

201 N. Civic Drive, Suite 230  
Walnut Creek, California 94596  
Telephone: 925/977-6950  
Fax: 925/977-6955  
[www.hfh-consultants.com](http://www.hfh-consultants.com)

Robert D. Hilton, Emeritus  
John W. Farnkopf, PE  
Laith B. Ezzet, CMC  
Richard J. Simonson, CMC  
Marva M. Sheehan, CPA  
Robert C. Hilton, CMC

June 23, 2020

Ms. Agnes Martelet  
Environmental Compliance Manager  
City of Carmel-by-the-Sea

*Sent via E-mail*

**Subject: Review of GreenWaste Recovery's 2020/21 Rate Request**

*Reference Number: S5051*

Dear Ms. Martelet:

HF&H Consultants, LLC (HF&H) was retained by the City to assist with a review of a Cost Based Rate Adjustment (CBRA) of GreenWaste Recovery (GWR) intended to result in an adjustment to customer rates, effective July 1, 2019 (Rate Period 5). Due to delays in the submittal of the CBRA, the findings of the CBRA were to be included with the index based rate adjustment (which the Monterey Regional Waste Management District (District) has retained HF&H to perform annually) for the City of Carmel-by-the-Sea (City) with rates to be adjusted July 1, 2020 (Rate Period 6). This report presents our findings and recommendations.

## **EXECUTIVE SUMMARY**

HF&H's review of GWR's Rate Period 5 and 6 rate requests to the City and subsequent negotiations with GWR related to those rate requests result in the following outcomes:

1. A 33.67% increase (the result of a \$704,186 shortfall in revenues) to rates as calculated in the CBRA for Rate Period 5. Due to GWR's late triggering and submittal of the CBRA for Rate Period 5, HF&H recommends that the City not apply any rate adjustment to Rate Period 5 and instead make the CBRA effective with Rate Period 6 (July 1, 2020) in combination with the index based adjustment.
2. A proposed amendment to the franchise agreement. This amendment memorializes the negotiated revisions to costs and services resulting from the CBRA. The most significant element of the amendment relate to revising the index based rate adjustment methodology to formally correct mechanical issues in Exhibit E1.
3. A 6.30% increase (the result of a \$176,042 shortfall in revenues) to rates as calculated in the amended Exhibit E1 and incorporating the anticipated recycling and disposal rate adjustments at the District.

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4. A cumulative 42.09% increase to rates when accumulating and compounding the effects of #1 and #3 above. The table below illustrates an example of a common current rate (established for Rate Period 4) and the adjustment of that rate through Rate Periods 5 and 6.

**Figure 1 – Example Rate Impact of Adjustment**

<b>Carmel Rate Adjustments</b>				
	<b>Current Rates (RP 4)</b>	<b>RP5</b>	<b>RP6</b>	<b>Total Change</b>
<b>Adjustment</b>	N/A	33.67%	6.30%	42.09%
<b>Residential 32-gallon rate</b>	\$ 32.58	\$ 43.55	\$ 46.29	\$ 13.71

## **BACKGROUND**

In 2012, the City, participating with other members of the District, issued a competitive request for proposals for collection services and entered into the new agreement with GWR effective July 1, 2015. The agreement provides for the following, related to the adjustment of rates:

- Rates are to be adjusted annually throughout the term of the agreement, using various inflationary indices, actual tonnage, and changes in the tipping fees at the District, unless either the City or GWR request a CBRA.
- The City and GWR may mutually agree upon alternative approaches to structuring rates without amendment to the agreement (Section 8.2.D).
- On January 16, 2019 a CBRA was triggered by the City of Marina. By March 8, 2019 CBRA's had been triggered by GWR or the remaining agencies for all of the District's Peninsula Cities served by GWR.
- Delays in the submittal of the cost based rate adjustment and required supporting documentation caused a delay in setting rates for FY 2019/2020 (RP5), resulting in the combining of CBRA and the scheduled index based rate adjustment effective July 1, 2020.
- The CBRA resulted in a 33.67% increase, details of which can be seen as Attachment A.
- During the CBRA review, a number of issues surrounding the process for setting rates and the resulting rate relationships amongst sectors and materials was identified. As such the City and GWR have negotiated an amendment to the prescribed methodology for the CBRA and index adjustments so as to not alter rate relationships between service sectors and material types.
- Through negotiations of the amendment, as a result of the desire to maintain current rate relationships between sectors and service levels, the City and GWR have prescribed a uniform rate adjustment to be applied to all sectors.

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- The results of the CBRA indicate a required 33.67% increase needed to adequately compensate GWR for the services provided to the City which serves as the basis on which RP6 compensation is calculated.

## **RATE CALCULATION REVIEW**

### **HF&H Scope of Work**

HF&H performed this review of the rate request in accordance with Exhibit E1 (for the index based rate adjustment). These procedures included:

1. A review of the rate request for completeness and compliance with the procedures contained in Exhibit E1 of the agreement based on the results of the CBRA.
2. A review for mathematical accuracy and logical consistency to determine that the rate request is mathematically correct, that the rows and columns of numbers add down and across as intended, and that the stated assumptions were, in fact, used. Also, to determine that the rate request is internally consistent and that any summary schedules agree to the supporting schedules and worksheets.
3. Verification of the inclusion of the franchise fee calculation in the adjustment.
4. Verifying contract compliance with regard to:
  - A) The indices used in the adjustment;
  - B) The tip fees reported for the disposal/processing components of the rates;
  - C) The use of quarterly-reported tonnage data and allocations among agencies. A detailed audit of tonnage and allocations of tonnage reported by GWR was not a part of this scope of work. HF&H discussed GWR's allocation methodology with them and the methodology appears reasonable and consistent with standard practices within the industry.
  - D) Any changes in governmental fees on the fee component of the rates; and, the accurate application of the resultant percentage changes in the various rate components to the rate schedules approved by each agency through the franchise agreements.

### **Review of Rate Request**

#### **Rate Period 6 Application**

As part of the negotiations of revised Amendment 1, HF&H prepared the rate application for RP6 after the results of RP5 were determined. These were reviewed by GWR's controller and CFO, and were approved as being in alignment with Amendment 1. The results of the CBRA can be seen in RP5 and the resulting calculation of RP6 per methodology of Exhibit E1 of the amendment can be seen in the table below.

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**Figure 2 - Application of Index Based Adjustments to RP5**

	Rate Period Five	Adjustment Factor	Rate Period Six
<b>Annual Cost of Operations</b>			
Labor-Related Costs	\$ 714,584	1.02669	\$ 733,656
Vehicle-Related Costs	\$ 106,993	1.02539	\$ 109,710
Fuel Costs	\$ 115,552	1	\$ 115,552
Other Costs	\$ 201,609	1.02539	\$ 206,728
Direct Depreciation	\$ 128,295	N.A.	\$ 128,295
Total Allocated Costs - Labor, Vehicle, Fuel & Other	\$ 458,782	1.02539	\$ 470,431
Total Allocated Costs - Depreciation & Start-Up	\$ 25,726	N.A.	\$ 25,726
<b>Total Annual Cost of Operations</b>	\$ 1,751,541	N.A.	\$ 1,790,097
<b>Profit</b>	\$ 290,834	OR=85.76	\$ 297,236
<b>Pass-Through Costs</b>			
Disposal Costs	\$ 196,979	Tons*Tip Fee	\$ 210,007
Curbside Supplemental	\$ (7,152)	1.00	\$ (7,152)
Recycling Processing Costs	\$ -	Tons*Tip Fee	\$ 70,982
Residue Processing Costs	\$ -	Tons*Tip Fee	\$ 13,477
Yard Trimmings Processing Costs	\$ 65,392	Tons*Tip Fee	\$ 91,403
Food Waste Processing Costs	\$ 22,720	Tons*Tip Fee	\$ 21,592
C&D Processing Costs	\$ 512	Tons*Tip Fee	\$ 26
Interest Expense	\$ 40,815	N.A.	\$ 40,815
Total Allocated Costs - Lease	\$ 38,993	N.A.	\$ 38,993
<b>Total Pass-Through Costs</b>	\$ 358,258	N.A.	\$ 480,143
<b>Total Costs before Agency Fees</b>	\$ 2,400,634	N.A.	\$ 2,567,477
<b>Agency Fees/Payments</b>			
Franchise Fee	\$ 363,409	13.00%	\$ 386,295
Rate Application Review Costs	\$ 31,412	Actual	\$ 6,217
<b>Other Adjustments (as needed from time to time)</b>			
Residue Processing Costs (Back Pay for 2019-2020)	\$ -	N.A.	\$ 11,509
<b>Total Calculated Costs</b>	\$ 2,795,454		\$ 2,971,497
<b>Prior Year Revenue</b>	\$ 2,091,269		\$ 2,795,454
<b>Surplus/(Shortfall)</b>	\$ (704,186)		\$ (176,042)
<b>Increase/Decrease</b>	33.67%		6.3%

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**Review of GWR Costs**

There are three major components to GWR's rate application: 1) calculation and application of the inflationary indexes as prescribed in the Agreement; 2) the disposal and/or processing component; and, 3) the Agency Fee.

There are three indexes used in the index adjustment; CPI, the fuel index, and the labor index. The annual percent change in each of the indices is used to calculate the coming years projected cost for the line items to which these indexes are applied.

HF&H has reviewed and GWR has confirmed the accuracy of each of these indexes, and notes that the fuel index remains unchanged, as reported by management staff at the District.

**Review of Disposal/Processing Component**

Calendar year 2018 collected tons were used for the Rate Period 5 review, and calendar year 2019 collected tons were used for the Rate Period 6 review in accordance with the amendment. The disposal and processing components also consider the tipping fees charged by the District in order to project anticipated disposal and processing costs at the District. At the time of this writing, District staff has presented proposed tip fee increases, which have been recommended by the District's Finance Committee and will be considered by the Board of Directors in May or June. The following table describes the changes in the City's disposal and processing costs for each material type based on the proposed tip fees at the District which have been incorporated into our RP6 review.

**Figure 3 - Impact of District Tip Fee Changes**

	<b>2018 Tons</b>	<b>Current Per Ton Tip Fee</b>	<b>Rate Period 5 Costs</b>	<b>2019 Tons</b>	<b>Projected Per Ton Tip Fee</b>	<b>Rate Period 6 Costs</b>
	<b>A</b>	<b>B</b>	<b>AxB</b>	<b>C</b>	<b>D</b>	<b>CxD</b>
Solid Waste	3,177	\$ 62.00	\$ 196,979	3,226	\$ 65.10	\$ 210,007
Recycling	1,847	\$ -	\$ -	1,775	\$ 40.00	\$ 70,982
Yard Trimmings	1,635	\$ 40.00	\$ 65,392	2,176	\$ 42.00	\$ 91,403
Food Waste	421	\$ 54.00	\$ 22,720	381	\$ 56.70	\$ 21,592
C&D*	9	\$ 54.88	\$ 512	0.5	\$ 57.63	\$ 26

\*The C&D per ton tip fee reflects an average weighted cost for multiple types of C&D materials.

**Review of Fee Component**

The final step of the rate adjustment process is to ensure that the fee component of each rate matches the contractual percentage of 13% for franchise fees remitted to the City by GWR.

**New Rates**

Attached hereto is a table of all new rates recommended for RP6 based on the adjustments described in this memo (Attachment B). HF&H recommends adopting these rates by resolution to be effective July 1, 2020.

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We would like to express our appreciation to GWR staff for their assistance and cooperation in this process. Should you have any questions, please call me at 925/977-6959 or [rchilton@hfh-consultants.com](mailto:rchilton@hfh-consultants.com).

Very truly yours,  
HF&H CONSULTANTS, LLC

Rob Hilton  
President

## Attachment A

<b>Carmel RP 5 Adjusted Compensation</b>	
<b>2017-2018 Costs per Trial Balance</b>	<b>\$ 2,255,491</b>
Labor Adjustments	
CPI Adjustment	56,680
G&A Allocation	(101,305)
Vehicle Maintenance Allocation	25,949
Direct Labor Allocation	(8,639)
Vehicle-Related Adjustments	
CPI Adjustment	13,605
G&A Allocation	(670)
Vehicle Maintenance Allocation	17,821
Direct Cost Allocation	23,583
Fuel Adjustments	
G&A Allocation	(3,197)
Vehicle Maintenance Allocation	15
Adjustment to TB - Direct	(19,504)
Adjustment to TB - G&A	(481)
Adjustment to TB - Vehicle Maintenance	(5)
Other Adjustments	
CPI Adjustment	20,249
Damages/Penalties	2,304
Damages/Penalties	(949)
Donations	(579)
SCC Professional Services	(285)
G&A Allocation	(29,093)
Vehicle Maintenance Allocation	1,072
Depreciation Adjustments	
Direct	(8,330)
Allocated	20,496
Profit Adjustments	
Inclusion of Profit (before Adjustments)	289,384
Profit due to Adjustments above	1,451
Pass-through Cost Adjustments	
Disposal	(77,827)
Processing	88,623
Recycling Revenues	74,082
Interest Expense	40,815
Allocated Lease Costs	(7,129)
Agency Fee Adjustments	
Franchise Fee	90,417
Rate Application Review Costs	31,412
<b>RP 5 Forecasted Costs</b>	<b>\$ 2,795,454</b>
<b>Current Revenue</b>	<b>2,091,269</b>
<b>Surplus/(Shortfall)</b>	<b>\$ (704,186)</b>
<b>Required Percentage Increase</b>	<b>33.67%</b>

Attachment B  
City of Carmel Rates Effective July 1, 2020

Note: All rates are monthly unless stated otherwise.

<b>Residential Solid Waste Collection Rates</b>			
<b>Service Level</b>	<b>Solid Waste</b>	<b>Recycling</b>	<b>Organics</b>
20 Gal Back/Side	\$41.66	Included	Included
32 Gal Back/Side	\$46.29	Included	Included
64 Gal Back/Side	\$73.18	Included	Included
96 Gal Back/Side	\$92.77	Included	Included
Notes: See Exhibit B1 for specific service availability			

<b>Commercial/Multi-Family Solid Waste Collection Rates</b>						
	<b>Frequency</b>					
<b>Service Level</b>	<b>1x/week</b>	<b>2x/week</b>	<b>3x/week</b>	<b>4x/week</b>	<b>5x/week</b>	<b>6x/week</b>
32-Gallon Cart	\$46.63	\$93.28	\$118.28	\$143.79	\$169.15	\$228.21
64-Gallon Cart	\$89.80	\$146.16	\$202.75	\$259.36	\$382.38	\$485.54
96-Gallon Cart	\$110.77	\$208.31	\$309.20	\$389.86	\$500.63	\$635.37
1-Cubic Yard Bin	\$255.76	\$481.04	\$658.27	\$827.45	\$996.66	\$1,266.99
2-Cubic Yard Bin	\$375.83	\$751.11	\$1,126.96	\$1,504.34	\$1,772.04	\$1,886.40
3-Cubic Yard Bin	\$532.13	\$938.88	\$1,314.48	\$1,626.90	\$1,878.22	\$2,253.50
4-Cubic Yard Bin	\$707.98	\$1,165.13	\$1,878.06	\$2,340.11	\$2,547.54	\$2,754.98
2-Cubic Yard Compactor	\$411.12	\$821.69	\$1,232.82	n/a	n/a	n/a
3-Cubic Yard Compactor	\$585.05	\$1,044.76	\$1,473.29	n/a	n/a	n/a
4-Cubic Yard Compactor	\$778.54	\$1,306.28	\$2,089.79	n/a	n/a	n/a

<b>Commercial/Multi-Family Recycling Collection Rates</b>						
	<b>Frequency</b>					
<b>Service Level</b>	<b>1x/week</b>	<b>2x/week</b>	<b>3x/week</b>	<b>4x/week</b>	<b>5x/week</b>	<b>6x/week</b>
64-Gallon Cart	\$13.47	\$21.92	\$30.41	\$38.90	\$57.36	\$72.84
96-Gallon Cart	\$16.62	\$31.25	\$46.38	\$58.48	\$75.10	\$95.30
1-Cubic Yard Bin	\$38.37	\$72.16	\$98.74	\$124.11	\$149.50	\$190.04
2-Cubic Yard Bin	\$56.37	\$112.66	\$169.05	\$225.65	\$265.81	\$282.97
3-Cubic Yard Bin	\$79.82	\$140.83	\$197.18	\$244.03	\$281.74	\$338.02
2-Cubic Yard Compactor	\$15.23	\$30.38	\$45.63	n/a	n/a	n/a
3-Cubic Yard Compactor	\$18.11	\$17.41	\$12.04	n/a	n/a	n/a
4-Cubic Yard Compactor	n/a	n/a	n/a	n/a	n/a	n/a

<b>Commercial/Multi-Family Food Waste Collection Rates</b>						
	<b>Frequency</b>					
<b>Service Level</b>	<b>1x/week</b>	<b>2x/week</b>	<b>3x/week</b>	<b>4x/week</b>	<b>5x/week</b>	<b>6x/week</b>
64-Gallon Cart	\$67.35	\$109.61	\$152.07	\$194.52	\$286.79	\$364.16
96-Gallon Cart	\$83.07	\$156.23	\$231.91	\$292.41	\$375.48	\$476.53
1-Cubic Yard Bin	\$191.82	\$360.78	\$493.70	\$620.59	\$747.50	\$950.25
2-Cubic Yard Bin	\$281.87	\$563.33	\$845.23	\$1,128.25	\$1,329.04	\$1,414.80



Attachment B  
City of Carmel Rates Effective July 1, 2020

<b>Commercial/Multi-Family Yard Trimmings Collection Rates</b>						
	<b>Frequency</b>					
<b>Service Level</b>	<b>1x/week</b>	<b>2x/week</b>	<b>3x/week</b>	<b>4x/week</b>	<b>5x/week</b>	<b>6x/week</b>
64-Gallon Cart	\$67.35	\$109.61	\$152.07	\$194.52	\$286.79	\$364.16
96-Gallon Cart	\$83.07	\$156.23	\$231.91	\$292.41	\$375.48	\$476.53
1-Cubic Yard Bin	\$191.82	\$360.78	\$493.70	\$620.59	\$747.50	\$950.25
2-Cubic Yard Bin	\$281.87	\$563.33	\$845.23	\$1,128.25	\$1,329.04	\$1,414.80
3-Cubic Yard Bin	\$399.09	\$704.16	\$985.86	\$1,220.17	\$1,408.66	\$1,690.12

<b>Roll-Off Collection Rates (Per Pull)</b>				
	<b>Material</b>			
<b>Service Level</b>	<b>MSW</b>	<b>REC</b>	<b>YT</b>	<b>C&amp;D</b>
10 YD	\$654.75	\$654.75	\$654.75	\$654.75
20 YD	\$719.79	\$719.79	\$719.79	\$719.79
30 YD	\$894.40	\$894.40	\$894.40	\$894.40
40 YD	\$1,069.02	\$1,069.02	\$1,069.02	\$1,069.02
Per Ton	\$74.83	\$45.98	\$48.28	\$66.24

<b>Additional Service Rates</b>		
<b>Service</b>	<b>Sector</b>	<b>Charge Per Event*</b>
Cart Rental - All Sizes	RES	\$4.43
Cart Replacement	RES	\$88.65
Re-Delivery or Re-Start	RES	\$36.94
Cart Cleaning	RES	\$36.94
Non-Scheduled Collection	RES	\$28.08
Cardboard Sticker	COM	\$13.73
Difficult to Service Cart	COM	\$1.48
Difficult to Service Bin	COM	\$4.43
Locking Bin	COM	\$73.87
Cart Replacement	COM	\$88.65
Cart Cleaning	COM	\$36.94
Bin Swap- Cleaning or Repainting	COM	\$110.81
Bulky - Recyclable	RES/COM	\$29.54
Bulky - Non Recyclable	RES/COM	\$36.94
Bulky - Event	RES/MFD	\$44.32
Covered Box	RO	\$110.81
Driver Time per Hour	RO	\$162.51
Dry Run or Relocation	RO	\$110.81
Extra Days	RO	\$36.94

\*Note: Application of fees shall be as described in Franchise Agreement