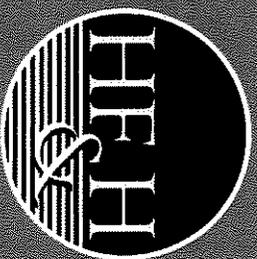


AGENDA ITEM # 1

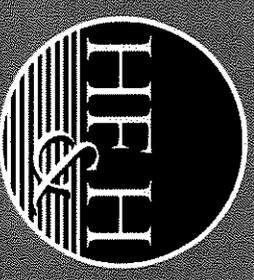
Town of Fairfax

Findings and Recommendations from the
Review of Marin Sanitary Service's 2011
Rate Application
March 2, 2011



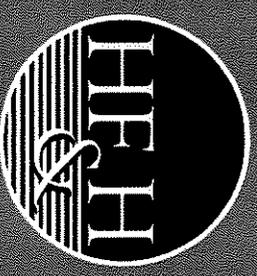
Presentation Overview

- Background of Rate Review Process
- Summary of Findings
- Basis for 2011 Rate Increase
- Discussion



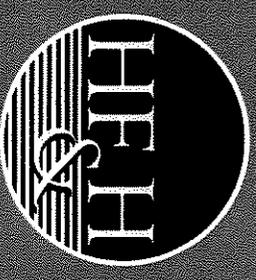
Rate Review Process

- Rate Index Methodology
 - Adopted in 2001 by Marin Franchisors Group
 - Detailed review every third year (2010, 2013)
 - Index review in other years (2011,2012)
 - Certain costs reprojected every year
 - Disposal (true-up prior years)
 - Fuel (true-up prior years)
 - Workers Compensation
 - Depreciation
 - Interest
 - JPA fees
 - Fairfax, San Anselmo & RVSD–N (County) treated as “tuck ins”



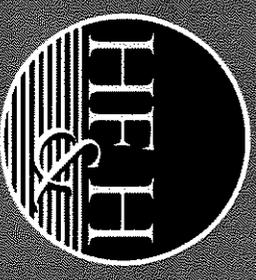
Rate Review Process (Cont)

- HF&H performs an independent review of the rate application.
- HF&H has worked with the Franchisors group for over 10 years and also does rate reviews for other jurisdictions such as:
 - Petaluma
 - Union City
 - Alameda
 - Central Contra Costa Solid Waste Authority
- HF&H performed a cost of service study for San Anselmo in 2010



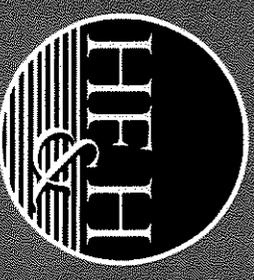
Rate Review Process (cont)

- HF&H Staff
 - Executive Director— Bob Hilton. Bob has been involved for over 15 years.
 - Project Manager – Marva Sheehan. This is my sixth year reviewing Marin Sanitary's books and records
 - Senior Analyst – Colleen Costine. Colleen worked on the Franchisors detail review last year and the San Anselmo review performed in 2009/2010.



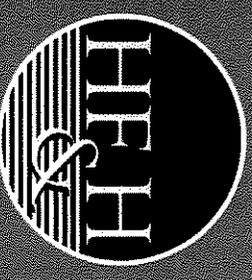
Rate Review Process (cont)

- Fairfax, San Anselmo & RVSD-N (County) not part of the Franchisors Group
 - Not allocated overhead in the same manner as the Franchisors Group
 - Historically treated as a “tuck-in” operation



Summary of Findings

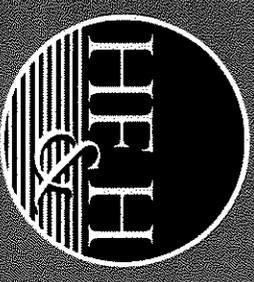
- A rate increase of 25.96% is necessary to current operations assuming Fairfax remains as a tuck-in operation.
- MSS compensation requirement for 2010 rate setting required a 17.1% increase.
- Town implemented a 3.18% increase (same as the Franchisors Group) for 2010
- MSS realized a 2.15% increase in 2010
- MSS cost of operations (including profit & interest) increased 11.1% for 2011



Summary of Findings (cont)

What does this all mean?

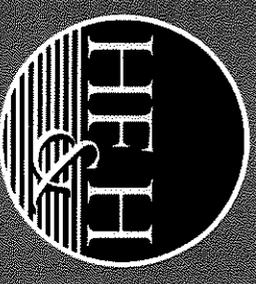
Increase required for 2010	17.10%
Increase approved by Council for 2010	(3.18%)
Unrealized increase in actual revenue	1.03%
Increase in costs for 2011	<u>11.01%</u>
Recommended increase for 2011	25.96%



Summary of Findings (Cont)

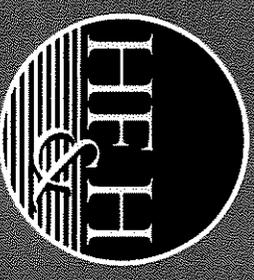
- After applying the 25.96 % increase the Fairfax's residential rate of \$28.38 (32 gal) is in the middle of other Marin County jurisdictions.

– Larkspur	\$27.97
– Ross	\$26.90
– Tiburon	\$31.87
– County (MVR)	\$33.10
– San Rafael	\$27.67



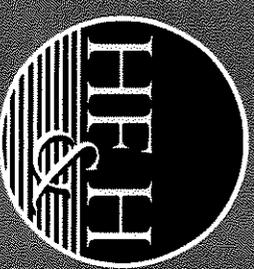
Summary of Findings (cont)

- HF&H Proposed Adjustments to MSS Rate Application
 - Fuel – net decrease of \$1,192 for price variances
 - Benefits – added \$10,735 from an increase in workers compensation rates.
 - Depreciation – added \$3,334 primarily from assets not properly allocated to Fairfax
 - Disposal – added \$16,011 for projected volume increases



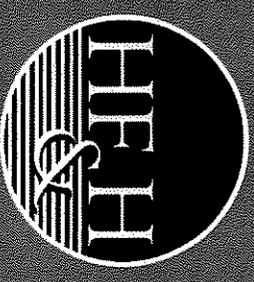
Summary of Findings (cont)

- HF&H Proposed Adjustments to MSS Rate Application (cont)
 - Other Operating/G&A – decrease of \$478 to the JPA fees based on the rate per ton provided by the JPA.
 - Interest – increase of \$31,891 resulting primarily from
 - 1) a spreadsheet error of \$16,508; and,
 - 2) interest on the new working capital line of credit omitted in MSS' application (\$14,887).



Summary of Findings (cont)

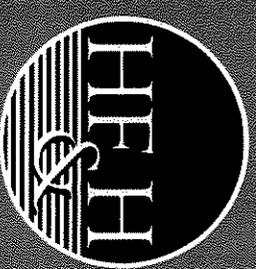
- HF&H Proposed Adjustments to MSS Rate Application (cont)
 - Revenue – Increase of \$39,991 based on projection methodology used in prior years



Basis for 2011 Increase

Recap of Rate Increase

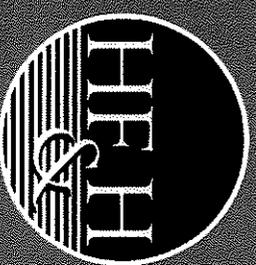
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Basis for 2011 Increase (cont)

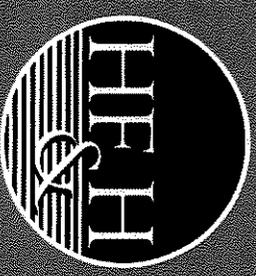
2011 Base Costs Increase Components	
<u>Current Services</u>	
Benefits	1.41%
Depreciation	2.45%
Disposal	3.09%
Other Operating Costs*	2.35%
Franchise Fees and Projected 2011 Revenue Shortfall	1.71%
Total Increase for 2011 Costs Projections	11.01%

* Includes wages, fuel, other vehicle-related costs, general & administrative costs (e.g., public education, customer service, etc.) and various other operating costs.



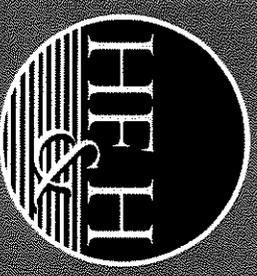
Basis of 2011 Increase (cont)

- Components of 2011 Base Cost Increase
 - Benefits – Workers compensation increase and index change was 2.5%
 - Depreciation – Full year of depreciation of split recycling carts and the use of a newer truck in the yard waste collection
 - Disposal – Increase in volumes from prior year projections (approx 262 tons)



Basis for 2011 Increase (cont)

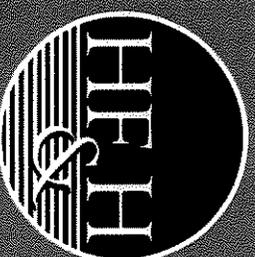
- Components of Rate Increase (cont)
 - Revenue shortfall
 - For several years, MSS made up for projected revenue that is less than the previous year's projected revenue
 - MSS is not requesting a "make-up" for revenue shortfalls from previous years.
 - We use actual revenues through October and then project the remaining of the year and assume customers and service levels will remain consistent from year to year.
 - MSS assumes the risk of the variance in service levels. Cost to company when service levels decline and benefit when service levels increase.



Basis for 2011 Increase (cont)

Revenue Example

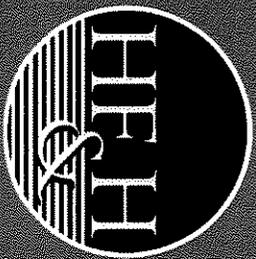
2010 Projections			
2010 Required Revenue (includes MSS compensation & Town Fees)		\$ 1,000	
2010 Projected Revenue		<u>1,000</u>	
Revenue Surplus / Deficit		<u>\$ -</u>	
2010 Actual			
2010 Required Revenue (includes MSS compensation & Town Fees)		Deficit \$ 1,000	Surplus \$ 1,000
2010 Actual Revenue		<u>980</u>	<u>1,050</u>
Revenue Surplus / (Deficit)		<u>\$ (20)</u>	<u>\$ 50</u>
2011 Projections			
2011 Required Revenue (4% increase) (includes MSS compensation & Town Fees)		\$ 1,040	\$ 1,040
2010 Actual Revenue		<u>980</u>	<u>1,050</u>
Revenue Surplus / Deficit		<u>\$ 60</u>	<u>\$ (10)</u>
Rate Adjustment Required		6.1%	-1.0%



Basis for 2011 Increase (cont)

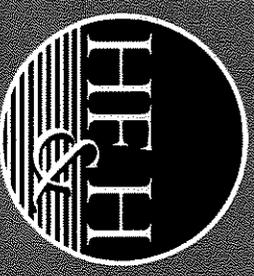
Impact of Increase on Residential Rates

	Service Level		
	<u>32 Gal</u>	<u>64 Gal</u>	<u>96 Gal</u>
Current Rate - Flat	\$28.78	\$56.76	\$85.14
Current Rate - Hill	\$33.14	\$66.28	\$99.42



Discussion

- Questions/comments



Contact Us

Marva Sheehan

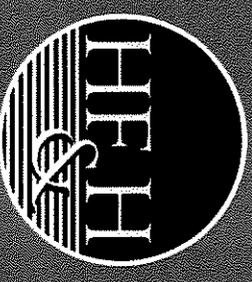
HF&H Consultants, LLC

201 N. Civic Drive, Suite 230

Walnut Creek, CA 94596

(925) 977-6961

mshsheehan@hfh-consultants.com



**Marin Sanitary Service
2011 Rate Application
Rate Calculation**

	MSS Proposed		Base
	Fairfax	HF&H Adj	Adjusted Fairfax
Rate Application Operating Expenses:			
Wages	\$ 353,376		\$ 353,376
Benefits	178,829	10,735.41	189,564
Disposal Fees	289,047	16,011.00	305,058
Fuel & Oil	69,430	(1,192.39)	68,238
Maintenance Expense	75,099		75,099
Depreciation/Leases	136,232	3,334.74	139,567
Other Operating/G&A	52,056	(478.59)	51,578
Total Operating Expenses	1,154,070	28,410	1,182,480
Operating Profit	121,145	2,982	124,127
Interest Expense	13,702	31,891	45,593
Revenue Requirement	1,288,917	63,283	1,352,200
Route Revenues (2011 Projected)	1,206,126	39,991	1,246,117
Adjustment:			
Adusted Route Revenues	1,206,126	39,991	1,246,117
Less: Franchise Fees	(120,613)		(124,612)
Less: Vehicle Impact Fee	(48,000)		(48,000)
Net Regulated Revenues	1,037,513		1,073,505
Non-Regulated Revenues	-		
Total Revenues	1,037,513		1,073,505
Adjustment:	-		
Less: Franchise Fees	-		
Adjusted Total Revenues	1,037,513		1,073,505
Revenue Surplus/(Shortfall)	(251,404)		(278,695)
Calculated Rate Adjustment	24.23%		25.96%

HF&H Adjustments
MSS Base Application

Fuel	FG	Fairfax	
2010 RA	845,759.51	64,465.51	
2010 Actual	\$ 830,116		
decrease	(15,643.61) -1.85%	(1,192.39)	Adjustment - #1 Reduction to NonFG based on % reduction to FG

Depreciation

2010 RA	2,122,094.58	113,269.34	
Depreciation per WP		54246.34	
Truck Allocation		278651	
HFH Adj		2220	Adjustment - #2 allocation of shop equip
Other Trucks Adj		290.06	Adjustment - #3 non franchise roll off adj
		20.66	Adjustment - #4 non franchised trucks
		\$ (247.67)	Adjustment - #5 Adj to 7 yr Life Truck 47
		\$ (148.33)	Adjustment - #6 Adj to 5 year life
		\$ 1,200.02	Adjustment - #7 Office Remodel
Total Depreciation Adj	\$ 3,334.74		

Workers Compensation

Adjustment per WC Schedule	10,735.41	Adjustment - #8	Workers Comp adjustment
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JPA Fees

	\$ (478.59)	Adjustment - #9	JPA adjustment
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Interest

	\$ 31,395.25	Adjustment - #10	Interest
	495.76	Adjustment - #11	Interest on new assets
	\$ 31,891.01		

Disposal	16,011.00	Adjustment - #12	Adj 2010 to new 2010 projection
	-		
	16,011.00		