\$ 139.41	\$ 3,690.03
2007	\$ 3,690.03	3.36%	\$ 123.94	\$ 3,813.97
2008	\$ 3,813.97	4.19%	\$ 159.85	\$ 3,973.82
2009	\$ 3,973.82	0.23%	\$ 9.02	\$ 3,982.84
2010	\$ 3,982.84			

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Profit

Per Section 9.3 and 9.4 of the Franchise Agreement, Bay View is allowed a benchmark pre-tax profit margin of 12% of Bay View's reasonable reimbursable costs. HF&H recalculated the profit based on the recommended adjustments described above and included in Table 1, which results in a **recommended reduction of \$599** from \$110,640 to \$110,041.

Pass-Through Fees

Franchise Fees

In accordance with Section 23 of the Franchise Agreement, County franchise fees and District franchise fees are calculated at 3% and 2%, respectively, of commercial and residential bills for each calendar year. Our review found Bay View's application mistakenly calculated its franchise fee obligations based on total contractor's compensation net of revenue from the sale of recyclable commodities; however, franchise fees are paid on gross revenues.

As a result, Bay View's projected franchise fee obligation was understated by.

In addition, as a result of the recommended reductions the Bay View's compensation discussed above and summarized on Table 1, Bay View's projected franchise fee obligation was overstated.

As a result, **HF&H recommends increasing Bay View's franchise fee obligation (and therefore their 2010 compensation) a net \$2,596.**

Also, it should be noted that during the conduct of this review and our discussions with Bay View management we learned Bay View has been mistakenly over paying its franchise fees to the County and District by approximately \$1,400 per year (\$840 overpayment to the County and \$560 overpayment to the District). The overpayments are the result of Bay View calculating and paying franchise fees on the revenue from the sale of recyclable materials when the Franchise Agreement only requires franchise fees to be calculated and paid on gross customer rate revenue; therefore, the County and District should see a decrease in its annual franchise fee revenue in the amounts discussed above.

County Hazardous Waste Fee

Bay View projected 2010 Hazardous Waste Fees of \$11,157, a reasonable \$696 increase from actual 2008 expenses, which reflects an average annual increase of 3.1%; therefore, we do not recommend an adjustment.

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Revenue

HF&H verified that Bay View's Application correctly reflected the actual regular residential and commercial revenue (\$975,790) for 2008 per the Audited Financial Statements. HF&H verified that the Rate Application line "Less: recycling & other income" which was based on the average of prior 3 years" reflected the sum of the average revenues (\$82,128) for the years 2006 - 2008 per the Audited Financial Statements for the following:

- Recycling Revenue \$27,248.06
- Extra Charges \$1,520.21
- Debris Box \$46,252.44
- Container Rental \$2,983.03
- University of California House \$5,232.76
- Other Income \$285.00
- Accrued Revenue Adjustment (\$218.44)
- Refunds (\$1,175.90)

HF&H tested the reasonableness of Bay View's projected revenue, by re-projecting 2010 revenues by multiplying the current account information (number of customers by service level) by the current rates. Bay View projected 2010 revenues were calculated by summing Bay View's actual 2008 rate revenue (increased by the District-approved 4.2% increase in 2009) and the three-year average of recycling and other revenue. Our re-projected revenue was within a reasonable range of Bay View's projections; therefore, it appears that Bay Views projected revenues per the Application are reasonable.

HF&H tested the accuracy of Bay View's rate revenue by sampling 2009 actual residential, commercial and debris box monthly billings to confirm that Bay View is correctly charging their customers based upon their level of service at the District-approved rates. HF&H noted no exceptions in the samples and therefore does not recommend additional sampling.

Elimination of Backyard Service

At the request of the District, Bay View provided an estimate of cost savings due to elimination of backyard service. Bay View's estimated cost savings of approximately \$32,000 per year include the elimination of one part-time helper, used three days per week on average. Bay View provided base pay information, assuming the daily rate stipulated for a Recycling Helper per the Union Agreement, and calculated 60% of the total compensation to account for the helper's part-time status. Bay View's estimated cost savings appear reasonable and would potentially result in annual savings of \$32,000 per year which would reduce rates approximately 3.5%.

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District and County Facility Services

The District requested an analysis of the annual costs incurred by Bay View to provide solid waste collection services to District and County facilities at no charge. Following is a list of the services and the corresponding current monthly cost to provide such service, at an annual total cost of \$10,473. Our review found that collection services provided to District and County facilities are in fact currently funded through the residential and commercial rates at a rate impact of 1%.

- Community Center 2 cubic yard bin, 2 x per week = \$607.53/month,
- Library 2 - 30 gallon cans = \$66.30/month
- District Office 2 - 30 gallon cans = \$66.30/month
- Park adjacent to the Library - 30 gallon cans = \$132.60/month

* * *

We would like to express our appreciation to Bay View management and staff for their assistance. In addition, we express our appreciation to each of you for assistance and guidance during the course of the review. Should you have any questions, please call me at 925-977-6957.

Very truly yours,

HF&H CONSULTANTS, LLC



Richard J. Simonson, CMC
Vice President

cc: Colleen Costine, HF&H Consultants
Louis Figone, Bay View Refuse and Recycling Services