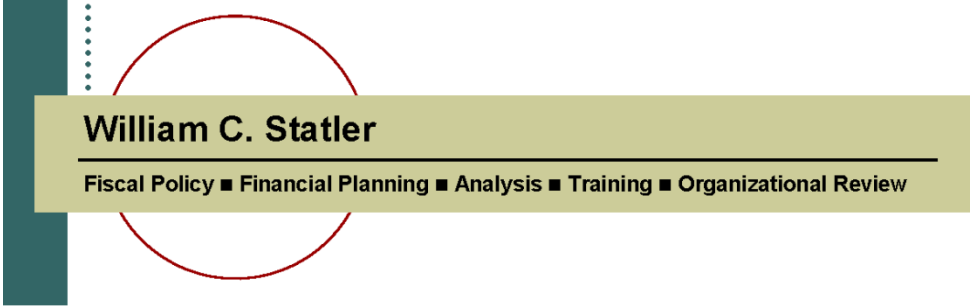

SOLID WASTE RATE REVIEW

*Cambria Community Services District
Cayucos Sanitary District*

July 2022



William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

Mission Country Disposal Solid Waste Rate Review

July 2022

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Mission Country Disposal **SOLID WASTE RATE REVIEW** *Cambria Community Services District and Cayucos Sanitary District*

REPORT PURPOSE

On October 20, 2021, Mission Country Disposal (MCD) submitted a *Base Year* rate increase application to be effective January 1, 2022 to the Cambria Community Services District (Cambria) and Cayucos Sanitary District (Cayucos). However, due to complexity, concerns with pending rate increases by the Integrated Waste Management Authority (IWMA) and significant subsequent reviews and information exchanges, a revised application was submitted on March 24, 2022.

The revised application is the focus of this report in reviewing the MCD rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make rate recommendations to as appropriate.

Joint Agency Review

MCD provides similar services to both Cambria and Cayucos under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases.

Because the financial information for MCD is closely related for these two agencies, this report jointly reviews rate requests and provides recommendations for each of them.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Overview

In its revised application, MCD is requesting a rate increase of 41.46% for Cambria and 43.30% for Cayucos. (The difference is due a Franchise Fee of 6% in Cambria versus 10% in Cayucos.) This compares with an initial rate request in October 2021 of 43.98% for Cambria and 45.93% for Cayucos (about a 2.5% decrease). Although at first glance these percentages may be alarming, the weekly impact to rates for three weekly services (garbage, recycling and organics) is reasonable. The rate impact to common service levels is discussed below.

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As discussed in greater detail below, all of the concerns that surfaced in the iterations and further analysis that followed in addressing issues with proposed costs for 2022 have been resolved.

There are two key cost differences between the initial and revised application:

- Greenwaste processing costs have been reclassified as “pass-through” costs: while costs may be recovered, no profit is allowed on them.
- IWMA fees have been excluded from the fee analysis. These are approved by a separate agency and will be charged separately on customer bills.

Key Cost Drivers. The following summarizes five key cost drivers, which together account for over 90% of the cost increases since 2020 (last audited financial statements); all other costs account for less than 2% of the cost-driven rate impact.

Table 1. 2022 Cost Increase from 2020 Rate Impact

2022 Cost Increase from 2020			
	Amount	% of Total	Rate Impact*
Depreciation	389,631	25%	6.48%
Greenwaste	368,547	24%	6.13%
Direct Labor	370,550	24%	6.17%
Insurance	164,788	11%	2.74%
Gas and Oil	151,160	10%	2.52%
Total Key Drivers	1,444,676	94%	24.04%
Other Costs	95,506	6%	1.59%
Total	\$1,540,182	100%	25.63%

* Based on Cayucos with 10% franchise fee

Operating Profit Ratio. In addition to these cost drivers, an additional increase of 17.67% is required to achieve the 8% operating profit ratio, which was a negative 8.8% in 2020 (and an estimated negative 24.3% in 2021). In short, the allowed operating profit for 2022 is \$449,309 compared with a negative \$346,567 in 2020. An additional rate increase of 17.76% is needed to recover the shortfall of \$795,876 and arrive at the allowed operating profit of 8%.

The following summarizes these impacts based on Cayucos (the impacts are similar for Cambria, which has a lower Franchise Fee):

Table 2. Proposed Rate Increase Factors

Cost Drivers	25.63%
Deficit in Revenue Requirement	9.67%
Allowed Profit Margin	8.00%
Total	43.30%

Findings

- **Complete Application.** With its revised application, MCD has fully provided the supporting documentation required for rate requests under the Franchise Agreements in

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Cambria and Cayucos. The revised application (Appendix A) has been correctly prepared and requests an across-the-board rate increase of 41.46% in Cambria and 43.30% in Cayucos.

- **High Level of Service at a Reasonable Cost.** MCD provides a broad level of high-quality services to these two agencies – including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services – at competitive rates compared with many other communities.
- **Need for Updated Rate-Setting Methodology.** The rate-setting process is based on the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for almost 30 years. However, the need for an update is even greater now: along with the 2019 concerns, new issues have surfaced in this review. As discussed in greater detail below, these include depreciation amortization period, interim rate reviews, cost allocation methodologies, accounting for disposal costs, timeframe for submitting and reviewing applications and trigger option.
- **Delayed Rate Implementation.** In the past, there has been no consideration of delayed rate implementation. However, the Rate Manual does provide for this if there is a delay of more than 120 days after application if it is “no fault of the franchise hauler.” Given the initial October 20, 2021 submittal date, this would indicate rate approval by March 1. However, there are three factors that mitigate this 120-day period:

1. When the 120-day period was set in the 1994 Rate Manual, Proposition 218 was not on the radar: it was not adopted by voters until November 1996. Moreover, it was the “conventional wisdom” afterwards for ten years that its notice and procedural requirements did not apply to most water, sewer and solid waste rate circumstances. This changed with the “Big Horn” decision ten years later in 2006. Even then, many agencies believed it did not apply to private companies like SCSS, while other agencies believed it did (especially where service is mandatory).

About Proposition 218 Notices

For agencies like Cambria and Cayucos that issue “Proposition 218” notices for private sector solid waste rate increases, the notice sets the maximum amount that rates can be increased at the public hearing.

Rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing.

In short, the Proposition 218 45-day notice and protest requirements did not exist when the 1994 Rate Manual was prepared; nor for many years thereafter. This alone conceptually adds 45 days to the review process. However, as a practical matter, given the time needed to schedule Board reviews and prepare notice and agenda reports, this results in added time needed for public notice and review of 75 to 90 days.

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Moreover, it is important to note the Rate Manual does not provide any special timeframes for public review other than the standard 10-day public hearing notice before the Board meeting that considers adoption of rates.

2. Review was delayed pending consideration of rate increases by the IWMA and their possible impact on MCD rates. These new rates were not adopted by the IWMA until March 9, 2022. Moreover, it was subsequently determined that since these rates are set by the IWMA – and not the franchising agencies – that they did not affect agency rate-setting. (As noted above, this resulted in a revised application from MCD on March 24, 2022).
3. While MCD has been very responsive in following-up on requests for supporting data, the scope and complexity of the 2022 application has been significantly greater, and subsequently taken longer, than envisioned in the Rate Manual. The Rate Manual sets forth nine steps in the review process, with target schedules for each step leading to the cumulative 120- day target. However, each step provides for extended days based on the need for added agency review. So, the 120 day schedule is not an absolute target without regard for complexity. Moreover, in a strict interpretation, a case could be made that the 120-day period does not begin until the receipt of the revised application in March 2022. However, there were iterations and discussion prior to then that are reasonably related to review prior to the revised submittal.
4. Lastly, concern surfaced about Cambria current rates based on the 2019 rate analysis compared with 2021 rate application. This concern has been resolved and the current rates shown in the 2021 application are correct

In accounting for these factors, I recommend that delayed rate implementation apply for any rates with an effective date of July 1 or after. In short, while these delays were “no fault” of MCD, they were not the fault of the agencies, either.

MCD disagrees with the July 1 start date and believes it should start sooner.

Temporary delayed rate implementation: ends December 31, 2022. The following temporary rate increases would be required depending on three variables: the retroactive start date; the effective date; and the end date of December 31, 2022. With this ending date, rates would be reset in January 2023 to the “core rate” going forward; and the base for any Interim Year adjustment (see below for discussion of Interim Year rate increases).

Table 3(a). Temporary Delayed Implementation Rate Increase*

Temporary Rate Increase Effective Date*	Retroactive Date					
	May 1		June 1		July 1	
	Cambria	Cayucos	Cambria	Cayucos	Cambria	Cayucos
August 1	24.88%	25.98%	16.58%	17.32%	8.29%	8.66%
September 1	41.46%	43.30%	31.10%	32.48%	20.73%	21.65%
October 1	69.10%	72.17%	55.28%	57.73%	41.46%	43.30%

* Ends December 31, 2022

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The following summarizes the combined temporary and “core” rate impact through December 31, 2022.

Table 3(b). Combined Temporary Delayed Implementation and Core Rate Increase*

Temporary Rate Increase Effective Date*	Retroactive Date					
	May 1		June 1		July 1	
	Cambria	Cayucos	Cambria	Cayucos	Cambria	Cayucos
August 1	66.34%	69.28%	58.04%	60.62%	49.75%	51.96%
September 1	82.92%	86.60%	72.56%	75.78%	62.19%	64.03%
October 1	110.56%	115.47%	98.58%	101.03%	82.92%	86.60%

* Temporary delayed rate increase component ends December 31, 2022

It should be noted that while the report recommends a July 1 start date for delayed rate implementation, a reasonable case could be made for an even later start date based on the mitigation factors discussed above.

Lastly, several of these review timeframe factors are not unique to the 2022 review. Accordingly, the application submittal and review schedule should be considered in the Rate Manual update.

Temporary delayed rate impact: ends March 31, 2023. All other agencies in San Luis Obispo County considering rate increases serviced by companies affiliated with Waste Connections (such as South County Sanitary Service, providing services to the cities of Arroyo Grande, Grover Beach, Pismo Beach and nearby unincorporated areas; and San Luis Garbage Company, providing services to the City of San Luis Obispo and nearby unincorporated areas) have also faced temporary delayed rate increases. In all of these agencies, the delayed rate amortization period ended with December 31, 2022. Along with other factors, this has advantage of simplifying the return to the “core rate” effective with January 1, 2023.

However, in mitigating the impact of the temporary delayed rate increase, an option is to extend the amortization period beyond December 31, 2022. The following are examples for Cambria and Cayucos of how the temporary rate would be lessened if the:

- Temporary delayed increase date is July 1, 2022.
- Effective date is October 1, 2022.
- End date is March 31, 2023 (three months beyond December 31, 2022).

Table 3(c). March 31, 2023 Delayed Rate Increase End Date

Temporary Rate Increase Effective Date*	July 1 Retroactive Date			
	Temporary Delayed Rate Increase		Combined Delayed & Core Rate Increase	
	Cambria	Cayucos	Cambria	Cayucos
October 1	20.73%	21.65%	62.19%	64.95%

* Ends March 31, 2023

Solid Waste Rate Review

Of course, other extension options are possible (as well as retroactive and effective dates). But in this example, extending the amortization period by three months reduces the temporary delayed rate increase component in Cambria from 41.46% to 20.73%; and from 43.3% to 21.65% in Cayucos.

In both cases for this example, the amount to be recovered is the same but it is spread over three more months.

However, the rate impact is modest. For 32-gallon trash container customers, who account for about 85% of single family residential customers, the monthly rate difference is \$5.42 per month for Cambria and \$4.39 in Cayucos for the three month difference.

With this option, MCD will apply any Interim Rate increase to the “core” rate (without the retroactive component); and then the on April 1, 2023, the retroactive piece component will be deleted.

Rate Recommendations

It is recommended that the agencies adopt an across-the-board rate increase of 41.46% in Cambria and 43.30% in Cayucos. Table 4 summarizes the proposed monthly rates for single family residential (SFR) customers.

Table 4. Single Family Residential (SFR) Rates

	Container Size (Gallons)		
	32	64	96
Current			
Cambria	\$26.12	\$52.22	\$78.35
Cayucos	20.25	23.92	27.62
Proposed			
Cambria	36.95	73.87	110.83
Cayucos	29.02	34.28	39.58
Increase: Proposed Rates			
Cambria	10.83	21.65	32.48
Cayucos	8.77	10.36	11.96

Excludes temporary delayed rate increase

As reflected rates are higher in Cambria than in Cayucos. This makes sense given Cambria’s longer distance for landfill, materials recovery facility (MRF) and greenwaste disposal. As noted above, about 85% of area customers have selected 32-gallon service.

BACKGROUND

On October 20, 2021, MCD submitted a *Base Year* rate increase to be effective January 1, 2022. As noted above, due to several complex issues, a revised application, was submitted on March 24, 2022. This application was prepared in accordance with the rate review process and methodology formally set forth in its Franchise Agreements with Cambria and Cayucos.

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In establishing a rate-setting process and methodology, each of these Franchise Agreements specifically reference the City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994 and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Cambria and Cayucos is closely related. For this reason, these two agencies jointly contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology). This is the second *Base Year* analysis performed under this rate-setting methodology. The first was prepared in August 2019.

Franchise Agreement Summary

While there are minor differences in Franchise Agreements in Cambria and Cayucos, they have similar key provisions:

Table 5. Franchise Agreement Effective Dates

Agency	Agreement	Amended
Cambria	July 27, 2001	May 27, 2010
Cayucos	August 11, 2006	March 16, 2017

- Each agency contracts with MCD for garbage, green/food waste and “single stream” recycling; and MCD provides the container (waste wheelers) for each service.
- As noted above, each agency has adopted the same rate-setting methodology.

The most significant difference is the Franchise Fee, which is 6% in Cambria and 10% in Cayucos.

RATE REVIEW WORKSCOPE

This report addresses four basic questions:

- Should MCD be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

The following documents were closely reviewed in answering these questions:

- Franchise Agreements and any Amendments for each agency
- Independently audited financial statements for MCD for 2019 and 2020.
- City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (Rate Manual)*
- MCD rate increase application and supporting documentation

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- Follow-up interviews, correspondence and briefings with MCD staff
- Rate surveys of Central Coast communities

REVENUE AND RATE SETTING OBJECTIVES

In considering MCD's rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the Franchise Agreements via the Rate Manual.

Revenues. These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

Rate Structure. Almost any rate structure can meet the revenue principles outlined above and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

FINANCIAL OVERVIEW

While detailed financial and service information is provided in the MCD rate request application (Appendix A), the following summarizes costs, revenues and account information based its proposal for 2022 for all areas serviced by MCD

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Costs by Type. Total expenses for 2022 (after deducting for non-allowable and limited costs as discussed later in this report) are \$7.5 million.

As reflected in Table 6, five cost areas accounted for over 85% of total costs:

- Direct labor for collection: 27%
- Vehicle operations and maintenance (including depreciation): 22%
- Disposal (landfill, recycling and greenwaste): 22%
- Insurance: 8%
- Franchise fees: 7%

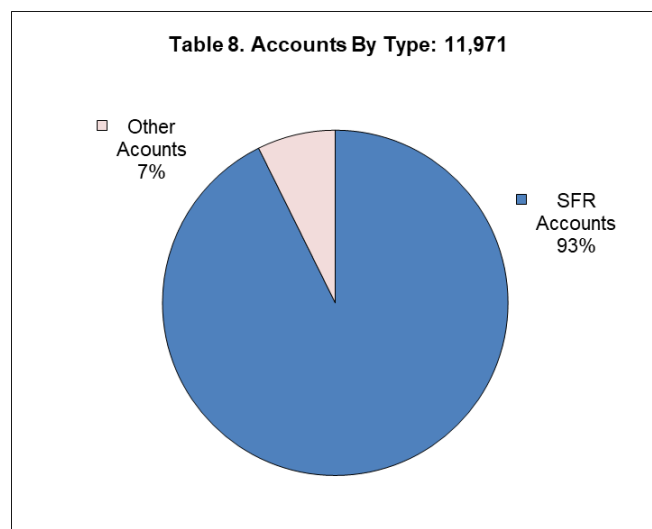
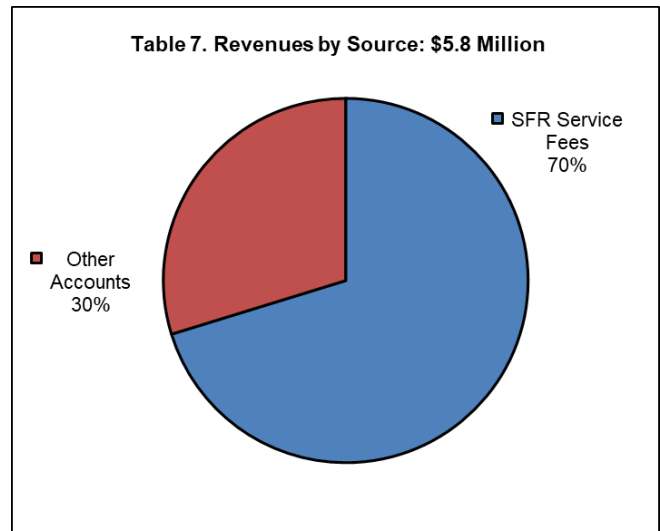
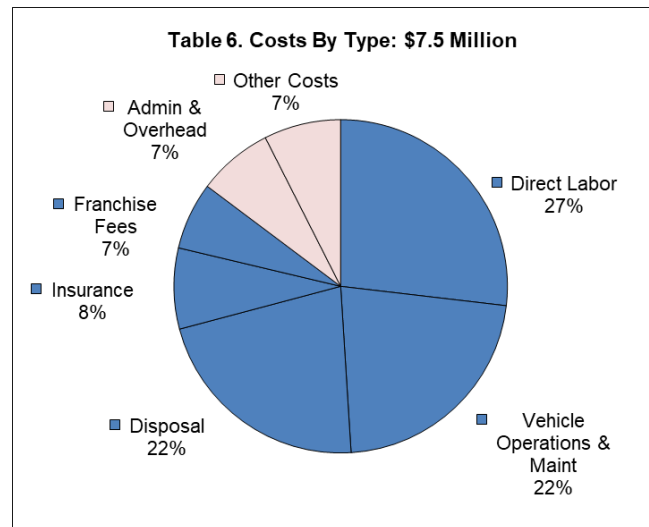
Revenues by Source. Total revenues (without proposed rate increases) are \$5.8 million. As reflected in Table 7, 70% of MCD's revenues come from SFR accounts.

Services to multi-family residential and non-residential customers account for 30% of their revenues, with less than 1% from other revenues.

This significant gap between revenues and expenses (plus allowable profit) drives the proposed rate increase.

Service Accounts by Type. While single-family residences account for 70% of revenues, they represent 93% of total accounts (Table 8).

This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



RATE-SETTING PROCESS

Under the *Rate Manual*, the rate-setting process follows a three-year cycle:

- **Base Year.** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the franchise agreements in determining fair and reasonable rates. As noted above, the last *Base Year* analysis for MCD under this approach was prepared in August 2019.
- **Two Interim Years.** In both the second and third years, MCD is eligible for *Interim Year* rate adjustments that address three key change factors: changes in the consumer price index for “controllable” operating costs; changes in disposal costs (which MCD does not control: they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees.

The first two adjustment factors are “weighted” by the proportionate share that these costs represent of total costs (excluding franchise fees). For example, in the current Base Year analysis for recommended 2022 rates, controllable costs account for about 80% of total costs, with disposal costs accounting for about 20%.

The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

Proposed Interim Year Rates

Consistent with past practice, MCD has proposed an interim year approach that is slightly different from the Rate Manual methodology. In the interest of a more straightforward, streamlined process, MCD proposes simply adjusting rates by changes in the CPI-U in 2023 and 2024. As noted in the past, the concept is consistent with the Rate Manual approach, but is simpler and allows for multi-year rate setting. Accordingly, I recommend that two agencies continue using this approach.

Given the that interim review methodology set forth in the Rate Manual has not been used for several years, this is another area the update should consider.

RATE SETTING METHODOLOGY

Are the Costs Reasonable?

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

- Detailed review of costs and service responsibilities over time.
- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).
- Comparisons of rates with other communities.

Each of these was considered in preparing this report, summarized as follows.

Detailed Cost Review

In its rate application (Appendix A), MCD provides detailed financial data for five years:

- Audited results for the two prior years (2019 and 2020).
- Estimated results for 2021.
- Projected costs for the Base Year (2022).
- Estimated costs for the following year (2023).

Additionally, for virtually all line items, MCD provided supplemental detail beyond their rate application as requested to support cost increases from 2020 to 2022.

Table 9 below provides actual costs for 2020 (most recent audit results) compared with cost projections for 2022. While there are significant cost increases in several categories, they are reasonable given the cost drivers facing MCD.

The Short Story. The key cost drivers behind the proposed rate increases for 2022 can be summarized by five factors over the past two years:

- Direct labor
- Truck depreciation.
- Food and green waste recycling.
- Insurance
- Gas and oil

All other cost increases including ongoing maintenance, disposal costs at the landfill and MRF, account for less than 2% of the rate increase driven by costs.

As reflected above, cost factors account for about 60% of the rate increase. The remaining balance is due to restoring MCD to an 8% operating target on allowable costs (compared with a loss of \$346,567 in 2020), offset by modest increases in the revenue base from 2017.

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Table 9. Detail Cost Review: 2020 Compared with 2022

	2020 Actual	2022 Proposed	
		Amount	Change
Direct Labor	1,656,566	2,027,116	370,550
Administrative Costs			
Corporate Overhead	91,704	97,336	5,632
Office Salaries	308,392	338,409	30,017
Other Expenses			-
Depreciation	376,319	765,950	389,631
Gas and Oil	358,629	509,789	151,160
Insurance			
Medical	302,386	385,025	82,639
General Liability	125,120	207,269	82,149
Office Expense	93,897	114,738	20,841
Operating Supplies	38,307	40,764	2,457
Outside Services	80,781	72,734	(8,047)
Permits	31,411	50,963	19,552
Tires	58,486	79,450	20,964
Truck Repairs	293,765	316,700	22,935
Other Costs	137,639	160,811	23,172
Total Allowable Costs	3,953,402	5,167,054	1,213,652
Pass-Through Costs			
Disposal Costs			
Landfill	484,703	514,221	29,518
MRF	444,307	415,318	(28,989)
Greenwaste	352,682	721,229	368,547
Franchise Fees	554,664	493,114	(61,550)
Regulatory Fees	7,565	11,122	3,557
Facility Rent, Related Party	110,915	118,545	7,630
Interest, Related Party	100,412	107,679	7,267
Transportation, Related Party	-	550	550
Total Pass-Through Costs	2,055,248	2,381,778	326,530
Total Costs	\$6,008,650	\$7,548,832	\$1,540,182

These costs are organized by costs where MCD is allowed a profit (“Allowable”) and those where it can recover the cost but not earn a profit on them (“Pass-Through”).

The following describes the basis for each for major cost areas and significant changes.

Allowable Costs

- **Direct Labor.** This reflects a two-year increase of 22%. This increase is composed of two parts:
 1. ***Labor costs increases.*** These are projected to increase by about 10% over the two years, or about 5% per year. Given the tight labor market and current increases in CPI, this increase for retention and attraction is reasonable.
 2. ***Allocation of labor costs between companies.*** Waste Connections has prepared a more detailed analysis of the direct labor costs between companies. Compared with 2020, this resulted in an 11% increase in direct labor costs. As discussed below under

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“Cost Accounting Issues,” this change drives other major costs that are allocated between companies based on direct labor hours, most notably vehicle operating costs (depreciation, repairs, tires and mechanic labor) and group health insurance.

- **Office Salaries.** This reflects annual increases of about 4.5% per year. Again, given the tight labor market and current increases in the consumer price index) and office salaries.
- **Depreciation.** The 2019 *Base Year* report noted that as fully depreciated trucks were replaced, significant continuing higher depreciation costs were expected in the future due to two factors: annual depreciation costs on fully depreciated trucks would go from zero to about \$60,000 each; and the cost basis for new trucks would be significantly higher than in the past. Given replacements during 2021 and those proposed in 2022, the increased cost is reasonable. Combined with a possible change in amortization schedule as noted in the sidebar, planned replacements should result in stabilized costs in the future.

Truck Amortization

The Rate Manual calls for depreciating trucks over seven years. While this made sense in 1994, manufacturing improvements since then have resulted in longer lives, with ten years becoming the industry standard. As noted above, this change should be considered as part of the Rate Manual update.
- **Gas and Oil.** There are two parts to this cost increase.
 1. **Cost increases.** The cost is projected to increase by about 9% annually. Given the volatility (both up and down) of diesel and CNG costs (especially recent cost spikes), this is a reasonable assumption for 2022 costs.
 2. **Allocation based on gallons used.** In the past, this was based on driver hours. For 2022, it uses the more accurate gallon usage as the cost allocation basis. This resulted in an increased allocation base of 23%.
- **Insurance: Health Care and Liability.** There are two parts to this cost increase
 1. **Cost increases.** Costs are projected to increase significantly by about 12.5% annually (7.5% for health care and 22.5% for liability insurance). Given increases in health care costs and the current liability insurance market, these are reasonable assumptions for 2022 costs.
 2. **Allocation of labor costs between companies.** As noted above, Waste Connections has prepared a more detailed analysis of the direct labor costs between companies. Compared with 2020, this resulted in an 13% increase in direct labor costs. This relocation accounts for the balance of this cost increase.
- **All Other Allowable Costs.** While there are ups and downs in the other individual line items, in total these reflect modest annual increases of about 1.5%.

Pass-Through Costs

- **Disposal Costs: Landfill.** No rate increases are reflected in the rate application (\$41.00 per ton). The modest two-year increase (about 3% annually) reflects increased tonnage.
- **Disposal Costs: Greenwaste.** After direct labor and depreciation, this is the largest cost increase from 2020. These costs are incurred under an on-site agreement with HZI and reflect costs to build (via depreciation), operate and maintain the anaerobic digestion plant. The purpose of this plant is to process local food and greenwaste in meeting California regulation SB 1383. Key drivers include higher costs than initially projected for construction; ongoing operations and maintenance due to feedstock challenges; and local outbound material. The following further describes these challenges; and a cost summary is provided in Appendix B.

Construction and startup The construction of the anaerobic digester plant in San Luis Obispo was one of the first high solids digesters in the United States and the 99th overall renewable gas anaerobic plant built globally by HZI. The construction of the anaerobic digester in California posed unique challenges but was constructed safely and without any environmental incidents. Given the “first-of-the-kind” nature of the project in California, the actual cost to construct the anaerobic digestion plant exceeded the original budget originally set in 2014. The cost increases were mainly driven by labor availability, prevailing wage, civil and underground cost increases, and equipment and material escalations.

Operation and maintenance. The anaerobic digestion plant exceeds 95% availability (uptime) to process waste while producing renewable green electricity. To ensure the plant is reliably available to process local community waste, the operations and maintenance cost of the anaerobic digestion exceeds the original annual budget due to several factors:

Local Benefits

While costs have increased over 2014 estimates, HZI and SCSS believe there are substantial local benefits to the greenwaste operation, including:

- Powering over 600 homes with 6.2 million kWh per year of renewable electricity.
- Diverting 72 million pounds of organics from landfills per year
- Reducing greenhouse gas emissions by 5,300 metric tons per year.
- Operating at greater than 95% availability to process waste and generate renewable energy.

1. The quantity of entrained inorganic material (such as sand and metal) entrained in the waste increases the wear and tear on the mechanical components of the plant, which inherently increases the number of staff required to operate and maintain the facility.
2. The lower than anticipated quantity of food was also increases the wear and tear on the equipment, which has mainly been driven need to continue to educate the community on organics recycling and the impacts of COVID on commercial businesses (most notably restaurants).

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3. Plant labor costs have increased due to the requirements of processing the waste, maintaining the equipment, competitive labor market and inflationary costs in San Luis Obispo County and more broadly in California. Plant administrative costs such as insurance, legal and taxes continue to increase greater than was historically budgeted.

In summary, key operation and maintenance cost increases reflect continual sand removal; increased equipment replacement and maintenance; increased labor hours and rates; and management of backend compost.

Depreciation. Plant depreciation expenses reflect the higher construction costs discussed above in addressing waste profile challenges such as sand and low food waste content.

Lower Natural Gas Production (Revenue). Due to the amount of inorganic material (like sand) and the lower than anticipated food waste content, the overall natural gas production is lower than planned. This directly limits the amount of overall natural gas production potential of the digester and ultimately electricity sales.

In the past, greenwaste contract costs have been considered “allowable” costs. However, as disposal costs, they are more like landfill and recycling costs, which are treated as “pass-through” costs that can be recovered but profit is not allowed on them. Accordingly, this is considered a pass-through cost in this rate review. However, this another area that should be reviewed as part of the rate manual update.

- **Franchise Fees.** This reflects removal of IWMA fees from the cost base.

Trends in External Cost Drivers

The most common external “benchmark” for evaluating cost trends is the consumer price index. Over the past two calendar years (2020 and 2021), the U.S. CPI-U increased by 8.5% (about 4.2% annually). Excluding the cost drivers discussed above, all other costs increased over the past two years by 3% (about 1.5% annually).

Rates in Comparable Communities

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between “comparable” communities need to be carefully weighed because every community is different.

Nonetheless, surveys are useful assessment tools—but they are not perfect, and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges.
- Landfill costs (tipping fees).
- Service levels (frequency, quality).
- Labor market.

Solid Waste Rate Review

- Operator efficiency and effectiveness.
- Voluntary versus mandatory service.
- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks.
- Revenue collection procedures: Does the hauler or the franchising agency bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb).
- Different rates structures.
- Land use and density (lower densities will typically result in higher service costs).
- Mix of residential and non-residential accounts, and how costs and rates are allocated between customer types. This factor is particularly relevant to MCD, where commercial revenues that often help offset residential rates, make up only 30% of revenues.
- Distance from collection areas to disposal sites. This is also a key cost factor for MCD.

With these caveats, the following summarizes single family residential rates for other cities in the Central Coast area compared with the proposed rates for MCD. As reflected below, even with the proposed rate increases, Cayucos will have rates in the mainstream of the other agencies for 32-gallon containers; and among the lowest for larger sizes. Due to its further distance, this is not the case for Cambria.

Table 10. Single Family Residential Rate Survey

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero	\$28.55	\$44.50	\$55.77
Morro Bay	24.95	49.90	74.86
Paso Robles	30.90	51.12	57.25
Pismo Beach*	21.15	42.32	63.47
San Luis Obispo (City)*	20.94	41.87	67.56
San Miguel	28.33	44.48	61.06
Templeton	31.40	45.01	45.95
MCD Proposed*			
Cambria	36.95	73.87	110.83
Cayucos	29.02	34.28	39.58

* Excludes temporary delayed rate increases

In comparing these rates, it is important to note that about 85% of area customers use the 32-gallon service. Accordingly, these rates are still reasonable given the value of the service. For example, even with the proposed rates, for all three services (refuse, recycling and greenwaste), most customers in Cambria will pay 29 cents per gallon for each weekly pick-up; and 23 cents in Cayucos.

Summary: Are the costs reasonable? Based on the results of the three separate cost-review techniques—trend review, external factor analysis and rate comparisons—the proposed cost assumptions for 2022 are reasonable.

What Is a Reasonable Return on these Costs?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Cambria and Cayucos in their Franchise Agreements with MCD includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

Allowable Costs: Reasonable Operating Profit Allowed

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

Pass-Through Costs: Can be Recovered but No Profit Allowed

- Disposal costs (landfill, recycling, greenwaste)
- Franchise fees
- Payments to affiliated companies (such as facility rent and trucking charges)

Excluded and Limited Costs: No Revenues Allowed

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is an 8% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

In the case of MCD, about 70% of their costs are subject to the 8% operating profit ratio; and 30% are pass-through costs that may be fully recovered from rates, but no profit is allowed. No recovery is allowed for excluded costs. The overall operating profit ratio after allowable and pass-through costs is about 5.5%.

Preparing the Rate Request Application

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the Rate Manual. MCD has prepared their rate increase application in accordance with these requirements (Appendix A); and the financial information provided in the application for 2019 and 2020 ties to its audited financial statements.

Proposed Rate Summary

The following summarizes the calculations that support the proposed rate increases:

Table 11. Proposed Rate Increase Summary

	Cambria	Cayucos
Allowable Costs	5,167,054	5,167,055
Allowable Profit (8% Operating Ratio)	449,308	449,308
Pass-Through Costs		
Disposal		
Landfill	514,221	514,221
MRF (Recycling)	415,318	415,318
Greenwaste	721,229	721,229
Franchise Fees	493,114	493,114
Other Pass-Through Costs	237,896	237,896
Total Pass-Through Costs	2,381,778	2,381,778
Allowed Revenue Requirements	7,998,141	7,998,142
Revenue without Rate Increase	5,757,804	5,757,805
Revenue Requirement: Shortfall (Surplus)	2,240,337	2,240,337
Rate Base Revenue	5,748,477	5,748,478
Percent Change in Revenue Requirement	38.97%	38.97%
Allowed Revenue Increase *	41.46%	43.30%

**Adjusted for franchise fees of 6.0% in Cambria and 10.0% in Cayucos*

As reflected in this summary, all the rate-setting factors are the same for Cambria and Cayucos except for the franchise fee adjustment (which reflects 6% for Cambria and 10% for Cayucos).

Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

- The “8%” operating profit ratio is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 10% to 6%. As noted above, the operating ratio was a negative 8.8% in 2020; and an estimated negative 24.3% in 2021.

Solid Waste Rate Review

- On the other hand, if past ratios have been stronger than this target, then the revenue base is re-set in the *Base Year* review.
- Special rate increases for extraordinary circumstances *may* be considered.

The result of this process is a proposed rate increase of 41.46% in Cambria and 43.30% in Cayucos.

COST ACCOUNTING ISSUES

As noted above, MCD's financial operations for Cambria and Cayucos are closely related. Keeping costs and revenues segregated is further complicated by the fact that MCD is a subsidiary of Waste Connections US (which acquired the company in April 2002). It shares ownership with the following local companies:

- San Luis Garbage Company
- South County Sanitary Service
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Landfill
- Cold Canyon Processing Facility (Recycling)

Additionally, the MCD service area includes:

- Los Osos Community Services District
- Other north coastal unincorporated areas

Cost Accounting System

Audited financial statements are prepared for each company within Waste Connections' central coast operations by an independent certified public accountant; and MCD's auditors have consistently issued "clean opinions" on its financial operations. However, only direct labor hours for collection (and related compensation), liability insurance, franchise fees and revenues are directly accounted for each company (like MCD); and then within each agency serviced by it. As summarized below for major cost categories, costs are allocated between companies based on apportionments using generally accepted accounting principles:

Table 12. Cost Allocation Bases

Allocation Basis	Major Cost Categories
Customer counts	<ul style="list-style-type: none">• Region and division overhead• Office salaries• Office expense• Legal and accounting
Direct labor hours	<ul style="list-style-type: none">• Truck depreciation• Truck repairs and tires

Solid Waste Rate Review

	<ul style="list-style-type: none">• Mechanic labor• Gas and oil
Tonnage	<ul style="list-style-type: none">• Disposal costs• Landfill• MRF/recycling• Greenwaste
Revenue	<ul style="list-style-type: none">• Corporate overhead (adjusted for Rate Manual limitations)• Bad debt expense• Other taxes
Containers	<ul style="list-style-type: none">• Container depreciation• Container labor• Container repairs
Gallons	<ul style="list-style-type: none">• Diesel fuel

These allocation bases seem reasonable. However, they are subject to periodic change as determined by Waste Connections. Since these apportionments are a key basis for rate setting, the bases of allocation for each cost category (including allocations of regional and district overhead and accounting for direct costs) should be established in an updated Rate Manual.

COORDINATION WITH OTHER AGENCIES

MCD has also submitted initial rate applications for Los Osos and the north coastal areas, proposing the same rate increases as Cayucos.

SUMMARY

Based on the rate-setting policies and procedures adopted by Cambria and Cayucos, this report concludes that:

- MCD has submitted the required documentation required under its Franchise Agreements with the two agencies.
- This results in a recommended rate increase of 41.46% for Cambria and 43.30% in Cayucos.

ATTACHMENTS

Appendix A: Base Year Rate Request Application from Mission Country Disposal
Appendix B: HZI Greenwaste Digester Cost Analysis

Appendix A

BASE YEAR RATE REQUEST APPLICATION

Base Year Application Summary

- Cayucos Sanitary District
- Cambria Community Services District

Supporting Schedules

- Financial Information: Cost and Revenue Requirements Summary
- Revenue Offset Summary
- Cost Summary for Base Year
- Base Year Revenue Offset Summary
- Operating Information

Mission Country Disposal

Base Year Rate Adjustment Application

Summary **CAYUCOS SANITARY DISTRICT**

Requested Increase			
Digester Expense	6.67%	Market Rate Wage Adjustment	4.91%
Capital Purchases	9.56%	Truck Repairs	3.25%
Insurance	1.80%	Other Outside Services	2.67%
Fuel	1.25%	Landfill Disposal	0.19%
Commingle Processing Fee	1.79%	Franchise Fee Related to PI	4.33%
		CPI Increase/Other	6.88%

1. Rate Increase Requested

43.30%**Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
---------------	-----------------	-------------------	-------------------	-------------

Single Family Residential

2. Economy Service (1 - can curb)	\$20.25	\$8.77		\$29.02
3. Standard Service (2- can curb)	\$23.92	\$10.36		\$34.28
4. Premium Service (3 - can curb)	\$27.62	\$11.96		\$39.58

(a) Calculated rates are rounded up to the nearest \$0.01.

5 **Multiunit Residential and Non-residential**

Rate increases of

43.30%

will be applied to all rates in each structure

with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date:

10/20/21

Revised:

3/21/2022

Mission Country Disposal

Base Year Rate Adjustment Application

Summary

CAMBRIA CSD

Requested Increase			
Digester Expense	6.67%	Market Rate Wage Adjustment	4.91%
Capital Purchases	9.56%	Truck Repairs	3.25%
Insurance	1.80%	Other Outside Services	2.67%
Fuel	1.25%	Landfill Disposal	0.19%
Commingled Processing Fee	1.79%	Franchise Fee Related to PI	2.49%
		CPI Increase/Other	6.88%

1. Rate Increase Requested

41.46%

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
Single Family Residential				
2. Economy Service (1 - can curb)	\$26.12	\$10.83		\$36.95
3. Standard Service (2- can curb)	\$52.22	\$21.65		\$73.87
4. Premium Service (3 - can curb)	\$78.35	\$32.48		\$110.83

(a) Calculated rates are rounded up to the nearest \$0.01.

5. **Multiunit Residential and Non-residential**

Rate increases of

41.46%

will be applied to all rates in each structure

with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: Jeff Clarin

Title: District Manager

Signature:

Date:

10/20/21

Revised:

3/21/2022

Mission Country Disposal

Base Year Rate Adjustment Application

Financial Information

Historical		Current	Projected	
			Base Year	
2019	2020	2021	2022	2023

(from Pg. 4)

Section I-Allowable Costs

6.	Direct Labor	\$1,987,893	\$1,656,566	\$1,881,780	\$2,027,116	\$2,087,926
7.	Corporate Overhead	\$90,171	\$91,704	\$92,437	\$97,336	\$100,256
8.	Office Salaries	\$281,869	\$308,392	\$307,058	\$338,409	\$348,479
9.	Other General and Admin Costs	\$2,263,225	\$2,249,422	\$2,758,424	\$2,704,193	\$2,915,906
10.	Total Allowable Costs	\$4,623,158	\$4,306,084	\$5,039,699	\$5,167,054	\$5,452,567

Section II-Allowable Operating Profit

11.	Operating Ratio	144.1%	108.8%	124.3%	92.0%	92.0%
12.	Allowable Operating Profit	(\$1,415,951)	(\$346,567)	(\$984,823)	\$449,309	\$474,136

Section III-Pass Through Costs

13.	Tipping Fees	\$921,271	\$929,010	\$956,880	\$1,650,768	\$1,660,064
14.	Franchise Fees	\$453,112	\$554,664	\$557,265	\$493,114	\$507,907
15.	AB939 Fees	\$6,152	\$7,565	\$7,621	\$11,122	\$11,455
16.	Other Pass-through Costs	\$166,213	\$211,327	\$194,965	\$226,774	\$247,513
17.	Total Pass Through Costs	\$1,546,748	\$1,702,566	\$1,716,731	\$2,381,778	\$2,426,939

Section IV - Revenue Requirement

18.	Revenue Requirement				\$7,998,141	\$8,353,642
19.	Total Revenue Offsets (from Page 3)	\$4,753,955	\$5,662,083	\$5,771,608	\$5,757,804	\$5,815,561

Section V - Net Shortfall (Surplus)

20.	Net Shortfall (Surplus)				\$2,240,337	
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21.	Total Residential and Non-residential Revenue without increase in Base Year (pg.3, lines 32+40)	\$5,748,477	Cambria
22.	Percent Change in Residential and Non-residential Revenue Requirement	38.97%	38.97%
23.	Franchise Fee Adjustment Factor (1 - 6 percent)	90.00%	94.00%
24.	Percent Change in Existing Rates	43.30%	41.46%

Mission Country Disposal

Base Year Rate Adjustment Application

Revenue Offset Summary

Section VII - Revenue Offsets					
Historical		Current	Projected		
			Base Year		
2019	2020	2021	2022	2023	
28. Single Family Residential	\$3,239,590	\$3,971,479	\$4,043,364	\$4,044,206	\$4,084,648
Multiunit Residential Dumpster					
29. Number of Accounts	0	0	0	0	0
30. Revenues	\$0	\$0	\$0	\$0	\$0
31. Less Allowance for Uncollectible Resid Accounts					
32. Total Residential Revenue	\$3,239,590	\$3,971,479	\$4,043,364	\$4,044,206	\$4,084,648
Non-residential Revenue (without increase in Base Yr.)					
Account Type					
Non-residential Can					
33. Number of Accounts		61	61	62	
34. Revenues		\$13,648	\$13,785	\$13,922	
Non-residential Wastewheeler					
35. Number of Accounts		239	242	244	
36. Revenues		\$160,648	\$162,255	\$163,877	
Non-residential Dumpster					
37. Number of Accounts		567	573	579	
38. Revenues	\$1,512,372	\$1,690,251	\$1,545,078	\$1,528,231	\$1,543,514
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
40. Total Non-residential Revenue	\$1,512,372	\$1,690,251	\$1,719,374	\$1,704,270	\$1,721,313
45. Interest on Investments	\$0	\$0	\$0	\$0	\$0
46. Other Income	\$1,993	\$353	\$8,870	\$9,327	\$9,600
47. Total Revenue Offsets	\$4,753,955	\$5,662,083	\$5,771,608	\$5,757,804	\$5,815,561

Mission Country Disposal

Base Year Rate Adjustment Application

Cost Summary for Base Year

Description of Cost	Section VIII-Base Year Cost Allocation				
	2019	2020	2021	Base Year 2022	2023
Labor	\$1,825,776	\$1,537,344	\$1,747,146	\$1,882,351	\$1,938,818
Payroll Taxes	\$162,117	\$119,222	\$134,633	\$144,765	\$149,108
48. Total Direct Labor	\$1,987,893	\$1,656,566	\$1,881,780	\$2,027,116	\$2,087,926
49. Corporate Overhead	\$119,957	\$152,448	\$173,276	\$182,460	\$187,934
Less limitation (enter as negative)	(\$29,786)	(\$60,744)	(\$80,839)	(\$85,124)	(\$87,677)
Total Corporate Overhead	\$90,171	\$91,704	\$92,437	\$97,336	\$100,256
Office Salaries	\$262,103	\$289,698	\$284,014	\$313,196	\$322,510
Payroll Taxes - Office	\$19,766	\$18,694	\$23,044	\$25,213	\$25,969
50. Total Office Salaries	\$281,869	\$308,392	\$307,058	\$338,409	\$348,479
Bad Debt	\$1,525	\$3,260	\$5,669	\$5,669	\$5,669
Allocated expenses	\$0	\$0	\$0	\$0	\$0
Bonds expense	\$4,522	\$3,931	\$3,807	\$4,009	\$4,129
Depreciation	\$284,167	\$376,319	\$555,020	\$765,950	\$922,792
Drive Cam fees	\$3,010	\$8,854	\$10,790	\$11,362	\$11,703
Dues and Subscriptions	\$10,727	\$2,361	\$8,088	\$8,517	\$8,772
Facilities	\$24,611	\$17,600	\$11,831	\$12,458	\$12,832
Gas and oil	\$401,106	\$358,629	\$506,154	\$509,789	\$524,706
Insurance	\$430,834	\$427,506	\$530,264	\$592,294	\$610,063
Laundry (Uniforms)	\$12,878	\$13,479	\$15,484	\$16,305	\$16,794
Legal and Accounting	\$36,525	\$18,862	\$20,777	\$21,821	\$22,444
Miscellaneous and Other	\$4,802	\$2,158	\$2,083	\$2,193	\$2,259
Office Expense	\$95,657	\$93,897	\$108,945	\$114,738	\$118,190
Operating Supplies	\$42,549	\$38,307	\$38,712	\$40,764	\$41,987
Other Taxes	\$12,577	\$13,598	\$20,213	\$21,235	\$21,844
Outside Services	\$453,199	\$501,740	\$499,646	\$134,283	\$136,172
Public Relations and Promotion	\$2,516	\$3,498	\$3,093	\$3,099	\$3,103
Permits	\$34,610	\$31,411	\$48,398	\$50,963	\$52,492
Postage	\$8,021	\$3,552	\$5,259	\$5,537	\$5,704
Relocation	\$4,633	\$12,510	\$8,947	\$8,947	\$8,947
Rent	\$5,278	\$5,278	\$7,019	\$7,575	\$7,621
Telephone	\$6,939	\$15,238	\$15,344	\$16,157	\$16,642
Tires	\$72,014	\$58,486	\$75,451	\$79,450	\$81,834
Travel	\$19,244	\$3,572	\$5,034	\$5,301	\$5,460
Truck Repairs	\$279,312	\$225,488	\$242,308	\$255,151	\$262,805
Utilities	\$11,969	\$9,888	\$10,091	\$10,626	\$10,944
51. Total Other Gen/Admin Costs	\$2,263,225	\$2,249,422	\$2,758,424	\$2,704,193	\$2,915,906
52. Total Tipping Fees	\$921,271	\$929,010	\$956,880	\$1,650,768	\$1,660,064
53. Total Franchise Fee	\$453,112	\$554,664	\$557,265	\$493,114	\$507,907
54. Total AB 939/Regulatory Fees	6,152	7,565	\$7,621	\$11,122	\$11,455
55. Total Lease Pmt to Affil Co.'s	\$92,796	\$110,915	\$112,578	\$118,545	\$122,102
55a. Interest, related Party	\$69,017	\$100,412	\$81,836	\$107,679	\$124,861
55b. Total Transportation to Affil Co.'s	\$4,400	\$0	\$550	\$550	\$550
56. Total Cost	\$6,169,906	\$6,008,650	\$6,756,430	\$7,548,832	\$7,879,506

Mission Country Disposal

Base Year Rate Adjustment Application

Base Year Revenue Offset Summary

For Information Purposes Only

Description of Revenue	Section VII-Revenue Offsets						
	Overall	Franchise	Refuse Collection				Non
	Total	Total	LO CSD	Cayucos	Cambria	County	Franchised
<i>Residential Revenue</i>							
(without increase in Base Year)	11,095	11,095	5,218	1,892	3,783	202	-
57. Single Family Residential	\$4,044,206	4,044,206	1,894,586	638,164	1,446,755	64,700	-
Multiunit Residential Dumpster							
58. Number of Accounts	\$0	\$0	0	0	0	0	0
59. Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0
60. Less Allowance for Uncollectable	\$0	\$0	0	0	0	0	0
61. Total Residential Revenue	\$4,044,206	\$4,044,206	\$1,894,586	\$638,164	\$1,446,755	\$64,700	\$0
<i>Non-residential Revenue (without increase in Base Year)</i>							
Account Type							
Non-residential Can							
62. Number of Accounts	61	61	5	17	-	40	-
63. Revenues	\$13,785	\$13,785	2,103	2,528	-	9,154	-
Non-residential Wastewheeler							
64. Number of Accounts	242	242	71	37	97	37	-
65. Revenues	\$162,255	\$162,255	58,569	23,504	56,829	23,353	-
Non-residential Dumpster							
66. Number of Accounts	573	573	149	67	138	219	-
67. Revenues	\$1,528,231	\$1,528,231	485,153	181,324	369,510	492,244	-
68. Less: Allowance for Uncollectible							
Non-residential Accounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0
69. Total Non-residential Revenue	\$1,704,270	\$1,704,270	\$545,824	\$207,356	\$426,339	\$524,751	\$0
74. Interest on Investments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
75. Other Income	\$9,327	\$0	\$0	\$0	\$0	\$0	\$9,327
76. Total Revenue Offsets	\$5,757,804	\$5,748,477	\$2,440,410	\$845,520	\$1,873,095	\$589,451	\$9,327

Fiscal Year: 1-1-2022 to 12-31-2022

Pg. 5 of 6

Mission Country Disposal

Base Year Rate Adjustment Application

Operating Information

Historical			Current			Projected		
	Percent		Percent		Percent	Base Year	Percent	
2019	Change	2020	Change	2021	Change	2022	Change	2023

Section IX-Operating Data

Residential & Commercial Garbage

77.	Los Osos Residential Accts	5,110	0.3%	5,124	0.8%	5,166	1.0%	5,218	1.0%	5,270
	Cayucos Residential Accts	1,856	0.4%	1,863	0.6%	1,873	1.0%	1,892	1.0%	1,911
	Cambria Residential Accts	3,735	0.1%	3,737	0.2%	3,746	1.0%	3,783	1.0%	3,821
	County Residential Accts	132	1.5%	134	49.3%	200	1.0%	202	1.0%	204
	Los Osos Commercial Accts	235	-0.9%	233	-4.4%	223	1.0%	225	1.0%	227
	Cayucos Commercial Accts	146	-5.5%	138	-13.5%	119	1.0%	121	1.0%	122
	Cambria Commercial Accts	267	-1.1%	264	-11.8%	233	1.0%	235	1.0%	238
	County Commercial Accts	317	-0.6%	315	-7.2%	292	1.0%	295	1.0%	298
78.	Routes	10	-13.3%	8	-8.3%	8	0.0%	8	0.0%	8
79.	Tons Collected	14,307	-17.4%	11,822	3.0%	12,177	3.0%	12,542	1.0%	12,667
80.	Direct Labor Hours	20,102	-13.3%	17,430	-8.3%	15,986	0.0%	15,986	0.0%	15,986

Recyclable Materials - Curbside Recycling-Los Osos, Cambria, & Cayucos

85.	Accounts	11,259	0.1%	11,272	0.0%	11,271	1.0%	11,384	1.0%	11,498
86.	Routes	7	-13.3%	6	-8.3%	5	0.0%	5	0.0%	5
	Tons Collected	4,485	3.2%	4,628	3.0%	4,767	3.0%	4,910	1.0%	4,959
87.	Direct Labor Hours	13,585	-13.3%	11,779	-8.3%	10,803	0.0%	10,803	0.0%	10,803

Recyclable Materials - Greenwaste Collection-Los Osos, Cambria, & Cayucos

88.	Accounts	10,701	0.2%	10,724	0.6%	10,785	1.0%	10,893	1.0%	11,002
89.	Routes	5	-13.3%	5	-8.3%	4	0.0%	4	0.0%	4
	Tons Collected	5,277	3.6%	5,469	3.0%	5,633	3.0%	5,802	1.0%	5,860
90.	Direct Labor Hours	11,020	-13.3%	9,555	-8.3%	8,763	0	8,763	0.0%	8,763

HZI Cost Increase Summary
Appendix B

Cost Category	Original Plan	2021	2022	Variance		Comment
				Amount	%	
Staffing and Administrative Cost	\$ 1,090	\$ 1,592	\$ 1,706	\$ 616	57%	Staff operation requirements increased from 3 to 6 team members due to feedstock profile, increased maintenance, equipment change out and operational demands. Additionally salary increases have been necessary to meet CA labor market demands. Administratively pollution insurance was added and audit and legal fees were increased to meet reporting requirements.
O&M Expense	\$ 495	\$ 1,747	\$ 1,439	\$ 944	191%	Increased cost due to CHP maintenance increases related to gas cycling, dosing feeder erosion, screw feeder premature erosion, shredder blade erosion and damage due to contamination, digestate pump rebuild frequency due to sand, premature wear and replacement of the decanter, and continued vacuum truck clean out of the sand build-up. Added +250K/year for management of backend products and front end peak loading;
Capital Expense	\$ 1,487	\$ 1,945	\$ 1,946	\$ 459	31%	Added Capital cost includes Feed Bunker Wall extension, Speed Screen, Fat, Oils, and Grease system, and redundant pumps related to decreased food waste and sand issues in the CA environment
Total Cost	\$ 3,072	\$ 5,284	\$ 5,091	\$ 2,019		-
Total Service Fee	\$ 1,749	\$ 1,779	\$ 3,861	\$ 2,082	119%	Increase requested equates closely to cost increase seen since original plan of monthly service fees
Change	\$ (1,323)	\$ (3,505)	\$ (1,230)	\$ 63		