Exhibit A

Crowe Horwath.

**Crowe Horwath LLP**
Independent Member Crowe Horwath International

575 Market Street, Suite 3300
San Francisco, California 94105-5829
Tel 415.576.1100
Fax 415.576.1110
www.crowehorwath.com

October 28, 2015

Ms. Deidra Dingman
Conservation Programs Manager
Contra Costa County
Department of Conservation and Community Development
30 Muir Road
Martinez, California 94553-4601

Subject: **Review of 2016 Richmond Sanitary Services Rate Application**

Dear Ms. Dingman:

This letter report represents results of Crowe Horwath LLP's (Crowe) review of the 2016 rate application submitted by Richmond Sanitary Service to Contra Costa County (County). The County has a franchise with Richmond Sanitary Services (RSS, a subsidiary of Republic Services, Inc.) to provide refuse and recycling collection services in unincorporated areas in western Contra Costa County.

This letter report is organized into eight (8) sections as follows:

A. *Summary*
B. *Project Background*
C. *Goals and Objectives of Rate Review*
D. *Scope of Rate Review*
E. *History of Collection Portion of the Rate*
F. *2016 Base Year Rate Application*
G. *Review of 2016 Base Year Rate Application*
H. *Comparison of Rates and Services to Other Neighboring Jurisdictions*

There are three (3) attachments to this report, as follows:

A. *Rate Application and Audited Financial Statements*
B. *Adjusted Base Year Rate Model*
C. *Comparative Rate Survey*.

## A. Summary

In its Application, RSS requested a rate increase, for the collection portion of the rate, of 7.39 percent for 2016. We recommend a rate increase of 2.19 percent for the collection portion of the rate for 2016. The collection portion of residential service rates would increase by between $0.46 and $1.45 per customer, per month, depending on the residential service level as shown in **Table 1**. For the most common 35 gallon cart residential service, the recommended collection rate would be $23.54 per customer, per month. Corresponding commercial collection rates (without the post-collection portion of the rate) are shown in **Table 2**. Finally, total residential rates, inclusive of both the collection and projected potential post-collection rate components are shown, by residential rate category, in **Table 3**.

**Table 1**
**Unincorporated West Contra Costa County**
**Potential January 1, 2016 Residential Collection Rates, Per Customer, per Month**
**Based on 2.19 Percent Rate Increase**

| Service Level | 2015 Collection Rate | Rate Change | 2016 Collection Rate |
|---|---|---|---|
| 20 Gallon | $20.95 | $0.46 | $21.41 |
| 35 Gallon | $23.04 | $0.50 | $23.54 |
| 65 Gallon | $44.59 | $0.98 | $45.56 |
| 95 Gallon | $66.26 | $1.45 | $67.71 |

**Table 2**
**Unincorporated West Contra Costa County**
**Potential Selected January 1, 2016 Commercial Collection Rates, Per Customer, Per Month**
**Based on 2.19 Percent Rate Increase**

| Service Level | Current Once per Week Rate | Rate Change | Potential New Once per Week Rate |
|---|---|---|---|
| 1-Cubic Yard | $143.22 | $3.14 | $146.36 |
| 2-Cubic Yard | 253.53 | $5.55 | $259.08 |
| 3-Cubic Yard | 316.83 | $6.94 | $323.77 |
| 4-Cubic Yard | 380.13 | $8.32 | $388.45 |
| 5-Cubic Yard | 443.43 | $9.71 | $453.14 |
| 6-Cubic Yard | 506.73 | $11.10 | $517.83 |
| 7-Cubic Yard | 633.37 | $13.87 | $647.24 |

**Table 3**
**Unincorporated West Contra Costa County**
**Potential January 1, 2016 Total Residential Rates (Collection Plus Projected Post Collection)**
**Per Customer, per Month**

| Service Level | Collection Rate (2.19% Increase) | Projected Post Collection Rate (4.18% Increase)[1] | Total Rate |
|---|---|---|---|
| 20 Gallon | $21.41 | $4.74 | $26.15 |
| 35 Gallon | $23.54 | $8.30 | $31.84 |
| 65 Gallon | $45.56 | $15.45 | $61.01 |
| 95 Gallon | $67.71 | $23.17 | $90.88 |

[1] Post Collection Rates and the associated 4.18 percent increase listed in Table 3 is only preliminary. Final 2016 Post Collection Rates will not be approved until November, 2015.

## B. Project Background

RSS has an exclusive franchise with the County to collect, and remove for disposal and recycling, residential, commercial, and light industrial solid waste and recyclable materials. RSS originally had a twenty (20) year franchise with the County, beginning October 12, 1993 and ending October 11, 2013. On November 12, 2013, the County Board of Supervisors determined that RSS's performance had been satisfactory and approved a Second Amendment to the County/RSS Franchise Agreement which extended the franchise term an additional ten (10) years through October 11, 2023. The RSS franchise includes the following six (6) service areas in unincorporated Western Contra Costa County:

1. East Richmond Heights
2. El Sobrante
3. Montalvin Manor
4. North Richmond
5. Rollingwood
6. Tara Hills.

**Exhibit 1** on the following page shows locations of these six service areas. RSS also serves the following neighboring jurisdictions in Western Contra Costa County:

- City of Hercules
- City of Pinole
- City of Richmond
- City of San Pablo.

**Table 4** below and **Table 5** on the following page show current residential and commercial rates for the six unincorporated West County service areas.

The County regulates the "collection" portion of rates only. The remaining portion of the rate, representing post collection activities, is regulated by the West Contra Costa Integrated Waste Management Authority (WCCIWMA, also referred to as RecycleMore). Post collection activities include transfer, landfilling, materials processing, and composting.

RSS consolidates refuse collected from unincorporated West County areas at the Golden Bear Transfer Station and Integrated Resource Recovery Facility (IRRF) and transports refuse to Keller Canyon Landfill near Pittsburg in unincorporated Contra Costa County for disposal. Formerly, RSS disposed of refuse at the West Contra Costa Sanitary Landfill (WCCSL) in Richmond.

**Table 4**
**Unincorporated West Contra Costa County**
**Residential Rates per Customer, per Month (As of September 15, 2015)**

| Service Level | Collection Rate | Post Collection Rate | Total Rate |
|---|---|---|---|
| 20 Gallon | $20.95 | $4.55 | $25.50 |
| 35 Gallon | $23.04 | $7.97 | $31.01 |
| 65 Gallon | $44.59 | $14.83 | $59.42 |
| 95 Gallon | $66.26 | $22.24 | $88.50 |

**Exhibit 1**
**West Contra Costa County**
**Area Map**

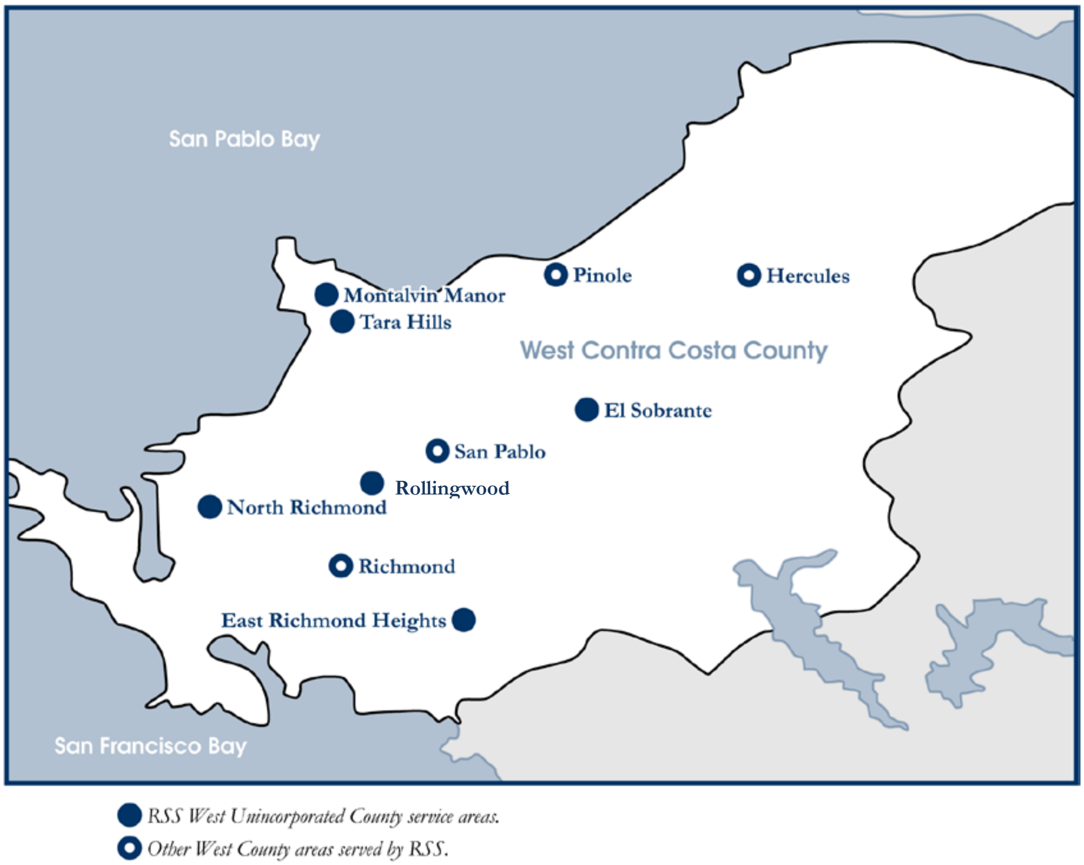


**Table 5**
**Unincorporated West Contra Costa County**
**Selected Commercial Rates per Customer, per Month (As of September 15, 2015)**

| Service Level | One Pickup per Week | Two Pickups Week |
|---|---|---|
| 1-Cubic Yard | $204.28 | $358.84 |
| 2-Cubic Yard | 334.71 | 612.02 |
| 3-Cubic Yard | 457.34 | 850.36 |
| 4-Cubic Yard | 576.10 | 1,081.70 |
| 5-Cubic Yard | 692.62 | 1,309.55 |
| 6-Cubic Yard | 808.07 | 1,535.85 |
| 7-Cubic Yard | 922.89 | 1,761.33 |

RSS provides curbside recycling service services to unincorporated West County areas. RSS accepts the following recyclable material types:

- Aluminum (cans, foil, and trays)
- Aerosol cans
- Cardboard
- Glass bottles, jars, beverage and food containers
- Milk and juice cartons
- Mixed paper (chipboard, computer paper, junk mail/envelopes, white/colored paper, magazines, catalogs, paper bags, cereal and shoe boxes, and telephone books)
- All mixed plastics
- Mixed rigid plastic packaging and plastic #1 through #7 food containers
- Newspaper
- Plastic bags and film (properly bagged)
- Plastic bottles (types #1 through #7), soda and water bottles, milk and juice jugs and bottles
- Scrap metal
- Steel and tin food and beverage cans.

Residential customers commingle all of their recyclable materials into one 64-gallon cart. RSS collects residential curbside recyclables each week. RSS takes recyclable materials to the IRRF where they are separated on a Materials Recovery Facility (MRF) sort line. Republic Services owns and operates the IRRF.

RSS collects organics every week in a 64-gallon cart. RSS also collects foodwaste, food-soiled paper, and green waste within the organics container. Organics are composted at the West Contra Costa County Sanitary Landfill site. RSS shifted from bi-weekly recycling and organics collection programs to weekly service on March 1, 2015.

### C. Goals and Objectives of Rate Review

The Manual specifies that the primary goal of the rate setting process and methodology is to determine fair and equitable residential refuse collection charges that provide a reasonable profit level to RSS. Fairness is demonstrated through a rigorous review of RSS's actual revenues and expenses. Residential charges also must be justifiable and supportable.

Rate setting is prospective. The County sets rates in advance of when actual results occur. The County must therefore base rates on careful projections.

To set rates, the County reviews trends in prior, current, and projected revenues, costs, and profits. The County sets rates that are intended to cover RSS costs of operations and allow a reasonable profit.

The County uses the operating ratio (OR) method to project the profit level allowed to RSS in a base year. The actual OR level received by RSS in a base year, and in subsequent interim years, is not however, guaranteed.

### D. Scope of Rate Review

The County based the scope of work for this review on the requirements in the Manual. The base year process has seven (7) steps, five (5) of which are the County's responsibility. RSS is responsible for the other two (2) steps.

Crowe, as the Consultant, provided assistance to the “County” for five steps in the rate review process (#2 through #5). We carefully reviewed and analyzed the 2016 rate application. We conducted our review in accordance with procedures described in the Manual. We completed the following activities during our review:

- Verified the application was complete[2]
- Determined data presented in the application were mathematically correct and consistent
- Reviewed the reconciliation of calendar year 2014 financial information provided in the application to the 2014 financial audit
- Compared actual 2014 results with estimated 2015 and projected 2016 financial results
- Analyzed significant historical fluctuations in major cost categories
- Examined the relationships between financial and operating information for reasonableness
- Reviewed RSS franchise fees payments to the County
- Conducted a survey of rates in other similar neighboring communities.

We submitted a formal data request to RSS on August 28, 2015. We received RSS responses on September 11, 2015. We met with RSS management on October 8, 2015, to ask remaining follow-up questions, and provide RSS with an opportunity to provide additional context regarding the rate application.

## E. History of Collection Portion of the Rate

As specified in the Agreement, the County directly regulates the collection portion of the residential rate. Collection rate changes, since the County adopted the Manual in 2003, increased on a compounded basis by 2.52 percent per year over the thirteen years since 2003 and are shown in **Table 6**.

In August 2003, following the base year review, the County approved an increase in the service portion of the 35-gallon cart rate to $17.50 per month. As of October 2015, the service portion of the 35-gallon cart rate was $23.04 per month. Over this period, the collection portion of the 35-gallon cart rate increased 31.7 percent. The difference between the August 2015 CPI (259.117) and the August 2003 CPI (196.30) was 32 percent, equal to the actual change in the service portion of the 35-gallon cart rate.[3] The effective collection portion of the rate, not including the program changes resulting from the post-collection agreement in 2014 (see footnote 6 on the next page), as of 2015 equals $19.49 per month for the 35 gallon service level ($23.04 less $3.55 per month). This $19.49 amount represents an increase of 11.1 percent since 2003, well below the 32 percent increase in the CPI for this period.

## F. 2016 Base Year Rate Application

The County received RSS’s Base Year Rate Change Application (Application) on July 2, 2015. A copy of the Application is provided in Attachment A, at the end of this report. RSS used year-to-date information (i.e., first quarter) to estimate 2015 financial results. Year 2016 results are projected in the Application.

RSS requested a 7.39 percent service rate increase effective January 1, 2016. This request corresponds to a $1.71 per customer, per month, increase in the collection portion of the 35 gallon rate, the most common County service level.

Our review did not represent a financial audit of RSS. Armanino LLP completed a 2014 financial audit of all RSS operations, including the County (provided in Attachment A). For purposes of preparing the 2014 cost data for the Application, RSS allocated County costs from total audited RSS costs.

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[2] We summited a letter of completeness to RSS on August 3, 2015.
[3] The applicable comparable consumer price index is the San Francisco-Oakland-San Jose Consumer Price Index, All Items.

**Table 6**
**Unincorporated West Contra Costa County**
**Historical Residential Refuse Collection Rate Changes (Not Including Post Collection)**
**(2003 to 2015)**

| Year | Collection Portion of the Rate (35G Customer, Per Month) | Percent Change in Collection Portion of the Rate |
|---|---|---|
| 2003 | $17.50 | 4.15%[4] |
| 2004 | $17.50 | 0.00% |
| 2005 | $17.85 | 2.00% |
| 2006 | $18.35 | 2.95% |
| 2007 | $19.25 | 5.04% |
| 2008 | $19.25 | 0.00%[5] |
| 2009 | $19.25 | 0.00%[4] |
| 2010 | $19.25 | 0.00%[6] |
| 2011 | $19.61 | 2.00% |
| 2012 | $19.61 | 0.00% |
| 2013 | $19.61 | 0.00% |
| 2014 | $23.16[7] | 18.00% |
| 2015 | $23.04 | ~0.00% |

## G. Review of 2016 Base Year Rate Application

This section details findings from Crowe's review of RSS's 2016 Application. We identified the impact of each finding in terms of a dollar value increase or a decrease in the "revenue requirement" identified in the Application. The revenue requirement is the amount of revenue that RSS needs to collect, through rates charged to customers, to cover costs of providing the service plus a reasonable financial return. Increasing the revenue requirement results in an increase in rates, and decreasing the revenue requirement results in a decrease in rates.

Crowe reviewed the Application for consistency with the Manual, County policies, and waste management industry practices. In our review of RSS financial results, we compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from RSS for material changes. We

[4] Rate increase implemented August 1, 2003.

[5] In December 2007, the County Board of Supervisors deferred implementation of the recommended 4.39 percent decrease as a means of stabilizing rates while generating revenue the County could use to aid in the prevention or abatement of illegal dumping within the County franchise area served by RSS. RSS was authorized to continue charging customers the same service rates through December 31, 2008 and directed to provide County with the surplus revenue collected from customers in 2008 (approximately $111,378). This surplus amount was no longer collected in 2009.

[6] Rates were left unchanged in 2010. A recommended 4.11 percent reduction was treated as a credit to offset the interim year rate change for 2011.

[7] In 2014, RecycleMore negotiated a new post collection agreement with Republic Services. At that time, certain costs formerly included as part of the post-collection charge were shifted to the collection portion of the rate. Though the collection portion of the residential rate increased 11 to 18 percent, there was an equally offsetting reduction in the post collection portion of the rate. Thus, total County residential rates did not change in 2014.

examined actual results from 2014, estimated results for 2015, and projected results for 2016. Our adjusted rate model is provided in **Exhibit B-1**, of **Attachment B**.

### 1. RSS Financial and Operating Results Since the 2012 Base Year

In **Table 7**, we compare West County approved service rate changes with changes in residential revenues and residential accounts. Residential revenues remained relatively flat and increased just 1.1 percent between 2012 and 2014. This increase is supported by the compound impact of (1) the total rate increases and (2) the increase in number of residential accounts.

In **Table 8**, we compare West County approved service rate changes with changes in commercial service revenues and tons. From the time series, we find that service rates increased 8.0 percent between 2012 and 2014, commercial tonnage increased by 5.8 percent, both contributing to the overall estimated 13.3 increase in commercial revenues.

**Table 7**
**Unincorporated West Contra Costa County**
**Comparison of Residential Rate Increases with Changes in Residential Revenues and Accounts (2012 to 2014)**

| Year | Rate Increases | Change in Residential Accounts | Change in RSS Residential Collection Revenues |
|---|---|---|---|
| 2012 to 2014 | 0.0% | 2.0% | 1.1% |

**Table 8**
**Unincorporated West Contra Costa County**
**Comparison of Commercial Rate Increases with Changes in Commercial Revenues and Tonnage (2012 to 2014)**

| Year | Rate Increases | Change in Commercial Tons | Change in RSS Commercial Collection Revenues |
|---|---|---|---|
| 2012 to 2014 | ~8.0% | 5.9% | ~13.3% |

For the above comparison, in addition to rate changes, we used the number of accounts as a proxy for changes to residential revenues while we used tonnage as a proxy for changes to commercial revenues. Tonnage is more applicable for the commercial sectors as businesses are more inclined, than the residential sector, to adjust their service level based on tonnage changes.

Between 2012 and 2014, RSS County revenues and costs increased at different rates, as shown in **Table 9**. RSS costs increased 6.7 percent, while RSS revenues increased 4.2 percent. During this same 2012 to 2014 period, RSS's actual operating ratio ranged from 83 to 88 percent.[8] This period of relatively higher profitability resulted from RSS continuing to implement corporate-wide costs savings initiatives. These measures included combining routes (resulting in labor cost reductions) and focusing on more efficient equipment maintenance management practices.

[8] The County's target operating ratio during base years is 90 percent. A smaller operating ratio represents a larger return.

**Table 9**
**Unincorporated West Contra Costa County**
**Change in RSS Revenues and Costs**
**(2012 to 2014)**

| Description | Percent Change |
|---|---|
| Revenues | 4.2% |
| Costs | 6.7% |

## 2. Method for Allocating RSS Costs to West County Areas

In addition to unincorporated West County, RSS includes the following other service areas in their total consolidated RSS financial statements, provided in Attachment A:

- Hercules
- Pinole
- Richmond
- Rodeo
- San Pablo.

In **Table 10**, we provide the methods used by RSS to allocate total consolidated costs to unincorporated West County areas. RSS allocated nearly all West County costs from total consolidated RSS costs using its route allocation method.

**Table 10**
**Richmond Sanitary Service**
**Methods Used to Allocate Consolidated Costs**
**To Each Jurisdiction Served**

| Cost | Allocation Method[9] |
|---|---|
| Labor | Route Allocation |
| Corporate and Local General and Administrative Costs | Route Allocation |
| Depreciation and Other Operating Costs | Route Allocation |
| Trucking and Equipment | Route Allocation |
| Franchise Fees | Direct |

RSS's route allocation method is based on time-and-motion analyses for each residential, commercial, and industrial route. For each route, RSS requires its drivers to record start and stop times and various activity times for a sample of actual routes performed during the year.

For the residential sector, RSS measures the number of drive-bys, per hour, on routes with West County customers (e.g., for calendar year 2014, 98.16 drive-bys per hour).[10] RSS divides the total number of County drive-bys over a given period by the number of drive-bys per hour to determine the total number

[9] Note that the company incorrectly identified its use of other allocation methods on page 2 of 6 of the Application (e.g., accounts, direct) to allocate the County's share of total costs. The company used the route allocation methodology to allocate all of its costs other than franchise fees. We do not think that this alternative allocation methodology had a negative impact on unincorporated West Contra Costa County.

[10] In 2011, residential drive-bys, per hour, were 99.81. In 2006, residential drive-bys, per hour, were 82.14.

of hours over that period spent on West County customers. RSS divides the number of hours spent on West County customers by the total number of hours spent on all of its customers to determine the percentage of total residential costs associated with West County operations (for 2014, 17.22 percent).

RSS performs a similar analysis for the commercial sector, but instead of drive bys per hour, RSS uses lifts per hour. For the industrial sector, RSS uses the total number of hours spent on drop box activities. In 2014, the West County's allocation for the commercial sector was 6.47 percent of total RSS business and the industrial sector was 4.22 percent of total RSS business.

In **Table 11**, we compare County route allocation percentages in 2014, with those from 2011 and 2006. As shown, for the residential sector the allocation has remained relatively similar over time. However, for the commercial and industrial sectors, the route allocation percentages have declined over time, suggesting that RSS has become more efficient at serving the West County commercial and industrial sectors, relative to how RSS serves its overall commercial and industrial business. For the industrial sector, some of this shift is caused by RSS obtaining more non-unincorporated County business that happens to be farther away from, and requires longer travel distances, to the disposal facility.

**Table 11**
**Richmond Sanitary Service**
**County Route Allocation Percentages**
**(Calendar Years 2006, 2011, 2014)**

| Sector | County 2006 Route Allocation (%) | County 2011 Route Allocation (%) | County 2014 Route Allocation (%) |
|---|---|---|---|
| Residential (refuse)[11] | 17.6% | 17.5% | 17.2% |
| Commercial | 8.3% | 7.2% | 6.5% |
| Industrial | 8.8% | 6.3% | 4.2% |
| Total | 14.5% | 14.2% | 13.7% |

RSS maintains operating costs by sector. For 2011, RSS's operating costs for each sector were as follows:

- Residential – 70.67% (2011 - 69%, 2006 - 66%)
- Commercial – 14.71% (2011 - 14%, 2006 - 15%)
- Industrial – 14.62% (2011 - 17.03%, 2006 - 19.88%).

To calculate the County's share of total RSS costs (for 2014, 13.74 percent), RSS multiplied the operating cost percentages above by the County's route allocations in Table 11 for each sector, and summed the three results as follows:

- Residential – 70.67% x 17.22% = 12.17%
- Commercial – 14.71% x 6.47% = 0.95%
- Industrial – 14.62% x 4.22% = 0.62%
- Total = 13.74 percent.

For 2014, RSS allocated 13.74 percent of consolidated RSS costs to unincorporated West County (for those cost categories requiring the route allocation method).

[11] Does not include curbside recycling or organics.

The route allocation method is acceptable to use to allocate RSS costs to West County areas. This method is consistent with waste management industry practice. The pooled costs that RSS allocates to each jurisdiction, using the route allocation method, also generally do not vary between jurisdictions.

RSS has several transactions with related parties. These transactions required careful scrutiny and are identified in **Table 12**.

**Table 12**
**Richmond Sanitary Service**
**Related Party Transactions**
**(Calendar Year 2014)**

| Cost | Related Party |
|---|---|
| Trucks, equipment, and facilities | Bay Leasing Company |
| Certain general and administrative costs | Republic Services Inc. |

**3. Review of RSS Revenues, Costs, and Profits**

This section describes our review of each revenue, cost, and profit category. We identify adjustments to the Application. We express adjustments based on their impact to RSS's revenue requirement. The revenue requirement is equal to the sum of the following:

- Total allowable costs
- Allowable operating profits
- Total pass through costs.

RSS's requested County revenue requirement, as submitted in the Application, is $4,115,819. This figure is shown on line 32 of the Application in Attachment A.

We summarize the impact of our review findings in Exhibit B-1. We show findings as adjustments to the 2016 revenue requirement. Adjustments reduce the RSS 2016 revenue requirements by $192,540.

**i. Revenues**

Residential Revenues

RSS projected no change in residential revenues between 2015 and 2016. RSS indicated in its Application that residential accounts grew a modest 0.88 percent in 2015. RSS expects residential accounts to remain at 2015 levels in 2016. Residential revenues have been relatively stable dating back to 2008.

Due to the limited changes in the housing market in the area and the uncertain overall economic climate, we do not project much growth in the residential sector near term. We accepted RSS's revenue projection for 2016.

*Net Impact:*

[No change to the revenue requirement]

Commercial and Light Industrial Revenues

RSS projected no change in commercial and light industrial revenues between 2015 and 2016. Commercial and light industrial revenues dipped in 2012 and 2013, but in general have been relatively stable since 2008.

Similar to the residential sector, due to the current uncertain overall economic climate, we do not project growth in the commercial and industrial sectors near term. We accepted RSS's commercial and light industry revenues projection for 2016.

*Net Impact:*

[No change to the revenue requirement]

**ii. Costs**

Direct Labor

RSS projected labor costs to increase 5.0 percent for both 2015 and 2016. We reviewed labor agreements between RSS and the Teamsters Local 315 (drivers). The projected 5.0 percent increase in labor costs for 2016 is consistent with required combined changes in wages, health and welfare, and pension costs specified in RSS labor agreements. However, for 2015, the union agreement Local 315 had the following projected increases:

- Drivers wages, +2.8 percent
- Health and welfare benefits, +2.8 percent
- Pension contribution, +0.8 percent

The combined 5.0 percent change projected by direct labor (wages and benefits) for 2015 is approximately 2.2 percent above that called for by the union agreement. We recommend the County allow a 2.8 percent increase for 2015.

We validated that RSS's large projected 2015 increase in labor costs associated with shifting from bi-weekly to weekly recycling and greenwaste service, estimated at 16 percent was supported by the actual costs incurred to date. Further, that these costs are credited within the credit for enhanced services negotiated as part of the post-collection agreement (discussed on page 14 of this report).

*Net Impact:*

[Decrease in revenue requirement of $26,265]

Corporate and Local General and Administrative Costs

The Manual (page 1-14) specifies a cap on corporate and local general and administrative costs equal to 12.2 percent of the total revenue requirement. However, at the time the Manual was written, the model included post collection (or IRRF) costs in the revenue requirement. If we include estimated post collection costs in the adjusted revenue requirement, corporate and local general and administrative costs are 11.7 and 12.1 percent of the revenue requirement for 2015 and 2016 respectively, and within the cap guideline.

*Net Impact:*

[No change to the revenue requirement]

Trucking and Equipment (Allowable)

In this category, we reviewed RSS's recent monthly fuel purchases. We show average 2014 and year-to-date 2015 diesel fuel prices paid by RSS, in **Table 13**. These prices compare with wholesale diesel prices paid by other local area refuse collection companies, during the same 2014 and 2015 timeframes. We accepted RSS's fuel projection for 2016.

*Net Impact:*

[No change to the revenue requirement]

**Table 13**
**Richmond Sanitary Service**
**Diesel Fuel Price per Gallon**
**(2014 and 2015)**

| Month | Price per Gallon |
|---|---|
| Average 2014 | $3.22 |
| Average January through Sept. 2015 | $2.44 |

Depreciation and Other Operating Costs

We made no change to this cost category.

*Net Impact:*

[No change to the revenue requirement]

Services Provided to County

RSS included the following costs in this category:

- County can service (12, 35-gallon cans)
- County fire station green waste bin service
- County maintenance truck disposal (direct haul to Golden Bear Transfer Station).

We estimated Services Provided to County costs of $27,067, based on the recent two-year average of these costs. We projected Services Provided to County costs of $27,067 for 2016, a decrease of $2,887 from the RSS projected amount ($29,954).

[Decrease in 2016 revenue requirement of $2,887]

Trucking and Equipment (Pass Through)

We obtained and reviewed leases charged by Bay Leasing Company to RSS for trucks and containers. Lease rates vary depending on the truck/equipment purchase price, financing rate, and age. We examined Bay Leasing truck and equipment purchase prices. We found truck and equipment purchase prices consistent with purchases of other similar waste management companies.[12]

Since the last base year review, the company has shifted the leased portion of its trucking and equipment costs to a pass-through expense. We agree with this pass-through treatment of this related-party transaction as it removes the uncertainty whether there is profit paid to both the RSS collection and Bay Leasing businesses. We reviewed the lease transactions for both truck and carts/containers and determined they were reasonable.

An important consideration, related to equipment rental costs for the RSS operation, is that there are very few new planned truck and equipment purchases planned for this base year. Consequently there is not a significant increase expected in this cost category.

*Net Impact:*

[No change to the revenue requirement]

[12] Comparable lease rates are difficult to find in the waste management industry as most service providers either purchase trucks or lease them from a related party.

Franchise Fees

The County franchise agreement with RSS specifies that the County can establish an amount equal to "a percentage of its [RSS's] gross annual revenues generated from the performance of such waste collection services under this Agreement," with the "percentage, time, and frequency of payment to be established by the County."

A summary of franchise fee payments made by RSS to the County is provided in **Table 14**. Amounts included in RSS's Application, RSS detailed records, and in County records are very similar and the differences are considered immaterial and likely due to accounting versus payment timing differences.

Based on the other adjustments noted in this section, we decreased franchise fees by $2,438. The franchise fee is calculated as seven (7) percent of the revenue requirement. With decreases in the revenue requirement noted above, the franchise fee also decreases.

*Net Impact:*

[Decrease in 2016 revenue requirement of $2,438]

**Table 14**
**Richmond Sanitary Service**
**Comparison of Franchise Fees**
**(Calendar Years 2013, 2014 and 2015)**

| Calendar Year | Application | RSS Detailed Monthly Payment Records | County Reports |
|---|---|---|---|
| 2013 | $179,991 | $179,991 | $185,987[13] |
| 2014 | $266,544[14] | $272,565 | $272,565 |
| 2015 (Jan to July) | N/A | $162,838 | $162,838 |

Rate Stabilization Fund

In the application, RSS included an amount of $157,711 to contribute to the County's rate stabilization fund (line 25 of the Application). At the direction of the County, we have removed this $157,711 contribution as the County in order to mitigate the impact of the 2016 rate change.

*Net Impact:*

[Decrease in 2016 revenue requirement of $157,711]

### iii. Profits

With the adjustments identified in this section, total allowable costs for the projection year 2016 are $2,882,891. The Manual (Item E.3 page 1-16) specifies that should the operating ratio for the base year fall between 88 percent and 92 percent, rates would remain unchanged in the base year.

[13] The $5,996 difference between the County and RSS information represents an amount recorded by the County which was paid for by the County's efficiency surplus funding. This difference occurred for the month of November 2013 when the County had recently increased its franchise fee from 5% to 7% of gross revenues.
[14] The $6,021 difference between the RSS Application and other sources represents an amount recorded by the County which was paid for by the County's efficiency surplus funding. This difference occurred for the month of December 2013 when the County had recently increased its franchise fee from 5% to 7% of gross revenues.

**Table 15** shows the operating ratio calculation for 2016. Without any changes to rates, the company would receive an operating ratio of 92.3 percent. In accordance with the Manual, because this operating ratio falls outside the 88 to 92 percent range, rates are reset for a 90 percent operating ratio.[15]

The operating ratio calculation is as follows:

Operating Ratio (OR) =

Total Allowable Costs

Total Allowable Costs + Allowable Operating Profit

The OR calculation is shown in **Table 16**, following Table 15. We calculate allowable profit of $320,321, at the allowable 90 percent operating ratio. This allowable profit represents a reduction of $3,239 from the $323,560 in profit requested in the Application for 2016.

*Net Impact:*

[Decrease in 2016 revenue requirement of $3,239]

**Table 15**
**Richmond Sanitary Service**
**Calculation of Actual Operating Ratio**
**(Projection Year 2016)**

| Description | Amount |
|---|---|
| Total Revenues (line 21) | $ 3,704,305 |
| Plus Credit for Enhanced Services (Line 12)[16] | 295,598 |
| Less Total Allowable Costs (line 7) | (2,882,891) |
| Less Franchise Fees (line 23) | (285,669) |
| Less Pass-Through Costs | (592,109) |
| Equals Profits (with adjustments and no rebasing) | $ 239,234 |
| Operating Ratio (with adjustments and no rebasing) | $2,882,891 / ($2,882,891 + $239,234) = 92.34% |

**Table 16**
**Allowable Profit Calculation**
**(Projection Year 2016)**

| Description | Amount |
|---|---|
| (Total Allowable Costs / Operating Ratio) – Total Allowable Costs<br><br>= Allowable Operating Profit | ($2,882,891/90 percent) - $2,882,891<br><br>= $320,321 |

[15] Source: Rate Setting Manual, page I-14.

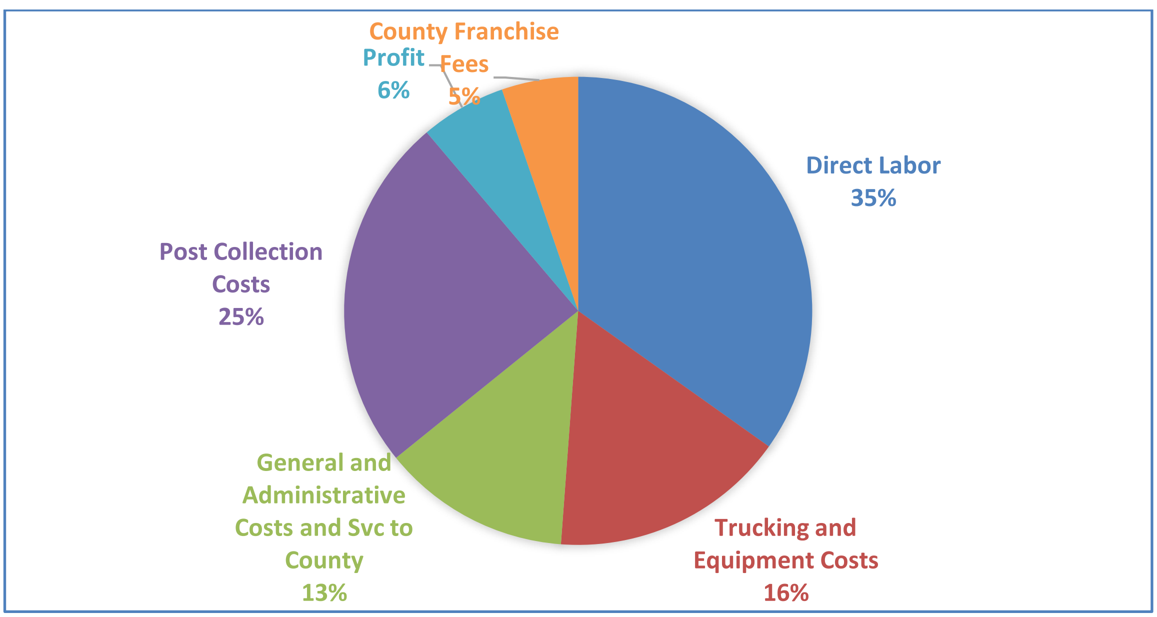
[16] Based on terms specified in Exhibit F of the Second Amendment to the County/RSS Franchise.

## 4. Components of Residential Rates

There are a number of cost components which are included in residential rates. Using the 35-gallon residential cart rate as an example, the pie chart in **Figure 1**, on the following page, shows the major components of the projected 2016 rates, and the relative costs of each component. Line item references are made to the Application. Cost categories are described below:

- Direct Labor Costs includes compensation of the waste removal staff, including regular time, overtime, payroll taxes, and associated benefits. This category corresponds to Direct Labor (Line 1) of the Application.
- Post Collection Costs include all charges for the disposal of solid waste at a landfill or transfer station and processing of recyclables. Although post collection costs are not included in the Application, we include them in this single can rate analysis.
- General and Administrative Costs and Svc to County include such costs as accounting, corporate overhead/management fees, insurance, legal services, office supplies, postage, telephone, and utilities. These costs include Corporate and Local General and Administrative Costs (Line 2), and Services Provided to County (Line 4).
- Trucking and Equipment Costs includes leases of trucks and equipment, fuel and oil expense, licenses, parts, tires, and associated repair and maintenance expenses. These costs are identified as Trucking and Equipment with Profit (Line 5), Depreciation and Other Operating Costs (Line 3), and Trucking and Equipment Pass Through (Line 9) of the Application.
- Profit is any revenue which exceeds expenses (total allowable costs plus total pass-through costs). The operating ratio method is used to determine allowable profit, as discussed in the profit analysis section of this report. Profit is shown in Line 7 of the Application. Profit does not include that portion of profit included in the post collection costs.
- The County's Franchise Fee is currently seven (7) percent of total residential/ curbside recycling, commercial, and light industrial revenues. Franchise fees are shown in Line 23 of the Application.

**Figure 1**
**Components of Rate**
**(Projection Year 2016)**



**H. Comparison of Rates and Services to Other Neighboring Jurisdictions**

Current 2015 unincorporated County rates were compared with survey data from ten (10) other jurisdictions. Results of the survey are summarized in Attachment C. Tables C-1 through C-3 show how current 2015 West County residential rates compare to the average of the ten areas surveyed. For reference, rate comparisons for commercial and industrial sectors also are shown.

In **Table C-1**, we compare Unincorporated West County residential rates with averages of ten other comparable neighboring jurisdictions. For the ten jurisdiction comparison, West County residential rates compared favorably for 20-gallon and 32-gallon services at 8.74 and 11.93 percent below average. West County residential rates for 65 gallon service approximated the average, while rates for the 96-gallon service were 9.9 percent above the average.

For information purposes only, for the commercial (bin) sector, as shown in **Table C-2**, West County rates were generally relatively close to the average of the ten jurisdictions. Rates ranged from 6.01 percent below average to 3.67 percent above average. Rates for four of the six categories surveyed fell below average.

For information purposes only, for the industrial (debris box) sector, as shown in **Table C-3** on the following page, West County rates were between 6.4 and 18.1 percent below the ten jurisdiction average. This comparison is based on a representative two (2) ton load. Note that most of the comparable jurisdictions in the West Contra Costa County area, which are also served by Republic Services, are offered the same price for debris box services as unincorporated West Contra Costa County customers.

**Attachment A: Rate Application and Audited Financial Statements**

**Attachment A** includes the 2016 Base Year Rate Change Application (Application) submitted by RSS to the County July 2, 2015. In the Application, RSS proposed to increase the service portion of West unincorporated County collection rates by 7.39 percent on January 1, 2016. The Application included the following forms:

- Financial information
- Cost summary for year 2014
- Revenue summary
- Single family residential revenues summary (including current rates and accounts)
- Operating information
- Rate change requested (including current and proposed rates).

Information provided in the Application was for the following five (5) years:

- Actual prior years, 2012 to 2014 (including audited 2014 results)
- Current year estimated, 2015
- Base year projected, 2016.

Attachment A also includes the 2016 audited financial statements submitted by RSS with its Application to the County. Armanino LLP, a certified public accountant, prepared the audited financial statements. The audit opinion is unqualified. In **Table A-1**, below, we reconcile the difference in total RSS costs in the 2014 audit, with total RSS costs shown on page 2 of 6 of the Application.

**Table A-1**
**Richmond Sanitary Service**
**Calculation of Actual Operating Ratio**
**(Projection Year 2016)**

| Description | Amount |
|---|---|
| Audited financial statement | $38,755,824 |
| Less landfill disposal costs | (15,312,862) |
| Less contributions | (92,574) |
| Less bad debt | (83,464) |
| Less other income | (37) |
| Equals total RSS costs in Application (row 42, page 2 of 6) | $23,266,687 |

RICHMOND SANITARY SERVICE

Subsidiary of REPUBLIC SERVICES, INC.

3260 BLUME DRIVE • RICHMOND, CALIFORNIA 94806

July 2, 2015

Ms. Deidra Dingman, Conservation Programs Manager
Contra Costa County
Department of Conservation and Community Development
30 Muir Road
Martinez, CA 94553

Dear Ms. Dingman:

As provided for in the Franchise Agreement between Contra Costa County and Richmond Sanitary Service dated October 12, 1993, and in accordance with the Rate Setting Process and Methodology Manuel for Solid Waste Charges dated June 30, 2003, enclosed herewith is the application for 2015 Base Year Rate Review.

We will appreciate an opportunity to go over and discuss this Application with you at your earliest convenience to discuss implementation options. Our Contracts Administrator, Janna Coverston, will contact you in a few days to set a mutually convenient time to meet. In the meantime, inasmuch as it does contain proprietary information, it is respectfully requested the Application be held in the strictest of confidence. Also in the meantime, if you have any questions, please call me at (510) 262-7143.

Please accept our apologies for this nominal delay in submission. As Janna explained, the required financial audit ~~was~~ just received on Tuesday and the application could not be completed without data it contained.

Very truly yours,

Shawn Moberg
General Manager

Enclosure

Cc: J. Coverston
W. Lau

**Contra Costa County - Unincorporated**

## Base Year Rate Change Application

*Financial Information*

| | Actual Historical Years Year 1 2012 | Actual Historical Years Year 2 2013 | Actual Historical Years Year 3 2014 | Estimated Current Year Year 4 2015 | Projected Base Year Year 5 2016 |
|---|---|---|---|---|---|
| **Section I -- Allowable Costs** | | | | | |
| 1. Direct Labor | $ 1,305,069 | $ 1,357,925 | $ 1,472,485 | $ 1,782,497 | $ 1,880,193 |
| 2. Corporate and Local General and Administrative Costs | 645,419 | 559,279 | 591,482 | 688,718 | 709,379 |
| 3. Depreciation and Other Operating Costs | 14,202 | 7,731 | 8,789 | 20,046 | 20,647 |
| 4. Services Provided to County | 18,045 | 13,754 | 24,180 | 29,954 | 29,954 |
| 9. Trucking and Equipment | 230,665 | 243,354 | 231,507 | 253,411 | 271,870 |
| 5. Total Allowable Costs (Lines 1+2+3+4) | $ 2,213,420 | $ 2,182,043 | $ 2,328,442 | $ 2,774,625 | $ 2,912,043 |
| **Section II -- Allowable Operating Profit** | | | | | |
| 6. Operating Ratio | 90% | 90% | 90% | 90% | 90% |
| 7. Allowable Operating Profit [(Line 5 / 0.9)-Line 5] | $ 245,936 | $ 242,449 | $ 258,716 | $ 308,292 | $ 323,560 |
| **Section III -- Pass Through Costs without Franchise Fees** | | | | | |
| 8. County Administrative Fee | $ | $ | $ | $ | $ |
| 9. Trucking and Equipment (Equipment Rental) | 578,254 | 571,121 | 571,822 | 584,115 | 592,109 |
| 10. Total Pass Through Costs (without Franchise Fees) (Lines 8+9) | $ 578,254 | $ 571,121 | $ 571,822 | $ 584,115 | $ 592,109 |
| **Section IV -- Revenue Requirement without Franchise Fees** | | | | | |
| 11. Total Allowable Costs (Line 5) plus Allowable Operating Profit (Line 7) plus Total Pass Through Costs (without Franchise Fees) (Line 10) | $ 3,037,609 | $ 2,995,613 | $ 3,158,980 | $ 3,667,031 | $ 3,827,712 |
| 12. Less Credit for Enhanced Services per Post-Collection Agreement | | | | | $ 295,599 |
| 13. Adjusted Revenue Requirement (without Franchise Fees) (line 11-12) | | | | | $ 3,532,113 |
| **Section V -- Revenues without Rate Change in Base Year** | | | | | |
| 14. Residential Revenues | | | | | $ 2,715,033 |
| 15. Less Allowance for Uncollectible Residential Accounts | | | | | (26,236) |
| 16. Total Residential Revenues (without Rate Change in Base Year) | $ 2,599,683 | $ 2,613,876 | $ 2,628,784 | $ 2,688,797 | $ 2,688,797 |
| 17. Commercial and Light Industrial Revenues | | | | | $ 1,024,731 |
| 18. Less Allowance for uncollectable Commercial and Light Industrial Accounts | | | | | (9,223) |
| 19. Total Commercial/Light Industrial Revenues (without Rate Change in Base Year) | $ 871,082 | $ 908,372 | $ 986,502 | $ 1,015,509 | $ 1,015,509 |
| 20. Recycled Material Sales (N/A if Use IRRF) | $ - | $ - | $ - | $ - | $ - |
| 21. Total Revenues (Lines 16+19+20) | $ 3,470,765 | $ 3,522,247 | $ 3,615,286 | $ 3,704,305 | $ 3,704,305 |
| **Section VI -- Net Shortfall (Surplus)** | | | | | |
| 22. Net Shortfall (Surplus) without Franchise Fees (Lines 13-Line 21) | | | | | $ (172,193) |
| 23. Residential / Commercial / Light Industrial Franchise Fees (see calculation below) | $ 177,393 | $ 179,991 | $ 268,544 | $ 278,236 | $ 288,107 |
| 24. Net Shortfall (Surplus) with Franchise Fees (Lines 22+23) | | | | | $ 115,915 |
| 25. Contribution From/(To) Rate Stabilization Fund | | | | | $ 157,711 |
| 26. Adjusted Net Shortfall (Surplus) with Franchise Fees (Lines 24+25) | | | | | $ 273,626 |
| **Section VII -- Percent Change in Rates** | | | | | |
| 27. Total Commercial / Light Industrial Revenues Prior to Rate Change (Lines 16+19) | | | | | $ 3,704,305 |
| 28. Percent Change in Existing Residential / Commercial / Light Industrial Rates (Line 26 / Line 27) | | | | | 7.39% |

### Franchise Fee Calculation

Franchise fees are set by the County at a percent of the revenue requirement
Solve for two equations with one unknown, and identify franchise fees as X =>
Equation 1) Revenue Requirement x Franchise Fee % = X
Equation 2) Revenue Requirement = Line 13 + X, or $________ +X
Substitute equation 2) into equation 1) and solve for X =>
($________ + X) x Franchise Fee % = X or X = ______

### Summary Revenue Requirement

| | |
|---|---|
| 29. Total Allowable Costs (Line 5) | $ 2,912,043 |
| 30. Allowable Operating Profits (Line 7) | 323,560 |
| 31. Pass Through Costs with Franchise Fees (Line 10+23) | 880,216 |
| 32. Revenue Requirement | $ 4,115,819 |

Contra Costa County - Unincorporated

Base Year Rate Change Application

*Cost Summary for Year 2014*

Section VIII -- Base Year Cost Allocation

| Description of Cost | Unincorporated County | Non-Uninc. County | Audited RSS Financial | Allocation Base(s) |
|---|---|---|---|---|
| Labor - Regular | $ 861,167 | $ 5,408,381 | $ 6,269,548 | Labor Hours |
| Labor - Overtime | 119,422 | 750,006 | 869,428 | Labor Hours |
| Benefits | 401,524 | 2,521,687 | 2,923,210 | Labor Hours |
| Payroll Taxes | 90,372 | 567,561 | 657,933 | Labor Hours |
| 33. Total Direct Labor | $ 1,472,485 | $ 9,247,634 | $ 10,720,119 | |
| Bank Fees | $ 36,449 | $ 228,913 | $ 265,362 | Accounts |
| Bonus Pay Corporate | $ 17,983 | $ 112,939 | $ 130,922 | Accounts |
| Collection Fees | $ 3,344 | $ 21,001 | $ 24,345 | Accounts |
| Computer Services | 4,760 | 29,896 | 34,657 | Accounts |
| Consulting and Professional Fees | 42,934 | 269,638 | 312,572 | Direct |
| Dues and Subscriptions | 2,193 | 13,771 | 15,964 | Accounts |
| Insurance | 185,236 | 1,163,335 | 1,348,570 | Accounts |
| Laundry and Uniforms | 3,783 | 23,760 | 27,544 | Accounts |
| Management Fees/Corproate Overhead | 163,278 | 1,025,436 | 1,188,714 | Accounts |
| Miscellaneous and Other | 703 | 4,415 | 5,119 | Accounts |
| Office Expenses | 6,734 | 42,289 | 49,022 | Accounts |
| Office Repair and Maintenance | 3,447 | 21,648 | 25,095 | Accounts |
| Outsource Billing | - | - | - | Accounts |
| Postage | 8,227 | 51,670 | 59,897 | Accounts |
| Public Relations and Promotion | 27,910 | 175,281 | 203,190 | Accounts |
| Relocation and Recruiting | 411 | 2,583 | 2,995 | Accounts |
| Sales and Marketing Misc. | 3,486 | 21,891 | 25,377 | Accounts |
| Taxes and Licenses | 7,754 | 48,699 | 56,454 | Accounts |
| Telephone | 13,726 | 86,204 | 99,930 | Accounts |
| Travel | 1,533 | 9,628 | 11,162 | Accounts |
| Utilities | 57,590 | 361,680 | 419,270 | Accounts |
| 34. Total Corporate and Local General and Administrative Costs | $ 591,482 | $ 3,714,678 | $ 4,306,159 | |
| Depreciation-Buildings | $ 4,906 | $ 30,810 | $ 35,716 | |
| Depreciation-Office Furniture and Equipment | 1,031 | 6,473 | 7,503 | Accounts |
| Depreciation-Vehicles | - | - | - | Direct |
| Depreciation-Containers | - | - | - | Direct |
| Depreciation-Equipment | 1,088 | 6,836 | 7,925 | Direct |
| Other Operating Costs | 1,764 | 11,078 | 12,842 | Accounts |
| 35. Total Depreciation and Other Operating Costs | $ 8,789 | $ 55,197 | $ 63,985 | |
| 36. Total Services Provided to County | $ 24,180 | | | Direct |
| **37. Total Allowable Costs (Lines 33+34+35+36)** | $ 2,096,935 | $ 13,017,508 | $ 15,090,264 | |
| 38. Total County Administration Fee | | | | |
| Equipment Rental | $ 571,822 | $ 3,591,209 | $ 4,163,031 | Direct |
| Gas and Oil | 134,472 | 844,525 | 978,997 | Accounts |
| Parts | 57,181 | 359,115 | 416,296 | Accounts |
| Repair and Maintenance | 5,366 | 33,700 | 39,066 | Accounts |
| Tires | 19,776 | 124,197 | 143,973 | Accounts |
| Other | 14,712 | 92,394 | 107,105 | Accounts |
| 39. Total Trucking and Equipment | $ 803,329 | $ 5,045,140 | $ 5,848,469 | |
| 40. Total Residential/Commercial/Light Industrial Franchise Fees | $ 266,544 | | $ 2,327,954 | Direct |
| **41. Total Pass Through Costs (Lines 38+39+40)** | $ 1,069,873 | $ 5,045,140 | $ 8,176,423 | |
| **42. Total Costs (Lines 37+41)** | $ 3,166,808 | $ 18,062,649 | $ 23,266,686 | |

Contra Costa County - Unincorporated

Base Year Rate Change Application

*Revenues Summary*

Section IX -- Revenues

| | | Actual Historical Years Year 1 2012 | Actual Historical Years Year 2 2013 | Actual Historical Years Year 3 2014 | Estimated Current Year Year 4 2015 | Projected Base Year Year 5 2016 |
|---|---|---|---|---|---|---|
| | **Single Family Residential Services** | | | | | |
| 43. | Single Family Residential Revenues | $ 2,623,293 | $ 2,637,614 | $ 2,652,658 | $ 2,715,033 | $ 2,715,033 |
| | **Multiunit Residential Services** | | | | | |
| 44. | Number of Accounts | | | | | |
| 45. | Multiunit Residential Revenues | $ - | $ - | $ - | $ - | $ - |
| 46. | Residential Revenues (w/o Allowable for Uncollectible Accounts) (Lines 43+45) | $ 2,623,293 | $ 2,637,614 | $ 2,652,658 | $ 2,715,033 | $ 2,715,033 |
| 47. | Allowance for Uncollectible Residential Accounts | $ 23,610 | $ 23,739 | $ 23,874 | $ 26,236 | $ 26,236 |
| **48.** | **Total Residential Revenues (Line 46 - Line 47)** | $ 2,599,683 | $ 2,613,876 | $ 2,628,784 | $ 2,688,797 | $ 2,688,797 |
| | **Commercial and Light Industrial Can Services** | | | | | |
| 49. | Number of Accounts | | | | | |
| 50. | Commercial and Light Industrial Can Revenues | $ - | $ - | $ - | $ - | $ - |
| | **Commercial and Light Industrial Bin Services** | | | | | |
| 51. | Number of Accounts | 178 | 175 | 181 | 178 | 178 |
| 52. | Commercial and Light Industrial Bin Revenues | $ 681,690 | $ 682,052 | $ 758,828 | $ 787,671 | $ 787,671 |
| | **Commercial and Light Industrial Drop Box Services** | | | | | |
| 53. | Number of Accounts | 31 | 29 | 38 | 32 | 32 |
| 54. | Commercial and Light Industrial Drop Box Revenues | $ 197,303 | $ 234,570 | $ 236,633 | $ 237,060 | $ 237,060 |
| 55. | Commercial and Light Industrial Revenues (w/o Allowance for Uncollectible Accounts) (Lines 50+52+54) | $ 878,993 | $ 916,621 | $ 995,461 | $ 1,024,731 | $ 1,024,731 |
| 56. | Allowance for Uncollectible Commercial and Light Industrial Accounts | $ 7,911 | $ 8,250 | $ 8,959 | $ 9,223 | $ 9,223 |
| **57.** | **Total Commercial and Light Industrial Revenues (Line 55 - Line 56)** | $ 871,082 | $ 908,372 | $ 986,502 | $ 1,015,509 | $ 1,015,509 |
| **58.** | **Recycled Material Sales** | $ - | $ - | $ - | $ - | $ - |
| **59.** | **Total Revenues (Lines 48+57+58)** | $ 3,470,765 | $ 3,522,247 | $ 3,615,286 | $ 3,704,305 | $ 3,704,305 |

Contra Costa County - Unincorporated

## Base Year Rate Change Application

*Single Family Residential Revenues Summary*

Section X -- Single Family Residential Revenues and Customer Counts

**Single Family Residential Revenues (w/o Rate Change in Base Year)**

| | Current Rate/Month | Projected Accounts | 2016 Base Year Revenues Total [a] |
|---|---|---|---|
| 35 Gallon Container | 23.04 | 7,970 | 2,203,546 |
| 65 Gallon Container | 44.59 | 518 | 277,171 |
| 95 Gallon Container | 66.26 | 67 | 53,273 |
| 20 Gallon Mini-Can | 20.95 | 1,516 | 381,122 |
| 60. **Total Base Year Single Family Residential Revenues** | | 10,071 | $ 2,915,112 |

[a] Equal to the current rate per month multiplied by 12 multiplied by the projected number of accounts.

Contra Costa County - Unincorporated

## Base Year Rate Change Application

*Operating Information*

| | Historical Information | Percent Change | Historical Information | Percent Change | Current Year Estimated Information | Percent Change | Base Year Projected Information | Percent Change | Base Year Projected Information |
|---|---|---|---|---|---|---|---|---|---|
| | Year 1 | Year 1 to 2 | Year 2 | Year 2 to 3 | Year 3 | Year 3 to 4 | Year 4 | Year 4 to 5 | Year 5 |
| | 2012 | | 2013 | | 2014 | | 2015 | | 2016 |
| | | | | | **Section XI -- Operating Data** | | | | |
| **Accounts** | | | | | | | | | |
| *61.* Residential | 9,451 | 1.07% | 9,552 | 0.88% | 9,636 | 0.40% | 9,675 | 0.00% | 9,675 |
| *62.* Commercial | 178 | -1.69% | 175 | 3.43% | 181 | -1.66% | 178 | 0.00% | 178 |
| *63.* Light Industrial | 31 | -6.45% | 29 | 31.03% | 38 | -15.79% | 32 | 0.00% | 32 |
| *64.* Total Accounts | 9,660 | 0.99% | 9,756 | 1.01% | 9,855 | 0.30% | 9,885 | 0.00% | 9,885 |
| **Waste Tonnage** | | | | | | | | | |
| *65.* Residential | 7,678 | -1.67% | 7,550 | 0.28% | 7,571 | -4.41% | 7,237 | 0.00% | 7,237 |
| *66.* Residential Greenwaste | 3,727 | -10.12% | 3,350 | 6.62% | 3,572 | 0.00% | 3,572 | 0.00% | 3,572 |
| *67.* Commercial | 1,338 | 1.20% | 1,354 | 4.67% | 1,417 | -1.38% | 1,398 | 0.00% | 1,398 |
| *68.* Light Industrial | 756 | 2.91% | 778 | 2.12% | 794 | -7.84% | 732 | 0.00% | 732 |
| *69.* Total Tonnage | 13,499 | -3.46% | 13,032 | 2.47% | 13,354 | -3.11% | 12,939 | 0.00% | 12,939 |
| **Recyclable Tonnage** | | | | | | | | | |
| *70.* Residential | 3,071 | -1.50% | 3,025 | 4.42% | 3,159 | 12.78% | 3,562 | 0.00% | 3,562 |
| *71.* Commercial | | #DIV/0! | | #DIV/0! | | #DIV/0! | | #DIV/0! | |
| *72.* Light Industrial | | #DIV/0! | | #DIV/0! | | #DIV/0! | | #DIV/0! | |
| *73.* Total Tonnage | 3,071 | -1.50% | 3,025 | 4.42% | 3,159 | 12.78% | 3,562 | 0.00% | 3,562 |
| **County Services** | | | | | | | | | |
| *74.* County Bins | 17 | 0.00% | 17 | 0.00% | 17 | 0.00% | 17 | 0.00% | 17 |
| *75.* County Drop Boxes | 1 | 0.00% | 1 | 0.00% | 1 | 0.00% | 1 | 0.00% | 1 |
| | | | | | **Section XII -- Change in Commercial Rates** | | | | |
| *76.* 3 Yard Bin -- Once per Week | $ 316.40 | 0.00% | $ 316.40 | 8.58% | $ 343.55 | 2.96% | $ 353.72 | 7.39% | $ 379.85 |
| *77.* 2 Yard Bin -- Once per Week | 239.14 | 0.00% | 239.14 | 7.88% | 257.99 | 2.96% | 265.63 | 7.39% | 285.25 |
| *78.* 20 Yard Debris Box -- per Pick Up | $ 288.00 | 5.21% | $ 303.00 | 15.18% | $ 349.00 | 10.03% | $ 384.00 | 5.00% | $ 403.20 |

Contra Costa County - Unincorporated

## Base Year Rate Change Application

*Unincorporated Area:* *All Areas*

Rate Change

*79.* Rate Change Requested 7.39%

Rate Schedule

| Rate schedule | Current Rate (w/o IRRF) | New Rate, Before Adjustment | Adjustment (a) | New Rate |
|---|---|---|---|---|
| 35 Gallon Container | $ 23.04 | 24.74 | 0.01 | 24.75 |
| 65 Gallon Container | 44.59 | 47.88 | 0.02 | 47.90 |
| 95 Gallon Container | 66.26 | 71.15 | - | 71.15 |
| 20 Gallon Mini-Can | 20.95 | 22.50 | - | 22.50 |

*80.* Multiunit Residential

Rate increase of 7.39% will be applied to all rates in each structure with each rate rounded up or down to the nearest $0.05.

Certificate

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by Contra Costa County.

Name: Winnie Lau    Title: Division Controller

Signature:    Date: 6/30/2015

armanino

INDEPENDENT AUDITOR'S REPORT

To the Stockholder
Richmond Sanitary Service, Inc.
Richmond, California

We have audited the accompanying financial statements of Richmond Sanitary Service, Inc. (the "Company"), a wholly owned subsidiary of Republic Services Inc., which comprise the balance sheet as of December 31, 2014, and the related statements of comprehensive income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

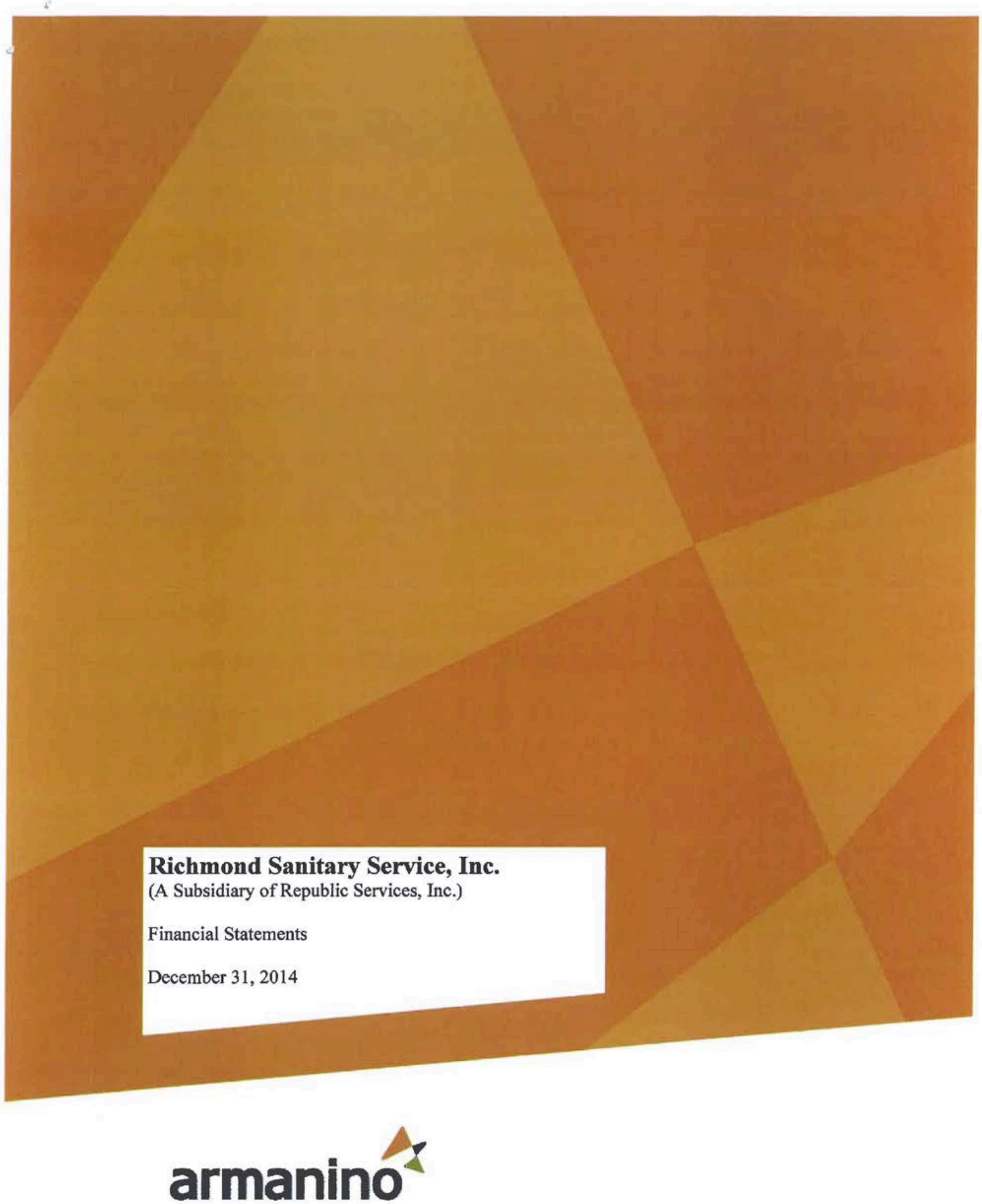
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Richmond Sanitary Service, Inc.**
(A Subsidiary of Republic Services, Inc.)

Financial Statements

December 31, 2014

armanino

| Audited | |
|---|---|
| 38,755,624 | Audited Financial |
| (15,312,862) | Landfill disposal |
| (92,574) | Contributions |
| (37) | Other |
| (83,464) | Bad debt |
| 23,266,687 | |
| | |
| 23,266,686 | |
| (0) | |

**Richmond Sanitary Service, Inc.**
(A Subsidiary of Republic Services, Inc.)

Financial Statements

December 31, 2014

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armanino

INDEPENDENT AUDITOR'S REPORT

To the Stockholder
Richmond Sanitary Service, Inc.
Richmond, California

We have audited the accompanying financial statements of Richmond Sanitary Service, Inc. (the "Company"), a wholly owned subsidiary of Republic Services Inc., which comprise the balance sheet as of December 31, 2014, and the related statements of comprehensive income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Sanitary Service, Inc. as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Armanino LLP

Armanino LLP
San Ramon, California

June 30, 2015

RICHMOND SANITARY SERVICE, INC.
Balance Sheet
December 31, 2014

## ASSETS

| | |
|---|---|
| Current assets | |
| Cash | $ 11,790 |
| Accounts receivable, less allowance for doubtful accounts of $130,000 | 5,053,797 |
| Prepaid expenses | 119,888 |
| Inventory | 181,255 |
| Total current assets | 5,366,730 |
| Intercompany account - related party, net | 159,867,979 |
| Property and equipment, net | 231,375 |
| Total assets | $ 165,466,084 |

## LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|---|---|
| Current liabilities | |
| Accounts payable | $ 168,355 |
| Accrued expenses | 1,569,914 |
| Rate revenue overbilled | 90,069 |
| Deferred revenue | 1,596,360 |
| Accumulated post-retirement benefit obligation, current | 39,988 |
| Total current liabilities | 3,464,686 |
| Accumulated post-retirement benefit obligation, noncurrent | 899,181 |
| Stockholder's equity | |
| Common stock, no par value; 100,000 authorized shares; 9,000 shares issued and outstanding | 1,515,384 |
| Additional paid in capital | 106,413,780 |
| Accumulated other comprehensive loss | (38,275) |
| Retained earnings | 53,211,328 |
| Total stockholder's equity | 161,102,217 |
| Total liabilities and stockholder's equity | $ 165,466,084 |

The accompanying notes are an integral part of these financial statements.

RICHMOND SANITARY SERVICE, INC.
Statement of Comprehensive Income
For the Year Ended December 31, 2014

| | |
|---|---|
| Operating revenue | $ 45,932,662 |
| Expenses | |
| Operating expenses | 33,746,421 |
| General and administrative | 4,958,058 |
| Depreciation and amortization | 51,145 |
| Total expenses | 38,755,624 |
| Other income | |
| Intercompany interest income | 906,554 |
| Other income | 329,759 |
| Total other income | 1,236,313 |
| Income before taxes | 8,413,351 |
| Income tax expense | 3,428,441 |
| Net income | 4,984,910 |
| Other comprehensive income (loss) | |
| Minimum pension liability adjustment | (30,357) |
| Comprehensive income | $ 4,954,553 |

The accompanying notes are an integral part of these financial statements.

RICHMOND SANITARY SERVICE, INC.
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2014

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional Paid In Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
| Balance, December 31, 2013 | 9,000 | $ 1,515,384 | $ 106,413,780 | $ (7,918) | $ 48,226,418 | $ 156,147,664 |
| Minimum pension liability adjustment | - | - | - | (30,357) | - | (30,357) |
| Net income | - | - | - | - | 4,984,910 | 4,984,910 |
| Balance, December 31, 2014 | 9,000 | $ 1,515,384 | $ 106,413,780 | $ (38,275) | $ 53,211,328 | $ 161,102,217 |

The accompanying notes are an integral part of these financial statements.

RICHMOND SANITARY SERVICE, INC.
Statement of Cash Flows
For the Year Ended December 31, 2014

| | |
|---|---|
| Cash flows from operating activities | |
| Net income | $ 4,984,910 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Depreciation | 51,145 |
| Changes in operating assets and liabilities | |
| Accounts receivable | 191,775 |
| Prepaid expenses | (52,500) |
| Inventory | 6,505 |
| Accounts payable | 22,034 |
| Accrued expenses | 353,448 |
| Rate revenue overbilled | (147,589) |
| Accumulated post-retirement benefit obligation | 37,331 |
| Deferred revenue | (3,065) |
| Net cash provided by operating activities | 5,443,994 |
| Cash flows from investing activities | |
| Purchase of property and equipment | (9,162) |
| Cash flows from financing activities | |
| Net financing activities with Repulic and affiliates | (5,430,891) |
| Net change in cash | 3,941 |
| Cash, beginning of period | 7,849 |
| Cash, end of period | $ 11,790 |
| Supplemental disclosure of cash flow information | |
| Cash paid for interest | $ - |
| Cash paid for taxes | $ - |

The accompanying notes are an integral part of these financial statements.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 1. Business and Summary of Significant Accounting Policies

### Business

Richmond Sanitary Service, Inc. (the "Company") operates solid waste collection and recycling services for residential, industrial and commercial customers within Contra Costa County under contracts with the cities of Richmond, Hercules, Pinole, San Pablo, plus parts of unincorporated Costa Contra County.

The Company was acquired by Republic Services, Inc. ("Republic") in 2001 and operates as a wholly-owned subsidiary. As a wholly-owned subsidiary, the Company is allocated certain corporate expenses and receives certain corporate services from its parent company and other affiliates. The Company's financial position and results of operations might be different if it were operated as a stand-alone entity. The Company is financially dependent on Republic.

### Cash and cash equivalents

Cash and cash equivalents include liquid investments with an original maturity at the date of acquisition of three months or less.

### Revenue and receivables

Revenue includes billing to customers for the collection and disposal of solid waste from a diversified base of customers including residential, commercial and industrial customers in the cities of Richmond, Hercules, Pinole, San Pablo and parts of unincorporated areas of Contra Costa County. These revenues give rise to customer receivables. Revenues are recognized as services are performed. Deferred revenue arises from advance residential billing for up to three months at a time.

A significant amount of the Company's revenue is subject to rate regulation by local jurisdictions under franchise agreements and permits.

### Allowance for doubtful accounts

Company management has established an allowance for doubtful accounts on its trade receivables based on historical collection experience, the age of the receivables and overall economic conditions. Accounts are monitored by management on an ongoing basis and are written off by the Company only when it has been determined that all available collection avenues have been exhausted. The Company has the ability to lien certain customer's property taxes for any receivables deemed uncollectible.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

1. Business and Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of parts, fuel, and tires. The parts and supplies inventory is stated at the lower of cost or market on the first in-first out ("FIFO") method. Management actively monitors the composition of inventory and believes no reserve for obsolete inventory is necessary.

Property and equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements to facilities are capitalized, while maintenance and repairs are charged to expense as incurred. When property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of income.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets. Depreciation expense totaled $51,145 for the year ended December 31, 2014. The estimated useful lives used by the Company are seven to thirty years for buildings, five to twelve years for vehicles, and three to fifteen years for equipment. Improvements are depreciated over the shorter of the life of the improvement or the life of the site.

Management reviews long-lived tangible assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the fair value of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value. When property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Because of the inherent uncertainties in estimating the allowance for doubtful accounts, post retirement benefit obligation, and contingencies, among others. It is at least reasonably possible that the Company's estimates will change in the near term.

Regulatory accounting

The FASB Accounting Standards Codification, *Regulated Operations,* requires that the effects of certain regulations be reflected in the Company's financial statements by accelerating or deferring the recognition of certain revenues and expenses to match the treatment of those revenues and expenses in the rate-making process.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

1. Business and Summary of Significant Accounting Policies (continued)

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Company's own data.

The carrying value of the Company's financial instruments, which include cash, accounts receivable and accounts payable, approximate fair value due to the short-term maturities of these investments.

Subsequent events

The Company has evaluated subsequent events through June 30, 2015, the date the financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of the Company's financial statements.

2. Property and Equipment

Property and equipment consist of the following at December 31, 2014:

| | |
|---|---|
| Building and leasehold improvements | $ 596,245 |
| Office equipment | 281,249 |
| Machinery and equipment | 127,457 |
| Total property and equipment | 1,004,951 |
| Less accumulated depreciation | (773,576) |
| Property and equipment, net | $ 231,375 |

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 3. Related Party Transactions

The Company has entered into a number of related party transactions with affiliates under common control. The following schedule summarizes the charges and income for the year ended December 31, 2014:

| | |
|---|---|
| Integrated Resource Recovery Facility (IRRF) fees | $14,168,469 |
| Landfill disposal fees | $ 1,144,393 |
| Property rental fees | $ 236,738 |
| Garage facility rental fees | $ 408,840 |
| Truck and equipment rental fees | $ 3,749,710 |
| Administrative and overhead fees | $ 864,183 |
| Insurance costs | $ 1,196,923 |
| Interest income | $ 906,554 |

The post collection charges fees to the Company as established by the West Contra Costa County Integrated Waste Management Authority. The post collection fees are in turn charged to the Company's customers as a component of their total collection fees.

The Company rents office space from its former stockholders under a noncancelable operating lease that expires in March 2018 (see Note 7). The rent expense incurred was $236,738 in 2014.

Additionally, the Company rents various vehicles and equipment under month-to-month operating leases from affiliated parties. Rental expense, which is included above in truck and equipment rental and garage facility rental, was $4,158,550 for the year ended December 31, 2014.

The intercompany account represents various intercompany charges and credits involving cash transfers and other transactions between the Company, Republic, and other affiliates. The Company is charged or earns 5% interest per annum on the intercompany balance. Additionally, the Company is allocated certain administrative and overhead costs from its parent and affiliated entities. Administrative and overhead costs allocated to the Company totaled $864,183 for the year ended December 31, 2014. Insurance costs paid by Republic amounted to $1,196,923 for the year ended December 31, 2014.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

4. Rate Revenue Overbilled

In March of 1995, a joint powers agreement (the "Agreement") was executed by the cities of Richmond, Hercules, El Cerrito, San Pablo and Pinole. The Agreement, which created the West Contra Costa Integrated Waste Management Authority (the "Authority") was executed in order to establish the IRRF to meet recycling diversion goals and to facilitate disposal of solid waste material. Under the provisions of the Agreement, the Authority sets designated rates at the IRRF for each of its members, which are passed through to the ratepayers within the member jurisdiction. The designated rates are computed as a unit charge per ton of disposed material and are passed through to the member jurisdiction ratepayers as a unit charge per can. Under the provisions of the Agreement, the Authority establishes the basis for the conversion of the designated rate to the collection rate charged to the ratepayer. The Agreement contains a balancing account mechanism from rate setting period to rate setting period to account for overages and underages attributable to differences between the actual amount paid by the collector at the IRRF pursuant to the collection agreement, and the revenues generated (based on billings to ratepayers) from that component of the collection rate set by the Authority. These amounts are reflected as rate revenue overbilled in the accompanying financial statements.

Effective December 31, 2013, the Agreement was terminated. The Company and several of its affiliates, including West County Resource Recovery, Inc. ("WCRR"), West Contra Costa Sanitary Landfill, Inc. ("WCCSL"), Golden Bear Transfer Service, Inc. ("Golden Bear") and Keller Canyon Landfill Company, Inc. ("Keller Canyon"), entered into a Post Collection Recycling and Disposal Services Agreement (the "Post Collection Agreement") with the Authority effective January 1, 2014. The Company continues to operate the IRRF under the terms of the Post Collection Agreement. The Post Collection Agreement expires June 30, 2025, except for the County of Contra Costa, where the term expires October 13, 2023 but they may extend through the full term of the Agreement by providing a written notice no less than thirty days in advance. Under the provisions of the Post Collection Agreement, the Authority sets designated rates for each of its members, which are passed through to the ratepayers within the member jurisdiction. The designated rates are computed as a unit charge per ton of disposed material and are passed through to the member jurisdiction ratepayers as a unit charge per can. Under the provisions of the Agreement, the Authority established an initial compensation amount covering material specific costs, household hazardous waste costs, authority costs, a recycling rebate and governmental fees. The rate will increase annually based on a variety of factors as described in the Post Collection Agreement.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 5. Pension Plans

### Defined contribution plan

The Company's non-union employees participate in a defined contribution 401(k) plan (the "Plan") sponsored by the Company's parent, Republic. Under the terms of the Plan, participants can elect to contribute a portion of their compensation based on provisions contained in the Plan. The Company provides for an employer matching contribution equal to 100% of the first 3% of eligible compensation and 50% of the next 2% of eligible compensation contributed by each employee, which is funded in cash. All contributions vest immediately. Company contributions to the Plan for the year ended December 31, 2014 totaled $90,093.

### Multiemployer defined contribution plan

The Company is also a participant in a multiemployer defined contribution 401(k) plan (the "Machinists Plan") under collective bargaining agreements covering union machinist employees. The plan generally provides retirement benefits to eligible employees at a rate of $150 per month for the period January 1, 2014 through June 30, 2014 and $175 per month for the period July 1, 2014 through December 31, 2014. Company contributions to the Machinists Plan for the year ended December 31, 2014 totaled $18,050.

### Multiemployer pension plan

The Company is also a participant in three multiemployer pension plans under collective bargaining agreements covering union-represented employees. These plans generally provide retirement benefits to participants based on their service.

The Company does not administer these multiemployer plans. In general, these plans are managed by a board of trustees with the unions appointing certain trustees and other contributing employers of the plan appointing certain members. The Company is not represented on the board of trustees.

Based on the information available to us, we believe that one of the multiemployer plans to which we contribute is "critical" as the term is defined in the Pension Protection Act enacted in 2006 (the "PPA"). The PPA requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. Until the plan trustees develop the funding improvement plans as required by the PPA, the Company cannot determine the amount of assessments the Company may be subject to, if any.

Under current laws governing multiemployer benefit plans, a plan's termination, the Company's voluntary withdrawal, or the mass withdrawal of all contributing employers from any under-funded multiemployer pension plan would require the Company to make payments to the plan for the Company's proportionate share of the multiemployer's unfunded vested liabilities. It is possible that there may be a mass withdrawal of employers contributing to the under-funded plan or the plan may terminate in the near future, which may have a material impact on the Company's financial condition, results of operations, and cash flows.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 5. Pension Plans (continued)

### Multiemployer pension plan (continued)

The Company's participation in multiemployer pension plans for the year ended December 31, 2014 is outlined in the table below. The most recent PPA zone status available in 2014 is for the plans year ended December 31, 2013. The status is based on information that the Company received from the plans and is certified by the plans' actuary. Among other factors, plans in the "critical" red zone are generally less than 65% funds and plans in the "safe" green zone are at least 80% funded. The last column lists the expiration date of the collective-bargaining agreements ("CBA") to which the plans are subject.

| | EIN | Pension Protection Act Zone Status | Funding Improvement or Rehabilitation Plan Status Pending Implemented | Contributions to Plan | Surcharge Imposed | Expiration of CBA |
|---|---|---|---|---|---|---|
| Western Conference of Teamsters Pension Trust Fund, | 91-6145047 | Safe | No | $651,889 | No | 2/28/2018 |
| Western States Office & Professional Employee's Pension Fund | 94-6076144 | Critical | Implemented | 78,749 | Yes | 1/31/2015 |
| Automotive Industries Pension Plan | 94-1133245 | Critical | Implemented | 72,499 | Yes | 6/30/2019 |
| Total | | | | $803,137 | | |

## 6. Post Retirement Health Care Plan

The Company provides post retirement health care benefits to employees who meet certain eligibility requirements under a post retirement benefit plan. Under the provisions of the arrangement, the Company pays medical premiums for retired, eligible employees into a trust. Estimated age-related costs are based on population demographics and current premium rates trended into the future. The discount rate used to discount projected benefits at December 31, 2014 is 4.5%.

The following provide further information about the plan at December 31, 2014:

| | |
|---|---|
| Change in benefit obligation | |
| Beginning of year projected benefit obligations | $871,481 |
| Service cost | 29,318 |
| Interest cost | 37,552 |
| Actuarial loss | 30,357 |
| Benefits paid | (29,539) |
| End of year projected benefit obligation | $939,169 |

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

6. Post Retirement Health Care Plan (continued)

| | |
|---|---|
| Change in plan assets | |
| Beginning of year fair value of plan assets | $ - |
| Actuarial return on plan assets | - |
| Employer contributions | 29,539 |
| Benefits paid | (29,539) |
| End of year fair value of plan assets | $ - |
| Funded status reconciliation | |
| Beginning of year funded status | $(871,481) |
| Net periodic benefit cost | (43,131) |
| Deduct amortization | (23,739) |
| Benefits paid | 29,539 |
| Loss | (30,357) |
| End of year funded status | $(939,169) |
| Amounts in statement of financial position | |
| Non-current assets | $ - |
| Current liabilities | (39,988) |
| Non-current liabilities | (899,181) |
| Net amount recognized | $(939,169) |
| Amount recognized in accumulated other comprehensive loss | |
| Prior service cost | $ - |
| Net loss | 30,357 |
| Accumulated other comprehensive loss | $30,357 |

Components of net periodic benefit cost

The net periodic benefit cost for 2014 includes the following components:

| | |
|---|---|
| Service cost | $29,318 |
| Interest cost | 37,552 |
| Expected return on plan assets | - |
| Amortization of prior service cost | - |
| Recognized net actuarial (gain) or loss | (23,739) |
| Net periodic benefit cost | $43,131 |

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 6. Post Retirement Health Care Plan (continued)

Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2014:

| | |
|---|---|
| Discount rate | 4.50% |
| Expected return on plan assets | 0.00% |
| Rate of compensation increase | N/A |
| Corridor | 10.00% |

Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending December 31:

| | |
|---|---|
| 2015 | $ 40,878 |
| 2016 | $ 43,422 |
| 2017 | $ 46,945 |
| 2018 | $ 52,758 |
| 2019 | $ 58,492 |
| Thereafter | $323,469 |

## 7. Commitments and Contingencies

### General legal proceedings

The Company and affiliates are subject to various laws and regulations relating to the protection of the environment. As is the case with other companies in similar industries, the Company faces exposure from potential claims involving environmental matters. The Company has an insurance policy to cover a portion of this exposure. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation or other compliance efforts, in the opinion of management, compliance with present environmental protection laws, after consideration of potential insurance recovery, would not have a material adverse effect on the financial condition of the Company.

### Lease commitments

The Company rents office space from its former stockholders under a noncancelable operating lease that expires in March 2018.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

7. Commitments and Contingencies (continued)

Lease commitments (continued)

Future minimum obligations to pay under the lease agreement at December 31, 2014 are as follows:

| | |
|---|---|
| 2015 | $229,489 |
| 2016 | 235,734 |
| 2017 | 241,978 |
| 2018 | 60,885 |
| | $768,086 |

Rent expense charged to operations was $236,738 which is included in general and administrative expenses for the year ended December 31, 2014.

Collective bargaining agreement

The Company's labor consists primarily of union employees, thus the Company is subject to collective bargaining agreements.

8. Concentrations of Credit Risk

Concentrations

The Company operates exclusively in the solid waste industry in Contra Costa County, California and, therefore, its revenues and receivables are subject to geographical concentrations.

Credit risk

The Company provides credit in the normal course of business to its customers. The Company performs ongoing credit evaluations of its customers, but does not require collateral to support customer receivables. The Company does not require collateral, but is allowed to file a lien against a property to recover past due bills. The Company establishes an allowance for doubtful accounts based on various factors including the credit risk of specific customers, age of receivables outstanding, historical trends and other information. Reserves for specific accounts receivable are provided when a receivable is believed to be uncollectible or generally when a receivable is in excess of 90 days old.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2014

## 9. Income Taxes

The Company is a wholly-owned subsidiary of a C corporation and accordingly, the Company is subject to income tax at the federal and state statutory rates of 35% and 8.84%, respectively. Operating results of the Company are included in the consolidated federal income tax return of Republic. Republic files a combined state income tax return for California. The Company has recorded an estimate of its allocation of consolidated income taxes representing its portion of the consolidated income tax expense at a rate of 40.75% on the Company's pre-tax income of $8,413,351 for 2014. Deferred tax assets and liabilities (including any valuation allowance) are recognized and maintained on a corporate-wide basis by Republic.

Republic evaluated its tax positions and has concluded that there are no significant uncertain tax positions related to the Company for which a reserve by the Company would be necessary as of December 31, 2014.

Estimated net amount of allocated income tax expense recorded by the Company totaled $3,428,441 for the year ended December 31, 2014. The Company is part of a group that files consolidated returns; accordingly, any income taxes due or refundable and all deferred tax amounts are included in the Company's intercompany accounts. The effective income tax rate is 40.75% in 2014. This rate differs from the statutory federal rate of 35% primarily because of state income taxes.

## Attachment B: Adjusted Rate Model

**Exhibit B-1**, on the next page, of this appendix provides the adjusted base year rate model based on Crowe adjustments. The model reflects the following general adjustments:

**Revenues**

- No adjustment to revenues

**Allowable Costs/Profits**

- Minor adjustment to direct labor
- No adjustment to general and administrative costs
- No adjustment to trucking and equipment costs (w/profit)
- No adjustment to depreciation and other operating costs
- Minor decrease to services provided to the County
- Minor reduction to operating profit

**Pass Through Costs**

- No adjustment to trucking and equipment costs (pass through)
- Elimination of contribution to rate stabilization fund
- Minor reduction in franchise fees.

**Exhibit B-1**
**Schedule of Rate Review Findings**
**(Projection Year 2016)**

| Line in Application | Category | Revenue or Cost | Profit | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| 14 | Residential Revenues | $0 | $0 | $0 |
| 17 | Commercial Revenues | 0 | 0 | 0 |
| Subtotal | | $0 | $0 | $0 |
| **Allowable Costs** | | | | |
| 1 | Direct Labor | ($26,265) | ($2,918) | ($29,183) |
| 2 | Tipping Fees (Profit Allowed) | 0 | 0 | 0 |
| 3 | Corporate and Local General and Administrative | 0 | 0 | 0 |
| 4 | Trucking and Equipment | 0 | 0 | 0 |
| 5 | Depreciation and Other Operating | 0 | 0 | 0 |
| 6 | Services Provided to County | (2,887) | (321) | (3,208) |
| Subtotal | | ($29,152) | ($3,239) | ($32,391) |
| **Allowable Operating Profits** | | | | |
| 9 | Allowable Profits | $0 | $0 | $0 |
| Subtotal | | $0 | $0 | $0 |
| **Pass Through Costs without Franchise Fees** | | | | |
| 10 | Administrative Fees | $0 | $0 | $0 |
| 11 | Trucking and Equipment (Pass Through) | 0 | 0 | 0 |
| Subtotal | | $0 | $0 | $0 |
| **Franchise Fees** | | | | |
| 23 | Residential/Commercial/Light Industrial Franchise Fees | ($2,438) | $0 | ($2,438) |
| **Contribution to Rate Stabilization Fund** | | | | |
| | Contribution to Rate Stabilization Fund | ($157,711) | $0 | ($157,711) |
| Subtotal | | ($157,711) | $0 | ($157,711) |
| | Total Adjustments | ($189,301) | ($3,239) | ($192,540) |

## Attachment C: Comparative Rate Survey

**Tables C-1** through **C-3** below include results of a survey of comparative residential, commercial, and industrial rates. We provide comparisons between West County rates and the following ten (10) neighboring jurisdictions:

- Albany
- Crockett
- El Cerrito
- Hercules
- Kensington
- Oakland
- Pinole
- Richmond
- Rodeo
- San Pablo.

**Table C-1**
**Comparison of 2015 West Unincorporated Contra Costa County**
**Residential Rates with 10 Neighboring Jurisdictions (Per Customer, Per Month)**

| | Residential Rates | | | |
|---|---|---|---|---|
| **Jurisdiction** | **20 Gallon** | **35 Gallon** | **65 Gallon** | **95 Gallon** |
| 1. Albany | $36.72 | $41.13 | $71.08 | $101.02 |
| 2. Crockett | 22.44 | 26.61 | 46.66 | 56.69 |
| 3. El Cerrito | 31.50 | 42.08 | 84.43 | - |
| 4. Hercules | 28.67 | 33.61 | 59.25 | 85.64 |
| 5. Kensington | 37.60 | 41.71 | - | - |
| 6. Oakland | 32.10 | 36.82 | 67.19 | 102.43 |
| 7. Pinole | 27.17 | 32.12 | 57.14 | 82.91 |
| 8. Richmond | 26.44 | 32.11 | 61.28 | 91.26 |
| 9. Rodeo | 23.91 | 25.65 | 31.29 | 43.02 |
| 10. San Pablo | 23.00 | 27.94 | 54.22 | 81.26 |
| Average | $28.96 | $33.98 | $59.17 | $80.53 |
| 2015 West County rates | $25.50 | $31.01 | $59.42 | $88.50 |
| Difference | -11.93% | -8.74% | 0.42% | 9.90% |

**Table C-2**
**Comparison of 2015 West Unincorporated Contra Costa County**
**Commercial Rates with 10 Neighboring Jurisdictions (Per Customer, Per Month)**

| | Commercial Rates | | | | | |
|---|---|---|---|---|---|---|
| | 1 pickup per week | | | 2 pickups per week | | |
| Jurisdiction | 1 cu. yd. | 2 cu. yd. | 3 cu. yd. | 1 cu. yd. | 2 cu. yd. | 3 cu. yd. |
| 1. Albany | $163.87 | $327.74 | $491.61 | $327.74 | $655.48 | $983.22 |
| 2. Crockett | 121.15 | 162.74 | - | 193.30 | 245.88 | - |
| 3. El Cerrito | 280.37 | 545.06 | - | 560.74 | 1,090.12 | - |
| 4. Hercules | 242.45 | 401.44 | 550.71 | 424.68 | 733.77 | 1,024.25 |
| 5. Kensington | 192.65 | 384.50 | - | 384.50 | 768.00 | - |
| 6. Oakland | 194.10 | 322.37 | 462.27 | 388.20 | 644.74 | 924.54 |
| 7. Pinole | 240.58 | 402.54 | 555.19 | 424.38 | 739.56 | 1,037.12 |
| 8. Richmond | 214.35 | 354.12 | 485.99 | 378.14 | 649.89 | 906.93 |
| 9. Rodeo | 107.60 | 166.30 | 224.99 | 215.19 | 332.58 | 449.96 |
| 10. San Pablo | 213.32 | 255.38 | 489.18 | 375.31 | 651.67 | 912.19 |
| Average | $197.04 | $332.22 | $465.71 | $367.22 | $651.17 | $891.17 |
| 2015 West County rates | $204.28 | $334.71 | $457.34 | $358.84 | $612.02 | $850.36 |
| Difference | 3.67% | 0.75% | -1.80% | -2.28% | -6.01% | -4.58% |

**Table C-3**
**Comparison of 2015 West Unincorporated Contra Costa County**
**Industrial Rates with 10 Neighboring Jurisdictions (Per Pull, 2 Tons of Material)**

| | Industrial Rates | | |
|---|---|---|---|
| Jurisdiction | 20 yard | 30 yard | 40 yard |
| 1. Albany | $689.40 | $1,034.10 | $1,378.80 |
| 2. Crockett | 641.08 | 675.08 | 806.08 |
| 3. El Cerrito | 685.50 | 785.50 | |
| 4. Hercules | 641.08 | 675.08 | 806.08 |
| 5. Kensington | 610.00 | - | - |
| 6. Oakland | 1,019.75 | 1,345.16 | 1,658.94 |
| 7. Pinole | 641.08 | 675.08 | 806.08 |
| 8. Richmond | 641.08 | 675.08 | 806.08 |
| 9. Rodeo | 641.08 | 675.08 | 806.08 |
| 10. San Pablo | 641.08 | 675.08 | 806.08 |
| Average | $685.11 | $801.69 | $984.28 |
| 2015 West County rates | 641.08 | 675.08 | 806.08 |
| Difference | -6.43% | -15.79% | -18.10% |