

Review of the Recology Vacaville Solano, Inc. FY2010/11 Rate Application



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EXECUTIVE SUMMARY

Introduction

IntelliWaste, Inc. (IntelliWaste) was retained by the City of Vacaville (City) for the purpose of providing consulting services for the fiscal year FY2010/2011 (FY10 and FY11) Recology Vacaville Solano, Inc. (RVS) solid waste collection rate application. IntelliWaste is an industry leader providing operational and financial analysis for solid waste management programs. The company has performed this service for the City since 1996.

Procedurally, RVS submits a full rate application every two years to the City for review and approval. In the past, rates for the year following the full rate review change according to the area CPI and thus rates are adjusted automatically based on the CPI formula. Subsequent, based on the adverse economic conditions beginning in calendar year 2008, and the potential for new commercial recycling mandates from the State in 2011, both the City and RVS agreed to perform a full rate review applications in FY11/12.

Review and Analysis

RVS submitted the original rate application on September 30, 2010 which proposed an initial rate decrease of -3.32% without the addition of any new programs. Along with the rate application, RVS supplied numerous exhibits supporting the rate application request. After receiving the rate application, the City and consultant reviewed the document and accompanying data to assure accuracy and consistency of methodology.

After reviewing the rate application, the City, with assistance from its consultant, prepared a list of questions and requests for additional data from RVS to further explain and support the numbers behind the rate application. RVS responded with additional supporting data as well as revised certain expenses and revenues to reflect new data and negotiations affecting the rate application. The revised and final application, adjusted with the new RVS data and including a new residential waste clean up program, resulted in a rate decrease of -3.07%.

The primary factor contributing to the revised rate decrease from FY10 was a material reduction in the Recology Vacaville Solano tipping fee from \$38.00 to \$25.58 per ton, included in the rates for 2011. Other factors contributing to a rate decrease included revising depreciation schedules on select equipment, reallocation of rolling stocks assets and accounting reconciliations.

Future issues that need to be discussed include the Agreement Term which is scheduled to end on June 30, 2013.

Summary of Rate Application Results

The final result of the rate application review, analysis and agreement between the City and RVS is a -3.07% decrease in rates as of January 1, 2011; these new rates will

“The final result of the interim rate application review, analysis was a 3.07% decrease in rates. Residential customers will save \$0.75/month or \$9.00 per year. ”

be retroactively applied to all residential and commercial customers with service as of this date. **Table 1** provides a summary of the final FY10/11 rate application submitted by RVS including financials back to FY09.

| Table 1 | | | |
|---|---------------------|---------------------|---------------------|
| 2009 - 2011 Rate Application and Revenue Requirement | | | |
| | Actual | Projected | Projected |
| | 2009 | 2010 | 2011 |
| Revenue | | | |
| Residential | 7,021,739 | 7,166,193 | 7,142,545 |
| Commercial | 5,137,417 | 5,038,988 | 5,022,359 |
| Debris Box | 2,808,223 | 2,547,228 | 2,538,823 |
| Street Sweeping | 434,045 | 433,941 | 432,508 |
| Recycling Revenue | 1,534,377 | 1,806,976 | 1,809,617 |
| Hazardous Waste | 81,192 | 21,611 | 21,611 |
| Other Revenue | 0 | 0 | 0 |
| Total Revenue | \$17,016,993 | 17,014,937 | \$16,967,463 |
| Expenses | | | |
| Wages & Benefits | \$5,980,532 | 6,384,931 | 6,722,305 |
| Franchise Fees | 692,964 | 691,210 | 665,560 |
| Insurance | 270,312 | 271,460 | 294,721 |
| Truck Supplies & Repairs | 1,121,110 | 1,273,758 | 1,366,256 |
| Equipment Rental | 1,431,821 | 1,320,744 | 1,104,831 |
| Depreciation | 341,020 | 447,294 | 448,376 |
| Recycling Expense | 1,425,700 | 1,494,613 | 1,547,615 |
| Hazardous Waste | 216,826 | 272,761 | 275,761 |
| General & Administrative | 68,793 | 33,011 | 153,003 |
| Other Operating Expenses | 577,000 | 563,324 | 571,261 |
| Total Operating Expenses | \$12,126,078 | 12,753,106 | 13,149,689 |
| Net Operating Expenses | 4,890,915 | 4,261,831 | 3,817,774 |
| Operating Ratio | 90.50% | 90.50% | 90.50% |
| Profit | \$1,272,903 | \$1,338,724 | \$1,380,354 |
| Target Operating Revenue from Ops | \$13,398,981 | \$14,091,830 | 14,530,043 |
| Add Disposal Costs (Pass Through) | \$3,115,451 | \$2,653,354 | \$1,973,091 |
| Total Revenue Requirement | \$16,514,432 | \$16,745,184 | \$16,503,134 |
| Revenue Excess | 502,561 | 269,753 | 464,329 |
| % Rate Decrease FY11 | | | -3.07% |
| Current Rate (Residential) | | | \$24.52 |
| Residential Rate Decrease | | | \$0.75 |
| Proposed Rate (Residential) FY11 | | | \$23.77 |

As the table above shows, RVS is projected to have an excess in revenue of \$464,329 in FY11. The revenue requirement includes the agreed upon 90.5% operating ratio (regulated profit) which translates into a projected \$1,380,354 million

profit for RVS in FY11. Total revenue is projected to be \$16.967 million with the passage of the -3.07% rate decrease in FY11. The rate decrease is retroactive back to January 1, 2011.

Revenue projections for FY11 resulted in an overall -0.28% decrease. Recycling commodity prices projected for FY11 are flat. **Table 2** shows the percent change in projected revenue for the FY11 rate application.

| Fiscal Year | Actual 2009 | Projected 2010 | % Change | Projected 2011 | % Change |
|----------------------|------------------------|---------------------------|---------------------|---------------------------|---------------------|
| Revenue | | | | | |
| Residential | 7,021,739 | 7,166,193 | 2.057% | 7,142,545 | -0.33% |
| Commercial | 5,137,417 | 5,038,988 | -1.916% | 5,022,359 | -0.33% |
| Debris Box | 2,808,223 | 2,547,228 | -9.294% | 2,538,823 | -0.33% |
| Street Sweeping | 434,045 | 433,941 | -0.024% | 432,508 | -0.33% |
| Recycling Revenue | 1,534,377 | 1,806,976 | 7.766% | 1,809,617 | 0.15% |
| Hazardous Waste | 81,192 | 21,611 | -73.383% | 21,611 | 0.00% |
| Other Revenue | 0 | 0 | 0% | 0 | 0% |
| Total Revenue | 17,016,993 | 17,014,937 | -0.012% | 16,967,463 | -0.28% |

Overall RVS projects an increase in expenses from projected FY10 to FY11 of 3.11% (not including landfill expenses). Certain individual expenses continue to rise; notable increases in insurance at 8.57%; truck supplies and parts at 7.26%, and recycling expenses at 3.55%. G&A expenses increased 363.49% as a result of increased professional fees as a result of the previous and current rate reviews and ongoing contract negotiations.

Conversely, equipment rental costs are projected to decrease by -16.35% for FY11. Franchise fees were reduced by -3.71% as a result of decreased revenues.

Table 3 shows the percent change in projected expense for FY10 and the current FY11 rate application.

**Table 3
Percent Change in Expenses from Prior Year**

| Fiscal Year | 2009 | 2010 | % Change | 2011 | % Change |
|-------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| Wages and Benefits | \$5,980,532 | 6,384,931 | 6.76% | 6,722,305 | 5.28% |
| Franchise Fees | 692,964 | 691,210 | -0.25% | 665,560 | -3.71% |
| Insurance | 270,312 | 271,460 | 0.42% | 294,721 | 8.57% |
| Truck Supplies & Repair Parts | 1,121,110 | 1,273,758 | 13.62% | 1,366,256 | 7.26% |
| Equipment Rental | 1,431,821 | 1,320,744 | -7.76% | 1,104,831 | -16.35% |
| Depreciation | 341,020 | 447,294 | 31.16% | 448,376 | 0.24% |
| Recycling Expense | 1,425,700 | 1,494,613 | 4.83% | 1,547,615 | 3.55% |
| Hazardous Waste | 216,826 | 272,761 | 25.80% | 275,761 | 1.10% |
| General & Administrative | 68,793 | 33,011 | 52.01% | 153,003 | 363.49% |
| Other Operating Expenses | 577,000 | 563,324 | -2.37% | 571,261 | 1.41% |
| Total | \$12,126,078 | 12,753,106 | 5.17% | 13,149,689 | 3.11% |

Disposal costs, which are a pass through expense (i.e., no operating ratio or regulated profit is applied since profit for the landfill operations are already built into the cost) are projected to decrease by 25.64% for FY11 as shown below in **Table 4**. This decrease is due to a lowering of the tipping fee by Recology Vacaville Solano and a corresponding decrease in total tonnage projected from FY09 to FY10.

**Table 4
Percent Change in Disposal Costs from Prior Year**

| Fiscal Year | 2010 | 2011 | % Revenue (\$) | % Change |
|--------------------|--------------------|--------------------|---------------------------|---------------------|
| Disposal | \$2,653,354 | \$1,973,091 | | -25.64% |

The initial rate application of -3.32% decreased to -3.07% as the result of several changes to the original application submitted by RVS and negotiation by the City for a new on-call residential waste clean up program.

Expenses were increased by \$142,173 as a result of the cost for implementing a twice annual on-call residential waste clean up program.

Expenses were reduced as a result of depreciating one (1) new truck, rather than the three (3) in the original application and changing the depreciation schedule from five (5) to seven (7) years. Truck supplies increased nominally by \$15,790 to account for increased maintenance cost for keeping an older collection vehicle in service rather than purchasing a new vehicle as previously requested by RVS. In addition, an expense of \$50,000 was added to the rates to fund the cost of an interim rate review in 2011 to explore a possible contract extension and perform a review to implement a possible State mandated commercial recycling program, increasing expenses by 0.39%

| Table 5 | | | |
|---|---------------------|---------------------|-------------------|
| Changes Between Original and Final RVS Rate Application Submittal (\$) | | | |
| | Projected | Projected | Difference |
| | 2011 | 2011 | (\$) |
| | Initial | Revised | |
| | Submittal | Submittals | |
| Revenue | | | |
| Residential | 7,142,545 | 7,142,545 | 0 |
| Commercial | 5,022,359 | 5,022,359 | 0 |
| Debris Box | 2,538,823 | 2,538,823 | 0 |
| Street Sweeping | 432,508 | 432,508 | 0 |
| Recycling Revenue | 1,809,617 | 1,809,617 | 0 |
| Hazardous Waste | 21,611 | 21,611 | 0 |
| Other Revenue | 0 | 0 | 0 |
| Total Revenue | \$16,967,463 | \$16,967,463 | \$0 |
| Expenses | | | |
| Wages & Benefits | 6,671,839 | 6,722,305 | 50,466 |
| Franchise Fees | 663,676 | 665,560 | 1,884 |
| Insurance | 277,524 | 294,721 | 17,197 |
| Truck Supplies & Repairs | 1,336,471 | 1,366,256 | 29,785 |
| Equipment Rental | 1,187,567 | 1,104,831 | -82,736 |
| Depreciation | 448,376 | 448,376 | 0 |
| Recycling Expense | 1,547,615 | 1,547,615 | 0 |
| Hazardous Waste | 275,761 | 275,761 | 0 |
| General & Administrative | 81,453 | 153,003 | 71,550 |
| Other Operating Expenses | 669,088 | 571,261 | -97,827 |
| Total Operating Expenses | \$13,159,370 | \$13,149,689 | -\$9,681 |
| Net Operating Expenses | | | |
| Operating Ratio | 90.50% | 90.50% | 90.50% |
| Target Operating Revenue from Ops | 14,540,740 | 14,530,043 | -\$10,697 |
| Add Disposal Costs (Pass Through) | \$1,924,711 | \$1,973,091 | \$48,380 |
| Total Revenue Requirement | \$16,465,451 | \$16,503,134 | \$37,683 |
| Rate Year Revenue Excess | \$502,012 | \$464,329 | -\$37,683 |
| % Rate Increase FY10 (Decrease) | -3.32% | -3.07% | -0.25% |
| Current Rate (Residential) | \$24.52 | \$24.52 | |
| Proposed Rate | \$23.71 | \$23.77 | |
| Residential Rate Decrease | \$0.81 | \$0.75 | |

Conclusion

For greater detail of the Rate Application Review please refer to the main sections of the report. The applied rate review processes and methodologies used herein have been developed over the past twenty year period that RVS has served the City. The general methodology for the rate application included RVS submitting the initial rate application. The City and RVS then negotiated various issues to further decrease rates. For this rate application review, the City and RVS final agreement was -3.07%.

Section 1

Introduction

1.1 Introduction

IntelliWaste, Inc. was retained by the City of Vacaville (City) for the purpose of providing advisory services for reviewing the year FY10/11 Recology Vacaville Solano (RVS) solid waste collection rate review. IntelliWaste is an industry leader providing proven technical and financial solutions for the solid waste management industry. IntelliWaste has performed a review of rates for the City going back to 1996. Prior to that time, review of rates were conducted by Deloitte and Touch (D&T), LLC. San Francisco. IntelliWaste developed out of the D&T solid waste management practice group to continue those services to the public and private sectors.

1.2 Objectives

The primary objective of the rate review is to assess and recommend refuse (solid waste) collection rates to assure the rate is fair and equitable to the City ratepayers as customers and provide a reasonable profit return to RVS. The rate methodology applied to reviewing and analyzing the rate application from RVS is in accordance with established procedures between the two-parties over the past twenty years by Deloitte and Touche. Changes to the rate will be effective as of January 1, 2011 and applied retroactively to all customers. The review of the rates has been conducted by City staff in conjunction with IntelliWaste.

When approaching this engagement there were four key issues for the rate review analysis:

- Assure rates are equitable, defensible and cost-based.
- Use IntelliWaste's long standing relationship as the City's rate consultant with strong knowledge of RVS's operational procedures.
- Understand future options that could affect rates, and
- Determine cost savings from the rate review application.

1.3 Rate Review Process

The rate review process typically takes place over a four month period (September through December), where the rate application is submitted to the City, and then the City and consultant review the data and respond to RVS with questions regarding the data that make up the rate case. RVS has agreed to participate in a interim rate review in 2011 as a result of a possible State mandated commercial recycling requirement. The rate application is then updated with numbers agreed upon by the City and RVS. The final rate is then implemented January 1st. For this rate review, RVS has agreed to

implement this adjustment retroactively to January 1st since the approval by Vacaville's City Council is scheduled for the first meeting in January.

Discussions regarding extension of the franchise Agreement and the potential rate impacts are not addressed in this report.

1.3.1 Rate Application

The rate application by RVS is essentially a revenue requirement calculation that compares expenses to revenue to determine the need for a rate adjustment. The rate application starts by utilizing actual revenue and expenses from RVS's financial statements including both Inside City Limits (ICL) and Outside City limits (OCL), which are separate geographic areas for rate making purposes. The revenue and expenses are then adjusted to isolate ICL allocations from OCL. The adjusted value provides a base year (actual costs) by RVS from which future year revenues and expenses can be projected (one year with 10 months of actuals and two months of projection, then one year, 12 months of fully projected revenues and costs). The rate year with 12 months of fully projected revenues and costs is the rate year addressed in this report.

The projected revenue and expenses are calculated using a multitude of operating assumptions often determined by comparing and contrasting past trends including population growth and price indexes, to name a few. The City and RVS have previously agreed to use the operating ratio method of calculating a return on their investment and regulated profit for the franchise.

The operating ratio calculation is performed by dividing operating expenses, less disposal costs, by the approved operating ratio of 90.5%. Disposal costs are a pass-through expense that receives no profit because the landfill is owned by an affiliate company owned by Recology, Inc. and the disposal costs charged separately to the City have a profit charge built into the fee. Submitted with the RVS rate application is also supporting income statement exhibits detailing actual and projected revenue and cost assumptions. Provided below are listings of Exhibits provided by RVS for this rate application that were reviewed and analyzed by the City and IntelliWaste.

Exhibits Provided by RVS:

1. OCL Revenue Deductions
2. Hazardous Waste Revenue Reclassification
3. Residential Revenue
4. Commercial Revenue
5. Debris Box Revenue
6. Street Sweeping Revenue
7. Recycling Revenue
8. Other Revenue
9. Disposals

10. Wages & Benefits
11. Expense Escalation
12. Franchise Fees
13. Insurance
14. Truck Supplies & Repairs
15. Equipment Rental
16. Depreciation
17. Recycling Expense
18. General & Administrative
19. Other Operating Expense

Review of Rate Application

Using the four key issues as guiding principals, steps were developed to conduct the review of the rate case. The list of steps used in the review is provided below.

- Analyze the audited and interim financial statements, the rate application and budget for FY09 (actual), FY10 (10 months actual with 2 months projected) and FY11 (12 months projected), other financial schedules, and supporting documentation and assumptions of RVS.
- Determine appropriate bases and methodologies for allocating RVS expense items.
- Identify budget variances and their sources, evaluate them against projections and assumptions, and address problematic items appropriately with RVS.
- Perform verification procedures to analyze the company's expenditures, revenue (by source), asset allocations and report results to RVS.
- Review and test costs for accounting accuracy including franchise fees, regulated rate of return, revenue and cost projection, and forecast basis.
- Attest to the accuracy and reasonableness of the proposed rate increase or decrease proposed by RVS.

1.4 Conclusion

This concludes the Introduction section of the report. This section has provided an overview of the rate application process and how such a review typically proceeds. The next section provides additional detail for the rate application as well as implications for the rate analysis.

Section 2

Rate Application Review and Analysis

2.1 Introduction

Over the past twenty years, methodologies and procedures have been developed and employed by the City and RVS to provide a process for conducting a review of the rate application. Generally, RVS, a wholly owned subsidiary of Recology, Inc (formerly known as Norcal Waste Systems), submits a rate application providing financial justification for rate adjustments over a two-year period.

Rate applications by RVS consist of a revenue requirement which compares revenue to expenses to produce the needed rate adjustment. In support of the rate application are exhibits detailing calculations used in the revenue requirement. The initial rate application request was -3.32% or a reduction of approximately \$502,012; the final rate adjustment based on further analysis and negotiations and adding a new collection program with RVS is now -3.07% for adjusted decrease of approximately \$464,329 in rate year FY11.

The initial rate application submitted is reviewed by the City and IntelliWaste for accuracy and to assure that the application met contract constraints and that appropriate agreed upon methods were used. After the City and IntelliWaste reviewed the rate application, a series of questions were transmitted to RVS regarding clarification of the rate application.

The City received a copy of the Rate Application from RVS on September 30, 2010. The City's questions were in relation to:

- Collection Revenue
- Street Sweeping
- Recycling Revenue
- Disposal
- Wages and Benefits
- Franchise Fees
- Insurance
- Truck Supplies and Repairs
- Equipment Rental
- Depreciation
- Recycling Expense

- General & Administrative Expense
- Other Operating Expense

2.2 Revenue

Accurate revenue projections are very important to assure that the rate requested is not over or under the estimated expenses plus operating ratio. If revenue is overestimated in the rate application, the rate adjustment authorized will have been insufficient and RVS may not collect enough revenue to cover operation. However, if revenue is underestimated, RVS may over collect revenue effectively receiving excess revenue and profit. Revenue is made up of seven components: residential, commercial, debris box, street sweeping, recycling, hazardous waste and other. The rate application presented the FY09 actual RVS revenues with OCL portions deducted and then projected that number forward for ICL in FY10 and FY11. For FY10, revenue increased nominally by \$2,056 which continues to show the effects of the current economic conditions in the City. It should be noted that the RVS projections for FY10 represent 10 months of actual data and thus represents a significant portion of all actual revenues for that year.

2.2.1 Rate Revenue

Total revenue (ICL) was determined to be \$17,014,937 in FY09 after adjusting for Outside City Limits (OCL) residential revenue to arrive at the Inside City Limits (ICL) total. The RVS rate application provided actual FY09, and FY10 and FY11 projected revenue. **Table 6** shows detailed revenue projections from the rate application as submitted by RVS.

| Table 6 Percent Change in Revenue | | | | | |
|--------------------------------------|-------------------|-------------------|----------------|-------------------|---------------|
| Fiscal Year | Actual 2009 | Projected 2010 | % Change | Projected 2011 | % Change |
| Revenue | | | | | |
| Residential | 7,021,739 | 7,166,193 | 2.057% | 7,142,545 | -0.33% |
| Commercial | 5,137,417 | 5,038,988 | -1.916% | 5,022,359 | -0.33% |
| Debris Box | 2,808,223 | 2,547,228 | -9.294% | 2,538,823 | -0.33% |
| Street Sweeping | 434,045 | 433,941 | -0.024% | 432,508 | -0.33% |
| Recycling | | | | | |
| Revenue | 1,534,377 | 1,806,976 | 7.766% | 1,809,617 | 0.15% |
| Hazardous | | | | | |
| Waste | 81,192 | 21,611 | -73.383% | 21,611 | 0.00% |
| Other Revenue | 0 | 0 | 0% | 0 | 0% |
| Total Revenue | 17,016,993 | 17,014,937 | -0.012% | 16,967,463 | -0.28% |

The rate application indicates that overall revenue is projected to remain flat with a very slight decrease of -0.012% in FY10 and a decrease in FY11 of -0.28%. The causes of the negative growth of rate revenue in both years are due to reduced debris box collections which are closely tied to the construction industry

and the economy. Recycling commodity prices were approaching some sustainable levels in FY10 and will probably remain the same for FY11.

2.2.2 Miscellaneous Revenue

RVS's other revenue is miscellaneous revenue which consists of recycling, hazardous waste, and other receivables. The vast majority of other revenue is recycling revenue for the processing sale of the City's curbside and commercial recycling collection programs and represents the largest portion of the total miscellaneous revenue.

Table 7 shows the breakdown of other revenue.

| Table 7 | | | | | |
|--|---------------|------------------|---------------|------------------|---------------|
| Percent Change in Miscellaneous Revenue | | | | | |
| | Actual | Projected | % | Projected | % |
| Fiscal Year | 2009 | 2010 | Change | 2011 | Change |
| Revenue | | | | | |
| Recycling Revenue | 1,534,377 | 1,806,976 | 17.77% | 1,809,617 | 0.146% |
| Hazardous Waste Revenue | 81,192 | 21,611 | 73.38% | 21,611 | 0.00% |
| Other Revenue | 0 | 0 | | 0 | 0.00% |

Recycling revenue is a revenue stream which has become very difficult to forecast, although there was a material improvement in pricing in FY10. Problems in financial markets in FY09 have materially affected recycling commodity prices. The result of these changes has been to take the market average of \$91.91 per ton in FY09 for recycled OCC (old corrugated cardboard) to an average of \$146.29 per ton in FY10. Other commodity grades such as mixed paper (ONP#6) and glass have improved in price rising from \$65.67 in FY09 to \$106.59 in FY10. For FY11, the same (flat) commodity pricing is expected to take place in recycling revenues with RVS projecting increased revenues of only 0.146%.

Hazardous waste revenues decreased materially from that projected from FY09 to FY10 at \$21,611 reflecting reduced revenues for e-waste handling and processing. HHW revenues from FY10 to FY11 are not projected to change. RVS has a contract with a third-party household hazardous waste contractor for removal and recycling sales of items.

2.3 Expense

Estimating expenses is another critical portion of the rate application process. Similar to the revenue section of the report, the accuracy of projecting expenses is important in determining what the ultimate rate to be implemented rate will be.

Underestimating expenses can result in RVS not having sufficient revenue to cover its expenses, while overestimating expenses could result in RVS receiving too much revenue. **Table 8** provides the results of the expense projection from the rate application.

Table 8
Percent Change in Expenses from Prior Year

| Fiscal Year | 2009 | 2010 | % Change | 2011 | % Change |
|----------------------------------|---------------------|-------------------|--------------|-------------------|--------------|
| Wages and Benefits | \$5,980,532 | 6,384,931 | 6.76% | 6,722,305 | 5.28% |
| Franchise Fees | 692,964 | 691,210 | -0.25% | 665,560 | -3.71% |
| Insurance | 270,312 | 271,460 | 0.42% | 294,721 | 8.57% |
| Truck Supplies & Repair Parts | 1,121,110 | 1,273,758 | 13.62% | 1,366,256 | 7.26% |
| Equipment Rental | 1,431,821 | 1,320,744 | -7.76% | 1,104,831 | -16.35% |
| Depreciation | 341,020 | 447,294 | 31.16% | 448,376 | 0.24% |
| Recycling Expense | 1,425,700 | 1,494,613 | 4.83% | 1,547,615 | 3.55% |
| Hazardous Waste | 216,826 | 272,761 | 25.80% | 275,761 | 1.10% |
| General & Administrative | 68,793 | 33,011 | -52.01% | 153,003 | 363.49% |
| Other Operating Expenses | 577,000 | 563,324 | -2.37% | 571,261 | 1.41% |
| Total | \$12,126,078 | 12,753,106 | 5.17% | 13,149,689 | 3.11% |

Overall, RVS expenses are projected to rise by 5.17% in FY10 and another 3.11% in FY11. As shown in the above table, there are many areas where variable expenses are projected to grow particularly fast such as wages and benefits, and recycling expense. Each expense is discussed in greater detail below.

Wages and Benefits - Wages and Benefits has increased for several reasons. Adjustments to wages and benefits expenses included a reclassification of the allocation for RVS's rate department which was previously charged to General and Administrative management fees. Additionally, wages for one mechanic on extended leave was eliminated in FY09 but will return in FY11. Union and non-union wage and benefit increases for FY10 and projected FY11 are shown below.

It should be noted that RVS non-union employees and management have no increase in wages (0%) for FY10 and FY11.

**Table 9
Percent Change in Wages and Benefits**

| | FY10 | FY11 |
|-------------------------------------|--------------|--------------|
| Union Wages | 4.5% | 4.2% |
| Union Pension | 5.9% | 6.1% |
| Union Health and Welfare | 9.6% | 10.0% |
| Non-union Wages | 0% | 0% |
| Non-union Pension | 55.9% | 13.2% |
| Non-union Health and Welfare | 10.5% | 10.5% |
| Workers Compensation | 16.6% | 2.5% |

Franchise Fees – Franchise fees are monies received by the City for administration of the franchise contract plus wear and tear to local roads and City infrastructure assets. Franchise fees are 5% of the gross rate revenue less revenues for recycling, street sweeping and the hazardous waste drop-off center which are not subject to a franchise fee. The Franchise fees (\$665,560) were based on adjusted revenue of \$13,311,190 for FY11. Decreases to the franchise fees in FY11 are a function of the rate decrease implemented.

Insurance - Insurance expenses were increased by 0.42% in FY09 and projected at an 8.57% increase in FY11.

Truck Supplies & Repair Parts - This expense consists of fuel, oil, repairs, parts and tires. The majority of this expense category is fuel. For FY10, the average price of fuel was \$3.01 versus \$2.44 for FY09, thus fuel costs increase materially in FY10. For FY10, fuel prices were increased based on 11 months worth of actual costs for FY10 at an average of \$3.25 gallon for an increase of \$56,496 over the previous year. Total fuel costs for FY11 are projected at \$765,050. On a percentage basis, truck and garage projected increases (including fuel) for FY11 is 7.26% higher or \$107,502.

Equipment Rental - Equipment rental consists of the truck, bin and equipment lease program. The equipment rental expense represents the cost recovery of ICL truck, bin and equipment capital costs. The City and RVS have agreed that RVS will recover hence forth the cost of new equipment beginning in FY11 including trucks, bins and equipment through rates over a seven year period similar to straight line depreciation. The current five-year depreciation schedule will continue for all equipment in the rates from prior years. For FY10, depreciation expenses increased by 31.16% for new assets purchased including vehicles, an office and a new fire suppression system installed at the truck and garage facility.

For FY11, this category was projected to decrease by -16.35% or \$215,907 as a result of removing two (2) trucks that were scheduled for purchase and changing the depreciation schedule from five to seven years on the four new trucks purchased (Flat Bed, Street Sweeper, Shop Truck, and Side Loader). Total ICL rental for FY11 will be \$1,104,831.

RVS will utilize the remaining equipment life in the fleet until the end of the current Franchise Agreement term in 2013.

Depreciation - Depreciation consists of ICL's allocated portion of RVS's capitalized assets less trucks, bins and equipment. The largest portion in this expense is due to construction of the truck and garage maintenance facility in FY08 amounting to \$9,660,740 million. For FY10, costs for this expense were \$483,037. The maintenance facility's cost is charged using straight line depreciation with a life of twenty years. The annual depreciation for both FY10 and FY11 will be the same at \$483,037. As of FY11, the balance due on the facility is \$8,137,790.

Recycling Expense - The recycling expense consists of RVS's allocated expenses related to the shared use of recycling operations at the Vallejo MRF. The allocation of the recycling expense is determined by the proportion of curbside tonnage for each customer of the Vallejo MRF. The City of Vallejo also conducts a separate rate review of the recycling center, the results of which are available to the City prior to their rate review. Recycling expenses are subject to an agreement between the City of Vallejo and Recology Vallejo a wholly owned subsidiary of RVS's parent company.

The explanations for the increase in expense for the recycling program in FY10 are: increased processing costs (approved by the City of Vallejo) of \$144,610 as a result of a second shift and new baler; a slight increase in residual disposal (\$5,569); reductions in costs related to recycling purchase (\$55,817) and other minor recycling cost reductions of (\$25,449). For FY10, recycling costs increased by \$68,913 or 4.83%

In FY11, there will be a \$53,002 or (3.55%) increase in expense for the recycling processing program due to: increased processing costs at the Vallejo MRF (\$47,581); and a \$5,421 increase in miscellaneous recycling costs.

Hazardous Waste - From FY09 to FY10, hazardous waste expenses were projected to increase from \$216,826 to \$272,761 or 25.80% due chiefly for e-waste processing costs. For FY11, RVS estimated a cost of \$275,761 or a very minor increase in costs of 1.10%.

General & Administrative - General & administrative expenses consist of an allocated share of Recology's corporate management wages, benefits and overhead in addition to RVS management wages and benefits and associated administrative overhead expenses. Overhead expenses included 19 categories ranging from office supplies and utilities to professional services. For FY10,

\$1,099,523 of management wages and benefits were allocated to multiple subsidiary companies of Recology, Inc. These allocations are projected to be \$1,143,887 in FY11. It should be noted that the management wages and benefits for RVS are contained within the wages and benefits line item in the income statement.

Charges to RVS from the Recology parent company for corporate and technical services are calculated using a set of allocation algorithms that are intended to reflect the size of each subsidiary and the consequent use of service. Administration, finance and environmental compliance corporate expenses are allocated to RVS based on revenue, while human resources is based on RVS employee headcount and Information Technology fees are based on the number of transactions.

A summary of G&A overhead and G&A Management Fees (wages and benefits) expenses projected for FY11 are shown in **Table 10** below.

| Table 10 G & A FY11 | |
|------------------------------------|-----------------|
| Operations supplies | 618 |
| Advertising | 58,792 |
| Meals | 6,026 |
| Contract services | 25,080 |
| Corporate /Technical | 289,456 |
| Data processing | 335,922 |
| RVS group management fees | (1,143,887) |
| Dues | 17,119 |
| Office expense | 37,410 |
| Bank charges | 23,708 |
| Employee training | 1,364 |
| Morale | 1,193 |
| O/S billing services | 33,677 |
| Postage | 50,144 |
| Professional | 229,536 |
| Security | 19,958 |
| Telephone | 29,079 |
| Travel | 3,839 |
| Utilities | 62,419 |
| Subtotal | \$81,453 |

For FY10, expenses were reduced by \$48,106 as a result of group management wages and benefits (\$100,949), and increased by \$52,843 for the City rate consultant.

For FY11, G&A will be increased by \$85,110 due to increased allocation of (\$44,363) in the group management wages and benefits cost; and an increase for the FY10/FY11 rate reviews \$79,473, plus \$50,000 for the upcoming rate review (FY12) and contract negotiations.

Other Operating Expenses – Other operating expense is a catch all category for expenses as shown in **Table 11**. This expense category consists of personal property tax, property rental, additional maintenance facility costs, bad debt, licensing and permits, property rental and taxes, to name a few. Total operating expenses for FY11 increased by \$7,937 over FY10.

Total other operating expenses projected for FY11 is \$571,261.

| Table 11 Other Operating Expenses FY11 | |
|---|------------------|
| Building and Facility Repairs | \$28,053 |
| Bad Debts | 57,127 |
| Licenses and Permits | 91,808 |
| Other Expenses | 22,039 |
| Outside Equipment Rental | 13,608 |
| Property Rental | 182,363 |
| Taxes | 176,263 |
| Total | \$571,261 |

Section 3 Rate Analysis Metrics

3.1 Introduction

Metrics are statistics or unit costs that provide context to the values used in the rate application. In the process of conducting the analysis several metrics were developed.

3.2 Key Metrics Developed

This section of the report summarizes the key metrics developed within the rate application analysis. Within the analysis, the key metrics developed include:

- Breakdown of disposal costs by projected tonnage;
- Truck count;
- Truck repair by truck, and
- Breakdown of container (Toters) by ICL and OCL.

These metrics can provide a means of benchmarking the operations from year to year. **Table 12** provides the breakdown of average dollars per ton for FY10 through FY11. The breakdown of dollars per ton of refuse, green waste and wood waste are also provided.

**Table 12
Disposal Tonnage Statistics**

| Tonnage Stats | 2010 | 2011 |
|---|------------------|------------------|
| | Projected | Projected |
| Total Refuse | 59,732 | 62,772 |
| Green Waste & Food Waste | 12,452 | 12,452 |
| Wood Waste, Dirt, Concrete & Food Waste | 1,445 | 1,445 |
| Total Tonnage | 73,629 | 76,669 |
| | | |
| Total Refuse | 2,269,089 | 1,577,094 |
| Green Waste | 361,097 | 373,549 |
| Wood Waste | 22,448 | 22,448 |
| Annual Disposal Costs | 2,653,354 | 1,973,091 |
| | | |
| Percent Increase (Decrease) | | |
| | | |
| Dollars Per Ton | | |
| Total Refuse [2] | \$38.00 | \$25.58 |
| Green Waste [2] | \$29.00 | \$30.00 |
| Wood Waste [2] | \$24.75 | \$30.00 |

Table 13 shows a breakdown of trucks by type (ICL) and adjusts for OCL trucks for FY11.

| Table 13 Truck Analysis | | | | | |
|------------------------------------|------------|---------------------------------------|-------------|---------------------------------|-------------|
| Sweepers | | Rear Loader | | Front Loader | |
| Active | 3.0 | Active | 1.0 | Active | 3.0 |
| Spare | 1.0 | Spare | 0.0 | Spare | 2.0 |
| Less: OCL | 0.0 | Less: OCL | 0.0 | Less: OCL | -0.2 |
| Total Sweepers (ICL) | 4.0 | Total Rear Loader (ICL) | 1.0 | Total Front Loader (ICL) | 4.8 |
| | | Side Load/semi-fully automated | | | |
| Active | 4.0 | Active | 16.0 | | |
| Spare | 2.0 | Spare | 7.0 | | |
| Less: OCL | -1.0 | Less: OCL | -3.4 | | |
| Total Roll-Off (ICL) | 6.0 | Total Side Load (ICL) | 19.6 | | |
| | | | | | |
| Total ICL Trucks | | | | | 35.4 |

Table 14 shows the breakdown of truck supply and repair expenses by the number of trucks. Truck supplies and repair expenses include vehicle repairs, fuel, vehicle servicing and replacement of worn vehicle equipment and/or parts.

Table 14
Analysis of Truck Supply (Parts, Fuel, Oil) and Repair Expense for FY10-FY11

| | 2009 | 2010 | 2011 |
|---|-------------|-------------|-------------|
| Truck Supply and Repair \$/Truck | | | |
| Truck Supply and Repair Expense | \$1,121,110 | \$1,273,758 | \$1,366,256 |
| # of Trucks | 42 | 35.4 | 35.4 |
| \$/Truck Supply and Repair | \$26,693 | \$35,982 | \$38,595 |

Table 15 provides a comparison of routes and customers from the last rate review to the present rate review.

Table 15
Route/Customer Totals FY10 and FY11

| | 2010 | 2011 |
|------------------------------|-------------|-------------|
| Collection Routes | | |
| Leisure Town Refuse | 2.0 | 2.0 |
| Regular Refuse | 5.0 | 5.0 |
| Residential Yard waste | 4.0 | 4.0 |
| Curbside Recycling | 5.0 | 5.0 |
| Residential/Commercial | 2.0 | 2.0 |
| Commercial Refuse | 2.0 | 2.0 |
| Commercial Recycling | 1.0 | 1.0 |
| Debris Box | 4.0 | 4.0 |
| Toter/Bin/Bulky Waste Routes | 3.0 | 3.3 |
| Street Sweeping | 3.0 | 3.0 |
| Total Routes | 33.0 | 33.3 |
| Customers | | |
| Residential Toter | 25,099 | 25,336 |
| Commercial Toter | 339 | 356 |
| Commercial Bin | 693 | 693 |

There has not been a substantial change in the Vacaville customer base; routes have largely remained the same. Residential customers have increased by 277 customers over the two-year period while commercial Toter customers have increased by 27. Commercial customers are projected to remain the same between FY10 and FY11.

Section 4

Results

4.1 Introduction

The final rate application results are for a decrease of -3.07% which is the result of a slight decrease in projected revenue and an increase in expenses. **Table 16** provides the final results of the FY11 rate application.

Table 16
2009 - 2011 Rate Application and Revenue Requirement

| | Actual | Projected | Projected |
|--|---------------------|---------------------|---------------------|
| | 2009 | 2010 | 2011 |
| Revenue | | | |
| Residential | 7,021,739 | 7,166,193 | 7,142,545 |
| Commercial | 5,137,417 | 5,038,988 | 5,022,359 |
| Debris Box | 2,808,223 | 2,547,228 | 2,538,823 |
| Street Sweeping | 434,045 | 433,941 | 432,508 |
| Recycling Revenue | 1,534,377 | 1,806,976 | 1,809,617 |
| Hazardous Waste | 81,192 | 21,611 | 21,611 |
| Other Revenue | 0 | 0 | 0 |
| Total Revenue | \$17,016,993 | 17,014,937 | \$16,967,463 |
| Expenses | | | |
| Wages & Benefits | \$5,980,532 | 6,384,931 | 6,722,305 |
| Franchise Fees | 692,964 | 691,210 | 665,560 |
| Insurance | 270,312 | 271,460 | 294,721 |
| Truck Supplies & Repairs | 1,121,110 | 1,273,758 | 1,366,256 |
| Equipment Rental | 1,431,821 | 1,320,744 | 1,104,831 |
| Depreciation | 341,020 | 447,294 | 448,376 |
| Recycling Expense | 1,425,700 | 1,494,613 | 1,547,615 |
| Hazardous Waste | 216,826 | 272,761 | 275,761 |
| General & Administrative | 68,793 | 33,011 | 153,003 |
| Other Operating Expenses | 577,000 | 563,324 | 571,261 |
| Total Operating Expenses | \$12,126,078 | 12,753,106 | 13,149,689 |
| Net Operating Expenses | 4,890,915 | 4,261,831 | 3,817,774 |
| Operating Ratio | 90.50% | 90.50% | 90.50% |
| Profit | \$1,272,903 | \$1,338,724 | \$1,380,354 |
| Target Operating Revenue from Ops | \$13,398,981 | \$14,091,830 | 14,530,043 |
| Add Disposal Costs (Pass Through) | \$3,115,451 | \$2,653,354 | \$1,973,091 |
| Total Revenue Requirement | \$16,514,432 | \$16,745,184 | \$16,503,134 |
| Revenue Excess | 502,561 | 269,753 | 464,329 |
| % Rate Decrease FY11 | | | -3.07% |
| Current Rate (Residential) | | | \$24.52 |
| Residential Rate Decrease | | | \$0.75 |
| Proposed Rate (Residential) FY11 | | | \$23.77 |

4.2 Rates

4.2.1 Residential Rates

Residential rates will be decreased by -3.07%. **Table 17** provides a comparison of rates over the last three rate reviews beginning with FY09 for residential customers.

| Table 17 Vacaville Residential Solid Waste Rates per Month | | | |
|---|---------|---------|---------|
| Rate Year (fiscal) | 2009 | 2010 | 2011 |
| 96 Gallon Carts (Refuse, Recycling, and Yard waste) | \$24.85 | \$24.52 | \$23.77 |
| Life Line | \$16.28 | \$16.06 | \$15.57 |
| Leisure Town 96 Gallon Cart | \$23.34 | \$23.03 | \$22.32 |
| Leisure Town Life Line | \$15.31 | \$15.11 | \$14.65 |
| Additional Cart | \$4.00 | \$4.00 | \$4.00 |
| Additional Yard Waste Cart | \$4.00 | \$4.00 | \$4.00 |
| Backyard Pickup | \$2.80 | \$2.76 | \$2.68 |

The primary rate charged to RVS residential customers is the 96 gallon cart. This rate will decrease by \$0.75 per month for FY11.

4.2.2 Commercial Rates

Commercial rates will also decrease by -3.07% across all service levels and frequency of pickups per week. **Tables 18 and 19** provide a comparison over the last three years of rate adjustments including a rate schedule for the proposed decrease for FY11, retroactively adjusted to January 1, 2011.

| Table 18 Vacaville Commercial Solid Waste Rates Per Month | | | | | | |
|--|----------|---------|---------|----------|----------|----------|
| | 1 X Week | | | 2 X Week | | |
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| 1 Waste Wheeler | \$81.43 | \$80.35 | \$77.88 | \$174.98 | \$172.67 | \$167.37 |
| 2 Waste Wheeler | 132.77 | 131.02 | 127.00 | 319.91 | 315.68 | 305.99 |
| 3 Waste Wheeler | 176.75 | 174.41 | 169.06 | 407.29 | 401.91 | 389.57 |
| 4 Waste Wheeler | 211.27 | 208.48 | 202.08 | 482.80 | 476.42 | 461.79 |
| 5 Waste Wheeler | 281.32 | 277.60 | 269.08 | 558.59 | 551.21 | 534.29 |
| 1 Can | \$27.95 | \$27.58 | \$26.73 | \$55.76 | \$55.02 | \$53.33 |
| 2 Cans | 54.25 | 53.53 | 51.89 | 111.65 | 110.17 | 106.79 |
| 3 Cans | 83.80 | 82.69 | 80.15 | 167.41 | 165.20 | 160.13 |
| 4 Cans | 111.65 | 110.17 | 106.79 | 223.39 | 220.44 | 213.67 |
| 5 Cans | 139.54 | 137.70 | 133.47 | 279.13 | 275.44 | 266.98 |

| | | | | | | |
|-------------|----------|--------|--------|----------|----------|----------|
| 6 Cans | 167.41 | 165.20 | 160.13 | 335.03 | 330.60 | 320.45 |
| 1 Yard Bin | \$150.84 | 148.85 | 144.28 | \$265.49 | \$261.98 | 253.94 |
| 2 Yard Bins | 256.44 | 253.05 | 245.28 | 470.75 | 464.53 | 450.27 |
| 3 Yard Bins | 362.11 | 357.32 | 346.35 | 663.82 | 655.05 | 634.94 |
| 4 Yard Bins | 452.57 | 446.59 | 432.88 | 887.09 | 875.37 | 848.50 |
| 6 Yard Bins | 591.42 | 583.60 | 565.68 | 1,131.63 | 1,116.67 | 1,082.39 |

| Table cont. 18 | | | | | | |
|---|-----------------|-------------|-------------|-----------------|-------------|-------------|
| Vacaville Commercial Solid Waste Rates Per Month | | | | | | |
| | 3 X Week | | | 4 X Week | | |
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| 1 Waste Wheeler | \$244.30 | \$241.07 | \$233.67 | \$325.86 | \$321.55 | \$311.68 |
| 2 Waste Wheeler | 437.51 | 431.73 | 418.48 | 573.24 | 565.66 | 548.29 |
| 3 Waste Wheeler | 474.17 | 467.90 | 453.54 | 754.33 | 744.36 | 721.51 |
| 4 Waste Wheeler | 724.12 | 714.55 | 692.61 | 965.55 | 952.79 | 923.54 |
| 5 Waste Wheeler | 837.79 | 826.72 | 801.34 | N/A | N/A | |
| 1 Can | \$83.81 | \$82.70 | 80.16 | \$111.65 | \$110.17 | 106.79 |
| 2 Cans | 167.42 | 165.21 | 160.14 | 223.39 | 220.44 | 213.67 |
| 3 Cans | 251.19 | 247.87 | 240.26 | 335.03 | 330.60 | 320.45 |
| 4 Cans | 335.03 | 330.60 | 320.45 | 446.54 | 440.64 | 427.11 |
| 5 Cans | 418.57 | 413.04 | 400.36 | 558.15 | 550.77 | 533.86 |
| 6 Cans | 502.41 | 495.77 | 480.55 | 663.82 | 655.05 | 634.94 |
| 1 Yard Bin | \$374.25 | \$369.30 | 357.96 | \$491.83 | \$485.33 | 470.43 |
| 2 Yard Bins | 693.89 | 684.72 | 663.70 | 935.36 | 923.00 | 894.66 |
| 3 Yard Bins | 911.22 | 899.18 | 871.58 | 1,191.78 | 1,176.03 | 1,139.93 |
| 4 Yard Bins | 1,149.56 | 1,134.37 | 1,099.54 | 1,532.81 | 1,512.55 | 1,466.11 |
| 6 Yard Bins | 1,623.31 | 1,601.86 | 1,552.68 | 2,090.96 | 2,063.33 | 1,999.99 |

| Table cont. 18 | | | | | | |
|---|-----------------|-------------|-------------|-----------------|-------------|-------------|
| Vacaville Commercial Solid Waste Rates Per Month | | | | | | |
| | 5 X Week | | | 6 X Week | | |
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| 1 Waste Wheeler | \$407.29 | \$401.91 | \$389.57 | - | - | - |
| 2 Waste Wheeler | 724.12 | 714.55 | 692.61 | - | - | - |
| 3 Waste Wheeler | 980.63 | 967.67 | 937.96 | - | - | - |
| 4 Waste Wheeler | 1,206.86 | 1,190.91 | 1,154.35 | - | - | - |
| 5 Waste Wheeler | | | | | | |
| 1 Can | \$139.54 | \$137.70 | \$133.47 | - | - | - |
| 2 Cans | 279.13 | 275.44 | 266.98 | - | - | - |
| 3 Cans | 418.57 | 413.04 | 400.36 | - | - | - |
| 4 Cans | 558.15 | 550.77 | 533.86 | - | - | - |

| | | | | | | |
|-------------|----------|----------|----------|----------|----------|----------|
| 5 Cans | 697.69 | 688.47 | 667.33 | - | - | - |
| 6 Cans | 837.28 | 826.21 | 800.85 | - | - | - |
| 1 Yard Bin | \$600.46 | \$592.52 | \$574.33 | - | - | - |
| 2 Yard Bins | 1,086.19 | 1,071.83 | 1,038.92 | - | - | - |
| 3 Yard Bins | 1,388.02 | 1,369.68 | 1,327.63 | 1,659.58 | 1,637.65 | 1,587.37 |
| 4 Yard Bins | 1,882.80 | 1,857.92 | 1,800.88 | 2,262.99 | 2,233.08 | 2,164.52 |
| 6 Yard Bins | 2,543.54 | 2,509.92 | 2,432.87 | 2,896.62 | 2,858.34 | 2,770.59 |

Table 19
Vacaville Commercial Debris Box Rates

| Rate Year (Fiscal) | 2010 | 2011 |
|---|----------|----------|
| 20 Cubic Yards | \$362.98 | \$351.84 |
| 25 Cubic Yards | 445.40 | 431.73 |
| 30 Cubic Yards | 511.42 | 495.72 |
| 35 Cubic Yards | 580.69 | 562.86 |
| 40 Cubic Yards | 633.69 | 614.24 |
| 45 Cubic Yards | 677.98 | 657.17 |
| 25 Cubic Yard Wood | 135.82 | 131.65 |
| 40 Cubic Yard Wood | 169.78 | 164.57 |
| Relocation Charge | 155.65 | 150.87 |
| Additional Days | 31.14 | 30.18 |
| Compacted per Cubic Yard (10-Yard or more) | 35.35 | 34.26 |

Table 20 provides the front loader/compactor rates. Front loader/compactor rates will also decrease by -3.07%. **Table 20** provides front loader/compactor rates for the last three years including the projected FY11 rate schedule effective January 1, 2011.

Table 20
Vacaville Front Loader/Compactor Rates

| | 2009 | 2010 | 2011 |
|-------------------------------------|---------|---------|---------|
| Front Loader/Compactor | \$43.86 | \$43.28 | \$41.95 |
| Rate per cubic yard (9 yds or less) | \$35.82 | \$35.35 | \$34.26 |

4.3 Conclusion

The objective of the rate application review was to assure the rate application submitted by RVS was mathematically correct, fair in its assessment of future operating conditions and equitable while providing a reasonable return on investment for RVS. The final rate application results have been reviewed and are consistent with past practices and established procedures for assuring rates are equitable, and cost-based.