

June 16, 2016

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

Subject: Final Report - Review of 2016 Garaventa Enterprises Rate Application

Dear Ms. Dingman:

This letter report represents results of Crowe Horwath LLP's (Crowe) review of the 2016 rate application (Application) submitted by Garaventa Enterprises (Garaventa) to Contra Costa County (County). Garaventa provides refuse and recycling collection services in unincorporated Central and East 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 Rates
- 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 five (5) attachments to this report, as follows:

- A. 2016 Rate Application
- B. 2013 and 2014 Audited Financial Statements
- C. Exhibit III-1 from Rate Manual
- D. Adjusted Base Year Rate Model
- E. Comparative Rate Survey.

A. Summary

In its Application, Garaventa requested a rate increase of 5.67 percent for 2016. In its Application, Garaventa did not correctly apply the franchise fee formula and as a result, the request was actually for a 6.16 percent increase for 2016. **Table 1** below shows our recommended rate increase which would provide Garaventa the target profit level allowed by the Rate Manual. Based on our review of Garaventa's rate application, and applying the proscribed methodology contained in the Rate Manual, we conclude that a rate increase of 5.93 percent would be required for 2016. For residential customers, this rate increase corresponds to an increase of between \$1.64 and \$2.82 per customer, per month, depending on the residential service level.

Table 1
Unincorporated Contra Costa County
Recommended Residential Collection Rates, Per Customer, per Month
(2016)

Recommended Rate Increase (+5.93%)			
Service Level	2015 Collection Rate	Rate Increase	2016 Collection Rate
20 Gallon	\$27.61	\$1.64	\$29.25
32 Gallon	\$34.46	\$2.04	\$36.50
64 Gallon	\$39.97	\$2.37	\$42.34
96 Gallon	\$47.55	\$2.82	\$50.37

B. Project Background

Garaventa operates under an exclusive franchise with the County to collect, and remove for disposal and recycling, residential, commercial, and light industrial solid waste, recyclable materials, and green waste (organics). On May 9, 1995, the County signed a twenty (20) year franchise agreement with Garaventa. On August 9, 2011, the County approved the Third Amendment to the Franchise Agreement which extended the franchise term an additional ten (10) years through May 8, 2025 or until termination of the 3-Cart System, whichever is shortest.

The Garaventa franchise includes the following six (6) service areas in unincorporated Contra Costa County (**Exhibit 1** on the following page shows the location of each of these service areas):

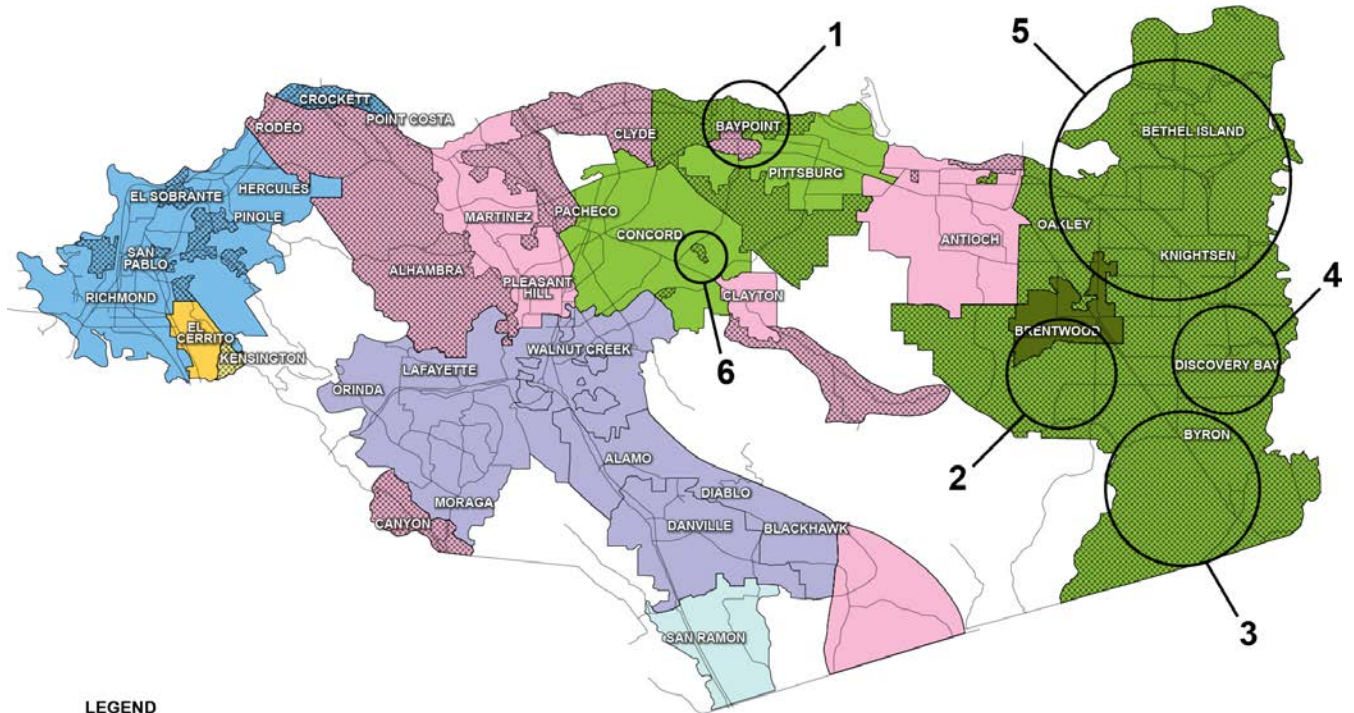
1. Bay Point
2. Brentwood
3. Byron
4. Discovery Bay
5. Bethel Island, Knightsen & Oakley, unincorporated
6. North Concord, unincorporated.

Garaventa consolidates refuse collected from unincorporated County areas at the Recycling Center and Transfer Station (RCTS) in Pittsburg, California. Garaventa then transports the refuse to Keller Canyon Landfill (located in unincorporated Contra Costa County) for disposal.

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

- Glass bottles and jars
- Metals (aluminum cans, aluminum foil, aluminum pie plates, food cans, pet food cans, steel cans, tin cans)
- Motor oil and filters (on-call)
- Paper products, including boxes/packages; cardboard; catalogs; chipboard (cereal boxes, shoe boxes, etc.); colored paper; construction paper; copy paper; coupons; egg cartons; envelopes; junk mail; loose newspaper; magazines; manila folders; newspaper inserts; office paper; paper bags; paper packaging; paper towel tubes; shredded paper; telephone books; and white paper
- Plastic products, including: CA redemption types #1 through #7); HDPE #2, detergent bottles, 5-gallon buckets; juice jugs/cartons; mile jugs/cartons; plastic bags; plastic laundry baskets; plastic water jugs; plastic plant pots; rinsed salad dressing bottles; rinsed yogurt and margarine containers; shampoo and bleach bottles; soda bottles; soft drink bottles (PET #1); and toys.

Exhibit 1
Unincorporated Contra Costa County
Map of Garaventa Enterprises Service Areas



LEGEND

- Garaventa Enterprises

- Allied Waste Services of Contra Costa County (A Republic Company) – non-CCCSWA Areas
- Allied Waste Services of Contra Costa County (A Republic Company) – Collection of refuse, rec.org, Mt. Diablo Recycling recyclables processing – CCCSWA Areas
- Bayview Refuse & Recycling
- City of Brentwood
- East Bay Sanitary Company
- Richmond Sanitary Service/Crockett Garbage Service (A Republic Company)
- Valley Waste Management
- Unfranchised/Unincorporated areas

1. Bay Point
2. Brentwood
3. Byron
4. Discovery Bay
5. Oakley and Ironhouse Sanitary District
6. North Concord

Residential customers commingle all of their recyclable materials into one 96-gallon cart (except customers located on Marsh Creek Road who place their recyclables out for collection in special company issued blue bags). Garaventa collects residential curbside recyclables bi-weekly. Garaventa takes recyclable materials to its RCTS facility where they are separated on a Materials Recovery Facility (MRF) sort line.

Garaventa also provides residential customers with bi-weekly green waste collection service. Green waste material is consolidated and hauled to the Northern Recycling Compost Facility in Zamora, California.

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 Garaventa. Fairness is demonstrated through a rigorous review of Garaventa'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 Garaventa's costs of operations and allow a reasonable profit.

The County uses the operating ratio (OR) method to project the profit level allowed to Garaventa in a base year. The actual OR level, or profit, received by Garaventa 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 eleven (11) steps, seven (7) of which are the County's responsibility. Garaventa is responsible for the other four (4) steps.

Crowe, as the Consultant, provided assistance to the "County" for six steps in the rate review process (#2, #3, #5, #6, #9, and #10). We 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
- 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 Garaventa franchise fees payments to the County
- Presented a survey of rates in other similar neighboring communities.

The County, Garaventa, and Crowe met on October 27, 2015 to discuss the Application, rate setting policy questions, and the rate review process. Crowe submitted two formal data requests to Garaventa on December 14, 2015 and February 5, 2016. Crowe received Garaventa's final responses to the data requests on May 5, 2016. Crowe also met with Garaventa management on December 14, 2015, February 5, 2016, and April 13, 2016, in each case to ask Application questions and provide Garaventa with an opportunity to provide additional context and explain responses to the questions asked regarding the Application.

E. History of Collection Rates

Rate changes, since the County adopted the Manual in 1999, increased on a compounded basis by approximately 4.5 percent per year over the sixteen years since 1999, and are shown in **Table 2**. This includes implementation of various new programs, including the green waste program and a cart-based program. During this same timeframe the SF Bay Area CPI has increased on a compounded basis by approximately 3.4 percent.

Table 2
Unincorporated Contra Costa County
Historical Garaventa Residential Refuse Collection Rate Changes
(1999 to 2015)

Year	Percent Change in Rate
1999	None
2000	+7.7 to 8.5% (new green waste program)
2001	None
2002	+7.66% (implemented in 2003)
2003	None
2004 (base)	+0.00% residential +11.79% commercial
2005	+3.89% (interim year)
2006	+2.69% (interim year)
2007	+6.44% percent (interim year)
2008	+6.71% percent (base year)
2009	None
2010	None
2011 (base)	13.88% (base year)
2012	New variable can rate structure (varied from reductions of 8% to increase of 11.5% depending on rate category)
2013	2.06% (interim year)
2014	2.38% (interim year)
2015	2.78% (interim year)

F. 2016 Base Year Rate Application

The County received Garaventa's Base Year Rate Change Application (Application) on October 27, 2015. A copy of the Application is provided in **Attachment A**, at the end of this report. Garaventa used year-to-date information (i.e., first quarter) to estimate 2015 financial results. Year 2016 results are entirely projected in the Application.

Garaventa requested a 5.67 percent rate increase effective January 1, 2016. This request corresponds to a \$2.27 per customer, per month, increase in the 64 gallon rate, the most common service level in this County franchise area.

Our review did not represent a financial audit of Garaventa. VT Williams & Associates LLP completed a 2013 and 2014 financial audit of the four (4) Garaventa companies serving unincorporated County areas, including Brentwood Disposal Service, Inc., Delta Debris Box Service, Inc., Discovery Bay Disposal, Inc., and Pittsburg Disposal & Debris Box Service, Inc., (provided in **Attachment B**). We reconciled 2014 audited results from these companies to results presented in the Application. Portions of these companies' financial results (with the exception of Discovery Bay Disposal) also included services provided by these companies to non-unincorporated County franchised areas. For example, in addition to unincorporated areas around Brentwood served under the County franchise, Brentwood Disposal also serves the City of Brentwood.

G. Review of 2016 Base Year Rate Application

This section details findings from Crowe's review of Garaventa's 2016 Application. We identified the impact of each finding in terms of a dollar value increase or a decrease in the 2016 "revenue requirement" identified in the Application. The revenue requirement is the amount of revenue that Garaventa needs to collect, through rates charged to customers, to cover costs of providing the service plus a reasonable financial return. Increasing the revenue requirement will result in an increase in rates, and decreasing the revenue requirement will result 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 Garaventa financial results, we compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from Garaventa for material changes. We examined actual results from 2014, estimated results for 2015, and projected results for 2016. Our adjusted rate model is provided in **Exhibit D-1**, of **Attachment D**.

1. Garaventa Financial and Operating Results Since the 2011 Base Year

In **Table 3**, we compare County approved rate changes with changes in residential revenues and residential accounts. Residential revenues increased 15 percent between 2011 and 2015. The increase is due to a combination of rate increases and the growth in residential accounts over this three year period.

Table 3
Unincorporated Contra Costa County
Comparison of Residential Rate Increases with Changes in Residential Revenues and Accounts (2011 to 2015)

Year	Rate Increases	Change in Residential Accounts	Change in Garaventa Residential Collection Revenues
2011 to 2015	11-17%	9%	15%

In **Table 4**, we compare County approved commercial and light industrial rate changes with changes in commercial and light industrial service revenues and tons. From the time series, we find that there was an approximately 10 percent change to rates between 2011 and 2015, while commercial and light industrial tonnage increased by 19 percent. With the increase in commercial rates and tons, total commercial revenues also increased proportionately by 26 percent over the four years.

Table 4
Unincorporated Contra Costa County
Comparison of Commercial and Light Industrial Rate Increases with Changes in
Commercial and Light Industrial Waste Revenues and Tonnage (2011 to 2015)

Year	Rate Increases	Change in Commercial and Light Industrial Tons	Change in Garaventa Commercial and Light Industrial Collection Revenues
2011 to 2015	~10%	19%	26%

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 often 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 2011 and 2016, total Garaventa unincorporated County revenues are expected to increase at a level that is less than the increase in Garaventa's costs for that timeframe, as shown in **Table 5**. Garaventa costs are projected to increase 27 percent, while Garaventa revenues are expect to increase 21 percent. During the 2011 to 2015 period, Garaventa's actual operating ratio ranged from 91 to 99 percent.¹

Table 5
Unincorporated Contra Costa County
Change in Garaventa Revenues and Costs
(2011 to 2016)

Description	Percent Change
Revenues	21%
Costs	27%

2. Method for Allocating Garaventa Costs to County Areas

Garaventa directly assigned revenue to each unincorporated County area. The Garaventa company's billing system coded revenue by the jurisdiction in which the customer lives. Typically customers are billed in advance of services provided. Garaventa recognized revenue in the month earned.

Table 6 below, shows methods used by Garaventa to allocate consolidated Garaventa costs to unincorporated County areas. Garaventa generally allocated consolidated costs to unincorporated County areas using labor hours (route hours) or the number of accounts.

¹ The County's target operating ratio (OR) during base years is 90 percent. A larger operating ratio represents a smaller than expected return. For 2015, the OR is estimated.

Table 6
Unincorporated Contra Costa County
Methodology Used by Garaventa to Allocate Consolidated Costs to the County

Cost	Allocation Method
<i>Direct Expenses</i>	
Direct labor	Labor Hours
Disposal Fees	Direct - Tons
Franchise Fees	Direct - Revenues
<i>Indirect Expenses</i>	
Corporate Overhead	Accounts
Trucking and Equipment Leases	Hybrid (Route hours and direct)
Depreciation	Direct
General and Administrative	Accounts
Interest Expense	Accounts
Other Operating Expense	Accounts
Professional Fees	Accounts
Supervisory	Accounts

Garaventa companies serving the County have transactions with several related parties. These transactions/entities are identified in **Table 7**.

Table 7
Garaventa Enterprises
Related Party Transactions

Cost Element	Related Party
Facilities/Space Rent	Candy Properties
Transfer Station	Contra Costa Waste Services (CCWS)
Recycling Processing	Mt. Diablo Recycling
Truck Leasing	SEG Trucking

3. Review of Garaventa's Revenues, Costs, and Profits

This section describes our review of each revenue, cost, and profit category. We identify various adjustments to the Application. The revenue requirement is equal to the sum of the following:

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

Garaventa's requested County revenue requirement, as submitted in the Application, was \$6,192,298. This figure is shown on line 30 of the Application in Attachment A.

We relied on the methodology provided in Exhibit III-3 of the Manual to conduct this review. A copy of this exhibit is provided as **Attachment C**.

i. Revenues

Residential Revenues

Garaventa projected an increase in residential revenues between 2015 and 2016 of 3 percent. Garaventa indicated in its Application that residential revenues increased by 3.4 percent from 2014 to 2015 and expects this trend to roughly continue into 2016. Garaventa indicated in its Application that residential accounts are expected to increase by 1.2 percent in 2016.

Using Exhibit III-3, we adjusted the residential revenue projection based on use of the following formula:

- Estimated residential revenues in the "Current Year" multiplied by one plus the average annual compound rate of change in residential customer revenues over the prior two years." We determined a rate of increase between 2015 and 2016 of 3.10%.

Net Impact:

[Decrease of \$25,205 in the 2016 revenue requirement]

Commercial and Light Industrial Revenues

Garaventa projected no change in commercial cart/bin revenues between 2015 and 2016 and a 10 percent increase in industrial (debris box revenues) between 2015 and 2016. Commercial and light industrial revenues have been relatively stable since 2012.

Using Exhibit III-3, we adjusted each of the commercial, and separately light industrial, revenue projections based on use of the following formula:

- Estimated commercial (separately light industrial) revenues in the "Current Year" multiplied by one plus the average annual compound rate of change in commercial (separately light industrial) customer revenues over the prior two years." The rate of increase for commercial revenues was 0.01 percent and the rate of increase for light industrial revenues was 1.0 percent (not including a projected 10 percent rate increase on debris box revenues implemented in late 2015).

Additionally, we slightly decreased the projected revenue to account for the elimination of the \$1 per unit fee which used to be collected from one customer for recycling services to a 167-unit multi-family complex in Bethel Island (equal to \$2,004 annually).

Net Impact:

[Decrease of \$821 in the 2016 revenue requirement]

ii. Costs

Escalation Factor

In accordance with Exhibit III-3, some cost categories are escalated using the average annual compound rate of change in the San Francisco-Oakland-San Jose area CPI (all items, all urban consumers, Series: CUURA422SAO) over the past three years. The average compound rate of change for the April to April CPI from 2012 to 2015 was 2.51 percent [(257.622/238.985) raised to the 1/3rd power minus 1].

Allowable Costs

Direct Labor

Garaventa projected labor costs to increase 2.8 percent for 2016. Using Exhibit III-3, we adjusted the direct labor projection based on use of the following set of labor-related formulas:

- Estimated direct labor wages in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor wages over the prior two years (0.2% increase)
- Estimated direct labor payroll taxes in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor payroll taxes over the prior two years (6.1% increase)
- Estimated direct labor health and welfare costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor health and welfare costs over the prior two years (4.4% increase)
- Estimated direct labor workers compensation costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor workers compensation costs over the prior two years (5.4% decrease)
- Estimated direct labor pension costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor pension costs over the prior two years (5.2% increase).

Net Impact:

[Decrease of \$14,484 in the 2016 revenue requirement]

Tipping Fees (Profit Allowed)

Tipping fees charged to County ratepayers reflect costs of operating the Recycling Center and Transfer Station (RCTS) and the costs of disposal at Keller Canyon Landfill. The rate charged to Garaventa franchised customers at this facility is \$93.00 per ton for January 1 through June 30, 2016. The rate increases to \$99.00 per ton beginning July 1, 2016.

These RCTS tipping fee rates are separately regulated by the City of Pittsburg. We obtained City Council documentation that provided support for these projected tipping fee rate increases.

Tipping fees are allowed with profit up to \$45.00 per ton. Amounts above \$45.00 per ton are treated as a pass-through expense. The Manual specifies a cap on tipping fees allowed with profit at \$45.00 per ton. Tipping fees in excess of \$45.00 per ton are treated as a pass through expense.

We determined that the tonnage for 2015 included in this calculation equaled 17,111. This tonnage was inclusive of approximately 13,521 tons of refuse and construction and demolition waste and 3,590 tons of greenwaste. This tonnage was based on annualizing six months of year to date 2015 tonnage data. There is a projected increase in refuse tonnage by approximately 1,100 tons (7 percent) from 2014.

Tipping fees projected in the Application for 2016 were \$1,653,630. Of this total, the Application specified \$783,225 of these fees as an allowable expense with profit and \$870,405 as a pass through expense.

Using Exhibit III-3, we adjusted the tipping fee projection based on use of the following formula:

- Use of verified tipping fee rate multiplied by the projected Base Year disposal tonnage. The Base Year disposal tonnage is equal to the estimated Current Year disposal tonnage (17,111) multiplied by one plus the average annual compounded rate of change in disposal tonnage over the prior two years (5.18%), resulting in projected tonnage for 2016 of 17,997 rather than the 17,405 figure in the Application.

Using a tipping fee rate of \$93.00 per ton for January 1 through June 30, 2016 and \$99.00 per ton between July 1, 2016 and December 31, 2016, the resulting total tipping fees are \$1,727,671 for 2016, including \$809,845 in tipping fees allowed with profit, and \$917,825 in pass through tipping fees. Additionally, we made a minor overall \$5 per ton tipping fee reduction for green waste to account for the difference in tipping fees (gate rates) charged as compared to general refuse.

Net Impact:

[Increase of \$26,620 in the 2016 revenue requirement (for tipping fees with profit)]

Corporate and Local General and Administrative (G&A) Costs

Using Exhibit III-3, we adjusted the G&A projection based on use of the following formulas:

- Estimated G&A accounting costs based on the average of actual G&A accounting costs in the prior two years multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (represents a very minor cost)
- Estimated G&A legal costs based on the average of actual G&A legal costs in the prior two years multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (represents a very minor cost)
- Estimated G&A medical costs based on the average of actual G&A medical costs in the prior two years multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (represents a very minor cost)
- Estimated G&A other costs equal to the "Current Year" multiplied by one plus the average annual compound rate of change in the April to April CPI (2.51% increase).

We also removed intercompany interest prior to the above calculation in accordance with the interest treatment specified in Section E-4, on page 26 of the Manual.

The Manual specifies a cap on corporate and local general and administrative costs equal to 12.2 percent of the total revenue requirement. Projected 2016 corporate and local general and administrative costs of \$744,848 are approximately 11.9 percent of the revenue requirement and within the cap guideline.

Net Impact:

[Increase in the 2016 revenue requirement of \$26,971]

Depreciation and Other Operating Costs

Using Exhibit III-3, we adjusted the depreciation and other operating cost projection based on use of the following formula:

- Estimated depreciation costs in the Current Year multiplied by one plus the average annual compound rate of change in depreciation costs over the prior two years.

Net Impact:

[Decrease in the 2016 revenue requirement of \$12,448]

Services Provided to County

The projected costs listed in the rate application, included the cost of services that would be provided to various public (non-County) customers. The Franchise Agreement does not authorize including the cost of services provided to other public agencies in rates charged all customers in the Franchise Area. Only community clean-up boxes or collection service(s) to County facilities are authorized to receive ratepayer

subsidized services at no charge to the County. County staff determined that the costs to serve these public non-County customers (e.g. Water Treatment Plant) must not be included in the Base Year rates. Therefore, we removed the cost to serve these customers (equal to the rate that would have been charged less profit).

Net Impact:

[Decrease in the 2016 revenue requirement of \$30,885]

Pass Through Costs

County Administrative Fee

In the Application, Garaventa included Hazardous Waste Fees in this line item. We moved Hazardous Waste Fees to a separate line item (shown as a new Line 11 in Exhibit D-1). The remaining amount of \$2,057 for 2016 represents AB 939 fees charged by the County on each ton of waste collected in the County. We then used Exhibit III-3 to adjust the County Administrative Fee cost projection based on use of the following formula:

- Average of actual County Administrative Fees in the prior two years (\$2,026) multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (2.51 percent).

Net Impact:

[Increase in the 2016 revenue requirement of \$20]

Household Hazardous Waste Fees

We obtained supporting documentation for more current actual year to date Hazardous Waste Fees and determined that a more accurate figure for 2015 was \$45,585 rather than the \$43,666 figure in the Application. We then used Exhibit III-3 to adjust the Household Hazardous Waste Fees cost projection based on use of the following formula:

- Average of actual Household Hazardous Waste Fees in the prior two years (\$43,553) multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (2.51 percent).

Net Impact:

[Increase in the 2016 revenue requirement of \$979]

Trucking and Equipment Costs

We initially verified the trucking and equipment costs for 2015 by reviewing lease expenses charged by SEG Trucking to County customers. Using Exhibit III-3, we then adjusted the Trucking and Equipment cost projection based on use of the following formula:

- Estimated trucking and equipment costs in the Current Year multiplied by one plus the average annual compound rate of change in trucking and equipment costs over the prior two years (a 2.3 percent escalation rate).

Net Impact:

[Decrease in the 2016 revenue requirement of \$12,497]

Tipping Fees (Pass-Through)

The discussion related to tipping fees is provided above under Tipping Fees (with Profit).

Net Impact:

[Increase in the 2016 revenue requirement of \$29,340 (for tipping fees, pass through)]

Franchise Fees

The County franchise agreement with Garaventa specifies that the County can establish an amount equal to “a percentage of Contractor’s [Garaventa’s] Gross Annual Revenues” with the “amount, time and frequency of payment of such fees established by the County.” The franchise fee paid by Garaventa to the County is currently equal to seven (7) percent of gross revenues. Gross revenues include all residential, commercial, and light industrial refuse and recycling revenue. Franchise fees are a pass through expense which do not earn profit.

A summary of historical franchise fee payments made by Garaventa to the County is provided in **Table 8**. Amounts included in Garaventa’s Application, Garaventa’s detailed records, and in County records are very similar and the differences are considered immaterial and likely due to accounting versus payment timing differences.

Garaventa included a franchise fee of seven (7) percent for the 2016 projection, however the calculation was incorrect in the original Application resulting in an increase of \$37,598 in franchise fees. We also made adjustments to franchise fees based on other findings noted above that modified the revenue requirement.

Net Impact:

[Increase in the 2016 revenue requirement in original Application of \$37,598 plus increase in the 2016 revenue requirement of \$989 for other findings in this report]

Table 8
Garaventa Enterprises
Comparison of Franchise Fees Paid to County
(2014 and 2015)

Year	Application (Est.)	Garaventa Payment Records	County Reports
2013	\$378,038		\$383,721
2014	\$385,681	\$393,467	\$393,920
2015	\$397,863	\$417,989	\$417,989

iii. Profits

Total allowable costs for the projection year 2016 are \$2,674,566. The Manual 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.

Table 9 shows the operating ratio calculation for 2016. Without any changes to rates, the company would receive an operating ratio of 102 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.²

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 10**, following Table 9. We calculate allowable profit of \$297,174, at the allowable 90 percent operating ratio.

² Source: Rate Setting Manual, page 18.

Net Impact:

[Decrease to the 2016 revenue requirement of \$470]

Table 9
Garaventa Enterprises
Calculation of Actual Operating Ratio
(Projection Year 2016)

Description	Amount
Total Revenues (line 23)	\$ 5,888,631
Less Total Allowable Costs (line 7)	(2,674,566)
Less Franchise Fees (line 25)	(436,470)
Less Pass-Through Costs (line 13)	(2,827,080)
Equals Profit (Loss) (with adjustments and no rebasing)	(\$49,486)
Operating Ratio (with adjustments and no rebasing)	\$2,674,566 / (\$2,674,566 - \$49,486) = <u>102%</u>

Table 10
Allowable Profit Calculation
(Projection Year 2016)

Description	Amount
(Total Allowable Costs / Operating Ratio) – Total Allowable Costs	(\$2,674,566 / 90 percent) - \$2,674,566
= Allowable Operating Profit	= <u>\$297,174</u>

With the company's profit level rebased to 90 percent, we recommend a rate increase of 5.93 percent. This is shown in the Adjusted Base Year 2016 column of **Exhibit D-1** in **Attachment D**.

4. Review of Garaventa Revenues, Costs, and Profits for Potential Commercial Organics Program

We verified the reasonableness of estimated costs of incorporating new weekly organics collection services for business customers captured by Assembly Bill 1826 (AB 1826). As background:

- **Assembly Bill 1826 (Wesley Chesbro)** - requires businesses to separate their food scraps and yard trimmings for composting or anaerobic digestion. AB 1826 builds on the mandatory commercial recycling program established by Assembly Bill 341. Beginning with the largest generators of food waste in 2016 and ramping down to the vast majority of businesses over several years, AB 1826 bill will require businesses to sign up for organics recycling service. Beginning on April 1, 2016, businesses that generate 8 cubic yards (CY) or more of organics a week must source separate food scraps and yard trimmings and arrange for recycling services for that organic waste. On January 1, 2017, businesses generating 4 CY or more per week of organics are also subject to the diversion requirement. The bill also requires a business that generates 4 CY or more of solid waste per week, on and after January 1, 2019, to arrange for organic waste recycling services. If the California Department of Resources Recycling and Recovery (CalRecycle) makes a specified determination, CalRecycle could decrease that amount to 2 CY, on or after January 1, 2020.

Each jurisdiction, on and after January 1, 2016, is required to implement an organics recycling program to divert organics from the businesses subject to this act, thereby imposing a state-mandated local program by imposing new duties on local governmental agencies.

Garaventa provided us with a list of their commercial customers, which we reviewed with County staff. The company identified 26 customers that have weekly solid waste collection service of five or more cubic yards (not including organics or recyclable materials). Therefore, these customers may be subject to AB 1826 regulations on or after 2017. Three of these commercial customers are either multi-family residential or mobile home parks none of which are expected to require organics service under AB 1826 since the law states that food waste is not required to be included in organics thresholds applicable to multi-family complexes. The other 23 customers are commercial/light industrial businesses. Three of those commercial businesses may currently be subject to AB 1826 (effective April 2016), where two of them are already backhauling their organics to out-of-County composting facilities and one is signed up for organics collection through the company and paying the equivalent amount as they would for garbage collection. Based on the type of company, and the current level of collection service for these remaining 20 customers, County staff concluded that six customers could be subject to AB 1826 in 2017.³

Both for 2017 and 2019 we estimate that with additional labor-time and routing, Garaventa will be able to incorporate organics collection service for these commercial customers into their standard residential customer routes (where appropriate) to collect the organics material from these customers. The County also requested that we estimate the impact under the assumption that the rate for organics service to businesses be set at 75 percent of the refuse collection rate. The estimated annual diversion of food waste from this program in 2019 is approximately 140 tons.

Net Impact:

[Increase of approximately \$20,610 to the annual revenue requirement to meet the 2017 AB 1826 requirement. Increase of \$53,194 to the annual revenue requirement to meet full implementation requirement (full participation) of AB 1826 in 2019 [note: these program costs are not reflected in the Crowe analysis and adjustments provided in Attachment D-1]

5. Components of Residential Rates

There are a number of cost components which are included in residential rates. Using the 32-gallon residential cart rate as an example, the pie chart in **Figure 1** shows the major components of the projected 2016 rates, and the relative costs of each component. Line item references are made to the Application. **Table 11** shows that the components of the single can rate have remained relatively stable over time since 2003. Cost categories are described below:

- **Direct Labor** includes compensation of the waste removal staff, including regular time, overtime, payroll taxes, and benefits. This category corresponds to Direct Labor (Line 1) of the adjusted application.
- **Tipping Fees** include all charges for disposal of solid waste at a landfill or transfer station, which are currently set at \$93.00 per ton. A cap on the allowable expense portion of tipping fees is set at \$45.00 per ton. The remaining fees between \$45.00 and \$93.00 per ton treated as are a pass-through expense. These tipping fees also include transportation costs from the transfer station to the landfill. This category corresponds to Tipping Fees with Profit (Line 2) and Tipping Fees (Pass-Through) (Line 13) of the adjusted application.
- **Corporate and Local General and Administrative Costs** include accounting, office space rental, utilities, office supplies, legal services, insurance, postage, etc. for Garaventa. These costs are identified as Corporate and Local General and Administrative Costs (Line 3), Services Provided to County (Line 5), County Administrative Fees (Line 10), and Household Hazardous Waste Fees (Line 11) of the adjusted application.
- **Trucking and Equipment** includes depreciation and leases of trucks, fuel expenses, licenses, parts, tires, and repair and maintenance expenses. These costs are identified as Trucking and

³ The exact number of customers is unknown as there is no data available that characterizes the waste stream of these customers.

Equipment (Line 12) and Depreciation and Other Operating Costs (Line 4) of the adjusted 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 9 of the adjusted application.
- **County's Franchise Fee** is 7.0 percent of total residential/curbside recycling, commercial, and light industrial revenues. Franchise fees are shown in Line 25 of the adjusted application.

Figure 1
Components of Rate
(Projection Year 2016)

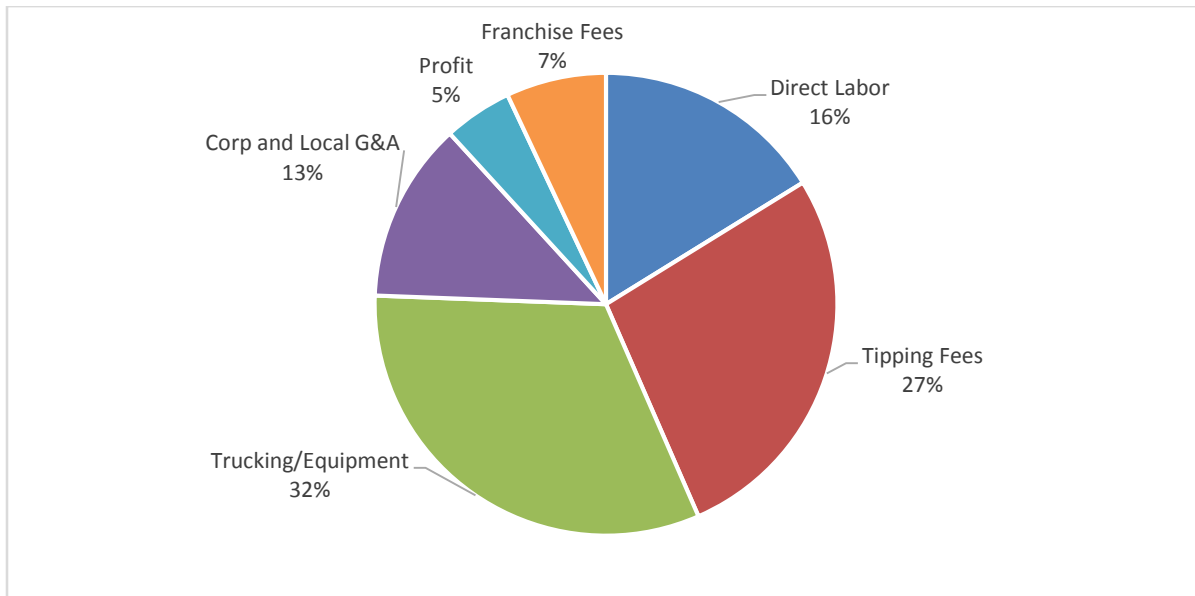


Table 11
Components of Single Can Rate Over Time
(2003 to 2016)

Description	2003	2007	2010	2016
Tipping Fees	26%	29%	26%	27%
Direct Labor	20%	20%	20%	16%
Trucking and Equipment	30%	28%	31%	32%
Corporate and Local G&A	12%	12%	12%	13%
Profit	6%	6%	5%	5%
Franchise Fees	5%	5%	6%	7%

H. Comparison of Rates and Services to Other Neighboring Jurisdictions

Recommended 2016 Garaventa unincorporated County rates were compared with survey data from other County franchise areas and a sample of neighboring jurisdictions. Results of the survey are summarized in **Attachment E. Tables E-1** through **E-3** show how recommended 2016 Garaventa unincorporated rates compare to the average of the other incorporated and unincorporated areas surveyed.

In Table E-1, we compare the Garaventa unincorporated County residential rates with averages of the other franchise areas surveyed. Compared to the other franchise areas, proposed 2016 Garaventa unincorporated rates were mixed relative to average, with rates above average for smaller container sizes and below average for larger container sizes. The proposed 20 and 32 gallon rates are between 21 percent and 30 percent above the average of other comparative incorporated jurisdictions surveyed, and between 8 percent and 25 percent below the average of 64 and 96 gallon rates of incorporated areas surveyed. Garaventa residential rates compared similarly with four other unincorporated County areas, with rates significantly above average for 20 and 32 gallon service and below average for 64 and 96 gallon service.

For the commercial (bin) sector, as shown in Table E-2, Garaventa's unincorporated County rates were about equivalent to the average rates in other comparative incorporated jurisdictions. Rates ranged from 1 percent above to 3 percent below the average of other incorporated areas surveyed. Gavaventa commercial bin rates were between 7 percent below and 36 percent above the average of other unincorporated County areas surveyed depending on service level.

For the 20 cubic yard industrial (debris box) rate, as shown in Table E-3, Garaventa unincorporated County rates were 24 percent below the average of surveyed jurisdictions. This comparison is based on a representative two (2) ton load.

Attachment A: 2016 Rate Application

Attachment A includes the 2016 Base Year Rate Change Application (Application) submitted by Garaventa to the County October 27, 2015. In the Application, Garaventa proposed to increase unincorporated County collection rates by 5.67 percent in 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 six (6) years:

- Actual prior years, 2011 to 2014 (including audited 2014 results)
- Current year estimated, 2015
- Base year projected, 2016.

Contra Costa County

Base Year Rate Change Application

Financial Information

	Actual Historical Years				Estimated Current	Projected Base Year
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	2011	2012	2013	2014	2015	2016
Section I--Allowable Costs						
1. Direct Labor	\$ 855,450	\$ 925,185	\$ 979,430	\$ 1,036,230	\$ 1,002,329	\$ 1,029,993
2. Tipping Fees (Profit Allowed)	707,713	675,499	697,789	720,529	769,950	783,225
3. Corporate and Local General and Administrative Costs	650,069	670,997	885,506	842,682	689,027	717,877
4. Depreciation and Other Operating Costs	46,329	116,542	164,265	165,330	144,096	147,898
5. Services Provided to County						
6. Total Allowable Costs (Lines 1+2+3+4+5)	\$ 2,269,560	\$ 2,388,223	\$ 2,726,993	\$ 2,764,771	\$ 2,615,402	\$ 2,678,793
Section II--Allowable Operating Profit						
7. Operating Ratio	91%	90%	95%	95%	99%	90%
8. Allowable Operating Profit [(Line 6 - 0.9) - Line 6]	\$ 233,653	\$ 274,826	\$ 138,469	\$ 139,978	\$ 26,062	\$ 297,644
Section III--Pass Through Costs without Franchise Fees						
9. County Administrative Fee	45,051	\$ 62,157	\$ 44,068	\$ 41,520	\$ 43,666	\$ 43,666
10. Trucking and Equipment	1,673,157	1,731,533	1,756,486	1,781,980	1,837,970	1,893,110
11. Tipping Fees (Pass Through)	406,235	456,814	433,995	463,010	787,769	870,405
12. Total Pass Through Costs (without Franchise Fees) (Lines 9+10+11)	\$ 2,124,444	\$ 2,252,305	\$ 2,234,549	\$ 2,286,509	\$ 2,668,406	\$ 2,807,181
Section IV--Revenue Requirement without Franchise Fees						
13. Total Allowable Costs (Line 6) plus Allowable Operating Profit (Line 8) plus Total Pass Through Costs (without Franchise Fees) (Line 12)	\$ 4,617,657	\$ 4,915,354	\$ 5,100,012	\$ 5,191,258	\$ 6,310,870	\$ 5,783,617
Section V--Revenue without Rate Change in Base Year						
14. Residential Revenue					\$ 4,199,870	\$ 4,326,358
Totals					\$ -	\$ -
15. Less Allowance for uncollectible Residential Accounts					\$ 20,999	\$ 21,632
16. Total Residential Revenue (without Rate Change in Base Year)	\$ 3,637,419	\$ 3,759,981	\$ 3,954,920	\$ 4,060,102	\$ 4,178,871	\$ 4,304,726
17. Commercial and Light Industrial Revenue					\$ 1,203,728	\$ 1,203,728
Light Industrial Revenue					\$ 290,172	\$ 308,189
18. Less Allowance for uncollectible Commercial and Light Industrial Accounts						
19. Total Commercial/Light Industrial Revenue (without Rate change in base year)	\$ 1,184,573	\$ 1,470,018	\$ 1,478,841	\$ 1,471,035	\$ 1,463,899	\$ 1,511,918
20. Recycled Material Sales	\$ 39,173	\$ 50,858	\$ 44,290	\$ 45,801	\$ 45,962	\$ 45,962
21. Total Revenue (Lines 16+19+20)	\$ 4,861,166	\$ 5,280,857	\$ 5,478,050	\$ 5,576,939	\$ 5,708,733	\$ 5,862,605
Section VI--Net Shortfall (Surplus)						
22. Net Shortfall (Surplus) without Franchise Fees (Line 13-Line 21)					\$ (397,863)	\$ (78,000)
23. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	\$ 243,509	\$ 365,503	\$ 378,038	\$ 385,681	\$ 397,863	\$ 408,679
24. Net Shortfall (Surplus) with Franchise Fees (Lines 22+23)					\$ 0	\$ 325,692
Section VII--Percent Change in Rates						
25. Total Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16+19)					\$ 5,682,770	\$ 5,816,642
26. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 + Line 25)					0.00%	5.67%
Franchise Fee Calculation						
Franchise fees are set by the County at 7 percent of the revenue requirement. Solve for two equations with one unknown, and identify franchise fees as X => Equation 1) Revenue Requirement = 0.07 = X, or \$ 5,683,770 + X. Substitute equation 2) into equation 1) and solve for X => (\$ 5,683,770 + X) x .07 = X, or X = \$ 397,863						
Summary Revenue Requirement						
27. Total Allowable Costs (Line 6)				Allowable Costs	\$ 2,615,402	\$ 2,678,793
28. Allowable Operating Profits (Line 8)				Operating Profit	26,062	297,644
29. Total Pass Through Costs (with Franchise Fees) (Lines 9+10+11+23)				Pass-thru + franchise	3,067,269	3,215,859
30. Revenue Requirement (Lines 27 + 28 + 29)					\$ 5,708,733	\$ 6,192,296

Contra Costa County				
Base Year Rate Change Application				
Cost Summary for Year 2015				
Section VIII--Base Year Cost Allocation				
	Total County	(Baypoint) Unincorporated County	Audited Garaventa Financial	Allocation Base(s)
Labor - Regular	\$ 654,547	\$ 126,981	\$ 537,667	Direct
Labor - Overtime	-	-	-	Direct
Benefits	312,895	60,166	252,730	Direct
Payroll Taxes	56,687	10,752	47,935	Direct
31. Total Direct Labor	\$ 1,036,230	\$ 197,899	\$ 838,331	Direct
32. Total Tipping Fees (Profit Allowed)	\$ 720,529	\$ 197,123	\$ 523,405	Tonnage by Fee
Administrative Salaries	\$ 435,854	\$ 128,705	\$ 307,149	Accounts
Taxes - Payroll	24,034	7,035	16,998	Accounts
Pension	10,673	3,088	7,585	Accounts
Accounting	34,731	5,701	29,030	Accounts
Advertising	346	346	-	Accounts
Alarm	185	185	-	Accounts
Bank charges	50,050	13,441	36,608	Accounts
Collection Fees	-	-	-	Accounts
Public education	17,639	3,412	14,227	Accounts
IBM Rental, Software & Repair	11,227	1,667	9,559	Accounts
Dues & Subscriptions	302	59	243	Accounts
Employee Functions	7	7	-	Accounts
Fuel & Oil	-	-	-	Accounts
Interest	60,810	15,679	45,131	Accounts
Insurance	60,001	17,235	42,765	Accounts
Janitorial	613	613	-	Accounts
Landscape and maintenance	-	-	-	Accounts
Laundry and uniforms	743	371	372	Accounts
Legal	2,785	2,785	-	Direct
Licenses	209	208	1	Accounts
Loan Fees	203	-	203	Accounts
Medical Expense	1,034	176	858	Accounts
Miscellaneous	-	-	-	Accounts
Office Supplies & Expense	1,994	1,720	274	Accounts
Outside Services	-	-	-	Accounts
Postage	40,840	13,003	27,837	Accounts
Printing	29,824	8,184	21,630	Accounts
Lease - Outside Equipment	-	-	-	Accounts
Rent - Office	42,290	8,578	33,712	Accounts
Repairs - General	199	55	145	Accounts
Repairs - Building	23	23	-	Accounts
Security	984	984	-	Accounts
Sponsorships	448	265	183	Accounts
Toters - Non Capitalized	2,065	1,033	1,033	Accounts
Taxes - Other	17	17	-	Accounts
Taxes - Personal	9,455	3,372	6,082	Accounts
Travel	289	228	61	Accounts
Utilities	729	729	-	Accounts
Telephone	2,082	2,082	-	Accounts
33. Total Corporated and Local General and Administrative Costs	\$ 642,682	\$ 240,996	\$ 601,687	
Depreciation - Buildings & Furniture	\$ 1,558	\$ 1,558	-	Square Footage
Depreciation - Containers	128,211	36,184	92,027	Direct
Customer repairs	4,142	3,559	582	Accounts
Management Salaries	31,419	8,951	22,468	Direct
34. Total Depreciation and Other Operating Costs	\$ 165,330	\$ 50,253	\$ 23,050	
35. Household Hazardous Waste	\$ -	\$ -	\$ -	
36. Total Allowable Costs (Lines 31 + 32 + 33 + 34 + 35)	\$ 2,764,771	\$ 686,271	\$ 1,986,473	
37. Total County Administration Fee	\$ 41,520	\$ 11,629	\$ 29,891	Direct
Equipment rental	\$ 1,781,980	\$ 439,188	\$ 1,342,792	Direct
Gas and oil				N/A
Insurance				N/A
Parts				N/A
Repairs and Maintenance				N/A
Tires				N/A
Other				N/A
38. Total Trucking and Equipment	\$ 1,781,980	\$ 439,188	\$ 1,342,792	N/A
39. Total Tipping Fees (Pass Through)	\$ 463,010	\$ 111,374	\$ 351,636	Tonnage by Fee
40. Total Residential/Commercial/Light Industrial Franchise Fees	\$ 385,681	\$ 110,214	\$ 275,466	Direct
41. Total Pass Through Costs (Lines 37 + 38 + 39 + 40)	\$ 2,672,190	\$ 672,405	\$ 1,998,785	N/A
42. Total Costs (Lines 36 + 41)	\$ 5,436,961	\$ 1,358,676	\$ 3,986,258	N/A

Contra Costa County						
Base Year Rate Change Application						
Cost Summary for Year 2015						
Section IX--Revenue						
	Actual Historical Years			Unaudited	Projected	Estimated Base Year
	Year 1 2011	Year 2 2012	Year 3 2013	Year 4 2014	Year 5 2015	Year 6 2016
Single Family Residential Service						
43. Single Family Residential Revenue (Base Year from Page 4 of 6)	\$ 3,637,419	\$ 3,759,981	\$ 3,954,820	\$ 4,060,102	\$ 4,199,870	\$ 4,326,358
Multifamily Residential Service						
44. Number of Accounts	11	14	15	15	17	17
45. Multifamily Residential Revenue	\$ 58,441	\$ 87,802	\$ 93,545	\$ 94,857	\$ 102,317	\$ 102,831
46. Residential Revenue (w/o Allowance for Uncollectible Accounts) (Lines 43 + 45)	\$ 3,695,860	\$ 3,847,783	\$ 4,048,464	\$ 4,154,959	\$ 4,302,187	\$ 4,429,189
47. Allowance for Uncollectible Residential Accounts					\$ 21,511	\$ 22,146
48. Total Residential Revenue (Line 46 - Line 47)	\$ 3,695,860	\$ 3,847,783	\$ 4,048,464	\$ 4,154,959	\$ 4,280,676	\$ 4,407,043
Commercial and Light Industrial Bin Service						
49. Number of Accounts	194	175	178	178	183	182
50. Commercial and Light Industrial Bin Revenues	\$ 1,030,890	\$ 1,097,525	\$ 1,110,063	\$ 1,125,635	\$ 1,101,411	\$ 1,100,897
Commercial and Light Industrial Drop Box Service						
51. Number of Accounts	140	164	182	163	162	162
52. Commercial and Light Industrial Drop Box Revenues	\$ 95,442	\$ 284,090	\$ 275,233	-	\$ 280,172	\$ 308,189
53. Commercial and Light Industrial Revenue (w/o Allowance for Uncollectible Accounts) (Lines 50 + 52 + 54)	\$ 1,126,132	\$ 1,382,216	\$ 1,385,296	\$ 1,125,635	\$ 1,381,582	\$ 1,409,085
54. Allowance for Uncollectible Commercial and Light Industrial Accounts						
55. Total Commercial and Light Industrial Revenues (Line 53 - Line 54)	\$ 1,126,132	\$ 1,382,216	\$ 1,385,296	\$ 1,125,635	\$ 1,381,582	\$ 1,409,085
56. Recycled Material Sales	\$ 33,514.58	\$ 50,858.20	\$ 28,919.61	\$ 45,801.18	\$ 45,962.23	\$ 45,962.23
57. Total Revenue (Lines 48 + 57 + 58)	\$ 4,855,507	\$ 5,280,857	\$ 5,482,880	\$ 5,326,395	\$ 5,708,221	\$ 5,862,091

Contra Costa County

Base Year Rate Change Application

Single Family Residential Summary

Section X--Single Family Residential Revenue

Single Family Residential revenue (without Rate Change in Base Year)

		Current	Current # of	Projected
		Rate/Month	Accts 6-1-15	Base Year 2016
				Total
Brentwood (out of City) 96 Gal Toter	T9	\$ 47.55	393	\$ 224,246
Brentwood (out of City) 64 Gal Toter	T6	\$ 39.97	944	\$ 452,780
Brentwood (out of City) extra can with toter	RT	\$ 8.47	43	\$ 4,371
Brentwood (out of City) 20 Gal Toter	T2	\$ 27.61	178	\$ 58,975
Brentwood (out of City) 32 Gal Toter	T3	\$ 34.46	304	\$ 125,710
Discovery Bay 96 Gal Toter	T9	\$ 47.55	654	\$ 373,172
Discovery Bay 64 Gal Toter	T6	\$ 39.97	2596	\$ 1,245,145
Discovery Bay 20 Gal Toter	T2	\$ 27.61	662	\$ 219,334
Discovery Bay extra can with toter	RT	\$ 8.47	26	\$ 2,643
Discovery Bay 32 Gal Toter	T3	\$ 34.46	1072	\$ 443,293
Baypoint (PDS) 96 Gal Toter	T9	\$ 47.55	247	\$ 140,938
Baypoint (PDS) 64 Gal Toter	T6	\$ 39.97	1306	\$ 626,410
Baypoint (PDS) 20 Gal Toter	T2	\$ 27.61	418	\$ 138,492
Baypoint (PDS) extra can with toter	RT	\$ 8.47	4	\$ 407
Baypoint (PDS) 32 Gal Toter	T3	\$ 34.46	654	\$ 270,442

60. Total Base Year Single Family Residential

9,501.00	\$ 4,326,357.72
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Contra Costa County
Base Year Rate Change Application

Operating Information

Historical Information	Percent Change	Historical Information	Percent Change	Historical Information	Percent Change	Historical Information	Percent Change	Projected Information	Percent Change	Base Year Projected Information
Year 1	Yr. 1 to 2	Year 2	Yr. 2 to 3	Year 3	Yr. 3 to 4	Year 4	Yr. 4 to 5	Year 5	Yr. 5 to 6	Year 6
2011		2012		2013		2014		2015		2016

Section XI—Operating Data

Accounts

61. Residential	8,601	2.35%	8,803	2.69%	9,040	2.79%	9,292	1.00%	9,385	1.24%	9,501
62. Commercial	205	-7.80%	189	2.12%	193	0.00%	193	3.63%	200	-0.50%	199
63. Light Industrial	-		-		-		-				
64. Total Accounts	8,806	2.11%	8,992	2.68%	9,233	2.73%	9,485	1.06%	9,585	1.26%	9,700

Waste Tonnage

65. Residential	11,437	-2.78%	8,831	2.00%	8,854	2.27%	8,851	4.14%	9,217	-1.15%	9,111
66. Res. Greenwaste	687	308.50%	2,807	12.03%	3,145	10.52%	3,476	3.28%	3,590	0.72%	3,616
67. Commercial	1,110	-5.57%	1,048	4.04%	1,091	10.35%	978	1.10%	967	-2.58%	942
68. Light Industrial	2,492	-6.74%	2,324	12.58%	2,618	3.48%	2,707	23.24%	3,336	11.99%	3,736
69. Total Tons	15,727	-4.55%	15,011	8.30%	15,506	8.26%	16,012	6.86%	17,110	4.47%	17,405

Recyclable Tonnage

70. Residential	746	246.80%	2,587	13.78%	2,943	7.11%	3,152	0.47%	3,167	7.10%	3,392
71. Commercial	52	148.48%	129	7.20%	138	-1.68%	137	-32.08%	93	-3.23%	90
72. Light Industrial	-		-		-		-				
73. Total Tons	798	240.48%	2,715.68	13.47%	3,081.35	6.74%	3,289.11	-0.89%	3,260.00	6.81%	3,482

County Services

74. County Bins	2.00	0.00%	2.00	0.00%	2.00	0.00%	2.00	0.00%	2.00	0.00%	2.00
75. County Drop Boxes # PU	4.00	225.00%	13.00	207.69%	40.00	18.00%	46.00	0.00%	46.00	0.00%	46.00

Section XII—Change in Commercial Rates

76. 3 Yard Bin—Once per Week	380.00	2.83%	390.75	2.08%	398.88	2.38%	408.37	2.79%	419.77	0.00%	419.77
77. 2 Yard Bin—Once per Week	272.00	2.85%	279.75	2.08%	285.57	2.38%	292.37	0	300.53		300.53
78. 20 yd Debris Box—per pick up	400.00	-0.00%	416.00	-6.01%	441.00	-9.52%	483.00	0.00%	483.00	0.00%	483.00

What about 2016?

Contra Costa County

Base Year Rate Change Application

Unincorporated Area: All Areas

78. Rate Change Requested 5.67%

Abbreviated Rate Schedule	Current Rate	Increased Rate	Adjustments ^(a)	New Rate
Brentwood (out of City) 96 Gal Toter	47.55	50.25		50.25
Brentwood (out of City) 64 Gal Toter	39.97	42.24		42.24
Brentwood (out of City) 32 Gal Toter	34.46	36.41		36.41
Brentwood (out of City) 20 Gal Toter	27.61	29.17		29.17
Brentwood (out of City) extra can with toter	8.47	8.95		8.95
Discovery Bay 96 Gal Toter	47.55	50.25		50.25
Discovery Bay 64 Gal Toter	39.97	42.24		42.24
Discovery Bay 32 Gal Toter	34.46	36.41		36.41
Discovery Bay 20 Gal Toter	27.61	29.17		29.17
Discovery Bay extra can with toter	8.47	8.95		8.95
Baypoint (PDS) 96 Gal Toter	47.55	50.25		50.25
Baypoint (PDS) 64 Gal Toter	39.97	42.24		42.24
Baypoint (PDS) 32 Gal Toter	34.46	36.41		36.41
Baypoint (PDS) 20 Gal Toter	27.61	29.17		29.17
Baypoint (PDS) extra can with toter	8.47	8.95		8.95

(a) Calculated rates are rounded up to the nearest \$0.05

79. Multiunit residential Rate increase of 5.67% will be applied to all rates in each structure.

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: Alan Mitchell

Title: CFO

Signature:

Date:

Attachment B: 2013 and 2014 Audited Financial Statements

Ms. Deidra Dingman, Conservation Programs Manager
June 16, 2016

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Attachment B includes the 2013 and 2014 audited financial statements submitted by Garaventa for its four (4) companies serving unincorporated County. These financial statements were provided to the County with the Application on July 1, 2015. V T Williams & Associates LLP completed a 2013 and 2014 financial audit of Garaventa companies serving unincorporated County areas, including Brentwood Disposal Service, Inc., Delta Debris Box Service, Inc., Discovery Bay Disposal, Inc., and Pittsburg Disposal & Debris Box Service, Inc. The audit opinions for each company were unqualified.

Attachment C: Exhibit III-1 From Manual

Chapter III. Base Year Rate Setting Methodology

**Exhibit III-3
 [Page 1 of 3]**

**Contra Costa County
 Garaventa Enterprises Rate Setting Methodology
 Base Year Projection Methodology Guidelines¹**

Category	Base Year Projection Methodology
<i>Revenue Projection in Base Year</i>	
Residential	Estimated residential revenues in "Current Year" multiplied by one plus the average annual compounded rate of change in residential customer revenues over the prior two years. ²
Commercial	Estimated commercial revenues in "Current Year" multiplied by one plus the average annual compounded rate of change in commercial revenues over the prior two years.
Debris Boxes	Estimated debris box revenue in "Current Year" multiplied by one plus the average annual compounded rate of change in debris box revenues over the prior two years.
Recyclable Revenues	Currently equal to \$5 per ton multiplied by the estimated "Current Year" total recycled materials tonnage. As an alternative to the \$5 per ton amount currently used, the County, at its discretion, may also elect to instead have Garaventa include the revenues (i.e., commodity sales) and costs associated with processing curbside recycled materials within the Application.
<i>Cost Projection in Base Year</i>	
Direct Labor – Wages	Estimated direct labor wages in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor wages over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Payroll Taxes	Estimated direct labor payroll taxes in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor payroll taxes over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Health and Welfare	Estimated direct labor health and welfare costs in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor health and welfare costs over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Workers Compensation	Estimated direct labor workers compensation costs in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor workers compensation costs over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Pension	Estimated direct labor pension in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor pension over the prior two years; or detailed direct labor modeling by employee.
Dumping Costs	Equal to a verifiable tipping fee rate multiplied by the projected "Base Year" total disposal tonnage. The projected "Base Year" disposal tonnage is equal to the estimated "Current Year" total disposal tonnage multiplied by one plus the average annual compounded rate of change in disposal tonnage over the prior two years.

¹ Subject to alternative Base Year projection methods only when provided in writing by the company and approved by the County.

² Where the average annual compounded rate of change over the prior two years is defined as

$$\left[\left(\frac{\text{Current Year Revenues}}{\text{First Year Actual Revenues (i.e., Prior Base Year Revenues)}} \right)^{0.5} - 1 \right]$$

Chapter III. Base Year Rate Setting Methodology

**Exhibit III-3
[Page 2 of 3]**

**Contra Costa County
Garaventa Enterprises Rate Setting Methodology
Base Year Projection Methodology Guidelines (continued)¹**

Category	Base Year Projection Methodology
<i>Cost Projection in Base Year (continued)</i>	
Depreciation and Other Operating Costs – Customer Repairs, Medical Costs (Drug Testing), Laundry, and Uniforms	Estimated customer repair costs in “Current Year” multiplied by one plus the average annual compounded rate of change in customer repair, medical costs (drug testing), laundry, and uniform costs over the prior two years.
Depreciation and Other Operating Costs – Furniture and Fixtures	Estimated furniture and fixture depreciation costs in “Current Year” multiplied by one plus the average annual compounded rate of change in furniture and fixture depreciation costs over the prior two years, or as computed per a detailed depreciation schedule.
Curbside Recycled Materials Processing Costs (optional – will need to add a line to the Application if used)	Direct – the average of actual County processing costs in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years. ³
General and Administrative (G&A) – Accounting	Direct – the average of actual G&A accounting cost in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
G&A – Legal	Direct – the average of actual G&A legal cost in the prior two years ⁴ , multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
G&A – Medical Expenses	Direct – the average of actual G&A medical cost in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.

³ An example of the average annual compounded rate of change in the CPI over the prior three years, for year 2010, would be [(Year 2010 April Index ÷ Year 2007 April Index) raised to the 0.33 power] minus 1], or [((227.7 ÷ 215.86) raised to the 0.33 power) - 1] = 1.78%.

⁴ Where the average annual compounded rate of change over the prior two years is defined as [(Current Year Costs ÷ First Year Actual Costs (i.e., Prior Base Year Costs)) raised to the 0.5 power] minus 1].

Chapter III. Base Year Rate Setting Methodology

Exhibit III-3
[Page 3 of 3]

Contra Costa County
Garaventa Enterprises Rate Setting Methodology
Base Year Projection Methodology Guidelines (continued)¹

Category	Base Year Projection Methodology
<i>Cost Projection in Base Year (continued)</i>	
G&A – Other Categories	Estimated G&A costs, excluding the three specified G&A items, in the “Current Year” multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years. Total G&A costs, including the three specified G&A items above, are allowed up to a capped limit of 12.2 percent of the total revenue requirement. ⁵ In any base year, if total G&A costs, as a percent of the total revenue requirement, exceed the capped limit, total G&A costs will be set to equal 12.2 percent of the total revenue requirement. The capped limit will be re-calculated each base year, based on publicly traded company data available, over a prior five-year period
County Administrative Fees	Direct – the average of actual County administrative fees in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
Household Hazardous Waste Fees	Direct – the average of actual County franchise area HHW fees in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
Trucking Costs	Estimated trucking costs in “Current Year” multiplied by one plus the average annual compounded rate of change in trucking costs over the prior two years; or the number of equipment pieces/units multiplied by a verified SEG trucking lease rate, for each truck and equipment item
Franchise Fees	Direct – equal to a percentage of the projected revenue requirement in “Base Year”. The County will set the percentage franchise fee and the amount may change over time (currently the franchise fee is five (5) percent of total revenues, and upon implementation of the three cart system, the franchise fee will increase to seven (7) percent of total revenues.

⁵ The weighted average ratio of G&A to total revenues, for nine (9) publicly traded companies, over a recent five-year period (2006 to 2010), was 11.07 percent. With an additional 10 percent margin to account for variability in the distribution of G&A costs by company, the capped limit is 12.2 percent of the total revenue requirement (11.07% * (1 + 10%) = 12.2%).

Attachment D: Adjusted Rate Model

Exhibit D-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

- Moderate increase to residential revenues
- Minor increase to commercial and industrial revenues

Allowable Costs/Profits

- Minor decrease to direct labor
- Moderate increase to tipping fees (w/profit)
- Moderate increase to general and administrative costs
- Minor decrease to depreciation and other operating costs
- Moderate decrease to services provided to County
- Minor increase to operating profit

Pass Through Costs

- Minor increase to County administrative fee
- Minor increase to household hazardous waste fees
- Minor decrease to trucking and equipment costs
- Moderate increase to tipping fees (pass through)
- Minor increase in franchise fees.

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

Contra Costa County

Base Year Rate Change Application - Crowe Adjustments

Financial Information

Actual		Estimated	Projected	Crowe	Adjusted
Historical Years		Current Year	Base Year	Adjustments	Base Year
Year 3	Year 4	Year 5	Year 6		
2013	2014	2015	2016		2016

Section I -- Allowable Costs

1. Direct Labor	\$ 979,430	\$ 1,036,230	\$ 1,002,329	\$ 1,029,993	\$ (14,484)	\$ 1,015,509
2. Tipping Fees (Profit Allowed)	697,789	720,529	769,950	783,225	26,620	809,845
3. Corporate and Local General and Administrative Costs	885,508	842,682	774,084	717,877	26,971	744,848
4. Depreciation and Other Operating Costs	164,265	165,330	144,096	147,698	(12,448)	135,250
5. Services Provided to County	-	-	-	-	(30,885)	(30,885)
6. Curbside Recycle Materials Processing Costs (if Option Used by County)	-	-	-	-	-	-
7. Total Allowable Costs (Lines 1+2+3+4+5+6)	\$ 2,726,992	\$ 2,764,771	\$ 2,690,459	\$ 2,678,793	\$ (4,227)	\$ 2,674,566

Section II -- Allowable Operating Profit

8. Operating Ratio	95%	95%	101%	90%		90%
9. Allowable Operating Profit [(Line 7 / 0.9)-Line 7]	\$ 138,472	\$ 137,980	\$ (39,070)	\$ 297,644	\$ (470)	\$ 297,174

Section III -- Pass Through Costs without Franchise Fees

10. County Administrative Fee	\$ -	\$ 1,996	\$ 2,057	\$ 2,057	20	2,077
11. Household Hazardous Waste Fees	44,088	41,520	45,585	43,666	979	44,645
12. Trucking and Equipment	1,756,466	1,781,980	1,837,970	1,893,110	(12,497)	1,880,613
13. Tipping Fees (Pass Through)	433,995	463,010	787,769	870,405	29,340	899,745
14. Total Pass Through Costs (without Franchise Fees) (Lines 10+11+12+13)	\$ 2,234,549	\$ 2,288,506	\$ 2,673,381	\$ 2,809,238	\$ 17,842	\$ 2,827,080

Section IV -- Revenue Requirement without Franchise Fees

15. Total Allowable Costs (Line 7) plus Allowable Operating Profit (Line 9) plus Total Pass Through Costs (without Franchise Fees) (Line 14)	\$ 5,100,013	\$ 5,191,257	\$ 5,324,770	\$ 5,785,675	\$ 13,146	\$ 5,798,821
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Section V -- Revenues without Rate Change in Base Year

16. Residential Revenues			\$ 4,199,870	\$ 4,326,358		
Totals			\$ -	\$ -		
17. Less Allowance for Uncollectible Residential Accounts			20,999	21,632		
18. Total Residential Revenues (without Rate Change in Base Year)	\$ 3,954,920	\$ 4,060,102	\$ 4,178,871	\$ 4,304,726	\$ 25,205	\$ 4,329,931
19. Commercial and Light Industrial Revenues			\$ 1,203,728	\$ 1,203,728		
Light Industrial Revenue			\$ 280,172	\$ 308,189		
20. Less Allowance for uncollectible Commercial and Light Industrial Accounts			13,900			\$ -
21. Total Commercial/Light Industrial Revenues (without rate change in Base Year)	\$ 1,478,841	\$ 1,471,035	\$ 1,497,800	\$ 1,511,917	\$ 821	\$ 1,512,738
22. Recycled Materials Sales	\$ 44,290	\$ 45,801	\$ 45,962	\$ 45,962		\$ 45,962
23. Total Revenues (Lines 18+21+22)	\$ 5,478,051	\$ 5,576,938	\$ 5,722,633	\$ 5,862,605	\$ 26,026	\$ 5,888,631

Section VI -- Net Shortfall (Surplus)

24. Net Shortfall (Surplus) without Franchise Fees (Lines 15-Line 23)			\$ (397,863)	\$ (76,930)	\$ 12,880	\$ (89,810)
25. Residential / Commercial / Light Industrial Franchise Fees (see calculation below)	\$ 378,038	\$ 385,681	\$ 397,863	\$ 435,481	\$ 989	\$ 436,470
26. Net Shortfall (Surplus) with Franchise Fees (Lines 24 + 25)	\$ -	\$ 358,551	\$ (11,891)	\$ 346,860		

Section VII -- Percent Change in Rates

27. Total Commercial / Light Industrial Revenues Prior to Rate Change (Lines 18+21)	\$ 5,662,770	\$ 5,816,642	\$ 26,027	\$ 5,842,669		
28. Percent Change in Existing Residential / Commercial / Light Industrial Rates (Line 26 / Line 27)			0.00%	6.16%	-0.23%	5.93%

Franchise Fee Calculation

Franchise fees are set by the County at 5 percent of the revenue requirement
Solve for two equations with one unknown, and identify franchise fees as X =>
Equation 1) Revenue Requirement x 0.05 = X
Equation 2) Revenue Requirement = Line 15 + X, or \$ 5,798,821 + X
Substitute equation 2) into equation 1) and solve for X =>
(\$ 5,798,821 + X) x 0.07 = X or X \$ 436,470

Summary Revenue Requirement

\$ 2,690,459	\$ 2,678,793	\$ (4,227)	\$ 2,674,566
(39,070)	297,644	(470)	297,174
3,071,244	3,244,719	18,831	3,263,550
\$ 5,722,633	\$ 6,221,156	\$ 14,135	\$ 6,235,291

Attachment E: Comparative Rate Survey

Tables E-1 through **E-3** that follow include results of a survey of comparative residential, commercial, and industrial rates. We provide comparisons between Garaventa's County rates and the rates charged to customers served in other neighboring unincorporated and incorporated franchise areas:

Incorporated areas

- Antioch
- Clayton
- Concord
- Danville (served through Central Contra Costa Solid Waste Authority, or CCCSWA)
- Lafayette (CCCSWA)
- Martinez
- Moraga (CCCSWA)
- Orinda (CCCSWA)
- Pleasant Hill
- Walnut Creek (CCCSWA)

Unincorporated County areas

- Alamo & Unincorporated Central CCC (CCCSWA)
- Crockett Garbage served areas – West CCC (County)
- Allied Waste (Republic) served areas – Central/East CCC (County)
- Richmond Sanitary Service (Republic) served areas – West CCC (County).

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

Jurisdiction	Residential Rates			
	20 Gallon	32 Gallon	64 Gallon	96 Gallon
1. Antioch	\$ 23.49	\$ 27.59	\$ 44.54	\$ 52.31
2. Clayton	24.49	25.95	38.07	41.54
3. Concord	N/A	28.45	38.40	47.05
4. Danville (CCSWA)	24.09	26.71	45.44	67.44
5. Lafayette (CCSWA)	26.43	30.20	56.99	85.47
6. Martinez	20.62	29.54	32.93	69.20
7. Moraga (CCSWA)	25.97	29.98	59.95	89.93
8. Orinda (CCSWA)	32.00	36.57	68.61	102.99
9. Pleasant Hill	21.30	24.64	33.62	50.43
10. Walnut Creek (CCSWA)	18.70	22.07	41.67	62.24
Average	\$ 24.12	\$ 28.17	\$ 46.02	\$ 66.86
Garaventa County rates (2016 Proposed)	29.25	36.50	42.34	50.37
Difference	21%	30%	-8%	-25%
Unincorporated County Areas				
1. Alamo & Uninc Central CCC (CCCSWA)	\$ 20.88	\$ 23.62	\$ 44.97	\$ 67.47
2. Crockett Garbage – West CCC (County)	22.44	26.61	46.66	56.69
3. AWS (Republic) – Cent/East CCC (County)	13.97	18.29	27.26	35.36
4. Richmond Sanitary – West CCC (County)	25.72	31.40	60.14	89.59
Average	\$ 20.75	\$ 24.98	\$ 44.76	\$ 62.28
Garaventa County rates (2016 Proposed)	\$ 29.25	\$ 36.50	\$ 42.34	\$ 50.37
Difference	41%	46%	-5%	-19%

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

Jurisdiction	1 Time per Week		2 Times per Week	
	2 cu. yd.	3 cu. yd.	2 cu. yd.	3 cu. yd.
1. Antioch	\$ 253.21	\$506.42	\$380.98	\$ 761.96
2. Clayton	235.36	470.46	317.86	635.71
3. Concord	363.80	764.00	486.15	1,020.90
4. Danville (CCSWA)	301.94	603.93	452.93	905.86
5. Lafayette (CCSWA)	368.84	737.68	544.99	1,089.98
6. Martinez	264.62	451.16	330.70	821.11
7. Moraga (CCSWA)	347.70	695.42	521.58	1,043.15
8. Orinda (CCSWA)	425.55	851.08	638.32	1,276.93
9. Pleasant Hill	207.47	414.52	310.81	317.34
10. Walnut Creek (CCSWA)	216.23	472.12	354.10	708.18
Average	\$ 298.47	\$596.68	\$433.84	\$ 858.11
Garaventa County rates (2016)	\$ 300.53	\$601.06	\$419.77	\$ 839.54
Difference	1%	1%	-3%	-2%
Unincorporated County Areas				
1. Alamo & Uninc Central CCC (CCCSWA)	\$ 284.04	\$568.05	\$426.03	\$ 852.08
2. Crockett Garbage – West CCC (County)	162.74	N/A	245.88	N/A
3. AWS (Republic) – Cent/East CCC (County)	230.75	324.17	461.54	648.42
4. Richmond Sanitary – West CCC (County)	344.51	630.36	471.06	876.38
Average	\$ 255.51	\$442.12	\$452.88	\$ 792.29
Garaventa County rates (2016)	\$ 300.53	\$601.06	\$419.77	\$ 839.54
Difference	18%	36%	-7%	6%

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

Jurisdiction	20 yard
1. Antioch	\$553.16
2. Clayton	472.73
3. Concord	508.00
4. Danville (CCSWA)	714.86
5. Lafayette (CCSWA)	737.30
6. Martinez	485.26
7. Moraga (CCSWA)	779.95
8. Orinda (CCSWA)	824.31
9. Pleasant Hill	381.01
10. Uninc. Co (CCCSWA)	679.49
11. Walnut Creek (CCSWA)	878.49
Average	\$637.69
Garaventa County rates (2016)	\$483.00
Difference	-24%