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November 7, 2019

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

Subject: **Analysis of 2020 Richmond Sanitary Services Rate Application**

Dear Ms. Dingman:

This letter report represents results of Crowe LLP's (Crowe) analysis of the 2020 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 nine (9) sections as follows:

- A. Purpose of Analysis
- B. Summary
- C. Project Background
- D. Goals and Objectives of Rate Analysis
- E. Scope of Rate Analysis
- F. History of Collection Portion of the Rate
- G. 2020 Base Year Rate Application
- H. Analysis of 2020 Base Year Rate Application
- I. Comparison of Rates and Services to Other Neighboring Communities

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. Purpose of Analysis

The purpose of the 2020 Base Year Rate Analysis of RSS (Analysis) is to assist the County and RSS with establishing rates for refuse and recycling collection with RSS in accordance with the County's *Rate Setting Process and Methodology Manual for Residential Solid Waste Charges* (Manual), dated October 2014.

The information in this Analysis is based on estimates, assumptions and other data developed by Crowe from information provided by RSS, knowledge of and participation in other studies, data supplied by the County, and other sources deemed to be reliable.

Over the course of preparing this Analysis, we have not conducted an audit, review, or compilation of any financial or supplemental data used in the accompanying Analysis. We have made certain projections of calculations based on projected data which may vary from actual results because events and circumstances frequently do not occur as expected and such variances may be material. We have no responsibility to update this Analysis for events or circumstances occurring after the date above.

Our procedures and work product are intended for the benefit and use of the County. This engagement was not planned or conducted in contemplation of reliance by any other party or with respect to any specific transaction and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party.

B. Summary

In its Application, RSS requested a rate increase, for the collection portion of the rate, of 9.33 percent for 2020. We recommend a rate increase of 4.63 percent for the collection portion of the rate for 2020. The collection portion of residential service rates would increase by between \$1.06 and \$3.36 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 \$26.43 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 – Residential Collection Rates
Recommended 4.63 Percent Collection Rate Increase for 2020, Per Customer, per Month

Service Level	2019 Collection Rate	Rate Change	2020 Collection Rate
20 Gallon	\$22.97	\$1.06	\$24.03
35 Gallon	\$25.26	\$1.17	\$26.43
65 Gallon	\$48.89	\$2.26	\$51.15
95 Gallon	\$72.64	\$3.36	\$76.00

Table 2
Unincorporated West Contra Costa County - Commercial Collection Rates
Selected Recommended 4.63 Percent Collection Rate Increase for 2020, Per Customer, Per Month

Service Level	Current Once per Week Collection Rate	Rate Change	Potential New Once per Week Collection Rate
1-Cubic Yard	\$191.97	\$8.89	\$200.86
2-Cubic Yard	\$300.42	\$13.91	\$314.33
3-Cubic Yard	\$400.04	\$18.52	\$418.56
4-Cubic Yard	\$495.30	\$22.93	\$518.23
5-Cubic Yard	\$588.02	\$27.23	\$615.25
6-Cubic Yard	\$679.53	\$31.46	\$710.99
7-Cubic Yard	\$770.33	\$35.67	\$806.00

Table 3
Unincorporated West Contra Costa County – Total Residential Rates
Recommended Total Residential Rate Increases for 2020 (Collection Plus Projected Post Collection), Per Customer, per Month

Service Level	Collection Rate (4.63% Increase)	Projected Post Collection Rate (7.4% Increase) ¹	Total Rate
20 Gallon	\$24.03	\$5.80	\$29.83
35 Gallon	\$26.43	\$10.17	\$36.60
65 Gallon	\$51.15	\$18.91	\$70.06
95 Gallon	\$76.00	\$28.37	\$104.37

C. 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 approved a Second Amendment to the County/RSS Franchise Agreement and determined that RSS's performance had been satisfactory, which allowed RSS to exercise its option to extend the franchise term an additional ten (10) years through October 11, 2023. The RSS franchise includes the following eight (8) service areas in unincorporated Western Contra Costa County:

1. Bay View
2. East Richmond Heights
3. El Sobrante
4. Montalvin Manor

¹ Final 2020 Post Collection rates have not yet been approved by the RecycleMore Board of Directors as of October 31, 2019, therefore the recommended rates expected to be presented for approval by RecycleMore's Board on November 14, 2019 are used in Table 3.

5. North Richmond
6. Rollingwood
7. Tara Hills
8. Western Portion of Alhambra Valley.

Exhibit 1 below shows approximate boundary of RSS' service area, including the Unincorporated West County area served under the County's Franchise as well as the following four cities franchised separately:

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

Exhibit 1
Map of West Contra Costa County Area Served by RSS



Table 4 and **Table 5** below show current residential and commercial rates for the unincorporated West County territory included in the County/RSS Franchise service area.

The County only regulates the “Collection” portion of monthly rates (Collection Rate). The remaining portion of the monthly 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.

Table 4
Unincorporated West Contra Costa County
Existing Total Residential Rates per Customer, per Month

Service Level	Collection Rate	Post Collection Rate ²	Total Rate (2019)
20 Gallon	\$22.97	\$5.40	\$28.37
35 Gallon	\$25.26	\$9.47	\$34.73
65 Gallon	\$48.89	\$17.61	\$66.50
95 Gallon	\$72.64	\$26.42	\$99.06

Table 5
Unincorporated West Contra Costa County
Selected Total Commercial Rates per Customer, per Month (Existing as of October 4, 2019)

Service Level	One Pickup per Week	Two Pickups Week
1-Cubic Yard	\$233.92	\$411.61
2-Cubic Yard	\$384.32	\$703.73
3-Cubic Yard	\$525.89	\$979.05
4-Cubic Yard	\$663.10	\$1,246.46
5-Cubic Yard	\$797.77	\$1,509.92
6-Cubic Yard	\$931.23	\$1,771.64
7-Cubic Yard	\$1,063.98	\$2,032.43

² Final 2019 Post Collection Rates approved by the RecycleMore Board of Directors in November 2018.

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 rigid plastics (does not include polystyrene)
- 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 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.

D. Goals and Objectives of Rate Analysis

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.

E. Scope of Rate Analysis

The County based the scope of work for this analysis 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, assisted the “County” with five steps in the rate review process (#2 through #5). We carefully analyzed the 2020 rate application. We conducted our work in accordance with procedures described in the Manual. We completed the following activities:

- Verified the application was complete³
- Determined data presented in the application were mathematically correct and consistent
- Reconciled calendar year 2018 financial information provided in the application to the 2018 financial audit⁴
- Compared actual 2018 results with estimated 2019 and projected 2020 financial results
- Analyzed significant historical fluctuations in major cost categories
- Examined the relationships between financial and operating information for reasonableness
- Assessed 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 September 9, 2019. We received RSS responses on September 18, 2019. We met with RSS management on September 19, 2019, to ask remaining follow-up questions and provide RSS with an opportunity to provide additional context regarding the rate application.

F. 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 2019, the service portion of the 35-gallon cart rate was \$25.26 per month. Over this period, the collection portion of the 35-gallon cart rate increased 44.3 percent. The difference between the August 2019 CPI (295.490) and the August 2003 CPI (196.30) was 50.5 percent, higher than the actual change in the service portion of the 35-gallon cart rate.⁵ The effective collection portion of the rate, not including the program changes resulting from the post-collection agreement in 2014 (see footnote 7 on page 9), as of 2019 equals \$21.71 per month for the 35 gallon service level (\$25.26 less \$3.55 per month). This \$21.71 amount represents an increase of 24.1 percent since 2003, well below the 50.5 percent increase in the CPI for this period.

G. 2020 Base Year Rate Application

The County received RSS’s Base Year Rate Change Application (Application) on July 24, 2019. 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 2019 financial results. Year 2020 results are projected in the Application. RSS requested a 9.33 percent service rate increase effective January 1, 2020. This request corresponds to a \$2.36 per customer, per month, increase in the collection portion of the 35-gallon rate, the most common County service level.

³ We submitted a letter of completeness to RSS on September 9, 2019.

⁴ Our review did not represent a financial audit of RSS. Armanino LLP completed a 2018 financial audit of all RSS operations, including the County (provided in Attachment A). For purposes of preparing the 2018 cost data for the Application, RSS allocated County costs from total audited RSS costs.

⁵ The applicable comparable consumer price index is the San Francisco-Oakland-Hayward Consumer Price Index, all urban consumers.

Table 6
Unincorporated West Contra Costa County
Historical Residential Collection Rate Changes: 2003 to 2019 (Not Including Post Collection)

Year	Collection Portion of the Rate (35G Customer, Per Month)	Percent Change in Collection Portion of the Rate
2003	\$17.50	4.15% ⁶
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% ⁷
2009	\$19.25	0.00% ⁴
2010	\$19.25	0.00% ⁸
2011	\$19.61	2.00%
2012	\$19.61	0.00%
2013	\$19.61	0.00%
2014	\$23.16 ⁹	10.6% to 18.00%
2015	\$23.04	~0.00%
2016	\$23.04	0.00% ¹⁰
2017	\$23.04	0.00% ¹⁰
2018	\$24.19	5.00% ¹¹
2019	\$25.26	4.27%

⁶ Rate increase implemented August 1, 2003.

⁷ 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.

⁸ 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.

⁹ 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. The County also implemented new enhanced services at this time. The rate increases for these new services were \$0.95 for 20 gallon, \$1.67 for 35 gallon, \$3.11 for 65 gallon, and \$4.66 for 95 gallon residential services. The 2014 rate increase also included a rate stabilization adjustment for the purpose of offsetting potential future rate increases or supplementing amounts used for additional new services. For residential services, this rate stabilization amount was as follows: \$1.07 (20 gallon), \$1.88 (35 gallon), \$3.49 (65 gallon), and \$5.24 (95 gallon).

¹⁰ Rates were left unchanged in 2016 and 2017. The County Board of Supervisors utilized rate stabilization off-sets to defer pass-through of the recommended 2.19 percent base year increase in 2016 and the 3.05 percent interim year increase in 2017.

¹¹ Rate increase includes the 3% increase for 2018 as well as a portion of the 3.05 percent interim year increase that was deferred in 2017.

H. Analysis of 2020 Base Year Rate Application

This section details findings from Crowe's analysis of RSS's 2020 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 assessed the Application for consistency with the Manual, County policies, and waste management industry practices. We compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from RSS for material changes. We examined actual results from 2018, estimated results for 2019, and projected results for 2020. 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 increased 6.19 percent between 2016 and 2018. 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 6.14 percent between 2016 and 2018, commercial tonnage decreased by 2.9 percent, contributing to the overall estimated 8.7 percent increase in commercial revenues.

Table 7

Unincorporated West Contra Costa County

Comparison of Residential Rate Increases with Changes in Residential Revenues and Accounts

Year	Rate Increases	Change in Residential Accounts	Change in RSS Residential Collection Revenues
2016 to 2018	5.00%	0.32%	6.19%

Table 8

Unincorporated West Contra Costa County

Comparison of Commercial Rate Increases with Changes in Commercial Revenues and Tonnage

Year	Rate Increases	Change in Commercial Tons	Change in RSS Commercial Collection Revenues
2016 to 2018	6.14%	-2.9%	8.7%

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 2016 and 2018, RSS County revenues and costs increased at different rates, as shown in **Table 9**. RSS costs increased 13.0 percent, while RSS revenues increased 6.9 percent. During this same 2016 to

2018 period, RSS's actual operating ratio increased from 89.3 to 95.5 percent.¹² This period of relatively higher costs was primarily driven by high labor costs and increased corporate allocation of G&A costs. RSS experienced high turnover amongst its drivers in 2017 due to the availability of similar positions with higher pay in the San Francisco area, which forced the company to pay overtime to its remaining drivers to maintain its service levels.

Table 9
Unincorporated West Contra Costa County
Change in RSS Revenues and Costs
(2016 to 2018)

Description	Percent Change
Revenues	6.9%
Costs	13.0%

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 ¹³
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

¹² The County's target operating ratio during base years is 90 percent. A smaller operating ratio represents a larger return.

¹³ 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.

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 2018, 105.25 drive-bys per hour).¹⁴ 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 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 2018, 17.06 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 2018, the West County's allocation for the commercial sector was 7.12 percent of total RSS business and the industrial sector was 3.89 percent of total RSS business.

In **Table 11**, we compare County route allocation percentages in 2018, with those from 2014, 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, 2018)

Sector	County 2006 Route Allocation (%)	County 2011 Route Allocation (%)	County 2014 Route Allocation (%)	County 2018 Route Allocation (%)
Residential (refuse) ¹⁵	17.6%	17.5%	17.2%	17.1%
Commercial	8.3%	7.2%	6.5%	7.1%
Industrial	8.8%	6.3%	4.2%	3.9%
Total	14.5%	14.2%	13.7%	13.93%

RSS maintains operating costs by sector. For 2018, RSS's operating costs for each sector were as follows:

- Residential – 72.53% (2014 – 71%, 2011 - 69%, 2006 - 66%)
- Commercial – 14.91% (2014 – 15%, 2011 - 14%, 2006 - 15%)
- Industrial – 12.56% (2014 – 14.62%, 2011 - 17.03%, 2006 - 19.88%).

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

¹⁴ In 2014, residential drive-bys, per hour, were 98.16. In 2011, residential drive-bys, per hour, were 99.81. In 2006, residential drive-bys, per hour, were 82.14.

¹⁵ Does not include curbside recycling or organics.

- Residential – $72.53\% \times 17.06\% = 12.38\%$
- Commercial – $14.91\% \times 7.12\% = 1.06\%$
- Industrial – $12.56\% \times 3.89\% = 0.49\%$
- Total = 13.93 percent.

For 2018, RSS allocated 13.93 percent of consolidated RSS costs to unincorporated West County (for those cost categories requiring the route allocation method).

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.

3. Review of RSS Revenues, Costs, and Profits

This section describes our analysis 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 \$4,870,878. 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 2020 revenue requirement. Adjustments reduce the RSS 2020 revenue requirement by \$199,984.

i. Revenues

Residential Revenues

RSS projected no change in residential revenues between 2019 and 2020. RSS indicated in its Application that residential accounts were relatively unchanged, decreasing by 0.1 percent from 2018 to 2019. RSS expects residential accounts to remain at 2019 levels in 2020. 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 2020, with one minor \$1,263 increase to match the detailed residential revenue figures provided by RSS in support of the projection.

Net Impact:

[\$1,263 increase in residential revenues]

Commercial and Light Industrial Revenues

RSS projected no change in commercial and light industrial revenues between 2019 and 2020. Commercial and light industrial revenues are projected to decrease slightly in 2019, 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 2020.

Net Impact:

[No change to the revenues]

ii. Costs

Direct Labor

RSS projected labor costs to increase 5.0 percent for both 2019 and 2020. We reviewed labor agreements between RSS and the Teamsters Local 315 (garbage and recycling drivers). The projected 5.0 percent increases in labor costs for 2019 and 2020 are inconsistent with required combined changes in wages, health and welfare, and pension costs specified in RSS labor agreements. Based on these agreements and current RSS-provided driver allocations, we recommend the county allow a 3.22 percent increase in total driver compensation for 2019 and a 4.46 percent increase for 2020.

Using data from RSS's collective bargaining agreements, Crowe calculated the average annual percent increases in RSS's total compensation cost by annualizing and aggregating the wage and benefit costs for both garbage and recycle drivers. We then calculated a weighted average of these two increases for 2019 (3.22%) and 2020 (4.46%) using RSS-provided driver headcounts as weights. Since the total driver headcount has not changed significantly since 2018 (it had increased by one as of September 25, 2019), the total number of regular and overtime driver hours has probably not changed significantly since 2018 either and is unlikely to change significantly in 2020. Assuming total hours were constant from 2018 to 2020 and given that overtime and benefit costs were included in direct labor costs for 2018, direct labor costs for 2018 in conjunction with the previously described annual increases can be used to estimate direct labor costs for 2019 and 2020.

To estimate 2019 direct labor costs, we assumed a 3.22% increase over the actual 2018 direct labor cost. To estimate 2020 direct labor costs, we assumed a 4.46% increase over the estimated 2019 direct labor cost. This method effectively accounts for both overtime labor hours, since these are included in the 2018 direct labor cost, and increases in wage and benefit costs, which occur according to a fixed schedule defined in the collective bargaining agreements. There will not be unforeseen increases in wage, health, welfare, or pension costs per driver until the current collective bargaining agreements expire on March 1, 2022.

Net Impact:

[Decrease in revenue requirement of \$49,714]

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.

RSS originally allocated 20.37% of Consulting and Professional Fees to Unincorporated County.

Crowe subtracted \$55,581 in 2018 lobbying expenses from the \$333,405 in 2018 Consulting and Professional Fees, leaving \$277,284 in allowable costs. From this amount, we subtracted a \$129,000 audit fee expense which was for the required base year audit. In order to spread the expense over the four year cycle until the next Base Year rate setting, an annual allocation amount equal to 1/4 of this

\$129,000 was used (\$32,250). The remaining \$148,824 in Consulting and Professional Fees was multiplied by the route allocation base (13.93%) to obtain Unincorporated County's portion, which was \$20,725. The two amounts allocated to Unincorporated County totaled \$52,975 (\$32,250 audit fees + \$20,725 other allocated fees). We then substituted \$52,975 into the 2018 Consulting and Professional Fees line item for Unincorporated County, which reduced Total Corporate and Local General and Administrative Costs in 2018 from \$688,468 to \$673,535, a decrease of \$14,933. We accept RSS's assumption that the year-over-year percent increases between 2018-2019 G&A costs and 2019-2020 G&A costs were 3.165% and 3.000% respectively, as these increases were both less than the respective annual CPI increases. Finally, we applied these annual percent changes to the 2018 cost decrease of \$14,933 to obtain the 2020 decrease of \$15,866.

Net Impact:

[Decrease in revenue requirement of \$15,866]

Depreciation and Other Operating Costs

No changes were made to this cost category.

Net Impact:

[No change to the revenue requirement]

Services Provided to County

Most costs within the Services Provided to County line item are associated with the disposal of illegally dumped material collected by County Public Works and Housing Authority trucks from publically maintained land in the North Richmond vicinity (\$56,181 for 2019). Although there is financial 2019 year to date data supporting the dollar amount, this facility disposal is not a valid collection company expense, nor is this disposal service required by the County's Franchise Agreement. This disposal expense is a facility operating cost necessary to comply with a requirement imposed as a condition of Republic Services' Bulk Materials Processing Center land use permit issued by the County. The same condition was included in the use permit issued by the City of Richmond. Republic Services' facility located at the foot of Parr Boulevard in North Richmond, and not RSS, bears the responsibility for complying with the City and County use permit conditions requiring that City and County trucks be allowed to dispose of illegally dumped material at no charge.

A portion of the \$56,181 in disallowed disposal costs in the amount of \$6,805.90 was deducted from this line item, however the remainder in the amount of \$49,376.10 is being included to pay for the existing on-call Bulky Item Pick-up services on an on-going basis.

The balance of costs within this cost category (\$13,779) was for RSS to provide collection services to specific publicly owned facilities. Of this total, \$9,394 was for included for sludge disposal from the West County Wastewater District facility. This sludge disposal expense was removed from this line item since this is not a free service requested or authorized by the County in accordance with the terms of the Franchise Agreement, as amended. The cost of the remaining services provided to the county (\$4,385) was for routine services provided for street cans, County library and fire station (\$3,009) and providing clean-ups (\$1,376).

In order to determine whether RSS was appropriately segregating right-of-way dumping removal costs for this Base Year Rate Application, we reviewed the services provided by RSS for on-call right-of-way pick-ups as well as the pick-ups provided by the full-time "Hot Spot Crew" within the North Richmond area. The on-call right-of-way service is called for in the Franchise Agreement, however the services provided by the "Hot Spot Crew" is a requirement from the conditions of approval in two use permits granted by the County and the City of Richmond. The "Hot Spot Crew" expenses are a facility compliance cost, and

therefore not an allowable collection company expense for rate setting purposes. The on-call right-of-way service is only to be treated as allowable for rate setting purposes, if the County chooses not to use another funding source to compensate RSS. Until early 2018, on-call right-of-way pick-ups were funded with efficiency surplus revenue and a new supplemental funding source is intended to be used thereafter. We determined that RSS has specifically been removing these pick-up services from the County route allocation calculations (described in Section 2) and thus they are not including costs associated with these services in the Application.

Net Impact:

[Decrease in revenue requirement of \$16,200]

Trucking and Equipment (Allowable)

In this category, we reviewed RSS's recent monthly fuel purchases. We show average 2018 and year-to-date 2019 diesel fuel prices paid by RSS, in **Table 12**. The relative price change is not significantly different from the change in wholesale diesel prices in California during the same time periods. We accepted RSS's fuel projection for 2020.

Net Impact:

[No change to the revenue requirement]

Table 12
Richmond Sanitary Service
Diesel Fuel Price per Gallon
(2018 and 2019)

Month	Price per Gallon
Average 2018	\$2.87
Average January through May 2019	\$2.99

Trucking and Equipment (Pass Through)

We obtained line item detail for trucking costs, of which approximately 65.3% were intercompany equipment rental. After allocating 13.93 percent of trucking and equipment costs to County based on route allocation data, RSS allocated 65.3% of that amount to Trucking and Equipment (Equipment Rental). We accepted RSS's pass-through cost allocation for 2020.

Net Impact:

[No change to the revenue requirement]

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 13**. Amounts included in RSS's Application, RSS detailed records, and in County records are similar.

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 revenue requirement of \$7,540]

Table 13
Richmond Sanitary Service
Comparison of Franchise Fees
(Calendar Years 2017, 2018 and 2019)

Calendar Year	Application	RSS Detailed Monthly Payment Records	County Reports
2017	\$305,666	\$305,666	\$305,666
2018	\$317,274	\$317,274	\$317,274
2019 (Jan-July)	N/A	\$188,580	\$188,580

Rate Stabilization Fund

In the application, RSS included an amount of \$102,278 to fund past costs intended to be paid for with supplemental funding source (line 25 of the Application). Therefore, we removed this \$102,278 contribution to mitigate the impact of the 2020 rate change.

Net Impact:

[Decrease in 2020 revenue requirement of \$102,278]

iii. Profits

With the adjustments identified in this section, total allowable costs for the projection year 2020 are \$3,377,757. 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.

Table 14 shows the operating ratio calculation for 2020. Without any changes to rates, the company would receive an operating ratio of 96.02 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.¹⁶

The operating ratio calculation is as follows:

$$\text{Operating Ratio (OR)} = \frac{\text{Total Allowable Costs}}{\text{Total Allowable Costs} + \text{Allowable Operating Profit}}$$

The OR calculation is shown in **Table 15**, following Table 14. We calculate allowable profit of \$375,306 at the allowable 90 percent operating ratio. This allowable profit represents a reduction of \$9,087 from the \$384,393 in profit requested in the Application for 2020.

Net Impact:

[Decrease in 2020 revenue requirement of \$9,087]

¹⁶ Source: Rate Setting Manual, page I-14.

Table 14
Richmond Sanitary Service
Calculation of Actual Operating Ratio
(Projected 2020 Base Year)

Description	Amount
Total Revenues (line 21)	\$ 4,279,532
Plus Credit for Enhanced Services (Line 12) ¹⁷	295,599
Less Total Allowable Costs (line 7)	(3,377,757)
Less Franchise Fees (line 23)	(334,122)
Less Pass-Through Costs	(685,987)
Equals Profits (with adjustments and no rebasing)	\$ 177,265
Operating Ratio (with adjustments and no rebasing)	$\$4,279,532 / (\$4,279,532 + \$177,265) = 96.02\%$

Table 15
Allowable Profit Calculation
(Projected 2020 Base Year)

Description	Amount
(Total Allowable Costs / Operating Ratio) – Total Allowable Costs	$(\$3,377,757/90 \text{ percent}) - \$3,377,757$
= Allowable Operating Profit	= <u>\$375,306</u>

4. Components of Residential Rates

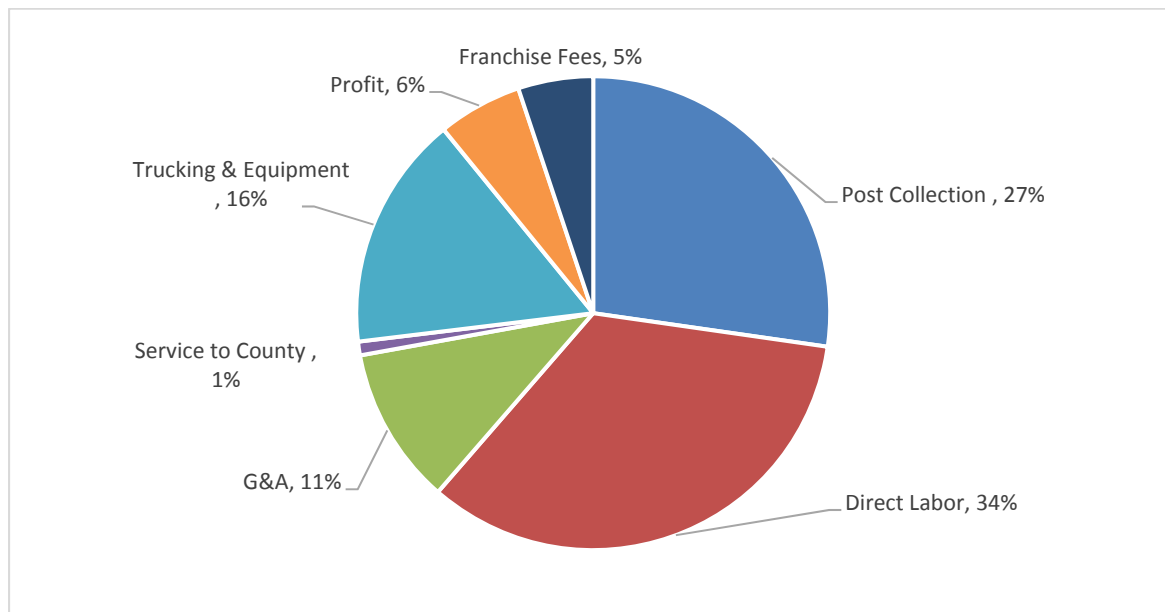
There are a number of cost components which are included in residential rates. Using the 35-gallon residential cart rate as an example, the pie chart in **Figure 1**, on the following page, shows the major components of the projected 2020 rates, and the relative costs of each component. Line item references 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).

¹⁷ Based on terms specified in Exhibit F of the Second Amendment to the County/RSS Franchise.

- 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
Rate Components
(Projection Year 2020)



I. Comparison of Rates and Services to Other Neighboring Communities

RSS' current 2019 Unincorporated West County rates were compared with survey data from ten (10) other communities. Results of the survey are summarized in **Attachment C. Tables C-1 through C-3** show how 2019 West County residential rates currently charged by RSS compare to the average of the other 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 neighboring communities. Existing RSS Unincorporated residential rates compare most favorably for 20-gallon and 35-gallon services at 16.1 and 12.2 percent below average. West County residential rates for 65-gallon service were 7 percent below average, while rates for the 96-gallon service were 0.5 percent above 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 areas surveyed. Rates ranged from 7.0 percent

below average to 1.6 percent above average. Rates for five of the six categories surveyed fell below average.

For information purposes only, for the industrial (debris box) sector, as shown in Table C-3, rates ranged from 38.1 percent below average to 5.2 percent above average. This comparison is based on a representative two (2) ton load. Note that most of the comparable communities 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.

* * * * *

This Analysis is substantially different from an audit, examination, or review in accordance with Generally Accepted Auditing Standards, the objective of which is to express an opinion regarding RSS financial statements. Accordingly, we do not express such an opinion.

The consulting services did not contemplate obtaining the understanding of RSS internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this Analysis, the County agreed to be responsible to: make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The County has the ultimate authority to approve rate changes.

Crowe's fees are not dependent upon the outcome of this report and Crowe is independent with respect to any other economic interests.



Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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Attachment A: Rate Application and Audited Financial Statements

Attachment A includes the 2020 Base Year Rate Change Application (Application) submitted by RSS to the County July 24, 2019. In the Application, RSS proposed to increase the service portion of West unincorporated County collection rates by 9.33 percent on January 1, 2020. The Application included the following forms:

- Financial information
- Cost summary for year 2018
- 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, 2016 to 2018 (including audited 2018 results)
- Current year estimated, 2019
- Base year projected, 2020.

Attachment A also includes the 2020 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.



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Contra Costa County - Unincorporated

Base Year Rate Change Application

Financial Information

	Actual Historical Years			Estimated Current Year	Projected Base Year
	Year 1 2016	Year 2 2017	Year 3 2018	Year 4 2019	Year 5 2020
Section I -- Allowable Costs					
1. Direct Labor	\$ 1,819,825	\$ 1,835,706	\$ 2,058,438	\$ 2,161,039	\$ 2,269,091
2. Corporate and Local General and Administrative Costs	605,792	613,608	688,486	710,256	731,564
3. Depreciation and Other Operating Costs	34,982	33,139	35,562	30,161	31,086
4. Services Provided to County	61,032	55,756	84,424	69,959	69,959
5. Trucking and Equipment	274,030	323,127	336,205	347,434	357,857
6. Total Allowable Costs (Lines 1+2+3+4)	\$ 2,795,661	\$ 2,861,416	\$ 3,203,095	\$ 3,318,850	\$ 3,459,537
Section II -- Allowable Operating Profit					
6. Operating Ratio	90%	90%	90%	90%	90%
7. Allowable Operating Profit [(Line 5 / 0.9)-Line 5]	\$ 310,607	\$ 329,046	\$ 355,899	\$ 368,761	\$ 384,393
Section III -- Pass Through Costs without Franchise Fees					
8. County Administrative Fee	\$	\$	\$	\$	\$
9. Trucking and Equipment (Equipment Rental)	600,131	607,201	632,949	666,007	685,987
10. Total Pass Through Costs (without Franchise Fees) (Lines 8+9)	\$ 600,131	\$ 607,201	\$ 632,949	\$ 666,007	\$ 685,987
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)	\$ 3,706,199	\$ 3,897,664	\$ 4,191,844	\$ 4,353,617	\$ 4,529,517
12. Less Credit for Enhanced Services per Post-Collection Agreement					\$ 295,599
13. Adjusted Revenue Requirement (without Franchise Fees) (line 11-12)					\$ 4,234,318
Section V -- Revenues without Rate Change in Base Year					
14. Residential Revenues					\$ 3,135,799
15. Less Allowance for Uncollectible Residential Accounts					(29,107)
16. Total Residential Revenues (without Rate Change in Base Year)	\$ 2,907,800	\$ 2,995,624	\$ 3,087,941	\$ 3,106,691	\$ 3,106,691
17. Commercial and Light Industrial Revenues					\$ 1,182,218
18. Less Allowance for uncollectible Commercial and Light Industrial Accounts					(10,640)
19. Total Commercial/Light Industrial Revenues (without Rate Change in Base Year)	\$ 1,120,446	\$ 1,144,665	\$ 1,217,416	\$ 1,171,578	\$ 1,171,578
20. Recycled Material Sales (N/A if Use IRRF)	\$ -	\$ -	\$ -	\$ -	\$ -
21. Total Revenues (Lines 16+19+20)	\$ 4,028,246	\$ 4,140,289	\$ 4,305,257	\$ 4,278,269	\$ 4,278,269
Section VI -- Net Shortfall (Surplus)					
22. Net Shortfall (Surplus) without Franchise Fees (Lines 13-Line 21)					\$ (43,951)
23. Residential / Commercial / Light Industrial Franchise Fees (see calculation below)	\$ 297,054	\$ 305,666	\$ 317,274	\$ 324,006	\$ 340,862
24. Net Shortfall (Surplus) with Franchise Fees (Lines 22+23)					\$ 297,010
25. Contribution From/To Rate Stabilization Fund					\$ 102,276
26. Adjusted Net Shortfall (Surplus) with Franchise Fees (Lines 24+25)					\$ 399,286
Section VII -- Percent Change in Rates					
27. Total Commercial / Light Industrial Revenues Prior to Rate Change (Lines 16+19)				\$ 4,278,269	
28. Percent Change in Existing Residential / Commercial / Light Industrial Rates (Line 26 / Line 27)					9.33%
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)				\$ 3,459,537	
30. Allowable Operating Profits (Line 7)				\$ 384,393	
31. Pass Through Costs with Franchise Fees (Line 10+23)				\$ 1,026,948	
32. Revenue Requirement				\$ 4,870,879	



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Contra Costa County - Unincorporated

Base Year Rate Change Application

Cost Summary for Year 2018

Section VIII - Base Year Cost Allocation

Description of Cost	Unincorporated County	Non-Uninc. County	Audited RSS Financial	Allocation Base(s)
Labor - Regular	\$ 1,136,242	\$ 7,023,093	\$ 8,159,335	Labor Hours
Labor - Overtime	237,771	1,469,657	1,707,428	Labor Hours
Benefits	568,578	3,514,367	4,082,945	Labor Hours
Payroll Taxes	115,848	716,052	831,900	Labor Hours
33. Total Direct Labor	\$ 2,058,438	\$ 12,723,169	\$ 14,781,607	
Bank Fees	\$ 46,632	\$ 288,229	\$ 334,861	Accounts
Bonus Pay Corporate	\$ 39,252	\$ 242,616	\$ 281,869	Accounts
Collection Fees	\$ 647	\$ 4,001	\$ 4,649	Accounts
Computer Services	2,374	14,674	17,048	Accounts
Consulting and Professional Fees	67,908	265,497	333,405	Direct
Dues and Subscriptions	6,382	39,444	45,826	Accounts
Insurance	133,949	827,936	961,885	Accounts
Laundry and Uniforms	4,613	28,512	33,124	Accounts
Management Fees/Corporate Overhead	258,519	1,597,902	1,856,421	Accounts
Miscellaneous and Other	2,142	13,241	15,383	Accounts
Office Expenses	7,705	47,621	55,326	Accounts
Office Repair and Maintenance	35	215	250	Accounts
Outsource Billing	-	-	-	Accounts
Postage	2,949	18,226	21,175	Accounts
Public Relations and Promotion	21,518	133,002	154,520	Accounts
Relocation and Recruiting	974	6,018	6,991	Accounts
Sales and Marketing Misc.	3,866	23,897	27,763	Accounts
Taxes and Licenses	7,863	48,599	56,462	Accounts
Telephone	13,053	80,678	93,731	Accounts
Travel	916	5,659	6,575	Accounts
Utilities	67,171	560,608	627,780	Accounts
34. Total Corporate and Local General and Administrative Costs	\$ 688,466	\$ 4,246,577	\$ 4,935,043	
Depreciation-Buildings	\$ 3,135	\$ 19,380	\$ 22,515	
Depreciation-Office Furniture and Equipment	1,185	7,327	8,512	Accounts
Depreciation-Vehicles	28,117	173,792	201,909	Direct
Depreciation-Containers	-	-	-	Direct
Depreciation-Equipment	1,404	8,681	10,085	Direct
Other Operating Costs	1,720	10,632	12,352	Accounts
35. Total Depreciation and Other Operating Costs	\$ 35,562	\$ 219,811	\$ 255,373	
36. Total Services Provided to County	\$ 84,424			Direct
37. Total Allowable Costs (Lines 33+34+35+36)	\$ 2,866,890	\$ 17,189,557	\$ 19,972,023	
38. Total County Administration Fee				
Equipment Rental	\$ 632,849	\$ 3,911,629	\$ 4,544,478	Direct
Gas and Oil	165,653	1,023,896	1,189,549	Accounts
Parts	105,821	654,075	759,896	Accounts
Repair and Maintenance	17,529	108,347	125,876	Accounts
Tires	34,931	215,906	250,836	Accounts
Other	12,272	75,856	88,128	Accounts
39. Total Trucking and Equipment	\$ 969,055	\$ 5,989,709	\$ 6,958,764	
40. Total Residential/Commercial/Light Industrial Franchise Fees	\$ 317,274	\$ 2,965,909	\$ 3,283,183	Direct
41. Total Pass Through Costs (Lines 38+39+40)	\$ 1,286,329	\$ 8,955,617	\$ 10,241,946	
42. Total Costs (Lines 37+41)	\$ 4,153,219	\$ 26,145,175	\$ 30,213,970	

Year: 2016

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Ms. Deidra Dingman, Conservation Programs Manager
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Contra Costa County - Unincorporated

Base Year Rate Change Application

Revenues Summary

Section IX -- Revenues					
	Actual			Estimated	Projected
	Historical Years			Current Year	Base Year
	Year 1 2016	Year 2 2017	Year 3 2018	Year 4 2019	Year 5 2020
Single Family Residential Services					
43. Single Family Residential Revenues	\$ 2,934,208	\$ 3,022,829	\$ 3,115,884	\$ 3,135,799	\$ 3,135,799
Multiunit Residential Services					
44. Number of Accounts					
45. Multiunit Residential Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
46. Residential Revenues (w/o Allowable for Uncollectible Accounts) (Lines 43+45)	\$ 2,934,208	\$ 3,022,829	\$ 3,115,884	\$ 3,135,799	\$ 3,135,799
47. Allowance for Uncollectible Residential Accounts	\$ 26,408	\$ 27,205	\$ 28,043	\$ 29,107	\$ 29,107
48. Total Residential Revenues (Line 46 - Line 47)	\$ 2,907,800	\$ 2,995,624	\$ 3,087,841	\$ 3,106,691	\$ 3,106,691
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	172	168	167	169	169
52. Commercial and Light Industrial Bin Revenues	\$ 847,585	\$ 870,341	\$ 886,747	\$ 937,395	\$ 937,395
Commercial and Light Industrial Drop Box Services					
53. Number of Accounts	33	32	29	30	30
54. Commercial and Light Industrial Drop Box Revenues	\$ 283,036	\$ 284,720	\$ 341,725	\$ 244,822	\$ 244,822
55. Commercial and Light Industrial Revenues (w/o Allowance for Uncollectible Accounts) (Lines 50+52+54)	\$ 1,130,622	\$ 1,155,060	\$ 1,228,472	\$ 1,182,218	\$ 1,182,218
56. Allowance for Uncollectible Commercial and Light Industrial Accounts	\$ 10,176	\$ 10,396	\$ 11,056	\$ 10,640	\$ 10,640
57. Total Commercial and Light Industrial Revenues (Line 55 - Line 56)	\$ 1,120,446	\$ 1,144,665	\$ 1,217,416	\$ 1,171,578	\$ 1,171,578
58. Recycled Material Sales	\$ -	\$ -	\$ -	\$ -	\$ -
59. Total Revenues (Lines 48+57+58)	\$ 4,028,246	\$ 4,140,289	\$ 4,305,257	\$ 4,278,269	\$ 4,278,269

Year:

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Ms. Deidra Dingman, Conservation Programs Manager
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Contra Costa County - Unincorporated

Base Year Rate Change Application

Single Family Residential Revenues Summary

Section X - Single Family Residential Revenues and Customer Counts

				2019 Base Year Revenues
Single Family Residential Revenues (w/o Rate Change in Base Year)				
	Current Rate/Month	Projected Accounts	Total ^{1/}	
35 Gallon Container	25.26	7,678	2,327,355	
65 Gallon Container	48.89	556	326,194	
95 Gallon Container	72.64	101	88,040	
20 Gallon Mini-Can	22.97	1,787	492,569	
60. Total Base Year Single Family Residential Revenues		10,122	\$ 3,234,158	

^{1/} Equal to the current rate per month multiplied by 12 multiplied by the projected number of accounts.

Year:

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Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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Contra Costa County - Unincorporated

Base Year Rate Change Application

Operating Information

Historical Information	Percent Change	Historical Information	Percent Change	Historical Information	Percent Change	Current Year Estimated 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
2016		2017		2018		2019		2020

Section XI -- Operating Data

Accounts

61. Residential	9,713	-0.34%	9,680	0.66%	9,744	-0.12%	9,732	0.00%	9,732
62. Commercial	172	-2.33%	168	-0.60%	167	1.20%	169	0.00%	169
63. Light Industrial	33	-3.03%	32	-9.38%	29	3.45%	30	0.00%	30
64. Total Accounts	9,918	-0.38%	9,880	0.61%	9,940	-0.09%	9,931	0.00%	9,931

Waste Tonnage

65. Residential	7,319	-0.99%	7,247	3.67%	7,513	-1.36%	7,411	0.00%	7,411
66. Residential Greenwaste	5,382	-6.02%	5,058	-1.92%	4,961	0.00%	4,961	0.00%	4,961
67. Commercial	1,226	11.78%	1,371	-4.22%	1,313	0.00%	1,313	0.00%	1,313
68. Light Industrial	742	5.94%	786	-0.03%	786	2.92%	809	0.00%	809
69. Total Tonnage	14,670	-1.42%	14,462	0.77%	14,573	-0.54%	14,494	0.00%	14,494

Recyclable Tonnage

70. Residential	4,079	0.66%	4,106	2.95%	4,227	-2.06%	4,140	0.00%	4,140
71. Commercial	519	-4.43%	496	6.45%	528	0.00%	528	0.00%	528
72. Light Industrial	66	240.91%	225	-38.67%	138	0.00%	138	0.00%	138
73. Total Tonnage	4,664	3.49%	4,827	1.37%	4,893	-1.78%	4,806	0.00%	4,806

County Services

74. County Bins	24	0.00%	24	0.00%	24	0.00%	24	0.00%	24
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	\$ 361.47	3.05%	\$ 372.49	3.00%	\$ 383.66	4.27%	\$ 400.04	9.33%	\$ 437.38
77. 2 Yard Bin -- Once per Week	271.45	3.05%	279.73	3.00%	288.12	4.27%	300.42	9.33%	328.46
78. 20 Yard Debris Box -- per Pick Up	\$ 415.00	4.10%	\$ 432.00	5.09%	\$ 454.00	4.41%	\$ 474.00	5.00%	\$ 497.70

Year:

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Contra Costa County - Unincorporated

Base Year Rate Change Application

Unincorporated Area: All Areas

Rate Change

79. Rate Change Requested

9.33%

Rate Schedule

New

Rate schedule	Current Rate (w/o IRRF)	New Rate, Before Adjustment	Adjustment (a)	Rate
35 Gallon Container	\$ 25.26	27.62	(0.02)	27.60
65 Gallon Container	48.89	53.45	-	53.45
95 Gallon Container	72.64	79.42	(0.02)	79.40
20 Gallon Mini-Can	22.97	25.11	(0.01)	25.10

80. Multiunit Residential

Rate increase of 9.33% 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: 6/30/2019

Year:

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Richmond Sanitary Service, Inc.

(A Subsidiary of Republic Services, Inc.)

Financial Statements

December 31, 2018

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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, 2018, 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.



Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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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, 2018, 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

July 22, 2019



Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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RICHMOND SANITARY SERVICE, INC.
Balance Sheet
December 31, 2018

ASSETS

Current assets	
Cash	\$ 6,593
Accounts receivable, less allowance for doubtful accounts of \$538,800	5,419,395
Prepaid expenses	88,088
Inventory	137,634
Total current assets	<u>5,651,710</u>
Intercompany account - related party, net	114,706,040
Property and equipment, net	<u>127,512</u>
Total assets	<u>\$ 120,485,262</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities	
Accounts payable	\$ 339,290
Accrued expenses	1,585,211
Deferred revenue	1,813,241
Total current liabilities	<u>3,737,742</u>
Accumulated post-retirement benefit obligation, noncurrent	<u>805,774</u>
Stockholder's equity	
Partner's capital	115,547,621
Accumulated other comprehensive loss	394,125
Total stockholder's equity	<u>115,941,746</u>
Total liabilities and stockholder's equity	<u>\$ 120,485,262</u>

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



Ms. Deidra Dingman, Conservation Programs Manager
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RICHMOND SANITARY SERVICE, INC.
Statement of Comprehensive Income
For the Year Ended December 31, 2018

Operating revenue	<u>\$ 56,184,758</u>
Expenses	
Operating expenses	43,157,715
General and administrative	5,975,020
Depreciation and amortization	39,557
Total expenses	<u>49,172,292</u>
Other income	
Intercompany interest income	2,549,849
Other income	5,674
Total other income	<u>2,555,523</u>
Income before taxes	9,567,989
Income tax expense	<u>2,677,123</u>
Net income	6,890,866
Other comprehensive income (loss)	
Minimum pension liability adjustment	<u>43,413</u>
Comprehensive income	<u>\$ 6,934,279</u>

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, 2018

	Partner's Capital	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	\$ 108,656,755	\$ 350,712	\$ 109,007,467
Minimum pension liability adjustment	-	43,413	43,413
Net income	<u>6,890,866</u>	<u>-</u>	<u>6,890,866</u>
Balance, December 31, 2018	<u>\$ 115,547,621</u>	<u>\$ 394,125</u>	<u>\$ 115,941,746</u>

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



Ms. Deidra Dingman, Conservation Programs Manager
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RICHMOND SANITARY SERVICE, INC.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities	
Net income	\$ 6,890,866
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	41,113
Changes in operating assets and liabilities	
Accounts receivable	(88,195)
Prepaid expenses	8,553
Inventory	14,553
Accounts payable	190,144
Accrued expenses	98,936
Accumulated post-retirement benefit obligation	25,608
Deferred revenue	82,054
Net cash provided by operating activities	<u>7,263,632</u>
Cash flows from financing activities	
Net financing activities with Republic and affiliates	<u>(7,267,770)</u>
Net change in cash	(4,138)
Cash, beginning of period	<u>10,731</u>
Cash, end of period	<u>\$ 6,593</u>
<u>Supplemental disclosure of cash flow information</u>	
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, 2018

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, 2018

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 \$41,113 for the year ended December 31, 2018. 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, 2018

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 July 22, 2019, 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, 2018:

Building and leasehold improvements	\$ 596,245
Office equipment	292,730
Machinery and equipment	<u>190,604</u>
Total property and equipment	1,079,579
Less accumulated depreciation	<u>(952,067)</u>
Property and equipment, net	<u>\$ 127,512</u>

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2018

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, 2018:

Integrated Resource Recovery Facility (IRRF) fees	\$17,795,963
Landfill disposal fees	\$ 1,422,940
Property rental fees	\$ 274,444
Garage facility rental fees	\$ 466,824
Truck and equipment rental fees	\$ 4,263,143
Administrative and overhead fees	\$ 1,972,897
Insurance costs	\$ 538,122
Interest income	\$ 2,549,849

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 April 2020 (see Note 7). The rent expense incurred was \$274,444 in 2018.

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 \$4,729,967 for the year ended December 31, 2018.

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 \$1,972,897 for the year ended December 31, 2018. Insurance costs paid by Republic amounted to \$538,122 for the year ended December 31, 2018.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2018

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, 2018

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, 2018 totaled \$126,052.

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 \$250 per month for the period January 1, 2018 through June 30, 2018 and \$275 per month for the period July 1, 2018 through December 31, 2018. Company contributions to the Machinists Plan for the year ended December 31, 2018 totaled \$38,847.

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 two 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, 2018

5. Pension Plans (continued)

Multiemployer pension plan (continued)

The Company's participation in multiemployer pension plans for the year ended December 31, 2018 is outlined in the table below. The most recent PPA zone status available in 2018 is for the plans year ended December 31, 2017. 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.

	<u>EIN</u>	<u>Pension Protection Act Zone Status</u>	<u>Funding Improvement or Rehabilitation Plan Status Pending Implemented</u>	<u>Contributions to Plan</u>	<u>Surcharge Imposed</u>	<u>Expiration of CBA</u>
Western Conference of Teamsters Pension Trust Fund	91-6145047	Safe	No	\$1,190,422	No	2/28/2022
Western States Office & Professional Employee's Pension Fund	94-6076144	Critical	Implemented	70,475	Yes	1/31/2018
Automotive Industries Pension Plan	94-1133245	Critical	Implemented	<u>107,705</u>	Yes	6/30/2019
Total				<u>\$1,368,602</u>		

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, 2018 is 4.39%.

The following provides further information about the plan at December 31, 2018:

Change in benefit obligation	
Beginning of year projected benefit obligation	\$823,579
Service cost	25,162
Interest cost	38,830
Actuarial loss	(43,413)
Benefits paid	<u>(38,383)</u>
End of year projected benefit obligation	<u>\$805,774</u>

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2018

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	38,383
Benefits paid	<u>(38,383)</u>
End of year fair value of plan assets	<u>\$ -</u>
Funded status reconciliation	
Beginning of year funded status	\$(823,579)
Net periodic benefit cost	(68,032)
Deduct amortization	(4,040)
Benefits paid	(38,383)
Loss	<u>(43,413)</u>
End of year funded status	<u>\$ (805,774)</u>
Amounts in statement of financial position	
Non-current assets	\$ -
Current liabilities	-
Non-current liabilities	<u>(805,774)</u>
Net amount recognized	<u>\$ (805,774)</u>
Amount recognized in accumulated other comprehensive loss	
Prior service cost	\$ -
Net loss	<u>39,130</u>
Accumulated other comprehensive loss	<u>\$ 39,130</u>

Components of net periodic benefit cost

The net periodic benefit cost for 2018 includes the following components:

Service cost	\$ 25,162
Interest cost	38,830
Expected return on plan assets	-
Amortization of prior service cost	-
Recognized net actuarial (gain) or loss	<u>4,040</u>
Net periodic benefit cost	<u>\$ 68,032</u>

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2018

6. Post-Retirement Health Care Plan (continued)

Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2018:

Discount rate	4.39%
Expected return on plan assets	0.00%
Rate of compensation increase	N/A

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

2019	\$ 33,448
2020	\$ 47,933
2021	\$ 60,466
2022	\$ 72,759
2023	\$ 77,521
Thereafter	\$ 512,201

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 April 2020.

RICHMOND SANITARY SERVICE, INC.
Notes to Financial Statements
December 31, 2018

7. Commitments and Contingencies (continued)

Lease commitments (continued)

Future minimum obligations to pay under the lease agreement at December 31, 2018 are as follows:

2019	\$259,616
2020	<u>87,248</u>
	<u>\$346,864</u>

Rent expense charged to operations was \$274,444 which is included in general and administrative expenses for the year ended December 31, 2018.

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, 2018

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 21% 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 27.98% on the Company's pre-tax income of \$9,567,989 for 2018. 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, 2018.

Estimated net amount of allocated income tax expense recorded by the Company totaled \$2,677,123 for the year ended December 31, 2018. 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 27.98% in 2018. This rate differs from the statutory federal rate of 21% primarily because of state income taxes.



Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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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

- Minor increase to revenues

Allowable Costs/Profits

- Moderate decrease to direct labor
- Moderate decrease 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 decrease to allowable profit

Pass Through Costs

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

Exhibit B-1
Schedule of Rate Analysis Findings
(Projection Year 2020)

Line in Application	Category	Revenue or Cost	Profit	Total
Revenues				
14	Residential Revenues	\$1,263	\$0	\$0
17	Commercial Revenues	0	0	0
Subtotal		\$1,263	\$0	\$0
Allowable Costs				
1	Direct Labor	(\$49,714)	(\$5,524)	(\$55,238)
2	Corporate and Local General and Administrative	(\$15,866)	(\$1,763)	(\$17,629)
3	Depreciation and Other Operating Costs	0	0	0
4	Services Provided to County	(\$16,200)	(\$1,800)	(\$18,000)
9	Trucking and Equipment	0	0	0
Subtotal		(\$81,780)	(\$9,087)	(\$90,866)
Allowable Operating Profits				
7	Allowable Profits	\$0	\$0	\$0
Subtotal		\$0	\$0	\$0
Pass Through Costs without Franchise Fees				
8	Administrative Fees	\$0	\$0	\$0
9	Trucking and Equipment (Equipment Rental)	0	0	0
Subtotal		\$0	\$0	\$0
Franchise Fees				
23	Residential/Commercial/Light Industrial Franchise Fees	(\$6,839)	\$0	(\$6,839)
Contribution to Rate Stabilization Fund				
25	Contribution to Rate Stabilization Fund	(\$102,278)	\$0	(\$102,278)
Subtotal		(\$109,117)	\$0	(\$109,117)
	Total Adjustments	(\$190,897)	(\$9,087)	(\$199,984)



Ms. Deidra Dingman, Conservation Programs Manager
November 7, 2019

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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 communities:

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

Table C-1
Comparison of RSS' Unincorporated West Contra Costa County Residential Rates with Neighboring Communities (Per Customer, Per Month)

City / Community	20 Gallon	35 Gallon	65 Gallon	95 Gallon
1. Albany	\$39.15	\$43.84	\$75.77	\$107.68
2. Crockett	\$29.01	\$34.39	\$60.31	\$73.28
3. El Cerrito	\$37.63	\$49.63	\$99.64	N/A
4. Hercules	\$32.92	\$38.63	\$68.11	\$98.47
5. Kensington	\$43.60	\$47.60	\$95.17	\$142.79
6. Oakland	\$41.54	\$47.17	\$83.26	\$125.13
7. Pinole	\$29.99	\$35.74	\$63.63	\$92.40
8. Richmond	\$30.48	\$37.09	\$70.37	\$104.59
9. Rodeo	\$27.21	\$29.20	\$35.62	\$48.98
10. San Pablo	\$26.40	\$32.20	\$62.45	\$93.60
Average	\$33.79	\$39.55	\$71.43	\$98.55
RSS West County (2019)	\$28.37	\$34.73	\$66.50	\$99.06
Difference from Average	-16.0%	-12.2%	-6.9%	0.5%
RSS West County (2020)	\$29.83	\$36.60	\$70.06	\$104.37
Difference from Average	-11.7%	-7.5%	-1.9%	5.9%

Table C-2
Comparison of 2019 West Unincorporated Contra Costa County Commercial Rates with
Neighboring Communities (Per Customer, Per Month)

City / Community	Commercial Rates					
	1 pickup per week			2 pickups per week		
	1 cu. yd.	2 cu. yd.	3 cu. yd.	1 cu. yd.	2 cu. yd.	3 cu. yd.
1. Albany	\$ 174.67	\$ 349.34	\$524.01	\$ 349.34	\$ 698.68	\$1,048.42
2. Crockett	156.61	210.39		249.88	317.87	
3. El Cerrito	338.55	660.86		644.97	1,273.73	
4. Hercules	280.98	466.01	639.86	492.72	852.57	1,191.01
5. Kensington	227.15	454.30		454.30	908.60	
6. Oakland	244.02	405.22	581.09	487.97	810.42	1,162.14
7. Pinole	266.67	447.61	618.37	471.42	823.74	1,156.83
8. Richmond	246.61	408.36	561.08	435.69	750.27	1,048.12
9. Rodeo	122.49	189.31	256.13	244.97	378.59	512.23
10. San Pablo	245.45	409.77	564.72	432.46	752.30	1,054.10
Average	\$ 230.32	\$ 400.12	\$535.04	\$ 426.37	\$ 756.68	\$1,024.69
2019 West County rates	233.92	384.32	525.89	411.61	703.73	979.05
Difference	1.56%	-3.95%	-1.71%	-3.46%	-7.00%	-4.45%

Table C-3
Comparison of 2019 West Unincorporated Contra Costa County Industrial Rates with Neighboring Communities (Per Pull, Assumes 2 Tons Material)

City / Community	Base Plus Tonnage Fees			Base Charges Only		
	20 yard	30 yard	40 yard	20 yard	30 yard	40 yard
1. Albany	\$734.80	\$1,102.20	\$1,469.60	\$734.80	\$1,102.20	\$1,469.60
2. Crockett	470.42	1,029.00	1,145.00	443.59	1,029.00	1,145.00
3. El Cerrito	644.00	744.00		354.00	454.00	
4. Hercules	775.38	814.38	867.38	474.00	513.00	566.00
5. Kensington	570.00	650.00		570.00	650.00	
6. Oakland	1,263.25	1,672.31	2,066.72	1,168.65	1,577.71	1,972.12
7. Pinole	775.38	814.38	867.38	474.00	513.00	566.00
8. Richmond	775.38	814.38	867.38	474.00	513.00	566.00
9. Rodeo	688.60	727.60	780.60	474.00	513.00	566.00
10. San Pablo	671.56	717.87	763.31	370.18	416.49	461.93
Average	\$736.88	\$908.61	\$1,103.42	\$553.72	\$728.14	\$914.08
2019 West County Rates	775.38	814.38	867.38	474.00	513.00	566.00
Difference	5.23%	-10.37%	-21.39%	-14.40%	-29.55%	-38.08%