

590 Ygnacio Valley Road, Suite 105
Walnut Creek, California 94596
Telephone: 925/977-6950

Northern California
Southern California
www.hfh-consultants.com

May 2, 2024

Mary Bilse
Environmental Compliance Manager
City of Carmel-by-the-Sea

Sent via E-mail

Subject: Review of GreenWaste Recovery's 2024-25 Rate Request – Final Report

Mary Bilse:

HF&H Consultants, LLC (HF&H) was retained by the Monterey Regional Waste Management District (District) to assist with a review of GreenWaste Recovery's (GWR) request for an adjustment to customer rates, effective July 1, 2024, submitted to the City of Carmel-by-the-Sea (City) on March 1, 2024. This report presents our findings and recommendations.

EXECUTIVE SUMMARY

HF&H's review of GWR's Rate Period 10 (RP10) rate request to the City, and subsequent negotiations with GWR, resulted in the following outcomes:

- HF&H has determined a 3.59% increase as appropriate as a result of the following components:
 - 4.50% inflationary increase in labor-related costs
 - 4.20% inflationary increase in vehicle-related costs (excl. fuel)
 - Fuel rate held flat as set by the District
 - 4.20% inflationary increase in other costs
 - Depreciation held flat per the Agreement
 - 1.36% net processing costs increase due to an increase in tonnage
 - 2.18% increase in disposal costs due to an increase in per ton disposal rate, offset by a slight decrease in tonnage

Refer to **Figure 1** below for the impact to sample residential rates.

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Figure 1 – Example Rate Impact of Adjustment

| Carmel Rate Adjustment | | |
|-----------------------------------|----------|-------------|
| Current Rates (RP9) | | RP10 |
| Adjustment | | 3.59% |
| Residential 32-gallon rate | \$ 51.91 | \$ 53.78 |

BACKGROUND

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

- Rates are to be adjusted annually throughout the term of the Agreement, using various inflationary indices, actual tonnage, and changes in the tipping fees at the District, unless either the City or GWR request a Cost Based Rate Adjustment (CBRA).
- The City and GWR may mutually agree upon alternative approaches to structuring rates without amendment to the Agreement (Section 8.2.D).
- During the CBRA review in Rate Period 5 (RP5), a number of issues surrounding the process for setting rates and the resulting rate relationships amongst sectors and materials was identified. As such, the City and GWR have negotiated an amendment to the prescribed methodology for the CBRA and index adjustments so as to not alter rate relationships between service sectors and material types.
- Through negotiations of the amendment, and as a result of the desire to maintain current rate relationships between sectors and service levels, the City and GWR have prescribed a uniform rate adjustment to be applied to all sectors.

RATE CALCULATION REVIEW

HF&H Scope of Work

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

1. Review of the rate request for completeness and compliance with the procedures contained in Exhibit E1 of the Agreement.

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2. Review for mathematical accuracy and logical consistency to determine that the rate request is mathematically correct, that the rows and columns of numbers add down and across as intended, and that the stated assumptions were, in fact, used. Also, to determine that the rate request is internally consistent and that any summary schedules agree to the supporting schedules and worksheets.
3. Verification of the inclusion of the franchise fee calculation in the adjustment.
4. Verification of contract compliance, including`:
 - A. The indices used in the adjustment.
 - B. The tip fees reported for the disposal/processing components of the rates.
 - C. The use of quarterly-reported tonnage data and allocations among agencies. A detailed audit of tonnage and allocations of tonnage reported by GWR was not a part of this scope of work. HF&H discussed GWR's allocation methodology with them and the methodology appears reasonable and consistent with standard practices within the industry.
 - D. Any changes in governmental fees on the fee component of the rates; and, the accurate application of the resultant percentage changes in the various rate components to the rate schedule approved by the City through the Agreement.
 - E. The addition of anticipated costs related to identified program changes resulting from SB 1383.

Review of Rate Request

Rate Period 10 Application

HF&H reviewed the rate application for RP10. The results of the calculation of RP10 per methodology of Exhibit E1 of the amendment can be seen in **Figure 2** on the following page.

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Figure 2 – City of Carmel Application of Index-Based Adjustments to RP10

| | RP 9 | Adjustment Factor | RP 10 |
|--|---------------------|-------------------|---------------------|
| Annual Cost of Operations | | | |
| Labor-Related Costs | \$ 917,730 | 1.045 | \$ 959,028 |
| Vehicle-Related Costs | \$ 129,892 | 1.042 | \$ 135,347 |
| Fuel Costs | \$ 126,300 | 1 | \$ 126,300 |
| Other Costs | \$ 252,822 | 1.042 | \$ 263,441 |
| Direct Depreciation | \$ 151,264 | N.A. | \$ 151,264 |
| Total Allocated Costs - Labor, Vehicle, Fuel & Other | \$ 543,024 | 1.042 | \$ 565,831 |
| Total Allocated Costs - Depreciation & Start-Up | \$ 25,726 | N.A. | \$ 25,726 |
| Total Annual Cost of Operations | \$ 2,146,759 | | \$ 2,226,938 |
| Profit | \$ 356,458 | OR=85.76 | \$ 369,771 |
| Pass-Through Costs | | | |
| Disposal Costs | \$ 195,160 | Tons*Tip Fee | \$ 199,408 |
| Curbside Supplemental | \$ (7,152) | 1.00 | \$ (7,152) |
| Recycling Processing Costs | \$ 69,876 | Tons*Tip Fee | \$ 69,117 |
| Residue Processing Costs | \$ 16,676 | Tons*Tip Fee | \$ - |
| Yard Trimmings Processing Costs | \$ 80,091 | Tons*Tip Fee | \$ 92,380 |
| Food Waste Processing Costs | \$ 19,128 | Tons*Tip Fee | \$ 26,796 |
| C&D Processing Costs | \$ - | Tons*Tip Fee | \$ - |
| Interest Expense | \$ 44,270 | N.A. | \$ 44,270 |
| Direct Lease Costs | \$ - | N.A. | \$ - |
| Total Allocated Costs - Lease | \$ 38,993 | N.A. | \$ 38,993 |
| Total Pass-Through Costs | \$ 457,043 | N.A. | \$ 463,812 |
| Total Costs before Agency Fees | \$ 2,960,260 | N.A. | \$ 3,060,521 |
| Agency Fees/Payments | | | |
| Franchise Fee | \$ 443,074 | 13.00% | \$ 458,996 |
| Rate Application Review Costs | \$ 9,486 | Actual | \$ 11,225 |
| Other Adjustments (as needed from time to time) | | | |
| Adjustment from MRWMD Tip Fee Estimates | \$ (4,554) | N.A. | \$ - |
| Total Calculated Costs | \$ 3,408,266 | | \$ 3,530,742 |

Rate Increase
3.59%

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Review of GWR Costs

There are four major components to GWR's rate application: 1) calculation and application of the inflationary indexes as prescribed in the Agreement; 2) the disposal and/or processing component; 3) the Agency Fees; and, 4) other one-time adjustments.

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

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

Review of Disposal/Processing Component

Calendar Year 2023 collected tons were used for the RP10 review in accordance with the amendment. The disposal and processing components also consider the tipping fees charged by the District in order to project anticipated disposal and processing costs at the District. The following table describes the changes in the City's disposal and processing costs for each material type based on the tip fees at the District, which have been incorporated into our RP10 review.

Figure 3 - Impact of District Tip Fee Changes

| Material | 2023 Tons | Current Per Ton Tip Fee | Rate Period 10 Costs |
|-----------------|----------------------|------------------------------------|---------------------------------|
| | A | B | A x B |
| Solid Waste | 2,590 | \$ 77.00 | \$ 199,408 |
| Recycling | 1,728 | \$ 40.00 | \$ 69,117 |
| Yard Trimmings | 1,966 | \$ 47.00 | \$ 92,380 |
| Food Waste | 419 | \$ 64.00 | \$ 26,796 |
| C&D* | - | \$ 77.00 | \$ - |

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

Review of Fee Component

HF&H ensured that the fee component of each rate matches the contractual percentage of 13% for franchise fees, remitted to the City by GWR.

Additionally, rate application review costs and other identified District costs totaling \$11,225 were added as a one-time adjustment to cover the rate review, franchise management, and other identified District costs such as staff time, public education and outreach, and some other identified costs related to SB 1383.

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New Rates

Attached hereto is a table of all new rates recommended for RP10 based on the adjustments described in this memo (Attachment B). HF&H recommends adopting these rates by resolution to be effective July 1, 2024.

* * * * *

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

Sincerely,
HF&H CONSULTANTS, LLC


Rob Hilton
President


Dave Hilton
Senior Project Manager